11 October 2012

CMP: Rs. 44.7
Industry: Photographic products
BSE group: B

Promoters
JP Soni & family

Year of incorporation
1976

Registered office
A-33 Royal Industrial Estate,
Naigaon Cross Road, Wadala,
Mumbai 400031

Company website
www.photoquip.com

Write to us at:
equity.research@outlook.com

Key Data *(as on10 Oct'12)*

BSE	526588	ISIN	INE813B01016
Face Value	10.0	Mkt Cap (Rs mn)	229.5
Current P/E	6.2	Current P/BV	0.71
52 week high-low	55.9-26.3	30 day avg. daily trading volume (nos.)	6091
Equity Capital (Rs mn)	48.0	Net worth (Rs mn)	280.1

Company business

The company was incorporated in 1976 as a manufacturer of ancillary photographic equipment like studio flash systems – products targeted at professional photographers and small photo studios. In 1984, it entered into a partnership to export flash systems to Elinchrom, a Swiss company with a dominant presence in this. It is now a 100% export oriented unit, serving as the original equipment manufacturer (OEM) for Elinchrom. The company has exclusive rights to market the products of Elinchrom in India. It ventured into the manufacturing of cameras in 1998, launching its brand of cameras – Klik, targeted at the consumer market.

In its current form, the company makes, sells, and trades in photographic and allied equipment primarily in India. It products include digital flash lights, cameras, photographic labs, professional products - such as digital power/battery packs and indirect soft lights, umbrellas and soft boxes, and accessories and components, including reflector grids, reflectors, white and silver soft lights, and snoot grids. It has sole distribution rights for the products of Manfrotto and Gitzo (lighting products, camera tripods, heads and accessories) and Nissin (flash guns). The company was founded by and continues to be headed by JP Soni.

The company's financial performance in FY12 is compared to peers in the table below:

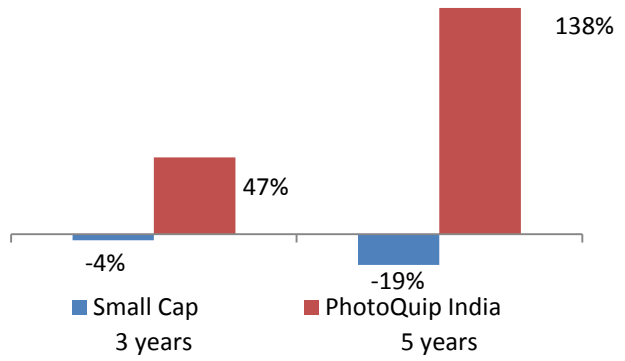
Financials - Standalone

FY12, Rs mn	PhotoQuip India	Jindal Photo	Choksi Imaging
Total income	834.4	3824.9	2093.2
EBIDTA	84.8	271.6	57.4
EBIDTA margin	10.2%	7.1%	2.7%
PAT	43.8	151.0	12.7
PAT margin	5.3%	3.9%	0.6%
EPS	9.1	14.7	3.3
Cash accruals	48.6	169.0	18.6
Debt/EBIDTA (x)	0.95	2.2	6.0
Debt/Equity (x)	0.25	0.2	1.8
ROANW	14.5%	6.1%	6.6%
ROACE	14.3%	8.2%	9.7%
P/E	4.3	10.1	8.3
P/BV	0.6	0.6	0.6

Source: Moneycontrol, Company

Although the company is smaller than its peers in terms of revenues, its profit margins and its earnings (relative to debts) are higher than peers.

