ANG Auto

Buy

13 September 2006

Rs309

Initiating Coverage

Trail of success

ANG Auto is one of India's leading manufacturers and exporters of auto parts. We expect the full benefits of the company's efforts to consolidate, integrate, and expand to accrue over the next two years. We expect 48% CAGR in consolidated EPS through FY09. We recommend **BUY.**

YEAR END	NET SALES (Rs m)	PAT (Rs m)	EPS (Rs)	P/E (x)	RoE (%)	RoCE (%)	EV/ SALES (x)	EV/ EBITDA (x)
3/06	568	93	9.3	33.1	40.4	27.7	5.7	23.0
3/07E	1,483	219	18.4	16.8	42.4	27.7	2.9	13.5
3/08E	4,006	444	37.3	8.3	57.0	35.1	1.1	6.6
3/09E	4,825	542	45.5	6.8	47.1	31.6	0.9	5.1

- **A leading player in auto parts**

  ANG Auto is a leading manufacturer of auto parts such as axles, landing gears, and air-brakes. It exports most of its products to global majors like the ArvinMeritor, Daimler-Chrysler, and Bosch groups.

- **Full benefits of recent initiatives set to unfold**

  ANG Auto consolidated all its group's businesses with itself during FY05. Two manufacturing facilities were commissioned during FY06; these facilities were under construction by group companies and subsequently came into ANG Auto's fold. The full impact of this expansion will be reflected in numbers from FY07 onwards. Further, the company is moving up the value chain with its trailers venture.

- **Trailer venture to be a key growth driver**

  ANG Auto is poised to enter the trailer business in December 2006 with an exclusive, strategic tie-up with Ashok Leyland Ltd (ALL). Under this agreement, ANG Auto's subsidiary would supply ALL Rs15b+ worth of trailers over a five-year period. We expect this venture to contribute around two-third of revenues in FY08E and FY09E.

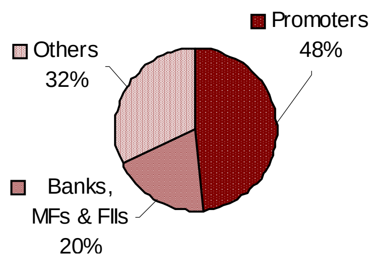
- **Consolidated EPS CAGR of 48% through FY09E; BUY**

  Consolidated, we expect 71% CAGR in revenue, 55% CAGR in PAT, and 48% CAGR in EPS through FY09.

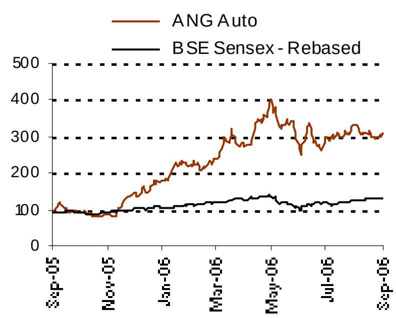
The stock is trading at EV/EBITDA of 13.5x(FY07E) and 6.6x(FY08E). Our 18-month target price for ANG Auto is Rs441(9x EV/EBITDA FY08E). We recommend **BUY.**

Sector	Auto Ancillaries
Bloomberg	ANGX IN
Reuters code	N.A.
BSE Sensex	11,893.79
S&P CNX	3,478.40
Equity Shares (m)	10.8
52-Week H/L (Rs)	414
1,6,12 Rel. Perf.(%)	-12,+18,+196
M.Cap. (Rs b)	3.3
Avg. Daily Vol. ('000)	32

SHAREHOLDING PATTERN (%)



ANG AUTO VS SENSEX - PAST ONE YEAR



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Investment Argument

We initiate coverage of ANG Auto with a BUY recommendation. Our 18-month target price is Rs441, which implies a return CAGR of 27%.

A leading player in auto parts

ANG Auto is a leading manufacturer of auto parts such as axles, landing gears, and air-brakes. It exports most of its products to global majors like the ArvinMeritor, Daimler-Chrysler and Bosch groups.

We believe ANG Auto's products have high growth potential and that the company has a robust business model. It enjoys a strong competitive position in almost all its product segments.

Summarised business profile (Also refer Annexure: Business model analysis)

