

BARTRONICS INDIA

INR 78



Raising the bar

BUY

* **AIDC: A huge opportunity**

The Indian automatic identification and data capture (AIDC) market, estimated at INR 1 bn in FY05, has been growing at a CAGR of ~30% over the past few years. Hitherto, AIDC comprised primarily of bar coding and smart card solutions. With emerging technologies like radio frequency identification (RFID) and biometrics gaining momentum in the Indian market, we expect this sector to grow at ~40% CAGR for the next three-four years. Further, government regulations mandating the use of bar codes in exports, coupled with the retail and manufacturing boom are likely to boost the AIDC industry.

* **Focus on solutions**

Bartronics India (BIL) is a dominant player with ~15% market share in the domestic AIDC market. With a wide array of products and services, innovation through research and development, we believe that BIL is in a unique position to offer customized solutions to large OEM's. This will not only expand the AIDC market, but also help BIL increase its market share.

* **Strong local and international presence**

In its quest to take the competition head-on and establish its global presence, the company has established ten regional and five overseas distribution centres. These centres cater to the growing demands of the AIDC industry in India and other Asian countries like Singapore, Malaysia, Bangladesh, Sri Lanka and Dubai. In FY06, revenues from exports were 44% of turnover.

* **AMC revenues continue to accrue**

BIL pioneered the concept of service in this sector, and is currently the only integrated player offering after sales service. It generates AMC revenues from its customers as well as from customers who have installed hardware from other regional vendors, thereby ensuring recurring revenues. AMC revenues contributed 12% of turnover in FY06.

* **Valuations**

We expect BIL's revenues and profits to grow at a CAGR of 61% and 58%, respectively, between FY06 and FY08E, on the back of an order book of ~ INR 650 mn and traction from local/global inquiries. At the CMP of INR 78, BIL trades at 12.7x FY07E EPS of INR 6.1 and at 8.5x FY08E EPS of INR 9.2. Given the huge business potential, a de-risked business model, and potential upsides through the inorganic route, we initiate coverage with a 'BUY' recommendation.

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Market Data

52-week range (INR) : 155 / 46
Share in issue (mn) : 14.6
M cap (INR bn/USD mn) : 1.1 / 24.7
Avg. Daily Vol. BSE ('000) : 169.2

Share Holding Pattern (%)

Promoters : 58.8
MFs, FIs & Banks : 0.7
FIs : 0.0
Others : 40.5

Financials

Year to March	FY05	FY06	FY07E	FY08E
Revenues (INR mn)	181	290	500	750
EBITDA (INR mn)	46	74	123	184
Net profit (INR mn)	24	54	89	134
EPS (INR)	5.5	3.7	6.1	9.2
EPS growth (%)	79.4	(33.0)	66.8	50.4
PE (x)	14.2	21.2	12.7	8.5
EV/EBITDA	26.5	11.7	8.0	6.0
Dividend yield (%)	-	-	1.0	1.3
ROE (%)	25.1	7.8	11.8	15.3



Risks

- Competition from new entrants may affect profitability.
- High debtor days may affect cash flows.
- Technological obsolescence.

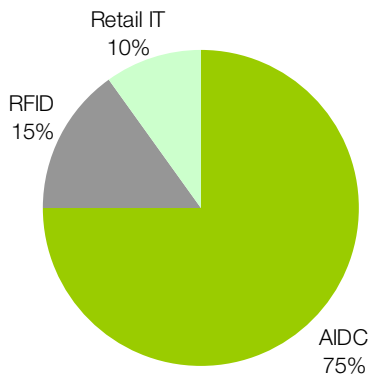
Business Overview

Incorporated in 1990, Bartronics India (BIL) has predominantly been in the business of providing bar code solutions, which find application in a host of services. The company has recently ventured into RFID, smart card, and biometric solutions. It has ten distribution centres across the country (Chennai, Coimbatore, Bangalore, Delhi, Jamshedpur, Pune, Nagpur, Aurangabad, Mumbai, and Visakhapatnam) as well as five overseas locations (Singapore, Malaysia, Dubai, Sri Lanka, and Bangladesh), an impressive clientele, and strong alliances for sourcing products and technology.

