

FIRST GLOBAL

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India Research



Sector: Indian Auto

What Happened Last Quarter

Motor Industries Co. Ltd. (MICO)

Long-term Outperform

(CMP: Rs. 3876.20, Mkt. Cap: Rs. 124.24 bn, \$ 3.04 bn, May 9, '07)

Relevant Index: S & P CNX Nifty: 4079.30, May 9, '07

Launch of Common Rail System (CRS) to further consolidate leadership position in diesel fuel equipment segment

Expected improvement in return ratios lends enough room for further expansion in valuations

Last report's recommendation: Long-term Outperform (MP: Rs. 3158.55, Sept 7, '06)

Relevant Index: CNX Nifty: 3454.55 (Sept 7, '06)

Relative performance since last rating (Feb 8, '06): CNX Nifty: Up 35.6%, MICO: Up 43.7%

May 10, 2007

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IMPORTANT DISCLOSURES CAN BE FOUND AT THE END OF THIS REPORT.



Price and Ratings History Chart

Ratings Key

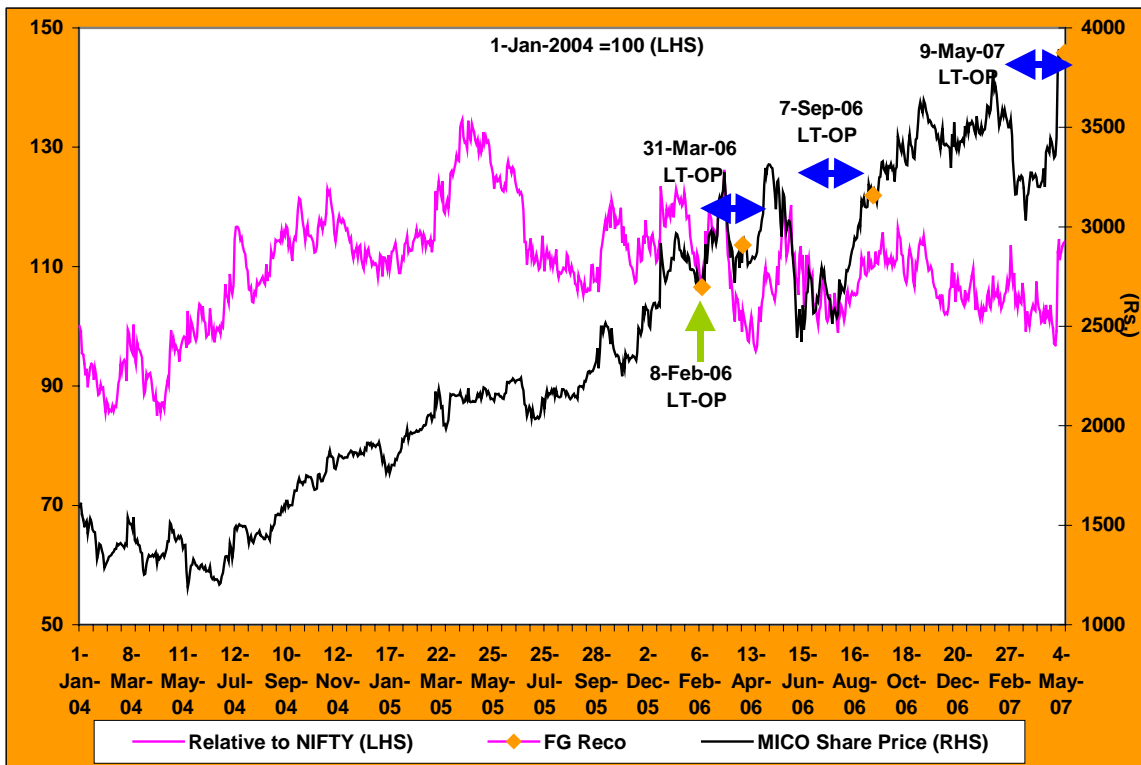
	B = Buy	BD = Buy at Declines	OP = Outperform
Positive Ratings	S-OP = Sector Outperform	M-OP = Market Outperform	MO-OP = Moderate Outperform
Neutral Ratings	H = Hold	MP = Market Perform	SP = Sector Perform
Negative Ratings	S = Sell	SS = Sell into Strength	UP = Underperform
	A = Avoid	MO-UP = Moderate Underperform	S-UP = Sector Underperform