Price Performance (vs BSE Small Cap index)



3 years: 8 Oct 09 to 8 Oct 2012
5 years: 8 Oct 07 to 8 Oct 2012

Public Shareholders >1%

Sl. No.	Name of the Shareholder	No. of Shares held ('000s)	Shares as % of Total No. of Shares
1	Ashok Parmanand Ajmera	81.8	1.7
2	Haresh Chamanlal Soni	58.9	1.2
3	Raj Kumar Lohia	98.7	2.1
4	Sanjay B Shah	50.3	1.1
5	Sudha Ashok Ajmera	86.7	1.8
	Total	**376.4**	**7.8**

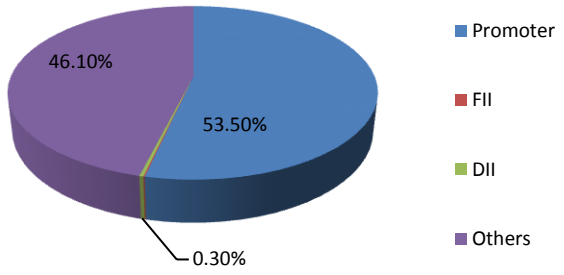
Source: BSE

Change in Shareholding Pattern (%)

Year	Promoters	DII	FII	Others
Jun-12	53.5%	0.3%	0.3%	46.1%
Mar-12	53.5%	0.1%	0.3%	46.1%
Dec-11	51.8%	0.1%	0.3%	47.8%
Mar-11	48.3%	0.1%	0.3%	51.3%
Mar-10	43.4%	0.1%	0.1%	56.5%
Mar-09	38.4%	0.1%	0.1%	61.5%
Mar-08	33.4%	0.1%	0.1%	66.5%
Mar-07	28.5%	0.1%	0.1%	71.4%

Source: BSE

Shareholding Pattern (%)



Source: BSE, as at 30 June 2012

Key strengths

Long-running partnership with Elinchrom

The company, an OEM for Elinchrom, a Swiss manufacturer of digital lighting equipment, makes digital studio flashlights for the latter. It has sole distribution rights for the latter's products all over India. Elinchrom's flash systems have an 85% market share in India. The company also has partnerships with Manfrotto and Gitzo (sole distribution rights for lighting products, camera tripods, heads and accessories) and Nissin (flash guns).

Key concerns

High inventories and loans and advances.

The company's balance sheet shows total assets of Rs. 537.6 mn, as of 31 March 2012. Of this, inventories accounted for Rs. 143.5 mn (having nearly doubled from Rs. 78.1 mn at the end of FY11). The inventories mainly comprised raw materials for producing digital studio flash lights (Rs. 65.4 mn). Sales of the finished product have fallen from Rs. 300.8 mn to Rs. 286.8 mn. The inventories may remain high, unless the company's sales of digital studio flash lights recover, and the company may be forced to liquidate unused inventory at a loss. Long term loans and advances accounted for Rs. 129.1 mn, of which balances with statutory authorities was Rs. 96.7 mn. Advances to suppliers were Rs. 122.3 mn.

Earlier attempts at diversification did not find market acceptance.

Photoquip's earlier attempts to diversify – by making and selling cameras under the 'Klik' brand name did not succeed. The company now does not sell its own brand of cameras.

Promoter shareholding declined and then increased

The shareholding of the promoters – JP Soni and family, has declined and then increased over the years. Their shareholding reduced from 49.7% in March 2002 to 45.6% in March 2004 to 39.9% in March 2005 to 26.3% in March 2006. Over the last five years, it has increased from 28.5% to its current level of 53.5%. (The shareholding changed by way of shares traded in the market and the promoters did not infuse or raise any additional capital). The increase in promoter shareholding over the last few years may signal that the promoters believe their business is undervalued and it amounts to a vote of confidence in the company by the promoters. However, decline and increase in shareholding may also mean that the promoters are trying to benefit from wider stock market trends by timing their entry and exit from the company.

Spikes in share price in June 2012

This year, the company's share price doubled from a 52 week low of Rs. 26.3 on 22 June 2012, to a 52 week high of 55.9 on 5 July 2012 – more than a 100% increase over a span of 9 days of trading. The average daily trading volume during this period was 38,040 while the average daily trading volume over the last thirty days has been 6091.

