

26 October 2012
CMP: Rs. 93.1

Industry: Auto Parts & Equipments

BSE group/index: B / SMLCAP

Promoters

Menon family

Menon family trust

Menon group companies

Year of incorporation

1971

Registered office

182, Shirol, Kolhapur

Maharashtra

416122

Company website
<http://www.menonpistons.com>
Write to us at:
equity.research@outlook.com
Key Data (as on 26 Oct'12)

BSE	531727	ISIN	INE672B01032
Face Value	10.0	Mkt Cap (Rs. mn)	474.8
Current P/E	4.9	Current P/BV	0.9
52 week high-low	115.2 – 85.4	30 day daily trading volume (nos)	10,965
Equity Capital (Rs mn)	51.0	Networth (Rs mn)	518.2

Company business

Menon Pistons Ltd (MPL) manufactures aluminium alloy pistons, piston pins and piston rings for passenger cars, heavy and light commercial vehicles, heavy duty diesel engines for power generation and earth movers, compressors, etc. MPL is one of the only companies in India to develop Austenitic Ring Carrier (Alfin) Pistons. With the three manufacturing plants located in and around Kolhapur, the company manufactures 2.4 million pistons per annum. MPL has the technical capability to design and manufacture pistons of contemporary designs and also for New Generation Engines. In the past the company has had technical collaborations with Izumi Industries Ltd, Japan (for pistons) and Nippon Piston Ring Co. Ltd, Japan (for piston rings). The company now has technology collaboration with Dong Yang Pistons Co. Ltd., South Korea.

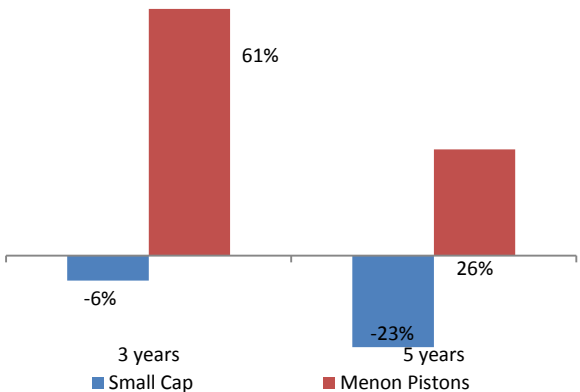
MPL was promoted in 1971 by late Chandra Menon and Ram Menon. It is now managed by Ram Menon's son, Sachin Menon who is the MD of the company.

Peer group analysis

MPL reported EBIDTA of Rs. 225 million in FY12 and had a comparable EBIDTA margin among its peer set. It reported EBIDTA margin of 13.2% and PAT margin of 5.9% in FY12. These are comparable to Yuken India, lower than ABC Bearings but better than that of IP Rings. As on 31 Mar 12, its market price was 0.9 times its book value (comparable to its peers) and discounted its earnings 4.9 times (lower than all its peers).

FY12, Rs million	Menon Pistons Ltd.	Yuken India Ltd.	ABC Bearings Ltd.	I P Rings Ltd.
Total income	1712.7	1719.1	1977.6	815.1
EBIDTA	225.4	223.9	302.8	97.7
EBIDTA margin	13.2%	13.0%	15.3%	11.9%
PAT	100.2	103.6	153.4	5.8
PAT margin	5.9%	6.0%	7.8%	0.7%
EPS	19.6	34.5	13.3	0.8
Cash accruals	141.7	132.4	218.1	60.4
BV/share	101.6	170.9	103.6	68.5
Debt/EBIDTA (x)	1.1	1.7	1.4	3.1
Debt/Equity (x)	0.5	0.7	0.4	0.6
ROANW	19.3%	20.2%	12.8%	1.2%
ROACE	24.1%	21.8%	14.8%	5.8%
P/BV	0.9	1.0	0.9	0.7
P/E	4.9	5.4	7.8	56.1

