

9th May 2007**Not Rated**

Price	Target Price
Rs178	N.A.

Sensex	13,782
---------------	---------------

Price Performance

(%)	1M	3M	6M	12M
Absolute	(18)	(38)	110	73
Rel. to Sensex	(21)	(35)	100	57

Source: Bloomberg

Stock Details

Sector	Textiles
Reuters	PIOE.BO
Bloomberg	PNE@IN
Equity Capital	118
Face Value	10
52 Week H/L	315/53
Market Cap (Rs.bn)	2.1
Daily Avg Volume (No of shares)	167667
Daily Avg Turnover (US\$)	0.7

Shareholding Pattern (%)

(31st Mar.'07)	
Promoters	51.5
FII/NRI	13.2
Institutions	8.5
Private Corp.	13.6
Public	13.2

Chirag Khasgiwala

chirag.khasgiwala@emkayshare.com

+91 22 6612 121254

Pioneer Embroideries Ltd.Analyst Meet
Note**FY07 Results below consensus estimates**

Pioneer Embroideries Ltd. declared its 4QFY07 and FY07 results. Results are below consensus estimates.

The Net sales for 4QFY07 were Rs.441mn (yoy up 11%, qoq up 2.5%). EBITDA for 4QFY07 was Rs.94mn (yoy up42%, qoq down 7.8%). PAT for 4QFY07 was Rs.47mn (yoy up 88%, qoq down 8%). The Net sales for FY07 were Rs.1513mn (yoy up 16%). EBITDA for FY07 was Rs.330mn (yoy up 31%). PAT for FY07 was Rs.153mn (yoy up 36%). The net sales were below the consensus estimates by 20% and the PAT was below the consensus estimates by 18.5%.

Embroideries and laces Business

- The company is the largest manufacturer-exporter of embroideries and laces in India.
- The company has 7 embroidery-manufacturing units located at Mumbai, Sarigram, Naroli, Haryana, Navi Mumbai and Coimbatore. The company also has 3 bobbin lace units located at Dadra and Karad.
- Currently the company has manufacturing capacity of 7.5bn stitches and 38mn meters of bobbin laces, which it plans to expand by 30-35% by installing 8 new machines at Gurgaon.
- The company has a capacity of 6mn meters of dyeing and finishing unit at its Sarigram unit.
- The company has 125 Schiffli embroidery machines and over 600 Torchon braiding lace machines.
- The company has a Digital Design Studio in Mumbai, having a library of more than 50,000 designs.
- Currently the company is amongst Top 10 embroidery manufacturing company in the world and it plans to be among the Top 5 in three years.
- The company has tied up with J C Penny and Triburg as their preferred supplier. The company also supplies to Armani, Nautical and others.
- Currently the company is engaged in doing embroidery and lace work of ladies undergarments. It has the plans to enter into manufacturing of ladies undergarments at a later stage.

Retail Business

- The company has a well-known retail brand "hakoba" under its belt.
- It operates its retailing business through its 85% subsidiary Hakoba Lifestyle Ltd. The balance 15% stake is acquired by Bennett & Coleman Company Ltd.
- Currently the company has 65 retail stores, which it plans to expand to more than 200 by FY09. This would involve a cost of Rs.400mn. It further plans to expand the No. Of stores to 500 in the next 5 years.
- The company also has plans to bring an IPO for its subsidiary at a later stage.
- The company is also planning to open overseas stores in West Asia, UK and US.
- Most of the stores will be franchise owned with around 30% being owned by the company.

Polyester Plant

- The company has recently set-up a Greenfield dope-dyed polyester yarn manufacturing plant, with installed capacity of 6,000 tpa. The commercial production started in Mar 07. It intends to expand the capacity to 20,000 tpa. 8 to 10% of the total yarn manufactured will be captively consumed.
- The cost of expansion is estimated to be around Rs.600mn.
- The company will be using polyester chips to manufacture polyester yarn.

Real Estate Business

- The company is planning to foray into real estate business through a subsidiary.
- The company will be entering into this business either in partnership or in JV. The company has appointed consultants to assist them in the whole process.
- Initially the company will be developing the 7,000 sq.ft surplus land available at Borivali to kick start its real state business. The company has the plans to develop commercial/residential complex.
- The company also has surplus land available at other locations like 6 acres land at Coimbatore, 4 acres land at Bangalore, 3 acres land at Pune and 1 acre land at Delhi, which it plans to develop in the second phase depending on their experience of first phase.

FCCB issue

- The company has made an issue of USD 25mn FCCB at an initial conversion price of Rs.249.32 for funding its capital expansion plans. Lehman brothers and Bam have made an investment in the issue.
- The maturity period of FCCB is 5 years and they have an 8% p.a. yield to maturity.
- The issue was made at 20% premium to the reference date price.
- These FCCBs will be listed on the Singapore Stock Exchange.
- This issue implies that the entire funding requirement for capital expansion of the company has been tied up.

Other Key Highlights

- The company has merged Royal Embroideries P.Ltd. and Grant Apparel P.Ltd. (company's wholly owned subsidiary) w.ef. 8thJan,2007 to increase its presence in southern garment export market.
- The company has also acquired Crystal Lace India Ltd. in FY07.
- BCCL has acquired 15% stake in the company in July 05 for Rs.105.9mn, valuing company at Rs.706mn.
- Previously company was purchasing all its polyester, cotton and viscose yarn requirement from outside. The commissioning of polyester yarn plant, is expected to lead to reduction in its raw material costs.
- The company has no previous experience of Real Estate Business. So the progress of Real Estate business needs to be checked. If the venture does not prove to be successful then it can have impact on its margins.

Valuations

At the current market price of Rs.178, the stock is trading at 11.1x of FY08 consensus FDEPS of Rs.16. We do not have any rating on the stock. However, we have a positive view on the stock.

Quarterly and annual results summary

(Rs mn)

	4QFY07	4QFY06	yoy change (%)	3Q2007	qoq change (%)	FY07	FY06	yoy change (%)
Net Sales	441	399	10.5	430	2.6	1,513	1,302	16.2
EBITDA	94	66	42.4	102	-7.8	330	251	31.3
Ebitda margin (%)	21.3	16.5	2886bps	23.7	-1014bps	21.8	19.3	1296bps
EBIT	77	50	54.0	84	-8.3	261	189	37.8
EBIT margin (%)	17.5	12.5	3933bps	19.5	-1062bps	17.3	14.6	1859bps
PAT	47	25	87.9	51	-8.0	153	112	36.1
Net margin (%)	10.7	6.3	7002bps	11.9	-1028bps	10.1	8.6	1714bps
Reported EPS								
Basic	4	2.4	66.7	5	-20.0%	12.9	10.9	18.3
Fully Diluted	3	2.4	25.0	5	-40.0%	9.5	10.9	-12.8

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Share & Stock Brokers Ltd is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Share & Stock Brokers Ltd, nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Share & Stock Brokers Ltd's prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Emkay Share and Stock Brokers Ltd.,

Paragon Center, Ground Floor, C-6

Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299