



## Micro Technologies (India) Ltd.

**Buy**

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Mohini Sinha ( Research Analyst )  
(022) 2282 2992 Ext. : 150  
Milind Karmarkar ( Head Research )  
(022) 6630 8667  
Harish Lalwani ( Equity Sales )  
(022) 3090 3017

### OUTPERFORM

Price	Rs. 220
Traget price:	Rs.325
52-Week Range:	Rs.378-128

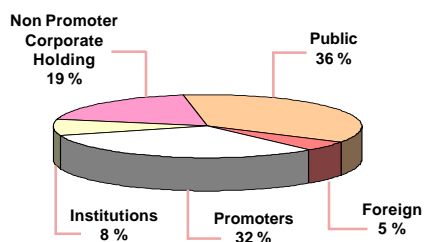
### Key Financials

In Mn.	2006	2007P	2008P
Total Income	585.6	1006.0	1303.0
PBDIT	217.3	389.4	509.2
PAT	176.2	295.4	383.6
Equity	103.7	103.7	103.7
EPS	17.0	28.5	37.0
ROCE	15.6	21.0	21.7
RONW	16.2	24.1	25.0

### Key Share Data

Market Cap	Rs. 2.4 BN / \$ 52.2 MN
EV / Sales	2.49
EV / EBIDTA	6.39
Volume	440000
No.of Shares o/s (mn.)	10.4
Book Value	135.9
BSE/ NSE	532494 / MICROTECH
Bloomberg	MTCH@IN

### Shareholding Pattern



### Investment Rationale

One of the very few software product companies in India, Microtechnologies products make efficient use of mobile technology for various applications such as fleet tracking, prevention of mobile phone thefts and vehicle thefts.

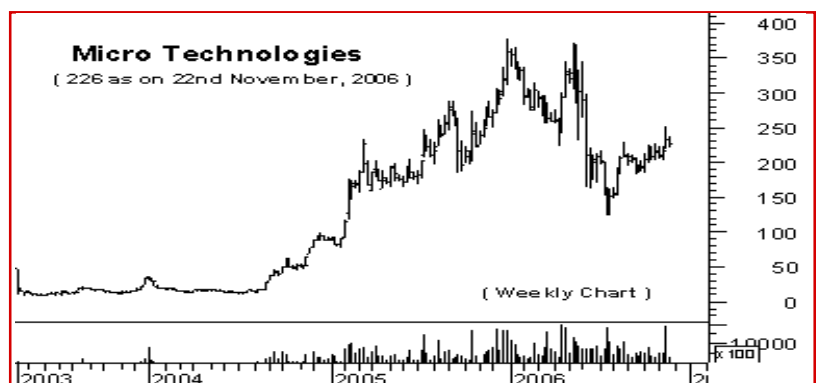
The company's order book for its security products like the VBB and HSS has been growing over the past few quarters. It has orders to supply 400,000 pieces in the VBB segment.. We believe the order book would increase as the company enters newer geographies and signs on more customers.

Introduction of newer product like the Micro lifeline and secure Bank black box is expected to add further to the revenue.

Currently the stock is trading at 7.8XFY07E EPS of Rs.28 and 6XFY08E EPS of Rs.37. We recommend a buy.

### Concerns

The company is yet to be awarded international patent and any competition could significantly erode profitability.



*Shifted its focus from web-based software products to messaging-based security systems*

### Company Background

It is a Mumbai Based company established in 1992 as a company providing software services. It has developed more than 90+ software products for various domains and key focus areas are Security, E-commerce, telecommunication, wireless technology and GIS.

The company has shifted its focus from web-based software products to messaging-based security systems. Its products, Vehicle Black Box (VBB) and Home Security Systems (HSS), offer immense growth potential for the company in future. These innovative products are earning recognition in domestic as well as international markets.

### Products

#### Vehicle Black Box

Micro VBB is a security and messaging antitheft device with various sensors installed in the vehicle. This intelligent box senses any intrusion of vehicle doors and immediately communicates such events to the registered user's mobile through SMS. Though the product is sold at Rs.16000 – Rs.17000 to the end consumers the company bills Rs 10,000 as revenues with the rest being dealers' commission and duties.

MTIL has a current manufacturing capacity of 20000 units and rest is being licensed out. It supplies the critical software to the vendors and bills the vendors Rs3, 000 for the software.

MTIL has entered into an agreement with Ford India to supply the Micro VBB product through dealers for Ford Ikon cars. In our opinion, this is a very positive development for the company as it suggests the acceptability of Micro VBB.

