

**RE- INSTATING COVERAGE**



## Sharda Motor Industries Ltd.

**Market Cap.**

Rs.5,767 Cr.

**52 Week H/L**

Rs.2,956/ 1,136

**CMP**

Rs.2,009

**Target Price**

Rs.2,527

### AUTO

#### STOCK DATA

##### BUY

Reuters Code	SHAD.BO	
Bloomberg Code	SHMO IN	
BSE Code	535602	
NSE Symbol	SHARDAMOTR	
Face Value	Rs. 2	
Shares Outstanding	2.87 cr.	
Avg. Daily Vol. (6m)	63,088	
Price Performance (%)		
1M	3M	6M
(7)	(23)	36

200 Days EMA Rs. 1,988

#### SHARE HOLDING (%)

Promoters	64.31
FII	2.38
FI/MF	10.4
Body Corporate	1.96
Public & Others	20.95

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#### Vehicular emission norms to propel future growth

With the upcoming implementation of the CEV-V (Construction Equipment Vehicle) norms in January 2025, the management expects that the products of Sharda Motor Industries Ltd (SMIL) will be required for majority of the off-highway segment, and subsequently may lead to a potential increase in the target addressable market. Similarly, with the BS VI OBD (On Board Diagnostics) Phase 2 norms coming into effect in April 2023, it has slowly started to reflect on the financials of the company. With the implementation of RDE norms, the company has witnessed an increase in content per vehicle by 10-15% in the recent quarters.

#### Exports and strategic partnerships to drive business growth

The management of SMIL recently announced that they won a crucial export order for emission components to the US market, which has a potential business of \$7 million annually and \$40 million of lifetime business. The company has various other developments in the pipeline on the export front, and the management believes it could be a pivotal revenue lever going forward.

Sharda Motor Industries Ltd. and Eberspaecher Exhaust Technology International inked a joint venture agreement in the category above 4 litre CVs in India. The rationale behind the JV was to provide customers with the local market expertise of SMIL, coupled with Eberspaecher's cutting-edge global technology and production know-how, leading to reduced emissions. This JV will help the company substantially increase its addressable market as well as content per vehicle.

#### Robust fundamental metrics

SMIL is a debt-free corporation with close to Rs.800 cr in cash and investments as on Q2FY25. The management stated that their cash surplus would likely be utilised for lucrative M&A opportunities, if any, in powertrain agnostic products. Coming to other key financial metrics, the company is currently trading at a PE of 19, which is well below the industry average, along with an extremely healthy ROE of 30% and ROCE of 39%.

#### OUTLOOK & VALUATION

Factoring the various growth triggers for Sharda Motor Industries Ltd, along with robust fundamental metrics, we expect FY26 revenue at Rs.3047.0 cr, EBITDA at Rs.435.8 cr at an EBITDA margin of 14.3% and Adjusted PAT of Rs.381.8 cr. Given the strong growth outlook, we estimate FY26E EPS at Rs.133.0, and assign a PE multiple of 19x to arrive at a target price of Rs.2,527, which is an upside of ~25.8% from its last traded price of Rs.2,009. We re-instate coverage on Sharda Motor Industries Ltd. with a BUY rating, over an investment horizon of 18-24 months.

Y/E Mar	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	EBITDA Margin (%)	PAT (Rs. Cr)	NPM (%)	A-EPS (Rs.)	P/E (x)	P/B (x)
FY23	2,699.9	281.8	10.4%	208.3	7.7%	70.1	28.7	7.6
FY24	2,809.3	361.5	12.9%	299.6	10.7%	100.8	19.9	5.9
FY25 E	2,924.4	397.7	13.6%	330.4	11.3%	115.1	17.5	4.5
FY26 E	3,047.3	435.8	14.3%	381.8	12.5%	133.0	15.1	3.5

