

L.G.Balakrishnan & Brothers Ltd.

No. of shares (m)	31.4
Mkt cap (Rs crs/\$m)	1290/173.8
Current price (Rs/\$)	411/5.5
Price target (Rs/\$)	565/7.6
52 W H/L (Rs.)	546/210
Book Value (Rs/\$)	276/3.7
Beta	0.9
Daily volume (avg. weekly)	221240
P/BV (FY22e/23e)	1.3/1.1
EV/EBITDA (FY22e/23e)	3.9/3.4
P/E (FY22e/23e)	7.8/6.5
EPS growth (FY21/22e/23e)	58.8/35.0/19.7
OPM (FY21/22e/23e)	15.8/16.8/17.5
ROE (FY21/22e/23e)	16.0/18.2/18.6
ROCE(FY21/22e/23e)	14.9/17.4/18.0
D/E ratio (FY21/22e/23e)	0.1/0.1/0.1
BSE Code	500250
NSE Code	LGBBROSLTD
Bloomberg	LGBB IN
Reuters	LGB.NS

Shareholding pattern

	%
Promoters	42.0
MFs / Banks / FIs	17.0
FPIs	0.5
Govt. Holding	0.0
Public & others	41.1
Total	100.0

As on June 30, 2021

Recommendation

BUY

Analyst

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Company Brief

L G Balakrishnan (LGB) manufactures roller chains and undertakes metal forming, including warm & cold forging, fine blanking and machined parts.

Quarterly Highlights

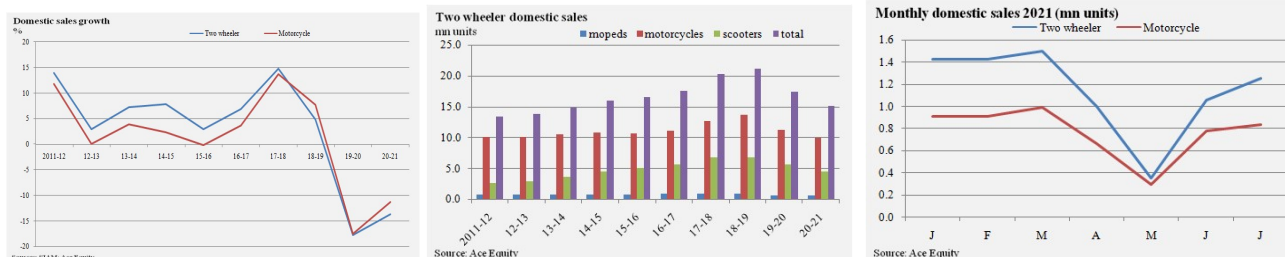
- Trampled by the lockdown in Q1, revenues from operations of LGB slid by a little pleasing 21.3% to Rs 392.55 crs compared to Rs 499.08 crs in Q4 of the previous fiscal. Little surprisingly, its transmission business bore much of the brunt for its revenues plunged by 24.5%; though its revenue contribution fell by a miniscule 3% to 77% in Q1 from 80% in Q4.
- Lower operating profit all but brutalized pretax earnings for it fell by a nerve-racking 37.6% to Rs 43.16 crs from Rs 69.16 crs in the fourth quarter; post tax earnings (unadjusted for exceptional) tumbled to Rs 33.09 crs from Rs 58.02 crs. Part of the fall in operating profit was arrested by no modest fall in other operating expenses – fell by over 19% to Rs 97.61 crs; yet other expenses like depreciation and employee benefit witnessed just modest fall.
- Fall in EBIT margin of transmission business from 16.3% in Q4 to 11.7% in Q1 (its EBIT declined to Rs 35.47 crs from Rs 65.14 crs) explains much of the torpidity in operating profit. Metal forming though remained resilient for it posted EBIT of Rs 11.49 crs from Rs 9.19 crs attended by higher margins - 12.7% Vs 9.3%. Yet earnings contribution of metal forming business has shown little signs of progress in the last few years, casting doubts on its business efficacy.
- The stock currently trades at 7.8x FY22e EPS of Rs 52.51 and 6.5x FY23e EPS of Rs 62.83. Post tax earning is projected to grow by over 27% CAGR over the next two years on stable sales growth (sales estimated to grow by 11% this fiscal and by 9.4% in FY23. LGB's competitive advantage in terms of product quality and market reach would enable it to further penetrate in the propitious replacement market. Risks in terms of rise in Covid 19 cases cannot be ignored. Weighing odds, we maintain our buy recommendation on the stock with revised target of Rs 565 (previous target: Rs 276) based on 9X FY23e earnings over a period of 6-9 months.

