

**Porwal Auto Components Ltd.**

<b>Price Band</b>	: Rs68 - 75 per share	<b>December 12, 2007</b>
<b>Issue open during</b>	: <b>December 17 - 20, 2007</b>	
<b>Recommendation</b>	: <b>None*</b>	
<b>Book Running Lead Manager</b>	: <b>Keynote Corporate Services Ltd.</b>	
<b>To list on</b>	: <b>BSE</b>	
<b>Grading</b>	: <b>3/5 by CARE</b>	
<b>Market Cap post-listing</b>	: <b>Rs113Cr or \$28.7mn (based on the cap price)</b>	

(\* Being the associate of the Lead manager to this IPO, we are unable to give a recommendation; also read disclaimer on page 7)

**IPO of 5mn equity shares of Rs10 each, aggregating to Rs37.5Cr or \$9.5mn (at the cap price)**

**Shareholding Pattern**

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters and Promoter group	5,499,900	54.5%	5,499,900	36.4%
QIBs excluding Mutual Funds	0.00	0.0%	2,375,000	15.7%
Mutual Funds	0.00	0.0%	125,000	0.8%
Non Institutional Investors	0.00	0.0%	750,000	5.0%
Non promoter holding including Public	4,600,100	45.5%	6,350,100	42.1%
<b>Total</b>	<b>10,100,000</b>	<b>100.0%</b>	<b>15,100,000</b>	<b>100.0%</b>

**Executive Summary**

- Porwal Auto Components Ltd (PACL), a TS: 16949 accredited company is a manufacturer of SG and Grey Iron castings, primarily catering to needs of the automobile OEMs in India.
- Its manufacturing facilities are located at Pithampur, Indore and cater to the needs of automobile OEMs like Eicher Motors, Man Force Trucks, Force Motors and L&T Case Equipments. Its location and client relationships act as an entry barrier for other players.
- PACL's wide product range includes SG and Grey Iron castings weighing from 0.5 kg to 120 kg, thus making itself a single source supplier for many auto OEMs.
- In FY05, due to increased demand from clients PACL commenced its expansion of capacity from 4060tpa to 9000tpa. This was funded through a term loan of Rs12Cr, Rs8Cr as preferential allotment to promoters and other strategic investors and Rs2.5Cr as advances received from Eicher Motors Ltd.
- PACL has successful track record of high capacity utilization (an average of over 90% in last four years) and has successfully expanded its capacity to 9000tpa.
- The proposed expansion plan is to further expand its capacity to 27,600tpa and to set up a windmill with power generating capacity of 1.5MW, for captive consumption.
- CARE has assigned Grade 3 to the IPO indicating average fundamentals (for details refer to page 2)
- According to the recent press reports, Eicher Motors Ltd is entering into a JV with AB Volvo for its commercial vehicles and components business. Volvo would acquire an 8.1% stake in Eicher to give it a 50% stake in the JV.

**Company background**

Incorporated and converted into a public limited company in 1992, PACL was listed on the OTCEI in 1994. It manufactures and sells Spheroidal Graphite (SG or ductile) Iron and CI castings for the automobile sector. Its manufacturing facilities are located at Pithampur, near Indore in Madhya Pradesh.

### Promoter background

Mr. Surendra Jain, founder and Chairman, holds a degree in mechanical Engineering, and has experience of over 33 years in automobile industry.

Mr. Devendra Jain, Managing Director, is a bachelor in mechanical engineering from BITS, Pilani, with an extensive experience of more than 28 years in the auto components industry

### Business Overview

PACL manufactures around 12 different categories of castings in SG Iron and Grey Iron. Hubs, different carriers and cases, bracketory components, transmission cases, T G cases, housings & cover components, brake drums, links components, pulleys, pump parts, exhaust manifolds and Bends are some of the products manufactured by the company which find applications in automobile and engineering sector.

PACL commenced operations in 1995 with a capacity of 3,600 tpa. The capacity over the years has been increased to 9,000 tpa. Now it is TS: 16949 accredited company.

Eicher Motors accounted for 84% of its sales in FY07. PACL claims to be a preferred supplier of hubs, brake drums and housings to Eicher Motors. The products are made as per customer specifications and designs.

