

VIDEOCON INDUSTRIES LTD
CMP: Rs 389
ACCUMULATE

BSE Code	511389
NSE Code	VIDEOIND

Key Data

Sensex	19639
52 week H/L (Rs.)	869/336
Jan. month H/L (Rs.)	869/453
Market Cap (Rs cr)	8925
Avg. daily vol. (6m)	420977
Face Value	10

Source: Capitaline

Shareholding Pattern (%)

Promoters	70.31
Foreign & Institution	24.55
Public & Others	5.14

Source: Capitaline

**One-Year Performance
(Rel. to Sensex)**


Source: Capitaline

 Analysis: Team Anagram
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Background and Business

Videocon Industries, belonging to Dhoot Group, is engaged in manufacturing and marketing consumer electronics, home appliances and Oil & Gas exploration business.

Consumer Electronics Business:

Videocon Industries is present in Consumer Electronics division with manufacture and distribution of wide range of electronic products and household appliances which includes CRT TVs, Home entertainment systems, PDP and LCD TVs, Refrigerators, Washing machines, Air Conditioners, Small appliances and Components such as Glass Shells.

OIL & GAS BUSINESS

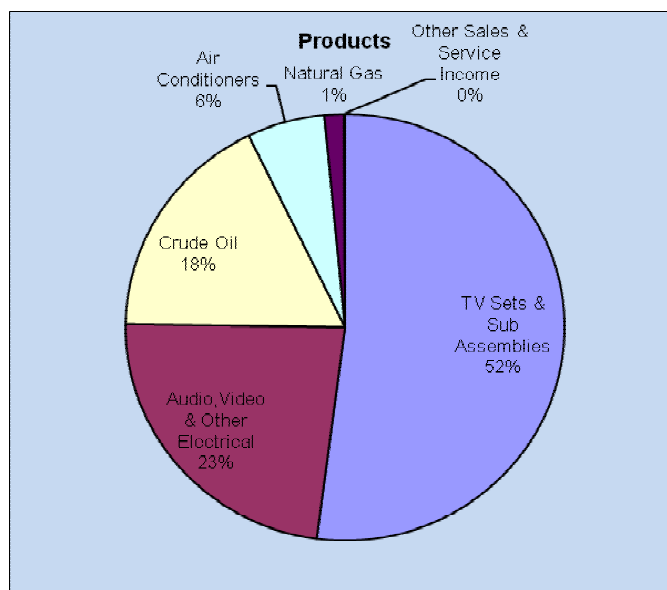
Videocon's oil and gas joint venture extracts 50,000 barrels of oil per day. Videocon produces 7% of all oil in the private sector in India. The Oil & Gas business contributed around 16% of the total turnover during FY07.

Videocon has a participating interest in Ravva Oil & Gas Field, which is extracting 50,000 barrels of oil per day and has proven reserves of 250 million barrels of oil. This field is spread over 331.6 sq km (of which 24.8 sq km is onshore) and is located roughly 10 km offshore in the Krishna Godavari basin in the state of Andhra Pradesh in southern India.

The RAVVA joint venture, over the last ten years, incurred a cumulative expenditure of about US\$ 590 mn on field development. So far Videocon's contribution is 25% of the above, i.e. US\$ 148 mn.

Participating Interest – RAVVA FIELD

ONGC	40.0%
Videocon	25.0%
Command Petroleum	22.5%
Ravva Oil	12.5%



CTV segment a major focus

Company is moving up the value pyramid through organic as well as inorganic growth plans. It has strategically integrated manufacturing bases, both internationally and domestically, close to target markets. It has various brands under its belt in CTV segment; this year the group has made some major investments in the segment, bought over the Salt Lake and Taratolla factories from Phillips India Ltd. It had also bought over a factory from Kanchan Fooda Ltd. in Siliguri and set up a colour television-manufacturing unit there.

Company is aggressively developing in full swing the R&D Centres to bring out state-of-the-art technologies including True Flat, Slim, Extra Slim, Plasma & LCDs, at the earliest.

