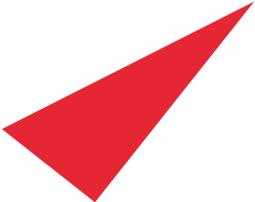




# Pick of the Week

## LG Balakrishnan & Bros. Ltd.

September 22, 2025



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 1379	Buy in Rs 1360-1400 band and add on dips in Rs 1250-1270 band	Rs 1515	Rs 1640	2-3 quarters

HDFC Scrip Code	LGBALAEQNR
BSE Code	500250
NSE Code	LGBBROSLTD
Bloomberg	LGBB IN
CMP Sep 19, 2025	1378.7
Equity Capital (Rs Cr)	31.9
Face Value (Rs)	10
Equity Share O/S (Cr)	3.2
Market Cap (Rs Cr)	4397.0
Book Value (Rs)	597.2
Avg. 52 Wk Volumes	30307.9
52 Week High	1459.0
52 Week Low	1081.0

Share holding Pattern % (Jun, 2025)	
Promoters	34.8
Institutions	19.7
Non Institutions	45.5
Total	100.0



\* Refer at the end for explanation on Risk Ratings

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### Our Take:

LG Balakrishnan & Bros (LGBB) mainly caters to 2W industry and operates in 2 segments 1) Transmission products which includes chains, sprockets, tensioners, belts and brake shoe which contributes ~77% of overall revenue – mainly catering to 2W 2) Metal forming products consisting of fine blanking for precision sheet metal parts, machined components and wire drawing products contributing ~23% of overall revenue. It is a dominant player with strong leadership position in automotive chains in the Indian 2-wheeler industry.

LGBB is looking to expand its operations and diversify its revenue, de-risking from geographical issues cropping up due to the imposition of tariffs on various countries by the US. The \$10 million Mexico facility and planned forays into Vietnam/Thailand could open new markets and customer bases, buffer against macro risks in India, and increase exports.

### Valuation & Recommendation:

With the auto sector showing cyclical strength and demand in industrial applications rising, the topline trajectory appears promising. Continued cost vigilance and execution in international geographies will be important for profit accretion. We expect LGBB's Revenue/PAT to grow at 11/19% CAGR over FY25-FY27, led by increased content per vehicle in both the PV and CV segments, improvement in JV profitability and operating leverage. We believe investors can buy the stock in Rs 1360-1400 band and add on dips in Rs 1250-1270 band (10x FY27E EPS) for the base case fair value of Rs 1515 (12x FY27E EPS) and the bull case fair value of Rs 1640 (13x FY27E EPS) over the next 2-3 quarters.

### Financial Summary:

Particulars (Rs cr)	Q1FY26	Q1FY25	YoY-%	Q4FY25	QoQ-%	FY24	FY25	FY26E	FY27E
Total Operating Income	657	571	15.0	669	-1.8	2,346	2,578	2,862	3,205
EBITDA	97	89	8.9	102	-4.8	395	415	469	612
APAT	61	60	1.7	74	-17.4	267	284	303	403
Diluted EPS (Rs)	19.1	19.1	0.1	23.1	-17.4	84.9	89.1	94.9	126.3
RoE-%						17.7	16.0	15.0	17.7
P/E (x)						16.2	15.5	14.5	10.9
EV/EBITDA (x)						10.5	9.9	8.7	6.7

## Q1FY26 Result Update

Operating revenue increased by 15% YoY to Rs 657 cr driven by volume and continued demand from auto and industrial customers. Segmentally, the Metal Forming segment grew by 26.7% to Rs 171 crore, while the Transmission segment witnessed a growth of 11.4% to Rs 486 crore. EBITDA went up by 8.9% YoY to Rs 97cr. However, EBITDA margin declined 80bps to 14.8% due to a higher increase in employee and other expenses. Adj. PAT increased by 1.7% to Rs 61cr.

The board approved a \$10 million investment to set up a new manufacturing facility in Mexico (for manufacturing Transmission products and accessories for Auto and Industrial Applications). Exploring new plants in Vietnam/Thailand to serve both current and new customers in Southeast Asian countries. This highlights a push to diversify the supply chain and be closer to global OEMs.

## Recent updates

### **2W volumes to remain robust**

The domestic two-wheeler segment is expected to register a 6-9%% YoY volume growth in the current fiscal, according to rating firm ICRA. The growth is likely to be supported by steady replacement demand, recovery in urban consumption, and healthy rural incomes aided by a normal monsoon, which could provide an additional boost. The recent reduction in GST rates could potentially boost 2W volume growth by 200 bps in FY26. This move reduces purchase costs for many buyers, especially in rural and semi-urban areas, supporting rural demand and benefiting farmers, small traders, and gig workers.

### **E2W with chains**

Ola's new Gen 3 electric scooters and motorcycles, including the Roadster X, now feature a chain drive system, which is a significant departure from the previous belt drive. This new technology aims to improve performance, power, and reliability, offering better acceleration and efficiency compared to the older models. It is a key feature of Ola's new mid-drive motor platform.

