

## Retail Equity Research

# Sterling Tools Ltd

**CMP Rs. 688**

**Rating: Overweight**

### Fasteners

**NSE CODE: STERTOOLS BSE CODE: 530759**

The company demonstrated steady financial progress in FY24, with sales growing from ₹210.17 crore in Sep-23 to ₹283.98 crore in Sep-24, reflecting a 35% YoY increase despite tapering growth momentum in Q2FY25 (1%). Operating profit followed a similar trajectory, improving 28% YoY to ₹32.22 crore in Sep-24. However, margin growth stagnated (4% in Jun-24, 1% in Sep-24), attributed to rising expenses and muted other income.

Net profit exhibited robust gains in Mar-24 (16%) and Jun-24 (12%) but contracted 5% in Sep-24, primarily due to higher depreciation costs (₹8.67 crore, up 13% QoQ) and increased tax provisions (₹5.58 crore). This signals a potential plateau in profitability. While sequential growth in the Jun-24 quarter highlighted operational efficiency, the marginal growth in Sep-24 underscores the need for strategic cost control and revenue diversification.

#### Company Data

Market Cap (cr)	Rs.	2,565.80
Enterprise Value (cr)	Rs.	1,116.12
Outstanding Shares (cr)		3.60
52 week high	Rs.	744.00
52 week low	Rs.	304.00
1m average volume (lacs)		5.65
Face value	Rs.	2.00

Consolidated (cr)	FY22	FY23	FY24
Sales	509.58	771.98	931.97
Growth(%)	43%	51%	21%
EBITDA	68.97	103.88	114.71
EBITDA Margin(%)	13.5%	13.5%	12.3%
PAT	25.54	47.88	55.37
Growth(%)	9%	87%	16%
EPS	7.1	13.3	15.4
P/E	19.1	30.3	19.9
P/B	1.4	3.6	2.5
EV/EBITDA	8.6	14.7	9.7
ROE(%)	7%	12.0%	12%
ROCE(%)	9%	13.5%	14.5%
ROIC(%)	7%	10.6%	11.3%
D/E	0.36	0.33	0.26

#### 1. Industry and Financial Performance:

Domestic passenger vehicle sales showed mixed trends, with utility vehicles growing by 13.2%, passenger cars declining by 18.5%, and commercial vehicle sales dropping by 4.2%. H1 FY '25 income rose by 31.1%, supported by operational leverage, while consolidated Q2 PAT increased by 40%.

#### 2. Strategic and Operational Developments:

Formed a ₹250 crore partnership with Kunshan GLVAC for HVDC systems for electric and hybrid vehicles, with production set for Q2 FY '26. This initiative aligns with India's Make in India vision and focuses on driving innovation and safety in EV systems.

#### 3. Diversification and Risk Management:

Focused on diversifying products and customer base to mitigate risks tied to Ola Electric (75% of MCU revenue). The strategy includes engaging legacy OEMs, stabilizing margins, and expanding into new EV product lines to sustain long-term growth.

## Key Highlights

### Overview and Business Model

#### 1. Company Overview:

- Established in 1979, STL is India's 2nd largest automotive fastener manufacturer.
- It was founded by Mr. Manohar Lal Aggarwal and is now managed by his sons, Mr. Anil Aggarwal and Mr. Atul Aggarwal.
- Its wholly owned subsidiary, Sterling Gtack E-Mobility Ltd (SGEM), is India's leading Motor Control Unit (MCU) manufacturer for Electric Vehicles, holding a 50% market share in the high-speed scooter segment and 26% overall in MCUs.

#### 2. Diversified Product Portfolio:

- **Fastener Business:** Contributed 57% to Q1 FY25 revenue, with products like axle bolts, engine bolts, and wheel bolts. Between FY22 and FY24, the segment grew by 29%, driven by robust 2W and passenger vehicle demand.
- **EV Business:** Contributed 43% to Q1 FY25 revenue, with a growth of 63% YoY. SGEM develops MCUs for 2Ws (93%) and other EVs (7%), with EBITDA margin improving from -11% in FY22 to 7% in FY24.

