

Sterling Tools

Buy



 DOLAT ANALYSIS & RESEARCH THEMES
 IN-DEPTH • PRECISE • ACTIONABLE
Inline; demand rebound visible...

- STL's net revenue de-grew by 27% YoY to Rs 879mn, due to the ongoing slowdown across the automobile sector and production cuts taken by major OEMs. Although EBITDA declined 12% YoY to Rs139mn, margin rose 300bps YoY to 16.7%, due to declining commodity prices and cost optimization measures.
- Given its long-term relationships with top OEMs, such as Maruti Suzuki, Tata, HMTI, Hero MotoCorp, M&M, Ashok Leyland, Fiat, and Daimler, we expect STL to emerge as the key beneficiary of the any cyclical upturn in the automobile sector. STL's top-six accounts contribute nearly 65% to the total revenue.
- We expect revival in key customers, such as Maruti, Hero and HMTI, will help STL's revenue to recover from Q2FY21. In addition, increasing contribution from special fasteners is likely to boost revenue and profitability in the medium term.
- STL's key raw material is mild steel wire coil/rod ranging between 5mm to 25mm diameter. In the past six months, RM price corrected by 7-9%, which will help margin to recover in the coming few quarters.
- At the CMP, the stock is trading at 19x of FY22E EPS. We roll over our valuations to FY23E and recommend Buy rating on the stock, with TP of Rs 200 (based on 18x FY23E EPS).

Recovery in 2W/tractor is near term positive

We expect rapid recovery in 2W and tractor segment to support earnings from Q2FY21 onwards. Revenue contribution of STL stands at ~27% 2W, 25% CV, 15% 4W, 10% Farm equipment and 6% industrial segment. We expect quicker volume revival in key customers, such as Maruti and HMTI. In FY20, company incurred a capex of RS 500mn for expansion at the Bangalore board manufacturing facility, increasing capacity by 10-12,000MT which will help cater to any incremental demand in future. With all major capex behind, company is likely to incur only maintenance capex of Rs 40-50mn here onwards.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	858	1,183	(27.4)	849	1.1
Total Expense	715	1,021	(29.9)	709	0.9
EBITDA	143	162	(11.7)	139	2.5
Depreciation	66	50	30.0	65	1.2
EBIT	77	111	(30.5)	75	3.7
Other Income	13	17	(26.4)	14	(12.3)
Interest	18	16	12.2	18	0.0
EBT	39	113	(65.1)	71	(44.8)
Tax	(42)	39	(208.8)	22	(294.1)
RPAT	82	74	11.2	49	66.1
APAT	115	74	55.8	49	132.8
			(bps)		(bps)
Gross Margin (%)	62.3	58.4	394	62.7	(39)
EBITDA Margin (%)	16.7	13.7	298	16.4	23
NPM (%)	9.5	6.2	331	5.8	373
Tax Rate (%)	(108.2)	34.7	NA	30.8	NA
EBIT Margin (%)	9.0	9.4	(40)	8.8	22

CMP	Rs 167
Target / Upside	Rs 200 / 20%
BSE Sensex	34,969
NSE Nifty	10,312

Script Details

Equity / FV	Rs 72mn / Rs 2
Market Cap	Rs 6bn
	USD 80mn
52-week High/Low	Rs 262/Rs 110
Avg. Volume (no)	25,173
NSE Symbol	STERTOOLS
Bloomberg Code	STRT IN

Shareholding Pattern Mar'20(%)

Promoters	65.8
MF/Banks/FIs	8.1
FII	5.3
Public / Others	20.9

Valuation (x)

	FY21E	FY22E	FY23E
P/E	36.1	19.0	15.0
EV/EBITDA	13.7	9.2	7.4
ROE (%)	5.3	9.7	11.3
RoACE (%)	5.4	9.0	10.5

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	2,829	3,637	4,301
EBITDA	440	626	745
PAT	167	317	401
EPS (Rs.)	4.6	8.8	11.1

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The technological tie up with Medio (Japan) should help STL make further inroads in the critical fasteners segment. The company is already in the product approval stage with clients, such as MSIL, Nissan, and Toyota, and is likely to begin commercial production shortly. The management also plans to expand inorganically, primarily in automotive non-fasteners products. STL has invested Rs 30mn and signed a JV agreement with Jiangsu Gtack Electric Company Limited, a company based in China, to manufacture MCU's in India to cater to the Indian OEMs/ market which is currently in the R&D phase.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	DART Est	Var (%)	Comments
Revenue	858	872	(2)	
EBIDTA	143	129	11	Lower RM prices and cost control measures
EBIDTA Margin (%)	16.7	14.8	185bps	
APAT	82	40	103	Exceptional loss due to impairment

