

Tata Autocomp Systems Ltd

CRISIL IPO Grade 3/5 (Average)

May 04, 2011

Grading summary

CRISIL has assigned a CRISIL IPO grade of '3/5' (pronounced "three on five") to the proposed IPO of Tata Autocomp Systems Ltd (Tata Autocomp). This grade indicates that the fundamentals of the IPO are average relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor.

The assigned grade takes into account the established position of Tata Autocomp in the Indian auto component industry, which is on a sustained growth trajectory thanks to increased automobile sales and rising exports. CRISIL Research expects this industry to grow at 14-16% CAGR over FY10-15. The grade factors in the company's long-standing relationship with its largest client, Tata Motors Ltd (contributed 48% of H1FY11 revenues), and established relationship with other original equipment manufacturers (OEMs) such as Fiat India, General Motors, Toyota and Mahindra & Mahindra. The grade also reflects the company's diverse product profile, which helps it meet the varied requirements of its customers and garner a larger share in the value of the vehicle. Its joint ventures (JVs) with leading international companies open doors to their global OEM clients who have a presence in India, and also provide access to newer products and technologies. Also, to improve efficiency and reduce costs, the company has undertaken a restructuring exercise whereby it exited non-core JVs and businesses.

The grade is constrained by the highly competitive nature of the auto component industry due to the presence of few dominant OEMs and a large number of auto component manufacturers. The grade factors in the presence of various audit qualifications over FY08-10, which were subsequently dropped. It also takes into account Tata Autocomp's weak historical performance. Its two German subsidiaries posted losses due to which, in FY09, the company had to make provision of Rs 1,040 mn for diminution in value of investment in them. Also, the guarantee given by the company on loans taken by the subsidiaries was invoked (the company has paid off the guarantee). It resulted in significant erosion of the company's net worth. High client concentration and management of JVs remain key monitorables.

The company's consolidated income grew at a two-year CAGR of 7.8% to Rs 24,342 mn in FY10; it posted revenues of Rs 13,352 mn in H1FY11. It posted PAT of Rs 858 mn and Rs 444 mn in FY10 and H1FY11, respectively; reported EPS during FY10 was Rs 4. Its net worth as of end-September 2010 was Rs 1,902 mn.

Contacts:

Media

Mitu Samar

Head, Market Development & Communications

CRISIL Limited

Phone: +91-22-3342 1838

Mobile: +91-9820061934

Fax: +91-22-3342 3001

Email: msamar@crisil.com

Analytical

Tarun Bhatia

Director – Capital Markets

Phone: +91-22-3342 3226

Email: tbbhatia@crisil.com

Chetan Majithia

Head, Research

Phone: + 91-22-3342 4148

Email: chetanmajithia@crisil.com

CRISIL Limited

Phone: +91-22-3342 3000

Fax: +91-22 -3342 3501

Client - servicing

Client servicing

Phone: +91-22-3342 3561

Email: clientservicing@crisil.com

About the company

Tata Autocomp Systems Ltd (Tata Autocomp) is a TATA Group company and is promoted by Tata Industries and Tata Sons. It was incorporated on October 17, 1995 as a private limited company and was subsequently converted into a public limited company on April 25, 1996. The company manufactures a variety of components, assemblies and aggregates for passenger vehicles, commercial vehicles and tractors. It caters mainly to India-based OEMs.

The company operates through its various subsidiaries and joint ventures. Historically, it has followed a strategy of entering into joint ventures with foreign auto-component manufacturers to secure access to their technology and product portfolio. It has long-standing joint ventures with international majors such as Johnson Controls Holding Company Inc (USA), Toyo Radiators Corporation Ltd, etc. Each of its subsidiaries and joint ventures caters to particular product areas.

The company's pan-India manufacturing facilities are located in proximity to its OEM customers. While Tata Motors is its biggest customer, it also caters to OEMs such as Fiat India, Ford India, Mahindra & Mahindra, Ashok Leyland, Toyota, General Motors, etc.

