

## AC PLI & Product launches to drive future growth

**We met the management of PG Electroplast (PGEL) to get an insight into its business and future plans.** PGEL is one of the leading Electronic Manufacturing Service (EMS) providers for washing machines, Refrigerators, Air conditioners and Air cooler in India. The company serves 30+ brands in India which includes names such as LG, Whirlpool, Voltas, Havells, Carrier/Midea etc. It is also one of the PLI licensees for the manufacturing of AC component in India

- PGEL's revenue, earnings grew at a CAGR of 21%, 16% in FY18-21E
- Plans a capex of ₹ 320 crore in next five years to boost AC component manufacturing under PLI.

### Management meet highlights:

- Plastic moulding and Product sales together accounted for ~87% PGEL's FY21 topline while rest came from electronics, moulds and other categories
- Plastic moulding revenue is likely to grow at CAGR of 15% in FY21-24E supported by customer additions and wallet share gains from existing customers. Apart from washing machines & AC, PGEL is also looking to expand its business from sanitarywares and ceiling fan business
- The Product business has recorded strong revenue growth of ~29% YoY in FY21 (Vs 10% of overall revenue growth) led by capacity addition coupled with customer additions in washing machines, air coolers and AC segments
- PGEL is looking to increase its revenue contribution from Product business in the coming future (likely to grow at CAGR of 50% in FY21-24E)
- Company has recently introduced manufacturing of LED TV for one of its client. Looking to expand the capacity in the near future
- Company envisaged capex of ₹ 320 crore over the next five years for manufacturing AC components under the PLI scheme. Company has guided PLI revenues to start flowing from FY23 onwards
- Company also started manufacturing/assembling of LED TV in Q2FY22 for its two clients.
- Company has raised ₹ 77 crore in Q2FY22 through the mix of Equity and Convertible debentures.
- Debt levels to peak out in FY23E with improved operating cashflows

PGEL's revenue, earning grew at CAGR of 21%, 16% respectively in FY18-21 led by addition of new customers (into product division) and wallet share gains from existing customers. The EBITDA margin increased by 100 bps to 7.1% during the same period lifted by positive operating leverage and sharp growth in relatively higher margin business (i.e. Product business).



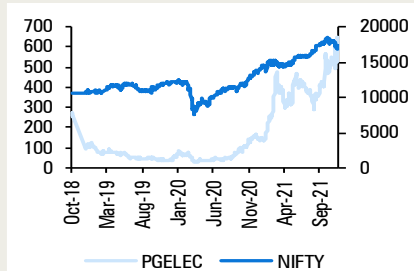
### Particulars

| Particular               | Amount  |
|--------------------------|---------|
| Market cap (₹ crore)     | 1290.0  |
| Total Debt (₹ crore)     | 155.5   |
| Cash & Inves (₹ crore)   | 15.0    |
| EV (₹ crore)             | 1430.5  |
| 52 Week H/L              | 674/131 |
| Equity Capital (₹ crore) | 19.7    |
| Face Value(₹)            | 10.0    |

### Shareholding pattern

| (in %)   | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 69.5   | 69.9   | 69.8   | 69.8   | 65.8   |
| FII      | 0.0    | 0.0    | 1.1    | 1.1    | 1.0    |
| DII      | 0.0    | 0.0    | 0.0    | 0.2    | 0.0    |
| Others   | 30.5   | 30.1   | 29.1   | 29.0   | 33.2   |

### Price Chart



### Key risks

- Key Risk:** (i) Higher dependency on seasonal products (ii) Delay in price hikes

