

# Diwali Muhurat Pick 2023

**HAPPY RESETWALI & REBOOTOUS NEW YEAR**





**RE- INSTATING COVERAGE**

### AUTO

#### BUY

**CMP Rs.925**      **TARGET Rs.1353**

Reuters Code      SHAD .BO

Bloomberg Code      SHMO IN

BSE Code      535602

NSE Symbol      SHARDAMOTR

Face Value      Rs. 2

Market Cap.      Rs. 2,750 cr

52 Week H/L      Rs. 1,098 / 550

Shares Outstanding      2.97 cr.

Avg. Daily Vol. (6m)      53,044 shares

Price Performance (%)

1M      3M      6M

(8)      11      31

200 Days EMA Rs.838

#### SHARE HOLDING (%)

Promoters	73.2
FII	1.6
FI/Bank	-
Body Corporate	4.6
Public & Others	20.6

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#### Strategic partnerships to drive business growth

Sharda Motor Industries Ltd. (SMIL) and Eberspaecher Exhaust Technology International inked a JV 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 cutting-edge global technology and production know-how, leading to reduced emissions. This JV has helped the company substantially increase its addressable market as well as content per vehicle, and would only increase going forward.

#### Robust cash book to be augmented by various growth catalysts

SMIL is a debt-free corporation with Rs.572 crore in cash and cash equivalents as on Q1FY24, as well as monetizable properties in the national capital region. The management stated that their cash surplus would likely be utilised for lucrative M&A opportunities in powertrain agnostic products. The company has backward integrated with two tube mills and three stamping plants, thereby, creating a structural advantage. Leveraging this supply chain efficiency, it can lead to further cost optimization and a strategic gain over competitors. Additionally, the TREM V norms that will be coming into effect from April 2024, will propel most of the domestic tractor market to use the company's emission products, according to the management.

#### Strong market position and customer base

SMIL is a major player in the Indian automotive components sector, with a strong presence in both the exhaust and suspension systems markets. Following the company's foray into the commercial vehicle segment in a more prominent way through the joint venture with Eberspaecher, and considering SMIL's decades long relationships with the OEMs, the company is well positioned to receive orders from the OEMs where the company was supplying its products already for the passenger car segment, to receive orders for the commercial vehicle segment as well.

#### OUTLOOK & VALUATION

Factoring the various growth triggers for Sharda Motor Industries Ltd, along with strong fundamental metrics that will enhance top-line growth as well as EBITDA levels, we expect FY26 revenue at Rs.3494.6 cr, EBITDA at Rs.446.2 cr at an EBITDA margin of 12.9% and Adjusted PAT of Rs.309.3 cr. Given the strong growth and margin outlook, we estimate FY26E EPS at Rs.104.0, and assign a PE multiple of 13x to arrive at a target price of Rs.1353, which is an upside of ~46.2% from its last traded price of Rs.925. We re-instate coverage on Sharda Motor Industries Ltd. with a BUY rating, over an investment horizon of 24-30 months.

Y/E Mar	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	EBITDA Margin (%)	PAT (Rs. Cr)	NPM (%)	A-EPS (Rs.)	P/E (x)	EV/ EBITDA (x)	P/B (x)
FY23	2,741.7	323.5	11.8%	208.3	7.6%	70.1	13.2	1.0	3.6
FY24 E	2,971.4	354.8	11.9%	229.2	7.7%	77.1	12.0	0.9	3.0
FY25 E	3,222.4	394.2	12.2%	258.5	8.0%	87.0	10.6	0.9	2.4
FY26 E	3,494.6	446.2	12.8%	309.3	8.9%	104.0	8.9	0.8	2.0



