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Sundram Fasteners Limited

On a firm growth track

Automobiles	Sharekhan code: SUNDRMFAST	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 602**	
Price Target: **Rs. 700**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

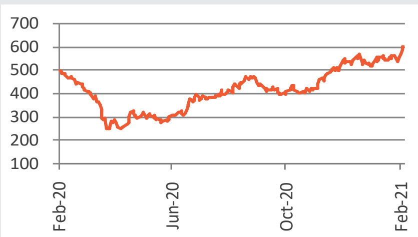
Company details

Market cap:	Rs. 12,650 cr
52-week high/low:	Rs. 625 / 249
NSE volume: (No of shares)	1.29 lakh
BSE code:	500403
NSE code:	SUNDRMFAST
Free float: (No of shares)	10.6 cr

Shareholding (%)

Promoters	49.5
FII	9.8
DII	18.3
Others	22.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.9	42.3	45.2	20.4
Relative to Sensex	5.8	16.6	10.7	-6.9

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Sundram Fasteners Limited (SFL) with a revised PT of Rs. 700, on a strong traction in business outlook and an upgrade in earnings estimates. Q3FY2021 results beat expectation on higher-than-expected demand and margin expansion
- We expect SFL to benefit from strong growth traction in the automotive industry with its clients well diversified across segments. Export and non-automotive segments continue to be the focus area with a strategy to de-risk business from cyclicality.
- We expect SFL's earnings to grow by 86.8% in FY2022E and 42.8% in FY2023E, driven by a 25.2% revenue CAGR during FY2021E-23E and a 350-bps improvement in EBITDA margin.
- Stock trades at P/E multiple of 22.2x and EV/EBITDA multiple of 13.2x its FY2023E estimates.

Sundram Fasteners Limited's (SFL) Q3FY21 results were ahead of expectations driven by higher-than-expected demand and slightly higher margin expansion. Standalone net revenue grew by 36% y-o-y at Rs 942 crores, led by strong demand recovery, both in India and globally. The company is a beneficiary of its established relationship with OEMs. Its key clients such as Maruti Suzuki, Tata Motors and Ashok Leyland continue to deliver strong volume growth in Q3FY21. SFL was also a beneficiary of improved automotive business scenario in USA, UK and China, which together contributes ~88% of its exports. The exports contribute ~36% of its total revenues. The operating profit margin for the Q3FY21 stood at 21.5% showing a strong improvement of 475 bps y-o-y and 52 bps q-o-q, aided by price hikes, cost reductions and operating leverage benefits. PAT grew by 20.6% y-o-y and 28.3 % q-o-q to Rs 124 crores, aided by a sharp decline in interest costs. The company's consolidated revenue grew by 34.8% y-o-y at Rs. 1,109 crores as against Rs. 822 crores in Q3FY20. The consolidated net profit for Q3FY21 was at Rs. 144 crores as against net profit of Rs. 105 crores during Q3FY20. We expect SFL to benefit from strong growth traction in automotive industry with its clients well diversified across segments. Export and non-automotive segments continue to be the focus area with a strategy to de-risk business from the automobile industry's cyclicality. We believe SFL to be the beneficiary of an improved automotive business outlook and its diversified portfolio. Export markets have also witnessing sequential recovery in US markets, where SFL has significant exposure. The company has a well-diversified customer and product portfolio, de-risking its business model from dependency on one-customer or one-product. We expect strong earnings growth going forward, driven by new client acquisitions and expansion of product portfolio. Exports will also be a key driver as the company is committed to expand its export portfolio to 50% of overall revenue from the current 36% contribution to total revenue. The company has a strong long-term revenue visibility, given its strong relationships with OEMs, both in India and globally. We have raised our earnings estimates to factor in the impact of a better business outlook. We expect SFL's earnings to grow by 86.8% in FY2022E and 42.8% in FY2023E, driven by a 25.2% revenue CAGR during FY2021E-23E and a 350-bps improvement in EBITDA margin. In our view, there is further headroom for margin expansion due to operating leverage benefit. The company has completed a major three-year capex plan in FY2020, and expects the strong demand to help increase it capacity utilization. We continue to remain positive on the company's growth prospect and maintain our BUY rating with a revised price target of Rs. 700.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 700: SFL is witnessing a strong traction from domestic and global OEMs, driven by recovery in automotive and non-automotive demand. The outlook remains positive with strong recovery expected from FY2022, driven by normalisation of economic activities. Operating profit margins would expand on the back of operating leverage and cost-control measures. We have increased our earnings estimates to factor in an improved business outlook. The stock is valued at a P/E multiple of 22.2x and EV/EBITDA multiple of 13.2x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 700.

