



**SHRIRAM PISTONS & RINGS LTD.**

SHINING STAR SERIES

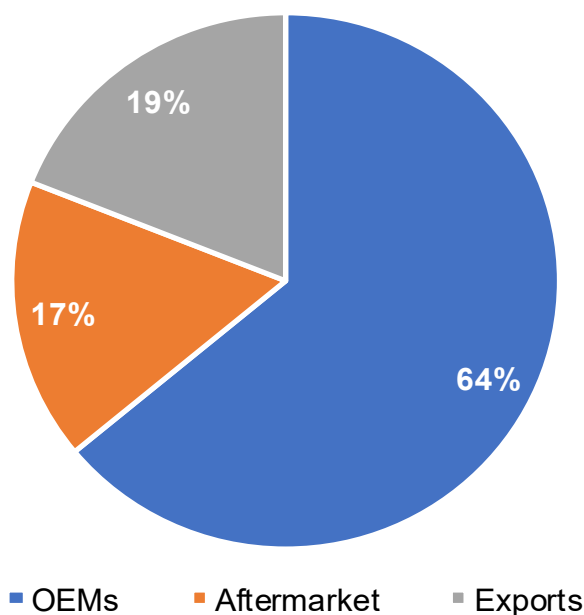
## Investment Thesis

- ⇒ Core product portfolio and R&D prowess to drive performance
- ⇒ Evolving global landscape in ICE provides further headroom for growth
- ⇒ Well-rounded approach by enhancing EVs and powertrain-agnostic technology capabilities through inorganic route
- ⇒ Multiple drivers in place for robust financial performance going ahead

## Company Background

Incorporated in 1972, Shriram Pistons and Rings Ltd. (SPRL) is a prominent producer of pistons, piston rings, and engine components within the automotive sector. Its operational reach extends to both domestic and international markets, servicing over 45 countries and maintaining a network of more than 1,200 touchpoints in India to facilitate aftermarket operations. SPRL operates manufacturing facilities in Ghaziabad (Uttar Pradesh) and Pathredi (Rajasthan), where it undertakes the production of pistons, piston pins, piston rings, and engine valves. The company has a facility in Coimbatore (Tamil Nadu) for manufacturing electric motors and motor controllers, Neemrana (Rajasthan) for the design and manufacturing of precision injection molded components, and is in the process of setting up a new manufacturing facility at Pithampur (Madhya Pradesh). Boasting a heritage spanning over five decades, the company has solidified its position as a pivotal entity in the realm of piston and related component manufacturing, commanding approximately 40-45% market share in core product categories across various segments. Additionally, SPRL's exposure to diversified industry segments as well as the replacement and export markets offset the risk arising from feeble demand from a particular sector or customers.

### 9MFY24: Revenue profile



Source: Company Reports, BP Equities Research

## Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

## Sector Outlook

Positive

## Stock

CMP (Rs.)	1,960
Target Price (Rs.)	2,392
BSE code	-
NSE Symbol	SHRIPISTON
Bloomberg	SPRL IN
Reuters	SHIE.NS

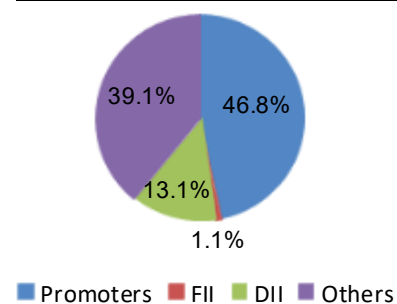
## Key Data

Nifty	22124
52 Week H/L (Rs.)	2,392 / 949
O/s Shares (Mn)	44
Market Cap (Bn)	83.2
Face Value (Rs.)	10