#### 3. Revenue and Market Mix:

- **Channel-wise:** OEMs accounted for 86% of Q1 FY25 revenue, with exports declining to 3%.
- **Segment-wise:** Revenue contribution increased in 2Ws (27%) and PVs (26%), while exports dropped to 3%.

#### 4. Robust Clientele and Distribution Network:

- Key clients include Honda, Maruti, Mahindra, Volvo, and Eicher, among others.
- Network of 100+ distributors catering to the aftermarket segment. SGEM added 20 new customers in FY24, with the top 5 contributing 90%+ of MCU revenue.

#### 5. Manufacturing and Capacity Expansion:

- Operates 4 plants in Faridabad, Ballabgarh, Palwal, and Bangalore, with a total capacity of 45,324 MTPA.
- SGEM's plant in Faridabad, with a capacity of 3,00,000 units, is being doubled to 6,00,000 units annually.

#### 6. Strategic Partnerships and Investments:

- Signed an MoU with Yongin Electronics Co. Ltd. in April 2024 to supply magnetic components, targeting ₹250 crore revenue over five years.
- Plans a ₹55 crore capex in FY25, focusing on balancing investments in its Bangalore facility.

**Quarterly Financial Consolidated**

**Profit and loss account**

**(Rs Cr)**

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
<b>Sales</b>	210.17	231.95	269.25	281.68	283.98
Growth(%)	-5%	10%	16%	5%	1%
<b>Expenses</b>	184.90	205.86	238.39	249.66	251.76
<b>Operating Profit</b>	25.27	26.09	30.86	32.02	32.22
Growth(%)	-1%	3%	18%	4%	1%
<b>Other Income</b>	1.96	2.02	0.94	1.98	1.92
<b>Depreciation</b>	8.34	8.39	8.27	7.68	8.67
<b>Interest</b>	2.47	2.20	2.22	2.39	2.41
<b>Profit before tax</b>	16.42	17.52	21.31	23.93	23.06
<b>Tax</b>	3.95	3.94	5.07	5.52	5.58
<b>Net profit</b>	12.46	13.58	16.25	18.41	17.47
Growth(%)	-5%	8%	16%	12%	-5%

**Financial Consolidated**

**Profit & Loss**

**(Rs Cr)**

	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
<b>Sales</b>	364.24	355.48	509.58	771.98	931.97
Growth(%)	-29%	-2%	43%	51%	21%
<b>Expenses</b>	304.00	293.30	443.60	674.41	824.19
<b>Operating Profit</b>	60.24	62.18	65.98	97.57	107.78
Growth(%)	-30%	3%	6%	48%	10%
<b>Other Income</b>	6.24	2.13	2.99	6.31	6.93
<b>Depreciation</b>	24.22	26.38	27.34	31.72	33.05
<b>Interest</b>	6.26	7.60	6.87	8.84	9.46
<b>Profit before tax</b>	36.00	30.33	34.76	63.32	72.20
<b>Tax</b>	5.50	6.83	9.23	15.45	16.83
<b>Net profit</b>	30.51	23.51	25.54	47.88	55.37
Growth(%)	-32%	-23%	9%	87%	16%

