BP WEALTH

Shivam Autotech Ltd

Initiating Coverage

On the cusp of Turnaround

July 2017

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Shivam Autotech Ltd

Buy

BP WEALTH

Auto-ancillary / Initiating Coverage

24th July, 2017

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook **Positive**

Stock

CMP (Rs)	69
Target Price (Rs)	92
BSE code	532776
NSE Symbol	SHIVAMAUTO
Bloomberg	SVAT IN
Reuters	SHAU.BO

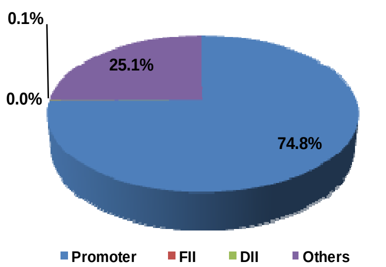
Key Data

Nifty	9964
52 Week H/L (Rs)	75/37
O/s Shares (mn)	100
Market Cap (Bn)	7
Face Value (Rs)	1

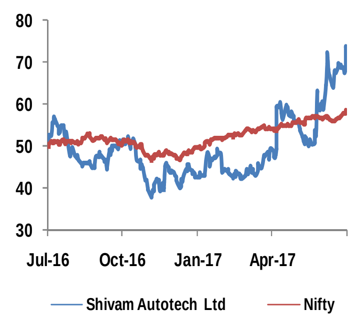
Average volume

3 months	650,800
6 months	415,240
1 year	284,060

Share Holding Pattern (%)



Relative Price Chart



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Company Overview:

Shivam Auto is part of Delhi-based Hero group which got de-merged from Munjal Showa in year 2006. The company is owned by Deendayal investments which holds 74% stake and presently led by Neeraj Munjal. Shivam Auto manufactures components mainly for 2-wheeler industry with transmission gears and shafts being major products. Company also manufactured steering components and components for Starter & alternator for passenger vehicles. Shivam Auto uses NET NEAR SHAPE Technology and is one of few companies in India to use this technology. Hero continues to be largest client for Shivam Autotech with contribution close to 78% of its revenue this is followed by Bosch(5.7%), Denso(5.2%), Mando, Maruti-Suzuki(3%), INEL(3%) etc. Shivam supplies for close to 50-55% of Hero's requirement. The company has 5 plants which are located at Gurugaon, Manesar, Haridwar, Rohtak and Bangalore of this Rohtak and Bangalore have been recently built with Greenfield capex of Rs2000mn.

Investment Rationale

Hero Business to provide stability

The sales of Shivam Autotech have been moving in line with that of Hero Motocorp sales and the capex of both the companies also mirrors each other. Shivam supplies 50-55% of Hero's requirement and this business has protected the company from volatility even in difficult years of 2008 and 2012-13. Hero's volumes have been flattish this year on account of demonetization related hit in quarter-3, but volumes have been improving post April as the currency circulation is improving. With the volumes improving in coming years even in mid single digits on high base of 6.7 million vehicles the incremental demand even in single digit can bode strong sales growth for Hero's vendors. We expect Hero's volume to improve to close to 7.5million by FY 2020 which is 4% CAGR in three years. This growth in Hero volumes can drive up utilization which is already close to 90% further aiding in maintaining margins in high teens. With the Hero volume improving we expect Shivam's contribution from Hero to improve from Rs. 3,308mn to Rs. 3,939mn by FY 2020 which is in line with Hero's volume growth as we do not expect any wallet share gains for this account. Shivam also has been not keen in entering other 2-wheeler manufactures due to its relationship with Hero and moral reasons. Any further volume growth upside can provide improved sales from its account. Currently Hero is not having sizable export business compared to its Indian peers with scale up of exports the volume growth for Hero is expected to have more longevity.

Technological edge to protect margins

Shivam Autotech is one of the few companies in India to use NEAR NET Shape technology in warm forging components. This technology produces the components which nearly having the physical dimensions similar to finished products due to which the company saves money on finishing operations like machining and grinding. Further the loss of material is reduced significantly as number of operations associated in this procedure are less. This technology also reduces rejection rate and power cost leading to lower operating expenses. The products developed by the company take almost one year to get commercialized as the Die cost and consumables cost is very high in development stage. This has created moderate entry barriers in the sector leading to industry leading margins even after being mass-production player. The company has also filed number of patents for this technology in various products. Margins of the company have consistently remained higher for company with northwards of 17%.

Non-Hero business and new plants to drive growth

Shivam has been keen on increasing its non-Hero business by focusing on select Niche categories where margins are higher as these existing components are imported from Japanese and Korean players. These segments include components for Alternator and electronic power steering like drive shafts, starter pinions, housing clutches, Claw poles, armature shafts etc. The company is selling these products to OEMs like Bosch, Denso, MSIL, INEL etc. The products company is developing are low competition products and have passenger vehicle industry as end-user which is expected to see secular high single digit to low double digit growth in next decade. New products which are been developed have higher margin than existing products. These products are expected to drive up margins further for Shivam Autotech as their contribution in overall business improves in coming years. Presently ,the Bangalore plant which caters to mainly 4-W manufacturers and Tier -1 suppliers is operating only at utilization levels of 35-40% and Rohtak plant which is recently commissioned is operating at sub 10% utilization levels this plant is set-up to supply components for scooters and high-end 2-wheelers for Hero. With the improvement in utilization level as these products have now reached commercialization stage the capacity utilization level for these plants can improve to 60-65% thus avoiding losses for the company.

The company is having spare land available in both plants of Bangalore and Rohtak which company is expected to add capacity after it stabilizes production at existing plants. This business to is grow from Rs. 993 mn in FY16 to Rs. 3,247mn in FY20, as a result of this the contribution of Hero in overall sales to fall from 78% to 55% by FY20. Shivam is expected to gain sizable revenue from other tier 1 supplier in coming years with Bosch and Denso being top non-Hero clients contributing close more than 10% each in overall sales.

Improving financial & operational performance

Shivam Auto financial performance has been under pressure since FY16 due to debt incurred to fund the Greenfield capex done at Bangalore and Rohtak plants, company has spent close to Rs2000mn in these two projects. These 2 plants have been operating at sub-optimal capacity utilization rates which have resulted in company posting losses in FY17. The past events have reduced operating profits from Rs. 832mn to Rs. 470mn and margins contracting from 18.7% to 10.3% which has resulted in PAT falling from Rs. 281mn to loss of Rs. 39mn. Going forward we expect the plants to start operating at better utilization rates of 60-65% for both plants from presently 35-40% and 10%. This factor itself can drive the turnaround in financials for the company due to operating leverage benefits. We expect sales to post strong rebound with sales growing to Rs. 5,439 mn, Rs. 6,321 mn and Rs. 7,186 mn for FY18, FY19E and FY20E respectively. The sales growth is expected to have non-linear impact on profits with PAT increasing to Rs. 114 mn, Rs. 281mn and Rs. 411mn respectively. Shivam Auto is expected post increase in margins to 19.7% by FY2020E from 10.3% presently due to lower product development cost going ahead. Improving profit has expected to improve leverage ratios going forward we expect company to report FCF of Rs. 2,184 million (as compared to negative FCF for last 4 years) over next three years owing to lower capex requirements. The return ratios are also expected to improve further to 17% and 14% from present -6% and 3% respectively. Shivam Autotech is expected to show increase in working capital as working capital cycle is more elongated in non Hero clients and with this business increasing going forward working capital is expected to remain elevated. This phenomenon is visible from lowering of cash conversion ratio in recent years.

