

AMTEK AUTO

INR 349

Yet another strong quarter

BUY



Amtek Auto declared yet another strong quarter with numbers ahead of our expectations. Consolidated sales at INR 9.8 bn grew by 41.4% and 9% on a Y-o-Y and Q-o-Q basis respectively. Profits grew by a strong 48.1% and 11.3% during the same period. Key reason for the strong performance was better numbers from both Amtek Auto and Ahmednagar Forgings.

Amtek is on a strong growth path on account of catering to the in-house requirements of its overseas subsidiaries and is likely to spend over INR 4.25 bn in FY07E on top of the INR 4.2 bn it has already spent in FY06 for expanding capacities in Amtek Auto and Ahmednagar Forgings. With this expansion drive, Amtek Auto's forging capacity will have increased by 125% to 135,000 tons between FY05-07E and machining capacity by 71% to 30 mn pieces in the same period. Also it is currently in the process of setting up a 20,000 ton aluminium foundry which will start operations by FY07E end. Similarly, Ahmednagar Forging's forging capacity will have increased by 365% to 214,000 tons.

We are increasing our FY07E consolidated PAT by 8% to INR 3.8 bn and introducing FY08E estimates post the release of the FY06 balance sheet. We expect consolidated sales to grow at a 29% CAGR during FY06-08E to INR 51.7 bn and profits to grow at a 43% CAGR to INR 5.65 bn by FY08E. The stock trades at a PE of 12.6 and 8.4 on our FY07E and FY08E estimates with a consolidated EPS of INR 27.8 and 41.4 respectively (PE of 14.8 and 10, assuming FCCB dilution of USD 250 mn at INR 458.64/share). There exist further upsides to these estimates as we have not included the impact of the aluminium foundry operations.

* Ripe re-rating candidate

Valuations are the cheapest for Amtek in the entire sector despite such strong growth. We continue to maintain our 'BUY' recommendation and the top pick in the sector. We believe that the stock is in for a strong re-rating as it has already released its consolidated balance sheet and investor communication along with disclosures have improved substantially starting this quarter.

Financial snapshot (Consolidated)

Year to June	Q2FY07	Q2FY06	Y-o-Y %	Q1FY07	Q-o-Q %	FY07E	FY08E
Revenues (net) (INR mn)	9845	6961	41.4	9028	9.0	39754	51731
Total expenditure (INR mn)	7890	5678	39.0	7275	8.4	32529	41192
EBITDA (INR mn)	1955	1283	52.4	1753	11.5	7225	10539
Adjusted net profit (INR mn)	971	656	48.1	872	11.3	3798	5651
EBITDA margins (%)	19.9	18.4		19.4		18.2	20.4
Net profit margins (%)	10.9	9.9		10.6		9.6	10.9
EPS (INR)	7.1	4.8		6.4		27.8	41.4
P/E (x)	49.1	72.7		54.7		12.6	8.4
EPS (INR)*	6.0	4.1		5.4		23.6	35.1
P/E (x)*	57.9	85.8		64.5		14.8	10.0

* assuming dilution of FCCB of USD 250mn @ INR 458.64

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Reuters : AMTK.BO
Bloomberg : AMTK IN

Market Data

52-week range (INR) : 376 / 240
Share in issue (mn) : 122.4
M cap (INR bn/USD mn) : 42.8 / 967.1
Avg. Daily Vol. BSE/NSE ('000) : 319.7

Share Holding Pattern (%)

Promoters : 33.7
MFs, Fls & Banks : 17.1
Fls : 42.4
Others : 6.8

Consolidated results

- ◆ Consolidated sales grew by 41.4% and 9% to INR 9.85 bn on a Y-o-Y and Q-o-Q basis respectively.
 - This was backed by strong performances of its India companies, Amtek Auto and Ahmednagar Forgings
- ◆ EBITDA grew by 52.4% and 11.5% to INR 1.96 bn on a Y-o-Y and Q-o-Q basis respectively.
- ◆ PAT grew by 48.1% and 11.3% to INR 971 mn on a Y-o-Y and Q-o-Q basis respectively.

