Adhunik Metaliks

Buy

CMP: Rs 34

Target Price: Rs 55 (12 Months)

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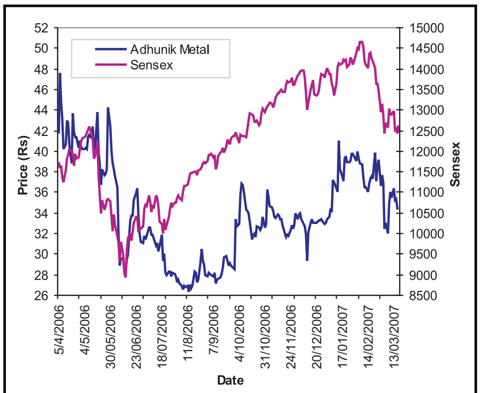
Stock Info

Sector	Steel
Market Cap (Rs cr)	314
Beta	0.9
52 Week High / Low	50/26
Avg Daily Volume	363333
Face Value (Rs)	10
BSE Sensex	12,645
Nifty	3,679
BSE Code	532727
NSE Code	ADHUNIK
Reuters Code	ADME.BO
Bloomberg Code	ADML IN

Shareholding Pattern (%)

Promoters	63.9
MF / Banks / Indian FIs	18.5
FII / NRIs / OCBs	6.6
Indian Public / Others	11.0



Investment Argument

- **Shift in revenue-mix:** There is going to be a significant shift in the revenue-mix of Adhunik Metaliks (AML) towards the higher end value-added rolled segment, from 70 : 30 (billets : rolled) to 30 : 70. Due to this, we expect a substantial improvement in the margins, by around 500 bps. This shift will propel the company into the league of companies like Kalyani Steel, Monet Ispat, MUSCO and Mukand.
- **Expansion in manufacturing capabilities:** AML is on track to complete Phase II of its expansion plan, which will increase its manufacturing capacity from 0.25mn TPA to 0.45mn TPA, with a capex of Rs 437cr. This includes new stainless steel making capacity of 0.12mn TPA.
- **Backward and forward integration:** AML has planned cost reduction on one hand and value-addition on the other, at all stages of the production cycle. The company's captive power plant of 35MW will save the power cost significantly. Additionally, it has been allotted iron ore and coal mines in Orissa. This will protect AML from fluctuations in raw material prices. This will transform AML into an integrated value-chain producer with end-to-end capabilities.

Valuation

Going forward, the profitability of AML is likely to improve due to its access to critical mineral resources and its focus on moving higher up the value-chain. The topline and the bottomline of the company are slated to grow at a CAGR of 75% and 89% over the next two years, leading to a substantial improvement in the company's return ratios. At the CMP, the stock trades at 2.6x its FY2008E and 2.2x its FY2009E earnings of Rs 13.2 and Rs 15.8, respectively. **We initiate coverage on the stock with a Buy recommendation and a 12-month Target Price of Rs 55.**

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2006	FY2007E	FY2008E	FY2009E
Net Sales	**422.3**	**760.8**	**1,289.6**	**1,305.4**
% chg	*224.4*	*80.1*	*69.5*	*1.2*
Net Profit	**33.7**	**72.6**	**120.1**	**143.9**
% chg	*375.5*	*115.5*	*65.3*	*19.8*
OPM (%)	17.0	16.8	21.1	25.4
EPS(Rs)	**3.7**	**8.0**	**13.2**	**15.8**
P/E (x)	9.3	4.3	2.6	2.2
P/CEPS(x)	7.7	3.7	2.0	1.7
ROE(%)	15.4	25.7	30.5	28.0
ROCE(%)	10.7	13.7	19.0	21.6
P/BV	1.4	1.1	0.8	0.6
EV/Sales(x)	1.3	1.0	0.7	0.6
EV/EBITDA(x)	7.1	5.7	3.2	2.4

