

# Autoline Industries Ltd. (AIL)

Acceleration *through* Automation & Acquisitions

**Sector: Auto Ancillary**

**March 22, 2007**

**BUY**

**CMP: Rs 227**

**Target Price: Rs 451**

**Upside: 100% (Doubler)**

**Sensex: 12946**

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**Sr. Analyst: Alpa shah**

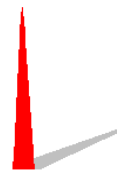
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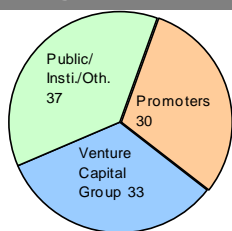
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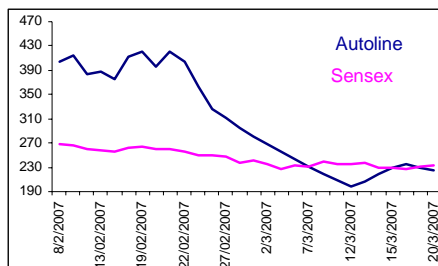
# Investment Rationale

Stock Statistics	
Bloomberg code	NAUTOL@IN
Reuters code	AUIN.BO
BSE code	532797
NSE code	AUTOIND
ISIN No.	NE718H01014
Equity Cap (Rs mn)	103.7
Market Cap (Rs bn)	2.33
Market Cap (\$ bn)	0.05
Avg. Daily Volume (Mthly)	549594
52 Week High/Low	463 / 191

## Shareholding Pattern (%)



## Relative Price Movement



Source: Cline, Tower Research

**AIL is a major supplier of sheet metal components, sub assemblies and assemblies to leading Automobile OEMs (Tata Motors, Bajaj Auto, M&M, Walker Exhaust, Stokota Engg, etc.) in the Commercial Vehicle, 2-wheeler, Passenger cars & Tractor segments.**

- ❑ AIL has successfully moved up the value chain from manufacturer of simple sheet components to providing Design Engineering, Prototyping, Tool Making & Mass Mfg. of critical components translating into improved margins due to better product mix.
- ❑ Acquisition of Dimension Engineering Software Pvt. Ltd. and MOU signed with Detroit Engineered Products Inc. would enable AIL to successfully ride the Global Auto Design Outsourcing trend by offering cutting edge solutions for automotive components to Indian & global manufacturers spanning the entire spectrum of 2, 3 and 4 wheelers.
- ❑ Leveraging the competitive advantage of the company in high-quality low-cost manufacturing through acquisition led strategic moves like Stokota NV to drive earnings.
- ❑ With the strategic initiatives taken, we believe that AIL will have a footprint in all the major Automobile OEMs of the world, who are entering India.

### Growth stock at attractive valuations ... Buy

At the current market price of Rs 227, AIL is quoting at a P/E of 5x and 4.8x and an EV/EBIDTA of 3.2x and 2x FY2008E and FY2009E respectively.

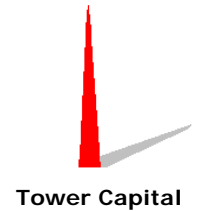
**We recommend BUY with a 12M target price of Rs 451, a potential upside of 100%.**

### Key Financials:

Particulars (Rs mn)	FY06	FY07 E	FY08 E	FY09 E
<b>Net Sales</b>	<b>1113.3</b>	<b>2100.0</b>	<b>5356.6</b>	<b>6769.9</b>
<b>%growth YoY</b>	<b>62.5</b>	<b>88.6</b>	<b>155.1</b>	<b>26.4</b>
<b>Net Profit</b>	<b>70.7</b>	<b>151.1</b>	<b>469.1</b>	<b>678.8</b>
<b>EPS</b>	<b>10.2</b>	<b>14.5</b>	<b>45.0</b>	<b>47.1</b>
<b>%growth YoY</b>	<b>244.4</b>	<b>42.4</b>	<b>210.5</b>	<b>4.6</b>
OPM(%)	10.4	12.2	15.2	17.0
ROCE(%)	14.8	14.8	30.9	26.4
RONW(%)	32.8	13.8	23.2	18.8
<b>P/E (X)</b>	<b>22.3</b>	<b>15.7</b>	<b>5.0</b>	<b>4.8</b>

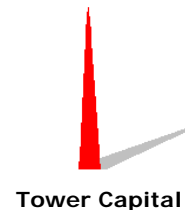
Source: Company, Tower Research

# Flow Of The Report



- Promoter's Background
- Company Background
- Business Overview
  - All's presence in the Value Chain
  - Clients and Plants Detail
  - Business Segments
- Business Strategies – Diversification and Complete Solution Provider
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- Stepping ahead with globalization – Recent Acquisition of Stokota NV
- Earnings Outlook
- Valuations
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## Promoter's Background



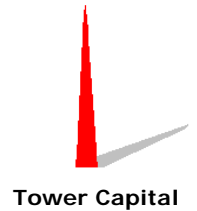
The company was originally promoted by Mr. Shivaji Akhade, Mr. Sudhir Mungase, Mrs. Rema Radhakrishnan, and Mr. L.P. Chauhan. While Mr. L.P. Chauhan divested his holdings in the company, Mr. Vilas Lande and Mr. M. Radhakrishnan subsequently joined as one of the promoters.

**Mr. Shivaji Tukaram Akhade** (40 yrs) : He is a commerce graduate and has been looking after the day to day affairs of the Company including production, marketing & commercial aspects along with a professional team. He has been acting as Managing Director of the company since inception.

