



# Munjal Showa Ltd

## Key Stock Indicators

|                     |            |   |             |                                    |        |
|---------------------|------------|---|-------------|------------------------------------|--------|
| NSE Ticker:         | MUNJALSHOW | CMP (as on 04 Feb 2011—Rs/share):           | 46.7        | Shares outstanding (mn):           | 40.0   |
| Bloomberg Ticker:   | MJS: IN    | 52-week range up to 04 Feb 2011 (Rs) (H/L): | 71.40/43.30 | Free Float (%):                    | 35.0   |
| Face value / Share: | 2.0        | Market Cap as on 04 Feb 2011 (Rs mn):       | 1,868       | Average daily volumes (12 months): | 61,006 |
| Div. Yield (%):     | 4.3        | Enterprise Value as on 04 Feb 2011 (Rs mn): | 3,079       | Beta (2 year):                     | 1.0    |

Munjal Showa Limited (MSL) was established in 1987 following technical and financial collaboration between the Hero group and Showa Corporation of Japan. MSL operates as an ancillary, manufacturing auto components for the 2- and 4-wheeler industries, primary products being front forks, shock absorbers, struts, gas springs and window balancers for sale in domestic market. MSL has 2 manufacturing plants in Haryana — at Gurgaon and Manesar — and 1 plant at Haridwar in Uttarakhand.

## KEY HIGHLIGHTS

### Wide range of product offerings with strong client base

MSL is one of the biggest suppliers of auto components, profiles and extrusions to original equipment manufacturers (OEMs) such as Maruti Suzuki, Hero Honda Motors, Hero Motors, Honda Motorcycles and Scooters India, Honda Siel Cars India and Majestic Auto. The automotive product range includes shock absorbers, struts, window balancer, front fork for 2-wheelers, rear cushion for 2-wheelers, front/ rear cushion for 2-wheelers, front/ rear strut for Maruti, open stay for Maruti and front/ rear strut for Honda Siel.

### New plant inaugurated at Haridwar

MSL inaugurated its third plant in Haridwar in April 2009. This expansion is to meet the increasing demand of shock absorbers of the OEMs. The plant has an initial installed capacity of 5 million (mn) shock absorbers per year to cater to the needs of Hero Honda Motors Ltd (Haridwar). It will strengthen MSL's position in the industry and reduce cycle-time for the development of new models.

## KEY RISKS

- Fortunes depend on the performance of the auto industry
- Cheaper quality imports pose a major challenge
- Rise in raw material cost adversely affects the company's margins

## Stock Performances vis-à-vis market

|            | Returns (%) |     |     |      |
|------------|-------------|-----|-----|------|
|            | YTD         | 1-m | 3-m | 12-m |
| MUNJALSHOW | -2          | -17 | -28 | -5   |
| Nifty      | 2           | -12 | -14 | 11   |

### Note:

1) YTD returns are since Apr 01, 2010 to Feb 04, 2011.

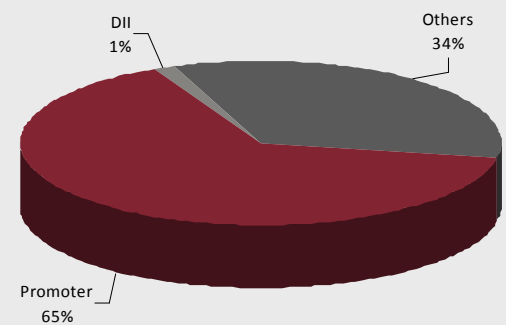
2) 1-m, 3-m and 12-m returns are up to Feb 04, 2011

