

## Mirc Electronics

CMP Rs 19.8

P/E 5.5x

FY2013E



**BUY**

We initiate coverage on Mirc Electronics as a BUY with a Price Objective of Rs. 44.7 (target 12.5x FY13 P/E) over a period of 12-15 months. At CMP of Rs. 19.8 the stock is trading at 7.9x and 5.5x its estimated earnings for FY2012E & FY2013E representing a potential upside of ~126%. Mirc Electronics is a key player in the consumer durables market with a range of products in its portfolio. We expect an earnings growth of ~36% CAGR over a period of three years by FY13E on the back of attractive branding activities, deepening penetration and core focus on LCD, AC & Mobile segments.

### PRICE TARGET Rs 44.7 (12-15 Months)

#### Index Details

Sensex	18,815.6
Nifty	5,654.2
BSE 500	7,229.4
Industry	Consumer Electronics

#### Script Details

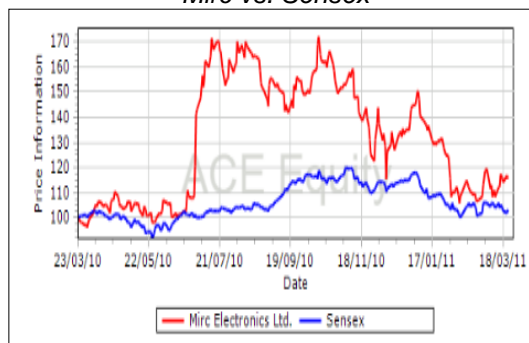
Mkt Cap (Rs in crore)	281.0
Book Value (Rs)	18.0
Eq Shares O/s (Cr)	14.2
Avg Vol (Lacs)	1.5
52 Week H/L	30.3/15.4
Dividend Yield (%)	4.8
Face Value (Rs)	1.0

BSE Code	500279
NSE Code	MIRC

#### Shareholding Pattern (31<sup>st</sup> Dec, 2010)

Shareholders	% holding
Promoters	55.1
Indian Institutions	1.6
FII's	4.8
Non Promoter Corporate	9.1
Public	29.4
Total	100.0

Mirc vs. Sensex



### Focus on high growth markets of LCDs, air conditioners & mobile handsets

The Indian Consumer Durables market is projected to grow at a CAGR of 30-32% to touch Rs.60,000 crore over the next 5 years. In the vast myriad of opportunities within the fast growing consumer durables market, Mirc Electronics aims to consolidate itself and focus on three core business segments viz. LCD (~11% CAGR FY13E), ACs (~52% CAGR FY13E) and Mobile Handsets (~92% CAGR FY13E). The company endeavors to become a \$1 bn organization by FY13 & generate revenues of ~Rs. 10 bn each from the three high growth segments of LCD, AC & Mobile handsets.

### Pioneering products, ad spend & branding- Key to growth

Backed with solid and exhaustive research with the consumer in mind, Mirc has detailed a 21 point product innovation (viz. AC with SMS facility & mobile handset which facilitates creation of one's own Radio) agenda which is expected to differentiate its product offering from the crowded market. This coupled with the strong image of its 30 year old brand Onida and a surge in A&P spend (~37.3% over the next three years) and co branding activities (tie-up with Reliance Digital TV) is expected to catapult growth.

### Rising incomes and favorable shifts in consumer demographics to aid Mirc

Rising disposable incomes, easy availability of credit and a change in the behavioral pattern of consumers is expected to drive the consumer demand and the consumer durables market is expected to grow at 30-35% CAGR over the next 3-5 years. The rapid urbanization (~5% AAGR) rate will assist Mirc in growing its brand Onida in the urban geography while Igo with its rural focus and low average selling price will help Mirc gain market share & establish its foothold in the rural market.

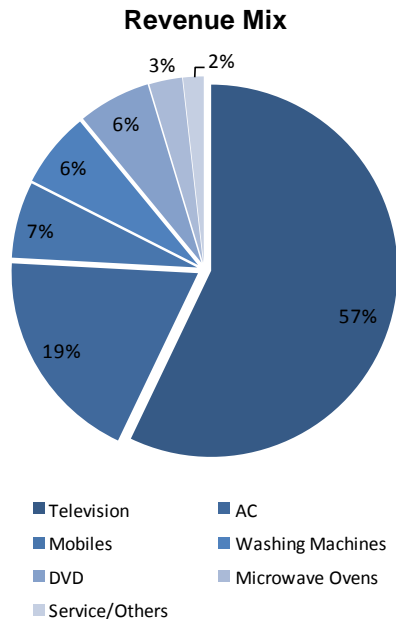
### Attractive Valuations

We expect the firm's net revenues to rise by 31.7% CAGR over the next three years on the back of growth in the three high growth focus segments of LCD TV, ACs and Mobile. We initiate coverage on Mirc Electronics as a BUY with a Price Objective of Rs. 44.7 (12.5x FY13 P/E) over a period of 12-15 months. We expect the company's earnings to grow at ~36% CAGR by FY13E and an improvement in the RONW and ROCE to 16.2% & 22.4% by FY13 from the current levels of 8.1% & 15.7%, respectively.

### Key Financials

Y/E Mar (Rs Crore)	Net Revenue	EBITDA	PAT	EPS	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (X)	EV/ EBITDA(X)
2010	1526.7	59.9	20.0	1.4	-	8.1	15.7	14.4	6.1
2011E	1904.5	69.4	24.7	1.7	26.8	9.5	17.2	11.4	5.3
2012E	2532.2	86.3	35.6	2.5	44.1	12.8	19.5	7.9	4.3
2013E	3485.9	113.8	50.8	3.6	42.5	16.2	22.4	5.5	3.1