Product / (Description)	Other players	Customers	Remarks / Competitive position
Air-brake components (Anchor pins, rollers, and axle spindles)	1. KTMS Engineering Pvt Ltd (part of the Kalyani Group) 2. Brakes India Ltd (JV between TVS Group and TRW Automotive)	Freios Masters Sistemas Automotivos (Brazil), Triangle Suspension Systems (US), Dexter Axles (US), KTMS Engineering (part of the Kalyani-Bharat Forge group), and Fuwa (China)	One of the largest manufacturer-exporter in South-east Asia
Automatic slack adjuster (ASA) assemblies (integral part of brake actuation systems providing safety)	1. Madras Engineering Industries Pvt Ltd (MEI) (part of the TVS Group) 2. Haldex India Ltd (JV between the Anand Group and Haldex, Sweden)	Axle & Brake Technologies (US) – a marketing company, which in turn caters to the after-market demand Domestic OEMs will be targeted once the legislation making ASAs mandatory comes into effect.	Key thrust area for ANG Auto going forward, with an estimated market size of $300m in the US alone. Low manufacturing cost structure compared to competitors, as its version has been indigenously developed. Indian patent has already been granted and a US patent application is pending for final review. Initial capacity of 0.12m ASAs per month to be increased to 0.15m ASAs per month.
Fully-dressed dummy axle assemblies and trailer suspension systems in collaboration with Fuwa (one of the world's largest in this segment and the largest in Asia)	1. Automotive Axles Ltd (JV between the Kalyani Group and Meritor Automotive Inc, US) 2. International Auto Ltd (RSB Group) 3. Axles India (JV between the TVS Group and Dana Corp, US)	Trailer manufacturers and transporters	ANG Auto's axles are made of high-strength, alloy steel, seamless tubes, which make them more durable than the others. Hence, ANG Auto is the only manufacturer to give a life-time warranty for its axle beam. It also offers multiple track lengths as against standard track lengths offered by others.
Worm and gear sets, cylinder blocks, clutch collars, brake shoes, S-cam shafts, brake assemblies, and MSA.	No players in the domestic market for ASA components	ArvinMeritor (US) and Axle Alliance (US) for worm and gear sets. Bosch Rexroth UK (through Hillfoot Steel, UK), ArvinMeritor, Ege Fren (Turkey), and ALL for other products.	
Differential spiders (Critical cross-section that connects the rim of the wheel to the wheel)	No players in the domestic market	ArvinMeritor, (US, Italy, and Sweden), Axle Alliance (US), and Sisamex (Mexico)	

Full benefits of initiatives set to unfold

Growth through consolidation

All businesses consolidated into listed entity

2005 was a year of consolidation for the ANG Group.

Step 1: Merger of ANG Auto Pvt Ltd (AAPL) with the listed entity ANG Exports Ltd (AEL), in the ratio of 5:4, with effect from December 1, 2004.

AAPL (Operational plant at Greater Noida for various components and plants under construction at Noida SEZ for ASA assemblies and Nalagarh for dummy axles)	+	AEL (Operational plant at Noida for air brake components)	=	AEL (Merged entity with two operational plants and two more under construction)

Step 2: Acquisition of business of ANG Automotive Industries Pvt Ltd (AAIPL) as a going concern with effect from December 1, 2005.

AAIPL (Plant under construction at Faridabad for differential spiders)	+	AEL (With four operational plants)	=	ANG Auto Ltd -renamed (With five operational plants)

The synergistic benefits and resultant cost savings such as better utilisation of manpower and machines, and better bargaining power with suppliers and customers are now reflecting in the company's performance.

Aggressive capacity additions

ANG Auto has been aggressively adding capacities as part of its strategy to wrest the first-mover advantage in business areas such as trailers.

Recent capacity additions

Location	Products	Commissioned
Noida SEZ	ASA assembling facility	September 17, 2005
Nalagarh	Fully dressed single piece dummy axles and trailer assemblies	November 7, 2005
Noida SEZ	Shafts, gears etc.	July 2006

Moving towards full integration

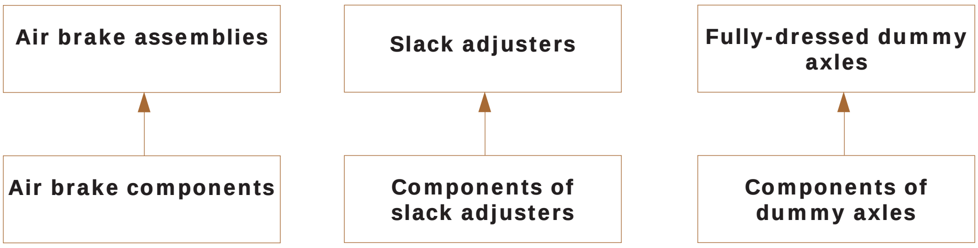
Before consolidation, ANG Auto manufactured and exported air brake components such as anchor pins, rollers, and axle spindles. It also had numerous CNC (computer numerically controlled) turning machines and a secondary machining facility.

Background

The Delhi-based ANG group began as a company manufacturing air-brake components for the export markets in 1991. It has become one of India's leading multi-product manufacturer and exporter of automobile components to OEMs and OESs (original equipment suppliers) in the US and Europe.

The present product basket of the flagship company, ANG Auto, includes air brake components, air brake assemblies, brake shoes, S-cam shafts, slack adjusters, fully dressed dummy axle and axle nuts, worm and gear sets, CNC machined components, differential and brake spiders. This diverse product basket is a result of consolidation of various group companies into the listed entity, which was earlier known as ANG Exports Ltd.

The movement up the value chain is summarised:

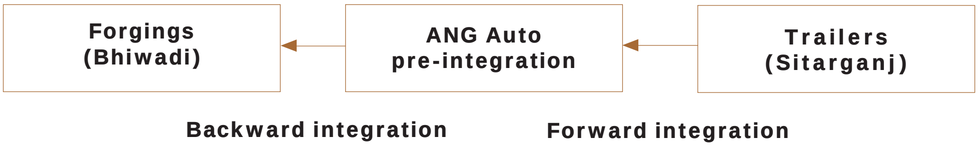


Advantages

- Higher margins
- One-stop shop for a large number of trailer's mechanical requirements.

Move towards full integration to provide better margins

An integrated component manufacturing facility is planned at Sarai Khurd (Bhiwadi, Rajasthan - near the automobile hubs of Gurgaon and Manesar) at a capital outlay of Rs372.3m, for which land has been acquired. This unit is expected to have a forging unit (9,600 tpa) along with new machining and assembly lines for axles and suspension systems for the truck and trailer segment. The unit has been conceived as ANG Auto's largest manufacturing facility, spread over 40,000 sqm.



