

22<sup>nd</sup> April 2024

## Shriram Pistons and Rings Ltd. – BUY

**CMP** : Rs. 2,109  
**Target Price** : Rs. 2,530  
**Upside** : 20%  
**Stop Loss** : Rs. 1,792 (Closing basis)

### Investment Thesis

- Shriram Pistons and Rings (SPRL) is a leading player in the piston, piston pin, piston ring and engine valve industry, with more than five decades of experience and a market share of 40%-45% in internal combustion engine components (ICE) and 90% in CNG.
- SPRL has a diversified presence in the domestic, exports and replacement markets as well as across all vehicle classes (PV, CV, 2W, and tractors). It offsets the risk arising from a feeble demand from a particular sector or customers.
- It has strong relationships with leading original equipment manufacturers (OEMs) across various segments in the automotive industry and has maintained a strong share of business with major customers. The company maintained its market share across most of the vehicle segments in FY23.
- OEMs have been the highest contributor to SPRL's revenue (FY23: 64.1%; FY22: 60.4%) followed by aftermarket sales (17.0%; 20.1%) and exports (18.9%; 19.5%).
- The acquisition of EMF Innovations (EMFI), which is into EV drive train components such as electric motors and motor controllers for EVs and other applications, helps it diversify its revenue to the engine-agnostic segments.
- SPRL has longstanding technical collaborations with leading international technology providers such as KS Kolbenschmidt GmbH for pistons for diesel and petrol engines since 1965, Riken Corporation for piston rings since 1977 and Fuji Oozx Inc. for engine valves since 1990. It also has a partnership with Honda Foundry Co. Ltd. for supplying to the Honda group since 1993.
- SPRL has been focusing on research, development and innovation to remain technologically ahead of competition as well as reduce costs.

### Financials

- SPRL's revenue increased at a CAGR of 18.52% over a period of 2 years. Operating and net profit have increased at a CAGR of 45.93% and 81.75% over the same time period

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue* (Rs in Crs)	1,567	2,065	2,609	3,130	3,600
EBITDA*(Rs in Crs)	216	304	460	626	765
Adj. PAT * (Rs in Crs)	89	164	294	432	483
Adj. EPS (Rs.) *	19.85	37.18	66.70	98.04	119.65
PE Multiple (x)	103.97	55.54	30.95	21.06	17.65
RoE (%)	7.79	13.13	19.33	22.05	19.78

- Pistons, piston pins, piston rings, engine valves and cylinder liners, accounted for 95% of FY23 revenues, followed by others (5%).
- In Q3FY24, it reported revenue and net profit of Rs.766 crs and Rs 108crs, up 20.44% YoY and 44% YoY, respectively. The increase was mainly due to a continued uptick in the demand from domestic original equipment manufacturers (OEMs), exports, and the aftermarket sales.

### Stock Data

Market Cap (Rs. Crs)	9,289
Market Cap (\$ Mn)	1,119
Shares O/S (in Mn)	44.04
Avg. Volume (3 month)	2,37,000
52-Week Range (Rs.)	2,206 / 536

### Shareholding Pattern

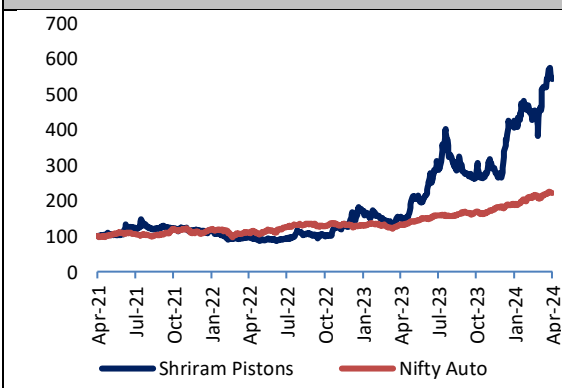
Promoters	46.75 %
FIIIs	1.07 %
Institutions	13.07 %
Others (incl. body corporate)	39.11 %

### Key Ratios

Div Yield	0.25%
TTM PE	22.5x
ROE	20.08%
TTM EPS (Rs.)	94 /-

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	20.2	104.8	250
NIFTYAUTO	7.5	31.4	67.0



- The company, through its subsidiary SEL, announced two acquisitions over the past 14 months, including a 66% stake in EMF Innovations (EMFI), which was concluded in March 2024; and a 62% stake in Takahata Precision India Private Limited (TPIPL) in October 2023.

