

SAMKRG PISTONS AND RINGS LTD

09 January 2017

Initiating Coverage (BUY)

CMP

INR 191

Target Price

INR 263

Stock Details

Industry	AUTO PARTS & EQUIPMENT
Bloomberg Code	SKRG:IN
BSE Code	520075
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	1718.6
52wk. Low/High (Adjusted) ((Rs.)	125.00/256.00

Shareholding Pattern sept '16

Promoter (%)	66.88
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	33.12
No. of Share Outstanding (mn)	9.82

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	29.63	11.88	12.00	13.00
EV/EBITDA (x)	10.76	5.22	5.27	5.47
P/BV (x)	4.31	2.02	4.45	3.72

*TTM for Current Year

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

Key Financial

Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	2,325	2,452	2,550	2,678
EBITDA	339	357	419	440
Net Profit	123	157	184	198
EPS (Rs.)*	12.5	16.0	18.7	20.2

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	14.6	14.5	16.4	16.4
EBIT Margin (%)	9.6	9.8	11.5	11.5
Net Pro. Margin (%)	5.3	6.4	7.2	7.4
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	15.4	17.7	25.9	33.4
RoCE (%)	11.7	14.8	15.5	14.4

One Year Price / Volume



We recommend 'BUY' on SAMKRG PISTONS AND RINGS for a target of INR 263 - valuing the company at P/E 13x of FY18E Earning.

INVESTMENT RATIONALE:

- Strong relationship with large customers
- High profitability and revenue
- Existing distribution and sales networks
- Experienced business unit
- Regular dividend paying company since its inception
- Strong markets and maintained profitability in economic downturns making its business units better leaders in their niche markets.
- Aggressively pursuing new strategies will facilitate growth and leverage profitable customer relationships.
- Offering reliability and performance in the most arduous operating conditions.
- Great opportunities because of valued customers both in domestic OEM's and replacement market and exports.
- Focusing to increase its exports to developed countries like Europe, UK, France, Germany, Brazil, and Russia.

VALUATIONS AND VIEW:

It is engaged in the manufacture of pistons and piston rings used in two-wheeler, three-wheeler, four-wheelers and internal combustion engines. Manufacturing & marketing of good value, high quality and cost effective products meeting domestic and international customer quality requirements. We value the business at 13x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 263 per share.

RISK & CONCERNS:

- **Raw material prices:** Ours is a continuous high volume manufacturing industry. Our profitability will depend on change in the price in raw materials and input costs.
- **Exchange rate fluctuations:** Being a global player, movement in the foreign exchange rate affect the results of our operations, cash flows, liquidity and financial condition.
- **Competition and Price Pressure:** The Company is facing stiff competition in the segments of OEMs and aftermarket as well as price pressure from the OEMs which playing major roll on the profitability of the company.

COMPANY BACKGROUND:

Samkrig Pistons & Rings Ltd. was incorporated on March 30, 1985 at Hyderabad as a public limited company and obtained the Certificate of Commencement of Business on July18, 1985. The company is engaged in the manufacture of pistons and piston rings used in two-wheeler, three-wheeler, four-wheelers and internal combustion engines.

Samkrig's technological and research capacity in terms of professional skills and resources enables manufacture of advanced pistons, piston pins / gudgeon pins, piston rings & circlips to endure higher thermal and mechanical loads. This is critical to engines being more powerful, efficient and less polluting. Manufacturing & marketing of good value, high quality and cost effective products meeting domestic and international customer quality requirements.

The company entered into a technical collaboration agreement with Cheng Shing Piston Co. Ltd. Taiwan (Cheng Shing) to manufacture pistons and piston rings. Under the agreement valid for six years from the date of commencement of commercial production the collaborators were to provide updated technology for casting machining and finishing of pistons and manufacture of piston pins. The agreement also covers supply of designs drawings and specifications of plant and machinery.

Products-

- Pistons
- Rings
- Pins
- Testing facilities

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-components industry accounts for almost seven per cent of India's Gross Domestic Product (GDP) and employs as many as 19 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.

Over the last decade, the automotive components industry has scaled three times to US\$ 39 billion in 2015-16 while exports have grown even faster to US\$ 10.8 billion. This has been driven by strong growth in the domestic market and increasing globalisation (including exports) of several Indian suppliers. The Indian Auto Component industry is expected to grow by 8-10 per cent in FY 2017-18, based on higher localisation by Original Equipment Manufacturers (OEM), higher component content per vehicle, and rising exports from India, as per ICRA Limited.

