6 Top High Conviction Investment Ideas

Top 6 Picks					
Companies Name	**Market Cap (in Cr.)**	**CMP**	**Target Price**	**Upside**	**Recommendation**
Sun Pharmaceuticals Ltd	216006	881	1013	15.0%	BUY
Ashok Leyland Ltd	41700	142	184	29.6%	BUY
Aarti Industries Ltd	28660	787	982	24.8%	BUY
TCI Express Ltd	6663	1730	2010	16.2%	BUY
Suprajit Engineering Ltd	4600	333	400	20.1%	BUY
Steel Strips Wheels Ltd	2520	805	1055	31.1%	BUY

Sun Pharmaceuticals Ltd.

Pharmaceuticals | 23rd August 2022

CMP: Rs 881 | Target: Rs 1,013 | Upside: 15.0% | M Cap: Rs 2,16,006 Cr | Prom Holding: 54.5%| Rating: Buy

Investment Case:

Specialty business: In the spotlight

SUNP's global specialty portfolio grew by 39% in FY22 to USD 679 Mn driven by increased sales of Ilumya which witnessed robust growth of 81% in FY22 to USD 315 Mn. SUNP has improved its business mix by launching more products in specialty which garners higher margin for the company. The contribution from specialty has increased significantly from 7% in FY18 to 13% in FY22. The metamorphic shift from generics to speciality will lead to higher revenues growth which will be aided by drugs such as Winlevi, Ilumya, Cequa, Levulan, Bromsite and Odomzo.

US Generic business: The tide is turning

The US generic business has always been a pain for SUNP with higher price erosion, Issues related to Halol facility and litigation liabilities which came a baggage with acquisition of Ranbaxy. However, the tides are turning now as SUNP's ANDA pipeline looks promising with limited competition opportunities such gPentasa and gSensipar. gPentasa currently is a 2-player market with market size of USD 217 Mn, we assume 50% price erosion and 50% market share by Sun which adds USD 50 Mn i.e 3% growth to SUNP's US revenue. The company has rich pipeline of 93 ANDAs awaiting USFDA approval (out of which are 28 tentative approvals). Additionally, the portfolio of the company also includes 54 approved NDAs while 13 NDAs await US FDA approval.

India Business: Robust revenue visibility

India business has seen growth of 23% YoY in FY22 to INR 127,593 Mn mainly driven by pick up in chronic and semi chronic portfolio. SUNP continued to remained on the top of the market, maintaining its leadership position by capturing 8.3% market share in the IPM (Indian Pharma Market). The company plans to expand its field force by 10% in FY2023 for its branded portfolio and geographical expansion. We expect 8% growth for SUNP in the domestic market in FY23E which will be driven by price hike and volume gain in key therapies such as cardiovascular and gastroenterology and new product launches.

Emerging Market: No impact of ongoing war

SUNP has presence in more than 80 markets with major focus on Romania, Russia, South Africa, Brazil and Mexico. In FY22 the company witnessed revenue growth 16.6% with sales of INR 67,432 Mn driven by robust growth in Russia and Romania respectively. The company have not witnessed any major impact of the geopolitical issues on the operations in Russia.

R&D expenses: To inch up going ahead

SUNP plans to increase its R&D investments to fund the phase III trials of Ilumya in psoriatic arthritis. The company also plans to initiate phase II trial of SCD-044 in Psoriasis and Atopic Dermatitis and MM-II phase II trial of osteoarthritis. SUNP guided that R&D cost will rise to 8-9% of revenue as against 5.5% in FY22 which will lead to muted margins going ahead.

Valuation:

The specialty segment of the company looks attractive due to robust ANDA pipeline and ramp up in branded drugs prescriptions. The incremental benefit from the limited competition drug such as gPentasa and gSensipar will fuel the revenue growth further. The India business continues to grow at high double digit with increased market share. However, increased cost on R&D front will limit the EBITDA margins to 26% in FY23. We assign 26x PE multiple to FY24E earnings and arrive at a target price Rs 1,013 offering 15% upside from current levels. Buy.

Risks:

1.) Delay in clinical trials or patients' recruitment

2.) Higher than anticipated price erosion.

Financial Statements

Income Statement

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenues	**328,375**	**334,981**	**386,545**	**419,892**	**462,461**
% Growth	13.0%	2.0%	15.4%	8.6%	10.1%
Raw Materials	92,305	86,901	103,515	109,247	114,811
% of sales	28.1%	25.9%	26.8%	26.0%	24.8%
Personnel	63,624	68,622	73,008	79,225	86,338
% of sales	19.4%	20.5%	18.9%	18.9%	18.7%
R&D Expenses	19,252	21,028	21,325	31,273	34,443
% of sales	5.9%	6.3%	5.5%	7.4%	7.4%
Other Expenses	83,298	73,516	84,719	91,734	101,034
% of sales	25.4%	21.9%	21.9%	21.8%	21.8%
EBITDA	**69,898**	**84,914**	**103,977**	**108,413**	**125,833**
EBITDA Margin (%)	21.3%	25.3%	26.9%	25.8%	27.2%
Depreciation & Amortization	20,528	20,800	21,437	22,785	24,182
EBIT	**49,370**	**64,114**	**82,540**	**85,628**	**101,651**
Finance cost	3,027	1,414	1,274	765	780
PBT From Operations	**46,343**	**62,700**	**81,266**	**84,864**	**100,871**
Other Income	6,360	8,355	9,215	9,445	9,701
Exceptional Income/ (Expense)	-2606	-43061	-45668	0	0
PBT	**50,096**	**27,994**	**44,814**	**94,309**	**110,572**
Tax-Total	8,228	5,147	10,755	12,260	15,480
Tax Rate (%) - Total	16.4%	18.4%	24.0%	13.0%	14.0%
PAT	**41,868**	**22,847**	**34,059**	**82,049**	**95,092**
PAT Margin	12.8%	6.8%	8.8%	19.5%	20.6%
% Growth	30.5%	-45.4%	49.1%	140.9%	15.9%
Share of Associates	-148	-123	-165	-150	-150
Minority Interest	4,070	-6,315	1,166	1,167	1,168
Consolidated PAT	**37,649**	**29,038**	**32,728**	**80,732**	**93,774**
Consolidated PAT Margins	11.5%	8.7%	8.5%	19.2%	20.3%
Adjusted PAT	**40,256**	**72,100**	**78,396**	**80,732**	**93,774**

Key Ratios

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Growth Ratios (%)					
Revenue	12.7	2.5	16.0	8.4	10.0
EBITDA	10.8	21.5	22.5	4.1	16.0
PAT	3.8	79.1	8.7	2.8	16.0
Margin Ratios (%)					
EBITDA	21.3	25.3	26.9	25.8	27.2
PBT from operations	16.0	21.2	23.4	22.5	23.9
Consol. PAT	13.0	6.9	8.9	19.7	20.7
Return Ratios (%)					
ROE	9.7	5.0	7.2	16.0	16.5
ROCE	8.4	10.7	13.3	12.9	13.8
Turnover Ratios (days)					
Asset Turnover (x)	1.7	1.7	1.8	1.8	1.9
Debtors	106	100	101	105	106
Inventory	311	378	317	330	335
Creditors	142	167	158	174	175
Cash conversion cycle	276	311	260	261	266
Solvency Ratio (x)					
Net debt-equity	0.0	-0.1	-0.1	-0.2	-0.2
Debt-equity	0.2	0.1	0.0	0.0	0.0
Interest coverage ratio	16	45	65	112	130
Current Ratio	2.1	1.9	2.0	2.4	2.7
Per share Ratios (Rs)					
Adjusted EPS	16.8	30.1	32.7	33.6	39.0
Reported EPS	17.5	9.5	14.2	33.6	39.0
DPS	0.0	5.7	3.0	8.5	9.9
Valuation (x)					
P/E	33.9	88.8	60.9	26.2	22.6
P/BV	3.1	4.4	4.3	3.9	3.5
EV/EBITDA	20.6	23.6	19.6	18.7	15.7

