

SUNDRAM FASTENERS LTD

21 March 2018

CMP

INR 565

Initiating Coverage (BUY)

Target Price

INR 654

Stock Details

Industry	Auto Parts & Equipment
Bloomberg Code	SF:IN
BSE Code	500403
Face Value (Rs.)	1.00
Market Cap. (Rs. mn)	119,300.2
52wk. Low/High (Adjusted) (Rs.)	363.35/ 644.50

Shareholding Pattern Dec '17

Promoter (%)	49.53
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	50.47
No. of Share Outstanding (mn)	210,128

Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	29.18	35.09	32.00	30.00
EV/EBITDA (x)	8.39	19.59	17.82	16.78
P/BV (x)	3.82	9.56	8.16	7.09

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	32,610	35,291	38,802	42,313
EBITDA	4,462	6,119	7,069	7,854
Net Profit	1,230	3,412	3,964	4,582
EPS (Rs.)*	05.9	16.1	18.9	21.8

*Un adjusted

Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	13.4	17.3	18.0	18.4
EBIT Margin (%)	9.9	14.3	15.2	15.8
Net Pro. Margin (%)	3.7	9.6	10.1	10.7
Debt/Equity (x)	0.19	0.12	0.10	0.08
RoNW (%)	13.4	31.3	28.4	26.2
RoCE (%)	10.2	25.3	24.2	23.1

One Year Price / Volume

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We recommend 'BUY' on SUNDRAM FASTENERS LTD for a target of INR 654 - valuing the company at P/E 30x of FY19E Earning.

INVESTMENT RATIONALE:

- Sundram Fasteners is a flagship company of TVS Group.
- Manufacturer of automotive and engineering components
- First Indian company to be ISO 9000 certified. All operations are ISO 9000, IS 14001 & TS 16949 certified.
- Sundram Fasteners has a diversified product line, world-class facilities in 4 countries and motivated team of talented people
- Sundram Fasteners has become a supplier of choice to leading customers in the automotive and industrial segments worldwide.
- At Sundram Fasteners, growth is a natural outcome of total adherence to three core operating principles: customer orientation, total quality and ethical business practices. Focus on increasing presence in higher margin products.
- Sundram has incurred Rs 800 crore on capital expenditure and now has an extensive tool library helping develop customised solutions for customers.
- The company has been consistently increasing export revenues.

VALUATIONS AND VIEW:

At Sundram Fasteners, growth is a natural outcome of total adherence to three core operating principles: customer orientation, total quality and ethical business practices. Focus on increasing presence in higher margin products. Sundram Fasteners Limited has grown into a global leader, manufacturing critical, high precision components for the automotive, infrastructure, windmill and aviation sectors. **We value the business at 30x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 654 per share.**

RISK & CONCERNS:

The Company faces diverse risks in terms of slowdown in economy, input prices, reputation, interest rates, foreign exchange, information systems, etc. The auto component industry has been operating in a challenging environment due to uncertainties and demand fluctuations in the economy in general and in particular automotive industry. The Company manages its risks in the following manner:-

- Exercising prudence while incurring capital expenditure or outlays on new projects.
- Entering into long term contracts with customers to underwrite the capacities created.
- Determination of product prices after engineering studies.
- Adoption of a diversified business model in terms of products, market segments, geography and customers to ensure that Company is able to withstand any instability in the entire business eco-system.
- Analysing credit risks through market feedbacks.
- Management of interest rate risks through a combination of loan products, tenor of financing and currency denomination.
- Monitoring, reviewing and hedging foreign exchange risks in accordance with the risk management policy.

COMPANY BACKGROUND:

Started in 1966, Sundram Fasteners Limited has grown into a global leader, manufacturing critical, high precision components for the automotive, infrastructure, windmill and aviation sectors. Our varied range of products encompasses fasteners, powertrain components, sintered metal parts, iron powder, cold extruded parts, radiator caps and wind energy components. An unwavering focus on delivering quality has won Sundram Fasteners Limited the trust of both OEM and aftermarket customers in highly competitive markets like India, China, Germany, USA, UK, Italy, France and Brazil.

Sundram Fasteners Limited is part of the TVS Group of companies. Founded in 1911 by T.V. Sundaram Iyengar, TVS has grown rapidly, expanding its portfolio to become India's largest automotive component manufacturer. The group has, over the years, diversified into many businesses, with total sales exceeding USD 7 billion.

Products:

- High Tensile Fasteners
- Cold Extruded Parts
- Hot Forged Parts
- Powertrain Components
- Pumps and Assemblies
- Radiator Caps
- Power Metallurgy

INDUSTRY OVERVIEW:

The Indian auto-components industry has experienced healthy growth over the last few years. Some of the factors attributable to this include: a buoyant end-user market, improved consumer sentiment and return of adequate liquidity in the financial system. The auto-component industry of India has expanded by 14.3 per cent because of strong growth in the after-market sales to reach at a level of Rs 2.92 lakh crore (US\$ 44.90 billion) in FY 2016-17. The auto-components industry accounts for almost seven per cent of India's Gross Domestic Product (GDP) and employs as many as 25 million people, both directly and indirectly. A stable government framework, increased purchasing power, large domestic market, and an ever increasing development in infrastructure have made India a favourable destination for investment.

