

Sundram Fasteners

Fastening growth

We initiate on Sundram Fasteners with an ADD recommendation. Volumes are back to pre-COVID levels for several segments, including cars, tractors and 2Ws. We expect sales to grow in mid-teens over FY21-23, led by a cyclical uptick in India and abroad. Sundram's enhanced competencies have allowed it to diversify into multiple products. It is also expanding in the non-auto segment. It has lowered dependence on high tensile fasteners – with contribution reducing from 80% of revenues earlier to 31% currently. Sundram's diversified customer and product mix enable it to enjoy robust profitability - the elevated margins (16-18%) and high ROEs (in mid-teens) are a function of its mix across cars, tractors, CVs, exports and aftermarkets.

- Sales to grow in mid-teens over FY21-23:** Following the initial COVID impact, demand trends seem to be improving with volumes back to pre-COVID levels for several segments, including cars, tractors and two-wheelers. The US market sales are reviving as well and are higher QoQ. We expect mid-teens sales growth over FY21-23, aided by the cyclical uptick, both in India as well as overseas markets.
- Diversification initiatives:** The non-auto segment is below 5% of revenues currently. Sundram is keen to expand its presence in this segment by focusing on wind energy, defence and aerospace segments. It is also developing products for the EV segment to address the changing requirements of the automobile industry.
- Developing in-house capabilities:** Sundram has refrained from forming JVs with foreign partners and has instead built its competence. This has enabled the company to develop new products and lower the dependence from high tensile fasteners (contribution from this product has reduced from 80% of revenues earlier to 31% currently). The component manufacturer has expanded in new segments, including pumps and assemblies, transmission parts, hot forgings, cold extruder parts, etc.
- Focus on return ratios:** Sundram Fasteners' diversified customer and product mix enable it to drive robust profitability. The elevated margins (16-18%) and high ROEs (in mid-teens) are a function of its well spread base across cars, tractors, CVs, exports, and aftermarkets.
- Price target, valuation:** We initiate coverage on Sundram Fasteners with an ADD rating and set a target price of Rs 565, at 27x FY23E EPS, which is at a 10% premium to its 5-year average P/E. Post the run-up in stock price, we would recommend accumulating the stock on every correction. **Key risks:** slower-than-expected recovery and rapid shift towards electric vehicles.

Financial Summary (Consolidated)

YE Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	38,549	45,579	37,232	31,671	36,767	42,257
EBITDA	6,814	8,004	5,929	4,782	6,287	7,564
APAT	3,866	4,575	3,249	2,379	3,467	4,389
Adj. EPS (Rs)	18.4	21.8	15.5	11.3	16.5	20.9
Adj. EPS Growth (%)	13.9	18.3	(29.0)	(26.8)	45.7	26.6
P/E (x)	27.4	23.1	32.6	44.5	30.5	24.1
RoE (%)	27.9	26.9	16.8	11.7	15.9	18.1

Source: Company, HSIE Research

ADD

CMP (as on 25 Nov 2020)	Rs 504
Target Price	Rs 565
NIFTY	12,858

KEY CHANGES	OLD	NEW
Rating	-	ADD
Price Target	-	Rs 565
EPS %	FY21E	FY22E
	-	-

KEY STOCK DATA

Bloomberg code	SF IN
No. of Shares (mn)	210
MCap (Rs bn) / (\$ mn)	106/1,440
6m avg traded value (Rs mn)	47
52 Week high / low	Rs 533/249

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.7	78.8	9.6
Relative (%)	(4.1)	35.9	2.4

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	49.5	49.5
FIs & Local MFs	18.1	18.6
FPIs	8.9	8.9
Public & Others	23.4	23.0
Pledged Shares	-	-

Source : BSE

Aditya Makharia

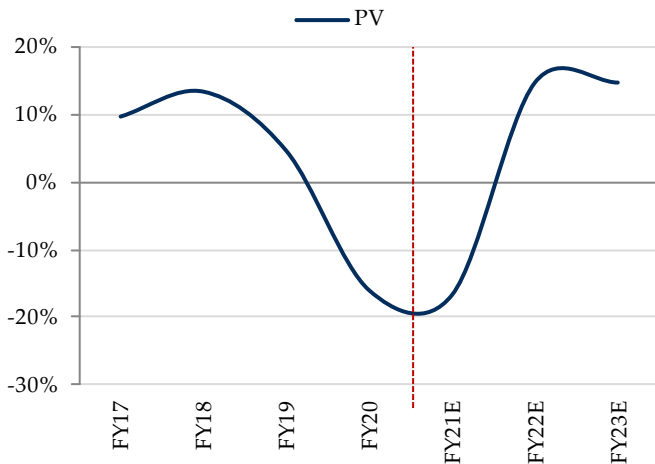
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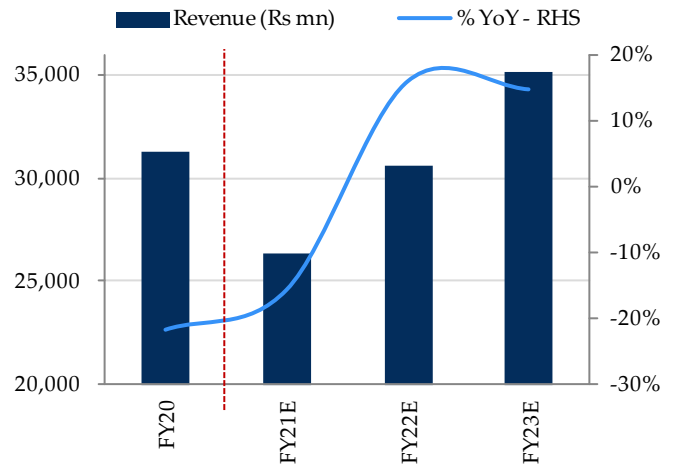
Focus charts

Passenger vehicles sales to recover over FY22-23E



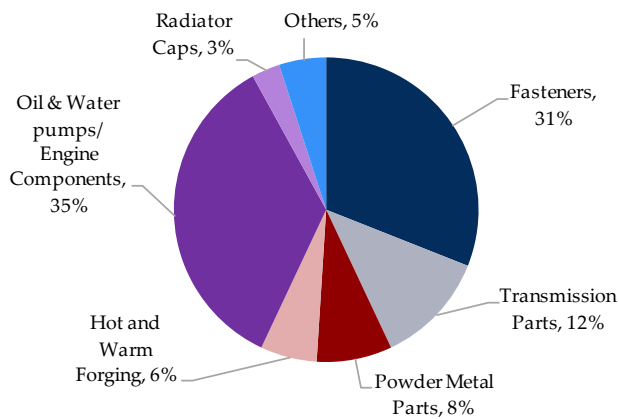
Source: Industry, HSIE Research

Revenues to grow in double-digits over FY22-23E*



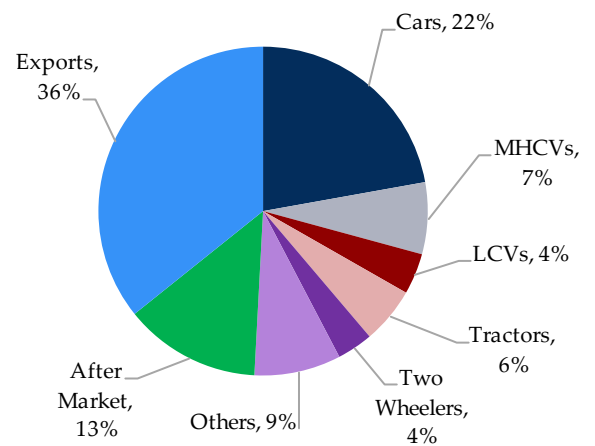
Source: Company, HSIE Research, *standalone operations

