

### Recovery in CV volume to propel growth

- Sterling tools (STRT) reported decent operating performance in a tough quarter. Net revenue de-grew 30% QoQ to Rs 890mn impacted by disruption in OEMs production. EBITDA margin suppressed by 238bps QoQ to 14.5% led by RM inflation and negative operating leverage.
- We expect margin pressure to ease out in ensuing quarter as RM prices to pass on and benefit of operating leverage to kick in.
- Given the long-term relationships with top OEMs, such as Maruti Suzuki, Tata, HMT, Hero MotoCorp, M&M, Ashok Leyland, Fiat, and Daimler, we expect STRT to emerge as the key beneficiary revival in Automotive volume from 2Q onwards (STL's top-six accounts contribute nearly 65% to the total revenue). Moreover, reduction in Import volume and localization push for fastener to propel growth
- STRT's acquisition of business from Hyundai will lead to incremental revenues from H2FY22.
- The company is investing money in new areas to de-risk its business model specially in the EV component side. Recently Sterling Gtake E-mobility Ltd (SGEM) has secured an order worth Rs.600 million for motor control units (MCUs) from a leading electric two-wheeler OEM.
- In addition, increasing contribution CVS (high margin business) and special fasteners is likely to boost revenue and profitability.
- STRT's current capacity stands at 55 to 60k MT, and the company is looking to reach at 65k MT with capex of Rs 400mn in FY22. Large capex plan towards focus on capacity expansion of cold forging, heat treatment and coating process. Net debt start to fall from FY23 due to strong FCF generation in absence of any material capex requirement.
- At the CMP, the stock is trading at 15x FY23E EPS. We maintain Buy rating, with TP of Rs 275 (based on 20x FY23E EPS).

### Recovery is expected from 2Q

Although 1Q was weak due to sharp fall in OEMs production due to lockdown, sharp bounce back is anticipated from 2Q onwards in tandem with recovery in OEMs volume. We expect recovery in CVs volume would be positive for both revenue and margin. Moreover, quicker volume revival in key customers, such as Maruti and HMT will also aid revenue growth in FY22. (Cont)...

### Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	890	203	339.2	1,264	(29.6)
Total Expense	761	251	202.9	1,051	(27.6)
EBITDA	129	(49)	(366.4)	214	(39.5)
Depreciation	67	59	13.5	71	(5.1)
EBIT	62	(108)	(157.3)	143	(56.6)
Other Income	14	11	23.9	13	9.8
Interest	18	18	1.3	19	(6.1)
EBT	58	(115)	(150.3)	112	(48.4)
Tax	13	(27)	(147.9)	17	(23.0)
RPAT	45	(88)	(151.1)	95	(52.8)
APAT	45	(88)	(151.1)	119	(62.4)
			(bps)		(bps)
Gross Margin (%)	62.6	58.2	448	65.4	(275)
EBITDA Margin (%)	14.5	(23.9)	3847	16.9	(238)
NPM (%)	5.0	(43.3)	4835	7.5	(248)
Tax Rate (%)	22.3	23.4	(111)	14.9	734
EBIT Margin (%)	6.9	(53.3)	6020	11.3	(433)

CMP	Rs 212
Target / Upside	Rs 275 / 30%
NIFTY	16,282

### Scrip Details

Equity / FV	Rs 72mn / Rs 2
Market Cap	Rs 8bn
	USD 103mn
52-week High/Low	Rs 254/ 160
Avg. Volume (no)	1,81,350
Bloom Code	STRT IN

Price Performance	1M	3M	12M
Absolute (%)	2	12	20
Rel to NIFTY (%)	(2)	1	(22)

### Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	65.8	65.8	65.8
MF/Banks/FIs	8.2	8.6	8.6
FIs	0.0	5.4	5.4
Public / Others	26.1	20.3	20.3

### Valuation (x)

	FY21A	FY22E	FY23E
P/E	28.4	22.8	15.4
EV/EBITDA	13.6	10.5	7.6
ROE (%)	7.6	9.6	13.0
RoACE (%)	8.1	8.9	11.7

### Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	3,530	4,326	5,068
EBITDA	623	749	954
PAT	268	335	495
EPS (Rs.)	7.5	9.3	13.7

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### Diversification through strategic partnerships

The technological tie up with Medio (Japan), is helping STRT make further inroads in the critical fasteners segment. The company is already in the product approval stage with clients such as MSIL, Nissan, Toyota and the production has started.

