

Stock Update

Talbros Automotive Components Ltd.

February 19, 2024





Talbro Automotive Components Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 285	Buy in Rs 283-288 band & add on dips in Rs 250-255 band	Rs 313	Rs 343	2-3 quarters

HDFC Scrip Code	TALAUTEQNR
BSE Code	505160
NSE Code	TALBROAUTO
Bloomberg	TALB IN
CMP Feb 16, 2024	284.9
Equity Capital (Rs cr)	12.4
Face Value (Rs)	2.0
Equity Share O/S (cr)	6.2
Market Cap (Rs cr)	1772
Book Value (Rs)	76.6
Avg. 52 Wk Volumes	191,000
52 Week High (Rs)	347.0
52 Week Low (Rs)	77.0

Share holding Pattern % (Dec, 2023)	
Promoters	58.4
Institutions	0.1
Non Institutions	41.5
Total	100.0



**HDFCsec Retail research
stock rating meter**

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Talbro Automotive Components Ltd. (TACL) manufactures gaskets and forgings products which are used across the automobile industry as well as in the industrial segment. India's domestic automobile demand is expected to remain strong including in the CV and tractor/off-road segments over the medium term, with some hiccups. The Government is also looking to promote manufacturing of auto components in India by offering various incentives. TACL has established relationships with globally reputed companies.

With continuous innovation in new products like heat shields, strengthening EV portfolio, growing orders from non-automotive segments, strong clientele, and manufacturing E20 biofuel hoses, TACL is likely to achieve strong growth. It is aiming to double its group level revenue to Rs 2,100cr by FY27 led by increasing exports and strong order booking. TACL has made substantial investment in new technologies, expanding new capacities, diversified its product portfolio, broadened its customer base, and has entered additional markets.

In FY24, TACL has received orders to the tune of ~Rs 980 crores across our products segments. Amongst these, orders worth ~Rs. 475 crores are for supply to EVs and orders worth ~ Rs. 415 crores are related to exports. These orders are expected to be executed in coming 5 years

On June 26, 2023, we had released a Stock Update report ([Link](#)) with a recommendation to 'Buy in Rs 715-735 band & add on dips in Rs 645-660 band' (pre stock split from Rs 10 to Rs 2) for base case fair value of Rs 800 and bull case fair value of Rs 850 over next 2-3 quarters. Both the targets were achieved within the given time frame.

Valuation & Recommendation:

We expect TACL's Revenue/PAT to grow at 20%/31% CAGR over FY23-FY26E, led by strong growth in CV and off-road/tractor segment and realization from the recent order wins. We believe investors can buy the stock in the band of Rs 283-288 and add on dips in Rs 250-255 band (12.5x FY26E EPS) for a base case fair value of Rs 313 (15.5x FY26E EPS) and bull case fair value of Rs 343 (17x FY26E EPS) over the next 2-3 quarters.



Financial Summary

Particulars (Rs cr)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Revenues	199	159	25.4	194	2.4	647	786	947	1,127
EBITDA	30	23	34.4	28	8.1	87	115	141	170
APAT	23	14	65.5	20	13.6	56	81	98	124
Diluted EPS (Rs)	18.4	11.1	65.5	16.2	13.6	9.0	13.1	15.9	20.2
RoE (%)						18.8	22.4	22.2	22.9
P/E (x)						31.6	21.8	17.9	14.1
EV/EBITDA (x)						21.1	15.8	12.7	10.2

(Source: Company, HDFC sec)

Q3FY24 Result Update

TACL posted another quarter of strong results in Q3FY24 driven by strong performance in both gaskets and forgings segment. Revenue increased 25% YoY to Rs 199cr. Gasket/Forging division reported 26%/27% increase in revenue to Rs 130/71 crore respectively. Gasket JV with Nippon Leakless reported 22% growth in revenue to Rs 26cr on account of lower 2W volumes. Marelli Talbro (chassis) and Talbro Marugo witnessed growth of 25% and 42% YoY respectively to Rs 69cr and Rs 29cr.

Gross margins declined 20bps due to higher material prices. However, increased operating leverage resulted in EBITDA growth of 34% to Rs 30cr and EBITDA margin expanded 100 bps to 15.3%. Adj. PAT came in at Rs 23cr, a growth of 65% YoY while PAT margin expanded 270bps to 11.4%. Gross debt at the end of H1FY24 including working capital stood at Rs 85cr.

