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EURO MULTIVISION LIMITED

September 19, 2009

SMC RANKING ★

Issue Highlights

Industry	**Cons Durables- Electronics**
Issue Size(in Cr)	61.60-66.00
No of shares	8,800,000
Price Band (Rs.)	70-75
Offer Date	Sep 22,09
Close Date	Sep 24,09
Listing	NSE, BSE
Face Value	10
Lot Size	90
IPO Grade	CARE IPO Grade"3" (Indicating average fundamental)

Issue Composition

Total Issue	8,800,000Shares
Employee Reservation	200,000 Shares
Net issue to the public	8,600,000 Shares
QIBs	4,300,000 Shares
Non Institutional	1,290,000 Shares
Retail	3,010,000 Shares

Book Running Lead Manager
Anand Rathi Advisors Limited

Name of the registrar
Link Intime India Private Limited

Shareholding Pattern (%)

Particular	Pre-issue	Post issue
Promoters	76.7	48.3
Promoter Group	4.4	2.8
NIB	3.3	7.5
QIB	15.6	27.9
Retail	0.0	12.6
Employee	0.0	0.8
Total	**100.0**	**100.0**

Analyst

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Company Profile

Existing business

Euro Multivision Limited, incorporated in April '04, had set up a plant for the manufacture of Compact Disc Recordables (CDRs) and Digital Versatile Disc Recordables (DVDRs) at Taluka Bhachau, Dist- Kutch, Gujarat. Commercial production commenced in April '05 and by the second half of financial year 2006-07, the company had ten manufacturing lines. In the same financial year, the DVDR manufacturing line was converted into a CDR manufacturing line. These lines can also manufacture pre recorded CDs and DVDs. The facility is fully automated with least human intervention, which ensures international quality standards with optimum utilization of installed capacities. For the year ended March 31, 2009, CDRs contributed about 100% of its total sales.

Proposed business

The use of PV (Photovoltaic) systems to provide electricity in remote areas and to reduce global carbon emissions has made PV technology popular. The company hence proposes to build a PV solar cell manufacturing unit with a capacity of 40MW per year at Taluka Bhachau, Dist- Kutch, Gujarat. Civil Construction activity for this plant began on 1st May '09. Commercial operations are expected to commence by January '10. The PV plant is to be set up in a Special Economic Zone (SEZ), for which the company has already acquired 28.75 acres of land adjacent to the existing manufacturing unit at Bhachau. EML has obtained licenses under Export Promotion Capital Goods (EPCG) scheme for the export of its finished goods.

This new field of business is synergistic with the company's existing businesses and EML will leverage its core competencies in precision high technology, mass manufacturing, and project management. The company is targeting one segment in the PV value chain that is most attractive from a synergy standpoint, since it leverages the company's manufacturing competencies.

About the Group

EML is a part of EURO group which was promoted by Shri Nenshi Shah in 1995. Euro group has presence across multi products such as Vitrified & Ceramic Tiles, Agglomerated Marble, Aluminium Section, Aluminium Composite Panels (Bond), Hardware & Sanitary ware Fittings, Plywood, Veneers, Laminates, Mica, Canfor, Imported Furniture, Sponge Iron, CDR, DVDR, Glass Articles, Dry Battery Cell and Wooden Flooring and is spread over various parts of India.

Investment Arguments

Location advantage

The strategic location of the plant in Kutch region is helpful since it is well connected with Kandla and Mundra Ports. Due to the natural protection provided by the location, these ports are able to handle cargo throughout the year in all weather conditions, including the monsoon season with minimal costs, delays and damages that often impact other more exposed ports. The plant is connected by rail and road to the transportation network of India, particularly the inland regions of western and northern India.

For CDR/DVDR business

Strong Dealer Network

The company has been able to establish a strong dealer network across India and sales occur through this distribution network that has been developed over the last three years. Presently, EML has 16 distributors with over 515 district dealers and more than 1,50,000 retailers spread across the country for marketing and distributing its products.

Ranked second among all the Optical storage media devices manufacturers in the country

In 2009, according to the Optical Disk Manufacturers Welfare Association, EML was the second largest player (with an installed capacity of 1800 Lac units per annum, ranked second with Moser Baer being ranked first with an installed capacity of more than 10000 lac units per annum) in the country in terms of installed manufacturing capacities.

Objects of the Issue

Particulars	Amount(in Cr.)
Settng up of Photovolatic solar cell manufacturing Unit	178.03
General Corp Puroses	[•]
Total	[•]

Quality Certification

EML's CDRs/ DVDRs manufacturing unit has received ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:1999 certifications. Hence, the company gets repetitive orders from customers, which helps in maintaining its brand image in the market.

Optimum utilization of manufacturing facilities

The manufacturing facility is currently operating at 100% capacity. This helps in meeting the increasing demand in CDR /DVDR segment, which in turn helps in maintaining cost competitiveness and manufacturing efficiencies.

