AMTEK AUTO LIMITED (AAL)

Auto Ancillary

CARE Research

19th March 2012

Very Good Fundamentals; Considerable Upside Potential CMP: Rs.136 / CIV: Rs.178[1] Sensex: 17,273

Update – Q2 FY12 (year ending 30th June)

CARE EQUIGRADE GRID (CEG)

	1	2	3	4	5
Fundamentals					
Valuation					

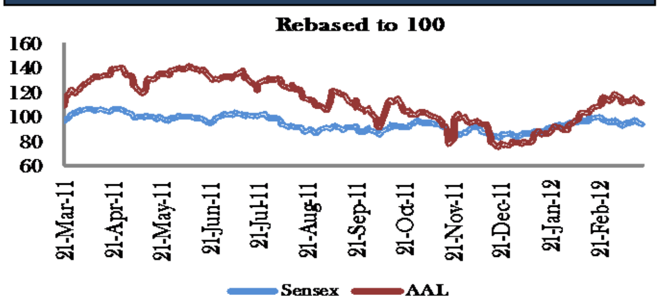
CEG is explained on the last page

KEY EQUISTATS

Market Capitalisation	Rs. Crore	2,950
Enterprise Value	Crore	7,940
52 Week High / Low	Rs.	174.5/86
Diluted EPS (consolidated - FY10)	Rs.	21
P/E (FY10)	times	6.5
Beta	times	0.74
Average Daily Volumes*	Crore	0.1

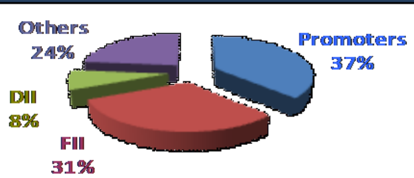
* BSE + NSE for last 52 weeks

STOCK PERFORMANCE



Returns	1M	3M	6M	I Yr
Absolute	2%	28%	5%	2%
Rel. to Sensex	8%	24%	3%	5%

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 for Amtek Auto Limited (AAL). This indicates 'Very Good Fundamentals'.

Strong growth in top-line

The company witnessed a strong growth in revenue in Q2FY12 (October 01 to December 31). AAL reported standalone revenue of Rs.558.8 crore in Q2FY12 – up 29.4 per cent y-o-y. On a consolidated basis, the revenue was up 34.0 per cent at Rs.1,904.4 crore during the same period.

Higher raw material costs led to EBITDA margin decline

The Q2FY12 standalone EBITDA margin stood at 25.4 per cent, a drop of 256 basis points (bps) when compared with Q2FY11. AAL's raw materials cost witnessed a rise, leading to a drop in the margins in the quarter. In Q2FY12 (raw material costs as a per cent of revenues stood at 65.3 per cent as compared with 63.4 per cent in Q2FY11.

The company reported a standalone net profit of Rs.54 crore in Q2FY12 vis-à-vis Rs.58.3 crore in Q2FY11. Q2FY12 net profit on a consolidated basis stood at Rs.158.2 crore as compared with Rs.137.1 crore in Q2FY11.

Valuation

We have valued AAL at a CIV of Rs.178 per share; however our estimates are under review. We shall revise our estimates post management discussion.

Consolidated Financial Information Snapshot[1]

(Rs Crore)	FY09	FY10	FY11
Operating Income	3,439	3,691	5112
EBITDA	700	906	1302
PAT (After minority interest)	173	240	259
Fully Diluted EPS* (Rs.)	10.2	11.8	20.9
Dividend Per Share (Rs.)	0.5	1.4	1.6
P/E (times)			6.5
EV/EBITDA (times)			6.1

[1] Year ending 30th June

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

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

CARE Equity Research has retained a fundamental grade of 4/5 to the equity shares of AAL, indicating 'Very Good Fundamentals'. AAL is the largest machining company and the 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 Equity Research expects the automobile industry to grow at 9-10 per cent over the next five 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.

