



# S.J.S. Enterprises Ltd

**Technology agnostic, niche, clean & clear visible growth triggers!**

We recommend **BUY** as the next leg of growth will come from the combination of 1) cross-selling Exotech-SJS products to each other clients, 2) selling higher realization new generation products developed in-house (2-3x higher price than traditional ones), 3) aims to grow exports faster, 4) premiumization in Auto/Consumer durables, and 5) mining existing accounts along with acquiring new customers in domestic as well as overseas. Top risks: 1) subdued export markets, and 2) uncertain supply chain situation for OEMs. **We are of the opinion that SJS at ease will be able to achieve PAT growth @18% CAGR FY22-FY25e with sustainable margin of about 25%+ level.** Over & above, **the team is aggressively hunting for inorganic acquisition**, which can add a new wing in either technology, futuristic products, markets and/or customers. SJS is a technology agnostic company with no risk of EV transition. We valued the company by assigning 20x multiple to FY25e EPS of Rs 29.7 to arrive at **fair value of Rs 593 apiece.**

### Competitive advantage is keeping SJS in the fast lane

- SJS offers 11 product categories with 6,000 SKUs that makes it one-stop shop for all decorative aesthetics requirements. Hardly any company in the world offers so many product categories and can manufacture so many SKUs under one roof.
- Aesthetics industry is labour intensive one, and SJS is having natural advantage of being in India & producing at large scale with lower cost. Hence, it is competitively placed vs. Intl. competitors. Provides quality products at competitive price and still earns higher margin than domestic.
- The company keeps adding new high realization/margin products. This, along with large-scale manufacturing and RM purchasing power makes it unique & cost competitive.
- Continued product innovations & quality helped SJS in maintaining average 15 years of relationship with its 10 largest clients. Due to strong relations with existing clients, SJS has been winning repeat businesses from its top clients. Further, it plans to increase customer base by marketing its products.

### New generation products, premiumization along with exports will be the main driver of growth

- New generation products viz. 3D dials, IML/IMD, Lens mask assembly, among others contribute ~16% of the consolidated revenue (target is 25% in 3-4 years). The realization of new products are 2-3x higher than traditional products, and SJS has been winning new orders.
- OEMs are shifting preference from '2D to 3D dials', 'Traditional to Capacitive overlays', 'Analog to touch based systems', increasing amount of chrome-plated parts, etc. for a premium look.
- Exports will be one of the important growth drivers, and the SJS aim is to take export revenue to 25% of the consolidated topline (from ~13% of the consolidated revenue in FY22).
- Due to its natural advantage of being present in India, SJS is able to provide quality products at competitive rates vs. international competitors and winning more business from clients.
- SJS is getting orders from its key clients for international markets. Added new client Alladio, which is one of the leading home appliance manufacturer in Latin America.

### Cross-selling Exotech-SJS products to each other clients to accelerate growth faster

- Exotech manufactures largely chrome-plated & painted products majorly for PV & consumer appliance customers. Strong relations of SJS with existing clients will continue to support Exotech in getting new orders. Whirlpool (SJS existing client) gave Exotech its 1<sup>st</sup> export order.
- We can sense similar traction in the coming years as Exotech is more than doubling its capacity to generate revenue of Rs3.0bn in the next few years from estimate of Rs1.3bn in FY23e. SJS & Exotech sees strong demand traction.
- Similarly, SJS plans to cross-sell its own bouquet of products to Exotech's clients.

### Bull's eye on the new acquisition

- In the process of evaluating inorganic acquisition. The intention is to acquire that company which can provide either technology, new products, new markets, or new customers with ROCE of 20%+. SJS is ready to take some debt (if required) for acquiring a good company.

### Attractive valuation & recommendation

- SJS showcased its outperformance in the past years and visible growth triggers are clear for coming years. We trust that due to its niche business, new products and competent management team, the company will be able to drive growth higher than the industry.
- There is no listed player, hence SJS should get scarcity premium. The stock is trading at 15x FY25e EPS of Rs 29.7. **Assigned 20x to FY25e EPS to arrive at a fair value of 593 per share.**

**Rating: Buy**      **Upside/(Downside): 33%**  
**Current Price: 446**      **Target Price: 593**

#### Market Data

Bloomberg:	SJS:IN
52-week H/L (Rs):	550/348
Mcap (Rs bn/USD bn):	14/0.2
Shares outstanding (mn):	30
Free float:	48.0%
Avg. daily vol. ('000) (3M Avg.):	68.99
Face Value (Rs):	10

Source: Bloomberg, SMIFS Research

#### Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	50.4	50.4	50.4	50.4
FIIIs	5.8	5.3	5.1	5.1
DIIIs	13.4	15.9	18.5	18.7
Public/others	30.4	28.4	26.0	25.8

Source: AceEquity, SMIFS Research

#### Promoters pledging (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoters pledged shares	0.0	0.0	0.0	0.0

Source: BSE

#### Price Performance (%)\*

YE Mar (R)	1M	3M	12M	36M
Nifty 50	-3	-1	3	47
Nifty 500	-4	-3	1	50
SJS	-10	1	13	-

\*as on 30<sup>th</sup> Jan 2023; Source: AceEquity, SMIFS Research

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY22	3,699	15.5	944	25.5	550	5.8	18	15.3	14.7	22.1	12.1
FY23e	4,428	19.7	1,127	25.4	713	29.5	23	18.2	17.4	19.0	11.5
FY24e	5,138	16.0	1,302	25.3	824	15.6	27	18.1	17.2	16.5	10.1
FY25e	5,879	14.4	1,490	25.3	903	9.6	30	17.1	16.7	15.0	8.3

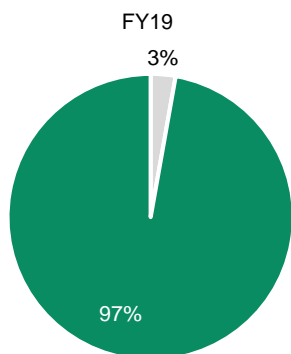
Source: Company, SMIFS Research

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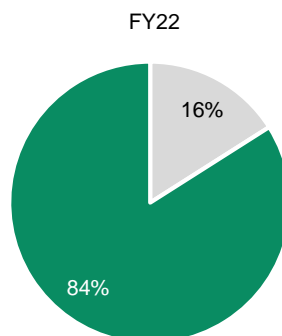
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## Investment thesis in charts

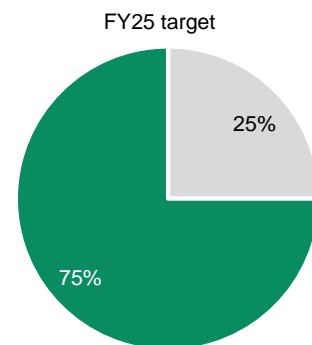
### Outperformance should continue as contribution inching-up from high realization new gen-products



■ New gen-products ■ Traditional products

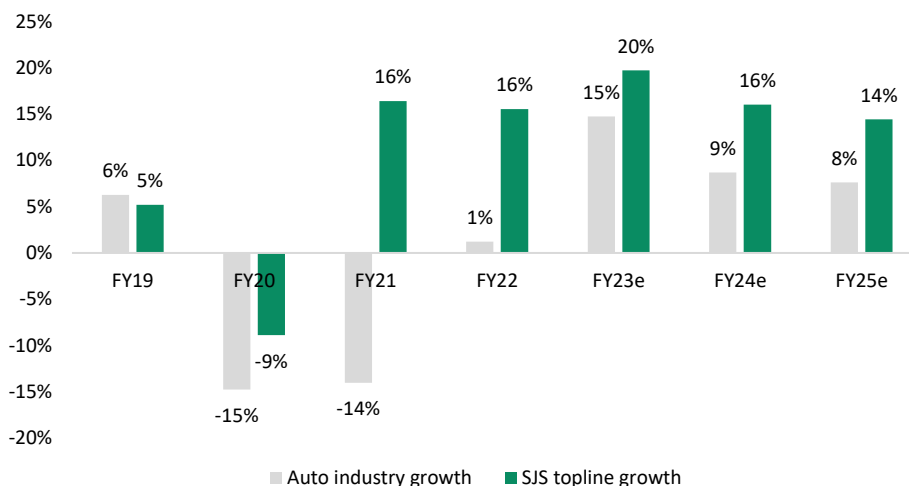


■ New gen-products ■ Traditional products



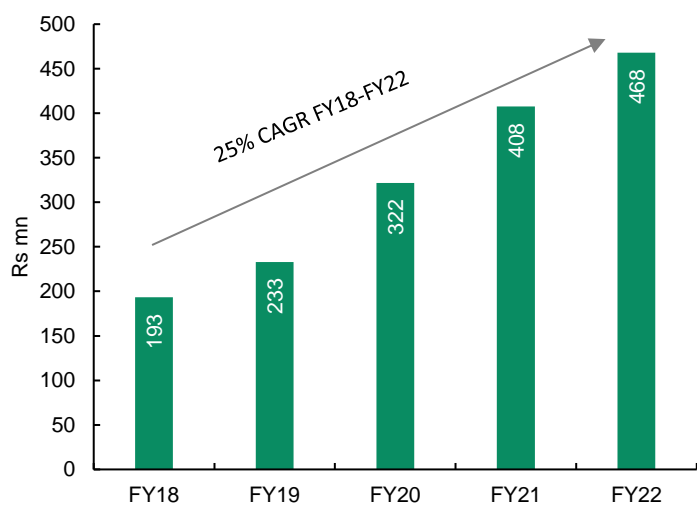
■ New gen-products ■ Traditional products

### SJS has been outperforming the industry growth, momentum to continue!

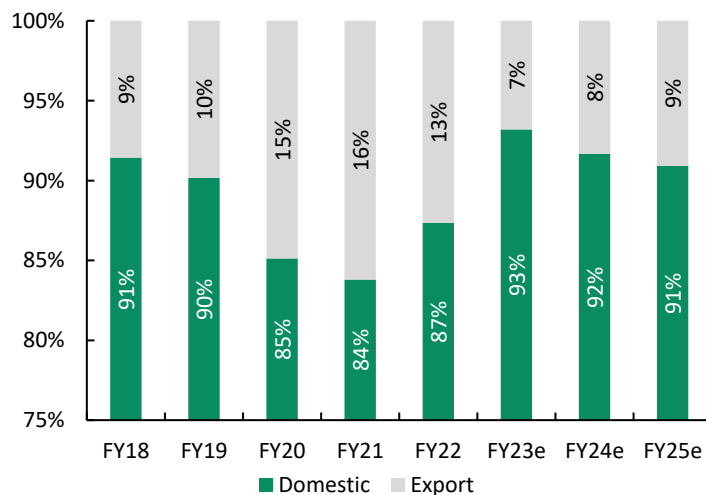


■ Auto industry growth ■ SJS topline growth

### Robust export growth performance

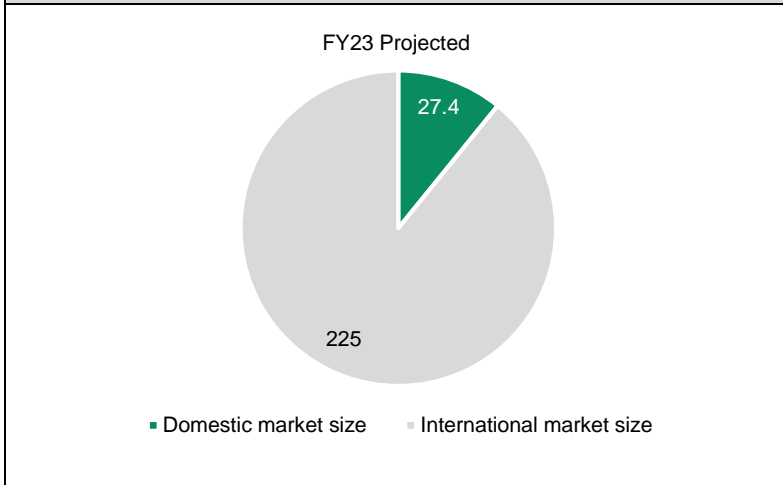


### Exports to grow faster than domestic

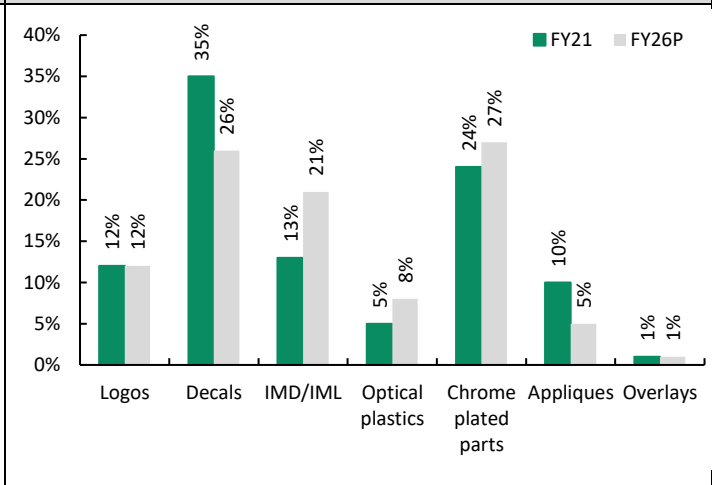


■ Domestic ■ Export

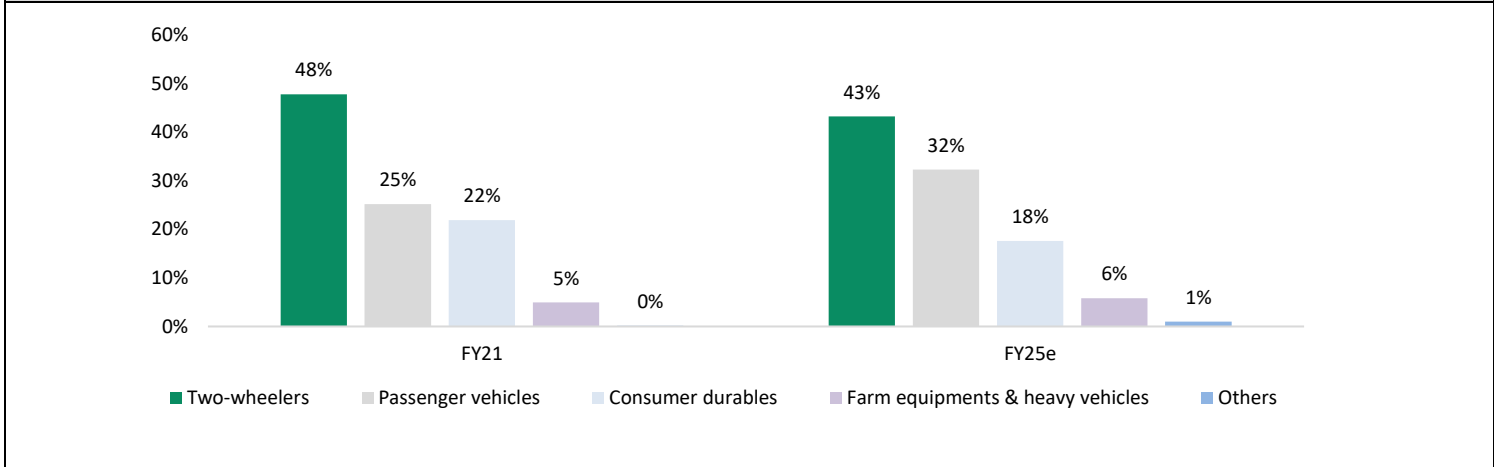
### Massive export market size, domestic growing at 20% CAGR (Rsbn)



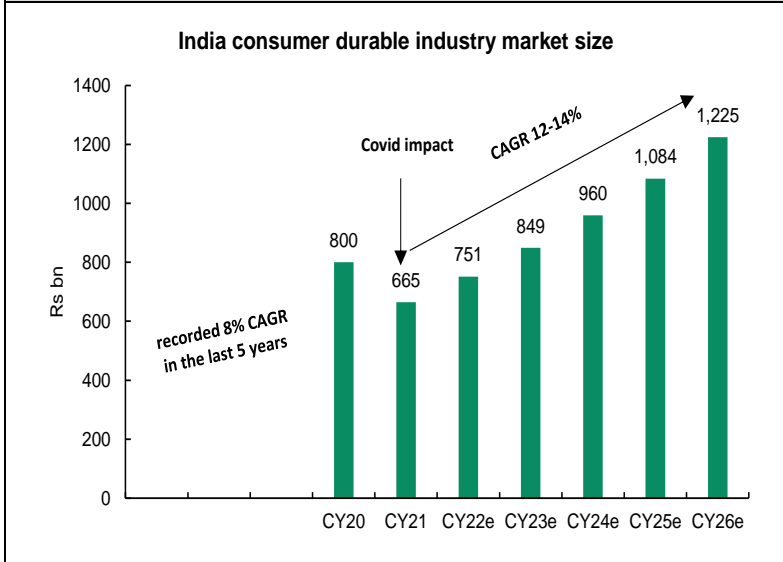
### Demand for new gen-products to grow at a faster pace



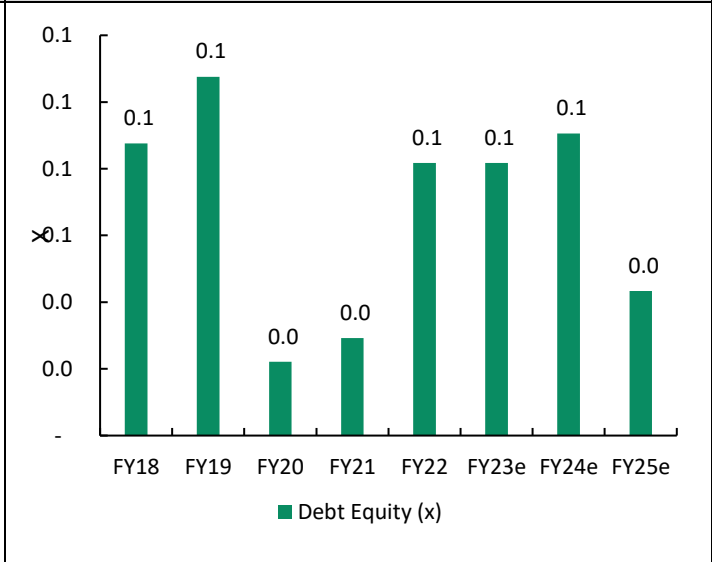
### Reducing dependency on 2Ws, fast gaining traction in PVs specially post Exotech's acquisition



### Consumer durable market size to grow at healthy 1.5+ times of GDP



### ZERO debt status – to maintain



Source: Industry, Company, SMIFS Institutional Research

**Fig 1: Consolidated – Financial snapshot**

Rs mn	FY22	FY23e	FY24e	FY25e
<b>Revenues</b>	<b>3,699</b>	<b>4,428</b>	<b>5,138</b>	<b>5,879</b>
Revenue growth (%)	15.5	19.7	16.0	14.4
EBITDA	944	1,127	1,302	1,490
EBITDA growth (%)	12.9	19.4	15.6	14.4
<b>EBITDA Margin (%)</b>	<b>25.5</b>	<b>25.4</b>	<b>25.3</b>	<b>25.3</b>
<b>PAT</b>	<b>550</b>	<b>713</b>	<b>824</b>	<b>903</b>
PAT growth (%)	5.8	29.5	15.6	9.6
EPS (Rs)	18	23	27	30
<b>P/E (x)</b>	<b>22.1</b>	<b>19.0</b>	<b>16.5</b>	<b>15.0</b>
EV/EBITDA (x)	12.1	11.5	10.1	8.3
EV/Sales (x)	3.1	2.9	2.6	2.1
<b>D/E (x)</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
ROE (%)	15.3	18.2	18.1	17.1
Cash & Investments	1,009	908	885	1,497
Adjusted OCF	576	656	793	934
Capital expenditure	(134)	(550)	(750)	(170)
Free Cash Flow	442	106	43	764