ST: Short Term

MT: Medium Term

LT: Long Term

Motor Industries Company Ltd. (MICO)



↑ Represents an Upgrade

↓ Represents a Downgrade

↔ Represents Reiteration of Existing Rating

Details of First Global's Rating System given at the end of the report



Financial Snapshot

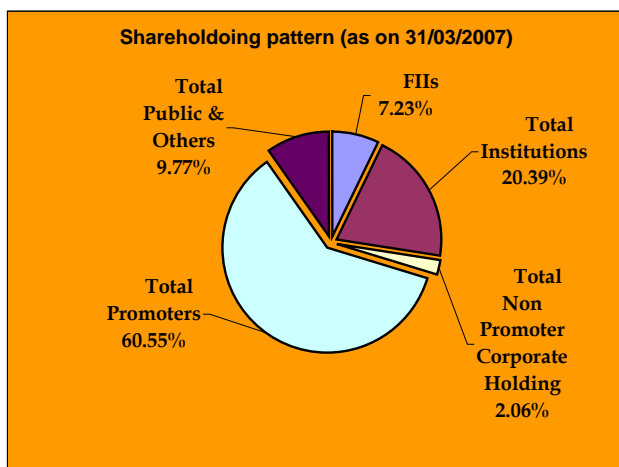
Key Financials							
(YE December 31st) (Rs. mn)	2002	2003	2004	2005	2006	2007E	2008E
Total Revenue	15,761	19,511	23,991	30,706	39,098	47,997	58,038
<i>Revenue Growth (Y-o-Y)</i>		23.8%	23.0%	28.0%	27.3%	22.8%	20.9%
EBIDTA	2,817	4,639	5,907	6,374	8,114	9,919	12,286
<i>EBIDTA Growth (Y-o-Y)</i>		64.7%	27.3%	7.9%	27.3%	22.2%	23.9%
Reported Net Profit	1,348	2,350	3,748	3,431	5,480	5,778	6,965
Net Profit (excluding extraordinary income)	1,320	2,345	3,558	3,340	4,250	5,393	6,965
<i>Net Profit Growth (excluding extraordinary income)</i>		77.7%	51.7%	-6.1%	27.3%	26.9%	29.1%
Shareholders Equity	7,055	9,154	12,539	15,528	18,700	21,426	25,077
Number of Diluted shares (mn)	32.1	32.1	32.1	32.1	32.1	32.1	32.1
Key Operating Ratios							
(YE December 31st)	2002	2003	2004	2005	2006	2007E	2008E
Reported EPS (Rs)	42.1	73.3	116.9	107.0	171.0	180.3	217.3
EPS (Rs) (excluding extraordinary income)	41.2	73.1	111.0	104.2	132.6	168.3	217.3
<i>EPS Growth (excluding extraordinary income)</i>		77.7%	51.7%	-6.1%	27.3%	26.9%	29.1%
CEPS (Rs.)	74.6	104.8	141.9	166.0	209.5	259.2	327.0
EBITDA Margin (%)	17.9%	23.8%	24.6%	20.8%	20.8%	20.7%	21.2%
Reported NPM (%)	8.6%	12.0%	15.6%	11.2%	14.0%	12.0%	12.0%
RoE (%)	19.7%	28.9%	32.8%	23.8%	24.8%	26.9%	30.0%
RoCE (%)	18.7%	26.5%	29.7%	21.9%	21.7%	22.0%	24.5%
RoCE (Operating Assets) (%)	26.7%	60.6%	75.2%	42.5%	35.5%	31.8%	44.7%
Book Value per share (Rs.)	220.1	285.6	391.2	484.5	583.5	668.5	782.4
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.2	0.3	0.2
Dividend Payout (%)	9.7%	10.7%	10.2%	13.2%	10.4%	9.5%	7.9%
Valuation Ratios							
(YE December 31st)	2002	2003	2004	2005	2006	2007E	2008E
P/E (x)						23.0	17.8
P/BV (x)						5.8	5.0
P/CEPS (x)						15.0	11.9
EV/EBIDTA (x)						12.2	9.8
Market Cap. / Sales (x)						2.6	2.1
Dividend Yield (%)						0.4%	0.4%
DuPont Model							
(YE December 31st)	2002	2003	2004	2005	2006	2007E	2008E
EBIDTA/Sales (%)	17.9%	23.8%	24.6%	20.8%	20.8%	20.7%	21.2%
Sales/Operating Assets (x)	3.9	5.4	5.6	5.1	3.8	3.3	4.3
EBIDTA/Operating Assets (%)	70.1%	132.5%	142.7%	109.1%	80.9%	69.2%	91.9%
Operating Assets/ Net Assets (x)	0.7	0.5	0.4	0.4	0.6	0.6	0.5
Net Earnings/ EBIDTA (%)	46.9%	50.5%	60.2%	52.4%	52.4%	54.4%	56.7%
Net Assets/ Equity (x)	0.9	0.9	1.0	1.0	1.1	1.1	1.2
Return on Equity (%)	19.7%	28.9%	32.8%	23.8%	24.8%	26.9%	30.0%



