

27th june 2022

SUNDRAM FASTENERS

CMP : 708
Target Price : 889
Upside : 26%
Stop Loss : 610 (Closing basis)

Investment Thesis

Robust automotive demand: Company has observed a strong grip in the domestic business, driven by the faster recovery in the product-wise segment of vehicles, especially in passenger cars. Growth is also seen in the commercial vehicles segment, medium and heavy commercial vehicles & two-wheeler segments. SFL has a strong presence in the passenger car segment, which contributes to 40% of its total revenues in the domestic market FY22. Export and non-automotive segments continue to be the focus area. Strategy to de-risk business from the automobile industry's cyclical. The company is also get gripped by the electric vehicle space where it supplies radiator caps.

Diversification across region & countries business model: Company's management has strategically increased its export revenue by reducing its exposure to cyclical revenues through geographical diversification, increasing its share of business from a tractor, LCV, replacement, and non-automotive segments by segment diversification, and increasing its revenue share from pump engines, transmission parts, powder metal and radiator caps by product diversification. The management is focused on its path of diversification & will continue to get benefit from its established relationship with its key customers in India and globally, by increasing its content per vehicle through its R&D capability and innovation. Strong relationship with OEM: SFL is a very big player & top supplier of OEMs and dominates with its market share in the market. The company's key clients in the domestic market are Maruti Suzuki, M&M, Tata Motors, and Ashok Leyland while General Motors and Cummins are its major global clients. With its strong relationship company enjoys preferential status, when it diversifies its product portfolio. **Export Market:** Export is one of the most important areas for the company & contributes 1/3rd of the overall revenue in FY22 of the company. In the long term company aims to expand its export segment up to 50% in terms of revenue. The company's key export clientele includes General Motors (GM), Cummins, American Axles, Navistar, etc, but GM and Cummins fetch a huge chunk of overseas revenue. At present automotive business dominate in company's export portfolio. Now SFL is workings towards diversifying its export revenue via new customer acquisitions & focusing more on a non-automotive segment. The company has significant market exposure in countries like US, UK & China. **Opportunities:** Company is trying to enter into new businesses like electric vehicles, aerospace, and defense, where the company sees a huge potential & believes that it will take some time to have a good grip & hold in these segments. Presently the company is focusing more on electric vehicles where it supplies radiator caps, to establish its good market base and then expand globally. The current revenue for the EV segment in India is around Rs 90 to 100 crore in FY22, which it expects to improve substantially in the future. SFL is in discussion with its key clients to increase its business in the e-mobility space. The revenue from operations was at Rs 4,172.57 crores for the year ended March 31, 2022, as against Rs 3,065.03 crores in the previous year, registering a significant growth of 36.1%. The operational revenue outlook of the company is very encouraging, as SF crosses its pre-COVID turnover levels in FY22. The company is gaining market share from smaller parts suppliers, against the backdrop of COVID. Also, the rupee has been weakening during the Q4FY22 which has helped export. sundram fastener has a good year and they are back on the performance path. The company's export revenue contributes almost 1/3rd of the total revenue & expected to increase its contribution once new plants ramp up their production & company increases its order wins. The after-sales market (mainly for fasteners, caps, pumps, and sockets) is receiving strong traction.

Stock Data	
Market Cap (Rs.Mn)	148571
Market Cap (\$ Mn)	1905
Shares O/S (in Mn)	210
Avg. Volume (1 month)	70490
52-Week Range (Rs.)	993 / 675

Shareholding Pattern	
Promoters	49.7%
FII's	11.7%
DII's	17.1%
Public, Other (Incl. Govt.)	20.9%

Performance (%)	1M	6M	1Yr
Absolute	-3.0%	-14.4%	-2.0%
Relative to Sensex	-5.1%	-9.1%	0.5%

Key Ratios	
Div Yield	0.9%
TTM PE	32.7 X
ROE	18.3%
TTM EPS (Rs.)	21.8 -/-

Financials

- The revenue CAGR of 19% over FY22-FY25E while PAT CAGR of 21.9% over FY22-FY25E

Particulars	FY19	FY20	FY21	FY22	FY24E	FY25E
Net Revenue	4557.9	3723.2	3644.3	4902.1	5882.5	6941.3
EBITDA	800.4	592.9	664.1	801.4	982.4	1152.3
EBITDA margin	17.6%	15.9%	18.2%	16.3%	16.7%	16.6%
Net Profit	459.0	326.5	362.7	461.8	615.8	686.3
EPS	21.8	15.5	17.1	21.7	29.3	32.7
PE	25.0	19.8	46.3	35.9	23.2	20.8
RoE	26.9%	16.8%	16.6%	18.5%	21.9%	21.1%

