



Research



## RESEARCH :: COMPANY :: Autoline Industries

October, 2009

### BUY

Approx price	= 121
Target price	= 160
Estimated EPS(FY10E)	= 10
Projected PE	= 16
Investment period	= 3 months

### STOCK INFO

Sector	: Auto Ancillary
Market cap(Cr)	: 148 crores
Face value	: Rs. 10
Book value	: 142
EPS	:3.8
Cash EPS	:11
Dividend	:10%
Sales Growth	:-12%
RONW	:2.8%
52 week H/L	:155/44
Avg Daily Vol	:15060
Sensex	:17238
BSE code	:532797
Shareholding Management	: 26.7%
Incorporation	:1996
NSE	:AUTOIND

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### COMPANY PROFILE

Autoline Industries Ltd (AIL) (incorporated on December 16, 1996, as Autoline Stampings Private Ltd.) was initially set up in January 1995. AIL has grown into a medium sized engineering and auto ancillary Company, manufacturing sheet metal components, sub-assemblies and assemblies for large OEMs in the Automobile Industry.

- Started operations in 1995 as Autoline Pressings/Autoline Stampings Pvt. Ltd.
- Became public limited in January 2006 under the present name
- 2008: Increased Capital by issuing 12.5 lack equity shares to Rakesh Jhunjhunwala at around Rs. 235 per share. Promoters hold 26% stake in the company while Duke Equity and Rakesh Jhunjhunwala hold around 20% and 10% stake in the company with right to convert warrants at Rs.250 per share.

Company is engaged in the Conceptualizing, Styling, Design Engineering, Prototyping and manufacturing of auto components through following business segments:

1. Mechanical Assemblies
2. Styling, Design & Analysis Application Software Services
3. Medium & Large Stamped Assemblies

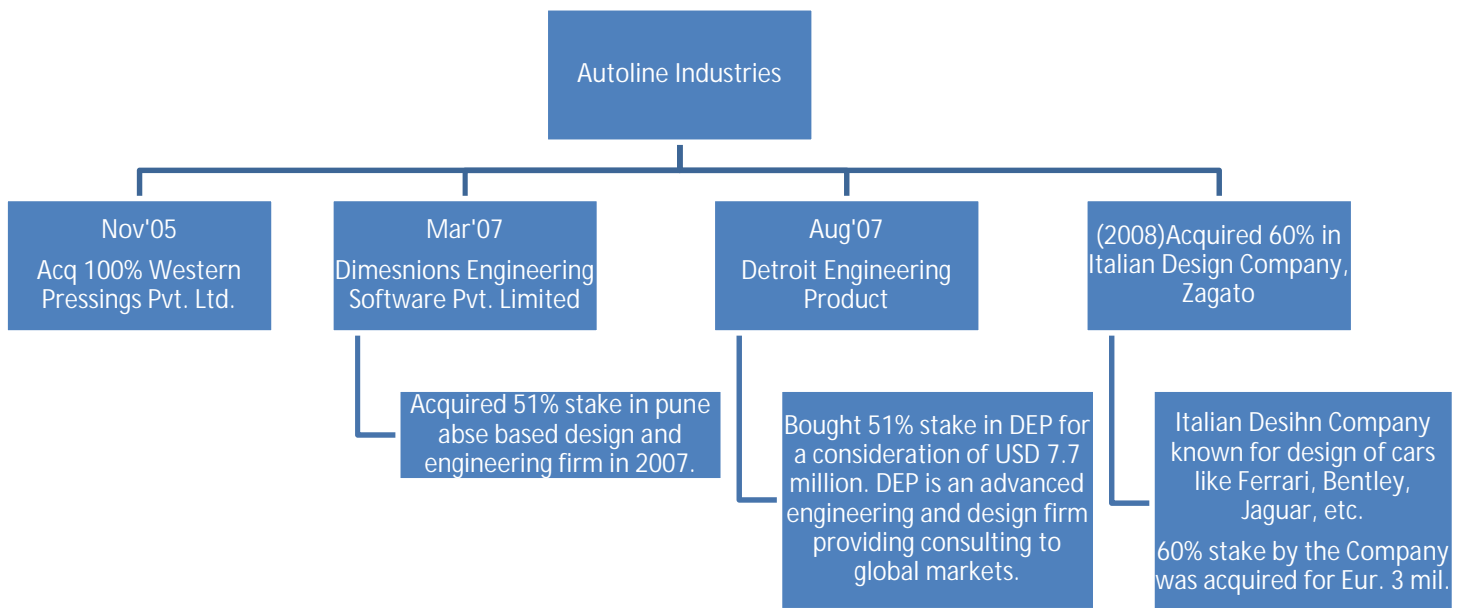
Company manufactures and supplies 400 products into a range of SUVs, LCVs, HCVs and passenger cars besides three wheelers mainly

1. Exhaust Systems
2. Sheet Metal Components
3. Formed Tubular Components
4. Major Assemblies
5. Skin Panels
6. Brake Shoes
7. Tipper & Load Bodies
8. Pedal System
9. Door hinges

Company supplies mostly as single source supplier to TATA Motors, which contributes more than 60% of Company's standalone revenues, hence turnaround for Tata Motors should lead to increased turnover for the company.

