



Amtek Auto

STOCK INFO.	BLOOMBERG
BSE Sensex: 13,024	AMTK IN
	REUTERS CODE
S&P CNX: 3,769	AMTK.BO

30 October 2006

Buy

Rs308

Previous Recommendation: Buy

Equity Shares (m)	157.4
52-Week Range	373/200
1,6,12 Rel. Perf. (%)	13/-17/-17
M.Cap. (Rs b)	48.4
M.Cap. (US\$ b)	1.0

YEAR	NET SALES	PAT	EPS	CONS.*	P/E	CONS.	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	EPS (RS)	(X)	PE (X)	(%)	(%)	SALES	EBITDA
06/06A	27,500	2,453	15.6	20.0	19.7	15.4	22.4	18.9	1.9	10.8
06/07E	34,019	3,298	21.0	28.5	14.7	10.8	25.1	23.8	1.5	8.1
06/08E	41,144	3,970	25.2	33.8	12.2	9.1	25.9	27.2	1.2	6.5

*Including Amtek India

- Better than expected performance in 1QFY07:** Amtek Auto posted strong performance for 1QFY07, on a consolidated basis. Revenues grew 46.5% YoY to Rs8.9b while net profit (after minority interest) grew 59.8% YoY to Rs872m. EBITDA margins improved 70bp YoY and 50bp QoQ to 18%, driven by higher offshoring from group companies in US and Europe. Global operations contributed 46.4% (v/s 53.8% in 4QFY06) to overall revenues for the quarter.
- Capacity expansion on track:** Forging capacity is being ramped up from 150,000 ton per annum to 250,000 ton per annum, while machining capacity is being ramped up from 25m to 30m parts per annum by December 2006.
- Export guidance downgraded:** Delays in approvals from customers would lead to exports of just Rs2.7b in FY07 against the targeted Rs3.5b.
- Sales and profit guidance well ahead of our estimates:** Against consolidated sales of Rs28b in FY06 (excluding Amtek India and any future acquisitions), the management is guiding for sales of Rs40b in FY07 and Rs46b in FY08. Consolidated PAT before minority interest is expected to go up from Rs2.8b in FY06 to Rs4.2-4.5b in FY07 and Rs6b in FY08. This guidance is well ahead of our estimate of Rs3.6b PAT before minority interest in FY07 and Rs4.3b in FY08.
- We maintain Buy:** The stock trades at 10.8x FY07E and 9.1x FY08E consolidated EPS of Rs28.5 and Rs33.8 (considering merger ratio of 1 share of Amtek Auto for 3 shares of Amtek India). We maintain **Buy** with a target price of Rs435, a 41.2% upside.

Y/E JUNE	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	6,061	6,922	7,420	7,319	8,877	7,995	8,459	8,688	27,500	34,019
Change (%)	38.2	52.6	56.5	62.2	46.5	15.5	14.0	18.7	51.3	23.7
Total Cost	5,015	5,678	6,077	6,041	7,275	6,500	6,869	7,030	22,679	27,674
EBITDA	1,047	1,244	1,343	1,278	1,602	1,495	1,590	1,658	4,821	6,345
As % of Sales	17.3	18.0	18.1	17.5	18.0	18.7	18.8	19.1	17.5	18.7
Change (%)	43.2	92.6	91.0	74.4	53.0	20.2	18.4	29.7	71.4	31.6
Other Income	59	39	46	65	151	55	40	43	209	289
Interest	122	141	114	137	171	90	95	115	514	471
Depreciation	253	266	276	296	330	335	335	336	1,091	1,336
PBT	731	876	999	909	1,252	1,125	1,200	1,249	3,424	4,827
Tax	139	185	225	187	293	270	290	329	736	1,183
Effective Tax Rate (%)	19.0	21.1	22.5	20.6	23.4	24.0	25.5	26.4	21.5	24.5
PAT	592	691	774	721	959	855	910	920	2,688	3,644
Minority Interest	46	35	76	78	87	85	80	94	235	346
Adj. PAT	546	656	698	643	872	770	830	826	2,453	3,298
Change (%)	50.3	108.9	84.7	59.4	59.8	17.4	18.9	28.5	68.1	34.4

