

## L G Balakrishnan & Bros

### Performance Highlights

#### Quarterly Data (Standalone)

(₹ cr)	2QFY16	2QFY15	% yoy	2QFY16	% qoq
<b>Revenue</b>	<b>282</b>	<b>267</b>	<b>5.6</b>	<b>247</b>	<b>14.1</b>
EBITDA	36	36	(0.2)	24	47.7
OPM (%)	12.8	13.5	(74)	9.8	291
<b>Adj. PAT</b>	<b>17</b>	<b>17</b>	<b>4.6</b>	<b>9</b>	<b>92.5</b>

Source: Company, Angel Research

LG Balakrishnan & Bros (LGBBL) reported a slightly better-than-expected standalone top-line and bottom-line growth for 2QFY2016. The Transmission segment, which contributed ~79% to the company's total standalone revenue, reported a growth of 11% yoy, while the Others segment reported a decline on the sales front. On the bottom-line (standalone) front, the company underperformed due to subdued sales growth and poor operating performance.

**Top-line grew by ~6% yoy:** The standalone top-line grew by ~6% yoy to ~₹282cr, which is higher than our estimate of ~₹267cr. The Transmission segment revenue was up ~11% yoy; the segment accounted for ~79% of the standalone revenue of the company. The Others segment reported a decline in sales.

**Poor operating performance and lower other income mar profitability:** The company reported an operating profit of ~₹36cr, which is down 0.2% yoy. The operating margin contracted by 74bp yoy to 12.8%, primarily on account of higher employee costs and other expenditure. The reported standalone net profit declined by ~19% yoy to ~₹17cr, but is higher than our estimate of ~₹16cr. However, on adjusting for the one-time exceptional gain incurred in 2QFY2015, the PAT during 2QFY2016 actually grew by 5% yoy.

**Outlook and valuation:** LGBBL is a market leader in two-wheeler automotive chains with ~70% market share in the OEM segment. The company has been reporting lower growth in earnings since the last three quarters, which is mainly due to overall slowdown in the two-wheeler industry. The two-wheeler industry has been impacted mainly due to the rural slowdown. However, sales are expected to rebound in 2HFY2016 on expectations of a normal monsoon which will boost crop output, thus leading to revival in rural demand. The company's volume growth in the automotive chains segment is expected to improve over FY2015-17E with its key clients like HMCL, HMSI, Yamaha, TVS Motor and others having plans of capacity expansion and with they launching new models. **We have a Neutral rating on the stock.**

#### Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
<b>Net Sales</b>	<b>1,109</b>	<b>1,173</b>	<b>1,196</b>	<b>1,277</b>
% chg	15.9	5.8	2.0	6.7
<b>Adj. Net Profit</b>	<b>63</b>	<b>71</b>	<b>55</b>	<b>64</b>
% chg	92.0	5.1	(16.2)	16.3
EBITDA margin (%)	11.4	12.1	11.7	12.2
<b>EPS (₹)</b>	<b>40.0</b>	<b>45.4</b>	<b>35.3</b>	<b>41.0</b>
P/E (x)	11.4	10.8	12.9	11.1
P/BV (x)	2.3	2.0	1.7	1.5
RoE (%)	20.3	19.3	13.3	13.6
RoCE (%)	20.3	19.4	16.3	16.7
EV/Sales (x)	0.8	0.7	0.7	0.7
EV/EBITDA (x)	6.7	6.0	6.0	5.4

