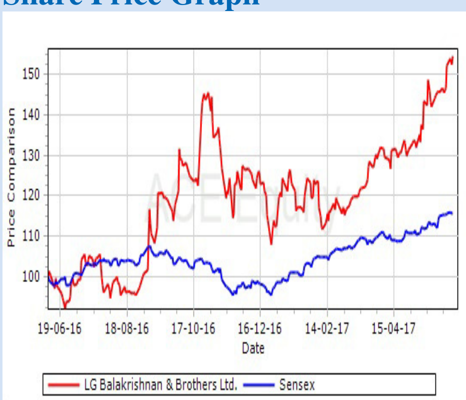
Company Details

CMP:	Rs.753.05
Face value:	Rs.10.00
Market cap:	Rs.1183.78 Crs.
EPS	Rs.44.36
52 week high:	Rs.762.90
52 week low:	Rs.419.00
BSE Code:	500250
NSE Code:	LGBBROSLTD
Sector	Auto-Component

Financial Highlights (YoY)

Rs. in crores			
	FY17	FY16	% Var
Net Sales	1,282.70	1,205.30	6.42
Total Expendit	1,124.79	1,067.63	5.35
PBDIT	157.91	137.67	14.70
Op.Profit	166.53	141.60	17.61
OPM (%)	12.98	11.75	10.51
PBT	99.62	77.78	28.08
PAT	69.65	64.86	7.39
EPS (Rs.)	44.36	41.31	7.39
Equity	15.70	15.70	-

Share Price Graph



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Company Background

LG Balakrishnan & Bros Ltd., a Coimbatore-based Company incorporated in 1956, is engaged in manufacture of chains, sprockets and metal formed parts for automotive applications. Its transmission products include chains, sprockets, tensioners, belts and brake shoe. It also offers metal forming products consisting of fine blanking for precision sheet metal parts, machined components and wire drawing products for internal use as well as for other chain manufacturing plants, spring steel suppliers and umbrella manufacturers. Its products are marketed under the brand name "Rolon". It has 17, ISO certified manufacturing units, spread across Tamil Nadu, Maharashtra, Uttrakhand, Karnataka, Haryana & Rajasthan. Three manufacturing facilities have been registered to ISO/TS 16949.

Financial Performance

The net sales and PAT of the Company at Rs.1282.70 crores and Rs.69.65 crores during FY17 are up by 6.4% and 7.4%, respectively, compared to those during FY16. It operating profit margin has improved from 11.8% during FY16 to 13% during FY17. The EPS, on face value of Rs.10, has improved from Rs.41.31 for FY16 to Rs.44.36 for FY17. **The board has recommended dividend of Rs.7 per share for FY17 as against Rs.6.00 for FY16.**

Investment Rationale

- The Indian auto-components industry is set to become the third largest in the world by 2025. Indian auto-component makers are well positioned to benefit from the globalization of the sector as exports potential could be increased up to four times to US$ 40 billion by 2020.
- In addition, the higher pay commission payouts and GST implementation would improve automobile dispatches in both OEM and replacement market.
- The Company generates 90% revenues from domestic market and is a recognized Export house and 10% of its products are exported to USA, European countries, Australia, New Zealand, South Africa, Japan, Far and Middle East countries.
- The Company has performed well especially in two wheeler products. It is expected that this growth trend will continue. **It has invested an amount of Rs.285.03 crores during last four years on upgrading its existing facilities as well as in expanding capacities.**
- The Company has commissioned a plant in Jalna (Maharashtra) and is setting up a greenfield plant in Chennai and for capacity augmentation across divisions. With its regular technology up-gradations and on-going efforts to introduce new products, it has an advantage of vertical integration in all its product lines. It is expected that the Company could witness higher growth volumes and earnings from domestic as well as global markets going ahead.
- **The Company has reduced its debt burden from Rs.142.78 crores at the end of FY13 to Rs.97.42 crores at the end of FY17. Its Debt:Equity ratio stands at 0.2:1 at the end of FY17.**
- The promoters hold 47.6% equity capital of the Company, followed by DIIs, FIIs and non-promoter corporates that hold 12.6%, 2.2% and 2% and the balance 35.7% shares are held by the public.

Concerns

Slowdown in economy, increase in input costs, competition from other players and exchange rate fluctuations are some of the concerns.

Valuation

The share of the Company is trading at a lower P/E of 17.7x against that of sector at 33.9x. Keeping in view the positive outlook for auto-component sector, improved performance of the Company during FY17, expansion plans, low debt:equity ratio, share **trading-cum- dividend, possibility of sub-division of shares in near future** and lower PE ratio, we recommend a buy on the share of this Company with an expected price appreciation of **about 25%** over the next 12 months.