Auto Ancillaries

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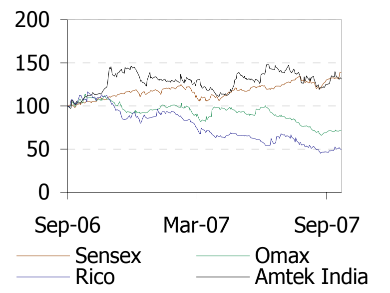
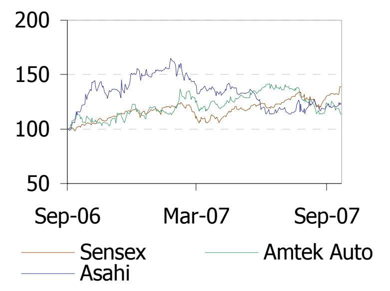
Relative Performance



Source: Bloomberg, ENAM Research

Relative Performance



Source: Bloomberg, ENAM Research

DELHI YATRA

In this note we cover our recent visits to four auto ancillaries* – Amtek Auto, Rico Auto, Omax Auto and Asahi India. Our aim was to gauge demand from the domestic OEM's. The key takeaways are as follows:

- Asahi India and Amtek Auto are optimistic on **strong growth in Passenger Cars** and expect the trend to continue for rest of the year. Growth for industry from April to August 2007 has been 13%.
- Rico Auto and Omax Auto's revenues largely depend on the two-wheeler industry, and are **hopeful of a revival in volumes** in H2FY08.
- Most companies have **completed a majority of their planned capacity expansion**. Planned capex in FY08-09E is estimated to be significantly lower than FY06-07. Incremental capex will largely be incurred as a routine/ maintenance capex.
- **Employee costs have increased** for all companies in Haryana from July 2007, as the Government of Haryana has raised minimum wages for all workers from Rs 2,450 per month to Rs 3,500 per month.
- Most companies are also **looking to reduce their power and fuel costs** by shifting to HFO (Heavy Fuel Oil), which is about 35-40% cheaper than diesel.
- Amtek Auto **indicated higher usage of Aluminum across all vehicles** and claim that Aluminum will be a next generation metal, to replace steel – driven by changing emission norms and increasing preference for lighter vehicles.

*Note: Refer pg 18 for valuation summary; *Not-Rated*

OMAX AUTO LIMITED (OMAX)

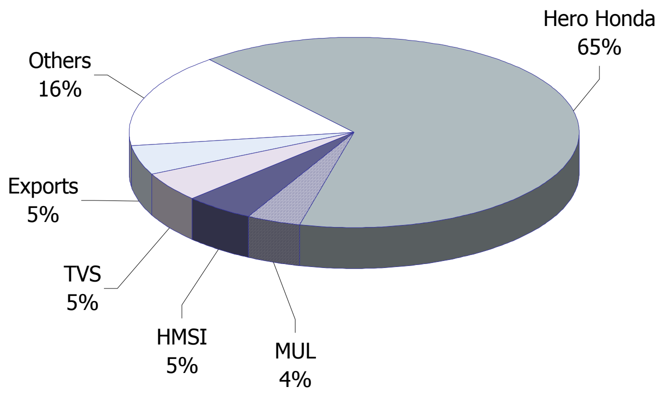
CMP: Rs 67 **Mkt Cap: Rs 1.4bn**

Omax is a manufacturer of sheet metal, machined, tubular and electroplated components. It is among the few players in the organized sector, which has a wide product portfolio of over 600 components.

Background

Hero Honda is the largest customer of Omax and accounts for over 65% of total revenues. Omax intends to increase supply of non-auto components and business with new customers to diversify its revenue base.

Omax: Client- mix (Q1FY08)



Source: Company

Revenue Outlook

- Omax expects revenues of Rs 7.75bn for FY08E, a YoY growth of 12% (Revenues in FY07 stood at Rs 6.9bn). We expect revenue CAGR of 12% over FY07-FY09E.
- Omax had recently taken a production cut owing to sluggish demand from major two-wheeler OEM's, however it expects full capacity utilization on the back of the festive season (Omax expects Hero Honda, to sell 0.3mn units each in the September and October 2007) and healthy growth seen for Honda Motors and Scooters India (HMSI)
- **Exports**: Exports currently account for 4.5-5% of overall revenues. Omax has achieved exports of Rs 70mn in Q1FY08. It expects exports of Rs 400-450mn in FY08E and Rs 700-750mn in FY09E.
  - Omax indicated that due to rupee appreciation export margins are not as lucrative as before. The company has indicated that it will take fresh orders only if pricing and margin is better than the domestic business.
  - We understand that Delphi, Tenneco Automotives and Arvin continue to remain major customers.

New customer developments

- **Entry into non-automotive business**: Omax is in discussion to increase its supplies to IKEA and is targeting Rs 1-1.5bn in revenues over the next 2-3 years. Currently revenues from IKEA stand at Rs 40-50mn. Omax will supply tubular components for furniture from its Speedomax plant and have indicated operating margin of ~9%.
- **Foray into four-wheeler segment**: Omax is setting up new facility at Lucknow to supply CV chassis components (HCV and LCV) to Tata Motors. Total investment is estimated at Rs 1bn and will be funded through borrowings and internal accruals. The project will be executed in two phases:
  - Phase I: Investment of Rs 550mn and will have initial capacity of 48,000 units and expected revenues of Rs 1bn. The trail production is expected to commence by 2QFY08E.
  - Phase II: Capacity to be increased to 96,000 units by 2010-11 at an investment of Rs 450mn and expected to generate revenues of Rs 2bn.

Margin outlook

- We expect margin to remain at ~9% for FY08E compared to 9.7% in FY07.
- Given the uncertainty on two-wheeler volumes especially Hero Honda, we don't expect any significant improvement in the operating margin.
- Export margin for Omax has dipped on account of Rupee appreciation. Omax has indicated that unless contracts are re-negotiated, exports are no longer a lucrative option.
- Revision of minimum wage agreement by the Government of Haryana will increase employee costs significantly.