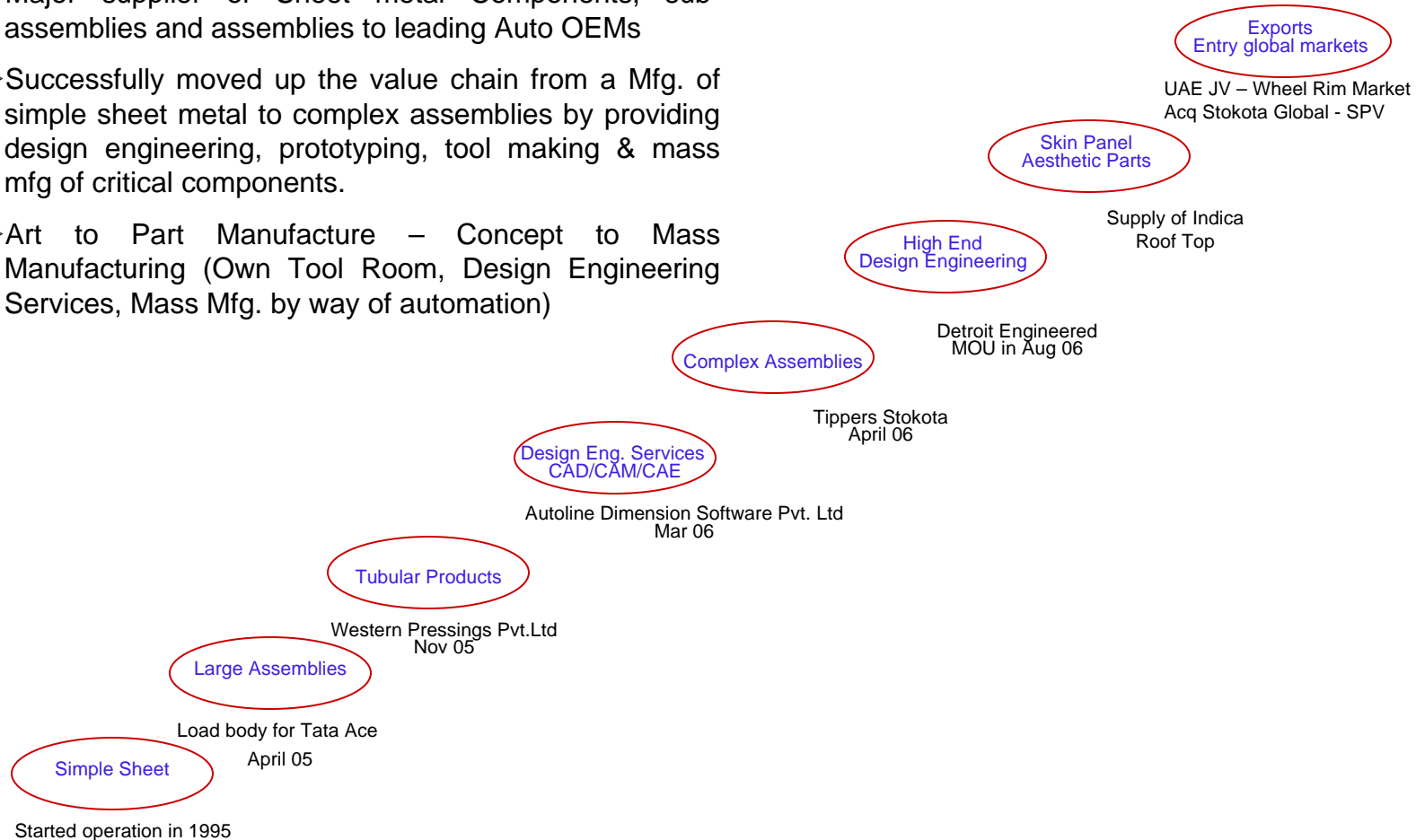
**Mr. M. Radhakrishnan** (52 years) : He looks after Strategic Planning and Finance activities of the Company and works closely with the Managing Director on a day-to-day basis. Mr. Radhakrishnan is B.Sc. (Stat), LLB, DBM and CAIIB and has experience of around 23 years in the field of Development Banking and Finance having worked with IDBI and SIDBI.

**Mr. Sudhir Vithal Mungase** (31 years) : He has experience in Sheet Metal Press Operations and is looking after the production and maintenance of the Company's operations.

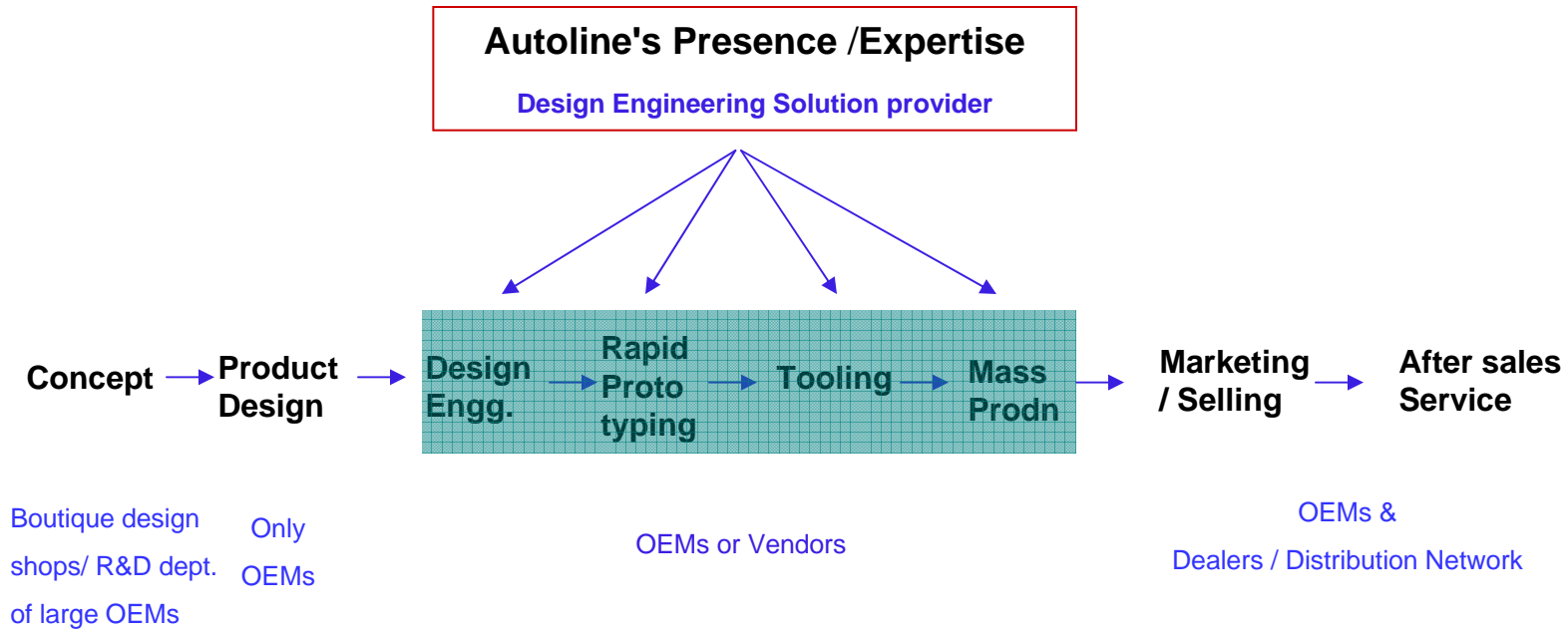
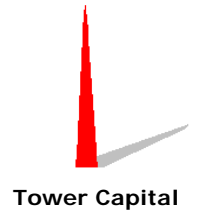
# Company Background



