PG Electroplast | BUY

JM FINANCIAL

Strengthening its grip over the Indian RAC market

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We interacted with the management of PG Electroplast, and conclude that: (1) focus remains on providing the entire solution to clients and not on selling components, as it believes that is RoCE dilutive, (2) the AC compressor shortage needs to be addressed, else GMCC can have a disproportionately high bargaining power post Jul'25 and if summer demand remains very strong, a compressor shortage cannot be ruled out, and (3) PGEL has made sufficient provisions w.r.t. its inventory to meet incoming demand, and plans for its compressor facility are on track; the company aims to commence operations in 2HFY26. The macro story for RACs is intact with penetration as low as 10% and an expected CAGR of ~20% until FY30. We believe that while uncertainty lingers over which brand/OEM will manage compressors this season, a backward integrated manufacturer like PGEL, investing in deeper capabilities, may be worth a look. We maintain BUY with a target price of INR 950 at 45x Mar'27E EPS.

- **Focus to remain on providing the full solution:** PGEL's focus will remain on providing the entire solution, and not on individual components. Its aspiration has been to become a leading product company, and hence, it has backward integrated only to levels sufficient for internal use. Components are a lower asset turn business vs. assembly, and in most cases (barring components such as compressors and motors), margins are barely 40-50bps higher than assembly, limiting RoCEs to <12-13%. Seasonality for components is also as strong as RACs, but unlike ACs, wherein manufacturing lines are fungible with other durables, component lines are fungible only for plastics/sheet metals.

- **Compressor shortage an industry-wide challenge:** India was massively dependent on Sanyo, GMCC and Highly for its compressor imports. Of this, Sanyo's BIS licence expired in Oct'24, creating a void of ~20% in compressor imports. Further, GMCC and Highly have been supplying less than the committed volumes to India as they prioritise selling to the US, and Highly's BIS certificate expires in Jun/Jul'25, while GMCC's licence is valid until Jan'26. This will give GMCC a disproportionately high bargaining power post July. While domestic capacities do exist, the key question to be answered is whether they are sufficient to meet the resultant void. All industry participants are aggressively lobbying with the gvernment to take necessary steps, in the form of BIS renewals or extensions. PGEL has created sufficient inventories to help it cater to incoming demand and is also investing in its own compressor capacities, which should be operational by 2HFY26.

- **Plans for compressor facility intact; expect to be largely self-sufficient next summer:** PGEL's initiatives will include compressors assembly, while key sub-components will be sourced through imports. The target is to be able to meet a majority portion of internal requirements for the 2026 summer through internal capacities. We understand that while agreements are expected to be signed soon, construction of the building has begun and should be ready by May. Upon finalisation of the agreement, order for the equipment will be placed, the lead time for which is ~4 months, which suggests delivery by Jul-Aug'24. Upon installation of machinery, trial runs might commence by September/October. And for the upcoming manufacturing season (starting Nov-Dec'25), for the 2026 summer, the compressor facility should be ready.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	950
Upside/(Downside)	5.7%
Previous Price Target	950
Change	0.0%

Key Data – PGEL IN	
Current Market Price	INR899
Market cap (bn)	INR254.5/US$2.9
Free Float	49%
Shares in issue (mn)	260.3
Diluted share (mn)	281.7
3-mon avg daily val (mn)	INR1,586.1/US$18.2
52-week range	1,055/146
Sensex/Nifty	74,115/22,460
INR/US$	87.3

Price Performance

%	1M	6M	12M
Absolute	10.2	45.5	446.7
Relative*	13.4	60.0	442.2

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	21,599	27,465	45,433	60,563	78,843
Sales Growth (%)	96.8	27.2	65.4	33.3	30.2
EBITDA	1,760	2,618	4,383	5,746	7,572
EBITDA Margin (%)	8.2	9.5	9.6	9.5	9.6
Adjusted Net Profit	775	1,349	2,599	4,231	5,925
Diluted EPS (INR)	3.4	5.2	9.2	15.0	21.0
Diluted EPS Growth (%)	107.0	52.2	77.9	62.8	40.1
ROIC (%)	14.4	15.9	19.3	17.4	18.8
ROE (%)	21.9	18.8	13.6	14.1	17.1
P/E (x)	263.9	173.4	97.4	59.9	42.7
P/B (x)	51.6	22.5	9.1	7.9	6.8
EV/EBITDA (x)	135.6	90.0	51.2	39.9	29.9
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.2

