



**2016**

**MIC ELECTRONICS**



**BUY MIC ELECTRONICS**

**25-03-2016**

# INDEX

<b>1.</b>	<b>Thesis – MIC Electronics</b>
<b>2.</b>	<b>Current Triggers in LED Market</b>
<b>3.</b>	<b>LED Market Scenario</b>
<b>4.</b>	<b>What makes us bullish on MIC?</b>
<b>5.</b>	<b>About MIC</b>
<b>6.</b>	<b>Conclusion</b>

## **MIC ELECTRONICS : NEW LIGHT OF SUCCESS**

### **Thesis:**

#### **1. Strong Tailwinds:**

**We certainly believe LED market has become the next big thing with Government forming the major chunk of the total LED demand. The company has started performing well after a long time which states that there has been fundamental positive changes happened in the company. The major portion of LED demand comes from street lighting and railways segment where company has its strong presence.**

#### **2. Strategic Tie up with Leyard:**

**In the year 2015, Leyard (one of the largest LED player globally from China) invested Rs 125 crores in MIC electronics @ 25 a share via equity and warrants. This will benefit the company in two ways. First, the company's corporate governance will improve and secondly, company will get the much needed technology which will help them in executing their new orders in more efficient and timely manner.**

#### **3. Value Mitigation:**

**Value migrates from outmoded business model to business designs that are better able to satisfy customers' priorities. Innovation creates room for new business. In this case value is power saving and its shifting from CFL's to LED's. This CHANGE in demand will not only increase new orders but will also create huge replacement demand.**

#### **4. Valuations :The company had corporate governance issues due to involvement in Common Wealth Scam, but with Chinese company coming in, we expect improvement in corporate governance. The company from last 4 quarters is doing around 10crores of adjusted pretax profit and trading at 12x (adjusted for leyard warrants)**

## Current Triggers in LED Market

In the Last couple of year we have seen a lot of movement in the LED market. We strongly believe that Wealth is made where ever there is GROWTH and CHANGE.

**GROWTH:** In the time when economy has slow down and industries are struggling to grow, if market expects the industry to grow at a CAGR 30%, it is not bad at all!!LED Lighting currently accounts for only 19% of total lighting market which is expected to grow to 62% by year 2021.

**CHANGE:** Value migration are always potential multibaggers. Innovation creates room for new business. In this case value is power saving and its shifting from CFL's to LED's.

**The LED market has emerged as one of the fastest growing industries in India. This industry has been majorly driven by factors such as falling prices of LED lights, increasing initiatives taken by the government and rising concerns with respect to energy conservation.**




This sector has being in news ever since the new Government has come in.

Recently India's energy minister, Piyush Goyal, announced the country's intention to replace all its conventional streetlights with LED ones, with **the underlying logic being that conserving power is more economical than producing more.**The Indian market continues to be mainly driven by government which makes up 51 percent of all LED orders.

## INDIA TO SWITCH ALL ITS STREET LIGHTS TO LED IN 2 YEARS HENCE HUGE POTENTIAL

Why is Government emphasizing on switch to LED Lights?

To understand the LED market, let us compare the various lighting products.

	 <b>LED</b>	 <b>CFL</b>	 <b>Incandescent</b>
<b>Average Life Span</b>	25,000+ hours	8,000 hours	1,200 hours
<b>Watts Used</b>	8-12 watts	13-15 watts	60 watts
<b>Kilo-watts Used*</b>	44 KWh/yr	55 KWh/yr	219 KWh/yr
<b>CO<sub>2</sub> Emissions*</b>	45 pounds/yr	56 pounds/yr	225 pounds/yr

\* Per bulb, based on 10 hours a day, 365 days a year

From the above comparison, anyone can say that LED is better with LONGER LIFE and MORE ECONOMICAL.

In spite of the initial cost of LED Lights being high, the average life is high and maintenance is very low as compared to CFL bulbs hence the total investment in a LED is worth it.

