



Sterling Tools Ltd.

Key Stock Indicators

NSE Ticker :	STERTOOLS	CMP as on 07 Jun 2011-Rs/share :	120.1	Shares outstanding (mn) :	6.8
Bloomberg Ticker :	STRT:IN	52 week range up to 07 Jun 2011 (Rs)(H/L) :	162.5/100.1	Free Float (%) :	30.8
Face value per share :	10.0	Market Cap as on 07 Jun 2011 (Rs mn) :	822	Average daily volumes (12 months) :	3,587
Div.Yield (%) :	4.2	Enterprise Value as on 07 Jun 2011 (Rs mn) :	1,366	Beta (2 year) :	0.6

Sterling Tools Limited (STL) was incorporated as a private limited company in 1979. Promoted by Mr. M.L. Aggarwal, it manufactures high tensile cold forged fasteners. The company is one of the leading suppliers to original equipment manufacturers (OEMs) in the automobile space in India, Europe and the US.

KEY HIGHLIGHTS

Manufactures over 2,000 types of fasteners

STL manufactures a range of fasteners based on Indian, German, Japanese, American and British standards. Its product range includes over 2,000 types of fasteners, including standard, chassis, engine and special types. Its customers include automobile players like Eicher, Escorts, Bajaj Auto, Maruti Suzuki, Hero Honda and Tata Motors. The commercial vehicle segment accounts for 29% of STL's sales, followed by farm equipment at 22%, passenger cars at 18%, replacement market at 12% and two wheelers 5%. Exports and the engineering segment account for the balance 13%. STL's major markets are India, Bangladesh, the USA, Nepal and Italy.

Forms JV to target non-automotive demand

During FY10, STL formed Sterling Fabory, a 50:50 joint venture (JV) with Fabory, a Netherlands-based global distributor and technical service provider for fasteners, tools and industrial supplies. The JV aims at meeting demand for non-automotive fasteners in the emerging markets in Asia. The company is also an exclusive distributor and value-added service provider for the Fabory product range. Fabory has more than 110 branches and is present across 16 countries.

KEY RISKS

- Increase in cost of steel, which is the key raw material for fastener industry
- Competition from the unorganised sector
- Slowdown in automobile industry
- Compliance and regulatory pressures including changes to tax laws, etc
- Imports from low-cost countries such as China, Taiwan, etc

Stock Performances vis-à-vis market

	Returns			
	YTD	1-m	3-m	12-m
STERTOOLS	25	1	-2	20
NIFTY	5	0	2	10

Note:

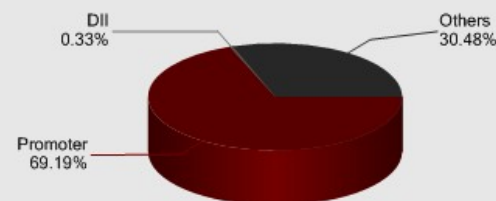
- 1) YTD returns are since Apr 1, 2010 to Jun 7, 2011.
- 2) 1-m, 3-m and 12-m returns are up to Jun 7, 2011

Key Financial Indicators

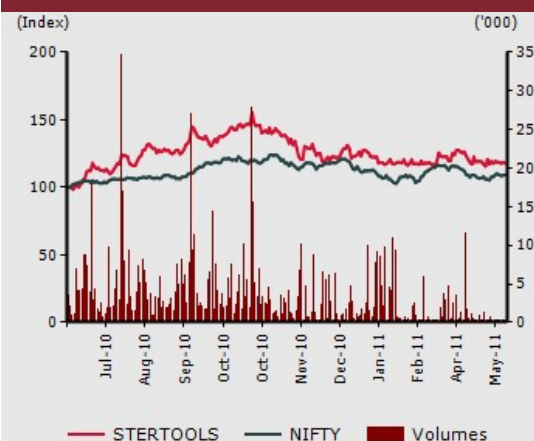
	MAR-08	MAR-09	MAR-10
Revenue (Rs mn)	1,545.8	1,499.1	1,791.5
EBITDA margins (%)	15.3	11.0	17.1
PAT (Rs mn)	76.1	16.0	115.9
PAT margins (%)	4.9	1.1	6.5
Gearing (x)	1.2	1.0	1.0
EPS (Rs/share)	11.1	2.3	16.9
PE (x)	5.6	13.7	7.1
P/BV (x)	0.8	0.4	1.4
RoCE (%)	15.3	9.1	20.5
RoE (%)	15.7	3.1	20.8
EV/EBITDA (x)	4.3	4.4	4.5

n.m. : Not meaningful

Shareholding (As on March 31, 2011)