In-house technical development leading to better quality with improved cost economics has enabled the company to get a large share of Eicher Motor's requirements of some varieties of castings.

### Types of Castings

Over the years, PACL has improved its production methods and quality systems so as to provide the controlled process and quality refinement required for the production of SG Iron castings. PACL has tie-ups with state-of-the-art machine shops comprising CNC machines and special and general purpose machines, with capability and capacity to machine and finish the castings into ready to use components as per customer requirements.

### Product Range

PACL has a wide range of products that meet the specific requirements of different industries. Beginning as low as 0.5 kg, PACL offers parts up to 120 kgs in weight and in a choice of several grades of Grey & Ductile Iron. PACL manufactures parts to be used in various applications in automobiles, tractors, auto components and engineering.

### Top Clients for FY07

Name of the Party	% of Sales
Eicher Motors Ltd	84.43
Applied Auto Parts Pvt. Ltd.	5.37
L & T Case Equipments Pvt. Ltd	2.01
JMT Auto Ltd.	1.91
Shakthi Pumps (India) Ltd	1.83
Man Force Trucks Pvt. Ltd	0.99
Force Motors Ltd (Pithampur)	0.70
Gajra Gears Ltd.	0.38
Minerva Automotives Pvt. Ltd	0.27

### Rationale of CARE assigning Grade 3

PACL has been assigned Grade 3 to its public offering of 50 lakh shares, indicating average fundamentals. The grading takes into account PACL's established operations in auto component industry, with its status as an ancillary unit of Eicher Motors Ltd, its supply relationship with other reputed companies and experience of technically qualified promoters

## Industry Overview

### The Indian Foundry Scenario

In India there are over 6500 foundries in the small, medium, and large-scale sectors and approximately 80% are in the small scale. India exports annually above Rs3000Cr worth of castings to countries like USA, U.K., Canada, and Germany etc.

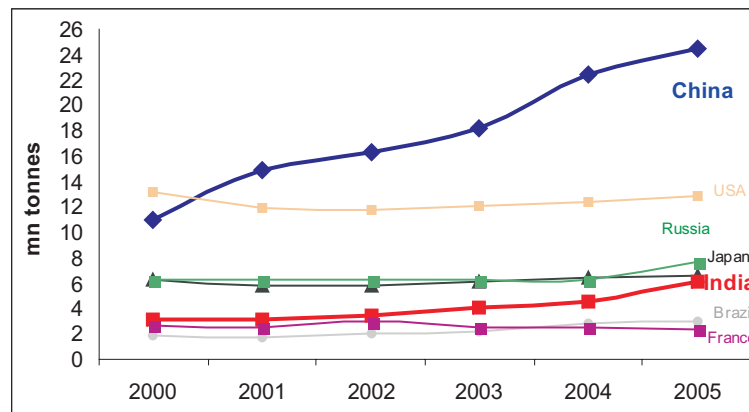
The Basic technologies have undergone change with emphasis more on environmental consciousness. Technologies have now to conform to more and more stringent environmental norms. The foundry population in the US and Europe has declined over the last 20 years largely due to the cost of legislative compliance.

This has given the Indian producers a good opportunity for export market. But then a re-emergence in the developed world would be with cleaner technology. A study conducted by EXIM bank has shown that in the last 10 years the exports of castings from India have increased seven-fold.

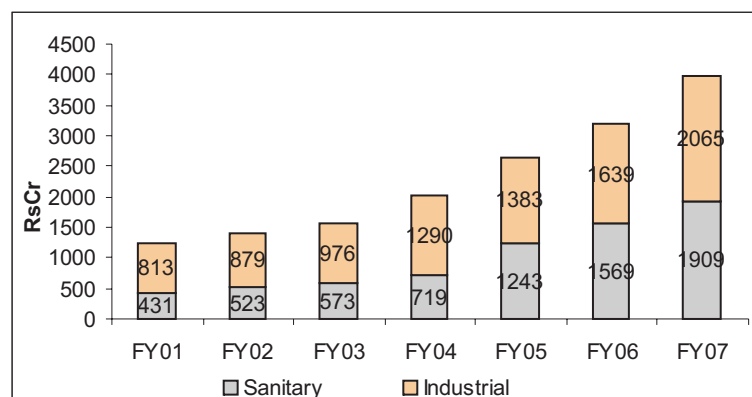
One of the reasons for the growth in foundry industry is the increasing automobile sales in India. The following are a few types of castings used by commercial vehicles and tractors:

- Engine Blocks and Heads Flywheels
- Flywheel Housing
- Differential Carriers
- Wheel Hubs
- Brake Drums
- Shackles
- Brackets
- Transmission Case
- Centre Housing
- Clutch Housing
- Axle Housing
- Hydraulic and Lift Cover

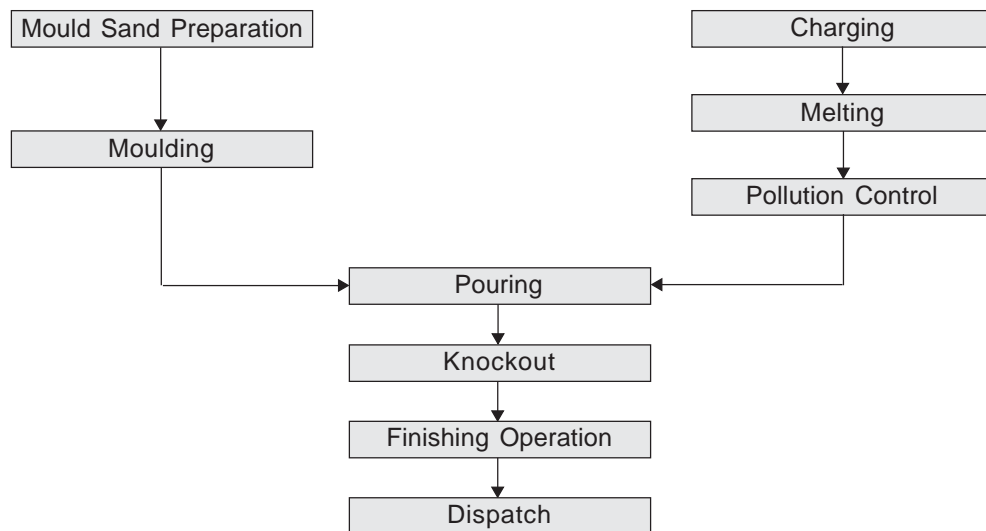
Production of castings in India and China during 2000-05 rose @ CAGR of 14.4% and 17.4% respectively, whereas US and France registered negative growth reflecting shift of production base and an opportunity for India and China.



### Growing trend of India's Exports of castings



**Process flow chart of a typical foundry**



**Overview of Auto Component Industry**

India is emerging as a global automobile component manufacturing base. In recent years, this industry has made pioneering efforts in adopting modern technology and allowing the entry of foreign players. This is well supported by the economic conditions particularly in the financial sector and in foreign direct investment.

During the last decade, conscious efforts have been made to fine-tune state policy to enable the Indian automobile industries realize its potential to the fullest. The freeing of the industry from this restrictive environment has helped it to itself to global development.

Increasing competition as result of liberalization has led to continuous modernization as well as international standards. Moreover, auto finance coupled with soft interest rates has played a major role in boosting automobile sales.

**Outlook of Auto Component Industry in India**

The Indian auto component industry is likely to double to \$18.7bn by 2009 and \$40bn by 2014. A number of global auto majors source critical components from India, with engine parts making up nearly one third of all exports

The Indian automotive components industry is rapidly transforming itself from a low-volume, fragmented sector, into a highly competitive sector characterized by world-class technology, large and assured volumes, and adherence to strict delivery schedules as specified by global vehicle manufacturers.

The value proposition of the sector includes low labour cost, raw material availability, technically skilled manpower and quality assurance. An average cost reduction of nearly 25-30% has attracted several global automobile manufacturers to set up manufacturing bases in India.

The Indian automotive components industry has been preparing itself to meet this structural transformation. In particular, most Indian companies have entered into technological collaborations and equity partnerships with world leaders in automotive components.

