

M And B Switchgears Ltd.**September 27, 2011**

Price Band	: ₹180 - 186 per share
Minimum Bid Lot Size	: 30 Equity Shares
Maximum Bid Lot Size	: 630 Equity Shares
IPO opens during	: Sept 28 – Oct 05, 2011
Book Running Lead Manager	: D&A Financial Services Pvt. Ltd.
To list on	: NSE & BSE
IPO Grading	: 2 / 5 (ICRA)
PE	: 268.66x (based on base price)* : 277.61x (based on cap price)*
Market Cap post-listing	: ₹372Cr or \$75.53mn (based on the cap price)
Market Cap of Free Float	: ₹93Cr or \$18.88mn (based on the cap price)

*Based on FY11 EPS

IPO of 5mn equity shares of ₹10each, aggregating to ₹93Cr or \$18.88mn (at the cap price).**Shareholding Pattern**

	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters	15000000	100.00%	15000000	75.00%
QIBs (incl Mutual Funds)	0	0.00%	2500000	12.50%
Non Institutional Investors	0	0.00%	750000	3.75%
Public	0	0.00%	1750000	8.75%
Total	0	100.00%	20000000	100.00%

Executive Summary

- M And B Switchgears Ltd. (MBSL) was incorporated in June 1999 is engaged in the manufacturing and distribution of transformers including power transformers, furnace transformers, rectifier transformers and special purpose transformers having two manufacturing units both situated at Indore. The company has the ISO 9001:2008 and ISO14001:2004 certifications.
- MBSL started with a capacity to manufacture 550 transformers p.a. and have grown gradually to a capacity to manufacture 5,109 transformers p.a. The company's existing annual production capacity in terms of KVA is 75,000 KVA of transformer p.m. on single shift basis. MBSL's annual aggregate capacity is 9,00,000 KVA p.a.
- The electricity sector has consistently contributed 1.5-1.6% to the total GDP. At current prices, however, the GDP contribution of electricity was lower in 1.3% of total because of higher inflation in other commodities and utilities. The three-year compound annual growth rate (CAGR) of electricity GDP was 8% up to 2008-09.
- MBSL's major revenue in the last 5 years is from the transformer business. The company is currently engaged in setting up a power project to generate 2 MWp through Solar PV Cells. The project is being executed at a plot area of 4.06 hectare at Rajghar, Madhya Pradesh.

Our View

At the issue price the company is very expensive priced at PE multiple of 277.6x of FY11 earning whereas its peers are trading at very low PE multiple of 10x. Also, looking at the company top-line which is ₹34Cr is much small then the IPO size of ₹93Cr which is 2.7 times of FY11 revenues, we advise the investors to skip the issue. However, looking at the future plans and the client they cater which includes government entities as well it can be reviewed at the later stage.

Company Background

M And B Switchgears Ltd. (MBSL) was originally incorporated as a private limited company under the name “M AND B Switchgears Private Ltd.” in June 1999. Subsequently, the company was converted into a public limited company in November 2010 following the change of name to “M AND B Switchgears Ltd”. MBSL is engaged in the manufacturing and distribution of transformers including power transformers, furnace transformers, rectifier transformers and special purpose transformers having two manufacturing units both situated at Indore.

Promoters and Management

Mr. Shyam Sunder Mundra is the Chairman and Managing Director of MBSL and has over 42 years of experience in the power industry and including 34 years in the manufacturing of transformers. He is actively involved in strategies relating to operations and manufacturing of the company.

Mr. Vikalp Mundra is the Wholetime Director of MBSL and has an overall experience spanning 17 years in the transformer sector. He provides strategic direction in the company by selection of technology and machineries, in setting up new manufacturing facilities, production planning, improvement of production processes, etc.

Mr. Anurag Mundra the Wholetime Director of MBSL having over 11 years experience in the company which is in the business of manufacture of transformers.

