



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

SHIVALIK BIMETAL CONTROLS LTD

WHAT WE LIKE

STRONG TAILWINDS

The domestic smart meter business (24-26% of total revenue) is seeing strong tailwinds owing to the Government's Smart Meter National Programme that aims to replace 25 crore conventional meters with smart meters in India. The company expects to achieve a 60-70% market share in the smart meter segment. Further, it is also a beneficiary of the electrification theme be it EVs, EV infrastructure, or storage solutions.

Lastly, Affordable housing projects of the government and government stress on infrastructure building will stimulate further demand for switchgear.

HIGH ENTRY BARRIERS OWING TO R&D EDGE

The company is one of the market leaders in domestic Shunt resistors, Thermostatic Bimetals, and electrical Contacts space owing to its R&D edge & intellectual prowess in complex processes like Diffusion Bonding and Electron Beam Welding which creates an entry barrier for new entrants.



STRONG CLIENTELE BASE

The company has more than 30+ years of experience with its key clients like Honeywell, Siemens, L&T, Havells & Vishay Intertechnology (a Fortune 100 company having clients like Tesla & BYD). Further, owing to its R&D edge, intellectual capital & access to low-cost manufacturing, there are high switching costs for the current client base. As a result of its competitive advantages, The Company does not offer credit to new customers while, for other export customers with long-standing relationships, Shivalik offers a credit period of 30 days after receiving ECGC cover.

Key Drivers for Repeat Business

Timely delivery of customized products with consistent quality

Regular interactions with client for their feedback

Ability to drive innovation in the existing product segment

Presence of unique technical knowhow

Extensive Accreditation Process (Build to Specify Model)

Conceptualize Design Prototype Pilot & Sampling Mass Production

AN EXTRAORDINARY INCREASE IN CAPACITY TO INCREASE ROOM FOR GROWTH

The company's new capex of around 100 Crs (spanning from FY21-FY26) is expected to have a revenue potential of Rs. 1600 Crs. To put things into perspective, FY23 revenue was only 420 Crs. The revenue growth will also lead to operating leverage kicking in which will lead to the next leg of growth.

Further, Shivalik's strategic acquisition of CHECON's (USA) stake in SEPPL (to manufacture and design Silver and Silver-Alloy-based electrical contacts and assemblies) & its joint venture with Arcleor Mittal Stainless & Nickel Alloys will help to provide entry into complementary market segments.

WHAT WE DON'T LIKE

HUGE PROMOTER SELLING

The stock has been making the news recently owing to a large block deal by a promoter group which has led to a decrease in stake from 60% to 51%. Given the recent selling (at its all-time-high price), it creates an anchoring bias in the minds of new investors before investing in the stock (which was visible from the further sell-off in the stock). However, we at SSS believe that promoter selling can be for 'n' number of reasons, while buying can be for only one reason, so instead of fixating on the sales part, one must rather focus on the business & its valuations independently.

recently witnessed a strategic bulk deal executed on the stock exchange. The deal involved long-term marquee investors (FIIs, DIs, Multi strategy funds and reputable family offices) underlining strong investor confidence in the Company's growth story and its potential to navigate the evolving market landscape. The sellers were from the promoters' group of the Company who sold 5.48 million shares after which, they continue to hold 51.09% shareholding of the Company. As the promoters' vision and commitment to the business remain unchanged, the transaction achieved the Company's primary objective of introducing high quality institutional investors as its shareholders.

POOR CASHFLOW CONVERSION

The company's cash flow from operations (CFO)/Profit after tax (PAT) has been very low for the past 5-7 years owing to an elongated inventory cycle.

| | Mar 2012 | Mar 2013 | Mar 2014 | Mar 2015 | Mar 2016 | Mar 2017 | Mar 2018 | Mar 2019 | Mar 2020 | Mar 2021 | Mar 2022 | Mar 2023 |
|--------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Cash from Operating Activity - | 4 | 17 | 10 | 3 | 15 | 12 | 6 | 4 | 41 | 29 | -3 | 61 |
| Profit from operations | 11 | 9 | 10 | 15 | 14 | 21 | 30 | 40 | 26 | 40 | 78 | 112 |

WORKING CAPITAL-INTENSIVE OPERATIONS

The company has a very high working capital and cash conversion cycle, owing to high inventory days and reduced payable days. Although the working capital days are on a reducing trend, it still remains an important metric to track considering its negative impact on the company's ROCE profile.

| Efficiency Ratios (Days) | FY 2021-22 | FY 2022-23 | Q1FY24 |
|--------------------------|------------|------------|--------|
| Accounts Payable | 74 | 56 | 39 |
| Collection Period | 67 | 69 | 65 |
| Inventory | 260 | 216 | 164 |
| Net Working Capital | 252 | 230 | 191 |

RAW MATERIAL VOLATILITY

With metals such as nickel and copper forming around 50% of the overall cost, the operating margin remains susceptible to volatility in commodity prices. However, this risk is partly mitigated by order-backed processing undertaken by SBCL on highly customized products.

FOREX RISK

Close to 60% of the total revenues are derived from exports, this can cause significant forex fluctuations risk. However, the forex risks are mitigated to a certain extent owing to the natural hedge as well as its strong hedging policy.

For all 5-Min Stock Ideas: <http://smartsyncservices.com/5-min-stock-ideas/>

Terms & Conditions: <http://www.smartsyncservices.com/terms-and-conditions/>



Click here to
Subscribe