Stock Update

Talbros Automotive Components Ltd.

June 26, 2023

RETAILRESEARCH

Talbros Automotive Components Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 723	Buy in Rs 715-735 band & add on dips in Rs 645-660 band	Rs 800	Rs 850	2-3 quarters

HDFC Scrip Code	TALAUTEQNR
BSE Code	505160
NSE Code	TALBROAUTO
Bloomberg	TALB IN
CMP Jun 23, 2023	723.1
Equity Capital (Rs cr)	12.4
Face Value (Rs)	10.0
Equity Share O/S (cr)	1.2
Market Cap (Rs cr)	892.7
Book Value (Rs)	260.9
Avg. 52 Wk Volumes	86,500
52 Week High (Rs)	748.0
52 Week Low (Rs)	369.8

Share holding Pattern % (Mar, 2023)	
Promoters	58.4
Institutions	0.0
Non Institutions	41.6
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Atul Karwa
atul.karwa@hdfcsec.com

Our Take:

Talbros Automotive Components Ltd. (TACL) manufactures gaskets and forgings products which are used across the automobile industry as well as in the industrial segment. India's domestic automobile demand is expected to remain strong including in the CV and tractor/off-road segments. The Government is also looking to promote manufacturing of auto components in India by offering various incentives. TACL has established relationships with globally reputed companies.

With continuous innovation in new products like heat shields, strengthening EV portfolio, growing orders from non-automotive segments, strong clientele, and manufacturing E20 biofuel hoses, TACL is likely to achieve strong growth. It is aiming to double its group level revenue to Rs 2,200cr by FY27 led by increasing exports and strong order booking. TACL has made substantial investment in new technologies, expanding new capacities, diversified its product portfolio, broadened its customer base, and have entered additional markets.

Valuation & Recommendation:

We expect TACL's Revenue/EBITDA/PAT to grow at 18/22/20% CAGR over FY23-FY25E, led by strong growth in CV and off-road/tractor segment and realization from the recent order wins. We believe investors can buy the stock in the band of Rs 715-735 and add on dips in Rs 645-660 band (9.75x FY25E EPS) for a base case fair value of Rs 800 (12x FY25E EPS) and bull case fair value of Rs 850 (12.75x FY25E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Revenues	175	148	18.2	159	10.4	577	647	724	822
EBITDA	25	21	18.8	23	10.0	75	87	100	115
APAT	17	13	33.9	14	22.9	45	56	68	82
Diluted EPS (Rs)	13.7	10.2	33.9	11.1	22.8	36.3	45.0	55.0	66.6
RoE (%)						17.4	18.8	19.2	19.4
P/E (x)						19.9	16.1	13.1	10.9
EV/EBITDA (x)						12.9	11.1	9.6	8.1

(Source: Company, HDFC sec)

Q4FY23 Result Update

TACL continued to report strong growth in Q4FY23 driven by strong performance in both gaskets and forging division. Revenue increased 18% YoY to Rs 175cr. Gasket/Forging division reported 17%/22% increase in revenue to Rs 119/59 crore respectively. Gasket JV with Nippon Leakless reported 8% growth in revenue to Rs 20cr as 2W volumes recovered YoY in Q4. Marelli Talbros (chassis) and Talbros Marugo witnessed growth of 11% and 68% YoY respectively to Rs 56 and Rs 29cr.

Gross margins declined 300bps due to higher material prices. EBITDA grew 19% to Rs 25cr as the company benefitted from higher operating leverage resulting in steady EBITDA margin of 14.2%. PAT came in at Rs 17cr, a growth of 34% YoY while PAT margin expanded 90bps to 9.6%. Gross debt at the end of FY23 including working capital stood at Rs 87cr.

Key Triggers

Strong order inflows in FY23

In FY23, the company secured multi-year orders exceeding Rs 1,000cr from both domestic and international customers across its product segments, joint ventures, and business divisions. These orders will be executed over the next five years and cover the company's product lines, including gaskets, heat shields, forgings, and chassis. The new orders will enable Talbros to expand market share by serving both existing and new customers across different geographies.

Expansion programme to double revenues by FY27

Talbros has devised an expansion plan 'Talbros 2.0' with the aim to double its revenues to Rs 2,200cr by FY27. Under the plan, the company intends to increase its export sales from 25% in FY23 to ~35% in FY27, expand EBITDA margins by 100-200bps and have set its sights on crossing the 20% RoCE in the coming years. Most of the capex would be funded through internal accruals and total debt would be maintained below Rs 100cr. Increasing focus on EV is expected to increase its revenue share to ~12% from 2% currently.