Convertibility from CD to DVD

EML's CDR/DVDR manufacturing lines can easily be interchanged from CDR to DVDR and vice versa. Hence any change in customer preference from CDR to DVDR and vice versa can be easily addressed without any loss of time.

Captive Power plant

The company owns a 10 MW lignite based Captive Power Plant jointly with Euro Ceramics Limited for cost effective and uninterrupted power supply. This helps in avoiding any delays in the manufacturing process thereby ensuring complete utilization of the company's capacities.

For Photovoltaic business

Proposed manufacturing unit will be set up in SEZ

The PV cell manufacturing unit is being set up in a SEZ which will make it eligible for all SEZ policy concessions and advantages. This will result in cost reduction and thereby enhancing margins and market share.

Tied up for the supply of machinery for the proposed manufacturing unit

The company has entered into an agreement with OTB solar, a Netherlands based company for the supply of machinery for the proposed unit and has already received the consignments of Imported Plant and Machinery in November and December '08.This puts EML in an advantageous position as far as the commissioning of the PV cell manufacturing unit is concerned.

Early mover advantage

Considering the global requirement for renewable energy, the company will enter into the growing PV Business at an early stage and so be able to pre-empt competition and capture demand by establishing a strong brand name. This would enable it to build up sales volume and ride down the experience curve ahead of competitors.

Business Strategy

For CDR/DVDR Business

Mix of Organic and Inorganic Models of Growth

EML's strategy so far has been organic growth. At this stage of its business, it is now believed that a combination of organic and inorganic models will help it to grow. Strategic acquisitions will help in leveraging complementary skills to capture market opportunities as well as reduce time-to-market and accelerate growth.

For Photovoltaic business

Export entire production

In the present scenario, solar cells are in demand in overseas markets due to various governmental initiatives/support schemes. Hence, EML proposes to export its entire production. The company has identified Europe, US, South East Asia and Middle East as some of the key places wherein it will set up marketing offices and for this it proposes to engage overseas marketing agents once the manufacturing facility starts commercial production.

Enlarging the value chain through Backward and Forward Integration

- **Backward Integration**

  The key raw material required for manufacture of solar cells is Silicon Wafers which will be procured from the overseas market. EML proposes to manufacture Poly Silicon (the essential raw material required for Silicon wafers) to enhance margins and meet timely requirement of raw material. For this purpose, the company has already entered into a Technology Transfer/ License agreement with SRI International, California which will provide the training and technology know how to personnel for manufacturing Poly Silicon.

- **Forward Integration**
  PV cells are connected together to form larger units called modules to boost the power output of PV cells. Presently, the company proposes to sell solar cells to module manufacturers but since module manufacturing is more of an assembly job that doesn't require any expert or critical manufacturing know how, EML also intends to setup a module manufacturing facility to enable it to enter into Energy Farming. This forward integration will provide advantages like making the company eligible for Carbon Credits.

Industry Outlook

EML's Present Business comes under Optical storage media industry which is essentially integrated with the PC market and VCD/DVD players industry and both these segments have grown over the past few years and are expected to grow in the future as well.

The proposed new business of solar PV cells manufacturing comes under renewable energy. The Kyoto Protocol, an agreement under which industrialized countries will reduce their collective emissions of greenhouse gases, has boosted the demand for solar energy, as its use is pollution free. The trend of implementing various solar energy programmes by governments is hence expected to continue and speed up in the future due to increasing demand for renewable energy.

Within India itself, serious energy shortages show the continued strength of demand for power. Tapping this potential will require conducive national policies and programmes designed to attract active participation from the private sector. India is the third largest producer of silicon solar cells, and 60 companies are involved in the production of various solar PV cells. The National Solar Mission has been launched and a country wide Solar PV Programme has been implemented by the Ministry.

The Government of India has allowed upto 100% Foreign Direct Investment in solar PV technology, and attractive duty & tax concessions have also been made. An Expert Committee constituted by the Planning Commission has prepared an Integrated Energy Policy that aims at achieving integrated development and deployment of different energy supply sources, including new & renewable energy. India has recently proposed to augment cooking, lighting, and motive power with renewable in 600,000 villages by 2032, starting with 10,000 remote off-grid villages by 2012.

Concerns

For CDR/DVDR Business

No long-term contracts with buyers

The company does not have any long-term contracts with the customers and any change in the buying pattern of buyers can adversely affect the business of the company. Although the company has received continued business from them in the past, there is no certainty that the same will continue in the years to come.

Effect of Technological change

The market the company operates in is characterized by rapid technological change, evolving industry standards, and new product and service introductions. Future success is dependent upon the company's ability to anticipate these technological advances and develop new products to meet client needs. Failure in anticipating or adequately responding to these advances in a timely basis may hamper future growth & profitability.

Dependency on few suppliers

The company's top ten suppliers of raw material contributed approximately 90.79% of the purchases during FY 2008-09. The company doesn't have any agreement with suppliers for sourcing, which may affect their regular supplies in case of any conflict or delay in the supply. Hence, it could adversely affect the manufacturing operation and consequently results of operations.

