



NSE/BSE PARACABLES/530555
Reuters/Bloomberg PCML.BO/PRMC IN

Rating Target
BUY 54

Paramount Communications Ltd.

Risk CMP
LOW 34

16th July, 2007

Sector Market Capitalization Free Float 52 week H/L
Cables Rs. 285.61 46% 59.40 / 22.80

Company
Research

> Bargain Stock in Turnaround Industry

PCL is an underdog that provides a golden opportunity for the bargain hunters. Available at a cheap P/E of 8 (14 for industry) & coupled with a turnaround story of cable industry, it offers ample opportunity for growth. The growth in cables industry will be fueled by heavy and continuous investments by GOI in Power, Railway and Telecom sector.

The recent expansion will also be reflected in current year profitability. Paramount's flexible manufacturing facility enables it to shift from one type of cable manufacturing to other type of cables depending upon the demand. Swing facilities at PCL plants de-risk its business by not depending on any one product for revenues.

Projections

(Rs Crores)

Particulars	2005	2006	2007	2008 (E)
Sales	98.98	194.71	313.13	469.2
PAT	1.29	21.46	37.59	54.9
EPS (Rs)	1.19	19.45	4.45	6.41

Our Views

- With huge investment in Power Sector, Railway expansion plan and rapid growth in Telecom sector, the cable industry is on exponential growth. PCL has presence in these entire segments and should be able to benefit from opportunity.
- In FY07 PCL increased its LT power cables capacity from 25,000 km to 55,000 km and HT power cables capacities from 1,500 km to 3,500 km. This expansion will give PCL a presence in the High Tension (HT) cable segment. Margins on HT cables are higher by 1.5-2% than LT cables.
- The company has flexible manufacturing facility that enables it to shift from one type of cable manufacturing to other type of cables. This helps the company to overcome the cyclical nature of its various segments and allows shift to high margin products when required depending on the demand.
- PCL is the single largest supplier of cables to the Indian Railways and it will benefit from the latter's modernization plan. The Railways plan to upgrade their signaling and telecommunication facilities at a cost of Rs.8000crore.
- The Company has adopted prudent price management strategies to manage the increasing raw material costs.
- We expect Paramount to witness a surge of 55% in topline and 44.14% in bottomline between FY07-08E. On our EPS estimate of INR 6.41 the stock trades at a PE of 5.3x for FY08E. We recommend a BUY with a target price of Rs54 in one year, representing an upside of more than 60% from current levels.

Overview

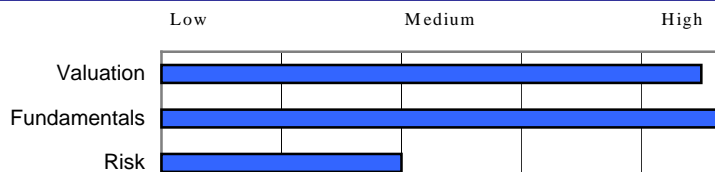
Paramount Communication Ltd. was incorporated in 1978. It supplies huge variety of specialized cables and wires for diversified uses and offers a single source for a comprehensive range of cables needed by virtually all the sectors of the economy – telecommunication, space research, thermal and nuclear power plants, railways, petrochemicals, fertilizers, steel, electronics and various other industries. The company has two manufacturing units located at Haryana and Rajasthan and both are ISO – 9001 and ISO-14001 certified.

Paramount is the single largest supplier of cables to the Indian Railways.

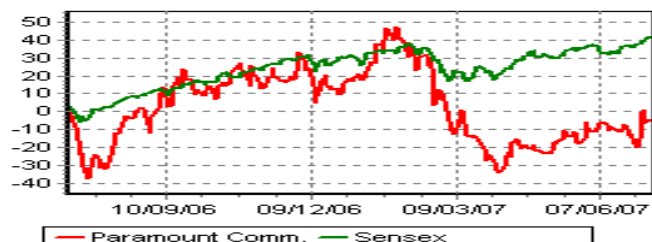
Key Indicators

CAGR %	38.4	NPM %	9.5
P/E Ratio	8.01	Key Inputs	Copper
Industry PE	13.7	Critical Factors	Infrastructure Development

Scorecard



Price Chart



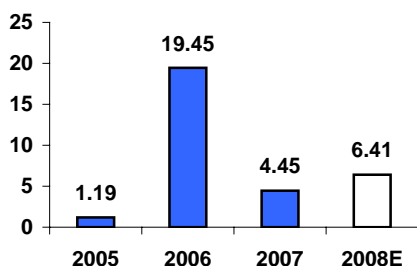
Peer Group Comparison

Company (2006-07)	Market Capitalization (Cr)*	Sales (Cr)	PAT (Cr)	CAGR-%	OPM-%	NPM-%	ROE-%	Price/BV	P/E Ratio*
Bhagyanagar Indi	309.92	172.3	26.0	60.9	13.9	11.2	22.0	0.85	4.42
Finolex Cables	1391.845	743.3	50.4	18.6	7.9	5.2	8.7	2	21.72
Paramount Comm.	301.2425	194.7	21.5	38.4	16.4	9.5	49.1	3.54	8.01
RPG Cables	166.4595	125.9	-39.5	-7.1	-5.4	-27.6	0.0	-0.98	-
Sterlite Optical	1530.452	550.6	40.8	67.6	6.6	4.4	9.3	1.75	30.67
Torrent Cables	138.825	156.3	17.7	39.2	15.6	9.8	41.8	3.49	7.17
Universal Cables	276.7505	297.9	16.6	29.6	9.5	4.8	14.3	1.77	12.59

