

Amtek Auto Ltd

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Below expected results

AAL's Q3FY08 results have been below our estimates (cons PAT up 14% at Rs 1.24bn). Disappointment on topline front was greater as the company is still to ramp up the production at the new domestic capacities Ranjangaon and Sanaswadi. Also, the margins are under pressure due to higher input cost, revision for which is pending. More important, larger subsidiary like AFL has failed to deliver, with a drop in topline for the quarter (PAT down 23% YoY). The profits have been supported by higher other income, which may not be sustainable. Addition of the recently acquired Triplex Ketlon financials has failed to upgrade our bottomline estimates, mainly due to cut in the estimates of standalone AAL and AFL. Equity dilution undertaken during the quarter through preferential placement to promoters was unexpected, mandating a downward revision of our price target. After a +30% correction since the start of CY08 to Rs 293, we believe the stock has turned deeply attractive. Maintain Buy with revised target price of Rs 450 (14x FY09E EPS), reflecting the impact of fresh equity dilution.

Result Highlights

- AAL's Q3FY08 revenue growth has been driven by consolidation of Triplex Ketlon group (annual est. revenue of Rs 6bn). Cons topline for the quarter grew 22.6% YoY and 12.7% QoQ at Rs 13.5bn, which in our view would have grown by <12% if adjusted for Triplex contribution.
- In absence of any price revision from clients, AAL's Q3FY08 EBIDTA margin slipped 100bps YoY to 19%, while EBIDTA grew 16.8% YoY at Rs 2.57bn. Standalone operating margin fell 250bps YoY at 26.2%, leading to 3.7% YoY drop in operating profit at Rs 871mn.
- Impacted by lower EBIDTA margin and higher depreciation and interest cost, AAL's cons net profit (post MI) grew 14% YoY at Rs 1.24bn. Standalone PAT for the quarter dipped 8.7% YoY at Rs 596mn, well below expectations.

Risks

- Sustained inflationary trend in metal prices could further impact margins.
- Further equity dilution will adversely impact our EPS forecasts and thus our price target as well.

Valuations and Rating

- After correcting by +30% since the start of CY08 to Rs 293, AAL trades at 11.7x and 9.1x PER and 4.6x and 3.6x EV/EBIDTA on cons FY08E and FY09E, respectively. Maintain Buy, but with a revised price target of Rs 450 (14x FY09E EPS). Revision in our price target primarily reflects the fresh equity dilution by the company.

Maintain Buy / Rs 293
Target Rs 450 (+54%)

Sector (Relative to market)

OW	N	UW

Stock (Relative to market)

B	OP	N	UP	S
> 10%	5% to 10%	5% to -5%	-5% to -10%	< -10%

This note should be read for

- Q3FY08 Update
- Revision in estimates and target

Bloomberg code : AMTK IN
Reuters code : AMTK.BO
www.amtek.com

BSE Sensex : 17287
NSE Nifty : 5166

Company data

O/S shares :	141mn
Market cap (Rs) :	41bn
Market cap (USD) :	1bn
52 - wk Hi/Lo (Rs) :	526 / 228
Avg. daily vol. (3mth) :	235,982
Face Value (Rs) :	2

Share holding pattern, %

Promoters :	30.9
FII / NRI :	50.3
FI / MF :	12.2
Non Promoter Corp. Holdings :	2.9
Public & Others :	3.6

Price performance, %

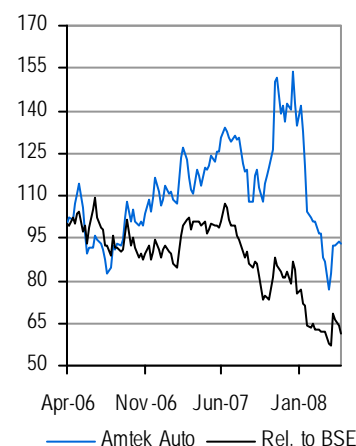
	1mth	3mth	1yr
Abs	11.6	-12.0	-23.9
Rel to BSE	7.6	-5.7	-46.2