## Key Financial Indicators

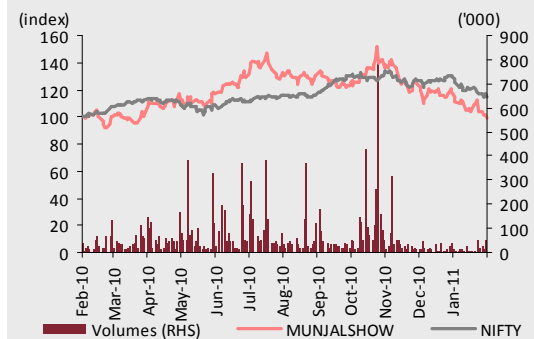
|                    | Mar-08  | Mar-09  | Mar-10   |
|--------------------|---------|---------|----------|
| Revenue (Rs mn)    | 7,230.8 | 8,429.1 | 10,041.9 |
| EBITDA margins (%) | 7.9     | 7.8     | 7.0      |
| PAT (Rs mn)        | 193.2   | 206.9   | 246.1    |
| PAT margins (%)    | 2.7     | 2.5     | 2.5      |
| Gearing (x)        | 0.2     | 0.6     | 0.7      |
| EPS (Rs/share)     | 4.8     | 5.2     | 6.2      |
| PE (x)             | 6.5     | 4.5     | 7.6      |
| P/BV (x)           | 0.8     | 0.6     | 1.1      |
| RoCE (%)           | 22.2    | 21.0    | 15.9     |
| RoE (%)            | 13.0    | 13.1    | 14.4     |
| EV/EBITDA (x)      | 2.8     | 2.9     | 4.4      |

n.m. : Not meaningful

## Shareholding (As on December 31, 2010)



## Indexed price chart



# Munjal Showa Ltd

## BACKGROUND

MSL, a member of Hero group, was established in 1987 in technical and financial collaboration with Showa Corporation of Japan. The Munjal group holds 39% stake in the company, followed by Showa Corp, which owns 26%. MSL operates as an ancillary and manufactures auto components for the 2- and 4-wheeler industry, primary products being front fork, shock absorbers, struts, gas springs and window balancers for sale in domestic market. MSL is one of the largest suppliers of shock absorbers to major auto companies in Japan, Germany, the US and the UK. MSL has established a strong base in auto ancillary manufacturing market and its products serve as original equipment to Maruti Suzuki upper-end models and export models, Honda's City model, a range of Hero Honda motorcycles, the Hero range of mini-motorcycles and mopeds, Bajaj motorcycles and Honda 2-wheelers. The company has an installed capacity of manufacturing 30.5 mn nos. of shock absorbers, 2.4 mn nos of struts and 0.8mn nos of window balancers as on Mar 2010. Shock absorbers contributed ~90% of the total revenue for FY10.

## COMPETITIVE POSITION

### Peer Comparison

|                    | Munjal Showa Ltd.<br>Mar-10 | Jay Bharat Maruti<br>Ltd.<br>Mar-10 | Amtek India Ltd.<br>Mar-10 | AMARA RAJA<br>BATTERIES<br>Mar-10 |
|--------------------|-----------------------------|-------------------------------------|----------------------------|-----------------------------------|
| Revenue (Rs mn)    | 10,041.9                    | 8,046.4                             | 10,294.5                   | 14,722.1                          |
| EBITDA margins (%) | 7.0                         | 10.2                                | 28.0                       | 19.8                              |
| PAT (Rs mn)        | 246.1                       | 210.1                               | 763.4                      | 1,670.3                           |
| PAT margins (%)    | 2.5                         | 2.6                                 | 7.4                        | 11.3                              |
| Gearing (x)        | 0.7                         | 0.6                                 | 1.3                        | 0.2                               |
| EPS (Rs/share)     | 6.2                         | 9.7                                 | 5.7                        | 19.6                              |
| PE (x)             | 7.6                         | 9.8                                 | 13.4                       | 9.5                               |
| P/BV (x)           | 1.1                         | 2.3                                 | 0.6                        | 2.9                               |
| RoCE (%)           | 15.9                        | 27.5                                | 5.3                        | 36.5                              |
| RoE (%)            | 14.4                        | 25.6                                | 4.7                        | 35.3                              |
| EV/EBITDA (x)      | 4.4                         | 3.2                                 | 8.9                        | 5.5                               |

n.m: Not meaningful

## FINANCIAL PROFILE

### Consistent growth in top-line, bottom-line

Revenues grew at a CAGR of ~12% between FY08 and FY10. MSL recorded top-line of Rs 10 billion (bn) for FY10, up ~19% from FY09, principally due to an increase in sales of shock absorbers for passenger cars and 2-wheelers. EBITDA margin decreased by ~80 basis points in FY10 as headcount rose to 3,012 from 2,343 in FY09.