Common Sized Profit & Loss Account							
(YE December 31st)	2002	2003	2004	2005	2006	2007E	2008E
Total Revenues	100%	100%	100%	100%	100%	100%	100%
Net Raw Materials Consumed	40.8%	39.8%	42.9%	49.7%	49.1%	50.4%	50.4%
Manufacturing Expenses	8.9%	8.6%	8.1%	7.8%	8.4%	7.9%	8.2%
SG&A Expenses	19.7%	16.5%	14.1%	12.2%	10.1%	11.9%	11.9%
Personnel	13.2%	11.7%	11.1%	10.7%	11.6%	9.1%	8.4%
EBITDA	17.9%	23.8%	24.6%	20.8%	20.8%	20.7%	21.2%
Other Income	0.5%	-0.1%	0.4%	1.0%	0.7%	0.6%	0.6%
Extraordinary Income	0.3%	0.0%	1.2%	0.3%	3.9%	1.1%	0.0%
Depreciation and Amortization	6.8%	5.2%	4.1%	6.5%	6.3%	6.1%	6.1%
Interest	-0.9%	-1.2%	-1.4%	-1.6%	-1.4%	-1.1%	-1.0%
PBT	12.5%	19.6%	22.3%	16.9%	16.5%	16.3%	16.7%
Tax	4.2%	7.6%	7.9%	6.1%	6.4%	5.4%	4.7%
Reported PAT	8.6%	12.0%	15.6%	11.2%	14.0%	12.0%	12.0%
PAT (excluding Extraordinary income)	8.4%	12.0%	14.8%	10.9%	10.9%	11.2%	12.0%

Source: Company Reports, FG Estimates.

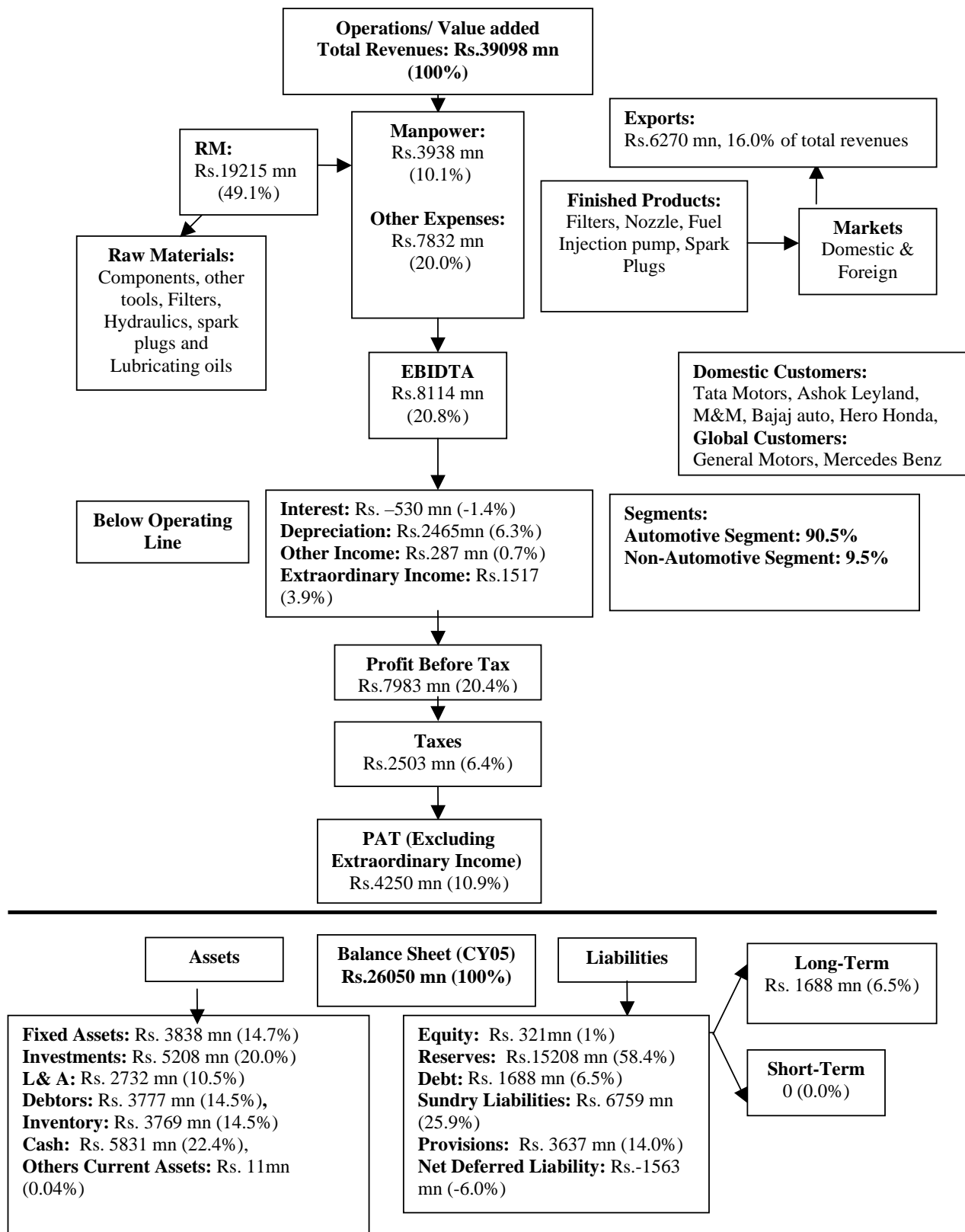
Key Statistics



Industry:	Auto-Components
52 Week Hi:Lo:	Rs. 4038/2351
CMP:	Rs. 3876.90
Avg. Daily Vol (20 days):	0.01 mn
Avg. Daily Val (20 days):	Rs. 18.54 mn
Performance over 52 weeks:	
Mico:	up 17.65%
Nifty:	up 8.66%



MICO's Business in Pictures... (CY06)





What Happened Last Quarter...

More than reasonable growth, top-notch return ratios, which are still expanding: Motor Industries Company Ltd. (MICO) has all the ingredients of a quality play, which is why we continue to like it.

MICO recorded a robust growth of 18.1% Y-o-Y in net revenues to Rs.10.9 bn in Q1 CY07, on the back of an 18.4% Y-o-Y growth in the automotive segment to Rs.9.7 bn. The non-automotive segment, which accounted for 9.5% of the topline in the quarter, remained comparatively sluggish and grew by 14.7% Y-o-Y to Rs.1.02 bn.

The EBITDA margin declined by 119 bps Y-o-Y to 20.6%, while the EBITDA grew by merely 11.6% Y-o-Y to Rs.2.2 bn. Net raw materials cost as a percentage of net sales rose significantly from 49.6% in Q1 CY06 and 47.8% in Q4 CY06 to 51.1% in Q1 CY07. The net profit margin (excluding extraordinary income) improved by 148 bps Y-o-Y to 13.3% due to higher interest income and lower depreciation. The net profit (excluding extraordinary income) grew by 32.9% Y-o-Y to Rs.1.5 bn.