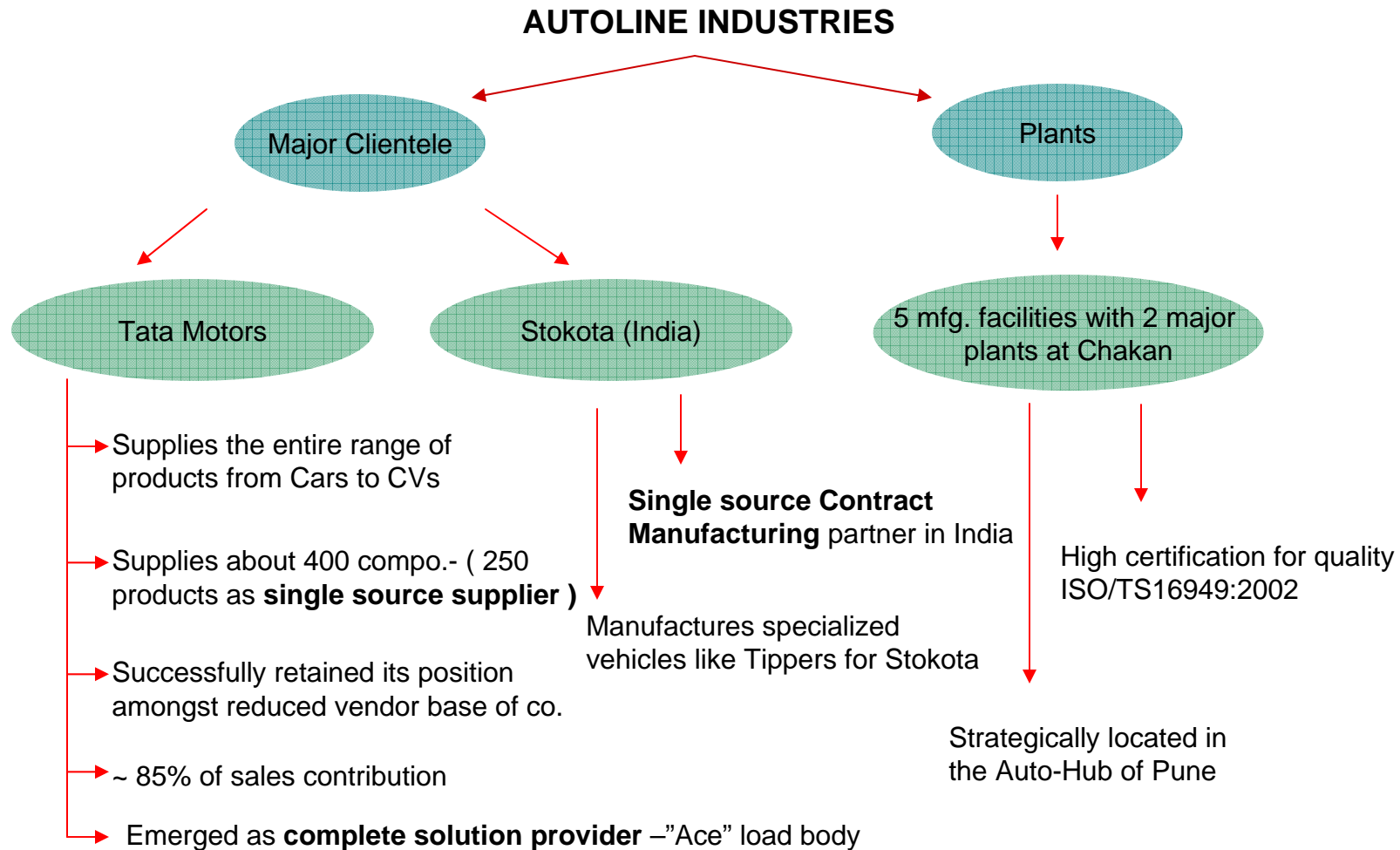
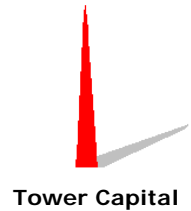
- Major supplier of Sheet metal Components, sub-assemblies and assemblies to leading Auto OEMs
- Successfully moved up the value chain from a Mfg. of simple sheet metal to complex assemblies by providing design engineering, prototyping, tool making & mass mfg of critical components.
- Art to Part Manufacture – Concept to Mass Manufacturing (Own Tool Room, Design Engineering Services, Mass Mfg. by way of automation)



