



# **INDEPENDENT** **EQUITY** **RESEARCH**

**Dynamatic Technologies Ltd**

**Initiating coverage**

**Enhancing investment decisions**

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

### Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

### Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

### Disclaimer:

This **Exchange-commissioned Report** (Report) is based on data publicly available or from sources considered reliable. CRISIL Ltd. (CRISIL) does not represent that it is accurate or complete and hence, it should not be relied upon as such. The data / Report are subject to change without any prior notice. Opinions expressed herein are our current opinions as on the date of this Report. Nothing in this Report constitutes investment, legal, accounting or tax advice or any solicitation, whatsoever. The subscriber / user assumes the entire risk of any use made of this data / Report. CRISIL especially states that it has no financial liability, whatsoever, to the subscribers / users of this Report. This Report is for the personal information only of the authorized recipient in India only. This Report should not be reproduced or redistributed or communicated directly or indirectly in any form to any other person – especially outside India or published or copied in whole or in part, for any purpose.

# Dynamatic Technologies Ltd

## Heavy tailwinds ahead

Fundamental Grade 4/5 (Superior fundamentals)

Valuation Grade 3/5 (CMP is aligned)

Industry Auto Components

Dynamatic Technologies Ltd (Dynamatic) manufactures precision engineering products. It has evolved from manufacturing hydraulic gear pumps to vehicle critical components and is now a supplier of precision aerospace components. CRISIL Equities expects tailwinds in the aero component outsourcing space to propel the company forward. We assign Dynamatic a fundamental grade of '4/5', indicating that its fundamentals are 'superior' relative to other listed securities in India.

### Soaring in the aerospace segment

Dynamatic is the first domestic player to become a single source supplier for a flight-critical Airbus A320 component. Largely driven by this contract, we expect the aerospace segment to register revenue CAGR of 42% over FY10-12. The company is expected to benefit from (a) the offset clause; (b) acquisition of Oldland CNC, UK; and (c) collaboration with Spirit AeroSystems (Europe).

### Strong position in hydraulic gear pumps, turnaround in auto segment

Dynamatic (70% market share) manufactures hydraulic gear pumps used in tractors. It also supplies gear pumps used in construction equipment. The auto segment is expected to turn around in FY12 as the company sets up captive foundry unit by end-FY11. It is expected to benefit from strong growth in end-user segments – tractors, off highway equipment and automobiles – which are expected to register 9%, 15% and 15-16% growth, respectively, over the next few years, as estimated by CRISIL Research.

### Client diversification to take time, but competition risks remain

Hyundai India contributes over 80% of revenues to the auto segment; Airbus is expected to contribute over 50% in the aerospace segment. While the company is trying to add more clients to de-risk the revenue stream, risks of high competition and longer sales cycle in these segments remain.

### Expect two-year revenue CAGR of 18%

We expect revenues to register a two-year CAGR of 18% to Rs 6.2 bn in FY12 largely driven by 41.5% growth in the aero segment and approximately 12% growth in the hydraulics and auto segments. PAT margin is expected to increase 242 bps to 4.8% on account of financial and operating leverage.

### Valuations – the current price is 'aligned' with fair value

CRISIL Equities has used the discounted cash flow method to value Dynamatic and arrived at a fair value of Rs 1,241 per share. This fair value implies P/E multiples of 39.6x FY11E and 22.6x FY12E earnings. We initiate coverage on Dynamatic with a valuation grade of '3/5', indicating that the market price is 'aligned' with the fair value.

## KEY FORECAST

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	3,617	4,126	4,447	5,032	6,240
EBITDA	546	506	676	781	1,038
Adj Net income	209	18	104	169	297
Adj EPS-Rs	43.4	3.3	19.2	31.3	54.9
EPS growth (%)	19.3	(92.3)	478.3	62.6	75.4
PE (x)	24.6	152.1	55.8	37.8	21.5
P/BV (x)	8.1	2.6	4.9	4.9	4.2
RoCE (%)	22.9	9.9	11.9	12.8	16.2
RoE (%)	36.6	2.2	9.4	13.6	21.0
EV/EBITDA (x)	11.9	10.5	12.0	12.0	9.1

Source: Company, CRISIL Equities estimate

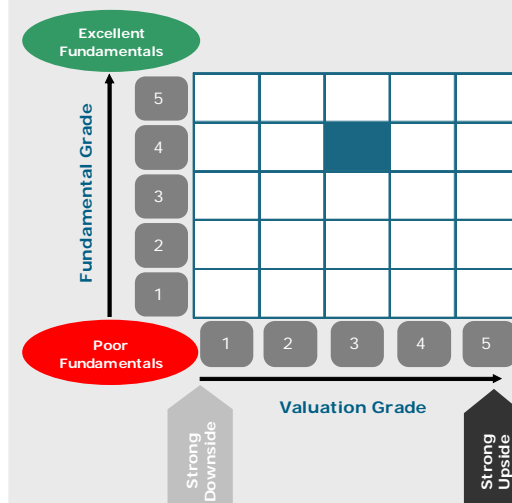
NM: Not meaningful; CMP: Current Market Price

November 19, 2010

Fair Value Rs 1,241

CMP Rs 1,182

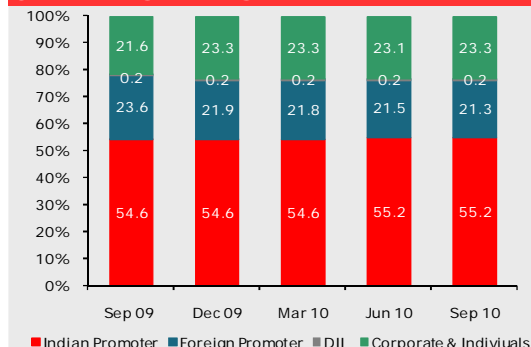
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY	5989
NSE ticker	DYNAMATECH
Face value (Rs per share)	10
Shares outstanding (mn)	5.4
Market cap (Rs mn)/(US\$ mn)	6,400/141
Enterprise value (Rs mn)/(US\$ mn)	8,699/192
52-week range (Rs) (H/L)	1358/788
Beta	1.03
Free float (%)	45.0%
Avg daily volumes (30-days)	4,792.95
Avg daily value (30-days) (Rs mn)	5.76

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
DYNAMATECH	3%	29%	17%	36%
NIFTY	1%	11%	20%	18%

## ANALYTICAL CONTACT

Chetan Majithia (Head) [chetanmajithia@crisil.com](mailto:chetanmajithia@crisil.com)

Nivedita Joshi [njoshi@crisil.com](mailto:njoshi@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)

**Table: 1 Dynamatic: Business environment**

Product / Segment	Hydraulic and Precision Engineering (HPE)	Automotive Components (AUC)	Aerospace (ASP)
Revenue contribution (FY10)	42.3%	39.9%	17.8%
Revenue contribution (FY12)	38.5%	35.9%	25.6%
Product / service offering	Manufacturing of hydraulic gear pumps, hydraulic valves, cast iron body pumps, etc	Manufacturing of ferrous and non-ferrous critical engine and transmission components for the automobile industry	Develops and manufactures exacting airframe structures and precision aerospace components
Geographic presence	Manufacturing facility: Bengaluru, India and Swindon, UK	Manufacturing facility: Chennai, India	Manufacturing facility: Bengaluru, India and Swindon, UK
Market position	Single source supplier to 75% of India's tractor OEMs; accounts for 70% share of the organised tractor market	Single source supplier to Hyundai India Ltd. for specific engine components	Single source supplier to Airbus for flap track beams for A320 family aircraft
Industry growth expectations	<ul style="list-style-type: none"> <li>Tractor industry to grow at 9% over five years.</li> <li>Earth moving material handling industry to report 30% CAGR over five years</li> </ul>	<ul style="list-style-type: none"> <li>Auto industry is expected to grow at the rate of 15% over the next four to five years</li> </ul>	<ul style="list-style-type: none"> <li>Indian offset policy US\$ 30 bn market opportunity in the aero outsourcing space over the next five to 10 years</li> </ul>
Sales growth (FY07-FY10 – 3-yr CAGR)	13.50%	3.8%	89% (FY09-10)
Sales forecast (FY10-FY12 – 2-yr CAGR)	29.8%	12.2%	41.5%
Demand drivers	<ul style="list-style-type: none"> <li>Government's increased focus on agricultural sector and infrastructure development</li> <li>Increasing rural income, increased focus on mechanisation of agriculture and ease in availability of credit facility to farmers are the factors driving demand for tractors</li> </ul>	<ul style="list-style-type: none"> <li>Rising income levels and increase in discretionary spending</li> <li>India is Asia's fourth largest exporter and expected to top world in car volumes by 2050, by then the count of vehicles on road would be 611 mn</li> <li>Currently, Indian automobile industry is the seventh largest in the world with an annual production of over 2.6 mn units in 2009</li> </ul>	<ul style="list-style-type: none"> <li>Government's increased spending on defence and aerospace</li> <li>India plans to spend US\$ 100 bn till 2012 to buy defence equipment, including multi-million dollars fighter aircraft.</li> <li>Ensuing offset clause provides a market opportunity of US\$ 30 bn</li> </ul>
Key competitors	Bosch, Eaton, Yuken, Parker	RICO Auto, Shakti Auto, BEML	Taneja Aerospace, majors like L&T, Mahindra & Mahindra and Tata Group
Key risks	<ul style="list-style-type: none"> <li>Competition from established competitors. Entering the iron-based gear pump, where it does not have a proven track record</li> </ul>	<ul style="list-style-type: none"> <li>Diversifying client base to de-risk revenues (Hyundai, India currently accounts for 80% of segment sales). However, target clients are already serviced by competitors (established players) mentioned above</li> </ul>	<ul style="list-style-type: none"> <li>Maintaining quality - any failure in maintaining the quality would undermine the business opportunities</li> </ul>

Source: Company, CRISIL Equities

## GRADING RATIONALE

### Precision engineering is Dynamatic's USP

Dynamatic has evolved from manufacturing hydraulic gear pumps to critical engine parts of vehicles, and has recently become a supplier of exacting air frame structures and precision aerospace components. Its core is its ability to manufacture products with high precision engineering. Most of the products require precision of ~5 microns (human hair has a diameter of ~100 microns).

