



PG Electroplast Limited

Advancing Technology,
Enhancing Lives



Accumulate

Key Data

DATE	21-06-2024
Reco Price	3190-3230
Target	4120
Sector	Consumer Electronics
BSE Code	533581
NSE Code	PGEL
Face Value (Rs.)	10.00
Market Cap (Mn)	83,544.24
52-week High/Low (Rs)	3300/1451.15

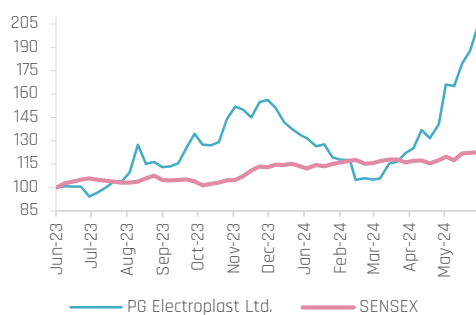
Source : NSE, BSE

Shareholding pattern (March-2024)

	%
Promoters	53.70
DII's	10.94
FII's	11.02
Public	24.33
Total	100.00

Source : NSE, BSE

Price Performance



Rebase to 100

PG Electroplast Limited

Company Background

PG Electroplast Limited (PGEL) was incorporated in 2003 as flagship company of PG group. It is an electronic manufacturing services (EMS) provider for original equipment manufacturers (OEMs) of consumer electronic products in India. The Company is engaged in the manufacturing of consumer durables which comprise of molding division; electronics division; complete products; paint shop; thermoset, and tooling division. The molding division includes parts of air-conditioners, air coolers, washing machines, refrigerators, ceiling fan parts, automobile parts, and sanitary ware products. The electronics division includes Printed circuit board assemblies for LED, televisions, and set top boxes. The complete products division includes an automated painting line to attend to all kinds of painting-related needs. The thermoset division includes toilet seats manufacturing facility and scratch resistant toilet seats. The tooling division Includes design and development of molds for various products.

Outlook and Valuation

PGEL has grown more than 10x in eight years, from a revenue of Rs 2,630 Mn in FY16 to Rs 27,470 Mn in FY24 at a 34% CAGR. The company is seeing increased interest from both new and existing clients, and we remain very confident about the future growth prospects of the business. The order book for the product business remains robust, and the company hopes to accelerate product business growth in FY2025. The rapid rate of urbanization, government reforms, and falling prices of durables provide an optimistic view of PGEL. The company foresees large opportunities in plastic molding and consumer durables like washing machines, room ACs, refrigerators, etc., along with opportunities in the ODM space. Improving operational efficiencies lead to better profitability, higher cash flows, and reinvestment to improve strategic capabilities to reap future benefits. **Factoring this in, we estimate revenue to grow at a CAGR of 28% over FY24-FY26E, with an ACCUMULATE rating at a target of Rs 4,120 based on a PE of 41x with FY26E EPS of Rs 100.5.**

Particulars (Rs. in Mn.)	FY23	FY24A	FY25E	FY26E	CAGR % (FY24 - FY26E)
Revenue	21,599.5	27,466.0	39,934.9	45,126.4	28%
EBITDA	1,708.3	2,618.9	3,889.7	4,454.0	30%
EBITDA %	7.9%	9.5%	9.7%	9.9%	
PAT	774.7	1,371.2	2,224.9	2,615.8	38%
EPS (Rs.)	35.8	51.9	85.5	100.5	39%