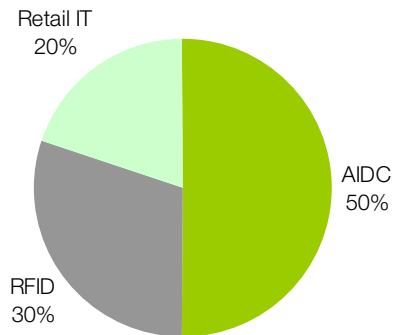
Its competitors include; Bar Code India Ltd., Essae Technologys Pvt. Ltd., Stallion Systems & Solutions (P) Ltd., Raj Kamal Bar Scan Systems (P) Ltd., Great Eastern Impex Pvt. Ltd. and Interlabels Industries Pvt. Ltd.

Chart 1: Bartronics India — Revenue breakup (FY06 & FY07E)

Revenue breakup FY06 - INR 290 mn



Revenue breakup FY07E - INR 500 mn



Source: Company, Edelweiss research

The company’s operations are segregated into three divisions:

- **AIDC division:** Solutions offered by this division include automation of time and attendance of employees, monitoring their on-campus activities, keeping track of work in progress and inventories, distribution and sales tracking. BIL has installed these solutions for more than 1,000 customers.

Technologies being utilized by this division are bar codes, biometrics, and vision systems (machine vision systems are typically used to inspect goods during manufacturing or packaging).

This division contributed ~75% of revenues in FY06 and is likely to grow at a CAGR of 25% over the next two years.

BIL has implemented a project for Whirlpool for production tracking and dispatch management with an objective to track every product manufactured and to ensure that goods rejected at the QC level are not dispatched.

It has also executed a pilgrim management system at the Siddhi Vinayaka temple, Mumbai, which minimizes the waiting time in queue. Pilgrims register their fingerprints and the bar code gives them a specific time for visit. The company has also installed a similar system at the Tirupathi Balaji temple, Andhra Pradesh.

- ♦ **RFID division:** These solutions are currently being used for electronic article surveillance (EAS), inter-modal container identification, livestock identification, access control, automated toll collection, and asset identification.

This division, being at a nascent stage, contributed ~15% of revenues in FY06. Due to increasing acceptability and falling hardware prices, the company expects RFID sales to grow at over 100% CAGR over the next few years.

BIL has implemented a vehicle tracking system at Tata Steel to validate entry of vendor's vehicles, which ensures secured identification and increases vehicle turnaround.

- ♦ **Retail division:** Solutions offered by this division aid retailers in functions like stock maintenance, tracking sales, and abridge transaction time. The company has been providing point of sale (POS) systems integrated with bar coding solutions to retailers across the country. This division is looking to enter other segments like electronic cash registers, kiosks, and touch screens.

BIL's clientele include multinational corporations: *Mercedes, Compaq, Panasonic, IBM, GM, Lafarge*; large private sector corporates: *HLL, ABB, TVS, Hero Honda, ITC, Dr. Reddy's, L&T, Tata companies, Aditya Birla Group companies*; and the retail industry at large.

