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In Focus

## Paramount Communication

BUY

Rs 55

January 25, 2007

### Q3 FY07 Result Update – Margin improvement steals the show

Paramount Communications reported good third quarter results. Revenues grew by 76.8% YoY but only by 7.6% QoQ to Rs.949m. Profits witnessed a much sharper growth of 86.7% YoY and 9.4% QoQ to Rs.122m. Operating margins have reported impressive improvement from 22.3% in Q2FY07 and 20.6% in Q3FY06 to 23.0% due to better realisations, product mix and economies of scale. The falling copper and Aluminium prices have also benefited the company. For 9MFY07, revenues grew by 83.1% and profits more than doubled to Rs.2,178m and Rs.283m respectively. EBITDA margins improved by 4.2% percentage points to 22.8%.

There has been a major shift in the product mix during this year in favour of power cables and railway cables. It accounted for 57%, and 31% this year as against 30% and 17% last year. The trend is likely to continue going forward too.

The company has finished phase II of its expansion plans and is ready to embark on Phase III. The total cost of the project is estimated to be about Rs.10bn to funded by way of internal accruals and funds raised from the FCCB. The company is already at an advanced stage of negotiation for land acquisition. The scheduled date of completion is November this year. At peak capacity it will generate incremental revenues of Rs.5bn. At this plant the company will also manufacture rubber cables and housing wire.

We expect revenue growth of 73.8% in FY07E, 110.8% in FY08E and 45.0% in FY09E to Rs.3,384m, Rs.7,135m and Rs.10,345m respectively (these are lower than our previous estimates by 14% and 8% respectively). Profits are expected to rise from Rs.438m this year to Rs.950m in FY08E and Rs.1,607m in FY09E. In spite of the downward revision in revenue estimates our profit estimates have improved due to a significant jump in EBITDA margins. Based on the margins reported for 9MFY07, we have revised our margin assumptions upwards to 23.0% (as against previous assumptions of 20.8%) and 23.2% in FY08E and FY09E

Based on the CMP, the stock appears extremely attractive at 13.5x FY07E and 6.2X FY08E revised earnings estimates of Rs.4.1 and Rs.8.9 (on a fully diluted, post split equity). Given the robust demand scenario in the industry, strong growth momentum in revenues and the stable margins, we feel that the stock is undervalued at the current market price and maintain our BUY rating.

(Stock price as on January 25, 2007)



## Paramount Communication – Q3 FY07 Result Update – Margin improvement steals the show

### Key Figures

Y/e March	FY05	FY06	FY07E	FY08E	FY09E
Net Sales (Rs m)	990	1,947	3,384	7,135	10,345
EBITDA (Rs m)	58	388	775	1,643	2,402
<i>EBITDA Margin (%)</i>	<i>5.9</i>	<i>19.9</i>	<i>22.9</i>	<i>23.0</i>	<i>23.2</i>
PAT (Rs m)	13	215	438	950	1,607
EPS (Rs)	1.2*	3.9	4.1	8.9	15.0
PER (x)	46.5	14.0	13.5	6.2	3.7
Cash EPS (Rs)	3.1	4.4	4.4	9.7	16.1
CPER (x)	17.9	12.6	12.6	5.7	3.4
EV / EBITDA (x)	12.8	2.8	0.5	1.1	0.8
<i>RoE (%)</i>	<i>3.7</i>	<i>48.0</i>	<i>25.1</i>	<i>27.9</i>	<i>34.8</i>
<i>RoCE (%)</i>	<i>5.2</i>	<i>28.3</i>	<i>20.3</i>	<i>23.7</i>	<i>28.9</i>

\* not adjusted for stock split

### Q3 FY07 Result Overview

(Rs m)

Y/e March	Q3 FY07	Q3 FY06	yoy gr. (%)	Q2 FY07	9M FY07	9M FY06	yoy gr. (%)	FY06	FY07E	yoy gr. (%)
<b>Net Sales</b>	<b>949</b>	<b>537</b>	<b>76.8</b>	<b>882</b>	<b>2,178</b>	<b>1,190</b>	<b>83.1</b>	<b>1,947</b>	<b>3,384</b>	<b>73.8</b>
<b>Expenses</b>										
Inc/ Dec in stock	(226)	(34)		(93)	(402)	(33)		(113)	-	
Raw Materials	825	400	106.2	661	1,775	829	114.0	1,425	2,135	49.9
<i>% of NS</i>	<i>63.1</i>	<i>68.3</i>		<i>64.3</i>	<i>63.0</i>	<i>66.9</i>		<i>67.4</i>	<i>63.1</i>	
Employee cost	11	8	43.1	10	30	22	37.0	34	45	32.0
<i>% of NS</i>	<i>1.2</i>	<i>1.5</i>		<i>1.1</i>	<i>1.4</i>	<i>1.8</i>		<i>1.8</i>	<i>1.3</i>	
Other Mfg. Exp.	120	51	133.7	108	279	150	85.6	214	429	100.8
<i>% of NS</i>	<i>12.7</i>	<i>9.6</i>		<i>12.3</i>	<i>12.8</i>	<i>12.6</i>		<i>11.0</i>	<i>12.7</i>	
Total Expenses	731	426	71.5	685	1,682	969	73.6	1,559	2,609	67.3
<b>EBITDA</b>	<b>218</b>	<b>111</b>	<b>97.2</b>	<b>196</b>	<b>497</b>	<b>221</b>	<b>124.4</b>	<b>388</b>	<b>775</b>	<b>99.8</b>
<i>% of NS</i>	<i>23.0</i>	<i>20.6</i>	<i>11.50</i>	<i>22.3</i>	<i>22.8</i>	<i>18.6</i>		<i>19.9</i>	<i>22.9</i>	
Depreciation	7	6	30.4	7	20	16	29.3	24	30	24.5
<b>EBIT</b>	<b>211</b>	<b>105</b>	<b>100.7</b>	<b>189</b>	<b>476</b>	<b>206</b>	<b>131.7</b>	<b>364</b>	<b>745</b>	<b>104.8</b>
Interest	27	7	280.8	22	60	17	254.4	41	96	133.6
Other Income	0	1	-90.0	1	12	4	199.5	6	13	119.7
<b>PBT</b>	<b>184</b>	<b>99</b>	<b>86.2</b>	<b>168</b>	<b>428</b>	<b>192</b>	<b>122.3</b>	<b>329</b>	<b>662</b>	<b>101.5</b>
Tax	62	34	85.3	57	145	63	128.5	114	224	96.9
<i>Effct. tax rate (%)</i>	<i>33.7</i>	<i>34.1</i>		<i>34.1</i>	<i>33.9</i>	<i>33.0</i>		<i>34.7</i>	<i>33.9</i>	
<b>PAT</b>	<b>122</b>	<b>65</b>	<b>86.7</b>	<b>111</b>	<b>283</b>	<b>129</b>	<b>119.2</b>	<b>215</b>	<b>438</b>	<b>103.9</b>

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