Valuation summary

Y/E Jun, Rs mn	FY2005	FY2006	FY2007	FY2008E	FY2009E
Net Operating Income	16,605	26,451	37,206	45,768	56,056
Growth, %	109.1	59.3	40.7	23.0	22.5
Core EBIDTA	3,001	5,105	8,059	9,548	12,124
EBIDTA margins, %	18.1	19.3	21.7	20.9	21.6
Net profit	1,476	2,565	4,085	4,605	5,917
FD EPS, Rs	14.4	21.0	31.4	25.0	32.1
EPS Growth, %	62.7	45.6	49.1	(20.2)	28.5
PER, x	20.3	13.9	9.3	11.7	9.1
EV/EBIDTA, x	13.4	11.2	6.9	4.6	3.6
EV/Net Sales, x	2.4	2.2	1.5	1.0	0.8
Price/Book Value, x	3.5	2.0	1.6	1.1	1.0
ROIC, %	19.2	17.0	15.6	13.3	14.6
ROE, %	25.6	19.6	19.9	12.7	11.4
Dividend Yield, %	0.5	0.7	0.8	1.0	1.0

Source: Company, MF Global India Research Estimates

Price vs. Sensex



Source: Bloomberg, MF Global India Research

Standalone: Q3FY08 Results

Year End: June	Q3FY08	Q3FY07	Q2FY08	9mFY08	9mFY07
Net sales	3,326	3,146	3,199	9,642	8,221
<i>Growth, %</i>	5.7	36.0	18.0	17.3	25.4
Operating Expenses	2,455	2,242	2,316	7,040	5,776
EBITDA	871	905	883	2,602	2,445
<i>Growth, %</i>	(3.7)	23.2	8.6	6.4	21.2
<i>Margin, %</i>	26.2	28.8	27.6	27.0	29.7
Depreciation	232	163	226	684	428
EBIT	639	742	658	1,918	2,017
<i>Growth, %</i>	(13.9)	22.9	(3.4)	(4.9)	23.5
<i>Margin, %</i>	19.2	23.6	20.6	19.9	24.5
Interest	67	60	79	223	166
Non-recurring items	237	203	297	853	532
Pre-tax profit	809	885	877	2,549	2,383
Tax provided	212	232	230	668	635
MF Net Profit	597	653	647	1,881	1,748
Reported PAT	597	653	647	1,881	1,748
<i>Growth, %</i>	(8.7)	47.8	10.2	7.6	47.3
Adj EPS, Rs	3.2	5.0	5.0	10.2	13.4

Consolidated: Q3FY08 Results

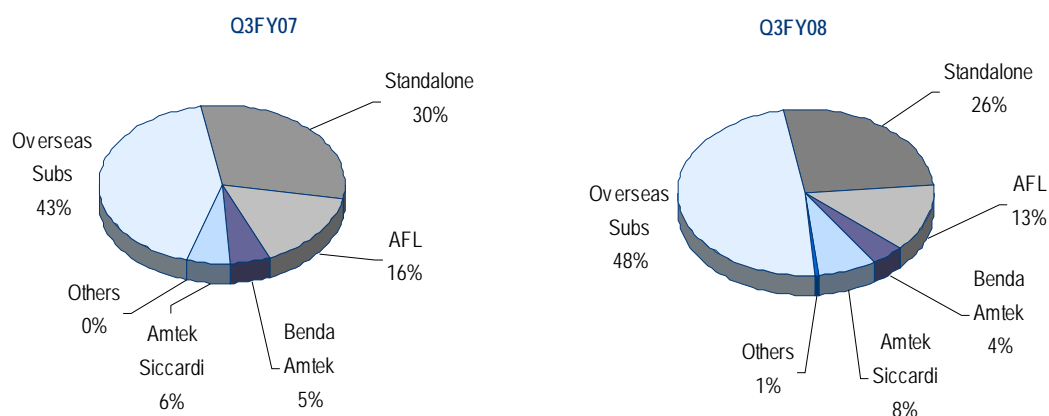
Year End: June	Q3FY08	Q3FY07	Q2FY08	9mFY08	9mFY07
Net sales	13,500	11,008	11,983	36,848	29,881
<i>Growth, %</i>	22.6	47.4	21.7	23.3	45.4
Total income	13,500	11,008	11,983	36,848	29,881
Operating Expenses	10,933	8,812	9,601	29,637	23,977
EBITDA	2,567	2,197	2,382	7,211	5,904
<i>Growth, %</i>	16.8	58.1	21.8	22.1	56.3
<i>Margin, %</i>	19.0	20.0	19.9	19.6	19.8
Depreciation	534	368	509	1,503	1,036
EBIT	2,033	1,829	1,873	5,709	4,868
<i>Growth, %</i>	11.1	64.4	15.9	17.3	63.3
<i>Margin, %</i>	15.1	16.6	15.6	15.5	16.3
Interest	283	211	257	767	581
Pre-tax profit	1,750	1,618	1,616	4,942	4,287
Tax provided	405	409	430	1,247	1,045
Profit after tax	1,345	1,209	1,187	3,695	3,242
Minority Interest	108	125	121	330	315
MF Net Profit	1,237	1,085	1,066	3,364	2,928
<i>Growth, %</i>	14.1	55.4	9.7	14.9	56.8
Adj. EPS, Rs	9.5	8.9	8.2	25.8	22.5

