AUTOLINE INDUSTRIES LIMITED

Rating : Buy

Target Price : ₹163

Upside : 35%

Time Frame: 12-15 month

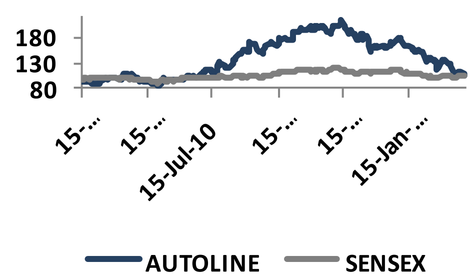
CMP : ₹121 (as on 15/03/11)

Key Share Data	
NSE Symbol	AUTOIND
BSE Code/Group	532797/B
Bloomberg Code	AUTOLIN
Reuters Code	AUIN.BO
Equity Capital (₹ Cr)	12.2
Face value	₹ 10
Market Cap. (₹ Cr)	147.62
52W H/L (SENSEX)	280/103
Avg. Daily Volume	88038
Sector	Auto Anc.
Sensex	18167.64
Nifty	5449.65

Share Holding Pattern	
Promoter	28.12%
FII	3.11%
DII	1.20%
Public & Others	67.57%

Stock Returns in (%)

	1Mth	3Mth	6Mth
AIL	-27.26	-39.84	-41.89
NIFTY	-0.57	-7.51	-7.02



Research Analyst

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Autoline Industries Ltd (AIL) incorporated in 1996, as Autoline Stampings Private Ltd. was initially set up in January 1995 as a partnership firm known as "Autoline Pressings". AIL has grown into a mid sized engineering and auto ancillary Company, manufacturing sheet metal components, sub-assemblies and assemblies for large OEMs in the Automobile Industry. Today AIL is engaged in manufacturing over 800 products with its 11 strategic located manufacturing units. Due to excellent quality in work, cost competitiveness, timely deliveries and State of the Art Tool Room with latest ***CAD/CAE/CAM*** *facilities, the company has, in a short span, become prime vendor to all the reputed Auto Manufacturers in and around Pune.* ***We initiate coverage on the stock with 'BUY' rating with a price target of ₹163.***

INVESTMENT COGENCY:

GROWTH IN OEM TO FUEL DOMESTIC DEMAND.

Over 71% of AIL's revenue comes from the OEM market of India and nearly 30% from the other auto ancillary segment. AIL's products fits into a range of SUVs, MUVs, LCVs, HCVs and passenger cars besides 2 and 3 wheelers. For the coming 3-4 years, passenger vehicle will grow at a CAGR of 6.3% from 2009-2014 according to ACMA. Indian automobile industry will grow at a CAGR of 14% over 2009-2020 as per the Earnest & Young's (E&Y) estimates. The car manufacturing capacity will increase to 5.7million units by 2015 from 1.48 million units in 2009. Healthy growth of Automobile industry will translate into high sales of the company.

DEVELOPMENT IN THE ENGINEERING SEGMENT WILL LEAD TO INCREASE IN THE PRODUCT OFFERING WITH THE IMPROVEMENT IN THE PROFITABILITY.

In house state-of-the-art facility of the company is helping it to optimize its production ability with increasing its operating margins. AIL has an ultra modern manufacturing facility and has the experience of producing large volumes in specified time and to the required quality specifications, customized to the requirements of the customer, as per their drawings / samples provided.

CAPABILITY OF MAINTAINING OPERATING MARGINS: TRANSFERS THE INCREASE IN RAW MATERIAL PRICE TO ITS END PRODUCT.

Today for every company in the auto ancillary space the cost of raw material is the major concern. Raw material prices for the company are fixed in consultation with OEM's any upward/downward in raw material prices will be done quarterly basis after review. This helps the company to maintain operating margins.

STEPS TOWARD REDUCING THE DEPENDENCY ON TATA MOTORS.

Tata Motors is currently contributing approximately 70% to the revenue of AIL . Going forward the company has a plan to reduce its contribution by 5-10% in next 3-4 years. The Company will be able to do this with new contracts from Volkswagen and General motors. AIL is also planning to reduce its contribution from commercial vehicle to passenger vehicle . Currently passenger vehicle is contributing 28% of its total sales going forward it will increase to 32-33% by next 3-4 years

HEALTHY FINANCIAL AND VALUATION

We expect the revenue and profit of AIL to grow at 27% and 37% CAGR to ₹768 and ₹41 Crs during 2010 to 2012E period respectively. At the CMP of ₹121 the company is trading at multiples of 4.80X and 3.71X of its FY2011E and FY2012E EPS of ₹25.2 and ₹32.6 respectively. **We initiate coverage on AIL with a BUY rating with a price target of ₹163 in 12-15 month.** Historically the company is trading between P/E band of 6-10 , we conservatively take the multiple of 5 with its FY2012E EPS of ₹32.6

