

Annexure I
Grading Rationale
PG Electroplast Ltd (PGEL)

Grading Assigned

Facilities/Instruments	Details	Grading¹	Remarks
IPO Grade	57,45,000 equity shares of face value of Rs.10 per share	CARE IPO Grade 3 [Three]	Reaffirmed

Grading Rationale

The grading continues to derive strength from the experience of PGEL's promoters in the consumer electronics industry and established track record of operations of PGEL as demonstrated by long-standing relationships with its clientele. The grading also factors in the consistent growth in revenues, strong operational efficiencies and diverse applications of PGEL's products. The grading is constrained by business risks associated with client concentration, short-term nature of contracts with its clients and low value addition in the products resulting in relatively low profitability margins. The grading is also constrained by highly competitive industry scenario, exposure to foreign exchange fluctuations and project execution risks associated with its expansion plans.

Background

PG Electroplast Ltd was incorporated in March 2003 as PG Electroplast Pvt Ltd. In August 2010, it was converted into a public limited company and the name was changed to PG Electroplast Ltd (PGEL). PGEL started operations in FY03 with the setting up of plastic injection moulding line at Greater Noida. Over the years, the company has successfully increased its capacities and added new products like colour television sets, DVD players, etc to its portfolio as well as set up a new facility at Roorkee, Uttarakhand.

Promoters and Management

PGEL is promoted by Mr. Promod Gupta, Bachelor of Engineering from The Birla Institute of Technology & Science (BITS, Pilani) and Post-graduate Diploma in

¹ Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications

Marketing & Sales Management from Faculty of Management Studies, University of Delhi in the capacity of Chairman & Managing Director. Mr. Promod Gupta has been associated with the electronic manufacturing industry for over three decades. Mr. Promod Gupta is supported by his three sons namely Mr. Anurag Gupta, Mr. Vishal Gupta and Mr. Vikas Gupta having experience of more than 15 years each in the electronic manufacturing industry as executive directors of the company. Further, the group has been engaged in the consumer electronics industry for over two decades now through its various group companies/entities. The presence of group companies/entities in the similar line of business provides operational integration within the group. Going forward the promoters plan to consolidate the group and merge two promoter concerns namely Bigesto Technologies Ltd and Kushang Technologies Ltd with PGEL.

Corporate Governance

The Board of PGEL comprised eight Directors including four Independent Directors. The executive directors of the company held about 91% shares in PGEL as on September 18, 2010. The company has constituted prescribed committees such as Audit Committee, Remuneration Committee and Shareholders/Investor Grievance Committee headed by Independent Directors as per Clause 49 of the listing agreement to be entered into with Securities and Exchange Board of India (SEBI).

There are certain outstanding litigations relating to income tax and excise appeals involving PGEL. However, the amount of the same does not prima-facie seems significant in relation to the size of the company.

Operations

PGEL is engaged manufacturing and assembly of consumer electronic products like colour television sets (CTVs) & components, DVD players, air conditioners, among others. As part of backward integration, PGEL also manufactures plastic injection mouldings and Printed Circuit Board (PCB) assemblies for CTVs, DVD players and Compact Fluorescent Lamps (CFL). The plastic injection mouldings find application in diverse products like CTVs, DVD players, air-conditioners, washing machines, computer equipments, etc.

The manufacturing facilities of PGEL are located at Greater Noida, Uttar Pradesh and Roorkee, Uttarakhand with total installed capacity of 16 lakh pieces p.a. for PCB

assemblies for CTVs and DVDs, 6,577 tonnes p.a. for plastic injection mouldings, 16.05 lakh pieces p.a. for CTVs, 3 lakh pieces p.a. for DVDs, 30 lakh pieces p.a. for CFL assemblies and 30 lakh pieces p.a. for PCB assemblies. PGEL's Roorkee plant enjoys tax benefits under Industrial Policy, 2003 by the Central Government.

During FY10, the capacity utilization for CTVs at Greater Noida and Roorkee unit stood at 73% and 64% respectively while that of plastic injection mouldings stood at 62% (Greater Noida unit). Further, the average realisations for CTVs declined to around Rs.2,559 per CTV in FY10 from Rs.2,734 per CTV due to higher production of 14'' TVs as compared to larger-sized TVs.

