

Rating matrix		
Rating	:	Hold
Target	:	₹ 85
Target Period	:	12-18 months
Potential Upside	:	4%

What's changed?	
Target	Changed from ₹ 165 to ₹ 85
EPS FY19E	Changed from ₹ 11.2 to ₹ 6.9
EPS FY20E	Changed from ₹ 14.9 to ₹ 10.0
Rating	Changed from Buy to Hold

Key financials				
₹ crore	FY17	FY18	FY19E	FY20E
Net Sales	154.7	187.7	190.2	214.0
EBITDA	15.9	21.2	17.6	24.0
Net Profit	6.1	10.1	7.7	11.2
EPS (₹/share)	5.5	8.9	6.9	10.0

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	15.0	9.2	11.9	8.2
Target P/E	15.6	9.5	12.3	8.5
EV / EBITDA	7.6	5.4	7.1	5.2
P/BV	1.7	1.5	1.3	1.1
RoNW	11.6	15.9	11.1	14.0
RoCE	14.0	20.0	13.8	17.5
ROIC	13.5	19.6	14.2	16.5

Stock data	
Stock Data	₹ crore
Market Capitalization	92
Total Debt (FY18)	24.1
Cash and Cash Equivalent (FY18)	1.2
Enterprise Value	114.7
52 week H/L	155 / 67
Equity Capital	2.2
Face Value	₹ 2

Research Analyst	
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Simmonds Marshall (SIMMAR)

₹ 82

Slowdown in auto (2-W) space, takes toll...

- Simmonds Marshall (SML) reported a muted Q3FY19 performance, with EBITDA margins for the quarter coming in at a new low of 7.1%
- Net sales in Q3FY19 were at ₹ 49.0 crore, up 6%. Topline growth came in muted primarily tracking de-growth being witnessed in the domestic auto space, particularly the scooter segment. The company was, however, rescued by the CV as well as railways segment
- EBITDA in Q3FY19 was at ₹ 3.5 crore with corresponding EBITDA margins at 7.1%, down 560 bps YoY. Margins came in muted due to temporarily disruptions at SML on account of implementation of new ERP system as well as high raw material prices
- PAT in Q3FY19 was at ₹ 1.4 crore vs. ₹ 2.9 crore in Q3FY18

Auto ancillary player having high exposure to 2-W

Simmonds Marshall (SML) is a fastener manufacturing company based out of Mumbai with manufacturing plants in the industrial belt of Pune (automobile hub). It manufactures fasteners using cold forged technique with diameter size of less than 24 mm primarily meant for automobile industry. It comprises all metal self-locking nuts, nylon insert self-locking nuts, dome cap nuts, bolts, studs, etc., among others. SML is a tier 1 supplier to automobile companies (~90% of sales) with other industry exposure being white goods, railways, etc. Within the automobile segment, in the 2-W segment its key clients include HMSI, Hero MotoCorp, Bajaj Auto and Royal Enfield. SML derives ~20% its sales from the CV segment while it derives ~15% of sales from OEM players (Tier-1). Going forward, with various measures undertaken by both the central as well as state government to augment farm income, we expect 2-W demand to be in a structural upswing, going forward, with demand growing in tandem with the GDP growth rate (~1x). This should support SML as it has high exposure to 2-W's and has structural legs to it.

Capacity expansion on anvil, commissioning in CY2019!

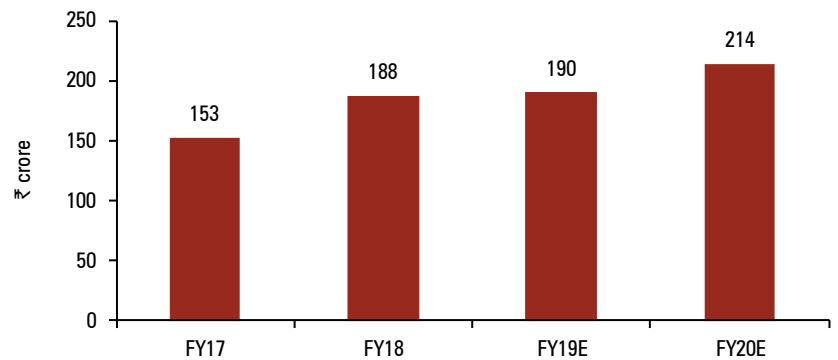
Sensing capacity constraint (currently operating at ~75% utilisation), SML is currently executing a greenfield expansion at an outgo of ~₹ 35 crore over FY19E-20E with likely commissioning in July 2019. With expanded capacity in place, SML will attain the capability to attain a turnover of ~₹ 300 in next three to five years. Going forward, however, with FY19E being already a washout year, conservatively we expect sales to rebound by 12.5% in FY20E to ₹ 214 crore (₹ 190 crore in FY19E). Upside risk to our estimates can be conversion of new clients in the 4W segment that are in the midst of establishing their manufacturing set up in India.