The management has guided for group sales target of Rs 2,100cr by FY27, of which 35% will be from export. This will come from the U.S., the U.K., Europe as well as Japan.

Recent developments

Divestment of JV stake

The company has divested its entire 40% stake in its joint venture company Nippon Leakless Talbro. Following the stake sale, Nippon Leakless will become the sole proprietor, holding 100% of the company. As part of this transaction, TACL is set to realise Rs 81.8 crore for its 40% equity stake, valuing the joint venture company at Rs 204.5 crore. The company has invested Rs 33.3cr in the JV. TACL intends to utilise the proceeds for its future capex and expansions.



Strong order inflows continue in FY24

TACL reported in Jul'23 that the company has received multi-year orders worth Rs 400cr (executed over a period of next 5-7 years) and in Nov'23 of Rs 580cr (executed over a period of 5 years commencing from FY25). In FY23, the company secured multi-year orders exceeding Rs 1,000cr from both domestic and international customers across its product segments, joint ventures, and business divisions covering the company's product lines, including gaskets, heat shields, forgings, and chassis. The new orders will enable TACL to expand market share by serving both existing and new customers across different geographies.

Key Triggers

Expansion programme to double revenues by FY27

Talbro has devised an expansion plan 'Talbro 2.0' with the aim to double its revenues to Rs 2,200cr by FY27. Under the plan, the company intends to increase its export sales from 25% in FY23 to ~35% in FY27, expand EBITDA margins by 100-200bps and have set its sights on crossing the 20% RoCE in the coming years. Most of the capex would be funded through internal accruals and total debt would be maintained below Rs 100cr. Increasing focus on EV is expected to increase its revenue share to ~12% from 2% currently.

Future capex to be funded largely through internal accruals

Talbro has planned for a capex of Rs 205cr over the next 4 years to expand its manufacturing facilities in order to meet the anticipated increase in order flows in both its gaskets and forgings business as well as in subsidiaries. It is planning to invest approximately Rs 60cr in forging division in next four years starting FY24 for adding personal machining and presses.

Auto sales to improve going forward

According to Crisil Research, growth across the automobile sector segments could level off in FY24 as the base effect of last fiscal wanes. Commercial vehicle sales are expected to drive past pre-pandemic levels in FY24 along with passenger vehicles, which did so in FY23, and tractors, which recorded an all-time high in pandemic-impacted fiscal 2021. Two-wheelers will continue to lag as the hike in their total cost of ownership (TCO) has been much sharper than for passenger vehicles.

The automotive sector is expected to take a V-turn next financial year (2024–25, or FY25) as all vehicle categories step on the gas. Passenger vehicle (PV) sales are projected to increase by 4-6% in FY25, following an expected increase of 6–8% this financial year (2023–24, or FY24). Two-wheeler sales should grow by 7-9% in FY25, after 9-11% growth in FY24, fuelled by a recovery in motorcycle sales and pent-up replacement demand.

Commercial vehicle (CV) sales growth is projected at 4-6% in FY24 and 3-5% in the next, driven by increased government spending and demand for replacement vehicles. Assuming a normal monsoon, translating into healthy reservoir levels and positive farmer sentiment,

