

## Menon Bearings Limited

### To benefit from CV recovery

Menon Bearings Limited (MBL) is a 4-decades old company operating in the business of engine bearings, Bushes, thrust washers, and aluminum die-castings. Its 70% revenue comes from bearings segment while rest 30% comes from aluminum die-castings. Exports contribute ~35% of revenue.

**Recovery in the CV volumes positive for MBL:** MBL makes engine bearings, bushes and thrust washers for commercial vehicles (CV). Bearings business represents 55% of its total sales, where it caters only to CVs. On that backdrop, the recovery in the CV sales is going to be positive for MBL. Company claims that the bearings business has certain entry barriers, hence its customer base is sticky in nature.

**Capacity augmentation to cater incremental demand:** With the revival in the CVs and tractors, MBL is expecting a strong traction in its revenue and is in process of increasing its bearings capacity by 30-35% over next one year. Moreover, company is targeting increase in its wallet share with most of its customers.

**Aluminum die-casting and exports business de-risking operations:** We like MBL's de-risking strategy by diversifying business in Aluminum die casting and exports. The die casting business has strong clientele like Honeywell, whereas in exports its clients are Cummins, John Deere, etc. The aluminum die casting business is expected to grow at a faster rate (~2x over next two years) due to the new contracts, particularly Honeywell. The growing exports are expected to boost the margins from current 27% to ~28-29% over next three years.

**Outlook and valuation:** We expect MBL to report net revenue/PAT CAGR of 15.0%/17.8% respectively over FY2017-20E due to recovery in CV volumes, addition of clients, increasing wallet share and rising aluminum die casting and exports business. We expect MBL to continue report EBITDA margins between 28-29% and ROE of 27-29% during this period. We also expect company to pay dividend at 30-40% payouts. At the CMP of ₹92, the stock trades at a P/E of 16x its FY2020E EPS of ₹5.7. We initiate coverage on the stock with a Buy recommendation and Target Price of ₹114 based on 20x FY20E EPS, indicating an upside of 25% from the current levels.

#### Key Financials (Consolidated)

Y/E March (₹cr)	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Sales</b>	<b>111</b>	<b>124</b>	<b>139</b>	<b>162</b>	<b>188</b>
% chg	7.9	11.0	12.0	17.0	16.0
<b>Net Profit</b>	<b>15</b>	<b>19</b>	<b>23</b>	<b>27</b>	<b>32</b>
% chg	28.8	29.2	18.6	19.2	17.7
OPM (%)	26.0	27.0	28.0	29.0	29.0
<b>EPS (Rs)</b>	<b>2.7</b>	<b>3.4</b>	<b>4.1</b>	<b>4.9</b>	<b>5.7</b>
P/E (x)	34.5	26.7	22.5	18.9	16.0
P/BV (x)	9.9	8.0	6.5	5.4	4.4
RoE (%)	28.6	30.0	29.0	28.4	27.6
RoCE (%)	38.0	33.0	34.4	35.1	35.1
EV/Sales (x)	4.7	4.2	3.7	3.1	2.6
EV/EBITDA (x)	17.9	15.5	13.2	10.7	9.0

Source: Company, Angel Research; Note: as CMP of Dec 15, 2017

## BUY

CMP	₹91.5
Target Price	₹114.3

Investment Period	12 Months
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#### Stock Info

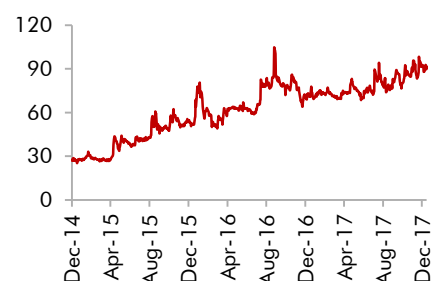
Sector	Auto Ancillary
Market Cap (₹ cr)	515
Net Debt (₹ cr)	5
Beta	1.3
52 Week High / Low	102/60
Avg. Daily Volume	12,488
Face Value (₹)	1
BSE Sensex	33,463
Nifty	10,333
Reuters Code	MEN IN
Bloomberg Code	MENO NS

#### Shareholding Pattern (%)

Promoters	74.7
MF / Banks / Indian Fls	0.0
FII / NRIs / OCBs	0.0
Indian Public / Others	25.3