Balance Sheet

YE March	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Capital	2,399	2,399	2,399	2,399	2,399
Reserves & Surplus	450,245	462,229	477,713	538,510	608,899
Shareholders' Funds	**452,645**	**464,628**	**480,112**	**540,909**	**611,299**
Minority Interest	**38,602**	**30,171**	**30,549**	**30,549**	**30,549**
Total Loan Funds	**83,149**	**38,687**	**12,903**	**12,747**	**13,001**
Deferred tax liabilities	581	445	319	319	319
Non-Current Liabilities	13,343	10,986	10,196	10,696	11,234
Total Liabilities	**682,525**	**676,667**	**697,999**	**768,039**	**843,857**
Application of funds					
Gross Block	286,345	292,914	308,582	329,032	350,532
Accumulated Dep.	122,691	140,260	157,061	185,505	213,480
Net Block	163,655	152,653	151,521	143,527	137,052
Capital WIP	12,203	15,668	20,450	21,500	21,500
Net Assets	**175,858**	**168,322**	**171,971**	**165,027**	**158,552**
Investments	52,458	64,824	52,147	54,754	57,492
Goodwill	64,815	62,876	65,495	65,495	65,495
Other non-current assets	72,853	76,225	58,237	58,307	58,379
Total Non-Current Assets	**365,983**	**372,247**	**347,849**	**343,582**	**339,917**
Inventories	78,750	89,970	89,968	98,626	105,124
Sundry Debtors	94,212	90,614	105,929	119,774	133,052
Cash & Bank Balances	64,876	64,455	50,334	97,768	152,905
Loans and Advances	1,484	560	1,700	1,734	1,768
Other current Assets	77,220	58,821	102,220	106,554	111,090
Total Current Assets	**316,542**	**304,421**	**350,150**	**424,456**	**503,940**
Sundry Creditors	**35,836**	**39,737**	**44,793**	**52,003**	**54,915**
Other Current Liabilities	20,005	46,188	27,648	28,424	29,223
Provisions	38,364	45,827	91,478	92,393	93,317
Total Current Liabilities	**94,205**	**131,751**	**163,920**	**172,820**	**177,456**
Net Current Assets	**222,337**	**172,670**	**186,230**	**251,636**	**326,484**
Total Assets	**682,525**	**676,667**	**697,999**	**768,038**	**843,857**

Cash Flow

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Operating profit before WC changes	**70,022**	**46,092**	**64,563**	**117,858**	**135,534**
Net chg in working capital	8985	25641	15591	-13971	-15428
Cash flow from operating activities (a)	**65,548**	**61,704**	**89,845**	**91,627**	**104,626**
Adj. OCF (OCF - Interest)	62520	60289	88572	90862	103846
Capital expenditure	-14,500	-10,730	-14,344	-15,840	-17,707
Free Cash Flow	48,021	49,559	74,228	75,022	86,139
Cash flow from investing activities (b)	**-25,888**	**5,362**	**-57,247**	**-22,265**	**-24,453**
Cash flow from financing activities (c)	**-57,151**	**-59,805**	**-51,935**	**-22,070**	**-25,037**
Net chg in cash (a+b+c)	**-17,492**	**7,261**	**-19,337**	**47,292**	**55,136**

Source: AceEquity, SMIFS research

Ashok Leyland Ltd.

Automobile | 23rd August 2022

CMP: Rs 142 | Target: Rs 184 | Upside: 29.6% | M Cap: Rs 41,700 Cr. | Prom Holding: ~52% | Rating: Buy

CV accelerates when economy moves

- Broad indices viz. GST collection, toll taxes, IIP, among others are signaling positivity. As seen in the past cycles, MHCVs performs at its best when the economy rolls higher.
- Fleet utilization has been improving, resulted in better profitability for operators. Freight movement indicators have all improved as economic activities picked up.
- Tippers, MAVs, ICVs, tractor trailers, SCVs demand remains good at the moment and expect to improve further with higher spends on infrastructure.
- Domestic CV cycle as seen historically, it trend-up for 3-4 years, and trend-down for 6-18 months. The industry has just come out from recessionary trend and expect at least next two years to be quite positive.

Replacement and scrappage is coming at an opportune time, CV industry to witness golden year - FY24

- Based on our checks, during the last 2 years of downturn, customers have not replaced their vehicles and are waiting for some incentives for scrapping older vehicles. Hence, replacement demand is waiting to kick-in.
- As per our calculation, an attractive scrappage policy could add up 2x of average annual MHCV sales (assuming only 33% MHCVs comes for scrappage). This is a huge demand industry can get if the scrappage policy is implemented well. The testing of older than 15 years CVs will start from 1st April 2023 and we believe this will be major demand booster specially for MHCVs.

Product introduction is supporting market share improvement, buses demand is surging

- With few CNG products introduction, Ashok Leyland improved its share, a few more launches expected will further strengthen its share. The company's domestic market share improved from 22% in Q2FY22 to 30% in Q1FY23.
- Its LCV range has exceptional products, we expect more such launches to support volume growth. In addition, it will launch tippers, as the demand is good. Continuation of new product launches will help grow the market share.
- Buses are showing stellar demand pickup; Ashok Leyland should benefit being historically a leader in it. As the economy is back on its feet, education institutions, offices have reopened; along with higher demand from tourist category is leading to increase in the demand for buses.

Exports doing reasonably good

- The market share in exports improved substantially from 20% in Q1FY22 to 38% in Q1FY23, which is highest ever in the last ~5 years.
- In exports, there are uncertainties and inflationary pressures. However, Ashok Leyland is operating majorly in the African, the Middle East and Bangladesh, where it continues to see reasonable growth.
- Appointed new large distributors in exports, adding new products, etc. will continue to see good growth. Total export volume sales increased by 38% YoY in FY22, expect double-digit growth to continue in FY23e & FY24e.

Operating leverage will take margins higher

- Margins in previous peak years were ranging ~11%+, but this time commodities are at historic highs & hence, we are in the opinion that EBITDA margin will be little lower than the highs of previous upcycle. 10.5% in FY24e is a reasonably strong margin.
- Discounts has also come down sharply from its peak, and 80% of price hikes are getting retained in the market. This, along with internal efficiency improvement & operating leverage benefits to push margins higher in the upcoming two years.

Outlook & valuations

- Demand indication is strong across domestic & export markets. The combination of CNG product introduction + market tilting towards MHCVs + replacement cycle kick-in + scrappage implementation from April 2023 + improving buses demand are all extremely positive triggers for topline growth.
- The margin will follow largely due to operating leverage. Inventory is low, fleet utilization is improving & freight rates are firming-up gradually. Overall, FY23 is looking very strong. We have factored in superior margin performance and reiterate BUY to play the superlative CV upcycle ahead.
- We have been positive on Ashok Leyland as the best days for CV upcycle has begun, which should continue to run at least for the next three years, driven majorly by the replacement demand, followed by the implementation of scrappage policy starting April 2023.
- Replacement demand & scrappage are major trigger to drive earnings & valuation expansion. Assigned 12x FY24e EBITDA + separately valued investments to arrive at a TP of Rs 184 per share. Strongly recommend BUY!

