

### Growth momentum continues

Sterling tools (STRT) number were broadly in line with estimates. Margins on a sequential basis have started showing signs of improvement at gross level. Considering that raw material pressure has been easing, we expect margins to remain stable / expand from current levels. This will be driven by increase in proportion of specialized fasteners. With capacity expansion on schedule, we believe that STRT will continue to grow on revenue front with strong margins. Effort to expand customer base will also augur well in long term. Considering the market outlook and increase in risk free rate, we have adjusted PER accordingly. We continue to like the story on a structural basis and reiterate BUY with a target price of ₹ 413.

### Growing faster than Automobile Industry

STRT has outperformed the overall automobile industry growth on the top line growth front and the same is expected to continue. We expect the Indian automobile industry to grow at 8-10% and expect the STRT to grow ahead at 10-12% on the back of increasing content per vehicle and higher demand on premium products. Due to the consumer shift on premium automobile products, the penetration of specialized fasteners is expected to improve, giving better realizations on favorable product mix and higher margins.

### Softening raw material prices

RM prices have been easing in the last couple of months. The margins are also expected to improve due to increasing specialized fasteners and economies of scale. We expect STRT to show better margins for the overall year FY19.

### Valuation

With the new addition of the products, new greenfield plant coming up by Q1FY20, faster than industry growth rate and expected margin improvement along with strong return ratios, we believe that STRT is a compelling story. We reiterate BUY with a target price of 413.

### Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	1,393	1,158	20.3	1,313	6.2
Total Expense	1,126	889	26.7	1,060	6.2
EBITDA	267	269	(0.7)	252	5.9
Depreciation	46	43	6.2	46	1.3
EBIT	221	226	(2.0)	207	6.9
Other Income	17	14	17.2	19	(9.8)
Interest	7	9	(25.6)	7	(5.7)
EBT	231	231	(2.0)	218	5.9
Tax	79	84	(5.8)	78	1.3
RPAT	152	147	3.5	140	8.4
APAT	152	147	3.5	140	8.4
			(bps)		(bps)
Gross Margin (%)	59.4	64.4	(493)	59.0	42
EBITDA Margin (%)	19.2	23.2	(406)	19.2	(5)
NPM (%)	10.9	12.7	(178)	10.7	23
Tax Rate (%)	34.1	36.3	(215)	35.7	(154)
EBIT Margin (%)	15.9	19.5	(362)	15.8	11

CMP	₹350
Target / Upside	₹413 / 18%
BSE Sensex	35,457
NSE Nifty	10,682

### Scrip Details

Equity / FV	₹72mn / ₹ 2
Market Cap	₹13bn
	US\$ 176mn
52-week High/Low	₹ 478/₹ 307
Avg. Volume (no)	11,843
NSE Symbol	STERTOOLS
Bloomberg Code	STRT IN

### Shareholding Pattern Sep'18(%)

Promoters	65.3
MF/Banks/FIs	6.7
FII	0.0
Public / Others	28.0

### Valuation (x)

	FY18A	FY19E	FY20E
P/E	25.9	21.1	17.0
EV/EBITDA	13.8	11.2	9.1
ROE (%)	24.2	23.6	25.7
RoACE (%)	19.1	20.8	23.4

### Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	4,529	5,374	6,156
EBITDA	907	1,114	1,349
PAT	487	597	741
EPS (Rs.)	13.5	16.6	20.6