**Balance Sheet**

**(Rs Cr)**

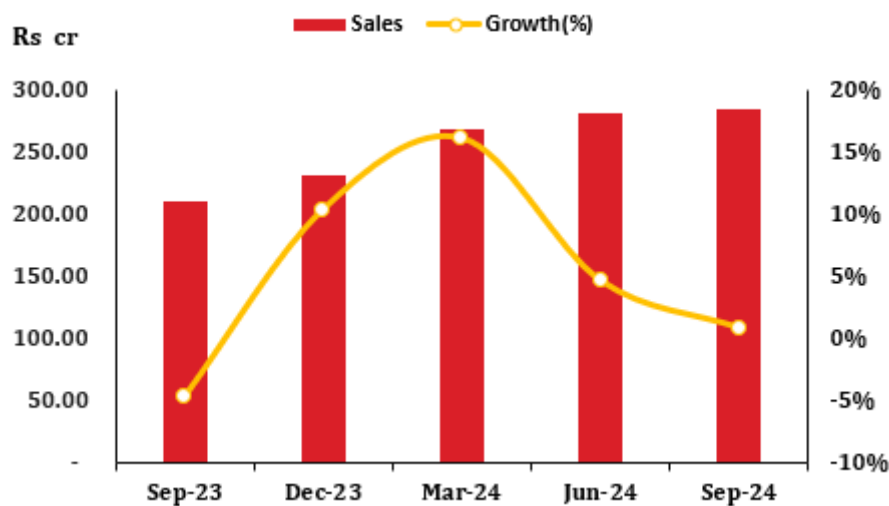
Report Date	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Equity Share Capital	7.20	7.20	7.20	7.20	7.20
Reserves	299.25	324.27	348.58	393.22	439.90
Borrowings	75.02	105.44	126.36	132.78	117.53
Other Liabilities	62.88	79.39	83.18	122.38	145.43
<b>Total</b>	<b>444.35</b>	<b>516.30</b>	<b>565.32</b>	<b>655.58</b>	<b>710.06</b>
Net Block	263.29	257.23	280.48	275.15	277.62
Capital Work in Progress	0.64	0.35	1.04	11.18	6.83
Investments	17.32	25.92	23.49	20.32	11.54
Other Assets	163.10	232.80	260.31	348.93	414.07
<b>Total</b>	<b>444.35</b>	<b>516.30</b>	<b>565.32</b>	<b>655.58</b>	<b>710.06</b>

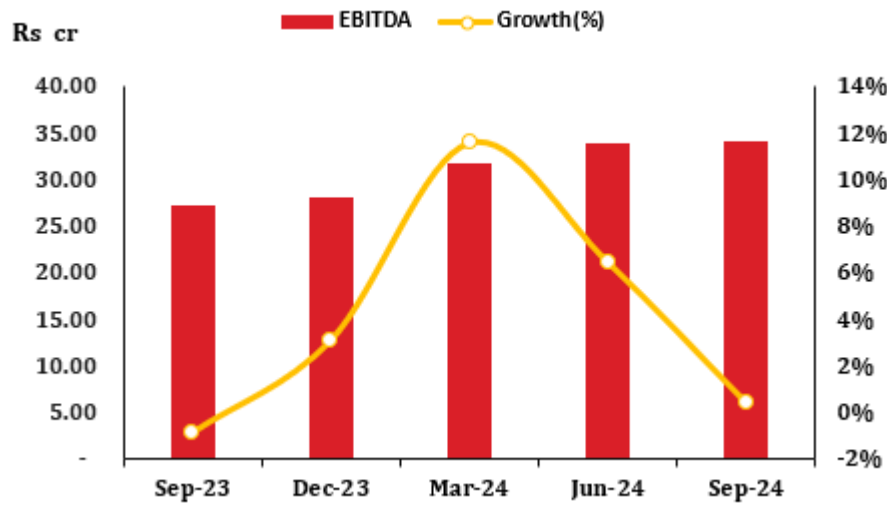
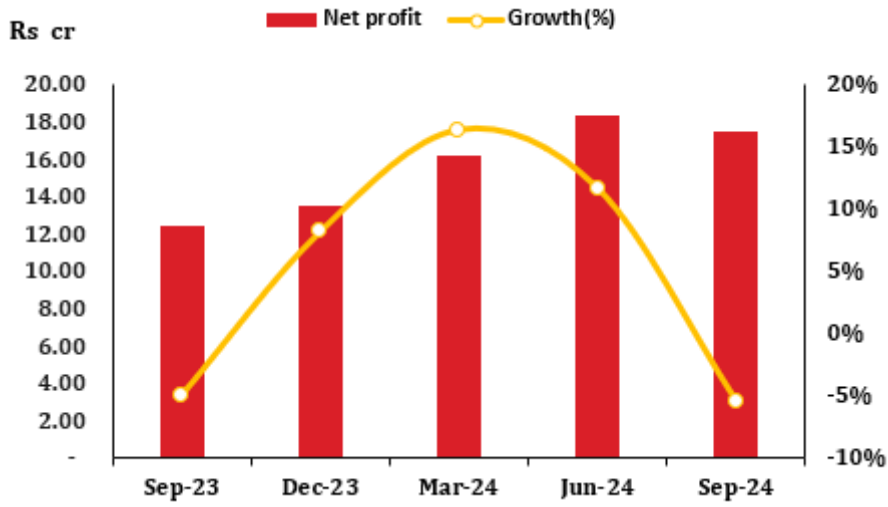
**Cash Flow**

