

L.G. Balakrishnan & Bros

Rs 227
Moving most of the Indian bykes

Sensex: 37,877

Nifty: 11,178

FINANCIALS SUMMARY

	NET SALES	OPM (%)	OP	OTHER INC.	PBIDT	INT	PBDT	DEP.	PBT	EO	PBT AFTER EO	TAX	PAT	EPS (Rs)*
1903 (12)	1408.32	7.4	104.57	6.47	111.04	7.63	103.41	20.55	82.86	0	82.86	21	61.86	39.6
2003 (12)	1285.41	3.3	42.21	9.45	51.66	7.04	44.62	23.74	20.88	0	20.88	7.35	13.53	8.7
2103 (12) P	1184.17	5.9	70.35	8.13	78.48	6.36	72.12	25.37	46.75	0	46.75	15.43	31.32	20
2203 (12) P	1401.15	8.3	116.6	9.19	125.79	6.68	119.11	27.91	91.2	0	91.2	30.1	61.11	39.1

* EPS is on current equity of Rs 31.3924 crore, Face value of Rs 10. #: Old projections are on standalone basis. EO: Extraordinary items
EPS excludes EO and relevant tax. Figures in crore. (P): Projections. Source: Capitaline Database

L.G. Balakrishnan & Bros (LGB), the Coimbatore based company is a leading supplier of Transmission Chains, Sprockets and Metal formed Parts for automotive applications. The Company products are marketed under the proprietary brand "Rolon", the most trusted and reputed supplier of Original Equipment Manufacturers (OEM) and also caters to export, after market and spares segments.

The company has 22 plants of which 13 are located in Tamilnadu at Coimbatore, Chennai, Dindigul and Karur etc and two plants in Karnataka at Bangalore and Mysure. The Balance seven plants are spread across other auto hubs of Maharashtra, Haryana and Uttrakhand.

LGB has installed 22 number of windmills with a total rated capacity of 7.16 MW which are used for captive consumption. Also the Company has installed 3 number of ON GRID solar power plants for a rated capacity of 100 KW each.

Established player with diversified client base

LGB has an established market position in the domestic automotive chain industry. Today the company has 70% share in supply to OEMs in case of Drive Chains.

The company with its long presence has established strong relationships with reputed OEMs like Bajaj Auto, TVS Motor Company, India Yamaha Motor, Royal Enfield and Honda Motorcycle and Scooter India, with which it has a healthy share of business.

To mitigate competitive risks, LGB has been diversifying its product profile within the 2W segment and with each customer. The company continues focusing on creating new products as well as expanding uses of existing offerings that are tailored to the different needs of global customers of the company.

LGB has become the first Indian company to supply Timing Chains to 4 wheeler OEMs in India and is the largest exporter to the US. The company also exports to Europe and Australia. The company in FY20 earned an export revenue of Rs 172.73 crore, which is about 10-11% of the revenue.

LGB acquired Fine Blanking technology in Mid 80's for manufacturing Chain plates. It further extended its fine blanking division as a separate manufacturing during the late 1990's to cater to high OEM demands for Fine Blanked Components. Today LGB is a leading fine blanking products manufacturer having about 25 fine blanking presses in operation.



STOCK DATA

BSE Code	:	500250
BSE Group	:	B
NSE Code	:	LGBBROSLTD
Bloomberg	:	LGBB.IN
Reuters	:	LGB.NS
Par Value	:	Rs 10
52-week High/Low	:	Rs 370 / Rs 146
Sector	:	Auto Ancillaries

SHAREHOLDING PATTERN *

Category	% of equity
Foreign	: 1.32
Institutions	: 18.08
Govt Holding	: 0.00
Corporate Holding	: 1.53
Promoters	: 47.14
Public & Others	: 31.94

* as on 30/06/2020

Source: Capitaline Databases

In FY20 while the transmission division accounted for 77% of the revenue the balance 23% was contributed by Metal Forming division.

Strong replacement presence

In the replacement market, the company sells chains and sprockets under the brand name Rolon. The company currently has about 50% market share in replacement market for Drive Chains.

Considerable portion of revenue from replacement market insulates the company's revenues from cyclicalities in the Indian 2W industry, to an extent. Prolonged suspension of public transportation is forcing people to rely on personal mobility options. This has resulted in increased usage of two wheelers and increased instance of maintenance and replacement of transmission parts. This augurs well for the company.

Two wheelers sales volume on steady recovery path

Post lockdown, need for social distancing and continued suspension of public transportation have triggered demand for personal mobility options where the two-wheelers are more preferred given traffic snarls at Indian cities.

Aggregate sales volume of four listed two wheeler manufacturers of the country for the month of July 2020 at 978064 units, registered a growth of 9.4% m-o-m from 893998 units in June 2020. Compared to corresponding previous month, the sales volume of July 2020 was down by just 13.1% compared to 28.8% fall registered in June 2020. Demand has not been the issue, ability of two wheeler manufacturers to meet the demand is an issue. As the manufacturers are able to ramp up production navigating through the supply chain disruptions, sales of two-wheelers will grow.

With over 95% of revenues coming from the 2W industry, the faster recovery in two wheeler volumes augurs well for the company.

Q1FY21 was the worst, much better times are ahead

Consolidated sales for the quarter ended June 2020 was down by sharp 47% to Rs 194.63 crore. With operating profit margin contracting by 350 bps to 7.4%, the fall at operating profit was 64% to Rs 14.43 crore. Eventually the net profit (After MI) was a loss of Rs 6.07 crore (compared to a profit of Rs 14.35 crore in corresponding previous period).

With festive season approaching, two wheelers are likely to get back on growth path and the momentum is likely to sustain going forward as the two wheelers are maximum used category of vehicles in current times. Rural demand is already recovering fast and urban demand is likely to join in from the festive months.

Valuation

Consolidated book value as of 31 March 2020 is Rs 225.

We expect the company to register consolidated EPS of Rs 18.3 in FY21 and Rs 26.4 in FY22. At current market price of Rs 227, the scrip trades at 8.5 times its expected FY22 EPS.

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LG BALAKRISHNAN & BROS: CONSOLIDATED RESULTS

	2006(03)	1906 (03)	VAR%	2003 (12)	1903 (12)	VAR. (%)
Sales	194.63	367.83	-47	1542.83	1688.00	-9
OPM (%)	7.4	10.9		12.1	12.3	
OP	14.43	39.99	-64	186.25	207.06	-10
Other inc.	0.40	0.82	-51	3.66	2.82	30
PBIDT	14.83	40.81	-64	189.91	209.88	-10
Interest	2.92	4.28	-32	15.24	11.26	35
PBDT	11.91	36.53	-67	174.67	198.62	-12
Dep.	20.48	18.22	12	78.66	68.05	16
PBT	-8.57	18.31	PL	96.01	130.57	-26
EO	-0.48	-2.30	-79	-18.83	-12.05	56
PBT after EO	-8.10	20.61	PL	114.84	142.62	-19
Taxation	-2.01	7.09	LP	24.72	45.99	-46
PAT	-6.09	13.52	PL	90.12	96.63	-7
P/L on Associates	0.00	0.60	-100	1.16	2.93	-60
Minority Interest (MI)	-0.02	-0.22	-89	-0.35	-0.01	6394
Net profit after MI	-6.07	14.35	PL	91.63	99.57	-8
EPS (Rs)*	#	#		24.5	29.1	

* EPS is on current equity of Rs 31.3924 crore, Face value of Rs 10.

EPS is not annualised due to seasonality of business.

** Variance could not be calculated as no previous period figures.

Figures in Rs crore.

Source Capitaline Database