

**EQUITY RESEARCH**

Consumer Durables

**CMP: Rs.232.90**  
(As on 02-02- 2010)

02-02-2010

INDIA

Market Cap  
Rs.53429.58mn**BUY**

Target Price: Rs.268.00

**Videocon Industries Ltd**

- Videocon Industries (VIDEOCON), the 2.5 billion USD flagship company of the Videocon Group, is a diversified company. It was incorporated on 1979, engages in the manufacture, marketing, and distribution of consumer durables, color picture tubes (CPT), and cathode ray tube glasses in India and Internationally.
- Company has engaged in business areas like Consumer Durables, Thomson CPT, CRT Glass, Oil & Gas.
- Videocon Industries Ltd have approved issue and allotment of 18,58,275 equity shares, on preferential basis, at a price of Rs. 242.16 per equity share.
- Net sales of the company are expected to grow at a CAGR of 8% over 2008 to 2011E.



VIDEOCON

BSE SENSEX

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Key Financials	FY08	FY09	FY10E	FY11E	Key Data	
Net Sales					Face Value	Rs.10.00
(Rs.mn)	101051.3	93716.4	107773.8	120706.7	Shares Outstanding	231.27 (Millions)
EBIDTA					Exchange	BSE
(Rs.mn)	22282.8	17651.3	19785.4	22394.2	52 wk. High/Low(Rs.)	269.50/82.00
Margin %	22	19	18	19	2 wk avg. volume	573000
PAT					BSE Code	511389
(Rs.mn)	8543.0	4070.2	5358.9	6545.6		
Margin %	8	4	5	5		

**Firstcall Research**

(KPO Division Of Firstsubject Technologies Ltd.)

## Peer Group comparison

Name of the Company	52week High/Low(Rs)	C.M.P(Rs)	EPS(Rs)	P/E(x)
Videocon Industries Ltd	269.50/82.00	232.90	17.60	13.23
Bajaj Electricals Ltd	186.99/27.00	177.40	13.03	13.61
VIP Industries Ltd	222.70/31.25	196.50	15.10	13.01
Bharat Electronics Ltd	2170.00/813.25	1988.50	136.67	14.55

## Company Updates

### 📌 Q1 FY10 Results Update

Videocon Industries disclosed a phenomenal rise in standalone net profit for the quarter ended December 2009. During the quarter, the profit of the company rose 2.18 times to Rs.1,316.70 million from Rs.604.30 million in the same quarter last year. Net sales for the quarter for the quarter rose 35.28% to Rs.28,065.60 million, while total income for the quarter rose 35.07% to Rs.28,103.80 million, when compared with the prior year period. It reported earnings of Rs.5.69 a share during the quarter, registering 2.16 times growth over previous year period.

Quarterly Results - Standalone (Rs in mn)			
As At	Dec-09	Dec-08	%change
<b>Net sales</b>	28065.60	20746.70	35.28
<b>Net profit</b>	1316.70	604.30	117.89
<b>Basic EPS</b>	5.69	2.64	116.03

### 📌 Allotment of shares

Videocon Industries Ltd have approved issue and allotment of 18,58,275 equity shares, on preferential basis, at a price of Rs. 242.16 per equity share, being the price determined in terms of Regulation 76(1) of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.

## **Discovery of high-quality net oil pay**

The BM-C-30 offshore block in the Campos Basin of Brazil, owned by a consortium of which Videocon Industries and Bharat Petroleum Corporation (BPCL) are part through their units, has discovered more than 90 feet of high-quality net oil pay while drilling the Wahoo-2 or Wahoo North well in the region.

The Wahoo well in October 2008 had encountered over 195 feet of net oil pay. The Wahoo North well is located five miles to the north and down-dip from the original Wahoo discovery well, which had encountered oil in 2008.

## **Company Profile**

Videocon Industries (VIDEOCON), the 2.5 billion USD flagship company of the Videocon Group, is a diversified company. It was incorporated on 1979, engages in the manufacture, marketing, and distribution of consumer durables, color picture tubes (CPT), and cathode ray tube glasses in India and Internationally. The Company has interest in four major sectors, including consumer durables, display industry and its components, color picture tube glass, and oil and gas. The ISO 9002 certified company has entered into a license agreement with CopyTele, Inc. under which Videocon will manufacture and market products, including TVs, using CopyTele`s display technology.

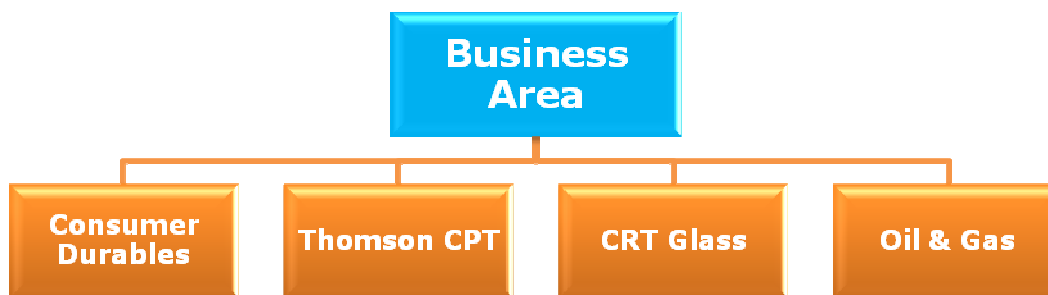
In addition, the company has access to facilities in Italy, Poland, Oman, China and Mexico. Significant Events In August 2009, Videocon Industries Ltd. has introduced its concept stores, DigiHome, to reach out to consumers.

## **Subsidiaries**

Mayur Household Electronics Appliances Pvt. Ltd.  
Godavari Consumer Electronics Appliances Pvt. Ltd.  
Pipavav Energy PV1.Ltd.(w.e.f.26<sup>th</sup> March, 2008)  
Videocon International Electronics Ltd.  
Videocon Energy Ventures Ltd.  
Paramount Global Ltd.  
Middle East Appliances LLc

Global Energy Inc  
Videocon Display Research Co.Ltd.

### Business Area



### Products

The company's consumer electronics products include plasma TV; LCD TV; 34 inches TV; slim TV; flat TV; conventional TV; DVD; and multimedia speakers. The company's home appliances products include frost free refrigerators; direct cool refrigerators; side by side refrigerators; fully automatic washing machines; semi automatic washing machines; microwave ovens; window AC; split AC; cassette AC; and tower AC.

## Financials Results

### 12 Month Ended Profit& Loss Accounts (Standalone):

Value(Rs.in.mn)	FY08	FY09	FY10E	FY11E
Description	12m	12m	12m	12m
<b>Net Sales</b>	<b>101051.30</b>	<b>93716.40</b>	<b>107773.86</b>	<b>120706.72</b>
Other Income	288.20	310.10	170.56	184.20
Total Income	101339.50	94026.50	107944.42	120890.92
Expenditure	-79056.70	-76375.20	-88159.02	-98496.69
<b>Operating Profit</b>	<b>22282.80</b>	<b>17651.30</b>	<b>19785.40</b>	<b>22394.24</b>
Interest	-4011.00	-6244.40	-6868.84	-7555.72
Gross profit	18271.80	11406.90	12916.56	14838.51
Deprecation	-6602.10	-5761.70	-5473.62	-5747.30
Profit Before Tax	11669.70	5645.20	7442.94	9091.22
Tax	-3126.70	-1575.00	-2084.02	-2545.54
<b>Profit After Tax</b>	<b>8543.00</b>	<b>4070.20</b>	<b>5358.92</b>	<b>6545.68</b>
Equity capital	2293.00	2294.10	2312.70	2312.70
Reserves	65384.90	69455.10	74814.02	81359.69
Face value (Rs.)	10.00	10.00	10.00	10.00
<b>EPS</b>	<b>37.26</b>	<b>17.74</b>	<b>23.17</b>	<b>28.30</b>

