Akar Tools Ltd. (ATL)

29 November 2012

CMP: Rs. 24.1
Industry: Industrial Machinery
BSE group/index: B

Promoters
R. L. Gupta, his family and group companies

Year of incorporation
1989

Corporate office
No 304, Abhay Steel House,
Baroda Street,
Mumbai
Maharashtra - 400009

Company website
http://www.akartoolsltd.com

Key Data *(as on 29-Nov-12)*

BSE	530621	ISIN	INE864E01013
Face Value	10.0	Mkt Cap (Rs. mn)	130.0
Current P/E	7.7	Current P/BV	0.54
52 week low-high	19.10-43.70	30 day daily trading volume (nos)	27791
Equity capital (Rs. mn)	53.9	Net worth (Rs. mn)	239.1

Company business

Akar Tools Ltd., is a forward integrated enterprise of the Rs 6.2 bn Aarel Group of Industries, situated at Waluj - Aurangabad, Maharashtra. ATL manufactures hi-quality precision engineered hand tools, auto leaf springs, parabolic springs and commercial automotive forgings for sale in India and exports to Europe, USA, Japan, Australia etc. It has four manufacturing units in Aurangabad. The company has a GS certification from TUV (Rheinland) Safety Gmbh, Germany, for its spanners. ATL has a workforce of over 400 personnel. ATL designs and manufactures spanners, wrenches, carpenter / striking tools, automotive / construction tools, tool aprons, tool packaging and electrical / electronic tools using state-of-art Makino CNC machines, Collocate polishing machines, vibrators etc.

Promoter R. L. Gupta is the chairman and Sunil Todi is the MD of the company.

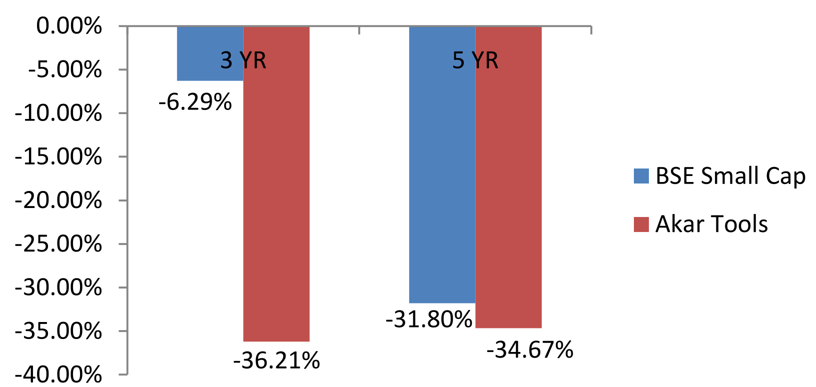
Peer group analysis

FY12, Rs in million	Akar Tools	Trident Tools	Gontermann Peipers	Hindustan Everest Tools
Total income	1,423.7	401.0	1,688.8	428.1
EBIDTA	112.0	46.1	178.0	14.0
EBIDTA margin	7.9%	11.5%	10.5%	3.3%
PAT	22.3	7.7	9.0	(6.6)
PAT margin	1.6%	1.9%	0.5%	neg.
EPS	4.1	1.14	0.65	neg.
Cash accruals	45.2	13.7	82.1	0.0
Debt/EBIDTA	4.14	5.20	7.20	9.71
Debt/Equity	1.94	2.10	1.18	3.34
ROANW	9.3%	7.3%	0.8%	neg.
ROACE	12.7%	11.3%	4.4%	4.3%
P/E	7.43	20.26	28.85	neg.
P/BV	0.69	1.47	0.24	1.32

Source: Moneycontrol, Company

Write to us at:
equityresearch@outlookindia.com

Price Performance (vs BSE small cap)



