

Viewpoint

Fastenings gains

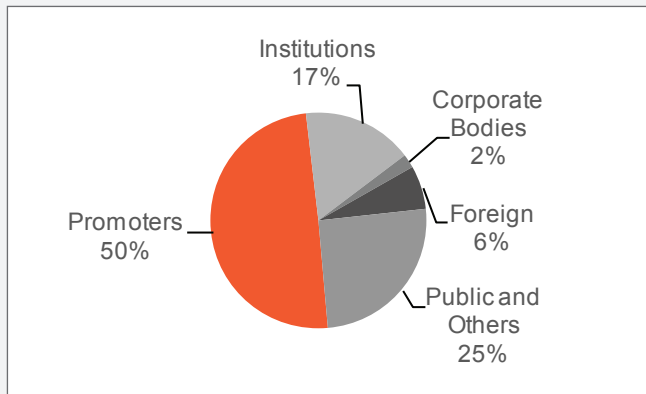
Sundram Fasteners

View: Positive | CMP: Rs406

Company details

Market cap:	Rs8,528 cr
52-week high/low:	Rs468/174
NSE volume: (No of shares)	1.66 lakh
BSE code:	500403
NSE code:	SUNDRMFAST
Sharekhan code:	SUNDRMFAST
Free float: (No of shares)	10.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.5	3.4	30.1	111.2
Relative to Sensex	-8.5	-5.6	9.6	79.9

Key points

- Healthy operating performance and lower interest cost led to robust PAT growth, results in-line with expectations:** Sundram Fasteners Limited (SFL) registered healthy double-digit topline growth (11% YoY) for Q1FY2018, driven by improved demand scenario and new product additions. The company's operating profit margin (OPM) declined marginally by 30BPS YoY to 18.7% due to higher raw-material costs. Consequently, EBITDA for the quarter increased by 9.4% YoY to Rs.147.5 crore, broadly in line with estimates. Lower interest expenses (interest costs more than halved) coupled with higher other income (up 69% YoY) led to PAT growing in strong double digits by 19% YoY to Rs.90 crore, broadly in line with our estimates.
- Diversified product portfolio and focus on increasing content per vehicle to boost topline; Margin improvement expected to sustain:** SFL has introduced various new products such as engine components, pump assemblies, powder metal parts, shafts and other components, which has resulted in product diversification and has reduced dependence on fasteners. Consequently, share of fasteners in SFL's revenue dipped from 43% to sub-40% levels. On the basis of new product introductions and upcoming regulatory changes, SFL is confident of increasing the content per vehicle for both commercial vehicles (CV) and passenger vehicles (PV), which now stands at ~Rs.7,000 and Rs.5,000, respectively. Efforts to tap the emerging areas like electric vehicles and an encouraging outlook for the PV and CV industry over the next two years are expected to boost SFL's revenue. We have factored in a 12% revenue CAGR over FY2017-FY2019 for SFL, which is higher than 8-10% growth likely for the industry. Secondly, SFL's focus on high-value products (transmission products) and better realisation segments (electric vehicles) would lead to sustained higher margins going ahead. Further, sustained improvement at the operating level and a low interest cost are expected to result in a 17% earnings CAGR over the next two years.
- Continue to outpace industry growth:** SFL is likely to continue outpacing industry growth on account of new product launches. Apart from increasing the content per vehicle, SFL is moving up the value chain and reducing dependence on fasteners. Launch of high-margin products (specialised fasteners and transmission products) would propel healthy double-digit earnings growth over the next two years.
- Reiterate a positive view:** Given the in-line results for Q1FY2018, we have broadly retained our estimates. We believe double-digit topline growth and sustained higher margin trajectory would boost SFL's overall performance. The return ratios are also expected to be in excess of 25% as against the historical average of 14-15%, which justifies its premium valuations. We reiterate our positive view on the stock and expect it to generate 15-18% returns over the next 6-8 months.

Results					Rs cr	
Particulars	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	
Revenue	788.8	711.0	10.9	775.1	1.8	
EBITDA	147.5	134.8	9.4	143.0	3.2	
EBITDA Margin (%)	18.7	19.0	- 30 BPS	18.4	25.4BPS	
Depreciation	24.8	24.1	2.8	18.9	31.1	
Interest	6.29	14.26	-55.9	6.1	2.4	
Other income	8.8	5.2	69.3	0.4	2283.8	
PBT	125.2	101.7	23.2	118.3	5.9	
Tax	35.1	26.0	34.8	28.3	24.1	
Adjusted PAT	90.2	75.6	19.2	90.0	0.2	
Reported PAT	90.2	75.6	19.2	87.7	2.9	
Adjusted EPS	4.3	3.6	19.2	4.2	2.9	

Valuation					Rs cr	
Particulars	FY15	FY16	FY17	FY18E	FY19E	
Revenues	3,156.1	3,254.9	3,290.0	3,731.9	4,162.4	
Growth (%)	15.3	3.1	1.1	13.4	11.5	
EBIDTA	375.7	384.0	596.2	678.4	763.0	
OPM (%)	11.9	11.8	18.1	18.2	18.3	
Net Profit	131.1	243.7	340.6	408.5	468.2	
Growth (%)	8.6	85.9	39.7	20.0	14.6	
EPS	6.2	11.6	16.2	19.4	22.3	
P/E (x)	65.1	35.0	25.0	20.9	18.2	
P/BV (x)	9.7	8.9	6.9	5.7	4.8	
EV/EBIDTA (x)	25.0	23.6	15.3	12.8	11.2	
ROE (%)	14.9	25.6	27.6	27.4	26.2	
ROCE (%)	14.9	20.7	26.0	29.2	29.5	

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