Source: Company, ACMIIL Retail Research

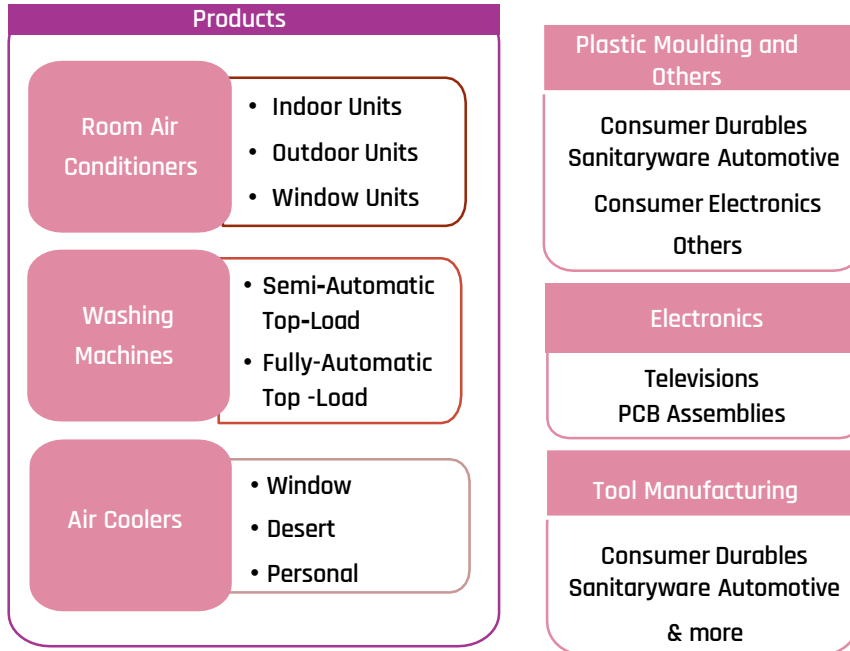
Company at Glance

- PGEL has established itself as a one-stop solution for leading electronic manufacturing services over the years.
- Specializes in Original Design Manufacturing (ODM), Original Equipment Manufacturing (OEM) and Plastic Injection Molding.
- Caters to a distinguished clientele comprising over 70 Indian and global brands.
- Envisions a promising trajectory for appliances such as washing machines, air conditioners, refrigerators, ceiling fans, and sanitaryware products.
- Emerging opportunities in Electric Vehicles, IoT, and electronic security systems are expanding India's electronic market, driven by the Make in India initiative.
- Increased interest from both new and existing clients bolsters management's confidence in future growth prospects.

Company Overview

PG Electroplast Limited is a leading, diversified Indian Electronic Manufacturing Services provider. It specializes in Original Design Manufacturing (ODM), Original Equipment Manufacturing (OEM) and Plastic Injection Moulding, providing One Stop Solutions to 70+ leading Indian and Global brands.

Business verticals



Source: Company, ACMIIL Retail Research

Key Clients

Source: Company, ACMIIL Retail Research

Manufacturing Facilities

Number of Units	Location	Details
1	Roorkee, Uttarkhand	Washing Machines, Plastic Moulding
4	Greater Noida, Uttar Pradesh	Washing Machines, PCB Assemblies, Air Coolers, LED TVs, Plastic Moulding, Tool Manufacturing, Crossflow Fans
2	Ahmednagar, Maharashtra	Air Conditioners, Plastic Moulding, Sheet Metal, Heat Exchangers, Crossflow fans

Source: Company, ACMIIL Retail Research

Investment Rationale

Enhancing market reach and revenue through launching new products

PG Electroplast is expanding its addressable market by developing new products, aiming to improve revenue and market share by regularly introducing offerings that cater to evolving consumer preferences. The company's focus extends beyond enhancing its current product line to exploring new categories and leveraging existing customer relationships for additional opportunities. With a diverse product portfolio and strong R&D capabilities, PG Electroplast is well-positioned to gain additional market share, while its strong brand recall helps attract new customers and expand its reach.

Comprehensive Services Empower PG Electroplast to Enhance Efficiency and Innovation

PG Electroplast offers comprehensive services including product conceptualization, design and prototyping, production, and product management to clients across various downstream industries and end markets. These services empower PG Electroplast to reduce manufacturing costs, deliver new and innovative products with minimal lead time, improve supply chain management, reduce inventory obsolescence, and shorten product fulfillment time.

