PINC RESEARCH

MOSER BAER INDIA LTD.

Q4 FY 2008 update BUY

Sector Diversified | CMP Rs 173 | Target Rs 400

STOCK DATA

Market Cap	Rs29bn.
Book Value per share	Rs114
Eq Shares O/S (F.V. Rs.10)	168.2 mn.
Median Vol (12 mths)	610,333 (BSE+NSE)
52 Week High/Low	Rs338 /121
Bloomberg Code	MBI.IN
Reuters Code	MOSR.BO

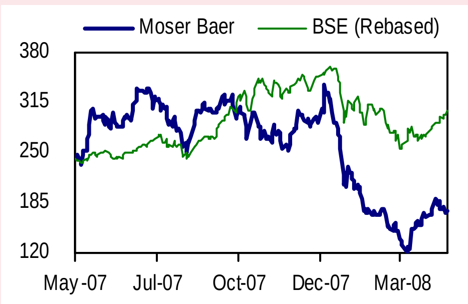
SHAREHOLDING PATTERN (%)

Qtr. Ended	Sep-07	Dec-07	Mar-08
Promoters	16.3	16.3	16.3
MFs/FIs	2.3	2.7	2.4
FIIs	70.3	71.4	71.3
PCBs	3.7	3.2	3.1
Indian Public	7.4	6.4	7.0

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	9.4	(14.3)	(28.4)
Relative	(2.1)	(11.2)	(42.7)

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

Moser Baer India Ltd's (MBIL) Q4FY08 results were significantly below expectations as performance was impacted by a sharp decline in average realisations globally. As a result of the above, net sales fell by 10.4% YoY to Rs4.7bn while OPM contracted to 17.2% vs 29.2%. MBIL reported a net loss before extraordinary items of Rs759mn.

- **Average realisations decline by 18%**

There was a continued impact of dumping of optical media following licence cancellations by Philips for some of its global partners, which resulted in average realisations falling by 18% to ~USD0.13/unit.

- **Impact of depreciation**

Apart from sharp contraction in margins, depreciation rose by 27% to Rs1.1bn as a result of capacity expansion in optical media and entertainment businesses.

- **Entertainment and PV business on track**

The entertainment business reported revenues of USD40mn while its PV business witnessed revenues of ~USD42mn. Both businesses are ramping up as per expectations and the benefit of the same should become apparent FY09 onwards.

VALUATIONS AND RECOMMENDATION

The CMP of Rs173 discounts FY10E EPS of Rs26.1 by 6.6x. The stock trades at an EV/EBIDTA of 4.9x and EV/Sales of 1.5x FY10 estimates. The ramp up of its solar PV and entertainment business bodes well for MBIL as it will help lower sensitivity to its optical media business. In optical media, an increase in offtake of new generation storage formats like Blu-Ray discs will enable margin expansion over the next 2-3 years despite a decline in overall volumes as demand for existing formats witnesses a drop. In light of the above, we maintain our 'BUY' recommendation with a 15-month price target of Rs400.

KEY FINANCIALS (STANDALONE)

Rs mn	Quarter Ended			Yr Ended (March)				
	Sep-07	Dec-07	Mar-08	2006	2007	2008E	2009E	2010E
Net Sales	4,404	5,117	4,711	16,641	19,840	20,667	30,540	43,934
YoY Gr. (%)	*(12.1)*	*2.0*	*(10.4)*	*30.0*	*19.2*	*4.2*	*47.8*	*43.9*
Op. Profits	1,062	958	810	3,431	4,963	4,290	6,998	12,517
Op. Marg (%)	*24.1*	*18.7*	*17.2*	*20.6*	*25.0*	*20.8*	*22.9*	*28.5*
Net Profits	33	(205)	(717)	(65)	788	(1,468)	277	4,397
Eq Capital	1,680	1,682	1,682	1,115	1,116	1,682	1,682	1,682

KEY RATIOS

	Yr Ended (March)				
	2006	2007	2008E	2009E	2010E
Dil. EPS (Rs)	(0.4)	4.7	(8.7)	1.6	26.1
ROCE (%)	2.3	6.1	1.6	5.4	13.4
RONW (%)	(0.5)	3.9	(7.4)	1.4	20.7
P/E (x)	-	37.1	-	105.4	6.6
EV/Sales (x)	1.9	1.7	2.7	2.1	1.5
EV/EBDIT (x)	8.3	6.1	10.8	8.4	4.9

Analyst - Sameer Ranade | sameerr@pinc.co.in | Tel: +91-22-6618 6381

PERFORMANCE OVERVIEW

Moser Baer India Ltd's (MBIL) Q4FY08 results were considerably below expectations as a result of declining realisations of optical media and higher depreciation charges. Net sales were down by 10.4% YoY to Rs4.7bn on back of an 18% decline in average realisations to ~USD0.13/unit.