Industry overview

Spending on photography expected to rise at 40% CAGR – Gartner report.

The Indian digital camera market was estimated at 3.2 mn units in 2011. It is expected to grow at a 40% CAGR to cross 12 mn units by 2015. The market for high end cameras – digital SLRs is growing faster at 100% per annum, and is expected to reach a level of 1 mn units by 2015. Thus, the increasing consumer spends on digital cameras, driven by rising disposable incomes, is expected to fuel growth in high-end professional cameras. This is expected to have a knock-on effect of boosting growth in professional photography equipment.

Wedding planning market – growing at 25% CAGR.

The company is also poised to benefit from growth in the Indian wedding planning industry, which is estimated at Rs. 1375 bn (all expenses included), of which professional photography commands an increasing share. The wedding planning industry is growing at a CAGR of 25%. The growth of the wedding planning market is expected to boost the demand for professional wedding photography, driving sales of photography equipment.

Government Policies

The company is a 100% export oriented unit, qualifying for the government incentives for companies under this scheme, including exemption from payment of customs on imports and exemption from payment of excise duties on indigenously procured raw material.

India's overall imports of consumer electronics are estimated at USD 45 bn (Rs. 2475 bn). The value added in India is only about USD 2 bn (Rs. 110 bn). As part of its initiative to promote growth in domestic manufacturing of electronics, the government drafted the National Policy on Electronics in 2011. Salient features and objectives are listed below:

National Policy on Electronics - 2011

- **Significant push to increase domestic value add**: The government has stipulated that going forward, if overseas companies wish to set up operations in India, the domestic value add needs to be 25% in the first year, and has to increase steadily to 45% by the fifth year. (In other words, overseas players will have to manufacture parts locally rather than just assembling imported parts).
- To increase turnover from USD 45 bn in 2008-09 to USD 400 bn (Rs. 2200 bn) by 2020 by investing about USD 100 bn (Rs. 550 bn).
- To increase exports from USD 5.5 bn (Rs. 302.5 bn) in 2011 to USD 80 bn (Rs. 440 bn) in 2020.
- To provide incentives for setting up of 200 Electronic Manufacturing Clusters (EMCs) – setting up greenfield clusters and upgrading brownfield clusters, and to simplify the tax regime to attract investment.

The government is finalizing the legal framework to implement these objectives.

Company fundamentals

The company has three revenue streams:

Decline in sales of core product – digital studio flashlights, offset by growth in revenues from accessories and domestic sales.

- **Digital studio flashlights**: These are exported to Elinchrom under a partnership that began in 1984. Sale of digital studio flashlights decreased this year from Rs. 300.8 mn to Rs. 286.8 mn. (All these products are manufactured by the company and exported to Elinchrom).
- **Components and photographic accessories**: The company makes and sells ancillary photographic equipment like digital power/battery packs and indirect soft lights, umbrellas and soft boxes, and components, including reflector grids. Sales of these equipment increased by 52% to Rs. 236.2 mn. (All these products are manufactured and exported by the company.)
- **Trading in photographic accessories**: The company has sole distribution rights in India for the products of Manfrotto and Gitzo (lighting products, camera heads, tripods and accessories) and for the products of Nissin (flash guns). It also has distribution rights for the studio flash systems of Elinchrom in India. The revenues from this segment increased by 92.2% to Rs. 300 mn. (All these products are imported by the company and sold in the domestic market).

Key financial indicators

Total income rises 34.6% - fuelled by growth in domestic sales of imported photographic accessories.

The company's total income grew 34.6%% to Rs. 834.4 mn. This was partly because revenues from the sale of imported accessories increased by 92.2% to Rs. 300 mn. Total revenues from the company's core business - exports of digital studio flashlights and accessories increased 14.6% from Rs. 456.3 mn to Rs. 523.0 mn.

Higher interest costs impact margins.