VP Research: Priyank Chandra

Tel: +91 22 40969737

E-mail: priyank@dolatcapital.com

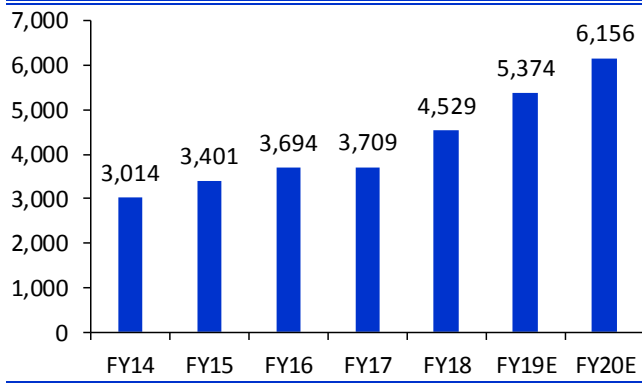
Associate: Kushal Shah

Tel: +91 22 40969768

E-mail: kushals@dolatcapital.com

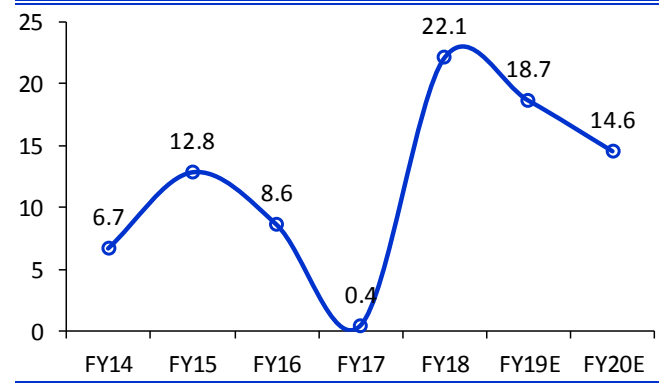
## Annual Charts

**Exhibit 1: Revenue (₹ Mn)**



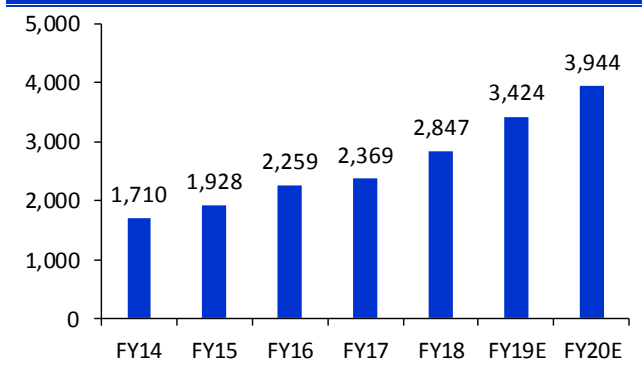
Source: DART, Company

**Exhibit 2: Revenue Growth (%)**



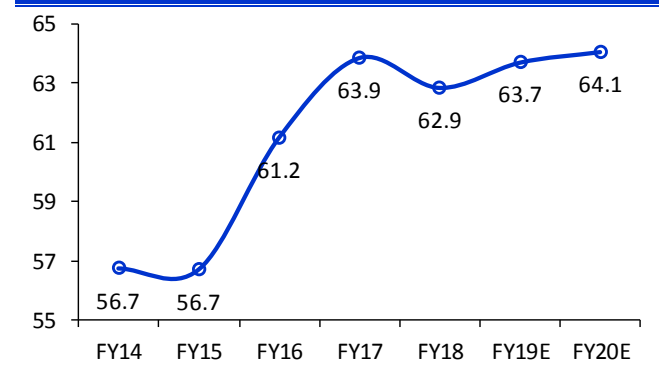
Source: DART, Company

**Exhibit 3: Gross Profit (₹ Mn)**



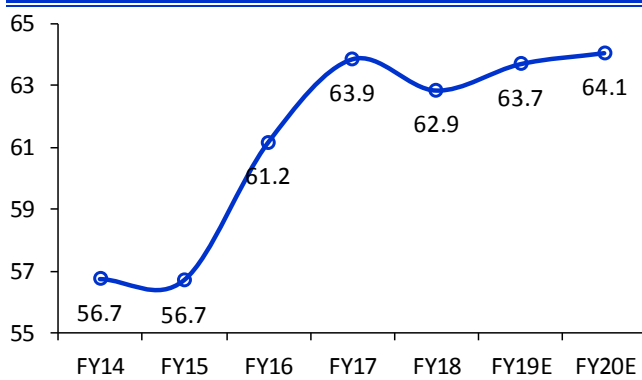
Source: DART, Company

**Exhibit 4: Gross Margin (%)**



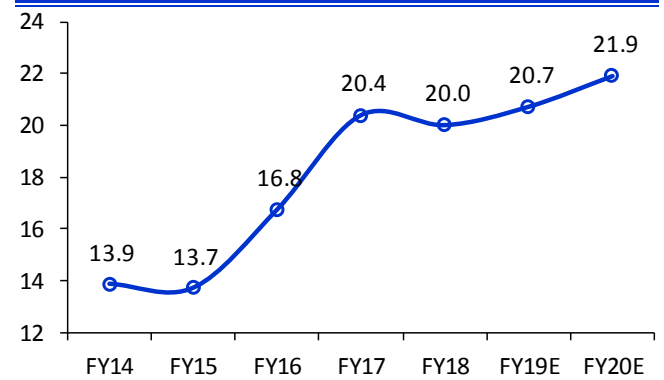
Source: DART, Company

**Exhibit 5: Operating Profit (₹ Mn)**

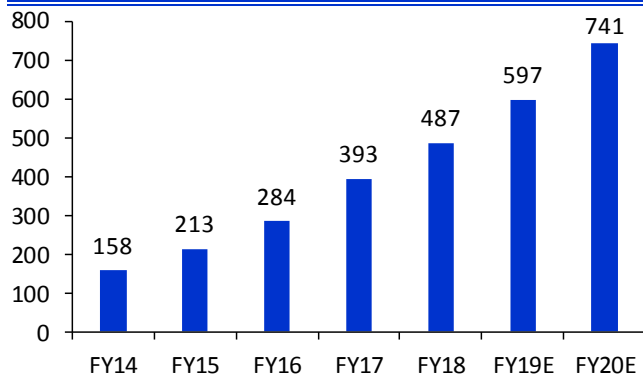


Source: DART, Company

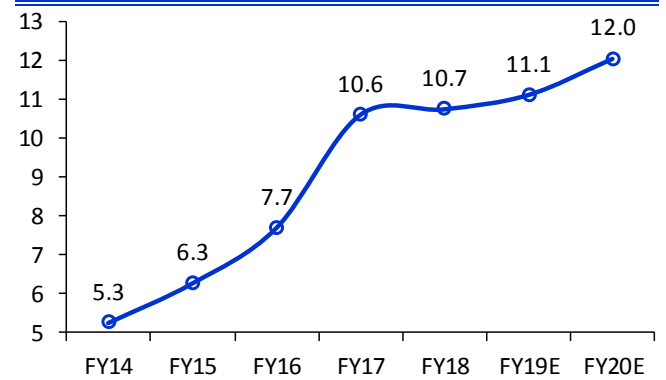
**Exhibit 6: Operating Margin (%)**



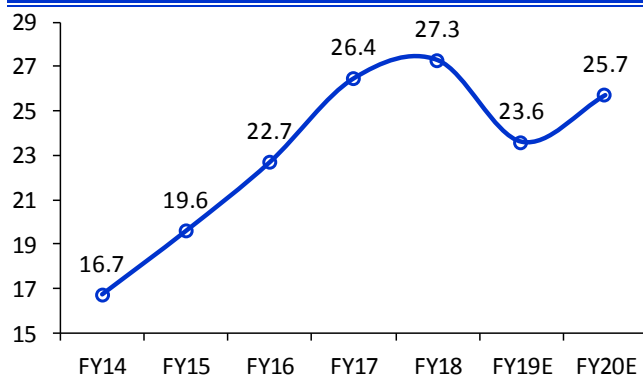
Source: DART, Company

**Exhibit 7: Net Profit (₹ Mn)**


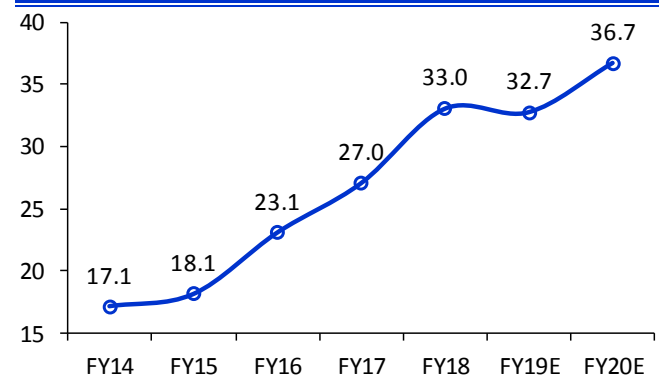
Source: DART, Company

**Exhibit 8: Net Margin (%)**


Source: DART, Company