Significant impact of lower realisations

Leverage impact of lower realisations...

Operating margins contracted to 17.2% and operating profits dropped by 47% to Rs810mn as a result of the sharp decline in realisations. Interest charges were higher by 28% at Rs448mn owing to funds raised for its solar PV business. Additionally, capex for its optical media as well as entertainment business resulted in depreciation charges rising by 27% to Rs1.1bn. Thus, MBIL reported a net loss before extraordinary items of Rs759mn.

Optical media under pressure

We expect the weakness in optical media to continue and accordingly, realisations should remain under pressure. The issues with the power plant have been rectified and consequently, volumes rose by 3.2% in Q4FY08 to 744mn units. With a resolution expected to the Philips licencing issue during FY09, we expect volumes in FY09 to increase by ~12.5% to 3bn units. In FY10, we expect volumes to decline by 6% to 2.8bn units as demand for existing formats like CD-Rs & DVD-Rs declines and is replaced by new generation formats. However, higher realisations in new generation formats should enable revenues to grow in FY09. Optical media revenues should grow by 20% in FY09 to Rs21bn owing to higher volumes while higher average realisations should enable revenues to grow by 8.1% in FY10 to Rs23.3bn.

Entertainment segment on a roll

The entertainment segment's performance was better than expectations with revenues of USD10mn in Q4FY08 and USD40mn in FY08 against our expectations of ~USD34mn. The business is ramping up with more recent movie releases being incorporated into its library as was evident from its acquisition of distribution rights for 'Jab We Met'. We expect revenues to grow at a CAGR of 17% to Rs1.9bn and Rs2.2bn in FY09 and FY10.

Solar foray ramping up steadily

Solar PV capacity ramping up steadily...

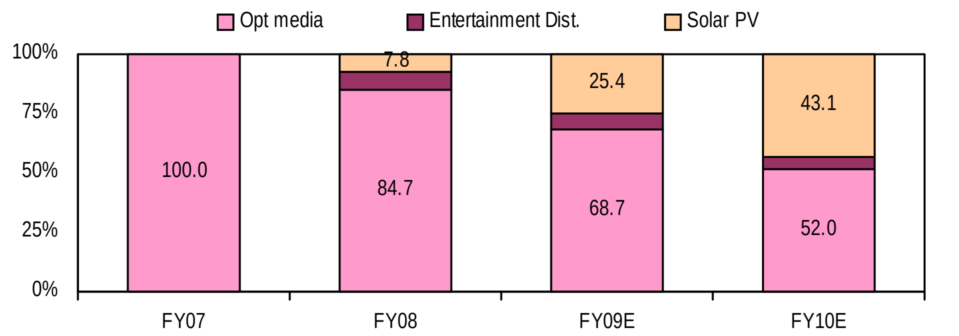
MBIL's solar PV capacities are ramping up steadily and notched up revenues of ~USD20mn in Q3FY08 and USD42mn in FY08. It is expanding its crystalline silicon capacity to 170MW by end-FY09 and 300MW by end-FY10. In its thin film venture, its initial capacity of 40 MW is due to commence trial production by Q1FY09 and commence commercial operations by Q2FY09. Thin film capacity should be expanded to 60MW by end-FY09 and 125MW by end-FY10. The total capex for the solar PV foray is ~USD480mn. We expect solar PV revenues of Rs8.4bn and Rs19bn in FY09 and FY10 as MBPV ramps up production of its expanded capacities despite the incremental capacities operating at minimum levels. It has orders on hand of ~USD200mn for delivery over the next 2 years.

Annual planned solar PV capacity additions (MW)

	FY08	FY09	FY10	Total
Silicon	80	90	130	300
Concentrator	5	10	60	75
Thin film	40	20	65	125
Total additions	**125**	**120**	**255**	**500**
Installed capacity	**80**	**245**	**500**	

Source: Company

Consolidated revenue break up between segments (%)



Source: Pinc estimates

OUTLOOK

Consolidated PAT to grow to Rs4.4bn by FY10...

