

Target : Rs 353
CMP :RS 256
FY20E PE 8.7x
Index Details

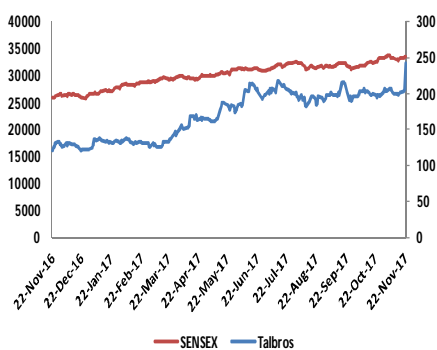
Sensex	33,679
Nifty	10,389
Industry	Auto Ancillary

Scrip Details

BVPS (₹)	115
O/s Shares (Cr)	1.23
52 week range (₹)	119- 268
Mktcap(₹ inCr)	317
FVPS (₹)	10.0

Shareholding Pattern

Shareholders	(Post) %
Promoters	56.6
Public	43.4
Total	100.0

Talbro vs. Sensex


After a period of consolidation, Talbro Automotive Components Ltd (Talbro) is all set to resume its high growth trajectory. The introduction of heat shields and export orders from new client additions to its forgings business augurs well for revenue visibility over the medium term. Further its JVs are also expected to contribute positively. We expect revenues to grow at a 14% CAGR from Rs 328.8 crore in FY17 to Rs 487.1 crore in FY20. EBITDA is expected to grow by 16.5% CAGR from Rs 40.8 crore in FY17 to Rs 64.5 crore in FY20. The earnings (including the share of profit in joint ventures) are set to grow at a faster CAGR of 33.5% from Rs 15.3 crore in FY17 to Rs 36.4 crore in FY20.

Notwithstanding the fact that EVs are a threat to its business, we do not see the impact of the EVs coming into play prior to CY 2023. We initiate coverage on Talbro as a BUY with a price objective of Rs 353, representing a potential upside of 38% over a period of 24 months.

Our optimism stems from the following.

- Talbro is a market leader in the gasket segment and accounts for 38% of the total market share. Taking into account the revival of the automotive industry, this segment is set to grow at a CAGR of 11% to Rs 355 crore by FY20. Introduction of heat shields and increased focus on the aftermarket segment will help it achieve high growth over the coming period.

Key Financials (Rs in Cr)

Y/E Mar	Net Revenue	EBITDA	Adj. PAT	EPS (₹)	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (x)	EV / EBITDA (x)
2016	310.1	40.3	9.6	7.8	-31.8	7.6	12.2	32.9	10.4
2017	328.8	40.8	15.3	12.4	59.4	11.3	11.9	20.7	10.2
2018E	364.4	45.5	19.3	15.7	26.5	13.2	12.8	16.3	9.0
2019E	411.8	53.7	28.0	22.7	44.6	17.0	15.0	11.3	7.4
2020E	487.1	64.5	36.4	29.5	30.1	18.7	17.0	8.7	6.1

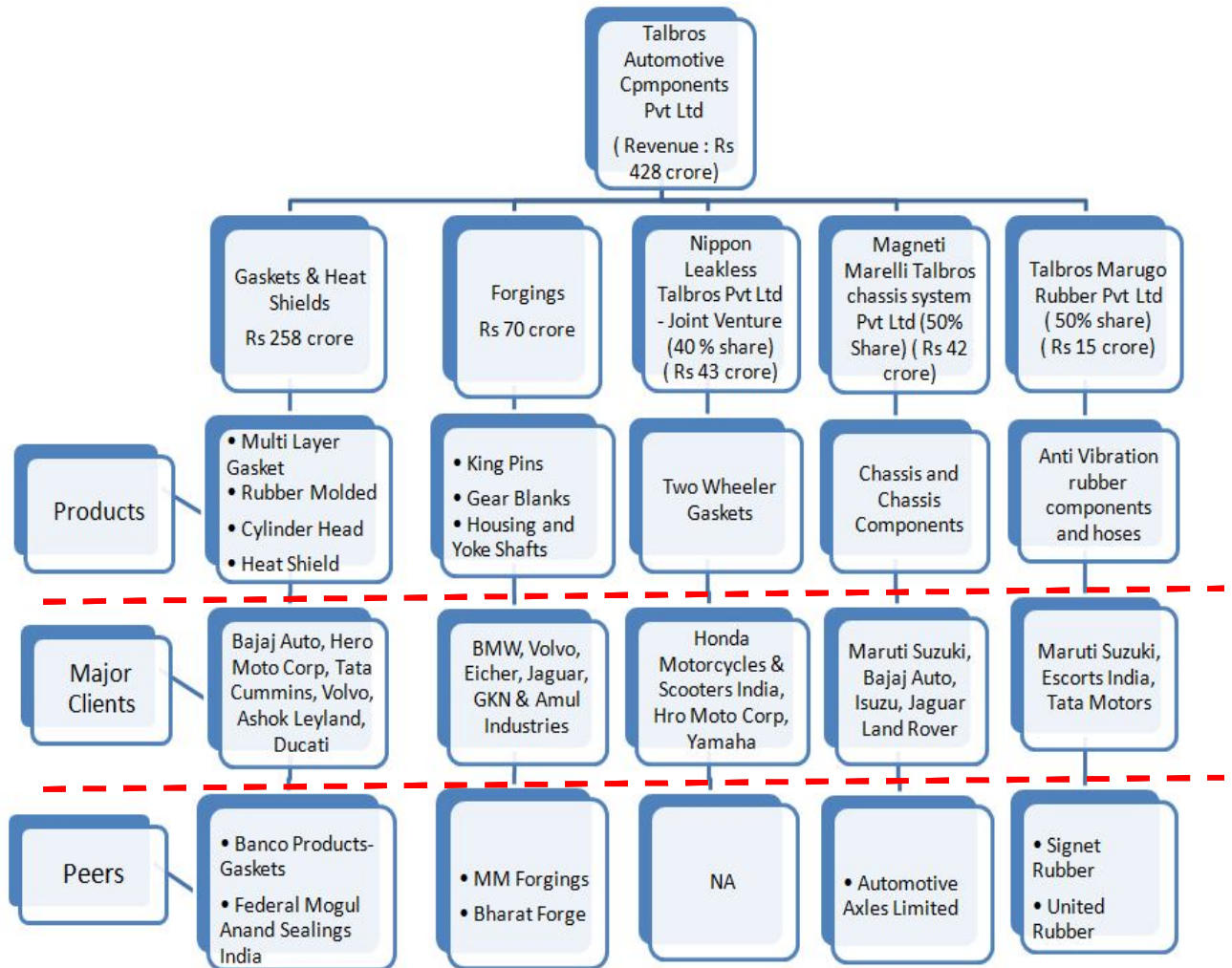
Monday, 27th November, 2017

- **Forgings segment of the company will see a boost on account of new orders from the international OEMs. The revenues from this segment are expected to grow at a CAGR of 24% to Rs 132 crore by FY20.**
- **Talbros Marugo rubber JV is expected to turn PAT positive from FY18 and along with Nippon Leakless and Magnetti Marelli JV, all the three JVS should help boost the profitability of the company.**
- **Currently, the stock trades at 8.7x of its forward earnings of FY20E. We have assigned a PE of 12x to the EPS for the year ending March, 2020 to arrive at our target price of Rs 353 which represents a potential upside of 38%.**

