

INDUSTRY	AUTOS		
CMP(as on 11 NOV 2017)	Rs 908		
Target Price	Rs 1,225		
Nifty	10,322		
Sensex	33,315		
KEY STOCK DATA			
Bloomberg	SM IN		
No. of Shares (mn)	14		
MCap (Rs bn) / (\$ mn)	13 / 202		
6m avg traded value (Rs mn)	36		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,388 / 880		
	3M	6M	12M
Absolute (%)	(5.3)	(32.7)	(29.4)
Relative (%)	(11.0)	(42.9)	(50.4)
SHAREHOLDING PATTERN (%)			
Promoters	43.96		
FIs & Local MFs	3.07		
FPIs	5.64		
Public & Others	47.43		
<i>Source : BSE</i>			

Short-term blip, long-term positive

SML Isuzu posted in-line revenue at Rs 2.27bn (-25% YoY) in 2Q. Volumes fell by 35% YoY (2.26k), owing to unsold BS3 inventory, insufficient supply of chassis frame components, shortage of BS4 components and a slowdown in Bus demand. EBITDA came in at Rs 45mn (-74% YoY), with margin at 2% (-338bps YoY), impacted by operating de-leverage and conversion cost (~Rs 8mn) of vehicles from BS3 to BS4.

Although 1HFY18 numbers were hit by component supply issues and a slowdown in the School Bus and lower-tonnage truck demand, we expect 15% volume CAGR for SMLI over FY18-20E, led by recovery in demand for the School Bus segment and expanding presence in the cargo segment.

Going ahead, we believe SMLI's growth will be based on (1) Strong brand equity in the School Bus segment, and debottlenecking of capacity in the peak season, (2) Increase in capacity utilisation led by an expanding presence in the cargo segment (volume has doubled in the last three years from 3.1K to 6.5K

Financial Summary

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	FY17	FY18E	FY19E	FY20E
Net Sales	2,271	3,046	(25.5)	3,185	(28.7)	13,690	11,429	15,472	17,725
EBITDA (adj.)	45	179	(74.7)	183	(75.2)	1,080	731	1,382	1,754
APAT	(34)	97	(134.5)	68	(149.6)	628	336	764	1,012
Diluted EPS (Rs)	(2.3)	6.7	(134.5)	4.7	(149.6)	43.4	23.2	52.7	69.8
P/E (x)						20.9	39.1	17.2	13.0
EV / EBITDA (x)						12.5	18.2	9.5	7.4
RoE (%)						16.9	8.3	17.3	20.2

Source: Company, HDFC sec Inst Research

units), (3) Technology support from Isuzu Motors (owns 15% stake in the company), (4) Expanding the product and distribution network(added 30 dealers in past two years, total 127) , and (5) Improvement in margins led by operating leverage. Current valuations at 17/13x for FY19/20E appear attractive. We value SMLI on 20x P/E on Sept-19E EPS. Maintain BUY with a TP of Rs 1225.

Highlights of the quarter

- Market share trend:** SMLI's market share in the Bus segment decreased to 8% from 9% in 2QFY17. Volume in the cargo segment declined 39% in 2QFY18 to 1112 units (vs 11% industry growth). The bus- cargo mix in2Q was 50:50. The key reason for the decline in volumes was shortage of supply of components required for BS4 vehicles, weak lower tonnage cargo demand and slowdown in the Bus segment.
- Near-term outlook:** As per management, 4QFY18 and 1QFY19 would be strong, led by sufficient availability of buses for the peak season owing to capacity addition.

Top-line slid by 25%, dragged by a fall in volumes (-35% YoY), offset by 13% increase in net ASP

Volumes in the Bus segment dropped 27% YoY, and Cargo segment by 39% YoY

EBITDA margin contracted by 388bps YoY to 2%, impacted by negative operating leverage

The company has converted ~1300 out of ~1600 vehicles (as of Sep-17) of BS3-based inventory till date, while the remaining inventory conversion will take place in by 4Q