# AIL's Presence In The Value Chain

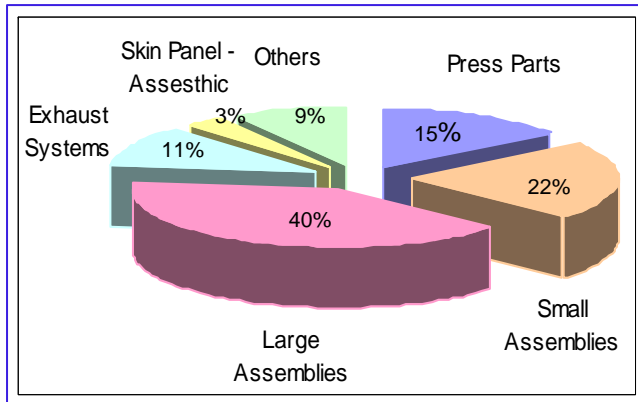


# Clients And Plants Detail



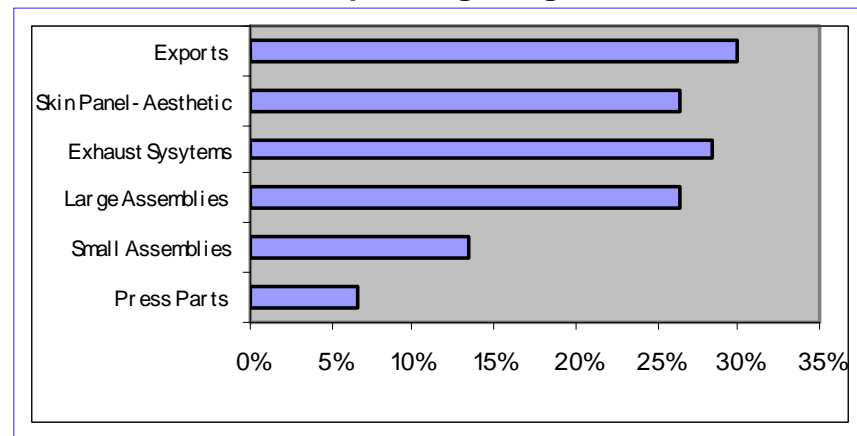
# Business Segments

**Product Mix 2006 – 2007E**

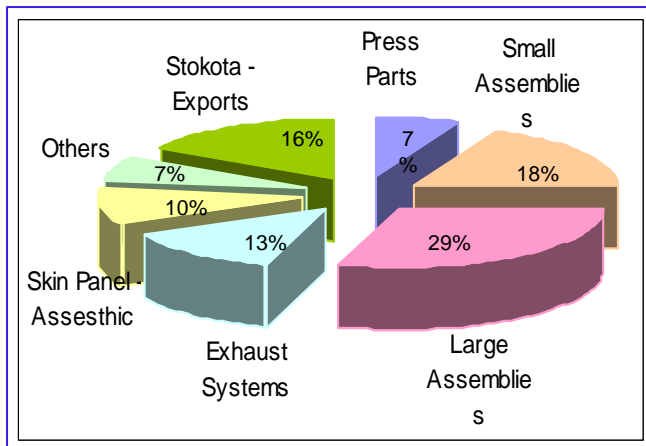


Source: Company, Tower Research

**Operating Margins**



**Product Mix 2007 – 2008E**



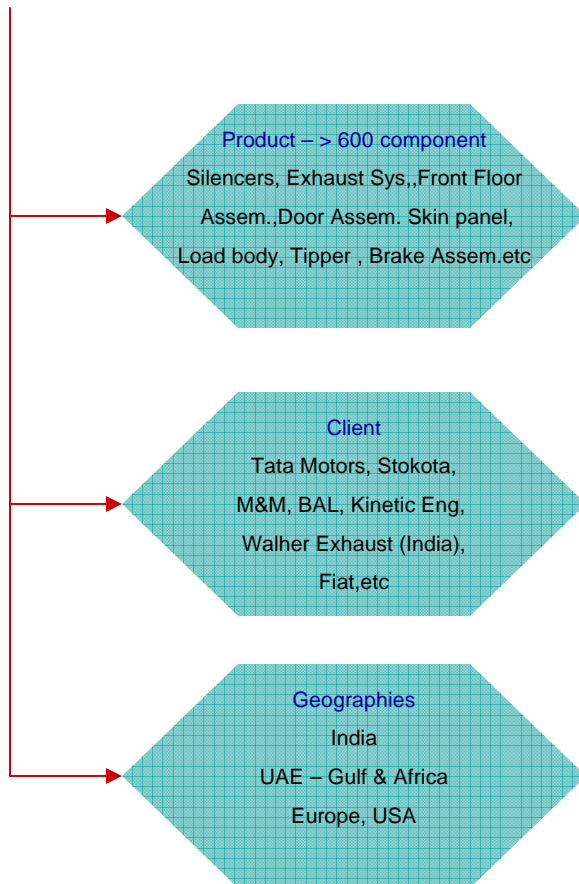
Source: Company, Tower Research

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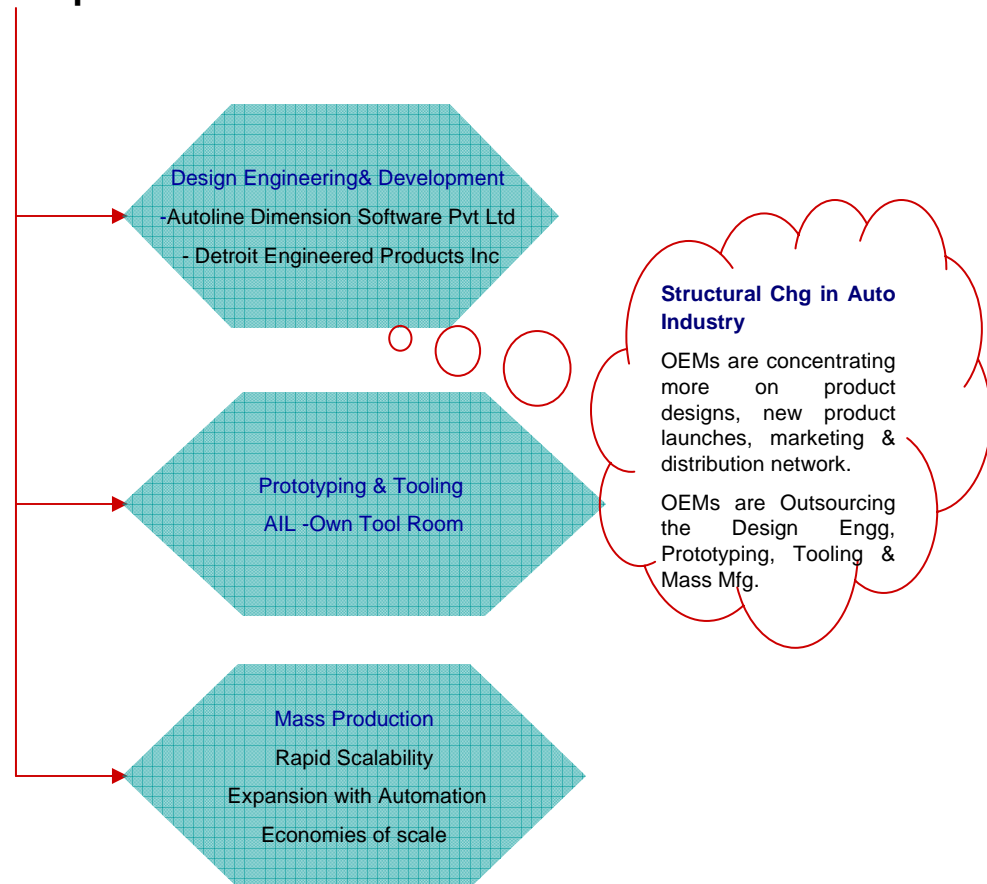
- AIL Product Mix has improved by moving from simple sheet metal to complex assemblies, tubular products, skin panels and exports.
- Company's margins have increased sharply from 3% in 2005 to 6% in 2006 due to improve product mix. Going forward we expect the margins to further improve.

