



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

05 August 2023

PG Electroplast

Robust guidance intact; product business to lead in FY24

RESULT UPDATE

Sector: EMS Rating: BUY

CMP: Rs 1,560 Target Price: 1,806

Stock Info

| | |
|--------------------|--------------------|
| Sensex/Nifty | 65,721/19,517 |
| Bloomberg | PGEL IN |
| Equity shares (mn) | 22.7 |
| 52-wk High/Low | 1,678/876 |
| Face value | Rs 10 |
| M-Cap | Rs 36bn/ USD 433mn |
| 3-m Avg volume | USD 1mn |

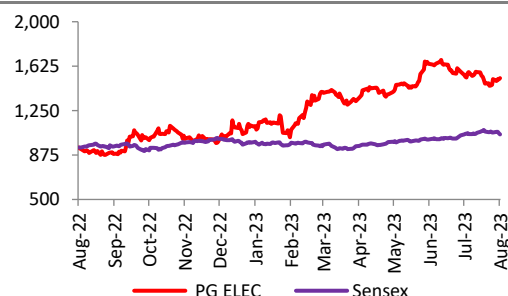
Financial Snapshot (Rs mn)

| Y/E Mar | FY23 | FY24E | FY25E |
|---------------|--------|--------|--------|
| Net sales | 21,599 | 28,020 | 35,136 |
| EBITDA | 1,760 | 2,284 | 2,864 |
| OPM (%) | 8.2 | 8.2 | 8.2 |
| PAT (adj.) | 775 | 994 | 1,369 |
| EPS (Rs) | 36.5 | 46.8 | 64.5 |
| PE (x) | 42.7 | 33.3 | 24.2 |
| P/B (x) | 9.0 | 7.2 | 5.6 |
| EV/EBITDA (x) | 23.0 | 18.3 | 14.6 |
| RoE (%) | 19.6 | 20.1 | 21.7 |
| RoCE (%) | 17.2 | 17.3 | 18.8 |
| Net-D/E (x) | 1.3 | 1.3 | 1.0 |

Shareholding Pattern (%)

| | Jun'23 | Mar'23 | Dec'22 |
|-----------|--------|--------|--------|
| Promoter | 61.2 | 61.3 | 61.3 |
| - Pledged | - | - | - |
| FII | 3.1 | 2.0 | 2.3 |
| DII | 7.3 | 7.2 | 6.5 |
| Others | 28.3 | 29.5 | 29.9 |

Stock Performance (1-year)



PG Electroplast's (PGEL) strong 1Q (revenue/PAT up 26%/106% YoY; 9.7% EBITDA margin, up 57bps QoQ) was encouraging in a tepid business environment. Tight WC helped in Rs 540mn reduction in gross debt. Management reiterated its guidance of 30% YoY growth in FY24, led by 43% rise in the product business (WM, RACs, Coolers; likely revenue of Rs 19.2bn), which would contribute to 68% of revenue (44%/62% in FY22/FY23). It sees large opportunity in the consumer electronics vertical. A 50:50 JV with the Jaina Group will be to manufacture Google certified LED TVs. Its WC cycle is expected to improve (by 10-12 days) gradually with shift in sourcing from China to domestic vendors. While operating margins across segments may remain stable, a change in the mix could limit overall margins. A Rs 1.8bn capex (funded via OCFs) will be mainly on RACs (to double capacity) and backward integration. We retain our estimates and expect 28%/28%/33% CAGR in revenue/EBITDA/PAT over FY23-25E (FY20-23: 50%/64%/209%), with ~200bps expansion in its RoE to 22% and ~19% RoIC in FY25E. We remain constructive on PGEL given its robust prospects and maintain BUY rating at an unchanged target price of Rs 1,806, based on 28x FY25E EPS of Rs 64.

Refer our [EMS - Sector Initiation Report](#) dated 12th July 2023.

Healthy 1Q in an otherwise soft demand condition: Revenue/EBITDA/PAT grew strongly by 26%/81%/106% YoY. Continued market-share gains in RAC category drove robust growth in a challenging business condition. Gross (18.1%) and EBITDA margin (9.7%) expanded 40-60bps QoQ aided by superior product mix towards product division (higher mix in 1Q and 4Q; comprises of RAC, Washing Machines and Air Coolers). Reduced working capital (WC) aided Rs 543mn reduction in gross debt.

Key focus areas of the management: 1) To grow faster than industry 2) Reduce WC, improve efficiency and thus RoCE and 3) Scale up Consumer Electronics division with addition of new products.