We have revised downward our estimates in light of the pressure on realisations and high operating leverage. We expect consolidated net sales to grow by 47% in FY09 to Rs30bn and by 43% in FY10 to Rs44bn. Consolidated OPM should expand by 270bps in FY09 to 23.5% and by 356bps in FY10 to 27.0% respectively. This will be driven by the solar PV and entertainment segments.

Against our estimated consolidated net loss of Rs1.4bn in FY08, we expect MBIL to report a net profit of Rs551mn in FY09 and Rs4.4bn in FY10 following a ramp up in solar PV offtake and increasing share of lower cost contracted silicon wafers. Volume growth in optical media, ramp up in solar PV and entertainment segments should help net profits to grow to Rs1.7bn in FY09 and Rs4.1bn in FY10.

VALUATIONS

The CMP of Rs173 discounts FY10E EPS of Rs26.1 by 6.6x. The stock trades at an EV/EBIDTA of 4.9x and EV/Sales of 1.5x FY10 estimates. The ramp up of its solar PV and entertainment business bodes well for MBIL as it will help lower sensitivity to its optical media business. In optical media, an increase in offtake of new generation storage formats like Blu-Ray discs will enable margin expansion over the next 2-3 years despite a decline in overall volumes as demand for existing formats witnesses a drop. In light of the above, we maintain our 'BUY' recommendation with a 15-month price target of Rs400.

Company description

Moser Baer India Ltd is a leading player in the optical media segment globally with products ranging from CDRs and DVDRs to the emerging Blu-Ray and HD-DVD segments. Its diversification into the entertainment and solar PV segments will further aid the company in ramping up performance.

Financial Results for the quarter & year ended 31 March 2008 (Consolidated)						
Particulars (Rs Mn)	Quarter Ended			Year Ended		
	31/03/08	31/03/07	Gr %	31/03/08	31/03/07	Gr %
Net Sales	**4,711**	**5,255**	**(10.4)**	**18,998**	**19,825**	**(4.2)**
Total Expenditure	**3,900**	**3,723**	**4.8**	**14,876**	**14,590**	**2.0**
(Inc.)/dec.in stock-in-trade	(145)	(4)		(1,025)	(626)	
Raw Materials	2,445	2,667	(13.6)	10,151	10,676	(9.2)
Purchase of traded goods/film rights	243	12	1,867.1	558	73	663.1
Staff Cost	449	342	31.1	1,893	1,439	31.5
Other expenditure	909	706	28.8	3,299	3,029	8.9
Operating profit	**810**	**1,532**	**(47.1)**	**4,122**	**5,234**	**(21.2)**
Other Income	47	193	(75.7)	1,014	788	28.8
PBDIT	**857**	**1,725**	**(50.3)**	**5,137**	**6,022**	**(14.7)**
Interest	448	348	28.7	1,794	1,245	44.1
Depreciation	1,179	929	26.9	4,316	3,579	20.6
PBT & extraordinary items	**(770)**	**448**	**(272.0)**	**(973)**	**1,199**	**(181.2)**
Provision for current tax	-	-		1	-	
Provision for deferred tax	(16)	47		3	89	
Provision for FBT	5	4		18	12	
Provision for earlier years	-	-		(2)	-	
Net profit before extraordinary items	**(759)**	**397**	**(291.3)**	**(992)**	**1,098**	**(190.4)**
Ext. Ord. Inc.	42	-		200	-	
Net Profit	**(717)**	**397**	**(280.7)**	**(793)**	**1,098**	**(172.2)**
Equity Capital	**1,682**	**1,116**		**1,682**	**1,116**	
Reserves (excl. rev. res.)	-	**-**		**-**	**19,852**	
EPS for the period (Rs)	(4.5)	3.6		(5.9)	9.8	
Book Value	10.0	10.0		-	179.7	
OPM (%)	**17.2**	**29.2**		**21.7**	**26.4**	
NPM before extraordinary items (%)	(16.1)	7.6		(5.2)	5.5	
Expend. (% of net sales)						
Materials	48.8	50.7		48.0	50.7	
Purchase of traded goods/film rights	5.2	0.2		2.9	0.4	
Staff Cost	9.5	6.5		10.0	7.3	
Other expenditure	19.3	13.4		17.4	15.3	

