ABN·AMRO

Friday 17 August 2007

Change of target price

Federal-Mogul Goetze India

Bumpy ride

Export ramp-up to parent and rights issue are behind schedule, and the rupee strengthened in 1H07, but these seem priced in. We cut our forecasts but retain our Buy rating, given the high entry barriers in FMGI's business and strong medium-term export outlook.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (Rsm)	4571.4	4027.3	6529.3	7448.6	8326.3
EBITDA (Rsm)	698.0	571.4	1003.7▼	1229.0▼	1416.1
Reported net profit (Rsm)	-487.4	-41.4	173.7▼	278.1▼	407.1
Normalised net profit (Rsm)¹	2.37	70.4	203.9	363.1	492.1
Normalised EPS (Rs)	0.09	2.78	8.06▼	14.4▼	19.5
Dividend per share (Rs)	0.00	0.00	1.00	1.50	1.50
Dividend yield (%)	0.00	0.00	0.68	1.02	1.02
Normalised PE (x)	1578.3	53.0	18.3▲	10.3▲	7.59
EV/EBITDA (x)	10.9	12.9	7.38	6.15	5.13
Price/book value (x)	3.87	4.14	3.65	3.04	2.39
ROIC (%)	4.63	3.96	8.59	10.7	11.9

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Dec, fully diluted

Strong sales momentum in 1H07 fails to impress on EBITDA margins

The ramp-up of exports to parent Federal Mogul coupled with new product supplies in the domestic market helped achieve 39% net sales growth to Rs3.1bn in 1H07. The March 2006 change in the accounting policy for sales recognition also helped extend the low-base effect for sales growth. Exports to the parent ramped up to Rs120m in 1H07, nearly 50% of FMGI's total exports. Thus, total exports formed 7% of net sales. However, this impressive sales growth could not return EBITDA margin to its historical levels as raw-material prices (aluminium and nickel) were high. Hence, the margin remained at 14.6% in 1HFY07, much lower than 20.5% in FY05. Extraordinary items affected reported PAT, as new stringent norms by the parent required more provisions. This, coupled with rising interest and depreciation charges, resulted in a normalised 1H EPS of just Rs3.20.

Reducing EPS forecasts for potentially slow EBITDA margin recovery

The pressure on profit margin is also reflected in management's PBT guidance for 2008, which was lowered from Rs1bn in Sept-06 to Rs300m in Jun-07. This may have been due to teething problems in exports, high aluminium and nickel prices impacting the EBITDA margin and delay in the proposed rights issue. Incorporating these factors, we cut our 2007-08F EPS by around 60%, to Rs8.06 and Rs14.4, respectively.

Export outlook and high-entry-barriers business attractions remain

The stock has corrected 33% in three months and 52% in six months as the euphoria of stake increase by the parent (leading to a doubling of the stock price in 10 months to December 2006) was not supported by earnings momentum. The delay in exports ramp-up (due to initial teething problems in the new lines) and rights issue is a short-term pain, in our view. FMGI's key medium-term attractions are: high technology as an entry barrier to the business; leadership in diesel piston assemblies; the parent's eagerness to source from India; above-industry-average EBITDA margins; and the scope to reduce manpower and interest costs. Thus, we retain our medium-term Buy rating, as market-cap valuations look attractive to us at 0.5x sales and 3.7x EBITDA on our 2008 estimates. However, we adjust our target price from Rs512 to Rs258.50 for our sharp EPS cuts. This puts the stock at 18x 2008F P/E, in line with the leading components-sector stocks based on our own and Bloomberg consensus estimates.

Priced at close of business 16 August 2007. Use of ▲▼ indicates that the line item has changed by at least 5%.

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Buy

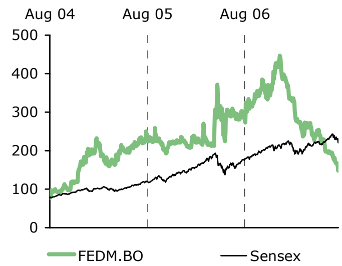
Absolute performance
n/a
Short term (0-60 days)
Neutral
Market relative to region

Automobiles & Components
India

Price
Rs147.70
Target price
Rs258.50 (from Rs512.00)
Market capitalisation
Rs3.73bn (US$90.31m)
Avg (12mth) daily turnover
Rs5.91m (US$0.13m)