The product mix is well-diversified



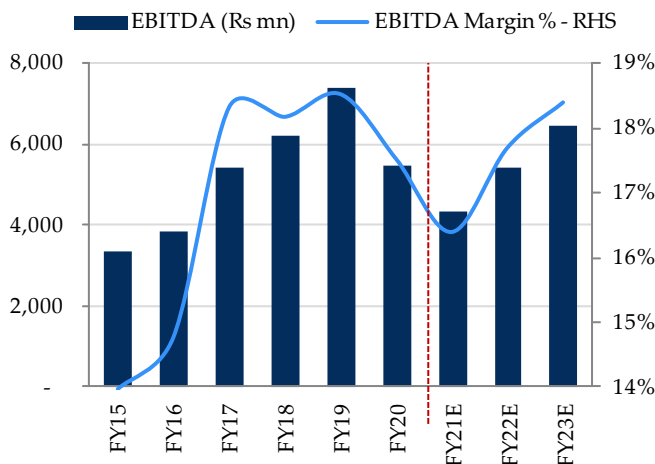
Source: Company, HSIE Research

Segmental mix - present across multiple segments



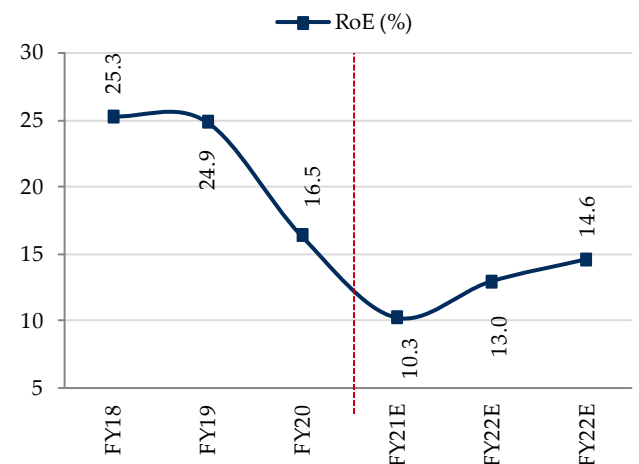
Source: Company, HSIE Research

EBITDA margin to recover to pre-COVID levels*



Source: Company, HSIE Research, *standalone operations

Return on equity is healthy*

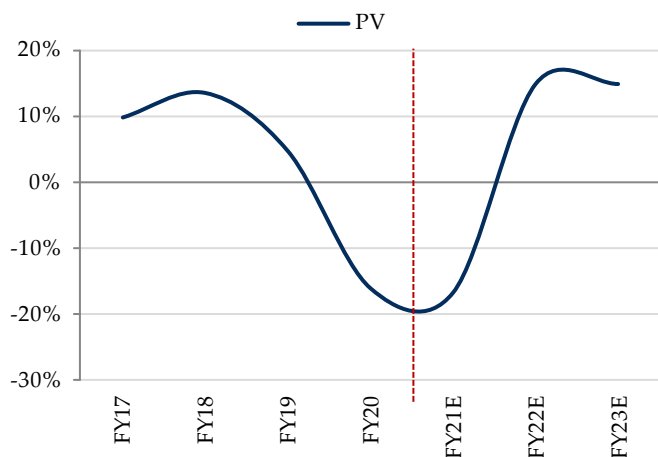


Source: Company, HSIE Research, *standalone operations

Cyclical uplift to aid demand

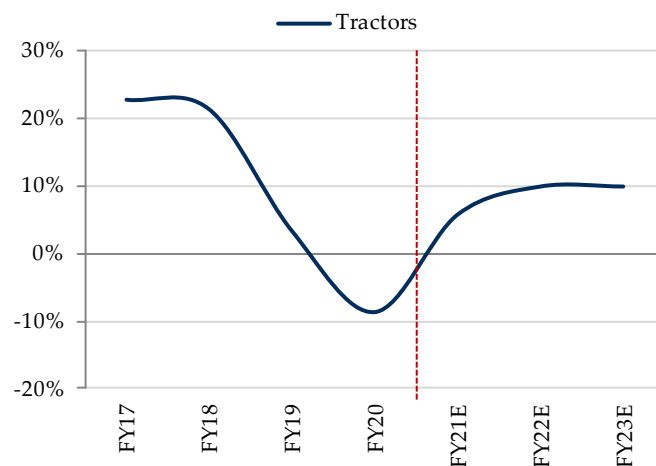
- Demand trends are improving after the initial COVID impact and volumes are now back to pre-COVID levels for several segments, including cars, tractors as well as two-wheelers. Even in the US markets, sales are now reviving and higher QoQ. This will benefit component makers, including Sundram Fasteners.

Passenger vehicles sales % YoY



Source: Industry, HSIE Research

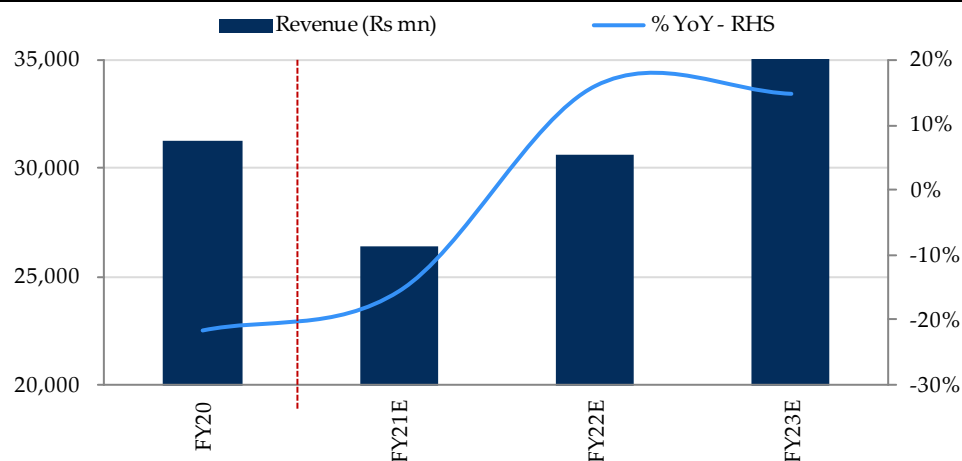
Tractor sales % YoY



Source: Industry, HSIE Research

- We expect sales to grow in mid-teens over FY21-23, aided by the cyclical uptick, both in India as well as overseas markets.

Standalone revenue (Rs mn)

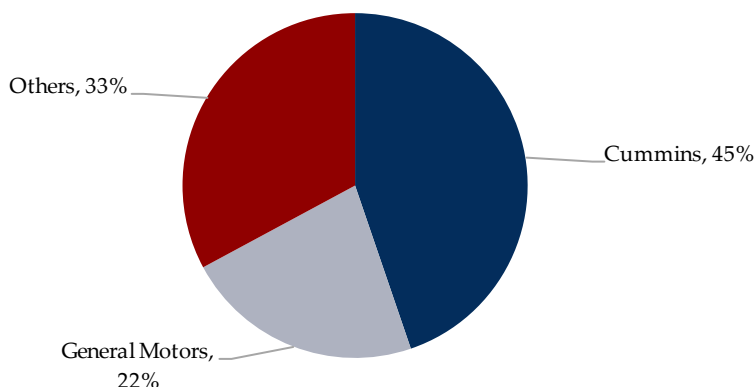


Source: Company, HSIE Research

- **Exports – a growth driver:** The company's exports are primarily to the US market, with Cummins and General Motors as the large customers. Components exported include precision-machined castings, transmission parts, forging components, amongst others. After a weak FY20-21E (exports to decline ~18% p.a.), we are building in a 15% CAGR growth in overseas revenues over FY21-23E as demand revives.