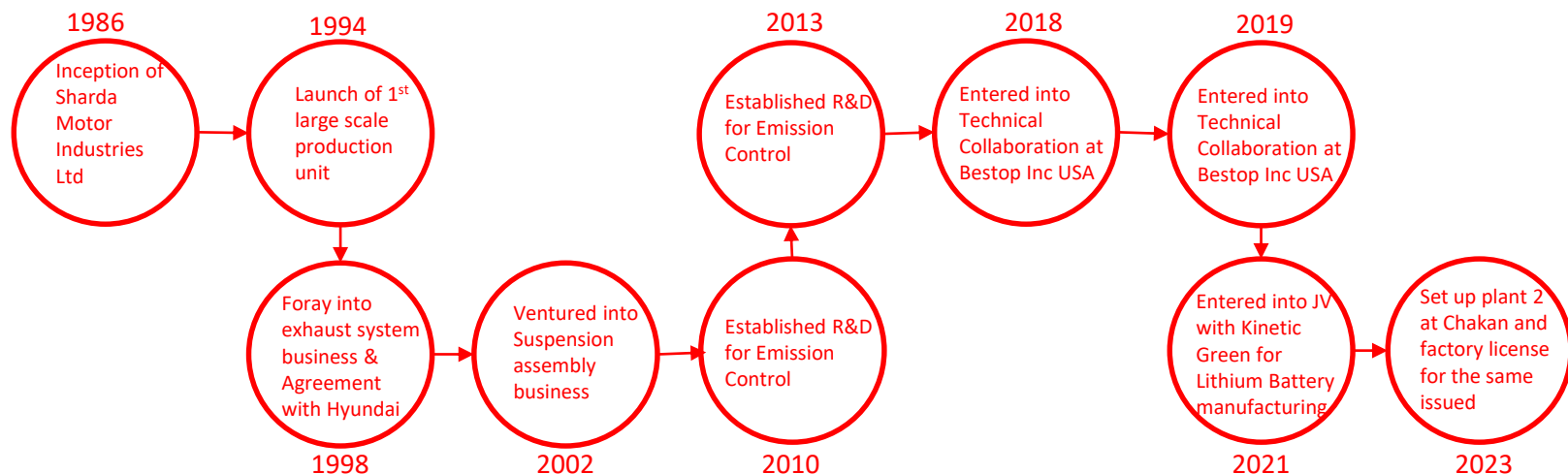
## COMPANY OVERVIEW



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, etc.