Robust guidance intact: PGEL maintained its robust guidance. It aims to achieve Rs 28bn revenue in FY24 at 30% YoY growth, led by 43% improvement in the product business (WM, RACs, Coolers; likely revenue Rs 19.2bn), contributing 68% to revenue (44%/62% in FY22/FY23). EBITDA is expected to grow by 28% YoY at Rs 2.1bn. While operating margins across segments may remain stable, mix change could limit overall margins. RAC business is slated to expand at 25-30% over the next 2 years. It has started manufacturing window ACs. It has doubled its washing machine capacity since Jan 2023. A 50:50 JV with the Jaina Group will be to manufacture Google certified LED TVs. Out of ~1.2mn capacity, PGEL aims to sell 0.4mn units in the first year of operation (starting FY24 end). The current TV business will also be consolidated with the JV company. The WC cycle should improve (by 10-12 days) once sourcing shifts from China to domestic vendors. It intends to incur Rs 1.8bn capex (funded via OCFs) on its new integrated manufacturing unit in Rajasthan for RACs (to double capacity) and on a new building and Surface Mount Technology (SMT) lines in Supa (Maharashtra). PLI benefit of Rs 150mn is expected in FY24. Asset turnover is likely to rise to 5-6x in FY25 vs. ~4x now. ([concall KTAs](#))

Outlook and View: Post 50%/64%/209% CAGR in revenue/EBITDA/PAT over FY20-23, we estimate 28%/28%/33% CAGR over FY23-25E. RoIC is likely to expand to ~19% in FY25E from 9.6% currently. With a positive outlook, we initiate coverage on PGEL with a **BUY** rating, and a target price of Rs 1,806, based on 28x FY25E EPS of Rs 64.

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Investors are advised to refer disclosures made at the end of the research report.

1QFY24 concall key highlights and outlook

1Q strong: Revenue/EBITDA/PAT up 26%/81%/106% YoY; EBITDA margin 9.7% (up 57bps QoQ)

- Market-share gains in RAC drove robust growth; industry fared weak though
- Superior product mix drove gross margin
- Washing machine business was down 7% YoY; new products received good response
- Debt reduced by Rs 540mn on reduced WC and strong operating performance

1Q gross margin was high on superior product mix towards products business

- Seasonality prevails in business; RAC has lower revenue mix in 2Q and 3Q

Guidance & Focus areas

- **FY24E:** remains intact at Revenue up 30%+ YoY at Rs 28bn+; EBITDA up 28% YoY at Rs 2.1bn; Products division (RAC, Washing machines, Coolers) to grow 43% YoY
- To outpace industry growth
- Aims to reduce working capital, improve efficiency transpiring down to improved RoCE
- To see Consumer Electronics as large contributor with addition of new products (LED TV etc.)

Capex plan of Rs 1.8bn, funded internally

- Will enhance RAC capacity and increase backward integration
- Setting up PCB assembly lines in Supa and Noida

Foray in LED TV segment

- Entered into a 50:50 JV with Jaina Group to manufacture Google certified LED TVs
- Production is likely to commence by FY24 end
- Will house 1-1.2mn units capacity; aims to sell ~400k pcs in 1st year
- Current TV business will be consolidated into the JV company

Aims WC to reduce by 10-12 days

- Localisation of components to reduce inventory
- Currently has high import content in RAC, mainly from China

PLI

- Eligible for PLI incentive for last year; expects to receive in 4Q
- Plans to apply for IT Hardware PLI as well