Key Risks

Pricing pressures from automotive OEM customers can impact profitability.

Valuation (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net sales	4,558	3,723	3,425	4,384	5,371
Growth (%)	18.2	(18.3)	(8.0)	28.0	22.5
EBIDTA	800	593	510	745	986
OPM (%)	17.6	15.9	14.9	17.0	18.4
PAT	457	325	214	400	571
Growth (%)	18.3	(29.0)	(34.1)	86.8	42.8
FD EPS	21.8	15.5	10.2	19.0	27.2
P/E (x)	27.6	38.9	59.1	31.6	22.2
P/BV (x)	6.8	6.3	5.9	5.2	4.5
EV/EBITDA (x)	17.0	22.7	25.8	17.6	13.2
RoE (%)	24.5	16.3	10.0	16.5	20.2
RoCE (%)	21.9	14.4	11.4	17.1	21.3

Source: Company; Sharekhan estimates

Q3FY21 results beat expectation on higher-than-expected demand: Sundram Fasteners Limited's (SFL) Q3FY21 results were ahead of expectations driven by higher-than-expected demand and slightly higher margin expansion. Standalone net revenue grew by 36% y-o-y at Rs 942 crores, led by strong demand recovery, both in India and globally. The company is a beneficiary of its established relationship with OEMs. Its key clients such as Maruti Suzuki, Tata Motors and Ashok Leyland continue to deliver strong volume growth in Q3FY21. SFL also benefited from the improved automotive business scenario in USA, UK and China, which together contributes ~88% of its exports. The exports contribute ~36% of its total revenues. The operating profit margin for the Q3FY21 stood at 21.5% showing a strong improvement of 475 bps y-o-y and 52 bps q-o-q, aided by price hikes, cost reductions and operating leverage benefits. PAT grew by 20.6% y-o-y and 28.3 % q-o-q to Rs 124 crores, aided by sharp decline in interest costs. The Company's consolidated revenue grew by 34.8% y-o-y at Rs. 1,109 crores as against Rs. 822 crores in Q3FY20. The consolidated net profit for Q3FY21 grew strongly by 37.1% y-o-y at Rs. 144 crores.

Beneficiary of improved automotive business outlook and diversified portfolio: SFL is expected to be a beneficiary of improving business outlook for both the automotive and non-automotive segments. Export markets have also witnessed a sequential recovery in the US, where SFL has significant exposure. The company has a well-diversified customer and product portfolio, de-risking its business model from dependency on one-customer or one-product. SFL has a strong presence in the passenger car segment, which contributes to ~22% of its total revenues.

Focus on export markets: Exports is one of the key focus areas for SFL, as it continues to be a significant contributor to overall revenue. The company's long-term goal is to make exports contribution to be more than 50% of revenue from 36% currently. The company's key export clientele includes General Motors (GM), Cummins, American Axles, Navistar. The export revenue is largely concentrated to GM and Cummins. Automotive business continues to dominant in the export portfolio. SFL is working towards diversifying export revenue through new client acquisition and focusing on the non-automotive segments.

New businesses: SFL is planning to foray into new businesses such as electric vehicles, aerospace and defence and enter these markets. The company sees huge potential in these emerging sectors and believe it will take time to have strong foothold in new market segments. The strategy would be to first establish markets in India and then expand globally.