Industry Overview

The electricity sector has consistently contributed 1.5% to 1.6% to the total GDP. At current prices, the GDP contribution of electricity was lower in 1.3% of total, because of higher inflation in other commodities and utilities. The three-year compound annual growth rate (CAGR) of electricity GDP was 8% up to 2008-09.

Contribution of electricity to India’s GDP

	(₹ bn)				
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Electricity GDP (current prices)	504	552	629	672	694
As % of total GDP	1.7%	1.6%	1.6%	1.5%	1.3%
Electricity GDP (constant prices)	504	542	604	659	677
As % of total GDP	1.7%	1.7%	1.7%	1.7%	1.6%

During the period 2004-09, expenditure on electricity was about 1% of the total private expenditure on all goods and services. The three-year electricity expenditure CAGR was 12.7% up to 2008-09.

Private expenditure on electricity

	(₹ bn)					
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	3-Year CAGR %
Electricity	187	194	221	246	277	12.70%
As % of total expenditure	1.00%	0.90%	0.90%	0.90%	0.90%	-

Source: RHP

Power Sector Overview

In recent decades, the Government of India has focused on infrastructure development with top priority given to the power sector. Significant reforms have emphasised on developing the competitive environment, restructuring the industry for higher levels of accountability and investments, and aligning the electricity market for more efficient outcomes. As compared to 23 integrated utilities (SEB), which existed before the electricity reforms began in the 1990s, there are now over 80 utilities with varied ownership structures under the central government, state government, private utilities, captive power generators, independent power producers (IPP) and merchant power plants (MPP). Further, market expansion is taking place with the emergence of open access, power trading companies, power exchanges, rural electrification and various generation projects.

India's grid interactive installed power generation capacity increased from 152152MW as on August 31, 2009 to 164509MW as on August 31, 2010. Renewable energy sources accounted for about 10% of the total installed capacity in August 2010 as compared to 7% in August 2009. The private sector is a key driver of renewable power development with 83% share in total grid-connected renewable power capacity. The remaining capacity is with the state utilities.

Installed Power Capacity

Particulars	Aug-10				Aug-09			
	Central	State	Private	Total	Central	State	Private	Total
Thermal	38,482	50,892	17,059	106,433	36,872	47,607	13,393	97,872
Coal/Lignite	31,780	46,222	9,856	87,858	30,233	43,333	6,721	80,287
Gas	6,702	4,067	6,606	17,375	6,639	3,672	6,075	16,386
Diesel	-	603	597	1,200	-	603	597	1,200
Hydro	8,685	27,168	1,233	37,086	8,592	27,095	1,230	36,917
Nuclear	4,560	-	-	4,560	4,120	-	-	4,120
Renewable	-	2,789	13,640	16,429	-	2,248	10,995	13,243
Total	51,728	80,849	31,932	164,509	49,584	76,950	25,618	152,152

Competitive Environment and Key Players – Transformer

India has over 500 transformer manufacturers. Major manufacturers of transformers in India include EMCO, Bharat Bijlee, Crompton Greaves, Transformers and Rectifiers India Limited (TRIL), Kirloskar Electric, Voltamp Transformers and Indian subsidiaries of multinational companies such as ABB, Siemens, and Areva T&D. The production of transformers increased at a CAGR of 17% during the period 2004-2010. Of the total transformers produced in 2009-10, power transformers contributed 79% while distribution transformers accounted for 21%.

Production of Transformers

Particulars	(MVA)						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Power Transformers	60,787	62,577	77,674	94,390	119,101	140,048	18.20%
Dist. Transformers	19,369	27,181	35,188	40,412	34,272	36,379	13.40%
Total	80,156	89,758	112,862	134,802	153,373	176,427	17.10%

Besides meeting the domestic requirement, India exports transformers to over 50 countries, including the US, South Africa, Cyprus, Syria, Iraq and countries in Europe, the Middle and Far East. Exports of transformers grew over five-fold, from ₹411 million in 2004-05 to ₹2132 million in 2009-10. During this period, imports grew from ₹321 million to ₹884 million.