RAC industry trend

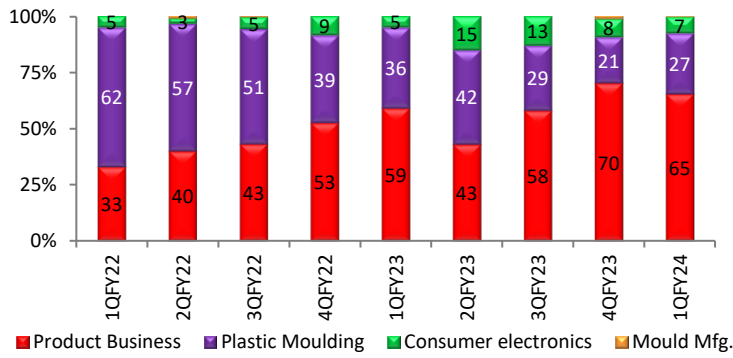
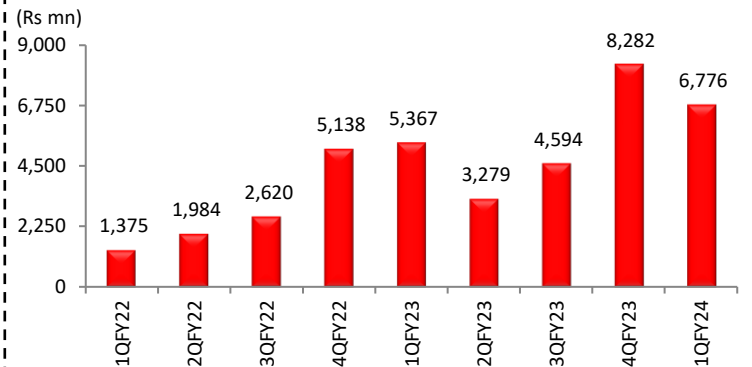
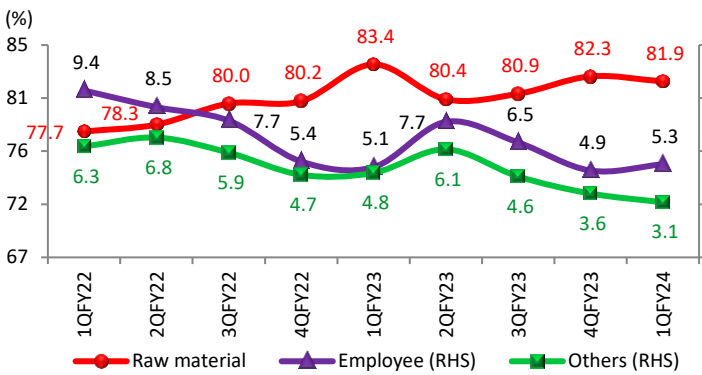
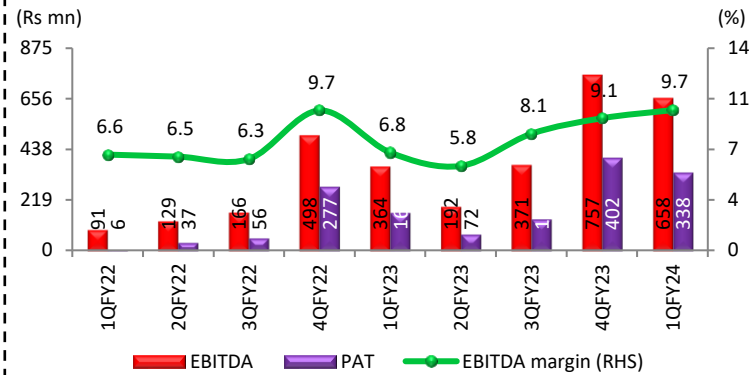
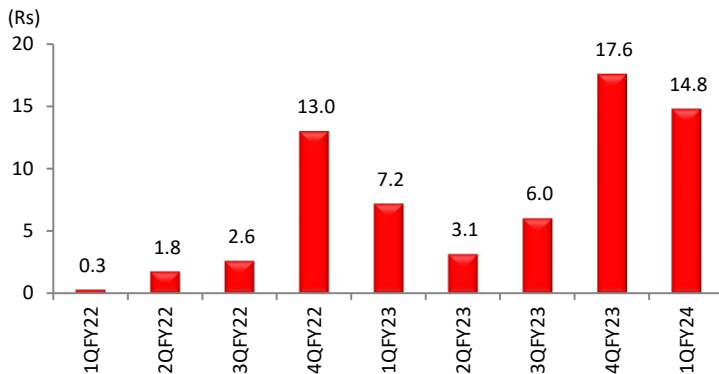
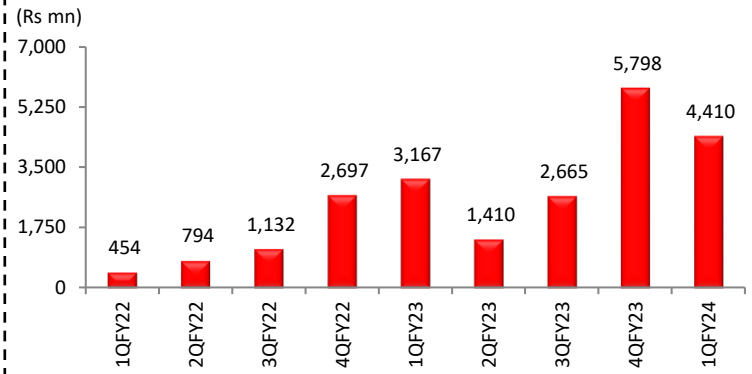
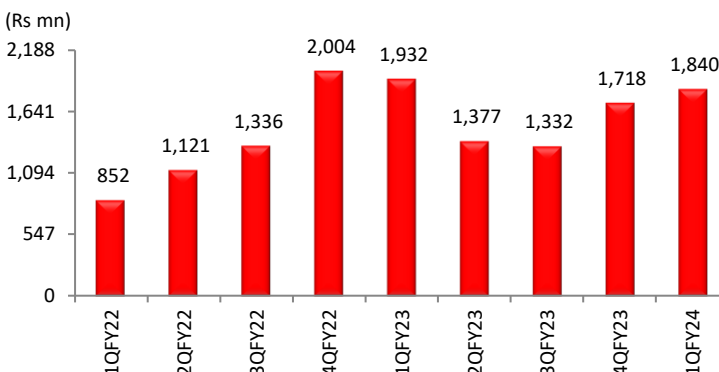
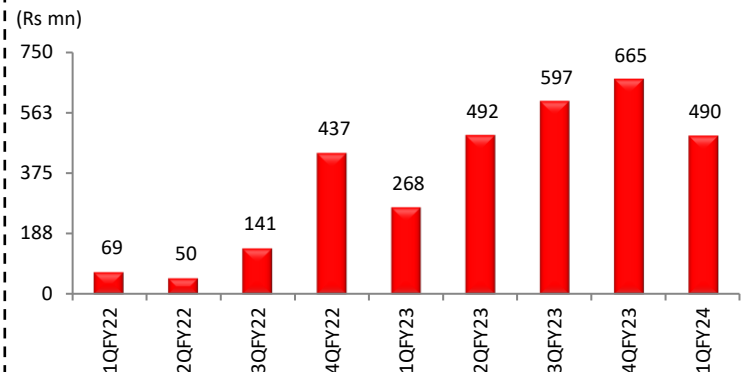
- Secondary sales improved in June and July
- Channel inventory at low level