	FY09	FY10	FY11E	FY12E	FY13E
Revenue (₹ crs)	383.16	474.75	647.39	768.41	897.13
YoY	0%	24%	36%	19%	17%
EBITDA (₹ crs)	26.27	53.60	73.53	91.73	109.10
EBITDA (%)	7%	11%	11%	12%	12%
PAT (₹ crs)	6.63	21.70	31.86	40.88	52.63
PAT (%)	1.7%	4.6%	4.9%	5.3%	5.9%
DEPS (₹)	4.00	16.88	25.20	32.59	42.22
BV (₹)	143.17	185.77	209.52	240.66	281.43
ROE (%)	3.11	9.57	12.45	13.91	15.32
ROCE (%)	4.12	9.32	11.93	13.89	15.12

About the Company

Autoline Industries Limited is engaged in conceptualizing, Styling, Design-Engineering, Prototyping, and manufacturing auto components basically through following business segments:

⇒ Styling, Design and Analysis Application Software Services.

⇒ Small Mechanical Assembly

⇒ Medium & large Stamped Assemblies

Autoline Group

Medium & Large Stamped Assembly	Mechanical Assembly	Styling, Design and Analysis Application Software Services
•Sheet Matal Stanmping •Complete Floor, Roof & door panel sub assemblies •Driver Cabins •Load bodies •Tulbar Assemblies •Pune & Uttrakhand India	•Pedal Control System •Jack Assemblies •Hinges •Srikers & Chekers •Parking Brake Levers •Spare Tyre Winches •Pune & Uttrakhand India, and Butler, Indian USA & South Korea	•Automotive engeenieringservices for: •Concept •Styling •Product Design & Development •Milan Italy, Detroit, Michigan USA, Pune India.

Source: Company, Monarch Research

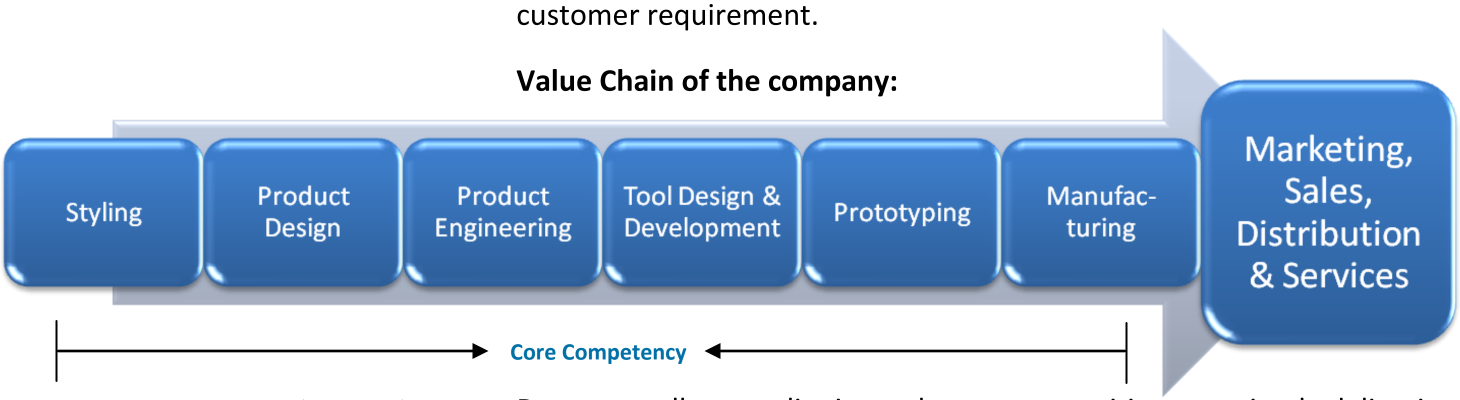
AIL is a major supplier of sheet metal components, sub-assemblies and assemblies. It has 11 manufacturing facilities and has the experience of producing large volumes in specified time and to the required quality specifications. The manufacturing plants are set across different locations with enough capacity to cater to the growing demand of auto components. The Company is manufacturing over 800 products catering to the wide range of SUV's, MUV's, Sedans, passenger cars, LCV's HCV's and Busses. The products are customized to the requirements of the client, as per their drawings or samples provided. There is a quality check at every level and before final dispatch.

AIL has taken major stake in design engineering firm to enhance its design capabilities. This acquisition will help the company for being the unique capability of Offshore Designing & Manufacturing model (ODM). The company is continuously renewing technology and upgrading quality standards, keeping in mind international benchmarks.

