



THE LONG DRIVE

The Longest Yard – Yearly Report

Autoline Industries Limited

BUY

Target Price Rs.350

October 5, 2010

| | |
|--------------------|-----|
| Present Price | 238 |
| Target Price (Rs.) | 350 |
| Potential upside | 47% |

Market Data

| | |
|-------------------------|---------|
| BSE Code | 532797 |
| Sensex | 20445 |
| EPS TTM | 23.00 |
| Current PE | 10.34 |
| 52 week H/L (in Rs.) | 248/103 |
| Face Value (in Rs.) | 10 |
| Outstanding shares | 1.22 cr |
| Market cap (Rs. Cr) | 290 |

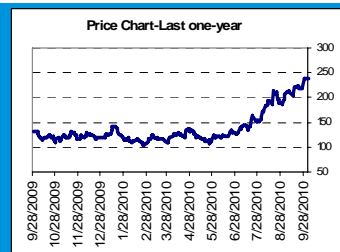
Source: Capitaline

Shareholding Pattern (%)

| | |
|------------------------|-------|
| Promoters | 26.74 |
| Institutions | 0.01 |
| Foreign Holding | 14.19 |
| Other Corp Holding | 15.62 |
| Indian Public & others | 43.45 |

Source: Capitaline

Price Chart:



Source: Capitaline

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On the back of robust demand from the Automobile sector, the Auto-Ancillary sector is expected to witness strong growth. The level of investment required in this sector over the next 10 years is to the tune of Rs.1.6 lakh crore. This provides immense opportunities for “Designing to Mass Manufacturing” companies like Autoline to register “J shaped” growth going forward

- Complete Engineering Solutions provider:** Autoline has carved out a niche for itself from being just a “Sheet Metal Company” to emerge as a complete engineering solutions provider to the OEM. This factor of emerging as a complete “one-stop-shop” for OEMs has helped the company not only cater to the requirements of local OEMs but also emerge amongst the focus list of large multi-national OEMs as well. Autoline, with its strategy over the years, is capable of providing an entire gamut of services ranging from Design, Engineering, Prototyping, Tooling and Mass Production. This leaves the OEMs with the job of only Assembling, Marketing and After- Sales Service.
- Unlocking of value from Land Bank and allotment of “Mega Project Status”:** The value of company's 51% stake in land, located in prime location at Chakan, comes to Rs.128 crore (equivalent to 44% of the present market-cap of the company). Moreover, the company has applied for “Mega project status” which should lead to cashflows to the tune of Rs.65 crore over a three-year period.
- Financials & Valuation:** The net sales and net profit of the company are expected to grow at a CAGR of 37.14% and 67.61% respectively over the next two years. Considering the strong growth prospects and embedded value in the Balance-Sheet, we expect the stock price to be Rs.350 over the next 9-12 months. This provides an upside of 47% from the present levels.

(Figures in Rs crore)

| Particulars | FY 2009 (A) | FY 2010 (A) | FY 2011 (E) | FY 2012 (E) |
|-------------------|----------------|----------------|----------------|----------------|
| Net Sales | 350.46 | 451.12 | 694.50 | 848.50 |
| Growth (%) | 2.69% | 28.72% | 53.95% | 22.17% |
| EBITDA | 28.03 | 18.73 | 88.90 | 118.96 |
| Growth (%) | -43% | -33% | 374.64% | 33.81% |
| EBITDA margin (%) | 7.20% | 11.58% | 12.80% | 14.02% |
| PAT | 4.67 | 20.60 | 36.72 | 57.57 |
| Growth (%) | -84.53% | 341.11% | 78.24% | 56.79% |
| EPS (Rs) | 3.99 | 16.89 | 30.10 | 47.19 |
| Growth (%) | -84.53% | 341.11% | 78.24% | 56.79% |
| PER (x) | 59.64 | 14.09 | 7.90 | 5.04 |

(Source: FCH Centrum Research)

Set up as a contract manufacturing entity for sheet metal components in January 1995

Global auto majors are making a beeline to garner a large portion in the small car segment

India is set to emerge among the top five vehicle producing countries in the world by 2020

Company Background

Incorporated in the year 2006, Autoline Industries Limited was set up as a partnership company by Mr. Shivaji Akhade, Mr. Sudhir Mungase and Mrs. Rema Radhakrishnan, as a contract manufacturing entity for sheet metal components, in January 1995. Subsequently, a company in the name of Autoline Stampings Private Limited was incorporated in December 1996 which took over the partnership business. Autoline Stampings Private Limited was converted into a public limited company and renamed Autoline Industries Limited in January 2006. Presently, Tata Motors is the key client for the company with close to 70% of the consolidated revenues coming from Tata Motors. Autoline operates through 11 manufacturing facilities, which manufacture more than 800 products, for various vehicle segments including passenger cars as well as commercial vehicles. The company also has four design centres located at Pune, Chennai, USA and Italy.