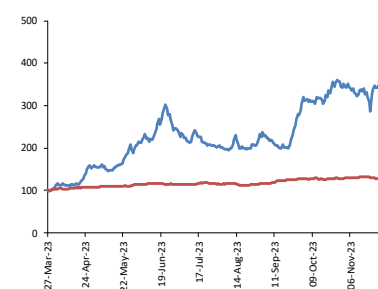
## Average volume

3 months	254,520
6 months	180,590
1 year	96,670

## Share Holding Pattern (%)



## Relative Price Chart



## Research Analyst

Dhruv Mudaraddi

dhruv.m@bpwealth.com  
022-61596158

# Shriram Pistons and Rings Ltd.

Product portfolio as on 31st December, 2023

## Shriram Pistons and Rings Ltd.

Products	Types	Surface Treatment
<b>Pistons and Piston Pins</b>	Thin Walled Piston, Forged piston, Cooling Gallery piston, DLC coated Pins, Lite KS Piston, Gasoline TGD Piston	Hard Anodizing on Crown and Groove, LofriKS, MoS2 Coating, Tin Plating, Graphatizing, Bonderising
<b>Piston Rings</b>	Ion Plated Rikvent Oil Ring, Semi Inlaid Keystone Ring, Reverse Torsion Ring, Drilled Hole and Taper Land Oil Ring, GN Steel Oil Ring, Intermediate Ring, Napier Steel Ring	RNS - M Coating, Physical Vapour Deposition (PVD), Composite Plating of Chrome (CPC), Plasma Inlaid Moly Coating, Gas & Salt Nitriding (GN), Inlaid Chrome Coating, Chrome Plating, Parkerizing
<b>Engine Valves</b>	<b>Features:</b> Seat Stellite, Seat Hardening, Friction Welding, Chip Welding, Tip Satellite, Tip Hardening	Chrome Planting, Tufftriding, Arcor Coating
<b>Electric Motors and Motor Controllers (EMFi)</b>	BLDC Hub and Inner Rotor Motors, Motor Controllers	-
<b>Precision Injection Moulded Parts</b>	Fuel Pump Unit Parts, Gear for Electric Power Steering, Headlamp Levelling Actuator, ECU Housing, Brake Fluid Reservoir, Engine Colling Unit Parts	-
<b>Others</b>	Cylinder Liners, Crankshafts, Connecting Rods, Cylinder Heads, Filters, Gaskets	-

## Customers across segments

Domestic OEMs	Global OEMs
<b>Passenger Vehicles:</b> Ford, Honda, M&M, Maruti Suzuki, Renault, Tata Motors, Isuzu	<b>PVs:</b> Renault, Jaguar, Land Rover, BMW Motorrad, Volkswagen,
<b>Two/Three Wheelers:</b> Bajaj Auto, HMCL, HMSIL, SMIL, TVS, Yamaha, Kawasaki, Royal Enfield, Classic Legends	<b>2W:</b> Honda, SWM
<b>Commercial Vehicles:</b> Ashok Leyland, Daimler, M&M, Isuzu, Tata Motors, Tata Cummins, VECV	<b>CVs:</b> IVECO FPT, JCB, Fuso,
<b>Tractors:</b> M&M, Mahindra Swaraj, CNH, International Tractors, Tafe, Escorts, John Deere, Mitsubishi	<b>Tractors:</b> Kubota
<b>Industrial Applications:</b> Kirloskar Oil Engines, ZF India, Yamaha Engines	<b>Industrial Applications:</b> Perkins Caterpillar, Cummins, Rotax, Yanmar, Agco, VM Motori

