

ROAD TO SUCCESS

- Bharat Forge Limited
- Autoline Industries Limited
- TRF Limited



PUNE DAY - June 20, 2011

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Synopsis

We did a road-trip to Pune with investors to meet companies in the Auto ancillary space – namely Bharat Forge, Autoline Industries and TRF. Key takeaways from the investors' and managements interaction are outlined below:

Autoline Industries

Management indicated strong topline for FY12 backed by robust volume outlook for Tata Motors (LCV/UVs) and higher business from new clients. Expect minimal capex requirement for FY12 due to low capacity utilisation at Chakan (60%). Capacity utilisation at pantanagar is high due to strong volumes for Tata Ace. Expect net margins to remain rangebound between 4% - 5% in FY12. Company is in active discussion for outright sale of 100 acre land in Chakan Industrial Area. However, it is not in a hurry to sell the land.

Bharat Forge

Company expects moderate growth of 10% in domestic MHCVs. Subsidiaries have achieved break even in FY11. Management expects subsidiaries to contribute to earnings meaningfully in FY12 as operating leverage starts kicking in. Company reiterated its strong focus on non auto segment with a target revenue mix of 40% (currently 25%). Non Auto segment has higher margins. However, in longterm expect margins for auto and non auto to be similar.

TRF

The visit aided investors to gain clarity on TRF's automotive business – especially York Transport Equipments and JV Tata DLT, which together contribute over 75% of automotive revenues and over 30% of consolidated revenues. The management gave an in-depth insight into the markets catered. They also shared a strong positive outlook for the above businesses and expects the automotive business to drive incremental earnings growth. However, the management once again postponed pegging the expected operating margins.

Multiple Growth Drivers, Not Rated

22 June, 2011

Reco
Not Rated

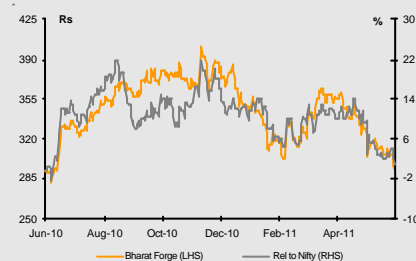
CMP	Target Price
Rs 292	NA
EPS change FY11E/12E (%)	NA
Target price change (%)	NA
Nifty	5,276
Sensex	17,560

Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	(9)	(24)	1
Rel. to Nifty	(8)	(7)	(13)	2

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock details

Sector	Auto Ancillaries
Bloomberg	BHFC@IN
Equity Capital (Rs mn)	466
Face Value (Rs)	2
No of shares o/s (mn)	233
52 Week H/L (Rs)	413/280
Market Cap (Rs bn/USD mn)	68/1,515
Daily Avg Vol (No of shares)	78069
Daily Avg Turnover (US\$ mn)	0.6

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	42.1	42.1	42.1
FI/INRI	12.7	14.4	15.0
Institutions	19.7	18.8	19.0
Private Corp	10.5	10.2	9.4
Public	15.1	14.6	14.6

Source: Capitaline

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We visited Mundhwa (Pune) plant of Bharat Forge which manufactures forging and machined parts for auto and non - auto segments and met Mr. S. Rajhagopalan, Manager - Finance from the company

Key Highlights

- Expect 10% growth in domestic M&HCV demand in FY12. Strong up tick is seen in US and Europe. This should result in robust exports.
- Utilization levels stood at 75% in domestic and 50% in subsidiaries. Expect utilization to be better in FY12 at subsidiaries resulting in higher contribution to profit as subsidiaries were able to break even in FY11 as compared to loss in FY10.
- Company has pass through clauses in its contracts with clients for volatility in raw material prices. Hence, any input pressure is passed on to clients and consequently any benefit is also borne by the client leading to sustainability of its margins
- Non auto segment continues to be the key focus area with highest contribution from power segment followed by Oil & Gas, Construction & Mining and Rail & Marines. Expect Alstom JV to start contributing meaningfully from FY13 onwards
- Currently, non auto contributes ~35% in standalone revenues and ~25% in consolidated revenues. Non-auto business is largely open die forging and average realization are much higher than auto motive business. Plant utilization can fluctuate as it depends on customer orders which are not standardized as is the case with automotive forging.
- Machining, which enjoys better margins, is operating at ~100% capacity utilization and only ~45% forging output is machined. Hence, most of the incremental capex of ~Rs 3 bn is for increasing machining capacity.
- Company has repaid USD ~130 mn of ECB. It has outstanding FCCB of USD 80mn due for conversion in 2012/2013. Repayment is not an issue given the comfortable cash position of the company and also expected free cash flow generation.
- Non auto business has higher margins vs auto business by ~ 200 to 300 bps. However, the turbine business (as and when it will start contributing) will have lower margins. As a result over the long term, the margin of automotive and non automotive segment would be similar.

Valuations

Consensus consolidated APAT is at Rs 4.4 bn in FY12E and Rs 5.9 bn in FY13. This translates into earnings of Rs 18.4 per share in FY12 and Rs 24.5 per share in FY13. CMP of Rs 292 discounts FY12/13E earnings at PER of 16x/12x.

