

Strong in line performance

Retain bullish stance, but lower PO

Q4 performance was in line with our expectations, measured across financial parameters. The key positives include increase in export sales (up 143% YoY) and margin expansion (up 86bps). While retaining our bullish stance, we are pruning our PO to Rs 715 (from Rs 775), which is based on our sluggish fiscal 2007 outlook for domestic long haulage trucks.

Operational performance in line

Net profit at Rs 133mn was in line with our estimates, on a strong operational performance. EBITDA increased 44.2% to Rs 257mn (MLe Rs 244mn), as margins improved 86bps to 18.9%.

Sales supported by increase in exports

Net sales registered in line growth of 37.6% at Rs 1.36bn, on the back of exports (up 143% at Rs 163mn). We expect exports to sustain growth over the medium term. Domestic sales grew 28.8% to Rs 1388mn, in line with offtake of truck OEMs.

Forecasts pruned on weaker domestic outlook

We are lowering forecast EPS by 7% in FY07 and 7.8% in FY08, to factor in the lower than expected domestic outlook for long haulage trucks. We now estimate 24.8% EPS CAGR (earlier 29.3%) over the next 2 years.

PO lowered to Rs 715

Our revised PO of Rs 715 (earlier Rs 775) reflects revised earnings estimates, but based on the existing imputed multiple of 16x FY08E EPS (YE Sept). This represents a 20% discount imputed to group concern, Bharat Forge (C-1-7), being smaller in size.

Estimates (Sep)

(Rs)	2004A	2005A	2006E	2007E	2008E
Net Income (Adjusted - mn)	226	369	433	550	675
EPS	14.98	24.39	28.69	36.41	44.70
EPS Change (YoY)	13.0%	62.8%	17.6%	26.9%	22.8%
Dividend / Share	10.00	12.50	14.30	18.00	22.00
Free Cash Flow / Share	3.36	4.69	(3.95)	11.81	23.22

Valuation (Sep)

	2004A	2005A	2006E	2007E	2008E
P/E	36.62x	22.49x	19.12x	15.07x	12.27x
Dividend Yield	1.82%	2.28%	2.61%	3.28%	4.01%
EV / EBITDA*	19.98x	13.80x	10.84x	9.55x	7.97x
Free Cash Flow Yield*	0.612%	0.855%	-0.720%	2.15%	4.23%

* For full definitions of iQmethodSM measures, see page 5.



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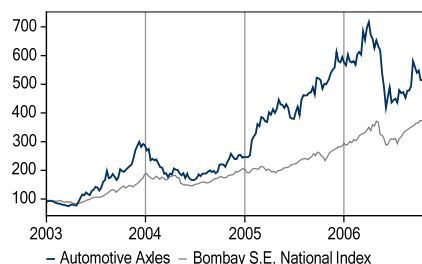
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Stock Data

Price	Rs548.55
Price Objective	Rs715.00
Date Established	24-Nov-2006
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs331.00-Rs819.80
Mrkt Val / Shares Out (mn)	US\$185 / 15.1
Average Daily Volume	5,172
ML Symbol / Exchange	XATOF / BSE
Bloomberg / Reuters	ATXL IN / ATOA.BO
ROE (2006E)	51.8%
Net Dbt to Eqty (Sep-2005A)	75.5%
Est. 5-Yr EPS / DPS Growth	25.0% / 25.0%
Free Float	30.0%



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Refer to important disclosures on page 6 to 7. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

iQprofileSM Automotive Axles

Key Income Statement Data (Sep)	2004A	2005A	2006E	2007E	2008E
(Rs Millions)					
Sales	2,646	3,544	4,618	5,197	5,918
Gross Profit	516	703	917	1,037	1,234
Sell General & Admin Expense	(54)	(34)	(66)	(70)	(77)
Operating Profit	362	560	714	812	967
Net Interest & Other Income	(5)	(10)	(66)	(26)	(23)
Associates	NA	NA	NA	NA	NA
Pretax Income	358	550	648	786	945
Tax (expense) / Benefit	(131)	(181)	(215)	(236)	(269)
Net Income (Adjusted)	226	369	433	550	675
Average Fully Diluted Shares Outstanding	15	15	15	15	15