Industry Background

- **India emerging as an automobile hub**

It is estimated that India's vehicle sales may reach 3million units annually by 2015, helped by new models such as Tata Nano, the world's cheapest car, and rising incomes of 50 million strong middle class. Since, compact cars constitute nearly 70% of the total car sales in the country, global auto majors are making a beeline to garner a large portion in this segment. US auto majors, General Motors has already expanded its portfolio of small cars with Chevrolet Beat, Ford India's Figo and Volkswagen Polo. Even Toyota Kirloskar Motors, Honda SIEL Cars India and Fiat India are developing India specific small cars which are expected to hit the markets in 2012.

With the country on its way to be among the top five vehicle producing countries in the world by 2020, the auto component industry is expected to grow almost five-fold to over USD10 billion from its current level of USD26 billion. Increasing cost pressure is driving OEMs towards low cost country sourcing. In order to remain competitive, among other things, Indian component manufacturers will have to move up the value chain.

As per Automobile Component Manufacturer's Association (ACMA), the Indian auto component industry can potentially grow to over USD110billion, by the year 2020, driven in tandem with the surge in vehicle production in the country. Of this, the domestic turnover can grow to USD800 billion and exports can scale up to another USD29 billion. The auto component industry can thus be an engine for India's economic and manufacturing sector growth, potentially contributing 3.6% of GDP by 2020, up from the current 2.1%. To achieve this potential the auto component industry would require investments of over 1.6 lakh crore during this period.

As per the Automotive Mission Plan 2006-2016, of Ministry of Heavy Industries & Public Enterprises, Government of India, the "vision is to emerge as the destination of choice in the world for design and manufacture of automobiles and auto components with output reaching a level of USD145 billion accounting for more than 10% of the GDP and providing additional employment to 25 million people by 2016."

In addition, the country is emerging as a design hub for major global OEMs to outsource their design and development work:

- The country offers more than 20% cost reduction to any client and hence, it is economical for global OEMs to outsource the same from India
 - A typical CAD project in the USA will cost about USD60 per man hour as against about USD25 per man hour here
 - India is known world over for its expertise in IT, and has a long history in manufacturing with strong domestic market
 - Focus on common platforms and interchangeable modules – leading to a faster & lower cost
 - Passing the responsibility of developing, manufacturing and assembling important sections of the car on to their vendors
-
- **Industry specific growth plans**

With regard to the cost structure, the contribution of Mechanical Systems, which include Castings, Forgings, Sheet Metal and Composites, form between 40%-60% of the selling price of the automobile. Autoline is strategically placed to cater to these requirements of the industry. Many large global players are setting up base in India and are moving towards indigenization of components to reduce cost.

As per the latest industry trends, design and engineering capabilities would gain importance as fuel efficiency (for the consumer) and cost reduction (for the OEM) would be the major focus area.

With the current capacity utilization at more than 80 per cent, the combined capex of automobile companies (including the non-listed ones like Honda, Ford, Toyota) over the next couple of years is expected to be close to Rs.24000 crore, which will increase the capacity by almost 25 per cent from its current level.

The PV segment has grown at a CAGR of 13.71% over the FY04-FY10 period while the CV segment grew at a CAGR of 12.64% over the same period.

We expect the strong growth in industry trends to continue going forward also on the

basis of expansion plans announced by various Passenger Vehicle and Commercial Vehicle players as highlighted below in a tabular form.

(Installed capacity in lakh units per annum)

| Particulars | FY 2010 | FY 2012(E) | % Change | Remarks |
|--------------------------------------|---------|------------|----------|--|
| Maruti Suzuki India | 12 | 17 | 42 | Strategy to maintain market share |
| Hyundai Motors | 6 | 6.7 | 15 | Aim to have a market share of 22% from the present 20% levels |
| Tata Motors | 3 | 6 | 100 | In addition to the existing models, new launches like Tata Manza would be contributing significantly going forward |
| General Motors | 2.25 | 2.40 | 7 | Capex of Rs.1100+ crore at Halol, Gujarat |
| Ford India | 2 | 2.50 | 25 | Aiming to become a major player in the Indian car market by 2015, Already ramped up the workforce by 33% during the current year |
| Toyota Kirloskar Motors Pvt. Limited | 0.75 | 2 | 167 | Expanding Bangalore plant capacity to 2 lac units, coupled with launch of small car, "Etios" |
| Volkswagen | 1.1 | - | - | Set up a facility at Chakan at an investment of Rs.3500 crore |

(Source: Media, FCH Centrum Research)

(Installed capacity in lakh units per annum)

| Particulars | FY 2010 | Remarks |
|-------------------|---------|---|
| Tata Motors | 6 | Long term plan to outsource components for JLR from the Indian facilities |
| Ashok Leyland | 1.5 | Recently commenced facility at Uttarakhand |
| Mahindra Navistar | 0.5 | New entrant in this segment |

(Source: Media, FCH Centrum Research)

The expansion plans, coupled with regard to high level of indigenization, augurs well for auto-ancillary companies, including Autoline Industries. With regard to MNC players, the extent of localization is gathering pace. Earlier, Volkswagen had localization to the extent

of 50 per cent but the long term plan is to have localisation to the extent of 80 per cent.

Affordability would be an important factor in determining the domestic demand for automobiles. In addition to the low level of penetration of eight cars per thousand and the rising per capita income (roughly at 12 per cent) will act as a long term growth driver. India is emerging as the 'hub for small cars' and this will certainly help the companies to post better numbers going forward.