* Latest

Valuations

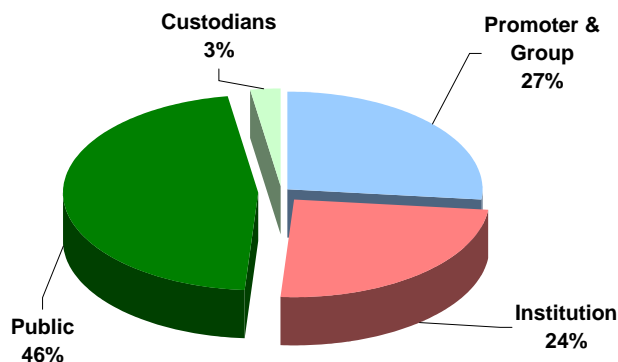
Annual EPS Trend



P/E Multiples

	2007	2006	2005
Company	6.54	2.06	3.91
Industry	13.73	9.38	13.27
Market	15	13	12.5

Shareholding Pattern



Company Background

Origin

Paramount Communications is one of the largest Indian cable manufacturers. In 1955, Mr. S.S. Aggarwal promoted Paramount under the name of Paramount Cables Ltd. Initially; it was manufacturing power cables for domestic usage (last leg transmission). In the year 1978 Mr. S.S. Aggarwal established a new unit under the name of Paramount Cable Corporation, which started supplying telecom cables to the Department of Telecommunications. It was converted into a Public Limited Co on 5th September 1994 under the name of Paramount Communications Ltd.

Paramount communication Ltd (PCL) came out with public issue during April 1995, to set up a unit for the manufacture of jelly filled telephone cable with installed capacity of 600000 conductor kilometres (CKM) as part of its diversification programme.

Company has achieved ISO 9002 Certificate for its Delhi Unit & already received ISO 9002 for its Dharuhera Unit.

Management

Mr. Sanjay Agarwal is a graduate in commerce and has 23 years of experience in the Cable Industry. Since his graduation he has been involved in all activities of the concern and has been instrumental in leading the business on a rapid growth path. He is an executive director and presently holding the position as Chairman & CEO of PCL and it is his entrepreneurship skills and dynamism, which has resulted in the tremendous growth of the company. He is associated with various apex industrial associations in India in different capacities. He is Member of National Committee of Communications, Small & Medium Enterprises (SME) Committee, Economic & Taxation Committee, Northern Region and Economics & Taxation Panel of the Confederation of Indian Industries (CII). He is Co-Chairman of SME Committee of PHD Chamber of Commerce & Industry. He is Chairman of the Task Force on Telecom Equipment Manufacture of the Associated Chambers of Commerce & Industry.

Mr. Sandeep Agarwal, Managing Director, has done his graduation in Economics. He has participated in several International Exhibitions and Technical Seminars in Germany, Hong Kong, and USA etc. He is responsible for bringing with new technical developments in the Company and actively involved in production and procurement of raw materials.

Mr. Vijay Bhushan, Director, served as the Chairman of federation of Indian Stock Exchanges representing 20 stock exchanges of the Country from 2002 to 2004. He was nominated as Member of SEBI's Secondary Market Advisor Committee in 2002 and SEBI's Apex Committee for Securities Market Awareness Campaign in 2002 and also nominated as Member of SEBI's Committee on participation of Securities Brokers in Commodity Forward Markets. He was elected as the President of the Delhi Stock Exchange Association Ltd. for 2001-2002. He was Member of the Committee on Settlement of Issues and Dispute Resolution Committee of National Stock Exchange from 1998-2001. He was actively involved in introducing the Trade Guaranteed Fund and modified Badla Mechanism in Delhi Stock Exchange. He was actively involved in Merchant Banking activities from 1994-96.