Issue details

Type of issue	Fresh issue and offer for sale by promoters
Fresh Issue	Rs 7,500 million
Face value	Rs 10
Objects of the fresh issue	<ul style="list-style-type: none"> - Capital expenditure in IPD; - Investment in TACOCL, one of our Subsidiary, for funding capital expenditure; - Repayment and/or pre-payment of certain loans; - Redemption of preference shares; - Working capital requirements; - General corporate purposes; and - Achieve the benefit of listing on the Stock Exchanges.
Price Band	Not available at time of grading
Offer for sale	35,627,000 Equity Share
Lead Managers	JM Financial Consultants Pvt. Ltd, Tata Capital Markets Ltd, J.P. Morgan India Pvt. Ltd
Legal Advisors to the Issue	Domestic to Company: AZB & Partners, Domestic to underwriters: S&R Associates International to underwriters: Clifford Chance, CC Asia Ltd.
Registrar to the issue	Link Intime India Pvt. Ltd

Source: DRHP

Detailed Grading Rationale

A. Business Prospects

- *Indian auto component industry to grow at 14-16% CAGR over FY10-15*

We expect rising income levels, increasing addressable market due to launch of ultra low cost cars, new product launches combined with growing economic activity and attractiveness of India as a global manufacturing hub will boost automobile production in India. The rising production of automobiles will in turn increase the demand for automobile components.

CRISIL Research expects the Indian auto component industry to witness a strong 14-16% CAGR over FY10-15 to reach Rs 2,400-2,480 bn. Sales to automobile OEMs are estimated to grow at 15-17% CAGR whereas exports will grow at 20-22% CAGR over FY10-15 driving overall growth in the component industry.

- *Strong relationship with Tata Motors*

Tata Motors has been the company's single largest client, accounting for nearly 38%, 40%, 47% and 48% of its revenues in FY08, FY09, FY10 and H1FY11, respectively. Tata Motors holds 60% market share in the domestic commercial vehicles segment and 11% of the passenger cars and utility vehicle segments (Source: CRISIL Research). Further, we believe Tata Motors will continue to launch new products/variants and Tata Autocomp, given its long-established relationship, will benefit from these new product launches.

- *Established relationship with other growing OEMs*

Tata Autocomp has established relationships with other growing OEMs too - FIAT India, Ford India, Toyota, and General Motors in the PV and UV segments and Ashok Leyland, Mahindra & Mahindra, John Deere India and Piaggio Vehicles in the CV segment. We expect the company to benefit from the strong volume growth of these growing OEMs.

- *Diversified product profile*

Tata Autocomp, along with its subsidiaries and joint ventures, has a diversified product profile that caters to varied customer needs. Its product portfolio covers components for vehicles interiors, exteriors, engine cooling systems, seating, wiring harness, batteries, sheet metal parts, suspension for commercial vehicles mirrors etc. Further, it has manufactured components for passenger cars, utility vehicles, tractors and light and heavy commercial vehicles.

The diversified product profile helps the company garner an increasing share in the total value of the vehicles. The company intends to further increase its domestic product profile by bringing in newer products from its existing JV partners.

- *Joint ventures with reputed international players*

The company enters into joint ventures with reputed international auto components manufacturers - such as T. Rad, Johnson Control Inc, Yazaki Corporation, Ficosa International and Hendrickson International - for various products. The company has successfully maintained some of its joint ventures over a long period of time. The joint ventures provide the company with the following advantages:

- Gives access to its global partners' technological innovations and resultant new products, and also to the existing international product portfolio
- Tata Autocomp's OEM customers enjoy added comfort about the quality of the product supplied.
- Helps Tata Autocomp to explore opportunities with the joint venture partners' global customers who have operations in India.

Company Name	Products	JV Partner
Tata Toyo Radiator Ltd	Radiators, intercoolers, heater cores, condensers, complete CRFM, exhaust gas recirculation coolers	Toyo Radiator Co. Ltd, Japan (40.25%) and Mitsubishi Corporation (8.75%)
Tata Johnson Controls Automotive Ltd	Seating systems, seating components and floor console for passenger cars and commercial vehicles (including buses)	Jhonson controls Inc.
Tata Yazaki Autocomp Ltd	Wiring harnesses and battery cables	Yazaki Corporation, Japan
Tata AutoComp GY Batteries Ltd	Automotive batteries (lead acid storage batteries)	GS Yuasa International, Japan
Tata Ficosa Automotive systems Ltd	Interior and exterior rear view systems, gear shifters, control cables, parking brake systems and washer systems	Ficosa International, Spain
TACO Hendrickson Suspensions Pvt. Ltd	Suspension systems for CV and auxiliary axles systems	Hendrickson International corporation, USA

Source: DRHP

- *Industry is highly competitive with few OEMs and a large number of suppliers*

A handful of OEMs dominate the Indian auto industry. In the CV segment, Tata Motors is the dominant player with 60% production share whereas Maruti and Hyundai collectively own 70% of the PV and UV segments. In contrast, there are a large number of auto component manufacturers catering to these OEMs. OEMs have high pricing power and do not provide any firm volume contracts, which render the auto component manufacturing industry into a highly competitive one.

