

# Dynamatic Technologies Ltd

## Q3FY12 earnings disappoint

**Fundamental Grade** 4/5 (Superior fundamentals)

**Valuation Grade** 5/5 (CMP has strong upside)

**Industry** Auto Component

Dynamatic Technologies' (Dynamatic's) revenues declined q-o-q and were slightly lower than CRISIL Research's expectations. Impacted by the holiday season in Germany and UK (which affected production), the auto segment's revenue declined q-o-q. While raw material cost and other operating expenses declined, employee cost increased resulting in q-o-q decline in EBITDA margin. Due to this and increase in depreciation & interest cost, PAT declined to the lowest level since Q3FY10. We expect revenues to improve in Q4FY12 and maintain our revenue estimates for FY12-FY13 but have lowered our EBITDA and PAT margin estimates. 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 an 8.3% decline in the auto segment's revenue, which is attributable to the q-o-q decline in Eisenwerk Erla GmbH's revenue (impacted by the holiday season). However, driven by the Eisenwerk acquisition (acquired in April 2011), overall revenue was up 194% y-o-y. While the performance of the auto segment was below our expectations, the hydraulics and the aerospace segments' performances were in line with our expectations.
- EBITDA margin declined by 87 bps q-o-q to 9.2%. The domestic auto business continued to report losses as the company did not accrue full benefits of the pass through of high raw material costs, through price hike, in Q3FY12. EBITDA margin of the aerospace and the hydraulics segments also declined. Impacted by Eisenwerk's lower margins, 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.
- As of end-Q3FY12, the company had ~Rs 7.8 bn (~Rs 7.3 bn as of end-Q2FY12) and net debt/equity of 4.8x, which is high. It plans to raise equity capital over the next couple of quarters to reduce the same. This remains a key monitorable.

### Valuations: Current market price has strong upside

We continue to use the discounted cash flow method to Dynamatic. We remain positive about Dynamatic's long term growth and maintain our fair value 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	1,415	1,780
Adj PAT	18	104	223	208	414
Adj EPS-Rs	3.3	19.2	41.2	38.5	76.5
EPS growth (%)	(92.3)	478.3	114.4	(6.7)	98.9
Dividend yield (%)	0.9	0.8	0.9	1.3	1.8
RoCE (%)	9.9	11.9	13.6	13.9	14.0
RoE (%)	2.2	9.4	17.7	14.8	25.4
PE (x)	152.1	55.8	31.9	23.5	11.8
P/BV (x)	2.6	4.9	5.3	3.3	2.7
EV/EBITDA (x)	10.5	12.0	12.5	8.9	6.9

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

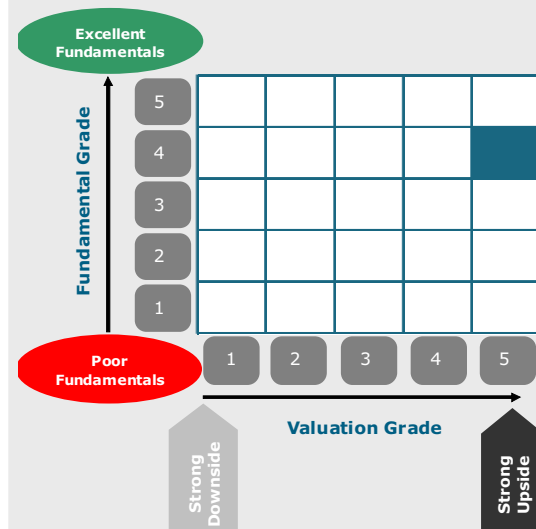


**February 17, 2012**

**Fair Value Rs 1,131**

**CMP Rs 902**

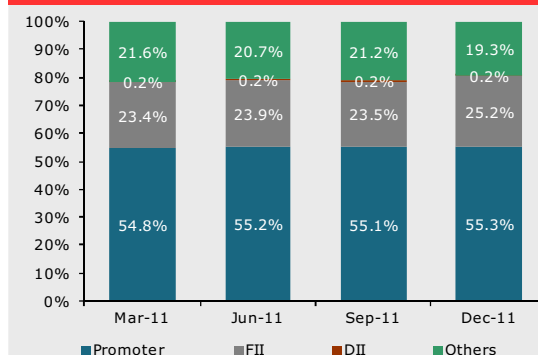
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY / SENSEX	5522/18154
NSE / BSE ticker	DYNAMATECH
Face value (Rs per share)	10
Shares outstanding (mn)	5.4
Market cap (Rs mn)/(US\$ mn)	4,886/99
Enterprise value (Rs mn)/(US\$ mn)	8,053/163
52-week range (Rs) (H/L)	1,594/900
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
DYNAMATIC	-7%	-21%	-31%	-19%
NIFTY	13%	10%	10%	1%

### ANALYTICAL CONTACT

Chetan Majithia (Head) [chetanmajithia@crisil.com](mailto:chetanmajithia@crisil.com)  
 Urmil Shah [udshah@crisil.com](mailto:udshah@crisil.com)  
 Suresh Guruprasad [sguruprasad@crisil.com](mailto:sguruprasad@crisil.com)

### Client servicing desk

+91 22 3342 3561 [clientservicing@crisil.com](mailto:clientservicing@crisil.com)