Source: Company Reports, BP Equities Research

# Shriram Pistons and Rings Ltd.

## Investment Rationale

### Core product portfolio and R&D prowess to drive performance

SPRL, with a legacy spanning over five decades, has established itself as a powerhouse in the automotive industry, specializing in pistons, piston pins, piston rings, and engine valves. Its extensive experience and expertise has led to a dominant market position, capturing approximately 40-45% of the domestic market share across its core products. SPRL has solidified its footprint in the industry by diversifying its reach across various end-user sectors, including two/three-wheelers, passenger vehicles, commercial vehicles, off-highway vehicles, railways, and defense. Notably, the company maintains robust partnerships with leading OEMs, contributing significantly to its revenue, with around 64% generated through these collaborations in FY23. In addition to its strong domestic presence, SPRL has emerged as a key player in the global market, serving esteemed clients such as Perkins, Fiat Powertrain, Cummins, Yanmar, BMW, Daimler, and Kubota. As the foremost exporter of pistons and rings from India, SPRL's global reach underscores its prowess in delivering quality products to international markets. SPRL's commitment to innovation is evident through its efforts to develop solutions for alternative, environment-friendly IC engine options like CNG and hydrogen. With over 90% market share in CNG solutions and advanced testing underway for hydrogen options, SPRL is poised to cater to evolving market demands while also enhancing content-per-vehicle (CPV) ratios.

The company's technological prowess is reinforced by strategic collaborations with global partners, some dating back to 1965. These partnerships, coupled with SPRL's in-house research and development capabilities, enable the continuous introduction of cutting-edge solutions to the market. Notable collaborations include Germany's KS Kolbenschmidt GmbH for pistons, Japan's Riken Corporation for piston rings, and Fuji Oozx for engine valves. SPRL's dedication to innovation is further demonstrated through its state-of-the-art technology center in Ghaziabad, Uttar Pradesh. Staffed with over 150 engineers and equipped with advanced testing facilities, this center serves as a hub for research and development, underscoring the company's commitment to staying ahead of market dynamics and driving operational excellence. In terms of financial outperformance in the industry, SPRL commands two-thirds of the revenue market share and superior profitability compared to peers. This industry dominance is supported by robust balance sheet and return ratios, solidifying SPRL's position as a leader in the automotive sector.

### Evolving global landscape in ICE provides further headroom for growth

In the dynamic global automotive landscape, there are winds of change as OEMs and component suppliers redirect their investments away from Internal Combustion Engine (ICE) technology towards electrification. This shift presents a ripe opportunity for Indian players entrenched in the IC engine sector, echoing similar transformations seen in adjacent automotive segments such as forgings and halogen lighting systems. India's advantageous position in terms of cost competitiveness and proficiency in frugal engineering is accentuated by governmental support initiatives like the 'Make in India' campaign and Production Linked Incentive (PLI) schemes. Furthermore, geopolitical strategies such as the 'China+1' approach add impetus to this favourable climate, bolstering growth prospects for Indian IC engine manufacturers. SPRL, recognizing the evolving landscape, envisions itself as a stronghold in the IC engine domain, strategically positioning itself to serve the last IC engine produced globally. Leveraging a blend of global technological expertise and domestic manufacturing prowess, SPRL aims to seize opportunities with unparalleled agility, setting itself apart from its competitors. While electrification gains momentum globally, the pace varies across different segments and regions. Efforts to enhance the efficiency of existing IC engines persist, with industry giants like Cummins Inc. targeting substantial improvements over the coming decade. Moreover, the emergence of bridging technologies like hybrids offers additional avenues for growth for players like SPRL. Recent trends indicate a deceleration in the electrification drive in developed markets, particularly in Europe, accompanied by a surge in hybrid adoption in countries like the USA and France. This nuanced evolution necessitates vigilant monitoring, particularly regarding Battery Electric Vehicle (BEV) penetration levels, which could significantly influence business visibility and growth prospects for IC engine suppliers. Domestically, the Indian market showcases a steady adoption rate of Electric Vehicles (EVs), with two-wheelers leading the charge at approximately 5-6% adoption and passenger vehicles following suit at around 2%. This steady trajectory underscores both the challenges and opportunities present for IC engine suppliers like SPRL in navigating the evolving automotive landscape.

