



Research



RESEARCH :: COMPANY:: MUNJAL SHOWA Ltd.

06th January, 2010

COMPANY PROFILE

LONG TERM BUY

Approx price	= Rs.52.00
Target price	= Rs.81.00
Estimated EPS	= Rs 6.5
Projected PE	= 12.5
Investment period	= 12 months
Potential Upside	= 55%+

STOCK INFO (TTM Basis)

Sector	Auto Ancillary
Market cap	203.77(Rs.Cr)
Face value	2.00
Book value	41.33
EPS	4.92
Cash EPS	9.42
Dividend	100%
Sales Growth	8.76%
RONW	11.91%
Debt to equity	0.43
52 week H/L	68.40/17.15
Avg Daily Vol	18073(2wk)
Sensex	17401.56
BSE code	520043
Promoter Holding	65.01%
Management	Brijmohan Lall Munjal
Incorporation	1985
Listed	NSE/BSE
FII/MFs	0.43/1.29

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Munjal Showa Limited. Is a company established in the year 1987, as a result of technical and financial collaboration between Hero Group and Showa Corporation, Japan.

Showa Corporation, Japan is a market leader in manufacturing shock absorbers for automobiles and motorcycles.

Munjal Group holds 39 percent stake followed by Showa Corporation, which has 26 per cent stake in the Munjal Showa Limited.

Munjal Showa Limited, operates as an ancillary and manufactures auto components for the two-wheeler and four-wheeler industry. The company designs and manufactures front forks, shock absorbers, struts, gas springs and window balancers for sale in domestic market.

Munjal Showa Limited is one of the largest suppliers of shock absorbers to major auto giants in India, Japan, Germany, the United States and the United Kingdom, amongst other developed markets.

The company has three manufacturing plants, one at Gurgaon, at Manesar and new plant at Haridwar. The manufacturing plant is spread over an area of 24075 sq mt in the industrial area of Gurgaon, Haryana, on the outskirts of the National Capital Territory of Delhi, India.

The Manesar plant was set up in the year 2005. It was installed to diversify and upgrade its product profile.

The New Plant at Haridwar

The New Plant at Haridwar, Uttarkhand became operational in the year 2009. It has an initial installed capacity of 50 lacs shock absorbers per year. The plant has been established to cater to the needs and also to ensure the on time delivery to M/s. Hero Honda Motors Limited. It is installed to avail the concessional tax structure and incentives. It has strengthened Company's position in the industry and reduced cycle-time for a development of new models. The plant is built with state of art technology and is eco friendly with lean manufacturing facility to ensure and achieve optimum efficiency and output levels. The machine layout will ensure least human handling and single flow system connected through conveyors. A capex to the tune of Rs 175 Crore is funded by debt and internal accruals.

All the three plants combined, has sufficient capacity to meet present customers as well as some new customers,' adding that the company at present makes 70,000 units of the components every day and around 2.5 crore pieces per annum. It expects to grow its capacity by six to seven percent every year.

The company is investing an additional Rs 15-20 crore in the Gurgaon and Manesar plants, keeping future demand in mind. The effort of the company is to become self-reliant in terms of testing and cutting down its dependence on its Japanese partner. The company is proceeding in design as well, but it will take some time and requires some heavy investment.

INDUSTRY ACCOLADES:

The Accolades awarded to the auto ancillary company are the symbol of reliability and quality. The company has been awarded with awards which include QS9000 and ISO 9001 and ISO 9002 certification. The National Safety Award in the year 1992. The British Safety Council's National Safety Award in 1996. ISO14001 Certification for efficient handling of effluents in the year 2001. Assigned API+ rating for 60 million commercial paper programme by CRISIL.

FOREIGN EXCHANGE:

The company is not directly into exports. The company presently caters to 100 percent requirement of Shock Absorbers, Struts and Window Balancers for export models of Hero Honda Motors Limited, Honda Siel Cars Limited, Maruti Suzuki India Limited and Honda Motorcycles and Scooters India Private Limited.

The Foreign Exchange earnings during the year 2008-09 were Rs. 3,077,123/- as compared to 16,83,229/- during the previous year 2007-08.

TECHNOLOGY:

The company enjoy the benefits of complete research and development support from Showa Corporation, Japan. A team of highly qualified Japanese technical advisers work in collaboration with the trained professionals in India to ensure proper implementation of procedures and practices. The main objective of the company is to develop products of supreme technical quality, while keeping the costs to a minimum.