- *Historical performance - weak and volatile*

The company reported Rs 347 mn in restated profits in FY06. But subsequently, its financial performance deteriorated sharply. It posted losses of Rs 290 mn in FY08 and of Rs 1,553 mn in FY09 (restated figures). Its Germany-based subsidiaries, TACO Kunststoffechnik GmbH (TKT) and TACO Grundstuckverwaltungs GmbH (TGV), which were into manufacturing of automotive plastics, incurred substantial losses during the economic down turn. The company had to make provision of Rs 1,040 mn for diminution in value of investment in these subsidiaries in FY09. Further, the guarantee provided by the company on the loans taken by the subsidiaries was invoked (company has subsequently paid the guarantee amount). It resulted in substantial erosion of net worth of the company. Also, the company had in the past breached financial covenant on a US\$23 mn loan, which resulted in higher interest rate on the loan.

- *Restructuring programme to bring in focus*

As a response to deterioration in its financials, in 2009, the company initiated a major restructuring programme which included exiting businesses that lacked significant growth opportunities or those that were not a part of its core competency. It also targeted improving efficiencies and reducing costs to improve profitability. The restructuring involved:

- Exiting the loss-making German subsidiaries and Tata Visteon Automotive Ltd.
- Exiting TC Springs, Knorr-Bremse, TACO Faurecia, TACO SASKEN Automotive and TACO Mobility Telematics as these were non-core businesses or suffered growth constraints.
- Reducing its focus on exports, closing down global offices and reducing headcount in these operations.
- Acquiring the outstanding 26% share holding in TACO Composites Ltd. and purchase an additional 37.5% stake in Automotive Stampings and Assemblies Ltd.

- *Management of joint ventures is a key monitorable*

The company's joint ventures provide it with access to new products and the latest technology and also help to explore business opportunities with new clients. The company has a mixed track record of managing its joint ventures; while some are still running, it did exit a few. If the vision of a joint venture partner is not in sync with Tata Autocomp, decision making would suffer and consequently impact the business. Thus, the management of joint ventures will be a key monitorable.

B. Financial Performance

The company's consolidated income grew at a two-year CAGR of 7.8% to Rs 24,342 mn in FY10 whereas the company posted revenues of Rs 13,352 mn in H1FY11. EBITDA margins expanded by 266 bps to 10.4% in H1FY11 from 7.7% in FY08 due to improvement in the economic environment and the company's restructuring exercise. The restated net profit stood at Rs 858 mn in FY10 against a loss of Rs 290 mn in FY08. For H1FY11, the company reported profits of Rs 444 mn.

The company had to write off Rs 1,040 mn in FY09 for its investments in the two German subsidiaries, which eroded the company's net worth to Rs 831 mn in FY09 from Rs 2,454 mn in FY08. Due to the low base, the company's RoNW stood at 87% in FY10, which subsequently came down to 31% in H1FY11.

Financial performance snapshot (consolidated)

Particulars	Unit	FY08	FY09	FY10	H1FY11
Total Income	Rs mn	20928	22352	24342	13352
EBITDA	Rs mn	1612	489	2970	1384
EBITDA margins	%	7.7	n.m.	12.2	10.4
Restated net profits	Rs mn	-290	-1553	858	444
Net margins	%	n.m.	n.m.	4	3
RoNW	%	n.m.	n.m.	87	31
Restated basic & diluted EPS	%	-2.07	-8.93	4.0	2.1
No. of equity shares (FV of Rs 10)*	Rs	168	201	201	201
Net worth	Mn	2454	831	1472	1902
net debt – equity	Rs mn	2.9	9.1	3.7	2.7
Current ratio	Times	1.5	1.4	1.2	1.3

Source: DRHP, CRISIL

C. Management Capabilities and Corporate Governance

- *Board composition*

The board consists of twelve directors of whom six are independent directors. The board is chaired by Mr. Ramabadrnan Gopalkrishnan; Mr. Rameshwar Thakur is the managing director and chief executive officer. The board consists of four non-executive directors who are associated with the Tata group. The board members are highly qualified and well-experienced.

