

## SJS ENTERPRISES

BUY

## Emerging Superstar in a Niche Industry

## Summary

SJS is a leading decorative aesthetic parts supplier to Auto and Consumer durables Companies in India. Indian aesthetics products industry is expected to grow at 20% CAGR over FY21-26E wherein industry size to become 2.5x. SJS having most comprehensive product portfolio and superior profitability among its peers is well placed to benefit from industry tailwinds. However the real kicker is expected from Export business which is expected to grow rapidly. SJS has a High growth-Low capex -High ROCE – Cash Generating business model. We expect SJS to report 24% Sales CAGR and 34% PAT CAGR over FY22-24. We initiate coverage on the Company with price target of Rs600 (18x FY24) indicating 71% upside.

## Key Highlights and Investment Rationale

- **Best among the class:** SJS is a most efficient player with comprehensive product portfolio in Indian decorative aesthetic industry is well placed to benefit from industry tailwinds (Industry to grow at 20% CAGR FY21-26E).
- **Exports at inflection point:** SJS has just started scratching export opportunity wherein its exports have almost doubled over FY19-21. We anticipate export growth to outgrow domestic growth over FY22-24.
- **Attractive business Model:** SJS has a High growth-Low capex -High ROCE – Cash Generating business model. It is net debt free entity with Rs 1bn cash on balance sheet.
- **BUY:** SJS stock is quoting at PER of 12x FY24E. Given the high growth potential, high ROCE profile and cash generating status we expect PE re-rating is imminent. We initiate coverage on SJS with price target of Rs600 (18x FY24).

<b>TP</b>	<b>Rs 600</b>
<b>CMP</b>	<b>Rs 350</b>
Potential upside/downside	71%
Previous Rating	-

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(8.8)	(3.2)	--
Rel to Sensex	(9.5)	(3.7)	--

V/s Consensus			
EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	18.7	25.6	33.4
Consensus	--	--	--
% difference	--	--	--

Key Stock Data	
Bloomberg/Reuters	SJS IN
Sector	Auto Ancillary
Shares o/s (mn)	30
Market cap. (Rs mn)	10,653
3-m daily avg Trd value (Rs mn)	--
52-week high / low	551 / 340
Sensex / Nifty	57,596 / 17,223

Shareholding Pattern (%)	
Promoters	50.3
FII	6.0
DII	18.3
Public	25.2

## Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	2,162	2,516	3,652	4,514	5,583
Change (yoy, %)	(9)	16	45	24	24
EBITDA	635	762	947	1,193	1,491
Change (yoy, %)	(7)	20	24	26	25
EBITDA Margin(%)	29.4	30.3	25.9	26.4	26.7
Adj.PAT	413	478	569	780	1,015
EPS (Rs)	13.6	15.7	18.7	25.6	33.4
Change (yoy, %)	10	16	19	37	30
PE(x)	26	23	19	14	11
Dividend Yield (%)	-	1.1	1.3	1.8	2.3
EV/EBITDA (x)	17	14	11	8	6
RoE (%)	16	16	17	20	22
RoCE (%)	19	20	21	24	26

Source: IDBI Capital Research

## Investment Rationale

### ■ Niche Product Line – Most Efficient Player In industry

- SJS is a leading decorative aesthetic parts supplier In India. It supplies its products to two-wheelers, passenger vehicles and consumer appliances. These parts include decals and body graphics, appliques and dials, badges, domes, overlays, IML/IMD, lens mask assembly and chrome-plated plastic parts.
- In FY21, SJS supplied 115mn + parts with more than 6,000 SKUs to ~170 customer locations in ~90 cities across 20 countries. Typically 0.5% to 1% of the 2W/4W cost is dedicated to decorative aesthetic parts wherein SJS remains to be a dominant player in ~Rs20bn industry.
- The Company has most comprehensive product portfolio, highest profitability and robust balance sheet among its peers.

### Exhibit 1: Comprehensive Product portfolio

*In terms of Product portfolio, SJS is present across the entire product segments compared to closest peers namely Classic Stripes, Polyplastics Industries and Monochem Graphics which are present in either two or five segments*

Company	Logos	Decals	Stickers, aluminium badges	Chrome plated parts	2D Dials	Traditional Overlays	3D Dials	Capacitive Overlays	IML/ IMD	Optical plastics
<b>S.J.S. Enterprises</b>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Classic Stripes	✓	✓			✓	✓	✓	✓		
Monochem Graphics	✓	✓	✓		✓	✓				
Polyplastics Industries	✓			✓						
Galva Deco Parts	✓			✓						
Kongovi	✓			✓						
Pragati Industries	✓			✓						
PRS Permacel		✓	✓							
Unique Labels			✓		✓					

Source: Company's RHP, IDBI Capital Research

*In terms of Industry exposure, SJS is present across all three segment as shown in the table compared to competitors which are either present in one or two segments.*

## Exhibit 2: User Industry Exposure

Company	2W	PV	CD
<b>S.J.S. Enterprises</b>	✓	✓	✓
Classic Stripes	✓	✓	✓
Monochem Graphics	✓	✓	✓
Polyplastics Industries	✓	✓	
Galva Deco Parts	✓	✓	
Kongovi		✓	
Pragati Industries	✓	✓	
PRS Permacel	✓	✓	
Unique Labels	✓	✓	

Source: Company's RHP, IDBI Capital Research

### ■ Play on Premiumization

- SJS offers its products which improves visual attractiveness of consumer product (2W/4W/consumer durables). In India, consumers increasingly prefer premium, aesthetically superior and technologically advanced products and are increasingly willing to pay a higher price for such products. Accordingly, manufacturers of automobiles and consumer durables are focusing on improving the overall aesthetics of their products. This has also led to a growing trend towards the use of superior aesthetics products such as optical plastics and chrome -plated parts. Also advancement in technology is resulting in use of newer and higher value aesthetic products in end industries, and consequently, increased realizations for aesthetic product manufacturers like SJS.
- In this regard, SJS has successfully anticipated the shift towards premium aesthetics products and began offering IML/IMD, 3D appliques, lens mask assemblies and optical plastics to meet the increasing demand from its customers. We believe SJS is well positioned to benefit from the increasing trend of premiumization across the automotive and consumer appliances industries.

