

Strong operating performance

- STRT reported strong operating performance in Q3FY21. Net revenue grew 31% YoY to Rs 1.1bn, led by recovery in demand across OEM segments. EBITDA was Rs 232mn (+67% YoY) with expanded margin (449bps YoY to 20.9%) due to a favorable product mix (increasing mix of CVs, cost control measures partly offset by higher RM prices).
- We expect margin to taper off in coming quarter due to sharp increase RM prices.
- 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, HMTI, Hero MotoCorp, M&M, Ashok Leyland, Fiat, and Daimler, we expect STRT to emerge as the key beneficiary upturn in Automotive volume (STL's top-six accounts contribute nearly 65% to the total revenue).
- In addition, increasing contribution CVs (high margin business) and special fasteners is likely to boost revenue and profitability in the medium term.
- Overall utilization stands at an optimum level of 75-80% with a strong order book across segments. The benefit of operating leverage and cost control measures will be partially offset by increase in RM prices (+14% QoQ). STRT's key raw material is mild steel wire coil/rod ranging between 5mm to 25mm diameter.
- In absence of any material capex requirement, we expect the company to generate strong FCF ahead (Rs 1.49bn over FY21-23)
- At the CMP, the stock is trading at 16x FY23E EPS. We recommend Buy rating, with TP of Rs 274 (based on 20x FY23E EPS)

Recovery in CVs is key positive

Recovery in CVs volume is positive for revenue as well as margin. Moreover, quicker volume revival in key customers, such as Maruti and HMTI is aiding revenue. In FY20, STRT incurred capex of Rs 500mn for expansion at the Bengaluru manufacturing facility, increasing capacity by 10-12,000MT (current utilization at ~50%) which will help cater to any incremental demand. With all major capex behind, company to incur only maintenance capex of ~Rs 50mn in FY21.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	1,111	849	30.9	952	16.7
Total Expense	878	709	23.8	726	20.9
EBITDA	232	139	66.7	226	2.9
Depreciation	67	65	3.8	65	2.7
EBIT	165	75	121.3	160	2.9
Other Income	14	14	(5.0)	14	(1.1)
Interest	19	18	4.5	20	(5.5)
EBT	160	71	125.1	154	3.7
Tax	38	22	75.2	39	(2.3)
RPAT	122	49	147.3	115	5.7
APAT	122	49	147.3	115	5.7
			(bps)		(bps)
Gross Margin (%)	65.6	62.7	291	67.6	(197)
EBITDA Margin (%)	20.9	16.4	449	23.7	(280)
NPM (%)	11.0	5.8	516	12.1	(114)
Tax Rate (%)	24.0	30.8	(682)	25.4	(147)
EBIT Margin (%)	14.9	8.8	608	16.8	(198)

CMP	Rs 221
Target / Upside	Rs 274 / 24%
NIFTY	14,982

Scrip Details

Equity / FV	Rs 72mn / Rs 2
Market Cap	Rs 8bn
	USD 110mn
52-week High/Low	Rs 232/ 110
Avg. Volume (no)	39,967
Bloom Code	STRT IN

Price Performance	1M	3M	12M
Absolute (%)	9	14	1
Rel to NIFTY (%)	5	(2)	(23)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	65.8	65.8	65.8
MF/Banks/FIs	8.2	8.2	8.2
FIs	5.3	0.0	0.0
Public / Others	20.8	26.1	26.1

Valuation (x)

	FY21E	FY22E	FY23E
P/E	33.5	20.5	16.1
EV/EBITDA	13.8	10.1	8.1
ROE (%)	7.5	11.4	13.2
RoACE (%)	7.5	10.4	11.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	3,336	4,185	4,820
EBITDA	592	785	923
PAT	237	388	494
EPS (Rs.)	6.6	10.8	13.7

Analyst: Abhishek Jain

Tel: +9122 40969739

E-mail: abhishekj@dolatcapital.com

Associate: Ketul Dalal

Tel: +91 22 4096 9770

E-mail: ketuld@dolatcapital.com

Strategic partnerships to help boost margins and profitability

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.