Abs. (%)	3m	1yr	3yr
Sensex	4.0	26.2	22.3
Menon Bearings	5.2	29.4	238.8

#### Price Chart



Source: Company, Angel Research

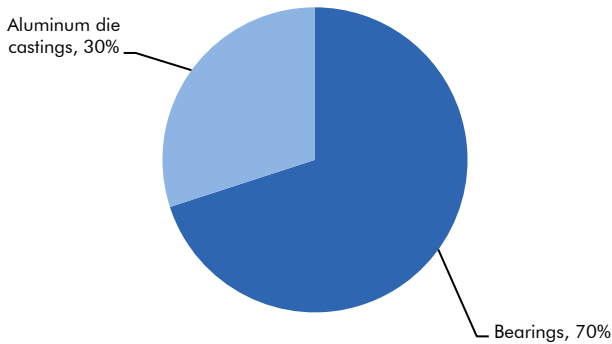
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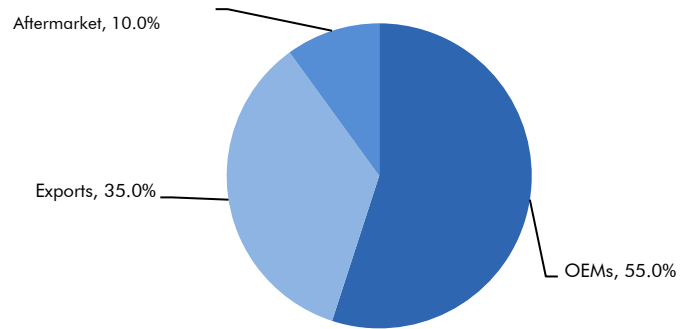
## Menon Bearings at a glance