SMIL 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

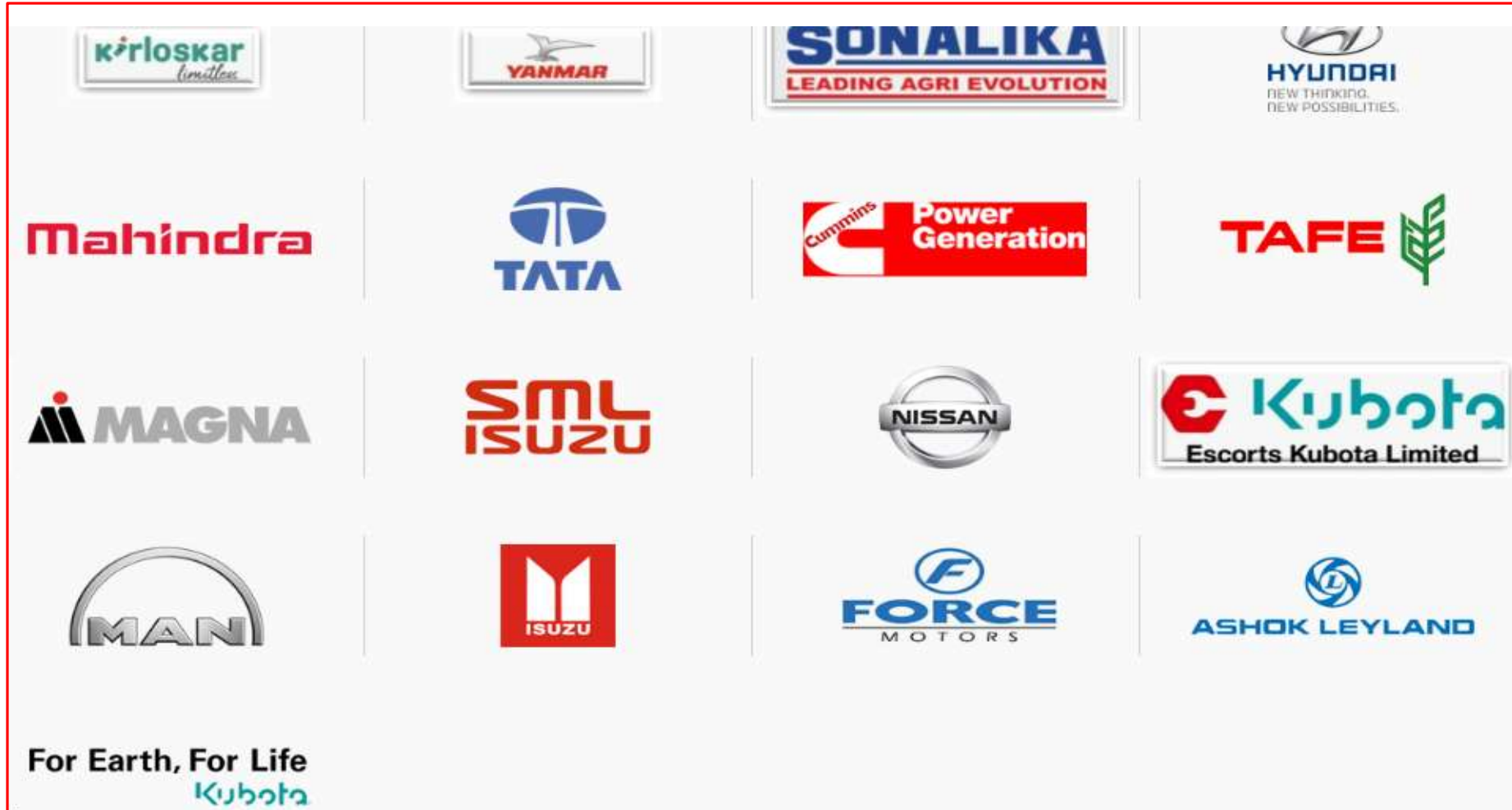


Upper Arm Assembly



Assembly Lower Link

CLIENTS



## 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)

### Strategic partnerships to drive business growth and expansion

Sharda Motor Industries Ltd. and Eberspaecher Exhaust Technology International inked a 50:50 joint venture agreement. 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 has helped the company substantially increase its addressable market as well as content per vehicle, and would only increase going forward. The recently implemented RDE (Real Driving Emission) norms would also help to increase the content per vehicle in the PV segment.

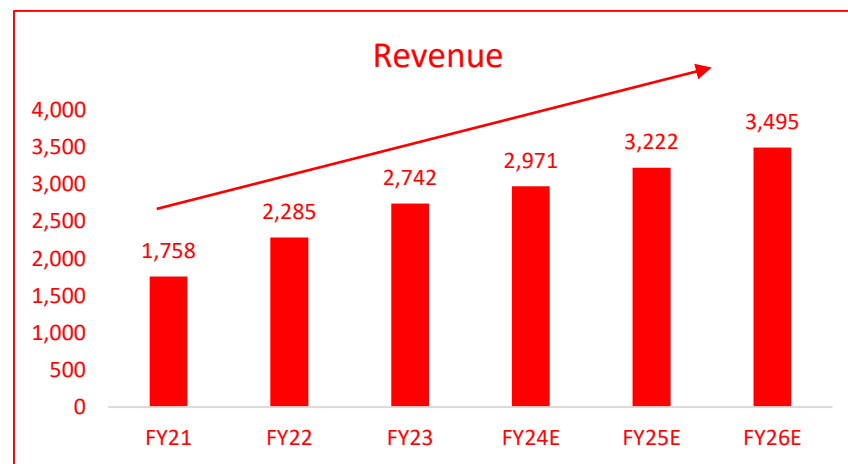
Currently there are 2 plants for the JV in Pune, and the company has the capabilities to set up additional plants if required. The second plant was recently set up primarily for buses and trucks powered with BS VI products due to the rising demand. This JV with Eberspaecher has been gaining traction over the years, steadily turning more and more profitable. Currently, As of FY23, the profit of the JV was close to Rs.3 crores, however, the management expects it to increase multifold over the years.

