Company In-Depth

20 April 2007 | 40 pages

Amtek Auto (AMTK.BO)

Initiating at Hold: Recent Re-rating Limits Upside Potential

- Leading auto parts player — Amtek Auto looks well positioned to benefit from the outsourcing of business to India. We forecast an FY07E domestic-export split of 58-42% for standalone Amtek Auto revenues — commendable, given that Amtek began meaningful exports only in FY03.
- Recent re-rating limits upside — We forecast a 17% EPS CAGR for FY07-09E, driven by a 13% CAGR in revenues. Consolidated EBITDA margins should remain stable as margins at subsidiaries improve. Our Rs437 target price is based on 14x FY09E EPS. We see limited upside for the stock from current levels given its recent re-rating.
- Acquisition-driven business model — Amtek Auto has reaped synergies from the turnaround of companies it acquired over the past 3-4 years at attractive valuations. But integration and execution risks could arise with larger and more frequent acquisitions. A high-base effect will likely slow growth rates.
- Healthy industry outlook — Castings and forgings, in our view, have great potential from an outsourcing perspective. The Amtek Group looks well positioned in both segments. Its global scale, coupled with a low-cost base, should help it gain from large global outsourcing opportunities.
- Key risks — (1) Integration and execution risks during acquisitions; (2) rising input costs; (3) an increasingly complex group structure; and (4) higher customer concentration.

Hold/Medium Risk	2M
Price (19 Apr 07)	Rs388.00
Target price	Rs437.00
Expected share price return	12.6%
Expected dividend yield	0.7%
Expected total return	**13.3%**
Market Cap	Rs49,541M
	US$1,184M

Price Performance (RIC: AMTK.BO, BB: AMTK IN)

See Appendix A-1 for Analyst Certification and important disclosures.

Statistical Abstract

Year to 30 Jun	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	1,475	11.15	22.8	34.8	4.6	24.7	0.4
2006A	2,564	15.82	41.9	24.5	2.9	20.6	0.5
2007E	3,682	22.72	43.6	17.1	2.3	18.9	0.7
2008E	4,252	26.23	15.5	14.8	2.0	17.3	0.8
2009E	5,061	31.23	19.0	12.4	1.7	17.6	1.0

Source: Powered by dataCentral

Jamshed Dadabhoy[1]
+91-22-6631-9883
jamshed.dadabhoy@citigroup.com

Hitesh Goel[1]
hitesh.goel@citigroup.com

Citigroup Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Non-US research analysts who have prepared this report are not registered/qualified as research analysts with the NYSE and/or NASD.
Customers of the Firm in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at http://www.smithbarney.com (for retail clients) or http://www.citigroupgeo.com (for institutional clients) or can call (866) 836-9542 to request a copy of this research.

[1]Citigroup Global Market India Private Limited

http://deadpresident.blogspot.com

Fiscal year end 30-Jun	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	34.8	24.5	17.1	14.8	12.4
EV/EBITDA adjusted (x)	17.9	10.9	7.6	6.7	5.6
P/BV (x)	4.6	2.9	2.3	2.0	1.7
Dividend yield (%)	0.4	0.5	0.7	0.8	1.0
Per Share Data (Rs)					
EPS adjusted	11.15	15.82	22.72	26.23	31.23
EPS reported	11.15	15.82	22.72	26.23	31.23
BVPS	84.99	133.02	165.80	193.39	226.15
DPS	1.46	2.00	2.60	3.04	3.70
Profit & Loss (RsM)					
Net sales	16,417	26,236	37,790	41,924	48,478
Operating expenses	-14,091	-22,198	-31,782	-35,352	-40,714
EBIT	**2,326**	**4,037**	**6,008**	**6,572**	**7,764**
Net interest expense	-291	-491	-577	-447	-433
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**2,035**	**3,546**	**5,431**	**6,125**	**7,331**
Tax	-441	-780	-1,358	-1,347	-1,613
Extraord./Min.Int./Pref.div.	-118	-202	-391	-526	-658
Reported net income	**1,475**	**2,564**	**3,682**	**4,252**	**5,061**
Adjusted earnings	1,475	2,564	3,682	4,252	5,061
Adjusted EBITDA	3,000	5,105	7,562	8,285	9,559
Growth Rates (%)					
Sales	108.6	59.8	44.0	10.9	15.6
EBIT adjusted	98.5	73.6	48.8	9.4	18.1
EBITDA adjusted	87.5	70.2	48.1	9.6	15.4
EPS adjusted	22.8	41.9	43.6	15.5	19.0
Cash Flow (RsM)					
Operating cash flow	**-69**	**620**	**2,989**	**4,426**	**5,868**
Depreciation/amortization	674	1,068	1,554	1,714	1,794
Net working capital	-2,258	-3,241	-2,660	-2,087	-1,665
Investing cash flow	**-4,334**	**-9,440**	**-3,219**	**-1,861**	**-1,208**
Capital expenditure	-4,201	-8,342	-3,219	-1,361	-1,208
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**10,919**	**17,351**	**-4,104**	**22**	**50**
Borrowings	7,020	11,108	-7,216	0	0
Dividends paid	-208	-314	-457	-535	-649
Change in cash	**6,399**	**8,328**	**-4,725**	**2,062**	**4,054**
Balance Sheet (RsM)					
Total assets	**22,333**	**46,268**	**49,947**	**55,509**	**62,620**
Cash & cash equivalent	6,572	14,901	10,175	12,237	16,291
Accounts receivable	2,699	4,820	7,144	8,040	9,297
Net fixed assets	8,410	15,684	17,349	16,996	16,409
Total liabilities	**13,302**	**28,455**	**25,340**	**26,628**	**28,628**
Accounts payable	1,751	3,988	5,832	6,495	7,516
Total Debt	10,495	21,628	14,412	14,412	14,412
Shareholders' funds	**9,031**	**17,813**	**24,607**	**28,881**	**33,992**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	18.3	19.5	20.0	19.8	19.7
ROE adjusted	24.7	20.6	18.9	17.3	17.6
ROIC adjusted	18.8	17.5	17.1	17.0	19.0
Net debt to equity	43.4	37.8	17.2	7.5	-5.5
Total debt to capital	53.7	54.8	36.9	33.3	29.8

For further data queries on Citigroup's full coverage universe please contact CIR Data Services Asia Pacific at CitiResearchDataServices@citigroup.com or +852-2501-2791

http://deadpresident.blogspot.com

Contents

Investment Thesis **4**
Amtek Auto should benefit from outsourcing of auto parts 4
Consolidated earnings forecast to grow at 17% CAGR over FY07-09E 4
Inorganic growth spurs re-rating 4
Growth through acquisitions — a double-edged sword 5
Valuations: Almost at peak multiples 6
Peer group comparison difficult 7
Risks to our target price 8
Upside risks to target price 10

India Auto Parts: The Macro-Micro Disconnect **11**
India's export story: A bottom-up, not top-down, phenomenon 11
Domestic growth to drive revenues, determine profitability of most players 12
Manufacturing bases shifting to India: the best of both worlds 13
Increasing exposure of ancillaries to OEMs in export markets 13
Component suppliers' investment to increase at faster pace 13
Auto component players are trading at premiums to OEMs 14

Company Overview **16**
Management structure and shareholding pattern 19

Business Strategy **20**
Growth through acquisitions 20
Revenues skewed toward cars, 2-wheelers 21
Strong technical collaborations 21

Earnings Outlook **22**
Standalone revenues forecast to grow at 21% CAGR in FY07-09E 22
EBITDA margins likely to remain range-bound 22
Standalone net profits to grow at 19% CAGR over FY07-09E 23
Consolidated revenues forecast to grow at 13% CAGR over FY07-09E 23
Consolidated margins likely to remain steady at around 19% 23
Consolidated earnings to grow at 17% CAGR over FY07-09E 24

Financial Position **25**
Healthy capital structure, despite a series of acquisitions 25
Profitability deflated by cash surpluses 26
Healthy operating and free cash flows 26

Quants view — Contrarian **27**

Financials **28**
Interim results 31

Appendix A-1 **36**
Analyst Certification 36

http://deadpresident.blogspot.com

Investment Thesis

Amtek Auto should benefit from outsourcing of auto parts

India's advantages are a pool of highly skilled engineers, and relatively lower wages

India's advantages in auto parts are well documented: highly skilled engineers and relatively lower wages. Amtek Auto looks well positioned to benefit from the trend of increased outsourcing of auto parts to low-cost countries from Europe and the US. For Amtek Auto, we forecast exports will account for around 40% of FY07E standalone sales (a CAGR of 86% over FY04-07E).

Consolidated earnings forecast to grow at 17% CAGR over FY07-09E

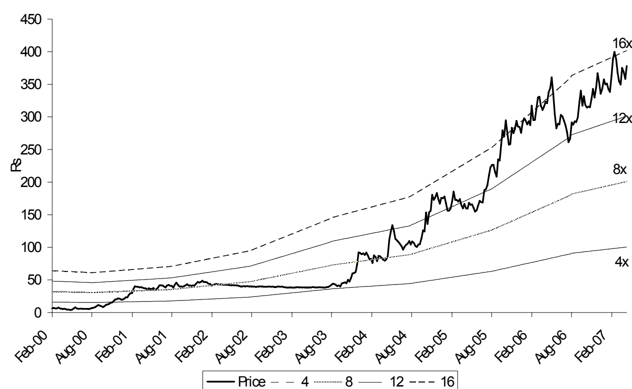
We forecast that Amtek Auto's earnings will grow faster than revenues (a 13% CAGR) because of relatively stable margins, moderate increases in non-operating income and a reduction in financial expenses. The overall capex for subsidiaries is not material, implying that depreciation should remain relatively stable on a consolidated basis.

Inorganic growth spurs re-rating

The market appears to be factoring in inorganic growth initiatives without adequately discounting the attendant risks

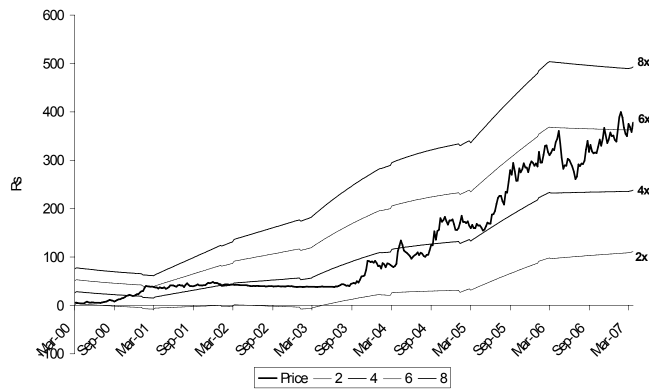
Amtek Auto's share price has re-rated in response to emerging outsourcing opportunities in auto components and management's growth initiatives, particularly cross-border acquisitions. The company's scale, cost advantages and technical capabilities imply a structural growth opportunity, but we believe at current multiples the market appears to be factoring in inorganic growth initiatives without adequately discounting the attendant risks — integration and execution risks, greater working capital requirements, and increasing complexity as inter-group transactions increase.

Figure 1. Amtek Auto — P/E (x) Band Chart



Source: Citigroup Investment Research estimates, Company and Bloomberg

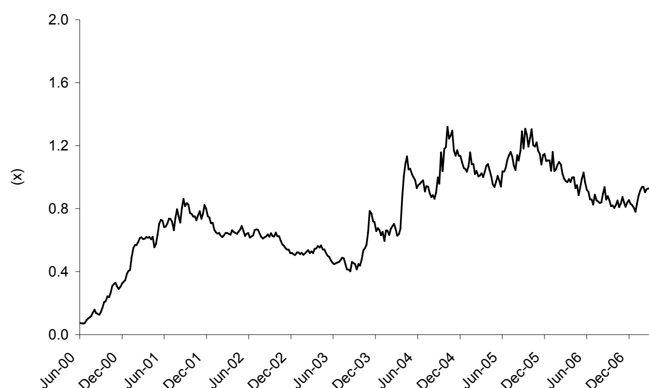
Figure 2. Amtek Auto — EV / EBITDA (x) Band Chart



Source: Citigroup Investment Research estimates, Company and Bloomberg

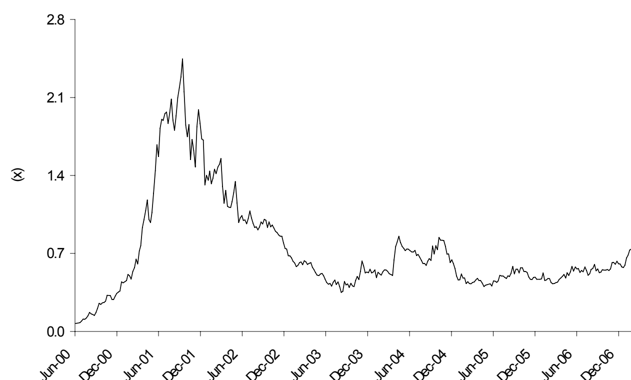
http://deadpresident.blogspot.com

Figure 3. Amtek Auto – Relative P/E (x) vs. Sensex



Source: Citigroup Investment Research estimates, company, Bloomberg

Figure 4. Amtek Auto – Relative P/E (x) vs. Bharat Forge



Source: Citigroup Investment Research estimates, company, Bloomberg

Growth through acquisitions — a double-edged sword

Management believes that acquisitions have a dual advantage of lower capital outlays and provide immediate access to established ties

Acquisitions are an integral part of Amtek Auto's growth strategy. Its success over the past 2 years is attributable to the series of acquisitions it made 3-4 years ago at extremely attractive multiples, and the synergies it has reaped. Amtek Auto's management believes that acquisitions have a dual advantage of lower capital outlays (vs. establishing new manufacturing facilities) and provide immediate access to established relationships.

