

Amtek Auto

STOCK INFO.	BLOOMBERG
BSE SENSEX: 10,680	AMTK IN
	REUTERS CODE
S&P CNX: 3,131	AMTK.BO

28 July 2006

Buy

Rs265

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)	41.8
M.Cap. (US\$ b)	0.9

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
3/06A	28,016	2,544	16.2	20.0	16.5	13.3	23.1	19.3	1.6	9.2
3/07E	33,835	3,294	20.9	28.2	12.7	9.4	25.0	23.6	1.3	7.0
3/08E	40,322	3,972	25.2	33.8	10.5	7.9	25.9	27.0	1.1	5.6

*Including Amtek India

Amtek Auto 4QFY06 results: Strong performance on consolidated basis; revenues increased 62.2%; EBITDA margins improve 130bp YoY but decline 60bp QoQ.

- Sales and net profit (after minority interest) grew 62.2% and 59.4% YoY to Rs7.3b and Rs643m, respectively.
- EBITDA margins improved 130bp YoY but declined 60bp QoQ to 17.5% on account of a bigger offshoring component from group companies on YoY basis.
- Operational improvement for the consolidated entity was driven by Amtek Auto, Ahmednagar Forgings and Zelter in the quarter.
- Total global operations contributed 53.4% (v/s 54.9% in 3QFY06) to overall revenues in the quarter.
- FY06, consolidated revenues grew 52.5% YoY to Rs27.7b; EBITDA was up by 74.6% YoY to Rs4.9b with EBITDA margin expansion of 220bp YoY; PAT (after minority) by 74.4% YoY to Rs2.5b.

On fully diluted equity, the stock trades at a PER of 12.7x and 10.5x (FY07E and FY08E) on estimated earnings of Rs20.9 and Rs25.2, respectively.

Post-merger with Amtek India, consolidated EPS would be Rs28.2 for FY07 and Rs33.8 for FY08, respectively. On fully diluted equity, the stock currently trades at a PER of 9.4x and 7.9x. On fully consolidated basis, valuations of Amtek Auto are the cheapest in the auto component space. We continue to maintain **Buy** with our target price of Rs435.

Y/E JUNE	FY05				FY06				FY05	FY06
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	4,385	4,537	4,740	4,512	6,061	6,922	7,420	7,319	18,174	27,722
Change (%)					38.2	52.6	56.5	62.2	109.5	52.5
Total Cost	3,654	3,891	4,037	3,780	5,015	5,678	6,077	6,041	15,362	22,811
EBITDA	731	646	703	733	1,047	1,244	1,343	1,278	2,813	4,911
As % of Sales	16.7	14.2	14.8	16.2	17.3	18.0	18.1	17.5	15.5	17.7
Change (%)					43.2	92.6	91.0	74.4		74.6
Other Income	6	30	75	78	59	39	46	65	189	209
Interest	63	66	74	82	122	141	114	137	285	514
Depreciation	170	167	183	196	253	266	276	296	716	1,091
PBT	504	443	521	532	731	876	999	909	2,000	3,514
Tax	102	101	104	101	139	185	225	187	408	736
Effective Tax Rate (%)	20.2	22.8	20.0	18.9	19.0	21.1	22.5	20.6	20.4	20.9
PAT	402	342	417	431	592	691	774	721	1,592	2,778
Minority Interest	39	28	39	28	46	35	76	78	134	235
Adj. PAT	363	314	378	403	546	656	698	643	1,458	2,543
Change (%)					50.3	108.9	84.7	59.4	109.7	74.4

E: MOST Estimates

Note: In the interest of timeliness, this report has not been edited.

4QFY06 results marginally lower than estimates

Consolidated revenues grew 62.2% YoY to Rs7.3b in 4QFY06. EBITDA margins improved 130bp YoY but declined 60bp QoQ to 17.5% 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 74.4% YoY to Rs1.3b. Depreciation increased 54% YoY on account of the ongoing capacity expansion program. Consolidated earnings grew 59.4% YoY to Rs643m.

