



Farsight

MORNING FARSIGHT

Friday, August 03, 2018

SML ISUZU

CMP:RS 796

TRGT:RS 950

TIME HORIZON: 1 YEAR

SML Isuzu, manufacturing Trucks, School Buses, Staff & Tourist/Site-seeing Buses and various Special Application Vehicles like Ambulance, Water Tankers, Tippers, Delivery Vans, Dual Cabin etc, with an aggregate capacity of 18,000 vehicles and 4,000 Buses annually, is looking a good buy, due to significant volume growth achieved by the company for July'18 as well as Q1FY19. July '18 Sales of 1,130 units against 788 units YoY, shows a growth of 43% YoY, while for Q1FY19, it has sold 4,154 units (+13% QoQ, 32% YoY), which will be reflected positively in Q1FY19 earnings scheduled on 9th August. Recently, company has launched new variety of GS Series Trucks. Additionally, SML Isuzu's business profile is supported by its strong brand in the school bus segment, its technology tie-up with Isuzu Motors (who also owns 15% stake in the company under Public category) and expanding product-cum-distribution network. SML is also majorly owned by Sumitomo Corporation, which owns 44% stake in the company under MNC Promoter category. SML is currently in the process of investing Rs. 220 a for technology, product development and up-gradation of plant infrastructure to improve manufacturing efficiency. Further, the company has enhanced its production capacity from 18,000 units p.a. to 24,000 units p.a. w.e.f. 1-8-2018 by setting up an additional assembly line at cost of Rs. 22.4 crore. In addition, the company is in the process of revamping its sales and service network. SML is currently working on plans to expand its distribution presence, along with its re-branding and addition of new dealers. Its investments in product development and up gradation of plant infrastructure would enhance marketability and help upgrade its product portfolio, which are likely to support its business growth and help maintain its market position over the medium term. FY18 was impacted by deferment of demand with expectations of price rationalization on account of Goods and Services Tax (GST) and other one-off events, however, volumes have picked up again and company is expected to get back to FY17 levels of sales (FY17 total sales 15,184, FY18 Total Sales 11,369, Q1FY19 alone saw total sales 4,154 units) which could lead to an EPS of Rs. 40+ for FY19 and will drive sharp re-rating in the stock. Interestingly, company recently organized an investor meeting with several funds/investors, and fund buying is also expected in the stock. Share ruling at Rs. 805 is 30% away from its 52 week high of Rs. 1,145, while 52 week low is at Rs. 718, offering attractive risk reward, given recent growth in volumes. Share ruling at Rs. 796 can move to Rs. 950 in 1 year period. Buy as an investor.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

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