



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

RESEARCH REPORT

7th Sept 2017

SUNDRAM FASTENERS LIMITED

NSE : SUNDRMFAST

Sector: AUTO COMPONENTS

BSE: 500403

View - BUY

CMP : Rs. 436

Target Price: Rs 600 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Sundram Fasteners Ltd, (SFL) a TVS Group company is one of the leading auto component manufacturers in India. SFL's product range includes high-tensile fasteners, powder metal components, cold extruded parts, hot forged components, radiator caps, automotive pumps, gear shifters, gears and couplings, and iron powder.

SFL has 10 manufacturing plants in Tamil Nadu and one each in Andhra Pradesh Pondicherry and Uttarakhand. Apart from this SFL has subsidiaries operating in China, UK and Germany.

INVESTMENT HIGHLIGHTS

Steady Financials for SFL as on Q1 FY18 –

SFL reported a steady set of Q1FY18 numbers with net sales up by 11% YoY to Rs 788.82 crs, with EBIDTA placed at Rs 156.32 crs from Rs 139.96 crs in Q1 last year. The PAT in Q1 FY18 grew by 19% YoY to Rs 90.17 crs as compared to Rs 75.55 crs in Q1 last year.

For FY17 the company has recorded net sales of Rs 3290 crs, a EBIDTA of Rs 596.2 crs and a PAT of Rs 341.15 crs from Rs 125.08 crs last year. SFL has paid a dividend of 450% for FY17

SFL is a Tier 1 vendor and enjoys marquee customers –

SFL is one of the largest domestic fastener and auto components player catering to a wide spectrum of customers in the Commercial Vehicle, Multi Utility vehicle segment, Two Wheeler segment, Tractors and Passenger Car segments.

Some key large customers include TAMO, M & M, Ashok Leyland, Bajaj Auto, TVS Motors, Hero Motorcorp, Eicher Motors, Volvo and Swaraj Engines.

Additionally in the export market SFL is a tier 1 approved vendor with Ford globally and many other large global OEMs where in exports account for around 32% of SFLs turnover with exports totaling Rs 1044 crs in FY17.

KEY DATA

FACE VALUE	Rs	1.00
DIVID YIELD %		1.03
52 WK HI/LOW		468/262
NSE CODE		SUNDRMFAST
BSE CODE		SUNDRMFAST
MARKET CAP		RS 9135 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	50%
BANKS, MFs & DIs	-	17%
FIs	-	3%
PUBLIC	-	30%

KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	14	15	15
EBIDTA Gr%	15	16	16
PAT Gr%	13	15	18
EPS Gr%	13	15	18
EPS (Rs)	18	21	25
ROE %	28	26	25
ROCE %	22	23	23
P/E(x)	24	20	17



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SFL plans to focus on Non Auto Business also –

SFL has set up facilities at Mittamandagapet in Tamil Nadu for the manufacture of fasteners for use in Wind Energy Generators with an initial investment of Rs. 30 crs. Currently, a substantial portion of the demand of Indian Wind-turbine manufacturers is met through imports. Global demand for fasteners for Wind Energy industry will be quite high considering the emphasis being placed on generation of clean power. Work on SFL's project for manufacture of sprockets at the factory at SEZ, Maraimalainagar at an initial investment of Rs. 25 cr has also started since last year.

SFL enjoys a monopoly in its traditional fastener business with most OEM clients – SFL which enjoys a 70% market share in the fastener business will expand capacities further in the manufacture of sintered metal products, hubs and shafts and fasteners. It also proposes to add secondary capacities to develop new products for its customers and expand wherever necessary to meet requirements of the customers

During FY17, SFL has incurred Rs 200.44 crs towards capital expenditure on existing and new projects. It proposes to expand capacities further in the manufacture of some of its product-lines based on long term contracts with its existing customers. SFL also proposes to add secondary capacities to develop new products for its customers. The total capital expenditure commitments during the next 2 years is likely to be around Rs 250 crs. During last 2 years SFL has started bulk supply of shimless tappets to Maruti-Suzuki India Ltd for use in their new K-series engines.

Exports are also a plus point for SFL –

Exports in the last 8 years have shown a steady increase for SFL from Rs 332 crs in FY10 to Rs 1044 crs in FY17 accounting for around 32% of overall revenues as on FY17. Key markets for SFL's exports include the US, Europe, Middle East and other Asian markets. We expect that for FY18 exports should total around Rs 1200 crs.

Overall profit margins to expand as SFL captures incremental margins once a macro recovery starts –

SFL has a strong exposure on the domestic Commercial Vehicle, Passenger Cars, Two Wheeler & Tractor sectors with large customers like Tata Motors, Mahindra & Mahindra & Maruti, Hero Motor Corp and TVS. SFL offers several products in the High Tensile Fastener segment which covers sectors like Wind Energy, Automotive and Aerospace. It also manufactures cold extruded parts like gear blanks, transmission shafts, CV Joints and Fan Hubs.

SFL's Hot forgings unit specialises in the manufacture of Crankshafts Sprockets, stainless steel turbocharger parts, connecting rods, and Bevel Gears. It also supplies power train components like turbine shafts, output shafts, sun gear shafts and slip yokes.