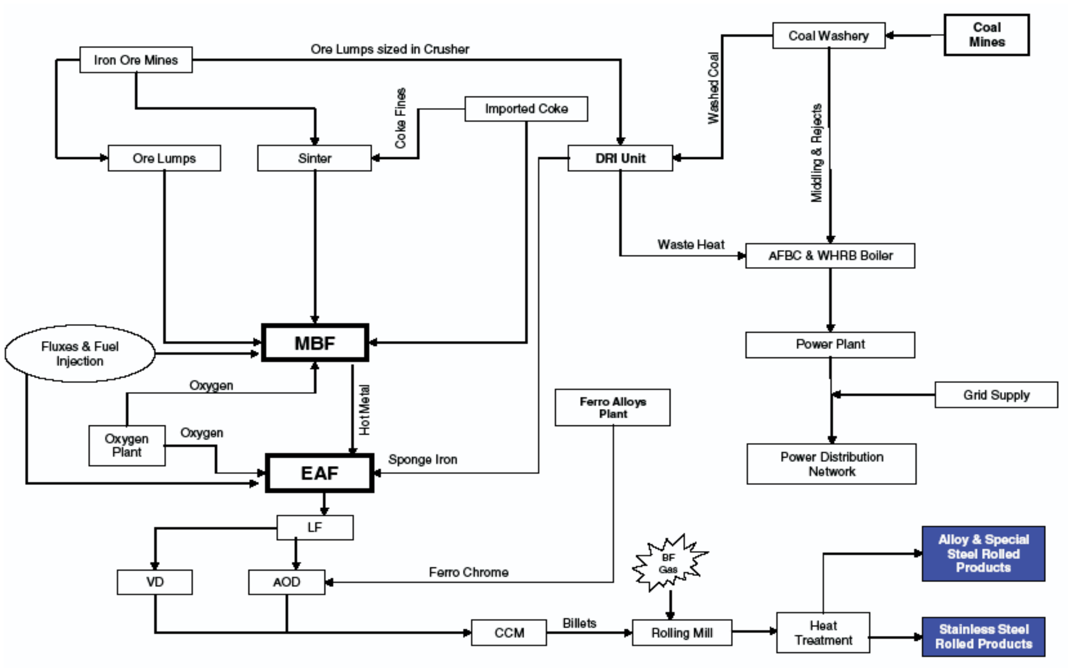
Source: Company, Angel Research

Company Background

Adhunik Metaliks (AML) is a flagship company of the Rs 1000cr Adhunik group, promoted by the Kolkata-based Agarwal family. It was incorporated in the year 2001 and commenced operations in the year 2003 by manufacturing Sponge Iron. AML had signed an MoU with the Government of Orissa in October 2003 for setting up an integrated steel plant at Rourkela. The manufacturing facility of AML is located strategically in Orissa, a hub of raw materials for the steel industry (such as iron ore, chromites and coal). The company has already been allotted coal mines at Patrapara (Talcher District) and iron ore mines at Kulum (Keonjhar district). Its current product portfolio includes sponge iron, pig iron and alloy billets. The company has also initiated rolling of its billets through third party arrangements to meet the current requirement of rolled products in various segments. The Indian automobile industry constitutes the major clientele of AML. AML supplies material to units who in turn supply to Tata Motors, Maruti Suzuki, Hero Honda and others.

Adhunik's Steel Facility

Exhibit 1: Adhunik Metaliks integrated steel facility



Source: Company, Angel Research

The present expansion project will enable AML to manufacture high value-added products in steel, suited specially for the automobile and engineering industry. The integrated steel plant project (from Iron Ore to high value-added Stainless Steel and Alloy Steel) will be setup in a phased manner so that every phase can generate revenues for further expansion.

Industry Overview

Alloy and Steel Industry

Alloys and special steels possess enhanced properties due to the presence of one or more alloying elements such as manganese, silicon, nickel, chromium, molybdenum, vanadium and micro alloy grain structures. However, the entire group can be divided into five classes, each of which is identified by the alloying elements that affect their microstructure.

Alloy and Steel

The majority of steel produced in the world consists of carbon and alloy varieties, with the more expensive stainless steels representing a small but valuable niche market. Over the recent past, the application of alloy steel has increased, especially in consumer durables and in automobiles. The use of alloy steels in two wheelers and four wheelers has enabled automobile manufacturers to produce lighter and more fuel-efficient vehicles.

Indian alloy and special steel industry

The total capacity of the alloy and special steel sector in India is estimated at around 2.8mn tonnes per annum. The demand for auto grade special steel was approximately 2mn tons, mainly on account of the buoyant auto ancillary sector. While India's automotive sector grew by 12% over FY2006, demand in the Indian auto components industry grew annually at about 25-30% and exports of auto components grew at a compounded 19% over the past six years.

Exhibit 2: Average consumption of alloy and special steel forgings:

Category	Avg consumption/vehicle (Kg.)
MHCV	650-800
LCV	300
Passenger car	
-Large	80
-Medium	70
-Small	55
MUV	200
Three-wheelers	
-Scooters	18
-Motorcycles	8
-Mopeds	5
Tractors	400

Source: Company, Angel Research

Stainless steel industry

Stainless steel is a value-added engineering product with high corrosion resistant properties (due to a minimum 10.5% presence of chromium). This chromium, combined with oxygen, forms a chrome oxide surface layer that prevents further oxidation, resulting in stain-free and rust-free properties. Currently, there are three distinct grades of stainless steel (200 series, 300 series and 400 series); the 300 series enjoys the maximum demand

Stainless Steel

Exhibit 3: The uses of different types of stainless steel

Stainless steel grades	200	300	400
Uses	Utensils and household ware, Kitchenware/ sinks, tubes and pipes, architecture/decorative automobiles/railways/ transport/furniture	Refineries, petrochemicals, nuclear applications, railway coaches, automobiles, potable water tubing, power plants	Razor blade, exhaust system for automobiles, tower packing for petrochemicals, coinage,railway coaches and wagons, consumer durables

Source: International Stainless Steel Federation (ISSF), Angel Research

Global outlook of stainless steel

Stainless steel reported the highest CAGR between 1980 and 2004, over other metals on account of new applications being regularly invented.