Exhibit 1: PG Electroplast (Consolidated) – Quarterly results

| (Rs mn) | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | YoY (%) | QoQ (%) |
|----------------------------|--------------|--------------|--------------|--------------|--------------|------------------|------------------|
| Total Income | 5,367 | 3,279 | 4,594 | 8,282 | 6,776 | 26 | (18) |
| Raw material costs | 4,474 | 2,636 | 3,715 | 6,820 | 5,551 | 24 | (19) |
| Employee costs | 273 | 251 | 298 | 406 | 356 | 30 | (12) |
| Other expenses | 256 | 200 | 210 | 299 | 211 | (18) | (29) |
| EBITDA | 364 | 192 | 371 | 757 | 658 | 81 | (13) |
| Depreciation | 77 | 81 | 86 | 105 | 107 | 38 | 2 |
| Finance costs | 94 | 89 | 121 | 176 | 140 | 50 | (20) |
| Other income | 13 | 86 | 11 | 12 | 13 | 3 | 11 |
| PBT | 205 | 108 | 174 | 489 | 424 | 106 | (13) |
| Tax | 41 | 36 | 37 | 87 | 86 | 107 | (2) |
| PAT | 164 | 72 | 137 | 402 | 338 | 106 | (16) |
| EPS (Rs) | 7.2 | 3.1 | 6.0 | 17.6 | 14.8 | 106 | (16) |
| As % Total Income | | | | | | YoY (bps) | QoQ (bps) |
| Gross margin | 16.6 | 19.6 | 19.1 | 17.7 | 18.1 | 144 | 42 |
| Employee costs | 5.1 | 7.7 | 6.5 | 4.9 | 5.3 | 16 | 35 |
| Other expenses | 4.8 | 6.1 | 4.6 | 3.6 | 3.1 | (166) | (50) |
| EBITDA margin | 6.8 | 5.8 | 8.1 | 9.1 | 9.7 | 293 | 57 |
| Depreciation | 1.4 | 2.5 | 1.9 | 1.3 | 1.6 | 14 | 32 |
| Finance costs | 1.7 | 2.7 | 2.6 | 2.1 | 2.1 | 33 | (5) |
| Other income | 0.2 | 2.6 | 0.2 | 0.1 | 0.2 | (4) | 5 |
| PBT | 3.8 | 3.3 | 3.8 | 5.9 | 6.3 | 242 | 35 |
| Effective tax rate | 20.1 | 33.3 | 21.1 | 17.8 | 20.2 | 5 | 241 |
| PAT | 3.1 | 2.2 | 3.0 | 4.8 | 5.0 | 193 | 14 |
| Segment Revenues | | | | | | YoY (%) | QoQ (%) |
| Product Business | 3,167 | 1,410 | 2,665 | 5,798 | 4,410 | 39 | (24) |
| Plastic Moulding | 1,932 | 1,377 | 1,332 | 1,718 | 1,840 | (5) | 7 |
| Consumer electronics | 268 | 492 | 597 | 665 | 490 | 83 | (26) |
| Mould Manufacturing | - | - | - | 101 | 21 | na | (79) |
| Segment Rev Mix (%) | | | | | | | |
| Product Business | 59 | 43 | 58 | 70 | 65 | | |
| Plastic Moulding | 36 | 42 | 29 | 21 | 27 | | |
| Consumer electronics | 5 | 15 | 13 | 9 | 7 | | |
| Mould Manufacturing | - | - | - | 0 | 0 | | |