STRT has 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. The board has approved investment of Rs 100mn in Gtake Electric company in one or more tranches. However, China's share of Rs 50mn is currently not received because of the changed FDI guidelines issued by Government of India requiring approval of DPIIT which is expected to be resolved by Q1FY22.

Exhibit 1: Actual vs DART Estimates

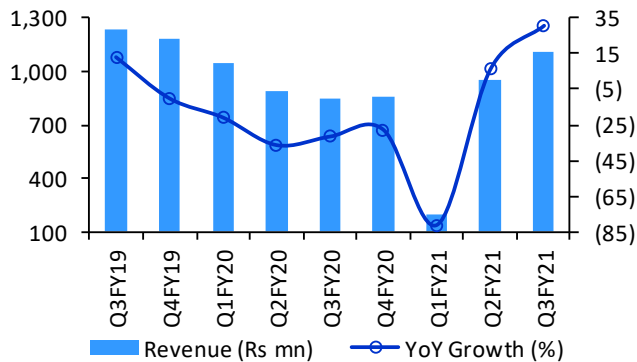
Particulars (Rs mn)	Actual	DART Est	Var (%)	Comments
Revenue	1,111	990	12	Recovery in 2W and PV segments
EBIDTA	232	212	10	RM cost inflation
EBIDTA Margin (%)	20.9	21.4	(50)bps	
APAT	122	112	8	

Source: DART, Company

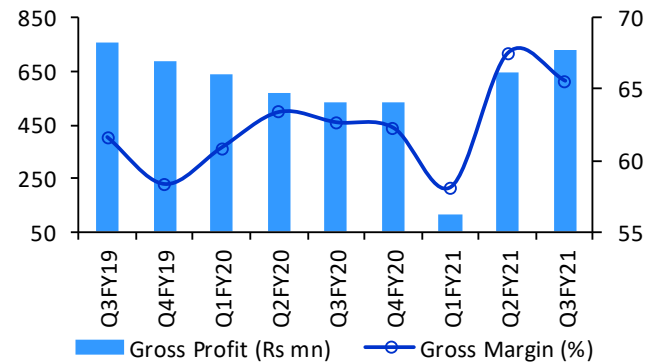
Exhibit 2: Change in Estimates

Particulars (Rs mn)	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	4,185	3,801	10.1	4,820	4,885	(1.3)
EBITDA	785	655	19.9	923	884	4.5
EBITDA Margin (%)	18.8	17.2	153bps	19.1	18.1	106bps
PAT	388	303	27.9	494	479	3.1
EPS (Rs)	10.8	8.4	27.9	13.7	13.3	3.1