#### *Strong R&D capabilities: Ability to innovate*

Dynamatic has set up an R&D unit at Bengaluru to improve and upgrade existing products as well as to design new products. For instance, over the years, the company has reduced the weight of its flagship hydraulic pump by over 50% through redesigning and use of different alloys, thereby reducing costs. The company is in the process of automating some of the engine parts for Hyundai Motors India Limited (Hyundai India) and is working on combi pumps (pumps that can handle water and oil) for Tata NANO, benefits of which are expected to accrue from FY12 onwards.

#### *Precision + R&D = Preferred supplier*

The company's focus on precision engineering supported by strong R&D has enabled it to become a preferred supplier for critical components. It is a single source supplier for many components. It has worked on many prestigious projects like the Arjun Battle Tank, Sukhoi fighter plane, Lakshya – India's pilotless target aircraft, and HJT-36 intermediate jet trainer.

### Dynamatic's success is portrayed by its key clientele

Key clients	Single source supplier for
<b>Auto &amp; CV:</b> Hyundai India, Tata motors, Ford India <b>Tractors (agri) &amp; construction equipment:</b> M & M (Tractors), Eicher Tractors, John Deere Equipment, Apollo Group, Godrej & Boyce, JCB, New Holland India, Same Deutz Fahr <b>Auto components:</b> Honey Well Turbo Technologies, Cummins Engine <b>Aero:</b> HAL, Airbus (Spirit), ISRO, GE Aviation, Magellan	Flight critical 'flap track beams' for Airbus' best-selling A320 family aircraft Certain engine critical components for Hyundai Motors India Ltd Mahindra & Mahindra – hydraulic gear pump for its tractors The only private player to have a factory inside HAL premises for manufacturing canards for Sukhoi MKI 30 Fighter Bomber

Source: CRISIL Equities

**Dynamatic's core is its ability to manufacture products with high precision engineering. Most of its products require precision of ~5 microns**

## Set to fly high in the aerospace segment

Backed by engineering capabilities and the Oldland CNC (UK) acquisition in 2008, Dynamic is expected to benefit from the Ministry of Defence's offset policy. In this segment, Dynamic has worked with HAL (Hindustan Aeronautics Ltd) and DRDO (Defence Research and Development Organisation) on critical projects like Arjun Battle Tank and Lakshya pilot-less aircraft, and is currently working on Sukhoi-30 MKI, the largest defence project to be undertaken in India.

**Order from Airbus even before offset registration:** In 2008, Dynamic won the first major order from Airbus supplier Spirit AeroSystems (Europe) for the supply of flight critical flap track beams for the A320 generation family aircraft (flaps control the speed, direction and balance of the aircraft). Within a year, it has become the exclusive supplier for A320 aircraft, the best selling model for Airbus globally. As of September 2010, Airbus has pending orders of 2,288 aircraft for A318, A319, A320 and A321 models, of which 1,806 orders are for A320. The UK subsidiary, Oldland CNC, has won a contract for manufacturing flap track beams which consist of 160+ parts. Based on the current order book of Airbus, revenues are expected to be Rs 1,900 mn over the next three years. Dynamic registered itself under the offset clause in April 2010.

**Single source supplier to Airbus for flap track beams (a critical component). The current order book of Airbus is expected to generate revenues to the tune of Rs 1.9 bn over next three years**

Growth drivers in the aerospace segment	
<p><b>Indian offset policy - US\$30 bn market opportunity in the aero outsourcing space over the next five to 10 years</b></p>	<ul style="list-style-type: none"> <li>Dynamic is a registered vendor for offset clause for 'parts and accessories of aircraft'.</li> <li>As per the offset clause, any defence contract worth over Rs 3,000 mn supplied by foreign vendors must compulsorily source 30-50% of the contract value from Indian vendors. It also applies to commercial airplanes ordered by government-owned National Aviation Company of India Ltd (Air India). It is expected to add 54 airplanes over the next four years.</li> <li>Airbus has Rs 40 bn sourcing obligation under a 2005 deal with NACIL to supply 43 A320 planes. The obligation, which was supposed to be met by 2020, is likely to be completed by 2010-12, as per Airbus.</li> <li>During 2006-08, offset contracts worth Rs 80 bn have been signed, of which 94% are in the aero systems segment.</li> <li>India plans to spend US\$100 bn till 2012 to buy defence equipment, including multi-million dollar fighter aircraft. Ensuing offset clause provides a market opportunity of US\$ 30 bn to US\$ 50 bn.</li> </ul>
<p><b>Acquisition of Oldland CNC (UK) opens doors to large clients and competence in aeronautical precision engineering</b></p>	<ul style="list-style-type: none"> <li>In October 2008, Dynamic acquired Oldland CNC, an aeronautical precision engineering company in the UK, for US\$16 mn (Oldland had revenues of US\$14mn in FY10). It manufactures aerospace components and tooling.</li> <li>Certified supplier to Airbus, Boeing, GE Aviation Systems and other leading players.</li> <li>To be cost competitive, Dynamic gets high technology work done in the UK and outsources labour intensive work to India.</li> </ul>
<p><b>Collaboration with Spirit AeroSystems (Europe) Ltd</b></p>	<ul style="list-style-type: none"> <li>Spirit AeroSystems (Europe) is the European division of Spirit AeroSystems, Inc. – the world's largest supplier of commercial airplane assemblies and components.</li> <li>Dynamic signed an MOU with Spirit in December 2007 for production of exacting aero structures, of which flap track beam is the first order. Showcasing its ability, Dynamic has now become the single source supplier for this product for Airbus A320, which would give it revenues of ~Rs400 mn per annum.</li> <li>As per the management, the order for flap track beams is one of the smallest; they expect orders for different components at a higher value from Spirit.</li> </ul>

Source: CRISIL Equities

The company has been allotted 35 acres of land (at Rs 680 mn) by KIADB (Karnataka Industrial Area Development Board) near the Bengaluru airport for expanding the aerospace production capacity over the next two years.

The aerospace segment enjoys higher EBIT margins of ~25% (as against company average of 10% in FY10). Dynamic's aerospace division's EBIT margins have improved over the quarters from 20% in 1QFY10 to 32% in 1QFY11. As Airbus order scales up, we expect this high-margin division to drive the company's growth. The company also has the right ingredients for fast growth in the segment:

**Strong team:** The division is currently headed by Air Commander (Retired), Mr Ravish Malhotra, one of India's two cosmonauts, who is assisted by a team that is largely from HAL.

**Client references:** It has a strong client base made up of Indian Defence (Air force), HAL, Airbus, which was acquired organically, and clients like Boeing, GE Aviation Systems through the acquisition of Oldland CNC (UK).

With a mere Rs 17 mn revenues in FY08, the aerospace segment's revenues have increased to Rs 789 mn in FY10, and it is now better positioned for growth than three years ago. While the growth is certain, it is difficult to predict the quantum and timing of growth as the deal closure period is quite long. The company is in talks with many OEMs and aero component players for possible outsourcing opportunities. We expect this segment to register revenue CAGR of 42% over FY10-12, largely driven by the Airbus contract.

## Geared to grow in hydraulic pumps

Dynamic is the market leader in aluminium hydraulic gear pumps<sup>1</sup> used in tractors (60% of volumes, 40% value contribution to the hydraulic segment), with an estimated share of 70% of the organised market, with marquee clients like Mahindra & Mahindra, Eicher, Punjab Tractors and John Deere. It also supplies aluminum hydraulic pumps to the construction and off highway vehicles (OHVs). As the construction industry predominantly uses iron casting, Dynamic has planned to cater to the growing needs of the earth moving equipment manufacturers in construction and material handling. It has already started iron casting pump supplies to Terex, US-based off highway vehicle manufacturer, and expects to cross sell this to its existing clients in the off highway segment.

## Industry tailwinds to propel Dynamic forward

CRISIL Research expects Dynamic's end-user segments – tractor and heavy equipment - to grow at a CAGR of 9% and 15%, respectively, over the next five years. Hydraulic pumps have a life of about 8-10 years, while tractors are used

**Dynamic is now better positioned for growth than three years ago, thanks to its strong client references and proven execution capability**

**It is expected to benefit from the growth in tractor and off highway equipment**

---

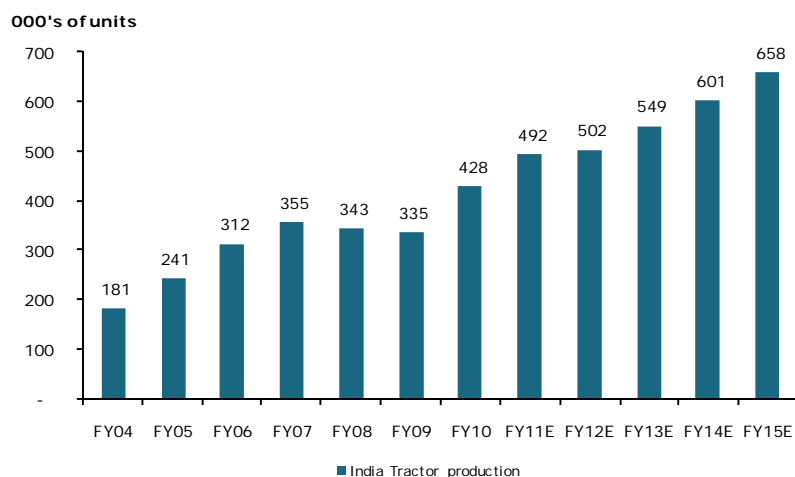
<sup>1</sup> Hydraulic gear pumps are used to drive the steering and lifting systems, and the fan motor of mobile machinery (tractors, construction and material handling equipment - earth moving equipment).

for about 15-17 years and heavy construction equipment are used for over 20 years, which ensures a steady replacement market.

Recently, the company received incremental orders from John Deere, ZF Pasau (Germany-based), Terex and Gima (France-based). The new contracts received by the company are expected to be ramped up during FY11-12.