Business Segment of the company

AIL has taken all the main steps to from a complete value chain from designing to manufacture the required part. As the company has in house designing facility it is able to provide customized products as per customer requirement.

Value Chain of the company:



Source: Company, Monarch Research

Due to excellent quality in work, cost competitiveness, timely deliveries and state of the art tool room with latest CAD/CAM facilities, in short span of time it has become prime vendor to reputed auto manufacturers like TATA MOTORS LTD, BAJAJ AUTO LTD, MAHINDRA & MAHINDRA LTD., FIAT (INDIA) PVT. LTD., WALKER EXHAUST (INDIA) PVT LTD (a Subsidiary of Tenneco, a fortune 500 U.S. company), General Motors, Daimler, Volkswagen, Lear Corporation etc. **AIL supplies mostly as single source supplier to TATA Motors, which contributes more than 80% of company's standalone revenues.**

A joint venture by the name of Union Autoline Spare Parts LLC, UAE has been set up to promote exports of Auto Components for the Gulf and African Markets. Company has aggressively grown through organic and inorganic routes with an aim to become a design to manufacture company.

Major Subsidiary/Units of the company:

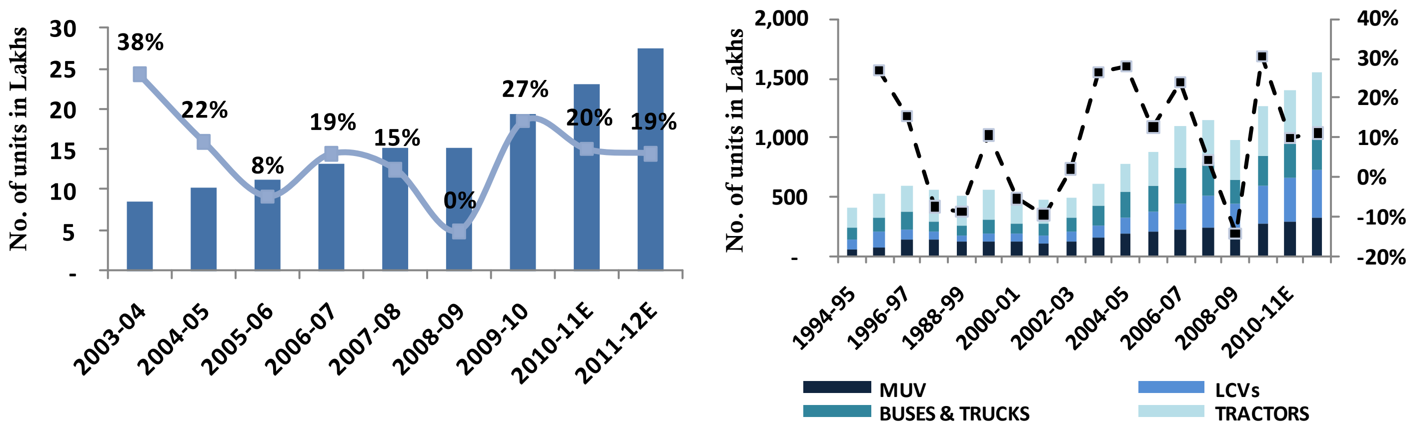
Name of Subsidiary	Product	Holding	Status
Western Pressing Ltd	Tubular Products	100%	To be Merged With AIL
Autoline Design Software Ltd.	Engineering Software Services	100%	Provides end to end solution to its customers on ODM
Nirmiti Auto Components Private Ltd.	Pedal System & Hinges	100%	To be Merged With AIL
DEP Autoline INC. USA	Design Software	51%	Reducing Stake to 40% effective April 01, 2011
Autoline Industries INC. USA .	Jacks and Pedal	100%	Recently achieved breakeven point
SZ Design Srl & Zagato Srl	Vehicle Styling and customization	49%	Would take 2-3 years to breakeven
Nuvent Technologies Private Limited	Software Development	51%	Reducing Stake to 40% effective April 01, 2011
Autoline Industrial Parks Limited	To set up and develop SEZs / industrial parks/ land development	51.12%	105 Acres of land acquired till date

Investment Arguments

Growth in OEM to fuel domestic demand

Over 71% of AIL's revenue comes from OEM market of India, with the growth in this segment company's sales would increase. Company's more than 42% revenue comes from Commercial Vehicles (CV) , followed by with 28% from 4-wheelers. Approx 30% is contributed from Tier II segment.

Exhibit 1: Total Cars and CV Production



Source: SIAM, ACMA, Monarch Research

For the coming 3-4 years passenger vehicle will grow at a CAGR of 6.3% from 2009-2014 according to ACMA. Indian automobile industry will grow at a CAGR of 14% over 2009-2020 as per E&Y estimates. The car manufacturing capacity will increase to 5.7million units by 2015 from 1.48 million units in 2009.