Reuters	Bloomberg
FEDM.BO	FMGI IN

Price performance	(1M)	(3M)	(12M)
Price (Rs)	196.0	236.9	298.8
Absolute %	-24.6	-37.7	-50.6
Rel market %	-19.6	-38.7	-60.6
Rel sector %	-16.9	-34.2	-50.2



Stock borrowing: Impossible
Volatility (30-day): 33.63%
Volatility (6-month trend): ↑
52-week range: 449.40-145.65
Sensex: 14358.21
BBG AP Autos: 214.92

Source: ABN AMRO, Bloomberg

Researched by
ABN AMRO Institutional Equities Team

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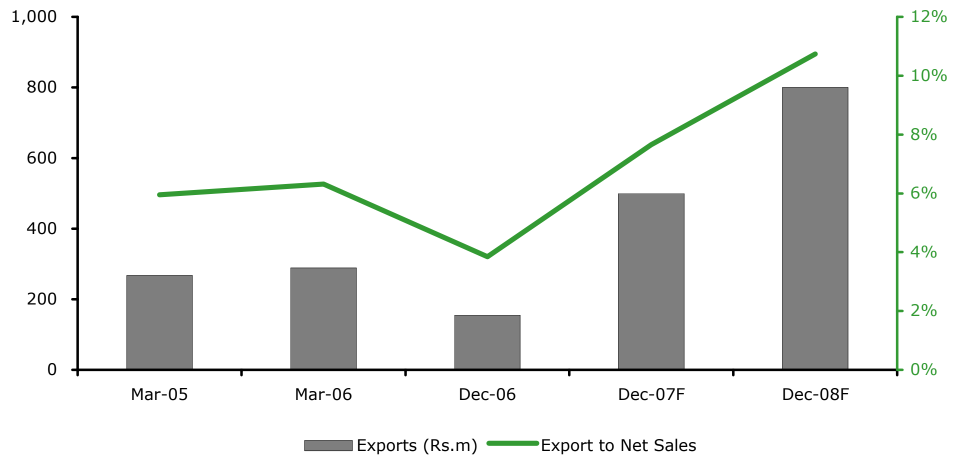
Delayed exports and rights issue

We more than halved our EPS forecasts due to export ramp-up and rights-issue delays along with a stronger rupee and higher input costs in 1H07. But our cuts seem already in the price, as FMGI has corrected 52% in 6 months.

Exports ramp-up delayed but yet on impressive growth

Exports for 1H07 more than doubled (vs 1H06) to Rs220m, but were below our expectation, as the teething problems in stabilising the new machines that were brought in from parent Federal Mogul delayed ramp-up. Management expects the exports ramp-up to gain momentum in the coming months. However, we cut our export sales estimate 33% to Rs500m for 2007 and 43% to Rs800m for 2008, as we incorporate a 10% rupee appreciation assumption for 2007. We estimate lines to be shifted from the Europe-based parent plants under the new programmes will start contributing to exports at the earliest from January 2008, even though these are only scheduled for commissioning by October 2007. Early shipments from these programmes may surprise our estimate. In spite of the steep cuts in our estimates, we foresee exports growing four-fold over FY06-08 to Rs800m to form 10.7% of net sales, which is in line with the current (March 2007) published performance of many tier-2 auto components companies.

Chart 1 : Ramp-up of exports



Dec-06 is a none-month period due to a change in the year-end
Source: Company data, ABN AMRO

Domestic OE weakness is a cause for concern

Vehicle sales growth for April-June 2007 weakened sharply quarter-on-quarter across automobile sub-segments in the industry due to a high-base effect and a steep rise in vehicle finance rates. Among the major losing segments were M&HCV and the two-wheeler sector, recording a 2-7% drop in sales volume. These sectors form nearly 40% of demand for FMGI, so any further weakness would be a cause for concern. In our FMGI model, we build in 14.9% annualised growth rate for 2007 and 10.3% for 2008 for domestic sales, which we believe is achievable considering the company’s near-monopoly in the fast-growing diesel-car segment.

