



India

REDUCE (no change)

Consensus ratings*: Buy 2 Hold 1 Sell 1

Current price:	Rs450
Target price: ▲	Rs185
Previous target:	Rs176
Up/downside:	-58.9%
InCred Research / Consensus:	-46.5%

Reuters:	
Bloomberg:	PGEL IN
Market cap:	US\$1,402m Rs117,323m
Average daily turnover:	US\$7.8m Rs652.5m
Current shares o/s:	260.3m
Free float:	35.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	33.4	129.6	208.1
Relative (%)	31.1	111.5	156.8

Major shareholders	% held
Promoter & Promoter Group	53.6
FII	8.5
DII	13.4

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PG Electroplast

No margin of safety

- PG Electroplast posted 1QFY25 revenue/ EBITDA/PAT of Rs13,207m/ Rs1,306 m/ Rs849m in 1QFY25, up 95%/98%/147%, respectively.
- PGEL has still not secured any clients for IT PLI, which means it will most likely miss its IT PLI sales target of Rs7,500m.
- We increase our revenue/EBITDA/PAT by 10%/2%/5% for FY25F and by 11%/4%/10% for FY26F. Retain REDUCE rating with a higher TP of Rs185.

RAC growth is being driven by premium, not mass consumers

PG Electroplast or PGEL is entirely dependent on its room air-conditioner or RAC business for its growth prospects, as its washing machine and cooler business are not large enough to move the needle. RAC sales volume in FY24 was around 10m units. Growth on such a high base looks improbable in FY25F. Among other durables like refrigerators (which has a household penetration of 30%) and TV (which has a penetration of 70%), the mass segment is under severe stress. In televisions, the demand for a 55-inch and larger smart TVs is the highest, followed by 40- and 42-inch TVs, while the 32-inch models (which mainly caters to the mass segment) is declining. Similarly for refrigerators, sales of single-door direct cool models have been contracting 5-10% a year since the Covid-19 pandemic. These models account for 70% of the volume. Whatever growth recorded was in the premium segment. In FY24, the refrigerator market remained flat as the mass segment declined by 6-7%. We believe the growth in RACs is also being fueled by these premium consumers, as the number of ACs per household is trending up. However, that market is reaching its saturation limit.

PGEL will most likely miss its IT PLI 2.0 sales target of Rs7,500m

PGEL's joint venture or JV with Jaina, Goodworth Ventures, was selected for IT PLI 2.0. However, as of 4QFY24-end, the JV has not selected a manufacturing partner. We believe that as the market leaders in the laptop space i.e. HP, Dell, Lenovo and Acer are either manufacturing themselves or are getting them assembled from Dixon Technologies, there are not many players left that can provide PGEL with that kind of scale. Secondly, the sales target for IT PLI 2.0 is quite steep and to achieve the incentives, PGEL must make incremental laptop sales worth Rs5,000m, and as the hunt for OEM partner gets delayed, It's very likely that the company may not be able to achieve its IT PLI target.

PGEL is on our high conviction REDUCE list with a TP of Rs185

We increase our revenue/EBITDA/PAT for FY25F by 10%/2%/5% for FY25F and 11%/4%/10% for FY26F. We believe that with the insourcing capacity coming up in FY26F, coupled with the the reopening of AC PLI, there is a further influx of capacity likely in the room AC space. This will most likely lead to reduced realization and margins, negatively affecting PGEL. We maintain our REDUCE rating on the stock with a higher target price of Rs185. We value the stock at 22x FY26F EPS. Key upside risk: High-teen volume growth in the RAC space.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	10,977	21,599	27,466	35,897	41,068
Operating EBITDA (Rsm)	751	1,760	2,619	3,425	3,701
Net Profit (Rsm)	371	775	1,371	1,897	2,091
Core EPS (Rs)	1.4	3.0	5.3	7.3	8.0
Core EPS Growth	198.7%	108.7%	77.0%	38.3%	10.3%
FD Core P/E (x)	315.19	151.03	85.31	61.69	55.95
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	161.16	69.83	45.90	35.06	31.95
P/FCFE (x)	(3,389.66)	366.17	(28.22)	167.01	49.21
Net Gearing	129.9%	149.7%	31.1%	25.1%	8.7%
P/BV (x)	37.46	29.55	11.27	9.49	8.06
ROE	14.7%	21.9%	19.1%	16.7%	15.6%
% Change In Core EPS Estimates				(89.75%)	(89.45%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call takeaways

- **Financial performance:** PGEL reported a 95% increase in operating revenue, reaching Rs 132bn, with the product business contributing 75% to this growth. EBITDA doubled to Rs13.45bn, and net profit surged 151% to Rs8.5bn. The room air conditioner (RAC) segment saw a 30% year-on-year growth, while the washing machine segment grew by 72% and coolers by 287%.
- **Guidance:** The company revised its operating revenue guidance for FY25F to Rs425bn, which includes Rs60bn from its joint venture, Goodworth Electronics. This represents a 55% growth over the previous fiscal year. The net profit guidance was also raised to Rs21.6bn, a 58% increase from FY24.
- **Capital expenditure plan:** PGEL plans to invest Rs37-38bn in capital expenditure to enhance production capabilities, including new facilities for room ACs and washing machines.
- **Margin concerns:** An analyst questioned the flat EBITDA margin, despite high revenue growth. Management explained that while the margins improved on a like-for-like basis, the absence of the prior quarter incentives (PLI scheme) affected the current quarter's margins. The fixed-price contracts with customers also limit mid-season renegotiations, impacting margin flexibility.
- **Component business:** The discussions revealed that the RAC component business is relatively small, contributing minimally to overall revenue. The focus remains on fully assembled units, which dominate sales figures.
- **Employee and operational costs:** Increased employee costs were attributed to heightened production activity. As the company scales up, manpower requirements have surged, reflecting in higher operational expenses.
- **New product development:** Management expressed optimism about future growth, targeting a CAGR of 25-30% over the next four-to-five years. It is exploring new product categories while maintaining the focus on existing ones.
- **Market share strategy:** The company aims to win market share through a focus on quality, cost, and delivery. The company believes these factors are crucial for competitive advantage in the consumer electronics market.
- **Joint venture insights:** The JV with Goodworth Electronics is expected to stabilize and contribute positively to profits in the upcoming quarters, despite initial start-up losses.

Figure 1: Revised earnings estimates for FY25F and FY26F

Rs m	Old		New		Change	
	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Revenue	32,751	37,127	35,897	41,068	9.6%	10.6%
EBITDA	3,376	3,572	3,425	3,701	1.5%	3.6%
PAT	1,851	1,982	1,943	2,185	4.9%	10.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 1QFY25 earnings snapshot

PG Electroplast	1QFY25	1QFY24	YoY	4QFY24	QoQ
Total Sales	13,207	6,776	94.9%	10,766	22.7%
Raw Material Cost	10,819	5,551	94.9%	8,621	25.5%
Gross Profit	2,388	1,226	94.8%	2,145	11.3%
Employee Cost	621	356	74.3%	550	12.8%
Other Expenses	461	211	118.1%	430	7.0%
Total Expenditure	11,901	6,118	94.5%	9,601	23.9%
EBITDA	1,306	658	98.5%	1,165	12.2%
EBITDA Margin (%)	9.9%	9.7%	17.7 bps	10.8%	-92.6 bps
Depreciation and Amortization	151	107	40.9%	136	11.1%
EBIT	1,156	551	109.6%	1,029	12.3%
Interest Expenses	183	140	30.6%	158	16.3%
Other Income	39	13	201.4%	34	15.3%
EBT	1,011	424	138.6%	905	11.7%
Total Tax	162	85	89.7%	189	-14.4%
PAT	849	338	150.9%	716	18.6%
Other Comprehensive Income	(12)	-		-	
Adjusted PAT	837.0	338.5	147.3%	715.8	16.9%
EPS	39.7	15.8	150.9%	33.5	18.6%

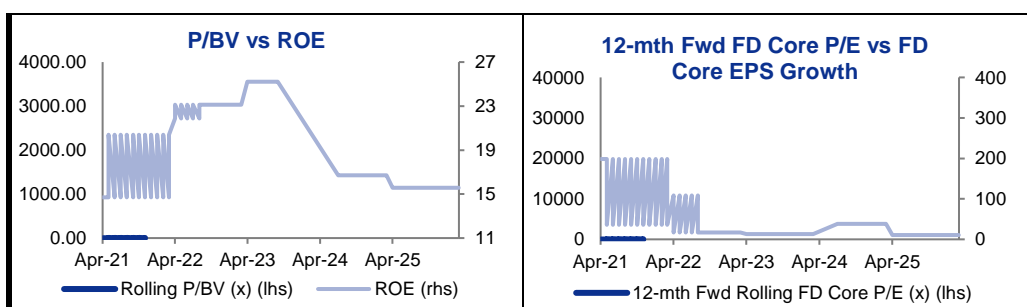
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Cost analysis

Cost Analysis	1QFY25	1QFY24	YoY	4QFY24	QoQ
Raw Material Costs	81.9%	81.9%	0.8 bp	80.1%	184.8 bp
Employee Costs	4.7%	5.3%	-55.6 bp	5.1%	-41.1 bp
Other Expenses	3.5%	3.1%	37.1 bp	4.0%	-51.1 bp
Tax Rate	16.0%	20.1%	-412.5 bp	20.9%	-489.3 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	10,977	21,599	27,466	35,897	41,068
Gross Profit	2,137	3,954	5,404	6,892	7,680
Operating EBITDA	751	1,760	2,619	3,425	3,701
Depreciation And Amortisation	(221)	(350)	(466)	(641)	(712)
Operating EBIT	530	1,411	2,153	2,784	2,989
Financial Income/(Expense)	(225)	(479)	(517)	(425)	(369)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	182	44	130	118	123
Profit Before Tax (pre-EI)	487	975	1,766	2,477	2,744
Exceptional Items					
Pre-tax Profit	487	975	1,766	2,477	2,744
Taxation	(116)	(201)	(395)	(580)	(653)
Exceptional Income - post-tax					
Profit After Tax	371	775	1,371	1,897	2,091
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	371	775	1,371	1,897	2,091
Recurring Net Profit	371	775	1,371	1,897	2,091
Fully Diluted Recurring Net Profit	371	775	1,371	1,897	2,091

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	490	975	1,765	2,523	2,838
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,749)	(1,281)	(649)	550	52
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	496	856	1,051	2,420	2,641
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(25)	(94)	(303)	(580)	(653)
Cashflow From Operations	(788)	457	1,863	4,912	4,878
Capex	(1,571)	(1,546)	(2,268)	(3,600)	(1,500)
Disposals Of FAs/subsidiaries	58	4	10		
Acq. Of Subsidiaries/investments	(97)	(188)	(1,734)	43	(401)
Other Investing Cashflow					
Cash Flow From Investing	(1,610)	(1,730)	(3,992)	(3,557)	(1,901)
Debt Raised/(repaid)	2,364	1,592	(2,017)	(655)	(600)
Proceeds From Issue Of Shares	441	33	4,918		
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(242)	(505)	(557)	(495)	(449)
Cash Flow From Financing	2,562	1,120	2,344	(1,150)	(1,049)
Total Cash Generated	164	(152)	215	205	1,929
Free Cashflow To Equity	(35)	320	(4,146)	701	2,378
Free Cashflow To Firm	(2,398)	(1,272)	(2,129)	1,355	2,978

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	392	396	1,824	1,309	2,538
Total Debtors	2,161	4,383	5,558	4,953	5,554
Inventories	2,860	3,534	5,434	4,609	5,123
Total Other Current Assets	668	771	1,269	1,235	1,105
Total Current Assets	6,081	9,084	14,085	12,106	14,320
Fixed Assets	4,452	5,785	8,446	10,877	11,677
Total Investments	91	121	258	215	616
Intangible Assets	7	12	12	12	12
Total Other Non-Current Assets	55	78	285	718	164
Total Non-current Assets	4,605	5,997	9,001	11,822	12,469
Short-term Debt	2,580	3,736	2,482	2,200	2,100
Current Portion of Long-Term Debt					
Total Creditors	2,692	3,900	6,464	5,516	6,450
Other Current Liabilities	201	492	684	718	821
Total Current Liabilities	5,473	8,127	9,629	8,434	9,371
Total Long-term Debt	1,870	2,588	2,573	2,200	1,700
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	166	342	414	538	616
Total Non-current Liabilities	2,035	2,930	2,987	2,738	2,316
Total Provisions	54	66	89	323	370
Total Liabilities	7,562	11,122	12,705	11,495	12,057
Shareholders Equity	3,123	3,959	10,381	12,323	14,508
Minority Interests					
Total Equity	3,123	3,959	10,381	12,323	14,508

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	56.1%	96.8%	27.2%	30.7%	14.4%
Operating EBITDA Growth	51.0%	134.3%	48.8%	30.8%	8.1%
Operating EBITDA Margin	6.8%	8.2%	9.5%	9.5%	9.0%
Net Cash Per Share (Rs)	(15.59)	(22.77)	(12.41)	(11.88)	(4.85)
BVPS (Rs)	12.00	15.21	39.89	47.35	55.74
Gross Interest Cover	2.36	2.94	4.16	6.54	8.10
Effective Tax Rate	23.9%	20.6%	22.3%	23.4%	23.8%
Net Dividend Payout Ratio					
Accounts Receivables Days	59.95	55.02	65.84	53.12	46.35
Inventory Days	78.17	66.13	74.18	63.19	53.19
Accounts Payables Days	87.23	68.18	85.73	75.38	65.40
ROIC (%)	5.6%	11.0%	12.1%	13.3%	14.1%
ROCE (%)	9.2%	15.8%	16.7%	17.3%	17.1%
Return On Average Assets	6.6%	9.0%	9.3%	9.5%	9.4%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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