

**Remsons Industries Limited**

**BUY**

**CMP: Rs.104**

**TARGET PRICE: Rs.155**

**TIME : 12 months**

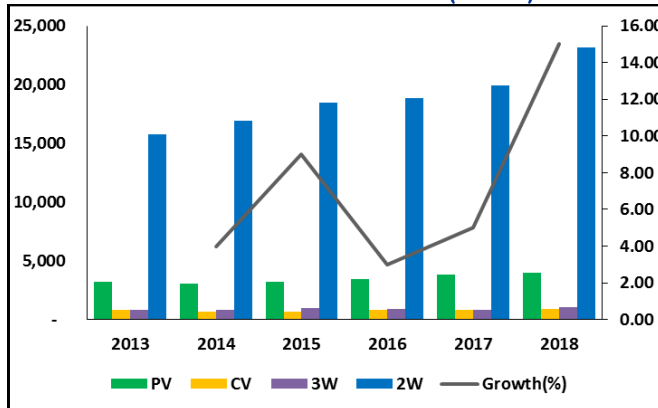
**OVERVIEW: Industry:**

The auto industry in near term is swinging between positives and changes that could have a few speed breakers to the overall performance. The positives would pan across the fact that with growing economy, growing demand, better product range; the industry is recovering after a lag. The changes count on changing technology and customer preferences. The industry is also witnessing transition to cleaner and greener transportation medium coupled with emphasis on safety and performance. There could be a shift in demand for selective auto components too majorly triggered by the migration to Electric giving its own set of opportunities and challenges. So collectively the global Auto sector is at a crucial juncture and worth a watch how it would sustain the headwinds.

On the Indian front, it includes several segments namely, two wheelers, three wheelers, passenger vehicles, commercial vehicles and tractors to mention a few. The industry is highly competitive with diverse global and domestic auto-companies. It contributes about 7.1% to the country's Gross Domestic Product (GDP) and is well poised to become 4<sup>th</sup> largest manufacturer of automobiles globally by 2020 after China, US and Japan. The amount of goods and services produced creates the need for transportation which is the key indicator for the growth of the industry.

The production output of the Indian automobile industry stood at 29mn vehicles including PV, CV, 3W, 2W during 2017-18 against an output of 25mn vehicles in 2016-17, registering a growth of 15%.

**Exhibit: Automobile Production Trend (in'000)**



Source: SIAM

**Auto component industry:**

The Auto component industry is highly fragmented with over 10,000 players operating in unorganized segment and around 700 players operating in the organized segment (contributes around 85% of the industry revenues). Automotive components can be categorized into two segments namely Original Equipment Manufacturer (OEM) parts and Aftermarket parts. *OEM parts are those which are assembled and installed during the construction of a new vehicle whereas Aftermarket parts are those made by companies other than the OEM, which might be installed as replacements after the car comes out of the factory.* According to the Indian auto component industry analysis; the OEM parts segment will dominate the global auto component industry and will account for about 89% of the total market share by 2020.

Along with geographical presence and penetration being the key to garner market share; growth of the auto component industry is based on:

- The developments in the automobile industry as the Original Equipment Manufacturers (OEMs) form the primary consumers of the auto components
- The demand in the aftermarket. The market size for auto component industry grew from USD39bn in FY16 to USD43.5bn in FY17, registering a growth of 11.5%. *Source: (IBEF)*

