

April 15, 2024

NOT RATED

Price	681
Target Price	N/A
BSE Sensex	73,400
NSE Nifty	22,278

Key Data

Industry	Auto Ancillary
Reuters Code	INEL.NS
Bloomberg Code	INE:IN
Mkt Cap. (Rs bn/USD mn)	15.4/184.7
No of Shares o/s (mn)	22.6
Face Value (Rs)	5.0
BSE/NSE Code	532240/INDNIPPON
52 Week H/L (Rs)	811/348
Avg. Daily Traded Volume	23,133
Dividend per share (FY24)	10.2

Shareholding Pattern (%)

	Jun-23	Sep-23	Dec-23
Promoters	70.4	70.4	70.4
Pledged shares	0.0	0.0	0.0
FII	0.1	0.1	0.2
DII	0.0	0.0	0.0
Public & Others	29.5	29.5	29.5

Stock Performance (%)

	1M	3M	6M
Absolute	-3.4	16.5	42.3
Relative to Nifty	2.5	13.6	29.1

Price Chart



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*Dhanki reports are also available on
Bloomberg and Factset.*

We recently met India Nippon Electricals (INE) senior management. Key takeaways from our interaction.

Key Highlights

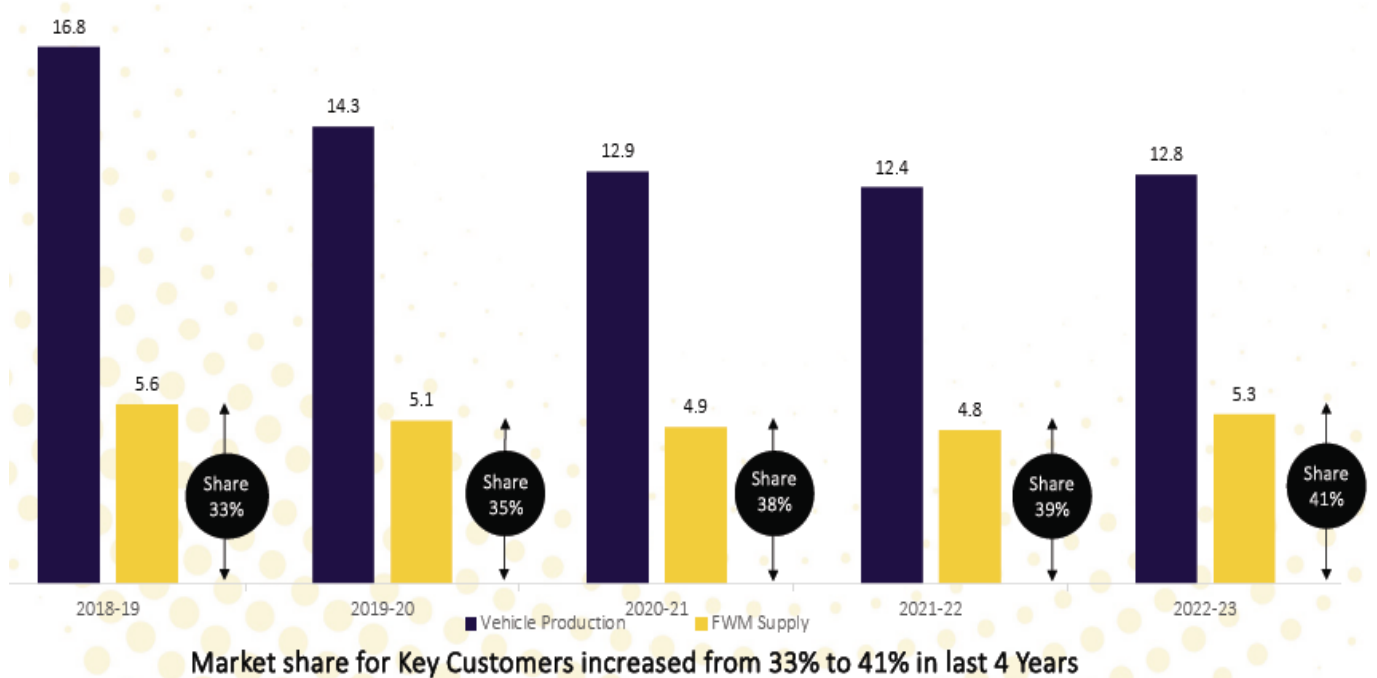
- India Nippon Electricals (INE) was founded in 1984 and converted into a joint venture between Lucas Indian Service (LIS) and MAHLE Electric Drives Japan Corporation to manufacture electronic ignition systems for two-wheelers, three-wheelers and portable engines. In June-23 LIS acquired Mahle's stake after which LIS holding has increased to 70.32%.
- The Company has 3 Manufacturing facilities located in Tamil Nadu, Puducherry, and Haryana along with 1 state of art research center.
- INE is tier 1 supplier to major OEMs like Hero, TVS, Bajaj, Greaves, Mahindra 2 Wheelers, Kohler, and John Deere. INEL has recently expanded its presence in the rapidly growing electric vehicle market. It has also expanded portfolio with technologies such as sensors, controllers, and engine control units.
- Industry wise revenue breakup consist of 2W – 80% where as 3W and general purpose parts consist of 6% and 14% respectively.
- INE expects the FWM market to continue to expand till 2030. It also anticipates bigger market share due to likely changes in the competitive landscape in FWM segment.
- 2W and 3W are the core customer segment which is growing at rate of 5-6%. Top 4 customers contribute 80% of revenue in overall business.
- TVS Motor and Hero Motocorp are the primary customers in Ignition system segment which contributes 75% of sales (about ~Rs 2000 – 3000 per bike). INE has been growing its market share in two-wheelers despite sluggish sales of two-wheelers.