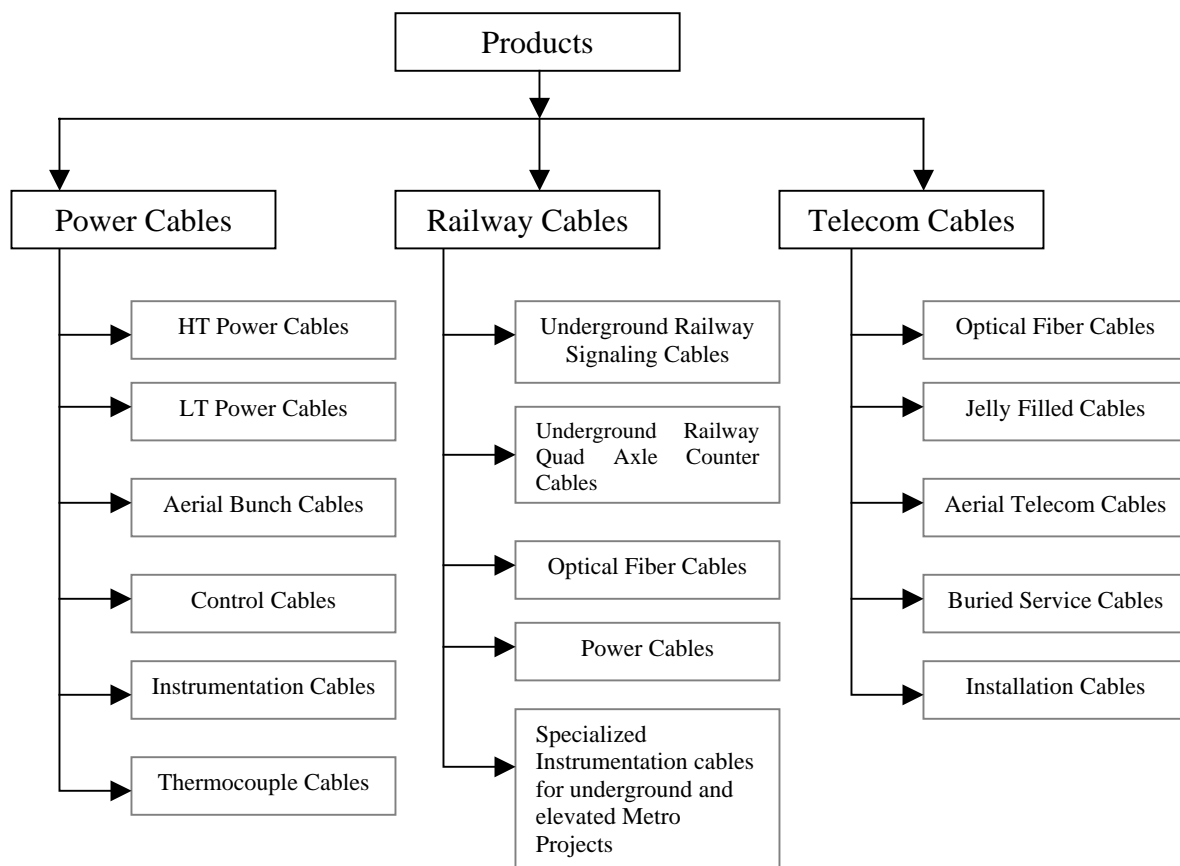
Mr. S.P.S. Dangi, Director, is a fellow member of the Institute of Cost and Works Accountants of India and holds an expertise in accounts and finance matters. He had held various positions in New Asiatic Insurance Co. Ltd., Kanoria Group of Industries, Universal Cables Ltd., Vindhya Telelinks Ltd. (VTL). As Managing Director of VTL, Sh. Dangi was instrumental in setting up the first JFTC plant in this joint sector.

Mr. Satya Pal, Director, a graduate in electrical technology and electrical communication engineering from Indian Institute of Science, Bangalore. He joined the Department of Telecommunications in 1955 and became Member of the Telecom Board in 1986. In 1988, he became Secretary, Department of Telecommunications, Chairman, Telecom Board and Chairman, MTNL. He retired in August 1989. He is a founder Fellow of The Institute of Electronics and Telecommunication Engineers. Mr. Satya Pal was invited to join the Board of Polaris in April 1997. He is the Chairman of the Shareholders Committee, Corporate Governance Committee and is a Member of the Remuneration & Compensation Committee of Polaris. Mr. Satya Pal advises Polaris on operational and strategic issues. He is also a Director of Paramount Communications Limited and a Member of its Audit Committee and the Chairman of its Remuneration Committee.

Company Background

Businesses/Products

Paramount Communications Ltd. (PCL) is engaged in manufacturing of various types of cables, mainly used in power transmission, telecom and for railway signaling. It is one of the few cable manufacturers in India to offer a wide product basket including Power Cables, HT Power Cables, LT Power Cables, Aerial Bunch Cables, Control Cables, Instrumentation Cables, Thermocouple Extension Cables, Compensating Cables, Railway Cables, Railway Axle Counter Cables, Railway Signaling Cables, Optical Fiber Cables, Polythene Insulated Jelly Filled Cables, and Telecom Cables.



Technology

Technological development is a continuing process with paramount. Company's plant and machinery is regularly updated and replaced to keep abreast with the latest state-of-art technologies in the field. All Paramount units have been awarded ISO 9001 and ISO 14001 Certifications.

Cables manufactured at Paramount conform to the most demanding national and international specifications including:

Indian Specifications

Bureau of Indian Standards (BIS), Indian Railway Specifications (IRS), Indian Telecom Department (ITD), Telecom Engineering Centre (TEC) and Engineers India Ltd. (EIL) etc.

International Specifications

British Standard Specifications (BSS), American Standard for Testing Methods (ASTM), International Electro Technical Committee Specifications (IEC) and Vereingte Deutsche Elktrotechniker (VDE) etc.

Paramount is also licensed by the Bureau of Indian Standards (BIS) to mark its products with IS7098 Part1 (for XLPE Power Cables), IS 14255 (for Aerial Bunch Cables), IS 694 (for unarmored PVC Cables) and IS 1554 PART1 (for armored PVC Cables up to 1.1 KV).