Key Investment Arguments

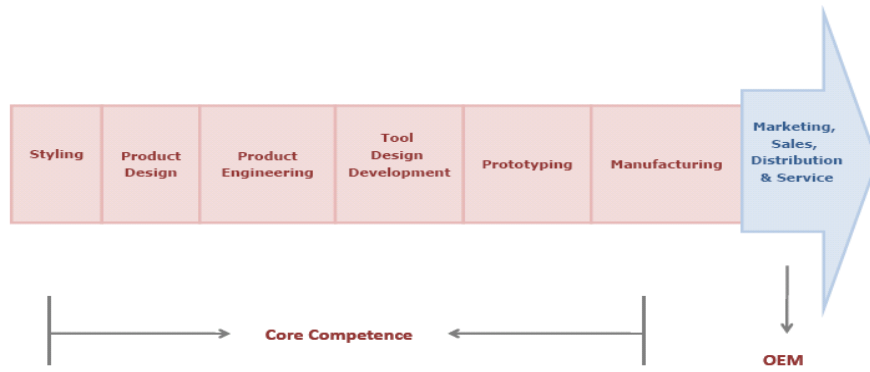
Complete "Engineering Solutions provider" rather than just a Sheet Metal company

Autoline has carved a niche for itself from being just a "Sheet Metal Company" to emerge as a complete engineering solutions provider to the OEM

Autoline has carved a niche for itself from being just a "Sheet Metal Company" to emerge as a complete engineering solutions provider to the OEM. This factor of emerging as a complete "one-stop-shop" for OEMs has helped the company to not only cater to the requirements of local OEMs but also emerge amongst the focus list of large multi-national OEMs as well. Autoline, with its strategy over the years, is capable of providing an entire gamut of services ranging from Design, Engineering, Prototyping, Tooling and Mass Production. This leaves the OEMs with the job of only Assembling, Marketing and After-Sales Service.

The company has structurally evolved itself very well to cater to the changing as well as rising demand of the automobile sector. The automobile industry has witnessed a structural shift in the cost structure over the last few years. Earlier, the concept for OEMs was to procure the components, assemble them and fix the selling price after adding the required profit margin. However, with the entry of a number of multi-national players, this approach has undergone a change wherein the selling price is kept competitive in the light of heightened competition. OEMs can generate the desired level of profits only by keeping a strict control on the cost-structure.

As described in the diagram below, Autoline has augmented its position as niche player across the value chain right from designing to product development and mass manufacturing.



(Source: Company, FCH Centrum Research)

A brief description of the product range of the company with plant locations has been given below in a tabular form:

| Segment | Product Range | Location |
|---|---|--|
| Medium & Large Assembly | Complete Floor, Roof and Door Panel Sub Assemblies, Driver Cabins, Load Bodies and Banjo beam Assemblies, Exhaust Systems and Tubular Assemblies, Sheet Metal Stampings | Pune & Uttarakhand |
| Mechanical Assembly | Pedal Control Systems, Jack Assemblies, Hinges, Strikers and Checkers, Parking Brake Levers, Spare Tyre Winches, among others | Pune, Uttarakhand, Indiana (USA) and South Korea |
| Concept, Styling, Design, Analysis, Application Software services | Automotive Engineering Services for Concept, Styling, Product Design & Development | Milan(Italy), Detroit, Michigan, Troy(USA) and Pune, India |

(Source: Company, FCH Centrum Research)

Strong focus on Research, Development, Design and Engineering

The company has laid special emphasis on the Research & Development aspect. Today, more than 800 products from Autoline fit into a range of SUVs, LCVs, HCVs and passenger cars and are supplied mostly as single source to Tata Motors and other OEMs. The company is recognized as 0.5 Tier Supplier due to its Design – Engineering capability. This strategy of the company has helped it to scale up business not only with a single provider but is likely to open multiple opportunities going forward also. For example, in case of Tata Motor’s one-tonne truck, Ace, the company on the back of strong design engineering skills helped Tata Motors reduce the weight, by 20 kilograms

Recognized as 0.5 Tier Supplier due to its Design – Engineering capability

Bagged an opportunity to work on 14 different projects (all awarded by Tata Motors) to reduce the cost inspite of keeping the durability intact

kilograms, to 80 kilograms without impacting the strength and durability.

On the back of this cost saving exercise, the company not only received one-time fee of Rs.4 crore but also bagged an opportunity to work on 14 different projects (all awarded by Tata Motors) to reduce the cost inspite of keeping the durability intact.

