



Amtek Auto

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,287	AMTK IN
	REUTERS CODE
S&P CNX: 5,166	AMTK.BO

30 April 2008

Buy

Previous Recommendation: Buy

Rs294

Diluted Equity Sh. (m)	162.6
52-Week Range	526/228
1,6,12 Rel. Perf. (%)	4/-28/-49
M.Cap. (Rs b)	47.8
M.Cap. (US\$ b)	1.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
06/07A	39,898	3,909	24.0	55.7	12.2	1.8	18.1	16.0	1.6	8.7
06/08E	48,524	4,091	25.2	4.6	11.7	1.5	15.9	15.9	1.3	7.8
06/09E	57,897	5,045	31.0	23.3	9.5	1.5	16.4	17.1	1.1	6.7
06/10E	66,431	5,953	36.6	18.0	8.0	1.3	16.2	17.9	0.9	5.5

- Amtek Auto's consolidated revenues grew 19.8% YoY to Rs12.9b (v/s expectation of 20% growth) in 3QFY08, while the consolidated adjusted PAT (after minority interest) declined 15% YoY to Rs922m.
- Consolidated EBITDA margin was lower than expectation at 15.6% (lower 280bp YoY and 220bp QoQ). The EBITDA margin was lower on account of the higher steel prices, which led Amtek Auto to increase price three times to its suppliers, and which were not compensated for in 3Q. These are expected to be compensated for by Amtek Auto's customers, and will result in a sequential improvement of the EBITDA margin for the company in 4QFY08.
- There was an exceptional income of Rs316m in Amtek Siccardi and Benda Amtek, which was pertaining to sale of shares held by these companies.
- Adjusted for this exceptional income, Amtek Auto's consolidated PAT declined 15% YoY to Rs922m.
- The company has mentioned that it has not incurred any cash loss in 3QFY08 on account of outstanding forex transactions. However, Amtek Auto has been exposed to potential losses up to US\$18m over a period of next two years. In case, currency markets were to turn favorable, these losses could reduce.
- We have lowered our EBITDA margin expectation for FY08 by 110bp to 16.8% and for FY09 by 130bp to 16.6%. Our EPS estimates for FY08 and FY09 stand downgraded by 10.3% and 8.5% respectively. The stock trades at 11.7x FY08E EPS of Rs25.2, 9.5x FY09E EPS of Rs31 and 8x FY10E EPS of Rs36.6. Maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E JUNE	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	8,877	9,667	10,805	10,549	11,047	11,686	12,947	12,845	39,898	48,524
Change (%)	46.5	39.7	45.6	44.1	24.4	20.9	19.8	21.8	43.9	21.6
Total Cost	7,275	7,890	8,812	8,715	9,103	9,602	10,933	10,735	32,692	40,372
EBITDA	1,602	1,777	1,994	1,834	1,944	2,084	2,014	2,110	7,206	8,152
As % of Sales	18.0	18.4	18.4	17.4	17.6	17.8	15.6	16.4	18.1	16.8
Change (%)	53.0	42.8	48.4	43.6	21.4	17.3	1.0	15.0	46.7	13.1
Other Income	151	178	203	366	319	298	237	179	898	1,033
Interest	171	199	211	251	228	257	283	242	832	1,010
Depreciation	330	339	368	421	460	509	534	565	1,457	2,067
Extraordinary Expense	0	0	0	0	0	0	-316	0	0	-316
PBT	1,252	1,417	1,618	1,527	1,575	1,616	1,750	1,482	5,815	6,424
Tax	293	343	409	441	412	430	405	341	1,486	1,588
Effective Tax Rate (%)	23.4	24.2	25.3	28.9	26.2	26.6	23.1	23.0	25.6	24.7
PAT	959	1,074	1,209	1,086	1,163	1,187	1,345	1,141	4,328	4,836
Minority Interest	87	103	125	105	102	121	108	99	419	429
Adj. PAT after minority interest	872	971	1,085	981	1,061	1,066	922	1,042	3,909	4,091
Change (%)	59.8	55.7	55.4	52.5	21.7	9.7	-15.0	6.2	55.7	4.6

E: MOST Estimates

Topline growth maintained ...

