# Gujarat Apollo Equipments Rs 169

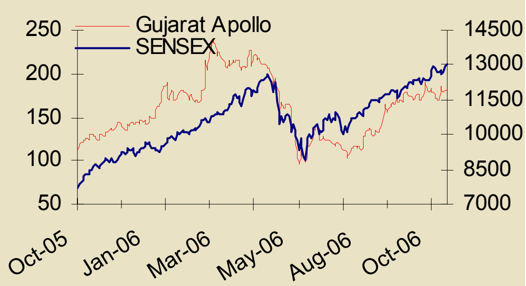
3rd Nov 2006

## *Marching Ahead* **Buy**

| SCRIP DETAILS | |
|---|---|
| Market Cap (Rs crores) | 118.6 |
| P/E (x) - FY08 (E) | 7.3 |
| Market Cap/Sales (x) - FY08 (E) | 0.8 |
| EV / EBIDTA (x) - FY08 (E) | 5.4 |
| Dividend (Rs)/ Yield (%) | 2/1.2 |
| | |
| Equity Capital (Rs crores) | 7.0 |
| Face Value (Rs) | 10.0 |
| 52 Week High/Low (Rs) | 246.3 / 95.0 |
| | |
| | |
| | |
| BSE Code | 522217 |
| Sensex | 13,130 |
| Nifty | 3,805 |

| (as on 30th September 2006) | |
|---|---|
| Promoters | 41.1 |
| FIIs | 8.6 |
| Mutual Funds/ Banks/ FIs | 0.0 |
| Public | 42.3 |
| Others | 8.0 |

COMPARATIVE PRICE MOVEMENT




**Email:** nehalshah@way2wealth.com
**Telephone:** 022 – 40192900

Gujarat Apollo Equipments Limited (GAEL), a leading manufacturer of road construction and maintenance machinery such as batch mix and drum mix plants, hydrostatic sensor paver finishers, mechanical paver finishers, bitumen pressure distributors, wet mix plants and kerb laying machines, has delivered decent results for Q2FY07.

### Encouraging Performance

Net sales for Q2FY07 have jumped by 33%, to Rs 29.2 crores from Rs 21.9 crores in Q2FY06. PAT for the quarter was up by 49%, at Rs 3.6 crores from Rs 2.4 crores. For H1FY07, the results are even better, with net sales up 60%, at Rs 62.8 crores, and net profits up 79%, from Rs 3.8 crores in H1FY06 to Rs 6.8 crores in H1FY07. EPS jumped significantly, to Rs 9.8, from Rs 5.4 for HIFY07.

### Margin expansion, on the back of volume growth in MHE segment

For H1FY07, operating margins were up by more than 270 bps, from 16.4% to 18.1%, led by volume growth and better realisation. While raw material costs to sales were under pressure (up from 61% to 68%), the Company managed to improve its margins by curtailing other expenditure in proportion to sales, from 20% in HIFY06 to 12% in H1FY07. Net margins were also up 120 bps, from 9.7% to 10.9%, despite higher depreciation and interest costs, on account of undergoing expansion.

### Capacity expansion to be a major growth driver

To arrest the trend of losing orders, due to capacity constraints, the Company is planning to increase its annual capacity from 180 units to 450 units by Q1FY08, via acquisition of an SEZ and by adding capacity at the current facility of Jagudan in Mehsana, and also by setting up a new facility in Gujarat, for which the Company has already acquired 1 lakh sq.mt. land. Due to rising exports, the Management is keen to set up manufacturing in a SEZ in Western India. This could bring efficiency in execution and GAEL could take advantage of various tax incentives, resulting in greater impetus.

### Strong order book provides earnings visibility

Currently, the Company has an unexecuted domestic & export order book to the tune of Rs 80 crores, which accounts for more than 75% of the FY06 revenues. Further, the Company expects the order book to double, once the expansions fall in place.

### Exports gathering strong momentum

GAEL is backing its exports to become a key driver in the future. It has already entered into markets like Malaysia, Dubai, Tanzania, Sri Lanka, Saudi Arabia, Europe, Bangladesh, Afghanistan, Iran, Iraq, Uganda and Australia. It is eyeing huge demand for its equipments from developed markets like Saudi Arabia and Europe. For FY06, GAEL had posted exports to the tune of Rs 30.1 crores, which constitute 26.5% of turnover, and is targeting exports to contribute nearly 50% of its turnover by FY09.

### Focus on higher value products to expand margins

Road maintenance would be a major revenue earner in the future. Towards this end, GAEL is making strategic investments. It has recently commissioned prototype in roll milling and recycling machine that would help to receive orders for maintenance and up keep of existing roads. The Company is expected to execute its first order in this segment by Nov06.