### **Dominant market position in domestic 2W chains**

LGBB manufactures and markets chains and allied components (77% of operating income in FY25) primarily for 2Ws and metal forming products (23% of OI in FY25) for 2Ws, passenger vehicles (PVs) and commercial vehicles (CVs). The company is 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 with no OEM constituting more than 15% of LGBB's top line. Gradually improving demand for 2Ws augurs well for the company.

### **Strong financial profile**

LGBB's revenues grew by 9.9% in FY25 and its operating margins continued to be healthy at 16.1% (against 16.8% in FY24), supported by its relatively high value addition, higher share of replacement revenues, operating leverage benefits and cost-optimisation measures. As a

result of its healthy accruals, moderate working capital requirements and limited capex over the years, LGBB has remained net debt negative since FY2021. The company also had cash and bank balances of ~Rs 690 crore and adequate buffers of working capital lines as on March 31, 2025.

### Key Risks

- High dependence on the 2W (motorcycle) industry and client concentration risks.
- High commodity prices
- Introduction of electric vehicles

### Company Background:

LGBB, one of the leading companies in South India was established way back in 1937. Started with a fleet of 250 buses as a transport company, LGBB grew into India's leading Roller chain manufacturer. Since then it has come a long way, keeping in pace with the technological advancements and meeting its customer needs with newer & innovative solutions. Today, LGBB stands proud as the premier manufacturer of automotive chains under the popular brand name 'ROLON' and also caters to export, after market and spares segments.

Today, LGB has to its name 19 state-of-the-art manufacturing plants in India and one in the United States. LGBB has transformed into a technology solution provider with a turnover of more than ~US\$ 300 Million. LGBB has the advantage of vertical integration in all its product lines. Right from procurement of the raw material to the finished product, LGBB has installed comprehensive QC cycles. To maintain control over quality standards LGBB has all critical manufacturing in-house. This includes a steel rolling division to produce cold rolled steel strips, wires and strips with profiles.

Its business segments include transmission and metal forming. 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.

The company derived 12% of its revenues from exports in FY25.

## Financials

### Income Statement

(Rs cr)	FY23	FY24	FY25	FY26E	FY27E
<b>Net Revenues</b>	<b>2203</b>	<b>2346</b>	<b>2578</b>	<b>2862</b>	<b>3205</b>
<i>Growth (%)</i>	<i>4.8</i>	<i>6.5</i>	<i>9.9</i>	<i>11.0</i>	<i>12.0</i>
Operating Expenses	1819	1952	2163	2393	2593
<b>EBITDA</b>	<b>384</b>	<b>395</b>	<b>415</b>	<b>469</b>	<b>612</b>
<i>Growth (%)</i>	<i>-1.3</i>	<i>2.9</i>	<i>5.2</i>	<i>13.1</i>	<i>30.4</i>
<i>EBITDA Margin (%)</i>	<i>17.4</i>	<i>16.8</i>	<i>16.1</i>	<i>16.4</i>	<i>19.1</i>
Depreciation	79	78	92	110	130
Other Income	23	49	55	57	67
<b>EBIT</b>	<b>327</b>	<b>366</b>	<b>379</b>	<b>417</b>	<b>549</b>
Interest expenses	7	8	10	12	10
<b>PBT</b>	<b>340</b>	<b>365</b>	<b>391</b>	<b>428</b>	<b>556</b>
Tax	88	93	89	108	141
<b>PAT</b>	<b>252</b>	<b>271</b>	<b>302</b>	<b>320</b>	<b>416</b>
<b>Adj. PAT</b>	<b>237</b>	<b>267</b>	<b>284</b>	<b>303</b>	<b>403</b>
<i>Growth (%)</i>	<i>3.6</i>	<i>12.5</i>	<i>6.6</i>	<i>6.5</i>	<i>33.1</i>
EPS	75.5	84.9	89.1	94.9	126.3

### Balance Sheet

As at December (Rs cr)	FY23	FY24	FY25	FY26E	FY27E
<b>SOURCE OF FUNDS</b>					
Share Capital	31	31	32	32	32
Reserves & Surplus	1334	1610	1873	2099	2399
<b>Shareholders' Funds</b>	<b>1365</b>	<b>1641</b>	<b>1904</b>	<b>2131</b>	<b>2431</b>
Minority Interest	2	3	3	3	3
Total Debt	93	99	140	125	105
Net Deferred Taxes	17	19	11	11	11
Other Non-curr. Liab.	11	11	12	14	16
<b>Total Sources of Funds</b>	<b>1489</b>	<b>1774</b>	<b>2070</b>	<b>2284</b>	<b>2566</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	487	572	812	955	1136
CWIP	32	47	22	45	34
Investments	292	506	480	439	474
Other Non-Curr. Assets	158	329	327	286	321
<b>Total Non Current Assets</b>	<b>810</b>	<b>1125</b>	<b>1314</b>	<b>1439</b>	<b>1643</b>
Inventories	400	389	432	494	571
Debtors	272	300	321	376	439
Cash & Equivalents	348	360	422	433	409
Other Current Assets	43	62	80	86	97
<b>Total Current Assets</b>	<b>1063</b>	<b>1112</b>	<b>1256</b>	<b>1389</b>	<b>1516</b>
Creditors	210	258	286	314	342
Other Current Liab & Provisions	175	205	214	231	250
<b>Total Current Liabilities</b>	<b>384</b>	<b>463</b>	<b>500</b>	<b>545</b>	<b>592</b>
Net Current Assets	679	649	756	845	923
<b>Total Application of Funds</b>	<b>1489</b>	<b>1774</b>	<b>2070</b>	<b>2284</b>	<b>2566</b>

