ANG Auto

Update
Sector: Auto Ancillaries

Buy

31 January 2007

CMP: **Rs296**

Target: **Rs441**

Bloomberg	ANGX IN
Reuters	ANGA.BO
BSE Sensex	14,091
S&P CNX	4,083

Equity Shares (m)	10.8
Face Value (Rs)	10
52-Week H/L (Rs)	414/204
1,6,12 Rel. Perf. (%)	-9,-32,-8
M.Cap. (Rs b)	3.2
Avg. Daily Vol. ('000)	12

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	P/E (x)	RoE (%)	RoCE (%)	EV/ SALES (x)	EV/ EBITDA (x)
3/06A	568	93	9.3	31.8	25.3	18.9	5.5	22.1
3/07E	1,152	222	18.6	15.9	32.0	22.6	3.4	13.1
3/08E	3,623	421	35.4	8.4	40.1	28.9	1.2	6.9
3/09E	4,808	542	45.5	6.5	35.5	28.7	0.8	5.0

Note: Consolidated figures

Executive Summary

- In 3QFY07, revenue is up 108% YoY at Rs296.1m (expected Rs300m), EBITDA margin is at 26.2% (expected 25.6%), and PAT is up 130% YoY at Rs58.4m (expected Rs51m).
- The trailer project at Sitarganj will now be commissioned from April 2007, which will enable the company to claim tax benefits for an additional year (FY12).
- We are revising our FY07 and FY08 estimates downwards to factor in this delay.
- The plans to set up joint ventures with Carl Stover have been put on hold, due to some deficiencies uncovered during due diligence. Our estimates do not include any contribution from these JVs.
- We have valued ANG's auto components business at a PE of 14x FY08E and its trailer business at EV/EBITDA of 10x FY08E, giving us a 14-month target price of Rs441. We maintain **BUY**.

QUARTERLY PERFORMANCE (Rs M)

Y/E MARCH	FY05	FY06				FY07				FY06	FY07E
	Full year	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	Full year	Full year
Net Income	**190**	**42**	**101**	**142**	**236**	**253**	**280**	**296**	**323**	**568**	**1,152**
Change %	*81.3*	*29.3*	*216.0*	*300.0*	*504.6*	*504.3*	*177.4*	*108.5*	*37.0*	*199.0*	*102.7*
Total Expenses	170	35	80	104	171	183	203	219	246	426	850
EBITDA	**20**	**6**	**21**	**38**	**65**	**70**	**77**	**78**	**78**	**142**	**302**
Change %	*NA*	*121.1*	*650.0*	*860.0*	*1276.6*	*976.9*	*264.8*	*102.0*	*19.8*	*0.2*	*112.6*
EBITDA margin	*10.3*	*16.3*	*17.8*	*20.4*	*24.8*	*25.4*	*27.4*	*26.2*	*24.0*	*25.0*	*26.2*
Depreciation	4	1	2	3	3	3	4	4	4	8	15
Interest	9	1	4	5	4	5	6	9	14	16	35
Other Income	7	0	0	0	0	0	0	0	5	2	5
Extraordinary inc/ (exp)	0	0	0	0	0	0	0	0	0	0	0
PBT	**14**	**4**	**15**	**31**	**58**	**62**	**66**	**64**	**65**	**119**	**257**
Tax	4	1	3	6	10	9	9	6	12	25	36
Tax/PBT	*27.9*	*25.0*	*19.0*	*18.6*	*17.5*	*15.2*	*13.6*	*8.8*	*18.4*	*21.2*	*14.0*
Adjusted PAT	10	3	12	25	48	53	57	58	53	94	221
Change %	*431.6*	*251.1*	*1966.7*	*2722.2*	*1969.6*	*1490.9*	*362.3*	*130.1*	*11.0*	*20.0*	*135.7*
PAT margin	*5.3*	*8.3*	*10.5*	*13.5*	*18.2*	*19.0*	*20.5*	*19.7*	*16.3*	*16.5*	*19.2*

E: MOSt Estimates

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3QFY07 - actuals vs estimates

- Revenue is up 108% YoY at Rs296.1m (expected Rs300m), EBITDA margin is at 26.2% (expected 25.6%), and PAT is up 130% YoY at Rs58.4m (expected Rs51m).
- QoQ EBITDA margin fell 120bps primarily on account of forex losses due to rupee appreciation. The fall is lower than our estimates. We had factored in 180bps fall in margin, considering the rising share of domestic sales in total sales.