SNAPSHOT				
52 week H / L	Mcap (INR mn)			
150.0 / 68.5	592			
Face value: 10				
BSE Code	NSE CODE			
530919	REMSONSIND			
Annual Performance				
(Rs mn)	FY16	FY17	FY18	FY19E
Sales (Net)	1,139.6	1,185.3	1,283.6	1,506.6
EBITDA	45.9	25.5	80.3	105.5
EBITDA (%)	4.0	2.2	6.3	7.0
Other Income	11.0	7.3	15.8	10.6
Interest	28.1	23.0	25.5	27.9
Depreciation	22.8	24.2	25.2	26.9
PBT	6.0	(14.4)	45.5	61.2
PAT	4.5	(7.8)	34.4	43.3
Equity ( Rs mn)	57.1	57.1	57.1	57.1
EPS (INR)	0.8	(1.4)	6.0	7.6
Quarterly Performance				
Parameters (Rs mn)	Dec-17	Mar-18	June-18	Sept-18
Sales (Net)	335.7	359.7	346.3	396.2
EBITDA	21.4	31.6	21.6	27.9
EBITDA (%)	6.4	8.8	6.2	7.0
Other Income	2.0	9.1	2.1	3.7
Interest	5.7	5.8	6.1	6.7
Depreciation	6.4	6.2	5.6	6.1
PAT	6.9	25.3	8.6	13.1
Equity ( Rs mn)	57.1	57.1	57.1	57.1
Ratio Analysis				
Parameters (Rs mn)	FY16	FY17	FY18	FY19E
EV/EBITDA (x)	18.9	33.6	10.7	8.4
EV/Net Sales (x)	0.8	0.7	0.7	0.6
M Cap/Sales (x)	0.5	0.5	0.5	0.4
M Cap/EBITDA (x)	12.9	23.2	7.4	5.6
Debt/Equity (x)	1.7	1.7	1.5	1.4
ROCE (%)	12.9	3.4	26.6	29.2
Price/Book Value (x)	3.5	3.7	3.0	2.5
P/E (x)	131.9	(76.0)	17.2	13.1
Share Holding Pattern as on 30th Sept, 2018				
Parameters	No of Shares	%		
Promoters	42,85,008	75		
Institutions	100	-		
Public	14,28,249	25		
TOTAL	57,13,357	100		

Source: Annual Report

Note: All the data is calculated as per Market Price on 20th November 2018

**About the Company:**

Remsons Industries Limited (Remsons) was incorporated in 1971 as Remsons Cable Private Limited (RCPL). RCPL took over the auto component trading business of Remsons India, a partnership concern, which was initially a proprietorship concern of Mr. V. Harlalka, in May 1984. Subsequently, RCPL was converted into a public limited company in October 1986 and renamed as Remsons Industries Limited in November 1986. Further, Daman Auto Industries Ltd., Rems Auto Engineers Ltd, and Remsons Auto Industries Pvt. Ltd. were amalgamated with the company with effect from April 2005.

Remsons is engaged in the manufacturing of auto components such as auto control cables, flexible shafts, gear shift systems and push pull cables. Automobile industry accounts for ~97% of the company's sales while the non-automotive sectors like marine and electrical sectors account for the rest. The company exports auto control cables to Europe and the USA, with Europe accounting for bulk of the exports. Remsons also supplies various auto control cables in the replacement market. The company has six manufacturing plants across Gurgaon (Haryana), Daman (Daman and Diu; four plants) and Pardi (Gujarat).

**INVESTMENT RATIONALE:**

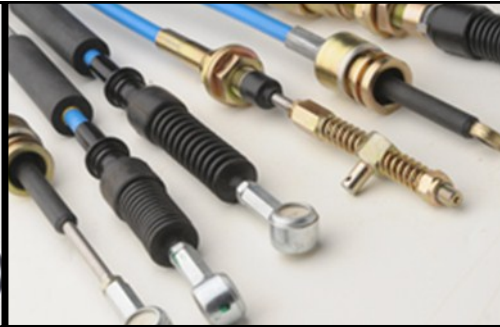
**A) Product Offerings:**

The company is a pioneer and foremost control cables manufacturer. Remsons products incorporate innovative design and own manufacturing concept to enhance value and performance. The company caters to a wide range of products across the 2W/3W and 4W space all from Gear Shift Systems, Flexible Shafts to Control Cables. It is one of the leading players in the 4W segment in the CV space.

**Exhibit: Gear Shift Systems:**



**Exhibit: Push Pull Cables:**



**Exhibit: Flexible Shafts:**



**Exhibit: Cables:**



Source: Company's Website

The competency that the company has built into its systems and processes have and shall further contribute to the positive growth of the company.

**B) Rising income and the subsequent mobility needs:**

The Indian consuming class is expected to grow from 27mn households in 2014 to 89mn households by 2025. The overall income growth leading to increase in the disposable income has impelled mobility requirements of the middle class population. So, with the growing population, there is increase in the commuting requirements; a major uptick to the automotive industry and correspondingly giving a thrust to the immediate beneficiary being the auto components industry. Thereby, the expanding consumer class investing in more and better vehicles across segments will consequently give a boost to key component players like Remsons.