The management also plans to expand inorganically, primarily in automotive non-fasteners products (Supply of EV components). STRT has signed a JV agreement with Jiangsu Gtake Electric Company Limited, a company based in China, to manufacture MCU's in India to cater to the Indian OEMs/ market which is likely to start production soon.

Recently Sterling Gtake E-mobility Ltd (SGEM) has secured an order worth RS 600 million for motor control units (MCUs) from a leading electric two-wheeler OEM.

#### Exhibit 1: Actual vs DART Estimates

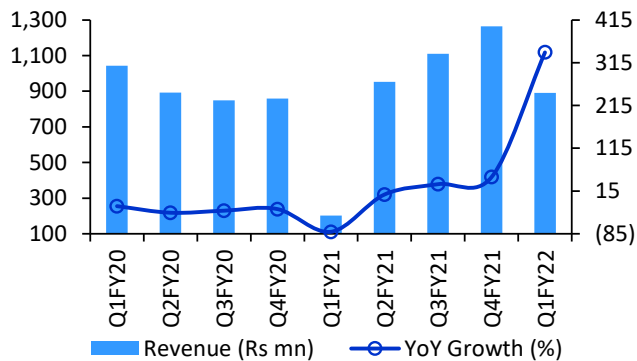
Particulars (Rs mn)	Actual	DART Est	Var (%)	Comments
Revenue	890	759	17	Better mix
EBITDA	129	91	42	Cost control measures
EBITDA Margin (%)	14.5	12.0	252 (bps)	
APAT	45	17	170	

Source: DART, Company

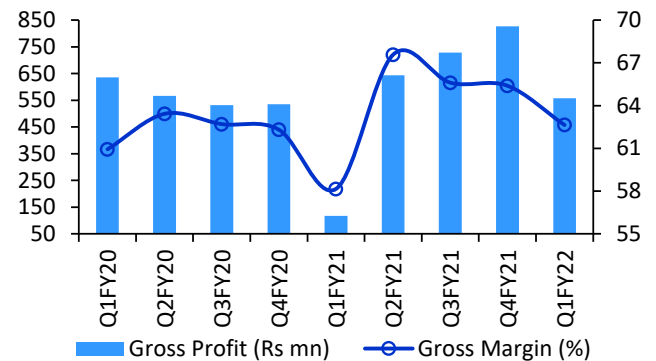
#### Exhibit 2: Change in Estimates

Particulars (Rs mn)	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	4,326	4,326	-	5,068	5,068	-
EBITDA	749	749	-	954	954	-
EBITDA Margin (%)	17.3	17.3	-	18.8	18.8	-
PAT	335	335	-	495	495	-
EPS (Rs)	9.3	9.3	-	13.7	13.7	-