Consolidated (Rs crs)	FY19	FY20	FY21	FY22e	FY23e
Income from operations	1688.00	1542.83	1608.99	1785.24	1952.77
Other Income	14.87	22.49	20.59	13.45	20.96
EBITDA (other income included)	223.41	209.78	274.37	314.16	362.69
Profit after MI & associate profit	91.33	76.85	122.95	164.83	197.24
EPS(Rs)	29.09	24.48	38.88	52.51	62.83
EPS growth (%)	7.1	-15.9	58.8	35.0	19.7

Outlook & Recommendation

Automobile industry

According to a research report by imrac, the Indian two wheeler industry would get a fillip from rising urbanization, improving road infrastructure, higher fuel efficiency compared to four wheelers and lower carbon emissions. The firm expects the Indian two-wheeler market to revive from 2021 onwards and exhibit moderate growth during 2021-26. Yet challenges barely wane for increasing work from home practice has cut down work travel across the country. Besides, surging petrol prices could also constrain market growth.



One other report contends that Indian two wheeler market would grow at some 2.6% CAGR during 2020-2025. Motorcycle and scooter sales in India is expected to grow significantly over the analyzed period not least due to growing per capita income, while rise in rural income would support motorcycle demand. The scooter demand, the report portends, would get a boost from rapid urbanization, increased affordability and greater penetration through targeted product launches.

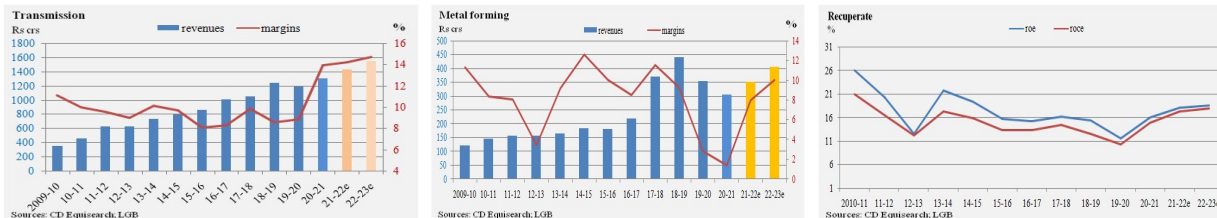
After the deepest ever fall reported in 2020, the Indian motorcycle market is expected to recover this year. Yet the market will struggle more than expected due to Covid 19 effects on production and distribution. According to World Economic Situation and Prospects report, the surging Covid-19 infections and inadequate vaccination progress in many countries threaten a broad-based recovery of the world economy. While the Indian urban markets are still coping up with high number of Covid-19 cases, the comparatively less affected rural and semi-rural markets could enable gradual recovery for the entire industry.

Financials & Valuation

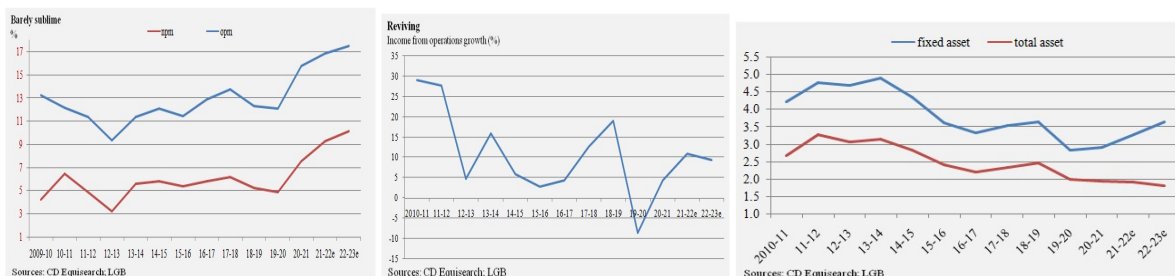
Much of the two wheeler demand in the country over the next few quarters would rest on severity of new Covid 19 infections and state of monsoons. By some count, the demand catalysts for the automobile industry - be it in the form of low interest rates or rising urbanization - would foster high single digit market growth. The newly announced scrappage policy would anything but diminish demand for four wheelers in the country.

