AMTEK AUTO LIMITED (AAL)

Auto Ancillary

CARE Research

11th July 2011

Very Good Fundamentals; Considerable Upside Potential CMP: Rs. 168 / CIV: Rs. 178[1] Sensex: 18, 721

Update – Q3 FY11 (year ending 30th June)

CARE EQUIGRADE GRID (CEG)

	1	2	3	4	5
Fundamentals					
Valuation					

CEG is explained on the last page

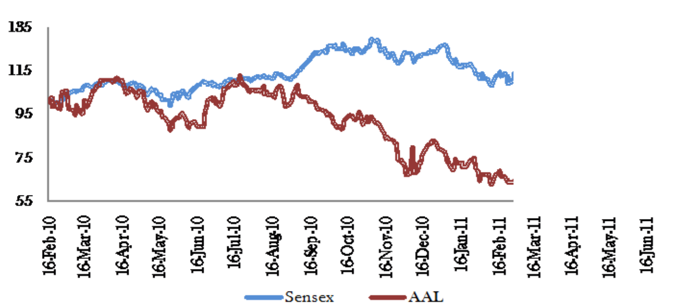
KEY EQUISTATS

Market Capitalisation	Rs. Crore	3,641
Enterprise Value	Crore	6,625
52 Week High / Low	Rs.	201 / 110
Diluted EPS (consolidated - FY10)	Rs.	11.8
P/E (FY10)	times	14.2
Beta	times	1.28
Average Daily Volumes*	Lakhs	2,14,737.0

* BSE + NSE for last 52 weeks

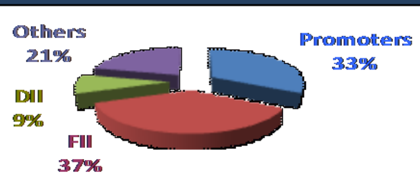
STOCK PERFORMANCE

Rebased to 100



Returns	1M	3M	6M	I Yr
Absolute	-5%	3%	36%	-7%
Rel. to Sensex	-7%	8%	31%	-13%

SHARE HOLDING PATTERN



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[1] CMP: Current market Price; CIV; Current Intrinsic Value

CARE Equity Research maintains fundamental grade of 4/5 on Amtek Auto Limited (AAL). This indicates 'Very Good Fundamentals'.

Strong growth in top-line

AAL reported 9MFY11 revenues of Rs. 3,449 crores, registering a growth of 28 per cent y-o-y. Growth in top-line can be attributed to the robust growth in demand from the automobile segment which accounts for about 80 per cent of the AAL's revenue. CARE Equity Research sees a moderation in the demand from the automobile industry going forward.

Margins witness improvement

Both EBITDA and PAT margins witness an improvement in 9MFY11. EBITDA stood at Rs. 881 crores, - up 36 per cent, while PAT for AAL stood at Rs. 282 crores in 9MFY11 – up 61 per cent y-o-y. Higher capacity utilization and operational efficiencies resulted in increased margins. Going forward, the profit margins are expected to be in similar range.

Valuation

CARE Equity Research assigns valuation grade of 3/5 to Amtek Auto Limited (AAL) based on the Current Intrinsic Value (CIV) of Rs. 178 as against Current Market Price (CMP) of Rs 168 on 11th July 2011, indicating that shares of AAL are 'Fairly Priced'. The CIV of Rs. 178 per share, of AAL has been arrived using the Discounted Cash Flow (DCF) methodology.

Consolidated Financial Information Snapshot[1]

(Rs Crores)	FY09	FY10	FY11 E	FY12 P
Operating Income	3,439	3,691	4,599	5,426
EBITDA	700	906	1,174	1,329
Ordinary PAT (After minority interest)	173	240	376	440
Fully Diluted EPS* (Rs.)	10.2	11.8	14.5	17.0
Dividend Per Share (Rs.)	0.5	1.0	2.1	3.1
P/E (times)		13.5	11.0	9.4
EV/EBITDA (times)		7.1	5.5	4.9

[1] Year ending 30th June

* Calculated on Current Face Value of Rs. 2/- per share

Strong growth in top-line

Revenues for the 9M FY11 (year ending 30th June), stood at Rs.3449 crores registering a growth of 28 per cent y-o-y. EBITDA for AAL stood at Rs.881 crores – up 36 per cent y-o-y, while PAT (after minority interest) increased by around 60 per cent to Rs.282 crores in 9MFY11. Growth in top-line can be attributed to the strong demand from the automobile segment. The automobile segment account for about 80 per cent of the AAL's revenues.

