

CMP: INR 834

Outlook: Positive

Stock Info

BSE	590072
NSE	SUNDRMBRAK
Sector.	Auto Components & Equipments
Face Value (INR)	10
Equity Cap (INR Mn)	39.3
Mkt Cap (INR Mn)	3,274
52w H/L (INR)	1,232 / 573
Avg Yearly Volume (in 000')	693

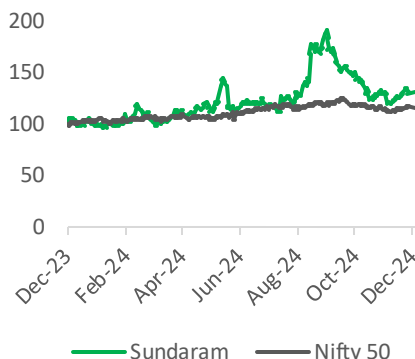
Shareholding Pattern %

(As on Sep, 2024)

Promoters	65.54
FII	0.01
DII	-
Public & Others	34.44

Stock Performance (%)	1m	3m	12m
Sundaram Brake	-0.5	-27.8	30.5
Nifty 50	0.8	-0.7	17.5

Sundaram Vs Nifty 50



Sundaram Brake Linings Limited (SBLL) is in the business of manufacturing asbestos-free friction materials, producing brake linings, disc pads, and clutch facings for the automotive industry, as well as industrial and tractor applications. Part of the T S Krishna Group under the TVS Group, SBLL serves tier-I automotive suppliers, the aftermarket, and exports to over 60 countries from four manufacturing facilities in Tamil Nadu. Founded in 1976 and now fully Indian-owned, SBLL pioneered asbestos-free production in India. With a strong domestic presence supported by over 140 TVS-owned outlets, SBLL also has an extensive export network, with 35% of its sales going overseas. The company is expanding its existing composite business into novel structural composites for applications like aerospace drones and truck parts.

Investment Rationale

Strengthening the aftermarket presence: The company sees significant untapped potential in the aftermarket segment and plans to put increased efforts into strengthening its offerings. This includes focusing on newly introduced product lines like 2Ws parts, 4Ws brake pads, and premium disc pads for passenger vehicles. SBL also aims to redouble its efforts to enhance its commercial vehicle lining sales. With a margin that is 15% higher than the OEM business, the independent aftermarket holds significant potential for revenue growth. The company has restructured its distribution model, expanding its large stockist channel over threefold, reducing its reliance on traditional TVS distributors. Sundaram plans to increase its aftermarket sales by 34% in FY25 by targeting quality-focused customers and promoting the brand at garages and fleet operators. The multi-channel approach, which combines sales to wholesale distributors with direct sales to stockists, is expected to optimize market reach and increase brand loyalty in the independent aftermarket space.

Cost reduction and efficiency improvements: SBL's current working capital remains high, impacted by supply chain disruptions and high safety stock levels. The company aims to reduce working capital needs by 10-15% by streamlining inventory and supply chain processes, addressing energy costs, and implementing raw material substitutions where feasible. To improve profitability, SBL is continuing its implementation of productivity improvements to increase effective capacity and overcome labour shortages. It will also complete the deployment of energy conservation projects in the next two years, which is expected to result in a significant reduction in energy costs. The company remains focused on standardizing and expediting these cost reduction and efficiency initiatives which are expected to create a greater impact in the coming years.

Strong growth in export with focus on North America

Sundaram's export business achieved a 13.9% increase YoY in FY24 primarily due to the company's presence in North America, which has shown a strong demand for Sundaram's products. The recent introduction of premium copper-free brake pads for commercial vehicles, a product designed for environmental compliance, gained considerable acceptance in this market. The export revenue breakdown highlights the United States as the largest destination, accounting for 54% of exports, followed by Africa at 15% and the Middle East at 10%. Sundaram is targeting a 14% increase in exports for FY25, leveraging environmentally friendly products like copper-free pads to align with global sustainability standards. Future growth is anticipated to be driven by expanding market shares and higher-value products tailored for international markets.

Exhibit 1: Financial overview

Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24
Sales	2,581	2,368	2,952	3,548	3,524
Export Sales	1,232	996	1,176	1,160	1,321
EBITDA	49	75	25	17	180
EBITDA Margin(%)	1.9%	3.2%	0.8%	0.5%	5.1%
PAT	25	60	1	-48	101
EPS	6	15	0	-12	26

Source: Company filings

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Leveraging composite capabilities: SBL has been manufacturing functional composites using glass fiber, epoxy, and friction modifiers for four decades and plans to leverage these existing production, research, and testing capabilities to address the growing demand for lightweight structural composites in the automotive, aerospace, industrial, and consumer goods sectors. Sundaram's partnership with Norton Motorcycles to supply composite panels signifies its move into premium segments. This shift towards structural composites can be a significant driver of growth for the company in the near, medium, and long-term future, as automakers look to improve EV range, fuel efficiency, strength, and weight reduction.