**(Rs Cr)**

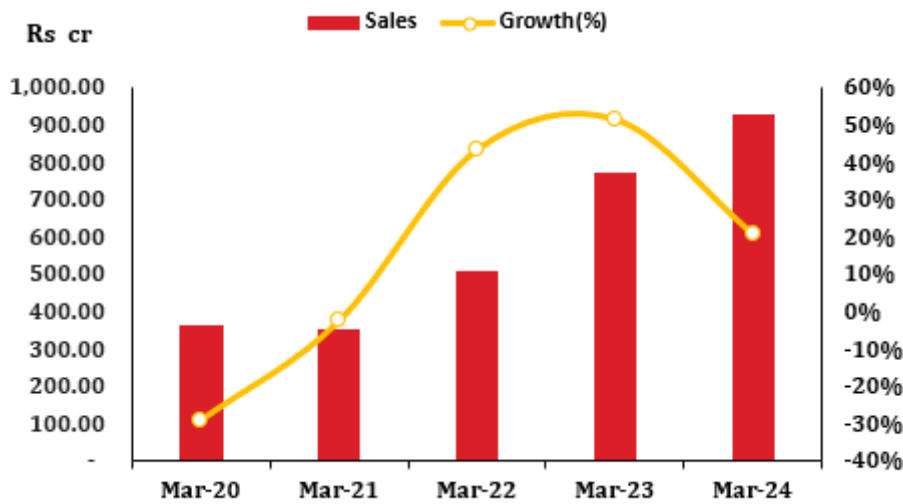
	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Cash from Operating Activity	52.64	15.82	24.82	62.86	101.63
Cash from Investing Activity	1.57	-49.32	-39.21	-53.39	-48.74
Cash from Financing Activity	-42.39	22.94	10.09	-5.69	-32.89
Net Cash Flow	11.82	-10.56	-4.3	3.78	20