E: MOSSt Estimates

COMPANY-WISE SALES CONTRIBUTION (RS MILLION)

	1Q06	2Q06	3Q06	4Q06	1Q07
Amtek Auto	2,070	2,173	2,314	2,176	2,363
% proportion	34.1	31.4	31.2	29.7	26.6
Ahmednagar forgings	708	1,026	1,034	987	1,220
% proportion	11.7	14.8	13.9	13.5	13.7
GWK	1,750	2,081	2,261	2,138	2,189
% proportion	28.9	30.1	30.5	29.2	24.7
Zelter	1,220	1,277	1,393	1,443	1,608
% proportion	20.1	18.4	18.8	19.7	18.1
Smith Jones	313	365	418	354	323
% proportion	5.2	5.3	5.6	4.8	3.6
Benda Amtek				102.3	513.1
% proportion				1.4	5.8
Amtek Siccardi				119.7	660.5
% proportion				1.6	7.4
Total	6,061	6,922	7,420	7,319	8,877

SALES CONTRIBUTION (RS M)

	1QFY07	4QFY06	3QFY06	2QFY06	1QFY06
Total India operation	4,757	3,385	3,348	3,199	2,777
% proportion	53.6	46.2	45.1	46.2	45.8
Total global operation	4,120	3,934	4,072	3,723	3,283
% proportion	46.4	53.8	54.9	53.8	54.2

Source: Company/ Motilal Oswal Securities

1QFY07 results above estimates

Consolidated revenues grew 46.5% YoY to Rs8.9b in 1QFY07. EBITDA margins improved 70bp YoY and 50bp QoQ to 18% on account of a bigger off-shoring component from group companies in the US and Europe and improved operating performance of group companies. This has led to EBITDA growth of 53% YoY to Rs1.6b. Depreciation increased 30% YoY on account of the ongoing capacity expansion program. Consolidated PAT grew 59.8% YoY to Rs872m.

Capacity expansion is on track

Forging capacity is being ramped up from 150,000 ton per annum to 250,000 ton while machining capacity is being ramped up from 25m to 30m parts per annum by December 2006. As Amtek has started receiving customer approvals to shift production of components to the newly expanded facilities, it expects capacity utilization to improve from 55-60% to 75% in 3QFY07.

COMPANY-WISE PROFIT CONTRIBUTION (IN MILLIONS)

	1Q06	2Q06	3Q06	4QFY06	1QFY07
Amtek Auto	359	385	442	426	509
% proportion	60.7	55.8	57.1	59.1	53.0
NPM (%)	17.4	17.7	19.1	19.6	21.5
Ahmednagar forgings	70	106	110	103	135
% proportion	11.9	15.3	14.3	14.2	14.1
NPM (%)	9.9	10.3	10.7	10.4	11.1
GWK	112	118	119	85	100
% proportion	18.9	17.1	15.4	11.8	10.4
NPM (%)	6.4	5.7	5.3	4.0	4.6
Zelter	21	46	55	56	59
% proportion	3.6	6.7	7.1	7.8	6.2
NPM (%)	1.7	3.6	3.9	3.9	3.7
Smith Jones	30	35	48	34	25
% proportion	5.0	5.0	6.1	4.8	2.6
NPM (%)	9.4	9.5	11.4	9.7	7.6
Benda Amtek					55.8
% proportion					6.4
NPM (%)					10.9
Amtek Siccardi					76.3
% proportion					8.7
NPM (%)					11.6
Total consol. profit	592	691	774	721	959
minority interest	45.6	35.0	76.1	78.1	86.8
Adj PAT	546	656	698	643	872

Source: Company/ Motilal Oswal Securities

Integration process is witnessing delays; but is the biggest driver of profit growth

GWK is sourcing 30% of its purchases from Amtek Auto. This is expected to rise to 50-60% by end-FY07 and to 80%, eventually. Similarly, Smith Jones is sourcing 25% of its purchases from Amtek Auto and this is expected to rise to 65-75% in the next 2 years. Sigma Cast has already shifted two production lines to India and more lines will be shifted over the next one year. Finally, integration process of Zelter is yet to commence. The management has reiterated that increased outsourcing by the acquired companies from India will be the biggest driver of the exceptionally strong profit growth targeted in FY07-08.

