

Bartronics India Ltd. **INR 150****Khul ja SIM SIM ACCUMULATE**

Nov 20, 2009

Company Background

Bartronics India Ltd (BIL) is a Hyderabad-based company operating in the area of Automatic Identification & Data Capture (AIDC) solutions & technologies. The company provides AIDC solutions based on several technologies such as Bar Coding and newer technologies like radio frequency identification (RFID), bio-metrics, point-of-sale (POS) technologies & Smart cards. The company's products include a wide range of AIDC/RFID cards, handheld terminals, printers and scanners, having applications in the logistics, retail, security, education, HR, healthcare, hospitality, finance and other industries. BIL is a dominant player in the domestic AIDC market and has a marquee list of clients including Tata Steel, Tata Motors, ITC, Whirlpool, Dr Reddy's, M&M and Pantaloons.

Investment Rationale

➔ Financial performance

For the quarter ended Sep 09, BIL's Net sales grew 35% at INR 1364 mn as against INR 1010 mn, while its Net Profit grew by mere 1.81% at INR 146 mn vs INR 143 mn during the same period a year ago. Drop in Bottom Line was mainly due to increase in Depreciation, Interest & Tax expense by 1740%, 191% & 231% respectively. It reported OPM at 40.37% with NPM at 10.69%. At the end of the same quarter, its order books includes worth INR 6 bn of orders, consisting 77% of orders from AIDC Solutions followed by 23% by Smart Cards.

➔ Smart Card-a smart way to grow

BIL set up the first Smart Card manufacturing unit in India in FY2008. Currently, most of BIL's smart card capacity is used for the Telecom Sector (95%). Going ahead, with strong demand expected from the Banking, Government & e-governance sectors, there is significant growth potential in this business.

➔ UID to add fuel to its growth

UID one of the ambitious project of the Government is likely to throw more opportunities for BIL, as it has maximum market share in almost all its related segment. GOI is likely to spend USD 6 bn in this project & getting a small pie from this project, can help BIL to grow & earn a significant amount & would help to fuel its revenue basket.

➔ 'Apke Dwar' to power revenues & open up new opportunities in the field of e-governance

The Government is looking at leveraging the use of technology to improve quality of governance and plans to spend INR 250 bn through the National e-Governance Plan (NeGP). In this regard, BIL bagged a major order from the Delhi Government, 'Apke Dwar', for setting up kiosks, which will act as a data bank of local consumers, service providers and businesses, with facilities like utility bill payments and ticketing. The order size is INR 50 bn, making it the largest-ever deal won by BIL & is a 9-year order, implying annual revenue bookings of over INR 5 bn. Thus this would help to grow & would help to sustain its revenue growth.

➔ Market share to play a role

BIL is a leader in AIDC Solutions having a market share of 90% & 95% in Smart Cards business. Even in the Bar Coding & Bio Metrics segments, it enjoys around 25% of market share.

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Info Codes

Reuters	: BARI.BO
Bloomberg	: BAIL@IN
NSE	: BARTRONICS
BSE	: 532694

Market Data

52 Wk Range (INR)	: 194 / 55
Shares in Issue (mn)	: 28.98
Mkt. Cap (INR bn)	: 4.33
BSE 2 Wk Avg Vol	: 160005

Share Holding Pattern (%)

Promoters	: 27.95
MFs, FIs & Banks	: 4.84
FIIIs	: 11.50
Others	: 55.71

Investment Theme

BIL is well placed to capture emerging opportunities in the areas of RFID, Smart Cards & POS. It has an order book of INR 6 bn to be executed in the next 12-18 months, of which Smart Cards consists of INR 1.4 bn & the balance if from Solutions, which is split between Singapore, US & India. Around 25% of this is from the Government, where spends from the same are expected to grow in the next few years. The company derives around 57% of revenues from India, 34% from US & the balance from Singapore & Malaysia. Moving further projects from GOI & 'Aapke Dwar' would help to sustain its revenue growth & would also help to grow itself.

