

Rexnord Electronics

40

*You will become a Fan!***Buy**

Sep 09, 2016

Company Background

Rexnord Electronics and Controls Ltd. (Rexnord) was incorporated in the year 1988. The main business of the company is manufacturing and selling of instrument cooling fans, exhaust fans and motors used for industrial and domestic purposes. The products offered by Rexnord are axial fans, motors, condenser cooling and evaporator motors, impellor and stands. The instrument cooling fans and motors are mainly used in computer hardware equipments, power supply equipments, textile machines, refrigeration industry, and injection moulding machines, photocopy machines, etc. Rexnord plants are located in Mumbai and Daman. The installed capacities of the instrument cooling fans AC & DC is 360,000 pieces and 762,000 pieces respectively in Mumbai. In Daman the installed capacities of instrument cooling fans AC & DC is 480,000 pieces each.

Key Highlights

- ➔ With the rising consumer spends and the increasing purchasing power parity, food outlets are ready to expand their existing network as a result coolers, freezers & display cases would be the fastest growing products in demand. Similarly sales of reach in and walk in coolers would rise in India.
- ➔ Growth in demand for refrigerated display cases is expected to be at a rapid pace supported by rising standards of living in India and a proliferation of large food retailers. The growing number of restaurants, particularly in the fast food segment will spur stronger gains in demand for beverage refrigeration equipment and ice machines.
- ➔ The company has ample capacity and is ISO certified. Furthermore they have made some energy saving models which would help them bait foreign customers. The Make in India call has already acquired global focus to India plus Rexnord is already having a 20% export share in revenues which can be easily bolstered if right steps are taken.
- ➔ In a topical country like India Ac's have become an utility rather than luxury. It is expected that growth is expected a lot in the consumer durables segment.
- ➔ The promoters are still holding convertible warrants which they had issued at Rs 24.50 about a year back. This shows even the promoters are bullish.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	447.4	570.6	566.6
Rev. growth (%)	31.63	27.54	(0.70)
EBITDA (INR mn)	43.3	53.1	65.2
Net profit (INR mn)	19.5	25.0	20.0
Shares outstanding (mn)	6.5	7.6	10.0
EPS (INR)	3.0	3.3	2.0
EPS growth (%)	38.71	9.63	(39.09)
P/E (x)	2.38	7.03	17.64
RONW (%)	13.81	16.55	10.00
ROCE (%)	18.46	21.54	15.98

Nishant Chopra

nishantc@indiratrade.com

Info Codes

Reuters	: RECL.BO
Bloomberg	: RXN:IN
NSE	: N.A.
BSE	: 531888

Market Data

52 Wk Range (`)	: 28 / 68
Shares in Issue (mn)	: 10.0
Mkt. Cap (` bn)	: 0.4537
BSE 2 Wk Avg Vol	: 16000

Share Holding Pattern (%)

Promoters Holding	: 61.12
Corporate Holding	: 0.00
Domestic Institution	: 0.02
Foreign Institution	: 0.00
Public & Others	: 38.87

Investment Theme

Rexnord's main business activity is manufacturing & sale of instruments, cooling fans and shaded pole motors used for industrial purposes. The industry is directly related to the growth of the user industry in which it supplies products. The instrument cooling fans and shaded pole motors are mainly used in the computer hardware equipments, power supply equipments, textile machines, refrigeration industry, and injection moulding machines, photocopy machines, etc. The growth expected in most of these industries, will be directly beneficial to Rexnord. The demand for cooling and display units in the food industry is growing which augurs well for Rexnord. The policy of increasing cold storage by the government may also benefit the company in the long run. Probablit therefore even the promoters are bullish on the Company.

Growing the colder way.

Financial Statements

Income Statement

(` mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	399.9	525.9	31.5	515.1	(2.1)
Other Income	6.6	2.2	(66.7)	2.9	31.8
Change in Stocks	(0.1)	19.3	(19,400.0)	(3.2)	(116.6)
Raw Material Con.	229.6	329.7	43.6	297.9	(9.6)
Employee Exp.	23.8	27.8	16.8	33.9	21.9
Indirect Taxes	40.9	42.5	3.9	48.6	14.4
Other Exp.	59.0	82.2	39.3	75.2	(8.5)
Operating Exp.	353.3	482.2	36.5	455.6	(5.5)
Operating Profit	53.1	65.2	22.8	59.2	(9.2)
Total Interest	14.5	15.1	4.1	15.4	2.0
Gross Profit	38.6	50.1	29.8	43.8	(12.6)
Net Dep.	9.6	12.7	32.3	12.9	1.6
Total Taxation	9.5	12.4	30.5	10.9	(12.1)
Net Profit/Loss	19.5	25.0	28.2	20.0	(20.0)

4 Years Balance Sheet

(` mn)

Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	199.6	212.2	275.3	302.8
Equity Share capital	64.8	64.8	75.8	99.6
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	15.3	7.4
Reserves & Surplus	39.8	59.4	86.8	114.9
Secured Loans	53.1	45.3	41.4	47.0
Unsecured Loans	41.9	42.7	56.0	33.9
USES OF FUNDS	199.6	212.2	275.3	302.8
Gross Block	239.5	256.4	246.9	253.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	101.7	111.2	85.4	97.5
Net Block	137.8	145.2	161.5	156.4
Capital Work in Progress	0.6	0.0	1.3	1.3
Investments	0.0	0.0	0.0	0.0
Current Assets	136.3	158.4	214.1	239.4
Less : Current Liabilities	70.0	84.3	93.9	85.0
Total Net Current Assets	66.3	74.1	120.2	154.4
Misc. Expenses not writtenoff	(5.1)	(7.1)	(7.7)	(9.3)
NOTE				
Book Value of Unquoted Investments	0.0	0.0	0.0	0.0
Market Value of Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	38.1	97.5	134.8	151.0
Dividend (%)	0.0	0.0	0.0	0.0

Quarterly Income Sheets

(` mn)

Quarter Ended	Sep 15	Dec 15	Mar 16	Jun 16
Net Sales	126.2	112.2	133.7	163.2
Cost Of Sales	113.2	102.7	123.7	146.6
Operating Profit	13.0	9.5	10.0	16.6
Other Income	2.4	1.5	5.4	3.8
Adjusted PBDIT	15.4	11.0	15.4	20.4
Financial Expenses	4.7	2.6	3.1	3.9
Depreciation	3.2	3.3	3.3	3.2
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	7.5	5.1	9.0	13.3
Tax Charges	2.7	1.7	3.2	4.4
Reported Profit	4.8	3.4	5.8	8.9
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	4.8	3.4	5.8	8.9

52 Week Index Relative Percentage Appreciation



Rexnord vs SENSEX

Risks Associated

- The Company’s business comprises of just one business segment Industrial Fans which puts the company at an inherent risk of not being diversified.
- The Companies is continuously facing a risk faced by all manufacturing sector companies which include the pressure from rising cost of raw materials, manpower costs, power costs, processing charges, labour unrest etc. Many of these charges and changes may be so sudden that the company may not be able to pass the effect of these changes to the customer. There may be steep competition or rate contracts as a hinderence. This would result in a decrease in profitability or even losses which such a Small and Medium Scale Enterprise may not be able to sustain in the long run.
- The major competitor to the Company is China, with bulk manufacture at their end and favourable Chinese Government policies for exports, It may so happen that imported fans would be at a discounted price than Indian ones. Further due to the inherent nature of a price conscious Indian consumer, a machine manufacturer may disregard the quality with respect to the prices it sells for.
- The recent call of the Indian Government to Make in India would actually encourage competitors to enter India and establish themselves in the field of Industrial Fans. This would dampen the domestic sales and create tough competition for International Sales.
- Since a major chunk of revenue of the company is from Exports any fluctuation in the price of currency may turn bad for the company. Especially if it doesn’t hedge the inherent risk in such business.



In a Nutshell

Rexnord was established in 1988 & got technical knowhow from Micron A Engineering Korea. It has nearly 30 years of experience in manufacturing AC Axial Fan, DC Brush Fan, Shaded Pole Motor and External Rotor Motor, etc. It is the first Fan and Motor manufacturing Company in India which has a full in house production unit and enjoys a reputed brand in the market due to its very competitive prices and quality comparable with reliable manufacturers in the world. The company is very aggressive in R&D and in line with the market requirements has introduced various products like Energy saving motors, fans, etc. It is an ISO certified company and is well accepted in the global markets and generates nearly 20% of its revenues from exports. It regularly exports to OEM's in UAE, Europe, Iran, Thailand and USA with a client list comprising of manufacturers of Telecommunication equipment, Control Panels, UPS, Vending Machines, Visible Coolers, Chest Coolers, Frost Free Refrigerators, HVAC Industry, etc. Its customers are among the top brass in the individual Industries like Voltas, Blue Star, Everest, Carrier, Frigo Glass, Pepsi, Cocacola , etc. The current macroeconomic scenario coupled with increasing Purchasing Power due to the new Pay Commission along with the Make in India call of the government may turn out to be beneficial for the company in near future. Further there is also growth anticipated in the Food industry and a proposed increase in cold storage may make the company more profitable. We therefore maintain a Buy rating on the company.

Indira Group Offices

Registered Office : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224202 **Fax** : 022-66224201 **Email** : im@indiratrade.com

Administrative Office : 204-205 “Amardarshan” 28/2 Old Palasia, Indore (MP) 452018

Tel : 0731-4097170 **Fax** : 0731-4215999 **Email** : customercare@indiratrade.com

Institutional Dealing Unit : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224209 **Fax** : 022-66224201 **Email** : ie@indiratrade.com

Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.