Emkay
Private Client Research

Initiating Coverage

25 September, 2006

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Stock details

BSE Code	505324
Bloomberg Code	MI@IN
Market Cap (Rs bn)	6.9
Free Float (%)	43
52-wk Hi/Lo (Rs)	318/150
Avg Daily Vol (BSE)	31550
Avg Daily Vol (NSE)	14823
Shares o/s (mn) FV Rs 2	30

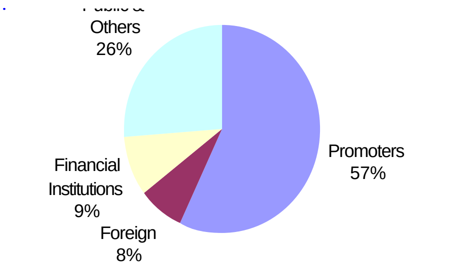
Source:Company Emkay Private Client Research

Summary table

Rs mn	FY06A	FY07E	FY08E
Sales	3215.0	3876.3	4688.4
Growth %	29.7	20.6	21.0
EBITDA	834.0	972.9	1193.6
EBITDA margin %	25.9	25.1	25.5
Net Profit	555.3	706.8	842.0
EPS (Rs)	18.5	23.6	28.1
CEPS (Rs)	22.8	25.7	30.3
ROE %	61.0	49.4	40.9
ROCE %	78.8	67.5	59.5
EV/Sales (x)	2.1	1.7	1.3
EV/EBITDA (x)	8.0	6.7	5.2
P/E (x)	12.5	9.8	8.2
P/CEPS (x)	10.1	9.0	7.6
P/BV (x)	6.0	4.1	2.9

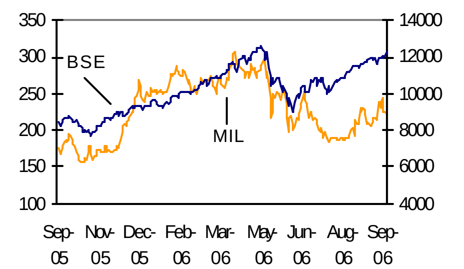
Source:Company Emkay Private Client Research

Shareholding pattern (30 June 2006)



Source:Company Emkay Private Client Research

One-year performance (Rel to sensex)



Source: Capitaline

MANUGRAPH INDIA LTD.

RECOMMENDATION: BUY

Price: Rs. 231 **Target Price: Rs. 380**

Manugraph India Limited (MIL) is a strong growth and value play and has created a strong focused niche in the Offset Web Printing Machinery Equipment space finding applications mainly in newspaper printing segment. MIL's major competitive advantage is its excellent product line up and customized solutions approach, long standing relationships with large customers, excellent quality and technical credentials and adequate management bandwidth. With an expected CAGR of 23% in net profits over FY06-FY08E, we expect ROCE and ROE levels to remain healthy at 67% and 49% respectively as on FY07E.

Investment Rationale –

- **Market Leader providing complete printing solutions** – MIL is the domestic market leader in the web offset presses segment and is an established Tier 1 supplier to large publishing houses like the Times of India Group, Indian Express Group, Dainik Jagran Prakashan Group, Hindustan Times, Anand Bazar Patrika and other regional newspapers and publications like Gujarat Samachar, Malayala Manorama, Hindu, Sandesh , Deccan Chronicle etc. Over the years, Manugraph has emerged as a thriving, nimble, printing machinery enterprise, due to its ability to transform itself rapidly in a highly competitive market and its commitment to become a supplier of choice by delighting customers with superior services and products at competitive prices. Constant modernisation and introduction of state-of-the-art technology at Manugraph has enabled it to stay ahead in the industry.

- **Exports offer MIL a strong outsourcing opportunity in future** – In the Export arena, Manugraph has been exporting to customers in markets like Italy, Germany France, Sweden, UK, Russia, China, South Korea, Thailand, North America, Kenya, Nigeria, Brazil and Middle East.

  Exports during FY06A totaled Rs1034.7mn accounting for 32% of total revenues. Exports in the last 3 years have grown at a CAGR of 35% from Rs 592mn in FY04A to Rs1034.7mn till date. What is more noteworthy to know is that having developed strong technical skill sets in its product domain, the price differential enjoyed by Manugraph is significantly high as compared to other global players like Heidelberg and Man-Roland, which have large business presence across the European and USA markets. Hence going ahead outsourcing opportunities can throw open a large business opportunity for Manugraph.

- **Large free cash generation ahead** –Manugraph has moderate capex lined up over the next two years. Barring further reduction in residual debt in FY07E and further gains from tight working capital management, we expect it to generate free cash flow of Rs724.3mn over next two years. The build of cash in the balance sheet by Mar08 would result in a cash/Investments balance of Rs820.3mn,equal to (Rs.27per share - FV: Rs.2).

  What is really noteworthy is that Manugraph has earned a healthy 79% ROCE and 61% ROE in FY06A largely due to a healthy volume growth, significant improvement in ATO levels and reducing the working capital cycle. This is amply reflected from the fact that Manugraph has expanded its EBIDTA margins from 10.9% in FY04A to 25.9% in FY06A.

  During Q1FY07A Manugraph has reported a 19% increase in revenues totaling Rs1.03bn with EBIDTA growth being 12% YoY totaling Rs247.6mn with EBIDTA margins of 24% followed by a 15% rise in the net profit at Rs 172.9mn.

Risks & Concerns –

Any significant downturn in Manugraph's customers namely the domestic Newspaper segment could impact MIL's earnings negatively.

Valuation –

With an EPS CAGR growth of 23% estimated over FY06-08E, coming on the back of a 21% CAGR in the topline, and attractive ROE and ROCE levels of 67% & 49% on FY07E, and a EV/EBIDTA of 7x FY07E and 5x FY08E makes us believe that the present valuations of 10x FY07E and 8x FY08E look extremely attractive.