Trailer project to be commissioned from April 2007

The trailer plant at Sitarganj is now expected to be commissioned in April 2007, as against December 2006 earlier. The construction work is expected to be completed soon (of the Rs250m capex, ~Rs220m has been expended as on date) and the company will be in a position to commission the facility from February. In this case, the company will be able to claim tax benefits only for the two months period ending March 2007.

In view of the above, the management has taken a conscious decision to commission the plant from April 2007. This will enable the company to claim tax benefits for an additional year (FY12). We believe the present value of tax benefits resulting therefrom far outweigh the profits which the company will have to forego in the bargain.

We believe this strategy demonstrates the management's emphasis on creation of long-term shareholder value, even if it means sacrificing short-term profits.

Moreover, ANG has set up a pilot manufacturing facility for trailers at its Greater Noida unit, where it expects to manufacture 60 trailers for Ashok Leyland during FY07. The company has already supplied around 25 trailers in 3QFY07. We believe this plant will help ANG to detect operational teething troubles, and the same can be addressed before the commissioning of the Sitarganj facility.

Given the low scale of operations and absence of tax benefits, the trailer operations at Greater Noida plant is not expected to contribute significantly to the profits. The EBITDA margin is expected to be around 5-6%.

Joint ventures with Carl Stover on hold

In December 2006, ANG Auto entered into a definitive arrangement with Carl Stover to form joint venture companies in USA (ANG Stover Industries LLC) and India (ANG Stover Industries Pvt Ltd), in which its stake will be 70%.

Under the terms of the agreement, ANG Stover Industries LLC was to acquire the running profitable auto components manufacturing facility (current annual sales US$7m) of Stover Industries Inc at an enterprise value of US$7.7m. This would have entailed a total cash outflow of US$2.9m. ANG's existing manufacturing facility at Noida SEZ was planned to be transferred to ANG Stover Industries Pvt Ltd.

However, the above plans have been put on hold owing to some deficiencies uncovered during due diligence. Our estimates do not include any contribution from these JVs.

Revision in estimates

FY07: As a result of the delay in commencing the trailer production at the Sitarganj plant (trial production to start in March 2007), there will be no contribution from ANG Auto Tech Pvt Ltd during FY07E.

We have therefore downgraded FY07 revenue estimate to Rs1,152m. (which is our earlier estimate for the standalone entity)

FY08: On account of the delay in commissioning, we expect the ramp up in the trailer business to be slower than our earlier estimates. The second phase of the project (including high-value specialised trailers) is likely to be commissioned in October 2007 as against July 2007 projected earlier. Hence we estimate ANG to sell 4,049 trailers in FY08, down from 4,726 earlier.

The FY08 revenues for ANG Auto Tech Pvt Ltd are expected at Rs2,236m, down from Rs2,620m earlier.

There is no change in our estimates for ANG's auto components business (standalone entity).

FY09: There is no change in our estimates.

ANG Auto best valued on sum-of-the-parts (SOTP) basis

We believe ANG's trailer and auto components business are subject to a different set of risks and rewards. While the former is dependent on the HCV demand in the country in general and on Ashok Leyland's future prospects and performance in particular, the latter, which is predominantly export driven, is dependent on the growth of the global outsourcing demand of HCV manufacturers in the US and Europe.

Accordingly, we believe that valuing ANG Auto and its trailer venture (which is being executed through its 75% owned subsidiary) separately would be a better approach as against valuing the company as a whole.

Given its low leverage, we believe ANG Auto is best valued using a PE-based approach. We have valued it at 14x FY08E and believe it to be conservative as this would be at a discount to its peer group average (19x) despite ANG Auto's return ratios being better than the industry average.

ANG Auto Tech has a high leverage and therefore we believe it is best valued using an EV/EBITDA approach. Since there are no listed peers, we have valued it at 10x EV/EBITDA (corresponding PE of 10.1x). We believe this is justified given that ANG Auto Tech is expected to have high ROCE (40-45%).

Particulars	Basis of valuation (based on FY08E)	Per share Rs
ANG Auto - auto components business	14x PE	303
75% stake in ANG Auto Tech Pvt Ltd - trailer business	10x EV/EBITDA	138
TOTAL		**441**

Valuation & Recommendation

- At CMP, on a fully diluted basis, the stock trades at a PE of 15.9x FY07E.
- We maintain **BUY** on the stock with a 14-month target price of Rs441, an upside of 49% from current levels.

