

Rane Brake Lining

Performance Highlights

Quarterly highlights (Standalone)

Y/E March (₹ cr)	1QFY16	1QFY15	% chg (yoy)	4QFY15	% chg (qoq)
Net Sales	104	102	1.9	114	(8.8)
EBITDA	11	11	4.7	16	(28.6)
EBITDA margin (%)	10.7	10.4	30 bp	13.7	(300 bp)
Adj. PAT	5	4	34.8	6	(24.9)

Source: Company, Angel Research

Results in line with estimates: For 1QFY2016, Rane Brake Lining (RBL) posted an inline set of numbers. Revenues grew marginally by 2% yoy to ₹104cr, slightly missing our estimate of ₹110cr. Both the key segments, viz OEM and aftermarket space, accounting for about 85% of revenues, grew marginally by 4% and 3% respectively which led to a muted top-line performance. Further, decline in other segments viz Railways (dipped by 3%) and exports (fell sharply by 16%) dragged the top-line. Operating margins at 10.7% improved marginally by 30bp yoy and were inline. Localisation initiatives led to lower raw material costs, thereby leading to margin improvement. Also, higher other income further boosted profitability. Other income, at ₹0.7cr, doubled on a yoy basis. Consequently, the net profit grew by a robust 35% yoy to ₹4.8cr, meeting our expectations.

Outlook and valuation: RBL is likely to clock double-digit top-line growth of 11% over the next two years. Revival in OEM volumes on account of better economic growth coupled with RBL's focus on increasing the aftermarket revenues by enhancing the network and introducing new products would boost revenues. Also, RBL's margins are likely to improve on account of increased localization and operating leverage. We expect RBL's earnings to grow at a healthy 18% CAGR over FY2015-2017. We have retained our earnings estimates given the in line results. **We maintain our positive stance on the stock with an Accumulate rating and a revised price target of ₹366 (based on 13x FY2017 earnings).**

Key financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net Sales	384	416	454	511
% chg	2.0	8.4	9.0	12.5
Net Profit	17	16	19	22
% chg	89.1	(6.4)	16.7	18.4
EBITDA (%)	10.5	10.9	11.1	11.4
EPS (₹)	21.7	20.4	23.8	28.1
P/E (x)	15.3	16.3	14.0	11.8
P/BV (x)	2.3	2.2	2.0	1.8
RoE (%)	15.3	13.2	14.2	15.3
RoCE (%)	11.9	13.3	15.6	16.6
EV/Sales (x)	0.9	0.8	0.7	0.6
EV/EBITDA (x)	8.5	7.1	6.3	5.7

Source: Company, Angel Research; Note: CMP as of July 21, 2015

ACCUMULATE

CMP	₹332
Target Price	₹366

Investment Period	12 Months
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Stock Info

Sector	Auto Ancillary
Market Cap (₹ cr)	263
Net Debt (₹ cr)	77
Beta	1.2
52 Week High / Low	387/233
Avg. Daily Volume	600
Face Value (₹)	10
BSE Sensex	28,182
Nifty	8,529
Reuters Code	RABL.BO
Bloomberg Code	RABL@IN

Shareholding Pattern (%)

Promoters	66.5
MF / Banks / Indian FIs	
FII / NRIs / OCBs	9.8
Indian Public / Others	23.7

Abs. (%)	3m	1yr	3yr
Sensex	1.8	9.6	64.2
RBL	6.9	22.6	186.8

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly financial performance (Standalone)

