



Research



## RESEARCH :: COMPANY :: RANE BRAKELINING LIMITED

15<sup>th</sup> October, 2009

### BUY

Approx price	= Rs 89/-
Target price	= Rs 130+
Estimated EPS	= 13
Projected PE	= 15 - 20
Investment period	= 12 mnths

### STOCK INFO (TTM Basis)

Sector	: Auto Ancillary
Market cap(Cr)	: 68.7
Face value	: Rs 10
Book value	: Rs 88.79
EPS	: Rs 8.5
Cash EPS	: Rs 23
Dividend	: 20%
Sales Growth	: 2.93%
RONW	: 8.87%
Debt to equity	: 0.91
Sales to equity	: 2.26
52 week H/L	: 89.40 / 34.20
Avg Daily Vol	: 1784 (2 wk avg)
Sensex	: 16642
BSE code	: 532987
Promoterholding	: 59.34%
Management	: L Ganesh
Incorporation	: Year 2004
Listed	: NSE / BSE

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### COMPANY PROFILE

Incorporated as an "EMS Logistics (India) Private Limited company" on December 17, 2004 under companies act, 1956. The name of the company on 6<sup>th</sup> February, 2008 changed To Rane Brake Lining Limited (RBL). **The company is engaged in the manufacture of brake lining, disc pads for automotive industry and railway brake blocks and parts out of asbestos and asbestos free- based friction materials.** The company has technical and financial collaboration with Nisshinbo Industries, Japan for Manufacturing Asbestos Free Brake Linings, Disc Pads and Clutch Facings.

RBL has 4 manufacturing facilities at Chennai, Hyderabad, Pondicherry and Trichy. The plant at Pondicherry is an exclusive Asbestos Free Facility.

The company is a major supplier to PC/UV, M&HCV market. The passenger car business has a forecasted CAGR of 14% over the next 5 years, 15% of UV and 6% M&HCV market. The company is planning for capacity expansion in brake linings/disc pads for PC/UV category and brake linings for M&HCV. The company is also working towards acquiring major customers in international markets for M&HCV brake lining & CV disc pads. As per internal assessment, the company currently enjoys a market share of 38% in OEM markets, 32% in rail business and 15% in replacement markets. The company is a leader in the above respective market segments.

#### ORIGINAL EQUIPMENT MANUFACTURERS (OEM) BUSINESS:

Company is supplier of brake linings, disc pads to OEM's of passenger cars and utility vehicles, commercial vehicles, and farm tractors. The company is a market leader in this business segment. The company works with almost all major OEM's in passenger car & commercial vehicle industry. The company is aiming to sustain leadership through major technology up gradation and leveraging Nisshinbo partnership.

#### RAILWAY BUSINESS:

The company also manufactures Railway Brake Blocks complete products range for Indian Railways and is a market leader in this segment. Such dependence on governmental authorities and any cancellation or delay in order of payment of dues could adversely affect our sales volume and profitability. This division has a declining scope in view of low entry barriers and lower demand.

### REPLACEMENT MARKET:

The market is highly fractured with around 45% of the sales from unorganized players according to market study. There are no regulatory standards prevailing and there are no timelines for introducing one in the market. The market structure has very aggressive entry of vehicle manufacturers in business.

The company enjoys market leadership through dominant sales in M&HCV product segment. The company has a strategic focus in Passenger Car segment and has product development plans to support the strategy. Company has huge scope in replacement market.

### EXPORTS:

The company is planning major growth in this business segment through new product development. The company focuses on international aftermarket for business. The company has been allocating strategic resources to improve exports. Development of international product range and certification for international market standards has been the priority.

Apart from expanding the customer base for truck brake linings, the company has also made entry into Commercial Vehicle Disc Pad markets with key accounts in Europe.

### DEMERGER:

The status of the company was changed from "Private Limited" to "Public Limited" and the company became a public limited company on September 26, 2007. In terms of the Scheme of arrangement of transfer of the manufacturing undertaking of erstwhile Rane Brake Linings Limited, as approved by the Hon'ble High Court of Judicature at Madras vide its order dated December 20, 2007, the name of the Company was changed to Rane Brake Lining Limited w.e.f 6th February, 2008.

In terms of the scheme of Demerger, Merger and Amalgamation, the Company has allotted 72,149,800 equity shares of Rs.10/- each fully paid-up to the equity shareholders of RBL, on February 28, 2008.

The Scheme of Arrangement resulted in complete elimination of cross holdings among Rane Group Companies with the consolidation of group company investments held by erstwhile Rane Brake Linings Limited and erstwhile Rane Engine Valves Limited into Rane Holdings Limited (RHL).

