

AUSTIN ENGINEERING

BENEFICIARY OF SURGE IN DEMAND

13 October 2011

Rating	Buy
CMP (₹)	75
Target Price (₹)	105
Upside (%)	40

Key Data	
BSE Code	522005
NSE Code	-
Reuters code	AUST.BO
Bloomberg Code	AUST IN
Sensex	16883
Face Value (₹)	10
Mcap (₹ Cr.)	26
52 week H/L (₹)	100/61
2 Wk Avg Qty	1018

Share holding, June' 11		Holding %
Promoters		33.6
Corporates		10.3
DIs		0.2
Public		55.9

Performance (%)	3M	6M	12M
Stock (AECL)	5.5	-1.3	-11.6
BSE 200	-9.8	-14.3	-20.7
BSE 500	10.0	-14.2	-21.1

Price Chart: (One-Year)


<http://www.aec-bearings.com>

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Company Description:

Incorporated in Junagadh, Gujarat in 1978, Austin Engineering Company (AECL) went public in 1985. It manufactures all kinds of bearings – ball bearings, tapered roller bearings, cylindrical roller bearings, spherical roller bearings, needle roller bearings, etc. Austin came out with a rights issue in 1992 to meet the cost of expansion and to augment long-term working capital requirements.

Products:

The range of bearings includes Ball Bearings, Cylindrical Roller Bearings, Needle Roller Bearings, Tapered Roller Bearings, Spherical Roller Bearings and Flexible Roller Bearings. AECL offers more than 4000 different types of bearings and are used in several industrial segments. The company has developed stainless steel (Grade 440C) bearings (for Atomic Energy Plant). AEL is among few manufacturers in the world to produce SPB's 1200 mm diameter bearings.

User Industries & Clients:

The bearings offered by AECL find extensive application in the industries like Automobiles, Defence, mining, State Road Transport Corporations, Railways, Steel Plants, Thermal Plants, Turbines, Oilfield, Cement, Sugar, Textile Machinery, Paper Industry, Fan, Pump industry and Material Handling Equipment.

Its major clients are OEMs like Tata Motors, Premier Ltd, Bhilai Steel Plant, BHEL, Punjab Tractors, Baja Auto and Defence among others.

Quality:

AECL has ISO-9001 certificate from Rhineland/Berlin-Brandenburg Group of companies for design and manufacturing of Ball, Roller and Needle Bearings.

AEL also holds ISO/TS 16949:2002 certification from IATF's (International Automotive Task Force) for quality management system.

Exports:

AECL restricts its exports domain only to the most quality conscious markets like USA and Europe which accounts for about 50% of its revenues. It has set up 100% subsidiaries in USA and Italy, which also act as marketing front-end. It exports its products to Italy, USA, Germany and the UK.

Key Financial: (Consolidated)

(₹ crore)

Year-March	Q1FY12A	Q1FY11A	FY11A	FY12E
Sales	26.4	17.0	83.4	100.0
PBIDT	4.2	2.1	11.5	15.0
Interest	0.2	0.2	1.0	0.9
PBDT	4.0	1.9	10.5	14.1
Depreciation	0.5	0.5	1.9	2.0
PBT	3.5	1.4	8.6	12.1
Tax	1.1	0.3	2.3	3.9
PAT	2.3	1.1	6.3	8.2
Equity			3.5	3.5
Reserves			42.0	50.2
Book Value (Rs)			130.0	153.4
EPS (Rs)	6.6	3.1	18.0	23.4
OP Margin (%)	15.9	12.4	13.8	15.0
NP Margin (%)	8.7	6.5	7.6	8.2
P/E			4.2	3.2



Q1FY12 & FY11 Results

During FY11, consolidated sales advanced by 21.8% to ₹83.4 crore but net profit fell by 1.6% to ₹6.1 crore. Consolidated EPS stood at ₹18.0. OP and NP margin stood at 13.8% and 7.6% against 1% and 9.3% respectively in the corresponding period last year.

During Q1FY12, consolidated sales rose 55.3% to ₹26.4 crore and net profit by 109% to ₹2.3 crore. OPM and NPM stood at 15.9% and 8.7% compared to 12.4% and 6.5% respectively in the corresponding period last year. Q1FY12 consolidated EPS stands at ₹6.6.

Prospects

The ₹8, 000 crore bearings sector in India is expected to witness a smooth ride. Imports (inclusive of duties) account for over 45% of this demand. The user industries like automobiles, auto ancillaries, railways, steel, power and other industrial sectors are witnessing steady growth in demand, both from the domestic and export markets.

As a result of the rising demand from automobile industry the ball bearings prices were able to remain steady. With many auto majors in expansion mode the demand of bearings would only increase.

India's automotive sector is buoyed by continued growth in the economy, new launches of next generation platforms planned by various OEMs which will expand the size of the market, opportunities for exports both for finished automobiles and auto components.

Infrastructure spending in the 12th Five Year Plan is expected to double to US\$ 1 trillion and these investments in roads, railways and power generation will result in a multiplier effect across the core sectors. Overall prospects for industrial development remain positive and therefore the strong demand for bearing products is expected to be sustained in the coming years. Furthermore as a result on account of economic development there is a healthy demand seen in the Industries like railways, engineering etc which augurs well for the bearings segment.

Growth Drivers

A steady growth in educated young population in India, expansion of middle class and effects of overall prosperity in rural areas are good indicators of inclusive economic growth. The need for effective and efficient transportation both personal and public will rise more rapidly than before. At the same time, the 'value consciousness' of Indian middle class will mean that market growth will be mainly focused in areas of motorcycles and small cars at least during the medium term.

Outlook

AEL has benefited from the surge in demand from the automotive sector and has improved its capacity utilization to keep pace with the growth in demand. So far, the growth has been lukewarm in other manufacturing sectors, too. Rebound in the capital goods sector and increase segment can get a push by good southwest monsoon, which will spur demand from rural areas and later on by possible easing of interest rates as the interest-rate hike cycle is coming close to its peak with the last 25 basis point hike.

AEL is expected to do well as offtakes from the motor cycle segment, the replacement market and exports are showing signs improvement. The demand of bearings in non-auto segments is also increasing at a faster rate.

Valuation & Recommendation

With full array, AECL offers high quality and precision bearings for different applications. AECL continues to launch a numbers of new and higher value added products, which will further strengthen the competitiveness in the future. AECL is continuously undertaking a comprehensive technology upgradation.

AEL is expected to post consolidated EPS of ₹23.4 in FY12. At the CMP of ₹75, the share is trading at a P/E of 3.2. We recommend BUY with a target price of ₹105 at which the share will trade at P/E of 4.5.



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