Higher replacement market sales coupled with increased exports explains much of the buoyancy in LGB's transmission business last fiscal when its sales surged 9.6% while EBIT galloped over 72% - resulting in margin gain of over 500 bps. Not unsupported by volumes, LGB's margin gain was the result of more propitious nature of the replacement market, where margin tends to be 300-400 bps higher than the OEM supplies; exports are attended with even higher margins. No small part of the transmission business envious margins could be linked to LGB's entrenched specialization in tooling and machine building.

Barely very long replacement period of LGB's transmission chains - typically lasts for 2.5-3 years - enables scaling effect, thus countermanding the slower replacement cycle of its metal forming products. Further, increased penetration efforts in the rural areas would little diminish LGB's replacement market revenue share (only for transmission business) in the ensuing years from the current reading of well nigh 30%.



The stock currently trades at 7.8x FY22e EPS of Rs 52.51 and 6.5x FY23e EPS of Rs 62.83. Valuation stress presumably stems from the uncertain state of recovery in the Indian automobile market - despite the company generating free cash flows of some Rs 200 crs. Bolstered by higher margins overall, earnings would rise by some 35% this fiscal, thus propelling return on capital. Weighing odds, we maintain our buy recommendation on the stock with revised target of Rs 565 (previous target: Rs 276) based on 9X FY23e earnings. For more info refer to our June 20 report.



Cross Sectional Analysis

Company	Equity*	CMP	Mcap*	Sales	PAT*	OPM ^a	NPM ^a	Int Cov.	ROE ^a	Mcap / sales	P/BV	P/E
Gabriel India	14	136	1956	2031	96	7.4	4.7	16.0	14.6	1.0	2.8	20.4
LG Bala	31	411	1290	1807	161	16.6	8.9	23.6	20.8	0.7	1.5	8.0
Minda Corp	48	122	2926	2749	137	9.9	4.5	5.3	13.5	1.1	2.6	21.4
Munjal Showa	8	137	550	1192	32	2.9	2.7	129.0	5.2	0.5	0.9	17.4

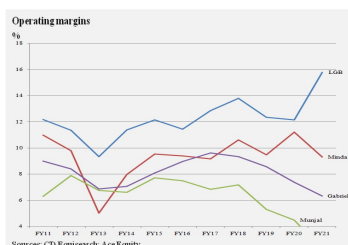
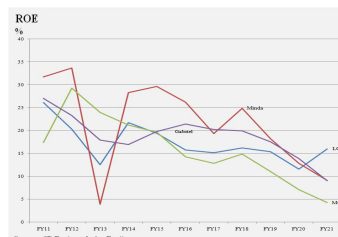
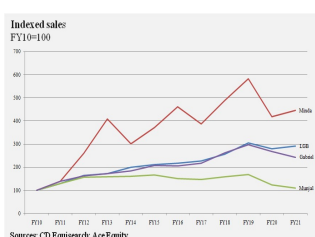
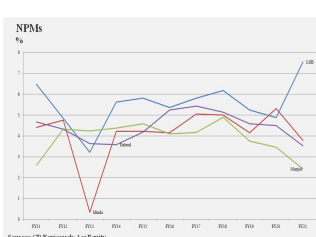
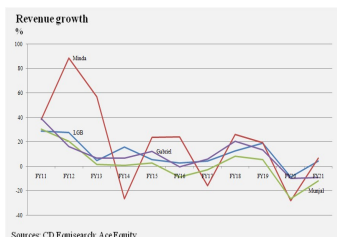
*figures in crores; a:calculations on ttm basis

Companies not truly comparable due to product dissimilarity

For deeper penetration in the aftermarket - its sales grew by 15% in FY21 - Gabriel plans to leverage the brand by launching new product lines and focusing on B&C class towns in India. It plans to grow exports through increased focus on aftermarkets in Latin America, Africa and North America. In FY21 the company commenced deliveries to a couple of major OEM customers from renowned vehicle manufacturers in Europe. A capex of Rs 47 crs was incurred last fiscal mostly focused on technology, automation, safety and growth.

