

S.J.S. ENTERPRISES LIMITED

Aesthetically first class!!

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We initiate coverage on SJS Enterprises Ltd. (SJS) with a BUY and TP of ₹1,300 (28% upside). We believe that the company should grow faster than industry on the back of a) premiumization trend - transitioning to 3D dials (2x higher realization), capacitive overlays (2x higher realization), premium logos (20% higher realization), and IML/IMD products (1.5x higher realization), b) new customer additions, and c) maximizing cross selling opportunities. SJS has demonstrated exceptional integration and operational skills by doubling Exotech's revenues with substantial margin expansion since acquisition, imprinting the same for WPI. Even excluding any impact of cover glass and any acquisition, we expect a net cash balance sheet, strong FCF generation, healthy margins and very strong growth, demanding a solid performance going forward.

Product and technological capabilities provides the required moat

SJS sets itself apart with a comprehensive range of over 7000 SKUs that are technologically agnostic across 13-14 product categories, solidifying its position as the preferred partner for OEMs. This is demonstrated by enduring relationships with top 10 customers over 19 years on an average, alongside consistent acquisition of new clients. SJS offers seamless design-to-delivery solutions within 15 days to 6 months. The recent acquisition of WPI has enhanced SJS's capabilities with 2K injection molding, 3D die cutting, and IML/IMD/IMF technologies, filling critical gaps in technological portfolio. SJS is advancing in globally underpenetrated IME technology to maintain a competitive edge.

Cashing in on the premiumization theme

SJS has been consistently outpacing industry growth through diversification, premiumization, customer additions, increase in wallet share and strategic acquisitions. We expect premiumization to propel SJS's growth, marked by the shift to 3D dials (2x higher realization), capacitive overlays (2x higher realization), premium logos (20% higher realization), and IML/IMD products (1.5x higher realization), with underlying industry tailwinds. On the back of two major acquisitions, the share of new-generation products has surged from 3% to 25% over the last five years, with a promising trajectory ahead.

Cross selling & Exports pick up and robust financials to drive the performance

SJS's robust customer relations underscore the effectiveness of cross-selling, as demonstrated by Exotech securing its first export order from Whirlpool. SJS is likely to continue to capitalize on similar cross-selling opportunities. SJS's renewed strategy of appointing agents overseas, combined with new orders from global customers like Whirlpool, Visteon, Continental, Marelli, and Stellantis, reflects a positive outlook for exports.

Key Financials	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Total sales (₹ bn)	4,330	6,278	7,631	8,731	9,917
EBITDA margins (%)	24.6%	24.2%	24.9%	25.6%	26.1%
PAT margins (%)	15.5%	13.6%	15.3%	15.8%	16.3%
EPS (₹)	22.1	27.5	37.7	44.3	52.0
P/E (x)	46.0	36.9	26.9	22.9	19.5
P/BV (x)	7.2	5.6	4.6	3.9	3.2
EV/EBITDA (x)	29.7	21.1	16.6	14.1	11.7
ROE (%)	16%	16%	18%	17%	17%
ROCE (%)	29%	26%	26%	27%	29%

BUY

Current Market Price (₹) :	1,016
12M Price Target (₹) :	1,300
Potential Return (%) :	28

Stock Data

Sector :	Automobile & Auto Components
FV (₹) :	10
Total Market Cap (₹ bn) :	32
Free Float Market Cap (₹ bn) :	25
52-Week High / Low (₹) :	1,138 / 552
BSE Code / NSE Symbol	543387 / SJS
Bloomberg :	SJS IN

Shareholding Pattern

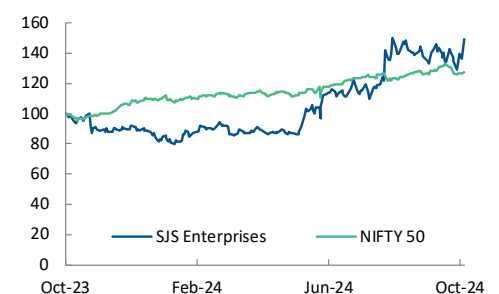
(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	21.80	21.80	21.80	21.80
MF's	24.28	25.62	28.87	26.68
FPIs	15.95	15.11	12.85	14.27
AIF's	4.41	3.40	0.43	0.58
Insurance	3.06	3.04	2.63	3.27
Others	30.50	31.03	33.42	33.40

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
SJS	3.3%	21.6%	67.3%	45.3%
Nifty 50	-1.2%	1.9%	12.5%	27.0%

* To date / current date : October 15, 2024

SJS vs Nifty 50

SJS is currently evaluating an overseas acquisition to tap into substantial global TAM and leverage cross-selling opportunities, aiming to boost exports (7.5% of topline, target 15% in next two years). Excluding any impact from new products like cover glass/ IME and overseas acquisition, we expect a net cash balance sheet, healthy margins, strong FCF generation and very strong growth coming for SJS.

Outlook and Valuation

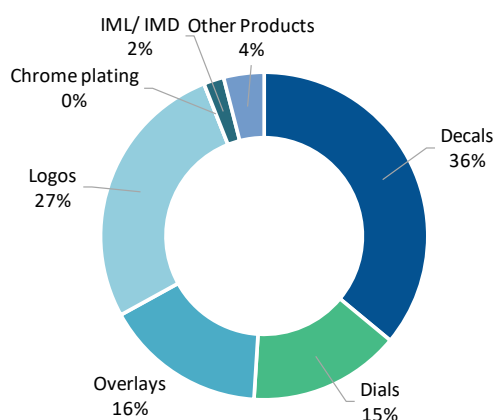
SJS has always been at the forefront to adapt to new challenges through launch of some trend setting products and also through synergistic and profitable acquisitions. We believe that the acquisitions in Exotech and WPI were strategic fit, positioning SJS for enhanced business prospects. The company has demonstrated resilience in navigating such challenges such as pandemic-related disruptions and semiconductor availability issues. Further, we believe SJS is well-positioned for strong growth driven by sectoral tailwinds in the two-wheeler industry, bolstered by increasing vehicle content across segments due to a shift towards premiumization. SJS is actively considering opportunities for overseas acquisition.

There is no listed company directly comparable to SJS. We find that SJS is well-placed to grow largely at par on Rev/EBITDA/PAT (16%/19/24%) in the period between FY24-FY27E with some of the other ancillary players. While the EBITDA margin should be significantly higher compare to large peers, SJS's return ratios are expected to be at par with them (ROE in higher teens and ROCE above 25%). Despite expectation of robust financials, industry tailwinds and operational triggers, SJS is trading at a discount to some of its peers. We expect this gap to narrow as the company delivers on the key points and triggers explained in this report, thereby making a case for re-rating. We initiate SJS with a target price of ₹1,300 (valued at 25x FY27E earnings as compared to current P/E of 19.5x).

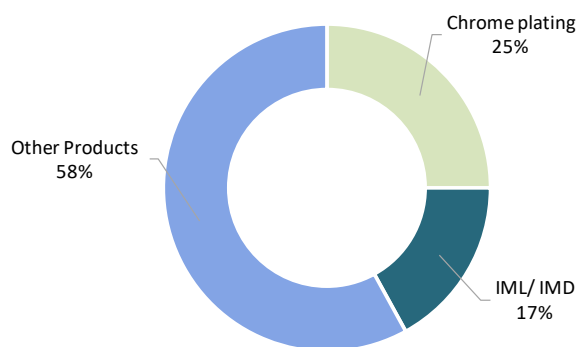
Company

SJS is one of the leading players in the Indian Decorative Aesthetics industry. SJS is a 'design-to-delivery' aesthetics solutions provider with expertise in designing, developing, and manufacturing a diverse range of products. The differentiation lies in extensive product portfolio, high-quality offerings, strong product design capabilities, and robust customer relationships spanning global industries. The companies acquisitions of Exotech (specializes in chrome plated products) and WPI (IML/ IMD products) are unique in their own style. SJS supplied over 169mn parts with more than 7,000 SKUs in FY24 supplied to customers across 22 countries. SJS derives 37% of revenue from 2Ws, 37% from PVs, 20% from Consumer segment and 6% from other industries such as Farm Equipments, CVs, Medical equipments etc.