Source: Company, SMIFS Research Estimates

**Fig 2: Geographic revenue breakup**

Rs mn	FY18	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e
<b>Domestic</b>	<b>2,062</b>	<b>2,140</b>	<b>1,840</b>	<b>2,108</b>	<b>3,231</b>	<b>4,127</b>	<b>4,710</b>	<b>5,345</b>
YoY Growth (%)		3.7%	-14.0%	14.6%	53.2%	27.7%	14.1%	13.5%
<b>Exports</b>	<b>193</b>	<b>233</b>	<b>322</b>	<b>408</b>	<b>468</b>	<b>301</b>	<b>428</b>	<b>534</b>
YoY Growth (%)		20.6%	38.2%	26.7%	14.8%	-35.7%	42.0%	24.9%
<b>Total sales</b>	<b>2,256</b>	<b>2,372</b>	<b>2,162</b>	<b>2,516</b>	<b>3,699</b>	<b>4,428</b>	<b>5,138</b>	<b>5,879</b>
YoY Growth (%)		5.2%	-8.9%	16.4%	47.0%	19.7%	16.0%	14.4%

Source: Company, SMIFS Research Estimates, Considered consolidated from FY22 onwards

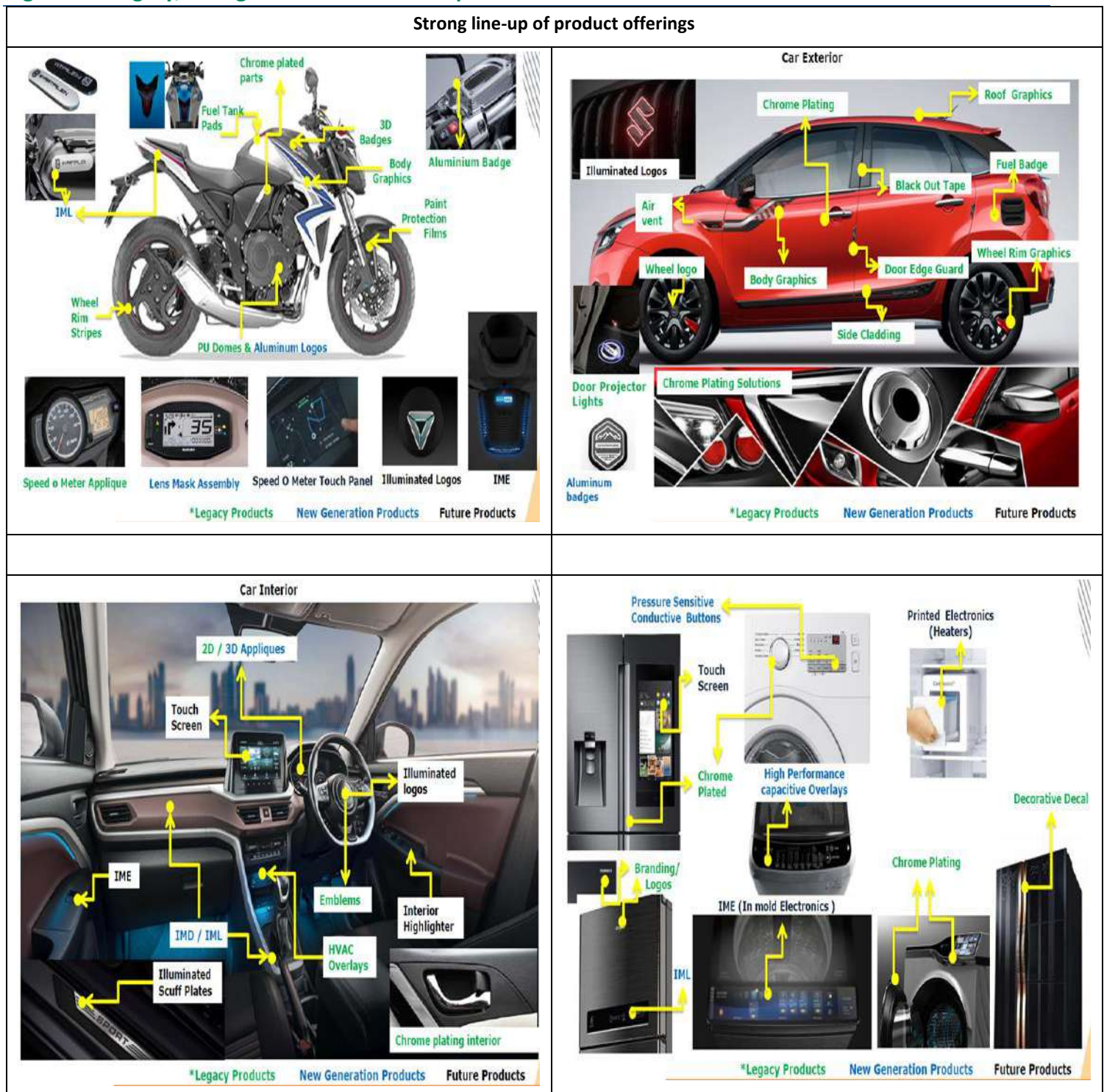


# Competitive advantage is keeping SJS in the fast lane

## Key arguments

- Strong relationship of 13 years to as high as 26 years with its top 10 customers
- Capability of Design-to-delivery in-house solution
- Wider product range with thousands of SKUs
- Determined to develop more new age products
- Ahead of competitors in financials and product offerings

Fig 3: SJS - Legacy, New generation and Future products



**Fig 4: SJS is one-stop shop, makes 11 product categories & 6,000 SKUs**

Company	Decorative aesthetic product coverage										Application segment coverage		
	Traditional aesthetic product						Advanced technology products						
Particulars	Logos	Decals	Stickers, aluminium badges	Chrome plated parts	2D Dials	Traditional Overlays	3D Dials	Capacitive Overlays	IML/ IMD	Optical plastics	2W	PV	CD
Classic Stripes Private Limited	✓	✓			✓	✓	✓	✓			✓	✓	✓
Galva Deco Parts Private Limited	✓			✓							✓	✓	
Kongovi Private Limited	✓			✓								✓	
Monochem Graphics Private Limited	✓	✓	✓		✓	✓	*	*			✓	✓	✓
Polyplastics Industries India Private Limited	✓			✓							✓	✓	
Pragati Industries Limited	✓			✓							✓	✓	
PRS Permacel Private Limited		✓	✓								✓	✓	
S.J.S. Enterprises Limited	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Unique Labels Private Limited			✓		✓		*	*	✓		✓	✓	

Source: Company's prospectus, SMIFS Research. \*Monochem Graphics Private Limited and Unique labels Private Limited websites do not clearly specify if these companies also offer 3D dials and capacitive overlays in specific.

- SJS offers over 11 different product categories, recently added chrome plated parts & illuminated logos. As per our research, barely anyone in India or overseas would be offering these many product categories and making 6000+ SKUs.
- The company has the widest range of products with a presence across traditional and premium ones. Hardly any company in the world offers so many product categories/SKUs, and can handle this complexity.
- **SJS edge is strong multi-year relationships + bouquet of products to offer.**
- It is end-to-end solution provider with having an in-house design centre, and enjoys better economies of scale due to large-scale production and manufacturing.
- The company keeps adding new high realization/margin products and has good futuristic products in the pipeline. This, along with large-scale manufacturing and RM purchasing power makes it unique & cost competitive.
- SJS plans to develop more new products viz. In-mould electronics (IME), illuminated logos, Cover glass technology, among others. The next good opportunity is in the medical equipment devices. Margins are higher in new gen-products once they achieve scale.
- Despite SJS provides products at competitive rates to global customers, the Export margins are higher than domestic. SJS presence in low cost country (India), where labor is comparatively cheaper as compared to global competitors which keeps the company in a better position in the international markets.

- Nissha Co. Ltd, Japan and Serigraph Inc., USA are some of the names competing in global markets with SJS.

**Fig 5: SJS – competitors financial comparison**

Companies	Revenue (Rs mn)	EBITDA margin (%)	PAT margin (%)	ROCE (%)	ROE (%)	Gearing Ratio
	FY22					
Polyplastics Industries (India) Pvt Ltd.*	3,707	9.2	1.4	3.5	2.6	0.7
Classic Stripes Private Limited*	3,018	29.2	20.6	20.0	22.3	0.2
SJS Enterprises Limited (Standalone)	2,679	30.6	19.4	15.1	15.4	0.0
PRS Permacel Private Limited	1,474	7.9	3.3	12.2	21.5	1.1
Galva Deco Parts Private Limited*	1,305	22.7	1.1	8.4	3.8	2.8
Monochem Graphics Private Limited	1,107	22.5	23.5	9.2	9.2	0.0
Kongovi Private Limited	820	18.9	6.5	6.0	7.9	0.8
Unique Labels Private Limited	149	14.6	2.0	4.4	2.9	1.0

Source: Industry, Company, SMIFS Research, \*Figures are for FY21

- As displayed in the above table, SJS Enterprises is in a better shape as compared to its competitors.
- The company is having one of the highest EBITDA margin with zero long-term debt and respectable level of return ratios.
- SJS invested substantially in new capacities in the recent past, hence return ratios of SJS is slightly lower than one of its competitors.
- All this, despite having a wider product portfolio & managing 6,000 SKUs with a judicious mix of domestic & exports.
- Polyplastics Industries and Classic Stripes are the nearest competitors of SJS, but having debt in their books. These three players are one of the largest ones in the domestic.
- Classic Stripes is competing in Logos, Dials and Overlays, while Polyplastics is majorly competing in Chrome plated parts and Logos. Both these competitors does not have wide strong OEM relations plus bouquet of products to offer.
- No competitor is making 11 product categories like SJS. Classic Stripes is heavily dependent on Hero MotoCorp as 50% revenue comes from it. Polyplastic Company's 50% revenue comes from Chrome plastic products, which is a low margin business.
- Nissha Co. Ltd, Japan's revenue from aesthetics decorative segment is Rs35bn, but generating only 8-9% operating margin. The company largely provides IML/IMD products. All types of costs for Nissha is higher including employee, rentals, procurements, etc., hence margin is less.
- Serigraph Inc., USA is another major competitor of SJS focusing majorly the US and Mexican markets. Serigraph is a full-service commercial printing shop. It offers services such as screen, offset and digital printing, UV, laminating, forming, precision die cutting, and injection molding. Products include Dials, Overlays, IMD, etc.



**Fig 6: List of top 10 clients of SJS Enterprises**

Top 10 customers	End-industry segment	No of years of relationship	% of revenue			Products offered	Location served
			FY21	FY20	FY19		
TVS Motor	2Ws	19	21%	24%	34%	3D lux badges, Decals	Hosur, Rudrapur and Mysuru
Suzuki Motorcycle	2Ws	13	12%	15%	16%	Decals	Gurugram
M&M	PVs & 2Ws	25	11%	7%	3%	Dials	Gurugram, Chennai, Manesar, Narsapur and Gujarat
Honda Motorcycle	2Ws	16	11%	8%	7%	3D lux badges, Decal	Narasapur, Gurugram, Tapukara and Gujarat
Whirlpool Corporation (Global)	CDs	13	7%	6%	6%	3D lux badges & Aluminium badges	Italy, Poland, Slovakia, USA and Turkey
Whirlpool India	CDs	26	7%	8%	5%	3D lux badges, Aluminum badges & IML/IMD	Puducherry, Pune and Faridabad
Visteon	PVs & 2Ws	14	6%	6%	2%	Dials & IML/IMDs	Brazil, USA, Thailand, Russia, Slovakia, Tunisia, Portugal, Vietnam and Mexico
Samsung	CDs	19	5%	4%	3%	CD/A	Chennai and Noida
Bajaj Auto	2Ws	13	4%	5%	5%	3D lux badges, Decal	Pune, Aurangabad and Rudrapur
Royal Enfield	2Ws	13	3%	4%	4%	3D lux badges, Decal	Chennai

Source: SJS Prospectus, SMIFS Research. Please note that the customer names as inferred by SMIFS Research.

- As clearly visible in the above table, SJS contribution from top two clients has come down due to downturn in the 2W industry, and has been inching-up contribution from other mega accounts in top 10 list.
- SJS maintained very long relationship of 13 years to as high as 26 years with its top 10 customers. This is only possible due to the combination of quality, cost, delivery and zeal of keep making products better. It has not lost a single customer till date.
- All fast growing 2W, PV and CD companies are top clients of SJS Enterprises.
- The company in diverse segments has 17 major clients with long standing relationships including HMSI, Suzuki, M&M, VW, Bajaj, TVS, Royal Enfield, John Deere, Visteon, Marelli, Whirlpool, Samsung, Godrej, Euroka Forbes, Panasonic, Sensa Core and Geberit.
- The intent is to build a few big accounts from existing ones, to add new clients and cross sell Exotech-SJS products to each other.
- SJS recently won new big orders from Whirlpool Corp for two of its US plants. In addition, added Alladio (leading manufacturer of appliances) in Argentina, BENLG, NEM EV and Gravton in the clients list. It won additional business from key clients' viz. M&M, TVS, Bajaj, Samsung and Maruti. Entered into new location Argentina and Ohio, USA.
- Visteon is one of the top customers for SJS in the auto ancillary segment. Visteon in turn sells its complete products to world renowned OEMs. Client list displayed below.



M&M in Passenger Vehicles, TVS, HMSI, Suzuki, Bajaj & Royal Enfield in two-wheelers are well reputed and fast growing OEMs in India are in the top 10-client list of SJS.

## Razor sharp focus on new generation products

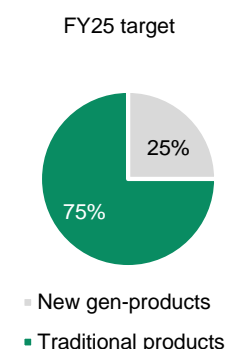
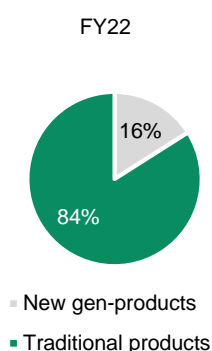
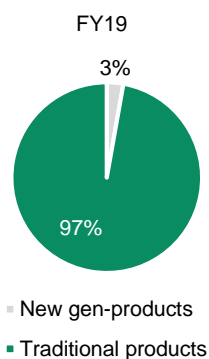
### Key arguments

- Higher realization (2-3x) new products contribution inched-up from 3% in FY19 to 16% of the consolidated FY22 revenue. SJS target is 25% in 3-4 years
- 'Lens mask assembly/Optical plastics' product is seeing increased levels of traction from e2Ws & PVs. 3D dials demand is increasing. The focus is to grow revenue from IML/IMD and working on IME as well
- Increasing application of existing products in new industries/segments

Revenue from sale of products	FY21		FY20		FY19	
	Rs2,478mn		Rs2,131mn		Rs2,358mn	
	Product revenue	Percentage of total	Product revenue	Percentage of total	Product revenue	Percentage of total
Product	<i>Rsmn</i>	<i>%</i>	<i>Rsmn</i>	<i>%</i>	<i>Rsmn</i>	<i>%</i>
Decals and body graphics	886	35.8	795	37.3	1,167	49.5
2D appliques and dials	174	7.0	193	9.1	182	7.7
3D lux badges	446	18.0	442	20.8	568	24.1
Domes	72	2.9	65	3.1	56	2.4
Nickel badges	74	3.0	39	1.8	26	1.1
Overlays	401	16.2	333	15.6	293	12.4
<b>New products</b>						
3D appliques and dials	194	7.8	89	4.2	-	-
Aluminium badges	75	3.0	72	3.4	59	2.5
IML/IMDs	52	2.1	36	1.7	1	0.0
Lens mask assembly / optical plastics	104	4.2	67	3.2	6	0.3
<b>Future products</b>						
Speed-o-meter touch panel	-	-	-	-	-	-
Illuminated logos	-	-	-	-	-	-
IME	-	-	-	-	-	-
Touch screen	-	-	-	-	-	-
Interior highlighter	-	-	-	-	-	-
Illuminated scuff plates	-	-	-	-	-	-
Printed electronics	-	-	-	-	-	-

Source: Company's prospectus, presentations, SMIFS Research

- The focus is to continue to develop new products and increase application of products across different industries. It has 70+ strong team of new product development, which developed 4-5 new products over the past 3-4 years.
- Recently developed new products viz. IML/IMD, 3D dials, Lens mask assembly, Optical plastics, Aluminum badges, Illuminated logos (not in production), among others. Going forward will develop In-mould electronics (IMEs) that finds application in 2Ws, PVs, CDs and EVs. This, along with other products mentioned in the table above.
- New generation products viz. 3D dials, IML/IMD, Optical plastics, among others contributed 16% of the consolidated revenue in FY22 (vs. 3% in FY19 standalone revenue). The aim is to improve the contribution to 25% in three years.
- The realization of new products are 2-3x higher than the existing set of products. This will substantially increase revenues and will support in outperforming the industry.



- The company received some orders for Illuminated logos from Maruti Suzuki and Tata Motors as a tier-2 supplier via Minda Group. However, waiting for some regulation changes before actual implementation on cars.
- For Lens mask assembly, the company started selling to e2W & ICE customers. As per our check, SJS already boarded about 12 e2W OEMs in client list, however volumes yet to pick up for this high realization product.
- The interest from PV clients also increased for Optical plastics and SJS is getting many RFQs for the same.
- In the Cover glass technology, SJS imports basic glass from large manufacturers. The company is doing value addition in it e.g. bending the glass, black printed borders, putting special coatings on that glass for anti-glare, etc. Printing and coating is done by SJS on that glass. Special things required to give gap between glass & the TFT screen. Also, using optical clear adhesives and air bonding.
- The competition is very less in new gen products, and expect to see higher margin once scale comes.
- SJS continue to enhance product styling and build capabilities to innovate & develop new products, increasing application of existing products in different industries/segments. E.g. trying fate with premium FMCG makers viz. Fans, Alcohol bottles, among others.

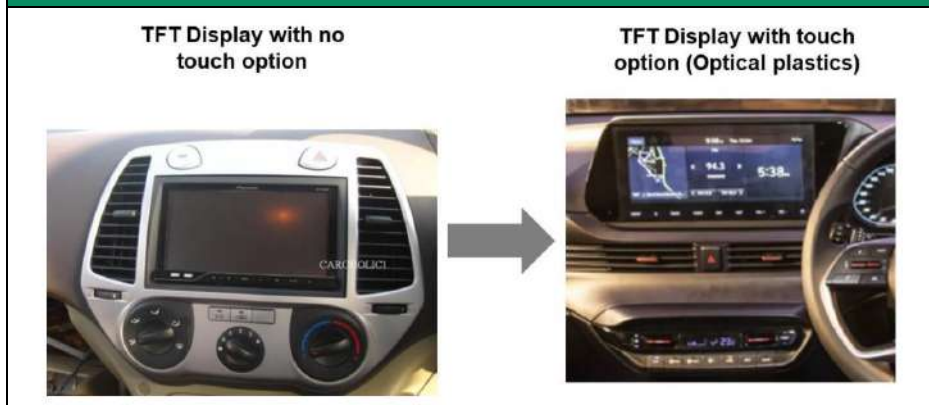
### Why sales from new products will rise...?

- **Changing the preference of people towards larger sized cars:** Clear shift observed towards bigger cars, SUVs, increasing sales of mid-to-high variants, premiumization happening in new models & refreshers are getting better aesthetics. This is increasing penetration of superior aesthetics products.
- **Customers preferring many chrome-plated parts:** End users of cars have been decorating their vehicles in the aftermarket by adding chrome accessories like door handles, mirrors, headlight covers, front grill, fog lamp covers, etc. OEMs understood this trend & started providing chrome-plated accessories as standard fitment. In consumer durable products, companies have started giving chrome door handles and door rings in refrigerators and washing machines respectively.
- **Optical plastics and 3D dials demand is rising:** Only higher variants of cars have a touch screen feature e.g. Swift ZXi and ZXi+ variants feature a 7-inch touch screen, whereas LXi and VXi have a traditional audio interface. However, OEMs are likely to make touch screens as a standard feature owing to increasing customer preference. In majority of electric two-wheelers, digital dials are installed, which require Lens mask assembly. Hence, the demand for optical plastics/Lens mask assembly will increase, and in turn, revenues of aesthetics product makers will improve.