Besides, subsidiaries of global vehicle manufacturers have set up manufacturing facilities in India. This, in turn, is expected to enable the Indian automotive industry to measure up to stringent quality standards and imbibe latest technology. Additionally, these companies shall also need to make higher investments to improve their R & D capabilities.

## Installed and Production Capacity

Particulars	FY04	FY05	FY06	FY07
Installed capacity (tpa)	4080	5970	5970	7400
Production (tonnes)	4075	5344	5589	6745
Capacity Utilization	99.90%	89.50%	93.60%	91.10%

## Project overview and Means of Finance

### Expansion Project

In order to enhance its product portfolio further, the company has been implementing an expansion project to increase its installed capacity from 6,600 tpa to 27,600 tpa. Under the first phase of the expansion project, the capacity has been expanded from 6,600 to 9,000 tpa.

The project comprises of

- Expansion of manufacturing capacity at Pithampur from 9,000 tpa to 27,600 tpa
- Setting up of one wind mill, with power generation capacity of 1.5MW, to be used for captive consumption.

Objects	RsCr
Plant & Machinery	30.66
Wind Mill	9.90
Miscellaneous Fixed Assets	5.49
Factory Building	5.45
Pre-Operative Expenses	2.07
Contingencies	1.51
Land	0.18
Public issue expenses	-
Working Capital Margin	-

### Means Of Finance

	RsCr
Public Issue	-
Preferential Allotment of equity shares	8.00
Term Loan from State Bank of Indore	12.00
Unsecured Loan	2.50
Internal Accruals	1.77

### Risk Factors

Please refer to the RHP for a complete listing of risk factors.

### Investment Concerns

Client concentration risk as Eicher Motors contributed 84% of its FY07 sales.

**Profit and Loss Statements**

(RsCr)

For period ending	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	30.09.07
<b>Income</b>						
Sales turnover	13.87	19.09	27.45	25.79	33.97	17.75
Excise Duty	2.01	2.55	4.04	3.78	4.45	1.91
<b>Net Sales</b>	<b>11.86</b>	<b>16.54</b>	<b>23.41</b>	<b>22.01</b>	<b>29.52</b>	<b>15.83</b>
Operating expenses	8.59	12.69	18.85	17.66	22.99	12.04
Staff costs	1.24	1.25	1.27	1.27	1.56	0.73
Admin & selling exps	0.50	0.51	0.56	0.74	2.18	1.17
<b>Total Expenditure</b>	<b>10.33</b>	<b>14.46</b>	<b>20.67</b>	<b>19.66</b>	<b>26.73</b>	<b>13.94</b>
<b>EBIDTA</b>	<b>1.53</b>	<b>2.08</b>	<b>2.74</b>	<b>2.35</b>	<b>2.78</b>	<b>1.89</b>
Other Income	0.00	0.00	0.00	0.00	0.00	0.00
Interest & Fin. Exps	0.66	0.57	0.36	0.16	0.24	0.60
<b>EBDT</b>	<b>0.87</b>	<b>1.51</b>	<b>2.38</b>	<b>2.19</b>	<b>2.55</b>	<b>1.29</b>
Depreciation	0.71	0.80	0.76	0.84	1.05	0.53
<b>Profit before Tax</b>	<b>0.15</b>	<b>0.71</b>	<b>1.61</b>	<b>1.35</b>	<b>1.49</b>	<b>0.77</b>
Current Tax	0.00	0.04	0.13	0.13	0.15	0.00
Deferred Tax	0.07	0.23	0.02	0.00	0.00	0.00
Fringe Benefit Tax	0.00	0.00	0.00	0.01	0.02	0.01
<b>Total Tax</b>	<b>0.07</b>	<b>0.27</b>	<b>0.14</b>	<b>0.14</b>	<b>0.17</b>	<b>0.01</b>
<b>PAT before E.I.</b>	<b>0.09</b>	<b>0.44</b>	<b>1.47</b>	<b>1.21</b>	<b>1.32</b>	<b>0.76</b>
Loss on sale of fixed assets	0.01	0.00	0.02	0.01	0.00	0.00
Preliminary expenses W/O	0.01	0.01	0.00	0.01	0.01	0.00
<b>Profit after Tax</b>	<b>0.06</b>	<b>0.43</b>	<b>1.45</b>	<b>1.19</b>	<b>1.32</b>	<b>0.76</b>
<b>EBIDTA margin</b>	<b>12.9%</b>	<b>12.6%</b>	<b>11.7%</b>	<b>10.7%</b>	<b>9.4%</b>	<b>12.0%</b>
<b>EPS (Rs)</b>	<b>0.29</b>	<b>2.03</b>	<b>6.91</b>	<b>1.18</b>	<b>1.30</b>	<b>0.75</b>
<b>Book value(Rs)</b>	<b>3.19</b>	<b>5.22</b>	<b>11.56</b>	<b>10.74</b>	<b>11.49</b>	<b>11.78</b>
<b>PAT margin</b>	<b>0.5%</b>	<b>2.6%</b>	<b>6.2%</b>	<b>5.4%</b>	<b>4.5%</b>	<b>4.8%</b>