Product wise revenue split in FY21



Product wise revenue split in FY24



Source: Company, LKP Research

Important dates and events

Timeline	Event
1987	SJS founded by three entrepreneurs - Shrinivasan, Joseph and Sivakumar
1996	Started manufacturing automotive dials
2006	Joint Venture with Serigraph, a US based commercial printing player
2010	Entry into new product - 3D lux badges
2015	Shrinivasan & Sivakumar retired Everstone Capital acquired a majority stake; exit by Serigraph
2015-2017	Entry into new product lines - IMD parts, aluminum & electro formed badges
2018	New manufacturing facility commissioned with 225,000 sq.ft. area and significant capacity boost
2019-20	Introduced premium / technologically advanced products (formed dials, Optical plastics, lens mask assemblies) and expanded PV customer base with new product range
2021	Acquisition of Exotech Plastics Entry into chrome plating
2023	Walter Pack India July'23 - Acquired 90.1% stake in WPI. Focused on IMF, IML, IMD and IME technologies for automotive and appliance sectors

Source: Company, LKP Research

Products

Decals & Body Graphics



Appliques & Dials



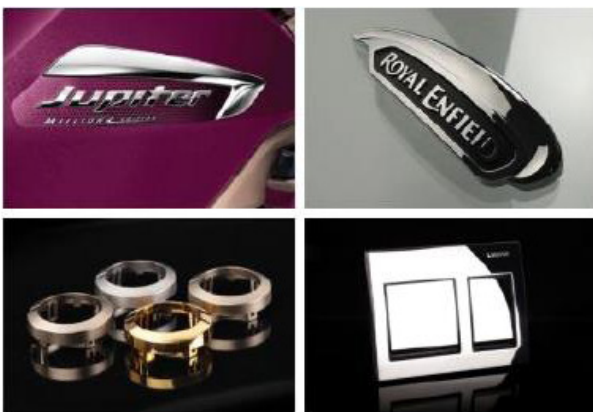
Lens Mask Assembly



Logos & Badges



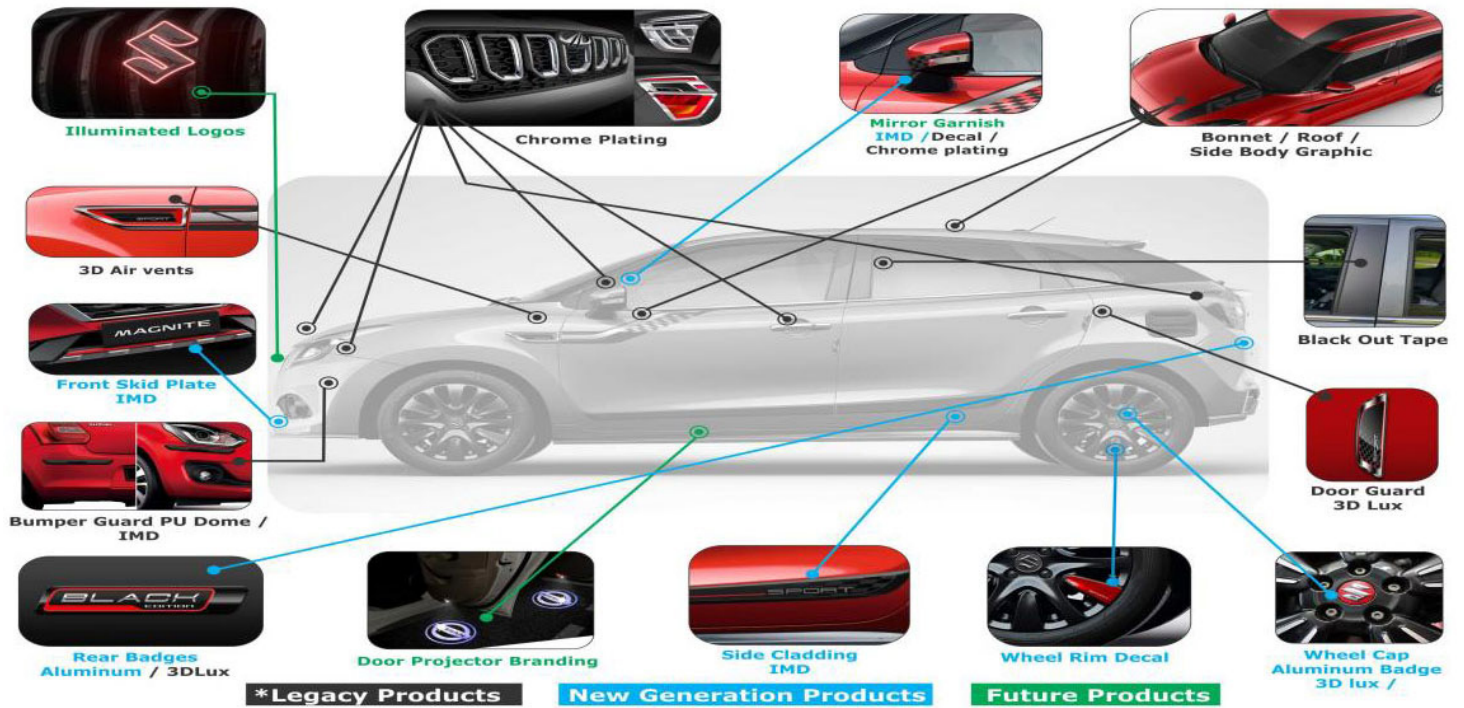
Chrome Plating



IML/ IMD products

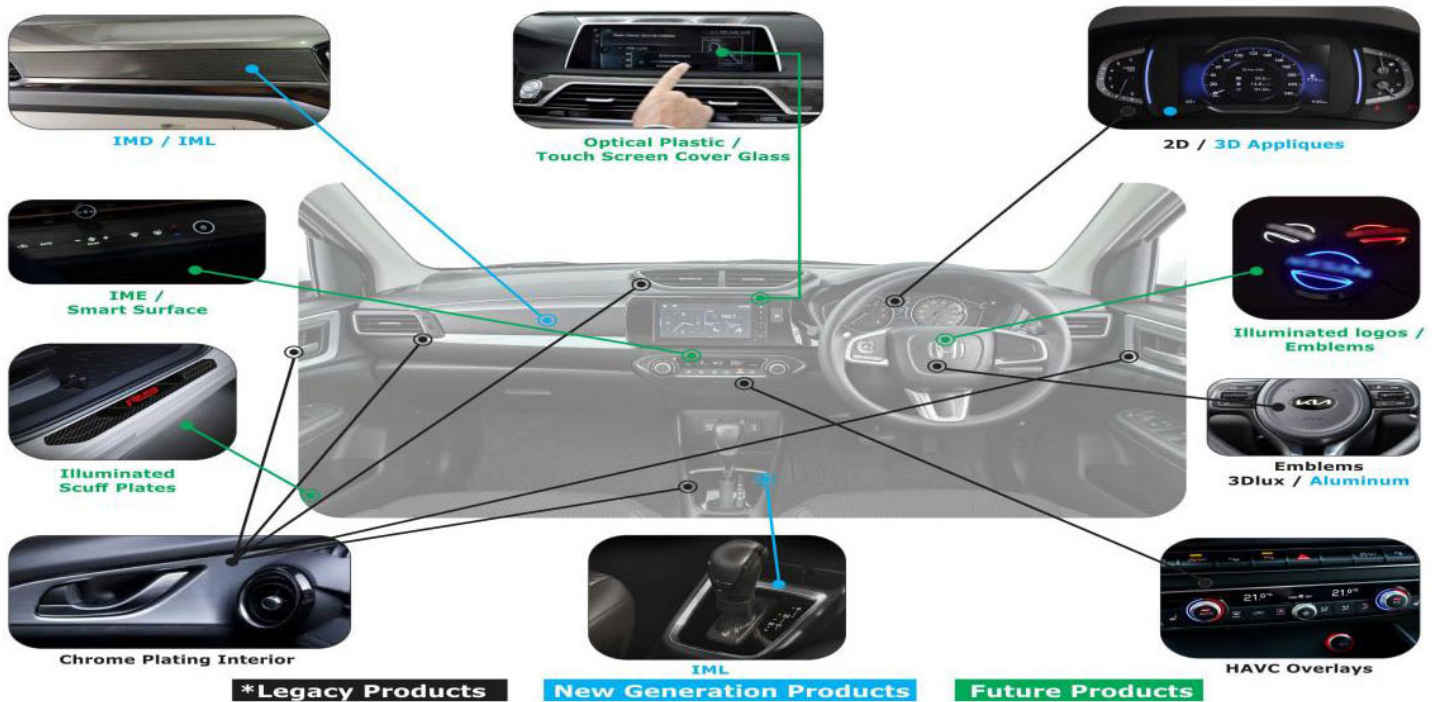


Products (PV)