# Stock Pointer



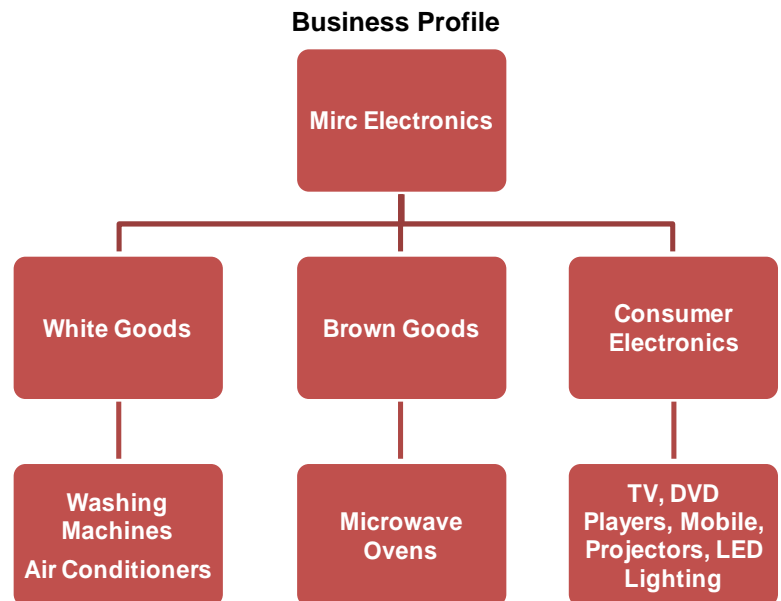
Source: Mirc, Ventura

## Company Background

Incorporated in 1981 Mirc Electronics, a key player in the consumer durables industry, is engaged in manufacturing and marketing of LCD & LED TVs, DVD and home theatre systems, air conditioners, washing machines, mobile phones, microwave oven, projectors & display products and LED lighting. The company markets its products under the brand name 'Onida' and 'Igo' and has a wide distribution reach with a network of 33 branch offices and 41 depots spread across the country. The company's state of the art manufacturing facilities are located at Thane, Noida and Roorkee.

### **Diverse export markets reduces sales volatility**

Mirc Electronics exports its products to Uganda, Tanzania, Kenya, Ethiopia and SAARC countries. Its shipments to gulf countries contribute around 65% of total export revenue. The export products include Home theatres, DVD players and LCD TVs. The company plans to expand its international presence by developing production facilities in CIS / North Africa and intends to launch its products in other GCC countries in the near future.



Source: Mirc, Ventura

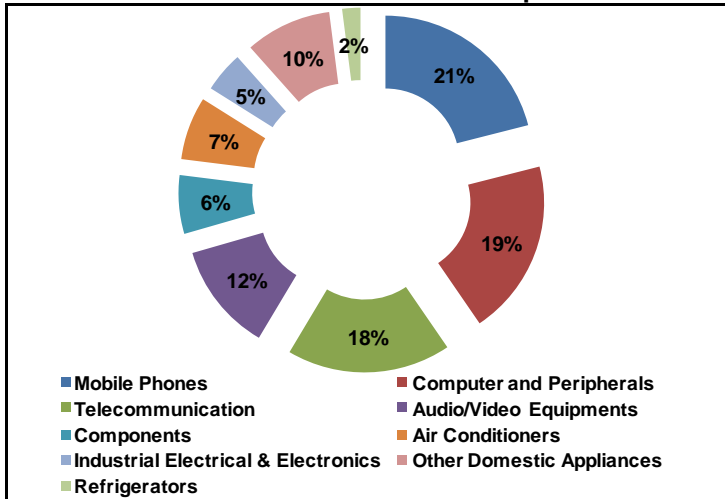
Television (57%) and Air Conditioners (19%) are the primary contributors to the total revenues of the company. The company has recently ventured into the new segments of mobile phones and LED lighting, which are expected to witness high growth going forward.

## Key Investment Highlights

- ❖ Focus on high growth markets of LCDs, Air Conditioners & Mobile Handsets

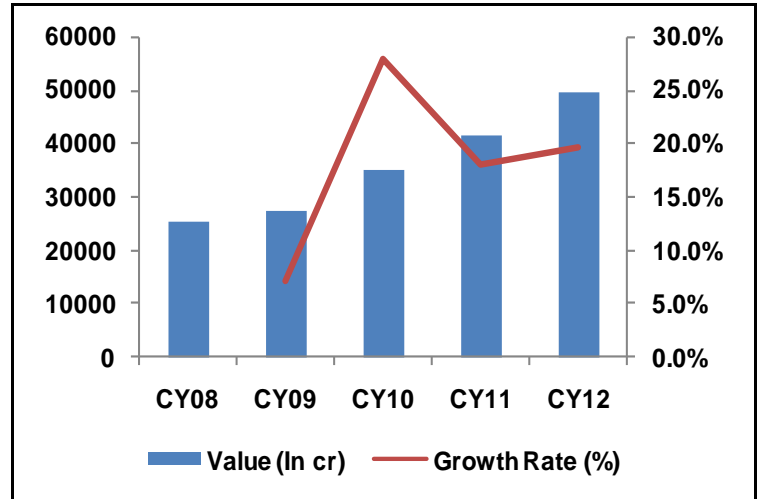
The Indian Consumer Durables market is projected to grow at a CAGR of 30-32% to touch Rs. 60,000 crore over the next 5 years. In the vast myriad of opportunities in this fast growing consumer durables market, Mirc Electronics aims to consolidate itself and focus on three core business segments viz. LCD, ACs and Mobile Handsets.

