Sterling Tools (STETOO)

CMP: ₹ 278 | Target: NA | Target Period: NA

UNRATED

July 7, 2022

Steady state base business, ramping up EV play…

About the stock: Sterling Tools (STL), established in 1979, is the second largest automotive fastener manufacturer in India. With four manufacturing facilities in India (three north India, one south India), it has a prominent presence for over four decades and counts all major auto OEMs across categories as its key clients

- FY22 channel mix: Auto OEMs: 75%; exports: 10%; replacement: 15%
- FY22 segment mix: PV: 22%; CV: 19%; farm & OHT: 17%; 2-W: 18%
- Pursuing to diversify and de-risk its existing business model, STL has entered into partnership with Jiangsu Gtake of China (leader in motor control units) to manufacture/assemble MCUs domestically with installed capacity of ~3,00,000 units (single shift basis, application largely for 2-Ws)

Management meet Highlights

- In the fastener business, STL is a very customer focused company with no customer lost since its inception. In this space, no customer forms >18% of its sales with Maruti Suzuki as its top client. Peak revenue potential in the fastener business is pegged at ~₹ 700-750 crore (all four plants put together)
- Specialised fasteners (critical application) form >70% of its product profile
- STL does not foresee any growth capex in the fastener space in near term
- For it, steel price is a complete pass through with limited technology change
- Sterling Gtake E-Mobility (SGEM), a subsidiary of Sterling Tools, has received orders for MCUs from 10 EV OEMs finding use in high speed vehicles with current order book at >=₹ 175 crore, primarily executable in FY23E. Further 30 more EV OEMs are in advanced stages of discussions
- In EV domain, STL clocked revenues of ~₹ 38 crore in Q4FY22 with present quarterly run-rate of ~₹ 40-45 crore. The present focus is on business development and customer acquisition with profitability expected to be muted in the near term. However, STL expects to be cash positive in FY23E

Key triggers for future price performance:

- Organic growth prospects in the base fastener business over FY22-24E
- Further diversification steps to mitigate EV risk in the existing business (~30%) as well as ramp up in sales and profitability trajectory at the recently commissioned motor control unit (MCU) division
- Strong diversification targets with EV share projected to grow from ~10% of group revenues in FY22 to ~33% in FY23E
- Stable capital efficiency with consistent positive cash flow from operations
- Controlled leverage on balance sheet amid limited growth capex in offering

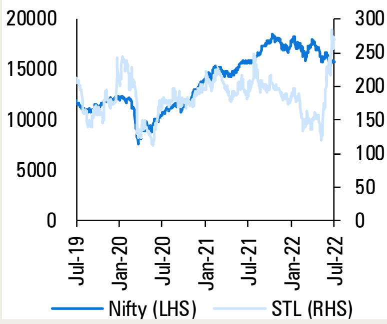
Particulars

Particulars	₹ crore
Market Cap	1,001
Debt (FY22P)	109.4
Cash & Investments (FY22P)	30.7
EV (FY21)	1,079.5
52 Week H\L	298 \ 115
Equity capital	7.2
Face value (₹/share)	2.0
No. of shares (in Crore)	3.6

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	65.8	65.8	65.8	65.8
FII	0.0	0.0	0.0	0.0
DII	7.2	6.7	6.6	6.6
Other	27.1	27.6	27.6	27.7

Price Chart



Recent event

Entered EV space through partnership with Jiangsu Gtake to manufacture motor control units

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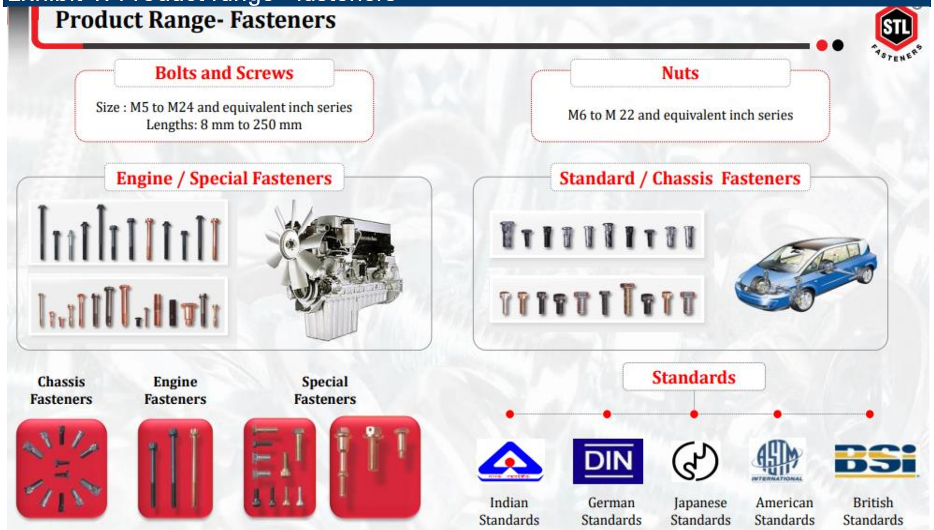
Key Financial Summary

