

Banco Products (India) Ltd.

7th August 2017

BSE: 500039 | Sector: Auto-Ancillary

vScore : 60 | Gain% : **20.41%**

Buy Date: 07-Aug-2017 | **Buy Price :** Rs.218.00

Exit Date: 29-Nov-2017 | **Exit Price :** Rs.262.5

BUSINESS BACKGROUND

Banco Products (India) Limited is engaged in the manufacturing and selling of radiators. The Company manufactures and supplies original equipment (OE) for commercial vehicles, passenger vehicles and industrial products. Its geographical segments include Within India and Outside India. It offers products in various categories, such as cooling systems, sealing gaskets, jointing gaskets and sheets, and rubber products. It designs, develops and manufactures engine cooling modules and individual cooling products for a range of industries. Its products in cooling systems category include Radiators, Charge Air Coolers, Oil Coolers and Engine Cooling Assemblies. Its products in sealing gaskets category include Graphite Composite Gaskets, Rubber Cork Gaskets, Rubber Precoated Beaded Gaskets, Multi Layered Steel (MLS) Gaskets for Cylinder Head and Exhaust Manifold applications, and Copper Gaskets. Its products in jointing gaskets and sheets category include BNA 3000, BNA 2900 and BNA 2500.

INVESTMENT HIGHLIGHTS

v. Q2FY18 results:

It recorded net sales of INR 386 Cr, compared to INR 376 Cr in Q1FY18, EBITDA of INR 59 Cr compared to INR 44 Cr in Q1FY18. Net profit of INR 38 Cr compared to INR 23 Cr in Q1FY18. Adj. EPS: INR 5.26/share compared to INR 3.18/share of same year previous quarter. (All figures are on consolidate basis.)

Segment Highlights:

The company as operations in only one segment and since they do not report segment wise sales distribution. Depending on domestic vs exports the company recorded around 70% sales in domestic and rest in exports. Also, **domestic Market OEM sales accounts for 80-85 % and around 20-15 % from aftermarket sales.**

KEY DATA

FACE VALUE	Rs	2
DIVID YIELD %		1.92
52 WK HI/LOW		255/156
NSE CODE		BANCOINDIA
MARKET CAP		Rs. 1709 Cr

SHAREHOLDING PATTERN

PROMOTERS	-	67.88%
BANKS, MFs & DIIs	-	4.33%
FIIIs	-	0.40%
Others	-	27.39%

KEY FUNDAMENTALS

Year Ending	FY17A	FY18E	FY19E
Rev Gr%	11	12	14
Net Profit Gr%	5.4	46	15
ROE%	13	16	17
RoCE %	20	21	21
EPS (Rs)	13.3	19	22.3
P/E (x)	16	11	10

Anti Dumping on TDI, fuels the growth of the company:**Volume growth to accelerate post GST implementation coupled with strong rural sentiments:**

The company's main product are in categories such as cooling systems, sealing gaskets, jointing gaskets and sheets, and rubber products. These categories are basically from Automotive and other industrial related activities. Volume for automotive sector is expected to pick up with implementation of GST which would have positive ruboff on the sector. GST rates have been favourable for the automotive industry (rates under GST have been lower by 2% to 10% across most of the automotive segments), which would aid in growing automotive demand. Also, Auto ancillary players are likely to benefit under GST as demand is likely to shift from unorganised players.

Volume is also expected to pick up on account of improved rural sentiments on the back of forecast of a normal monsoon for the second consecutive year and higher sowing coupled with price hikes are likely to result in decent topline growth.

GST, improved economic growth and normal monsoon which could build up a strong rural sentiments; are going to be a game changer for overall industrial activity and auto ancillary space as well. These are the catalysts for demand pick up of automotive and industrial related products in coming months and this would benefit the Banco India as well.

Good consistent growth in business over the last 4-5 years:

The company operates in Industrial and Automotive related space with products such as cooling systems, sealing gaskets, jointing gaskets and sheets, and rubber products. The customers of the company are from Automotive sectors and OEM's mostly. Hence overall growth of the industrial activity and growth of Automotive & related companies is good for the growth of Banco India as well.

For year FY12, the company posted net revenue of INR 1018 Cr which has increased to INR 1339 Cr in FY17. Operating profits for FY12 were INR 131 Cr which has increased to INR 174 Cr in FY17. Net profit for FY12 was INR 76 Cr which increased to INR 95 Cr in FY17.

The operating margins as a result of operating efficiency have improved by from 9-10% in FY15 to 12-13% in FY16 and FY17. This is key factor in growth of earnings and overall operating cash flows of the company.

Business Outlook and Valuation :

At the moment at current price of 217, the stock is trading at (TTM) P/E of 16x. Going ahead we expect revenue growth of 12% for FY18 and 14% FY19. Hence our expectations for revenue for FY18 and FY19 are INR 1500 Cr and INR 1709 Cr respectively.

We expect company to maintain EBITDA margin around 12-13% for next two years. Going ahead we expect PAT margins of 9% for next two years. Our PAT expectations for FY18 and FY19 are INR 138 Cr, INR 159 Cr respectively. Our EPS expectations for FY18 and FY19 are INR 19.4, INR 22.3 Cr respectively.

We believe Banco Products (India) Ltd. at PE of 16x with ROCE around 20-21% is attractively valued as compare to peers. For FY 18 EPS expectations of 19.4, we expect target price of 262.5 with a stop loss at 192.

FINANCIALS:

For the Year Ended March (INR)	FY16A	FY17A	FY18E	FY19E
Net Sales (Cr)	1204	1339	1500	1709
EBIDTA (Cr)	146	143	187	212
EBIDTA %	12.15	10.7	12.5	12.5
Profit Before Tax (Cr)	119	139	183	206
Interest (Cr)	3.24	2	3.47	2.6
Depreciation (Cr)	35	33	38	40
Tax (Cr)	30	45	37	42
Profit After Tax (Cr)	90	95	138	159
PAT%	7.46	7.08	9.26	9.32
Diluted EPS (INR)	12.6	13.3	19.4	22.3
Shareholder's Funds (Cr)	688	734	849	979
Borrowings (Cr)	36.28	38.37	43.37	33.37

Key Risks and Concerns:

- Any downturn in the overall economic activity and industrial activity can impact company's financials.
- The company mainly provides its products to Automotive sectors and hence dependent on the growth of that industry.
- Competitors can create pressure on sales and margins at any point of time since it is operating in such a industry.
- Any adverse policies introduced by government can affect the overall sector and hence a company.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

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Source: Niveza Research Desk