FY20 client-wise exports revenue mix (%)

Exports for the company have grown at 17% CAGR between FY10-19

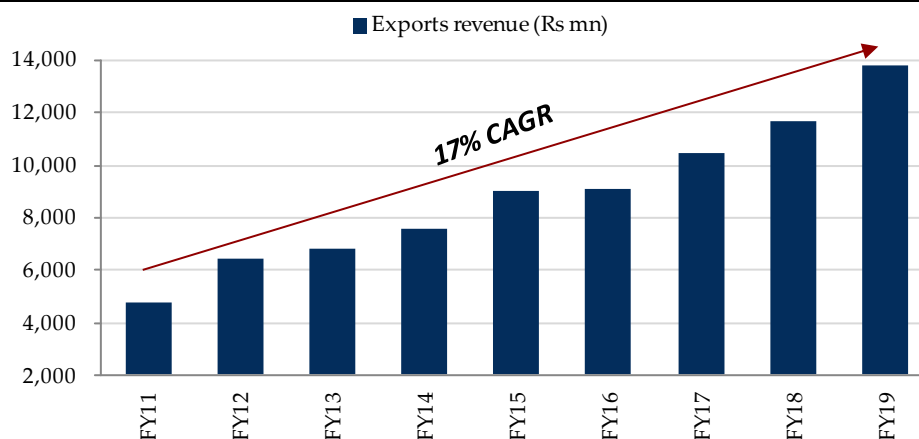


Components exported include precision-machined castings, transmission parts, forging components, amongst others.

Source: Company, HSIE Research

- Exports for the company have grown at 17% CAGR between FY10-19 and continue to account for ~35% of revenues. This has enabled it to de-risk from its predominant India exposure. The primary export customers are Cummins as well as General Motors, with whom Sundram Fasteners has a long-standing relationship.

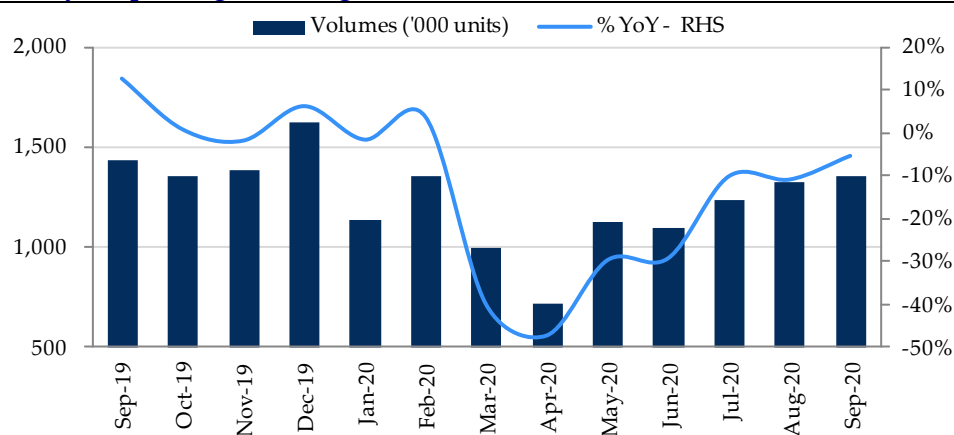
Historic exports revenue



Source: Company, HSIE Research

- As economies revive post the COVID outbreak, particularly the US markets, we expect Sundram to benefit. The US industry is witnessing a pick-up in car sales.

Monthly US passenger car + light truck sales



The industry is witnessing a pick-up in US car sales

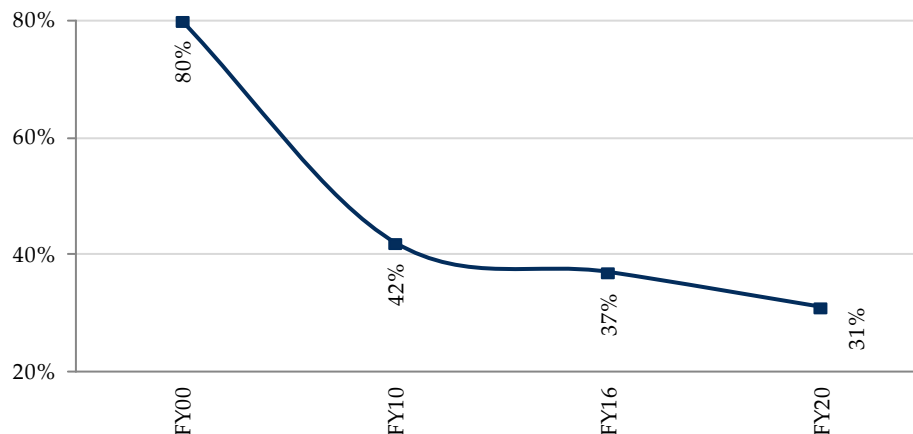
Source: HSIE Research, Industry

A well-diversified auto component manufacturer

- Sundram Fasteners has evolved significantly since 2000 when fasteners used to contribute 80% of its revenues. It has diversified its product mix over the past two decades, with the contribution from fasteners reducing to 31% currently.

Share of fasteners has reduced to 31% of the revenue mix

Fasteners as % of sales

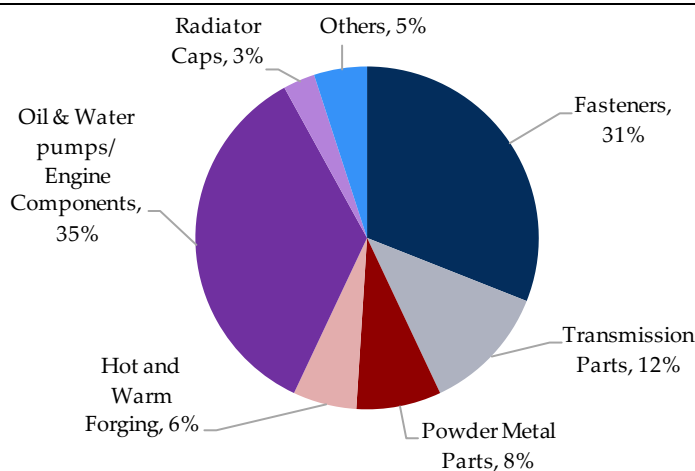


Source: Company, HSIE Research

The new segments including pumps, forgings, etc. contribute to a majority of revenue

- The new segments now contribute to a majority of revenue as Sundram has diversified successfully into oil/water pumps, warm forgings, transmission parts, powder metal components, etc. This is reflective of their engineering capabilities.

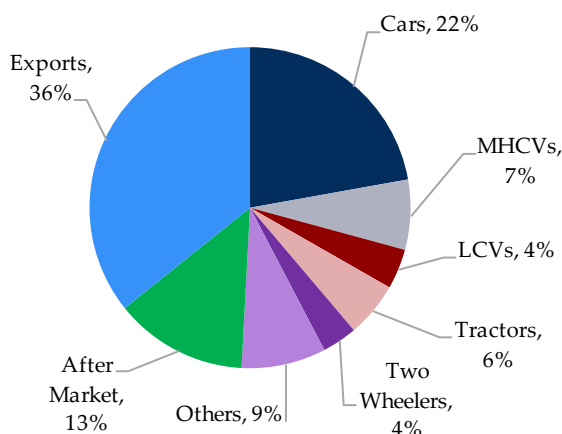
FY20 product mix (%)



Source: Company, HSIE Research

- The company has a diversified customer mix as well – with sales well spread across segments. Within end-user segments, Sundram supplies to passenger cars, CVs, tractors, two-wheelers, and aftermarket. The company supplies to leading OEMs like Maruti, Hyundai, Tata Motors, Ashok Leyland, etc.