We expect this segment to register revenue CAGR of 12% over FY10-12.

**Figure 1: India's tractor production set to grow at 9% CAGR**



Source: CRISIL Research

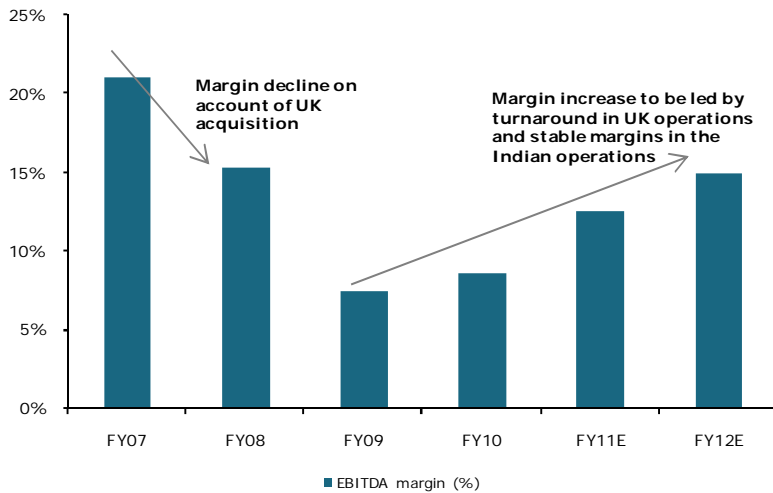
### **Turnaround in UK acquisition to increase segmental margins**

In 2007, Dynamatic acquired the UK Hydraulics division of Sauer-Danfoss (acquisition cost – US\$10mn; revenues of US\$20mn in FY08), engaged in engineering and manufacturing of hydraulic pumps. The acquisition started making losses during FY09-10 due to the economic downturn, with EBITDA losses of 4.4% in FY10. The acquisition has turned profitable in 1HFY11, with improving economic scenario and cost-cutting measures undertaken by Dynamatic. The UK division now sources key components from India, thereby reducing raw material costs by 30-35%, and has also taken cost-cutting measures at the subsidiary. As per the management, the company has passed on the cost savings to its clients and has managed to increase its market share in the aftermarket segment. The UK division has already turned profitable; it registered ~5% EBITDA margins in 1HFY11.

Accordingly, we expect the overall segmental EBITDA margins to improve from 8.6% in FY10 to 12.5% in FY11. The company is already operating at optimum capacity and it plans to increase capacity by 50% to 600,000 lakh units from 400,000 lakh units. Capacity enhancement plans would entail investment of Rs 100 mn, while most of the castings would be outsourced to local players.

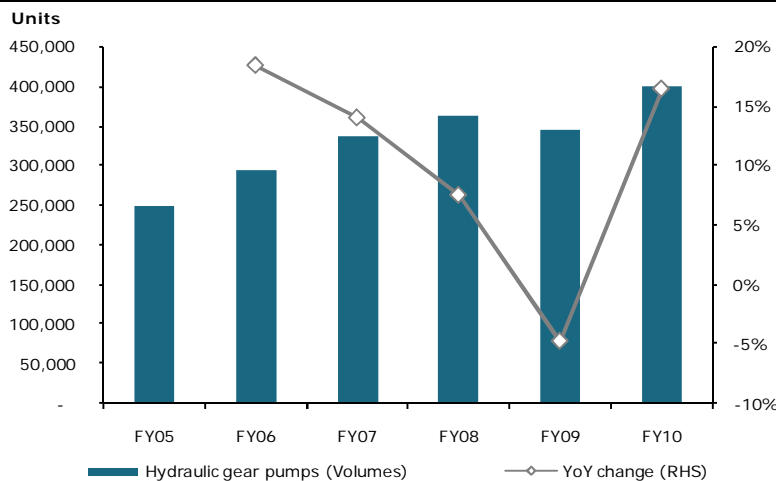
**Dynamatic's margins likely to improve with turnaround in UK acquisition, driven by cost cutting measures and improving economic scenario**

**Figure 2: Hydraulic segment's EBITDA margins to improve**



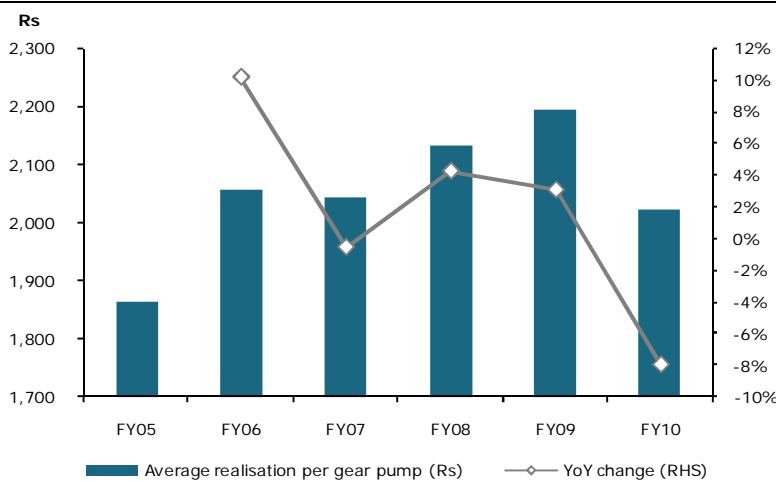
Source: CRISIL Equities

**Figure 3: Hydraulic gear pumps volume growth on the rise**



Source: CRISIL Equities

**Figure 4: Gear pumps' realisations in line with metal prices**



Source: CRISIL Equities

FY09 volumes dipped due to lower demand for tractors and construction equipment, both in India and globally. Volumes are expected to grow by 12% on account of stable demand environment and addition of new clients

Realisations of hydraulic pumps have largely been in line with changes in aluminium prices. As per the management, while realisations of some components have declined due to use of lower aluminium, the company has been able to increase realisations on account of better realisations in exports and off highway equipment pumps

## Auto components – expect strong recovery in FY12

After a strong growth of 23% during FY05-08, the auto component segment's revenues declined 7% y-o-y in FY10, despite strong growth of its key client, Hyundai India (80% revenue contribution). This was due to:

**Supply bottleneck:** The company's casting supplier, due to certain internal issues, was unable to cater to Dynamic's growing needs. Accordingly, the company had to source finished goods directly from Hyundai's Korean suppliers.

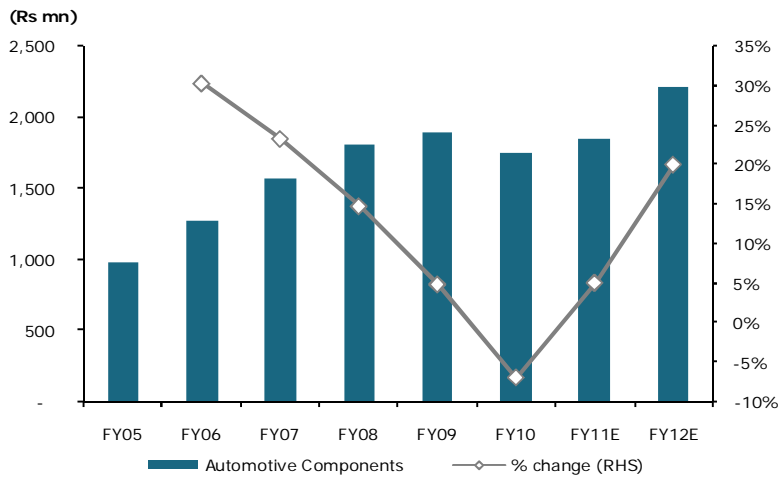
**Change in mix of end clients:** The company supplies more components to the ageing Santro model and fewer components to the growing i10 and i20 models. The newer models use more plastic components to reduce the overall vehicle weight, where Dynamic has no expertise.

**Pruning of product portfolio:** The company has taken conscious efforts to move away from low-margin, low value-added products.

To overcome the supply bottleneck, the company is in the process of setting up a dedicated castings foundry unit, to be operational by end-FY11, at a capex of Rs 250 mn. Accordingly, we expect muted revenue growth in FY11, followed by a strong 20% growth in FY12. CRISIL Research expects the auto components industry to register a healthy growth of 15-16% over the next few years, backed by strong growth in the auto segment.

Supply bottleneck to be eliminated with setting up of castings plant

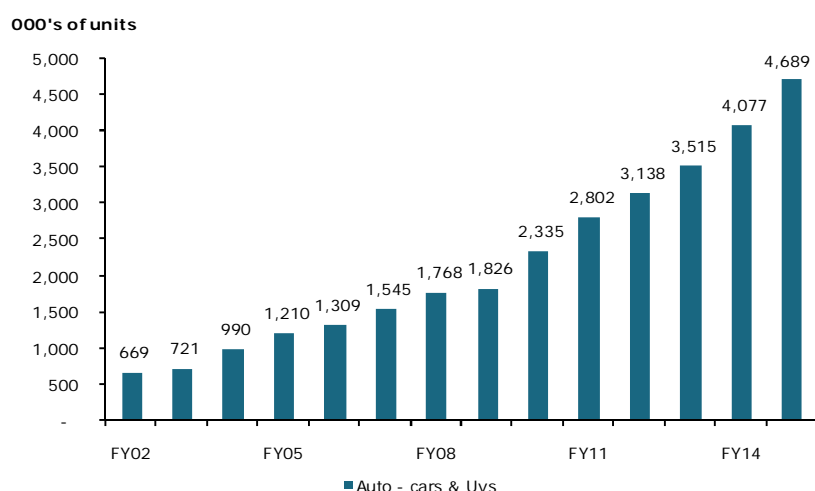
Figure 5: Auto components' revenues moving up



Strong growth in FY12 driven by the new castings foundry

Source: CRISIL Equities

**Figure 6: Auto industry to grow at five-year CAGR of 15%**



Source: CRISIL Research

### **Focus on engine critical components**

The company specialises in engine critical components like intake manifold, exhaust manifold, and water pumps used for engine cooling. It is in talks with many manufacturers, including A4 executive to A6 luxury segment OEMs, for opportunities in the intake and exhaust manifold. Over the longer run, the company aims to increase its supply to other auto majors and de-risk dependence on Hyundai India.