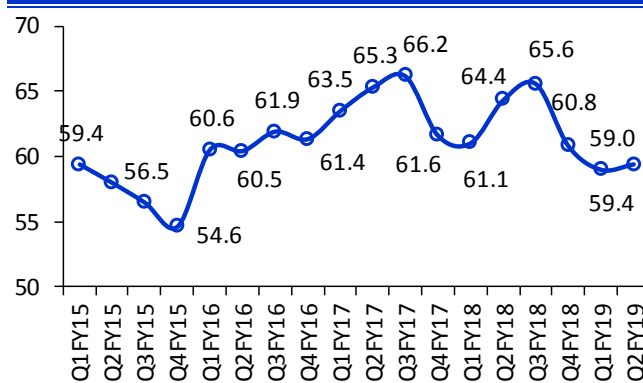
**Exhibit 9: ROE (%)**


Source: DART, Company

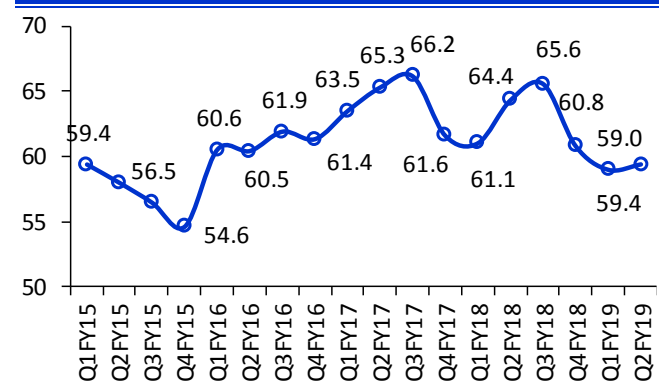
**Exhibit 10: ROCE (%)**


Source: DART, Company

## Quarterly Charts

**Exhibit 11: Gross Margin (%)**


Source: DART, Company

**Exhibit 12: Operating Margin (%)**


Source: DART, Company

**Profit and Loss Account**

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
<b>Revenue</b>	<b>3,709</b>	<b>4,529</b>	<b>5,374</b>	<b>6,156</b>
<b>Total Expense</b>	<b>2,952</b>	<b>3,622</b>	<b>4,260</b>	<b>4,807</b>
COGS	1,340	1,683	1,951	2,213
Employees Cost	308	335	386	443
Other expenses	1,304	1,605	1,924	2,151
<b>EBIDTA</b>	<b>757</b>	<b>907</b>	<b>1,114</b>	<b>1,349</b>
Depreciation	166	176	190	209
<b>EBIT</b>	<b>590</b>	<b>731</b>	<b>924</b>	<b>1,141</b>
Interest	56	38	25	20
Other Income	69	56	20	20
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>604</b>	<b>749</b>	<b>919</b>	<b>1,140</b>
Tax	212	263	322	399
RPAT	392	487	597	741
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>392</b>	<b>487</b>	<b>597</b>	<b>741</b>