Crippled by the pandemic, Munjal Showa, like so many other auto component manufacturers, faced no small challenges last fiscal, including, raw material shortage, shifting of production to other countries, deferred product launches and liquidity crunch. As imports account for a significant share of company's inputs, it has been exploring availability of alternative vendors for key inputs. For smooth functioning of its manufacturing facilities, plans are laid for controlling fixed costs and closely monitoring the supply chain.

Deeping production capabilities have been one of the cornerstones of Minda Corp's growth strategy. To augment its capability; it tied up with Israel based Ride Vision for 2W advanced driver assistance systems solution last fiscal. Strong export and aftermarket boosted revenues last fiscal with its wiring harness segment for the 2W segment getting a leg up from transition from BIV to BVI. For aftermarket business, the company plans to add products in 3W category besides enhancing capacity at warehouse to cut down fulfillment time from 25-30 days.



Financials

Quarterly Results -Consolidated

Figures in Rs crs

	Q1FY22	Q1FY21	% chg.	FY21	FY20	% chg.
Income from operations	392.55	194.63	101.7	1608.99	1542.83	4.3
Other Income	3.98	0.87	355.0	20.59	22.49	-8.4
Total Income	396.53	195.50	102.8	1629.58	1565.32	4.1
Total Expenditure	331.29	180.20	83.8	1355.22	1355.54	0.0
PBIDT (other income included)	65.24	15.30	326.4	274.37	209.78	30.8
Interest	1.61	2.92	-44.8	10.93	16.28	-32.9
Depreciation	20.47	20.48	-0.1	83.32	78.66	5.9
PBT	43.16	-8.10	-633.1	180.12	114.84	56.8
Tax	10.07	-2.01	-602.1	47.27	24.72	91.3
PAT	33.09	-6.09	-643.3	132.84	90.12	47.4
Minority interest	0.13	-0.02	-626.1	-0.61	-0.35	75.2
Associate profit	-	-	-	0.00	1.16	-100.0
Net profit after MI&AP	32.96	-6.07	-643.3	133.46	91.63	45.6
Extraordinary Item	0.00	0.36	-100.0	10.50	14.78	-29.0
Adjusted Net Profit	32.96	-6.42	-613.2	122.95	76.85	60.0
EPS (F.V. 10)	10.50	-2.05	-613.2	38.88	24.48	58.8

Segment Results

Figures in Rs crs

	Q1FY22	Q1FY21	% chg.	FY21	FY20	% chg.
Segment Revenue						
Transmission	302.40	148.33	103.9	1302.06	1188.36	9.6
Metal forming	90.15	46.30	94.7	306.93	354.47	-13.4
Total	392.55	194.63	101.7	1608.99	1542.83	4.3
Segment EBIT						
Transmission	35.47	2.56	1284.1	181.66	105.58	72.1
Metal forming	11.49	-7.24	-258.6	4.25	9.99	-57.5
Total	46.96	-4.68	-1103.3	185.91	115.58	60.9
Interest	1.61	2.92	-44.8	10.04	15.24	-34.1
Unallocable exp	2.19	0.50	336.2	-4.25	-14.50	-70.7
PBT	43.16	-8.10	-633.1	180.12	114.84	56.8

Financials

Income Statement - Consolidated

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
Income from operations	1688.00	1542.83	1608.99	1785.24	1952.77
<i>Growth (%)</i>	19.0	-8.6	4.3	11.0	9.4
Other Income	14.87	22.49	20.59	13.45	20.96
Total Income	1702.87	1565.32	1629.58	1798.69	1973.73
Total Expenditure	1479.46	1355.54	1355.22	1484.53	1611.04
EBITDA (other income included)	223.41	209.78	274.37	314.16	362.69
Interest	12.74	16.28	10.93	8.07	7.10
EBDT	210.67	193.49	263.43	306.10	355.59
Depreciation	68.05	78.66	83.32	85.16	91.33
Tax	45.99	24.72	47.27	55.61	66.51
Net profit	96.63	90.12	132.84	165.33	197.74
Minority interest	-0.01	-0.35	-0.61	0.50	0.50
Associate profit	2.93	1.16	-	-	-
Net profit after MI&AP	99.57	91.63	133.46	164.83	197.24
Extraordinary item	8.24	14.78	10.50	-	-
Adjusted Net Profit	91.33	76.85	122.95	164.83	197.24
EPS (Rs.)	29.09	24.48	38.88	52.51	62.83