Amtek Auto's share price has risen steadily, as the market has recognized management's ability to buy businesses at cheap valuations, integrate them into Amtek's domestic operations and turn them around. However, the current valuations, in our view, factor in most of the positives of emerging outsourcing opportunities and management's growth initiatives through cross-border acquisitions. But we believe the market has yet to discount fully the following:

Ability to continuously find attractive business opportunities: Amtek's management has indicated that it is becoming increasingly difficult to acquire companies at the multiples prevalent 2 years ago. It is unwilling to pay more than 4.5x EV / EBITDA because beyond this multiple it becomes difficult to reap synergies from the acquisition. But players abroad have realized that they have been selling themselves cheap. Moreover, as more global players come to India and understand the cost structures (and as a result the amount of profits that can be generated by transferring business to India), it would inflate transaction multiples abroad.

Integration risk of acquired businesses: Amtek's management has indicated that it takes 2-3 years to turn around a business; the margins evident in Amtek's standalone revenues is on account of the fact that the company is supplying products to GWK (acquired in 2003) at substantially higher margins.

Slowdown in growth rates: Amtek will soon cross the threshold of US$1bn in consolidated revenues. Over 60% of its revenue is from mature markets with natural growth rates of 3%. In this scenario, Amtek's overall consolidated revenues will find it difficult to surmount a threshold of 10-15%, unless

http://deadpresident.blogspot.com

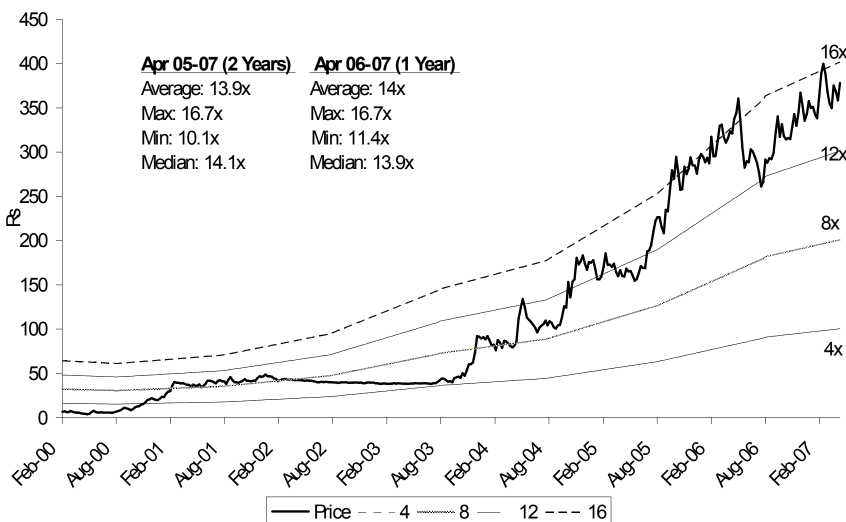
management continuously acquires companies or increases customer penetration with both domestic and international clients. The latter strategy, though more desirable and more enduring, would be more time consuming. The former strategy would bring with it the appeal of short-term growth, but longer term it would result in a slowdown in overall growth rates, unless the company became a 'serial acquirer' — in which case the valuation multiple should de-rate to account for increasing business complexity. Valuations would also be capped if investors think that funds would be raised to acquire businesses.

Valuations: Almost at peak multiples

Over the past two years, the stock has traded at 14x one-year forward EPS

Amtek Auto is trading at P/Es of 14.8x and 12.4x for FY08E and FY09E EPS, respectively. This prices in near-term upside prospects, in our view, given that we forecast an estimated consolidated earnings CAGR of 17% over FY07-09E. Over the past two years, the stock has traded at 14x one-year forward EPS despite an earnings CAGR of 43% (FY05-07E), which implies a PEG of 0.33x. We believe Amtek Auto's valuations are capped by: (1) its complicated group structure, which has resulted in significant inter-company transactions and has diluted the clarity on earnings drivers; and (2) frequent equity dilutions due to fund-raising over the past few years. Diluted equity increased 4.2x between FY02 and FY06, as a result of which the stock trades at a discount to peers like Bharat Forge (which trades at 20x one-year forward earnings).

Figure 5. Amtek Auto — P/E (x) Band Chart



Source: Citigroup Investment Research estimates

http://deadpresident.blogspot.com

Figure 6. Amtek Auto – Target Price

Particulars	FY09E
FD EPS (Rs)	31.2
P/E Multiple (x)	14
Target Price	**437**

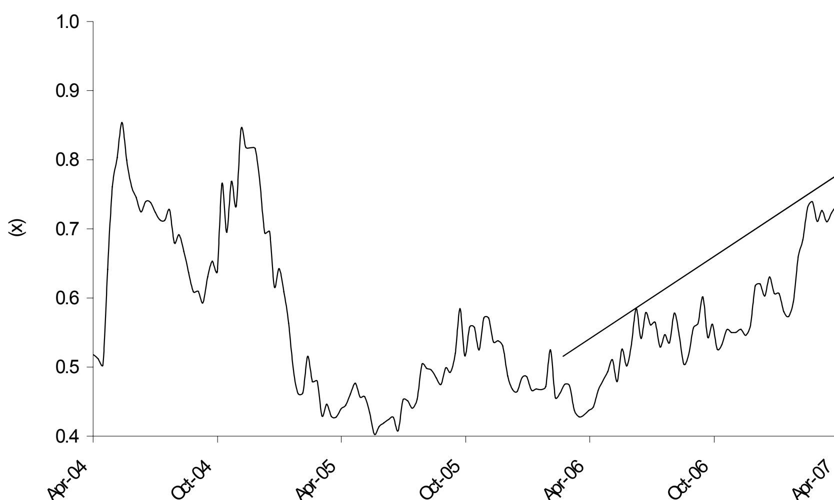
Source: Citigroup Investment Research

Our target price of Rs437, which implies upside of 13% from current levels, is based on 14x our FY09 EPS estimate of Rs31.2 (fully diluted). Our target price implies a one-year forward P/E of 16.7x on our FY08E EPS, close to a 13% premium to the current 14.8x multiple. We use P/E to value Amtek Auto because it is the most common measure used to value auto parts companies.

Peer group comparison difficult

Amtek Auto does not have a well-defined peer group in India. Valuation comparisons are not particularly relevant with multinational suppliers as well, because they do not enjoy the same secular growth prospects from the large outsourcing opportunity. The closest comparable, Bharat Forge, is primarily into forgings and machined components for the commercial-vehicles sector (though its subsidiaries abroad have significant exposure to passenger cars). Over the past 6.5 years, Amtek has traded at an average relative P/E of around 0.8x versus Bharat Forge. Currently, Amtek trades at around 14.8x one-year forward earnings, whilst Bharat Forge trades at almost 20x one-year forward EPS. We attribute Amtek's discount to Bharat Forge to: (1) Amtek's complex group structure, which obscures the visibility of earnings drivers; (2) aggressive inorganic growth strategy, with attendant risks; and (3) frequent equity dilutions over the past 2 years, which have capped EPS growth.

Figure 7. Relative P/E (x) — Amtek Auto vs. Bharat Forge



Source: Bloomberg, Companies and Citigroup Investment Research estimates

http://deadpresident.blogspot.com

Figure 8. Valuation Comparables

Company	Ticker	Price (local Currency)	Currency	Rating	Earnings CAGR	2007 PE	2008 PE	2009 PE	2007 EV/EBITDA	2008 EV/EBITDA	2009 EV/EBITDA
US Suppliers											
American Axle	AXL.N	27.06	USD	2H	16%	19.3	18.1	16.6	5.3	5.0	4.6
Borg Warner	BWA.N	75.38	USD	1M	35%	15.7	13.0	11.6	6.5	5.5	4.6
Gentex Corp	GNTX.O	16.52	USD	3M	19%	20.9	18.9	17.5	11.3	10.3	9.4
Harman Intl	HAR.N	101.06	USD	1H	41%	22.8	18.2	16.2	11.0	8.7	7.4
Johnson Controls	JCI.N	96.9	USD	1M	25%	16.1	14.1	12.9	8.9	7.9	7.1
Lear Corporation	LEA.N	35.84	USD	2S	40%	18.0	14.4	12.8	5.1	4.7	4.4
Magna Intl	MGA.N	76.89	USD	1M	22%	11.6	9.9	9.5	3.6	2.8	2.3
Superior Inds	SUP.N	23.61	USD	3H	68%	44.3	26.7	26.4	10.3	8.2	8.3
Tenneco	TEN.N	29.62	USD	1H	58%	21.8	16.0	13.8	5.7	5.2	4.9
US Average						**18.3**	**15.3**	**13.9**	**7.4**	**6.3**	**5.7**
EU Suppliers											
AutoLiv	ALV.N	60.51	USD	2L	16%	15.1	13.8	13.0	6.8	6.6	6.3
Continental	CONG.DE	102.19	EUR	1M	21%	13.2	11.6	10.9	6.6	5.9	5.4
Faurecia	EPED.PA	60.52	EUR	2H		NA	48.9	10.9	6.3	4.9	4.1
GKN	GKN.L	3.90	GBP	1M	18%	13.5	12.0	11.5	8.2	7.5	6.9
Michelin	MICP.PA	86.91	EUR	1M	31%	16.2	14.5	12.4	11.9	10.9	9.6
Valeo	VLOF.PA	42.68	EUR	2S	56%	20.8	17.1	13.3	5.3	5.0	4.6
EU Average						**15.7**	**13.7**	**12.2**	**7.5**	**6.8**	**6.1**
Chinese Suppliers											
China Metal International Holdings	0319.HK	2.95	HKD	1L	60%	13.6	10.5	8.5	9.3	7.4	5.8
Norstar	2339.HK	3.55	HKD	1H	57%	10.9	8.8	6.9	9.1	7.3	5.8
Xinyi Glass	0868.HK	4.53	HKD	1M	80%	14.0	10.0	7.8	11.3	8.4	6.4
Chinese Average						**12.8**	**9.8**	**7.7**	**9.9**	**7.7**	**6.0**
Indian Suppliers											
Bharat Forge	BFRG.BO	324.2	INR	1L	46%	25.0	20.8	17.2	13.5	11.6	NA

Source: Citigroup Investment Research estimates

Risks to our target price

Amtek Auto rated as Medium Risk

We rate Amtek Auto as Medium Risk, which differs from the Low Risk rating accorded by our quantitative risk-rating system that tracks 260-day share price volatility. Our risk rating reflects the attendant risks with Amtek Auto's acquisition strategy. Moreover, its overall complex corporate structure obscures earnings drivers.

Downside risks

Sensitivity to economic variables

Amtek Auto's sales and those of the consolidated entity are dependent on various segments of the auto industry. Over the past 3 years, management has made substantial efforts to diversify sales in terms of geography and products. But any slowdown in auto sales either in the local market [accounts for 58% of standalone turnover (FY07E) and around 42% of consolidated revenues (FY07E)] or in the export markets [accounts for around 42% of standalone revenues (FY07E) and 58% of consolidated revenues (FY07E)] due to a deterioration in economic variables such as GDP, interest rates and fuel prices could have an adverse impact on Amtek Auto's operations.

http://deadpresident.blogspot.com

Global auto manufacturers and tier-one suppliers are consistently looking to reduce input costs, putting pressure on the profitability of component suppliers. Against this backdrop, a sharp increase in the prices of key raw materials, particularly metals, could impact profit margins adversely. Given the increase in exports as a percentage of total sales, Amtek Auto's standalone and consolidated operations are sensitive to currency fluctuations.

Integration risks given the acquisition-driven growth strategy

Acquisitions are an integral part of management's growth strategy. Amtek's success over the past 2 years is owed to a series of acquisitions it made 3-4 years ago at extremely attractive multiples, and the synergies reaped. However, this strategy brings with it attendant risks on the integration and client retention fronts. We expect 2 emerging trends: (1) acquisitions abroad will become increasingly more expensive; and (2) given Amtek Auto's size, to maintain more than 20% growth in consolidated revenues, it would have to either engage in progressively larger acquisitions or undertake 3-4 small acquisitions. Both trends would be detrimental to Amtek Auto's business model, in our view.