SMIL has also entered into the EV space via a JV with Kinetic Green in India. For this purpose, the JV has formed a technical collaboration with the Indian Institute of Technology, Madras. The Centre for Battery Engineering and Electric Vehicle (CBEEV), an IIT Madras research and development centre, is providing the JV with technology for Li-ion battery energy storage for electric two-wheelers, three-wheelers, and other small electric vehicles under the terms of the technical collaboration agreement. This is a crucial first mover advantage in the EV space. Given the favorable policy measures for Electric Vehicles, there is expected to be tremendous scope for growth within this segment.

### Strong market position and customer base

SMIL is a major player in the Indian automotive components sector, with a strong presence in both the exhaust and suspension systems markets. The company has been a favoured supplier to companies such as Mahindra & Mahindra Ltd., Hyundai Motor India Ltd., and Tata Motors Ltd.

Following the company's foray into the commercial vehicle segment in a more prominent way through the joint venture with Eberspaecher, and considering SMIL's decades long relationships with the OEMs, the company is well positioned to receive orders from the OEMs where the company was supplying its products already for the passenger car segment, to receive orders for the commercial vehicle segment as well.





## INVESTMENT RATIONALE (2/3)

### Legislative tailwinds leading to increase in content per vehicle

	Legislation	Impact
<u>Off Road Segment</u> CEV IV (April 2021) TREM IV (Jan 2023) CEV V & TREM V (April 2024)	<ul style="list-style-type: none"> <li>CEV IV and V emission regulations, as well as TREM IV and V emission requirements, apply to non-road diesel engines used in construction equipment and agricultural tractors.</li> </ul>	<ul style="list-style-type: none"> <li>With the implementation of new emission standards, the Off Highway Addressable Market will be equal to or larger than the current commercial vehicle market.</li> <li>With the implementation of the new norms, the management expects that their products will be required for majority of the off-highway segment.</li> </ul>
<u>On Road Segment</u> BS VI RDE Norms (April 2023) BS VI OBD-II (April 2023)	<ul style="list-style-type: none"> <li>Norms will require cars to achieve emission targets even in real world conditions, as opposed to just a laboratory environment.</li> <li>When an increase in emission exceeds the limitations, on-board diagnostic systems for emission control must be capable of detecting the likely location of malfunction using fault codes stored in computer memory in accordance with the procedure outlined.</li> </ul>	<ul style="list-style-type: none"> <li>With the implementation of RDE norms in April 2023, the content per vehicle is predicted to grow by 10-15% in the coming years.</li> </ul>

Following the transition from BS-4 to BS-6, the company's turnover increased dramatically. Such a jump is anticipated to occur in other vehicle categories as well. CEV Stage IV & V - applicable for Construction Equipment Vehicles & Off Highways Equipment, as well as TREM IV & V and Real Driving Emissions and On-Board Diagnostics - will fuel future growth. CEV V and TREM V are expected to go into effect in April 2024. Similarly, RDE requirements for the on-road segment will require cars to meet emission limits in real-world settings rather than only in a laboratory setting. The BS VI OBD Phase 2 norms that came into effect in April, 2023 has still not reflected in the Q1FY24 financials, however, according to the management it will reflect in the numbers by the end of the financial year.