Y/E March (₹ cr)	1QFY16	1QFY15	% chg (yoy)	4QFY15	% chg (qoq)	FY15	FY14	% chg (yoy)
Net Sales	104	102	1.9	114	(8.8)	416	384	8.4
Consumption of RM	48	51	(5.4)	54	(11.5)	204	194	5.1
(% of Sales)	46.3	49.9		47.7		49.0	50.5	
Staff Costs	16	15	6.6	16	1.4	61	53	15.7
(% of Sales)	15.5	14.8		13.9		14.6	13.7	
Other Expenses	28	25	12.8	28	1.6	106	97	9.1
(% of Sales)	27.5	24.8		24.7		25.5	25.4	
Total Expenditure	92	91	1.6	98	(5.7)	371	344	7.9
Operating Profit	11	11	4.7	16	(28.6)	45	40	13.1
OPM (%)	10.7	10.4		13.7		10.9	10.5	
Interest	1	2	(44.6)	1	(11.8)	6	8	(21.5)
Depreciation	5	5	(1.5)	7	(29.2)	21	18	15.0
Other Income	1	0	102.5	1	30.0	2	2	(13.2)
Reported PBT	6	4	39.6	8	(26.9)	21	17	23.2
(% of Sales)	5.9	4.3		7.3		4.9	4.4	
Provision for Taxation	1	1	61.4	2	(33.8)	4	(0)	
(% of PBT)	20.7	17.9		22.8		21.8	(2.9)	
Extraordinary item	-	-	-	-	-	-	-	-
Reported PAT	5	4	34.8	6	(24.9)	16	17	(6.4)
Adj PAT	5	4	34.8	6	(24.9)	16	17	(6.4)
Adj. PATM	4.7	3.5		5.7		3.9	4.5	
Equity capital (cr)	8	8		8		8	8	
Reported EPS (₹)	6.1	4.5		8.1		20.4	21.7	

Source: Company, Angel Research

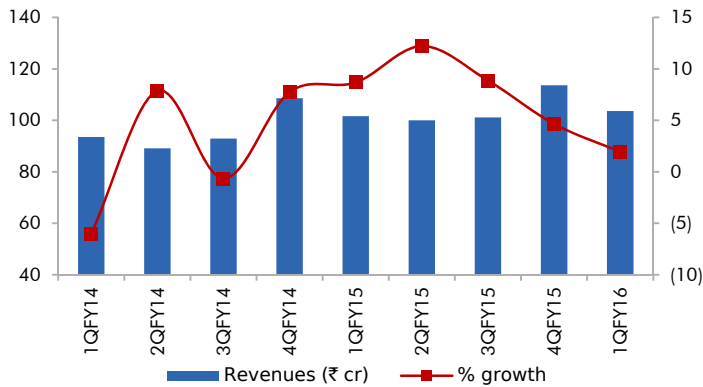
Exhibit 2: 1QFY2016 – Actual vs Angel estimates

Y/E March (₹ cr)	Actual	Estimates	Variation (%)
Net Sales	104	110	(5.6)
EBITDA	11	12	(6.1)
EBITDA margin (%)	10.7	10.8	(10 bp)
Adj. PAT	5	5	(0.3)

Source: Company, Angel Research

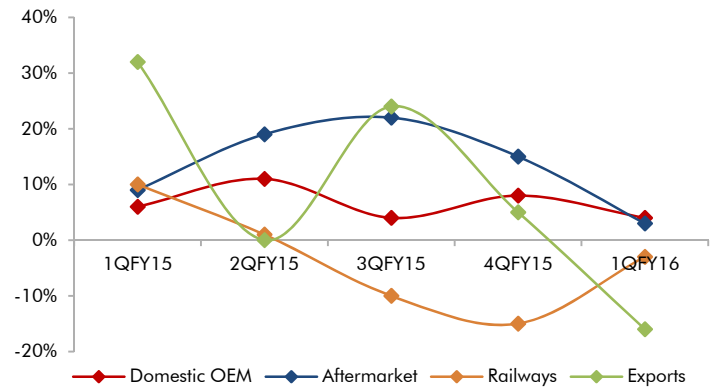
- RBL's top-line growth was muted in 1QFY2016. Revenues grew marginally by 2% yoy to ₹104cr and slightly missed our estimates.
- During 1QFY2016, the domestic OEM and the aftermarket segment, which together constitute about 85% of the revenues, grew marginally by 4% and 3% respectively, leading to a lackluster overall growth. The growth was further dragged by the railways and the export segments which dipped by 3% and 16%, respectively.