### **High dependence on Hyundai India; client diversification could take time**

The company's auto segment was started as a JV with Daerim Enterprise Co. (Korea) to supply engine critical auto components to Hyundai India. Dynamic acquired the JV partner's stake in CY08. Due to this pedigree and given that Hyundai has been one of the fastest growing auto companies in India, Dynamic's auto segment revenues are heavily skewed towards Hyundai India, with >80% revenue contribution.

Over the years, the division has slowly diversified by catering to the needs of Tata Motors, FIAT, Ford, Nissan, Honda, Volkswagen, Renault, Peugeot, Honeywell Turbo Technologies and Cummins. However, these clients contribute lower than 20% of segment revenues currently. Going forward, the company aims to focus more on these clients for new and value-added products. While the company is taking steps to de-risk client concentration, we believe that it could take a long time since Hyundai is expected to register strong growth in India. Also, the company is focusing on engine critical components, which typically have a longer sales cycle.

**Dynamic is expected to benefit from the 15% CAGR growth in auto industry as it supplies engine critical components**

**Hyundai India accounts for nearly 80% of the total auto component segment's revenues. Need to diversify client base to de-risk auto segment revenues**

## Key risks

### Strong competition

The company faces competition across segments, which is expected to limit its margin expansion, especially since it is actively trying to diversify its client base.

**Hydraulic gear pumps:** Dynamatic faces more established players like Bosch, Eaton and Parker in this segment. Also, the company is entering the iron-based gear pump segment, where it does not have a proven track record.

**Auto components:** The company is a niche player and also has a high client concentration - Hyundai India. Its aims to expand revenues from other clients that are already serviced by established players such as RICO Auto, SPM Auto, Shakti Auto and Autolec.

**Aerospace:** While the company is a single source supplier to Airbus for a specific product, Airbus has more than 20 suppliers in India to meet its offset obligation. Established majors like L&T, Mahindra & Mahindra and Tata Group are vying for a slice of the aero outsourcing pie.

### Auto manufacturers replace metals with plastic

Over the past few decades, the usage of plastic in cars has increased. The recently launched new models (like Kappa series engine by Hyundai, KB series by Maruti) are substituting aluminium with plastic. Due to this, Dynamatic supplies lower components to i10 and i20 as against Santro. Dynamatic's key products like exhaust manifold needs to use iron on account of high operating temperatures. However, any further technological improvements that increase use of plastic compounds may impact Dynamatic's long-term growth prospects.

### Exposed to cyclicity of end-user industries...

End-user industries such as auto and aerospace are highly susceptible to economic cycles, change in interest rate and varying demand patterns. The first two can hamper the consumers' ability to spend or result in postponement of consumption. This has a negative impact on the business (revenues) of industries like auto and aerospace (specifically airlines). Lower cash inflows impact the auto manufacturers' capex plan and, hence, demand for components. Poor performance of the airline industry would hamper their capex plans too, which in turn would result in order cancellations or postponement of orders for aircraft manufacturers like Airbus or Boeing.

### ... and to fluctuations in currency

Dynamatic's 40% of revenues are expected to be contributed by operations outside India and exports. While the company has a natural hedge on account of its operations in the UK and foreign currency loans, any sharp appreciation of the rupee would impact the company. The aerospace segment, which is largely dependent on exports, is expected to contribute 26% to revenues in FY12, up from 17% in FY10. Given that a significant part of future growth is also dependent on this segment, appreciation of the rupee would have a negative impact on Dynamatic's top line and bottom line.

**Dynamatic likely to face stiff competition from existing players in auto space specifically, while diversifying its product and client base**

**Increase in usage of plastic compounds resulting in replacement of metals will impact Dynamatic's growth prospects**

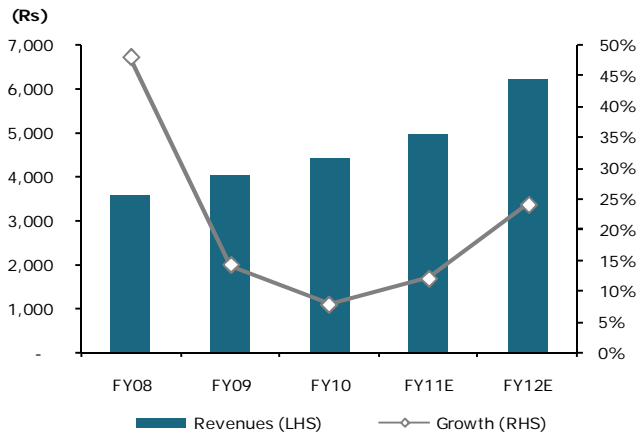
## Financial Outlook

### Revenues to grow at two-year CAGR of 18%

Consolidated revenues are expected to increase at a two-year CAGR of 18% to Rs 6.2 bn by FY12. The growth is expected to be driven by secular growth across all segments, specifically aerospace (FY10-FY12 CAGR of 41.5%). The aerospace segment accounted for 18% of total revenues in FY10 and is expected to contribute nearly 30% revenues over the next three to four years.

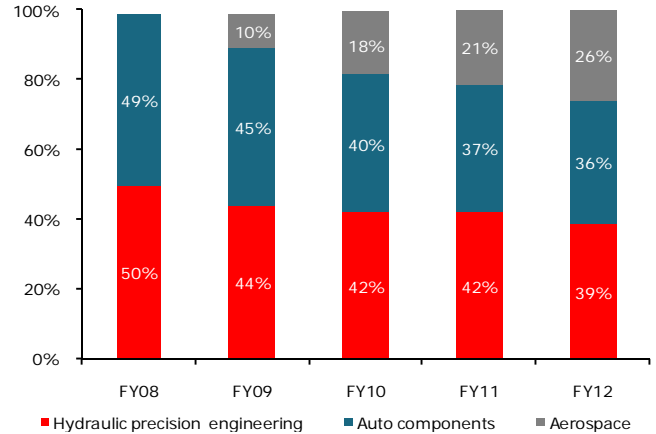
Revenues likely to grow at a two-year CAGR of 18% to Rs 6.2 bn in FY12 driven by growth across all segments, aerospace in particular

**Figure 7: Aerospace segment biggest contributor**



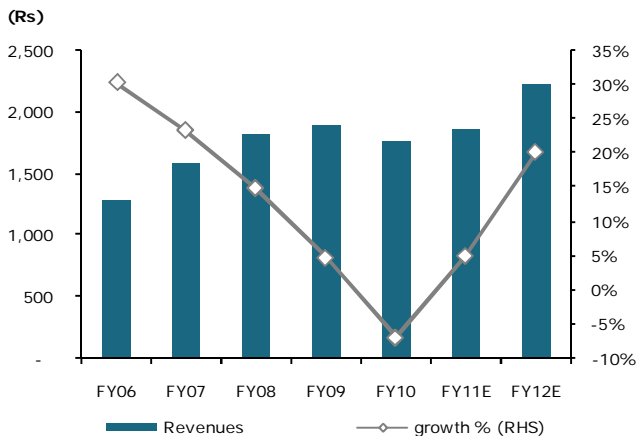
Source: Company, CRISIL Equities

**Figure 8: Diversifying revenues**



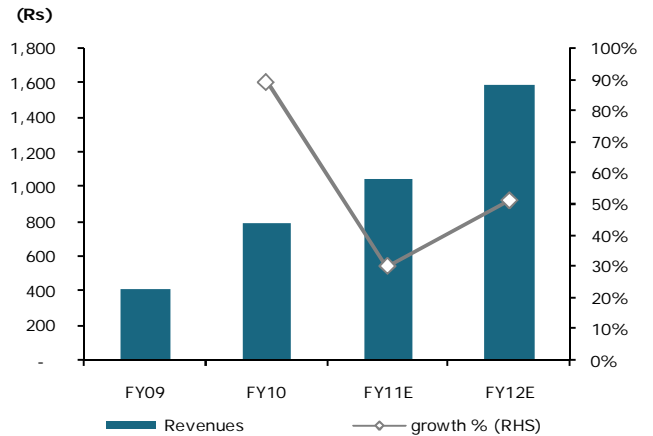
Source: Company, CRISIL Equities

**Figure 9: Auto components revenues up**



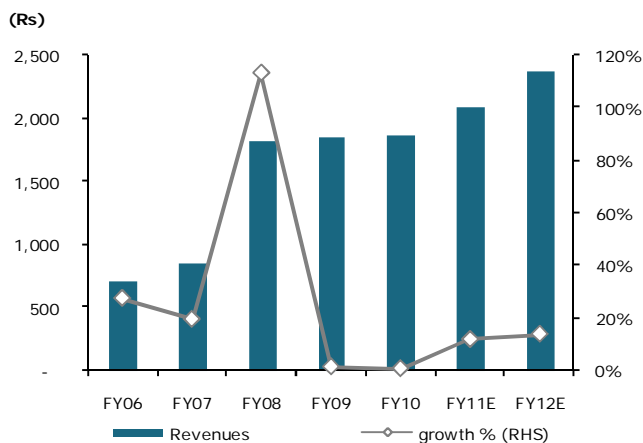
Source: Company, CRISIL Equities

**Figure 10: Aerospace revenues also up**



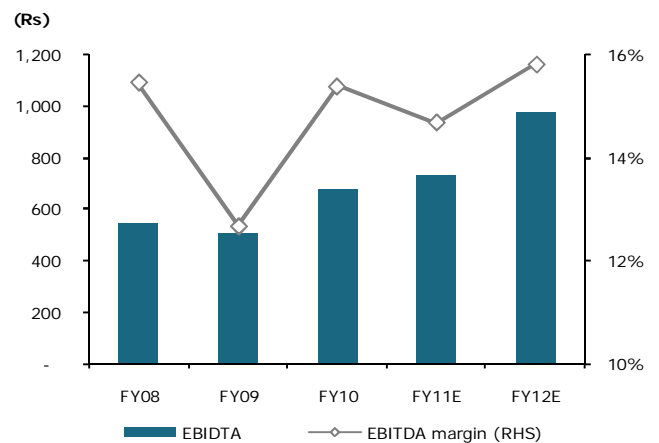
Source: Company, CRISIL Equities

**Figure 11: Hydraulic precision engineering – revenues and growth trend**



Source: Company, CRISIL Equities

**Figure 12: EBITDA margins to improve on account of change in revenue mix**



Source: Company, CRISIL Equities

Dynamic's sales growth slowed down in FY09 and FY10 due to poor performance by the auto component segment. The auto segment, which contributed nearly 40% to total revenues in FY10 has reported a 7% y-o-y decline in revenues. This is because, this segment faced raw material sourcing problems owing to which its delivery schedule and margins got impacted. In order to ensure a smooth supply of raw materials (cast iron), the division has outlined a capex plan of Rs 250 mn to set up a captive foundry unit. In-house sourcing of raw materials is less likely to support margin expansion as Hyundai has introduced an indexation clause<sup>2</sup> on a quarterly basis; earlier it was on an annual basis.