Offering a Competitive Edge Through Distinct Manufacturing Models

The company offers a competitive edge through two distinct business models. In Contract Manufacturing (CM) model, they produce and deliver products based on designs created by customers, who then distribute these products under their own brand names. In the Original Design Manufacturing (ODM) model, they not only manufacture products but also conceive and design them. These products are then provided to customers for distribution under their brand names. These models enable to cater to a diverse range of product needs, ensuring flexibility and innovation for clients.

Advanced Manufacturing Capabilities and Innovation Commitment

Strategically located in Uttar Pradesh, Uttarakhand, and Maharashtra, PG Electroplast's advanced manufacturing facilities ensure high-quality production and timely delivery. The Ahmednagar plant in Maharashtra, one of India's largest and most integrated AC manufacturing sites, showcases their commitment to innovation. Specializing in ODM, OEM, and plastic injection molding for consumer durables, PG Electroplast offers comprehensive solutions, reinforcing their position as a trusted partner for brands pursuing quality and advancement. The Company has enhanced its manufacturing capabilities through several technological advancements. Larger molding machines now feature automatic conveyor lines, reducing costs and improving quality. In partnership with Hoti (Xiamen) Plumbing Inc., they have added a PU paint shop and a UF thermoset molding seat facility. New blow molding equipment and additional PCB and SMT assembly-cum-automation machines have increased production capacity. The installation of industrial robots on injection molding machines reduces manpower costs, and servo drive technology has been integrated into the facilities.

Enhancing Manufacturing Efficiency and Client Solutions through Strategic Backward Integration

PG Electroplast has implemented a comprehensive backward integration strategy in its supply chain, integrating critical manufacturing operations like plastic molding, sheet metal fabrication, and PCB assembly. This approach includes high-standard testing labs and complete assembly lines for Room Air Conditioners (RAC). By combining these capabilities, PG Electroplast offers complete solutions for various products, including air conditioners, washing machines, LED TVs, car parts, and other consumer electronics. This strategy not only ensures quality and operational efficiency but also reinforces their reputation as a reliable partner capable of delivering high-quality products and innovative solutions across diverse sectors.

Acquisition of Solarstream Renewable Services: Enhancing Sustainability and Operational Efficiency

PG Electroplast's acquisition of stake in Solarstream Renewable Services for solar power generation at their Greater Noida manufacturing plants marks a strategic move towards sustainability and operational efficiency. By utilizing solar power to meet electricity requirements, company reduces dependency on conventional energy sources, aligns with environmental regulations under the Indian Electricity Act, 2013, and mitigates operational costs associated with electricity consumption. This acquisition not only supports company's commitment to sustainable practices but also enhances their operational resilience by securing a reliable and eco-friendly energy source. By integrating renewable energy solutions into their manufacturing processes, it strengthens their competitive edge as a forward-thinking and environmentally responsible company in the electronic manufacturing and plastic injection molding sectors.

Anticipates Significant Revenue Boost Through Product Expansion and Strategic Jaina JV