Company Background

Clients

The client profile of the company includes leaders in the each of the industries (telecom, power and railways). It has very strong business relationship with BSNL and MTNL. Some of the clients of the company are PGCIL, NTPC, GAIL, ONGC, BSNL, Bharti, Railtel, IRCON, L&T, NTPC, Essar Oil, Areva, REL, BHEL AND Sri Lanka Telecom. Paramount is the largest supplier of axle counter cables and signaling cables to the Indian railways and Paramount is the largest manufacturer of Aerial Bunch Cables (ABC) - used mainly in rural electrification in India.

Industry Outlook

A. Current Scenario

Power Sector

There are huge investments under implementation and planning for the Power Sector. The Government of India has set an ambitious target to add around 70000 MW of additional generation capacity and over 60000 ckm in transmission capacity by the year 2012. Capex required for every MW of power generating capacity is about Rs 4crore. Expenditure required in the 11th Five Year Plan for power generation alone has been estimated at Rs 280000 crore and Rs 71000 crore for power transmission. Demand for cables should roughly be 3% to 3.5% of the investment in power generation and 2% for power transmission. This would translate into mammoth demand for power cables in near future.

Railways

Indian Railways has embarked major infrastructure projects to shore up its capacity, safety and efficiency.

At present more than, 10000 Rkms have obsolete overhead alignment based communication system. Railway plans to overhaul this obsolete system with Optical Fibre Cable (OFC) and quad cable based communication system at a cost of Rs.8000 crore. During the Eleventh Plan about 3500 kms of track will also be electrified which is a substantial increase over the Tenth Plan achievement of about 1800 kms. The entire electrification projects and other electrification works will require an investment of about Rs.5960 crore.

Telecom Sector

Telecom cable market is worth Rs 1,200 crore with Rs 800 crore coming from jelly- filled telecom cables and the rest from optic fibre cables. The fibre optic industry in India showed an increase in demand in 2006- 07 to 3.1 Million-km of cabled optical fibre. This represents a y-o-y growth of about 33% in FY 2006-07 over FY 2005-06. We believe OFC will continue to witness good demand due to the extended demand from the telecommunication and cable operators.

B. Demand Supply Situation

There are about 15 odd cable manufacturers in India manufacturing OFC, Jelly Fitted Telecom cables and Power Cables with Sterlite Optical, Finolex Cables, Hindustan Cables, Torrent Cables and Universal Cables dominating the supply. The demand is originating from the Government sector (like Bharat Sanchar Nigam - BSNL, Mahanagar Telephone Nigam - MTNL, Power Grid Corporation of India - PGCIL, Railways, Gas Authority of India – GAIL etc.) as well as the private sector (like Reliance, Bharti, Tatas, Hughes and others).

C. Growth Potential

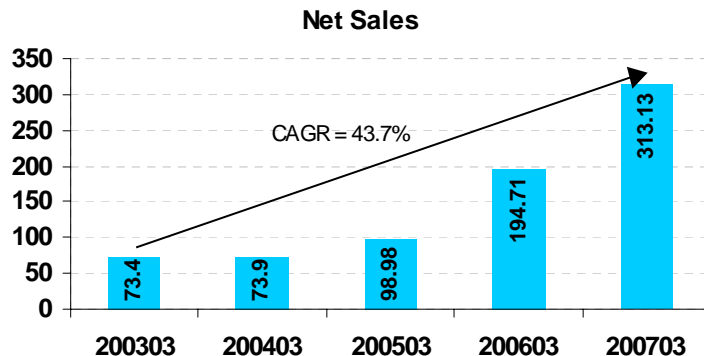
In view of the anticipated investments in infrastructure, power, railways and industrial sector, it is expected that the demand for power cable, railway cable and telecom cable will continue to be robust.

Fundamental Analysis

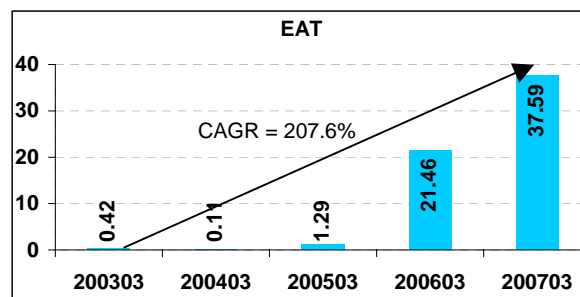
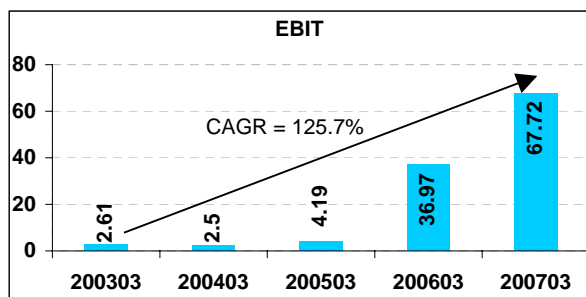
A. Financial Analysis

Past Growth

Net Sales of Paramount rose 60.82% to Rs 313.13 crore in the year ended March 2007 as against Rs 194.71 crore during the previous year ended March 2006.