SJS's "Traditional products" includes Logos, Decals, Sticker, Aluminum badges, Chrome plated parts, 2D Dials and Traditional Overlays

SJS's "New Premium products" includes 3D Dials, Capacitive Overlays, IML/IMDs and Optical Plastics

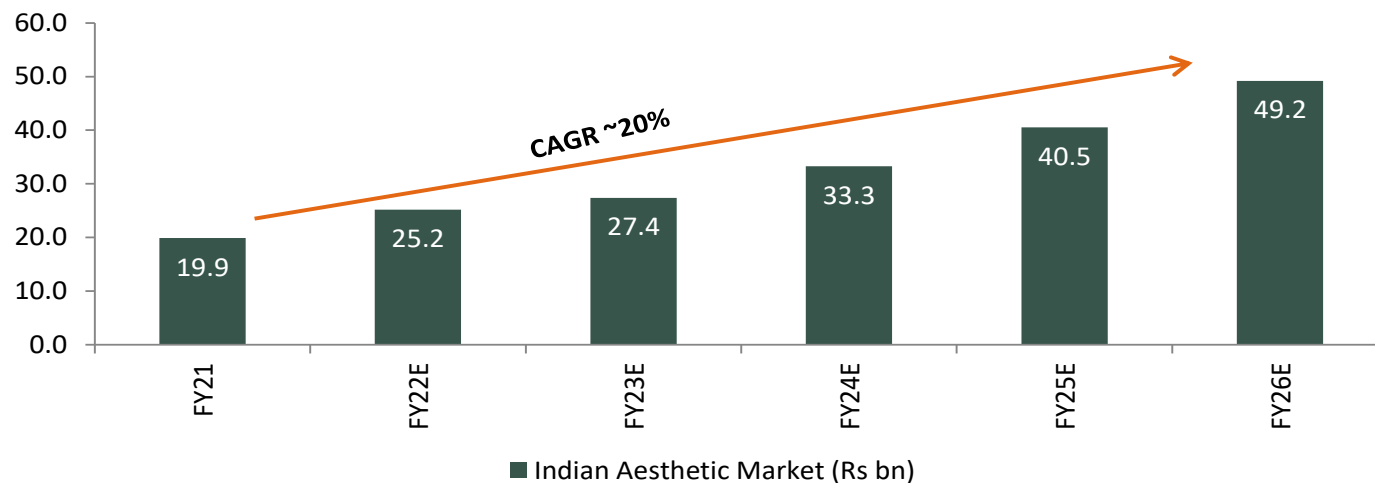
### Exhibit 3: Sales by Product mix

Rs mn	FY19	FY20	FY21
Decals and Body Graphics	1,167	795	886
3D Lux Badges	568	442	446
Overlays	293	333	401
2D Appliques and Dials	182	193	174
Aluminium Badge	59	72	75
Nickel Badges	26	39	74
Domes	56	65	72
Lens Mask Assembly	6	67	104
IMLs/IMDs	1	36	52
3D Appliques and Dials		89	194
Sale of services	11	22	29
Other operating revenues	3	8	9
<b>Total Sales</b>	<b>2,373</b>	<b>2,162</b>	<b>2,516</b>
<i>Contribution by Product type (%)</i>			
<i>Traditional Products</i>	<i>100</i>	<i>91</i>	<i>86</i>
<i>New Premium Products</i>	<i>0</i>	<i>9</i>	<i>14</i>

Source: Company's RHP, IDBI Capital Research

#### ■ Presence in 20%+ growth Industry – Industry size to become 2.5x

- According to the CRISIL, Indian aesthetics products industry had a size of ~Rs20bn in FY21. Currently Indian market is under penetrated with respect to aesthetic content in comparison to global counterparts across automobiles and consumer durables segment. Hence growth of the Indian decorative aesthetics market in value terms is expected to surpass volume growth in demand for two-wheeler, passenger vehicle and consumer durables over FY21-26E.
- Accordingly, while demand in India from two -wheelers, passenger vehicles and consumer durables is expected to grow at a CAGR of 10-12% each in volume terms over the FY 21-26, the demand for aesthetics is expected to grow faster, at a CAGR of ~20% over the same period. According to Crisil Research, the Indian aesthetics products industry size is expected to grow from ~Rs20bn to Rs49bn over FY21-26E.

**Exhibit 4: Indian Aesthetic Market growth trend**

Source: Company's RHP, Crisil Research, IDBI Capital Research

**Exhibit 5: Indian Aesthetic Market growth trend**

Rs bn	FY21	FY26E	YoY (%)
<b>India Aesthetic market</b>	<b>19.9</b>	<b>49.2</b>	<b>147.2</b>
<b>Demand by Application</b>			
2W	10.5	22.6	114.6
PV	7.6	22.6	199.3
CD	1.8	3.9	119.8
<b>Demand by Products</b>			
Logos	2.4	5.9	147.2
Decals, stickers	7.0	12.8	83.7
<b>IMD/ IML</b>	<b>2.6</b>	<b>10.3</b>	<b>299.4</b>
<b>Optical plastics</b>	<b>1.0</b>	<b>3.9</b>	<b>295.6</b>
<b>Chrome plated parts</b>	<b>4.8</b>	<b>13.3</b>	<b>178.1</b>
Appliques	2.0	2.5	23.6
Overlays	0.2	0.5	147.2

Source: Company's RHP, Crisil Research, IDBI Capital Research; Note: CD- Consumer durables

From FY21-26, PV will be the fastest growing segment followed by 2W and CD segments

In terms of Products, IML/IMD, Optical plastics and Chrome plating is expected to grow bigger and faster in next 5 years compared to other segments

*The addressable Passenger Vehicle (PV) market of US & EU (incl. UK) as on 2019 is ~\$2.7bn implying huge growth opportunity in the aesthetic market*

### ■ Exports – At inflection point (Exports to be ~25% of sales by FY26)

- Over the last three years (post operationalization of its Bangalore facility) SJS has given high priority for development of its export business. The Company so far has supplied its products to 175 customer locations in ~90 cities across 20 countries, including in North America, Italy, Russia, Japan, Thailand, South Africa and Poland. Its export sales have almost doubled over FY19-21 (32% CAGR) and its contribution to sales has gone up from 10% to 16% of over the same period.
- Going forward, the Company plans to aggressively foray into export markets and wants to pursue growth opportunities in certain select international markets, particularly in Europe and North America and benefit from the opportunity offered by global OEMs and Tier-1 suppliers in the automotive industry and the customer appliances industry. The Company also intends to focus on expanding its penetration in the two-wheeler automotive segment in Asia. The Company plans to achieve 25% of its sales from exports business over next 3 years.