Standalone results

- ◆ Sales grew 25% Y-o-Y to INR 2.7 bn.
 - Domestic sales grew by 30% to INR 1.85 bn, while exports grew by 15% to INR 860 mn.
 - There is huge scope for export growth as currently it caters to only 40% of GWK's requirements compared to the potential for 70-75% outsourcing.
- ◆ EBITDA grew by 22% to INR 813 mn. EBITDA margins declined by 72 bps Y-o-Y to 30%.
 - Lower margin was on account of a 137 bps increase in raw material cost.
- ◆ PAT however grew by a strong 52.3% Y-o-Y to INR 587 mn.
 - This was driven by lower interest and depreciation charges and higher other income due to INR 14 bn cash in balance sheet post the USD 250 mn FCCB raised in June 2006. Depreciation hasn't increased much as major capex is currently being incurred to expand capacities.
 - The company has been awarded contracts by a number of new and existing customers for the supply of Bridge Fork Bottom Assembly, Fly Wheel Assemblies and numerous other auto components
 - The company is ramping up its current Forging capacity from 85000 TPA to 135000 TPA and its machining capacity from 25 Mn components to 30 Mn components as part of its USD \$ 200 mn expansion plan.

Subsidiary financials

(INR mn)	Q2FY07	Q2FY06	Y-o-Y %	FY06	FY07E	Y-o-Y %	FY08E
Ahmednagar Forging							
Sales (INR mn)	1524	1026	48.5	3579	6260	74.9	9934
EBITDA (INR mn)	316	205	54.2	557	1090	95.8	1849
PAT (INR mn)	175	106	65.8	364	746	105.0	1190
EBITDA margin (%)	20.7	19.9		15.6	17.4		18.6
PAT margins (%)	11.5	10.3		10.2	11.9	17.2	12.0
GWK							
Sales (INR mn)	2448	2081	17.6	8229	9756	18.6	10244
EBITDA (INR mn)	198	195	1.2	723	810	12.0	901
PAT (INR mn)	121	118	2.4	434	494	13.7	539
EBITDA margin (%)	8.1	9.4		8.8	8.3		8.8
PAT margins (%)	5.0	5.7		5.3	5.1	(4.1)	5.3
Smith Jones							
Sales (INR mn)	283	365	(22.5)	1450	1214	(16.3)	1518
EBITDA (INR mn)	19	49	(60.8)	201	113	(43.6)	187
PAT (INR mn)	6	35	(82.5)	147	55	(62.7)	122
EBITDA margin (%)	6.7	13.3		13.9	9.3		12.3
PAT margins (%)	2.2	9.5		10.2	4.5	(55.5)	8.0
Zelter							
Sales (INR mn)	1474	1277	15.5	5335	6256	17.3	6882
EBITDA (INR mn)	132	129	2.6	526	604	15.0	682
PAT (INR mn)	46	46	(1.5)	179	223	24.9	259
EBITDA margin (%)	9.0	10.1		9.8	9.7		9.9
PAT margins (%)	3.1	3.6		3.3	3.6	6.5	3.8
Siccardi							
Sales (INR mn)	665			1824	2716	48.9	3259
EBITDA (INR mn)	162			310	610	96.4	732
PAT (INR mn)	78			129	286	122.0	343
EBITDA margin (%)	24.3			17.0	22.5		22.5
PAT margins (%)	11.7			7.1	10.5	49.1	10.5
Benda Amtek							
Sales (INR mn)	561			1879	2300	22.4	2760
EBITDA (INR mn)	138			305	524	71.9	629
PAT (INR mn)	61			105	223	111.6	268
EBITDA margin (%)	24.6			16.2	22.8		22.8
PAT margins (%)	10.9			5.6	9.7	72.9	9.7