Currently passenger vehicle segment is contributing 28% to its total revenue going forward company has a plan to increase its contribution to 32-33%

India boasts the world's third largest market for new commercial vehicles. Because it is also the world's second-fastest-growing commercial market, its future looks even brighter.

Government's focus towards the infrastructure improvement and building roads across the country (i.e. construction of 33000 km Roads) will lead to strong growth for CVs. Further, increase in defence segment will prompt new demand. Tata ACE-LCV has changed the complete industry scenario. Still there is vast potential in LCV segment which is far from exhaust.

In the coming years we are expecting that 4-W's demand would remain strong due to the following basic reason:

⇒ Rising disposable income thereby leading to strong demand,

⇒ Easy finance availability leads to strong urban demand,

⇒ Entrance of new players and a flow of launches

⇒ Increasing demand towards replacement.

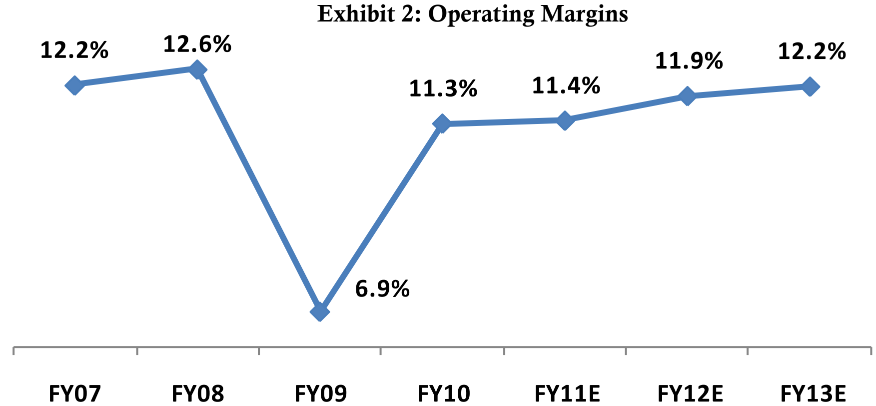
Investment Arguments

Development in the engineering segment will lead to increase in the product offering with the improvement in the profitability.

Over the last few year AIL has developed a state-of-the art facility. It has developed in-house 3D Research and Development (R&D) department and through its internal acquisition positioned itself in the entire product development cycle right from advanced engineering to mass production. The main success of the AIL's business lies in the R&D segment as with the help of this facility, it can provide its customer engineering and reengineering solution to enable them to reduce the cost and improve performance efficiency. AIL has presence across the value chain from product designing , development to mass manufacturing. **We expect operating margins to expand from 7.5% to ~12% by FY12E.**

We expect capacity utilization to improve from its current levels of about 40% to 55%+ in the next two years. With the EBITDA improving margins

Exhibit 2: Operating Margins



Source: Monarch Research

It has been witnessed in the industry that main focus of the company is shifting towards the design and engineering to reduce the cost of production and increase safety and fuel efficiency of the vehicle.

As per the report released by the Frost & Sullivan (F&S) 40% of the Automotive engineering services will be outsourced to the developing countries by 2015 reaching ₹474.43Crs ($101.6 Mn)

AIL is following the methods of "Morphing" with the help of "CAE" (Computer Aided Engineering) which helps the company to reduce time in the designing products for new launches by 90%

F&S has reported that the Global Automotive Engineering Services market was ₹9.81 lakh crore ($ 210 billion) in 2009 and the Indian Automotive Engineering Services market at ₹1,975.24 crore ($ 423 million) in the same year. Business done in India, out of this, is about ₹.347.42 crore ($ 74.4 million). The market is expected to reach ₹.474.43 crore ($101.6 million) by 2015 growing at a CAGR of 7.9 per cent from 2010. Based on its satisfactory performance, Tata Motors has now allotted 14 more Engineering projects to AIL. AIL has a strong competitive advantage toward its competitor due to the technical enhancement with the company. **This technological know how helps the company to reduce the time taken to produced a new design by 90%.**

Investment Arguments

Capability of maintaining operating margins: transfers the increase in raw material price to its end product.

The major raw material for AIL are HR-Sheet, CR Sheet, Pipe, Tubes etc. These material are procured from the major steel players of the industry such as Tata Steel, Uttam Galva, Bhusan Steel, Ispat Industries etc.