A Stock with a UID

Industry Outlook

➔ Industry growing faster

The AIDC industry that includes barcodes, smart codes, RFID, biometrics & EAS is one of the fastest growing segments of the economy anywhere in the world. The globalization of Indian economy has provided huge growth potential for the AIDC industry. The Indian smart card industry has shown a fantastic growth in the past couple of years. According to Frost & Sullivan (F&S), a market research firm, the smart card industry in India is expected to touch USD 5.1 bn in the next couple of years. The telecom industry is the major growth driver of the smart card industry as it alone uses 95% of the smart cards by way of SIM cards in mobiles. India is a land of opportunity for smart cards. In the next seven years, India is likely to issue 600 mn unique ID cards, 50 mn e-passports, 100 mn health cards, 50 mn transports & ticketing cards & 50 mn banking cards. The AIDC industry is rapidly moving towards RFID in a number of high value & high volume market segments. The RFID market is expected to grow from USD 1.4 bn annually to USD 6.1 bn in 2010. RFID & biometrics solutions are growing at an exponential rate with retail & manufacturing growth in India. The banking industry too plans to replace magnetic strip cards with smart cards in the next 2-3 year.

➔ Telecom & MNIC to play a key role

The Indian Telecom Sector is the fastest growing in the world, adding 12-15mn users a month. Major drivers of this phenomenal growth include fall in minimum subscription costs leading to increased affordability, greater disposable income due to strong GDP growth, expansion of coverage area by mobile service operators & the introduction of a wide range of low-cost but feature-rich handsets in the market place catering to an increasing proportion of rural users. It is expected that the Indian mobile subscriber base to post a CAGR of 25% over FY2009-11E to touch a substantial 615 mn by FY2011. To put this in perspective, in FY2009 the subscriber base stood at 391 mn, implying net adds of a huge 224 mn over FY2009-11E. Consequently, this multi-fold increase will require significant production of SIM cards translating into a substantial opportunity for the companies engaged in the similar sector. Going ahead, the government plans to introduce MNIC cards, which will have multiple uses & can function as Ration Cards, Voter ID Cards, etc. The price per card can fetch more than that of the SIM card which could be even double. On the other hand in the Banking Sector, where Smart Cards can be used in Debit / Credit cards, can too provide an opportunity to earn more. Even e-governance is another major opportunity that can be tapped by the companies, leaving tremendous scope for future growth.

Business speaks well

➔ AIDC Solutions & Technologies

BIL is a pioneer in the Indian AIDC sector providing wide range of solutions to a variety of verticals based on AIDC technologies. Bar Coding, one of the oldest AIDC technologies is used mainly by retail & manufacturing companies. BIL also offers solutions on Bio-Metrics & Point-of-Sale (POS) technologies, where Bio metrics usually find application in industries where security is of paramount importance like defence, government, scientific research & IT-BPO. It is estimated that BIL has a market share of 25% in Bar Coding & Bio Metrics. BIL also enjoys a pre-eminent position in radio frequency-based (RFID) AIDC solutions & technologies. RFID is the emerging technology for tracking goods

Unique Identity Project - a key for smart card segment

The Unique Identity (UID) is one the ambitious project of the UPA government. The move to set UID Authority of India, under the roof of the Planning Commission is aimed at providing a unique identity to the targeted population of the flagship schemes to ensure the benefits reach them. The Union government's ambitious & high-tech unique identity or UID project is all set to ride on India's 500 mn strong telecom network as one of the largest available databases of subscribers anywhere in the world. Under this project every Indian citizen would be provided with an identity card to establish its citizenship & address security concerns, which would be assigned to each individual including those below 18 years of age. For this the GOI would spend around USD 6 bn on developing smart cards apart from a mammoth of citizen database. BIL would be benefited as it has a maximum market share in smart cards segment. The company has invested around INR 2700 mn in to an 80 mn smart cards manufacturing facility, with 100% capacity utilization thus making it as one of the biggest players in South Asia. BIL's Smart Cards division, which mainly manufactures SIM cards for telecom companies, is also witnessing continuous flow of orders, with subscribers been added rapidly in the range of 5-7 mn every month, leading to increasing need for SIM cards. Thus with all this positive triggers available for the company, a rise in revenues is expected to be seen in the next few years.

services worldwide & offers a better & more dynamic alternative to Bar Coding. In case of RFID-based AIDC solutions, the identifier is input, recorded or tracked by means of radio frequency methods. RFID solutions are equally beneficial to the consumer goods, industrial goods, logistics, retail, healthcare & other verticals. The basic & simplest application of this technology is through the tagging of high-value assets like goods in retail, cargo consignments, work-in-progress & vehicles. The tagged object can thereafter be tracked as & when required. As per the estimation, BIL is a pre-eminent player in the RFID space, with around 95% of marketshare.