Financial Statements

Income Statement

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenues	**174,675**	**153,015**	**216,883**	**292,799**	**372,759**
% Growth	(39.9)	(12.4)	41.7	35.0	27.3
Raw Materials	123,692	114,033	167,611	224,816	283,974
% of sales	70.8	74.5	77.3	76.8	76.2
Personnel	16,151	15,839	16,946	17,287	18,514
% of sales	9.2	10.4	7.8	5.9	5.0
Manufacturing & Other Expenses	23,096	17,791	22,381	28,703	31,221
% of sales	13.2	11.6	10.3	9.8	8.4
EBITDA	**11,737**	**5,351**	**9,945**	**21,994**	**39,050**
EBITDA Margin (%)	6.7	3.5	4.6	7.5	10.5
Depreciation & Amortization	6,698	7,477	7,528	7,648	8,316
EBIT	**5,039**	**(2,126)**	**2,418**	**14,346**	**30,735**
Finance cost	1,095	3,068	3,011	3,165	2,341
PBT From Operations	**3,944**	**(5,194)**	**(594)**	**11,180**	**28,393**
Other Income	1,233	1,195	761	608	752
Exceptional income/ (expense)	-1,558	-121	5,108	0	0
PBT	**3,619**	**(4,119)**	**5,276**	**11,788**	**29,146**
Tax-Total	1,224	(982)	(142)	2,967	7,336
Tax Rate (%)	33.8	23.8	(2.7)	25.2	25.2
Reported PAT	**2,395**	**(3,137)**	**5,418**	**8,821**	**21,810**

Balance Sheet

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Capital	2,936	2,936	2,936	2,936	2,936
Reserves & Surplus	69,704	66,837	70,434	76,167	87,072
Shareholders' Funds	**72,640**	**69,772**	**73,369**	**79,103**	**90,008**
Total Loan Funds	**32,814**	**37,413**	**38,968**	**31,654**	**23,413**
Deferred tax liabilities	2,648	1,708	1,444	1,444	1,444
Other non-current liabilities	5,080	4,701	4,546	4,921	5,403
Total Liabilities	**113,182**	**113,593**	**118,326**	**117,121**	**120,267**
Application of funds					
Gross Block	92,134	102,681	104,669	113,816	123,097
Accumulated Dep.	28,163	35,072	41,626	49,274	57,590
Net Block	63,971	67,609	63,043	64,542	65,507
Capital WIP	5,941	3,719	1,943	1,968	1,981
Net Assets	**69,913**	**71,327**	**64,986**	**66,510**	**67,488**
Investments	**27,196**	**30,687**	**35,216**	**35,216**	**35,216**
Other non-current assets	**12,552**	**7,970**	**7,918**	**8,337**	**8,719**
Inventories	12,380	21,423	20,752	27,835	35,159
Sundry Debtors	11,884	28,160	31,110	38,505	49,020
Cash & Bank Balances	22,256	16,481	33,406	45,617	52,996
Loans and Advances	230	43	-	-	-
Other current Assets	7,485	8,409	9,950	9,950	9,950
Total Current Assets	**54,235**	**74,515**	**95,218**	**121,906**	**147,126**
Sundry Creditors	**30,373**	**51,647**	**68,752**	**92,217**	**112,812**
Other Current Liabilities	14,093	14,610	11,557	16,950	18,564
Provisions	6,249	4,650	4,703	5,681	6,906
Total Current Liabilities	**50,714**	**70,906**	**85,011**	**114,848**	**138,282**
Net Current Assets	**3,521**	**3,609**	**10,207**	**7,058**	**8,844**
Total Assets	**113,182**	**113,593**	**118,326**	**117,121**	**120,267**

Key Ratios

YE March	FY20	FY21	FY22	FY23E	FY24E
Growth Ratios (%)					
Net Sales	(39.9)	(12.4)	41.7	35.0	27.3
EBITDA	(62.6)	(54.4)	85.8	121.1	77.6
Net Profit	(87.9)	NA	NA	NA	147.2
Margin Ratio (%)					
EBITDA Margin	6.7	3.5	4.6	7.5	10.5
EBIT Margin	2.9	(1.4)	1.1	4.9	8.2
PAT Margin	1.4	(2.1)	2.5	3.0	5.9
Return Ratios					
ROE	5.1	(4.2)	0.4	11.6	25.8
ROCE	4.3	(0.7)	3.0	10.0	21.0
ROIC	4.2	(1.8)	2.9	14.6	35.8
Turnover Ratios (days)					
Gross Block Turnover (x)	2.1	1.6	2.1	2.7	3.1
Inventory	37	69	45	45	45
Debtors	25	67	52	48	48
Creditors	90	165	150	150	145
Cash Conversion Cycle	(28)	(30)	(52)	(57)	(52)
Solvency ratio (x)					
Debt-equity	0.5	0.5	0.5	0.4	0.3
Net Debt-Equity	0.1	0.3	0.1	(0.2)	(0.3)
Gross Debt/EBITDA	2.8	7.0	3.9	1.4	0.6
Current ratio	1.1	1.1	1.1	1.1	1.1
Interest coverage ratio	4.6	(0.7)	0.8	4.5	13.1
Dividend					
DPS (Rs.)	4.3	-	0.6	1.1	3.7
Dividend Yield (%)	3.0	-	0.4	0.7	2.6
Dividend Payout (%)	527.7	-	32.5	35.0	50.0
Per share (Rs.)					
Basic EPS (reported)	0.8	-1.1	1.8	3.0	7.4
CEPS	3.1	1.5	4.4	5.6	10.3
BV	25	24	25	27	31
Valuation					
P/E	95	NA	NA	47.3	19.1
P/BV	3.1	3.3	5.0	5.3	4.6
EV/EBITDA	20.3	47.5	37.7	18.3	9.9
EV/Sales	1.4	1.7	1.7	1.4	1.0

Cash Flow

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Operating profit before WC changes	**12,108**	**5,491**	**10,059**	**22,206**	**39,320**
Net chg in working capital	(1,756)	(6,058)	15,696	14,653	4,925
Income tax paid (net)	(941)	779	714	(2,967)	(7,336)
Cash flow from operating activities (a)	**9,411**	**211**	**26,469**	**33,892**	**36,910**
Capital expenditure	(12,923)	(6,166)	(3,933)	(9,242)	(9,349)
Free Cash Flow	(3,512)	(5,954)	22,536	24,650	27,561
Cash flow from investing activities (b)	**(21,775)**	**(9,752)**	**(14,589)**	**(13,388)**	**(13,652)**
Cash flow from financing activities (c)	**11,490**	**2,060**	**(7,238)**	**(12,835)**	**(20,663)**
Net chg in cash (a+b+c)	**(874)**	**(7,481)**	**4,643**	**7,669**	**2,595**

Source: AceEquity, SMIFS research

SMIFS LIMITED
LEGACY | TRUST | GROWTH

Aarti Industries Ltd.

Chemicals | 23rd August 2022

CMP: Rs 787 | Target: Rs 982 | Upside: 24.8% | M Cap: Rs 28,660Cr | Prom Holding: 44.2% | Rating: BUY

Investment Case:

Specialty chemical margins to improve as prices & demand of key products to witness rise: Aarti Industries key products in NCB value chain constitute ~20-25% of overall revenues had witnessed rise amid strong demand from key end user industries, increased contribution from discretionary sectors & supply chain issues in China. The company is also increasing its NCB capacities from 78,000 TPA to 1,08,000 TPA in 2 phases and expected completion by mid of FY23 which would support volume growth going ahead. Over the last few quarters, margins came under pressure majorly led by rising raw material prices, rising international freight cost etc. With the global economy recovering the pandemic sustained demand would lead to healthy volume growth momentum, cost plus model leading to pass on of higher raw material prices, easy availability of containers thereby reducing freight costs (45% of revenue from exports). On the back of this, we expect margins of the specialty chemical business to rebound to 20% plus level by FY23.

Pharma segment to deliver stronger revenue growth, margin improvement on the cards: We are quite positive for the next 2-3 years in the pharma business. The margin has increased sequentially in Q1FY23 and will improve further as exports pickup with demand picking up in international markets. The company has started commercialization of its API's & intermediates capacities in Tarapur and this will contribute to revenue in the coming quarters. The company is focussing on improving product mix towards higher value-added segments which will increase its presence in key regulated markets and improve the growth trajectory going ahead. We expect growth of 15-25% for next 2-3 years along with sustained 20%+ margins.

Higher capital intensity to drive growth: The company is investing combined capex of around Rs45-50bn from FY22-24. The capex is divided into Rs12-15bn which is focussed towards the downstream chemistries of benzene & toluene, NCB business capacity expansion, increasing its API and intermediate capacities in the pharma business & remaining Rs30-35bn for newer projects like the Chloro Toluene value chain, Setting up Universal Multipurpose Plants (UMPP), newer range of value added products & specialty chemicals. Post complete capex commercialization, we expect Aarti industries revenue to be almost double from the FY21 base.

Risks:

1.) Sharp decline in spreads of key products

2.) Unforseen volatility of key raw material prices impacts the short term, however, the company follows a cost plus model which leads to pass on to the end user industries with a quarter lag.