We recommend a BUY on the stock with a target price of Rs.380 based on the DCF approach. At our target price the stock will be valued at 14x P/E and 9x on EV/ EBIDTA basis on FY08E.

Background

MIL is promoted by Mr. S.M. Shah in the year 1972

Manugraph India Limited (MIL) was promoted by Mr. S. M. Shah during 1972. MIL was earlier incorporated as Machinenfabrik Polygraph (India) Ltd. MIL is India's largest manufacturer of web offset and sheet fed offset presses. MIL is a Tier I supplier of newsprint machines to the leading newspapers and magazine publishers in domestic and international markets. MIL has constantly invested in modernization and technology which has enabled it to emerge as a complete solution provider company to newsprint industry.

MIL commands 70% market share in domestic printing machinery manufacturing market. Its customer list includes leading names such as Times of India Group, Indian Express Group, Dainik Jagran Prakashan Group, Hindustan Times, Anand Bazar Patrika and other regional newspapers and publications like Gujarat Samachar, Malayala Manorama, Hindu, Sandesh, Deccan Chronicle etc. MIL manufactures these printing machines at its three plants located at Kolhapur, Maharashtra.

MIL has technical collaboration with Solna Offset, Sweden

MIL has a technical collaboration with Solna Offset, Sweden. Solna exports about 90% of its total sales. It has presence across the world and has manufactured and supplied newsprint machinery which can top mechanical speed of 65,000 copies per hour.

MIL earns around 32% of total revenue from exports. It exports its products to leading publishers in South America, Europe, Middle East, Asia and the CIS countries.

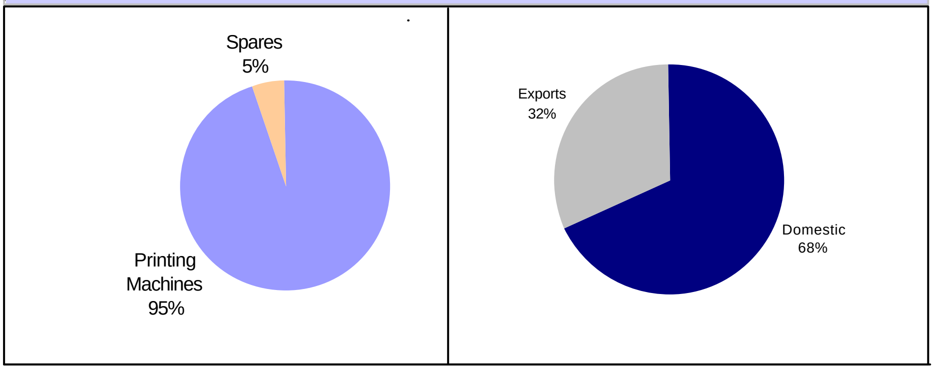
Business Profile

MIL is mainly into manufacturing of printing machinery which are used by newspaper publishers and magazine publishers. It supplies not only the printing offset presses to the newspaper publishers but offers complete printing solutions to its customers. MIL manufactures presses having speeds ranging between 35,000-55,000 copies per hour which can meet the production requirement of its customers in the domestic and export markets.

MIL supplies printing machines and spares to its customers that contributes 95% and 5% to its total revenue.

MIL exports around 32% of its total revenues to various overseas markets across the world. It exports its products to leading newspaper publishers in South America, Europe, Middle East, Asia and the CIS countries. But currently it has very less presence in North America and Chinese markets, which it intends to increase significantly over the next 2-3 years.

Revenue Break-up (%)



Source : Company

Operational Highlights

For FY06A, net sales of MIL grew by 30% YoY

For FY06A, EBITDA margins of MIL grew by 746bps YoY to 26%

Profit after tax for FY06A, went up by 96% YoY

Key Financials

March Ended (Rs Mn)	Q1FY07A	Q1FY06A	YoY (%)	FY06A	FY05A	YoY (%)
Net Sales	1,031.9	866.6	19.1	3,215.0	2,479.6	29.7
Other Income	21.6	13.9	55.4	168.6	72.0	134.2
Total Income	1,053.5	880.5	19.6	3,383.6	2,551.6	32.6
Total Expenditure	784.3	645.6	21.5	2,381.0	2,021.3	17.8
Operating Profits	247.6	221.0	12.0	834.0	458.3	82.0
OPM (%)	24.0	25.5	(5.9)	25.9	18.5	40.4
Interest	2.4	2.7	(11.1)	24.3	23.3	4.3
Depreciation	16.2	14.4	12.5	60.5	58.2	4.0
PBT	250.6	217.8	15.1	917.8	448.8	104.5
Provision for tax	77.7	67.3	15.5	299.3	153.5	95.0
PAT	172.9	150.5	14.9	618.5	295.3	109.5
Extra-ordinary Items	-	-	-	(63.2)	(11.2)	464.3
Adj PAT	172.9	150.5	14.9	555.3	284.1	95.5
Equity Capital FV Rs2	60.0	60.0	-	60.0	60.0	-
EPS (Rs)	5.8	25.1	(77.0)	18.5	47.4	(60.9)

Source: Company, mil announced split in Sept 2005

For Q1FY07 MIL reported a net revenue growth of 19% YoY to Rs1031.9mn mainly due to rising demand from newsprint industry. MIL's absolute EBITDA increased by 12% YoY to Rs247.6mn as against Rs221mn in Q1FY06 and EBITDA margins declined by 151bps YoY to 24% mainly because of rise in other expenditure and employee cost.