On the basis of strong focus on technology, the company has developed a number of products in-house. A list of products for which the company has filed for patents has been given below in a tabular form:

| Sr. No. | Products |
|---------|----------------------------|
| 1 | <i>Autoline Quick Jack</i> |
| 2 | <i>Load Body Extender</i> |
| 3 | <i>Spare Tyre Carrier</i> |
| 4 | <i>Roto Crank</i> |

(Source: Company, FCH Centrum Research)

The company is a recipient of various prestigious awards and accolades from Indian as well as MNC OEMs which is a testimony of the company's engineering and technological skills. The company has been recognized not only in India but also on a global canvass for its product range. The awards and accolades received by the company, mentioned below, is a testimony of the fact.

| Year | OEM | Award/Accolade/Recognition |
|-----------------------|-----------------------|---|
| <i>February 2010</i> | <i>Tata Motors</i> | <i>Best Performance award for "Excellence in Quality" in Sheet Metal Business at National Vendor Meet</i> |
| <i>March 2010</i> | <i>General Motors</i> | <i>Supplier of the year Award – 2009 at Michigan USA</i> |
| <i>September 2010</i> | <i>Cummins, USA</i> | <i>Best Performance in Sheet Metal Category</i> |

(Source: Company, FCH Centrum Wealth Managers Limited)

The company is continuously in the process of scaling up the value-chain process and is closely working with a Bangalore-based firm, Cooper Corporation to launch an electric bike, wherein, right from concept to design would be done by Autoline Corporation, leaving the balance, marketing and after-sales service for the company. This again signifies the inherent potential and skills of the company which differentiates itself from other "only sheet metal" companies.

To summarize, in a short span, the company, due to excellent quality of work, cost competitiveness, timely deliveries and state-of-the art Tool Room with latest CAD/CAM facilities, has become a prime vendor to all the reputed Auto Manufacturers in and around Pune.

The company is the sole-supplier of Foot Control Modules to General Motors and is working closely with Volkswagen for supply of components

Revenue diversification strategy going forward

At present, Autoline derives close to 70% of its revenues from Tata Motors. The balance is contributed by OEM players like Bajaj Auto, Mahindra & Mahindra and MNCs like General Motors and Volkswagen. The initial response from these new players is quite encouraging and the company management is hopeful of becoming a preferred supplier to these players also. As a result, the contribution from Tata Motors is expected to come down significantly, between 40-50 per cent, over the next two years. This will allow the company to have a diversified client-base rather than focusing on a single company. The company is the sole-supplier of Foot Control Modules to General Motors and is working closely with Volkswagen for supply of components. It is expected that Volkswagen would start procuring components from the company's plants by Q4FY'11, the full benefits of which would be reflected from FY'12 onwards.

Strategically located to cater to the requirements of OEMs

The company's units are strategically located in the automobile hub of Pune to cater to the requirements of OEMs like Bajaj Auto, Mahindra & Mahindra and MNCs like General Motors and Volkswagen, among others. (In fact, the plant located at Bhosari shares a common wall with Tata Motors.) Autoline is already catering to the requirements of these companies. The strategic location of the company's units would be helpful in efficiently managing the logistics with the vendor.

| Company | Land area in which the plant is set up/would be set up |
|--|--|
| <i>Bajaj Auto Limited</i> | <i>400 acres</i> |
| <i>Mahindra & Mahindra Limited</i> | <i>750 acres</i> |
| <i>Volkswagen Limited</i> | <i>500 acres</i> |
| <i>General Motors Limited</i> | <i>300 acres</i> |
| <i>Mercedes Benz Limited</i> | <i>150 acres</i> |
| <i>Hyundai Motors Limited</i> | <i>100 acres</i> |

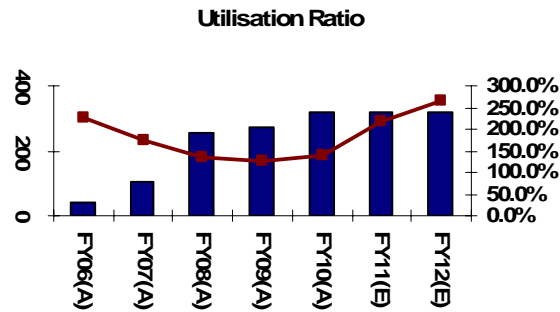
(Source: Company, FCH Centrum Research)

Strong improvement in EBITDA margins expected going forward

Autoline's concept of having an integrated business model not only helps the company to emerge as a preferred supplier but also leads to relatively higher EBITDA margins. Autoline is expected to post an improvement in EBITDA margins, on the back of an improvement in automobile sales, leading to better utilization of all its capacities. The company has expanded its gross block at a CAGR of 45.62% over the FY'07-FY'10 period. In fact, the company management expanded the gross block at a CAGR of the

14.82% during FY'08-FY'10 period. At present, the gross block is not being utilized, leaving further scope for better utilization ratios.

A brief description of the capacity utilization ratios has been given below. The maintenance capex of the company is in the range of Rs.10-15 crore per annum for replacement of dies, tools and balancing equipment. As can be seen from the graph, the company can increase its net sales at a CAGR of 37% over the next two years with the existing installed capacities. The company management plans to deploy the proceeds received from the "Mega project Status" in expanding the capacities going forward.