Usage of Lens mask assembly / Optical plastics is inching-up owing to EVs and premiumization in 2Ws & PVs



SUVs have bigger screen size and refreshed model too gets little larger screen size. Hence, the demand for Optical plastics is getting additional boost



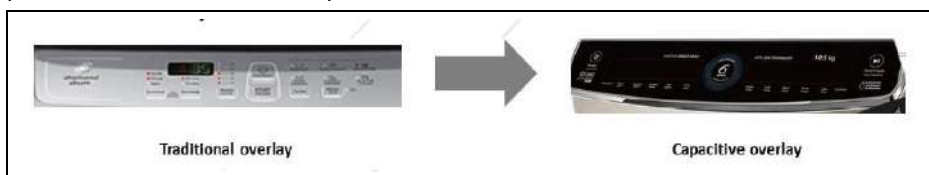
- **Shifting preference towards 3D dials**, which are visually & aesthetically superior & preferred by PV OEMs. Price per 2D dials in cars is Rs 100-150, while 3D dials priced at Rs 180-250.



- **IML/IMD components are preferred over plain moulded ones**: IML/IMD parts get an attractive, finer and softer finish, hence customers/OEMs prefer these to offer the rich feel to products. IML/IMD parts are ~1.5x higher than traditional plain moulding. The more shift is happening in higher variants of PVs, and similar upgradation is seen in consumer durable products. A few examples are dashboards in higher variants of Ertiga/Ciaz shifted to IML, and Whirlpool's double door refrigerators started showing IML decorated parts for superior aesthetic appeal, etc.



- **Moving away from traditional to capacitive overlays**: Touch interface in automatic washing machines are increasingly showing preference over traditional interfaces owing to better experience & convenience. Capacitive touch overlays are 2.5-3.0x pricier than traditional overlays.

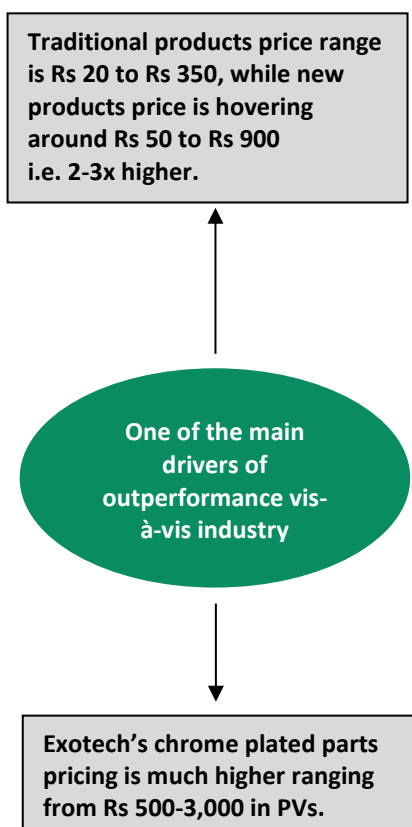


- **3D lux logos are preferred over chrome-plated logos**: Realization is 12-15% higher in 3D lux logos and visually looking better.

- **Rising EV adoption is beneficial for the decorative aesthetics industry** as EV models typically have better aesthetics, connected features, large number of digital screen, etc.

### How much content per vehicle can rise...?

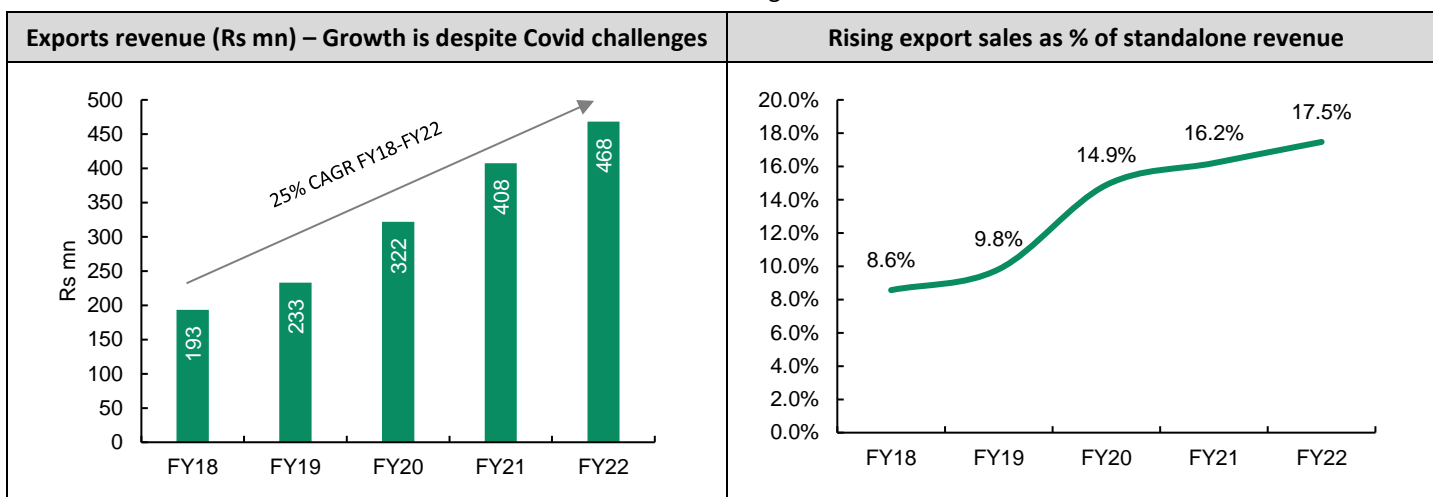
- The average content in 2W is Rs 300-500 for traditional products, Rs 1,200-1,500 in PVs and Rs 150-200 in appliances.
- The kit value is likely to increase by at least 2-3x across 2Ws, PVs & CDs. This is due to new generation products like Optical plastics/Lens mask assembly, IML/IMD, 3D dials, Illuminated logos, among others. However, the increase in kit value will be gradual.
- The pricing for new products are 2-3x higher than the traditional ones that will lift up SJS revenue growth faster than the underlying industry growth.
- 3D lux badges are generally preferred by 2Ws, while PV OEMs uses chrome plated logos.
- The outperformance was clearly visible in FY21 and FY22 revenue growth of SJS standalone. The industry production in FY21 was negative ~14%, whereas SJS revenue grew by ~16%. Similarly, the industry production growth in FY22 was ~1% vs. SJS revenue growth of ~7%.
- This outperformance is despite SJS having less presence in the PV industry owing to absence of chrome-plated products in the standalone business. Additionally, premiumization happening in the industry and addition of new products including chrome-plated ones supported SJS to outperform the industry growth.
- The consolidated revenue grew by ~16% in FY22 vs. industry growth of just ~1%. This was due to new order wins from chrome plating & its speedy execution, along with increasing revenue from new products & premiumization.
- Further growth will come from the chrome-plated business as a lot of new orders won in FY22, hence outperformance will continue in FY23 as well. Apart from this, there is a lot of traction in Lens mask assembly, SJS winning new business in it. Addition of new product categories & increasing content per vehicle are additional growth levers.
- The management has a razor sharp focus on adding newer products & technologies to drive growth faster in the coming years. Capex for this will be from internal accruals.



## Exports – huge opportunities, growing in double-digit

### Key arguments

- Exports grew by ~25% CAGR FY18-FY22, expect further strong traction between FY23e-FY25e due to new order wins from existing & new clients
- High margin exports contribution is ~13% of Consol. FY22 revenue, the aim is 20-25% in the next 2-3 years.
- Global aesthetic industry size for PVs in the US, EU & the UK is massive at ~Rs225bn
- We project consolidated exports to drop in FY23e by about 36% due to geopolitical situation. Post that, we expect strong traction on a low base, and growth expected is ~33% CAGR FY23e-FY25e, supported further by 1<sup>st</sup> export order win by Exotech.
- The incremental growth will come from exports (along with other businesses) and the management is clearly focused on growing this piece of business. It has been winning new orders from existing & new clients.



19% CAGR FY23e-FY25e in exports will be driven by the combination of:

PVs & CD segments from NA/EU, and 2Ws from ASEAN to drive the business

Increasing business from existing large clients and by acquiring new customers

Expanding in existing markets and entering new geographies

To utilize its natural advantage of present in India (low labor cost), offering quality products at competitive prices

- We project growth to be about 33% CAGR FY23e-FY25e, reasons described above.



- The global aesthetic market size in the US, EU and the UK is massive at ~Rs225bn. **SJS market share is less than 1% in this gigantic market, hence we see scope of growth opportunity is tremendous** looking at the quality of products and strong relationships with clients.
- The combination of 1) growing existing clients, 2) adding new clients, 3) expanding in existing countries & adding new countries and 4) introducing new generation products to drive export revenue in the coming few years.
- The plan is to increase exports, which is an important growth area for SJS, and is building team for this. The opportunity size is good, especially in Turkey, Brazil & Argentina, and SJS wants to capitalize the same. The company's aim is to take exports at 25% of the revenue in the next few years.
- The growth in these new markets is likely to be driven by the consumer durable segment, while the target segment in North American markets is automobile.

### Recent export order wins & addition of new clients!

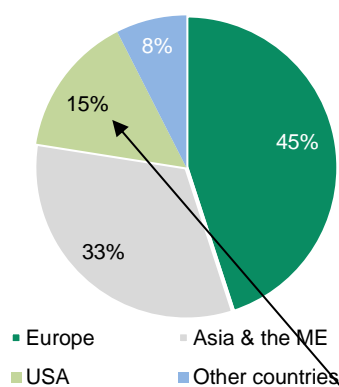
- SJS being present in India is utilizing its natural advantage of low labor cost. The company is able to compete with the global players due to this advantage. It is offering quality products at competitive pricing. We see this as its important competitive advantage in the international markets.
- Exports will grow slightly faster than domestic in the mid-term as SJS has been winning new orders from existing/new customers and it would be difficult for international players to compete with SJS due to its natural competitive advantage.
- SJS recent client addition is Alladio, which is a leading home appliance manufacturer in Argentina (13 plants in LatAM) & have plants across the world. With this, the company acquired a new client and entered in a new country as well.
- SJS to supply Overlays for washing machines of Alladio. A good opportunity exists to sell other parts like chrome plated parts, etc. The relationship with giant player Alladio is just started, and we see prospects in the coming years.
- From existing clients the company has been winning new orders from its large global customers viz. Visteon, Whirlpool, among others.
- It started getting traction from Continental and Magneti Marelli. Won new business from Continental for South East Asia and India.
- It won business from two new plants of Whirlpool in the US. Whirlpool is one of the largest customer (\$25bn global company), has presence across nations. SJS has been supplying to ASIA & EMEA plants and now getting orders from Whirlpool for its global plants.
- Started business with Visteon, in the recent past, the client opened doors for overseas as well. Added Stellantis as a new customer.
- It strengthened sales force in existing geographies with special focus on Turkey, Brazil & Argentina, among other similar markets.
- Post the acquisition of Exotech, the company has a wide range of Chrome plated parts available to offer to passenger vehicle customers overseas.
- Due to the strong relationship of SJS with Whirlpool, Exotech won its 1<sup>st</sup> business from Whirlpool.
- The company gets 40-50% of revenue from Europe, 30-35% from Asia and the Middle East and about 15% from the US, which will see good traction in the coming years.

Whirlpool & Visteon are among the top export clients.

Added Whirlpool's two plants in the US.

Started getting traction from Continental and Magneti Marelli.

Added new client Alladio in Argentina



Broad exports breakup (%)

USA to see higher traction

## Cross-selling SJS-Exotech products to accelerate growth

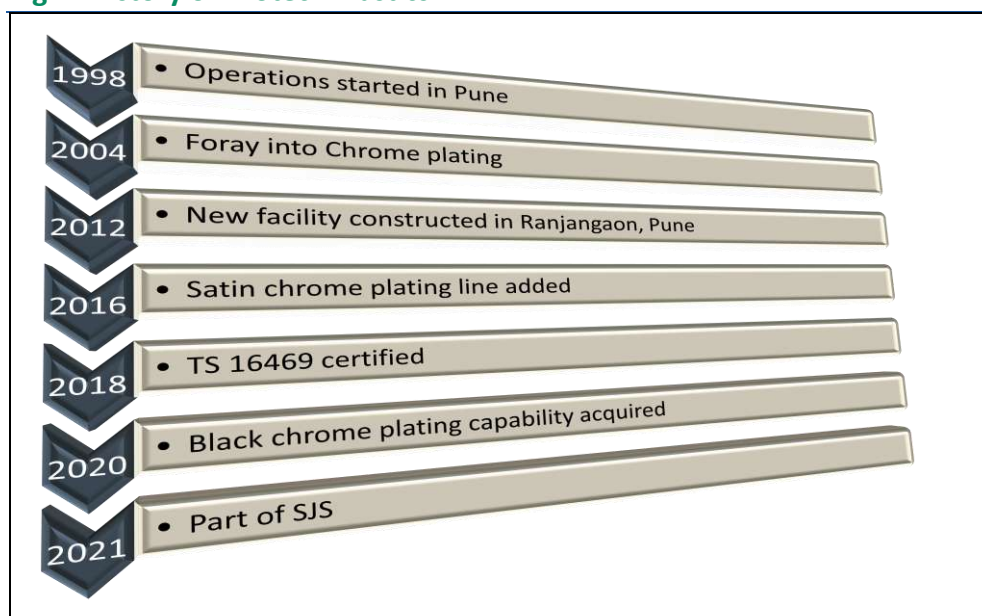
### Key arguments

- Exotech's financials improved substantially post acquisition, good scope of further improvement
- Addition of new products, cross-selling to SJS customers witnessing strong traction
- Received 1<sup>st</sup> export order from Whirlpool, strong traction anticipated
- More than doubling the capacity

### About Exotech Plastics

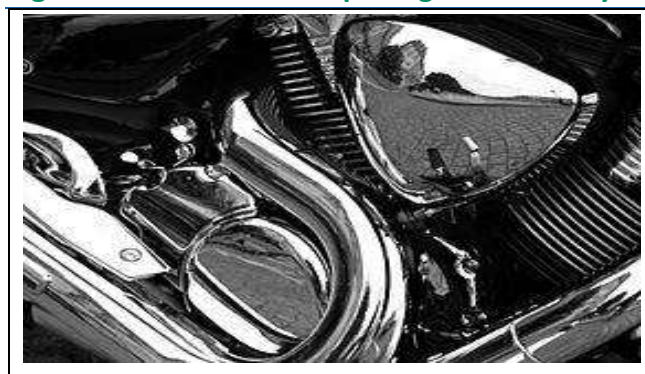
- Exotech Plastics largely present in manufacturing of Chrome plated parts majorly for PVs, followed by Farm equipments & heavy vehicles, Consumer durables and 2Ws.
- Injection moulding and Painting are its other businesses. Till FY22, all its revenue comes from the domestic.
- Exotech customer includes Renault, Skoda, Volkswagen, Tata Motors, Toyota, M&M, Ford, TVS Motor, John Deere, Ashok Leyland, Fiat, GM, among others.

**Fig 7: History of Exotech Plastics**






Source: Company, SMIFS Research

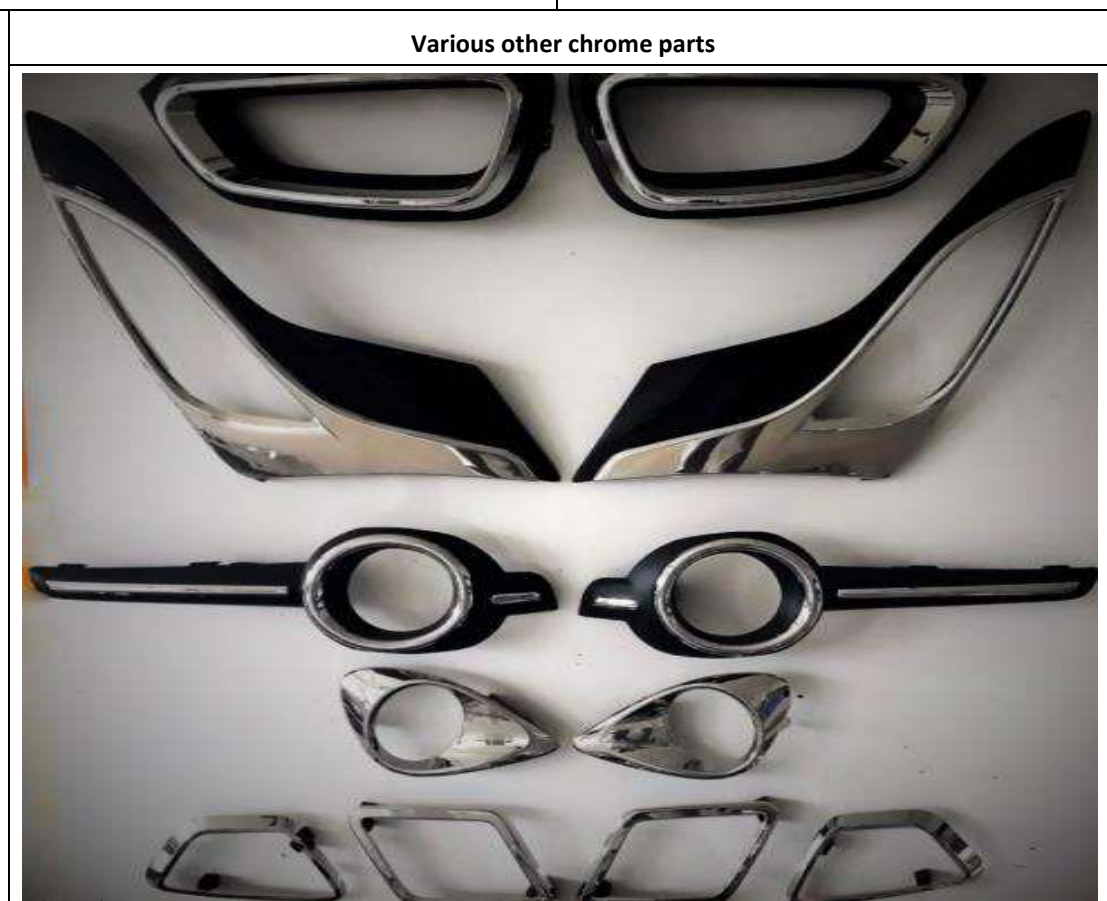
**Fig 8: Decorative chrome plating on a motorcycle**



Source: Industry, SMIFS Research

**Fig 9: Exotech's products**

Badge	Grill
	
Logo	Wheel cap
	



- Exotech has a diverse portfolio of plastic and chrome parts including vehicle emblems, brand badges, nameplates, wheel covers, deck lid handles, radiator grills, door handles, instrument panel housings, fuel flaps & fuel rail components.

## Exotech Plastics Financials

1. Post the acquisition of Exotech, its revenues increased by 49% YoY in FY22, and EBITDA margin improved by 133bps YoY to 12.2%.
2. In H1FY23, Exotech's revenue increased by 41% YoY with 194bps improvement in EBITDA margin to 13.6%.
3. Have strong demand building-up, hence more than doubling its capacities.

- SJS acquired Exotech for Rs640mn in Apr '22 i.e. EV/Sales (FY21) of 0.93x.
- SJS bought it at a lucrative price, offering them a large set of customers, cross selling opportunities and increase in operating efficiencies.
- Exotech doesn't have a few customers like Kia, Hyundai, Honda, Samsung, Whirlpool, among others. SJS can use its existing strong relations with these customers, and can start selling chrome-plated products to these customers.
- Exotech's Revenue/EBITDA/PAT grew at CAGR 21%/35%/34% respectively during pre-covid years FY14-19 with average EBITDA margin of 9.7%, touched highest EBITDA margin of 14.3% in FY17.
- After SJS acquired Exotech in April 2021 (FY22), its revenues jumped higher by ~49% YoY to Rs 1,020mn in FY22 and EBITDA margin improved by 133bps YoY to 12.2%. While, reported PAT in FY22 dropped by 39% YoY to Rs32mn as Other income in FY21 was one of the highest in the available history at Rs64mn (one-time gain on sale of land to the extent of Rs53.83mn).
- Moreover in H1FY23, Exotech's revenue further increased by 41% YoY to Rs648mn with 194bps improvement in EBITDA margin to 13.6% and PAT shoots up by 261% YoY to Rs38mn for the same period.
- Cross-selling opportunities by using the SJS strong relationship with an existing set of clients, addition of new products driven top-line growth of the Exotech.
- Exotech's EBITDA margin improved largely due to operating leverage, followed by rolling-out of SJS systems & processes to Exotech and soft RMs. Going forward, the focus is to improve operational efficiencies of Exotech.
- The demand traction is exceedingly strong and hence investing into new plant & building capacities.