Financial Snapshot

(Rs bn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY08	46,523	7,045	15.1	2,908	13.1	0	18.5	22.4	11.1	3.9
FY09	47,740	5,565	11.7	710	3.2	(76)	4.3	91.6	14.7	4.0
FY10	33,276	3,384	10.2	(22)	(0.1)	(103)	(0.1)		24.1	4.4
FY11	50,873	7,851	15.4	3,043	13.1		18.3	22.3	10.7	3.6

Key Financials - Quarterly (Standalone)

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	%YoY	%QoQ	FY11	FY10	%YoY
Revenue	5,624	6,301	7,187	7,770	8,216	46.1	5.7	29,473	18,564	58.8
Expenditure	4,218	4,714	5,446	5,884	6,227	47.6	5.8	22,270	14,194	56.9
Consumption of RM	2,460	2,806	3,307	3,538	3,653	48.5	3.3	13,303	8,224	61.8
% of sales	43.7	44.5	46.0	45.5	44.5			45.1	44.3	
Employee cost	347	457	489	518	549	58.2	5.9	2,013	1,436	40.2
% of sales	6.2	7.2	6.8	6.7	6.7			6.8	7.7	
Other expenses	1,411	1,451	1,649	1,828	2,026	43.6	10.8	6,954	4,534	53.4
% of sales	25.1	23.0	23.0	23.5	24.7			23.6	24.4	
EBITDA	1,406	1,587	1,741	1,886	1,989	41.5	5.5	7,203	4,370	64.8
Depreciation	443	468	490	496	478	8.0	-3.6	1,933	1,644	17.5
EBIT	963	1,119	1,251	1,390	1,511	56.9	8.7	5,271	2,726	93.4
Other income	120	101	86	126	149			462	323	42.9
Interest	261	299	320	301	294	12.6	-2.5	1,214	1,028	18.2
PBT	822	921	1,017	1,214	1,366	66.1	12.5	4,518	2,021	123.5
Forex gain (loss)	(7)	(42)						(42)	(214)	-80.2
Total Tax	203	285	336	388	362	78.1	-6.7	1,370	537	155.3
Adjusted PAT	619	636	681	826	1,004	62.2	21.5	3,148	1,485	112.1
Extraordinary Items								-	-	
Reported PAT	613	594	681	826	1,004	63.9	21.5	3,106	1,270	144.5
Adjusted EPS	2.75	2.55	2.93	3.55	4.31	56.9	21.6	13.3	5.7	134.1

Margins (%)						bps	bps				bps
EBITDA	25.0	25.2	24.2	24.3	24.2	(79)	(6)	24.4	23.5	90	
EBIT	17.1	17.8	17.4	17.9	18.4	126	50	17.9	14.7	320	
PBT	14.6	14.6	14.2	15.6	16.6	200	100	15.3	10.9	444	
PAT	11.0	10.1	9.5	10.6	12.2	121	159	10.7	8.0	268	
Effective tax rate	24.7	30.9	33.0	32.0	26.5	179	(545)	30.3	26.6	378	

Financial tables (Consolidated)

Income Statement (Rs. Mn)

Y/E, Mar (Rs. mn)	FY08	FY09	FY10	FY11
Net Sales	46,523	47,740	33,276	50,873
Growth YoY %	11.3	2.6	(30.3)	52.9
Expenditure	39,478	42,176	29,892	43,022
Materials Consumed	22,039	24,068	16,327	24,216
Employee Cost	6,780	7,092	5,239	6,365
Other Exp	10,659	11,016	8,326	12,441
EBIDTA	7,045	5,565	3,384	7,851
Growth %	9.0	(21.0)	(39.2)	132.0
EBIDTA Margin%	15.1	11.7	10.2	15.4
Depreciation	2,271	2,517	2,451	2,548
EBIT	4,774	3,047	933	5,303
EBIT Margin%	10.3	6.4	2.8	10.4
Other Income	782	687	512	672
Interest	1,269	1,291	1,303	1,529
PBT	4,286	2,443	142	4,445
Extraordinary income / (exp)	0	(299)	(742)	(77)
Forex Income/(Loss)	211	(1,037)	(45)	
Tax	1,589	696	119	1,402
Adjusted PAT	2,908	710	(22)	3,043
Growth %	(2)	(76)	(103)	(13,740)
NPM %	6.3	1.5	(0.1)	6.0
Reported PAT	2,908	411	(764)	2,966
Growth (%)	2.6	(85.9)	(285.9)	(488.1)

Balance Sheet (Rs. Mn)