## INVESTMENT RATIONALE (3/3)

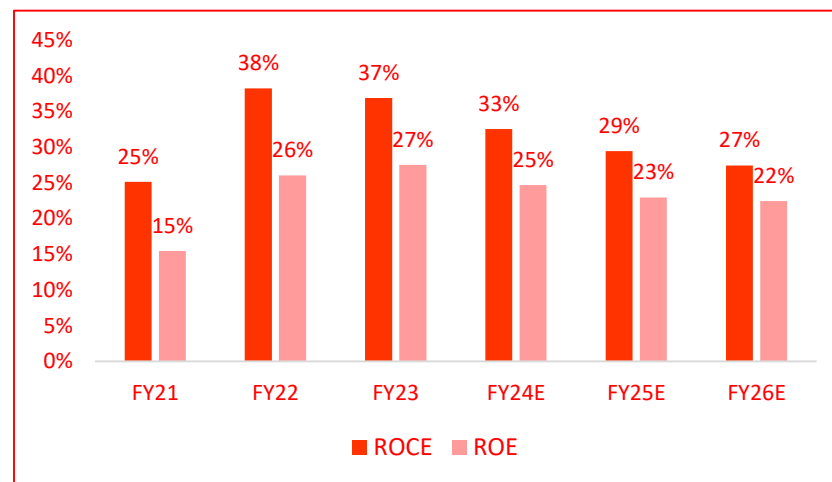
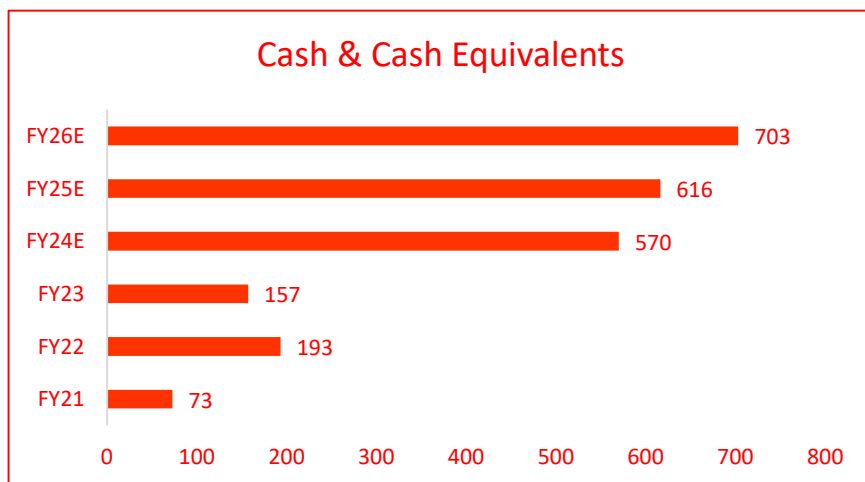
### Robust cash book to be augmented by various growth catalysts

SMIL is a debt-free corporation with Rs.572 crore in cash and cash equivalents as on Q1FY24, as well as monetizable properties in the national capital region. The management stated that their cash surplus would likely be utilised for lucrative M&A opportunities in powertrain agnostic products. The company declared the highest ever dividend last financial year, and expects this trend to continue due to the healthy cash book.

SMIL has been focused on enhancing operational efficiencies. The company has emphasized on backward integration by producing in-house parts. It has backward integrated with two tube mills and three stamping plants, thereby, creating a structural advantage. With existing manufacturing facilities already in place, and no incremental cost of setup, the company can also focus on the export market for subcomponents, as it provides greater margins and a bigger market opportunity. Leveraging this supply chain efficiency, it can lead to further cost optimization and a strategic gain over competitors.

According to the management, the company is well positioned to collaborate and partner with original equipment manufacturers (OEMs) within the electric vehicle (EV) sector. Their joint venture with Kinetic Green to manufacture lithium batteries has given them a valuable early-mover advantage in the Indian market. The EV battery market is expected to expand at a CAGR of 30% over the coming years, thereby, providing a good opportunity for companies like SMIL.

Coming to other financial metrics, the company's current EV to EBITDA is at 7.41, which is extremely attractive. It is currently trading at a Price to Earning of 12.5, which is well below the industry average, along with an extremely healthy ROE of 29% and ROCE of 38%. 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 can be used to acquire or enter a new business stream.



## INDUSTRY OVERVIEW



The Auto Ancillary sector, contributing to ~2.3% of India's GDP, is a vital cog of the Indian economy. Since the auto ancillary industry is intertwined with the automobile sector, the demand for 2-wheelers, 3-wheelers, 4-wheelers, commercial vehicles, and passenger vehicles in the economy, determine the success and growth of the auto ancillary sector.

As of March 31, 2023, India's car component business was worth US\$ 57 billion, with exports at US\$ 15 billion. In the fiscal year 2022-23, the Indian auto component industry grew by approximately 23%. Greater localisation, expanded export potential, and new EV opportunities, resulting in higher content per car, would imply good growth for auto component suppliers in the medium and long term. The Automotive Component Manufacturers Association of India (ACMA) predicts that total industry turnover will rise by 10-15% in FY24. According to the Automobile Component Manufacturers Association (ACMA), the Indian auto component sector plans to generate US\$ 200 billion in revenue by 2026, representing a nearly four-fold increase from current levels. India's vehicle component exports are estimated to reach US\$ 80 billion by 2026.

