

RESULT UPDATE

Dynamatic Technologies

Maintain BUY

Price: Rs. 1,350

BSE Index: 13934

7th May 2007

Share Data

Reuters code	DYNM.BO		
Bloomberg code	DYTC IN		
Market cap. (US\$ mn)	134.9		
6m avg. daily turnover (US\$ mn)	0.2		
Issued Shares (mn)	4.2		

Performance (%) 1m 3m 12m

Absolute	12.9	(1.8)	(23.2)
Relative	1.3	0.4	(32.8)

Valuation Ratios

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	44.3	59.8
+/- (%)	7.2	34.9
PER (x)	30.5	22.6
Dividend/Yield (%)	0.3	0.3
EV/Sales (x)	2.1	1.7
EV/EBITDA (x)	12.9	9.7

Major shareholders (%)

Promoters	57.1
FIs/MFs	0.2
FIIIs	10.4
Public & Others	32.3

Financial highlights

(Rs. mn)	4QFY06	4QFY07	YoY (%)	FY06	FY07	YoY (%)	FY08E	YoY (%)	FY09E	YoY (%)
Net Sales	557	656	17.8	1970	2402	21.9	3028	26.1	3818	26.1
EBITDA	111	116	4.2	341	378	11.0	502	32.8	665	32.5
EBITDA Margin (%)	20.0	17.7	-	17.2	15.7	-	16.5	-	17.4	-
Other Income	1	13	802.0	33	48	45.4	45	(22.4)	41	(8.9)
Interest	15	19	27.5	62	70	14.1	83	18.6	105	26.5
Depreciation	18	22	23.8	89	99	12.2	127	28.3	149	17.3
PBT	80	329	10.1	223	257	27.6	337	31.1	451	33.8
Extraordinary income	0	(17)	-	(2)	(17)	328	-	-	-	-
Tax	29	24	(17.6)	82	84	1.7	111	32.1	149	34.2
Net Profit	47	47	0.2	139	156	12.2	226	44.9	302	33.6
Adjusted Net Profit	47	64	36.7	123	173*	41.2	186	7.2	251	34.9
Adj. PAT margin (%)	8.4	9.7	-	6.2	7.2	-	6.1	-	6.6	-
Adjusted EPS (Rs.)	11.1	15.2	-	29.3	41.4	41.3	44.3	7.3	59.8	35
P/E (x)	-	-	-	46.1	32.6	-	30.5	-	22.6	-

* Subject to change after disclosure of minority interest.

4QFY07 Results

Dynamatic Technologies posted strong numbers in line with our expectations, the revenues at Rs. 656 mn for 4QFY07, registering a growth of 17.8% y-o-y purely on account of volumes. The EBITDA for 4QFY07 stood at Rs. 116 mn. The company witnessed increased contribution from certain high value businesses, thus showing an improvement on the margin front sequentially, which stood at 17.7% in 4QFY07. On a yearly basis, the margins have gone down as expected from 17.2% to 15.7% mainly on account of rise in raw material prices, which have not been matched by an increase in price realisation from customers.

Highlights

- The revenues for 4QFY07 stood at Rs. 656 mn, the overall growth in line with our expectations. The Hydraulics division posted a considerable growth of 22% y-o-y on account of additional engineering services provided through its CAD/CAM and training division (Powermetric). The total revenues for FY07 stood at Rs. 2,402 mn registering a growth of 21%, the revenue mix remaining the same with Hydraulic, Aluminium castings and Automobile components contributing 35%, 12% and 64% of the revenues, respectively.
- The EBITDA for 4QFY07 stood at Rs. 116 mn, the margin at 17.7% improving by 100 bps over previous quarter 3QFY07. On a segmental basis, the margin has increased considerably for the Automobile components division on account of high value business of compressor housings for the turbochargers of Honeywell Garret. As of 4QFY07, the margins for Automobile components segment stood at 16% as against 13% in 3QFY07. For FY07, the margins declined from 17.2% to 15.7% mainly on account of increasing raw material cost. The EBITDA for the year FY07 stood at Rs. 378 mn as against Rs. 341 mn for FY06.

- The PAT of Rs. 47 mn in 4QFY07 includes a one-time payment of Rs. 17 mn made for non-compete agreement signed between JKM Daerim Automotive Ltd. and Dae Rim Enterprises Company Ltd. The profit margin (excluding the extraordinary item) has increased to 9.7% in 4QFY07 both sequentially and on a yearly basis mainly on account of reduction in tax rate and increase in other income. The profit stood at Rs. 156 mn for FY07 posting a growth of 12.2%, as against Rs. 139 mn in FY06.