During FY10, the top five customers of PGEL contributed about 95% to its total sales. Over the years, PGEL has established long-standing relationships with its clientele with LG Electronics (I) Pvt Ltd being the major customer contributing about 43% and 35% to total sales in FY10 and FY09 respectively. However, the contracts entered into by PGEL with its customers are short term in nature, thereby exposing the company to risks relating to renewability of the same.

During 2009, PGEL along with group entities/companies bagged the contract for supplying 14.8 lakh 14'' CTVs to Electronics Corporation of Tamil Nadu Ltd (ELCOT). During FY10 and H1FY11, ELCOT order contributed about Rs.152 cr and Rs.124 cr to the total operating income respectively. This also led to increase in contribution of CTVs to gross sales from 24% in FY09 to 68% in FY10. With the completion of the ELCOT order by FY11, whether the growth achieved in FY10 will be repeated going forward remains to be seen.

The major raw materials for PGEL's products include plastic granular, colour picture tubes for CTVs and electronic components. While the electronic components are primarily imported, the requirement for plastic granular and pictures tubes is met domestically as well as imported.

Project Details

PGEL is setting up two manufacturing facilities at Greater Noida, UP (Unit III) and Pune (Unit IV). The expansion at the above sites would be carried under two phases i.e. Phase I and Phase II. Under Phase I, the company would set up plastic injection moulding line at Unit III and Unit IV with an installed capacity of 3,600 tonnes p.a. and 5,800 tonnes

p.a. respectively. The total cost for Phase I is estimated at Rs.71.07 cr to be funded through debt of Rs.49.6 cr (already tied up) and balance through internal accruals or unsecured loans from promoter/promoter group. PGEL plans to utilize IPO proceeds to the extent of Rs.24.10 cr for the prepayment of debt availed by the company for the Phase I expansion. The commercial production from the Unit IV is expected to commence by February 2011 and that of Unit III by March 2011.

Under Phase II, PGEL intends to expand the plastic injection moulding capacity to 6,600 tonnes p.a. at Unit III and 10,000 tonnes p.a. at Unit IV. The total cost for Phase II is estimated at Rs.51.92 cr to be funded through IPO proceeds. The commercial production is expected to start from December 2011.

IPO Details

PGEL is proposing an initial public issue of 57,45,000 equity shares of face value of Rs.10 per share. The price band for the issue is yet to be decided. The activities for which funds are being raised by PGEL through this issue are:

- (i) Prepayment of portion of term loan and line of credit facility proposed to be availed by the company for Phase I expansion
- (ii) Expansion of manufacturing facilities at Unit III in Greater Noida under Phase II
- (iii) Expansion of manufacturing facilities at Unit IV in Pune under Phase II
- (iv) Meeting long-term working capital requirements
- (v) General corporate purposes

Financial Analysis

The total operating income of PGEL has increased at a Compounded Annual Growth Rate (CAGR) of over 100% over the last three years ending March 31, 2010. The major growth in total operating income was witnessed in FY10 wherein the company bagged the order for supplying CTVs to ELCOT (Rs.152 cr executed in FY10) coupled with the increase in sales volumes for plastic injection mouldings, CTVs supplied to other customers and DVDs. PBILDT margin improved in FY10 owing to economies of scale leading to decline in other manufacturing expenses and overheads. Further, the business from ELCOT which fetched higher margins also contributed to the improved PBILT margin. The improved operating profitability along with lower interest expenses as a percentage of sales contributed to the improvement in PAT margin. In line with improved

profitability during FY10, the return on capital employed as well as networth increased during the year.

Over the last two years, the promoters of PGEL have infused equity to fund the capex plans of the company. The overall gearing stood at 1.35x as on March 31, 2010 indicating moderate financial leverage. The increase in overall gearing as on March 31, 2010 is attributable to higher working capital borrowings which also resulted in deterioration in the current ratio as on March 31, 2010. With increased demand and lower collection period for the ELCOT order, the working capital cycle improved during FY10.

As per the provisional results for HIFY11, PGEL registered operating income of Rs.229 cr with PBILDT and PAT margin of 8% and 4.96% respectively.