Financial snapshot (Standalone)							(INR mn)		
Year to June	Q2FY07	Q2FY06	Y-o-Y %	Q1FY07	Q-o-Q %	FY06	FY07E	FY08E	
Revenues (net)	2,712	2,173	24.8	2,363	14.8	8,734	11,251	17,133	
Domestic sales	1,852	1,427	29.8	1,643	12.7	6,032	8,439	11,993	
Exports sales	860	747	15.1	720	19.4	2,703	2,813	5,140	
Raw material	1,641	1,271	29.1	1,431	14.7	5,509	7,088	10,794	
Staff cost	119	102	16.3	115	3.0	419	524	602	
Other expenses	176	148	18.6	138	27.4	138	166	179	
Total expenditure	1,899	1,506	26.1	1,636	16.1	6,066	7,778	11,576	
EBITDA	813	667	21.9	727	11.8	2,668	3,473	5,558	
Interest	57	51	13.2	48	18.6	203	209	209	
Depreciation	133	127	4.3	133	-	497	661	796	
Other income	178	39	358.8	151	18.0	215	565	603	
PBT	801	528	51.7	697	14.9	2,183	3,168	5,156	
Tax	214	143	49.9	189	13.6	548	950	1,547	
Adjusted net profit	587	385	52.3	509	15.4	1,636	2,218	3,609	
Tax rate (%)	27	27	(1.1)	27	(1.1)	25	30	30	
% of net revenues									
Raw material	59.2	57.8		58.5		63.1	63.0	63.0	
Staff cost	4.4	4.7		4.9		4.8	4.7	3.5	
Other expenses	6.5	6.8		5.8		1.6	1.5	1.0	
EBITDA	30.0	30.7		30.8		30.5	30.9	32.4	
Net profit	21.6	17.7		21.5		18.7	19.7	21.1	

Company Background

Amtek is a leading multi-national manufacturer of automotive components and assemblies with production facilities located strategically across Asia, Europe and USA. The Group's extensive manufacturing capabilities encompass Iron and Aluminium Casting, Forging, Machining & Assemblies.

The Amtek Group was established in the year 1985 with the incorporation of the flagship company, Amtek Auto Limited. Amtek Auto Ltd. has established itself amongst the top players in the Indian auto ancillary industry and has also grown to become one of the largest manufacturers of Forgings, Castings, Machined Components and Assemblies which includes Piston Connecting Rod modules and Gear Shifter Forks and Yokes in the country. It is among the largest manufacturer of Flywheel Ring Gear Assemblies and Turbocharger Housings in the World.

Investment Theme

There is a huge interest in auto component outsourcing by global OEMs due to slow auto growth in the developed economies and continuous pressure to reduce costs. India has already established its prowess as a high quality manufacturing location for forgings and castings. Amtek with five acquisitions of US and European companies in the last two years is well positioned to cater to this requirement of global OEMs. Also, its margins are on the rise as it replaces high cost sourcing of its own subsidiaries through its fast expanding facilities in India. Future growth is expected to come from larger acquisitions globally.

Risk and Concerns

Given the pace of acquisitions, any issues in integration may lead to financial troubles.

Large size of overseas acquisitions could give rise to balance sheet liabilities.

The company is exposed to the volatile exchange rate markets by virtue of its exposure to foreign currencies

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INDIA RESEARCH

SECTOR

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Priyanko Panja - 2286 4300	Infrastructure, Engineering, Telecom	Nikhil Garg - 2286 4282
Hitesh Zaveri - 2286 4424	Information Technology	Swati Khemani - 2286 4266
Parul Inamdar - 2286 4355	Information Technology	Neha Shahra - 2286 4276
Priyank Singhal - 2286 4302	Media, Retail	Priya Ramchandran - 2286 4389
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Niraj Mansingka - 2286 4304	Oil & Gas, Petrochemicals	Tushar Mahajan - 2286 4439
Nimish Mehta - 2286 4295	Pharmaceuticals, Agrochemicals	Harsh Biyani - 2286 4419
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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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