Segmental performance

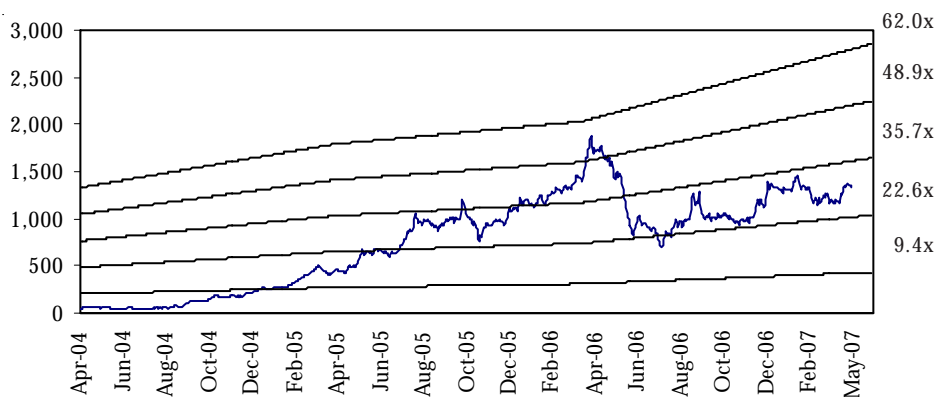
(Rs. mn)	4QFY06	4QFY07	YoY (%)	FY06	FY07	YoY (%)
Revenue						
Hydraulic & Precision Engg	209	254	21.5	729	852	16.8
Aluminium Castings	63	79	23.9	243	293	20.6
Automobile Components	343	413	20.5	1,279	1,584	23.8
Total	616	746	-	2,256	2,733	-
Inter Segment revenue	58	70	-	239	273	-
Net Sales & Other Income	558	676	-	2,017	2,460	-
EBITDA						
Hydraulic & Precision Engg	37	53	43.7	138	175	27.1
Aluminium Castings	17	13	(26.4)	50	44	(10.6)
Automobile Components	60	65	8.5	187	208	11.3
Total	113	129	-	374	426	-
EBITDA (%)						
Hydraulic & Precision Engg	17.5	20.7	-	18.9	20.6	-
Aluminium Castings	27.2	16.2	-	20.4	15.1	-
Automobile Components	17.4	15.6	-	14.6	13.2	-
PBIT						
Hydraulic & Precision Engg	30	45	49.5	110	145	32.4
Aluminium Castings	14	9	(33.4)	40	32	(18.1)
Automobile Components	52	54	4.0	133	152	13.8
Total	95	108	-	281	327	-
Less: Interest	15	19	27.5	62	70	13.5
PBT	80	88	-	220	257	-
PBIT (%)						
Hydraulic & Precision Engg	14.4	17.7	-	15.1	17.1	-
Aluminium Castings	21.5	11.6	-	16.3	11.1	-
Automobile Components	15.3	13.2	-	10.4	9.6	-

Outlook

The company posted numbers in line with our expectations, and continues to maintain a healthy product mix, with new high value businesses adding positively to the revenues and margins. The increased contribution from the engineering services and compressor housings will continue to reflect optimistically on the margins. The pressure of escalating raw materials prices, would however limit the margins and stabilize it at 16.5% and 17.4% for FY08E and FY09E, respectively.

The company is poised well to gain from its aerospace division, the new facility in Bangalore to take shape in the coming quarters thus enabling it to undertake huge orders. Going forward, the company expects to clock revenue of Rs. 100 mn from this division in FY08. The company is also looking at an acquisition in the European market, which will add significantly to the hydraulic division.

PER Band



Valuations

On the back of sustained growth in all the segments, the company is expected to post a CAGR of 24% on the topline and a CAGR of 29% on the bottomline for the three year period ending FY09. In spite of addition of value-added businesses, the margins would stabilise at 16.5% and 17.4% for FY08E and FY09E, respectively, on account of surge in raw material costs.

At the current market price of Rs. 1,350, the stock is trading at 30x FY08E and 22x FY09E.