Y/E, Mar (Rs. mn)	FY08	FY09	FY10	FY11
Equity share capital	445	445	445	466
Reserves & surplus	16,096	15,989	14,193	19,064
Net Worth	16,541	16,435	14,638	19,118
Minority Interest	702	954	783	1,542
Secured Loans	6,809	10,736	11,714	11,714
Unsecured Loans	9,735	11,173	10,813	7,236
Loan Funds	16,544	21,908	22,527	18,950
Deferred Tax Liability	1,369	1,843	839	1,321
Total	35,155	41,140	38,786	40,931
Gross Fixed Assets	30,998	40,277	41,340	43,340
Acc. Depreciation	13,228	15,595	17,267	19,815
Net Fixed Assets	17,770	24,683	24,073	23,525
Capital WIP	5,842	3,219	1,987	4,171
Net Block	23,611	27,902	26,060	27,696
Investments	2,988	2	2,737	3,668
Sundry Debtors	7,271	7,917	5,044	7,539
Inventory	6,718	5,313	6,575	8,115
Cash & Bank	3,184	4,883	5,977	3,110
Advances	505	822	5,204	6,917
Other Current Assets	7,104	6,382	1,372	1,961
Current Assets	24,781	25,317	24,171	27,641
Liabilities	11,361	8,538	11,164	13,369
Provisions	4,865	3,543	3,018	4,706
Current Liabilities	16,226	12,081	14,182	18,075
Net Current Assets	8,556	13,236	9,989	9,566
Total	35,155	41,140	38,786	40,931

Cash Flow (Rs. Mn)

Y/E, Mar (Rs. mn)	FY08	FY09	FY10	FY11
PBT (Ex-Other income)	3,505	1,756	(370)	3,773
Depreciation	2,271	2,517	2,451	2,548
Interest Provided	1,269	1,291	1,303	1,529
Other Non-Cash items	898	723		15
Chg in working cap	(2,070)	(2,980)	4,340	(2,444)
Tax paid	(1,589)	(696)	(119)	(1,402)
Operating Cashflow	4,284	2,612	5,422	4,020
Capital expenditure	(6,582)	(6,657)	169	(4,184)
Free Cash Flow	(2,298)	(4,045)	5,591	(164)
Other income	113	1,576	(1,595)	594
Investments	(915)	2,986	(2,735)	(931)
Investing Cashflow	(7,384)	(2,095)	(4,161)	(337)
Equity Capital Raised	-	-	-	20
Loans Taken / (Repaid)	(1,352)	5,365	618	(3,577)
Interest Paid	(1,269)	(1,291)	(1,303)	(1,529)
Dividend paid (incl tax)	(779)	(891)	(223)	(223)
Income from investments				
Others	295	(1,999)	740	(1,241)
Financing Cashflow	(3,106)	1,183	(168)	(6,550)
Net chg in cash	(6,206)	1,700	1,093	(2,867)
Opening cash position	9,389	3,184	4,883	5,977
Closing cash position	3,183	4,883	5,977	3,110

Source: Capitaline

Key Ratios

Y/E, Mar	FY08	FY09	FY10	FY11
Profitability (%)				
EBITDA Margin	15.1	11.7	10.2	15.4
Net Margin	6.3	1.5	(0.1)	6.0
ROCE	16.0	9.8	3.6	15.1
ROE	18.5	4.3	(0.1)	18.3
RoIC	18.5	9.3	2.8	16.6
Per Share Data (Rs)				
EPS	13.1	3.2	(0.1)	13.1
CEPS	23.3	14.5	10.9	24.0
BVPS	74.3	73.8	65.7	80.3
DPS	4.0	1.0	1.0	3.5
Valuations (x)				
PER	22.4	91.6	(2,915)	22.3
P/CEPS	12.6	20.1	26.8	12.2
P/BV	3.9	4.0	4.4	3.6
EV / Sales	1.7	1.7	2.5	1.6
EV / EBITDA	11.1	14.7	24.1	10.7
Dividend Yield (%)	1.4	0.3	0.3	1.2
Gearing Ratio (x)				
Net Debt/ Equity	1.0	1.3	1.2	0.6
Net Debt/EBIDTA	1.9	3.1	4.9	2.0
Working Cap Cycle (days)	42.1	63.9	44.0	46.3

Improving fundamentals, Not Rated

22 June, 2011

Reco
Not Rated

CMP	Target Price
Rs 126	NA
EPS change FY11E/12E (%)	NA
Target price change (%)	NA
Nifty	5,276
Sensex	17,560

Price Performance

(%)	1M	3M	6M	12M
Absolute	0	(1)	(37)	(2)
Rel. to Nifty	4	1	(28)	(1)

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock details

Sector	Auto Ancillary
Bloomberg	AUTOL@IN
Equity Capital (Rs mn)	122
Face Value (Rs)	10
No of shares o/s (mn)	12
52 Week H/L (Rs)	280/119
Market Cap (Rs bn/USD mn)	2/34
Daily Avg Vol (No of shares)	122701
Daily Avg Turnover (US\$ mn)	0.4

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	28.2	28.1	26.8
FI/INRI	8.7	9.1	8.0
Institutions	3.1	1.2	1.1
Private Corp	10.8	11.0	13.8
Public	49.2	50.6	50.4

Source: Capitaline

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We visited Chakan (Pune) plant of Autoline Industries which manufactures medium & large stamped assemblies & sub assemblies and met Mr S. T. Akhade, Co-founder & Managing Director from the company