Key Financials (Consol.)

Particulars (Rs. Mn)	9MFY24	9MFY23	% YoY
Net Revenue	5,284.0	4,982.8	6.0%
Material Cost	3,676.7	3,483.0	5.6%
Gross Profit	1,607.3	1,499.8	7.2%
Gross Margin	30.4%	30.1%	32bps
Employee Expenses	645.9	608.9	6.1%
Other Expenses	513.6	483.3	6.3%
EBITDA	447.8	407.6	9.9%
EBITDA Margin	8.5%	8.2%	29bps
Depreciation	112.7	108.1	4.3%
EBIT	335.1	299.5	11.9%
Finance Cost	3.0	3.3	-9.1%
Other Income	165.6	147.6	12.2%
PBT	497.7	443.8	12.1%
Tax	108.9	103.7	5.0%
PAT	388.8	340.1	14.3%
EPS (Rs)	8.4	7.3	14.3%

- INE is a zero-debt company with around ~ 1600 employees and healthy market share in FWM market.
- INE has entered into a Technical Licensing partnership with Borg Warner, a globally leading automotive supplier, for the Control unit for Electronic Fuel Injection (EFI ECU) which will enable to enter a new product segment of the EFI system and serve customers for two and three-wheeler applications.
- EFI ECU and sensors for two-wheelers (including TMAP Sensor, RPAS Ultrasonic Sensor and Tire Pressure Monitoring Sensor) will enhance profitability.
- INE is focused on gaining value from the ICE segment and does not anticipate decline in the volumes till 2030. Also it focusses on After Market segment for better margins. The company targets to increase its share of sales in After Market segment from 10% -15% till FY25.
- The company is planning to venture into the ISG system for two-wheeler IC engines and are also planning to enter into the EFI controller to enhance revenue. Currently ISG systems account for 15% of the market.
- INE has proactively diversified its manufacturing to include components tailored for EVs. The company is currently engaged in development of innovative products for EV segment, including cluster systems, TPMS, traction motors, motor controllers, and side stand sensors.

Key Customers — Market Share



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Financials (Consol.)