# Business Strategies

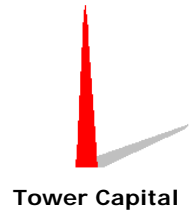
## Diversification



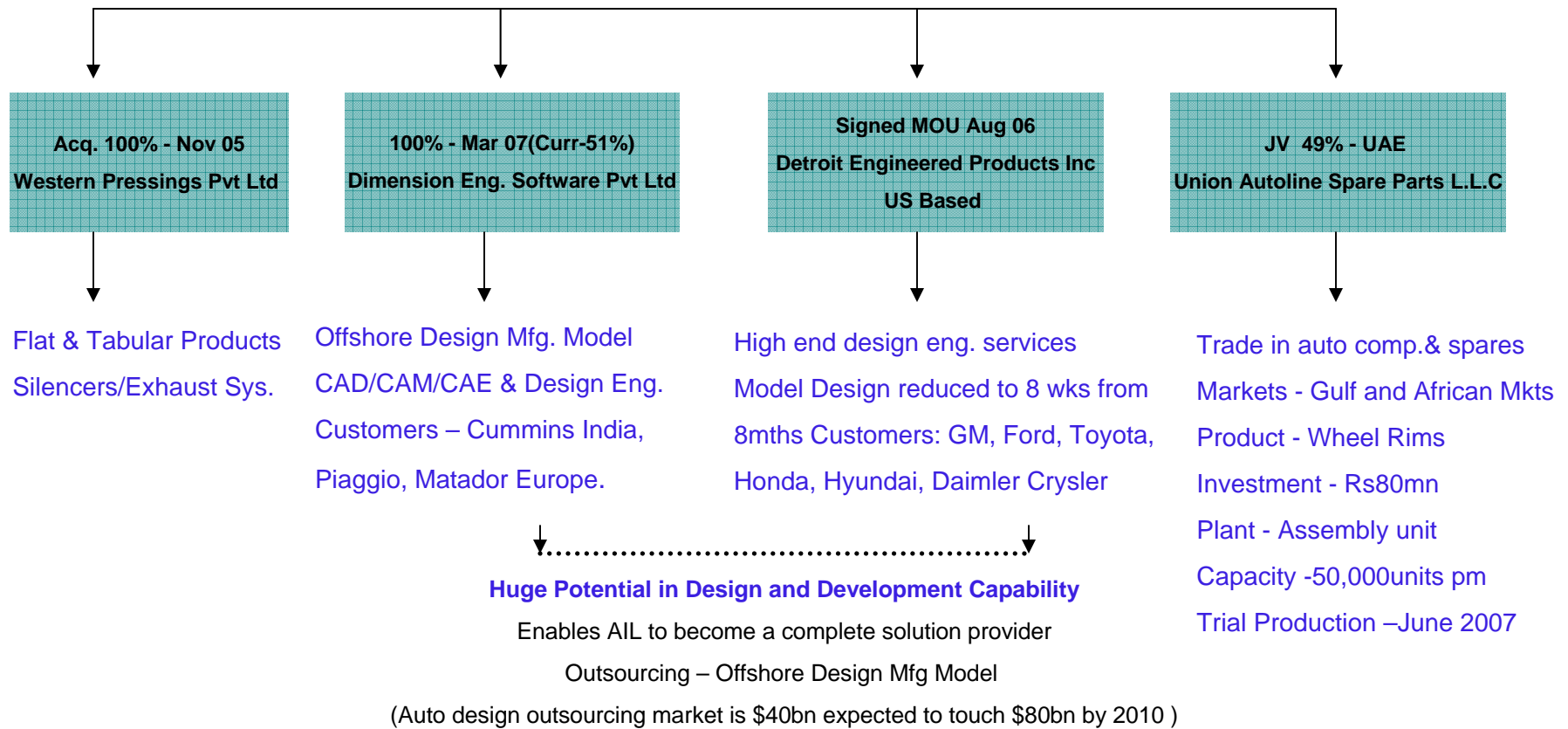
## Complete Solution Provider



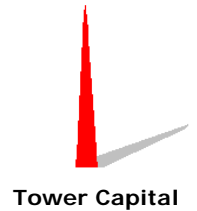
# Strategic Moves - Driving Growth



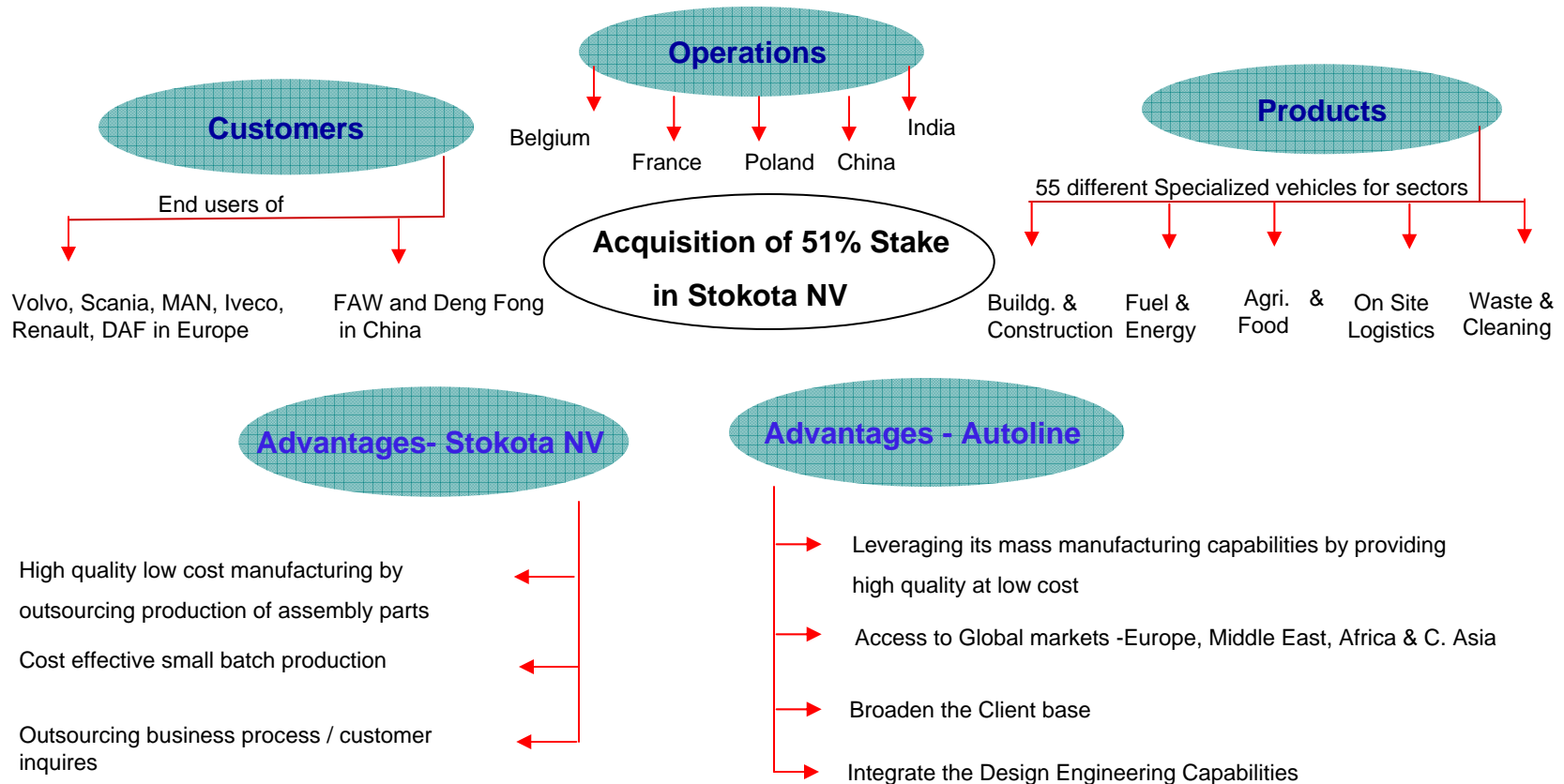
## AUTOLINE INDUSTRIES LTD



# Stepping Ahead With Globalization



**Stokota NV, Belgium** – Has partnerships in over 16 European Union and over the last 40 years has established