Company has aggressively grown through Organic and Inorganic routes with an aim to become an "Art to Part" or design to manufacture company, enroute to which company has presence across 3 continents with a design team of over 200 professionals and manufacturing 10 manufacturing facility in India

## Autoline Subsidiaries



### INDUSTRY EXCERPTS FROM NEWS REPORT SIAM: 13<sup>th</sup> October 2009

According to Society of Indian Automobile Manufacturers (SIAM), the overall automobile market grew 14.5% to over 5.78 million units during the first half of this fiscal. The passenger vehicle segment grew over 13% to over 8.84 lakh units, while medium and heavy commercial vehicles continue their downhill drive with a 19% fall during this period. Light trucks and buses though grew 19.5%. The car segment recorded the highest ever sales in a month at 1,29,683 units in September which is 21 per cent higher than the 1,07,517 units sold in the same month last year. The two-wheeler segment grew over 15.5%, with bike sales growing about 15%.

### VOLKSWAGEN BEGINS SOURCING COMPONENTS FROM INDIA

*(By wheelsunplugged July 2009)*

Following its cues from other global auto biggies like General Motors, BMW and other Volkswagen AG is also jumping on the global sourcing bandwagon as the German luxury carmaker has decided to source auto components in huge sums within the next couple of years. Company has already set up its International Purchase office (IPO) in the country and is currently evaluating several component manufacturers in order to identify potential suppliers. But now, media reports suggest that it has already started sourcing components for our global operations — particularly for plants located in Russia and some European countries — in a small way. Furthermore, VW aims to earmark India as an export market for components to Europe.

Company MD said that "India would become one of the major sources of components for our global units". The company has also set a target to capture 8-10 per cent of market share in the passenger car segment in India by 2014, with a series of launches and by doubling the number of its dealers. Speaking to reporters in Chennai, Muller said VW had started sourcing components from India to its Russian plant. He said they were looking at sourcing light systems, plastic-related items and metals for the European plants. According to auto industry observers, India is an important market for VW and that the German company recognises the engineering talent available in India. Considering the increasing capabilities of Indian vendors to provide quality spares, it has impelled the company to source parts and services from the country.

## Other Auto Industry News

- ✚ `Japan's Omron Corporation', the leading manufacturers of automation components has set up the Company's first production base on the subcontinent.
- ✚ \* `Fiat' is setting up a group purchasing office in India as part of its strategy to cut costs by buying more components from low-cost centers such as India and China.
- ✚ `International Automotive Components Group (IAC)' is setting up a new facility at Chakan to manufacture vehicle interior components and systems, involving a capital investment of approximately US\$ 25 Millions. In early 2008, IAC established an engineering and administrative facility in Pune, Maharashtra, India.

### ✚ **Auto component industry:**

The Indian auto component industry is one of India's sunrise industries with tremendous growth prospects. From a low-key supplier providing components to the domestic market alone, the industry has emerged as one of the key auto components centres in Asia and is today seen as a significant player in the global automotive supply chain. **India is now a supplier of a range of high-value and critical automobile components to global auto makers such as General Motors, Toyota, Ford and Volkswagen amongst others.** As per an Automotive Component Manufacturers Association of India (ACMA) report, **the turnover of the auto component industry was estimated at over US\$ 18 billion in 2007-08, a compounded increase of 27.2 per cent since 2002. It is likely to touch US\$ 40 billion by 2015-16.** Aided by a 7 per cent growth in the OEM segment and an 8.5 per cent rise in exports and after-market segment, it is expected that auto ancillary production would grow by 8.2 per cent in 2009-10, according to a report by the Centre for Monitoring Indian Economy (CMIE).

Investments in the auto component industry were estimated at US\$ 7.2 billion in 2007-08 and are likely to touch US\$ 20.9 billion by 2015-16. Exports of auto components grew at the rate of 35 per cent during 2002-07 and touched US\$ 3.6 billion in 2007-08. It is estimated to reach around US\$ 20 billion-US\$ 22 billion by 2015-16. India enjoys a cost advantage with respect to casting and forging as manufacturing costs in India are 25 to 30 per cent lower than their western counterparts. Seeing the growing popularity of India in the automotive component sector, the Investment Commission has set a target of attracting foreign investment worth US\$ 5 billion for the next seven years to increase India's share in the global auto components market from the existing 0.9 per cent to 2.5 per cent by 2015.