The company's EBIDTA was Rs. 84.8 mn, a 24.8% increase from last year. Last year's EBIDTA was higher due to a liquidation of inventory worth Rs. 19.4 mn. The higher base led to a lower EBIDTA growth in the company (as compared to revenue growth). The company's borrowings increased from Rs. 29.8 mn at the end of FY11 to Rs. 80 mn at the end of FY12 – leading to a doubling of interest expense to Rs. 9 mn. Consequently,

the company's PBT growth, at 20%, was lower than the EBIDTA growth. PBT for the year was Rs. 71 mn, and PAT for the year was Rs. 43.8 mn, 5.8% lower than last year's figure because of tax adjustments. PAT margin declined from 7.5% to 5.3%. The company did not pay a dividend and has not been paying any dividend for at least 12 years

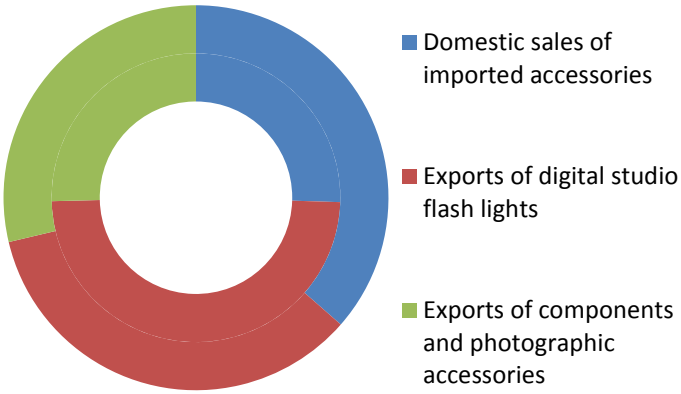
Quarterly results

Particulars (Rs in mn)	Apr '12 to Jun '12	Apr '11 to Jun '11	% Change[1]	Jan '12 to Mar '12	% Change[2]
Total income	190.3	177.6	7%	182.2	4%
Total expenditure	169.4	154.5	10%	173.1	(2%)
EBIDTA	20.9	23.2	(10%)	9.0	131%
PAT	11.7[3]	18.1	(35%)	9.8[4]	19%
EPS	2.4	3.8	(36%)	2.0	19%

[1] compared to corresponding quarter in the previous year
[2] sequential comparison
[3] Tax expense of Rs. 5.2 mn in Q1 FY13, was absent in the corresponding period last year.
[4] Tax credit of Rs. 5.6 mn boosted PAT to Rs. 9.8 mn from a PBT of Rs. 4.2 mn.

