

M & B SWITCHGEARS

Issue Details

Issue Price	: Rs. 180 – 186
No. of Shares	: 5.0 million shares
Issue Size	: Rs. 900 – Rs. 930 million
Issue Opens – Closes	: 28th Sept – 05th Oct, 2011
Listing	: BSE & NSE
Market Cap	: Rs. 3,600 – 3,720 million

Background

- M AND B Switchgears Ltd (MBSL), a Madhya Pradesh based company operates in the power sector. It is engaged in the manufacture of different types of transformers like distribution, power transformers, furnace transformers and special purpose transformers.
- Currently, the company has a manufacturing capacity of 5,109 transformers per annum as on 31st March, 2011. MBSL is also engaged in setting up a power project to generate 2MWp through Solar PV Cells.
- Most of the clients of the company are State Electricity Boards and Government Utilities which have huge requirements of transformers to provide power supply.

Why is the company making the IPO?

- Set up a new 4MWp solar photovoltaic power plant at Gagorni village in Madhya Pradesh
- For General Corporate purposes
- Listing Shares on NSE and BSE

From the Research Desk of theIPOguru.com

- The promoters of the company have an experience of over 30 years in the transformers segment of the power industry.
- The prospects of the transformer industry are highly dependent on the performance of the power sector. With most power companies ramping up capacity and new capacities/projects coming up, there is likely to be an increase in the demand for transformers. The transformer industry is therefore poised to do well.
- As mentioned in the RHP, MBSL intends to generate a significant portion of its revenues from selling and trading of Renewable Energy Certificates (RECs) which is at a nascent stage in India and it traded only on Government recognized exchanges namely Power Exchange India Ltd. (PXIL) and Indian Energy Exchange (IEX).

Further, RECs which are regulated by CERC have a validity of only one year from the date of issue. Thus in the event that the certificate nears expiry the company will be forced to sell it at a price which could be much lower than its purchase price.

- As per the objects of the issue, the company intends to diversify its business operations by setting up a solar power plant. However, its promoters do not have any experience or track record in this segment.

High cost of solar power generation per unit make solar power projects costly compared to other energy sources. There is also the risk of technological obsolescence involved.

- MBSL derives majority of its revenues from a single line of business – manufacturing transformers and it accounts for nearly 90% of MBSLs revenues for FY 2011.
- MBSL supplies transformers mainly to SEBs and other Public Sector companies which were amongst its top ten clients and formed over 65% of its sales for FY 2011.
- Debtors as a percentage of income has been fluctuating as is indicated in the table mentioned below :

Particulars	31 st March, 2011	31 st March, 2010	31 st March, 2009	31 st March, 2008	31 st March, 2007
Total Income	352.82	375.04	265.81	198.77	161.85
Total Sundry Debtors	81.42	168.47	85.86	49.36	62.47
Sundry Debtors / Total Income (%)	23%	45%	32%	25%	39%

- By virtue of its operations in a highly regulated industry, any delay in getting approvals of necessary certificates and regulatory permissions can have a direct impact on financials.
- The company is exposed to risk arising from geographic concentration as its business operations are located in Madhya Pradesh.
- MBSL also faces strong competition from large well established players like Voltamp Transformers, Transformers & Rectifiers India Ltd. (TRIL), Crompton Greaves, ABB, Areva T&D and Siemens. It also faces severe competition from Chinese manufacturers.