(₹ crore)	FY16	FY17	FY18	FY19	FY20	FY21	FY22P
Sales	372.3	370.9	452.9	512.2	364.2	353.1	508.4
EBITDA	60.2	75.5	90.7	85.9	60.2	58.9	64.8
EBITDA margin (%)	16.2	20.4	20.0	16.8	16.5	16.7	12.7
Net Profit	28.0	39.1	49.1	45.1	30.5	23.5	25.5
EPS (₹)	7.8	10.9	13.6	12.5	8.5	6.5	7.1
P/E (x)	35.7	25.6	20.4	22.2	32.8	42.6	39.2
RoE	21.7	24.5	20.1	16.1	10.0	7.1	7.2
RoCE	24.9	32.9	28.4	19.4	11.1	8.7	8.1

Source: Company, ICICI Direct Research

Key takeaways from company's presentation

Exhibit 1: Product range - fasteners



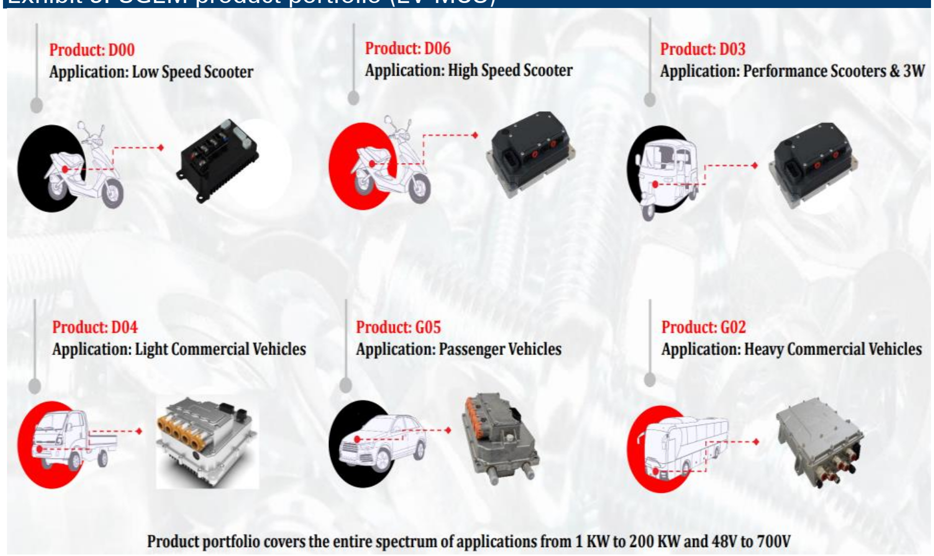
Source: Company, ICICI Direct Research

In fastener business, content/vehicle is pegged at ~₹ 15,000+ for CV; ~₹ 500-600 for 2-W, ~₹ 5,000-7,000 for PV and ~₹ 7,000-12,000 for tractor

Exhibit 2: Key Clientele - Fasteners

Source: Company, ICICI Direct Research

Exhibit 3: SGEM product portfolio (EV-MCU)



Source: Company, ICICI Direct Research

Content vehicle in MCU is pegged at ~₹ 9,000-15,000 for E-2-W (~10% of vehicle costs)

JV with Chinese partner is under process of getting regulatory approval for direct FDI route but if approval does not come through STL has understanding with partner to convert their agreements into technical licensing agreement & would be 100% exclusive. STL's equity stake in the proposed JV in the EV business would be ~56% with rest with the partner (~44%)