\*Note: Year ending September

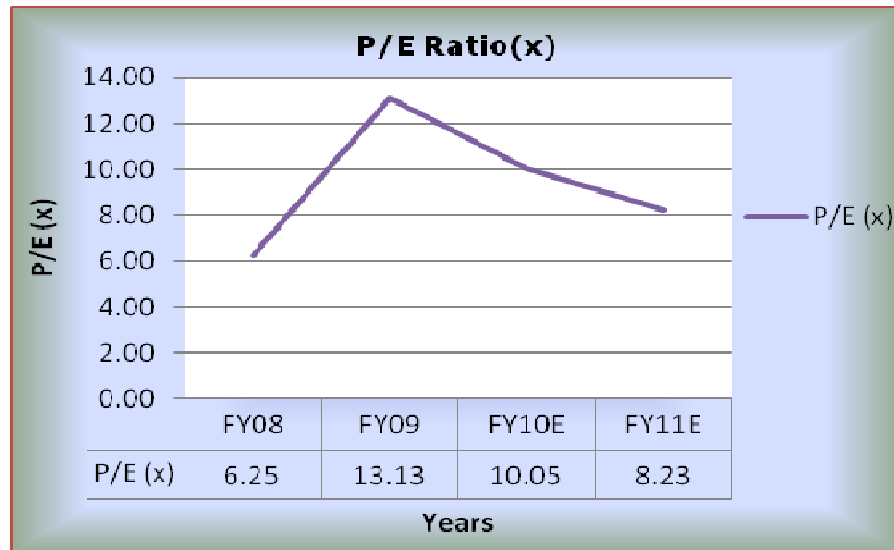
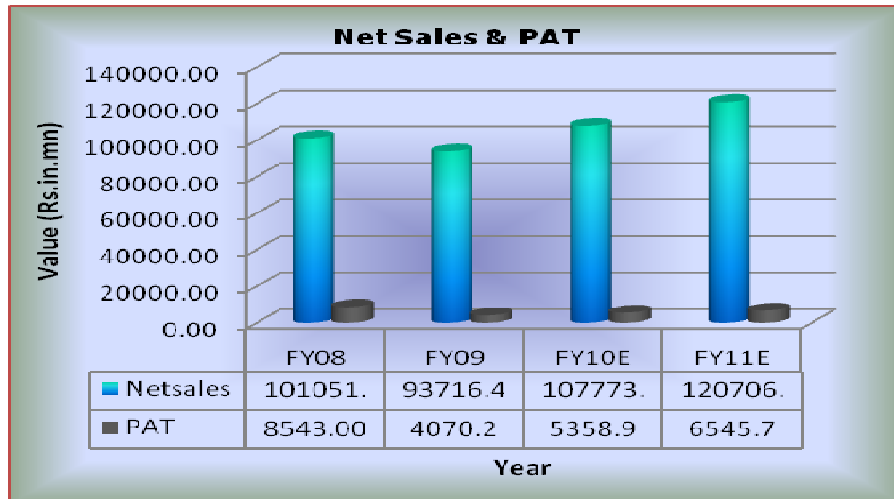
**Quarterly Ended Profit & Loss Account (Standalone):**