Capacity utilization and expansion: Sundaram's current capacity utilization varies across its product lines, with commercial vehicle linings running at around 85% and non-commercial vehicle segments around 45-50%. The company plans to invest INR 100-150 Mn in the next year, primarily to replace equipment damaged in recent natural disasters and to expand capacity in its friction division. This investment approach aims to optimize production and meet future demand.

Friction business as core strength

The friction segment remains Sundaram's core business, comprising products like brake linings, disc pads, and clutch facings for commercial vehicles. Recognizing the sector's volatility, Sundaram has set an ambitious target to double its friction business revenue to INR 8,000 Mn by 2030, focusing heavily on export and aftermarket growth. Sundaram's friction products have gained traction not only within India but also in international markets due to their reliability and adherence to stringent safety standards. These products continue to evolve, with the recent addition of copper-free brake pads that comply with global environmental regulations. In this core area, Sundaram plans to capitalize on its established market presence while expanding into high-margin regions and segments.

Navigating volatility through balanced expansion

SBL has outlined a well-diversified growth strategy for FY25, projecting significant increases across its key business verticals. The management team expects exports to grow by around 14%, OEM sales by 15%, and the independent aftermarket by 34%. This balanced approach to revenue streams is a strategic strength, allowing the company to mitigate the volatility inherent in the commercial vehicle segment, which the company sees as the most unpredictable in the automotive industry.

Stabilizing core OEM partnerships in domestic business

Sundaram's domestic OEM sales decreased by 10.5% YoY in FY24, largely due to a reduction in vehicle production and increased competition within the CV segment. Nevertheless, Sundaram maintains a dominant position in critical areas, with an 84% market share in bus brakes and a 59% share in truck brakes.

Risks and challenges

Sundaram faces several challenges, including domestic market fluctuations, which are particularly pronounced in the commercial vehicle segment. Additionally, geopolitical risks such as the Red Sea conflict and rising local power costs in Tamil Nadu pose ongoing cost pressures. The company's reliance on overseas markets makes it vulnerable to foreign exchange fluctuations and logistics disruptions, factors that could impact both costs and delivery schedules. Sundaram's countermeasures include maintaining buffer stocks and exploring vendor-managed inventory, but ongoing geopolitical tensions may still affect profitability.

Outlook and View

SBL is targeting revenue growth across diverse segments, including CVs, PVs, 2Ws, 3Ws, and industrial applications. The company is also heavily focused on emerging segments, especially composites for aerospace and defence, which is projected to contribute INR 12,000 Mn by FY30. In the near term, SBL expects revenue for FY25 to rise to INR 4,000 Mn, a projected growth rate of 14% over FY24. This includes significant contributions from both domestic and export markets, particularly in North America, where acceptance of premium copper-free brake pads has driven export demand. The company aims to maintain an operating margin of 12% in FY25, up from the current margin. By FY27, SBL projects operating margins to rise to 14-16% as the composites segment matures and economies of scale improve across friction and aftermarket segments. Long-term margin improvements will rely on the success of high-value products and the shift towards more profitable export and aftermarket sales. **With a unique position in the friction and composites markets, Sundaram Brake Linings is well-placed to capitalize on opportunities in high-growth segments like EV, aerospace, and clean energy.** The company's diversification into composites and focus on premium products for export markets suggests a positive long-term growth trajectory. For FY26, SBL aims to reach revenues of INR 4,500-5,000 Mn, an increase from the INR 3,502.2 Mn reported in FY24, supported by strategic investments in composites, aftermarket, and export expansion. However, achieving these targets will depend on successfully managing working capital, scaling its composites business, and consistently executing order backlogs. With prudent capex, strategic expansion, and margin optimization efforts, we believe SBL is poised for sustained growth and profitability over the next five years. We remain optimistic about the company's prospects and foresee significant growth opportunities. We are working on detailed projections.

Company Snapshot

Aspect	Details
Year established	1974
Headquarters	Padi, Chennai, India
Industry	Automotive, Aerospace, Industrial Composites
Key products	Brake Linings, Disc Pads, Clutch Facings, Structural Composites, Copper-Free Pads
Segment breakdown (FY24)	OEM (INR 1,550 Mn, 44%), Aftermarket (INR 700 Mn, 20%), Exports (INR 1,320 Mn, 36%)
Current capacity utilization	70% average (85% for commercial vehicles, 45-50% for others)
Revenue mix by geography (FY24)	- Domestic INR 2,182.2 Mn (62%) - International (Export) INR 1,320 Mn (38%)
Revenue mix (export)	North America (54%), Africa (15%), Middle East (10%), Europe and others remaining
Major clients/products	Norton Motorcycles (Composite Body Panels), Aerospace Drones (Future Supplies)
R&D spend and innovation	- INR 62 Mn (1.76% of turnover) - Development of DEF CON system for vehicle performance analysis. - Focused investments in composites and friction material technologies.
Growth plans	- Expand composite business to INR 12,000 Mn by 2030. - Double friction business to INR 8,000 Mn by 2030. - Target 20-25% revenue from non-automotive sectors.
Dividend (FY24)	Recommended at 20% of the face value of fully paid-up equity shares.
Long-term goals	- Revenue target of INR 20,000 Mn by FY30. - Focus on diversified high-margin businesses like composites.
Key differentiators	- Expertise in functional and structural composites. - High-quality, safety-focused products under TVS brand legacy.
Challenges	- Geopolitical risks (Middle East conflicts, Red Sea disruptions). - Rising logistic and energy costs. - Supply chain volatility.