Income Statement

Yr. ended 31 Mar. (Rs. m)	FY06	FY07	FY08E	FY09E
Net sales	1,970	2,402	3,028	3,818
Growth (%)	29.3	21.9	26.1	26.1
Operating expenses	(1,643)	(2,034)	(2,541)	(3,167)
Operating profit	327	368	487	650
Other operating income	14	11	15	15
EBITDA	341	378	502	665
Growth (%)	29.2	11.0	32.8	32.5
Depreciation	(89)	(99)	(127)	(149)
Other income	33	48	45	41
EBIT	285	327	420	557
Interest paid	(62)	(70)	(83)	(105)
Pre-tax profit (before non-recurring items)	223	257	337	451
Non-recurring items	(2)	(17)	0	0
Pre-tax profit (after non-recurring items)	221	240	337	451
Tax (current + deferred)	(82)	(84)	(111)	(149)
Net profit	139	156	226	302
Adjusted net profit	123	173	186	251
Growth (%)	36.7	41.2	7.2	34.9
Prior period adjustments	(2)		0	0
Minority interests	(18)	0	(40)	(52)
Net income	119	156	186	251

Balance Sheet

Yr. ended 31 Mar. (Rs. m)	FY06	FY07	FY08E	FY09E
Current assets	820	1,048	1,333	1,741
Net fixed assets	840	897	1,246	1,390
Total assets	1,660	1,946	2,579	3,131
Current liabilities	553	651	776	941
Total debt	626	695	996	1,098
Other non-current liabilities	86	90	90	92
Total liabilities	1,265	1,436	1,863	2,131
Share capital	42	42	42	42
Reserves & surplus	300	416	592	844
Shareholders' funds	342	458	634	886
Minorities interests	52	51	83	115
Total equity & liabilities	1,660	1,946	2,579	3,131
Capital employed	1,106	1,294	1,803	2,191

Cash Flow Statement

Yr. ended 31 Mar. (Rs. m)	FY06	FY07	FY08E	FY09E
Pre-tax profit	221	240	337	451
Depreciation	86	101	127	149
Chg in working capital	(1)	(66)	(78)	(116)
Total tax paid	(69)	(95)	(111)	(147)
Other operating activities	(4)	0	0	0
Cash flow from oper. (a)	234	181	275	338
Capital expenditure	(187)	(159)	(476)	(293)
Chg in investments	0	(0)	0	0
Cash flow from inv. (b)	(186)	(159)	(476)	(293)
Free cash flow (a+b)	47	22	(201)	45
Equity raised/(repaid)	5	0	0	0
Chg in minorities	(6)	(1)	(8)	(20)
Debt raised/(repaid)	(24)	69	301	102
Dividend (incl. tax)	(11)	9	(19)	(19)
Other financing activities	(7)	(4)	7	16
Cash flow from fin. (c)	(44)	74	281	79
Net chg in cash (a+b+c)	3	96	81	124

Key Ratios

Yr. ended 31 Mar. (%)	FY06	FY07	FY08E	FY09E
EPS (Rs.)	29.3	41.4	44.3	59.8
EPS growth	36.7	41.2	7.2	34.9
EBITDA margin	17.2	15.7	16.5	17.4
EBIT margin	14.4	13.6	13.8	14.5
ROCE	26.8	27.3	27.1	27.9
Net debt/Equity	150.3	118.3	114.6	79.5

Valuations

Yr. ended 31 Mar. (x)	FY06	FY07	FY08E	FY09E
PER	46.1	32.6	30.5	22.6
PCE	26.8	20.8	18.1	14.1
Price/Book	15.1	11.5	8.1	5.8
Yield (%)	0.2	0.0	0.3	0.3
EV/Net sales	3.2	2.6	2.1	1.7
EV/EBITDA	18.4	16.6	12.9	9.7

Du Pont Analysis – ROE

Yr. ended 31 Mar. (x)	FY06	FY07	FY08E	FY09E
Net margin (%)	6.2	7.2	6.1	6.6
Asset turnover	1.3	1.3	1.3	1.3
Leverage factor	4.5	4.0	3.7	3.3
Return on equity (%)	36.2	38.4	30.3	29.2

Radhika Merwin
radhika.merwin@bksec.com
Tel.: No. 91-44-2846 6918

K. Ravi
k.ravi@bksec.com
Tel.: No. 91-44-2846 6915

Analyst Declaration: We, Radhika Merwin & K. Ravi, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of Batlivala & Karani Securities India Pvt. Ltd. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. Batlivala & Karani Securities India P Ltd and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision. The information enclosed in the report has not been whetted by the compliance department due to the time sensitivity of the information/document. Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither B&K Securities nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.

B & K SECURITIES INDIA PRIVATE LTD.

Equity Market Division: 12/14, Brady House, 2nd Floor, Veer Nariman Road, Fort, Mumbai-400 001, India. Tel.: 91-22-2289 4000, Fax: 91-22-2287 2767.

Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata-700 001. Tel.: 91-033-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.