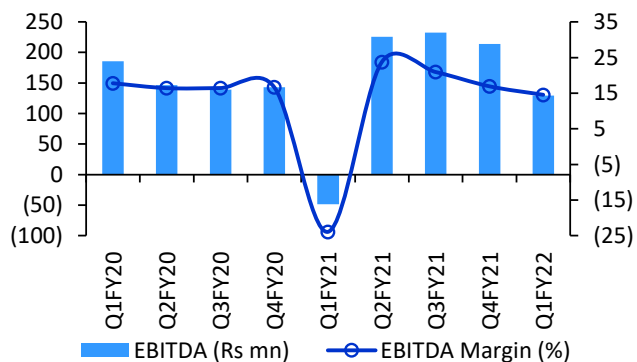
Source: DART, Company

**Exhibit 3: Revenue de-grew QoQ**


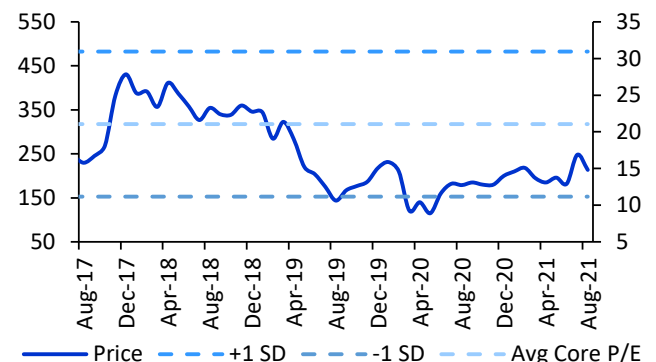
Source: DART, Company

**Exhibit 4: Gross Margin contracted QoQ**


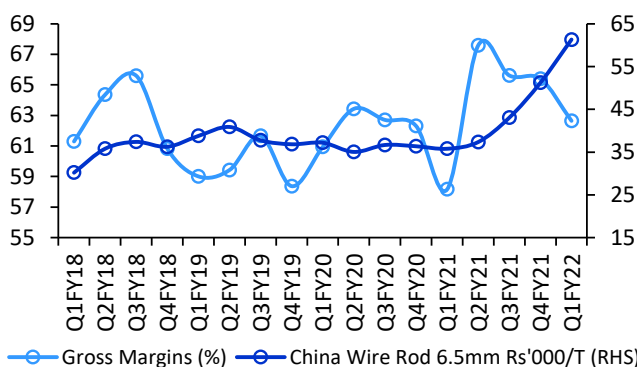
Source: DART, Company

**Exhibit 5: EBITDA dropped QoQ**


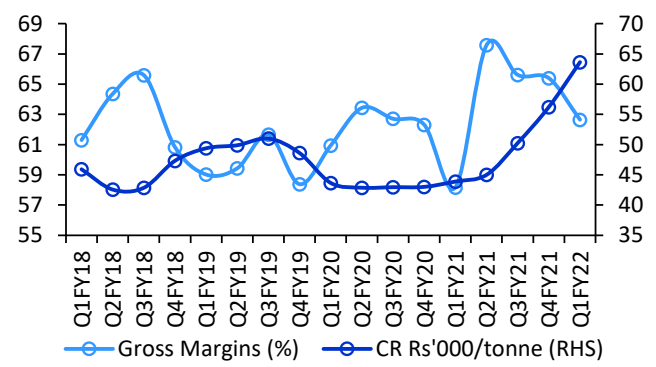
Source: DART, Company

**Exhibit 6: P/E Band**


Source: DART, Company

**Exhibit 7: Adverse relationship with CR prices**


Source: DART, Company

**Exhibit 8: GM vs China Wire Rod 6.5MM steel price**


Source: DART, Company

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>3,642</b>	<b>3,530</b>	<b>4,326</b>	<b>5,068</b>
<b>Total Expense</b>	<b>3,029</b>	<b>2,906</b>	<b>3,576</b>	<b>4,113</b>
COGS	1,374	1,213	1,492	1,794
Employees Cost	363	361	397	444
Other expenses	1,292	1,333	1,687	1,875
<b>EBIDTA</b>	<b>614</b>	<b>623</b>	<b>749</b>	<b>954</b>
Depreciation	242	263	284	289
<b>EBIT</b>	<b>372</b>	<b>360</b>	<b>465</b>	<b>665</b>
Interest	63	76	75	66
Other Income	61	52	56	60
Exc. / E.O. items	(33)	(24)	0	0
<b>EBT</b>	<b>337</b>	<b>312</b>	<b>447</b>	<b>660</b>
Tax	47	68	112	165
RPAT	290	244	335	495
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>323</b>	<b>268</b>	<b>335</b>	<b>495</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	72	72	72	72
Minority Interest	0	0	0	0
Reserves & Surplus	3,015	3,274	3,525	3,935
<b>Net Worth</b>	<b>3,087</b>	<b>3,346</b>	<b>3,597</b>	<b>4,007</b>
Total Debt	699	1,077	877	777
Net Deferred Tax Liability	165	160	160	160
<b>Total Capital Employed</b>	<b>3,951</b>	<b>4,584</b>	<b>4,635</b>	<b>4,945</b>

