



INVESTMENT IDEA

Clutch Auto

Web: www.welspun.com

Risk	Low
Price (Rs.)	45
Market Cap (Rs.Crs.)	73
52 High / Low (Rs.)	45.20 / 14.95
Sales/MCap	3.00
Book Value (Rs.)	62.23
BSE	505052
NSE	CLUTCHAUTO
Reuters	CLTH.BO
Bloomberg	CLTO IN

Key Financials

(Rs Crores)	FY08	FY09	%chg
Gross Sales	237.98	219.92	-7.6
PBIDT	34.42	27.79	-19.3
Interest	12.58	14.48	15.1
Depreciation	5.86	7.76	32.4
Net Profit	13.46	4.46	-66.9
EPS (Rs)	8.25	2.73	-66.9
CEPS (Rs)	11.85	7.49	-36.7
F.V. (Rs)	10.00	10.00	0.0
Dividend (%)	0.00	0.00	0.0
Equity Capital	16.31	16.31	0.0
PE (x)	5.45	16.46	201.8

Half Yearly Results

(Rs Crores)	H1FY09	H1FY10	% chg
Gross Sales	100.40	108.21	7.8
PBIDT	12.48	17.23	38.1
Net Profit	2.46	3.80	54.5
Equity	16.31	16.31	0.0
EPS	1.51	2.33	54.5

Shareholding Pattern

(%)	Jun-09	Sep-09	chg
Non institutions	45.79	50.11	4.32
Institutions	0.79	0.79	0.00
Corp. Holding	26.64	22.32	-4.32
Promoters	26.78	26.78	0.00

Investment Argument

- Company is a **major player in Clutch plates and clutch cover assemblies for CVs and Tractor segment**, with over 90% supplies going to these segments. Rest goes to Car segment.
- Company has almost **70% market share in Tractor OEMs and 60% market share in CVs OEM segment**.
- Further company has strong presence in CVs & Tractor's replacement market. Over **45%** sales of company come from sales in **replacement market**, which garners better margins.
- Company, by launch of identifiable genuine products across full range, was able to weed out spurious products which led to **sharp rise in sales in replacement market from current year, leading to further rise in replacement market sales to over 50% soon**.
- Latest trend indicates that – in **second half, the sales to OEMs as well as to replacement market is growing at a very fast pace**.
- This will result in to much higher capacity utilizations and with faster growth in replacement market, plus margins will grow still better.
- Export demand is also picking up now, with revival in global economies, here company has good base of quality/patented products range.
- Company is R&D oriented quality producer** of Clutch assemblies, with many patents and big reputed clients under its fold.
- We expect company to report **EPS of over Rs 9 in current yaer and close to Rs 14-15 in FY'11**; which makes the stock very attractive around CMP of Rs 45-46/-. **Buy with target of Rs 90 in next 12 months and Rs 125 in 2 years time**.

Technical Trends





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Clutch AutoProjections

Key Financials

(Rs Crores)	FY09	FY10E	% chg
Gross Sales	219.92	263.50	19.8
PBITD	27.79	45.50	63.7
Other Income	0.07	0.50	584.9
Interest	14.48	17.00	17.4
Depreciation	7.76	8.80	13.4
Tax	1.17	3.50	199.9
Net Profit	4.46	16.10	261.0
EPS (Rs)	2.73	9.87	261.0
CEPS (Rs)	7.49	15.27	103.8
F.V. (Rs)	10.00	10.00	0.0
Dividend (%)	0.00	20.00	0.0
Equity Capital	16.31	16.31	0.0
PE (x)	16.46	4.56	-72.3

Background

Clutch Auto is India's biggest player in Clutch segment making - clutch cover assemblies, clutch plates/discs, clutch repair kits, metallic clutch plate/discs, ceramic clutch and retrofittable clutch mainly for CVs & Tractors which accounts for 90% of sales. It has strong market presence in the Replacement space with 45% sales coming from this segment, equally strong in OEM with 35% sales and rest 20% coming from Export markets. The margins are higher in Replacement & Exports space, while OEMs gives low margins. In OEM space, the company caters to all big names in the segment viz: Tata Motors, Ashok Leyland, M&M, Maruti, Escorts, Punjab Tractors & Eicher etc. Replacement segment will continue to grow bigger with increasing vehicles on road with each passing year and thus this high margin segment will drive the revenue and earnings for the company going forward. As clutch plates for CVs needs regular replacement due to wear & tear, average replacement time for clutch plates in CVs is 9-12 months; generating huge demand in replacement market.

CAL has a strong in-house product development capability, which has helped it in establishing strong IPR portfolio. Company has very strong and well recognized R&D base where from it is able to produce high end / niche and patented products for local and global markets. Company has developed High life & Extra life clutches for CVs in association with Hind Aeronautics Ltd. During last year company has launched 77 exclusive new generation clutches in domestic markets, through its distribution network, which boost sales.

To counter the menace of spurious parts, company is adopting suitable identification technologies to feed market with genuine parts. Company is also having largest domestic distribution network in India, and is also having biggest/widest range of clutch plates /assemblies in India.

CAL has planned capex of Rs. 600 mn. to double its capacity from 4 mn. to 8 mn. units p.a. by FY09. Utilization levels are low and there is enough scope for growth with strong recovery in CV markets.

Backward Integration – Casting is a key input [forms 30% of total raw material cost], CAL acquired GKF in order to safeguard the smooth supply of castings. The initial capacity of 200 tons p.a. has been raised to 800 tons p.a. in FY07 and 1300 tons p.a. in 1st Qtr. of FY08. With the expanded capacities, GKF is capable to meet 50% of CAL's casting requirement.

Risks and concerns

- Any slowdown in Auto sector, may affect growth of company, though with higher share from replacement market, impact will be low.
- Raw material cost pressures may affect margins, if they are sudden and sharp.

Recommendation

With integrated operations, larger share coming from high margin Replacement segment and high growth in OEM as well as replacement segment; company is likely to show very healthy growth in second half.

We expect company to report EPS of over Rs 9 in '10 and close to 15 in '11, which makes the stock very attractive around CMP of Rs 45-46/-. Buy with target of Rs 90 in next 12 months and Rs 125 in 2 years time.