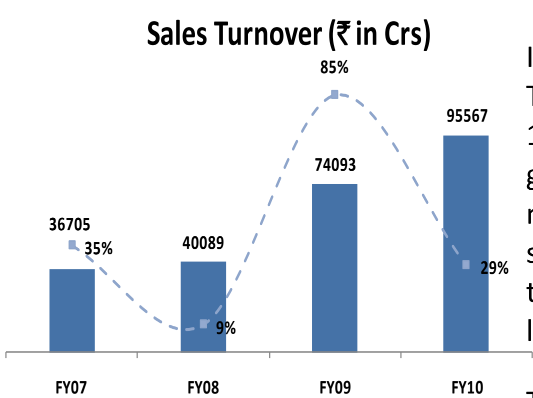
The prices of the raw material is fixed by the Steel OEM for the three months and the same prices are applied to the customer of the AIL. Hence the company is able to maintain the fluctuation of the raw material prices.

If there is hike in Raw material prices then revision in raw material prices is done after every 3 months and the same increment is transferred to the end customer of the company. Hence there is not much effect on the company's operating margin due to the increase in the raw material which is the major constrains of the auto ancillary company.

In its process of fixing the cost of raw material prices Tata motors also helps to negotiate with the steel OEM. So it helps the company to transfer the increment in the raw material cost to the end user.

Tata Motors, is witnessing a revival in demand: translates into growth of company

Exhibit 3: TATA Motors Sales



Source: Capital line, Monarch Research

It has been witnessed a strong sales growth of 29% in the total sales of Tata motors in FY10, followed by the growth of 20% in April10-February 11. this same growth has been reflected in AIL which has shown a sales growth of 24% in FY10 and this year it is expected to show a growth of more than 35%. Tata motors is contributing nearly 75-80% to the total sales of the AIL. Hence the growth in the demanding company will lead to the growth of the supplier. AIL provides silencers, exhaust systems, load body & frames for Tata Motors LCV's and HCV's.

Tata Motors Ltd (TML) is likely to launch new models in coming financial year and the contract for supply of Components/ Assemblies have been already given to AIL. **Few of them are as follows:**

1. Super ACE
2. ZIP
3. Ventura: 12 seater Car on super ACE platform.
4. IRIS: 5 seater mini car

AIL is supplying the product per vehicle cost of worth ₹10000 for Tata Aria, the new MUV launched by TML. The Company is providing Foot Control Systems and side body parts.

Investment Arguments

Steps toward reducing the dependency on Tata Motors.

AIL is trying to reduce its One client dependency by consciously diversifying its client base to de-risk itself from vagaries in demand. AIL is expanding capacities near India's emerging auto hubs Chakan in Pune & Uttarkhand. Volkswagen & Bentler have just completed the Quality Audit for vendor selection. AIL has started receiving's orders from them. Further, there are some more big names on the cards of AIL such as General Motors, Mahindra & Mahindra, Cummins Inc Business Services (USA) and Fiat India Pvt. Ltd. Etc.

Apart from these two, there are also few auto ancillary companies to be added in the customer's list of AIL such as Amtek Auto, Asia Motors work etc.

Till FY 2009, 80% of the AIL's revenue contribution is from the Tata motors. Not only in terms of sales, AIL has positioned it self as one of the top 5 vendors of Sheet Metal components for Tata Motors.

In FY 2010, the sales contribution from Tata Motors was 75% and the company has projected to reduce this by 5-10% in next 3-4yeasrs

Exhibit 4: Client Base

Few Major Clients of the company.