Source: Company, Angel Research; Note: CMP as of November 4, 2015

## NEUTRAL

CMP ₹456  
 Target Price -

Investment Period -

#### Stock Info

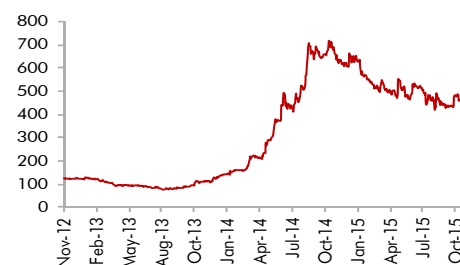
Sector	Auto Ancillary
Market Cap (₹ cr)	714
Net Debt (₹ cr)	133
Beta	0.5
52 Week High / Low	764 / 401
Avg. Daily Volume	4,825
Face Value (₹)	10
BSE Sensex	26,553
Nifty	8,040
Reuters Code	LGB.BO
Bloomberg Code	LGBB@IN

#### Shareholding Pattern (%)

Promoters	47.3
MF / Banks / Indian FIs	13.4
FII / NRIs / OCBs	0.0
Indian Public / Others	39.2

Abs. (%)	3m	1yr	3yr
Sensex	(5.4)	(4.7)	41.5
LGBL	(7.4)	10.7	261.6

#### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: Quarterly performance (Standalone)**

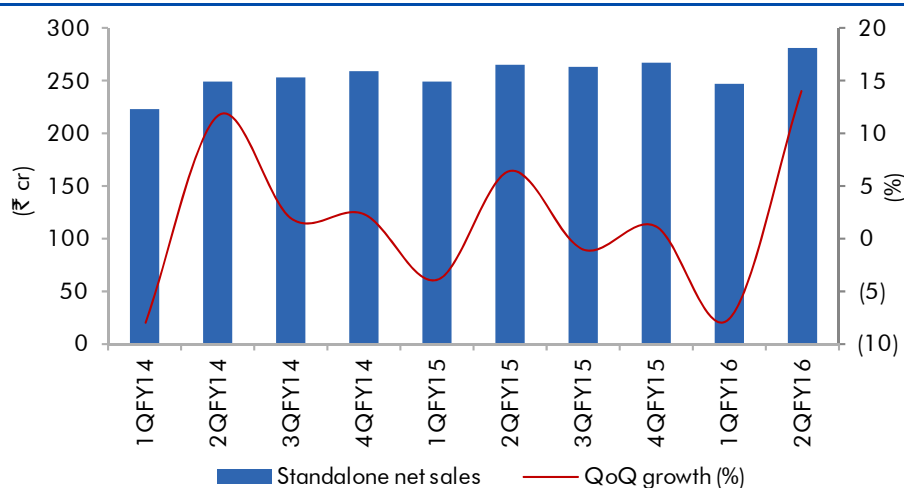
Y/E March (₹ cr)	2QFY16	2QFY15	% yoy	2QFY16	% qoq	FY2015	FY2014	% chg
<b>Net Sales</b>	<b>282</b>	<b>267</b>	<b>5.6</b>	<b>247</b>	<b>14.1</b>	<b>1,048</b>	<b>988</b>	<b>6.1</b>
Consumption of RM	126	122	3.1	110	14.8	486	483	0.6
(% of Sales)	44.8	45.9		44.5		46.4	48.9	
Staff Costs	37	32	13.1	35	3.7	130	115	12.7
(% of Sales)	13.0	12.2		14.3		12.4	11.7	
Operating Expense	83	76	9.2	77	7.2	303	278	9.3
(% of Sales)	29.4	28.4		31.3		28.9	28.1	
<b>Total Expenditure</b>	<b>246</b>	<b>231</b>	<b>6.5</b>	<b>223</b>	<b>10.4</b>	<b>919</b>	<b>876</b>	<b>5.0</b>
<b>Operating Profit</b>	<b>36</b>	<b>36</b>	<b>(0.2)</b>	<b>24</b>	<b>47.7</b>	<b>129</b>	<b>112</b>	<b>15.1</b>
OPM (%)	12.8	13.5		9.8		12.3	11.3	
Interest	4.5	4	11.1	4	6.0	16	17	
Depreciation	10	10	4.3	9	10.7	37	31	19.0
Other Income	1	7	(85.2)	1	54.6	3	5	(40.0)
Exceptional items						7		
<b>PBT</b>	<b>22</b>	<b>29</b>	<b>(24.0)</b>	<b>11</b>	<b>95.3</b>	<b>85</b>	<b>69</b>	<b>23.7</b>
(% of Sales)	7.8	10.8		4.5		8.1	6.9	
Provision for Taxation	5	7	(37.7)	2	106.4	20	14	43.6
(% of PBT)	20.8	25.4		19.7		24.0	20.7	
Minority Interest						0	0	
<b>Reported PAT</b>	<b>17</b>	<b>22</b>	<b>(19.4)</b>	<b>9.0</b>	<b>92.5</b>	<b>64</b>	<b>54</b>	<b>18.5</b>
<b>Adj. PAT</b>	<b>17</b>	<b>17</b>	<b>4.6</b>	<b>9.0</b>	<b>92.5</b>	<b>64</b>	<b>54</b>	<b>18.5</b>