***“Hybrids will play an increasingly important role in our industry's transition and will be here for the long run. Hybrid just fits specific customer use cases ... And margins on hybrids are closer to ICE, much higher than EV margins ... Customers are doing the quick showroom math on hybrids.”***

***- Ford Motors in its Feb-24 earnings call”***



## Shriram Pistons and Rings Ltd.

### Well-rounded approach by enhancing EVs and powertrain-agnostic technology capabilities through inorganic route

SPRL is strategically responding to the imminent threat of electrification by fortifying its core product capabilities and venturing into the EV sector. This proactive stance aims to not only diversify SPRL's product portfolio but also mitigate technology risks while fostering future growth opportunities. The company's foray into the EV component industry commenced with the acquisition of a majority stake (initially 51%, later increased to 66%) in Coimbatore-based EMF Innovations (EMFI) for Rs. 78 crores. Specializing in EV drivetrain components, EMFI is renowned for its expertise in power electronics and motors, with a significant emphasis on domestic sourcing (over 85%) of components. Offering a range of products such as BLDC hub motors, inner rotor motors, and controllers, EMFI has been operational for over five years, generating approximately Rs. 17 crores in revenue as of December 2022. This strategic investment was executed through SPRL's wholly-owned subsidiary, SPR Engenious (SEL), underscoring SPRL's dedicated focus on the burgeoning EV sector.

In addition to bolstering its presence in the EV domain, SPRL expanded its footprint by acquiring a 62% stake in Japan-based Takahata Precision India through SEL. This move marks SPRL's entry into powertrain-agnostic products and signifies a broader diversification strategy. Takahata Precision India, valued at Rs. 220 crores, boasts a substantial revenue of Rs. 210 crores as of FY23. As a subsidiary of Takahata Japan, Takahata is a prominent player in various industrial sectors including office equipment, optical equipment, residential facilities, and medical equipment apart from automotive parts (Fuel pump unit parts, Gear for Electric Power Steering, Headlamp levelling unit, ECU Housing). SPRL's stake in Takahata has the potential to increase to 75% by October 2028, subject to specific conditions, further enhancing SPRL's position in the powertrain agnostic segment.

### Multiple drivers in place for robust financial performance going ahead

SPRL has demonstrated robust financial performance, with consolidated revenue reaching Rs. 2,609 crores in FY23 from Rs. 2,064 crores in FY22 (growth of 26%), driven by increased domestic demand in PVs and CVs alongside healthy exports and aftermarket sales. The growth trajectory persisted in 1Q/2Q/3QFY24, with revenue rising 15.5%/15.3%/20.4% YoY, respectively. SPRL is poised for a 16-17% YoY revenue growth for FY24, underpinned by sustained demand from domestic OEMs, new customer additions for exports, and growing aftermarket channels. Operating at about 85% capacity, SPRL's EBITDA margin stood at 20.7% in 9MFY24, marking a significant improvement from 17.6% in FY23 and 14.7% in FY22, attributed to enhanced operating leverage, cost-cutting measures, automation, and an improved sales mix. Despite raw material price volatility impacting exports and aftermarket sales, SPRL has effectively managed material cost hikes through timely price adjustments in FY23. Despite EMFI's negative standalone EBITDA margin of 18.6% in FY23, its small scale of operations is unlikely to affect SPRL's consolidated EBITDA margins significantly. We expect SPRL's EBITDA margins to remain stable in the medium term, driven by sustained production volume growth, increased capacity utilization, and operating leverage, mitigating inflationary pressures and stabilizing raw material prices. This strong financial performance underscores SPRL's resilience and strategic measures, positioning it for continued profitability and growth in the foreseeable future. Looking ahead, SPRL's strong performance and future profitability drivers are anchored in stable growth in production volumes, which is expected to drive an increase in capacity utilization and operating leverage. Furthermore, continued focus on cost efficiencies, strategic pricing, and responsiveness to market dynamics are expected to support SPRL's financial resilience and sustained profitability in the foreseeable future.