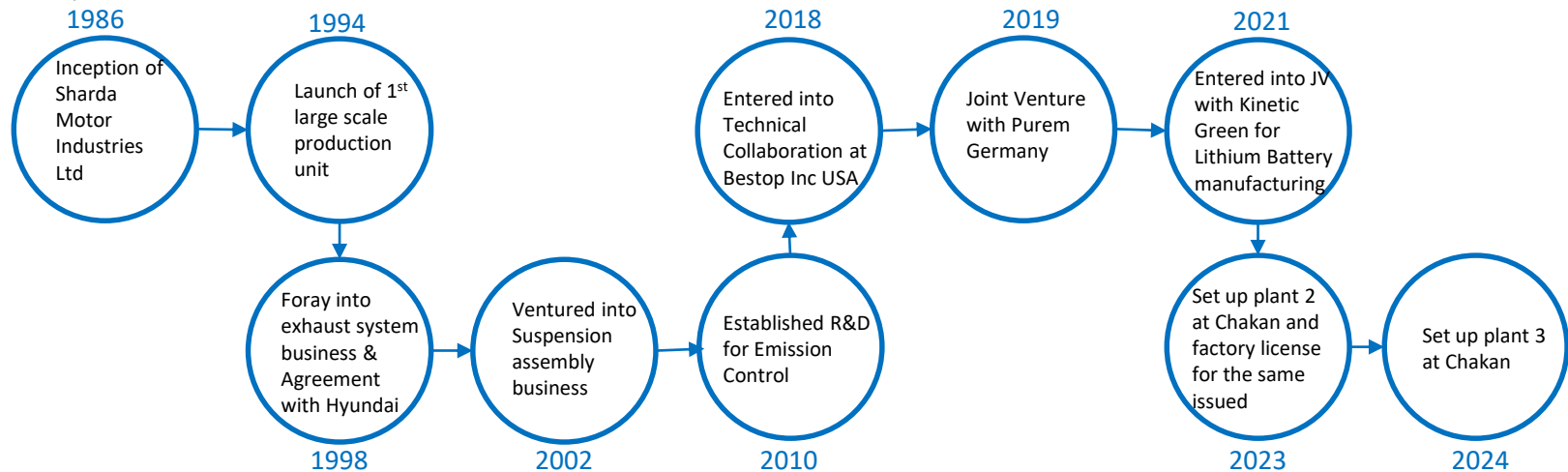
**COMPANY OVERVIEW**



Founded in 1986, Sharda Motor Industries Ltd (SMIL) is a leading auto-ancillary company that offers highly engineered products and services commencing from exhausts to suspension systems, roof systems, and supply chain management solutions. SMIL additionally provides catalytic converters to its customers, which it integrates with the exhaust systems. The company primarily supplies to passenger cars, utility vehicles, and commercial vehicles.

The company has 10 state of art manufacturing facilities spread across 7 locations in 4 states of India. SMIL, founded on operational excellence, provides superior automotive components to the country's premier vehicle and engine manufacturers, which include Hyundai, Tata, Kirloskar, Kubota, Mahindra, Nissan, Yanmar, Magna, Isuzu, Force Motors, Ashok Leyland, Tafe, etc.

SMIL caters to a customer base across segments namely Passenger Vehicles, Commercial Vehicles, Farm Equipment, and Gensets both domestically and internationally. The company has entered into strategic partnerships with Eberspaecher (CV exhaust systems), Kinetic Green (EV battery), and Bestop Inc. (Roof systems).



**BUSINESS OVERVIEW - PRODUCTS**

Exhaust Systems



Passenger Vehicle – BS 4 System



Passenger Vehicle – BS 6 System



Passenger Vehicle – Cold End System



Tractors – Tier 4 System



Commercial Vehicle - Muffler



Passenger Vehicle - Muffler

Suspensions Systems



Rear Suspension



Front Axle Assembly



Arm Lower Control



Front Suspension



Upper Arm Assembly



Assembly Lower Link

Source: Company, Annual Report

## JOINT VENTURES AND TECHNICAL COLLABORATIONS



Entered into a technical partnership with Bestop Inc. USA for manufacturing of roof systems. SMIL does convertible canopy and soft top canopy in this segment.



**TECHNICAL COLLABORATION**



Eberspächer

Entered into a JV with Eberspaecher for exhaust systems in the Medium and Heavy CV segment. Eberspaecher brings in technological know-how and is a segment leader in US/Europe. This JV brings the capability to scale up in MHCV segment and capture market share. Eberspaecher has designed a new exhaust-gas after-treatment system that is compliant with the Bharat Stage VI regulations for the Indian commercial vehicle market.