## Reasons for acquiring Exotech...?

1. The chrome plating market size in India is good at ~Rs8-9bn.
2. SJS is strongly seeing clear cross-selling opportunities.
3. Established customers in a diverse industry.
4. SJS was not present in Chrome plating products especially for PV segment and wants to increase its presence in this segment, hence acquired Exotech.
5. SJS will increase revenue from fast growing customers in the industry viz. M&M, TVS, John Deere, among others.
6. SJS sees a lot of scope in improving Exotech's EBITDA margin by improving efficiencies & reducing costs. 15-16% margin is sustainable (higher than industry average of 11-12%).

## From where Exotech's growth will come...?

- SJS and Exotech started cross selling to each other clients, where the opportunity is good. One proven example of cross selling is that Exotech received its 1<sup>st</sup> export order from SJS customer 'Whirlpool'.
- Within PVs, SJS serving to 7-8 OEMs in top 10 (ex-Maruti & Tata). After Exotech's acquisition, it is possible to increase the presence with some of these large clients as product basket expanded.
- Post acquisition, SJS received a lot of traction from the market for chrome-plating business.
- Exotech's other small businesses viz. Painting and Molding are running in one shift, running at lower utilization levels and received additional businesses.
- We expect Exotech to grow by 30% in FY23e, and anticipates atleast 21% CAGR FY23e-FY25e. This confidence is owing to strong demand visibility for the next few years.
- The management enthusiastically targets to double Exotech's revenue in three years. In our opinion, it is achievable.

## To fulfil orders, Exotech is more than doubling its capacities

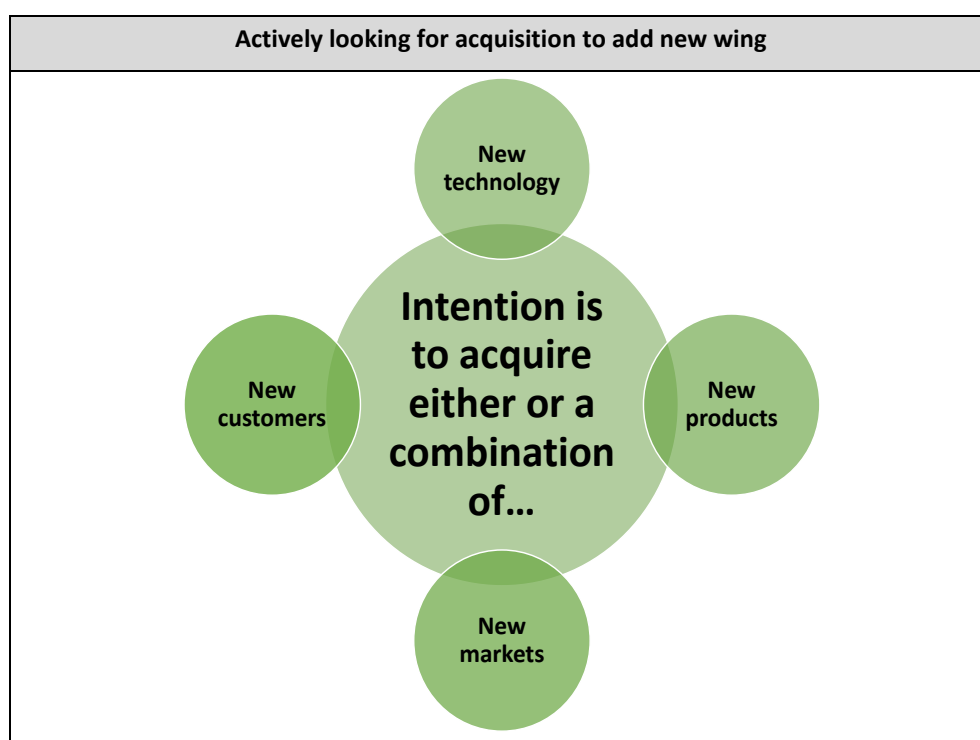
- The current utilization level is 90% (three shifts) in the plating division. Due to good demand visibility, Exotech is setting up a new plant in Pune to increase the chrome plating capacity that can generate revenue from Rs1.3bn to Rs3.0bn.
- Expected capex for the same is Rs1bn (spread over 18-24 months) to be funded through internal SJS cash flows. The target ROCE is 20% from new plant at full utilization.
- The new plant will start by end of FY24 until then debottlenecking & other measures should support.
- Higher capacity will not only serve domestic orders, but also enable entry into global markets for chrome plating business.



## Bull's eye in acquiring key technology/products/markets/customers

### Key arguments

- Inorganic plans are in place to grow over & above the guided organic growth of 25% CAGR
- Exports is the focus with an immense market size & availability of critical technologies, and hence the target is likely will be international, in our view



### Plans ahead for the acquisition

- SJS is aggressively looking for inorganic acquisition and the aim is to acquire either or the combination of new high margin technology, customers, markets & products.
- In our view, the company identified critical products like IML/IMD, IME, and Plastic injection molding/painting, among others where they need to either expand or enter.
- Acquiring new technology or products is very important to grow & compete with international players in the aesthetics decorative industry, and for growth prospects.
- E.g., In-Mold Electronics (IME) is the next target technology where the company is heading to get a strong foothold. This futuristic tech to gain traction in automobiles & the consumer durables industry.
- To expand its presence in premium appliance manufacturers including but not limited to room ACs, geysers, kitchen appliances, television, among others.
- The company plans to acquire more customers, enter diverse segments & geographies by offering new products viz. chrome plating, among others.
- SJS is a debt-free organisation, but is open to take some debt if required for acquiring a good company.
- The new acquisition will either give or sum of new products, customers, markets, capabilities.
- 1) It proposes to grow outside India faster specially in geographies like North America, Europe and South East Asia, 2) The specialized technologies like IME, etc. is critical, and



3) The global opportunity size is huge. Hence, **in our opinion the company is evaluating some targets outside India.**

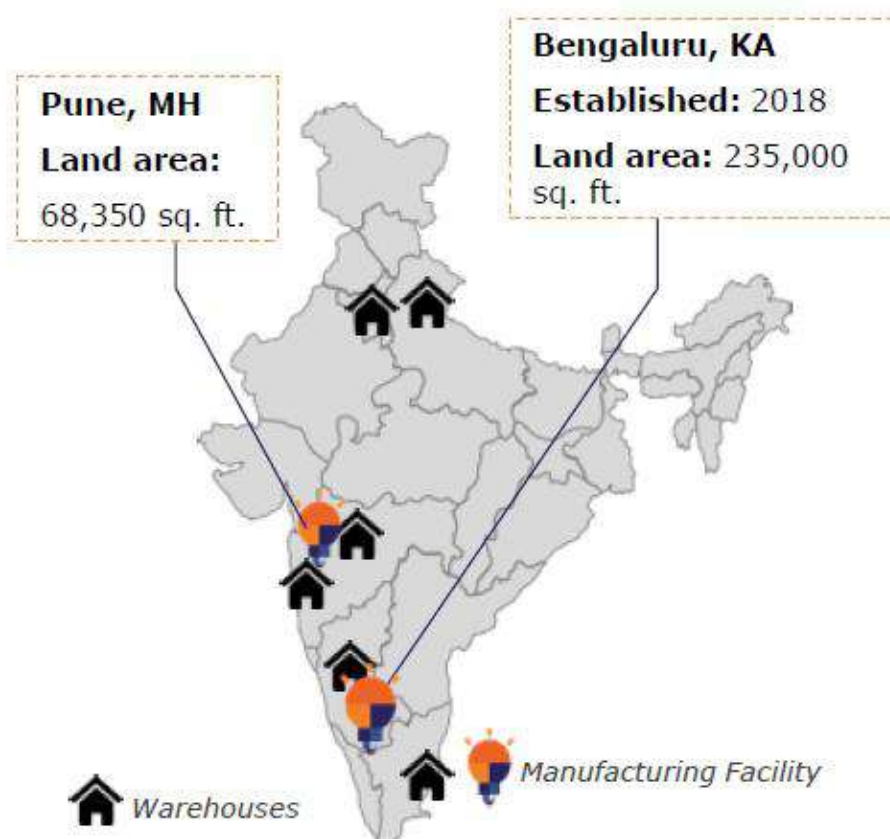
- **We trust that SJS will bring manufacturing/technology of the target entity in India to keep/use its natural competitive advantage of low labour cost.** Indeed, a client facing team will sit in international geography for marketing purpose.
- We also believe that the company is looking for the acquisition at an opportune time as a few of the global competitors are facing the heat, especially in developed nations like Europe.

## Company background

SJS Enterprises Ltd headquartered in Bengaluru is one of the leading players in Indian decorative aesthetics industry and provides design-to-delivery services. The company started its operation in the year 1987 and has been adding new products in its basket, computed now to 11 including Decals, body graphics, 2D/3D appliques & dials, 3D lux badges, Domes, Overlays, Aluminum badges, IML/IMDs, Lens mask assembly, Electroform badges, among others. It is serving to wide industries including 2Ws, PVs, Consumer durables (CDs), Farm equipments & heavy vehicles, Medical devices, Sanitary ware, etc. SJS has its own manufacturing plant in Bengaluru in ~235K sq. ft. area and 45-45% of the land is vacant for future expansion purpose. The plant can make 208.61mn products annually. It also has epoxy-coated floors and meets ISO class-7 dust-free clean room specifications, which is critical to produce aesthetic products. Bengaluru facility is ISO, IATF and LEED Gold certified.

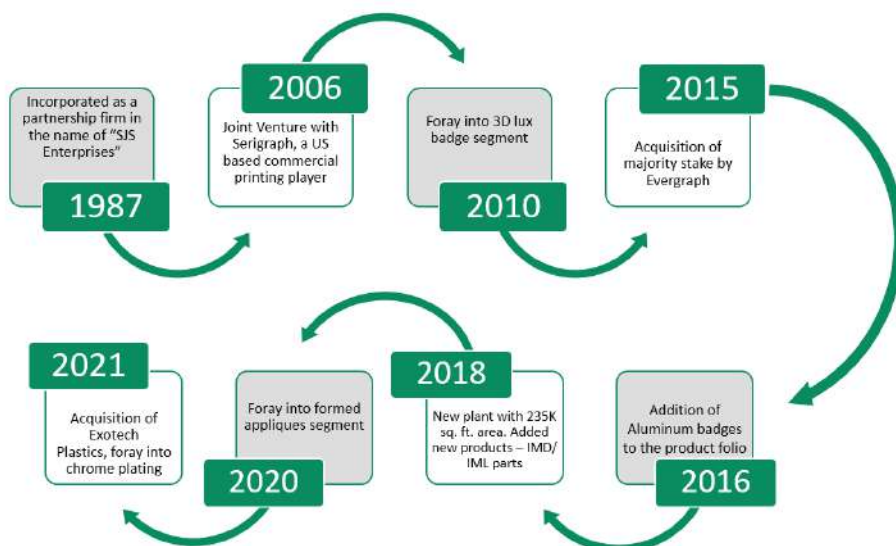
The company acquired Exotech Plastics Private Ltd in April 2021 having its plant in Pune spread across ~68.4K sq. ft. Exotech manufactures chrome-plating parts, along with Moulding & Painting are its other set of businesses. Exotech majorly serves to PV segment, additionally supplies components to 2Ws, CDs, Farm equipment & heavy vehicles. This facility is also ISO and IATF certified.

**Fig 10: Facilities and warehouses**



Source: Company, SMIFS Research

**Fig 11: Historic milestones**











Source: Company, SMIFS Research








**Fig 12: Highly experienced & qualified board & management team**

Key people	Designation
Mr. Ramesh C Jain	Chairman and Independent Director
Mr. K A Joseph	Managing Director
Mr. Sanjay Thapar	CEO & Executive Director
Mr. Mahendra Naredi	Chief Financial Officer
Mr. Kevin K Joseph	Executive Director
Mr. Vishal Sharma	Nominee Director
Mr. Kazi Arif Uz Zaman	Nominee Director
Mr. Matthias Frenzel	Independent Director
Mrs. Veni Thapar	Independent Director

Source: Company, SMIFS Research

**Fig 13: Long-list of product offerings**

Domes	Aluminum Badges
	
IML/IMD	Aftermarket/Transform
	
Formed Appliques	
	
Optical Plastics	
	

3D Lux	
	
	
Decals/Body graphics	
	
	

Overlays	
	
Chrome plated parts	
	
2D Appliques	
	

Source: Company, SMIFS Research

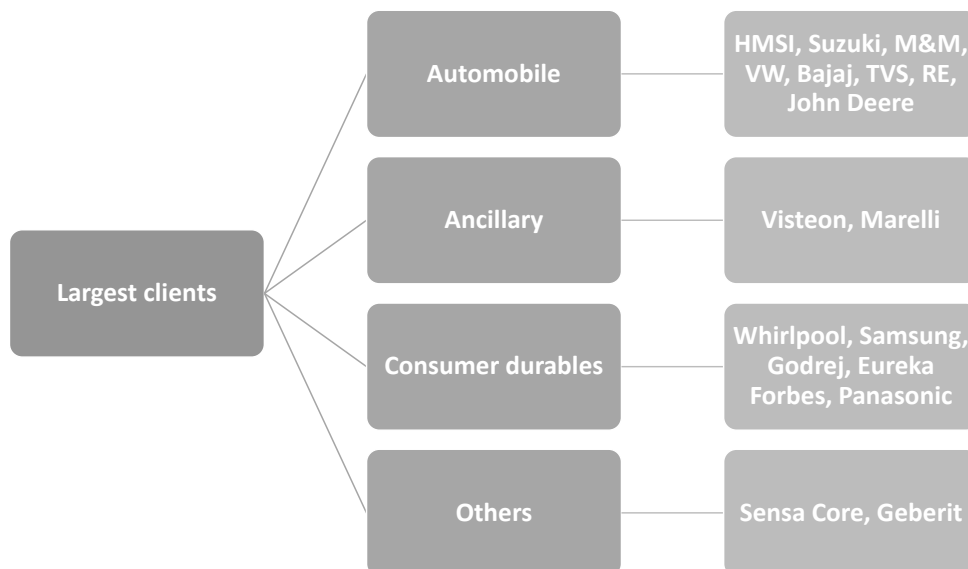


Fig 14: SJS has a long list of clients and with an average relation of 15 years with 10 largest customers

			
			
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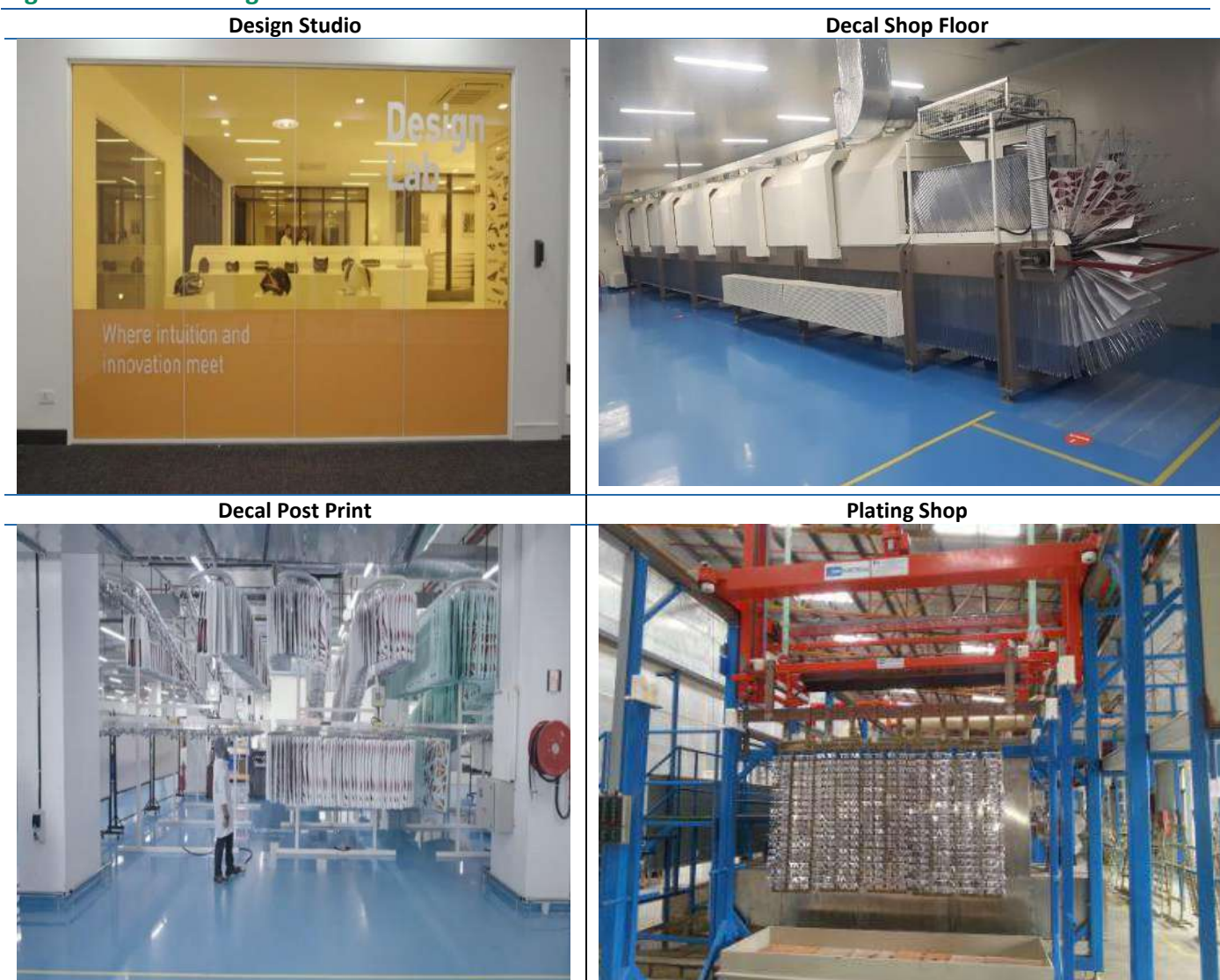
Source: Company, SMIFS Research

**Fig 15: Segment wise key clients**



Source: Company, SMIFS Research

**Fig 16: Manufacturing facilities**





Dial Shop Floor

IMD Shop Floor



Quality Inspection

Moulding Shop



Source: Company, SMIFS Research

## Qualified and experienced director and management team

Name	Designation	Profile
Mr. Ramesh C Jain	Chairman & Independent Director	Mr. Ramesh C Jain holds a B-Tech (honors) degree in Mechanical Engineering from the <u>Indian Institute of Technology, Kharagpur</u> , and a <u>Master's Degree in Science (Industrial engineering and administration)</u> from <u>Cranfield University, the United Kingdom</u> . Mr. Jain previously worked for 25 years in Eicher Motors from where he retired as the Group Vice Chairman and worked with Hindustan Aeronautics Limited prior to Eicher. Mr. Jain was the <u>President of the Tractors Manufacturer Association</u> , the <u>Chairman of the Confederation of Indian Industries</u> , <u>Haryana State Council</u> , and currently is the <u>Director on various boards</u> including, inter alia, Kamdhenu Limited, The Hi-Tech Gears Limited, Frick India Limited, The Hi Tech Robotic Systemz Limited, and Modern Automotives Limited. Further, he previously provided guidance to some of the Ministries of the Government of India in preparing their departmental strategies.
Mr. K. A. Joseph	MD - Promoter & Co-Founder	Mr. K.A. Joseph holds a <u>Bachelor's degree in Science</u> from the <u>Bangalore University</u> and a <u>Postgraduate Diploma in Business Administration</u> from the <u>St. Joseph's College of Business Administration, Bangalore</u> . Mr. Joseph has more than <u>34 years of experience in the aesthetic printing business</u> . He is also a director on the Board of Exotech. Mr. Joseph leads the plant & manufacturing operations for the company and has spearheaded the company's technological & product innovation over the years. Mr. Joseph has also helped design the new manufacturing facility into which the company shifted its operations in 2018.
Mr. Sanjay Thapar	CEO & Executive Director	Mr. Sanjay Thapar holds a first-class (with distinction) <u>Bachelor's degree in Science (Mechanical engineering)</u> from the <u>Delhi College of Engineering, University of Delhi</u> . Mr. Thapar has <u>over 30 years of experience in the automotive industry</u> . He started his career with Tata Engineering and Locomotive Company Limited (now known as Tata Motors Limited) and was previously the President of Minda HUF Limited, the Managing Director of Minda Valeo Security Systems, and the group Chief Strategy Officer with the Ashok Minda Group. Mr. Thapar leads the strategy, business development and finance functions of the company and has played an instrumental role in formulating sales strategy, building customer base, deepening customer relationships, developing product offerings and is also responsible in shaping the company's product strategy and international business expansion in recent years.