Growth in the hydraulic segment also slowed down primarily on account of under-utilisation of acquired assets. Globally, the economic slowdown did impact demand for hydraulic gear pumps. With improvement in the economic scenario, the management has indicated that it has started booking new orders. Increase in asset turnover ratio would not only boost revenues but support margin expansion.

**PAT to grow at a two-year CAGR of ~ 69%, EPS to increase from Rs 19.2 in FY10 to Rs 54.9 in FY12**

Dynamic's consolidated PAT is expected to grow from Rs 104 mn in FY10 to Rs 297 mn in FY12, primarily driven by a strong growth in revenues with increase in contribution from the high-margin aerospace business. Additionally, with an increase in cash flows, we expect the company to repay part of its debt. Moreover, the company has restructured its borrowings to reduce debt servicing obligations, thereby leading to margin expansion.

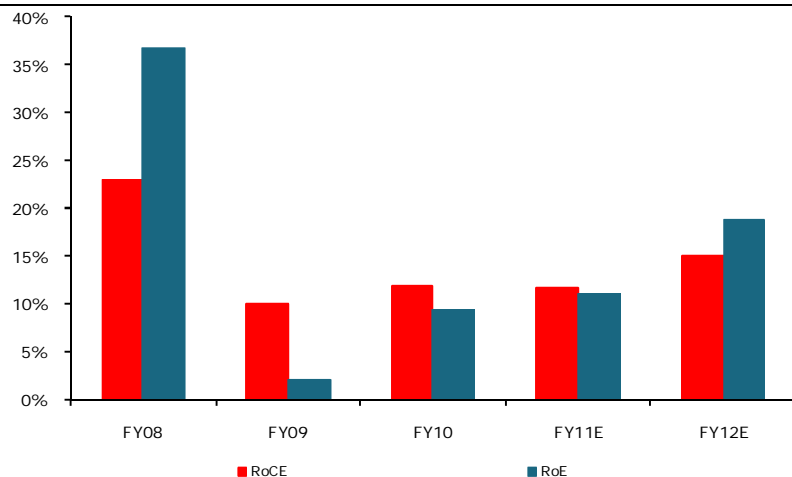
Out of the total borrowings, little over 50% loans are in foreign currency, of which 80% is hedged to the Indian rupee.

**Captive foundry unit will ensure availability of raw materials and de-risk the company's business. It will also enable Dynamic to cater to the growing needs of Hyundai (largest customer) and needs of existing and new auto OEMs for domestic and export markets**

**Strong bottom-line growth led by focus on high-margin aerospace business**

<sup>2</sup> Indexation clause states that the price of the product would be derived on the basis of raw material prices

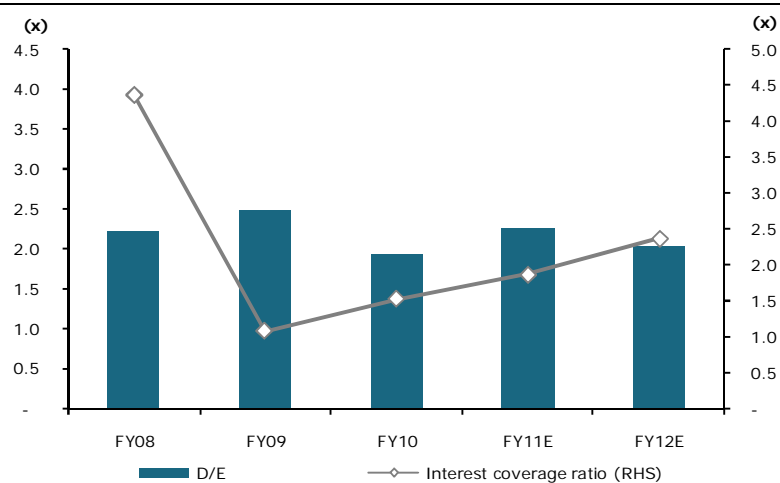
**Figure 13: RoCE and RoE to improve over a period of time**



Source: Company, CRISIL Equities

Better utilisation of assets is expected to result in higher RoE and RoCE

**Figure 14: Debt-equity and interest coverage ratio trends**



Source: Company, CRISIL Equities

D/E to increase marginally in FY11 on account of the capex for castings plant and land at Bengaluru, while interest coverage is comfortable

## Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

### Experienced management

Dynamatic has an experienced management headed by Mr Udayant Malhoutra, CEO and managing director. He has been associated with the company for the past 24 years. Under his management, Dynamatic has reported 24% growth over a period of eight years. His business acumen and marketing initiatives are instrumental in taking the company forward.

He has been a member of many prominent committees and is currently chairman of CII National Committee on Design (2010-2011) and member, CII National Council (2010-2011). He is supported by Mr Vijai Kapur, chairman of the board - a prominent name in the industry and an ex-president of CII.

### Quick in identifying new opportunities

Dynamatic's management has been quick in identifying new growth avenues and capitalising on them. From being a manufacturer of hydraulic gear pumps it has grown as a precision engineering product supplier to the automobile sector. In a move to further diversify its revenues and grow by banking upon its precision engineering skills, Dynamatic ventured into the manufacturing of defence equipment and fabrication of aerospace components. It acquired Oldland Aerospace Ltd through its wholly-owned subsidiary Yew Tree Investments Ltd, which in turn is a subsidiary of DM 38 Ltd. Dynamatic is a single source supplier to Airbus for flap track beams for A320 family aircraft. The management acquired 100% stake in JKM Daerim, the unit set up to cater to the needs of Hyundai India Ltd. Dynamatic merged this unit with itself in 2008 and is diversifying its client base. The company is also introducing high-end products considering the end-user preferences. The management has indicated that it is targeting growth by focusing on high-end products and client diversification, apart from the aerospace business.

### Professional set-up and strong second line

Dynamatic's management has adopted a professional approach towards managing the company. The company has inducted various professionals from the industry at the senior and mid management levels to prepare for the next level of growth. Based on our interactions, we understand that Mr Udayant Malhoutra is the only member from the promoter family. However, the succession plan is not a concern at this juncture, since 45-year-old Mr Malhoutra has no plans of early retirement. He has built a strong team of professionals as a back-up.

**Dynamatic has an experienced management, quick in identifying new opportunities**

## Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Equities analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at Dynamatic meets the minimum levels supported by reasonably good board practices and an independent board.

### Board composition

Dynamatic's board comprises 11 members, of whom six are independent directors, which is more than the requirement under Clause 49 of SEBI's listing guidelines. The directors have strong industry experience and are highly qualified. Most of the directors are formidable names in their business lines. Given the background of directors, we believe the board is experienced. The independent directors have a fairly good understanding of the company's business and its processes.

### Board's processes

The company's quality of disclosure can be considered good judged by the level of information and details furnished in the annual report, websites and other publicly available data. The company has all the necessary committees – audit, remuneration, nomination and investor grievance - in place to support corporate governance practices. The audit committee is chaired by an independent director, Mr Vijai Kapur, and in his absence, Dr K Aprameyan.

**Corporate governance  
practices are good**

## Valuation

Grade: 3/5

We have used the discounted cash flow (DCF) method to value Dynamatic and arrived at a fair value of Rs 1,241 per share. The stock is currently trading at Rs 1,182 per share. Consequently, we initiate coverage on Dynamatic with a valuation grade of '3/5', indicating that the current market price is 'aligned' with the fair value.

### Key DCF assumptions

We have considered the discounted value of the firm's estimated free cash flow from FY12 to FY16.

We have included capital expenditure of Rs 675 mn annually from FY11-14 and a maintenance capex of Rs 400 mn per annum thereafter.

We have assumed a terminal growth rate of 4% beyond the explicit forecast period until FY16.

### WACC computation

	FY12-16	Terminal value
Cost of equity	16.0%	16.0%
Cost of debt (post tax)	6.9%	6.9%
<b>WACC</b>	<b>9.8%</b>	<b>11%</b>
Terminal growth rate		4.00%

### Sensitivity analysis to terminal WACC and terminal growth rate

		Terminal growth rate				
		2.0%	3.0%	4.0%	5.0%	6.0%
Terminal WACC	8.6%	1,336	1,654	2,113	2,830	4,106
	9.6%	1,051	1,277	1,584	2,026	2,717
	9.8%	835	1,002	<b>1,241</b>	1,516	1,943
	11.6%	667	795	956	1,166	1,452
	12.6%	534	633	756	912	1,115

Source: CRISIL Equities estimates

### Factors that can impact the fair value

#### Upside

- Boeing is evaluating Dynamatic's assembly unit. If Dynamatic is able to meet Boeing's standards of operations, it may bag orders from it.