### Exhibit 6: Company's Sales breakup

Sales (Rs mn)	FY19	FY20	FY21
Domestic Sales	2,140	1,840	2,112
Exports Sales	233	322	404
Total Sales	2,373	2,162	2,516
Contribution (%)			
Domestic Sales	90	85	84
Exports Sales	10	15	16
Total Sales	100	100	100

Source: Company's RHP, IDBI Capital Research

- SJS started supplying PU domes to Whirlpool and expanded its business over the years to become a key supplier of IMLs/IMDs, Overlays and Aluminum badges to the Indian operations of the Company with large share of its business in Europe, the Middle East and Africa. Whirlpool's Contribution to SJS sales increased from Rs262mn to Rs360mn over FY19-21. It has also successfully entered into Whirlpool's US business.

- SJS successfully expanded its offerings to Viseton, a leading Tier-1 global independent supplier of automotive products with whom it established a relationship for the supply of 2D dials in India. SJS initially started exporting these products to the Portugal branch and recently expanded its product offerings and geographical reach to Viseton in the US, Brazil, Mexico, Russia, Slovakia, Thailand, Tunisia and Vietnam.

#### ■ Premium Product Development

- Currently SJS is one of the few aesthetics product manufacturers in India which offers advanced technology products such as Capacitive Overlays, Optical plastics, 3D Dials and IML/IMD's. Its design, development skills and domain knowledge has enabled the Company to foray into advanced product categories and technologies which often have high entry barriers and few competitors.
- Over the last few years, the Company has successfully diversified its product offering from traditional aesthetics products (Decals, Logos, 2D Appliques and Domes) to advanced products (3D Lux Logos/Badges, 3D Appliques, Lens Mask Assemblies, Optical Plastics, IME's and IMLs/IMDs). The Company has also recently started offering products that use Chrome-plated printed and painted Injection Moulded plastic parts, such as Wheel covers, Radiator grills and Door handles, following the acquisition of its Subsidiary Exotech Ltd.

#### Exhibit 7: List of Traditional & Premium products

Traditional Products	Premium Products
Logos	3D Dials
Decals	Capacitive Overlays
Stickers/ aluminium badges	IML/IMDs
Chrome plated parts	Optical Plastics
2D Dials	
Traditional Overlays	

Source: Company's RHP, IDBI Capital Research

- In the past SJS has collaborated with customers from early stages of design and product development to manufacturing. The Company had collaborated with Suzuki to design and develop aesthetics for its limited edition Swift, Ertiga and WagonR passenger vehicle models. Other customers with whom the Company has collaborated on conceptualizing and designing aesthetics include Honda Motorcycle, Royal Enfield, TVS Motors, Eureka Forbes, Bajaj Auto and Whirlpool.
- **Expanding business through inorganic growth opportunities**
- Although the Company intends to grow organically, it believes that inorganic growth opportunities in India or outside India may act as an enabler for growing its businesses. SJS selectively wants to pursue inorganic opportunities where products, resources, capabilities, operations and strategies are complementary and that will diversify its product portfolio, provide it access to a wider customer base, helps to expand into new markets and geographies and consolidate its existing capabilities. These opportunities likely to be of strategic alliances, acquisitions, joint ventures, technological collaborations, partner tie-ups etc.
- **Long-standing customer relationships**
- SJS's key customers include automotive OEMs, global Tier-1 automotive component suppliers, consumer durables/ appliances manufacturers, medical devices manufacturers and sanitary ware manufacturers. The Company has developed long-standing relationships with several customers. Its relationship with its 10 largest customers in terms of revenue averaged approximately 15 years.

### Exhibit 8: Key Customers

*SJS's relationship with its 10 largest customers in terms of sales averaged ~15 years.*

Segments	Key Customers						
Auto OEM	Honda	Suzuki	M&M	Volkswagen	Bajaj Auto	TVS Motor	Royal Enfield
Consumer Durable	Whirlpool	Samsung	Godrej	Eureka Forbes	Panasonic		
Tier 1 Auto Comp Supplier	Visteon	Marelli					
Other	Sensa Core	Geberit					

Source: Company's RHP, IDBI Capital Research

**Exhibit 9: Customer Relationships**

Customer	Industry	Locations Served & commencement Year	Locations Served	Products Offered
TVS Motors	2W	Hosur (2004)	Hosur, Rudrapur and Mysuru	3D lux badges, decal and CD/A
Honda Motorcycle	2W	Gurugram (2007)	Narasapur, Gurugram, Tapukara and Gujarat	3D lux badges, decal and CD/A
Suzuki	2W	Gurugram (2009)	Gurugram	Decal
Bajaj Auto	2W	Pune (2010)	Pune, Aurangabad & Rudrapur	3D lux badges, decal and CD/A
Royal Enfield	2W	Chennai (2010)	Chennai	3D lux badges and decal
Customer D	2W	Surajpur, Uttar Pradesh (2010)	Chennai and Uttar Pradesh	Decal
Customer H	2W	Chennai (2015)	Chennai	IML/IMD
Visteon India	PV	Chennai (1998)	Chennai	Dials and IML/IMD
Customer C	PV	Bengaluru (2009)	Bengaluru	Dial
Customer G	PV	Chennai (2014)	Chennai	Decal
Customer I	PV	Chennai (2016)	Chennai	3D lux badge
Customer A	PV & 2W	Gurugram (1998)	Gurugram, Chennai, Manesar, Narsapur and Gujarat	Dials
Customer B	PV & 2W	Gurugram (2004)	Chennai and Gurugram	Dial
Marelli	PV & 2W	Gurugram (2009)	Gurugram	Dials
Customer E	CV	Hosur (2011)	Hosur and Chennai	3D lux badges and decal
Godrej	Consumer appliances	Mumbai (1993)	Mumbai, Mohali, Shirwal & Chennai	CD/A
Whirlpool India	Con. appliances	Pune (1997)	Puducherry, Pune and Faridabad	3D lux badges, CD/A, aluminium Badges and IML/IMD
Samsung	Con. appliances	Noida (2004)	Chennai and Noida	CD/A
Eureka Forbes	Con. appliances	Bengaluru (2018)	Bengaluru, Solan & Dehradun	IML/IMD
Customer J	2W	Italy (2016)	Italy	CD/A
Visteon	PV	Portugal (2009)	Brazil, USA, Thailand, Russia, Slovakia, Tunisia, Portugal, Vietnam and Mexico	Dials and IML/IMD
Whirlpool	Home Appliances	Italy (2010)	Italy, Poland, Slovakia, USA and Turkey	3D lux badges, CD/A and aluminium badges
Customer F	Con. appliances	Thailand (2014)	Thailand	CD/A