<b>Mr. Mahendra Naredi</b>	Chief Financial Officer	Mr. Mahendra Naredi holds a Bachelor's degree in Commerce (honors) & law from Rajasthan University. He is a qualified <u>Chartered Accountant</u> from the Institute of Chartered Accountants of India and a qualified <u>Company Secretary</u> from the Institute of Company Secretaries of India. He has <u>more than 20 years of experience</u> and has previously worked with 'The Spark Minda Group' at various positions such as CFO - European companies, CFO & Company Secretary - Minda Vast Access Systems Private Limited, Corporate Finance Head - Minda KTSN and his last designation was AVP - Corporate Finance at Minda Corporation Ltd (IN). He <u>joined SJS Enterprises in August 2022</u> .
<b>Mr. Kevin K. Joseph</b>	Executive Director	Mr. Kevin K. Joseph holds a <u>Bachelor's degree in Mechanical Engineering</u> from the Visvesvaraya Technological University, Belgaum. He <u>previously worked with Tata Elxsi Limited</u> as a Senior Design Engineer and works at the company as the Executive - Manufacturing.
<b>Mr. Vishal Sharma</b>	Nominee Director	Mr. Vishal Sharma holds a <u>Bachelor's degree in textile technology</u> from the Indian Institute of Technology, Delhi, and a <u>Post-graduate programme in management</u> from the Indian School of Business, Hyderabad. Mr. Sharma is currently the Managing Director - Investments and Operations with Everstone Capital Advisors Private Limited. He <u>previously worked with Sapient Corporation</u> (now known as Publicis Sapient) (a division of TLG India Private Limited) <u>and Boston Consulting Group</u> (India) Private Limited.
<b>Mr. Kazi Arif Uz Zaman</b>	Nominee Director	Mr. Kazi Arif Uz Zaman holds a <u>Bachelor's degree in Technology with honours in Electrical Engineering</u> from the Indian Institute of Technology, Kharagpur, and a <u>Post-graduate diploma in management</u> from the Indian Institute of Management, Ahmedabad and is a <u>Chartered Financial Analyst (CFA)</u> Charter Holder from the CFA Institute, USA). He has <u>over 25 years of experience</u> and has previously worked with ANZ Grindlays Bank Limited / Standard Chartered Grindlays Bank / ANZ Capital Private Limited, ICICI Venture Funds Management Company Limited, and Everstone Capital Advisors Private Limited where his last designation was Managing Director – Private Equity and is presently a Partner at GestAlt Network LLP.
<b>Mrs. Veni Thapar</b>	Independent Director	Mrs. Veni Thapar holds a <u>Bachelor's degree in Commerce</u> (honors) from the University of Delhi. She is a qualified <u>Chartered Accountant</u> , a qualified <u>Cost Accountant</u> from the Institute of Cost Accountants and a <u>Certified Information Systems Auditor</u> from the Information Systems and Audit Control Association, USA. Presently, she is a Senior Partner of V K Thapar & Company, Chartered Accountants and is on the Board of Bank of India as an Independent Shareholder Director (Second Term) as well as on the Board of Governors of the Indian Institute of Corporate Affairs (Second Term).
<b>Mr. Matthias Frenzel</b>	Independent Director	Mr. Matthias Frenzel holds a <u>Diploma Engineering (FH) in Mechanical Engineering – material technology</u> from the Technical College, Berlin, and a <u>Master's Degree in Business Administration</u> from the <u>Düsseldorf Business School GmbH</u> . He previously worked as the Director (mechanics, electromechanics procurement supplier quality) with <u>Visteon Electronics Germany GmbH, S-Y Systems Technologies Europe GmbH, and Johnson Controls GmbH</u> .

Source: Company, SMIFS Research

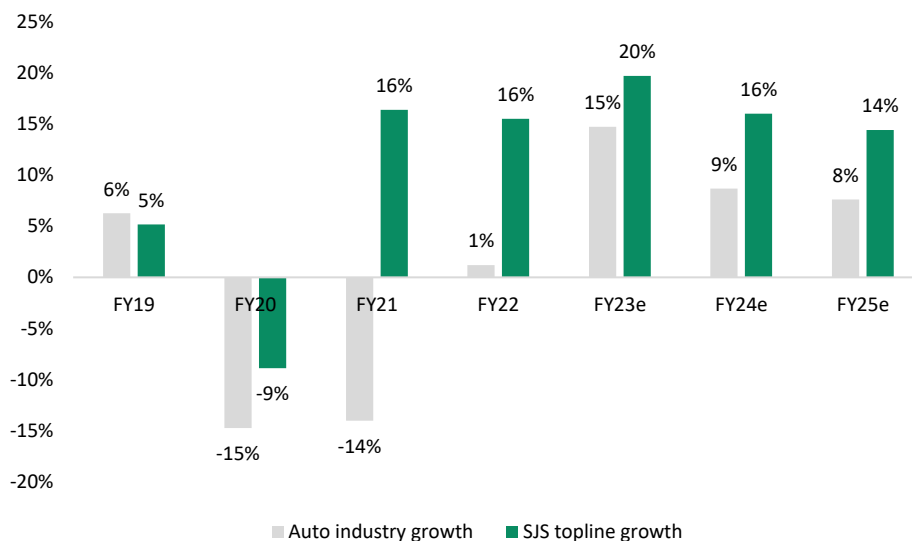
**Fig 17: SJS comparison with other auto component players**

Company (Rs Mn)	CMP	Market Cap	Revenue				EBITDA margin (%)				PAT				EPS (Rs)				P/E (x)				RoE (%)			
			FY22	FY23e	FY24e	FY25e	FY22	FY23e	FY24e	FY25e	FY22	FY23e	FY24e	FY25e	FY22	FY23e	FY24e	FY25e	FY22	FY23e	FY24e	FY25e	FY22	FY23e	FY24e	FY25e
SJS Enterprises*	446	13,565	3,699	4,428	5,138	5,879	25.5%	25.4%	25.3%	25.3%	550	713	824	903	18	23	27	30	24.7	19.0	16.5	15.0	15%	18%	18%	17%
Automotive Axles	2,309	34,888	14,906	20,275	24,160	25,405	9.0%	10.7%	12.0%	12.7%	744	1,375	1,953	2,185	49	91	129	145	46.9	25.4	17.9	16.0	13%	21%	25%	23%
FIEM Industries	1,596	21,001	15,723	19,421	22,467	25,562	12.3%	12.7%	13.0%	12.8%	953	1,363	1,715	2,036	72	104	130	155	22.3	15.4	12.2	10.3	16%	20%	21%	21%
Gabriel India	173	24,843	23,320	27,946	33,226	39,235	6.0%	7.7%	8.0%	8.4%	895	1,377	1,712	2,108	6	9	11	15	27.8	18.7	15.1	11.8	12%	16%	17%	19%
GNA Axles	732	15,702	12,705	14,473	15,468	16,649	9.9%	13.5%	14.0%	14.0%	888	1,046	1,198	1,370	41	49	56	64	17.7	15.0	13.1	11.5	16%	16%	16%	16%
JTEKT India	131	31,966	15,888	20,424	23,311	24,709	8.0%	9.6%	10.4%	10.5%	434	851	1,271	1,385	2	4	5	6	73.7	37.4	25.2	22.9	6%	13%	16%	14%
Lumax Industries	1,648	15,404	17,513	21,866	24,298	27,820	7.7%	9.4%	9.8%	10.1%	579	1,012	1,210	1,451	62	108	129	155	26.6	15.2	12.7	10.6	9%	18%	19%	20%
M.M Forgings	864	20,858	11,230	13,617	14,812	17,165	17.1%	17.9%	18.3%	18.5%	1,095	1,203	1,371	1,706	45	50	57	71	19.0	17.3	15.2	12.2	17%	20%	19%	20%
Sandhar Technologies	234	14,067	23,237	28,654	34,024	36,744	8.3%	10.1%	10.4%	10.4%	557	540	1,267	1,529	9	9	21	25	25.2	26.0	11.1	9.2	7%	6%	13%	14%
Subros Ltd	296	19,300	22,386	27,290	30,175	33,916	6.7%	9.4%	10.0%	10.1%	325	912	1,229	1,828	5	14	19	28	59.4	21.1	15.6	10.6	4%	11%	13%	18%

Source: Bloomberg estimates, BSE, \*SMIFS research estimates

## Financial analysis

**Fig 18: SJS has been outperforming vis-à-vis industry growth**



Source: Company, SMIFS Research Estimates. \*Considered consolidated figures from FY22 onwards

- **The company has been consistently outgrowing industry growth in the past years due to the combination of**
  - 1) premiumization theme picking up,
  - 2) new order wins specially from auto & consumer durable industry,
  - 3) new client additions,
  - 4) keep innovating products along with price increase,
  - 5) exports have been supportive and
  - 6) from FY22 onwards, gaining traction in the PV industry post acquisition of Exotech Plastics.
  
- **We anticipate SJS outperformance to continue supported by:**
  - 1) cross-selling opportunities with Exotech,
  - 2) introduction of new premium products,
  - 3) EV to push premiumization further,
  - 4) newly added clients to start contributing and
  - 5) new order wins from existing and new clients.

**Fig 19: SJS-Exotech cross-selling, new products, order wins & premiumization to support outperformance**

Segment	% of Consolidated revenue (FY22)	Segment growth				Industry growth			
		FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
<b>Consolidated revenue projection</b>									
Two-wheelers	43%	3.0%	31.7%	11.1%	10.2%	-3.0%	12.4%	7.8%	7.4%
Passenger vehicles	30%	36.7%	18.2%	20.9%	20.6%	20.0%	24.0%	8.2%	8.2%
Consumer durables	20%	3.5%	-2.9%	25.3%	17.4%	12.5%	10.0%	10.0%	10.0%
Farm equipments & heavy vehicles	6%	48.0%	24.6%	8.8%	7.9%	29.0%	25.9%	8.0%	8.0%
Others	2%	1074.2%	-13.6%	6.0%	6.0%	-	-	-	-

Source: Company, Industry, SMIFS Research Estimates. Considered CV industry growth for Farm equipments & heavy vehicles

### Two-wheeler segment – growth drivers

- Rebound in the domestic two-wheeler industry in FY23 (est. growth 21% in India) after three consecutive years of de-growth will support higher growth in SJS 2W segment as compared to any other segment in the ongoing financial year.
- SJS top clients including TVS Motor, HMSI, Suzuki, Bajaj Auto and Royal Enfield have been doing good in their respective segments.
- In addition, the company on-boarded 12 EV OEMs (mix of 2W & PV) and have been getting orders from them, albeit the orders are not significant at the moment, but will pick up eventually.
- It has been noticed that electric 2Ws have more premium features and finish, that would lift volumes specially Lens mask assembly.
- Strong efforts are ongoing to get onboard one of the largest 2W players in India. We are optimistic on the same as SJS has a wide range of products to offer at competitive rates with international quality standards.
- Exotech will use SJS strength in two-wheelers to get business for chrome-plated products.
- In exports 2Ws, the company has plans to enter India like market and trying to win orders from existing customers.
- We anticipate 2W industry (including EVs) to grow in-line with the GDP growth, SJS to outgrow due to a combination of factors mentioned in the list above.

### Passenger vehicle segment – growth drivers

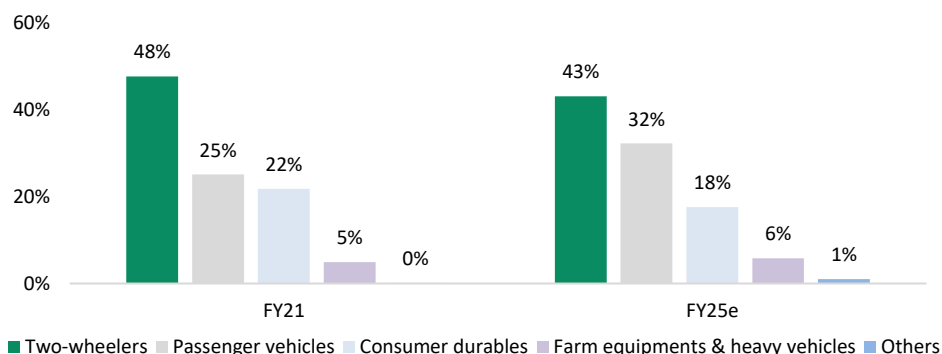
- In FY22, SJS PV segment outgrown PV industry growth majorly due to addition of Exotech's business from Apr '21, supported further by SJS as strong orders executed.
- In FY23e, domestic PV segment could possibly grow by 24%, however, exports (-22%) will drag down overall PV segment growth as compared to the PV industry owing to geopolitical reasons. Still, a growth of ~18% on a high base is at a respectable level.
- We anticipate that Exotech has been receiving higher demand traction across segments, and hence has been more than doubling its capacities by end of FY24e.
- To start selling Optical plastics, pitching to the PV OEMs already started. It's a new product with higher realization.
- By utilizing strong relations of SJS, the chrome-plated parts of Exotech will see strong upside in PVs. This could lift up PV contribution in overall sales as now SJS can offer a bouquet of chrome-plated products to PV OEMs & can get good orders.
- New addition of products like IML/IMD, Optical plastics, more futuristic products like Illuminated logos (developed), IME, Cover glass (in process), among others are future growth drivers.

### Other segments

- Within Consumer Durables, the consolidated entity has been winning new orders from Whirlpool, added new client Alladio, and entering in new countries should drive growth faster than the industry.
- We conservatively anticipated in-line growth for Farm equipments & heavy vehicles segment vis-à-vis industry for the coming years despite Exotech offering its whole lot of chrome parts, molding & painting.



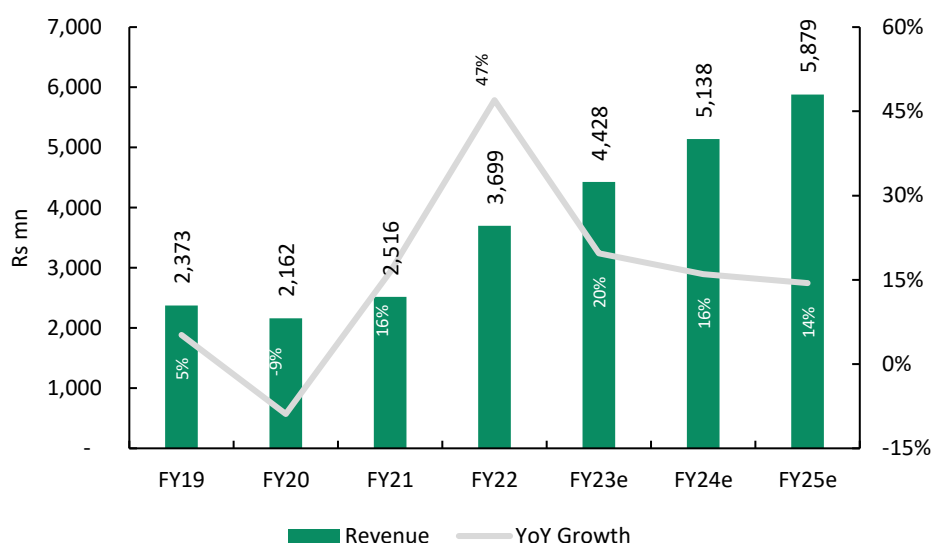
**Fig 20: SJS to lift-up PV sales faster post Exotech's acquisition**



Source: Company, SMIFS Research Estimates

- SJS reduced 2W concentrations significantly from 70% a few years back, to now about 43% (FY22). The growth opportunity exists in 2W industry due to under penetration as compared to its Asian counterparts.
- For SJS, two-wheeler segment will continue to see growth led by increasing content viz. Lens mask assembly, etc. However, passenger vehicle and consumer durable segments is likely to see higher growth in the coming five years.
- 2W dependency to gradually reduce further in the mid-to-long term.

**Fig 21: Revenue to grow at 17% CAGR FY22-FY25e**



Source: Company, SMIFS Research Estimates, \*Considered consolidated figures from FY22 onwards

- SJS now has wide products including Chrome plating, Lens mask assembly, Optical plastics, IML/IMD parts, etc. adding a large content to the addressable market. The whole premiumization theme is picking up.
- The company's edge is strong relationships with OEMs + wide product offerings over the competitors.
- Exotech – SJS cross selling opportunities is enormous, addition of new clients in consumer durables in exports, growing existing mega accounts to lift-up revenues.
- Hence, confident of growing revenue at 17% CAGR FY22-FY25e.

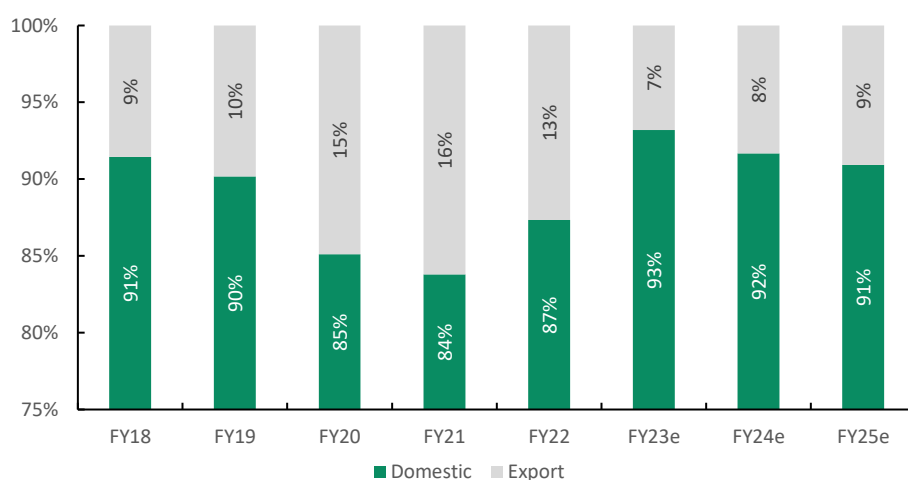
**Fig 22: Exports grew at 25% CAGR FY18-22, a dip in FY23e is short-lived**



Source: Company, SMIFS Research Estimates, \*Considered consolidated figures from FY22 onwards

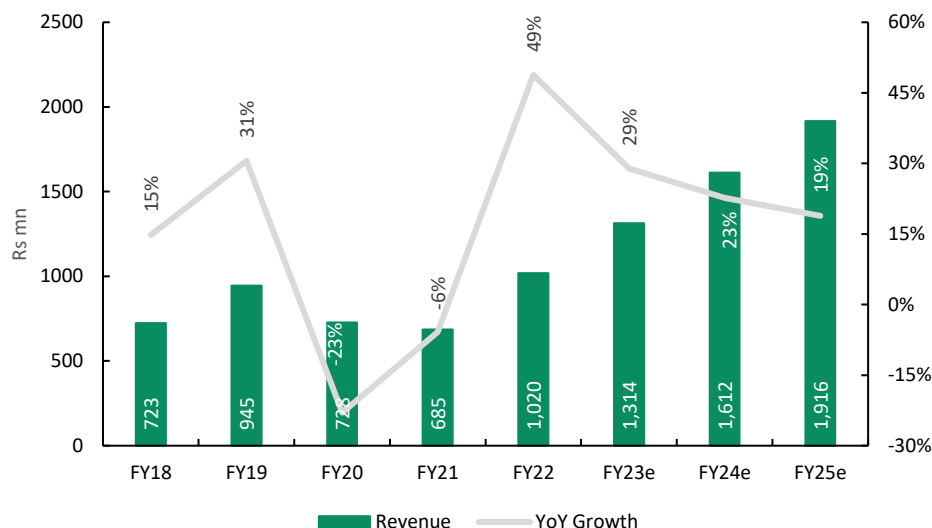
- Consumer durables especially in exports has been weak since FY22 majorly as Europe impacted due to macro-economic and geopolitical reasons.
- In FY21, the demand was good as people stayed more in home. Post that due to uncertainty, war, inflation, etc. affected the appliance market.
- Projected 36% fall in consolidated exports in FY23e. We believe these are short-term challenges in the Consumer durable market in EU & NA, customer volumes are lower, but this will come back at start of FY24e.
- Export order wins have been strong especially from Whirlpool, Visteon, Continental AG, among others, added new client Alladio, Exotech won its 1<sup>st</sup> export order win from Whirlpool, and expanding in Turkey, Brazil & Argentina.
- All these steps to bounce back exports in the coming 1-2 quarters, and is likely to report growth at ~33% CAGR FY23e-FY25e.