Capex and cashflows

- Omax has outlined a capex of Rs 1bn for FY08E as compared to Rs 621mn in FY07. Higher capex is on account new facility being set up for Tata Motors.
- Borrowings in FY07 stood at Rs 2.5bn (includes Rs 600mn being long term in nature). The average cost of borrowings stands at ~9%.

Other developments

- **Steel plant, no longer viable:** Omax has scrapped their steel venture i.e. Omax Steels Limited, and is looking to dispose the assets. Omax owns 85.23% and expects to realize Rs 100mn as proceed from sale.
- **Issue of warrants**: Omax has issued 2.5mn convertible warrants (1:1) to investors at Rs 83 per warrant. This will lead to potential dilution of ~12%.
- **Land sale**: Omax has sold its property in Gurgaon for a consideration of 180mn. Of this, building costs are expected to be ~60mn, resulting in a gain of ~Rs 120mn (Pre-tax). Manufacturing in Gurgaon has already been shifted, while the corporate office will be shifted shortly. This transaction is expected to be completed in the next 2 months.

Profit outlook and valuation

- At CMP of Rs 67, the stock trades at 8.4x FY08E and 7.3 x FY09E FDEPS.
- We expect adjusted net profit of Rs 190mn and Rs 217mn in FY08E and FY09E respectively. This translates into FDEPS of Rs 7.9 for FY08E (down 28.2% YoY) and Rs.9.1 for FY09E (up 14.3% YoY).

Company Financials: Omax Auto

Income statement

(Rs. mn)

Y/E Mar	2006	2007	2008E	2009E
Net sales	**5,786**	**6,895**	**7,585**	**8,723**
Other operating income	0	0	0	0
Total income	**5,786**	**6,895**	**7,585**	**8,723**
Cost of goods sold	5,200	6,103	6,768	7,758
Advt/Sales/Distrn O/H	88	121	137	157
Operating Profit	498	672	680	807
Other income	75	99	114	125
PBIDT	**573**	**771**	**794**	**933**
Depreciation	161	212	265	318
Interest	107	196	246	291
Other pretax	0	0	0	0
Pre-tax profit	**305**	**363**	**283**	**324**
Tax provision	104	127	93	107
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	200	237	190	217
E/o income / (Expense)	**(12)**	**24**	**67**	0
Reported PAT	188	260	256	217

Key ratios

(%)

Y/E Mar	2006	2007	2008E	2009E
Sales growth	**9.2**	**19.2**	**10.0**	**15.0**
OPM	**8.6**	**9.7**	**9.0**	**9.3**
Oper. profit growth	(6.9)	35.0	1.2	18.7
COGS / Net sales	89.9	88.5	89.2	88.9
Overheads/Net sales	1.5	1.7	1.8	1.8
Depreciation / G. block	5.7	6.0	5.9	6.2
Effective interest rate	7.3	9.3	9.0	9.0
Net sales / Gr block (x)	2.3	2.2	1.9	1.8
Incremental RoCE	(3.9)	19.0	(8.2)	17.3
RoCE	**10.7**	**10.9**	**8.5**	**8.5**
Debt / equity (x)	1.5	1.9	1.9	2.1
Effective tax rate	34.2	34.9	33.0	33.0
RoE	**19.1**	**19.2**	**13.2**	**13.4**
Payout ratio (Div/NP)	25.9	21.6	18.4	23.7
EPS (Rs.)	**9.4**	**11.1**	**7.9**	**9.1**
EPS Growth	(17.3)	18.1	(28.2)	14.3
CEPS (Rs.)	16.9	21.0	19.0	22.4
DPS (Rs.)	2.3	2.6	2.0	2.1

Balance sheet

(Rs. mn)

Y/E Mar	2006	2007	2008E	2009E
Total assets	**2,961**	**3,947**	**4,650**	**5,309**
Gross block	2,825	3,561	4,473	5,173
Net fixed assets	1,986	2,518	3,165	3,547
CWIP	278	162	150	150
Investments	3	44	3	3
Wkg. cap. (excl cash)	172	402	316	363
Cash / Bank balance	522	821	1,016	1,246
Others/Def tax assets	0	0	0	0
Capital employed	**2,961**	**3,947**	**4,650**	**5,309**
Equity capital	214	214	214	214
Reserves	913	1,119	1,323	1,481
Borrowings	1,716	2,480	2,980	3,480
Others	118	133	133	133

Source: Company, ENAM Research

Cash-flow

(Rs. mn)

Y/E Mar	2006	2007	2008E	2009E
Sources	**843**	**1,161**	**902**	**977**
Cash profit	384	464	455	535
(-) Dividends	55	64	53	58
Retained earnings	329	399	402	477
Issue of equity	9	(2)	0	0
Borrowings	492	764	500	500
Others	13	0	0	0
Applications	**843**	**1,161**	**902**	**977**
Capital expenditure	705	629	900	700
Investments	(27)	41	(41)	0
Net current assets	133	230	(86)	47
Change in cash	32	262	129	230

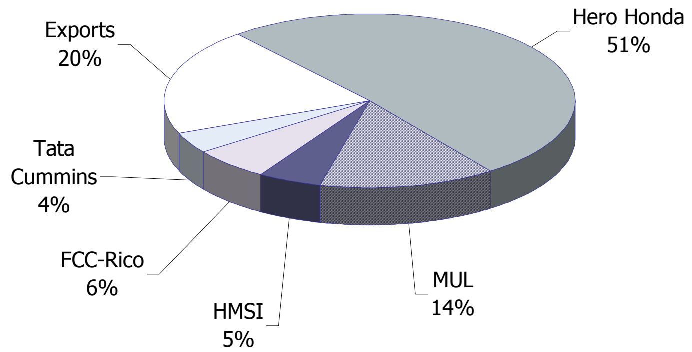
RICO AUTO INDUSTRIES LIMITED (RAIL)

CMP: Rs 35 **Mkt Cap: Rs 4.4bn**

Background (Standalone)

Rico Auto Industries Limited (RAIL) is one of the leading manufacturers of ferrous and aluminum components in the country. Hero Honda is its main customer and accounts for ~51% of revenues. High dependence on one company makes RAIL vulnerable to pricing pressure. However, the company has significantly reduced its dependence on Hero Honda by increasing sales to other companies and stepping up exports.