Source: Company, Angel Research

### Top-line grows ~6% yoy

The standalone top-line grew by ~6% yoy to ~₹282cr, which is higher than our estimate of ~₹267cr. The Transmission segment revenue was up ~11% yoy; the segment accounted for ~79% of the standalone revenue of the company. The Others segment reported a decline in sales.

**Exhibit 2: Top-line growth trend**

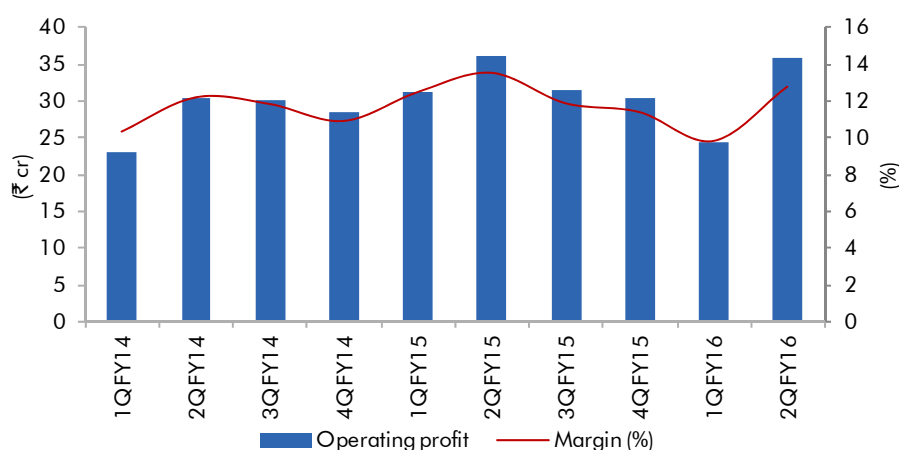


Source: Company, Angel Research

### Operating margin contracts by 74bp yoy

The company reported an operating profit of ~₹36cr, which is down 0.2% yoy. The operating margin contracted by 74bp yoy to 12.8%, primarily on account of higher employee costs and other expenditure.

