

Ashapura Minechem

Rs339

OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs13.2bn; US\$287m

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Result: FY07

Comment: Upgrading FY08 earnings estimates by 16%

Last report: 31 January 2007 (Outperformer; Price Rs245)

Key valuation metrics

Year to March (Rs m)	Sales	Growth (%)	Net profit	Growth (%)	EPS (Rs)	Growth (%)	PER (x)
2005	6,201	106.4	271	186.9	8.5	186.9	39.8
2006	8,544	37.8	784	188.9	24.5	188.9	13.8
2007	12,724	48.9	1,303	66.2	33.5	36.7	10.1
2008E	16,542	30.0	2,077	59.4	53.4	59.4	6.3
2009E	21,504	30.0	2,818	35.7	72.4	35.7	4.7

Ashapura Minechem (Ashapura) has reported a surge in revenues for FY07 at Rs12.7bn, which is a 49% growth on yoy basis. EBITDA for the year grew by 60% at Rs2bn and net profit grew by a whopping 66% at Rs1.3bn as estimated. EBITDA margins grew by 60bps at 15.2%. The top-line grew on the back of a 44% growth in bauxite exports and nearly 100% growth in alumina trading. For the quarter, Ashapura has registered a 38% growth in sales at Rs3.4bn and an 81% growth in EBITDA at Rs652mn. PAT for Q4FY07 stood at Rs407mn, a 94% growth on a yoy basis. We believe the key highlight for the year's performance is that the growth has been achieved even as freight, which is a key cost element, has been rising. The Baltic Dry Index has increased 30% yoy in FY07.

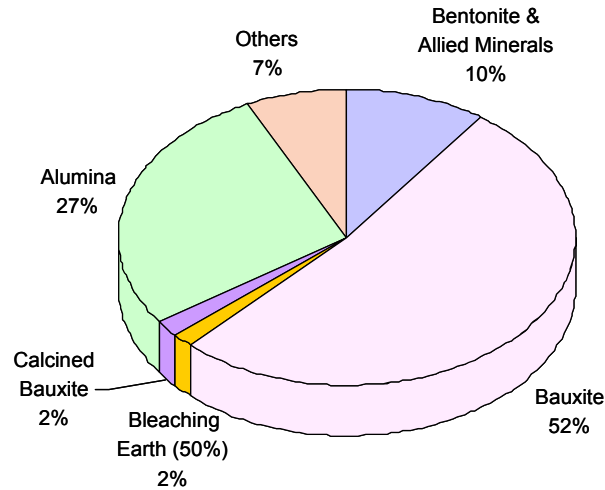
Ashapura has established itself as one of the leading bauxite exporters in the world with close to 10% of the global bauxite trading market and we believe the company is ideally placed to take advantage of the strong global demand for bauxite especially from China. The company has already entered into agreements with Chinese alumina refineries (contracts for 3m tonnes in CY07 locked in), thereby ensuring volume & value growth. Furthermore, with global demand for bauxite expected to grow, we expect prices to stay higher implying higher realizations. We expect Ashapura to continue to maintain its strong growth momentum and expect bauxite exports to grow from the current 3.8mt to 6.0mt in FY08 and have upgraded our FY08E earnings estimates by 16% and FY09E earnings by 35% to account for improved realizations. We are confident that Ashapura will capitalize on the opportunity in this space and expect it to post a 47% CAGR in net profit over FY07-09. At the current market price, the stock trades at 4.7x FY09E earnings and at an EV/EBITDA of 3.2x. Reiterate Outperformer.

KEY HIGHLIGHTS

□ Revenue growth driven by bauxite exports & alumina trading

Ashapura registered a 49% growth in revenues, driven largely by a strong growth in bauxite exports (44% yoy) and nearly 100% growth in alumina trading. With nearly 10% of the global bauxite trading market, the company has established itself as a key international player in this segment. Ashapura exported close to 3.8m tonnes of bauxite for the year. The increase in revenues was further aided by a robust growth in value added products like calcined bauxite (54%) and bleaching earth (31%).