ANG Auto: An investment profile

Company description

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

Key investment arguments

- ANG Auto's foray into manufacture of trailers (through a 75% subsidiary company ANG Auto Tech) with an exclusive strategic tie-up with Ashok Leyland is expected to be a key growth driver. Under this arrangement, ANG Auto Tech will supply trailers worth more than Rs15b over a five year period (starting from April 2007 - the expected date of commissioning). This venture is expected to contribute almost 2/3rd of consolidated revenues in FY08 and FY09.
- Given ANG Auto's high level of integration in its auto components business and strong relationships with global auto majors, it is well placed to benefit from the auto ancillary outsourcing story.

Key investment risks

- While no delay in implementation of the trailer project beyond April 2007 is expected, a slower than expected ramp up in production to meet Ashok Leyland's demand may adversely impact our estimates.
- Any delay in implementation of the directive on mandatory automatic slack adjusters beyond April 2007 may adversely impact our estimates.

Recent developments

- ANG Auto's manufacturing capacity for dummy axles, which is currently the only product sold in the domestic market, has been doubled to 1,200 units per month.
- ANG Auto's plans for setting up joint venture companies with Carl Stover have been put on hold.
- The management has informed that the US patent for automatic slack adjusters is expected to be formally granted soon.
- Commissioning of the trailer plant is pushed back to April 2007 for tax considerations.

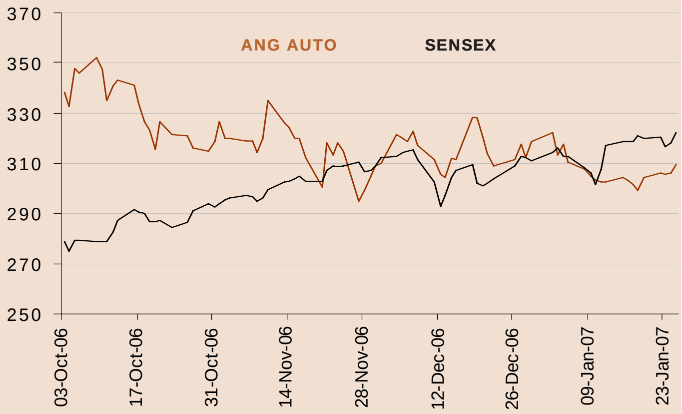
Valuations and view

- Given the different set of risks and rewards of the auto components business and the trailer business, we are valuing ANG Auto on sum-of-the-parts (SOTP) basis.
- We have valued the auto components business at 14x FY08E PE (Rs303 per share) and the trailer business at 10x FY08E EV/EBITDA. (ANG Auto's 75% stake valued at Rs138 per share).
- We maintain **BUY** with a target price of Rs441 per share (upside of 49%).

SHAREHOLDING PATTERN (%)

Category	Dec-06	Sep-06	Dec-05
Promoters	43%	43%	58%
Banks, MFs & FIIs	29%	18%	0%
Others	28%	38%	42%

RECENT PRICE PERFORMANCE



FINANCIALS (STANDALONE)

INCOME STATEMENT				(Rs M)
Y/E MARCH	2006	2007E	2008E	2009E
Net sales	**568**	**1,152**	**1,387**	**1,608**
Change (%)	*199.0*	*102.7*	*20.4*	*15.9*
Material Cost	276	577	725	841
% of net sales	*48.7%*	*50.1%*	*52.3%*	*52.3%*
Pow er & Fuel Cost	21	46	53	64
% of net sales	*3.8%*	*4.0%*	*3.8%*	*4.0%*
Employee Cost	28	50	58	64
% of net sales	*4.9%*	*4.3%*	*4.2%*	*4.0%*
Other Mfg Exps	51	86	90	96
% of net sales	*9.0%*	*7.5%*	*6.5%*	*6.0%*
Selling & Admin Exps	46	85	97	121
% of net sales	*8.1%*	*7.4%*	*7.0%*	*7.5%*
Miscellaneous Exps	3	6	7	8
% of net sales	*0.5%*	*0.5%*	*0.5%*	*0.5%*
EBITDA	**142**	**302**	**356**	**413**
Change (%)	*624.0*	*112.6*	*18.1*	*15.9*
Depreciation	8	15	17	26
EBIT	**134**	**287**	**339**	**387**
Interest	16	35	49	54
Other income	2	5	8	10
PBT & EO items	**119**	**257**	**298**	**343**
Extra-ordinary items (net)	0	0	0	0
PBT	**119**	**257**	**298**	**343**
Tax	25	36	41	47
Rate (%)	*21.2*	*14.0*	*13.7*	*13.7*
Adjusted PAT	**94**	**221**	**257**	**296**
Change (%)	*828.7*	*135.7*	*16.4*	*15.0*
EBITDA margin (%)	*25.0*	*26.2*	*25.7*	*25.7*
PAT margin (%)	*16.5*	*19.2*	*18.6*	*18.4*

