Investment thesis – Shivalik Bimetal Controls Ltd, ~3740 Market Cap, Emerging Leader.

Shivalik's core competency is high precision metal welding used to make specialized products like Shunt Resistors, Thermostatic Bimetals and Electrical Contacts (explained below).

Shivalik can grow topline at 15-20%+ CAGR for long periods benefitting from multiple secular domestic and global tailwinds (growth in Domestic Smart Meters/ Electric Vehicles/Hybrid and global customers derisking supply chains). They have a dominant position in India and can become meaningful global players in their niches over time as customers derisk supply chains.

Shivalik's steady state economics is attractive (30%+ ROE) and Balance sheet resilient (Debt free co) due to technology moat (explained below) and favourable industry structure.

Promoters have demonstrated strong execution, resilience and willingness to invest in the past. These are rare traits in a Small cap company.

What do their products do?

Shunt resistors measure electrical current. Applications are in Energy meters, Automotives, Battery management systems.

Thermostatic Bimetals are used in overload protection devices like circuit breakers. Applications are in Switchgear.

Electrical Contacts are used as connecting points when a switch is turned on/off. They are used in Switchgears etc.

Shivalik is a Phase 3 co poised to become Phase 4 with time.

Phase 1: Sowing seeds

Began journey with Bimetals in 1986, later entered Cathode Ray Tube (CRT) parts which gave access to Electron Beam Welding tech[1] ("EBW"). Forayed into Contacts in 2006 via JV with Checon USA.

Phase 2: Building strong foundation, navigating disruption by entering adjacencies

Slump sale acquisition of Sandvik's Bimetal equipment in 2011 helped establish larger presence in a low-cost manner. Shivalik deepened its tech expertise (Metallurgy knowledge, precision welding), expanded product portfolio & added customers in India and globally.

Even though their CRT parts business got disrupted (~30% of Sales in FY11) with advent of LED/LCD TVs, mgmt. demonstrated strong resilience by using EBW tech to enter Shunt Resistors in 2015 and has shown healthy growth (~14% Sales CAGR over last 15 years) despite challenges.

Phase 3: Establishing domestic dominance, Improvement in business quality and seeding export markets

Shivalik was able to establish Dominance in domestic markets through first mover edge/Import substitution. (~80% market share in Bimetals, ~70% share in Shunts for Single Phase Meters.)

Shivalik grew Sales at ~20% CAGR over last decade with strong improvement in profit margins as quality of business has improved. Shivalik has forward integrated from Strips into Components, increased share of higher Margin Shunts from ~31% to ~40% and Exports from 51% to 65% of Sales

[1] Electron Beam Welding (EBW) uses high energy electron beam to join metals. It is a highly precise beam (0.2mm diameter) which ensures metal retains properties which is key for highly accurate reading of current.

over FY17 to FY24). Gross Profit Margins expanded from 40% to 44% over FY14-24 (48% in FY23[2]) which drove strong Operating Profit growth of ~27% CAGR.

Phase 4: Now attempting to become a meaningful global player in its niches

Shivalik can gain market share from global peers over time. With its low-cost India manufacturing setup, in house tooling/ in house assembly of machinery parts it can offer cost savings, quality assurance and shorter lead time to its customers while also enjoying higher Margins and high Asset turns vs global peers.

Shivalik has expanded capacities across 3 segments and can potentially do 1600 Cr Sales at peak utilisation from ~500Cr Sales today. Shivalik today has the largest EBW set up globally[3] and 35% of global Bimetal capacity. We expect all 3 segments to grow.

- Shunt Resistors (40% of sales FY24) can grow at > 20% CAGR from Smart meter demand (Govt has set a target of 25 Cr installations, Manufacturing needs to be localized) and increasing Electric Vehicles/Hybrid penetration (Shunt requirement can be 2-4x [4]in Hybrid and EV vs ICE 4W). Renewable energy storage will also drive growth. Last few years Shivalik has seeded relationships with leading Tier 1s suppliers which could translate into higher wallet share going forward in global Autos and reduce customer concentration risk.
- Bimetals (48% of sales FY24) can grow at 15%+ CAGR. The India business should continue to benefit from a robust Real Estate cycle. In Exports, Shivalik can gain share as global peers exit/move up the value chain.
- Contacts (12% of sales FY24) can grow exponentially from a small base. There should be a rise in demand in Smart Meters as India looks to plug electricity losses. Shivalik will explore global markets more aggressively and will leverage its existing MNC relationships. Any potential partnership with Metalor (Global tech leader) can expand the Total Addressable Market.

With higher share of value add (components/assembly work), more automation and with Operating leverage, we believe EBITDAM can expand to 25%+ (from ~21% today) leading to 25%+ Profit CAGR.

Healthy steady state economics as Industry structurally favourable and Shivalik enjoys strong edge

Technology in these segments isn't easily available which explains consolidated global Industry structure (4-6 peers in Bimetals) and lack of credible domestic peers. Shivalik is much ahead in the learning curve as it has expertise built over many decades and today is a renowned player making low ohmic Shunts needing very precise Electron Beam Welding, high precision Bimetals with low micron level physical tolerances and longer life Contacts.

Customer acquisition takes time as credibility builds slowly. Shivalik enjoys long term relationship with its key customers and has a strong track record of near zero rejections. Products are low cost, high criticality and largely customised in nature. We believe post tax ROEs can be 30%+ as Margins expands and Asset turns improve with better capacity utilisations.

Promoters have grown the business in a thoughtful manner (targeted fewer profitable niches by leveraging existing technical skillsets, went deeper with existing customers and markets before

[2] GP Margin was ~48% in FY23, FY24 saw slowdown in high growth Shunts due to short term challenges.

[3] Source: Company IP

[4] Opportunity can differ basis vehicle model, Shivalik wallet share.

exploring new markets). The current Total Addressable Market can be ~USD 2.5 Bn by 2030. While some applications may not be decadal+ opportunities (example domestic Smart Meters), we believe management can leverage its strong technical skillsets/customer trust to enter new segments, as they have done in the past. Sufficient management bandwidth exists, and we don't worry about key man risk, which can be a concern in many Small caps.

While trailing multiples seem high, one should look at valuations from multiple lens.
We have bought Shivalik at ~35-38x trailing normalized PE FY24 for our ~3% initial position. Shivalik merits higher valuations as it enjoys both high growth with longevity & high ROIC. Trailing multiples don't capture longevity of growth.

The challenge in illiquid stocks is the inability to buy the quantity you want at the price and time you want. One needs to build positions gradually. If one has decadal horizons and realizes in hindsight that we overpaid by 15%, that barely matter over longer time horizons. Even less so, if one intends to add to the position over time.

Shivalik is a high-quality business (high growth, high FCF, debt free, derisked model, technology moat) run by people who have demonstrated resilience and whom we trust. They should command a 25-30x trailing PE 5 years out. We see a roadmap to 16-18%+ IRR over 5 years which justifies a base position. We can take up to 8-10% weight over time and would considering adding on valuation declines.