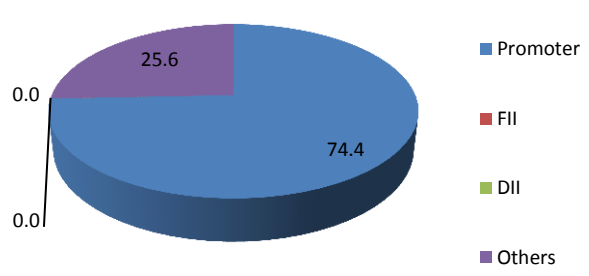
Source: Moneycontrol, Company

Installed Capacity			Price Performance
Product Name	Unit	Installed Capacity	
Piston/Piston Assembly	Numbers	2,400,000	
Gudgeon Pins	Numbers	1,000,000	
Piston Rings	Numbers	6,000,000	
As of March 2011, data for 2012 has not been reported			
			 <p>3 years: 1 Oct 09 to 1 Oct 2012 5 years: 1 Oct 07 to 1 Oct 2012</p>

Public Shareholders >1%

Sl. No.	Name of the Shareholder	No. of Shares held (mn)	Shares as % of Total No. of Shares
1	Baccarose Perfumes & Beauty Products Pvt Ltd	0.20	3.92
2	Anil Kumar Goel	0.16	3.06
3	Vastsala P Nair	0.11	2.15
4	Mehul Shrish Oswal	0.10	1.96
5	Pidilite Industries Ltd	0.06	1.15
6	KJMC Global Market India Ltd	0.05	1.06
Total		0.68	13.31

Source: BSE

Change in Shareholding Pattern (%)					Shareholding Pattern (%)
Year	Promoters	DII	FII	Others	
Sep-12	74.4	-	-	25.6	
Jun-12	74.4	-	-	25.6	
Mar-12	74.4	-	2.6	23.0	
Dec-11	74.4	-	2.9	22.7	
Mar-11	74.4	-	3.0	22.6	
Mar-10	74.4	-	-	25.6	
Mar-09	74.4	-	-	25.6	
Mar-08	74.4	-	-	25.6	
Source: BSE					Source: BSE, as at 30 Sept 2012

Key strengths

Profile

MPL is a part of the Menon Group, a US \$ 70 mn conglomerate. The Menon Group is a mid-sized automotive component manufacturer and has been an original equipment supplier of the critical engine components like aluminum alloy pistons, piston rings, bimetallic bearings, bushes, thrust washers and large complex cast iron components like cylinder block and cylinder heads to automotive, industrial power generation engine/vehicle manufacturers. Established in the early 70's the group has a work force of around 1200 employees.

Established supplier

Major OE Customers of MPL include Tata Motors, Cummins India, Escorts Farm Tractors, Maruti Suzuki, Kirloskar, Eicher Tractor, BEML-Komatsu, New Holland Tractors, Greaves and Ford to name a few. MPL is OE supplier to world majors like MACK Trucks, Cummins and ARROW engines, USA and Lister Petter-UK. MPL exports about 25% of its produce to many countries around the world. Sales to many OEMs and exports ensure there is no concentration risk on a single customer / customer group.

Key concerns

Rapid changes in technology

Authorities all over the world are tightening emission norms with an emphasis to switch from tail pipe emissions to greenhouse gas emissions. Timely adaptation to these changes and cost is a key to success and sustainable future for MPL. This also increases the R&D costs of the company which may not always be passed onto the OEMs, given pricing pressures and competition in the industry. These costs will add to pressure on MPL's margins.

Intense competition

China, Taiwan and Thailand are turning into low cost auto component manufacturing hubs for global OEMs thereby adding to competition for MPL's exports. Limited access to product liability norms, warranty restrictions in developed markets also limit MPLs growth in developed markets. A limited and fiercely competitive domestic market inhibits further capacity creation even though the company has low debt and liquid cash and investments which can be used for expansion.

Industry overview

Structure of the auto component industry

The Indian auto component industry is ~Rs 1600 billion in size. The industry can be segmented on the basis of the production of component types as below:

- Engine Parts (31%)
- Drive Transmission and Steering Parts (19%)
- Suspension and Brake Parts (12%)
- Body & Chassis (12%)
- Electrical Parts (9%)
- Equipments (10%)
- Other Parts (7%)

In India the auto component industry is structured into three basic categories:

- Indian companies without any collaboration or having very minimal collaboration with any foreign companies for e.g. Sundram Brake Lining, Sundram Fastners, Munjal Auto.
- Indian companies with foreign collaboration, such as Indian Nippon Electricals, Hinoday etc.
- MNCs completely owned subsidiaries or the units in which they have major control. For e.g. Delphi, Visteon, Denso, MICO etc.

