

# Sundram Fasteners

**Rs 166**
**Hold**

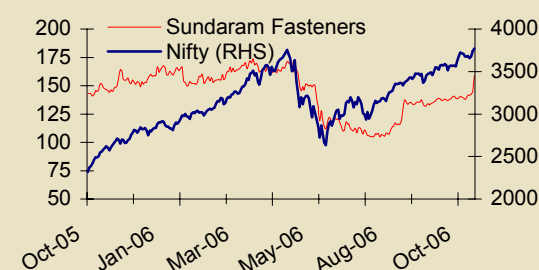
7th Nov 2006

**SCRIP DETAILS**

Market Cap (Rs crores)	1,744.7
P/E (x)-FY07e	19.5
Market Cap/Sales (x) FY07e	1.4
EV/EBIDTA (x) FY07e	10.9
Dividend (Rs)/ Yield (%)	1.7/ 1.02
Equity Capital (Rs crores)	10.5
Face Value (Rs)	1.0
52 Week High/Low (Rs)	177.5/ 100
Website: <a href="http://www.sundram.com">www.sundram.com</a>	
NSE Code	SUNDRMFAST
Sensex	13157
Nifty	3824

**SHARE HOLDING PATTERN  
(As on 30th Sept 2006)**

Promoters	49.53
Mutual Funds/ Banks/ FIs	12.53
FII's	0.34
Others	0.05
Public	37.54

**COMPARATIVE PRICE MOVEMENT**


Sundram Fasteners (SFL), a leading manufacturer of auto-components, posted good results for the quarter. It has reported a turnover of Rs 418 crores in the domestic market in H1FY07 and exports of Rs 186 crores.

**Sales growth leads to expansion in margin:** The Company has posted a 19% YoY growth in its top line, to Rs 313 crores for the quarter, while in H1FY07, it has recorded a 17% YoY growth, to Rs 604 crores. This has been on account of its exports, which have surged by 20% YoY in H1FY07, to Rs 186 crores, and its domestic sales, which have gone up by 16%, to Rs 418 crores. This sales growth, along with the fall in the RM/ Sales Ratio by 310 bps to 44% for the quarter and the 170 bps in H1FY07 to 43.7%, has led to an expansion in the OPM by 380 bps, to 16.4% in Q2FY07. In H1FY07, the OPM has gone up by 310 bps, to 16.7%, with a 43% YoY growth in, operating profits, while in Q2FY07 it has shown a growth of 55%, to Rs 51.4 crores.

**Robust growth in bottom line:** During the quarter, PAT has shown an increase of 85% YoY, to Rs 25.4 crores, despite a significant rise in the interest cost of 96% YoY, while the PAT margin has gone up by 290 bps, to 8.1%. The EPS is at Rs 2.4, as against Rs 1.3 in Q2FY06.

As per H1FY07 results, PAT has gone up by 40%, to Rs 43.4 crores, despite a 33% YoY rise in the interest cost and an exceptional item to the tune of Rs 9.8 crores, which represented forex loss. The PAT margin is up 120 bps, to 7.2%. The adj PAT is up 61.4% YoY, to Rs 50.1 crores. The EPS is at Rs 4.1, as against Rs 3 in H1FY06, while the adj EPS stands at Rs 4.8, as against Rs 3.

**Exports on a Rise:** On a sequential basis, exports of the Company have shown an upward trend, increasing from Rs 122.1 crores in H1FY05 to Rs 186 crores in H1FY07, which indicates a CAGR of 11%. The Company's list of customers includes ASC, Caterpillar, Concentric Pumps, Cummins Engine, Daimler Chrysler, Deere and Co, Delphi Automotive, General Motors, Holset and Valeo. It further intends to add Bosch, CM Holden, Scania and Volvo to its prestigious client list and plans to create additional facilities to meet the requirements of customers. It expects exports to grow at around 20% for FY07.

**Creating new capacities:** The Company has, in FY06, spent Rs 62.6 crores as capex and planned a capex of Rs 150 crores for FY07. It intends to set up a plant at Pantnagar, Uttaranchal, with an investment of Rs 40 crores, which would be beneficial on account of the tax exemptions that the State enjoys. It has acquired leasehold land in the Special Economic Zone (SEZ), Mahindra World City near Chennai, to set up projects for the expansion of its exports. The project is expected to be operational by FY08.

**Valuation:** The Company's exports have shown a CAGR OF 11%, from H1FY05 to H1FY07, while domestic sales have posted a CAGR of 7% during the same period. The margins are likely to improve (excluding forex losses), with a PAT growth of 50%. At the CMP of Rs 168, the stock is valued at 19.8x, its FY07e EPS of Rs 8.5 and EV/ EBITDA of 11x. Considering its growth prospects, we advise investors to Hold the stock.

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## Financials

Standalone (YE March 31)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)
<b>Net Sales</b>	<b>312.9</b>	<b>263.6</b>	<b>18.7</b>	<b>604.2</b>	<b>516.0</b>	<b>17.1</b>
Total Expenditure	261.5	230.4	<b>13.5</b>	503.2	445.6	<b>12.9</b>
<b>Operating Profit</b>	<b>51.4</b>	<b>33.2</b>	<b>54.9</b>	<b>100.9</b>	<b>70.4</b>	<b>43.4</b>
OPM (%)	16.4	12.6		16.7	13.6	
<b>PBT before Extra-ord</b>	36.9	23.2	59.6	73.3	47.5	54.3
PBT (%)	11.8	8.8		12.1	9.2	
<b>PBT</b>	36.9	20.4	81.2	63.5	47.5	33.7
PAT	25.4	13.7	85.4	43.4	31.1	39.9
PAT (%)	8.1	5.2		7.2	6.0	
<b>PAT (adj for Extraord)</b>	<b>25.4</b>	<b>15.6</b>	<b>63.3</b>	<b>50.1</b>	<b>31.1</b>	<b>61.4</b>
<b>Equity Share Capital</b>	10.5	10.5		10.5	10.5	
<b>EPS (Rs)</b>	2.4	1.3		4.1	3.0	
Adj EPS (Rs)	2.4	1.5		4.8	3.0	

## Valuation and Conclusion

The Company expects that its exports would continue to grow substantially, based on the existing and the anticipated flow of orders. It expects its exports to grow at around 20% for FY07 and its domestic sales to grow by 10-12%. It has planned a capex of Rs 150 crores for the current fiscal and further plans to expand its operations by setting up new units at Uttaranchal and Chennai, which would result in large additional capacities and would be used to increase exports.

The Company's exports have shown a CAGR OF 11%, from H1FY05 to H1FY07, while domestic sales have posted a CAGR of 7%, during the same period. The margins are likely to improve (excluding forex losses), with a PAT growth of 50%. At the CMP of Rs 168, the stock is valued at 19.8x, its FY07E EPS of Rs 8.5 and EV/ EBITDA of 11x. Considering its growth prospects, we advise investors to Hold the stock.

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