Source: Company, Monarch Research

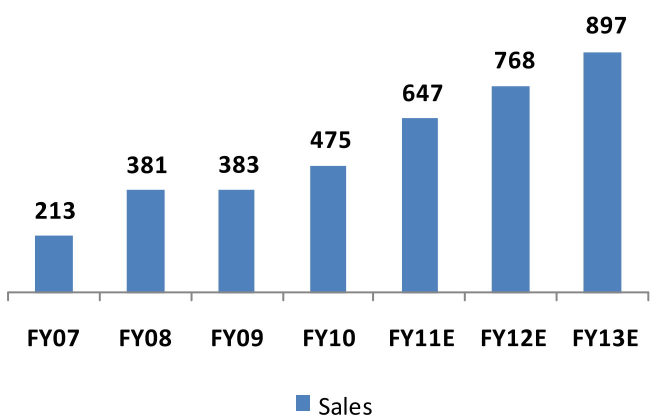
Investment Arguments

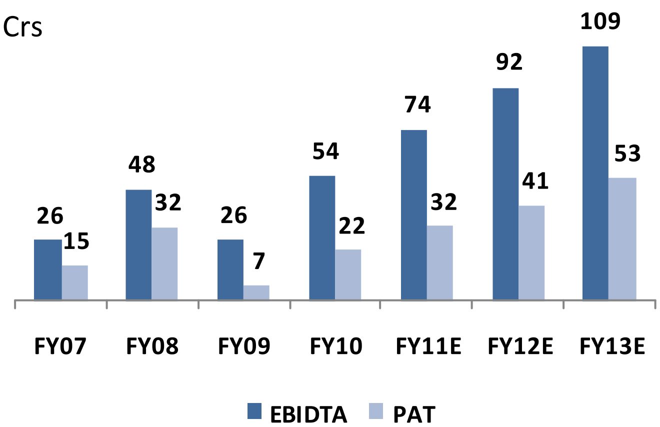
Healthy Financial growth

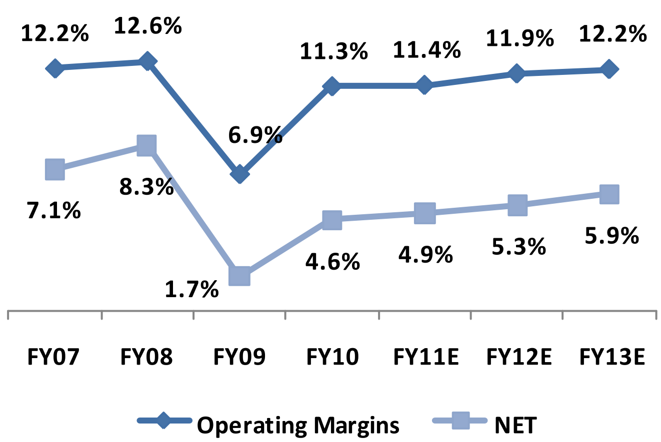
We expect the revenue and profit of AIL to grow at 27% and 37% CAGR to ₹768 and ₹41 Crs during 2010 to 2012E period respectively. Growth in sales is mainly due to the growth of the OEMs and it is assumed that in India there would be high growth in passenger car as per SIAM guidance. Further, the company is also in the expansion mode and the improving utilization level should result in higher operating margins. Not only the utilization level the company's operating margins will improve significantly on the back of technical know- how of the company. The company has a state-of-the art facility. It has its own in house designing system using the method of Morphing with the help of CAE which helps the company to reduce the time by 90% for the new launches.

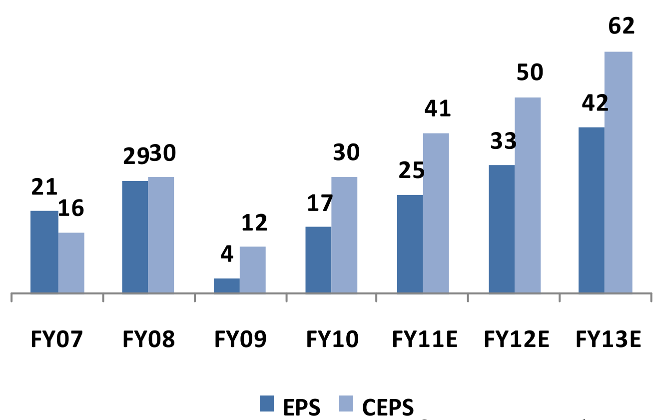
The operating margin and net margins are expected to grow at 60bps and 80bps CAGR to 31% and 37% over the period 2010 to 2012E resulting to operating and net profit of ₹92 and ₹41.