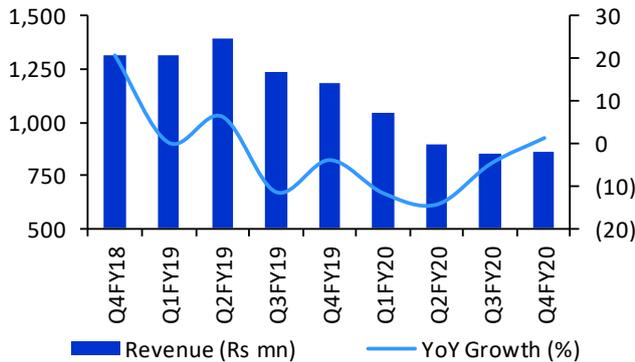
Source: DART, Company

Exhibit 2: Change in Estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	2,829	3,395	(16.7)	3,637	4,085	(11.0)
EBITDA	440	521	(15.5)	626	694	(9.8)
EBITDA Margin (%)	15.6	15.4	21bps	17.2	17.0	22bps
PAT	167	216	(22.7)	317	342	(7.3)
EPS (Rs)	4.6	6.0	(22.7)	8.8	9.5	(7.3)

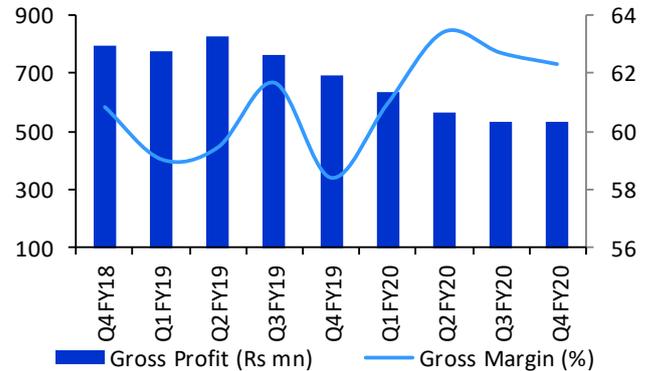
Source: DART, Company

Exhibit 3: Revenue fell on weak OEM sales



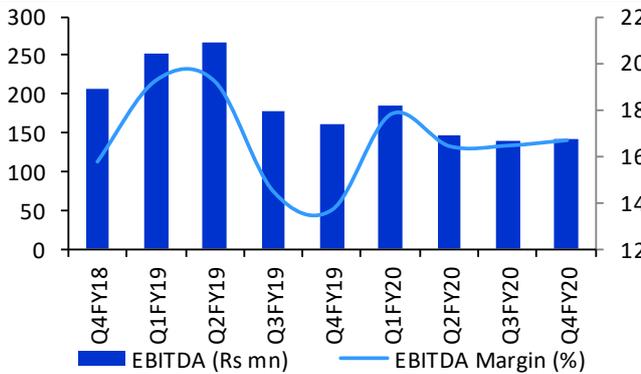
Source: DART, Company

Exhibit 4: Gross Margin improved YoY



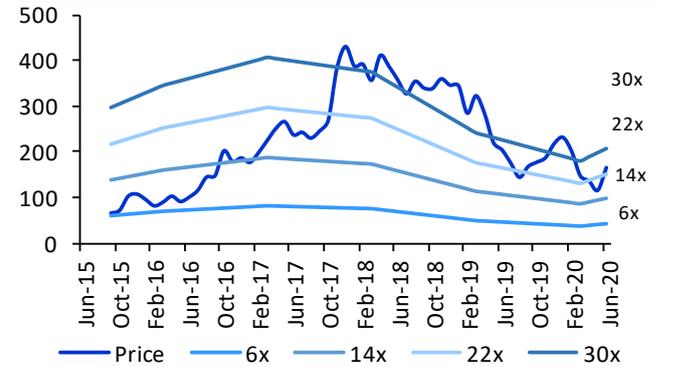
Source: DART, Company

Exhibit 5: EBITDA Margins improved YoY/QoQ



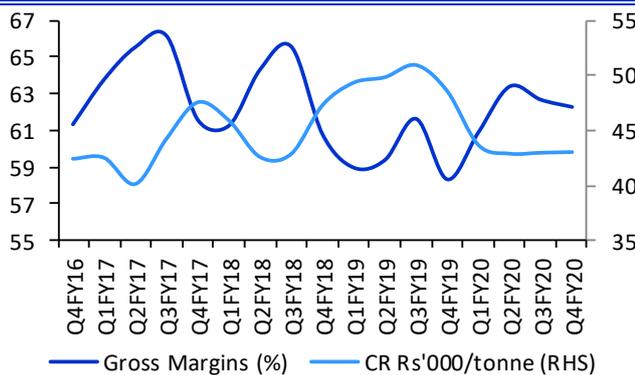
Source: DART, Company

Exhibit 6: P/E Band



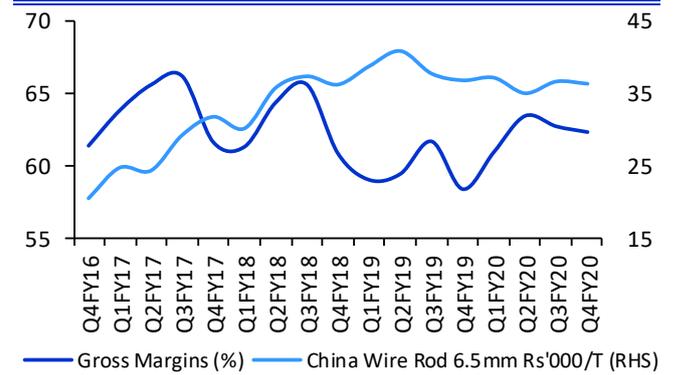
Source: DART, Company

Exhibit 7: Adverse relationship with CR prices



Source: DART, Company

Exhibit 8: GM vs China Wire Rod 6.5MM steel price



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	3,642	2,829	3,637	4,301
Total Expense	3,029	2,389	3,010	3,556
COGS	1,374	1,061	1,356	1,613
Employees Cost	363	326	359	395
Other expenses	1,292	1,002	1,295	1,548
EBIDTA	614	440	626	745
Depreciation	242	244	241	252
EBIT	372	196	386	493
Interest	63	42	30	25
Other Income	61	70	70	71
Exc. / E.O. items	(33)	0	0	0
EBT	337	224	426	538
Tax	47	57	109	137
RPAT	290	167	317	401
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	323	167	317	401

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	72	72	72	72
Minority Interest	0	0	0	0
Reserves & Surplus	3,015	3,098	3,331	3,647
Net Worth	3,087	3,170	3,403	3,720
Total Debt	699	499	349	299
Net Deferred Tax Liability	165	165	165	165
Total Capital Employed	3,951	3,833	3,916	4,183

Applications of Funds

Net Block	2,534	2,390	2,249	2,197
CWIP	6	50	100	100
Investments	336	336	336	336
Current Assets, Loans & Advances	1,578	1,491	1,664	2,036
Inventories	594	426	448	530
Receivables	281	233	299	353
Cash and Bank Balances	108	518	605	843
Loans and Advances	46	44	42	39
Other Current Assets	549	270	270	270