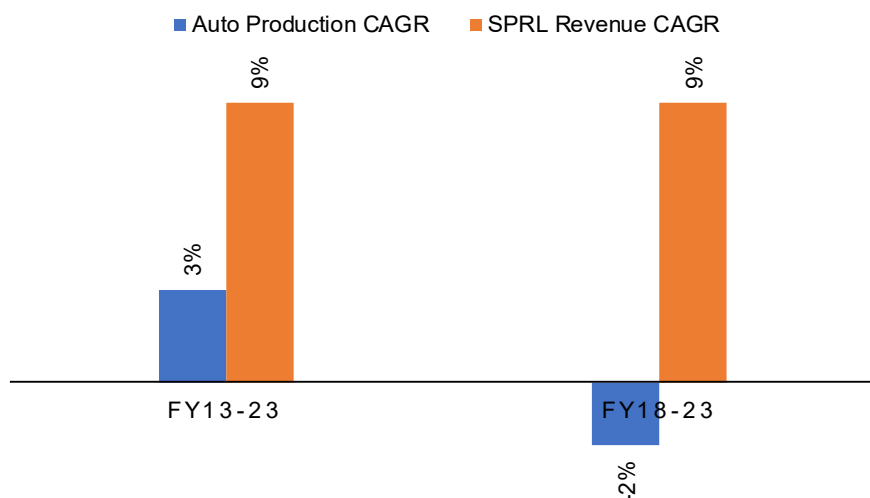
***“On EMFI motor controllers- We have a motor with the IP 67 application. These are used underwater so that the industry can rest easy knowing that they will function flawlessly during various seasons, including the monsoon, for various water-based solutions .***

***-Krishnakumar Srinivasan, MD & CEO, SPRL ”***

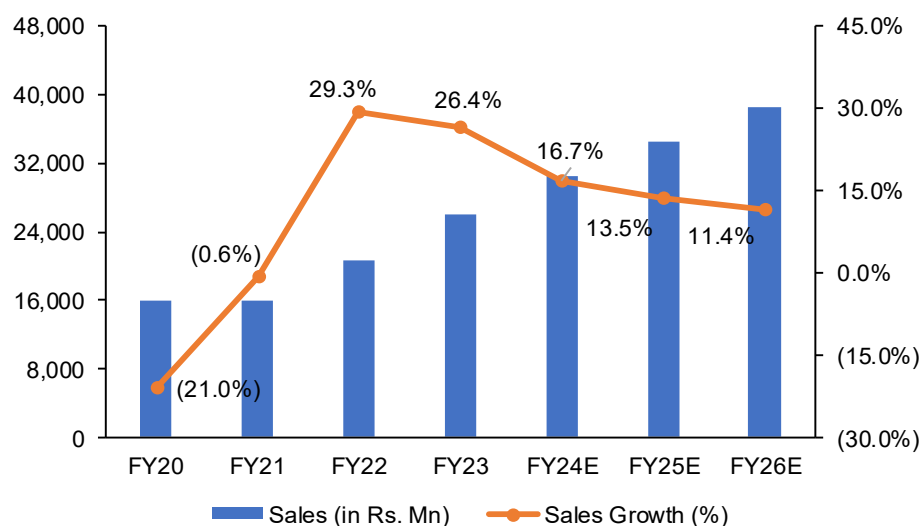
# Shriram Pistons and Rings Ltd.

## Financial Story in Charts

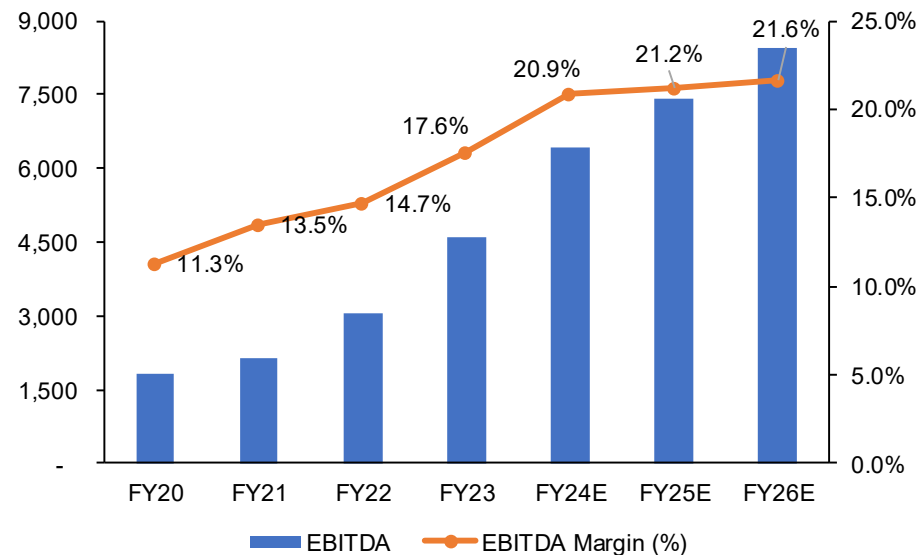
### Growth compared to the auto industry in the past 10Y / 5Y