Source: Company's RHP, IDBI Capital Research

**Exhibit 10: Customer & Geographic Sales mix**

Sales (Rs mn)	Years of Relationship	FY19	FY20	FY21
2W India		1,572	1,204	1,303
TVS	18	797	519	541
HMSI	12	386	333	298
Bajaj Auto	15	171	163	283
RE	12	124	101	97
Suzuki	12	93	88	83
PV & 2W India		75	145	266
M&M	24	75	145	266
Consumer appliances India		204	251	290
Whirlpool	25	128	174	172
Samsung	18	76	78	118
PV & 2W India- Global		47	136	151
Global- Visteon	13	47	136	151
Consumer appliances- Global		134	131	188
Global- Whirlpool Italy	12	134	131	188

Source: Company's RHP, IDBI Capital Research; Note: The customer names as inferred by IDBI Capital Research

### ■ Competitive Landscape

- The delivery of high precision aesthetic products, high quality control norms set by OEMs, managing requirements of higher number of stock keeping units (SKUs) and timely innovations are essential requirements of the industry.
- The supplier on boarding process in Automobile and Consumer durable industry is often stringent and time consuming which results into high entry barriers for new suppliers to OEMs.
- The decals, graphics and logos are highly commoditized products and have low barriers to entry or exit leading to a market with a very high degree of fragmentation.
- The Indian decorative aesthetics industry comprises of few players with diversified product portfolio having presence across most of the OEMs.
- SJS Enterprises, Polyplastics Industries, Classic Stripes and are the top three players in terms of revenue.

**Exhibit 11: Product Portfolio with Sales (in comparison with peers)**

Company	Sales (FY20)	Logos	Decals	2D Dials	Traditional Overlays	3D Dials	Capacitive Overlays	Stickers, aluminium badges	Chrome plated parts	IML/IMD	Optical plastics
<b>S.J.S. Enterprises*</b>	<b>2,889</b>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Classic Stripes	3,588	✓	✓	✓	✓	✓	✓				
Monochem Graphics	1,080	✓	✓	✓	✓			✓			
Polyplastics Industries	4,504	✓							✓		
Galva Deco Parts	1,070	✓							✓		
Kongovi	969	✓							✓		
Pragati Industries	-	✓							✓		
PRS Permacel	-		✓					✓			
Unique Labels	-			✓				✓			

Source: Company's RHP, IDBI Capital Research; NOTE: SJS Enterprises\* Sales for FY20 is including subsidiary Exotech revenue of Rs 728mn

- In terms of Industry exposure, SJS is present across all the segments as shown in the table above compared to competitors which are either present in two or six segments.
- The following is the summary financial indicators for key aesthetics industry players

**Exhibit 12: Key aesthetics industry financial summary**

Rs mn (FY20)	Sales	CAGR FY 2014-2020 (%)	Exports (%)	EBITDA margin (%)	PAT margin (%)	ROCE (%)	ROE (%)	D/E
Polyplastics Industries	4,504	13	8	12.2	4.9	13	12	0.6
Classic Stripes	3,588	2	0	28.9	11.8	26	19	0.5
<b>S.J.S. Enterprises*</b>	<b>2,889</b>	<b>15</b>	<b>15</b>	<b>31.9</b>	<b>18.0</b>	<b>23</b>	<b>17</b>	<b>0.0</b>
PRS Permacel	1,351	9	0	1.9	-1.5	3	-22	3.6
Monochem Graphics	1,080	11	0	24.2	28.0	18	13	0.0
Galva Deco Parts	1,070	24	0	22.7	-3.6	6	-10	2.9
Kongovi	969	10	25	17.2	7.0	10	12	1.0

Source: Company's RHP, IDBI Capital Research; NOTE: The Monochem PAT margin includes non-operating income \*SJS Enterprises Sales for FY20 is including subsidiary Exotech revenue of Rs 728mn

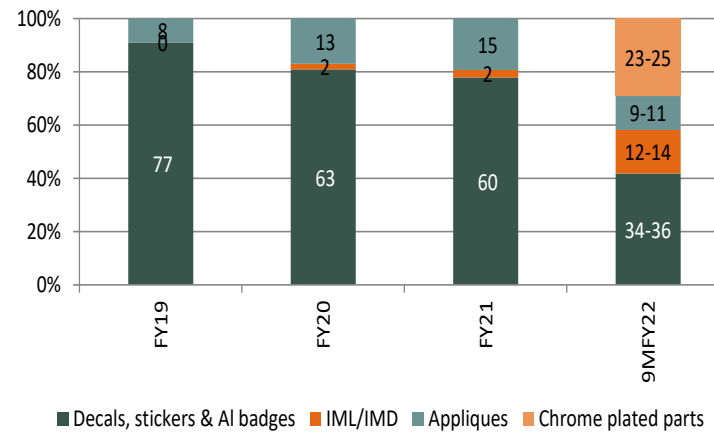
- In the Indian Aesthetics market of Rs 19.9bn (as on FY21), around 55% Sales contribution is from top three players namely Polyplastics Industries, Classic Stripes and SJS Enterprises.
- On financial parameters when compared to peers, SJS outperformed based on high Sales CAGR, higher proportion of exports, high profitability margins and debt free status.
- On Global level, Serigraph Inc. (earlier JV in 2006) is one of the company's competitors.
- Serigraph expertise includes printing, advanced decorating technologies and graphic solutions for the Automotive, Appliance, Consumer, Medical, Power Sports and Point-of-Purchase markets with decorating plastics being the core business.
- On products offering compared to SJS, it is present across IML/ IMD, Display panels, Decals & labels 2D & 3D Appliques, 3D Badges, Bezels, Dials & gauges, etc.