Complex group structure

Amtek Auto's group structure is complex due to several acquisitions undertaken over a short time frame

Amtek Auto's group structure is extremely complex due to several acquisitions undertaken over a relatively short time frame. Amtek's major shareholders have stated that to simplify the group structure, all companies will be integrated into Amtek Auto. While some of the smaller businesses (like Benda Amtek and Amtek Siccardi) have been integrated, Amtek India and its subsidiaries remain outside the Amtek Auto fold. Management has stated that consolidation of Amtek India is still 2 years away. Amtek Auto recently entered into 2 JVs, one with Magna and the other with Neumayer Tekfor. As the number of subsidiaries and JVs increases, the number of inter-group transactions will also increase and make the overall revenue model complex. In such a scenario, it would be difficult for Amtek's overall business to re-rate or trade at multiples comparable with those of peers such as Bharat Forge.

Customer concentration: Although on the decline, it remains high

We estimate that 3 OEMs account for over 50% of Amtek's domestic revenues

We estimate that 3 OEMs — Maruti, Tata Motors, and Bajaj Auto — account for over 50% of Amtek's domestic revenues. Even within the overall group, revenue concentration is extremely high. At end-FY05, 4 clients — MUL, Honda group, Ford group and General Motors group — accounted for ~50% of consolidated revenues. Risks that come with such high customer concentration include the following: bargaining power rests with the OEMs, stretched credit periods, and greater risk to profitability if any of the key customers defaults. The first risk is most applicable to Amtek Auto's domestic revenue streams. The other two risks are more relevant to the export markets, especially since the financial health of the OEMs as well as the small tier-one and -two players is weaker than that of domestic OEMs.

Product liability claims

Another risk related to increasing international sales is more stringent product liability terms, particularly in developed countries. Amtek Auto's foreign subsidiaries currently take on product liability risks on their own books. In the event of a product recall, it could materially impact earnings.

http://deadpresident.blogspot.com

Environmental issues

The forging industry is perceived as an environmentally unfriendly industry, particularly in developed countries. Governments in most parts of the world are consistently upgrading pollution-control norms to more stringent levels. Any stricter norms could mean higher costs and an impact on profitability.

Upside risks to target price

- The stock could react positively on news flow of any large acquisition or a series of acquisitions.
- Faster than expected turnaround of acquired companies.
- A steady decline in input costs.

http://deadpresident.blogspot.com

India Auto Parts: The Macro-Micro Disconnect

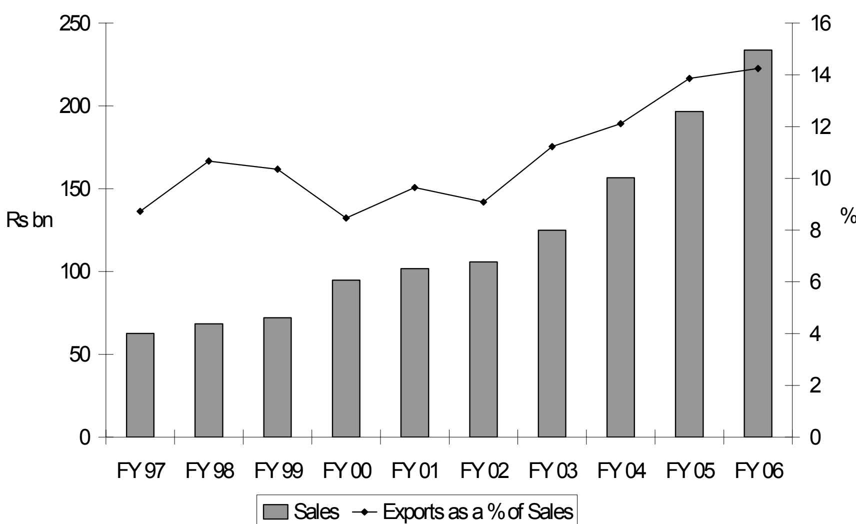
India's export story: A bottom-up, not top-down, phenomenon

India's competencies in the auto parts market are well documented: the highly skilled engineering base, the labor wage differential and India's relative advantages vs. China. However, we believe the export story thus far has been a bottom-up, rather than top-down, opportunity for the Indian auto parts industry.

According to the Automotive Component Manufacturers Association, exports grew at c24% CAGR in FY98-06

According to ACMA (Automotive Component Manufacturers Association of India), exports grew at c24% CAGR in FY98-06. We have assessed the growth rates in export sales of 40 listed (and unlisted) auto parts players. Over the same period, these 40 companies registered a 21% CAGR in export revenues.

Figure 9. Exports as a % of Sales for Auto Component Players



Source: Automotive Component Manufacturers Association of India and Capitaline Plus

Moreover, the top 5 companies in this set (in terms of export revenues), constitute 48-58% of overall exports of the entire group, with an export revenue CAGR of 20% over the same period.

Exports of these 40 companies constitute around US$740m, roughly 40% of the estimated US$1.8bn industry exports. Thus around 10% of ACMA's members constitute around 40% of total exports, validating our hypothesis that the export story is restricted to a select few. We believe this has implications for valuations across the sector: top-tier players with a sustainable and robust export growth story will likely command premium valuations — deservedly so in some cases – to other ancillaries. This trend is also in contrast to the valuations of domestic OEMs, where valuations typically coalesce within a relatively narrow range.

http://deadpresident.blogspot.com

Domestic growth to drive revenues, determine profitability of most players

Even among the companies that are considered to be in the vanguard of the India export story, only 25% have a meaningful exposure to exports

Even within our subset of 40 companies, exports constituted around 14% of overall FY06 net revenues, implying that near-term growth and profitability for even these select players will continue to be determined by domestic growth. Over FY98-06, exports constituted around 8.5-14.2% of net revenues. At end-FY06, only 7 players had exports exceeding 30% of revenues; by end-FY07 we might have another 2-3 players. Still, this implies that even among the companies that are considered to be in the vanguard of the India export story, only 25% have a meaningful exposure to exports. The majority's revenue growth and profitability over the next 1-2 years will likely continue to be determined by domestic growth and profitability.

In addition, with the domestic market forecast to grow at a 10-15% CAGR (for cars, 2 wheelers and CVs) over the next 2 years, export growth would have to be sustained at appreciably higher levels for a longer period of time in order to comprise a meaningful share of overall revenues by FY10.

With developed economies forecast to grow at 3-4% CAGRs, growth for auto parts players would have to come through market penetration and customer acquisition

With most developed economies forecast to grow at 3-4% CAGRs over the next 3-5 years, growth for Indian auto-component players would have to come through market penetration and customer acquisition, rather than growth in repeat orders. We see 2 issues with this:

1. Auto parts manufacturers would have to spread themselves thin – i.e. they would face cost pressures as they focus on relatively more customers which provide them with lower scale (over the next 1-2 years) compared to domestic OEMs. Most ancillaries today target OEMs and tier-one suppliers in developed economies, which implies that their customer base is far more fragmented than that of the domestic OEM base.

2) Customer acquisition might be expedited with acquisition of businesses overseas – for instance, players such as Bharat Forge, Amtek Auto, Sundram Fasteners have all acquired businesses abroad. However, acquisitions, even though they might be value-accretive from the start (on account of valuations being far higher in India), bring with them the attendant risks of business integration (which takes 2-3 years), increased FX risk (in addition to transaction risk, owning assets and liabilities abroad also results in translation risk) and, most importantly, lower growth. This inorganic growth strategy, if carried out to the extent that a meaningful proportion (say, 50% or more) of the consolidated revenues and profits of a company is from businesses located outside India (especially in mature economies with stagnant growth rates), it would result in auto parts players based in India having overall consolidated growth rates (of revenues and profits) far lower than those obtainable only in India. The delicate balancing act that these ancillaries will then have to achieve is transferring incremental business from their subsidiaries abroad to India, whilst assuaging their end customers' concerns on quality and timeliness. This process takes 2 – 3 years and does not get correctly reflected in lower valuation multiples.

http://deadpresident.blogspot.com

Manufacturing bases shifting to India: the best of both worlds

We estimate that by FY09-10, almost 20% of total passenger-car capacities in India will be dedicated to the export markets

OEMs are increasingly transferring production bases to India in a bid to cut costs. We think ancillaries should focus on this business, rather than direct exports. The advantage is that it would transfer logistical constraints from the ancillaries to the OEMs. Moreover, ancillaries would also benefit as their working capital cycles would remain tight (resulting in better balance sheet management). Concurrently, there is less uncertainty about declines in demand in this business as extant demand in developed markets (rather than new business) is being catered to. We estimate that by FY09/10, almost 20% of total passenger-car capacities in India will be dedicated to the export markets.

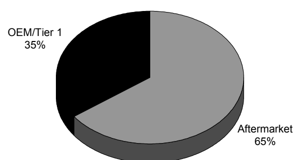
Increasing exposure of ancillaries to OEMs in export markets

ACMA notes that in FY06 around 75% of overall exports were to OEMs and tier-one players, with the remainder to the aftermarket. In the 1990s, 65% was to the aftermarket and 35% to the OEMs. The implication of this is two-fold:

1. Auto parts players will be increasingly exposed to product cycles in developed markets; the impact of changing emission norms, new safety regulations, etc. will be accentuated. Export growth will thus become more volatile (especially around years when there are emission norm changes).

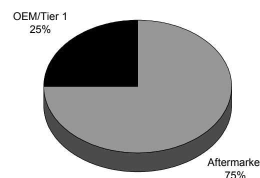
2. Auto parts players, while moving up the value chain, will have to make upfront investment in both R&D and also technology. This will result in increased earnings volatility as capital costs will impact earnings. Consequently, growth in the latter will be non-linear, which does not permit the usage of valuation methodologies such as DCF analysis, which assumes that capex requirements are limited and growth is steady.

Figure 10. Export Composition, 1990s



Source: ACMA

Figure 11. Export Composition, 2006



Source: ACMA

Component suppliers' investment to increase at faster pace

An ACMA-McKinsey report estimates that if India's auto parts industry has to reach its potential of US$33bn-40bn in revenues by 2015 (from US$10bn today), it would require a minimum additional investment of US$15bn-20bn per annum. This implies an incremental asset turnover ratio of around 1.5x (additional US$30bn in revenues / US$20bn investments). Over the past few years, our subset of companies has had asset turns (revenues / fixed assets) of 2-3x. But as these leading auto parts players increasingly scale up — participating in product design and development and becoming systems

http://deadpresident.blogspot.com

assemblers — it would result in higher upfront investments. The need for such robust growth in investment is one of the reasons why we think DCF-based methods are not the best methods for this industry.

With the trend in vendor development accelerating, domestic OEMs are also increasingly outsourcing requirements to their vendors

With the trend in vendor development accelerating, domestic OEMs are also increasingly outsourcing requirements to their vendors, with vendors investing more than 50% of the outlay of total projects. For instance, Hero Honda will invest Rs9.6bn (in total) for its new 1.5m-unit 2-wheeler plant in Uttaranchal, whilst its vendors will invest Rs10bn (the ancillary / OEM investment ratio is >1x) Similarly, for the M&M-Renault-Nissan facility in Tamil Nadu, the OEMs are expected to invest Rs40bn and ancillaries are likely to invest Rs100bn (implying an ancillary / OEM investment ratio of 2.5x).

The implications are that asset turns of OEMs would rise, while those of component vendors would decline. We thus believe that for the auto parts industry, in aggregate, return ratios are likely to trend down over the long term — for structural reasons — rather than those related to P&L (revenue / margin) pressures.

Auto component players are trading at premiums to OEMs

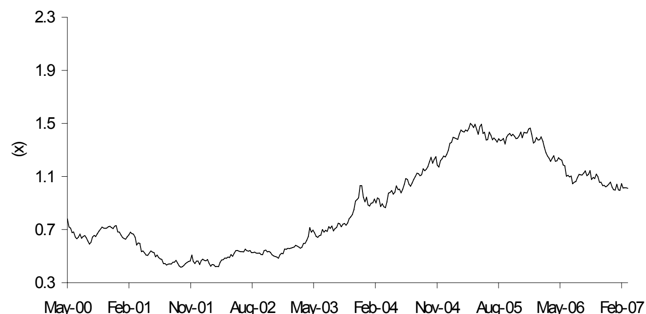
The high-growth thematic export plays within the auto parts industry are currently trading at a marginal premium to domestic OEMs, and also at a premium to the broad market. Within the "export plays", we include Mico, Bharat Forge, Amtek Auto, Sundram Fasteners and Tube Investments. The relative 1-year forward P/E of this basket of 5 stocks (vs. the domestic auto OEMs) has averaged 1.1x over the past 12 months, implying that investors are still paying a premium (vs. domestic OEMs) for the export growth story.

Figure 12. Relative P/E (x) — CIR Auto Parts Index vs. Domestic OEMs

Source: Bloomberg and Citigroup Investment Research estimates

Note: Companies included are Mico, Bharat Forge, Amtek Auto, Sundram Fasteners and Tube Investments

Figure 13. Relative P/E (x) — CIR Auto Parts Index vs. Sensex



Source: Bloomberg and Citigroup Investment Research estimates

Note: Companies included are Mico, Bharat Forge, Amtek Auto, Sundram Fasteners and Tube Investments

Looking ahead, we believe that the export story, which resulted in a re-rating of these companies, could hinder the long-term growth prospects of these companies and result in their eventual de-rating, if not managed properly. Large

http://deadpresident.blogspot.com

companies like Bharat Forge and Amtek Auto are almost US$1bn in revenues — with >50% of sales either from export markets or from subsidiaries headquartered abroad. The natural growth rate in mature markets is around 5% or below. Growth can thus be achieved by acquiring more orders from existing customers (ie, increased market share among customers), acquiring new customers, or by buying businesses. The first 2 strategies, though more desirable and more enduring, are also more time consuming. The third strategy brings with it the appeal of short-term growth, but longer term results in a slowdown of overall growth rates, unless the company becomes a 'serial acquirer'. While this should not impact the multiple ascribed to these businesses over the short term, over the longer term it would result in the de-rating of the valuation multiple, to account for increasing business complexity, and the attendant risks of integration and execution that accompany an acquisition-driven growth strategy.