**Exhibit 1: Bearings is the largest segment**



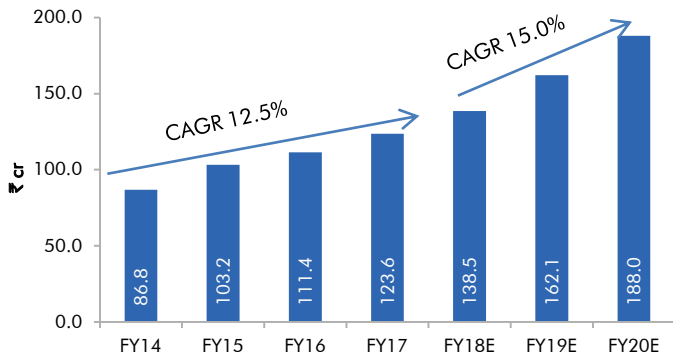
Source: Company, Angel Research

**Exhibit 2: OEMs contribute 55% of the revenue**



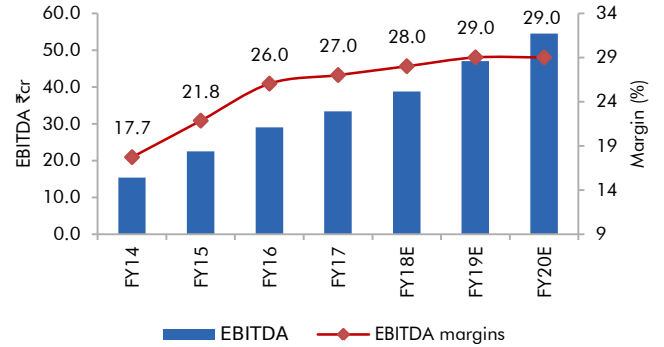
Source: Company, Angel Research

**Exhibit 3: 15% revenue CAGR over next three years**



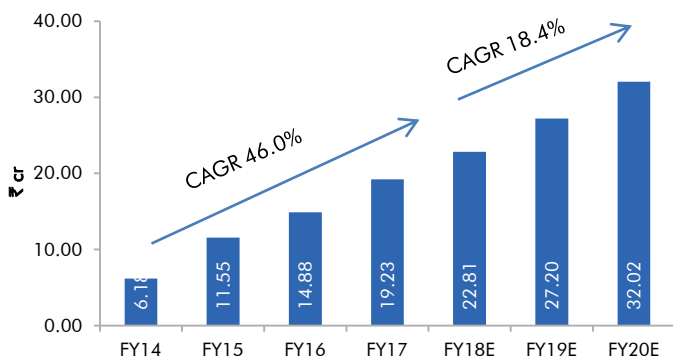
Source: Company, Angel Research

**Exhibit 4: Margin profile sustainable**



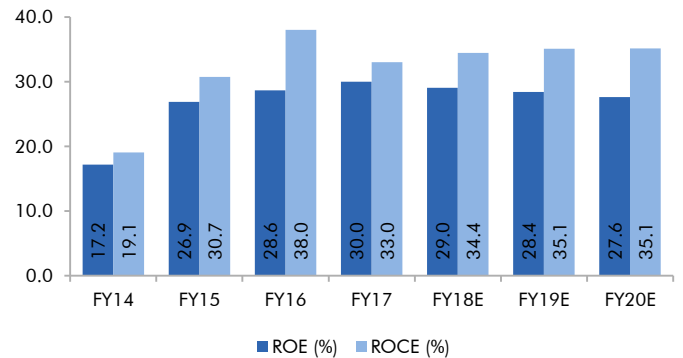
Source: Company, Angel Research

**Exhibit 5: 18.4% PAT CAGR over next three years**



Source: Company, Angel Research

**Exhibit 6: Sticky model allows ROE/ROCE expansion**



Source: Company, Angel Research

## About company

Menon Bearings Limited (MBL) is engaged in the manufacturing of bi-metal engine bearings; bushes and thrust washers for light and heavy automobile engines; two wheeler engines, and compressors for refrigerators, air conditioners and others. It also offers aluminum die casting components. Company exports its products to the United States, the United Kingdom, Italy, France, China, Mexico and Brazil, among others

Its product portfolio includes following

- **Bearing products** - bearings for connecting rods, bearings for crank shafts, flanged bearings and tri-metal bearings.
- **Bushes** - truncated bushes for connecting rods; ball indented bushes; bushes for connecting rods; cam shafts; rock shafts, and rocker arms.
- **Thrust washers** - washers with thrust face contours and ring type thrust washers.
- **Aluminum products** - engine components, gear case covers, clutch assembly, cylinder heads for automobile engines, break parts, engine parts, portable tools and fuel pump parts.

### Exhibit 7: Marquee customers in the portfolio



Source: Company, Angel Research

## Key Management Personnel

- **Mr. R D Dixit – Chairman and Managing Director**

Mr. Dixit is associated with Menon Group for more than 50 years. He is currently CMD of Menon bearings and also holds directorship in Menon Pistons Limited. He is a Bachelor of Mechanical Engineering and has been with MBL since 1992.

- **Mr. Nitin Menon – Vice chairman and Joint Managing Director**

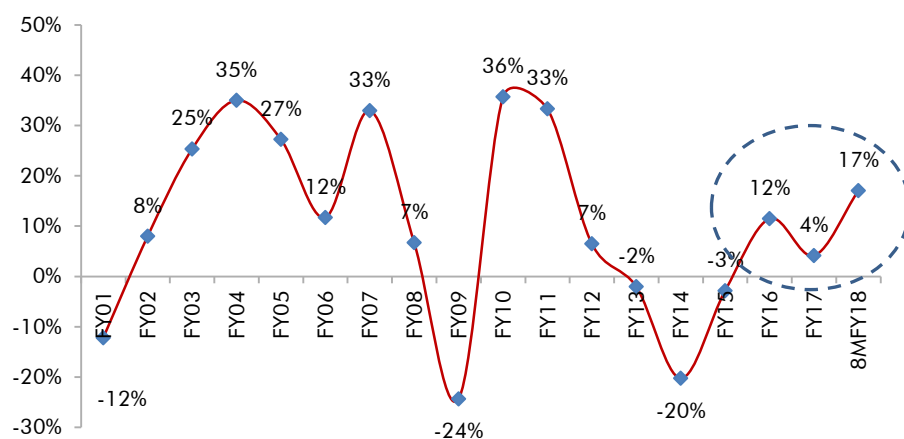
He is a promoter of the company associated with the MBL since 1995. He has experience in running businesses in automobile, agriculture and allied sectors. He has a degree in Commerce.

