

BARTRONICS INDIA

INR 240



Singapore subsidiary boosts revenues

SELL

Bartronics India's (BIL's) standalone Q2FY08 results were in line with expectations. Revenues grew 83% Y-o-Y and 13% Q-o-Q, to INR 288 mn. The automatic identification and data capture (AIDC) segment accounted for 58% of the company's standalone revenues (~INR 168 mn) and smart cards business the remaining 42% (~INR 120 mn). EBITDA grew 35% Y-o-Y, but declined 9% Q-o-Q, to INR 57 mn. Likewise, net profit grew 28% Y-o-Y, but declined 13% Q-o-Q, to INR 42 mn. EBITDA margins stood at 19.8% as against 26.7% in Q2FY07 and 24.6% in Q1FY08. Although the raw material and other manufacturing costs for BIL's smart card segment are not available, we believe that the drop in margins can be attributed to the relatively lower margin smart cards business.

BIL declared its consolidated results for the first time since the incorporation of its wholly-owned subsidiary, Bartronics Asia Pte, in Singapore in June 2007. Consolidated revenues for Q2FY08 stood at INR 678 mn, whereas the Singapore subsidiary contributed INR 390 mn (~58% of the consolidated revenues). BIL's AIDC business growth in the South East Asian markets was much higher than our expectations considering the fact that Singapore and Malaysia collectively contributed ~INR 178 mn to total revenues (~38% of revenues) in FY07 whereas total exports stood at INR 322 mn in FY07. EBITDA and net profit, on a consolidated level, stood at INR 159 mn and INR 125 mn, with EBITDA and net margins at 23.4% and 18.4%, respectively.

We are upgrading our revenue estimates by 6.2% and 11% for FY08E and FY09E respectively on account of higher than anticipated growth in AIDC exports. However, on account of lower than anticipated margins in the smart cards segment, we maintain our net profit estimates. Due to lack of clarity on costing of smart cards and expensive valuations, we maintain our 'SELL' recommendation on the stock.

* **Singapore subsidiary boosts consolidated revenues to INR 678 mn**

Consolidated revenues stood at INR 678 mn

- ◆ Bartronics Asia Pte. (Singapore subsidiary) contributed INR 390 mn.
- ◆ BIL sold 4 mn smart cards during the quarter, generating revenues of ~INR 120 mn.

* **Outlook and valuations: Negative; maintain 'SELL'**

At INR 240, the stock trades at 25x and 17.4x our FY08E and FY09E EPS, respectively. Although we expect the company to grow revenues at 123% CAGR over FY07-09E, the fully diluted EPS is likely to grow at 35% CAGR over the same period. Based on expensive valuations and lack of clarity on its recently launched business initiatives, we maintain our 'SELL' recommendation on the stock.

Financials

Year to March	Q2FY08*	Q2FY07	% change	Q1FY08	% change	FY07	FY08E
Revenues (INR mn)	288	158	82.7	254	13.4	635	1,662
EBITDA (INR mn)	57	42	35.3	63	(8.7)	169	416
Net Profit (INR mn)	42	33	27.6	48	(12.6)	135	285
EPS (INR)	7.0	2.2	213.8	2.7	162.7	7.6	9.6
PE (x)						31.7	25.0

* Standalone

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Market Data

52-week range (INR) : 288 / 92
Share in issue (mn) : 19.3
M cap (INR bn/USD mn) : 4.6 / 117.9
Avg. Daily Vol. BSE ('000) : 189.8

Share Holding Pattern (%)