### Healthy sales growth trajectory owing to higher CPV (Rs. in Mn)



### Profitability improving on better export sales and price hikes (Rs. in Mn)

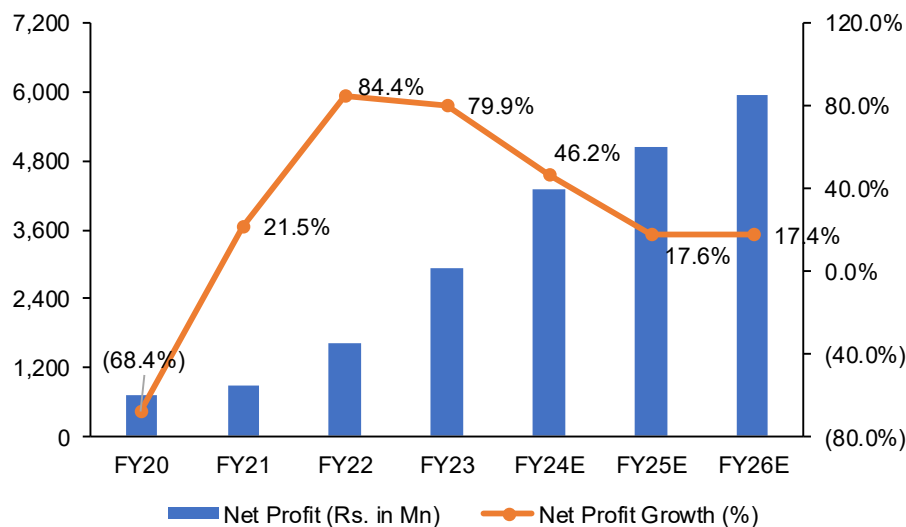


Source: Company Reports, BP Equities Research, Bloomberg Estimates

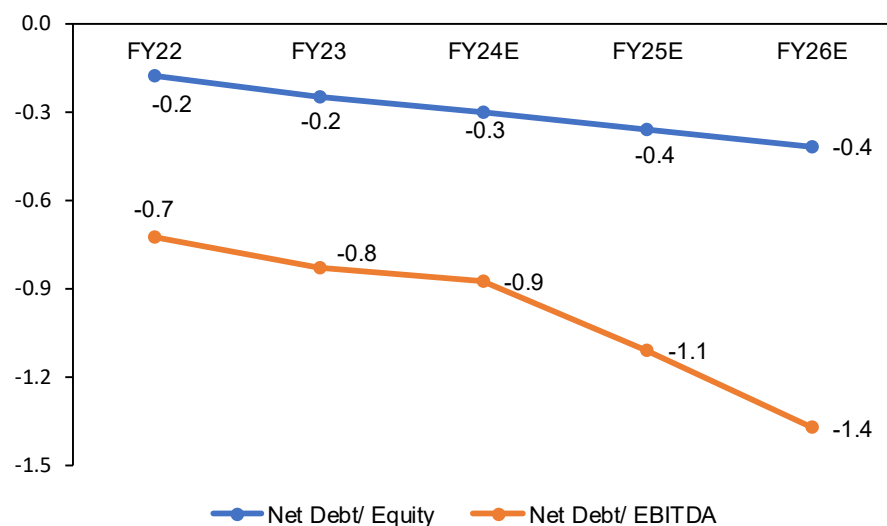
# Shriram Pistons and Rings Ltd.