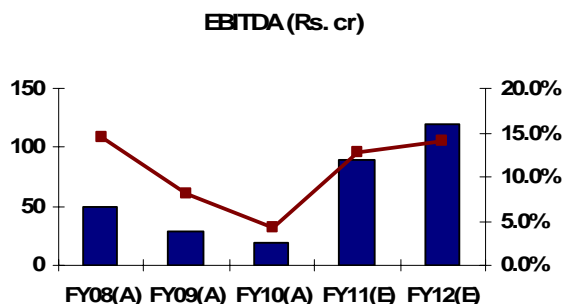


(Source: Company, FCH Centrum Wealth Managers)

Raw material, which mainly consists of various grades of steel, constitutes around 70% of the cost. Tata Motors, a key client of the company, on behalf of Autoline negotiates the prices of steel with the suppliers on quarterly basis. With regard to the conversion cost, Tata Motors has given a 3% increase in price with effect from February 2010. According to the "steel price index", the finished products are priced. These initiatives should help the company scale up the margins to its pre-crisis period by FY'12. This can be substantiated from the latest Q1FY'11 results, in which the EBITDA margins have more than doubled to 12.53% on a year-on-year basis. We expect the margins to inch up to 14%+ levels, posted in FY'07 and FY'08, on the back of improved orders from diversified customers which will lead to effective utilization of facilities. With more focus on design and engineering capabilities, the EBITDA margin of the company is expected to increase going forward.

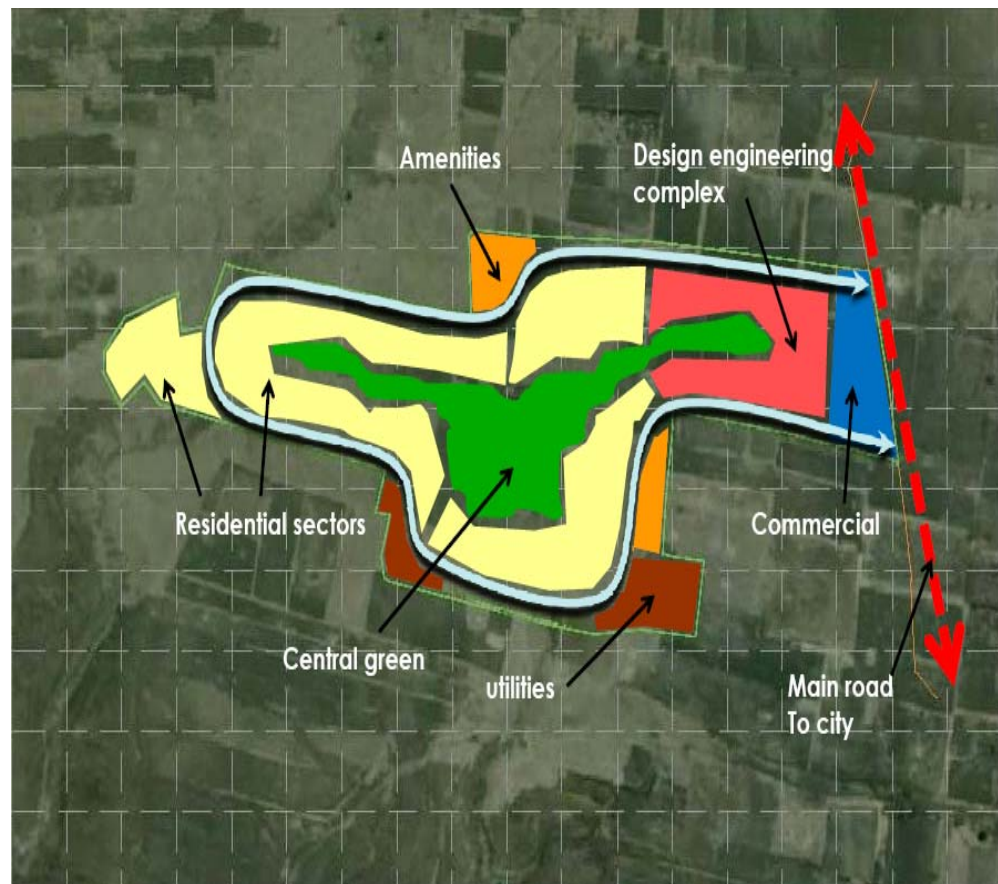
Tata Motors has given a 3% increase in price with effect from February 2010

We expect the margins to inch up to 14%+ levels



Unlocking of the real estate value

In the year 2008, the company acquired land in Chakan through its 100% subsidiary, Autoline Industrial Parks Limited. The total land bank stands at around 100 acres (75 acres in possession) in which Autoline Industrial Parks Limited holds 51% while the balance is held by Sharjah Cement & Industrial Development Company. At the time of acquisition, the company had plans to develop the same for industrial purpose. However, the prime location of the land in the automobile hub would help fetch atleast twice the value if developed for residential purpose rather than industrial purpose, as envisaged earlier. In fact, the company has cleared all the required formalities for the conversion of the 100 acre land bank to be developed for residential purpose. A snapshot of the land at Chakan, along with future plan, has been given below.



(Source: Company)

The value of the company's share in the JV has been given below in a tabular form.

| Company | Particulars |
|--------------------------------|-------------------|
| Total size of the land | 100 acres |
| Present market value per acre | Rs.2.25-2.5 crore |
| Total Market Value | Rs.225-250 crore |
| Autoline's share in the JV@51% | Rs. 128 crore |

(Source: Company, FCH Centrum Research)

The aforesaid figure of Rs.128 crore is sufficient for the company to repay almost the entire long-term debt of Rs.135 crore as on date.

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However, the company plans to monetize the land in a much better way by involving a reputed developer and earn a yearly return over the next few years rather than liquidating the same and generating one-time income. The company is exploring the opportunity to generate an annuity income of close to Rs.75 crore per annum over the next five years.