Year Ended March (Figures in Rs mn)

Income Statement	2005	2006	2007	2008E	2009E	2010E
Revenues	**12,804**	**16,641**	**19,840**	**20,667**	**30,540**	**43,934**
Growth (%)	*(15.8)*	*30.0*	*19.2*	*4.2*	*47.8*	*43.9*
Total Expenditure	**9,596**	**13,210**	**14,878**	**16,377**	**23,543**	**31,417**
Operating Profit	**3,208**	**3,431**	**4,963**	**4,290**	**6,998**	**12,517**
OPM (%)	25.1	20.6	25.0	20.8	22.9	28.5
Growth (%)	*(49.1)*	*6.9*	*44.6*	*(13.5)*	*63.1*	*78.9*
Interest & dividend income	675	558	766	1,024	908	918
EBIDT	**3,884**	**3,989**	**5,729**	**5,315**	**7,905**	**13,435**
(-) Interest	740	936	1,263	2,352	2,504	2,502
(-) Depreciation	2,821	3,168	3,582	4,611	5,026	5,666
PBT & E/O items	**323**	**(114)**	**883**	**(1,648)**	**375**	**5,267**
(-) Tax provision & others	(275)	(49)	95	(180)	97	870
Net Profits	**598**	**(65)**	**788**	**(1,468)**	**277**	**4,397**
Growth (%)	-	-	-	*(287.9)*	*118.9*	*1,486.0*
Fully diluted Eq. sh. O/s (mn no)	168.2	168.2	168.2	168.2	168.2	168.2
Book Value (Rs)	180.1	178.3	183.4	114.3	114.2	138.7
Basic EPS (Rs)	5.1	(0.9)	7.0	(8.7)	1.6	26.1
Diluted EPS (Rs)	**3.6**	**(0.4)**	**4.7**	**(8.7)**	**1.6**	**26.1**

Balance Sheet	2005	2006	2007	2008E	2009E	2010E
Equity Share Capital	1,115	1,115	1,116	1,682	1,682	1,682
Reserves & Surplus	18,786	18,773	19,355	17,535	17,529	21,642
Net worth	**19,902**	**19,888**	**20,471**	**19,217**	**19,211**	**23,324**
Term Debt	16,206	16,465	18,389	16,080	16,580	15,580
Working capital	-	89	113	20,384	23,768	22,769
Deferred Tax liability	-	-	101	189	195	200
Capital Employed	**36,108**	**36,443**	**39,074**	**55,871**	**59,754**	**61,874**
Fixed Assets	24,982	25,845	28,811	36,049	39,863	38,917
Net current assets	9,386	10,201	9,313	16,964	17,032	20,097
Investments	1,936	397	899	2,858	2,858	2,858
Misc exp.	-	-	51	-	-	-
Total Assets	**36,303**	**36,443**	**39,074**	**55,871**	**59,754**	**61,874**

Year Ended March (Figures in Rs mn)

Cash Flow Statement	2005	2006	2007	2008E	2009E	2010E
PBT & Extraord. items	**266**	**(107)**	**883**	**(1,449)**	**375**	**5,267**
Depreciation	2,821	3,168	3,582	4,611	5,026	5,666
Interest & dividend inc.	(330)	(201)	(165)	(1,224)	(908)	(918)
Interest paid	666	874	1,189	2,352	2,504	2,502
Tax paid	(59)	(4)	(73)	(19)	(92)	(865)
Others	(195)	(9)	-	-	-	-
(Inc/Dec in working capital	(2,166)	(1,894)	169	(2,177)	(5,481)	(3,803)
Cash from operations	**1,003**	**1,826**	**5,585**	**2,094**	**1,424**	**7,849**
Net capital expenditure	(3,552)	(4,784)	(5,860)	(11,460)	(8,840)	(4,720)
Net investments	(1,523)	1,527	(111)	(1,959)	-	-
Interest recd	283	240	178	-	(908)	(918)
Cash from investing activities	**(4,792)**	**(3,017)**	**(5,793)**	**(13,419)**	**(9,748)**	**(5,637)**
Issue of eq. shares	-	-	19	-	-	-
Share premium	-	-	-	-	-	-
Change in debt	1,313	512	1,572	18,062	3,884	(1,999)
Dividend paid	(189)	(128)	(127)	-	(284)	(284)
Interest paid	(717)	(887)	(1,176)	(2,352)	(2,504)	(2,502)
Cash from financing activities	**408**	**(502)**	**288**	**15,711**	**1,096**	**(4,785)**
Inc/Dec. in cash	**(3,381)**	**(1,692)**	**(202)**	**5,610**	**(5,413)**	**(738)**

