

**Rane Engine Value Ltd.****₹470****Accelerating the Future...!!!****Buy**

Sep 07, 2018

**Company Background**

Rane Engine Valve is engaged in the business of manufacturing & marketing of Valves, Valve Guides & Valve Tappets for IC engines & related auto components. Company has five manufacturing facilities located at Alandur, Ponneri and Pudukottai in Tamil Nadu and Medchal and Aziz Nagar in Andhra Pradesh. It was incorporated on March 9, 1972 with the name Techcons Ltd. Company was incorporated with the main object to carry on the business of consultancy services within the Rane Group. In September 2007, it was amended Objects & Capital clauses in their Memorandum of Association to facilitate carrying on of manufacturing of inlet and exhaust valves, valve guides and valve tappets for I.C. engines. In December 2007, as per the scheme of de-merger, the company took over the manufacturing undertaking of erstwhile Rane Engine Valves Ltd with effect from April 1, 2007. In terms of the scheme, the name of the company was changed from Techcons Ltd to Rane Engine Valve Ltd with effect from February 6, 2008. During the year 2008-09, the company set up two production lines with a capacity of 2.5 million valves per annum on two shifts basis at their new plant near Trichy and commenced commercial production. During the year 2009-10, the company commissioned one more production line at the Trichy plant with an additional capacity of another 1.25 million valves per year.

**Key Highlights**

- ➔ It manufacturing Valves, Guides, Tappets and Pistons, revenue generation was 88.9% from valves and 4.62% from Guides for FY18.
- ➔ Currently, it looking series initiatives such as skilling of operators & strengthening plant management to stabilize operations across all locations particularly at Trichy, Ponneri & Tumakuru plants.
- ➔ It has been implemented energy saving measurements, due to these savings it saved 4,66,259 units (kwh) worth of ₹ 37,30,072. It has used alternate energy of 83,02,652 units (kwh) utilized from windmill during the FY18. It planning for additional future investments into energy conservation equipments.
- ➔ Company has made significant efforts to improve productivity then capacity utilisation improved by 6% during the fourth quarter of FY18.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	4,029.2	4,869.5	3,892.3
Rev. growth (%)	(15.20)	20.86	(20.07)
EBITDA (INR mn)	246.4	1,157.7	161.5
Net profit (INR mn)	(125.4)	576.9	(170.6)
Shares outstanding (mn)	6.7	6.7	6.7
EPS (INR)	0.0	85.9	0.0
EPS growth (%)	(100.00)	0.00	0.00
P/E (x)	0.00	0.00	0.00
RONW (%)	0.00	(9.52)	0.00
ROCE (%)	0.00	(0.82)	0.00

**Nishant Chopra**

nishantc@indiratrade.com

**Info Codes**

Reuters	: RAEV.BO
Bloomberg	: RVL IN
NSE	: RANEENGINE
BSE	: 532988

**Market Data**

52 Wk Range (₹)	: 447/699
Shares in Issue (mn)	: 6.7
Market. Cap ( bn)	: 3.15
BSE 2 Wk Avg Vol	: 72

**Share Holding Pattern (%)**

Promoters Holding	: 51.09
Public & Others	: 32.54
Corporate Holding	: 10.56
Foreign Institution	: 04.07
Institutions	: 01.35
Govt Holding	: 00.39

**Investment Theme**

As per ACMA (Automobile Component Manufacturers Association) forecasts, automobile component exports from India are expected to reach \$ 70 billion by 2026 from \$ 10.9 billion in FY17. The Indian automotive aftermarket is expected to reach ₹ 75,705 crore by the year 2019-20 according to the ACMA. The Indian auto component industry aims to achieve \$ 200 billion revenues by 2026. The industry accounts for 2.3% of India's GDP. Company management have taken many steps such as VRS & sale of unused land to bring down costs & debt. It is looking series initiatives to stabilize operations across all locations. It generates revenue by area wise in India 71% & International markets at 29%. If we see the revenue structure by vehicle segment wise passenger cars, 2-3 wheelers & Stationary engine are the major segments.

**Don't dream it. Drive it.....!!!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Sales	3,496.0	3,601.7	3.0	3,792.9	5.3
Other Income	204.4	927.8	353.9	17.7	(98.1)
Change in Stocks	(84.1)	5.6	(106.7)	27.3	387.5
Raw Material Con.	1,261.3	1,278.5	1.4	1,355.4	6.0
Employee Exp.	967.7	937.1	(3.2)	1,016.8	8.5
Indirect Taxes	328.8	340.0	3.4	81.7	(76.0)
Other Exp.	812.1	821.8	1.2	1,222.5	48.8
Operating Exp.	3,369.9	3,377.4	0.2	3,676.4	8.9
Operating Profit	246.4	1,157.7	369.8	161.5	(86.0)
Total Interest	147.6	104.5	0.0	82.7	0.0
Gross Profit	98.8	1,053.2	966.0	78.8	(92.5)
Net Dep.	275.4	277.5	0.8	290.1	4.5
Total Taxation	(51.2)	198.8	(488.3)	(40.7)	0.0
Net Profit/Loss	(125.4)	576.9	(560.0)	(170.6)	(129.6)