its brand worldwide as a leader in providing "Complete Road Transportation Solutions".



# Outlay - 51% Stake In Stokota NV Contd.



Acquisition of 51% Stake – Outflow 668mn

Mode of Payment : Cash 480mn.

Equity 188mn

## Stokota Global

Particulars (Rs. Mn.)	FY07(E)	FY08(E)
Revenue	4,003.9	4,899.4
EBIDTA	188.6	392.5
PAT	42.1	210.6
EV/EBIDTA (X)	6.9	3.3

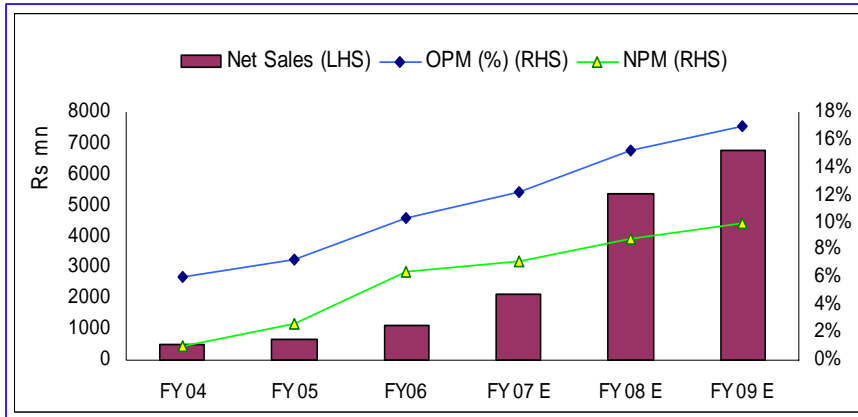
## Synergistic Operational Advantage for Autoline