Exhibit 4: Growth rates of metals consumption

	Lead	Copper	Zinc Steel	Aluminium Steel	Other Steel	Stainless
CAGR 1998-2004 (%)	1.04	2.44	2.01	3.25	1.09	5.76

Source: ISSF, Angel Research

Performance of Indian Stainless steel

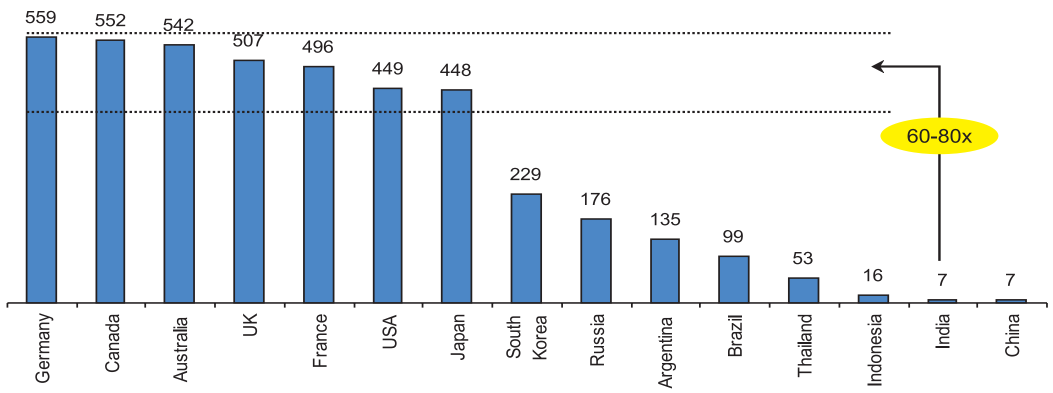
India outperformed global growth rates: against the global average growth of 6%, Indian production grew by over 16% during the last 15 years, and consumption by around 11% over the last decade. In the last four years, India's production growth was around 20% per annum, with nearly 75% of the consumption accounted for by the white goods and the household goods sectors. Even so, India's per capita consumption of stainless steel remained a mere 1.1 kg, far lower than China (4.1 kgs) and developed countries (15-20 kgs), indicating considerable room for growth.

A Brief on the Automobile and Auto-component Sectors

The growth in the automobile sector is expected to continue over the medium trend, fuelled by an increasing domestic demand and growing exports. While the automobile industry grew at a CAGR of about 15% between FY1998 and FY2005, it is expected to grow by more than 16% (on an expanded base) for the next ten years – a five-fold growth in industry size by 2015.

Automobile Industry

Exhibit 5: Car penetration per thousand in (2005)



Source: CRIS INFAC, Angel Research

The penetration of cars in India is among the lowest in the world, which leaves significant room for appreciation. Over the last 5 years, the Indian passenger car segment grew by 19%, while the commercial vehicle demand grew by 12%. The passenger car segment is expected to grow at 21% upto 2015, while the commercial vehicle segment is expected to grow by 17% over the same period. Given the Government's thrust on infrastructural spending, the car industry is poised to benefit, thus aiding the dependant steel and alloy industries as well. The average disposable income has also increased and so has the availability of the low cost financing option. Keeping in view the growth rate and the interests of global players, the Government has indicated the need to set up Auto Hubs in various parts of the country. India is set to become the hub for the $1 trillion global auto-component industry.

Exhibit 6: Overview of the Automobile sector (Figures in '000)

	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006
Passenger cars	513	564	609	842	960	1,045
Multi-utility vehicles	127	105	114	146	249	263
Commercial vehicles	157	162	204	275	350	391
Two wheelers	3,758	4,271	5,076	5,625	6,528	7,600
Three wheelers	203	212	276	340	374	434
Total	4,759	5,314	6,279	7,229	8,460	9,735
Growth (%)		11.7	18.2	15.1	16.8	15.0

Source: CRIS INFAC, Angel Research

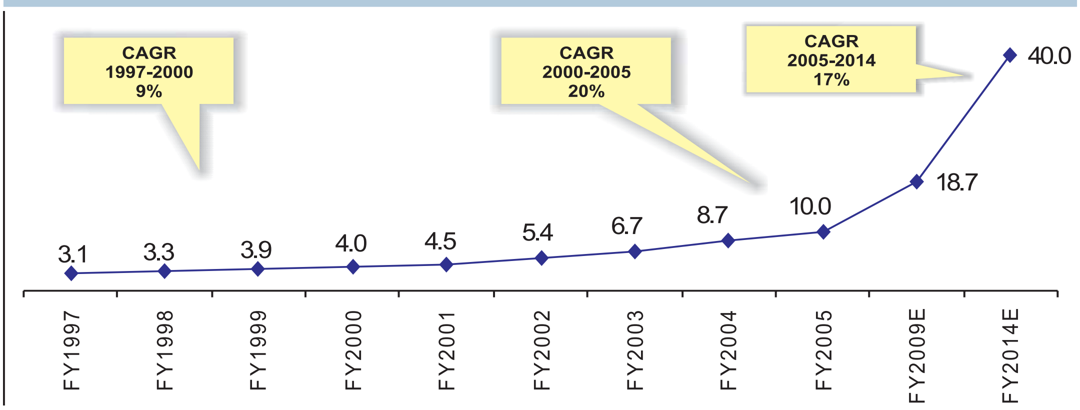
Auto-components

The Auto Component Manufactures Association of India(ACMA) expects the domestic industry to grow at a CAGR of 15% till FY2012, and exports to reach $5 billion by 2010.