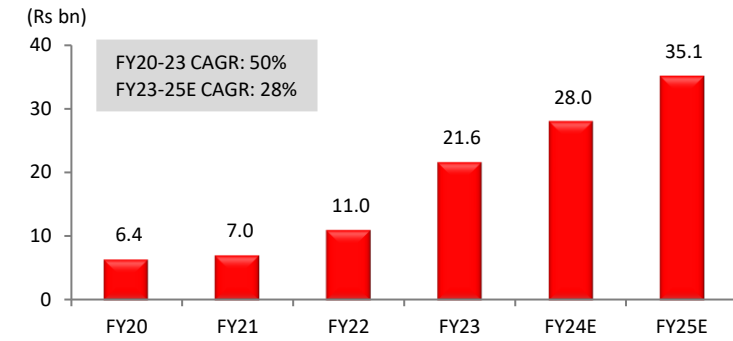
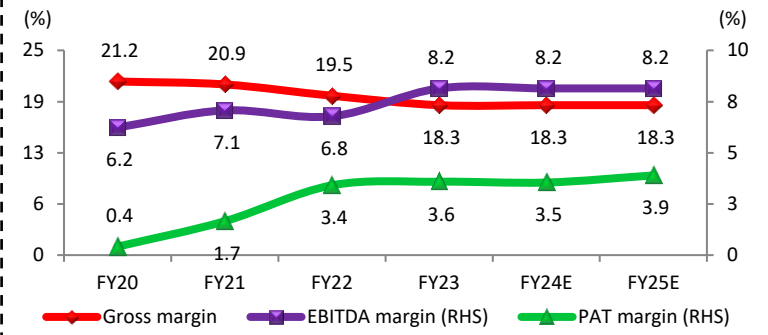
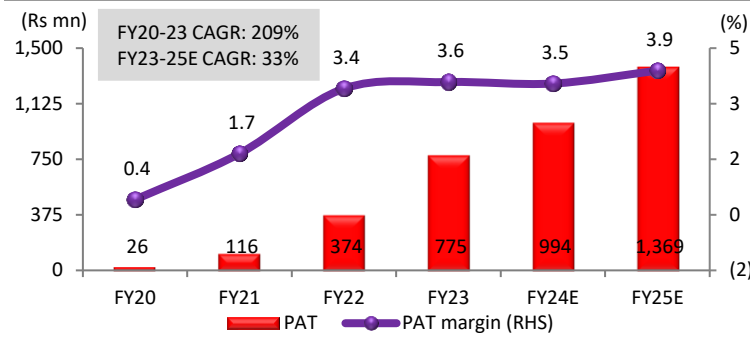
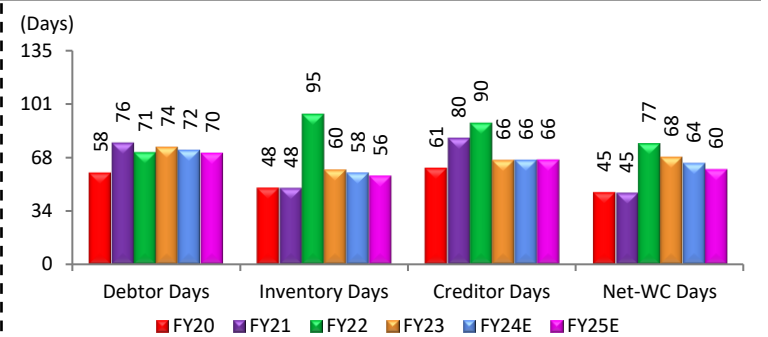
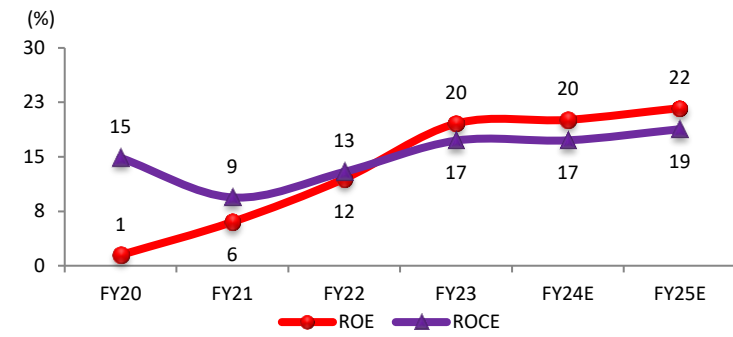
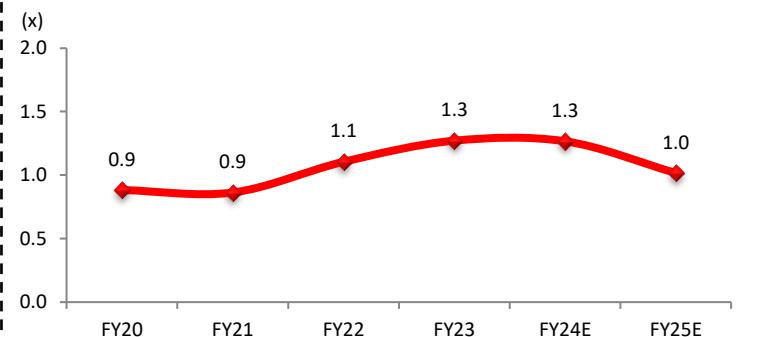
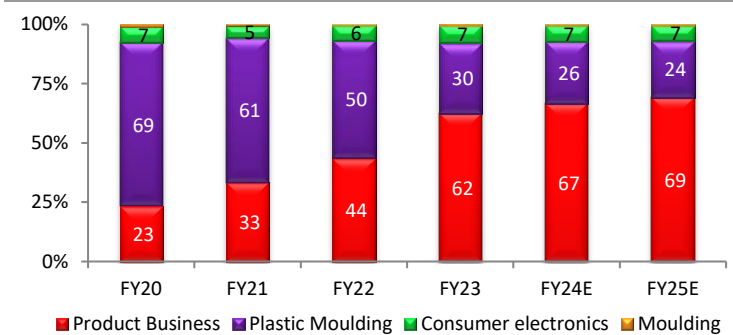
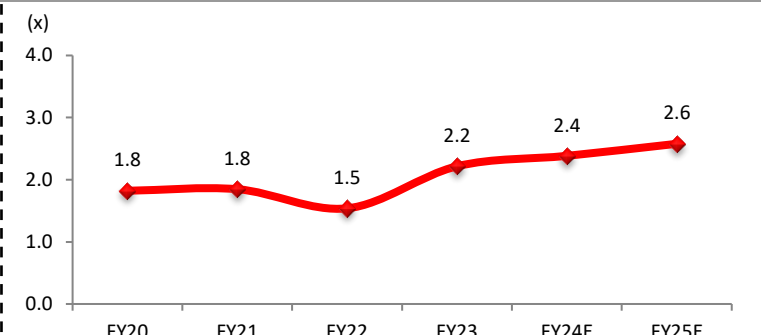
Source: Company, Systematix Institutional Research