RAIL (Standalone): Client mix



Source: Company

Revenue Outlook

a) Domestic operations: Outlook

- RAIL expects Hero Honda, to sell 0.3mn units each in September and October 2007 driven by the festive season. Overall, volume growth expected at 3-5% YoY for Hero Honda for FY08.
- RAIL remains positive on prospects of HMSI and expects volumes of ~0.9mn units for FY08. RAIL expects the contribution from HMSI to increase in FY08.
- RAIL is in the process of setting up a facility at Singur to manufacture cylinder block/ components for Tata Motor's small car project.
  - In the initial phase, RAIL plans to invest Rs 200-250mn with capacity of ~250,000 units. In the second phase capacity will be increased to ~350,000 units with an investment of Rs 350mn. The capacity is expected to come on stream by H1FY09.

b) Export operations: Outlook

- Exports at Rs 1.2bn accounted for 16% of standalone revenues in FY07. RAIL expects export revenues of ~ Rs 1.7-1.8bn in FY08. We however remain conservative in our estimates and have factored in Rs 1.5bn in FY08E and Rs 2bn in FY09E as revenues from exports.
- RAIL has started supply of Turbo Charger components to Honeywell. Revenues are expected at ~Rs 300mn (Rs ~210mn domestic) in FY08E and Rs ~520mn (Rs ~330mn domestic) in FY09E.

FCC Rico

- RAIL has a 50:50 JV with FCC Co., Japan for the manufacture of clutches and flywheels for two-wheelers in India. The JV is primarily in the business of machining for the domestic market and accounted for 16% of consolidated sales (~Rs 1,400mn in FY07)
- Key clients & their share of FCC-Rico sales are: Hero Honda (42%), HMSI (30%) and Bajaj (18%)
- RAIL expects FCC Rico to register revenues of Rs 3.2bn in FY08E as compared to Rs 2.8bn in FY07, a YoY growth of ~15% and PAT margin is expected to remain at the levels of 11-12%

Margin Outlook

- We expect RAIL's consolidated EBIDTA margin to remain in the range of 13.0 to 13.7% over the next two years. Margins on exports are similar to those on domestic sales; hence they are unlikely to improve with rising exports.
- Power costs accounts for around 6% of sales. Currently RAIL's power requirement is met through a 50:50 mix of grid and captive power, with the average cost at Rs 4.84/ unit
- RAIL is in the process of converting its diesel generators to High Fuel Oil (HFO), which is 35% to 40% cheaper than diesel. We understand that conversion of all 4 generators to HFO has been completed.
  - The power consumption is higher for ferrous castings at ~16-17% of sales compared to non-ferrous which stands at 4-5% of sales. Current revenue mix for ferrous castings and aluminum castings stands at 20:80.
- Employee cost at 8% of sales is likely to grow on account of revision in minimum wages for workers by the Government of Haryana from Rs 2,450 per month to ~Rs 3,500. RAIL employs a total of 4,000 employees including 1,500 contractual workers.

Cash flow and capex

- We estimate capex at Rs ~600mn in FY08E. The current capacity for ferrous and non-ferrous stands at ~50-55,000mtpa each, and the capacity utilization levels stand at 55% and 70% respectively.
- Current borrowings stand at 2.37bn and expected to increase to Rs 2.58bn in FY08.

Profit outlook and valuation

- We expect a consolidated net profit of Rs 392mn in FY08E and Rs 526mn in FY09E. This translates into FDEPS of Rs 3.2 for FY08E (up 3.5% YoY) and Rs 4.3 for FY09 (up 34.3% YoY).
- At CMP of Rs36, the stock trades at 11.2x FY08E and 8.3x FY09E EPS.

Other Highlights

In order to diversify its revenue base and offer new products, RAIL recently:

A. Acquired technology from Jin Fei for manufacturing of Aluminum Alloy wheels for two-wheeler segment
B. Entered into JV with Continental for manufacturing of Hydraulic Brakes Systems. Details follow:

A) Jin Fei:

- Background of Jin Fei: Among the top three manufacturers of Aluminum wheels in China, with a turnover of USD ~300mn. Clients for Jin-Fei include Honda, Yamaha, Suzuki etc.
- RAIL has setup a company along with Jin Fei to manufacture Aluminum Alloy wheels for two-wheeler companies. RAIL will hold 92.5% and Jin Fei will hold 7.5% as stake for technological tie-up.
- Investments: RAIL is likely to make investment of Rs 350mn over the next two-years and is likely to be funded through debt of Rs 200mn and equity of Rs 150mn.
- Opportunity: RAIL expects asset turnover ratio of 1x leading to incremental revenues of Rs400mn.
- In the initial stages the company will have a total manufacturing capacity of 1mn units. The commercial production is likely to commence by September 2008.