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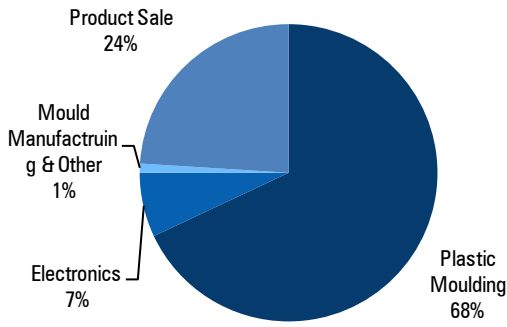
### Key Financial Summary

| (₹ crore)         | FY18  | FY19  | FY20  | FY21  | CAGR (FY18-21) |
|-------------------|-------|-------|-------|-------|----------------|
| Net Sales         | 399.4 | 508.4 | 639.4 | 703.2 | 21%            |
| EBITDA            | 24.6  | 30.7  | 39.9  | 49.8  | 27%            |
| EBITDA Margin (%) | 6.1   | 6.0   | 6.2   | 7.1   |                |
| Net Profit        | 7.5   | 9.9   | 2.6   | 11.6  | 16%            |
| EPS (₹)           | 4.0   | 5.3   | 1.3   | 5.9   |                |
| P/E (x)           | 163.2 | 122.9 | 490.4 | 110.9 |                |
| RoE (%)           | 5.7   | 5.9   | 1.8   | 6.4   |                |
| RoCE (%)          | 7.4   | 7.1   | 7.4   | 9.7   |                |

## Management meet highlights

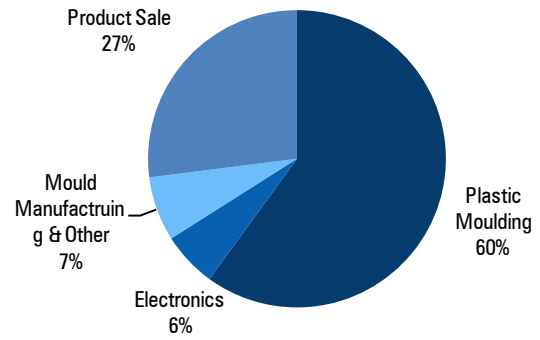
- Started operations in 1977, PGEL is one of the leading players in India in Electronics Manufacturing Services. It is a diversified EMS providing OEM and ODM solutions for complete product and component manufacturing. PGEL manufactures plastic moulded components, sheet metal components, printed circuit board assemblies, finished product assemblies, tools and dies, and specialized air conditioner components
- Company has total 6 manufacturing units and it is providing manufacturing services to 30+ Indian and global brands
- Plastic moulding business segment contributes ~60% in PGEL's topline in FY21 followed by product, electronics and mould & others segment revenue contributions of 27%, 6% and 7% respectively
- The plastic moulding segment includes manufacturing of plastic body for consumer appliances such as washing machines, room air conditioners, refrigerators, ceiling fans and sanitary ware products.
- Plastic moulding revenue is likely to grow at CAGR of 15% in FY21-24E supported by customer additions and wallet share gains from existing customers. Apart from washing machines & AC, PGEL is also looking to expand its business from sanitarywares and ceiling fan business.
- Under the Product segment the company provides ODM services for product such as Air cooler, Washing machines and Room air conditioners.
- The Product business has recorded a strong revenue growth of ~29% YoY in FY21 (Vs 10% revenue growth) led by capacity addition and customer addition in all three product categories.
- PGEL's AC manufacturing capacity includes 1.25lakh units/month of IDU and 50,000 units/months of ODU. The company is also going to manufacture AC components such as control assemblies for IDU/ODU, cross flow fans, Heat Exchangers, Sheet metal components, Plastic moulding components all under the PLI scheme. It has envisaged ₹ 321 crore investment plan over the next five years to boost component manufacturing capacity.
- The company is confident of touching minimum incremental revenue target each year under the PLI guideline (i.e ₹ 250 crore, ₹ 500 crore, ₹ 750 crore, ₹1000 crore and ₹ 1250 crore through FY23 to FY27).
- PGEL is looking to increase its revenue contribution from Product business in the coming future (the segment likely to grow at CAGR of 50% in FY21-24E). Despite passing on PLI benefits to customers, the company is likely to maintain overall EBITDA margin at 7% through positive operating leverage and increasing revenue from ODM services.
- The company also started manufacturing/assembling of LED TV in Q2FY22 for its two clients. It has tied-up with one of the Chinese company for tech know how and designing of LED TVs. The production will ramp up from Q4FY22 onwards.
- Company has raised ₹ 77 crore in Q2FY22 through the mix of Equity and Convertible debentures. The fund will be used against company's ₹ 120 crore capex plan in FY22.
- The company/management has no future plans for equity dilutions. And the future capex will be funded through mix of internal accruals and debt. The company believes that its debt level may peak out from FY23 onwards.

