

Week Gone

- ⇒ In the week ended on Friday, 7 October 2022, the Sensex gained 764 points or 1.33% to settle at 58,191.29. The Nifty 50 index rose 220 points or 1.29% to settle at 17,314.65
- ⇒ The BSE Mid-Cap index rose 2.14% to settle at 25,384.80
- ⇒ The BSE Small-Cap index gained 2.57% to settle at 29,182.93

Week Ahead

- ⇒ TCS will announce its Q2 results on 10 October. Wipro and Infosys will announce their Q2 results on 12 and 13 October respectively.
- ⇒ The Industrial Production and Manufacturing Production Data for August will be released on 12 October 2022. Inflation rate for September will be declared on the same day.
- ⇒ US will announce inflation rate for September on 14 October 2022.

Technical Overview

The After reclaiming the 200 DEMA in the penultimate trading week, Nifty saw a sharp technical pullback from the said support coupled with 50WEMA. It advanced 573 points crossing above the pivotal resistance of 17330. However, the index pared its gains from highs near 17430 after witnessing selling pressure and slipped below 17330. The index is currently trading within the gap-down area of 17330 - 17160. Going forward it will be crucial for the index to decisively reclaim 17330 and sustain to attract further bullish momentum. The support comes near 17150 - 16800 - 16340 whereas resistance is near 17330 - 17500 - 17970.



Source: Falcon, BP Equities Research



Weekly Wealth

DOMESTIC INDICES

Index	07-Oct-22	30-Sep-22	Weekly % Chg
Nifty 50	17,314.7	17,094.4	1.3
Nifty Next 50	42,646.7	42,385.5	0.6
Nifty 100	17,641.5	17,438.6	1.2
Nifty 500	15,036.7	14,829.4	1.4
NIFTY MIDCAP 100	31,406.8	30,668.3	2.4
S&P BSE SENSEX	58,191.3	57,426.9	1.3
S&P BSE 100	17,789.3	17,575.0	1.2
S&P BSE 200	7,619.0	7,522.7	1.3
S&P BSE 500	23,966.6	23,642.5	1.4
S&P BSE MidCap	25,384.8	24,853.9	2.1
S&P BSE SmallCap	29,182.9	28,452.9	2.6

WORLD INDICES

Index	07-Oct-22	30-Sep-22	Weekly % Chg
Nikkei Index	27,116.1	25,937.2	4.5
Hang Seng Index	17,740.1	17,222.8	3.0
Kospi Index	2,232.8	2,155.5	3.6
Shanghai SE Composite	3,024.4	3,024.4	0.0
Strait Times Index	3,145.8	3,130.2	0.5
Dow Jones	29,926.9	28,725.5	4.2
NASDAQ	11,073.3	10,575.6	4.7
FTSE	7,005.7	6,893.8	1.6

FOREX

Currency	07-Oct-22	30-Sep-22	Weekly % Chg
US\$ (Rs.)	82.1	81.4	0.9
GBP (Rs.)	91.7	90.6	1.2
Euro (Rs.)	80.6	79.7	1.2
Yen (Rs.) 100 Units	56.7	56.2	0.8

NIFTY TOP GAINERS (WEEKLY)

Scrip	07-Oct-22	30-Sep-22	Weekly % Chg
IBULHSGFIN	135.55	115	17.9%
VEDANTA	291.9	259.65	12.4%
ZEEL	281.8	251.1	12.2%
HINDALCO	411.1	371.2	10.7%
TITAN	2730.5	2531.5	7.9%

NIFTY TOP LOSERS (WEEKLY)

Scrip	07-Sep-22	30-Sep-22	Weekly % Chg
HINDUNILVR	2599.7	2700.55	-3.7%
EICHERMOT	3498.55	3624.1	-3.5%
BRITANNIA	3785.65	3864.5	-2.0%
M&M	1238.85	1258.35	-1.5%
ASIANPAINT	3343.7	3384.8	-1.2%

FII - ACTIVITY

(INR. Cr.)

