

# Dynamic Technologies Ltd

## Q3FY12 First cut – EBITDA margin disappoints

Fundamental Grade 4/5 (Superior fundamentals)

Valuation Grade 4/5 (CMP has upside)

Industry Auto component

Dynamic Technologies' (Dynamic's) Q3FY12 revenues were slightly lower than CRISIL Research's expectations; revenues declined q-o-q due to the decline in the auto segment's revenues. While raw material cost and other operating expenses declined, employee cost continued to increase resulting in a q-o-q decline in the EBITDA margin. Steady increase in depreciation and interest cost further impacted the PAT margin which dipped to the lowest level since Q3FY10. We are likely to cut our EBITDA and PAT margin estimate post discussions with the management. We maintain our fundamental grade of 4/5.

### Q3FY12 result analysis

- Revenues declined by 4.4% q-o-q to Rs 3,639 mn due to a 8.3% decline in the auto segment's revenue (70.7% of overall revenue vs. 73.7% in Q2FY12). This is on account of the holiday season in Germany and UK. Revenues increased 194% y-o-y due to the acquisition of Germany's Eisenwerk Erla GmbH (Eisenwerk) in April 2011.
- EBITDA margin declined by 87 bps q-o-q to 9.2%. The 49 bps benefit from lower raw material cost and the 14 bps benefit from lower other overhead cost was more than negated by the 150 bps impact on account of high employee cost. Impacted by lower margins of Eisenwerk, overall EBITDA margin declined 724 bps y-o-y.
- PBT margin, impacted by the increase in depreciation and interest cost, declined sharply by 171 bps q-o-q (458 bps y-o-y) to 0.9%.
- PAT margin declined by 77 bps q-o-q (290 bps y-o-y) to 1%, the lowest since Q3FY10. The decline in PAT margin would have been higher but for negative income tax provisions. Restructuring of certain subsidiaries resulted in tax reversals in the German business. EPS for the quarter was Rs 6.9, down 45.3% q-o-q and 23.3% y-o-y.

### Valuation: Current market price has upside

We continue to value Dynamic based on discounted cash flow and maintain our fair of Rs 1,131 per share.

### KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	4,126	4,447	5,016	14,908	15,880
EBITDA	506	676	821	1,471	1,909
Adj PAT	18	104	223	259	520
Adj EPS-Rs	3.3	19.2	41.2	47.8	96.1
EPS growth (%)	(92.3)	478.3	114.4	15.8	101.2
Dividend yield (%)	0.9	0.8	0.9	1.3	1.7
RoCE (%)	9.9	11.9	13.6	15.2	15.8
RoE (%)	2.2	9.4	17.7	18.0	30.0
PE (x)	152.1	55.8	31.9	19.5	9.7
P/BV (x)	2.6	4.9	5.3	3.3	2.6
EV/EBITDA (x)	10.5	12.0	12.5	8.5	6.4

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

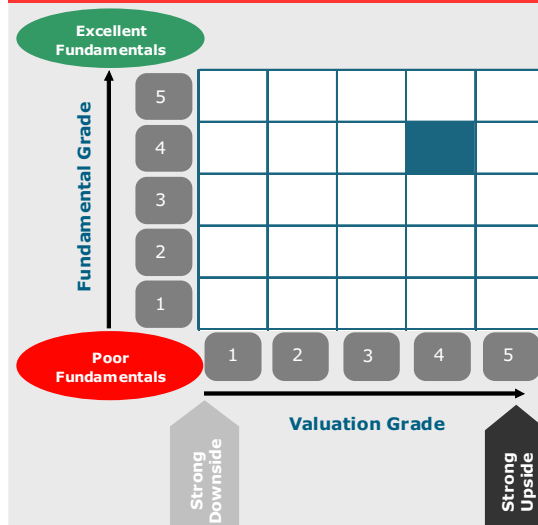


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Fair Value Rs 1131

CMP Rs 934

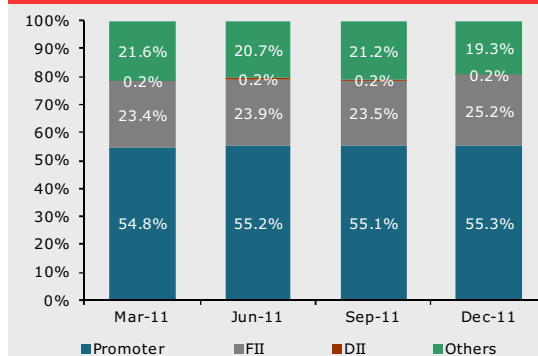
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY / SENSEX	5416/17848
NSE / BSE ticker	DYNAMATECH
Face value (Rs per share)	10
Shares outstanding (mn)	5.4
Market cap (Rs mn)/(US\$ mn)	5,055/102
Enterprise value (Rs mn)/(US\$ mn)	8,222/167
52-week range (Rs) (H/L)	1594/900
Beta	1.10
Free float (%)	45.4%
Avg daily volumes (30-days)	901
Avg daily value (30-days) (Rs mn)	0.9

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
DYNAMIC	-6%	-25%	-32%	-15%
NIFTY	11%	5%	7%	-1%

### ANALYTICAL CONTACT

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