❖ Company Background

Talbro Automotive Components Ltd was established in the year 1956 to manufacture Automotive & Industrial Gaskets in collaboration with Coopers Payen of UK. Its product portfolio and various partnerships are displayed as under.

Product offerings of Talbro



Source: Company, Ventura Research

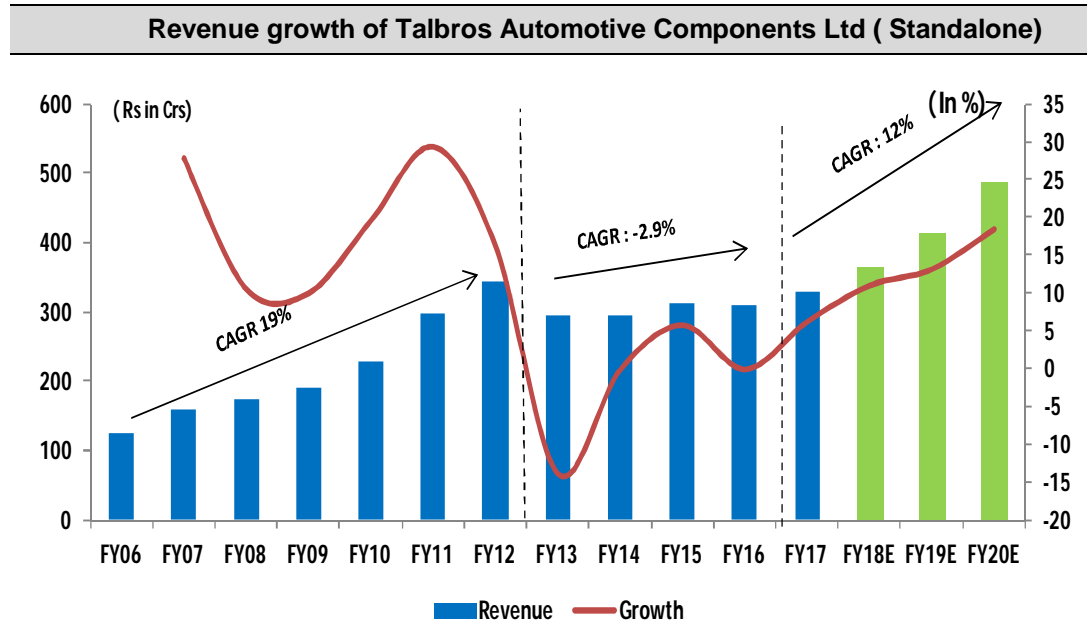
❖ **Strong Clientele and growing overseas presence.**

Talbro's 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.

Product offerings of Talbro's Automotive Components Ltd				
2 Wheeler	Passenger	HCV/LCV	Agri & Off Loader	Exports
      	       	         	       	           

Source: Company, Ventura Research

❖ **After a period of consolidation, high growth trend to resume.**



Source: Company, Ventura Research

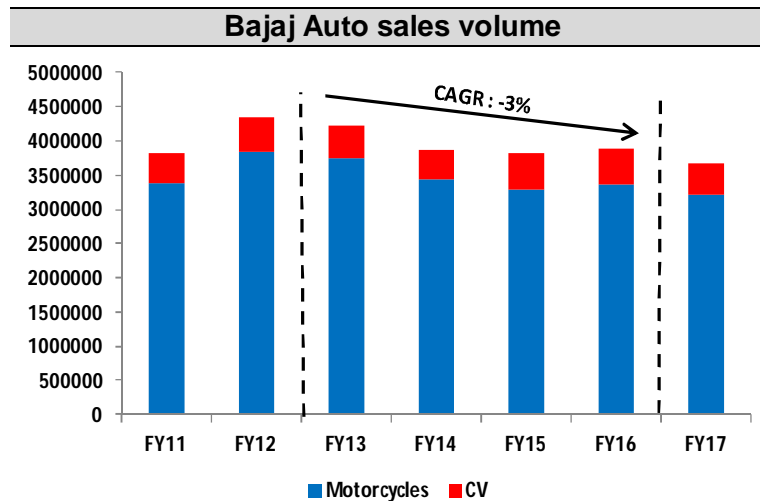
Over the period FY2006-2012, the company had grown at a brisk CAGR of 19% to Rs 343 crore in FY 2012 driven by strong demand for gaskets and a foray into the forging vertical in 2005. Over the period 2012-2016, the company roped in strategic business partners to grow the business and diversified into the allied auto components space.

Joint Ventures of Talbros				
JV Name	JV Partner	Year	Talbros share	Products
Nippon Leakless Talbros Pvt Ltd	Nippon Leakless Corporation (Japan)	2005	40	2 wheeler gaskets
Magneti Marelli Talbro Chassis System Pvt Ltd	Sistemi Sospensioni SPA (Italy)	2012	50	Chassis and chassis componenets
Talbros Marugo Rubber Pvt Ltd	Marugo Rubber Industries (Japan)	2014	50	Anti vibration products and hoses

Source: Company, Ventura Research

Post formation of the JVs, despite introduction of new products, the business of the company had stagnated on account of several factors. The reasons are enumerated below. The gasket business was severely impacted due to the following.