BALANCE SHEET				(Rs M)
Y/E MARCH	2006	2007E	2008E	2009E
Networth	**377**	**697**	**899**	**1,140**
Equity share capital	99	119	119	119
Advance against convertible w arrants	15	0	0	0
Reserves	263	578	780	1,020
Loans	330	399	486	488
Net deferred tax liability	5	5	5	5
Capital employed	**712**	**1,101**	**1,390**	**1,633**
Gross fixed assets	180	220	550	575
Less: Depreciation	29	44	61	88
Net fixed assets	**151**	**176**	**489**	**487**
Capital WIP	11	70	30	25
Minining Project Expenditure	0	0	0	0
Investments	20	56	56	181
Current assets	**729**	**1,068**	**1,142**	**1,312**
Inventory	175	331	349	369
Debtors	287	457	494	551
Cash & bank balance	139	100	80	93
Loans & advances	127	180	220	300
Current liab. & prov.	**210**	**279**	**335**	**380**
Creditors	157	210	240	278
Other Liabilities	31	34	55	55
Provisions	22	35	40	46
Net current assets	**519**	**789**	**807**	**933**
Misc. exp. (not w ritten off)	12	10	8	6
Application of funds	**712**	**1,101**	**1,390**	**1,633**

RATIOS				
Y/E MARCH	2006	2007E	2008E	2009E
Basic (Rs)				
EPS	**9.4**	**18.6**	**21.6**	**24.9**
growth (%)	*587.4*	*96.6*	*16.4*	*15.0*
Cash EPS	10.3	19.8	23.1	27.1
Book value	36.8	57.7	74.9	95.2
DPS	2.0	2.5	4.0	4.0
Payout (incl. Div. Tax.) (%	30.1	15.4	21.1	18.4
Valuation (x)				
P/E	31.4	16.0	13.7	11.9
Cash P/E	28.8	14.9	12.8	10.9
Price/Book value	8.1	5.1	4.0	3.1
EV/Sales	5.5	3.3	2.8	2.3
EV/EBITDA	21.9	12.5	10.9	9.1
Dividend yield (%)	0.7	0.8	1.3	1.3
Profitability ratios (%)				
RoE	40.4	41.7	32.5	29.2
RoCE	27.7	31.8	27.3	25.7
Turnover ratios				
Debtors (days)	185	145	130	125
Inventory (days)	113	105	92	84
Creditor (days)	208	133	121	121
Asset turnover (x)	0.8	1.0	1.0	1.0
Leverage ratio				
Debt/Equity (x)	0.9	0.6	0.5	0.4

E: Estimates

CASH FLOW STATEMENT				(Rs M)
Y/E MARCH	2006	2007E	2008E	2009E
PBT before EO items	**119**	**257**	**298**	**343**
Add : Depreciation	8	15	17	26
Interest	16	35	49	54
Less : Direct taxes paid	22	36	41	47
(Inc)/Dec in WC	-236	-309	-39	-112
CF from operations	**-114**	**-38**	**285**	**264**
EO, misc. & other items	0	0	0	0
CF from oper. incl. EO ite	**-114**	**-38**	**285**	**264**
(Inc)/Dec in FA	-68	-100	-290	-20
(Pur)/Sale of investments	-18	-37	0	-125
CF from investments	**-87**	**-136**	**-290**	**-145**
Inc/(Dec) in netw orth	207	135	1	1
Inc/(Dec) in debt	173	69	87	2
Less : Interest paid	-16	-35	-48	-54
Dividend paid	-28	-34	-54	-54
CF from fin. activity	**335**	**135**	**-14**	**-105**
Inc/Dec in cash	**135**	**-39**	**-20**	**14**
Add: Beginning balance	7	139	100	80
Closing balance	**141**	**100**	**80**	**93**

ANG AUTO TECH FINANCIALS (STANDALONE)