For the full year CY06, the EPS came in at Rs.132.6, as compared to our estimate of Rs.134.8. The company recorded a robust topline growth of 27.3% to Rs.39 bn, which was slightly higher than our estimate of Rs.38 bn. The topline growth was largely aided by a growth of 26.6% in the company's automotive business, which accounted for as high as 91.6% of the total revenues in CY06.

Robert Bosch, MICO's promoter company, which currently has a stake of 60.55% in the company, has made an open offer for an additional 20% stake at a price of Rs.4000 per share. This will provide MICO with better synergy and integration with the Bosch Group, as well as better access to the technologies and patents of its parent company.

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MICO is scheduled to commence the manufacturing of complete Common Rail System (CRS) at its Nashik facility in 2007, where injector components are currently being manufactured. This is likely to lead to an improvement in the company's operational efficiency as a result of higher capacity utilization. However, a rising content of imported components

for its CRDi and CRS modules will largely offset any improvement in margins. As a result, we have modelled for an EBITDA margin for CY07E and CY08E at 20.7% and 21.2% respectively.

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We now expect the company's topline to grow by 22.8% in CY07E and 20.9% in CY08E. Our EPS estimates for CY07E and CY08E are Rs.168.3 and Rs.217.3 respectively. The expected increase in

We now expect the company's topline to grow by 22.8% in CY07E and 20.9% in CY08E. Our EPS estimates for CY07E and CY08E are Rs.168.3 and Rs.217.3 respectively. The expected increase in Net Earnings/EBITDA (from 52.4% in CY06 to 54.4% in CY07E and 56.7% in FY08E) is likely to lead to an improvement in the RoE from 24.9% in CY06 to 26.9% in CY07E and 30.0% in CY08E. RoCE on Operating Assets is estimated to increase from 31.8% in CY07E to 44.7% in CY08E

Net Earnings/EBITDA (from 52.4% in CY06 to 54.4% in CY07E and 56.7% in FY08E) is likely to lead to an improvement in the RoE from 24.9% in CY06 to 26.9% in CY07E and 30.0% in CY08E. RoCE on Operating Assets is estimated to increase from 31.8% in CY07E to 44.7% in CY08E.

DuPont Analysis: Drivers of RoE

(YE December 31st)	2002	2003	2004	2005	2006	2007E	2008E
EBIDTA/Sales (%)	17.9%	23.8%	24.6%	20.8%	20.8%	20.7%	21.2%
Sales/Operating Assets (x)	3.9	5.4	5.6	5.1	3.8	3.3	4.3
EBIDTA/Operating Assets (%)	70.1%	132.5%	142.7%	109.1%	80.9%	69.2%	91.9%
Operating Assets/ Net Assets (x)	0.7	0.5	0.4	0.4	0.6	0.6	0.5
Net Earnings/ EBIDTA (%)	46.9%	50.5%	60.2%	52.4%	52.4%	54.4%	56.7%
Net Assets/ Equity (x)	0.9	0.9	1.0	1.0	1.1	1.1	1.2
Return on Equity (%)	19.7%	28.9%	32.8%	23.8%	24.8%	26.9%	30.0%

A burgeoning demand of the diesel versions of passenger vehicles ahead is likely to offset any downturn in the domestic commercial vehicles segment. Moreover, the upcoming launch of CRS will further consolidate MICO's leadership position in the diesel fuel equipment segment. We believe that the expected improvement in return ratios lends enough room for further expansion in valuations. The RoCE & earnings growth are both at the top-end for the sector, well justifying the premium valuation. We, therefore, reiterate our rating of Long-term Outperform on MICO.

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Indian comparative Valuations

Company	P/E (x)		P/S (x)		P/BV (x)		EV/Sales (x)		EV/EBITDA (x)		EBITDA Margin (%)	RoE (%)	RoCE (%)	Annual EPS Growth (%)	Annual Sales Growth (%)
	ttm	FY 08E	ttm	FY 08E	ttm	FY 08E	ttm	FY 08E	ttm	FY 08E	FY 08E	FY 08E	FY 08E	(09/08)	(09/08)
Bharat Forge	31.2	23.5	4.1	3.3	6.0	5.2	4.7	4.3	16.7	13.2	26.6%	23.7%	15.4%	30.0%	23.0%
MICO	26.9	23.0	3.0	2.6	6.7	5.8	2.9	2.5	14.4	12.2	20.7%	26.9%	22.0%	29.1%	20.9%
Sundram Fasteners	14.6	11.4	1.2	1.1	3.6	2.9	1.6	1.5	9.4	7.6	16.5%	28.2%	14.0%	17.0%	18.0%
Sona Koyo	16.2	12.5	0.8	0.6	3.3	2.8	1.1	1.0	10.8	9.1	10.9%	24.6%	11.4%	21.8%	17.8%
Lumax Industries	18.1	13.2	0.8	0.7	4.2	3.6	0.9	0.8	9.7	7.2	8.9%	29.7%	16.2%	18.0%	22.0%