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
Bosch	19,314	32.9	58,948.5	0.45	703.7	79.20	2,611.5	9.66	6.29
Motherson Sumi	166	20.3	659.0	0.73	479.9	26.44	10,136.9	14.26	5.24
Exide Inds.	173	20.8	14,713.5	1.39	NaN	NaN	NaN	NaN	3.44
Amara Raja Batt.	887	29.6	15,152.8	0.48	136.3	10.44	1,345.5	16.89	6.40
Tube Investments	560	22.0	10,487.2	0.89	725.6	41.51	1,710.8	(28.48)	3.15
Sundram Fasten.	277	18.6	5,810.3	0.78	76.9	82.47	738.2	11.80	4.97
Sundaram Clayton	2,811	11.0	1,865.8	1.46	NaN	NaN	NaN	NaN	4.31
Samkrg Pistons	181	11.9	-	NaN	5.2	10.76	66.3	6.62	0.15

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	62.20	60.09	64.83	64.18	66.32	6.62%	3.33%
Other Income	0.03	0.04	0.3	0.06	0.05		
Total Income	62.23	60.13	65.12	64.25	66.37	6.65%	3.30%
Expenditure	-52.48	-50.80	-58.05	-53.54	-55.96		
<i>As a % of Sales</i>	<i>84.37%</i>	<i>84.54%</i>	<i>89.54%</i>	<i>83.42%</i>	<i>84.38%</i>		
Interest	-0.51	-0.31	0	-0.45	-0.35	-31.37%	-22.22%
PBDT	9.24	9.02	7.07	10.25	10.06		
<i>As a % of Sales</i>	<i>14.86%</i>	<i>15.01%</i>	<i>10.91%</i>	<i>15.97%</i>	<i>15.17%</i>		
Depreciation	-2.8	-3	-3.21	-3	-3		
PBT	6.44	6.02	3.87	7.25	7.06	9.63%	-2.62%
<i>As a % of Sales</i>	<i>10.35%</i>	<i>10.02%</i>	<i>5.97%</i>	<i>11.30%</i>	<i>10.65%</i>		
Tax	-1.7	-1.6	-1.56	-2.28	-1.85	8.82%	-18.86%
Net Profit	4.74	4.42	2.31	4.98	5.21	9.92%	4.62%
<i>As a % of Sales</i>	<i>7.62%</i>	<i>7.36%</i>	<i>3.56%</i>	<i>7.76%</i>	<i>7.86%</i>		
Equity	9.82	9.82	9.82	9.82	9.82	0.00%	0.00%
EPS (Rs)	4.83	4.5	2.35	5.07	5.3	9.73%	4.54%
CEPS (Rs)	7.68	7.55	5.62	8.12	8.35		
OPM %	15.67	15.52	10.91	16.67	15.69		
NPM %	7.62	7.35	3.56	7.75	7.85		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	1,993	1,734	2,056	2,325	2,452	2,550	2,678
Other Operating Income	-	-	-	-	-	-	-
Expenditure	1,674	1,431	1,758	1,986	2,097	2,135	2,241
EBITDA	319	304	299	339	355	415	436
Depreciation	105	103	105	116	117	126	133
EBIT	214	200	194	223	238	290	303
Interest Expenses	46	76	47	46	16	33	26
PBT	168	124	147	177	222	256	277
Tax	60	41	48	55	67	77	82
Other Income	10	3	2	3	4	4	4
Extraordinary Items	-	-	7	(2)	(2)	-	-
Net Income Before Adjustment	118	87	107	123	157	184	198
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	118	87	107	123	157	184	198

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	98	98	98	98	98	98	98
Reserves & surplus	531	578	656	749	824	397	595
Share Warrants	-	-	-	-	-	-	-
Misc. Expenditure	-	-	-	-	-	-	-
Net worth	629	676	755	848	922	495	693
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	169	140	142	0	0	-	(2)
Net deferred tax liability	11	13	17	20	24	24	24
Other Long-term Liabilities	166	154	131	117	98	129	135
Long-term Provisions	26	29	33	42	50	52	55
Total Liabilities	1,000	1,013	1,078	1,030	1,095	702	908
Net block	982	1,037	1,005	1,012	1,062	1,071	1,079
Investment, Loan & Adv.	17	22	20	22	26	24	26
Total Current Assets	627	547	557	488	611	602	803
Current Liabilities & Provisions	626	593	505	494	605	997	1,002
Net Current Assets	1	(47)	52	(6)	6	(395)	(199)
Total Assets	1,000	1,013	1,078	1,030	1,095	702	908

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	316	253	138	337
Cash Flow from Investments	(268)	(170)	(132)	(143)
Cash Flow from Financing	(70)	(82)	(18)	(18)
Net Changes in Cash	(22)	1	(12)	176
Opening Cash	-	5	6	(6)
Closing Cash Balance	(22)	6	(6)	170

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1.Analyst ownership of the stocks mentioned above	No
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