

PG Electroplast Ltd.

September 06, 2011

Price Band	: ₹190 – 210 per share
Minimum Bid Lot Size	: 30 Equity Shares
Maximum Bid Lot Size	: 930 Equity Shares
IPO opens during	: Sept 07 – 12, 2011
Book Running Lead Manager	: Almondz Global Securities Ltd.
To list on	: NSE & BSE
IPO Grading	: 3 / 5 (CARE)
PE	: 11.32x (based on base price)* : 12.51x (based on cap price)*
Market Cap post-listing	: ₹344.70Cr or \$75.26mn (based on the cap price)
Market Cap of Free Float	: ₹120.64Cr or \$26.34mn (based on the cap price)

*Based on FY11 EPS

IPO of 5.74mn equity shares of ₹10each, aggregating to ₹120.64Cr or \$26.34mn (at the cap price).

Shareholding Pattern

	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters	10669332	100.0%	10669332	65%
QIBs (excl. Mutual Funds)	0	0%	2728875	16.63%
Mutual Funds	0	0%	143625	0.87%
Non Institutional Investors	0	0%	861750	5.25%
Retail Portion	0	0%	2010750	12.25%
Public	0	0%	5745000	35.00%
Total	10669332	100%	16414332	100.00%

Executive Summary

- PG Electroplast Ltd. (PGEL) was incorporated in March, 2003 and is an Electronic Manufacturing Services (EMS) provider for OEMs of consumer electronic products in India.
- Indian Electronics Industry is a high growth industry which is attracting global attention as apart from a growing market and the industry production is estimated to account for about 2.5% of the country's GDP in FY 2011, an increase from ~1.74% in FY06.
- USA is the top export destination of electronics from India, accounting for ~15.5% of exports in FY 2010, while other top four countries accounted for ~29.2% of electronics exports of India during the year.
- PGEL was integrated with the establishment of Unit I in Greater Noida in 2002 and later with unit in Roorkee in 2007. The locations of the manufacturing facilities give a competitive cost advantage in terms sourcing raw material, manufacturing at relatively cheaper power tariff rates in the state of Uttar Pradesh and Uttrakhand and engaging labour at relatively lower costs.

- The company has been awarded ISO 9001:2008 certificate for quality management systems at Unit I for manufacture, assembly and supply of plastic moulded parts and design, manufacture and supply of colour TV receivers and DVD players.

Our View

IPO of PG Electroplast Ltd. is priced at 12.52x on the FY11 earnings basis makes it expensive as compare to its only listed peer MIRC Electronics which trades at 9.84x on FY11 earnings basis. On the basis of attractive ROE of 41%, investors may subscribe the issue.

Company Background

PG Electroplast Ltd. (PGEL) was incorporated in March, 2003 with the name “PG Electroplast Private Ltd.” Subsequently the company went public in July, 2010 and changed its name to PG Electroplast Ltd. in August, 2010. The history of PG Group dates back to 1977, when the company started dealing in and making radio transistors, receivers and black & white television components when black & white TV components were being imported and supplied to old brands such as Beltek, Televista, Singer, Weston and Crown.

The first factory was setup in Delhi in 1981 and continued making TV components till the year 1989, before approaching Original Equipment Manufacturers (OEMs) for making the entire black & white TV set on contract manufacturing basis. Later, the PG Group also started making CTVs for regional brands. In 1996, it setup its second factory in Noida, followed by a third factory in Bhopal in 1997. In 1999, the PG Group entered into backward integration by setting up a Printed Circuit Boards (PCB) assembly line at Noida and then setting up another factory in Mohali for assembling VCD/DVD players in 2001. It again entered into backward integration in 2003, with foray into plastic injection moulding. This made the PG Group, an integrated player in the electronic consumer market, with the capability to do plastic injection moulding, PCB assembly and final integration of the products.

Promoters and Management

Mr. Promod Gupta is the Chairman & Managing Director of PGEL and has over 42 years of experience in the field of electronic manufacturing services. He is responsible for the management of the overall operations of the company and to identify, develop & direct the implementation of business strategies.

Mr. Anurag Gupta is the Executive Director (Technical) of PGEL having 18 years of experience and his responsibilities in the company include development and implementation of all technical policies & procedures. It also includes all associated production and post-production services, monitoring of plant & machineries required for production and quality assurance and technology upgradation as and when required, executing research & development activities, establishing and supervising operations and maintenance routines (preventive, general & emergency) and ensuring strict adherence to the PGEL's quality assurance policy.