FY20 segmental mix (%)



Source: Company, HSIE Research

The company plans to expand its presence in the non auto segment by focusing on wind energy, defence and aerospace segments

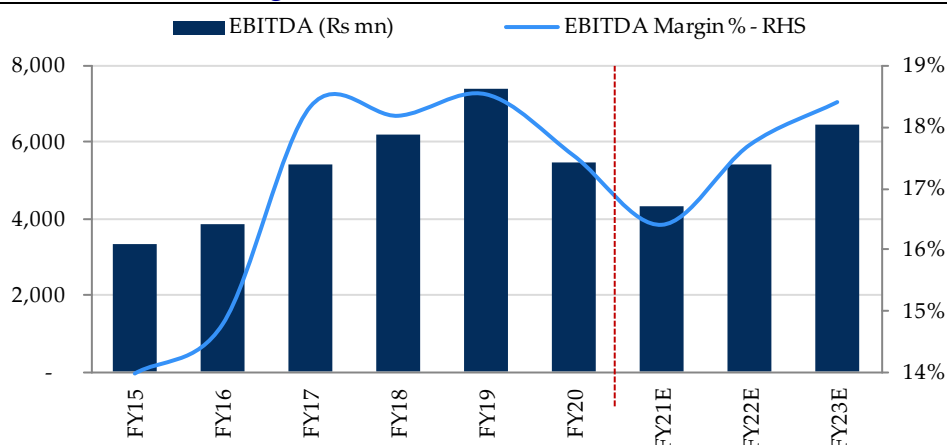
The company plans to diversify in the non-auto segment:

- The non-auto segment is below 5% of revenues. The company wants to expand its presence in this segment by focusing on wind energy, defence and aerospace segments. However, lead times in these segments are lengthy, and these initiatives are likely to bear fruit in the medium term.
- Further, the foray into this segment will partially offset the gradual shift towards electric vehicles. In our report, 'Where are we on the 'S' curve?' we highlight that the road to electrification in India will be gradual.
- Sundram is also developing products for the EV segment to address the changing requirements of the automobile industry.

Sundram Fasteners focus on return ratios:

- Sundram Fasteners' diversified customer and product mix enable it to drive robust profitability. The mid-teens margins are a function of its presence across diverse segments including high-end fasteners, pumps, and engine parts, which are critical components. Further, the scale benefits allow Sundram to derive higher profitability.

Standalone EBITDA margin (%)

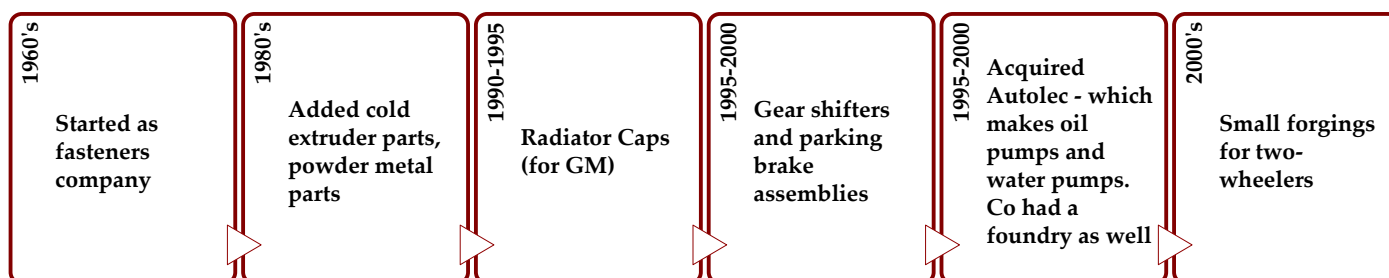


Source: Company, HSIE Research

Company's mid-teens margins are a function of its presence across diverse segments, including high-end fasteners, pumps, and engine parts, which are critical components

- Developing in-house capabilities:** Sundram Fasteners has forayed into new segments by acquiring companies and building its own capabilities. The company has not formed joint venture tie-ups where the technology is introduced by the foreign partner. It has grown its business strategically by acquiring companies to expand its know-how – for instance, it acquired Autolec (for pumps) in the late 1990s and acquired Camlin Precision Forging in the UK in 2003.

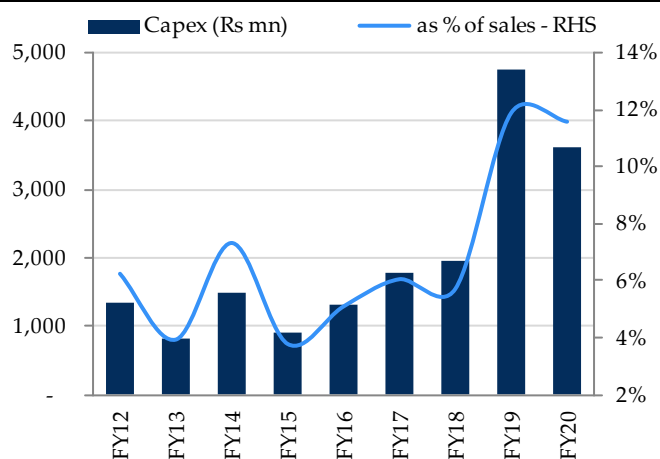
Sundram Fasteners: Enhancement of capabilities



Source: Company, HSIE Research

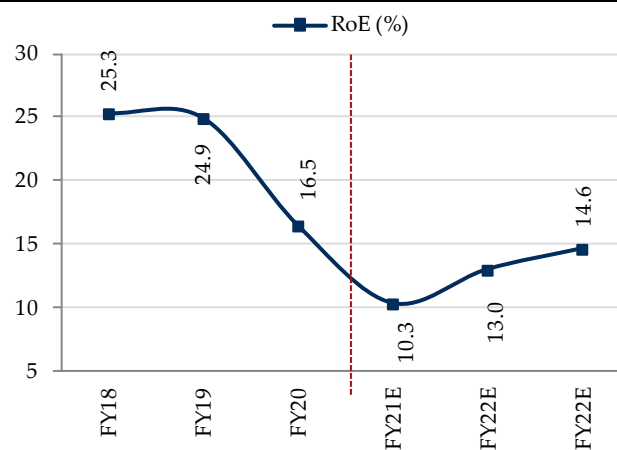
- Sundram started manufacturing high tensile fasteners for automotive OEMs and gradually expanded into manufacturing cold extruded parts and powder metal parts. Post the 1990's liberalisation era, the company diversified further as Sundram acquired Autolec industries and expanded into forgings.
- Over the years, the company has kept a tight control on capital allocation. The acquisitions have been of a manageable size, and the investments/Capex have been disciplined. This has resulted in high return ratios for the company (average ROE is 18% over the past decade)

Standalone historical Capex (Rs mn)



Source: Company, HSIE Research

Standalone Return on Equity (%)



Source: Company, HSIE Research

Subsidiaries: Focus on capital efficiency

- Sundram has invested in companies in Europe and set up operations in China. The acquisitions (Cramlington Precision Forge, UK) have enabled it to benefit from new technology, while the business in China has allowed diversification of the client base.
- The company has acquired businesses overseas in the 2000s in Europe - Sundram acquired Cramlington Precision Forge UK in 2003. It also bought a fasteners company in Europe – Peiner in 2006. However, as the business was loss-making, Sundram sold it in 2016 – which is reflective of its focus on capital efficiency.