**Fig 23: Exports to get back its mojo from FY24e onwards**



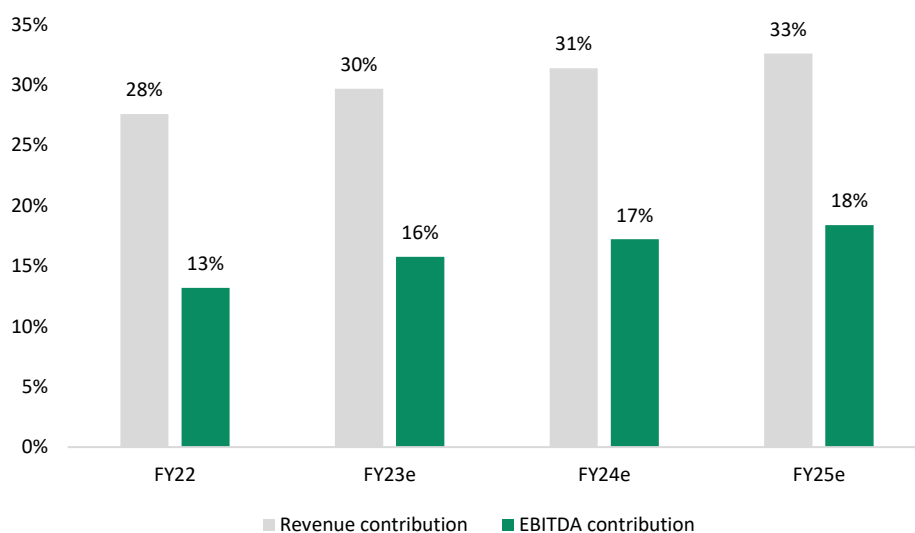
Source: Company, SMIFS Research Estimates, \*Considered consolidated figures from FY22 onwards

**Fig 24: Exotech growth run-rate accelerated post SJS acquisition**



Source: Company, SMIFS Research Estimates

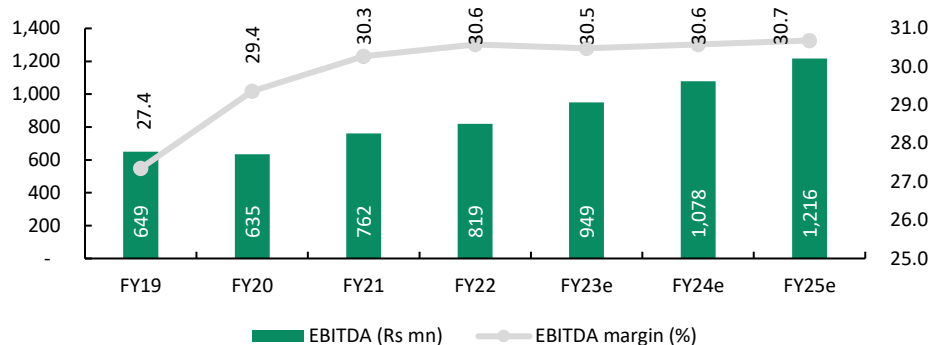
**Fig 25: Exotech's revenue and EBITDA contribution to inch-up**



Source: Company, SMIFS Research Estimates

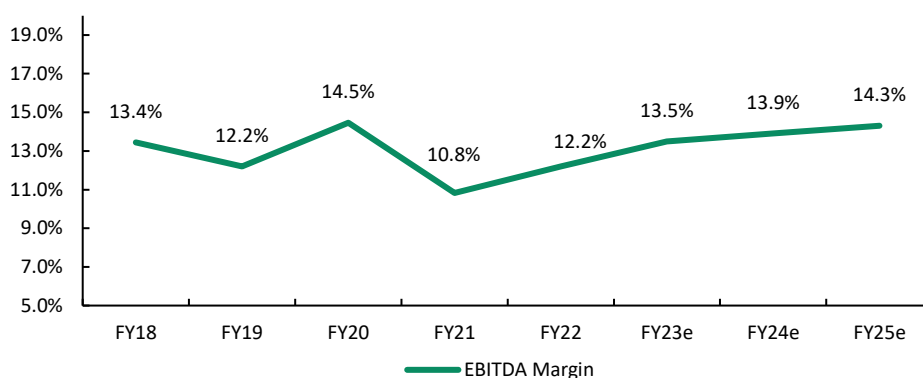
- SJS bought it at a lucrative price, offering them a large set of customers, cross selling opportunities and increase in operating efficiencies.
- Exotech doesn't have a few customers like Kia, Hyundai, Honda, Samsung, Whirlpool, among others. SJS can use its existing strong relations with these customers, and can start selling chrome-plated products to these clients.
- SJS improved its financials post acquisition in FY22. Revenues jumped by 49% with an EBITDA margin improved by 137bps to 12.2% for the same period.
- We are confident that Exotech will continue accelerating growth in the next three years. We anticipate 23% CAGR between FY22-FY25e for Exotech.
- The company is more than doubling its capacities, as demand traction is looking healthy.

**Fig 26: SJS standalone margin to remain in good shape**



Source: Company, SMIFS Research Estimates

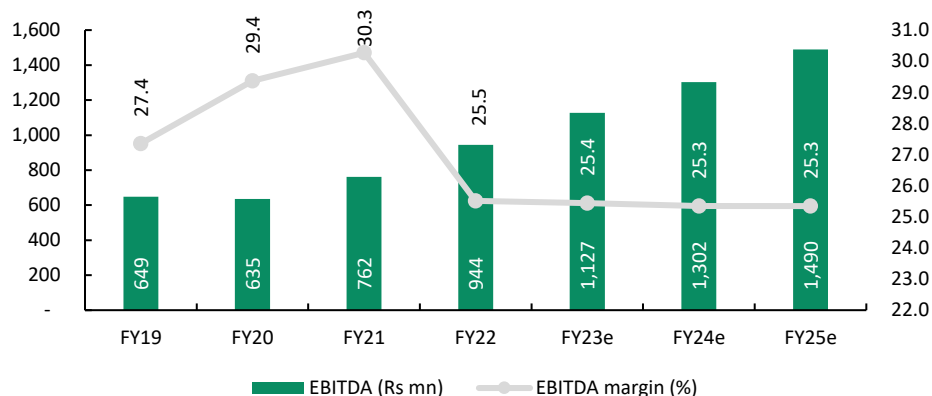
**Fig 27: Exotech's margins moving the ladder**



Source: Company, SMIFS Research Estimates

- Exotech to improve margins with the combination of growing exports, expanding in 4W segment, appliance market, and by incorporating SJS best practices to improve operational efficiencies.
- The next few years sustainable margins is 14-15%, we have projected conservatively.

**Fig 28: Consolidated margin post incorporating Exotech from FY22**

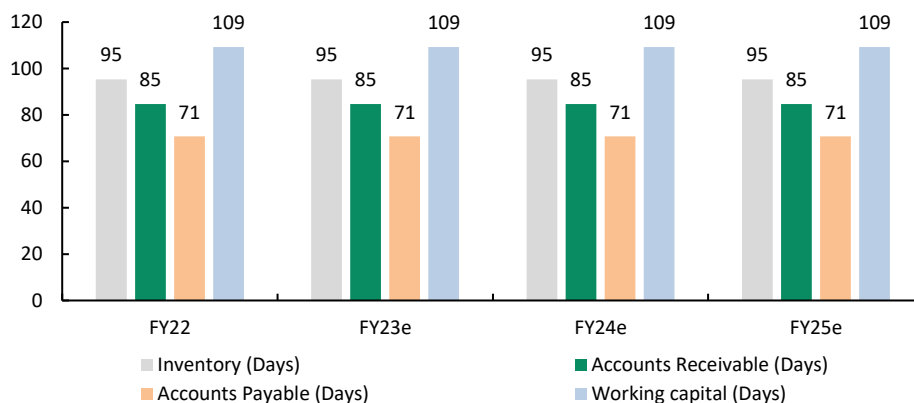


Source: Company, SMIFS Research Estimates, \*Considered consolidated figures from FY22 onwards

- 20% of the power comes from renewable source of energy; the target is 50% in the next three years. SJS started investing in another captive consumption, should provide some support in margin improvement in the mid-term.
- Raw materials are mostly derivatives of metals and crude. It includes plastics, copper, nickel, aluminium, paints, inks, chemicals, adhesives, plastic polymers such as polyvinyl chloride (PVC), metallized polyester, polyethylene terephthalate (PET), polycarbonate (PC) in the form of films, sheets and resins. Exotech's materials include polymer granules, chemicals, paints, copper, nickel, etc.

- SJS has made arrangement with various suppliers to reduce the risk of price volatility and outage of raw materials. The company has maintained long-term relationships of 10 years plus with several key suppliers.
- SJS standalone entity imports about 38% of its raw materials as it gets price advantage, because there are several large global suppliers making these materials at a much lower price. Additionally, some of these materials are purposely bought from outside India due to high quality. While, Exotech purchases its materials within Indian borders.
- It has not signed any long-term agreement with any of the vendors, however purchases RMs on a regular basis from them.
- SJS is able to pass-on input cost pressures.

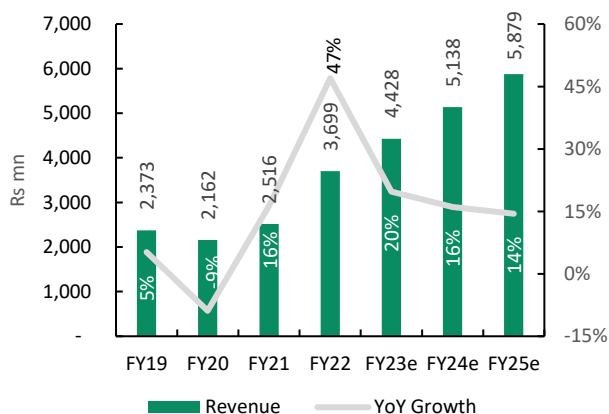
**Fig 29: To maintain cash conversion cycle**



Source: Company, SMIFS Research Estimates

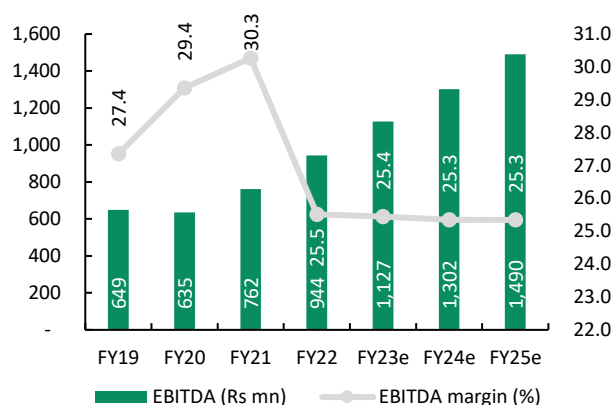
- Need to keep the higher amount of SKUs, 33% RM gets imported & keeping stock ahead of time due to uncertainty. RM import & final product exports have higher cycle time.
- SJS buying RMs from SMEs, hence as per the law in India, companies need to pay them faster, while on the other side customers are all large OEMs, and they pay SJS as per their terms.
- We anticipate near similar working capital days to maintain.

**Fig 30: Healthy revenue growth to continue**



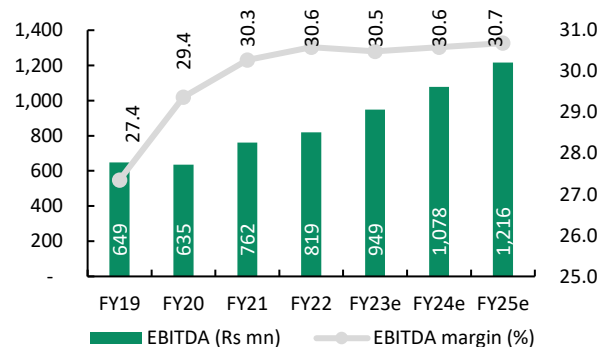
Source: Company, SMIFS Research Estimates, Consolidated considered from FY22

**Fig 31: To maintain industry leading margin**



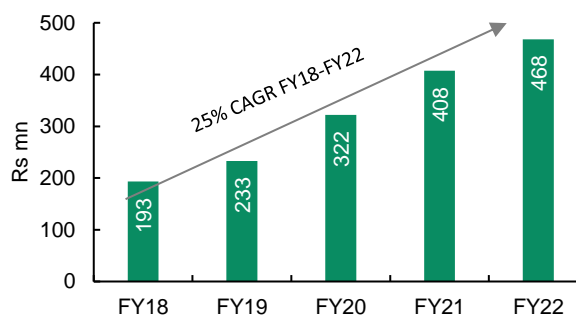
Source: Company, SMIFS Research Estimates, Consolidated considered from FY22

**Fig 32: Strong & respectable standalone margin**



Source: Company, SMIFS Research Estimates

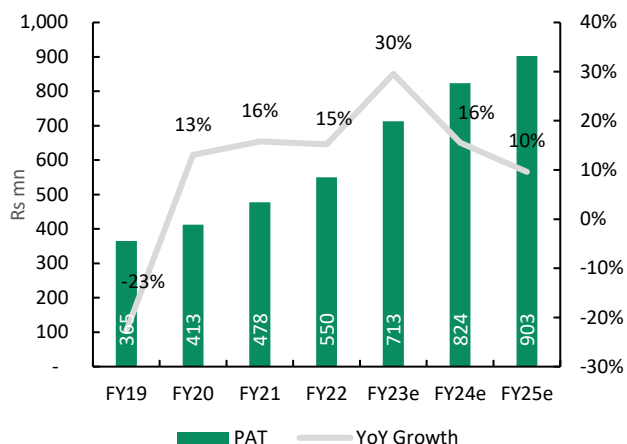
**Fig 33: Robust past growth in exports**



Source: Company, SMIFS Research Estimates

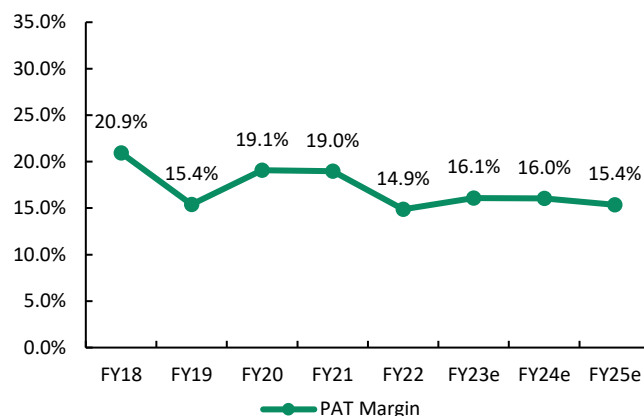


**Fig 34: PAT to grow @18% CAGR FY22-FY25e**



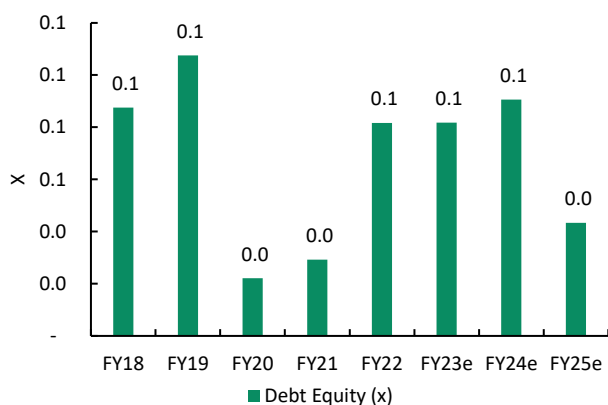
Source: Company, SMIFS Research Estimates, Consolidated from FY22 onwards

**Fig 35: Industry leading PAT margin**



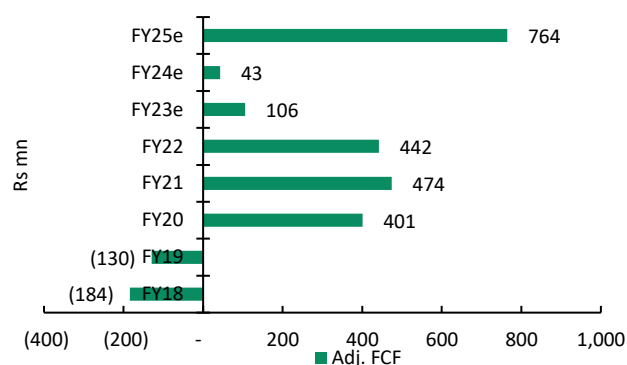
Source: Company, SMIFS Research Estimates, Consolidated from FY22 onwards

**Fig 36: ZERO debt – status will maintain**



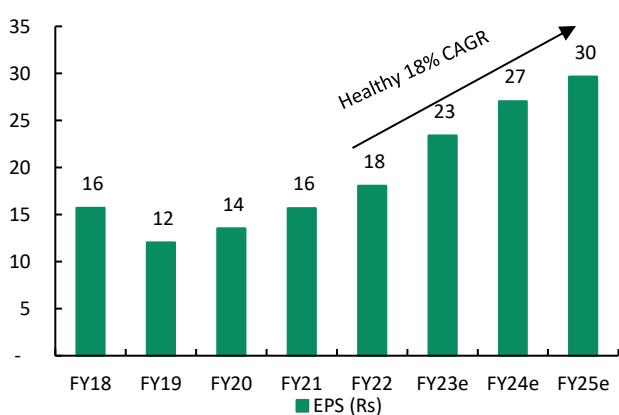
Source: Company, SMIFS Research Estimates, Consolidated from FY22 onwards

**Fig 37: To incur growth capex, still CF positive**



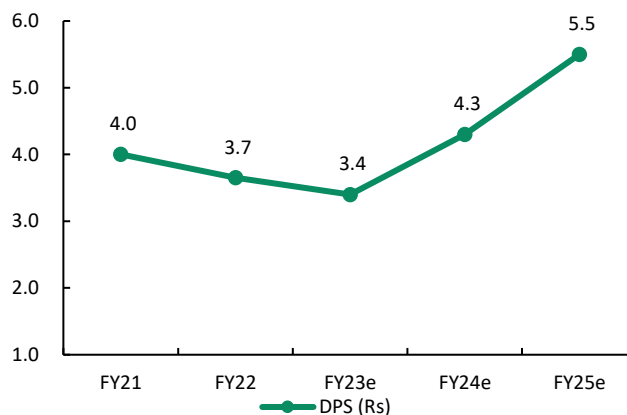
Source: Company, SMIFS Research Estimates, Consolidated from FY22 onwards

**Fig 38: Healthy EPS growth 18% CAGR FY22-FY25e**



Source: Company, SMIFS Research Estimates, Consolidated from FY22 onwards

**Fig 39: Paying dividend in growth phase**



Source: Company, SMIFS Research Estimates, Consolidated from FY22 onwards

## Corporate governance check

To keep the faith & trust of shareholders and other stakeholders, we believe that through corporate governance is necessary in today's world. Hence, we have undertaken a detailed exercise on corporate governance study and covered broad aspects such as the composition of directors, compensation paid to promoter & independent directors, details of auditors & their remuneration, nature & amount of contingent liabilities, CSR spends and related party transactions.