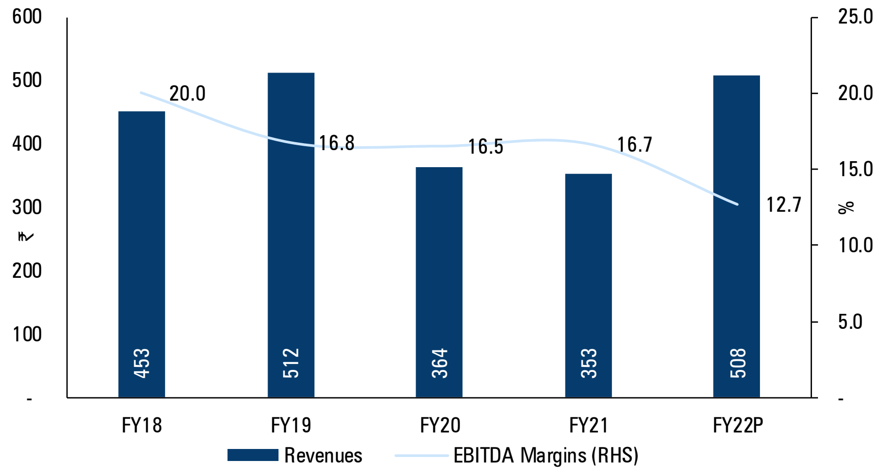
STL is working upon localisation of mechanical parts of MCU with electronics being largely imported and largely sourced by JV partner

In the EV domain, STL intends to build a strong R&D team

Company is focusing on other EV components like Motors, BMS, On Board/AC/DC Charger.

Financial story in charts

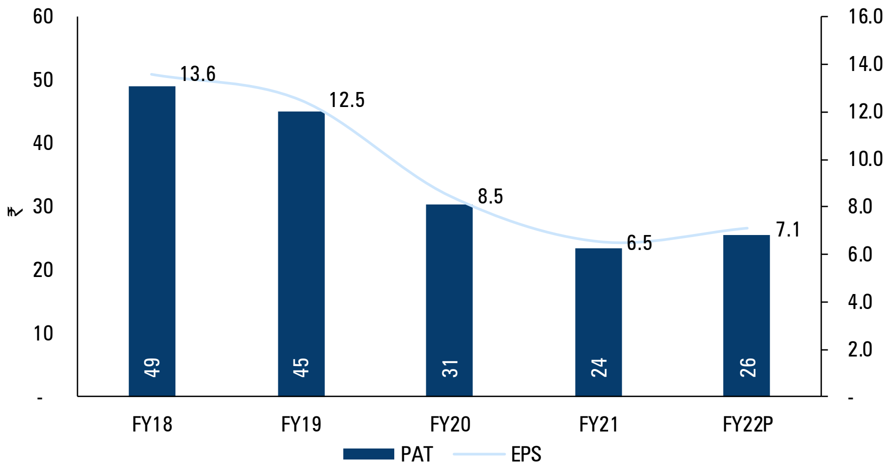
Exhibit 4: Trend in topline and EBITDA margins



Source: Company, ICICI Direct Research

Sales at STL have grown at a ~3% CAGR over FY18-22 with margin profile reducing from ~20% to 12.7% in the similar timeframe. FY22 performance at the consolidated level was impacted by new JV operations, which are yet to achieve breakeven. Standalone EBITDA margins in FY22 was at ~15%

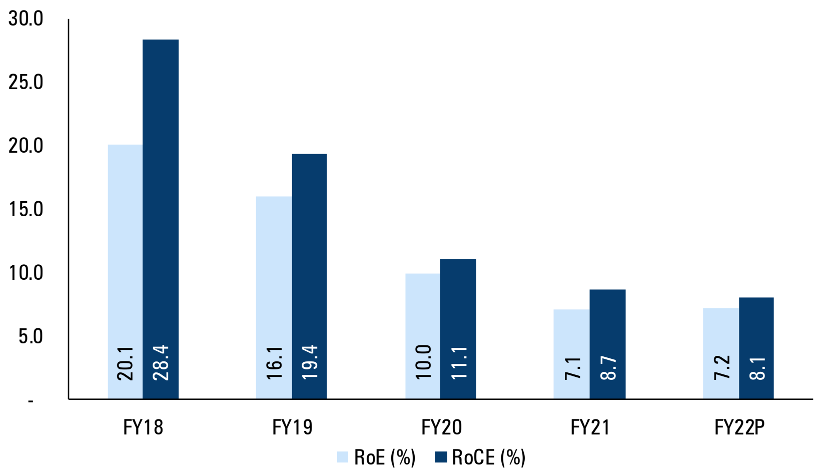
Exhibit 5: Trend in PAT & EPS



Source: Company, ICICI Direct Research

PAT at STL has de-grown at a CAGR of ~15% over FY18-22 to ₹ 26 crore by FY22P

Exhibit 6: Return ratios trend



Source: Company, ICICI Direct Research

Return ratios at STL have been muted in the recent past due to subdued volumes in the auto space amid Covid led decline and general weakness in the 2-W space

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