Key Business Highlights

- SFL was incorporated in 1962, and is a part of the USD 8 billion TVS group, head quartered in Chennai. SFL is having diversified product portfolio. SFL is mainly involved into six product lines I) High Tensile Fasteners II) Cold Extrusion components III) Hot Forged IV) Power metal parts V) Oil/Water pumps VI) Engine component and powertrain parts.
- Contribution of fasteners in total revenue is 35% and 65% is coming from other product lines. Company generates 81% of revenue from automobile segment and rest is coming from non-automotive segment. An unwavering focus on delivering quality has won Sundram Fasteners Limited the trust of both OEM and aftermarket customers in highly competitive markets like India, China, Germany, USA, UK, Italy, France and Brazil. In October 2018, SFL bagged the prestigious Deming Prize for all 17 manufacturing plants for quality management. Over the years, SFL has acquired cutting-edge technological competencies in forging, metal forming, close-tolerance machining, heat treatment, surface finishing, and assembly. It has 17 strategically located state of art manufacturing plants out of which fifteen are located in South India and two in overseas through subsidiaries in China and United Kingdom.
- The manufacturing facility in China (Zhejiang) is into fasteners for local markets and facility of United Kingdom is in to precision forging for commercial vehicle in Europe. Increase in the volume growth comes in multiple ways such as they have also expanded other products to the existing customers and therefore, they have increased over the business to the existing customers and there has been some addition to the customers actually. So, they have added the new customers also. In the new customer there is a certain new product in line which is they have added in the export market

Valuation

- The strategy would be to first establish markets in India and then expand globally. The company is also seeing traction from the EV space, where it supplies radiator caps. The company expects to double its revenue in the e-mobility division. Strong broad-based growth; Expect double-digit growth in the medium term: SFL has a strong long-term revenue visibility, given its strong relationships with OEMs, both in India and globally, superior return ratio since long time. EBITDA margin is projected to remain strong, driven by improved product mix and operating leverage benefits. We expect SFL's earnings CAGR to improve by 19.3% during FY2022-FY2025E, driven by a 18.7% revenue CAGR during and improvement in EBITDA margin to 16.6% in FY2024E from 16.35% in FY2022, with ROCE progressing to 22% in FY2024E.
- Looking at the growth story and attractive valuation, any dip could be an opportunity to accumulate the stock. We recommend buy call on Sundram Fasteners with a Buy rating and set a target price of Rs 889, at 27x FY24E EPS, which is at a 10% discount to its 7-year average P/E multiple

Risk & Concern

- Slowdown in automobile industry
- Exposure to foreign exchange as 1/3rd revenue is coming from exports
- Any slowdown in economic activity could lead to slower demand for industrial fasteners and risk of commodity prices as steel is major part of raw material.

Graphs & Charts

Figure 1: Net Sales Trend

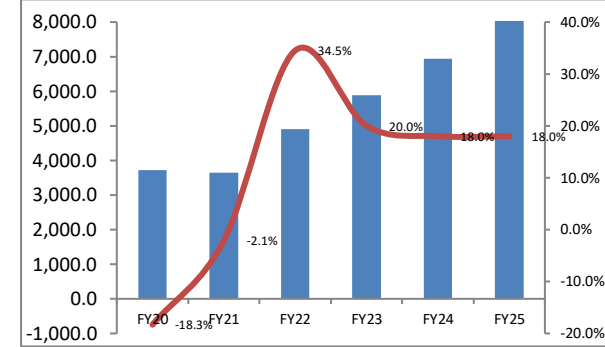


Figure 2: EBITDA & EBITDA Growth

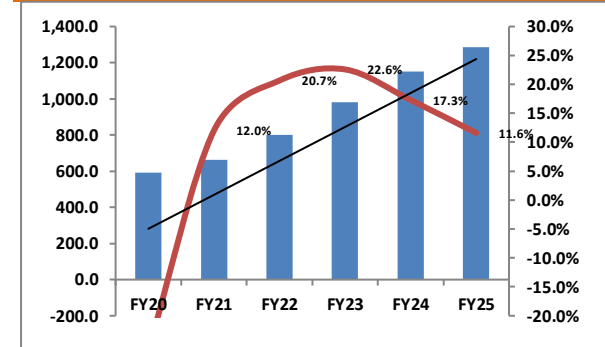


Figure 3: PAT Trend

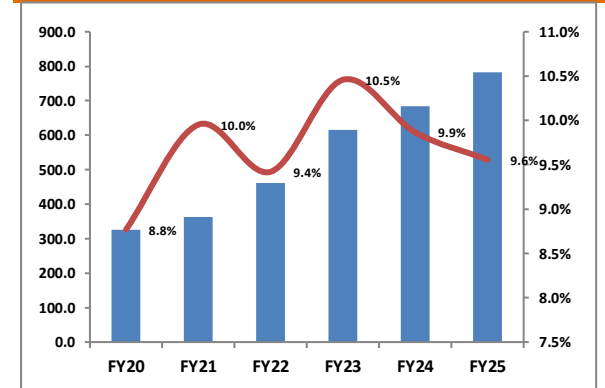
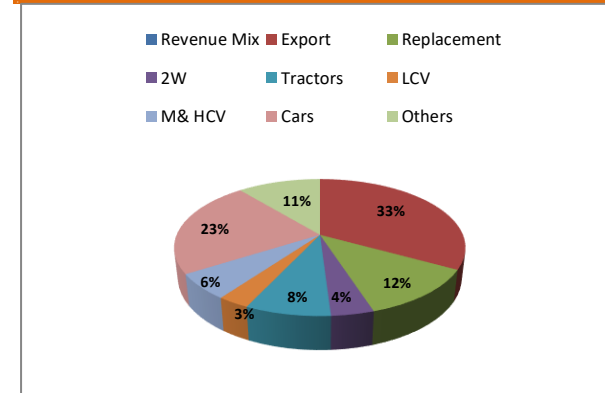


Figure 4: Revenue mix FY22



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