



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

SIMMONDS MARSHALL LTD.	BSE CODE: 507998
Industry: Auto Parts & Equipment	CMP: Rs. 89.05 (09/08/2015)
Market Cap: 99.74 (INR in Crore)	Target Price: Rs. 170
Date: Aug 09, 2015	Time Period: 12 – 24 months



Saral Gyan Capital Services

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1. Company Background

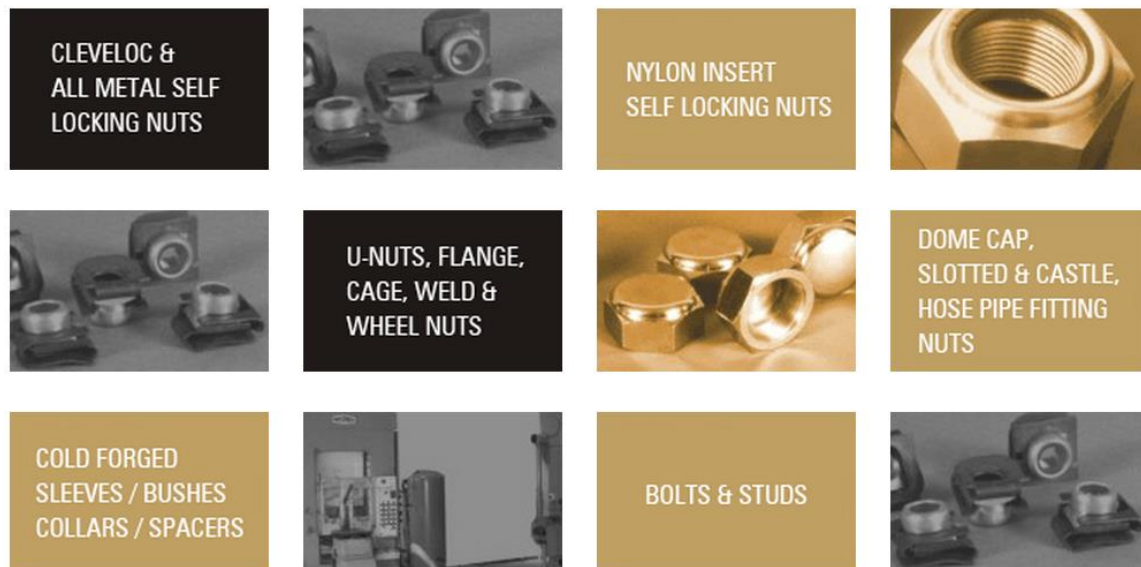


Simmonds Marshall Limited is engaged in the business of manufacturing of nyloc self locking nuts (industrial fasteners). Its products include cleveloc self-locking nut, nyloc self-locking nut, u-nuts and wheel nuts, cap nuts, castle nuts, hose fitting nuts, flange nuts, cage nuts and weld nuts.

The Company caters to the automotive and industrial sectors and supplies to all the automobile manufacturers in India, as well as original equipment (OE) suppliers. The Company offers products to General Motors, Fiat, Honda, Caterpillar, Suzuki, Dana and New Holland.

Simmonds Marshall Ltd was incorporated in 1960 as a Private Limited Company in technical and financial collaboration with Firth Cleveland Fastenings Ltd., U.K. holding 51% of the equity of the company. This shareholding was diluted progressively and the balance of foreign holding was purchased fully by the promoters in 1987. The company manufactures a range of Specialised Nylon Insert Self Locking Nuts and other Special Fasteners.

Product Range



The company has been augmenting its cold forming capacity and can produce over 500 million nuts per annum in a wide range from M4 to M48 diameter and equivalent imperial sizes. These nuts are manufactured either to American, British, Japanese, ISO or Indian Standards in a variety of thread forms and protective finishes.

The company also has a battery of multi-spindle automatic bar turning centres capable of producing related automotive components as well.

The company is fully equipped to supply a wide range of Bolts from our associated companies ranging from M5 to M70.

Company is having experienced management with a vision to grow by producing quality products in fasteners industry. Company is in expansion mode and acquired few of the companies in past to increase their presence in foreign markets and also to expand their product portfolio. With pickup in demand in automobile sector especially in the 2 wheeler segment, the order book of the company is expected to remain healthy going forward.

2. Recent Development

Company is targeting 20% to 30% Sales & Revenue Growth in FY 15-16.

As per the management, the company after having a challenging year is looking forward to a growth of 20 to 30 percent revenue growth in the next 12 months.