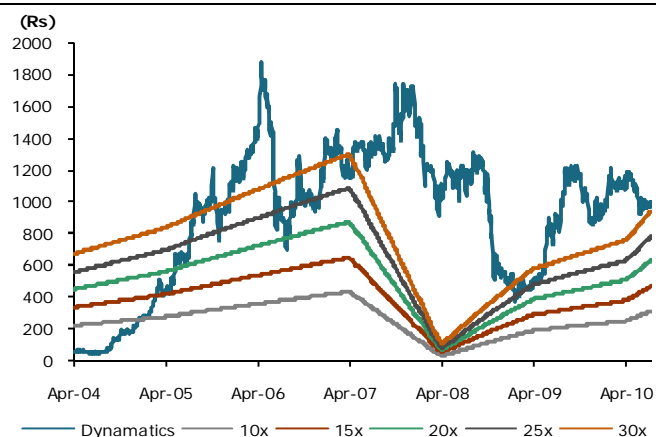
#### Downside

- Unsuccessful launch of new products in auto and hydraulic segments.
- Inability to de-risk client concentration.

We assign a fair value of Rs 1,241 per share to Dynamatic and initiate coverage with a valuation grade of "3/5"

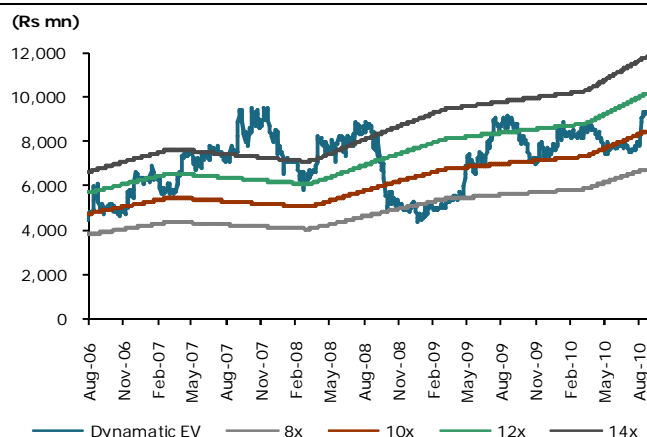
The fair value implies P/E multiple 22.6x FY12 EPS of Rs 54.9, lower than the historical median of 33x. As growth is expected to moderate from FY12 due to the increasing base, we believe that lower multiple is justified

## One-year forward P/E band



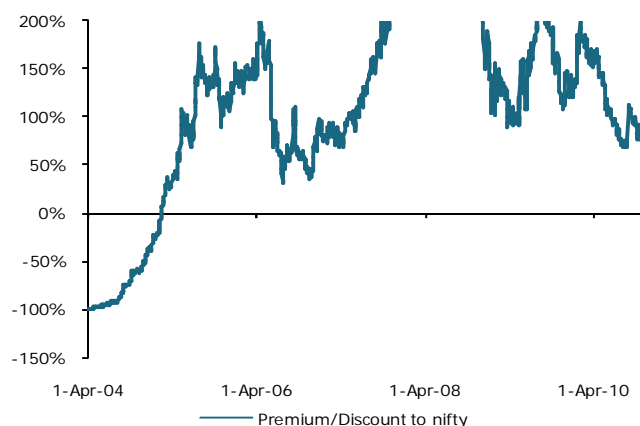
Source: Company, CRISIL Equities

## One-year forward EV/EBITDA band



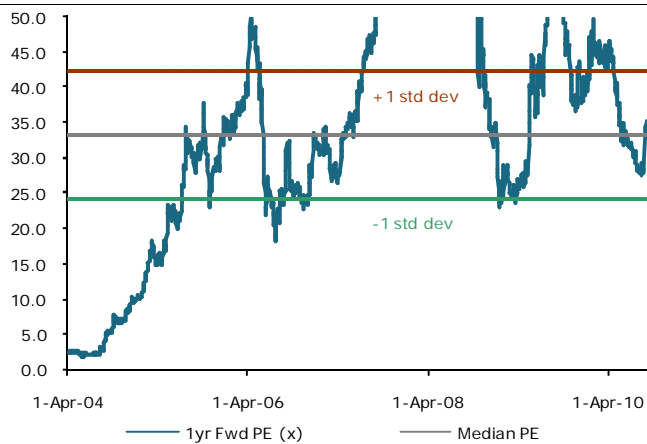
Source: Company, CRISIL Equities

## P/E – premium / discount to NIFTY



Source: Company, CRISIL Equities

## P/E movement



Source: Company, CRISIL Equities

Note: During 2008, the company had one-year forward P/E of ~300x on account of lower profits, not depicted in the chart above.

## Peer comparison

Companies	M.cap (Rs mn)	Price/Earnings (x)			Price/Book (x)			EV/EBITDA			RoE (%)		
		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Dynamic Technologies Ltd	6400	58.4	37.8	21.5	4.9	4.9	4.2	12.0	12.0	9.1	9.4	13.6	21.0
Bosch Ltd	203135	34.6			7.3			25.4			18.2		
Bemco Hydraulics Ltd	91	17.6			1.6			6.0			9.4		
Yuken India Ltd	870	10.6			2.3			3.7			24.1		
Bharat Forge Ltd	85784	NM	31.5	19.8	5.6	4.1	3.5	21.8	13.5	10.4	(4.4)	15.1	19.0
Sundram Fasteners Ltd	14163	30.1	22.5	16.9	3.0			12.1	10.3	8.5	10.1	13.5	16.8
Rico Auto Industries Ltd	3008	Nm	25.2	14.1	1.0	1.0	0.9	9.3	6.4	5.5	(1.6)	4.8	7.6
Sona Koyo Steering Systems Ltd	4111	23.7			2.3			8.4			10.1		

Source: CRISIL Equities

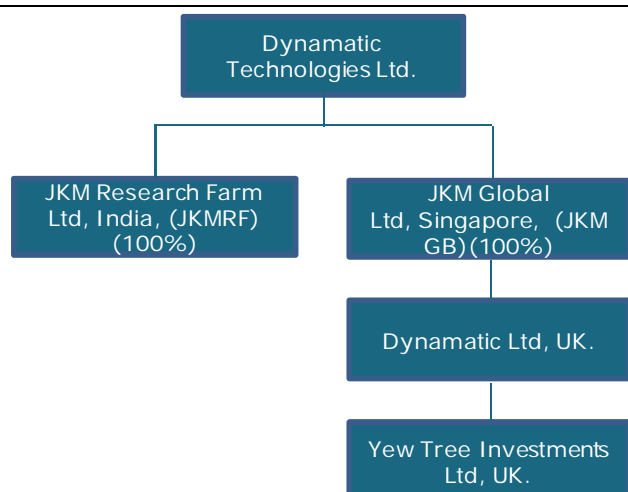
## Company Overview

Bengaluru-based Dynamic manufactures precision engineering products that find application in tractors, earth moving and material handling equipments, automobiles and aerospace sectors. It was incorporated in 1973 as Dynamic Hydraulics Ltd (later changed to Dynamic Technologies Limited in 1992) and was promoted by Late Mr. J. K. Malhoutra. His son Mr Udayant Malhoutra heads the business now. Dynamic derives revenues primarily through three segments: hydraulic precision engineering (tractors and earth moving equipments), auto components and aerospace. The operations of these divisions are supported by foundry unit (Chennai) that manufactures castings, a key raw material, and a wind farm (that ensures power requirements of the auto division). It has also developed a research farm (75 acres of land used for testing of manufactured products, e.g. hydraulic gear pumps used in tractors).

Business segment	Contribution to revenues		
	FY08	FY09	FY10
Hydraulic precision engineering	49.6%	44.0%	41.9%
Auto components	49.4%	45.1%	39.6%
Aerospace	0.0%	9.9%	17.7%

Till FY07-08, the company generated 99% of its revenues from hydraulic gear pumps and automotive components. With the acquisition of Oldland CNC in October 2008, the company's revenues from aerospace have been increasing. In FY09, the aerospace segment accounted for 9% of total revenues and nearly 18% in FY10.

## Group Structure



Source: Compan, CRISIL Equities

# Dynamatic Technologies Ltd

## Subsidiaries

Subsidiaries	Operations
JKM Research Farm Ltd, India, (JKMRF)	R&D facilitator to the company
JKM Global Pte. Ltd, Singapore, (JKMGB)	An investment hub for overseas businesses
Dynamatic Ltd, Swindon, UK, (DLUK)	Held through JKM Global Pte. Limited, Singapore and is located in Swindon with over 50 years of experience in gear pump design and manufacture. It was acquired on June 15, 2007 for US\$10 mn
DM 38 Limited, Bristol, UK (DM 38)	Company held through JKM Global Pte. Ltd., Singapore. It is the company through which Yew Tree Investments Ltd was acquired
Yew Tree Investments Limited, Bristol, UK, (YTIL)	A subsidiary held through DM 38 Ltd, UK. YTIL has been the holding company of Oldland Aerospace Ltd. and owns the land & building in which Oldland Aerospace Ltd operates
Oldland CNC Ltd (formerly known as Oldland Aerospace Ltd, (OAL), Bristol, UK)	A company held through Yew Tree Investments Ltd, UK. OAL is a leader in aeronautical precision. It was acquired on October 4, 2008 for US\$ 16 mn

## Manufacturing facility

The company's manufacturing facilities are based out of India and the UK. In India, it has set up hydraulics and aerospace facilities in Bengaluru, and auto components unit in Chennai. It also has a wind farm at Coimbatore to feed its power requirements. To ensure smooth supply of raw materials and smooth functioning of operations, Dynamatic has set up one foundry unit in Chennai (auto components). In the UK, the company has acquired hydraulics and aerospace precision engineering units.

## Collaborations

Dynamatic in partnership with	Purpose
Signed an agreement with Spirit AeroSystems (Europe) Ltd	To manufacture exacting aero structures for Airbus
Partnered with agencies of national importance like Ministry of Defence, Hindustan Aeronautics Ltd (HAL), and other defence establishments	Few of the key projects associated with - Lakshya, India's Pilotless Target Aircraft, and HJT-36 Intermediate Jet Trainer
Partnered with HAL – Hindustan Aeronautics Ltd, a step towards public private partnership	Supply all major control surfaces for the Sukhoi-30 MKI (SU-30 MKI) Fighter Bomber

**Future plans:** To further support expansion, Dynamatic plans to set up one more foundry unit at the Chennai plant to ensure smooth supply of raw materials. Dynamatic is re-aligning its auto units to cater separately to the needs of Hyundai Motors India Ltd and other leading auto majors. The company has lined up Rs 1.2 bn capex to expand the hydraulic gear pump manufacturing capacity from 4 lakh units to 6 lakh units a year, set up a foundry unit, automotive capacity enhancement and acquisition of 35 acres of land to expand the aerospace facility. The benefits of the same are likely to start accruing FY12 onwards.

