Dated: 02/08/2005

CLUTCH AUTO

BSECODE: 505052
EQUITY: 8.8 CRS
CMP: 114

NSE CODE: N/A
Industry: AUTO ANCILLIARY
TARGET: 180

INTRODUCTION

Clutch auto manufactures a gamut of products in the auto ancillary industry. Its product ranges from clutches, components and spares for the automotive industry to the earth moving equipment. CAL is the largest clutch manufacturer & Exporter in the country. Clutch manufactures both diaphragm as well as conventional type of clutches and it offers the widest range to suit specific needs of each vehicle. Its products are well received all over the world. Clutch clientele includes topline companies like Maruti, Mahindra, Telco-Mercedes, Ashok Leyland-IVECO, PTL, Escorts, New Holland, Eicher, TAFE-Messey Ferguson, Sonalika-International Tractors, Daewoo, Bajaj Auto, Greaves, BEML e.t.c. Over the years it has developed indigenously better quality clutches which work nearly 2.5 times the regular ones which have created a brand value for the company itself and it enjoys an 80% market share in tractor segment. The company is continuously upgrading its technology in view to meet global challenges. With 3 decade leadership in this field clutch is now gearing up to become one of the leading player in the continent.

EXPORT THRUST

Clutch exports to more than 40 countries with 20%revenue coming from the exports market. It has a huge potential in the export market both in USA and other countries like Iran, UAE, UK, Bosnia and Pakistan. The potential is 2-3 times of the current level of exports. The American market has great potential for Clutches for Heavy Duty Vehicles. In Iran the Company has found potential OEM purchasers with main thrust to export Clutches for Mercedes Benz, Massey Ferguson and Passenger Car Clutches such as Paykan, Peugeot, Kia Pride etc. The Company is confident to explore USA market as OE supplier also. The demand projections from UK, Bosnia and Pakistan are substantial and it is exploring feasibility to augment exports to these countries. CAL caters to 'aftermarket' for heavy duty clutches in US through a distribution tie up with four re-builders and five distributors. It has recently tied up with US''s largest distributors for ''aftermarket', Fleet Pride and Parts Co Inc. This will give CAL access to entire US market through Fleet Pride's presence at 165 locations. It has targeted to achieve 20% market share in the next two years of the $125 mn 'aftermarket' for heavy duty clutches. Clutch is expected to see 80% CAGR growth in exports for the next two years from Rs 230 mn reported in FY05, as a result of its strong product positioning, firm distribution tie-ups and competitive pricing in US market.

RESEARCH AND DEVELOPMENT

Clutch's R & D is recognized by Govt of India. It's R&D facility with capability of Testing under Multi Environment Over Stressed Testing (MEOST) have been assessed by major OEMs and approved the facility. Clutch has strengthened its R&D by establishing NVH facility which is one of the exclusive facilities in India. It has provided NVH solution to few of the valued customers. The valued engineered design (VE) clutches with cost benefit has been introduced by prestigious manufacturers like Maruti and Bajaj Auto Ltd. The company is now planning to put another State-of-the-art testing facility for Clutches in the country. It is one of the few companies, which has been creating its own brand in US replacement market. Clutch is now expanding its capacity from 2 mn clutch disc and 1 mn clutch cover assembly to 2.5 mn clutch disc and 1.5 mn clutch cover assembly at the cost of Rs 400 mn. The expansion is to support the robust growth expected in next couple of years.

FINANCIALS & OUTLOOK

Clutch auto has just turned in black this year 04-05 but with some styles. It achieved a PAT of 6.03cr vs a loss of 38 lakhs last yr. sales vaulted to 93cr from 73cr in the same corresponding period 03-04.With automobile sector looking up and input cost problem vanishing, clutch should repeat its 04-05 performance this year too. Clutch is also expected to see a 490 bps improvement in margins as a result of the productivity improvement measures implemented in Q4 FY05 and strong growth in volumes expected in FY06 and FY07. We expect the company revenues to grow by 45% & 36% and Net Profits to grow by 100% & 55% for FY06 & FY07 respectively. At the CMP of Rs. 114, the stock is trading at valuation of 8.7 times FY06E EPS of Rs.13 and around 6 times FY07E EPS of Rs.18.Considering the export potential, strong brand image, solid management; Clutch auto is worth buying at current levels with a medium to long term perspective with a **price target of 180 in one year.**

Shareholding Pattern (%)

Indian Promoters	26.21%
Mutual Funds and UTI	1.56 %
Banks, FII, Insurance comp.	3.36%
PCB	19.18%
Indian Public	42.32%
NRIs / OCBs	0.88%
Clearing Members	6.5%

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