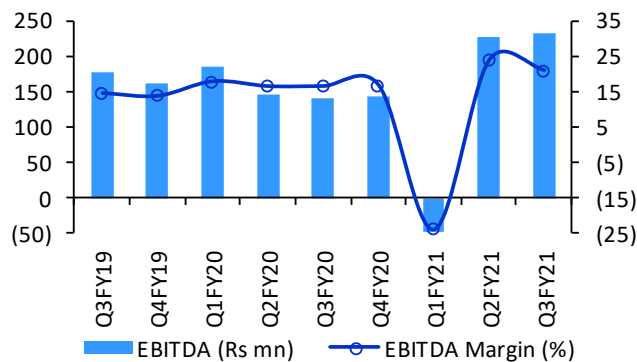
Source: DART, Company

Exhibit 3: Revenue grew 31% YoY


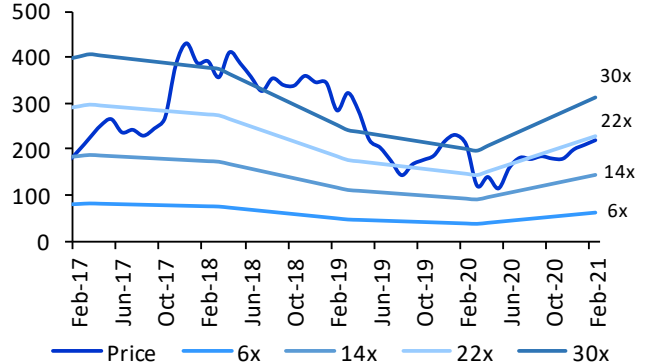
Source: DART, Company

Exhibit 4: Gross Margin declined QoQ


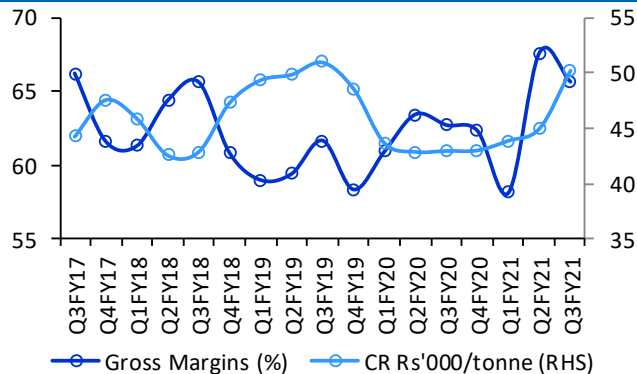
Source: DART, Company

Exhibit 5: EBITDA grew YoY


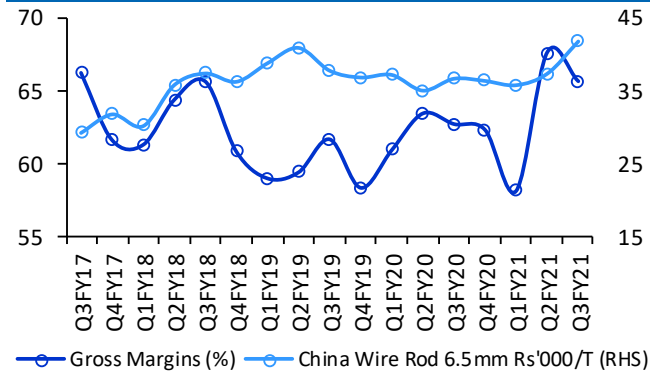
Source: DART, Company

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	3,336	4,185	4,820
Total Expense	3,029	2,744	3,400	3,897
COGS	1,374	1,168	1,548	1,735
Employees Cost	363	359	395	427
Other expenses	1,292	1,218	1,456	1,735
EBIDTA	614	592	785	923
Depreciation	242	263	272	281
EBIT	372	329	513	642
Interest	63	70	59	51
Other Income	61	58	63	68
Exc. / E.O. items	(33)	0	0	0
EBT	337	317	517	659
Tax	47	79	129	165
RPAT	290	237	388	494
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	323	237	388	494

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	3,168	3,471	3,881
Net Worth	3,087	3,240	3,543	3,953
Total Debt	699	799	699	599
Net Deferred Tax Liability	165	165	165	165
Total Capital Employed	3,951	4,204	4,407	4,717

Applications of Funds

Net Block	2,534	2,471	2,349	2,219
CWIP	6	50	100	100
Investments	336	336	336	336
Current Assets, Loans & Advances	1,578	1,801	2,090	2,571
Inventories	594	530	631	726
Receivables	281	274	344	396
Cash and Bank Balances	108	603	724	1,059
Loans and Advances	46	44	42	39
Other Current Assets	549	350	350	350
Less: Current Liabilities & Provisions	504	454	468	509
Payables	309	283	355	409
Other Current Liabilities	194	171	113	100
<i>sub total</i>				
Net Current Assets	1,075	1,347	1,622	2,062
Total Assets	3,951	4,204	4,407	4,717