Exhibit 1: Segment wise revenue share in FY20



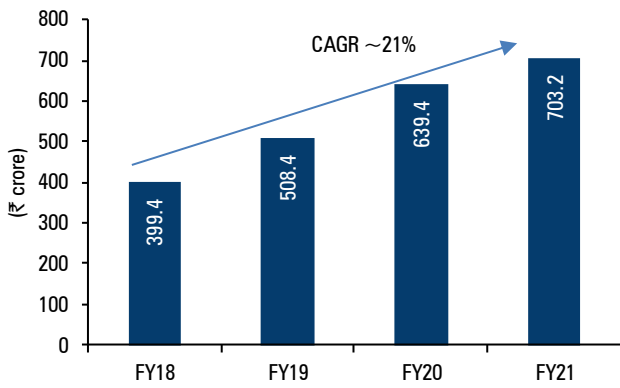
Source: Company, ICICI Direct Research

Exhibit 2: Segment wise revenue share in FY21



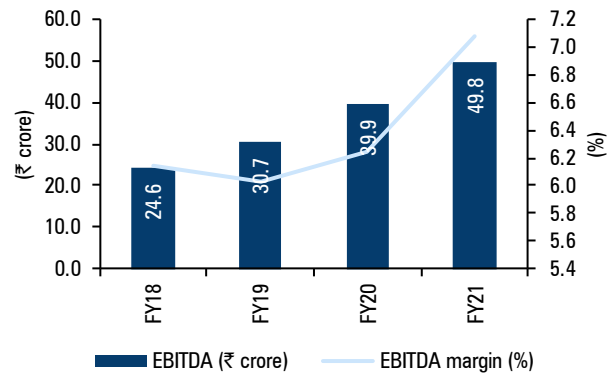
Source: Company, ICICI Direct Research

Exhibit 3: Revenue growth trend



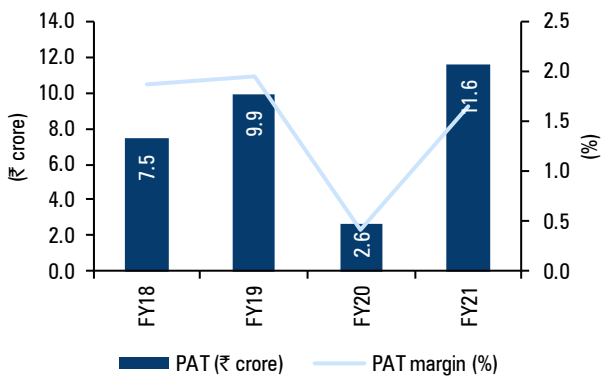
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA & EBITDA margin movement



