

16th August 2023

₹1,197.25/-

View – BUY

Q1FY24 Result Highlights

- **Q1FY24 Performance impacted by muted domestic market while the export market had inflation and channel destocking concerns** – Revenue was flat YoY and declined 2.6% QoQ to ₹14,107.6mn as the overall domestic market was muted which grew 3%, while the export market was impacted by inflation and channel destocking. The management also stated that there was drop in schedules with certain OEM's. EBITDA was also flat YoY and QoQ at ₹2,263.8mn even as the RM cost declined 8.5% YoY and 6.2% QoQ with Employee cost and other expenses witnessed growth of 12.3% YoY and 4.9% YoY respectively. EBITDA margin was at 16% flat YoY and QoQ. As per the management Indirect and RM cost have come down along with freight expenses while the power tariffs have gone. Net profit was at ₹1,276mn v/s ₹1,360mn YoY (+1 QoQ). Profit from subsidiaries at ~₹160mn v/s ₹80mn YoY.
- **Revenue Mix – Domestic: Exports – 70% (OEM + Aftermarket): 30%. OEM: Retail – 88%:12%. PV: LCV & MCV: Tractors: Others - 40%:40%:15%:5%.**
- Domestic business as per the management likely to grow 2-3% more than the industry.
- As per the management, the company is selling more value ad products and is likely to improve in coming quarters. It has started to supply differentiated gears to OEMs and is directly exporting to European clients.
- The management expects exports pick up from 2HFY24 as the recession in USA is not as bad as expected. Exports share guided at 35-40% with revenue at ₹US\$200mn for FY24 as some customers are moving away from China and Europe.
- Construction Equipment Industry with the Non-Automotive business is witnessing good traction. Currently Non-automotive is 30% of Domestic and overall business and to grow at a higher rate compared to Auto business.
- Subsidiaries in UK and China have done well as RM costs have come down. In terms of outlook the management is guarded with marginal YoY growth.
- In the EV business, the company is present with all existing customers Like Tata, M&M, Maruti etc. along with focus on new customers. ₹3bn is earmarked capex under PLI scheme with expected order value of ₹30bn for the period 2025-31. One major North American project to start in 2HFY25 with additional orders expected in current year from that region subject to market recovery.
- Revenue from wind energy project to start from Q3FY24 with initial estimated annual run rate at ₹800mn peaking to ₹5bn by FY26.

View

SFL's Q1FY24 performance was flat considering the uncertain external environment the OEMs are operating in, but the India continues to show good growth. The exports markets are likely to see improvement from 2HFY24 with slow but gradual recovery in the USA markets along with clients moving out of China and Europe. Domestically the passenger vehicle (PV) segment is expected to remain strong due to a rising preference for personal transport, while strong sequential improvement in M&HCV sales to continue, driven by rise in e-commerce, agriculture, infrastructure, and mining activities. The company has a well-diversified customer and product portfolio, de-risking its business model from dependency on one customer or one product with focus on Non- Automotive business which is gaining traction. Export and non-automotive segments remain the key strategy areas in the near to medium term for the company to de-risk business from cyclicity. Hence, **we continue to maintain our BUY stance with the stock trading at P/E 31.8x FY25E EPS of ₹38.0.**

Important Statistics

MCAP (₹ bn)	253.9
52week H/L (₹)	1275/801
Shares o/s (mn)	210.1
BSE Code	500403
NSE Code	SUNDRMFAST
Bloomberg Code	SF:IN

Shareholding Pattern	Jun'23 (%)
Promoters	48.5
DIIIs	18.7
FIIIs	12.0
Public	20.9

	(₹ mn)		
Particulars	FY20	FY21	FY22
Revenue	37,232	36,443	49,021
EBITDA	5,929	6,641	8,014
EBITDA Margin(%)	15.9	18.2	16.3
Net Profit	3,249	3,592	4,567
EPS (₹)	15.5	17.1	21.7
DPS (₹)	4.2	4.7	6.5
RoE (%)	16.2	15.2	17.3
RoCE (%)	11.9	12.3	14.3
P/E (x)	78.1	70.7	55.6
EV/EBITDA (x)	44.4	39.3	32.6
P/BV (x)	12.7	10.8	9.6

Particulars	FY23	FY24E	FY25E
Revenue	56,628	58,672	74,991
EBITDA	8,535	9,055	11,838
EBITDA Margin (%)	15.1	15.4	15.8
Net Profit	4,947	5,243	7,992
EPS (₹)	23.5	25.0	38.0
DPS (₹)	8.6	10.0	12.0
RoE (%)	16.4	18.6	21.9
RoCE (%)	14.2	16.3	19.5
P/E (x)	51.3	48.4	31.8
EV/EBITDA (x)	30.6	25.3	20.0
P/BV (x)	8.4	7.6	6.2

Source: Company, Way2Wealth

Jayakanth Kasthuri
jayakanthk@way2wealth.com

Ph:022-4019 2914

16th August 2023

₹1,197.25/-

View – BUY

FINANCIAL PERFORMANCE

(₹ mn)

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	14,107.6	14,101.2	0.05	14,479.5	(2.6)	56,627.5	49,020.6	15.5
Cost of Matl	5,838.6	6,381.3	(8.5)	6,224.9	(6.2)	25,548.7	21,720.8	17.6
Inventories Changes	109.0	(69.6)	256.6	34.1	219.6	(652.9)	(1,108.9)	(41.1)
Employee Exps	1,387.5	1,235.9	12.3	1,314.0	5.6	5,189.0	4,861.6	6.7
Other Exps	4,508.7	4,298.3	4.9	4,636.8	(2.8)	18,008.0	15,533.2	15.9
EBITDA	2,263.8	2,255.3	0.4	2,269.7	(0.3)	8,534.7	8,013.9	6.5
EBITDA Margin (%)	16.0	16.0	5	15.7	37	15.1	16.3	(128)
Other Income	45.1	115.8	(61.1)	35.1	28.5	448.5	393.4	14.0
Depreciation	518.6	486.3	6.6	501.5	3.4	1,979.7	1,907.9	3.8
Finance Cost	96.4	89.1	8.2	127.3	(24.3)	396.9	287.2	38.2
PBT	1,693.9	1,795.7	(5.7)	1,676.0	1.1	6,606.6	6,212.2	6.3
Tax	406.5	415.4	(2.1)	401.3	1.3	1,603.1	1,593.9	0.6
Minority Interest - Profit/(Loss)	11.4	20.1	(43.3)	11.1	2.7	56.6	51.1	10.8
PAT	1,276.0	1,360.2	(6.2)	1,263.6	1.0	4,946.9	4,567.2	8.3
EPS (₹)	6.1	6.5	(6.2)	6.0	1.0	23.5	21.7	8.3

As % of Sales	Q1FY24	Q1FY23	YoY(BPS)	Q4FY23	QoQ(BPS)	FY23	FY22	YoY(BPS)
Raw Matl Cost	42.2	44.8	(260)	43.2	(107)	44.0	42.0	192
Gross Margin	57.8	55.2	260	56.8	107	56.0	58.0	(192)
Employee Exps	9.8	8.8	107	9.1	76	9.2	9.9	(75)
Other Exps	32.0	30.5	148	32.0	(6)	31.8	31.7	11

Source: Company, Way2Wealth

FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
India	20,441	24,025	27,413	21,409	21,920	30,146	36,626	36,963	46,494
Exports	11,491	12,794	18,166	15,823	14,523	18,875	20,001	21,709	28,497
Revenue	36,443	49,021	45,579	37,232	36,443	49,021	56,628	58,672	74,991
EBITDA	6,641	8,014	8,004	5,929	6,641	8,014	8,535	9,055	11,838
EBITDA Margin (%)	18.2	16.3	17.6	15.9	18.2	16.3	15.1	15.4	15.8
PAT	3,592	4,567	4,575	3,249	3,592	4,567	4,947	5,243	7,992
EPS (₹)	17.1	21.7	21.8	15.5	17.1	21.7	23.5	25.0	38.0
DPS (₹)	4.5	4.6	5.1	4.2	4.7	6.5	8.6	10.0	12.0
RoE (%)	28.9	29.7	24.4	16.2	15.2	17.3	16.4	16.6	20.8
RoCE (%)	19.2	20.4	18.1	11.9	12.3	14.3	14.2	15.4	18.6
FCF	38	1,551	(1,374)	3,942	2,605	1,975	2,304	4,691	4,988
Cash Balances	396	352	248	465	393	713	870	1,652	2,783
Net D/E (x)	0.6	0.5	0.6	0.5	0.3	0.3	0.2	0.2	0.1
Receivable Days	66	59	71	64	89	75	74	74	72
Inventory Days	115	93	127	136	172	145	135	133	122
Payable Days	90	80	96	92	151	102	79	82	80
P/E (x)	70.7	55.6	55.5	78.1	70.7	55.6	51.3	48.4	31.8
EV/EBITDA (x)	39.4	32.6	33.1	44.4	39.3	32.6	30.6	25.3	20.0
P/BV (x)	20.4	16.5	13.5	12.7	10.8	9.6	8.4	7.6	6.2

Source: Company, Way2Wealth

16th August 2023

₹1,197.25/-

View – **BUY**

Disclaimer

Analyst Certification: I, Jayakanth Kasthuri, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Jayakanth Kasthuri, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement: SUNDRAM FASTENERS LTD. as on 16th August 2023

Name of the Security	SUNDRAM FASTENERS LTD.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.