Top public shareholders

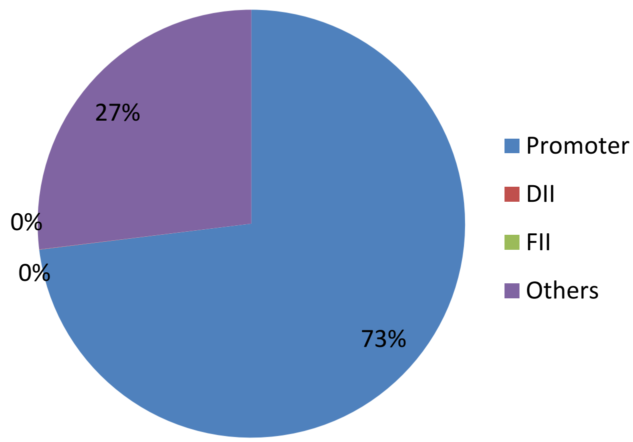
No.	Name of the Shareholder	Total Shares held (in mns.)	Shares as % of Total No. of Shares
1	Sanjay Kothari	0.1	2.5
2	Ventura Securities Ltd	0.1	1.7
	Total	**0.2**	**4.2**

Change in Shareholding Pattern (%)

Year	Promoter	DII	FII	Others
Sep-12	73.1	0.0	0.0	26.9
Jun-12	73.1	0.0	0.0	26.9
Mar-12	73.1	0.0	0.0	26.9
Mar-11	75.4	0.0	0.0	24.6
Mar-10	81.6	0.0	0.0	18.4
Mar-09	81.6	0.0	0.0	18.4
Mar-08	81.6	0.0	0.0	18.4
Mar-07	81.6	0.0	0.0	18.4

Source: BSE

Shareholding Pattern



Source: BSE

Rights Issue:

The shareholders of the Company had approved right issue of shares at the Extra Ordinary General Meeting held on 14th June, 2011 for raising funds upto a maximum of Rs. 165 mn of face value of Rs. 10/- per share with a premium band of Rs. 65/- to Rs. 75/- per share. The funds were to be used for expansion of automobile forging capacity and additional working capital requirements. However given the performance of the company in FY12 in operating results and share price, the rights issue is yet to take place.

	Key strengths
Promoters' industry experience	The promoters of ATL have considerable experience in the hand tools market. The company does not depend on any one / group of customers for its revenues but supplies to a number of well-known customers such as: **Retail companies**: Shreenath Agencies; Jameel Traders; Tool Tech; Metro GB; Tyebally Dawoodjee **OEMs**: Bajaj Auto; Kirloskar Oil Engines; Greaves Cotton; Mahindra & Mahindra; Piaggio Vehicles; Maruti Enterprises **Transport Companies**: MSRTC; KSRTC; TNSRTC This ensures a steady stream of revenues from a varied customer base.
Raw material sourced from group company	The Company is integrated itself backwards towards the source raw material from group companies to maintain quality and reduce production costs. Steel which is the main raw material is sourced from its group company R. L. Steels Ltd.
	Key concerns
Competition	Though the hand tools industry has a few large players in India, there is significant competition from small companies and foreign manufacturers / cheap imports. This forces the company to sell at extremely thin margins or at loss to maintain market share.
Cyclicality of the auto industry	Like most auto component manufacturers the company faces the threat of: • Cyclicality of the automotive industry in India and abroad. Though risks faced by ATL are somewhat mitigated as it supplies to other industries also. • Continued volatility of Raw material prices
Foreign exchange fluctuations	About 43% of the company's turnover is from exports. For FY 11-12 the company's foreign exchange exposure was Rs 655 mn. Given that ATL is a mid-sized company this exposes the company to significant foreign exchange risks thereby affecting profitability.
Rapid changes in technology	Technology in the power tools industry changes at a very fast pace Timely adaptation to these changes while maintaining costs is a key to success and sustainable future for ATL. This increases the R&D costs of the company which may not always be passed onto customers, given pricing pressures and competition in the industry. Any inability on ATL's part to keep pace with the technological advancement of the competitors will affect the company's position in the market.
	Industry overview
Forgings industry	India's forgings production grew 35% from 1.8 mn tonnes in 2010 to 2.3 mn tonnes in 2011 with exports estimated at USD 800 mn. In 2012, the industry expects production to touch 3 mn tonnes, exports rising 20%. Despite a rise in the cost of steel and furnace oil, forging production is expected to reach four million tonnes by 2015 following automotive demand growth. In India, almost 70% of the forgings are used in the automotive sector, 15% in the oil & gas sector, 6% each in aerospace and energy and 3% in capital equipment applications. In recent years, the industry strengthened its competitiveness through expansion, cost rationalisation, modernisation and automotive demand growth
Hand tool industry	Hand tools comprise spades, shovels, mattocks, hand saws, files, rasps, pliers, pipe cutters, spanners, wrenches, vices, clamps, anvils, tools for turning, milling, grinding and sharp-edged tools, among others. The off take of hand tools depends on price, supply chain, product quality, design and service. Hand tools are used in households (DIY) and among professionals (carpenters, plumbers, craftsmen and toolmakers etc.). The global hand tool and accessories market is expected to grow to USD 19.4 bn by 2015. The export of hand tools in India is expected to increase from Rs. 8.5 bn to Rs. 30 bn by 2016 *(Source: Indian Express)*.
Auto components industry	India's auto components industry has grown 20% year-on-year since 2000. The auto component in India is fragmented across over 400 organised players catering to around 80% of the industry demand. The industry turnover grew 32% to an estimated Rs. 1368 bn in 2011. The principal items exported by the country comprised motorcycle parts, leaf springs, replacement parts, tractor parts, clutch facings, piston rings, gaskets, engine valves, fuel pump nozzles, fuel injection parts, filter and filter elements, radiators, gears, brake assemblies and bearings, head lamps, auto and halogen bulbs, spark plugs and body parts. *(Source: ACMA)*.