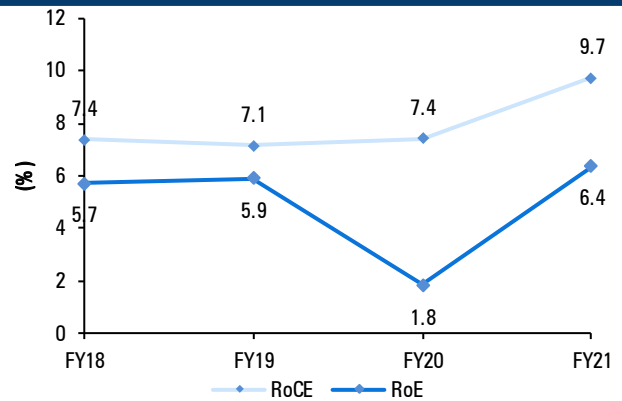
Source: Company, ICICI Direct Research

Exhibit 5: PAT & PAT margin movement



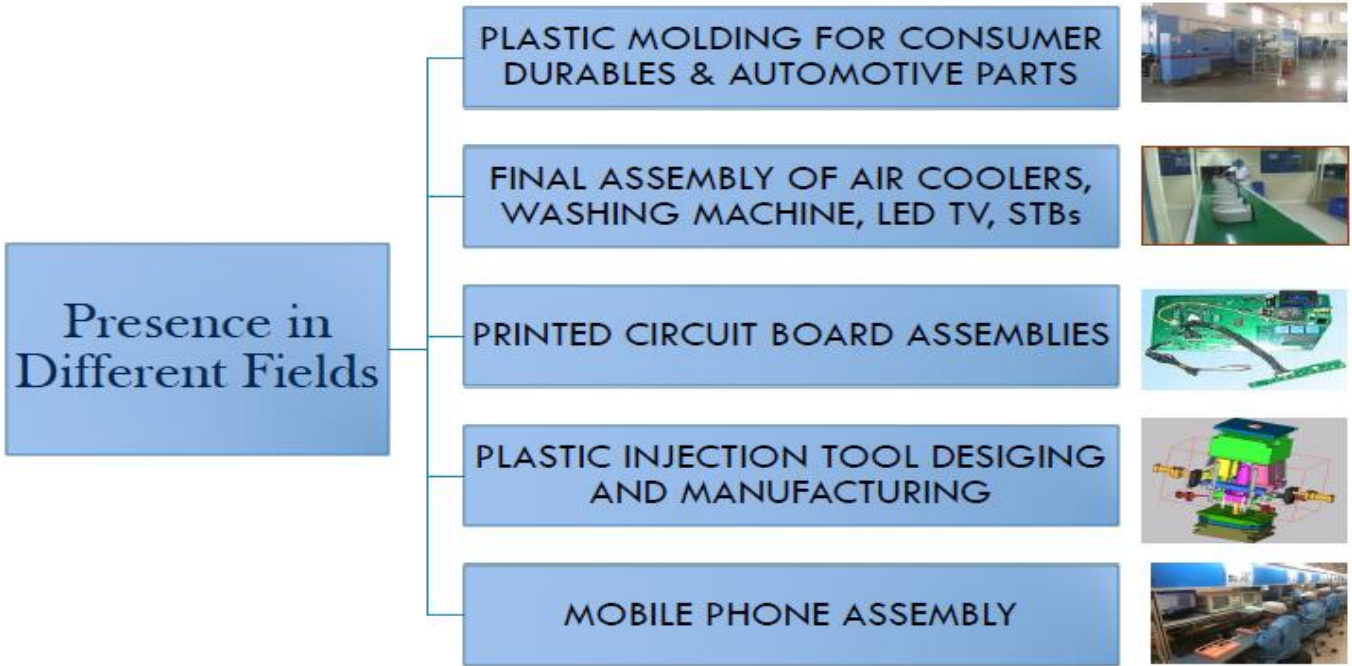
Source: Company, ICICI Direct Research

Exhibit 6: Return ratios



Source: Company, ICICI Direct Research

Exhibit 7: Business model



Source: Company, ICICI Direct Research

Exhibit 8: Key Clients



Source: Company, ICICI Direct Research

## Financial summary

| Exhibit 11: Profit and loss statement |              |              |              |              |
|---------------------------------------|--------------|--------------|--------------|--------------|
|                                       | ₹ crore      |              |              |              |
| (Year-end March)                      | FY18         | FY19         | FY20         | FY21         |
| <b>Revenue</b>                        | <b>399.4</b> | <b>508.4</b> | <b>639.4</b> | <b>703.2</b> |
| Growth (%)                            |              | 27.3         | 25.8         | 10.0         |
| Raw material expense                  | 284.4        | 399.1        | 503.7        | 556.5        |
| Employee expenses                     | 34.9         | 40.1         | 53.9         | 55.0         |
| Other expenses                        | 30.8         | 38.4         | 41.8         | 41.9         |
| Total Operating Exp                   | 374.9        | 477.7        | 599.5        | 653.4        |
| <b>EBITDA</b>                         | <b>24.6</b>  | <b>30.7</b>  | <b>39.9</b>  | <b>49.8</b>  |
| Growth (%)                            |              | 24.9         | 30.1         | 24.7         |
| Depreciation                          | 11.7         | 13.4         | 16.3         | 18.0         |
| Interest                              | 10.6         | 10.3         | 14.8         | 18.4         |
| Other Income                          | 5.3          | 3.2          | 2.5          | 2.6          |
| PBT                                   | 7.5          | 10.2         | 9.3          | 15.1         |