The company has also secured order from HPCL for 2000 vehicles and is expecting approval for another 3000 vehicles. The company is already having an order book of 400,000 pieces.

#### Home Security System

Micro HSS, unique system combined with custom-built hardware to control your premises. It is a micro controller based system with a wireless technology and numerous sensors that allow the owner to remotely get intrusion intimation of his premises & control electronic devices (attached to the system). The average price is around Rs.16,500.

The Company has despatched its first consignments of Home Security System Micro HSS for the Macrosoft Associates U.S.A. a Boston based Company for their UAE office.

## Micro Technologies (India) Limited

*Capex would be around Rs 150 mn  
in the FY07 and about Rs.200mn next  
year*

### Micro Life Line

Micro Life Line (MLL) a web based service and is an effective way of communicating critical and important information with minimal time and effort. The system can be configured to meet the needs of institutions like banks, hospitals and schools.

### Other Products

MTIL is also planning to aggressively sell its **Lost Mobile Tracking System (LMTS)**. Micro LMTS a comprehensive and intelligible tool proven to significantly reduce mobile theft and maintain the system integrity.

### Capex Plans

MTIL is not planning to increase the manufacturing facilities from the present 4500 pieces per month as it now plans to focus on selling licenses rather than hardware. Capex would be around Rs 150 mn in the FY07 and about Rs.200mn next year, which would be funded mostly out of internal accruals.

### Financials

The company has reported a topline growth of 78% in the first half of FY07 at Rs.478 mn against Rs.269 mn whereas the bottomline grew by 133% from Rs.59 mn. to Rs.139 mn. The OPM has shown an improvement from 25% to 39% in the first half of current fiscal.

We expect the ebitda margins to improve in the coming years. We expect it to improve from 37% to 38.7% in FY07 and 39% in FY08.

### Conclusion

Currently the stock is trading at 8XFY07E EPS of Rs.28 and 6XFY08E EPS of Rs.37. We believe that Microtechnology with a unique product portfolio would be a market outperformer and recommend a buy.

**Financials :**

<b>Profit and Loss Account</b>					
<b>Particulars (Rs MN)</b>	<b>Mar'05</b>	<b>Mar'06</b>	<b>Mar'07E</b>	<b>Mar'08E</b>	<b>Mar'09E</b>
Gross Sales	267.3	585.6	1006.0	1303.0	1628.0
Other Income	1.1	0.7	0.0	0.0	0.0
Total Income	268.4	586.3	1006.0	1303.0	1628.0
Cost of sales	(152.7)	(335.2)	(575.8)	(745.8)	(931.8)
Professional fees	(8.2)	(13.2)	(16.5)	(19.7)	(23.7)
Manufacturing Exp	(13.4)	(15.6)	(15.5)	(16.4)	(18.8)
Selling & Distribution Expenses	(3.0)	(5.0)	(8.7)	(11.8)	(16.5)
Cost of sales	(177.4)	(369.0)	(616.6)	(793.8)	(990.9)
PBIDT	91.0	217.3	389.4	509.2	637.1
Interest	(3.8)	(5.2)	(5.7)	(5.7)	(5.2)
PBDT	87.2	212.2	383.7	503.5	631.9
Depreciation	(10.5)	(24.2)	(36.2)	(52.2)	(61.8)
Profit before tax	76.7	188.0	347.5	451.3	570.1
Provision for tax	(4.8)	(12.7)	(52.1)	(67.7)	(85.5)
Deferred Tax	(2.6)	0.9	0.0	0.0	0.0
Reported PAT	69.2	176.2	295.4	383.6	484.6
Profitability indicators (%)					
PBIDT excl other income	33.6	37.0	38.7	39.1	39.1
PBIDT	34.0	37.1	38.7	39.1	39.1