Note: MICO's comparisons are for CY08 & CY07 as against FY09 & FY08 for other companies.

Sources: Company Reports, FG Estimates and Consensus Estimates.

Quarterly Result Analysis (Standalone)

YE Dec 31st (In Rs. Mn)	Q1 CY07	Q1 CY06	Y-o-Y %	Q4 CY06	Q-o-Q %	CY06	CY05	Y-o-Y %
Net Sales	10,901	9,231	18.1%	10,488	3.9%	39,098	30,706	27.3%
Less: Total Expenditure								
Net Raw Material consumed	5,572	4,582	21.6%	5,011	11.2%	19,215	15,261	25.9%
Other Expenses	1,987	1,606	23.7%	2,609	-23.8%	7,832	5,335	46.8%
Staff Cost	1,100	1,034	6.4%	904	21.7%	3,938	3,736	5.4%
Total Expenditure	8,659	7,222	19.9%	8,524	1.6%	30,984	24,332	27.3%
EBIDTA	2,242	2,008	11.6%	1,965	14.1%	8,114	6,374	27.3%
Less: Depreciation	455	548	-16.9%	786	-42.1%	2,465	1,981	24.4%
EBIT	1,787	1,461	22.3%	1,179	51.5%	5,649	4,393	28.6%
Add: Other income	71	62	13.8%	79	-10.8%	287	313	-8.2%
Less: Interest	-172	-113	52.1%	-114	51.5%	-530	-493	7.5%
Profit Before Extraordinary items and Tax	2,030	1,636	24.1%	1,372	47.9%	6,467	5,199	24.4%
Less: Extraordinary Expense (net)	-536	-82	NM	-2	NM	-1,517	-91	NM
Profit Before Tax	2,566	1,718	49.3%	1,374	86.8%	7,983	5,290	50.9%
Less: Total Tax	728	569	27.9%	724	0.5%	2,503	1,859	34.6%
Profit After Tax	1,838	1,149	59.9%	650	182.9%	5,480	3,431	59.7%
Net Profit (Excluding Extraordinary Income)	1,454	1,094	32.9%	649	124.1%	4,250	3,340	27.3%
Shares Outstanding (mn)	32.1	32.1		32.1		32.1	32.1	
EPS (Exclu. Extraordinary Income) (Rs.)	45.4	34.1	32.9%	20.2	124.1%	132.6	104.2	27.3%
RM/Net Sales	51.1%	49.6%		47.8%		49.1%	49.7%	
Other Expenses/Net Sales	18.2%	17.4%		24.9%		20.0%	17.4%	
Staff Cost/Net Sales	10.1%	11.2%		8.6%		10.1%	12.2%	
EBIDTA Margin (%)	20.6%	21.8%		18.7%		20.8%	20.8%	
NPM (Excl. Extraordi. Income) (%)	13.3%	11.9%		6.2%		10.9%	10.9%	
Effective Tax Rate (%)	28.4%	33.1%		34.9%		31.4%	35.8%	



- In Q1 CY07, MICO's net revenues (including Other operating income of Rs.199 mn) grew by 18.1% Y-o-Y and 3.9% sequentially to Rs.10901 mn.
- Net raw material cost as a percentage of net sales rose significantly from 47.8% in Q1 CY06 and 49.6% in Q1 CY06 to 51.1% in Q1 CY07, resulting in a lower growth of 11.6% Y-o-Y in the EBITDA to Rs.2242 mn. The EBITDA margin declined by 119 bps Y-o-Y to 20.6%.
- A lopsided increase of 52.1% Y-o-Y in interest income to Rs.172 mn and a decline of 16.9% Y-o-Y in the depreciation to Rs.455 mn accelerated the bottomline growth. The net profit, excluding extraordinary income, posted a growth of 32.9% Y-o-Y to Rs.1454 mn.
- The net profit margin (excluding extraordinary income) improved by 148 bps Y-o-Y to 13.3%.
- The company made a gain of Rs.536 mn on the sale of investments.