Auto-component Industry

A McKinsey study estimates that the global automobile component industry output is expected to grow at a CAGR of 16.48%, to a range of US$ 33 - 40 bn by 2015 (about US$8.7bn presently), while exports could grow faster at a CAGR of 33.4%, to US$ 20 to 25bn (from US$1.4bn currently). Global OEMs are interested in exporting low cost, quality products to their global factories and other markets; leading global component majors have established a sourcing base to feed their global operations. Among the OEMs already outsourcing from India are: General Motors, Ford, Daimler Chrysler, Hyundai, Fiat, Toyota, Delphi, Navistar, Visteon, Cummins and Caterpillar.

Exhibit 7: Auto Component Growth (In US $ bln)



Source: Company, Angel Research

Investment Argument

Shift in the Revenue-Mix

There is going to be a significant shift in the revenue-mix of the company toward the higher end value-added rolled segment from 70 : 30 (billets : rolled) to 30 : 70. Due to this, we expect a substantial improvement in the margins, by around 500 bps. This shift will propel the company into the league of companies like Kalyani Steel, Monet Ispat, MUSCO and Mukand.

The New Revenue-Mix of AML

Exhibit 8: Revenue-Mix of AML

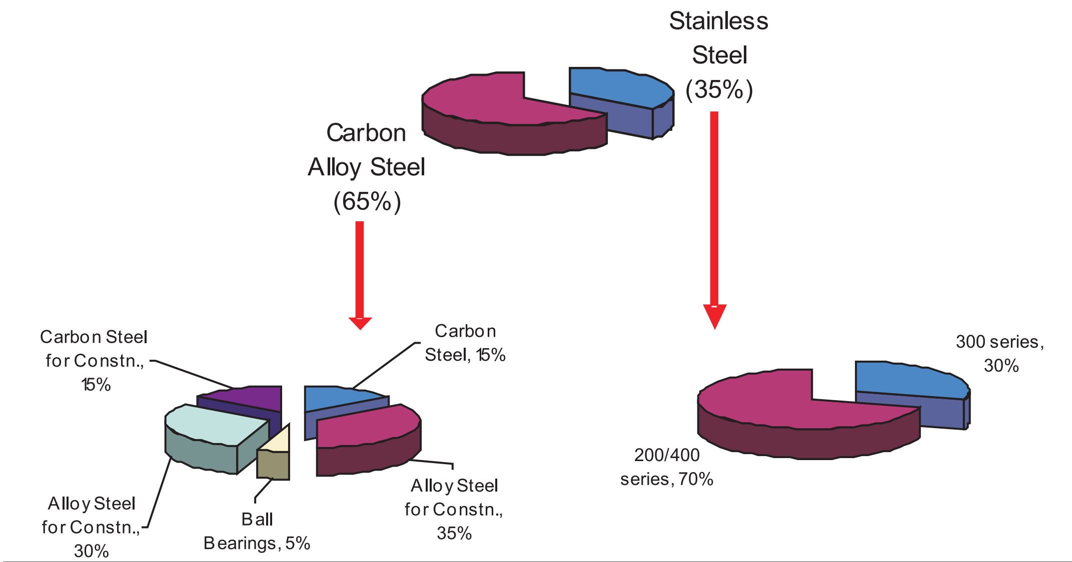
	FY2006		FY2007E		FY2008E		FY2009E	
	Sales (Rs cr)	Realisation per tonne	Sales (Rs cr)	Realisation per tonne	Sales (Rs cr)	Realisation per tonne	Sales (Rs cr)	Realisation per tonne
Billets	107	18,975						
Pig Iron	80	12,348	98	14,002	7	14,002	7	14,002
Sponge Iron	61	6,451	8	8,999	8	8,999	8	8,999
Alloy steel billets			161	19,496	93	20,861	80	21,070
Carbon steel billets			86	17,500	36	17,500	29	17,500
Alloy steel Rolled product			103	25,500	294	26,520	350	26,520
Carbon steel Rolled product			12	23,500	110	24,017	136	24,017
Stainless Steel (200 ss)					160	33,000	203	33,000
Stainless Steel (300 ss)					176	85,000	224	85,000
Traded goods	182	19,831	269	20,228	177	20,430	89	20,634
Job Charges	24		2		13		13	
Others	7		22		42		46	
Excise			80		151		177	

Source: Company, Angel Research

Currently the company's product portfolio includes carbon and alloy billets. After the Phase II expansion, the product mix would include auto-grade and special steel and stainless steel.

The New Product Mix of AML

Exhibit 9: Proposed product mix



Source: Company, Angel Research

Backward and forward integration to fuel the margin expansion

AML has planned cost reduction on one hand and value addition on the other, at all stages of the production cycle. Moreover, the company's final product range does not classify it as a merchant steel manufacturer, as a result of which it is not subject to the uncertainties in the steel market. Hence, AML should be able to make sufficient value-additions to absorb any temporary price fluctuations in the market, both domestic as well as global.