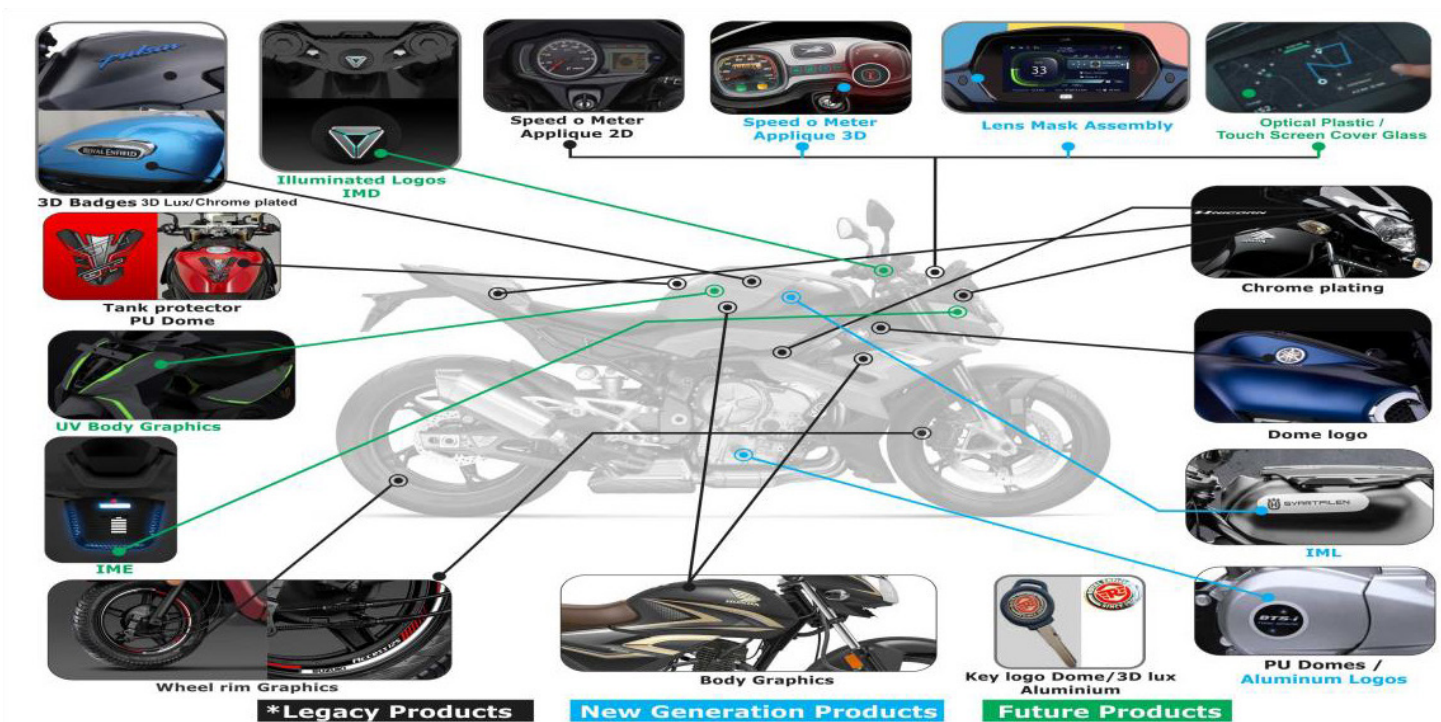
Source: Company, LKP Research

Products (PV)



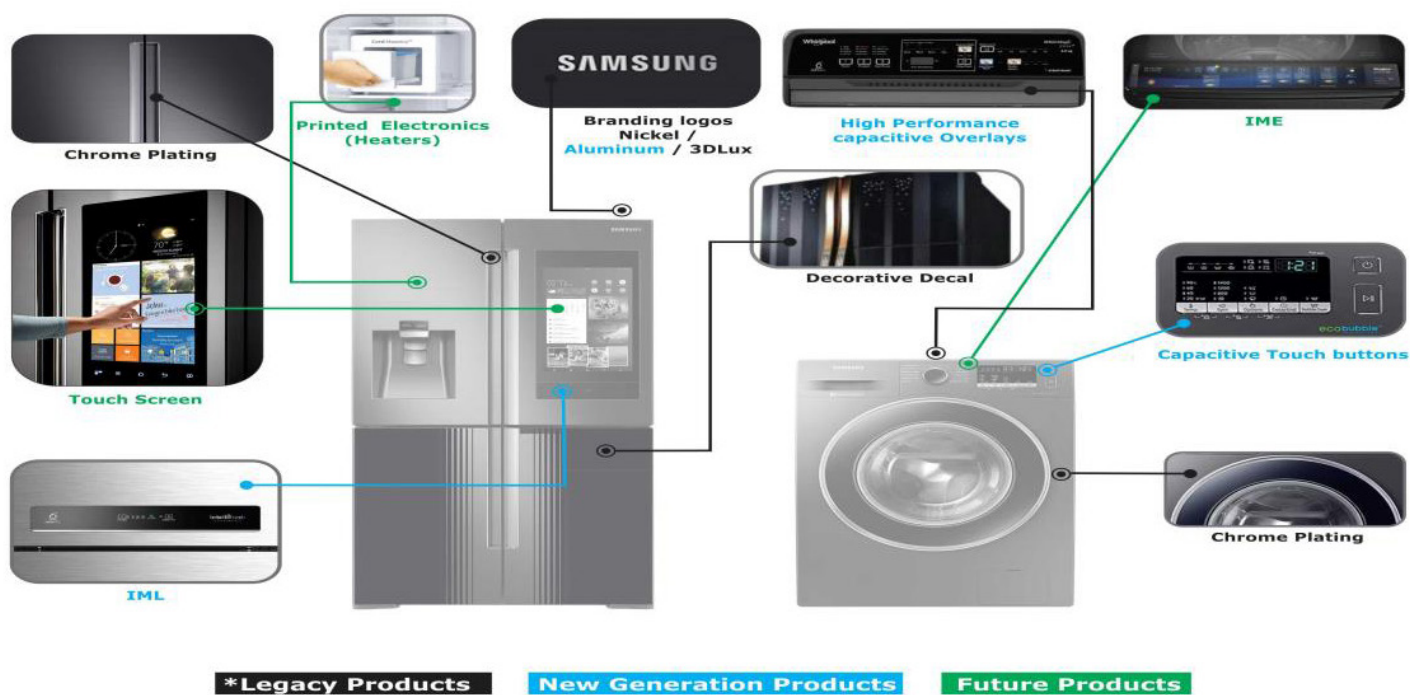
Source: Company, LKP Research

Products (2W)



Source: Company, LKP Research

Products (Consumer Durables)



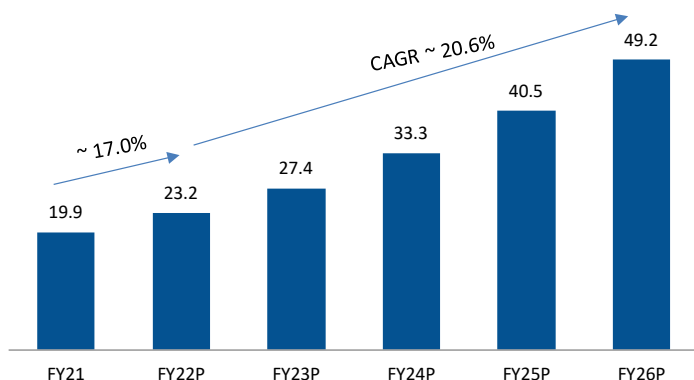
Source: Company, LKP Research

Industry

As per CRISIL estimates, size of the aesthetics industry in India in FY2021 was ~₹19.9 bn, projected to grow at 15-20% CAGR (next 5 years), based on – a) 10-12% volume growth of the underlying industry (auto and consumer appliances) and b) rising kit value per vehicle led by premiumisation. SJS management typically guides for 1.5-2x growth versus the underlying industry.

Decorative aesthetic market in India

Decorative aesthetic market in India (₹ bn)



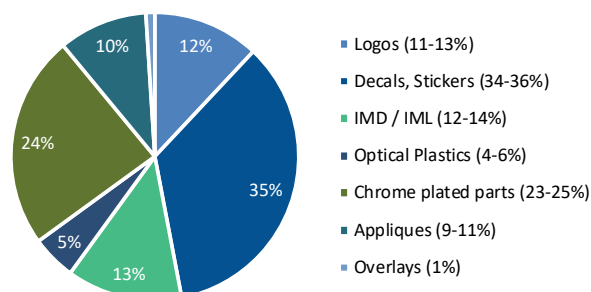
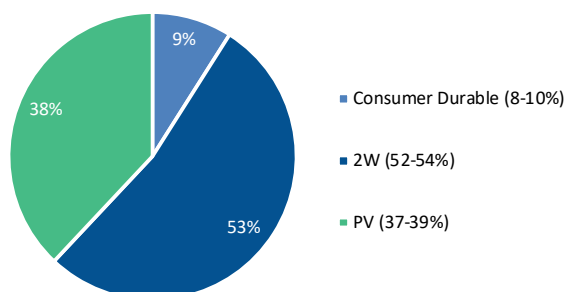
Source: Company, LKP Research

Strong premiumisation trend at play in aesthetics industry in India. CRISIL estimates for growth in various segments