Company will initially concentrate on Sitarganj project

However, as of now, the management intends to focus most of its attention and resources to the mega-trailer project at Sitarganj (Uttaranchal). This is owing to this project's importance to ANG Auto's future. This project is discussed separately in the next section. The Bhiwadi project, on the other hand, was conceived as a backward integration for its forgings requirements, which would improve margins on the final product. The project would meet ANG Auto's entire captive requirement for forgings. The company will concentrate on the Bhiwadi project after the Sitarganj project is stable.

Trailer venture to be a key growth driver

ANG Auto is banking heavily on its proposed entry into manufacture of trailers. We believe that this project is set to catapult the company into the top league and will be the single largest growth driver for the company over the next three years.

We believe ANG Auto's trailer venture will drive the company's growth due to favourable regulatory actions and its ALL tie-up that will give it an assured market

Key triggers

- An apex court order banned overloading trucks. This made the use of trailers a preferred alternative.
- There were no trailer manufacturers in the country in the organised segment. Hitherto, manufacturers such as ALL and Tata Motors supplied standalone prime movers and transporters had to source trailers from the unorganised market.
- There was lack of scale, quality, and standardisation in the unorganised segment.
- There was no organised financing on the trailer cost and hence manufacturers resorted to high-cost unorganised finance.
- The availability of trailers was irregular and the consequent time lag between purchase and deployment often ran into months.

ANG Auto saw the above scenario as an opportunity to enter trailer manufacturing.

Although ANG Auto could offer a standardised product, it lacked a domestic distribution base and marketing network; the company had hitherto focused only on the export markets. Setting up an extensive distribution base and marketing network would have taken considerable time and investment, which would have limited the upside potential in terms of volumes that ANG Auto would be able to cater to.

One solution was to tie-up with a prime mover manufacturer to leverage an existing marketing and distribution network, which would give ANG Auto an assured market. ANG Auto could focus on its core competencies - manufacturing trailers. Hence the company entered into a strategic tie-up with commercial vehicle major ALL.

Salient features

ANG Autotech to incur capex of Rs610m for a manufacturing capacity of 6,000 tractor-trailers p.a. at Sitarganj

- ANG Auto's subsidiary, ANG Auto Tech Pvt Ltd (ANG Autotech), will incur a capex of Rs610m (Rs250m initially and Rs360m in the second phase) for a facility manufacturing 6,000 tractor-trailers p.a. at Sitarganj, exclusively for ALL's requirements; the unit is eligible for a 10-year tax holiday.
- The unit is located on a 15 acre plot, providing ANG Auto room for future capacity expansions.
- The project funding requirements will be met through a combination of equity, internal accruals, and debt. Given that the parent, ANG Auto, has low leverage of 0.9x, the management foresees no difficulty in raising debt for the venture.

- 75% of ANG Autotech would be owned by ANG Auto, 10.5% by a Chinese partner - Fuwa Engineering Manufacturing Company Ltd (Fuwa), and the balance by strategic investors.
- Phase 1 of the unit will be operational by December 2006 and capacity would be raised to 6,000 tractor trailers p.a. by July 2007. In Phase 2, from July 2007, specialty trailers will also be supplied to ALL as a part of the contract.
- The contract is valued between Rs15b-Rs18b and the initial contract period will be for five years. ALL currently manufactures 800-1,000 prime movers per month and the tie-up would give them an assured supply of only 500 trailers per month. Hence, we believe that ANG Auto would have to expand capacities going forward, if it has to cater to ALL's entire tractor production; presently, transporters buy the trailers directly. ALL also has aggressive expansion plans for the future and plans to expand its manufacturing capacity from 77,200 units p.a. to 100m units p.a. by FY08, which bodes well for ANG Auto's offtake.

Initial contract with ALL worth about Rs15-18b over a five-year period

- The trailers will be co-branded and marketed by ALL, which in our opinion reflect ANG Autotech's high quality standards.
- ALL would consider picking up a strategic stake in ANG Autotech at a later stage but no final decision had been taken on the quantum of the stake and the investment amount. However, we believe that the stake will be a minority stake of 10-15%, as that would be sufficient for ALL to cement its relationship with the ANG Group.

We believe that the above tie-up is a win-win situation for both ANG Autotech and ALL. It gives ANG Autotech a sizeable market share upfront through this arrangement. ALL also has a USP (unique selling proposition) in terms of a fully-built tractor-trailer at competitive prices, which will give it an edge over Tata Motors and Volvo.

Proactive moves to capitalise on new auto regulations

ANG Auto's philosophy to enter opportunity-driven business areas and efforts to capitalise on the new auto regulations provide it the first-mover advantage.

The Supreme Court delivered a landmark judgement on November 9, 2005. The judgement quashed the issuance of gold card/tokens by State Governments, which permitted the overloading of trucks in excess of prescribed weight limits. The Court had mandated that the trucks found on roads carrying illegal excess load would have to offload the excess cargo. CRIS INFAC had initially estimated that this would create an additional demand of 15,000 to 28,000 units in the MHCV (medium and heavy commercial vehicle) segment, specifically for high tonnage vehicles like trailers and multi-axles. This was based on assumptions that on an average the current level of overloading would be 50% and the level of implementing the ban would be 50%.