### Promoters' Shareholding

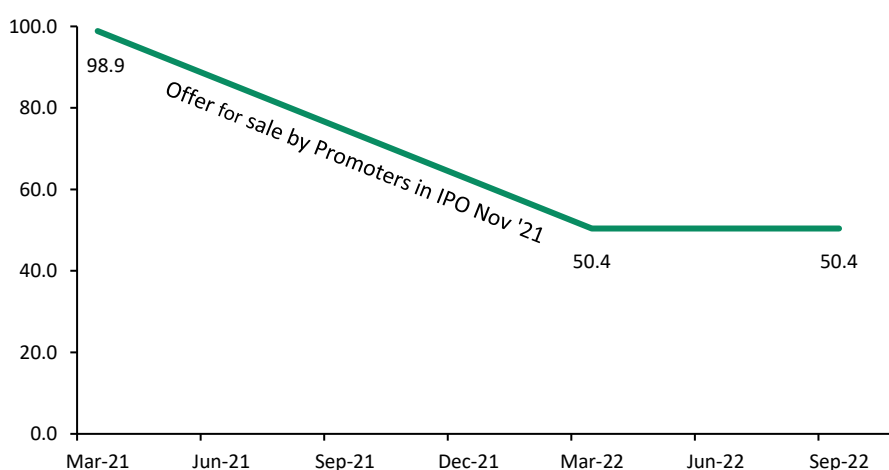
SJS Enterprises Ltd is co-founded by Mr. K A Joseph, an industry veteran in the decorative aesthetics industry. The promoters (including family members) as of 30<sup>th</sup> Sep 2022 holds ~15.6% of the equity capital. In the recent past, the promoters shareholding diluted on account IPO in Nov '21. Promoter (Mr. Joseph & family) shareholding declined from ~20.7% pre-IPO to ~15.6% post-IPO and remained the same till date. Evergraph Holdings is a Singapore based private equity firm having major shareholding in SJS of about 34.8% as on 30<sup>th</sup> Sept '22, dropped from ~77.9% pre-IPO. Evergraph bought a 26% stake from Serigraph and 25% from three co-founders of SJS, totalling to 51% stake in Oct '15. The money used for setting up the new plant and to finance SJS expansion. SJS revenue in FY15 was roughly about Rs1.5bn. Everstone paid ~2.3x its sales to get SJS shareholding of ~51%. Post that, two other co-founders sold its complete stake to Everstone and the shareholding increased from 51% to ~78% in SJS.

**Fig 40: Promoter Shareholding as on 30<sup>th</sup> September 2022**

Particulars	% Holding
Mr. K A Joseph	15.3%
Mrs. Daisy Joseph	0.3%
Mr. Kevin K Joseph	0.0%
Ms. Nikita Joseph	0.0%
Evergraph Holdings Pte. Ltd.	34.8%
<b>Total</b>	<b>50.4%</b>

Source: Company, SMIFS Research

**Fig 41: Promoters' shareholding (%)**



Source: Company, SMIFS Research

### Board of Directors

SJS Enterprises board is qualified and well experienced in the decorative aesthetics industry. The company appointed three independent directors on the board in July '21, just before the listing in Nov '21 and it constitute about ~38% of the total board strength. Directors are highly qualified & well versed with the domestic and global aesthetics industry. The details of the Board composition are as follows:

**Fig 42: Board composition**

Particulars	FY20	FY21	FY22
<b>Total Strength</b>	<b>4</b>	<b>4</b>	<b>8</b>
Promoter Group Directors	1	1	2
Executive Directors	1	1	1
Non-Executive Directors	2	2	2
Independent Directors*	-	-	3
<i>% share of promoters</i>	<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>
<i>% share of executive</i>	<i>25.0%</i>	<i>25.0%</i>	<i>12.5%</i>
<i>% of non-executive</i>	<i>50.0%</i>	<i>50.0%</i>	<i>25.0%</i>
<i>% share of independent</i>	<i>-</i>	<i>-</i>	<i>37.5%</i>

Source: Company, SMIFS Research. \*appointed w.e.f. July, '21

## Promoters compensation

Mr. K A Joseph and Mr. Kevin K Joseph - promoter of SJS Enterprises has taken compensation of ~3.7% of Consolidated PBT in FY22. His compensation as a % of PBT has been around ~4% range since last four years. For the period FY19-FY22, Mr. Joseph's payment as a % of PBT was close to ~3.9%.

**Fig 43: Promoter compensation**

Name (Rs mn)	FY19	FY20	FY21	FY22**	FY19-FY22 Total
Mr. K A Joseph	20	23	24	27	94
<i>% share of PBT</i>	<i>3.9%</i>	<i>4.2%</i>	<i>3.8%</i>	<i>3.6%</i>	<i>3.8%</i>
Mr. Kevin K Joseph*	-	-	-	1	1
<i>% share of PBT</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>0.1%</i>	<i>0.0%</i>
<b>Total</b>	<b>20</b>	<b>23</b>	<b>24</b>	<b>27</b>	<b>95</b>
<i>% share of PBT</i>	<i>3.9%</i>	<i>4.2%</i>	<i>3.8%</i>	<i>3.7%</i>	<i>3.9%</i>

Source: Company, SMIFS Research. \*Appointed w.e.f. 19<sup>th</sup> July '21. \*\*Considered consolidated figures

## Independent directors and their compensation

SJS has three independent directors as of FY22. They are collectively paid ~Rs4.6mn in FY22, which is close to 0.6% of Consolidated PBT. The details of the same are as follows:

**Fig 44: Independent directors & their compensation**

Name	FY22 Compensation (Rs mn)	As % of PBT (FY22)*
Mr. Ramesh Chandra Jain	1.6	0.2%
Mrs. Veni Thapar	1.8	0.2%
Mr. Matthias Frenzel	1.2	0.2%

Source: Company, SMIFS Research. \*Considered consolidated figures.

## Contingent liabilities

There is hardly any contingent liabilities as a % of Net Worth. The Group is in legal dispute with one of the female legal heirs of the erstwhile owner of the freehold land for separate possession of 1/7<sup>th</sup> share of Schedule A (19 guntas) of the freehold land. The amount of Rs20.4mn has been arrived at basis 1/7<sup>th</sup> share of the fair value of Schedule A of the freehold land, as the Group is contesting this claim in the court of law. Outflows and other consequential payments, if any, arising out of this claim would depend on the outcome of this dispute with the legal heir.

Contingent liabilities breakup is displayed below:

**Fig 45: Contingent liabilities**

Particulars (Rs mn)	FY20	FY21	FY22*
Guarantee deposits with banks	0.1	0.1	1.4
Goods and service tax	-	-	1.4

Claim towards freehold land	-	20	20
<b>Total</b>	<b>0.1</b>	<b>21</b>	<b>23</b>
<b>%age of Net Worth</b>	<b>0.0%</b>	<b>0.7%</b>	<b>0.6%</b>

Source: Company, SMIFS Research. \*Considered consolidated figures

## Related party transactions

SJS Enterprises related party transactions mainly involve dividend & salaries paid to promoters/KMPs and IPO related expenses. There is nothing that raises an alarm.

The details are as follows:

**Fig 46: Related party transactions**

Nature of Transaction (Rs mn)	FY20	FY21	FY22*
Professional Fees	-	3.5	-
Interim dividend paid	-	122	111
Expenses incurred towards fees & expense related to IPO on behalf of Promoter	-	-	331
Compensation of Key Management Personnels	48	48	61

Source: Company, SMIFS Research. \*Considered consolidated figures

## Auditors

SJS Enterprises appointed BSR & Co. LLP as their statutory auditor for FY22. The auditors in their report for FY22 have given an unqualified opinion on the fact that the company has given true and fair view in conformity with the accounting principles. In addition, the audit evidence obtained were sufficient and appropriate.

**Fig 47: Auditors (FY22)**

Auditor Name	Type	Auditor Fees (Rs mn)	As a % of PBT*
BSR & Co. LLP	Statutory Auditors	13.3	1.8%

Source: Company, SMIFS Research. \*Considered consolidated figures

## CSR activities

For the betterment of society, SJS has been actively involved in CSR activities. The company spent 100% of the assigned expenditure in FY22. It allocates its CSR budget on a) Education & Rural Development and b) Healthcare.

**Fig 48: CSR Activity Spend**

Year	Avg Net Profit* (last 3 Yrs)	Prescribed Expenditure (Rs mn)	Total Spends (Rs mn)	Spend as % of prescribed limit
FY21	589	12	10	82%
FY22	588	12	12	100%

Source: Company, SMIFS Research. \*Average net profit of the company as per section 135(5) mentioned in ARs. SJS spent additional Rs2.17mn in FY22 to fill previous year's shortfall

## Valuation and Recommendations

- We are strongly convinced on the SJS Enterprises business model, its competitive positioning & growth potential in the medium to long term and estimates a CAGR of 17%/16%/18% at Consolidated Sales/EBITDA/PAT levels during FY22-FY25e.
- The company is net debt free with cash & investments of ~Rs1bn. It has been generating good cash flows.
- The stock is trading at P/E of 15x FY25e EPS of Rs 29.7. Despite SJS being the only large listed company in the decorative aesthetics industry and having a strong growth prospects with healthy return profile, **we have assigned a multiple of 20x to its FY25e EPS to arrive at a target price of Rs 593 apiece.** We believe SJS Enterprises is a strong rerating candidate.

## Key Risks

- **Client concentration:** More than 50% revenue comes from top five clients and 21% from top client (FY21), however we have noticed that the dependency has been gradually coming down specially with its top two clients. The company has 1-2 decades of strong relations with customers; hence, we trust that there won't be any loss of business or material impact.
- **Exit of Everstone:** The private equity players' investment age is roughly about 8-10 years in investee companies. Everstone being with SJS since 2015 could likely exit once they get good value. The management also indicated that SJS in future would be a professional driven company. Although exit of Everstone in the future looks inevitable, but it is unlikely to be in the secondary market.
- **Heads-up display (HUD):** Early days, but it is gradually gaining significance in premium cars, and we expect that in the next 8-10 years it will get adopted in mid-sized cars as well. This is a long-term threat for dials business in passenger vehicles. To offset any loss in the future, SJS has been proactive in launching new high realization products, and the company has a very strong product pipeline in place.
- **Electric vehicles:** Some of the 2W electric vehicles comes with digital displays, which doesn't have a dial. However, due to this shift, SJS might lose some dial business, but on the other side, the company gets huge opportunity for its high realization Lens mask assembly, which is comparatively 1.5x pricier than dials.



## Quarterly Financials, Operating Metrics and Key Performance Indicators

**Fig 49: Consolidated Quarterly Financials**

Y/E March (Rs mn)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
<b>Net Sales</b>	<b>743</b>	<b>997</b>	<b>918</b>	<b>1,041</b>	<b>1,032</b>	<b>1,169</b>
Raw Materials	309	434	375	473	450	493
Employee Costs	120	139	120	132	136	141
Other Expenditure	138	166	168	182	191	225
<b>EBITDA</b>	<b>176</b>	<b>258</b>	<b>255</b>	<b>255</b>	<b>255</b>	<b>310</b>
Depreciation	51	56	54	54	55	55
Interest	7	8	7	8	7	6
Other Income	10	10	9	12	23	23
<b>PBT</b>	<b>128</b>	<b>204</b>	<b>202</b>	<b>205</b>	<b>216</b>	<b>272</b>
Tax	33	51	54	52	54	73
Tax rate (%)	25.6	25.2	26.4	25.1	25.0	26.7
<b>Reported PAT</b>	<b>95</b>	<b>153</b>	<b>149</b>	<b>154</b>	<b>162</b>	<b>199</b>
<b>YoY Growth (%)</b>						
Revenue	-	-	-	-	38.9	17.3
EBITDA	-	-	-	-	45.2	20.1
PAT	-	-	-	-	70.7	30.7
<b>QoQ Growth (%)</b>						
Revenue	-	34.2	(7.9)	13.4	(0.9)	13.3
EBITDA	-	47.2	(1.3)	(0.2)	0.2	21.7
PAT	-	60.8	(2.4)	3.2	5.5	23.1
<b>Margin (%)</b>						
RMC/revenue (%)	41.6	43.5	40.9	45.4	43.6	42.1
Gross margin (%)	58.4	56.5	59.1	54.6	56.4	57.9
Employee cost/revenue (%)	16.2	13.9	13.0	12.7	13.2	12.0
Other expenses/revenue (%)	18.6	16.6	18.3	17.5	18.5	19.3
EBITDA margin (%)	23.6	25.9	27.8	24.4	24.7	26.5
PAT margin (%)	12.8	15.3	16.2	14.8	15.7	17.1

Source: Company, SMIFS Research

**Fig 50: Key Assumptions**

Rs mn	FY19	FY20	FY21	FY22*	FY23e	FY24e	FY25e
<b>Domestic Revenue</b>	<b>2,140</b>	<b>1,840</b>	<b>2,108</b>	<b>3,231</b>	<b>4,127</b>	<b>4,710</b>	<b>5,345</b>
YoY Growth (%)	3.7%	-14.0%	14.6%	53.2%	27.7%	14.1%	13.5%
<b>Export Revenue</b>	<b>233</b>	<b>322</b>	<b>408</b>	<b>468</b>	<b>301</b>	<b>428</b>	<b>534</b>
YoY Growth (%)	20.6%	38.2%	26.7%	14.8%	-35.7%	42.0%	24.9%
<b>Total Revenue</b>	<b>2,372</b>	<b>2,162</b>	<b>2,516</b>	<b>3,699</b>	<b>4,428</b>	<b>5,138</b>	<b>5,879</b>
YoY Growth (%)	5.2%	-8.9%	16.4%	47.0%	19.7%	16.0%	14.4%

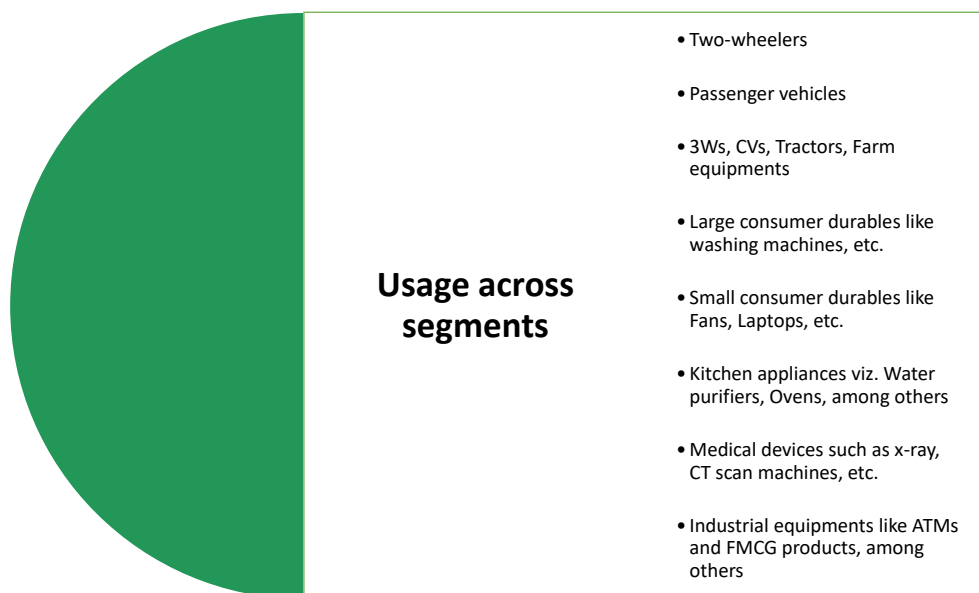
Source: Company, SMIFS Research Estimates, \*Considered consolidated from FY22 onwards

## Decorative aesthetics industry

### Importance & broad usage of decorative aesthetics

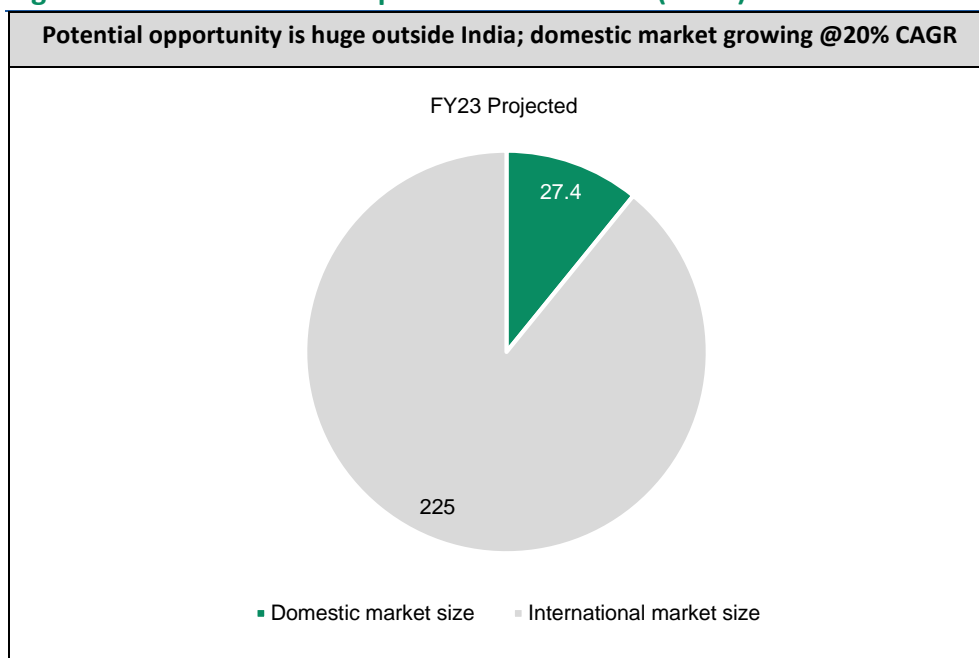
Product aesthetics are important for creating brand value across categories especially in automobiles and consumer durables industry. Consumers not only look for value product, but aesthetically superior as well.

**Fig 51: Decorative aesthetics widely used across segments**



Source: Industry, SMIFS Research

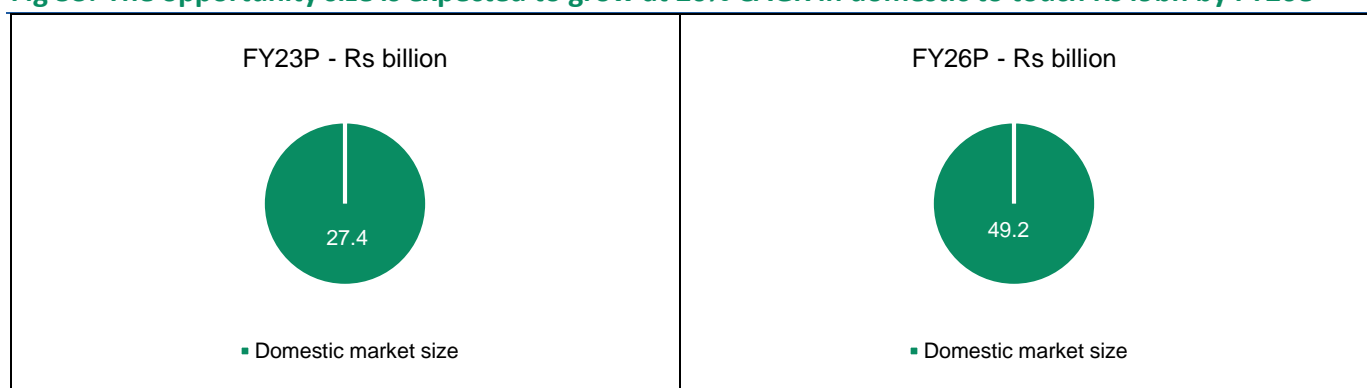
**Fig 52: Deorative aesthetics products market size (Rs bn)**



Source: Industry, SMIFS Research.

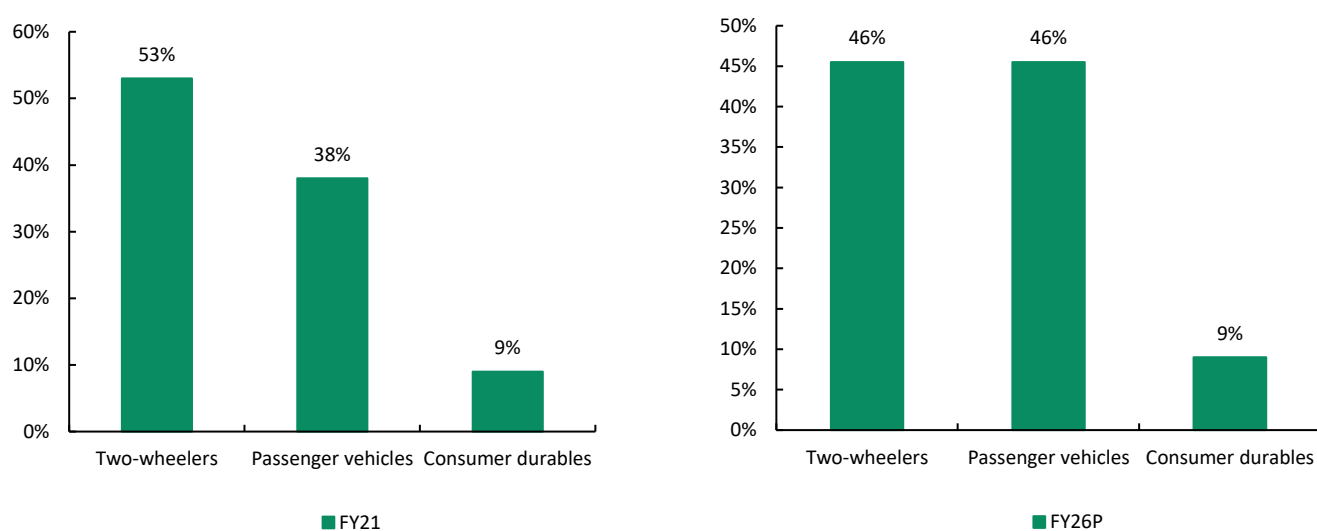
- ✓ Domestic industry size is expected to grow by 20% CAGR as per industry research.
- ✓ International decorative aesthetics demand is driven by growing premiumization and rise in adoption of electric vehicles over the next five years.