Capex plan: FY11-12	Rs mn	Towards...
Hydraulics	100	Capacity enhancement
Automotive	150	Capacity enhancement
Aerospace	30	Line balancing and other equipments
Aerospace	680	Towards purchase of 35 acres land for future growth
Cast iron foundry	250	Foundry for captive consumption
Total	1,210	

## Milestones

---

1973	Incorporated as Dynamatic Hydraulics Ltd
1974	IPO
1992	Changed name to Dynamatic Technologies Ltd
1998	JKM Daerim, a 73:27 joint venture between Dynamatic and JK Daerim was formed
2002	"HAL Best Vendor Award" by HAL's aircraft division
2007	Acquired Hydraulic Business Division (Swindon Unit) of Sauer Danfoss Ltd, UK for US\$10 mn
2008	Dynamatic acquired 100% stake in JKM Daerim and merged it
2008	Acquired a 12 MW wind farm for captive consumption of JKM Automotive and Dynametal
2008	Acquired Oldland CNC Ltd, Bristol, UK for US\$16 mn
2008	Raised Rs 745 mn through a QIP placement of 604,000 equity shares to FID Funds (Mauritius) Limited, New Vernon India Ltd and Credit Suisse (Singapore) Ltd
2010	Secured 35 acres land in Bengaluru's upcoming Aerospace Industrial Estate
2010	Received safety award from Government of Tamil Nadu for having reduced the maximum number of industrial accidents

---

## Annexure: Financials

### Income statement

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
<b>Operating income</b>	<b>3,617</b>	<b>4,126</b>	<b>4,447</b>	<b>5,032</b>	<b>6,240</b>
<b>EBITDA</b>	<b>546</b>	<b>506</b>	<b>676</b>	<b>781</b>	<b>1,038</b>
<b>EBITDA margin</b>	<b>15.1%</b>	<b>12.3%</b>	<b>15.2%</b>	<b>15.5%</b>	<b>16.6%</b>
Depreciation	132	201	225	252	279
<b>EBIT</b>	<b>415</b>	<b>305</b>	<b>451</b>	<b>529</b>	<b>759</b>
Interest	95	282	297	283	322
<b>Operating PBT</b>	<b>320</b>	<b>23</b>	<b>154</b>	<b>246</b>	<b>438</b>
Other income	10	48	3	10	12
Exceptional inc/(exp)	(28)	(98)	1	15	-
<b>PBT</b>	<b>301</b>	<b>(28)</b>	<b>158</b>	<b>272</b>	<b>450</b>
Tax provision	121	53	53	87	153
Minority interest	-	-	-	-	-
<b>PAT (Reported)</b>	<b>180</b>	<b>(80)</b>	<b>105</b>	<b>185</b>	<b>297</b>
Less: Exceptionals	(28)	(98)	1	15	-
<b>Adjusted PAT</b>	<b>209</b>	<b>18</b>	<b>104</b>	<b>169</b>	<b>297</b>

### Ratios

	FY08	FY09	FY10	FY11E	FY12E
<b>Growth</b>					
Operating income (%)	47.8	14.1	7.8	13.1	24.0
EBITDA (%)	28.7	(7.4)	33.7	15.5	32.9
Adj PAT (%)	38.5	(91.4)	478.3	62.6	75.4
Adj EPS (%)	20.7	(92.3)	478.3	62.6	75.4
<b>Profitability</b>					
EBITDA margin (%)	15.1	12.3	15.2	15.5	16.6
Adj PAT Margin (%)	5.8	0.4	2.3	3.4	4.8
RoE (%)	36.6	2.2	9.4	13.6	21.0
RoCE (%)	22.9	9.9	11.9	12.8	16.2
RoIC (%)	18.8	12.3	11.4	11.9	14.2
<b>Valuations</b>					
Price-earnings (x)	24.6	152.1	55.8	37.8	21.5
Price-book (x)	8.1	2.6	4.9	4.9	4.2
EV/EBITDA (x)	11.9	10.5	12.0	12.0	9.1
EV/Sales (x)	1.8	1.3	1.8	1.9	1.5
Dividend payout ratio (%)	22.0	(31.6)	45.2	24.9	24.9
Dividend yield (%)	0.8	0.9	0.8	0.7	1.2
<b>B/S ratios</b>					
Inventory days	57.3	68.3	61.7	61.6	61.2
Creditors days	113.4	89.5	88.2	88.5	89.4
Debtor days	73.9	81.2	72.6	76.8	76.8
Working capital days	32.4	57.2	71.3	64.2	60.4
Gross asset turnover (x)	1.9	1.5	1.3	1.2	1.3
Net asset turnover (x)	2.9	2.2	1.9	1.9	2.0
Sales/operating assets (x)	2.5	1.9	1.8	1.8	1.9
Current ratio (x)	1.6	2.2	2.1	2.1	2.0
Debt-equity (x)	2.6	2.7	2.1	2.5	2.2
Net debt/equity (x)	2.2	2.5	1.9	2.3	2.0
Interest coverage	4.4	1.1	1.5	1.9	2.4

### Per share

	FY08	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	43.4	3.3	19.2	31.3	54.9
CEPS	70.7	40.4	60.9	77.8	106.4
Book value	131.0	192.5	218.3	242.2	280.6
Dividend (Rs)	8.3	4.7	8.8	8.5	13.7
Actual o/s shares (mn)	4.8	5.4	5.4	5.4	5.4

### Balance Sheet

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
<b>Liabilities</b>					
Equity share capital	48	54	54	54	54
Reserves	582	988	1,128	1,257	1,465
Minorities	-	-	-	-	-
<b>Net worth</b>	<b>630</b>	<b>1,042</b>	<b>1,182</b>	<b>1,311</b>	<b>1,519</b>
Convertible debt	-	-	-	-	-
Other debt	1,641	2,834	2,526	3,223	3,298
<b>Total debt</b>	<b>1,641</b>	<b>2,834</b>	<b>2,526</b>	<b>3,223</b>	<b>3,298</b>
Deferred tax liability (net)	154	219	240	261	282
<b>Total liabilities</b>	<b>2,426</b>	<b>4,094</b>	<b>3,948</b>	<b>4,795</b>	<b>5,099</b>
<b>Assets</b>					
Net fixed assets	1,589	2,225	2,342	3,090	3,211
Capital WIP	173	310	105	105	105
<b>Total fixed assets</b>	<b>1,762</b>	<b>2,535</b>	<b>2,448</b>	<b>3,196</b>	<b>3,317</b>
<b>Investments</b>					
<b>Current assets</b>					
Inventory	472	662	627	717	872
Sundry debtors	810	966	920	1,048	1,299
Loans and advances	134	207	261	252	312
Cash & bank balance	254	248	228	244	216
Marketable securities	-	-	-	-	-
<b>Total current assets</b>	<b>1,670</b>	<b>2,083</b>	<b>2,036</b>	<b>2,260</b>	<b>2,699</b>
<b>Total current liabilities</b>	<b>1,015</b>	<b>943</b>	<b>964</b>	<b>1,090</b>	<b>1,346</b>
<b>Net current assets</b>	<b>655</b>	<b>1,140</b>	<b>1,072</b>	<b>1,170</b>	<b>1,353</b>
<b>Intangibles/Misc. expenditure</b>	<b>9</b>	<b>419</b>	<b>429</b>	<b>429</b>	<b>429</b>
<b>Total assets</b>	<b>2,426</b>	<b>4,094</b>	<b>3,948</b>	<b>4,795</b>	<b>5,099</b>

### Cash flow

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	330	71	157	257	450
Total tax paid	(77)	12	(32)	(66)	(132)
Depreciation	132	201	225	252	279
Working capital changes	(163)	(902)	39	(82)	(210)
<b>Net cash from operations</b>	<b>221</b>	<b>(618)</b>	<b>389</b>	<b>360</b>	<b>386</b>
<b>Cash from investments</b>					
Capital expenditure	(726)	(974)	(138)	(1,000)	(400)
Investments and others	0	-	-	-	-
<b>Net cash from investments</b>	<b>(726)</b>	<b>(974)</b>	<b>(138)</b>	<b>(1,000)</b>	<b>(400)</b>
<b>Cash from financing</b>					
Equity raised/(repaid)	6	737	-	-	-
Debt raised/(repaid)	803	1,192	(307)	696	75
Dividend (incl. tax)	(40)	(25)	(48)	(55)	(89)
Others (incl extraordinary)	(54)	(317)	83	15	-
<b>Net cash from financing</b>	<b>715</b>	<b>1,586</b>	<b>(271)</b>	<b>656</b>	<b>(14)</b>
Change in cash position	210	(6)	(20)	16	(28)
Closing cash	254	248	228	244	216