CRIS INFAC's estimated YoY growth rate in the MHCV segment for CY06 was revised upwards to 16.3% from 8.2%. Moreover, it estimated that transporters who had entered into long-term contracts would buy additional trucks immediately to cope with the fleet shortage and fulfill existing commitments. CRIS INFAC notes that 6,000-8,000 MHCVs were added during Jan-Mar 2006 and estimates that another 27,000 to 32,000 MHCVs would be added in the first half of FY07.

Shift in commercial vehicles from low-tonnage to high-tonnage should keep trailer demand buoyant

As fuel costs remain nearly fixed irrespective of the size of the truck, it will be more economical to ply multi-axle trucks and trailers compared to smaller trucks. Multi-axle and tractor-trailer trucks are the fastest-growing truck segment today, with 10 per cent of total sales. The huge logistics requirement for sustaining infrastructure growth in India in general and the national highway projects in particular, will ensure that the trailer industry gathers momentum.

This shift augurs well for ANG Auto's product line in general and dummy axles in particular. Each prime mover (currently manufactured by Tata Motors, ALL, and Volvo) requires at least one trailer to be attached to it. Further, in each trailer, at least two dummy axles have to be fitted, depending on the configuration of the fleet.

As per another legislative notification, starting April 2007, Indian commercial vehicles will have to use ASAs instead of MSAs, which are being used currently. This would create a demand for 0.12m pieces per month as against 0.04m pieces now.

Financials & Projections

Benefits of consolidation trickle in FY06 onwards

ANG Auto's financials are marked by strong profit growth in FY06 and a robust 1QFY07 performance

FY06 was a year of transition for ANG Auto marking the consolidation of the group's businesses into the listed entity. Hence, a comparison of numbers for previous years is inconsequential.

In earlier years – barring FY05, during which after-tax profits grew by 150% – the listed entity showed little or no growth in profitability, as entry into high-growth businesses was through unlisted group companies.

Operating profits surged 624% to Rs141.9m in FY06 as against Rs19.6m in FY05. This was due to increased topline of Rs568.1m, which tripled from Rs190m in FY05. NPAT growth was even higher at 829% and NPAT for FY06 stood at Rs93.8m as against Rs10.1m for FY05.

The reported EPS was Rs9.45, more than three times higher than the FY05 figure of Rs2.39. The lower EPS growth was on account of the equity dilution after the allotment of:

- 3.13m shares to shareholders of the erstwhile ANG Auto Pvt Ltd.
- 0.68m shares and 3.96m warrants (out of which 2m were converted during FY06) to promoters and strategic investors.

To put things in perspective, the FY06 numbers included operations of the Faridabad plant for four months, the Nalagarh plant for less than five months, and the Noida SEZ plant for less than four and a half months.

In FY06, almost 93% of ANG Auto's revenues came from exports (including DEPB income); the management expects this segment to grow at a CAGR of 25-30%, going forward. However, the percentage contribution of exports is expected to come down to 80% in FY07E, as the company has introduced products targeted at the domestic markets.

Robust 1QFY07 performance

ANG Auto has reported a robust performance for 1QFY07. Post-tax profits grew a whopping 1,466% as compared to the same quarter last year and stood at Rs52.5m due to a 504% YoY increase in net sales to Rs252.6m. On a sequential basis, net sales rose 7.1% whereas post-tax profits grew 10.1%. The lower growth in net sales was because there was no capacity addition during 1QFY07 and capacities stood at 4QFY06 levels.

EPS stood at Rs5.28 for the quarter.

OPM grew marginally to 27.7% from 27.4%.

PBT margins remained steady at 4QFY06 levels of 24.5%, which are among the highest in the industry.

One of the reasons for the higher PBT margins is that depreciation expenses have grown much slower than the growth in the topline and bottomline. This is because the Greater Noida facility of the erstwhile ANG Auto Pvt Ltd (since merged with ANG Auto) and the Faridabad facility of ANG

Automotive Industries Pvt Ltd (acquired by ANG Auto in December 2005) were existing plants, which were depreciated to an extent.

The post-tax profit growth was boosted on account of lower tax liability, as most of the incremental production came from the Noida SEZ (eligible for a 10-year tax holiday) and Nalagarh (located in a sales and income tax-free zone) plants. On a sequential basis, effective tax rate has come down from 17.5% to 15.2%.

Consolidated EPS CAGR of 48% through FY09E

Consolidated, we expect ANG Auto to post a CAGR of 71% in revenues, 55%, in PAT and 48% in EPS through FY09.

ANG Auto - Standalone

ANG Auto's standalone revenues to grow at a CAGR of 30% through FY09E

We expect ANG Auto's standalone revenues to grow at a CAGR of 30% through FY09, while post-tax profits should grow at a CAGR of 33% during the same period. We expect EBITDA margins to remain stable at 25-26% during this period. The growth should come from capacity expansions, ramp-up in demand from existing customers as well as addition of new customers in the domestic and overseas markets.

As a result of the tax benefits at the two plants at Noida SEZ and the Nalagarh plant, we expect effective tax rate to reduce to around 16% in FY07E and further to 13.5% in FY08E and FY09E. These three plants are expected to contribute nearly 41% of revenues in FY07E.

