



SUBLIME FINANCIAL ADVISORY
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Talbro Automotive Components Ltd (TABL)

-Promising Midcap Stock

Multibagger Report

Recommendation	:	Buy
CMP	:	Rs 307.65
Target	:	NA
% Allocation	:	5%

Sector	:	Auto Ancillaries
Sensex	:	34057
NSE code	:	TALBRO AUTO
BSE Code	:	505160

AT A GLANCE

52 Week High Low	:	:331.95/116.55
Mkt. Cap (Rs. in Crs)	:	:383
Major Shareholders	:	
Promoters (%)	:	:56.63%
Others (%)	:	:43.37%

Background: Talbro Automotive Components Ltd., the flagship manufacturing company of the Group was established in the year 1956 to manufacture Automotive & Industrial Gaskets in collaboration with Coopers Payen of UK. TABL has been in the Gaskets business for 60+ successful years and currently through its subsidiaries stands as a mother brand of Gaskets & Heat Shields, Forgings, Suspension Systems & Modules, Anti Vibration components and Hoses. It has strong partnerships formed with global giants.

Gasket business

TABL is a market leader in the gasket segment with market share of ~38%. TABL sells different types of gaskets to players across different segment – two/three wheelers, passenger vehicle, commercial vehicle, tractor, construction equipment and off highway. Company is also present in aftermarket and exports. TABL supplies gaskets through the standalone entity and also through its JV with Nippon Leakless. TABL is the market leader in the two-wheeler, agri/off -loaders and the commercial vehicle segment.

Forgings Business

TABL is witnessing high growth in the forging business. In 1HFY18, company generated 19% of its revenues as per Indian GAAP from this segment. TABL has been winning new orders in the forging business and that gives visibility to strong revenue growth in this segment. TABL is focusing aggressively both in the domestic as well export market. Both domestic and export market accounts for ~44% of the revenues in this segment.