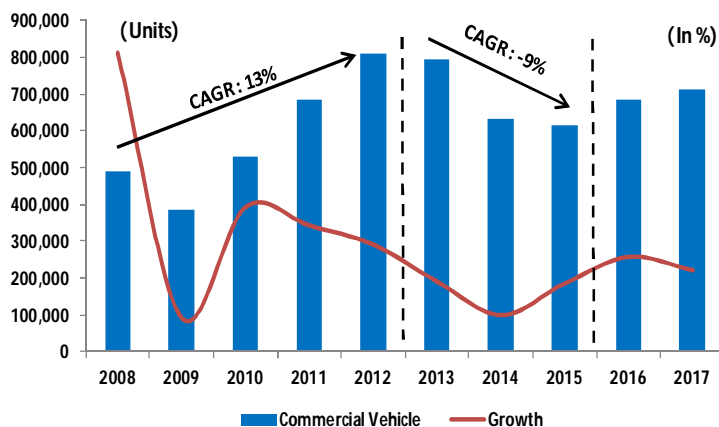
- Post transfer of the entire business of HMSI and ~70% of Hero Motocorp, the business in the standalone entity came down sharply. Bajaj Auto was the only 2 wheeler player remaining and its poor performance during the period FY12-16 further de-grew revenues.



Source: Company, Ventura Research

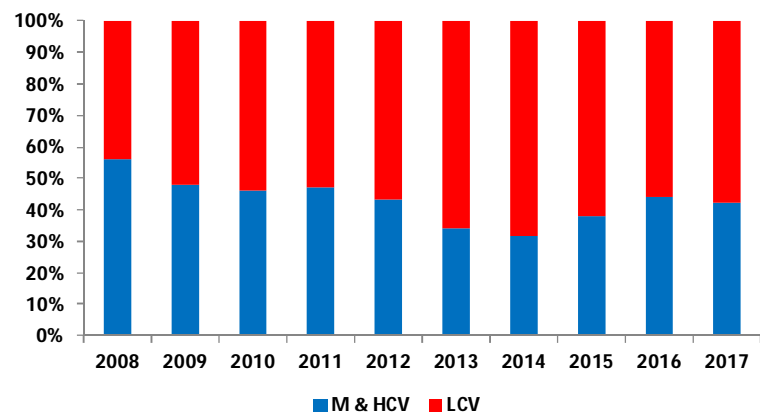
- Further in the after-market segment, gaskets experienced challenging times due to a down trend in the auto market
- CV industry too experienced one of the worst decelerations during the period FY2012-16 with CV sales de-growing at a CAGR of 9%. This impacted the company's volume sharply. The situation was further accentuated as the company took a strategic decision to shut down its Chennai facility and as a result of this, business from its client Ashok Leyland was discontinued.

Commercial Vehicle Industry Volume and growth



Source: Company, Ventura Research

Commercial Vehicle Industry Volume – segment wise



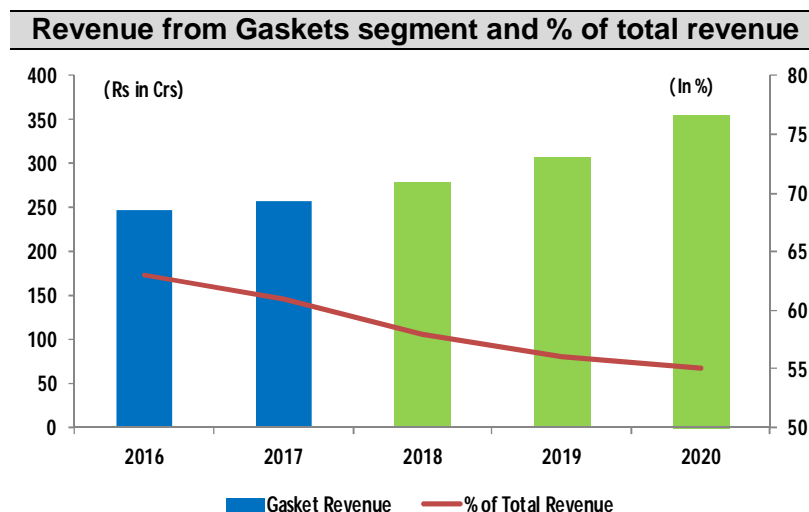
Source: Company, Ventura Research

- Transfer of the entire chassis business to Magnetti Marelli worth Rs 34 crore led to lower consolidated sales by Rs 12-15 crore (impact of consolidation being 50% in the JV).
- Similarly, transfer of anti vibration rubber products and hoses business to the JV with Marugo Rubber worth Rs 6 crore also had an impact of lowering revenue. In fact, this JV is still struggling to establish a foot hold.

Notwithstanding the macro factors affecting the company's performance, the margins have remained stable in the range of 12% to 14%. However we believe that the business is now at an inflexion point and that the revival in demand should catapult Talbros to a high growth trajectory. We expect revenues to grow at a CAGR of 14% to Rs 487 crore by FY20 from Rs 328 crore clocked in FY17 driven by:

Gasket business to resume growth trajectory

Gasket sales are expected to grow at a CAGR of 11% to Rs 355 crore by FY20 from Rs 258 crore in FY17 on the back of the following.



Source: Company, Ventura Research

- With a market share of 38% in the gaskets segment, Talbros is the market leader in the two-wheeler, agri & off loaders and CV segment. It is thrice the size of the nearest competitor, Banco Gaskets (India) Ltd.
- Gaskets business is set to be driven by strong OEM sales (~60-65% of the gasket segment) on new orders from Ashok Leyland, Tata Cummins and Volvo in the CV gasket segment. The company is also in talks with

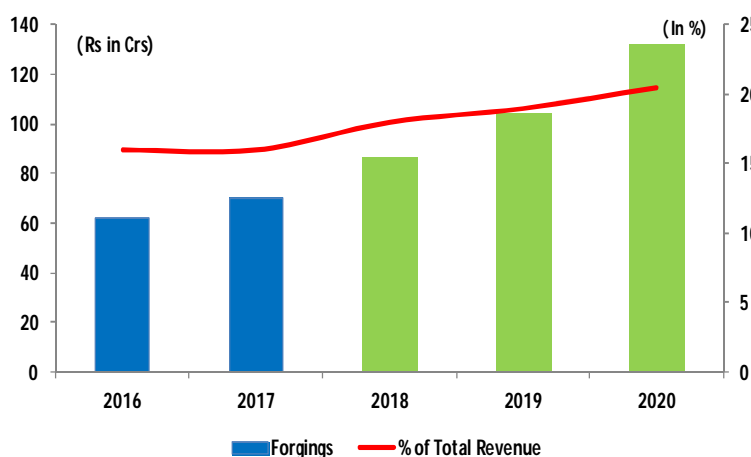
General Electric, Maruti Suzuki and Honda with a focus to further diversify its client base.