## Financial Story in Charts

### Net profit to expand at 26% CAGR between FY23-26E (Rs. in Mn)



### Cash rich balance sheet (Rs. in Mn)



Source: Company Reports, BP Equities Research, Bloomberg Estimates

## Shriram Pistons and Rings Ltd.

### Valuation & Outlook

One of SPRL's key strength lies in its extensive experience spanning over five decades in producing core products such as pistons, piston pins, piston rings, and engine valves. This longevity in the industry has enabled SPRL to establish itself as a dominant player in the domestic market, growing at a faster pace than the industry owing to rising content per vehicle and commanding a substantial market share across various segments. Additionally, the company boasts strong relationships with leading OEMs both domestically and internationally, contributing significantly to its revenue stream. Looking ahead, SPRL's future growth is poised to be driven by several factors. Firstly, its proactive approach towards addressing the electrification threat by establishing a dedicated EV arm showcases its commitment to innovation and diversification. By venturing into the EV component industry through strategic acquisitions like Coimbatore-based EMF Innovations and Japan-based Takahata Precision India, SPRL aims to expand its product portfolio and tap into emerging market opportunities in the EV sector. Furthermore, SPRL's focus on in-house research and development, coupled with its longstanding technical collaborations with global technology providers, positions it well to adapt to evolving market trends and maintain its competitive edge. Opportunities abound for SPRL, particularly in leveraging India's cost competitiveness and frugal engineering expertise to capitalize on the evolving dynamics within the automotive industry. The government's initiatives such as the 'Make in India' campaign and Production Linked Incentive (PLI) schemes further bolster the company's prospects for growth and expansion, particularly in the export market. Additionally, geopolitical factors like the 'China+1' strategy present avenues for SPRL to strengthen its global footprint and capture market share in regions beyond India. In conclusion, SPRL's outlook remains optimistic, supported by its established market dominance, strategic investments in emerging technologies, and commitment to innovation.

Currently trading at 15x FY26E earnings, SPRL showcases a compelling growth trajectory. Projections indicate a revenue CAGR of 12-13% over FY2024-26 period, with revenues expected to climb from Rs. 3,045 crores in FY24E to Rs. 3,850 crores in FY26E. This growth is likely to be underpinned by several key factors. Firstly, SPRL has a history of outperforming industry growth, driven by factors such as higher content, including exports (~19% revenue contribution; SPRL serves clients in over 45 countries), which contribute to above-industry-growth. Moreover, the company's significant focus on aftermarket (company has over 1,200 touchpoints in India), constituting 17% of its revenue, further bolsters revenue streams. Additionally, strategic mergers and acquisitions have enhanced SPRL's market positioning, cementing its leadership status within the industry. From a financial perspective, SPRL demonstrates robust fundamentals, characterized by healthy cash generation, a ROE of 25.3%, and a commendable debt-to-equity ratio. Taken together, these factors underscore SPRL's strong growth prospects and solid financial foundation, making it an attractive proposition for investors seeking exposure to a resilient and promising player in the automotive sector. **Based on these positives, we value the stock at 21x/18x its FY25E/FY26E earnings to arrive at a target price of Rs. 2,392 (22% upside from CMP) on a 12-month investment horizon.**