ANG Autotech - Standalone

Our key assumptions for the trailer project are:

Recent capacity additions

Particulars	FY07E	FY08E	FY09E	Comments
Trailers sold	603	4726	5689	Commissioned in two phases – December 2006 and July 2007
Avg. price (Rs m)	0.55	0.55	0.57	Gradual price increase and margin improvement from July 2007 onwards on account of introduction of high-value specialised trailers.
EBITDA margin (%)	10.0	11.8	12.3	

PAT margins for ANG Autotech estimated at 9.4% in FY08 and 10.1% in FY09

The project enjoys a 10-year tax holiday and hence, we expect PAT margins for ANG Autotech to be around 9.4% in FY08 and 10.1% in FY09.

ANG Auto - Consolidated

On a consolidated basis, we expect ANG Auto to post a CAGR of 71% in revenues and 54% in EBITDA through FY09.

The chief raw material for the company is steel – 95% of which is alloy steel or custom-made carbon steel. These constitute 30-55% of the total cost for different parts and assemblies. Other raw materials include various imported and bought-out items, none of which account for more than 5% of total raw material cost.

Between Jan-Aug 2006, steel prices increased by around 7% MoM. If domestic steel prices were to increase going forward (which is unlikely), the company may pass on the increase in raw material prices to the end consumers, given the relatively lower competition in the commercial vehicle components space.

Capex plans to be funded from internal accruals and debt

We expect ANG Auto's capex plans to be met out of internal accruals and debt. However, with higher leverage, we expect the cost of borrowings to increase to 11% in FY08E and FY09E. Any further increase in interest rates beyond this number would adversely affect our earnings estimates.

Factoring in the lower effective tax rates applicable to ANG Auto and its subsidiary, we expect a PAT CAGR of 55% and EPS CAGR of 48% through FY09E.

Sensitivity analysis

The trailer venture is critical to ANG Auto's future estimates. So, we have analysed the sensitivity our earnings model to changes in volume and price realisation.

FY08 EPS

No. of trailers sold	Avg. realisation per trailer				
	498,840 (-10%)	526,553 (-5%)	554,267 (base case)	581,980 (+5%)	609,694 (+10%)
(-10%) 4,254	33.5	34.4	35.3	36.2	37.1
(-5%) 4,490	34.4	35.4	36.3	37.2	38.1
(base case) 4,726	35.3	36.3	**37.2**	38.2	39.2
(+5%) 4,963	36.2	37.2	38.2	39.3	40.3
(+10%) 5,199	37.1	38.1	39.2	40.3	41.3

FY09 EPS

No. of trailers sold	Avg. realisation per trailer				
	508,994 (+10%)	537,272 (-10%)	565,549 (base case)	593,827 (-5%)	622,104 (+5%)
(-10%) 5,120	40.8	41.9	43.1	44.2	45.3
(-5%) 5,405	41.9	43.1	44.3	45.5	46.7
(base case)5,689	43.1	44.3	**45.5**	46.8	48
(+5%) 5,973	44.2	45.5	46.8	48.1	49.4
(+10%) 6,258	45.3	46.7	48	49.4	50.8

Valuation & Recommendation

We analysed the valuation parameters of 37 auto component companies in the mcap band of Rs1-10b. Our key findings for the sector are (ANG Auto's figures for FY08E in parenthesis) -

- RoE of 25.4% (57%)
- RoCE of 22.4% (35%)
- EV/EBITDA of 8x
- PE of 17x.

As ANG Auto is well-leveraged, we have used the EV/EBITDA approach to value the stock. As seen above, RoCE and RoE for ANG Auto are expected to be much higher than the peer group average. So, we believe ANG Auto should enjoy a premium valuation. Accordingly, we have arrived at our target price based on EV/EBITDA of 9xFY08E.

Our 18-month price target is Rs441 (9xFY08E EV/EBITDA, corresponding PE of 11.8x). This translates into a return CAGR of 27%. We recommend **BUY.**

We believe ANG Auto deserves a premium valuation as its RoCE and RoE are expected to be much higher than the peer group average. Our 18-month price target is Rs441 (9xFY08E EV/EBITDA, corresponding PE of 11.8x)

DCF Valuation

We also did a DCF valuation for ANG Auto.

Key assumptions

Discount factor

- Post-tax cost of debt at 7.3%
- Cost of equity at 16%
- WACC at 11.9%
- Risk-free return 8%, equity risk premium 8% and ANG Auto Sensex beta at 1

Cash flows

- MOSt estimates through FY09E
- EBIT growth at 15% in FY10, tapering off to 10% in FY16
- 10% growth in fixed investments and working capital FY10 through FY16
- 5% terminal growth rate in FCF FY17 onwards

Based on the above, we arrived at a fair value of Rs428 and a 12-month forward price target of Rs480 per share.

However, 63% of the present firm value was explained by the terminal value. This is higher than our comfort level of 50% or less. Hence, we have not considered DCF value for our target price.

Investment concerns

Our investment concerns include any possible delay in ANG Auto implementing its trailer project and equity dilution in ANG Auto or ANG Autotech

- Any delay in implementing the trailers project or lower than expected offtake from ALL could adversely affect our earnings estimates.

  ***Mitigant*:** The management believes that barring unforeseen circumstances, the project should be completed on schedule. ALL sold 4,735 prime movers (mass exceeding 26.4 tonnes) between Apr-Aug 2006 (Source: SIAM), which gives an annualised figure of 11,364 prime movers. Although FY07 has seen unprecedented demand, as a result of the SC ban on overloading, we believe that our projected sales of 4,726 and 5,689 tractor-trailers in FY08E and FY09E respectively are achievable. We expect that the ongoing shift in the market from low-tonnage commercial vehicles to high-tonnage commercial vehicles should keep trailer demand buoyant going forward.