**Exhibit 3: Operating profit and margin trend**

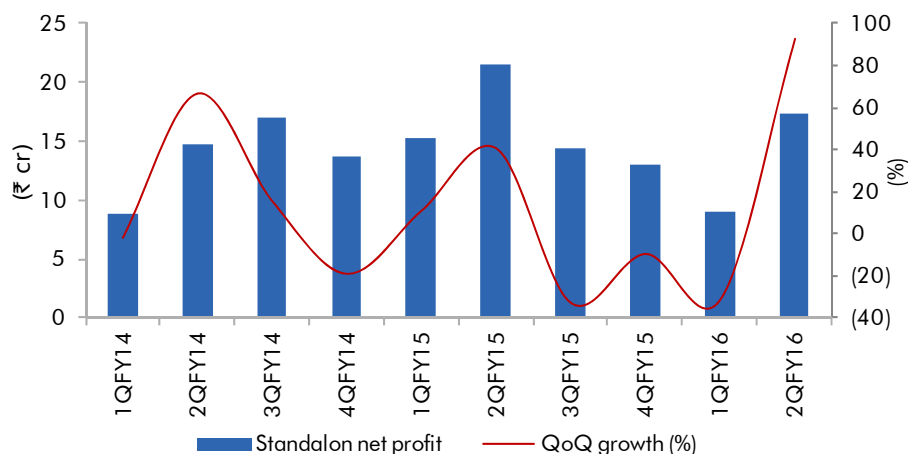


Source: Company, Angel Research

### Subdued top-line growth, poor operating performance and lower other income drag profitability

The reported standalone net profit declined by ~19% yoy to ~₹17cr, but is higher than our estimate of ~₹16cr. However, on adjusting for the one-time exceptional gain incurred in 2QFY2015, the PAT during 2QFY2016 actually grew by 5% yoy.

**Exhibit 4: Net Profit trend**



Source: Company, Angel Research

### Investment rationale

#### Capacity expansion at key clients to drive growth for LGBBL

The company's automotive chains segment caters to the OEM market for two-wheelers. In the OEM segment, where the company has a 70% market share, the company has tied up with leading two-wheeler players like Bajaj Auto, Hero MotoCorp (HMCL), Honda Motorcycle and Scooter India (HMSI), TVS Motor, Yamaha Motor etc., all of which have good growth prospects. These OEMs are increasing their capacity and also entering newer geographies for export which would drive growth of the industry. Hence, going forward, we believe that expansion plans at various OEM clients would trigger volume growth for LGBBL.

## Outlook and valuation

LGBBL is a market leader in two-wheeler automotive chains with ~70% market share in the OEM segment. The company has been reporting lower growth in earnings since the last three quarters, which is mainly due to overall slowdown in the two-wheeler industry. The two-wheeler industry has been impacted mainly due to rural slowdown. However, sales are expected to rebound in 2HFY2016 on expectations of a normal monsoon which will boost crop output, thus leading to revival in rural demand. The company's volume growth in the automotive chains segment is expected to improve over FY2015-17E with its key clients like HMCL, HMSI, Yamaha, TVS Motor and others having plans of capacity expansion and with they launching new models. **We have a Neutral rating on the stock.**

## Company Background

LG Balakrishnan & Bros Ltd is engaged in the manufacturing of chains, sprockets and metal formed parts for automotive applications. It operates in three segments: Transmission, Metal Forming and Others. The company's Transmission products include chains, sprockets, tensioners, belts and brake shoe. The company's Metal Forming products include fine blanking for precision sheet metal parts, machined components and wire drawing products for internal use as well as for other chain manufacturing plants, spring steel suppliers, and umbrella manufacturers. The company's Others segment includes trading goods. It has manufacturing units spread across Tamil Nadu, Maharashtra, Uttarakhand, Karnataka and Delhi.