**Balance Sheet**

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
<b>Sources of Funds</b>				
Equity Capital	68	72	72	72
Minority Interest	0	0	0	0
Reserves & Surplus	1,571	2,308	2,611	3,016
<b>Net Worth</b>	<b>1,640</b>	<b>2,380</b>	<b>2,683</b>	<b>3,088</b>
Total Debt	402	302	252	202
Net Deferred Tax Liability	156	100	50	50
<b>Total Capital Employed</b>	<b>2,198</b>	<b>2,783</b>	<b>2,985</b>	<b>3,340</b>

**Applications of Funds**

Net Block	1,431	1,535	1,645	1,736
CWIP	0	21	23	25
Investments	179	179	179	179
<b>Current Assets, Loans &amp; Advances</b>	<b>981</b>	<b>1,431</b>	<b>1,559</b>	<b>1,854</b>
Inventories	459	521	589	641
Receivables	342	409	442	506
Cash and Bank Balances	28	356	389	575
Loans and Advances	142	135	128	122
Other Current Assets	9	10	10	10
<b>Less: Current Liabilities &amp; Provisions</b>	<b>394</b>	<b>384</b>	<b>420</b>	<b>454</b>
Payables	286	365	442	523
Other Current Liabilities	108	19	(22)	(69)
	<i>sub total</i>			
Net Current Assets	588	1,048	1,139	1,400
<b>Total Assets</b>	<b>2,198</b>	<b>2,783</b>	<b>2,985</b>	<b>3,340</b>