**India has 35 million street lights which generate a total demand of 3,400 MW. With LED, this can be brought down to 1,400 MW, saving 9000 million kWh of electricity annually, worth over \$850 million in the process. To put this into perspective, the electricity deficit in India during 2014-15 was 38,138 million kWh and 7,006 MW.**

## **LED Market Scenario in India**

- The LED Lighting market has been growing with a whopping CAGR of 57.31% over the last five years and is forecasted to grow at a CAGR of 32.15% over six years.
- LED Lighting, which accounts for a 19% share in the current overall Lighting market, is anticipated to reach 62% by the year 2021.
- **Street lighting application accounts for majority of the market revenues in India's LED lighting market.(MIC's presence).** The outdoor LED lighting segment is growing robustly on account of growing demand for LED installations in parks, streets, railways, metro stations, parking lots and other public places.
- **According to Navigant research the market share of LED in street light worldwide is 53.3% whereas in India is less than 1%.**

LED IS THE NEXT BIG THING

**The biggest useage of LED :**

**1)Street Lights**

**2)Government Properties Like Railways**

**3) Homes and Offices**



As per 2014 data outdoor accounted for 55% of the total LED Market.

If we look at the opportunity size, the potential is huge as apart from the replacement demand, the new cities and development will all have LED!

### What makes us bullish on MIC?

The simple answer is that since major demand is on the street lighting and industrial lighting side, it is going to benefit MIC the most. Government initiatives to replace incandescent bulbs with LED bulbs under various schemes, increasing energy demand in the country and declining prices of LED lights are the factors driving the growth of LED lighting in India.

We are positive that with Chinese counterpart coming into the company, the growth can be extraordinary for the next 3 years.

**MIC started pilot project of Digital Display Screen in 5 Railway stations. Digital Display screen is railway's unique project of networking of about 90000+ screens across 2000 railway station across the country with an estimated cost of 2000 crores.**

"MIC Electronics, Leyard Optoelectronic (Beijing) and Associated Advertising, led by MIC has been selected by RailTel Corporation of India (Ministry of Railways), for conducting proof of concept phase of proposed network for six months at Vadodara, Ahmedabad, Allahabad, Naini and Jasra Stations," says the Hyderabad-based company in its filing.

Railway display network project that envisages networking of about 90,000 digital display screens on more than 2,000 railway stations across the country, is estimated to cost around Rs 2,000 crore.

Network is primarily meant for displaying information related to passenger amenities, comfort, convenience and safety. Display infrastructure will also be utilised for commercial advertising.

## MIC has no Cannablization effect: An added advantage

Cannablization is basically when a new business of a company brings a negative impact on the existing business of the company. If I say in LED context, the existing players like Philips, Surya roshni were in the CFL's business will experience cannablization i.e. as the LED business will grow, their CFL business will start declining. Thus their real growth shall be lower than the industry growth, But this is not the case with MIC Electronics as the company was always in LED market. The business which the company will get going forward shall directly contribute to profits.

## No tax payment will enhance profitability

Given below is the extract of the company's Balance Sheet :

		Mar 15	Mar 14	Jun 13	Sep 12	Jun 11
		12 mths	9 mths	9 mths	15 mths	12 mths
Non-Current Investments		6.43	8.11	8.09	7.40	6.56
Deferred Tax Assets [Net]	Due to DTA reserves the company will not have to pay taxes	16.09	14.34	2.48	9.87	9.68
Long Term Loans And Advances		40.00	40.55	40.40	40.65	38.16
Other Non-Current Assets		15.86	0.67	1.06	1.43	2.10

Company was loss making for many years before it turnaround in 2015. Hence they have not paid taxes and due to lot of DTA's on the balance sheet they need to pay no or little tax hence increasing their profitability.

## About MIC Electronics

The Company is engaged in the development and manufacturing of light emitting diode (LED) Video Displays, high-end Electronic and Telecommunication equipment. The company has a market cap of 345 crores and clocked in total sales of 158 crores last year.

This is one company with a balance sheet in bad shape and already written off by market participants. This company miserably failed earlier mainly because its promoters came up with a business before its time.

The company has got a large amount of Trade Receivables on the Balance Sheet mainly because the company couldnt get its money back for projects executed for Indian Railways in the past. This has resulted in company accumulating trade receivables of 108 crores (FY15) which is double of the company's last quarter sales! So we dont expect the company to get that money back.

## What Has Changed?

Every company has a past which may or may not be worth considering. But important thing to note is that if there is any positive change in the company it will definitely become an attractive investment.