- The company continues to enjoy its strong hold over the two wheeler industry with an enviable market share of 92% (served by both standalone and JV). The prime clients in the standalone two wheeler gasket segment include Bajaj Auto and Hero Moto Corp.
- Exports which account for 13-15% of the total segmental revenue, is set to improve to 20-25% as the company has been able to attract new OEMs which includes two wheeler giants- Ducati and farm equipment manufacturers Kubota Japan & Kubota Thailand.
- Incremental demand for heat shields which are being developed under a technical licensing agreement with SANWA Packaging will lead to increased contribution for the company. Its main clients for heat shield are Volvo Mexico, Daimler India and Volvo.
- The government preponing the implementation of BS VI to April 2018 for the NCR region augurs well for the demand of the heat shield portfolio.
- The after market segment is all set to grow as post GST the turf has become extremely attractive.

Addition of marquee global OEMs to leap frog the forgings business

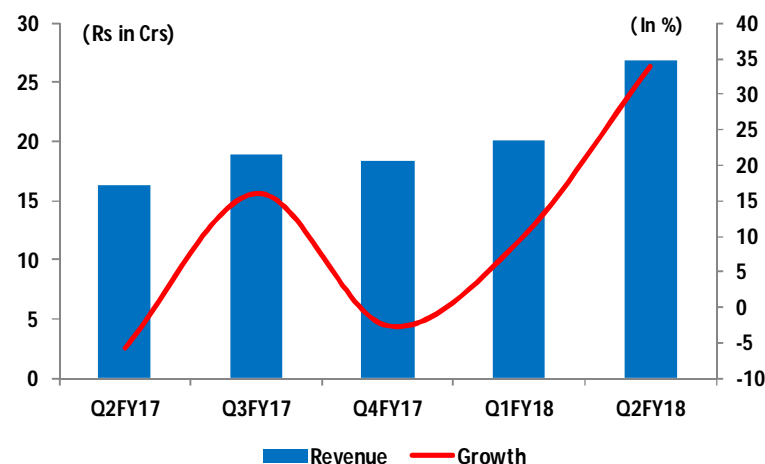
Forgings revenues are expected to grow at a CAGR of 24% to Rs 132 crore by FY20 from Rs 70 crore clocked in FY17 on the back of the following.

Revenue from Forgings segment and % of total revenue



Source: Company, Ventura Research

Quarterly revenue from Forgings segment

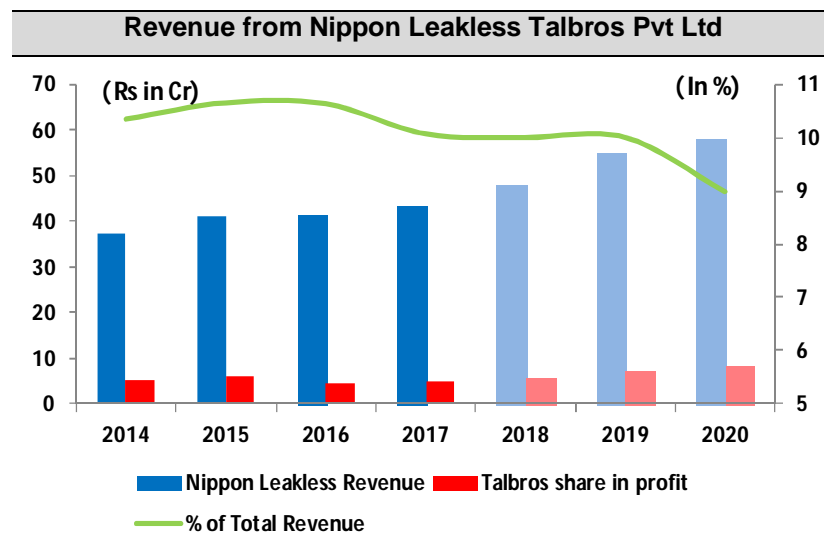


Source: Company, Ventura Research

- Talbros has added marquee international players to its impressive client list viz BMW, Volvo, Jaguar, Eicher, GKN and also Amul Industries. This should drive sales of the forgings business
- Exports accounts for almost 60-65% of the revenue from the segment.
- Talbros is a stop solution for Hot Forgings (750-1600 ton press).

JVs to experience positive traction

Nippon Leakless Talbros Pvt Ltd



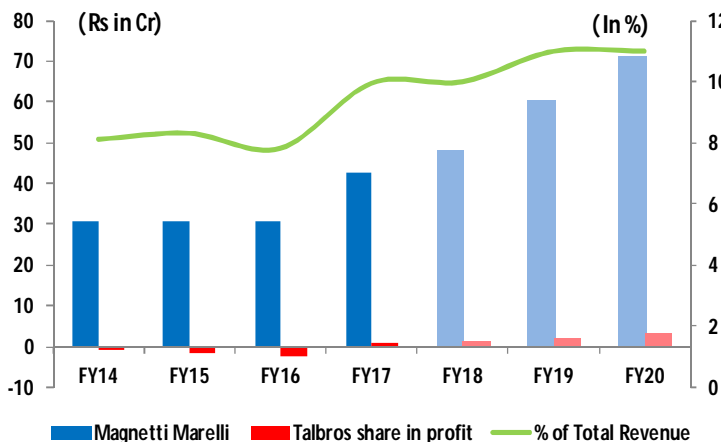
Source: Company, Ventura Research

Nippon Leakless Talbros Private Limited is a (60:40) joint venture between Nippon Leakless Corporation (NLK) Japan and Talbros. Globally, the NLK group supplies to leading OE vehicle and motorcycle manufacturers such as Honda, Suzuki and Yamaha worldwide.

The JV entity is the sole supplier of gaskets to HMSI (due to the relationship of the global OEM manufacturer with its JV partner NLK) and together with the standalone gasket division, it commands a staggering 92% market share in the Indian two wheeler gasket industry. With the increasing market share of HMSI in the Indian market, the JV is all set to grow by leaps and bounds. We expect the revenues from this JV to grow at a CAGR of 10% to Rs 58 crore by FY20 from Rs 43 crore clocked in FY17.

