

Moser Baer

Muted 4QFY07, Muted prospects on both PV and Optical media

- **Moser reported muted 4QFY07** results, with 5% Q/Q revenue growth and 6% Q/Q EPS growth – low given that Mar quarter is typically seasonally strong. While optical media volumes grew 9% Q/Q, average selling prices declined 2% Q/Q despite higher DVDR contribution – this indicates continued pricing pressure in optical media business in our view. EBITDA margins declined 80 bps Q/Q due to start-up costs for the entertainment business.
- **Optical media outlook:** Management expects normal seasonal weakness in 1HFY08 with pricing pressure in both DVDR and CDR. Further, they expect next generation blue laser formats to contribute just 2-3% of revenues in FY08. As a result, we expect volumes and margins to remain depressed over the coming couple of quarters with possible improvements in 2HFY08E
- **PV outlook:** Management expects PV revenues of US\$80-100 million in FY08, slightly lower than our earlier estimates. Moser will ramp-up to full capacity by May-07 with margins improving gradually through the year. While Moser has tied up adequate silicon supply for the near-term, we believe that strong spot Si prices would continue to be a threat. Further, there is margin pressure across the sector – as an example, E-Ton gross margins fell 6% Q/Q for Mar-07 quarter.
- **Overall, we see no reason to change our fundamental negative view on Moser.** Our sum of parts based Dec-07 price target remains at Rs325/share and we expect weak performance in 1HFY08 to impact the share price negatively. Further, Moser has announced plans to raise US\$150 million that will result in equity dilution or further deterioration of D/E ratios. Risks to our price target include a sharp demand up-tick in DVDRs.

Table 1: Reuters: MOSR.BO, Bloomberg: MBI IN

Rsm (Year-end: Mar)	FY06	FY07	FY08E	FY09E	Rsm	FY06	FY07	FY08E	FY09E	52-Week range	Rs162.0-399.0
Sales	16,638	19,819	27,685	36,916	Y/E BPS (Rs)	178.3	187.1	209.3	238.5	Shares Outstg	112Mn
Operating Profit	353	1,650	3,621	4,499	ROE (%)	0.3	5.5	12.2	14.0	Avg daily volume	0.42Mn
EBITDA	3,521	5,229	7,658	8,786	ROIC (%)	0.7	3.9	8.0	9.2	Avg daily value	US\$ 3.10 Mn
Pre Tax Profit	53	1,199	2,849	3,702	Qtr EPS (Rs)	1Q	2Q	3Q	4Q	Index (Sensex)	13,934
Net profit	53	1,098	2,640	3,451	EPS (FY07)	0.6	2.3	3.4	3.6	Free float	30%
EPS (Rs)	0.5	9.8	23.7	30.9	EPS (FY08) E	2.1	4.6	7.0	10.0	Dividend Yld (%)	0.3%
P/E (x)	779.5	37.7	15.7	12.0	EPS (FY09) E	6.8	7.5	7.6	9.1	Exchange rate	Rs40.9/US\$1
P/B (x)	2.1	2.0	1.8	1.6	Local	1M	3M	12M		Market Cap (Rs B)	41.37
Cash	2,900	5,681	2,314	5,420	Abs. Perf.(%)	24.6	1.6	57.9		Mkt cap (US\$ m)	1,010.9
Gross Debt	16,555	18,955	18,955	18,955	Rel. Perf.(%)	14.3	5.0	39.9			

Source: JPMorgan estimates, Company data.

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Underweight

Rs370.95

04 May 2007
Price Target: Rs325.00

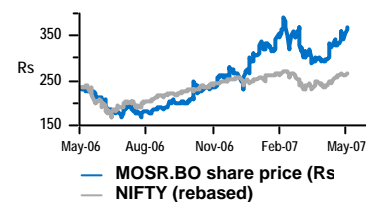
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Price Performance



	YTD	-1M	-3M	-12M
Absolute	20.4%	24.6%	2.0%	57.9%
Relative	16.6%	14.3%	4.3%	45.5%

Source: RIMES, Reuters.

