

Autoline Industries — IPO

Load up on it

As a key supplier to Tata Motors, Autoline has been a principal beneficiary of the popularity enjoyed by the former's Ace minitruck.

INVEST AT CUT-OFF

Nath Balakrishnan
An investment at the cut-off price can be considered in the initial public offering of the Pune-based auto component company, Autoline Industries. In the price band of Rs 200-225 at which the offer is being made, the stock would trade at a price-earnings multiple of 13-15 times the expected per-share earnings (on an expanded equity) for FY-08.

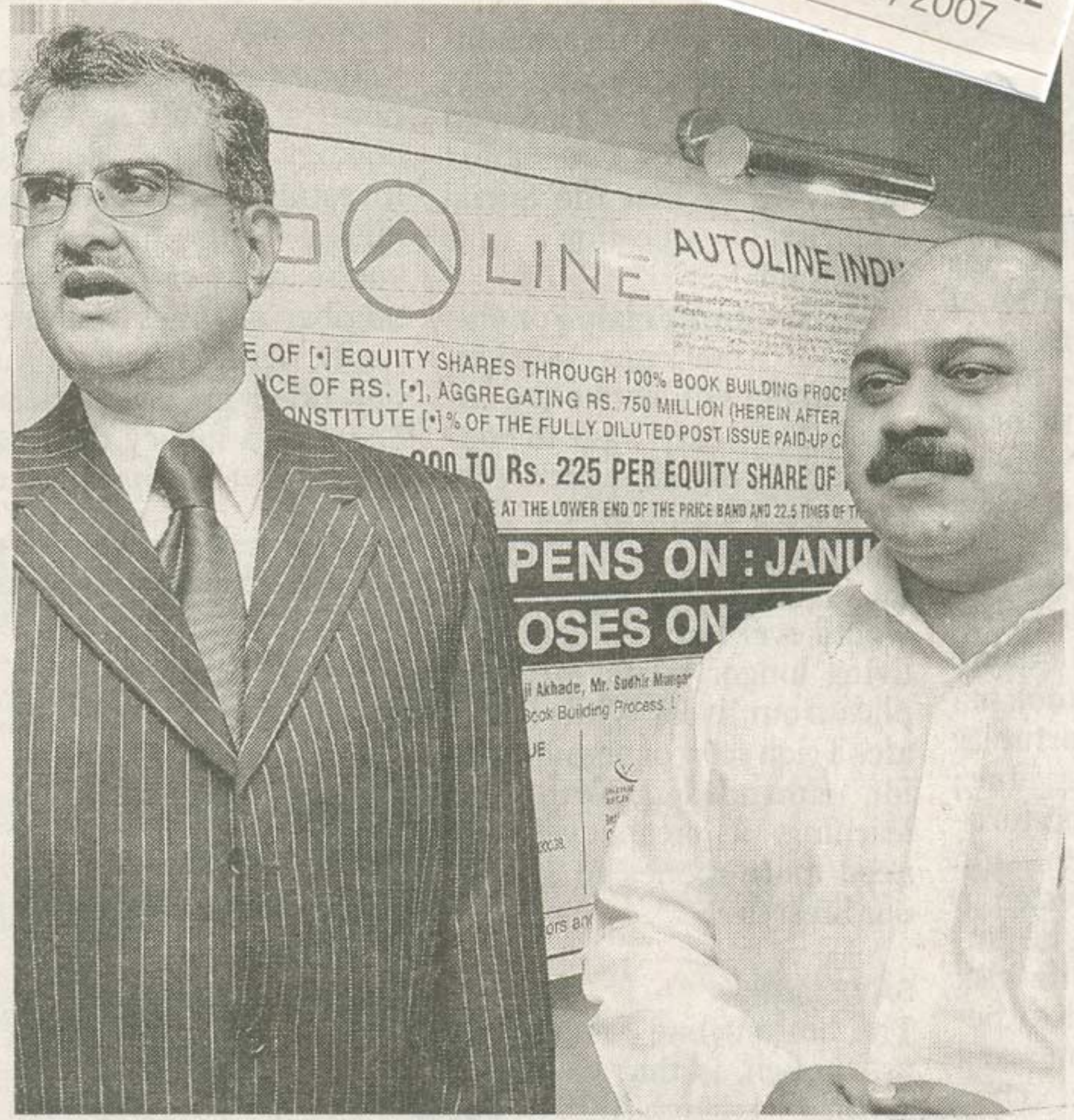
We believe the valuation to be reasonable in the light of the steady improvement in operational metrics and a good return on equity that Autoline has achieved in the recent past.

Investors can bid at the upper end of the price band. Should the discovered price be lower, investors would be allotted shares and also receive a refund of the amount paid in excess of the discovered price.

OFFER BACKGROUND
Funds raised through the issue will be used to upgrade and expand Autoline's Chakan facility in Pune; set up another manufacturing facility at the same location; relocate and consolidate a couple of smaller units; establish a corporate office; fund acquisitions, and provide long-term working-capital resources.

INVESTMENT RATIONALE
Autoline mainly supplies components to both two- and four-wheeler makers; its customers include Tata Motors, Bajaj Auto, and Mahindra and Mahindra.

Tata Motors, which buys components for passenger cars and commercial vehicles, is Autoline's largest customer accounting for



Mr Shivaji Akhade (right), MD, and Mr M. Radhakrishnan, Joint MD.

about 85 per cent of revenues in FY-06.

From a turnover of Rs 51 crore in FY-04, Autoline's revenues have scaled up to Rs 118 crore (for the eight months of the ongoing fiscal). The sharp acceleration in topline also coincides with the success enjoyed by Tata Motors' Ace minitruck, for which Autoline is the single-source supplier of load bodies.

A part of the funds raised through the IPO would be used to raise load body capacity to about 450 per day by the end of this fiscal. With demand for Ace likely to remain robust, we believe it should add some zip to Autoline's financials.

Autoline has tried to diversify operations by acquiring a majority stake in an outfit that specialises in design engineering software; entering into a joint venture in the UAE for manufacturing products for the replacement market; and tying up with the Indian arm of Stokota of Belgium for the supply of heavy duty lead bodies.

These operations are relatively insignificant at the current juncture. Over the medium term, however, they should enable reduction in client concentration.

Over the past three years, Auto-

line's operating margins have improved steadily, from 6 per cent in FY-04 to about 10 per cent this fiscal. The margin picture is complemented by an improving return on equity, which has trebled from under 10 per cent in FY-04 to over 30 per cent in FY-06, an added positive from an investor standpoint.

RISKS
The key risk to our recommendation is Autoline's dependence on a single customer for a chunk of its revenues, the inability to pass on escalating raw material costs to the end customer and a slowdown in the automobile industry as a whole, which would directly hurt the fortunes of players in the components business.

OFFER DETAILS
Autoline intends raising Rs 75 crore through the book-built route by offering shares in the Rs 200-225 band. BOB Capital Markets is the book running lead manager to the issue, which opens tomorrow (January 8) and closes on Friday (January 12).