

# The Hi-Tech Gears Ltd.

**₹450***Don't dream it. Drive it...!!!***Buy**

Jun 08, 2018

## Company Background

Hi-Tech Gears incorporated in 1986, manufactures automotive gears and shafts at Bhiwadi, mainly for Hero Honda Motors. Over a period of time, it has acquired additional equipments to cater to the requirement of gears and shafts for Hero Honda Motors and other original equipment manufacturers. Its other clients are Maruti Udyog, Shriram Honda Power Equipment and Escorts. Forgings is a raw material for transmission gears and shafts. Company offers a range of parts and accessories for vehicles, including motorcycles/scooters, as well as toothed wheels, chain sprocket & other transmission parts. Hi-Tech (E-Soft) is a division of the company, which is engaged in the business of engineering software solutions. Its product ranges include auto components for power takeoff, two wheeler, car transmission and drive line components, commercial vehicle and precision forging. America, India & Others are its geographical areas, India is the major area for revenue generation. Company forging customers include various national and international customers. It's operations also include gear honing, gear grinding, shaving, wet and dry hobbing, deep hole drilling & automatic straightening. Company is looking for to add new markets, product developments and expect good momentum in exports.

## Key Highlights

- ➔ Steel Rod & Forgings are major raw materials, for FY 17 raw materials cost was approx ₹ 2,357.1 mn of which 10% is importing and rest 90% is from domestic only. Export revenue was 24% of ₹ 4,495.4 mn sales revenue.
- ➔ Electricity and Raw materials cost are major portion of total expenses in Auto parts and Equipment sector. In this view the company wants to reduce its electricity expenses, it has a plan to install of 250 KW solar power plant for future. This development will help to improve the profits in future.
- ➔ During the year, it has incorporated a wholly-owned subsidiary by the name of Neo-Tech Auto Systemz Inc. in the US. The new subsidiary is belongs to general engineering, industrial components & automotive industry. Neo-Tech has same kind of business, hence it will help to parent company to expand global market. This is the 2nd subsidiary and first one is in Canada.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	4,760.4	4,977.3	4,962.4
Rev. growth (%)	18.49	4.56	(0.30)
EBITDA (INR mn)	551.0	588.2	572.8
Net profit (INR mn)	184.2	211.6	203.8
Shares outstanding (mn)	18.8	18.8	18.8
EPS (INR)	9.3	10.7	10.6
EPS growth (%)	15.51	14.39	(0.47)
P/E (x)	31.07	23.35	30.05
RONW (%)	12.38	13.33	11.64
ROCE (%)	15.43	17.66	12.75

## Nishant Chopra

nishantc@indiratrade.com

## Info Codes

Reuters	: HTGR.BO
Bloomberg	: HTG IN
NSE	: HITECHGEAR
BSE	: 522073

## Market Data

52 Wk Range (₹)	: 322/602
Shares in Issue (mn)	: 18.8
Market. Cap ( bn)	: 8.45
BSE 2 Wk Avg Vol	: 1310

## Share Holding Pattern (%)

Promoters Holding	: 55.30
Public & Others	: 44.46
Corporate Holding	: 00.00
Foreign Institution	: 00.00
Institutions	: 00.24

## Investment Theme

Indian auto industry is one of the largest in the world, it contributes 7.1% of the country's GDP. Automobile exports from India increased 15.81% year-on-year in April-February 2017-18. During the same period, 2 & 3 wheelers exports increased 20.30% and 37.02% respectively. Favourable government policies like implementation of GST, Automotive Mission Plan, which allows 100 % FDI in the sector, tax holidays and strong support to R&D through establishment of NATRiP centres. The government's policies and involvements are supporting to improve the sector and company also. Company's major business is two wheeler segment, with a growth rate of 5 % for 2016-17. Competition is also high in this segment. To overcome dependency on two wheeler business, company is developing clients for engine and transmission components in domestic and global markets.

**Car for Everyone...!!!**

## Financial Statements

## Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	4,319.3	4,499.7	4.2	4,495.4	(0.1)
Other Income	26.6	22.8	(14.3)	30.8	35.1
Change in Stocks	13.3	20.2	51.9	13.3	(34.2)
Raw Material Con.	2,528.9	2,493.3	(1.4)	2,357.1	(5.5)
Employee Exp.	608.6	686.5	12.8	718.8	4.7
Indirect Taxes	414.5	454.8	9.7	436.2	(4.1)
Other Exp.	256.3	319.8	24.8	454.5	42.1
Operating Exp.	3,808.3	3,954.4	3.8	3,966.6	0.3
Operating Profit	550.9	588.3	6.8	572.9	(2.6)
Total Interest	36.9	24.9	(32.5)	19.4	(22.1)
Gross Profit	514.0	563.4	9.6	553.5	(1.8)
Net Dep.	251.1	227.3	(9.5)	234.9	3.3
Total Taxation	78.7	124.5	58.2	114.8	(7.8)
Net Profit/Loss	184.2	211.6	14.9	203.8	(3.7)