| Total Tax                             | 0.0          | 0.2          | 6.7          | 3.5          |
| <b>PAT</b>                            | <b>7.5</b>   | <b>9.9</b>   | <b>2.6</b>   | <b>11.6</b>  |

Source: Company, ICICI Direct Research

| Exhibit 12: Cash flow statement     |              |              |              |
|-------------------------------------|--------------|--------------|--------------|
|                                     | ₹ crore      |              |              |
| (Year-end March)                    | FY19         | FY20         | FY21         |
| Profit after Tax                    | 9.9          | 2.6          | 11.6         |
| Add: Depreciation                   | 13.4         | 16.3         | 18.0         |
| (Inc)/dec in Current Assets         | -38.8        | -41.4        | -55.4        |
| Inc/(dec) in CL and Provisions      | 23.7         | 22.5         | 77.9         |
| Others                              | 10.3         | 14.8         | 18.4         |
| <b>CF from operating activities</b> | <b>18.6</b>  | <b>14.8</b>  | <b>70.6</b>  |
| (Inc)/dec in Investments            | 0.0          | 0.0          | -0.2         |
| (Inc)/dec in Fixed Assets           | -37.4        | -49.4        | -37.9        |
| Others                              | 0.0          | 1.4          | -3.9         |
| <b>CF from investing activities</b> | <b>-37.4</b> | <b>-48.0</b> | <b>-41.9</b> |
| Issue/(Buy back) of Equity          | 2.2          | 0.9          | 0.2          |
| Inc/(dec) in loan funds             | 3.1          | 55.0         | -17.8        |
| Dividend paid & dividend tax        | 0.0          | 0.0          | 0.0          |
| Others                              | 15.7         | -11.0        | -14.0        |
| <b>CF from financing activities</b> | <b>21.0</b>  | <b>44.9</b>  | <b>-31.6</b> |
| Net Cash flow                       | 2.2          | 11.6         | -3.0         |
| Opening Cash                        | 4.1          | 6.3          | 17.9         |
| Closing Cash                        | 6.3          | 17.9         | 15.0         |