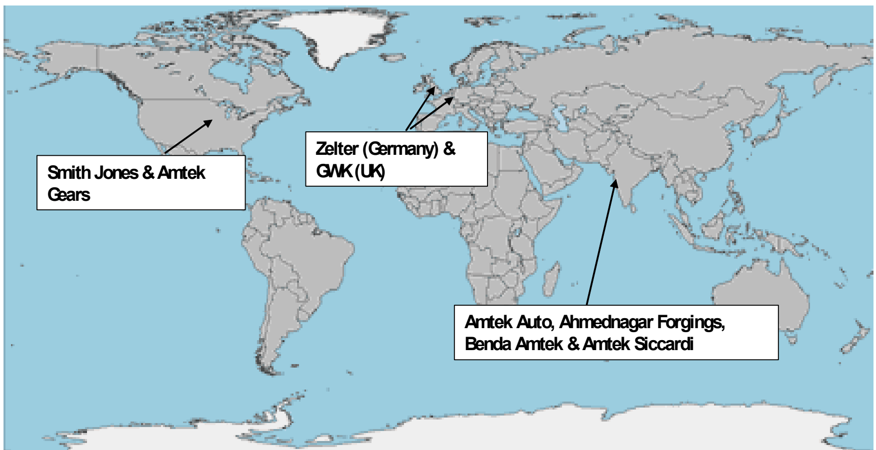
http://deadpresident.blogspot.com

Company Overview

Amtek Auto is India's second-largest forging player

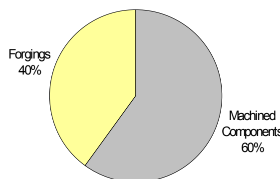
Amtek Auto, which began operations in 1987, is the flagship company of the Amtek Group. Amtek Auto is India's second-largest forging player with an annual capacity of 85,000MT forgings (at end-FY06) and 25m machined auto components. Its products include forgings, castings, machined parts and sub-assemblies for engines, transmission systems and suspension components. Amtek Auto is the world's largest manufacturer of ring gears through subsidiary Smith Jones. The company has a large customer base that straddles most segments of the auto industry. Over the past few years, Amtek Auto has undertaken several acquisitions, which have given it a large global footprint. The company has plants in India, the US, the UK and Germany. It has 7 subsidiaries, of which 2 are in the US and 1 each in the UK and Germany.

Figure 14. Amtek Auto and Its Subsidiaries



Source: Company and Citigroup Investment Research

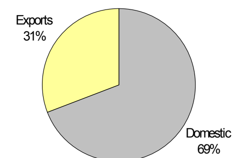
Figure 15. Amtek Auto — FY06 Product Mix (%)



Source: Company Reports

Note: Reflects only standalone revenues

Figure 16. Amtek Auto — FY06 Revenue Mix (%)



Source: Company Reports

Note: Reflects only standalone revenues

http://deadpresident.blogspot.com

Figure 17. Subsidiary Details — Products and Capacities

Name	% Stake Amtek Auto	Products	FY 07E Installed Capacities	Main Segments
Ahmednagar Forgings Limited	50.17%	Closed Die Steel forgings and auto components	Forgings: 165,000 MT, Machined Components (25,000 MT)	Passenger Cars, Two wheelers, LCV/HCV, Tractors, Railways
Benda Amtek Limited	96.63%	Flywheel ring gears/assemblies	8.9 million units	Passenger Cars, Two wheelers, LCV/HCV
Amtek Siccardi India Limited	100%	Crankshafts	3.15 million units	Passenger Cars, Two wheelers, LCV/HCV, Tractors
Smith Jones Inc	100%	Flywheel ring gears, rolled rings, flex plate assemblies	10 million units*	Passenger Cars
Amtek Investments (UK) Limited, GWK	100%	Engine Components and Drivetrains		Passenger Cars
Amtek Investments (US) Limited	100%	Ring gears		Passenger Cars
Zelter	70%	Exhaust Manifolds, Brackets, Pulleys	11 million units*	Passenger Cars

Source: Company reports

* As of FY06

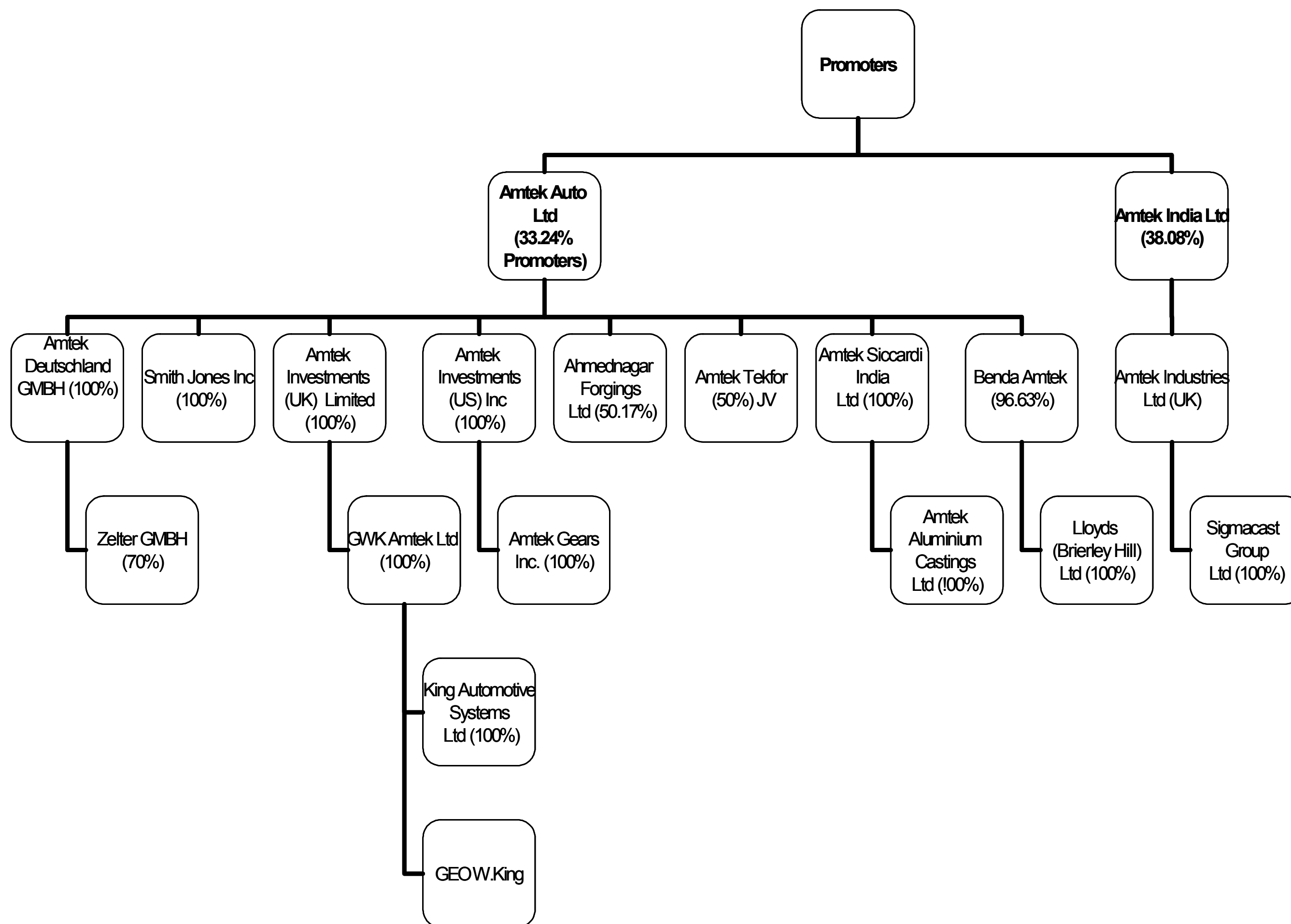
Figure 18. Subsidiaries — Customer and Competitors Details

Name	Main Customers	Main Competitors
Ahmednagar Forgings Limited	GWK, Fairfield Atlas, Cummins, King Automotive Systems, Coventry	Bharat Forge, Amforge, MM Forgings
Benda Amtek Limited	Maruti Udyog Limited, Eicher, Bajaj Auto, Case New Holland, Escorts	High Tech Gears, Ring Gear Aqua
Amtek Siccardi India Limited	Eicher Motors, New Holland tractors, M&M, Fiat India, Hero Honda, L&T John Deere	
Smith Jones Inc	Ford, Toyota, Honda, Kawasaki, John Deere	Sanko Peterson
Amtek Investments (UK) Limited, GWK	Ford, General Motors	Defontaine, Albone, Kilton
Amtek Investments (US) Limited	GM, Ford, Nissan	Sanko Peterson
Zelter	Daimler Chrysler, Ford, Opel, Borg Warner Turbosystems, GKN Automotive, Visteon	Kupper, Metapress, Weslin, Schlote, Femeg

Source: Company reports

http://deadpresident.blogspot.com

Figure 19. Amtek Group — Corporate Structure



Source: Company reports

Strong but concentrated client base

Amtek Auto sales concentration to its top six customers has increased significantly

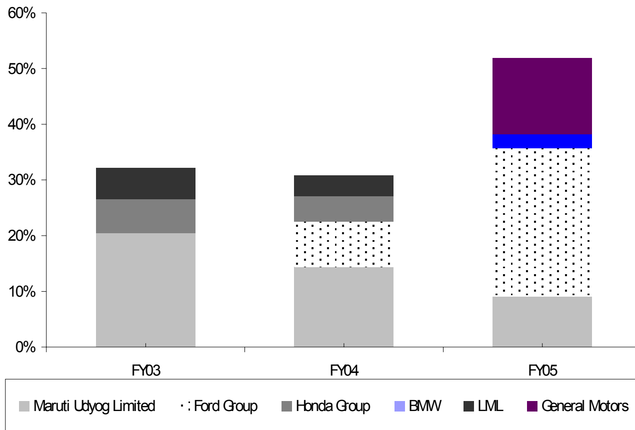
Amtek Auto sales concentration to its top six customers increased significantly from 32% in FY03 to 52% in FY05 largely due to contribution of the Amtek UK Group, which is a tier-one supplier to General Motors, Ford and BMW. Assuming the most optimistic scenario — that business from these clients remained static, whilst overall revenues grew from other clients — these top 4 would still account for ~22% of FY07E revenues. Within Amtek's international subsidiaries, the trend recurs: Smith Jones had 2 clients that comprised >40% of FY06 revenues and Amtek Investments (US) had 2 customers accounting for 70% of FY06 revenues.

With such high customer concentration come 3 attendant risks: (1) the bargaining power rests with the OEMs; (2) stretched credit periods; and (3) enhanced risk to profitability if any of the key customers defaults. The first risk is most applicable to Amtek's domestic revenue streams. Given the highly consolidated market for cars, 2-wheelers and trucks in India, we think

http://deadpresident.blogspot.com

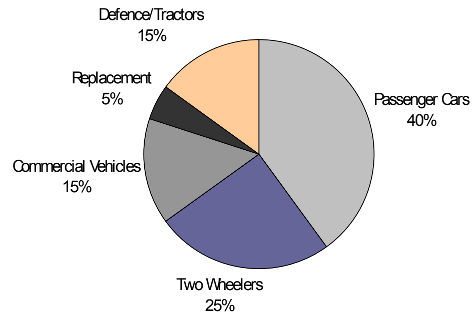
component players like Amtek will remain disadvantaged over the next 3-4 years, as OEMs will continue to have bargaining power. The other two risks are more relevant in the export markets, especially since the financial health of the OEMs and the small tier-one and -two players is weaker than that of the domestic OEMs.

Figure 20. Customer Concentration (Amtek Auto Consolidated Revenues, %)



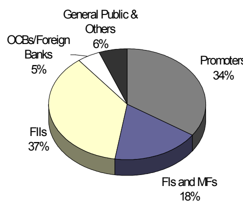
Source: Company

Figure 21. FY06 Segmental Sales Breakdown (Amtek Auto Standalone)



Source: Company

Figure 22. Shareholding Structure (%)



Source: Company Reports

Management structure and shareholding pattern

Amtek Auto, which commenced operations in 1987, was founded by Mr Arvind Dham, an architect by profession. He continues as Chairman and Managing Director; professionals manage the day-to-day operations of Amtek Auto and other group companies. The founding family's stake in the business has declined over the years to around 34%, with FIIs holding 37%.

http://deadpresident.blogspot.com

Business Strategy

Growth through acquisitions

Amtek Auto has made a clutch of acquisitions at reasonable multiples over the past few years.