Key Highlights

- Management is targeting strong revenues of Rs 8.5bn to Rs 9bn in FY12. FY11 gross revenues stood at Rs 7bn. The growth in revenues will be driven by strong volume outlook from key customer - Tata Motors (LCV and UV segment). Also business from new clients like Mahindra Navistar (MNAL), VW and General Motors. Targeting net margins in the range of 4% to 5% for FY12.
- Currently, Tata Motors contributes ~70% of consolidated revenues. Expect reliance on Tata Motors to reduce as business from M&M, Volkswagen etc in domestic business and Cummins Inc. in international segment gain traction.
- Tata Motors negotiates steel contracts on behalf of Autoline (AIL). This sufficiently insulates its margins from RM cost pressures as ~70% of its input cost is related to steel.
- Chakan plant is operating at ~60% capacity utilization with only one and half shifts. Expect almost 100% utilization of Pune capacity with a ~30% growth in sales in FY12.
- Capacity expansion will be required at Pune to meet FY13 requirements. Company has adjacent vacant land of ~7-8 acres which can be utilized for setting up additional capacities. Pantnagar plants are running at full capacity given the demand for Tata Ace and family.
- Company has a 51% stake in Autoline Industrial Parks Ltd. This company has 100 acre land in the centre of Chakan Industrial area. It has got approval for developing the land into residential premises. Its plans to sell the land to large OEMs/ other corporate houses. It has been under discussion with various players. It is not in a hurry to dispose of the land and will wait for correct prices. The management believes that there can be tremendous price appreciation as Chakan Industrial area does not have large residential premises.
- Before the downturn on 2008, company had capacity to manufacture tippers body for M&HCVs. Management is discussing to re enter the business as there are requests from customers. However, no firm decision has been taken yet.
- Till now AIL was focusing on domestic markets. With global customers like VW, GM becoming customers, it is in active discussion with them for becoming global suppliers.
- In house design capabilities has enabled the company to reduce the weight of the products like clutch pedals, load body, etc. This enhanced its reputation among customers.

Valuations

The company is currently trading at ~5.6x its FY11 consolidated earnings. Consensus earnings estimates are Rs 31.1 and Rs 39.9 per share for FY12/13 which however lacks depth (only 1 estimate). Peer comparison suggests average valuations of 8-9x PE on FY11 earnings. This translates into a strong case for potential re-rating of AIL as earnings visibility improves going ahead.

Financial Snapshot

(Rs bn)

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY08	3,413	479	14.0	302	27.6	54	22.5	4.6	5.4	0.8
FY09	3,505	259	7.4	47	3.8	(86)	2.5	32.8	11.5	0.7
FY10	4,511	536	11.9	206	16.9	340	9.5	7.5	6.1	0.7
FY11	6,607	715	10.8	276	22.6	34	11.7	5.6	4.8	0.6

Key Financials - Quarterly (Standalone)

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	%YoY	%QoQ	FY11	FY10	%YoY
Revenue	996	961	1,043	1,101	1,237	24.2	12.3	4,343	2,796	55.3
Expenditure	856	825	910	973	1,115	30.3	14.7	3,822	2,446	56.2
Consumption of RM	587	635	702	736	793	35.2	7.8	2,866	1,766	62.3
% of sales	58.9	66.0	67.3	66.8	64.1			66.0	63.1	
Employee cost	59	49	54	65	76	27.9	16.3	243	144	69.0
% of sales	5.9	5.0	5.2	5.9	6.1			5.6	5.1	
Other expenses	210	142	153	171	246	17.2	43.6	713	537	32.8
% of sales	21.1	14.7	14.7	15.6	19.9			16.4	19.2	
EBITDA	140	137	133	129	122	(12.9)	(5.4)	521	350	48.9
Depreciation	27	29	30	31	31	17.2	3.0	121	105	15.6
EBIT	113	107	103	98	91	(20.0)	(7.9)	400	245	63.1
Other income	22	1	2	1	13			17	30	-44.3
Interest	27	29	33	38	64	131.8	65.8	163	102	60.1
PBT	108	80	72	61	40	(62.5)	(33.3)	253	173	46.3
Total Tax	38	-	22	10	33	(12.1)	234.0	65	38	72.1
Adjusted PAT	70	80	50	51	7	(90.0)	(86.2)	188	135	39.1
Extraordinary Items	-	-	-	-	-			-		
Reported PAT	70	80	50	51	7	(90.0)	(86.2)	188	135	39.1
Adjusted EPS	5.7	6.6	4.1	4.1	0.6	(90.0)	(86.2)	15	11	39.1

Margins (%)						bps	bps			bps
EBITDA	14.1	14.2	12.8	11.7	9.9	(421)	(184)	12.0	12.5	(52)
EBIT	11.4	11.2	9.9	8.9	7.3	(405)	(161)	9.2	8.8	44
PBT	10.8	8.3	6.9	5.5	3.3	(755)	(224)	5.8	6.2	(36)
PAT	7.0	8.3	4.8	4.6	0.6	(643)	(403)	4.3	4.8	(51)
Effective tax rate	35.3	-	30.4	16.5	82.7	4,739	6,617	25.8	22.0	387

Key Financials - Quarterly (Consolidated)

