

Company Report

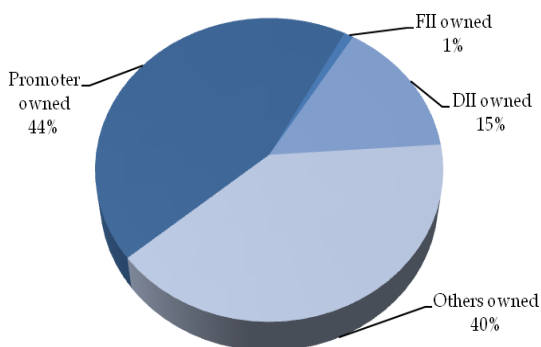
SML Isuzu Ltd.

28th September, 2015**BUY****CMP** **Rs.1150.00****Target Price** **Rs.1500.00**

BSE Code	505192
Market Cap (Rs Cr.)	1667.50
52 Week High/Low	1670.00/755.00
Industry	Automobile
Face Value	Rs.10.00
Shares O/S	1.45 Cr.

EPS(TTM)	29.42
Book Value	209.20
P/E	39.09
P/B	5.50

Shareholding Pattern



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- SML Isuzu Limited (SMLI) is a trusted and reliable commercial vehicle manufacturer since 1985. It has over 25 Years of experience in producing Light & Medium commercial vehicles. SMLI is a first company to manufacture and supply state of the art fully built Buses, Ambulances and customized vehicles. Starting from 2-wheel bases, the SML model range now spans 5-wheel bases. Carrying capacities have spread from 2.5 ton to 8.0 ton in the goods segment (GVW 5.2 to 12.0 ton) and from 13 to 52 seaters in the passenger segment. Current portfolio of specialty vehicles include Ambulances, Water Tankers, Tippers, Delivery Van, Dumper Placers, Fire Tenders, 4-Wheel Drive Truck, Troops Carrier etc. The company exports to Bangladesh, Nepal, Nigeria, Ghana, Zambia, West Indies, Sri Lanka etc. The company has installed capacity of 18000 vehicles. The company has 120 dealers (including export), 18 authorized service centres and 18 spare parts distributors.
- SML Isuzu represented the coming together of three powerful Corporate brands: Swaraj symbolizing the best of Indian technology and engineering, Mazda symbolizing R&D and innovation edge on a global scale and Sumitomo representing age-old international trading experience and linkages.
- The Commercial vehicles industry is expected to perform well driven by the economic growth. Economic growth would be driven by infrastructure investments in areas such as roads, bridges, power generation, information technology, civil aviation, sea-ports, health, education etc.; leading to increased demand for commercial vehicles in the coming years.

Valuation

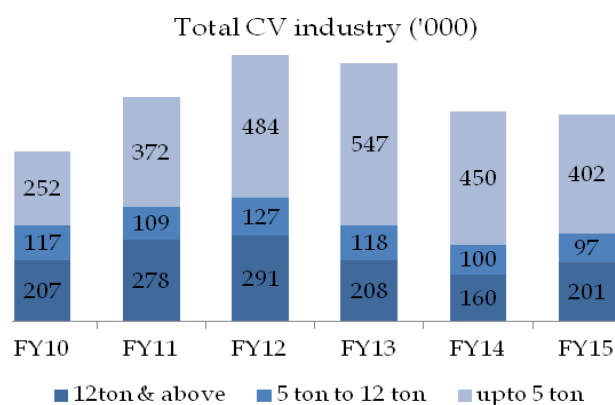
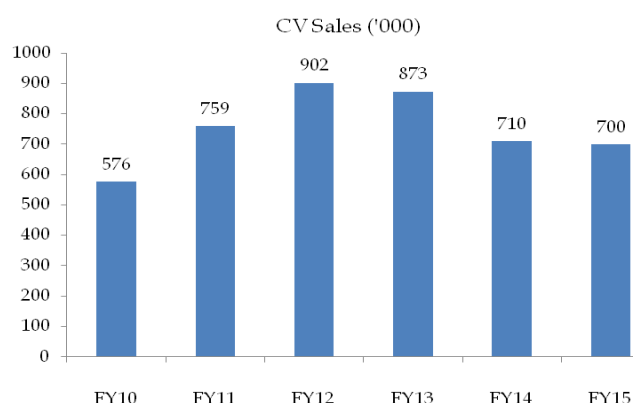
Improved capacity utilization, higher per unit realization owing to lower discounts, expanding dealership network and new product launches bodes well for the growth of SML in times ahead. We believe the company is trading at an attractive valuation at 31.42x and 24.98x of FY16EPS of Rs.36.60 and FY17EPS of Rs.46.04. We initiate a 'BUY' on the stock with a target price of Rs.1500 (appreciation of about 30%) with the medium to long term investment horizon.