Backward integration to help in Cost rationalization

Company has successfully integrated the manufacturing of Glass shell and other intermediaries with its final product operations. Company's division Videocon Narmada Glass with successful technical collaboration is the world's 3rd largest CTV glass producer and contributes about 16% of the revenue of Videocon. Major Clients include BPL Display Devices, JCT Electronics, Hotline and Samtel Colour, as well as Thomson Polska (Poland) and Toshiba (Indonesia) internationally. With the acquisition of Thomson, the company got the access to Color Picture Tube (CPT) technologies and production methods through its R&D facilities in Europe & China. With fully integrated manufacturing set-ups in low cost areas like China, Poland and Mexico, the company is ideally positioned to offer the advantage of a low cost manufacturing base for key components for the end products. The cost competitiveness has also opened up big opportunities for VIL in the OEM business.

Overseas Blocks**Block 103, Joint Petroleum Development Area, Timor Leste & Australia**

The consortium comprising Videocon Industries (25%) & GSPC (25%), BPCL (25%) and Oilex (25%) as the Operator has been awarded the Block 103 by the Timor Sea Designated Authority, located in the northern part of the Joint Petroleum Development Area subject to signing a Production Sharing Contract.

Block EPP-27, South Otway Basin, Australia

Videocon Industries has taken a farm-in interest in Block EPP-27 in the South Otway Basin along with Oilex and GSPCL of 20% each with balance 40% being retained by the original license holder Great Artesian Oil & Gas Ltd. The operator Oilex NL has informed that it has completed acquisition of a marine seismic survey totaling 1325 km of 2D seismic data within the permit. The survey has provided an extension of the existing seismic grid covering some eight potential leads in to the central & eastern portions of the permit.

Block 56, South Oman Salt Basin, Oman

A consortium comprising Videocon Industries, Oilex, GAIL, HPCL and BPCL with Oilex as the operator have been awarded Block 56. This block is located onshore adjacent to the producing fields operated by PDO, the Oman national oil company, in the South Oman Salt Basin, which is one of the main producing basin in Oman.

The Exploration Production Sharing Agreement and Joint Operating Agreement was signed on June 28, 2006. A programme of drilling 11 exploratory wells in the first phase of three years has been proposed. Videocon has entered into an MOU with an exploration company Oilex NL of Australia, by which Videocon and Oilex plan to explore opportunities for cooperation in the acquisition of oil blocks in Australia.

BRAZILIAN OPERATION

Videocon recently bought the Brazilian assets of Canadian gas producer EnCana Corporation for around \$165 million as part of a consortium with Bharat Petro Resources Ltd, the exploration arm of Bharat Petroleum. As per the deal, the BPCL-Videocon combine will get interests in 10 deep-water offshore exploration blocks in

four concessions in Brazil. Brazilian oil companies Petrobras and Anadarko also have a stake in EnCana Brasil and Petrobras is the operator in seven of the 10 blocks.

Petroleo Brasileiro SA, Brazil's state-controlled oil company, made a largest Oil discovery in Tupi Sui field placing the country in the Global Map of oil reserves. The Tupi Sui appraisal well, drilled about 10 kilometres south of an original find, which BG said in February showed resource in place of between 1.5-billion barrels and 10-billion of oil equivalent, confirmed a field that is 800 kilometres long and about 200 kilometres wide. So the probability of the oil findings in near by areas have increased where Videocon blocks are located which will result into higher valuations of Oil & Gas business of the company.

NEXT, the retail Arm and Acquisition of Planet M

Videocon made its foray into retail chain through NEXT for consumer electronics and home appliances, which also sells other private labels. Company has signed a series MoUs with other retailers for the fixed business generation. Company is targeting a sales turnover of Rs 250 Cr for these series of MoUs.

In its move to clutch the Retail business opportunities, VIL acquired PLANET M, the music and entertainment retail arm of Bennett, Coleman & Co for Rs 200 Cr. With 150 stores across 42 cities, Planet M is one of the leading players in organized music retail. The Company plans an ambitious turnover of Rs 1,000 Cr from Planet M with further investment of Rs 500 Cr for the same. With Planet M in its portfolio, NEXT Retail aims to clock a turnover of Rs 2,000 Cr by the next year.