**JOINT VENTURE EXHAUST SYSTEMS**



Kinetic Green and SMIL enter into a JV for the assembly of Lithium batteries along with BMS for Electric Vehicles – 2W, 3W and Stationary applications. Kinetic Group is part of Firodia Enterprise, a pioneering automotive family in India. The company entered into a 74:26 JV with Kinetic Green Energy for developing battery packs and BMS for EVs. Both partners have invested in the JV since November 2021, and Udipt Mobility Pvt. Ltd. became a subsidiary of the corporation.



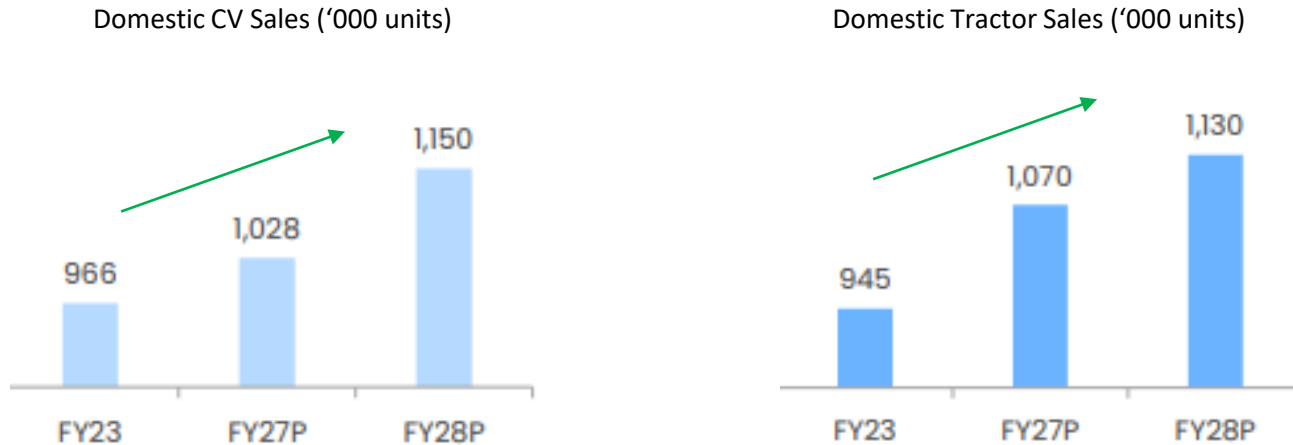
**LITHIUM BATTERY MANUFACTURING**

## INVESTMENT RATIONALE (1/3)

### Vehicular emission norms to propel future growth

Following the transition from BS-4 to BS-6 in FY21, the company's turnover increased dramatically. With CEV-V (Construction Equipment Vehicle) norms set to take effect from Jan 2025, a jump in revenues can be expected in the off-road segment. Additionally, with the new norms setting in, it may lead to a potential increase in the target addressable market as well. With the implementation of the new norms, the management expects that their products will be required for majority of the off-highway segment, and therefore, the commercial vehicle segment currently remains a key pivot of growth for the company. CEV V and TREM V emission standards planned for non road diesel engines, construction equipment and agricultural tractors could present a large opportunity for Sharda Motor Industries Ltd in the coming years. Additionally, the company has been making steady progress on their technology in the 3 to 4 litre commercial vehicle segment. The management believes that this segment could significantly enhance profitability for the company in the coming years.

Similarly, the RDE requirements for the on-road segment require cars to meet emission limits in real-world settings rather than only in a laboratory setting, which was the case with the previous phase of the BS VI norms. Currently, with the BS VI OBD Phase 2 norms coming into effect in April 2023, it has slowly started to reflect on the financials of the company, as the lines mature. With the implementation of RDE norms, the company has witnessed an increase in content per vehicle by 10-15% in the recent quarters.



