



Company Name	: SUNDRAM FASTENERS
BSE Code	: 500403
Time Duration	: 1 year
CMP	: ₹627 (as on 14 June., 2018)
Target Price	: ₹776

The Value Pick for the month of June is Sundram Fasteners Limited (SFL). It is an auto components manufacturer in India belonging to the TVS Group. Its product range includes high tensile fasteners, powder metal components, cold extruded parts, hot forged components, radiator caps, automotive pumps, gear shifters, gears and couplings and iron powder. The company enjoys 70% market share in the fasteners business industry. The products in the high tensile fasteners segment caters to the demand across sectors like wind energy, automotive and aerospace.

In the domestic market, SFL is one of the leading and largest players supplying to the largest OEM players in India. More than half of its revenue comes through its top five customers having association of more than five years, depicting strong customer relationship. The company's 30% revenues are generated through exports to the markets of the US, Europe, Middle East and Asia. Over the last three years, the company's profit has grown at a CAGR of 35.4%.

Strong clientele base

The company caters to the demand of clients dealing across automobile segments like commercial vehicles, multi-utility vehicles, two-wheelers, tractors and passenger car segments. Thus, it has top well-known auto companies as its customers like Tata Motors, Ashok Leyland, Bajaj Auto, TVS Motors, Eicher Motors, Volvo, Mahindra & Mahindra, Hero MotoCorp etc. During the last two years, the company started bulk supply of shimless tappets to Maruti Suzuki India to be used in new K-series engines. In the international market, the company is a tier-1 approved vendor with Ford and is the regular supplier to the large OEMs in the global market.

Growing contribution from exports

Currently, the company earns 30% of its total revenue through exports, out of which, 80% exports are made to the North American companies. The company plans to grow its exports to 50% of its total business over the next five years. Thus, the domestic and exports business would contribute equally to the overall revenues in the upcoming 5-6 years. To get a competitive edge, it has started working with electric vehicle manufacturers of China and USA to get the insight and foray into EV segment manufacturing. It has already started catering to two major OEMs for supply of

new age EV car components. The transition towards low carbon electric mobility is expected to take place in 2040. The company's 30% product portfolio would be affected by the transition to the EVs.

Growth through China subsidiary

The company has executed its expansion plan in China having 10,000-tonne capacity, which makes ductile iron for the Chinese customers. The revenue from Chinese operations touched Rs 250 crore by end of FY18. The company expects the turnover from Chinese operations to touch Rs 1000 crore over the next 10 years.

Expansion plans in FY19

The company is optimistic about growing in double digits in the next 2-3 years. In the past few years, it has invested Rs 200-300 crore for the expansion. It is planning to invest Rs 350 crore in FY19. The investment would be made to set up 1-2 plants either in Gujarat or Andhra Pradesh, depending upon the expansion taking place in OEMs.

Foray in non-auto business

With an initial investment of Rs 30 crore, the company has set up facility in Tamil Nadu to manufacture fasteners used in wind energy generators. Looking at the growing trend of using renewable and sustainable energy resources, the global demand for fasteners used in wind energy industry is heading northwards. It manufactures cold extruded parts like gear blanks, transmission shafts, CV joints and fan hubs and also supplies powertrain components like turbine shafts, output shafts, sungear shafts and slip yokes. It is also engaged in production of industrial machinery products like water pumps, camshats, rocker assemblies, etc. whose demand will trigger with strong traction from industrial segment sectors.

Financial Performance

In FY18, on a consolidated basis, SFL recorded total revenues of Rs 3,888 cr, growing by over 9.7% YoY from Rs 3542 cr. While domestic sales grew by 16.9% YoY and stood at Rs 2,146 cr due to strong demand from manufacturers of passenger cars, UVs, two-wheelers and exports accounted for Rs 1,144 cr, a growth by 9.6% YoY. For FY18, its EBITDA margin stood at 18.2%. The PAT for the year grew by 14.8% YoY from Rs 338 cr to Rs 388 cr., while

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its PAT margin improved from 9.5% in FY17 to 9.9% in FY18.