**Fig 53: The opportunity size is expected to grow at 20% CAGR in domestic to touch Rs49bn by FY26e**



Source: Industry, SMIFS Research

**Fig 54: Breakup of demand – current vs. projected**

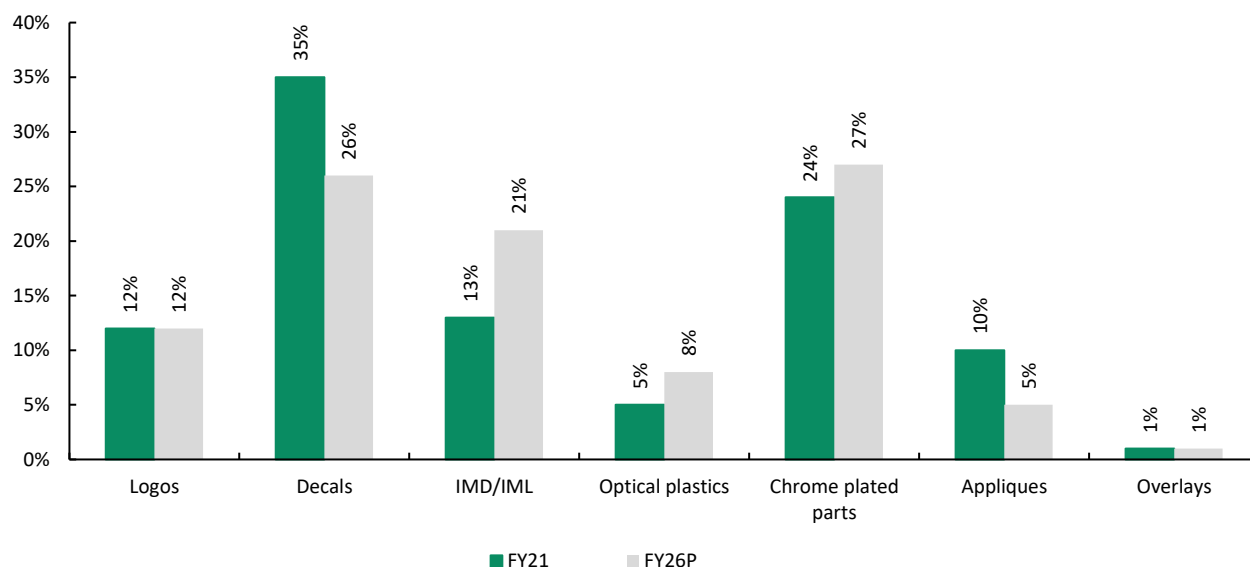


Source: Industry, SMIFS Research

Demand will be driven by rising premiumization across segments.

Passenger vehicles to lead growth, followed by consumer durables and then two-wheelers.

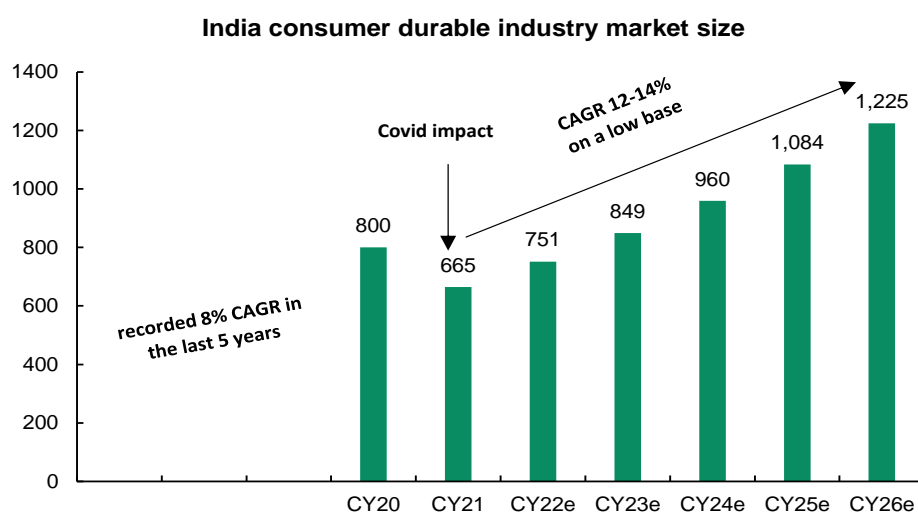
**Fig 55: Breakup of decorative aesthetic demand by aesthetic components**



Source: Industry, SMIFS Research

**IMD/IML, Optical plastics and Chrome plated parts will be fastest growing aesthetic components driven by premiumization and rising electrification.**

**Fig 56: Domestic - large consumer durable industry size**



Source: Industry, SMIFS Research

- ✓ Domestic large consumer durables industry size is expected to grow by 12-14% CAGR on a low base of CY21, driven mainly by lower penetration levels, increased affordability, and shorter replacement cycle along with ownership of multiple units in case of CTVs.
- ✓ Penetration level of large appliances is low in India vis-à-vis developed countries. India's 16% household has room AC vs. 60%+ in developed nations, similarly washing machine penetration is 18% in India vs. 50% global average, and the case is same in certain other categories like personal computer, refrigerators, etc.
- ✓ In developed countries, the demand growth is likely to remain stable in low single digit due to higher penetration. The industry growth will be led by the replacement demand, customers require aesthetically better/premium products, an increasing working population, technological advancement led demand & change in lifestyles.

## Financial Statements (Consolidated)

Income Statement				
YE March (Rs mn)	FY22	FY23e	FY24e	FY25e
<b>Revenues</b>	<b>3,699</b>	<b>4,428</b>	<b>5,138</b>	<b>5,879</b>
Raw Materials	1,591	1,905	2,202	2,511
% of sales	43.0	43.0	42.9	42.7
Personnel	510	607	699	794
% of sales	13.8	13.7	13.6	13.5
Manufacturing & Other Expenses	654	790	935	1,084
% of sales	17.7	17.8	18.2	18.4
<b>EBITDA</b>	<b>944</b>	<b>1,127</b>	<b>1,302</b>	<b>1,490</b>
Other Income	42	94	84	114
Depreciation & Amortization	216	227	238	338
<b>EBIT</b>	<b>770</b>	<b>993</b>	<b>1,148</b>	<b>1,266</b>
Finance cost	30	30	35	46
<b>Core PBT</b>	<b>698</b>	<b>870</b>	<b>1,029</b>	<b>1,106</b>
Exceptional Item	-	-	-	-
<b>PBT</b>	<b>739</b>	<b>963</b>	<b>1,113</b>	<b>1,220</b>
Tax	189	250	289	317
Tax Rate (%)	26	26	26	26
<b>Reported PAT</b>	<b>550</b>	<b>713</b>	<b>824</b>	<b>903</b>
<b>Adjusted PAT</b>	<b>550</b>	<b>713</b>	<b>824</b>	<b>903</b>

Source: Company, SMIFS Research Estimates

Key Ratios				
YE March	FY22	FY23e	FY24e	FY25e
<b>Growth Ratios (%)</b>				
Net Sales	15.5	19.7	16.0	14.4
EBITDA	12.9	19.4	15.6	14.4
Adjusted Net Profit	5.8	29.5	15.6	9.6
<b>Margin Ratio (%)</b>				
Gross Margin	57.0	57.0	57.1	57.3
EBITDA Margin	25.5	25.4	25.3	25.3
EBIT Margin	20.8	22.4	22.4	21.5
Core PBT margin	18.9	19.6	20.0	18.8
Adj. PAT Margin	14.9	16.1	16.0	15.4
<b>Return Ratios</b>				
ROE	15.3	18.2	18.1	17.1
ROCE	14.7	17.4	17.2	16.7
<b>Turnover Ratios (days)</b>				
Gross Block Turnover (x)	1.2	1.3	1.3	1.3
Adjusted OCF/PAT (%)	105	92	96	103
Inventory	95	95	95	95
Debtors	85	85	85	85
Creditors	71	71	71	71
Cash Conversion Cycle	109	109	109	109
<b>Solvency ratio (x)</b>				
Debt-equity	0.1	0.1	0.1	0.0
Net Debt-Equity	(0.2)	(0.1)	(0.1)	(0.2)
Gross Debt/EBITDA	0.3	0.3	0.3	0.2
Current ratio	3.3	3.1	3.0	4.1
Interest coverage ratio	25	33	32	28
<b>Dividend</b>				
DPS (Rs.)	3.7	3.4	4.3	5.5
Dividend Yield (%)	0.9	0.8	1.0	1.2
Dividend Payout (%)	20.2	14.5	15.9	18.5
<b>Per share (Rs.)</b>				
Basic EPS (reported)	18	23	27	30
Adj. EPS	18	23	27	30
CEPS	25	31	35	41
BV	118	138	161	185
<b>Valuation</b>				
P/E	22.1	19.0	16.5	15.0
P/BV	3.4	3.2	2.8	2.4
EV/EBITDA	12.1	11.5	10.1	8.3
EV/Sales	3.1	2.9	2.6	2.1
Adj Mcap/Core PBT	16.0	14.6	12.3	10.9
Adj. Mcap/Adj. OCF	19.3	19.3	16.0	12.9

Source: Company, SMIFS Research Estimates

Balance Sheet				
YE March (Rs mn)	FY22	FY23e	FY24e	FY25e
<b>Sources of funds</b>				
Capital	304	304	304	304
Reserves & Surplus	3,300	3,910	4,602	5,338
<b>Shareholders' Funds</b>	<b>3,605</b>	<b>4,214</b>	<b>4,907</b>	<b>5,642</b>
<b>Total Loan Funds</b>	<b>294</b>	<b>344</b>	<b>444</b>	<b>244</b>
Other non-current liabilities	100	100	100	100
<b>Total Liabilities</b>	<b>3,999</b>	<b>4,658</b>	<b>5,451</b>	<b>5,987</b>
<b>Application of funds</b>				
Gross Block	3,005	3,617	4,433	4,696
Net Block	2,073	2,458	3,036	2,961
Capital WIP	2	187	240	45
Investments	784	784	784	784
Other non current assets	115	115	115	115
Inventories	416	497	575	656
Sundry Debtors	858	1,027	1,192	1,364
Cash & Bank Balances	225	123	101	713
Other current Assets	103	103	103	103
<b>Total Current Assets</b>	<b>1,602</b>	<b>1,751</b>	<b>1,971</b>	<b>2,836</b>
Sundry Creditors	308	369	427	486
Other Current Liabilities	269	269	269	269
<b>Total Current Liabilities</b>	<b>577</b>	<b>638</b>	<b>695</b>	<b>755</b>
<b>Net Current Assets</b>	<b>1,025</b>	<b>1,113</b>	<b>1,276</b>	<b>2,081</b>
<b>Total Assets</b>	<b>3,999</b>	<b>4,658</b>	<b>5,451</b>	<b>5,987</b>

Source: Company, SMIFS Research Estimates

Cash Flow				
YE March (Rs mn)	FY22	FY23e	FY24e	FY25e
<b>Operating profit before WC changes</b>				
	<b>971</b>	<b>1,127</b>	<b>1,302</b>	<b>1,490</b>
Net chg in working capital	(162)	(190)	(185)	(193)
Income tax paid	(203)	(250)	(289)	(317)
<b>Cash flow from operating activities (a)</b>	<b>606</b>	<b>686</b>	<b>828</b>	<b>980</b>
Adjusted OCF	<b>576</b>	<b>656</b>	<b>793</b>	<b>934</b>
Capital expenditure	(134)	(550)	(750)	(170)
<b>Adjusted FCF</b>	<b>442</b>	<b>106</b>	<b>43</b>	<b>764</b>
<b>Cash flow from investing activities (b)</b>				
	<b>(496)</b>	<b>(704)</b>	<b>(784)</b>	<b>45</b>
Debt Issuance/(repayment)	(43)	50	100	(200)
Dividend Paid	(111)	(103)	(131)	(167)
Interest and Lease Expenses	(13)	(30)	(35)	(46)
<b>Cash flow from financing activities (c)</b>				
	<b>(168)</b>	<b>(84)</b>	<b>(66)</b>	<b>(413)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(57)</b>	<b>(101)</b>	<b>(22)</b>	<b>612</b>

Source: Company, SMIFS Research Estimates

## Financial Statements (Standalone)

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
<b>Revenues</b>	<b>2,516</b>	<b>2,679</b>	<b>3,114</b>	<b>3,525</b>	<b>3,963</b>
Raw Materials	972	1,013	1,177	1,332	1,498
% of sales	39	38	38	38	38
Personnel	361	409	472	531	593
% of sales	14	15	15	15	15
Manufacturing & Other Expenses	422	438	515	583	656
% of sales	17	16	17	17	17
<b>EBITDA</b>	<b>762</b>	<b>819</b>	<b>949</b>	<b>1,078</b>	<b>1,216</b>
Other Income	35	34	75	80	84
Depreciation & Amortization	147	154	159	164	169
<b>EBIT</b>	<b>650</b>	<b>699</b>	<b>866</b>	<b>994</b>	<b>1,131</b>
Finance cost	8	5	6	6	6
<b>Core PBT</b>	<b>606</b>	<b>660</b>	<b>784</b>	<b>908</b>	<b>1,040</b>
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>642</b>	<b>695</b>	<b>860</b>	<b>988</b>	<b>1,125</b>
Tax	164	176	218	251	286
Tax Rate (%)	25.6	25.3	25.4	25.4	25.4
<b>Reported PAT</b>	<b>478</b>	<b>519</b>	<b>641</b>	<b>737</b>	<b>839</b>
<b>Adjusted PAT</b>	<b>478</b>	<b>519</b>	<b>641</b>	<b>737</b>	<b>839</b>

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25e
<b>Growth Ratios (%)</b>					
Net Sales	16.4	6.5	16.2	13.2	12.4
EBITDA	20.0	7.6	15.9	13.6	12.8
Adjusted Net Profit	15.8	8.6	23.6	14.9	13.9
<b>Margin Ratio (%)</b>					
Gross Margin	61.4	62.2	62.2	62.2	62.2
EBITDA Margin	30.3	30.6	30.5	30.6	30.7
EBIT Margin	25.8	26.1	27.8	28.2	28.5
Core PBT margin	24.1	24.7	25.2	25.8	26.3
Adj. PAT Margin	19.0	19.4	20.6	20.9	21.2
<b>Return Ratios</b>					
ROE	16.1	15.4	16.7	16.6	16.5
ROCE	15.8	15.1	16.5	16.5	16.4
<b>Turnover Ratios (days)</b>					
Gross Block Turnover (x)	1.1	1.2	1.3	1.4	1.4
Adjusted OCF/PAT (%)	120	108	99	97	96
Inventory	115	110	110	110	110
Debtors	76	81	81	81	81
Creditors	87	71	71	71	71
Cash Conversion Cycle	103	120	120	120	120
<b>Solvency ratio (x)</b>					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.3)	(0.4)	(0.5)	(0.5)	(0.6)
Gross Debt/EBITDA	0.1	0.1	0.1	0.1	0.1
Current ratio	3.7	4.1	4.6	5.5	6.4
Interest coverage ratio	84	144	140	161	183
<b>Dividend</b>					
DPS (Rs.)	4.0	3.7	3.2	4.0	5.0
Dividend Yield (%)		0.9	0.7	0.9	1.1
Dividend Payout (%)	25	21	15	17	18
<b>Per share (Rs.)</b>					
Basic EPS (reported)	15.7	17.0	21.1	24.2	27.6
Adj. EPS	15.7	17.0	21.1	24.2	27.6
CEPS	20.5	22.1	26.3	29.6	33.1
BV	103.6	117.5	135.3	155.5	178.1
<b>Valuation</b>					
P/E	-	23.4	21.2	18.4	16.2
P/BV	-	3.4	3.3	2.9	2.5
EV/EBITDA	-	13.1	12.3	10.3	8.7
EV/Sales	-	4.0	3.7	3.2	2.7
Adj Mcap/Core PBT	-	16.1	14.8	12.2	10.1
Adj. Mcap/Adj. OCF	-	19.0	18.2	15.5	13.0

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
<b>Sources of funds</b>					
Capital	304	304	304	304	304
Reserves & Surplus	2,848	3,271	3,815	4,430	5,117
<b>Shareholders' Funds</b>	<b>3,152</b>	<b>3,575</b>	<b>4,119</b>	<b>4,734</b>	<b>5,421</b>
<b>Total Loan Funds</b>	<b>92</b>	<b>77</b>	<b>77</b>	<b>77</b>	<b>77</b>
Other non-current liabilities	92	88	88	88	88
<b>Total Liabilities</b>	<b>3,336</b>	<b>3,741</b>	<b>4,285</b>	<b>4,900</b>	<b>5,587</b>
<b>Application of funds</b>					
Gross Block	2,222	2,348	2,494	2,655	2,832
Net Block	1,552	1,527	1,514	1,511	1,519
Capital WIP	43	2	2	2	2
Investments	815	1,424	1,424	1,424	1,424
Other non current assets	55	101	101	101	101
Inventories	332	280	356	403	453
Sundry Debtors	597	587	688	779	876
Cash & Bank Balances	376	99	565	1,076	1,641
Other current Assets	65	92	92	92	92
<b>Total Current Assets</b>	<b>1,371</b>	<b>1,058</b>	<b>1,701</b>	<b>2,350</b>	<b>3,061</b>
Sundry Creditors	253	143	230	260	293
Other Current Liabilities	246	228	228	228	228
<b>Total Current Liabilities</b>	<b>499</b>	<b>371</b>	<b>458</b>	<b>488</b>	<b>521</b>
<b>Net Current Assets</b>	<b>872</b>	<b>687</b>	<b>1,243</b>	<b>1,861</b>	<b>2,541</b>
<b>Total Assets</b>	<b>3,336</b>	<b>3,741</b>	<b>4,285</b>	<b>4,900</b>	<b>5,587</b>

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
<b>Operating profit before WC changes</b>					
<b>Operating profit before WC changes</b>	<b>777</b>	<b>844</b>	<b>949</b>	<b>1,078</b>	<b>1,216</b>
Net chg in working capital	(52)	(107)	(90)	(108)	(114)
Income tax paid	(146)	(172)	(218)	(251)	(286)
<b>Cash flow from operating activities (a)</b>	<b>579</b>	<b>565</b>	<b>641</b>	<b>720</b>	<b>816</b>
Adjusted OCF	572	560	634	714	810
Capital expenditure	(98)	(107)	(140)	(154)	(169)
<b>Adjusted FCF</b>	<b>474</b>	<b>453</b>	<b>495</b>	<b>560</b>	<b>640</b>
<b>Cash flow from investing activities (b)</b>					
<b>Cash flow from investing activities (b)</b>	<b>(374)</b>	<b>(602)</b>	<b>(71)</b>	<b>(81)</b>	<b>(92)</b>
Debt Issuance/(repayment)	30	(15)	-	-	-
Dividend Paid	(122)	(111)	(97)	(122)	(152)
Interest and Lease Expenses	(5)	(5)	(6)	(6)	(6)
<b>Cash flow from financing activities (c)</b>	<b>(96)</b>	<b>(131)</b>	<b>(104)</b>	<b>(128)</b>	<b>(158)</b>
<b>Net chg in cash (a+b+c)</b>	<b>109</b>	<b>(168)</b>	<b>466</b>	<b>511</b>	<b>565</b>

Source: Company, SMIFS Research Estimates



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