

# Sundaram Clayton

NOT RATED

## INDUSTRY AUTOS

**CMP (as on 23 Dec 2014)** Rs 1,589

**Target Price** NA

Nifty 8,267

Sensex 27,506

### KEY STOCK DATA

Bloomberg SDC IN

No. of Shares (mn) 20

MCap (Rs bn) / (\$ mn) 32/508

6m avg traded value (Rs mn) 4

### STOCK PERFORMANCE (%)

**52 Week high / low** Rs 1,724/332

3M 6M 12M

Absolute (%) (1.9) 56.6 349.1

Relative (%) (4.6) 46.7 318.8

### SHAREHOLDING PATTERN (%)

Promoters 75.00

FIs &amp; Local MFs 14.48

FIIs 0.04

Public &amp; Others 10.48

Source : BSE

## Steady performer

*We hosted the management of Sundaram Clayton Ltd (SCL) for a series of investor meetings. SCL has a long standing track record of delivering high quality components to a reputed base of customers. SCL currently holds a 57.4% stake in TVS Motor, which is valued at Rs 67.3bn. While SCL's earnings growth may accelerate with a cyclical demand upturn, its asset heavy business would restrict ROCE expansion beyond early double digits. Thus, valuation accorded to the core business is unlikely to scale above 10-12x forward earnings. Excluding the base business valuation (~15-20% of EV), implied holdco discount for its stake in TVS is significantly high at ~55-58%.*

### Below are the key takeaways from these interactions

- **Proven track record:** SCL has strong and well established capabilities in manufacturing aluminum die casting products. The company engages with OEMs at the design stage and typically, new product development requires 18-24 months of engagement.
- **Diversified revenue stream:** SCL derives ~55% of its revenues from domestic sales and balance 45% from exports. Almost 50% of its revenues come from the HCV segment (all from exports), 30% from passenger vehicles and balance 20% from two-wheelers (supplies to TVS Motor).
- **Exports to marquee customers:** SCL exports aluminum die cast products to the Cummins group in USA and the Volvo group in Europe. Given SCL's longstanding track

record of delivering high quality components, the company has a wallet share of 25% with Cummins and 18-20% with Volvo.

- **Growth drivers:** SCL has been fairly selective in adding new customers. In the recent past, SCL has commenced supplies to Bharat Benz in India and also to the Daimler group in Germany. SCL's focus lies in adding content per vehicle to expand its revenue base. SCL is currently working on substituting aluminum with magnesium for light-weighting its casted products. However, this is still in development stage and would take several years to reach commercial production.
- **Scope for margin improvement:** Per the company, initial margins on newer products tend to be lower. New products introduced in past few years have now stabilized in terms of reaching desired quality levels and having reached threshold volumes. Further, SCL's power and fuel costs could come off with a decline in furnace oil prices, even though part of this will be offset by recent power tariff hikes in Tamil Nadu.
- **Hedging policy:** SCL derives ~50% of its revenues from exports in foreign currency and it largely hedges its exposure by importing bulk (~80-85%) of its raw material requirement. The remaining small net exposure is covered on a rolling three month basis by entering into forward contracts.
- **Capex plans:** SCL's present capacity stands at ~50,000 MT and operates at 80-85% utilisation levels. The company plans to invest Rs 1.5bn (of which 0.8 to 1bn towards maintenance capex) over the next 18-24 months and expand its capacity by 10,000 MT.

**INCOME STATEMENT : STANDALONE**

As at March (Rs mn)	FY12	FY13	FY14	1HFY14	1HFY15
<b>Net Sales</b>	<b>10,170</b>	<b>10,186</b>	<b>11,968</b>	<b>5,578</b>	<b>6,613</b>
<b>Growth (%)</b>	<b>33%</b>	<b>0%</b>	<b>17%</b>	<b>8%</b>	<b>19%</b>
Material Expenses	5,361	5,179	5,945	2809.9	3373.1
Employee Expenses	1,194	1,329	1,552	783	927
Other Operating Expenses	2,543	2,780	3,390	1,514	1,685
<b>EBIDTA</b>	<b>1,071</b>	<b>898</b>	<b>1,080</b>	<b>472</b>	<b>629</b>
<b>EBIDTA (%)</b>	<b>10.5%</b>	<b>8.8%</b>	<b>9.0%</b>	<b>8.5%</b>	<b>9.5%</b>
<b>EBIDTA Growth (%)</b>	<b>147%</b>	<b>-16%</b>	<b>20%</b>	<b>1%</b>	<b>33%</b>
Other Income	342	381	358	170.9	211
Depreciation	473	513	532	258	288
EBIT	940	766	906	385	552
Interest	384	443	357	189	195.4
PBT	556	323	550	196	357
Tax	86	(31)	71	15.5	53.1
PAT	723	354	537	181	304
EO items (net of tax)	253	-	58	-	-
<b>APAT</b>	<b>470</b>	<b>354</b>	<b>478</b>	<b>181</b>	<b>304</b>
<b>APAT Growth (%)</b>	<b>26%</b>	<b>-25%</b>	<b>35%</b>	<b>-0.3%</b>	<b>68%</b>
<b>Adj EPS</b>	<b>24.8</b>	<b>18.7</b>	<b>23.6</b>	<b>9.5</b>	<b>15.0</b>
<b>EPS Growth (%)</b>	<b>26%</b>	<b>-25%</b>	<b>27%</b>	<b>-0.3%</b>	<b>57%</b>