2 wheeler Market

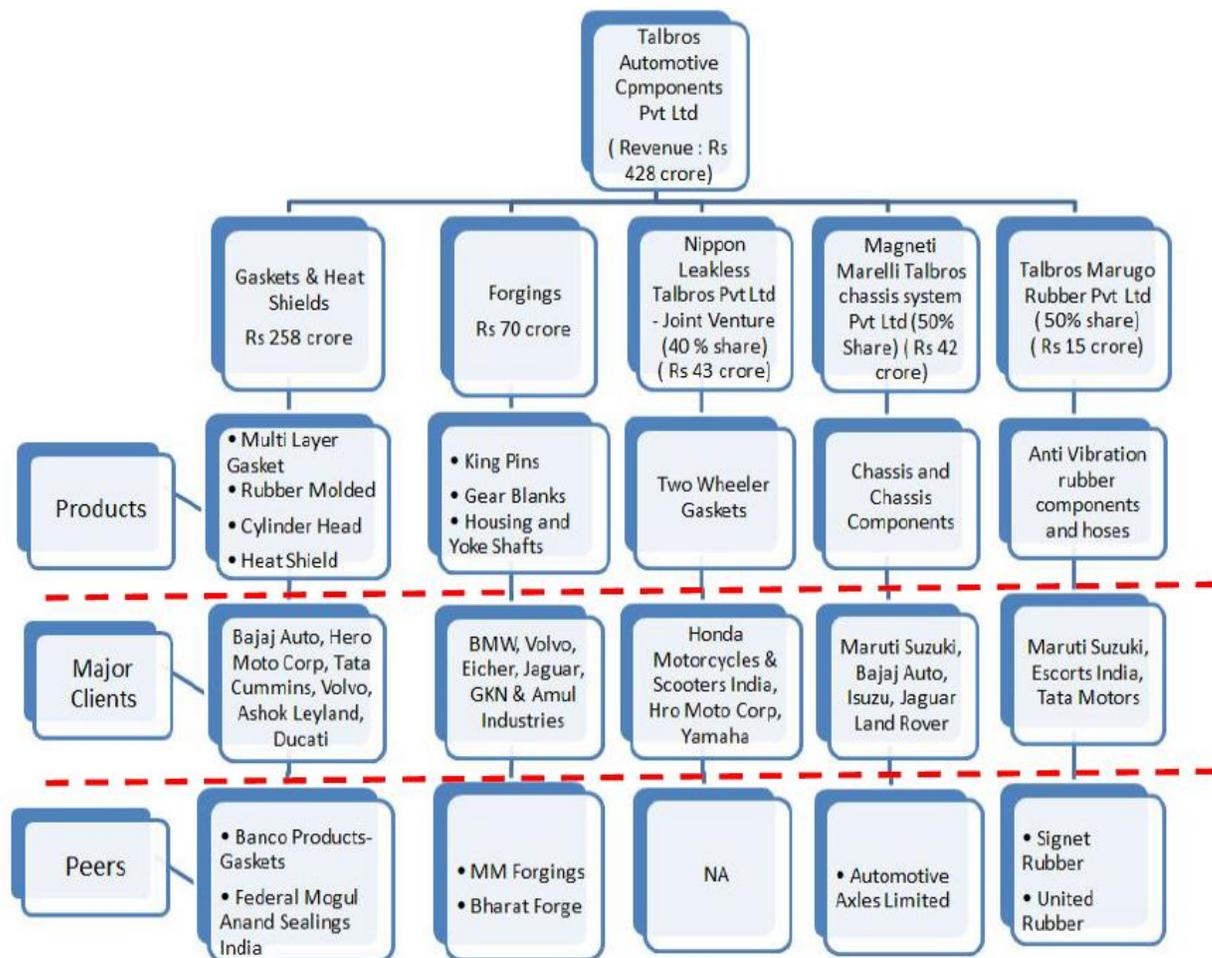
In the two wheeler segment, TABL (including JV) is the market leader with ~80% market share. Company supplies 100% gasket requirements of Hero MotoCorp (HMC), Honda Motorcycle and Scooters India (HMSI) and Bajaj Auto Limited (BAL). HMC, HMSI and BAL together account for ~75% of two wheeler production in India. Company also fulfills majority gasket requirement of Suzuki Motorcycle and India Yamaha.

Outlook & Valuation

We Initiate coverage of TABL with a **BUY** rating. Given the strong brand, Market leadership in Gasket & Forgings, Robust clientele, Dominant market share in the 2 wheeler space and strong partnership are key positives for the stock. At the CMP of INR 307.65, the stock trades at 15.30x EPS of FY19. **Key Risks** to our recommendation include any steep increase in competition and increase in raw material cost and any slowdown in the automobile sector will adversely impact the company.

Investment Arguments

Company Profile: Talbros Automotive Components Ltd., the flagship manufacturing company of the Group was established in the year 1956 to manufacture Automotive & Industrial Gaskets in collaboration with Coopers Payen of UK. TABL has been in the Gaskets business for 60+ successful years and currently through its subsidiaries stands as a mother brand of Gaskets & Heat Shields, Forgings, Suspension Systems & Modules, Anti Vibration components and Hoses. It has strong partnerships formed with global giants. Notable among the joint venture partners are Nippon Leakless Corporation- Japan, Magneti Marelli- Italy, Marugo Rubber- Japan and technology partners are Sanwa Packaging – Japan and Interface Solutions – USA. Currently, TABL's manufacturing prowess spans over 5 business and 8 facilities.