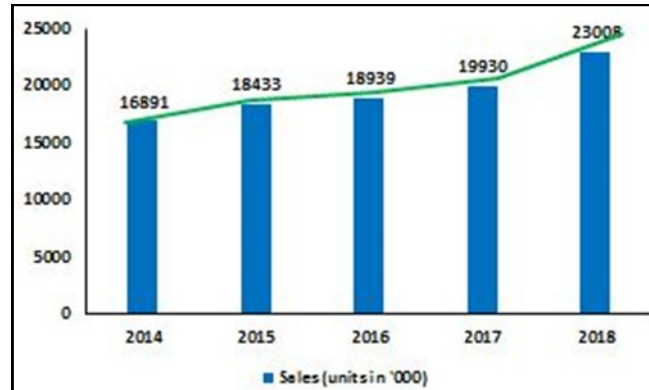
**C) Inorganic path to expansion:**

In recent times it has been seen that the Auto & auto ancillary players in India are routing towards the inorganic path to balance investments supporting the current growth cycles and also prepare for the anticipated future global disruptions. To quote a few, Motherson Sumi Systems signed a deal to acquire Reydel Automotive for USD201mn, Precision Camshafts acquired precision component maker MEMCO Engineering to scale up and diversify product range, Samvardhana Motherson (SAMIL) acquired MS Global India, from MS Group of Korea. On similar lines, going forward, Remsons also plans to explore the inorganic path to tap different geographies for its exports expansion foray as well add new product offerings, technology and segments to be catered.

**D) Potential across the different segments: 2W being the key:**

The Indian automotive industry is on its growth trajectory. Globally it is at the forefront of many segments including two-wheelers. The two-wheeler sales registered a growth at 15.4% in 2017-18 over 2016-17 whereas exports grew by 20% over the same period. It is expected that the two-wheeler manufacturers are planning to launch approximately 50 vehicles in FY19 which will augur well for the company's growth momentum to continue. (Source: SIAM). Two wheelers account for the major portion of the company's revenues (contributes ~35% of the total revenues). The company has a strong clientele in this space with majorly Hero Motocorp being the key, thereby giving it a strong footing for the opportunities ahead.

**Exhibit: 2W Growth Trend:**



Source: SIAM

Besides the 2W space; the company has presence in the 3W with Piaggio being one of the key customers. In the 4W space it covers the entire auto segment with regard to control cables whereas with respect to gear shifters it caters to the entire range of commercial vehicles.

**E) Second Line of Interest: Aftermarket Sales:**

There has been a transformation seen in companies from being meagre manufacturers to service providers. This is what gives impetus to After-market sales domain, the secondary market of the automotive industry. All from selling spare parts and after-sales services, conducting repairs, providing technical support, upgrading, day-to-day maintenance, offering technical support, consulting and training is a part of the After-market sales.

**Reasons for the demand of Aftermarket sales:**

- Longer the life of the asset, the more ready opportunities received
- Although sales of parts and service-related products costs far less than getting new customers, but the cross selling is successful only if the existing customers are satisfied
- It helps in garnering deeper understanding of the technologies, processes and plans
- Provides companies with an unlikely, but sustainable, competitive advantage

The reasons above are also the reasons why there is increasing competition in this domain. It has actually become more complex than manufacturing products. So once aftermarket sales was a high margin business but now has throat cutting competition which does lead to compromise on margins at times. However, as a need to be there to survive, this segment cannot be ignored for a fact.

Realizing that companies can benefit in several strategic ways by focusing on after-sales services, to bolster margins and stand strong against the volatility in demand from the OEMs, Remsons also focuses on increasing its share of revenues by selling its products across this market

**F) Pursuing export opportunities:**

Major automobile companies are constantly trying to source requirements for their global operations from India due to high engineering skills, established product lines and low cost structure. Remsons's exports have increased from Rs131.5mn in FY13 to Rs192.2mn in FY18 registering a CAGR of 8%. Remsons continues to leverage on this and plans to increase its share of exports in total revenues in the years to come. To add to this, the company's marketing set up in Europe plays a crucial role in providing outstanding support to its overseas customers. This drives the company to ramp up on its capacities to meet the surging global demand and focus on quality which meets the global standards.