- Any equity dilution in ANG Auto or its subsidiary ANG Autotech may alter our EPS estimates.

  Although we do expect the company to go in for equity dilution at some stage and utilise the proceeds to repay some of its debt, we have not factored any equity dilutions through FY09, as of now, since there are no concrete plans for the same.

  As mentioned earlier, ALL may buy a stake in ANG Autotech at some stage. However, since there is no timeline or concrete plan for the same, we have not considered the same. Minority interest has been assumed to remain at 25% through FY09, for the purpose of our consolidated earnings estimates.

  Mitigant: We do not expect dilution to be more than 20% in case of ANG Auto and such dilution is unlikely to significantly alter our EPS estimates. In case of ANG Autotech, the EPS impact of the dilution, if and when it happens, will depend on the deal valuation. However, here too, we believe that it may not have significant effect on our estimates.

- Any delay in implementing the directive on mandatory ASAs beyond April 2007 could adversely affect our earnings estimates for FY08 and FY09.

  ***Mitigant*:** None

Financials and Projections

INCOME STATEMENT						(Rs M)
Y/E MARCH	**2004**	**2005**	**2006**	**2007E**	**2008E**	**2009E**
Net sales	**105**	**190**	**568**	**1,483**	**4,006**	**4,825**
Change (%)	*6.1*	*81.3*	*199.0*	*161.0*	*170.2*	*20.4*
Material Cost	63	113	276	835	2,545	3,055
% of net sales	*60.5%*	*59.3%*	*48.7%*	*56.3%*	*63.5%*	*63.3%*
Pow er & Fuel Cost	4	8	21	62	184	225
% of net sales	*4.2%*	*4.4%*	*3.8%*	*4.2%*	*4.6%*	*4.7%*
Employee Cost	7	9	28	64	113	139
% of net sales	*6.9%*	*4.8%*	*4.9%*	*4.3%*	*2.8%*	*2.9%*
Other Mfg Exps	11	20	51	104	232	270
% of net sales	*10.8%*	*10.6%*	*9.0%*	*7.0%*	*5.8%*	*5.6%*
Selling & Admin Exps	15	19	47	92	238	295
% of net sales	*14.2%*	*9.9%*	*8.2%*	*6.2%*	*6.0%*	*6.1%*
Miscellaneous Exps	5	1	3	7	28	34
% of net sales	*4.3%*	*0.6%*	*0.5%*	*0.5%*	*0.7%*	*0.7%*
EBITDA	**0**	**20**	**142**	**319**	**666**	**807**
Change (%)	*-107.5*	*0.0*	*622.0*	*125.5*	*108.7*	*21.2*
Depreciation	3	5	9	13	36	56
EBIT	**-3**	**15**	**133**	**306**	**630**	**751**
Interest	4	9	16	48	97	100
Other income	10	8	1	6	13	20
PBT & EO items	**3**	**14**	**118**	**264**	**546**	**671**
Extra-ordinary items (net)	0	0	0	0	0	0
PBT	**3**	**14**	**118**	**264**	**546**	**671**
Tax	0	4	25	39	41	47
Rate (%)	*14.5*	*27.9*	*21.4*	*14.8*	*7.5*	*7.0*
REPORTED PAT	**2**	**10**	**93**	**225**	**505**	**624**
Minority Interest	*0*	*0*	*0*	*-6*	*-61*	*-82*
Adjusted PAT	**2**	**10**	**93**	**219**	**444**	**542**
Change (%)	*2.2*	*329.8*	*817.3*	*136.9*	*102.3*	*22.1*
EBITDA margin (%)	*-0.4*	*10.3*	*24.9*	*21.5*	*16.6*	*16.7*
PAT margin (%)	*2.2*	*5.3*	*16.3*	*14.8*	*11.1*	*11.2*

Trailer project to drive growth and account for two-third of net sales

EBITDA expected to grow at a CAGR of 54%

Higher share of profits from trailer poject located at Sitarganj (tax-free zone)

PAT has grown at a CAGR of 55%

Financials and Projections (contd...)

BALANCE SHEET						(Rs M)
Y/E MARCH	2004	2005	2006	2007E	2008E	2009E
Networth	**74**	**102**	**377**	**694**	**1,089**	**1,571**
Equity share capital*	42	74	99	119	119	119
Advance against convertible warrants	0	0	15	0	0	0
Reserves	32	28	263	575	970	1,452
Minority Interest	0	0	0	25	84	162
Loans	74	157	330	779	916	938
Net deferred tax liability	0	1	5	5	5	5
Capital employed	**148**	**260**	**712**	**1,503**	**2,094**	**2,676**
Gross fixed assets	55	123	199	395	1,135	1,185
Less: Depreciation	15	20	29	42	78	134
Net fixed assets	**40**	**103**	**170**	**353**	**1,057**	**1,051**
Capital WIP	0	0	11	331	30	25
Investments	1	2	0	0	0	328
Current assets	**114**	**189**	**729**	**1,151**	**1,667**	**2,012**
Inventory	20	46	175	382	617	694
Debtors	73	118	287	485	709	815
Cash & bank balance	6	7	139	144	181	157
Loans & advances	15	18	127	140	160	346
Current liab. & prov.	**11**	**38**	**210**	**342**	**668**	**746**
Creditors	11	36	157	270	584	647
Other Liabilities	0	0	6	0	0	0
Provisions	0	2	46	72	84	99
Net current assets	**103**	**150**	**519**	**809**	**999**	**1,266**
Misc. exp. (not written off)	4	5	12	10	8	6
Application of funds	**148**	**260**	**712**	**1,503**	**2,094**	**2,676**

E: Estimates

610m capex for trailer project and balance mainly for Bhiwadi project

** At the September 2006 AGM, an ESOP scheme that involves issuing up to 0.2m shares will be proposed. However, based on our interactions with the management, no shares under the scheme will be issued before FY09E. Accordingly, dilution in equity and employee compensation expenses will arise only post-FY09E.*

Financials and Projections (contd...)