Moser reported a muted 4QFY07 with just 5% Q/Q revenue growth during a traditionally seasonally stronger quarter.

EBITDA margins declined 80 bps Q/Q due to impact from start-up costs in the entertainment business. Overall, net profit grew 6% Q/Q.

Muted 4QFY07 results

Table 2: 4QFY07 results

	4QFY07	3QFY07	Q/Q	4QFY06	Y/Y
Revenue	5250	5015	4.7	5075	3.5
EBIT	598	593	0.9	128	368.8
EBITDA	1527	1499	1.9	929	64.3
Net Other Income	-149	-172	-13.2	-93	60.6
Pre Tax Profit	448	420	6.6	35	1199.4
Tax	51	44	15.4	31	64.0
Net Profit	397	376	5.6	3	n.m.
EPS (Rs)	3.6	3.4	5.5	0.0	n.m.
Margins (%)					
Operating Margin	11.4	11.8		2.5	
EBITDA Margin	29.1	29.9		18.3	
Net Margin	7.6	7.5		0.1	

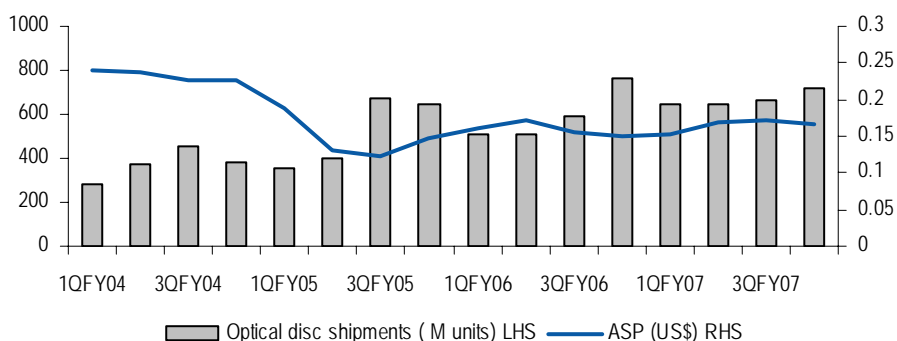
Source: Company data.

Optical media – price decline continues

While optical media volumes grew 9% Q/Q, blended ASP declined 3% Q/Q despite higher contribution from DVDR. We believe that this indicates continued price pressure on CDR and DVDR.

Management indicated that they expect normal seasonal weakness in the coming summer season. They expect DVD prices to continue to fall in line with manufacturing costs. On CDR, they expect some price pressure in summer followed by stronger prices in winter season. Further, management indicated that blue laser formats will contribute only 2-3% of revenues in FY08.

Figure 1: Volume and ASP trends



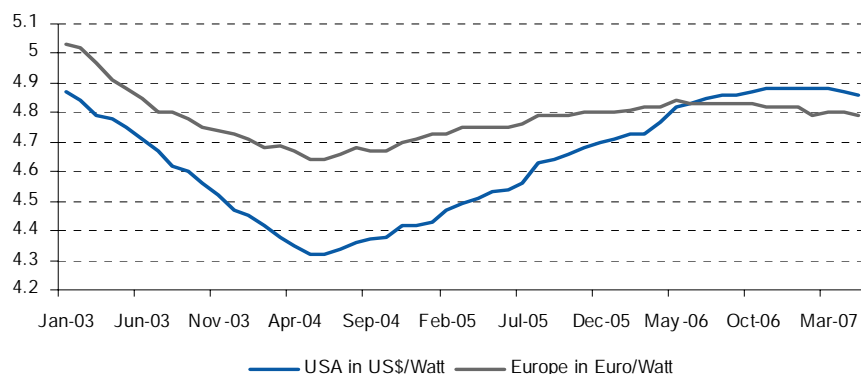
Source: JPMorgan estimates, Company data.