### LOCATIONS:

Company has 4 manufacturing locations across Industry namely Hyderabad, Chennai, Trichy and Pondicherry:

1. **Chennai plant:** Automotive products: *Brake linings, disc pads and clutch facings*. Railway products: *Railway brake blocks*.
2. **Hyderabad plant:** Automotive products: *Brake linings & clutch facings*. Railway products: *Railway brake blocks*.
3. **Puducherry plant:** Automotive products: *Brake linings disc pads & cord woven clutch facings*. Railway products: *Railway brake blocks*.
4. **Trichy plant:** Automotive products: *Disc pads*.

## EXCERPTS FROM NEWS REPORT

### SIAM: 13<sup>th</sup> October 2009

According to Society of Indian Automobile Manufacturers (SIAM), the overall automobile market grew 14.5% to over 5.78 million units during the first half of this fiscal. The passenger vehicle segment grew over 13% to over 8.84 lakh units, while medium and heavy commercial vehicles continue their downhill drive with a 19% fall during this period. Light trucks and buses though grew 19.5%. The car segment recorded the highest ever sales in a month at 1,29,683 units in September which is 21 per cent higher than the 1,07,517 units sold in the same month last year. The two-wheeler segment grew over 15.5%, with bike sales growing about 15%.

### Toyota Cuts Investment in Second Plant By 25%

(By Mint, 12<sup>th</sup> Oct, 09)

The local arm of the world's largest car maker, Toyota Kirloskar Motor Pvt. Ltd has reduced by one-fourth its proposed investment in a second plant in India for its small-car debut in the country. The savings are from lower construction costs, local sourcing of equipment and a favourable currency exchange rate, a top executive said. The lower investment will not affect the planned capacity for 100,000 cars a year in the second plant, he added.

### **VOLKSWAGEN BEGINS SOURCING COMPONENTS FROM INDIA**

*(By wheelsunplugged July 2009)*

Following its cues from other global auto biggies like General Motors, BMW and other Volkswagen AG is also jumping on the global sourcing bandwagon as the German luxury carmaker has decided to source auto components in huge sums within the next couple of years. As reported earlier, that Wolfsburg-based company has already set up its International Purchase office (IPO) in the country and is currently evaluating several component manufacturers in order to identify potential suppliers. But now, media reports suggest that it has already started sourcing components for our global operations — particularly for plants located in Russia and some European countries — in a small way. Furthermore, VW aims to earmark India as an export market for components to Europe.

India would become one of the major sources of components for our global units, said Jorg Muller, president and managing director of Volkswagen Group India. The company has also set a target to capture 8-10 per cent of market share in the passenger car segment in India by 2014, with a series of launches and by doubling the number of its dealers. Speaking to reporters in Chennai, Muller said VW had started sourcing components from India to its Russian plant. He said they were looking at sourcing light systems, plastic-related items and metals for the European plants. According to auto industry observers, India is an important market for VW and that the German company recognizes the engineering talent available in India. Considering the increasing capabilities of Indian vendors to provide quality spares, it has impelled the company to source parts and services from the country.

### **Happy days are here again**

*(By business standard, 30<sup>th</sup> Sep '09)*

The boom in automobile sales expected during the festive season has raised the hopes of component makers. From production cuts, worker lay-offs and plant closures, things are changing for auto-component makers. Companies are busier and a large number of units are even planning for full capacity utilization over the next three months— due to the 30 per cent increase in demand for auto components triggered by the burgeoning sales of cars and motorcycles since June. As the global auto industry crumbled over the last 12-odd months, a large number of auto-component makers saw demand for their products shrink. The Indian auto majors too saw falling volumes, causing problems for auto-ancillary units, which are largely small- and medium-sized enterprises (SMEs). Sales of passenger vehicles in 2008-09 rose by less than 0.13 per cent over 2007-08, while sales of commercial vehicles fell by 21.7 per cent. Only a 2.6 per cent increase in two-wheeler sales in 2008-09 led to an increase in total vehicle sales of 0.7 per cent that year. Although the commercial vehicles segment is yet to see a revival (it registered a negative growth of 2.19 per cent during April-August 2009, over the year-ago period), passenger vehicles are selling briskly (the segment grew by 11.97 per cent during April-August 2009, over the year-ago period), leading to an improved situation for auto-parts makers.