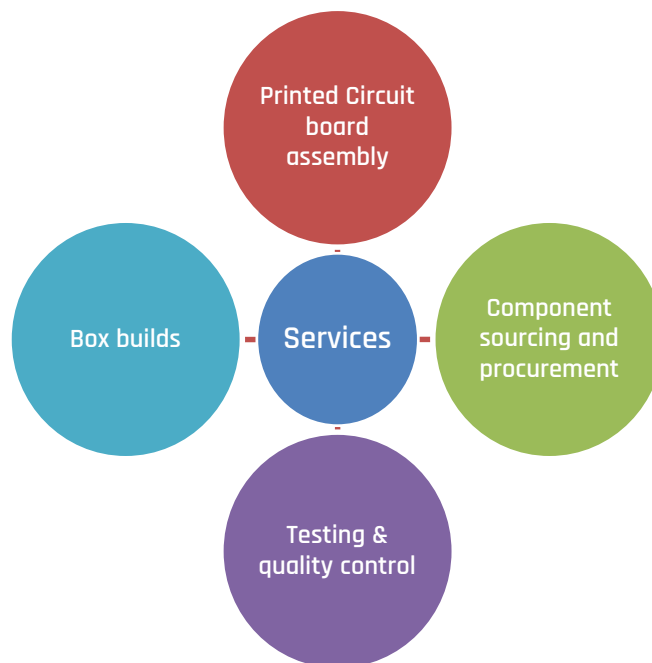
The company has provided strong guidance for FY25, anticipating a 24% YoY revenue growth to Rs 34,000 million, driven by a 44% increase in its Product business (RAC, WM, Coolers) due to low channel inventory and a robust order book. Additionally, the JV with Jaina Group aims for Rs 6,000 million in revenue by selling over 700,000 TV units in FY25, doubling from 350,000 units in FY24. Jaina Group will assist with better raw material sourcing, attracting many brands, and holds one of three Google ODM licenses, with an option to convert a third of its stake to PGEL's equity. The company projects a net profit of Rs 2,000 million, a 46% rise from the previous year, and plans to invest approximately Rs 3,800 million in capital expenditure for two new greenfield facilities in Rajasthan and Noida, as well as further expansion of its Supa facilities. The TV business, currently yielding a ~2% margin, will transition to a new 50% joint venture with Goodworth Electronics in FY25. A higher proportion of the high-margin (10%+) Product business is expected to enhance overall margins. The company is set to undertake its first corporate action by splitting each equity share with a face value of Rs 10 into 10 equity shares with a face value of Rs 1 each, with the date yet to be announced.

Leading Provider of Comprehensive Consumer Electronics Solutions

The group supplies major brands including LG Electronics India Pvt Ltd, Whirlpool India Ltd, Voltas, Sansui, Godrej, and Orient Electric Ltd, servicing prominent players in the washing machine, domestic refrigeration, and Room air conditioning (RAC) markets. With a wide-ranging product portfolio, they manufacture plastic components for various consumer electronics such as air conditioners, air coolers, refrigerators, and washing machines. Renowned as a diversified Indian manufacturing services provider, they specialize in ODM, OEM, and plastic injection molding for the consumer durables industry, offering comprehensive end-to-end solutions to consumer durable brands.

Industry Overview and Growth Drivers

Electronics Manufacturing Services (EMS) encompass a range of activities including design, manufacturing, testing, distribution, and servicing of electronic components and assemblies for OEMs. The Indian EMS market is poised for substantial growth, projected to achieve a remarkable ~41% CAGR from FY21 to FY26E, reaching approximately Rs 5,980 billion (FY21: Rs 1,069 billion). Historically, India has been a significant importer of electronics, particularly laptops/notebooks and TVs, with China and Hong Kong contributing around 44% and 16% of these imports, respectively. Conversely, India exports substantial volumes of mobile phones and Electronic Control Unit (ECUs), with the United States and the UAE being key destinations. The Indian electronics manufacturing industry is broadly categorized into OEM in-house production and EMS company production, with mobile phones and consumer electronics being major sectors. A global shift of mobile manufacturing to India could catalyze significant growth in this segment. Presently, most domestic players operate on a build-to-print model using general assembly lines, rather than the build-to-specification model that requires specialized assembly lines. The EMS market in India offers several different sorts of services including:



India is on track to become the fifth largest consumer durables market globally, reinforcing its position as one of the fastest-growing sectors worldwide. This growth is driven by rising incomes across urban and rural areas, increasing urbanization, and shifting consumer preferences. The appliances and consumer electronics industry in India is expected to reach approximately USD 21.18 billion by 2025. The sector is experiencing notable transformation, with a growing number of consumers investing in home automation and seeking time-saving solutions. This trend is particularly driven by the hectic lifestyles of working women, balancing home and professional responsibilities. As a result, the market has become highly competitive, with both domestic and international players vying for market share in this dynamic segment.

Automotive: Sales of automotive electronics are projected to rise, driven by increasing income levels and a growing demand for enhanced in-vehicle digital experiences. There's also growing awareness among consumers about advanced safety features and communication services, alongside expanded connectivity options offered by automakers, contributing to market growth.