Muted growth trajectory prompts us to downgrade stock, assign HOLD!

YTD FY19 numbers were below our expectations with FY19E being a real washout year for the company. With growth prospects to limited in nature vs. exponential growth trajectory envisaged in the past, we downgrade the stock to **HOLD**. However, SML has a capital efficient business model where it realises ~3x asset turnover, realises ~12% EBITDA margins and has a working capital cycle of ~100-120 days. Consequent return ratios are in the range of ~15%. SML also realises healthy cash flows, with present CFO yield in excess of 10%. It has controlled leverage with FY19E likely debt: equity at 0.5x wherein absolute debt is expected at ₹ 34 crore. Going forward, we expect sales, PAT to grow at a CAGR of 6.8% & 5.9%, respectively, over FY18-20E. We value SML at ₹ 85 i.e. 8.5x P/E on FY20E EPS of ₹ 10 with a **HOLD** rating on the stock. In the recent past, SML has also witnessed an increase in promoter stake by 1.6% (February 2019).

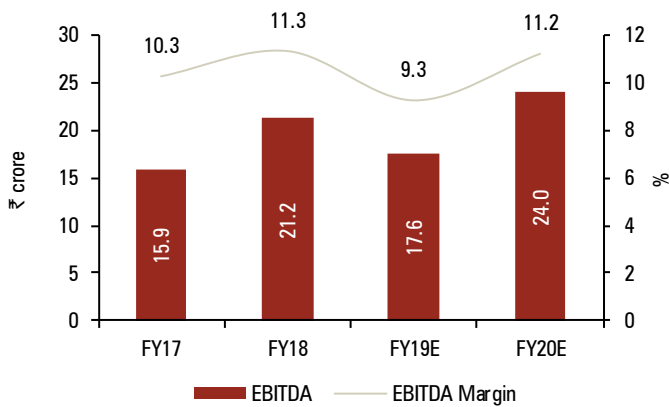
Story in Charts

Exhibit 1: Sales trend



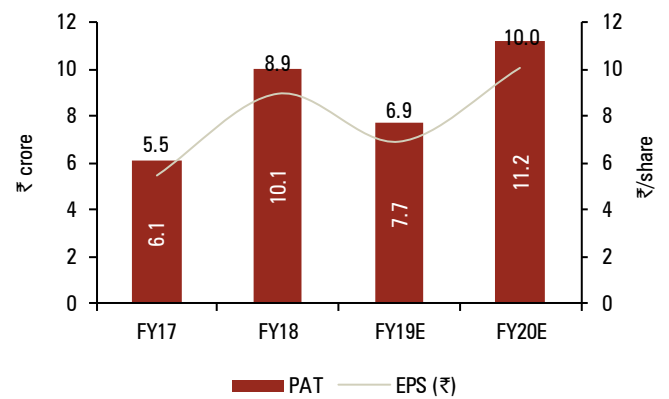
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA & EBITDA margins trend