Exhibit 3: Revenue growth moderates



Source: Company, Angel Research

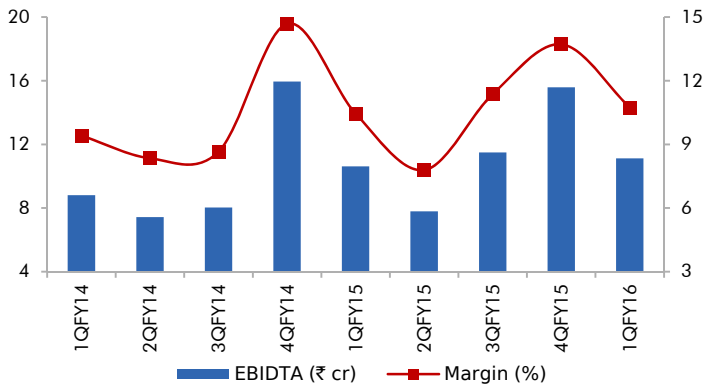
Exhibit 4: Railways and exports drag top-line



Source: Company, Angel Research

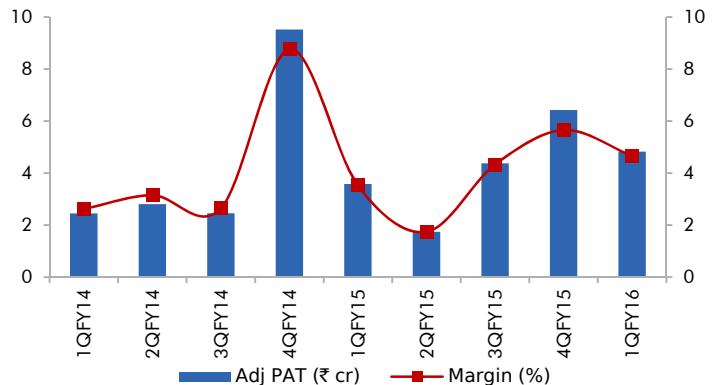
- EBITDA margins, at 10.7%, improved marginally by 30bp yoy and were in line with our expectations. Reduction in raw material costs due to increased localization enabled the company to improve margins.
- Other income, at ₹0.7cr, almost doubled yoy, thereby boosting profitability. Net profit grew by a robust 35% yoy to ₹4.8cr and the same is in line with our estimates.

Exhibit 5: EBITDA margin improves marginally



Source: Company, Angel Research

Exhibit 6: Net profit grows on higher other income



Source: Company, Angel Research

Investment arguments

- **Recovery in OEM segment coupled with aftermarket focus to drive growth:** Passenger vehicle and the MHCV OEM segment, which contribute about 47% of RBL's revenues, are in an uptrend and slated to grow in double digits over the next two years. Improved economic growth, further easing of interest rates, lower fuel prices and low base during the recent slowdown period would lead to an OEM upcycle in FY2016/17. RBL, with its market leadership (38% market share) and well established client base, would reap benefits from an anticipated upsurge in demand. Further, RBL's strategy to enhance its distribution network in underpenetrated Northern and Eastern markets and to introduce new products, is likely to boost its aftermarket revenues. We expect RBL's aftermarket segment (constituting 38% of sales) to grow at 13% CAGR over FY2015-2017. RBL is likely to outpace the industry and further augment its share in the aftermarket segment (current aftermarket share is 18%).
- **Operating leverage, raw material localization and energy savings to augment margins:** RBL would reap benefits of operating leverage given the double digit top-line growth over the next two years. Also, it is working on enhancing the localization levels. Imported raw material currently forms about 48% of the material costs and the company aims to realize 100-200bp cost reduction with increased domestic procurement. Further, RBL is also working towards reducing its energy costs by implementing best practices across manufacturing plants and utilizing power from low cost sources. We expect RBL's margins to improve by 50bp over FY2016/17.

