



Prabhudas
Lilladher

Fulfilling investors' needs since 1944

Mahantesh Sabarad
91-22-6632 2238
Aniket Mhatre
91-22-6632 2239

Senior Research Analyst
MahanteshSabarad@PLIndia.com
Research Associate
AniketMhatre@PLIndia.com

Q3 FY07
Result Update

Ahmednagar Forgings

Outperformer

Rs 246

May 3, 2007

Pace of growth below expectations

Company Details		Result Snapshot	
Market Cap:	Rs 10,605m	<p>Ahmednagar Forgings' Q3 FY07 growth pace rose from 48.5% in Q2 FY07 to 69.4%, taking its net sales to Rs 1,752m. We had expected Rs 1,967m and the lower figures are attributable to slower capacity ramp-up.</p> <p>With a faster (72.7%) growth in EBITDA to Rs 368m, the margin improved by 40bp to 21%. This, coupled with a marginal fall in the tax rate, resulted in an 86.3% PAT rise to Rs 206m.</p> <p>The margin betterment came about through a higher scale of operations even as material cost, at 67.9%, touched historical highs. This is more reflective of the changing product mix brought about by the higher exports.</p> <p>At the reigning market price of Rs 246, the stock trades at 7.2x the FY08E fully-diluted EPS of Rs 34.4. Maintain OUTPERFORMER.</p>	
52-Week High/Low:	Rs 300 / 134		
Bloomberg Code:	AHF@IN		
Reuters Code:	AHMD.BO / NS		
Shares O/s:	43m		
Average Volume (3 months):	37,487m		
Price Performance			
(%)	1m	3m	12m
Absolute	3.2	(12.2)	13.1
Relative to Sensex	(2.9)	(10.7)	(2.1)

Q3 FY07 Result Overview

(Rs m)

Y/e June	Q3 FY07	Q3 FY06	YoY Gr. (%)	Q2 FY07	9M FY07	9M FY06	YoY Gr. (%)
Net Sales	1,752	1,034	69.4	1,524	3,778	2,250	67.9
Expenditure							
Raw Material	1,181	600	96.8	1,005	2,415	1,369	76.4
Change in Stock	8	57		10	72	(27)	
<i>as % of Net Sales</i>	<i>67.9</i>	<i>63.5</i>	<i>438</i>	<i>66.6</i>	<i>65.8</i>	<i>59.6</i>	<i>618</i>
Personnel Cost	46	38	22.3	45	120	106	13.0
<i>as % of Net Sales</i>	<i>2.6</i>	<i>3.6</i>	<i>(101)</i>	<i>2.9</i>	<i>3.2</i>	<i>4.7</i>	<i>(154)</i>
Mfgr. Expenses	149	127	17.3	149	408	373	9.3
<i>as % of Net Sales</i>	<i>8.5</i>	<i>12.3</i>	<i>(377)</i>	<i>9.7</i>	<i>10.8</i>	<i>16.6</i>	<i>(578)</i>
Total Expenditure	1,384	821	68.6	1,208	3,014	1,821	65.6
EBITDA	368	213	72.7	316	764	430	77.9
<i>EBITDA Margin (%)</i>	<i>21.0</i>	<i>20.6</i>	<i>40</i>	<i>20.7</i>	<i>20.2</i>	<i>19.1</i>	<i>113</i>
Depreciation	34	31	9.5	26	69	53	29.3
EBIT	334	182	83.4	290	695	376	84.8
Net interest	35	15	132.7	35	77	34	125.1
PBT	298	167	78.9	255	618	342	80.8
Tax	93	56	64.6	79	198	111	78.9
<i>Tax Rate %</i>	<i>31.1</i>	<i>33.8</i>	<i>(271)</i>	<i>31.1</i>	<i>32.0</i>	<i>32.3</i>	<i>(33)</i>
PAT	206	110	86.3	175	421	232	81.6

(Stock price as on April 30, 2007)



Result highlights

AFL's reported Q3 FY07 results belied our expectations. The net sales growth pace rose from 48.5% in Q2 FY07 to 69.4%, taking the net sales to Rs 1,752m. With the operating leverage aided to some extent by the lower tax rate, PAT growth was 86.3% to Rs 206m, trailing our estimate by 9.6%.

With a faster (72.7%) growth in EBITDA to Rs 368m, the margin improved by 40bp to 21%. This margin improvement came about through a higher scale of operations even as material cost, at 67.9%, touched historic highs. This is more reflective of the changing product mix brought about by the higher exports.

The company's ambitious expansion would see it install an eventual forgings capacity of 165,000 tpa. This is partly being made possible from the assembly line bought from a unit of Tyco International for Rs 400m, which had a 35,000-tpa capacity. This line is partly under installation at the Kuruli plant, its key feature being a large 6,000-ton Ajax press. Already commissioned, the press allows for the manufacturing of large components required for commercial vehicles. This line has made a difference and added such fresh clients as Sanden, Fairfield, EMD Engine Locomotives and Anvil International to AFL's Kuruli plant.