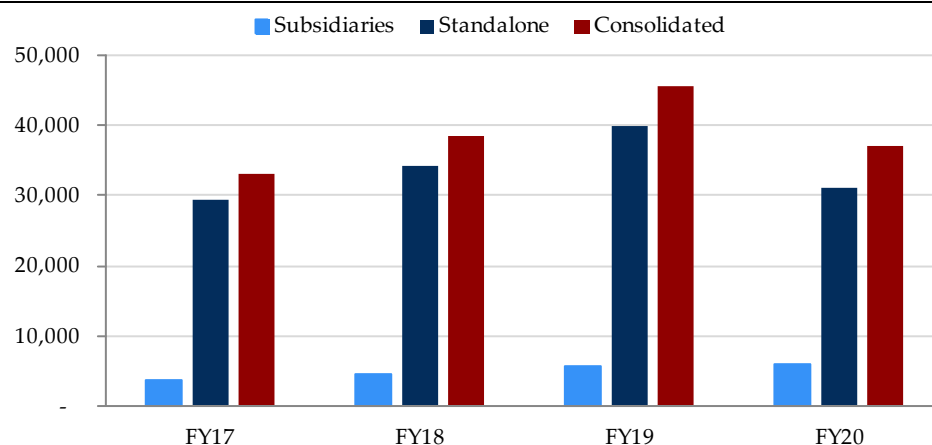
International operations

2003	Formed Sundram Fasteners (Zhejiang) Limited - 100% subsidiary
2003	Acquired Cramlington Precision Forge Ltd UK (Forging business of Dana Spicer Europe)
2006	Acquired 100% stake in Peiner Umformtechnik GmbH (company produces fasteners)
2016	Sold stake in Peiner and exited as the company was loss-making (after the 2008 recession)
2016	Transferred equity shares of Cramlington Precision Forge Limited UK (CPFL) and Sundram Fasteners (Zhejiang) Limited China (SFZL) (wholly owned subsidiaries of the company) to a new holding company in the United Kingdom to simplify the structure

Source: Company, HSIE Research

- The subsidiaries contribute 10- 15% to the turnover of the company.

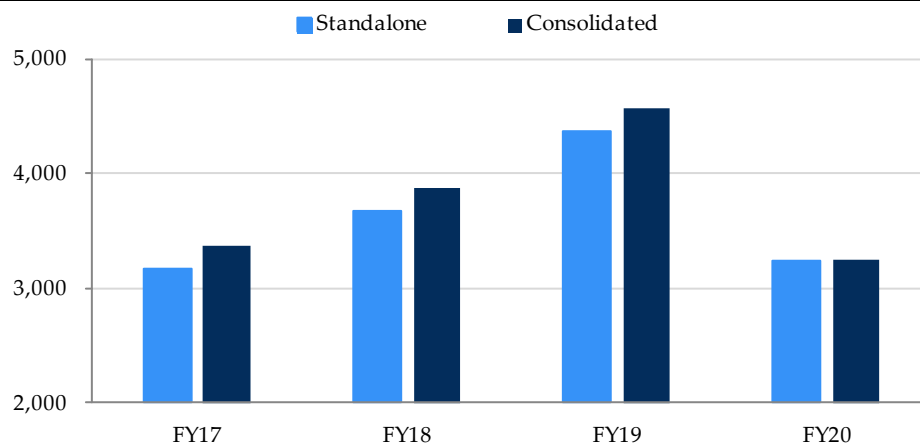
Sundram Fasteners' revenue (Rs mn)



Source: Company, HSIE Research

The company is prudent in its M&A strategy and has sold off its loss-making units in the past

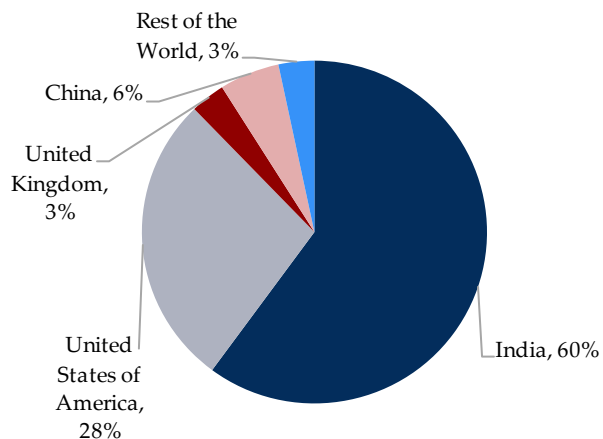
Adj. Profit (Rs mn)



Source: Company, HSIE Research

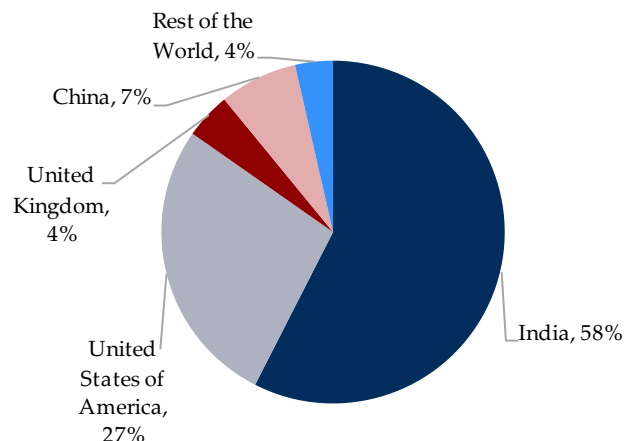
- Sundram has built a presence in the large automobile markets of the world through its subsidiaries. The management is open to further acquisitions, provided they are of a manageable size (the company will not acquire companies to just grow turnover) and provide a technological benefit to the group.

Consolidated FY19 geographical mix (%)



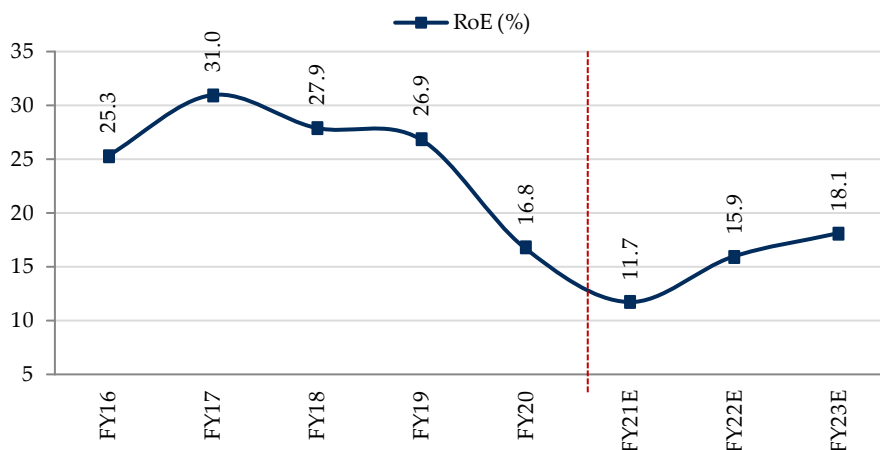
Source: Company, HSIE Research

Consolidated FY20 geographical mix (%)



Source: Company, HSIE Research

Consolidated Return on Equity (%)