**Consumer Durables- Market Composition**



Source: IBEF, Ventura

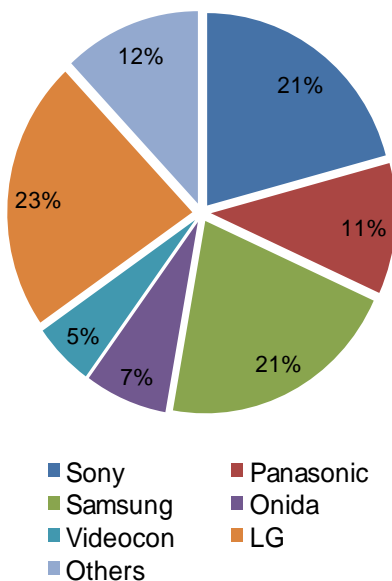
**Consumer Durables- Market Growth**



Source: IBEF, Ventura

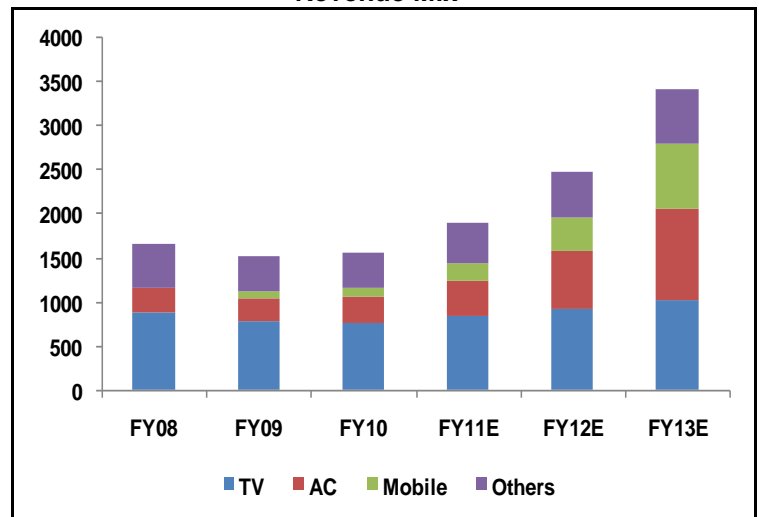
The company endeavors to become a \$1 bn organization by FY13 and generate revenues of ~Rs. 10 bn each from the three high growth segments of LCD, AC & mobile handsets.

**Flat Panel TV Market Share**



Source: CEAMA, Ventura

**Revenue Mix**



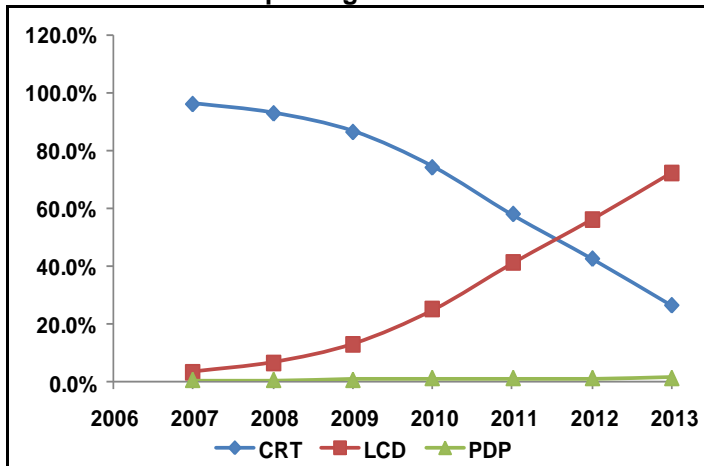
Source: Mirc, Ventura Estimates

## ➤ The LCD business

The Color TV market is expected to grow at a minimum of 25% over the

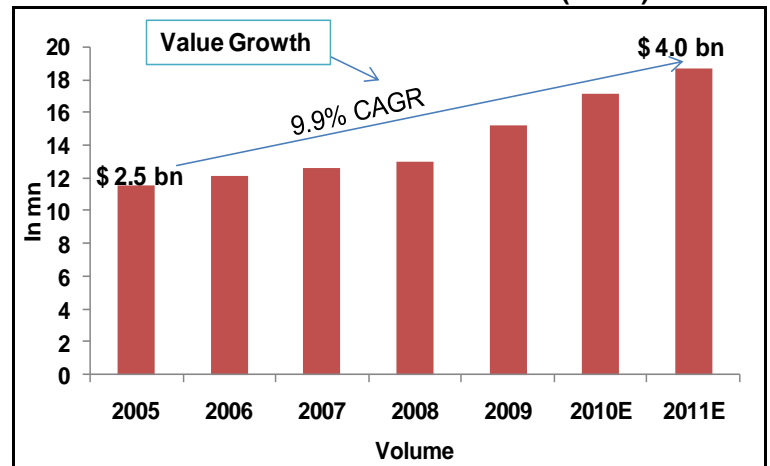
next 2 years on the back of rising disposable incomes and changing lifestyles. As per McKinsey Global Institute, the consumer spending is set to rise from Rs. 17 trillion (2005) to Rs. 34 trillion by 2015 and further to Rs. 70 trillion by 2025. The avant-garde technology of LCD and LED based TVs combined with the falling price differential between the LEDs and conventional CRT TVs is set to completely replace the CRT TV.

**LCD replacing the CRT TVs**



Source: iSuppli, Ventura

**Color TV Market- Volume Growth (In mn)**



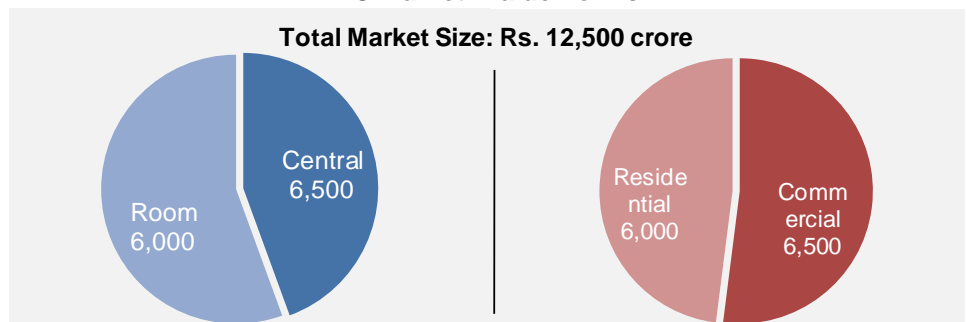
Source: IBEF, iSuppli, Ventura

LCD TV sales during CY2010 have been estimated at 3.2 mn units, reflecting a growth of 70% over the last year. Mirc Electronics, a key player in the segment is expected to clock ~ 65% growth in LCD sales in the current year. The unique features of non reflective glass surface and toughened glass systems are expected to help Mirc differentiate its product offerings from that of competition. The firm intends to enhance its market share to 12-15% aided by innovative branding and marketing strategies. We expect Mirc's revenues from this segment to grow at a CAGR of 10.6% to Rs. 1,027.2 crore by FY13.