COMPANY WISE SALES CONTRIBUTION (RS M)

	1QFY06	2QFY06	3QFY06	4QFY06
Amtek Auto	2,070	2,173	2,314	2,176
% proportion	34.1	31.4	31.2	29.7
Ahmednagar forgings	708	1,026	1,034	987
% proportion	11.7	14.8	13.9	13.5
GWK	1,750	2,081	2,261	2,138
% proportion	28.9	30.1	30.5	29.2
Zelter	1,220	1,277	1,393	1,443
% proportion	20.1	18.4	18.8	19.7
Smith Jones	313	365	418	354
% proportion	5.2	5.3	5.6	4.8
Benda Amtek				102.3
% proportion				1.4
Amtek Siccardi				119.7
% proportion				1.6
Total	6,061	6,922	7,420	7,319

* Benda Amtek and Amtek Siccardi (merged for 22 days)

COMPANY WISE PROFIT CONTRIBUTION (RS MILLION)

	1QFY06	2QFY06	3QFY06	4QFY06
Amtek Auto	359	385	442	426
% proportion	60.7	55.8	57.1	59.1
NPM (%)	17.4	17.7	19.1	19.6
Ahmednagar forgings	70	106	110	103
% proportion	11.9	15.3	14.3	14.2
NPM (%)	9.9	10.3	10.7	10.4
GWK	112	118	119	85
% proportion	18.9	17.1	15.4	11.8
NPM (%)	6.4	5.7	5.3	4.0
Zelter	21	46	55	56
% proportion	3.6	6.7	7.1	7.8
NPM (%)	1.7	3.6	3.9	3.9
Smith Jones	30	35	48	34
% proportion	5.0	5.0	6.1	4.8
NPM (%)	9.4	9.5	11.4	9.7
Total consolidated profit	592	691	774	721
Minority interest	45.6	35.0	76.1	78.1
Adj PAT	546	656	698	643

Source: Company/ Motilal Oswal Securities

SALES CONTRIBUTION (RSM)

	4QFY06	3QFY06	2QFY06	1QFY06
Total India Operation	3,385	3,348	3,199	2,777
% Proportion	46.2	45.1	46.2	45.8
Total Global Operation	3,934	4,072	3,723	3,283
% Proportion	53.8	54.9	53.8	54.2

Source: Company/ Motilal Oswal Securities

Potential overseas buyouts: Will be higher than FY05 combined sales

Management has indicated that they are considering acquisitions aggressively and that the size of the potential acquisition could even surpass the sum total sales of the previous acquisitions it has completed until 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 6-9 months.

Amtek recently raised US\$ 250m and it has put cash balance over US\$ 300m, which may help the company to do bigger acquisition in the international markets.

Likely to revise the potential merger ratio with Amtek India After taking into account the change in valuation methodology for the recent merger, we believe the merger ratio is likely to be about 1:4 or 1:5 for Amtek India with Amtek Auto (expected at end-CY07). We have considered a conservative merger ratio of 1:3 for the merger, which would further lead to dilution of 6% of Amtek's equity capital base.

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 growth in revenues at 24.4% and net profit at 30.3% over FY06-FY08. Our FY07 and FY08 EPS stand at Rs20.9 and Rs25.2, respectively on fully diluted equity capital of Rs315m.

NEW ENTITY WITH AMTEK INDIA (RS MILLION)

	FY06	FY07E	FY08E
Revenues	32,959	43,179	50,985
Adjusted PAT	3,140	4,445	5,328
Adj EPS	20.0	28.2	33.8

Source: Company/ Motilal Oswal Securities

Also, considering a merger ratio of 1:3 for Amtek India, the consolidated entity is expected to announce EPS of Rs28.2 and Rs33.8 for FY07 and FY08 respectively. On the fully diluted equity (taking into account the merger of all companies), the stock currently trades at a PER of 9.4x and 7.9x (FY07E and FY08E). We maintain **Buy** with target price of Rs435.

