

Summary:

India's leading engine Bearings Company.

MENON BEARINGS LIMITED**Recommendation: Buy**

CMP: Rs.80/- **TARGET: Rs. 105/-**

SENSEX: 38363 **NIFTY: 11532**

KEY STOCK STATISTICS:

Market Capitalization (crs): 416.94/-

Book Value: Rs. 74.40/-

Face Value:Rs. 1/-

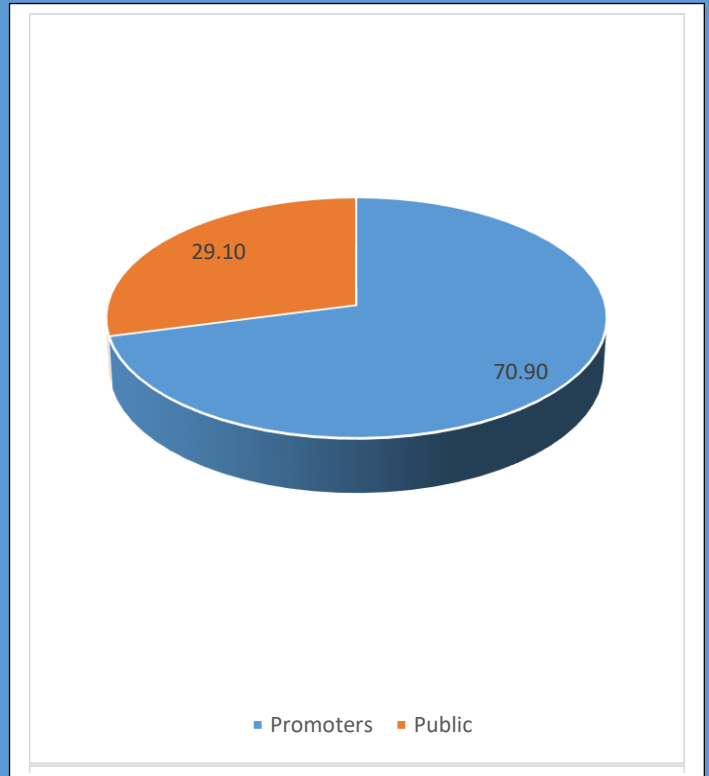
52 week High/Low: 117.80/70

P/E Ratio: 16.45

Industry P/E:35.08

Company Background:

- ✓ Menon bearings ltd is engaged in the manufacturing of auto components.
- ✓ The Company's products include bi-metal engine bearings; bushes and thrust washers for light and heavy automobile engines; two wheeler engines, and compressors for refrigerators, air conditioners and others.
- ✓ It offers aluminum die casting components.
- ✓ Its bearing products include bearings for connecting rods, bearings for crank shafts, flanged bearings and trimetal bearings.
- ✓ ✓ It offers truncated bushes for connecting rods; ball indented bushes; bushes for connecting rods; cam shafts; rock shafts, and rocker arms.
- ✓ Its thrust washers include washers with thrust face contours and ring type thrust washers.
- ✓ Its aluminum products include engine components, gear case covers, clutch assembly, cylinder heads for automobile engines, break parts, engine parts, portable tools and fuel pump parts.
- ✓ The Company exports its products to the United States, the United Kingdom, Italy, France, China, Mexico and Brazil, among others.

SHAREHOLDING PATTERN

Source: Company, KFO Research

RETURNS (%):

| | 3 MONTHS | 6 MONTHS | 12 MONTHS |
|--------|----------|----------|-----------|
| SENSEX | -2.50 | 4.55 | 6.67 |
| MBL | 2.37 | -1.12 | -18.09 |