Source: Company, HDFC sec Inst Research

**BALANCE SHEET : STANDALONE**

As at March (Rs mn)	FY12	FY13	FY14	1HFY14	1HFY15
<b>SOURCES OF FUNDS</b>					
Share Capital	95	95	101.2	101.2	101.2
Reserves	2,730	2,826	3,335	3,189	3,626
<b>Total Shareholders Funds</b>	<b>2,825</b>	<b>2,921</b>	<b>3,436</b>	<b>3,290</b>	<b>3,727</b>
Long Term Debt	1,092	1,299	963	1,198	691
Short Term Debt*	2,806	2,844	2,659	1,787	2,193
<b>Total Debt</b>	<b>3,897</b>	<b>4,143</b>	<b>3,622</b>	<b>2,985</b>	<b>2,884</b>
Deferred Taxes	200	169	185	171	193
Long Term Provisions & Others	135	154	154	146	186
<b>TOTAL SOURCES OF FUNDS</b>	<b>7,057</b>	<b>7,387</b>	<b>7,397</b>	<b>6,593</b>	<b>6,990</b>
<b>APPLICATION OF FUNDS</b>					
<b>Net Block</b>	<b>3,103</b>	<b>3,965</b>	<b>3,973</b>	<b>4,059</b>	<b>4,126</b>
CWIP	847	133	86		
Investments, LT Loans & Advs	807	796	779	814	788
Non-current investments	516	562	560	560	578
Investments-TVS motor company	196	196	196		
Inventories	1,917	2,006	1,895	2,065	2,101
Debtors	1,585	1,608	1,822	1,464	1,782
Cash & Equivalents	68	21	54	38	23
ST Loans & Advances, Others	867	622	838	608	976
Total Current Assets	4,437	4,256	4,608	4,176	4,882
Creditors	1,017	1,067	1,383	1,348	1,493
Other Current Liab & Provns	1,122	696	666	1,108	1,312
Total Current Liabilities	2,138	1,763	2,048	2,456	2,805
<b>Net Current Assets</b>	<b>2,299</b>	<b>2,493</b>	<b>2,560</b>	<b>1,720</b>	<b>2,077</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>7,056</b>	<b>7,387</b>	<b>7,398</b>	<b>6,593</b>	<b>6,990</b>

Source: Company, HDFC sec Inst Research

\*Short term debt for FY includes current maturities on long term debt. HY does not include the same as details not available

## CASH FLOW : STANDALONE

As at March (Rs mn)	FY12	FY13	FY14
Reported PAT	354	354	537
Non-operating & EO items	-	-	-
PAT from Operations	354	354	537
Interest expenses	384	443	357
Depreciation	473	513	513
Working Capital Change	(603)	(73)	13
Others	275	490	509
<b>OPERATING CASH FLOW ( a )</b>	<b>333</b>	<b>747</b>	<b>909</b>
Capex	(715)	(631)	(473)
Free cash flow (FCF)	(381)	116	436
Investments	103	3	19
Others	530	422	388
<b>INVESTING CASH FLOW ( b )</b>	<b>(81)</b>	<b>(207)</b>	<b>(66)</b>
Debt Issuance	203	(497)	300
Interest expenses	(335)	(382)	(292)
Share capital Issuance	-	-	370
Dividend	(127)	(424)	(355)
Others	13	3	17
<b>FINANCING CASH FLOW ( c )</b>	<b>(247)</b>	<b>(1,301)</b>	<b>40</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>6</b>	<b>(760)</b>	<b>883</b>
Non-operating and EO items	-	-	-
Closing Cash & Equivalents	68	21	54

Source: Company, HDFC sec Inst Research

## KEY RATIOS : STANDALONE

	FY12	FY13	FY14	1HFY14*	1HFY15*
<b>PROFITABILITY (%)</b>					
GPM	47.3	49.2	50.3	49.6	49.0
EBITDA Margin	10.5	8.8	9.0	8.5	9.5
APAT Margin	4.6	3.5	4.0	3.2	4.6
RoE	17.3	12.3	15.1	10.7	17.3
RoIC or Core RoCE	8.2	6.4	7.0	6.2	9.4
RoCE	7.9	4.3	7.1	5.6	9.8
<b>EFFICIENCY</b>					
Tax Rate (%)	15.5	(9.7)	13.0	7.9	14.9
Asset Turnover (x)	1.4	1.4	1.6	1.7	1.9
Inventory (days)	69	72	58	68	58
Debtors (days)	57	58	56	48	49
Payables (days)	36	38	42	44	41
Cash Conversion Cycle (days)	89	91	71	71	66
Debt/EBITDA (x)	3.6x	4.6x	3.4x	3.2x	2.3x
Net D/E	1.36	1.41	1.04	0.90	0.77
Interest Coverage	2.4x	1.7x	2.5x	2.0x	2.8x
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	24.8	18.7	23.6	9.5	15.0
CEPS (Rs/sh)	49.7	45.7	49.9	23.1	29.2
DPS (Rs/sh)	-	14.0	19.2	-	-
BV (Rs/sh)	149	154	170	174	184
<b>VALUATION</b>					
P/E	62.7	83.1	65.7	83.4	53.0
P/BV	10.4	10.1	9.1	9.0	8.4
EV/EBITDA	31.1	37.4	32.4	35.1	27.8
OCF/EV (%)	1.0	2.2	2.6	-	-
FCF/EV (%)	(1.1)	0.3	1.2	-	-
FCFE/mkt cap (%)	0.5	0.0	3.2	-	-
Dividend Yield (%)	0.0	0.9	1.2	-	-

Source: Company, HDFC sec Inst Research

\* Half yearly ratios have been calculated on annualised basis wherever applicable

## Rating Definitions

BUY	: Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL	: Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL	: Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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