

15th January, 2007

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Stock details

BSE Code	520077
Bloomberg Code	AMTK@IN
Market Cap (Rs bn)	42.8
Free Float (%)	66
52-wk Hi/Lo (Rs)	376/240
Avg Daily Vol (BSE)	42,202
Avg Daily Vol (NSE)	104,968
Shares o/s (mn) FV Rs 2	122

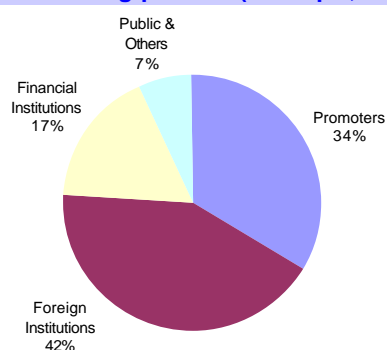
Source: Company Emkay Private Client Research

Summary table

June Ending (Rs mn)	FY06A	FY07E	FY08E*	FY09E*
Sales	26450.8	40412.0	49407.2	57957.5
Growth %	59.3	52.8	22.3	17.3
EBITDA	5105.4	7529.4	9636.7	11928.8
EBITDA margin %	19.3	18.6	19.5	20.6
Net Profit	2564.4	3166.4	4580.7	6120.8
EPS (Rs)	24.5	22.8	28.1	37.5
CEPS (Rs)	35.3	36.1	41.5	53.0
ROE %	24.0	16.8	14.4	14.7
ROCE %	13.7	15.0	18.6	21.4
EV/Sales (x)	1.8	1.2	0.9	0.7
EV/EBITDA (x)	9.6	6.6	4.7	3.5
P/E (x)	14.3	15.4	12.5	9.4
P/CEPS (x)	9.9	9.7	8.4	6.6
P/BV (x)	2.6	2.1	1.5	1.3

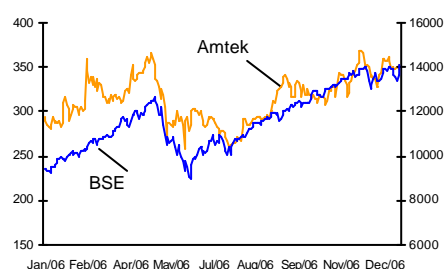
Source: Company Emkay Private Client Research / * On Fully Diluted Equity

Shareholding pattern (30 Sept., 06)



Source: Company Emkay Private Client Research

One-year performance (Rel to sensx)



Source: Capitaline

Amtek Auto Ltd.

RECOMMENDATION: BUY

Price: 351

Target Price: 510

Amtek Auto Ltd (AAL) India's second largest forgings player is a compelling growth and value play within the domestic auto component sector. AAL's net sales have grown at a CAGR of 42% and net profit at a CAGR of 75% during the last 5 years on a standalone basis. AAL along with its subsidiaries Ahmednagar Forgings, GWK-UK, Smith Jones, Benda Amtek, Amtek Siccardi and Zelter, is targeting revenues of nearly US \$1bn by F2008.

We expect AAL's exports to grow at a CAGR of 42% over the next 3 years (FY06A-FY09E). We expect AAL will continue to report strong performance in both domestic as well as in export markets by virtue of its strong business relationships with global OEMs like Ford, BMW, Hyundai, CNH Global, Detroit Diesel, Scania, Delco Machining, Land Rover, Cummins US, Renault, Perkins etc. We estimate AAL to record a 33% CAGR in net profits on a consolidated basis over the next three years (FY06A-FY09E) and achieve a healthy ROCE of 15% and 19% in FY07E and FY078E respectively. We believe that the present valuations of 13x FY08E earnings, and EV/EBITA of 5x are attractive. BUY.

Strong domestic auto growth to drive the domestic sales

AAL is a Tier I supplier of auto components to major automobile majors like Maruti, Hyundai, M&M, Ford, Tata Motors, General Motors, Hero Honda, Bajaj Auto, HMSI (Honda Motorcycles and Scooters India) and many others. AAL earns largest part of revenue from passenger car segment (72% of total revenue) followed by commercial vehicles (CVs) which we believe would grow at a CAGR of 12-15% for the next 3-4 years. AAL is one of the few sizeable players in the domestic market which has a presence in both castings as well as forgings. AAL enjoys very strong relationships with its customers which along with its engineering and delivery capabilities would help it deliver strong net domestic revenue growth of 22% CAGR (standalone basis) for the next three years (FY06-FY09E).

Exports would continue to remain the key growth driver

In the international market AAL supplies its auto component products to global OEMs like Ford, BMW, Hyundai, CNH Global, Detroit Diesel, Scania, Delco Machining, Land Rover, Cummins US, Renault, Perkins etc. AAL has nurtured very good relationship with these global OEMs and with the acquisition of subsidiaries, like GWK-UK, Smith Jones, Benda Amtek, Amtek Siccardi and Zelter, it is in an advantageous position to encash the outsourcing opportunity available to Indian auto components manufacturers.

