

Rane (Madras) Ltd.

Nifty	11,583
Sensex	35,144

Key Stock Data	
CMP	₹473
Market Cap (Bn)	₹5.49
52W High/Low	1,050/422
NSE Code	RML
BSE Code	532661

Shareholding Pattern	Sep 2018
Promoters	61.67%
FII & DII	0.07%
Public & Others	38.26%

(₹ mn)			
Particulars	FY18	FY19E	FY20E
Sales	12,119	13,910	15,988
Growth (%)	20.8	14.8	14.9
EBITDA	1,339	1,618	2,051
OPM(%)	11.0%	11.6%	12.8%
PAT	418	587	865
EPS (₹)	36.0	50.6	74.5
P/E(x)	13.1	9.3	6.3

Standalone Basis

Source: Company, Way2Wealth Inst. Equity.

Key Result Highlights – Q2FY19

Rane (Madras) Ltd (RML) recently declared its Q2FY19 results. Following are the key highlights of Q2FY19 (Consolidated Basis):

- Net Sales rose 16.0% (YoY) to ₹4.0bn
- EBITDA Margins contracted by 95bps (YoY) to 9.2%
- PAT de-grew 10.9% (YoY) to ₹68.2mn

Concall & Earnings Highlights

- **Robust demand from domestic and Export market for Steering and Linkages division** – During the quarter, the Company witnessed strong demand in passenger vehicle segment for its steering and linkages division amidst gain in market share in from manual steering business. Demand for Steering and Linkages division was also strong from International customers. RML introduced new products during the quarter in hydraulic steering and added Escorts and Swaraj Mazda as its customers. The company's hydraulic steering business grew almost 90% over same quarter last year.
- **Muted Operating Performance of domestic Die-casting division** – RML witnessed lower offtake on served models for its die-casting products from North American market. The company has re-iterated that it needs to fill up its order book in order to improve the capacity utilization as the capacity utilization is only 65-70% currently. In H1FY19, no new business has been won by RML. It expects capacity utilization to gradually improve over the next 2 years. No capex is expected in the die-casting division over the next couple of years due to low capacity utilization at present.
- **Aftermarket sales grew on a low base** – The management has guided for a growth of 10% in the aftermarket segment over the next few years.
- **Update on Rane Precision Die-Casting Inc.-**
 - Rane Precision Die Casting (RPDC) witnessed improved operational performance over Q1FY19. However, RPDC experienced cost overruns towards utilities, repairs and tooling maintenance. RPDC is focusing on new business wins and reduce rejections and overtime. There has been no major breakthrough so far in acquiring new business; however the management has indicated that it is in advanced talks with 1-2 customers.
 - The improvement in quarterly performance is due to provisions made in earlier quarters which RPDC did not subsequently incur and hence the provisions have been reversed. The management has stated that it cannot guarantee better QoQ performance of RPDC, however the management is far more optimistic now than the earlier conference call about the future prospects of RPDC. The management has stated that it may require more capital for RPDC.
 - The management has indicated that it now requires 4-5 years to turn around the business instead of the earlier stated 3 years. Further, the revenue target of \$34mn over 5 years stated at the time of acquisition has been pushed forward by 1-2 years.

View and Valuation

At ₹473, RML is trading at a PE of 6.3x FY20E and EV/EBITDA of 3.1x FY20E on a standalone basis. Though we are optimistic on the company's standalone business and find the valuations attractive, we are cautious on the company's subsidiary RPDC as the subsidiary's turnaround depends on winning new contracts and no major cost overruns going ahead. We await positive commentary on RPDC from the management before advising investors to accumulate the stock. **We advise investors to HOLD the stock.**

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Quarterly Financials (Standalone)

(₹ mn.)