Promoters : 44.3
MFs, Fls & Banks : 2.8
Fls : 9.6
Others : 43.3

Financials snapshot		(INR mn)						
Year to March	Q2FY08 *	Q2FY07	% change	Q1FY08	% change	FY07	FY08E	FY09E
Net revenues	288	158	82.7	254	13.4	635	1,662	3,149
Raw material	202	102	97.4	174	16.4	414	1,113	2,127
Staff costs	7	7	(1.6)	6	19.7	25	58	104
Other expenses	22	6	261.6	12	81.0	28	75	142
Total expenditure	231	116	100.0	192	20.6	466	1,246	2,372
EBITDA	57	42	35.3	63	(8.7)	169	416	777
Interest	4	3	29.1	5	(20.0)	13	35	74
Depreciation	9	3	160.4	6	53.9	17	92	245
Other income	1	0	180.8	1	(41.9)	9	40	15
Profit before tax	46	36	25.6	54	(15.0)	148	328	472
Tax	4	4	7.9	6	(33.3)	13	43	61
Net profit	42	33	27.6	48	(12.6)	135	285	411
Equity capital	178.2	145.7	22.3	178.2	0.0	178	297	297
No. of shares (mn)	17.8	14.6	22.3	17.8	0.0	17.8	29.7	29.7
EPS (INR)	2.3	2.2	213.8	2.7	162.7	7.6	9.6	13.8
PE (x)						31.7	25.0	17.4
as a % of revenues	Q2FY08 *	Q2FY07		Q1FY08		FY07	FY08E	FY09E
Raw material	70.1	64.9		68.3		65.1	67.0	67.5
Staff costs	2.4	4.4		2.3		3.9	3.5	3.3
Other expenses	7.6	3.9		4.8		4.4	4.5	4.5
EBITDA	19.8	26.8		24.6		26.6	25.0	24.7
Net profit	14.4	20.7		18.7		21.3	17.2	13.0
Tax rate	9.0	10.4		11.4		8.8	13.0	13.0

* standalone

Company Description

Incorporated in 1990, Bartronics India (BIL) is predominantly in the business of providing bar coding solutions (part of the automatic identification and data capturing market, AIDC), which find application in a host of services including supply chain logistics, inventory management, access control, and attendance recording. It caters to the domestic as well as export markets in Singapore, Malaysia, Bangladesh, Sri Lanka, and Dubai, meeting the ever increasing demands of their AIDC industries. The company has also ventured into new technologies such as radio frequency identification (RFID) and biometrics which constitute a major portion of its current order book.

BIL has recently set up a smart card manufacturing facility, with an installed capacity to manufacture 80 mn smart cards. Further, it is in the process of setting up a chip manufacturing unit as part of its backward integration plans. The company has entered into an agreement with a leading global supplier of smart cards to manufacture and supply 56 mn SIM cards p.a. (70% of BIL's capacity) over the next two years.

Investment Theme

BIL has an unexecuted order book of INR 1.52 bn in the AIDC solutions segment, scheduled for execution over the next 18-24 months. With emerging technologies like RFID and biometrics gaining momentum in the Indian market, we expect this sector to grow at ~40% CAGR for the next 3-4 years. BIL's increasing presence in the South East Asian markets has resulted in significant growth for its AIDC exports to these regions.

The company has entered into an agreement with a leading global supplier of smart cards to manufacture and supply 56 mn SIM cards p.a. (70% of BIL's capacity) over the next two years. Although we are positive on the revenue growth of the company's smart cards segment, we believe cheap imports and competitive pressures from other Asian players are likely to dent its operating margins.

Key Risks

Competition from international smart card manufacturers and new entrants in the AIDC space may affect profitability.

High debtor days may affect cash flows.

Technological obsolescence.

Financial Statements (Consolidated)

Income statement					(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E
Total revenues	181	290	635	1,662	3,149
Raw material	112	188	414	1,113	2,127
Employee cost	12	15	25	58	104
Selling & Administrative exp	12	14	28	75	142
Total operating expenses	135	216	466	1,246	2,372
EBITDA	46	74	169	416	777
Depreciation	8	10	17	92	245
EBIT	37	64	152	324	531
Interest expense	11	8	13	35	74
Other income	1	5	9	40	15
Profit before tax	28	61	148	328	472
Provision for tax	4	8	13	43	61
Net profit	24	54	135	285	411
Earnings per share (INR)	5.5	3.7	7.6	9.6	13.8
Shares outstanding (mn)	4.4	14.6	17.8	29.7	29.7
Dividend (INR/share)	-	-	-	1.5	2.0