PAT grew ~20% to Rs 246 mn vis-à-vis Rs 207 mn in FY09, on account of foreign exchange gain of around Rs 21 mn in FY10, against a forex loss of around Rs 115 mn in FY09, and lower tax paid in FY10.

### Key Financial Indicators

|                | Units      | Mar-08  | Mar-09  | Mar-10   |
|----------------|------------|---------|---------|----------|
| Revenue        | Rs million | 7,230.8 | 8,429.1 | 10,041.9 |
| EBITDA margins | Per cent   | 7.9     | 7.8     | 7.0      |
| PAT            | Rs million | 193.2   | 206.9   | 246.1    |
| PAT margins    | Per cent   | 2.7     | 2.5     | 2.5      |
| Revenue growth | Per cent   | 3.1     | 16.6    | 19.1     |
| EBITDA growth  | Per cent   | -1.6    | 15.0    | 6.4      |
| PAT growth     | Per cent   | -25.7   | 7.1     | 19.0     |
| Gearing        | Times      | 0.2     | 0.6     | 0.7      |
| RoCE           | Per cent   | 22.2    | 21.0    | 15.9     |
| RoE            | Per cent   | 13.0    | 13.1    | 14.4     |

## INDUSTRY PROFILE

### Auto Component

The auto components industry production, in India, is estimated at around Rs 1,212 billion in 2009-10. The industry has been reducing its dependence on the domestic automobile industry over the long term; it also continues to maintain its ability of being cost-competitive and technically proficient in niche segments. These factors along with foray of Indian auto component players in the international markets through acquisitions have enhanced the industry's popularity among international original equipment manufacturers (OEMs) in terms of their outsourcing needs. Currently, domestic OEMs account for around 67% of the total auto component production off takes, whereas the replacement and export segments account for around 21% and 12%, respectively. The industry is largely fragmented with over 558 players operating in the organised segment and many unorganised players catering to the replacement demand. However, with auto OEMs adopting vendor rationalisation, proportion of the organised segment is likely to increase over the long term. In the long term, exports are expected to grow at a faster pace as global OEMs are expected to implement cost rationalisation strategies by increasing their sourcing from low cost regions. The bargaining power of players is moderate with OEM's and has been historically high in the replacement market. The technological edge of a particular auto component segment determines the bargaining power of its players. Further, players with higher exposure to replacement segment are able to have better margins given higher bargaining power in the segment. However, increasing competition from imports is impacting the ability to pass on input cost increases in replacement market as well.

# Munjal Showa Ltd

## ANNUAL RESULTS

### Income Statement

| (Rs million )            | Mar-08         | Mar-09         | Mar-10          |
|--------------------------|----------------|----------------|-----------------|
| Net Sales                | 7,093.7        | 8,294.0        | 9,880.0         |
| <b>Operating Income</b>  | <b>7,230.8</b> | <b>8,429.1</b> | <b>10,041.9</b> |
| <b>EBITDA</b>            | <b>573.7</b>   | <b>660.0</b>   | <b>702.4</b>    |
| <b>EBITDA Margin</b>     | <b>7.9</b>     | <b>7.8</b>     | <b>7.0</b>      |
| Depreciation             | 153.6          | 168.6          | 211.5           |
| Interest                 | 118.0          | 170.0          | 99.7            |
| Other Income             | -4.2           | 7.5            | 7.6             |
| PBT                      | 297.8          | 329.0          | 370.8           |
| <b>PAT</b>               | <b>193.2</b>   | <b>206.9</b>   | <b>246.1</b>    |
| <b>PAT Margin</b>        | <b>2.7</b>     | <b>2.5</b>     | <b>2.5</b>      |
| No. of shares (Mn No.)   | 40.0           | 40.0           | 40.0            |
| Earnings per share (EPS) | 4.8            | 5.2            | 6.2             |