**G) Expansion on the cards:**

The company has already introduced a separate line for exports, increasing the capacity in FY18. Going further, Remsons has chalked a capex plan for the next 3 years which will help the company improve its capacity by 50-60%. The phased out expansion has already been started by the company with the total capex of Rs150mn over the next 3 years. Major part of this capex would be on the 5.5acres of land that has been acquired by the company in Gujarat. This overall capex would be a blend of equity and debt. Besides this, the company would undertake modernization of the current plants as well.

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**H) Transitioning from Negative to Stable credit ratings:**

ICRA has reaffirmed the long-term rating of [ICRA] BB+ for the Rs22cr (enhanced from Rs20cr) cash credit facility and the Rs6.5cr (enhanced from Rs1.5cr) term loan facility of Remsons. ICRA has also reaffirmed the short-term rating of [ICRA] A4+ for the Rs0.70cr short-term, non-fund based bank facilities of the company. The outlook on the long-term rating has been revised from Negative to Stable.

This change in ratings is mainly attributable to Remsons long standing relationships with its key clients, improving share of revenues from export and replacement markets.

**Financials:**

The company has taken earnest efforts to improve its profit margins since FY17. This is evident through the move into the black for FY18 at Rs34mn from loss of Rs8mn in FY17. The operating margins improved from 2% in FY17 to 6% in FY18. This was majorly led by improvement in its product portfolio and by undertaking price correction on some of its key products coupled with efforts towards cost efficiency to bring down its overall cost which have also turned out to be beneficial for the company.

Dividend: The Company has after a decade returned back to paying dividend by declaring 13% (Rs1.30 per share) for FY18.

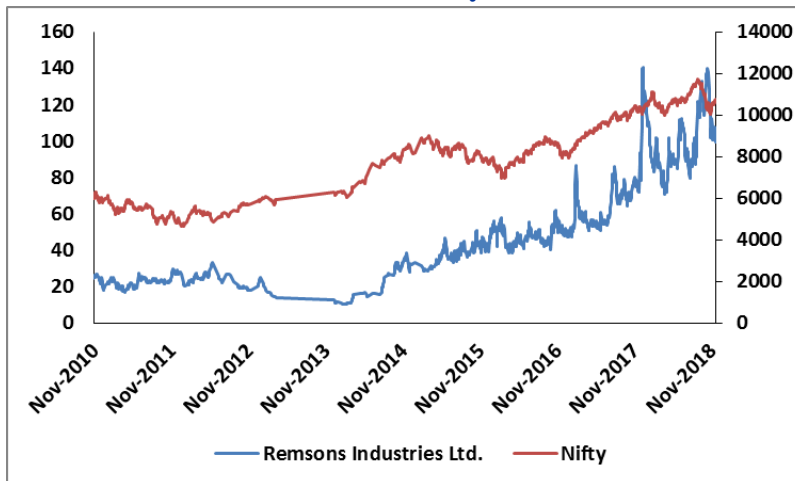
**Risks:**

- The company is exposed to price risk arising out of volatility in the price of raw materials (various grades of steel, non-ferrous metals, engineering plastic & rubber components) being sourced directly from the vendors.
- The company also faces the volatility of performance across the catering industries, emphasis being on the Auto sector. Any slowdown in the same would have an impact on Remsons as well.

**Outlook and Recommendation:**

Considering the Auto sector, there are various pros and cons being noticed affecting the overall growth picture. There are certain key points that need to be addressed by the Auto sector which could lead to a volatile scenario over the next 6-18 months. However, the confidence portrayed by the different players in the sector to sail through, gives the confidence to the immediate beneficiary industry of auto components. Remsons, our pick from this space has been a less-known stock in the auto components. It was at the crossroads till FY17 but then a turnaround happened on back of various reasons of improved product mix and an uptick in prices of few of its products which was reflected in FY18 numbers. Tapping the right market, right products gives the zone of comfort for the company. We feel that the future plans chalked if executed well should take the company to the next level of growth. We initiate a BUY on the stock with a target price of Rs155 over a 12 months horizon.

**Exhibit: Remsons Industries Ltd. vs. Nifty**



Source: Ace Equity

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