Figure 23. Subsidiaries — Acquisition Details of Key Acquisitions

Subsidiary	Date of Acquisition	Acquisition price	Acquisition Multiple (x)	07E Sales	07E PAT
Ahmednagar Forgings Limited	October 2002	Rs 180 million	0.14x Price / Sales	6,007	677
Smith Jones Inc	December 2002	USD 2.7 million	N/A	1,257	41
Amtek Investments (UK) Limited, GWK	October 2003	USD 31.7 million	EV/EBITDA of 3.5 x	11,085	425
Amtek Investments (US) Limited	January 2005		N/A	408	-30
Zelter	2005	Euro 30 million	EV/EBITDA of 4.1 x	6,600	136

Source: Company Reports

The companies that Amtek Auto typically acquires have been financially distressed

Given that these acquisitions were undertaken at multiples far lower than those of Amtek Auto, they have been value accretive. The companies that Amtek Auto typically acquires have been financially distressed. Amtek Auto has turned them around in two to three years by offshoring basic operations to India (arbitraging off the labor costs) while retaining the critical operations within those plants. Moreover, it has also retained the managements of the acquired companies, to ensure that relationships with clients are maintained. Amtek Auto's management also believes that these companies provide an opportunity for steady business over the next few years, as they increasingly outsource their business requirements to Amtek Auto's domestic operations. For instance, Amtek Auto acquired GWK UK, which is primarily a tier-one supplier that assembles and machines components. It procures aluminium and cast iron castings, and machines them to pre-defined specifications like engine parts, manifolds, etc. It now sources a substantial proportion (we estimate 80%) of its requirements from Amtek Auto and other Amtek group companies in India.

Amtek Auto has a 'war chest' of over Rs14bn. Management has indicated that it is considering several acquisitions. Companies being targeted typically have a turnover ranging US$50m-300m. But management has also indicated that it is becoming increasingly difficult to acquire companies at the multiples prevalent 2 years ago. It is unwilling to pay more than 4.5x EV / EBITDA; beyond this multiple, it becomes difficult to reap synergies from the acquisition.

We believe acquisitions at reasonable valuations will become increasingly difficult going forward

We believe that as players abroad realize that they have been selling themselves cheap, it would inflate transaction multiples abroad. Additionally, global players are also coming to India. As they understand the cost structures (and the amount of profits that can be generated by transferring businesses to India), it would likely result in buy-out multiples abroad rising. Long-term, we question the efficacy of Amtek Auto's strategy, especially as the company grows to US$1bn in revenues. While it has been possible to show strong growth and supernormal profits over the past 2-3 years, we believe it will become increasingly difficult going forward.

http://deadpresident.blogspot.com

Revenues skewed toward cars, 2-wheelers

We estimate that more than 70% of Amtek Auto's consolidated revenue comes from the passenger-car industry

We estimate that more than 70% of Amtek Auto's consolidated revenue comes from the passenger-car industry. By contrast, Bharat Forge has around 27% of consolidated revenues coming from the passenger-car industry. The key attractions of the passenger-vehicle market are: (1) it is much larger than the commercial-vehicle market; and (2) it is less cyclical. Within the domestic market, revenues are well distributed among cars (40% of revenues), 2-wheelers (25%), CVs (15%), defence and railways (15%) and replacement (5%). The overall mix thus looks very stable, given that 65% of growth comes from 2-wheelers and cars, which enjoy fairly steady growth.

Strong technical collaborations

Amtek Auto has several technical collaborations with global players that enable it to remain at the forefront of technology. It has collaborations with Aizen Limited, Japan (for connecting rod assemblies), Ateliers de Siccardi, France (for crankshafts) and Benda Kogyo, Japan (for flywheel ring gears). In addition, it recently formed JVs with Magna Powertrain (to manufacture flexplate assemblies) and Neumayer TekFor, Germany (for cracked connecting rods).

http://deadpresident.blogspot.com

Earnings Outlook

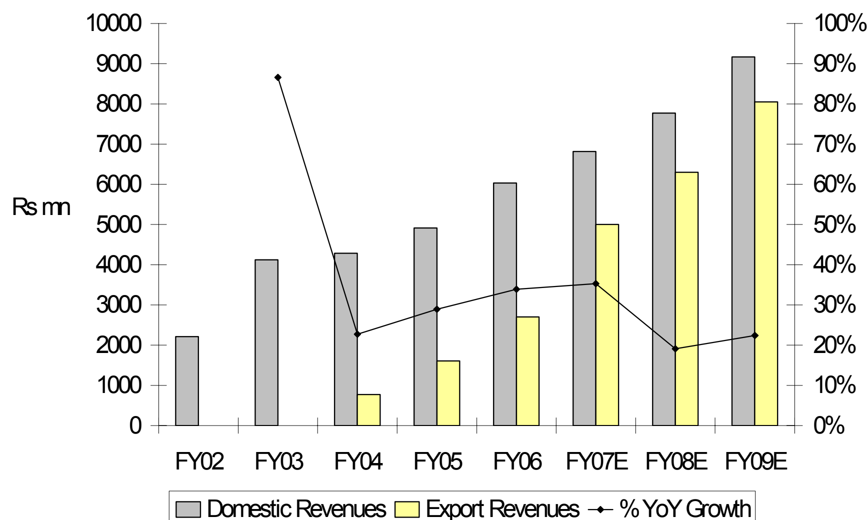
Standalone revenues forecast to grow at 21% CAGR in FY07-09E

Amtek Auto has delivered robust performance over the past few years due to strong growth in the key segments of the domestic market (cars, 2 wheelers) and success in its export initiatives. Over FY07-09, we forecast Amtek Auto's standalone revenues will grow at a 21% CAGR. While we forecast domestic revenues to grow at a 16% CAGR (marginally higher than management's forecasts of 15%), growth will likely be spurred by exports, which we forecast at Rs8bn by end-FY09E (implying growth of c27% CAGR over FY07-09E).

While domestic growth should be driven by increased offtake by key customers such as Maruti, Tata Motors and Bajaj Auto, we expect export growth to be spurred by sourcing of business from key subsidiaries like Amtek UK (GWK). Our expectations are that 70% of total exports over FY07-09E will be to various group companies of Amtek, located abroad.

At end-FY07E, we forecast that Amtek will have cash reserves of around Rs14.5bn (funds raised through US$400m of convertible bonds). Management has indicated that it is considering further acquisitions abroad, but we have not factored these into our estimates.

Figure 24. Amtek Auto (Standalone) Revenue Growth



Source: Company Reports and Citigroup Investment Research estimates

EBITDA margins likely to remain range-bound

Raw-material costs constituted around 60% of Amtek Auto's FY06 net revenues, and are the key pressure points on margins. The trend in margins is interesting: after declining from 26% in FY02 to 22% in FY04 (the trough), margins recovered to 24% in FY05, before touching 30.5% in FY06. Amtek Auto's revenues can be analyzed from 2 perspectives — forged parts and machined components, and domestic revenues vs. exports. Management states that on

http://deadpresident.blogspot.com

forged parts, its margins are around 20-22%, but machining has relatively higher margins of 27-28% (more or less corresponds with Bharat Forge's margin profile). It is on exports that Amtek earns substantially higher margins of 30-35%, which has resulted in the sharp upward trend in margins, especially over FY06, as the proportion of exports in overall sales increased substantially.

We believe that margins on domestic revenues will continue to be pressured as OEMs like Maruti and Tata Motors relentlessly cut costs. On export revenues, we believe that Amtek's clients will drive down prices as the quantum of repeat orders increases. We thus forecast a decline of 250bps in EBITDA margins over FY06-09E, and estimate that margins will stabilize at around 28-29%.

Figure 25. De-Crypting Amtek's Auto Export Margins

GWK sells at	100
GWK's Cost of production	90
GWK's EBITDA margin at	10%
Amtek Auto's cost of production	
(35% lower than GWK)	58.5
Add: 5% logistics cost	2.9
Total cost	61.4
Cost differential between Amtek and GWK	28.6
Benefit passed on	8
(As % of GWK's sale price)	
Amtek sells at	92
Amtek's EBITDA	30.6
Amtek's EBITDA (%) on export sales	33%

Source: Company Management

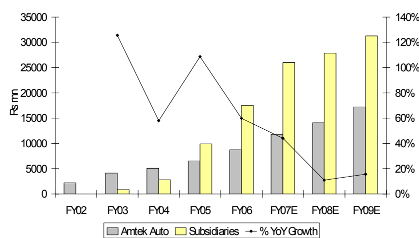
Standalone net profits to grow at 19% CAGR over FY07-09E

We estimate a 19% net profit CAGR over FY07-09E. Capital costs (especially depreciation) are expected to rise steadily, but should be offset by interest income (earned on unutilized proceeds of the convertible bond offerings). The effective tax/ PBT ratio should marginally trend down (we assume 200bps over FY07-09E), as some of Amtek Auto's plants enjoy tax holidays. Amtek Auto's strategy is to utilize transfer pricing to book most of the profits in the Indian operations, as effective tax rates in India are around 24-25%, lower than the >30% tax rates abroad.

Consolidated revenues forecast to grow at 13% CAGR over FY07-09E

We forecast consolidated revenues to grow at a 13% CAGR over FY07-09E, toward the high end of the 10-15% revenue guidance indicated by management. The growth is more muted than Amtek Auto's standalone revenue growth, given that it comes off a higher base, and also given the fact that a lot of the subsidiaries located abroad — Smith Jones, Amtek UK, Amtek US and Amtek Deutschland — are in inherently low-growth markets, which drags down the overall rate of growth. Despite this, we forecast that Amtek Auto's revenues will be over US$1bn by FY09E. If the company undertakes another acquisition(s) over the interim period, it would provide further upside to our revenue forecasts.

Figure 26. Amtek Auto Consolidated Revenue Growth



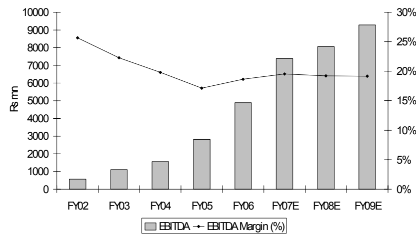
Source: Company Reports and Citigroup Investment Research estimates

Consolidated margins likely to remain steady at around 19%

We believe that with business being transferred from Amtek's subsidiaries abroad to Amtek Auto and Ahmednagar forgings, consolidated margins should remain stable at around 19%. Management has indicated that margins could come off slightly to 18-18.5%, implying that there is slight downside risk to our estimates. Margins of the subsidiaries vary, depending on scale and location. The Indian subsidiaries — Ahmednagar Forgings, Benda Amtek and Amtek Siccardi — have margins of 17-19%, but players like Smith Jones, Amtek UK (GWK), Amtek US and Amtek Deustchland (Zelter) have EBITDA margins of around 5.5-6%, which we forecast will move to 8-10%, thus offsetting the slight decline in margins of standalone operations. Again, the key pressure points on margins will be material costs (management indicated that whilst cost increases are 100% pass-through in domestic markets, within international markets, for every US$1 increase in steel prices, only 80-90 cents can be passed on to clients, implying that pricing pressure is very stiff in international markets from OEMs. Moreover, customer concentration is very high in some of these subsidiaries, which also reduces their bargaining power vis-à-vis their OEM customers.

http://deadpresident.blogspot.com

Figure 27. Amtek Auto Consolidated EBITDA & EBITDA Margin (%)



Source: Company Reports and Citigroup Investment Research estimates

Consolidated earnings to grow at 17% CAGR over FY07-09E

We forecast earnings to grow at a faster pace than revenues, on account of a) relatively stable margins, b) increase in non operating income, c) declining financial expenses. Overall capex for subsidiaries is not very meaningful, implying that depreciation will also remain relatively stable.

At present, given lack of disclosures, we have not factored in income either from Amtek Tekfore, nor have we factored in income from the JV with Magna (which should commence operations in 2008).

http://deadpresident.blogspot.com

Financial Position

Healthy capital structure, despite a series of acquisitions

Amtek Auto's capital structure has remained healthy, averaging around 1.1x in the past few years, though debt-equity peaked at 1.33x in FY06E

Amtek Auto's capital structure has remained relatively healthy, averaging around 1.1x in the past few years, though debt-equity peaked at 1.33x in FY06E. Overall, the company has been prudent in ensuring that its acquisitions were undertaken at very reasonable multiples. In fact, some acquisitions like Ahmednagar Forgings, undertaken as they were at the bottom of the cycle, have been extremely value accretive. This has been one of management's greatest strengths — not overpaying for acquisitions. Management has indicated that it has a series of acquisitions in the pipeline, but will buy out businesses only if they are at reasonable multiples — not exceeding 4.5x EV / EBITDA. This is a prudent practise, in our view. Going forward, we expect the debt-equity ratios to further moderate to around 0.5x as cash surpluses are used to pay off bank borrowings. We have also forecast the US$150m FCCB issuance as converted, depicting a further improvement in the capital structure. Our forecasts might materially change, if Amtek acquired a substantial business abroad that has an unfavorable capital structure.