Indexed price chart



BACKGROUND

Sterling Tools Limited (STL) was incorporated as a private limited company in 1979. In 1994, it was converted into a public limited company. It has three manufacturing facilities at Faridabad producing more than 2,000 types of fastener products such as standard, chassis, engine and special fasteners. As of FY10, the company has an installed capacity of 22,500 tonnes of high tensile fasteners. Its major customers include Eicher, Escorts, Bajaj Auto, Maruti Suzuki, Hero Honda and Tata Motors in India. The company exports to Europe, the US and Asian nations. Exports contributed ~3% of total revenues in FY10.

COMPETITIVE POSITION

Peer Comparison

	Sterling Tools Ltd. Mar-10	Batliboi Ltd Mar-10	Escorts Ltd. Sep-10	NRB Bearings Ltd. Mar-10	Praj Industries Ltd. Mar-10
Revenue (Rs mn)	1,791.5	1,940.0	33,755.2	3,576.3	7,382.6
EBITDA margins (%)	17.1	2.3	6.0	17.0	13.8
PAT (Rs mn)	115.9	-79.9	1,323.1	217.3	1,196.3
PAT margins (%)	6.5	-4.1	3.9	6.1	16.2
Gearing (x)	1.0	4.2	1.2	0.5	-
EPS (Rs/share)	16.9	-2.8	14.4	4.5	6.5
PE (x)	7.1	n.m.	9.0	11.6	11.5
P/BV (x)	1.3	3.5	2.7	1.4	2.6
RoCE (%)	20.5	2.0	33.3	14.4	26.8
RoE (%)	20.8	n.m.	39.6	12.9	25.3
EV/EBITDA (x)	4.5	30.4	6.8	5.6	12.0

n.m: Not meaningful

FINANCIAL PROFILE

Top line and margins increased significantly in FY10

STL's top line registered a growth of ~19.5% in FY10 year-on-year in FY10 and stood at Rs 1.79 bn, vis-à-vis Rs 1.49 bn in FY09. Increase in revenue was largely on account of increase in sales volume. Sales of high tensile fasteners increased to 16,401 tonnes in FY10 from 13,348 tonnes in FY09.

EBITDA margin grew by 610 basis points in FY10 and stood at 17.1%. Overall raw material expenses and manufacturing expenses decreased as a percentage of sales.

PAT stood at Rs 115.9 mn in FY10 against Rs 16 mn in FY09, mainly because of higher EBITDA and lower interest charges (repayment of debts).

Key Financial Indicators

	Units	Mar-08	Mar-09	Mar-10
Revenue	Rs million	1,545.8	1,499.1	1,791.5
EBITDA margins	Per cent	15.3	11.0	17.1
PAT	Rs million	76.1	16.0	115.9
PAT margins	Per cent	4.9	1.1	6.5
Revenue growth	Per cent	11.0	-3.0	19.5
EBITDA growth	Per cent	19.8	-30.0	85.7
PAT growth	Per cent	10.5	-79.0	625.1
Gearing	Times	1.2	1.0	1.0
RoCE	Per cent	15.3	9.1	20.5
RoE	Per cent	15.7	3.1	20.8

INDUSTRY PROFILE

Auto Component

The auto components industry's production in India is estimated at around Rs 1,212 billion in 2009-10. The industry has been reducing its dependence on the domestic automobile industry over the long term; it also continues to maintain its ability of being cost-competitive and technically proficient in niche segments. These factors, along with the foray of Indian auto component players in the international markets through acquisitions, have enhanced the industry's popularity among international original equipment manufacturers (OEMs) in terms of their outsourcing needs. Currently, domestic OEMs account for around 67% of the total auto component production off-take, whereas the replacement and export segments account for around 21% and 12%, respectively. The industry is largely fragmented with over 558 players operating in the organised segment and many unorganised players catering to the replacement demand. However, with auto OEMs adopting vendor rationalisation, the proportion of the organised segment is likely to increase over the long term. In the long term, exports are expected to grow at a faster pace as global OEMs are expected to implement cost rationalisation strategies by increasing their sourcing from low-cost regions. The bargaining power of players with OEMs is moderate, and has been historically high in the replacement market. The technological edge of a particular auto component segment determines the bargaining power of its players. Further, players with higher exposure to replacement segment are able to have better margins given higher bargaining power in the segment. However, increasing competition from imports is impacting the ability to pass on input cost increases in replacement market as well.