Common size metrics as % of revenues

Year to March	FY05	FY06	FY07	FY08E	FY09E
Operating expenses	74.8	74.6	73.4	75.0	75.3
Depreciation	4.6	3.5	2.6	5.5	7.8
EBITDA margins	25.2	25.4	26.6	25.0	24.7
Net profit margins	13.3	18.5	21.3	17.2	13.0

Growth metrics (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Revenues	43.6	60.4	119.2	161.8	89.5
EBITDA	40.7	61.7	128.8	146.4	86.8
PBT	30.1	121.3	142.3	121.7	43.9
Net profit	79.4	122.8	151.9	111.5	43.9
EPS	79.4	(33.0)	106.0	26.8	43.9

Cash flow statement					(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E
Cash flow from operations	32	64	152	378	656
Cash for working capital	(31)	(74)	(926)	104	(746)
Net operating cash flow- A	1	(10)	(774)	482	(90)
Net purchase of fixed assets	(24)	(203)	5	(2,400)	(100)
Net cash flow from investing- B	(24)	(203)	5	(2,400)	(100)
Proceeds from equity	0	557	417	1,560	0
Proceeds/Repayments from borrowings	22	15	12	409	257
Dividend payments	0	0	0	(50)	(67)
Net cash flow from financing- C	22	571	429	1,918	190
Net cash flow (A+B+C)	(0)	358	(340)	0	0

Balance sheet					
(INR mn)					
As on 31st March	FY05	FY06	FY07	FY08E	FY09E
Equity capital	44	146	178	297	297
Reserves & surplus	52	538	998	2,734	3,077
Shareholders funds	96	684	1,236	3,031	3,375
Secured loans	74	83	91	500	740
Net deferred tax liability	9	14	18	18	35
Source of funds	178	781	1,345	3,549	4,150
Gross block	98	119	166	2,675	2,775
Depreciation	23	33	49	142	387
Net block	76	86	116	2,533	2,388
Capital work in progress	-	161	109		
Net fixed assets	76	247	226	2,533	2,388
Cash, bank bal & deposits	0	358	2	18	18
Inventory	30	64	83	216	409
Sundry debtors*	98	170	727	1,283	2,107
Loans & advances	7	12	705	25	30
Total current assets	135	605	1,517	1,542	2,564
Sundry creditors	26	60	399	472	731
Others	4	5		-	-
Provisions	3	5	14	55	72
Proposed dividend			-	50	67
Others	3	5	5	5	5
Total current liabilities	33	70	413	527	803
Net current assets	102	534	1,104	1,015	1,761
Misc expenditure not written off	0	0	16	-	-
Application of funds	178	781	1,345	3,549	4,150
Book value (BV) per share (INR)	22	47	69	102	114

* Sundry debtors for FY07 includes INR 168 mn of other receivables

Ratios

Year to March	FY05	FY06	FY07	FY08E	FY09E
ROAE (%)	27.6	13.7	14.1	13.4	12.8
ROACE (%)	23.5	13.3	14.3	13.2	13.8
Inventory days	61	81	47	47	47
Debtor days	197	214	418	282	244
Fixed assets t/o	1.8	2.4	3.8	0.4	0.7
Debt /Equity	0.8	0.1	0.1	0.2	0.2

Valuation parameters

Year to March	FY05	FY06	FY07	FY08E	FY09E
EPS (INR)	5.5	3.7	7.6	9.6	13.8
Y-o-Y growth (%)	79.4	(33.0)	106.0	26.8	43.9
CEPS (INR)	7.4	4.4	8.5	12.7	22.1
P/E (x)	43.7	65.3	31.7	25.0	17.4
Price/BV (x)	11.0	5.1	3.5	2.4	2.1
EV/sales (x)	6.2	11.1	6.9	7.6	5.1
EV/EBITDA (x)	24.7	43.7	25.9	18.3	10.1

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Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	103	45	23	4	184

* 6 stocks under review / 2 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	88	66	30

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period

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