**Applications of Funds**

Net Block	2,534	2,453	2,319	2,180
CWIP	6	0	100	100
Investments	336	458	458	458
<b>Current Assets, Loans &amp; Advances</b>	<b>1,578</b>	<b>2,270</b>	<b>2,216</b>	<b>2,728</b>
Inventories	594	1,094	770	764
Receivables	281	416	415	417
Cash and Bank Balances	108	267	637	1,156
Loans and Advances	46	46	44	42
Other Current Assets	549	448	350	350
<b>Less: Current Liabilities &amp; Provisions</b>	<b>504</b>	<b>597</b>	<b>458</b>	<b>520</b>
Payables	0	0	0	0
Other Current Liabilities	504	597	458	520
<i>sub total</i>				
Net Current Assets	1,075	1,673	1,758	2,207
<b>Total Assets</b>	<b>3,951</b>	<b>4,584</b>	<b>4,635</b>	<b>4,945</b>

E – Estimates

### Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	62.3	65.6	65.5	64.6
EBIDTA Margin	16.9	17.7	17.3	18.8
EBIT Margin	10.2	10.2	10.8	13.1
Tax rate	13.8	21.7	25.0	25.0
Net Profit Margin	8.0	6.9	7.7	9.8
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	37.7	34.4	34.5	35.4
Employee	10.0	10.2	9.2	8.8
Other	35.5	37.8	39.0	37.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.2	0.3	0.2	0.2
Interest Coverage	5.9	4.7	6.2	10.1
Inventory days	60	113	65	55
Debtors days	28	43	35	30
Average Cost of Debt	7.2	8.6	7.6	8.0
Payable days	0	0	0	0
Working Capital days	108	173	148	159
FA T/O	1.4	1.4	1.9	2.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	9.0	7.5	9.3	13.7
CEPS (Rs)	15.7	14.8	17.2	21.8
DPS (Rs)	1.0	2.0	2.0	2.0
Dividend Payout (%)	11.1	26.8	21.5	14.6
BVPS (Rs)	85.7	92.9	99.8	111.2
RoANW (%)	9.8	7.6	9.6	13.0
RoACE (%)	9.7	8.1	8.9	11.7
RoAIC (%)	9.5	8.8	11.2	17.1
<b>(E) Valuation Ratios</b>				
CMP (Rs)	212	212	212	212
P/E	23.6	28.4	22.8	15.4
Mcap (Rs Mn)	7,635	7,635	7,635	7,635
MCap/ Sales	2.1	2.2	1.8	1.5
EV	8,227	8,446	7,875	7,257
EV/Sales	2.3	2.4	1.8	1.4
EV/EBITDA	13.4	13.6	10.5	7.6
P/BV	2.5	2.3	2.1	1.9
Dividend Yield (%)	0.5	0.9	0.9	0.9
<b>(F) Growth Rate (%)</b>				
Revenue	(28.9)	(3.1)	22.6	17.2
EBITDA	(28.6)	1.5	20.2	27.3
EBIT	(44.4)	(3.1)	29.2	43.0
PBT	(51.6)	(7.5)	43.3	47.7
APAT	(27.9)	(17.0)	24.8	47.7
EPS	(27.9)	(17.0)	24.8	47.7

### Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	518	184	969	919
CFI	(20)	(255)	(239)	(150)
CFF	(472)	229	(359)	(250)
FCFF	21	8	719	769
Opening Cash	39	108	267	637
Closing Cash	108	267	637	1,156

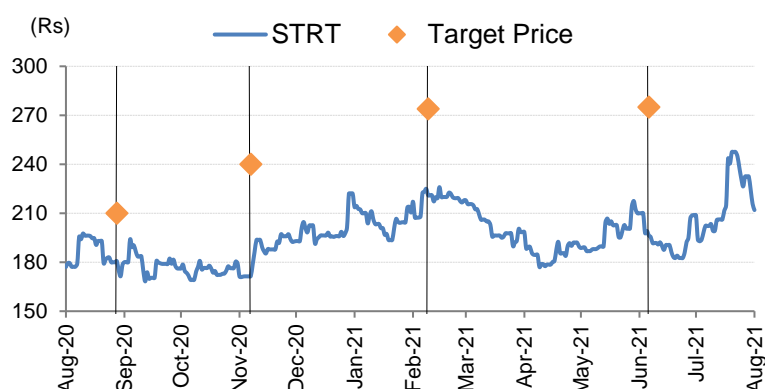
E – Estimates

## DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Sep-20	Accumulate	210	181
Nov-20	Buy	240	172
Feb-21	Buy	274	221
Jun-21	Buy	275	196

\*Price as on recommendation date

## DART Team

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