Source: Company, ICICI Direct Research

| Exhibit 13: Balance sheet   |              |              |              |              |
|-----------------------------|--------------|--------------|--------------|--------------|
|                             | ₹ crore      |              |              |              |
| (Year-end March)            | FY18         | FY19         | FY20         | FY21         |
| <b>Liabilities</b>          |              |              |              |              |
| Equity Capital              | 16.4         | 18.7         | 19.5         | 19.7         |
| Reserve and Surplus         | 114.4        | 150.4        | 156.7        | 172.8        |
| Total Shareholders funds    | 130.8        | 169.0        | 176.2        | 192.5        |
| Total Debt                  | 115.2        | 118.3        | 173.3        | 155.5        |
| Other non current liabiliti | 0.3          | 0.2          | 2.7          | 5.6          |
| <b>Total Liabilities</b>    | <b>246.3</b> | <b>287.4</b> | <b>352.2</b> | <b>353.6</b> |
| <b>Assets</b>               |              |              |              |              |
| Gross Block                 | 201.4        | 228.0        | 305.2        | 340.2        |
| Less: Acc Depreciation      | 22.2         | 35.4         | 51.4         | 67.1         |
| Total Fixed Assets          | 202.2        | 226.2        | 259.3        | 279.1        |
| Investments                 | 0.0          | 0.0          | 0.0          | 0.2          |
| Inventory                   | 59.3         | 68.3         | 84.6         | 92.6         |
| Debtors                     | 50.7         | 84.7         | 101.2        | 147.3        |
| Loans and Advances          | 0.2          | 0.2          | 0.2          | 0.3          |
| Other CA                    | 22.3         | 18.1         | 26.7         | 27.9         |
| Cash                        | 4.1          | 6.3          | 17.9         | 15.0         |
| Total Current Assets        | 136.6        | 177.6        | 230.6        | 283.0        |
| Creditors                   | 65.0         | 91.5         | 106.3        | 153.3        |
| Provisions                  | 3.9          | 4.7          | 6.4          | 6.0          |
| Other CL                    | 32.9         | 29.2         | 35.3         | 66.4         |
| Total Current Liabilities   | 101.7        | 125.5        | 147.9        | 225.8        |
| Net current assets          | 34.9         | 52.1         | 82.7         | 57.2         |
| Other non current assets    | 9.2          | 9.1          | 10.3         | 17.1         |
| <b>Total Assets</b>         | <b>246.3</b> | <b>287.4</b> | <b>352.2</b> | <b>353.6</b> |

Source: Company, ICICI Direct Research

| Exhibit 14: Key ratios      |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March)            | FY18  | FY19  | FY20  | FY21  |
| <b>Per share data (₹)</b>   |       |       |       |       |
| EPS                         | 4.0   | 5.3   | 1.3   | 5.9   |
| Cash EPS                    | 10.3  | 12.5  | 9.6   | 15.1  |
| BV                          | 70.1  | 90.6  | 89.5  | 97.7  |
| DPS                         | 0.0   | 0.0   | 0.0   | 0.0   |
| <b>Operating Ratios (%)</b> |       |       |       |       |
| EBITDA Margin               | 6.1   | 6.0   | 6.2   | 7.1   |
| PAT Margin                  | 1.9   | 2.0   | 0.5   | 1.7   |
| Asset Turnover              | 2.0   | 2.2   | 2.1   | 2.1   |
| Inventory Days              | 54.2  | 49.0  | 48.3  | 48.1  |
| Debtor Days                 | 46.3  | 60.8  | 57.8  | 76.4  |
| Creditor Days               | 59.4  | 65.7  | 60.7  | 79.6  |
| <b>Return Ratios (%)</b>    |       |       |       |       |
| RoE                         | 5.7   | 5.9   | 1.8   | 6.4   |
| RoCE                        | 7.4   | 7.1   | 7.4   | 9.7   |
| RoIC                        | 5.3   | 6.5   | 6.7   | 8.3   |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| P/E                         | 163.2 | 122.9 | 490.4 | 110.9 |
| EV / EBITDA                 | 57.1  | 45.7  | 36.2  | 28.7  |
| EV / Net Sales              | 3.5   | 2.8   | 2.3   | 2.0   |
| Market Cap / Sales          | 3.2   | 2.5   | 2.0   | 1.8   |
| Price to Book Value         | 9.3   | 7.2   | 7.3   | 6.7   |
| <b>Solvency Ratios</b>      |       |       |       |       |
| Debt / Equity               | 0.9   | 0.7   | 1.0   | 0.8   |
| Current Ratio               | 1.9   | 1.8   | 1.9   | 1.7   |
| Quick Ratio                 | 1.1   | 1.1   | 1.1   | 1.1   |

Source: Company, ICICI Direct Research

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