

SAMTEL COLOR LTD.

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Q2 FY 2007 update

COMPANY DETAILS

Auditors	M/s Price Waterhouse
CMD	Mr. Satish K. Kaura
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Factories	Ghaziabad (Uttar Pradesh), Kota (Rajasthan)
Website	www.samtelgroup.com

SCRIP DETAILS

Market Capitalisation	Rs. 1.7 bn.
Book Value per share	Rs. 60
Equity Shares O/S (F.V. Rs 10)	46.6 mn.
Median Volumes (12 mths)	43,296 (BSE+NSE)
52 Week High/Low	Rs. 84 / 33
BSE Scrip Code	500372
NSE Scrip Code	SAMTEL
Bloomberg Code	STLC.IN
Reuters Code	SMTL.BO

SHAREHOLDING PATTERN (%)

Qtr. Ended	Mar-06	Jun-06	Sep-06
Promoters	51.4	51.4	51.4
MF/Banks/Ins Co	15.3	8.0	8.0
FII/NRI/OCB	17.7	23.3	21.8
PCBs	3.1	3.9	4.8
Indian Public/Others	12.5	13.4	14.0

KEY FINANCIALS (STANDALONE)

Rs Mn	Quarter Ended			Year Ended (March)		
	Mar-06	Jun-06	Sep-06	2006	2007E	2008E
Net Sales	1,725	2,050	3,007	7,774	10,064	13,194
YoY Gr. (%)	(13.5)	6.5	36.8	(17.7)	29.5	31.1
Op. Profits	184	213	326	798	1,175	1,998
OP. Marg.(%)	10.7	10.4	10.8	10.3	11.7	15.1
Net Profits	10	3	(6)	8	84	663
Eq. Capital	466	466	466	466	466	466

KEY RATIOS

Year Ended (March)	EPS (Rs.)	ROCE (%)	RONW (%)	P/E (x)	EV/Sales (x)	EV/EBDIT (x)
2006	0.2	5.2	0.3	212.3	0.7	6.8
2007E	1.8	7.6	3.0	19.9	0.6	5.2
2008E	14.2	16.7	22.2	2.5	0.4	3.0

SUMMARY

- Samtel Color Ltd. (SCL) reported a 37% YoY growth in net sales to Rs 3 bn in Q2FY07. This was led by strong growth in both exports and domestic revenues.
- While domestic revenues increased by 33% to Rs 2.4 bn, the slippage in exports was arrested as export revenues rose by 54% to Rs 573 mn.
- Domestic volumes rose by 40% to 1.5 mn units as the company ramped up operations of the two new lines. Export volumes however, fell by 9% to 0.4 mn units.
- Export realisations rose substantially by 69% to Rs 1,549/unit while domestic realisations fell by 5% to Rs 1,596/unit. Average realisations rose by 8% to Rs1,587/unit.
- As a result of the higher expenses owing to the new lines, operating margins rose by only 110 bps to 10.8%. Operating profits rose by 52% to Rs 326 mn.
- Capital charges were higher owing to the commissioning of the new lines. Interest costs nearly doubled to Rs 168 mn while depreciation charges increased by 23% to Rs 159 mn.
- SCL reported a marginal profit of Rs 3 mn as against a loss of Rs 1 mn in Q2FY06.
- *The CMP of Rs 36 discounts FY08E EPS of Rs 14.2 by 2.5x. The stock trades at an EV/Sales of 0.4x and EV/EBIDTA of 3x FY08E. The company's performance has a high degree of sensitivity to changes in realisations and operating levels. Operations at the new lines are in process of being ramped up and are in a high-risk, high-return zone.*
- *Thus we maintain our 'SELL' recommendation and will review the same as the new lines achieve optimal operating levels.*

Nov 14, 2006

Sensex : 13426

Nifty : 3866

CMP : Rs 36

Recomm : SELL

Average realisations witnessed a sharp jump during the quarter as the shutdown of capacity globally appears to have helped arrest the declining trend. Also, in the domestic market, volume growth was aided by incremental volumes from the new lines for 29" and 21" flat color picture tubes.

Volumes rose by 27% to 1.9 mn units, on back of a 40% jump in domestic volumes to 1.5 mn units. Export volumes fell 8.6% to 0.37 mn units.

The declining trend in global realisations was arrested during the quarter and export realisations rose by 69% to Rs 1,549/unit. Domestic realisations however, fell by 5% to Rs 1,596/unit despite the higher realisations for the new products viz. 29" flat and 21" flat CPTs (Line 4 & 5). Average realisations rose by 7.8% to Rs 1,587/unit. Excluding the new lines, average realisations would have been lower by ~5% at ~Rs 1,415/unit.

Line-4 and Line-5 operated at a capacity utilisation of 36% and 29% respectively with production of 0.13 mn and 0.17 mn units. These are steadily being ramped up. The two lines notched up revenues of Rs 764 mn in the quarter resulting in average realisations of ~Rs 2,450/unit. As a result of teething problems and stabilisation, the new lines collectively incurred a loss of Rs 106 mn.