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	%YoY	%QoQ	FY11	FY10	%YoY
Revenue	1,451	1,458	1,595	1,592	1,973	36.0	23.9	6,619	4,511	46.7
Expenditure	1,240	1,275	1,400	1,425	1,790	44.4	25.6	5,890	3,989	47.7
Consumption of RM	775	921	1,001	997	1,180	52.3	18.4	4,099	2,702	51.7
% of sales	53.4	63.1	62.8	62.6	59.8					
Employee cost	163	121	142	153	238	45.8	55.4	654	443	47.6
% of sales	11.3	8.3	8.9	9.6	12.1					
Other expenses	302	234	256	275	372	23.2	35.5	1,137	843	34.9
% of sales	20.8	16.0	16.1	17.3	18.9					
EBITDA	211	183	195	167	183	(13.3)	9.2	728	522	39.4
Depreciation	57	46	45	43	52	(7.6)	22.1	186	168	10.6
EBIT	154	137	150	124	130	(15.4)	4.7	542	354	53.1
Other income	(0)	9	1	0	7			17	21	-16.8
Interest	13	38	37	50	71	442.0	42.0	195	108	80.7
PBT	141	108	115	75	66	(52.8)	(11.1)	364	267	36.4
Total Tax	48	1	26	11	40	(16.7)	256.3	78	50	56.7
Adjusted PAT	93	107	89	63	27	(71.4)	(58.3)	286	217	31.8
Extraordinary Items	-	-	-	-	-			-	-	
Reported PAT	93	107	89	63	27	(71.4)	(58.3)	286	217	31.8
Adjusted EPS	7.6	8.8	7.3	5.2	2.2	(71.4)	(58.3)	23	17.8	31.7

Margins (%)						bps	bps			bps
EBITDA	14.5	12.5	12.3	10.5	9.3	(526)	(125)	11.0	11.6	(58)
EBIT	10.6	9.4	9.4	7.8	6.6	(401)	(121)	8.2	7.8	34
PBT	9.7	7.4	7.2	4.7	3.4	(633)	(133)	5.5	5.9	(41)
PAT	6.4	7.3	5.6	4.0	1.3	(505)	(264)	4.3	4.8	(49)
Effective tax rate	34.0	1.1	22.3	15.0	60.1	2,605	4,510	21.4	18.6	277

Financial tables (Consolidated)

Income Statement (Rs. Mn)

Y/E, Mar (Rs. mn)	FY08	FY09	FY10	FY11P
Net Sales	3,413	3,505	4,511	6,607
Growth (%)	84.2	2.7	28.7	46.5
Expenditure	2,934	3,245	3,975	5,892
Materials Consumed	2,050	2,082	2,711	4,099
Employee Cost	180	260	320	654
Other Exp	704	904	944	1,139
EBITDA	479	259	536	715
Growth (%)	96.3	(45.9)	106.6	33.3
EBITDA margin (%)	14.0	7.4	11.9	10.8
Depreciation	53	121	168	185
EBIT	426	138	368	530
EBIT margin (%)	12.5	3.9	8.2	8.0
Other Income	12	31	9	35
Interest expenses	50	80	110	200
PBT	388	89	267	364
Tax	71	23	50	78
Effective tax rate (%)	18.3	25.5	18.6	21.4
Adjusted PAT	317	66	217	286
Growth (%)	108.4	(79.1)	227.8	31.9
Net Margin (%)	9.3	1.9	4.8	4.3
(Profit)/loss from JV's/Ass/MI	(15)	(19)	(11)	(10)
Adjusted PAT after MI	302	47	206	276
E/O items	-	-	-	-
Reported PAT	302	47	206	276
Growth (%)	98.8	(84.5)	340.1	34.1

Balance Sheet (Rs. Mn)

Y/E, Mar (Rs. mn)	FY08	FY09	FY10	FY11P
Equity share capital	110	122	122	122
Reserves & surplus	1,560	2,011	2,146	2,374
Net worth	1,670	2,133	2,268	2,496
Minority Interest	202	380	387	397
Secured Loans	807	1,040	1,531	1,731
Unsecured Loans	454	433	282	282
Loan Funds	1,261	1,472	1,812	2,012
Net deferred tax liability	51	59	76	76
Total Liabilities	3,184	4,045	4,544	4,981
Gross Block	2,541	2,744	3,150	3,500
Less: Depreciation	204	319	440	624
Net block	2,337	2,425	2,710	2,875
Capital work in progress	231	420	420	450
Investment	140	225	244	250
Current Assets	1,043	1,785	2,149	2,349
Inventories	256	308	336	370
Sundry debtors	395	488	802	870
Cash & bank balance	65	29	74	95
Loans & advances	327	960	936	1,014
Other current assets	-	-	-	-
Current lia & Prov	583	859	1,006	970
Current liabilities	463	828	940	910
Provisions	120	30	66	60
Net current assets	460	926	1,143	1,379
Misc. exp	16	49	27	27
Total Assets	3,184	4,045	4,544	4,981

Cash Flow (Rs. Mn)