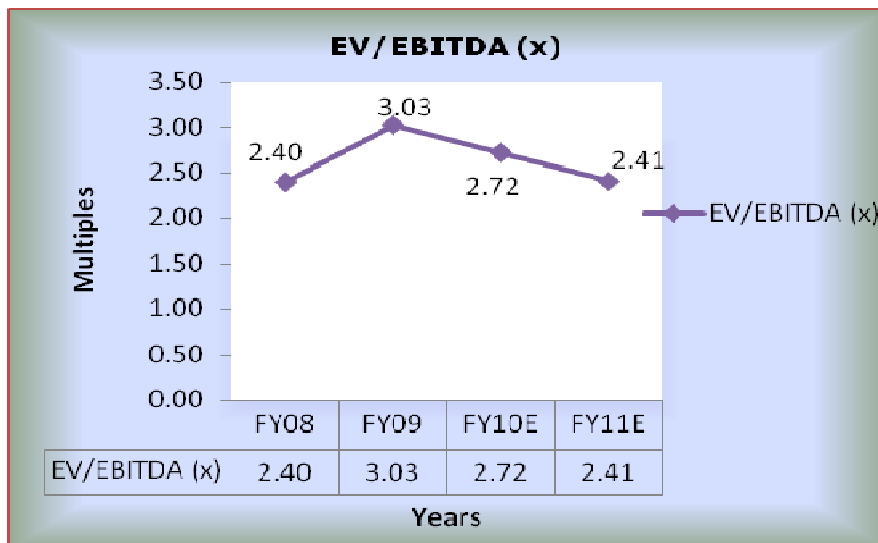
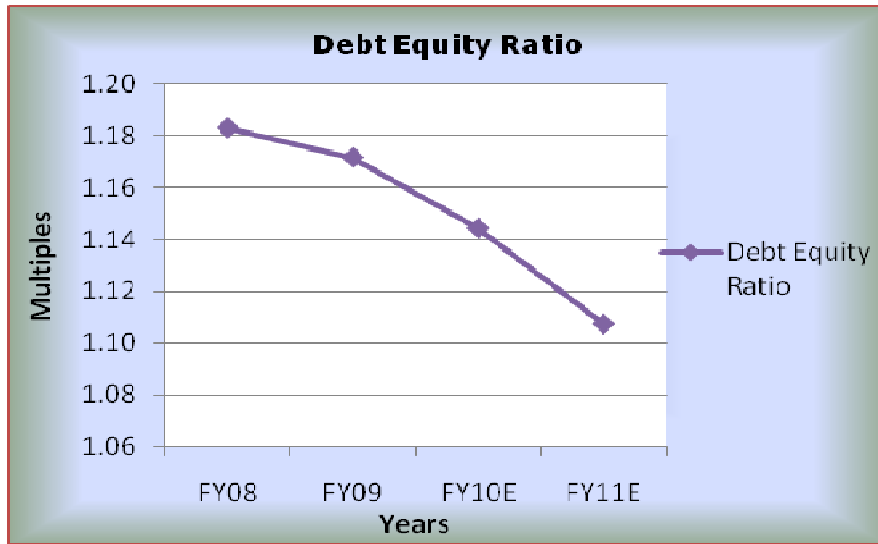
Value(Rs.in.mn)	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10E
Description	3m	3m	3m	3m
<b>Net sales</b>	<b>24613.70</b>	<b>26212.40</b>	<b>28065.60</b>	<b>29749.54</b>
Other income	113.90	74.30	38.20	40.49
Total Income	24727.60	26286.70	28103.80	29790.03
Expenditure	-20003.50	-21231.70	-23172.40	-24543.37
<b>Operating profit</b>	<b>4724.10</b>	<b>5055.00</b>	<b>4931.40</b>	<b>5246.66</b>
Interest	-1577.40	-1616.00	-1697.60	-1765.50
Gross profit	3146.70	3439.00	3233.80	3481.16
Depreciation	-1503.20	-1396.40	-1392.10	-1461.71
Profit Before Tax	1643.50	2042.60	1841.70	2019.45
Tax	-400.00	-550.00	-525.00	-605.84
<b>Profit After Tax</b>	<b>1243.50</b>	<b>1492.60</b>	<b>1316.70</b>	<b>1413.62</b>
Equity capital	2293.00	2294.10	2312.70	2312.70
Face value (Rs.)	10.00	10.00	10.00	10.00
<b>EPS</b>	<b>5.42</b>	<b>6.51</b>	<b>5.69</b>	<b>6.11</b>

**Key Ratios:**

Particulars	FY08	FY09	FY10E	FY11E
No. of Shares(In Million)	229.3	229.41	231.27	231.27
EBITDA Margin (%)	22%	19%	18%	19%
PBT Margin (%)	12%	6%	7%	8%
PAT Margin (%)	8%	4%	5%	5%
P/E Ratio (x)	6.25	13.13	10.05	8.23
ROE (%)	13%	6%	7%	8%
ROCE (%)	20%	15%	15%	16%
Debt Equity Ratio	1.18	1.17	1.14	1.11
EV/EBITDA (x)	2.4	3.03	2.72	2.41
Book Value (Rs.)	295.15	312.76	333.49	361.8
P/BV	0.79	0.74	0.7	0.64