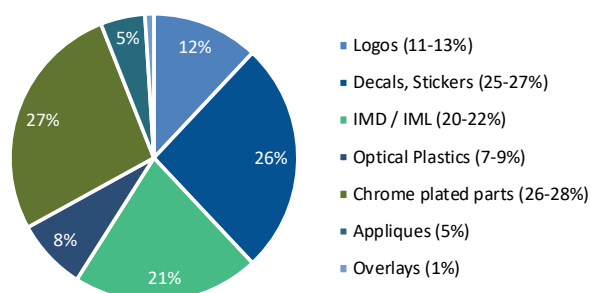
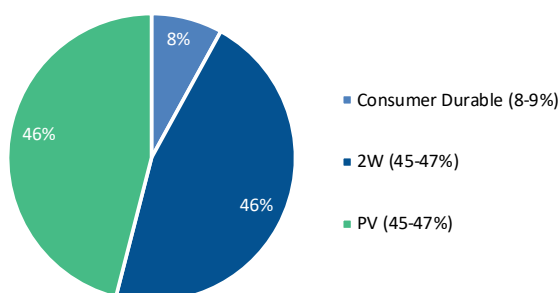
Aesthetic Products	Aesthetic market CAGR (FY 21-26)
Logos	19.0%
Decals, Stickers	13.0%
IMD / IML	32.0%
Optical plastics	31.0%
Chrome plated parts	23.0%
Appliques (2W & PV) / Appliques (PV)	6.0% / 14.0%
Overlays	17.0%
Total	20.0%

Source: Company, LKP Research

Break-up of the aesthetic industry in India in FY21, CRISIL estimates



Break-up of the aesthetic industry in India in FY26, CRISIL estimates



Source: Company, LKP Research

Investment Argument

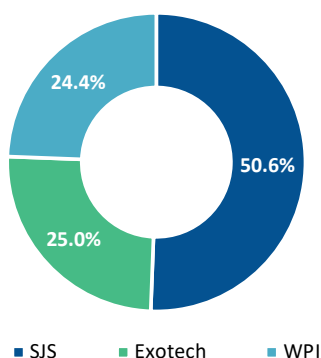
Market leadership position in Indian Aesthetics industry

SJS Enterprises stands at the forefront of the Indian decorative aesthetics industry, offering comprehensive 'design to delivery' solutions. It specializes in customizing, designing, developing, and manufacturing a diverse range of products for global leaders in the automobile and consumer appliances sectors. Additionally, SJS also manufactures products for commercial vehicles, medical devices, farm equipment, and the sanitaryware industry. SJS offers a diverse portfolio including decals, dials, domes, badges, overlays, aluminium badges, IML/IMDs, lens mask assembly, optical plastics, and chrome plated products. What distinguishes SJS from its competitors is its ability to provide over 7000 SKUs across approximately 13 product categories, all under one roof.

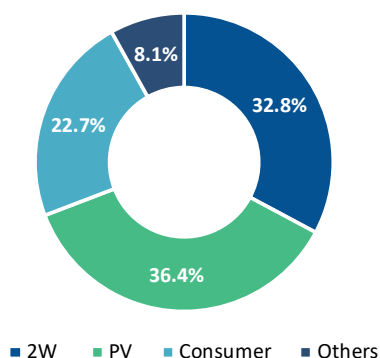
On account of strategic acquisitions, SJS effectively reduced its reliance on the 2W sector (which constituted 70% of revenues in FY19), achieving a more balanced and diversified revenue stream in FY24 with 2W/PV/consumer appliances/ others industries contributing 33%/36%/23%/8% in Q1 FY25 respectively. SJS supplies to both OEMs as well as Tier 1 suppliers. Apart from dials and lens mask assembly, every component is supplied directly to OEMs. SJS has the highest Share of Business (SOB) with all the 2W makers in India except for Hero Motocorp which is majorly supplied by Classic Stripes, which is their own company.

Revenue contribution

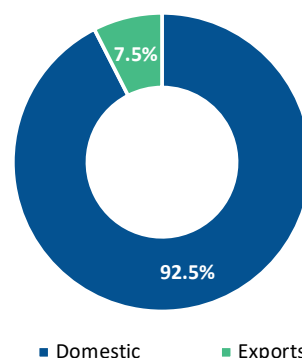
Revenue by Business



Revenue by End Segment

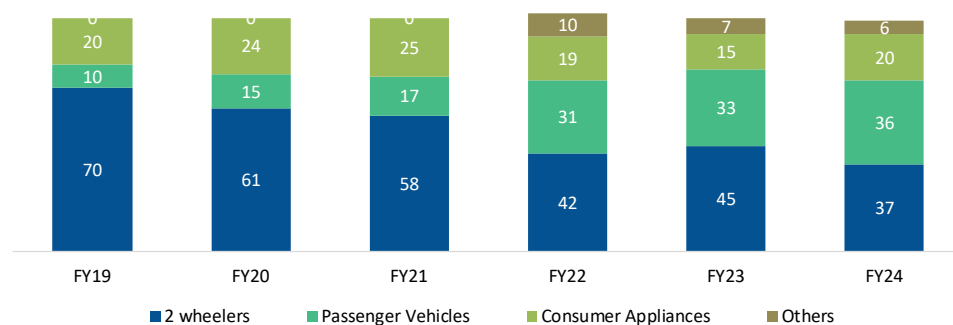


Revenue by Geography



Source: Company, LKP Research

End industry revenue share (%)

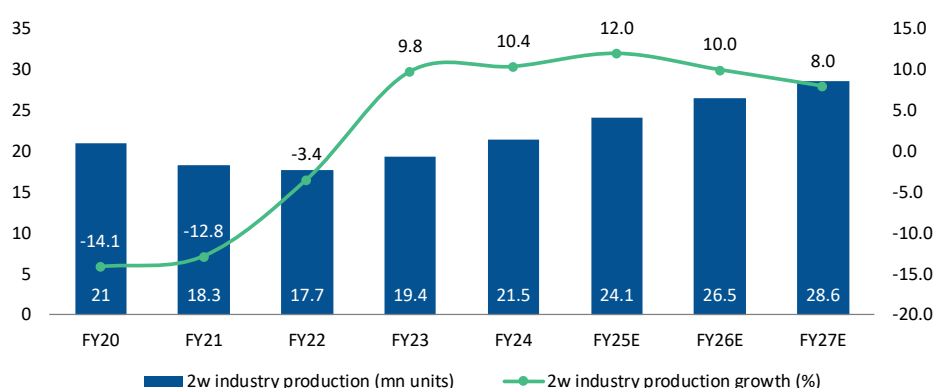


Source: Company, LKP Research

2W segment set to be robust this year

2W production clocked a negative CAGR of -0.4% over FY17-23 due to regulation-induced price hikes and the impact of COVID. Post the pandemic, the 2W industry has weakened due to high interest rates, rising inflation and low rural demand. 2W production still remains below the pre-covid levels. The 2W industry is set for strong expansion, fueled by resurgence in motorcycle demand and a rising adoption of electric two-wheelers. With the likely reversal of interest rate cycle leading to substantial moderation in rates, stable monsoon, surge in replacement demand and increase in rural demand, we expect 2W industry to grow at a CAGR of 10% over FY24-27E. Because SJS supplies to major 2W OEMs and has long-standing relationships with them, the company stands to gain significantly from the strong growth in 2W production.

2W production and growth



Source: Company, LKP Research

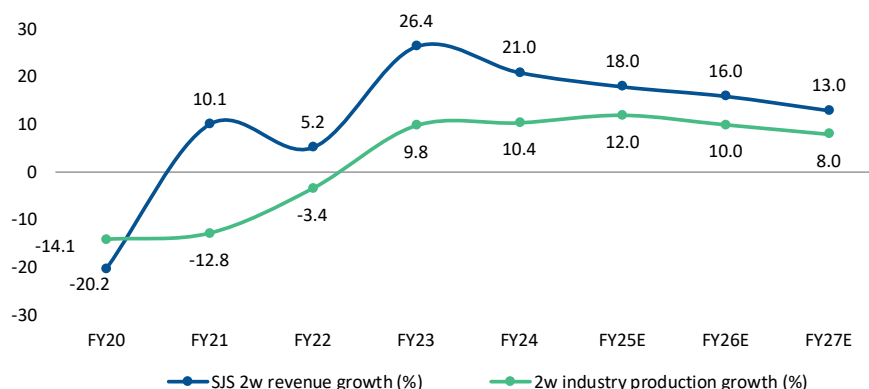
Premiumization to bring outperformance

SJS's supplies to 2W industry include lens mask assembly, decals, dials, logos & badges and domes. SJS has been supplying to top 7 OEMs in a meaningful manner except for Hero where it is a Tier 2 supplier. The 2W industry is witnessing a shift to technologically superior aesthetic products. The transition in SJS's products mentioned below towards premium products shall lead them to improve their realizations and thus topline and profitability.

- **Decals:** The content per vehicle of a decal depends upon the complexity of colours used and the surface area to be covered by the decal. Usually, entry level bikes have ~₹150-200 realization whereas high end bikes have ~₹300-500 realization for decals.
- **3D Dials are premium than 2D Dials:** The average realization for a 2D dial is ₹50-100 whereas 3D dial is priced at ~2x higher realization.
- **Lens Mask Assembly:** The lens mask assembly, priced at ~₹200, is a crucial offering for 2W EVs, serving as a key component over the instrument cluster. It is currently supplied to Continental, Visteon, Marelli, Pricol.
- **3D Lux logos over chrome plated logos:** The aesthetic superiority of 3D-lux logos is compelling OEMs to transition from chrome-plated logos. Aesthetic component manufacturers realize between 12% to 15% higher realisation with 3D-lux logos compared to chrome-plated ones.