Source: Company data, JM Financial. Note: Valuations as of 10/Mar/2025

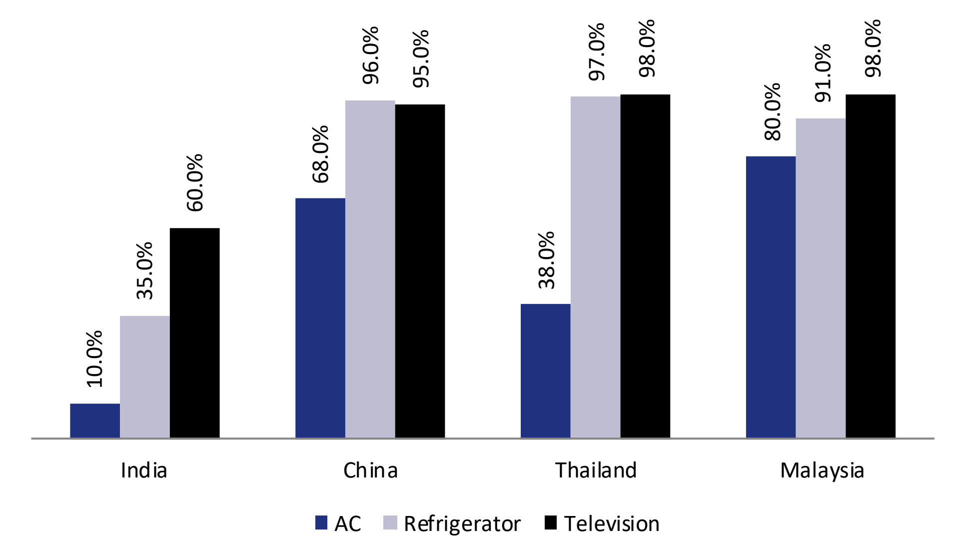
FY25E revenue and PAT guidance increased post 3Q results

- Post 3Q results, the management revised its FY25 revenue guidance upwards to INR 45.5bn (INR 42.5bn earlier) for the core business and INR 5bn (INR 6bn earlier; INR 4.4bn revenue from Goodworth in 9MFY25 and expect it to be profitable by FY26) from Goodworth Electronics JV, taking total group revenue to INR 51bn (INR 48.5bn earlier),
- This indicates 86% YoY growth, driven primarily by growth in the products business, which is expected to grow 98% YoY in FY25 to INR 33bn.
- PAT guidance was also revised upwards to at least INR 2.8bn, vs. INR 2.5bn earlier (initial and revised PAT guidance, both include INR 300mn of PLI incentives).

Macro story for ACs intact; foresee ~20% CAGR over the next 5 years

- The Indian AC industry witnessed an unprecendented 50%+ growth last year, selling ~10mn+ units. Industry estimates suggest ~25% growth this year, taking total sales to ~13mn+ units.
- Yet, AC penetration in India remains amongst the lowest amongst durables at 8-10%, of which South and West are already in early double digits. In other states, penetration is <5%. Currently, growth continues to come from stronger regions. Interestingly, over 2-3 years of the first AC, people buy ACs for other rooms in the house as well. Today, ~50% are repeat buyers, and the rest are new buyers.
- Further, consumption boosters in the form of tax cuts, and affordable electricity due to schemes for incentivising rooftop solar can boost demand.

Exhibit 1. India's AC penetration is the lowest globally at 10%



Source: EY, Industry, JM Financial

Focus is on full solutions and not selling components

- Management focus is solely on the CBU, and it has not been too focussed on selling individual components. The aspiration has always been to become a leading product company, and hence, the company has set up component capacities sufficient only for internal consumption.
- Components are a lower asset turn business vs. assembly, and on average (barring high margin components such as compressors and motors), margins are barely 40-50bps higher than assembly, limiting RoCEs to 12-13%, unless the manufacturer makes something specific or technologically intensive.
- Seasonality for components is also as bad as RACs, and unlike ACs, wherein manufacturing lines are fungible with other consumer durables, component lines are fungible only for plastics/sheet metals.