Income Statement

YE March (Rs mn)	FY20	FY21	FY22	FY23
Net Revenue	4,788	4,812	5,663	6,563
Growth	-8.8%	0.5%	17.7%	15.9%
Operating Exp	4,236	4,359	5,167	6,034
EBITDA	552	454	496	529
Growth	-27.0%	-17.9%	9.3%	6.7%
Depreciation	94	104	129	146
EBIT	458	350	367	383
Other Income	263	162	253	226
Interest	6	6	5	4
PBT	715	506	615	604
Tax	169	110	113	122
Adjusted PAT	546	396	503	482
Growth	-5.9%	-27.4%	26.8%	-4.0%
FD EPS	24.2	17.5	22.2	21.3

Key Ratios

YE March (Rs mn)	FY20	FY21	FY22	FY23
EPS (Rs.)	24.2	17.5	22.2	21.3
CEPS (Rs.)	20.0	12.9	16.5	14.9
BV (Rs.)	185.6	199.4	223.3	247.7
P/E (x)	28.2	38.9	30.7	31.9
P/CE (x)	34.1	52.6	41.2	45.8
P/BV (x)	3.7	3.4	3.0	2.7
D/E (x)	0.0	0.0	0.0	0.0
EBITDA Margin (%)	11.5	9.4	8.8	8.1
PAT Margin (%)	11.4	8.2	8.9	7.3
RoCE (%)	10.8	7.7	7.2	6.8
RoIC (%)	18.1	12.1	10.8	9.8
RoE (%)	13.3	9.1	10.5	9.1
Wcap Cycle (days)	38.7	46.3	50.0	44.5
EV/EBITDA (x)	26.3	32.1	29.3	27.3
EV/Sales (x)	3.0	3.0	2.6	2.2

Balance Sheet

YE March (Rs mn)	FY20	FY21	FY22	FY23
Share Capital	113	113	113	113
Reserves	4,085	4,397	4,939	5,490
Sh funds	4,198	4,510	5,052	5,603
Minority Int	-	-	-	-
Debt	51	46	39	37
Net Def Taxes	67	118	215	299
LT Prov & Oth.	38	25	26	32
Source of Funds	4,354	4,698	5,332	5,970
Net Block	811	915	1,301	1,344
CWIP	133	339	51	128
Investment	2,618	2,606	2,783	3,550
LT Loans & Adv.	13	21	56	20
Other NCA	47	17	10	1
Total NCA	3,622	3,897	4,201	5,044
Inventories	387	438	496	561
Trade Rec.	881	1,094	1,181	1,195
Cash & Equi.	284	327	366	228
Other CA	70	123	167	151
Net Assets held for sale	51	51	-	-
Total CA	673	2,032	2,210	2,134
Trade Payables	760	921	901	955
Other Curr Liab	180	311	179	252
Total Curr Liab	941	1,232	1,079	1,207
Net CA	732	800	1,130	927
Appl of Funds	4,354	4,698	5,332	5,970

Cashflow

YE March (Rs mn)	FY20	FY21	FY22	FY23
NP before Tax	729	506	615	604
Add:- Dep	94	104	129	146
Add:- Int	(18)	(21)	(19)	(16)
Add:- Other Adj.	(207)	(105)	(218)	(160)
Total Adj	130	(22)	(109)	(31)
Profit bf WC chg	599	484	507	574
Adj for Rec.	159	(213)	(87)	4
Adj for Inv.	(34)	(51)	(58)	(65)
Adj for Pay.	8	160	(20)	55
Adj for Loan & Oth	(41)	112	178)	112
Direct Taxes Pd	(175)	(110)	(94)	(110)
CF from Ops (A)	517	383	70	569
(Pur)/Sale of FA	(65)	(371)	(33)	(252)
(Pur)/Sale of Inv	4,480	2,882	116	(277)
Interest Rec	23	24	26	19
Others	4,503)	2,869)	172	54
CF from Inv. (B)	(66)	(335)	281	(457)
Pmts of LT Loans	-	-	-	-
Pmts of Oth Liab	(153)	(11)	(13)	(11)
Others	(222)	136)	(140)	(208)
CF from Fin. (C)	(375)	(147)	(153)	(219)
Net CF (A+B+C)	76	(100)	199	(107)

Key to Rating Stocks:

BUY: Absolute return of 15% and above; ACCUMULATE: 5% to 15%; HOLD: Upto $\pm 5\%$; REDUCE: -5% to -15%; SELL: -15% and below.

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