Photovoltaic business – margin profile to disappoint

Moser will ramp up production in its 40MW PV by May 2007. They expect the module line to start production in 2QFY07. For FY08, Moser expects the business to generate US\$80-100m in revenues. Further, the company indicated that PV business would take 2-3 quarters to reach the optimal 20% margin levels. Management expects losses in Q1 and low profitability in Q2.

We would like to highlight that global solar cell manufacturers are seeing margin pressure due to higher competition and this could impact Moser as well.

Figure 2: Solar Module retail prices



We note that solar module prices especially in Europe remain weak.

Source: JPMorgan estimates, Company data.

Estimate changes

Table 3: Estimate changes

We have reduced our revenue estimates for FY08 on both solar and optical media business given management guidance below our earlier estimates. However, we are increasing our margin estimates on optical media business as management expects price increases in winter season – we note that there could be downsides to our assumptions.

As a result, our overall EPS estimate remains largely unchanged.

Rs m	New FY08E	FY09E	Old FY08E	FY09E	Change FY08E	FY09E
Total sales (Rs m)	27,685	36,916	28,933	37,207	(4.3)	(0.8)
Operating costs ex Dep	20,027	28,130	21,247	28,440	(5.7)	(1.1)
Depreciation	4,037	4,286	3,997	4,270	1.0	0.4
EBIT	3,621	4,499	3,689	4,497	(1.8)	0.1
EBIT Margin (%)	13.1	12.2	12.7	12.1		
EBITDA	7,658	8,786	7,686	8,767	(0.4)	0.2
EBITDA Margin (%)	27.7	23.8	26.6	23.6		
PBT	2,849	3,702	2,826	3,745	0.8	(1.1)
Tax	209	251	208	254		
PAT	2,640	3,451	2,618	3,492	0.9	(1.2)
EPS (Rs)	23.7	30.9	23.5	31.3	0.8	(1.2)
No-growth value						
Optical discs						
Revenue Rs M	22,269	26,829	22,812	28,155	(2.4)	(4.7)
EBITDA Rs M	6,672	7,276	6,510	7,332	2.5	(0.8)
EBITDA %	30.0	27.1	28.5	26.0	5.0	4.1
EBIT Rs M	2,908	3,315	2,799	3,391	3.9	(2.2)
EBIT %	13.1	12.4	12.3	12.0	6.4	2.6
PV						
Revenue Rs M	4,744	9,415	5,479	8,410	(13.4)	12.0
EBITDA Rs M	909	1,432	1,128	1,387	(19.5)	3.2
EBITDA %	19.2	15.2	20.6	16.5	(7.0)	(7.8)
EBIT Rs M	696	1,167	902.4	1,118.8	(22.9)	4.4
EBIT %	14.7	12.4	16.5	13.3	(10.9)	(6.8)

Source: JPMorgan estimates, Company data.

Valuation

Our sum-of-the-parts valuation for Moser results in a Dec-07 price target of Rs325/share. We value Moser as the sum of its optical disc and PV parts.

1. With the ROE of the optical disc business below the cost of equity, we value this business at P/B of 0.85x 1-year-forward book value in-line with historical troughs

as the ROCE of this business remains below the WACC. This gives us a value of Rs190/share.

- We value the PV business at 1-year forward P/E of 15-16x, below the 20x multiples seen by similar firms in Taiwan. This is because Moser is a late entrant in this business and there are execution risks in our view. This leads us to PV business value of Rs135/share in Dec-07. This implies a valuation of 2x Dec-08 sales, which is fair, in our view.

Risks to our price target are a sharp demand up-tick in DVDRs, more strategic tie-ups for polysilicon supply, and faster-than-expected advances in PV technology.

