

MANAGEMENT MEET UPDATE

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TALBROS AUTOMOTIVE COMPONENTS LTD (TBA)

PRICE: RS.268

TARGET PRICE: RS.389

RECOMMENDATION: BUY

FY20E PE: 9.6x

We recently met with the management of TBA. Company continues to stay on a strong growth trajectory. We expect TBA to benefit from expected healthy automobile demand over FY18-FY20E. Addition of new customers and new orders gives visibility to robust revenue growth in FY19/FY20. Company is also working on new products which is expected to gain acceptance with BSVI implementation. On the EBITDA margin, the company expects to witness improvement through cost reduction, import substitution of raw material, operating leverage and turnaround in one of JV's. In the forging business, the company recently announced an order of Rs350mn per annum from Dana Spicer India Pvt Ltd. We expect the company to post robust revenue growth across divisions. We expect TBA's earnings to grow at 30% CAGR over FY17-FY20E. We retain BUY on the stock with an unchanged price target of Rs389.

Summary table

(Rs mn)	FY18E	FY19E	FY20E
Sales	3,833	4,525	5,093
Growth (%)	(10.5)	18.1	12.6
EBITDA	391	473	582
EBITDA margin (%)	10.2	10.5	11.4
PBT	179	225	329
Adjusted Net profit	179	249	343
Adjusted EPS (Rs)	14.5	20.1	27.8
Growth (%)	13.8	38.9	37.9
CEPS (Rs)	25.9	32.3	40.8
Book value (Rs/share)	126.5	144.8	170.8
Dividend per share (Rs)	1.5	1.5	1.5
ROE (%)	12.0	14.8	17.6
ROCE (%)	11.0	12.8	15.0
Net cash (debt)	(1,063)	(1,058)	(867)
NW Capital (Days)	95	97	95
P/E (x)	18.5	13.3	9.6
P/BV (x)	2.1	1.9	1.6
EV/Sales (x)	1.1	1.0	0.8
EV/EBITDA (x)	11.2	9.2	7.2

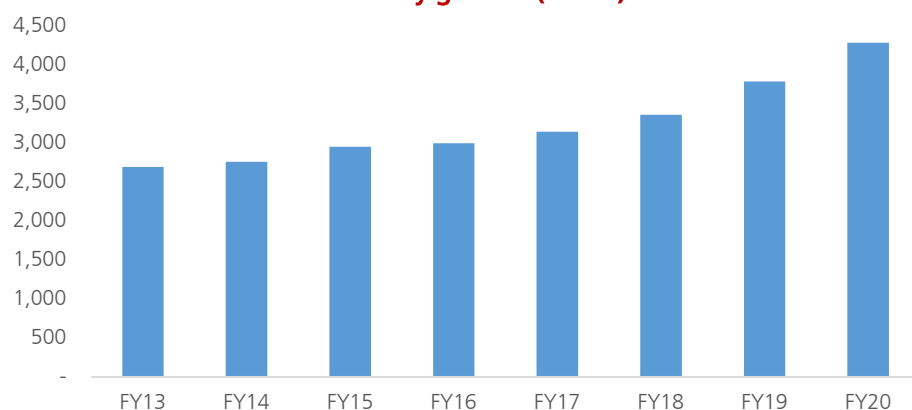
Source: Company, Kotak Securities – Private Client Research

Gasket business is expected to witness healthy growth

TBA is the market leader in the gasket segment with strong presence in the two wheeler, commercial vehicle and tractor segment. Revenue growth in this segment in 9MFY18 have been healthy on the back of strong volume growth witnessed in the two wheeler, commercial vehicle and tractor segment. We expect overall demand across segments to broadly remain healthy over the next two years and that is expected to drive revenue in this segment. Further ramp-up in growth is expected to come from new customer and orders. Recently, TBA added Ashok Leyland as its customer.

Company is also looking at tapping opportunities in the export markets. Focus on gasket exports will be towards OEM's, and not aftermarket. Gasket validation process with OEM's is lengthy process and takes about 18-24 months. Company has been working towards gaining OEM exposure in exports. Recently, TBA secured Rs40mn order from Cummins USA for which the supplies are expected to commence from September 2019.