Interest cost for Q1FY07 came down by 11% YoY to Rs2.4mn and profit after tax for Q1FY07 grew by 15% YoY to Rs172.9mn as against Rs150.5mn in Q1FY06. MIL reported EPS of Rs5.8 (face value of Rs2) for Q1FY07 as against Rs25.1 (face value of Rs10) for Q1FY06. MIL announced the stock split in the month of September 2005 and now the face value of the stock stands at Rs2.

For FY06A, MIL's net sales grew by remarkably by 30% YoY to Rs3215mn as against Rs2479.6mn in FY05. Capital expenditure incurred by major newsprint companies in domestic and exports were the major drivers for the top line growth. MIL's absolute EBITDA grew by 82% YoY to Rs834mn with EBITDA margins improving significantly by 746bps YoY to 25.9%.

MIL could improve its EBITDA margins mainly because of cost savings in raw material costs, lower employee costs and lower other expenditures. We believe MIL enjoyed operative leverage advantage in FY06A. MIL earned profit on sales of investments of Rs47.2mn in FY06 which was included in extra-ordinary item. Profit after tax for FY06A, went up by 96% YoY to Rs555.3mn as against Rs284.1mn with the EPS improving to Rs18.5 as against Rs9.5 (adjusted for split) last year.

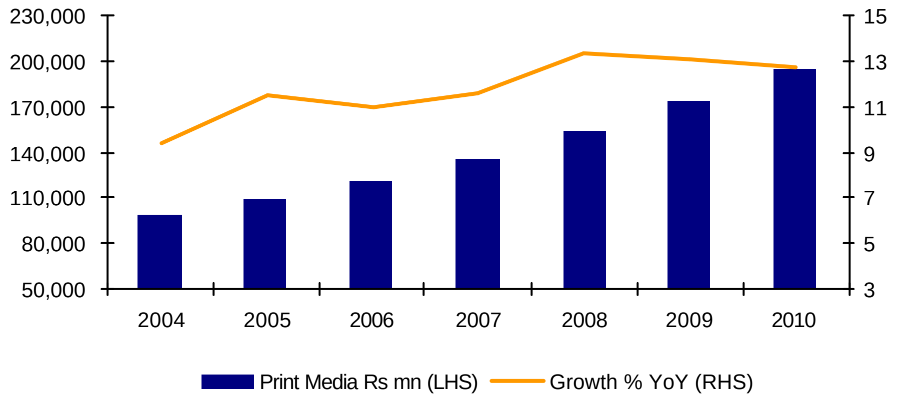
Investment Positives

Capex growth in newsprint industry to drive growth in the domestic market –

Newsprint industry in India is expected to grow at a CAGR of 10% for next 3-4 years.

Newsprint industry size in India is estimated to be around Rs.121bn and it has registered growth at CAGR of 11% over a period of last 3 years. With growing literacy rate, rising advertising spend, change in demographics are expected to drive the growth in the industry. Going ahead, the Indian newsprint industry is expected to grow at a CAGR of 10% for next 3-4 years.

Newsprint Media Industry



Source: Industry Sources, PWC estimates

Urban Print Media Penetration

SEC	Reach (Mn)	% of Total Category
A1	7.57	95.2
A2	13.9	90.5
B1,B2	31.97	81.1
C	33.78	69.5
D	29.28	52.6
E1,E2	20.99	30.1

SEC - Socio-Economic Classification, A1 denotes uppermost socio-economic class & E2 denotes lowest socio-economic class

MIL manufactures almost all kind of newsprint machineries and spares and these newsprint machines are supplied to almost all the leading newspaper manufacturers in India. MIL's newspaper presses have the capability to give top mechanical speed of 35,000-55,000 copies per hour which would ideally meet the demands of medium to large commercial printing houses. MIL has strong foothold in domestic market and commands 70% market share in newsprint machinery industry.

There are leading 774 daily newspapers in India. In the domestic market both English and vernacular language papers and magazines publishers are expanding the newsprint capacities. A booming Indian economy, growing need for content and government initiatives that have opened up the sector to foreign investment are driving growth in newsprint media. With literacy rate on the rise, more people in rural and urban areas are reading newspapers and magazines and interest of global media investor to enter into Indian markets we expect domestic demand for newsprint machinery to go up substantially in near future.

Rural Print Media Penetration

SEC	Reach (Mn)	% of Total Category
R1	14.12	67.7
R2	33.07	55.4
R3	78.37	36.9
R4	28.31	11.4

SEC - Socio-Economic Classification, R1 denotes uppermost socio-economic class & R4 denotes lowest socio-economic class. Source : IRS 2005

Indian newsprint market is getting more dynamic and we expect dynamics like attractive color schemes, material content, improved quality, growing competition etc would also infuse demand for replacement market in coming years.

Existing Client Relationships provide a strong business platform –

MIL is the domestic market leader in the web offset presses segment and is an established Tier 1 supplier to large publishing houses like the Times of India Group, Indian Express Group, Dainik Jagran Prakashan Group, Hindustan Times, Anand Bazar Patrika and other regional newspapers and publications like Gujarat Samachar, Malayala Manorama, Hindu, Sandesh, Deccan Chronicle etc.

MIL has experience of over three decades in the domestic market and over the years

MIL has experience of over three decades in the domestic market and over the years, MIL has emerged as a thriving, nimble, printing machinery enterprise, due to its ability to transform itself rapidly in a highly competitive market and its commitment to become a supplier of choice by delighting customers with superior services and products at competitive prices. Constant modernisation and introduction of state-of-the-art technology at MIL has enabled it to stay ahead in the industry. We believe MIL has the capability and delivery skill sets to contribute to the changing dynamics of the industry, which would benefit MIL.

Although MIL faces competition from the newsprint machines manufactures based in countries like China and Germany, we believe MIL to get large portion of orders from the domestic newsprint industry due to its strong foothold in the domestic market.

MIL exports its products to leading publishers in South America, Europe, Middle East, Asia and the CIS countries.