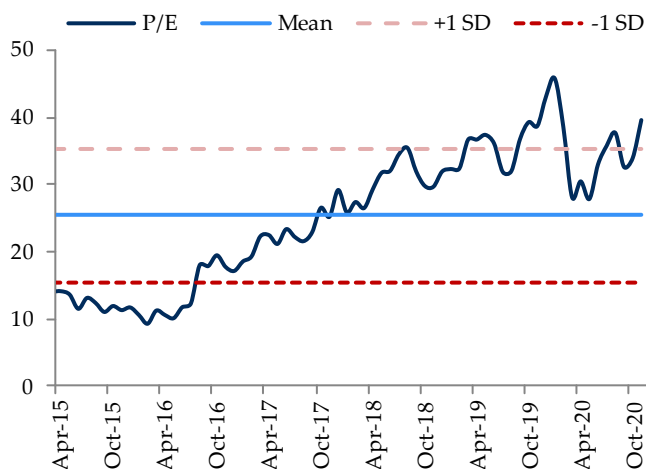


Source: Company, HSIE Research

Target price, valuation, and risks

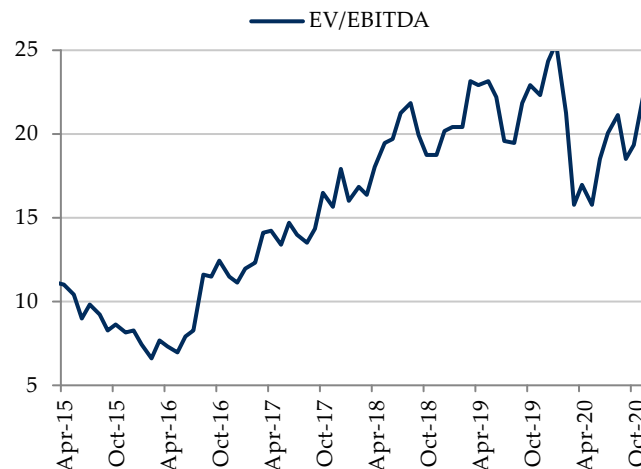
- We initiate coverage on Sundram Fasteners with an ADD rating and set a target price of Rs 565, at 27x FY23E EPS, which is at a 10% premium to its 5-year average P/E. Post the recent run-up in stock price, we recommend accumulating the stock on every correction.
- Sundram will benefit from the ongoing pick up in automotive volumes across India as well as overseas. Further, the company has a well-focused capital allocation strategy, which enables the parts maker to have healthy return ratios (ROEs are in mid-teens).
- **Key risks:** Sudden shift towards electric vehicles, slower-than-expected macro recovery.

Standalone one year forward P/E band chart



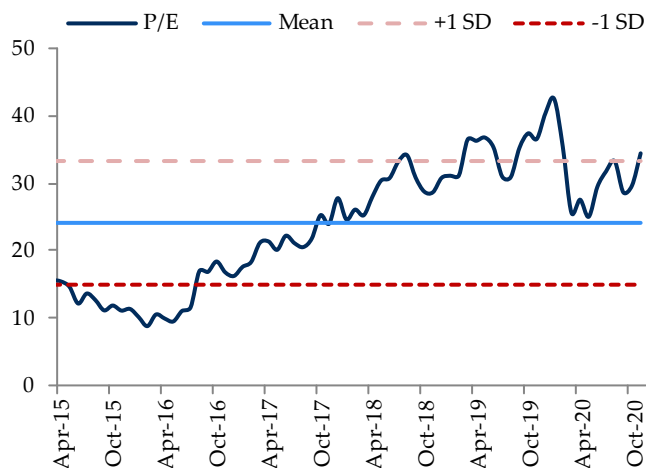
Source: Bloomberg, Company, HSIE Research

Standalone one year forward EV/EBITDA chart



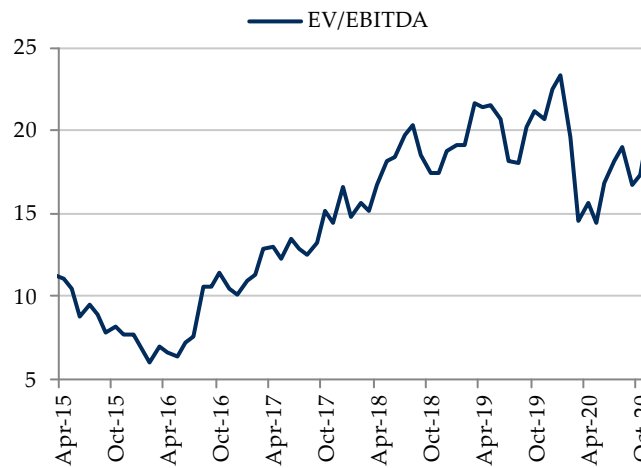
Source: Bloomberg, Company, HSIE Research

Consolidated one year forward P/E band chart



Source: Bloomberg, Company, HSIE Research

Consolidated one year forward EV/EBITDA chart



Source: Bloomberg, Company, HSIE Research

Key assumptions

Rs mn	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Standalone:							
Domestic	20,567	21,986	24,567	19,010	16,349	19,121	22,095
% YoY	11%	7%	12%	-23%	-14%	17%	16%
Exports	10,441	11,681	13,830	11,172	9,161	10,535	12,010
% YoY	15%	12%	18%	-19%	-18%	15%	14%
Others	708	1,060	1,505	1,064	849	933	1,027
% YoY	44%	50%	42%	-29%	-20%	10%	10%
Less: Excise duty	2,243	529	-	-	-	-	-
Total standalone revenue	29,473	34,198	39,902	31,246	26,359	30,589	35,131
% YoY	13%	16%	17%	-22%	-16%	16%	15%
Consolidated:							
Revenue	33,029	38,549	45,579	37,232	31,671	36,767	42,257
% YoY	1.5	16.7	18.2	(18.3)	(14.9)	16.1	14.9
EBITDA	5,891	6,814	8,004	5,929	4,782	6,287	7,564
EBITDA margin (%)	17.8	17.7	17.6	15.9	15.1	17.1	17.9
% YoY	53.4	15.7	17.5	(25.9)	(19.3)	31.5	20.3

Source: Company, HSIE Research

Peer set comparison

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP (Rs)	Adj EPS (Rs/sh)			P/E (x)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
AUTO ANCS													
Sundram Fasteners	106	504	ADD	565	11.3	16.5	20.9	44.5	30.5	24.1	11.7	15.9	18.1
Endurance	159	1,132	BUY	1,270	29.4	41.1	49.5	38.5	27.6	22.9	13.1	16.2	17.0
Gulf Oil Lubricants	40	795	BUY	800	32.9	37.0	43.3	24.2	21.5	18.4	20.5	20.7	21.7
Subros	19	295	BUY	310	5.1	12.2	17.4	58.1	24.2	17.0	4.3	9.8	12.7
Amara Raja	149	874	ADD	840	33.4	40.3	48.1	26.2	21.7	18.2	14.7	15.6	16.3

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	Adj EPS (Rs/sh)			P/E (x)			RoE (%)			
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
AUTOS													
Ashok Leyland	263	90	REDUCE	0.1	3.6	5.0	661.4	24.6	17.9	0.5	14.0	17.6	
Bajaj Auto	883	3,051	ADD	150.5	168.1	194.6	20.3	18.2	15.7	20.8	21.1	22.1	
Eicher	71	2,595	REDUCE	53.6	78.6	100.5	48.4	33.0	25.8	13.9	17.9	19.7	
Escorts Ltd.	171	1,394	ADD	67.8	78.9	91.1	20.6	17.7	15.3	16.0	14.6	14.6	
Hero Motocorp	601	3,009	BUY	137.2	164.9	190.7	21.9	18.2	15.8	18.5	20.2	20.9	
Mahindra	858	720	ADD	32.3	36.4	42.8	22.3	19.8	16.8	10.8	11.4	12.2	
Maruti Suzuki	2,131	7,056	BUY	150.2	265.9	337.3	47.0	26.5	20.9	9.1	14.8	16.8	
Tata Motors	617	171	BUY	(28.6)	0.1	11.3	NA	NA	15.2	(17.8)	0.0	7.4	

Source: HSIE Research

Annexure

Subsidiary Performance

- The China facility manufactures fasteners, bearing housings and castings, and the company has backward integrated and set up a foundry as well.