Date	Purchases	Sales	Net
07-Oct-22	5,052.7	7,303.4	-2,250.8
06-Oct-22	9,444.2	9,165.2	279.0
04-Oct-22	6,646.7	5,302.1	1,344.6
03-Oct-22	18,735.4	18,144.8	590.6
<u>MTD</u>	39,878.9	39,915.5	-36.5

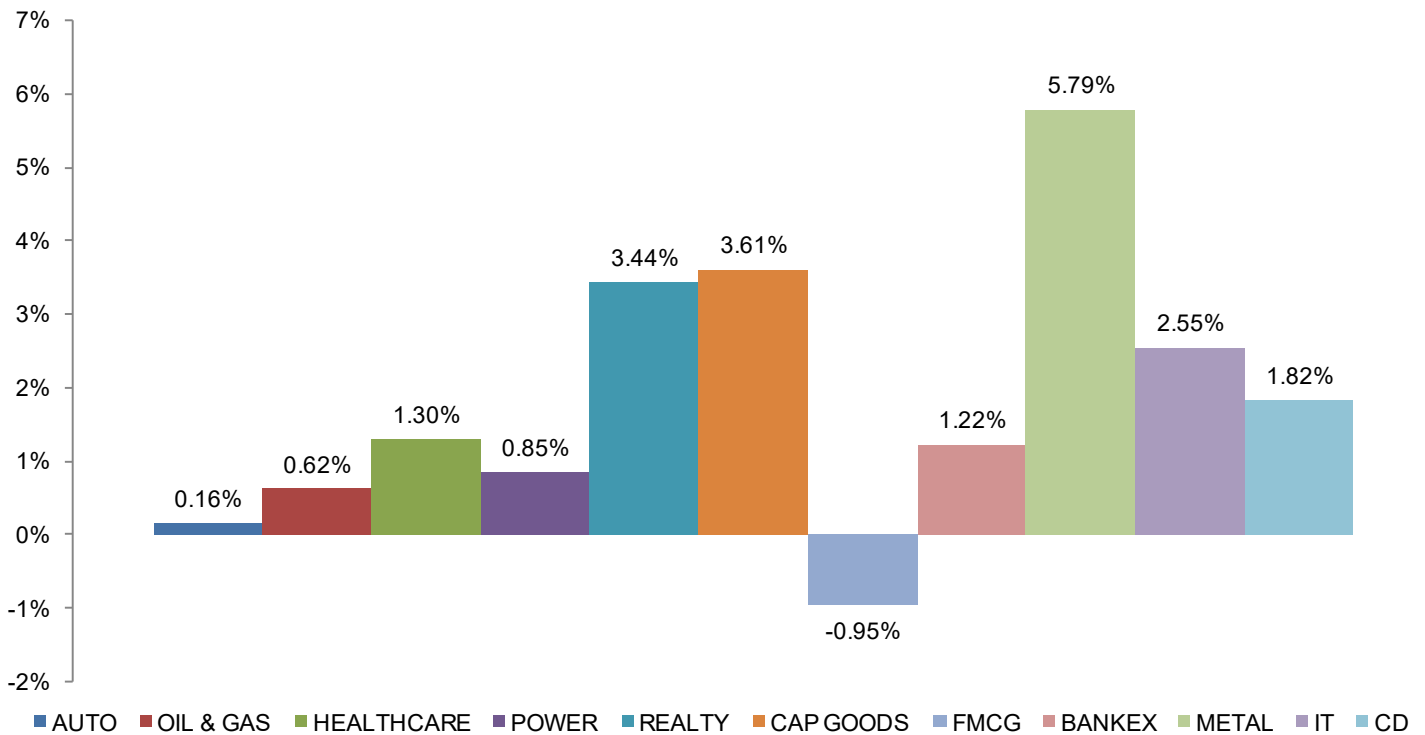
DII - ACTIVITY

(INR. Cr.)