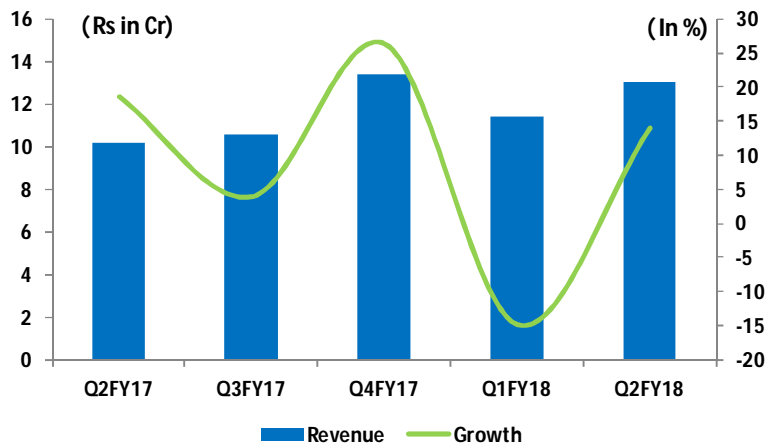
Magnetti Marelli Talbros Chassis Systems Pvt Ltd

Revenue from Magnetti Marelli JV and % of total revenue



Source: Company, Ventura Research

Quarterly revenue from Magnetti Marelli



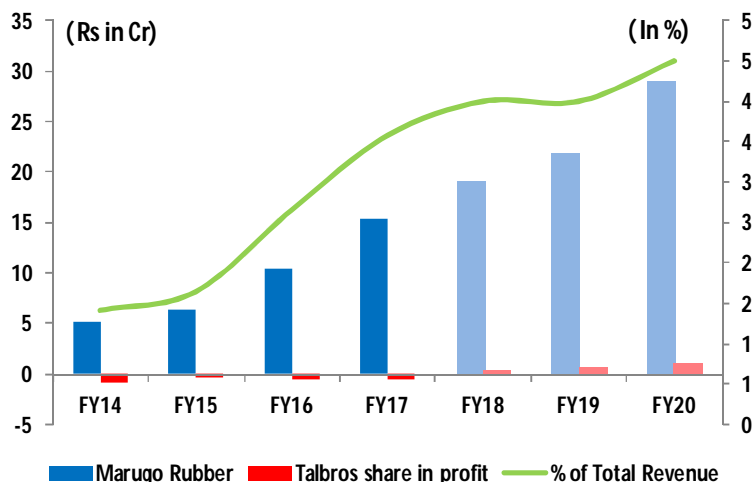
Source: Company, Ventura Research

Magnetti Marelli Talbros Chassis Systems Pvt. Ltd., a (50:50) joint venture between Sistemi Sospensioni S.p.A., Italy and Talbros manufactures chassis components like Control Arm, Steering, Knuckle, Front Cross Member, Rear Twist Beam Axle, Wheel Group and Semi Corner Module Assemblies for automotive applications.

The main clients of the JV are Maruti Suzuki (serves more than 50% of its control arm and chassis components requirement), Mahindra and Mahindra, Bajaj Auto, Tata Motors, Isuzu and recently they have added Jaguar Land Rover to this impressive list. This JV is expected to grow its revenues at a 18% CAGR to Rs 71 crore by FY20 from Rs 42 crore clocked in FY17.

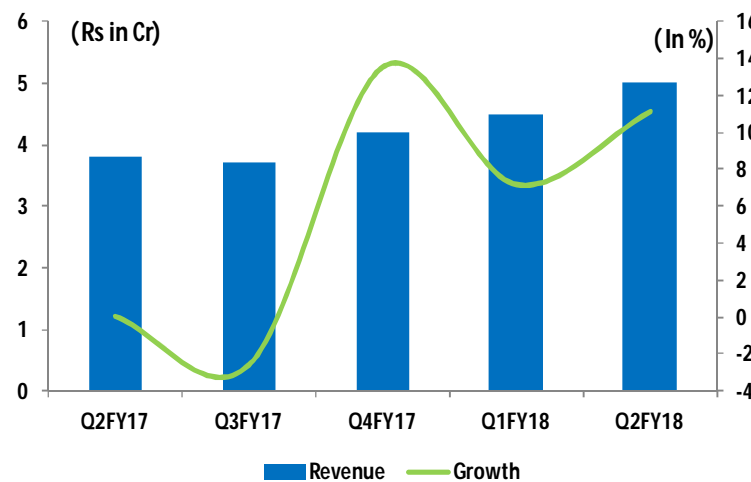
Talbro's Marugo Rubber Pvt Ltd

Revenue from Marugo Rubber JV and % of total revenue



Source: Company, Ventura Research

Clear uptrend visible



Source: Company, Ventura Research

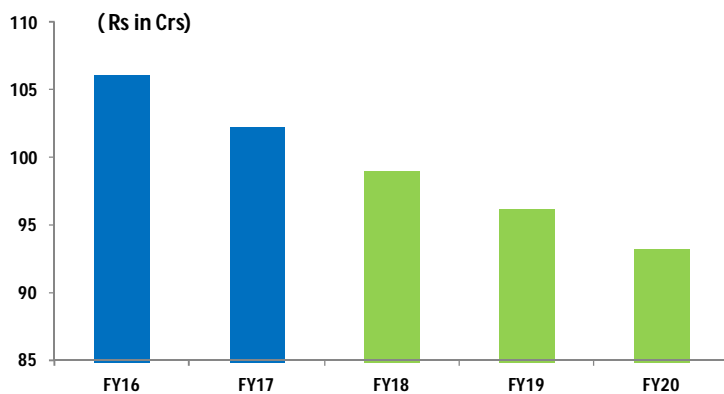
Talbro's Marugo Rubber Ltd is a (50:50) joint venture between Marugo rubber industries and Talbro's. It manufactures hoses and anti-vibration rubber products for clients like Maruti Suzuki (with whom they have a large share of business), QH Talbro's, Endurance Technologies, Rane (Madras) Ltd, Escort India, TATA Motors.

This joint venture was suffering from acceptability of its products and had taken a hit following the ban of diesel vehicle in Delhi NCR. However, things are set to change for the better on the back of new order wins from Maruti Suzuki, Honda and Daimler. This provides long-term revenue visibility and the company should turn PAT positive from FY18. Revenues attributable to the JV are expected to grow at a CAGR of 24% to Rs 29 crore by FY20 from Rs 15 crore clocked in FY17.

Debt servicing to ease up

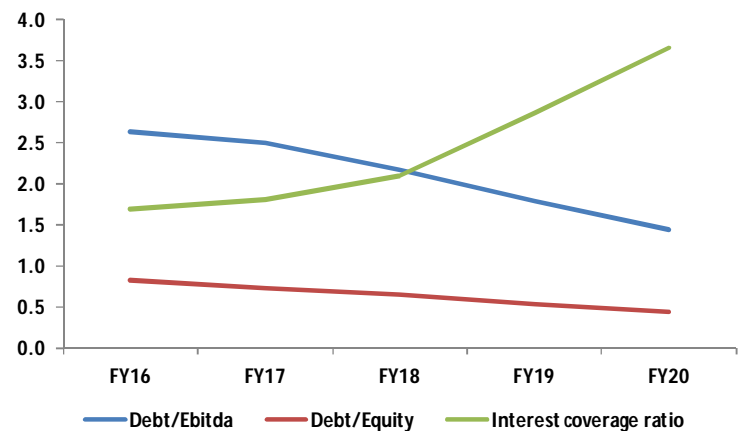
The current capacity across businesses is ample to cater to the growth over the medium term and hence we do not expect significant capex going forward. Further, indigenous manufacture of raw material required for gasket production is expected to lower imports. This would lead to reduction of working capital requirements to Rs 35-40 crore from Rs 70 crore by FY20. Consequently, we expect the debt to come down marginally to Rs 93.2 crore by FY20 from the current levels of Rs 102 crore. This should lead to the D/E ratio improving drastically to 0.4x by FY20 from the current 0.8x (aided by 50% growth in the net worth to Rs 210 crore by FY20 from Rs 140 crore recorded in FY17).