## 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 14	Mar 15	Mar 16	Mar 17
<b>SOURCES OF FUNDS</b>	<b>2,207.9</b>	<b>2,282.2</b>	<b>2,407.7</b>	<b>3,497.1</b>
Equity Share capital	187.7	187.7	187.7	187.7
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	1,574.4	1,629.0	1,772.6	1,957.0
Secured Loans	417.6	442.1	415.5	1,318.5
Unsecured Loans	28.2	23.4	31.9	33.9
<b>USES OF FUNDS</b>	<b>2,207.9</b>	<b>2,282.2</b>	<b>2,407.7</b>	<b>3,497.1</b>
Gross Block	3,460.8	3,740.9	3,936.4	4,063.4
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	1,672.7	2,015.3	2,192.7	2,402.3
Net Block	1,788.1	1,725.6	1,743.7	1,661.1
Capital Work in Progress	1.6	8.0	25.3	28.1
Investments	0.0	0.0	0.7	1,014.6
Current Assets	1,163.4	1,157.4	1,352.7	1,407.8
Less : Current Liabilities	676.5	613.9	724.3	691.1
Total Net Current Assets	486.9	543.5	628.4	716.7
Misc. Expenses not writtenoff	(68.7)	5.1	9.6	76.6
<b>NOTE</b>				
Book Value of Unquoted Investments	0.0	0.0	0.7	1,014.6
Market Value of Quoted Investments	0.2	0.0	0.4	0.6
Contingent Liabilities	41.5	21.4	19.5	36.1
Dividend (%)	25.0	25.0	30.0	25.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 17	Sep 17	Dec 17	Mar 18
Net Sales	1,189.9	1,332.9	1,213.3	1,400.0
Cost Of Sales	1,060.0	1,182.5	1,079.3	1,245.3
Operating Profit	129.9	150.4	134.0	154.7
Other Income	61.2	70.1	70.4	66.5
Adjusted PBDIT	191.1	220.5	204.4	221.2
Financial Expenses	21.3	21.9	20.9	26.5
Depreciation	62.5	64.8	71.1	64.6
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	107.3	133.8	112.4	130.1
Tax Charges	36.2	42.4	38.0	47.9
Reported Profit	71.1	91.4	74.4	82.2
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	71.1	91.4	74.4	82.2

52 Week Index Relative Percentage Appreciation



Hi-Tech Gears vs SENSEX

Risks Associated

- ➔ For Auto Parts & Equipment companies steel is a primary raw material for final product. But steel prices continue to rise, it is a big challenge to maintain good margins.
- ➔ Company has a large focus amongst a few groups of customers & industry segment. This limited focus will be a risk, out of this limited focus if any customer(s) leave a company then the impact on the operations will be high.
- ➔ Auto component companies have another issue which is geographical limitations. Practically, it is difficult for the companies to expand beyond certain geographies. Sustainability beyond geographical limitations is also a challenge, because of acceptability, quality of the product, regulations, lack of capital and limited manpower etc.

Scope of Growth

- ➔ Company has 3 geographic segments such as America, India and Others. For 2016-17 revenue was declined by 34.90%, slightly up by 0.65% and spiked by 59.06% for America, India and Others respectively. Recently it was opened a subsidiary in America, it will help to turn America business positively.
- ➔ Government Forcing to Bharat Stage IV by 2020 calls for sizeable investments in technology and skilling of people and also Government plan to scrap commercial vehicles older than 15 years is another step to boost prospects of Auto & Component industries. Electric Vehicles is likely to make it a sizeable market opportunity over the next ten years.
- ➔ Strict emission and safety norms are playing an important role globally. Recently Government of India also focused on tighter emission norms be it the implementation of BS-IV. Now, focus is also coming to battery and hybrid vehicles to promote green vehicles. BS-IV norms and new technology focus will generate large volume of business.



## The Hi-Tech Gears

### In a Nutshell

Company is primarily engaged in the business of gears & transmission components. Its product ranges include auto components for power takeoff, two wheeler, car transmission and drive line components, commercial vehicle and precision forging. Company has 3 geographic segments namely America, India and Others. For FY 17 India business had high volume of sales, Others business was a highest growth segment and America business was generated less business as compare to the previous year's business. It has 2 major expenses such as raw materials and electricity cost. Raw material cost is external issue, hence company is not able to control the prices, but other major cost is electricity, for reducing this cost company is planning to start a 250 kw solar power plant. In future company will get benefit out of power plant. For FY 2017 Net sales were ₹ 4,495.38 mn as compare to the precious year sales ₹ 4,499.72 mn with a negative growth of 0.09%, because of performance is less-than expected in the two-wheeler segment. PAT also decreased by 5.17% to ₹ 318.60 mn. We can expect company will perform well in future, because it is planning to diversify client focus in both markets, along with sector's positive developments. India is a manufacturing hub for manufacture of commercial vehicles, small & mid size cars and two wheelers. Rapid increase in sales of the small cars segment in India has prompted a number of global automobile companies to enhance companies capacities for domestic as well as export markets. Key drivers of automobile industry are large consumer base and rising income levels, Changing lifestyles, driving demand for new segments, Favorable Government regulations and support. All this developments will cause to improve sector as well as company.

### Indira Group Offices

**Registered Office** : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

**Tel** : 022-66224202 **Fax** : 022-66224201 **Email** : [ie@indiratrade.com](mailto:ie@indiratrade.com)

**Administrative Office** : 204-205 "Amardarshan" 28/2 Old Palasia, Indore (MP) 452018

**Tel** : 0731-4097170 **Fax** : 0731-4215999 **Email** : [customercare@indiratrade.com](mailto:customercare@indiratrade.com)

**Institutional Dealing Unit** : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

**Tel** : 022-66224209 **Fax** : 022-66224201 **Email** : [ie@indiratrade.com](mailto:ie@indiratrade.com)

### Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

### Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.