Exports offer a good potential

MIL exports its products to leading publishers in South America, Europe, Middle East, Asia and the CIS countries. In FY06A, MIL exported newsprint machines worth Rs1034.7mn to these regions. MIL with its three decades of experience and engineering skill sets has increased its export revenue of Rs424.7mn in FY03 to Rs1034.7mn in FY06, a CAGR of 35% for last three years.

MIL has proved its engineering skill sets and quality standards in the domestic market. The newsprint machines manufactured by MIL are competitive in terms of costs and quality standards. The price difference between newsprint machines manufactured by European manufacturers and by Indian manufactures is as a high as 30-40%. We believe MIL has greater advantage in terms of labour cost and other overheads.

MIL earns EBITDA margins of 26% while global peers like Heidelberg and Man-Roland earns 5% and 3% respectively

Cost Comparison (% of Sales)	MIL	Heidelberg	Man-Roland
Sales	100	100	100
Raw Material Cost	54	43	50
Labour Cost	8	30	27
Other Costs	12	22	20
EBITDA	26	5	3
Other Income	5	7	1
Gross Profit	31	11	4
Depreciation	2	4	1
Interest	1	1	1
PBT	29	6	3
Tax	9	3	1
PAT	19	4	2
ROCE (%)	79	8	4
RONW (%)	68	12	10

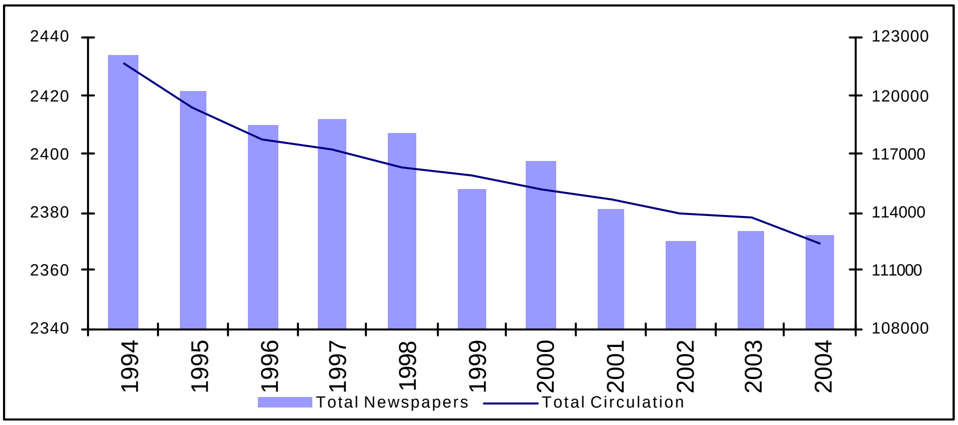
Source: Emkay Private Client Research, Bloomberg, Heidelberg - Mar2006, Man-Roland - 2005

The Global printing machines market is largely dominated by European manufactures like Heidelberg, Man-Roalnd

Chinese newsprint players imports around $500-600mn printing machines annually

The Global printing machines market is largely dominated by European manufactures like Heidelberg, Man-Roalnd. MIL plans to enter into growing newsprint media markets like China and large newsprint markets like North America. We gather that the Chinese newsprint media market has nearly 100,000 print shops and growing at an average growth rate of 15% a year. China's printing industry is over $40bn and contributing around two percent to China's GDP. It is estimated that by 2010, china's printing industry would get double and would be around $80bn. Chinese newsprint players imports around $500-600mn printing machines annually and MIL has competitive advantage in terms of costs which are attractive compared to global manufactures of newsprint machines. We hence expect that MIL has big potential in terms of exports to China.

US Newsprint Industry (Fig. in thousands)



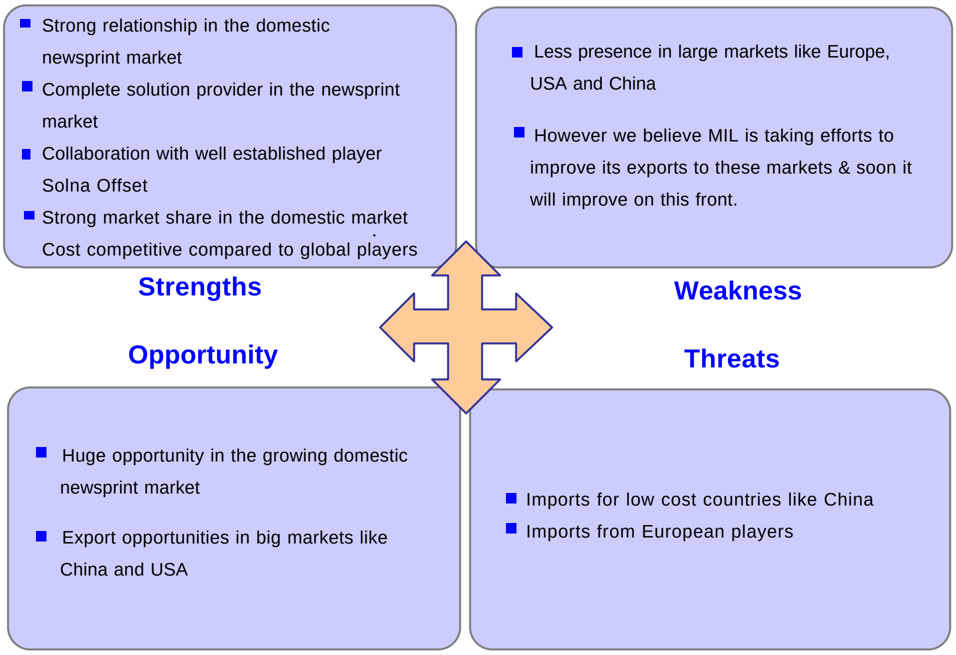
Source : Newspapers Association of America

North American market is already facing problems like overcapacity in the industry and fierce competition

The North American market is estimated to be the largest market for newsprint media across the world which is around $60bn. There are more than 2000 newspapers published in USA and Canada out of which 1450 are daily newspapers. North American market is estimated to grow at a CAGR of 1.5-2% for CY2006. This market is already facing problems like overcapacity in industry and fierce competition. The key challenges this market faces include are rising costs of energy, equipment, materials, postage and employee benefits. We hence expect that the North American market would welcome low cost printing machines suppliers especially to save costs and improve their EBITDA margins.