### **Auto component industry:**

The Indian auto component industry is one of India's sunrise industries with tremendous growth prospects. From a low-key supplier providing components to the domestic market alone, the industry has emerged as one of the key auto components centers in Asia and is today seen as a significant player in the global automotive supply chain. India is now a supplier of a range of high-value and critical automobile components to global auto makers such as General Motors, Toyota, Ford and Volkswagen amongst others. As per an Automotive Component Manufacturers Association of India (ACMA) report, the turnover of the auto component industry was estimated at over US\$ 18 billion in 2007-08, an increase of 27.2 per cent since 2002. It is likely to touch US\$ 40 billion by 2015-16. Aided by a 7 per cent growth in the OEM segment and an 8.5 per cent rise in exports and after-market segment, it is expected that auto ancillary production would grow by 8.2 per cent in 2009-10, according to a report by the Centre for Monitoring Indian Economy (CMIE). Investments in the auto component industry were estimated at US\$ 7.2 billion in 2007-08 and are likely to touch US\$ 20.9 billion by 2015-16. Exports of auto components grew at the rate of 35 per cent during 2002-07 and touched US\$ 3.6 billion in 2007-08. It is estimated to reach around US\$ 20 billion-US\$ 22 billion by 2015-16. India enjoys a cost advantage with respect to casting and forging as manufacturing costs in India are 25 to 30 per cent lower than their western counterparts. Seeing the growing popularity of India in the automotive component sector, the Investment Commission has set a target of attracting foreign investment worth US\$ 5 billion for the next seven years to increase India's share in the global auto components market from the existing 0.9 per cent to 2.5 per cent by 2015.

FINANCIALS: RANE BRAKELINING LIMITED (Rs Crores)

	2009-08	2007-08	2006-07
<b>Gross revenue</b>	216.87	210.7	0
<b>Profit before Interest , tax and depreciation</b>	21.25	23.28	0
<b>less: Interest/ Finance charges</b>	6.14	3.31	0
<b>Profit before tax and Depreciation</b>	15.11	19.97	0
<b>less: Tax</b>	1.43	2.25	0
<b>Profit After Tax and before Depreciation</b>	13.68	17.72	0
<b>Add: Deferred Revenue Expenditure</b>	1.19	1.29	0
<b>Cash Accruals</b>	14.87	19.01	0

BALANCE SHEET: RANE BRAKELINING LIMITED (Rs Crores)

	2009-08	2007-08	2006-07
Networth	66.74	65.7	0.01
Loans- term	35.15	44.69	0
Loans - working capital	27.12	13.08	0
deferred tax liability	8.03	7.4	0
<b>TOTAL</b>	<b>137.04</b>	<b>130.87</b>	<b>0.01</b>
Net block including WIP	95.52	85.42	0
Investments	0	0	0
Net working capital	41.52	44.26	0.01
Deferred revenue expenditure	0	1.19	0
<b>TOTAL</b>	<b>137.04</b>	<b>130.87</b>	<b>0.01</b>

## ANALYSIS & REPORT

### Why to invest in shares of Rane Brake lining limited?

#### 1) SECTOR:

Global turmoil has opened a new window for Indian Auto Ancillary units as Global demand for Automobiles is shifting from Developed Economies to developing Economies, and a number of Global players announcing their plans to make India as their hub for Small cars. Indian Auto Ancillary business expanded their capacities back in 2006, due to potential export demand, however higher raw material costs (higher variable costs/ lower profitability) unfavorable Exchange rates, lower demand(lower top line) along with increased capacities(increased fixed costs) has led to extremely low Operating and net Profit margins(due to high interest costs) for the company.

Now all the above factors have reversed namely:

**Higher exchange rates (around 47), Increased demand from local sourcing of components, and reduced Interest costs (PLR 11-11.5%) will be a big boost for the sector in what could be a big bull run for the sector.**

#### 2) COMPANY:

- Increase in capacities of brake linings and disc pads for PC/UV segment & brake linings for MHCV segments.
- Expansion through new product development and up gradation of technology
- Entry into commercial vehicle disc pad market with main accounts in Europe
- Expanding worldwide aftermarket presence for business.

#### 3) FUNDAMENTALS:

- Company posted 15 % Y-o-Y growth in sales in Q2FY09.
- Company's operating margin was 10.11% for FY09. In long run margins are expected to stay around 12%.
- Company's debt equity ratios stand at .91.
- With annual cash from operations of Rs 20 crores company will be able to service its debt of Rs 62 crores.
- Company is not planning for major capital expenditure.

#### 4) TECHNICALS:



Bullish pattern

Stop loss for trader: 85

Target for trader: 130

Stop loss for investor: 75

Target for investor: 150

Notes: Figures and graph sourced from [www.bseindia.com](http://www.bseindia.com) and capital market.

END

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