B) JV with Continental Rico

- Background of Continental AG (Automotive Systems Division): One of the largest automotive component suppliers in the world with an annual turnover of USD 8bn.
- RAIL has entered into a 50:50 JV with Continental to manufacture Hydraulic Brakes.
- The total cost of project is estimated at Rs 2.2bn over a period of next 5-6 years to be funded equally in debt-equity ratio of 1:1.
- Opportunity: RAIL expects revenues of Rs.50-70mn in FY08E, Rs 600mn in FY09E and ~Rs 1600mn in FY10E.
- Hydraulic brake systems require four key components. The planned annual production capacity is:
  - 1.0mn units for brake actuation
  - 2.0mn units for brake calipers
  - 1.5mn units for drum brakes
  - 0.5mn load sensing proportioning valves

Company Financials: RICO Auto

Income statement

(Rs. mn)

Y/E Mar	2006	2007	2008E	2009E
Net sales	**7,799**	**8,753**	**9,789**	**11,278**
Other operating income	13	24	29	34
Total income	**7,811**	**8,777**	**9,817**	**11,313**
Cost of goods sold	6,705	7,602	8,490	9,706
Advt/Sales/Distrn O/H	57	54	60	68
Operating Profit	1,049	1,121	1,267	1,538
Other income	59	68	68	68
PBIDT	**1,109**	**1,188**	**1,335**	**1,606**
Depreciation	353	451	540	590
Interest	78	153	202	218
Other pretax	0	0	0	0
Pre-tax profit	**677**	**585**	**593**	**797**
Tax provision	239	207	202	271
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	439	378	392	526
E/o income / (Expense)	**0**	**0**	**0**	0
Reported PAT	439	378	392	526

Key ratios

(%)

Y/E Mar	2006	2007	2008E	2009E
Sales growth	**15.7**	**12.2**	**11.8**	**15.2**
OPM	**13.5**	**12.8**	**12.9**	**13.6**
Oper. profit growth	7.9	6.8	13.1	21.4
COGS / Net sales	85.8	86.6	86.5	85.8
Overheads/Net sales	0.7	0.6	0.6	0.6
Depreciation / G. block	7.7	7.4	8.1	8.1
Effective interest rate	5.6	8.2	8.2	8.2
Net wkg.cap / Net sales	0.1	0.1	0.1	0.1
Net sales / Gr block (x)	1.9	1.6	1.5	1.6
RoCE	**15.3**	**10.5**	**9.6**	**11.4**
Debt / equity (x)	0.6	0.8	0.8	0.8
Effective tax rate	35.2	35.3	34.0	34.0
RoE	**24.6**	**14.2**	**13.2**	**16.4**
Payout ratio (Div/NP)	42.3	47.9	46.2	36.3
EPS (Rs.)	**3.6**	**3.1**	**3.2**	**4.3**
EPS Growth	(11.6)	(13.8)	3.5	34.3
CEPS (Rs.)	6.5	6.8	7.6	9.1
DPS (Rs.)	1.5	1.5	1.5	1.6

Balance sheet

(Rs. mn)

Y/E Mar	2006	2007	2008E	2009E
Total assets	**4,104**	**5,604**	**6,046**	**6,633**
Gross block	4,567	6,063	6,663	7,263
Net fixed assets	3,162	4,253	4,313	4,323
CWIP	272	154	154	154
Investments	0	0	0	0
Wkg. cap. (excl cash)	546	965	933	980
Cash / Bank balance	124	233	646	1,176
Others/Def tax assets	0	0	0	0
Capital employed	**4,104**	**5,604**	**6,046**	**6,633**
Equity capital	123	126	126	126
Reserves	2,315	2,751	2,930	3,233
Borrowings	1,365	2,378	2,578	2,778
Others	301	350	412	496

Cash-flow

(Rs. mn)

Y/E Mar	2006	2007	2008E	2009E
Sources	**1,605**	**1,878**	**982**	**1,177**
Cash profit	832	899	994	1,200
(-) Dividends	212	209	212	223
Retained earnings	620	689	782	977
Issue of equity	1,051	196	0	0
Borrowings	(89)	1,013	200	200
Others	23	(21)	0	0
Applications	**1,605**	**1,878**	**982**	**1,177**
Capital expenditure	1,342	1,423	600	600
Investments	0	0	0	0
Net current assets	256	419	(32)	46
Change in cash	6	35	413	531

Source: Company, ENAM Research

AMTEK INDIA LIMITED (AIL)

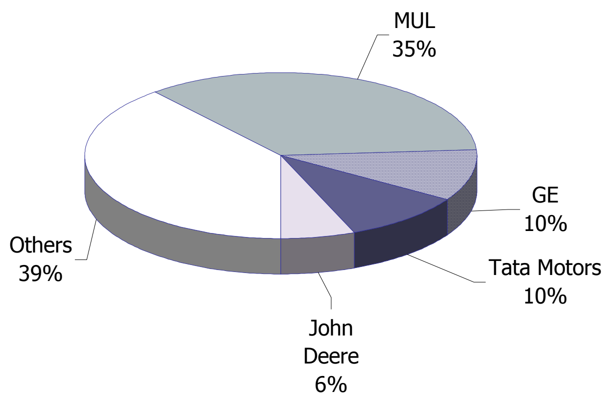
CMP: Rs 160 **Mkt Cap: Rs 9bn**

Amtek India manufactures castings and machined components for all types of vehicles and is part of the Amtek Group.

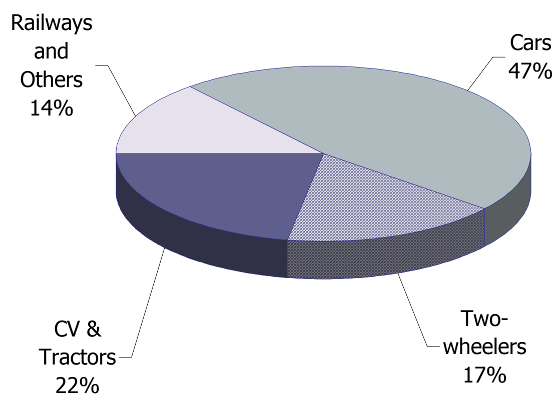
Revenue outlook

- Standalone revenues in FY07 stood at Rs 7.5bn (castings at Rs 2.9bn and machined components at Rs 4.6bn).
- Amtek India expects consolidated total income of Rs 12.4bn in FY08E and Rs 17.2bn in FY09E, translating into YoY growth of 25% in FY08E and 40% in FY09E. In FY07, total income stood at 9.8bn.
- Management has guided export revenues of Rs 4.5bn in FY08E and Rs 7bn in FY09E. This translates into a YoY growth of 100% in FY08E and 50% in FY09E (FY07 exports stood at Rs 2.33bn).
  - These estimates include revenues of Rs 1bn in FY08E and Rs 2bn in FY09 from Sigmacast. Amtek is currently in the process of shifting the Sigmacast lines to India *(refer details on pg 11)*.
- In term of tonnage sales for castings operations, Amtek India expects to sell 70,000 mtpa in FY08E and ~125,000 mtpa in FY09E.