Industrial: Industrial electronics are pivotal in enhancing efficiency and productivity across sectors such as energy, transportation, petroleum, chemicals, semiconductors, mining, agriculture, and others. There is a current focus on power conditioning technologies that involve power electronic switches, sensors, actuators, meters, intelligent electronic devices (IEDs), automation equipment, semiconductors, and nanotechnology, all leveraging power semiconductor devices to modernize industrial technologies.

Growth Drivers of Indian EMS sector	Details
Increasing Demand for Electronics	India's growing population, rising disposable incomes and rapid urbanization have led to a surge in demand for electronic devices such as smartphones, laptops, consumer electronics, and automotive electronics. This sustained demand creates opportunities for EMS companies to expand their manufacturing operations to meet consumer needs.
China +1 strategy & Rising Cost Competitiveness	India offers cost advantages in terms of labor and operational expenses compared to other manufacturing hubs such as China. With the increasing focus on cost optimization by global companies, India has emerged as an attractive destination for outsourcing manufacturing activities, driving the growth of the EMS sector.
Government Initiatives to Promote Domestic Manufacturing	The Indian government has launched various initiatives such as Make in India, Atmanirbhar Bharat (Self-Reliant India), Production Linked Incentive (PLI) schemes, and Electronics Manufacturing Clusters (EMCs) to promote domestic manufacturing and reduce dependence on imports. These initiatives provide incentives and support to EMS companies, encouraging them to invest in and expand their manufacturing capabilities in India.
Emergence of New Technologies	The rapid advancements in technologies such as Internet of Things (IoT), Artificial Intelligence (AI), 5G, and electric vehicles (EVs) are driving demand for innovative electronic products and solutions. EMS companies that can adapt to these technological trends and offer specialized manufacturing and engineering services are well-positioned to capitalize on emerging opportunities.
Shift towards ODM and Value-added Services	There is a growing trend towards Original Design Manufacturing (ODM) and value-added services in the EMS sector. Companies are moving beyond traditional contract manufacturing to offer design, engineering, prototyping, and aftermarket services. This shift towards higher value-added services enhances the competitiveness and differentiation of Indian EMS companies in the global market.

Navigating Anti-Dumping Duties: Opportunities for IT Hardware Makers Under India's PLI Scheme

The imposition of a 30% anti-dumping duty (ADD) on bare printed-circuit boards (PCBs) in India has sparked concern among IT hardware manufacturers operating under the production-linked incentive (PLI) scheme. This duty, effective for five years, was implemented following complaints from local PCB manufacturers about cheap imports from China and Hong Kong. The industry has appealed to the commerce ministry for special consideration regarding the duty's impact on PLI-supported products, emphasizing the challenges posed to India's goal of promoting local PCB assembly and production. Overall, PG Electroplast can potentially leverage the anti-dumping duty on PCBs to strengthen its position in the market, enhance product competitiveness, and align with government initiatives promoting local manufacturing and self-reliance in electronics. In essence, while the anti-dumping duty increases costs for IT hardware manufacturers importing PCBs, it creates a favorable environment for domestic PCB producers like PG Electroplast by reducing competition from cheaper imports and encouraging local production.

PG Electroplast Poised to Leverage PLIWG Scheme for Enhanced Growth

The potential reopening of the Production-Linked Incentive scheme for white goods (PLIWG) in India, aimed at boosting domestic manufacturing of high-value components used in air-conditioners and LED lights. Despite initial slow uptake, the government plans to allocate the remaining ₹1,500 crore of the scheme's incentive corpus to attract investments in critical components such as compressors, copper tubes, and aluminium foils. The scheme aims to reduce import dependency, increase domestic value addition, and stimulate growth in the room air-conditioner and LED manufacturing sectors. Industry response has been positive, with companies indicating readiness to invest under the scheme's terms to further enhance domestic manufacturing capabilities. PG Electroplast stands to benefit from India's PLIWG scheme focusing on high-value components like compressors, copper tubes, and aluminium foils for ACs and LED lights. Participation would enhance local manufacturing capabilities, reduce import dependency, and align with domestic value addition targets, boosting market position and profitability. The scheme also presents opportunities for new partnerships, fostering growth in India's white goods sector.