We believe entry of MIL to North American market which is a matured and biggest market in the world and to fastest growing market Chinese market would offer the biggest potential in the long term. In FY06A, MIL exported newsprint machines worth Rs1034.7mn; we estimate MIL's exports to grow at a CAGR of 32% for the period of FY06A-FY08E. We expect going forward the export revenue would be mainly driven by North American and Chinese markets. We estimate that for FY07E, MIL would report export revenue growth of 38% YoY to Rs1427.9mn and by 27% YoY in FY08E to Rs1813.5mn.

SWOT profile for MANUGRAPH



Source:Emkay Private Client Research

Newsprint Machinery Industry

The Indian Printing equipment Industry has made a capital investment of about Rs80bn till date

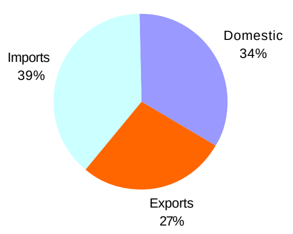
The Indian Printing Industry now comprises of 1,37,280 small, medium and large printing presses spread all over the country, involving a capital investment of about Rs80bn. There are 774 leading daily newspapers in India. With the growth of literacy, there is a commensurate rise in demand for various inputs for the printing industry.

On the technological front, much development has taken place in printing industry in post independence India. The entire pre press industry has transformed from conventional pre press to computerized digital pre press along with advertisements in digital printing. Now post press and packaging is entering into hi-tech. All this development has brought multi national corporations offering their services and products to the Indian subcontinent Currently as Indian printers embracing high technology, printing industry is at par with international quality. This in turn has opened an immense potential for export of print products.

The per capita printing output in India is one of lowest in the world

Though India is the second most populated country in the world and literacy rate is constantly going up, there is tremendous demand for printing material. However, the printing output still stands at US$ 4 per capita compared with US$ 440 in Japan, US$ 290 in USA, US$ 290 in Germany, US$ 215 in Hong Kong, US$ 215 in Singapore etc. The per capita paper consumption in India is about 4 kg only as compared to other Asian countries covering 18 kg. and USA covers 318 kg.

Printing Machinery Ind. Break Up



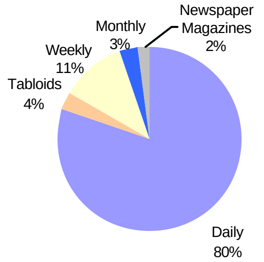
Source: Emkay Private Client Research

The printing machinery can be broadly classified into three groups of pre-printing, printing and post-printing equipment. The present range of manufacture includes single and multicolour Sheetfed and Webfed offset printing machines of medium speeds and simple controls, rotogravure/flexogravure, rotary printing machines and simple/ semiautomatic plate making, binding, stitching and finishing equipment. The country is equally dependent on imports for most of the pre-printing equipment and automatic binding equipment.

The growth in readership has been faster than the growth in literacy for few years

India is emerging as the one of the fastest economy in the world. It is the second largest populous country and along with economic growth India's literacy rate has increased to 61.7% from 57.9% in 1999. The growth in readership has been faster than the growth in literacy for few years. There are 17 official languages, 774 leading daily newspapers, 34 tabloids, 109 weeklies, 133 monthlies, besides 19 regular newspaper magazines. Since 1989, the printing and packaging industry has registered collective growth at CAGR of 14%. The demand for printing and packaging market has been continuously growing and it is estimated that the total demand in Indian printing and packaging market is around 2/3rd of the entire European market.

Print Ind. - Periodicity wise



Source : IPAMA

There are around 325 manufacturers of printing and packaging and allied machinery manufacturers in India. Out of which 70 are printing and allied equipment manufacturers and only 21 units are in the organised sector. Since 1989, the printing and packaging industry has registered collective growth at CAGR of 14%. The current level of production of this industry is Rs.5.6bn. The estimated exports and imports for printing and allied equipment during FY06 were Rs.2.5bn and Rs.3.6bn respectively. The estimated total market size of printing machinery segment of the industry is around Rs9.3bn. Printing machinery exports have been registering continuous growth over the last two three years. We believe the printing has good potential for exports mainly because of cost advantage and international quality standards.

The Global printing machines market is largely dominated by European manufactures like Heidelberg, Man-Roalnd. MIL plans to enter into growing newsprint media markets like China and large newsprint markets like North America. We gather that the Chinese newsprint media market has nearly 100,000 print shops and growing at an average growth rate of 15% a year. China's printing industry is over $40bn and contributing around two percent to China's GDP. It is estimated that by 2010, china's printing industry would get double and would be around $80bn. Chinese newsprint players imports around $500-600mn printing machines annually and MIL has competitive advantage in terms of costs which are attractive compared to global manufactures of newsprint machines. We hence expect that MIL has big potential in terms of exports to China.