"Mega project status" – An additional boost for investments

The company has applied for the "Mega Project Status" for Chakan Unit 1, Chakan Unit II and III plants located at Chakan under the Government of Maharashtra Scheme and has complied with various conditions of the Scheme. The company is awaiting the necessary approvals for the same, which is expected to be received by Q1FY'12. The status, when allotted will lead to a one-time cash flow of Rs.35 crore in the year of allotment of the status and the same amount over the next two years. The total benefit accruing to the company, post allotment of the "Mega project status," is to the tune of Rs.65 crore spread over a three year time horizon. The company has completed all the formalities with regard to the allotment of the status and is confident of the same to happen anytime in the present financial year. This benefit should lead to a gain of Rs.19 per share (post tax). However, we have not factored these gains in our projections.

The company has plans to deploy the funds so received for brownfield expansion, thereby strengthening the gross block further to cater to the rising requirements of the OEMs going forward.

The company has seen an exponential growth from a contract manufacturing firm doing job work, operating out of small premises and clocking a turnover of Rs.0.11 crore in FY'96 to a turnover of Rs.450+ crore for FY'10, registering a CAGR of 81.12%

| Year 1 | Year 2 | Year 3 | Total |
|-------------|-------------|-------------|-------------|
| Rs.35 crore | Rs.15 crore | Rs.15 crore | Rs.65 crore |

(Source: Company, FCH Centrum Research)

Impeccable track record of the management

Incorporated in the year 1996, the company is promoted by first generation entrepreneurs. Under the able leadership, the company has seen an exponential growth from a contract manufacturing firm doing job work, operating out of small premises and clocking a turnover of Rs.0.11 crore in FY'96 to a turnover of Rs.450+ crore for FY'10, registering a CAGR of 81.12%. The product profile of the company has changed phenomenally since then, from simple sheet metal products to complex assemblies at present. We believe that this expertise and experience of the management would continue to help the company to touch the Rs.850 crore mark by FY'12. The net sales of the company grew at a CAGR of 43.77% over the FY'04-10 period. The sales growth going forward during FY'10-FY'12 period could be in the range of 37.14%.

A brief description of the management team has been given below in a tabular form:

| Name of the key personnel | Description |
|---------------------------|--|
| 1. Mr. Shivaji T. Akhade | Mr. Shivaji Akhade is Co-founder, Promoter and Managing Director of the company since inception. Mr. Akhade is fully conversant with the technicalities of production and other processes as a result of his expertise in the early days of the firm. |
| 2. Mr. M. Radhakrishnan | Mr. Radhakrishnan is Co-founder and Promoter of the company. He has experience of around 30 years in the areas of strategic planning and development in IDBI and SIDBI. He is the Jt. Managing Director of the company and oversees Strategic Planning, Financial, Secretarial, Legal and HR Functions of the company. |
| 3. Mr. Sudhir Mungase | Mr. Sudhir Mungase is Co-founder, Promoter and Wholetime Director of the company since inception. He is associated with manufacturing and maintenance operations in the company since inception. He has experience in Sheet Metal and Allied operations and is responsible of overseeing the production and maintenance functions. |

(Source: Company, FCH Centrum Research)

On the back of this strong management, the company can contemplate to become an innovation driven, global leader in Design, Engineering and Manufacturing of Automotive components as envisaged in the vision of the company by:

- Expanding the manufacturing capabilities
- Catering to the needs of niche international players by customizing the designs of the products to suit different markets
- Offering Design Engineering and Tooling Capabilities
- Adhering to the highest quality standards
- Rationalising and streamlining production

Geographically well-placed

The company's units are strategically located to cater to the requirements of the OEMs. Autoline has manufacturing units located in the automobile hub of Pune, Uttarakhand and overseas. The company is geographically well-placed to cater to the requirements of its clients.

Autoline is a complete Design-Engineering-Manufacturing ancillary company of automobile components and assemblies to the leading OEMs in the automobile industry. Autoline is not only a Tier 0.5 supplier to Tata Motors but also a global supplier of Foot Control Modules to Chevrolet's Beat and that as a single source. The company's facilities are one of the most modern and technologically equipped with robots.

Acquisitions can provide further fillip to the performance

The debt-equity ratio of the company is comfortable at 0.68 as on March 31, 2010. (The company's share in the market value of the land bank can substantially reduce the long term debt.) In addition, the proceeds from the mega project status can improve the cashflows significantly over the next three years. Considering all these aspects, the company's cash position would be comfortable to pursue an acquisition, if any. A list of various acquisitions, done by the company in the past has been given below in the form of a table.

| Sr. No. | Year | Company | Segment | % Holding |
|---------|----------------|-----------------|---------------------------------|-----------|
| 1 | March 2007 | DESPL | Design Services | 100 |
| 2 | May 2007 | DEP | High End Design Engineering | 51 |
| 3 | December 2007 | Nirmiti | Pedals & Hinges | 100 |
| 4 | December 2007 | Dura Automotive | Screw Jacks & Tool Kits | 100 |
| 5 | September 2008 | Zagato, Italy | Vehicle Styling & Customisation | - |

(Source: Company, FCH Centrum Research)

Why we believe that the stock is at an inflection point...