Earnings Model for MICO.IN (MICO.BO)

(Year Ending Dec 31st) (Rs. Mn)	Q1 CY06	Q2 CY06	Q3 CY06	Q4 CY06	CY06	Q1 CY07	Q2 CY07E	Q3 CY07E	Q4 CY07E	CY07E
Net Revenue (Including Other Operating Revenues)	9231	9247	10132	10488	39098	10901	11612	12399	13085	47997
Less: Operating Expenditure	7222	7301	7937	8524	30984	8659	9108	9744	10567	38078
EBIDTA	2008	1946	2195	1965	8114	2242	2503	2655	2519	9919
Depreciation	548	633	498	786	2465	455	645	656	1159	2915
EBIT	1461	1313	1697	1179	5649	1787	1858	1999	1359	7003
Add: Other income	62	63	82	79	287	71	72	95	65	302
Less: Interest	-113	-153	-151	-114	-530	-172	-135	-121	-76	-504
Profit Before Extraordinary items and Tax	1636	1529	1930	1372	6467	2030	2065	2214	1501	7810
Less: Extraordinary Expenses (net)	-82	-1436	3	-2	-1517	-536	0	0	0	-536
Profit Before Tax	1718	2965	1926	1374	7983	2566	2065	2214	1501	8346
Less: Total Tax	569	537	673	724	2503	728	636	681	524	2569
Profit After Tax	1149	2428	1254	650	5480	1838	1430	1533	977	5778
Net Profit (excluding Extraordinary Income)	1094	1252	1256	649	4250	1454	1430	1533	977	5393
Shares Outstanding (mn)	32	32	32	32	32	32	32	32	32	32
Reported EPS (Rs.)	35.9	75.7	39.1	20.3	171.0	57.3	44.6	47.8	30.5	180.3
EPS (Rs.) (excluding Extraordinary Income)	34.1	39.1	39.2	20.2	132.6	45.4	44.6	47.8	30.5	168.3
EBIDTA Margin	21.8%	21.0%	21.7%	18.7%	20.8%	20.6%	21.6%	21.4%	19.2%	20.7%
EBIT Margin	15.8%	14.2%	16.7%	11.2%	14.4%	16.4%	16.0%	16.1%	10.4%	14.6%
Reported NPM	11.9%	13.5%	12.4%	6.2%	10.9%	13.3%	12.3%	12.4%	7.5%	11.2%
Effective Tax Rate	33.1%	18.1%	34.9%	52.7%	31.4%	28.4%	30.8%	30.8%	34.9%	30.8%

Source: Company Reports, FG Estimates.

Note: Since the quarterly results are unaudited, the numbers may vary from the annual audited data.



IMPORTANT DISCLOSURES

Price Target

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and non-financial data of the concerned company using a combination of P/E, P/Sales, earnings growth, discounted cash flow (DCF) and its stock price history.

The risks that may impede achievement of the price target/investment thesis are -

- Change in regulatory environment affecting the policies of the government towards auto emission norms.
- Higher than expected increase in raw material prices, for instance, steel, rubber, etc. may impact the margins of the company.
- Shift of demand due to unanticipated price cuts/discounts/special offers made by competitors.
- Delay in implementation of expansion plans



Rating system of First Global

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: S&P CNX Nifty Index

Positive Ratings

(i) Buy (B) – This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.

(ii) Buy at Declines (BD) – This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.

(ii) Outperform (OP) – This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.

Neutral Ratings

(i) Hold (H) – This rating means that we expect no substantial move in the stock price over the specified time period.

(ii) Marketperform (MP) – This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.

Negative Ratings

(i) Sell (S) – This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.

(ii) Sell into Strength (SS) – This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.

(iii) Underperform (UP) – This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.

(iv) Avoid (A) – This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.



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