₹in Crs









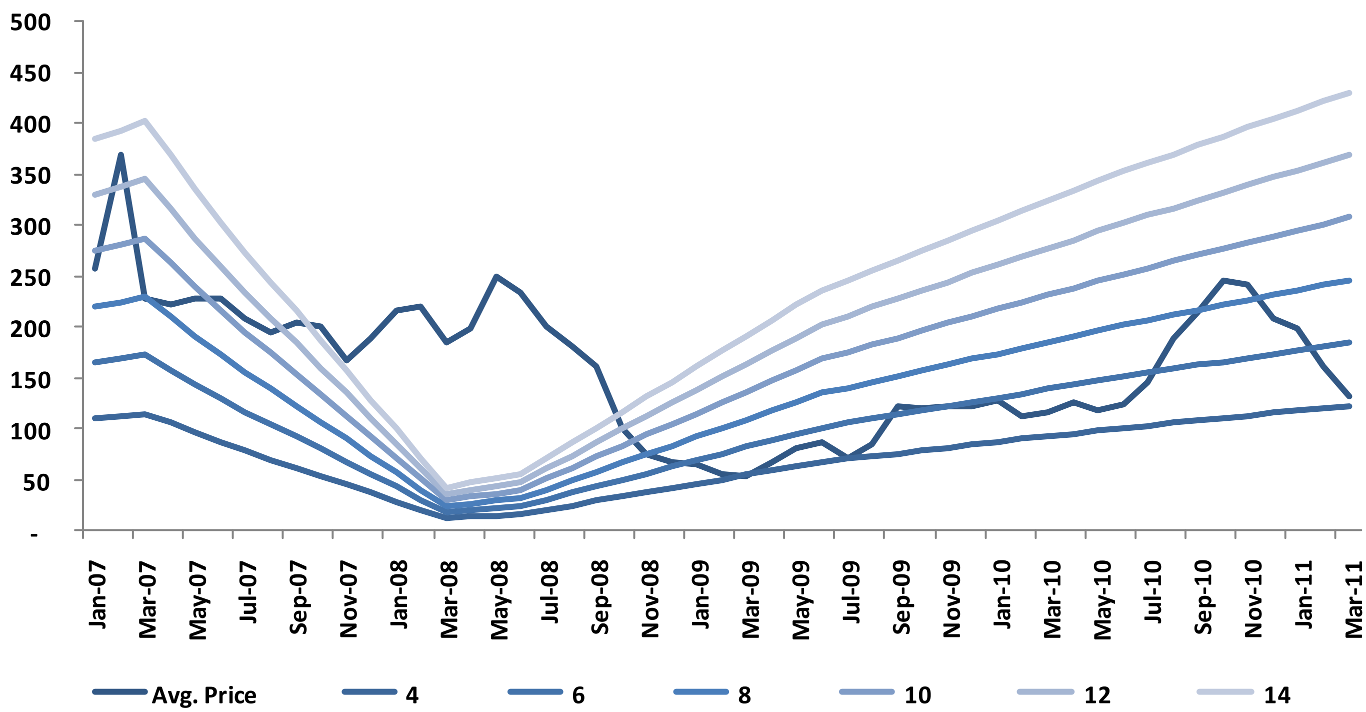
Source: Monarch Research

Valuation

AIL Industries is a key player in the auto ancillary segment manufacturing more than 800 products with 11 manufacturing units and with an employee strength of 2500. It is mainly engaged in the sheet metals, Small Mechanical Assembly and Medium & large Stamped Assemblies. AIL's has a main focus on the engineering segment to provide the value added services to its customer and to improve its operating margins by optimizing the usage of available resources. AIL has amplified its position by forming a complete value chain from designing to product development and mass manufacturing. Not only in India AIL has foot prints globally as well trough its strategic acquisition of Detroit Engineered Products (DEP) USA and Dura Automotive (now Autoline Industries INC USA), & recently SZ. Design Srl & Zatago Srl, Italy.

At the CMP of ₹121 the company is trading at multiples of 4.80X and 3.71X of its FY2011E and FY2012E EPS of ₹25.2 and ₹32.6 respectively. **We initiate coverage on AIL with a BUY rating with a price target of ₹163 in 12-15 month.** Historically the company is trading between P/E band of 6-10 , we conservatively take the multiple of 5 with its FY2012E EPS of ₹32.6

Exhibit 5: PE Band Graph



Source: Monarch Research

Concerns

Single client Dependency

Tata Motors contributes about 75%-80% of the company's sales. Autoline's top line is dominated by this single large client and that can be at times a cause of concern as, the dependency on one client can hamper the business. To counter this concern the company is starting to diversify the clientele and will reduce the dependency on Tata motors.

World Economy concerns

Slower than expected global recovery could impact future growth prospects and our earnings forecast

Fluctuation in Currency

~ 21% of the company's revenue comes from its exports thus the company is exposed to currency Risk. Any adverse movement in the currency can have a substantial impact on the company's revenue.

Increasing Competition

AIL faces threat from China for some of its less critical products. In addition, the company is increasing focus on non-auto segment and also entering into non-auto business. This would translate into increased competition going forward.

Profit & Loss

YEAR	2010	2011E	2012E	2013E
Net Sales	451.07	615.10	730.08	852.38
Growth (%)	*28.71*	*36.36*	*18.69*	*16.75*
Expenditure	397.47	541.56	638.35	743.28
% to Sales	*88.12*	*88.05*	*87.44*	*87.20*
EBITDA	53.60	73.53	91.73	109.10
EBIDTA Margins (%)	*11.88*	*11.95*	*12.56*	*12.80*
Depreciation	14.60	17.98	20.15	22.76
EBIT	*39.00*	*55.55*	*71.58*	*86.33*
Other Income	0.91	1.03	1.03	1.03
Interest	*11.01*	*15.97*	*21.13*	*21.72*
PBT	28.90	40.61	51.48	65.64
Tax	*4.97*	*6.52*	*8.37*	*10.78*
PAT	21.70	31.86	40.88	52.63
Growth (%)	*227.30*	*46.80*	*28.31*	*28.76*
PAT Margins (%)	4.81	5.18	5.60	6.17

Balance Sheet

₹ in Crs.