## Investment Rationale

**CV market recovery to be positive for Menon Bearings:** After the slump of three years (FY13 to FY15), the domestic CV volumes have been recovering since FY16. While the demonetisation in Nov-16 and BSIII to BSIV transition in April-17 affected the CV sales in FY17, the growth has come back in FY18, reflected in the double-digit growth in 2QFY18. We continue to see strong CV volumes going ahead due to Government's thrust to create road infrastructure and build ~1.2cr affordable houses by FY2022E.

On the back of strengthening of the rural economy and two nearly normal seasons of monsoon, the demand for tractors has also come back on track. While this remains a seasonal phenomenon, it should be noted that it has come back after two seasons of draught prior two years. With the rising food grain production and MSP hikes this year, we believe rural economy is expected to remain strong which is expected to keep the tractor demand on the growth trajectory.

### Exhibit 8: Recovery in the CV volumes



Source: SIAM, Angel Research

**Menon Bearings - Diversified business with marquee clients:** Menon bearings is a diversified auto ancillary, making engine bearings for the CVs/tractors and high pressure aluminum die casting for non auto clients. The company earlier had only bearings business which it diversified by moving in the high pressure die casting business and exports.

In the bearings business company has customers like Tata Motors, Cummins, John Deere, Greaves Cotton, M&M, Federal Mogul, while in the Die casting business its customers are Honeywell, Gabriel, Royal Enfield, Mahindra and Mahindra, Tata Motors, etc. The company has seen strong traction in the die casting business which now contributes about 30% of the business. The exports business has been doing well due to the strong order book from its overseas clients, contributing ~35% of the total revenue. The pie of exports has been increasing which also de-risks its business from the volatility in the domestic CV business.

The customer concentration risk remains low for the company as no single OEM contributes more than 7-8% of its revenue. Considering that CVs follow a

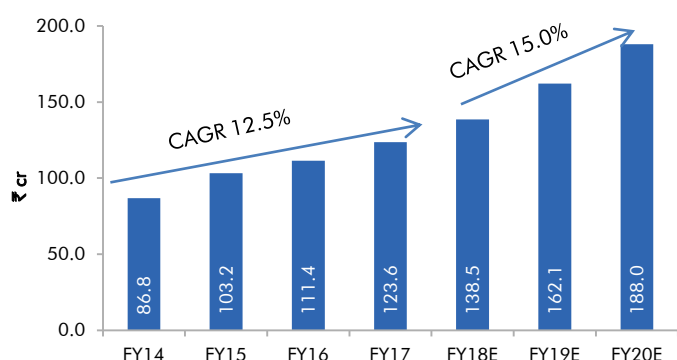
particular business cycle, MBL is less dependent on a single OEM for revenue generation.

**Increasing wallet share with existing customers:** While the company has diversified customer base, its wallet share with its major customers is also increasing. For example, share of business with Tata Motors is currently at 35-40% which is expected to grow to ~55% going ahead. The share of business with John Deere is also expected to grow going forward. Share with Honeywell is ~35-40% which is also expected to rise going ahead, given that company is very bullish on its business with Honeywell. MBL is also expecting to add more clients and in anticipation of high growth in the bearings business, company is expanding its manufacturing capacity.

**Capacity augmentation to cater incremental demand:** With the revival in the commercial vehicles and tractors, MBL is expecting strong growth traction in its revenue and is in process of increasing its bearings capacity by 30-35% over next one year. The aluminum die casting business is expected to grow at a faster rate (~2x over next two years) due to the new contracts, which includes business from Honeywell on which MBL is extremely bullish. Similarly, company is targeting to increase its wallet share with most of its customers.