ANNUAL RESULTS

Income statement

(Rs million)	Mar-08	Mar-09	Mar-10
Net Sales	1,543.6	1,496.2	1,788.0
Operating Income	1,545.8	1,499.1	1,791.5
EBITDA	235.8	165.1	306.6
EBITDA Margin	15.3	11.0	17.1
Depreciation	56.8	61.5	62.9
Interest	59.5	77.6	57.1
Other Income	0.9	4.0	-0.2
PBT	120.4	28.7	186.4
PAT	76.1	16.0	115.9
PAT Margin	4.9	1.1	6.5
No.of shares(Mn No.)	6.8	6.8	6.8
Earning per share(EPS)	11.1	2.3	16.9

Cash flow

(Rs million)	Mar-08	Mar-09	Mar-10
Pre-tax Profit	120.3	29.9	186.4
Total tax paid	-35.8	-17.4	-63.9
Depreciation	56.8	61.5	62.9
Change in working capital	-45.2	95.0	-138.3
Cash flow from operating activities	96.1	169.0	47.1
Capital expenditure	-119.6	-77.9	-44.1
Investments and others	0.0	0.0	0.0
Cash flow from investing activities	-119.6	-77.9	-44.1
Equity raised/(repaid)	0.0	0.0	0.0
Debt raised/(repaid)	60.5	-96.2	40.6
Dividend (incl. tax)	-24.0	-8.0	-40.0
Others (incl extraordinary)	0.0	-1.2	0.0
Cash flow from financing activities	36.5	-105.4	0.6
Change in cash position	13.0	-14.3	3.6
Opening cash	14.5	27.6	13.3
Closing cash	27.6	13.3	16.9

n.m.: Not meaningful

QUARTERLY RESULTS

Profit and loss account

(Rs million)	Mar-11	% of Rev	Mar-10	% of Rev	Dec-10	% of Rev
No of Months	3		3		3	
Revenue	696.5	100.0	567.2	100.0	746.1	100.0
EBITDA	98.5	14.1	91.7	16.2	89.7	12
Interest	18.8	2.7	14.0	2.5	16.7	2.2
Depreciation	16.9	2.4	16.6	2.9	16.2	2.2
PBT	62.8	9	61.1	10.8	56.8	7.6
PAT	42.3	6.1	39.8	7	36.2	4.9