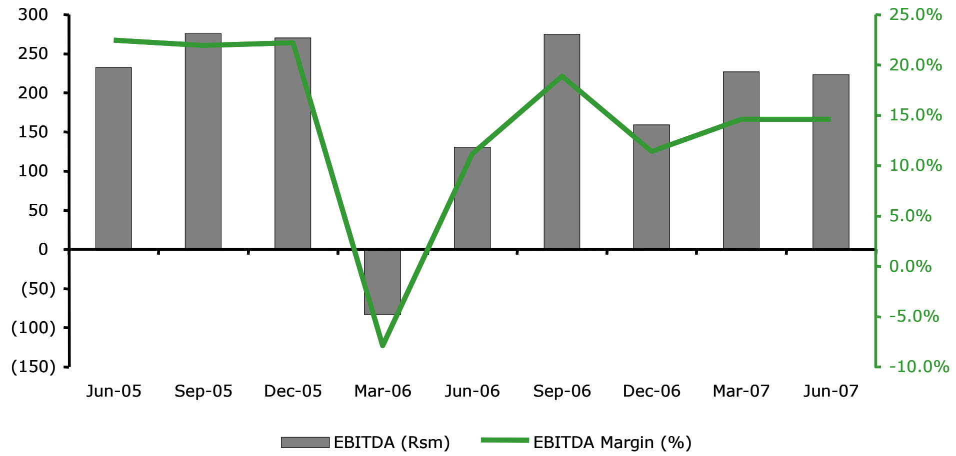
High raw-material costs impacted 2Q performance

FMGI reported 2Q07 PAT of Rs8.6m on impressive 31% growth in net sales to Rs1.54bn. Normalised PAT was Rs23.7m, adjusted for extraordinary items such as a

Rs33.4m forex gain on capital-equipment imports, Rs5.2m in VRS expenses, a Rs25m provision for the diminution in value of assets and Rs18.3m in previous-period expenses towards AS-15. EBITDA margin was 14.6% vs 11.1% in 2Q06 and 14.6% in 1Q07. Exports doubled yoy to Rs116m (of which exports to Malden were Rs56m) leading to the 31% net-sales growth. However, higher costs for raw materials (especially aluminium and nickel) impacted the EBITDA margin. A sharp rupee appreciation also impacted the margin as exports formed 7.5% of sales at Rs115m in 2Q07. Furthermore, with rising interest rates and thus a ballooning interest expense, PAT for the quarter evaporated.

The improved 1Q07 helped the 1H07 result, with FMGI reporting PAT of Rs81m on net sales of Rs3.1bn, or 39% yoy growth, and EBITDA margin of 14.6%. Adjusted for extraordinaries, normalised PAT was Rs51m. Normalised EPS was Rs3.2.

Chart 2 : Quarterly EBITDA margin trend



Source: Company data, ABN AMRO

Table 1 : Quarterly results

(Rsm)	Apr-Jun '06	Apr-Jun '07	Chg yoy	Jan-Mar '06	Jan-Mar '07	Chg yoy	1H06	1H07	Chg yoy
Net sales	**1,172**	**1,535.0**	**31.0%**	**1,057**	**1,561.0**	**47.7%**	**2,229**	**3,096**	**38.9%**
Expenditure					1,561.0				
Raw materials	488	693	42.0%	569	740	30.1%	1,057	1,433	35.6%
(Inc)/dec in stock	11	(3)		(36)	(69)	90.3%	(25)	(72)	
% of net sales	*42.6*	*44.9*		*50.4*	*43.0*		*46.3*	*44.0*	
Personnel	284	336	18.3%	328	329	0.3%	612	665	8.6%
% of net sales	*24.2*	*21.9*		*31.0*	*21.1*		*27.5*	*21.5*	
Mfg & other expenses	258	286	10.6%	280	334	19.3%	538	619	15.1%
% of net sales	*22.0*	*18.6*		*26.5*	*21.4*		*24.1*	*20.0*	
Less: Capitalisation	-						-	0	
Total expenditure	1,042	1,312	25.9%	1,140	1,334	17.0%	2,182	2,645	21.3%
EBITDA	**131**	**223**	**71.0%**	**(83)**	**227**	**143.3%**	**47**	**451**	**853.4%**
EBITDA margin (%)	***11.1***	***14.6***		***-7.9***	***14.6***		***2.1***	***14.6***	
Depreciation	91	102	11.3%	122	101	-17.5%	213	202	-5.2%
EBIT	39	122	209.1%	(206)	127		(166)	249	
Net interest	80	114	42.3%	97	98	1.4%	177	212	19.8%
Non-operating income	9	10.0	14.9%	6	12	96.7%	15	22	48.6%
PBT	(32)	18		(297)	40.1		(328)	59	
Tax - total	3	(5)		(31)	(18)	-42.9%	(28)	(23)	
Tax rate (%) - total				*10.4*	*20.0*		*8.5*	*-39.1*	
Normalised PAT	**(35)**	**23.7**		**(266)**	**58**	**-121.7%**	**(300)**	**81**	
Extraordinary income		33					-	33	
Extraordinary expenses	30	49	61.8%	416	15	-96.4%	446	64	
Reported profit	**(65)**	**8.6**	**-113.3%**	**(682)**	**43**	**-106.3%**	**(747)**	**51**	
Diluted EPS (Rs)	**(1.4)**	**0.9**			**2.3**		**(11.9)**	**3.2**	