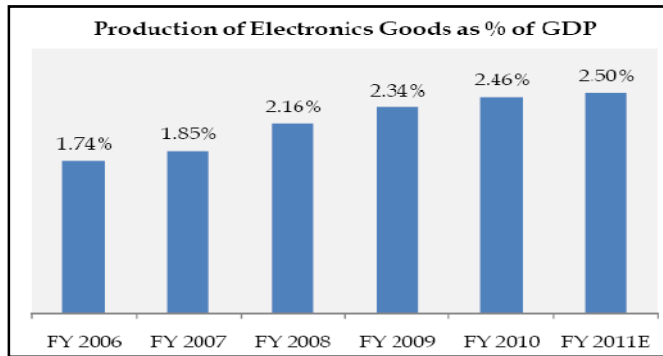
Mr. Vishal Gupta is the Executive Director (Finance) of the company and has experience of 16 years in the field of electronic manufacturing services. His responsibilities in PGEL includes overseeing the financial, accounting and general management, budgeting and planning the financial requirements, human resource requirements, administration and secretarial compliances.

Mr. Vikas Gupta is the Executive Director (Operations) of PGEL and has 16 years of experience in the field of electronic manufacturing services. He oversees the entire production and marketing operations of the company and his responsibilities include ensuring functions that can deliver products and services to customers in timely and cost efficient manner and managing and increasing the efficiency of operational support services.

Industry Overview

Indian Electronics Industry is a high growth industry which is attracting global attention as apart from a growing market, it also has the potential to deliver high quality product at a lower cost than its western counterparts. Sensing vast opportunity, this has led to many global players setting up their production base in the country. Production by

the industry is estimated to account for about 2.5% of the country's GDP in FY 2011, an increase from ~1.74% in FY06.

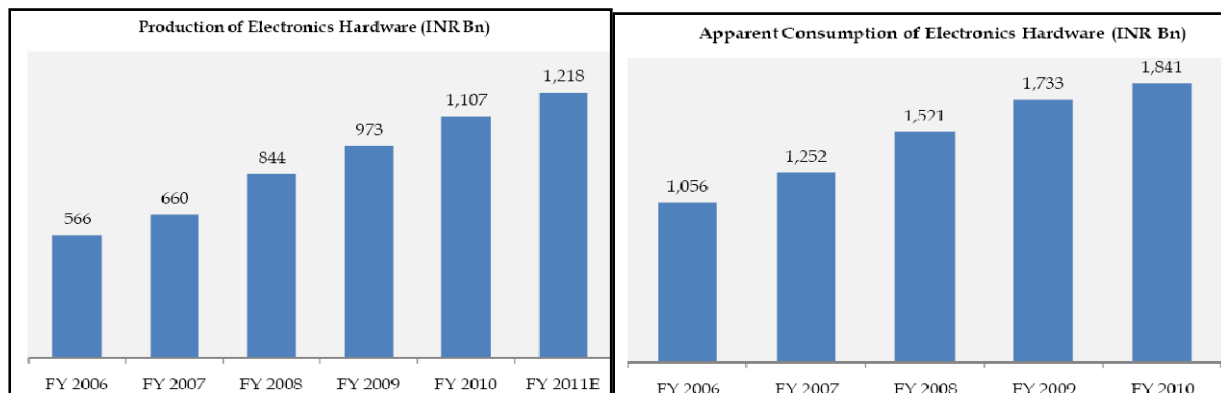


The electronics industry consists of electronics hardware and can be broadly classified into six main verticals as shown in the table below:

Consumer Electronics	Largest segment of Indian Electronics Industry, it consists of regular electronics items like Television, DVD/CD players, home theatre, Direct-to-Home (DTH) etc. Colour Television is the largest segment of consumer electronics.
Communication & Broadcast Equipments	Fastest growing and second largest of the Indian electronics industry, as evident from the name, this segment caters to the Telephone (wire-line and wire-less) and broadcasting media industry including DTH set top box.
Industrial Electronics	This segment includes hardware technologies and systems with built-in-software which is used across array of industries towards industrial automation and requires high level of technical skills.
Computer Hardware	Desktop computers, note-books, net-books etc. comprises this segment of the electronics hardware industry.
Components	It includes semiconductors, capacitors, resistors, picture tubes, x-ray tubes, cathode ray tubes etc. and caters to the consumer electronics, telecom, defense and IT segment of the electronic industry.
Strategic Electronics	The strategic electronic sector comprises of satellites based communication, navigation and surveillance systems, sonars, underwater electronic system, radars, infra-red based detection and ranging systems, etc.