Debt



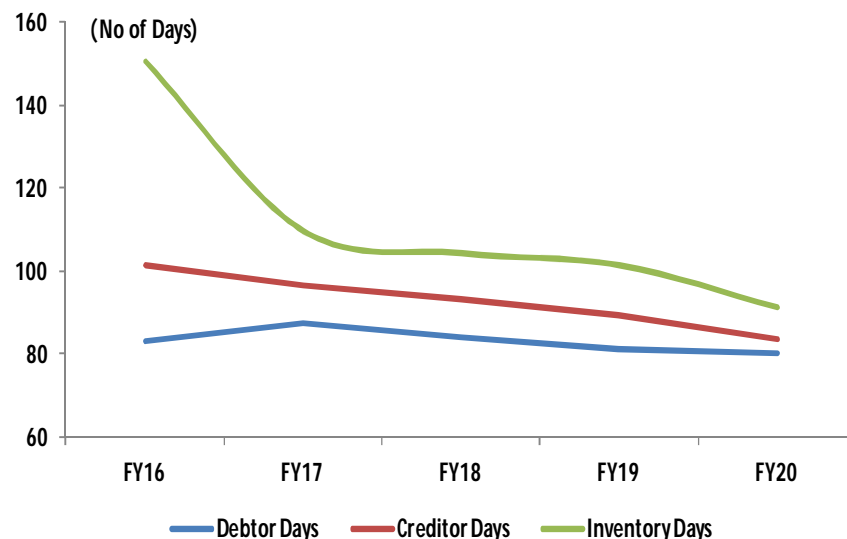
Source: Company, Ventura Research

Debt ratios



Source: Company, Ventura Research

Working Capital cycle to improve on lower imports



Source: Company, Ventura Research

❖ Financial Performance

In Q2FY18, Talbros reported a robust growth of 26% in the top line from Rs 80 crore in Q2FY17 to Rs 100.8 crore in Q2FY18. The EBITDA of the company increased from Rs 9.2 crore to Rs 10.7 crore in Q2FY18. In spite of this, EBITDA margin fell by 80 bps from 11.3% in Q2FY17 to 10.5% in Q2FY18.

Recent quarter saw an uptick in the contribution of the joint ventures in the overall profitability of the company. The share of profits added to the consolidated statement of profit rose from Rs 1.3 crore in Q2FY17 to Rs 2.2 crore in Q2FY18. On an annual basis, this share rose from Rs 2 crore in FY16 to Rs 6.9 crore in FY17. The profit after tax of the company increased from Rs 4.4 crore in Q2FY17 to Rs 7.9 crore in Q2FY18.

Financial Performance (Rs in Crore)						
Description	Ind AS		Indian GAAP		FY17	FY16
	Q2FY18	Q2FY17	Q2FY18	Q2FY17		
Profit & Loss						
Revenue	100.8	80.0	131.4	106.2	328.8	310.1
Growth	26%		24%		6%	
Other Income	0.8	1.1	1.5	2.2	9.9	6.4
Total Income from operations	101.8	81.1	133.1	108.4	338.7	316.5
Total Expenditure	90.9	71.9	116.9	95.0	297.8	276.2
% of Sales	90.2%	89.9%	88.9%	89.5%	90.6%	89.1%
Ebitda	10.7	9.2	16.0	13.3	40.8	40.3
Ebitda Margin	10.5%	11.3%	12.2%	12.5%	12.4%	13.0%
Interest	3.5	3.7	3.7	4.0	15.8	16.6
Depreciation	3.5	3.1	4.2	3.8	12.3	12.0
Share of profit before profit/loss of JV	3.7	2.3	8.1	5.5	12.8	11.7
Share of profits from JV	2.2	1.3	0.0	0.0	6.9	2.0
PBT(After exceptional items)	5.9	3.7	8.1	5.5	19.7	13.7
PBT Margin	5.8%	4.6%	6.2%	5.2%	6.0%	4.4%
Tax	1.1	0.6	2.3	1.4	4.4	4.1
Extraordinary items (Net of tax)	2.2	0.0	2.2	0.0	0.0	0.0
Other comprehensive income	1.0	1.4	0.0	0.0	0.0	0.0
PAT	7.9	4.4	8.0	4.1	15.3	9.6
PAT Margin	7.8%	5.4%	5.9%	3.1%	4.7%	3.1%

Source: Company, Ventura Research

❖ Key Risks

1) Growing focus on electric vehicles

With the growing share of electric vehicles, the company may find itself in a spot of bother when the government starts promoting them aggressively in the country. In our opinion, the full blown impact will come post 2023.

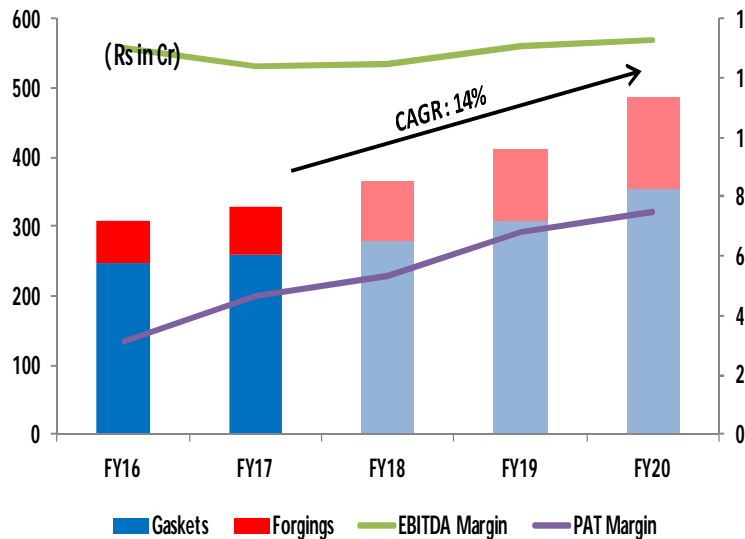
2) Performance of joint Ventures

Until now, the recently formed JVs – Magnetti Marelli and Marugo Rubber underperformed as they struggled to find firm footing in the industry. The overall growth of the company depends on the contribution made to the bottom-line by these JVs.