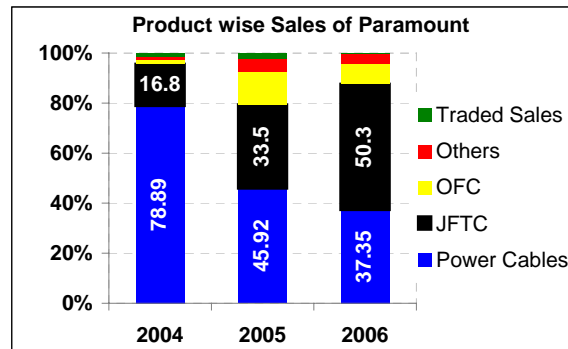
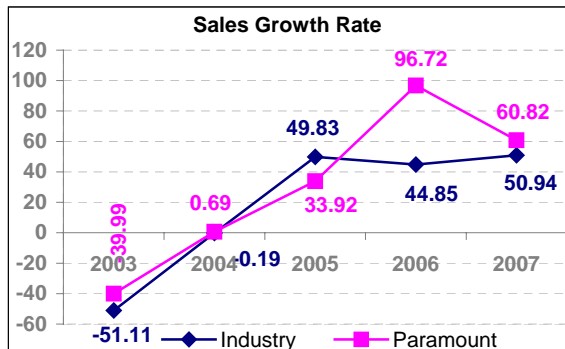
During last 5 years, EBIT and EAT registered CAGR of more than 125% and 207% respectively, During this period EAT rose more than EBIT indicating low growth in fixed financial charges.



Sales Analysis

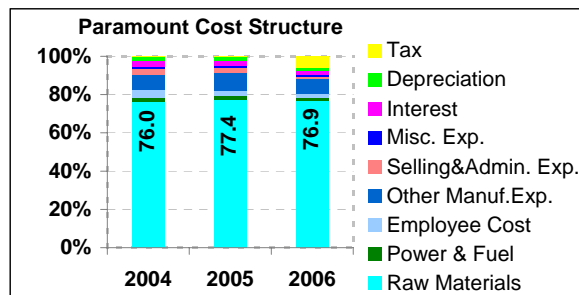
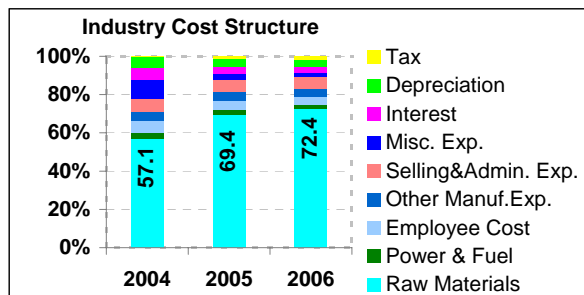
Paramount is largely into Jelly Fitted Cables, Power Cables and Optical Fibre Cables and more than 90% of its revenue comes from sales of these products.

Revenue from power cables is decreasing continuously and those from JFTC are increasing, however, the company has flexible manufacturing facility that enables it to shift from one type of cable manufacturing to other type of cables depending upon the demand.



Cost Analysis

Cost Structure

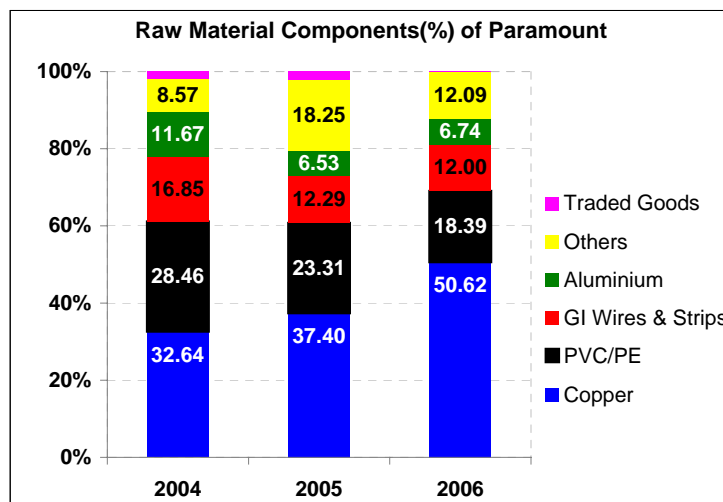


Raw Material Components

Copper, PVC/PE and GI wires & strips are the major inputs in production and accounts for more than 80% of raw material cost.

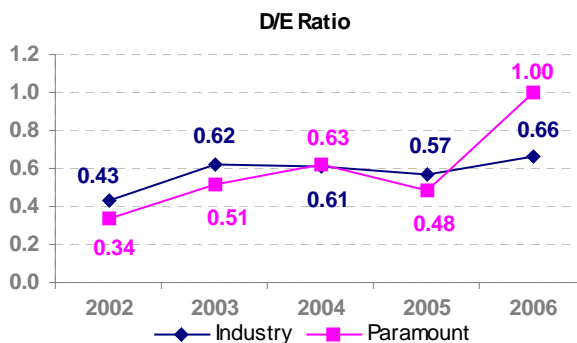
The proportionate expenditure on copper vis-à-vis other raw material is showing up trend.

The copper prices are negatively correlated with interest rates in US & China. In FY07 due to increase in Chinese interest rates, copper prices fell sharply which resulted in improved profitability margins. But due the reemergence of Chinese demands in the first quarter of FY08, copper prices are again heading northwards. Thus creating concerns for the cable industry.