India can become a key manufacturing hub for high-value components, boosting export potential. By enhancing local production and reducing import dependency, India can offer competitive, high-quality components internationally, strengthening its global supply chain role. This strategic move supports domestic economic growth and aligns with global trade dynamics, creating new export opportunities and international partnerships. Indirectly, such type of move will help PG Electroplast's participation in the scheme can expand its global market reach and enhance its presence in the global white goods supply chain.

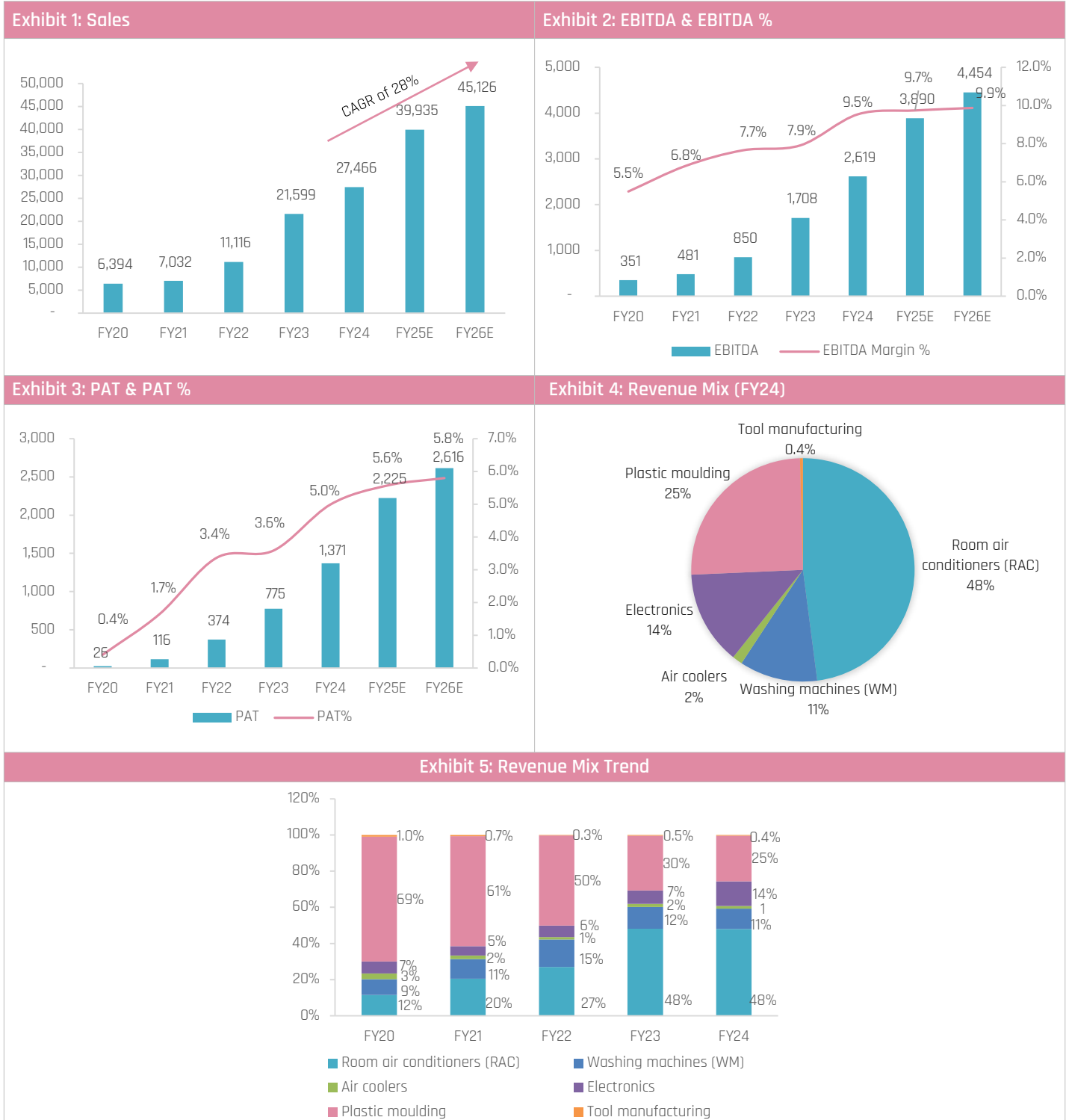
Indian Firms Embrace New Avenues with Chinese Partnerships Amid Regulatory Shift

