



Sterling Tools Limited

BSE SENSEX
27458.99

S&P CNX
8497.05

CMP: INR913 TP: INR1207 (+32%) Buy

(INR CRORES)

Y/E MARCH	FY16	FY17E	FY18E
Revenue	367	414	466
EBITDA	61	72	83
EBITDA Margin	16.7%	17.3%	17.8%
NP (Adj.)	29	35	41
EPS (Adj.)	41.6	51.0	60.3
EPS Growth	34%	21%	18%
BV/share	189	224	267
Core ROE (%)	23	25	25
Core ROCE (%)	24	27	27
P/E (x)	22.0	17.9	15.1
P/BV (x)	4.8	4.1	3.4

KEY FINANCIALS

Diluted Shares (cr)	0.7
Market Cap. (Rs cr)	625
Market Cap. (US\$ m)	94
Past 3 yrs Sales Growth (%)	10%
Past 3 yrs NP Growth (%)	43%

STOCK DATA

52-W High/Low Range (INR)	1030/365
Major Shareholders (as of Sep 2016)	
Promoter	70.2
Institutions	0.4
Public & Others	29.4
Average Daily Turnover(6 months)	
Volume	7,133
Value (Rs cr)	0.6
1/6/12 Month Rel. Performance (%)	18/89/138
1/6/12 Month Abs. Performance (%)	14/81/140

We recommend to BUY Sterling Tools Limited (STL) for a target of INR 1,207 - 20x on FY18E EPS (+32% Upside).

One of the largest fastener manufacturers in India: Sterling Tools is one of the largest manufacturer of fasteners in India, with a market share of ~28%. The company is supplier of high tensile (HT) fasteners to Honda Motorcycle Scooter India Private Limited (HMSI) and Maruti Suzuki India Limited (MSIL). In top line 2-wheeler accounts for 25%, passenger vehicles (~15%), commercial vehicles (~25%), and farm equipment (~7%-8%) of total sales. STL's other customers include Tata Motors, Ashok Leyland, Daimler, FIAT, Hero Motocorp, Mahindra & Mahindra, Volvo, Eicher, TAFE and General Motors. Sales to OEM form ~85%, after market ~8% and exports constitutes ~7% of total revenue. STL has a capacity of 45,000 MT spread across three plants currently running at 70-75% utilisation. The company has started work on the phase-I expansion for a new plant in Gujarat. Total capex for the project will be INR 50cr likely to be commissioned by September 2017.

Triggers in place for an uptick in automobiles sales: Good monsoons and 7th pay commission have accelerated the volume growth for the leading automobile companies across segments. STL's major principal's Maruti Suzuki and HMSI reported 13.5% YoY and 23.5% YoY volume growth respectively for 3 month period Aug-Oct 2016. Passenger vehicles, 2 wheelers, commercial vehicles or tractors all are poised to post strong volume growth in FY17. STL's strong market positioning in automobile fastener segment having sizeable market share in OEMs lends heft to its growth prospects for foreseeable future.

Strong financials: The company delivered a CAGR of 10% in revenues during FY13-16; during the same period PAT delivered a CAGR of 43% aided by improving margins and cash flows. Strong focus on costs and tight control over working capital has yielded desired operating efficiencies for the company. Sound balance sheet management has led to sharp improvement in return ratios over the years. [ROE 11% in FY13 to 23% in FY16, ROCE:15% in FY13 to 24% in FY16].

Valuations & View: Conducive macro factors like good monsoons, 7th pay commission roll out, passage of GST, increasing localization by OEMs will propel STL on growth path going forward. We expect earnings growth of 20% over FY16-18E. STL trades at 15.1x FY18E EPS of INR 60.3. We initiate coverage on the stock with a 'BUY'. We value the company at 20x FY 18E EPS with a target price INR 1,207, giving an upside of 32%.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Exports: Exports form ~7% of the total revenues of the company. The company currently exports to Europe. The company is focusing on North American market and is planning to increase its exports to that market. Over the next 4-5 years, the company envisions to take the share of exports to ~20-25% of total revenues.

Localization Opportunity: The principal OEM's like MSIL and HMSI are driving a localization exercise to reduce their exposure to Japanese suppliers for supply of key automotive components. This strategy will reduce the foreign exchange exposure as well as the procurement costs of these auto majors. STL with its leading market share in the fasteners segment stands to benefit from this opportunity as the addressable market for fasteners will open up going forward.

INVESTMENT CONCERNS

High competition from un-organized segment: Within the auto-component space, the fastener segment is characterized by high-competitive intensity given the presence of numerous players in un-organized segment in after sales market. However, STL by virtue of its strong relationships with OEMs has diversified its presence in the relatively complex product categories like engine fasteners.