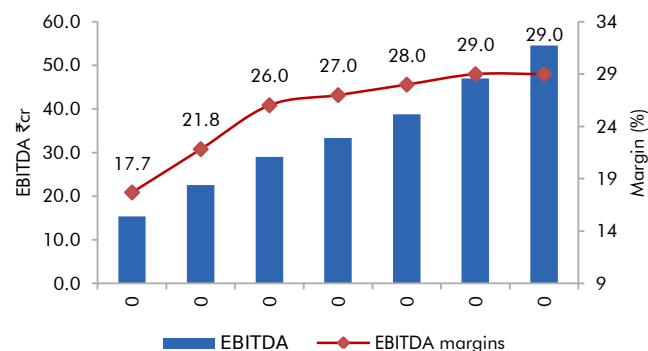
**Strong track record in growth and profitability:** Owing to stickiness of clients and diversified business model, MBL has achieved a topline CAGR of 12.5% between FY14-FY17. Due to strict control, control, timely raw material sourcing, increasing exports business and well integrated facilities, MBL has also seen improvement in EBITDA margins from 22% in FY14 to 27% in FY17. We believe that MBL can deliver top line CAGR of 15% due to improved outlook of CV business. We are also positive on the margins as exports business is expected to grow further and company is delivering economies of scale due to 1) entry barrier due to the long time span required to validate the bearings and 2) strong expertise in the business. We forecast average 29% EBITDA margins during our forecast period and bottomline CAGR of 17.8% between FY18E-FY20E.

**Exhibit 9: 15% revenue CAGR over next three years**



Source: Company, Angel Research

**Exhibit 10: Margin profile sustainable**



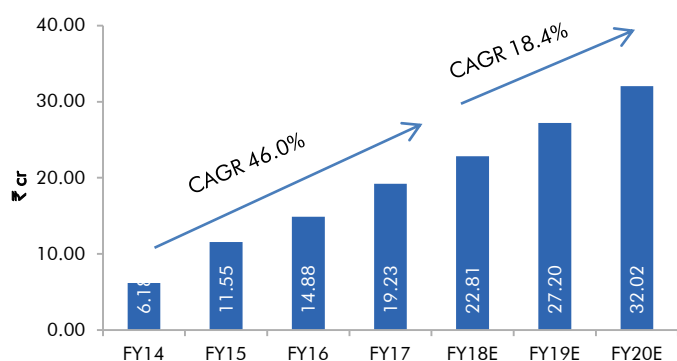
Source: Company, Angel Research

**Strong balance sheet with healthy return ratios:** The lower capex requirement has led MBL to maintain a lean balance sheet with debt to equity ratio of 0.34x. It has a cash of ₹17cr, while debt stands at ₹23.3cr. The balance sheet is expected to

remain healthy as company does not plan to raise more debt, with additional capex requirement of ~₹20cr to be largely funded using internal accruals and existing cash. Working capital cycle has been between 80-90 days, in line with the industry peers (~90-100 days).

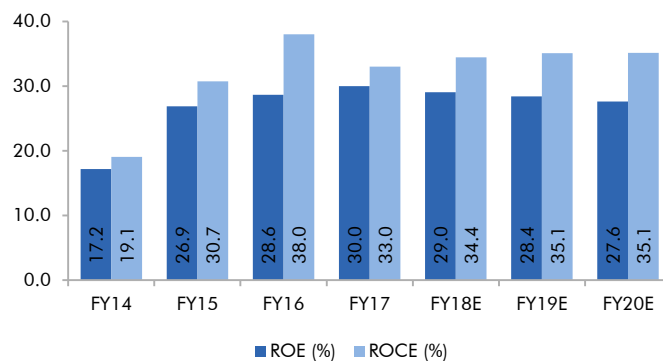
The strong balance sheet coupled with healthy business has led MBL put a strong return profile. ROE has consistently improved from 17.2% in FY14 to 30% in FY17. Return on Invested Capital has improved from ~22.0% in FY14 to 43.4% in FY17. We expect MBL to continue report EBITDA margins between 28-29% and ROE of 27-29% over FY18E-FY20E.

**Exhibit 11: 18.4% PAT CAGR over next three years**



Source: Company, Angel Research

**Exhibit 12: Further headroom for ROE/ROCE expansion**



Source: Company, Angel Research

## Outlook and valuation

We expect MBL to report net revenue/PAT CAGR of 15.0%/17.8% respectively over FY2017-20E due to recovery in CV volumes, addition of clients, increasing wallet share and rising aluminum die casting and exports business. We expect MBL to continue report EBITDA margins between 28-29% and ROE of 27-29% during this period. We also expect company to pay dividend at 30-40% payouts. At the CMP of ₹92, the stock trades at a P/E of 16x its FY2020E EPS of ₹5.7. We initiate coverage on the stock with a Buy recommendation and Target Price of ₹114 based on 20x FY20E EPS, indicating an upside of 25% from the current levels.