Conclusion:

Aarti Industries has a very large addressable market in India and probably the only company manufacturing more than 125 products into benzene derivatives, toluene derivatives, pharma intermediiates & API's supplying to more than 500 domestic & 125 international customers. the company end user industries are very much diversified and 60% of the business is towards speciality related products. We are having very high conviction into the stock as Aarti industries kind of a legacy is very difficult to replicate and with the company investing Rs45-50bn over the next 3 years it will enhance its penetration, visibility and reach amongst its global peers.

Valuation:

Currently, the stock is trading at FY24 P/E of 24x. We value the stock on forward P/E multiple of 30x and, thereby, arrive at target price of Rs 982 per share which offers upside of 24.8% from current valuations.

Tabular Snapshot:

	CFO/EBITDA				D/E				Cash Conversion Cycle				Free Cash Flow			
Company Name	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**
Aarti Industries	0.3	0.6	1.0	0.8	1.3	0.9	0.7	0.9	128	151	153	165	-2448	1312	4471	-5690
Navin Fluorine	0.8	0.4	0.6	0.8	0.0	0.0	0.0	0.0	80	96	123	140	1680.0	890.0	1550.0	2350.0
Neogen Chemicals	0.07	-	-	0.85	1.1	1.3	0.9	1.2	145	169	276	174	-110	-360	-740	470

	EBITDA Magin				ROCE				P/E				EV/EBITDA			
Company Name	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**
Aarti Industries	18.4%	23.2%	23.3%	21.8%	18%	17%	17%	13%	23.3	23.8	32.0	43.8	13.8	13.6	19.1	25.5
Navin Fluorine	24.0%	22.0%	25.0%	26.0%	20%	14%	32%	16%	109.6	132.1	49.1	78.2	93.0	89.8	74.2	61.9
Neogen Chemicals	18.0%	18.0%	19.0%	19.0%	23%	22%	18%	15%	-	159.0	135.1	123.6	-	79.3	68.9	63.3

Financial Statements

Income Statement

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenues	**41,863**	**45,061**	**63,895**	**82,108**	**94,083**
% Growth	*0.4*	*7.6*	*41.8*	*28.5*	*14.6*
Raw Materials	20,563	21,286	32,938	43,313	47,418
% of revenues	*49.1*	*47.2*	*51.6*	*52.8*	*50.4*
Employee cost	3,052	3,714	4,421	5,338	6,446
% of revenues	*7.3*	*8.2*	*6.9*	*6.5*	*6.9*
Others	8,474	10,246	13,353	16,123	19,080
% of revenues	*20.2*	*22.7*	*20.9*	*19.6*	*20.3*
EBITDA	**9,773**	**9,815**	**13,183**	**17,333**	**21,139**
EBITDA margin (%)	**23.3**	**21.8**	**20.6**	**21.1**	**22.5**
Depreciation & Amortisation	1,852	2,313	2,885	3,645	4,545
EBIT	**7921**	**7502**	**10299**	**13688**	**16594**
Interest expenses	1,248	864	1,143	1,431	1,431
PBT from operations	**6,673**	**6,639**	**9,156**	**12,257**	**15,164**
Other income	88	7	8	14	13
PBT	**6,762**	**6,646**	**9,164**	**12,271**	**15,177**
Taxes	1,294	1,293	2,194	2,577	3,187
Effective tax rate (%)	*19.1*	*19.5*	*23.9*	*21.0*	*21.0*
PAT before MI & EO	**5,468**	**5,352**	**6,970**	**9,694**	**11,990**
Extraordinary Items	0	0	6,104	0	0
Minority Interest	**-107**	**-118**	**-2**	**-97**	**-120**
PAT	**5,361**	**5,235**	**13,072**	**9,597**	**11,870**
PAT Margin	**12.8**	**11.6**	**20.5**	**11.7**	**12.6**
Adjusted PAT	**5,361**	**5,235**	**6,968**	**9,597**	**11,870**

Balance Sheet

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Equity Share Capital	871	871	1813	1813	1813
Reserves & Surplus	29863	34280	57339	67753	79239
Shareholders' Fund	**30734**	**35151**	**59152**	**69565**	**81051**
Total loan funds	20979	30339	25898	28611	31789
Deferred Tax Liabilities	2110	2339	2502	3216	3685
Other Non-Current Liability	5509	2244	2400	3084	3534
Total Liabilities	**59332**	**70073**	**89952**	**104476**	**120059**
Net Block	24676	35925	44177	58534	73679
Capital WIP	14176	12979	14904	13493	9155
Goodwill	9	1	2	2	2
Long term Investments	370	635	731	1335	1417
Other Non-Current Assets	4045	3201	4177	5149	6314
Total Non-Current Asset	**43276**	**52741**	**63991**	**78512**	**90566**
Inventories	8357	9357	14113	17800	18188
Current Investments	1357	1875	1669	1938	2359
Trade receivables	7534	7937	13905	15747	16755
Cash and cash equivalent	2473	4123	2568	-2207	274
Other current assets	328	384	482	619	709
Total Current Assets	**20049**	**23676**	**32737**	**33897**	**38285**
Trade payables	3452	5763	4901	6527	7145
Other current liabilities	142	179	845	162	147
Short term Provisions	399	401	1030	1244	1500
Total Current Liabilities	**3993**	**6343**	**6776**	**7933**	**8792**
Net Current Assets	**16056**	**17333**	**25961**	**25964**	**29493**
Total Assets	**59332**	**70073**	**89952**	**104476**	**120059**

Source: AceEquity, SMIFS research

Key Ratios

YE March	FY20	FY21	FY22	FY23E	FY24E
Growth ratios (%)					
Revenue	*0*	*8*	*42*	*29*	*15*
EBITDA	*1*	*0*	*34*	*31*	*22*
Adjusted Net Profit	*9*	*-2*	*33*	*38*	*24*
Margin Ratios (%)					
EBITDA margin	*23.3*	*21.8*	*20.6*	*21.1*	*22.5*
PBT margin	*15.9*	*14.7*	*14.3*	*14.9*	*16.1*
Adjusted PAT margin	*12.8*	*11.6*	*20.5*	*11.7*	*12.6*
Return Ratios (%)					
ROE	17.8	15.2	11.8	13.9	14.8
ROCE	12.5	9.2	9.2	11.0	11.6
Turnover Ratios (days)					
Gross block turnover (x)	1.7	1.3	1.4	1.4	1.3
Debtor	66	64	79	70	65
Inventory	148	160	156	150	140
Creditors	61	99	54	55	55
Cash conversion cycle	153	126	182	165	150
Solvency Ratio (x)					
Net Debt-equity	0.6	0.7	0.4	0.4	0.4
Debt-equity	0.7	0.9	0.4	0.4	0.4
Interest Coverage Ratio	6	9	9	10	12
Gross Debt/EBITDA	2.1	3.1	2.0	1.7	0.0
Current Ratio	5.0	3.7	4.8	4.3	4.4
Per share (Rs.)					
Reported EPS	15.4	15.0	19.2	26.5	32.7
BVPS	88	101	163	192	224
Dividend Payout	26.0	10.0	4.2	6.4	6.1
Valuation (x)					
P/E	31.9	43.8	39.7	29.8	24.1
P/BV	5.6	6.5	5.2	4.1	3.5
EV/EBITDA	19.1	25.5	24.8	18.1	14.8
Dividend Yield(%)	2.8	0.8	0.6	0.8	0.9

Cash Flow

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Operating profit before WC changes	9,757	9,766	19,235	17,250	21,033
Net chg in working capital	12,659	9,693	7,377	14,283	20,429
Income taxes paid	-1,638	-966	-2,670	-2,577	-3,187
Cash flow from operating activities (a)	**11,021**	**8,727**	**4,708**	**11,706**	**17,242**
Adj OCF (OCF - Interest)	9,773	7,863	3,565	10,276	15,812
Capital expenditure	-5,302	-14,311	-11,447	-18,000	-20,000
Free Cash Flow	4,471	-6,448	-7,882	-7,724	-4,188
Cash flow from investing activities (b)	**-11,241**	**-13,221**	**-13,055**	**-17,194**	**-15,434**
Cash flow from financing activities (c)	**-5,349**	**6,145**	**6,792**	**713**	**673**
Net chg in cash (a+b+c)	**-5,569**	**1,650**	**-1,555**	**-4,775**	**2,481**

TCI Express Ltd.