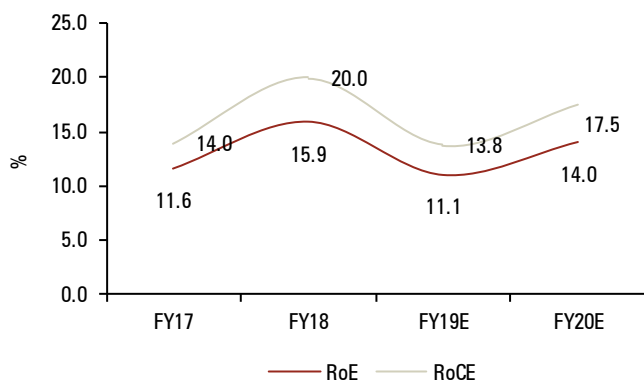
Source: Company, ICICI Direct Research

Exhibit 3: PAT & EPS trend



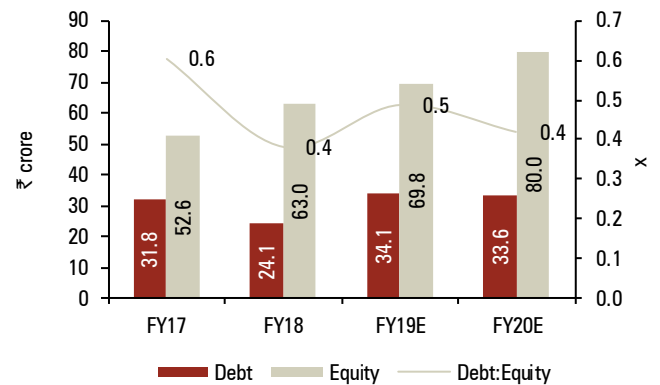
Source: Company, ICICI Direct Research

Exhibit 4: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 5: Debt: Equity trend

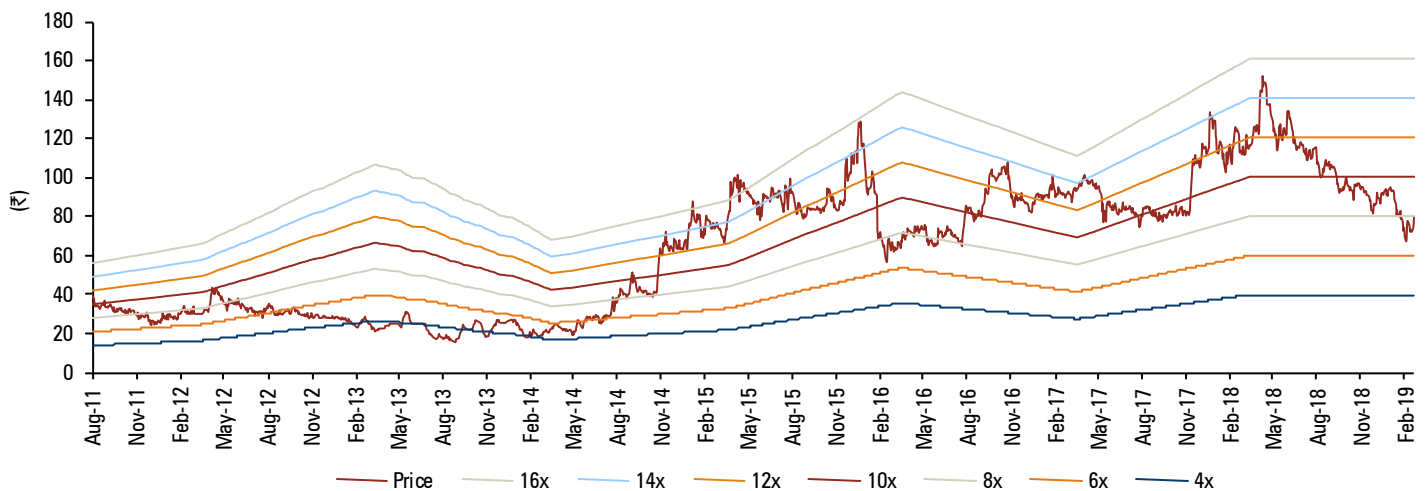


Source: Company, ICICI Direct Research

Outlook and valuation

YTD FY19 numbers were below our expectations with FY19E being a real washout year for the company. With growth prospects to limited in nature vs. exponential growth trajectory envisaged in the past, we downgrade the stock to **HOLD**. SML, however, has a capital efficient business model where it realises ~3x asset turnover, realises ~12% EBITDA margins and has a working capital cycle of ~100-120 days. Consequent return ratios are in the range of ~15%. SML also realises healthy cash flows, with present CFO yield in excess of 10%. It has controlled leverage with FY19E likely debt: equity at 0.5x wherein absolute debt is expected at ₹ 34 crore. Going forward, we expect sales, PAT to grow at a CAGR of 6.8% & 5.9%, respectively, in FY18-20E. We value SML at ₹ 85 i.e. 8.5x P/E on FY20E EPS of ₹ 10 with a **HOLD** rating on the stock. In the recent past, SML has also witnessed an increase in promoter stake by 1.6% (February 2019).