**Income statement**

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
<b>Total operating income</b>	<b>111</b>	<b>124</b>	<b>139</b>	<b>162</b>	<b>188</b>
% chg	7.9	11.0	12.0	17.0	16.0
<b>Total Expenditure</b>	<b>82</b>	<b>90</b>	<b>100</b>	<b>115</b>	<b>133</b>
Cost of Materials	38	42	48	53	62
Personnel	8	9	11	13	15
Others Expenses	36	39	41	49	56
<b>EBITDA</b>	<b>29</b>	<b>33</b>	<b>39</b>	<b>47</b>	<b>55</b>
% chg	28.6	15.1	16.2	21.2	16.0
(% of Net Sales)	26.0	27.0	28.0	29.0	29.0
Depreciation & Amort.	5	5	4	6	6
<b>EBIT</b>	<b>24</b>	<b>28</b>	<b>34</b>	<b>41</b>	<b>48</b>
% chg	33.3	15.7	21.9	19.3	17.5
(% of Net Sales)	21.9	22.9	24.9	25.3	25.7
Interest & other Charges	2	1	1	1	1
Other Income	1	1	1	1	1
(% of PBT)	2.3	2.1	3.0	2.5	2.1
Share in profit of Ass.	-	-	-	-	-
<b>Recurring PBT</b>	<b>23</b>	<b>28</b>	<b>34</b>	<b>41</b>	<b>48</b>
% chg	40.2	18.7	22.8	19.5	17.7
Prior Period & Extra. Exp.	-	-	-	-	-
<b>PBT (reported)</b>	<b>23</b>	<b>28</b>	<b>34</b>	<b>41</b>	<b>48</b>
Tax	8	8	11	13	16
(% of PBT)	36.2	30.5	32.9	33.0	33.0
<b>PAT (reported)</b>	<b>15</b>	<b>19</b>	<b>23</b>	<b>27</b>	<b>32</b>
Add: Share of earnings of ass.	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-
<b>PAT after MI (reported)</b>	<b>15</b>	<b>19</b>	<b>23</b>	<b>27</b>	<b>32</b>
<b>ADJ. PAT</b>	<b>15</b>	<b>19</b>	<b>23</b>	<b>27</b>	<b>32</b>
% chg	28.8	29.2	18.6	19.2	17.7
(% of Net Sales)	13.4	15.6	16.5	16.8	17.0
<b>Basic EPS (₹)</b>	<b>2.7</b>	<b>3.4</b>	<b>4.1</b>	<b>4.9</b>	<b>5.7</b>
<b>Fully Diluted EPS (₹)</b>	<b>2.7</b>	<b>3.4</b>	<b>4.1</b>	<b>4.9</b>	<b>5.7</b>
% chg	28.8	29.2	18.6	19.2	17.7

**Balance sheet**

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	5	6	6	6	6
Reserves & Surplus	47	59	73	90	110
<b>Shareholders Funds</b>	<b>52</b>	<b>64</b>	<b>79</b>	<b>96</b>	<b>116</b>
Minority Interest	-	-	-	-	-
Total Loans	12	21	21	21	21
Deferred Tax Liability	4	4	4	4	4
Other long term liabilities	-	-	-	-	-
Long-term provisions	-	-	-	-	-
<b>Total Liabilities</b>	<b>68</b>	<b>89</b>	<b>104</b>	<b>121</b>	<b>141</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	79	87	97	108	114
Less: Acc. Depreciation	44	49	54	60	66
Net Block	<b>35</b>	<b>37</b>	<b>43</b>	<b>48</b>	<b>48</b>
Intangible assets	-	-	-	-	-
Capital work-in-progress	1	4	4	4	4
Non-current investments	-	-	-	-	-
Long-term loans and advances					
Other non-current assets					
Current Assets	44	62	71	84	106
Inventories	11	12	13	15	18
Sundry Debtors	25	29	30	36	41
Cash	5	17	24	30	44
Loans & Advances	2	3	3	3	3
Other Assets	1	1	1	1	1
Current liabilities	12	13	14	15	16
<b>Net Current Assets</b>	<b>33</b>	<b>48</b>	<b>57</b>	<b>69</b>	<b>90</b>
Deferred Tax Asset	0	0	0	0	0
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>68</b>	<b>89</b>	<b>104</b>	<b>121</b>	<b>141</b>