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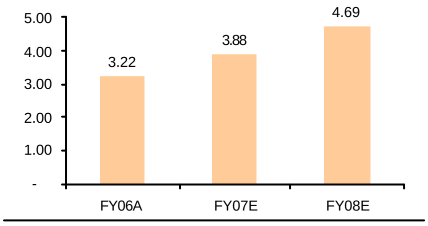
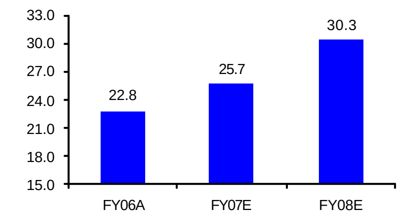
Financial Outlook

Net Sales (Rs bn)



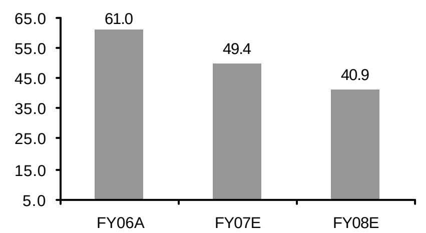
Source:Emkay Private Client Research

CEPS (Rs)



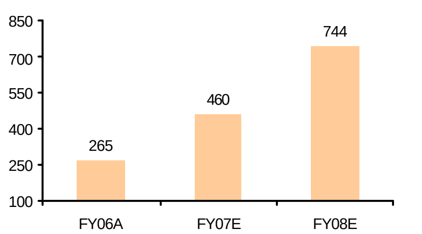
Source:Emkay Private Client Research

ROE (%)



Source:Emkay Private Client Research

FCF (Rs Mn)



Source:Emkay Private Client Research

Net Sales to grow at a CAGR of 21% for a period of FY06A-FY08E –

With the rising capital expenditure lined up by domestic newsprint industry, we expect newsprint machinery industry to see good order book built up in FY07E and FY08E. MIL is also foraying into big markets like USA and China. We expect strong GDP growth, rising literacy rates, rising ad-spend would drive the growth in newsprint industry and this in turn would drive the growth of MIL for next two years.

We estimate MIL's net sales to grow by 21% YoY each for in FY07E and FY08E to Rs3876.3mn and Rs4688.4mn respectively. We also estimate MIL's EBITDA to grow at a CAGR of 20% for a period FY06A-FY08E. For FY07E we estimate EBITDA to grow by 17% YoY to Rs972.9mn and for FY08E it to grow by 23% YoY to Rs1193.6mn.

Lower capex requirement and impressive cash generation for next two years –

The demand for printing machines is continuously going up and MIL to capture this opportunity is investing Rs200mn as a capital expenditure in FY07E to modernize its plants and replace some of the old machines. In FY06A, the capacity utilization of MIL stood at 84%.

We estimate the capital expenditure required to expand its capacities would be as low as Rs200mn in FY07E and Rs250mn in FY08E. We estimate MIL to report impressive operating cash flows of Rs471.9mn and Rs713.9mn for FY07E and FY08E respectively. We estimate with the low capex requirement and strong operating cash flows, MIL would fund its capex programme from internal accruals.

Impressive return ratios and asset turnover ratios –

MIL has remarkably improved its operational performance during the last three years. In FY06 MIL reported impressive ROCE of 79% from 25% in FY04. Going forward we estimate MIL continue to earn higher return ratios. For FY07E we estimate MIL to report ROCE of 67% and 59% for FY08E. Although we estimate MIL to report lower ROCE in FY07E and FY08E compared to FY06, we believe these return ratios are very impressive.

MIL's asset turnover ratio has also remained very impressive for last two years. In FY06A, it achieved the asset turnover ratio of 3x. Due to lower capex requirement, rising sales and improving EBITDA margins MIL could earn higher asset turnover ratios. We estimate for FY07E and FY08E asset turnover ratio to remain to up to 3.1x.

DuPont Analysis

	FY05	FY06	FY07E	FY08E
NPM (%)	11.46	17.27	18.23	17.96
ATO (x)	2.66	3.06	3.10	3.12
Debt/Equity (x)	0.59	0.15	0.04	0.03
ROE (%)	51.37	60.98	49.43	40.

Source:Emkay Private Client Research

VALUATION

DCF (Rs mn)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
PAT	707	842	1,029	1,095	1,187	1,228	1,262	1,246
Depreciation	63	66	70	75	95	120	160	280
Interest (1-tax rate)	(7)	(4)	(4)	(4)	(3)	(3)	(3)	(3)
Change in NWC	(298)	(194)	(171)	(174)	(144)	(161)	(120)	(130)
Capex	(200)	(250)	(180)	(200)	(220)	(240)	(250)	(280)
FCFF	265	460	744	791	914	944	1,049	1,113
Discounted Value	265	369	535	510	528	488	486	6,778

** Terminal value Source: Company, Emkay Private Client Research*

The following grid gives a sensivity analysis based on diffrent scenarios

Key Assumptions

Terminal value (%)	4.00
Ajusted Beta	0.74
Risk Free Rate (%)	6.50
Market Risk Premium (%)	7.00
Cost of Equity (%)	11.68
Cost of Debt (%)	8.00
Debt	76.10
Equity	6930.00
WACC (%)	**11.61**

Source:Emkay Private Client Research

NPV (Rs mn)	**9,959**
Less Debt (Rs mn)	**(297)**
Shareholder Value (Rs mn)	10,258
Value/share (Rs)	**342**
One year forward (Rs)	**380**

Source:Emkay Private Client Research

	WACC		
Terminal Growth	**10%**	**11%**	**12%**
4%	454	**380**	368
5%	517	418	402
6%	611	469	448

Source:Emkay Private Client Research

PEER COMPARISON

Rs Mn	Net Sales		EV/EBITDA (x)		EPS (Rs)		P/E (x)	
	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E
Alfa Laval	6,642	7,97	10.3	8.2	49.3	60.4	16.3	13.3
Texmaco	3,746	4,317	12.8	10.8	26.7	32.9	33.7	27.4
Thermax	19,130	23,689	12.4	9.3	14.1	17.5	20.4	16.4
Manugraph	3,876	4,688	6.7	5.2	23.6	28.1	9.8	8.2
Heidelberg*	4869	5038	12.4	3.7	3.1	3.5	13.0	11.6
Bost Group*	1251	1283	7.0	1.9	2.5	3.3	18.3	13.9

Source:Emkay Private Client Research, Consensus Estimates, Heidelberg & Bost in USD Mn

We continue to remain positive on MIL's long-term prospects primarily due to strong growth in its user industry i.e. newsprint media. We expect MIL to the largest beneficiary of capex planned by the domestic newsprint media industry. MIL is also aggressively foraying into big export markets like China and USA. We believe both these factors would drive its top line growth for FY07E and FY08E.