## Key Business Highlights

- Formed in 1972, SPRL has facilities in Ghaziabad (Uttar Pradesh) and Pathredi (Rajasthan) for manufacturing pistons, piston pins, piston rings and engine valves.
- The company has a facility in Coimbatore (Tamil Nadu) for manufacturing electric motors and motor controllers, Neemrana (Rajasthan) for design and manufacturing of precision injection moulded components having a variety of functional products for automotive applications, and is in the process of setting up a new manufacturing facility at Pithampur (Madhya Pradesh).
- It's customer base includes most of the OEMs in India like Maruti, Mahindra, Honda, Ford, Nissan, Tata, Bajaj, Hero, TVS, Yamaha, Ashok Leyland, Daimler, VE Commercial, Swaraj, and various others. It also caters to global OEMs, namely Jaguar, Land Rover, JCB, BMW Motorrad, Volkswagen, Rotax, ZF Wabco, Yanmar, etc.
- It is closely working with key OEMs for increasing its market share by providing technology solutions. It is also focusing on improving the distribution network in the aftermarket segment.

## Valuation

It is trading at P/E of 22.5x vs industry PE of 31.7, which suggests a significant undervaluation. We forecast company's revenues will grow 20% in FY24 and 15% in FY25 on the back of tech partnerships, in-house R&D capability (adapting global technology to Indian needs/costs), scale and manufacturing expertise, and ability to offer complete solutions.

In light of above, we are valuing Shriram Pistons and Rings at 21.1x FY25E EPS of Rs.119 to arrive at a **BUY** rating with a **target price** of **Rs.2,530**, translating to an **upside** of **~20%**.

## Risk & Concern

- SPRL is facing risks from the shift to electric vehicles (EVs) due to its reliance on the two-wheeler segment and is looking to mitigate this by entering the EV component market through acquisitions.
- SPRL is already a market leader in its operating segments and products, indicating limited scope for growth in its existing revenue streams

## Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

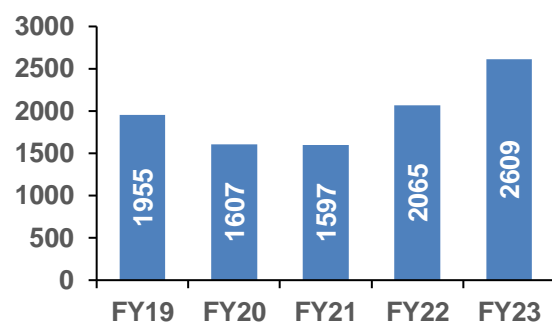


Figure 2: EBITDA & EBITDA Margin Trend

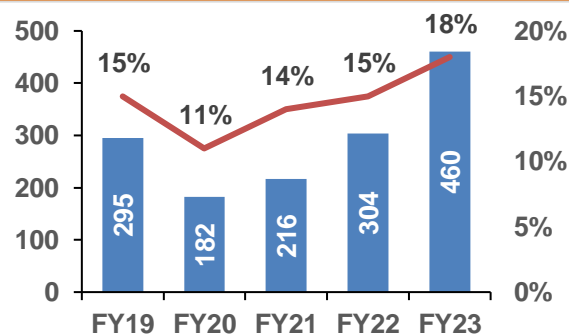


Figure 3: PAT & PAT Margin Trend

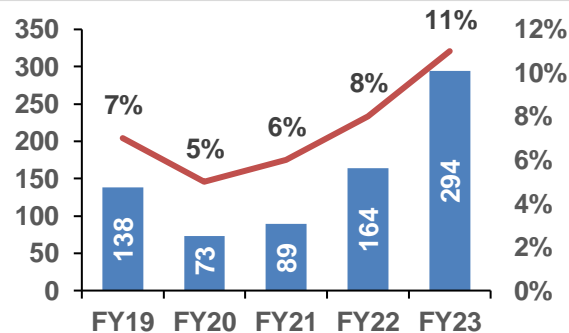
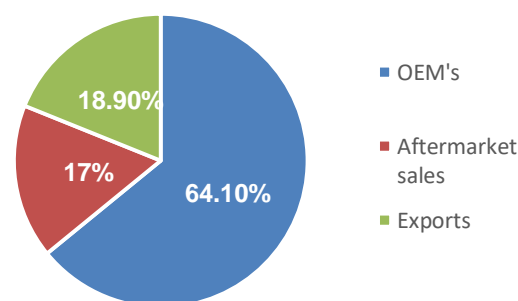


Figure 4: Segment-wise Revenue (FY23)



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