## Micro Technologies (India) Limited

Balance Sheet	Mar'05	Mar'06	Mar'07E	Mar'08E	Mar'09E
Equity capital	81.7	103.7	103.7	103.7	103.7
Profit & loss/general resrv	504.4	1029.0	1303.6	1666.5	2130.3
Net worth	586.1	1132.7	1407.4	1770.2	2234.1
Secured loans	20.5	53.3	53.3	53.3	43.3
Unsecured loans	0.3	3.6	4.0	4.0	4.0
Total debt	20.8	56.9	57.3	57.3	47.3
Capital employed	606.9	1189.7	1464.7	1827.5	2281.4
Gross block	96.3	481.2	631.2	831.2	951.2
Accumulated depreciation	(44.1)	(68.3)	(104.4)	(156.6)	(218.4)
Net block	52.2	412.9	526.7	674.6	732.8
Capital WIP	125.6	155.2	165.0	175.0	180.0
Total fixed assets	177.8	568.1	691.7	849.6	912.8
Investments	222.0	11.0	25.0	25.0	25.0
Inventories	77.8	111.9	192.2	224.0	279.9
Sundry debtors	102.7	290.0	323.8	419.4	524.0
Cash & bank	13.4	211.4	258.0	350.9	596.2
Loans & advances	52.3	56.8	57.0	60.0	65.0
Sundry creditors	(3.0)	(4.1)	(7.1)	(9.2)	(11.5)
Other liabilities	0.0	(11.8)	(20.3)	(26.2)	(32.8)
Unclaimed dividend	0.0	(0.2)	0.0	0.0	0.0
Prov. For exps	(0.2)	0.0	0.0	0.0	0.0
Prov. For taxation	(10.0)	(20.3)	(34.8)	(45.1)	(56.4)
Security deposit recd	(10.1)	0.0	0.0	0.0	0.0
Provision for proposed dividend	(9.3)	(23.0)	(20.7)	(20.7)	(20.7)
Share warrant deposit	(5.5)	0.0	0.0	0.0	0.0
Working capital	207.1	610.6	748.0	953.0	1343.6
Misc Exp	0.0	0.0	0.0	0.0	0.0
Capital deployed	606.9	1189.7	1464.7	1827.5	2281.4
Return on (%)					
Networth (post tax)	11.8	15.6	21.0	21.7	21.7
Capital Employed (pre tax)	13.3	16.2	24.1	25.0	25.2
Per share (Rs)					
Earnings (EPS)	8.5	17.0	28.5	37.0	46.7

## Micro Technologies (India) Limited

Cash Flow Statement	Mar'05	Mar'06	Mar'07E	Mar'08E	Mar'09E
Pre tax income from operations	75.6	187.3	347.5	451.3	570.1
Depreciation	10.5	24.2	36.2	52.2	61.8
Exceptional Item	0.0	0.0	0.0	0.0	0.0
Pre tax cash from operations	86.1	211.5	383.7	503.5	631.9
Other income/prior period ad	1.1	0.7	0.0	0.0	0.0
Net cash from operations	87.2	212.2	383.7	503.5	631.9
Tax	(7.4)	(11.8)	(52.1)	(67.7)	(85.5)
Cash profits	79.8	200.4	331.6	435.8	546.4
(Inc)/Dec in					
-Sundry Debtors	(34.8)	(187.2)	(33.8)	(95.6)	(104.6)
-Inventories	(23.1)	(34.1)	(80.3)	(31.8)	(55.9)
-Loans/advances	(22.5)	(4.5)	(0.2)	(3.0)	(5.0)
-Sundry Crs	(6.8)	1.2	3.0	2.1	2.3
-Others	16.2	7.1	12.3	10.3	11.3
Change in working capital	(71.0)	(217.6)	(99.0)	(118.0)	(151.9)
Operating activities	8.8	(17.2)	232.6	317.7	394.4
(Add)/Dec in fixed assets	3.9	(414.4)	(159.8)	(210.0)	(125.0)
(Add)/Dec in Investments	(39.5)	211.0	(14.0)	0.0	0.0
Investing activities	(35.6)	(203.4)	(173.8)	(210.0)	(125.0)
Inc/(Dec) in Debt	(12.3)	36.1	0.4	0.0	(10.0)
Inc/(Dec) in Equity/Premium	29.2	22.0	0.0	0.0	0.0
Capital subsidy trf to P&L	31.4	369.1	(0.0)	(0.0)	0.0
Dividends	(8.2)	(20.7)	(20.7)	(20.7)	(20.7)
Financing activities	40.2	406.5	(20.4)	(20.7)	(30.7)
Cash generated/(utilised)	13.3	185.9	38.3	87.0	238.7
Cash at start of the year	0.1	13.4	211.4	258.0	350.9
Cash at end of the year	13.4	199.4	249.7	344.9	589.6



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For Further details contact : **Mr. Milind Karmarkar / Mr. Chirag Shah / Ms. Hiral Sanghvi / Ms. Mohini Sinha / / Mr. Anand Vaidya**  
508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021 Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092 E-mail: dbvs@vsnl.com