Companies like SMIL are additionally well supported by Government policies as well. For instance, Under the automatic route, 100% FDI is permitted in the auto components business.

PLI schemes on automobiles and auto components are estimated to generate a capex of Rs. 74,850 crore (US\$ 9.58 billion) over the next five years. The introduction of new technologies, continuous launch of new products, implementation of new emission norms, and safety norms are helping ancillary players to revitalize their revenue streams. The automobile market contributes significantly to India's manufacturing GDP and is expected to grow rapidly as a result of government support in the form of new pollution legislation, automotive companies' efforts to build a more resilient supply chain, and increased R&D programmes to set new standards. The electric car sector in India is expected to grow at an exponential rate, and stricter pollution rules will be implemented in both the on and off-road segments of the automotive industry.

## INCOME STATEMENT

(Rs. Cr.)

Y/E Mar.	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>2,285</b>	<b>2,742</b>	<b>2,971</b>	<b>3,222</b>	<b>3,495</b>
Raw Material Cost	1806	2164	2327	2517	2712
Employee Cost	92	98	117	127	138
Other Expenses	129	156	173	184	199
<b>EBITDA</b>	<b>257</b>	<b>323</b>	<b>355</b>	<b>394</b>	<b>446</b>
<i>EBITDA Margin (%)</i>	<i>11.3%</i>	<i>11.8%</i>	<i>11.9%</i>	<i>12.2%</i>	<i>12.8%</i>
Depreciation	41	46	55	64	70
<b>EBIT</b>	<b>217</b>	<b>277</b>	<b>300</b>	<b>330</b>	<b>376</b>
<i>EBIT Margin (%)</i>	<i>9.5%</i>	<i>10.1%</i>	<i>10.1%</i>	<i>10.2%</i>	<i>10.8%</i>
Finance Costs	1	2	0	0	0
Other Income	0	0	0	0	0
<b>Profit before Tax</b>	<b>203</b>	<b>278</b>	<b>306</b>	<b>345</b>	<b>412</b>
Tax Expense	54	70	76	86	103
<b>Net Profit</b>	<b>149</b>	<b>208</b>	<b>229</b>	<b>259</b>	<b>309</b>
<i>Net Margin (%)</i>	<i>6.5%</i>	<i>7.6%</i>	<i>7.7%</i>	<i>8.0%</i>	<i>8.9%</i>
<b>EPS</b>	<b>50.2</b>	<b>70.1</b>	<b>77.1</b>	<b>87.0</b>	<b>104.0</b>

Source: Company, Sushil Finance Research



## BALANCE SHEET STATEMENT

(Rs. Cr.)

Y/E Mar.	FY22	FY23	FY24E	FY25E	FY26E
PP&E (incl. CWIP)	146	187	227	259	284
Right of Use Assets / Investment Property	10	22	10	10	10
Other Non-Current	38	60	49	49	50
Inventories	131	204	249	303	371
Trade Receivables	276	331	407	477	555
Cash and Bank Balances	193	157	570	616	703
Other Current Assets	67	423	25	28	31
<b>Total Assets</b>	<b>1,066</b>	<b>1,389</b>	<b>1,541</b>	<b>1,748</b>	<b>2,009</b>
Equity Share Capital	6	6	6	6	6
Reserves & Surplus	567	752	922	1,121	1,372
Borrowings (LT)	-	-	-	-	-
Other Non-Current Liabilities	20	8	8	8	8
Trade Payables	415	516	516	517	520
Other Financial Liabilities	7	14	13	13	14
Current Borrowings	-	-	-	-	-
Other Current Tax Liab & Provisions	51	94	76	82	90
<b>Total Liabilities</b>	<b>1,066</b>	<b>1,389</b>	<b>1,541</b>	<b>1,748</b>	<b>2,009</b>

Source: Company, Sushil Finance Research

## CASH FLOW STATEMENT

(Rs. Cr)