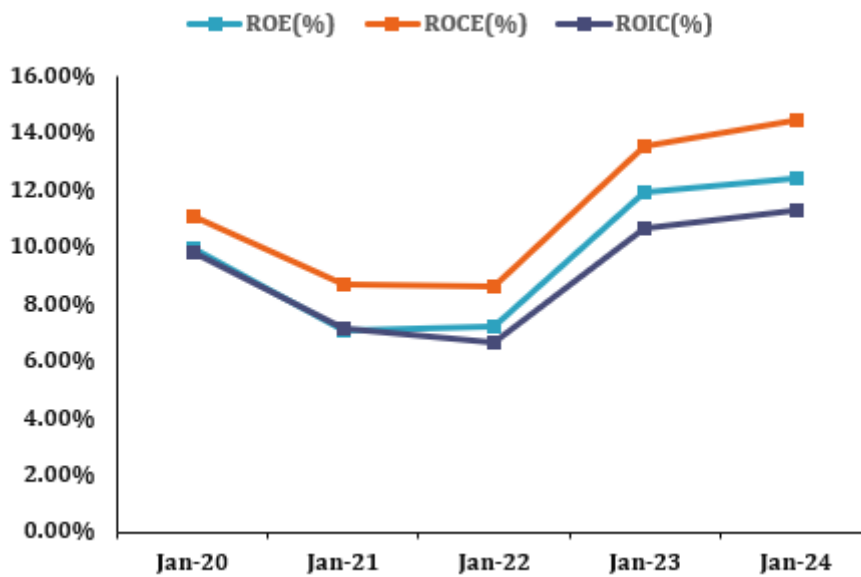
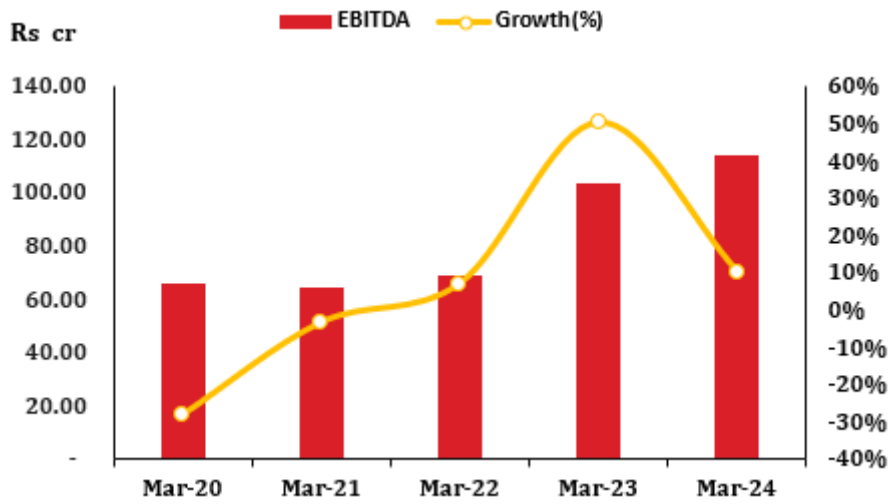
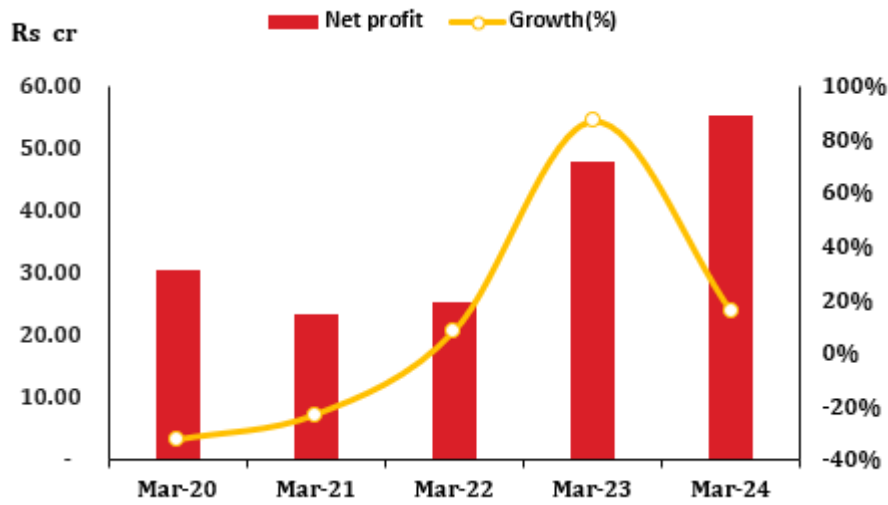
**Key Metrics: Quarterly**





**Key Metrics: Yearly**





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