INCOME STATEMENT		(Rs M)
Y/E MARCH	**2008E**	**2009E**
Net sales	**2,236**	**3,200**
Change (%)		*43.1*
Material Cost	1,544	2,200
% of net sales	*69.1%*	*68.7%*
Power & Fuel Cost	112	160
% of net sales	*5.0%*	*5.0%*
Employee Cost	55	74
% of net sales	*2.5%*	*2.3%*
Other Mfg Exps	121	173
% of net sales	*5.4%*	*5.4%*
Selling & Admin Exps	121	173
% of net sales	*5.4%*	*5.4%*
Miscellaneous Exps	18	26
% of net sales	*0.8%*	*0.8%*
EBITDA	**265**	**394**
Change (%)		*48.7*
Depreciation	15	30
EBIT	**250**	**364**
Interest	38	47
Other income	5	10
PBT & EO items	**217**	**328**
Extra-ordinary items (net)	0	0
PBT	**217**	**328**
Tax	1	1
Rate (%)	*0.5*	*0.5*
Adjusted PAT	**216**	**326**
Change (%)		*50.8*
EBITDA margin (%)	*11.9*	*12.3*
PAT margin (%)	*9.7*	*10.2*

BALANCE SHEET				(Rs M)
Y/E MARCH	**2006**	**2007E**	**2008E**	**2009E**
Networth	**20**	**75**	**283**	**596**
Equity share capital	0	75	75	75
Advance against share	20	0	0	0
Reserves	0	0	208	521
Loans	0	245	520	450
Net deferred tax liability	0	0	0	0
Capital employed	**20**	**320**	**803**	**1,046**
Gross fixed assets	0	0	585	610
Less: Depreciation	0	0	15	45
Net fixed assets	**0**	**0**	**570**	**566**
Capital WIP	20	275	0	0
Mining Project Expenditure	0	0	0	0
Investments	0	0	0	143
Current assets	**0**	**45**	**541**	**717**
Inventory	0	0	250	324
Debtors	0	0	184	263
Cash & bank balance	0	15	72	75
Loans & advances	0	30	36	54
Current liab. & prov.	**0**	**0**	**309**	**379**
Creditors	0	0	300	366
Provisions	0	0	9	13
Net current assets	**0**	**45**	**232**	**337**
Misc. exp. (not written off)	0	0	0	0
Application of funds	**20**	**320**	**803**	**1,046**

E: MOSt Estimates

RATIOS		
Y/E MARCH	**2008E**	**2009E**
Basic (Rs)		
EPS	**28.8**	**43.5**
growth (%)		*50.8*
Cash EPS	30.8	47.5
Book value	37.7	79.4
DPS	1.0	1.5
Payout (incl. Div. Tax.) (%)	4.0	3.9
Valuation (x)*		
P/E	10.1	6.7
Cash P/E	9.5	6.2
Price/Book value	7.8	3.7
EV/Sales	1.2	0.8
EV/EBITDA	10.0	6.1
Dividend yield (%)	0.3	0.5
Profitability ratios (%)		
RoE	120.9	74.3
RoCE	44.6	39.4
Turnover ratios		
Debtors (days)	30	30
Inventory (days)	41	37
Creditor (days)	48	44
Asset turnover (x)	2.8	3.1
Leverage ratio		
Debt/Equity (x)	1.8	0.8

** Valuation at our fair value estimate of Rs292*

CASH FLOW STATEMENT				(Rs M)
Y/E MARCH	**2006**	**2007E**	**2008E**	**2009E**
PBT before EO items	**0**	**0**	**217**	**328**
Add : Depreciation	0	0	15	30
Interest	0	0	38	47
Less : Direct taxes paid	0	0	1	1
(Inc)/Dec in WC		-30	-131	-102
CF from operations	**0**	**-30**	**138**	**301**
EO, misc. & other items	0	0	0	0
CF from oper. incl. EO iten	**0**	**-30**	**138**	**301**
(Inc)/Dec in FA	-20	-255	-310	-25
(Pur)/Sale of investments	0	0	0	-143
CF from investments	**-20**	**-255**	**-310**	**-168**
Inc/(Dec) in networth	20	89	46	42
Inc/(Dec) in debt	0	245	275	-70
Less : Interest paid	0	0	-38	-47
Dividend paid	0	-34	-55	-55
CF from fin. activity	**20**	**300**	**229**	**-130**
Inc/Dec in cash	**0**	**15**	**57**	**3**
Add: Beginning balance	0	0	15	72
Closing balance	**0**	**15**	**72**	**75**

N O T E S

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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 to the company.