

# Rane (Madras) Ltd.

Nifty	10,167
Sensex	32,949

## Key Stock Data

CMP	₹755
Market Cap (Bn)	₹8.77
52W High/Low	825/385
NSE Code	RML
BSE Code	532661

## Shareholding Pattern Sep 2017

Promoters	61.79%
FII & DII	0.06%
Public & Others	38.15%

	(₹ mn)		
YEAR	FY17	FY18E	FY19E
Sales	10,033	11,064	12,366
EBITDA	954	1,129	1,312
OPM(%)	9.4%	10.2%	10.6%
PAT	190	334	497
EPS (₹)	18.0	28.8	42.8
P/E(x)	41.9	26.3	17.6

## Key Result Highlights – Q2FY18

Rane (Madras) Ltd (RML) Q2FY18 standalone results were better than our expectations. Following are the key highlights of Q2FY18:

- Net Sales Up by 16.7% (YoY) to ₹2.9bn
- EBITDA Margins expanded by 27bps (YoY) to 10.7%
- PAT increased by 21.1% (YoY) to ₹84.0mn

## Concall Highlights

- **Robust demand from domestic and Export market for Steering and Linkages division** – During the quarter, the Company witnessed strong demand from all Indian OE customers across vehicle segments for its steering and linkages division. Demand for Steering and Linkages division was also strong from International customers. The Company also witnessed demand revival in Indian Aftermarket segment (6% YoY growth) post implementation of GST. Capacity utilisation remains high for Steering and Linkages division.

- **Muted demand for Die-casting products** – RML witnessed lower offtake from international customers for its die-casting division. Management is expecting a de-growth for its die-casting division in FY18. However, significant improvement in quality and delivery performance with key customers has been made during the quarter. Management expects a turnaround in its die-casting division in the next 12 months through better capacity utilization (currently 60-65%) and double-digit EBITDA margins (currently EBITDA neutral/slightly positive).

RML is witnessing higher growth in power steering division for application in tractors though its market share remains low.

Current EBITDA margins are likely to be sustainable going forward.

Employee Cost was 21% higher in Q2FY18 compared to Q2FY17. 12% of the same was due to volume pick-up (variable cost) and 8-9% was the normal salary hike given to employees during the quarter.

- **High Growth driven strategies** – Going forward RML management plans to achieve robust business growth through a) targeting new business in passenger car segment and hydraulics products in India b) Identifying new Indian customers for its Die casting business c) Continue to introduce new products and expand the product range in domestic aftermarket e) Pursue new customers for steering gears and achieve breakthrough in ball joints, expand the die-casting portfolio to Europe and achieve operational breakeven in RPDC business in USA.

- **Additional Earning Triggers in place –**

- We have not consolidated the financials of recently acquired Company in USA by RMS. Management expects a turnaround in Precision Die-casting in the next 18 months.
- RML has closed down a manufacturing plant in Chennai. Surplus land bank from this plant has a potential value of ₹1.5bn. The Company plans to monetize the said land bank in the next 9-12 months. This initiative may bring down RML's overall debt of ~₹2.5bn (as at Sep-17) debt sharply resulting in lower leverage and interest outflow which will aid the earnings of the Company. The management aims to bring down the Debt/Capital Employed from 55% currently to 45% in the next 2-3 years.

## Views And Valuations

At ₹755, RML is trading at a PE of 17.6x FY19E and EV/EBITDA of 7.7x FY19E. We find RML's long term prospects attractive and hence advice investors to **HOLD** the stock.

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**Quarterly Financials**

	(₹ mn.)				
Particulars	Q2FY18	Q2FY17	YoY%	Q1FY18	QoQ%
Sales	2,966	2,541	16.7%	2,495	18.9%
Material Consumed	1,814	1,547	17.3%	1,567	15.8%
Staff Cost	342	283	20.9%	309	10.8%
Other expenditure	491	445	10.3%	392	25.5%
Total Expenditure	2,648	2,276	16.4%	2,267	16.8%
<b>EBITDA</b>	<b>317</b>	<b>265</b>	<b>19.8%</b>	<b>227</b>	<b>39.7%</b>
Depreciation	121	112	8.9%	120	0.8%
EBIT	196	153	27.8%	107	83.6%
Interest	77	72	6.3%	83	-8.0%
Other Income	8	5	54.5%	9	-14.7%
PBT	127	86	47.3%	33	290.0%
Tax	43	17	154.8%	5	705.8%
PAT	84	69	21.1%	27	208.3%
Exceptional items	0	0	NA	0	NA
Reported Profit	84	69	21.1%	27	208.3%
EPS (₹)	7.23	6.60	9.6%	2.59	179.2%
<b>Margins</b>	<b>Q2FY18</b>	<b>Q2FY17</b>	<b>YoY (bps)</b>	<b>Q1FY18</b>	<b>QoQ (bps)</b>
Gross margins	39%	39%	(28)	37%	162
EBITDA	10.7%	9.2%	27	9.1%	159
PAT	2.8%	1.7%	10	1.1%	174
Tax Rate	34%	20%	1431	16%	1750