Entering into new geographies and launching new products

The company is entering into new geographies like Russia, Japan, for LCV, HCV and offroad segment products. In the forging division, it is leveraging its capability to convert castings into forgings and increasing focus on electric vehicles. It has also added heavyweight parts up to 30 kilos and looking to expand its exports to geographies like U.K., North America.

Talbros has signed up exclusive contract with SANWA for Light Weight Aluminium Heat Shields which is used for automotive applications specially in PV segment and is a futuristic product technology. In forging, it is moving towards heavier forged parts. With the launch of new products, share of PVs is expected to increase from 2% currently to ~11% in FY27.

Future capex to be funded largely through internal accruals

Talbros has planned for a capex of Rs 205cr over the next 4 years to expand its manufacturing facilities in order to meet the anticipated increase in order flows in both its gaskets and forgings business as well as subsidiaries. It is planning to invest approximately Rs 60cr in forging division in next four years starting this year for adding personal machining and presses.

Auto sales to improve going forward

According to Crisil Research, growth across the automobile sector segments could level off in FY24 as the base effect of last fiscal wanes. Commercial vehicle sales are expected to drive past pre-pandemic levels in FY24 along with passenger vehicles, which did so in FY23, and tractors, which recorded an all-time high in pandemic-impacted fiscal 2021. Two-wheelers will continue to lag as the hike in their total cost of ownership (TCO) has been much sharper than for passenger vehicles.

The passenger vehicle sector was the hardest hit in fiscal 2022 due to semiconductor shortages on account of rising semiconductor intensity per vehicle. CRISIL Research expects domestic volumes in FY24 to rise 27-29% on-year to ~3.9 million vehicles, surpassing the pre-pandemic high of 3.4 million vehicles. The volumes would be supported by strong pent-up demand, a healthy order book across original equipment manufacturers (OEMs), improving model availability, new model launches and the loan-to-value (LTV) inching towards near 100% of on-road financing.

CV domestic sales volumes are expected to grow 9-11% on a strong base of fiscal 2023 driven by improving fleet utilisation and transporter profitability levels, higher replacement demand and expectations of robust economic growth. Implementation of scrappage policy could also help. In 2W space, reopening of educational institutions and offices, increased minimum support prices (MSPs) across crops, coupled with improved model availability and demand for electric vehicles (EVs), are expected to drive two-wheeler sales in FY24.

Growing demand and the resultant rise in operating leverage is likely to boost profitability of auto ancillary companies like Talbros.

Risks & Concerns

Working capital intensive nature of operations

Since TACL is in the auto ancillary industry, its operations are working capital intensive in nature. The group needs to maintain inventory of around 3-4 months as it manufactures 3,500 varieties of gaskets requiring 40 types of raw materials. Around 30% of these raw materials are imported from Germany, US and Japan, such imports demanding 1-2 months’ lead time.

Raw material inflation

Cost of raw materials – primarily iron and steel – accounts for around 50%-60% of total operating income. Global prices for iron and steel are volatile thereby exposing the group to price risk.

Bargaining power with OEMs

TACL has limited bargaining power with OEM and at times not been able to pass on the entire increase in costs which has impacted its margins. The company is in negotiations with OEMs which might not materialize in company's favour in time.

Vulnerable to cyclicality in demand from automobile OEMs

TACL supplies its products primarily to automobile OEMs and is exposed to cyclicality in demand for automobiles.

Forex volatility risk

TACL derives ~25% of its revenue through export of its products. It hedges ~25-30% of its forex exposure. The rupee fluctuations vis-à-vis the US$ and Euro could impact its profitability.