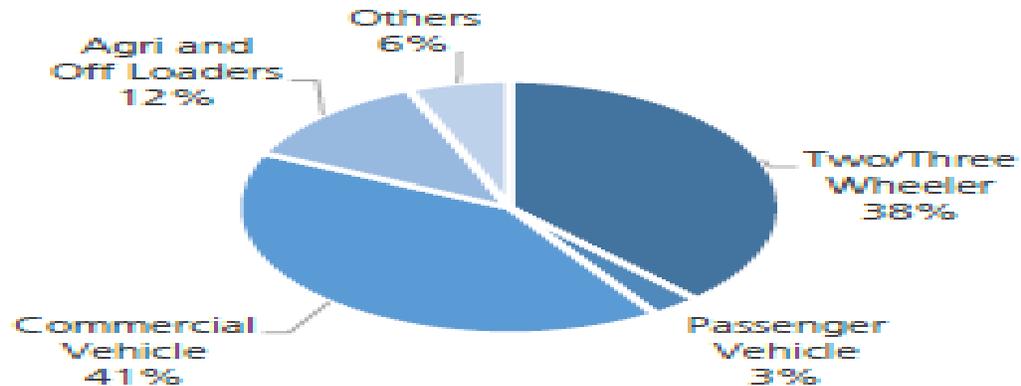


Gasket Business: Market Leader

TABL is a market leader in the gasket segment with market share of ~38%. TABL sells different types of gaskets to players across different segment – two/three wheelers, passenger vehicle, commercial vehicle, tractor, construction equipment and off highway. Company is also present

in aftermarket and exports. TABL supplies gaskets through the standalone entity and also through its JV with Nippon Leakless. TABL is the market leader in the two-wheeler, agri/off-loaders and the commercial vehicle segment. Company is a tier 1 supplier to 12 OEM's and single source supplier to 5 of them. Standalone gasket business accounts for 57% (including JV it is 67%) of consolidated revenues. In the past three years, revenue CAGR in standalone gasket business has been 4%. The company management expects healthy growth in auto demand and company's efforts on increasing business in passenger vehicle segment and exports will lead to ~13% revenue CAGR in standalone gasket business over FY17-FY20E.

Gasket Revenue Split



Two Wheeler Market: Monopoly Status

In the two wheeler segment, TABL (including JV) is the market leader with ~80% market share. Company supplies 100% gasket requirements of Hero MotoCorp (HMC), Honda Motorcycle and Scooters India (HMSI) and Bajaj Auto Limited (BAL). HMC, HMSI and BAL together account for ~75% of two wheeler production in India. Company also fulfills majority gasket requirement of Suzuki Motorcycle and India Yamaha. Company is in talks with Royal Enfield and expects positive development with them going forward. The company expects the two wheeler volumes to grow in high single digit to low double digit over the next two-three years. TABL's revenue in the two wheeler OEM gasket business is expected to grow broadly in line with industry volume growth.