For Photovoltaic business

Lack of track record into manufacturing of PV cells

The company has no prior experience in this business segment which may hinder its ability to operate the proposed plant in a commercially successful manner. Moreover, the company may face stiff competition from established and or new players in acquiring a requisite market share.

No alternate source of funding

Apart from the term loan of Rs.8000 Lacs sanctioned by SBI, the company has not identified any alternate source of funding and hence any failure or delay on company's part to raise money from this issue or any shortfall in the issue proceeds may delay the implementation schedule of the project.

Certain orders are yet to be placed for plant & machinery

The company has not yet placed orders for Plant & Machinery aggregating approximately Rs. 4,003 Lacs comprising imported Plant & Machinery aggregating Rs.1437.61 Lacs or 11.31 % of the Plant & Machinery to be financed from the Proceeds of the Issue and Indigenous Plant & Machinery aggregating Rs. 2565.09 Lacs or 20.18 % of the Plant & Machinery to be financed from the Proceeds of the Issue.

Not applied/ received all the licenses required for the proposed project

If the company fails to obtain within the prescribed time any of the approvals related to the proposed project, its ability to execute the project for manufacturing solar PV cells may be materially impacted. The company and its officials may be subject to fines and penalties under relevant legislations, and consequently the company's turnover and profitability may be adversely affected.

Fluctuation of the Rupee against foreign currencies

The company's entire PV cells business will be denominated in foreign currency therefore volatility in foreign currency exchange rates may have an adverse impact on company's imports of plant, machinery and raw material. Inability to hedge foreign exchange exposure may result in an adverse impact on the financial condition.

Valuation

The stock trades at a P/BV of Rs.3.00 on the lower side of the band and 3.58 on the higher side of the band of its FY09 book value Rs.20.98. Looking at the post issue valuation, the stock trades at a P/BV of Rs.1.71 on the lower side of the band and Rs.1.83 on the higher side of the band of its post issue book value of Rs.40.95. Considering the P/E valuation, the company is trading at a P/E of 57.15x times on the lower side of the price band and 61.23x times on the higher side of the price band of its consolidated FY09 EPS of Rs.1.22. Looking at post issue valuation, the company is trading at a P/E of 90.67x times on the lower side and 97.15x times on the higher side of its post issue consolidated FY09 EPS of Rs.0.77.

Outlook

EML is entering a completely new business through setting up a PV Cell manufacturing unit whose project cost is estimated at Rs.167.56 Cr. IPO proceeds of Rs.66 Cr will help finance the project, along with a term loan of Rs. 100 Cr. The remaining Rs.12 Cr is proposed to get sourced from internal accruals (currently at Rs.16.47 Cr). But, this portion has already been utilized for the existing operations of the company. With a total debt of Rs.192 Cr (on 31st March '09), and a 6:1 debt equity ratio, the company's funding plans appear unclear. Added to this is the concern over the success rate of present Indian companies in establishing themselves in this new solar cell business. Even abroad, solar cell related businesses are largely dependent on incentives given by governments, and the withdrawal of these incentives is likely to seriously affect growth in this industry.

Annexure - I

Profit & Loss

(For the Year ended 31st March)

Rs. in Cr.

Particulars	Mar-06	Mar-07	Mar-08	Mar-09
Total Income	41.28	56.51	90.92	73.22
Total Expenditure	40.28	38.39	58.63	53.17
Operating profit	**1.00**	**18.12**	**32.30**	**20.05**
OPM %	0.02	0.32	0.36	0.27
Interest	5.37	5.57	7.66	5.95
PBDT	**-4.37**	**12.56**	**24.64**	**14.09**
Depreciation	3.51	7.06	10.93	11.56
PBT	**-1.24**	**10.20**	**12.54**	**3.06**
Tax	0.04	3.79	2.79	1.22
PAT before EO	-1.29	6.41	9.75	1.84
Extraordinary	0.00	-21.67	-73.04	0.00
PAT after EO	**-1.29**	**6.19**	**9.02**	**1.84**

Balance Sheet

(For the Year ended 31st March)

Rs. in Cr.

Particulars	Mar-06	Mar-07	Mar-08	Mar-09
i. Net Block	52.37	96.34	90.99	84.73
ii. Cap WIP & Capital Adv	0.00	0.00	13.72	109.86
A. Total Fixed Assets (i+ii)	**52.37**	**96.34**	**104.72**	**194.59**
B. Investments	0.01	0.01	0.01	0.01
C. Current assets, loans and adv	17.69	20.77	34.30	54.60
D. Total assets (A+B+C)	**70.07**	**117.12**	**139.02**	**249.20**
E. Liabilities and provisions	61.71	102.79	109.39	217.73
Net worth (D-E)	**8.36**	**14.33**	**29.63**	**31.47**
Represented by				
Share capital	10.00	10.00	15.00	15.00
Reserves and Surplus	0.00	4.66	14.63	16.47
Misc Exp.	1.64	0.34	0.00	0.00
Total	**8.36**	**14.33**	**29.63**	**31.47**

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RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★