E – Estimates

**Important Ratios**

Particulars	FY17A	FY18A	FY19E	FY20E
<b>(A) Margins (%)</b>				
Gross Profit Margin	63.9	62.9	63.7	64.1
EBIDTA Margin	20.4	20.0	20.7	21.9
EBIT Margin	15.9	16.1	17.2	18.5
Tax rate	35.1	35.1	35.0	35.0
Net Profit Margin	10.6	10.7	11.1	12.0
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	36.1	37.1	36.3	35.9
Employee	8.3	7.4	7.2	7.2
Other	35.2	35.4	35.8	34.9
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.2	0.1	0.1	0.1
Interest Coverage	10.6	19.3	36.6	56.4
Inventory days	45	42	40	38
Debtors days	34	33	30	30
Average Cost of Debt	10.2	10.7	9.1	8.9
Payable days	28	29	30	31
Working Capital days	58	84	77	83
FA T/O	2.6	2.9	3.3	3.5
<b>(D) Measures of Investment</b>				
AEPS (₹)	10.9	13.5	16.6	20.6
CEPS (₹)	15.5	18.4	21.9	26.4
DPS (₹)	2.0	4.0	7.0	8.0
Dividend Payout (%)	17.5	29.5	42.1	38.8
BVPS (₹)	45.5	66.1	74.5	85.7
RoANW (%)	26.4	24.2	23.6	25.7
RoACE (%)	17.6	19.1	20.8	23.4
RoAIC (%)	27.9	31.8	36.8	42.6
<b>(E) Valuation Ratios</b>				
CMP (₹)	350	350	350	350
P/E	32.2	25.9	21.1	17.0
Mcap (₹ Mn)	12,610	12,610	12,610	12,610
MCap/ Sales	3.4	2.8	2.3	2.0
EV	12,984	12,557	12,473	12,237
EV/Sales	3.5	2.8	2.3	2.0
EV/EBITDA	17.2	13.8	11.2	9.1
P/BV	7.7	5.3	4.7	4.1
Dividend Yield (%)	0.5	1.1	2.0	2.3
<b>(F) Growth Rate (%)</b>				
Revenue	0.4	22.1	18.7	14.6
EBITDA	22.3	19.8	22.9	21.1
EBIT	21.8	23.8	26.4	23.4
PBT	38.9	24.1	22.6	24.1
APAT	36.1	24.1	22.7	24.1
EPS	36.1	24.1	22.7	24.1
<b>Cash Flow</b>				
<b>(₹ Mn)</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>
CFO	590	525	706	895
CFI	(249)	(313)	(302)	(302)
CFF	(422)	116	(369)	(407)
FCFF	456	204	403	592
Opening Cash	115	28	356	389
Closing Cash	28	356	389	575

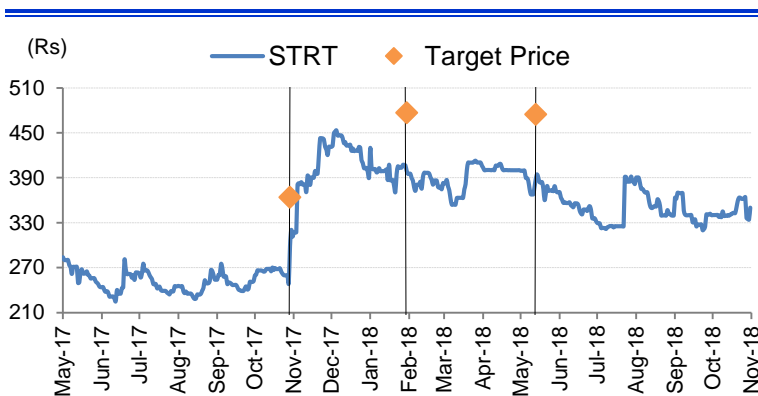
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-17	Buy	364	299
Feb-18	Accumulate	477	399
May-18	Buy	475	389

\*Price as on recommendation date

### DART Team

<b>Purvag Shah</b>	<b>Managing Director</b>	<b>purvag@dolatcapital.com</b>	<b>+9122 4096 9747</b>
<b>Amit Khurana, CFA</b>	<b>Head of Equities</b>	<b>amit@dolatcapital.com</b>	<b>+9122 4096 9745</b>

### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	VP - Head Asia Derivatives Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat** Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

---

**Analyst(s) Certification**

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

---

**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)****II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

**For U.S. Entity/ persons only:** This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

---

**Dolat Capital Market Private Limited.**

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatcapital.com

---