While no one on one comparison is possible for MIL, we have given a sample set of certain engineering companies like Alfa Laval, Texmaco and Thermax as they are solution providers having large dependence on a single segment of business. Our asessment is that MIL has to be viewed as a complete solution provider in the capital goods space and hence this comparison with other players mentioned here with have been given.

At current market price, the stock looks attractive on PE multiple basis at 10x and 8x for FY07E and FY08E respectively with EV/EBITDA multiple of 7x for FY07E and 5x for FY08E also look attractive owing to higher operating margins of 25% and a lower debt/equity ratio of 0.04x. Our target price of Rs380 offers an upside of 65% over a period of 12 months.

Valuation

Growth in user industry offers good top line visibility for next two years

MIL has strong foothold in the domestic market and commands 70% market share. MIL has registered revenue growth at a CAGR of 41% for last three years. We believe MIL to be beneficiary of growing newsprint media industry. With the growing economy, growing literacy rate and rising ad-spend, we believe newsprint media industry to grow at a CAGR of 10% for next 3-4 years.

With growing newsprint industry, there is a commensurate rise in demand for various inputs like newsprint machines. We believe MIL has the biggest advantage in the growing newsprint machines market as it has dominant position in the domestic market.

Apart from its current export markets MIL is also exploring opportunities in the big markets like USA and China. We believe MIL has proved its engineering skill sets and delivery capabilities and has worked very closely with various newsprint publishers as a complete solution provider. MIL also has big advantage in these countries due to low cost producer.

We estimate MIL to report net sales growth at a CAGR of 21% for the period FY06A-FY08E

We estimate MIL to report net sales growth of 21% YoY to Rs3876.3mn for FY07E and Rs 4688.4mn in FY08E. We expect domestic demand for newsprint machines and increasing exports would be the major drivers for sales growth.

Attractively priced among the engineering peers space –

MIL is a complete newsprint solution supplier and enjoys a strong foothold in domestic newsprint machinery market. MIL earns attractive EBITDA of 25% coupled with strong ROCE and ROE of 79% and 61% as on FY06A.

We believe the MIL stock looks undervalued as compared to other engineering companies

We believe the MIL stock looks undervalued as compared to other engineering companies like Alfa Laval, Thermax, etc. These engineering stocks trade within a PE band of 13-27x based on FY08E; compared to which MIL is valued attractively at a PE multiple of 10x and 8x on FY07E and FY08E respectively.

Recommendation

We continue to remain positive on MIL's future prospects. Strong GDP growth, rising literacy rate, rising ad-spend and rising readership population would drive demand for newsprint media which in turn boost the demand for newsprint machinery.

We expect the capital expenditure of newsprint media to remain robust for next two years and MIL would be beneficiary of this growth. MIL has good export potential for its newsprint machinery which is set to grow strongly in next 2-3 years.

We recommend a BUY with a target price of Rs380 based on DCF approach.

At current valuations of 10x for FY07E and 8x for FY08E remains attractive. We recommend a BUY with a target price of Rs380 based on DCF approach.

Profit & loss statement (Rs mn)

Year to March	FY05A	FY06A	FY07E	FY08E
Net Sales	2,479.6	3,215.0	3,876.3	4,688.4
% Growth	22.4	29.7	20.6	21.0
EBIDTA	458.3	834.0	972.9	1,193.6
% Growth	106.8	82.0	16.7	22.7
Other Income	72.0	168.6	140.0	142.0
Interest	23.3	24.3	10.7	6.5
Depreciation	58.2	60.5	62.8	65.7
PBT	448.8	917.8	1,039.4	1,263.4
% Growth	155.9	104.5	13.2	21.6
Tax	150.3	295.2	332.6	421.4
Deferred Tax	3.2	4.1	-	-
Adj PAT	295.3	618.5	706.8	842.0
% Growth	132.9	109.5	14.3	19.1
Extra-ordinary	(11.2)	(63.2)	-	-
Reported PAT	284.1	555.3	706.8	842.0
% Growth	76.8	95.5	27.3	19.1
Dividend (%)	100.0	200.0	225.0	225.0
EPS (Rs)	9.5	18.5	23.6	28.1
BVPS (Rs)	22.3	38.4	56.9	80.4

Balance sheet (Rs mn)

Year to March	FY05A	FY06A	FY07E	FY08E
Eqty Cap	60.0	60.0	60.0	60.0
Reserves	608.0	1,093.3	1,646.2	2,353.2
Networth	668.0	1,153.3	1,706.2	2,413.2
Secured loans	272.2	172.8	72.8	72.8
Unsecured loans	121.7	3.3	3.3	3.3
Total loans	393.9	176.1	76.1	76.1
Deffered Tax Liab				
Total Liability	1,061.9	1,329.4	1,782.3	2,489.3
Net Block	436.8	518.6	655.8	840.1
Investments	82.1	265.4	265.4	265.4
Deffered Tax Assets	(22.1)	(26.2)	(26.2)	(26.2)
Inventory	858.5	1,033.5	1,244.3	1,486.5
Debtors	259.8	133.9	226.1	299.5
Cash balance	94.4	207.9	226.0	554.9
Other CA	328.6	673.3	811.8	981.9
Current Liabilities	691.0	852.9	1,044.4	1,247.5
Provisions	285.2	624.1	576.5	665.3
NCA	565.1	571.6	887.3	1,410.0
Misc Exp	-	-	-	-
Total Assets	1,061.9	1,329.4	1,782.3	2,489.3

