NSE/BSE 517296/PHOENIXLMP
Reuters/Bloomberg PHLM.BO/ PL@IN

| Rating | Target |
|---|---|
| **BUY** | **390** |
| Risk | CMP |
| Low | 172 |

# Phoenix Lamps Ltd.

26th November '07

| Sector | Market Capitalization | Free Float | 52 week H/L | Time Frame |
|---|---|---|---|---|
| **Auto Ancillary** | **Rs. 370.2 crores** | **18.5%** | **187/108** | **6 Months** |

**Company Research**

## Shining Bright!!!

Phoenix Lamp an OEM supplier to major Automobile manufacturers including MUL, Hyundai, Tata, Bajaj etc. will be a key beneficiary from the burgeoning opportunities in CFL and automotive lamps. Commissioning of Haridwar plant will boost the margins. Further, the Tie-up with Eveready will provide it access to a huge distribution channel.

R R Information & Investment Research

Company Research

### Projections

(Rs. Crores)

| Particulars | 2005 | 2006 | 2007 | 2008E |
|---|---|---|---|---|
| Net Sales | 202.8 | 245.3 | 290.4 | 406.6 |
| PAT | 12.3 | 23.9 | 31.5 | 52.5 |
| Diluted EPS (Rs.) | 5.2 | 10.0 | 11.2 | 18.7 |

### Our Views

- There is tremendous scope for CFL products as they can cut down energy consumption by as much as 70% in addition to being environmental friendly. If incandescent bulbs are replaced with CFLs at least 12,000 MW of electricity can be saved. This is a savings of almost 65% over current usage. Further, CFL bulbs are environment friendly as against incandescent bulb.

  On the back of a burgeoning demand for CFLs in the domestic market, sales of CFLs are likely to double in the coming years. Consequently, management anticipates a 40% growth in the company's topline in FY08.
- Leading private equity investor, Actis acquired 66% stake in the company in March2007.
- Company has recently setup a facility at Haridwar, the plant enjoys 100% income tax exemption for five years and a 30% exemption for the next five years, as well as 100% excise duty exemption for ten years. This is likely to improve company's margins.
- Tie-up with Eveready will give Phoenix lamps access to Eveready's huge distribution channel.
- With global giants setting-up their plants in India and entry of new automobile players, and they actively looking at India as their manufacturing hub for exports, we believe Auto Ancillary industry is at the cusp of a significant growth spurt.

### Valuation

At CMP of Rs. 172 the stock trades at 9.2x of FY08E EPS of Rs. 18.7. We believe, Phoenix Lamps at its current stage of growth should trade at 21x. Based on our FY08E EPS estimate of Rs. 18.7 and PE multiple of 21x we arrive at a price target of Rs. 390, an upside of 127% within 6 months.

Snapshot

## Overview

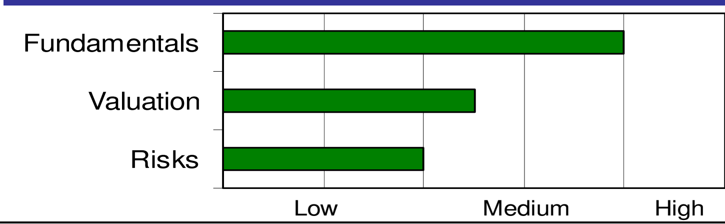
Phoenix Lamps, an Indo-Japanese joint venture, was promoted in 1991 and thereafter, a private equity firm, Actis, and its affiliates acquired a strategic stake (66.04%) in the company in March 2007. The original promoters completely sold out their stake.

The company is engaged in manufacturing and selling of electric lamps in India and internationally. It is the market leader in automotive lamp segment in India and supplies to all the major OEMs of the country including Maruti, Hyundai, Tata Motors, Hero Honda and Bajaj. It manufactures automobile headlamps under the Halonix brand, H3 type halogen lamps for fog lamps, J-type halogen lamps for general lighting applications, compact fluorescent lamps (single/double H-type), etc. Halonix is leader in the automotive halogen segment and is seeing commendable growth in the general lighting segment over the years.