Export guidance downgraded

Delays in approvals from customers would lead to exports of just Rs2.7b in FY07 against the targeted Rs3.5b.

Potential overseas buyouts: will be higher than FY05 combined sales

The management has indicated that they are considering acquisitions aggressively and that the size of the potential acquisition could surpass the total sales of the previous acquisitions it has completed till date i.e. companies with sales of over Rs20b (US\$500m+). This is even higher than the consolidated group sales of Rs16.6b. The buyouts may occur in the next 4-6 months.

Amtek recently raised US\$250m and it has cash balance of over US\$300m, which should help the company to acquire large overseas companies.

Merger of Amtek India delayed

Merger of Amtek India will only happen after Amtek Auto deploys its cash surpluses in acquisitions and expansions. Due to delays in the acquisition process, the management now expects merger of Amtek India with Amtek Auto only by mid-FY08.

After taking into account the change in valuation methodology for Benda Amtek and Amtek Siccardi, we believe the merger ratio is likely to be 1 share of Amtek Auto for 4 or 5 shares of Amtek India. However, we have considered a conservative merger ratio of 1 share of Amtek Auto for 3 shares of Amtek India, which would further lead to dilution of 6% of Amtek Auto's equity capital base.

Guidance well ahead of our estimates

Against consolidated sales of Rs28b in FY06 (excluding Amtek India and future acquisitions), management is guiding for sales of Rs40b in FY07 and Rs46b in FY08. EBITDA margins are expected to be 19% in FY07 and 19-20% in FY08 against 17.5% in FY06. As a result, consolidated PAT before minority interest is expected to go up from Rs2.8b in FY06 to Rs4.2-4.5b in FY07 and Rs6b in FY08. This guidance is well ahead of our estimate of Rs3.6b PAT before minority interest in FY07 and Rs4.3b in FY08.

Valuation and view

Amtek Auto is the only player in India with strong presence in both forging and casting along with the commensurate machining capacity for supply to global OEMs. Post consolidation, Amtek would emerge as one of India's largest auto component players. Further, on a fully consolidated basis, valuations of Amtek Auto are the cheapest in the auto component space and we expect revenues to grow at 24.4% and net profit at 30.3% over FY06-08. Amtek Auto trades at 9.1x FY08E consolidated EPS of Rs33.8. We maintain **Buy** with a target price of Rs435, a 41.2% upside.

NEW ENTITY WITH AMTEK INDIA (RS M)

	FY06	FY07E	FY08E
Revenues	32,443	43,363	51,807
Adjusted PAT	3,140	4,491	5,319
Adj EPS	20.0	28.5	33.8

Source: Company/ Motilal Oswal Securities

PROJECTIONS OF ALL GROUP ENTITIES (IN MILLIONS)

	JUN-06	JUN-07	JUN-08
Ahmednagar Forging			
Revenues	3,755	6,108	8,551
% growth	82.4	62.7	33.0
Operating Profit	732	1,130	1,590
EBITDA margins	19.5	18.5	18.6
Net Profit	389	794	1,026
GWK (Amtek Investments UK)			
Revenues	8,229	9,216	10,322
% growth	-1.7	12.0	12.0
Operating Profit	683	8,194	98,323
EBITDA margins	8.3	11.0	11.0
Net Profit	394	829	929
Smith Jones			
Revenues	1,450	1,624	1,819
% growth	14.0	12.0	12.0
Operating Profit	201	179	200
EBITDA margins	13.9	11.0	11.0
Net Profit	146	130	146
Zelter			
Revenues	5,335	5,762	6,223
% growth	-0.1	8.0	8.0
Operating Profit	561	547	591
EBITDA margins	10.5	9.5	9.5
Net Profit	219	403	436
Amtek Auto			
Revenues	8,940	11,308	14,228
% growth	34.2	26.5	25.8
Operating Profit	2,894	3,279	4,126
EBITDA margins	32.4	29.0	29.0
Net Profit	1,612	2,007	2,462
Amtek India			
Revenues	4,721	6,609	7,600
% growth	35.9	40.0	15.0
Operating Profit	1,235	1,718	1,976
EBITDA margins	26.2	26.0	26.0
Net Profit	662	793	942
Benda Amtek			
Revenues	102	1,260	1,412
% growth	-89.8	12.0	12.0
Operating Profit	23.0	289.9	324.7
EBITDA margins	22.5	23.0	23.0
Net Profit	8.8	126.0	148.2
Amtek sicarrdi			
Revenues	120	1,475	1,652
% growth	-88.0	12.0	12.0
Operating Profit	23	295	330
EBITDA margins	19.3	20.0	20.0
Net Profit	9.1	118.0	140.4

