

PG Electroplast Ltd. - IPO Note: "AVOID"

6th September, 2011

PG Electroplast is an Electronic Manufacturing Services (EMS) provider for Original Equipment Manufacturers (OEMs) of consumer electronic products in India. It manufactures and/or assembles a comprehensive range of consumer electronic components and finished products such as colour television (CTV) sets & components, air conditioners (ACs) sub-assemblies, DVD players and Compact Fluorescent Lamps (CFL) for third parties. As backward integration, it also engaged in plastic injection moulding and manufacture Printed Circuit Boards (PCB) assemblies for CTVs, DVD players and CFL. Some of its clients include leading brands in the electronic products market.

At the upper band of the issue price, PG Electroplast is valued at 19x its FY11 Rs. 10.9/share (post issue). With due consideration to factors like major presence in CRT TVs segment (76.8% of total sales in FY11) which poses technology obsolete risk in the current advanced technological era, related party sales which accounted for 54.07% of sales in FY11 (top five customers includes three group companies), client concentration risk (top five customers accounted for 95% of sales in FY10, short term nature of contracts with its clients, low value addition in the products resulting in relatively low profit margins, expensive valuations as compared to peers and poor secondary market conditions, we believe the stock is valued at a premium and recommend investors to "AVOID" the issue.

Financial summary (Unconsolidated)

Y/e 31 Mar (Rs. mn)	FY09	FY10	FY11
Total income	1259	3,543	4239
Operating Profit	53	171	278
OPM (%)	4.2	4.8	6.5
PBT	16	128.2	232.5
Reported PAT	11.4	100.3	179
PAT margin (%)	0.91	2.8	4.2
Equity Capital	30.1	106.69	106.69
Networth	174	274.2	436.5

Source: RHP, Ajcon Research

Objects of the issue

Particulars	Amount (Rs. in mn)
Prepayment of term loan	241
Expansion of facilities	511
Working capital requirements	150
General corporate purposes and issue expenses	-

Source: RHP, Ajcon Research

PEER ANALYSIS

Segment	CMP (Rs.)	FV (Rs.)	Book value (Rs.)	P/BV(x)	FY 11EPS (Rs)	P/E(x)
PG Electroplast	190-210	10	100 (post issue)	2.10x	10.9	17 -19
MIRC Electronics	19	1	18.7	1.02x	1.93	10
Samtel Colour	5	10	21.8	0.23x	(11.43)	-

Source: RHP, Ajcon Research, CMP as on 6th September, 2011

Research Analyst

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Issue date	Sep 07 – Sep 12, 2011	
Issue size	Rs. 1.21 bn at upper end of the price band	
FV	Rs.10	
Price Band	Rs. 190-210 per share	
Fresh issue	5.74mn equity shares	
Issue structure	50% - QIBs 35% - Retail 15% - Non Institutional Bidders	
Equity shares prior to issue	10.66 mn	
Equity shares post issue	16.4 mn	
Post issue market capitalization	Rs. 3,444 mn at upper price band	
Promoters	Mr. Pramod Gupta, MD Mr. Anurag Gupta, ED Mr. Vishal Gupta, ED Mr. Vikas Gupta, ED	
Book Running Lead Managers	Almondz Global Securities Ltd.	
IPO Grading	Grade 3/5 by CARE indicating average fundamentals	
Registrar to the issue	Karvy Computershare Pvt. Ltd.	
Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters	100	65
Public	-	35
Total	100	100



For research related queries contact Mr. Akash Jain, AVP - Research at ajconresearch@ajcon.net

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