Key Cash Flow Statement Data

Net Income (Reported)	226	369	433	550	675
Depreciation & Amortization	100	109	137	154	190
Change in Working Capital	(88)	(146)	(118)	(40)	(332)
Deferred Taxation Charge	6	8	23	0	0
Other Adjustments, Net	(6)	(8)	(23)	0	0
Cash Flow from Operations	238	331	452	664	533
Capital Expenditure	(187)	(260)	(512)	(485)	(182)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	0	0	0	0	0
Cash Flow from Investing	(187)	(260)	(512)	(485)	(182)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(171)	(215)	(244)	(309)	(380)
Cash Flow from Financing	(24)	(54)	106	(124)	(380)
Free Cash Flow	51	71	(60)	178	351
Net Debt	404	560	864	995	1,024
Change in Net Debt	120	144	304	131	29

Key Balance Sheet Data

Property, Plant & Equipment	669	841	1,216	1,547	1,540
Other Non-Current Assets	0	0	0	0	0
Trade Receivables	383	639	647	709	801
Cash & Equivalents	47	52	98	152	123
Other Current Assets	831	1,013	1,334	1,430	1,690
Total Assets	1,929	2,545	3,295	3,839	4,153
Long-Term Debt	450	612	962	1,147	1,147
Other Non-Current Liabilities	68	76	76	76	76
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	822	1,115	1,325	1,443	1,462
Total Liabilities	1,341	1,803	2,363	2,666	2,685
Total Equity	589	742	932	1,172	1,468
Total Equity & Liabilities	1,929	2,545	3,294	3,838	4,153

iQmethodSM - Bus Performance*

Return On Capital Employed	23.2%	30.2%	28.1%	27.6%	28.8%
Return On Equity	40.4%	55.4%	51.8%	52.3%	51.2%
Operating Margin	13.7%	15.8%	15.5%	15.6%	16.3%
EBITDA Margin	17.5%	18.9%	18.4%	18.6%	19.6%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.1x	0.9x	1.0x	1.2x	0.8x
Asset Replacement Ratio	1.9x	2.4x	3.7x	3.2x	1.0x
Tax Rate (Reported)	36.7%	33.0%	33.1%	30.0%	28.5%
Net Debt-to-Equity Ratio	68.6%	75.5%	92.7%	84.9%	69.7%
Interest Cover	38.4x	26.1x	10.8x	11.0x	12.1x

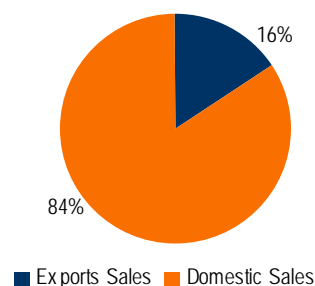
Key Metrics

* For full definitions of iQmethodSM measures, see page 5.

Company Description

Automotive Axles Ltd. (AXTL) was established in 1981 as a JV between Arvin Meritor Inc., USA and the Kalyani Group. The company's manufacturing facilities are located at Mysore (Karnataka). AXTL is the largest independent manufacturer of rear drive axle assemblies in India. Key clients are Ashok Leyland, Tata Motors and Maruti Udyog in the domestic market and Daimler Chrysler and Meritor in the int'l markets.

Chart 1: Net sales FY07 – Rs5,197mn



Source: Merrill Lynch Research Estimates

Stock Data

Price to Book Value 8.9x

Table 1: Quarterly Earnings Summary

	4QFY06	4QFY05	3QFY06	YoY	QoQ
Domestic Sales	1,388	1,077	1,268	28.8%	9.4%
Export Sales	163	67	169	142.8%	-3.3%
Gross Sales	1,551	1,145	1,437	35.5%	7.9%
Excise Duty	-193	-158	-189	-22.5%	-2.2%
Net Sales	1,358	987	1,248	37.6%	8.8%
Expenditure	1,101	809	1,043	36.2%	5.5%
(increase) decrease in stock	-8	19	9	-142.9%	-187.1%
Raw Materials	908	634	838	43.4%	8.4%
Staff Cost	59	50	57	17.9%	2.9%
Other Expenditure	142	106	139	33.7%	2.2%
EBITDA	257	178	205	44.2%	25.2%
Other Income	4	-5	1	175.7%	512.3%
Interest income (exp)	-17	-8	-20	-117.5%	14.3%
Depreciation (Provision)	-42	-30	-35	-40.2%	-19.7%
Profit before Tax & Extra Ord.	202	135	151	49.3%	33.9%
Extraordinary Items (Exp)	0	0	0	NM	NM
Profit before Tax	202	135	151	49.3%	33.9%
Tax (Provision)	-69	-46	-49	-48.9%	-39.3%
Reported PAT	133	89	101	49.6%	31.2%
PAT Adjusted	133	89	101	49.6%	31.2%
OPM	18.9%	18.0%	16.4%	86bps	249bps
RM/Sales	66.3%	66.1%	67.8%	17bps	-157bps
Staff Cost/Sales	4.3%	5.1%	4.6%	-72bps	-25bps
Other Expenses/Sales	10.5%	10.8%	11.2%	-30bps	-67bps
Tax	34.1%	34.2%	32.7%	-9bps	133bps