Source: Company/ Motilal Oswal Securities

Amtek Auto: an investment profile

Company description

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

Key investment arguments

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

Key investment risks

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

Recent developments

- Amtek has recently merged two group companies – Benda Amtek and Amtek Siccardi with itself in March 2006.
- The company has also been reported to have been in talks recently to buy a machining component unit overseas.

Valuation and view

- The stock trades at 10.8x FY07E and 9.1x FY08E consolidated EPS of Rs28.5 and Rs33.8 (considering merger ratio of 1 share of Amtek Auto for 3 shares of Amtek India). We maintain **Buy** with a target price of Rs435, a 41.2% upside.

Sector view

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

COMPARATIVE VALUATIONS

		AMTEK AUTO	BHARAT FORGE
P/E (x)	FY07E	10.8	24.9
	FY08E	9.1	20.4
EPS Gr (%)	FY07E	34.4	46.6
	FY08E	20.4	22.2
RoE (%)	FY07E	25.1	18.9
	FY08E	25.9	20.3
EV/EBITDA (x)	FY07E	8.1	14.8
	FY08E	6.5	11.4

SHAREHOLDING PATTERN (%)

	SEP06	JUN.06	SEP05
Promoter	33.7	33.7	35.0
Domestic Inst	17.1	16.0	19.2
Foreign	45.0	45.4	40.6
Others	4.2	4.8	5.3

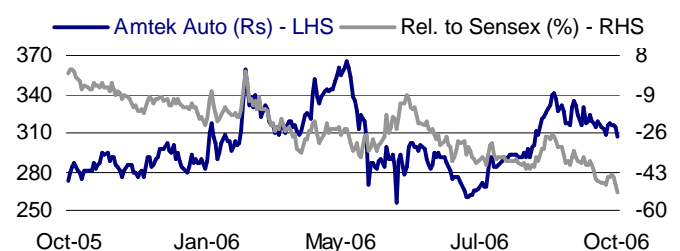
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	28.5	20.5	39.4
FY08	33.8	25.5	32.4

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
308	435	41.2	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E JUNE	2004	2005	2006	2007E	2008E
Net Sales	7,911	18,175	27,500	34,019	41,144
Change (%)	57.9	29.7	51.3	23.7	20.9
Total Income	7,911	18,175	27,500	34,019	41,144
Expenditure	6,311	13,605	22,679	27,674	33,326
EBITDA	1,600	2,813	4,821	6,345	7,817
Change (%)	40.8	75.8	71.4	316	23.2
% of Net Sales	20.2	15.5	17.5	18.7	19.0
Depreciation	428	716	1,091	1,336	1,511
Interest & Finance Charges	221	285	514	471	440
Other Income	0	189	209	289	209
PBT	951	2,000	3,424	4,827	6,075
Tax	199	408	736	1,183	1,689
Effective Rate (%)	21.0	20.4	21.5	24.5	27.8
PAT	752	1,593	2,688	3,644	4,386
Adj. PAT	752	1,593	2,688	3,644	4,386
Change (%)	58.1	111.9	68.8	35.6	20.4
Minority Interest	48	134	235	346	417
PAT (After MI)	704	1,459	2,453	3,298	3,970
Change (%)	52.3	107.4	68.1	34.4	20.4