Source: Company data

We cut our EPS forecasts sharply

Though the company's recovery from FY06 levels was impressive, it is still below our estimates. The teething problems with regard to exports from the Malden plant shifted to Patiala led to a slower export ramp-up. Furthermore, given the high input prices, especially aluminium and nickel, and the rupee-appreciation impact on exports, we reduce our EBITDA margin expectation from the 21% level to around 16% for both 2007 and 2008. This leads to a 30% reduction in our EBITDA forecasts. Also, the impact on EPS is more pronounced after we incorporate the delay in the proposed rights issue in terms of a higher interest cost (by 70%) to fund the capex programme of Rs800m pa. Thus, we cut our EPS forecasts for both years by around 60%. We have not factored in any benefit/impact from the rights issue, ie a saving in the interest cost or an equity dilution, as it has been delayed by more than six months and is yet awaiting SEBI approval. Recently, FMGI's board lowered the price band of the proposed rights issue to Rs145-170 so as to take into account the sharp fall in stock price, but maintained issue size at Rs.1.1bn. This would increase the dilution to 25-30%, on our estimates.

The sharp deterioration in profitability is also reflected in the sharp downward revision in management guidance for 2008 PBT, from Rs1bn in September 2006 to Rs300m in June 2007, a span of just nine months, for reasons discussed above.

Table 2 : EPS estimates revision summary

	2007F		2008F	
(Rsm)	**Old**	**New**	**Old**	**New**
Net sales	6,774.7	6,529.3	8,088.6	7,448.6
Change (%)		-3.6		-7.9
EBITDA	1,416	1,003.7	1,772.6	1,229.0
Change		-29.1%		-30.7%
EBITDA margin (%)	20.9	15.4	21.9	16.5
Normalised EPS (Rs)	24.7	8.06	34.2	14.4
Change (%)		-67.4		-58.0

Source: ABN AMRO forecast

Reducing target price for the lower EPS estimates

We reduce our target price to Rs258.50 due to the sharp cut in our 2007-08 EPS estimates, which reflect the teething problems in export ramp-up to parent, the impact of the much stronger rupee and high aluminium/nickel prices on EBITDA margin, and the delay in the proposed rights issue that impacts the interest cost in FY07F. Our new target price puts the stock at 18x 2008F EPS and 8.4x EV/EBITDA, roughly in line with the valuations of leading auto-components companies and at a discount to their target price multiple (based on our own and Bloomberg consensus estimates; see Table 3).

FMGI's stock has been volatile in the last one-and-a-half years. The increase in stake to a majority 50.5% by parent Federal Mogul, USA, in May 2007 led to a doubling of the share price in a span of nine months. However, lack of earnings momentum due to accounting policy changes and delay in the proposed rights issue started to reflect in the share price, leading to a 52% correction in the last six months. We believe the correction already reflects the cuts in our estimates. FMGI trades at 10.3x our 2008 forecast EPS of Rs14.40 and 6.2x EV/EBITDA. The high EBITDA margin makes the stock look attractive on market cap to sales (0.5x FY08F) and EBITDA (3.7x FY08F) basis, but the high depreciation and interest expenses eat into earnings and make it seem expensive on a PE basis. Management's effort to reduce debt through a rights issue should help bring about a re-rating in the medium term. An earnings CAGR of 60.6% for 2007-09 (on our forecast), FMGI's leadership position in the Indian diesel piston assembly market, above-industry-average EBITDA margin, the parent's eagerness to source from low-cost countries such as India and high entry barriers to the business remain its key attractions, in our view. As a result, we retain our Buy recommendation.