SALES:

Products	Unit	Quantity		Volume	
		Current Year 2009	Previous Year 2008	Current Year 2009	Previous Year 2008
Shock Absorbers	No.s	18,630,872	16,178,578	8,477,512,418	7,204,251,991
Struts	No.s	772,965	999,272	699,606,458	887,272,518
Window Balancer	No.s	439,887	518,807	58,680,389	68,669,309
Others				160,581,426	132,658,714
TOTAL				9,396,380,691	8,292,852,532

Source: 24TH Annual Report

During the year 2009, the company reported sales volume growth by 17.67 percent in the number of units of shock absorbers as compared to the previous year'2008. The sales volume of the struts and window balancer declined by 21.15 percent and 14.54 percent respectively in the year 2009 as compared to the previous year 2008.

INSTALLED CAPACITY AND ACTUAL PRODUCTION:

Class of Goods	Unit	Installed Capacity		Actual Production	
		Current Year 2009	Previous Year 2008	Current Year 2009	Previous Year 2008
Shock Absorbers	No.s	21,513,000	21,513,000	18,622,774	16,187,852
Struts	No.s	2,424,000	1,212,000	7,69,155	1,001,638
Window Balancer	No.s	1,006,500	1,006,500	4,38,551	5,20,677

Source: 24TH Annual Report

RESULT ANALYSIS:

(Figures in crores)

	30-Sep'09	30-Sep'08	Var%	30-June'09	Var%
Total Income	249.82	225.74	10.70	233.09	7.17
Expenditure	239.51	213.68	12.10	215.12	11.33
PBIDT	10.31	12.06	-14.50	17.97	-42.62
PBDT	7.43	11.05	-32.80	15.10	-50.74
PBT	2.62	6.86	-61.80	10.67	-75.45
Tax	-0.30	3.54	-108.50	3.72	-91.93
Net Profit	2.92	3.32	-12.00	6.95	-57.98

The total income of the company reported Y-o-Y increase of 10.7% in Q2FY10 at Rs. 249.82 crore as against to Rs. 225.74 crore in the same quarter, previous year. The operating profit posted Y-o-Y decline of 14.5% at Rs. 10.31cr in Q2FY10 as against Rs. 12.06 cr in the Q2FY09 as the raw material cost increased by 10% to Rs. 188.27 cr in Q2FY10. During the quarter ended September'2009, the company posted Y-o-Y net loss of 12% at Rs. 2.92 crore as against net profit of Rs. 3.32 crore in same quarter previous year as the interest cost increased from Rs.1.01cr in Q2FY09 to Rs. 2.88 cr in Q2FY10.

PEER ANALYSIS:

	On TTM Basis (Figures in Crores)	
	Munjal Showa Ltd.	Gabriel India
Market Capitalization	207.80	223.30
Sales	887.62	590.47
PBIDT	56.06	47.08
Net Profit	19.69	12.63
EPS	4.92	1.76
EV/EBITDA	5.42	7.88
Face Value	2.00	1.00
Equity	8.00	7.18
P/E	10.59	17.95
EV/Sales	0.34	0.63
Operating Profit Margin	6.32	7.97
PAT Margin	2.22	2.14

At present, only two domestic players, Gabriel India (GIL) and Munjal Showa, dominate the industry. Both account for over 80 per cent of the total industry volumes.

Munjal Showa products serve as original equipment to a wide range of Maruti Suzuki upper end cars and export models, Honda City car, complete range of Hero Honda Motorcycles, Kawasaki Bajaj Motorcycles, Kinetic Scooters and Hero range of mini-motorcycles and mopeds and Hero Motorcycles and Scooters India(Pvt) Limited. Whereas Gabriel India's client base include Hyundai, General Motors, FIAT, Maruti Suzuki, Mahindra Renault, Tata Motors, Ford, Honda, Hindustan Motors.

Munjal Showa commands a market share of 60 per cent in two-wheeler shock absorbers and 8 per cent in the passenger cars segment. With Gabriel India has a huge presence in the passenger cars segment and replacement market, Munjal Showa is a key OEM player for two-wheelers.

EXCERPTS FROM NEWS REPORT

Sales in December 2009 for Hero Honda which controls over 55 per cent of the domestic motorcycle market, grew by an unexpected 74 per cent with the company selling 3,75,838 units of two-wheelers last month. This is the highest y-o-y sales growth for the company in the current fiscal year. The company has indicated the plans to cross the four-million-mark in two-wheeler sales for the whole of 2009-10. Analysts say the growth story for two-wheelers has largely been driven by new launches like Bajaj Auto's Pulsar 135cc and Hero Honda's F1 ZMR, along with improvements in sentiments. The country's largest manufacturer of passenger vehicles, Maruti Suzuki, sold 84,804 units in December 2009-51 percent higher than the sales posted in December 2008. Domestic sales last month stood at 71,000 units, which is a rise of 36.5 per cent against the same month in 2008. Exports for the company for this month stood at 13,804 units an impressive growth of 224 per cent against the 4,264 units sold abroad in December 2008. Excise duty cuts, attractive vehicle loans made possible by PSU banks and improving sentiments have helped the whole auto industry to post good numbers for December 2009.