**Acquisition of Exotech Ltd**

- Acquired on April 5, 2021 by SJS, Exotech Plastics business includes manufacturing, assembling, producing, painting, chrome plating including injection moulded items etc.
- Exotech’s customer base includes leading passenger vehicles automotive OEMs and Tier-1 suppliers and customers in 2W, PV, CD, Farm equipment and Sanitary ware industries
- Exotech was acquired on share purchase basis upon payment of Rs 640mn with which company forayed into Chrome plating business in FY22.
- This acquisition is likely to enhance company’s product portfolio, manufacturing capabilities and customer base and will also help in enhancing cross-selling opportunities.

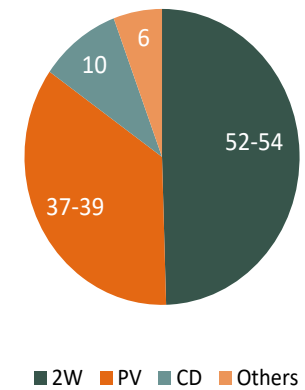
**Market Opportunity**

**Exhibit 13: Company’s product mix (%)**



Source: Company’s RHP, Investor presentation, IDBI Capital Research

**Exhibit 14: Aesthetic Industry split across key end segments as on 9MFY22 (%)**

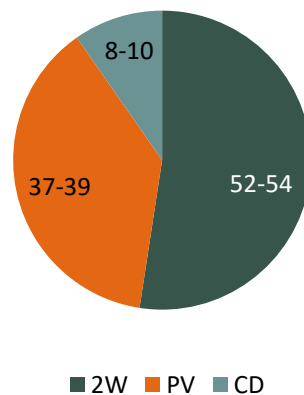


Source: Company’s RHP, Investor presentation, IDBI Capital Research

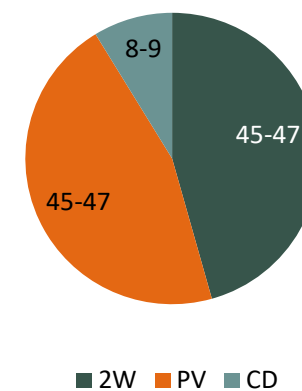
**Exhibit 15: Company's Industry sales mix**

Revenue mix	FY19	FY20	FY21	9MFY22
<b>Automotive OEMs and Tier-1 suppliers:</b>				
2W's Sales	1,660	1,325	1,460	1,063
<i>as % Revenue</i>	70	61	58	40
PV's Sales	243	318	418	797
<i>as % Revenue</i>	10	15	17	30
Others Sales	3	8	9	266
<i>as % Revenue</i>	0.1	0.4	0.4	10
<b>Consumer appliance manufacturers</b>				
	466	510	629	532
<i>as % Revenue</i>	20	24	25	20
<b>Total Revenue</b>	<b>2,373</b>	<b>2,162</b>	<b>2,516</b>	<b>2,658</b>

Source: Company's RHP, IDBI Capital Research

**Exhibit 16: Aesthetic demand by application segment (~Rs 19.9bn in FY21) (%)**

Source: Company's RHP, Crisil Research, IDBI Capital Research

**Exhibit 17: Aesthetic demand by application segment (~Rs 49.2bn in FY26E) (%)**

Source: Company's RHP, Crisil Research, IDBI Capital Research

In terms of Aesthetic demand by application segment, as per CRISIL research and estimates, the equal mix of 2W & PV segments are expected by FY26, where the industry is expected to grow at CAGR ~20%.

### ■ Risk

- Higher dependence on customers in automotive and consumer appliance industries and decline in their performance in India or globally could impact SJS's business.
- The loss of key customers or significant reduction in production and Sales or demand for company's products from customers may materially and adversely affect the business.

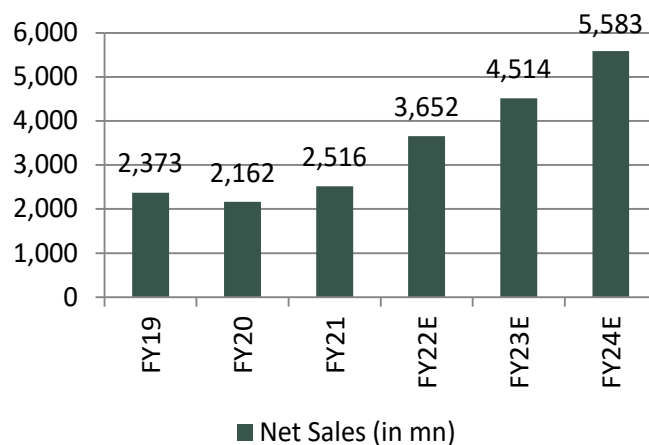
### ■ Valuations and Recommendations

- **We expect SJS to report 24% Sales CAGR and 34% PAT CAGR over FY22-24E.**
- **Attractive business Model:** SJS is High growth-Low capex -High ROCE – Cash Generating business model. It is net debt free entity with Rs 1bn cash on balance sheet.
- **Initiate coverage with a BUY:** We believe, valuation is a function of growth potential and strength of the Company. On both front the Company stands solid. SJS stock is currently quoting at PER of 12x FY24E. Given the high growth potential, high ROCE profile and cash generating status we expect PE re-rating is imminent. We initiate coverage on SJS with price target of Rs600 (18x FY24) indicating 71% upside.

The annual production capacity of SJS's Bengaluru and Pune facilities as on FY21 at 210mn and 30mn products, respectively. In FY21, SJS and its Subsidiary produced 92mn and 16mn products respectively, resulting in capacity utilization rates of 44% and 53% respectively.