Quarterly Financials Snapshot: Standalone

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ(%)
Volume (Mn Units)	2,261	3,427	(34.0)	3,140	(28.0)
Net ASP (Rs)	1,004,290	884,389	13.6	1,014,172	(1.0)
Net Sales	2,271	3,046	(25.5)	3,185	(28.7)
Net sales (incl OOI)	2,271	3,046	(25.5)	3,185	(28.7)
Material Expenses	1,680	2,229	(24.6)	2,334	(28.0)
Employee Expenses	359	360	(0.4)	373	(3.7)
Other Operating Expenses	186	278	(33.0)	295	(36.8)
EBITDA	45	179	(74.7)	183	(75.2)
Depreciation	71	56	26.8	70	1.1
EBIT	(25)	123		113	
Other Income	2	16	(86.0)	4	(47.7)
Interest Cost	30	7	298.6	22	34.1
PBT	(53)	132		95	
Tax	(19)	35		28	
RPAT	(34)	97		68	
EO Items (Adj For Tax)	-	-		-	
APAT	(34)	97		68	
Adj EPS	(2.3)	6.7		4.7	

Margin Analysis: Standalone

	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Material Expenses % Net Sales	74.0	73.2	82	73.3	70
Employee Expenses % Net Sales	15.8	11.8	398	11.7	410
Other Expenses % Net Sales	8.2	9.1	(93)	9.3	(106)
EBITDA Margin (%)	2.0	5.9	(388)	5.7	(374)
Tax Rate (%)	36.0	NA	NA	29.1	693
APAT Margin (%)	(1.5)	3.2	(466)	2.1	(360)

Source: Company, HDFC sec Inst Research

Although the company is expected to report a volume decline in FY18, we expect 15% CAGR volume growth for SML in FY18-20E, owing to recovery in demand for the School Bus segment and expanding presence in the Cargo segment

The company is expanding its capacity from 18K units to 24K units p.a. This will enable it to meet high demand during the peak season, reduce inventory build-up and related costs. The new line will become operational by Jan-18, and the impact is expected to be visible by 1QFY19 (would be able to sell 5-6k buses)

Volume Assumptions

(in units)	FY16	FY17	FY18E	FY19E	FY20E
Buses	6,789	7,836	6,117	7,843	8,891
% YoY	-12.5%	15.4%	-21.9%	28.2%	13.4%
Trucks	5,408	6,520	5,058	7,165	8,008
% YoY	46.5%	20.6%	-22.4%	41.7%	11.8%
Domestic volumes	12,197	14,356	11,175	15,009	16,899
% YoY	6.5%	17.7%	-22.2%	34.3%	12.6%
Exports	503	544	420	602	670
% YoY	35.9%	8.2%	-22.8%	43.3%	11.3%
Total sales	12,700	14,900	11,595	15,611	17,569
% YoY	7.4%	17.3%	-22.2%	34.6%	12.5%

Source: SIAM, HDFC sec Inst Research

Peer Valuations

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Maruti Suzuki	2,477	8,164	BUY	8,880	281.7	357.7	414.8	29.1	22.9	19.8	20.2	15.7	13.5	23.2	26.4	25.9
Tata Motors	1,494	422	BUY	516	27.1	44.8	52.8	16.3	9.8	8.3	5.3	3.8	3.2	10.1	14.9	15.2
Bajaj Auto	928	3,248	BUY	3,598	137.2	166.5	192.8	23.4	19.3	16.6	16.5	13.2	10.8	22.5	24.8	25.0
Eicher Motors	840	30,450	BUY	35,809	870.4	1,071.4	1,301.1	35.6	28.9	23.8	25.9	21.4	17.8	45.0	44.3	42.5
M&M	807	1,393	BUY	1,634	71.9	84.0	92.0	19.0	16.3	14.8	11.3	9.5	7.7	15.8	16.5	16.0
Hero Motocorp	720	3,606	BUY	4,360	173.8	208.6	227.3	20.7	17.3	15.9	14.0	11.6	10.6	32.4	35.1	34.6
Ashok Leyland	327	112	BUY	141	4.6	7.0	8.2	25.1	16.4	13.9	14.2	9.6	7.9	20.7	27.9	28.4
Force Motors	45	3,404	BUY	4,876	145.4	208.5	279.1	23.5	16.4	12.2	14.8	10.5	7.9	10.9	13.9	16.2
SML Isuzu	13	908	BUY	1,225	23.2	52.7	69.8	39.1	17.2	13.0	18.2	9.5	7.4	8.3	17.3	20.2
Atul Auto	9	427	BUY	528	24.5	31.5	36.5	17.6	13.7	11.8	10.2	8.0	6.6	26.9	28.5	27.2