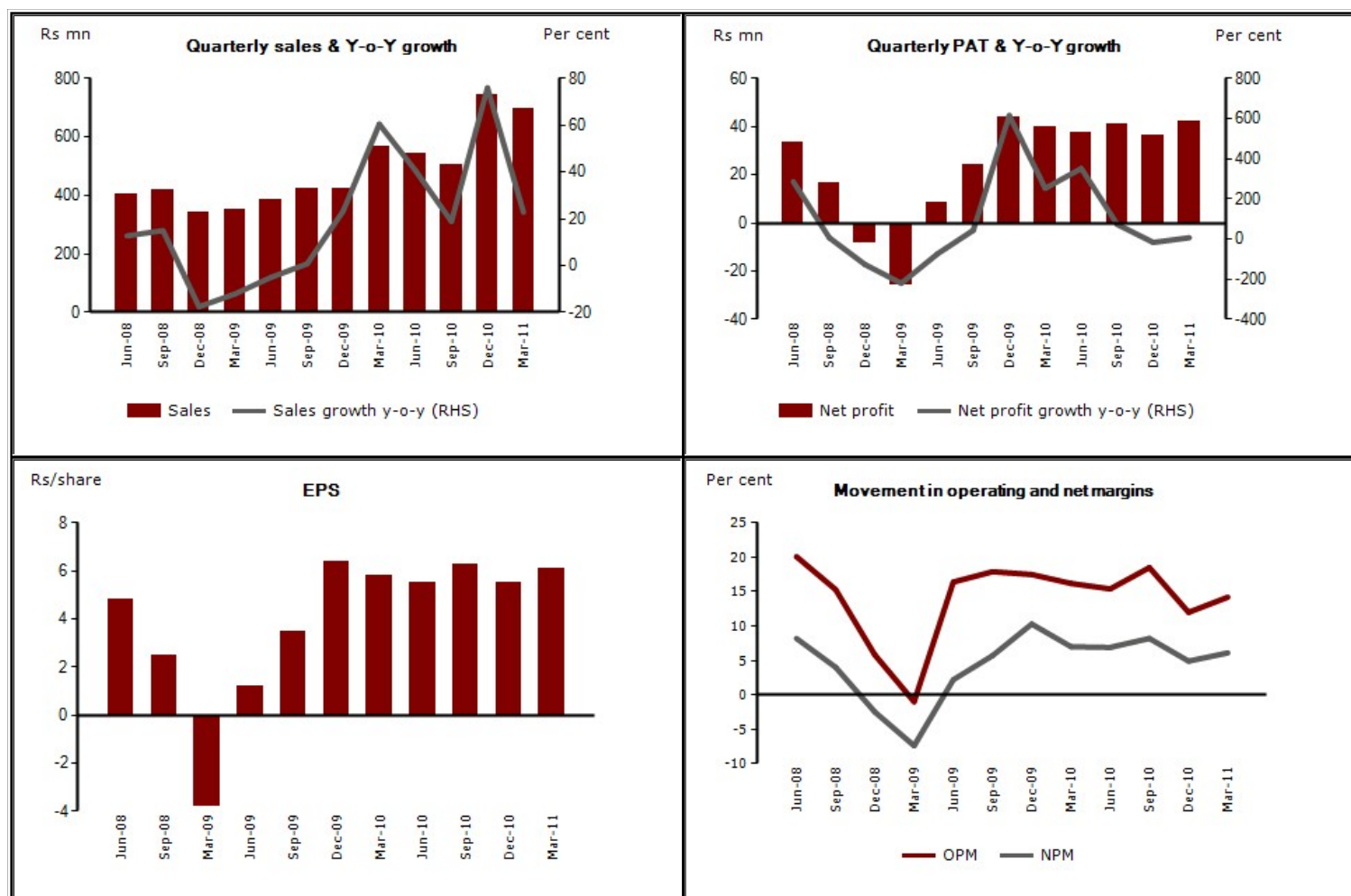
Balance Sheet

(Rs million)	Mar-08	Mar-09	Mar-10
Equity share capital	68.4	68.4	68.4
Reserves and surplus	441.7	449.6	525.5
Tangible net worth	510.1	518.1	594.0
Deferred tax liability: asset	87.6	82.9	89.6
Long-term debt	193.7	248.0	151.8
Short-term-debt	423.2	272.8	409.5
Total debt	617.0	520.8	561.4
Current liabilities	173.9	133.1	130.8
Total provisions	28.4	22.9	29.3
Total liabilities	1,417.0	1,277.8	1,405.1
Gross block	1,063.1	1,142.4	1,177.8
Net fixed assets	773.1	789.4	770.7
Investments	0.0	0.0	0.0
Current assets	644.0	488.3	634.4
Receivables	324.2	299.4	313.9
Inventories	209.4	131.5	221.4
Cash	27.6	13.3	16.9
Total assets	1,417.1	1,277.7	1,405.1

Ratios

	Mar-08	Mar-09	Mar-10
Revenue growth(%)	11.0	-3.0	19.5
EBITDA growth(%)	19.8	-30.0	85.7
PAT growth(%)	10.5	-79.0	625.1
EBITDA margins(%)	15.3	11.0	17.1
Tax Rate(%)	29.8	60.7	34.3
PAT margins(%)	4.9	1.1	6.5
Dividend payout(%)	27.0	42.8	29.5
Dividend per share(Rs)	3.0	1.0	5.0
BV(Rs)	74.5	75.7	86.8
Return on Equity(%)	15.7	3.1	20.8
Return on Capital employed(%)	15.3	9.1	20.5
Gearing(x)	1.2	1.0	1.0
Interest coverage(x)	4.0	2.1	5.4
Debt/EBITDA(x)	2.6	3.2	1.8
Asset turnover(x)	1.5	1.4	1.5
Current ratio(x)	1.0	1.1	1.1
Gross current assets(days)	152	117	129

FOCUS CHARTS AND TABLES



Shareholding pattern (Per cent)

	Jun 2010	Sep 2010	Dec 2010	Mar 2011
Promoters	69.2	69.2	69.2	69.2
FII	-	-	-	-
DII	0.3	0.3	0.3	0.3
Others	30.5	30.5	30.5	30.5

Board of Directors

Directors Name	Designation
Manohar Lal Aggarwal	Executive Chairman, Promoter-Director
Anil Aggarwal	Managing Director, Promoter-Director
Atul Aggarwal	Promoter-Director, Wholtime Director
Khushi Ram Gupta	Non-Executive Director
Triloki Nath Kapoor	Non-Executive Director
Chhotu Ram Sharma	Non-Executive Director

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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