AAL: Financial Performance Snapshot

(Rs. Crore)	Q3 FY11	Q3 FY10	Growth (%)
Sales	1228	970	27
EBITDA	305	248	23
EBITDA Margins (%)	25	26	NA
Net Profit	97.23	76.7	27
Net Profit Margins (%)	7.9	7.9	NA

(Rs. Crore)	9M FY11	9M FY10	Growth (%)
Sales	3449	2694	28
EBITDA	881	649	36
EBITDA Margins	25.5	24.1	NA
Net Profit	282	176	61
Net Profit Margins	8.2	6.5	NA

Source: Company and CARE Equity Research

CARE Equity Research retains the fundamental grade at 4/5, indicating 'Very Good Fundamentals'

CARE Equity Research has assigned a Fundamental Grade of 4 [Four] to the equity shares of AAL, indicating 'Very Good Fundamentals'. AAL is the largest machining company and second largest forging company in India, with diversified product and client mix. No single product or client contributes to more than 15 per cent of the company's top-line, thereby providing stability to the company's revenues. CARE Research expects the automobile industry to grow at 9-10 per cent over next 5 years. With significant increase in capacity, AAL is comfortably placed to cater to the incremental demand from the automobile industry. However, it will have to cope with the challenges of volatile input costs. Foray into railway wagons and defense sector would help AAL mitigate the risks from any slowdown in the automobiles segment to some extent.

Domestic automobile industry drive top-line

Revenue growth for the 9MFY11 reflected a firm growth in automobile demand. The revenues for 9MFY11 stood at Rs. 3449 crores – up 28 per cent, largely on account of the strong demand from the domestic automobile and export segments. However, with large portion of demand still from automobile segment, and expectations of a slower paced automobile demand growth (CARE Research expects automobile industry to grow at around 8 per cent over the next 2 years), the revenues are expected to grow at slower pace as compared to the growth recorded in the first nine months of FY11. Although, demand from the non-auto segment is likely to partially support the demand for the auto ancillary industry.