Figure 28. Balance Sheet Structure (%), FY05-09E

	FY05	FY06	FY07E	FY08E	FY09E
Net Fixed Assets	43.1	39.8	44.5	39.3	33.9
Net Working Capital	16.5	16.4	23.4	25.9	26.6
Cash and Cash equivalents	33.7	37.8	26.1	28.3	33.7
Other Investments	1.3	1.7	1.7	2.7	2.4
Others	5.5	4.4	4.4	3.9	3.5

Source: Company Reports and Citigroup Investment Research estimates

The overall balance sheet structure remains healthy, with around 40% of capital employed in fixed assets

The overall balance sheet structure remains healthy, with around 40% of capital employed in fixed assets, with cash and cash surpluses (unutilized proceeds from 2 FCCBs totaling over US$300m) constituting nearly 38% of the capital employed. Working capital comprises around 16.5% of the overall balance sheet; going forward, we expect it to account for 25-26% of capital employed, especially as exports increase. The typical collection cycle for domestic sales is between 30 and 90 days; it ranges from 120 to 135 days for export sales. Thus, as the proportion of exports in the overall mix increases, it will stretch working capital norms. The proportion of fixed assets, at 40%, is lower than the historical average of over 60%, due to the recent raising of surplus funds. However, while we don't forecast it, we would expect net fixed assets to constitute 65-70% of overall funds employed — assuming that management finds suitable acquisition targets.

Figure 29. Working Capital Ratios, FY05-09E

	FY05	FY06	FY07E	FY08E	FY09E
Inventory turnover (days)	57	74	80	85	85
Collection Period (days)	60	67	69	70	70
Payables (days)	47	68	70	70	70

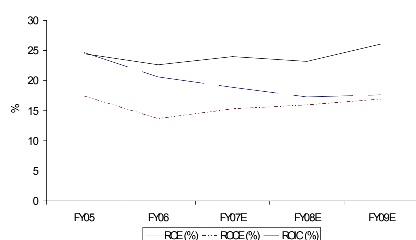
Source: Company Reports and Citigroup Investment Research estimates

http://deadpresident.blogspot.com

Profitability deflated by cash surpluses

Over the past 2 years, Amtek Auto has raised US$400m through 2 tranches of convertible bonds — proceeds of which are largely utilized. Because a large proportion of the balance sheet is in liquid assets, overall asset utilization norms are depressed and in turn RoCE and RoE have also been impacted. Amtek Auto's (standalone) RoE and RoCE are at 16% and 10% respectively over FY06. However, for the consolidated entity, RoE and RoCE were at 21% and 14% respectively. Going forward, we expect Amtek Auto's consolidated RoCE to improve to around 17%, but expect the RoE to trend downward to around 18% (due to the deleveraging of the balance sheet). Returns on invested capital employed (excluding cash and equivalents and investments in subsidiaries / group concerns), remain fairly buoyant, and is expected to trend up to around 26% from the current 23% level.

Figure 31. ROE, ROCE and ROIC (%)



Source: Company Reports and Citigroup Investment Research estimates

Figure 30. Key Financial Ratios, FY05-FY09E

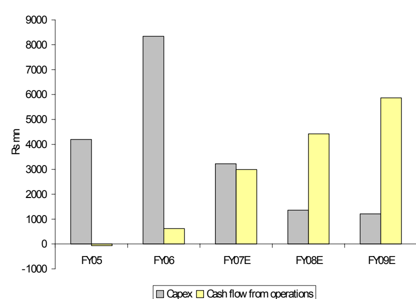
	FY05	FY06	FY07E	FY08E	FY09E
Debt / Equity (x)	1.2	1.3	0.6	0.6	0.5
ROE (%)	24.7	20.6	18.9	17.3	17.6
ROCE (%)	17.5	13.7	15.3	16.0	16.9
ROIC (%)	24.5	22.6	24.0	23.2	26.1
Fixed Asset Turnover (x)	2.0	1.7	2.2	2.5	3.0
Total Asset Turnover (x)	0.8	0.7	1.0	1.0	1.0

Source: Company Reports, Citigroup Investment Research Estimates

Healthy operating and free cash flows

We forecast Amtek Auto and its subsidiaries will undertake capex of Rs5.8bn over FY07-09E. This excludes any acquisitions, which our forecasts do not reflect. The capex is primarily for the expansion of Amtek Auto's forging and machining capacities (which are to be expanded by 47% and 40% from current levels), and also to expand Ahmednagar Forging's forging capacity to 160,000 tpa (from the current 114,000 tpa). We do not forecast significant capex in the subsidiaries, given that the focus will be to transfer lines and capacities to India, rather than investing overseas. Overall operating cash flows will likely be robust; we forecast a near doubling to almost Rs5.9bn in FY09E, from around Rs3bn in FY07E. Amtek Auto (the consolidated entity) should also be free cash flow positive from FY08E onward.

Figure 32. Capital Expenditure and Operating Cash Flows



Source: Company Reports and Citigroup Investment Research estimates

http://deadpresident.blogspot.com

Quants view — Contrarian

Paul Chanin
+65 6432 1153
Singapore

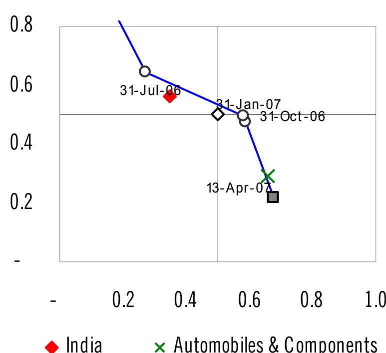
Amtek Auto lies in the Contrarian quadrant of our value-momentum map with weak momentum scores but strong relative valuation characteristics. Trend earnings growth of 25.4%, coupled with a trailing P/E of 14.2x, gives Amtek a high valuation score, ie, it appears to be cheaper relative to the universe. Consistently negative earnings revisions, and price momentum, which has seen better days, give this stock a low score on Momentum. Historically, the stock's migration on a momentum waning path can be attributed to the recent tapering off of price momentum. On the valuation front, Amtek Auto ranks higher than the Indian market and the Automobiles & Components sector, whereas on the momentum axis it ranks lower than both.

Our quantitative macro risk analysis indicates that Amtek Auto will benefit from a stronger US$ and small-caps out-performance over large-cap stocks in the region. Conversely, growth stock outperformance over value stocks and rising Asian interest rates are likely to prove to be a negative for this name.

Radar Screen Quadrant Definitions

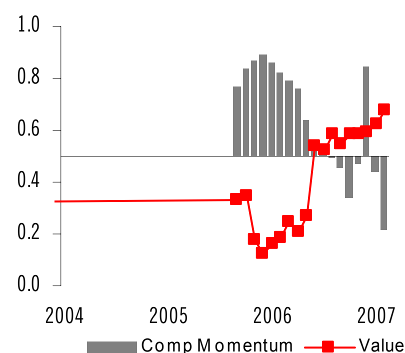
Glamor *Poor relative value but superior relative momentum*	Attractive *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	Contrarian *Superior relative value but poor relative momentum*

Figure 33. Radar Quadrant Chart History



Source: Citigroup Investment Research

Figure 34. Radar Valuation Momentum Ranks



Source: Citigroup Investment Research

Figure 35. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	na	Implied Trend Growth % (3+2)	25.4
FY(-1)	15.96	Trailing PE (x)	14.2
FY0	20.52	Implied Cost of Debt (%)	3.65
FY1	24.99	StdMktCap	(0.17)
FY2	32.02		

Source: Worldscope, I/B/E/S

Figure 36. Macro Sensitivity

Region	0.64	Commodity ex Oil	(0.16)
Local Market	0.69	Rising Oil Prices	0.08
Sector	0.35	Rising Asian IR's	(0.43)
Growth Outperforms Value	(1.02)	Rising EM Yields	(0.01)
SmallCaps Outperform LargeCaps	0.60	Stronger US$ (vs Asia)	1.48
Widening US Credit Spreads	(0.35)	Weaker ¥ (vs US$)	0.62

Source: Citigroup Investment Research

http://deadpresident.blogspot.com

Financials

Figure 37. Profit and Loss Statement (Standalone), FY02-09E (Rupees in Millions)

Year to 30 June	FY02	FY03	FY04	FY05	FY06	FY07E	FY08E	FY09E
Domestic Revenues	2,209	4,123	4,287	4,914	6,032	6,816	7,770	9,169
% of Net Sales	100%	100%	85%	75%	69%	58%	55%	53%
Export Revenues	0	0	772	1,608	2,703	5,000	6,300	8,050
% of Net Sales	0%	0%	15%	25%	31%	42%	45%	47%
Machined Auto components	1,488	2,767	3,249	3,841	5,231	7,680	9,146	11,192
% of Net Sales	67%	67%	64%	59%	60%	65%	65%	65%
Forgings	721	1,356	1,811	2,681	3,504	4,136	4,925	6,027
% of Net Sales	33%	33%	36%	41%	40%	35%	35%	35%
Net Sales	**2,209**	**4,123**	**5,060**	**6,522**	**8,734**	**11,816**	**14,070**	**17,219**
% Change YoY		87%	23%	29%	34%	35%	19%	22%
Raw Materials	1,386	2,669	3,409	4,349	5,209	7,208	8,653	10,676
% of Net Sales	63%	65%	67%	67%	60%	61%	62%	62%
Power & Fuel Cost	36	78	94	116	165	223	266	325
% of Net Sales	2%	2%	2%	2%	2%	2%	2%	2%
Manufacturing Expenses	28	49	38	47	72	96	119	143
% of Net Sales	1%	1%	1%	1%	1%	1%	1%	1%
Employee Cost	115	207	254	305	419	544	681	851
% of Net Sales	5%	5%	5%	5%	5%	5%	5%	5%
Selling and Administration Expenses	72	123	126	131	181	264	323	401
% of Net Sales	3%	3%	2%	2%	2%	2%	2%	2%
Miscellaneous Expenses	6	7	3	23	22	22	22	21
% of Net Sales	0%	0%	0%	0%	0%	0%	0%	0%
Total Expenses	**1,642**	**3,134**	**3,924**	**4,970**	**6,066**	**8,357**	**10,063**	**12,415**
% of Net Sales	74%	76%	78%	76%	69%	71%	72%	72%
EBITDA	**567**	**989**	**1,135**	**1,552**	**2,668**	**3,459**	**4,007**	**4,804**
EBITDA (%)	26%	24%	22%	24%	31%	29%	28%	28%
Other Income	22	26	41	189	215	660	670	680
Depreciation	182	323	350	411	497	671	760	831
EBIT	408	692	827	1,329	2,386	3,448	3,918	4,653
Interest Expense	159	213	177	128	203	236	205	205
Profit Before Tax	249	479	650	1,201	2,183	3,212	3,712	4,447
Tax Provisioning	77	55	129	273	548	835	928	1,067
PAT	**172**	**424**	**521**	**928**	**1,636**	**2,377**	**2,784**	**3,380**
Exceptional Items	0	0	0	0	0	0	0	0
PAT (pre exceptional)	**172**	**424**	**521**	**928**	**1,636**	**2,377**	**2,784**	**3,380**
Profit Margins								
EBITDA (%)	26%	24%	22%	24%	31%	29%	28%	28%
EBIT (%)	17%	16%	16%	17%	25%	24%	23%	23%
Pre - Tax Margins (%)	11%	12%	13%	18%	25%	27%	26%	26%
Tax / PBT Margins (%)	31%	11%	20%	23%	25%	26%	25%	24%
PAT (%)	8%	10%	10%	14%	19%	20%	20%	20%
EPS FD (Rs)	4.4	5.5	6.7	7.0	10.1	14.7	17.2	20.9
CEPS FD (Rs)	9.1	9.6	11.2	10.1	13.2	18.8	21.9	26.0

Source: Company Reports and Citigroup Investment Research estimates

http://deadpresident.blogspot.com

Figure 38. Consolidated Profit and Loss Statement, FY02-09E (Rupees in Millions)