Less: Current Liabilities & Provisions	504	433	433	486
Payables	309	240	309	365
Other Current Liabilities	194	193	124	121
<i>sub total</i>				
Net Current Assets	1,075	1,057	1,231	1,550
Total Assets	3,951	3,833	3,916	4,183

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	62.3	62.5	62.7	62.5
EBIDTA Margin	16.9	15.6	17.2	17.3
EBIT Margin	10.2	6.9	10.6	11.5
Tax rate	13.8	25.5	25.5	25.5
Net Profit Margin	8.0	5.9	8.7	9.3
(B) As Percentage of Net Sales (%)				
COGS	37.7	37.5	37.3	37.5
Employee	10.0	11.5	9.9	9.2
Other	35.5	35.4	35.6	36.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.2	0.1	0.1
Interest Coverage	5.9	4.6	13.0	19.4
Inventory days	60	55	45	45
Debtors days	28	30	30	30
Average Cost of Debt	7.2	7.1	7.0	7.8
Payable days	31	31	31	31
Working Capital days	108	136	124	132
FA T/O	1.4	1.2	1.6	2.0
(D) Measures of Investment				
AEPS (Rs)	9.0	4.6	8.8	11.1
CEPS (Rs)	15.7	11.4	15.5	18.1
DPS (Rs)	0.0	2.0	2.0	2.0
Dividend Payout (%)	0.0	43.2	22.7	18.0
BVPS (Rs)	85.7	88.0	94.5	103.3
RoANW (%)	9.8	5.3	9.7	11.3
RoACE (%)	9.7	5.4	9.0	10.5
RoAIC (%)	9.5	5.5	11.6	14.8
(E) Valuation Ratios				
CMP (Rs)	167	167	167	167
P/E	18.7	36.1	19.0	15.0
Mcap (Rs Mn)	6,030	6,030	6,030	6,030
MCap/ Sales	1.7	2.1	1.7	1.4
EV	6,622	6,011	5,774	5,487
EV/Sales	1.8	2.1	1.6	1.3
EV/EBITDA	10.8	13.7	9.2	7.4
P/BV	2.0	1.9	1.8	1.6
Dividend Yield (%)	0.0	1.2	1.2	1.2
(F) Growth Rate (%)				
Revenue	(28.9)	(22.3)	28.5	18.3
EBITDA	(28.6)	(28.3)	42.3	18.9
EBIT	(44.4)	(47.1)	96.3	27.8
PBT	(51.6)	(33.5)	90.2	26.4
APAT	(27.9)	(48.4)	90.2	26.4
EPS	(27.9)	(48.4)	90.2	26.4
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	518	881	501	597
CFI	(20)	(144)	(150)	(200)
CFF	(429)	(327)	(264)	(160)
FCFF	21	737	351	397
Opening Cash	39	108	518	605
Closing Cash	108	518	605	843

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-19	Accumulate	369	317
May-19	Accumulate	234	211
Aug-19	Accumulate	188	162
Nov-19	Buy	214	178
Feb-20	Buy	235	196
Mar-20	Buy	204	141
Mar-20	Buy	204	127
Apr-20	Buy	188	126

*Price as on recommendation date

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