Geojit
driven by trust

(Investment Idea

Banco Products (India) Ltd. (BPIL)

Banco Products, manufacturer of radiators (aluminium and copper) and gasket (steel) for automotive and industrial engines, has put up a stellar performance in Q3 FY2007. Net Sales spurted by 55.9% to Rs.66.34 crore. OPM% improved to 14% (12.9%) as stringent cost control measures offset impact of rising raw material prices. In view of ongoing capex, interest cost was higher at Rs.1.25 crore (Rs.0.59 crore) due to increased debt to fund expansions and depreciation was higher by 48% to Rs.1.58 crore. Consequently, PBT growth was restricted to 71.6% at Rs.7.48 crore. A lower tax rate of 16.6% (31.1%) led to doubling of PAT to Rs.6.23 crore (Rs.3 crore).

Company's radiator sales (~60% of revenues) have been largely driven by its growing aluminium radiator export business following supplies to Tier I global automotive supplier in Europe (earlier sales in export markets were restricted to replacement market). To service this contract and to meet increasing demand from automobile replacement markets abroad, BPIL set up EOU in FY06, doubling its existing capacity for aluminium radiators. Capex of Rs.24.8 crore was incurred for set up of EOU as well as for tooling for new radiator and gaskets models.

In gaskets segment (~40% of revenues), BPIL is second largest domestic manufacturer of automotive gaskets with revenues diversified across domestic OEMs (sole supplier of gaskets to MUL and TVS), replacement and export markets. In FY07, company plans to invest ~ Rs.19 crore for manufacturing multi-layered steel gaskets and for additional tooling for gaskets & radiators.

Going forward, prospects of BPIL appear bright as company is all set to take advantage of emerging opportunities through capacity expansions, increasing penetration in export markets and maintaining its strong position in domestic markets. Exports are critical for company's long term growth due to continued pricing pressures from domestic OEMs.

At CMP of Rs 337.90/-, share (Rs 10/- paid up) is trading at 8.4 times FY 2007 expected EPS of Rs.40 and 6.8 times FY 2008 expected EPS of Rs.50. In view of above mentioned factors, we recommend to "BUY" the share at CMP.

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