AAL: Standalone Financial Performance Snapshot

(Rs. Crore)	Q2FY12	Q2 FY11	Growth
Sales	559	432	29.4%
EBITDA	142	121	17.5%
EBITDA Margins	**25.4%**	**28.0%**	**-256 bps**
Net Profit	54	58	-7.3%
Net Profit Margins	**9.1%**	**12.4%**	**-331 bps**

Source: Company and CARE Equity Research

Strong growth in top-line

AAL witnessed a strong growth in revenue in Q2FY12. The company reported standalone Q2FY12 revenue of Rs.559 crore as against Rs.432 crore in Q2FY11 – a growth of 29.4 per cent y-o-y. On a consolidated basis the revenue for the quarter was Rs.1,904.4 crore – up 34.0 per cent y-o-y. The growth in top-line can be attributed to the sustained demand from the automobile segment, both domestic and overseas markets, coupled with added traction from the non-automobile segment. Domestic sales for AAL in the quarter grew by 32.1 per cent y-o-y, while the overseas sales grew by 41.1 per cent y-o-y. The German and UK business for the company continued to grow at a high rate resulting in strong y-o-y growth in overseas business.

The non-auto segment for AAL primarily comprise of tractors, off-highway vehicles, construction equipments and railway components. In the non-auto segment, the company witnessed healthy growth from the tractors segment on the back of growth in domestic tractors sales.

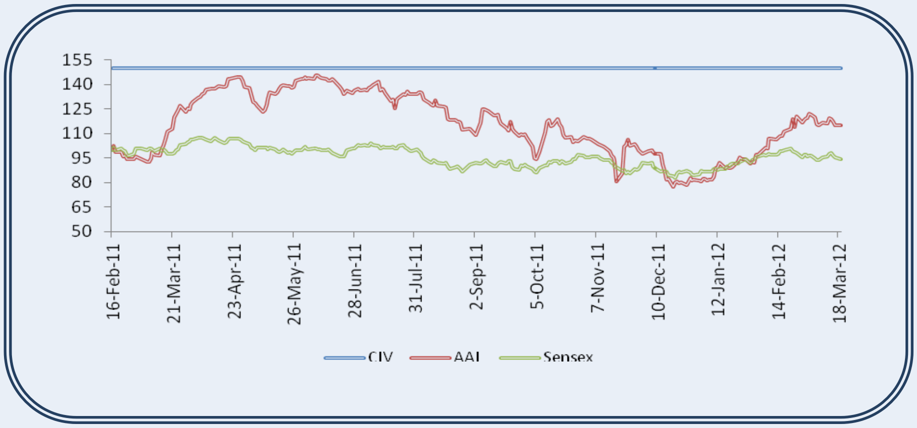
Drop in EBITDA margin

EBITDA on a standalone basis in Q2FY12 was Rs.141.9 crores - up 17.5 per cent y-o-y. EBITDA margin however witnessed a drop of 256 bps in Q2FY12 when compared with Q2FY11. On a consolidated basis EBITDA margins were down 110 bps y-o-y, at 21.7 per cent in Q2FY12. AAL's raw materials cost (as a per cent of revenues) increased from 63.4 per cent in Q1FY11 to 65.3 per cent in Q1FY12. AAL reported a net profit of Rs.54.0 crore in Q2FY12 vis-à-vis Rs.58.2 crore in Q2FY11.

AAL's share price has outperformed BSE Sensex since initiation

CARE Equity Research initiated AAL's coverage with the CIV of Rs.178 per share, and the CMP of Rs.118 on 16th February 2011. The stock is up 14.9 per cent from the time of its initiation and is currently trading back at Rs136 per share. The BSE SENSEX on the other hand dropped by 5.6 per cent since 16th February 2011.

