

Washout quarter; recovery ahead...

- STL's net revenue declined 81% YoY to Rs 203mn, due to slowdown of demand across segments (mainly CVs), impacted by production cuts due to lockdown imposed across India. EBITDA turned negative to Rs 49mn, due to negative operating leverage. Higher depreciation and interest costs led to net loss of Rs 88mn. Exports declined by ~85% in Q1 due to lockdowns imposed across geographies.
- STRT's addition of Hyundai to its new customer list will lead to incremental revenues from FY22. This along with its long-term relationships with top OEMs, such as Maruti Suzuki, Tata, HMSI, Hero MotoCorp, M&M, Ashok Leyland, Fiat, and Daimler, we expect STRT 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 HMSI, 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. The company is currently operating at 50-60% utilization, in line with OEMs production levels.
- STRT's key raw material is mild steel wire coil/rod ranging between 5mm to 25mm diameter. Stable RM prices, operating leverage and cost control measures will help margin to recover in the coming few quarters.
- At the CMP, the stock is trading at 21/15x for FY22/23E EPS. We recommend Accumulate rating, with TP of Rs 210 (based on 18x FY23E EPS).

Recovery in 2W/PVs/tractor is near term positive

We expect recovery in 2W, PV and tractor segment to support earnings from Q2FY21. Revenue contribution of STL stands at ~27% 2W, 25% CV, 15% 4W, 10% Farm equipment and 6% industrial segment. Quicker volume revival in key customers, such as Maruti and HMSI is expected. In FY20, company incurred a capex of RS 500mn for expansion at the Bangalore 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 capex of Rs 100-150mn in FY21.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	203	1,043	(80.6)	858	(76.4)
Total Expense	251	858	(70.7)	715	(64.9)
EBITDA	(49)	185	(126.2)	143	(134.0)
Depreciation	59	55	8.9	66	(9.4)
EBIT	(108)	131	(182.5)	77	(239.5)
Other Income	11	14	(17.8)	13	(10.2)
Interest	18	14	29.7	18	0.7
EBT	(115)	131	(187.7)	39	(391.8)
Tax	(27)	43	(162.4)	(42)	(36.9)
RPAT	(88)	88	(200.0)	82	(207.4)
APAT	(88)	88	(200.0)	115	(176.6)
			(bps)		(bps)
Gross Margin (%)	58.2	60.9	(278)	62.3	(415)
EBITDA Margin (%)	(23.9)	17.8	(4171)	16.7	(4060)
NPM (%)	(43.3)	8.4	(5173)	9.5	(5284)
Tax Rate (%)	23.4	32.9	(948)	(108.2)	13155
EBIT Margin (%)	(53.3)	12.5	(6579)	9.0	(6227)

CMP	Rs 180
Target / Upside	Rs 210 / 17%
BSE Sensex	38,206
NSE Nifty	11,270

Scrip Details

Equity / FV	Rs 72mn / Rs 2
Market Cap	Rs 6bn
	USD 87mn
52-week High/Low	Rs 262/Rs 110
Avg. Volume (no)	26,268
NSE Symbol	STERTOOLS
Bloomberg Code	STRT IN

Shareholding Pattern Jun'20(%)

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

Valuation (x)

	FY21E	FY22E	FY23E
P/E	54.0	21.6	15.4
EV/EBITDA	15.8	10.0	7.7
ROE (%)	3.9	9.3	12.0
RoACE (%)	4.4	8.7	11.0

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	2,829	3,637	4,488
EBITDA	412	626	780
PAT	120	300	420
EPS (Rs.)	3.3	8.3	11.7

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Capacity expansion

STRT commissioned their new manufacturing facility in Kolar, Karnataka, with a capacity of 6,000-7,000 MT and a capital outlay of Rs 900mn in Q1FY20. The technological tie up with Medio (Japan), should help STRT make further inroads in the critical fasteners segment. The company is already in the product approval stage with clients such as MSIL, Nissan, Toyota and the production is delayed slightly due to Covid-19 impact. 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 Gtake 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	203	626	(68)	Negative operating leverage
EBIDTA	(49)	104	(147)	
EBIDTA Margin (%)	(23.9)	16.5	NA	
APAT	(88)	(30)	NA	

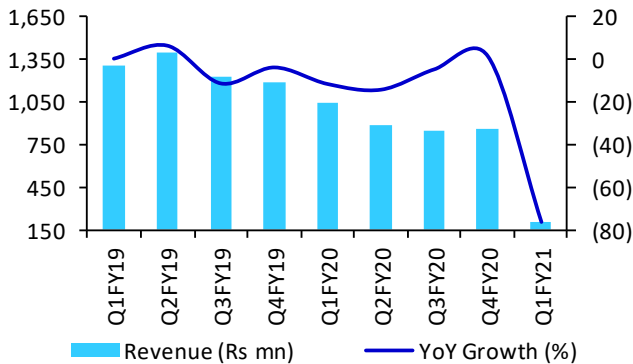
Source: DART, Company

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	412	521	(21.0)	626	694	(9.8)
EBITDA Margin (%)	14.6	15.4	(79)bps	17.2	17.0	22bps
PAT	120	216	(44.4)	300	342	(12.3)
EPS (Rs)	3.3	6.0	(44.4)	8.3	9.5	(12.3)