Source: Business Standard

Last Five Years Performance

FINANCIALS: MUNJAL SHOWA Ltd. (In crores)

	2008-09	2007-08	2006-07	2005-06	2004-05
Net Sales	829.39	709.38	691.83	596.53	521.44
Other Income	14.28	14.42	11.8	5.93	5.85
Total Income	843.67	723.8	703.63	602.46	527.29
Expenditure	790.65	676.46	651.38	562.62	508.82
EBITDA	53.02	47.34	52.25	39.84	18.47
Interest	5.46	2.27	0.6	0.79	0.51
Profit Before Depreciation and Tax	47.56	45.07	51.65	39.05	17.96
Depreciation	16.86	15.36	13.08	10.52	8.23
Profit Before Tax	30.7	29.71	38.57	28.53	9.73
Tax	10.43	9.39	11.05	9.5	4.1
Profit After Tax	20.27	20.32	27.52	19.03	5.63
Equity Share Capital	8.00	8.00	8.00	8.00	8.00
Basic EPS	5.07	5.08	6.88	4.76	1.41
Cash EPS	9.28	8.92	10.15	7.39	3.47
Operating Profit Margins	6.39	6.67	7.55	6.68	3.54
Net Profit Margins	2.44	2.86	3.98	3.19	1.08

BALANCE SHEET: MUNJAL SHOWA Ltd. (In crores)

	2008-09	2007-08	2006-07	2005-06	2004-05
Net worth	165.3	153.97	144.01	127.38	116.27
Loans- term	32.65	25.57	3.52	0.00	0.00
Loans - working capital	68.64	9.59	20.61	3.87	0.25
Deferred tax liability	11.16	9.66	8.9	6.54	5.79
TOTAL	277.75	198.79	177.04	137.79	122.31
Net block including WIP	240.34	176.81	157.68	121.4	95.48
Investments	10.00	0.00	0.00	4.49	0.44
Net working capital	25.78	21.98	19.36	11.9	26.39
Deferred revenue expenses	1.63	0.00	0.00	0.00	0.00
TOTAL	277.75	198.79	177.04	137.79	122.31

Source: Capitaline Database

ANALYSIS & REPORT

Why to invest in shares of Munjal Showa Ltd.?

SECTOR:

The fortunes of the Auto component industry are dependent on the fortunes of the auto industry. As per Indian Suppliers' report, The automotive sector in India contributes to 5% of the nation's GDP and 17% of the indirect taxes as a result of which the government last year charted a 10-year blueprint for the sector's growth. According to the Automotive Mission Plan(AMP) 2016 released to make Indian auto industry a destination of choice in the world to design and manufacture of automobiles and auto components with an output reaching \$145 billion accounting for more than 10 per cent of the GDP and providing additional employment to 25 million people by 2016. Hundred per cent FDI (Foreign Direct Investment) is allowed to encourage the international players to enter the Indian markets.

COMPANY:

1. Hero Honda being the parent company accounts for 78 per cent of the total sales volume of Munjal Showa.
2. Munjal Showa has 90 percent exposure to two-wheelers and 10 percent to cars.
3. The new plant at Haridwar is operational and is opened to cater to the needs of the Hero Honda new facilities.
4. Maruti Suzuki, market leader in passenger cars is a major customer and accounts for 8 per cent. Of total sales.
5. The company is the OEM supplier of shock absorber to the leading two-wheeler and four-wheeler manufacturers which include Hero Honda, and Honda Motorcycle and Scooters.
6. Munjal Showa has been awarded with many accolades and has earned its name in the auto ancillary manufacturing segment by providing quality, commitment and competence.

FUNDAMENTALS:

1. The three plants combined expect to grow its capacity by 6-7% every year will help company improve margins.
2. The company has prospects to give higher dividend in the future.
3. Debt Equity ratio stands at 0.43, lowest in the industry.
4. The downside risk is very limited because 80 percent of its sales volume come from its parent company,Hero Honda.

TECHNICALS:



Notes: Figures and graph sourced from www.bseindia.com and capital market.

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