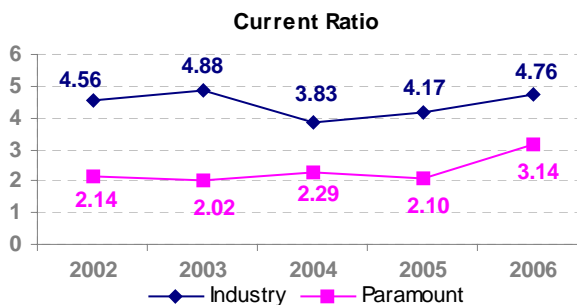
Leverage

Till 2005, Paramount was not using much of debt finance and was relying more on equity for financial requirements. However in 2006, it raised secured loans of more than Rs.30crores for working capital requirements. Consequently its D/E ratio rose, indicating higher risk than ever before.



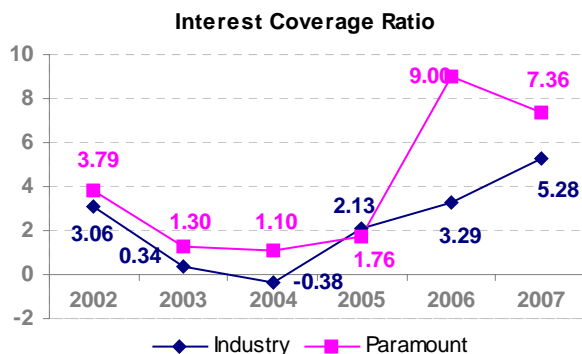
Liquidity

Paramount is maintaining low working capital as compared to industry average, indicating the lower short-term solvency in the near future.



Debt Service Capability

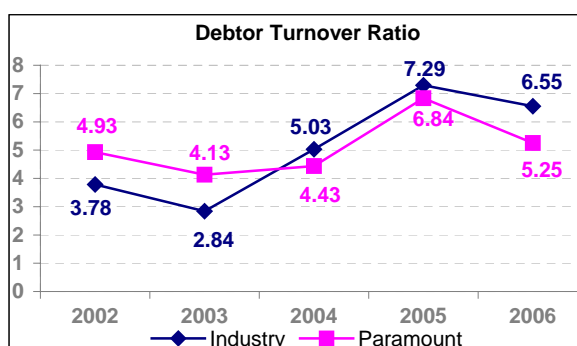
Low debt usage along with high EBIT domino effect in high debt servicing capability.



Operational Efficiency

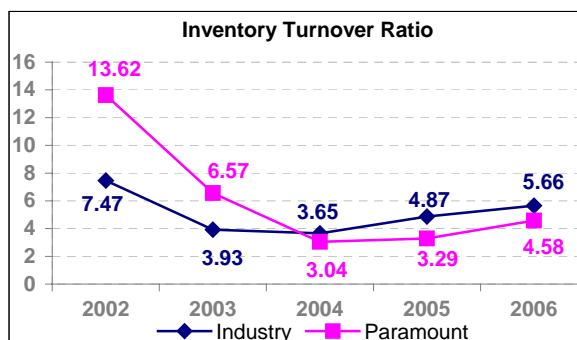
Credit Management

Paramount's credit management is not as efficient as industry's. Consequently Paramount has relatively more locked in capital in debtors than other players in the industry.



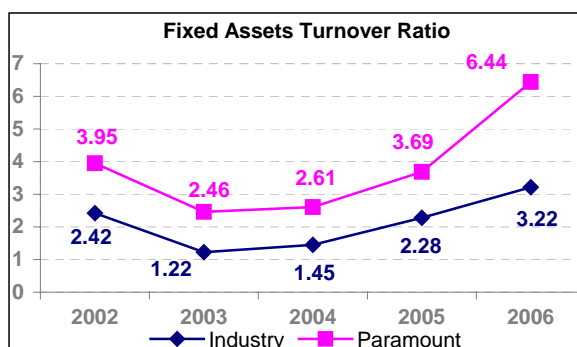
Inventory Management

During 2002-03 the overall Industry ITR fell sharply due to the downturn in Industry. However, from 2004 onwards the ITR of Paramount as well as industry is moving upwards.



Asset Management

Paramount has higher Fixed Assets Turnover as compared to industry averages. This indicates low net fixed assets than industry averages. Though Paramount has spent more than Rs. 8crore in investing activities but over the years its spending in investing activities was not sufficient enough to tap up the huge potential in the cable industry.