Amtek India: Customer profile



Amtek India: Segment share



Source: Company, ENAM Research

Capacity expansion and capex plans

- The current capacity for castings (at Bhiwadi I and II) is at 75,000 mtpa and 17.5mn units for machined components.
- Total castings capacity will be increased to 220,000 mtpa over next 2-3 years, largely on account of transfer of line from Sigmacast. Sigmacast is currently running at 50% capacity utilization.
- The management has not guided any capacity expansion for its machined components.

- AIL has incurred a capex of Rs 3bn in FY07. The planned capex for FY08E stands at Rs 500-600mn. We understand that capex in FY07 was higher on account of fresh capacity addition at 75,000 mtpa from 30,000 mtpa.

Margin outlook

- EBITDA margin for castings and machined components is expected to be ~22% and 26-27% respectively. EBITDA margin for exports is expected to be ~30%.
- Overall, Amtek India expects PBDIT margin of 26% in FY08E and ~27% in FY09E compared to 24% in FY07.

Profit outlook

- Amtek India expects profit of Rs 1,794mn in FY08E and Rs 2,716 in FY09E, translating into YoY growth of 34% in FY08E and 51% in FY09E respectively. We understand that profits in FY07 stood at Rs 1,207mn on a standalone basis and Rs 1,335mn on consolidated basis.
- This translates into FDEPS of Rs 14.6 for FY08E and Rs 22.1 for FY09E. FDEPS in FY07 stood at Rs 10.9.

Sigmacast and Transfer of lines

- Amtek India had acquired Sigmacast for £ 4.6mn (EV/ EBITDA of 4-4.5x). At the time of acquisition, Sigmacast has a total capacity of 120,000 mtpa (45,000 mtpa operational and 75,000 mtpa non-operational in nature). The non-operational plant was being shut due to lack of demand and financing issues.
- Amtek India is in the process of transferring these lines to India over a period of time without disrupting the sales to existing customers.

Details on capacity addition program

Time Line	FY06	FY07	Oct '07	Jan' 08	May'08	March'09
Amtek India	30,000	75,000	-	-	-	-
Sigma Cast Operational	-	-	-	15,000	-	15,000
Sigma Cast non-operational	-	-	15,000	-	45,000	-
Total Capacity (A)	**30,000**	**75,000**	**90,000**	**105,000**	**150,000**	**165,000**
Amtek Castings Limited		25,000	-	-	-	15000
Total capacity (B)	**30000**	**100,000**	**115,000**	**130,000**	**175,000**	**205,000**
Sigma Cast overseas (C)						**15,000**
Total Capacity (A+B+C)						**220,000**

Source: Company, ENAM Research, capacities in Mtpa

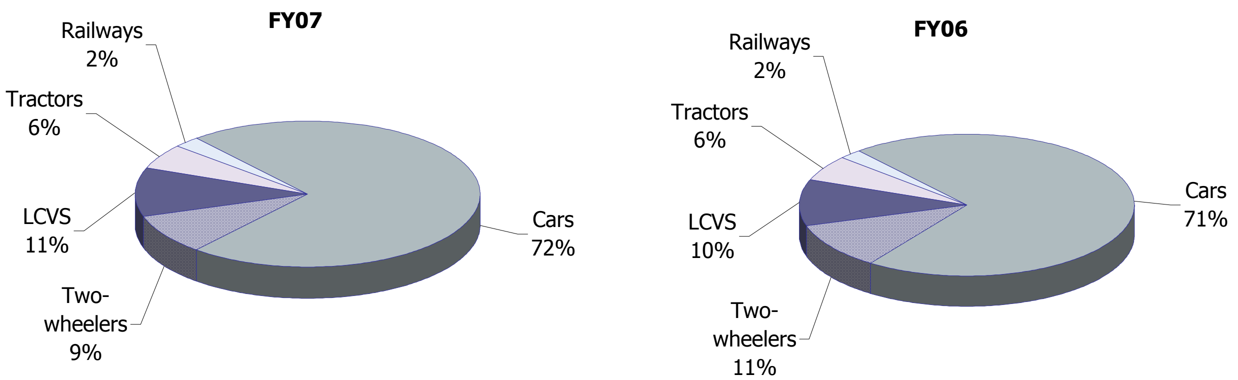
AMTEK AUTO LIMITED (AAL)

CMP: Rs 340 **Mkt Cap: Rs 34bn**

Revenue outlook

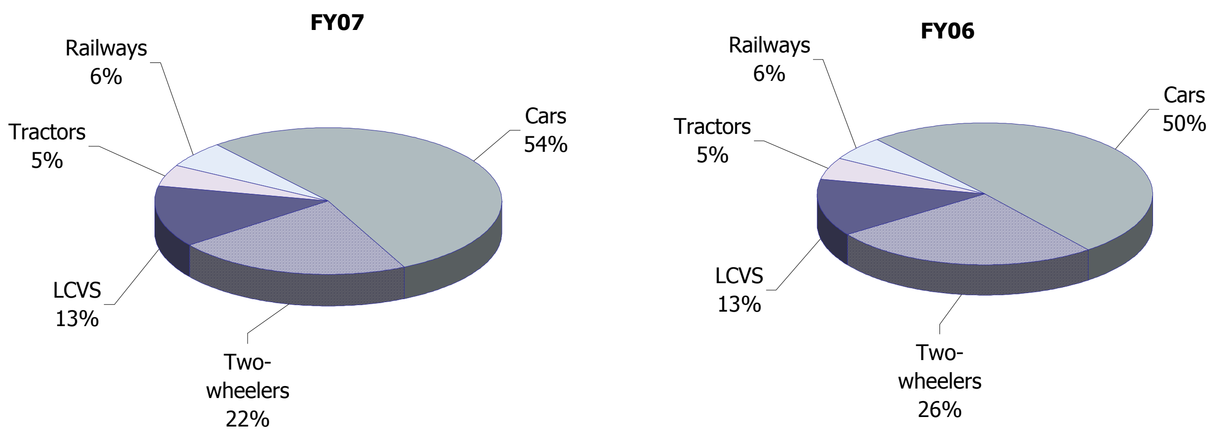
- For FY08E Amtek has guided revenues of Rs 48bn (Rs.31.2bn from overseas and Rs 16.5bn from domestic sales). This translates into a growth of 17% YoY (FY07 consolidated sales – Rs 41bn). The management expects revenue growth at ~17% for the next 2 years.
- On a consolidated basis, key clients such as Maruti, BorgWarner, Honeywell, Ford, GM account for ~58.03% of overall revenues.