Source: Company, Annual Report

## INVESTMENT RATIONALE (2/3)

### Exports and strategic partnerships to drive business growth

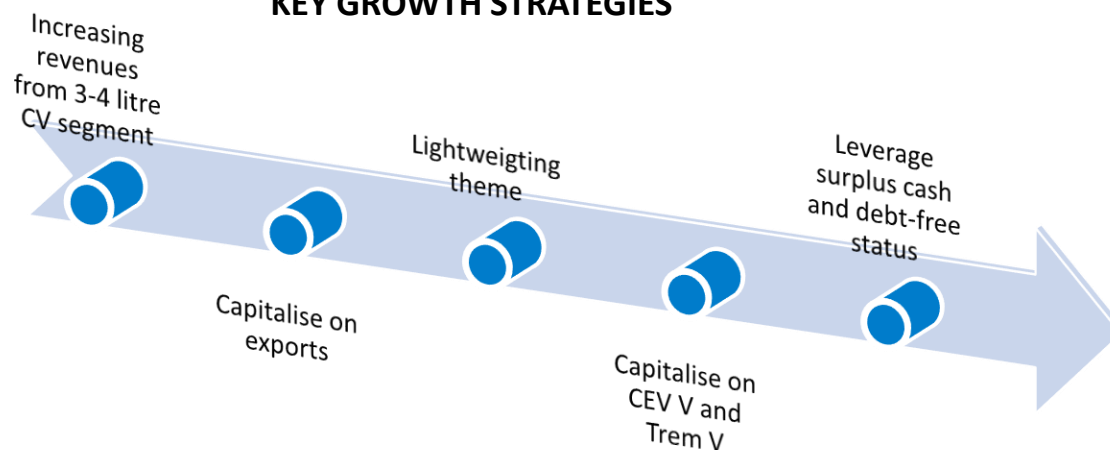
The management of SMIL recently announced that they won a crucial export order for emission components to the US market, which has a potential business of \$7 million annually and \$40 million of lifetime business. Presently, the company's export share is fairly low, however, this new business alone triples the current amount. The company has various other developments in the pipeline on the export front, and the management believes it could be a pivotal revenue lever going forward.

With respect to strategic tie-ups, Sharda Motor Industries Ltd. and Eberspaecher Exhaust Technology International inked a 50:50 joint venture agreement in the category above 4 litre CVs in India. This JV is solely for the development and production of exhaust after-treatment systems for commercial vehicles that fulfil the new BS VI emission regulations. The rationale behind the JV was to provide customers with the local market expertise of SMIL, coupled with Eberspaecher's global cutting edge technology and production know-how, leading to reduced emissions. This JV will help the company substantially increase its addressable market as well as content per vehicle, and would only increase going forward.

Currently there are 2 plants for the JV in Pune, and the company has the capabilities to set up additional plants if required. This JV with Eberspaecher has been gaining traction over the years, and is expected to steadily turn more and more profitable.

SMIL has also entered into the EV space via a JV with Kinetic Green in India. Given the favorable policy measures for Electric Vehicles, there is expected to be tremendous scope for growth within this segment in the coming years.