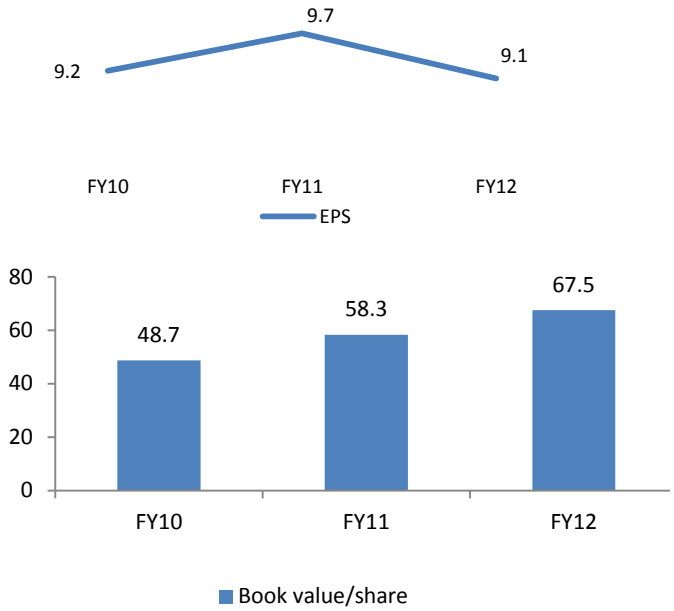
Ratios

Segment-wise contribution to total revenue

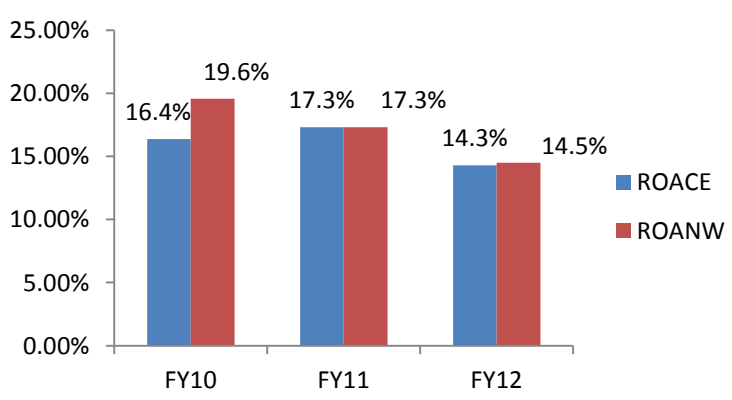


Inner ring represents FY11 data: total revenue was Rs. 612.4 mn
Outer ring represents FY12 data: total revenue was Rs. 822.9 mn

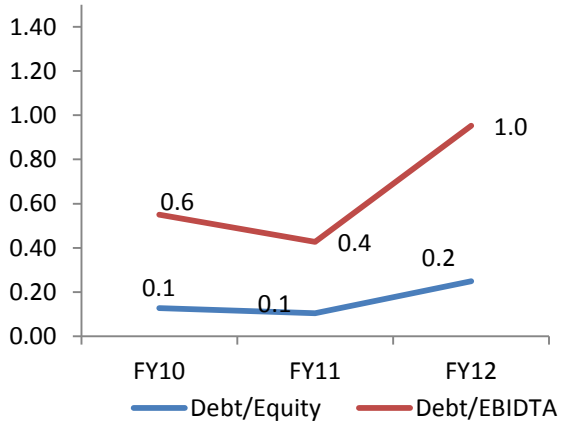
Key ratios



Profitability ratios



Leverage Ratios



Financials

P&L (Rs. mn)	FY10	FY11	FY12
Total income	466.4	620.0	834.4
EBIDTA	54.3	67.9	84.8
EBITDA Margin%	11.6%	11.0%	10.2%
Depreciation	4.5	4.3	4.9
EBIT	49.7	63.6	80.0
Interest	4.8	4.5	9.0
PBT	44.9	59.2	71.0
Current tax	7.8	12.7	25.6
Deferred tax	(7.2)	1.3	(0.8)
PAT (excluding minority interest)	44.3	46.5	43.8
PAT Margin %	9.5%	7.5%	5.3%

Balance Sheet (Rs. mn)	FY10	FY11	FY12
Share Capital	48.0	48.0	48.0
Reserves & Surplus	185.6	232.1	275.9
Net worth	**233.6**	**280.1**	**323.9**
Borrowings	29.9	29.0	80.8
Current liabilities and provisions	62.3	79.3	133.0
Total liabilities	**325.8**	**388.4**	**537.7**
Net fixed assets	87.0	87.2	93.6
Loans and advances	116.0	168.5	255.3
Non-current investments	5.4	3.9	0.3
Current assets	110.0	114.3	183.4
Other non-current assets	7.4	14.5	5.0
Total assets	**325.8**	**388.4**	**537.7**

Valuation ratios	FY10	FY11	FY12
P/E	2.9	5.2	4.3
P/BV	0.6	0.9	0.6

Cash Flow (Rs.mn)	FY10	FY11	FY12
PBT	44.9	59.2	71.0
CF from Operations	18.6	13.4	(27.8)
CF from Investments	(17.2)	(2.8)	(20.7)
CF from Financing	(11.8)	(5.3)	48.5
Inc/(dec) in Cash	(10.4)	5.3	0.06
Closing Balance	9.1	14.4	14.5