Sundram Fasteners (Zhejiang) Limited			
Rs mn	FY18	FY19	FY20
Sales	1,878	2,580	2,742
PBT	179	230	119
PAT	133	180	92
% shareholding		100%	

Source: Company, HSIE Research

- **Cramlington Precision Forge, UK**, provides high-quality precision-forged components to the commercial vehicle sector and industrial markets. CPFL's products consist of differential gears, dog tooth clutches, hydraulic pump gears, power tool components, tractor differential gears, earth moving vehicle components, and passenger car coupling flanges and crown wheels.

Cramlington Precision Forge Limited			
Rs mn	FY18	FY19	FY20
Sales	822	1,194	1,401
PBT	-58	-82	-167
PAT	-46	-70	-167
% shareholding		100%	

Source: Company, HSIE Research

- **TVS Upasana**: The company has a 100% subsidiary in India, TVS Upasana, which manufactures spokes and other automobile components.

TVS Upasana Limited			
Rs mn	FY18	FY19	FY20
Sales	1,554	1,698	1,462
PBT	255	215	100
PAT	175	161	87
% shareholding		100%	

Source: Company, HSIE Research

The UK subsidiary, provides high-quality precision-forged components to the CV sector and industrial markets

TVS Upasana manufactures spokes and other automobile components.

Details about the subsidiaries

Name of the Company	Principal activities	Country of incorporation	Ownership interest held by the group	
			Mar-20	Mar-19
Subsidiary companies				
Sundram International Limited, UK	Non-trading holding company that holds investments in Cramlington Precision Forge Limited and Sundram Fasteners (Zhejiang) Limited	UK	100.0%	100.0%
Cramlington Precision Forge Limited, United Kingdom (wholly owned subsidiary of Sundram International Limited, UK)	Manufacture of precision forged (warm) components for application in heavy vehicles for on-highway and off-highway applications	UK	100.0%	100.0%
Sundram Fasteners (Zhejiang) Limited, China (wholly-owned subsidiary of Sundram International Limited, UK)	Manufacture of high tensile fasteners and bearing housings	China	100.0%	100.0%
TVS Upasana Limited, Chennai, India	Manufacture of spokes and nipples, automobile kits, dowels and rollers small screws, tools and cold extruded parts	India	100.0%	100.0%
TVS Next Limited, Chennai, India (formerly TVS Infotech Limited)	Software services	India	67.7%	67.7%
TVS Next Inc. USA (formerly TVS Infotec Inc. USA) (wholly owned subsidiary of TVS Next Limited, Chennai)	Software services	USA	67.7%	67.7%
Sundram Fasteners Investments Limited, Chennai, India	Financial services	India	100.0%	100.0%
Sundram Non-Conventional Energy Systems Limited, Chennai, India	Generation of power using other non-conventional sources	India	52.9%	52.9%
Sunfast TVS Limited, Chennai, India	Manufacture of parts for aerospace and defence.	India	100.0%	0.0%
TVS Engineering Limited, Chennai, India	Manufacture of parts for aerospace and defence.	India	100.0%	0.0%
Sundram International Inc, Michigan, USA	Supply of special fasteners to General Motors, USA	USA	100.0%	100.0%

Source: Company, HSIE Research

Sundram Fasteners product portfolio

High tensile fasteners

(Automotive, wind energy fasteners, Chassis fasteners)



Cold Extrusion parts

(Gear blanks, transmission shafts, Cams, starter sleeves and pinions, CV joint parts, fan hub)



Hot forged parts

(Crankshaft sprocket, connecting rods etc.)



Powertrain components

(Turbine shafts, output shafts, clutch hub, slip yoke)



Pumps and Assemblies

(Water pumps, oil pumps, mechanical fuel feed pumps, rocker assemblies, suspension & precision parts)



Metal caps & Nylon caps

(Regular OEM style caps, mini & micro-style caps, large diameter caps, Sombrero ratcheting caps, Dual O-ring caps, Dual O-ring mini caps)



Powder metallurgy

(Rotors and gears, synchroniser hubs, shock absorber components, valve train components, bushes, structural parts)



Financials

Consolidated Income Statement

(Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	32,549	33,029	38,549	45,579	37,232	31,671	36,767	42,257
<i>Growth (%)</i>	3.1	1.5	16.7	18.2	(18.3)	(14.9)	16.1	14.9
Material Expenses	13,216	12,411	14,922	18,568	15,256	13,143	15,295	17,494
Employee Expenses	4,576	3,770	4,130	4,593	4,349	3,484	3,677	4,099
Other Operating Expenses	10,916	10,957	12,683	14,413	11,699	10,261	11,508	13,100
Total Expenses	28,709	27,138	31,735	37,575	31,303	26,889	30,480	34,693
EBITDA	3,840	5,891	6,814	8,004	5,929	4,782	6,287	7,564
<i>EBITDA Margin (%)</i>	11.8	17.8	17.7	17.6	15.9	15.1	17.1	17.9
<i>EBITDA Growth (%)</i>	2.2	53.4	15.7	17.5	(25.9)	(19.3)	31.5	20.3
Depreciation	1,164	1,045	1,123	1,288	1,699	1,721	1,807	1,988
EBIT	2,676	4,846	5,690	6,717	4,230	3,061	4,480	5,576
Other Income (Including EO Items)	(559)	130	232	268	281	337	404	485
Interest	728	391	383	460	579	405	365	328
PBT	1,390	4,585	5,539	6,524	3,932	2,993	4,520	5,733
Tax (Incl Deferred)	139	1,203	1,658	1,935	666	599	1,040	1,330
Minority Interest	10	(7)	(16)	(15)	(16)	(15)	(13)	(14)
RPAT	1,260	3,375	3,866	4,575	3,249	2,379	3,467	4,389
EO (Loss) / Profit (Net Of Tax)	(1,059)	(17)	-	-	-	-	-	-
APAT	2,319	3,393	3,866	4,575	3,249	2,379	3,467	4,389
<i>APAT Growth (%)</i>	77	46	14	18	(29)	(27)	46	27
Adjusted EPS (Rs)	11.0	16.1	18.4	21.8	15.5	11.3	16.5	20.9
<i>EPS Growth (%)</i>	77	46	14	18	(29)	(27)	46	27