Source: Company, MF Global India Research

Triplex acquisition augment topline growth

Q3FY08 revenue growth of AAL has been driven by consolidation of the recently acquired Triplex Ketlon group financials (annual sales est. at Rs 6bn). Cons topline for the quarter grew 22.6% YoY and 12.7% QoQ at Rs 13.5bn, which in our view would have grown by <12% if adjusted for the Triplex contribution. Standalone numbers disappointed with revenue growing by just 6% at Rs 3.56bn (below expectation), while Ahmednagar Forgings saw its topline falling 0.4% YoY at Rs 1.75bn - both together constituting ~40% of cons topline. Standalone revenue has been impacted by subdued domestic demand and delay in production ramp up at Sanaswadi and Ranjangaon facilities.

Consol. Revenue Break-up



Source: Company, MF Global India Research

Margins hit by commodity inflation, but higher OI helps

In absence of any price revision from clients, AAL's Q3FY08 margin took a beating. Reported Q3FY08 EBIDTA margin slipped 100bps YoY and 90bps QoQ to 19%, while EBIDTA grew 16.8% YoY at Rs 2.57bn. Standalone operating margin for the quarter was down 250bps YoY (-140bps QoQ) at 26.2%, leading to 3.7% YoY drop in operating profit at Rs 871mn.

The cons EBIDTA growth, however, was supported by higher other income, which stood at Rs 560mn for the quarter. As a result, when adjusted to the one time gain from AAL and AIL share sale by Amtek Siccardi, the cons EBIDTA margin stands at <18% and EBIDTA growth at <10%.

PAT up 14%, but to improve going forward

Impacted by lower EBIDTA growth and higher depreciation and interest cost, AAL's cons net profit (post MI) grew by 14.1% YoY at Rs 1.24bn. While the standalone PAT for Q3FY08 dipped 8.7% YoY at Rs 596mn (much below expectations), AFL reported a PAT decline of +23% YoY at Rs 157mn. Management expects to see an improvement in margins as it wins price revision and the new capacities like Sanaswadi and Ranjangaon start witnessing production ramp up.

Ahmednagar Forgings results much below expectations

Ahmednagar Forgings (AFL), one of the largest companies within the Amtek group delivered Q3FY08 results—far below expectations. While the net revenues have been marginally down at Rs 1.75bn, EBIDTA margin slipped sharply (-240bps YoY, -170bps QoQ) taking EBIDTA down by 11.5% at Rs 325mn. De-growth in net profit was deeper (-23.5% at Rs 157mn) due to higher depreciation and interest outgo.

Rs Mn	Q3FY08	Q3FY07	% ch yoy	9mFY08	9mFY07	% ch yoy
Inc from Operations	1,746	1,752	-0.30%	4,929	4,496	9.60%
EBIDTA	325	368	-11.50%	973	919	5.90%
EBIDTA Margin	18.60%	21.00%	-236 bps	19.7%	20.4%	-71 bps
PBT	228	298	-23.5%	726	750	-3.1%
Tax	71	93	-23.5%	224	234	-4.3%
Tax/PBT, %	31.1%	31.1%		30.9%	31.2%	
PAT	157	206	-23.5%	502	516	-2.6%

Source: Company, MF Global India Research

We cut estimates on new equity issue, revenue/margin pressure

AAL's Q3FY08 results are below our expectations, when adjusted to new revenue additions and one time capital gain. While we add the revenues from Triplex Ketlon to our estimates for FY08E and FY09E, the same does not make a significant difference to our estimates because of cut in revenue projections of standalone business. At the same time, we also take into account the margin pressure arising from inflationary commodity prices.

During the quarter, AAL has made preferential allotment of shares and warrants to the promoters (@ Rs 460/share, aggregating to Rs 10.12bn), which leads to equity dilution of 16% on current equity capital. We, thus cut our FY08E and FY09E fully diluted EPS by 12.5% and 9.5% to Rs 25.0 and Rs 32.1 respectively.