Capex plans: SFL has completed a major three-year capex plan in FY2020. The company had invested to the tune Rs 1,000 crore and had expanded capacity across the segments. Currently, SFL is operating at 60-65% capacity utilisation, similar to pre-COVID levels. The recent capex programme has enabled the company to increase revenue by 25-30% without any major capex. It expects the capex to be around Rs 150 crore every year. The next phase of expansion would be planned when the company will be operating at around an 80% capacity utilisation.

Strong broad-based growth; expect double-digit growth in FY22: The company has a strong long-term revenue visibility, given its strong relationships with OEMs, both in India and globally. In our view, there is further headroom for margin expansion due to operating leverage benefit. The company has completed a major three-year capex plan in FY2020, and expects the strong demand to help increase it capacity utilization. We have raised our earnings estimates to factor in the impact of better business outlook. We expect SFL's earnings to grow by 86.8% in FY2022E and 42.8% in FY2023E, driven by a 25.2% revenue CAGR during FY2021E-23E and a 350-bps improvement in EBITDA margin.

Results (Standalone) | Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Revenues	942.2	692.8	36.0	766.9	22.9
EBITDA	202.6	116.1	74.6	161.0	25.9
EBITDA Margins (%)	21.5	16.8	475 bps	21.0	52 bps
Depreciation	37.1	34.3	8.2	36.8	0.7
Interest	2.8	9.2	(69.7)	0.6	363.3
Other income	3.2	8.4	(61.9)	6.5	(50.7)
PBT	166.0	81.1	104.7	130.1	27.6
Tax	41.8	(21.9)	(290.4)	33.3	25.4
Adjusted PAT	124.2	103.0	20.6	96.8	28.3
Reported PAT	124.2	103.0	20.6	96.8	28.3
Adjusted EPS	5.9	4.9	20.6	4.6	28.3

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Demand picking up in automotive and industrial sector

The business outlook for the automotive segments is improving with a normalisation of economic activities. The automotive demand is witnessing strong recovery in four-wheeler segments aided by pent-up demand, an increase in personal mobility transport. The tractor segment remains buoyant on robust farm income this year. The recovery in export destinations is auguring well for the sector.

■ Company outlook - Strong earnings growth

SFL Q3FY21 results were ahead of expectations driven by higher-than-expected demand and slightly higher margin expansion. We expect SFL to be beneficiary of improved automotive business outlook and diversified portfolio. Export markets have also witnessing sequential recovery in US markets, where SFL has significant exposure. The company has a well-diversified customer and product portfolio, de-risking its business model from dependency on one-customer or one-product. We expect SFL to benefit from strong growth traction in automotive industry with its clients well diversified across segments. Export and non-automotive segments continue to be the focus area with a strategy to de-risk business from cyclicality. We expect SFL's earnings to grow by 86.8% in FY2022E and 42.8% in FY2023E, driven by a 25.2% revenue CAGR during FY2021E-23E and a 350-bps improvement in EBITDA margin. We remain positive on SFL's business prospects going forwards.