Table 3 : Peer valuation comparison

			2007F/FY08F			2008F/FY09F			
Company	Bloomberg code	Price (Rs)	EPS (Rs)	PE (x)	EV/ EBITDA (x)	EPS (Rs)	PE (x)	EV/ EBITDA (x)	3yr EPS CAGR (%)
Bharat Forge*	BHFC IN	266.4	12.6	21.1	10.2	16.0	16.7	8.2	8.5
MICO	MICO IN	4170.0	189.0	22.1	12.7	254.0	16.4	10.1	21.5
Federal Mogul Goetze India	**FMGI IN**	**148.0**	**8.06**	**18.4**	**7.4**	**14.4**	**10.3**	**6.2**	**127.1**
Sona Koyo	SONA IN	48.0	3.5	13.6	9.0	4.51	10.6	6.2	24.7
RICO Auto *	RAI IN	38.0	3.9	9.9	3.7	4.7	8.1	3.3	21.2

** Consolidated entity*
Prices as of close of 15 August 2007
December year-end for MICO and Federal Mogul Goetze; March year-end for the rest
Source: ABN AMRO estimates for Federal Mogul Goetze and Bharat Forge (Buy) and Bloomberg for the rest

Our valuation and target price for FMGI is P/E based. We believe the key risks to our target price are: 1) any weakness in FMGI's customer vehicle demand, 2) further delay in execution of exports to the parent, 3) steep price increases for aluminium and other metal inputs, and 4) rupee appreciation from current levels, which would impact the company’s competitiveness in the export market or its margins.

Key assumptions

Table 4 : Revenue stream and financial assumptions

	2006A	2007F	2008F	2009F
Revenue stream assumptions				
Piston sales volume (m)	6.5	9.5	10.5	11.4
Growth (%)	*12.8*	*10.0*	*10.0*	*9.0*
Piston realisation per unit (Rs)	347.6	368.5	379.5	387.1
Growth (%)	*8.0*	*6.0*	*3.0*	*2.0*
Piston sales value (Rsm)	2,255.4	3,506.5	3,972.8	4,417.0
Growth (%)	*22.1*	*16.6*	*13.3*	*11.2*
Ring sales volume (m)	35.4	55.7	62.4	68.6
Growth (%)	*13.6*	*18.0*	*12.0*	*10.0*
Ring realisation per unit (Rs)	39.8	43.0	44.1	44.9
Growth (%)	*-5.7*	*8.0*	*2.5*	*2.0*
Ring sales value (Rsm)	1,409.5	2,395.0	2,749.4	3,084.8
Growth (%)	*7.4*	*27.5*	*14.8*	*12.2*
Financial assumptions				
Domestic sales (Rsm)	4,498.6	6,890.6	7,598.4	8,372.9
Growth (%)	*19.9*	*14.9*	*10.3*	*10.2*
Exports (Rsm)	154.8	500.0	800.0	1,000.0
Growth (%)	*-28.6*	*142.4*	*60.0*	*25.0*
Gross sales (Rsm)	4,653.4	7,390.6	8,398.4	9,372.9
Growth (%)	*17.3*	*19.1*	*13.6*	*11.6*
Net sales (Rsm)	4,027.3	6,529.3	7,448.6	8,326.3
Growth (%)	*17.4*	*21.6*	*14.1*	*11.8*
Raw material to net sales	42.0%	43.0%	42.0%	41.6%
EBITDA margin (%)	*14.2*	*15.4*	*16.5*	*17.0*

FY06A represents the period March to December 2006 due to a change in the year-end
Source: Company data, ABN AMRO forecasts