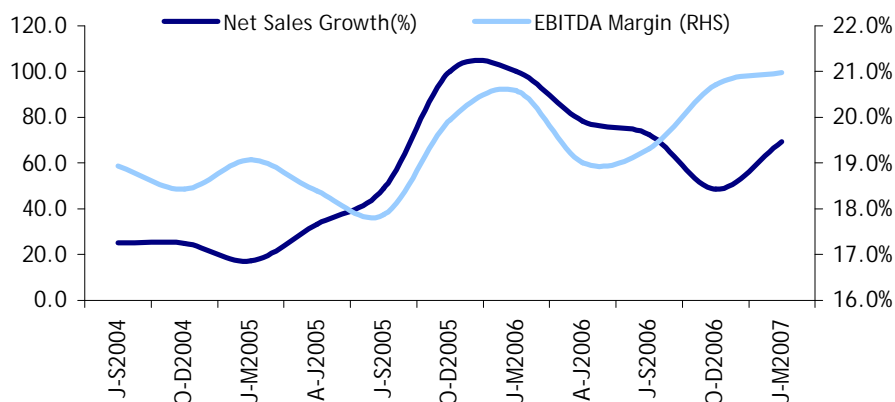
Exports are driving up

The company's ready overseas customer base, large front-end machining facilities (of the parent group) in the form of subsidiaries Zelter and GWK and low-cost feedstock forgings plants in India would allow it to quickly scale up the outsourcing platform. Amtek Auto's thrust towards integrating its recent acquisitions is backed by the labour arbitrage it gains from its outsourcing plants in India including those of Ahmednagar Forgings. Hence, the latter is embarking upon an expansion that would more than treble its capacity to 165,000 tpa. This would facilitate it in aiming for export revenues of about Rs 2.8bn in FY08, ten times the FY06 Rs 0.2bn. About 30% of "exports" by AFL then would be to GWK alone.

Sales growth and margin expansion are on the upswing

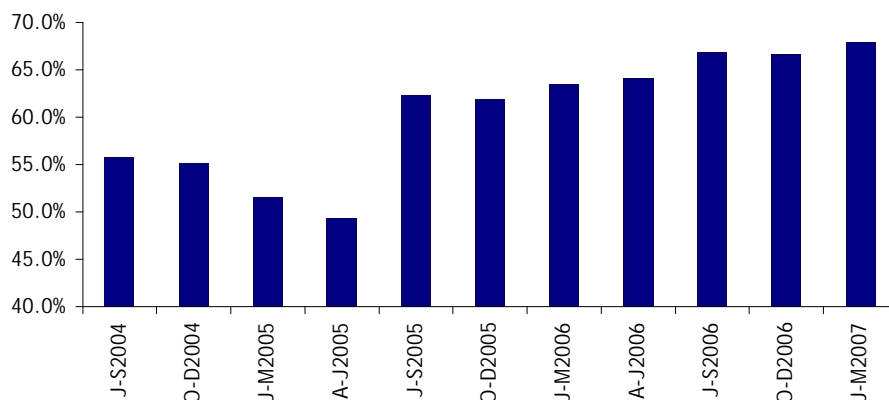
Although below our expectations, sales rose 69%, while the margin expanded by 40bp to 21% propelled by a 12% growth in exports to Rs 580m during the quarter.

Product mix favouring export-driven margins



Source Company Data, PL Research

Increasing raw material cost a concern



Source: Company Data, PL Research

Rising steel prices have taken AFL's proportion of raw material cost to net sales to 67.9%, the highest ever. However, the higher scale of operations through the capacity ramp-up and a better product mix favouring exports would assist AFL in maintaining its margins ahead.

Estimates changed

Due to lower-than-expected sales growth in Q3 FY07, we lower our FY07 top-line and bottom-line estimates by 10.6% and 13.3% respectively.

Estimates lowered due to slower capacity ramp-up

	Revised Estimates		Earlier Estimates		% Revision	
	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E
Net Sales (Rs m)	6,220	10,178	6,955	9,598	(10.6)	6.0
Adj. PAT (Rs m)	711	1,142	820	1,242	(13.3)	(8.1)
EPS (Rs)	21.4	34.4	24.7	37.4	(13.3)	(8.1)

Source: PL Research

Outlook

AFL's expanded facility and the ramp-up in exports to its sister companies would see it chart an ambitious 47% CAGR from FY06 to FY09, to touch Rs 11.9bn, and post a much healthier 50% PAT rise to Rs 1.38bn. After having ourselves seen the installation of the new capacities at its plant, we believe that, with capacity utilisations set to improve, the growth seems attainable.

At the reigning market price of Rs 246, the AFL stock trades at 7.2x the FY08E fully-diluted EPS of Rs 34.4. Maintain **OUTPERFORMER**.



Key Figures

Y/e June	FY06	FY07E	FY08E	FY09E
Revenues (Rs m)	3,755	6,220	10,178	11,870
EBITDA (Rs m)	732	1,267	2,046	2,398
<i>Margins (%)</i>	<i>19.5</i>	<i>20.4</i>	<i>20.1</i>	<i>20.2</i>
PAT (Rs m)	409	711	1,142	1,383
EPS (Rs)	12.3	21.4	34.4	41.6
PER (x)	20.0	11.5	7.2	5.9
EV / E (x)	12.6	8.4	5.4	4.4
EV / Sales (x)	2.4	1.7	1.1	0.7
<i>RoCE (%)</i>	<i>17.6</i>	<i>17.2</i>	<i>21.4</i>	<i>22.3</i>
<i>RoE (%)</i>	<i>24.6</i>	<i>25.1</i>	<i>32.9</i>	<i>31.9</i>

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security. The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein. Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor. Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication. We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.