Quarterly performance

Exhibit 2: Revenue mix trend

Exhibit 3: Total Income - quarterly trend

Exhibit 4: Expenses as % total income - quarterly trend

Exhibit 5: EBITDA, PAT & margin trend

Exhibit 6: Earnings - quarterly trend

Exhibit 7: Product Business - Revenue trend

Exhibit 8: Plastic Moulding - Revenue trend

Exhibit 9: Consumer Electronics - Revenue trend


Source: Company, Systematix Institutional Research

Annual performance

Exhibit 10: Revenue growth trend

Exhibit 11: Gross, EBITDA and PAT margin trend

Exhibit 12: PAT growth trend

Exhibit 13: NWC cycle trend

Exhibit 14: RoIC, RoE trend

Exhibit 15: Net-Debt/Equity trend

Exhibit 16: Revenue mix (segment-wise)

Exhibit 17: Total asset turnover (x)


Source: Company, Systematix Institutional Research

Valuation and View

PGEL specialises in ODM, OEM and Plastic Injection Moulding, catering to 50+ leading Indian and global brands. The flagship company of PG Group (established in 1977), PGEL, was formally set up in 2003. It has 8 manufacturing units across Greater Noida in Uttar Pradesh, Roorkee in Uttarakhand and Ahmednagar in Maharashtra, with more than 3,500 employees. The company is pursuing an organic growth strategy by ramping up the existing capacity and capability in each of its product vertical, with focus on backward integration, value addition and economies of scale. Product business contributed 62% to its FY23 total revenue (FY22: 44%).