Shivam is one of companies generating normalized margins of 18-20 % which are one of highest in industry. With more focus new products developed for PVs and Tier 1 suppliers margins are poised for structural uptrend. These products are also less competition due to technology acting as moderate entry barrier

Why we like this stock & valuation methodology

The operating environment for Shivam Auto is expected to improve due to improving volumes at Hero Motocorp which contributed 78% of FY16 and increasing capacity utilization at Bangalore and Rohtak plants. With Tier-1 Suppliers preferring local suppliers over imported supplier in bid to achieve vendor diversification we expect Shivam's business to grow at faster pace than actual growth by Tier-1 supplier & 4-W manufacturers. The recent filing by the company gives increased confidence that newly commissioned plants have been ramping up from fact that Shivam's sales for May & June have rose by 20% & 28% respectively even though Hero's growth has been at 6% and 14% for these months. We expect Shivam Autotech to benefit both from operating and financial leverage on account of improving profits and margins which are expect to increase the cash flows. At the present price of Rs. 69 the company is trading at 6.6 times its EV/EBITDA based on FY20 estimates. We value the company at 8.5 times EV/EBIDTA which is at 35% discount to which Bill forge-Mahindra CIE transaction had been done (The discount is on account of latter's higher client & product diversification, higher export & 4W component content). Hence we arrive at Target price of Rs92 based on our FY20 estimates.

We value this company at 8.5 times EV/EBIDTA which 35% discount to Bill forge-Mahindra CIE transaction.

Higher volume growth from Hero can provide higher EPS growth. We have assumed this account to grow only at 6% CAGR for 3 years.

Key Financials (Consolidated)							
YE March (Rs. mn)	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**	**FY20E**
Revenue	**3,986**	**4,458**	**4,241**	**4,556**	**5,439**	**6,321**	**7,186**
Revenue Growth (Y-oY)	*7.2%*	*11.8%*	*(4.9%)*	*7.4%*	*19.4%*	*16.2%*	*13.7%*
EBIDTA	**801**	**832**	**704**	**470**	**883**	**1,172**	**1,415**
EBIDTA Growth (Y-o-Y)	*(8.2%)*	*3.8%*	*(15.4%)*	*(33.2%)*	*87.8%*	*32.8%*	*20.7%*
Net Profit	**284**	**281**	**192**	**(39)**	**113**	**308**	**470**
Net Profit Growth (Y-o-Y)	*0.8%*	*(1.0%)*	*(31.6%)*	*(120.3%)*	*390.8%*	*171.4%*	*52.7%*
Diluted EPS	**2.8**	**2.8**	**1.9**	**(0.4)**	**1.1**	**3.1**	**4.7**
Diluted EPS Growth (Y-o-Y)	*0.8%*	*-1.0%*	*(31.6%)*	*-120.3%*	*390.8%*	*171.4%*	*52.7%*
No of Diluted shares (mn)	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Key Ratios							
EBIDTA (%)	**20.1%**	**18.7%**	**16.6%**	**10.3%**	**16.2%**	**18.5%**	**19.7%**
NPM (%)	7.1%	6.3%	4.5%	-0.9%	2.1%	4.9%	6.5%
RoE (%)	**19.0%**	**16.4%**	**10.2%**	**-2.0%**	**5.9%**	**15.0%**	**20.1%**
RoCE (%)	20.4%	19.7%	11.3%	3.1%	10.2%	15.1%	19.0%
Tax Rate %	**1.8%**	**21.6%**	**10.4%**	**71.1%**	**34.0%**	**34.0%**	**34.0%**
Book Value Per share (Rs.)	16.1	18.1	19.5	19.2	19.5	21.6	25.1
Valuation Ratios							
P/E (x)	**25.3x**	**25.6x**	**37.4x**	**-176.9x**	**60.8x**	**22.4x**	**14.7x**
EV/EBITDA	10.1x	10.6x	14.1x	22.3x	11.8x	8.4x	6.8x
P/BV (x)	**4.5x**	**4.0x**	**3.7x**	**3.6x**	**3.5x**	**3.2x**	**2.8x**
Market Cap. / Sales (x)	1.8x	1.6x	1.7x	1.5x	1.3x	1.1x	1.0x

Source: Company, BP Equities Research

Investment Rationale

Hero Business to provide stability

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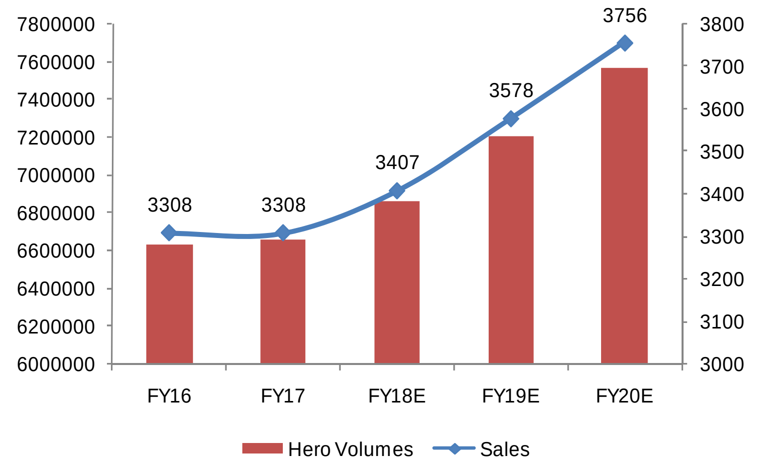
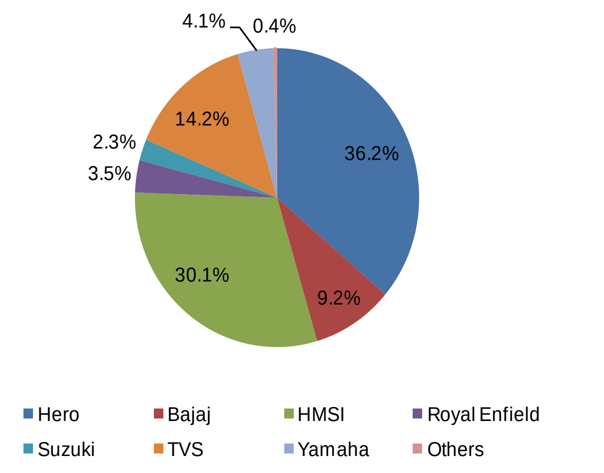
In difficult times Hero has increased wallet share of Shivam Auto which has led company getting less affected during crisis

Shivam's growth from this account has been in single digit from last 3-4 years on account of moderate volume growth by Hero

Sales are expected to grow in-line with Hero's volume growth



Hero continues to be Market leader in overall 2-W market



Source: Company, BP Equities Research

Why Hero growth considered in single digits?

Hero Motocorp has been losing market share in overall 2-wheelers industry due to increasing demand for scooters in urban India and developed regions of southern and western states which are very large markets. Hero has been third largest scooter player but has been suffering stagnant market share gains after phasing out of Hero-pleasure. Further Hero is having dominant market share in entry level bikes and this category is under threat due to increasing premunization and Hero has been relatively distant player in the segment above 150cc and almost negligible market share in more than 250cc. Also the overall penetration in number of household in India is moderately penetrated and quality of roads improving in rural areas is leading to lower volume growth for entry level bikes. Hence even after having dominant 65% market share in entry level bikes we expect single digit volume growth on account of multiple headwinds like value migrating toward scooters and premium bikes, higher penetration in existing categories and increasing competition.

Hero has been losing market share over last 6 years due to increasing preference for scooters and premium bike but has successfully defended share in entry level bikes.

Course of action by Hero

Hero has being taking corrective actions on above issues and had has new launch pipe line of 12 products with 8 bikes of which 6 are in premium segment and 4 models are scooter all these product are to be launched in next 3 years. Also Hero is having strong presence in rural India with penetration levels still lower in core Hindi speaking belt (Uttar Pradesh, Bihar and Madhya Pradesh) coupled with good monsoons we expect the slowdown in entry level bike to be halted in near term.