### Cash flow

| (Rs million )                              | Mar-08        | Mar-09        | Mar-10        |
|--|---------------|---------------|---------------|
| Pre-tax profit                             | 297.8         | 329.0         | 398.8         |
| Total tax paid                             | -97.1         | -107.1        | -86.3         |
| Depreciation                               | 153.6         | 168.6         | 211.5         |
| Change in working capital                  | -14.1         | -7.3          | -271.9        |
| <b>Cash flow from operating activities</b> | <b>340.2</b>  | <b>383.2</b>  | <b>252.1</b>  |
| Capital Expenditure                        | -345.0        | -803.9        | -435.9        |
| Investments and others                     | 0.0           | -100.0        | 50.0          |
| <b>Cash flow from investing activities</b> | <b>-345.0</b> | <b>-903.9</b> | <b>-385.9</b> |
| Equity raised/(repaid)                     | 0.0           | 0.0           | 0.0           |
| Debt raised/(repaid)                       | 110.4         | 661.4         | 222.4         |
| Dividend (incl. tax)                       | -93.6         | -93.6         | -93.6         |
| Others (incl extraordinary)                | 0.0           | -16.3         | -24.4         |
| <b>Cash flow from financing activities</b> | <b>16.8</b>   | <b>551.5</b>  | <b>104.4</b>  |
| Change in cash position                    | 12.0          | 30.8          | -29.4         |
| Opening cash                               | 10.3          | 22.4          | 53.1          |
| Closing cash                               | 22.4          | 53.1          | 23.9          |

n.m : Not meaningful;

### Balance sheet

| (Rs million )                   | Mar-08         | Mar-09         | Mar-10         |
|---------------------------------|----------------|----------------|----------------|
| Equity share capital            | 80.0           | 80.0           | 80.0           |
| Reserves and surplus            | 1,455.7        | 1,553.9        | 1,694.5        |
| <b>Tangible net worth</b>       | <b>1,535.6</b> | <b>1,633.9</b> | <b>1,774.5</b> |
| Deferred tax liability: [asset] | 96.6           | 111.6          | 149.9          |
| Long-term debt                  | 273.8          | 723.4          | 582.9          |
| Short-term-debt                 | 77.7           | 289.5          | 652.5          |
| <b>Total debt</b>               | <b>351.6</b>   | <b>1,013.0</b> | <b>1,235.4</b> |
| Current liabilities             | 981.0          | 1,161.1        | 1,318.4        |
| Total provisions                | 137.6          | 130.2          | 162.8          |
| <b>Total liabilities</b>        | <b>3,102.4</b> | <b>4,049.8</b> | <b>4,641.0</b> |
| Gross block                     | 2,236.9        | 2,979.0        | 3,695.6        |
| Net fixed assets                | 1,764.0        | 2,400.6        | 2,609.5        |
| <b>Investments</b>              | <b>0.0</b>     | <b>100.0</b>   | <b>50.0</b>    |
| <b>Current assets</b>           | <b>1,338.3</b> | <b>1,549.0</b> | <b>1,981.6</b> |
| Receivables                     | 782.1          | 914.6          | 1,282.2        |
| Inventories                     | 260.7          | 287.6          | 304.2          |
| Cash                            | 22.4           | 53.1           | 23.9           |
| <b>Total assets</b>             | <b>3,102.3</b> | <b>4,049.6</b> | <b>4,641.1</b> |