Company background:

Sterling Tools Limited (STL), founded in 1979, engages in manufacturing of high-tensile (HT) cold forged fasteners mainly for automobiles OEMs. STL is one of top 3 fasteners manufacturers in India and caters to leading automotive companies in India and Europe. Product range includes over 2,000 types of fasteners ranging from 5 mm to 24 mm in diameter. It includes special fasteners, standard fasteners, surface treatment and coatings, chassis fasteners and engine fasteners. The Company has three manufacturing plants in Haryana with a total capacity of 45,000 MT. STL is the one of the largest supplier of HT fasteners to Honda and the second largest supplier to MSIL. Company's other blue chip customers include Tata Motors, Ashok Leyland, Daimler, FIAT, Hero Motocorp, Mahindra & Mahindra, Volvo, Eicher, TAFE and General Motors.

Sterling Tools Limited Financials & Valuation

INCOME STATEMENT						RATIOS					
(INRCR)											
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E	Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
Net sales	295	335	367	414	466	Adjusted EPS (INR)	22.9	31.1	41.6	51.0	60.3
Growth	7%	14%	10%	13%	13%	Book Value	147	171	189	224	267
COGS	131	147	145	166	188	Div Per Share	5.0	5.0	15.0	12.8	15.1
Employee Cost	26	28	33	37	42	Dividend Payout	22%	16%	36%	25%	25%
Other Expenses	103	120	133	146	160	Net Debt / Equity	0.5	0.5	0.3	0.2	0.1
EBITDA	42	47	61	72	83	P/E	-	-	22.0	17.9	15.1
EBITDA Margin	14.1%	14.1%	16.7%	17.3%	17.8%	P/BV	-	-	4.8	4.1	3.4
Depreciation	10	12	13	14	16	Dividend Yield	0.5%	0.5%	1.6%	1.4%	1.7%
Other Income	1	1	2	1	1	EV/EBITDA	-	-	10.9	9.1	7.7
Interest Cost	8	7	6	5	6	ROCE	18%	19%	24%	27%	27%
PBT	24	29	43	53	63	ROE	16%	20%	23%	25%	25%
Tax	9	8	15	18	21	Debtor days	43	43	37	37	37
Rate	36%	26%	34.4%	34.0%	34.0%	Inventory days	57	58	54	60	60
Adjusted PAT	15	22	29	35	41	Creditor days	57	65	69	64	71
Growth	55%	41%	34%	21%	18%	W.Cap cycle	42	37	22	33	26
PAT Margin	5.2%	6.4%	7.9%	8.4%	8.9%						

BALANCE SHEET						CASH FLOW					
(INRCR)						(INRCR)					
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E	Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
Share Capital	7	7	7	7	7	PBT	24	29	43	53	63
Reserves	94	110	122	147	176	Adjustments	18	18	18	19	20
Networth	101	117	129	154	182	(Inc)/Dec in W.Cap	10	(6)	8	7	(1)
Minority interest	0	0	0	0	0	Others	5	(6)	1	0	3
Loans	58	61	55	62	62	Pre Tax OCF	56	35	70	78	85
Less Net Def. Tax Liab	13	14	15	14	14	Tax Paid	(8)	(7)	(14)	(18)	(21)
Less other long term liability	1	1	1	1	1	CF from Operations	49	28	56	61	64
SOURCES OF FUNDS	173	193	199	230	259	(Inc)/Dec in FA	(16)	(29)	(26)	(30)	(35)
Net Fixed Assets	110	131	138	153	167	Net investments	(1)	(1)	0	0	0
Capital WIP	3	0	1	1	2	Others	1	1	2	1	1
Inventories	35	42	42	27	31	CF from Investing act.	(16)	(28)	(24)	(29)	(34)
Debtors	35	40	37	42	47	Equity issuance	0	0	0	0	0
Cash & Investments	6	1	12	35	49	Inc/(Dec) in Debt	(18)	3	(6)	5	0
Loans & Advances	5	12	12	12	14	Interest Paid	(8)	(7)	(6)	(5)	(6)
Other Curr Assets	2	2	1	1	1	Divd Paid (incl Tax)	(4)	(4)	(12)	(9)	(10)
Current investments	0	0	0	0	0	Others	(3)	3	4	0	0
Curr. Assets	83	96	103	118	143	CF from Financing act.	(34)	(5)	(21)	(9)	(16)
Creditors and Prov.	34	44	47	46	56	Inc/(Dec) in Cash	(2)	(5)	11	23	14
Net Current Assets	49	53	56	72	87	Add: Opening Balance	8	6	1	12	34
Other LT Assets	11	10	4	4	4	Closing Balance	6	1	12	34	49
APPLICATION OF FUND	173	193	199	230	259						

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