The recently commissioned Rohtak plant is been used to supply components for scooters and high end bikes for Hero Motocorp

Technological edge to protect margins

Shivam Autotech is one of the few companies in India to use NEAR NET Shape technology in warm forging components. This technology produces the components which nearly having the physical dimensions similar to finished products due to which the company save money on finishing operations like machining and grinding. Further the loss of material is reduced significantly as number of operations associated in this procedure is less. This technology also reduces rejection rate and power cost leading to lower operating expenses. The products developed by the company take almost one year to get commercialized as the Die cost and consumables cost is very high in development stage. This has created moderate entry barriers in the sector leading to industry leading margins even after being mass-production player. The company has also filed number of patents for this technology in various products. Margins of the company have consistently remained higher for company with northwards of 17%. Higher margins is industry wide phenomena even Bill forge which is in same precision forging segment is also close to 17%. The margins have reduced in FY17 owning to higher product development and power cost but with Bangalore facility commissioning we expect margins to again enter earlier.

Shivam is one of few companies to use NEAR NET Shaper technology. The life of the products manufactured from this technology is longer

The competitive intensity in OEMs has been responsible for margin reduction offlate

Year	Patent granted
FY16	Method for manufacturing of Claw pole
FY16	Method for making dog hole in gear through hot forging process
FY16	Manufacturing inner race by involving hot forging process
FY16	Manufacturing cage gear by involving hot forging process
FY16	Process for preparing seat pipe using hollow pipes on hydraulic press
FY16	Process of seat pipe production from solid metal coil through cold extrusion operation
FY12	Method for manufacturing sprocket with boss and its teeth profile
FY11	Method for manufacturing lug gear involving warm forging process
FY11	Method for manufacturing ratchet gear with its teeth pattern by involving hot forging
FY11	Method for manufacturing rarchet gear with its teeth pattern by involving warm forging
FY11	Method of manufacturing gear with teeth involving forging

Source: BP Equities Research

Non-Hero business to drive growth

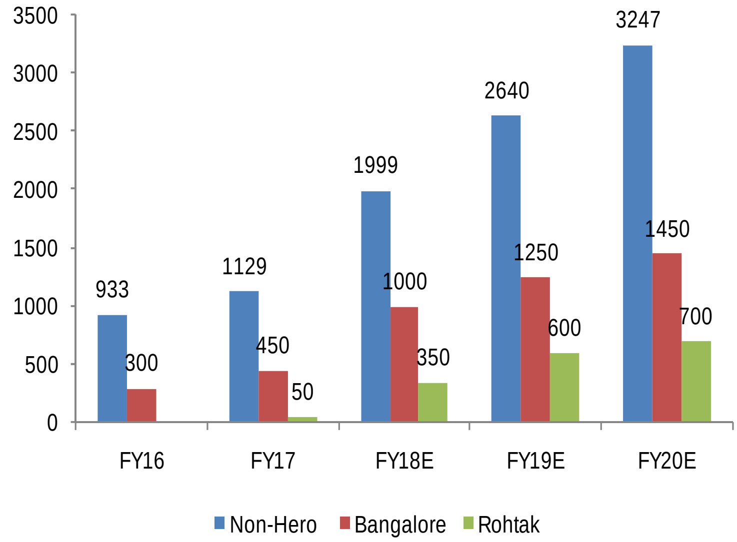
Shivam has been keen on increasing its non-Hero business by focusing on select Niche categories where margins are higher as these existing components are imported from Japanese and Korean players. These segments include components for Alternator and electronic power steering like drive shafts, starter pinions, housing clutches, Claw poles, armature shafts etc. The company is selling these products to OEMs like Bosh, Denso, MSIL, INEL etc. Presently most of these components are developed by Shivam Auto in-house team and they have margins which are higher than the existing products in the 2-wheeler business. The products company is developing are low competition products and have passenger vehicle industry as end-user which is expected to see secular high single digit to low double digit growth in next decade. New products which are been developed have higher margin than existing products. These products are expected to drive up margins further for Shivam Autotech as their contribution in overall business improves in coming years. Presently ,the Bangalore plant which caters to mainly 4-W manufacturers and Tier -1 suppliers is operating only at utilization levels of 35-40% and Rohtak plant which is recently commissioned is operating at sub 10% utilization levels this plant is set-up to supply components for scooters and high-end 2-wheelers for Hero. Both these plants have higher fixed cost due to initial cost associated with product development and tooling expenses due to which both the plants are making losses. With the improvement in utilization level as these products have now reached commercialization stage the capacity utilization level for these plants can improve to 60-65% thus avoiding losses for the company. The company is having spare land available in both plants of Bangalore and Rohtak which company is expected to add capacity after it stabilizes production at existing plants. We expect this business to grow from 993mn in FY16 to 3247mn in FY20, as a result of this the contribution of Hero in overall sales to fall from 78% to 55% by FY20. Shivam is expected to gain sizable revenue from other tier 1 supplier in coming years with Bosch and Denso being top non-Hero clients contributing close more than 10% each in overall sales.

Shivam Auto has also targeting new customers like Mando, ZF, Eaton, Hyundai, Nexteer Auto etc. As per our estimates Hero business has reduced to 74% for FY17.

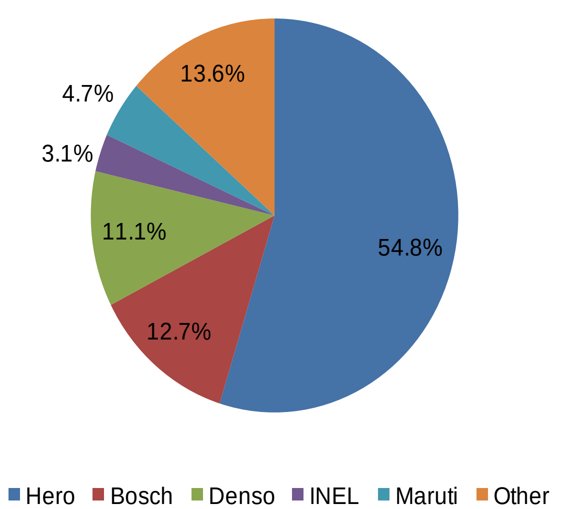
We expect Bosh business to grow at 50% CAGR, Denso at 45% CAGR . These Growth rate appear higher as there is potential for import substitution. The company has posted sales growth of 20 & 28% for May & June quarter respectively

The new products developed have higher margins as they are indigenously developed and 4-W components have higher margins than 2-W components

We expect this business to gradually scale up..