Particulars (Rs. Mn.)	FY08(E)	FY09(E)
Reve. from Exports to Stokota Global	846.6	1,269.9
EBIDTA	257.5	481.0
Acqui. Price/EBIDTA (X)	2.6	1.4

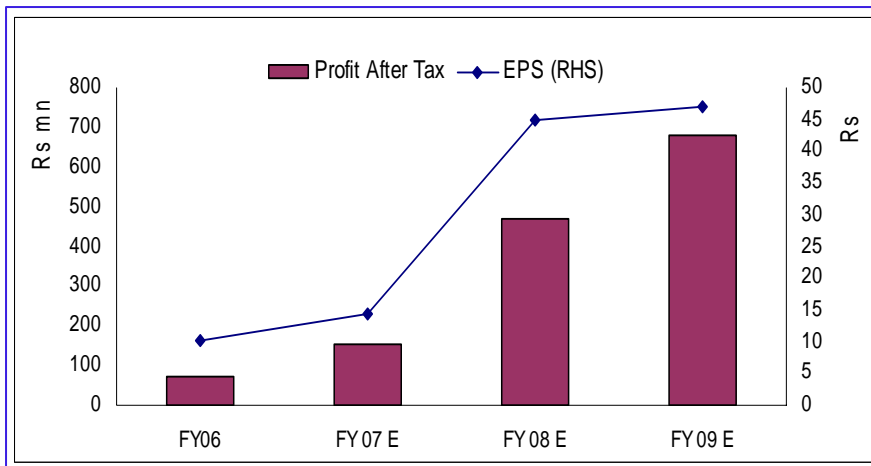
## Overall Acquisition Valuation

Particulars	FY07(E)	FY08(E)
Overall EBIDTA	96.2	457.7
Acqui. Price/EBIDTA	6.9	1.5

# Earnings Outlook



Source: Company, Tower Research



Source: Company, Tower Research

## Strong Revenue Growth Going Forward

- Art to Part Manufacturer
- Diversification

We expect the net revenue to grow by 155% and 26% in FY 08E and FY 09E respectively, driven by volume growth due to capacity expansion and better realization as the company is moving up the value chain. We expect that Tata Motors will continue to contribute significantly to the revenue as AIL has turned as preferred supplier to TML for the sheet metal business.

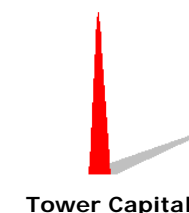
## Bottom Line

Bottom line to jump in the coming years due to robust revenue growth and improved margins. We expect net profit to grow by 210% and 45% to Rs469.8mn and Rs678.8mn in FY08E and FY09E respectively.

## High Asset Turnover Ratio – Low Payback Period

We expect that the company can achieve a turnover of Rs7500mn with its current expansion. Asset / turnover ratio for the company at full capacity is around 4-5 times. However, we expect the company to achieve asset turnover ratio of 2 and 3.2 times for 2008 and 2009 respectively .... leaving huge untapped potential.

# Valuations



Rapid economic growth, increase in personal disposable income, growth in rural economy, increasing higher old age vehicles in population, enhancing penetration, increasing distribution reach, increasing competition (new models), easy financing and a greater headway in the export market, will keep the **Automobile Industry demand upbeat** on which the Auto component players depend highly.

**Structural changes** in the Automobile industry will benefit AIL maximum. Automobile manufacturers are moving from integrated organizational concept, which includes integrated manufacturing and marketing activities, to a reverse direction of desegregation where more and more activities are outsourced to vendors.

## PE & DCF Model

**AIL will have strong earnings growth potential given the business and company specific advantages. We see a fair value of Rs. 451 on the basis of DCF valuation (Terminal value of 2.5 and WACC of 14%) at a PE Multiple of 10.0X 2008E and 9.6X 2009E on a Standalone basis .**

AT CMP 225	2008E	2009E
PER (X)	5.0	4.8
EV / EBIDTA (X)	3.2	2.0

Sensitivity Analysis of DCF

WACC	Terminal Growth Rate				
	1.5	2.0	2.5	3.0	3.5
12.0	518	538	561	586	614
13.0	466	482	500	520	542
14.0	423	436	451	467	484
15.0	386	397	409	422	436
16.0	354	364	374	384	396

# Investment Risks



- ❑ AIL is highly dependent on Tata Motors (TML).
  - ✓ Any slowdown in the business growth of TML could adversely affect the earnings of the Company.
  - ✓ Any change in companies purchasing policy could adversely affect the operations of AIL.
  - ✓ Price reduction by TML is possible in order to remain competitive which may put pressure on profitability.
- ❑ Increase in price of steel and other inputs could hamper company's profitability
- ❑ Since the company is promoted by First Generation Promoters there may be risk of execution.