Revenue break-up (FY07)



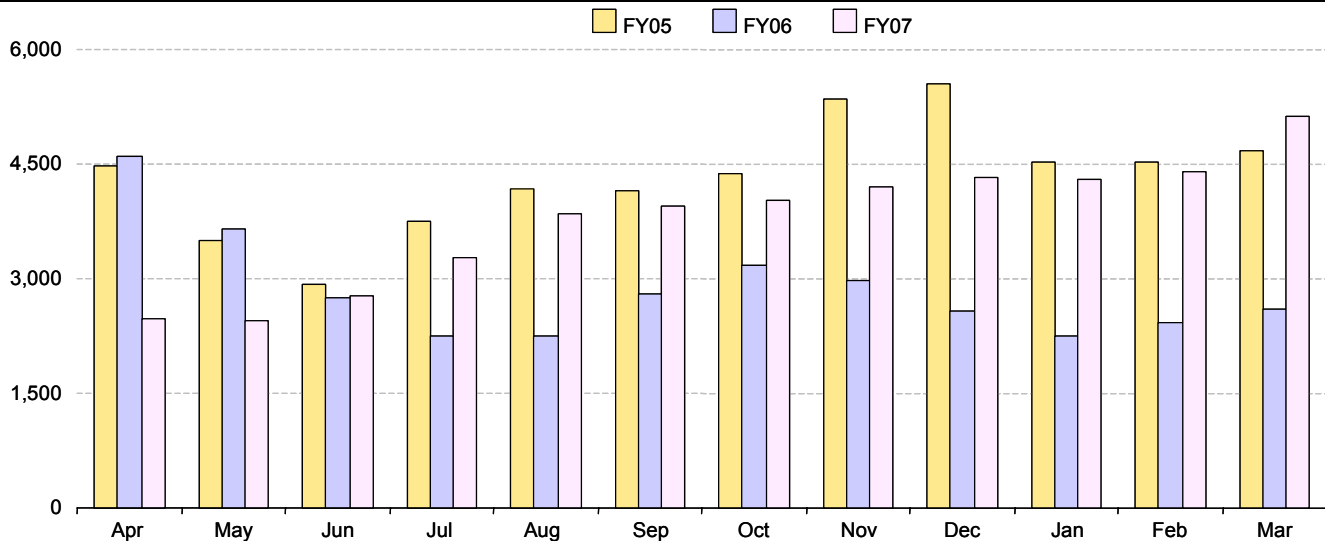
Source: Company, SSKI Research

In FY07, bauxite exports contributed 52% of the revenues (55% in FY06) and contributions from alumina trading were 27% (21% in FY06). While the share of value added products like bleaching earth and calcined bauxite is currently not significant, we expect contributions from these segments to increase as the company continues to add capacity and introduces new products to its portfolio.

EBITDA up 60% despite increase in freight rates

The highlight of the year has been a 60% growth in EBITDA despite an increase in a key cost element like freight. While the growth in revenues from alumina trading does not contribute significantly to the margins, we believe that the EBITDA growth was on the back of improved margins on bauxite exports, where Ashapura has managed to get higher realizations. For FY07, EBITDA margins grew by 60bps at 15.2%.

Margins expanded despite a sharp rise in Baltic Dry Index



Source: Bloomberg, SSKI Research

After declining in FY06, freight rates, which form a significant part of the company's expenses, rose in FY07. A standard industry measure, the Baltic Dry Index increased by 30% in FY07. Despite the increase, Ashapura was able to record a strong EBITDA growth and improve margins, as the company was able to lock in freight rates for bulk of its shipments at the beginning of the year. Even if freight rates could rise going forward, we expect Ashapura to improve its EBITDA margins on the back of continued growth momentum in bauxite exports and higher realizations.