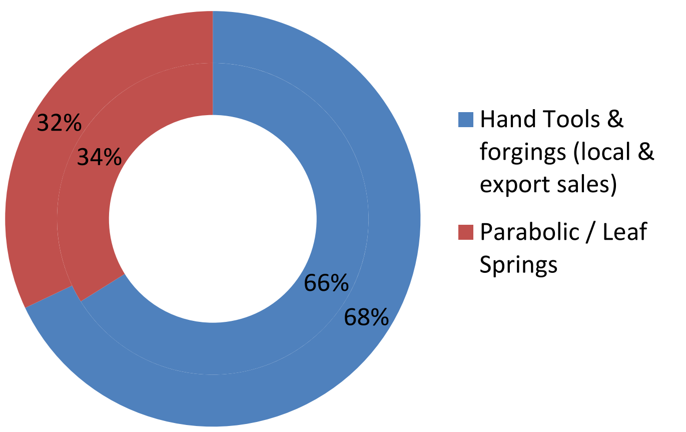
Automobile industry	The primary growth drivers of the industry comprise: - Low-cost labour - Rising demand from the auto industry - Policy initiatives The Indian auto component industry is expected to witness a 15-20% growth till 2015 and grow to USD 110 bn by 2020. *(Source: IBEF).* India's automobile industry grew 27.4% from 14.06 mn units in 2010 to 17.92 mn units in 2011 with a turnover of USD 73 bn, accounting for 6% of the country's GDP. The country's automobile exports grew 30% from 1.80 mn units in 2010 to 2.34 mn units in 2011 with a value of USD 11 bn. The Automotive Mission Plan (AMP) 2006-2016 plans to double the automotive sector's contribution to GDP with a projected turnover of USD 145 billion and 25 million additional employment. According to SIAM, the long-term scenario is positive due to rising vehicle penetration, growing incomes and easy finance availability.
	Company fundamentals
The company has four divisions	1. **Hand Tools -** The Company commenced hand tool manufacture in 1989, responding to the growing international market. The division manufactures general do-it-yourself (DIY) tools that are non-powered and designed for general maintenance works, house repair, woodworking, building construction, gardening and mechanics. 2. **Hand tools (domestic) and automotive forgings -** The unit (installed capacity 2,400 MTPA) commenced operations in December 2008. The unit manufactures tools that find applications in various household and industrial applications. The division later on diversified into the manufacture of automotive commercial forgings widely used by OEMs. The division manufactures a range of products finding applications in machines, vehicles and equipment. 3. **Parabolic Springs -** The unit commenced operations in 2009 (installed capacity 14,400 MTPA) to cater to global replacement markets. The unit manufactures light parabolic springs used in automobiles for their shock absorbing capability and smooth running. 4. **Leaf Springs -** The unit commenced operations in 1989 and now has an installed capacity of 5,400 MTPA, manufacturing leaf springs catering to the requirements of the government road transportation segment. These light springs are used as vehicle shock absorbers by public transportation companies.
Plans of 2011, currently on hold	1. Akar Tools planned to expand capacities from 24,600 MTPA to 30,000 MTPA by 2015 for an investment of Rs. 200 mn. 2. The Company planned to acquire forging units in western India and the US to enhance capacity, technology and product acceptance among major OEMs 3. ATL planned to set up manufacturing units in Pune and commission new lines for machining and assembling parts for various automakers. 4. ATL planned to raise funds upto a maximum of Rs. 165 mn through a rights issue to meet the automobile forging expansion plans and additional working capital needs. However given the patchy performance of the company in FY12 in operating results and share price, these plans have been delayed.
	Key financial indicators
	Backed by an increase in volumes, the total income of the company increased by 4.7% to Rs. 1.4 bn in FY12. However due to volatility in raw material prices, EBIDTA decreased by 13.7% to Rs. 112 mn. Due to a 13.4% increase in debt (to Rs 463 mn in FY12) interest costs increased 27% to Rs 62 mn. This led to a 53% fall in PBT to Rs. 26.9 mn. PAT also decreased by 44.5% to Rs. 22.3 mn. Since the rights issue was not launched, the company funded its expansions through debt, worsening its debt-equity ratio to 1.9 and debt-EBIDTA has fallen from 3.15 times to 4.14 times.