**Charts:**







## Valuation:

- ✚ At the current market price of Rs.232.90, the stock is trading at 10.05 x FY10E and 8.23 x FY11E respectively.
- ✚ Price to Book Value of the stock is expected to be at 0.70 x and 0.64 x respectively for FY10E and FY11E.
- ✚ Earning per share (EPS) of the company for the earnings for FY10E and FY11E is seen at Rs.23.17 and Rs.28.30 respectively.
- ✚ Net Sales of the company are expected to grow at a CAGR of 8% over 2008 to 2011E.
- ✚ On the basis of EV/EBITDA, the stock trades at 2.72 x for FY10E and 2.41 x for FY11E.
- ✚ We expect that the company will keep its growth story in the coming quarters also. We recommend 'BUY' in this particular scrip with a target price of Rs.268.00 for Medium to Long term investment.

## Industry Overview

Consumer durables are the products whose life expectancy is at least 3 years. These products are hard goods that cannot be used up at once.

The consumer durables sector can be segmented into consumer electronics, such as, VCD/DVD, home theatre, music players, color televisions (CTVs), etc. and white goods, such as, dish washers, air conditioners, water heaters, washing machines, refrigerators, etc. With the increase in income levels, easy availability of finance, increase in consumer awareness, and introduction of new models, the demand for consumer durables has increased significantly. Products like washing machines, air conditioners, microwave ovens, color televisions (CTVs) are no longer considered luxury items. However, there are still very few players in categories like vacuum cleaners, and dishwashers.

Consumer durables sector is characterized by the emergence of MNCs, exchange offers, discounts, and intense competition. The market share of MNCs in consumer durables sector is 65%. MNC's major target is the growing middle class of India. MNCs offer superior technology to the consumers, whereas the Indian companies compete on the basis of firm grasp of the local market, their well-acknowledged brands, and hold over wide distribution network. However, the penetration level of the consumer durables is still low in India. An important factor behind low penetration is poor government spending on infrastructure. For example, the government spending is very less on electrification programs in rural areas. This factor discourages the consumer durables companies to market their products in rural areas.

## **Sector outlook**

There has been strong competition between the major MNCs like Samsung, LG, and Sony. LG Electronics India Ltd. has announced its extension plan in 2006. The company is going to invest \$250 million in India by 2011 and is planning to establish a manufacturing facility in Pune. TCL Corporation is also planning to establish a \$22 million manufacturing facility in India.

The Indian companies like Videocon Industries and Onida are also planning to expand. Videocon has acquired Electrolux brand in India. Also, with the acquisition of Thomson Displays by Videocon in Poland, China, and Mexico, the company is marking its international presence.

According to isuppli Corporation (Applied Market Intelligence), country's fiscal policy has encouraged Indian consumer electronic industry. The reduction on import duty in the year 2005-06 has benefited many companies, such as Samsung, LG, and Sony. These companies import their premium end products from manufacturing facilities that are located outside India.

Indian consumers are now replacing their existing appliances with frost-free refrigerators, split air conditioners, fully automatic washing machines, and color televisions (CTVs), which are boosting the sales in these categories. Some companies like Samsung Electronics Co. Ltd. and LG Electronics India Ltd. are now focusing on rural areas also. These companies are introducing gift schemes and providing easy finance to capture the consumer base in rural areas.

## **Growth rates**

The sectors that are projected to achieve 'excellent' growth rates of more than 20 per cent in terms of quantity produced are: air-conditioners (25 per cent), split air-conditioners (60 per cent), frost-free refrigerators (54 per cent), washing machines (20 per cent), fully automatic washing machines (35 per cent), microwave ovens (35 per cent), high-end flat panel TV (100 per cent), LCD TV (110 per cent), plasma TV (100 per cent) VCD/MP3 (20 per cent), DVDs (25 per cent), DVDs-organized (25 per cent).

There is a need to remove some anomalies affecting the growth of the industry, the survey pointed out. Consumer electronic manufacturers were of the opinion that in the era of digital convergence, differential taxation policies for IT and consumer electronics products create distortions and anomalous situations.

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