Exhibit 6: Two year forward P/E (SML currently trading at 8.2x)



Source: Reuters, ICICI Direct Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct Research; *I-direct coverage on Simmonds Marshall was initiated on April 2018

Key events

Date/Year	Event
1960	SML was incorporated in 1960 as a private company in technical collaboration with Firth Cleveland Fastenings (UK) holding 51% of the equity of the company. This shareholding was diluted progressively while the balance of foreign holding was purchased fully by the promoters in 1987
1986	SML got listed on BSE in 1986 and is headquartered in Mumbai
2012	In 2012, SML acquired a stud manufacturing unit – Stud India (Chennai).
2014	In 2014, SML acquired Philidas, a high-end UK fastener brand, used extensively in the railway industry. It brought all expertise and machinery of Philidas into India and is currently servicing its international clients in this domain from India
2017	In FY17, SML distributed dividend of ₹ 0.5/share (EPS ₹ 5.5/share)
2019	In Q3FY19, SML reported a muted Q3FY19 performance, with EBITDA margins for the quarter coming in at a new low of 7.1%. Net sales in Q3FY19 were at ₹ 49.0 crore, up 6%. Topline growth came in muted primarily tracking de-growth being witnessed in the domestic auto space, particularly the scooter segment. The company was, however, rescued by the CV as well as railways segment

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Position Change (m)
1	Marshall (Shiamak J)	20-Feb-19	15.3	1.7	0.2
2	Marshall (Maki S)	31-Dec-18	15.1	1.7	0.0
3	Marshall (Navroze Shiamak)	31-Dec-18	13.6	1.5	0.0
4	Pandole (Kayan J)	31-Dec-18	6.3	0.7	0.0
5	Panju (Kamal Imran)	31-Dec-18	6.0	0.7	0.0
6	Clover Technologies Pvt. Ltd.	31-Dec-18	5.8	0.7	0.0
7	SBI Funds Management Pvt. Ltd.	30-Sep-18	1.7	0.2	0.0
8	Batlivala (Riaz Rutton)	31-Dec-18	1.5	0.2	0.2
9	Jiji Marshall Trading Company Pvt. Ltd.	31-Dec-18	1.4	0.2	0.0
10	Government of India	31-Dec-18	1.2	0.1	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	56.7	56.7	56.7	56.7	56.5
FII	2.0	2.5	2.6	2.5	0.8
DII	0.0	0.0	0.0	0.0	0.0
Others	41.3	40.8	40.7	40.9	42.7

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Marshall (Shiamak J)	+0.2M	+0.2M	Panju (Kamal Imran)	-0.0M	-0.0M
Batlivala (Riaz Rutton)	+0.2M	+0.2M	SBI Funds Management Pvt. Ltd.	-0.0M	-0.0M
Marshall (Maki S)	+0.0M	+0.0M			

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				
₹ Crore				
(Year-end March)	FY17	FY18	FY19E	FY20E
Net Sales	152.5	187.7	190.2	214.0
Other Operating Income	2.1	0.0	0.0	0.0
Total Operating Income	154.7	187.7	190.2	214.0
Growth (%)	6.4	21.3	1.4	12.5
Raw Material Expenses	61.5	70.9	68.4	76.0
Employee Expenses	26.8	35.4	37.5	40.7
Other Operating Expense	50.5	60.1	66.7	73.4
Total Operating Expenditure	138.8	166.4	172.6	190.0
EBITDA	15.9	21.2	17.6	24.0
Growth (%)	0.4	33.8	-17.0	36.0
Depreciation	4.4	4.0	4.3	5.3
Interest	2.8	3.3	3.5	4.1
Other Income	0.6	0.6	1.3	1.5
PBT	9.2	14.5	11.1	16.1
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	3.1	4.5	3.4	4.9
PAT	6.1	10.1	7.7	11.2
Growth (%)	19.8	64.5	-23.1	45.3
EPS (₹)	5.5	8.9	6.9	10.0

