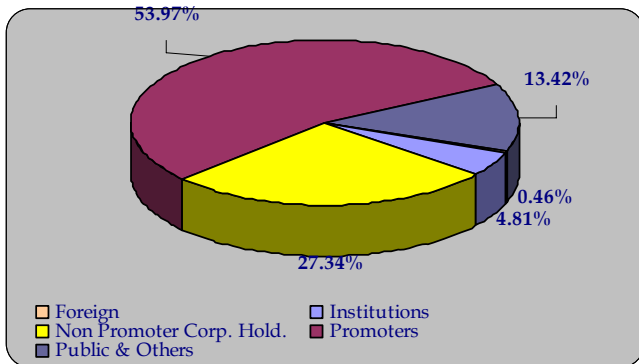


Steel Strips Wheels- BUY

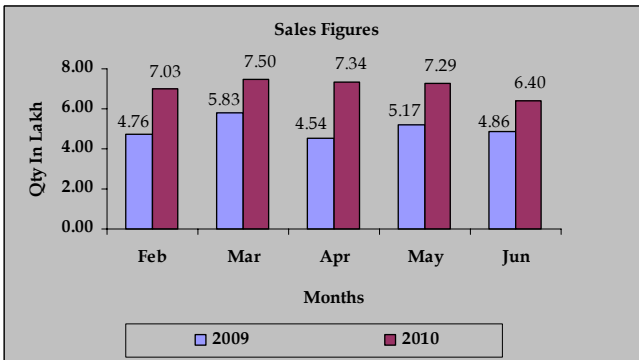
Sector:- Auto Ancillary

Key Data

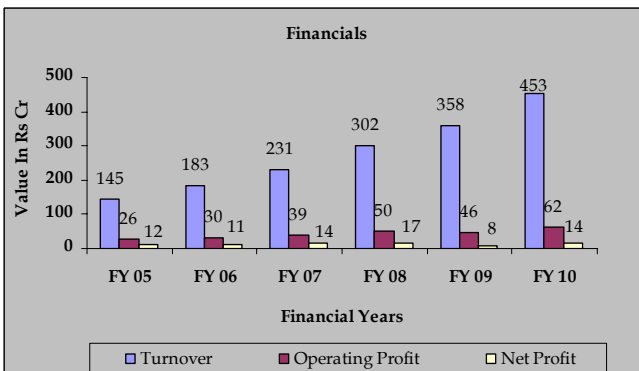
Key Data	Figures
Latest Equity (Cr)	13.62
CMP (Rs.) As on 22.07.10	212.10
52 Week High/Low (Rs.)	211/57
Market Capitalization(Cr)	288.47
Book Value	97.39
EPS	10.81
Face Value(Rs)	10.00



Source: Capitaline



Source: Capitaline (Figures have been rounded off)



Source: Capitaline

Steel Strips:- Backing the strong growth of the auto sector.

Since its inception in 1991, the company is growing by leaps and bounds in the auto ancillary segment. The product range comprises of items catering to the need of passenger cars, MUV's, tractors, trucks along with two and three wheelers. With technical collaborations with a leading company in the USA and Japan, the company has been able to maintain its technological superiority till date to be a preferred choice among the domestic as well as some renowned car manufacturers of the world.

Customer Base:-

Car, MUV, Two and Three Wheelers- Maruti, Tata Motors, Honda Siel cars, General Motors etc.

Tractor segment- Mahindra & Mahindra, Escorts.

Trucks- Swaraj Mazda, Tata Motors, Ashok Leyland.

International manufacturers- Peugeot, Renault, BMW, AUDI

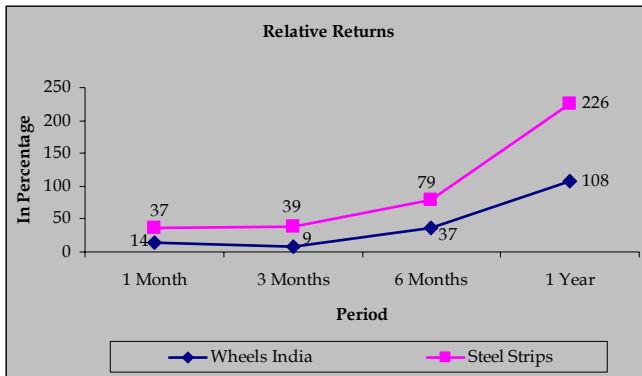
Rationale for Investment:-

Outlook for auto sector positive in the long run

The auto sector has been one of the primary growth drivers of the Indian economy. The YoY growth in sales figures is a testimony to the fact. Be it in the form of four wheelers or two, the growth story is expected to remain buoyant in the times to come. With the company having a significant customer base among all the major auto makers, it expects to cash in the opportunities in a large way in the coming days.

Opening of the Jamshedpur plant to drive up production volumes

The opening up of the plant at Jamshedpur shall be a big boost to the company's production volumes. With the initial capacity of 1 million wheels, the company aims to upgrade it to 2 million wheels though mid 2011. Apart from its regularized customer base, the company has set its eyes of the export markets of Japan and Europe through this plant. The company has also invested Rs 45 Cr for modernization and expansion of its Chennai plant.



Source: Capitaline

	Earnings Estimates (Rs In Cr)		
	FY 09-10	FY 10-11E	FY 11-12E
Net Sales	418.46	650	810
Operating Profit	61.98	100	130
Net Profit	14.35	30	41
EPS	10.98	22.03	30.11

Source: Capitaline

Germany to prove a significant export destination in 2010-11.

Apart from the earlier order from BMW for its MINI vehicle, the company is in receipt of significant orders from AUDI. The company is expecting to earn revenue via exports to the tune of over \$ 38 million over a 5 year time period. Over all the company is eyeing an export target of about Rs 120- 125 Cr in this fiscal from Rs 60-70 Cr achieved in FY 10-11.

Stability in operating margins

The company has been able to keep its operating margins intact at about 14.78%, almost at par with that of last year. As the company has got long term contracts with its suppliers, it is least likely to face any pressure in this arena. With the prices of steel products expected to remain fairly stable, the downside risk is limited. More ever the management sounds pretty confident of improving its operating margins with the improvement in product mix and rise in export sales.

Valuations and Estimates

Apart from the recent opening up of its Jamshedpur plant, the company has also embarked on a massive expansion of its Chennai plant. The production is expected to be around 15 million units in this fiscal from the current level of 11 million in FY 09-10. The top line is expected to report a growth of about 55% in FY 10-11 compared to FY 09-10. The operating and net profit margins are also likely to report better returns.

At the current market price, the stock is trading at a PE multiple of 9.62x and 7.04x its FY 10-11E and FY 11-12 earnings and a P/BV multiple of 1.77x and 1.42x FY 10-11E and FY 11-12E earnings going forward. We would place a target of **Rs 310** for the stock to be achieved in the medium to long term basis and hence initiate a **BUY** recommendation.

Disclaimer

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We do not take any responsibility for our research recommendation. Investors are advised to use their own judgment while taking any investment decision.

Registered Office: Suite No. C-1, Madhukunj, Laram Centre CHS Ltd., M.A. Road of S.V. Road, Opp. Andheri Railway Station, Andheri (West), Mumbai – 400 058, Maharashtra (w.e.f. 15th May, 2010).
 Corporate Office: Guinness House. 18, Deshapriya Park Road, Kolkata-700 026. Ph: 3001-5555. Fax: 91 33 3001 5566.
 Email: research@guinnessonline.net, Website: www.16anna.com