## Financials

Income Statement	FY15	FY16	FY17	FY18E	FY19E
Net sales	7,789	8,609	10,033	11,064	12,366
YoY (%)	7.2	10.5	16.5	10.3	11.8
Raw material cost	4,566	5,068	5,863	6,388	7,090
Employee Cost	873	983	1,156	1,274	1,424
SGA cost	1,664	1,778	2,061	2,273	2,540
Total expenses	7,103	7,828	9,079	9,935	11,054
EBIDTA	686	781	954	1,129	1,312
EBIDTA (%)	8.8	9.1	9.5	10.2	10.6
YoY (%)	0.5	13.9	22.1	18.4	16.1
Depreciation	334	394	467	500	515
EBIT	352	387	487	630	797
Interest	162	190	271	213	159
Other income	11	16	20	61	82
PBT	201	214	237	477	720
(-) Tax	44	46	47	143	223
Tax/ PBT	21.9	21.4	19.9	30.0	31.0
<b>PAT</b>	<b>157</b>	<b>168</b>	<b>190</b>	<b>334</b>	<b>497</b>
YoY (%)	(40.2)	7.1	12.9	76.1	48.8
PAT (%)	2.0%	2.0%	1.9%	3.0%	4.0%
Extraordinary	(32)	(27)	0	0	0
<b>Reported PAT</b>	<b>124</b>	<b>141</b>	<b>190</b>	<b>334</b>	<b>497</b>

Key Ratios	FY15	FY16	FY17	FY18E	FY19E
EPS (Std)	14.9	16.0	18.0	28.8	42.8
Book value	146.3	152.8	168.3	217.2	247.2
DPS	5.0	5.0	2.0	7.2	10.7
P/E			41.9	26.3	17.6
EV/EBDITA (x)			11.9	9.6	7.7
P/B (x)			4.5	3.5	3.1
EV/S			1.1	1.0	0.8
Yield	0.7%	0.7%	0.3%	1.0%	1.4%
ROCE	9.4%	8.8%	10.3%	11.6%	13.8%
ROE	10.7%	10.7%	11.2%	15.6%	18.4%
Debt-equity (x)	1.4	1.7	1.5	0.9	0.5
Current Ratio	0.2	0.3	0.3	0.2	0.2
Gross Asset Turnover	2.0	1.8	1.8	1.9	2.0
Working Capital Days	43	47	43	42	40
W/C % of sales	12%	15%	10%	14%	9%
Revenue /day	20	21	24	27	30
other income as % PBT	5%	7%	8%	13%	11%

Balance Sheet	FY15	FY16	FY17	FY18E	FY19E
Equity capital	105	105	105	116	116
Preference Capital	82	82	82	0	0
Reserves	1,350	1,419	1,582	2,405	2,753
Net worth	1,537	1,606	1,769	2,521	2,869
Loans	2,084	2,788	2,594	2,394	1,544
Def Tax Liability	49	80	89	89	89
<b>Total Liabilities</b>	<b>3,670</b>	<b>4,474</b>	<b>4,453</b>	<b>5,004</b>	<b>4,502</b>
Gross block	4,260	5,264	5,750	6,050	6,550
Less: Acc. Depre	1,843	2,203	2,646	3,146	3,661
<b>Net block</b>	<b>2,416</b>	<b>3,061</b>	<b>3,104</b>	<b>2,904</b>	<b>2,890</b>
CWIP	295	74	271	271	271
Investments	0	2	2	2	2
Inventories	863	934	1,103	1,583	1,602
Debtors	1,147	1,218	1,475	1,424	1,389
Cash	32	28	35	301	172
Other current assets	224	223	135	234	261
Loans and advances	293	516	735	495	553
Current assets	2,558	2,917	3,483	4,038	3,976
Current liabilities	1,513	1,550	2,285	2,092	2,510
Provisions	87	30	122	118	127
<b>Net current assets</b>	<b>959</b>	<b>1,338</b>	<b>1,076</b>	<b>1,827</b>	<b>1,340</b>
Miscell. Expen	0	0	0	0	0
<b>Total Assets</b>	<b>3,670</b>	<b>4,474</b>	<b>4,453</b>	<b>5,004</b>	<b>4,502</b>

Cash Flow	FY15	FY16	FY17	FY18E	FY19E
Net profit	124	141	190	334	497
Depreciation	334	394	467	500	515
Deferred tax	44	31	9	0	0
Change in working cap	-23	-382	268	-484	358
<b>Cash from Operations</b>	<b>480</b>	<b>183</b>	<b>933</b>	<b>349</b>	<b>1,369</b>
Capex	-828	-826	-634	-300	-500
Investments	0	-2	0	0	0
Cash from Investments	-828	-827	-634	-300	-500
<b>Free Cash Flow</b>	<b>-348</b>	<b>-642</b>	<b>299</b>	<b>49</b>	<b>869</b>
Dividend and Other	-64	-64	-25	-100	-149
Fresh equity	0	0	0	518	0
Debt	411	704	-267	-200	-850
<b>Cash from Financing</b>	<b>347</b>	<b>640</b>	<b>-293</b>	<b>218</b>	<b>-999</b>
Net change in cash	-0	-4	7	267	-130
Opening cash	32	32	28	35	301
<b>Closing cash</b>	<b>32</b>	<b>28</b>	<b>35</b>	<b>301</b>	<b>172</b>

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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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