❖ Financial Outlook

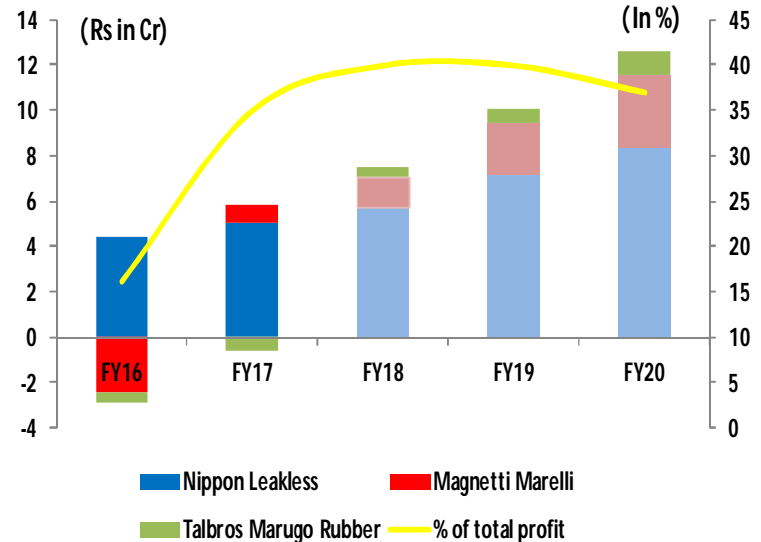
The revenues of the company had remained sluggish for the period FY13-16 and saw a revival in the year FY17 (on account of increasing contributions by the joint ventures and foray into the overseas market). We expect the revenue of the company to grow at a CAGR of 14% from Rs 328.8 crore in FY17 to Rs 487.1 crore in FY20. Further the EBITDA and PAT margins are expected to expand from 12.4% and 5% in FY17 to 13.3% and 7% respectively by FY20.

Revenue Growth



Source: Company, Ventura Research

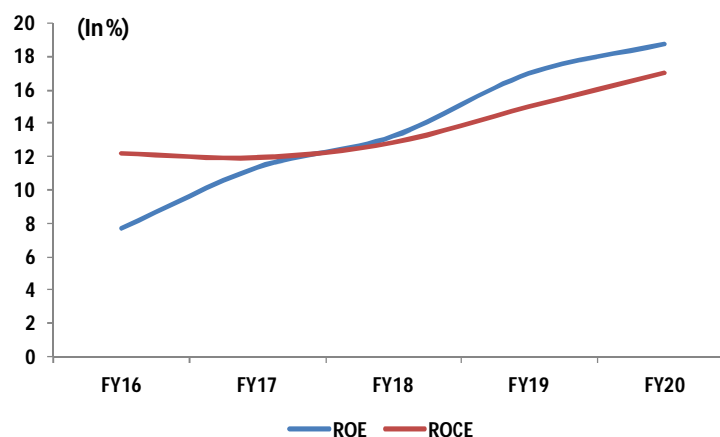
Profit share in the JVs



Source: Company, Ventura Research

Return ratios ROE and ROCE are set to improve by 740 bps and 510 bps from 11.3% and 11.9% in FY17 to 18.7% and 17.0% respectively by FY20.

Vastly improving return ratios



Source: Company, Ventura Research

This should help improve valuations as the growth story unfolds.

❖ Valuation

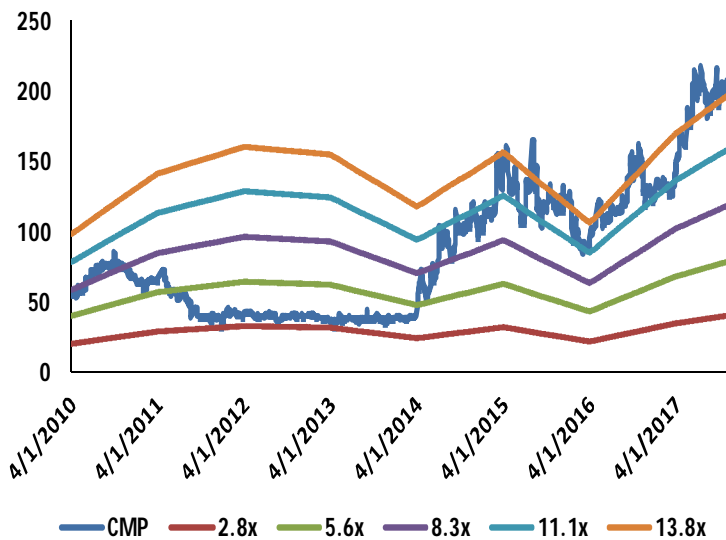
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❖ Peer Comparison

Financial Performance (Rs in Crore)												
Y/E March	Market Cap (Rs Cr)	Sales	EBITDA	PAT	EBITDA Margin (%)	PAT Margin (%)	ROE (%)	ROCE (%)	P/E (x)	P/BV (x)	EV/ EBITDA (x)	Debt/ Equity
Talbros												
2016	317	310.1	40.3	9.6	13.0	3.1	7.6	12.2	32.9	1.9	10.4	0.8
2017		328.8	40.8	15.3	12.4	4.7	11.3	11.9	20.7	1.8	10.2	0.7
2018E		364.4	45.5	19.3	12.5	5.3	13.2	12.8	16.3	1.6	9.0	0.6
2019E		411.8	53.7	28.0	13.1	6.8	17.0	15.0	11.3	1.4	7.4	0.5
2020E		487.1	64.5	36.4	13.3	7.5	18.7	17.0	8.7	1.2	6.1	0.4
Banco Products (I) Ltd												
2016	1745	1204.3	146.3	89.9	12.5	7.1	13.8	17.8	18.9	1.2	4.6	0.1
2017		1299.1	143.3	94.8	12.9	7.0	13.3	18.9	14.3	2.2	8.9	0.0
2018E		1528.2	201.7	135.2	13.2	8.9	15.9	21.1	12.5	1.7	6.5	0.0
2019E		1693.2	214.2	144.7	12.7	8.5	15.3	20.6	11.8	1.5	5.8	0.0
Lumax Autotech												
2016	831	905.2	68.4	34.2	7.7	3.5	12.6	17.5	13.4	1.5	6.0	0.1
2017		1012.3	70.7	38.4	7.9	3.5	12.8	17.5	19.7	2.1	7.8	0.1
2018E		1100.0	101.5	50.7	9.2	4.6	15.1	15.8	13.3	1.9	6.4	0.1
2019E		1273.3	121.7	62.0	9.6	4.9	16.3	17.3	10.9	1.7	5.2	0.1