### KEY GROWTH STRATEGIES



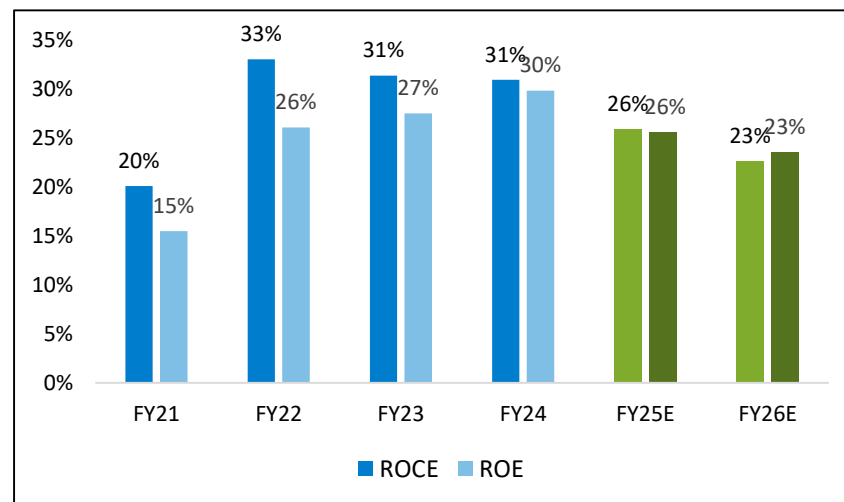
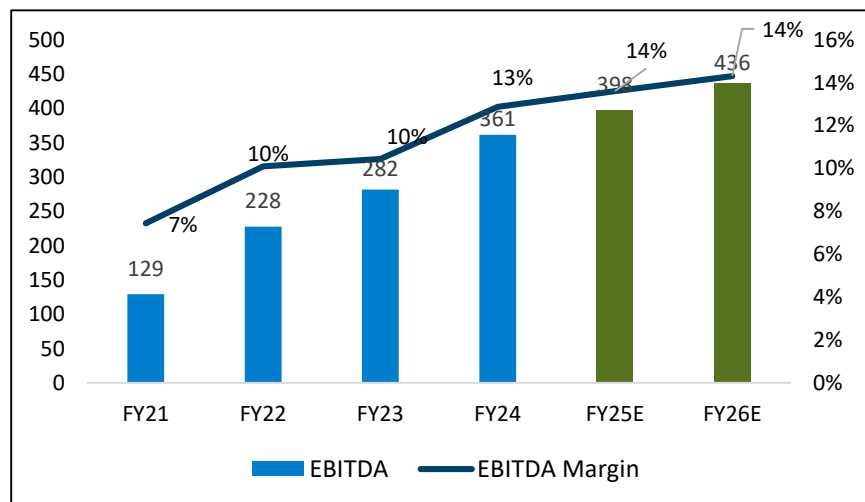
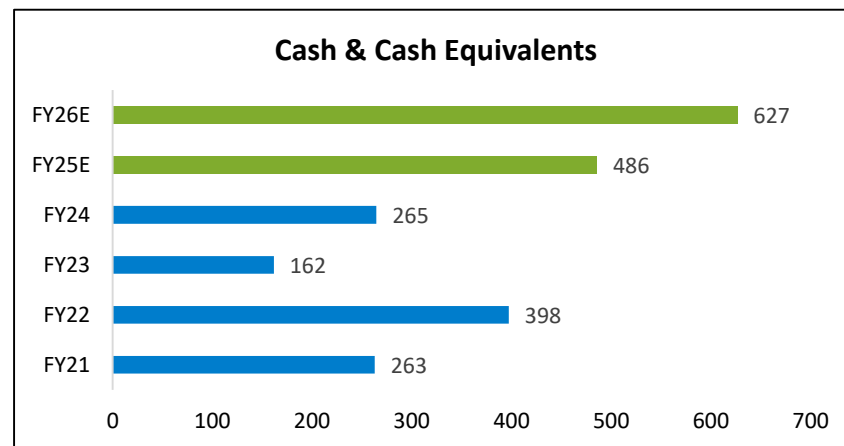
Source: Company, Annual Report

## INVESTMENT RATIONALE (3/3)

### Robust fundamental metrics

SMIL is a debt-free corporation with close to Rs.800 crore in cash and investments as on Q2FY25. The management stated that their cash surplus would likely be utilised for lucrative M&A opportunities, if any, in powertrain agnostic products.

Coming to other key financial metrics, the company is currently trading at a Price to Earning of 19, which is well below the industry average, along with an extremely healthy ROE of 30% and ROCE of 39%. We believe the stock is now trading at low prices in relation to its future growth prospects, making it an appealing investment option. Furthermore, we believe that the large sum of cash and equivalents available with Sharda Motors India Ltd, if utilised effectively, can lead to substantial future growth and expansion for the company.





## INCOME STATEMENT

(Rs. Cr.)

Y/E Mar.	FY23	FY24	FY25E	FY26E
<b>Revenue</b>	<b>2,700</b>	<b>2,809</b>	<b>2,924</b>	<b>3,047</b>
Raw Material Cost	2164	2143	2214	2285
Employee Cost	98	132	137	143
Other Expenses	156	173	175	183
<b>EBITDA</b>	<b>282</b>	<b>361</b>	<b>398</b>	<b>436</b>
<i>EBITDA Margin (%)</i>	<i>10.4%</i>	<i>12.9%</i>	<i>13.6%</i>	<i>14.3%</i>
Depreciation	46	53	64	70
<b>EBIT</b>	<b>235</b>	<b>309</b>	<b>334</b>	<b>366</b>
<i>EBIT Margin (%)</i>	<i>8.7%</i>	<i>11.0%</i>	<i>11.4%</i>	<i>12.0%</i>
Finance Costs	2	2	2	1
Other Income	42	88	97	115
<b>Profit before Tax</b>	<b>278</b>	<b>399</b>	<b>441</b>	<b>509</b>
Tax Expense	70	100	110	127
<b>Net Profit</b>	<b>208</b>	<b>300</b>	<b>330</b>	<b>382</b>
<i>Net Margin (%)</i>	<i>7.7%</i>	<i>10.7%</i>	<i>11.3%</i>	<i>12.5%</i>
<b>EPS</b>	<b>70.1</b>	<b>100.8</b>	<b>115.1</b>	<b>133.0</b>

Source: Company, Sushil Finance Research

## BALANCESHEET

(Rs. Cr.)

