

Umesh Karne

Ahmednagar Forgings Limited

(Rs. 247, FY08E - P/E 8x, BUY with a Target Price of Rs. 337)

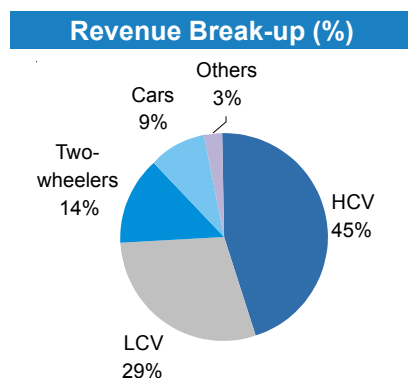
AFL is a subsidiary of Amtek Auto Ltd

Business Background

Ahmednagar Forgings Limited (AFL) was incorporated in 1976 and is now part of the Delhi based Amtek Group after it was acquired by the Amtek Group during 2003. Amtek Auto Limited holds 51% equity stake in AFL thereby making it a subsidiary. AFL manufactures various forged products like connecting rods, gear blanks, shafts, transmission components, flanges, hubs and supplies to OEMs in all major segments i.e. two-wheeler, passenger cars, tractors and commercial vehicles. AFL also supplies its products to other applications such as locomotives, stationary engines and earth-moving equipments.

AFL is the largest forging manufacturer in small and medium component segment having an installed capacity of 90,000 T.P.A. AFL has its manufacturing facilities located at three locations Ahmednagar, Kuruli (Pune) and Chakan (Pune).

AFL operates three plants in Ahmednagar, Chakan and Kuruli



Source: Company

AFL is a Tier I supplier to majors OEMs like Tata Motors, Bajaj Auto, International tractors, JCB, HMSI, Eicher Motors, etc

Plant Location	Products Manufactured
Ahmednagar (TS 16949 certified)	Medium size forgings of up to 60kg
Chakan (TS 16949 certified)	Medium size forgings of up to 200kg Drop Hammers, Power Presses, Up-setters and Hydraulic Presses Precision machine shop, manufactures piston assemblies for locomotives, crown wheels & pinions and rear-axle shafts for M&HCV applications
Kuruli (QS 9000)	Hydraulic Forging presses of 400-600 Ton capacity Small high precision forgings of up to 10kg Two-wheeler crank, steering knuckle, connecting rod & cap spiders, gear shifter forks

Source: Company

Business Profile

AFL manufactures various forged products like connecting rods, gear blanks, shafts, transmission components, flanges, hubs and is a Tier 1 vendor to OEMs in all major segments i.e. two-wheeler, passenger cars, tractors and commercial vehicles. Its customers include Tata Motors, Bajaj Auto, International tractors, JCB Earth movers, G.E Transportation Systems, Honda Motorcycle & Scooter (HMSI), L&T John Deere, Eicher Motors, Bharat Earth Movers Ltd, Spicer India, Kinetic Engg., etc. The current installed capacity of AFL is around 90,000MTPA. Out of the total capacity, its machined forging capacity is around 15,000MTPA and rest 75,000MT is non-machined forging capacity. Machined and non-machined forgings contribute 40% and 60% to total revenue respectively. AFL has strong hold in small and medium forgings market. It earns around 80% of total revenue from auto business and 20% from non-auto business. AFL also supplies its products to other applications such as locomotives, stationary engines and earth-moving equipment.

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Q4FY07 Performance

	(June Ending)	Q4FY07	Q4FY06	YoY %	FY07	FY06	YoY %
<i>Net sales grew 53%YoY in Q4FY07</i>	Net Sales	1,506.7	987.0	52.7	6,002.5	3,754.6	59.9
	Total Expenditure	1,191.3	799.4	49.0	4,757.8	3,023.1	57.4
	EBIDTA	315.4	187.6	68.1	1,244.7	731.5	70.2
	EBIDTA (%)	20.9	19.0	10.1	20.7	19.5	6.4
<i>EBITDA margins improved by 193bps YoY in Q4FY07</i>	Interest	36.6	18.5	97.7	133.4	59.2	125.3
	Depreciation	37.9	30.7	23.7	109.9	104.7	5.0
	PBT	240.9	138.4	74.0	1,001.4	567.6	76.4
	Provision for Tax	74.9	35.9	108.6	309.0	178.8	72.8
	PAT	166.0	102.5	61.9	692.4	388.8	78.1
<i>Net profit increased by 62% YoY in Q4FY07</i>	Equity Capital	332.2	240.0	38.4	332.2	240.0	38.4
	EPS (Rs)	5.0	4.3	17.0	20.8	16.2	28.6