..which would lead sizable increase Non-Hero Business

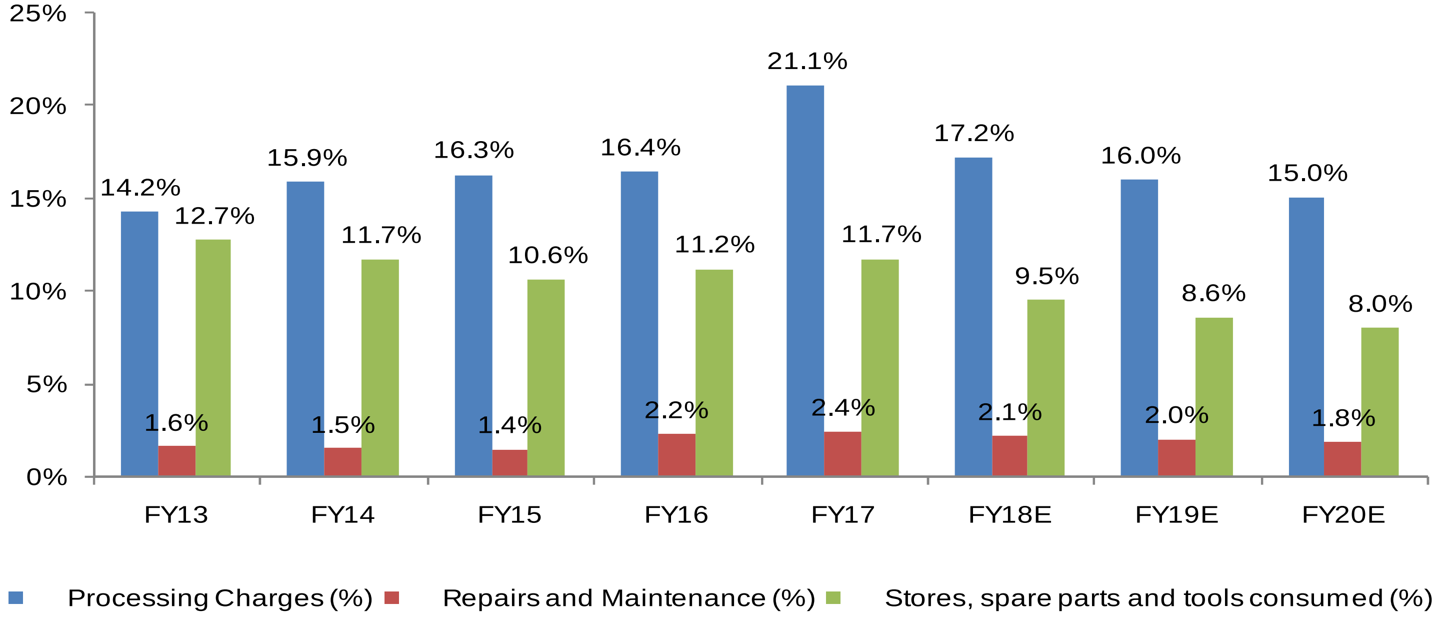


Source: BP Equities Research

We expect Bangalore plant to hit peak revenue of 1.5Bn by FY20E and these plants can be expanded with less capex and lower turnaround time as spare land is available

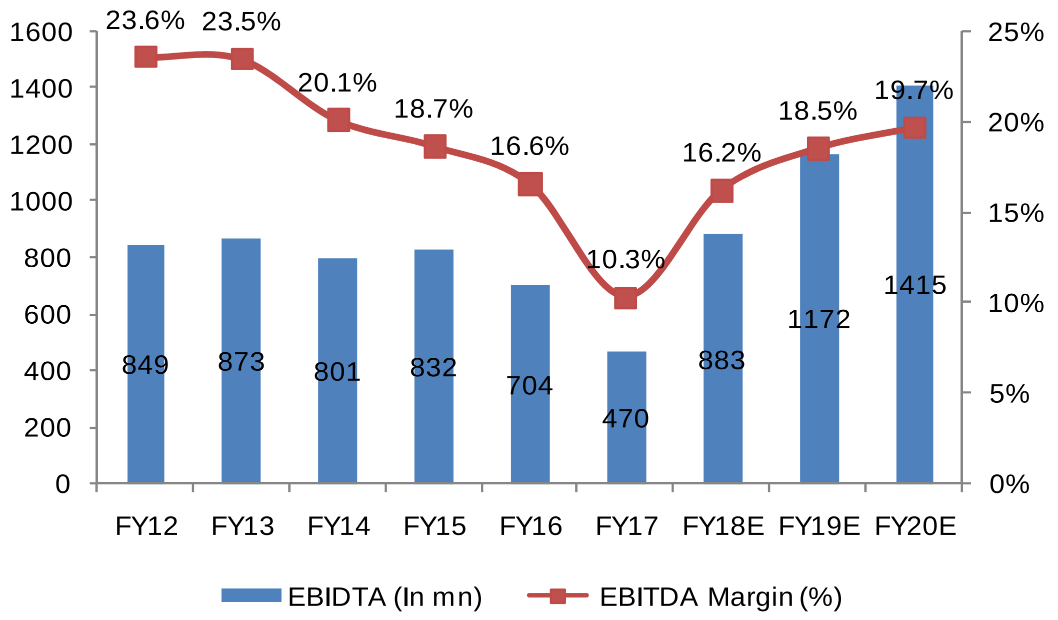
The scale-up in these two plants itself is expected to drive the profitability for the company as presently they are incurring losses due to lower utilization rates. With the ramp up in capacity the margins for company itself to improve from 10.3% to 18.7% which are still lower than what company had generated in past decade in-spite of having only Hero has its client.

The cost associated with product development have been higher in last 3 years these are expected to moderate going forward..



Source: Company, BP Equities Research

..which is expected to direct benefit the operating margins in coming years



Source: Company, BP Equities Research

Bangalore and Rohtak plants have higher fixed cost structure with improving utilization the operating leverage benefits are highly non-linear. Also the company will benefit from rationalization in electricity cost at Bangalore plant which had been higher for FY17

Source: BP Equities Research

Improving Financials:

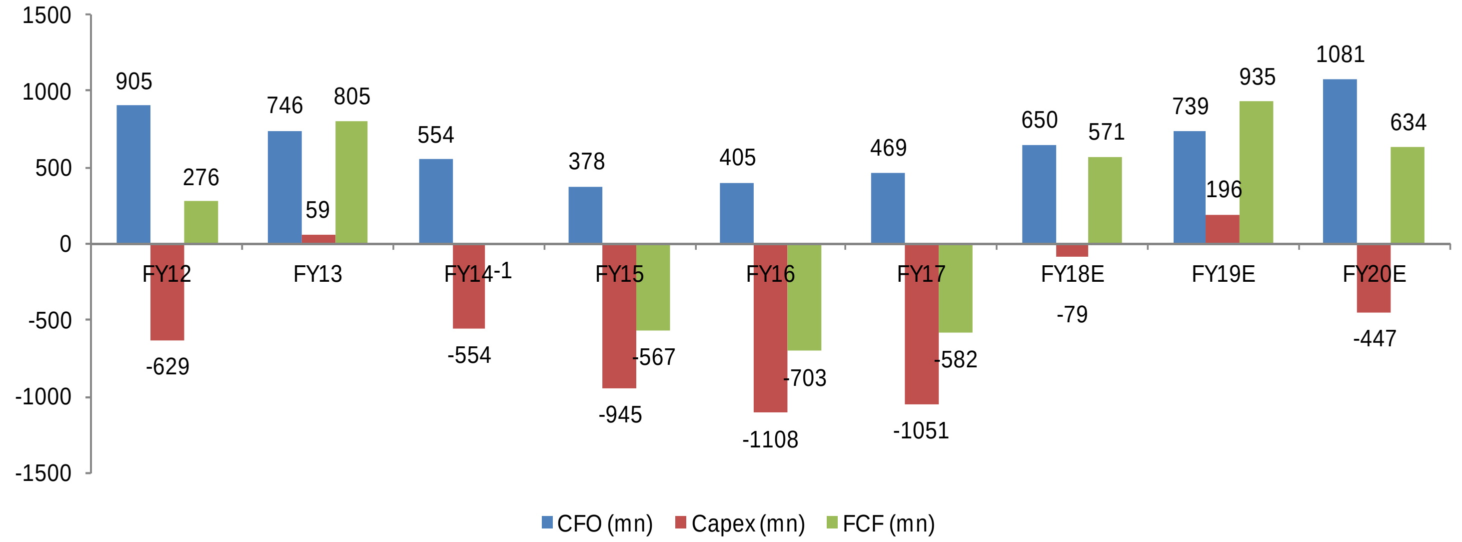
Shivam Auto's financial performance has been under pressure since FY16 due to debt incurred to fund the Greenfield capex done at Bangalore and Rohtak plants, company has spent close to Rs2000mn in these two projects. These 2 plants have been operating at sub-optimal capacity utilization rates which have resulted in company posting losses in FY17. The past events have reduced operating profits from Rs. 832 mn to Rs. 470 mn and margins contracting from 18.7% to 10.3% which has resulted in PAT falling from Rs. 281 mn to loss of Rs. 39 mn. Going forward we expect the plants to start operating at better utilization rates of 60-65% for both plants from presently 35-40% and 10%. This factor itself can drive the turnaround in financials for the company due to operating leverage benefits. We expect sales to post strong rebound with sales growing to Rs. 5,439 mn, Rs. 6,321 mn and Rs. 7,186 mn for FY18E, FY19E and FY20E respectively. The sales growth is expected to have non-linear impact on profits with PAT increasing to Rs. 114 mn, Rs. 281 mn and Rs. 411 mn respectively. Shivam Auto is expected post increase in margins to 19.7% by FY 2020E from 10.3% presently due to lower product development cost going ahead. Improving profit has expected to improve leverage ratios going forward we expect company to report FCF of Rs. 2,184 mn (as compared to negative FCF for last 4 years) over next three years owing to lower capex requirements. The return ratios are also expected to improve further to 17% and 14% from present -6% and 3% respectively. Shivam Autotech is expected to show increase in working capital as working capital cycle is more elongated in non Hero clients and with this business increasing going forward working capital is expected to remain elevated. This phenomenon is visible from lowering of cash conversion ratio in recent years.

