SINCE 1986
DALAL STREET INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

UPSTREAM PICK

April 2018

THINK DIFFERENT PROFIT MORE

Company Name	:	**Shivam Autotech**
BSE Code	:	**532776**
Time Duration	:	**2 year**
CMP	:	**₹83.05 (as on 05 April, 2018)**
Target Price	:	**₹118**

Our Upstream Pick for the month of April is Shivam Autotech Limited. The company is engaged in manufacturing of auto components used in two-wheeler industry, having major products like transmission gears and shafts. It also manufactures steering components and components for alternators for passenger vehicles.

We see this scrip as the Upstream Pick as company has shown a major turnaround in its financial performance since the beginning of FY18. The capex for greenfield expansion of two new plants, one each at Rohtak and Bangalore, led to high operating and finance costs in FY16 and FY17. The company was maintaining operating margin above 20% till FY15, but in the last two years, the capacity expansion resulted in pressures on the margins. Due to high capex, D/E was also hovering around 2x. We see this has moderated to levels of 1.6x and reduces the investment risk. As commercial production at these plants have started, the performance of the company has tremendously improved. With high capacity utilisation to be attained in the near future, the company is expected to grow at an accelerated pace. In March 2018, its sales volume grew by 30% YoY, which is adding to its growth story.

Stable revenue growth from Hero Motocorp

Hero Motocorp is India's leading two-wheeler company and its 50-55% requirement of auto components like transmission gears and shafts is met by Shivam Autotech. The company's 70% revenue is contributed by Hero Motocorp. In March 2018, Hero Motocorp's sales volume grew by 20% YoY and reported the highest ever monthly sales, while for FY18, its sales volume was up by 14% YoY. Thus, the growth in Hero Motocorp's sales will directly have a positive impact on Shivam Autotech. After a period of two years, Hero Motocorp delivered double digit growth and it is optimistic about continuing this growth momentum in the near future. Also, Hero Motocorp is expanding its base in international markets and also introducing new products in the next 2-3 years in the domestic market. This expansion will lead to further growth in both the companies and the dependence of Hero Motocorp on Shivam Autotech will increase for auto components.

Customer base is expanding at a rapid rate

Apart from its major products, the company has been developing other auto components for alternator and drive shafts, claw poles, armature shafts, etc. which are presently imported from Japanese and Korean companies. These products derive high margin for the manufacturing and selling companies. Shivam Autotech sells these products to auto companies like Maruti, Eicher Motors, Bosch, Denso, Mitsuba, etc. There are very few players in India that are engaged in manufacturing of these components. The growth rate of these products is expected to be in lower double digits in the next 8-10 years. Thus, Shivam Autotech is in a sweet spot and the growing demand will drive the margins for the company. Also, addition of new customers will lead to a decline in Hero Motocorp's share to the company's revenue from 70% to 50% by 2020, which will reduce the company's dependency on a single customer.

Capacity expansion triggers volumes and topline in FY18

In FY16, the company had set up two new manufacturing facilities at Bangalore and Rohtak at a capex of Rs 200 crore. Both these have become operational from the beginning of FY18. The Bangalore plant caters to the 4-wheeler manufacturers and Tier-I suppliers such as Bosch, Maruti, etc., while the Rohtak plant will enable the company to supply components for scooters and high-end 2-wheelers for Hero. In the near term, both these plants are expected to attain capacity utilisation levels of 65-70%. Also, some vacant land in the premises of both these plants is available. Thus, the company can ramp up its capacity once the commercial production at these plants stabilise. This commercial production has led to a major turnaround in topline and margins in FY18.

DSIJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 I **For Customer Service : 020-49072626 OR service@dsij.in**
Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034
CIN No. : CIN-U22120MH2003PTC139276 SEBI Registration No: INA000001142
DSIJ INVESTMENT ADVISORY UNIT (CRU)

High-end technology improving operating efficiency

The company is using Near Net shape technology, which produces components having physical dimensions same as the finished products. Due to this technology, it saves expenses on finishing operations and improves efficiency and productivity. The main advantages of this technology for the company are reduction in loss of materials and decrease in the rejection rate and power costs thereby improving the operational efficiency of the company. It has many patents in its name for this technology and has filed for more patents for the technology for use in other products. Also, electric cars are expected to hit the roads in India in the near future for which the company is in the process of diversifying and developing and adapting the new technology.

Turnaround in financial performance

Before FY16, the company was performing well. It had maintained PAT margin of around 5-7% till FY15. But with the setting up of two new manufacturing facilities in FY16 , its operational expenses and finance costs increased leading to net losses in FY17. But in FY18, these new plants became operational and for 9MFY18 the revenue grew by 14.3% YoY. Its operating profit jumped by 66.3% YoY. It generated net profit of Rs 8.9 crore as against net loss of Rs 5.47 crore.