Source: HDFC sec Inst Research

Bus- Cargo mix was 50:50 in 2QFY18

The company's existing range spans 5.5-12 tonners in Cargo and up to 16 tonners in Buses

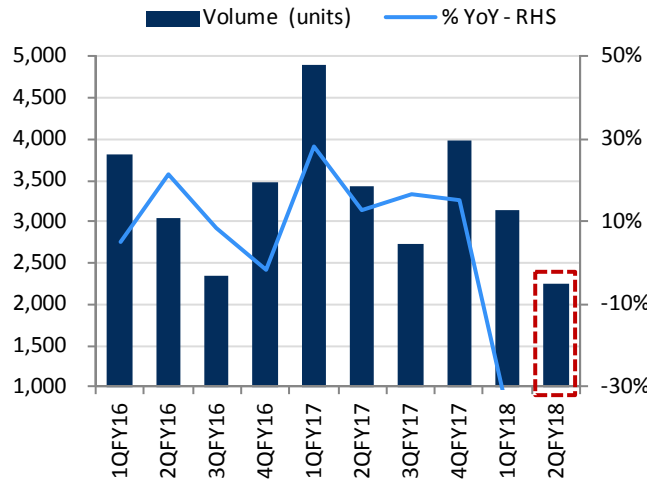
The long-term game plan is to become a player in the 5.5-49-tonne range, with technical support from Isuzu

We believe Isuzu Motors may sell its commercial vehicles in India through SML Isuzu, and also increase its stake in the company in the medium term

The company has a capex plan of Rs. 2.20bn to be spent in technological up gradation, product development (improvement in cabin designing and a new paint shop), and capacity addition.

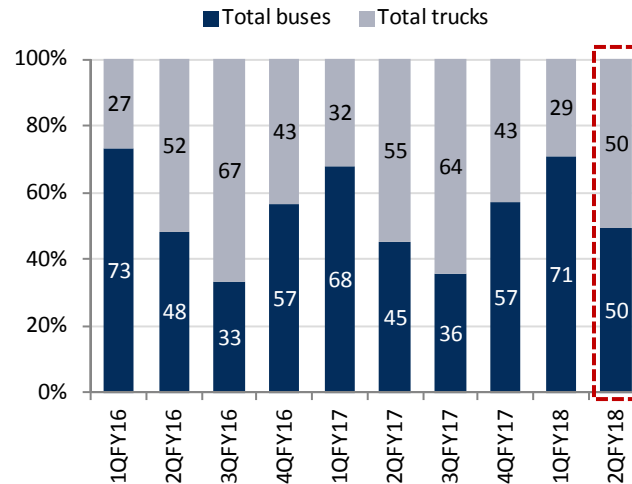
The company has already spent Rs ~1.20bn, and remaining in the next two years