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17	Mar 18
<b>SOURCES OF FUNDS</b>	<b>2,793.8</b>	<b>2,529.6</b>	<b>2,516.1</b>	<b>2,603.3</b>
Equity Share capital	51.5	67.2	67.2	67.2
Equity Application Money	15.7	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	1,088.0	962.3	1,533.3	1,342.6
Secured Loans	1,436.6	1,403.3	679.8	1,081.3
Unsecured Loans	202.0	96.8	235.8	112.2
<b>USES OF FUNDS</b>	<b>2,793.8</b>	<b>2,529.6</b>	<b>2,516.1</b>	<b>2,603.3</b>
Gross Block	3,903.6	3,993.8	1,688.6	1,890.1
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	2,171.7	2,383.8	277.5	567.6
Net Block	1,731.9	1,610.0	1,411.1	1,322.5
Capital Work in Progress	61.5	33.0	26.7	41.5
Investments	5.5	5.7	5.9	0.4
Current Assets	1,471.9	1,230.9	1,422.5	1,594.9
Less : Current Liabilities	634.7	565.7	547.0	600.4
Total Net Current Assets	837.2	665.2	875.5	994.5
Misc. Expenses not writtenoff	157.7	215.7	196.9	244.4
<b>NOTE</b>				
Book Value of Unquoted Investments	5.5	5.7	5.9	0.4
Market Value of Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	135.7	249.4	124.0	141.7
Dividend (%)	25.0	0.0	0.0	0.0

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Sep 17	Dec 17	Mar 18	Jun 18
Net Sales	918.0	910.3	985.4	1,006.7
Cost Of Sales	889.2	891.9	990.7	997.1
Operating Profit	28.8	18.4	(5.3)	9.6
Other Income	22.9	20.5	22.4	24.9
Adjusted PBDIT	51.7	38.9	17.1	34.5
Financial Expenses	19.0	20.4	19.0	25.2
Depreciation	68.9	71.3	79.6	76.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(36.2)	(52.8)	(81.5)	(66.7)
Tax Charges	(12.4)	(20.7)	6.5	(23.1)
Reported Profit	(23.8)	(32.1)	(88.0)	(43.6)
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	(23.8)	(32.1)	(88.0)	(43.6)

**52 Week Index Relative Percentage Appreciation**

**Rane Engine vs SENSEX**
**Risks Associated**

- ➔ EBITDA decreased by 25.4% from ₹ 46.5 mn to ₹ 34.7 mn, due to material cost improved by 45.9% & manpower cost rose by 13.5% in same quarter previous year.
- ➔ With a vision to become technologically self sufficient, company want steadily increasing R&D Investments from 0.5% of sales in the past to 1.5% in the future. But actually this ratios are in downward movement from 0.65% for 2015 to 0.43% of sales for 2018.
- ➔ Company faced prolonged period of revenue stagnation/decline primarily attributed to loss of business with one of its major export customer in Europe. Now the company takes precautionary steps to overcome this situation.
- ➔ It shutting down its oldest plant in Alandur, Chennai and merger of Kar Mobiles Ltd (KML). During the plant shutdown, it intended to distribute its capacity to other plants. As part of merger of KML, it was decided to shutdown its oldest plant in Peenya, Bengaluru and relocate the capacity to its other plant in Tumakuru. The consolidation of the plants and the integration of the KML business into the company had its own set of challenges.

**Scope of Growth**

- ➔ Invested ₹ 200 mn to augment capacity for business share improvements with key customers by commissioning exclusive new lines and company secured new orders with potential revenue of ₹ 540 mn.
- ➔ As the company has many operational & financial challenges, however it remained EBITDA positive throughout this period, the management is focused on getting back to profitability as soon as possible. It has confidence of returning back to profitability in 18 to 24 months with its precautionary steps.

## Rane Engine

### In a Nutshell

Rane Engine Valve Ltd manufactures and supplies valves & valve train components for various engine applications in India. It is a subsidiary company of Rane Holdings Ltd. It does not have any subsidiary, associate or joint venture. It serves a variety of industry segments: Passenger Vehicles, Commercial Vehicles, Farm Tractors, 2-3 wheelers, Railways & Stationary Engines. Rane has five manufacturing facilities located at Alandur, Ponneri and Pudukottai in Tamil Nadu & Medchal and Aziz Nagar in Andhra Pradesh. It's clients spread across Europe, North America and the Far Eastern markets including the best-known brands such as BMW, Deutz, Volvo, Progress Rail, MTU, Volkswagen and Yamaha. Domestic clients like HMCL, HMSI, Ashok Leyland, Daimler, John Deere, Hyundai, etc. Rane Group have made a small investment in Silicon Valley-based Autotech Ventures focused venture capital fund. This will help group and company also to stay close to emerging technologies and innovation in the US, while helping it in the strategic decision-making process. Recently, a Managing Director of Autotech Ventures visited the Rane Group in India, and group organized a session to share insights with group's senior management, which resulted in a good brainstorming session on new technologies. Company faces challenges that impacted the operational and financial performance, management has developed some steps to improve the performance. Due to such significant efforts it's capacity utilisation has improved by 6% during the Q4FY18. During the FY18, it saved 4,66,259 units (kwh) worth of ₹ 37,30,072 and it planning for additional future investments into energy conservation equipments. All these measures will improve the performance and reduces the expenditure.

### Indira Group Offices

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

**Tel** : 022-66224202 **Fax** : 022-66224201 **Email** : [ie@indiratrade.com](mailto:ie@indiratrade.com)

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

**Tel** : 0731-4097170 **Fax** : 0731-4215999 **Email** : [customercare@indiratrade.com](mailto: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](mailto: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

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