RECENT DEVELOPMENTS

Videocon Industries plans to enter the **mobile telephony** business through its subsidiary Datacom Solutions Private Limited. The company has been granted Letter of Intent for Award of Licence to provide Unified Access Services (UAS) on All India Basis.

Videocon Industries is planning to set up a semiconductor and **LCD complex** near Mumbai. The company has sought 200 hectares from the Maharashtra Government for the project, which is estimated to entail an investment of Rs 8,000 crore.

The Videocon group plans to invest Rs 150 billion in West Bengal to set up **steel and a power plant**. The steel plant will have an annual capacity of 3 million tonnes while the power plant will have a capacity of 1,200 megawatts per year.

Valuation and Recommendations:

Videocon Industries is a diversified conglomerate. It trades at a significant discount to its comparable peer based on business mix. According to our understanding, Videocon should command a price earning multiple of 12.2 times its Historical earnings, which comes to Rs. 519. If you assign values to all other initiative in Telecom, Steel and Energy businesses, we arrive at a value Rs. 90, and hence we expect the stock to command a valuation of Rs.609 per share.

Looking at the growth in the consumer durable segment and spreading its presence in Oil & Gas business world over we believe investors should accumulate the stock.

Videocon Industries Ltd.	Weights	Sales (TTM)	ROCE	EBIT Margins	EPS (TTM)	P/E
Consumer Electronics	0.8	7251	4	10	-	-
Crude Oil & Gas	0.2	1503	68	34	-	-
Overall		8754	15	15	42.5	9.2

Peer Company	Price	Sales (TTM)	ROCE	EBIT Margins	EPS (TTM)	P/E	Disc/Prem	Weighted P/E
MIRC Electronics	23.1	1579.3	18.4	4.3	2.3	9.9	40%	11.1
ONGC	1033.0	56619.0	33.0	41.7	77.0	13.0	-50%	1.1
								12.2

(We have assumed company's consumer electronic division to command 40% premium as compared to its peer MIRC Electronics and Crude & Natural Gas segment to trade at 50% discount to ONGC. The premium/discount have been determined on basis of market presence the company has in particular segment.)

Quarterly Performance

(Rs Cr)	Q4FY07	Q4FY06	yoy (%)	Q3FY07	qoq (%)
Net Sales	2275.4	2058.1	10.6	2204.7	3.2
Expenditure	1824.1	1671.1		1779.0	
Operating Profit	451.3	387.1	16.6	425.7	6.0
Other Income	46.9	29.1		60.6	
EBITDA	498.2	416.2	19.7	486.3	2.4
Depreciation	120.4	88.5		117.5	
EBIT	377.9	327.7		368.8	
Interest	79.6	71.7		78.7	
PBT	298.2	256.0		290.1	
Tax	50.0	47.5		45.0	
Net profit	248.2	208.5	19.0	245.1	1.3
EPS (Ann.)	44.9	37.7		44.4	
OPM (%)	19.8	18.8	1.0	19.3	0.5
NPM (%)	10.9	10.1	0.8	11.1	-0.2

Yearly Performance

(Rs Cr)	FY07*	FY06*	yoy (%)
Net Sales	8691.8	7580.3	14.7
Expenditure	7018.4	6270.7	
Operating Profit	1673.3	1309.7	27.8
Other Income	196.0	165.7	
EBITDA	1869.3	1475.4	26.7
Depreciation	462.9	335.6	
EBIT	1406.4	1139.8	
Interest	305.5	225.9	
PBT	1100.9	914.0	
Tax	170.0	95.2	
Net profit	930.9	818.8	13.7
EPS (Ann.)	42.1	37.0	
OPM (%)	19.3	17.3	2.0
NPM (%)	10.7	10.8	-0.1

* September year ending

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RATING INTERPRETATION

Buy Expected to appreciate more than 20% over a 12-month period

Accumulate Expected to appreciate up to 20% over a 12-month period

Hold Expected to remain in a narrow range

Avoid Expected to depreciate up to 10% over a 12-month period

Exit Expected to depreciate more than 10% over a 12-month period

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