With the Indian government now considering approvals for Chinese investments under Press Note 3, Indian companies have a renewed opportunity to explore joint ventures (JVs) with Chinese partners. The government may soon allow new JVs between Chinese and Indian companies, provided the Indian partner holds a majority shareholding. This shift follows a period of strained relations between India and China, which had previously restricted such collaborations. The current approach, focusing on case-by-case approvals, signifies a potential thaw in bilateral economic relations. For Indian businesses across various sectors, including manufacturing and technology, this presents a chance to tap into Chinese expertise, technology, and investments. Such partnerships could enhance manufacturing capabilities, facilitate technology transfer, and bolster competitiveness in both domestic and global markets. Moreover, aligning with the government's emphasis on local manufacturing, these JVs could contribute to India's self-reliance goals and stimulate economic growth. This evolving scenario offers a promising avenue for Indian companies to strengthen their market position and innovation capabilities through strategic collaborations with Chinese counterparts.

Additional Key Growth drivers

- Government reforms such as Digital India, Make in India, Power for all and Jan Dhan-AadharMobile Trinity are providing fresh impetus to the Consumer appliance and durable Industry.
- Low penetration levels, falling prices of durables and electronics and changing lifestyle of the Indian consumer are expected to remain big demand drivers for the consumer durable and electronics Industry in India in near future.
- Further the Government's initiatives of promoting electronic manufacturing and treating the industry as one of the key pillars of the Digital India Program, opens new and exciting opportunities for the Industry.
- The printed circuit board assembly (PCBA) market in India is expected to provide larger opportunity, growing at a CAGR of 30% in the next five years due to its supply to both in-house OEMS and EMS players.

Story in Charts (Values in Mn.)



Source: Company, ACMIIL Retail Research

Financial Statements

Consolidated Profit & Loss Statement:

Particulars (Rs. in Mn.)	FY20	FY21	FY22	FY23	FY24A	FY25E	FY26E
Sales	6,394.2	7,032.1	11,116.4	21,599.5	27,466.0	39,934.9	45,126.4
Expenses	6,043.2	6,551.5	10,265.9	19,891.2	24,847.1	36,045.2	40,672.5
EBITDA	351.0	480.5	850.5	1,708.3	2,618.9	3,889.7	4,454.0
EBITDA Margin %	5.5%	6.8%	7.7%	7.9%	9.5%	9.7%	9.9%
Other Income	72.8	43.3	83.0	96.0	130.1	85.0	87.5
Depreciation	163.1	180.1	221.1	349.5	466.1	529.5	557.8
Interest	147.5	184.4	231.3	479.3	517.3	550.0	580.0
PBT[^]	93.1	151.2	490.4	975.4	1,765.7	2,895.1	3,403.7
Tax	66.9	35.0	116.3	200.7	394.5	670.2	788.0
PAT[*]	26.1	116.1	374.2	774.7	1,371.2	2,224.9	2,615.8
PAT%	0.4%	1.7%	3.4%	3.6%	5.0%	5.6%	5.8%
EPS (Rs.)	1.2	6.0	18.1	35.8	51.9	85.5	100.5

Note: [^] PBT is adjusted after JV/Associates & exceptional items
^{*} PAT is after considering minority interest
Source: Company, ACMIIL Retail Research

Risks and concerns

- The slowdown in the Indian and global economy will impact the business.
- Intense competition poses risks to market share.
- Rapid advancements in technology could render existing products or manufacturing processes obsolete.

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