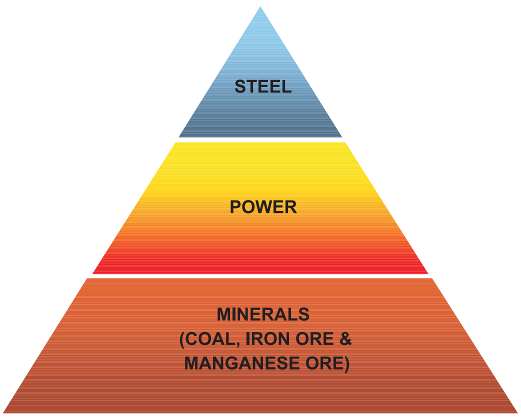
AML will have significant control over its production costs on account of:

- The charging of hot ferro chrome in steel-making is expected to reduce energy costs.
- The charging of sinter in blast furnace will reduce coke consumption and improve productivity.
- Usage of blast furnace gas in rolling mill and Steel melting shop will replace or reduce the consumption of expensive petroleum fuel, cutting down the cost of production.
- The captive oxygen plant will replace the expensive liquid oxygen purchased from external sources.
- The captive power plant using blast furnace gas, waste heat/char from DRI, and middlings from washery will reduce the cost of electric energy.

AML's Integrated Efforts

AML is consolidating its business model into an integrated value-chain with end-to-end capabilities, i.e. from iron-ore and coal, to auto-grade special steel and stainless steel. This will help the company in catering to the rapidly growing automotive components and engineering segments, and to compete in the market place by way of effective cost control measures.

Exhibit 10: Integrated value-chain



Source: Angel Research

The company is leveraging its position in the iron ore and coal rich state of Orissa and will be commercially mining iron ore and coal from the allotted mines. This will, again, protect AML from fluctuations in raw material prices. The company has received an allotment of iron ore mines at Kulum (in Keonjhar district of Orissa), which is situated 150 kms from the plant site, thereby reducing the transportation cost. The mine has a rich content of Ferrous (fe), at over 65%, and is estimated to sustain the company's iron ore requirement for more than 30 years. The mining operation is expected to commence within a period of 6-9 months. These mines are already partly used, due to which the mining cost will be reduced to 30% of the corresponding cost of a virgin mine. After the commencement of mining operations, the cost per tonne of iron ore is expected to come down from Rs 1800/tonne (currently) to Rs 800/tonne, substantially increasing the margins.

The company has also received an allotment of coal mines at Patrapara (in Talcher district of Orissa), situated 230 kms from the plant site, thereby facilitating a low transportation cost. The coal block is completely virgin, with estimated reserves to last for another 30 years on the expanded capacity. Once both the iron ore and coal mines are commissioned, 50-60% of the cost will be rationalised. Additionally, the installation of an iron ore sinter plant is expected to reduce the cost of iron ore used in the blast furnace by 35%.

AML's power requirement, on an expanded base, for yearly consumption is 65 MW. The company's captive power plant of 35MW will save power cost significantly, with the rest (50% power requirement) coming from the grids.

The company's plant is located at a distance of approximately 450km from the nearest port, which leads to higher transportation costs for imported raw materials. AML is currently importing coke for its MBF division and is not facing any problem in its transportation. Further, once the private railway siding becomes operational, the transportation cost will be substantially rationalised.

With captive co-generation of power, the private railway siding and captive mining rights, the venture is envisaged to be immune to the steel cycle, to the largest extent possible.

Expansion in manufacturing capabilities

The existing facilities are located at Chadrihariharpur in Orissa. Presently, AML is operating five DRI units of 100 tpd capacity each in the Sponge Iron Division (Unit I), and has setup a Steel Division (Unit II), which consists of a Blast Furnace Complex, one Electric Arc Furnace (EAF), one Ladle Refining Furnace and one Billet Caster. The existing plant has been setup in a phased manner. AML started operations with Unit I in the year 2003 and Unit II was commissioned in the year 2005.

Exhibit 11: Existing Capacities at AML

	Installed Capacity
Sponge iron (100 * 5 TPD) (TPA)	150,000
Mini Blast furnace (262 Cum) (TPA)	180,000
Coal washery (TPA)	700,000
SMS (EAF,LRF, CCM & oxygen plant) (TPA)	250,000
Captive power plant (MW) (Starts in April 2007)	17

Source: Company, Angel Research

Expanding Operations

All the facilities in Unit II (except the captive power plant) have already started operations in a phased manner. The products adhere to high quality standards and the operations are ISO 9001 certified. This ensures that the products are consistently within the specification parameters provided by the customers. Driven by the growing demand of metaliks for steel production in the country, and after the successful implementation of the initial phases of the project, AML has decided to set up an Integrated Steel Plant (for the production of high value-added steel products).

AML is setting up an integrated steel plant, with complete backward and forward linkages, at a cost of Rs 437cr. The entire project is to be completed by March 2008. This will cater to user segments like the automobile, engineering and forging sectors. The company proposes to fund the project outlay through an IPO (Rs 100cr), term loans (Rs 277cr) and internal accruals (Rs 60cr). The project would start its operations in three distinct phases, as given below:

Exhibit 12: Adhunik Metaliks: Schedule of Project Implementation

Unit	Installed Capacity	Main Product
SMS no. II, VD along with its auxiliaries	1,56,300 MTPA *	Alloy and carbon steel billets, Bloom/Rounds
AOD & Bloom Caster	1,19,000 MTPA *	Stainless steel billets
Ferro Alloys Division	33,760 MTPA *	Ferro chrome
Rolling Mill with finishing facility	2,20,000 MTPA *	Alloy steel and SS rolled product
Sinter Plant	96,000 MTPA *	Sinter
Oxygen Plant	97,92,000 SM3PA *	Oxygen
Captive Power Plant No. II	18MW ^	Power
Private Railway Siding	*	Logistic management
Commercial Exploration of Captive Iron Ore & coal Mines	#	Iron ore and coal