We have seen a revival in the sales growth and the new order will help to boost the sales further. If the industry is expected to grow at 30% approx this company can grow faster than that as well!

	Jun' 11	Sep'12	Jun'13	Mar'14	Mar'15
Net Sales(Rs.)	216	108	106	128	159
YOY Growth %	-22%	-49.8%	-2.2%	20.7%	24%

Company becomes PAT POSITIVE last year

	Jun' 11	Sep'12	Jun'13	Mar'14	Mar'15
OPM (%)	21.94	22.61	5.98	3.8	6.79
NPM(%)	15.27	-12.76	-22.16	-23.77	0.64

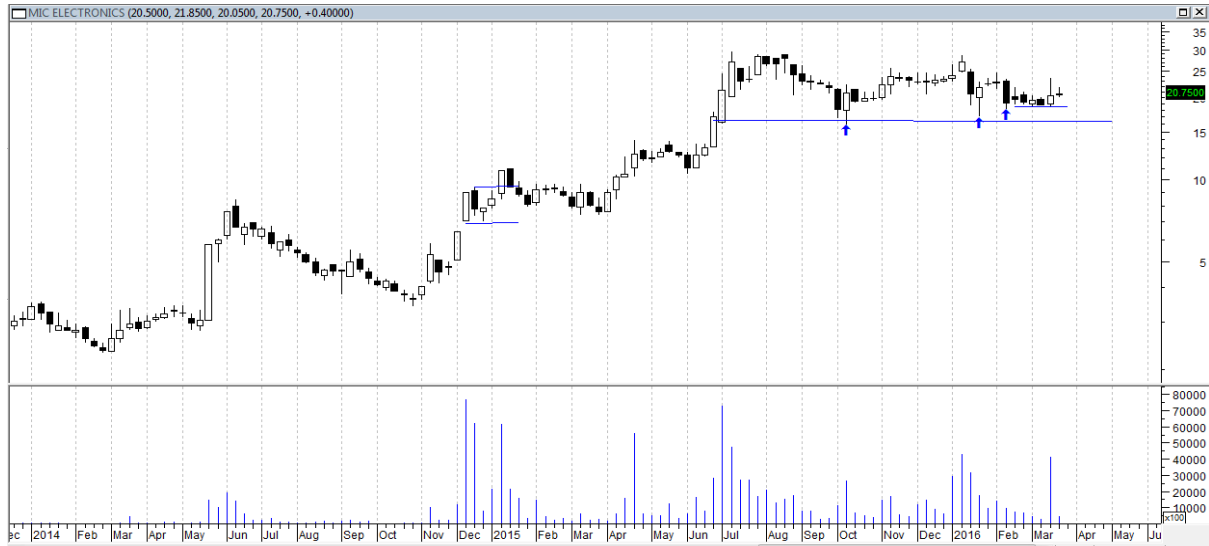
The quarterly numbers also show the improvement in operating margins to 20% levels which here expected to sustain going forward.

Quarterly Results		Standalone basis		Consolidated basis					
		Dec'15	Gr. Rt. %	Sep'15	Gr. Rt. %	Jun'15	Gr. Rt. %	Mar'15	Gr. Rt. %
Net Sales ?	<b>Margins Improving</b>	53.8	33.7	52.9	44.5	47.3	28	44.4	42.9
Operating Profit Margin(%) ?		20.60	-	21.63	-	21.87	-	21.75	-
Net Profit Margin (%) ?		13.06	-	14.74	-	15.53	-	30.47	-



## Technical-

We Believe that Levels of 18 serve a good stop loss for this trade i.e 10-12% Downside and A lot of Upside Room.



## Conclusion:

This company is a high risk- high return type investment. The company certainly doesn't have a good record in the past, but on the back of new tie up with Leyard (which should ensure better execution of orders). The company is in turnaround phase of its business, it is expected to grow at a favourable rates.

The new orders received is a big positive for the company. This ensures growth visibility for next few quarters.

**The company is trading at 12 times pretax TTM Earnings (Adjusted for leyard).We expect going forward the company can increase sales at 30%+ to 330-340 Cr by FY 2018 with Net Profit of 45-50Crores.**

**Disclourse** - Amit Jeswani and Family have no Positions in MIC electronics.

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