## Key Indicators

| | | | |
|---|---|---|---|
| CAGR % | 20.5 | NPM % | 9.6 |
| P/E Ratio | 11.5 | Key Inputs | Lamp base parts, Lead in wire, Tungsten filament |
| Industry PE | 27.9 | Critical Factors | Automobile Industry |

## Scorecard

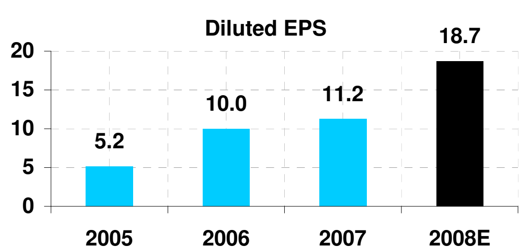



## Price Chart


| Company Name | Market Cap. (Rs. Cr) | Sales (Rs. Cr) | PAT (Rs. Cr) | CAGR-% | PBIT (%) | PAT (%) | RONW (%) | ROCE (%) | P/E | P/B | Beta |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Autolite (India) Ltd. | 29.7 | 78.2 | 4.7 | | 1.8 | -1.0 | -10.1 | 6.6 | 46.3 | 6.4 | 1.2 |
| Hella India Lighting Ltd. | 35.6 | 25.6 | -8.1 | 26.4 | -17.7 | -25.4 | 105.7 | -93.8 | NA | NA | 1.1 |
| Jagan Lamps Ltd. | 4.1 | 7.6 | -0.1 | 1.2 | 0.7 | -1.1 | -0.8 | 0.5 | NA | 0.6 | 1.0 |
| Lumax Industries Ltd. | 425.8 | 608.3 | 18.3 | 30.8 | 5.3 | 2.8 | 25.2 | 24.5 | 26.0 | 3.1 | 1.1 |
| Phoenix Lamps Ltd. | 370.2 | 290.4 | 31.5 | 20.5 | 13.0 | 9.6 | 26.8 | 30.2 | 11.5 | 2.9 | 0.8 |

## Valuations

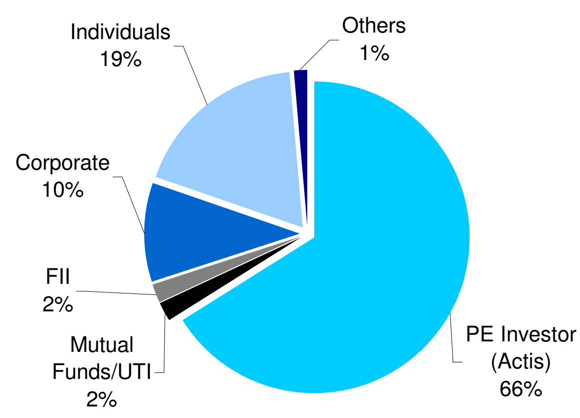
Annual EPS Trend




P/E Multiples

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Company | 12.79 | 9.86 | 9.12 |
| Market | 15 | 13 | 12.5 |

## Shareholding Pattern (as on September 2007)



Company Background

# Company Background

## *Origin*

Phoenix Lamps, an Indo Japanese joint venture, was promoted in 1991 and thereafter, a private equity firm, Actis, and its affiliates acquired a strategic stake (66.04%) in the company in March 2007. The original promoters completely sold out their stake.

The company is engaged in manufacturing and selling of electric lamps in India and internationally. It is the market leader in automotive lamp segment in India and supplies to all the major OEMs of the country including Maruti, Hyundai, Tata Motors, Hero Honda and Bajaj. It manufactures automobile headlamps under the Halonix brand, H3 type halogen lamps for fog lamps, J-type halogen lamps for general lighting applications, compact fluorescent lamps (single/double H-type), etc. Halonix is leader in the automotive halogen segment and is seeing commendable growth in the general lighting segment over the years.

The Company has set-up fully automatic state-of-the-art manufacturing facilities for Automobiles Halogen lamps, Halogen lamps for General Lighting and Compact Fluorescent Lamps with almost 500 types of lamps. The General Lighting Lamps (GLL) segment, which constituted merely 10-20% of the company's topline a few years ago, grew at a CAGR of 25-30% over the past three years and in FY07 it contribute 45% of total topline. However, Automotive Lighting Lamps (ALL) grew by a relatively sluggish 10-15% over the past one-year. Consequently, the share of ALLs in the company's topline declined from the earlier level of 80-90% to the current 55%.