Historically, SJS has consistently outperformed industry growth on account of premiumization and wallet share gains. Going forward, fueled by market share gains, expansion into newer geographies, and premiumization, SJS is well-positioned to maintain its trend of outperforming the broader industry, ensuring sustained robust revenue growth.

SJS's 2W revenue growth % v/s 2W industry production growth %



Source: Company, LKP Research

PVs to drive growth led by changing Aesthetic preferences

The PV segment achieved strong production volume of 4.3 mn units in FY24, up from 4 mn units in FY23, marking a growth of 7.5%. The growth of 7.5% continued despite a significant 22.9% increase in FY23 compared to FY22, driven by pent-up consumer demand, new product launches & upgrades from OEMs, and robust growth in UVs driven by evolving consumer preferences. Going forward, we expect the 4W industry to grow at a CAGR of 7% over FY24-27E (slower than 15% CAGR clocked over FY21-24) on account of new model launches, EV/Hybrid/CNG proliferation, recovery in rural demand and premium models.

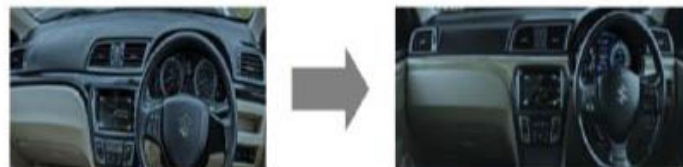
SJS's product basket for PVs include dials, decals, badges, logos, IML/ IMDs, chrome plated products and optical plastics. Technological advancements are leading to the adoption of newer and higher-value aesthetic components in PVs, resulting in increased revenues for SJS. The premiumization trend in PVs is illustrated below:

- **Shift from 2D dials to 3D dials:** PV OEMs are increasingly deploying 3D dials over 2D dials in PVs. Realization for a 3D dial is 2-3x higher than a 2D dial.
- **Shift from chrome plated logos to 3D lux logos:** The aesthetic superiority of 3D-lux logos is compelling OEMs to transition from chrome-plated logos. Aesthetic component manufacturers realize between 12% to 15% higher realisation with 3D-lux logos compared to chrome-plated ones.
- **Optical plastics:** There is a gradual shift from analogue to touch based navigation system in cars which represents an opportunity for deployment of optical plastics. Different vehicle segments are deploying varying sizes of screens. OEMs are launching model facelifts with larger screen sizes compared to older versions to enhance user experience and functionality. The realization for optical plastics is ₹350-500 in a passenger vehicle depending upon size of the screen.
- **Shift from plain moulded components to IML/ IMD components:** Passenger vehicle OEMs are leveraging IML/IMD dashboards to elevate the visual appeal of interiors. IML/IMD dashboards cost approximately 1.5 to 1.6 times more than non-IML/IMD dashboards per vehicle, varying based on the vehicle category. With the acquisition of WPI, SJS has emerged as a major player in the automotive interior space. WPI specializes in decorative interior trims, including panels with or without ambient lighting, and boasts 2K molding capabilities that enable it to deliver high-quality IP prints for IC and EV passenger vehicle dashboards. This has added ~₹2000-4000 content per vehicle to the PV offerings.

Shift from 2D Dials to 3D Dials



Shift from Painted dashboard to IML dashboard



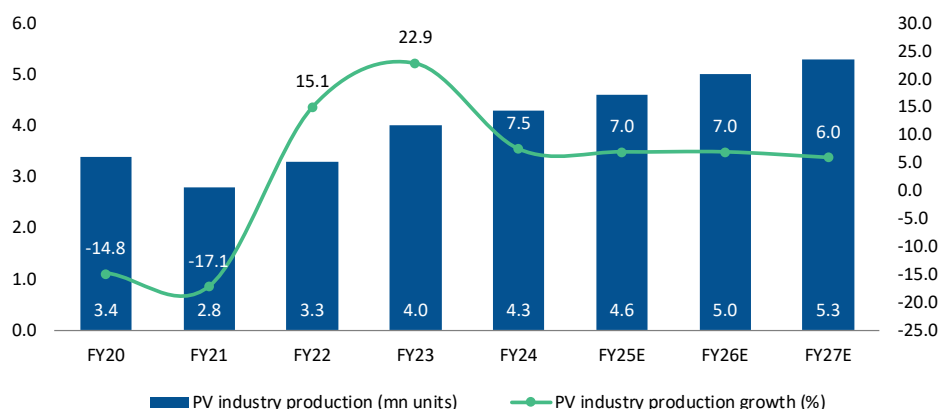
Painted dashboard trim

IML dashboard trim

Source: Company, LKP Research

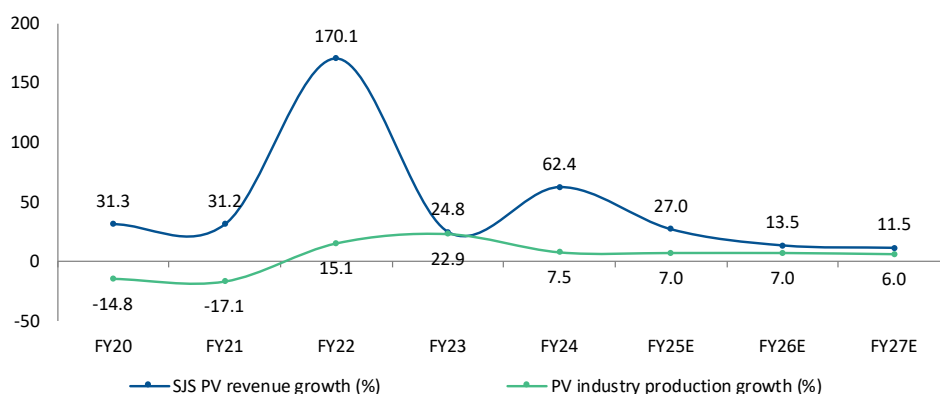
SJS's PV segment has consistently outperformed the 4w industry growth in the past. The supplies with Tata Motors and Maruti Suzuki at WPI, and Mahindra at Exotech, present significant opportunities for SJS to leverage cross-selling strategies and drive growth within the passenger vehicle segment of the business. Going forward, we expect the outperformance to continue and SJS's PV segment to grow at a CAGR growth of 17% over FY24-27E led by full year consolidation effect of WPI, premiumization, increase in wallet share, new launches from the Indian 4W OEMs and cross selling led growth.

Expect 4w industry to grow at a CAGR of 7% over FY24-27E



Source: Industry, Company, LKP Research

Consistent 4w industry outperformer



Source: Industry, Company, LKP Research

Exotech acquisition – Filling the white spaces

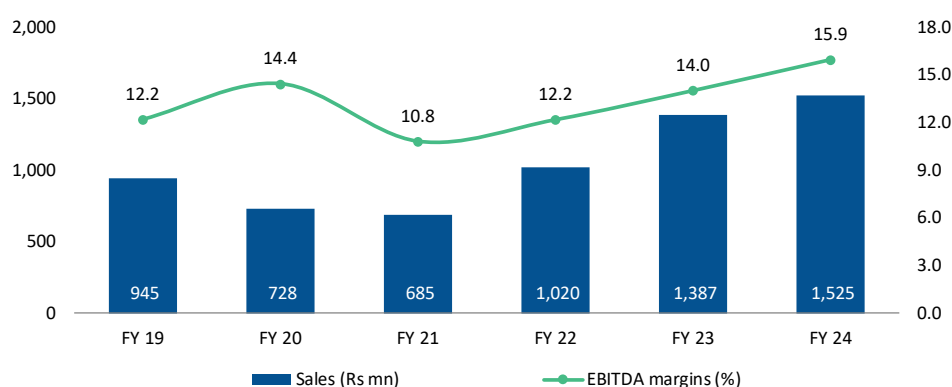
Exotech is engaged in the business of chrome plating for automotive (2W & PV), farm equipment, consumer appliance and sanitary ware industry. Exotech was acquired on 5th April 2021 at a consideration of ₹640 mn. Exotech manufactures chrome plated wheel covers, bezels, rear and front appliques, nameplates, monograms, bumper parts, radiator grills and door handles. Despite low margins (~16% in Q1 FY25), SJS conducted this acquisition to unlock higher TAM (Total Addressable Market). According to CRISIL, chrome plated parts constituted the second largest product segment within the overall aesthetics market in India (~24% of ₹19bn market) in FY21, it is expected to be the largest product segment (~27% of ₹49.2 bn market) within the overall aesthetics industry in India by FY 26. This business has a good Content per vehicle, which varies depending on the vehicle (~₹3000 for SUV while ₹1000 for small car). Exotech has M&M as the major customer (<50% SOB), while other customers include Geberit, John Deere, Roca, Ashok Leyland and VW.