Sales would be driven by both volume of realization growth. Sales are expected to grow at 19% CAGR over next 3 years

The margins are expected to increase by 940bps over next 3 years in line with average margins company posted historically driven by increasing capacity utilization

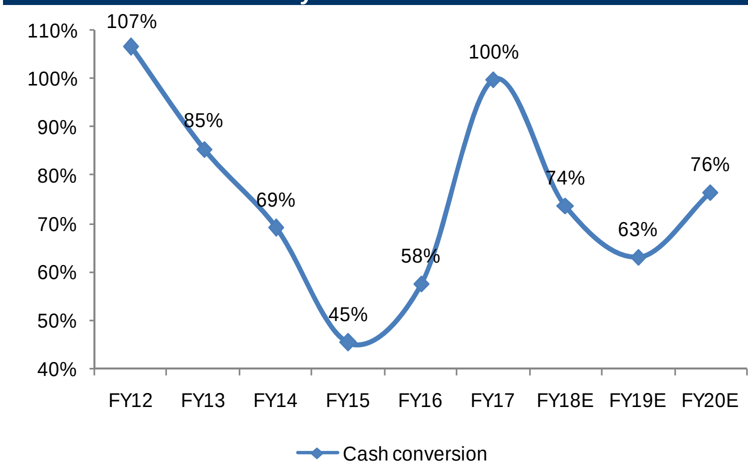
We expect Shivam to post FCF in excess of 2bn which should drive deleveraging

Improving profitability and lower capex cost are expect to drive FCF generation along with..

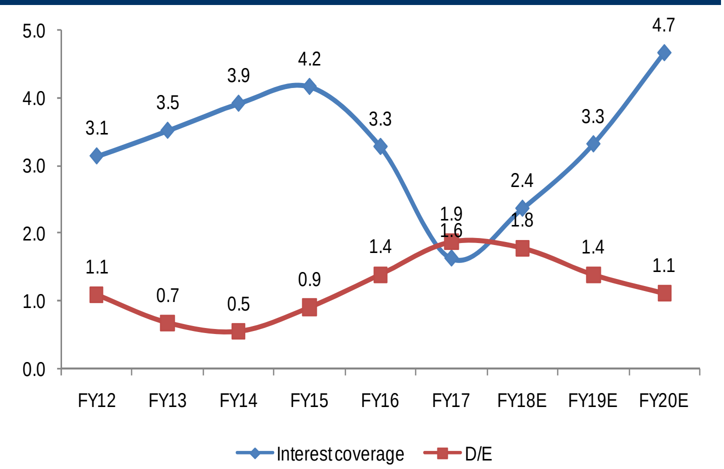


Source: Company, BP Equities Research

...Healthy cash conversion ratio

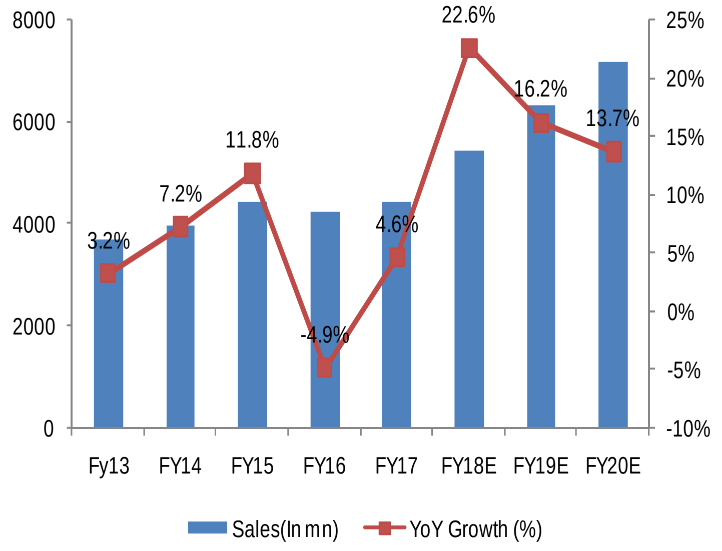


Leads to comfortable financial ratio

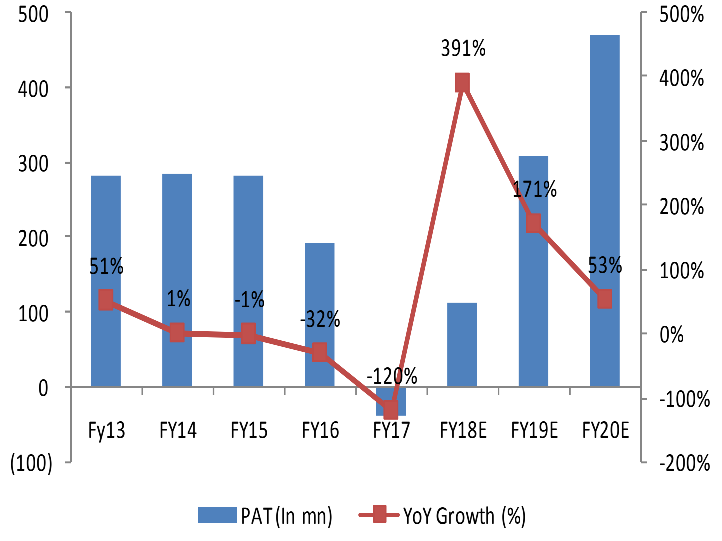


Source: Company, BP Equities Research

Improving sales due to capacity ramp-up..