The company has been certified as an ISO-9002 accredited company by RWTUV, Germany, for quality assurance in production and installation

## *Management*

**Mr. Rajiv Prasad**, **Managing Director,** aged 46 years is a bachelor of engineering and holds post graduate diploma in management from IIM, Bangalore in marketing and finance. Mr. Rajiv Prasad has worked with Gujarat Glass Pvt. Ltd. since December, 2005 as a director and business head of cosmetics and perfumery mainly to Europe, USA, Latin America and South East Asia since November, 2000 up to July, 2002, he has worked with Owens Brockway (India) Ltd. (OBL) (a 100% subsidiary of Owens Illinois, USA, a world leader in glass packaging), as vice president - sales & marketing/ whole time director. OBL is the largest glass manufacturers in the country in flint business. Mr. Rajiv Prasad has also worked with ITC Limited from July 1990 to October, 2000 at its various units as works manager, production manager, regional sales manager, and product manager. Before that he has worked with Bharat Heavy Electrical Ltd. as senior engineer from 1984 to 1988.

**Shri B K Gupta, Executive Chairman,** aged 70 years, main promoter of the company has wide operational, administrative and industrial experience of more than 4 decades in India and Abroad with a Western Outlook to industrialization and a flare for identifying new products and ideas with potential. He has widely traveled and got substantial exposure in all functional areas of lighting industry.

**Shri A K Agarwal**, **Whole Time Director,** aged 55 yrs, a Chartered Accountant has been whole time Director of the company since incorporation. He has long and varied business experience of over 28 years in the field of sales, finance, taxation, legal business administration and planning. He is responsible for day to day operations and affairs of the company in these specified functional areas.

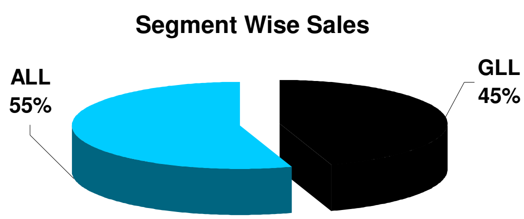
**Mr. Hulas Rahul Gupta**, **Managing Director & Promoter Director,** aged 46 years a bachelor in business administration from Concordia University, Montreal (Canada), is associated with the company since 1991. He has got substantial exposure in all functional areas of lighting industry. He has been instrumental in exponential growth and development of the company. He, as the C.E.O. of the company, is responsible for operations, growth and future prospects.

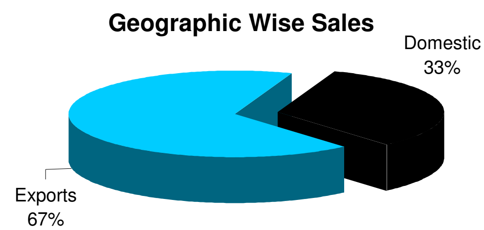
Company Background

## Businesses/Products

Phoenix Lamps manufactures Automobiles Halogen lamps, Halogen lamps for General Lighting and Compact Fluorescent Lamps with almost 500 types of lamps.

During FY07, the General Lighting Lamps (GLL) segment contributed to 45% and Automotive Lighting Lamps (ALL) contributed to 55% of its topline. In case of General Lighting Lamps a rapid shift is taking place from Ordinary incandescent lamps to energy efficient Compact Fluorescent Lamps (CFLs). The Company recorded a growth of over 27% in this segment. CFLs will be the main growth driver of the Company in next couple of years. In FY07, company exported 67% of its production and the rest was sold in domestic market.




## Tie – ups

The company has entered into a JV with Eveready Ind. whereby the latter shall have the marketing access across the country. The product shall be co branded and will be available from Eveready's existing dealers. Eveready has close to 9mn outlets.

## Clients

Phoenix's customer base ranges from aftermarket buyers to OEMs, as well as Tier 1 automotive companies. The company's OEM customers include Maruti Udyog Ltd. (MUL), Tata Motors, Ashok Leyland, etc., while its Tier 1 customers include Lumax Industries. Phoenix has a geographically diversified client base and exports various lamps to almost 40 countries. The company's exports currently account for 33% of its total revenues. A geographically diversified customer base further de-risks Phoenix's earnings visibility.