Volumes Fell Sharply



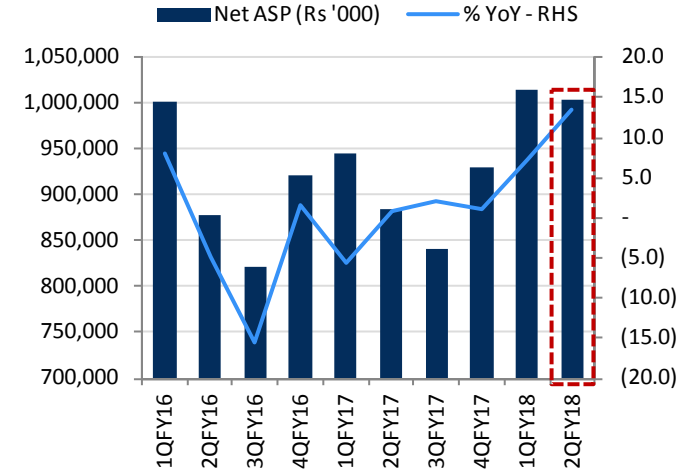
Source: Company, HDFC sec Inst Research

Product Mix Was Unfavourable



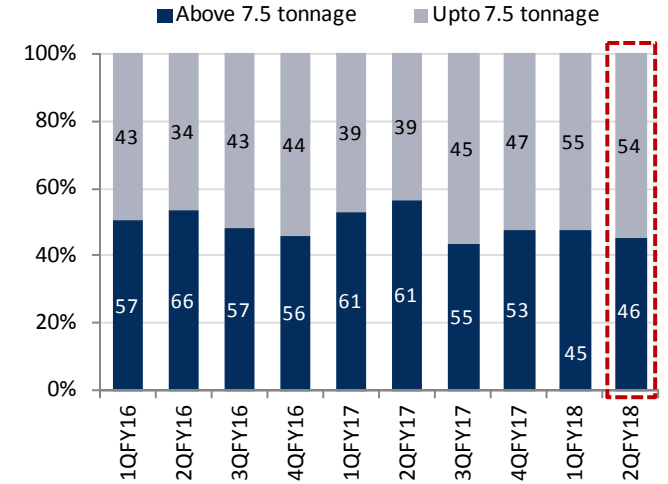
Source: SIAM, HDFC sec Inst Research

Net ASP Witnessed Improvement YoY



Source: Company, HDFC sec Inst Research

Tonnage Mix Was Adverse On YoY Comparison



Source: SIAM, HDFC se Inst Research

Income Statement Standalone

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	11,663	13,690	11,429	15,472	17,725
Growth (%)	5.5	17.4	(16.5)	35.4	14.6
Material Expenses	8,479	10,018	8,366	11,295	12,939
Employee Expenses	1,249	1,411	1,270	1,556	1,680
Other Operating Expenses	1,068	1,180	1,062	1,240	1,351
EBITDA	868	1,080	731	1,382	1,754
EBITDA Margin (%)	7.4	7.9	6.4	8.9	9.9
EBITDA Growth (%)	32.4	24.5	(32.4)	89.2	26.9
Depreciation	196	235	261	334	376
EBIT	672	845	470	1,049	1,378
Other Income (Including EO Items)	62	42	40	55	56
Interest	52	40	49	42	28
PBT	683	847	461	1,062	1,406
Tax (Incl Deferred)	172	218	124	297	394
APAT	511	628	336	764	1,012
APAT Growth (%)	38.4	22.9	(46.5)	127.2	32.4
Adjusted EPS (Rs)	35.3	43.4	23.2	52.7	69.8
RPAT	511	628	236	764	1012

Source: Company, HDFC sec Inst Research

Balance Sheet Standalone

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	145	145	145	145	145
Reserves	3,257	3,880	3,981	4,541	5,174
Total Shareholders' Funds	3,401	4,025	4,126	4,687	5,321
Long Term Debt	-	335	500	400	200
Short Term Debt	550	51	200	200	200
Total Debt	550	386	700	600	400
Net Deferred Taxes	56	56	56	56	56
Long Term Provisions & Others	869	733	880	1,056	1,267
TOTAL SOURCES OF FUNDS	4,876	5,200	5,761	6,399	7,046
APPLICATION OF FUNDS					
Net Block	1,711	2,117	2,557	3,123	3,397
CWIP	403	782	700	300	300
Investments	-	-	-	-	-
LT Loans & Advances	378	747	772	797	822
Total Non-current Assets	2,492	3,646	4,028	4,220	4,518
Inventories	3,385	2,946	2,698	3,438	3,939
Debtors	1,028	1,148	1,016	1,375	1,576
Other Current Assets	-	-	-	-	-
Cash & Equivalents	361	76	524	554	624
Total Current Assets	4,775	4,170	4,238	5,368	6,139
Creditors	1,719	1,907	1,714	2,321	2,659
Other Current Liabilities & Provns	671	719	791	870	957
Total Current Liabilities	2,390	2,626	2,505	3,191	3,615
Net Current Assets	2,384	1,544	1,733	2,177	2,523
Total Application of Funds	4,876	5,199	5,761	6,399	7,046

Source: Company, HDFC sec Inst Research

Cash Flow Standalone

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Reported PBT	683	847	461	1,062	1,406
Non-operating & EO items	-	-	-	-	-
Interest expenses	52	40	49	42	28
Depreciation	196	235	261	334	376
Working Capital Change	(691)	51	380	(263)	(90)
Tax Paid	(172)	(218)	(124)	(297)	(394)
OPERATING CASH FLOW (a)	67	955	1,026	877	1,327
Capex	(664)	(1,021)	(618)	(500)	(650)
Free cash flow (FCF)	(597)	(66)	408	377	677
Investments	-	-	-	-	-
Non-operating Income	-	-	-	-	-
INVESTING CASH FLOW (b)	(664)	(1,021)	(618)	(500)	(650)
Debt Issuance/(Repaid)	327	(164)	314	(100)	(200)
Interest Expenses	(52)	(40)	(49)	(42)	(28)
FCFE	(322)	(269)	672	235	449
Share Capital Issuance	-	-	-	-	-
Dividend	(136)	(136)	(136)	(202)	(375)
FINANCING CASH FLOW (c)	140	(339)	129	(344)	(603)
NET CASH FLOW (a+b+c)	(457)	(405)	537	33	74
Closing Cash & Equivalents	361	76	524	554	624