RATIOS						
Y/E MARCH	**2004**	**2005**	**2006**	**2007E**	**2008E**	**2009E**
Basic (Rs)						
EPS	**0.3**	**1.4**	**9.3**	**18.4**	**37.3**	**45.5**
growth (%)	*2.2*	*394.7*	*579.0*	*97.6*	*102.3*	*22.1*
Cash EPS	0.6	2.0	10.2	19.5	40.3	50.3
Book value	16.6	13.2	36.8	57.5	90.8	131.5
DPS	0.0	0.0	2.0	2.5	4.0	4.0
Payout (incl. Div. Tax.) (%)	0.0	0.0	23.0	11.9	9.4	7.7
Valuation (x)						
P/E			33.1	16.8	8.3	6.8
Cash P/E			30.3	15.8	7.7	6.1
Price/Book value			8.4	5.4	3.4	2.4
EV/Sales			5.7	2.9	1.1	0.9
EV/EBITDA			23.0	13.5	6.6	5.1
Dividend yield (%)			0.6	0.8	1.3	1.3
Profitability ratios (%)						
RoE	2.9	12.6	40.4	42.4	57.0	47.1
RoCE	-2.4	7.5	27.7	27.7	35.1	31.6
Turnover ratios						
Debtors (days)	255	226	185	119	65	62
Inventory (days)	71	89	113	94	56	53
Creditor (days)	64	116	208	118	84	77
Asset turnover (x)	0.7	0.7	0.8	1.0	1.9	1.8
Leverage ratio						
Debt/Equity (x)	1.0	1.5	0.9	1.1	0.8	0.6

EPS expected to grow at a CAGR of 48%

Shorter inventory and debtor cycles for trailer project than other businesses

Financials and Projections (contd...)

CASH FLOW STATEMENT						(Rs M)
Y/E MARCH	2004	2005	2006	2007E	2008E	2009E
PBT before EO items	**3**	**14**	**118**	**264**	**546**	**671**
Add : Depreciation	3	5	9	13	36	56
Interest	4	9	16	48	97	100
Less : Direct taxes paid	0	4	24	36	41	47
(Inc)/Dec in WC	-4	-47	-236	-284	-155	-290
CF from operations	**5**	**-23**	**-117**	**5**	**483**	**490**
EO, misc. & other items	0	0	0	0	0	0
CF from oper. incl. EO item	**5**	**-23**	**-117**	**5**	**483**	**490**
(Inc)/Dec in FA	-4	-68	-88	-516	-439	-45
(Pur)/Sale of investments	5	0	1	0	0	-328
CF from investments	**1**	**-68**	**-87**	**-516**	**-439**	**-373**
Inc/(Dec) in networth	0	18	208	149	5	-7
Inc/(Dec) in debt	4	83	173	449	137	22
Less : Interest paid	-4	-9	-16	-48	-96	-100
Dividend paid	0	0	-28	-34	-55	-55
CF from fin. activity	**0**	**92**	**337**	**516**	**-8**	**-140**
Inc/Dec in cash	**6**	**1**	**133**	**5**	**36**	**-23**
Add: Beginning balance	0	6	7	139	144	181
Closing balance	**6**	**7**	**140**	**144**	**181**	**157**

Strong cash flows from trailer project

Annexure: Business model analysis

Geographic profile

ANG Auto has been primarily targeting the US and European markets but also has a presence in Brazil, Mexico, Sweden, Turkey, Australia etc. The company plans to exploit the Chinese markets as well going forward. Its collaboration with Fuwa will enable it to supply its axles, marketed under the name ANG Fuwa to neighbouring countries such as Pakistan, Sri Lanka, Nepal, and Bangladesh.

Customer profile

About 70% of ANG Auto's sales are to major Fortune 500 companies and there is little variation in the demands of these customers. Fluctuation in orders from global clients is only 10-15% and therefore order flow is not very volatile.

ANG Auto has various long-term contracts in place with its customers and these currently account for 75% of its order book. About 5-10% contracts are after-market, which are done on a contract-to-contract basis. The balance is for the domestic market, where supplies are made as per local customer requirements and not based on firm contracts.

The minimum order size for long-term products is around $0.2m. A contract worth Rs1.5b spread over five years is currently being executed for ArvinMeritor (US).

In FY07, the top five customers are expected to account for 70% of turnover, excluding the trailer project.

ArvinMeritor Group

The $8.9b US-based ArvinMeritor Inc is a premier, Tier I, automotive supplier with a diverse product, customer, and geographic mix for light vehicle, commercial truck, trailer, and specialty OEMs, and related after-markets. Sisamex (Mexico), a JV between ArvinMeritor and Grupo Quimmco, manufactures axles and brake parts.

