

Investor's Delight: Munjal Showa Ltd. (MSL) – "BUY"

Established in 1985, in technical and financial collaboration with Showa Corporation of Japan, the pioneering global leaders in the manufacture of shock absorbers, Munjal Showa Limited is a member of Hero Group, a US \$1.3 billion manufacturing conglomerate, with a 45-year history. Munjal Showa Limited in its joint venture with Showa Corporation (holding 26 percent stake in the Company), designs and manufactures shock absorbers and struts for leading two-wheelers and four-wheelers. MSL's manufacturing plant is spread over an area of 24,075 sq mt in the industrial area of Gurgaon, Haryana, on the outskirts of the National Capital Territory of Delhi, India Munjal Showa Limited is one of the largest suppliers of shock absorbers to major auto giants in India, Japan, Germany, the United States and the United Kingdom, amongst other developed markets. The Company's products conform to the highest standards of quality, safety, comfort and dependability and are QS 9000, ISO 14001 and ISO 9001 compliant. The use of advanced technology and a team of experienced personnel have led to outstanding growth in the Company. It has established a strong foothold in the auto ancillaries manufacturing market and enjoys a wide patronage. Munjal Showa products serve as original equipment to a wide range of Maruti Suzuki upper end cars and export models, Honda City car, complete range of Hero Honda Motorcycles, Kawasaki Bajaj Motorcycles, Kinetic Scooters and Hero range of mini-motorcycles and mopeds and Honda Motorcycles and Scooters India (Pvt) Limited. In over a decade the Company's state-of-the-art Shock Absorbers, Front Fork, Struts and Window Balancers/Gas Springs have become symbols of reliability and quality for popular two and four wheeled vehicles.

Over the period FY10-FY14, the Company's topline has witnessed a CAGR of 12.3% and an impressive bottomline CAGR of 29.7%. In Q1FY15, sales rose 9.41% to Rs 436.25 crore while Net profit of Munjal Showa declined 3.16% to Rs 19.03 crore in the quarter ended June 2014.

The Company's existing customers have assured to meet predetermined sales targets with around 10 per cent growth, with the support of new models likely to be launched both in 2 Wheeler and 4 Wheeler segment and export in the current year i.e. 2014-15. They have planned major initiative to boost the industry sentiments and accelerate growth in the year 2014-15 mainly through new launches, campaigns, capacity addition and network expansion and a significant step working toward their global vision.

With due consideration to factors like a) strong parentage and collaboration with Showa Corporation (Japan) gives MSL an edge over its peers, b) stable margins, c) positive operating cash flow, d) decent return ratios, e) debt free company and f) quality management, we recommend a "BUY". At CMP, the stock trades at a PE multiple of 9 x at FY14 EPS of Rs. 17.43 We value the stock at 9x FY15 estimated EPS of Rs. 22 by street to arrive at a target price of Rs. 198 for investors with a 12 months horizon.

CMP	Rs. 150
Target Price	Rs. 198
Upside	32%
Sector	Auto - ancillary
Beta vs Sensex	1.16
BSE/NSE Code	520043/MUNJALSHOW
Bloomberg Code	MJS:IN
52 Week High	Rs. 157.7
52 Week Low	Rs. 52.40
Face Value	Rs. 10
Share Capital	Rs. 79.9 mn
Market Capitalization	Rs. 5,992 mn
Book Value	Rs. 89.03 per share
Shareholding Pattern (%)	As on June. 2014
Promoters	65.02
FII's	0.32
DII's	1.01
Others	33.65

Industry and Business Outlook

Overall Outlook of Industry appears promising with major customers of the company planning to expand capacities and global players announcing investments in the sector. Growth of Automotive Industry is directly linked to growth of Automobile Industry since more than 65% sales is to OEM's. Rising Per Capita income and changing demographic distribution are conducive for growth. India has highest population below 35 years which means that more than 100 million people will get added to working population in coming years. The sector has become a lucrative business proposition for global players and spate of investments plans announced by global and domestic automobile manufactures promises the emergence of India as a global hub for auto components. The capacity expansion programme of Auto component Manufacturers generally tend to follow that of their key customers OEMs.

Also there are other auto OEM such as Maruti Suzuki, Hero Motocorp and Ford that are planning to establish Greenfield facilities in Gujarat with their respective suppliers of Key Components being currently at various stages of making investments in close proximity to these new facilities.

The outlook of the company appears promising with positive indication for positive growth both in terms of value and volume over medium term. Its key customers Hero MotoCorp Limited, Honda Motorcycles and Scooters India Private Limited and Maruti Suzuki India Limited have plans to register growth in the region of 5-10 per cent in spite of the current economic key performance indicators.

However the large debt funded capital expenditure executed by auto component manufacturers during boom period of 2009-2010 & 2010-2011 means that repayment obligations of term loans availed then will fall due now. In the absence of sufficient cash generation viability, the industry may be exposed to refinancing risk.

Financial Track Record (Rs. Mn)

Particulars	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10
Share Capital	79.9	79.9	79.9	79.9	79.9
Reserves & Surplus	3,481.2	2,948.0	2,482	1,950	1,725
Networth	3,561.1	3,027.9	2,561.9	2029.9	
Debt	-	211	732	857	1200
Current Liabilities & Prov.	2,181	2,080	2,129	2,064	1,667
Total Assets	5,743	5,319	5,422	4,951	4,672
Net Sales	15,980	15,814	15,569	12,893	10,039
Yoy growth (%)	1.05	1.58	20.75	28.37	19.15
EBITDA	1,113	1,027	1,241	833	739
OPM (%)	6.96	6.49	7.97	6.46	7.36
PAT	697	607	671	340	246
PAT (%)	4.4	3.8	4.3	2.6	2.5
EPS (Rs.)	17.43	15.17	16.78	8.51	6.15
Book Value (Rs.)	89.03	75.71	64.05	50.75	45.14

Source: Company, Ajcon Research

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net

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Corporate and Broking Division: 408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Malad (East), Mumbai – 400063. Tel: 91-22-67160421

Registered Office: 101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40