Post acquisition, Exotech revenue has doubled from ₹680 mn in FY21 to ₹1.56 bn in FY24, a CAGR of 32%, while margins have grown from 10.8% in FY21 to 16.2% in FY24. The margins have improved on the back of operational efficiencies as well as common sourcing of RM like adhesives, double sided tapes, chemicals being purchased via SJS's current suppliers.

Pre acquisition, ~6-7% of revenues came from 2W for Exotech. However, following the acquisition, strong customer relationships at SJS resulted in about 16% of revenues coming from the 2W. Furthermore, Exotech has secured an export order from Whirlpool, highlighting their strategy of cross-selling.

Due to capacity utilization at Exotech at 100%, the company is planning to expand its chrome plating capacity by incurring capex of ₹800 mn (₹200 mn already incurred) to better align with the evolving business needs including common processes of both Walter Pack and Exotech. SJS has outsourced the chrome plating requirements to players in Pune with control & quality testing remaining with SJS.

Exotech



Source: Company, LKP Research

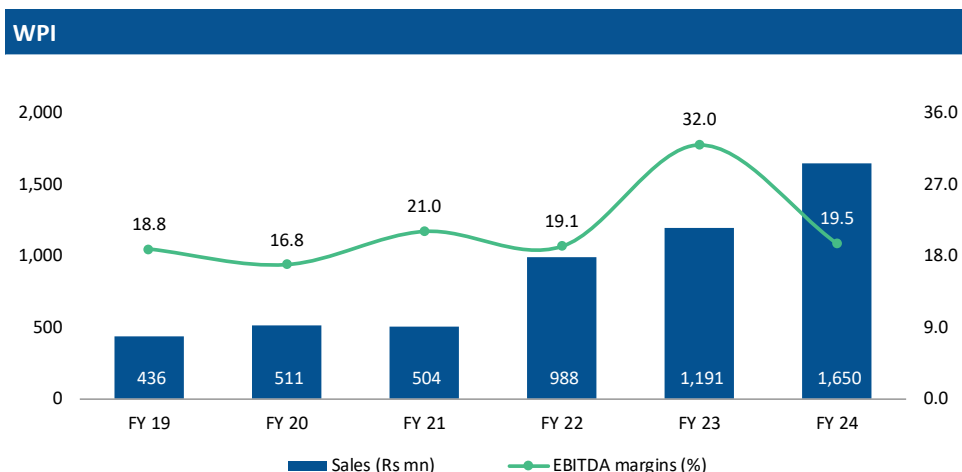
Walter Pack acquisition – Taking the modernization trend forward

Walter Pack was established in 2006 and based in Pune, WPI is renowned for its expertise in designing and developing high-value functional decorative parts in India. The company specializes in IMF, IML, IMD technologies, catering primarily to the automotive and appliance sectors. WPI earns two third of its topline from PV and one third from Consumer electricals segment. On July 1st, 2023, SJS completed its acquisition of 90.1% of ₹2.39 bn which was raised through ₹0.3bn preferential issue to K A Joseph at ₹500 per share, ₹0.47bn via debt at an interest rate of 9.5% p.a., balance from cash balance. SJS has entered into a 3-year technology support agreement with Walter Pack Spain to facilitate continuous exchange of know-how and technological support (royalty ~1% of sales). Mr. Roy Matthew (Indian promoter and Head of Walter Pack India), continues to retain a 9.9% equity stake in the business. WPI business is largely domestic with exports ~3% of revenues. With major customers as Tata Motors and Maruti, WPI also caters to Le Grand (consumer electricals segment) and VW.

The rationale behind this acquisition was that WPI leads the Indian market in IML technology and possesses expertise in IMD, IMF, and IME technologies, while clocking robust EBITDA margins of ~28-30%. SJS was never present in the above businesses. These businesses are unique and therefore command higher kit value (₹2000-4000). It is also assisting SJS to unlock higher global TAM of the global markets for aesthetic parts (68% comes from 4Ws). IML/IMD dashboards fetch 1.5 to 1.6x higher realization than non - IML/IMD dashboard per vehicle depending on vehicle category.

Through the acquisition of Walter Pack, SJS has expanded its portfolio to include a new consumer product line, named modular switches plates. Walter Pack, a major supplier of these plates to Legrand, a global leader in the industry, serves to demand not only in India but also internationally. Currently, Tata Motors and Maruti Suzuki are the biggest customers for WPI, contributing ~70% of revenues.

Currently, IML/ IMD constitutes ~14% of the Indian aesthetic market of ₹40bn and we expect its share to touch ~22% by FY26. SJS's successful integration of Exotech highlights their agility in merging new entities, a strategy they should replicate with WPI. The acquisition of WPI not only expands SJS's TAM both locally and abroad but also offers significant cross-selling prospects. New model launches lined up at Tata Motors & Maruti Suzuki represents exciting growth prospects for WPI. Moreover, WPI's industry leadership and impressive EBITDA margins have improved the overall consolidated margins of SJS.



Source: Company, LKP Research

Kit value/content per vehicle enhancement with new products to drive further growth

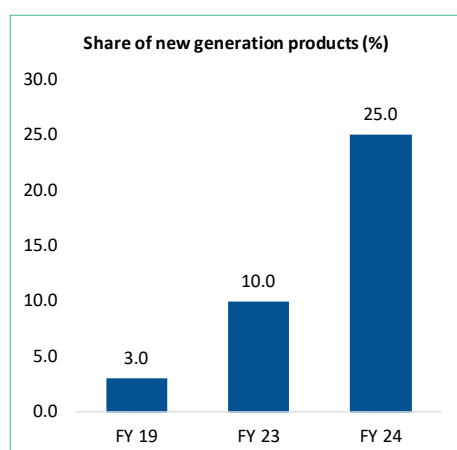
SJS's strategic focus on new product development and successful acquisitions has significantly improved the kit value of its offerings. Exotech & WPI acquisition has significantly increased the kit value for passenger vehicles. SJS's potential content per vehicle for PV over the last two years has increased by over four times and has become one of the major suppliers to the passenger vehicle segment as well.

The Exotech acquisition has added ₹1100-1500 kit value per vehicle, while WPI has added ₹2000-4000 to the kit value per vehicle.

SJS's kit value to increase substantially...

Segment	Legacy Kit Value	Current Kit Value	Future Kit Value	Trigger for increase in Kit Value
2 wheelers	₹300-500	₹300-500	1.5x-2x	- Cover glass for two-wheeler instrument cluster with touch functionality. - In-Mould Electronic parts with integrated multiple functions in the moulded decorative substrate, especially for EVs
Passenger Vehicle	₹1200-1500	₹3500-5000	3-4x	- Optical plastics/cover glass with touchscreen capability. - In-mould decoration integrated with In-Mould Electronics for car interiors. - Illuminated emblems and door project branding and illuminated scuff plates
Consumer Appliances	₹50-150	₹50-150	3-4x	- Optical glass with HMI functionality for control panels. - Printed electronics with the capacitive touch function for consumer appliances

Source: Company, LKP Research



Source: Company, LKP Research

SJS's future kit value seems to be growing very well in view of new product addition. On top of these, the new product Cover Glass shall further enhance the kit value to ₹8,000-10,000. SJS has started supply of Cover Glass to one of its customers post receiving an order in Q2 FY25.

Increase in contribution from new generation products such as IML/ IMD, 3D Dials, Lens mark assembly, aluminum badges, capacitive overlays has led the share of new generation products to improve from 3% in FY19 to 25% in FY24.

SJS has a big opportunity to leverage cross selling of businesses within their vast clientele

SJS's average customer relationship with its top 10 customers spans over 19 years, highlighting both strong customer stickiness and SJS's commitment to technological and operational excellence. SJS has direct/ indirect presence in top 7 out of 7 2w OEMs, top 9 out of 10 PV OEMs and 5 out of 10 consumer durables OEMs. SJS has a history of not losing any customer.

Through Exotech & WPI acquisitions, we believe SJS has entered the PV space in a big way and foresee several cross selling opportunities between entities. For example: WPI does not supply to consumer appliances and 2W where SJS has strong relationship with customers. Our confidence in the cross-selling prospects stems from demonstrated track record of expanding business with specific clients and capability in effectively executing cross-selling strategies. This will enhance the overall business by spreading wings in customers and products of co-businesses.

Consumer appliances business – Subdued environment, recovery expected

The demand for a wide range of consumer durable products is steadily increasing, buoyed by growing disposable incomes and shifting preferences towards technologically advanced products. Despite the sector's ongoing recovery from the COVID-19 slowdown, it continues to confront challenges such as increased input costs, inflationary pressures, supply chain disruptions, and geopolitical tensions both domestically and globally.