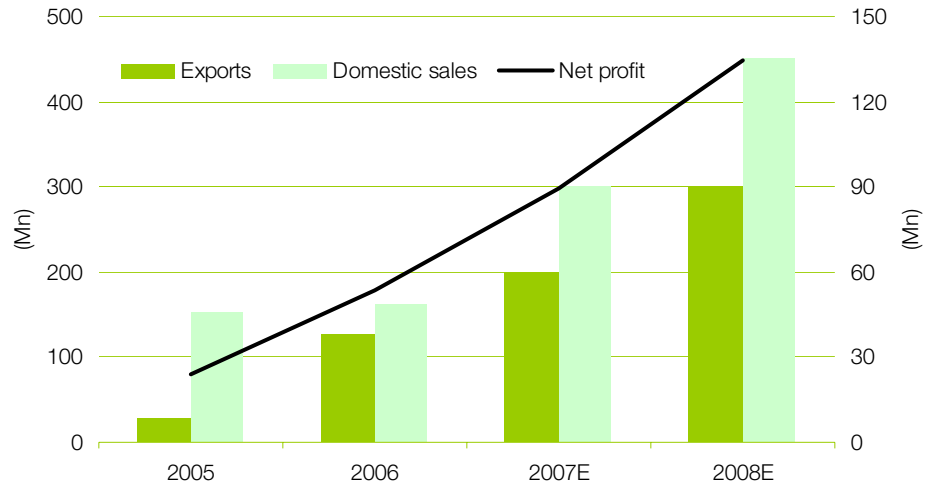
* Recent initiatives

- ♦ BIL has tied up with *Hayleys Group, Sri Lanka*, to explore opportunities for AIDC solutions there.
- ♦ BIL has passed a resolution to raise funds of INR 2.5 bn. Out of this, ~INR 1.5 bn will be utilized to fund its backward integration project to manufacture tags, and the remaining will be used for acquisitions in the AIDC space.
- ♦ BIL has tied up with *Watchdata Technologies, Singapore*, one of the leading players in smart card technologies, which will broaden its product portfolio.

* Outlook

Although the contribution of exports has increased from 15% in FY05 to 44% in FY06, the management foresees growth emanating primarily from the domestic market. Being an influential player, BIL is making a conscious effort to expand this market and we believe that the company is well poised to take advantage of the exponential growth this sector is about to witness in the next few years.

Chart 2: Bartronics India — Strong growth ahead



Source: Company, Edelweiss research

Industry Overview

AIDC is the industry term which describes the identification and direct collection of data into a microprocessor-controlled device such as a computer system without the use of a keyboard. This facilitates an accelerated through-put process and eliminates errors associated with identification and data collection.

So far, AIDC had been regarded as a technology with varied applications like retail bar coding, magnetic stripe cards, and smart cards. However, it is now being seen as a revolutionary data identifier and carrier which can be applied to sectors where data is handled and needs to track and trace individuals, material, and equipment. It has applications in areas such as supply chain logistics, inventory management, escort information, access control, attendance recording, and dispatch management.

The Indian AIDC market, largely comprising of bar code solutions and smart cards, was estimated at about INR 1 bn in FY05 and has been growing at a CAGR of 30% over the past few years. With RFID and biometric solutions unveiling their potential from the current year, the AIDC market is expected to grow at a CAGR of ~40% (*Source: Company, Frost & Sullivan*) for the next three-four years on the back of strong retail and manufacturing growth in the country. Companies that have opted for ERP and SCM software are likely to leverage their investment by adopting the AIDC system and thus enhance their business processes.

* AIDC broadly covers the following:

- ♦ **Bar codes:** Invented in the 1950s, bar codes is the oldest of the AIDC technologies. They can be printed easily and inexpensively on any printer. The technology encompasses the symbologies that encode data to be optically read, the printing technologies that produce machine-readable symbols, the scanners and decoders that capture visual images of the symbologies and convert them to computer-compatible digital data, and the verifiers that validate symbol quality.
- ♦ **Radio frequency identification (RFID):** In general terms, RFID is a means of identifying a person or object using a radio frequency transmission, typically 125 kHz, 13.56 MHz, or 800-900MHz. These wireless AIDC systems allow for non-contact reading (up to a distance of ~30 feet) and are effective in manufacturing and other hostile environments where bar code labels cannot survive due to their inability to track moving objects.

An RFID system consists of three components, the RFID tag which can store data, an antenna which emits radio signals to activate the tag and read & write data to it, and the reader which decodes the data encoded in the tag's silicon chip and passes it on to the computer for processing.

The AIDC industry is moving rapidly towards the use of RFID in a number of high-value and high-volume market segments. The main application is in tracking products along a supply chain, from the manufacturers at the factory to the inventory trackers at the retail location.

- ♦ **Smart cards:** The SIM card market has dominated growth in this segment in the past five years. However, the growth rate of banking and retail sectors along with the government's national ID project will boost growth in the next few years.

- ♦ **Biometrics and other emerging technologies:** The term biometrics has two distinct meanings, bio meaning living creature and metrics meaning the ability to measure an object quantitatively. Some of the biometrics technologies used are: fingerprint identification, iris identification, retinal identification, hand geometry, voice identification, and facial feature identification. As both the private and government sectors search for more secure authentication methods, they have increasingly become aware of biometrics as their hope for near foolproof security.