### **Toyota Cuts Investment in Second Plant By 25%**

(By Mint, 12th Oct, 09)

The local arm of the world's largest car maker, Toyota Kirloskar Motor Pvt. Ltd has reduced by one-fourth its proposed investment in a second plant in India for its small-car debut in the country. **The savings are from lower construction costs, local sourcing of equipment and a favourable currency exchange rate,** a top executive said. Planned Capacity will remain at 100,000 cars a year in the second plant, he added. Local sourcing will be beneficial for domestic Auto Ancillary Industry.

FINANCIALS: AUTOLINE INDUSTRIES LIMITED

	2008-09	2007-08	2006-07	2005-06	2004-05
<b>Gross revenue</b>	263.19	302.29	210.03	111.33	68.48
<b>Profit before Interest , tax and depreciation</b>	21.84	38.8	25.56	11.57	5.07
<b>less: Interest/ Finance charges</b>	7.17	4.53	2.21	1.76	1.62
<b>Profit before tax and Depreciation</b>	14.67	34.27	23.35	9.81	3.45
<b>less: Tax</b>	0.73	3.37	4.14	0.65	0.16
<b>Profit After Tax and before Depreciation</b>	13.94	30.9	19.21	9.16	3.29
<b>Add: Deferred Revenue Expenditure</b>	0	0	0	0	0
<b>Cash Accruals</b>	13.94	30.9	19.21	9.16	

BALANCE SHEET: AUTOLINE INDUSTRIES LIMITED

	2008-09	2007-08	2006-07	2005-06	2004-05
Networth	175.98	141.15	100.71	20.36	8.01
Loans- term	120.43	93.86	24.41	36.06	25.69
Loans - working capital	19.28	20.76	13.11	6.37	4.14
Deferred tax liability	4.83	3.66	1.28	0	0
<b>TOTAL</b>	<b>320.52</b>	<b>259.43</b>	<b>139.51</b>	<b>62.79</b>	<b>37.84</b>
net block including WIP	204.88	156.7	87.75	52.73	30.9
Investments	85.62	60.6	5.81	2.65	0.62
net working capital	30.02	42.13	45.95	7.41	6.32
deferred revenue expenditure	0	0	0	0	0
<b>TOTAL</b>	<b>320.52</b>	<b>259.43</b>	<b>139.51</b>	<b>62.79</b>	<b>37.84</b>

## ANALYSIS & REPORT

### Why to invest in shares of Autoline Industries Limited?

#### 1) SECTOR:

Global turmoil has opened a new window for Indian Auto Ancillary units as Global demand for Automobiles is shifting from Developed Economies to developing Economies, and a number of Global players announcing their plans to make India as their hub for Small cars. Indian Auto Ancillary business expanded their capacities back in 2006, due to potential export demand, however higher raw material costs (higher variable costs/ lower profitability) unfavorable Exchange rates, lower demand(lower top line) along with increased capacities(increased fixed costs) has led to extremely low Operating and Profit margins(due to high interest costs) for the company.

Now all the above factors have reversed namely:

**Higher exchange rates(around 47), Increased demand from local sourcing of components, and reduced Interest costs(PLR 11-11.5%) will be a big boost for the sector in what could be a big bull run for the sector.**

#### 2) COMPANY:

Autoline Industries is one of the very few companies in India, which have capability to go from complete Design to manufacture (or "Art to Part") in very short time. Company has a strong team of 300 designers and engineers and propriety softwares( Morpher 4.0) which provides the company capability to to lower the new product designing process by 80-90%. Inorganic expansion has led to company having strong presence across 3 key markets of western Europe(Zagato, Italy), South Asia(India, Dimensions Engineering, Pune ) and US( Detroit Engineering Products, US).

Besides company has 5 manufacturing mainly in Pune(chakan) and Uttaranchal( Haridwar)

Company has advantage of being a single source supplier to Tata Motors, which provides it huge potential for not just Tata Motors but also Fiat India. Other large potential customers also include Cummins India.

#### 3) FUNDAMENTALS:

While numbers for the company has not looked great for last year two years, it has been the case across the industry. We believe going forward company sales and profitability will get a huge boost, while we expect sales for the company to grow at lower pace of 15% over next 5 years, increased high end and high profitability business will lead to increasing Net profit margins from (5%-8%) in FY07 and FY 08 to around 10%-11% FY11 onwards.

#### 4) TECHNICALS:



**Medium term Investors can Buy with a target price of 160-170 over next 3 months, while Long term investors can hold it further for a larger upside.**

**Stop loss of 100 for long term investors and 113 for short term investors.**

**Source: BSE India**

Notes: Figures and graph sourced from [www.bseindia.com](http://www.bseindia.com) and capital market. News items have been given due credits

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