➤ **AC Market**

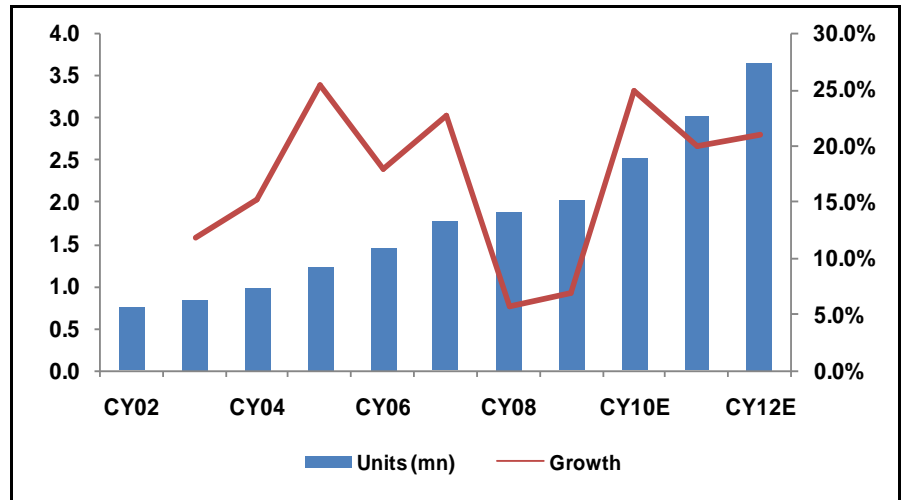
The total market size for ACs in the country has crossed Rs.100 bn in value terms and volume wise has grown to over 3 mn units (25% CAGR for last 5 years). Of this, the market for Central AC (CAC) is ~Rs. 50 bn while the size of Room AC (RAC) comprises the balance Rs. 55 bn. With penetration levels of only 3%, RAC market is expected to double in 3 years while the CAC market is expected to grow at ~20% p.a. in line with the infra growth of the country.

**AC Market -Value Terms**



Source: CEAMA, Ventura

## Room AC- Domestic Market Volume



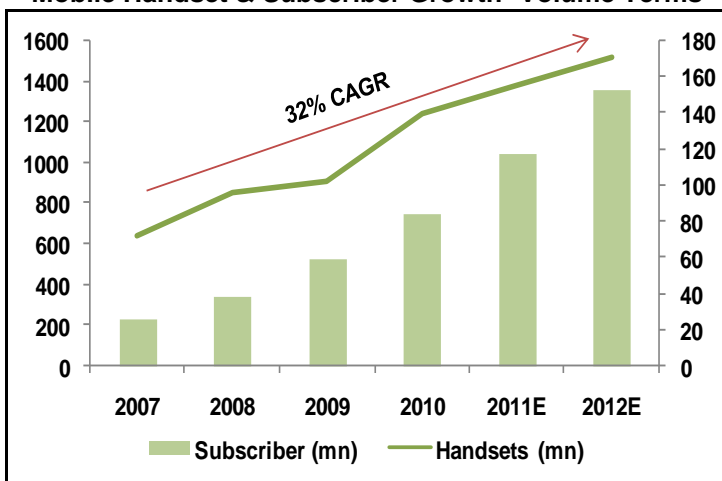
Source: CEAMA, Ventura

With its new advertising campaign and innovative features Mirc expects to corner ~20% market share in the room AC market by FY13. Accordingly we expect revenues from this segment to touch Rs. 1,033.9 crore by FY13, representing a CAGR of 52%.

### ➤ Mobile

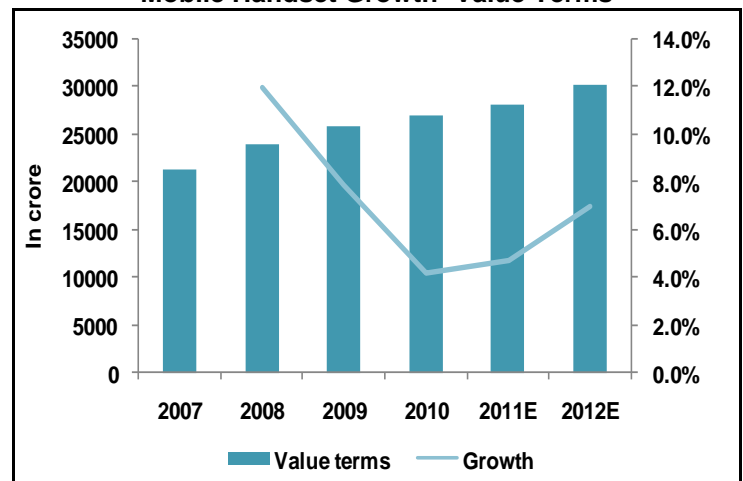
The market for the handsets is growing at a rate of 30% p.a. and for the year 2011, it is expected to cross 155 mn units with an ASP of ~Rs.2500. The segment is expected to maintain its rate of growth given the rising disposable incomes, high penetration levels, growing demand for innovative features and applications. The mobile handset teledensity in India currently stands at nearly 45%, representing a huge untapped market, especially the rural sector.

## Mobile Handset & Subscriber Growth- Volume Terms



Source: IDC, TRAI, Ventura

## Mobile Handset Growth- Value Terms

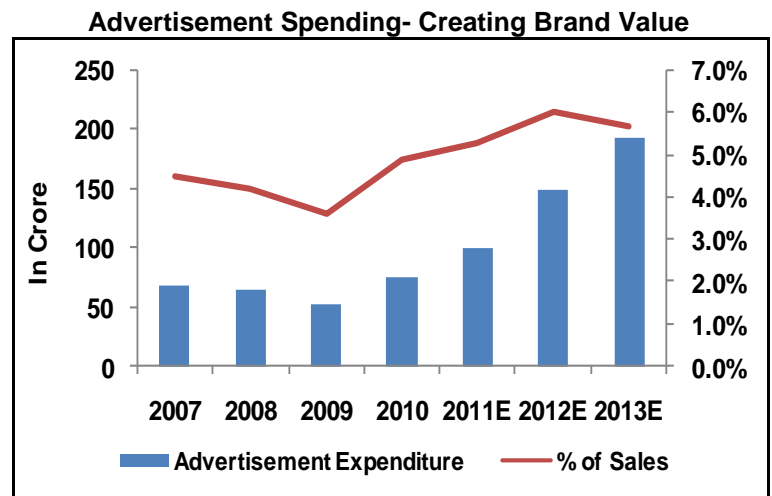


Source: Voice & Data, Ventura

Mirc Electronics being a new player in the segment intends to gain from its better understanding of the consumer demand and launch of new models with innovative features. The handsets ASP is expected to be above Rs 2000 and we expect revenues from this segment to touch Rs. 733.4 crore by FY13.