Maintain BUY, but reduce price target to Rs 450

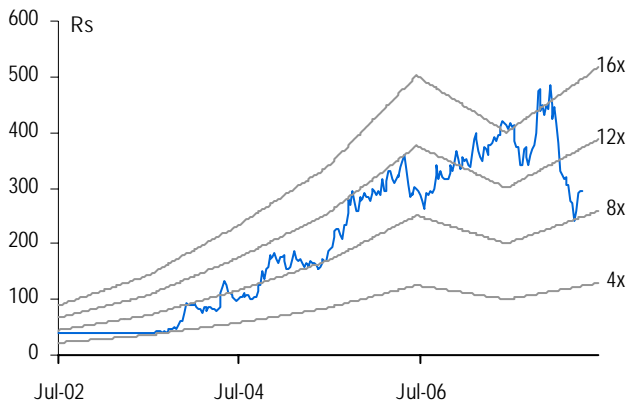
After correcting by +30% since the start of CY08 to Rs 293, AAL trades at 11.7x and 9.1x PER and 4.6x and 3.6x EV/EBIDTA on FY08E and FY09E, respectively. At these levels, we believe the stock has turned deeply attractive and is scalable from the current levels, with limited downside risk. Maintain Buy with revised target price of Rs 450 (14x FY09E EPS). Revision in our price target primarily reflects the further equity dilution effected by the company.

Risks

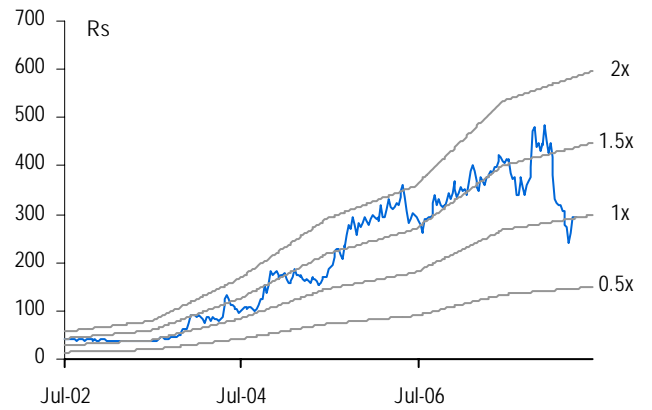
- AAL is vulnerable to forex fluctuations, though there is a natural hedge for its exports in the form of foreign exchange loans (FCCBs)
- Metal prices have started hurting margins. Sustained inflationary trend could further impact margins.
- As always feared the company has gone for equity dilution during Q3FY08. Any further dilution in equity would continue to adversely impact our EPS forecasts and thus our price target as well. It may also lead to negative investor sentiment towards the stock.