Logistics | 23rd August 2022

CMP: Rs 1,730 | Target: Rs 2,010 | Upside: 16.0% | M Cap: Rs 6,663 Cr. | Prom Holding: 66.7% | Rating: BUY

TCI Express Ltd. is the leading B2B express logistics company with an extensive network of more than 900+ branches, 28 strategically located sorting centers, possess the capacity of servicing 40,000+ pickup and delivery points through its 5000+ containerized vehicles. Company has a pan India delivery network and caters to around 0.2 mn customers across India**. Company's Sales/EBIDTA/PAT has grown at a CAGR of ~8%/23%/28% over FY17-22 with healthy cash flow & ROCE over the years.**

Investment Rationale

Asset light business model: TCI Express has maintained an 'Asset light model" which runs through ~5000+ containerised vehicles and refrained from taking ownership of the fleet or doing large investments in building assets. It enters annual contracts with the fleet owners, which it renews every year. **Company pays its vendors on a per kilometre basis**, thus all expenses (related to drivers, license, fuel cost, maintenance etc) are built into the cost. Change in diesel prices is a pass through. Company's entire branch offices are on rent/leased basis in in-line with its asset light business model.

B2B business model with diversified industry exposure: The company derives ~95% of the revenue from B2B Express, which is well balanced between SMEs and corporate customers from a variety of industries like **automobile, pharmaceuticals, apparel & lifestyle, electronics and engineering etc.** The company derives ~50% of its revenues from its SME customers, where it has upper hand in terms of pricing power. The rest of the ~50% of the revenue is well diversified among the variety of sectors, thus minimizing the risk associated with a specific industry.

Diversifying revenue stream with launch of new services: Company has launched new services like 'Cold Chain Express' Service aimed to cater Pharma companies, 'C2C Express' service to provide multi-location pick-up and delivery services and 'Railway Express' service to capture a portion of air cargo business. All these new services adhere to the 'asset light model' of the company and has better margins compared to existing services of the company. Company has set a target to increase the contribution of these value added services including air express **from current ~15% of revenue to ~25% of revenue by FY25** which should also help in improvement of margins as these services have higher margins.

Automation and setting up of new 'sorting centers' to drive growth: The newly built Pune and Gurgaon sorting center is fully operational since Jun-21 and March-22 respectively. The Gurgaon sorting center is India's first and largest automated B2B sorting center with an area of ~2 lakh sq ft. and has system's in place which is capable of loading & unloading over ~140 containerised trucks in a single run reducing parcel handling time and vehicle halting time by ~40%, leading to higher operational efficiencies and profitability. In Q1FY23 ~18% of the total tonnage has been processed from Gurgaon center which reflects the scale and capabilities of the center. Learning's of automation from Gurgaon center will be implemented in Pune center going forward. Company plans to open such automated sorting center at **Chennai, Nagpur, Kolkata, Bengaluru, Mumbai and other selected cities going forward.** These sorting centees will help in improving the vehicle turnaround time & operational efficiencies which should results to better margins and profitability. In Q1FY23 company has purchased land in Kolkata at a capex of ~Rs 330 mn for setting up of automated sorting center.

Strong guidance: Management is confident to deliver revenue growth of ~18%-20% YoY in FY23 with EBIDTA margin of ~17%. Company has planned a capex of ~Rs 5000 mn over next 5 years which will be spent mainly on new sorting center, automisation & enhancing technological capabilities. Going forward it expects to achieve **a revenue at ~Rs 20 bn by FY25, with EBIDTA margins of ~20%+.** This will be supported by steady growth in core business and ramp-up of valued added services of air express, cold chain, C2C express, Railway express.

Outlook & Valuation

TCI Express is well positioned to capitalize on the growing opportunities in the domestic logistics space. The company plans to further strengthen its efficiencies and capabilities through automation, setting up new sorting centers, adding new branches and launch of new service. Company has a healthy balance sheet with net cash of ~Rs 1040 mn at the end of Q1FY23. Board & shareholders has recently approved a buy-back of ~2.85% of the public holding for an aggregate amount not exceeding Rs 750 mn. We have valued the stock at **40x FY23e EPS** and arrived at a **price target at Rs 2,010**. We have **"Buy"** rating on the stock.

Risks:

1) General slowdown in the economy & increased competition

2) Slowdown in key industry verticals/customers business

3) Un-ability to pass on any sharp fuel price increase

4) Slow ramp-up of new services

Financial Statements

Income Statement

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenue	**10,320**	**8,440**	**10,815**	**12,816**	**15,255**
% Growth	0.8	-18.2	28.1	18.5	19.0
Operating Cost	7,342	5,667	7,330	8,678	10,319
% of revenues	71.1	67.1	67.8	67.7	67.6
Gross Profit	**2,978**	**2,773**	**3,485**	**4,138**	**4,936**
Gross margin (%)	28.9	32.9	32.2	32.3	32.4
Employee Cost	1,018	873	1,099	1,228	1,400
% of revenues	9.9	10.3	10.2	9.6	9.2
Other Expenses	747	556	638	756	900
% of revenues	7.2	6.6	5.9	5.9	5.9
EBITDA	**1,213**	**1,343**	**1,747**	**2,154**	**2,635**
EBITDA margin (%)	11.8	15.9	16.2	16.8	17.3
Depreciation & Amortisation	78	90	100	127	154
EBIT	**1,135**	**1,254**	**1,648**	**2,027**	**2,481**
Interest Cost	9	8	7	6	6
PBT from operations	**1,126**	**1,246**	**1,640**	**2,021**	**2,475**
Other Income	44	77	82	75	107
Exceptional items	-	-	-	-	-
PBT	**1,170**	**1,322**	**1,722**	**2,096**	**2,582**
Tax Expenses	279	316	432	525	647
Effective tax rate (%)	23.9	23.9	25.1	25.1	25.1
Reported PAT	**891**	**1,006**	**1,290**	**1,571**	**1,935**

Cash Flow

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
PBT	**1,170**	**1,322**	**1,720**	**2,096**	**2,582**
Depreciation & Amortisation	78	90	100	127	154
Interest & dividend Income	-7	-6	-54	-8	-27
Interest expense	9	8	9	6	6
Others	8	-5	18	-	-
Op. profit bef. working capital changes	**1,258**	**1,409**	**1,793**	**2,221**	**2,715**
Changes in working capital	-125	90	-264	500	-151
Taxes Paid	-317	-284	-421	-525	-647
Cash Flow from Operating Activities (a)	**816**	**1,215**	**1,108**	**2,195**	**1,917**
Capital Expenditure	-319	-554	-800	-1,069	-1,090
Investments	-283	-439	-147	-	-
Loans & advances	-	-	-	-	-
Interest & Dividend Received	7	6	54	8	27
Cash Flow from Investing Activities (b)	**-595**	**-986**	**-893**	**-1,061**	**-1,063**
Net issuance of equity	15	22	20	-	-
Net borrowings	-59	-19	-10	-	-
Dividend paid (including tax)	-213	-77	-308	-394	-509
Interest expense	-9	-8	-9	-6	-6
Cash Flow from Financing Activities (c)	**-266**	**-82**	**-307**	**-399**	**-515**
Net change in cash	**-45**	**146**	**-92**	**735**	**339**
Opening cash balance	171	126	272	180	915
Closing Cash Balance	**126**	**272**	**180**	**915**	**1,253**

