



Farsight

MORNING FARSIGHT

Wednesday, July 25, 2018

TALBROS AUTOMOTIVE

CMP:RS 266

TRGT:RS 320

TIME HORIZON: 1 YEAR

Talbro Automotive is giving buying opportunity for patient investor, as management has given excellent Revenue and PAT guidance for the next 2 years, while earning growth drives stock price higher, irrespective of broader market noise. Recall that company had posted good earnings for Q4FY18, with an EBITDA of Rs 14.9 cr against Rs 9.7 cr YoY, a growth of 54% YoY, with EBITDA margin of 13.5% against 11.7% YoY (an expansion of 180 bps YoY) and 12.8% QoQ (an expansion of 70 bps QoQ), on an income of Rs 110 cr. This has resulted in PAT of Rs 7.6 cr (+34% QoQ, 170% YoY) and EPS of Rs 6.12 for Q4FY18, while full year FY18 EPS has come in at Rs18.55 (including nominal exceptional' profit of Rs 2.2 cr on sale of non-core assets at company's Sohna plant). Company has given FY20 guidance with Revenue of Rs 525 – 575 cr (against Rs 399 cr for FY18), and PAT of Rs 32-35 cr (against Rs 21 cr for FY18), leading to an EPS of about Rs 26-28 in FY20, which is achievable given multiple new orders from new clients. Favorable macro-economic conditions likely to lead to sustainable uptick in demand. Market leadership status in Gaskets division, healthy order book and demand off take for Forgings division, Magnet Marelli JV continuing to scale up the business and improve the profitability further, turnaround in Hoses business etc. Talbro Automotives was established in 1956 in to manufacture Automotive & Industrial Gaskets, in collaboration with Coopers Payen of UK, and company has very wide variety of products under its kitty including, Gaskets & Heat Shields (peers Banco Products, Federal Mogul), Forgings peers MM Forgings, Bharat Forge), 2 Wheeler Gasket through JV Nippon Leakless Talbro, Chassis & Chassis Components through JV Magneti Marelli Talbro (peer Automotive Axles, GNA Axles) and Anti Vibration Rubber Components & Hoses. Besides these 3 MNC JVs company also has technical collaboration with Sanwa Packaging — Japan and Interface Solutions — USA. Currently, its manufacturing prowess spans over 5 business and 8 facilities located across Haryana, Uttarakhand, Maharashtra and Haridwar. Company's key clients include Ashok Leyland, Bajaj Auto, Cummins Group, Eicher India, Escorts Group, Force Motors, General Motors, Hero Honda, Honda, Hyundai, John Deere, Mahindra & Mahindra, Maruti Suzuki, Suzuki, TAFE, Tata Motors Tata Cummins, Simpsons and international corporates like Carraro, DANA, KMP Brand, Maxi Force, GKN Driveline. With a market share of 38% in the Gaskets Segment, Talbro is the market leader in the two-wheeler, agri & off loaders and CV segment, also, it is thrice the size of the nearest competitor, Banco Gaskets (India). There have been multiple new developments taken place recently, including a) New orders from Cummins, Zetor Tractors and A Non-Automotive conglomerate in Austria for Gaskets b) new Order from Maruti Suzuki to supply Control Arm Assemblies for Front Suspension, with an estimated revenues of Rs 24 cr p.a. c) start of supplies for the order received from large European Car manufacturer d) commencement of supply of Hoses to Marugo Rubber (Japan) e) Commencement of Shipment from recent order wins to European car manufacturers and other global OEM's f) Turnaround in hoses business. Going ahead, incremental demand for heat shields which are being developed under a technical licensing agreement with SANWA Packaging will lead to increased contribution for the company. Its main clients for heat shield are Volvo Mexico, Daimler India and Volvo. The government prepone implementation of BS VI to April 2018 for the NCR region augurs well for the demand of the heat shield portfolio. Valuations are also very attractive with stock trading at EV/Sales 1x, EV/EBITDA 6x and PE of 10x, all on FY20 earnings. Share ruling at Rs 266 can move to Rs 320 in 1 year. Buy as an investor.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.