

Drive slowly

Autoline's price band on the higher side

VENKATESH RANGAN

Pune-based auto component company, Autoline Industries' proposal to raise Rs 75 crore from the public is underlined by risks as also with progressive upsides. The company's product profile includes mainly sheet metal components, load bodies and tubular formed products. The company is the sole supplier of about 250 load bodies per day to Tata Motors for its mini truck Ace. It has also recently entered into a contract manufacturing agreement with Belgium-based Stokota's Indian subsidiary for tippers and trailers. Given the current robust growth rates of automobiles at around 15-17 per cent a year and the general positive growth

forecasts for the commercial vehicle segment at around 13-15 per cent over the next three years, strong demand drivers exist for the company's products.

Moreover, with five plants in Pune, the company is well-placed logistically as far as its key clients are concerned. With the issue proceeds, the company will fund modernisation, capacity expansion and upgradation of other business activities. A significant part of the issue would go towards setting up a new unit at Chakan with a focus on load bodies for heavy vehicles.

In the past two years, Autoline has embarked on inorganic expansion to upgrade its product profile and designing capabilities

and plans to go in for more acquisitions in the future. While the acquisition of Pune-based Western pressings in 2005 has marked its foray into tubular products, its majority stake in Dimensions Software during 2006, was in line with the company's objective of transforming into an integrated design engineering, prototyping and mass manufacturing enterprise. Given the global trend of OEM outsourcing of components and sub-assemblies including design engineering to third party vendors, the company's 'end-to-end solutions' approach may stand it in good stead in the future. Its diversification also includes a joint venture in UAE, which would become operational by 2007, for wheel rims and brake shoes with a focus on West Asia and Africa.

Autoline's sales have grown at 48 per cent CAGR in the past two years from Rs 51 crore in FY04 to Rs 111.3 crore in FY06. In FY06, its top line grew 62 per cent year on year. Margins have, however, shown a mixed trend in the past five years. Net profit margins, which were 1-2 per cent between

FY02 to FY04, have strengthened since then and were 6.3 per cent for the first eight months of FY07.

But there are some concerns. The overwhelming dependence on a single customer, Tata Motors, up to 84 per cent of sales is a worrying factor. The company would do well to diversify its client base. Though the company has tried to move up the value chain by adding design and prototyping, it will still be affected by the vagaries of steel prices, which account for about 70 per cent of its total costs.

However, the pricing band of Rs 200 to Rs 225 appears to be on the higher side. If we assume a 70 per cent growth in net profit for the next two years, then the stock will be discounted at about 11.5 times FY08 earnings at Rs 225, and at about 10.6 times at Rs 200. Considering that the company is relatively new in some of the product lines, and is a small-cap, these multiples look aggressive.

*Issue Opens: January 8
Issue Closes: January 12*