❖ **Brand building, product innovation and ad spend- key to grow business many fold**

The consumer durables industry has witnessed a considerable change over the last few years on the backdrop of changing lifestyles and higher disposable income coupled with a surge in advertising. Mirc has also embedded itself into the changing times and altered its strategy of marketing products. The firm dropped its iconic 'Devil Brand' and shifted to a brand new campaign "**Design With you in Mind**" to focus on its three core segments.



Source: Mirc, Ventura

➤ **Onida brand- Strong Recall; Igo brand- To help penetrate rural market**

The recall of Onida and Igo Brands among consumers stands well entrenched and with a slew of aggressive promotion and advertisement activities, Mirc will see an improvement in its revenues. The company with its Onida brand has expanded into the space of LED & LCD-based TVs and is banking on the Cricket World Cup 2011 to augment its market share. Igo with its superior quality, product recognition & promotion activities in rural areas will help the firm to penetrate the rural geography and establish a firm foothold in the rural markets.

➤ **New product offerings with differentiating features**

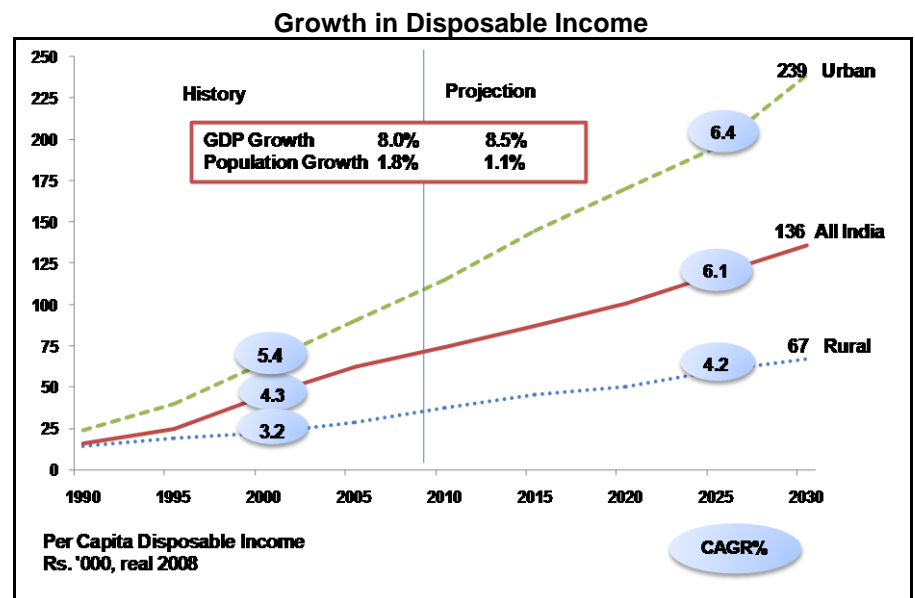
Mirc is introducing a split AC & a mobile handset with differentiating features. The AC will have a facility of operating it through an SMS and the company aims to market it with its advertising campaign "**SMS Gone AC On**". Mirc is well positioned in the AC market space and is the 4<sup>th</sup> largest brand in Room AC with a market share of over 15% in split AC segment and with the success of this campaign it expects the AC business to grow by 60% in 2011 & obtain market share of 19-20% by FY13 in that segment.

➤ **Customer centric R&D helps Mirc develop value added products**  
Mirc's combination of **Customer Connect** exercises and an advanced R&D team has formed a framework for the development of products based around customer needs. This has helped the company develop a strong consumer connect and increase the brand recall. Infact it has developed a 21 point innovation agenda which will help it spur sales and increase brand recognition in the crowded consumer durables market.

One such product offering on the back of Customer Focused Research is a mobile phone with the uniqueness of "**Creating your own Radio Station**", for which the company has started an aggressive campaign.

On the back of this consumer centric approach, the company has recognized a key growth area of **LED Lighting & Lanterns** and is targeting both the urban and rural geographies to generate revenues. It is aiming sales of ~ Rs. 50 crore from the segment FY12 onwards.

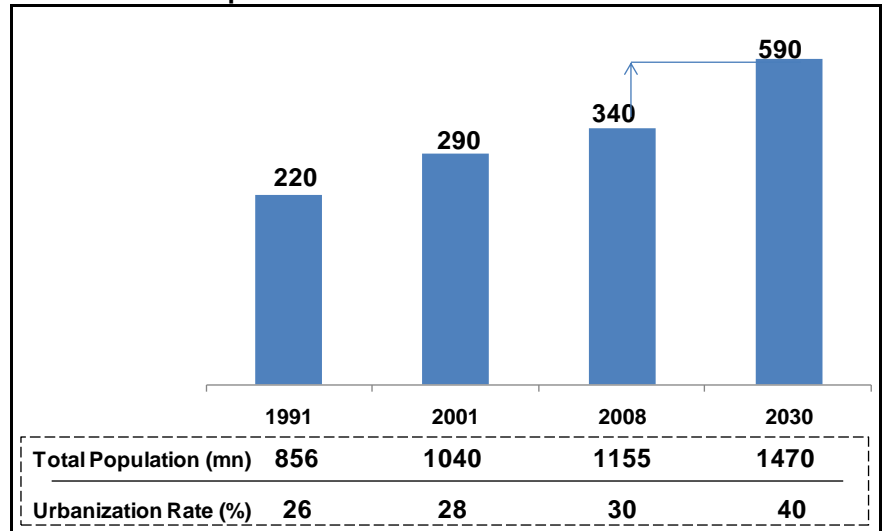
❖ **Rising Incomes & Shift in Consumer Behavior to benefit Mirc**  
Rising disposable incomes, easy availability of various financing schemes and a change in the behavioral pattern of consumers, will lead to a CAGR of 30-32% over the next 5 years in the consumer durables market.