Key Ratios

YE March	FY20	FY21	FY22	FY23E	FY24E
Growth (%)					
Net Revenue	0.8	-18.2	28.1	18.5	19.0
Gross Profit	10.1	-6.9	25.7	18.7	19.3
EBITDA	1.9	10.7	30.1	23.3	22.4
PAT	22.3	12.9	28.3	21.7	23.2
Margins (%)					
Gross Margin	28.9	32.9	32.2	32.3	32.4
EBITDA Margin	11.8	15.9	16.2	16.8	17.3
EBIT margin	11.4	15.8	16.0	16.4	17.0
PBT Margin	11.3	15.7	15.9	16.4	16.9
PAT Margin	8.6	11.9	11.9	12.3	12.7
Return Ratios (%)					
RoE	29.5	26.1	26.6	26.4	26.7
RoCE	38.3	34.3	35.6	35.3	35.6
RoA	22.0	20.6	21.5	21.3	21.5
Working Capital Days					
Debtors days	58	72	61	57	57
Creditors days	33	44	37	34	34
Cash conversion period	25	28	24	24	24
Turnover Ratios (x)					
Asset Turnover	2.5	1.7	1.8	1.7	1.7
Fixed Asset Turnover	5.8	4.2	4.0	3.5	3.3
Solvency Ratios (x)					
Debt/ Equity	0.0	0.0	0.0	0.0	0.0
Net Debt/ Equity	0.0	-0.1	0.0	-0.1	-0.2
Interest Coverage	131.0	170.5	237.7	361.9	405.1
Dividend					
DPS (Rs)	4.0	4.0	8.0	10.2	13.2
Dividend Yield (%)	0.2	0.2	0.5	0.6	0.8
Dividend Payout (%)	17.3	15.3	23.9	25.1	26.3
Per Share Data (In Rs)					
EPS	23.2	26.2	33.5	40.8	50.3
BVPS	87.9	112.9	139.3	169.9	206.9
CFS	21.3	31.6	28.8	57.0	49.8
Valuation Ratios (x)					
P/E	74.7	66.1	51.6	42.4	34.4
P/BV	19.7	15.3	12.4	10.2	8.4
EV/ EBITDA	54.9	49.4	38.0	30.5	24.8
EV/ Sales	6.4	7.9	6.1	5.1	4.3

Balance Sheet

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Share Capital	77	77	77	77	77
Reserves & Surplus	3,296	4,262	5,285	6,462	7,888
Networth	**3,373**	**4,339**	**5,362**	**6,539**	**7,965**
Total Borrowings	**28**	**10**	**10**	**10**	**10**
Net deferred tax liability	41	54	79	79	79
Other non-current liabilities	1	1	1	1	1
Trade payables	620	752	737	1,089	1,294
Other Current Liabilities	252	281	381	430	514
Total Equity & Liabilities	**4,315**	**5,437**	**6,570**	**8,148**	**9,862**
Net Block+CWIP	**2,063**	**2,544**	**3,229**	**4,168**	**5,102**
Intangible assets	22	18	30	34	36
Other non-current assets	9	147	11	11	11
Trade Receivables	1,658	1,695	1,895	1,861	2,210
Cash and Cash Equivalents	126	272	180	915	1,253
Other Current assets	438	762	1,226	1,160	1,251
Total Current Assets	**2,252**	**2,893**	**3,342**	**3,980**	**4,761**
Total Assets	**4,315**	**5,437**	**6,570**	**8,148**	**9,862**

Source: AceEquity, SMIFS research

Suprajit Engineering Ltd.

Automobile | 23rd August 2022

CMP: Rs 333 | Target: Rs 400 | Upside: 20.1% | M Cap: Rs 4,600 Cr. | Prom Holding: ~45% | Rating: Buy

LDC acquisition makes Suprajit global leader in cables

- Light Duty Cable (LDC) to add capacity in low-cost countries like China, Hungary & Mexico, along with R&D centres & warehouses. Suprajit to get global marquee clients like TESLA, a few Chinese EV OEMs, among others.
- It will help Suprajit to diversify further from 2Ws (dependency will come down from 34% in FY22 to 25% in FY23e) and will emerge as a global leader in mechanical cables with wider footprints across the USA, EU, China and other major nations.
- The integration with LDC is going well. Targets to touch $100mn (~Rs 8bn) revenue with double-digit EBITDA margin (10%) in two years.

Suprajit Technical Centre (STC) to drive growth in mid-to-long term – strategy is to grow 'beyond cables'

- Suprajit has dedicated team working in STC, and remarkably developed electronics products in-house, which is getting interest from the market. This will help the company to continue its outperformance.
- The strategy is to grow beyond cables. The ongoing work is extremely good, as the team has come out with new products viz digital electronic cluster, eThrottle, braking products, among others.
- The company will continue to invest in electronic products and eThrottle control line, which will get commissioned by July 2022.
- A throttle cable in 2W will get replaced with eThrottle control in electric 2W. Hence, this is the focus area. eThrottle price is 10x of normal throttle cable, which will improve the realization to some extent.
- Executed orders of Rs 100-150mn in FY22, will execute Rs 300-400mn in FY23 and is likely to double in FY24 once electronic products go full stream.

Traditional businesses are reasonably doing better than market in domestic & exports

- Auto cables in a fast lane: Growth will continue driven by good product mix (higher sales of PVs), aftermarket is supporting well (60% market share) & increased revenues with certain customers. Exports business will outperform as it won new businesses.
- Change in the strategy is working well for non-auto cables: Wescon has a good market presence & a strong order book. SENA's exporting from Unit no. 9 in India has done an excellent job as recent quarter margins seen good improvement.
- Phoenix Lamps: Phoenix is the market leader in domestic aftermarket with 110mn bulbs capacity; the nearest competitors have 25mn capacity. Phoenix aftermarket is the main stay business with 75% revenue comes from it. New retrofit LED products are well accepted in the aftermarket. Cost pass-on is happening, which will help the segment to improve margin performance in the coming quarters.

Outlook & valuations

- STC's new high margin products including eThrottle, digital electronic cluster, etc. received orders of Rs 1.4bn. Investment to continue, setting up a new facility for electronics products & anticipate high growth in the coming years.
- LDC acquisition (incorporated from FY23e) will position Suprajit a global leader in cables, it not only provide plants in low cost countries, but will also add few marquee EV names like TESLA & few other Chinese EV OEMs.
- Its traditional businesses (Auto/Non-auto/Phoenix) will continue its good performance as cost pass on is happening, winning new businesses & have a strong order book.
- Built-in estimates conservatively, the valuation looks attractive. The stock is trading at 17.5x FY24e EPS of ~Rs 19. Assigned multiple of 21x FY24e to arrive at a TP of Rs 400 per share. Strongly recommend Buy!

Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenues	**15,628**	**16,409**	**18,405**	**27,256**	**30,206**
% Growth	(1.7)	5.0	12.2	48.1	10.8
Raw Materials	9,151	9,547	10,787	16,373	17,458
% of sales	58.6	58.2	58.6	60.1	57.8
Personnel	2,927	3,083	3,364	5,312	5,730
% of sales	18.7	18.8	18.3	19.5	19.0
Other Expenses	1,364	1,411	1,655	2,548	2,726
% of sales	8.7	8.6	9.0	9.3	9.0
EBITDA	**2,187**	**2,367**	**2,599**	**3,023**	**4,292**
EBITDA Margin (%)	14.0	14.4	14.1	11.1	14.2
Other Income	224	336	366	479	523
Depreciation & Amortization	581	568	585	966	1,013
EBIT	**1,830**	**2,136**	**2,380**	**2,537**	**3,802**
Finance Cost	227	192	145	237	221
PBT From Operations	**1,603**	**1,943**	**2,235**	**2,300**	**3,581**
Exceptional Income/ (Expense)	-274	0	116	0	0
PBT	**1,329**	**1,943**	**2,352**	**2,300**	**3,581**
Tax-Total	289	516	621	607	946
Effective tax rate (%)	21.8	26.6	26.4	26.4	26.4
Reported PAT	**1,040**	**1,427**	**1,731**	**1,693**	**2,636**
PAT Margin	6.7	8.7	9.4	6.2	8.7
% Growth	(22.3)	37.3	21.3	(2.2)	55.7