Amtek Auto (Standalone): Segment share



Source: Company; ENAM Research

Amtek Auto (Standalone): Segment share



Source: Company; ENAM Research

- Machined components and forgings account for 58% and 42% of total sales respectively.

Margin outlook

- EBITDA margin in the domestic machining business stood at 28.64% and forging business stood at 23.67% compared to exports at 34.14%.
- We understand EBITDA margin in the machining business are higher by 5-6% as compared to forgings.

Capacity expansion plans

- Current capacity for Amtek Auto: Machining at 28mn units, forging at 115,000tpa and aluminum castings at 20,000tpa. Amtek plans to increase the machined components capacity by 2mn and forging capacity by 20,000tpa in FY08E.
- Amtek has no plans to transfer any of the manufacturing lines from its global subsidiaries (Smith Jones or GWK) to India. The management has indicated that demand is fairly strong and hence they are in the process of increasing capacities at some of its global subsidiaries. Further, shifting lines will mean a fresh round of quality checks and approvals from the existing buyers.

Recent Acquisitions and JVs

a) J L French Limited

Amtek has recently acquired assets of **UK based J L French Limited (JLF)** for USD 32-33mn. The company is engaged into manufacturing of housings i.e. clutch housing, engine housing, brake housings, gearbox housing etc. *Management has indicated aluminum will be a next generation metal replacing iron for housings.*

- Financials: Current revenues stand at USD 75mn and is operating at 50% capacity utilization with total capacity of 20,000tpa (includes 5000-6000tpa of machining capacity)
  - Amtek Auto plans to shift 16-17 line from Germany over a period of time. We understand that shifting of lines will mean a fresh round of quality checks and approvals from the buyer. However, Amtek plans to shift the lines in phase manner without disrupting the supply.
  - Major customers are Ford, Land Rover, Jaguar and Peugeot.

b) Hallberg Guss Aluminum

Amtek acquired 100% assets of **Hallberg Guss Aluminum, UK** 9 months back for consideration of USD 25mn. The company is into manufacturing of aluminum castings and will be operational from October- November 2007. The facilities will be shifted to Ranjangoan.

- Financials: Current capacity of 20,000tpa and order book of USD 85-90mn.
- Amtek Auto has already started developing components for Volvo and Cummins overseas and is in talks with domestic players like Tata Motors and JD. However, Amtek indicated that it will meet overseas requirements first and later service domestic demand.
- Amtek expects capacity utilization at 40% in FY08 and an increase to 100% in next 3 years. At full capacity, it will have potential to generate revenues of more than USD 100mn.
- Amtek expects EBITDA margin in the range of ~20-22%.

Both JLF and Hallberg will help Amtek to enter aluminum castings with a total capacity of 40,000mtpa.

c) Three JVs for technology access

Amtek Auto has also recently entered into JV with three companies to access technology in different segments. Total investment in these three JV stands at Rs 2bn. Amtek Auto will make investment of Rs 1bn and expects revenue generation of Rs 2bn.

- **Amtek VCST**: 50:50 JV with Belgian Gear manufacturer, VCST to access the technology for the next generation engine and components.
- **Amtek Tekfor Automotive Limited**: JV with Neu mayer Tekfor for manufacturing fractured connecting rod assemblies for the new diesel engine project of Maruti Udyog Limited.
- **MPT Amtek Automotive (India) Limited**: JV with Magna for manufacturing of one and two-piece flex plate assembly.