Ratio Analysis

Year to March	FY05A	FY06A	FY07E	FY08E
OPM %	18.5	25.9	25.1	25.5
NPM %	11.5	17.3	18.2	18.0
ROE %	51.4	61.0	49.4	40.9
ROCE %	50.5	78.8	67.5	59.5
Int. Cover (x)	20.3	38.8	98.0	196.3
D/E (x)	0.6	0.2	0.0	0.0
Asset Turnover (x)	2.8	3.2	3.1	3.1
Debtors Days	37.7	15.0	21.0	23.0
Inventory Days	216.1	214.3	213.0	212.0
Valuation ratios				
P/E (x)	24.4	12.5	9.8	8.2
P/CF per share (x)	19.4	10.1	9.0	7.6
EV/EBIDTA (x)	15.6	8.0	6.7	5.2
EV/Sales (x)	2.9	2.1	1.7	1.3
Mkt Cap/Sales(x)	2.8	2.2	1.8	1.5
CEPS (Rs)	11.9	22.8	25.7	30.3
P/ BV (x)	10.4	6.0	4.1	2.9

Cash Flow Statement (Rs mn)

Year to March	FY06A	FY07E	FY08E
PAT	618.5	706.8	842.0
Depreciation	60.5	62.8	65.7
Change in WC	107.0	(297.6)	(193.7)
Operating CF	786.0	472.0	713.9
Capex	(120.5)	(200.0)	(250.0)
Misc Exp	(30.8)	(18.9)	-
Investing CF	(151.3)	(218.9)	(250.0)
Dividends	(120.1)	(135.0)	(135.0)
Debt	(217.8)	(100.0)	-
Investments	(183.3)	-	-
Financing CF	(521.2)	(235.0)	(135.0)
Net Change	113.5	18.1	328.9
Opening Cash	94.4	207.9	226.0
Closing Cash	207.9	226.0	554.9

Source:Emkay Private Client Research

Emkay's Network

Ahmedabad
079-26448727/29
Allahabad
0532-2452388
Aurangabad
09860498897
Bangalore
Cunninghum Road
080-41220915
Malleswaram
080-23464173
Vijaynagar
9341327222
Bhopal
09301189603
Baroda
Sayaji Gunji
0265-3918069
Jetalpur Road
9879207097
Bhavnagar
9898001945
Chennai
Adyar
044-42300788
Anna Nagar
044-42127298
Ramarao Street
044- 42605604
T Nagar
044- 42605604
044-42024672
Gandhi Nagar
044-42607611
Thiruvanmiyur
044-42178646
Nanganallur
044-42056685
Sowcarpet
044-30966268
Chandigarh
0172-5052424
Chandigarh - Sec47
0172-5072123
Cochin
0484-3949749
Coimbatore
100 Feet Rd
0422-2493536
R.S Puram
0422-4370489
Delhi
Nehru Place
011-32474709
SSK
9891580583

Dimapur
03862-225832
Dindori
07644-234261
Erode
0424-22212823
Brough Road
09894719071
Faridabad
9810268303
Gulbarga
08472 321850
Guwahati
9954070377
Gurgaon
Old Railway Rd.
0124-3250629
sheetla Mata Rd.
0124-4081346
Hoshiarpur
01882-326767
Indore
9893894415
Jabalpur
Agga Chowk
0761-4067239
Vikas Bazaar
07614031955
Jamnagar
0288-2561522
Jodhpur
0291-5101900
Jalori Gate
0291-3251629
Paota
0291-3209090
Mandore Mandi
0291-5121134
0291-5100995
Junagadh
0285-2629489
Kottayam
04812563033/44
Karaikudi
04565-224221
Kayamkulam
0479-3953222
Kolkata
033-39511666
C.B. Street
033-22428734
Weston Street
033-22118369
Tagore Street
033 - 22597938
Tarachand Dutta Street,
033 26501114

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033 24668300
Kota
0744-2502877
Lucknow
9839552211
Madurai
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0452- 4379688
Mysore
0821 4250696
Mumbai
Borivali
022-28334629
Borivali
022-56610312
Borivali
9867697105
Santacruz
9869102930
Dadar
022-39605528
Dhobi Talao
o22-56023723
Fort
022-22653471/22875805
Ghatkopar
022-25122448
Goregaon
022-28770991
J B Nagar
022-55020895
Khar
022-26049302
Lokhandwala
022-56778638/39
Malad (E)
022-28820352
Malad (W)
02-8891770
Masjid Bunder
022-56357597
Masjid Bunder
9224575600
Mulund
022-25614154
Oshiwara
9821233777
Powai
022-28573098
Fort
022-22704710
Ulhasnagar
95251-3952746

Versova
022-26360617-18
Vile Parle
022-26714805
Nagpur
0712-2538191
Sitabuldi
0712-2558455
Nashik
0253-5607814/15
Gangapur Rd
9326173938
Panipat
0180-5562489
Perumbavoor
0484-2640046
Pune
D.P. Road
9850818986
Karve Road
9325505031
Satara Rd.
9520-24220031
Sadashiv Peth
9520-30947224
Rajahmundry
9396456406
Rajkot
0281-2464535
Srinagar
9906545976
Salem
0427-2336881
Sagar
0758 2401647
Sirssa
09888333639
Surat
0261-2369996
Ghod Dod Road
0261- 3993010
Trichy
0431 4220713/14/15
Tirupur
0421-4336995
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