- *Experienced top and second line*

Mr. Rameshwar Thakur, who heads the management, has worked with Tata Motors for over 35 years and is well-experienced in areas of finance, business planning, treasury and M&A. He joined the company as an executive director in December 2007 and has been the MD & CEO since December 2010. He is supported by Mr. Amitabha Mukhopadhyay, the group CFO, who has 21 years of experience in the industry. The company's second line management has more than 25 years of relevant experience in the industry.

- *Independent directors highly qualified but only recently inducted*

All the independent directors have been inducted into the company's board in December 2010. Two of the independent directors have been on the board of the company's subsidiary of the company viz., Automotive stampings and Assemblies Ltd. Some of the independent directors are also on the board of other auto component manufacturing companies and hence have industry relevant experience.

- *Audit qualifications*

The auditors of the company have qualified their reports on the consolidated accounts of the company for FY08, FY09 and FY10. The qualification related to following aspects:

One of the JVs, Tata Yazaki Autocomp Ltd, did not make provisions for additional excise duty, interest and penalty pursuant to the Settlement Commission's final order. In FY10, the amount aggregated to Rs 122 mn. The company has made a provision for its share in the amount in the restated financials, and accordingly the qualification was dropped in the September 2010 audited accounts.

In FY08, the auditors made qualification for weak internal control systems and absence of quantitative records for one of its subsidiaries, TACO Composites Ltd. The management has indicated that certain financial irregularities were detected in the subsidiaries and that it has taken appropriate legal steps as well as steps to strengthen the internal processes.

In the standalone entities, provisions have not been made in FY09 for diminution in value of its investment in the two joint ventures, Tata AutoComp GY Batteries Ltd and Tata Yazaki Autocomp Ltd, whose net worth had substantially eroded. Due to turnaround in performance of these joint ventures the qualification was dropped in FY10.

Annexure I

Business Profile

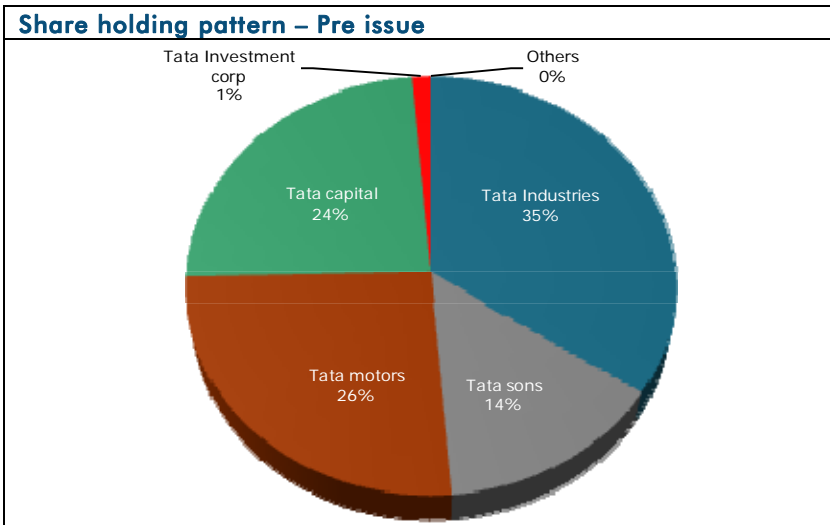
The company manufactures and supplies a variety of components, assemblies and aggregates to automotive OEM and other domestic customers. The company has followed the strategy of entering into joint ventures with reputed international auto-component manufacturers. Such joint ventures provide the company access to the partner's product portfolio and access to continuous technological innovations in the products. However, this restricts the customer base of the company to OEMs within India. The company has formed separate subsidiaries and JVs for each category of automotive components.

The company's primary customer is Tata Motors, which accounts for nearly 48% its revenues; other OEM customers include Fiat India, Toyota, General Motors, Ford India, Mahindra & Mahindra, etc.