EV adoption could render many products obsolete

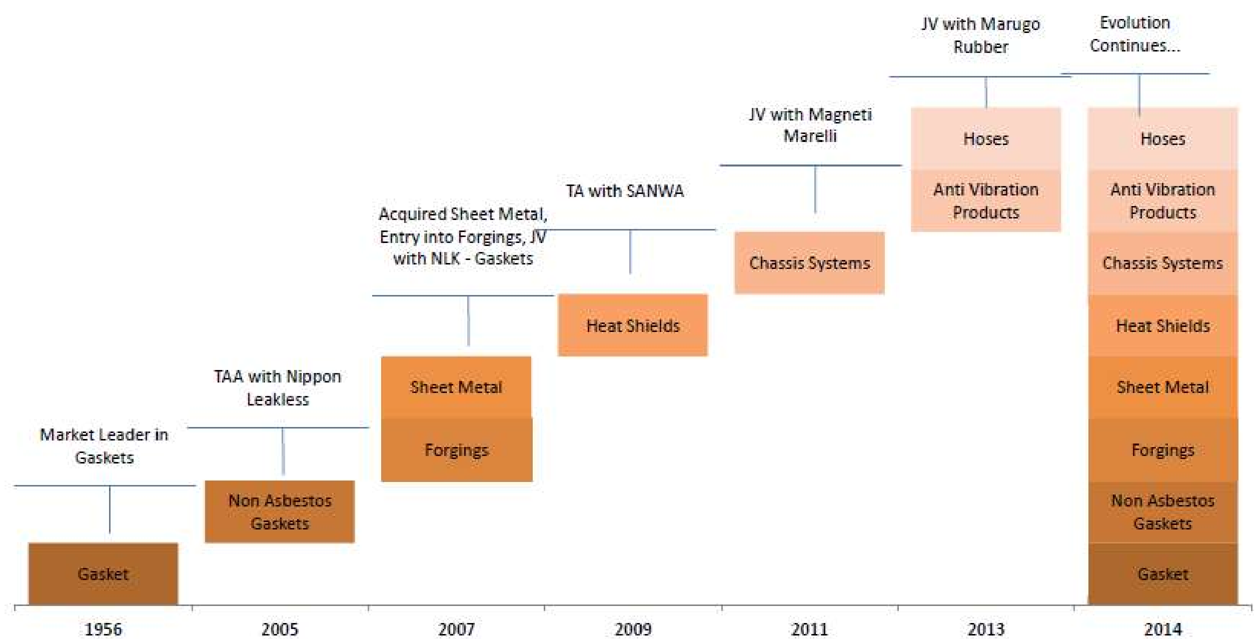
Large scale adoption of EV could render many of the company's products obsolete as gaskets are not required to the same extent in EVs.

Company Background:

TACL is a respectable name in the Automotive and Industrial Gaskets manufacturing space. Commencing its journey in 1956, it has been successfully carving out a space for itself in products such as gaskets, heat shields, forgings, suspension systems and modules, anti-vibration components and hoses, directly supplying finished products to OEM customers. In FY23 OEMs accounted for 63% of revenue and exports contributed to ~25%. Amongst vehicle segment 2/3 wheelers, passenger cars and M&HCV constitute 22/26/28% of sales in FY23 with the balance from Agri & Offroad and others

With diversified products, TACL caters to the largest automobile OEM segment, which includes passenger vehicles, commercial vehicles, two-wheelers, three-wheelers, Agri, offroad, industrial, among others.