Source: Company, ICICI Direct Research

Cash flow statement				
₹ Crore				
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	6.1	10.1	7.7	11.2
Add: Depreciation	4.4	4.0	4.3	5.3
(Inc)/dec in Current Assets	-8.6	-14.1	-5.1	-9.3
Inc/(dec) in CL and Provisions	6.1	10.3	1.4	4.4
Others	2.8	3.3	3.5	4.1
CF from operating activities	10.8	13.6	11.8	15.7
(Inc)/dec in Investments	0.0	0.1	0.0	0.0
(Inc)/dec in Fixed Assets	-8.4	-5.5	-17.0	-10.0
Others	-0.8	0.8	0.0	0.0
CF from investing activities	-9.3	-4.7	-17.0	-10.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-0.6	-7.7	10.0	-0.5
Interest & Dividend paid	-3.5	-4.3	-4.4	-5.1
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-0.2	1.4	0.0	0.0
CF from financing activities	-4.3	-10.6	5.6	-5.6
Net Cash flow	-2.8	-1.7	0.4	0.1
Opening Cash	5.7	2.9	1.2	1.6
Closing Cash	2.9	1.2	1.6	1.6

Source: Company, ICICI Direct Research

Balance sheet				
₹ Crore				
(Year-end March)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	2.2	2.2	2.2	2.2
Reserve and Surplus	50.4	60.8	67.6	77.7
Total Shareholders funds	52.6	63.0	69.8	80.0
Total Debt	31.8	24.1	34.1	33.6
Deferred Tax Liability	1.8	2.0	2.0	2.0
Minority Interest / Others	0.1	0.1	0.1	0.1
Total Liabilities	86.3	89.2	106.0	115.6
Assets				
Gross Block	52.4	57.4	63.4	83.4
Less: Acc Depreciation	25.0	29.0	33.4	38.7
Net Block	27.4	28.4	30.0	44.7
Capital WIP	0.5	0.9	12.0	2.0
Total Fixed Assets	27.9	29.3	42.0	46.7
Investments	0.1	0.1	0.1	0.1
Inventory	34.3	40.0	44.3	46.9
Debtors	39.4	49.6	49.5	55.7
Loans and Advances	4.7	2.9	3.8	4.3
Other Current Assets	0.1	0.1	0.1	0.1
Cash	2.9	1.2	1.6	1.6
Total Current Assets	81.4	93.7	99.3	108.6
Creditors	17.8	31.8	31.3	35.2
Other Current Liabilities	5.9	2.2	4.1	4.6
Current Liabilities & Prov	23.6	34.0	35.3	39.8
Net Current Assets	57.8	59.8	63.9	68.9
Others Assets	0.6	0.0	0.0	0.0
Application of Funds	86.3	89.2	106.0	115.6

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	5.5	8.9	6.9	10.0
Cash EPS	9.4	12.6	10.8	14.7
BV	47.0	56.3	62.3	71.4
DPS	0.6	0.9	0.8	1.0
Cash Per Share (Incl Invst)	2.7	1.1	1.5	1.5
Operating Ratios (%)				
EBITDA Margin	10.3	11.3	9.3	11.2
PAT Margin	4.0	5.4	4.1	5.2
Inventory days	82.1	77.8	85.0	80.0
Debtor days	94.3	96.4	95.0	95.0
Creditor days	42.5	61.8	60.0	60.0
Return Ratios (%)				
RoE	11.6	15.9	11.1	14.0
RoCE	14.0	20.0	13.8	17.5
RoIC	13.5	19.6	14.2	16.5
Valuation Ratios (x)				
P/E	15.0	9.2	11.9	8.2
EV / EBITDA	7.6	5.4	7.1	5.2
EV / Net Sales	0.8	0.6	0.7	0.6
Market Cap / Sales	0.6	0.5	0.5	0.4
Price to Book Value	1.7	1.5	1.3	1.1
Solvency Ratios				
Debt/EBITDA	2.0	1.1	1.9	1.4
Debt / Equity	0.6	0.4	0.5	0.4
Current Ratio	3.8	2.8	2.8	2.8
Quick Ratio	2.2	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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