## Manufacturing Facilities

The company has five manufacturing facilities (two in NEPZ, one in Noida, one in Dehradun and one in Haridwar). Out of these three plants namely; One out of two in NEPZ, Haridwar and Dehradun Plant enjoys tax exemption. It has a total production capacity of around 135mn lamps p.a. (including 43mn lamps p.a. of Haridwar plant).

Industry Outlook

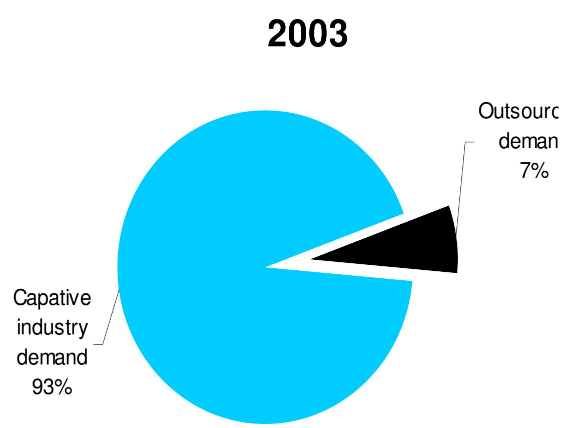
## Industry Outlook

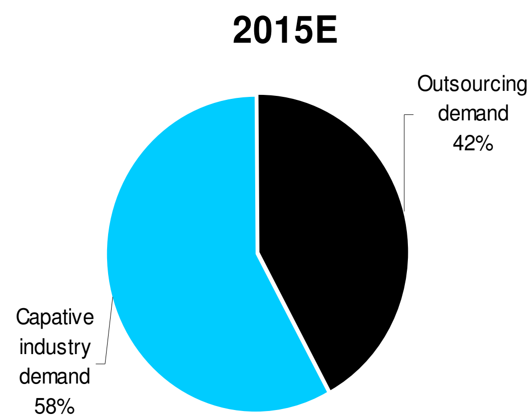
### A. Current Scenario

The global automotive component industry was estimated to be over USD 1.2 tn as at 2003. US and Europe constitute more than half of the demand for auto components, with the former alone accounting for close to 27%. The global market is likely to grow to USD 1.65 tn by 2015E, at a CAGR of 2.7%, with increasing proportion of outsourcing trickling down to LCCs like India, China, Brazil, and Thailand. This is a result of the constant price pressures that OEMs face in an increasingly competitive market, and the subsequent search for sources of cheaper components in LCCs like India, which can provide 15-35% cost savings, depending on the extent of value addition.

### B. Growth Potential

According to an ACMA-Mckinsey report, ~26% of the estimated USD 1.65 tn auto component market will continue to be manufactured by OEMs directly; another 32% will not be economically viable for outsourcing due to the minimal cost saving, leaving LCCs with 42%, or close to USD 700 bn, in potential demand. This implies an export CAGR of 19.3% from LCCs like India, Thailand, and China.