Quarterly results

Particulars (Rs in mn)	Apr '12 to Jun '12	Apr '11 to Jun '11	% Change1	Jan '12 to Mar '12	% Change2
Total income	386.6	339.5	13.9%	434.6	(11.0%)
Total expenditure(excl. depreciation)	362.6	303.9	19.3%	412.4	(12.1%)
EBIDTA	24.0	35.6	(32.6%)	22.2	8.1%
PBT	3.6	12.8	(71.9%)	0.2	
PAT	2.9	10.2	(71.6%)	0.1	
EPS	0.5	1.9	(72.1%)	0.0	

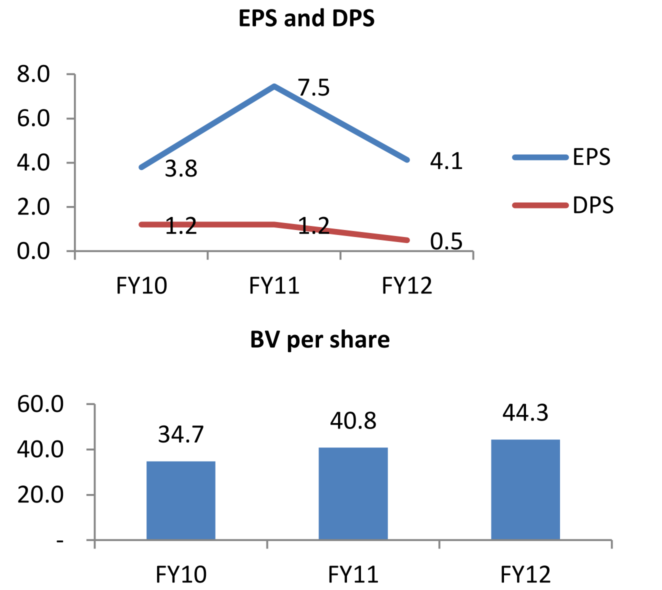
[1] compared to corresponding quarter in the previous year
[2] sequential comparisons