Date	Purchases	Sales	Net
07-Oct-22	6,121.3	5,576.0	545.3
06-Oct-22	6,159.3	6,203.2	-43.9
04-Oct-22	6,092.4	5,146.5	945.9
03-Oct-22	5,716.2	6,139.4	-423.2
<u>MTD</u>	24,089.2	23,065.1	1,024.1

Weekly Wealth

BSE WEEKLY SECTORAL PERFORMANCE



Source: BSE, BP Equities Research

TOP OPEN INTEREST GAINERS (WEEKLY)

SCRIP NAME	07/10/22 Share Price (Rs.)	30/09/22 Share Price (Rs.)	Weekly % Chg	07/10/22 Open Interest	30/09/22 Open Interest	Weekly % Chg
MCX	1335.6	1223.55	-8.4	2238800	2731600	22.0
ABFRL	341.6	351.1	2.8	7516600	9131200	21.5
M&MFIN	201.1	185.85	-7.6	21132000	24464000	15.8
IOC	67.75	67.2	-0.8	91435500	1.05E+08	14.9
DEEPAKNTR	2193.45	2012.8	-8.2	1732000	1979750	14.3

TOP OPEN INTEREST LOSERS (WEEKLY)

SCRIP NAME	07/10/22 Share Price (Rs.)	30/09/22 Share Price (Rs.)	Weekly % Chg	07/10/22 Open Interest	30/09/22 Open Interest	Weekly % Chg
CUB	179.45	174.45	-2.8	7210000	4685000	-35.0
GSPL	226.4	232.4	2.7	5537500	3780000	-31.7
MOTHERSON	76.85	109.35	42.3	60095250	43056000	-28.4
AUBANK	593.75	622.25	4.8	6491000	5064000	-22.0
CROMPTON	396.4	406.85	2.6	4590000	3606000	-21.4

Company Background

LG Balakrishnan and Brothers (LGBB) is among the largest manufacturers of 2W automotive chains in India (marketed under the brand, 'Rolon'). The core functions like R&D, Machine Building, Tool room, Heat treatment, and other service divisions operate under the strict supervision of the Corporate office as LGB believes that, a high degree of responsiveness can meet the shifting needs of the marketplace. L.G.B has transformed into a technology solution provider with a turnover of more than US\$ 200 Million. Housing sophisticated manufacturing facilities in over 1.5 million square feet of built-up area, LGB is a leading player in transmission products with its Automotive Timing and Drive Chains, Sprockets, Auto Tensioners, Guides, Fine Blanked Components, Precision Machined Parts, Belts, Rubber Products and Scooter Components. Today, LGB commands an unrivalled domestic OEM market share in India and a good presence in the worldwide OEM market. It derived close to 80% of its revenues in FY2022 from chains and allied products and the rest from the metal forming segment. In terms of its business segments, 2W constitutes over 80% of its consolidated revenues, while over 35% comes from the replacement segment. The company has a subsidiary, LGB USA Inc., which manufactures fine blanking products. The company has 23 manufacturing facilities across Tamil Nadu, Maharashtra, Uttarakhand, Karnataka, Haryana, Rajasthan, and Pondicherry in India and one facility in the US, at the consolidated level.

Investment Rationale

Dominant Market Position in the 2W chain segment and Significant presence in the replacement segment

LGBB manufactures and markets chains and allied components (over 80% of operating income (OI) in FY2022) primarily for 2Ws and metal forming products (over 20% of OI in FY2022) for 2Ws, passenger vehicles (PVs) and commercial vehicles (CVs). The company remains an established player in the domestic 2W chain segment with a market share of over 60%. It is a tier-I supplier and has a healthy share of business across 2W OEMs. The company derives over 35% of its revenues from the replacement segment. This insulates the company's revenues from downturns/lower production volumes in the domestic 2W space, similar to what was witnessed in FY2022. In the replacement market, the company sells chains and sprockets under the brand name, 'Rolon'.

Increasing Operating Margins and Consistent Profit Margins

The company's operating profit margins (OPM) improved to 18.7% in FY2022 from 15.9% in FY2021 supported by cost optimization initiatives. The company increased its proportion of power usage from low-cost renewable energy sources, automated a larger part of its operations, and reduced its freight expenses through multiple measures, among others. As a result, LGB's accruals improved to Rs. 293.0 crores in FY2022 from Rs. 213.9 crores in FY2021, despite headwinds on the raw material front. Further, the company's liquidity position is strong, supported by Rs. 283.0 crores of unencumbered cash and bank balances and adequate buffer in working capital lines with an average working capital utilization of 32.3% of sanctioned limits in the 12 months ended April 2022.