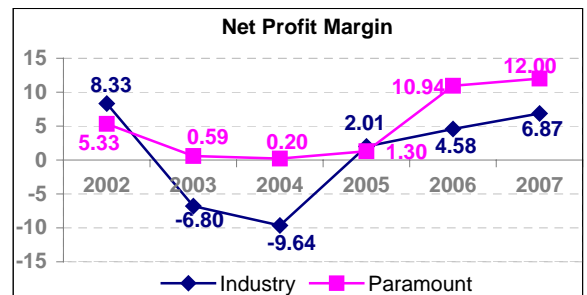
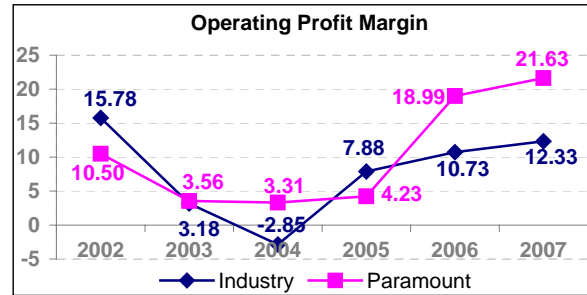


Margins

OPM of cable industry has been very volatile. In 2002 the cable industry faced very tough time and the OPM of overall industry fell drastically from as high as 15.78% to 3.18% in 2003. In 2004, it further fell and went into negative zone. On the other hand Paramount's performance is quite impressive. Its OPM has never fallen in negative zone, even during the period 2003-04. Further, the OPM of Paramount is improving and is better than industry average.

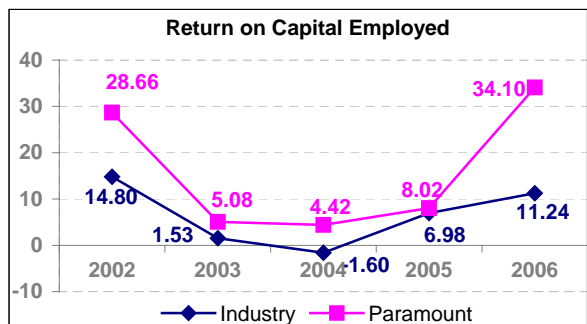
Paramount has been able to improve its margin due to its prudent price management strategies in raw material purchase.

Despite inefficient credit and inventory management, Paramount's overall efficiency in production, administration, selling, financing, pricing and tax management is better than the other industry players, enabling it to earn high net profit margins than the overall industry.

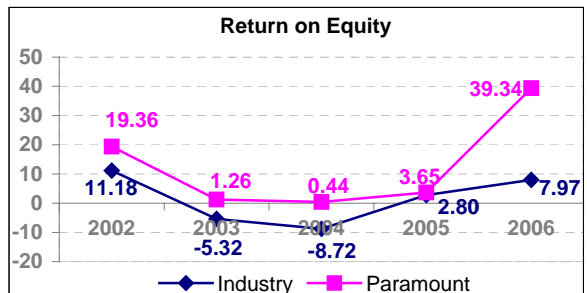


Profitability

Over the years, Paramount has been able to give better returns on overall capital employed and is beating industry averages consistently. In 2006, its capital employed doubled but EBIT saw a rise of more than 750%, resulting in sharp increase in ROCE in 2006.



The high ROCE is being reflected in ROE too.



B. Expansion

In March 2007, the company expanded its LT power cables capacity from 25,000 km to 55,000 km and HT power cables capacities from 1,500 km to 3,500 km, which was entirely financed by the Rs. 674 mn raised through GDR. This expansion will give PCL a presence in the High Tension (HT) cable segment. Though demand for HT cables is equivalent to that of Low Tension (LT) cables, margins are higher by 1.5-2%. The expansion will also boost revenues from power cable segment. The company already has orders worth Rs 54.5 crore while Rs 95 crore orders are in pipeline from power cables.

The company is also looking at expanding its presence in the hydropower and wind power segment. This would help the company to service the increasing demand in its existing markets and resulting in increase in volume and profit growth.

Expansion	Phase I	Phase II & III	Total Capacity	Capex
Low Tension (LT)	5,000	30,000	55,000	Rs 15 crore
High Tension (HT)	1,500	2,000	3,500	Rs 50-55 crore

C. SWOT

Strengths

- Swing Facility - Paramount has flexible manufacturing facility that enables it to shift from one type of cable manufacturing to other type of cables depending upon the demand. Swing facilities at PCL plants de-risk its business by not depending on any one product for revenues.
- Better-cost management - The Company has adopted prudent price management strategies to manage the increasing raw material costs.

Weaknesses

- Poor operational efficiency - Paramount's credit and inventory management policies are not meeting the industry averages.

Opportunities

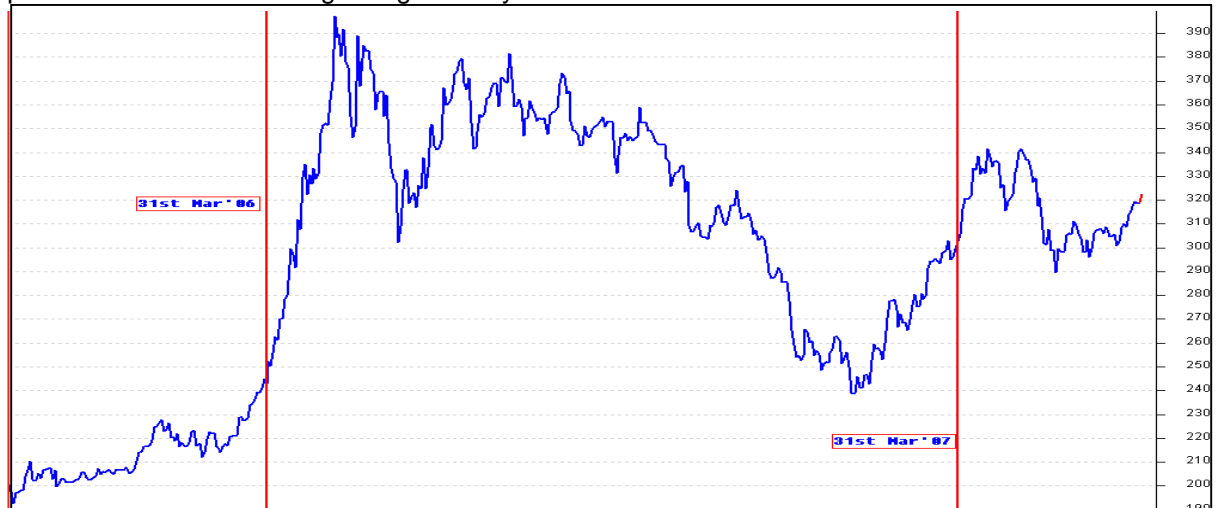
- Railways Expansion Plan - The Railways plan to upgrade their signaling and telecommunication facilities.
- Huge Investment in Power sector – GOI plans to spend Rs.400000 crore in Power Generation and Rs. 71000 crore in Power Transmissions.
- Strong demand for OFC - OFC will continue to witness good demand due to the extended demand from the telecommunication and cable operators.