Particulars	Q2FY19	Q2FY18	YoY%	Q1FY19	QoQ%
Sales	3,529	2,966	19.0%	3,439	2.6%
Material Consumed	2,215	1,814	22.1%	2,206	0.4%
Staff Cost	383	342	11.9%	375	2.1%
Other expenditure	558	491	13.5%	541	3.2%
Total Expenditure	3,156	2,648	19.2%	3,121	1.1%
EBITDA	373	317	17.5%	317	17.5%
Depreciation	133	121	9.2%	123	8.1%
EBIT	240	196	22.6%	195	23.4%
Interest	71	77	-7.3%	64	10.3%
Other Income	32	8	305.8%	73	-56.1%
PBT	201	127	58.3%	203	-1.0%
Tax	63	43	46.6%	69	-8.1%
PAT	138	84	64.2%	134	2.6%
Exceptional items	0	0	NA	0	NA
Reported Profit	138	84	64.2%	134	2.6%
EPS (₹)	11.9	7.2	64.2%	11.6	2.6%

Margins	Q2FY19	Q2FY18	YoY (bps)	Q1FY19	QoQ (bps)
Gross margins	37.2%	38.8%	(159)	35.9%	137
EBITDA	10.6%	10.7%	(14)	9.2%	134
PAT	3.9%	2.8%	108	3.9%	0
Tax Rate	31.4%	33.9%	(250)	33.8%	(242)

Sales Mix	Q2FY19	Q2FY18	YoY %	Q1FY19	QoQ%
Market wise					
Domestic OEM & OES	67%	65%	2%	68%	-1%
Intl OEM	20%	21%	-1%	22%	-2%
India Aftermarket	13%	14%	-1%	10%	3%
Vehicle Segment wise					
Passenger Car	35%	39%	-4%	37%	-2%
Multi-Utility Vehicle	16%	16%	0%	15%	1%
Farm Tractors	19%	20%	-1%	18%	1%
M&HCV	15%	11%	4%	15%	0%
LCV & SCV	13%	12%	1%	13%	0%
MPV	2%	2%	0%	2%	0%

Source: Company, Way2Wealth Inst. Equity

Consolidated Financials

(₹ mn.)

Particulars	Q2FY19	Q2FY18	YoY%	Q1FY19	QoQ%
Sales	3,999	3,447	16.0%	3,942	1.4%
Material Consumed	2,386	1,970	21.1%	2,368	0.7%
Staff Cost	560	549	2.0%	597	-6.3%
Other expenditure	685	578	18.6%	698	-1.9%
Total Expenditure	3,630	3,097	17.2%	3,664	-0.9%
EBITDA	369	351	5.2%	279	32.4%
Depreciation	165	148	11.8%	153	7.8%
EBIT	204	203	0.4%	125	62.5%
Interest	86	89	-2.9%	77	11.2%
Other Income	14	5	164.2%	61	-77.8%
PBT	131	120	9.8%	110	19.9%
Tax	63	43	46.6%	69	-8.1%
PAT	68	77	-10.9%	41	67.2%
Exceptional items	0	0	NA	0	NA
Reported Profit	68	77	-10.9%	41	67.2%
EPS (₹)	5.9	6.6	-10.9%	3.5	67.2%

Margins	Q2FY19	Q2FY18	YoY (bps)	Q1FY19	QoQ (bps)
Gross margins	40.3%	42.8%	(250)	39.9%	42
EBITDA	9.2%	10.2%	(95)	7.1%	216
PAT	1.7%	2.2%	(51)	1.0%	67
Tax Rate	48.1%	36.0%	(1207)	62.8%	(1467)

Source: Company, Way2Wealth Inst. Equity

Financials (Standalone)

(₹ mn.)

Income Statement	FY16	FY17	FY18	FY19E	FY20E
Net sales	8,609	10,033	12,119	13,910	15,988
YoY (%)	10.5	16.5	20.8	14.8	14.9
Raw material cost	5,068	5,863	7,435	8,590	9,793
Employee Cost	983	1,156	1,351	1,552	1,753
SGA cost	1,778	2,061	1,995	2,150	2,392
Total expenses	7,828	9,079	10,780	12,292	13,937
EBIDTA	781	954	1,339	1,618	2,051
EBIDTA (%)	9.1	9.5	11.0	11.6	12.8
YoY (%)	13.9	22.1	40.3	20.9	26.8
Depreciation	394	467	499	561	629
EBIT	387	487	840	1,058	1,422
Interest	190	271	294	275	252
Other income	16	20	56	75	93
PBT	214	237	602	858	1,263
(-) Tax	46	47	184	270	398
Tax/ PBT	21.4	19.9	30.5	31.5	31.5
PAT	168	190	418	587	865
YoY (%)	7.1	12.9	120.5	40.5	47.2
PAT (%)	2.0%	1.9%	3.5%	4.2%	5.4%
Extraordinary	(27)	0	0	0	0
Reported PAT	140.9	190	418	587	865