Source: Company, HSIE Research

Consolidated Balance Sheet

(Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS								
Share Capital - Equity	210	210	210	210	210	210	210	210
Reserves	9,326	12,151	15,101	18,490	19,749	20,467	22,708	25,414
Total Shareholders Funds	9,536	12,361	15,311	18,700	19,959	20,678	22,918	25,624
Minority Interest	95	68	75	78	84	99	112	126
Long Term Debt	1,757	1,500	2,181	3,396	3,250	3,413	3,242	3,242
Short Term Debt	3,871	4,697	3,827	6,391	5,510	5,526	5,389	5,359
Total Debt	5,629	6,197	6,008	9,787	8,760	8,939	8,631	8,601
Net Deferred Taxes	574	727	1,239	1,519	1,133	1,190	1,249	1,312
TOTAL SOURCES OF FUNDS	15,833	19,353	22,633	30,083	29,937	30,905	32,910	35,663
APPLICATION OF FUNDS								
Net Block	9,161	10,181	11,438	16,038	18,938	20,368	22,424	24,589
CWIP	551	733	1,147	1,040	1,023	886	801	724
Investments	352	387	752	741	442	461	480	500
Other Non-current Assets	866	1,771	2,001	2,219	1,546	1,701	1,871	2,058
Total Non-current Assets	10,930	13,071	15,337	20,038	21,949	23,417	25,576	27,871
Cash & Equivalents	292	422	387	274	484	261	499	464
Inventories	4,242	4,490	5,232	6,478	5,696	5,206	5,742	6,367
Debtors	5,413	6,541	7,936	8,869	6,510	6,074	6,346	7,178
Other Current Assets	1,142	752	982	1,373	861	947	1,042	1,146
Total Current Assets	11,089	12,206	14,537	16,995	13,552	12,488	13,629	15,156
Creditors	3,357	3,511	4,508	4,884	3,858	3,124	4,231	5,094
Other Current Liabilities & Provsns	2,829	2,413	2,734	2,066	1,706	1,876	2,064	2,270
Total Current Liabilities	6,186	5,925	7,241	6,949	5,564	5,000	6,295	7,364
Net Current Assets	4,903	6,281	7,295	10,045	7,988	7,488	7,334	7,791
TOTAL APPLICATION OF FUNDS	15,833	19,353	22,633	30,083	29,937	30,905	32,910	35,663

Source: Company, HSIE Research

Consolidated Cash Flow

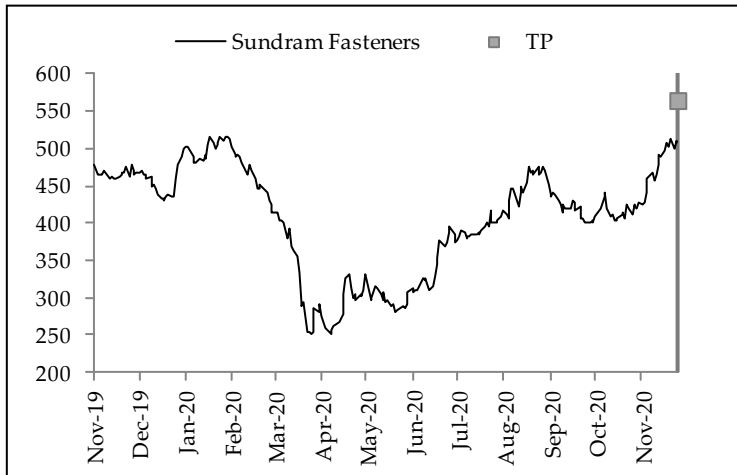
(Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	1,390	4,585	5,539	6,524	3,932	2,993	4,520	5,733
Non-operating & EO Items	559	(130)	(232)	(268)	(281)	(337)	(404)	(485)
Interest Expenses	728	391	383	460	579	405	365	328
Depreciation	1,164	1,045	1,123	1,288	1,699	1,721	1,807	1,988
Working Capital Change	1,220	(1,248)	(1,050)	(2,862)	2,267	(855)	23	(1,167)
Tax Paid	(466)	(1,051)	(1,146)	(1,654)	(1,052)	(542)	(980)	(1,268)
OPERATING CASH FLOW (a)	4,594	3,592	4,619	3,488	7,144	3,385	5,330	5,129
Capex	(470)	(2,247)	(2,795)	(5,781)	(4,581)	(3,016)	(3,777)	(4,076)
Free Cash Flow (FCF)	4,124	1,345	1,824	(2,293)	2,562	370	1,553	1,053
Investments	(490)	(939)	(595)	(208)	972	(174)	(189)	(207)
Non-operating Income	(559)	130	232	268	281	337	404	485
INVESTING CASH FLOW (b)	(1,519)	(3,056)	(3,158)	(5,720)	(3,329)	(2,852)	(3,561)	(3,798)
Debt Issuance/(Repaid)	(1,825)	569	(189)	3,779	(1,027)	178	(308)	(30)
Interest Expenses	(728)	(391)	(383)	(460)	(579)	(405)	(365)	(328)
FCFE	1,571	1,522	1,252	1,026	957	143	880	695
Share Capital Issuance	30	551	235	87	(953)	-	-	-
Dividend	(542)	(1,135)	(1,160)	(1,286)	(1,046)	(529)	(857)	(1,008)
FINANCING CASH FLOW (c)	(3,065)	(406)	(1,497)	2,120	(3,605)	(756)	(1,530)	(1,367)
NET CASH FLOW (a+b+c)	10	130	(35)	(112)	210	(223)	239	(35)
Closing Cash & Equivalents	292	422	387	274	484	261	499	464

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY (%)								
GPM	59.4	62.4	61.3	59.3	59.0	58.5	58.4	58.6
EBITDA Margin	11.8	17.8	17.7	17.6	15.9	15.1	17.1	17.9
EBIT Margin	8.2	14.7	14.8	14.7	11.4	9.7	12.2	13.2
APAT Margin	7.1	10.3	10.0	10.0	8.7	7.5	9.4	10.4
RoE	25.3	31.0	27.9	26.9	16.8	11.7	15.9	18.1
RoC (or Core RoCE)	14.8	20.7	19.4	18.2	11.9	8.2	10.9	12.7
RoCE	17.9	21.0	19.8	18.6	12.5	8.9	11.8	13.6
EFFICIENCY								
Tax Rate (%)	10.0	26.2	29.9	29.7	16.9	20.0	23.0	23.2
Fixed Asset Turnover (x)	3.6	3.2	3.4	2.8	2.0	1.6	1.6	1.7
Inventory (days)	47.6	49.6	49.5	51.9	55.8	60.0	57.0	55.0
Debtors (days)	60.7	72.3	75.1	71.0	63.8	70.0	63.0	62.0
Other Current Assets (days)	12.8	8.3	9.3	11.0	8.4	10.9	10.3	9.9
Payables (days)	37.6	38.8	42.7	39.1	37.8	36.0	42.0	44.0
Other Current Liab & Provns (days)	31.7	26.7	25.9	16.5	16.7	21.6	20.5	19.6
Cash Conversion Cycle (days)	51.7	64.7	65.4	78.2	73.6	83.3	67.9	63.3
Debt/EBITDA (x)	1.4	1.0	0.8	1.2	1.4	1.8	1.3	1.1
Net D/E (x)	0.6	0.5	0.4	0.5	0.4	0.4	0.4	0.3
Interest Coverage (x)	3.7	12.4	14.9	14.6	7.3	7.6	12.3	17.0
PER SHARE DATA (Rs)								
Adj. EPS	11.0	16.1	18.4	21.8	15.5	11.3	16.5	20.9
Adj. CEPS	11.5	21.0	23.7	27.9	23.6	19.5	25.1	30.4
Dividend	2.2	4.5	4.6	5.1	4.2	2.1	3.4	4.0
Adj. Book Value	45	59	73	89	95	98	109	122
VALUATION								
P/E (x)	45.7	31.2	27.4	23.1	32.6	44.5	30.5	24.1
P/BV (x)	11.1	8.6	6.9	5.7	5.3	5.1	4.6	4.1
EV/EBITDA (x)	29.0	19.0	16.4	14.4	19.3	24.0	18.1	15.1
EV/Revenues (x)	3.4	3.4	2.9	2.5	3.1	3.6	3.1	2.7
OCF/EV (%)	4.1	3.2	4.1	3.0	6.3	3.0	4.7	4.5
FCF/EV (%)	3.7	1.2	1.6	(2.0)	2.2	0.3	1.4	0.9
FCFE/Mkt Cap (%)	1.5	1.4	1.2	1.0	0.9	0.1	0.8	0.7
Dividend Yield (%)	0.4	0.9	0.9	1.0	0.8	0.4	0.7	0.8

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
25-Nov-20	504	ADD	565

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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