Financial Statements

Income statement				(INR mn)
Year to March	FY05	FY06	FY07E	FY08E
Total revenues	181	290	500	750
Raw Material	112	188	325	488
Employee cost	12	15	25	38
Selling & Administrative exp	12	14	28	41
Total operating expenses	135	216	378	566
EBITDA	46	74	123	184
Other income	1	5	5	5
Interest expense	11	8	7	5
Depreciation	8	10	18	30
Profit before tax	28	61	103	154
Provision for tax	4	8	13	20
Net profit	24	54	89	134
Earnings per share	5.5	3.7	6.1	9.2
Shares outstanding (mn)	4.4	14.6	14.6	14.6
Dividend (INR/share)	-	-	0.8	1.0

Common size metrics as % on revenues

Year to March	FY05	FY06	FY07E	FY08E
Operating expenses	74.8	74.6	75.5	75.5
Depreciation	4.6	3.5	3.6	4.0
EBITDA margins	25.2	25.4	24.5	24.5
Net profit margins	13.3	18.5	17.9	17.9

Growth metrics (%)

Year to March	FY05	FY06	FY07E	FY08E
Revenues	43.6	60.4	72.6	50.0
EBITDA	40.7	61.7	66.2	50.0
PBT	30.1	121.3	68.2	50.4
Net profit	79.4	122.8	66.8	50.4
EPS	79.4	(33.0)	66.8	50.4

Cash flow statement

Cash flow statement				(INR mn)
Year to March	FY05	FY06	FY07E	FY08E
Cash flow from operations	32	64	107	164
Cash for working capital	(31)	(74)	(118)	(157)
Net operating cash flow- A	1	(10)	(11)	7
Net purchase of fixed assets	(15)	(198)	(100)	(100)
Net Purchase of investments	0	0	0	0
Net cash flow from investing- B	(15)	(198)	(100)	(100)
Proceeds from equity	0	557	0	0
Proceeds/Repayments from borrowings	14	9	(41)	0
Dividend payments	0	0	(13)	(16)
Net cash flow from financing- C	14	566	(54)	(16)
Net cash flow (A+B+C)	(0)	358	(165)	(109)

Balance sheet				(INR mn)
As on 31st March	FY05	FY06	FY07E	FY08E
Equity capital	44	146	146	146
Reserves & surplus	52	538	614	732
Shareholders funds	96	684	760	878
Secured loans	74	83	42	42
Net Deferred tax liability	9	14	14	14
Source of funds	178	781	816	934
Gross block	98	119	280	380
Depreciation	23	33	51	80
Net block	76	86	229	299
Capital work in progress	-	161	100	100
Net fixed assets	76	247	329	399
Cash, bank bal & deposits	0	358	193	84
Inventory	30	64	111	166
Sundry debtors	98	170	293	440
Loans & advances	7	12	17	27
Total current assets	135	605	614	717
Sundry creditors	26	60	104	156
Others	4	5	5	5
Provisions	3	5	18	21
Proposed dividend			13	16
Others	3	5	5	5
Total current liabilities	33	70	127	183
Net current assets	102	534	487	535
Application of funds	178	781	816	934
Book value (BV) per share	22	47	52	60

Ratios

Year to March	FY05	FY06	FY07E	FY08E
ROE (%)	25.1	7.8	11.8	15.3
ROCE (%)	19.5	7.8	11.8	14.9
Inventory days	61	81	81	81
Debtor days	197	214	214	214
Fixed assets t/o	1.8	2.4	1.8	2.0
Debt /Equity	0.8	0.1	0.1	0.0

Valuation parameters

Year to March	FY05	FY06	FY07E	FY08E
EPS (INR)	5.5	3.7	6.1	9.2
YoY growth (%)	79.4	(33.0)	66.8	50.4
CEPS (INR)	7.4	4.4	7.4	11.3
PE (x)	14.2	21.2	12.7	8.5
Price/BV (x)	3.6	1.7	1.5	1.3
EV/sales (x)	6.7	3.0	2.0	1.5
EV/EBITDA (x)	26.5	11.7	8.0	6.0

Bartronics India (CMP 79)



- ◆ The stock has fallen more than 66% from the top of INR 155 and had touched a low of INR 46 in June 2006. It has underperformed the broad indices over the past 10 months as it is still hovering around its initial public offering price of INR 75 per share.
- ◆ Short term moving averages are above all medium term averages.
- ◆ The oscillators have re-entered positive territory. The medium term trend is positive. Buy with first target of INR 90 and then INR 110.

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Indore

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