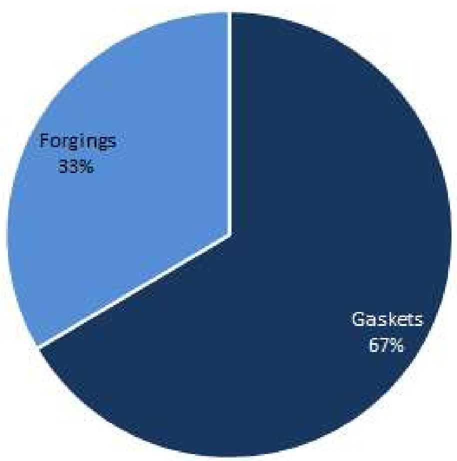
Evolving product portfolio

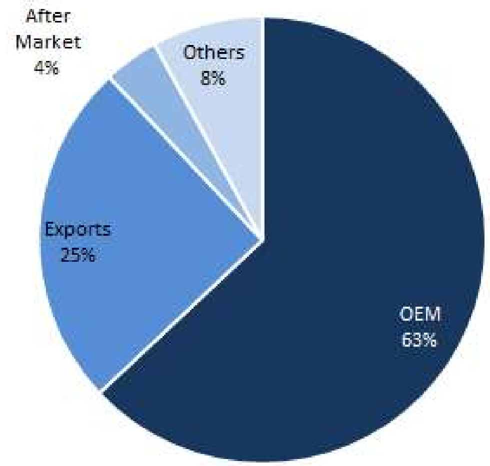


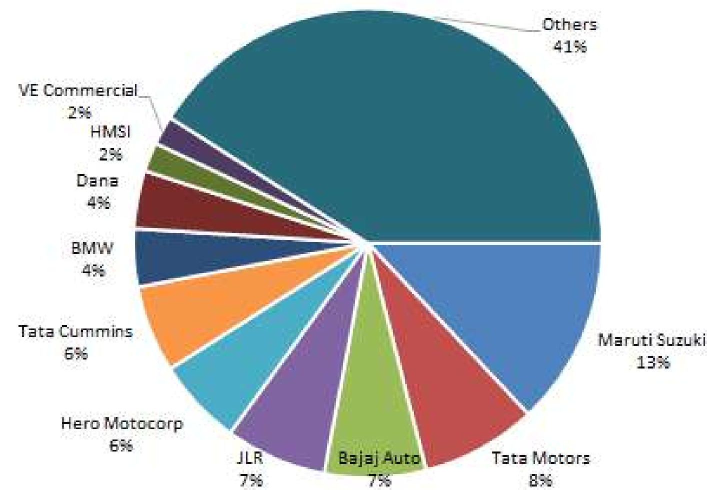
(Source: Company)

Talbros's multi-technological capabilities and integrated offerings combined with its product quality and strategic partnership with global brands such as Nippon Leakless Talbros Pvt. Ltd, Marelli Talbros Chassis Systems Pvt. Ltd. and Talbros Marugo Rubber Pvt. Ltd. has made it a preferred vendor for large corporates in and outside India.

Revenue split (FY23)

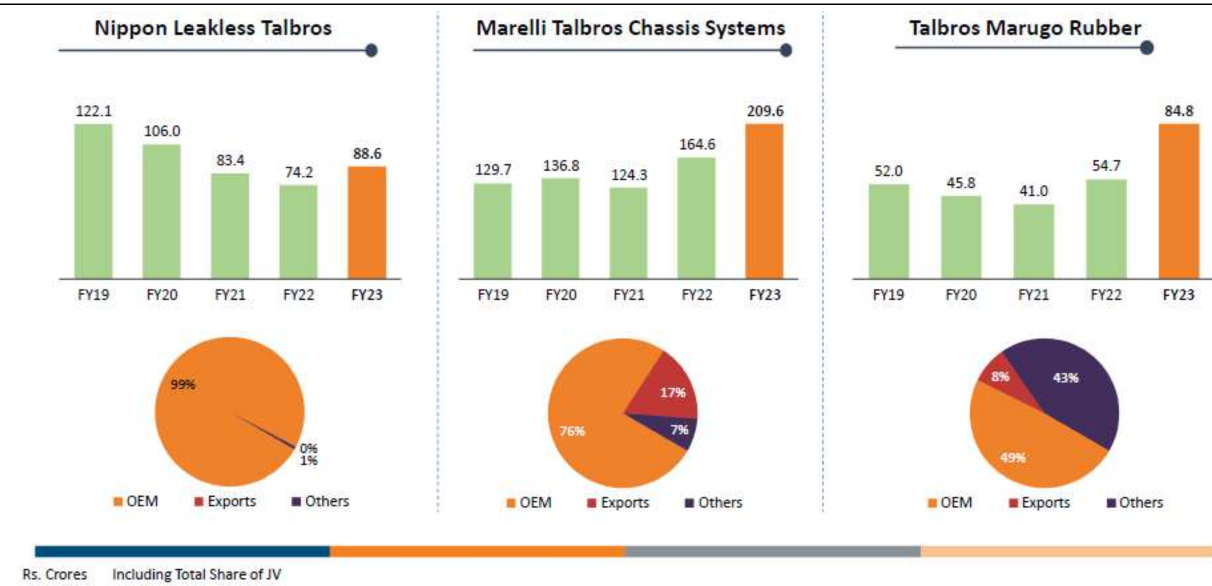






(Source: Company, HDFC sec)

JV's Performance Highlights



(Source: Company)

Financials (Consolidated)

Income Statement

(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	**444**	**577**	**647**	**724**	**822**
Growth (%)	***15.3***	***30.0***	***12.1***	***11.9***	***13.5***
Operating Expenses	389	502	560	624	707
EBITDA	**56**	**75**	**87**	**100**	**115**
Growth (%)	***52.3***	***35.6***	***15.6***	***14.5***	***15.5***
EBITDA Margin (%)	***12.5***	***13.1***	***13.5***	***13.8***	***14.1***
Depreciation	23	23	24	27	30
Other Income	9	8	6	9	10
EBIT	**42**	**60**	**70**	**82**	**96**
Interest expenses	13	12	11	11	11
PBT	**46**	**49**	**58**	**71**	**85**
Tax	13	11	15	18	21
PAT	**34**	**37**	**44**	**53**	**64**
Share of Asso./Minority Int.	6	8	12	15	19
Adj. PAT	**39**	**45**	**56**	**68**	**82**
Growth (%)	***220.5***	***14.6***	***23.9***	***22.2***	***21.1***
EPS	31.7	36.3	45.0	55.0	66.6