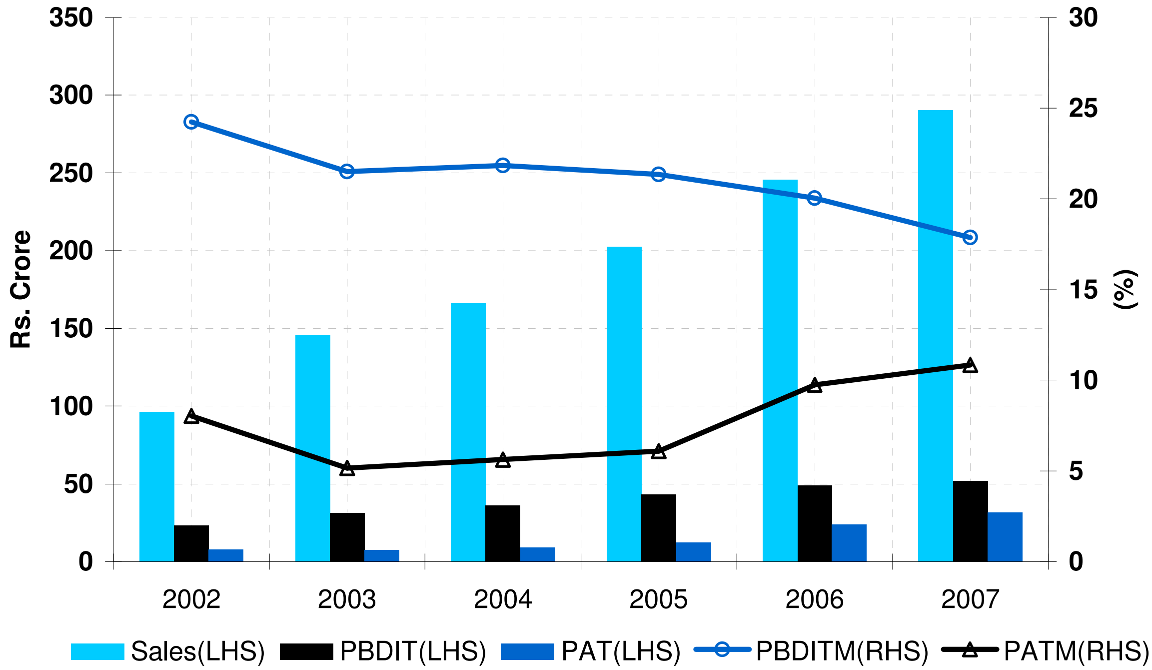



Fundamentals

# Fundamental Analysis

## *A. Financial Analysis*

### Past Growth




## *C. SWOT*

### Strengths

- Phoenix is an OEM supplier to major Automobile manufacturers including MUL, Hyundai, Tata, Bajaj etc.
- Diversified: – Presence in General lighting and automotive lighting along with substantial earnings from exports de-risks Phoenix' business.
- Quality products
- Leading private equity investor, Actis, acquired 66% stake in the company in March2007.

### Weaknesses

- Frail brand image: Phoenix is not a well known brand in General lighting, it faces stiff competition from players such as Philips, Osram, Orpat etc.

### Opportunities

- Energy shortage throughout the world along with increased thrust on issues such as Global Warming is leading to substantial increase in demand for Compact Fluorescent Lamps.
- Introduction of new generation lamps like LED, HID etc.

### Threats

- The recent rally in INR against Dollar may impact exports of the company.
- The area where the company is leader, i.e. automotive lighting, is susceptible to a number of external factors which have recently affected it negatively like interest rates, increasing raw material costs etc.
- Increasing competition from Chinese products both in domestic as well as world market.
- The CFL segment, which has good growth potential, has well entrenched competitors.

Investment Rationale

## Investment Rationale

### Huge growth Potential in domestic CFL market

There is tremendous scope for CFL products as they can cut the energy consumption by as much as 70% in addition to being environmental friendly. If incandescent bulbs are replaced with CFLs at least 12,000 MW of electricity can be saved. This is a savings of almost 65% over current usage. The incandescent bulbs are highly energy inefficient, converting nearly 90% of the input energy into heat and only 8-10% as usable light. If the world were to switch to energy efficient lamps, the result would include 555 million fewer tones of $CO_2$ emissions, more than 1560 million fewer barrels of oil consumed each year. This is equivalent to switching off 530 power plants of 1000 MW.

On the back of a burgeoning demand for CFLs in the domestic market, sales of CFLs are likely to double in the coming years. Consequently, management anticipates a 40% growth in the company's topline in FY08.

### Commissioning of Haridwar Plant likely to boost margins

Phoenix has established a manufacturing facility at Haridwar, Uttrakhand. The plant enjoys 100% income tax exemption for five years and a 30% exemption for the next five years, as well as 100% excise duty exemption for ten years. This is likely to offset any impact of soaring prices of raw materials, such as tungsten and molybdenum, on the company's margins. Further, we expect margins to improve to 18.8% for FY 08.

### Tie-up with Eveready… Access to strong distribution channel

Phoenix has recently forged a tie-up with Eveready Industries India Ltd. for the sales and distribution of GLLs along with the latter's products. Phoenix is likely to capitalize on the strong penetration of Eveready's products to almost 3 mn FMCG outlets across the country.

### The next wave of outsourcing around the corner

We believe that the Auto Ancillary industry is at the cusp of a significant growth spurt, led by large players, on the basis of two reasons: First, some of the most aggressive outsourcers such as GM, Ford, and Renault-Nissan are increasing their presence in India with plans to introduce some of their global production models in the Indian market, which will enable them to substantially scale up their India components purchasing. Second, we expect a significant growth in domestic auto manufacturing itself, led by the entry of new players, a slew of new product launches over the next 12 months, and increasing vehicle exports.

