

# Rane Holdings Limited

Sector: Auto ancillary /Small-Cap | Earnings Update – 1QFY19

**BUY**

7 August 2018

**Background:** Rane Holding Limited (RHL) is holding company of Rane Group. Founded in 1929; Headquartered in Chennai, India. It has strategic investments in four subsidiary companies, three joint venture companies and one associate company. The company serves a variety of industry segments: Passenger vehicles, Commercial vehicles, Farm tractors, and two wheelers, Three Wheelers, Railways and Stationary Engines. It manufactures Steering and Suspension system, Friction materials, Valve train components, Occupant safety system and Die-casting products. The company also has presence in the other critical and safety components, like Engine Valves, Friction material and Occupant Safety Systems.

Sensex	37,665
Nifty	11,389
Price	INR 1,970
Target Price	INR 2,560
Recommendation	BUY
52 Week High/Low	INR 2,799/1,530
Bloomberg / Reuters	RHL IN/RANE.BO
Equity (shares in mn)	14.27
Mkt. Cap in bn	INR 28.1 / \$4.40
Avg. Daily Vol. ('000)	9.6
Avg. Daily Vol. (mn)	INR 18.9/\$ 0.27

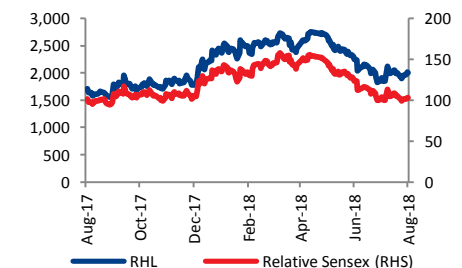
Shareholding	Jun 17	Mar 18	Jun 18
Promoters (%)	46.39	46.4	46.4
FII (%)	0.12	0.2	0.3
DII (%)	16.2	17.0	17.7
Others (%)	37.3	36.4	35.6
Pledge (% of promoter holding)	0.00	0.00	0.00

## Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	22.9	25.9	29.5
EBITDA	2.4	2.4	2.8
Adj PAT	1.5	1.6	1.9
Adj EPS	91.2	113.5	134.8
% growth	-2.4	24.4	18.7
P/E	21.6	17.4	14.6
P/ BV	3.5	3.2	2.8
EV/EBITDA	13.7	13.7	11.6
EV/Sales	1.4	1.3	1.1
Div Yield (%)	0.7	0.8	0.9
ROE (%)	18.5	18.2	19.3

\*Cons. Earnings/ IND AS

Performance %	1M	3M	12M
RHL	8.4	-23.1	18.6
Sensex	6.1	7.5	15.2



## Strong top-line growth but margin pressure continues

- In 1QFY19, RHL's consolidated revenue grew robustly by 23%YoY to INR 6,013mn, led by passenger vehicle segment driven by growth of served models and entry to new models. The growth in the passenger vehicles segment has outperformed the PV industry growth. RHL also registered strong growth in commercial vehicles segment albeit lower growth in served segment for friction material products.
- Revenues from Indian OE customers went up by 35% YoY supported by increased off-take across vehicle segments and commencement of supplies to new passenger vehicle programs. Revenues from international customers grew 16% YoY supported by volume ramp-up with key customers. Indian aftermarket business registered a 57% YoY growth albeit over a low base.
- EBITDA grew by 7.5% YoY to INR 533mn. EBITDA margin decreased by 127bps YoY to 8.9%, impacted by adverse material cost and increased manpower cost. However, better operational performance and cost control initiatives partly mitigated the headwinds. PAT declined by 9.4% YoY to INR 302mn. PAT margin declined by 180 bps YoY, partly due to higher effective tax rate during the quarter. Share of profit from JVs came in at INR 342mn (+51% YoY). Management indicated that the turnaround of operations is underway in few businesses.
- Rane Madras Limited (RML), Rane Engine Valve (RELV) and Rane Brake Limited (RBL) sales increased robustly by 33%/15.6%/21.7% YoY to INR 3,771mn/1,007mn/1,221mn, respectively. RML's EBITDA grew by 40% YoY to INR 340mn, while RELV and RBL's EBITDA declined by 25.4%/2.6%YoY to INR 35mn/1,55mn, respectively. Increasing commodity and crude prices is impacting the margin of these companies. The management indicated various measures to mitigate the impact.
- The group has pegged a capex of INR 1,650mn in FY19, primarily towards capacity addition in electronic power steering and localization for electric power steering, occupant safety business.

**Valuation:** We expect the demand environment to remain strong across Group companies; however, increasing raw material prices remains a concern. The loss in its subsidiary "REVL" has widened during the quarter; the management doesn't foresee any material revival during FY19. At CMP, the stock is trading at P/E of 17.4X/14.6x on FY19E/FY20E EPS, respectively. We arrive at a revised price target of INR 2,560 based on P/E of 19x FY20EPS and maintain a **BUY** rating on the stock. **Risks:** Economic downturn or slowdown in the key markets can lead to decreased volumes and capacity utilization.

## Results Summary 1QFY19

Y/E March ( INR mn)	1QFY19	1QFY18	YoY Growth	4QFY18	QoQ Growth
<b>Revenue</b>	6,013.4	4,891.5	22.9%	6,504.0	-7.5%
<b>EBITDA</b>	532.8	495.7	7.5%	553	-3.7%
<b>Depreciation</b>	297.7	273.7	8.8%	340	-12.4%
<b>Interest</b>	112.3	110.7	1.4%	111.5	0.7%
<b>Other Income</b>	78.0	24.5	218.5%	114.2	-31.7%
<b>PBT</b>	543	519.9	4.4%	555	-2.1%
<b>Tax</b>	216.3	160.0	35.2%	249.4	-13.3%
<b>PAT</b>	302.0	333.4	-9.4%	287.1	5.2%
<b>EBITDA Margin (%)</b>	8.9	10.1		8.5	
<b>Effective Tax Rate (%)</b>	39.8	30.8		45.0	
<b>PAT Margin (%)</b>	5.0	6.8		4.4	

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Served as an officer, director or employee	No

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