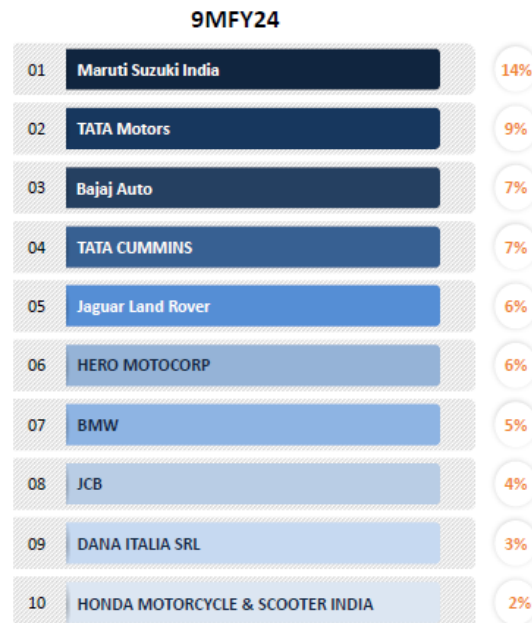
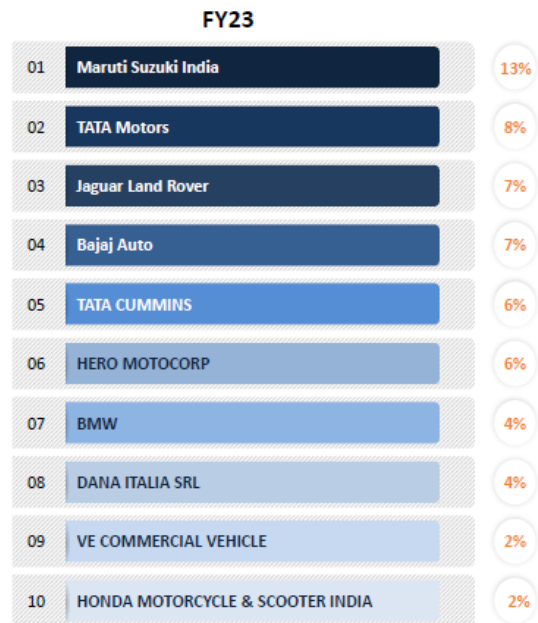
domestic tractor sales are expected to grow by 5-7% on-year in FY25. Implementation of scrappage policy could also help. Growing demand and the resultant rise in operating leverage is likely to boost profitability of auto ancillary companies like Talbro.

Entering into new geographies and launching new products

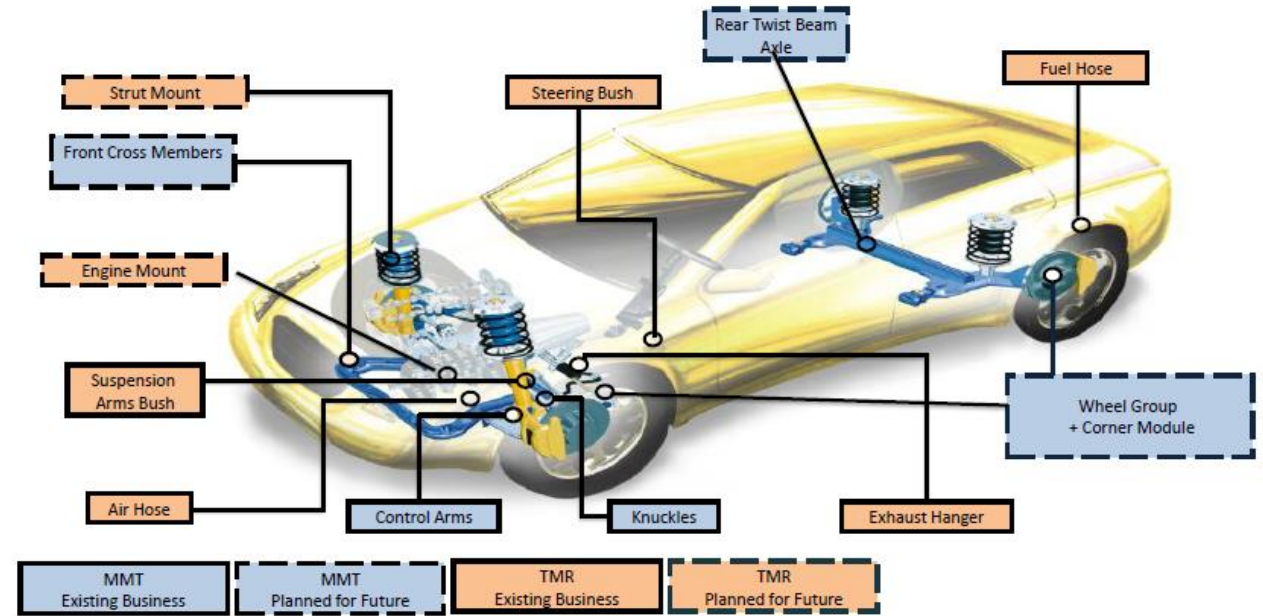
The company is entering into new geographies like Russia, Japan, for LCV, HCV and offroad segment products. In the forging division, it is leveraging its capability to convert castings into forgings and increasing focus on electric vehicles. It has also added heavyweight parts up to 30 kilos and looking to expand its exports to geographies like U.K., North America.