ABSOLUTE ROLLING VALUATION BAND CHARTS

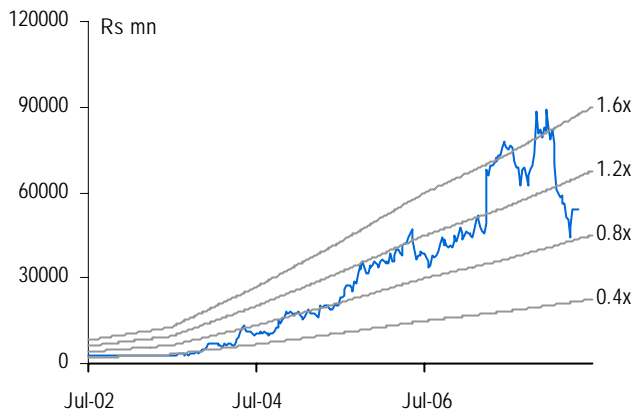
PE band



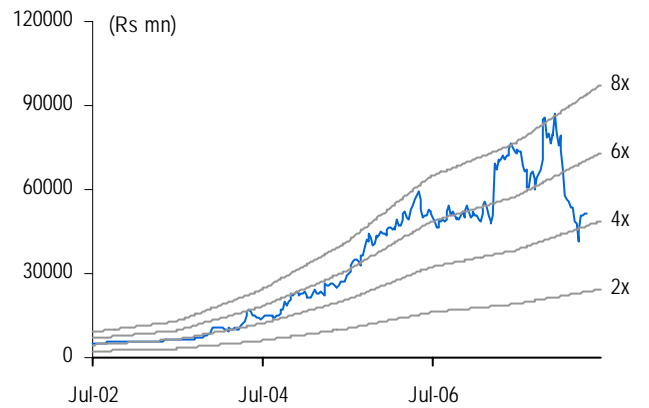
PBV band



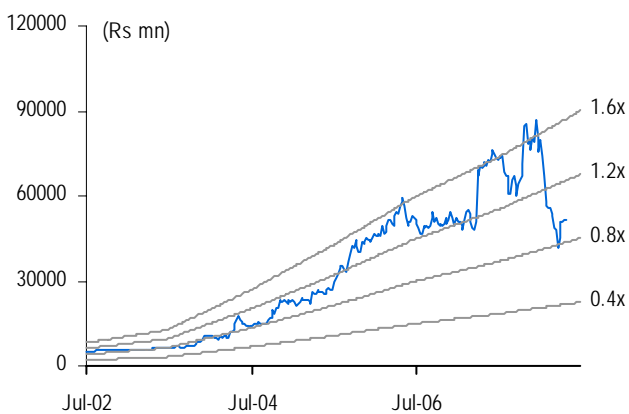
MCap/Sales band



EV/EBIDTA band



EV/Sales band



Source: MF Global India Research

FINANCIALS

Income Statement

Y/E Jun, Rs mn	FY2005	FY2006	FY2007	FY2008E	FY2009E
Net sales	16,605	26,451	37,206	45,768	56,056
<i>Growth, %</i>	109	59	41	23	22
Total income	16,605	26,451	37,206	45,768	56,056
Operating Expenses	13,605	21,345	29,147	36,219	43,932
EBITDA	3,001	5,105	8,059	9,548	12,124
<i>Growth, %</i>	88	70	58	18	27
<i>Margin, %</i>	18.1	19.3	21.7	20.9	21.6
Depreciation	674	1,068	1,468	2,017	2,347
EBIT	2,326	4,037	6,592	7,531	9,778
<i>Growth, %</i>	99	74	63	14	30
<i>Margin, %</i>	14.0	15.3	17.7	16.5	17.4
Net Interest	291	491	834	1,035	1,129
Pre-tax profit	2,035	3,546	5,758	6,496	8,649
Tax provided	441	780	1,477	1,657	2,422
Profit after tax	1,594	2,767	4,280	4,840	6,227
Reported PAT	1,594	2,767	4,280	4,840	6,227
Minority Interest	118	202	195	235	310
MF net profit	1,476	2,565	4,085	4,605	5,917
<i>Growth, %</i>	110	74	59	13	28
Unadj. shares (m)	101	122	130	184	184
Wtd avg shares (m)	101	122	130	184	184

Cash Flow

Y/E Mar, Rs mn	FY2005	FY2006	FY2007	FY2008E	FY2009E
Pre-tax profit	2,035	3,546	5,758	6,496	8,649
Depreciation	674	1,068	1,468	2,017	2,347
Chg in working capital	-2,258	-3,241	-378	-2,570	-2,685
Total tax paid	-441	-780	-1,477	-1,657	-2,422
Other operating activities	-58	248	0	0	0
Cash flow from operating activities (a)	-47	842	5,370	4,287	5,889
Capital expenditure & Goodwill	-4,200	-8,343	-13,787	-7,750	-2,750
Chg in investments	-136	-365	159	-2,000	-1,500
Chg in marketable securities	0	-41	0	0	0
Other investing activities	-73	260	0	0	0
Cash flow from investing activities (b)	-4,411	-8,488	-13,629	-9,750	-4,250
Free cash flow (a+b)	-4,458	-7,646	-8,259	-5,463	1,639
Proceeds from Equity raised	3,778	4,461	1,751	21,599	0
Change in Minority Interest	147	430	367	0	0
Debt raised/(repaid)	7,145	11,133	-3,493	-11,479	0
Dividend (incl. tax)	-186	-280	-355	-584	-626
Other financing activities	-27	231	-389	0	0
Cash flow from financing activities (c)	10,857	15,974	-2,118	9,536	-626
Net chg in cash (a+b+c)	6,399	8,328	-10,377	4,072	1,013