AAL: Stock performance since initiation



Source: BSE and CARE Equity Research

ANALYSIS OF RESULTS

Standalone Quarterly Income Statement

(Rs. Crore)	Q2 FY12	Q1 FY12	Q2 FY11	Y-o-Y Growth	Q-o-Q Growth
Total Income	**559**	**530**	**432**	**29.4%**	**5.5%**
EBITDA	**142**	**134**	**121**	**17.5%**	**6.0%**
Depreciation and amortisation	51	51	46	12.5%	0.1%
EBIT	90	82	75	20.6%	9.6%
Interest	49	50	36	37.6%	-1.3%
PBT	78	72	78	0.1%	7.5%
Tax	24	20	20	22.1%	20.9%
PAT	**54**	**53**	**58**	**-7.3%**	**2.5%**
EBITDA Margins	25.4%	25.3%	28.0%	-256 bps	12 bps
PAT Margins	9.1%	9.3%	12.4%	-331 bps	-18 bps

Source: Company and CARE Equity Research

Standalone Half Yearly Income Statement

(Rs. Crore)	H1 FY12	H1 FY11	Y-o-Y Growth
Total Income	**1165**	**916**	**27.2%**
EBITDA	**352**	**311**	**13.4%**
Depreciation and amortisation	103	92	12.4%
EBIT	250	219	13.8%
Interest	99	68	45.0%
PBT	150	151	-0.3%
Tax	44	38	14.8%
PAT	**107**	**113**	**-5.4%**
EBITDA Margins	30.24%	33.91%	-367 bps
PAT Margins	9.16%	12.31%	-315 bps

Source: Company and CARE Equity Research

FINANCIAL STATISTICS

Income Statement

(Rs Crore)	FY08	FY09	FY10	FY11
Operating Income	**4,657**	**3,439**	**3,691**	**5,112**
EBITDA	960	700	908	1,302
Depreciation and amortisation	210	273	310	350
EBIT	750	427	598	952
Interest	116	152	205	477
PBT	634	275	392	475
Ordinary PAT	386	173	269	323
PAT (After minority interest)	**427**	**173**	**240**	**259**
Fully Diluted Earnings Per Share* (Rs.)	**21.5**	**10.2**	**11.8**	**20.9**
Dividend	12	11	29	34

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

Balance Sheet

(Rs Crore)	FY08	FY09	FY10	FY11
Net worth (excluding Minority Interest)	3,094	3,076	4,471	6,440
Debt	2,899	3,898	3,809	6,379
Capital Employed	**5,993**	**6,974**	**8,279**	**12,819**
Net Fixed Assets	4,035	4,908	5,446	8,453
Investments & Others	62	49	281	51
Loans and Advances	443	1,016	1,074	1,615
Inventory	721	755	812	1,451
Recievables	823	522	641	1,262
Cash and Cash Equivalents	1,037	798	825	1,390
Current Assets, Loans and Advances	3,029	3,092	3,356	5,722
Less: Current Liabilities and Provisions	1,133	1,075	803	1,406
Total Assets	**5,993**	**6,974**	**8,279**	**12,819**

Ratios

	FY08	FY09	FY10	FY11
Growth in Operating Income	25.2%	-26.2%	7.3%	38.5%
Growth in EBITDA	19.1%	-27.0%	29.3%	43.7%
Growth in PAT	4.6%	-59.6%	39.2%	7.9%
Growth in EPS	-17.8%	-52.4%	15.6%	76.8%
EBITDA Margin	20.6%	20.4%	24.5%	25.5%
PAT Margin	9.2%	5.0%	6.5%	5.1%
RoCE	15.0%	6.6%	7.8%	9.0%
RoE	16.2%	5.6%	6.4%	4.8%
Net Debt-Equity (times)	0.6	1.0	0.7	0.8
Interest Coverage (times)	8.3	4.6	4.4	2.7
Current Ratio (times)	2.7	2.9	4.2	4.1
Inventory Days	56	80	80	104
Recievable Days	64	55	63	90
Price / Earnings (P/E) Ratio				6.5
Price / Book Value(P/BV) Ratio				0.5
Enterprise Value (EV)/EBITDA				6.1

Source: Company and 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 CIV or the price arrived by CARE Equity Research on fundamental basis is compared with the 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.

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