YEAR	2010	2011E	2012E	2013E
Share Capital	12.21	12.21	12.21	12.21
Reserves Total	214.62	243.62	281.64	331.41
Shareholders Fund	**226.83**	**255.83**	**293.85**	**343.62**
Total Debt	**181.22**	**199.63**	**211.33**	**217.21**
Total Liabilities	454.39	501.80	551.52	607.18
APP. OF FUNDS				
Good Will	36.14	36.14	36.14	36.14
Gross Block	320.82	374.64	430.99	486.88
Acc. Depreciation	43.97	64.18	86.56	111.56
Net Block	**276.85**	**310.46**	**344.43**	**375.33**
Investments	**24.39**	**24.39**	**24.39**	**24.39**
Total Current Assets	**214.88**	**251.65**	**289.23**	**334.60**
Inventories	33.62	42.57	52.33	59.80
Sundry Debtors	80.22	81.26	100.42	114.92
Cash and Bank	7.40	8.96	5.21	8.50
Loans and Advances	93.64	118.86	131.27	151.38
Total Current Liab.	**100.60**	**123.57**	**145.40**	**166.01**
Net Current Assets	**114.28**	**128.08**	**143.83**	**168.59**
Misc. Expenses	2.73	2.73	2.73	2.73
Total Assets	**454.39**	**501.80**	**551.52**	**607.18**

Cash Flow

YEAR	2010	2011E	2012E	2013E
From Operations				
Profit Before Tax	26.67	38.38	49.25	63.41
Depr. & Amort.	16.83	20.21	22.38	24.99
Interest paid	11.01	15.97	21.13	21.72
Operating profit	**38.23**	**74.56**	**92.76**	**110.13**
Inc/(Dec) in Working Capital	(17.13)	(12.24)	(19.50)	(21.47)
Tax Paid	(4.97)	(6.52)	(8.37)	(10.78)
Net cash generated	16.13	55.80	64.89	77.88
Cash Flow from Investing Activity				
Purchase of Fixed Asset	(40.58)	(53.82)	(56.35)	(55.89)
Net Cash used in investing activity	(42.45)	(53.82)	(56.35)	(55.89)
Changes in capital structure				
Inc. in Shares capital	10.70	-	-	-
Interest Paid	(11.01)	(15.97)	(21.13)	(21.72)
Inc/(Dec) in Loans	34.02	18.41	11.70	5.88
Dividend Paid	(2.86)	(2.86)	(2.86)	(2.86)
Net Cash From Financing	30.85	(0.42)	(12.29)	(18.70)
Total Inflows	4.53	1.56	(3.75)	3.29
Opening cash Balance	2.87	7.40	8.96	5.21
Closing cash Balance	7.40	8.96	5.21	8.50

Ratios

YEAR	2010	2011E	2012E	2013
Profitability(%)				
Operating Margin	11.88	11.95	12.56	12.80
Net Margin	4.81	5.18	5.60	6.17
(ROCE)	8.58	11.07	12.98	14.22
Valuation Ratio				
P/BV	0.65	0.58	0.50	0.43
P/CEPS	4.07	2.96	2.42	1.96
EV/EBITDA	6.00	4.60	3.86	3.27
Debt/Equity	0.80	0.78	0.72	0.63
Current Ratio	2.14	2.04	1.99	2.02
Du Pont				
Tax Burden	0.75	0.78	0.79	0.80
Interest Burden	0.72	0.72	0.71	0.75
Operating Margin	0.09	0.09	0.10	0.10
Asset Turnover	0.99	1.23	1.32	1.40
Financial Leverage	2.00	1.96	1.88	1.77
ROE	9.57	12.45	13.91	15.32
Valuation				
Earning per share	16.88	25.20	32.59	42.22
CEPS	29.73	40.82	49.98	61.75
BV	185.77	209.52	240.66	281.43
GROWTH RATIOS (%)				
Net Sales	28.71	36.36	18.69	16.75
EBITDA	104.04	37.19	24.75	18.93
PAT	227.30	46.80	28.31	28.76

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RATING SCALE:

BUY - the stock is available at cheap valuation and has an upside of more than 20% and should be bought at the prevailing price.

ACCUMULATE - the stock is fundamentally sound, however may/may not be available at cheap valuation. The upside is between 10%-20% and the stock can be bought on dips.

HOLD - the stock is nearing its fair value and should be approached with caution. The upside value for this stock is under 5%-10%

REDUCE - the stock is relatively expensive and/or has achieved its fundamental value and the upside is limited to under 5%. Profits must be taken on every rise, if any position made.

EXIT - the stock has no more room for upside, and valuations are stretched. The company is overvalued and hence one must "sell" the stock and exit from the counter as there is a possibility of a correction of more than 10%.