Outlook and valuation

RBL is likely to clock double digit top-line growth of 11% over the next two years. Revival in the OEM volumes on account of better economic growth coupled with RBL's focus on increasing the aftermarket revenues by enhancing the network and introducing new products would boost the revenues. Also, RBL's margins are likely to improve on account of increased localization and operating leverage. We expect RBL's earnings to grow at a healthy 18% CAGR over FY2015-2017. We have retained our earnings estimates given the in line results. **We maintain our positive stance on the stock with an Accumulate rating and a revised price target of ₹366 (based on 13x FY2017 earnings).**

Company background

Rane Brake Lining Ltd (RBL) is a part of diversified ancillary supplier Rane Group. Rane Group has a strong and diversified clientele and supplies various products viz steering and suspension systems, steering columns, hydraulic pumps, friction material, engine components and diecast components. The group through its holding arm - Rane Holdings Ltd, has four subsidiaries viz Rane Madras Ltd, Rane Engine Valves Ltd, Rane Brake Lining Ltd and Rane Holdings America Inc. Rane Group also has three joint ventures namely Rane TRW Steering Systems, Rane NSK Steering Systems and JMA Marketing Ltd.

RBL is the flagship company of the Rane Group engaged in the manufacturing of safety critical components such as brake linings, disc pads, clutch facings, clutch buttons, brake shoes and railway brake blocks. Key braking components ie brake lining and disc pads constitute bulk of the revenues (approximately 87%) for the company. The products are manufactured across four plants based in South India.

Profit and loss statement

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Total operating income	359	376	384	416	454	511
% chg	17.4	4.8	2.0	8.4	9.0	12.5
Total expenditure	320	344	344	371	404	452
Net raw material costs	195	204	194	204	221	248
Employee expenses	46	49	53	61	69	78
Other	79	90	97	106	114	127
EBITDA	39	33	40	45	50	58
% chg	15.9	(16.7)	22.5	13.1	10.4	15.9
(% of total op. income)	11.0	8.7	10.5	10.9	11.1	11.4
Depreciation & amortization	15	18	18	21	20	23
EBIT	26	14	19	23	30	35
% chg	18.5	(46.1)	35.1	18.6	30.4	17.7
(% of total op. income)	7.3	3.8	5.0	5.4	6.5	6.8
Interest and other charges	7	7	8	6	6	7
Other income	4	3	2	2	3	3
Recurring PBT	22	11	17	21	27	32
% chg	11.3	(50.1)	53.2	23.2	30.4	18.4
Extraordinary items	0	0	0	0	0	0
PBT (reported)	22	11	17	21	27	32
Tax	6	2	0	4	8	10
(% of PBT)	26.1	16.7	(2.9)	21.8	30.0	30.0
PAT (reported)	16	9	17	16	19	22
ADJ. PAT	16	9	17	16	19	22
% chg	5.9	(43.8)	89.1	(6.4)	16.7	18.4
(% of total op. income)	4.5	2.4	4.5	3.9	4.1	4.4
Basic EPS (₹)	20.5	11.5	21.7	20.4	23.8	28.1
Adj. EPS (₹)	20.5	11.5	21.7	20.4	23.8	28.1
% chg	5.9	(43.8)	89.1	(6.4)	16.7	18.4

Balance sheet statement

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015E	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	8	8	8	8	8	8
Reserves & surplus	89	94	104	114	125	138
Shareholders' Funds	97	102	112	122	133	146
Total loans	84	90	81	67	65	74
Deferred tax liability	9	9	9	9	9	9
Long term provisions	1	2	2	2	2	2
Total Liabilities	191	203	205	200	210	232
APPLICATION OF FUNDS						
Gross block	240	259	286	293	311	350
Less: Acc. depreciation	119	136	153	174	194	217
Net Block	121	123	133	119	116	133
Capital work-in-progress	3	19	0	0	0	0
Investments	0	0	0	0	0	0
Long term loans and adv.	8	7	9	10	11	12
Current assets	119	113	125	136	153	166
Cash	11	2	3	6	11	7
Loans & advances	8	7	7	8	9	10
Other	100	104	114	122	133	150
Current liabilities	61	58	63	66	72	80
Net current assets	58	55	61	70	81	86
Total Assets	191	203	204	200	210	232