Y/E, Mar (Rs. mn)	FY08	FY09	FY10	FY11P
PBT (Ex-Other income)	376	58	258	330
Depreciation	53	121	168	185
Interest Provided	50	80	110	200
Other Non-Cash items		199	(154)	(197)
Chg in working cap		(503)	(171)	(215)
Tax paid	(71)	(23)	(50)	(78)
Operating Cashflow	540	(67)	161	224
Capital expenditure	(1,711)	(392)	(406)	(380)
Free Cash Flow	(1,171)	(459)	(245)	(156)
Other income	-	(0)	0	35
Investments	(138)	(85)	(19)	(6)
Investing Cashflow	(138)	(85)	(19)	380
Equity Capital Raised	(8)	13	0	-
Loans Taken / (Repaid)	886	211	340	200
Interest Paid	(50)	(80)	(110)	(200)
Dividend paid (incl tax)	(71)	(14)	(29)	(3)
Income from investments				
Others	454	379	107	(200)
Financing Cashflow	1,210	508	309	(204)
Net chg in cash	(99)	(37)	45	21
Opening cash position	156	65	29	74
Closing cash position	56	29	74	95

Key Ratios

Y/E, Mar	FY08	FY09	FY10	FY11P
Profitability (%)				
EBITDA Margin	14.0	7.4	11.9	10.8
Net Margin	9.3	1.9	4.8	4.3
ROCE	19.1	4.7	8.9	11.9
ROE	22.5	2.5	9.5	11.7
RoIC	21.4	4.6	10.4	13.4
Per Share Data (Rs)				
EPS	27.6	3.8	16.9	22.6
CEPS	32.5	13.8	30.7	37.8
BVPS	151.0	170.9	183.6	202.3
DPS	6.5	1.2	2.3	3.9
Valuations (x)				
PER	4.6	32.8	7.5	5.6
P/CEPS	3.9	9.1	4.1	3.3
P/BV	0.8	0.7	0.7	0.6
EV / Sales	0.8	0.9	0.7	0.5
EV / EBITDA	5.4	11.5	6.1	4.8
Dividend Yield (%)	5.2	0.9	1.9	3.1
Gearing Ratio (x)				
Net Debt/ Equity	0.7	0.7	0.8	0.8
Net Debt/EBITDA	2.5	5.6	3.2	2.7
Working Cap Cycle (days)	20.1	(3.4)	16.1	18.2

Source: Capitaline

Steering right, Retain Hold

22 June, 2011

Reco Hold	Previous Reco Hold
CMP Rs 365	Target Price Rs 428
EPS change FY11E/12E (%)	NA
Target price change (%)	NA
Nifty	5,276
Sensex	17,560

Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	(20)	(33)	(55)
Rel. to Nifty	(5)	(19)	(24)	(54)

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock details

Sector	Material Handling
Bloomberg	TRF@IN
Equity Capital (Rs mn)	110
Face Value(Rs)	10
No of shares o/s (mn)	11
52 Week H/L	970/355
Market Cap (Rs bn/USD mn)	4/89
Daily Avg Volume (No of sh)	83058
Daily Avg Turnover (US\$m)	1.0

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	39.6	39.6	39.6
FI/INRI	0.1	0.8	1.2
Institutions	12.8	12.4	13.6
Private Corp	13.3	13.3	7.3
Public	34.2	33.9	38.4

Source: Capitaline

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We visited TRF's new axle manufacturing plant at Talegaon, Pune to gain better clarity on the automotive business - especially York Transport Equipment (York) and JV Tata DLT

From York, Mr. PV Balasubramaniam, CEO and Mr. GS Chatterjee, COO shared the growth outlook

Key Highlights

- Current manufacturing capacity at Pune plant is 4,000 axles per month (48,000 pa) (on 2 shift basis). Expects to deploy second line in FY13E and increase Pune plant capacity to 96,000 axles (2 shift basis). Including above, TRF currently has a total axle capacity of 84,000 units considering Jamshedpur - 12,000, China - 12,000 & Singapore - 12,000.
- Products manufactured at the plant include (1) Axles ' disc-break, drum-break, aluminium pre-set hub, heavy duty, self steering, short axles, maintenance free axles, (2) Suspensions ' mechanical & air suspensions, single point bogie, walking beam, argonaut (3) Trailer equipments ' ABS modular, kingpin, brake chambers, couplers, aluminium & steel rims.
- York sells its products to India, South Africa (28% market share), Middle East (KSA, UAE, Iran, Oman & Kuwait), Indonesia (30% market share), China (2.3% market share), Australia (18% market share) and Thailand (31% market share).
- The domestic axle market has grown at 28% CAGR over the past 8 years to 72,000 axles (or about 28,800 prime movers). Of this York has a 22% market share.
- York expects India axle market to grow by 25% in FY12E to 90,000 units and expects to capture a 31% market share therein.
- York broke even in FY11 with revenues of USD 55 mn (Rs2.5 bn) and PBT of USD 0.8 mn. Management indicated sharp improvement in profitability going forward led by better asset utilization.
- Tata DLT currently contributes about 35% of total York's sales
- York expects its revenues to grow at 37% CAGR from USD 55 mn in FY11 to USD 141 mn in FY14E driven by strong performance by York India. Expects York India to grow at 51% CAGR from USD 22 mn in FY11 to USD 75 mn in FY13E. The management, however, deferred any definitive guidance on operating margins expected to a later day.
- We have factored slightly lower revenue growth at 30% CAGR during FY11-13E period to Rs10.7 bn and factored operating margins at 5.8% during above period.
- Globally, competition comprises of BPW (Germany), SAF (Holland), Hendrickson (USA), Fuwa (China) and Merritor, USA. Major competitors in the domestic market include Tata Motors, Ashok Leyland and the unorganized sector (constitutes 60-65% of market - down from 75% 2-3 years back).

