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The Trick Is To **Spot Them** At The **Larval Stage**

BSE Code	: 504132
Time Duration	: 1 year
CMP	: ₹154 (as on 28 March, 2019)
Target Price	: ₹201

Permanent Magnets Electrify Your Portfolio With Permanent Magnets

Our Tiny Treasure for the month of March is Permanent Magnets Limited (PML). It is one of the flagship companies of Taparia Group, which includes companies like Supreme Industries, Famy Care, Taparia Tools and many more. PML is one of the leading manufacturers of Alnico cast magnets and yoke assemblies and parts & accessories of electricity meters. It has also started supplies of gas meter parts and accessories. In 1983, PML had upgraded its technology with the help of two Japanese companies, namely, Dowa Mining and Sumitomo.

Products used across various industries

PML's magnets have wide applications across various industries like electronics, electricity meters, automobile industries, telecommunication, defence, space research, aeronautics, railways and electricity generation. Magnets are used in electronic items like speakers used for computers, television and radios and refrigerators and freezers. Usage of magnets in cars is indispensable as it is used in various parts like door locks, sun proof, wipers, window regulators, etc. As company's dependence for supplying magnets is not restricted to any single industry, its risk is diversified. If any industry faces pressure on demand, the company's supplies to other industries help the company to compensate the shortfall.

The company is also engaged in the manufacture of magnetic assemblies such as separators and filters to separate out magnetic impurities, lifting devices, holding devices, etc. Also, it manufactures brass terminals and shunts, which are used for measuring current in KWH for electric meters, invertors etc.

Growing demand for smart meters

PML is engaged in manufacturing of electricity meter components and magnetic material equipment used in household and industries too. As the global market gradually shifted to smart electronic meters, PML restructured its manufacturing process and forayed into manufacture of smart meter components also from 2014-15. Smart meters automatically capture information about electricity consumption and then transmit it back to the electric company. It provides quick and accurate measurement

of electricity used, enabling users to control electricity consumption. Various government initiatives like sanction of smart grid pilot projects in India, Restructured Accelerated Power Development and Reform Program (R-APDRP) and Central Electricity Authority (CEA) have led to set up of smart metering across India at a faster pace. Asia Pacific, Europe and North America are the fastest growing markets for smart meter devices and the company exports its components to these markets. All households in England, Scotland and Wales are expected to get smart meters by 2020. The domestic and exports markets are growing robustly and PML is benefitting from this growing demand.

Future of electricity demand

As per the World Bank report, the electricity demand in India is expected to triple by 2040, whereas by 2030, the South-East Asia region is expected to become the fourth largest energy consumer in the world. Also, the demand for electricity in the US is growing rapidly, and as per the U.S. National Renewable Energy Laboratory (NREL) reports, the total US electricity consumption would grow 1.4 times by 2050. As the demand for electricity seems to be robust across various countries, the demand for electric and smart meters would also increase going forward. As PML produces magnets for meters, brass terminals and shunts for electric meters, it has strong future prospects considering the industry tailwinds.

Growth in exports

The company has a wide customer base in countries like Europe, USA, South America and South-East Asia. It supplies magnets and other products to various smart grid manufacturers across these countries. Its exports contributed 61% towards the total revenue in FY18. The rupee stood around Rs 63 per dollar in January 2018. It kept depreciating consistently till it hit Rs 74 per dollar level in October 2018. In the last six months, it has recovered and, currently, it is in the range of Rs 70-71 per dollar. Rupee depreciation has benefited the company as its major dependence is on exports. The effect was reflected in the company's realisations which grew strongly in 9MFY19.

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Strategic plan

As a part of company's long term strategic plan, it has initiated research and development activities for developing new high quality products for smart meters. It has also initiated research for developing products for electric vehicles (EV). It is also diversifying into parts related to aerospace and related products of magnetic cores, super-alloys, brass parts, etc. The market for smart meters and EV is huge, and if the company is successful in launching products for these devices, then it will benefit in the long run.

Risk factor

The company's key raw materials include nickel and copper. In FY18, out of the total consumption of raw materials, 52% was imported by the company, while the remaining 48% was sourced indigenously. The prices of nickel and copper are volatile. PML tries to mitigate this volatility by entering into fixed price contracts up to some extent with its suppliers.

Robust Financial Performance

PML has grown consistently since last three years. Its PAT has grown at a CAGR 121.7% over FY16-18. The company's debt- equity ratio improved from 1.8x in FY14 to 0.7x in FY18. The interest

coverage ratio improved to 5.05x in FY18. FY19 too began with strong numbers and in 9MFY19, the company delivered revenue growth of 35.1% at Rs 85.74 cr. Both EBITDA and PAT witnessed jump in growth by 263% and 287%, respectively.

In the recent quarter ending December 2018, the revenue grew by 23.5% YoY from Rs 24.08 cr to Rs 29.74 cr. EBITDA jumped by 207.6% YoY to Rs 5.7 cr from Rs 1.8 cr. EBITDA margin for the quarter stood at 19.4% as against 7.8% in Q3FY18. PAT was up by 126.8% YoY from Rs 1.78 cr to Rs 4.03 cr. PAT margin improved impressively on a YoY basis from 7.4% to 13.5%.

Valuation

PML is trading at TTM P/E of 10.6x with TTM EPS of 14.4. In FY18, it delivered ROE and ROCE of 34.5% and 29.9%, which is better than its peers. The growth for the company is expected on the back of growing demand for electricity across the globe leading to rising demand for electric and smart meters. Rupee depreciation is helping company's realisations to grow through exports. The financial growth has been strong, especially since last 2-3 years and it is trading at attractive valuation. Considering these factors, we see potential upside of 30% with target price of Rs 201 over a period of one year. We urge investors to invest in a staggered manner in three tranches.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	92.77	71.93	67.45	58.69	54.54
Total Income	93.24	73.24	67.71	61.19	55.28
Total Expenditure	84.32	68.67	63.90	56.30	51.90
PBIDT	8.91	4.57	3.81	4.88	3.38
PAT	5.41	1.19	0.93	0.42	-0.71
Dividend %					
Adj. EPS(Rs)	6.30	1.38	1.08	0.48	-0.83

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201812	201809	Q on Q Var%	201712	Y on Y Var%
Net Sales	29.74	32.27	-7.82	24.08	23.50
Total Expenditure	23.98	26.84	-10.68	22.21	7.95
PBIDT (Excl OI)	5.77	5.43	6.30	1.88	207.68
PAT	4.03	3.46	16.59	1.78	126.83
PBIDTM% (Excl OI)	19.40	16.82	15.34	7.79	149.04
PBIDTM%	19.61	18.59	5.49	8.08	142.70
PATM%	13.56	10.72	26.49	7.38	83.74
Adj. EPS(Rs)	4.69	4.02	16.67	2.07	126.57

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