**Profit and Loss Statement(Consolidated)**

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Total operating income</b>	<b>913</b>	<b>956</b>	<b>1,109</b>	<b>1,173</b>	<b>1,196</b>	<b>1,277</b>
% chg	27.7	4.8	15.9	5.8	2.0	6.7
<b>Total Expenditure</b>	<b>809</b>	<b>867</b>	<b>982</b>	<b>1,031</b>	<b>1,056</b>	<b>1,121</b>
Cost of Materials	484	511	545	550	563	599
Personnel	88	100	134	150	156	169
Others	238	256	303	331	337	354
<b>EBITDA</b>	<b>104</b>	<b>89</b>	<b>126</b>	<b>142</b>	<b>140</b>	<b>156</b>
% chg	19.1	(13.8)	41.2	12.4	(1.3)	11.3
(% of Net Sales)	11.4	9.3	11.4	12.1	11.7	12.2
Depreciation & Amortisation	29	30	33	39	46	51
<b>EBIT</b>	<b>75</b>	<b>59</b>	<b>93</b>	<b>102</b>	<b>94</b>	<b>105</b>
% chg	22.3	(20.6)	57.0	9.6	(8.5)	12.3
(% of Net Sales)	8.2	6.2	8.4	8.7	7.8	8.2
Interest & other Charges	18	23	18	18	18	18
Other Income	2	4	5	3	4	5
(% of PBT)	2.9	9.5	5.7	3.1	5.0	5.4
Share in profit of Associates	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>59</b>	<b>40</b>	<b>80</b>	<b>87</b>	<b>80</b>	<b>92</b>
% chg	22.5	(31.5)	98.4	9.1	(8.4)	15.7
Prior Period & Extra. Exp./Inc.	-	-	-	(7)	-	-
<b>PBT (reported)</b>	<b>59</b>	<b>40</b>	<b>80</b>	<b>94</b>	<b>80</b>	<b>92</b>
Tax	15	8	15	20	22	26
(% of PBT)	24.9	19.1	18.6	21.8	28.0	28.0
<b>PAT (reported)</b>	<b>44</b>	<b>33</b>	<b>65</b>	<b>73</b>	<b>58</b>	<b>67</b>
Add: Share of earnings of asso.	-	-	1	1	1	1
Less: Minority interest (MI)	-	(0)	3	3	3	3
<b>PAT after MI (reported)</b>	<b>44</b>	<b>33</b>	<b>63</b>	<b>71</b>	<b>55</b>	<b>64</b>
<b>ADJ. PAT</b>	<b>44</b>	<b>33</b>	<b>63</b>	<b>66</b>	<b>55</b>	<b>64</b>
% chg	(4.5)	(26.0)	92.0	5.1	(16.2)	16.3
(% of Net Sales)	4.8	3.4	5.7	5.6	4.6	5.0
<b>Basic &amp; Fully Diluted EPS (₹)</b>	<b>28.2</b>	<b>20.8</b>	<b>40.0</b>	<b>45.4</b>	<b>35.3</b>	<b>41.0</b>
<b>Adjusted EPS (₹)</b>	<b>28.2</b>	<b>20.8</b>	<b>40.0</b>	<b>42.1</b>	<b>35.3</b>	<b>41.0</b>
% chg	(4.5)	(26.0)	92.0	5.1	(16.2)	16.3

**Balance sheet(Consolidated)**

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	8	8	8	16	16	16
Reserves& Surplus	225	251	301	354	402	458
<b>Shareholders Funds</b>	<b>233</b>	<b>258</b>	<b>309</b>	<b>370</b>	<b>418</b>	<b>473</b>
Minority Interest	-	5	10	10	10	10
Total Loans	138	168	150	157	157	157
Deferred Tax Liability	18	18	17	17	17	17
<b>Total Liabilities</b>	<b>388</b>	<b>450</b>	<b>486</b>	<b>554</b>	<b>602</b>	<b>657</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	367	428	486	556	636	716
Less: Acc. Depreciation	171	200	231	271	317	368
<b>Net Block</b>	<b>197</b>	<b>228</b>	<b>255</b>	<b>285</b>	<b>319</b>	<b>348</b>
Capital Work-in-Progress	3	3	9	12	14	14
<b>Investments</b>	<b>14</b>	<b>19</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>18</b>
Current Assets	341	372	408	433	456	505
Inventories	193	196	208	230	229	245
Sundry Debtors	109	124	146	147	151	161
Cash	6	10	7	7	14	19
Loans & Advances	33	41	47	47	60	77
Other Assets	0	1	0	1	2	4
Current liabilities	166	172	204	194	205	228
<b>Net Current Assets</b>	<b>175</b>	<b>200</b>	<b>204</b>	<b>239</b>	<b>251</b>	<b>278</b>
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>388</b>	<b>450</b>	<b>486</b>	<b>554</b>	<b>602</b>	<b>657</b>