Talbro has signed up exclusive contract with SANWA for Light Weight Aluminium Heat Shields which is used for automotive applications specially in PV segment and is a futuristic product technology. In forging, it is moving towards heavier forged parts. With the launch of new products, share of PVs is expected to increase from 2% currently to ~11% in FY27.

Diversified customer base



Scope of JVs



(Source: Company)



Risks & Concerns

Working capital intensive nature of operations

Since TACL is in the auto ancillary industry, its operations are working capital intensive in nature. The group needs to maintain inventory of around 3-4 months as it manufactures 3,500 varieties of gaskets requiring 40 types of raw materials. Around 30% of these raw materials are imported from Germany, US and Japan, such imports demanding 1-2 months' lead time.

Raw material inflation

Cost of raw materials – primarily iron and steel – accounts for around 50%-60% of total operating income. Global prices for iron and steel are volatile thereby exposing the group to price risk.

Bargaining power with OEMs

TACL has limited bargaining power with OEM and at times not been able to pass on the entire increase in costs which has impacted its margins. The company is in negotiations with OEMs which might not materialize in company's favour in time.

Vulnerable to cyclicity in demand from automobile OEMs

TACL supplies its products primarily to automobile OEMs and is exposed to cyclicity in demand for automobiles. CV and tractor sales could see a slowdown in the near term.

Forex volatility risk

TACL derives ~25% of its revenue through export of its products. It hedges ~25-30% of its forex exposure. The rupee fluctuations vis-à-vis the US\$ and Euro could impact its profitability.

EV adoption could render many products obsolete

Large scale adoption of EV could render many of the company's products obsolete as gaskets are not required to the same extent in EVs.

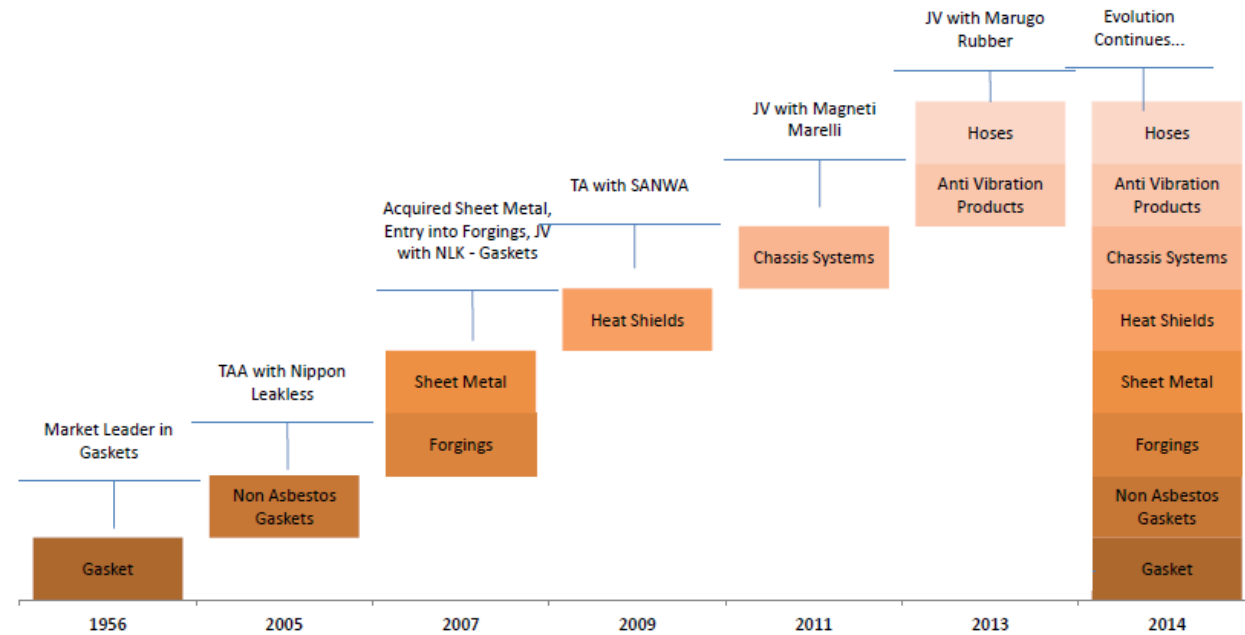
Company Background:

TACL is a respectable name in the Automotive and Industrial Gaskets manufacturing space. Commencing its journey in 1956, it has been successfully carving out a space for itself in products such as gaskets, heat shields, forgings, suspension systems and modules, anti-vibration components and hoses, directly supplying finished products to OEM customers. In FY23 OEMs accounted for 63% of revenue and exports contributed to ~25%. Amongst vehicle segment 2/3 wheelers, passenger cars and M&HCV constitute 22/26/28% of sales in FY23 with the balance from Agri & Offroad and others



With diversified products, TALC caters to the largest automobile OEM segment, which includes passenger vehicles, commercial vehicles, two-wheelers, three-wheelers, Agri, offroad, industrial, among others.

Evolving product portfolio

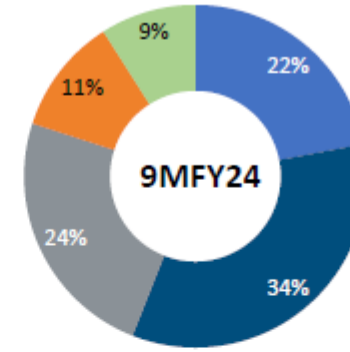
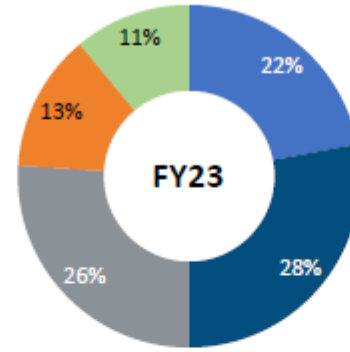
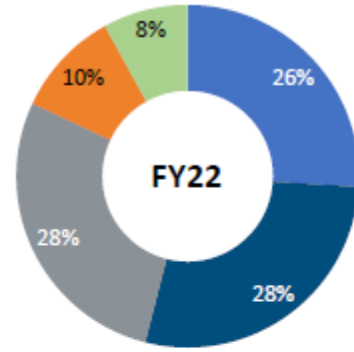


(Source: Company)

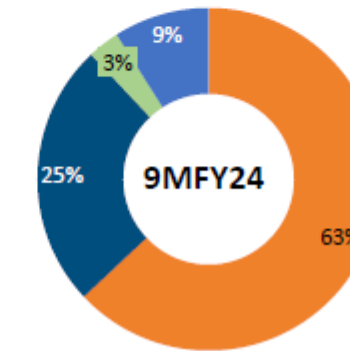
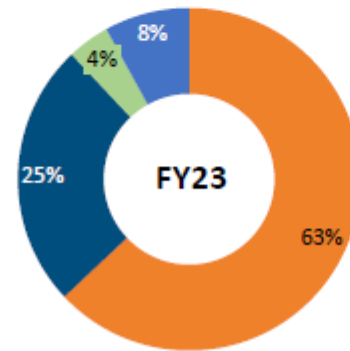
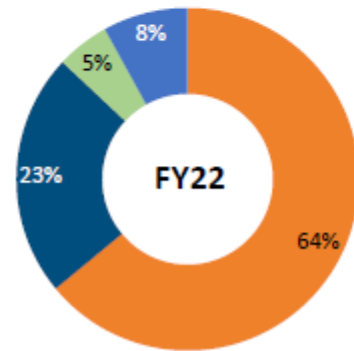
Talbro's multi-technological capabilities and integrated offerings combined with its product quality and strategic partnership with global brands such as Nippon Leakless Talbro Pvt. Ltd (now exited), Marelli Talbro Chassis Systems Pvt. Ltd. and Talbro Marugo Rubber Pvt. Ltd. has made it a preferred vendor for large corporates in and outside India.