### Ratio

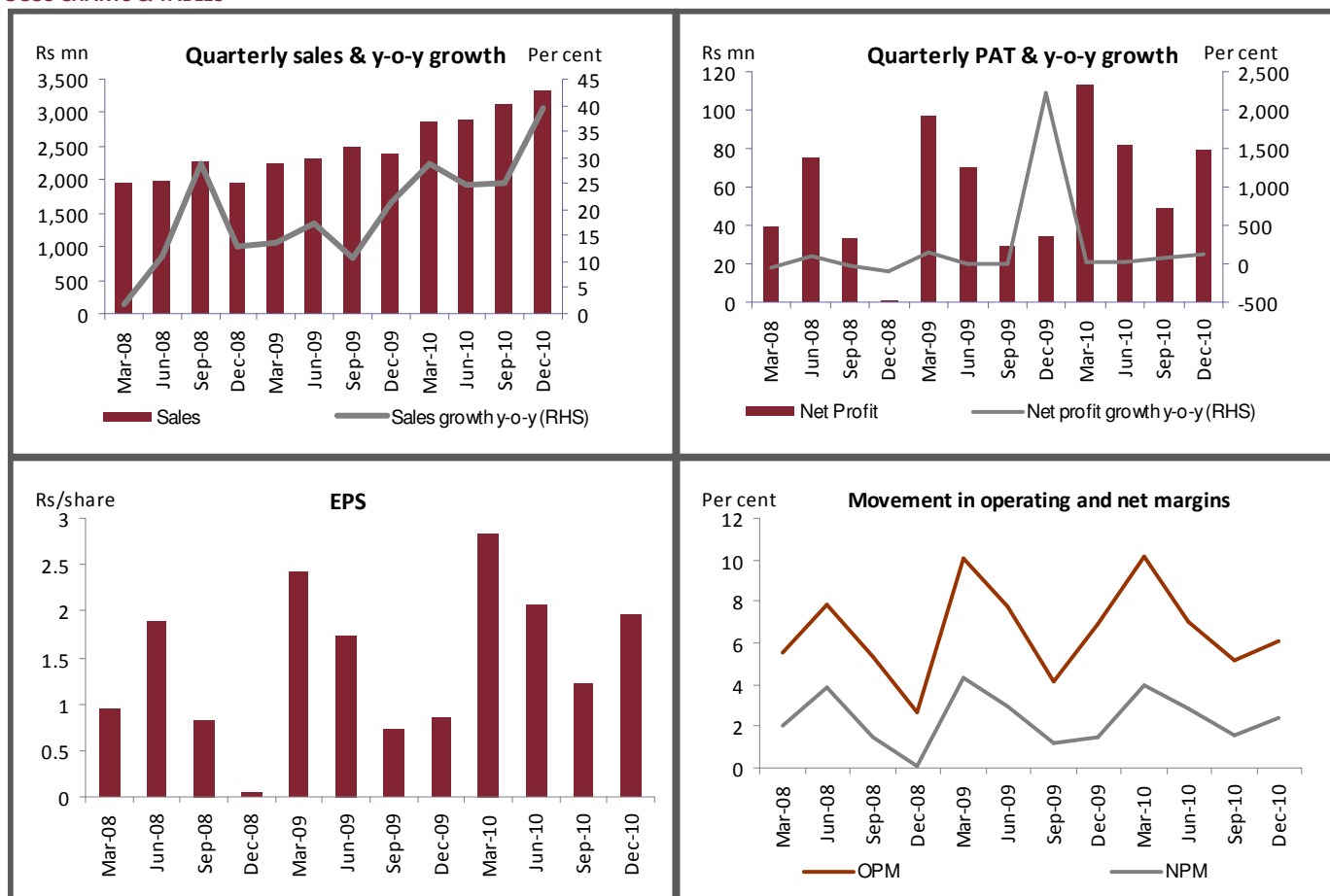
|                                | Mar-08 | Mar-09 | Mar-10 |
|--------------------------------|--------|--------|--------|
| Revenue growth (%)             | 3.1    | 16.6   | 19.1   |
| EBITDA growth(%)               | -1.6   | 15.0   | 6.4    |
| PAT growth(%)                  | -25.7  | 7.1    | 19.0   |
| EBITDA margins(%)              | 7.9    | 7.8    | 7.0    |
| Tax rate (%)                   | 32.6   | 32.6   | 23.3   |
| PAT margins (%)                | 2.7    | 2.5    | 2.5    |
| Dividend payout (%)            | 41.4   | 38.7   | 32.5   |
| Dividend per share (Rs)        | 2.0    | 2.0    | 2.0    |
| BV (Rs)                        | 38.4   | 40.9   | 44.4   |
| Return on Equity (%)           | 13.0   | 13.1   | 14.4   |
| Return on capital employed (%) | 22.2   | 21.0   | 15.9   |
| Gearing (x)                    | 0.2    | 0.6    | 0.7    |
| Interest coverage (x)          | 4.9    | 3.9    | 7.0    |
| Debt/EBITDA (x)                | 0.6    | 1.5    | 1.8    |
| Asset turnover (x)             | 3.5    | 3.2    | 3.0    |
| Current ratio (x)              | 1.1    | 1.0    | 1.0    |
| Gross current assets (days)    | 65     | 63     | 66     |