**Cash flow statement**

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Profit before tax	23	28	34	41	48
Depreciation	5	5	4	6	6
Change in Working Capital	(9)	(4)	(1)	(6)	(7)
Interest / Dividend (Net)	2	1	1	1	1
Direct taxes paid	(8)	(8)	(11)	(13)	(16)
Others	0	(0)	-	-	-
<b>Cash Flow from Operations</b>	<b>12</b>	<b>21</b>	<b>27</b>	<b>28</b>	<b>33</b>
(Inc.)/ Dec. in Fixed Assets	(4)	(10)	(10)	(11)	(6)
(Inc.)/ Dec. in Investments	0	(0)	-	-	-
<b>Cash Flow from Investing</b>	<b>(4)</b>	<b>(10)</b>	<b>(10)</b>	<b>(11)</b>	<b>(6)</b>
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	(4)	9	-	-	-
Interest paid	(2)	(1)	(1)	(1)	(1)
Dividend Paid (Incl. Tax)	(6)	(7)	(8)	(10)	(12)
<b>Cash Flow from Financing</b>	<b>(12)</b>	<b>1</b>	<b>(10)</b>	<b>(12)</b>	<b>(13)</b>
Inc./(Dec.) in Cash	(4)	12	7	6	14
<b>Opening Cash balances</b>	<b>9</b>	<b>5</b>	<b>17</b>	<b>24</b>	<b>30</b>
<b>Closing Cash balances</b>	<b>5</b>	<b>17</b>	<b>24</b>	<b>30</b>	<b>44</b>

**Key Ratios**

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	34.5	26.7	22.5	18.9	16.0
P/CEPS	26.4	21.1	18.9	15.5	13.4
P/BV	9.9	8.0	6.5	5.4	4.4
Dividend yield (%)	0.9	1.1	1.4	1.6	1.9
EV/Sales	4.7	4.2	3.7	3.1	2.6
EV/EBITDA	17.9	15.5	13.2	10.7	9.0
EV / Total Assets	8.1	6.0	5.1	4.3	3.6
<b>Per Share Data (₹)</b>					
EPS (Basic)	2.7	3.4	4.1	4.9	5.7
EPS (fully diluted)	2.7	3.4	4.1	4.9	5.7
Cash EPS	3.5	4.3	4.8	5.9	6.8
DPS	0.8	1.0	1.3	1.5	1.8
Book Value	9.3	11.4	14.0	17.1	20.7
<b>Dupont Analysis</b>					
EBIT margin	21.9	22.9	24.9	25.3	25.7
Tax retention ratio	0.6	0.7	0.7	0.7	0.7
Asset turnover (x)	1.9	1.8	1.8	1.9	2.0
ROIC (Post-tax)	26.4	28.6	30.5	31.6	34.6
Cost of Debt (Post Tax)	0.08	0.04	0.05	0.05	0.05
Leverage (x)	0.1	0.1	(0.0)	(0.1)	(0.2)
Operating ROE	30.0	30.6	29.4	28.8	27.9
<b>Returns (%)</b>					
ROCE	38.0	33.0	34.4	35.1	35.1
Angel ROIC (Pre-tax)	41.9	43.4	47.7	49.1	53.6
ROE	28.6	30.0	29.0	28.4	27.6
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	1.4	1.4	1.4	1.5	1.7
Inventory / Sales (days)	37	37	34	34	34
Receivables (days)	82	86	80	80	80
Payables (days)	22	24	22	21	21
WC cycle (ex-cash) (days)	98	99	92	93	93
<b>Solvency ratios (x)</b>					
Net debt to equity	0.1	0.1	(0.0)	(0.1)	(0.2)
Net debt to EBITDA	0.2	0.1	(0.1)	(0.2)	(0.4)
Interest Coverage (EBIT / Interest)	15.0	24.1	23.3	27.8	32.6

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### Disclosure of Interest Statement

### Menon Bearings Limited

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**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)