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FEDERAL-MOGUL GOETZE INDIA: KEY FINANCIAL DATA

Income statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	4571.4	4027.3	6529.3	7448.6	8326.3
Cost of sales	-1738.0	-1689.7	-2807.6	-3128.4	-3463.7
Operating costs	-2135.4	-1766.1	-2717.9	-3091.2	-3446.4
EBITDA	**698.0**	**571.4**	**1003.7**	**1229.0**	**1416.1**
DDA & Impairment (ex gw)	-341.7	-282.0	-415.0	-465.0	-500.0
EBITA	**356.3**	**289.4**	**588.7**	**764.0**	**916.1**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**356.3**	**289.4**	**588.7**	**764.0**	**916.1**
Net interest	-330.3	-261.3	-430.0	-400.0	-400.0
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	39.8	27.7	46.0	55.0	60.0
Reported PTP	**65.8**	**55.8**	**204.7**	**419.0**	**576.1**
Taxation	-81.1	-7.03	-25.8	-83.8	-115.2
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	-489.8	-111.8	-30.1	-85.0	-85.0
Other post-tax items	17.7	21.7	24.9	27.9	31.3
Reported net profit	**-487.4**	**-41.4**	**173.7**	**278.1**	**407.1**
Normalised Items Excl. GW	-489.8	-111.8	-30.1	-85.0	-85.0
Normalised net profit	**2.37**	**70.4**	**203.9**	**363.1**	**492.1**

Source: Company data, ABN AMRO forecasts ***year to Dec***

Balance sheet

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	22.0	4.90	6.58	7.74	71.2
Other current assets	2352.7	2376.0	2632.6	3007.9	3335.5
Tangible fixed assets	3287.4	3543.6	3798.9	4083.9	4083.9
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	224.3	213.5	225.0	225.0	225.0
Total assets	**5886.5**	**6138.0**	**6663.1**	**7324.6**	**7715.6**
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	1024.6	1591.1	1940.0	2216.6	2478.1
Long term debt (3)	3896.3	3644.4	3674.8	3831.8	3600.0
Oth non-current liab	0.00	0.00	25.8	46.7	75.6
Total liabilities	**4920.8**	**5235.5**	**5640.6**	**6095.2**	**6153.6**
Total equity (incl min)	965.6	902.6	1022.5	1229.4	1562.0
Total liab & sh equity	**5886.5**	**6138.1**	**6663.1**	**7324.6**	**7715.6**
Net debt (2+3-1)	3874.3	3639.5	3668.2	3824.0	3528.8

Source: Company data, ABN AMRO forecasts ***year ended Dec***

Cash flow statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	698.0	571.4	1003.7	1229.0	1416.1
Change in working capital	-56.7	547.9	29.6	-118.6	-96.2
Net interest (pd) / rec	-210.3	-210.3	-210.3	-210.3	-210.3
Taxes paid	-24.5	-24.5	-24.5	-24.5	-24.5
Other oper cash items	-300.8	-53.8	78.4	-14.0	-81.2
Cash flow from ops (1)	**105.7**	**830.7**	**876.9**	**861.5**	**1003.9**
Capex (2)	-245.7	-538.2	-670.3	-750.0	-500.0
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-178.9	-57.7	-1306.5	-224.0	-165.4
Cash flow from invest (3)	**-424.6**	**-596.0**	**-1976.7**	**-974.0**	**-665.4**
Incr / (decr) in equity	0.00	0.00	1100.0	0.00	0.00
Incr / (decr) in debt	326.3	-251.9	30.4	156.9	-231.8
Ordinary dividend paid	0.00	0.00	-28.9	-43.3	-43.3
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	**326.3**	**-251.9**	**1101.5**	**113.6**	**-275.1**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**7.41**	**-17.1**	**1.69**	**1.16**	**63.4**
Equity FCF (1+2+4)	-140.0	292.5	206.6	111.5	503.9

Lines in bold can be derived from the immediately preceding lines. ***year to Dec***
Source: Company data, ABN AMRO forecasts

