

IPO NOTE
MIC Electronics Limited
PRICE BAND: Rs 129 – Rs 150
SUBSCRIBE
Issue Details

Issue size to Public	51 lakh shares
Face Value	10
Min. Quantity	45 shares
Bid opens	April 30
Bid closes	May 08
Issue band	Rs 129 – Rs 150
Issue Type	100% Book building
Lead Managers	Edelweiss Capital
Registrar	Intime Spectrum Registry Ltd.

Source: RHP

Shareholding Pattern Post-IPO (%)

Promoters	37.17
Public & Others	62.83

Source: RHP

Background

MIC Electronics Limited (MEL) is a leader in the design, development & manufacturing of LED Video Displays, high-end Electronic and telecommunication equipment and development of telecom software since 1988. The company is planning to raise Rs 76 Cr via initial public offer. The issue constitutes 25.34% of the Company's fully diluted post issue paid up equity capital.

The Price Band for the Offer has been fixed between Rs 129 per share and Rs 150 per share for IPO opening on April 30, 2007, and closing on May 8 2007.

Issue structure:

Category		Shares	129	150
QIBs (5% reserved for MFs)	50%	25,50,000	32.9	38.25
Non Institutional Investors	15%	7,65,000	9.87	11.48
Retail Individual Investors	35%	17,85,000	23.03	26.78
Total		51,00,000	65.79	76.5

Business

MEL's business can be divided broadly into three parts:

LED Display Business

This business includes development, production and sales of video displays, text, graphic animation displays and display services including lease/rental of LED video walls etc. In India, it has a monopoly position in the design and development of true color large displays for indoor/outdoor/mobile applications providing true color motion picture images with proprietary "Scan+" technology. Presently, it is the only Indian company to have "design to manufacture" capability in the field of LED video display systems. The other LED products include LED lighting applications with or without solar power and LED / LCD based 3D display systems.

The segment wise revenue

Particulars	FY2006*		6M-2007**	
	Sales	% of Sales	Sales	% of Sales
LED	32.0	31.0	23.0	34.5
Comm. & Electronics	67.0	65.7	42.3	63.6
Infotech	2.9	2.8	1.3	19.0
Total	101.9		66.6	

*Year ending June 2006.

** 1H from July-December '06

 Analyst: Devarsh Vakil
 devarsh.vakil@anagram.co.in

Diversified product mix
Communication & Electronics

It has diversified products including the Digital Loop Carrier (DLC) on optical fibre on Synchronous Digital Hierarchy (SDH) Ring, broadband DLC for triple play (voice/video/data) applications, Code Division Multiple Access (CDMA) / Global System for Mobile Communication (GSM) based Wireless in Local Loop (WLL) terminals and phones, Hand Held Computers (HHC) with in-built GSM/CDMA modems.

Telecom Software

Telecom software solutions business is in areas of Telecom Network Management, Telecom Switch Access and Computer Telephony domains. It focuses on traffic control & MIS, fraud management and interactive voice response systems for fault repair, bill enquiry, payment reminder etc. suited for the requirements of telecom operators. IT offers solutions for Call Detail Records, data collection systems for different technology switches useful for inter-operator, convergent billing & fraud detection/management solutions.

Proceeds will be used for acquisition
Object of the issue

The issue proceeds will be used for finishing acquisition of Infostep Inc., in USA. The company will be raising around Rs 76.5 Cr (at Rs 150 per share) from 51 lakh shares. The money will be deployed for LED video wall business where company is enjoying monopoly in India. Company's main focus is LED video walls and LED related applications in lighting. In this segment, they are enhancing the production capacity and product upgradation. The company is spending Rs 15 Cr in a rental business. They are going to produce 26 screens, which will be used for various applications, outdoor, mobile and indoor.

Particulars	Rs Cr
For additional facility of LED boards	14.9
LED video display systems for rental / leasing	15.0
Products Up-gradation / Development	4.20
Design & Development of 3D Stereoscopic Displays	6.50
Market Development – Domestic & Overseas	5.00
Acquisition of Infostep Inc. USA*	8.54
Working capital augmentation & issue expenses	21**
Total**	76**

* Payment of Rs. 8.54 Cr is assumed at the following exchange rate: 1USD = INR 43

** Considering the issue get priced at higher band of Rs 150 per share.

CAGR of 16% in LCD Display Board

Company is enjoying monopolistic position.

Planning to enter LED Lighting Business

INVESTMENT RATIONALE:

Huge potential demand of LCD display board

The current LED display market size is around USD 3.55 bn and is expected to reach USD 3.9 bn by 2007. The LED market has shown a growth rate of CAGR of 16% from FY 2004 to FY 2007. LED Video walls sales grew by 8% for FY2005 and recorded 11% growth in FY 2006.