**Cash flow statement(Consolidated)**

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Profit before tax	59	40	80	87	80	92
Depreciation	29	30	33	39	46	51
Change in Working Capital	(49)	(12)	(15)	(34)	(6)	(21)
Interest / Dividend (Net)	17	23	18	18	18	18
Direct taxes paid	(17)	(8)	(17)	(20)	(22)	(26)
Others	(1)	(3)	(3)	7	-	-
<b>Cash Flow from Operations</b>	<b>38</b>	<b>70</b>	<b>96</b>	<b>96</b>	<b>115</b>	<b>114</b>
(Inc.)/ Dec. in Fixed Assets	(30)	(58)	(61)	(73)	(82)	(80)
(Inc.)/ Dec. in Investments	-	(5)	0	1	-	-
<b>Cash Flow from Investing</b>	<b>(30)</b>	<b>(63)</b>	<b>(60)</b>	<b>(72)</b>	<b>(82)</b>	<b>(80)</b>
Issue of Equity	-	6	-	8	-	-
Inc./(Dec.) in loans	20	-	-	7	-	-
Dividend Paid (Incl. Tax)	(9)	(15)	(6)	(13)	(9)	(11)
Interest / Dividend (Net)	(18)	7	(33)	(26)	(18)	(18)
<b>Cash Flow from Financing</b>	<b>(8)</b>	<b>(2)</b>	<b>(39)</b>	<b>(23)</b>	<b>(27)</b>	<b>(29)</b>
Inc./(Dec.) in Cash	1	5	(4)	1	6	5
<b>Opening Cash balances</b>	<b>5</b>	<b>6</b>	<b>10</b>	<b>7</b>	<b>7</b>	<b>14</b>
<b>Closing Cash balances</b>	<b>6</b>	<b>10</b>	<b>7</b>	<b>7</b>	<b>14</b>	<b>19</b>



**Key ratios**

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	16.2	21.9	11.4	10.8	12.9	11.1
P/CEPS	9.8	11.4	7.5	6.5	7.0	6.2
P/BV	3.1	2.8	2.3	2.0	1.7	1.5
Dividend yield (%)	1.1	1.2	0.8	1.3	1.3	1.5
EV/Sales	0.9	0.9	0.8	0.7	0.7	0.7
EV/EBITDA	8.1	9.6	6.7	6.0	6.0	5.4
EV / Total Assets	1.5	1.4	1.2	1.1	1.0	0.9
<b>Per Share Data (₹)</b>						
EPS (Basic)	28.2	20.8	40.0	45.4	35.3	41.0
EPS (fully diluted)	28.2	20.8	40.0	45.4	35.3	41.0
Cash EPS	46.5	39.9	60.9	70.5	64.8	73.3
DPS	5.0	5.5	3.8	6.0	6.0	7.0
Book Value	146.5	163.0	195.2	233.8	264.4	299.9
<b>Returns (%)</b>						
RoCE	20.2	13.9	20.3	19.4	16.3	16.7
Angel RoIC (Pre-tax)	21.3	15.0	21.5	20.4	17.2	17.7
RoE	19.0	12.7	20.3	19.3	13.3	13.6
<b>Turnover ratios (x)</b>						
Asset Turnover	2.5	2.2	2.3	2.1	1.9	1.8
Inventory / Sales (days)	77	75	68	72	70	70
Receivables (days)	44	47	48	46	46	46
Payables (days)	45	48	49	47	50	53
Net WC (days)	76	74	67	70	66	63

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<b>Disclosure of Interest Statement</b>	<b>L G Balakrishnan &amp; Bros</b>
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*

<b>Ratings (Based on expected returns over 12 months investment period):</b>	<b>Buy (&gt; 15%)</b>	<b>Accumulate (5% to 15%) Reduce (-5% to -15%)</b>	<b>Neutral (-5 to 5%) Sell (&lt; -15)</b>
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