Consumer electronics is the largest segment of the Indian electronics industry closely followed by the communication & broadcasting equipments segment.

Demand Supply Dynamic



Source: RHP

Demand Supply

- Production of electronics hardware in India is estimated to have grown at a CAGR of ~18.3% over the period FY 2006-10 to reach ~ ₹1,107bn by FY 2010.
- Demand of electronics hardware in India is to have grown at a CAGR of ~14.9% over the period FY 2006-10 to reach ~ ₹841bn by FY 2010.

Thus, there exists a huge demand-supply gap that is catered by the imports. This converts into huge opportunity for the domestic manufacturers that may increase their production and cater to the domestic demand as well as concentrating on the export market by tapping on the cost benefit of the country.

Export-Import

India is a net importer of electronics goods, which however has declined in FY 2010 from the previous year. Declining prices of electronics goods coupled with appreciating rupee are the probable reasons for decline registered by imports, which otherwise has grown over the FY 2006-09 period.

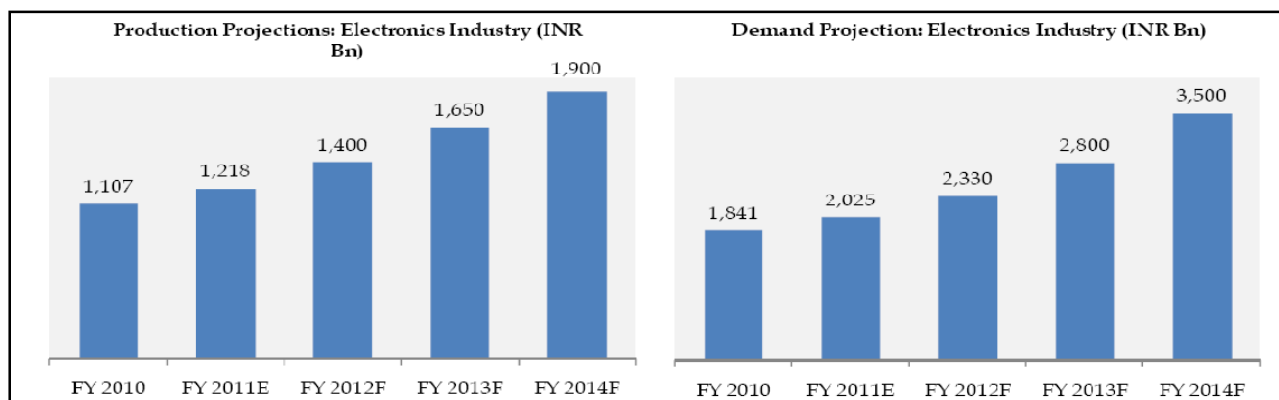
- Imports increased at a CAGR of ~14.1% over the period FY 2006-10, and stood at ~ ₹994bn at the end of FY2010.
- Exports advanced at a CAGR of ~28.2% over the same period, and stood at ~ ₹260bn at the end of FY2010.
- USA is the top export destination of electronics from India, accounting for ~15.5% of exports in FY 2010, while other top four countries accounted for ~29.2% of electronics exports of India during the year.
- China is the largest exporter of electronics to India, accounting for ~44.4% of the Indian imports in FY 2010, while other top four countries accounted for ~23% of electronics imports of India during the year.

Demand Drivers

- Advent of new technologies, increasing expenditure by companies on electronics products, and several government initiatives coupled with favourable population, increasing personal disposable income and declining prices of the electronics goods are the major demand drivers of the electronics industry.
- Use of electronics products to augment production/ other activity by automating processes has been resulting in more and more companies adopting the newer technology that is helping growth of the electronics industry.
- Government initiatives for the better governance through effective administration can be achieved through the use of technology. Plan like e-governance is aimed to achieve such initiative of the government that is likely to drive demand for electronic goods.
- Increasing disposable income is the key driver for the electronics goods industry (basically, consumer durables and telecom equipments which are the largest segment of electronics industry).
- Favourable demographics is also expected to aid in demand of the electronics goods. In coming years, maximum population of India is expected to be in the working age group which is more prone to purchase electronic goods.
- Urban population is likely to spend more on electronics goods than their rural counterpart. As per the United Nations Population Division study, urbanization is expected to rise in the country and the urban population is expected to be equal to that of rural population by the year 2045, which augurs well for the electronics industry.
- Production of electronics hardware is increasing but their prices are declining due to rapid technology innovation that is making them more affordable day by day thus making them a purchase option even for lower income groups.