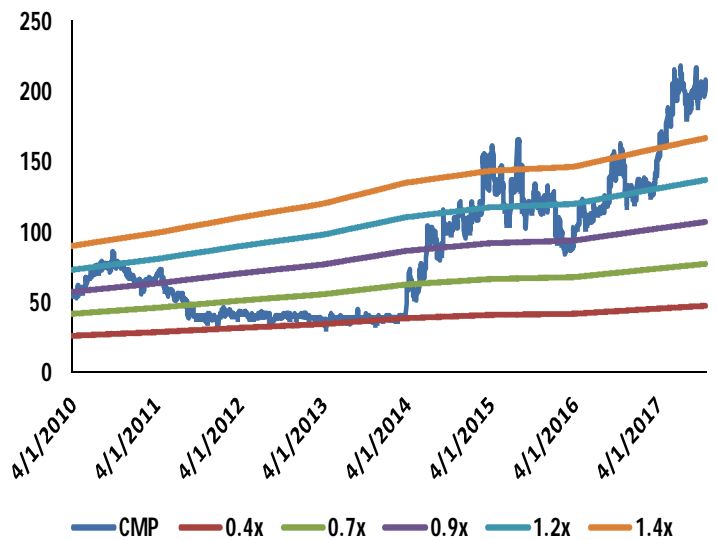
Source: Company, Ventura Research

Talbro's PE trend



Source: Company, Ventura Research

Talbro's PB trend



Source: Company, Ventura Research

Financials and Projections

Y/E March, Fig in ` Cr	FY16	FY17	FY18E	FY19E	FY20E	Y/E March, Fig in ` Cr	FY16	FY17	FY18E	FY19E	FY20E
Profit & Loss Statement						Per Share Data (Rs)					
Net Sales	310.1	328.8	364.4	411.8	487.1	Adj. EPS	7.8	12.4	15.7	22.7	29.5
% Chg.		6%	11%	13%	18%	Cash EPS	17.5	22.4	26.9	34.4	42.0
Total Expenditure	276.2	297.8	329.5	370.2	436.4	DPS	1.5	1.5	1.5	1.5	1.5
% Chg.		8%	11%	12%	18%	Book Value	104.6	114.2	123.4	143.7	170.9
EBDITA(ex OI)	33.9	31.0	34.9	41.6	50.7	Capital, Liquidity, Returns Ratio					
Other Income	6.4	9.9	10.6	12.1	13.9	Debt / Equity (x)	0.8	0.7	0.6	0.5	0.4
EBITDA (In OI)	40.3	40.8	45.5	53.7	64.5	Current Ratio (x)	1.1	1.0	1.0	1.1	1.2
EBITDA %	13.0%	12.4%	12.5%	13.1%	13.3%	ROE (%)	7.6	11.3	13.2	17.0	18.7
Depreciation	12.0	12.3	13.8	14.4	15.4	ROCE (%)	12.2	11.9	12.8	15.0	17.0
Interest	16.6	15.8	15.0	13.7	13.4	Valuation Ratio (x)					
Exceptional items						P/E	32.9	20.7	16.3	11.3	8.7
PBT	11.7	12.8	16.7	25.6	35.7	P/BV	1.9	1.8	1.6	1.4	1.2
Share of Profits from JV	2.0	6.9	9.8	13.3	16.3	EV/Sales	1.4	1.3	1.1	1.0	0.8
Tax Provisions	4.1	4.4	7.2	10.9	15.6	EV/EBIDTA	10.4	10.2	9.0	7.4	6.1
Reported PAT	9.6	15.3	19.3	28.0	36.4	Efficiency Ratio (x)					
PAT Margin (%)	3%	5%	5%	7%	7%	Inventory (days)	150	110	104	101	91
RM to Sales (%)	57%	54%	56%	55%	55%	Debtors (days)	83	87	84	81	80
Tax Rate (%)	30%	22%	27%	28%	30%	Creditors (days)	99	101	97	93	89
Balance Sheet						Cash Flow Statement					
Share Capital	12.3	12.3	12.3	12.3	12.3	Profit Before Tax	13.7	19.8	26.5	38.9	52.0
Share warrant	0.0	0.0	0.0	0.0	0.0	Depreciation	12.0	12.3	13.8	14.4	15.4
Reserves & Surplus	116.8	128.6	140.0	165.1	198.6	Working Capital Changes	-8.8	4.8	1.5	-9.8	-7.0
Borrowings	106.1	102.2	99.0	96.2	93.2	Others	10.8	9.7	7.9	2.8	-2.2
Long Term Provision	3.1	3.0	3.4	3.4	3.4	Operating Cash Flow	30.0	47.5	49.7	46.3	58.3
Other Non Current Liabilities	0.2	0.2	0.1	0.1	0.1	Capital Expenditure	-8.8	-21.9	-15.3	-10.2	-4.9
Total Liabilities	238.6	246.4	254.9	277.1	307.6	Other Investment Activities	4.3	2.9	1.7	0.0	-25.0
Gross Block	171.3	209.1	224.3	234.5	239.5	Cash Flow from Investing	-4.5	-19.0	-13.6	-10.2	-30.0
Less: Acc. Depreciation	79.1	90.3	102.6	118.0	134.4	Changes in Capital & Reserves	0.0	0.0	1.0	1.0	1.0
Net Block	92.7	120.4	121.8	116.7	105.1	Changes in Borrowings	-25.6	-23.6	-37.4	-26.1	-27.8
Non current Investments	33.7	38.1	45.6	55.2	66.6	Dividend & DDT	-2.7	-2.7	-2.9	-2.9	-2.9
Deferred Tax Assets (Net)	-9.5	-6.5	-6.0	-6.0	-6.0	Cash Flow from Financing	-28.4	-26.3	-39.3	-28.0	-29.8
Long term Loans & Advances	12.2	10.4	9.6	9.6	9.6	Net Change in Cash	-2.81	2.16	-3.28	8.16	-1.41
Net Current assets	109.5	83.8	83.8	101.8	132.3	Opening Cash Balance	3.6	4.1	9.3	6.0	14.1
Total Assets	238.6	246.4	254.9	277.1	307.6	Closing Cash Balance	4.1	9.3	6.0	14.1	12.7

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