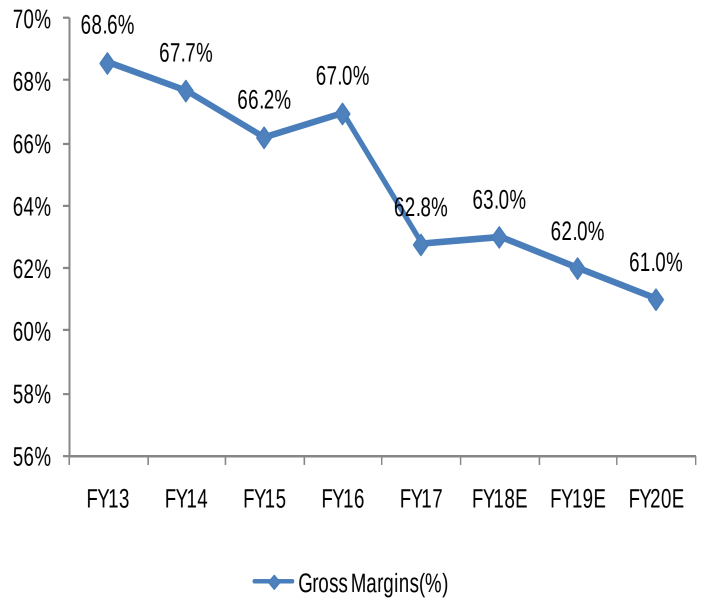


...to drive non linear growth in profits

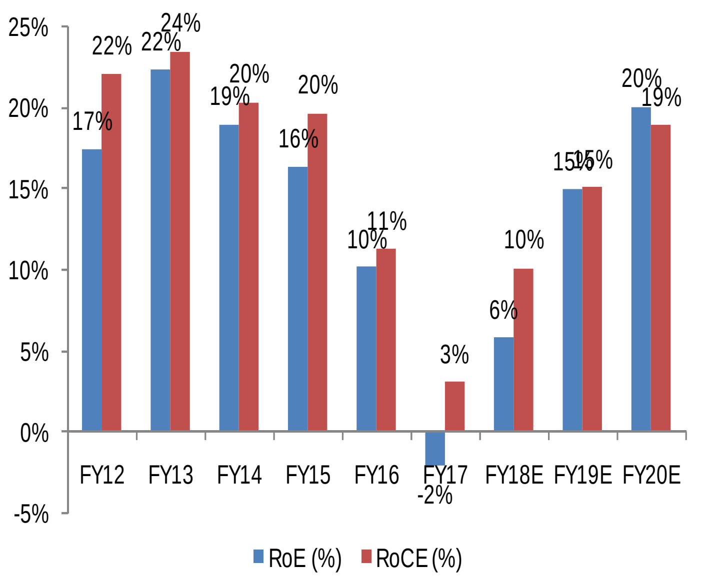


Source: Company, BP Equities Research

Gross Margins falling on account of change in product mix



Return ratio's are set to improve in coming years



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Company overview

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Transmission Gears & shafts contribute highest to sales with overall sales from them in excess of 70% of total sales based on products sold. Shivam has higher presence in Northern Cluster due Hero Advantage this cluster account for 35% of total industry.

Products developed by Shivam Autotech

Source: Company, BP Equities Research

Manufacturing capabilities: The company is having diverse manufacturing capabilities in warm forging, hot and cold forming along with superior machining ability for gear manufacturing. The gears manufacturing division is equipped with latest technology facilities like CNC Gear Shaping machines from Leibherr, Germany, CNC Gear Hobbing and Gear Shaving machines from Mitsubishi, Japan, and honing machines from USA. The company has also installed Gear Grinding machine for finishing higher range of transmission gears. Shivam Auto has installed 3-stationed fully automatic 1600ton press sourced from Kurimoto, Japan which has ability to produce 20PPM.

Plant details:

Plant	Products	Clients
Gurgaon-Manesar	Transmission shafts & Gears	Hero Motocorp, Bosch, Denso,IENL, ZF, Mitsuba, Hilti
Haridwar	Transmission shafts & Gears	Hero Motocorp, Munjal Showa, INEL
Bangalore	Claw poles, Alternator components, armature shafts, Electronic steering components	Potential clients: Bosch, Denso, ZF, Mando, Nexteer Auto, INEL
Rohtak	Claw poles, Alternator components, armature shafts, Electronic steering components	Hero Motocorp, Maruti, Mitsuba, Denso

Source: Company, BP Equities Research

Management details

Name	Designation	Details
Sunil kant Munjal	Chairman	He was the Jt.Managing Director of Hero Motocorp and is now heading the groups other business in diverse industries
Neeraj Munjal	Managing Director	He is diploma in Business Management from Bradford & Ilkley Community College, England, besides a Bachelors Degree in Commerce. Mr. Neeraj Munjal has been involved from conceptualisation to the commissioning of the company's operations. He has a experience of 25 years in auto components sector.
Devendra Ujalyan	CFO	Mr. Davendra Ujlayan serves as Chief Financial Officer and Vice President of Finance at Shivam Autotech Ltd and served as its Assistant Vice President of Finance. Mr. Ujlayan served as General Manager of Finance & Accounts of Shivam Autotech Ltd. He served as Compliance Officer and Company Secretary at Shivam Autotech Ltd until February 14, 2015.

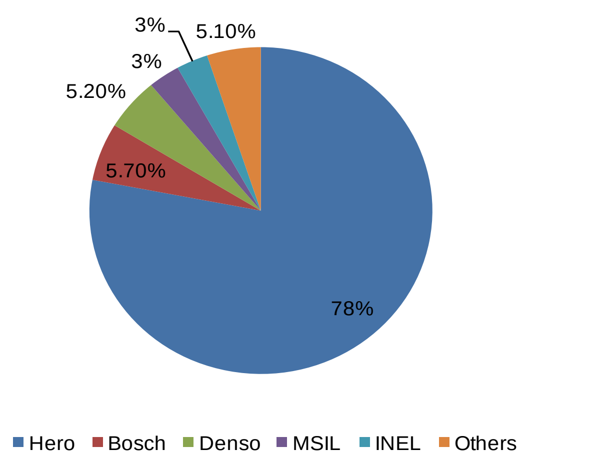
Source: Company, BP Equities Research

Key Milestones:

Year	Details
1999-00	Commissioned gear Manufacturing operations from hot forgings
2000-01	Expansion of 2nd line for warm forgings
2003-04	DOL supplier for Hero and Bosch
2009-10	Started production at Haridwar palnt
2012-13	Manesar Plant production started. Import substitution of components of startor and alternator for Bosch & Denso
2015-16	Bangalore plant started with indigenization of steering components for ZF lenksysteme and Mando
2016-17	Rohtak plant becomes operational

Source: Company, BP Equities Research

Client-wise sales mix



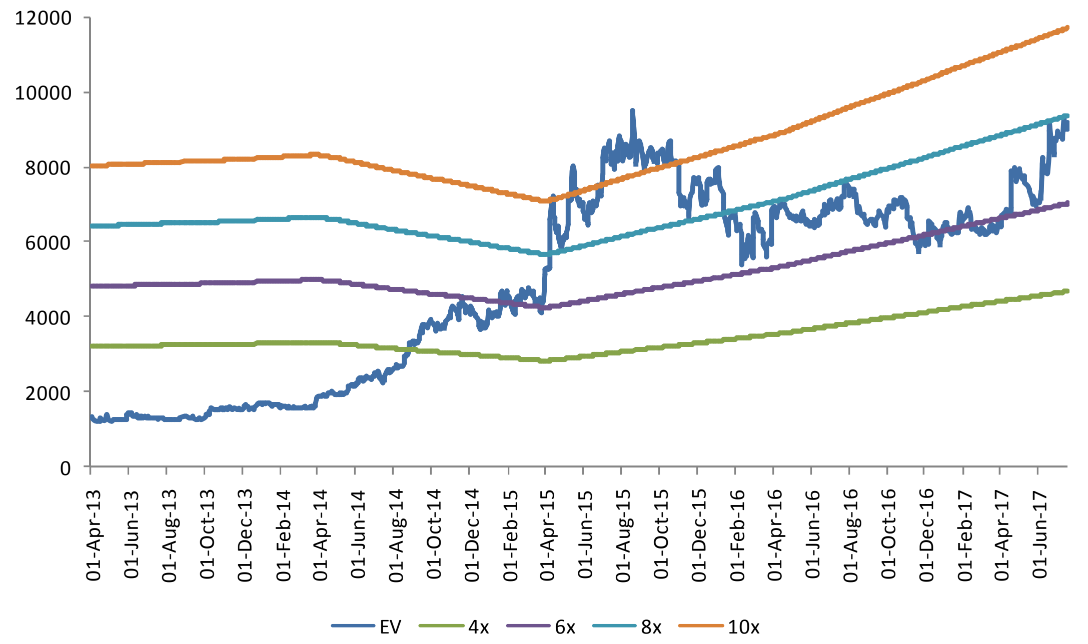
Source: Company, BP Equities Research

⇒ **Peer group comparisonEV/EBITDA chart**

Company	CMP	M Cap	P/E			EPS			EV/EBITDA			RoE (%)		
	(Rs.)	(Rs. Bn)	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Shivam Autotech	69	6.9	60.8	22.7	14.7	1.1	3.1	4.7	11.8	8.4	6.8	5.9	15	20.1
Mahindra CIE*	245.0	92.0	23.6	19.0	17.5	10.4	12.9	14.0	12.3	10.1	9.2	11.4	12.5	12.1

*Source: BP Equities Research (*Mahindra CIE estimates are for CY17, CY18 and CY19)*

EV/EBITDA Band - Shivam Autotech Ltd.