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Capital	140	140	138	138	138
Reserves & Surplus	8,398	9,757	10,701	12,123	14,337
Shareholders' Funds	**8,538**	**9,897**	**10,840**	**12,262**	**14,476**
Total Loan Funds	**3,803**	**3,277**	**3,115**	**5,079**	**4,736**
Deferred tax liabilities	563	552	554	820	909
Other liabilities	2,901	3,406	2,877	4,239	4,567
Total Liabilities	**15,805**	**17,133**	**17,385**	**22,399**	**24,688**
Application of funds					
Gross Block	7,489	7,749	8,185	12,941	13,508
Accumulated Dep.	1,610	2,099	2,704	3,669	4,682
Net Block	5,878	5,649	5,482	9,272	8,826
Capital WIP	145	42	94	94	91
Net Assets	**6,024**	**5,691**	**5,576**	**9,366**	**8,916**
Investments	**890**	**348**	**31**	**31**	**31**
Other non-current assets	**408**	**485**	**603**	**580**	**609**
Inventories	2,762	3,145	3,433	4,845	5,166
Sundry Debtors	2,750	3,320	2,972	4,401	4,878
Cash & Bank Balances	694	945	1,962	586	2,217
Loans and Advances	10	10	14	21	23
Other current Assets	2,268	3,188	2,796	2,570	2,848
Total Current Assets	**8,483**	**10,608**	**11,176**	**12,423**	**15,132**
Sundry Creditors	**2,140**	**2,476**	**1,940**	**3,134**	**3,342**
Other Current Liabilities	3,531	3,415	3,461	3,782	4,161
Provisions	118	135	142	210	233
Total Current Liabilities	**5,789**	**6,025**	**5,542**	**7,126**	**7,736**
Net Current Assets	**2,695**	**4,583**	**5,634**	**5,296**	**7,396**
Total Assets	**15,805**	**17,133**	**17,385**	**22,399**	**24,688**

Key Ratios					
YE March	FY20	FY21	FY22	FY23E	FY24E
Growth Ratios (%)					
Net Sales	(1.7)	5.0	12.2	48.1	10.8
EBITDA	(6.0)	8.2	9.8	16.3	42.0
Net Profit	(22.3)	37.3	21.3	(2.2)	55.7
Margin Ratio (%)					
EBITDA Margin	14.0	14.4	14.1	11.1	14.2
EBIT Margin	11.7	13.0	12.9	9.3	12.6
PAT Margin	6.7	8.7	9.4	6.2	8.7
Return Ratios					
ROE	12.8	15.5	16.7	14.7	19.7
ROCE	13.6	14.2	14.9	14.2	17.4
ROIC	13.2	13.0	14.4	11.9	16.6
Turnover Ratios (days)					
Gross Block Turnover (x)	2.2	2.2	2.3	2.6	2.3
Inventory	110	120	116	108	108
Debtors	64	74	59	59	59
Creditors	85	70	70	70	70
Cash Conversion Cycle	89	124	105	97	97
Solvency ratio (x)					
Debt-equity	0.4	0.3	0.3	0.4	0.3
Net Debt-Equity	0.1	(0.1)	(0.1)	0.2	0.0
Current ratio	1.5	1.8	2.0	1.7	2.0
Interest coverage ratio	8.1	11.1	16.4	10.7	17.2
Dividend					
DPS (Rs.)	1.8	1.8	2.0	1.9	3.0
Dividend Yield (%)	0.5	0.5	0.6	0.6	0.9
Dividend Payout (%)	23.5	17.2	16.0	16.0	16.0
Per share (Rs.)					
Basic EPS (reported)	7.4	10.2	12.5	12.2	19.0
CEPS	11.6	14.3	16.7	19.2	26.4
BV	61.0	70.8	78.3	88.6	104.6
Valuation					
P/E	25.2	17.9	27.0	27.2	17.5
EV/EBITDA	13.0	11.6	18.4	16.7	11.3
EV/Sales	1.8	1.7	2.6	1.9	1.6

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Operating profit before WC changes	**2,292**	**2,519**	**2,832**	**3,501**	**4,814**
Net chg in working capital	499	(427)	(432)	(1,246)	(469)
Income taxes paid (net)	(470)	(482)	(584)	(607)	(946)
Cash flow from operating activities (a)	**2,320**	**1,610**	**1,816**	**1,648**	**3,400**
Capital expenditure	(664)	(251)	(525)	(4,756)	(563)
Free Cash Flow	1,656	1,359	1,291	(3,108)	2,836
Cash flow from investing activities (b)	**(1,565)**	**(598)**	**365**	**(4,543)**	**(820)**
Cash flow from financing activities (c)	**(607)**	**(860)**	**(1,115)**	**1,456**	**(985)**
Net chg in cash (a+b+c)	**148**	**152**	**1,066**	**(1,440)**	**1,595**

Source: AceEquity, SMIFS research

SMIFS LIMITED
LEGACY | TRUST | GROWTH

Steel Strips Wheels Ltd.

Automobile | 23rd August 2022

CMP: Rs 805 | Target: Rs 1,055 | Upside: 31.1% | M Cap: Rs 2,520 Cr. | Prom Holding: ~63.0% | Rating: BUY

Steel Strips Wheels Limited (SSWL) started business in 1991 is a Chandigarh based manufacturer of steel wheels and recently entered into high margin alloy wheels business, which is the turning point for SSWL. The company supplies wheels to domestic *(~69% of total volumes in FY22)* and export markets *(~31%).* Apart from catering to all the segments of the auto industry, the company supplies wheels to tractors and construction equipment makers as well. Maruti Suzuki was its 1st customer, then gradually expanded its customer base in domestic & exports and increased plants across all zones. In steel wheels, the company has almost all the leading OEMs on its client list. It now has a capacity of ~23mn wheels per annum. The calculated market share of SSWL in steel wheels is about 51% in PVs, 38% in tractors, 43% in CVs, 22% in two & three wheelers. Its PVs alloy wheels market share is 27%.

New avenues of growth to enlarge wings: In the next 3-5 years, the company plans to add new avenues of growth and fast track its existing high margin businesses viz. 1) Light weighting technology in alloy wheels. 2) Export opportunities in aluminium. 3) Getting into electric motor business. 4) Software IOT - the market is huge. 5) Tractor/OTR business to grow as the company found market in Europe. 6) Looking for inorganic opportunities. 7) New product introduction in aluminium parts - light weighting that goes into EVs and 8) Alloy wheels business to expand as the company has plans to take the capacity to 10mn in five years are on cards. These new business avenues to enlarge wings of SSWL to fly higher.

Clean & large strategic investors: Tata Steel and Nippon Sumitomo Metal Industries are strategic investor since 2008 and 2010 respectively in SSWL. Tata Steel has one board seat in the company (Mr. Sanjay Surajprakash Sahni), which gives us confidence that there won't be any corporate governance issue.

Increasing high margin alloy wheels contribution: High margin PV alloy wheels contribution has been inching-up very fast *(from ~3% of 'revenue from products' in FY19 to ~23% in FY22)* due to its latest LPDC technology and fast gaining market share in non-Maruti customers. Exports *(low-to-mid teens margin)* value contribution increased from *(~8% in FY18 to ~27% in FY22)*. The realization of alloy wheels is higher by ~4x as compared to steel wheels. All this has led to the faster topline growth, improvement in margin & return ratios. SSWL has all leading customers, expect to add Maruti Suzuki soon in alloy wheels. Alloy wheels penetration is fast growing in the PV industry *(from ~20% in FY18 to ~38% in FY22)* will continue to benefit.

Exports – a big delta: Exports volume CAGR was ~44% FY18-FY22. In exports, SSWL supplies to major OEMs like BMW, Audi, PSA, JLR among others. It has recently cleared a few major audits and is on the verge of clearing further more from global PV OEMs. The company also supplies to the aftermarket in the US and EU. We believe exports is a big growth delta in the coming years due to benefits of China+1 strategy. SSWL is attempting to sign long-term contracts with major OEMs and is in talks to start supplying high margin alloy wheels to them. Export global size is gigantic 350mn units, the growth opportunity for SSWL is immense as it just supplies 5.5mn units annually.

Attractive acquisition: SSWL is on the final step to acquire AMW Autocomponent Limited under Rs 1.5bn for ~8-10 mn wheels capacity, which will increase its total capacity by about 40% to 31-33mn units annually. The company is getting large capacity at throwaway price. Almost all approvals are done. Post this, SSWL doesn't have to incur any capex on steel wheels for the next few years. The focus will be to grow alloy wheels business.