Projections

- Production in the electronics industry is estimated to grow at a CAGR of ~14.5% over the period FY 2010-14F to reach ~ ₹1,900bn by FY 2014.
- Demand of electronics products in the country is estimated to grow at a CAGR of ~17.4% over the period FY2010-14F to reach ~ ₹3,500bn by FY 2014.



Source: RHP

- The government estimates that domestic demand for the electronics may reach ~ ₹14,400bn by the FY 2020 which transforms into a phenomenal growth rate of more than 25% per year in the later part of this decade.
- The electronic hardware industry is poised for healthy growth in future mainly due to growing demand for mobile phones, computers and consumer electronics.
- As of now, imports play an important role in meeting the domestic demand. The government has come up with various initiatives for the development of the sector to ensure that most of the demand may be met by domestic production which transforms into huge opportunity for the domestic players due to sheer size of the expected market.

Business Operations

PGEL is an Electronic Manufacturing Services (EMS) provider for OEMs of consumer electronic products in India. It manufacture and/or assemble a comprehensive range of consumer electronic components and finished products such as colour television (CTV) sets & components, air conditioners (ACs) sub-assemblies, DVD players, water purifiers and Compact Fluorescent Lamps (CFL) for third parties. As backward integration, PGEL also does plastic injection moulding and manufacture PCB assemblies for CTVs, DVD players and CFL.

The company was integrated with the establishment of Unit I in Greater Noida in 2002 and later with unit in Roorkee in 2007. PGEL has four operational manufacturing facilities located at Greater Noida in Uttar Pradesh (Unit I and Unit III), Roorkee in Uttrakhand (Unit II), and Ahmednagar in Maharashtra (Unit IV). It has also been awarded ISO 9001:2008 certificates for quality management systems for its units at Greater Noida (Unit I and Unit III) and Roorkee (Unit II). At present, the company has a consolidated installed capacity of manufacturing 16,00,000 pieces p.a. of PCB assemblies for CTVs and DVD players, 16,056 tonnes p.a. for plastic injection moulding, 16,05,000 sets p.a. of CTVs, 30,00,000 pieces p.a. of PCB assemblies for CFL, 30,00,000 pieces p.a. of CFL assemblies and 3,00,000 pieces of DVD players at their manufacturing facilities.

PGEL has recently set up manufacturing units for plastic injection moulding under Phase I at Unit III and Unit IV in the year 2011 with total installed capacity of 3,000 tonnes p.a. and 5,675 tonnes p.a. respectively. However, with addition of balance plant & machinery at Unit III, this capacity will increase upto 3,600 tonnes p.a. by September 2011.

Strengths

Integrated manufacturing operations

PGEL is an EMS provider for OEMs of consumer electronic product in India. Its manufacturing operations include plastic injection moulding, PCB assembly, coil winding, component assembly, sub-assembly, finished product assembly, a full range of test methods, and customized packaging. It manufactures most of the electronic assemblies required by the customers in-house.

Design and development capability

The electronics industry strives on continuous innovation and to maintain a competitive edge over the competitors, it is important to have an effective design and development capability. PGEL has an in-house design team where the engineers are trained to keep the team abreast of the latest global innovations and developments by which the company adds value to the designs or design ideas proposed by customers.

Locational advantage

The current manufacturing facilities are located at Greater Noida, Uttar Pradesh (Unit I & Unit III), Roorkee, Uttarakhand (Unit II) and at Ahmednagar, Maharashtra (Unit IV). The locations of the manufacturing facilities give a competitive cost advantage in terms sourcing raw material, manufacturing at relatively cheaper power tariff rates in the state of Uttar Pradesh and Uttarakhand and engaging labour at relatively lower costs.

Quality standards

In the manufacturing facility, different quality checks are carried out starting from procurement of raw materials till the end of production process. The company has been awarded ISO 9001:2008 certificate for quality management systems at Unit I for manufacture, assembly and supply of plastic moulded parts and design, manufacture and supply of colour TV receivers and DVD players. Further, Unit II and Unit III have also been accredited with ISO 9001:2008 for quality management systems.

Experienced Promoters

PGEL is benefited from the experience of the Promoters and the core management team. Promoters have been in the business of manufacturing electronic products for over three decades and have built experience and relationships with both suppliers and customers in the industry.