Amtek Auto's consolidated revenues grew 19.8% YoY to Rs12.9b (v/s exp. of 20% growth) in 3QFY08. Revenue growth was driven mainly by GWK (+63.7% YoY) and Zelter (+17.9% YoY). GWK's revenue were driven by inclusion of Triplex Ketlon's revenues. Amtek Auto standalone witnessed net sales increase of just 5.7%, while Ahmednagar Forgings revenues were marginally lower YoY.

... but EBITDA margin lower

Consolidated EBITDA margin was lower than expectation at 15.6% (lower 280bp YoY and 220bp QoQ). The EBITDA margin was lower on account of the higher steel prices, which led Amtek Auto to raise prices three times to its suppliers, which were not compensated for in 3Q. These are expected to be compensated for by Amtek Auto's customers, and will result in a sequential improvement of the EBITDA margin for the company in 4QFY08.

Due to the higher commodity prices, EBITDA margins of most subsidiaries were lower on a YoY as well as sequential basis. Amtek Auto standalone EBITDA margin was 26.2% in 3QFY08 (v/s 27.6% in 2QFY08 and 28.8% in 3QFY07), while AFL's EBITDA margin was 18.6% (v/s 20.6% in 2QFY08 and 21% in 3QFY07). PAT for Amtek Auto standalone was Rs597m (-8.7% YoY) and for AFL was Rs157m (-23.5% YoY). Despite strong topline growth, GWK's PAT increased merely 5.7% YoY; its EBITDA margin was also lower 60bp YoY.

COMPANY-WISE SALES CONTRIBUTION (RS M)

	3QFY07	2QFY08	3QFY08
Amtek Auto	3,146	3,199	3,326
<i>% of total</i>	<i>29.1</i>	<i>27.4</i>	<i>25.7</i>
Ahmednagar Forgings	1,752	1,658	1,746
<i>% of total</i>	<i>16.2</i>	<i>14.2</i>	<i>13.5</i>
GWK	2,542	3,219	4,162
<i>% of total</i>	<i>23.5</i>	<i>27.5</i>	<i>32.1</i>
Zelter	1,816	2,002	2,140
<i>% of total</i>	<i>16.8</i>	<i>17.1</i>	<i>16.5</i>
Smith Jones	308	200	216
<i>% of total</i>	<i>2.9</i>	<i>1.7</i>	<i>1.7</i>
Others	-	99	85
<i>% of total</i>	<i>-</i>	<i>0.8</i>	<i>0.7</i>
Benda & Siccardi	1,240	1,307	1,273
<i>% of total</i>	<i>11.5</i>	<i>11.2</i>	<i>9.8</i>
Total	10,805	11,686	12,947

Source: Company/Motilal Oswal Securities

There was an exceptional income of Rs316m in Amtek Siccardi and Benda Amtek, which was pertaining to sale of shares held by these companies. Adjusted for this exceptional income, Amtek Auto's consolidated PAT declined 15% YoY to Rs922m.

COMPANY-WISE PROFIT CONTRIBUTION (RS MILLION)

	3QFY07	2QFY08	3QFY08
Amtek Auto	653	647	597
<i>Net Profit Margin (%)</i>	<i>20.8</i>	<i>20.2</i>	<i>17.9</i>
Ahmednagar Forgings	206	177	157
<i>Net Profit Margin (%)</i>	<i>11.7</i>	<i>10.7</i>	<i>9.0</i>
GWK	115	137	121
<i>Net Profit Margin (%)</i>	<i>4.5</i>	<i>4.3</i>	<i>2.9</i>
Zelter	66	78	67
<i>Net Profit Margin (%)</i>	<i>3.7</i>	<i>3.9</i>	<i>3.1</i>
Smith Jones	31	8	3
<i>Net Profit Margin (%)</i>	<i>10.0</i>	<i>3.8</i>	<i>1.5</i>
Others	-	15	5
<i>Net Profit Margin (%)</i>	<i>-</i>	<i>15.1</i>	<i>5.7</i>
Benda & Siccardi	138	125	79
<i>Net Profit Margin (%)</i>	<i>11.1</i>	<i>9.6</i>	<i>6.2</i>
Profit bef. Minority Int.	1,209	1,187	1,029
Minority Interest	125	121	108
Profit after MI	1,085	1,066	922