Name of company	stake	Business/ Products	Major clients
Tata AutoComp Systems Ltd	Parent	Interiors & Plastics Division (IPD), supply chain management (SCM), TACO Engineering Centre (TACOE)	IPD: Tata Motors, Toyota, General Motors, Mahindra & Mahindra SCM: Borg Warner, Husqvarna, US, Lotus, Honeywell-Europe.
Subsidiaries			
Automotive Stamping & Assemblies Ltd	75%	Sheet metal stampings & assembly, sub-frame assembly and rear twist beam	Tata Motors, General Motors, Piaggio
Tata Toyo Radiator Ltd	51%	Radiators, intercoolers and heater cores	Tata Motors, Ashok Leyland, Mahindra & Mahindra
TACO Composites Ltd	100%	Moulded composites used in spoilers, panels and hoods	Tata Motors, John Deere, Swaraj Mazda, Man Force Trucks, New Holland Fiat India, Ashok Leyland, Eicher Tractors
Taco Holdings (Mauritius) Ltd	100%	Holding company for German subsidiaries. In process of Liquidation	
Nanjing Tata AutoComp Systems Ltd	100%	Air vents, grab handles, cowl grille and extended dash panels	Shanghai General Motors Corporation Ltd, China and Adam Opel GmbH Germany
Joint ventures			
Tata Johnson Controls Automotive Ltd	50%	Seating systems	Tata Motors, Fiat, Toyota, Ford, Mahindra & Mahindra, Honda, Skoda Auto India Pvt. Ltd
Tata Yazaki Autocomp Ltd	50%	Wiring harnesses	Tata Motors, Toyota, Honda, Volkswagen, General Motors and Fiat.
Tata AutoComp GY Batteries Ltd	50%	Lead acid storage batteries	Tata Motors, Toyota and Piaggio.
Tata Ficosa Automotive Systems Ltd	50%	Interior and exterior rear view systems, gear shifters, control cables and washer systems	
TACO Hendrickson Suspensions Pvt. Ltd	50%	Suspension systems	

Source: DRHP

(One-time assessment)



Source: DRHP

Annexure II: Profile of the Directors

Name	Age	Designation	Yrs of Experience	Date of joining	Qualification	Other directorship
Mr. Ramabadrnan Gopalakrishnan	65	Chairman	43	27-Jun-01	Graduate in Physics (Calcutta University), Degree in Engineering from IIT	Tata Sons Ltd, Tata Chemicals Ltd, Tata Power Co. Ltd, Rallis India Ltd, Tata Technologies Ltd, Akzo Nobel India Ltd, Castrol India Ltd, IMACID S.A., ABP Pvt. Ltd, Advinus Therapeutics Pvt. Ltd, Trust Energy Resources Pte Ltd, Singapore
Mr. Rameshwar Singh Thakur	62	Managing director and chief executive officer	35	27-Nov-08	Bachelor's degree in Mechanical Engineering, PGDBM (XLR). CMA (CIMA, London)	Tata AutoComp GY Batteries Ltd, Automotive Stampings & Assemblies Ltd, TACO Composites Ltd, Tata Johnson Controls Automotive Ltd, Tata Yazaki AutoComp Ltd, TACO Saskaen Automotive Electronics Ltd, Nanjing Tata AutoComp Systems Ltd, Drive India Enterprise Solutions Ltd, TAL Manufacturing Solutions Ltd
Mr. Rajendra Ramdas Bhinge	58	Non-executive director	35	30-Jul-04	Electrical Engineering (IIT Mumbai), PGDBM (IIM, Ahmedabad)	Tata Johnson Controls Automotive Ltd, Nelco Ltd, Infiniti Retail Ltd, Computational Research Laboratories Pvt. Ltd
Mr. Satish Pradhan	55	Non-executive director	30	3-May-02	Master's in History (Delhi University)	TAL Manufacturing Solutions Ltd, Tata Services Ltd, Computation Research Laboratories Ltd, Tata AutoComp GY Batteries Ltd
Mr. Kishor Anant Chaukar	63	Non-executive director		30-Mar-99	BA - Economics (Karnataka University), PGDBM (IIM, Ahmedabad)	Tata Industries Ltd, Tata Teleservices Ltd, Tata Communications Ltd, Tata AIG Life Insurance Co. Ltd, IDFC Pvt. Equity Co. Ltd, Tata Investment Corp. Ltd, Tata Business Support Services Ltd, Tata Petrodyne Ltd, TSR Darashaw Ltd, Praj Industries Ltd, Tata Communications International Pte Ltd, Tata Yazaki AutoComp Ltd, Tata Teleservices (Maharashtra) Ltd, Advinus Therapeutics Private Ltd
Mr. Praveen Purushottam Kadle	53	Non-executive director	18	18-Mar-09	Masters in History (Delhi University)	Tata Capital Ltd, Tata Capital Markets Ltd, Tata Motors Finance Ltd, Tata Motors Insurance Broking & Advisory Services Ltd, Tata Securities Ltd, e-Nxt Financial Ltd, Tata Technologies Ltd, Tata Toyo Radiators Ltd, Tata Technologies Europe Ltd UK, TC Travel and Services Ltd, Tata Capital Housing Finance Ltd, Tata Technologies Pte Ltd, Singapore, Tata Technologies Inc, US, INCAT International Plc., UK, Tata Capital Plc., UK, Tata Capital Pte Ltd, Singapore, Tata Capital Advisors Pte Ltd, Singapore, Tata Capital Markets Pte Ltd, Singapore, International Asset Reconstruction Co. Pvt. Ltd, TT Holdings and Services Ltd, Tata Capital Financial Services Ltd