Ride-on the growth phase of CV industry

After a subdued performance in the last few years, the CV industry long term prospects are secular. The domestic Commercial Vehicle industry, while continuing to contract on an overall basis, has shown significant growth in select segments. After a decline of 2% and 20.2% in the financial years 2012-13 and 2013-14 respectively, the total industry volumes further contracted by 2.8% in the financial year 2014-15. Medium & Heavy Commercial Vehicle (M&HCV) segment, after dropping by 23% and 25% in the financial years 2012-13 and 2013-14 respectively, grew by 16% in the financial year 2014-15. However Light Commercial Vehicle (LCV) segment, which grew by 14% in the financial year 2012-13 and dropped by 17.6% in the financial year 2013-14, continued to contract by 11.6% in the financial year 2014-15. Exports of Commercial Vehicles in the financial year 2014-15 grew by 11.3% to reach 85,782 vehicles overall. Sales volume in 5-12 ton GVW segment, in which the Company principally operates, remained virtually static for the industry. However, the company was able to achieve higher sales, at 11759 vehicles in FY15 against 9760 in the previous year. Improving conditions of road infrastructure –development of state highways & expressways, focus on power generation, housing, health & education coupled with increasing disposable incomes and changing commuting habits, are expected to maintain the growth momentum in the Indian CV market. Given the expected growth in industrial, construction and mining sectors, M&HCV sales are likely to keep up the momentum in the financial year 2015-16. For the year 2015-16, Society of Indian Automobile Manufacturers (SIAM) has projected growth rates of 13%-15% for M&HCV's and 3%-5% for LCV's. SML is well placed to tap the growth phase of the Commercial Vehicle industry. The Company has adequate production capacity to meet expected surge in demand for commercial vehicles.