Segment-wise contribution to total revenue

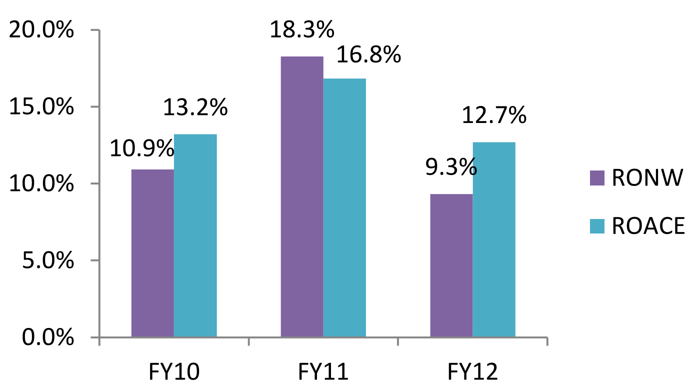


(outer ring shows FY12 data: total operating revenues were Rs. 1545.6 mn)
(inner ring shows FY11 data: total operating revenues were Rs. 1314.9 mn)

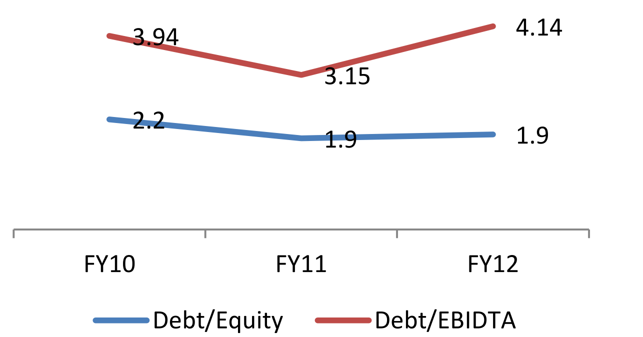
Key ratios



Profitability ratios



Leverage ratios



Financials

P&L (Rs. mn)	FY10	FY11	FY12
Total income	1,160.8	1,360.3	1,423.7
EBIDTA	106.6	129.8	112.0
EBITDA Margin%	9.2%	9.5%	7.9%
Depreciation	26.3	24.1	22.9
EBIT	80.3	105.7	89.1
Interest	46.3	48.9	62.2
PBT(post extraordinary items)	28.4	57.2	26.9
Tax	7.9	17.2	4.7
PAT (excl minority interest)	20.5	40.2	22.3
PAT Margin %	1.8%	3.0%	1.6%
Dividend (incl dividend tax)	7.6	7.6	3.1

Balance Sheet (Rs. mn)	FY10	FY11	FY12
Share Capital	53.9	53.9	53.9
Reserves & Surplus (incl. reval reserves)	133.4	166.0	185.2
Net worth	187.3	219.9	239.1
Borrowings	420.4	408.6	463.5
Current liabilities and provisions	255.2	302.9	407.6
Total liabilities	862.9	931.4	1,110.2
Net fixed assets	353.9	355.0	361.4
loans and advances (Long & short term)	40.2	43.4	104.6
Investments	11.6	11.6	11.6
Current assets	457.2	521.6	632.6
Other non-current assets	-	(0.2)	-
Total assets	862.9	931.4	1,110.2

Valuation ratios	FY10	FY11	FY12
P/E	8.40	10.07	7.43
P/BV	0.92	1.84	0.69

Cash Flow (Rs.mn)	FY10	FY11	FY12
PBT	33.9	56.9	27.0
CF from Operations	12.6	36.1	(20.1)
CF from Investment	(2.6)	(24.7)	(29.3)
CF from Financing	(0.3)	(19.3)	51.7
Inc/(dec) in Cash	9.8	(7.9)	2.3
Closing Balance	**24.2**	**16.3**	**18.6**