Company did an acquisition of UK Company last year to manufacture and export with focus on margins and not just growth which has aided the margin growth in the last few quarters for the company. Over the last few years, company has taken series of initiatives to improvise its margins and expect it improve further with increase in demand for its products.

Appointment of Ms. Amrita Verma Chowdhury as Director – 30 Mar'15

Amrita Chowdhury has been an engineer, innovator, and business strategist, and brings high energy leadership skills to the businesses and people she interfaces with. She holds 7 US patents for semi-conductor manufacturing - that initial work in innovation set her on a course for looking at new products and services through the business lens. She has worked in strategy consulting with AT Kearney in the US and in Strategy and Board advisory with Oppeus in Australia, and has advised Fortune 100, ASX and FTSE 100 clients across a variety of industries including engineering, mining, professional services, insurance, government, education, auto ancillaries and more. She has led high velocity, early growth stage businesses in education and publishing, looking at the India entry and growth strategies for those organizations.

Amrita engages with organizations and issues on a wider platform. She has raised funds for Asha for Education, co-founded and served as Events Director for TiE Melbourne, served on the Education Committee of Indian Merchants Chambers and the Board & management committee of Deutsche Schule Bombay, and supports various social causes related to education and health.

Amrita has excellent business development, communication and leadership skills. She holds engineering degrees from IIT Kanpur and UC Berkeley, where she was a Jane Lewis Fellow, and an MBA from Carnegie Mellon - Tepper Business School.

3. Financial Performance

Simmonds Marshall standalone net profit rises 61.97% in the March 2015 quarter

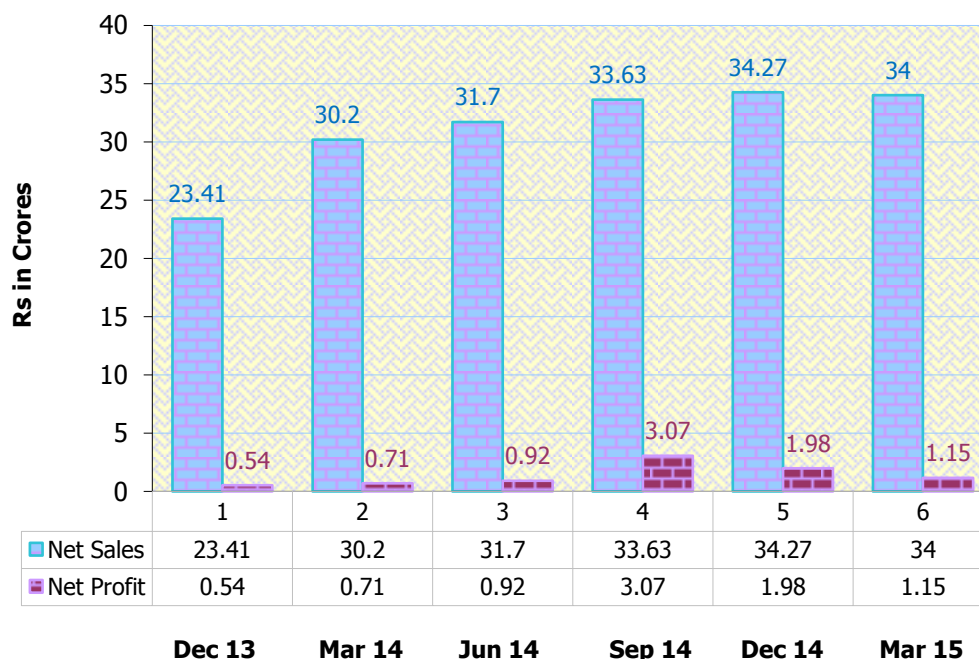
Net profit of Simmonds Marshall rose 61.97% to Rs 1.15 crore in the quarter ended March 2015 as against Rs 0.71 crore during the previous quarter ended March 2014. Sales rose 12.58% to Rs 34.00 crore in the quarter ended March 2015 as against Rs 30.20 crore during the previous quarter ended March 2014.

For the full year, net profit rose 62.41% to Rs 7.13 crore in the year ended March 2015 as against Rs 4.39 crore during the previous year ended March 2014. Sales rose 29.53% to Rs 133.60 crore in the year ended March 2015 as against Rs 103.14 crore during the previous year ended March 2014.