We have done a Qualitative as well as a Quantitative analysis about the company. The observations coming out of the same has been given below in the form of a table.

| Particulars | High/Moderate/Low | Remarks |
|---|-------------------|---|
| Qualitative Analysis | | |
| <i>Focus of the Management</i> | <i>High</i> | <ul style="list-style-type: none"> Exponential growth from a contract manufacturing firm doing job work to a technology-focused company CAGR of 43.77% in net sales during FY'04-FY'10 period |
| <i>Technology/R&D/Patent related growth</i> | <i>High</i> | <ul style="list-style-type: none"> Working on 14 different projects awarded by Tata Motors Applied for four patents till date |
| <i>Criticality of the OEM</i> | <i>High</i> | <ul style="list-style-type: none"> Supplies some of the key components including assemblies, sub-assemblies Tier 0.5 Supplier to Tata Motors Sole supplier of Foot Control Modules to General Motors |
| <i>Partnership/Value Addition</i> | <i>High</i> | <i>Participates in the design-engineering processes leading to cost reduction</i> |
| <i>Level of single customer concentration</i> | <i>High</i> | <i>Derives significant percentage of revenues from single player, Tata Motors. However, going forward this contribution is expected to come down to 40-50% of the topline</i> |
| <i>Acquisition related issue</i> | <i>Moderate</i> | <i>Issues with regard to one of the subsidiaries, Zagato, Milan (Italy). However, the company's strong cashflows and embedded asset value capable of absorbing the one-time write off</i> |
| Quantitative Analysis | | |
| <i>Revenue visibility</i> | <i>High</i> | <ul style="list-style-type: none"> Domestically led business growth Strong demand from existing players Interaction with new players improving |
| <i>Operating profit Margins</i> | <i>High</i> | <ul style="list-style-type: none"> Growth trajectory on the back of buoyant revenue flows leading to higher utilization of capacities |
| <i>Consistency in performance</i> | <i>High</i> | <i>Net Sales expected to grow at a CAGR of 37.12% over the next two years</i> |
| <i>Strength in the Balance Sheet</i> | <i>High</i> | <ul style="list-style-type: none"> Comfortable debt-equity ratio Embedded value in the form of "land bank" "Mega Project Status" to improve cashflows further |
| <i>Expansion without significant capital infusion</i> | <i>High</i> | <ul style="list-style-type: none"> Present capacity sufficient to take care of demand till FY'12 Maintenance capex of Rs.10-15 crore per annum required |
| <i>Risk of any royalty payment to MNC partner</i> | <i>Low</i> | <ul style="list-style-type: none"> In-house Research & Development focus Patents in the process Strong prospects of getting orders from new players improving |
| <i>Requirement of working capital</i> | <i>High</i> | <i>Debtor days have increased continuously over the years</i> |

(Source: FCH Centrum Research)

Risks and Concerns

High dependence on the OEM Segment

The company has high dependence on the OEM segment. The company does not cater to the replacement market. Any slowdown in the OEM segment for unforeseen reasons would be detrimental for the company's performance.

Pressure on the margins

The company caters to the institutional demand of the automobile segment. It is difficult to pass on any significant increase in costs to this segment. At present, the company derives a significant portion of its revenues from Tata Motors and has a raw-material index mechanism in place. However, any significant increase in conversion cost, if not passed on the end-users, can impact the operating margins negatively.

Subdued performance in case of subsidiary, Zagato (Italy)

The company had acquired stake in Zagato, Italy and had paid Euro3 million as a part of consideration. However, the performance of this subsidiary has not been upto the mark. There are chances that the company may have to write off the aforesaid amount as a one-time loss.

We believe that the company's investment of Rs.16.5 crore, through its 100% subsidiary, Autoline Industrial Parks, itself has a market value of Rs.128 crore over a span of less than three years. Secondly, the company can expect cashflows to the tune of Rs.65 crore over a three year period on being recognized as a "Mega Project". The first year receipt of the aforesaid amount itself should be capable of taking care of the one-time write-off on account of Zagato(Italy).

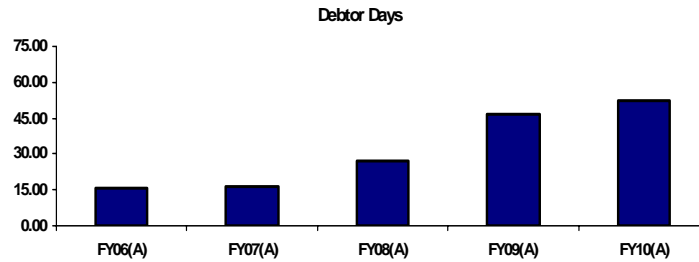
Acquisition, if any, to be pursued at the right valuations

The debt-equity ratio of Autoline is comfortable at 0.68. The company is contemplating to pursue an acquisition, if it is a strategic fit. However, acquiring any company at the right price would be an area which the shareholders will need to look at. An acquisition accomplished by leveraging the balance-sheet beyond an extent, at expensive valuations, just for the sake of improving the topline, (may not be taken by the markets positively).