Name	Age	Designation	Yrs of Experience	Date of joining	Qualification	Other directorship
Mr. Naushad Forbes	50	Independent director	23	16-Dec-2010	Bachelor's and Master's degrees (Stanford University), Ph.D in Industrial Engineering, B.A.S. in Industrial Engineering & History (Stanford University)	Godrej Industries Ltd, Kirloskar Engines India Ltd, Spirax Marshall Pvt. Ltd, J.N. Marshall Pvt. Ltd, Forbes Marshall Pvt. Ltd, Forbes Marshall Arca Pvt. Ltd, Forbes Polymetron Pvt. Ltd, Krohne Marshall Pvt. Ltd, Rapideffect Pvt. Ltd, Forbes Marshall Codel Pvt. Ltd, Forbesvyncke Pvt. Ltd, Forbes Marshall (Hyd) Pvt. Ltd, Jump Associates, San Mateo, California, Forbes Marshall Canada, Inc., Forbes Marshall (Lanka) Pvt. Ltd, Codel international Inc., U.K.
Mr. Lakshman Lakshminarayan	64	Independent Director	40	09-Dec-2010	Mechanical Engineer (University of Madras), alumnus of London Business School, London, UK.	Kar Mobiles Ltd, Rane (Madras) Ltd, Rane NSK Steering Systems Ltd, Rane TRW Steering Systems Ltd, Rane Holdings Ltd, Rane Engine Valve Ltd, JMA Rane Marketing Ltd, Rane Brake Lining Ltd, Force Motors Ltd, DCM Engineering Ltd, Automotive Stampings and Assemblies Ltd
Dr. Rakesh Mohan	63	Independent Director		16-Dec-2010	BA-Economics (Yale University), Master's and Doctorate - Economics (Princeton University) BSc-Electrical Engineering (Imperial College of Science and Technology, University of London)	Nestle India Ltd, Sona Koyo Steering Systems Ltd, DSP Blackrock Pvt. Ltd, Indian Institute for Human Settlements
Mr. Ram Nath Mukhija	66	Independent Director		09-Dec-2010	Electrical Engineering (IIT Kharagpur)	Larsen & Turbo Infotech Ltd, L&T Solar Ltd, Voltas Ltd
Mr. Hari Lakshminarayan Mundra	61	Independent Director	39	09-Dec-2010	Alumnus of the Indian Institute of Management, Ahmedabad	Ceat Ltd, Future Focus Infotech Pvt. Ltd, Aegon Trustee Co. Pvt. Ltd
Mr. Ramesh Amrut Savoor	66	Independent Director	34	09-Dec-2010	BSc- Chemistry, BTech (Ruia College, Mumbai)	E.I.D Parry Ltd, Foseco India Ltd, Automotive Stampings and Assemblies Ltd, Coromandel International Ltd, Parry Infrastructure Pvt. Ltd, FIL Fund Management Pvt. Ltd, Divgi Warner India Pvt. Ltd, Thomas Cook India Ltd

Source: DRHP

Disclaimer

A CRISIL IPO grading is a one-time assessment and reflects CRISIL's current opinion on the fundamentals of the graded equity issue in relation to other listed equity securities in India. A CRISIL IPO grading is neither an audit of the issuer by CRISIL nor is it a credit rating. Every CRISIL IPO grading is based on the information provided by the issuer or obtained by CRISIL from sources it considers reliable. CRISIL does not guarantee the completeness or accuracy of the information on which the grading is based. A CRISIL IPO grading is not a recommendation to buy / sell or hold the graded instrument; it does not comment on the issue price, future market price or suitability for a particular investor.

CRISIL is not responsible for any errors and especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of CRISIL IPO gradings. For information on any IPO grading assigned by CRISIL, please contact 'Client Servicing' at +91-22-33423561, or via email: clientservicing@crisil.com.

For more information on CRISIL IPO gradings, please visit <http://www.crisil.com/ipo-gradings>