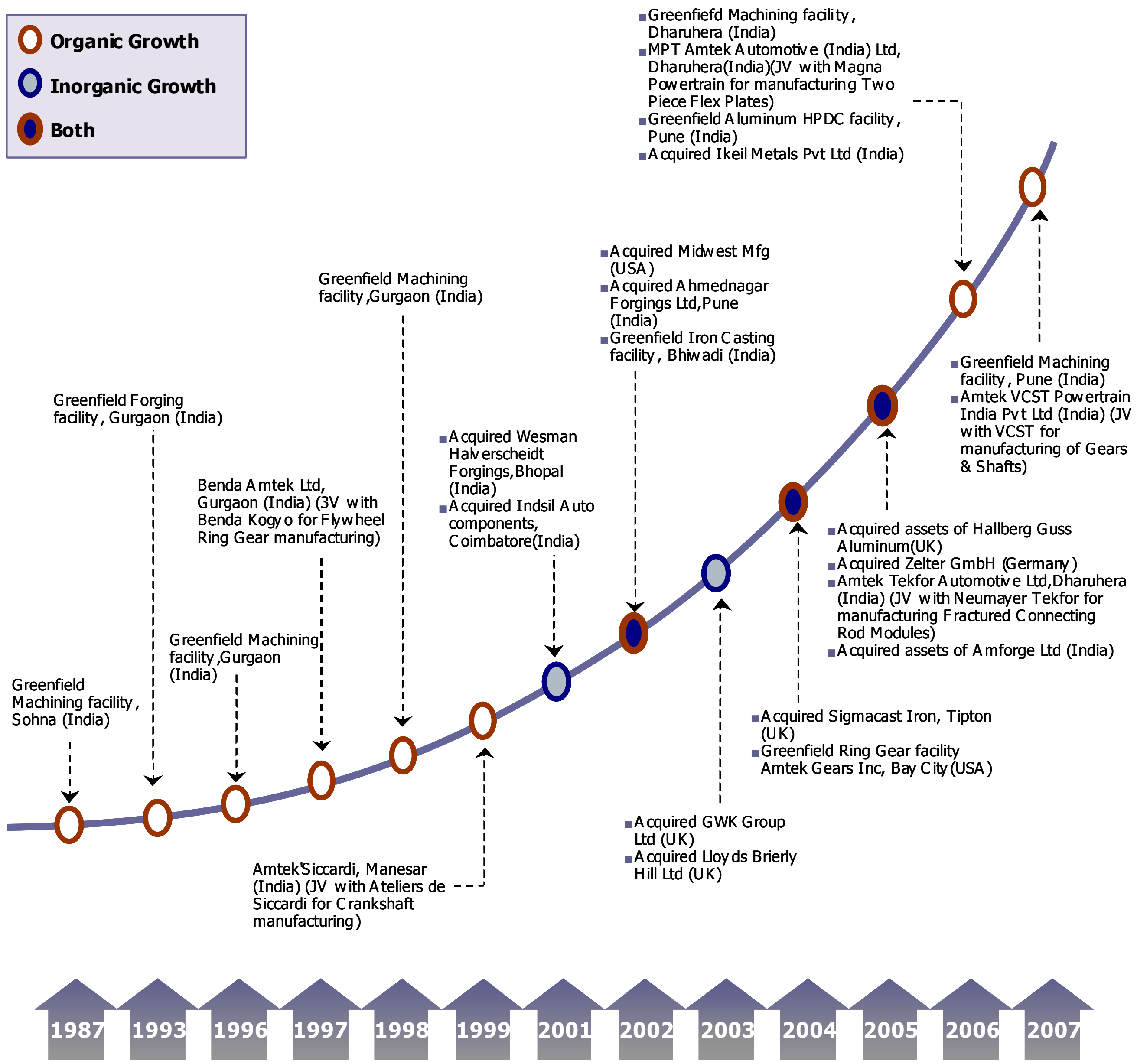
Planned acquisitions and new orders

- Amtek has grown in the past through acquisitions and continues to pursue a similar strategy for the medium term. In line with its strategy of in-organic growth, we understand it is evaluating a potential target to be acquired within 2-3 months in the field of Aeronautics. We understand that revenues of the target company are around USD 100mn. It is also speculating over a possible technical tie up with an American firm.
- We understand that if the acquisition goes through, it will significantly alter its revenue stream in favor of non-automotive sales
- Amtek Auto is expecting large casting and forgings orders to the tune of Rs 10-15bn every year. We understand these are domestic orders from the Government, likely from the Defense, Railways or Aeronautics space.

Profit outlook

Amtek Auto expects consolidated profit (before minority interest) of Rs 5.5bn in FY08E and Rs 7.12bn in FY09E, translating into YoY growth of 28% in FY08E and 29% in FY09E respectively. Net Profit in FY07 stood at Rs 4.32bn.

Amtek Auto: The Journey



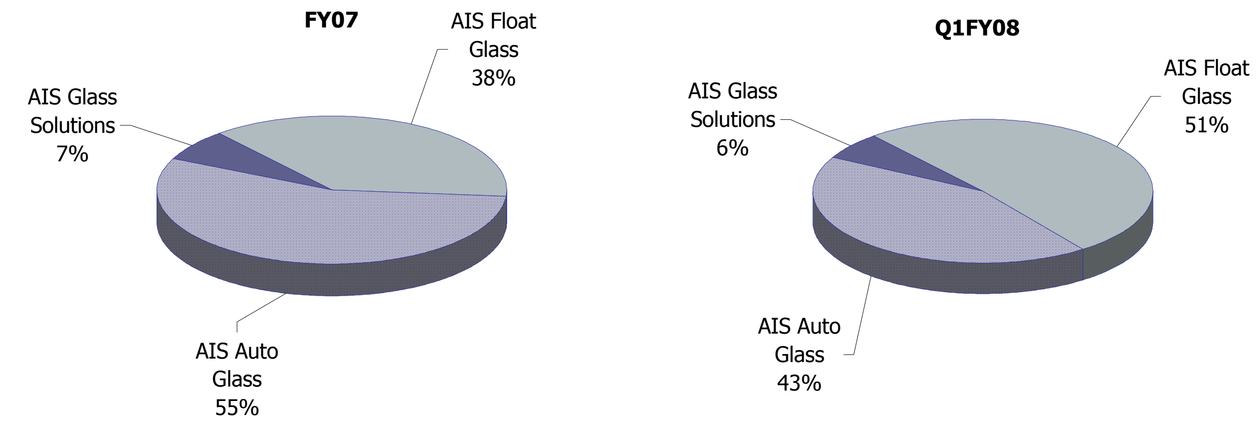
Source: Company, ENAM Research

ASAHI INDIA

CMP: Rs 108 **Mkt Cap: Rs 17.3bn**

Asahi India Glass (AIS) is the largest float manufacturer and auto glass supplier in the country. Of the total passenger car demand for glass, Asahi supplies over 80%. AIS's revenues can be distributed between three key SBU's.

Asahi India: Revenue Break-up



Source: Company

AIS Auto Glass: Currently the largest supplier of Auto glass, supplies to over 80% of total passenger car industry.

- Currently meets 100% requirement of Maruti and ~70% requirement of Hyundai (~30% with Saint Gobain).
- AIS has 45% market share of the Auto after market.
- Currently in talks with Tata Motors to supply to the Tata Ace.