Y/E Mar.	FY22	FY23	FY24E	FY25E	FY26E
PBT	203	278	306	345	412
Depreciation	41	46	55	64	70
Interest	1	2	-	-	-
<b>CFO before Working Cap chg</b>	<b>245</b>	<b>326</b>	<b>361</b>	<b>409</b>	<b>482</b>
Chg in Inventories	7	(73)	(45)	(55)	(68)
Chg in Trade Receivables	48	(55)	(76)	(70)	(79)
Chg in Trade Payables	(56)	100	1	1	3
Chg in Current Assets & Liabilities					
Income Taxes Paid	(54)	(70)	(76)	(86)	(103)
<b>Cash Flow from Operations</b>	<b>191</b>	<b>229</b>	<b>165</b>	<b>199</b>	<b>236</b>
Interest Paid	(1)	(2)	-	-	-
Dividend Paid	(28)	(59)	(59)	(59)	(59)
Other Adjustments	4	17	(10)	3	5
<b>Cash Flow from Financing</b>	<b>(25)</b>	<b>(44)</b>	<b>(69)</b>	<b>(56)</b>	<b>(54)</b>
Capital Expenditure	(18)	(87)	(95)	(97)	(94)
Other Adjustments	(48)	(170)	413	(0)	(1)
<b>Cash Flow from Investing</b>	<b>(66)</b>	<b>(257)</b>	<b>318</b>	<b>(97)</b>	<b>(95)</b>
<b>Opening Cash</b>	<b>73</b>	<b>193</b>	<b>157</b>	<b>570</b>	<b>616</b>
<b>Total Cash Flow</b>	<b>120</b>	<b>(36)</b>	<b>413</b>	<b>46</b>	<b>87</b>
<b>Closing Cash</b>	<b>193</b>	<b>157</b>	<b>570</b>	<b>616</b>	<b>703</b>

Source: Company, Sushil Finance Research

## FINANCIAL RATIO STATEMENT

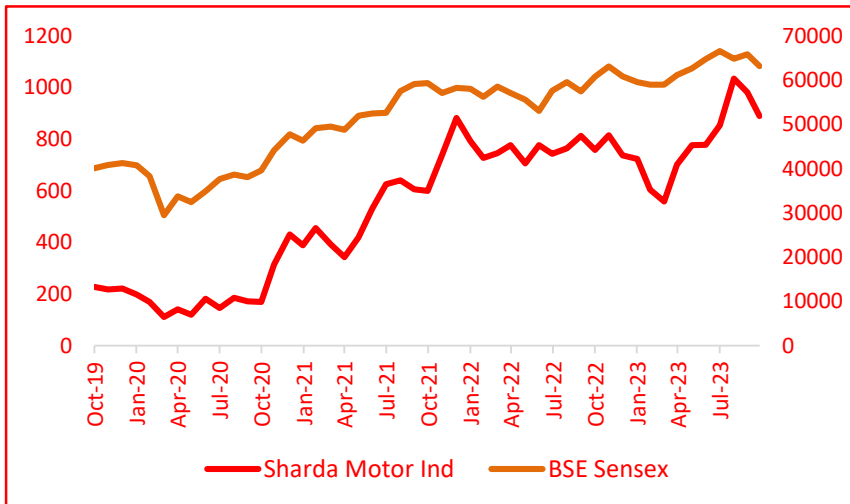
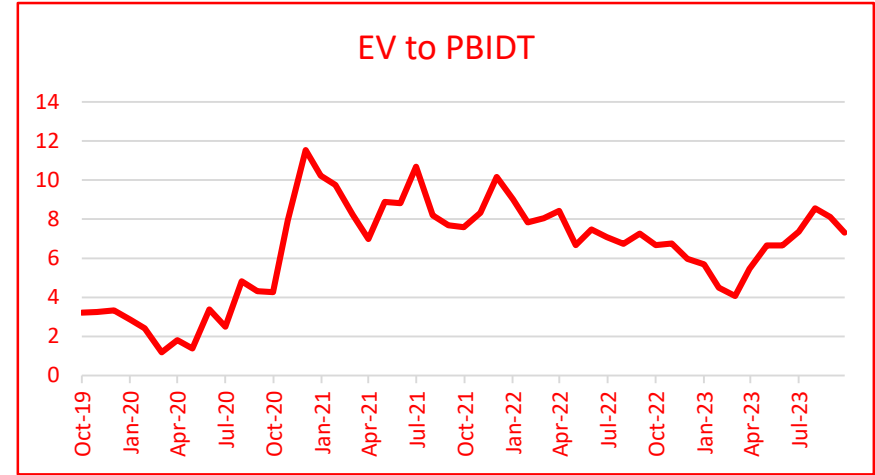
Y/E Mar.	FY22	FY23	FY24E	FY25E	FY26E
<b><u>Growth (%)</u></b>					
Revenue	30.0%	20.0%	8.4%	8.4%	8.4%
EBITDA	70.8%	25.7%	9.7%	11.1%	13.2%
Net Profit	123.8%	39.6%	10.0%	12.8%	19.6%
<b><u>Profitability (%)</u></b>					
EBITDA Margin	11.3%	11.8%	11.9%	12.2%	12.8%
Net Profit Margin	6.5%	7.6%	7.7%	8.0%	8.9%
ROCE	38.2%	36.9%	32.5%	29.4%	27.4%
ROE	26.0%	27.5%	24.7%	22.9%	22.5%
<b><u>Per Share Data (Rs.)</u></b>					
EPS	50.2	70.1	77.1	87.0	104.0
BVPS	192.7	254.9	312.1	379.2	463.3
CEPS	63.9	85.6	95.6	108.5	127.6
<b><u>Valuation (x)</u></b>					
P/E	18.4	13.2	12.0	10.6	8.9
P/BV	4.8	3.6	3.0	2.4	2.0
EV/EBITDA	9.8	7.8	7.1	6.4	5.7
P/Sales	1.2	1.0	0.9	0.9	0.8
<b><u>Turnover</u></b>					
Inventory days	27	34	39	44	50
Debtor days	44	44	50	54	58
Creditor days	84	87	81	75	70