Source: McKinsey Global Institute, Ventura

This is further fuelled by the fact that the rapid urbanization in India will lead to higher demand for consumer durables.

**Population Growth & Urbanization Rate**



Source: McKinsey Global Institute, Ventura

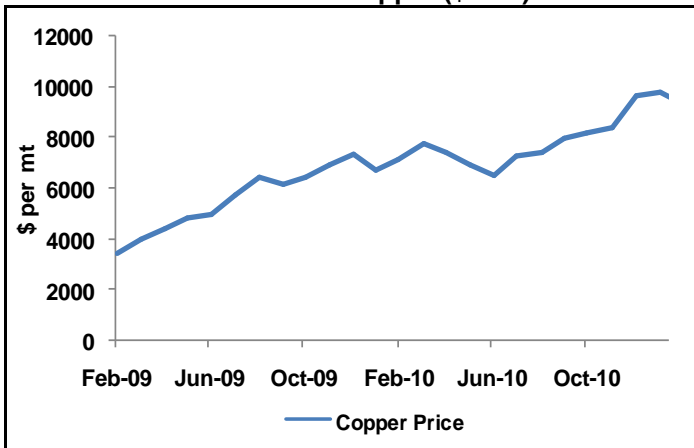
Mirc with its well entrenched distribution networks in far flung areas and an exemplary after sales service is expected to be a big beneficiary.

## Key Concerns

### ➤ Rising input prices

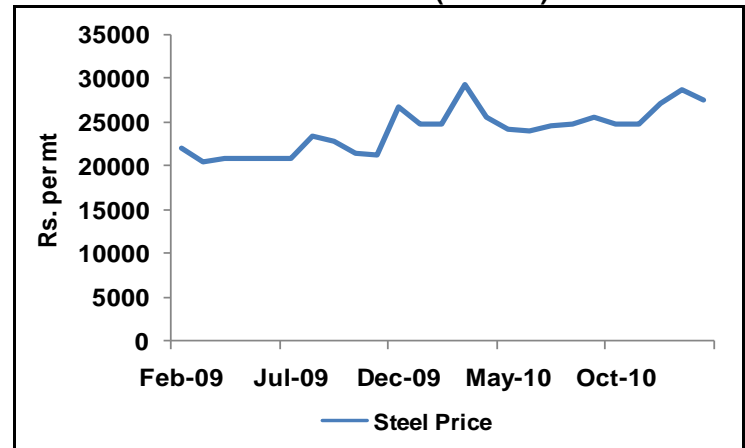
With raw material forming a significant part of the operating costs, profitability of Mirc Electronics largely depends on the RM pricing. On the back of copper and steel prices escalating to the levels of ~\$9,500 per mt and Rs. 27,600 per mt, operating margins of the consumer durables manufacturers can get severely impacted. Manufacturers will be left with no choice but to pass the cost burden to consumers which may result in decreased demand for electronics. However, in our opinion, Mirc with its efficient working capital management, sound sourcing policy and cost reduction measures should sustain its operating margins over the medium term.

**Price Trend- Copper (\$ / mt)**



Source: Bloomberg, Ventura

**Price Trend- Steel (Rs. / mt)**



Source: Bloomberg, Ventura



➤ **Technology obsolescence, changing consumer preferences and cut throat competition are constant risks**

Product obsolescence is a fact of life in the ever changing technology world. In addition the constantly evolving consumer preferences and cut throat competition from global majors, means that Mirc has to be fleet footed to cater to the rapidly changing demands of the market besides competing with the global majors on pricing, innovation and faster time to market. In our view Mirc is well embedded within the consumer durables space and is equal to, if not better than competition in its understanding of the changing preferences and has kept pace with competition in meeting the challenges delineated above. Onida, a power brand and its strong R&D team and pioneering innovations stand the company in good stead

□ **Financial Performance**

On the backdrop of increased volumes due to the festive season Mirc reported a 32.6% rise in Q3FY11 Net Sales to Rs 447.8 crore. The company maintained its margins at ~ 4.2% for Q3FY11. Net profit margin however de grew marginally by 20 bps to 1.3%.

For 9MFY11 net sales grew by 20.7% on yearly basis to Rs 1,338.3 crore. EBITDA margins for 9MFY11 rose marginally by 10 bps to 3.8%. Net margin for 9MFY11 stood at 1.3%.

**Mirc (Standalone) Quarterly Financials**

RESULTS Q3FY11					
PARTICULARS	Q3FY11	Q3FY10	9MFY11	9MFY10	FY10
Net Sales	447.8	337.8	1338.3	1108.6	1526.7
<i>Growth %</i>	<i>32.6%</i>		<i>20.7%</i>		<i>5.4%</i>
Expenditure	429.0	323.9	1287.8	1067.3	1466.8
EBITDA	18.9	13.9	50.5	41.3	59.9
<i>Margin %</i>	<i>4.2%</i>	<i>4.1%</i>	<i>3.8%</i>	<i>3.7%</i>	<i>3.9%</i>
Depreciation	5.5	5.0	16.0	14.5	22.0
EBIT (EX OI)	13.4	9.0	34.5	26.8	38.0
Other Income	0.5	0.5	1.8	1.9	4.3
EBIT	13.9	9.4	36.3	28.7	42.3
<i>Margin %</i>	<i>3.1%</i>	<i>2.8%</i>	<i>2.7%</i>	<i>2.6%</i>	<i>2.8%</i>
Interest	5.9	4.1	12.9	13.3	17.7
PBT	8.0	5.3	23.3	15.4	24.6
<i>Margin %</i>	<i>1.8%</i>	<i>1.6%</i>	<i>1.7%</i>	<i>1.4%</i>	<i>1.6%</i>
PAT	5.9	5.0	17.6	13.2	20.0
<i>Margin %</i>	<i>1.3%</i>	<i>1.5%</i>	<i>1.3%</i>	<i>1.2%</i>	<i>1.3%</i>