Table 4: Moser P&L

(Rs in m , year-end March)	2007				2008E				2003	2004	2005	2006	2007	2008E	2009E
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE							
Revenue	4,545	5,009	5,015	5,250	5,048	6,284	7,360	8,993	10,589	15,118	12,822	16,638	19,819	27,685	36,916
EBIT	21	440	593	598	425	736	1,051	1,409	3,038	4,130	424	353	1,650	3,621	4,499
EBITDA	873	1,331	1,499	1,527	1,416	1,738	2,063	2,442	4,280	6,394	3,288	3,521	5,229	7,658	8,786
Pre Tax Profit	67	263	420	448	263	554	842	1,190	2,547	3,598	299	53	1,199	2,849	3,702
Net Profit	65	260	376	397	234	510	783	1,114	2,583	3,533	587	53	1,098	2,640	3,451
EPS (Rs)	0.6	2.3	3.4	3.6	2.1	4.6	7.0	10.0	27.4	36.5	5.3	0.5	9.8	23.7	30.9
Margins (%)															
Operating Margin	0.5	8.8	11.8	11.4	8.4	11.7	14.3	15.7	28.7	27.3	3.3	2.1	8.3	13.1	12.2
EBITDA Margin	19.2	26.6	29.9	29.1	28.0	27.7	28.0	27.2	40.4	42.3	25.6	21.2	26.4	27.7	23.8
Net Margin	1.4	5.2	7.5	7.6	4.6	8.1	10.6	12.4	24.4	23.4	4.6	0.3	5.5	9.5	9.3
Seq. Growth (%)															
Revenue	(10.4)	10.2	0.1	4.7	(3.9)	24.5	17.1	22.2	56.0	42.8	(15.2)	29.8	19.1	39.7	33.3
EBIT	(83.8)	2,032.5	34.8	0.9	(29.0)	73.3	42.8	34.1	14.9	36.0	(89.7)	(16.8)	367.6	119.4	24.3
EBITDA	(6.1)	52.5	12.6	1.9	(7.3)	22.7	18.7	18.4	29.6	49.4	(48.6)	7.1	48.5	46.4	14.7
Net Profit	1,803.2	301.3	44.9	5.6	(41.2)	118.1	53.7	42.2	14.4	36.8	(83.4)	(91.0)	1,968.8	140.5	30.7
EPS	1,803.2	301.3	44.9	5.5	(41.2)	118.1	53.7	42.2	14.4	33.4	(85.6)	(91.0)	1,968.2	140.4	30.7

Source: JPMorgan estimates, Company data.

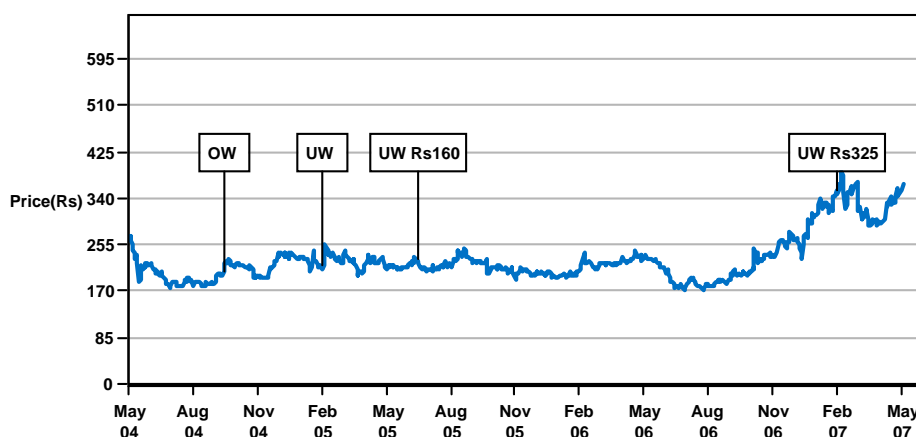
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Moser Baer (MOSR.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
14-Sep-04	OW	204.70	--
31-Jan-05	UW	217.05	--
14-Jun-05	UW	227.15	160.00
31-Jan-07	UW	355.65	325.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
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Moser baer: Summary of Financials