*(Notes: Commissioning date: *: Q1FY2008; ^: Q3FY2008; #: Q1FY2009)*
Source: Company, Angel Research

Project Implementation

Until now, AML possessed only its own alloy steel billets capacity. But, in order to create a market for its rolled products, without waiting for its own rolling mill to come up by April 2007, the company has already started converting billets through a third-party arrangement. AML wants to primarily establish itself in the Alloy steel market; by doing so, the company will have the demand for its products geared up. The company is in the final process of getting approval from various OEMs, in addition to the various tier II vendors that it also supplies to. AML already has a reputed client base such as J.M.T Auto, Amtek Auto, Mahindra Sona and Talbros Automotive, R.K Forging. Around 60% of AML's revenue is expected to come from this segment in FY2008.

Venturing into new businesses to add value

New Businesses

AML had acquired Unistar Galvanizers and Fabricators (UGL) in June 2006 for a consideration of Rs 4.5cr. The Company has undertaken a capex programme to increase its production capacities and for the balancing of equipment at its facilities at the Kolkata and Jamshedpur plants. The expansion plan is expected to be completed by *1st qtr* 2007-2008 at a cost of Rs 20cr. The company has plans to reach a production target of 3500 MT per month of transmission towers by December 2007.

Unistar is now a 100% subsidiary of the company. Its products include transmission towers, galvanized substation and switchyard structures, ground based and roof top galvanized telecom towers, welded structures and masts for the Railways and lighting masts, pipe structures, foundation bolts and accessories utilized in Power and Telecommunications (with necessary approvals from NTPC, Power Grid Corporation of India, BHEL, Bangladesh Power Development Board, Grid Corporation of India, etc). AML has merged Neepaz tubes, a Adhunik group company, with Unistar, having allied activities and substantial facilities (to that of Unistar Galvanisers), to leverage on the strength of Unistar Galvanisers.

Exhibit 13: Expansion plans for the fabrication and galvanization shops (MT/Month)

Existing Project:	Total	Ganganagar	Jamshedpur
Fabrication Shop	1000	1000	0
Galvanization Shop	2500	1500	1000
Expansion Project			
Fabrication Shop	3000	500	2500
Galvanization Shop	2500	500	2000
Total capacity after Expansion			
Fabrication Shop	4000	1500	2500
Galvanization Shop	5000	2000	3000

Source: Company, Angel Research

Details of Unistar

UGL recently bagged a Rs 53cr telecommunication transmission tower order from India Wireless Technology Ltd (IWT). The order is for the manufacture and supply of complete telecommunication towers and is sufficient for 4-5 month usage of its production facility. The installed capacity stands at 48000MT and the expected net profit margin from this business is more than 9%.

The expansion will be completed in the month of April 2007 at a cost of Rs 22cr which was funded with a debt : equity ratio of 1.4 : 1. The galvanization shop is completely for internal consumption.

Exhibit 14: Details of the fabrication plant

Unistar	Capacity Utilisation(%)	Sales Qty	Sales(Rs cr)	Realisation/Mt (Rs)	PAT(Rs cr)
FY2008E	55	26400	124	47000	8.9
FY2009E	66	31680	152	47940	12.6
FY2010E	83	39600	190	47940	16.7

Source: Company, Angel Research

Financial Performance

The robust performance during FY2005-06 was primarily on account of the commencement of the commercial production of the mini-blast furnace (from September 2005), the expansion in DRI (Directly Reduced Iron) capacity from 1,20,000 tonnes per annum to 1,50,000 tonnes per annum, and the increase in capacity utilisation of DRI kilns.

Exhibit 15: 9MFY2007 Result Analysis

PARTICULARS	Q3FY2007	Q3FY2006	(% chg)	9MFY2007	9MFY2006	(% chg)
Net Sales	**200.56**	**138.49**	**44.82**	**547.72**	**239.15**	**129.03**
Other Income	1.49	0.65	129.23	4.39	1.31	235.11
Total Income	202.05	139.14		552.11	240.46	
Total Expenditure						
OPM (%)	17.19	15.61		16.49	16.78	
PBDIT	**35.97**	**22.27**	**61.52**	**94.71**	**41.44**	**128.55**
Interest	8.23	4.19	96.42	18.87	6.49	190.76
Depreciation	2.86	2.4	19.17	8.38	4.39	90.89
PBT	**24.88**	**15.68**	**58.67**	**67.46**	**30.56**	**120.75**
Provision for Taxation	4.73	6.12	(22.71)	11.57	13.75	(15.85)
PAT	**20.15**	**9.56**	**110.77**	**55.89**	**16.81**	**232.48**
Equity Capital	91.23	64.2		91.23	64.2	
Diluted EPS(Rs.)	2.21	1.49	48.33	6.13	2.62	133.97