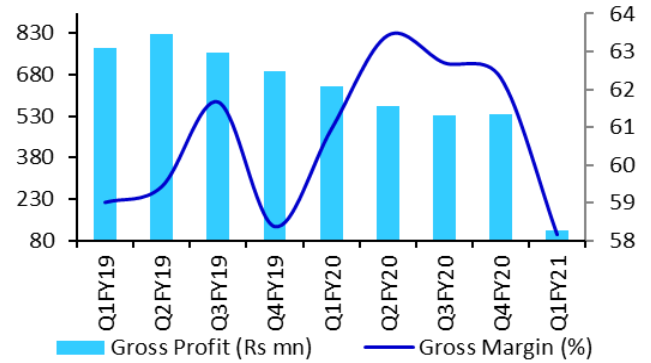
Source: DART, Company

Exhibit 3: Weak revenue due to lockdown



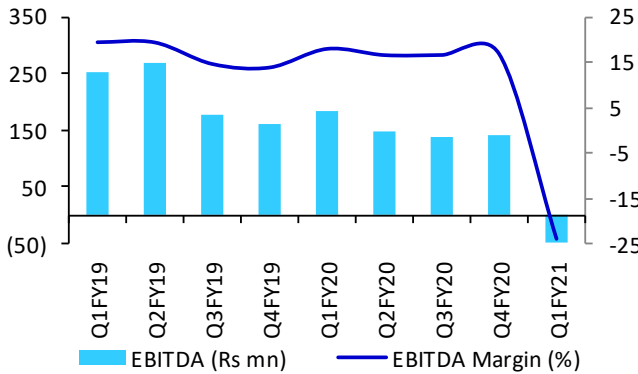
Source: DART, Company

Exhibit 4: Gross Margin contracted YoY/QoQ



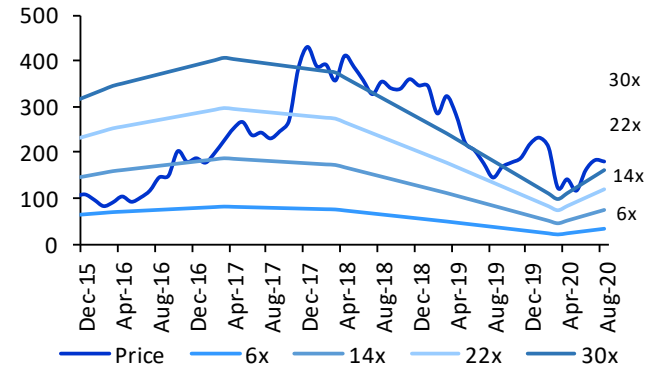
Source: DART, Company

Exhibit 5: EBITDA turned negative



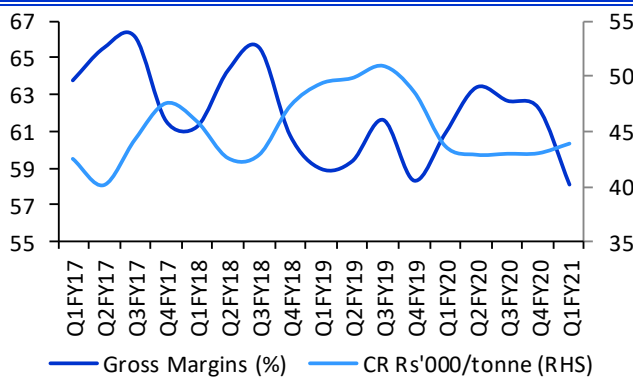
Source: DART, Company

Exhibit 6: P/E Band



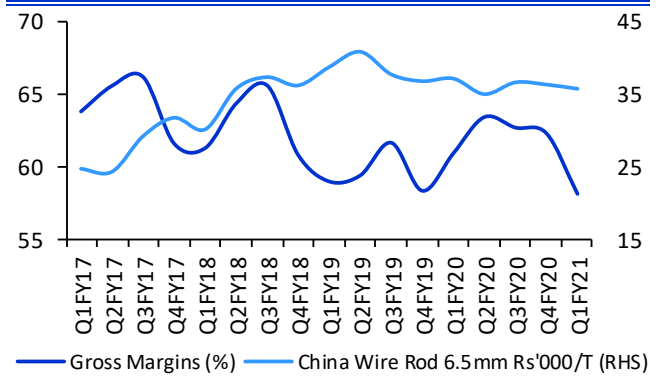
Source: DART, Company

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	4,488
Total Expense	3,029	2,417	3,010	3,708
COGS	1,374	1,089	1,356	1,683
Employees Cost	363	326	359	409
Other expenses	1,292	1,002	1,295	1,616
EBIDTA	614	412	626	780
Depreciation	242	244	241	252
EBIT	372	168	386	528
Interest	63	51	42	34
Other Income	61	44	60	70
Exc. / E.O. items	(33)	0	0	0
EBT	337	161	403	564
Tax	47	41	103	144
RPAT	290	120	300	420
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	323	120	300	420