Segment Results

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
Segment Revenue					
Transmission	1246.93	1188.36	1302.06	1432.26	1546.85
Metal forming	441.07	354.47	306.93	352.97	405.92
Net sales	1688.00	1542.83	1608.99	1785.24	1952.77
Segment EBIT					
Transmission	107.31	105.58	181.66	204.10	228.16
Metal forming	40.99	9.99	4.25	28.24	40.59
Sub Total	148.30	115.58	185.91	232.34	268.75
Unallocable exp (net of income)	-5.58	-14.50	-4.25	4.40	-1.44
Interest	11.26	15.24	10.04	6.99	5.93
PBT	142.62	114.83	180.11	220.94	264.26

Consolidated Balance Sheet

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
SOURCES OF FUNDS					
Share Capital	31.39	31.39	31.39	31.39	31.39
Reserves	634.59	674.75	848.00	993.87	1159.72
Total Shareholders Funds	665.98	706.14	879.39	1025.26	1191.11
Minority Interest	14.85	4.04	1.72	2.22	2.72
Long term debt	99.19	95.12	31.90	19.90	7.90
Total Liabilities	780.02	805.30	913.01	1047.38	1201.74
APPLICATION OF FUNDS					
Gross Block	682.38	809.41	856.03	956.03	1016.03
Less: Accumulated Depreciation	150.81	224.73	303.73	388.89	480.22
Net Block	531.57	584.68	552.30	567.14	535.81
Capital Work in Progress	36.71	8.89	6.33	5.00	5.00
Investments	55.47	19.58	62.94	75.38	75.38
Current Assets, Loans & Advances					
Inventory	306.72	289.69	301.28	316.35	332.17
Sundry Debtors	220.79	174.61	246.65	209.65	220.13
Cash and Bank	9.65	5.02	146.44	204.48	377.25
Other Assets	26.88	28.10	17.40	20.79	23.13
Total CA & LA	564.04	497.41	711.78	751.27	952.68
Current liabilities	409.77	300.16	419.01	349.60	364.41
Provisions	0.38	0.46	0.39	0.39	0.39
Total Current Liabilities	410.15	300.62	419.39	349.99	364.80
Net Current Assets	153.89	196.79	292.38	401.28	587.88
Net Deferred Tax (net of liability)	-20.17	-12.45	-14.12	-16.12	-18.12
Other Assets (Net of liabilities)	22.54	7.81	13.18	14.70	15.79
Total Assets	780.02	805.30	913.01	1047.38	1201.74

Key Financial Ratios

	FY19	FY20	FY21	FY22e	FY23e
Growth Ratios					
Revenue (%)	19.0	-8.6	4.3	11.0	9.4
EBIDTA (%)	5.8	-10.1	36.8	20.9	15.4
Net Profit (%)	7.1	-15.9	58.8	35.0	19.7
EPS (%)	7.1	-15.9	58.8	35.0	19.7
Margins					
Operating Profit Margin (%)	12.4	12.1	15.8	16.8	17.5
Gross Profit Margin (%)	11.8	11.3	15.5	17.1	18.2
Net Profit Margin (%)	5.2	4.9	7.5	9.3	10.1
Return					
ROCE (%)	12.6	10.3	14.9	17.4	18.0
ROE (%)	15.4	11.6	16.0	18.2	18.6
Valuations					
Market Cap / Sales	0.7	0.3	0.6	0.7	0.7
EV/EBIDTA	6.7	3.3	3.5	3.9	3.4
P/E	13.2	6.5	7.9	7.8	6.5
P/BV	1.9	0.7	1.2	1.3	1.1
Other Ratios					
Interest Coverage	11.2	6.8	16.1	28.4	38.2
Debt-Equity Ratio	0.3	0.2	0.1	0.1	0.1
Current Ratio	1.3	1.7	1.6	2.0	2.4
Turnover Ratios					
Fixed Asset Turnover	3.6	2.8	2.9	3.3	3.6
Total Asset Turnover	2.5	2.0	1.9	1.9	1.8
Debtors Turnover	8.1	7.8	7.6	7.8	9.1
Inventory Turnover	5.3	4.5	4.6	4.8	5.0
Creditors Turnover	5.7	5.4	4.5	4.7	5.6
WC Ratios					
Debtor Days	44.9	46.8	47.8	46.6	40.2
Inventory Days	69.1	80.3	79.6	75.9	73.5
Creditor Days	63.8	68.0	80.5	77.7	65.2
Cash Conversion Cycle	50.1	59.1	46.8	44.9	48.4