Gasket revenue to witness healthy growth (Rs mn)*



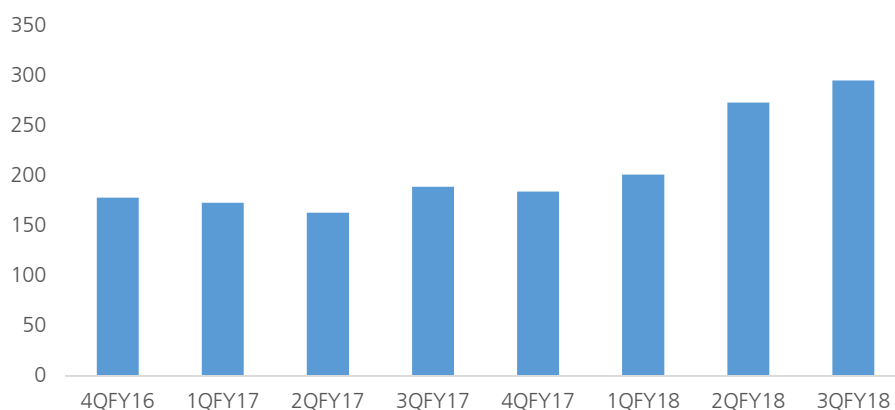
Source - Company, Kotak Securities – Private Client Research; * includes TBA's share in Nippon Leakless JV

Company is looking to make inroads in the passenger car segment, where its presence is very limited. TBA has got order from Maruti Suzuki to supply soft gaskets. Growth in this segment is expected to come from post coated gasket. Post coated technology will help the company give similar efficiency/quality (as available in pre coated technology) but with reduced cost from import substitution and lower wastage and give TBA an opportunity compete strongly in the passenger vehicle segment. We expect low double-digit revenue CAGR in the gasket segment for the company over FY17-FY20E.

New orders provides visibility to strong growth in forging business

Forging business accounted for 20% of company's revenue (including TBA's share in JV's) in 9MFY18. In the past two quarters, revenues have grown strongly in this business and we expect the trend to continue in FY19/FY20. In 3QFY18, forging revenue stood at Rs295mn, 56% higher over 3QFY17 revenue of Rs189mn. TBA is currently executing the TBA a large order of Rs1.75bn (spanning over 7 years) that it received from BMW in 2017. Earlier this month, TBA announced another large order of Rs350mn per annum that it won from Dana Spicer India Pvt Ltd. Production for this order will start in 1QFY19. Company has seen interest from few premium OEM customers. Based on strong order pipeline, we expect high revenue growth in the forging business over FY17-FY20E.

Forging revenue growing significantly in the past two quarters (Rs mn)



Source - Company

JLR order execution to drive growth in Magneti Marelli Talbros (MMT) JV

MMT manufactures chassis components like control arm, steering knuckle, front cross member, rear twist beam axle, wheel group and semi corner module assemblies. Company's is witnessing strong growth in this business on account of robust volume growth of Maruti Suzuki (accounts for 70% revenue of this JV). In 3QFY18, company started executing orders for JLR (Rs180mn annual order). However, full impact will start coming from 4QFY18. We thereby expect this JV's revenue to witness strong traction in the coming quarters.

Margins expected to witness gradual improvement

Over the next two years, we expect TBA to witness gradual improvement in margins. In the gasket division, new products like post coating gasket and heat shield are expected to help improve margins. In the forging business, strong order book gives the company an opportunity to opt for orders with better margins. TMR's hose division is loss making and is expected to turnaround in FY19/FY20. Company has started initiating price increase which its customer. Furthermore, cost reduction initiatives and operating leverage from expected strong growth in revenues will likely lead to improved margins.

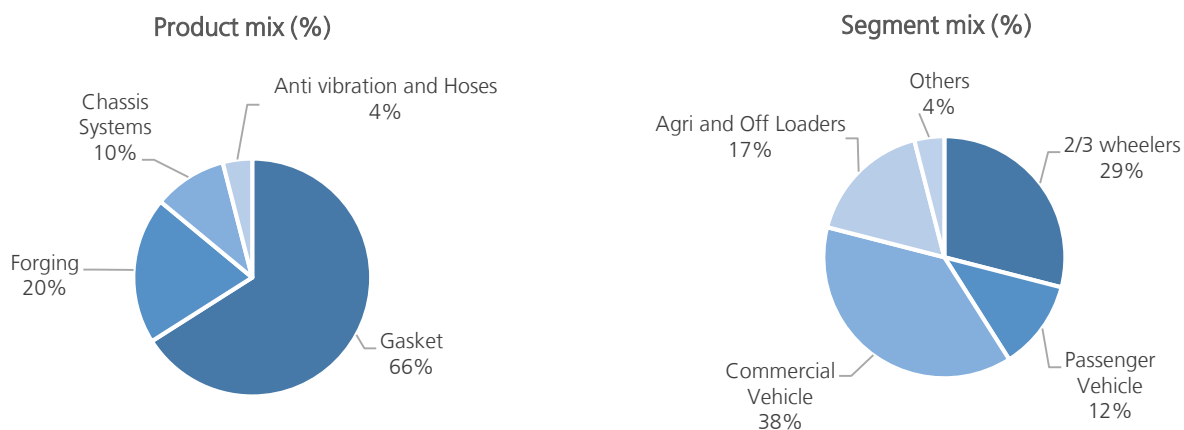
We retain **BUY** on Talbros Automotive Components Ltd with a price target of Rs.389

Valuation

On the back of new client addition, healthy new order wins and new product introduction, TBA is expected to witness robust growth in revenues over FY17-FY20E. Strong revenue growth coupled with gradual improvement in margins is expected to translate into 30% earnings CAGR over FY17-FY20E.