Business Operations

MBSL is engaged in manufacturing of distribution transformers, power transformers, furnace transformers and special purpose transformers. The company is in the business of manufacturing transformers for more than 30 years and is a preferred and regular supplier of quality transformers. MBSL has consolidated its position through continuous modernization and expansion and by acquiring latest and sophisticated technology and processes. MBSL started with a capacity to manufacture 550 transformers p.a. and have grown gradually to a capacity to manufacture 5109 transformers p.a. The company's existing annual production capacity in terms of KVA is 75000KVA of transformer p.m. on single shift basis. MBSL's annual aggregate capacity is 900000KVA p.a.

MBSL's major revenue in the last 5 years is from the transformer business. The company is currently engaged in setting up a power project to generate 2MW through Solar PV Cells. The project is being executed at a plot area of 4.06 hectare at Rajghar, Madhya Pradesh.

Strengths

- **Qualified and experienced Promoters**

MBSL's Chairman and Managing Director Mr. Shyam Sunder Mundra has a total experience of 42 years in the power industry including 34 years in the transformer industry. Mr. Vikalp Mundra has an experience of 17 years in the transformer industry and Mr. Anurag Mundra has over 11 years experience in the company.

- **Experience in designing transformers at optimal costs**

MBSL specializes in designing of transformers which are specific to the customers' need achieving highest possible efficiency with an acceptable trade off in the transformer raw material cost.

- **Research and development and designing capabilities**

Due to existence in the industry for past 30 years, the company has developed its brand on technical front. MBSL has developed well-equipped quality control and in-house R & D department. The company has already developed technology in the field of manufacturing, upgrading, rehabilitation, and life extension of transformers.

- **Well Equipped Testing facility**

MBSL's transformers are subjected to all routine tests as per IS: 2026 standards and customer specifications. The company has equipments and capabilities to conduct various routine, special, type tests and vector tests on the components and transformers manufactured.

- **Capable Technical Personnel**

MBSL is well equipped with team of qualified engineers and technical staff to handle manufacturing processes efficiently also trained and qualified personnel dedicated to R&D center that takes care of total quality management.

- **Ability in customization to suit the demand from low, medium, and high capacity transformers**

The company caters to specific customer requirements, by providing with tailor made transformers as per the design and specifications of the customers. The product portfolio ranges from power and distribution transformers, rectifier transformers, furnace duty transformers, dry type transformers, automatic voltage regulators, converter duty transformers and other special purpose transformers in both repairing and manufacturing segment, thus catering to diverse needs of markets.

- **Diversified customer base**

MBSL has established good client relationships in domestic markets from whom the company get orders for manufacturing on a continuous basis. Many of the clients are renowned SEBs/Government controlled utility company/Public Sector Undertakings (PSU's).

- **Manufacturing of Quality Products**

MBSL's has a team of qualified engineers and well equipped manufacturing facilities which enables the company to manufacture products conforming to any specifications, both Indian and international standards. The company has the ISO 9001:2008 and ISO14001:2004 certifications.

- **Locational advantage of being in Central India**

The company is located in heart of India which gives us an logistical advantage and can supply products across India with ease. Indore is well connected to all industrial towns across India. The infrastructure facility is also good.

Objects of the Issue

The objects of the issue are:

- To set up new grid connected 4MW solar photovoltaic power plants at Village Gagorni, Distt. Rajghar, Madhya Pradesh.
- To meet General corporate purpose.