For the period ending December 2017, the company had total debt of Rs 330 crore, with borrowing cost at 9.5% p.a. For FY17, its debt-equity ratio stood at 2.09. As per the management, the capex for infrastructure is over and the company is focusing on paying off the debts in the near future.

Valuation

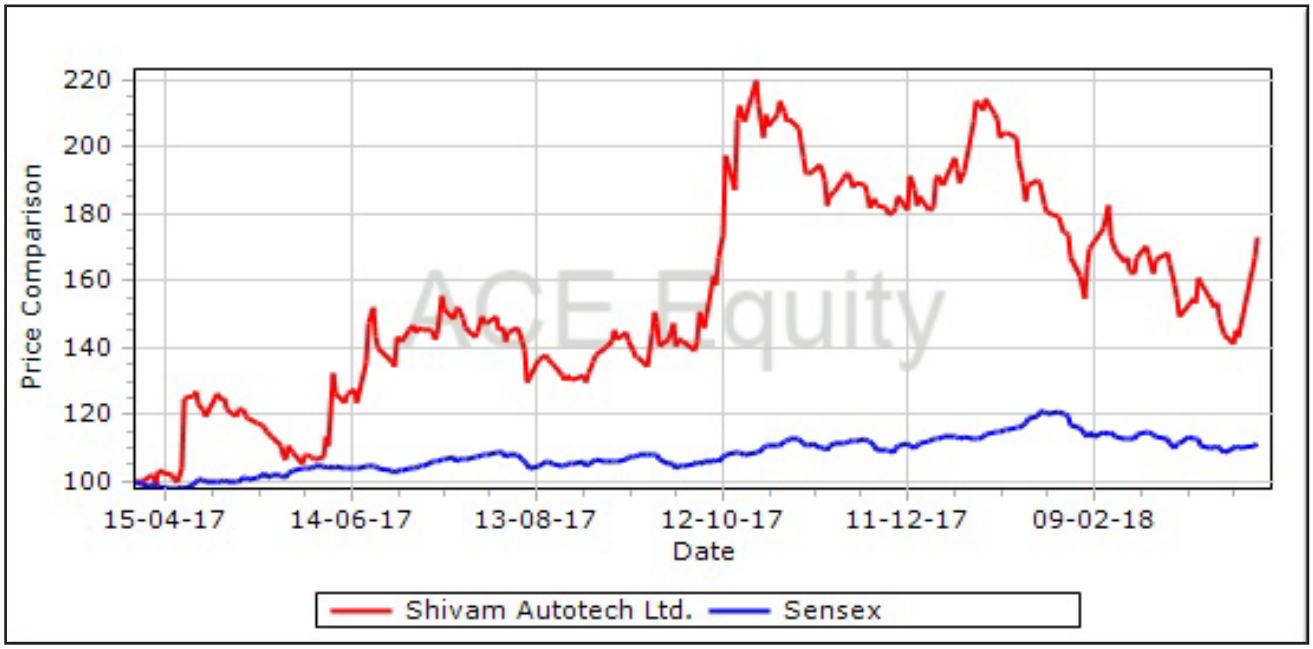
The company's TTM EPS is Rs 1.06. The valuations are high as EPS is low. Yet, the company has shown major improvement after the loss-making year of FY17. As per the management, the company is expected to grow by 20% in FY18 and by more than 15% in FY19E. Also, in the past three months, the stock has corrected by almost 20%. We see the valuation are justified considering steady improvement in profitability by FY20E. We see a potential upside of 42% with target price of Rs 118 over a period of two years.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	455.69	424.12	445.82	398.59	371.69
Total Income	457.62	424.57	445.94	398.79	371.77
Total Expenditure	410.25	353.77	362.65	318.47	284.43
PBIDT	47.37	70.80	83.29	80.32	87.34
PAT	-3.83	19.24	28.14	28.43	28.21
Dividend %		20.00	60.00	45.00	40.00
Adj. EPS(Rs)	-0.38	1.92	2.81	0.57	2.82

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	127.71	144.18	-11.42	113.49	12.54
Total Expenditure	105.93	120.99	-12.45	105.03	0.86
PBIDT (Excl OI)	21.79	23.19	-6.07	8.46	157.51
PAT	2.33	5.65	-58.82	-7.60	130.58
PBIDTM% (Excl OI)	17.06	16.09	6.03	7.45	128.99
PBIDTM%	17.21	16.44	4.68	7.49	129.77
PATM%	1.82	3.92	-53.57	-6.70	127.16
Adj. EPS(Rs)	0.23	0.56	-58.93	0.00	0.00


Price Comparison
220
200
180
160
140
120
100
ACE Equity
15-04-17
14-06-17
13-08-17
12-10-17
11-12-17
09-02-18
Date
Shivam Autotech Ltd.
Sensex