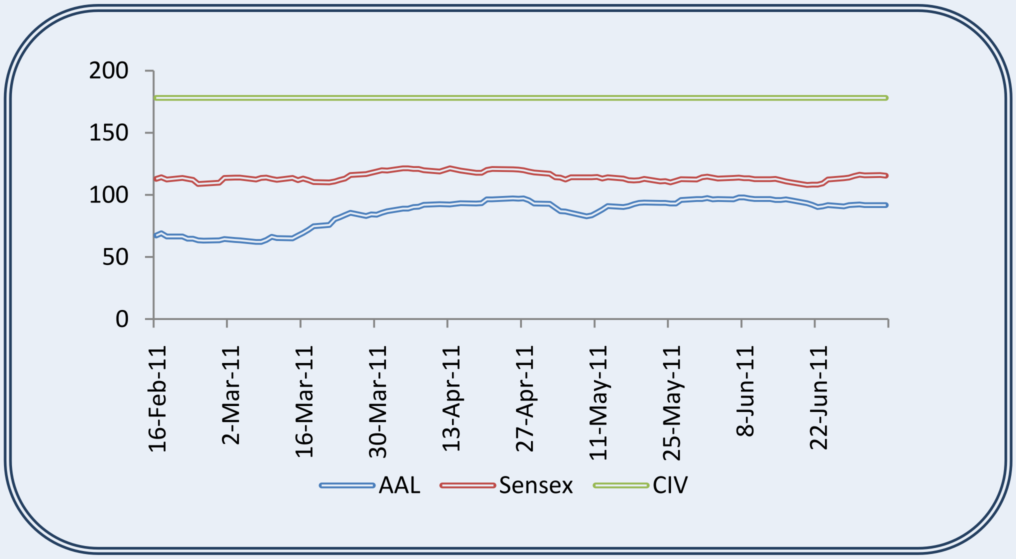
Margins to remain fairly stable

EBITDA margin for 9MFY11 improved by 140bps to 25.5 per cent on a y-o-y basis. As a result PAT margins also witnessed a similar improvement of about 150bps to 8.2 per cent during the same period. Operational efficiencies and improved capacity utilization across all the global manufacturing locations of AAL resulted in an increase in profit margins for the company. Going ahead, CARE Equity Research expects AAL's margins (both operating margins and net margins) to remain in similar region with slight downward bias on account of the increase in raw material prices.

AAL's share price up 42 per cent since initiation; revised valuation grade of 3/5, indicating 'Fairly Priced'

CARE Equity Research initiated AAL's coverage with an intrinsic value of Rs. 178 per share and a valuation grade of 5, based on the current market price (CMP) of Rs.118 on 16th February 2011. The share price of AAL has increased by around 42 per cent cumulatively, since then.

Stock performance since initiation



Source: BSE and CARE Equity Research

Based on 9MFY11, results CARE Equity Research maintains the CIV of Amtek Auto Limited at Rs.178 per share. Since the Current Market Price (CMP) for shares of AAL as on 6th July 2011, is at Rs. 168 (up 42 per cent from the Initiating coverage CMP) indicating an upside, the revised valuation grade for AAL is 3/5, indicating the shares of AAL are 'Fairly Priced'.

ANALYSIS OF RESULTS

Quarterly results analysis

(Rs. Crore)	Q3 FY11	Q3 FY10	Growth (%)
Sales and Other Income	1228	970	27
Total Expenditure	923	722	28
EBITDA	305	248	23
Depreciation & Amortisation	81	72	14
EBIT	224	176	27
Interest	67	53	27
PBT	157	123	27
Tax	46	38	20
Ordinary PAT	111	85	30
PAT after Minority Interest	97	77	27
EBITDA Margins	24.9	25.6	
PAT Margins	7.9	7.9	

Source: Company and CARE Equity Research

YTD results analysis

	9M FY11	9M FY10	Growth (%)
Sales and Other Income	3449	2694	28
Total Expenditure	2568	2044	26
EBITDA	881	649	36
Depreciation & Amortisation	245	229	7
EBIT	636	421	51
Interest	187	139	34
PBT	449	282	60
Tax	127	85	50
Ordinary PAT	322	197	64
PAT after Minority Interest	282	176	61
EBITDA Margins	25.5	24.1	
PAT Margins	8.2	6.5	

Source: Company and CARE Equity Research

FINANCIAL STATISTICS

Consolidated Income Statement					
(Rs Crores)	**FY08**	**FY09**	**FY10**	**FY11 E**	**FY12 P**
Operating Income	**4,657**	**3,439**	**3,691**	**4,599**	**5,426**
EBITDA	960	700	908	1,174	1,329
Depreciation and amortisation	210	273	310	327	329
EBIT	750	427	598	848	1,001
Interest	116	152	205	249	302
PBT	634	275	392	599	699
Ordinary PAT	386	173	269	429	500
PAT (After minority interest)	**427**	**173**	**240**	**376**	**440**
Fully Diluted Earnings Per Share* (Rs.)	**21.5**	**10.2**	**11.8**	**14.5**	**17.0**
Dividend	12	11	29	55	80

