

## Riding on domestic growth

24 April 2007

## BUY

Price Target Price

Rs 131 Rs 210

Sensex - 13,897

## Price Performance

(%)	1M	3M	6M	12M
Absolute	8	(14)	(2)	(23)
Rel. to Sensex	0	(12)	(11)	(34)

Source: Bloomberg

## Stock Details

Sector	Auto Ancillaries
Reuters	CLTH.BO
Bloomberg	CLTO@IN
Equity Capital (Rs mn)	155
Face Value (Rs)	10
52 Week H/L (Rs)	182/71
Market Cap (Rs bn)	2.1
Daily Avg Vol (No of shares)	64133
Daily Avg Turnover (US\$ mn)	0.2

## Shareholding Pattern (%)

(31st Dec.'06)

Promoters	23.0
FII/NRI	20.3
Institutions	2.3
Private Corp	33.0
Public	21.4

Source: Capitaline

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Clutch Auto posted excellent set of Q4FY07 results ahead of our estimates. Net sales have grown 84.3% yoy to Rs 909.6mn (Rs 493.5mn) on the back of strong growth in domestic sales, which grew 116%yoy forming 84% of sales. Margins remained almost flat yoy at 15.4%, but 223 bps lower qoq. PAT has grown 72.6% yoy to Rs 70.8mn (Rs 41mn). The reported PAT and Net sales for the fiscal FY07 grew 71.4% and 56.7% yoy respectively, translating into an EPS of Rs13.2. Going ahead improved productivity and a richer product mix due to focus on exports shall continue to boost the topline, the net sales and profits are expected to grow 42.5% and 48.6% respectively over FY07-09. At the CMP of Rs 131 the stock trades at a PE of 7.5x and 5x its estimated FY08 and 09 EPS of Rs 17.5 and Rs 26.2 respectively. We reiterate a Buy with a price target of Rs 210.

## Results Highlights

- The robust domestic demand for clutches from the CV and tractor industry kept the exports focus on the backseat. The domestic sales for the quarter under review grew 116% yoy to Rs764.6mn (Rs354.5mn), forming 84% of the total sales. Exports on the other hand, grew 4.3% yoy to Rs 145 mn (Rs139mn). For the fiscal 07, net exports sales grew a mere 4% yoy to Rs501mn (Rs482.4mn) while domestic net sales grew 81.8% yoy to Rs 1853.9mn (Rs1020mn). Total net sales for the fiscal grew 56.7% yoy to Rs2355mn (Rs1502.4mn).
- A larger contribution of domestic sales and higher material costs restricted the Q4 margins to 15.4%, which is almost flat on a yoy basis. However, a comparatively richer product mix for the fiscal has helped the company post margins of 17.1%. Despite increased focus on high margin exports, the margins in the coming years are likely to stabilize at 16% levels, due to increased material prices and the associated currency fluctuation risks.
- A higher interest and tax charge for the quarter restricted the net profit growth to 72.6% yoy at Rs70.7mn (Rs41mn). Reported profits for the fiscal grew 71.4% yoy to Rs 215.2mn (Rs125.5mn), translating into a full year diluted earnings of Rs13.2.

## Outlook and valuations

Clutch Auto is continuously upgrading its capacities and productivity levels. The company has developed a strong brand name and a wide distribution network for its technologically advanced products. The domestic growth outlook for the heavy-duty clutch maker continues to be buoyant on the back of the anticipated OE and replacement growth in the CV and tractor industry. Increased penetration in US and Europe will help the company enhance its exports and further de-risk its revenues. We estimate the company's net sales and profits to grow at a CAGR of 42.5% and 48.6% respectively over FY07-09. CAL is expected to post earnings of Rs 17.5 and Rs26.2 for FY08 and FY09 respectively. We maintain a Buy.

## Key financials (Rs mn)

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld (%)	RoE (%)	P/E
FY06	1502.4	249.1	16.6	125.5	7.7	9.6	2.4	0.8	20.5	17.0
FY07	2355.0	402.4	17.1	215.2	13.2	6.4	1.7	1.2	21.7	9.9
FY08E	3419.8	560.9	16.4	285.6	17.5	5.0	0.8	1.4	21.3	7.5
FY09E	4785.1	770.4	16.1	428.0	26.2	3.1	0.5	1.5	25.7	5.0

## Sales contribution from OE's

Company	FY07e
Tata Motors	40%
Ashok Leyland	18%
M&M	12%
Bajaj	6.5%
Maruti	5%
Others	18.5%

Source: Company/Emkay research

## Financial extract Rs mn

Particulars	Q4FY07	Q4FY06	% ch yoy	FY06	FY07A	FY08E	FY09E
Net Sales	909.6	493.5	84.3	1493.2	2355.0	3419.8	4785.1
Other Income	0.4	0.3	21.7	1.1	0.9	1.2	2.0
Total Income	909.9	493.8	84.3	1494.3	2355.9	3421.0	4787.1
Raw Material Consumed	617.8	302.7	104.1	848.6	1466.4	1983.5	2775.3
Stock Adjustment	-46.2	-19.4	138.3	-17.1	-53.4	0.0	0.
Employee Expenses	42.6	33.4	27.5	120.6	162.4	256.5	373.2
Other Expenses	155.5	101.3	53.5	304.4	377.2	619.0	866.1
Total Expenditure	769.7	418	84.1	1256.5	1952.6	2859.0	4014.7
EBITDA	139.9	75.5	85.3	236.7	402.4	560.9	770.4
PBIDT	140.3	75.8	85.0	237.8	403.3	562.1	772.4
Interest	31.1	22.5	38.0	60.0	94.7	81.5	77.0
PBDT	109.2	53.3	104.9	177.8	308.5	480.6	695
Depreciation	14.4	12.2	18.1	47.0	51.5	72.5	84.0
PBT	94.8	41.1	130.7	130.8	257.0	408.1	6
Tax	22.8	4.5	406.7	12.3	50.0	122.4	183.4
Fringe Benefit Tax	0.5	0.7	-23.6	2.0	1.3	0.0	
Deferred Tax	0.7	-5.1	-113.7	-10.8	-9.5	0.0	0.0
Reported Profit After Tax	70.8	41	72.6	127.3	215.2	285.6	428.0
EPS Rs	4.3	2.5	72.6	7.8	13.2	17.5	26.2
EBITDA %	15.4	15.3	8	15.9	17.1	16.4	16.1
Tax rate %	25.4	0.2	2511	2.7	16.3	30.0	30.0
NPM %	7.8	8.3	-53	8.5	9.1	8.3	8.9

Source: Company/Emkay research

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