▣ Valuations – Reiterate Outperformer

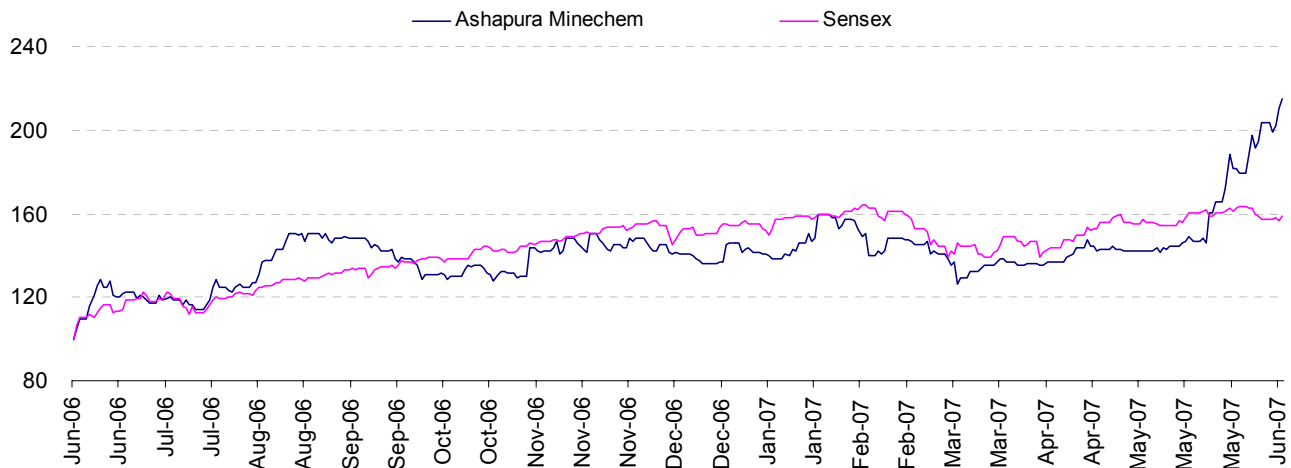
With nearly 10% of the global bauxite trade, we believe that Ashapura is ideally positioned to take advantage of the continued growth in demand for bauxite. We expect Ashapura to continue to maintain its strong growth momentum and expect bauxite exports to grow from the current 3.8mt to 6.0mt in FY08 and have upgraded our FY08E earnings estimates by 16% and FY09E estimates by 35% to account for improved realizations. We are confident that Ashapura will capitalize on the opportunity in this space and expect it to post a 47% CAGR in net profit over FY07-09. At the current market price, the stock trades at 4.7x FY09E earnings and at an EV/EBITDA of 3.2x. Reiterate Outperformer.

Annual Results

(Rs m)	4QFY06	FY06	1QFY07	2QFY07	3QFY07	4QFY07	FY07	FY08E	FY09E
Sales	2,497	8,544	4,614	2,510	2,157	3,443	12,724	16,542	21,504
Other Income	3	22	2	4	15	25	46	15	20
Expenditure	2,139	7,295	4,123	2,186	1,620	2,792	10,721	13,894	18,021
Operating Profit (EBITDA)	359	1,249	491	324	537	652	2,004	2,648	3,484
Operating Profit Margin (%)	14.4	14.6	10.6	12.9	24.9	18.9	15.2	16.0	16.2
Interest	23	124	31	22	31	31	115	94	112
Depreciation	17	54	16	17	17	24	74	70	80
Profit before Tax	322	1,093	446	289	503	624	1,862	2,499	3,312
Tax	112	302	98	76	168	217	559	425	497
Minority interest/Prior period items	7	7	0	0	0	0	0	0	0
Share of loss in associate	0	0	1	0	0	0	3	3	3
Profit after Tax/(Loss)	210	784	348	214	334	407	1,303	2,077	2,818
Net profit margin (%)	8.4	9.2	7.5	8.5	15.5	11.8	10.2	12.6	13.1
Growth (YoY)									
Revenues	94.6	37.8	89	37.3	20.9	37.9	48.9	30.0	30.0
EBITDA	307.5	159.1	97.7	17.9	44.2	81.5	60.4	32.1	31.6
PAT	499.7	188.9	108.3	19.4	46.3	93.7	66.2	59.4	35.7

Source: SSKI Research

Price performance



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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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