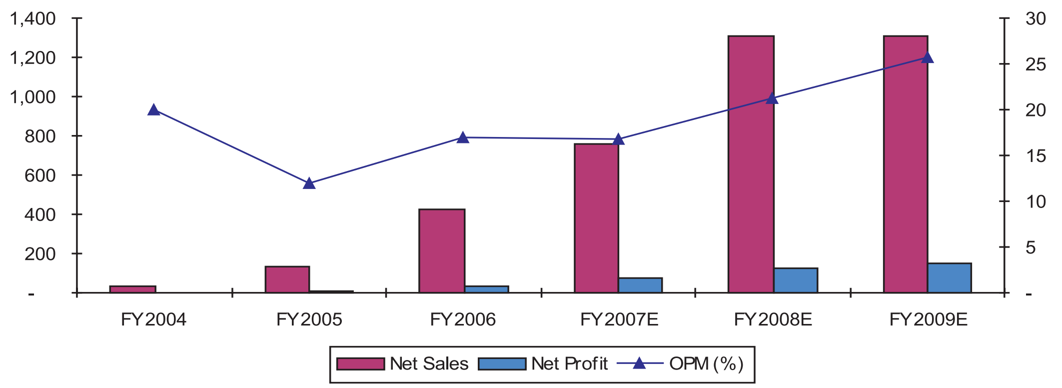
Source: Company, Angel Research

Snapshot of the 9MFY2007

For the 9MFY2007, the company's net sales have grown by 129% YoY, from Rs 239cr to Rs 548cr. This is due to the contribution from alloys and carbon steel billets, as well as the contribution from Alloy and carbon steel rolled products, which are high value products. Overall, AML has maintained a healthy OPM of around 17%. AML's interest burden over the period has increased by 191%YoY, from Rs 6.5cr to Rs 18.9cr.The company's PAT has grown by 232% YoY, from Rs 16.8cr to Rs 55.9cr.

The majority of AML's revenue came from trading activity (39% in FY2006 and 31% FY2007E, of total revenue) where the operating margins were very low, at around 10%. Going forward, AML's contribution from this activity is expected to come down to 14%.

Exhibit 16: AML's Revenues, Profits and OPM



Source: Company, Angel Research

Investment Concerns

- There has been a substantial capacity creation in the steel industry in recent times and this rapid pace may put the entire industry under stress, leading to lower capacity utilizations and poor realizations. However, we do not foresee this as a concern for AML as it has decided to mainly manufacture specialized, value-added alloy and stainless steel products. There are not many players in this market segment. Further, the pace of growth of demand of these products is enough to absorb increased capacities.

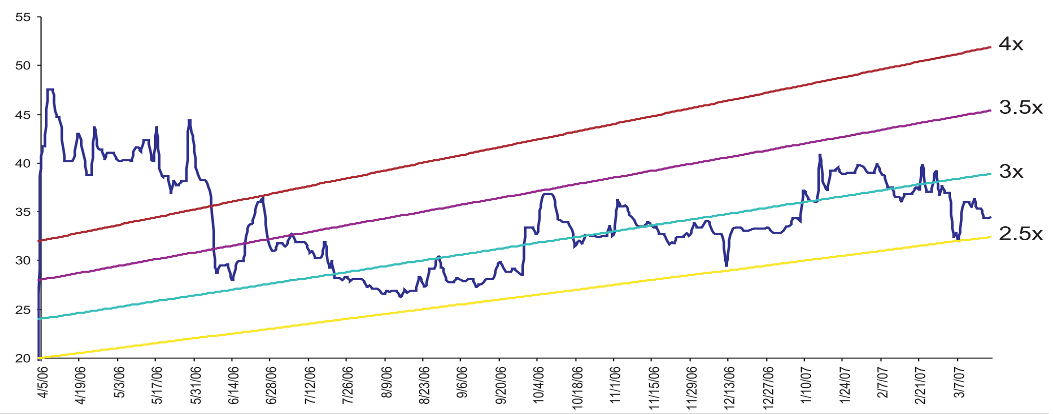
- Due to its cyclical nature, the dynamics of the steel industry keep changing, depending on factors such as the demand-supply scenario in China and the cost of vital inputs (iron ore and coal). Currently, the industry is facing pressure on prices due to the high base effect of last year, with China becoming a net exporter. Also, on account of rising input costs, the margins of players have crumbled. However, there have been recent announcements from China regarding the closure of many of their small steel plants (due to environment concerns), leading to a total capacity reduction of 100 MT by 2010. This is a positive for the global steel industry, which is currently facing massive pricing pressures.

- The costs of raw materials are witnessing an upward trend in recent times. Any downward movement in the sale price of finished goods, without a proportionate reduction in the raw material prices, will have a bearing on the viability of the unit. But, we do not foresee this to be a concern for AML; with the commencement of Captive Iron Ore and Coal mining, the unit will be largely immune from volatility in raw material prices. Additionally, until these mines come online, the unit has firm linkages for the procurement of major raw materials.