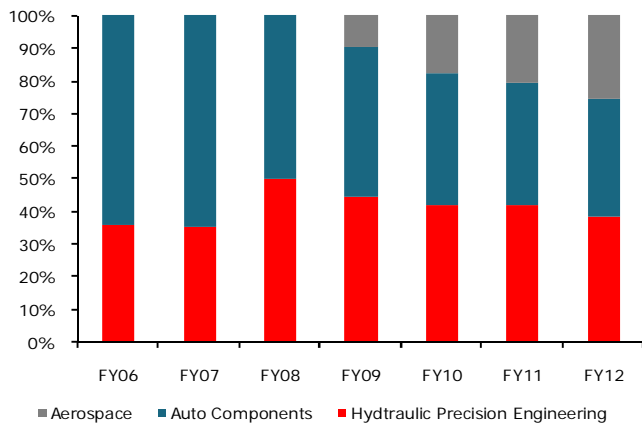
### Quarterly financials

(Rs Mn)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
<b>Net Sales</b>	<b>1,044</b>	<b>1,172</b>	<b>1,186</b>	<b>1,128</b>	<b>1,239</b>
Change (q-o-q)	6%	12%	1%	-5%	10%
<b>EBITDA</b>	<b>123</b>	<b>153</b>	<b>141</b>	<b>149</b>	<b>193</b>
Change (q-o-q)	-15%	24%	-8%	5%	30%
<b>EBITDA margin</b>	<b>11.8%</b>	<b>13.0%</b>	<b>11.9%</b>	<b>13.2%</b>	<b>15.6%</b>
PAT	15	40	28	22	67
<b>Adj PAT</b>	<b>9</b>	<b>40</b>	<b>28</b>	<b>22</b>	<b>52</b>
Change (q-o-q)	-70%	352%	-31%	-21%	137%
<b>Adj PAT margin</b>	<b>0.8%</b>	<b>3.4%</b>	<b>2.3%</b>	<b>1.9%</b>	<b>4.2%</b>
<b>Adj EPS</b>	<b>1.6</b>	<b>7.4</b>	<b>5.1</b>	<b>4.0</b>	<b>12.4</b>

Source: CRISIL Equities

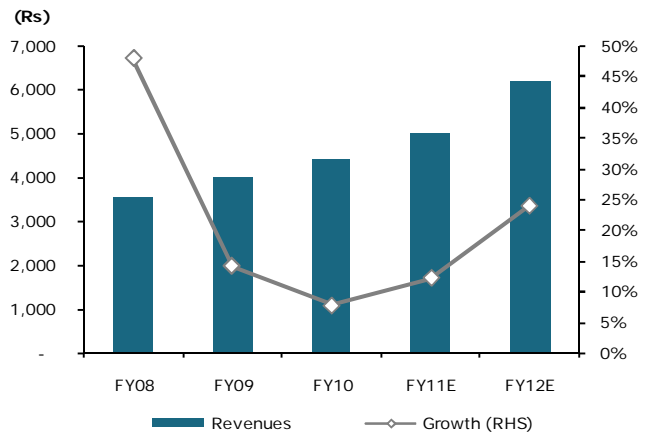
## Focus Charts

### Diversifying revenues



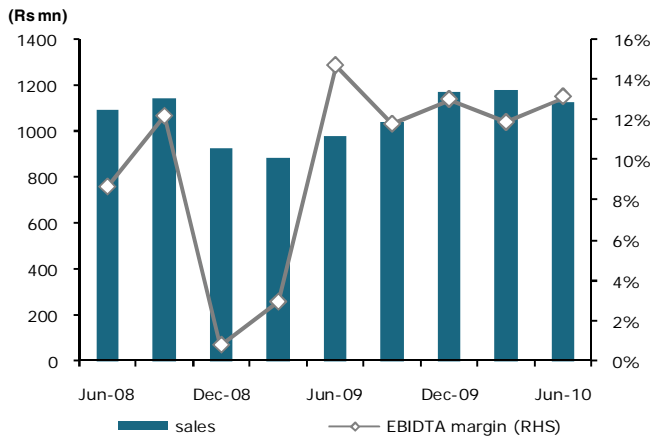
Source: Company, CRISIL Equities

### Revenue and growth trend



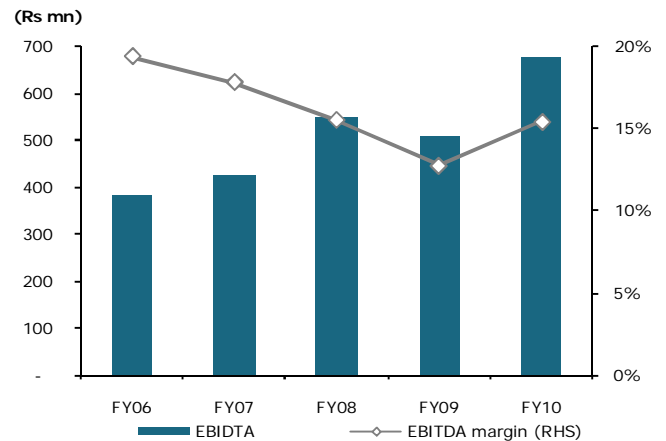
Source: Company, CRISIL Equities

### Quarterly sales and EBITDA margin trend



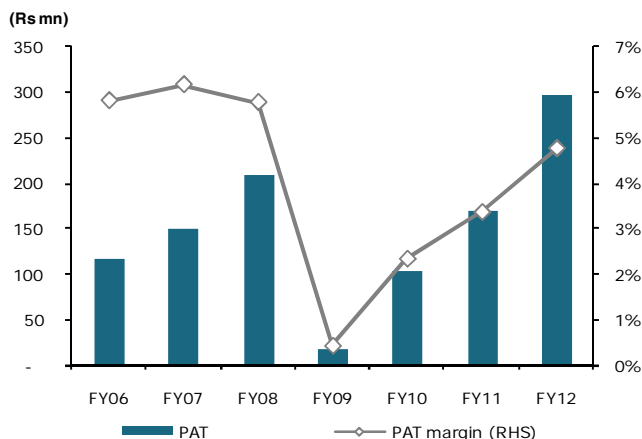
Source: Company, CRISIL Equities

### EBITDA and EBITDA margin trend



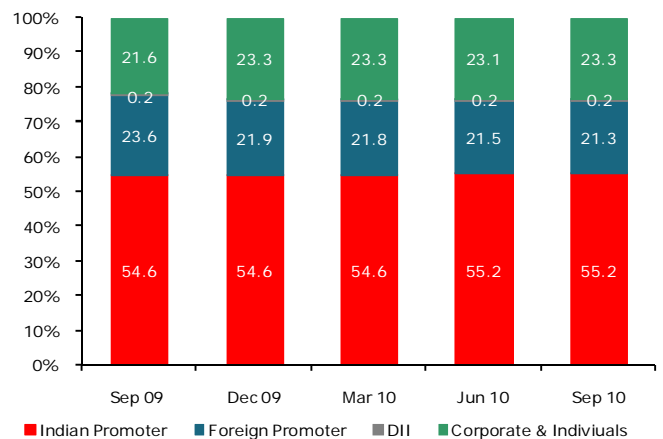
Source: Company, CRISIL Equities

### PAT and PAT margin trend



Source: Company, CRISIL Equities

### Shareholding pattern over the quarters



Source: Company, CRISIL Equities

## CRISIL Independent Equity Research Team

Mukesh Agarwal	Director	+91 (22) 3342 3035	magarwal@crisil.com
Tarun Bhatia	Director, Capital Markets	+91 (22) 3342 3226	tbhatia@crisil.com
Chetan Majithia	Head, Equities	+91 (22) 3342 4148	chetanmajithia@crisil.com
Sudhir Nair	Head, Equities	+91 (22) 3342 3526	snair@crisil.com
Nagarajan Narasimhan	Director, Research	+91 (22) 3342 3536	nnarasimhan@crisil.com
Ajay D'Souza	Head, Research	+91 (22) 3342 3567	adsouza@crisil.com
Manoj Mohta	Head, Research	+91 (22) 3342 3554	mmohta@crisil.com
Sachin Mathur	Head, Research	+91 (22) 3342 3541	smathur@crisil.com
Sridhar C	Head, Research	+91 (22) 3342 3546	sridharc@crisil.com

## CRISIL's Equity Offerings

**The Equity Group at CRISIL Research provides a wide range of services including:**

- ☞ Independent Equity Research
- ☞ IPO Grading
- ☞ White Labelled Research
- ☞ Valuation on companies for use of Institutional Investors, Asset Managers, Corporate

### **Other Services by the Research group include**

- ☞ CRISINFAC Industry research on over 60 industries and Economic Analysis
- ☞ Customised Research on Market sizing, Demand modelling and Entry strategies
- ☞ Customised research content for Information Memorandum and Offer documents

### About CRISIL

CRISIL is India's leading Ratings, Research, Risk and Policy Advisory Company.

### About CRISIL Research

CRISIL Research is India's largest independent, integrated research house. We leverage our unique, integrated research platform and capabilities spanning the entire economy-industry-company spectrum to deliver superior perspectives and insights to over 750 domestic and global clients, through a range of subscription products and customised solutions.

### To know more about CRISIL IER, please contact our team members:

Vinaya Dongre – Head, Business Development  
Email : [vdongre@crisil.com](mailto:vdongre@crisil.com) | Phone : 9920225174

Sagar Sawarkar – Senior Manager, Business Development  
Email : [ssawarkar@crisil.com](mailto:ssawarkar@crisil.com) | Phone : 9821638322

### Regional Contacts:

#### Ahmedabad | Mumbai | Pune

Salil Srivastava - Manager, Business Development  
Email : [spsrivastava@crisil.com](mailto:spsrivastava@crisil.com) | Phone : 9833996430

#### Kolkata

Priyanka Agarwal - Manager, Business Development  
Email : [priyagarwal@crisil.com](mailto:priyagarwal@crisil.com) | Phone : 9903060685

#### Bengaluru | Chennai

Anand Krishnamoorthy - Manager, Business Development  
Email : [akrishnamoorthy@crisil.com](mailto:akrishnamoorthy@crisil.com) | Phone : 9884704111

#### Mumbai

Supriya Tapase - Manager, Business Development  
Email : [stapase@crisil.com](mailto:stapase@crisil.com) | Phone : 9820745668

#### Hyderabad

Kaliprasad Ponnuru - Manager, Business Development  
Email : [kponnuru@crisil.com](mailto:kponnuru@crisil.com) | Phone : 9642004668

#### New Delhi

Vipin Saboo - Manager, Business Development  
Email : [vsaboo@crisil.com](mailto:vsaboo@crisil.com) | Phone : 9820779873



**Head Office:** CRISIL House, Central Avenue, Hiranandani Business Park,  
Powai, Mumbai - 400 076  
Phone : 91-22-3342 3000

**Web:** [www.crisil.com](http://www.crisil.com)  
**Download reports from:** [www.ier.co.in](http://www.ier.co.in)