■ Valuation - Maintain Buy with a revised PT of Rs. 700

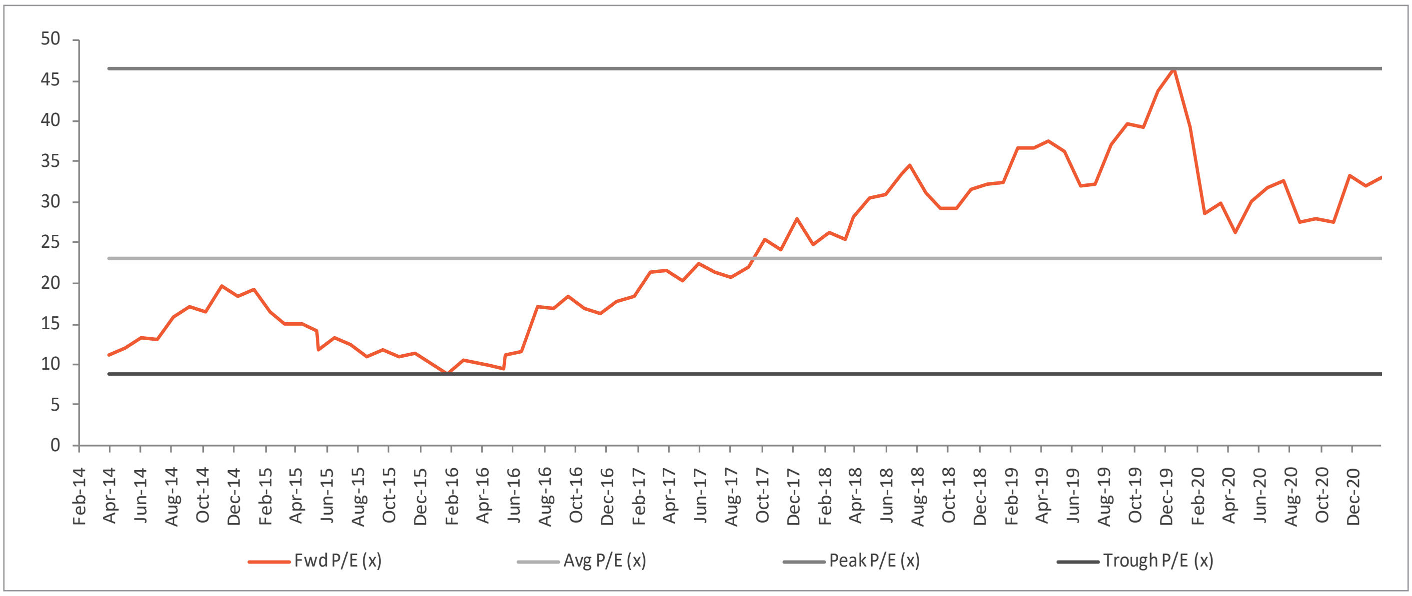
SFL is witnessing a strong traction from domestic and global OEMs, driven by recovery in automotive and non-automotive demand. Outlook remains positive with strong recovery expected from FY2022, driven by normalisation of economic activities. Operating profit margins would expand on the back of operating leverage and cost-control measures. We have increased our earnings estimates to factor in an improved business outlook. The stock is valued at a P/E multiple of 22.2x and EV/EBITDA multiple of 13.2x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 700.

Target Price Calculation

FY2023E EPS (Rs. per share)	27.2
Target P/E Multiple (x)	26
Target Price (Rs.)	700
Upside (%)	16%

Source: Company; Sharekhan estimates

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Sundram Fasteners Limited (SFL), incorporated in 1966, is a part of TVS Group, headquartered in Chennai. It manufactures critical and high precision component for automotive, infrastructure, windmill and aviation sectors. The company produces fasteners, powertrain components, sintered metal products, iron powders, cold extruded parts, radiator caps, water pumps, oil pumps and wind energy components. SFL has customer portfolio including and domestic and international client. The revenue mix comprises of 52% domestic OEMs, 13% aftermarket and 35% from exports.

Investment theme

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Key Risks

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Additional Data

Key management personnel

Mr. Suresh Krishna	Chairman
Ms. Arathi Krishna	Managing Director
Ms. Arundathi Krishna	Joint Managing Director
Mr. Meenakshisundaram	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Iyengar T V Sundram	25.4%
2	Southern Roadways Ltd	24.2%
3	HDFC Asset Management Co Ltd	7.0%
4	Amansa Holdings Pvt Ltd	5.4%
5	Parikh Govindlal	2.1%
6	General Insurance Corp of India	1.8%
7	Life Insurance Corp of India	1.6%
8	New India Assurance	1.4%
9	L&T Mutual Fund Tustee Ltd/India	1.1%
10	Tata Asset Management Company	1.1%

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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