SJS majorly supplies overlays and other IML/ IMD parts to Consumer Durables segment. SJS has added IFB India, Mabe Group (Argentina), Whirlpool Ohio, USA and Atomberg as key customers in FY23. SJS's marquee clientele in the consumer durables segment includes Whirlpool, Samsung, Godrej, Eureka Forbes, Panasonic, Mabe Group, IFB Industries. SJS caters to Whirlpool's operations globally, supplying to plants across Asia, Kenya, and the US. With movement restrictions easing post-pandemic, SJS has expanded their operations to include two new large plants, Clyde and Marion, in Ohio. On account of cross selling, SJS has added chrome plating to supplies to Whirlpool.

SJS through WPI, has added Le Grand as a client. Additionally, SJS has entered into the Electrolux business for exports and added Atomberg as client, marking significant growth in new business ventures. SJS has also started supply of overlays to Alladio.

Premiumization trend includes shift from traditional to capacitive overlays: Consumers are increasingly favoring touch interfaces over traditional ones due to their enhanced convenience and user experience. Consequently, appliance manufacturers are transitioning towards capacitive overlays in fully automatic washing machines. This shift is driven by the fact that SJS is expected to clock 1.8x to 2x higher realization from capacitive overlays compared to traditional overlays.

The company has done new foray by 1). Entering TV segment for decals with Samsung 2). Entering Smart fans segment for decorative IML trim assembly with Atomberg Technologies, a leading manufacturer of premium fans for domestic appliances. 3). Exploring opportunities in the FMCG premium segment with the addition of John Distilleries for specialty decals. Going forward, we expect the consumer segment of SJS to grow rapidly on the back of full year consolidation related effect, ramp up of supplies to customers recently acquired, pick up of exports and premiumization.

Addition of Dixon Technologies - SJS has recently gained a new client in the form of Dixon. SJS will supply logos, overlays to their consumer segment (refrigerators and washing machines) and telecom business. Volumes are very large, and revenue has started already in the telecom segment in Q1 FY25 to the tune of ₹80-100 mn.

Exports - Small presence, big ambitions

According to a CRISIL report, the global aesthetic market, excluding China, is valued at US \$ 4.7 bn. Following the acquisitions primarily focused on the domestic market, exports constitute 7.5% of consolidated revenues. Exports were adversely affected by global uncertainties such as the Russia-Ukraine war, pandemic, semiconductor shortages resulting in reduced demand and supply chain constraints for raw materials. SJS usually provides discounts to stay competitive in overseas markets.

The company has added Whirlpool Ohio, Alladio (a Mabe group company and leading manufacturer of consumer appliances in Latin America). Under cross selling, Exotech has started supplying chrome plated parts to Whirlpool.

The company has entered a strategic business entry in Mexico for a PV OEM for their export program along with Visteon and consumer durables company for logos. With a strong emphasis on developing major accounts with global customers, SJS continues to secure new orders from key players such as Visteon (supplies to ~10 plants globally), Continental, Marelli, Stellantis, and Whirlpool, among others.

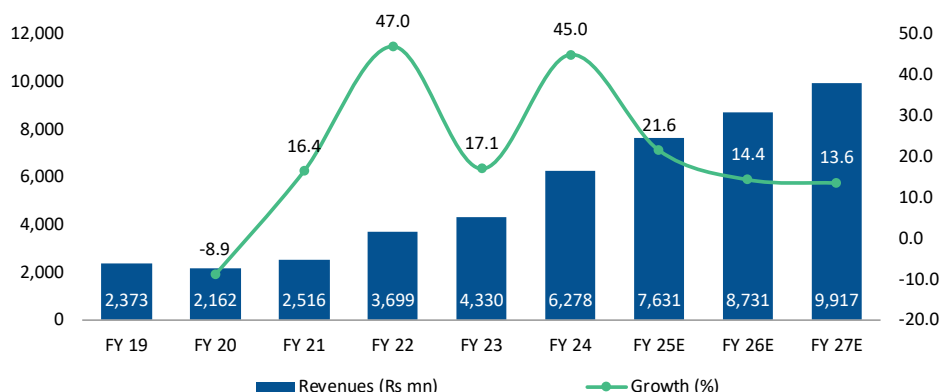
The management is targeting exports to touch ~13-15% of consol. revenues by FY28. Towards this aim, SJS has started appointing sales agents overseas for the purpose of marketing of products which was earlier managed from India. We believe that any break-through in terms of customer & geography in the overseas market can be a huge positive for SJS.

Financial Analysis

We expect SJS's revenue and earnings to grow faster than the underlying OEM industry. The major reasons for the robust growth are –

1. Shift to premium products over traditional products across 2w, PV and consumer segment.
2. Positive outlook on 2W industry considering low base, good monsoons, new models and EV proliferation
3. Exports uptick is expected once global demand improves
4. New customer addition and escalation in kit value with new product addition.

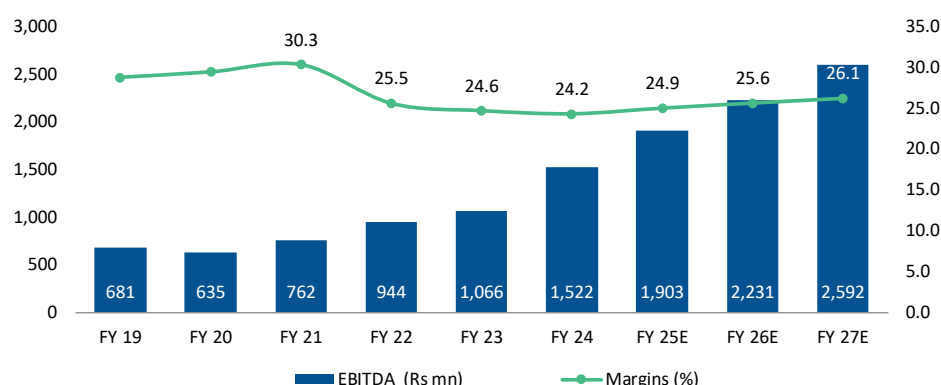
Revenues v/s Revenues Growth



Source: Company, LKP Research

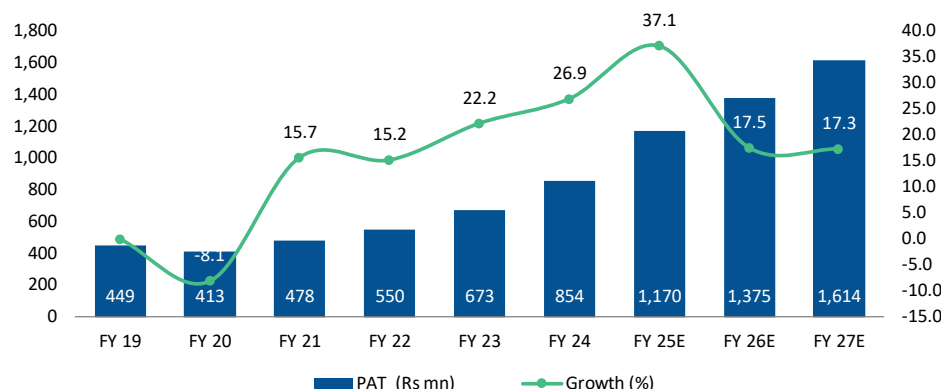
We expect EBITDA margins to sustain above 25% levels. Historically on the back of several headwinds in the form of pandemic, wars and semiconductor shortages, SJS has always maintained margins in excess of 24%. SJS has shown excellent operational efficiencies by improving margins at Exotech over 400 bps since acquisition. Going forward, we believe that margins would slightly moderate in FY26 on account of introduction of cover glass product and trials to be conducted on the chrome plating capex. However, we expect long term margins to sustain in the range of 25-27% levels.

EBITDA v/s Margins



Source: Company, LKP Research

PAT v/s Growth



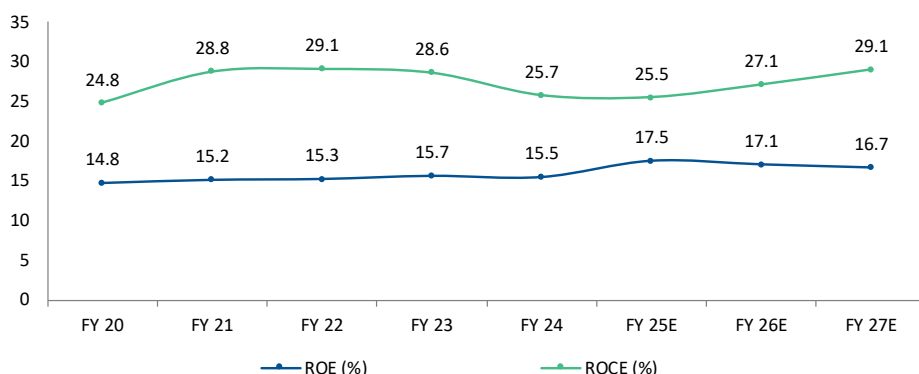
Source: Company, LKP Research

Return ratios to grow once again post capex program ends

SJS historically has return ratios always in robust territory on account of improved profitability. Even the acquisitions of Exotech and WPI have been EPS accretive and have continued to be. However, the upcoming capex of about ₹1.5 bn until FY 27 is anticipated to slightly moderate return ratios. We expect return ratios to eventually cross the 15.5% (ROE) and 26% (ROCE) levels once margins improve, capex program ends and revenue from new products starts accruing.