Source: Mirc, Ventura

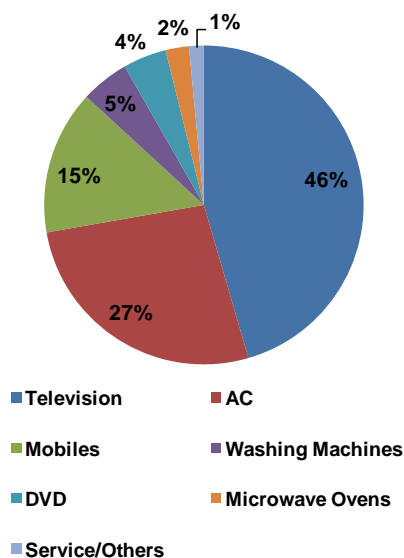
□ **Financial Outlook**

We forecast Mirc's net revenues to grow at a CAGR of 31.7% to Rs. 3,485.9 crore by FY13 on the back of the growing market for consumer durables.

The company has budgeted an advertisement spend of ~ Rs. 100 crore in the current fiscal, and intends to augment the same by 50% to Rs. 150 crore in FY12, to create brand value and enhanced ad spend to 4-5% of

# Stock Pointer

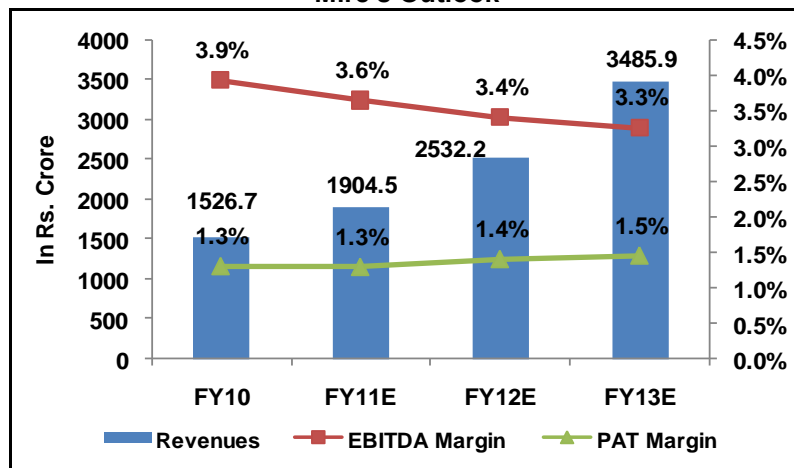
**FY13 Sales Break Up**



Source: Ventura Estimates

sales in the long term. On account of Mirc's effective working capital management and growing sales on the back of customer centric product innovation, we expect it to sustain or marginally improve its net profit margin to 1.5% by FY13 from the current levels of 1.3%.

**Mirc's Outlook**



Source: Ventura Estimates

## Valuation

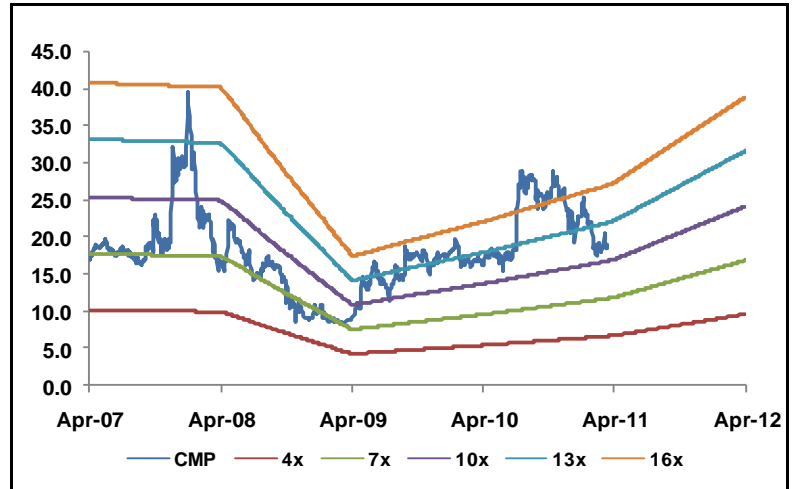
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# Stock Pointer

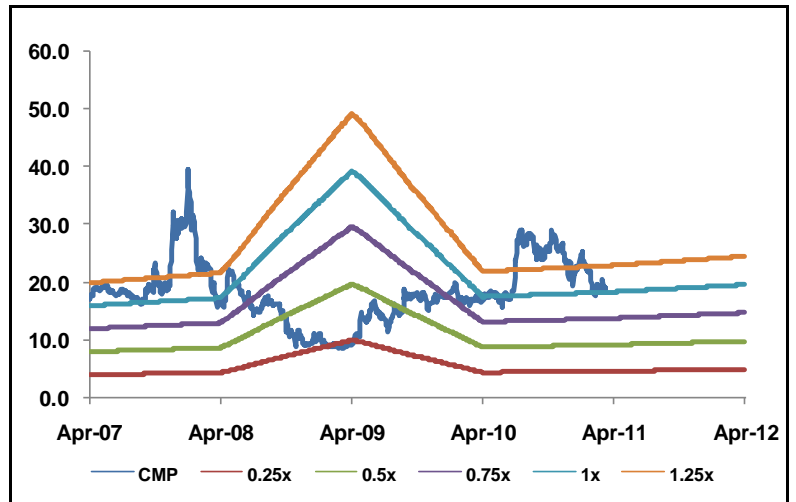


Kyon ki bhaiya, sabse bada rupaiya.

