

SPEL Semiconductor Ltd.**The Varhad Group****CMP: INR13.88****Stock data**

BSE code	517166
BSE ID	SPELS
Face value (INR)	10.0
No of shares (m)	46.1
Market cap (INRm)	640.1
3m avg. daily vol (No)	12,025.7
Free float (INRm)	261.4
Dividend yield FY15 (%)	0.0
<hr/>	
S&P BSE Sensex	26,145.7

Stock performance (%)

52-week H/L	17.5/6.9		
	1M	3M	12M
Absolute (%)	-3.3	16.7	-7.5
Relative (%)	-1.8	15.0	1.0

Shareholding pattern (%)

Promoters	FIIs	DIIs	Others
59.17%	0.02%	0.02%	40.79%

Relative stock movement

Source: BSE

Dec 2015**Company Overview**

Natronix's India Outsourced Semiconductor Assembly and Test (OSAT) facility is SPEL Semiconductor Limited. Being India's first & only Semiconductor IC Assembly & test facility, SPEL pioneered the Indian OSAT market and continues to steadily grow. SPEL is a trusted & strategic contract manufacturing partner for many of the world's leading semiconductor companies. SPEL provides full turnkey solutions that include wafer sort, assembly, test and drop-shipment services. SPEL also offers value added services such as package design, failure analysis and full reliability test, test program development & product characterization.

FY15 and recent performance

- Net sales in FY15 decreased by 25.5% YoY to INR471.9m. Company reported operating profit of INR123.5m in FY15 against operating profit of INR147.4m in FY14, mainly due to decrease in sales and increase in staff cost.
- SPEL Semiconductor Ltd reported net loss of INR3.3m in FY15 compared to net profit of INR3.2m in FY14.
- Company has not declared any dividend.
- In balance sheet, net fixed assets decreased from INR1,085.7m in FY14 to INR981.1m in FY15. Loans and advance and cash and cash bank balance was reported at INR50.2m and INR8.6m in FY15 respectively compared to INR53.1m and INR11.0m in FY14 respectively.
- Trade payables increased from INR91.4m in FY14 to INR91.5m.
- Operating cash flow increased from INR52.4m in FY14 to INR59.0m in FY15.
- In Q2FY16, revenue has decreased by 41.9% YoY to INR86.2m. SPEL Semiconductor Ltd. earned EBITDA of INR1.0m during the said period. Decrease in sales has led to eventual net loss of INR11.2m, YoY decrease by 3.8 times.

Table 1: Key financials

(Y/e March)	FY13	FY14	FY15
Sales (INRm)	807.7	633.9	471.9
YoY Growth (%)	1.2	-21.5	-25.5
EBITDA (INRm)	107.7	147.4	123.5
EBITDA Margin (%)	13.3	23.2	26.2
PAT (INRm)	-45.3	3.2	-3.3
EPS (INR)	-1.0	0.1	-0.1
YoY Growth (%)	-934.3	-107.1	-200.8
RoE (%)	-5.1	0.4	-0.4
P / E (x)	-14.1	198.0	-196.4

Source: Company, Varhad Research

Industry Overview

According to World Semiconductor Trade Statistics (WSTS), the worldwide semiconductor sales for the FY14 was USD336bn, an increase of 9.8% YoY compared to FY13 sales of USD306bn. However, 2015 sales has been sluggish. IC Insights has recently lowered FY15 worldwide semiconductor market forecast from 5% to 2%. The top 20 Semiconductor suppliers in total had USD128.3bn in sales in the H1FY15. From an application point of view, smart phones and solid-state drives (SSDs) will continue to drive semiconductor market growth, while the traditional PC segment will experience the greatest decline.

The Indian semiconductor market has grown from approximately USD6.5bn in 2011 to approximately USD9.7bn in 2013. The demand for semiconductor solutions, the heart of the electronic systems, is also expected to get a fillip as the consumption of electronic equipment in India will grow at a CAGR of 29.8% from USD28.3bn FY05 to reach USD363bn by FY2015. Both the electronics and the Semiconductor sectors are mutually beneficial for each other and the growth in one sector leads to growth in the other.

Board of Director

Table 2: Composition of Board

Name	Director type	Business relationship with company
Mr. K. Ravikumar	Director	Non – Executive – Independent
Mr. M. Jayasankar	Director	Non – Executive – Independent
Dr. Enakshi Bhattacharya	Director	Non – Executive – Independent
Mr. D. Balakrishnan	Director	Executive Director & CEO

Source: Company

Key Strength and growth drivers

- Increased spending on electronic products.
- Increasing foothold in Europe.
- Reduce dependence on 3C market which is very volatile and price sensitive. Increasing Sales from industrial, automotive, medical and military-aerospace will be focused.