Simmonds Marshall standalone net profit rises 266.67% in the December 2014 quarter

Net profit of Simmonds Marshall rose 266.67% to Rs 1.98 crore in the quarter ended December 2014 as against Rs 0.54 crore during the previous quarter ended December 2013. Sales rose 46.39% to Rs 34.27 crore in the quarter ended December 2014 as against Rs 23.41 crore during the previous quarter ended December 2013.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account

Particulars (Rs in Crores)	Jun 2014	Sep 2014	Dec 2014	Mar 2015	Jun 2015 E	Sep 2015 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	31.7	33.63	34.27	34	37.83	42.51
Other Operating Income	--	--	--	0.41	--	--
Total Income - Operations	31.7	33.63	34.27	34.41	37.83	42.51
Raw Materials Consumed	13.19	13.32	12.91	11.39	13.74	17.64
Purchase of Traded Goods	0.17	0.15	--	0.19	0.18	0.25
Increase/Decrease in Stocks	-0.75	-1.15	-0.18	-1.45	-0.85	-1.30
Employees Cost	5.38	5.64	5.77	6.35	6.76	7.05
Depreciation	0.82	0.92	1.05	0.96	0.92	1.07
Provisions And Contingencies	--	--	--	--	--	--
Other Expenses	9.74	10.44	10.79	14.08	12.50	12.21
P/L Before Other Income	3.15	4.31	3.94	2.89	4.58	5.59
Other Income	0.14	0.49	0.1	0.05	0.11	0.33
P/L Before Int., E. Items & Tax	3.29	4.79	4.03	2.94	4.69	6.92
Interest	0.8	1.07	1.05	1.05	1.07	1.21
P/L Before E. Items & Tax	2.48	3.72	2.99	1.89	3.62	5.71
Exceptional Items	--	--	--	--	--	--
P/L Before Tax	2.48	3.72	2.99	1.89	3.62	5.71
Tax	1.56	0.65	1.01	0.74	1.41	1.94
Net Profit/(Loss)	0.92	3.07	1.98	1.15	2.21	3.77
Equity Share Capital	2.24	2.24	2.24	2.24	2.24	2.24
Calculated EPS	0.82	2.75	1.77	1.03	1.97	3.37
Calculated EPS (Annualised)	3.28	11	7.08	4.12	7.89	13.46
No Of Public Shares Holding	0.49	0.49	0.49	0.49	NA	NA
Public Share Holding (%)	44.06	44.06	44.06	44.06	NA	NA

Company has managed to perform well in tough times. Company has registered revenue CAGR of 25.84% and profit CAGR of 25.68% during last 5 years. This was the period when automobile sector have experienced de-growth in sales. However, Simmonds Marshall managed to deliver revenue growth and profitability and performed well compared to peer companies.

We expect company to grow its topline at 25% CAGR and bottom line at 30% CAGR during next 2 years.

4. Peer Group Comparison

PEER GROUP	SIMMOND MARSHALL	STERLING TOOLS	SUNDRAM FASTENERS	LAKSHMI PRECISION SCREWS
CMP	89.05	394.70	174.70	39.45
52 W H/L	106.40/30.95	235.00/464.00	103.20/219.00	33.10/61.00
Market Cap	99.74	270.16	3670.94	43.16
Results (in Crores)	Mar-15	Jun-15	Mar-15	Mar-15
Sales	34.00	83.29	581.78	101.98
PAT	1.15	6.06	2.78	-3.9
Equity	2.24	6.84	15.97	10.94
EPS (TTM)	6.36	32.90	6.44	0.35
P/E	14.00	12.00	27.13	112.71

Sundram Fasteners Limited and Sterling Tools Limited are the companies mainly compete with Simmonds Marshall. Sundram Fasteners is a TVS Group company based in Chennai. The company manufactures high tensile fasteners, powder metal components, cold extruded parts, hot forged components, gears and couplings.

Sterling Tools Ltd manufactures high tensile cold forged fasteners and supplies them to automotive companies in India, Europe and the United States. The company manufactures M5 to M24 specification of bolts/ screws and M6 to M22 in nuts.

Considering current valuations and recent developments happening in Simmonds Marshall, we find it a better investment opportunity compared to peer group companies.

5. Key Concerns / Risks

- Any slowdown in the automotive industry impacts the components industry and will affect the growth of Simmonds Marshall.
- Increase in raw material costs and rise in competition from local as well as global manufacturers are other major concerns for the company.
- The company's inability to realign production given market requirements in various business cycles can also hamper its profitability and growth going forward.