Income statement						Ratio Analysis					
INR in millions, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E	%, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E
Revenues	12,822	16,638	19,819	27,685	36,916						
Cost of Goods Sold	12,398	16,285	18,169	24,064	32,416	EBITDA margin	25.6	21.2	26.4	27.7	23.8
Operating Profit (EBIT)	424	353	1,650	3,621	4,499	Operating Margin	3.3	2.1	8.3	13.1	12.2
EBITDA	3288	3521	5229	7658	8786	Net Margin	4.6	0.3	5.5	9.5	9.3
Other Income	-125.2	-299.9	-451.7	-771.8	-797.1	Sales growth	-15.2	29.8	19.1	39.7	33.3
Earnings before tax	299	53	1,199	2,849	3,702	Operating Profit Growth	-89.7	-16.8	367.6	119.4	24.3
Tax	288	0	-101	-209	-251	Net profit growth	-83.4	-91.0	1968.8	140.5	30.7
Net Income	587	53	1098	2640	3451	EPS (Reported) growth	-85.6	-91.0	1968.2	140.4	30.7
INR						Net debt to total capital	32.2	37.5	33.3	39.3	29.7
EPS (Reported)	5.3	0.5	9.8	23.7	30.9	Net debt to equity	58.4	68.7	63.6	71.3	50.9
BPS	178.5	178.3	186.9	209.1	238.4	Asset Turnover	32.8	42.6	45.7	57.3	70.0
DPS	1.0	1.0	1.0	1.3	1.3	ROE	3.2	0.3	5.5	12.2	14.0
Shares Outstanding (bn)	112	112	112	112	112	ROIC	2.3	0.7	3.9	8.0	9.2
						ROCE	2.0	0.7	3.7	7.7	9.1

Balance sheet						Cash flow statement					
INR in millions, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E	INR in millions, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E
Cash and cash equivalents	4,593	2,900	5,681	2,314	5,420	Net Income	587	53	1,098	2,640	3,451
Accounts receivable	3,315	3,799	3,218	7,884	9,025	Depr. & Amortisation	2,864	3,168	3,579	4,037	4,286
Inventories	3,435	4,470	5,393	9,237	10,574	Change in working capital	-2,219	-2,717	514	-7,283	-1,755
Others	798	1,683	1,741	2,982	3,414	Other	0	0	0	0	0
Current assets	12,141	12,852	16,033	22,418	28,433	Cash flow from operations	1,232	504	5,191	-606	5,982
LT investments	1,936	397	397	397	397	Capex	-4,215	-4,031	-4,684	-2,602	-2,685
Net fixed assets	24,982	25,846	26,950	25,516	23,914	Disposal/ (purchase)	-1,884	1,525	0	0	0
Others	-14	0	0	0	0	Cash flow from investing	-6,099	-2,506	-4,684	-2,602	-2,685
Total assets	39,044	39,094	43,380	48,330	52,744	Free cash flow	-2,983	-3,527	507	-3,208	3,297
Liabilities						Equity raised/ (repaid)	0	0	1	0	0
Payables	1,884	1,739	2,594	4,564	5,544	Debt raised/ (repaid)	1,623	349	2,400	0	0
Others	809	640	700	1,199	1,373	Other	-10	89	0	0	0
Total current liabilities	2,693	2,379	3,294	5,763	6,916	Dividends paid	-127	-127	-127	-159	-191
Long term debt	16,206	16,555	18,955	18,955	18,955	Cash flow from financing	1,485	310	2,274	-159	-191
Other liabilities	244	272	272	272	272	Net change in cash	-3,382	-1,693	2,781	-3,367	3,106
Total liabilities	19,143	19,206	22,520	24,989	26,143	Beginning cash	7,974	4,593	2,900	5,681	2,314
Shareholders' equity	19,902	19,888	20,860	23,341	26,601	Ending cash	4,593	2,900	5,681	2,314	5,420

Source: JPMorgan estimates, Company data.