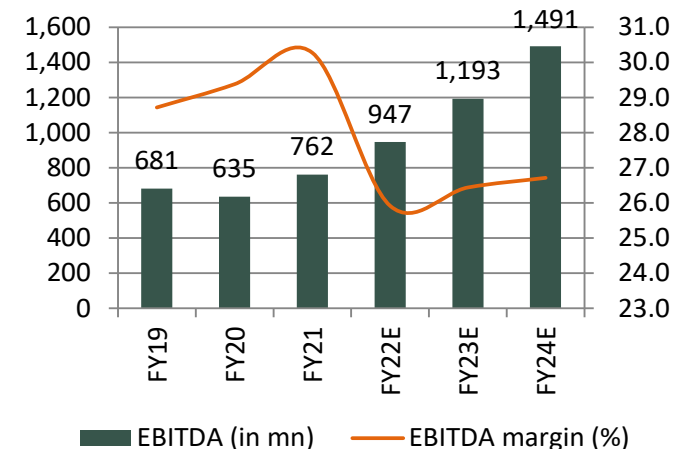
## Financial overview

Exhibit 18: Net Sales (Rs mn)



Source: Company's RHP, IDBI Capital Research

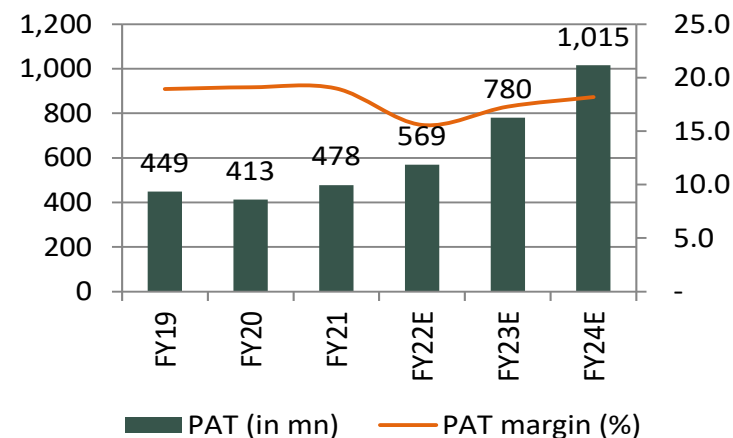
Exhibit 19: EBITDA & EBITDA margins (%)



Source: Company's RHP, IDBI Capital Research

- **Sales to grow by 24% CAGR over FY22-24E:** SJS is likely to report strong 24% sales CAGR over FY22-24E, equally supported by domestic business (18% Sales CAGR) and Exports business (55% Sales CAGR).
- **Margins to remain stable:** The Company is expected to maintain its EBITDA margins in the range of 24% to 26% on account of firm demand outlook, robust order growth and strong operating leverage.

Exhibit 20: PAT &amp; PAT margins (%)



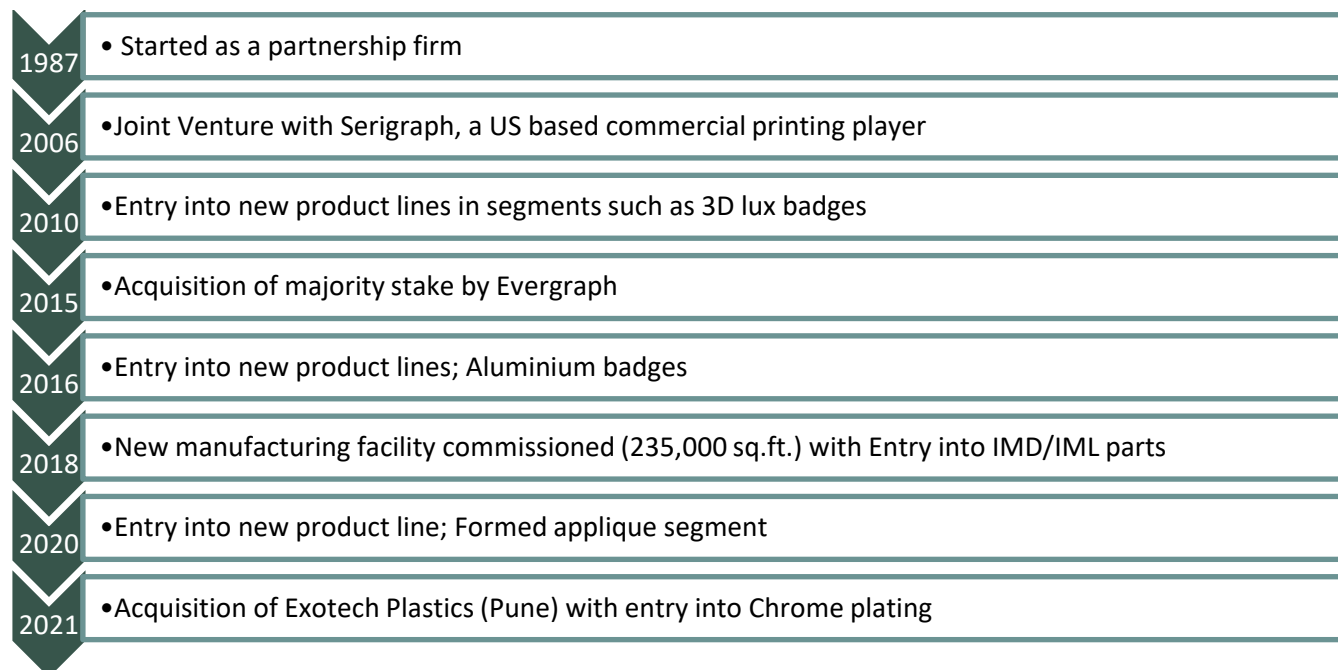
Source: Company's RHP, IDBI Capital Research

- Profit to grow at 34% CAGR over FY22-24E:** Net profit of the Company is expected to grow at a CAGR of 34% over FY22-24E to Rs 780mn in FY23E and Rs 1,015mn in FY24E respectively.
- Return Ratios to Improve:** Superior growth and sustained operating margins are likely to improve return ratios significantly. ROE and ROCE are expected expand from 16.9% and 16.7% in FY22 to 22.3% and 22.1% in FY24E respectively.

### ■ Company Background

- SJS is one of the top leading players in the Indian decorative aesthetics.
- The Company is design-to-delivery aesthetics solutions provider with the ability to design, develop and manufacture a diverse product portfolio for a wide range of customers primarily in the Automotive and Consumer Appliance industries.
- It provides widest range of products with presence across traditional and premium products.
- The end markets served are 2W, PV, CD, CV, Medical devices, Farm equipment & sanitary ware.
- It supplied over 115 million parts with more than 6,000 SKUs in FY21 to around 170 customer locations in approximately 90 cities across 20 countries.