SJS's net debt/equity level has always stayed low due to its efficient cash flow generation and repayment of debt. The rise in debt in FY24 was mainly due to funding procured for WPI acquisition. However, this is expected to be repaid partially in FY25. Going forward, we expect the capex to be largely financed by internal accruals, thereby keeping debt at manageable levels.

ROE v/s ROCE



Source: Company, LKP Research

Outlook and Valuation

SJS has always been at the forefront to adapt to new challenges through launch of some trend setting products and also through synergistic and profitable acquisitions. We believe that the acquisitions in Exotech and WPI were strategic fit, positioning SJS for enhanced business prospects. The company has demonstrated resilience in navigating such challenges such as pandemic-related disruptions and semiconductor availability issues. Further, we believe SJS is well-positioned for strong growth driven by sectoral tailwinds in the two-wheeler industry, bolstered by increasing vehicle content across segments due to a shift towards premiumization. SJS is actively considering opportunities for overseas acquisition.

There is no listed company directly comparable to SJS. We find that SJS is well-placed to grow largely at par on Rev/EBITDA/PAT (16%/19%/24%) with some of the other ancillary players. While the EBITDA margin should be significantly higher compare to large peers, SJS's return ratios are expected to be at par with them (ROE in higher teens and ROCE above 25%). Despite expectation of robust financials, industry tailwinds and operational triggers, SJS is trading at a discount to some of its peers. We expect this gap to narrow as the company delivers on the key points and triggers explained in this report, thereby making a case for re-rating. We initiate SJS with a target price of ₹1,300.

Peer Comparison

Company	Mcap (₹ mn)	CAGR (FY23-FY27E)			EBITDA margins - %				ROE - %				PE Ratio			
		Revenue	EBITDA	PAT	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
SJS	31,531	23.0%	24.9%	24.5%	24%	25%	26%	26%	16%	18%	17%	17%	37	27	23	20
Minda Corp	132,216	10.2%	13.6%	20.6%	11%	12%	12%	12%	13%	15%	16%	17%	59	42	33	28
Craftsman	147,896	11.9%	12.2%	23.3%	20%	19%	20%	20%	20%	18%	18%	17%	43	36	27	20
Pricol	55,389	13.8%	17.0%	21.1%	12%	13%	13%	14%	18%	20%	22%	22%	39	29	22	18
Lumax	23,185	11.3%	15.2%	19.8%	9%	9%	10%	10%	18%	19%	21%	22%	21	15	12	10
FIEM	42,954	-100.0%	11.5%	-100.0%	13%	13%	14%	0%	20%	18%	19%	18%	26	23	19	15
ASK Automotives	77,901	11.0%	17.9%	19.4%	10%	12%	13%	13%	24%	27%	28%	25%	45	31	24	22
Sansera	85,914	13.2%	16.1%	24.3%	17%	18%	19%	19%	15%	17%	20%	21%	46	33	25	19

Source: Company, LKP Research

Key Risks

- **Slowdown in premiumization**

Slowdown in premiumization would mean downside risk to our realization estimates, in turn slowing down the overall revenue growth.

- **Slowdown in the underlying industries**

SJS majorly supplies to 2w, PVs, sanitary ware, consumer appliances segments. The slowdown in base industries is likely to exert downward pressure on revenue of the company.

- **Delay in new launches and obsolescence due to discontinuation of old models**

Delay in new product launches like cover glass represents a key risk. Further, discontinuation of models by OEMs will hamper the business.

- **Exports**

The slower than expected recovery in exports is anticipated to adversely impact the company's performance, potentially hindering its growth trajectory. It may also result in SJS missing out on a significant portion of the global TAM, potentially limiting its market reach and growth potential.

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Total Revenues	4,330	6,278	7,631	8,731	9,917
Raw Material Cost	1,868	2,849	3,458	3,948	4,479
Employee Cost	561	708	848	961	1,070
Other Exp	835	1,199	1,422	1,591	1,775
EBITDA	1,066	1,522	1,903	2,231	2,592
EBITDA Margin(%)	24.6%	24.2%	24.9%	25.6%	26.1%
Depreciation	233	387	397	471	519
EBIT	833	1,135	1,506	1,761	2,074
EBIT Margin(%)	19.2%	18.1%	19.7%	20.2%	20.9%
Interest	23	85	66	59	60
Other Income	102	77	110	120	124
PBT	912	1,126	1,550	1,822	2,137
PBT Margin(%)	21.1%	17.9%	20.3%	20.9%	21.6%
Tax	239	273	380	446	524
PAT	673	854	1,170	1,375	1,614
PAT Margins (%)	15.5%	13.6%	15.3%	15.8%	16.3%
Exceptional items	0	0	0	0	0
Adj PAT	673	854	1,170	1,375	1,614
Adj PAT Margins (%)	15.5%	13.6%	15.3%	15.8%	16.3%

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Per Share Data (₹)					
Adj. EPS	22.1	27.5	37.7	44.3	52.0
CEPS	30	40	50	59	69
BVPS	141	181	219	263	315
Growth Ratios(%)					
Total revenues	17.1%	45.0%	21.6%	14.4%	13.6%
EBITDA	13.0%	42.7%	25.0%	17.2%	16.2%
PAT	22.2%	26.9%	37.1%	17.5%	17.3%
EPS Growth	22.2%	24.5%	37.1%	17.5%	17.3%
CEPS growth	18.2%	34.4%	26.3%	17.8%	15.5%
Valuation Ratios (X)					
PE	46	36.9	26.9	22.9	19.5
P/CEPS	34	25.4	20.1	17.1	14.8
P/BV	7	5.6	4.6	3.9	3.2
EV/Sales	7	5.1	4.1	3.6	3.1
EV/EBITDA	30	21.1	16.6	14.1	11.7
Operating Ratios (Days)					
Inventory days	88	77	85	91	93
Receivable Days	74	74	88	91	91
Payables day	72	67	75	68	58
Net Debt/Equity (x)	0.00	0.02	0.00	0.00	-0.04
Profitability Ratios (%)					
ROCE	29%	26%	26%	27%	29%
ROE	16%	16%	18%	17%	17%

Source: Company, LKP Research

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Equity and Liabilities					
Equity Share Capital	304	310	310	310	310
Reserves & Surplus	3,992	5,306	6,476	7,851	9,465
Total Network	4,296	5,616	6,786	8,162	9,776
Non-current Liabilities					
Long term debt	0	400	450	500	550
Deferred tax assets/liabilities	90	258	258	258	258
Other non current liabilities	73	182	182	182	182
Total non-current liab & provs	163	840	890	940	990
Current Liabilities					
Trade payables	425	616	796	671	761
Short term provs+ borrowings	221	326	195	130	92
Other current liabilities	275	499	499	499	499
Total current liab and provs	922	1,440	1,490	1,299	1,352
Total Equity & Liabilities	5,381	7,896	9,166	10,401	12,117
Assets					
Net block	1,517	1,803	1,982	2,299	2,279
Capital WIP	17	23	38	44	50
Intangible assets	342	2,601	2,232	2,254	2,274
Non current investments	37	60	60	60	60
Long term loans & advances	0	6	6	6	6
Other non current assets	310	476	476	476	476
Total non current assets	2,224	4,968	4,794	5,139	5,145
(i) Cash & cash equivalent	79	121	496	744	1,795
Bank balance other than (i)	218	32	32	32	32
Inventories	484	720	900	1,071	1,215
Trade receivables	905	1,624	2,049	2,320	2,636
Other current assets	1,471	431	895	1,095	1,295
Total current Assets	3,158	2,928	4,372	5,262	6,972
Total Assets	5,381	7,896	9,166	10,401	12,117

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E	FY 27E
PBT	912	1,126	1,550	1,822	2,137
Depreciation	233	387	397	471	519
Interest	23	85	66	59	60
Chng in working capital	11	-220	-426	-567	-369
Tax paid	-264	-332	-380	-446	-524
Other operating activities	-46	40	0	0	0
Cash flow from operations (a)	870	1,087	1,208	1,338	1,823
Capital expenditure	-308	-301	-222	-815	-525
Chng in investments	-547	1,043	-464	-200	-200
Other investing activities	-145	-2,074	0	0	0
Cash flow from investing (b)	-1,000	-1,333	-686	-1,015	-725
Free cash flow (a+b)	-130	-246	521	322	1,098
Inc/dec in borrowings	78	157	-80	-15	12
Interest paid	-11	-77	-66	-59	-60
Other financing activities	-19	207	0	0	0
Cash flow from financing (c)	48	287	-147	-74	-48
Net chng in cash (a+b+c)	-82	42	375	248	1,051
Closing cash & cash equivalents	79	121	496	744	1,795

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