Outlook and Valuation

Going forward, the profitability of the company is likely to improve due to its access to critical mineral resources and its focus on moving higher up the value-chain. Captive iron ore, coal and power will aid AML in improving EBIDTA margins from 17% in FY06 to 21.2% in FY08E. Net profit margins may not, however, increase in the same proportion due to an increase in the debt and consequent interest liabilities. The debt to equity ratio of the company will increase from 1x in FY2006 to 1.4x in FY2008E. The ROCE during the similar period will also increase from 10.7% to 19%. AML is undergoing continuous capacity expansions and we expect the entire benefit to accrue by FY2009. The topline and the bottomline of the company are slated to grow at a CAGR of 75% and 89%, respectively, over the next two years resulting in the company's return ratios improving substantially. At the CMP, the stock trades at 2.6x its FY2008E and 2.2x its FY2009E earnings of Rs 13.2 and Rs 15.8, respectively, and an EV/EBITDA of 3.2x FY2008E and 2.4x FY2009E, on a consolidated basis. **We initiate coverage on AML with a Buy recommendation and a 12-month Target Price of Rs 55.**

Exhibit 17: PE/Band



Profit & Loss Statement

Rs crore

Y/E March	FY2006	FY2007E	FY2008E	FY2009E
Net Sales	**422.3**	**757.7**	**1,288.6**	**1,305.7**
% chg	*224.4*	*79.4*	*70.1*	*1.3*
Other income	2.8	5.7	4.3	3.6
Total income	425.1	763.5	1,292.9	1,309.4
EBITDA	**71.9**	**127.7**	**272.7**	**331.9**
% of Net Sales	*17.0*	*16.9*	*21.2*	*25.4*
Interest & Financial Charges	12.7	27.8	63.3	72.8
Depreciation	6.9	13.2	35.9	38.6
PBT	**55.1**	**92.5**	**177.8**	**224.1**
Tax	21.4	19.8	57.7	80.1
% of PBT	*38.8*	*21.4*	*32.5*	*35.8*
PAT	**33.7**	**72.6**	**120.1**	**143.9**
% chg	*375.5*	*115.5*	*65.3*	*19.8*
PAT Margin %	*8.0*	*9.6*	*9.3*	*11.0*

Balance Sheet

Rs crore

Y/E March	FY2006	FY2007E	FY2008E	FY2009E
SOURCES OF FUNDS				
Equity Share Capital	91.2	91.2	91.2	91.2
Reserves & Surplus	127.9	191.4	302.4	423.6
Shareholder's Funds	**219.1**	**282.6**	**393.6**	**514.9**
Total Loans	215.9	450.0	570.0	487.1
Deferred Tax Liab./ (Asset)	21.9	21.9	21.9	21.9
Total Liabilities	**457**	**755**	**985**	**1,024**
APPLICATION OF FUNDS				
Gross Block	212.3	520.3	658.1	709.8
Less: Accu. Depreciation	10.7	23.9	59.8	98.5
Net Block	**201.5**	**496.3**	**598.3**	**611.3**
Capital Work-in-Progress	50.10	45.30	5.98	6.42
Investments	0.1	0.1	0.1	0.1
Current Assets	326.5	350.1	598.7	640.6
Current Liabilities	121.2	137.2	217.6	234.5
Misc Exp.	0.1	0	0	0
Net Current Assets	**205.3**	**212.8**	**381.1**	**406.1**
Total Assets	**457**	**755**	**985**	**1024**

Cash Flow Statement

Rs crore

Y/E March	FY2006	FY2007E	FY2008E	FY2009E
PBT	55.1	92.5	177.8	224.1
Direct taxes paid	3.4	11.5	57.7	80.1
Depeciation	6.9	13.2	35.9	38.6
Less: Extraordinary item	(0.2)	-	-	-
(Incr)/Decr in Working Capital	(79.9)	(101.9)	(102.0)	25.1
Cash Flow from operations	**(21.5)**	**(7.7)**	**54.0**	**207.6**
Cash Flow From Investing Activity				
(Incr)/ Decr in Fixed Assets	(105.1)	(303.2)	(98.6)	(52.1)
(Incr)/Decr In Investments	-	-	-	-
Cash Flow from Investing	**(105.1)**	**(303.2)**	**(98.6)**	**(52.1)**
Cash Flow From Financing Activity				
Issue of Equity/Preference	113.0		-	-
(Decr)/Incr in Debt	122.0	234.1	120.0	(82.9)
Dividend & Dividend tax		10.4	10.7	26.7
Cash Flow from Financing	**235.0**	**223.7**	**109.3**	**(109.5)**
Incr/(Decr) In Balance Sheet Cash	108.3	(87.2)	64.8	46.0
Cash at beginning of the year	3.9	112.3	25.0	89.8
Cash at year-end	112.3	25.0	89.8	135.8

Key Ratios

Y/E March	FY2006	FY2007E	FY2008E	FY2009E
Per Share Data (Rs)				
EPS	3.7	6.8	13.2	15.8
Cash EPS	4.4	8.3	17.1	20.0
DPS	0.5	1.0	1.0	2.5
BookValue	24.0	31.0	43.1	56.4
Operating Ratios (%)				
Raw Material / Net Sales (%)	65.4	35.9	45.9	48.9
Inventory (days)	67.9	65.7	62.1	58.4
Debtors (days)	83.3	85.0	80.3	76.7
Debt / Equity (x)	1.0	1.6	1.4	0.9
Returns (%)				
ROE	15.4	25.7	30.5	28.0
ROCE	10.7	13.7	19.0	21.6
Dividend Payout	13.5	12.6	7.6	15.9
Valuation Ratios (x)				
P/E	9.3	4.3	2.6	2.2
P/CashEPS	7.7	3.7	2.0	1.7
P/BV	1.4	1.1	0.8	0.6
EV/Total Sales	1.3	1.0	0.7	0.6
EV/EBITDA	7.1	5.7	3.2	2.4

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