# Financials

| (YE March 31) | Q2FY07 | Q2FY06 | Chg (%) | H1FY07 | H1FY06 | Chg (%) | FY07(E) | Chg (%) |
|---|---|---|---|---|---|---|---|---|
| **Net Sales** | **29.2** | **21.9** | **33.3** | **62.8** | **39.3** | **59.7** | **144.6** | **36.3** |
| Raw Mat. Consumed | 19.3 | 11.5 | 67.0 | 42.7 | 23.8 | 79.1 | 88.2 | 29.6 |
| Other expenses | 3.5 | 5.7 | -38.4 | 7.5 | 8.0 | -5.8 | 26.3 | 49.9 |
| Personnel | 0.6 | 0.6 | 6.9 | 1.3 | 1.1 | 13.6 | 3.6 | 57.4 |
| **Total expenditure** | **23.4** | **17.8** | **31.2** | **51.4** | **32.9** | **56.4** | **118.1** | **34.4** |
| **Operating Profit** | **5.8** | **4.1** | **42.9** | **11.4** | **6.4** | **76.8** | **26.5** | **45.9** |
| Other Income | 0.1 | 0.0 | 233.3 | 0.2 | 0.3 | -35.7 | 1.5 | 219.1 |
| Interest | 0.2 | 0.2 | -16.7 | 0.6 | 0.5 | 17.3 | 1.8 | 9.1 |
| **Gross Profit** | **5.7** | **3.9** | **48.1** | **10.9** | **6.2** | **76.7** | **26.2** | **54.3** |
| Depreciation | 0.3 | 0.2 | 57.9 | 0.6 | 0.4 | 45.0 | 1.5 | 64.8 |
| **PBT** | **5.4** | **3.7** | **47.5** | **10.4** | **5.8** | **78.9** | **24.7** | **53.7** |
| Prov. for Tax- Current | 1.8 | 1.2 | 44.7 | 3.5 | 2.0 | 78.3 | 8.5 | 54.8 |
| **PAT** | **3.6** | **2.4** | **49.0** | **6.8** | **3.8** | **79.3** | **16.2** | **54.7** |
| Equity Share capital | 7.0 | 7.0 | | 7.0 | 7.0 | | 7.0 | |
| **EPS (Rs)** | **5.2** | **3.5** | **49.0** | **9.8** | **5.4** | **79.3** | **23.1** | **54.7** |
| CEPS (Rs) | 5.6 | 3.7 | 49.6 | 10.6 | 6.0 | 76.0 | 25.3 | 54.0 |
| OPM (%) | 19.9 | 18.5 | | 18.1 | 16.4 | | 18.3 | |
| PBT (%) | 18.5 | 16.7 | | 16.5 | 14.7 | | 17.1 | |
| PAT (%) | 12.4 | 11.1 | | 10.9 | 9.7 | | 11.2 | |

Segmental Revenue

| (Rs crores) | Q2FY07 | Q2FY06 | Chg (%) | H1FY07 | H1FY06 | Chg (%) |
|---|---|---|---|---|---|---|
| **Road Construction Machinery** | | | | | | |
| Revenue | 27.9 | 21.2 | 31.8 | 57.7 | 36.3 | 58.8 |
| PBIT | 5.6 | 4.0 | 41.6 | 11.0 | 6.2 | 77.0 |
| Segment Margins (%) | 20.3 | 18.9 | | 19.0 | 17.1 | |
| % Of total sales | 95.2 | 96.4 | | 91.6 | 91.6 | |
| **Construction & others** | | | | | | |
| Revenue | 1.4 | 0.8 | 79.5 | 5.3 | 3.3 | 58.9 |
| Results | 0.0 | 0.0 | -17.5 | 0.2 | 0.3 | -48.2 |
| Segment Margins (%) | 2.8 | 6.1 | | 2.9 | 8.7 | |
| % Of total sales | 4.8 | 3.6 | | 8.4 | 8.4 | |

# Valuation and Conclusion

GAEL, being the market leader in road construction and maintenance equipment, would be the major beneficiary of the accelerated thrust on road development by the UPA government. Accelerated implementation of road projects under the NS-EW corridor, NHDP III and port connectivity projects, along with PMGSY, would continue to drive demand for road equipments and construction equipments. At the CMP of Rs 169, the stock is trading at 7.3x the FY07(E) earnings of Rs 23.2 (however, there may be equity dilution on account of rights issue impending the approval of shareholders) & 5.4x its FY07(E) EV/EBIDTA. Considering the robust demand and expansion prospects, we maintain our **BUY** recommendation at the CMP, with a price target of Rs 275 over a period of 12 months, an upside of 60% from the current levels.

WAY2WEALTH Research



**WAY2WEALTH Securities Pvt. Ltd., 002, Raheja Paramount, 138, Residency Road, Bangalore – 560 025. Ph: (080) 22121512**
Research Desk - Mumbai contact no.:022-40192900 email:content@way2wealth.com website:www.way2wealth.com

## Disclaimer, Disclosure and Copyright Notice

The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers.

This material does not take into account the specific investment objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s. A qualified professional should be consulted before making an investment decisions or acting on any information contained in this material.

All investments involve risk and past performance does not guarantee future results. Investigate before you invest. You are strongly cautioned to verify any information before using it for any personal or business purpose.

Way2wealth Brokers (P) Limited (herein after called Way2Wealth) does not guarantee the accuracy, quality or completeness of any information. Much of the information is relevant only in India. Way2wealth makes no warranties, either express or implied, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement.

In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has been advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements.

These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others.

This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities thereof, of companies mentioned herein.



**WAY2WEALTH Securities Pvt. Ltd., 002, Raheja Paramount, 138, Residency Road, Bangalore – 560 025. Ph: (080) 22121512**
Research Desk - Mumbai contact no.:022-40192900 email:content@way2wealth.com website:www.way2wealth.com