# Financials



## Income Statement (Rs in mn)

Particulars	2005	2006	2007 E	2008 E	2009 E
<b>Sales</b>	<b>684.8</b>	<b>1113.3</b>	<b>2100.0</b>	<b>5356.6</b>	<b>6769.9</b>
- AIL	684.8	1113.3	2100.0	4500.0	5400.0
- Stokota				856.6	1369.9
<b>EBIDTA</b>	<b>49.2</b>	<b>115.2</b>	<b>256.3</b>	<b>813.4</b>	<b>1148.0</b>
- AIL	49.2	115.2	256.3	555.9	667.1
- Stokota				257.5	480.9
<b>EBIDTA Margin</b>	<b>7.2%</b>	<b>10.4%</b>	<b>12.2%</b>	<b>15.2%</b>	<b>17.0%</b>
- AIL	7.2%	10.4%	12.2%	12.4%	12.4%
- Stokota				30.1%	35.1%
Other Income	1.1	1.0	0.1	0.1	0.1
Interest	16.2	17.6	32.7	32.7	32.7
Depreciation	14.7	21.1	39.0	67.0	87.0
W/off	0.0	0.3	10.3	10.3	10.3
<b>PBT</b>	<b>19.4</b>	<b>77.2</b>	<b>174.5</b>	<b>703.5</b>	<b>1018.1</b>
% Net Sales	2.8%	6.9%	8.3%	13.1%	15.0%
Tax	1.6	6.5	23.4	234.5	339.3
<b>PAT</b>	<b>17.8</b>	<b>70.7</b>	<b>151.1</b>	<b>469.1</b>	<b>678.8</b>
% Net Sales	2.6%	6.4%	7.2%	8.8%	10.0%
Equity Capital	60.1	69.5	104.2	104.2	144.2
<b>EPS</b>	<b>3.0</b>	<b>10.2</b>	<b>14.5</b>	<b>45.0</b>	<b>47.1</b>

Source: Company, Tower Research

## Balance Sheet (Rs in mn)

Particulars	2005	2006	2007 E	2008 E	2009 E
Share Capital	60.1	69.5	104.2	104.2	144.2
Share Application Money	11.6	11.6	0.0	551.5	0.0
Reserve and Surplus	20.5	134.8	992.4	1367.6	3470.6
Net Worth	92.3	215.8	1096.5	2023.3	3614.8
Loan Funds	299.3	424.4	300.0	360.0	360.0
<b>Total Liabilities</b>	<b>391.6</b>	<b>640.2</b>	<b>1396.5</b>	<b>2383.3</b>	<b>3974.8</b>
Fixed Asset	309.1	527.3	914.4	1247.4	1560.4
Investments	6.2	26.5	61.5	769.5	769.5
Working Capital	75.9	85.7	380.3	336.0	1624.5
Miscellaneous	1.0	0.7	40.3	30.3	20.3
<b>Total Assets</b>	<b>392.1</b>	<b>640.2</b>	<b>1396.5</b>	<b>2383.3</b>	<b>3974.8</b>

Source: Company, Tower Research

### NOTE

Company has announced up to 4mn optional fully convertible warrants convertible at a Price of Rs400 within 18mths. Same will be approved in the EGM on 23<sup>rd</sup> Mar, 2007. Hence, the Equity Capital will increase from 103.7mn to 143.7mn by 2009 & the same has been appropriately considered for projections.

## Cash Flow (Rs in mn)

Particulars	2005	2006	2007E	2008E	2009E
<b>PAT</b>	17.8	70.7	151.1	469.1	678.8
Add: depreciation/W/off	15.0	21.4	49.3	77.3	97.3
Cash flow from operations	32.8	92.1	200.4	546.4	776.1
Change in working capital	-14.9	-10.9	-40.5	-94.6	-23.1
Extra-ordinary items	0.0	0.0	0.0	0.0	0.0
<b>Net cash from operations</b>	<b>17.9</b>	<b>81.3</b>	<b>159.8</b>	<b>451.8</b>	<b>753.0</b>
Capital expenditure	-109.3	-240.2	-426.1	-400.0	-400.0
Inc/ Dec in Investments	0.0	-20.3	-15.0	-708.0	0.0
<b>Net cash from investing</b>	<b>-109.3</b>	<b>-260.5</b>	<b>-441.1</b>	<b>-1108.0</b>	<b>-400.0</b>
Increase/Decrease in debt	94	125	-124.4	60.0	0.0
Dividends	-2.3	-13.3	-29.5	-93.8	-135.8
Proceedings from equity	0.0	68.1	739.3	551.5	1048.5
Other Expenses	0.0	0.0	-50.0	0.0	0.0
<b>Net cash from financing</b>	<b>92.2</b>	<b>179.9</b>	<b>535.4</b>	<b>517.7</b>	<b>912.7</b>
<b>Net Inc./(Dec.) in Cash</b>	<b>0.8</b>	<b>0.6</b>	<b>254.1</b>	<b>-138.5</b>	<b>1265.8</b>
Opening cash balance	0.2	1.0	1.6	255.7	117.2
<b>Closing cash balance</b>	<b>1.0</b>	<b>1.6</b>	<b>255.7</b>	<b>117.2</b>	<b>1383.0</b>

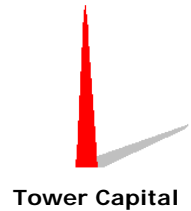
Source: Company, Tower Research

## Key Financial Ratios

Particulars	2006	2007 E	2008 E	2009 E
<b>Per Share Data</b>				
EPS	10.2	14.5	45.0	47.1
Growth yoy (%)	244.4	42.4	210.5	4.6
Cash EPS	13.3	19.2	52.5	53.8
Book Value	31.1	105.3	194.2	250.7
Dividend Per Share	1.9	2.8	9.0	9.4
Dividend Payout(%)	18.8	19.6	20.0	20.0
<b>Financial Ratios</b>				
Operating Margins (%)	10.4	12.2	15.2	17.0
PBT Margins (%)	6.9	8.3	13.1	15.0
Tax Rate (%)	8.4	13.4	33.3	33.3
Net Margin (%)	6.4	7.2	8.8	10.0
RONW (%)	32.8	13.8	23.2	18.8
ROCE (%)	14.8	14.8	30.9	26.4
Debt /Equity (X)	2.0	0.3	0.2	0.1
Turnover/GFA (X)	1.9	2.6	2.0	3.2
<b>Valuation Ratios (X)</b>				
PE	22.3	15.7	5.0	4.8
P/CEPS	17.1	11.8	4.3	4.2
P/BV	7.3	2.2	1.2	0.9
EV/EBIDTA	17.3	9.4	3.2	2.0
EV/Sales	1.8	1.1	0.5	0.3
Mcap/Sales	1.4	1.1	0.4	0.5

Source: Company, Tower Research

# Indian Equities Team



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