Source: Company/Motilal Oswal Securities

Entry in railcar manufacturing to accelerate diversification in non-autos

Amtek Auto has entered into an MoU to set up a 50-50 JV with American Railcar Industries (ARI), a North American leader in railcar manufacturing to manufacture, sell and supply freight railcars and their components in India and other South East Asian countries.

ARI is a leading designer, manufacturer, and marketer of a variety of railcars in North America. It also provides other services like repairs and refurbishment, fleet management, and manufacture of other industrial components used in this field.

This MoU is part of Amtek Auto's strategy to diversify by setting up of the company's transportation systems division. The transportation division includes railways, aerospace, and surface transportation system, wherein Amtek Auto plans to carry out significant investments.

As per reports, the two companies will initially invest Rs3b to set up a plant in Rajasthan. Construction of the manufacturing facility is expected to begin in the second half of 2008, and the railcar production in India could commence in 2009.

Besides the railcar JV with ARI, Amtek Auto has plans to set up forgings, castings, and machining facilities to manufacture components for the railcar and other railway applications. Recognizing the countrywide railway expansions planned in India, Amtek has planned an outlay of over Rs5b in its railway business (including the JV with ARI).

Forex loss threat has been capped

Amtek Auto has mentioned that it has not incurred any cash loss in 3QFY08 on account of outstanding forex transactions. However, Amtek Auto had previously issued a clarification relating to the potential impact of the global currency market volatility on the various hedges that it had created owing to which the company has been exposed to potential losses up to US\$18m over a period of next two years. In case the currency markets turn favorable, these losses could reduce.

The company has entered into new transactions to cap the losses at the current levels by paying a premium (similar to buying an option). These premium charges will be accounted for under head, 'other income'.

The promoters have undertaken to bring in the equivalent amount (of the potential losses) in the form of a 10 year 0% NCDs or preference shares.

Possible acquisition on the cards

Amtek Auto has also entered into an arrangement to acquire the fully automatic machining line of Nissan, Spain (capacity of 500,000 crankshafts p.a.) for manufacture of crankshafts for passenger car and LCV applications. The acquisition is yet to be completed, and when operated at full capacity, will potentially add Rs2.5b to Amtek Auto's revenues. As it is a machining business, the EBITDA margin will also be higher at ~20%.

Valuation and view

Amtek Auto is the only player in India with a strong presence in both forgings and castings along with machining capacity to supply finished components to global OEMs. On a fully consolidated basis, valuation of Amtek Auto is the cheapest in the auto component space.

The Amtek group is working on consolidation of five of its companies - Amtek Auto, Amtek India, Ahmednagar Forgings, Benda Amtek and Amtek Siccardi; details of this consolidation are expected to be announced in May 2008.

We have lowered our EBITDA margin expectation for FY08 by 110bp to 16.8%. and for FY09 by 130bp to 16.6%. Our EPS estimates for FY08 and FY09 stand downgraded by 10.3% and 8.5% respectively. The stock trades at 11.7x FY08E EPS of Rs25.2, 9.5x FY09E EPS of Rs31 and 8x FY10E EPS of Rs36.6. Maintain **Buy**.

Amtek Auto: an investment profile

Company description

Amtek Auto is the only player in India with strong presence in both forgings and castings, along with commensurate machining capacity to supply finished components to global OEMs. It has acquired seven companies in the last five years, achieving scale, management depth and multi-country operations.

Key investment arguments

- Amtek Auto is the only player in India with strong presence in both forging and casting along with machining capacity to supply to global OEMs.
- Post consolidation, Amtek would emerge as one of India's largest auto component players and on fully consolidated basis valuations of Amtek Auto is the cheapest in the auto component space.
- Management is looking at acquisitions aggressively and size of the potential acquisition could even surpass the sum total sales of previous acquisitions.