The Indian Out of Home ("OOH") Advertising market is projected to grow to Rs 1750 Cr by 2010 from the current Rs 1050 Cr. Largely OOH media comprises vinyl base billboards. Like in North America at some key locations LED boards will replace vinyl boards. In India, the company has a monopoly position in the design and development of true colour large displays for indoor/outdoor/mobile applications, providing true colour motion picture images with its proprietary "Scan+" technology. The other LED products include LED lighting applications with or without solar power and LED / LCD based 3D display systems.

Live events are the major growth triggers for Led display boards world over. WE expect, company may benefit from scheduled Common wealth games in Delhi.

Year	Major sports events worldwide Location
2007	Baseball World Cup Taiwan
2008	Olympics Beijing, China
2008	UEFA Champions League Australia/Switzerland
2010	Commonwealth Games, India.
2010	FIFA World Cup South Africa
2010	Baseball World Cup USA
2010	Asian Games Guangzhou, China
2010	Winter Olympics Toronto, Canada
2012	Olympics London, England
2014	FIFA World Cup Brazil

LED Lighting Business

The company plans to enter LED lighting business in 2008. Many experts believe LED lighting is the future of lighting. If company is successful in bringing LED lighting products to the market, this segment could become a major growth driver.

The company has submitted a tender to the Railway to set up LED lighting and display systems on 20,000 bogies by the end of the year. The tender is in response to the Railways' bid to set up big screens on platforms and also set up better lighting systems on 1.2 lakh bogies in the next three years.

LED Display & LED Lighting Business offers large potential upside to the investors

Available at 14 times its six-month annualised EPS of Rs 11.

CONCERNS:

- Indian LED display market is in nascent stage. As in case of all cutting edge technologies, any disruptive innovation in display technology arena, may affect LED display board business growth forecasts.
- Any change in laws related to outdoor publicity or live events broadcasting may affect the LED display business prospects.
- The company has received an order from BSNL for 401,000 pieces Integrated Fixed Wireless Terminal (IFWT) to be delivered to BSNL. The cancellation of this order may significantly affect business and revenues. Any failure may expose the company to damages under the order.
- Withdrawal of tax and other benefits available and increase in import duties applicable to them may affect profitability (They are setting up a facility in Roorkee, Uttaranchal for the manufacture of LED boards and telecommunication equipments to avail of the tax benefits under the industrial policy applicable to the State of Uttaranchal.)

RECOMMENDATION:

MIC Electronics Ltd. is a leader in the design, development, & manufacturing of LED Video Displays. Being the only player in this field, it shall continue to enjoy first mover advantage in this field.

The company has a steady revenue stream in the form of telecommunications and electronics business segment, which drives approximately 60% its total revenue. The LED display business and LED lighting business offers a large potential upside for the investors.

Company *	Sales	PAT	EPS	P/E	RONW (%)
Daxtronics	309.4	21.0	0.5	43.3	16.7
Barco	712.0	38.6	3.2	25.3	9.2
MIC Electronics**	32.0	5.4	11.0	13.6	31.6

* Figures in US\$ million

** Six months annualized (July-Dec '06)

If we compare it with its global competitors, MIC Electronics Ltd at the higher band of Rs 150 is quite attractively priced. The stock is being offered at 14 times its historical earnings. The company is growing strongly and likely to be on this trajectory for next few years before meaningful competition appears.

Investors can subscribe to this issue and hold the stock for long term for handsome appreciation.

FINANCIAL SNAPSHOT

Rs. Cr	6mFY2007	FY200606	FY200506	FY200406
Net sales	65.7	104.4	21.2	15.8
Other Income	0.0	0.1	0.0	0.1
Total Income	65.8	104.4	21.2	15.9
Total Expenditure	52.2	84.3	17.2	14.1
PBIDT	13.6	20.1	4.0	1.8
Interest	0.9	1.7	1.5	0.7
Depreciation	0.8	1.6	0.7	0.7
Total Tax	1.0	1.3	-0.3	0.1
PAT	10.9	15.5	2.1	0.3
Equity Share Capital	15.0	9.0	8.2	8.2
EPS	7.3	17.4	2.6	0.4
EPS fully diluted equity	5.4	7.7	1.1	0.2
Margins (%)				
OPM	20.6	19.2	18.9	10.7
NPM	16.6	14.9	10.1	2.0

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RATING INTERPRETATION

Buy Expected to appreciate more than 20% over a 12-month period
Accumulate Expected to appreciate up to 20% over a 12-month period
Hold Expected to remain in a narrow range
Avoid Expected to depreciate up to 10% over a 12-month period
Exit Expected to depreciate more than 10% over a 12-month period

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