PROJECTIONS OF ALL GROUP ENTITIES (IN MILLIONS)

	JUN-06	JUN-07	JUN-08
Amhednagar Forging			
Revenues	4,271	6,108	7,940
Operating Profit	732	1,130	1,469
EBITDA margins	17.1	18.5	18.5
Net Profit	389	721	913
GWK (Amtek Investments UK)			
Revenues	8,229	9,216	10,322
Operating Profit	683	8,194	98,323
EBITDA margins	8.3	11.0	11.0
Net Profit	394	737	805
Smith Jones			
Revenues	1,450	1,624	1,819
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
Operating Profit	561	547	591
EBITDA margins	10.5	9.5	9.5
Net Profit	219	346	373
Amtek Auto			
Revenues	8,940	11,125	14,017
Operating Profit	2,894	3,115	3,925
EBITDA margins	32.4	28.0	28.0
Net Profit	1,612	1,975	2,425
Amtek India			
Revenues	4,721	6,609	7,600
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
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
Operating Profit	23	295	330
EBITDA margins	19.3	20.0	20.0
Net Profit	9.1	118.0	140.4

* Benda Amtek and Amtek Siccardi (merged for 22 days)

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.

COMPARATIVE VALUATIONS

		AMTEK AUTO	BHARAT FORGE
P/E (x)	FY07E	12.7	20.2
	FY08E	10.5	16.9
EPS Gr (%)	FY07E	29.5	45.9
	FY08E	20.6	19.8
RoE (%)	FY07E	25.0	28.8
	FY08E	25.9	26.4
EV/EBITDA (x)	FY07E	7.0	11.0
	FY08E	5.6	8.6

SHAREHOLDING PATTERN (%)

	MAR.06	DEC.05	MAR.05
Promoters	28.9	28.3	28.4
Domestic Institutions	22.7	21.8	13.5
FII's/FDI's	28.9	28.0	23.4
Others	19.6	21.9	34.7

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 consolidated entity (after merging Amtek India) is expected to announce EPS of Rs28.2, and Rs33.8 for FY07 and FY08 respectively.
- On the fully diluted equity (taking into account the merger of all companies), the stock currently trades at a PER of 9.4x and 7.9x (FY07E and FY08E).
- We maintain **Buy** with target price of Rs435.

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.

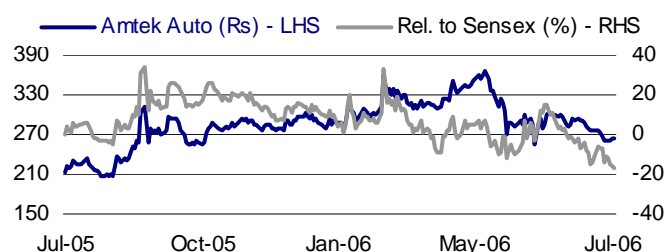
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	20.9	20.2	3.3
FY08	25.2	26.8	-5.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
265	435	64.2	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E JUNE	2004	2005	2006	2007E	2008E
Net Sales	7,911	18,175	28,016	33,835	40,322
Change (%)	57.9	29.7	54.2	20.8	19.2
Total Income	7,911	18,175	28,016	33,835	40,322
Expenditure	6,311	13,605	23,105	27,508	32,660
EBITDA	1,600	2,813	4,912	6,327	7,661
Change (%)	40.8	75.8	74.6	28.8	21.1
% of Net Sales	20.2	15.5	17.5	18.7	19.0
Depreciation	428	716	1,091	1,265	1,401
Interest & Finance Charges	221	285	514	471	440
Other Income	0	189	209	209	209
PBT	951	2,000	3,515	4,800	6,030
Tax	199	408	736	1,200	1,688
Effective Rate (%)	21.0	20.4	20.9	25.0	28.0
PAT	752	1,593	2,779	3,600	4,341
Adj. PAT	752	1,593	2,779	3,600	4,341
Change (%)	58.1	111.9	74.5	29.5	20.6
Minority Interest	48	134	235	306	369
PAT (After MI)	704	1,459	2,544	3,294	3,972
Change (%)	52.3	107.4	74.3	29.5	20.6