Utilization of net proceeds

Object	Total Estimated Cost (₹Cr)
Land	0.36
Site development and civil works	3.00
Survey of land and study of incident of radiation and other parameters, including installation and commissioning charges and project management and training fee	5.40
Plant and Machinery	62.20
Evacuation Infrastructure – cabling from project site to feeder point	0.40
General corporate purposes	[•]
Issue Expenses	[•]
Total cost of the project	[•]

Investment Risks

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

- The company has manufacturing facilities only in Indore and does not have any back up facility. Failure to expand the operation in other parts of the country will have adverse effect on company
- Majority of the company's revenue comes from manufacturing & selling of transformers which accounted for 90% in FY11. Further the major orders are from government and government controlled entities. Any downturn or slowdown in the industry, default in payment or delay will have adverse effect on the business.
- The manufacture of transformers require high standard of quality assurance by the end users. Any failure in maintaining the requisite standards may result in rejections, non performance of the products at the point of installation and use
- As a manufacturing business, success of the business depends on the continuous supply and transportation of raw materials from the suppliers to manufacturing facilities of the company which are subject to various uncertainties and risks.

Restated Profit & Loss Statements

	(₹Cr)				
Particulars	FY07	FY08	FY09	FY10	FY11
Net Sales	15.60	18.76	25.15	38.77	34.49
Total Expenditure	15.09	18.04	23.95	35.33	31.86
Raw material cost	12.80	15.44	20.71	30.71	27.31
Administration Cost	1.62	1.7	2.05	2.81	2.66
Employees Cost	0.67	0.9	1.19	1.81	1.89
Gross Profit	0.51	0.72	1.20	3.44	2.63
Other Income	0.34	0.33	0.18	0.16	0.8
EBIDTA	0.85	1.05	1.38	3.60	3.43
Depreciation	0.06	0.08	0.11	0.29	0.34
Interest	0.44	0.56	0.64	2.06	1.87
Earnings before Tax	0.35	0.41	0.63	1.25	1.22
Tax	0.13	0.11	0.21	0.33	0.43
Profit After Tax	0.22	0.30	0.42	0.92	0.79
Gratuity Provisions	0.00	0.00	0.01	0.01	0.02
Net Profit after adjustments	0.22	0.30	0.41	0.91	0.77

Restated Balance Sheets

	(₹Cr)				
Particulars	FY07	FY08	FY09	FY10	FY11
Gross Block	1.11	1.40	7.81	9.18	10.12
Less: Accumulated Depreciation	0.34	0.42	0.53	0.82	1.16
Net Block	0.77	0.98	7.28	8.37	8.96
CAPITAL Work -in-Progress	0.00	0.00	0.00	0.00	1.36
Total Fixed Assets (A)	0.77	0.98	7.28	8.37	10.32
Investments(B)	0.00	0.00	0.00	0.01	0.00
Inventories	2.97	3.76	5.00	3.57	4.98
Sundry Debtors**	6.25	4.94	8.59	16.85	8.14
Cash & Bank Balance	0.90	0.89	0.95	1.05	1.16
Loans & Advances	1.41	1.29	1.48	2.03	4.72
Total Current Assets (C)	11.53	10.88	16.02	23.50	19.00
Secured Loans	2.91	1.95	9.95	13.06	10.59
Unsecured Loans	0.00	0.00	0.15	1.37	0.00
Deferred Tax Liabilities	0.02	0.00	0.10	0.16	0.27
Current Liabilities	3.10	3.36	5.79	5.56	1.87
Provisions	0.33	0.31	0.41	0.69	1.03
Total Liabilities (D)	6.35	5.62	16.41	20.84	13.77
Net Worth(A+B+C-D)	5.95	6.23	6.90	11.04	15.56
1.ShareCapital	0.76	0.76	0.76	0.86	15.00
2.ShareApplicationMoney	0.00	0.00	0.00	0.00	0.00
3.Reservess&Surplus	5.19	5.48	5.89	9.65	1.12
Total	5.95	6.24	6.65	10.51	16.12
4.Less:MiscellaneousExpenditure	0	0	0	0	0.56
Net Worth	5.95	6.24	6.65	10.51	15.56

Keynote Capitals Ltd.

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Registered Office

4th Floor, Balmer Lawrie Building,
5, J. N. Heredia Marg,
Ballard Estate, Mumbai 400 001.
Tel Nos. 022-2269 4322 / 24 / 25

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