**Balance Sheets**

(RsCr)

As on	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	30.09.07
<b>Sources of Funds</b>						
Paid up Equity Capital	2.10	2.10	2.10	10.10	10.10	10.10
Reserves and surplus	-1.43	-1.00	-0.07	0.75	1.50	1.79
Share Application Money	0.00	0.00	0.40	0.00	0.00	0.00
<b>Total Shareholders Funds</b>	<b>0.67</b>	<b>1.10</b>	<b>2.43</b>	<b>10.85</b>	<b>11.60</b>	<b>11.89</b>
Secured Loans	3.83	3.06	1.61	7.43	13.06	14.48
Unsecured Loans	2.86	3.31	3.89	3.98	6.34	5.82
<b>Total Debt</b>	<b>6.68</b>	<b>6.37</b>	<b>5.50</b>	<b>11.41</b>	<b>19.40</b>	<b>20.30</b>
<b>Total Liabilities</b>	<b>7.35</b>	<b>7.47</b>	<b>7.93</b>	<b>22.26</b>	<b>31.00</b>	<b>32.19</b>
<b>Applications of Funds</b>						
Gross Block	8.61	9.73	10.52	22.93	34.24	36.77
(-) Depreciation	3.58	4.37	5.12	5.94	6.99	7.52
<b>Net Block</b>	<b>5.04</b>	<b>5.36</b>	<b>5.40</b>	<b>16.99</b>	<b>27.25</b>	<b>29.25</b>
Capital work in progress	0.00	0.00	1.44	0.00	0.00	0.00
Investments	0.00	0.00	0.00	0.01	0.01	0.01
<b>Curr. Assets, Loans &amp; Adv.</b>						
Inventories	1.68	1.95	1.88	4.48	5.14	3.32
Cash & Bank balances	0.21	0.22	0.02	0.02	0.02	0.02
Sundry Debtors	1.19	0.65	0.66	0.50	1.01	2.22
Loans & Advances	0.49	0.79	0.62	3.58	3.71	3.05
<b>Total Current Assets</b>	<b>3.57</b>	<b>3.62</b>	<b>3.18</b>	<b>8.58</b>	<b>9.88</b>	<b>8.61</b>
Current Liabilities	1.47	1.46	1.44	2.51	4.79	4.13
Provisions	0.04	0.07	0.13	0.13	0.15	0.15
<b>NET Current Assets</b>	<b>2.06</b>	<b>2.08</b>	<b>1.61</b>	<b>5.95</b>	<b>4.94</b>	<b>4.34</b>
Deferred Tax Liab./Asset(-)	0.25	0.02	-0.52	-0.89	-1.45	-1.92
Preliminary exps not written off	0.01	0.00	0.00	0.19	0.25	0.50
<b>Total Assets</b>	<b>7.35</b>	<b>7.47</b>	<b>7.93</b>	<b>22.26</b>	<b>31.00</b>	<b>32.19</b>

**Keynote Capitals Ltd.**

**Member**

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Over the Counter Exchange of India Ltd. (INB 200930535)  
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

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