Y/E Mar.	FY23	FY24	FY25E	FY26E
PP&E (incl. CWIP)	187	189	192	199
Right of Use Assets / Investment Property	22	20	19	19
Other Non-Current	60	377	383	454
Inventories	204	197	224	238
Trade Receivables	331	227	280	334
Cash and Bank Balances	162	265	486	627
Other Current Assets	423	353	359	431
<b>Total Assets</b>	<b>1,389</b>	<b>1,628</b>	<b>1,944</b>	<b>2,301</b>
Equity Share Capital	6	6	6	6
Reserves & Surplus	752	1,000	1,289	1,620
Borrowings (LT)	-	-	-	-
Other Non-Current Liabilities	8	12	12	12
Trade Payables	516	495	516	532
Other Financial Liabilities	14	14	13	16
Current Borrowings	-	-	-	-
Other Current Tax Liab & Provisions	94	101	108	115
<b>Total Liabilities</b>	<b>1,389</b>	<b>1,628</b>	<b>1,944</b>	<b>2,301</b>

Source: Company, Sushil Finance Research

## CASH FLOW STATEMENT

(Rs. Cr.)

Y/E Mar.	FY23	FY24	FY25E	FY26E
PBT	278	399	441	509
Depreciation	46	53	64	70
Interest	2	2	2	1
<b>CFO before Working Cap chg</b>	<b>326</b>	<b>454</b>	<b>506</b>	<b>580</b>
Chg in Inventories	(73)	7	(28)	(14)
Chg in Trade Receivables	(55)	104	(53)	(54)
Chg in Trade Payables	100	(21)	21	17
Chg in Current Assets & Liabilities				
Income Taxes Paid	(70)	(100)	(110)	(127)
<b>Cash Flow from Operations</b>	<b>229</b>	<b>445</b>	<b>336</b>	<b>402</b>
Interest Paid	(2)	(2)	(2)	(1)
Dividend Paid	(59)	(34)	(41)	(51)
Other Adjustments	17	13	2	5
<b>Cash Flow from Financing</b>	<b>(44)</b>	<b>(23)</b>	<b>(41)</b>	<b>(47)</b>
Capital Expenditure	(87)	(55)	(67)	(76)
Change in investments	(3)	(310)	(0)	(67)
Change in Loans	200	(2)	(35)	(10)
Change in Financial Asset Investment	51	(328)	(6)	(68)
Change in other financial assets	(402)	396	1	(1)
Other Adjustments	(16)	(4)	(1)	(2)
<b>Cash Flow from Investing</b>	<b>(257)</b>	<b>(303)</b>	<b>(109)</b>	<b>(225)</b>
<b>Opening Cash</b>	<b>193</b>	<b>140</b>	<b>258</b>	<b>444</b>
<b>Total Cash Flow</b>	<b>(36)</b>	<b>127</b>	<b>186</b>	<b>131</b>
<b>Bank Balance</b>	<b>4</b>	<b>6</b>	<b>42</b>	<b>52</b>
<b>Closing Cash</b>	<b>140</b>	<b>258</b>	<b>444</b>	<b>575</b>