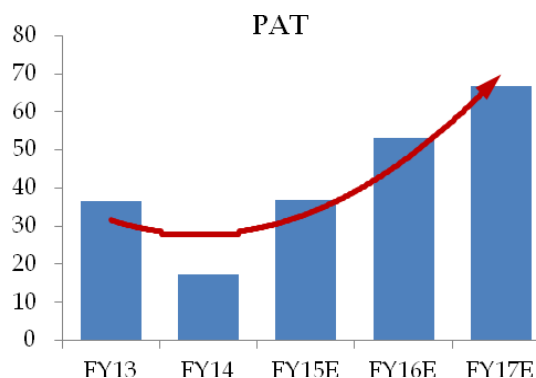
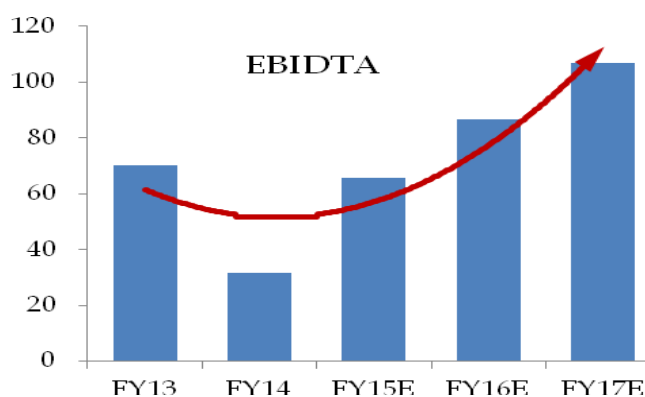
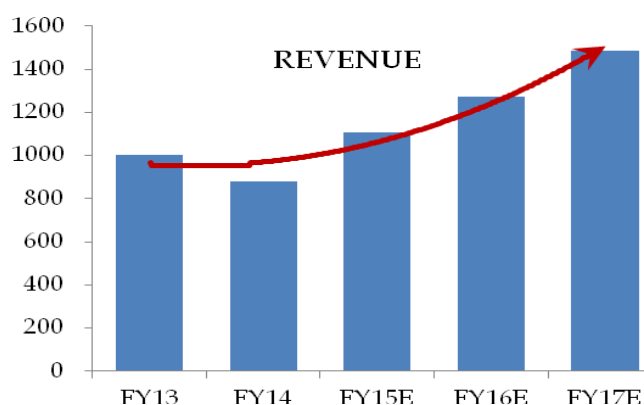
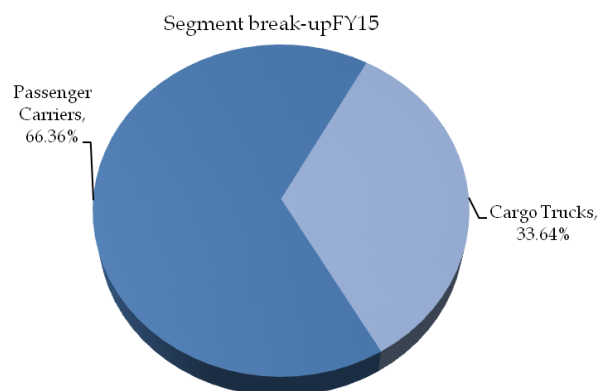
Segment	Domestic			Exports		
	2014-15	2013-14	Change (%)	2014-15	2013-14	Change (%)
M&HCV Buses	36,837	38,709	-4.8%	11,980	7,104	68.6%
M&HCV Trucks	195,918	161,909	21.0%	18,672	16,709	11.7%
M&HCV Total	232,755	200,618	16.0%	30,652	23,813	28.7%
LCV Buses	44,816	42,799	4.7%	4,064	2,254	80.3%
LCV Trucks	337,390	389,434	-13.4%	51,066	50,983	0.2%
LCV Total	382,206	432,233	-11.6%	55,130	53,237	3.6%
CV Total	614,961	632,851	-2.8%	85,782	77,050	11.3%

Source: SIAM



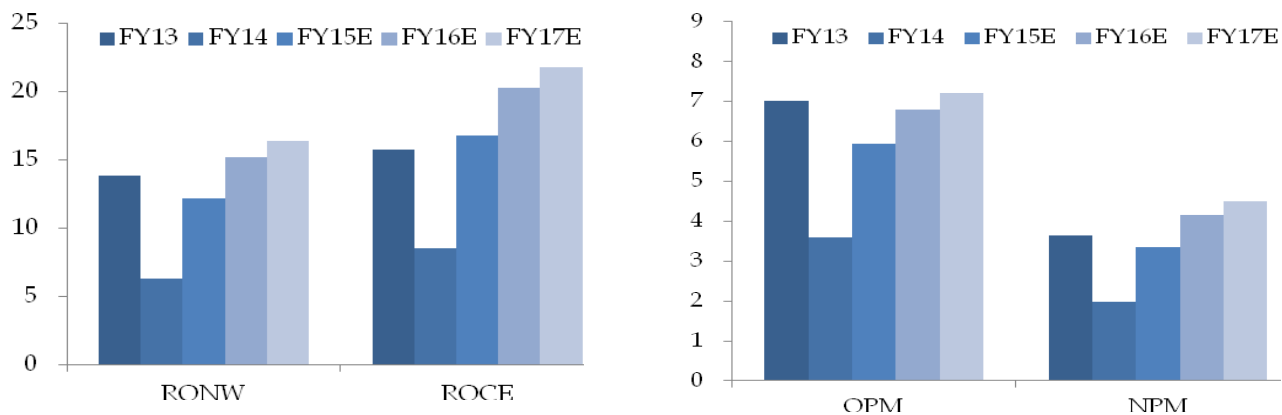
Capacity expansion and utilization well on track