Risk and concern

- Exchange rate fluctuations.
- Global slowdown in semiconductor industry

Interim Performance

- During Q2FY16, revenue decreased by 41.9% on YoY basis from INR148.2m in Q2FY15 to INR86.2m.
- On operational front, operating profit of the company decreased by 97.6% YoY from INR41.8m in Q2FY15 to INR1.0m in Q2FY16.
- Company reported net loss of INR11.2m in Q2FY16 compared to net profit of INR4.0m in Q2FY15, decrease of 3.8 times on YoY basis

Table 3: Summary of year to date performance

(INRm)	Q2 FY16	Q2FY15	YoY %	Q1FY16	QoQ%	H1FY16	H1FY15	YoY %
Revenue	86.2	148.2	-41.9	56.9	51.5	143.0	262.9	-45.6
EBITDA	1.0	41.8	-97.6	-26.5	-103.8	-25.4	75.7	-133.6
EBITDA Margin (%)	1.2	28.2	-27.0	-46.5	47.7	-17.8	28.8	-46.6
PAT	-11.2*	4.0*	-378.4	-36.4*	-69.3	-47.6*	5.4*	-974.7

Note: (*) The PAT calculated doesn't consider extraordinary/ exceptional items, Source: Company, Varhad Research

Competition analysis

Table 4: Peer comparison

	CMP (INR)	Mcap (INRm)	Rev (INRm)	NPM (%)	EPS(INR)	PE(x)
SPEL Semiconductors Ltd	13.9	640.1	471.94	-0.7	-0.1	-196.4
Zicom Electronic Security Systems Ltd	131.2	2,650.2	3,835.20	3.0	5.6	23.4
Eco Recycling Ltd	50.0	876.2	309.60	3.0	1.0	50.7
Ruttonsha International Rectifier Ltd	17.7	123.1	270.60	1.2	0.5	39.2

Source: BSE

Financial snapshot

Chart 1: Sales trend

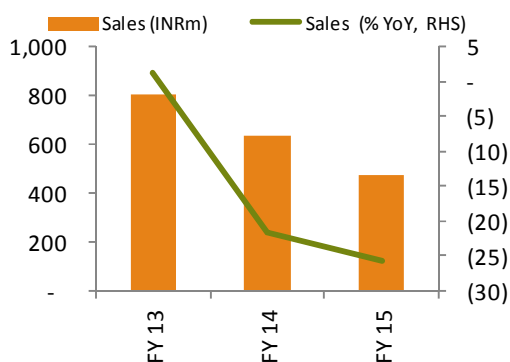


Chart 2: Margin trend

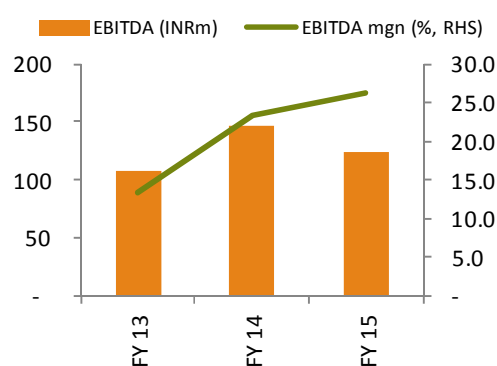


Chart 3: EPS trend

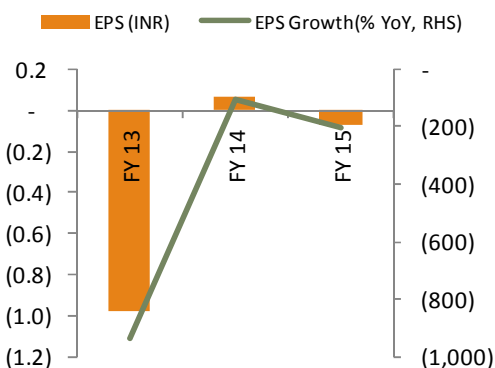
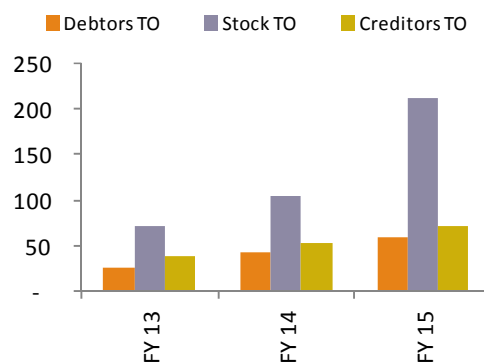