Cumulative Financial Data

Figures in Rs crs	FY15-17	FY18-20	FY21-23e
Income from operations	3637	4649	5347
Transmission revenues	2672	3488	4281
Metal forming revenues	585	1167	1066
Transmission to total (%)	73.5	75.0	80.1
Transmission EBIT	231	317	614
Transmission EBIT margin (%)	8.7	9.1	14.3
Operating profit	442	591	896
EBIT	318	396	677
PBT	267	356	651
PAT	199	253	484
Dividends	38	55	100
OPM (%)	12.2	12.7	16.8
NPM (%)	5.7	5.4	9.1
Interest coverage	6.2	9.7	25.9
ROE (%)	16.7	14.3	17.6
ROCE (%)	14.8	12.7	16.6
Debt-equity ratio*	0.3	0.2	0.1
Fixed asset turnover	3.8	3.2	3.3
Total asset turnover	2.5	2.2	1.8
Debtors turnover	7.5	8.9	9.0
Inventory turnover	4.9	5.2	4.8
Creditors turnover	5.9	5.9	5.5
Debtors days	48.4	41.2	40.4
Inventory days	75.1	70.2	76.5
Creditor days	61.7	62.2	66.7
Cash conversion cycle	61.8	49.2	50.2
Dividend payout ratio (%)	18.6	20.2	20.3

FY15-17 implies two years ending fiscal 17; *as on terminal year;

Little paralyzed by the pandemic, though national lockdown in Q1 last fiscal did dent demand, LGB's cumulative revenue from operations is projected to grow by some 15% during FY21-23 period, heightened by the flagship transmission business. Favorable sales mix of transmission business - increasing share of aftermarket and exports - would all but buttress OPM during the projected period - estimated to rise from 12.7% in FY18-20 period to 16.8% in FY21-23. Cumulative post tax earnings would anything but diverge from operating results for it is expected to surge by over 90% (see table).

Higher business scaling from increased momentum in the replacement market (only for transmission business) would little stymie return on capital - ROE projected to advance to 17.6% during FY21-23e period from 14.3%; ROE also galvanized by rise in transmission EBIT margin to 14.3% to 9.1%. Prudent debtors management would keep a check on the cash conversion cycle which is projected to flat line at some 50 days (see table).

Financial Summary – US dollar denominated

Figures in \$m	FY19	FY20	FY21	FY22e	FY23e
Equity capital	4.5	4.2	4.3	4.2	4.2
Shareholders funds	91.5	91.7	113.3	131.9	153.4
Total debt	31.5	17.7	11.4	9.7	8.1
Net fixed assets (incl CWIP)	80.1	76.8	73.9	75.1	70.8
Investments	8.0	2.6	8.6	10.2	10.2
Net current assets	19.5	26.1	35.5	49.8	74.1
Total assets	107.9	104.9	117.9	134.9	154.8
Revenues	241.5	217.7	216.8	240.6	263.1
EBITDA	30.2	26.8	35.0	42.3	48.9
EBDT	28.4	24.5	33.5	41.2	47.9
PBT	18.7	13.4	22.3	29.8	35.6
Profit after MI & associate profit	13.1	10.8	16.5	22.2	26.6
EPS(\$)	0.42	0.35	0.52	0.71	0.85
Book value (\$)	2.91	2.92	3.61	4.20	4.89

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates (Rs 74.21/\$). All dollar denominated figures are adjusted for extraordinary items.

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY18	FY19	FY20	FY21
Average	64.45	69.89	70.88	74.20
Year end	65.04	69.17	75.39	73.50

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.