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India Morning Meeting Notes



T O D A Y ' S S T O R I E S

Federal-Mogul Goetze India – Looks ready to deliver

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Company news

Federal-Mogul Goetze India (FMGI IN; Rs401.70; Buy) – Looks ready to deliver

FMGI looks well positioned to benefit from its trained manpower and facilities with its parent eager to shift 25 plants to low-cost countries within three years. The dieselisation of domestic cars is in its favour, so we stay at Buy and raise our target price to Rs583.

Key forecasts

	FY04A	FY05A	FY06F	FY07F	FY08F
Revenue (Rsm)	4487.6	4571.4	4045.4	6774.7	8088.6
EBITDA (Rsm)	919.8	698.0	693.8	1425.1	1782.9
Reported net profit (Rsm)	237.0	-487.4	106.6	527.6	767.2
Normalised net profit (Rsm) ¹	353.6	2.35	208.4	627.6	867.2
Normalised EPS (Rs)	14.0	0.09	8.24	24.8	34.3
Dividend per share (Rs)	4.00	0.00	0.00	1.00	1.50
Dividend yield (%)	1.00	0.00	0.00	0.25	0.37
Normalised PE (x)	28.7	4320.5	48.7	16.2	11.7
EV/EBITDA (x)	14.9	20.1	19.9	9.02	6.93
Price/book value (x)	6.41	10.5	9.65	4.07	3.18
ROIC (%)	9.95	4.63	5.70	14.5	16.7

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

*Mar yr-ending for 04 & 05, Dec yr-ending from 06F
year to Dec, fully diluted

Back to profits in 2Q, with impressive margins

FMGI returned profits for quarter 2QCY06, as the restructuring-led clean-up of the balance sheet was carried out over the March and June 2006 quarters. FMGI reported an 18.9% EBITDA margin in the September 2006 quarter vs 11.1% in the June 2006 quarter as operations stabilised under parent Federal-Mogul's new systems.

Ready to gain from parent's eagerness to move to low-cost countries

FMGI's parent has moved quickly to clean up and streamline operations in India over the past two quarters. With its skilled manpower and capability, the company is well positioned to benefit from its parent's plan to shift 25 plants to low-cost countries by 2008, under its 2006 restructuring programme. Given 10 plant closures have already been announced globally, we expect benefits to begin to accrue for FMGI as early as calendar 1Q07, with the company building scale from that point forward.

We adjust our forecasts for the changed year-end

FMGI has changed its year-end from March to December to get in sync with its parent. We have adjusted our forecasts accordingly and have incorporated the impact of the balance sheet clean-up on financials. We expect the dieselisation of domestic cars in India to promote 18% growth in domestic sales for CY07 and CY08, and we expect exports to grow more than five-fold as a result of the parent's proposed plant shift. We expect PAT to quadruple for CY06-08, leading to EPS of Rs24.8 in CY07F and Rs34.3 in CY08F.

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We maintain our Buy recommendation, with 46% upside potential

An aggressive sales ramp-up as a result of the car dieselisation drive, where FMGI has a monopoly, coupled with significant export opportunities to FM's clients as a result of written-down plants, offers impressive potential profitability growth and ROE improvement. FMGI's stock has had an 80% return in the nine months since the change of parent, but it looks attractively valued at 11.7x CY08F EPS and 8.2x CY08F cash EPS of Rs48.7 cum rights. With a rights issue giving existing investors an opportunity to participate in growth without diluting holdings, we reiterate our Buy rating. We increase our target price from Rs535 to Rs583, which is at 17x CY08F EPS, representing 9.4x EV/EBITDA for CY08F.

News headlines**Economics and Politics**

Block deals make 8% of BSE turnover in '06 (Financial Express)

Oil and Gas

Shell in talks to buy up to 15% in OVL's Nigerian blocks (Financial Express)

Banks

ICICI hikes loan rates by 50bp (Business Standard)

Pharma

Morepen files suit against Swiss firm over contract (Business Standard)

Glenmark to put US\$2mn in phase-1 trials of pain drug (Business Standard)

Ranbaxy plans retail, education foray (Economic Times)

Commodities

CSN has US\$12bn kitty for Corus (Business Standard)

Auto

Mahindra & Mahindra allots shares on conversion of FCCBs (Business Line)

IT, Telecom, Media

L&T Infotech acquires US-based GDA Tech (Business Standard)

India adds 6.79m mobile phone users in November (Financial Express)

FLAG Telecom inks deal with Lanka Bell for undersea cable (Business Line)

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