



(Investment Idea

Sterling Tools Ltd. (STL)

Sterling Tools (STL), a manufacturer of Cold Forged High Tensile Fasteners used mainly in automobile, auto replacement, general engineering, consumer durables, and railways, has come out with good numbers in Q3 FY 2007.

The net sales have shown a rise of 26.9% to Rs. 37.59 crore (Rs. 29.63 crore). OPM% improved to 13.7% from 11.8% due to better operational efficiencies. After providing for a higher interest cost of Rs. 1.04 crore (Rs. 0.41 crore), PBT increased by 37.2% to Rs. 2.99 crore (Rs. 2.18 crore). PAT grew by 41.3% to Rs. 2.11 crore from Rs. 1.50 crore.

The domestic annual demand for High Tensile Fasteners is expected to increase @ 10-12%. Out of the total demand; about 75% is from the automobile industry which is currently riding on a boom. STL with its established brand is well positioned to take advantage of this anticipated demand growth on a long term basis. In addition to domestic demand, STL also has good exports prospects and is planning to increase its exports to 25% of sales in 3 years (~ 4% in FY 2006). Further the company is also altering its product mix towards value added special fasteners.

At CMP of Rs. 99/-, the share (Rs. 10/- paid up) is trading at 9 times FY 2007 expected EPS of Rs. 11/- and 7 times FY 2008 expected EPS of Rs. 14/-. In view of excellent business prospects, we recommend to "BUY" the share at CMP.

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