### ■ Evolution of company



**Company Products**

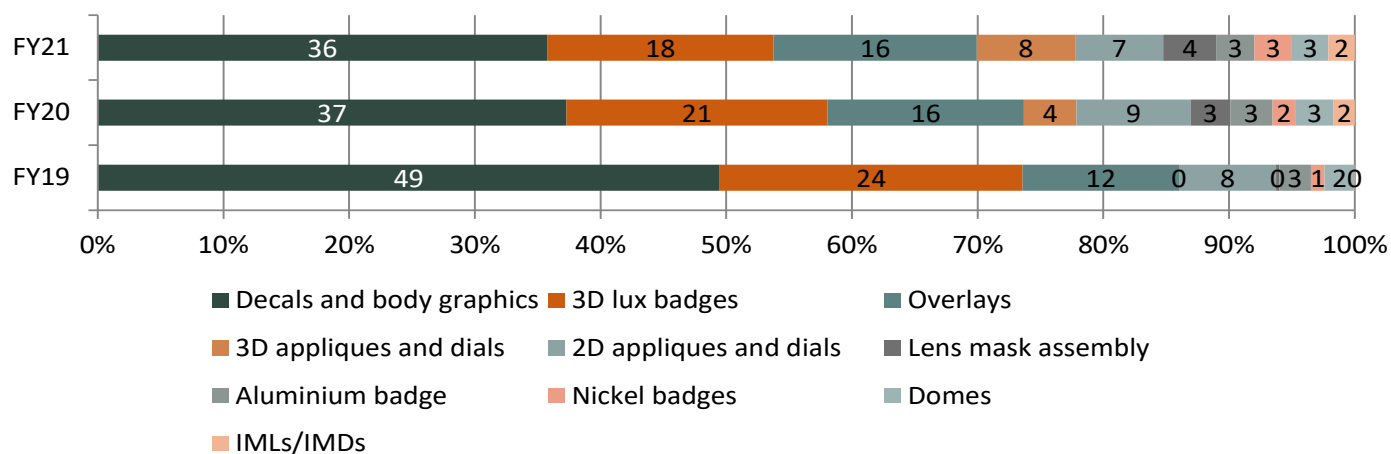
- SJS’s product portfolio comprises of total 11 product categories (Chrome plating added in FY21).
- As on FY21, 70% of Sales was from Decals and body graphics, 3D lux badges and Overlays segments. The classification of traditional and premium products is given below.

**Exhibit 21: List of Traditional & Premium products**

Traditional Products	Premium Products
Logos	3D Dials
Decals	Capacitive Overlays
Stickers/ aluminium badges	IML/IMDs
Chrome plated parts	Optical Plastics
2D Dials	
Traditional Overlays	




Source: Company’s RHP, IDBI Capital Research

**Exhibit 22: Product wise sales contribution (%)**



Source: Company’s RHP, IDBI Capital Research

## Exhibit 23: Product details and description

Product	Details
 <p data-bbox="936 491 1310 523"><b>Decals &amp; Body Graphics</b></p>	<p data-bbox="1489 276 1780 308"><b>Decals &amp; body graphics:</b></p> <ul data-bbox="1489 327 2161 486" style="list-style-type: none"> <li>• These are used in 2W &amp; PV and applied on body of vehicle to enhance its appearance.</li> <li>• It is weather resistance, with up to 5 years of outdoor life, easy cleaning and high gloss.</li> </ul>
 <p data-bbox="907 762 1317 794"><b>Logos (3D Lux &amp; Domes)</b></p>	<p data-bbox="1489 571 1668 603"><b>3D lux badges:</b></p> <ul data-bbox="1489 622 2161 782" style="list-style-type: none"> <li>• 3D lux badges are typically used in 2W &amp; PV to showcase a customer's logo or brand.</li> <li>• The products come with different colours, finishes, shapes and curvatures.</li> </ul>
 <p data-bbox="1030 1050 1176 1082"><b>Overlays</b></p>	<p data-bbox="1489 850 1601 882"><b>Overlays:</b></p> <ul data-bbox="1489 901 2161 1093" style="list-style-type: none"> <li>• These are used in consumer appliances control panels and work as the interface between users and machines.</li> <li>• These come in different materials, colours, finishes and thickness options.</li> </ul>
 <p data-bbox="862 1369 1288 1401"><b>2D &amp; 3D Appliques &amp; Dials</b></p>	<p data-bbox="1489 1129 1848 1161"><b>2D &amp; 3D appliques and dials:</b></p> <ul data-bbox="1489 1181 2161 1404" style="list-style-type: none"> <li>• The 2D appliques and dials are used in 2W &amp; PV as speed or revolutions per minute (RPM) indicators in speedometer clusters.</li> <li>• The 3D appliques and dials are aesthetically superior over 2D where specialized ink and LEDs are used.</li> </ul>



**Lens Mask Assembly**

**Lens mask assembly:**

- It is used as a digital speedometer and information system for 2W.
- It is use to mask the digital instrument cluster display.

**Whirlpool**

**SAMSUNG**

**Aluminium Badges & Electroform Badges**

**Aluminum badges:**

- These are used in 2W, PV & consumer appliances as brand displays or to communicate special instructions on hard surfaces.



**In - Mould Labeling**

**IMLs/IMD:**

- These are used products such as control panels in vehicles and consumer appliances, branding logos and decorative plastics.
- These products are touch-sensitive control panels with conductive and non-conductive ink with offerings in multiple colours, finishes and thickness option.



**Chrome Parts / Painting**

**Chrome plated and painted products:**

- These are injection moulded parts coated with chrome to make the product visually more appealing.
- It includes Wheel covers, Monograms, Nameplates, Rear and front appliques, Radiator grills, Bumper parts, Bezels Door handles and Instrument panel housings.

Source: Company's Investor Presentation, IDBI Capital Research

## ■ Management Team

### Exhibit 24: Company's Management team

Name	Designation	Details
K A Joseph	MD, Promoter & Co-founder	He has more than 34 years of experience in aesthetics printing business and leads the manufacturing operations for the Company.
Sanjay Thapar	Executive Director and CEO	He has over 30 years of experience in the auto industry. Previously was Group Chief Strategy Officer with Ashok Minda Group and MD of Minda Valeo Security Systems.
Ramesh Chandra Jain	Non-Exec Chairman & Independent Director	He worked for 25 years with Eicher group and retired as group vice chairman.