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	3,051	3,267	3,603
Net Worth	3,087	3,123	3,339	3,675
Total Debt	699	599	499	399
Net Deferred Tax Liability	165	165	165	165
Total Capital Employed	3,951	3,887	4,003	4,239

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	1,549	1,750	2,104
Inventories	594	426	448	553
Receivables	281	233	299	369
Cash and Bank Balances	108	577	691	873
Loans and Advances	46	44	42	39
Other Current Assets	549	270	270	270
Less: Current Liabilities & Provisions	504	439	433	499
Payables	309	240	309	381
Other Current Liabilities	194	199	124	118
<i>sub total</i>				
Net Current Assets	1,075	1,111	1,317	1,605
Total Assets	3,951	3,887	4,003	4,239

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	62.3	61.5	62.7	62.5
EBIDTA Margin	16.9	14.6	17.2	17.4
EBIT Margin	10.2	5.9	10.6	11.8
Tax rate	13.8	25.5	25.5	25.5
Net Profit Margin	8.0	4.2	8.3	9.4
(B) As Percentage of Net Sales (%)				
COGS	37.7	38.5	37.3	37.5
Employee	10.0	11.5	9.9	9.1
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	3.3	9.1	15.6
Inventory days	60	55	45	45
Debtors days	28	30	30	30
Average Cost of Debt	7.2	7.8	7.7	7.6
Payable days	31	31	31	31
Working Capital days	108	143	132	131
FA T/O	1.4	1.2	1.6	2.0
(D) Measures of Investment				
AEPS (Rs)	9.0	3.3	8.3	11.7
CEPS (Rs)	15.7	10.1	15.0	18.7
DPS (Rs)	0.0	2.0	2.0	2.0
Dividend Payout (%)	0.0	60.0	24.0	17.1
BVPS (Rs)	85.7	86.7	92.7	102.0
RoANW (%)	9.8	3.9	9.3	12.0
RoACE (%)	9.7	4.4	8.7	11.0
RoAIC (%)	9.5	4.7	11.6	15.8
(E) Valuation Ratios				
CMP (Rs)	180	180	180	180
P/E	20.1	54.0	21.6	15.4
Mcap (Rs Mn)	6,488	6,488	6,488	6,488
MCap/ Sales	1.8	2.3	1.8	1.4
EV	7,079	6,510	6,296	6,014
EV/Sales	1.9	2.3	1.7	1.3
EV/EBITDA	11.5	15.8	10.0	7.7
P/BV	2.1	2.1	1.9	1.8
Dividend Yield (%)	0.0	1.1	1.1	1.1
(F) Growth Rate (%)				
Revenue	(28.9)	(22.3)	28.5	23.4
EBITDA	(28.6)	(32.9)	52.1	24.5
EBIT	(44.4)	(54.8)	129.4	36.9
PBT	(51.6)	(52.2)	150.1	39.9
APAT	(27.9)	(62.9)	150.1	39.9
EPS	(27.9)	(62.9)	150.1	39.9
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	518	848	491	600
CFI	(20)	(144)	(150)	(200)
CFF	(429)	(235)	(227)	(218)
FCFF	21	704	341	400
Opening Cash	39	108	577	691
Closing Cash	108	577	691	873

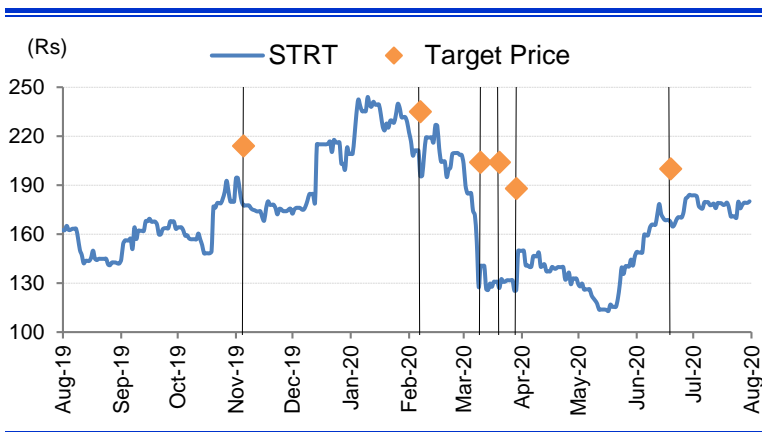
E – Estimates

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.)
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
Jun-20	Buy	200	167

*Price as on recommendation date

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