BALANCE SHEET					
(Rs Million)					
Y/E JUNE	2004	2005	2006	2007E	2008E
Share Capital	155	202	315	315	315
Reserves	3,370	8,429	10,682	12,842	15,012
Net Worth	3,525	8,631	10,997	13,157	15,327
Loans	3,606	10,895	9,895	9,145	8,645
Minority Interest	256	400	400	400	400
Capital Employed	7,131	19,526	20,892	22,302	23,972
Application of Funds					
Gross Fixed Assets	7,225	11,417	13,760	15,423	16,885
Less: Depreciation	2,341	3,007	4,099	5,364	6,764
Net Fixed Assets	4,884	8,410	9,661	10,059	10,121
Goodwill	976	973	973	973	973
Investments	117	254	254	254	254
Curr.Assets, L & Adv.	4,382	12,597	18,099	20,546	23,754
Inventory	1,474	2,122	4,222	5,098	6,076
Sundry Debtors	2,429	2,699	6,524	7,879	9,390
Cash & Bank Balances	173	6,572	6,148	6,364	7,083
Loans & Advances	304	1,198	1,198	1,198	1,198
Others	2	6	6	6	6
Current Liab. & Prov.	3,248	2,807	8,194	9,629	11,228
Net Current Assets	1,134	9,790	9,905	10,917	12,526
Miscellaneous Expenditures	20	99	99	99	99
Application of Funds	7,131	19,526	20,892	22,302	23,972

E: MOSt Estimates

RATIOS					
Y/E JUNE	2004	2005	2006	2007E	FY08E
Basic (Rs)					
EPS	9.1	14.4	16.2	20.9	25.2
Cons. EPS		21.9	20.0	28.2	33.8
Cash EPS	15.2	22.8	24.6	30.9	36.5
Book Value per Share	45.5	85.4	69.9	83.6	97.4
DPS	10	15	5.3	9.1	13.8
Payout (Incl. Div. Tax) %	110	10.1	32.8	43.7	54.7
Valuation (x)					
P/E	29.3	18.4	16.5	12.7	10.5
Cons. PE (with Amtek India)		12.1	13.3	9.4	7.9
EV/EBITDA	15.0	11.0	9.2	7.0	5.6
EV/Sales	3.0	1.7	1.6	1.3	1.1
Price to Book Value	5.9	3.1	3.8	3.2	2.7
Dividend Yield (%)	0.4	0.5	2.0	3.4	5.2
Profitability Ratios (%)					
RoE	20.0	16.9	23.1	25.0	25.9
RoCE	16.4	11.7	19.3	23.6	27.0
Leverage Ratio					
Debt/Equity (x)	10	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	3,820	5,062	6,261
Interest/Div. Received	0	189	209	209	209
Depreciation & Amort.	428	716	1,091	1,265	1,401
Direct Taxes Paid	-199	-408	-736	-1,200	-1,688
(Inc)/Dec in Working Capital	459	-2,258	-538	-797	-889
Other Items	59	3534	308	0	2
CF from Oper. Activity	1,919	3,871	4,154	4,539	5,295
(Inc)/Dec in FA+CWIP	-2,876	-4,239	-2,343	-1,663	-1,463
(Pur)/Sale of Invest.	-36	-137	0	0	0
CF from Inv. Activity	-2,912	-4,376	-2,343	-1,663	-1,463
Inc/(Dec) in Debt	1,390	7,289	-1,000	-750	-500
Interest Paid	-221	-285	-514	-471	-440
Dividends Paid	-77	-147	-834	-1,440	-2,172
CF from Fin. Activity	1,092	6,903	-2,235	-2,661	-3,112
Inc/(Dec) in Cash	99	6,399	-424	215	721
Add: Beginning Balance	74	173	6,572	6,148	6,364
Closing Balance	173	6,572	6,148	6,364	7,084

E: MOSt Estimates



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Amtek Auto

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|---|----|
| 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 |

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