Revenue split



- 2 & 3 Wheelers
- Passenger Vehicle
- HCV & LCV
- Agri & Off Loaders
- Others

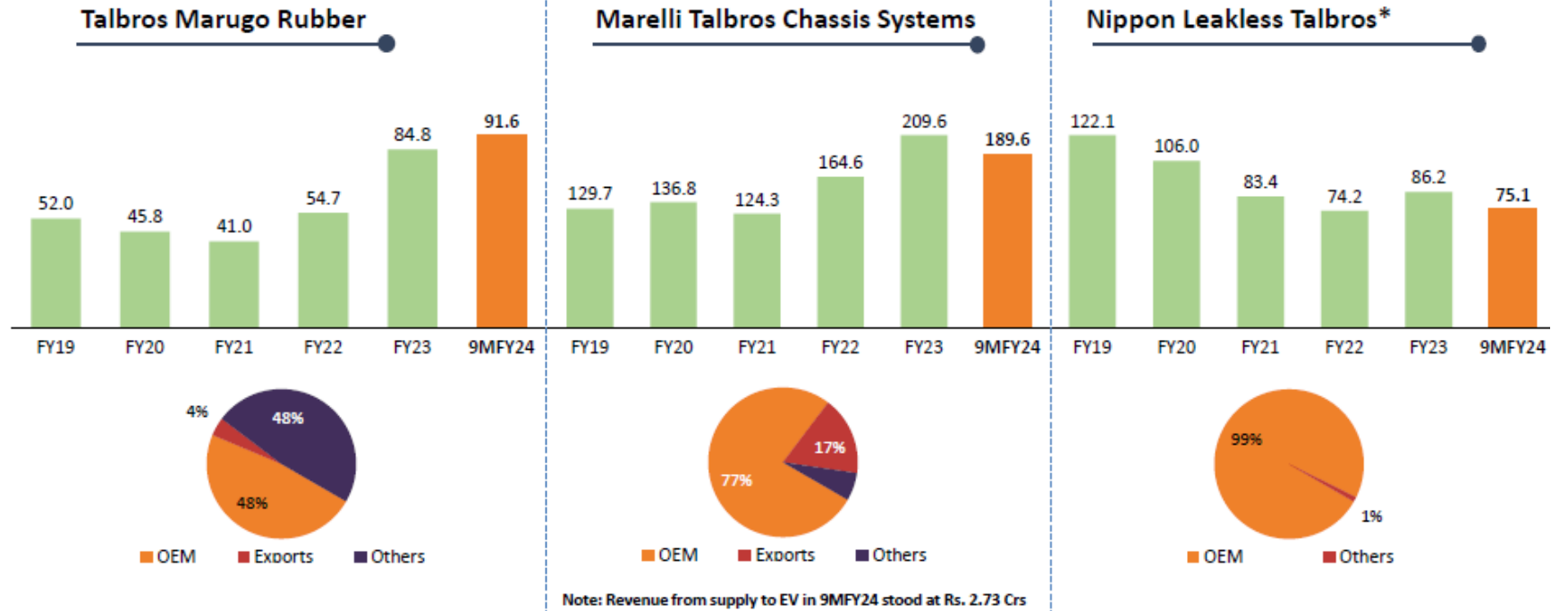


- OEM
- Exports
- After Market
- Others

(Source: Company, HDFC sec)



JV's Performance Highlights



* Divested in Jan'24

(Source: Company)



Talbro Automotive Components Ltd.

Financials (Consolidated)

Income Statement

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	577	647	786	947	1127
Growth (%)	30.0	12.1	21.5	20.4	19.1
Operating Expenses	502	560	672	806	957
EBITDA	75	87	115	141	170
Growth (%)	35.6	15.6	31.5	22.8	20.7
EBITDA Margin (%)	13.1	13.5	14.6	14.9	15.1
Depreciation	23	24	28	31	34
Other Income	8	6	9	11	14
EBIT	60	70	97	122	150
Interest expenses	12	11	15	10	8
PBT	49	58	130	111	142
Tax	11	15	26	28	36
PAT	37	44	104	83	106
Share of Asso./Minority Int.	8	12	15	15	19
Adj. PAT	45	56	81	98	124
Growth (%)	14.6	23.9	45.0	21.7	26.9
EPS	7.3	9.0	13.1	15.9	20.2