Valuation and Outlook

The company's revenue grew by 30.6% to Rs. 2,102.1 crores in FY2022 (PY: Rs. 1,609 crores), partly aided by improvement in its share of business with customers. Despite headwinds on the raw material front, the company's already-healthy operating margin improved further to 18.7% in FY2022 from 15.9% the previous year, aided by several cost optimization measures including a higher proportion of power usage from low-cost renewable energy sources, automation of a larger part of operations and reduction in freight expenses, among others. The margins are likely to be supported by the recent correction in metal prices and the sustenance of cost optimization measures. Over the medium term, the company's revenue could be vulnerable to risks arising from the impending electrification of vehicles, due to minimal usage of chains in electric 2Ws in comparison to internal combustion-driven 2Ws. On the valuation front we value the company based on 7.5x of the FY24e earnings and arrive at a target price of INR 903 (24% upside from CMP) with a 12 months investment horizon.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

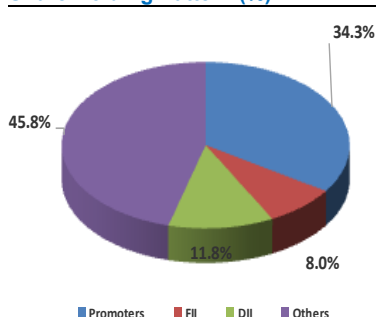
Stock

CMP (INR)	726
Target Price (INR)	903
NSE Symbol	LGBBROSLTD
BSE Code	500250
Bloomberg	LGBB IN
Reuters	LGB.BO

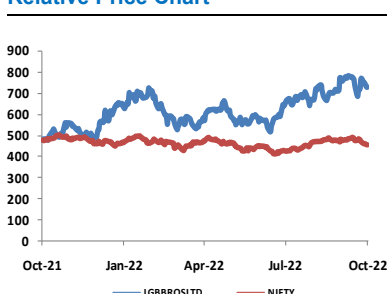
Key Data

Nifty	17315
52WeekH/L(INR)	805/440
O/s Shares (Mn)	31.39
Market Cap (INR bn)	22.78
Face Value (INR)	10
Average volume	
3 months	1,83,720
6 months	1,36,600
1 year	1,90,380

Share Holding Pattern (%)



Relative Price Chart



Weekly Wealth

Key Financials					
YE March (Rs. millions)	FY20	FY21	FY22	FY23E	FY24E
Revenue	15,428.3	16,089.9	21,020.9	24,909.7	28,646.2
<i>Revenue Growth (Y-o-Y)</i>	<i>(8.6%)</i>	<i>4.3%</i>	<i>30.6%</i>	<i>18.5%</i>	<i>15.0%</i>
EBIDTA	1,861.6	2,524.0	3,893.4	4,284.5	5,242.3
<i>EBIDTA Growth (Y-o-Y)</i>	<i>(10.7%)</i>	<i>35.6%</i>	<i>54.3%</i>	<i>10.0%</i>	<i>22.4%</i>
Net Profit	916.3	1,334.6	2,454.8	3,088.8	3,781.3
<i>Net Profit Growth (Y-o-Y)</i>	<i>(8.0%)</i>	<i>45.6%</i>	<i>83.9%</i>	<i>25.8%</i>	<i>22.4%</i>
Diluted EPS	29.2	42.5	78.2	98.4	120.5
<i>Diluted EPS Growth (Y-o-Y)</i>	<i>(8.0%)</i>	<i>45.6%</i>	<i>83.9%</i>	<i>25.8%</i>	<i>22.4%</i>
Key Ratios					
EBIDTA margin (%)	12.1%	15.7%	18.5%	17.2%	18.3%
NPM (%)	5.9%	8.3%	11.7%	12.4%	13.2%
RoE (%)	12.9%	15.1%	21.6%	25.2%	28.1%
RoCE (%)	23.2%	26.9%	31.9%	32.5%	36.0%
Valuation Ratios					
P/E (x)	24.9x	17.1x	9.3x	7.4x	6.0x
EV/EBITDA	12.7x	8.7x	5.3x	4.9x	3.8x
P/BV (x)	3.2x	2.6x	2.0x	1.9x	1.7x
Market Cap. / Sales (x)	1.5x	1.4x	1.1x	0.9x	0.8x

Source: Company, BP Equities Research



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