We retain our estimates and expect 28%/28%/33% CAGR in revenue/EBITDA/PAT over FY23-25E (FY20-23: 50%/64%/209%), with ~200bps expansion in its RoE to 22% and ~19% RoIC in FY25E.

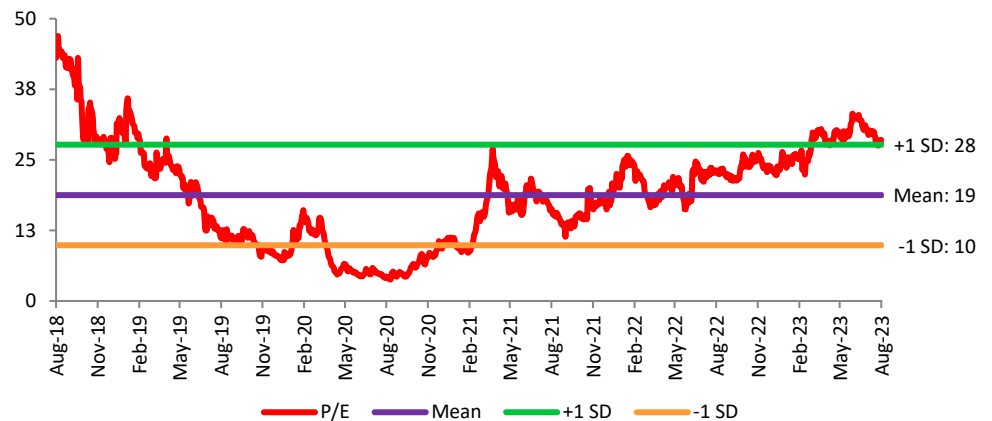
We remain constructive on PGEL on its robust prospects and maintain **BUY** rating, and an unchanged target price of Rs 1,806, based on 28x FY25E EPS of Rs 64.

Exhibit 18: Change in estimates

| (Rs mn) | Old estimates | | New estimates | | % Variance | |
|-------------------|---------------|--------|---------------|--------|------------|------|
| | FY24 | FY25 | FY24 | FY25 | FY24 | FY25 |
| Total Income | 28,020 | 35,136 | 28,020 | 35,136 | - | - |
| EBITDA | 2,284 | 2,864 | 2,284 | 2,864 | - | - |
| EBITDA margin (%) | 8.2 | 8.2 | 8.2 | 8.2 | | |
| PAT | 994 | 1,369 | 994 | 1,369 | - | - |
| EPS | 46.8 | 64.5 | 46.8 | 64.5 | - | - |

Source: Systematix Institutional Research

Exhibit 19: P/E band – 1-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key Risks

- Weakness in RAC demand and its components
- Delays in passing on the high input prices

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

| YE: Mar (Rs mn) | FY21 | FY22 | FY23 | FY24E | FY25E |
|-------------------------|--------------|---------------|---------------|---------------|---------------|
| Net revenues | 7,032 | 10,977 | 21,599 | 28,020 | 35,136 |
| Growth (%) | 10 | 56 | 97 | 30 | 25 |
| Raw material expenses | 5,565 | 8,840 | 17,645 | 22,890 | 28,703 |
| Gross Margin (%) | 20.9 | 19.5 | 18.3 | 18.3 | 18.3 |
| Employee & Other exp. | 969 | 1,392 | 2,194 | 2,846 | 3,569 |
| EBITDA | 498 | 745 | 1,760 | 2,284 | 2,864 |
| EBITDA margins (%) | 7.1 | 6.8 | 8.2 | 8.2 | 8.2 |
| Depreciation | 180 | 221 | 350 | 453 | 545 |
| Other income | 26 | 182 | 44 | 28 | 70 |
| Finance costs | 184 | 225 | 479 | 568 | 612 |
| PBT | 151 | 491 | 975 | 1,291 | 1,777 |
| Effective tax rate (%) | 23.1 | 23.7 | 20.6 | 23.0 | 23.0 |
| Associates/(Minorities) | - | - | - | - | - |
| Net Income | 116 | 374 | 775 | 994 | 1,369 |
| Adjusted net income | 116 | 374 | 775 | 994 | 1,369 |
| Shares outstanding | 20 | 21 | 23 | 23 | 23 |
| FDEPS (Rs) | 5.5 | 17.6 | 36.5 | 46.8 | 64.5 |
| FDEPS growth (%) | 344 | 222 | 107 | 28 | 38 |

