

SINCE 1986

The Trick Is To Spot Them At The Larval Stage



BSE Code	: 505160
Time Duration	: 1 year
CMP	: ₹155.60 (as on 22 September, 2016)
Target Price	: ₹217

Talbros Automotive Components DRIVE AHEAD WITH TALBROS

The tiny treasure for the month of September is Talbros Automotive Component Ltd. TACL is engaged in the production of gasket and heat shields, forgings, suspension systems, hoses, anti-vibration system and caters to vehicular segment. The company has reported growth in consolidated net sales by 11.72 per cent in Q1FY17 to Rs 107.13 crore primarily due to gasket segment (YoY growth of 15 per cent), which is mainly driven by OEM segment. The company has added new orders for gasket and forging segment which will add more flavours in topline growth of company in next quarters.

Company Outlook

The revenue has grown at marginal CAGR of 3 per cent over four years in FY16 due to slow down in European markets, forex loss and weak demand for 2W and LCV segment. The company has taken pace since Q4FY16 by focusing on domestic markets and increasing geographical presence and after market reach. In Q4FY16 company registered growth of 6 per cent on a YoY basis.

Gasket and forging segment to drive growth

Gasket segment enjoys highest share in revenue pie by 63 per cent followed by forging (16 per cent) and rest is taken up by JV's. The company enjoys market leader position in gasket segment with 40 per cent market share. We see growth of 15 per cent on YoY basis in Q1FY17, mainly driven by OEM segment. The company won new orders for gasket from Basak Tractor Turkey, Khodro Iran, Volvo USA and Kubota Thailand. At domestic front company has fresh order from Bajaj, Yamaha, Maruti Suzuki (Baleno,S-cross,Brezza models). Growing sales of Maruti at three year CAGR of 28.23 per cent mainly driven by NEXA: benefitting the company. This development is eventually going to add more cash in its topline. We see growth by 9-12 per cent in coming quarters owing to demand from CV, tractors and after-market sales.

Forging which contributes 16 per cent in revenue pie is down by 5.6 per cent. However, we can see revival in revenue for forging segment going forward due to new order from Amul Industries.

Joint Ventures adding more cash

Magneti Marelli Talbros Chassis Systems (MMT)- The company has achieved cash profit in Q1FY17 and reported sales growth of

18 per cent. The company will benefit due to new business from TATA Motors.

Talbros Marugo Rubber(TMR)-The company has achieved cash profit in Q1FY17 due to rise in sales by 54 per cent. It won new order from Honda Cars. 100 per cent OEM business from Maruti Suzuki and other new order including Isuzu Motors provides long term revenue visibility.

The automobile industry is growing by 13.4 per cent; PV and CV are expected to grow at CAGR of 25+ per cent each; 2-3W which contributes 39 per cent in domestic sales is expected to grow at CAGR of 12.6 per cent, eventually harnessing future growth story of TACL.

Financial Performance

The company has posted rise in consolidated net sales by 11.72 per cent to Rs 107 crore on a YoY basis in Q1FY17. EBITDA of the company has grown by 6.14 per cent to Rs 11.33 crore on a YoY basis in Q1FY17. EBITDA margin has expanded by 25 bps points to 11.82 per cent on a yearly basis due to decline in costs. PAT margin has risen to 2.85 per cent in Q1FY17 vs 1.10 per cent in Q1FY16. We can see double digit sales growth in FY17 due to new orders from various OEMs, expectation of good monsoon and expected boost in demand.

Valuation

The company with TTM EPS of 8.54 is trading at TTM P/E of 17.42x, TTM P/B of 1.37 looks attractive among peers like India Nippon Electric and Precision Camshaft. Healthy D/E of 0.96x, sales to working capital ratio of 16.82x, cash conversion cycle of 127 days and ROCE of 12.35 per cent shows financial strength of the company. So we recommend to **BUY** this scrip at current price.

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

Description	201603	201503	201403	201303	201203
Net Sales	391.85	389.62	365.97	344.71	375.45
Total Income	397.90	400.02	377.24	352.40	379.39
Total Expenditure	353.70	350.29	334.56	307.07	332.74
PBIT	44.20	49.73	42.68	45.33	46.65
PAT	9.71	14.12	19.31	13.88	14.38
Dividend %	15.00	15.00	12.00	12.00	12.00
Adj. EPS(Rs)	7.87	11.44	15.64	11.24	11.65

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