Chart 4: Working Capital Profile



Source: Company, Varhad Research

Financial Summary

Profit and loss (INR m)				Balance sheet (INR m)			
Year ending 31 March	FY13	FY14	FY15	Year ending 31 March	FY13	FY14	FY15
Revenue	807.7	633.9	471.9	Net Block	1,188.7	1,085.7	981.1
Direct Expense	403.2	200.2	59.9	Investments	0.0	0.0	0.0
Staff Cost	178.6	157.2	166.4	Cash and Banks Balance	25.5	11.0	8.6
Other Expenditure	118.1	129.2	122.1	Inventory	151.7	208.3	341.5
Total Cost	700.0	486.5	348.4	Sundry Debtors	54.0	94.6	56.4
EBITDA	107.7	147.4	123.5	Loans and Advances	57.0	53.1	50.2
<i>EBITDA margin (%)</i>	<i>13.3</i>	<i>23.2</i>	<i>26.2</i>	Other Current Assets	0.6	0.5	0.9
Depreciation	118.5	109.6	101.3	Other	0.0	0.0	3.7
EBIT	-10.8	37.7	22.2	Total Assets	1,477.5	1,453.2	1,442.5
Interest Expenses	58.4	47.1	40.5	Gross Debt	274.8	238.6	202.8
Non-operating Income	12.3	11.4	13.8	Trade Payables	90.9	91.4	91.5
PBT	-56.9	2.1	-4.5	Provisions & other curr lia	129.7	139.1	173.3
Provision for Tax	-11.6	-1.2	-1.2	Others	109.0	107.7	105.0
PAT	-45.3	3.2	-3.3	Equity Capital	461.3	461.3	461.3
<i>Growth %</i>	<i>-934.3</i>	<i>-107.1</i>	<i>-200.8</i>	Reserves & Surplus	411.8	415.1	408.7
<i>PAT margin (%)</i>	<i>-5.6</i>	<i>0.5</i>	<i>-0.7</i>	Share Application money	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	Minority Interest	0.0	0.0	0.0
Extra Ordinary	0.0	0.0	0.0	Shareholders' funds	873.1	876.4	870.0
PAT (Reported)	-45.3	3.2	-3.3	Total Liabilities	1,477.5	1,453.2	1,442.5
Cash Flow Metrics				Ratios, growth and per share analysis			
	FY13	FY14	FY15	Y-o-Y % change	FY13	FY14	FY15
Net Profit before tax	-56.9	2.1	-4.5	Revenue	1.2	-21.5	-25.5
Operating Cash Flow	131.8	52.4	59.0	EBITDA	-14.0	36.8	-16.2
Investing Cash Flow	-28.7	12.9	3.8	Recurring EPS	-934.3	-107.1	-200.8
Financing Cash Flow	-106.1	-68.3	-63.3	Ratios (%)			
Net Change in Cash	0.1	-4.2	-1.3	ROE	-5.1	0.4	-0.4
Op.cash and Equivalent	25.4	4.5	2.1	ROCE	1.1	4.4	3.4
Cl.cash and Equivalent	25.5	2.1	8.2	EBITDA Margin	13.3	23.2	26.2
Ratio - Du Pont Analysis				Net Debt/Equity (x)	28.5	26.0	22.3
	FY13	FY14	FY15	Net Debt/ EBITDA (x)	2.3	1.5	1.6
Net Profit Margins (%)	-5.6	0.5	-0.7	Inventory days	71.9	103.6	212.6
Total Assets Turnover	0.6	0.5	0.4	Debtors days	27.2	42.8	58.4
Leverage Multiplier	1.5	1.4	1.4	Payables day	39.1	52.5	70.7
ROAE (%)	-5.1	0.4	-0.4	Total Asset TO ratio	0.6	0.5	0.4
Valuation				Fixed Asset TO Ratio	0.7	0.6	0.5
	FY13	FY14	FY15	Per share data (INR)			
EV/Sales	1.1	1.4	1.8	EPS reported (diluted)	-1.0	0.1	-0.1
EV/EBITDA	8.3	5.9	6.8	Recurring EPS (diluted)	-1.0	0.1	-0.1
P/E (x)	-14.1	198.0	-196.4	DPS	0.0	0.0	0.0
P/B(x)	0.7	0.7	0.7	Book Value(basic)	18.9	19.0	18.9
Dividend yield (%)	0.0	0.0	0.0	Wtd avg ord shares (m)	46.1	46.1	46.1
FCF yield (%)	6.8	14.0	10.3	Wtd avg dil shares (m)	46.1	46.1	46.1

Source: BSE, Company, Varhad research

DISCLAIMER

Varhad Financial Consultancy Services Private Limited (Varhad FCS), an entity of the Varhad Group has taken utmost care to ensure accuracy and objectivity while writing this report based on publicly available information or from reliable sources. However, neither the accuracy nor completeness of information contained in this report is guaranteed. Opinions expressed herein are our current opinions as on the date of this report. Nothing in this report can be construed as either investment or any other advice or any solicitation, whatsoever. The subscriber/user assumes the entire risk of any use made of this report or data herein. Varhad FCS specifically states that it or any of its entities or employees do not have any financial liabilities whatsoever to the subscribers / users of this report. This report is for personal information only of the authorised recipient in India only. This report or part of it should not be reproduced or redistributed or communicated directly or indirectly in any form to any other person or published or copied for any purpose.

PUBLISHED BY

Varhad Financial Consultancy Services (VFCS) is the research and financial consultancy services entity of the Varhad Group. We have one of the best in-house research team, which has sound understanding of SMEs through clients across India. We provide project specific, company specific and sector specific consultancy services. We help companies expand businesses through network expansion. We also help in balance sheet strengthening and improvement in both credit and business profile of the company.

Regd. Office: Flat No. 1, Harsh Apartment, Near Gore Apartment No. 2, Shastri Nagar, Behind Akashwani, Akola - 444001

Head Office: 441, Samruddhi, Sector 25, PCNDDTA, Nigdi, Pune - 411044 | Tel: +91-20-65293366

| www.varhadcapital.com |

SEBI Certificate of Registration as Research Analyst

Registration No: INH00000446

Dated: 25 May 2015