6. Saral Gyan Recommendation

- ✚ The automotive industry is the largest consumer of fasteners; other industries that use these are railways, textile machinery, computer hardware, construction and general engineering. The estimated future growth of the fasteners industry is 10% to 15% per annum. Improved demand from sectors like automobiles, general engineering, construction and textile machinery present the fastener industry with robust future growth opportunities.
- ✚ Simmonds Marshall is well diversified in the automobile space as company supplies to its clients from two wheelers, three wheelers, commercial vehicles (CV), four wheelers segment. Company also supplies its products to farm equipment and earth moving equipment manufacturers. Hence company has a good spread right across the automobile sector. Even in the last year when automobile growth slowed down, one or two sector showed growth which helped company to perform better with sluggish demand from other sectors. With pickup in demand from commercial vehicle and surge in 2 wheeler segment, we believe company to deliver robust revenue growth going forward.
- ✚ Simmonds Marshall clients include all major players from automobile sector. Honda, Bajaj, Volvo-Eicher and Ashok Leyland are its top four clients and no major client contributes more than 9% of total sales. As company caters to many companies, it does not have major dependency on single client to get orders.
- ✚ As per management, company's capacity utilization is at 60% and can cater to growing demand in future. Moreover, it would not be difficult for company to add capacity at any given point of time. Company can add capacity on a monthly or quarterly basis and manages most of its incremental expansion with short term loans or accrued profits without increasing its debt substantially. Currently, company's debt is about 20 crores which includes its short term loans.
- ✚ Simmonds Marshall has expanded the product range quite substantially to become a one-stop shop solution for fasteners. Company has expanded its product range and acquired a company who is the top manufacturer of studs in Chennai. Today, company is well-positioned to supply a full range of fasteners to its customers.
- ✚ Company acquired UK based company last year. This acquisition helped company to improve its operating margins by offering value added products and increasing export sales. Now the company plans a major thrust on exports by expanding its reach to untapped geographies and launching new products which will further help company in improving the margins with increase in revenue.
- ✚ Promoter's shareholding is at 55.94% without pledging any shares and rest is held by non institutional investors. FII and DII shareholding is nil in the company.

- Company's EBITDA and PAT margins are expected to improve as company is currently operating at 60% capacity utilization levels. Going ahead, once the demand improves, existing capacities will cater through higher utilization.

Key Financial Parameters	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014
Return on Equity (%)	34.57	43.10	30.25	12.11	14.79
ROCE (%)	20.88	27.38	20.48	10.58	11.28
Operating Profit Margin (%)	20.73	22.40	18.76	12.43	12.47
Net Profit Margin (%)	9.06	11.68	8.89	4.26	5.02
Debt to Equity (%)	0.89	0.85	0.96	0.98	0.83
Working Capital Days	203	158	152	170	156

- Management has rewarded shareholders by paying dividend in past. However, dividend was not paid for all the years as company required funds for expansion. For FY 14-15, company has declared dividend of Rs. 0.50 per share.

YEAR	Mar'11	Mar'12	Mar'13	Mar'14	Mar'15
EPS	7.62	6.99	3.09	3.92	6.36
Dividend / Share (In Rs)	0.50	0.50	0.50	0.00	0.50

- As per our estimates, Simmonds Marshall Ltd can deliver bottom line of 9.5 crores for full financial year 2016, annualized EPS of Rs. 8.5 with forward P/E ratio of 10.5X for FY16. Valuation looks attractive considering margin expansion and increase in revenue with rise in demand of its products from automobile industry and exports.
- On equity of Rs. 2.24 crore, the estimated annualized EPS for FY 15-16 works out to Rs. 8.5 and the Book Value per share is Rs. 39.30. At current market price of Rs. 89.05, stock price to book value is 2.27.

Simmonds Marshall Ltd is a strong player in the auto ancillary segment backed by quality management and esteemed clientele. Revival in economic cycle would lead to growth in auto industry which would augur well for the Company. Considering company's expansion plans and focus on high margin products, Saral Gyan team recommends **"Buy"** on **Simmonds Marshall Ltd** at current market price of Rs. 89.05 for target of Rs. 170 over a period of 12 to 24 months.

Buying Strategy:

- 70% at current market price of 89.05
- 30% at price range of 78-83 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

7. Disclaimer

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- Buy at lower price:** This means that the investor should wait for some correction in the market price so that the stock can be bought at more attractive valuations keeping in mind the tenure and the objective of the service.
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