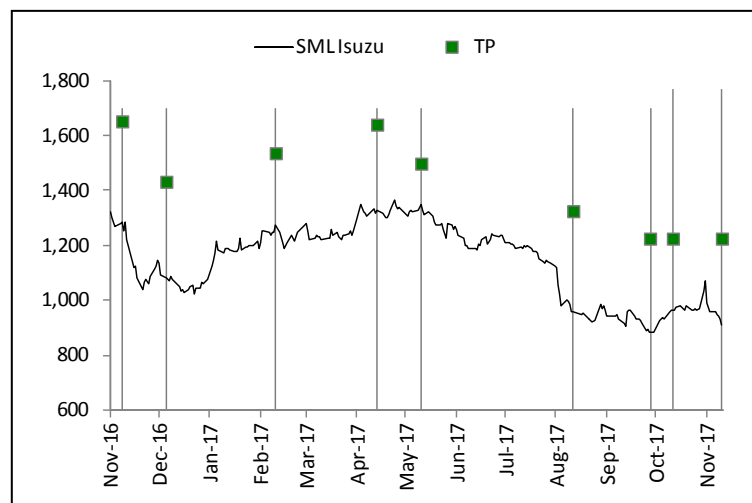
Source: Company, HDFC sec Inst Research

Key Ratios Standalone

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	27.3	26.8	26.8	27.0	27.0
EBITDA Margin	7.4	7.9	6.4	8.9	9.9
APAT Margin	4.4	4.6	2.9	4.9	5.7
RoE	15.9	16.9	8.3	17.3	20.2
RoIC (or Core RoCE)	16.7	15.6	7.8	16.5	20.0
RoCE	15.1	15.5	8.0	15.5	18.6
EFFICIENCY					
Tax Rate (%)	25.1	25.8	27.0	28.0	28.0
Fixed Asset Turnover (x)	4.1	4.0	2.8	3.1	3.1
Inventory (days)	105.9	78.5	86.2	81.1	81.1
Debtors (days)	32.2	30.6	32.4	32.4	32.4
Payables (days)	53.8	50.8	54.8	54.8	54.8
Other Current Liab & Provns (days)	21.0	19.2	25.3	20.5	19.7
Cash Conversion Cycle (days)	63.3	39.1	38.6	38.3	39.1
Debt/EBITDA (x)	0.6	0.4	1.0	0.4	0.2
Net D/E (x)	0.1	0.1	0.0	0.0	(0.0)
Interest Coverage (x)	13.0	21.1	9.6	25.0	49.2
PER SHARE DATA (Rs)					
EPS	35.3	43.4	23.2	52.7	69.8
CEPS	48.8	59.7	41.2	75.8	95.9
Dividend	8.0	8.0	8.0	12.0	12.0
Book Value	234.9	278.0	284.9	323.7	367.5
VALUATION					
P/E (x)	25.7	20.9	39.1	17.2	13.0
P/BV (x)	3.9	3.3	3.2	2.8	2.5
EV/EBITDA (x)	15.4	12.5	18.2	9.5	7.4
EV/Revenues (x)	1.1	1.0	1.2	0.9	0.7
OCF/EV (%)	0.5	7.1	7.7	6.6	10.3
FCF/EV (%)	(4.5)	(0.5)	3.1	2.9	5.2
FCFE/Mkt Cap (%)	(2.4)	(2.0)	5.1	1.8	3.4
Dividend Yield (%)	0.9	0.9	0.9	1.3	1.3

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Nov-16	1,285	BUY	1,652
5-Dec-16	1,090	BUY	1,432
10-Feb-17	1,272	BUY	1,536
13-Apr-17	1,317	BUY	1,640
11-May-17	1,350	BUY	1,498
11-Aug-17	963	BUY	1,325
28-Sep-17	884	BUY	1,225
11-Oct-17	960	BUY	1,225
11-Nov-17	908	BUY	1,225

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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