Out of the total turnover of the Indian auto components industry, around 60% is derived from sales to domestic OEMs, around 25% comes from sales in the domestic replacement market and the balance 15% is derived from exports.

Mixed fortune for industry

The year 2011-12 had mixed fortunes for different companies in the Indian auto components industry. Some entities experienced slowdown in their sales volumes and profit growth marred by lower supplies to domestic Original Equipment Manufacturers (OEMs), particularly in the passenger vehicle (PV) and the Medium & Heavy Commercial Vehicle (M&HCV) segments. On the other end were few entities that maintained healthy revenue growth by due to steady growth in

Menon Pistons Ltd. (MPL)

exports, inorganic growth, market share gains, replacement market sales, non-automotive segment sales scale-up and diesel vehicles oriented product portfolio. The year 2011-12 was impacted by demand as well as supply slowdown - *consequent to the tsunami in Japan, labour strike at Maruti Suzuki and floods in Thailand*. The domestic automobile industry showed mixed performance in 2011-12 with the volume growth of 2 wheeler and LCV segments remaining steady, while that of the PV and M&HCV segments gearing down significantly compared to the last 2 years

Company Fundamentals

MPL manufactures alloy pistons and piston pins for four-wheelers and heavy commercial vehicles. It has three manufacturing plants in and around Kolhapur, with combined capacity to manufacture 2.4 million pistons p.a. MPL supplies aluminum pistons directly to original equipment manufacturers (OEMs) such as Tata Motors, Cummins India, Escorts group and Eicher Motors. About 50% of MPL's revenues come from direct sales to OEMs, 25% from replacement markets and the rest from exports. It is one of the bigger piston manufacturers in India.

Key Financial Indicators

MPL reported a 9% growth in total income to Rs. 1.7 bn. This is attributed to healthy volume off-take from customers and start of sales from the new foundry division. On account of improved capacity utilization and control over costs, PBIDT also improved by 19% to Rs 225 million. However on account of increased interest burden (due to increased interest rates) and higher depreciation PAT growth was curbed to 12.5% to Rs 100 million.

The newly set up foundry division was mostly funded by internal accruals as net assets increased 39% to Rs. 372 mn but debt increased only 5% to Rs. 246 mn. Cash and deposits of Rs 185 mn were utilized for expansion.

Quarterly results

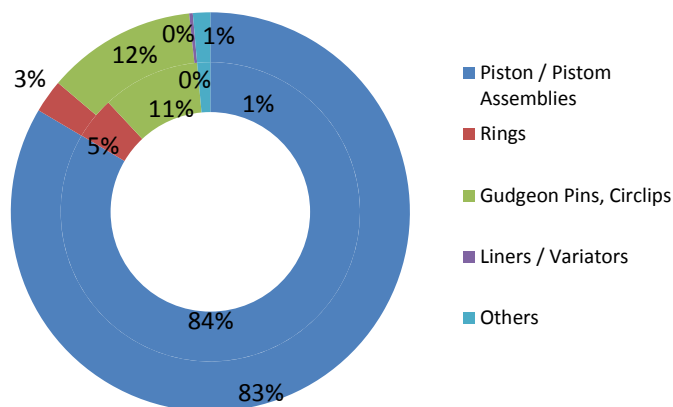
Particulars (Rs in mn)	Apr '12 to Jun '12	Apr '11 to Jun '11	% Change ¹	Jan '12 to Mar '12	% Change ²
Total income	451.8	432.3	4.5%	436.9	3.4%
Total expenditure	399.4	379.6	5.2%	375.8	6.3%
EBIDTA	52.4	52.7	(0.6)%	61.1	(14.2)%
PAT	22.9	27.3	(16.1)%	24.8	(7.7)%
EPS (for the quarter)	4.49	5.35	(16.1)%	4.86	(7.6)%