Source: Company

Top-line grows by 53% YoY in Q4FY07

AFL reported impressive net sales growth of 53% YoY to Rs.1,507mn as against Rs.987mn in Q4FY06. AFL reported impressive growth in net sales backed by growth in domestic auto market and additional sales from its expanded capacities. For FY07, AFL's net sales went up by 60% YoY to Rs.6,002mn backed by strong domestic and exports growth. For FY07, AFL reported export revenue to the tune of Rs.2bn, up by almost 10x. During the year AFL added new customers like Ashok Leyland, Fiat Motors, etc which we believe would help it to register growth in domestic sales in near future.

Exports for FY07 grew impressively to Rs.2bn

EBITDA margin improves by 108bps YoY in FY07

During Q4FY07, AFL's EBITDA soared by 68% YoY to Rs.1,191mn and its EBITDA margins grew by a whopping 193bps YoY to 21% from 19% in Q4FY06. It's noteworthy that AFL's margins went up despite raw material costs as a percentage of net sales went up by 411bps YoY. The margin improvement was mainly supported by higher sales, higher contribution from machined components to total sales and improvement in operational efficiencies. For FY07 AFL's EBITDA jumped by 69% YoY to Rs.1,234mn and its EBITDA margins went up by 108bps YoY to 20.6%.

EBITDA margins improved to 20.7% for FY07

Net profit grows by 75% YoY in FY07

AFL's net profit for Q4FY07 jumped by 62% YoY to Rs.166mn as against Rs.103mn in Q4FY06. For Q4FY07 it reported EPS of Rs.5 as against Rs.4.3 in Q4FY06. For FY07 AFL's net profit grew robustly by 75% YoY to Rs.682mn and it reported EPS of Rs.20.5 for the period.

For FY07 AFL reported EPS of Rs.20.8

Business Outlook and Valuation –

AFL is a Tier I supplier to large domestic OEMs like Bajaj Auto, Tata Motors HNSI, L & T John Deere, BEML, Eicher Motors catering largely to the Commercial Vehicle, Two Wheelers and Tractor segments. AFL derived about 14% of its revenues from Two Wheelers, 45% from HCVs and 29% from the LCV segments. We believe domestic auto market to grow at a CAGR of 12-15% for next 3-4 years and AFL would be the beneficiary of this growth. Also we expect AFL would be in advantageous position and would get good outsourcing orders from global OEMs. AFL is a subsidiary of Amtek Auto and is expected to get benefits due to strong relationship of Amtek Group with global OEMs. We estimate AFL to report strong net sales and net profit growth at a CAGR of 37% and 36% respectively during FY07-09E.

AFL is a Tier I supplier to large domestic OEMs

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Financial Estimates -

Year Ended	June07A	June08E	June09E
Net Sales (Rs Mn)	6,003	8,711	11,337
EBITDA (Rs Mn)	1,234	1,816	2,401
EBITDA (%)	20.6	20.9	21.2
PAT (Rs Mn)	682	1,020	1,271
EPS (Rs)	20.5	30.7	38.3
P/E (x) At Rs.247	12.0	8.0	6.4

Source: Reliance Money Research

We recommend a BUY with a target price of Rs.337

The AFL stock currently trades at 12x FY07E and 8x FY08E which we believe is attractive. We believe AFL to be a compelling value and growth play within the auto components space. We believe the AFL stock has good potential upside from this level. We are positive on the long term prospects of the company and recommend investors a BUY with a target price of Rs. 337. At our target price the AFL stock would trade at a PE multiple of 11x on FY08E earnings.

Profit & loss statement (Rs mn)

Year to June	FY06A	FY07A	FY08E	FY09E
Net Sales	3,754.6	6,002.6	8,710.6	11,336.7
% Growth	82.4	59.9	45.1	30.1
EBIDTA	731.4	1,234.2	1,816.3	2,401.1
% Growth	90.1	68.7	47.2	32.2
Other Income	-	-	-	-
Interest	59.2	133.4	124.6	68.3
Depreciation	104.6	109.9	169.5	398.2
PBT	567.6	990.8	1,522.2	1,934.6
% Growth	89.5	74.6	53.6	27.1
Tax	56.6	106.4	502.1	663.1
Deferred Tax	122.2	202.5	-	-
Adj PAT	388.8	681.9	1,020.1	1,271.4
% Growth	86.3	75.4	49.6	24.6
Extra-ordinary	-	-	-	-
Reported PAT	388.8	681.9	1,020.1	1,271.4
% Growth	88.1	75.4	49.6	24.6
Dividend (%)	20.0	20.0	25.0	25.0
EPS (Rs)	11.7	20.5	30.7	38.3
BVPS (Rs)	77.5	95.8	123.6	159.1