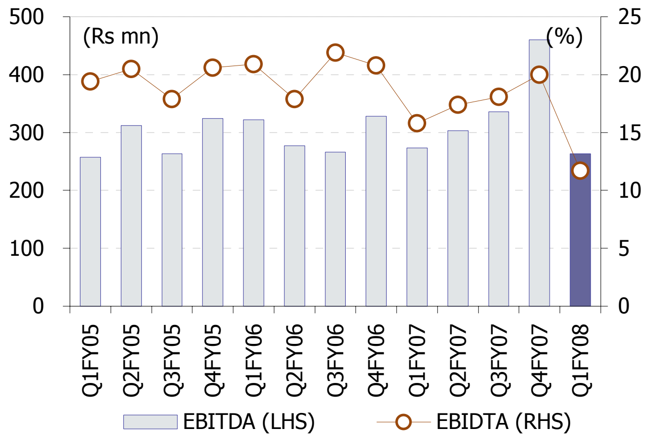
AIS Float Glass: AIS float glass is the largest manufacturer of plain vanilla float glass in the country. It has recently completed a second float glass plant at Roorkee with a production capacity of 700TPD. With this expansion, AIS now has total capacity of 1,200tpd (500tpd at Taloja).

- Currently exports account for ~25% of total float glass capacity. Realizations in exports are lower as compared to the domestic business. AIS is looking to improve realizations by supplying value added products in the future.
- Total industry supply for float glass is at 2,800tpd and demand is at 2,600tpd. On the back of a balanced demand-supply situation, AIS does not expect significant pressure on float glass realizations.
- Realization of float glass has improved from Rs 44/mm/m^2 in Q1FY08 to Rs 48/ mm/m^2 in Q2FY08.

AIS Glass Solutions: One of the largest suppliers of architectural glass in the country. It plans to enter into agreements with nationalized builders to secure agreements for supply of customized architectural glass. AIS expects robust growth in this business owing to the housing boom.

- **Capacity Utilization**: Current capacity utilization stands at 100% at the Roorkee plant, and ~60% for tempered glass and ~90% for laminated glass at the Chennai facility.
- **FY08E Capex**: It is expected to be ~Rs 1.5-2bn. We understand that in the last three years (FY05 to FY07) AIS has incurred a capex of Rs 11bn. This was primarily to set up an additional furnace for float glass at Roorkee.
- **EBITDA Margin**: AIS is looking to move up the value chain and thereby improve operating margin. With the Roorkee plant, AIS has launched a number of value added products, this will positively impact the overall margin.
    - Power and Fuel costs are a big concern at this stage. It is currently evaluating options to reduce the power costs. Power and fuel costs stood at 18.5% of sales in FY07 (14.5% in FY06).

Revenue and Margin Trend



Source: Company, ENAM Research

Auto Ancillaries Valuation Sheet

Co. Name	Period	Net sales (Rs mn)	EBIDTA (Rs mn)	Adj. PAT (Rs mn)	FDEPS (Rs.)	RoCE (%)	RoE (%)	P/E (x)
MICO	FY 06	29,775	6,560	3,350	105	30	24	39.5
(CMP: 4132)	FY 07	37,837	8,115	3,965	124	30	22	33.4
(MCap: Rs 132bn)	FY08E	44,847	9,538	5,358	167	29	23	24.7
	FY09E	53,425	11,552	6,517	203	29	23	20.3
BFL (Conso)	FY 06	29,520	5,261	2,539	11	26	29	26.9
(CMP: 291)	FY 07	41,202	6,464	2,957	12	19	22	23.7
(MCap: Rs 58bn)	FY08E	47,572	7,358	3,225	13	18	20	21.7
	FY09E	55,728	8,978	4,136	17	20	22	16.9
Motherson (Conso)	FY 06	10,155	1,602	1,093	2.9	29	49	36.9
(CMP: 107)	FY 07	15,276	2,290	1,287	3.3	26	46	32.1
(MCap: Rs 38bn)	FY 08E	20,370	3,074	1,696	4.4	27	42	24.4
	FY09E	27,142	4,061	2,297	5.9	31	42	18.0
RICO (Conso)	FY06	7,799	1,049	439	3.6	15	25	10.0
(CMP: 36)	FY07	8,753	1,121	378	3.1	11	14	11.6
(MCap: Rs 4bn)	FY08E	9,789	1,267	392	3.2	10	13	11.2
	FY09E	11,278	1,538	526	4.3	11	16	8.3
Apollo (Standalone)	FY 06	26,255	2,228	725	1.9	8	10	20.7
(CMP: 39)	FY 07	32,923	3,093	1,134	2.4	9	12	16.0
(MCap: Rs 15bn)	FY 08E	37,533	3,797	1,719	3.4	12	16	11.6
	FY09E	42,787	4,401	1,974	3.9	13	18	10.1
Omax	FY 06	5,786	498	200	9.4	11	19	7.1
(CMP: 67)	FY 07	6,895	672	237	11.1	11	19	6.0
(MCap: Rs 1bn)	FY 08E	7,585	680	190	7.9	9	13	8.4
	FY09E	8,723	807	217	9.1	8	13	7.3
Amtek India (Conso)	FY 05	3,473	838	408	6.9	23	26	23.2
(CMP: 160)	FY 06	4,721	1,210	667	11	18	33	14.2
(MCap: Rs 9bn)	FY 07	9,620	2,166	1,335	11	47	114	14.7
Amtek Auto (Conso)	FY 05	16,605	2,703	1,178	12	15	19	29.2
(CMP: 340)	FY 06	26,451	5,105	2,564	19	14	19	18.3
(MCap: Rs 34bn)	FY 07	40,796	8,104	4,547	28	16	23	12.2
ASAHI	FY 05	5,887	1,207	780	4.9	16	51	22.3
(CMP: 109)	FY 06	5,886	1,168	924	5.8	12	43	18.8
(MCap: Rs 17bn)	FY 07	7,660	1,435	304	1.9	4	11	57.4

Source: ENAM Research