Objects of the Issue

The objects of the issue are:

1. Prepayment of the portion of term loan and line of credit facility proposed to be availed by the Company for the expansion under Phase I.
2. Expansion of manufacturing facility at Unit III, Greater Noida and Unit IV, Ahmednagar.
3. Meeting long term working capital requirements.
4. General corporate purposes.

Utilization of net proceeds

Particulars	Amount in (₹Cr)
Prepayment of the portion of term loan and line of credit facility proposed to be availed by the Company for the expansion under Phase I	24.10
Expansion of manufacturing facility at Unit III, Greater Noida under Phase II	13.84
Expansion of manufacturing facility at Unit IV, Ahmednagar under Phase II	37.31
Meeting long term working capital requirements	15.00
General corporate purposes	[•]
Issue Expenses	[•]
Total	[•]

Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

- Majority of the revenue (54.1%) was derived from few customers in 2010-11 and loss of one or more customers or a reduction in their demand for products and services would adversely affect business of the company.
- The company has entered into related party transaction and will continue to do so in order to take advantage of tax exemptions.
- The company has manufacturing units at different places in order to take local tax benefits. Though the company now intends to phase out business to consolidate the group operation, there is no definite time frame.
- The company is dependent upon the consumer electronics industry, which produces technological advanced products with short life cycles. Further, consolidation in the electronic industry may adversely affect the business by increasing customer buying power or increasing competition.
- The company had negative cash flows in some years. Any negative cash flow from operations in future could affect the operations and financial conditions.

Restated Profit & Loss Statements

(₹Cr)

For Period ended,	31.3.2007	31.3.2008	31.3.2009	31.3.2010	31.3.2011
Net Sales	43.89	92.96	125.97	354.29	423.97
Total Expenditure	42.01	90.09	120.63	337.25	396.16
Raw material cost	36.89	83.66	114.59	329.49	387.28
Administration Cost	1.59	2.1	2.09	3.29	3.85
Employees Cost	3.53	4.33	3.95	4.47	5.03
Gross Profit	1.88	2.87	5.34	17.04	27.81
Add: Other Income	0.13	0.37	-0.09	1.5	3.1
EBIDTA	2.01	3.24	5.25	18.54	30.91
Depreciation	0.67	0.82	1.26	1.36	2.07
Interest	0.75	1.31	2.33	4.33	5.56
EBT before Extra Items	0.59	1.11	1.66	12.85	23.28
Preliminary expense	0.00	0.00	0.00	0.00	0.00
Service Tax Paid	0.01	0.03	0.01	0.03	0.03
Profit before Tax	0.58	1.08	1.65	12.82	23.25
Tax	0.34	0.59	0.51	2.79	5.36
Profit After Tax	0.24	0.49	1.14	10.03	17.89

Restated Balance Sheets

(₹Cr)

As at,	31.3.2007	31.3.2008	31.3.2009	31.3.2010	31.3.2011
Gross Block (including Capital WIP & Intangible Assets)	15.26	22.83	25.19	36.93	85.31
Less: Accumulated Depreciation	1.74	2.55	3.80	5.16	7.22
Net Block	13.53	20.28	21.39	31.76	78.09
Investments	0.00	0.10	0.15	0.15	0.65
Inventories	2.72	8.84	20.35	15.35	16.66
Sundry Debtors	5.33	12.95	16.23	35.63	36.95
Cash & Bank Balance	0.58	1.23	1.47	10.98	6.16
Loans & Advances	2.41	2.05	2.85	8.23	23.80
Total Current Assets	11.04	25.06	40.90	70.18	83.57
Total Assets	24.57	45.44	62.44	102.09	162.30
Secured Loans	10.16	14.02	17.59	28.80	66.89
Unsecured Loans	-	-	2.52	11.31	1.57
Deferred Tax Liabilities	1.25	1.55	1.81	2.27	3.00
Current Liabilities & Provisions	5.36	19.30	23.14	32.28	47.18
Total Liabilities	16.77	34.87	45.05	74.67	118.64
Net Worth	7.80	10.57	17.38	27.42	43.66
Share Capital	1.45	3.01	3.01	10.67	10.67
Share Application Money	2.39	0.01	5.46	0.00	0.00
Reserves & Surplus	4.18	7.78	8.93	16.76	34.66
Total	8.02	10.80	17.39	27.43	45.33
Less: Miscellaneous Expenditure	0.22	0.23	0.01	0.01	1.67
Net Worth	7.80	10.57	17.38	27.42	43.66

Keynote Capitals Ltd.

Member

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