Source: Automotive Axles

Table 2: Annual Earnings Summary

	FY06	FY05	YoY
Domestic Sales	4,826	3,892	24.0%
Export Sales	453	187	142.8%
Gross Sales	5,279	4,078	29.4%
Excise Duty	-662	-531	-24.7%
Net Sales	4,618	3,548	30.2%
Expenditure	3,766	2,879	30.8%
(increase) decrease in stock	-49	39	-226.9%
Raw Materials	3,109	2,303	35.0%
Staff Cost	225	169	33.0%
Other Expenditure	481	368	30.9%
EBITDA	851	669	27.2%
Other Income	-10	11	-187.7%
Interest income (exp)	-56	-21	-162.7%
Depreciation (Provision)	-137	-109	-26.2%
Profit before Tax & Extra Ord.	648	550	17.9%
Extraordinary Items (Exp)	0	0	NM
Profit before Tax	648	550	17.9%
Tax (Provision)	-215	-181	-18.4%
Reported PAT	433	369	17.6%
PAT Adjusted	433	369	17.6%
OPM	18.4%	18.9%	-42bps
RM/Sales	66.3%	66.0%	25bps
Staff Cost/Sales	4.9%	4.8%	11bps
Other Expenses/Sales	10.4%	10.4%	6bps
Tax	33.1%	33.0%	15bps

Source: Automotive Axles

Price Objective Basis & Risk

Our PO of Rs 715 is based on 16x FY08 EPS (YE Sept), a 20% discount imputed to group concern, Bharat Forge (C-1-7), being smaller in size. We think the 20% discount is justified given that Bharat Forge is much larger and has a more consistent track record on exports than Automotive Axles which is just starting to ramp up exports.

Key risks: rising material costs, single client concentration, global slump in autos, and currency impact with rising exports.

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Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

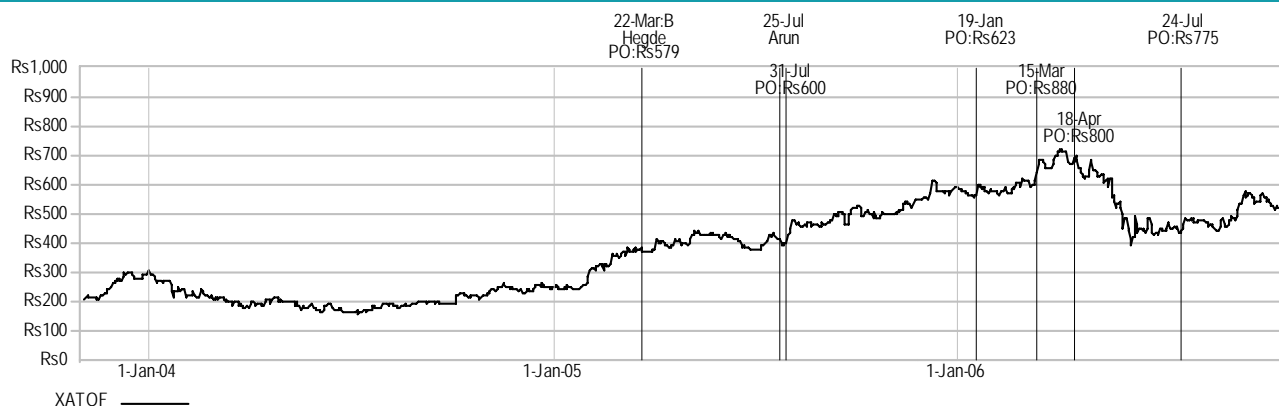
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XATOF Price Chart



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Investment Rating Distribution: Autos Group (as of 30 Sep 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	33	39.29%	Buy	7	21.21%
Neutral	36	42.86%	Neutral	7	19.44%
Sell	15	17.86%	Sell	3	20.00%

Investment Rating Distribution: Global Group (as of 30 Sep 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1325	44.76%	Buy	434	32.75%
Neutral	1420	47.97%	Neutral	412	29.01%
Sell	215	7.26%	Sell	48	22.33%

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