Consolidated Financial Snapshot

(Rs bn)

YE-	Net Sales	EBITDA (Core)	(%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	8,659	879	10.1	481	41.9	13.6	33.9	8.7	6.5	2.7
FY11P	11,136	507	4.6	319	27.5	-34.3	20.7	13.3	13.4	2.8
FY12E	14,544	907	6.2	518	37.6	36.6	25.2	9.7	7.5	2.2
FY13E	17,238	1,075	6.2	586	42.8	13.8	23.1	8.5	6.3	1.8

From JV Tata DLT, Mr. Ramesh Gupta, COO and Mr. Somasundaram, Sr. GM - Service Marketing and Product Development shared the growth outlook

Key Highlights

- Set up in 2006, Tata DLT (50:50 JV) is the largest trailer manufacturer in India with a capacity of 3,000 units pa in Jamshedpur.
- It manufactures flat bed trailers, double / triple axle trailers, container carriers (skeleton) and side wall trailers.
- It is setting up a plant in Pune with a capacity of 3,000 trailers - plant expected to be commissioned in Aug'11.
- Management expects robust growth in trailer market on the back of improved credit availability (through increasing penetration of NBFCs and banks) as well as increasing wealth with the farmers.
- Led by above capacity expansion, robust growth in the trailer market and strong product acceptance, Tata DLT expects to nearly double its turnover from Rs1.4 bn in FY11 to Rs2.4 bn in FY12E. It expects to sell about 4,000 trailers in FY12E - up from 2,200 trailers in FY11.
- We have considered lower growth at 67% in FY12E for Tata DLT in our estimates factoring moderate ramp-up in demand and asset utilization.
- The Tata DLT management also deferred any definitive guidance on expected level of operating margins. In our estimates, we have factored 5.8% operating margins.

PER at 8.5X FY13E, Retain HOLD rating

We believe that TRF's automotive business has turned corner, and is expected to drive incremental earnings growth for TRF in FY11-13E period. We expect consolidated earnings to grow at 25% CAGR to Rs42.8 per share Vs 7% CAGR for standalone MHE business. At CMP, the stock is trading at 9.7X FY12E and 8.5X FY13E consolidated earnings of Rs37.6 and Rs42.8 per share respectively. We retain our HOLD rating with a price target of Rs428.

Key Financials - Quarterly (Consolidated)

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	Gr (%)
Revenue	2,629	2,393	1,925	2,484	4,332	64.8	74.4	11,135	8,659	28.6
Expenditure	2,470	2,267	1,860	2,220	4,282	73.4	92.9	10,629	7,850	35.4
Consumption of RM	1,640	1,351	944	1,124	2,918	78.0	159.7	6,337	4,944	28.2
as % of sales	62.4	56.4	49.0	45.2	67.4			56.9	57.1	
Payment to Subcontractor	281	354	291	507	685	143.7	35.2	1,837	1,034	77.7
as % of sales	10.7	14.8	15.1	20.4	15.8			16.5	11.9	
Employee Cost	192	199	207	215	209	8.8	-2.5	830	691	20.1
as % of sales	7.3	8.3	10.7	8.6	4.8			7.5	8.0	
Other expenditure	357	363	418	375	469	31.7	25.1	1,626	1,181	37.7
as % of sales	13.6	15.2	21.7	15.1	10.8			14.6	13.6	
EBITDA	160	126	65	264	50	-68.5	-80.9	505	809	-37.5
Depreciation	23	18	20	22	25	9.0	13.2	85	61	38.8
EBIT	137	108	45	242	25	-81.6	-89.6	420	748	-43.8
Other Income	27	46	40	4	36	33.2	721.8	126	124	2.2
Interest	41	36	31	51	57			176	125	40.3
PBT	123	118	54	195	4	-96.8	-98.0	371	746	-50.3
Total Tax	43	46	-19	27	-3	-106.0	-109.5	52	251	-79.2
Adjusted PAT	80	72	73	167	7	-91.9	-96.1	319	495	-35.6
Minoity Interest	1	7	-7	-4	20	3719.2	-618.8	16	20	-20.9
Adjusted PAT (after MI)	80	65	80	171	-14	-117.0	-107.9	303	475	-36.3
Extra ordinary items	-26	0	-300	0	0	-100.0	-	-300	-7	3943.7
Reported PAT	54	65	-220	171	-14	-125.2	-107.9	3	467	-99.4
Adjusted EPS	7.3	5.9	7.3	15.6	-1.2	-118.1	-109.0	30.3	47.5	-36.6

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	6.1	5.3	3.4	10.6	1.2	-490	-950	4.5	9.3	-480
EBIT	5.2	4.5	2.4	9.7	0.6	-460	-910	3.8	8.6	-490
EBT	4.7	4.9	2.8	7.8	0.1	-460	-770	3.3	8.6	-530
PAT	3.1	3.0	3.8	6.7	0.2	-290	-660	2.9	5.7	-290
Effective Tax rate	34.8	39.3	(34.7)	14.0	(65.3)	-10,000	-7,930	14.1	33.6	-1,950