AAL is also setting up an aluminium foundry near Pune which will have an installed capacity of 20,000MT p.a. AAL bought these assets at GBP 6mn and we expect it to export around 75% of its output. We estimate AAL to report export revenue growth at a CAGR of 43% on a standalone basis totaling Rs7.8bn in FY09E and the export revenue contribution to total revenue at a consolidated basis to go up to 81% by FY09E from 70% in FY05 mainly because of higher contribution by its subsidiaries based in USA and Europe.

Strong improvement in performance on a consolidated basis

After the acquisition of auto components companies in domestic and overseas market, AAL is in the process of integration of their operations with itself. Due

to operational efficiencies and increase in turnover of its subsidiaries we estimate AAL's EBITDA margins to improve by 128bps to 20.6% in FY09E from 19.3% in FY06A. We also estimate AAL to improve its asset turnover ratios from a level of 1.2x in FY06A to 2.2x in FY09E mainly because of strong net revenue growth both on a standalone basis and taking the subsidiary performances on a consolidated basis. AAL is expected to improve ROCE to 18.5% in FY08E and 21.4% in FY09E from 13.7% in FY06A. With the better utilization of cash balances, we expect AAL to improve on ROCE front in the future.

Strong possibility of further inorganic growth

AAL has already acquired six companies, Ahmednagar Forgings, Smith Jones, Benda Amtek, Amtek Siccardi, GWK and Zelter, in domestic and overseas market at attractive valuations. AAL has financed its acquisition mainly through raising debts and equity dilution. What is important to note is all these acquisitions were made at attractive valuations ensuring higher returns and relatively low pay back time for AAL.

Currently, AAL is sitting on a cash chest of Rs14.9bn (Rs107 per share) which we expect would be utilized for further inorganic growth and expansion opportunities which could give a further boost to the revenue and profitability of the company in the near future.

Along with this we also expect a possibility that AAL would merge Amtek India, a group company which has strong presence in castings with itself; this further would enhance its existing product portfolio and would give access to new customer base and markets. We have not factored these opportunities in our financial estimates, which could boost up our earnings growth and would also impact our ROCE estimates positively.

Alternatively in our recent discussions with the AAL management team, we believe that going ahead the management is also seriously considering increasing promoters equity holding in the near future within the standalone AAL entity to enhance shareholder value.

Risks & Concerns

Any significant downturn in the domestic auto market especially passenger cars and commercial vehicles could impact AAL's earnings negatively.

Any slowdown in integration process between itself and subsidiaries could impact AAL's consolidated earnings.

Valuation

The AAL stock trades at a P/E of 15x on FY07E & 13x on FY08E and at EV/EBITDA of 7x on FY07E & 5x on FY08E which offers compelling value and growth play. We expect AAL to cross \$1bn target in FY08E, which would position the company in the big league.

At current valuations the AAL stock trades at a discount of 40% (P/E of 13x as on FY08E) relative to Bharat Forge which trades at a P/E of 22x as in FY08E. With an EPS CAGR growth of 15% (adjusted for equity dilution) over FY06A-FY09E and extremely attractive valuations of 7x and 5x on EV/EBITDA for FY07E and FY08E respectively, makes us initiate a BUY on the stock with a target price of Rs510 based on DCF approach.

At our target price the stock will be valued at a target EV/EBIDTA multiple of 10x and 7x on FY07E and FY078E and 14x and 12x CEPS for FY07E and FY08E respectively.