Profit and Loss Statement (Rs mn) (year ended 30 June)	FY02	FY03	FY04	FY05	FY06	FY07E	FY08E	FY09E
Amtek Auto	2,209	4,123	5,060	6,522	8,734	11,816	14,070	17,219
% of Group Net Sales	100%	83%	64%	40%	33%	31%	34%	36%
Other Subsidiaries	0	861	2,810	9,895	17,501	25,974	27,854	31,259
% of Group Net Sales	0%	17%	36%	60%	67%	69%	66%	64%
Net Sales	**2,209**	**4,983**	**7,870**	**16,417**	**26,236**	**37,790**	**41,924**	**48,478**
% Change YoY		126%	58%	109%	60%	44%	11%	16%
Raw Materials	1,386	3,004	4,648	9,762	15,959	23,430	25,993	30,056
% of Net Sales	63%	60%	59%	59%	61%	62%	62%	62%
Power & Fuel Cost	36	148	268	404	527	718	797	824
% of Net Sales	2%	3%	3%	2%	2%	2%	2%	2%
Manufacturing Expenses	28	113	365	534	622	786	776	994
% of Net Sales	1%	2%	5%	3%	2%	2%	2%	2%
Employee Cost	115	411	705	2,328	2,975	3,868	4,448	5,115
% of Net Sales	5%	8%	9%	14%	11%	10%	11%	11%
Selling and Administration Expenses	72	191	317	497	1,185	1,584	1,834	2,179
% of Net Sales	3%	4%	4%	3%	5%	4%	4%	4%
Miscellaneous Expenses	6	7	8	80	77	22	22	21
% of Net Sales	0%	0%	0%	0%	0%	0%	0%	0%
Total Expenses	1,642	3,873	6,311	13,605	21,345	30,408	33,869	39,189
% of Net Sales	74%	78%	80%	83%	81%	80%	81%	81%
EBITDA	**567**	**1,110**	**1,559**	**2,812**	**4,890**	**7,382**	**8,055**	**9,289**
EBITDA (%)	25.7%	22.3%	19.8%	17.1%	18.6%	19.5%	19.2%	19.2%
Other Income	22	26	41	189	215	180	230	270
Depreciation	182	363	428	674	1,068	1,554	1,714	1,794
EBIT	408	774	1,172	2,326	4,037	6,008	6,572	7,764
Interest Expense	159	227	221	291	491	577	447	433
Profit Before Tax	249	547	951	2,035	3,546	5,431	6,125	7,331
Tax Provisioning	77	71	199	441	780	1,358	1,347	1,613
PAT	**172**	**476**	**751**	**1,594**	**2,767**	**4,073**	**4,777**	**5,719**
Minority Interest		13	48	118	202	391	526	658
PAT (pre exceptionals)	**172**	**463**	**703**	**1,475**	**2,564**	**3,682**	**4,252**	**5,061**
Profit Margins								
EBITDA (%)	26%	22%	20%	17%	19%	20%	19%	19%
EBIT (%)	17%	15%	14%	13%	15%	15%	15%	15%
Pre - Tax Margins (%)	11%	11%	12%	12%	14%	14%	15%	15%
Tax / PBT Margins (%)	31%	13%	21%	22%	22%	25%	22%	22%
PAT (%)	8%	9%	9%	9%	10%	10%	10%	10%
EPS FD (Rs)	4.4	6.0	9.1	11.1	15.8	22.7	26.2	31.2
CEPS FD (Rs)	9.1	10.7	14.6	16.2	22.4	32.3	36.8	42.3

Source: Company Reports, Citigroup Investment Research estimates

http://deadpresident.blogspot.com

Figure 39. Consolidated Balance Sheet, FY02-09E (Rupees in Millions)

As at 30 June	FY02	FY03	FY04	FY05	FY06	FY07E	FY08E	FY09E
SOURCES OF FUNDS :								
Share Capital	77	155	155	202	244	274	274	274
Reserves & Surplus	1,372	2,473	3,207	8,391	16,035	22,416	26,192	30,675
Total Shareholders Funds	**1,449**	**2,628**	**3,362**	**8,593**	**16,279**	**22,690**	**26,466**	**30,949**
Minority Interest	0	146	256	400	1,521	1,904	2,402	3,030
Preference Capital	181	163	163	38	13	13	13	13
Secured Loans	954	1,727	2,971	3,520	6,141	2,944	2,944	2,944
Unsecured Loans	338	342	379	6,975	15,487	11,468	11,468	11,468
Total Debt	**1,472**	**2,233**	**3,513**	**10,533**	**21,641**	**14,425**	**14,425**	**14,425**
Total sources of funds	**2,921**	**5,007**	**7,131**	**19,526**	**39,441**	**39,019**	**43,293**	**48,404**
APPLICATION OF FUNDS :								
Gross Block	2,323	4,733	6,502	8,987	18,639	21,729	22,779	23,829
Less: Accum. Depreciation	529	1,925	2,341	3,007	5,853	7,407	9,120	10,915
Net Block	**1,794**	**2,808**	**4,161**	**5,979**	**12,786**	**14,322**	**13,658**	**12,914**
Capital Work in Progress	179	605	723	2,431	2,898	3,028	3,338	3,496
Net Fixed Assets	1,973	3,413	4,884	8,410	15,684	17,349	16,996	16,409
Net Intangible Assets: Goodwill	0	0	976	973	1,665	1,665	1,665	1,665
Investment in group concerns	46	81	117	120	203	203	703	703
Marketable securities / Other investments	241	0	0	134	456	456	456	456
Total Investments	**287**	**81**	**117**	**254**	**659**	**659**	**1,159**	**1,159**
Inventories	535	1,192	1,474	2,122	4,315	6,665	7,887	9,126
Sundry Debtors	327	826	2,429	2,699	4,820	7,144	8,040	9,297
Cash and Bank Balance	69	74	173	6,572	14,901	10,175	12,237	16,291
Loans and Advances	83	238	333	1,204	4,150	6,238	7,494	8,663
Total current assets	1,014	2,330	4,409	12,597	28,186	30,222	35,659	43,377
Current Liabilities	328	746	3,005	2,493	6,225	9,164	10,393	12,025
Provisions	37	98	270	314	602	1,764	1,824	2,191
Total current liabilities and provisions	**364**	**845**	**3,275**	**2,807**	**6,827**	**10,928**	**12,216**	**14,216**
Net Current Assets	649	1,485	1,134	9,790	21,359	19,294	23,442	29,161
Deferred Revenue Expenses	13	28	20	99	73	51	30	9
Application of Funds	**2,921**	**5,007**	**7,131**	**19,526**	**39,441**	**39,019**	**43,293**	**48,404**

Source: Company Reports and Citigroup Investment Research estimates

Figure 40. Consolidated Cash Flow Statement, FY03-09E (Rupees in Millions)

Year to 30 June	FY03	FY04	FY05	FY06	FY07E	FY08E	FY09E
PBT	**547**	**951**	**2,035**	**3,546**	**5,431**	**6,125**	**7,331**
Depreciation	363	428	674	1,068	1,554	1,714	1,794
Change in Working Capital	(830)	450	(2,258)	(3,241)	(2,660)	(2,087)	(1,665)
Cash Flow from Operations	**(7)**	**1,638**	**(69)**	**620**	**2,989**	**4,426**	**5,868**
Capex	(1,803)	(1,899)	(4,201)	(8,342)	(3,219)	(1,361)	(1,208)
Change in Investments/Assets including goodwill	206	(1,013)	(134)	(1,098)	0	(500)	0
Change in Debt	760	1,280	7,020	11,108	(7,216)	0	0
Change in Equity	77	0	47	42	30	0	0
Increase/(Decrease) in Cash	**6**	**99**	**6,399**	**8,328**	**(4,725)**	**2,062**	**4,054**
Opening Cash and Bank Balance	**69**	**74**	**173**	**6,572**	**14,901**	**10,175**	**12,237**
Closing Cash and Bank Balance	**74**	**173**	**6,572**	**14,901**	**10,175**	**12,237**	**16,291**

Source: Company Reports and Citigroup Investment Research estimates

http://deadpresident.blogspot.com

Interim results

Figure 41. Profit and Loss Statement Standalone, 1H FY07 vs. 1H FY06 (Rupees in millions)

	1H FY06	1H FY07	% chg YoY
Net sales/Income from others	**4,243**	**5,075**	**20%**
Raw Material Costs	2,491	2,987	20%
Staff Cost	194	234	21%
Other Expenditure	275	313	14%
Total Expenses	**2,960**	**3,535**	**19%**
EBITDA	**1,283**	**1,540**	**20%**
Other Income	97	329	241%
Interest	105	106	1%
Depreciation	254	265	4%
PBT	1,021	1,498	47%
Tax	276	403	46%
Net Profit after Tax	745	1,095	47%
Exceptional Items	0	0	
Pre exceptional PAT	**745**	**1,095**	**47%**
Ratios (%)			
EBITDA	30.2%	30.3%	
PBT	24.1%	29.5%	
PAT Margin	17.5%	21.6%	
Tax Rate	27.1%	26.9%	

Source: Company Reports

Figure 42. Profit and Loss Statement Consolidated, 1H FY07 vs. 1H FY06 (Rupees in Millions)

	1H FY06	1H FY07	% chg YoY
Net sales/Income from others	**13,081**	**18,873**	**44%**
Total Expenditure	10,693	15,166	42%
EBITDA	**2,389**	**3,708**	**55%**
Interest	262	370	41%
Gross Profit	2,126	3,337	57%
Depreciation	519	668	29%
PBT	1,607	2,669	66%
Tax	324	636	96%
Net profit after tax	1,283	2,033	58%
Minority Interest	113	190	68%
PAT After Minority Interest	1,170	1,843	58%
Extraordinaries net of tax	0	0	
Reported PAT after Minority Interest	**1,170**	**1,843**	**58%**
Margin Ratios (%)			
EBITDA Margin	18.3%	19.6%	
PBT Margin	12.3%	14.1%	
PAT Margin	8.9%	9.8%	
Tax Rate	20.2%	23.8%	

Source: Company Reports

http://deadpresident.blogspot.com

Amtek Auto

Company description

Amtek Auto, which began operations in 1987, is the flagship company of the Amtek Group. Amtek Auto is India's second-largest forging player with an annual capacity of 85,000MT forgings (at end-FY06) and 25m machined auto components. Its products include forgings, castings, machined parts and sub-assemblies for engines, transmission systems and suspension components. Amtek Auto is the world's largest manufacturer of ring gears through subsidiary Smith Jones. The company has a large customer base that straddles most segments of the auto industry. Over the past few years, Amtek Auto has undertaken several acquisitions, which have given it a large global footprint. The company has plants in India, the US, the UK and Germany. It has 7 subsidiaries, of which 2 are in the US and 1 each in the UK and Germany.

Investment thesis

We rate Amtek Auto as Hold/Medium Risk. India's advantages in auto parts are well documented: highly skilled engineers and relatively lower wages. Amtek Auto looks well positioned to benefit from the trend of increased outsourcing of auto parts to low-cost countries. For Amtek Auto, we forecast exports will account for around 40% of FY07E standalone sales (a CAGR of 86% over FY04-07E). The company's scale, cost advantages and technical capabilities imply a structural growth opportunity, but we believe at current multiples the market appears to be factoring in inorganic growth initiatives without adequately discounting the attendant risks - integration and execution risks, greater working capital requirements, and increasing complexity as inter-group transactions increase.

Valuation

Our target price of Rs437, which implies upside of 13% from current levels, is based on 14x our FY09 EPS estimate of Rs31.2 (fully diluted). We use P/E to value Amtek Auto because it is the most common measure used to value auto parts companies. Over the past two years, the stock has traded at 14x one-year forward EPS despite an earnings CAGR of 43% (FY05-07E), which implies a PEG of 0.33x. We believe Amtek Auto's valuations are capped by: (1) its complicated group structure, which has resulted in significant inter-company transactions and has diluted the clarity on earnings drivers; and (2) frequent equity dilutions due to fund-raising over the past few years.

Risks

We rate Amtek Auto as Medium Risk, which differs from the Low Risk rating accorded by our quantitative risk-rating system that tracks 260-day share price volatility. Our risk rating reflects the attendant risks with Amtek Auto's acquisition strategy. Moreover, its overall complex corporate structure obscures earnings drivers. Downside risks to our target price include: (1) deterioration in economic variables such as GDP, interest rates and fuel prices; (2) integration risks; (3) complex group structure; (4) customer concentration; and (5) product liability claims. Upside risks to our target price include: (1) favorable acquisitions; (2) faster than expected turnaround of acquired companies; and (3) a steady decline in input costs.