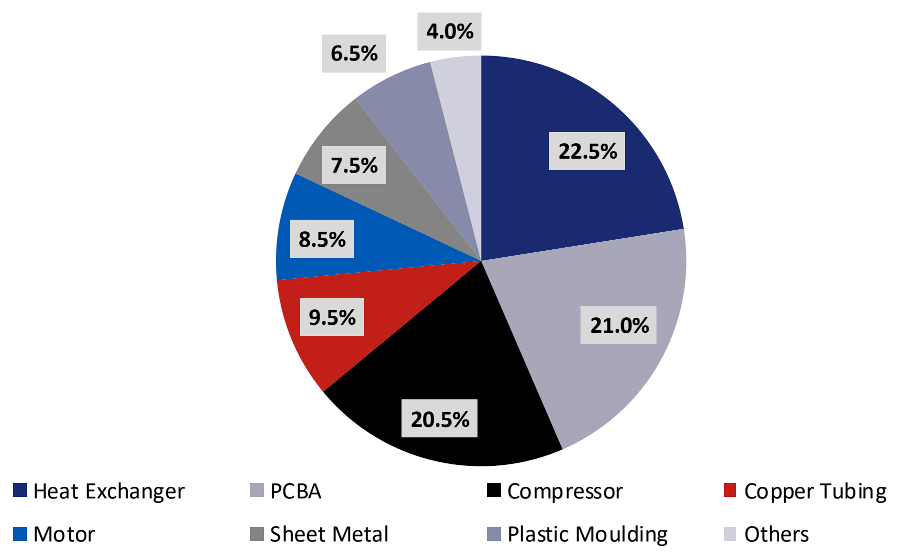
PGEL has 25-30% market share amongst ODMs

- Capacity utilisation is 90-100% through the peak season, which is from November/December to Apr/May, and ~20% in the off-season.
- Once Bhiwadi is ready, monthly capacities will ramp up to ~350k CBUs (roughly 350k IDUs, and 350k ODUs) and an additional 50k window ACs.
- Currently, 12 out of every 100 ACs sold in India is manufactured by PGEL. Out of the total ACs sold in India, 40% is outsourced to ODM players and the balance 60% is manufactured in-house.
- Hence, as far as business by ODMs is concerned, PGEL's market share is ~ 25-30%.

Backward integration and investments in compressor facilities

- PGEL is fully backward integrated except for compressors and motors, which means it has covered nearly 70% of the bill of materials of an AC. With compressors, it will cover another ~20%, making it close to 90% backward-integrated. The only component that will remain will be the motor. There is no urgency to backward-integrate into motors at this point in time given there exists sufficient capacity in the country for motors.
- PGEL's initiatives will include compressors assembly, while key sub-components will be sourced through imports, predominantly from China. The target is to be able to meet a majority of internal requirements for the 2026 summer through internal capacities, while any surplus will be sold externally.
- We understand that while agreements are expected to be signed soon, construction of the building has begun and should be ready by May.
- Upon finalisation of the agreement, order for the equipment will be placed, the lead time for which is ~4 months; this suggests delivery by Jul-Aug'24.
- Upon installation of machinery, trial runs should commence from September/October. And for the upcoming manufacturing season (starting Nov-Dec'25), for the 2026 summer, the compressor facility should be ready.
- Through its technological partnership, PGEL will become the manufacturing counterpart in India for the concerned partner. The partner gets India exposure without investing much. And PGEL gets supply chain guarantee. The agreement is expected to be structured in a manner to give PGEL a fixed RoCE on the capex.

Exhibit 2. Bill of materials of an AC



Source: Industry, JM Financial

Deeper look into the compressor issue

- The anticipated shortage of compressor supplies in India stems majorly from, (1) the government refusing to re-certify facilities of certain Chinese and Vietnamese compressor manufacturers, and (2) Chinese suppliers prioritising shipping to the US (since Dec'24) given the expected levy of duties. Summers, on the other hand, are expected to begin early in 2025 (IMD has already predicted a heat wave in the North) and be more intense.
- Another thought is that the Chinese government has been giving incentives for buying energy efficient ACs, hence demand has been strong in the Chinese market as well.
- Chinese compressor suppliers to India include GMCC, Highly, Sanyo, Wanbao Group, and Jiaxipera Compressor. Of this, India was massively dependent on Sanyo, GMCC and Highly for most of its compressor imports. Sanyo's BIS licence expired in Oct'24, creating a void of ~20% in compressor imports. Further, GMCC and Highly have been honouring less than the committed volumes to India as they prioritise selling to the US, and Highly's BIS certificate expires in Jun/Jul'25, while GMCC's licence is valid until Jan'26. This will give GMCC a disproportionately high bargaining power post July.
- India has ready capacities for ~6mn compressors annually. While GMCC (Pune) and Highly (Ahmedabad) have set up capacities to meet India demand for compressors, Daikin and LG, we believe, largely target to meet internal demand. While domestic capacities do exist, the key question to be answered is whether they are sufficient to meet the resultant void. All industry participants are aggressively lobbying with the government to take necessary steps, in the form of BIS renewals or extensions.
- PGEL has created sufficient inventories to help it cater to incoming demand, and is also investing in its own compressor capacities, which should be operational by 2HFY26.

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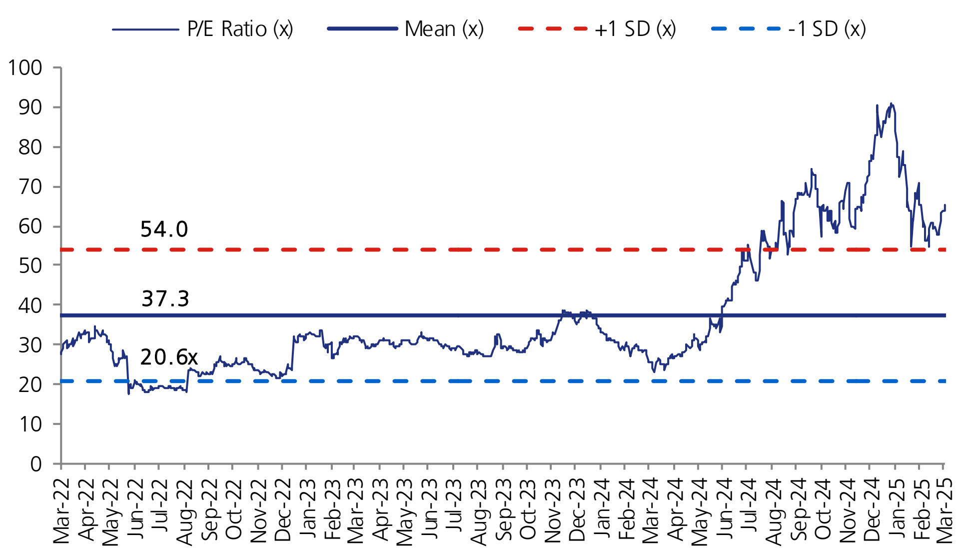
Exhibit 3. India compressor manufacturing capacities

Compressor Manufacturer	India Annual Capacity	Purpose
GMCC	2mn units per annum	External sales
Highly	2mn units per annum	External sales
Daikin	1-1.5mn units per annum	Captive consumption
LG	1-1.5mn units per annum	Captive consumption

Source: Industry, JM Financial

India has ready capacities for ~6mn compressors annually. While GMCC and Highly have set up capacities to meet India demand for compressors, Daikin and LG, we believe, largely target to meet internal demand

Exhibit 4. PGEL - 1-yr forward P/E chart (since listing)



Source: Bloomberg, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	21,599	27,465	45,433	60,563	78,843
Sales Growth	96.8%	27.2%	65.4%	33.3%	30.2%
Other Operating Income	0	0	0	0	0
Total Revenue	**21,599**	**27,465**	**45,433**	**60,563**	**78,843**
Cost of Goods Sold/Op. Exp	17,645	22,063	36,301	48,389	62,995
Personnel Cost	1,229	1,663	2,511	2,812	3,149
Other Expenses	965	1,122	2,239	3,615	5,126
EBITDA	**1,760**	**2,618**	**4,383**	**5,746**	**7,572**
EBITDA Margin	8.2%	9.5%	9.6%	9.5%	9.6%
EBITDA Growth	136.3%	48.7%	67.4%	31.1%	31.8%
Depn. & Amort.	350	466	657	798	951
EBIT	1,411	2,152	3,726	4,948	6,622
Other Income	44	130	400	750	940
Finance Cost	479	517	801	511	319
PBT before Excep. & Forex	975	1,765	3,326	5,187	7,243
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	975	1,765	3,326	5,187	7,243
Taxes	201	394	698	1,037	1,449
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	-21	-28	81	131
Reported Net Profit	775	1,349	2,599	4,231	5,925
Adjusted Net Profit	**775**	**1,349**	**2,599**	**4,231**	**5,925**
Net Margin	3.6%	4.9%	5.7%	7.0%	7.5%
Diluted Share Cap. (mn)	227.4	260.3	281.7	281.7	281.7
Diluted EPS (INR)	**3.4**	**5.2**	**9.2**	**15.0**	**21.0**
Diluted EPS Growth	107.0%	52.2%	77.9%	62.8%	40.1%
Total Dividend + Tax	0	0	56	141	563
Dividend Per Share (INR)	0.0	0.0	0.2	0.5	2.0