FEDERAL-MOGUL GOETZE INDIA: PERFORMANCE AND VALUATION

Standard ratios

	FM Goetze					Bharat Forge			Inzi Controls		
Performance	**FY05A**	**FY06A**	**FY07F**	**FY08F**	**FY09F**	**FY08F**	**FY09F**	**FY10F**	**FY06F**	**FY07F**	**FY08F**
Sales growth (%)	1.87	-11.9	62.1	14.1	11.8	17.9	14.4	12.2	16.7	19.1	15.2
EBITDA growth (%)	-24.1	-18.1	75.7	22.4	15.2	8.17	19.6	16.6	13.2	23.2	19.1
EBIT growth (%)	-45.4	-18.8	103.4	29.8	19.9	3.28	20.5	18.7	6.60	23.5	17.5
Normalised EPS growth (%)	-99.3	2875.2	189.5	78.1	35.5	-7.11	27.0	19.3	0.23	22.1	25.0
EBITDA margin (%)	15.3	14.2	15.4	16.5	17.0	14.2	14.8	15.4	10.2	10.5	10.9
EBIT margin (%)	7.79	7.19	9.02	10.3	11.0	9.61	10.1	10.7	5.78	6.00	6.11
Net profit margin (%)	0.05	1.75	3.12	4.88	5.91	5.77	6.58	7.15	9.36	9.60	10.4
Return on avg assets (%)	3.69	4.05	7.64	8.98	10.1	7.53	8.43	9.13	12.9	13.2	13.8
Return on avg equity (%)	0.19	7.54	21.2	32.3	35.3	17.7	18.9	18.7	22.0	22.2	22.9
ROIC (%)	4.63	3.96	8.59	10.7	11.9	12.6	12.7	14.0	18.1	18.6	18.9
ROIC - WACC (%)	-7.50	-8.17	-3.54	-1.40	-0.23	0.02	0.14	1.42	7.87	8.37	8.63
					year to Dec			*year to Mar*			*year to Dec*
Valuation											
EV/sales (x)	1.66	1.83	1.13	1.01	0.87	1.41	1.19	1.02	0.53	0.46	0.41
EV/EBITDA (x)	10.9	12.9	7.38	6.15	5.13	9.95	8.04	6.63	5.21	4.40	3.75
EV/EBITDA @ tgt price (x)	14.9	17.8	10.2	8.43	7.11	12.1	9.80	8.14	9.26	7.68	6.51
EV/EBIT (x)	21.4	25.5	12.6	9.89	7.93	14.7	11.8	9.55	9.15	7.71	6.66
EV/invested capital (x)	1.57	1.62	1.57	1.48	1.41	2.35	2.10	1.90	1.69	1.52	1.40
Price/book value (x)	3.87	4.14	3.65	3.04	2.39	3.50	2.85	2.40	1.09	0.90	0.74
Equity FCF yield (%)	-3.75	7.83	5.53	2.99	13.5	4.42	2.86	6.34	3.72	5.35	9.04
Normalised PE (x)	1578.3	53.0	18.3	10.3	7.59	21.1	16.6	13.9	5.42	4.44	3.55
Norm PE @tgt price (x)	2762.3	92.8	32.1	18.0	13.3	26.4	20.7	17.4	9.80	8.03	6.42
Dividend yield (%)	0.00	0.00	0.68	1.02	1.02	1.41	1.58	1.88	3.32	3.62	4.22
					year to Dec			*year to Mar*			*year to Dec*

Per share data	**FY05A**	**FY06A**	**FY07F**	**FY08F**	**FY09F**
Tot adj dil sh, ave (m)	25.3	25.3	25.3	25.3	25.3
Reported EPS (INR)	-19.3	-1.64	6.87	11.0	16.1
Normalised EPS (INR)	0.09	2.78	8.06	14.4	19.5
Dividend per share (INR)	0.00	0.00	1.00	1.50	1.50
Equity FCF per share (INR)	-5.54	11.6	8.17	4.41	19.9
Book value per sh (INR)	38.2	35.7	40.4	48.6	61.8
					year to Dec

Solvency	**FY05A**	**FY06A**	**FY07F**	**FY08F**	**FY09F**
Net debt to equity (%)	401.2	403.2	358.7	311.0	225.9
Net debt to tot ass (%)	65.8	59.3	55.1	52.2	45.7
Net debt to EBITDA	5.55	6.37	3.65	3.11	2.49
Current ratio (x)	2.32	1.50	1.36	1.36	1.37
Operating CF int cov (x)	1.62	5.07	5.29	5.21	5.89
Dividend cover (x)	0.00	0.00	7.06	8.38	11.4
					year to Dec

Priced as follows: FEDM.BO - Rs147.70; BFRG.BO - Rs265.60; 023800.KS - W6630.00
Source: Company data, ABN AMRO forecasts