BALANCE SHEET					
(Rs Million)					
Y/E JUNE	2004	2005	2006	2007E	2008E
Share Capital	155	202	315	315	315
Reserves	3,370	8,429	10,618	12,805	14,998
Net Worth	3,525	8,631	10,933	13,120	15,313
Loans	3,606	10,895	9,895	9,145	8,645
Minority Interest	256	400	400	400	400
Capital Employed	7,131	19,526	20,828	22,265	23,958
Application of Funds					
Gross Fixed Assets	7,225	11,417	13,760	15,923	17,650
Less: Depreciation	2,341	3,007	4,099	5,435	6,945
Net Fixed Assets	4,884	8,410	9,661	10,488	10,705
Goodwill	976	973	973	973	973
Investments	117	254	254	254	254
Curr. Assets, L & Adv.	4,382	12,597	17,908	20,125	23,358
Inventory	1,474	2,122	4,144	5,126	6,200
Sundry Debtors	2,429	2,699	6,404	7,922	9,581
Cash & Bank Balances	173	6,572	6,156	5,872	6,372
Loans & Advances	304	1,198	1,198	1,198	1,198
Others	2	6	6	6	6
Current Liab. & Prov.	3,248	2,807	8,067	9,674	11,431
Net Current Assets	1,134	9,790	9,842	10,451	11,927
Miscellaneous Expenditures	20	99	99	99	99
Application of Funds	7,131	19,526	20,828	22,265	23,958

E: MOSt Estimates

RATIOS					
Y/E JUNE	2004	2005	2006	2007E	FY08E
Basic (Rs)					
EPS	9.1	14.4	15.6	21.0	25.2
Cons. EPS	2.3	21.9	20.0	28.5	33.8
Cash EPS	15.2	22.8	24.0	31.6	37.5
Book Value per Share	45.5	85.4	69.5	83.3	97.3
DPS	10	15	5.1	9.3	13.9
Payout (Incl. Div. Tax) %	11.0	10.1	32.9	44.2	55.3
Valuation (x)					
P/E	33.9	21.3	19.7	14.7	12.2
Cons. PE (with Amtek India)		14.0	15.4	10.8	9.1
EV/EBITDA	17.0	12.5	10.8	8.1	6.5
EV/Sales	3.4	19	19	15	12
Price to Book Value	6.8	3.6	4.4	3.7	3.2
Dividend Yield (%)	0.3	0.5	1.7	3.0	4.5
Profitability Ratios (%)					
RoE	20.0	16.9	22.4	25.1	25.9
RoCE	16.4	11.7	18.9	23.8	27.2
Leverage Ratio					
Debt/Equity (x)	1.0	13	0.9	0.7	0.6

CASH FLOW STATEMENT					
(Rs Million)					
Y/E JUNE	2004	2005	2006	2007E	FY08E
OP/(Loss) before Tax	1,172	2,097	3,730	5,009	6,307
Interest/Div. Received	0	189	209	289	209
Depreciation & Amort.	428	716	1,091	1,336	1,511
Direct Taxes Paid	-199	-408	-736	-1,183	-1,689
(Inc)/Dec in Working Capital	459	-2,258	-468	-893	-976
Other Items	59	3534	308	0	2
CF from Oper. Activity	1,919	3,871	4,134	4,558	5,363
(Inc)/Dec in FA+CWIP	-2,876	-4,239	-2,343	-2,163	-1,728
(Pur)/Sale of Invest.	-36	-137	0	0	0
CF from Inv. Activity	-2,912	-4,376	-2,343	-2,163	-1,728
Inc/(Dec) in Debt	1,390	7,289	-1,000	-750	-500
Interest Paid	-221	-285	-514	-471	-440
Dividends Paid	-77	-147	-806	-1,458	-2,194
CF from Fin. Activity	1,092	6,903	-2,208	-2,679	-3,134
Inc/(Dec) in Cash	99	6,399	-416	-284	501
Add: Beginning Balance	74	173	6,572	6,156	5,872
Closing Balance	173	6,572	6,156	5,872	6,374

E: MOSt Estimates

N O T E S

For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Amtek Auto

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

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.