The Indian automotive aftermarket is expected to grow at a CAGR of 10.5 per cent and reach Rs 75,705 crore (US\$ 13 billion) by the year 2019-20, according to the Automotive Component Manufacturers Association of India (ACMA). These estimates are in sync with the targets of the Automotive Mission Plan (AMP) 2016-26.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div. Yld (%)	NP Qtr. (Rs Cr)	Qtr. Profit Var (%)	Sales Qtr. (Rs Cr)	Qtr. Sales Var (%)	CMP/BV
Motherson Sumi	307	27.3	64,558.7	0.43	561.7	2.88	14,397.9	35.94	6.60
Bosch	166	20.3	53,457.2	0.94	281.0	28.79	3,071.9	14.08	5.24
Exide Inds.	210	26.6	17,867.0	1.14	154.3	1.81	2,276.5	32.74	3.28
TI Financial	663	22.1	12,439.7	0.19	157.2	50.72	886.7	26.04	3.90
Amara Raja Batt.	775	28.7	13,241.4	0.56	134.5	19.70	1,553.5	17.07	4.48
Sundaram Clayton	4,810	36.5	9,731.5	0.65	NaN	NaN	NaN	NaN	5.20
Sundram Fasteners	565.0	32.0	11,872.2	0.80	91.7	21.66	848.1	19.92	9.56

*TTM

FINANCIAL OVERVIEW

Q4 FY17 Performance Highlight							
(in Million)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	YoY (%)	QoQ (%)
Revenue	7,093.20	8,311.90	8,417.40	8,137.20	8,481.30	19.57%	4.23%
Other Income	56.5	3.7	88.2	59.8	9.8		
Total Income	7,149.70	8,315.60	8,505.60	8,197.00	8,491.10	18.76%	3.59%
Expenditure	-5,793.50	-6,967.30	-7,005.30	-6,737.00	-6,982.20		
<i>As a % of Sales</i>	81.68%	83.82%	83.22%	82.79%	82.32%		
Interest	-109.8	-61.4	-62.9	-134.8	-4.8	-95.63%	-96.44%
PBDT	1246.4	1348.3	1500.3	1460	1508.9		
<i>As a % of Sales</i>	17.57%	16.22%	17.82%	17.94%	17.79%		
Depreciation	-220	-189.2	-248.1	-238.2	-242.7		
PBT	1026.4	1159.1	1252.2	1221.8	1266.2	23.36%	3.63%
<i>As a % of Sales</i>	14.47%	13.95%	14.88%	15.01%	14.93%		
Tax	-273	-282.5	-350.5	-317.5	-349.6	28.06%	10.11%
Net Profit	753.4	876.6	901.7	904.3	916.6	21.66%	1.36%
<i>As a % of Sales</i>	10.62%	10.55%	10.71%	11.11%	10.81%		
Equity	210.1	210.1	--	210.1	210.1	0.00%	0.00%
EPS (Rs)	3.59	4.17	4.29	4.3	4.36	21.45%	1.40%
CEPS (Rs)	4.63	5.07	--	5.44	5.52		
OPM %	19.12	16.22	17.82	17.94	17.79		
NPM %	10.62	10.55	10.71	11.11	10.81		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	27,362	31,561	32,610	35,291	38,820	42,313	45,698
Other Operating Income	488	167	609	157	449	423	510
Expenditure	24,466	27,803	28,757	29,328	32,199	34,882	37,481
EBITDA	3,384	3,925	4,462	6,119	7,069	7,854	8,727
Depreciation	1,021	1,158	1,172	1,045	1,086	1,088	1,090
EBIT	2,363	2,768	3,290	5,074	5,983	6,766	7,638
Interest Expenses	676	945	717	465	682	651	753
PBT	1,687	1,823	2,573	4,609	5,301	6,115	6,885
Tax	478	504	177	1,203	1,372	1,570	1,758
Extraordinary Items	(1)	0	(1,177)	(24)	-	-	-
Net Income Before Adjustment	1,208	1,319	1,219	3,382	3,929	4,545	5,127
Minority Int./Income from Assoc.	(0)	7	(10)	(30)	(35)	(38)	(41)
Adjusted PAT	1,208	1,312	1,230	3,412	3,964	4,582	5,168

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	232	334	334	210	210	210	210
Reserves & surplus	7,804	8,578	9,090	12,151	15,272	19,128	23,476
Share Warrants	17	(19)	(30)	56	56	56	56
Net worth	8,053	8,892	9,395	12,418	15,538	19,394	23,742
Minority Interest	-	-	-	-	-	-	-
Loan Funds	2,471	2,039	1,820	1,500	1,502	1,500	1,498
Net deferred tax liability	966	901	923	724	724	724	724
Other Long-term Liabilities	1	-	-	91	100	109	118
Long-term Provisions	35	49	61	62	68	74	80
Total Liabilities	11,526	11,882	12,200	14,797	17,934	21,804	26,165
Net block	10,475	10,406	9,927	10,903	9,916	8,926	7,933
Investment, Loan & Adv.	584	728	1,139	1,673	1,831	1,412	1,673
Total Current Assets	10,577	12,277	11,061	12,701	15,906	21,962	27,748
Current Liabilities & Provisions	10,110	11,530	9,929	10,482	9,719	10,498	11,191
Net Current Assets	466	748	1,133	2,219	6,186	11,463	16,557
Total Assets	11,526	11,882	12,200	14,797	17,934	21,804	26,165

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	2,473	3,073	5,421	6,075
Cash Flow from Investments	(2,358)	(257)	320	(357)
Cash Flow from Financing	7	(818)	(904)	(1,113)
Net Changes in Cash	121	1,998	4,838	4,606
Opening Cash	250	371	2,369	7,207
Closing Cash Balance	371	2,369	7,207	11,812

Research Analyst Details

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