Source: Company, Sushil Finance Research

**MARKET INFORMATION**



Note: Above PE is flat due to net losses



Source: Company, Sushil Finance Research



## OUTLOOK & VALUATION

Sharda Motor Industries Ltd (SMIL) is the market leader in manufacturing of Exhaust System, Catalytic Converter, Independent Suspension, Seat Frames, Seat Covers (Two Wheelers & Four Wheelers), Soft Top Canopies, and Pressed part. SMIL serves a wide range of customers, including major automotive manufacturers and aftermarket clients. The company has a global presence and exports its products to different countries.

We believe that the introduction of the new norms, CEV Stage IV & V - applicable for Construction Equipment Vehicles & Off Highway Equipment, as well as TREM IV & V, Real Driving Emissions and On-Board Diagnostics - will considerably fuel future growth. Furthermore, the joint venture with Eberspaecher for the production of exhaust systems for commercial vehicles will only gain more and more traction going forward, thereby, propelling incremental growth and margins for the company. Additionally, various other growth drivers like the technical collaboration with Kinetic Green will also gain traction in the coming quarters with the growth of EV not only globally, but domestically as well.

We believe the company's strong qualitative growth factors are strongly complimented with robust quantitative factors as well. SMIL is a debt-free company, holding close to Rs.600 cr in cash and cash equivalents, with robust return ratios.

Factoring the various growth triggers for Sharda Motor Industries Ltd, along with strong fundamental metrics that will enhance top-line growth as well as EBITDA levels, we expect FY26 revenue at Rs.3494.6 cr, EBITDA at Rs.446.2 cr at an EBITDA margin of 12.9% and Adjusted PAT of Rs.309.3 cr. Given the strong growth and margin outlook, we estimate FY26E EPS at Rs.104.0, and assign a PE multiple of 13x to arrive at a target price of Rs.1353, which is an upside of ~46.2% from its last traded price of Rs.925. We re-instate coverage on Sharda Motor Industries Ltd. with a BUY rating, over an investment horizon of 24-30 months.

## Risks & Concerns

- The company's products primarily serve the automotive industry, and any slowdown in the industry could have a severe influence on the company's profitability.
- With OEMs, the company's negotiating leverage is restricted. OEMs regularly adjust their rates based on their desire and financial situation. Any increase in operating margin is therefore subject to a lag.

**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%**

**Disclaimer & Disclosures :** <http://goo.gl/1sOHeV>

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Broking Relationship with the company covered	No