Source: Company, Systematix Institutional Research

Balance Sheet

| YE: Mar (Rs mn) | FY21 | FY22 | FY23 | FY24E | FY25E |
|-------------------------|--------------|--------------|--------------|---------------|---------------|
| Share capital | 197 | 212 | 227 | 227 | 227 |
| Net worth | 1,925 | 3,123 | 3,959 | 4,949 | 6,308 |
| Total debt | 1,833 | 3,839 | 5,425 | 6,425 | 6,925 |
| Minority interest | - | - | - | - | - |
| DT Liability/ (Asset) | 49 | 166 | 366 | 386 | 406 |
| Capital Employed | 3,807 | 7,127 | 9,751 | 11,760 | 13,640 |
| Net tangible assets | 2,726 | 4,403 | 5,766 | 7,112 | 7,768 |
| Net Intangible assets | 6 | 7 | 12 | 12 | 12 |
| Goodwill | - | - | - | - | - |
| CWIP | 60 | 49 | 20 | 20 | 20 |
| Investments (Strategic) | 2 | 7 | 22 | 22 | 22 |
| Investments (Financial) | - | - | - | - | - |
| Current Assets | 2,827 | 5,828 | 8,866 | 10,950 | 13,132 |
| Cash | 174 | 392 | 396 | 164 | 521 |
| Current Liabilities | 1,987 | 3,558 | 5,331 | 6,520 | 7,835 |
| Working capital | 840 | 2,270 | 3,535 | 4,430 | 5,297 |
| Capital Deployed | 3,807 | 7,127 | 9,751 | 11,760 | 13,640 |
| Contingent Liabilities | 77 | 1,815 | - | - | - |

Source: Company, Systematix Institutional Research

Cash Flow

| YE: Mar (Rs mn) | FY21 | FY22 | FY23 | FY24E | FY25E |
|---------------------------|-------|---------|---------|-------|-------|
| EBIT (incl. other income) | 361 | 759 | 631 | 1,734 | 2,223 |
| Non-cash items | 180 | 221 | 350 | 453 | 545 |
| OCF before WC changes | 541 | 980 | 980 | 2,188 | 2,767 |
| Incr./(decr.) in WC | 109 | 1,506 | 1,640 | 894 | 868 |
| Others including taxes | (141) | 269 | (1,117) | 181 | 293 |
| Operating cash-flow | 573 | (794) | 457 | 1,112 | 1,607 |
| Capex | 425 | 1,513 | 1,542 | 1,800 | 1,200 |
| Free cash-flow | 148 | (2,307) | (1,084) | (688) | 407 |
| Acquisitions | - | - | - | - | - |
| Dividend | - | - | - | 5 | 9 |
| Equity raised | 41 | 441 | 33 | - | - |
| Debt raised | (12) | 7 | 742 | 1,000 | 500 |
| Fin Investments | 23 | 116 | 218 | - | - |
| Misc. Items (CFI + CFF) | 192 | (2,139) | (375) | 540 | 542 |
| Net cash-flow | (39) | 164 | (152) | (232) | 357 |

Source: Company, Systematix Institutional Research

Ratios @ Rs 1,560

| YE: Mar | FY21 | FY22 | FY23 | FY24E | FY25E |
|---------------------|-------|-------|------|-------|-------|
| P/E (x) | 284.9 | 88.5 | 42.7 | 33.3 | 24.2 |
| EV/EBITDA (x) | 74.6 | 52.2 | 23.0 | 18.3 | 14.6 |
| EV/sales (x) | 5.3 | 3.5 | 1.9 | 1.5 | 1.2 |
| P/B (x) | 18.4 | 11.4 | 9.0 | 7.2 | 5.6 |
| RoE (%) | 6.0 | 12.0 | 19.6 | 20.1 | 21.7 |
| RoCE (%) | 9.4 | 12.9 | 17.2 | 17.3 | 18.8 |
| ROIC (%) | 3.6 | 7.0 | 9.6 | 9.5 | 19.1 |
| DPS (Rs per share) | - | - | - | 0.2 | 0.4 |
| Dividend yield (%) | - | - | - | 0.0 | 0.0 |
| Dividend payout (%) | - | - | - | 0.4 | 0.6 |
| Net debt/equity (x) | 0.9 | 1.1 | 1.3 | 1.3 | 1.0 |
| Receivables (days) | 76 | 71 | 74 | 72 | 70 |
| Inventory (days) | 48 | 95 | 60 | 58 | 56 |
| Payables (days) | 80 | 90 | 66 | 66 | 66 |
| CFO: PAT% | 493 | (212) | 59 | 112 | 117 |

Source: Company, Systematix Institutional Research

Institutional Equities Team

| | | | |
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