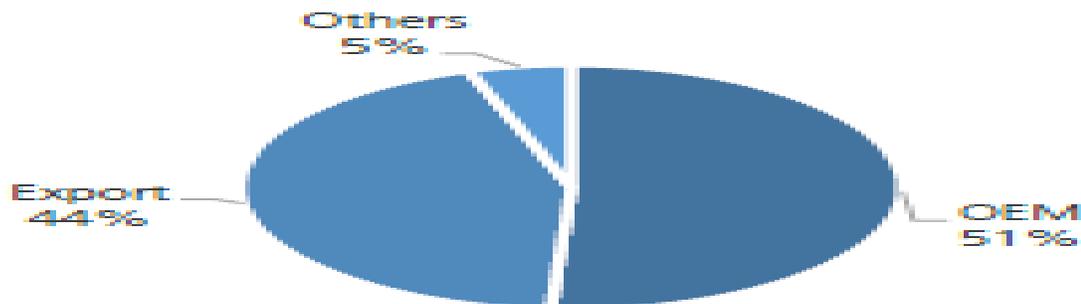
Increasing CV market share

The company is also the market leader in the commercial vehicle segment. We believe that TABL enjoys ~40% market share in the commercial vehicle business. TABL supplies 100% gasket requirement of Tata Cummins and enjoys high share of business with Volvo Eicher and Tata Motors. In 1HFY18, sales to commercial vehicle OEM's accounted for ~29% of the TABL's standalone revenues. Company supplies to key players in the commercial vehicle space and it recently added Ashok Leyland to its portfolio. Orders have started coming from Ashok Leyland and TABL will focus to scale up business with them over the next two years. Post slowdown in commercial vehicle sales in 1QFY18, the segment has witnessed strong recovery. On the back of expected pick-up in economic activity coupled with strong government focus on infrastructure development, we expect the commercial vehicle segment to grow in double digit in FY19/FY20. TABL's sales in this segment are expected to grow strongly on account of healthy segment volume growth and business scale-up with Ashok Leyland.

Forging Business: Gaining Traction

TABL is witnessing high growth in the forging business. In 1HFY18, company generated 19% of its revenues as per Indian GAAP from this segment. TABL has been winning new orders in the forging business and that gives visibility to strong revenue growth in this segment. TABL is focusing aggressively both in the domestic as well export market. Both domestic and export market accounts for ~44% of the revenues in this segment. In the domestic market, the company has entered with Volvo Eicher and recently received orders from tier one supplier of HMSI. In the international market, TABL received a large order of Rs1.75bn (spanning over 7 years) from BMW. TABL will be a tier II supplier for this order. Company also earned orders from GKM, Italy. Management indicated that they are witnessing interest from more OEM customers and hopes to close deals with them in the coming months. Company is adding two more presses (700 ton and 1,000 ton) and the same is expected to be operational by January 2018.

Forgings Revenue Break-Up



In 1HFY18, revenue from forging business increased from Rs330mn in 1HFY17 to Rs463mn, 40% growth YoY. In 2QFY18, revenue grew by 67% YoY from Rs161mn in 2QFY17 to Rs269mn. BMW order execution has started from 2QFY18. Company's monthly revenue run-rate in the forging business has increased from Rs60-70mn in 1QFY18 to Rs70-80mn in 2QFY18 and is expected to further increase to Rs90mn from 4QFY18. Full impact of various new order wins in 1HFY18 will get reflected in FY19. Backed by strong order pipeline, the company envisages strong 24% revenue CAGR in this business over FY18-FY20E.

Strong Clientele

TABL boasts of a large and diversified customer portfolio ranging from segments comprising of 2 wheelers, passenger vehicles, HCV/LCV and Agri & offloaders. 40% of its revenue is clocked from the top 5 Indian auto companies. With India becoming a hub for global OEMs for sourcing and manufacturing, the company is in a sweet spot to leverage the global demand for its products and grow its market share.



LTL Joint Venture:

Nippon Leakless Talbros Private Limited (LTL) is a joint venture company established in 2005 between Nippon Leakless Corporation (NLK) Japan and TABL. LTL manufactures diversified range of cylinder head gaskets in composite, multi layered steel (MLS), single layered steel (SLS) and secondary gaskets made from metallic and non-metallic jointing sheet materials. LTL supplies 70% of HMC's and 100% of HMSI's gasket requirement. LTL accounts for 10% of the consolidated revenues as per Indian GAAP.

LTL growth hinges upon volume performance of HMC and HMSI. Over the past many years, HMSI has been growing at robust pace. Strong demand for scooters is expected to keep HMSI's volume growth elevated in the coming years. HMC's volume growth performance has been tepid in the past few years. However, in FY18 YTD, the company has posted 8% volume growth. On the back of near normal monsoon, we expect motorcycle demand in rural areas to witness improvement and positively impact HMC's volume growth in the near to medium term.

NLT's revenue growth in 1HFY18 has been muted despite strong volume growth reported by HMSI and HMC. This is on account of price reduction given to HMC the margins were not impacted as raw material is changed. However, going ahead, we expect growth to resume in this segment. In 2HFY18, the volumes for HMSI and HMC is expected to grow at a strong rate on the lower base last year. We believe that high volume growth by HMSI and HMC to more than compensate the negative impact on revenues from price reduction given to HMC. From FY19, revenue growth at LTL will broadly track volume growth for HMC and HMSI.

TMR JV: Potential Turnaround Bet

Talbros Marugo Rubber Pvt. Ltd. (TMR) is a 50:50 JV (established in 2012) between TABL and Marugo Rubber Industries, Japan set up to localize rubber hose production for MSIL. TMR manufactures anti-vibration products and hoses, which include air, fuel and breather hoses, mufflers, hangers, suspension bushes, rubber bushes and hoses. MSIL accounts for ~57% of this JV's revenue. TMR's clients are MSIL, Isuzu Motors, Honda, Daimler, Mitsubishi and Fuso

Japan on the OEM side and tier 1 clients include QH Talbros, Endurance Technologies, Rane (Madras), Magneti Marelli Talbros, Sharda Motors and Minda Furukawa. This segment accounts for 4% of TABL's consolidated revenue as per Indian GAAP.

Revenues in this business grew by 47% YoY to Rs154mn in FY17. Strong growth continued in this segment in 1HFY18 with revenues increasing by 25% YoY. The company management expects revenue growth from this business to remain strong going ahead. Strong volume growth expectation from MSIL will directly benefit TMR's growth. Company entered the CV industry in FY17. TMR has received new business from Honda Cars and Daimler for hanger and anti-vibration parts. Apart from that, TABL is in talks with its JV partner to increase product buyback from TMR. Over FY17-20E, we forecast 28% revenue CAGR for TMR.

MMT JV:

Magneti Marelli Talbros Chassis Systems Pvt. Ltd., (MMT) is a 50:50 joint venture between Sistemi Sospensioni S.p.A., Italy and TABL. This JV manufactures chassis components like control arm, steering knuckle, front cross member, rear twist beam axle, wheel group and semi corner module assemblies for automotive application.

MMT accounts for 10% of the consolidated revenues for the company as per Indian GAAP. Control arm is the largest business for this JV with MSIL accounting for almost 70% of the revenue. This JV supplies ~40% control arm requirements of MSIL. Other clients include Bajaj Auto, M&M and Tata Motors. MSIL's strong volume growth is having a positive impact for MMT.

While business with MSIL is growing at a robust pace, MMT's revenues going ahead will receive further boost from Rs180-200mn annual order from JLR. This order will also help reduce concentration on single client and single product. On the back of higher volumes, MMT's revenues in 1HFY18 grew by 30% to Rs245mn. MMT supplies to strong growing models like Baleno and Brezza. MSIL's volume growth is expected to stay robust over FY17-FY20E. MMT is looking to enter value-added products such as the front axle and is in talks with MSIL for the same. Revenue from JLR order is expected to be ~Rs50mn in FY18 and to scale-up to ~Rs1.5 bn in FY19. MMT has secured business for the upcoming new Alto which is higher volume model and has been approved as a supplier for TAMO's new platform.

Exports: Focus Area

Exports account for ~21%/15% of TABL's standalone/consolidated revenues as per Indian GAAP. Majority exports happen in the standalone business of gasket and forgings. In the standalone gasket business, exports accounted for 12% of 1HFY18 revenues and in forging business, exports were 44% of 1HFY18 revenues. TABL's management has earmarked exports as key growth area for the company and is targeting strong growth in export revenues over FY18-FY20.

In the gasket business, 95% of the exports are happening in the after-market segment and the company aim is to have 30-40% of revenue from OEM's. TABL is now approved by Cummins for BSVI compliant product. Company expects decent size orders from Cummins USA. For GE Austria, the company is already supplying sample orders and looking forward at recurring order from them. TABL has won orders from Kubota Japan, Caterpillar Thailand and Ducati. Company is targeting export markets in agri-offloader and commercial vehicle segment. Company's aim is to achieve 20% of revenues from the export market in the gasket segment.