Key Ratios	FY16	FY17	FY18	FY19E	FY20E
EPS (Std)	16.0	18.0	36.0	50.6	74.5
Book value	152.8	168.3	229.5	259.9	304.6
DPS	5.0	8.0	12.0	16.9	24.8
P/E			13.1	9.3	6.3
EV/EBDITA (x)			6.0	4.8	3.1
P/B (x)			2.1	1.8	1.6
EV/S			0.7	0.6	0.5
Div. Yield			2.5%	3.6%	5.2%
ROCE	8.8%	10.3%	14.7%	16.0%	19.5%
ROE	10.7%	11.2%	18.9%	20.7%	26.4%
Debt-equity (x)	1.7	1.5	1.0	0.8	0.7
Current Ratio	1.8	1.4	1.5	1.5	1.4
Gross Asset Turnover	1.8	1.8	2.0	2.0	2.1
Working Capital Days	47	43	40	43	38
W/C % of sales	15%	10%	13%	12%	10%
Revenue /day	21	24	33	38	44

Balance Sheet	FY16	FY17	FY18	FY19E	FY20E
Equity capital	105	105	116	116	116
Preference Capital	82	82	0	0	0
Reserves	1,419	1,582	2,548	2,901	3,420
Net worth	1,606	1,769	2,664	3,017	3,536
Loans	2,788	2,594	2,574	2,474	2,374
Def Tax Liability	80	89	22	22	22
Total Liabilities	4,474	4,453	5,260	5,512	5,931
Gross block	5,264	5,750	6,574	7,274	8,274
Less: Acc. Dep.	2,203	2,646	3,145	3,706	4,335
Net block	3,061	3,104	3,428	3,568	3,938
CWIP	74	271	140	140	140
Investments	2	2	2	2	2
Inventories	934	1,103	1,358	1,577	1,878
Debtors	1,218	1,475	2,134	2,363	2,628
Cash	28	35	58	146	208
Other current assets	223	135	812	932	1,072
Loans and advances	516	735	492	565	650
Current assets	2,917	3,483	4,854	5,583	6,436
Current liabilities	1,550	2,285	3,051	3,641	4,425
Provisions	30	122	114	139	160
Net current assets	1,338	1,076	1,689	1,803	1,851
Misc. Expenditure	0	0	0	0	0
Total Assets	4,474	4,453	5,260	5,512	5,931

Cash Flow	FY16	FY17	FY18	FY19E	FY20E
Net profit	141	190	418	587	865
Depreciation	394	467	499	561	629
Deferred tax	31	9	0	0	0
Change in working cap	-382	268	-590	-25	14
Cash from Operations	183	933	327	1,123	1,508
Capex	-826	-645	-693	-700	-1,000
Investments	-2	0	0	0	0
Cash from Investments	-827	-645	-693	-700	-1,000
Free Cash Flow	-642	288	-366	423	508
Dividend and Other	-64	-88	481	-235	-346
Fresh equity	0	0	-71	0	0
Debt	704	-193	-21	-100	-100
Cash from Financing	640	-281	389	-335	-446
Net change in cash	-4	7	23	88	63
Opening cash	32	28	35	58	146
Closing cash	28	35	58	146	208

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Disclosure of Interest Statement in Rane (Madras) Ltd. as on November 14, 2018

Name of the Security	Rane (Madras) Ltd.
Name of the analyst	Chintan Gupta
Analysts' ownership of any stock related to the information contained	No
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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Investment Banking relationship with company covered	NIL

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