Balance Sheet

As at March (Rs cr)	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	12	12	12	12	12
Reserves & Surplus	235	256	310	373	450
Shareholders' Funds	**248**	**268**	**322**	**385**	**462**
Minority Interest	0	0	0	0	0
Total Debt	85	89	87	80	72
Net Deferred Taxes	6	11	15	15	15
Other Non-curr. Liab.	1	0	1	1	1
Total Sources of Funds	**339**	**369**	**425**	**481**	**550**
APPLICATION OF FUNDS					
Net Block & Goodwill	147	157	171	188	215
CWIP	3	3	5	10	8
Investments	76	64	81	91	101
Other Non-Curr. Assets	4	9	9	10	11
Total Non Current Assets	**230**	**233**	**266**	**299**	**335**
Inventories	102	114	133	159	185
Debtors	155	151	169	183	203
Cash & Equivalents	12	5	8	6	8
Other Current Assets	30	32	35	44	52
Total Current Assets	**299**	**303**	**344**	**391**	**447**
Creditors	149	153	169	179	203
Other Current Liab & Provisions	41	14	17	27	26
Total Current Liabilities	**190**	**167**	**186**	**206**	**229**
Net Current Assets	109	136	158	185	218
Total Application of Funds	**339**	**369**	**425**	**481**	**550**

Cash Flow Statement

(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
PBT	52	56	70	86	104
Non-operating & EO items	-25	-7	-13	-1	-1
Interest Expenses	13	11	11	11	11
Depreciation	23	23	24	27	30
Working Capital Change	9	-13	-21	-29	-32
Tax Paid	-5	-18	-15	-18	-21
OPERATING CASH FLOW (a)	**66**	**52**	**57**	**76**	**90**
Capex	2	-32	-38	-45	-55
Free Cash Flow	68	20	18	31	35
Investments	0	0	0	-10	-10
Non-operating income	-4	6	1	0	0
INVESTING CASH FLOW (b)	**-2**	**-25**	**-37**	**-55**	**-65**
Debt Issuance / (Repaid)	-51	-11	-2	-7	-7
Interest Expenses	-14	-12	-11	-11	-11
FCFE	0	3	6	3	7
Share Capital Issuance	0	0	0	0	0
Dividend	-1	-4	-3	-5	-6
Others	0	0	0	0	0
FINANCING CASH FLOW (c)	**-65**	**-27**	**-16**	**-23**	**-23**
NET CASH FLOW (a+b+c)	**-1**	**0**	**3**	**-2**	**1**

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E
Profitability Ratios (%)					
EBITDA Margin	12.5	13.1	13.5	13.8	14.1
EBIT Margin	9.4	10.4	10.8	11.3	11.6
APAT Margin	8.8	7.8	8.6	9.4	10.0
RoE	17.6	17.4	18.8	19.2	19.4
RoCE	12.4	17.5	18.2	18.7	19.1
Solvency Ratio (x)					
Net Debt/EBITDA	1.3	1.1	0.9	0.7	0.6
Net D/E	0.3	0.3	0.2	0.2	0.1
PER SHARE DATA (Rs)					
EPS	31.7	36.3	45.0	55.0	66.6
CEPS	50.3	54.9	64.2	76.7	90.6
BV	200.5	217.4	260.9	312.1	374.2
Dividend	2.0	2.5	3.0	3.8	4.6
Turnover Ratios (days)					
Inventory days	115	97	90	88	86
Debtor days	86	68	70	73	76
Creditors days	105	96	91	88	85
VALUATION (x)					
P/E	22.8	19.9	16.1	13.1	10.9
P/BV	3.6	3.3	2.8	2.3	1.9
EV/EBITDA	17.3	12.9	11.1	9.6	8.1
EV/Revenues	2.2	1.7	1.5	1.3	1.1
Dividend Yield (%)	0.3	0.3	0.4	0.5	0.6
Dividend Payout (%)	6.3	6.9	6.7	6.9	6.9

Price chart

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:
I**, Atul Karwa,** Reesearch Analyst, **MMS,** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.
Any holding in stock – No
HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:
This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.
This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.
If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.
Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.
This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.
HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.
HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.
HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.
HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.
HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400
HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193
Investment in securities market are subject to market risks. Read all the related documents carefully before investing.
Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.
Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.