* Calculated based on ordinary PAT on Current Face Value of Rs. 2/- per share

Consolidated Balance Sheet					
(Rs Crores)	**FY08**	**FY09**	**FY10**	**FY11 E**	**FY12 P**
Net worth (excluding Minority Interest)	3,094	3,076	4,471	4,792	5,152
Debt	2,899	3,898	3,809	3,962	4,095
Capital Employed	**5,993**	**6,974**	**8,279**	**8,754**	**9,247**
Net Fixed Assets	4,035	4,908	5,446	5,518	5,583
Investments & Others	62	49	281	324	372
Loans and Advances	443	1,016	1,074	1,200	1,300
Inventory	721	755	812	1,008	1,189
Receivables	823	522	641	756	892
Cash and Cash Equivalents	1,037	798	825	948	1,091
Current Assets, Loans and Advances	3,029	3,092	3,356	3,912	4,472
Less: Current Liabilities and Provisions	1,133	1,075	803	1,000	1,180
Total Assets	**5,993**	**6,974**	**8,279**	**8,754**	**9,247**

Consolidated Ratios					
	FY08	**FY09**	**FY10**	**FY11 E**	**FY12 P**
Growth in Operating Income	25.2%	-26.2%	7.3%	24.6%	18.0%
Growth in EBITDA	19.1%	-27.0%	29.3%	29.7%	13.2%
Growth in PAT	4.6%	-59.6%	39.2%	56.4%	17.0%
Growth in EPS	-17.8%	-52.4%	15.6%	22.9%	17.0%
EBITDA Margin	20.6%	20.4%	24.5%	25.5%	24.5%
PAT Margin	9.2%	5.0%	6.5%	8.2%	8.1%
RoCE	15.0%	6.6%	7.8%	10.0%	11.1%
RoE	16.2%	5.6%	6.4%	8.1%	8.9%
Net Debt-Equity (times)	0.6	1.0	0.7	0.6	0.6
Interest Coverage (times)	8.3	4.6	4.4	4.7	4.4
Current Ratio (times)	2.7	2.9	4.2	3.9	3.8
Inventory Days	56	80	80	80	80
Receivable Days	64	55	63	60	60
Price / Earnings (P/E) Ratio			13.5	11.0	9.4
Price / Book Value(P/BV) Ratio			0.8	0.8	0.7
Enterprise Value (EV)/EBITDA			7.1	5.5	4.9

Source: Company, CARE Equity Research

EXPLANATION OF GRADES

CARE EquiGrade Grid (CEG)

Through CEG, CARE Equity Research addresses two critical factors considered by an investor while investing in a particular company's equity shares:

1. **Fundamentals:** Whether the company is fundamentally sound with respect to its business, its financial position, its management and its prospects.
2. **Valuation:** What is the Current Intrinsic Value (CIV) of the stock and how it compares vis-a-vis its Current Market Price (CMP)

These factors are answered assigning quantitative grades to both these parameters. CEG is the snapshot of 'Fundamental Grade' and 'Valuation Grade' assigned by CARE Equity Research.

Fundamental Grade

This grade represents how sound the company is fundamentally, vis-à-vis other listed companies in India. This grade captures:

1. Business Fundamentals and Prospects
2. Financial Soundness
3. Management Quality
4. Corporate Governance Practices

The grade is assigned on a five-point scale as under:

CARE Fundamental Grade	Evaluation
5/5	Strong Fundamentals
4/5	Very Good Fundamentals
3/5	Good Fundamentals
2/5	Modest Fundamentals
1/5	Weak Fundamentals

Valuation Grade

This grade represents the potential value in the company's equity share for the investor over a 1 year period. The Current Intrinsic Value (CIV) or the price arrived by CARE Equity Research on fundamental basis is compared with the current market price (CMP) of the stock and the grade is assigned based on the gap between CIV and CMP of the stock.

The grade is assigned on a five-point scale as under:

CARE Valuation Grade	Evaluation
5/5	Considerable Upside Potential (>25% upside from CMP)
4/5	Moderate Upside Potential (10-25% upside from CMP)
3/5	Fairly Priced (+/- 10% from CMP)
2/5	Moderate Downside Potential (10-25% downside from CMP)
1/5	Considerable Downside Potential (>25% downside from CMP)

Grading determination is a matter of experienced and holistic judgment, based on relevant quantitative and qualitative factors of the company in relation to other listed companies.

DISCLOSURES

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