Valuation

# Valuation

## Projected Profit & Loss Account

(in Rs. Crore)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008E |
|---|---|---|---|---|---|---|
| Net Sales | 145.9 | 166.0 | 202.8 | 245.3 | 290.4 | 406.6 |
| *% Change* | *51.4* | *13.7* | *22.2* | *21.0* | *18.4* | *40.0* |
| **PBIDT** | **31.4** | **36.2** | **43.3** | **49.1** | **51.9** | **76.2** |
| *% of Sales* | *21.5* | *21.8* | *21.3* | *20.0* | *17.9* | *18.8* |
| Financial charges | 8.0 | 6.1 | 7.6 | 7.1 | 7.4 | 8.1 |
| **PBDT** | **23.4** | **30.1** | **35.7** | **42.0** | **44.5** | **68.1** |
| Depreciation | 11.8 | 14.3 | 14.8 | 14.3 | 10.8 | 11.7 |
| **PBT** | **11.6** | **15.9** | **20.9** | **27.7** | **33.8** | **56.4** |
| Tax | 4.1 | 6.6 | 8.5 | 3.9 | 2.3 | 4.0 |
| **PAT** | **7.5** | **9.3** | **12.3** | **23.9** | **31.5** | **52.5** |

## Projected Balance Sheet

(in Rs. Crore)

| **Particulars** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008E** |
|---|---|---|---|---|---|---|
| ***Sources of Funds*** | | | | | | |
| **A. Shareholders Funds** | | | | | | |
| Paid-up Capital | 23.85 | 23.85 | 23.85 | 23.85 | 28.02 | 28.02 |
| Preference capital | 24.03 | 24.03 | 24.03 | 22.91 | 13.16 | 13.16 |
| Reserves & surplus | 0.42 | 6.15 | 13.67 | 31.59 | 89.37 | 120.86 |
| **B. Loan Funds** | | | | | | |
| Secured borrowings | 57.04 | 50.73 | 62.61 | 55.78 | 50.97 | 55.87 |
| Unsecured borrowings | 5.73 | 6.04 | 5.89 | 25 | 0 | 0 |
| Net Deferred Tax Liability | 16.11 | 13.43 | 11.26 | 8.52 | 5.47 | 10.58 |
| ***Total*** | ***127.2*** | ***124.2*** | ***141.3*** | ***167.7*** | ***187.0*** | ***228.5*** |
| ***Application of Funds*** | | | | | | |
| **A. Fixed Assets** | | | | | | |
| Gross Block | 169.24 | 182.45 | 192.22 | 205.1 | 224.56 | 247.02 |
| Less: Depreciation | 78.62 | 92.71 | 107.17 | 119.25 | 129.45 | 129.45 |
| Net Block | 90.62 | 89.74 | 85.05 | 85.85 | 95.11 | 117.57 |
| **B. Current Assets, Loans & Adv.** | | | | | | |
| Inventories | 23.36 | 26.3 | 37.75 | 42.28 | 46.42 | 56.926 |
| Receivables | 25.41 | 32.15 | 46.05 | 50.49 | 69.64 | 93.522 |
| Cash & bank balance | 0.81 | 1.98 | 1.26 | 13.04 | 2.67 | 3.01 |
| Less: Current Liab.& prov. | 13 | 26 | 28.7 | 24.1 | 26.9 | 42.524 |
| **Net Current Assets** | **36.58** | **34.43** | **56.36** | **81.71** | **91.83** | **110.93** |
| ***Total*** | ***127.2*** | ***124.2*** | ***141.3*** | ***167.7*** | ***187.0*** | ***228.5*** |

| **Particulars** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008E** |
|---|---|---|---|---|---|---|
| Debt/Equity Ratio | 2.6 | 2.4 | 2.9 | 3.4 | 1.8 | 2.0 |
| PBIDT Margins | 21.5 | 21.8 | 21.3 | 20.0 | 17.9 | 18.8 |
| PAT Margins | 5.2 | 5.6 | 6.1 | 9.7 | 10.8 | 12.9 |
| Diluted EPS | 3.2 | 3.9 | 5.2 | 10.0 | 11.2 | 18.7 |

# Disclaimer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