Key Ratios	2005	2006	2007	2008E	2009E	2010E
EBIDT (%)	25.1	20.6	25.0	20.8	22.9	28.5
ROACE (%)	3.1	2.3	6.1	1.6	5.4	13.4
ROANW (%)	2.9	(0.5)	3.9	(7.4)	1.4	20.7
Sales/Total Assets (x)	0.4	0.5	0.5	0.4	0.5	0.7
Debt:Equity (x)	0.8	0.8	0.9	1.9	2.1	1.6
Current Ratio (x)	4.4	4.8	3.1	4.5	3.4	3.1
Debtors (days)	88.2	79.0	57.8	64.4	78.6	73.6
Inventory (days)	128.9	121.8	148.3	144.4	143.7	139.9
Net working capital (days)	249.8	212.0	161.2	286.4	195.0	161.3
EV/Sales (x)	2.3	1.9	1.7	2.7	2.1	1.5
EV/EBIDT (x)	8.0	8.3	6.1	10.8	8.4	4.9
P/E (x)	48.9	(451.6)	37.1	(19.9)	105.4	6.6

Equity Desk

R. Baskar Babu - Head - Equity Broking
baskarb@pinc.co.in *91-22-66186465*

Gealgeo V. Alankara - Head - Institutional Sales
alankara@pinc.co.in *91-22-66186466*

Sachin Kasera - Co-Head - Domestic Equities
sachink@pinc.co.in *91-22-66186464*

Sailav Kaji - Head - Derivatives & Strategist
sailavk@pinc.co.in *91-22-66186344*

Research

Sameer Ranade - Capital Goods / Utilities
sameerr@pinc.co.in *91-22-66186381*

Sujit Jain - Real Estate / Construction
sujitj@pinc.co.in *91-22-66186379*

Amol Rao - Hospitality / Pipes / Packaging
amolr@pinc.co.in *91-22-66186378*

Nirav Shah - Sugar / Textiles
niravs@pinc.co.in *91-22-66186383*

Rishabh Bagaria - Auto / Auto Ancilliary
rishabhb@pinc.co.in *91-22-66186391*

Ruchir Desai - Technology
ruchird@pinc.co.in *91-22-66186372*

Syed Sagheer - Logistics / Light Engineering
syeds@pinc.co.in *91-22-66186390*

Chandana Jha - Banking / Financial Services
chandanaj@pinc.co.in *91-22-66186398*

Rahhul Aggarwal - Metals
rahhula@pinc.co.in *91-22-66186388*

Dipti Solanki - Media
diptis@pinc.co.in *91-22-66186392*

Faisal Memon - Metals
faisalm@pinc.co.in *91-22-66186389*

Ashwani Agarwalla - Agro Products /Fertilizers
ashwania@pinc.co.in *91-22-66186482*

Abhishek Gangwani -Associate - Electronics / Hardware
abhishekg@pinc.co.in *91-22-66186385*

Naveen Trivedi - Associate - Speciality Chemicals
naveent@pinc.co.in *91-22-66186384*

Abhinav Bhandari - Associate - Real Estate / Construction
abhinavb@pinc.co.in *91-22-66186371*

Anand Rajgarhia - Associate - Shipping / Logistics
anandr@pinc.co.in *91-22-66186377*

Sales:

Anil Chaurasia
91-22-66186483

Alok Doshi
91-22-66186484

Sapna Mehta
91-22-66186485

Sundeep Bhat
91-22-66186486

Dealing:

Chandrakant Ware / Shivkumar R / Ashok Savla
idealing1@bloomberg.net *91-22-66186326*

Raju Bhavsar / Manoj Parmar / H Prajapati / Pratiksha
idealing1@bloomberg.net *91-22-66186323*

Directors

Gaurang Gandhi
gaurangg@pinc.co.in *91-22-66186400*

Hemang Gandhi
hemangg@pinc.co.in 91-22-66186400

Ketan Gandhi
ketang@pinc.co.in *91-22-66186400*

Rakesh Bhatia - Head Compliance
rakeshb@pinc.co.in *91-22-66186400*

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