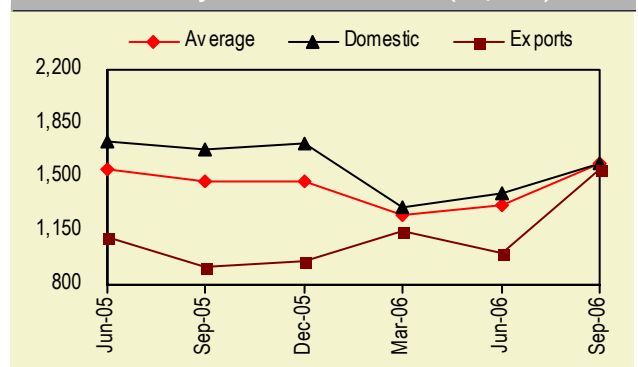
Production at the new lines should steadily be ramped up during Q3FY07 and both lines should be fully operational by Q4FY07. The higher realisations (~\$65-70/unit) should help improve profitability. However, operations of the new units still under process of stabilisation. Hence, any operational snags can sharply impact performance. Thus, keeping in mind the high

sensitivity of revenues to its operations, we expect net sales to grow by 29.5% in FY07 and by 31.1% in FY08 to Rs 10 bn and Rs 13.2 bn respectively. Operating margins should expand by 141 bps in FY07 and by 346 bps in FY08 to 11.7% and 15.1% respectively.

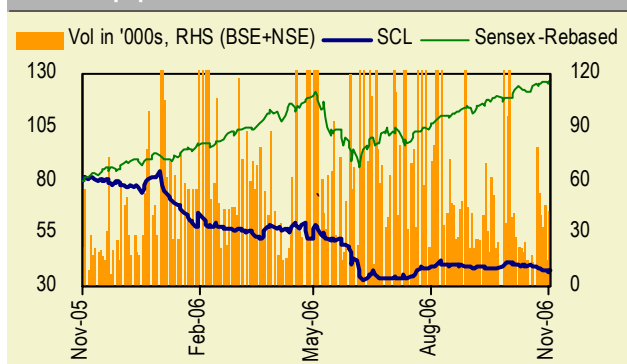
The higher depreciation charges, interest costs on account of the expansion and low operating levels at the new lines will weigh on SCL's performance going forward. However, partial benefits from the new lines could accrue in FY07 and we expect net profits of Rs 84 mn and Rs 663 mn in FY07 and FY08 respectively.

The CMP of Rs 36 discounts FY08E EPS of Rs 14.2 by 2.5x. The stock trades at an EV/Sales of 0.4x and EV/EBIDTA of 3x FY08E. While valuations are attractive, the high degree of sensitivity on the downside to changes in realisations and operating levels is expected to continue impacting performance in the near term. Thus, we maintain our 'SELL' recommendation and will review the same as the new lines achieve optimal operating levels going forward.

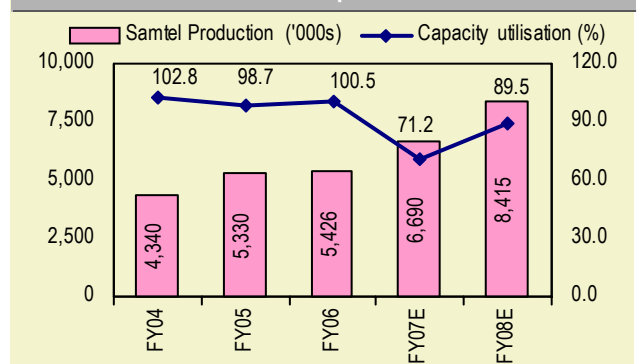
SCL Qtrly Realisations Trend (Rs/Unit)



Scrip performance vis-a-vis BSE Sensex



SCL Annual production



Financial results for the quarter & half year ended Sep 30, 2006 (Standalone)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Gross Sales	3,428	2,543	34.8	5,783	4,753	21.7	8,910
Less: Excise Duty	421	345		727	631		1,136
Net Sales	3,007	2,198	36.8	5,056	4,122	22.7	7,774
<i>Exports</i>	<i>573</i>	<i>371</i>	<i>54.4</i>	<i>896</i>	<i>741</i>	<i>20.9</i>	<i>1,641</i>
<i>Domestic</i>	<i>2,434</i>	<i>1,827</i>	<i>33.2</i>	<i>4,160</i>	<i>3,381</i>	<i>23.0</i>	<i>6,133</i>
Total expenditure	2,680	1,984	35.1	4,517	3,697	22.2	6,976
(Inc.)/dec.in stock-in-trade	(154)	184		28	55		(51)
Materials	2,219	1,388		3,436	2,819		5,306
Staff Cost	209	151	38.7	374	307	21.9	636
Other expenditure	407	261	56.1	679	517	31.4	1,085
Operating profit	326	215	52.0	539	424	26.9	799
Other Income	3	1	312.5	5	42	(89.3)	54
PBDIT	329	215	53.0	543	467	16.4	852
Interest	168	88	91.1	261	178	46.4	350
Depreciation	159	129	23.2	282	256	10.2	508
PBT	3	(1)		1	33	(97.3)	(6)
Ext. Ord. Inc.	-	21		-	-		3
Provision for tax	8	2		4	4		(11)
Provision for deferred tax	1	-		1	1		-
Net Profits	(6)	18		(3)	28		8
Equity Capital (FV Rs 10)	466	466		466	466		466
Reserves (excl. rev. res.)							2,344
EPS for the period (Rs)	(0.1)	0.4		(0.1)	0.6		0.2
Diluted EPS (Rs)							14.6
Book Value (Rs)							60.3
OPM (%)	10.8	9.8		10.7	10.3		10.3
NPM (%)	(0.2)	0.8		(0.1)	0.7		0.1
Expend. (% of net sales)							
Materials	68.7	71.5		68.5	69.7		67.6
Staff Cost	7.0	6.9		7.4	7.4		8.2
Other expenditure	13.5	11.9		13.4	12.5		13.9
Production volumes ('000 nos)	1,921	1,394	37.8	3,360	2,722	23.4	5,425
Capacity ('000 nos)	9,400	5,600		5,300	5,300		5,600
Capacity utilisation (%)	81.7	99.6		126.8	102.7		96.9

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