Financial tables (Consolidated)

Income Statement (Rs. Mn)

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	8,659	11,136	14,544	17,238
Growth (%)	19.6	28.6	30.6	18.5
Expenditure	7,781	10,629	13,637	16,163
Materials Consumed	5,978	8,174	10,871	13,049
Employee Cost	694	830	954	1,092
Manufacturing Exp	403	518	585	660
Other Exp	705	1,107	1,228	1,361
EBITDA	879	507	907	1,075
Growth (%)	9.8	(42.3)	79.0	18.5
EBITDA margin (%)	10.1	4.6	6.2	6.2
Depreciation	61	85	95	100
EBIT	817	422	812	975
EBIT margin (%)	9.4	3.8	5.6	5.7
Other Income	41	125	92	64
Interest expenses	126	176	204	219
PBT	732	371	700	820
Tax	251	52	183	235
Effective tax rate (%)	34.3	14.1	26.1	28.6
Adjusted PAT	481	319	518	586
Growth (%)	18.7	(33.7)	62.4	13.1
Net Margin (%)	5.6	2.9	3.6	3.4
(Profit)/loss from JVs/Ass/MI	20	16	104	115
Adj. PAT After JVs/Ass/MI	461	303	413	470
E/O items	7	-300	0	0
Reported PAT	467	3	413	470
Growth (%)	15.4	(99.4)	15,930.0	13.8

Balance Sheet (Rs. Mn)

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	110	110	110	110
Reserves & surplus	1,362	1,338	1,718	2,134
Net worth	1,472	1,448	1,828	2,244
Minority Interest	597	687	791	906
Secured Loans	1,996	3,129	3,129	3,129
Unsecured Loans	170	155	155	155
Loan Funds	2,166	3,283	3,283	3,283
Net deferred tax liability	-27	-17	-17	-17
Total Liabilities	4,208	5,400	5,885	6,416
Gross Block	1,705	2,328	2,478	2,578
Less: Depreciation	623	708	803	902
Net block	1,082	1,620	1,675	1,676
Capital work in progress	136	136	136	136
Investment	37	33	33	33
Current Assets	7,634	9,194	12,160	14,135
Inventories	1,554	1,805	2,877	3,409
Sundry debtors	4,198	5,223	7,175	8,504
Cash & bank balance	435	521	463	577
Loans & advances	1,446	1,645	1,645	1,645
Other current assets	0	0	0	0
Current Lia & Prov	4,681	5,582	8,119	9,564
Current liabilities	4,375	5,263	7,800	9,245
Provisions	305	319	319	319
Net current assets	2,953	3,612	4,041	4,571
Misc. exp	0	0	0	0
Total Assets	4,208	5,400	5,885	6,416

Cash Flow (Rs. Mn)

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	739	371	700	820
Depreciation	61	85	95	100
Interest Provided	125	176	204	219
Other Non-Cash items	-75	0	0	0
Chg in working cap	-521	-572	-487	-417
Tax paid	-244	-52	-183	-235
Operating Cashflow	85	7	330	488
Capital expenditure	-268	-623	-150	-100
Free Cash Flow	-183	-616	180	388
Other income	0	0	0	0
Investments	-478	4	0	0
Investing Cashflow	-478	4	0	0
Equity Capital Raised	33	0	0	0
Loans Taken / (Repaid)	1,049	1,117	0	0
Interest Paid	-125	-176	-204	-219
Dividend paid (incl tax)	-76	-22	-33	-55
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	881	919	-237	-274
Net chg in cash	220	308	-57	114
Opening cash position	215	435	521	463
Closing cash position	435	742	463	577

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	10.1	4.6	6.2	6.2
Net Margin	5.6	2.9	3.6	3.4
ROCE	24.1	8.8	14.4	15.9
ROE	33.9	20.7	25.2	23.1
RoIC	27.6	10.2	16.3	17.9
Per Share Data (Rs)				
EPS	41.9	27.5	37.6	42.8
CEPS	47.4	35.2	46.2	51.8
BVPS	133.7	131.6	166.1	203.9
DPS	7.5	2.0	3.0	5.0
Valuations (x)				
PER	8.7	13.3	9.7	8.5
P/CEPS	7.7	10.4	7.9	7.0
P/BV	2.7	2.8	2.2	1.8
EV / Sales	0.7	0.6	0.5	0.4
EV / EBITDA	6.5	13.4	7.5	6.3
Dividend Yield (%)	2.1	0.5	0.8	1.4
Gearing Ratio (x)				
Net Debt/ Equity	1.2	1.9	1.5	1.2
Net Debt/EBITDA	2.0	5.5	3.1	2.5
Working Cap Cycle (days)	105.1	107.6	96.0	91.2

Source: Capitaline

Emkay Rating Distribution

BUY	Expected total return (%) (stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (stock price depreciation) of upto (-)10% within the next 12-18 months.
SELL	The stock is believed to under perform the broad market indices or its related universe within the next 12-18 months.

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