The Company is well on track with its capex plan envisaging an outlay of Rs. 220 crores to be implemented over next three years towards substantial technology and product up-gradation, development of products/ variants and on plant infrastructure to improve manufacturing efficiency. SML Isuzu has been the pioneer in the commercial passenger segment of the CV industry. With the continued traction in growth of school buses, ambulances and other specialized vehicles; the company principally operates in; market share of the company seems to grow significantly in times ahead; thereby leading to improved capacity utilization. Further, Isuzu has continued to support the company with new product launches; boosting its corporate image and brand strengthening together with meeting regulatory requirement of emission and safety. Per unit realization is also expected to improve owing to lower discounts and expansion of dealership network. During the financial year ended March 2015; sales volume cross 2 lacs mark and the company launched Sartaj 59SM (5900 GVW) truck.



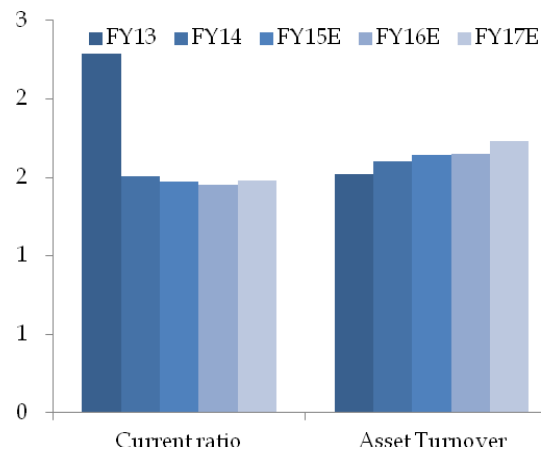
Continued growth in monthly sales numbers

SML has been witnessing continued rise in the monthly sales numbers on yearly basis. The company has sold 1405 vehicles during May 2015 against 1285 vehicles sold in May 2014; a rise of 9.33%. Similarly sales grew 6.7% at 1529 vehicles in June 2015 vs 1433 y-o-y, growth of 11.7% at 1050 vehicles in July 2015 vs 940 y-o-y and a sharp growth of 49.53% in August at 960 vehicles vs 642 y-o-y. The Company registered sales volume growth of 5%, in the first quarter, 3810 (3629) vehicles, out of which passenger vehicle sale was 2766 (2749) and cargo trucks 1044 (880). Overall growth of commercial vehicle industry in the first quarter of the current year April-June, 2015 was reported at 6% (Domestic – 3.6% and Exports – 26.0%). Looking at the pace of growth of the company; it may seem to outperform the growth of the CV industry in times ahead.



Strong June quarter financials

The company has registered excellent results for the quarter ending June 2015. The revenues from operations grew by about 13% to Rs.383.16 crores vs. Rs.338.56 cr. in the year ago quarter while it grew ~19% q-o-q. The sharp growth can be attributed primarily to the school buses which grew with the onset of the new academic year. Operating profit surged manifold at Rs.42.59crores as against Rs.20.66 crores in the preceding quarter while it climbed 20.5% on a y-o-y basis. The adjusted net profit stood at Rs.29.06 crore for the quarter as against Rs.12.74 crore; registering sharp growth of about 128% on a q-o-q basis while it surged by 24% as compared to like quarter last year. On the margins front, there is substantial expansion in the operating margin at 11.12% vs 6.43% on a sequential basis. Similarly, net profit margins almost doubled at 7.58% as against 3.96% in the preceding quarter.