Its working capital cycle has improved with the receivable days reducing to 59.2 in FY17 from 70.6 in FY13. The debt-equity ratio too has reduced from 1.15x in FY13 to 0.29x in FY18. The company's board of directors has recommended dividend of Rs 2.7 per share taking the total dividend to Rs 4.6 per share for FY18.

Valuation

The company is trading at TTM P/E of 36.09 with TTM EPS of

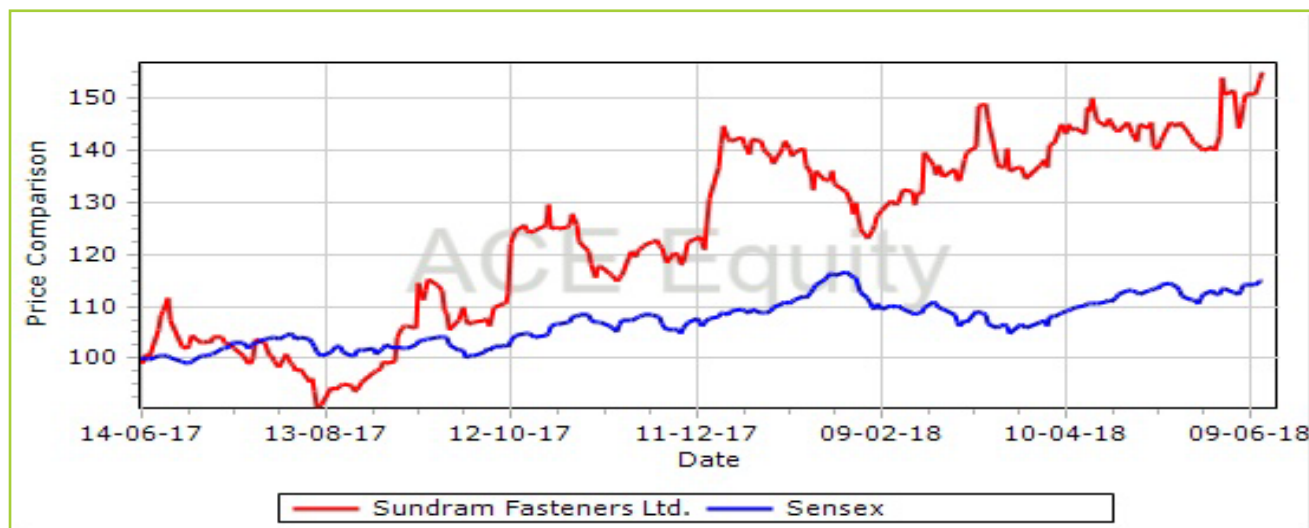
Rs 17.49. For FY18, it delivered ROE and ROCE of 23.13% and 32.7%, respectively. Considering its growing focus on exports, aggressive expansion plans for FY19, improving product mix through foray into non-auto business, we expect the company will manage to grow in double digits. Over the years, it has delivered robust numbers in terms of revenue and profits. As compared to its peers, it has consistently delivered higher return ratios. We see a potential upside of 24% with target price of Rs 776 over a period of one year.

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

Description	201803	201703	201603	201503	201403
Net Sales	3449.04	2934.37	2600.61	2385.77	2022.28
Total Income	3478.66	2947.57	2635.19	2409.12	2071.00
Total Expenditure	2828.30	2387.14	2216.28	2052.33	1766.16
PBIDT	650.36	560.44	418.91	356.79	304.84
PAT	367.47	315.48	214.00	135.32	120.89
Dividend %	460.00	450.00	215.00	175.00	170.00
Adj. EPS(Rs)	17.49	15.01	10.18	6.44	5.75

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201803	201712	Q on Q Var%	201703	Y on Y Var%
Net Sales	945.45	848.13	11.47	848.03	11.49
Total Expenditure	779.59	697.74	11.73	712.16	9.47
PBIDT (Excl OI)	165.86	150.39	10.29	135.87	22.07
PAT	95.22	91.66	3.88	87.66	8.62
PBIDTM% (Excl OI)	17.54	17.73	-1.07	16.02	9.49
PBIDTM%	19.38	18.35	5.61	16.18	19.78
PATM%	10.07	10.81	-6.85	10.34	-2.61
Adj. EPS(Rs)	4.53	4.36	3.90	4.17	8.63



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