## Shriram Pistons and Rings Ltd.

### Key Financials

YE March (Rs. millions)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>16,068</b>	<b>15,966</b>	<b>20,647</b>	<b>26,093</b>	<b>30,450</b>	<b>34,550</b>	<b>38,500</b>
<i>Revenue Growth (Y-o-Y)</i>	<i>(21.0%)</i>	<i>(0.6%)</i>	<i>29.3%</i>	<i>26.4%</i>	<i>16.7%</i>	<i>13.5%</i>	<i>11.4%</i>
<b>EBIDTA</b>	<b>1,820</b>	<b>2,155</b>	<b>3,045</b>	<b>4,604</b>	<b>6,408</b>	<b>7,410</b>	<b>8,456</b>
<i>EBIDTA Growth (Y-o-Y)</i>	<i>(28.4%)</i>	<i>18.4%</i>	<i>41.3%</i>	<i>51.2%</i>	<i>39.2%</i>	<i>15.6%</i>	<i>14.1%</i>
<b>Net Profit</b>	<b>730</b>	<b>887</b>	<b>1,636</b>	<b>2,943</b>	<b>4,303</b>	<b>5,059</b>	<b>5,939</b>
<i>Net Profit Growth (Y-o-Y)</i>	<i>(68.4%)</i>	<i>21.5%</i>	<i>84.4%</i>	<i>79.9%</i>	<i>46.2%</i>	<i>17.6%</i>	<i>17.4%</i>
<b>Diluted EPS</b>	<b>16.3</b>	<b>19.8</b>	<b>36.6</b>	<b>65.8</b>	<b>96.3</b>	<b>113.2</b>	<b>132.9</b>
<i>Diluted EPS Growth (Y-o-Y)</i>	<i>(68.4%)</i>	<i>21.5%</i>	<i>84.4%</i>	<i>79.9%</i>	<i>46.2%</i>	<i>17.6%</i>	<i>17.4%</i>

### Key Ratios

<b>EBIDTA margin (%)</b>	<b>11.3%</b>	<b>13.5%</b>	<b>14.7%</b>	<b>17.6%</b>	<b>21.0%</b>	<b>21.4%</b>	<b>22.0%</b>
<b>NPM (%)</b>	<b>4.5%</b>	<b>5.6%</b>	<b>7.9%</b>	<b>11.3%</b>	<b>14.1%</b>	<b>14.6%</b>	<b>15.4%</b>
<b>RoE (%)</b>	<b>6.1%</b>	<b>7.4%</b>	<b>13.6%</b>	<b>21.2%</b>	<b>25.3%</b>	<b>24.2%</b>	<b>23.4%</b>
<b>RoCE (%)</b>	<b>5.0%</b>	<b>6.7%</b>	<b>11.0%</b>	<b>16.5%</b>	<b>19.6%</b>	<b>19.4%</b>	<b>19.1%</b>

### Valuation Ratios

<b>P/E (x)</b>	<b>120.0x</b>	<b>98.8x</b>	<b>43.3x</b>	<b>29.8x</b>	<b>20.4x</b>	<b>17.3x</b>	<b>14.8x</b>
<b>EV/EBITDA</b>	<b>48.4x</b>	<b>40.1x</b>	<b>28.1x</b>	<b>18.3x</b>	<b>12.8x</b>	<b>10.7x</b>	<b>9.0x</b>
<b>P/BV (x)</b>	<b>8.2x</b>	<b>7.6x</b>	<b>7.0x</b>	<b>5.7x</b>	<b>4.7x</b>	<b>3.8x</b>	<b>3.1x</b>
<b>Market Cap. / Sales (x)</b>	<b>5.5x</b>	<b>5.5x</b>	<b>4.6x</b>	<b>3.4x</b>	<b>2.9x</b>	<b>2.5x</b>	<b>2.3x</b>

Source: Company Reports, BP Equities Research, Bloomberg Estimates

Research Desk

Tel: +91 22 61596158

Institutional Sales Desk

Tel: +91 22 61596403/04/05

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP EQUITIES Pvt. Ltd (Institutional Equities).

**General Disclaimer**

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

**Corporate Office:**

4th floor,  
Rustom Bldg,  
29, Veer Nariman Road, Fort,  
Mumbai-400001  
Phone- +91 22 6159 6464  
Fax-+91 22 6159 6160  
Website- [www.bpwealth.com](http://www.bpwealth.com)

**Registered Office:**

24/26, 1st Floor, Cama Building,  
Dalal street, Fort,  
Mumbai-400001  
  
BP Equities Pvt. Ltd.  
CIN No: U67120MH1997PTC107392