http://deadpresident.blogspot.com

http://deadpresident.blogspot.com

http://deadpresident.blogspot.com

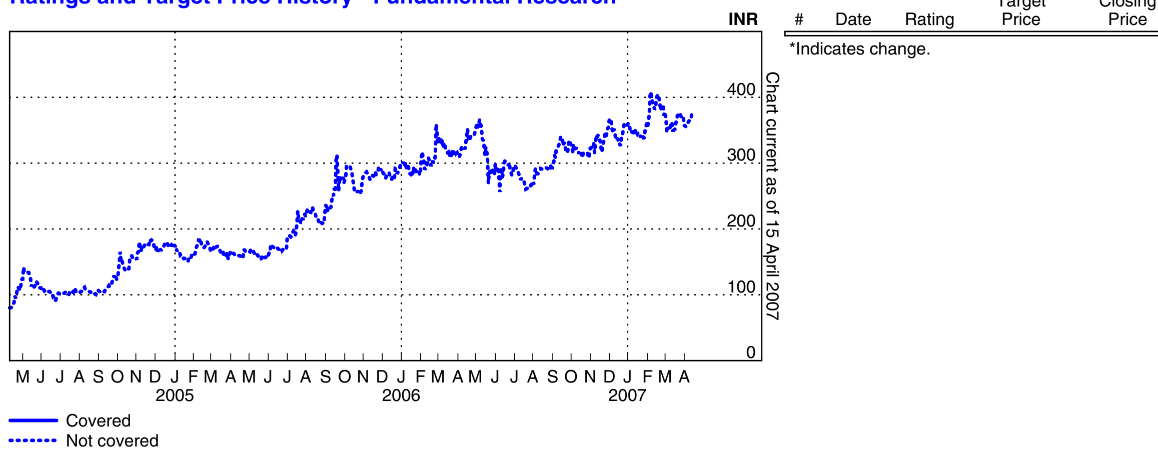
http://deadpresident.blogspot.com

Appendix A-1

Analyst Certification

I, Jamshed Dadabhoy, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES



Customers of the Firm in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at http://www.smithbarney.com (for retail clients) or http://www.citigroupgeo.com (for institutional clients) or can call (866) 836-9542 to request a copy of this research.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of American Axle & Manufacturing, Inc., Amtek Auto, Bharat Forge, Continental AG, Johnson Controls Inc., Lear Corporation, Michelin and Norstar. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Amtek Auto and Lear Corporation.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Amtek Auto, Bharat Forge, Faurecia, Harman International Industries Inc., Johnson Controls Inc. and Lear Corporation.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Amtek Auto, Autoliv Inc., Bharat Forge, BorgWarner, Inc., Continental AG, Faurecia, GKN plc, Harman International Industries Inc., Johnson Controls Inc., Lear Corporation, Magna International Inc, Michelin, Tenneco Inc and Valeo in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as investment banking client(s): Amtek Auto, Bharat Forge, Faurecia, Harman International Industries Inc., Johnson Controls Inc. and Lear Corporation.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: American Axle & Manufacturing, Inc., Amtek Auto, Autoliv Inc., Bharat Forge, BorgWarner, Inc., Continental AG, Faurecia, GKN plc, Harman International Industries Inc., Johnson Controls Inc., Lear Corporation, Magna International Inc, Michelin, Tenneco Inc and Valeo.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, non-securities-related: Amtek Auto, Autoliv Inc., Bharat Forge, BorgWarner, Inc., Continental AG, Faurecia, GKN plc, Harman International Industries Inc., Johnson Controls Inc., Lear Corporation, Magna International Inc, Michelin, Tenneco Inc and Valeo.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

The Firm is a market maker in the publicly traded equity securities of American Axle & Manufacturing, Inc., Autoliv Inc., BorgWarner, Inc., Continental AG, Gentex Corporation, GKN plc, Harman International Industries Inc., Johnson Controls Inc., Lear Corporation, Magna International Inc, Superior Industries International Inc., Tenneco Inc and Valeo.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citigroup Investment Research product ("the Product"), please contact Citigroup Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citigroup Investment Research Ratings Distribution *Data current as of 31 March 2007*	Buy	Hold	Sell

http://deadpresident.blogspot.com

Citigroup Investment Research Global Fundamental Coverage (3215)	45%	40%	15%
% of companies in each rating category that are investment banking clients	45%	42%	32%
Auto Manufacturers -- North America (10)	40%	30%	30%
% of companies in each rating category that are investment banking clients	50%	67%	0%
Auto Parts & Equipment -- Europe (9)	44%	56%	0%
% of companies in each rating category that are investment banking clients	0%	40%	0%
Auto Parts & Equipment -- North America (4)	50%	50%	0%
% of companies in each rating category that are investment banking clients	50%	50%	0%
China -- Asia Pacific (88)	72%	15%	14%
% of companies in each rating category that are investment banking clients	44%	46%	42%
India -- Asia Pacific (130)	58%	14%	28%
% of companies in each rating category that are investment banking clients	42%	50%	42%
Citigroup Investment Research Quantitative World Radar Screen Model Coverage (6249)	32%	40%	28%
% of companies in each rating category that are investment banking clients	30%	25%	23%
Citigroup Investment Research Quantitative Decision Tree Model Coverage (330)	48%	0%	52%
% of companies in each rating category that are investment banking clients	47%	0%	50%
Citigroup Investment Research Quantitative European Value & Momentum Screen (602)	30%	41%	30%
% of companies in each rating category that are investment banking clients	51%	40%	35%
Citigroup Investment Research Asia Quantitative Radar Screen Model Coverage (1861)	20%	60%	20%
% of companies in each rating category that are investment banking clients	23%	19%	17%
Citigroup Investment Research Quant Emerging Markets Radar Screen Model Coverage (1252)	20%	60%	20%
% of companies in each rating category that are investment banking clients	27%	26%	31%
Citigroup Investment Research Australia Quantitative Top 100 Model Coverage (99)	29%	40%	30%
% of companies in each rating category that are investment banking clients	41%	43%	40%
Citigroup Investment Research Australia Quantitative Bottom 200 Model Coverage (168)	30%	40%	30%
% of companies in each rating category that are investment banking clients	8%	10%	6%
Citigroup Investment Research Australia Quantitative Scoring Stocks Model Coverage (10)	50%	0%	50%
% of companies in each rating category that are investment banking clients	40%	0%	20%

Guide to Fundamental Research Investment Ratings:

Citigroup Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of Citigroup Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Guide to Corporate Bond Research Credit Opinions and Investment Ratings:

Citigroup Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings.

CBR risk ratings are approximately equivalent to the following matrix:

Low Risk -- Triple A to Low Double A
Low to Medium Risk -- High Single A through High Triple B
Medium to High Risk -- Mid Triple B through High Double B
High to Speculative Risk -- Mid Double B and Below

The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed-income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citigroup Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citigroup Investment Research's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are:

http://deadpresident.blogspot.com

Buy/Overweight -- the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at http://www.sd.ny.ssmb.com/ using the "Indexes" tab; Hold/Neutral Weight -- the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight -- the bond is expected to underperform the relevant sector of the Citigroup indexes.

Guide to Quantitative Research Investment Ratings:

Citigroup Investment Research Quantitative Research World Radar Screen recommendations are based on a globally consistent framework to measure relative value and momentum for a large number of stocks across global developed and emerging markets. Relative value and momentum rankings are equally weighted to produce a global attractiveness score for each stock. The scores are then ranked and put into deciles. A stock with a decile rating of 1 denotes an attractiveness score in the top 10% of the universe (most attractive). A stock with a decile rating of 10 denotes an attractiveness score in the bottom 10% of the universe (least attractive).

Citigroup Investment Research Quantitative Decision Tree model recommendations are based on a predetermined set of factors to rate the relative attractiveness of stocks. These factors are detailed in the text of the report. Each month, the Decision Tree model forecasts whether stocks are attractive or unattractive relative to other stocks in the same sector (based on the Russell 1000 sector classifications).

Citigroup Investment Research Quantitative European Value & Momentum Screen recommendations are based on a European consistent framework to measure relative value and momentum for a large number of stocks across the European Market. Relative value and momentum rankings are equally weighted to produce a European attractiveness score for each stock. The scores are then ranked and put into deciles. A stock with a decile rating of 1 denotes an attractiveness score in the top 10% of the universe (most attractive). A stock with a decile rating of 10 denotes an attractiveness score in the bottom 10% of the universe (least attractive).

Citigroup Investment Research Asia Quantitative Radar Screen and Emerging Markets Radar Screen model recommendations are based on a regionally consistent framework to measure relative value and momentum for a large number of stocks across regional developed and emerging markets. Relative value and momentum rankings are equally weighted to produce a global attractiveness score for each stock. The scores are then ranked and put into quintiles. A stock with a quintile rating of 1 denotes an attractiveness score in the top 20% of the universe (most attractive). A stock with a quintile rating of 5 denotes an attractiveness score in the bottom 20% of the universe (least attractive).

Citigroup Investment Research Quantitative Australian Stock Selection Screen rankings are based on a consistent framework to measure relative value and earnings momentum for a large number of stocks across the Australian market. Relative value and earnings momentum rankings are weighted to produce a rank within a relevant universe for each stock. The rankings are then put into deciles. A stock with a decile rating of 1 denotes an attractiveness score in the top 10% of the universe (most attractive). A stock with a decile rating of 10 denotes an attractiveness score in the bottom 10% of the universe (least attractive).

Citigroup Investment Research Quantitative Research Australian Scoring Stocks model recommendations are based on a predetermined set of factors to rate the relative attractiveness of stocks. These factors are detailed in the text of the report. Each month, the Australian Scoring Stocks model calculates whether stocks are attractive or unattractive relative to other stocks in the same universe(the S&P/ASX 100) and records the 5 most attractive buys and 5 most attractive sells on the basis of the criteria described in the report.

For purposes of NASD/NYSE ratings-distribution-disclosure rules, a Citigroup Investment Research Quantitative World Radar Screen and European Value & Momentum Screen recommendation of (1), (2) or (3) most closely corresponds to a buy recommendation; a recommendation from this product group of (4), (5), (6) or (7) most closely corresponds to a hold recommendation; and a recommendation of (8), (9) or (10) most closely corresponds to a sell recommendation.

For purposes of NASD/NYSE ratings distribution disclosure rules, a Citigroup Investment Research Asia Quantitative Radar Screen or Quantitative Emerging Markets Radar Screen recommendation of (1) most closely corresponds to a buy recommendation; a Citigroup Investment Research Asia Quantitative Radar Screen or Quantitative Emerging Markets Radar Screen recommendation of (2), (3), (4) most closely corresponds to a hold recommendation; and a recommendation of (5) most closely corresponds to a sell recommendation.

For purposes of NASD/NYSE ratings-distribution-disclosure rules, a Citigroup Investment Research Quantitative Research Decision Tree model recommendation of "attractive" most closely corresponds to a buy recommendation. All other stocks in the sector are considered to be "unattractive" which most closely corresponds to a sell recommendation.

Recommendations are based on the relative attractiveness of a stock, they can not be directly equated to buy, hold and sell categories. Accordingly, your decision to buy or sell a security should be based on your personal investment objectives and only after evaluating the stock's expected relative performance.

For purposes of NASD/NYSE ratings-distribution-disclosure rules, a Citigroup Investment Research Quantitative Australian Stock Selection Screen model ranking in the top third of the universe most closely corresponds, subject to market conditions, to a buy recommendation. A ranking in the bottom third of the universe, subject to market conditions, most closely corresponds to a sell recommendation. All other stocks in the universe correspond to a hold recommendation. However, because Citigroup Investment Research Quantitative Australian Stock Selection Screen model rankings are based on the relative attractiveness of a stock as compared to other stocks in the same universe, they can not be directly equated to buy, hold and sell categories. Accordingly, your decision to buy or sell a security should be based on your personal investment objectives and only after evaluating the stock's expected absolute performance.

For purposes of NASD/NYSE ratings-distribution-disclosure rules, membership of the Citigroup Investment Research Quantitative Australian Scoring Stocks Model buy portfolio most closely corresponds to a buy recommendation; membership of the Citigroup Investment Research Quantitative Australian Scoring Stocks Model sell portfolio most closely corresponds to a sell recommendation. However, because Citigroup Investment Research Quantitative Australian Scoring Stocks Model recommendations are based on the relative attractiveness of a stock, they can not be directly equated to buy, hold and sell categories. Accordingly, your decision to buy or sell a security should be based on your personal investment objectives and only after evaluating the stock's expected absolute performance.

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 19 April 2007 01:06 PM on the issuer's primary market.

Within the past 5 years, Citigroup Global Markets Inc. or its affiliates has acted as manager or co manager of an offering of equity securities of Amtek Auto, Bharat Forge and Continental AG.

Within the past 5 years, Citigroup Global Markets Inc. or its affiliates has acted as manager or co manager of an offering of fixed income securities of Bharat Forge, Continental AG, Johnson Controls Inc., Lear Corporation and Tenneco Inc.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to BorgWarner, Inc., Continental AG, Faurecia, GKN plc, Johnson Controls Inc., Lear Corporation, Magna International Inc, Michelin, Tenneco Inc and Valeo. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citigroupgeo.com.)

Citigroup Global Markets Inc. or its affiliates beneficially owns 2% or more of any class of common equity securities of American Axle & Manufacturing, Inc., Continental AG, Lear Corporation and Michelin.

http://deadpresident.blogspot.com

Citigroup Global Markets Inc. or its affiliates beneficially owns 5% or more of any class of common equity securities of Amtek Auto, Bharat Forge and Norstar.

Citigroup Global Markets Inc. or its affiliates holds a long position in any class of common equity securities of Autoliv Inc., Bharat Forge, BorgWarner, Inc., Continental AG, Faurecia, Harman International Industries Inc., Johnson Controls Inc., Lear Corporation, Magna International Inc and Michelin.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citigroup Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citigroup Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citigroup Wealth Advisors Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. If the Product was prepared by Citigroup Investment Research and distributed in Japan by Nikko Citigroup Ltd., it is being so distributed under license. Nikko Citigroup Limited is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Akasaka Park Building, 2-20, Akasaka 5-chome, Minato-ku, Tokyo 107-6122. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd., a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 lambton Quay, Wellington. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private

http://deadpresident.blogspot.com

customers in South Africa. The Product is made available in Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citigroup Investment Research's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would be illegal. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. Advice in the Product has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs.

© 2007 Citigroup Global Markets Inc. Citigroup Investment Research is a division and service mark of Citigroup Global Markets Inc. and its affiliates and is used and registered throughout the world. Citigroup and the Umbrella Device are trademarks and service marks of Citigroup or its affiliates and are used and registered throughout the world. Nikko is a registered trademark of Nikko Cordial Corporation. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST