

SJS ENTERPRISES

BUY

Strong Growth Guidance

Summary

SJS Q1FY23 results were in line with our estimates. The Company continues to outgrow industry growth and reported 54% YoY sales growth in its automotive segment while domestic 2W and PV industry production volumes combined grew by 37% YoY. During the quarter, SJS added new orders from its existing and new clients including Continental, Marelli, Stellantis, Whirlpool and Alladio etc. providing strong sales visibility for its export business. Under the medium strategy, the Company plans to grow its sales organically by ~25% CAGR over FY22-25E. We are retaining our Sales and PAT estimates for FY23 and FY24. We expect SJS to report 24% Sales CAGR and 36% PAT CAGR over FY22-24. We retain our BUY rating on the stock with a price target of Rs600 (18x FY24E).

Key Highlights and Investment Rationale

- Q1FY23 Result Highlights:** Sales grew by 38.9% YoY to Rs1032mn (Our Estimates Rs1072mn). EBITDA margins expanded by 107bps YoY to 24.7% (Our Estimates 24%) on account of improvement Gross Margins on QoQ basis. PAT increased by 71% YoY to Rs162mn (Our Estimates Rs156mn).
- Operational Highlights:** During Q1FY23, the Company outperformed industry growth rate and reported 53.5% YoY sales growth vs. 37.4% growth in domestic 2W and PV industry production volumes. SJS bagged several key projects from Stellantis, Continental, Alladio, Marelli, Mahindra & Mahindra, Bajaj Auto, TVS, Maruti Suzuki and Samsung etc which provides strong growth visibility for its domestic and export business.

TP	Rs 600
CMP	Rs 441
Potential upside/downside	36%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(89.6)	13.2	--
Rel to Sensex	(97.4)	6.7	--

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	25.6	33.3
Consensus	--	--
% difference	--	--

Key Stock Data

Bloomberg/Reuters	SJS IN
Sector	Auto Ancillary
Shares o/s (mn)	30
Market cap. (Rs mn)	13,416
3-m daily avg Trd value (Rs mn)	4.8
52-week high / low	551 / 340
Sensex / Nifty	58,388 / 17,398

Shareholding Pattern (%)

Promoters	50.4
FII	5.1
DII	18.4
Public	26.1

Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	2,162	2,516	3,699	4,578	5,673
Change (yoy, %)	(9)	16	47	24	24
EBITDA	635	762	944	1,211	1,518
Change (yoy, %)	(7)	20	24	28	25
EBITDA Margin(%)	29.4	30.3	25.5	26.4	26.8
Adj.PAT	413	478	550	780	1,015
EPS (Rs)	13.6	15.7	18.1	25.6	33.3
Change (yoy, %)	10	16	15	42	30
PE(x)	33	28	24	17	13
Dividend Yield (%)	-	1	1	1	2
EV/EBITDA (x)	21	17	14	11	8
RoE (%)	16	16	16	20	22
RoCE (%)	19	20	21	24	26

Source: IDBI Capital Research

- **Strong Growth Guidance:** For FY23, the Management expects ~25% sales growth on account of rebound in domestic 2W, PV and Consumer Durables. The Company holds order book of ~90% of its FY23 forecasted sales. Under its medium term strategy, the Company anticipates ~25% Sales CAGR over FY23-25 on account of a) Buoyancy in exports b) New customer wins and premiumization trend in domestic market and C) Capacity Expansion in chrome plating business.
- **Retain Earnings Estimates:** We retain our PAT estimates for FY23E and FY24E. We expect SJS to report 24% Sales CAGR and 36% PAT CAGR over FY22-24. The Company continues to hold a strong cash position with ~Rs1.2bn on its Balance Sheet.
- **BUY:** SJS is a most efficient player with a comprehensive product portfolio in the Indian decorative aesthetic industry. It is well placed to benefit from industry tailwinds (Industry to grow at 20% CAGR FY21-26E). SJS stock is currently quoting at PER of 13.2x FY24E. Given the high growth potential, high ROCE profile and cash generating status, we expect earning expansion and PE re-rating is imminent. We retain our BUY rating on the stock with a price target of Rs600 (18x FY24).

Conference call takeaways:

- The Company announced appointment of new CFO, Mahindra Naredi who has more than 20+ years of experience in automotive industry in India as well as European locations.
- SJS has again outperformed the overall industry on YoY basis and also expects an 25% YoY revenue growth on account of positive outlook for 2W, PV & consumers durables.
- SJS mainly focused on Premiumisation, new customer's addition & exports which is driving the sales growth and helping it to outperform the industry.
- The Company current order book to be executed in FY23 is 90% approx. of FY23 forecasted revenue
- SJS added a new customer to his portfolio Alladia form Argentina & also expanded their presence in US by winning business form 2 new plants of whirlpool.
- Exotech won its first business in exports markets for chrome plating parts form whirlpool.
- The Company has acquired 7.5 acres of land at Pune to expand its chrome plating capacity.
- SJS Expects domestic 2W & PV industry outlook to be better as there is improvement in chip availability
- Exports were impacted for the company on account of Russia Ukraine war leading to lower demand and supply chain constraints of raw materials.
- The company major revenue has come from the 2W that was around Rs 464mn followed by 4W which was Rs 311mn so further improvement in this two segments can drive the growth for SJS.
- Capex plan for the company that is in pipeline is around Rs1000mn spread over 18 to 24 months to be funded form the company's cash flow and targeted ROCE will be around 20% this capex will be in the chrome plating segment.

Exhibit 1: Quarterly Snapshot

Consolidated (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ(%)
Net Sales	1,032	743	38.9	1,041	(0.9)
Expenditure	777	567	37.0	787	(1.2)
<i>as % of sales</i>	75.3	76.4		75.6	
Consumption of RM	450	309	45.5	473	(4.9)
<i>as % of sales</i>	43.6	41.6		45.4	
Employee Cost	136	120	13.6	132	3.2
<i>as % of sales</i>	13.2	16.2		12.7	
Other expenditure	191	138	38.3	182	5.1
<i>as % of sales</i>	18.5	18.6		17.5	
EBITDA	255	176	45.2	255	0.2
Depreciation	55	51	8.1	54	2.0
EBIT	200	125	60.4	200	(0.3)
Other Income	23	10	127.3	12	87.3
Interest	7	7	(4.3)	8	(10.4)
PBT	216	128	69.4	205	5.3
Total Tax	54	33	65.5	52	4.8
Extra ordinary items Loss/(Gain)	0	0		0	
Reported PAT	162	95	70.7	154	5.5
Adjusted EPS	5.3	3.1	70.7	5.0	5.5
Margins (%)			YoY (bps)		QoQ (bps)
EBIDTA	24.7	23.6	107	24.4	26
EBIT	19.4	16.8	259	19.3	11
EBT	21.0	17.2	377	19.7	124
PAT	15.7	12.8	293	14.8	96
Effective Tax rate	25.0	25.6	(58)	25.1	(12)

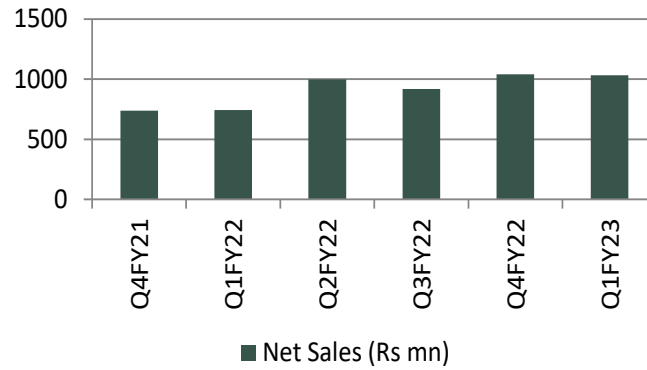
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

	Actual	IDBI Est	Variance (%)
Net Sales	1,032	1,072	(3.8)
EBIDTA	255	257	(0.8)
<i>EBITDA margin (%)</i>	24.7%	23.9%	0.74
Adj. PAT	162	156	3.9

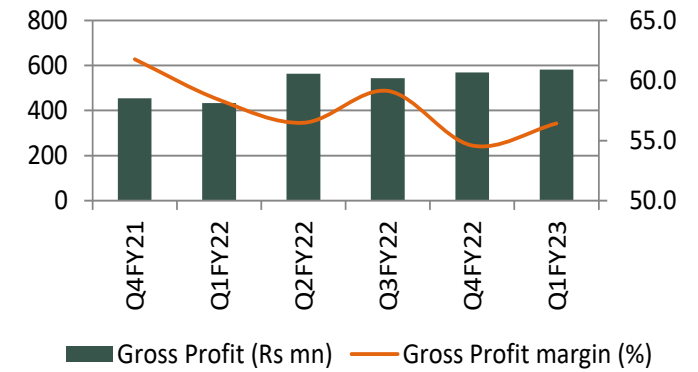
Source: IDBI Capital Research

Exhibit 3: Quarterly Sales trend



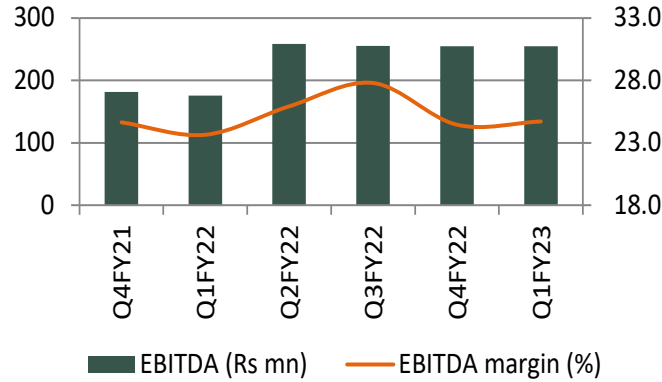
Source: Company Data.

Exhibit 4: Quarterly Gross Profit and margins (%)



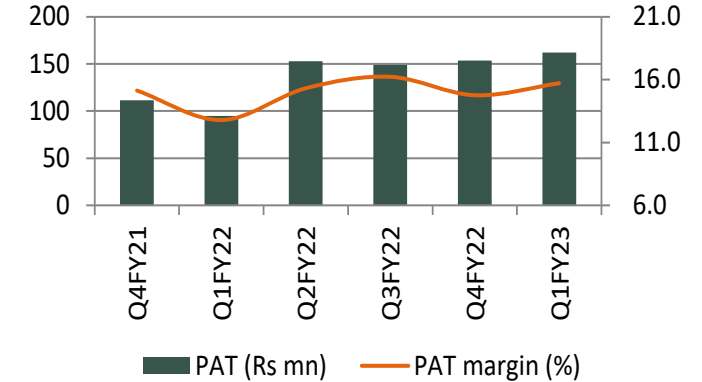
Source: Company Data.

Exhibit 5: Quarterly EBITDA and margins (%)



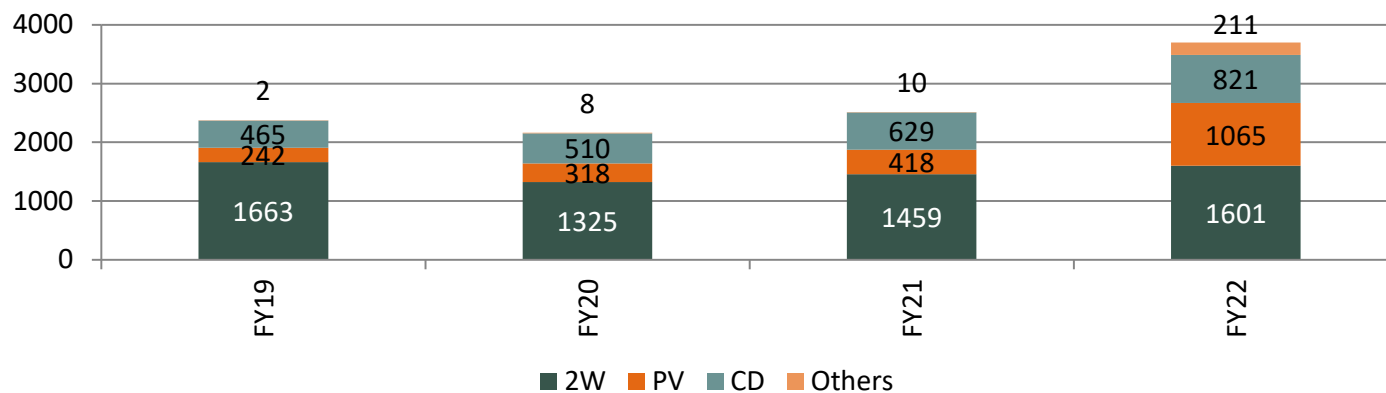
Source: Company Data.

Exhibit 6: Quarterly PAT and margins (%)



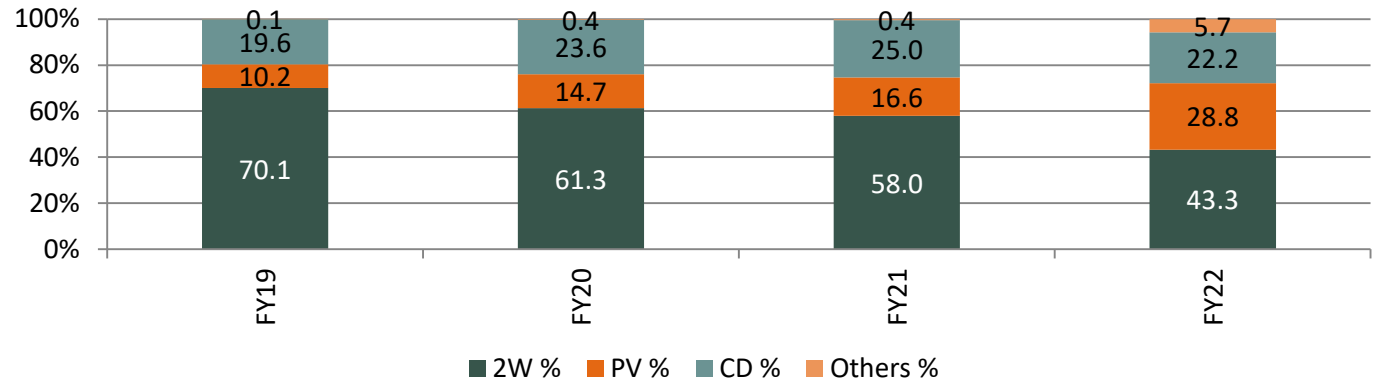
Source: Company Data.

Exhibit 7: Revenue by Segment (Rs mn)



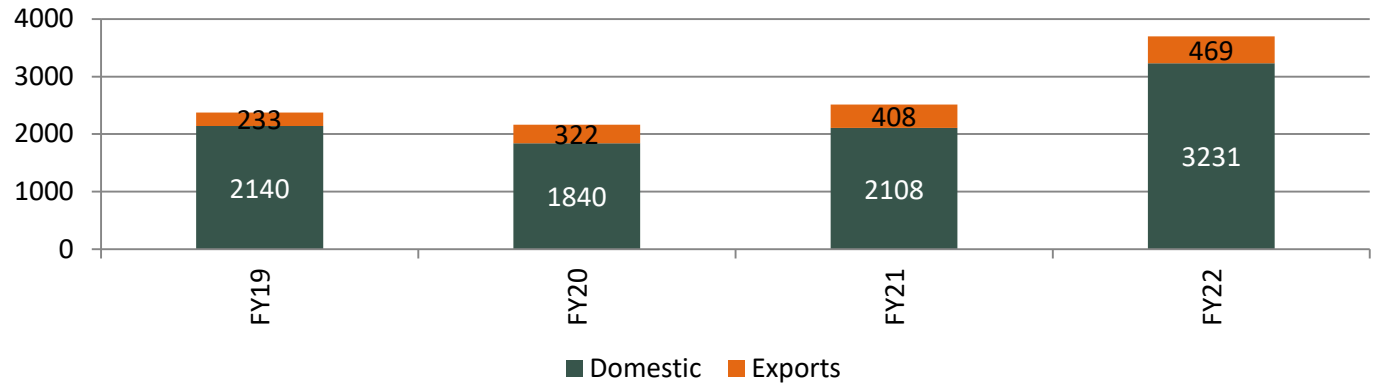
Source: Company, IDBI Capital Research. Note: FY19, FY20 and FY21 are Standalone financials. CD- Consumer durables

Exhibit 8: Revenue by Segment (%)



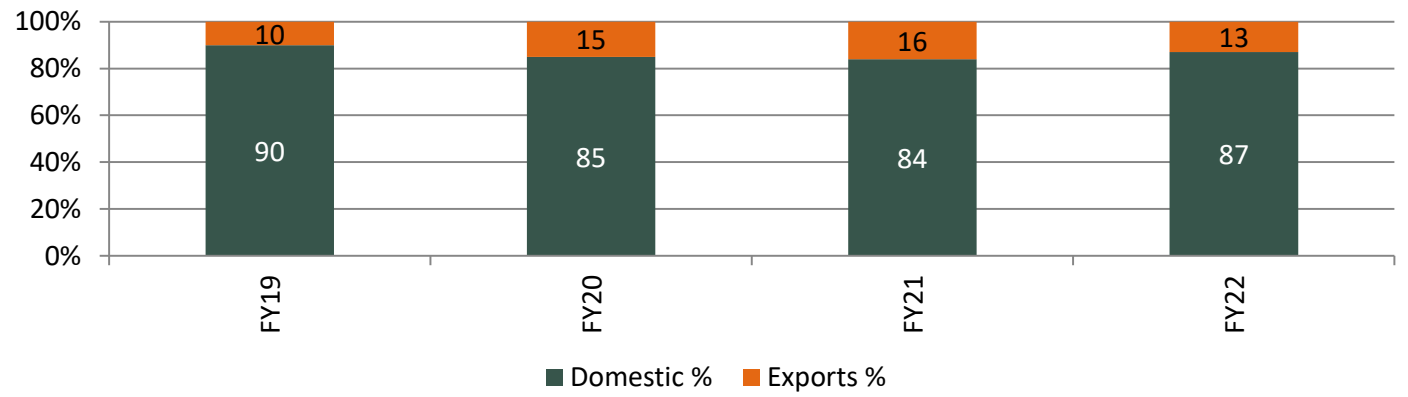
Source: Company, IDBI Capital Research. Note: FY19, FY20 and FY21 are Standalone financials. CD- Consumer durables

Exhibit 9: Revenue by Geography (Rs mn)



Source: Company, IDBI Capital Research. Note: FY19, FY20 and FY21 are Standalone financials

Exhibit 10: Revenue by Geography (%)



Source: Company, IDBI Capital Research. Note: FY19, FY20 and FY21 are Standalone financials

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	2,373	2,162	2,516	3,699	4,578	5,673
<i>Change (yoy, %)</i>	5	(9)	16	47	24	24
Operating expenses	(1,691)	(1,527)	(1,755)	(2,755)	(3,367)	(4,155)
EBITDA	681	635	762	944	1,211	1,518
<i>Change (yoy, %)</i>	(21)	(7)	20	24	28	25
<i>Margin (%)</i>	28.7	29.4	30.3	25.5	26.4	27
Depreciation	(97)	(128)	(147)	(216)	(234)	(264)
EBIT	584	507	614	728	977	1,254
Interest paid	(17)	(15)	(8)	(30)	(15)	(11)
Other income	35	51	35	42	79	111
Pre-tax profit	530	544	642	739	1,041	1,353
Tax	(154)	(131)	(164)	(189)	(260)	(338)
<i>Effective tax rate (%)</i>	29.0	24.0	25.6	25.6	25.0	25.0
Minority Interest	-	-	-	-	-	-
Net profit	376	413	478	550	780	1,015
Exceptional items	-	-	-	-	-	-
Adjusted net profit	376	413	478	550	780	1,015
<i>Change (yoy, %)</i>	(37)	10	16	15	42	30
EPS	12.4	13.6	15.7	18.1	25.6	33.3
Dividend per sh	-	-	4	4	5	7
<i>Dividend Payout %</i>	-	-	25	20	20	20

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	2,386	2,797	3,152	3,605	4,228	5,038
Share capital	304	304	304	304	304	304
Reserves & surplus	2,081	2,492	2,848	3,300	3,923	4,733
Total Debt	25	0	0	126	126	126
Other liabilities	101	119	92	100	100	100
Curr Liab & prov	686	416	458	639	790	980
Current liabilities	676	407	445	630	780	967
Provisions	11	9	13	8	10	13
Total liabilities	801	526	537	856	1,006	1,193
Total equity & liabilities	3,187	3,323	3,689	4,461	5,234	6,230
Net fixed assets	1,454	1,490	1,452	1,786	2,102	2,488
Investments	550	696	815	784	784	784
Other non-curr assets	424	258	52	-	-	-
Current assets	758	878	1,371	1,891	2,347	2,958
Inventories	247	278	332	416	487	604
Sundry Debtors	458	448	597	858	876	1,085
Cash and Bank	29	108	376	225	564	818
Loans and advances	24	42	61	349	367	384
Total assets	3,187	3,323	3,689	4,461	5,234	6,230

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	530	544	642	739	1,041	1,353
Depreciation	97	128	147	216	234	264
Tax paid	(154)	(131)	(164)	(189)	(260)	(338)
Chg in working capital	162	(308)	(185)	(157)	43	(157)
Other operating activities	34	19	(27)	(15)	-	-
Cash flow from operations (a)	669	251	413	593	1,057	1,121
Capital expenditure	(634)	(150)	(54)	(550)	(550)	(650)
Chg in investments	9	(145)	(119)	30	-	-
Other investing activities	(34)	149	150	(2)	(1)	(2)
Cash flow from investing (b)	(659)	(146)	(23)	(522)	(551)	(652)
Equity raised/(repaid)	22	(0)	(0)	(39)	-	-
Debt raised/(repaid)	(261)	(25)	0	126	-	-
Dividend (incl. tax)	-	-	(122)	(111)	(158)	(205)
Other financing activities	220	(2)	(0)	13	-	-
Cash flow from financing (c)	(19)	(26)	(122)	(11)	(158)	(205)
Net chg in cash (a+b+c)	(9)	79	269	60	349	264

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	78	92	104	118	139	166
Adj EPS (Rs)	12.4	13.6	15.7	18.1	25.6	33.3
Adj EPS growth (%)	(38)	10	16	15	42	30
EBITDA margin (%)	28.7	29.4	30.3	25.5	26.4	26.8
Pre-tax margin (%)	22.3	25.1	25.5	20.0	22.7	23.9
Net Debt/Equity (x)	0.0	0.0	(0.1)	0.0	(0.1)	(0.1)
ROCE (%)	26	19	20	21	24	26
ROE (%)	18	16	16	16	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	14.9	17.0	17.9

Working Capital & Liquidity ratio

Inventory days	38	47	48	41	39	39
Receivable days	70	76	87	85	70	70
Payable days	55	51	22	41	41	42

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	36	33	28	24	17	13
Price/Book value (x)	5.6	4.8	4.3	3.7	3.2	2.7
EV/Net sales (x)	6	6	5	4	3	2
EV/EBITDA (x)	20	21	17	14	11	8
Dividend Yield (%)	0	0	1	1	1	2

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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