Threats

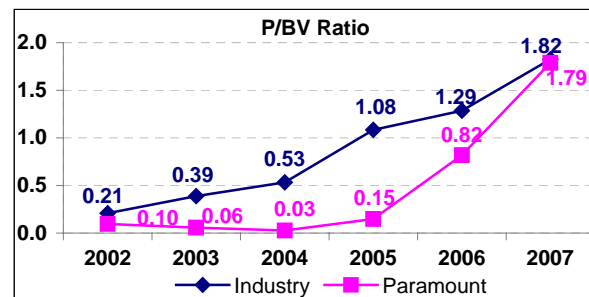
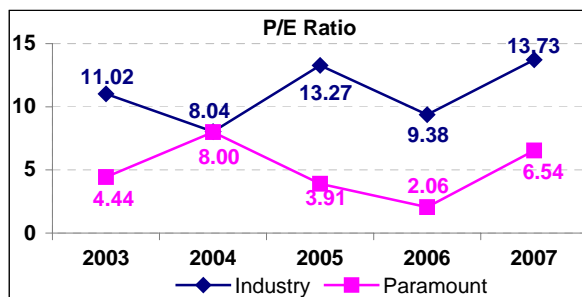
- Competition - Paramount faces stiff competition from major players like Sterlite Optical, Finolex Cables, Hindustan Cables, Torrent Cables and Universal Cables as well as small players in the cable industry.

D. Cautions

Copper and aluminum account for more than 60% of the total raw material cost. Copper has been an extremely volatile commodity. During March 2006 - August 2006, Copper prices shot up to Rs.390/Kg. and its all time high. After touching the all time high level it fell down to Rs.240/Kg. in October 2006 and then again starting moving upwards. At present it is trading around Rs.325/Kg. Any change in prices could affect the margins significantly.



Valuation



We expect Paramount to witness a surge of 55% in topline and 44.14% in bottomline between FY07-08E. On our EPS estimate of INR 6.41 the stock trades at a PE of 5.3x for FY08E. We recommend a BUY with a target price of Rs54 in one year, representing an upside of more than 60% from current levels.

Projected Profit & Loss Account

	2003	2004	2005	2006	2007	2008E
Revenues						
Gross Sales	84.9	85.8	112.6	225.7	363.4	545.2
Less Excise Duty	11.5	11.9	13.6	31.0	50.3	76.0
Net Sales	73.4	73.9	99.0	194.7	313.1	469.2
Stock Adjustments	8.9	8.4	0.7	11.3	60.1	76.6
Other Income	0.6	0.6	0.4	0.6	1.6	2.0
Total Income	82.8	82.9	100.1	206.7	374.8	547.8
Expenditures						
Raw Materials	61.6	62.9	76.6	142.5	256.6	376.2
Power & Fuel Costs	2.2	1.7	1.9	2.9	6.7	10.1
Employee Costs	3.6	3.8	2.7	3.4	4.1	5.2
Other Manufacturing Expenses	7.1	6.4	9.3	14.7	30.4	46.3
Selling & Administration Expenses	2.6	2.7	2.5	2.5	3.3	5.5
Miscellaneous Expenses	1.1	0.9	1.0	1.3	2.3	3.8
Total Expenditure	78.2	78.4	93.9	167.3	303.5	447.0
PBDIT	4.6	4.5	6.3	39.4	71.3	100.8
Depreciation	2.0	2.0	2.1	2.4	3.6	7.6
PBIT	2.6	2.5	4.2	37.0	67.7	93.2
Interest	2.0	2.2	2.4	4.1	9.2	9.8
PBT	0.6	0.2	1.8	32.9	58.5	83.3
Provision for Income Tax	0.2	0.1	0.5	11.4	20.9	28.5
PAT	0.4	0.1	1.3	21.5	37.6	54.9
Extraordinary items	-0.01	-0.04	0.00	0.16	0.00	0.00
Adjusted PAT	0.4	0.2	1.3	21.3	37.6	54.9
EPS	0.39	0.1	1.19	19.45	4.45	6.41

Valuation

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