Balance sheet (Rs mn)

Year to June	FY06A	FY07E	FY08E	FY09E
Equity Capital	332.2	332.2	332.2	332.2
Reserves	2,243.6	2,849.9	3,775.3	4,952.0
Networth	2,575.8	3,182.1	4,107.5	5,284.2
Secured loans	1,017.5	1,217.5	817.5	317.5
Unsecured loans	115.5	115.5	115.5	115.5
Total loans	1,133.0	1,333.0	933.0	433.0
Total Liability	3,708.8	4,515.0	5,040.4	5,717.2
Net Block	3,322.9	3,613.0	3,763.5	3,815.3
Investments	14.2	14.2	14.2	14.2
Deffered Tax Assets	-	(202.5)	(202.5)	(202.5)
Inventory	636.9	1,236.7	1,859.0	2,493.4
Debtors	391.4	900.4	1,572.8	2,046.9
Cash balance	97.2	500.6	575.9	941.3
Other CA	181.7	291.7	423.3	550.9
Current Liabilities	818.1	1,732.3	2,460.9	3,276.4
Provisions	126.2	115.7	513.7	674.8
NCA	362.9	1,081.5	1,456.4	2,081.3
Misc Exp	8.8	8.8	8.8	8.8
Total Assets	3,708.8	4,515.0	5,040.4	5,717.2

Ratio Analysis

Year to June	FY06E	FY07E	FY08E	FY09E
OPM %	19.5	20.6	20.9	21.2
NPM %	10.4	11.4	11.7	11.2
ROE %	23.3	23.7	28.0	27.1
ROCE %	24.6	27.3	34.5	37.2
Int. Cover (x)	11.4	8.3	13.6	34.2
D/E (x)	0.4	0.4	0.2	0.1
Asset Turnover (x)	0.8	1.0	1.3	1.5
Debtors Days	58.0	54.0	65.0	65.0
Inventory Days	106.2	110.0	112.0	115.0
Valuation ratios				
P/E (x)	21.1	12.0	8.0	6.4
P/CF per share (x)	13.3	8.2	6.9	4.9
EV/EBIDTA (x)	12.6	7.3	4.7	3.2
EV/Sales (x)	3.2	2.0	1.3	0.9
Mkt Cap/Sales(x)	2.9	1.8	1.2	0.9
CEPS (Rs)	18.5	29.9	35.8	50.3
P/ BV (x)	3.2	2.6	2.0	1.6

Cash Flow Statement (Rs mn)

Year to June	FY06E	FY07E	FY08E	FY09E
PAT	388.8	681.9	1,020.1	1,271.4
Depreciation	104.6	109.9	169.5	398.2
Change in WC	(74.7)	(315.2)	(299.7)	(259.5)
Operating CF	418.7	476.6	889.9	1,410.1
Capex	(2,380.8)	(400.0)	(320.0)	(450.0)
Misc Exp	5.2	202.5	-	-
Investing CF	(2,375.6)	(197.5)	(320.0)	(450.0)
Dividends	(75.8)	(75.7)	(94.7)	(94.7)
Debt	510.0	200.0	(400.0)	(500.0)
Equity	1,489.3	-	-	-
Investments	2.0	-	-	-
Financing CF	1,925.4	124.3	(494.7)	(594.7)
Net Change	(31.5)	403.4	75.3	365.4
Opening Cash	128.7	97.2	500.6	575.9
Closing Cash	97.2	500.6	575.9	941.3

Source: Reliance Money Research

RELIANCE Money

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Equities: Trading through Reliance Securities Limited | NSE SEBI Registration Number Capital Market :- INB 231234833 |
BSE SEBI Registration Number Capital Market :- INB 011234839 | NSE SEBI Registration Number Derivatives :- INF 231234833
Commodities : Trading through Reliance Commodities Limited | MCX member code: 29030 | NCDEX member code: NCDEX-CO-05-00647 |
NMCE member code: CL0120 Mutual Funds : Reliance Securities Limited | AMFI ARN No.29889

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