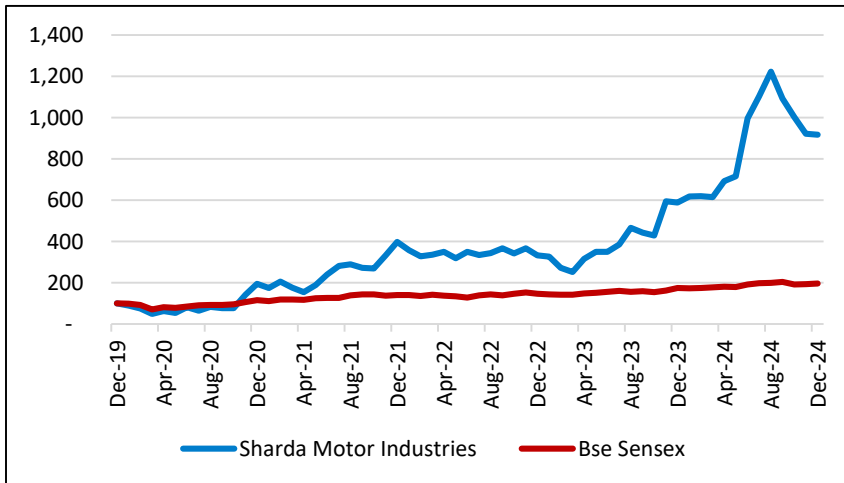
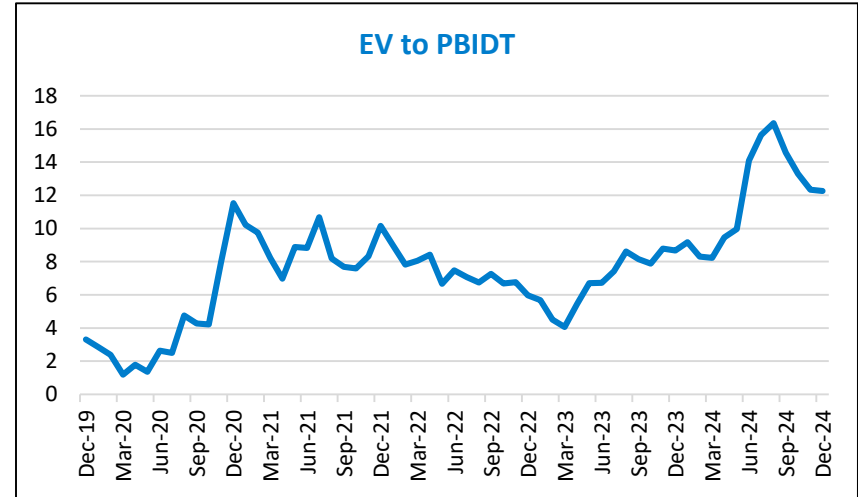
Source: Company, Sushil Finance Research

## FINANCIAL RATIO STATEMENT

Y/E Mar.	FY23	FY24	FY25E	FY26E
<b><u>Growth (%)</u></b>				
Revenue	19.7%	4.0%	4.1%	4.2%
EBITDA	23.7%	28.3%	10.0%	9.6%
Net Profit	39.6%	43.8%	10.3%	15.5%
<b><u>Profitability (%)</u></b>				
EBITDA Margin	10.4%	12.9%	13.6%	14.3%
Net Profit Margin	7.7%	10.7%	11.3%	12.5%
ROCE	31.3%	30.9%	25.9%	22.6%
ROE	27.5%	29.8%	25.5%	23.5%
<b><u>Per Share Data (Rs.)</u></b>				
EPS	70.1	100.8	115.1	133.0
BVPS	254.9	338.3	451.2	566.4
CEPS	85.6	118.4	137.4	157.4
<b><u>Valuation (x)</u></b>				
P/E	28.7	19.9	17.5	15.1
P/BV	7.6	5.9	4.5	3.5
EV/EBITDA	19.8	15.4	14.0	12.8
P/Sales	2.1	2.1	2.0	1.9
<b><u>Turnover</u></b>				
Inventory days	34	34	37	38
Debtor days	45	30	35	40
Creditor days	87	84	85	85
<b><u>Gearing (x)</u></b>				
D/E	0.0	0.0	0.0	0.0

Source: Company, Sushil Finance Research

**MARKET INFORMATION**



Source: Company, Sushil Finance Research

**Rating Scale :** This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of three rating categories.

**Total Expected Return Matrix (Rating and Return)**

**BUY : Over 12%**

**HOLD : -12% to 12%**

**SELL : Below -12%**

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Stock Recommended to Clients	Yes
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Merchant Banking Market Making activities / projects	No
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Sushil Financial Services Pvt. Ltd and Group Directors Holding	No
Broking Relationship with the company covered	No