Emkay's Network

<p>AHMEDABAD 079-26448727/29 ALLAHABAD 0532-2452388 ALWAR 9414454123 AURANGABAD 09860498897 BANGALORE Cunningham Road 080-41220915 Malleswaram 080-23464173 Vijaynagar 9341327222 BHOPAL 09301189603 BARODA Alkapuri 0265 6640551 Sayaji Gung 0265-3918069 - 74 Karelibaug 0265-3918021 - 24 Manjalpur 0265-3206663 BHAVNAGAR 9898001945 CHENNAI Adyar 044-42300788 Anna Nagar 044-42127298 Ramarao Street 044- 42605604 T Nagar 044- 42605604 044-42024672 Gandhi Nagar 044-42607611 Thiruvanmiyur 044-42178646 Nanganallur 044-42056685 North Usman Road 044-45502496 Sowcarpet 044-30966268 CHANDIGARH 0172-5052424 Chandigarh - Sec47 0172-5072123 COCHIN 0484-3949749 COIMBATORE 100 Feet Rd 0422-2493536 R.S Puram 0422-4370489 DELHI Nehru Place 011-32474709 SSK 011 42267259 Barakhamba Road 11 43575757 Dehradun 9219698600 DIBRUGARH 0373-2322607 DIMPUR 03862-225832 DINDORI 07644-234261 ERODE 0424-22212823 Brough Road 09894719071 FARIDABAD 0129-4068303 GANGANAGAR 9351793000</p>	<p>GOA 0832 - 6650770 GULBARGA 08472 321850 GUWAHATI 9954070377 GURGAON Old Railway Rd. 0124-3250629 Sheetla Mata Rd. 0124-4081346 HARYANA Rohtak 01262-268701 HOSHIARPUR 01882-326767 HYDERABAD Ameerpet 040- 23731230/31 Banjara Hill 040- 6553 4261 HARIDWAR 01334-329563 INDORE Racecourse Road 0731-3918624/ 9893894415 R. N. T. Marg 0731-4068098 JABALPUR Agga Chowk 0761-4067239 Vikas Bazaar 0761-4031955 JAIPUR Bhawani Singh Lane 0141-2361438 JAIPUR 0141-2378661 Modi Nagar 0141-2811118, 2810501 Sardar Patel Marg 0141 2376886 M.I. Road 0141- 4022256 JAMNAGAR 0288-2561522 JAMMU 0191-2454764 JHARIA 0326-2361720 JHARKHAND DHANBAD 0326 2361720 JODHPUR 0291-5101900 Jalori Gate 0291-2627749 Paota 0291-3209090 Mandore Mandi 0291-5121134 Mandore Mandi 0291-5100995 MORADABAD 05912424090 JUNAGADH 0285-2629489 KARNAL 9255248404 KOTTAYAM 04812563033/44 KARAIKUDI 04565-224221 KAYAMKULAM 0479-3953222 KOLKATA 033-39511666 C.B. Street 033-22428734 Weston Street 033-22118369 Tagore Street 033 - 22597938</p>	<p>Tarachand Dutta Street, 033- 26501114 Grant Lane 09830667686 Mukherjee Road 033 24668300 KOTA 0744-2502877 LUCKNOW 9839552211 MADURAI 0452-3018691/92/93/94/ 0452- 4379688 MYSORE 0821 4250696 MUMBAI Borivali 022-28334629 Borivali 022-56610312 Borivali 9867697105 Borivali 9867129422 Dadar 022-32605528 Dhobi Talao 022-56023723 Fort 022-22653471/22875805 Fort 022-22704710 Ghatkopar 022-25122448 Goregaon 022-28770991 J B Nagar 9892343344 Khar 022-26049302 Lokhandwala 022-56778638/39 Malad (E) 022-28820352 Malad (W) 022-28891770 Malad (W) 022-28777679 Masjid Bunder 022-56357597 Masjid Bunder 9224575600 Mulund 022-25614154 Mumbadevi 23460060 / 61 /62 Oshiwara 9821233777 Powai 022-28573098 Santacruz 9869102930 Santacruz (w) 26616085 / 7075 Ulhasnagar 95251-3952746 Versova 022-26360617-18 Vile Parle 022-26714805 NAGPUR 0712-2538191 NELLORE 0861-2330841 Sitabuldi 0712-2558455 NASHIK 0253-5607814/15 Gangapur Rd 9326173938 Raviwar Peth 0253- 3203888</p>	<p>60 ft. Rd 0253-2598310 NAMAKKAL 04286 - 275494/ 95 PAWIPAT 0180-6451645 PERUMBAVOOR 0484-2640046 PUNE D.P. Road 9850818986 Karve Road 9325505031 Rasta Peth 020-26123351 Satara Rd. 9520-24220031 Sadashiv Peth 9520-30947224 Shaniwar peth 020- 255303387 RAJAHMUNDRY 9396456406 RAJKOT Dr. Yagnik Rd 0281 - 2464535 Phulchab Chowk 0261-2452875 Rampur 9837605847 RATLAM 07412-329878 SRINAGAR 9419074424/ 9906679327 SALEM 0427-2336881 SAGAR 0758-2401647 SANGLI 0233- 6616010/11 SARDARSHAHR 01564-512108 SONIPAT 9812059933 SIRSSA 09888333639 SURAT 0261-2369996 Ghod Dod Road 0261- 3993010 THENI 9362113579 TRICHY 0431- 4220713/14/15 Srirangam 0431-6454377/88/99 Thiruverumbur 0431-2511787 / 6453898 TIRUPUR 0421-4336995 THRISSUR Kokalai 0487 2428793 Patturakkal 0487 6450233 TRIVANDRUM 04713257010 UDAIPUR 0294-2415405 VISAKHAPATNAM 0891 2730730 VARANASI 0542-5521383 VIJAYAWADA 0866-2579266 WARANGAL 0870-6450793/94/95 YAVATMAL 09422892827</p>
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