In the forging business, company won big order from BMW (though the same will be supplied to tier 1 domestic player). Company also won an order from GKM Italy. In the JV business, exports is a small part of revenues. LTL does not have any export revenues. In MMT, exports will witness traction with JLR order. TMR is looking at export opportunities in an aggressive manner. TMR has been awarded export business of anti-vibration and extruded hoses from Mitsubishi, Fuso Japan. TABL is also in talks with its JV partner to increase product buyback from TMR.

TABL is taking various initiatives to grow its exports across business segments in the coming years. Various new orders secured by the company in different business segments will drive export revenue growth going ahead.

Pre coated gasket technology:

TABL is developing post coating technology with Sanwa Packing Industry of Japan through Technical Assistance Agreement. Post coated technology will help the company give similar efficiency/quality (as available in pre coated technology) but with reduced cost from import substitution and lower wastage. Reduced cost of post coating technology over pre coating technology will give TABL an opportunity compete strongly in the passenger vehicle segment. Company's post coating plant is expected to be operational by early 4QFY18.

In the post coated business, the company has received small orders from Maruti Suzuki. Company expects more orders to flow in FY19/FY20, post final plant audit from Maruti Suzuki. Through its JV's, TABL already enjoys strong relationship with Maruti Suzuki. In other segments, the company has received post coated gasket orders from Tata Motors, Ducati and Daimler. TABL's strategy is to convert domestic OEM, domestic aftermarket and export pre coated gasket business (which is currently around ~Rs500-600mn) into post coated business. Post coated business will help company make inroads in the passenger vehicle segment, reduce forex exposure (from import substitution) and help improve its margins.

Heat Shield: Emerging Opportunity

Heat shields are used on engines to protect components and bodywork from heat damage. Heat shield has become a critical part of engine components with new generation engines becoming more powerful and compact. Heat shield will gain traction with implementation of BSVI emission norms from April 2020. Currently, the heat shield business is small in size, but the company expects this business to scale and will be a key product in gaining traction in the passenger vehicle and other segments. TBA has established a dedicated line for heat shields at the Faridabad plant with a capex of Rs80mn. Company is supplying traditional heat shield to Volvo, Daimler and Tata Motors.

Company is developing new technology Euro 6 complaint heat shield with Sanwa Packing Industry. This new heat shield is expected to be cheaper than the conventional heat shield. TABL has received RFQ (request for quotation) from Tata Motors and Ashok Leyland. We expect demand pick-up for heat shield to take some time and meaningful revenue from heat shield business to happen from FY20 onwards.

Financials

Profit & Loss

Particulars(Rs.Cr)	FY17	FY18E	FY19E
Net Sales	4281.00	3833.00	4525.00
EBITDA	440.00	372.00	473.00
PBT	207.00	160.00	225.00
PAT	157.00	163.00	249.00
EPS	12.70	13.20	20.10

Balance Sheet

Particulars(Rs.Cr)	FY17	FY18E	FY19E
Equity	123.00	123.00	123.00
Reserves & Surplus	1296.00	1422.00	1648.00
Debt	1180.00	1175.00	1215.00
Trade Payables	1144.00	1050.00	1240.00
Current liabilities	188.00	185.00	203.00
Provisions	67.00	40.00	41.00
Other Liabilities	42.00	42.00	42.00
Total Liabilities	4040.00	4037.00	4512.00
Cash and cash equivalents	131.00	95.00	141.00
Accounts receivable	903.00	893.00	1054.00
Inventories	1114.00	1157.00	1387.00
Loans and Advances	318.00	324.00	356.00
Current assets	13.00	14.00	15.00
Long Term Investments	81.00	337.00	342.00
Net Fixed Assets	1480	1217.00	1217.00
Total Assets	4040.00	4037.00	4512.00

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