Balance Sheet

As at March (Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	12	12	12	12	12
Reserves & Surplus	256	310	385	476	588
Shareholders' Funds	268	322	397	488	600
Minority Interest	0	0	0	0	0
Total Debt	89	87	78	61	41
Net Deferred Taxes	11	15	15	15	15
Other Non-curr. Liab.	0	1	1	1	2
Total Sources of Funds	369	425	491	565	657
APPLICATION OF FUNDS					
Net Block & Goodwill	157	171	184	205	228
CWIP	3	5	10	8	6
Investments	64	81	91	106	126
Other Non-Curr. Assets	9	9	10	13	15
Total Non Current Assets	233	266	295	332	375
Inventories	114	133	159	187	216
Debtors	151	169	203	241	284
Cash & Equivalents	5	8	11	6	16
Other Current Assets	32	35	41	48	56
Total Current Assets	303	344	414	482	571
Creditors	153	169	194	226	262
Other Current Liab & Provisions	14	17	23	23	27
Total Current Liabilities	167	186	217	249	289
Net Current Assets	136	158	197	233	282
Total Application of Funds	369	425	491	565	657



Talbro Automotive Components Ltd.

Cash Flow Statement

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
PBT	56	70	145	126	160
Non-operating & EO items	-7	-13	-40	-3	-2
Interest Expenses	11	11	15	10	8
Depreciation	23	24	28	31	34
Working Capital Change	-13	-21	-35	-41	-40
Tax Paid	-18	-15	-26	-28	-36
OPERATING CASH FLOW (a)	52	57	87	95	125
Capex	-32	-38	-45	-50	-55
Free Cash Flow	20	18	42	45	70
Investments	0	0	-10	-15	-20
Non-operating income	6	1	0	0	0
INVESTING CASH FLOW (b)	-25	-37	-55	-65	-75
Debt Issuance / (Repaid)	-11	-2	-9	-18	-20
Interest Expenses	-12	-11	-15	-10	-8
FCFE	3	6	8	2	22
Share Capital Issuance	0	0	0	0	0
Dividend	-4	-3	-6	-7	-12
Others	0	0	0	0	0
FINANCING CASH FLOW (c)	-27	-16	-29	-35	-40
NET CASH FLOW (a+b+c)	0	3	3	-5	10

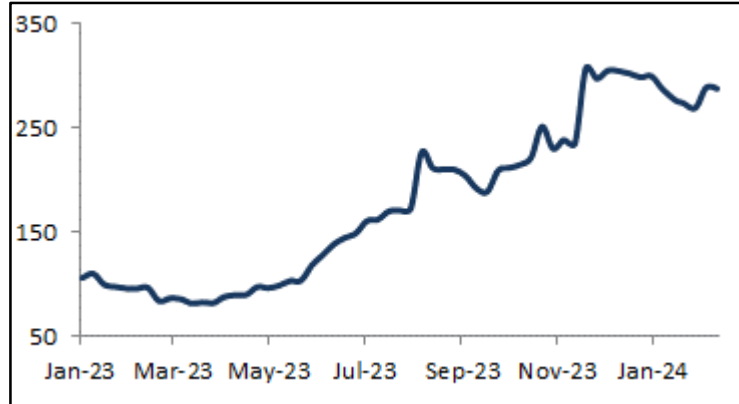
Key Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratios (%)					
EBITDA Margin	13.1	13.5	14.6	14.9	15.1
EBIT Margin	10.4	10.8	12.3	12.9	13.3
APAT Margin	7.8	8.6	10.2	10.4	11.0
RoE	17.4	18.8	22.4	22.2	22.9
RoCE	17.5	18.2	21.9	23.8	25.2
Solvency Ratio (x)					
Net Debt/EBITDA	1.1	0.9	0.6	0.4	0.1
Net D/E	0.3	0.2	0.2	0.1	0.0
PER SHARE DATA (Rs)					
EPS	7.3	9.0	13.1	15.9	20.2
CEPS	11.0	12.8	17.5	20.9	25.7
BV	43.5	52.2	64.3	79.0	97.2
Dividend	0.5	0.6	0.9	1.2	2.0
Turnover Ratios (days)					
Inventory days	97	90	86	86	85
Debtor days	68	70	68	67	65
Creditors days	96	91	84	81	79
VALUATION (x)					
P/E	39.2	31.6	21.8	17.9	14.1
P/BV	6.6	5.5	4.4	3.6	2.9
EV/EBITDA	24.4	21.1	15.8	12.7	10.2
EV/Revenues	3.2	2.8	2.3	1.9	1.5
Dividend Yield (%)	0.2	0.2	0.3	0.4	0.7
Dividend Payout (%)	6.9	6.7	6.9	7.6	9.9



Talbro Automotive Components Ltd.

Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



Talbro's Automotive Components Ltd.



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