Key investment risks

- Aggressive inorganic growth strategy might lead to increased debt levels and further equity dilution.
- Merging several companies is a tough task, and integration efforts may go awry.

COMPARATIVE VALUATIONS

		AMTEK AUTO	BHARAT FORGE
P/E (x)	FY08E	11.7	26.1
	FY09E	9.5	19.2
EPS Gr (%)	FY08E	4.6	-6.0
	FY09E	23.3	36.0
RoE (%)	FY08E	15.9	17.1
	FY09E	16.4	16.8
EV/EBITDA (x)	FY08E	7.8	13.8
	FY09E	6.7	10.9

SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	34.3	30.9	32.3
Domestic Inst	10.5	12.2	16.7
Foreign	48.6	50.3	45.5
Others	6.7	6.6	5.4

Recent developments

- Amtek Auto has entered into an MoU to set up a 50-50 JV with American Railcar Industries (ARI), a North American leader in railcar manufacturing to manufacture, sell and supply freight railcars and their components in India and other South East Asian countries.
- Amtek Auto has also entered into an arrangement to acquire a fully automatic machining line of Nissan, Spain (capacity of 500,000 crankshafts p.a.) for manufacture of crankshafts for passenger car and LCV applications.

Valuation and view

- The stock trades at 11.7x FY08E EPS of Rs25.2, 9.5x FY09E EPS of Rs31 and 8x FY10E EPS of Rs36.6. Maintain **Buy**.

Sector view

- The auto ancillary sector is witnessing strong demand from global OEMs attempting to offshore components and reduce costs. Forgings and castings, due to environmental and health norms, have been witnessing the strongest demand from global players.

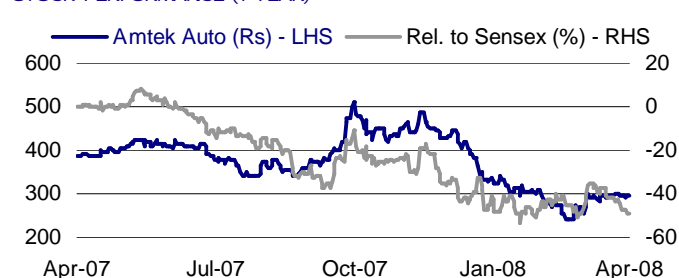
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	31.0	35.8	-13.3
FY10	36.6	43.3	-15.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
294	403	37.1	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E JUNE	2006	2007	2008E	2009E	2010E	
Net Sales	27,722	39,898	48,524	57,897	66,431	
Change (%)	52.5	43.9	21.6	19.3	14.7	
Expenditure	22,811	32,692	40,372	48,286	55,270	
EBITDA	4,911	7,206	8,152	9,611	11,160	
Change (%)	74.6	46.7	13.1	17.9	16.1	
% of Net Sales	17.7	18.1	16.8	16.6	16.8	
Depreciation	1,091	1,457	2,067	2,310	2,550	
Interest & Finance Charges	54	832	1,010	958	940	
Other Income	209	898	1,033	1,033	1,033	
Non-recurring Expense	0	0	-316	0	0	
Non-recurring Income						
Expenses w/o	0	0	0	0	0	
PBT	3,514	5,815	6,424	7,376	8,703	
Tax	736	1,486	1,588	1,770	2,089	
Effective Rate (%)	20.9	25.6	24.7	24.0	24.0	
PAT	2,778	4,328	4,836	5,606	6,614	
Adj. PAT	2,778	4,328	4,520	5,606	6,614	
Change (%)	74.4	55.8	4.4	24.0	18.0	
Minority Interest	268	419	429	561	661	
PAT (After MI)	2,510	3,909	4,091	5,045	5,953	
Change (%)	70.2	55.7	4.6	23.3	18.0	