Industry overview

Consumer electronics is the largest segment of the Indian electronics industry, accounting for 27% of the total domestic production revenue. During FY09, production in this segment was USD 5.6 billion. For the five-year period from FY04-09, the segment grew at a CAGR of 11.1%. Based on the above CAGR, consumer electronics production is expected to reach USD 8.1 billion by FY14 and USD 17.8 billion by FY20. The Indian government initiated liberalization policies for the segment in 1992, relaxing controls such as licenses and the use of brand names. This led to increased competition with international manufacturers. Currently, MNCs dominate the Indian consumer electronics market, which have major share in most categories. The growing middle class offers significant market potential to these companies. Further, the demand for premium and luxury products is rising in the urban markets due to changing consumer lifestyles. Going forward, the demand for consumer electronics is expected to remain strong with the growing middle class and rising disposable incomes, improved lifestyle spending, lower prices with advanced technology and increasing competition, increase in organized retail, short replacement cycle, etc.

Financials

(Rs. cr)

For the year ended/As on March 31,	2008	2009	2010
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, A)</i>
Working Results			
Net Sales	93	126	354
Total Operating income	93	126	357
PBILDT	3	5	18

For the year ended/As on March 31,	2008	2009	2010
	(12m, A)	(12m, A)	(12m, A)
Interest	1	2	4
Depreciation	1	1	1
PBT	1	2	13
PAT (after deferred tax)	1	1	10
Gross Cash Accruals	2	3	12
Financial Position			
Equity share capital	3	8	11
Networth	12	19	30
Total capital employed	26	40	70
Key Ratios			
Growth			
Growth in Total income (%)	112.46	35.15	183.36
Growth in PAT [after D.Tax] (%)	(52.70)	122.81	678.42
Profitability			
PBILD/Total Op. income (%)	3.37	4.23	5.10
PAT/Total income (%)	0.63	1.04	2.85
ROCE (%)	10.20	12.67	31.36
Average cost of borrowing (%)	10.86	13.60	14.38
RONW	5.24	8.25	41.33
Earnings per share (Rs.)	0.86	1.45	10.11
Solvency			
Long Term Debt Equity ratio (times)	0.64	0.31	0.27
Overall gearing ratio(times)	1.14	1.03	1.35
Interest coverage(times)	2.39	2.29	4.21
Term debt/Gross cash accruals(years)	5.62	7.17	1.86
Liquidity			
Current ratio(times)	1.00	1.12	0.96
Quick ratio(times)	0.65	0.56	0.75
Turnover			
Average collection period (days)	33	39	26
Average creditors (days)	32	50	23
Average inventory days	24	44	19
Working Capital Cycle (days)	25	34	22

DISCLAIMER:

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

Annexure II
Press Release

**CARE reaffirms 'CARE IPO Grade 3' to the proposed IPO of
PG Electroplast Limited**

Grading Assigned

Facilities/Instruments	Details	Grading²	Remarks
IPO Grade	57,45,000 equity shares of face value of Rs.10 per share	CARE IPO Grade 3 [Three]	Reaffirms

Grading Rationale

The grading derives strength from the experience of PGEL's promoters in the consumer electronics industry and established track record of operations of PGEL as demonstrated by long-standing relationships with its clientele. The grading also factors in the consistent growth in revenues, strong operational efficiencies and diverse applications of PGEL's products. The grading is constrained by business risks associated with client concentration, short-term nature of contracts with its clients and low value addition in the products resulting in relatively low profitability margins. The grading is also constrained by highly competitive industry scenario, exposure to foreign exchange fluctuations and project execution risks associated with its expansion plans.

Company Profile

PG Electroplast Ltd (PGEL) was incorporated in 2003 as 'PG Electroplast Pvt Ltd'. In August 2010, it was converted into a public limited company and the name was changed to PG Electroplast Ltd (PGEL). During July 2010, with the conversion into a public limited company the name was changed to its present name i.e. 'PG Electroplast Ltd'. PGEL is engaged manufacturing and assembly of consumer electronic products like colour television sets (CTVs) & components, DVD players, air conditioners, among others. As part of backward integration, PGEL also manufactures plastic injection mouldings and Printed Circuit Board (PCB) assemblies for CTVs, DVD players and

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Compact Fluorescent Lamps (CFL). The manufacturing facilities of the company are located at Greater Noida, Uttar Pradesh and Roorkee, Uttarakhand.

During FY10, PGEL registered total operating income of Rs.357 cr (Rs.126 cr in FY09) with PBILDT and PAT margin of 5.10% (4.23% in FY09) and 2.85% (1.04% in FY09) respectively. As per the provisional results for HIFY11, PGEL registered operating income of Rs.229 cr with PBILDT and PAT margin of 8% and 4.96% respectively.

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