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Mumbai

CRISIL Equities assigns IPO grade 3/5 to Tata Autocomp Systems Ltd.

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 its investment in them. Also, guarantee given by the company for 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.

About the company and the issue

Tata Autocomp is a Tata group company. It manufactures a variety of components, assemblies and aggregates for passenger vehicles, commercial vehicles and tractors. It caters mainly to India-based OEMs. It operates through various subsidiaries and JVs; each caters to particular product area.

The issue consists of fresh issue to raise Rs 7,500 mn along with offer for sale by promoters of 35,627,000 shares. The proceeds from the fresh issue will be utilised to fund capital expenditure in the interiors and plastics division, investment in one of the subsidiaries to fund its capital expenditure, repayment and/or prepayment of loans, redemption of preference shares, meeting working capital requirement and other general corporate purposes.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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