Source: Company, KFO Research

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AUTO INDUSTRIAL REVIEW

- ✓ The auto components industry is an engine growth for the Indian economy.
- ✓ The auto component industry contributes 2.3% to National GDP, providing direct employment to 1.5 million people.
- ✓ Over the years, the component industry has adapted well to the changes in the policy & regulatory environment and the needs of its customers.
- ✓ ICRA's sample 48 auto ancillaries, constituting around 25% of the industry's turnover, witnessed revenue growth of about 13.5% during Q2FY 2017-18. The same was driven by higher realization in the backdrop of steady increase in commodity prices whereas volumetric growth was in the mid-single digit.
- ✓ Two wheelers segment with 80% market share is the leader of the Indian Automobile market owing to a growing middle class and the young population. Moreover the growing interest of the companies in exploring the rural markets further aided the growth of the sector.
- ✓ The overall Passenger Vehicle (PV) segment has 14% market share.
- ✓ India is also a prominent auto exporter and has strong export growth expectations for the near future.
- ✓ Several initiatives by the government of India and the major automobiles players in the Indian market are expected to make India a leader in the two wheelers (TW) and Four Wheeler (4W) market in the world by 2020.
- ✓ Incremental investments by auto ancillaries are primarily towards new order/platform related requirement or debottle necking of existing capacity. Few have started investing keeping in mind their requirements for BS VI in 2020.
- ✓ CAFÉ norms and electric vehicles in 2030.

TOTAL INCOME (RS.IN LAKHS)

| YEAR | INCOME |
|------|--------|
| 2014 | 8744 |
| 2015 | 10391 |
| 2016 | 11191 |
| 2017 | 12422 |
| 2018 | 14678 |

Source: Company, KFO Research

PROFIT BEFORE TAX (RS IN LAKHS)

| YEAR | PBT |
|------|------|
| 2014 | 901 |
| 2015 | 1662 |
| 2016 | 2333 |
| 2017 | 2753 |
| 2018 | 3233 |

Source: Company, KFO Research.

FUTURE OUTLOOK:

- ✓ The 'make in India' campaign of the government has enthused the entire manufacturing sector.
- ✓ The Automotive mission plan (AMP) 2026, forecasts that the automotive industry will generate revenues of \$ 200 billion (13 lakh cr) by 2026.
- ✓ The Indian auto components industry is expected to become the third largest in the world by 2025.
- ✓ Exports are expected to reach \$ 80 billion (5.2 lakh Cr) and the domestic replacement market is expected to reach \$32 billion (2 lakh Cr).
- ✓ Investments to the tune of \$25-30 billion (1.62 lakh Cr) are required to be carried out by the industry.

RISK & CONCERNS:

- ✓ The auto component industry has been exposed to many risks of varying intensity.
- ✓ Regulatory & Infrastructure Bottleneck
- ✓ Low R & D spending and dependence on global suppliers for technology knowhow.
- ✓ Rising imports from china
- ✓ Increase in electricity charges all of a sudden, volatility in the prices of raw materials & other inputs, currency fluctuations, stiff competition by the entry of Multinationals and their home country partnership and just in time supplies are the major risks and challenges faced by the companies.
- ✓ The government's thrust on electric vehicles will push the auto component players to adapt and equip themselves. The industry is currently not prepared for the same.

VALUATIONS:

On the basis of Discount Cash Flow Valuation Method, we are recommending 'Buy' for the stock. Since the stock offers good opportunity, we initiate a '**BUY**' signal on the stock with 12-month price target of **Rs 105/-** share an upside of 15% from current levels.

MARKET DRIVERS

- ✓ OEMS are setting up units to manufacture engines in the country, this will increase demand for engine components in the industry.
- ✓ Global OEMs have started sourcing their auto components from Indian manufacturers.
- ✓ Manufacturers are investing in the R & D processes to improve product quality and develop new products.
- ✓ Increased sourcing of global OEMs from India and increased indigenization of OEM s will help the auto components segment.
- ✓ Manufacturers producing one product and catering to only one segment are looking to produce more products and cater to various segments.
- ✓ Manufacturers are also focused on producing products with high margins.
- ✓ Increased road infrastructure and increase in incomes of people will lead to demand of automotive products , this will, in turn, help the auto ancillary industry.
- ✓ OEM & replacement demand for auto components is 1.5X and 1.2X of growth in the auto industry.
- ✓ The auto industry is expected to grow 12% over the next few years, implying the growth to be 15-18% in the auto components industry in the coming years.

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