Cash flow statement

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Profit before tax	22	11	17	21	27	32
Depreciation	15	17	17	21	20	23
Change in working capital	(4)	(5)	(6)	(7)	(6)	(9)
Others	1	(0)	(0)	0	0	0
Direct taxes paid	(6)	(2)	0	(4)	(8)	(10)
Cash Flow from Operations	28	21	29	31	33	36
(Inc.)/Dec. in fixed assets	(31)	(35)	(9)	(7)	(18)	(39)
(Inc.)/Dec. in investments	0	0	0	0	0	0
Other income	-	-	-	-	-	-
Cash Flow from Investing	(31)	(35)	(9)	(7)	(18)	(39)
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	20	6	(9)	(14)	(2)	9
Dividend paid (Incl. Tax)	(6)	(3)	(6)	(7)	(8)	(9)
Others	(3)	2	(3)	(1)	(1)	(1)
Cash Flow from Financing	12	5	(18)	(21)	(11)	(1)
Inc./(Dec.) in cash	9	(8)	2	2	5	(4)
Opening Cash balances	2	11	2	3	6	11
Closing Cash balances	11	2	3	6	11	7

Key ratios

Y/E March	FY2012	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	16.2	28.9	15.3	16.3	14.0	11.8
P/CEPS	8.4	9.7	7.4	7.1	6.7	5.8
P/BV	2.7	2.6	2.3	2.2	2.0	1.8
Dividend yield (%)	1.7	1.0	1.8	1.7	2.0	2.3
EV/Sales	0.9	0.9	0.9	0.8	0.7	0.6
EV/EBITDA	8.5	10.7	8.5	7.1	6.3	5.7
EV/ Total Assets	1.8	1.7	1.7	1.6	1.5	1.4
Per Share Data (₹)						
EPS (Basic)	20.5	11.5	21.7	20.4	23.8	28.1
EPS (fully diluted)	20.5	11.5	21.7	20.4	23.8	28.1
Cash EPS	39.5	34.1	44.8	46.8	49.3	56.9
DPS	5.5	3.2	5.9	5.6	6.6	7.8
Book Value	122.0	128.9	141.8	153.9	167.9	184.5
Dupont Analysis						
EBIT margin	7.3	3.8	5.0	5.4	6.5	6.8
Tax retention ratio	0.7	0.8	1.0	0.8	0.7	0.7
Asset turnover (x)	2.0	1.9	1.9	2.1	2.3	2.3
ROIC (Post-tax)	10.8	5.9	9.8	9.1	10.4	10.8
Cost of Debt (Post Tax)	5.9	6.8	9.8	7.0	6.3	6.3
Leverage (x)	0.8	0.9	0.7	0.5	0.4	0.5
Operating ROE	14.4	5.1	9.8	10.2	12.1	12.9
Returns (%)						
ROCE (Pre-tax)	15.0	9.0	11.9	13.3	15.6	16.6
Angel ROIC (Pre-tax)	14.6	7.0	9.5	11.6	14.9	15.5
ROE	16.8	8.9	15.3	13.2	14.2	15.3
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.5	1.5	1.3	1.4	1.5	1.5
Inventory / Sales (days)	29	27	27	27	27	27
Receivables (days)	71	73	82	80	80	80
Payables (days)	62	57	60	58	58	58
WC cycle (ex-cash) (days)	48	51	55	57	57	57
Solvency ratios (x)						
Net debt to equity	0.8	0.9	0.7	0.5	0.4	0.5
Net debt to EBITDA	1.9	2.7	1.9	1.3	1.1	1.2
Interest Coverage (EBIT / Int.)	3.9	1.9	2.5	3.8	5.1	5.2

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Disclosure of Interest Statement

Rane Brake Lining

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15%)