Standalone Profit & Loss Account

Rs. Crore

Particulars	FY13	FY14	FY15	FY16E	FY17E
Net sales	1002.10	881.27	1105.55	1273.59	1486.28
Growth		-12.06%	25.45%	15.20%	16.70%
Expenditure	931.77	849.58	1040.00	1186.98	1379.27
EBITDA	70.33	31.69	65.55	86.60	107.01
Growth		-54.94%	106.85%	32.12%	23.56%
EBITDA margin	7.02%	3.60%	5.93%	6.80%	7.20%
Other income	8.96	4.72	8.79	9.55	11.15
Depreciation & Amortisation	12.18	12.80	19.78	20.38	23.65
EBIT	67.11	23.61	54.57	75.78	94.51
EBIT margin	6.70%	2.68%	4.94%	5.95%	6.36%
Interest	18.61	5.89	5.82	6.05	6.79
PBT	48.49	17.71	48.74	69.73	87.72
Tax	12.06	0.31	11.81	16.73	21.05
PAT	36.43	17.40	36.94	52.99	66.67
Adjusted PAT	36.43	17.40	36.94	52.99	66.67
Growth		52.24	112.28	43.45	25.81
Net Profit margins	3.64	1.97	3.34	4.16	4.49
Exceptional item	0.00	0.00	0.00	0.00	0.00
Reported PAT	36.43	17.40	36.94	52.99	66.67
Equity Capital	14.48	14.48	14.48	14.48	14.48
Res. & Surplus	249.61	261.93	288.42	334.17	392.15
Equity Shares	1.45	1.45	1.45	1.45	1.45
Adjusted EPS	25.16	12.02	25.51	36.60	46.04

Balance Sheet

Rs. Crore

Particulars	FY13	FY14	FY15	FY16E	FY17E
Equity Share Capital	14.48	14.48	14.48	14.48	14.48
Reserves & Surplus	249.61	261.93	288.42	334.17	392.15
Shareholders' funds	264.09	276.41	302.90	348.65	406.63
Borrowings	162.09	0.00	22.29	25.22	28.31
Deferred tax liability	10.52	9.64	2.57	2.57	2.57
Sources of funds	436.71	286.05	327.76	376.43	437.50
Gross block	212.66	227.66	236.77	283.02	337.79
Accumulated Depreciation	73.36	83.90	97.72	118.10	141.75
Net block	139.29	143.75	139.05	164.92	196.04
Capital WIP	10.02	8.19	25.43	34.09	38.79
Investments	0.00	0.00	0.00	0.00	0.00
Inventories	230.65	243.35	285.86	317.87	353.08
Sundry debtors	150.73	81.77	104.38	133.78	153.10
Cash and bank balance	75.00	41.10	87.75	80.04	74.99
Other current assets	10.65	0.92	4.97	5.72	6.25
Loans and advances	42.53	31.52	27.64	34.30	37.49
Total current assets	509.56	398.66	510.60	571.70	624.91
Current liabilities and provisions	222.17	264.55	347.32	394.28	422.24
Net current assets	287.40	134.11	163.28	177.42	202.67
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	436.71	286.05	327.76	376.43	437.50

Ratios

Particulars	FY13	FY14	FY15	FY16E	FY17E
Return on Net worth	13.80	6.30	12.20	15.20	16.39
Return on Capital employed	15.75	8.54	16.78	20.27	21.73
Debt/Equity	0.61	0.00	0.07	0.07	0.07
Asset turnover	1.52	1.60	1.64	1.65	1.73
Current Ratio	2.29	1.51	1.47	1.45	1.48
Book value per share	182.40	190.91	209.20	240.80	280.84
Interest coverage	3.61	4.01	9.37	12.52	13.91

Consolidated Quarterly Financial Highlights

Rs. Crore

Particulars	Q1FY16	Q1FY15	Q4FY15	YoY%	QoQ%
Revenues	383.16	338.56	321.54	13.17	19.16
Expenditures	340.57	303.21	300.88	12.32	13.19
Operating Profit	42.59	35.35	20.66	20.48	106.15
Adjusted Net Profit	29.06	23.42	12.74	24.08	128.10
OPM%	11.12	10.44	6.43	6.46	72.94
NPM %	7.58	6.92	3.96	9.64	91.41
Adjusted EPS	20.07	16.17	8.80	24.08	128.07

Past Price movement of the stock



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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
1. Analyst Ownership of the Stock	No
2. Hem & its Group Company Ownership of the Stock	Yes
3. Hem & its Group Companies' Director Ownership of the Stock	Yes
4. Broking relationship with company covered	No

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