

## MUNJAL SHOWA LTD (MSL)

BUY

CMP Rs. 53

Target Price: Rs. 75

Time: 12 months

### Overview

This stock was first recommended in (VOL 1 No 23) at the then price of Rs 26 and was projected to be priced at Rs 40 in a year's time. The stock has not only achieved the targeted price but is also trading above it for some time now. The Auto Component Industry in the recent past prior to the current turmoil was one of the fastest growing sectors in the world economy with a global turnover of US \$185 billion. Over the past years, the industry has been increasingly striving to attain cost competitiveness globally. The growing demand for automobiles coupled with the outsourcing trend has spurred the growth of the auto component industry worldwide with Asian countries like Japan, China, South Korea and India emerging as the major automobile manufacturers in recent years. Low cost sourcing has given India an edge to nurture the fast-growing auto component industry, over its global competitors. Indian auto component industry is estimated to touch a turnover of US \$40 billion by 2014. In a nutshell, growing economy, strong domestic & global demand, adoption of and adapting to innovative technology will lead the Indian auto component industry to make a mark globally. Munjal Showa Ltd (MSL) promoted by Munjals of Hero Honda and Showa Corporation (Japan) is a leading manufacturer of shock absorbers, struts and window balancers from its two plants located at Gurgaon.

### Investment Rationale

The financial year 2008 / 09 has proved to be a challenging one for the automobile industry and in turn for the auto component manufacturers in particular, because of a relentless rise in oil price, the erratic movement of the dollar, an all round increase in raw material prices particularly of steel and in addition, also because of the infrastructure growth in the country not keeping pace with the needs of the economy. Another contribution factor was the high interest rates that made purchase outlays higher than before thus impacting the growth of this industry particularly in the second half. Testing times they surely are for this industry but one gets a feeling that we may have seen the worst. Despite this MSL's performance during the year saw a healthy growth of 13% in value terms and 12% in volume terms. The company expects the growth in volumes terms to be around 10% in the current FY '10 to be supported by the new models to be launched by its customers both in the 2 wheeler and 4 wheeler segments. MSL is also taking active steps to reduce its dependency on few customers.

MSL continues to dominate the OEM (Original Equipment Manufacturer) business in the organized sector as its range of products has expanded significantly as a result of the introduction of new models by its customers. The company has during the current year commissioned its third plant at Utrakhand having a capacity to produce 5 Mn shock absorbers annually thus catering to the needs of Hero Honda. During the year the company developed products for new generation vehicles such as Stunner, New Activa and City-08 produced by Honda Motorcycles, Scooters India and Honda Siel Cars respectively. In addition to this Hero Honda also launched nine models across all segments like macho HUNK, CBZ X-treme, New Passion Pro, New look products in the already successful brands like Glamour and Splendor. MSL is a single source supplier for the complete range of products manufactured by Hero Honda, Honda Siel Cars, Honda Motorcycles and all the export vehicles of Maruti Suzuki.

### Investment Concerns

Any major rise in input costs shall affect future performance. Dependency on the growth of the automobile industry. Concentration on few customers is negative

### Valuation

At the current market price of Rs. 53 MSL's projected FY 09 EPS of Rs. 7.4 is discounted 7 x. Long term investors can add this to their portfolio.

### Snapshot

52 week H/L:	M Cap (INR Mn):
60 / 19	2119.80
Face Value: Rs. 2	
BSE Code	NSE Code
520043	MUNJALSHOW

### Annual Performance

(INR mln)	FY 2008 A	FY 2009 A	FY 2010 E
Sales (Net)	7,093.8	8,291.2	9,534.9
EBITDA	329.9	409.3	553.5
EBITDA (%)	4.7%	4.9%	5.8%
Other Income	144	143	150
Interest	23	55	95
Depreciation	154	169	168
PBT	298	329	441
PAT	193	207	295
Equity	80.0	80.0	80.0
EPS (INR)	4.8	5.2	7.4
EBITDA/Share	8.25	10.23	13.84

### Quarterly Performance

(INR mln)	Jun-09	Mar-09	Dec-08	Sep-08
Sales (Net)	2,296.8	2,194.9	1,930.4	2,217.7
EBITDA	145.6	192.4	22.8	80.7
EBITDA (%)	6.3%	8.8%	1.2%	3.6%
Interest	28.7	27.3	10.2	10
Depreciation	44.3	47.8	39.6	41.9
PAT	69.51	96.7	1.5	33.2
Equity	80.0	80.0	80.0	80.0

### Ratio Analysis

	FY 2008 A	FY 2009 A	FY 2010 E
EV/EBITDA (x)	7.42	7.52	5.63
EV/Sales (x)	0.35	0.37	0.33
M Cap/Sales (x)	0.30	0.26	0.22
M Cap/EBITDA (x)	6.42	5.18	3.83
Debt/Equity (x)	0.23	0.61	0.44
ROCE (%)	6.3%	6.9%	9.2%
Price/Book Value (x)	1.38	1.28	1.09
Price/CEPS (x)	6.11	5.65	4.57
P/E (x)	10.97	10.25	7.18

### Share Holding Pattern as of June, 2009

	No. of Shares	%
Promoters	26,004,000	65.0%
Institutions/MF	644,905	1.6%
Public	13,346,095	33.4%
Total	39,995,000	100.0%