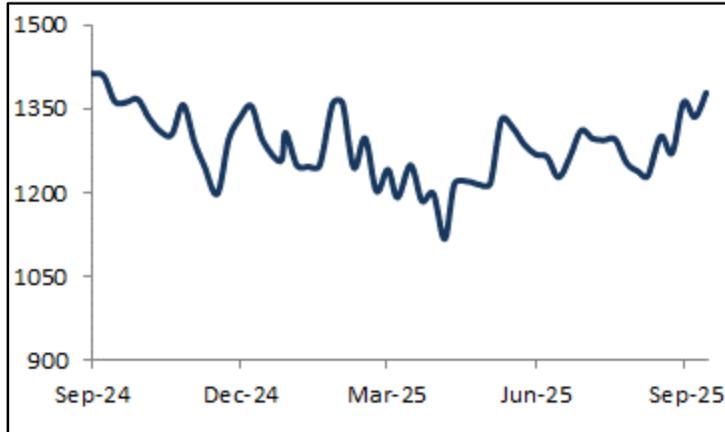
## Cash Flow Statement

(Rs cr)	FY23	FY24	FY25	FY26E	FY27E
Reported PBT	340	363	391	411	544
Non-operating & EO items	-21	-42	-12	43	-33
Interest Expenses	7	7	-38	12	10
Depreciation	79	73	92	110	130
Working Capital Change	-152	41	-45	-78	-102
Tax Paid	-86	-96	-99	-108	-141
<b>OPERATING CASH FLOW ( a )</b>	<b>167</b>	<b>346</b>	<b>288</b>	<b>389</b>	<b>408</b>
Capex	-76	-125	-289	-275	-300
Free Cash Flow	91	220	-1	114	108
Investments	2	0	-6	0	0
Non-operating income	-84	-180	-15	0	0
<b>INVESTING CASH FLOW ( b )</b>	<b>-157</b>	<b>-305</b>	<b>-311</b>	<b>-275</b>	<b>-300</b>
Debt Issuance / (Repaid)	-1	2	41	-15	-20
Interest Expenses	-5	-6	-9	-12	-10
FCFE	3	37	10	87	78
Share Capital Issuance	0	16	0	0	0
Dividend	-47	-50	-56	-77	-102
Others	-5	-5	42	0	0
<b>FINANCING CASH FLOW ( c )</b>	<b>-58</b>	<b>-43</b>	<b>18</b>	<b>-103</b>	<b>-132</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-48</b>	<b>-2</b>	<b>-4</b>	<b>11</b>	<b>-24</b>

## Key Ratios

Particulars	FY23	FY24	FY25	FY26E	FY27E
<b>Profitability Ratios (%)</b>					
EBITDA Margin	17.4	16.8	16.1	16.4	19.1
EBIT Margin	14.8	15.6	14.7	14.6	17.1
APAT Margin	10.8	11.4	11.0	10.6	12.6
RoE	19.0	17.7	16.0	15.0	17.7
RoCE	24.4	22.9	20.0	19.4	22.9
<b>Solvency Ratio (x)</b>					
Net Debt/EBITDA	-0.7	-0.7	-0.7	-0.7	-0.5
Net D/E	-0.2	-0.2	-0.1	-0.1	-0.1
<b>PER SHARE DATA (Rs)</b>					
EPS	75.5	84.9	89.1	94.9	126.3
CEPS	100.8	109.8	117.8	129.3	167.2
BV	434.9	522.8	597.2	668.1	762.4
Dividend	16.0	18.0	20.0	24.0	32.0
<b>Turnover Ratios (days)</b>					
Inventory days	47	45	44	44	46
Debtor days	69	61	58	59	61
Creditors days	40	36	38	38	37
<b>VALUATION (x)</b>					
P/E	18.3	16.2	15.5	14.5	10.9
P/BV	3.2	2.6	2.3	2.1	1.8
EV/EBITDA	10.8	10.5	9.9	8.7	6.7
EV/Revenues	1.9	1.8	1.6	1.4	1.3
Dividend Yield (%)	1.2	1.3	1.5	1.7	2.3
Dividend Payout (%)	21.2	21.2	22.4	25.3	25.3

## One Year Price chart



### **HDFC Sec Prime Research Rating description**

#### **Green Rating stocks**

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

#### **Yellow Rating stocks**

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions.

These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

#### **Red Rating stocks**

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical nature of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

#### **Rating Criteria**

Buy - > 15%+ return potential

Add - +5% to +15% return potential

Reduce - -10% to +5% return potential

Sell - >10% downside return potential

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