Increase in number of debtor days

The debtor days of the company has been rising continuously over the past few years. We believe that the diversification of revenues and lesser reliance on a single customer would improve the situation going forward. The average debtor days have been given below in the form a graph.

The company's investment of Rs.16.5 crore itself has a market value of Rs.128 crore over a span of less than three years

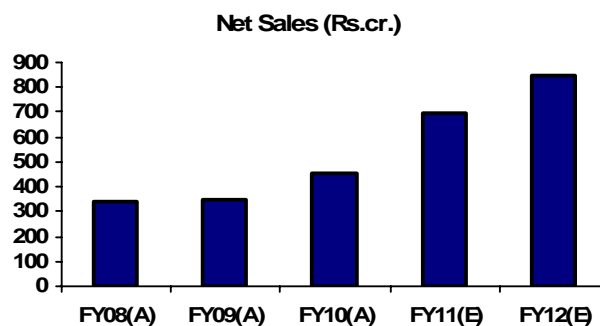


Financials & Valuation

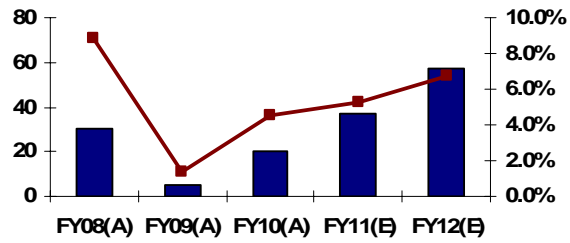
The company registered a 28.72% growth in net sales at Rs.451.12 crore in FY10 against Rs.350.46 crore in FY09. The net profit during the same period jumped 341.11% to Rs.20.60 crore from Rs4.67 crore. This was mainly attributable to an increase in EBITDA margins to 11.58% in FY'10 from 7.20% during the previous year.

Continuing with its strong uptrend, the company posted a 57.51% jump in net sales to Rs.145.81crore in Q1FY11 compared to Rs.92.57 crore in Q1FY10. EBITDA margins during the same period more than doubled to 12.5% y-o-y. Net profit during Q1FY11 rose 269.31% to Rs.10.23 crore compared to Rs.2.77 crore in Q1FY10.

Net sales are expected to rise 53.95% y-o-y to Rs.694.5 crore in FY'11. EBITDA margin is expected to improve to 12.80% from 11.58% in FY'10. Net profit is expected to be around Rs.36.72crore, an increase of 78.24% y-o-y. This translates into an EPS of Rs.30.10. On account of orders from OEMs, including Volkswagen, we expect the company to clock net sales of Rs.848.5 crore in FY12, an increase of 22.17%. For FY'12, we expect the company to post a net profit of Rs.57.57 crore, an increase of 56.79% y-o-y. On a small equity of Rs.12.2 crore, FY12E EPS is expected to be Rs.47.19.



PAT (Rs. cr)



Valued at ~5x FY'12E earnings

At the present price of Rs.238, the stock trades at 7.90x FY11E earnings and 5.04x FY12E earnings. Considering the strong growth momentum, embedded value in the Balance-sheet in the form of land bank, cashflows accruing from the "Mega Project Status", we expect the stock to reach Rs.350 over the next 9-12 months.

Valuations

| Particulars | FY08 (A) | FY09 (A) | FY10 (A) | FY11(E) | FY12(E) |
|---------------------|----------|----------|----------|---------|---------|
| Net Sales | 341.28 | 350.46 | 451.12 | 694.50 | 848.50 |
| Total Expenditure | 293.36 | 325.23 | 398.89 | 605.60 | 729.54 |
| PBIDT | 49.12 | 28.03 | 54.31 | 88.89 | 118.95 |
| Interest | 5.02 | 8.03 | 10.82 | 20.50 | 22.50 |
| PBDT | 44.10 | 20.00 | 43.49 | 68.39 | 96.45 |
| Depreciation | 5.33 | 11.11 | 16.83 | 22.50 | 24.50 |
| Tax | 7.10 | 2.27 | 4.96 | 9.17 | 14.39 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Adjusted PAT | 30.18 | 4.67 | 20.6 | 36.72 | 57.57 |
| Equity | 12.20 | 12.20 | 12.20 | 12.20 | 12.20 |
| Face Value (in Rs.) | 10 | 10 | 10 | 10 | 10 |
| EPS (in Rs.) | 27.58 | 3.99 | 16.89 | 30.10 | 47.19 |
| EBITDA margin (%) | 14.04% | 7.20% | 11.58% | 12.80% | 14.02% |
| PAT margin (%) | 8.84% | 1.33% | 4.57% | 5.29% | 6.78% |

Figures in Rs. cr

Quarterly Results

| Particulars | Q1FY11 | Q1FY10 | Var (%) |
|-------------------|--------|--------|---------|
| Equity | 12.20 | 12.20 | |
| Face value | 10 | 10 | |
| Net Sales | 145.81 | 92.57 | 57.51 |
| EBITDA | 18.27 | 7.55 | 141.98 |
| PAT | 10.23 | 2.77 | 269.31 |
| EPS (in Rs.) | 8.38 | 2.27 | 269.31 |
| EBITDA margin (%) | 12.53 | 8.15 | |
| PAT margin (%) | 7.01 | 2.99 | |

Figures in Rs. cr

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