FEDERAL-MOGUL GOETZE INDIA: VALUATION METHODOLOGY

Table 5 : Peer valuation comparison

			2007F/FY08F			2008F/FY09F			
Company	**Bloomberg code**	**Price (Rs)**	**EPS (Rs)**	**PE (x)**	**EV/ EBITDA (x)**	**EPS (Rs)**	**PE (x)**	**EV/ EBITDA (x)**	**3yr EPS CAGR (%)**
Bharat Forge*	BHFC IN	266.4	12.6	21.1	10.2	16.0	16.7	8.2	8.5
MICO	MICO IN	4170.0	189.0	22.1	12.7	254.0	16.4	10.1	21.5
Federal Mogul Goetze India	**FMGI IN**	**148.0**	**8.06**	**18.4**	**7.4**	**14.4**	**10.3**	**6.2**	**127.1**
Sona Koyo	SONA IN	48.0	3.5	13.6	9.0	4.51	10.6	6.2	24.7
RICO Auto *	RAI IN	38.0	3.9	9.9	3.7	4.7	8.1	3.3	21.2

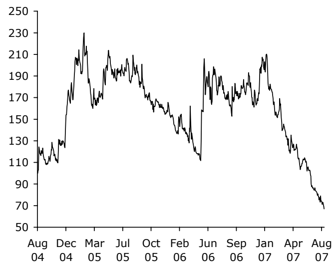
** Consolidated entity*
Prices as of close of 15 August 2007
December year-end for MICO and Federal Mogul Goetze; March year-end for the rest
Source: ABN AMRO estimates for Federal Mogul Goetze and Bharat Forge (Buy) and Bloomberg for the rest

Federal-Mogul Goetze India

Company description — Buy

Goetze (India), Federal Mogul's 50% Indian subsidiary, is a leader in piston assemblies, with nearly 40% market share in terms of volume. Technology support from its parent extending superiority over domestic players helped it easily beat the domestic players and improve its market share on emission norm upgrades occurring in the country. The high value addition at its manufacturing facility coupled with technological superiority leads to better-than-components-industry average EBITDA margins. With its parent's increased stake, which is under pressure to outsource so as to come out of Chapter 11, FMGI appears well positioned to jump-start its exports in the coming years.

Price relative to country



Strategic analysis — Average SWOT company score: 4

Strengths — 5
Fully integrated manufacturing process (foundry to machining) helps Goetze capture entire value addition and maintain high-quality standards. Support from parent FM's patented technologies makes it an untouchable in the Indian piston-assembly market.

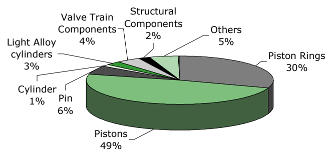
Weaknesses — 2
High power and interest costs eat into FMGI's profitability. A high D:E ratio of 4:1 and a need to fund its export potential demand financial discipline and capital infusion.

Opportunities — 5
The dieselisation of the passenger car industry and an outsourcing opportunity in terms of products and design to parent FM offers substantial sales build-up opportunities.

Threats — 2
High exposure to replacement markets (35%), which may continue to experience a flat trend as technological improvements lead to significant extensions in the replacement cycle.

Scoring range is 1-5 (high score is good)

Revenue stream, FY06



Source: Company data

Market data

Headquarters
A-26/3 Mohan Co-op Industrial Estate, New Delhi 110 044, India

Website
www.goetzeindia.net

Shares in issue
25.3m

Freefloat
50%

Majority shareholders
Federal Mogul Gmbh (50%), Reliance MF (10%), LIC (4%)

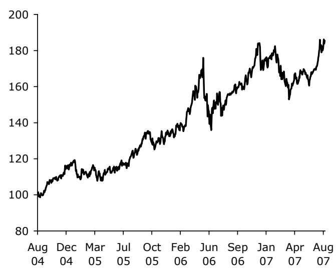
India

Country view — Neutral

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific



Competitive position — Average competitive score: 3+

Supplier power — 2-
High supplier power as aluminium and steel are sourced on spot prices. However, Goetze passes cost increases with a time lag to its customers.

Barriers to entry — 4+
High technological barriers to entry as the manufacturing process involves metal mixing at appropriate levels in a foundry and high-precision machining.

Customer power — 4+
Very low customer power, especially during emissions upgrades as Goetze gets a technological advantage. But customers demand price cuts as volumes ramp up and competition catches up.

Substitute products — 3+
Vehicle technology shift towards hybrid and electric vehicles may be a long-term threat for piston-assembly products.

Rivalry — 4-
Near monopoly in diesel applications. Oligopoly in petrol applications. Being a high technology entry barrier limits rivalry.

Scoring range 1-5 (high score is good)   Plus = getting better   Minus = getting worse

Broker recommendations

No broker coverage