BALANCE SHEET		(Rs Million)				
Y/E JUNE	2006	2007	2008E	2009E	2010E	
Share Capital	244	261	261	325	325	
Reserves	16,048	21,344	25,479	30,524	36,490	
Net Worth	16,292	21,604	25,740	30,850	36,816	
Loans	23,149	19,914	18,914	17,914	16,914	
Minority Interest	1,521	1,779	1,779	1,779	1,779	
Capital Employed	39,441	41,518	44,654	48,764	53,730	
Gross Fixed Assets	21,537	35,251	41,309	47,548	51,474	
Less: Depreciation	5,853	7,248	9,315	11,625	14,175	
Net Fixed Assets	15,684	28,004	31,994	35,923	37,300	
Goodwill	1,665	1,556	1,556	1,556	1,556	
Investments	659	501	501	501	501	
Curr.Assets, L & Adv.	28,186	18,955	18,783	19,704	23,968	
Inventory	4,315	5,226	6,356	7,584	8,702	
Sundry Debtors	4,820	4,931	5,997	7,155	8,210	
Cash & Bank Balances	14,901	4,571	2,203	738	2,830	
Loans & Advances	4,124	4,226	4,226	4,226	4,226	
Others	26	1	1	1	1	
Current Liab. & Prov.	6,827	7,547	8,229	8,970	9,645	
Net Current Assets	21,359	11,408	10,554	10,734	14,324	
Miscellaneous Expenditures	73	49	49	49	49	
Application of Funds	39,441	41,518	44,654	48,764	53,730	

E: MOST Estimates

RATIOS						
Y/E JUNE	2006	2007	FY08E	FY09E	FY10E	
Basic (Rs)						
Diluted Cons EPS	15.4	24.0	25.2	31.0	36.6	
Cash EPS	23.8	35.6	42.4	48.7	56.4	
Book Value per Share	133.6	165.8	197.5	189.7	226.4	
DPS	2.3	3.0	2.9	3.4	4.0	
Payout (Incl. Div. Tax) %	12.5	11.2	10.8	12.8	12.5	
Valuation (x)						
Cons P/E	19.0	12.2	11.7	9.5	8.0	
EV/EBITDA	11.3	8.7	7.8	6.7	5.5	
EV/Sales	2.0	1.6	1.3	1.1	0.9	
Price to Book Value	2.2	1.8	1.5	1.5	1.3	
Dividend Yield (%)	0.8	1.0	1.0	1.2	1.4	
Profitability Ratios (%)						
RoE	15.4	18.1	15.9	16.4	16.2	
RoCE	10.2	16.0	15.9	17.1	17.9	
Leverage Ratio						
Debt/Equity (x)	14	0.9	0.7	0.6	0.5	

CASH FLOW STATEMENT		(Rs Million)				
Y/E JUNE	2006	2007	FY08E	FY09E	FY10E	
OP/(Loss) before Tax	3,819	5,749	6,085	7,301	8,611	
Interest/Div. Received	209	898	1,033	1,033	1,033	
Depreciation & Amort.	1,091	1,457	2,067	2,310	2,550	
Direct Taxes Paid	-736	-1,486	-1,588	-1,770	-2,089	
(Inc)/Dec in Working Capital	-3,241	-378	-1,514	-1,645	-1,498	
Other Items	5180	1429	-258	84	97	
CF from Oper. Activity	6,324	7,669	5,824	7,312	8,704	
(Inc)/Dec in FA+CWIP	-9,058	-13,668	-6,058	-6,239	-3,926	
(Pur)/Sale of Invest.	-406	158	0	0	0	
CF from Inv. Activity	-9,464	-13,509	-6,058	-6,239	-3,926	
Issue of Shares	42	17	0	65	0	
Inc/(Dec) in Debt	12,254	-3,235	-1,000	-1,000	-1,000	
Interest Paid	-514	-832	-1,010	-958	-940	
Dividends Paid	-313	-438	-442	-645	-745	
CF from Fin. Activity	11,468	-4,489	-2,451	-2,538	-2,686	
Inc/(Dec) in Cash	8,328	-10,329	-2,369	-1,465	2,092	
Add: Beginning Balance	6,572	14,901	4,571	2,203	738	
Closing Balance	14,901	4,571	2,203	738	2,830	

E: MOST Estimates



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Amtek Auto

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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