Source: Arianth Research, Company Filings

Exhibit 2: Revenue growth driven by capitalizing on the independent aftermarket's untapped potential, expanding its product offerings, and targeting high-margin segments like copper-free brake pads

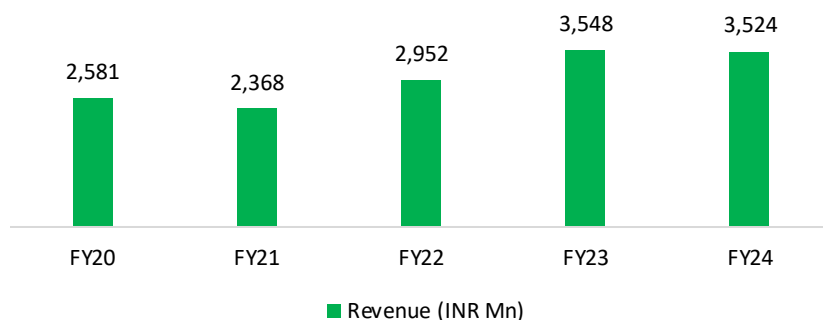


Exhibit 3: Profitability trend and strong margin growth due to operational efficiency improvements, cost reduction initiatives, and a shift towards premium, high-margin products in both domestic and export markets

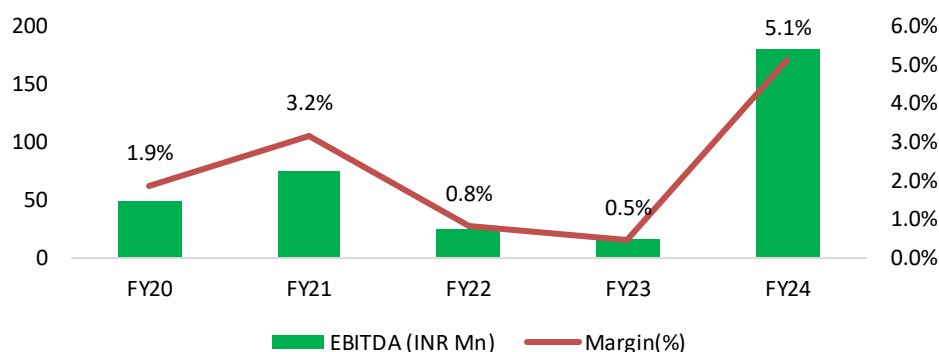


Exhibit 4: Rise in export sales driven by strong demand in North America and a focus on high-value international markets

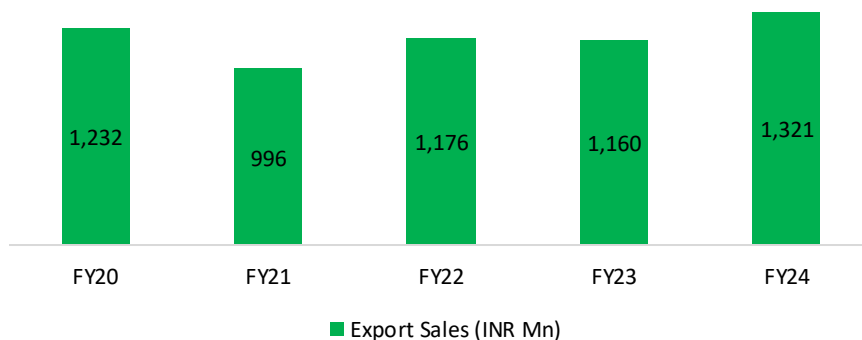


Exhibit 5: Peer Analysis

Company Name	Price (INR)	Market Cap (INR Mn)	FY24 Sales (INR Mn)	Mar'24 EBITDA (INR Mn)	FY24 PAT (INR Mn)	ROE (%)	ROA (%)	ROCE (%)	Basic EPS	P/E (x)	EV/EBITDA
Sundaram Brake Linings Ltd	834	3,274	3,556	213	101	11.2 %	4.89 %	11.4 %	25.64	58.7	26.30
Rane Holdings Ltd	1,855	26,982	35,298	3215	1,496	20.7 %	8.21 %	13.0 %	86.69	24.0	9.73
Hindustan Composites Ltd	471	7,059	2,987	513	344	3.86 %	3.55 %	4.80 %	23.3	21.8	14.00
ASK Automotive Ltd	465	93,524	30,050	3,110	1,738	23.8 %	12.2 %	24.2 %	8.81	42.2	24.20

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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