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Shareholders' Fund	3,959	10,381	27,914	31,980	37,246
Share Capital	227	260	282	282	282
Reserves & Surplus	3,732	10,121	27,632	31,698	36,964
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	5,425	3,606	4,606	3,906	1,406
Def. Tax Liab. / Assets (-)	282	295	295	295	295
Total - Equity & Liab.	**9,666**	**14,281**	**32,814**	**36,180**	**38,947**
Net Fixed Assets	5,798	8,480	11,269	17,471	19,020
Gross Fixed Assets	7,010	9,523	13,123	20,123	22,123
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	1,232	1,698	2,354	3,152	4,103
Capital WIP	20	654	500	500	1,000
Investments	22	55	180	430	680
Current Assets	9,262	14,545	33,050	33,825	39,458
Inventories	3,534	5,434	9,465	13,458	15,331
Sundry Debtors	4,379	5,530	7,825	10,430	13,578
Cash & Bank Balances	396	1,824	14,004	8,180	8,792
Loans & Advances	5	64	64	64	64
Other Current Assets	949	1,692	1,692	1,692	1,692
Current Liab. & Prov.	5,415	8,798	11,685	15,546	20,212
Current Liabilities	5,350	8,710	11,596	15,458	20,123
Provisions & Others	66	89	89	89	89
Net Current Assets	3,847	5,747	21,365	18,279	19,246
Total – Assets	**9,666**	**14,281**	**32,814**	**36,180**	**38,947**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profit before Tax	975	1,765	3,326	5,187	7,243
Depn. & Amort.	350	466	657	798	951
Net Interest Exp. / Inc. (-)	461	517	801	511	319
Inc (-) / Dec in WCap.	-1,281	-649	-3,439	-2,737	-355
Others	46	68	-400	-750	-940
Taxes Paid	-94	-303	-698	-1,037	-1,449
Operating Cash Flow	**457**	**1,863**	**245**	**1,971**	**5,769**
Capex	-1,542	-2,258	-3,446	-7,000	-2,500
Free Cash Flow	-1,084	-395	-3,201	-5,029	3,269
Inc (-) / Dec in Investments	-218	-1,814	-125	-250	-250
Others	30	81	372	831	1,071
Investing Cash Flow	**-1,730**	**-3,992**	**-3,199**	**-6,419**	**-1,679**
Inc / Dec (-) in Capital	33	4,918	15,000	0	0
Dividend + Tax thereon	0	0	-66	-165	-659
Inc / Dec (-) in Loans	1,592	-2,091	1,000	-700	-2,500
Others	-505	-483	-801	-511	-319
Financing Cash Flow	**1,120**	**2,344**	**15,133**	**-1,375**	**-3,478**
Inc / Dec (-) in Cash	**-152**	**215**	**12,179**	**-5,823**	**612**
Opening Cash Balance	548	87	1,824	14,004	8,180
Closing Cash Balance	396	302	14,004	8,180	8,792

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin	3.6%	4.9%	5.7%	7.0%	7.5%
Asset Turnover (x)	2.6	2.3	1.9	1.8	2.1
Leverage Factor (x)	2.4	1.7	1.2	1.2	1.1
RoE	21.9%	18.8%	13.6%	14.1%	17.1%

Key Ratios

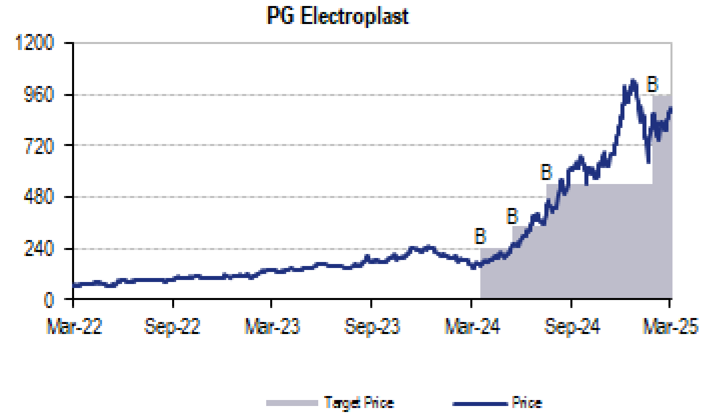
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	17.4	39.9	99.1	113.5	132.2
ROIC	14.4%	15.9%	19.3%	17.4%	18.8%
ROE	21.9%	18.8%	13.6%	14.1%	17.1%
Net Debt/Equity (x)	1.3	0.2	-0.3	-0.1	-0.2
P/E (x)	263.9	173.4	97.4	59.9	42.7
P/B (x)	51.6	22.5	9.1	7.9	6.8
EV/EBITDA (x)	135.6	90.0	51.2	39.9	29.9
EV/Sales (x)	11.1	8.6	4.9	3.8	2.9
Debtor days	74	73	63	63	63
Inventory days	60	72	76	81	71
Creditor days	98	128	103	103	103

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
26-Mar-24	Buy	243	
23-May-24	Buy	340	39.9
25-Jul-24	Buy	545	60.3
7-Feb-25	Buy	950	74.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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