Balance Sheet

Y/E Jun, Rs mn	FY2005	FY2006	FY2007	FY2008E	FY2009E
Cash & bank	6,572	14,901	4,571	8,596	9,608
Marketable securities at cost	101	142	143	143	143
Debtors	2,699	4,820	4,931	6,646	8,600
Inventory	2,122	4,315	5,226	6,897	8,447
Loans & advances	1,204	4,150	4,227	4,727	5,002
Total current assets	12,699	28,329	19,098	27,008	31,800
Investments	152	517	359	2,359	3,859
Gross fixed assets	9,960	20,304	31,105	43,307	46,557
Less: Depreciation	3,007	5,853	7,248	9,265	11,611
Add: Capital WIP	2,431	2,898	5,703	1,250	750
Net fixed assets	9,383	17,349	29,560	35,293	35,696
Total assets	22,234	46,195	49,017	64,659	71,355
Current liabilities	9,468	21,507	17,933	7,619	8,614
Provisions	314	807	1,633	1,783	1,883
Total current liabilities	9,782	22,314	19,566	9,402	10,497
Non-current liabilities	4,066	6,154	6,116	6,116	6,116
Total liabilities	13,848	28,468	25,682	15,518	16,613
Paid-up capital	202	244	261	368	368
Reserves & surplus	7,784	15,962	21,295	47,042	52,642
Shareholders' equity	7,986	16,206	21,555	47,410	53,011
Minorities	400	1,521	1,779	1,779	1,779
Total equity & liabilities	22,234	46,195	49,016	64,707	71,403

Per-share data

	FY2005	FY2006	FY2007	FY2008E	FY2009E
Man EPS (INR)	14.4	21.0	31.4	25.0	32.1
Growth (%)	62.7	45.6	49.1	(20.2)	28.5
Book NAV/share (INR)	82.9	145.4	179.1	267.2	297.6
FDEPS (INR)	14.4	21.0	31.4	25.0	32.1
CEPS (INR)	21.1	29.8	42.6	36.0	44.9
CFPS (INR)	-0.4	0.7	41.2	23.3	32.0
DPS (INR)	1.5	2.0	2.4	2.8	3.0

Financial structure

	FY2005	FY2006	FY2007	FY2008E	FY2009E
Operating cash flow/Total debt (x)	0.6	0.4	0.1	(1.1)	0.9
Total debt/Equity (x)	1.3	1.2	0.8	0.1	0.1
Net debt/Equity (x)	0.5	0.4	0.6	(0.0)	(0.1)

Profitability, Productivity, Liquidity and Valuation Ratios

	FY2005	FY2006	FY2007	FY2008E	FY2009E
Return on assets (%)	10.9	9.0	10.1	9.7	10.2
Return on equity (%)	25.6	19.6	19.9	12.7	11.4
Return on Invested capital (%)	19.2	17.0	15.6	13.3	14.6
RoIC/Cost of capital (x)	2.0	1.7	1.5	1.2	1.4
RoIC - Cost of capital (%)	9.4	7.1	5.3	2.6	3.9
Return on CE (%)	18.0	16.5	17.3	12.5	11.6
Cost of capital (%)	9.8	9.9	10.3	10.7	10.7
RoCE - Cost of capital (%)	8.2	6.5	7.0	1.8	0.9
Asset turnover (x)	1.8	1.4	1.2	1.1	1.2
Sales/Total assets (x)	1.0	0.8	0.8	0.8	0.8
Sales/Net FA (x)	2.2	2.0	1.6	1.4	1.6
Working capital/Sales (x)	-0.2	-0.3	-0.1	0.2	0.2
Fixed capital/Sales (x)	0.1	0.1	0.0	0.0	0.0
Receivable days	59	67	48	53	56
Inventory days	47	60	51	55	55
Payable days	47	68	39	40	40
Current ratio (x)	1.3	1.3	1.1	3.5	3.7
Quick ratio (x)	1.1	1.1	0.8	2.6	2.7
Interest cover (x)	8.0	8.2	7.9	7.3	8.7
Dividend cover (x)	9.9	10.5	13.1	8.9	10.7
PER (x)	20.3	13.9	9.3	11.7	9.1
PCE (x)	13.9	9.8	6.9	8.1	6.5
PCF (x)	n/a	412.4	7.1	12.6	9.1
Price/Book (x)	3.5	2.0	1.6	1.1	1.0
Yield (%)	0.5	0.7	0.8	1.0	1.0
EV/Net sales (x)	2.4	2.2	1.5	1.0	0.8
EV/EBITDA (x)	13.4	11.2	6.9	4.6	3.6
EV/EBIT (x)	17.2	14.2	8.4	5.8	4.5
EV/NOPLAT (x)	22.0	18.2	11.3	7.8	6.3
EV/CE	3.1	2.3	1.8	0.8	0.7
EV/IC (x)	4.2	3.1	1.8	1.0	0.9

Source: Company, MF Global India Research Estimates

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