## QUARTERLY RESULTS

### Profit and loss account

| (Rs million)   | Dec-10         | % of         | Dec-09         | % of         | Sep-10         | % of         | Dec-10         | % of         | Dec-09         | % of         |
|----------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
| No of Months   | 3              |              | 3              |              | 3              |              | 9              |              | 9              |              |
| <b>Revenue</b> | <b>3,321.6</b> | <b>100.0</b> | <b>2,380.1</b> | <b>100.0</b> | <b>3,123.0</b> | <b>100.0</b> | <b>9,347.4</b> | <b>100.0</b> | <b>7,209.2</b> | <b>100.0</b> |
| <b>EBITDA</b>  | <b>200.8</b>   | <b>6.0</b>   | <b>164.1</b>   | <b>6.9</b>   | <b>161.7</b>   | <b>5.2</b>   | <b>566.1</b>   | <b>6.1</b>   | <b>446.8</b>   | <b>6.2</b>   |
| Interest       | 22.0           | 0.7          | 31.6           | 1.3          | 23.1           | 0.7          | 68.3           | 0.7          | 89.0           | 1.2          |
| Depreciation   | 67.8           | 2.0          | 57.4           | 2.4          | 65.1           | 2.1          | 194.8          | 2.1          | 149.8          | 2.1          |
| PBT            | 111.1          | 3.3          | 75.1           | 3.2          | 73.6           | 2.4          | 303.0          | 3.2          | 208.0          | 2.9          |
| <b>PAT</b>     | <b>78.7</b>    | <b>2.4</b>   | <b>34.1</b>    | <b>1.4</b>   | <b>49.3</b>    | <b>1.6</b>   | <b>210.2</b>   | <b>2.2</b>   | <b>132.8</b>   | <b>1.8</b>   |

## FOCUS CHARTS & TABLES



### Shareholding Pattern (Per cent)

|          | Mar 2010 | Jun 2010 | Sep 2010 | Dec 2010 |
|----------|----------|----------|----------|----------|
| Promoter | 65.0     | 65.0     | 65.0     | 65.0     |
| FII      | 0.1      | 0.1      | 0.1      | 0.0      |
| DII      | 1.3      | 1.3      | 1.3      | 1.3      |
| Others   | 33.6     | 33.6     | 33.6     | 33.7     |

### Board of Directors

| Director Name               | Designation                               |
|-----------------------------|---|
| Brijmohan Lall Munjal (Mr.) | Non-Executive Chairman, Promoter-Director |
| Yogesh Chander Munjal (Mr.) | Managing Director                         |
| Vinod Kumar Agrawal (Mr.)   | Non-Executive Director                    |
| Nand Lal Dhameja (Dr.)      | Non-Executive Director                    |
| Akira Kadoya (Mr.)          | Non-Executive Director                    |
| Surinder Kumar Mehta (Mr.)  | Non-Executive Director                    |
| Ashok Kumar Munjal (Mr.)    | Promoter-Director                         |
| Pankaj Munjal (Mr.)         | Promoter-Director                         |
| Krishan Chand Sethi (Dr.)   | Non-Executive Director                    |
| Devi Singh (Dr.)            | Non-Executive Director                    |
| Anil Kumar Vadehra (Mr.)    | Non-Executive Director                    |
| Tetsuo Terada (Mr.)         | Jt. Managing Director                     |

### Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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