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	62.3	65.0	63.0	64.0
EBIDTA Margin	16.9	17.7	18.8	19.1
EBIT Margin	10.2	9.9	12.3	13.3
Tax rate	13.8	25.0	25.0	25.0
Net Profit Margin	8.0	7.1	9.3	10.3
(B) As Percentage of Net Sales (%)				
COGS	37.7	35.0	37.0	36.0
Employee	10.0	10.8	9.4	8.9
Other	35.5	36.5	34.8	36.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.2	0.2	0.2
Interest Coverage	5.9	4.7	8.6	12.6
Inventory days	60	58	55	55
Debtors days	28	30	30	30
Average Cost of Debt	7.2	9.4	7.9	7.8
Payable days	31	31	31	31
Working Capital days	108	147	141	156
FA T/O	1.4	1.4	1.8	2.2
(D) Measures of Investment				
AEPS (Rs)	9.0	6.6	10.8	13.7
CEPS (Rs)	15.7	13.9	18.3	21.5
DPS (Rs)	0.0	2.0	2.0	2.0
Dividend Payout (%)	0.0	30.3	18.6	14.6
BVPS (Rs)	85.7	89.9	98.4	109.7
RoANW (%)	9.8	7.5	11.4	13.2
RoACE (%)	9.7	7.5	10.4	11.9
RoAIC (%)	9.5	8.8	14.1	17.5
(E) Valuation Ratios				
CMP (Rs)	221	221	221	221
P/E	24.6	33.5	20.5	16.1
Mcap (Rs Mn)	7,961	7,961	7,961	7,961
MCap/ Sales	2.2	2.4	1.9	1.7
EV	8,553	8,158	7,936	7,501
EV/Sales	2.3	2.4	1.9	1.6
EV/EBITDA	13.9	13.8	10.1	8.1
P/BV	2.6	2.5	2.2	2.0
Dividend Yield (%)	0.0	0.9	0.9	0.9
(F) Growth Rate (%)				
Revenue	(28.9)	(8.4)	25.5	15.2
EBITDA	(28.6)	(3.6)	32.7	17.6
EBIT	(44.4)	(11.5)	56.1	25.1
PBT	(51.6)	(6.1)	63.2	27.5
APAT	(27.9)	(26.6)	63.2	27.5
EPS	(27.9)	(26.6)	63.2	27.5

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	518	793	565	721
CFI	(20)	(244)	(200)	(150)
CFE	(429)	(55)	(244)	(235)
FCFF	21	550	365	571
Opening Cash	39	108	603	724
Closing Cash	108	603	724	1,059

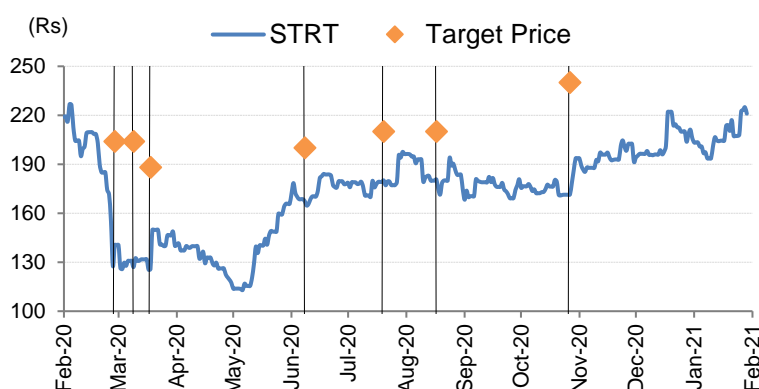
E – Estimates

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.)
Mar-20	Buy	204	141
Mar-20	Buy	204	127
Apr-20	Buy	188	126
Jun-20	Buy	200	167
Aug-20	Accumulate	210	180
Sep-20	Accumulate	210	181
Nov-20	Buy	240	172

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
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	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
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

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

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