*Source: Company's Investor Presentation*

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net sales</b>	<b>2,373</b>	<b>2,162</b>	<b>2,516</b>	<b>3,652</b>	<b>4,514</b>	<b>5,583</b>
<i>Change (yoy, %)</i>	5	(9)	16	45	24	24
Operating expenses	(1,691)	(1,527)	(1,755)	(2,706)	(3,320)	(4,092)
<b>EBITDA</b>	<b>681</b>	<b>635</b>	<b>762</b>	<b>947</b>	<b>1,193</b>	<b>1,491</b>
<i>Change (yoy, %)</i>	(21)	(7)	20	24	26	25
<i>Margin (%)</i>	28.7	29.4	30.3	25.9	26.4	27
Depreciation	(97)	(128)	(147)	(221)	(239)	(263)
<b>EBIT</b>	<b>584</b>	<b>507</b>	<b>614</b>	<b>726</b>	<b>954</b>	<b>1,229</b>
Interest paid	(17)	(15)	(8)	(8)	(8)	(8)
Other income	35	51	35	41	94	133
<b>Pre-tax profit</b>	<b>530</b>	<b>544</b>	<b>642</b>	<b>758</b>	<b>1,041</b>	<b>1,354</b>
Tax	(154)	(131)	(164)	(190)	(260)	(338)
<i>Effective tax rate (%)</i>	29.0	24.0	25.6	25.0	25.0	25.0
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>376</b>	<b>413</b>	<b>478</b>	<b>569</b>	<b>780</b>	<b>1,015</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>376</b>	<b>413</b>	<b>478</b>	<b>569</b>	<b>780</b>	<b>1,015</b>
<i>Change (yoy, %)</i>	(37)	10	16	19	37	30
EPS	12.4	13.6	15.7	18.7	25.6	33.4
Dividend per sh	-	-	4	5	6	8
<i>Dividend Payout %</i>	-	-	25	25	25	25

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Shareholders' funds</b>	<b>2,386</b>	<b>2,797</b>	<b>3,152</b>	<b>3,579</b>	<b>4,164</b>	<b>4,926</b>
Share capital	304	304	304	304	304	304
Reserves & surplus	2,081	2,492	2,848	3,274	3,860	4,621
<b>Total Debt</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other liabilities	101	119	92	92	92	92
<b>Curr Liab &amp; prov</b>	<b>686</b>	<b>416</b>	<b>458</b>	<b>695</b>	<b>859</b>	<b>1,063</b>
Current liabilities	676	407	445	677	837	1,035
Provisions	11	9	13	18	23	28
<b>Total liabilities</b>	<b>801</b>	<b>526</b>	<b>537</b>	<b>769</b>	<b>929</b>	<b>1,127</b>
<b>Total equity &amp; liabilities</b>	<b>3,187</b>	<b>3,323</b>	<b>3,689</b>	<b>4,348</b>	<b>5,093</b>	<b>6,053</b>
Net fixed assets	1,454	1,490	1,452	1,381	1,341	1,328
Investments	550	696	815	815	815	815
Other non-curr assets	424	258	52	52	52	52
<b>Current assets</b>	<b>758</b>	<b>878</b>	<b>1,371</b>	<b>2,101</b>	<b>2,885</b>	<b>3,858</b>
Inventories	247	278	332	580	717	886
Sundry Debtors	458	448	597	759	938	1,160
Cash and Bank	29	108	376	666	1,113	1,666
Loans and advances	24	42	61	89	110	136
<b>Total assets</b>	<b>3,187</b>	<b>3,323</b>	<b>3,689</b>	<b>4,348</b>	<b>5,093</b>	<b>6,053</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	530	544	642	758	1,041	1,354
Depreciation	97	128	147	221	239	263
Tax paid	(154)	(131)	(164)	(190)	(260)	(338)
Chg in working capital	162	(308)	(185)	(205)	(177)	(220)
Other operating activities	34	19	(27)	-	-	-
<b>Cash flow from operations (a)</b>	<b>669</b>	<b>251</b>	<b>413</b>	<b>585</b>	<b>843</b>	<b>1,059</b>
Capital expenditure	(634)	(150)	(54)	(150)	(200)	(250)
Chg in investments	9	(145)	(119)	-	-	-
Other investing activities	(34)	149	150	(2)	(1)	(2)
<b>Cash flow from investing (b)</b>	<b>(659)</b>	<b>(146)</b>	<b>(23)</b>	<b>(152)</b>	<b>(201)</b>	<b>(252)</b>
Equity raised/(repaid)	22	(0)	(0)	(0)	(0)	(0)
Debt raised/(repaid)	(261)	(25)	0	-	-	-
Dividend (incl. tax)	-	-	(122)	(142)	(195)	(254)
Chg in minorities	220	(2)	(0)	-	-	-
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(19)</b>	<b>(26)</b>	<b>(122)</b>	<b>(142)</b>	<b>(195)</b>	<b>(254)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(9)</b>	<b>79</b>	<b>269</b>	<b>290</b>	<b>447</b>	<b>553</b>

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	78	92	104	118	137	162
Adj EPS (Rs)	12.4	13.6	15.7	18.7	25.6	33.4
Adj EPS growth (%)	(38)	10	16	19	37	30
EBITDA margin (%)	28.7	29.4	30.3	25.9	26.4	26.7
Pre-tax margin (%)	22.3	25.1	25.5	20.8	23.1	24.2
Net Debt/Equity (x)	0.0	0.0	(0.1)	(0.2)	(0.3)	(0.3)
ROCE (%)	26	19	20	21	24	26
ROE (%)	18	16	16	17	20	22

### DuPont Analysis

Asset turnover (x)	0.8	0.7	0.7	0.9	1.0	1.0
Leverage factor (x)	1.4	1.3	1.2	1.2	1.2	1.2
Net margin (%)	15.8	19.1	19.0	15.6	17.3	18.2

### Working Capital & Liquidity ratio

Inventory days	38	47	48	58	58	58
Receivable days	70	76	87	76	76	76
Payable days	55	51	22	25	25	25

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	29	26	23	19	14	11
Price/Book value (x)	4.5	3.9	3.4	3.0	2.6	2.2
EV/Net sales (x)	5	5	4	3	2	2
EV/EBITDA (x)	16	17	14	11	8	6
Dividend Yield (%)	0.0	0.0	1.1	1.3	1.8	2.3

Source: Company; IDBI Capital Research



# Notes

Dealing

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