



**(Investment Idea)**

**Sona Koyo Steering Systems (SKSSL)**

SKSSL, India's largest manufacturer and supplier of steering systems, has declared good set of numbers for Q4 FY 2007. Net Sales zoomed 80.6% to Rs 176.54 crore (Rs 97.74 crore) because of new business line of Electronic Power Steering (EPS) in FY 2007. OPM% (including other income) declined to 12.2% (13.9%) due to sharp rise in raw material cost (mainly on imported components of EPS) to 72.9% (65.6%) of total income. Higher interest charge of Rs 2.26 crore (Rs 73 lakh) restricted PBT growth to 61.4% @ Rs 16.2 crore (Rs 10.04 crore). Lower average tax rate of 31.9% (38.5%) lifted PAT up by 78.9% to Rs 11.04 crore (Rs 6.17 crore).

In FY 2007, SKSSL registered growth of 71% in Net Sales at Rs 580.75 crore (Rs 339.68 crore). OPM% (including other income) declined to 10.7% (12%) due to sharp rise in raw material cost to 72.8% (67.3%) of total income. Higher sales led to 65.9% growth in PBT @ Rs 41.57 crore (Rs 25.06 crore). PAT jumped by 70.5% to Rs 27.71 crore (Rs 16.25 crore).

SKSSL has planned capex of Rs 400 crore on Hydraulic Power Steering, Manual Power Steering, steering columns and indigenization of EPS etc. over FY 2007 – FY 2010 out of which Rs 66 crore is spent in FY 2007. Funding of capex will be met thru equity contribution of promoters (Rs 80 crore), internal accruals (Rs 120 crore) and debt (Rs 200 crore).

Going forward, export sale is expected to jump to Rs 100 crore (Rs 54.66 crore) while domestic sale is expected to grow @ 12% in FY 2008. After FY 2008, overall growth rate will be 20% (+). Margins are expected to improve to 12.5% in FY 2008 and to 15% in FY 2009 due to higher indigenization level of EPS. Also, SKSSL has received Letter of Intent (LOI) for 50% of requirement of Tata Rs 1 Lakh car project. All these positive factors will benefit SKSSL going forward.

India is set to become global hub for export of small cars as lots of players have announced their plans to set up plants / outsource work to India. By FY 2011, ~ 1 million cars are expected to be exported out of India which will give excellent growth opportunity to SKSSL.

Rising rupee may put pressure on Company's margins as it has set ambitious target of almost doubling export turnover.

At CMP of Rs 51/- (face value Rs 2/-), the share is trading at 18.9 times FY 2007 earnings of Rs 2.7 and 14 times FY 2008 expected earnings of Rs 3.64 on diluted equity of Rs 20.51 crore. Considering excellent growth prospects, we recommend to "BUY" the share at current price.

**Disclosures:**

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**April 26, 2007**