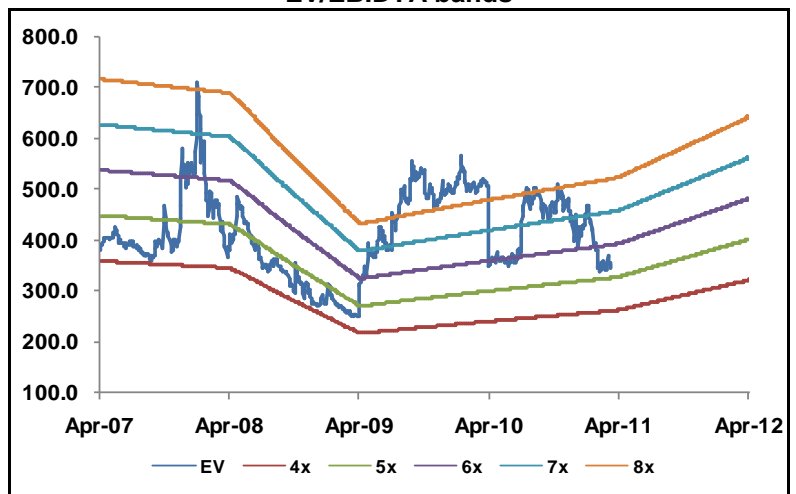
P/E bands



P/B bands



EV/EBIDTA bands



Source: Ace Equity, Ventura

## Exhibit 01: Financials and Projections

Profit & Loss Statement					Key Ratios				
Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e	FY2013e	Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e	FY2013e
<b>Net Sales</b>	1526.7	1904.5	2532.2	3485.9	<b>Per Share Data (Rs)</b>				
% Chg.		24.7	33.0	37.7	EPS	1.4	1.7	2.5	3.6
<b>Total Expenditure</b>	1466.8	1835.1	2445.8	3372.2	DPS	1.0	0.8	1.0	1.0
% Chg.		25.1	33.3	37.9	Book Value	17.5	18.3	19.7	22.1
<b>EBITDA</b>	59.9	69.4	86.3	113.8	<b>Capital, Liquidity, Returns Ratio</b>				
<i>EBITDA Margin %</i>	3.9	3.6	3.4	3.3	Debt / Equity (x)	0.5	0.6	0.6	0.6
Other Income	4.3	4.0	5.2	4.0	Current Ratio (x)	1.5	1.4	1.4	1.4
<b>PBDIT</b>	64.2	73.4	91.5	117.8	ROE (%)	8.1	9.5	12.8	16.2
Depreciation	22.0	23.3	24.5	25.2	ROCE (%)	15.7	17.2	19.5	22.4
Interest	17.7	16.3	18.2	22.8	Dividend Yield (%)	4.8	3.8	5.1	5.1
Exceptional Items	0.0	0.0	0.0	0.0	<b>Valuation Ratio (x)</b>				
<b>PBT</b>	24.6	33.9	48.8	69.8	P/E	14.4	11.4	7.9	5.5
Tax Provisions	4.7	9.1	13.2	19.0	P/BV	1.1	1.1	1.0	0.9
<b>Reported PAT</b>	20.0	24.7	35.6	50.8	EV/Sales	0.2	0.2	0.1	0.1
<i>PAT Margin (%)</i>	1.3	1.3	1.4	1.5	EV/EBITDA	6.1	5.3	4.3	3.1
<i>Raw Materials / Sales (%)</i>	75.2	76.1	76.1	76.4	<b>Efficiency Ratio (x)</b>				
<i>Employee Exp / Sales (%)</i>	5.0	5.1	5.1	5.2	Inventory (days)	53.5	59.6	57.2	53.3
<i>S, D &amp; A Exp / Sales (%)</i>	8.4	8.6	8.9	8.7	Debtors (days)	22.1	21.6	22.0	18.5
<i>Tax Rate (%)</i>	18.9	27.0	27.0	27.3	Creditors (days)	77.3	72.5	67.0	59.4

Balance Sheet					Cash Flow Statement				
Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e	FY2013e	Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e	FY2013e
Share Capital	14.2	14.2	14.2	14.2	Profit After Tax	20.0	24.7	35.6	50.8
Reserves & Surplus	233.9	246.2	265.2	299.3	Depreciation	22.0	23.3	24.5	25.2
Minority Interest	0.0	0.0	0.0	0.0	Working Capital Changes	129.6	-13.8	-27.3	-26.0
Total Loans	133.6	143.9	164.4	194.4	Others	5.5	0.0	0.0	0.0
Deferred Tax Liability	-	-	-	-	<b>Operating Cash Flow</b>	<b>177.1</b>	<b>34.2</b>	<b>32.8</b>	<b>49.9</b>
<b>Total Liabilities</b>	<b>381.7</b>	<b>404.3</b>	<b>443.8</b>	<b>507.9</b>	Capital Expenditure	-51.8	-25.8	-20.0	-10.0
					Change in Investment	0.0	-15.4	-10.0	-10.0
Gross Block	434.4	458.6	478.8	489.9	<b>Cash Flow from Investing</b>	<b>-51.8</b>	<b>-41.1</b>	<b>-30.0</b>	<b>-20.0</b>
Less: Acc. Depreciation	213.4	236.6	261.2	286.4	Proceeds from equity issue	-18.9	-	-	-
<b>Net Block</b>	<b>221.0</b>	<b>222.0</b>	<b>217.7</b>	<b>203.5</b>	Inc/(Dec) in Debt	-72.1	10.2	20.5	30.0
Capital Work in Progress	1.4	2.9	2.7	1.7	Dividend & DDT Paid	-8.0	-12.5	-16.6	-16.6
Investments	13.9	29.2	39.2	49.2	<b>Cash Flow from Financing</b>	<b>-99.1</b>	<b>-2.2</b>	<b>3.9</b>	<b>13.4</b>
<b>Net Current Assets</b>	<b>161.0</b>	<b>165.6</b>	<b>199.7</b>	<b>269.1</b>	<b>Net Change in Cash</b>	<b>26.2</b>	<b>-9.1</b>	<b>6.7</b>	<b>43.3</b>
					Exchange Rate Changes	-2.4	-	-	-
Deferred Tax Assets	-15.5	-15.5	-15.5	-15.5	Opening Cash Balance	10.1	33.9	24.8	31.5
<b>Total Assets</b>	<b>381.7</b>	<b>404.3</b>	<b>443.8</b>	<b>507.9</b>	<b>Closing Cash Balance</b>	<b>33.9</b>	<b>24.8</b>	<b>31.5</b>	<b>74.9</b>

### Ventura Securities Limited

Corporate Office: C-112/116, Bldg No. 1, Kailash Industrial Complex, Park Site, Vikhroli (W), Mumbai – 400079

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