Source: BP Equities, Ace Equity

Risks and concerns:

⇒ Shivam Autotech faces high client concentration risk as top client contributes 78% of revenues in FY16.

⇒ Company has strong presence in low growing matured 2-Wheeler market and cannot target other clients other than Hero on moral grounds presents limited growth opportunity.

⇒ The fortunes are linked with auto industry which by itself is cyclical in nature hence any down-cycle in industry can hit sales for Shivam Auto.

⇒ Any further delay in capacity ramp-up can affect the profitability as company has accumulated sizable debt in building these capacities.

⇒ Bosch remains 2nd largest client but Bosch is in process of selling its Starter and alternator business globally.

Valuation and Outlook:

The operating environment for Shivam Auto is expected to improve due to improving volumes at Hero Motocorp which contributed 78% of FY16 and increasing capacity utilization at Bangalore and Rohtak plants. With Tier-1 Suppliers preferring local suppliers over imported supplier in bid to achieve vendor diversification we expect Shivam's business to grow at faster pace than actual growth by Tier-1 supplier & 4-W manufacturers. The recent filing by the company gives increased confidence that newly commissioned plants have been ramping up from fact that Shivam's sales for May & June have rose by 20% & 28% respectively even though Hero's growth has been at 6% and 14% for these months. We expect SHivam Autotech to benefit both from operating and financial leverage on account of improving profits and margins which are expect to increase the cash flows. At the present price of 69 the company is trading at 6.6 times its EV/EBITDA based on FY20 estimates. We value the company at 8.5 times EV/EBIDTA which is at 35% discount to which Bill forge-Mahindra CIE transaction had been done(the discount is on account of latter's higher client & product diversification, higher export & 4W component content) . Hence we arrive at Target price of Rs92 based on our FY20 estimates.

EV/EBITDA	
CMP	69
No. of shares(mn)	100
Mcap(mn)	6900
Assigned Multiple	8.5
EBITDA FY20	1415
EV Derieved(mn)	12024
Debt(mn)	3034
Cash(mn)	251
Mcap(mn)	9242
Tgt Price	92

Source: BP Equities Research

We have value Shivam Auto 8.5 times EV/EBIDTA which is 35% discount to Bill forge transaction. This multiple is at premium but is justified due to consistency and higher EBIDTA margins one of highest in Auto ancillary pack.

Profit & Loss A/c (Standalone)							
YE March (Rs. mn)	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**	**FY20E**
Revenues	**3,986**	**4,458**	**4,241**	**4,556**	**5,439**	**6,321**	**7,186**
Growth %	*7.2%*	*11.8%*	*-4.9%*	*7.4%*	*19.4%*	*16.2%*	*13.7%*
Total Operating Revenue	**3,986**	**4,458**	**4,241**	**4,556**	**5,439**	**6,321**	**7,186**
Growth %	*7.2%*	*11.8%*	*-4.9%*	*7.4%*	*19.4%*	*16.2%*	*13.7%*
Less:							
Raw Material Consumed	1,306	1,473	1,462	1,652	2,012	2,402	2,803
Employee Cost	331	396	422	447	500	560	633
Other Expenses	1,566	1,723	1,715	1,987	2,043	2,187	2,335
Total Operating Expenditure	**3,185**	**3,627**	**3,538**	**4,086**	**4,556**	**5,149**	**5,771**
EBIDTA	**801**	**832**	**704**	**470**	**883**	**1,172**	**1,415**
Growth %	*-8.2%*	*3.8%*	*-15.4%*	*-33.2%*	*87.8%*	*32.8%*	*20.7%*
Less: Depreciation	309	275	278	320	339	354	402
EBIT	**492**	**557**	**425**	**150**	**544**	**818**	**1,012**
Growth %	*-12.9%*	*13.2%*	*-23.7%*	*-64.7%*	*262.3%*	*50.3%*	*23.8%*
Interest Paid	205	200	215	289	373	353	303
Non-operating Income	2	1	4	3	1	2	3
Profit Before tax	**289**	**359**	**215**	**(135)**	**172**	**466**	**712**
Tax	5	77	22	(96)	58	159	242
Net Profit before Minority	**284**	**281**	**192**	**(39)**	**113**	**308**	**470**
Minority Interest	0	0	0	0	0	0	0
Net Profit	**284**	**281**	**192**	**(39)**	**113**	**308**	**470**
Adjusted Profit	**284**	**281**	**192**	**(39)**	**113**	**308**	**470**
Reported Diluted EPS Rs	**2.8**	**2.8**	**1.9**	**(0.4)**	**1.1**	**3.1**	**4.7**
Growth %	*0.8%*	*-1.0%*	*-31.6%*	*-120.3%*	*-390.8%*	*171.4%*	*52.7%*
Adjusted Diluted EPS Rs	**2.8**	**2.8**	**1.9**	**(0.4)**	**1.1**	**3.1**	**4.7**
Growth %	*0.8%*	*-1.0%*	*-31.6%*	*-120.3%*	*-390.8%*	*171.4%*	*52.7%*

Source: Company, BP Equities Research

Valuation Ratios							
YE March (Rs. mn)	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**	**FY20E**
P/E (x)	**22.9x**	**23.1x**	**33.8x**	**-166.7x**	**57.3x**	**21.1x**	**13.8x**
P/BV (x)	4.0x	3.6x	3.3x	3.4x	3.3x	3.0x	2.6x
EV/EBIDTA (x)	**9.2x**	**9.8x**	**13.1x**	**21.5x**	**11.3x**	**8.1x**	**6.6x**
EV/Sales	1.9x	1.8x	2.2x	2.2x	1.8x	1.5x	1.3x
Market Cap./ Sales (x)	**1.6x**	**1.5x**	**1.5x**	**1.4x**	**1.2x**	**1.0x**	**0.9x**
Dividend Yield (%)	1.4%	1.8%	0.6%	0.0%	1.2%	1.5%	1.8%

Source: Company, BP Equities Research

Balance Sheet (Standalone)							
YE March(Rs. mn)	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**	**FY20E**
Liabilities							
Equity Capital	100	100	200	200	200	200	200
Share application money pending allot-ment	0	0	0	0	0	0	0
Reserves & Surplus	1,511	1,715	1,755	1,716	1,750	1,958	2,308
Equity	**1,611**	**1,815**	**1,955**	**1,916**	**1,950**	**2,158**	**2,508**
Preference Share Capital	0	0	0	0	0	0	0
Net Worth	**1,611**	**1,815**	**1,955**	**1,916**	**1,950**	**2,158**	**2,508**
Minority Interest							
Net Deferred tax liability/(Asset)	426	510	400	400	400	400	400
Total Loans	**888**	**1,703**	**2,755**	**3,634**	**3,734**	**3,534**	**3,034**
Capital Employed	**2,925**	**4,028**	**5,110**	**5,951**	**6,084**	**6,092**	**5,942**
Assets							
Gross Block	4,132	4,627	4,858	6,212	6,512	6,812	7,312
Less: Depreciation	1,840	2,117	2,394	2,714	3,053	3,407	3,809
Net Block	**2,291**	**2,511**	**2,464**	**3,498**	**3,459**	**3,405**	**3,503**
Capital WIP	7	59	1,009	814	594	100	50
Long Term Loans & Advances	**454**	**852**	**784**	**680**	**680**	**680**	**680**
Non Current Investments	0	0	0	0	0	0	0
Current Assets							
Inventories	628	797	912	995	1,220	1,418	1,575
Sundry Debtors	295	486	470	666	834	1,039	1,181
Cash and Bank Balance	5	62	32	41	259	540	251
Loans and Advances	428	172	333	435	435	506	575
Other Current Assets	13	26	11	23	54	63	72
Total Current Assets	**1,370**	**1,541**	**1,757**	**2,160**	**2,803**	**3,566**	**3,654**
Less: Current Liabilities & Provisions							
Sundry Creditors	439	482	456	601	745	901	1,083
Provisions	348	75	51	1	54	63	72
Other Current Liabilities	410	379	398	599	653	695	790
Total Current Liabilities & Provisions	**1,197**	**935**	**905**	**1,201**	**1,452**	**1,659**	**1,945**
Capital Applied	**2,925**	**4,028**	**5,110**	**5,951**	**6,084**	**6,092**	**5,942**