¹ quarter on quarter comparison

² sequential comparisons

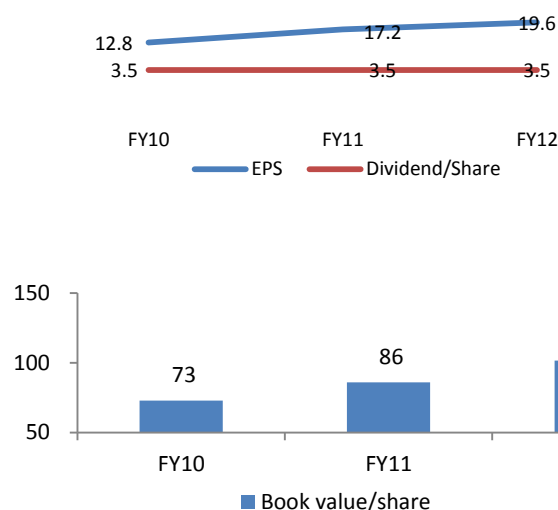
Ratios

Segment-wise contribution to total revenue

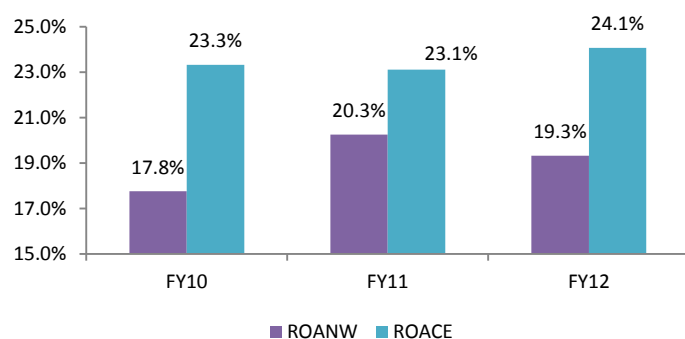


Inner ring represents FY11 data
Outer ring represents FY12 data

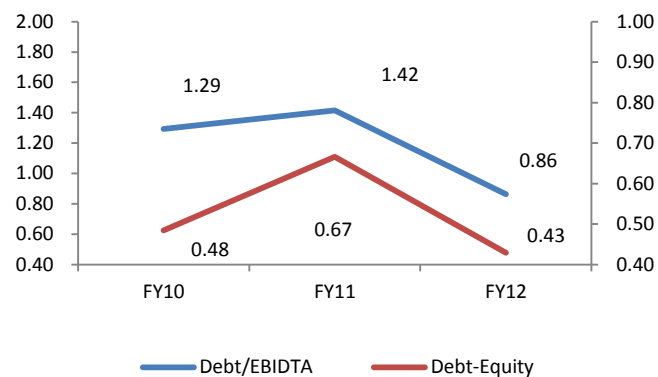
Key ratios



Profitability ratios



Leverage ratios



Financials

P&L (Rs. mn)	FY10	FY11	FY12
Total Income	1,110.4	1,557.4	1,712.7
PBDIT	139.1	183.1	225.4
Interest	22.6	26.6	32.0
PBDT	116.5	156.5	193.4
Depreciation	22.4	26.4	41.5
Profit Before Tax	94.1	130.1	151.9
Extra-ordinary items	(12.2)	0.1	0.1
PBT (Post Extra-ord Items)	81.9	130.2	152.0
Tax	27.2	42.4	51.7
Net Profit	65.0	87.7	100.2
Equity Dividend	17.9	17.9	17.9
Equity Dividend (%)	35.0	35.0	35.0
Valuation ratios			
P/E	6.0	7.1	5.2
P/BV	1.0	1.4	1.0

Balance Sheet (Rs. mn)	FY10	FY11	FY12
Share Capital	51.0	51.0	51.0
Reserves & Surplus	320.8	387.7	467.2
Net worth	371.8	438.7	518.2
Borrowings	130.3	234.0	246.0
Current Liabilities & Provisions	246.5	363.4	382.1
Total liabilities	748.6	1,036.1	1,146.3
Net fixed assets	190.0	268.2	372.5
Capital work in progress	-	22.0	2.6
Investments	1.3	1.3	4.4
Current Assets	408.7	508.9	712.2
Loans and Advances	29.2	44.6	54.6
Fixed Deposits	113.8	185.4	-
Miscellaneous Expenses	5.6	5.6	-
Total assets	748.6	1,036.1	1,146.3

Cash Flow (Rs.mn)			
PBT	81.9	130.2	152.0
CF from Operations	164.2	126.7	156.9
CF from Investments	(18.0)	(117.3)	(112.4)
CF from Financing	(84.3)	59.2	(5.5)
Inc/(dec) in Cash	61.9	68.7	39.0
Closing Balance	127.9	196.6	235.6

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