At the CMP of Rs268, the stock is trading at PE of 13.3x on FY19E and 9.6x on FY20E earnings. We reiterate **BUY** on the stock with unchanged price target of Rs389.

TBA have diversified revenue model



Source - Company

Bulk deals

Bulk deals

Date	Scrip name	Name of client	Buy/Sell	Qty of Shares	Avg Price
20-Mar	ACML	Fancos Trademart Private Limited	B	98,000	187.0
20-Mar	ADORMUL	Ramakant & Co.Pvt. Ltd.	S	35,000	40.4
20-Mar	ADORMUL	Fourth Axis Advisors Llp	B	20,000	40.4
20-Mar	ASYAINFO	Paramount Health Services & Insurance Tpa	S	113,999	45.6
20-Mar	BCP	Suresh Pannalal Jain	B	65,000	158.0
20-Mar	BNKCAP	Spotboy Tracom Pvt Ltd	B	375,000	99.5
20-Mar	BNKCAP	Rainbow Investments Limited	S	375,000	99.5
20-Mar	CITADEL	Chetan Ramniklal Shah	S	487,900	82.5
20-Mar	CITADEL	Marathon Realty Private Ltd	B	487,900	82.5
20-Mar	DIKSAT	Aavim Trading Services Private Limited	S	234,000	62.3
20-Mar	EUROTEXIND	Enrich Consulting Private Limited	S	80,000	31.6
20-Mar	EUROTEXIND	Shambhu Contractors Private Limited	B	80,000	31.6
20-Mar	FRANKLIN	Enrich Consulting Private Limited	S	80,000	30.1
20-Mar	FRANKLIN	Sukarma Commerce Private Limited	B	80,000	31.0
20-Mar	GBLINFRA	Vishwamurte Trad Invest Pe Ltd	B	147,000	74.1
20-Mar	GBLINFRA	Rathod Manoj Chhaganlal Huf	S	149,112	74.1
20-Mar	GGL	Jajodia Equity Advisors Services Pvt Ltd	B	60,000	61.4
20-Mar	GGL	Priyanka Hiteshkumar Patel	S	60,000	61.4
20-Mar	IDFC	Cophall Mauritius Investment Limited	S	9,674,424	50.0
20-Mar	IDFC	Baobab Global Fund Ltd	B	9,674,424	50.0
20-Mar	ISFT	Vora Financial Services Private Limited	B	86,329	703.0
20-Mar	JDML	R K Manufacturing Co Ltd	S	90,000	34.6
20-Mar	JYOTI	Vanraj Vinod Shah Huf	B	120,172	67.9
20-Mar	JYOTI	Geeta Vanraj Shah	S	199,900	67.9
20-Mar	KAMATHOTEL	Bhatia Suresh Huf	S	200,000	95.8
20-Mar	KAMATHOTEL	Aarti Bhatia	B	200,000	95.8
20-Mar	MEL	Nimesh P Ganatra	B	100,000	10.6
20-Mar	NATCAPSUQ	Prabha Mohta	B	35,000	110.5
20-Mar	NATCAPSUQ	Kishan Gopal Mohta	S	35,000	110.5
20-Mar	NATECO	Mangalaben Gayakwad	B	15,300	90.5
20-Mar	NTCIND	Kothsons Finance And Consultancy Pvt Ltd	S	55,000	47.1
20-Mar	NTCIND	Kalimata Investment Consultancy Pvt Ltd	B	54,906	47.1
20-Mar	OASIS	Prashant Patel	B	60,000	110.7
20-Mar	VBIND	Fancos Trademart Private Limited	B	95,000	84.3
20-Mar	VIDLI	Harit Exports Limited	S	47,000	83.0
20-Mar	VIDLI	Mohit Ramgopal Agrawal	B	47,000	83.0
20-Mar	VOL	Dipen Virendra Thakkar	S	22,500	47.0
20-Mar	VOL	Pinalben R. Shah	B	69,000	47.0
20-Mar	VOL	Vividoffset Printers Privatelimited	S	46,500	47.0
20-Mar	ZENIFIB	Rajiv Garg	B	23,000	95.4

Source: www.bseindia.com

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Bharti Infratech	342	5.1	NA	5.5
Tech Mahindra	633	3.9	NA	3.3
Eicher Motor	28,360	3.5	NA	0.0
Losers				
Vedanta Ltd	287	(6.5)	NA	14.6
Indian Oil Corp	174	(2.3)	NA	14.2
ONGC	174	(1.6)	NA	3.0

Source: Bloomberg

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- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
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- NOTE** – Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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