Source: Company, BP Equities Research

Cash Flows (Standalone)							
YE March (Rs. Mn)	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**	**FY20E**
PAT	**284.3**	**281.4**	**192.4**	**(39.0)**	**113.4**	**307.8**	**470.0**
Less: Non Operating Income	(2.0)	(1.3)	(4.4)	(3.4)	(1.0)	(2.0)	(3.0)
Add: Depreciation	309.1	274.5	278.5	320.0	338.6	354.2	402.1
Add: Interest Paid	204.6	199.7	214.7	288.6	373.4	353.4	303.4
Operating Profit before Working Capital Changes	**796.0**	**754.3**	**681.2**	**566.2**	**824.4**	**1,013.4**	**1,172.5**
(Inc)/Dec in Current Assets	(427.9)	53.4	(130.4)	(310.0)	(200.7)	(284.0)	(220.0)
Inc/(Dec) in Current Liabilities	276.0	(261.4)	(30.6)	296.3	251.1	206.9	286.1
Changes in Inventory	(90.4)	(168.5)	(115.0)	(83.7)	(224.8)	(197.8)	(157.1)
Net Cash Generated From Operations	**553.8**	**377.9**	**405.0**	**468.8**	**650.1**	**738.5**	**1,081.5**
Cash Flow from Investing Activities							
(Inc)/Dec in Fixed Assets	(182.1)	(495.8)	(230.7)	(1,353.6)	(300.0)	(300.0)	(500.0)
(Inc)/Dec in Capital Work In Progress	(7.3)	(52.0)	(949.7)	194.7	220.3	494.0	50.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	(367.0)	(398.4)	68.0	104.3	0.0	0.0	0.0
Add: Non Operating Income Income	2.0	1.3	4.4	3.4	1.0	2.0	3.0
Net Cash Flow from/(used in) Investing Activities	**(554.5)**	**(944.8)**	**(1,108.1)**	**(1,051.3)**	**(78.7)**	**196.0**	**(447.0)**
Cash Flow from Financing Activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inc/(Dec) in Total Loans	258.1	899.1	942.0	879.2	100.0	(200.0)	(500.0)
Inc/(Dec) in Reserves & Surplus	41.3	47.8	(107.0)	0.7	0.0	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	100.0	0.0	0.0	0.0	0.0
Dividend Paid	(90.0)	(120.0)	(40.0)	0.0	(80.0)	(100.0)	(120.0)
Less: Interest Paid	(204.6)	(199.7)	(214.7)	(288.6)	(373.4)	(353.4)	(303.4)
Adjustments	(1.5)	1.7	(1.3)	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	**(0.6)**	**623.8**	**673.3**	**591.3**	**(353.4)**	**(653.4)**	**(923.4)**
Net Inc/Dec in cash equivalents	**(1.3)**	**56.8**	**(29.7)**	**8.8**	**218.0**	**281.1**	**(288.9)**
Opening Balance	**6.4**	**5.1**	**61.9**	**32.2**	**41.0**	**259.0**	**540.1**
Closing Balance Cash and Cash Equivalents	**5.1**	**61.9**	**32.2**	**41.0**	**259.0**	**540.1**	**251.2**

Source: Company, BP Equities Research

Key Ratios (Standalone)							
YE March (Rs. mn)	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**	**FY20E**
Key Operating Ratios							
EBITDA Margin (%)	20.1%	18.7%	16.6%	10.3%	16.2%	18.5%	19.7%
Tax / PBT (%)	1.8%	21.6%	10.4%	71.1%	34.0%	34.0%	34.0%
Net Profit Margin (%)	7.1%	6.3%	4.5%	-0.9%	2.1%	4.9%	6.5%
RoE (%)	19.0%	16.4%	10.2%	-2.0%	5.9%	15.0%	20.1%
RoCE (%)	20.4%	19.7%	11.3%	3.1%	10.2%	15.1%	19.0%
Current Ratio (x)	1.1x	1.6x	1.9x	1.8x	1.9x	2.1x	1.9x
Dividend Payout (%)	33.1%	44.5%	23.8%	0.0%	70.5%	32.5%	25.5%
Book Value Per Share (Rs.)	16.1	18.1	19.5	19.2	19.5	21.6	25.1
Financial Leverage Ratios							
Net Debt/ Equity (x)	0.5	0.9	1.4	1.9	1.8	1.4	1.1
Interest Coverage (x)	3.9x	4.2x	3.3x	1.6x	2.4x	3.3x	4.7x
Interest / Debt (%)	22.4%	15.4%	9.6%	9.0%	10.1%	9.7%	9.2%
Growth Indicators %							
Growth in Gross Block (%)	4.6%	12.0%	5.0%	27.9%	4.8%	4.6%	7.3%
Sales Growth (%)	7.2%	11.8%	(4.9%)	7.4%	19.4%	16.2%	13.7%
EBITDA Growth (%)	(8.2%)	3.8%	(15.4%)	(33.2%)	87.8%	32.8%	20.7%
Net Profit Growth (%)	0.8%	(1.0%)	(31.6%)	(120.3%)	(390.8%)	171.4%	52.7%
Diluted EPS Growth (%)	0.8%	(1.0%)	(31.6%)	(120.3%)	(390.8%)	171.4%	52.7%
Turnover Ratios							
Debtors (Days of net sales)	27	40	40	55	56	60	60
Creditors (Days of Raw Materials)	74	71	72	49	50	52	55
Inventory (Days of Optg. Costs)	67	72	88	82	82	82	80

Source: Company, BP Equities Research

Common Sized Profit & Loss Account (Standalone)							
YE March (Rs. mn)	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**	**FY20E**
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**200.0%**
Less:							
Raw Material Consumed	32.8%	33.0%	34.5%	36.3%	37.0%	38.0%	39.0%
Employee Cost	8.3%	8.9%	9.9%	9.8%	9.2%	8.9%	8.8%
Other Expenses	39.3%	38.7%	40.4%	43.6%	37.6%	34.6%	32.5%
Total Operating Expenditure	**79.9%**	**81.3%**	**83.4%**	**89.7%**	**83.8%**	**81.5%**	**80.3%**
EBIDTA	**20.1%**	**18.7%**	**16.6%**	**10.3%**	**16.2%**	**18.5%**	**19.7%**
Depreciation	7.8%	6.2%	6.6%	7.0%	6.2%	5.6%	5.6%
Interest Paid	5.1%	4.5%	5.1%	6.3%	6.9%	5.6%	4.2%
Non-operating Income	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%
Extraordinary Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Profit Before Tax	**7.3%**	**8.0%**	**5.1%**	**-3.0%**	**3.2%**	**7.4%**	**9.9%**
Current tax	0.1%	1.7%	0.5%	-2.1%	1.1%	2.5%	3.4%
Profit/Loss of Associate Company	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Profit After Tax	**7.1%**	**6.3%**	**4.5%**	**-0.9%**	**2.1%**	**4.9%**	**6.5%**
Adjusted Profit	**7.1%**	**6.3%**	**4.5%**	**-0.9%**	**2.1%**	**4.9%**	**6.5%**

Source: Company, BP Equities Research

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Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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