SFL also makes pumps and assemblies used in passenger cars, HCVs, Tractors, off road vehicles, forklifts, marine engines, power generation engines and tws. Products here include water pumps, oil pumps, camshafts, suspension and precision parts, rocker assemblies and manual and mechanical fuel feed pumps. Also SFL is a well established supplier of radiator caps and power metallurgy parts to several large OEMs in India. We hence believe that once the Indian economy starts recovering, SFL is likely to see a big traction from its industrial customers apart from its bread and butter automotive customers which will help it achieve a higher operating leverage with its existing capacity.



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SFL enjoys a strong balance sheet and both Topline and Bottomline growth is likely to remain steady going ahead –

SFL enjoys a strong balance sheet with reasonable debt of around Rs 619 crs on the balance sheet as on FY17 as compared to a tangible networth of Rs 1236 crs as on March 2017.

More Importantly both key operating parameters like ROCE, ROE are placed around 22% and 27% respectively which we believe look attractive but which are likely to remain stable despite the higher volume base as volume growth improves further.

We expect that going ahead overall bottomline growth in the next 2 years starting FY17 onwards should easily touch 15-17% and with reasonable debt and healthy cash flows being generated we expect the company to fund its expansion plans largely from internal accruals making the capital structure healthy. Our expectation is that ROCE and ROE by FY19E and FY20E should touch 22% and 23% and 26% and 25% respectively

What is SFL's key USP and strong competitive edge vis a vis other players

Firstly SFL is a large player in the domestic fastener segment enjoying the patronage of large OEM customers

Secondly this is reflected from the fact that top 5 customers account for 50% of its revenues.

Thirdly these customers have been doing business with SFL since the last 5 years indicating strong product quality acceptance from them

Also SFL is a trusted vendor addressing evolving customer needs both in the domestic and export markets.

Exports accounted for 32% of revenues in 2016-17 and key markets for SFL's exports include the US, Europe, Middle East and other Asian markets



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Revenue is expected to touch Rs 3750 crs.

On the bottomline level we expect the company to record a PAT of Rs 387 crs in FY18E. Thus on a conservative basis, SFL should record a EPS of Rs 18.5 for FY18E. For FY19E and FY20E our expectation is that earnings traction for SFL will be strong and remain attractive wherein we expect a EPS of Rs 21 and Rs 25 respectively.

SFL which enjoys a 70% market share in the fastener business will expand capacities further in the manufacture of sintered metal products, hubs and shafts and fasteners. It also proposes to add secondary capacities to develop new products for its customers and expand wherever necessary to meet requirements of the customers

More importantly SFL's capital structure as on March 2017 is very strong with a very lean debt to equity structure of 0.42:1 as on Mar 2017.

Hence looking at SFL's dominant market position, strong management bandwidth and excellent R & D skillsets coupled with a healthy balance sheet make us confident that the stock will soon get re rated looking at its future prospects.

The SFL stock trades at a P/E of 20x and 17x based on FY19E and FY20E, which looks attractive considering its strong execution capability, consistent financial track record, strong operating margins and leadership position in the fasteners business segment.

Hence we believe that the SFL stock should be purchased at the current price for a price target of around Rs 600 over the next 12 to 18 months.

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FINANCIALS

For the Year Ended March RsCr	FY17A	FY18E	FY19E	FY20E
Net Sales	3290.01	3750.61	4313.20	4960.18
EBIDTA	596.2	686.36	797.94	922.59
EBIDTA %	18.12	18.30	18.50	18.60
Interest	46.51	44.00	41.00	40.00
Depreciation	104.48	125.1	140.00	162.00
Non Operational Other Income	15.68	15.00	15.00	15.00
Profit Before Tax	458.52	532.26	631.94	735.59
Profit After Tax	341.15	387.1	445.2	525.3
Diluted EPS (Rs)	16.24	18.42	21.19	25.00
Equity Capital	21.01	21.01	21.01	21.01
Reserves	1215.11	1507.21	1852.41	2277.71
Borrowings	619.45	584.45	559.45	559.45
GrossBlock	1087.00	1197.00	1322.00	1472.00
Investments	29.58	29.58	29.58	29.58

Source Company our Estimates

KEY CONCERNS

Loss of Major Customers

Slowdown in the Automobile sector

Volatility of foreign exchange rates can impact SFL's profits negatively as the company is a large exporter.

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CONTACT DETAILS

Mr. Avinash Gorakshakar (Research Head)	Tel.: 4033 4766,	Email: avinashg@joindre.com
Mr. Vikas Khandelwal (Research Sr. Executive)	Tel.: 4033 4900	Email: vikas@joindre.com

COMPLIANCE TEAM

Mr. A. P. Shukla (President & COF)	Tel.: 4033 4723	Email: shuklaap@joindre.com
Mrs. Sujata Poojary (Sr. Executive)	Tel. : 4033 4567	Email: compliance@joindre.com
Mrs. Nikita Shah (Sr. Executive)	Tel. : 4033 4567	Email: compliance@joindre.com