Bosch Rexroth (UK)

This UK subsidiary of the £4.6b Bosch Rexroth AG group, (part of the £41.5b Bosch Group) had revenues of £136m in 2004. The group provides the complete range of drive, control, and linear motion solutions.

Dexter Axles (US)

This US subsidiary of the £3.2b Tomkins Plc group is the largest US producer of specialist, high specification, non-drive axles and wheels for trailers.

Randon Group (Brazil)

The R2.84b group operates, through its several companies, in the segments of road transport (trailers/semi-trailers), railway (wagons) and off-road, as well as in auto parts and services. Freios Master Sistemas Automotivos – a JV between the Randon and ArvinMeritor groups – manufactures S-cam brakes, air chambers, spring brakes, slack adjusters, brake assemblies, brake shoes etc.

Axle Alliance (US)

Axle Alliance is part of the •149.8b Daimler Chrysler Group, which owns the Mercedes-Benz brand, and manufactures axles and axle systems for commercial vehicles.

Exhibit I (Source: ANG Auto)

Estimated Customer-wise Revenue Break-up for FY07

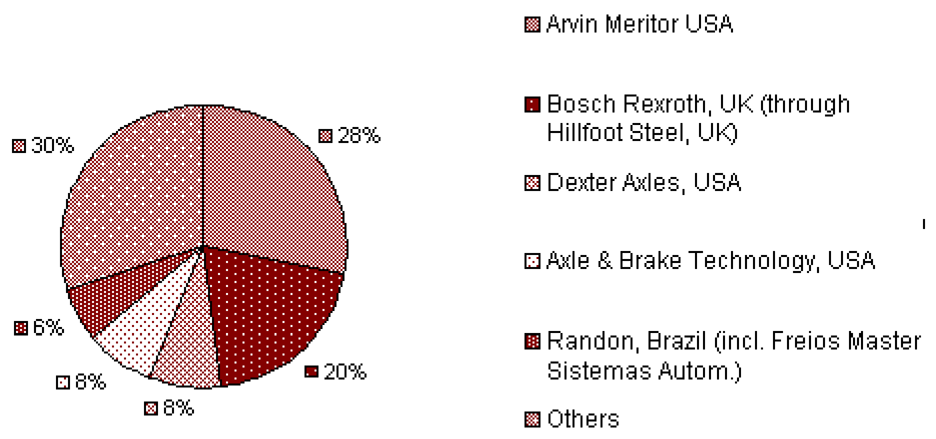
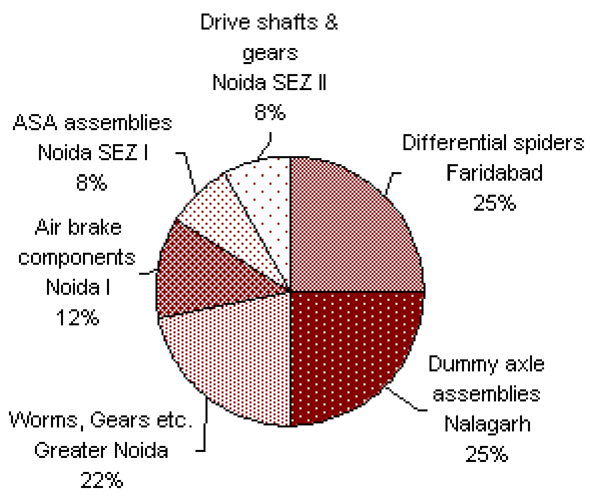


Exhibit II (Source: ANG Auto)

Estimated Product / Plant-wise Revenue Contribution for FY07



Note: Exhibit I and II do not include the figures of the proposed trailer project of ANG Autotech at Sitarganj, which will exclusively cater to ALL's requirements. Revenues from this project are expected to contribute almost 67% of consolidated revenues in FY08E and FY09E.

Outlook on trailers

ANG Auto will target transporters that use axles made by the organised sector (25% of total axle market) i.e. Tata Motors and ALL. Moreover, the company expects the remaining transporters to be converted because the price difference between the unorganised fabricators and ANG Auto will become less lucrative.

Volvo manufactures its own trailers, which are much more expensive; moreover, Volvo has stated that it is not in the volume game.

The rise in the trailer market is largely due to the change in product and service offerings by commercial vehicle manufacturers. Major players such as Tata Motors and ALL are looking at offering fully-built commercial vehicles in the next five years. Currently, India is one of the few countries where the chassis of a commercial vehicle is sold separately; this is likely to change soon. As discussed earlier, ANG Auto will initially be catering only to the requirements of ALL.

The Chandigarh-based JCBL group has entered into a technical tie-up with Tantri Trailers Pvt Ltd of Sri Lanka to manufacture specialised trailers. Tantri Trailers Pvt Ltd has low manufacturing volumes at 20 trailers per month, whereas the scale of JCBL is not known.

Jabalpur-based CEBBCO also has a facility for manufacture of trailers. They have recently entered into a technical collaboration with Thailand-based CTV Doll and will set up an additional capacity at Jamshedpur, which will supply trailers to its Thailand partner CTV Doll. However, they are not backward integrated and would therefore find it difficult to compete with ANG Auto on costs.

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Disclosure of Interest Statement	**ANG Auto**
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No

MOSt is not engaged in providing investment-banking services.