Domestic CV revival & getting into LCVs: The company has a majority market share in MHCVs, and CV cycle has now started moving up should benefit. In addition, SSWL is not present in below nine tons vehicles, however has plans to gradually make in-roads now, which we consider as a low hanging fruit due to its strong client relationships. CV steel wheels realization is higher by 4.8x as compared to steel wheels of PVs, which will support in faster revenue growth during upcycle.

Financials turning around: SSWL's annual maintenance capex is just Rs 200mn and there won't be any major capital expenditure plans at least for steel wheels post AMW's acquisition. Small capex for alloy wheels capacity expansion and new businesses will be required. Hence, major capex cycle is behind now, and due to high margin, better FCF generation, the company plans to repay the majority of its long-term debt in the next three years. SSWL has already proved in the last few quarters that it is turning around as ROEs substantially improved from 7% in FY21 to 24% in FY22.

Inexpensive valuations: Overall, the combination of increasing alloy wheels sales, higher exports, the uptick in the CV cycle, no major capex will turn around its financials with increased margin, better return ratios, higher FCF generation and reduction in debt levels. In addition, the company is getting a lot of traction & orders from e2Ws, which is a big value addition. SSWL is a turn-around bet and is trading attractively at 5.1x FY24e EBITDA. We have valued the company by assigning multiple of 6.5x to FY24e EBITDA of Rs 5.5bn to arrive at a target price of Rs 1,055 apiece, seeking an upside of 28% from the current level.

Financial Statements

Income Statement

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenues	**15,633**	**17,494**	**35,600**	**42,007**	**47,599**
% Growth	(23.4)	11.9	103.5	18.0	13.3
Raw Materials	9,663	10,991	21,871	26,648	30,100
% of sales	61.8	62.8	61.4	63.4	63.2
Personnel	1,561	1,529	2,187	2,538	2,829
% of sales	10.0	8.7	6.1	6.0	5.9
Other Expenses	2,697	2,936	7,014	8,192	9,187
% of sales	17.3	16.8	19.7	19.5	19.3
EBITDA	**1,712**	**2,038**	**4,528**	**4,629**	**5,483**
EBITDA Margin (%)	11.0	11.6	12.7	11.0	11.5
Depreciation & Amortization	719	723	769	837	848
EBIT	**993**	**1,314**	**3,759**	**3,792**	**4,634**
Finance cost	887	839	854	709	618
PBT From Operations	**106**	**475**	**2,905**	**3,083**	**4,017**
Other Income	221	163	130	148	247
PBT	**327**	**638**	**3,035**	**3,232**	**4,264**
Tax	93	146	981	1,131	1,492
Tax Rate (%)	28.3	22.8	32.3	35.0	35.0
PAT	**234**	**493**	**2,055**	**2,100**	**2,772**
PAT Margin	1.5	2.8	5.8	5.0	5.8

Balance Sheet

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Capital	156	156	156	156	156
Share application money pending allotment	-	-	-	-	-
Reserves & Surplus	6,824	7,337	9,362	11,337	13,887
Shareholders' Funds	**6,979**	**7,493**	**9,518**	**11,493**	**14,043**
Total Loan Funds	**10,011**	**9,372**	**7,779**	**6,779**	**5,779**
Deferred tax liabilities	1,535	1,637	1,706	1,890	1,904
Long Term Provisions	137	115	235	162	175
Other non-current liabilities	817	801	751	840	952
Total Liabilities	**19,480**	**19,419**	**19,989**	**21,164**	**22,853**
Application of funds					
Gross Block	19,044	19,226	20,882	22,239	22,546
Accumulated Dep.	5,978	6,635	7,286	8,122	8,971
Net Block	13,065	12,592	13,596	14,116	13,575
Capital WIP	855	1,093	969	282	271
Net Assets	**13,920**	**13,685**	**14,566**	**14,398**	**13,846**
Investments	**2**	**2**	**2**	**2**	**2**
Non-Current Loans	103	114	222	222	222
Non-Current Other Financial Assets	90	91	79	79	79
Other Non-Current Assets	13	367	101	103	123
Other non-current assets	**206**	**572**	**403**	**405**	**424**
Inventories	3,293	4,965	6,470	6,966	7,868
Sundry Debtors	2,098	2,571	3,923	3,832	4,342
Cash and cash equivalent	315	279	232	578	1,238
Bank balances other than above	602	253	347	864	1,852
Loans and Advances	30	28	41	41	41
Current tax assets (net)	25	23	-	-	-
Other current financial assets	15	5	0	0	0
Other current Assets	1,284	1,384	1,032	1,032	1,032
Total Current Assets	**7,663**	**9,508**	**12,046**	**13,313**	**16,374**
Sundry Creditors	**2,136**	**4,122**	**6,591**	**6,527**	**7,372**
Current tax liability	-	-	18	18	18
Other Current Liabilities	148	160	372	362	347
Provisions	27	66	46	46	55
Total Current Liabilities	**2,311**	**4,349**	**7,027**	**6,953**	**7,792**
Net Current Assets	**5,352**	**5,160**	**5,019**	**6,359**	**8,581**
Total Assets	**19,480**	**19,419**	**19,989**	**21,164**	**22,853**

Source: AceEquity, SMIFS research

Key Ratios

YE March	FY20	FY21	FY22	FY23E	FY24E
Growth Ratios (%)					
Net Sales	(23.4)	11.9	103.5	18.0	13.3
EBITDA	(30.4)	19.0	122.2	2.2	18.5
Net Profit	(71.5)	110.0	317.2	2.2	31.9
Margin Ratio (%)					
EBITDA Margin	11.0	11.6	12.7	11.0	11.5
EBIT Margin	6.3	7.5	10.6	9.0	9.7
PBT margins	2.1	3.6	8.5	7.7	9.0
Adj. PAT Margin	1.5	2.8	5.8	5.0	5.8
Return Ratios					
ROE	3.4	6.8	24.2	20.0	21.7
ROCE	5.2	6.7	15.4	14.4	16.8
ROIC	4.1	5.7	14.0	13.3	16.1
Turnover ratios (days)					
Gross Block Turnover (x)	0.8	0.9	1.8	1.9	2.1
Inventory	126	137	95	95	95
Debtors	47	49	33	33	33
Creditors	89	104	89	89	89
Cash Conversion Cycle	84	82	39	39	39
Solvency ratio (x)					
Debt-equity	1.4	1.3	0.8	0.6	0.4
Net Debt-Equity	1.3	1.2	0.8	0.5	0.2
Gross Debt/EBITDA	5.8	4.6	1.7	1.5	1.1
Current ratio	3.3	2.2	1.7	1.9	2.1
Interest coverage ratio	1.1	1.6	4.4	5.3	7.5
Dividend					
Adj. DPS (Rs.)	2.4	-	1.0	4.0	7.1
Dividend yield (%)	0.3	-	0.1	0.5	0.9
Dividend payout (%)	32.1	-	1.5	6.1	8.1
Per share (Rs.)					
Adj Basic EPS (reported)	8	16	66	66	88
Adj. CEPS	31	39	90	94	116
Adj. BV	224	240	305	368	450
Valuation					
P/E	50.7	15.5	10.6	12.0	9.1
P/BV	1.7	1.0	2.3	2.2	1.8
EV/EBITDA	12.3	8.1	6.4	6.6	5.1
EV/Sales	1.3	0.9	0.8	0.7	0.6

Cash Flow

YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Operating profit before WC changes	**1,847**	**2,084**	**4,518**	**4,629**	**5,483**
Net chg in working capital	(715)	(247)	5	408	(443)
Income taxes paid (net)	(93)	(146)	(462)	(1,131)	(1,492)
Cash flow from operating activities (a)	**1,039**	**1,691**	**4,061**	**3,905**	**3,548**
Capital expenditure	(801)	(563)	(1,691)	(1,350)	(300)
Free Cash Flow	237	1,129	2,370	2,555	3,248
Cash flow from investing activities (b)	**(693)**	**(371)**	**(1,535)**	**(1,208)**	**(59)**
Cash flow from financing activities (c)	**(639)**	**(1,706)**	**(2,479)**	**(1,835)**	**(1,840)**
Net chg in cash (a+b+c)	**(293)**	**(385)**	**47**	**863**	**1,649**

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