➔ Smart Cards manufacturing to help more

BIL recently expanded its verticals of focus, venturing into the Smart Cards Business. BIL which provides all AIDC solutions is having a market share of ~90% & ~95% in the Smart Card & RFID segment. The company set up the first-ever Smart card manufacturing unit in the country with a capacity of 80 mn units, at a cost of INR 2700 mn. Currently, in the Smart Cards segment, BIL caters mainly to the Telecom Sector manufacturing GSM SIM cards for companies like Airtel & Idea. Telecom accounted for around 95% of BIL's Smart Card revenues in FY2009, with the balance comes from government & others. Going forward, this is expected to change with a greater share of revenues likely from the government & banking sectors. BIL has contract for 56 mn smart cards every year for the next two years from Giesecke & Devrient (G&D), Germany. BIL has tied up with ST Microelectronics & Infineon for the chips & is the only company in India for manufacturing of smart cards in the country. BIL has over 1600 clients including blue chip companies & would benefit from the huge demand for smart cards in India & Asia. The company recently received a MIFARE certification for cards which is used in the transportation sector. Going ahead, with opportunities likely to open up in newer verticals such as banking & from government, BIL is in a strong position to capitalise on such opportunities. The company recently won its largest-ever deal worth of INR 80 bn from the Delhi Government called 'Aapke Dwar' for setting up kiosks, which will act as a local data bank of local consumers, service providers & businesses with facilities like bill payments & ticketing offered. The nine-year deal implies that annual revenue bookings from the deal will amount to over INR 5 bn & thus provides very good revenue visibility for the company going forward.

➔ BIL ready for more opportunities

BIL has over the past few years significantly expanded its addressable market from being a purely AIDC solutions company. The company has steadily built upon its competencies & market leadership in the niche AIDC field to further expand its business globally as well as in newer segments. The company has expanded its AIDC Solutions Business beyond Indian shores to geographies like Singapore, Malaysia & the US. Apart from this, the company also forayed into the Smart Cards Business, setting up the country's first-ever Smart Card manufacturing facility. These business initiatives have expanded the potential market for BIL & are likely to enable it to continue to grow its revenues at a decent pace. With the government looking at leveraging the use of technology to improve quality of governance, e-governance has become another major opportunity for BIL to tap into, thus giving it a revenue driver from the Government Sector. GOI has planned to spend around INR 250 bn through the National e-Governance Plan (NeGP) to make available G2C services through where 0.10 mn CSCs would be set up to provide access to 0.60 mn villages,

Sets a target of INR 9-10 bn of revenue for FY2010

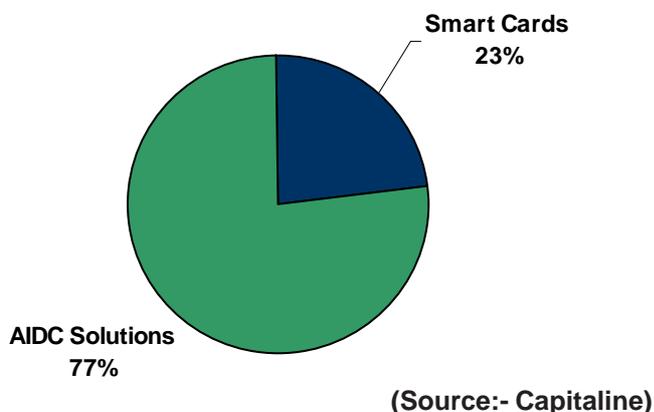
BIL has set a revenue target of INR 9-10 bn during FY2010, with OPM at 15-17%. The company is seeing higher traction from the domestic markets while it expects that the International markets to get stable at least after one quarter. The management expects strong performance possibility from Indian & South East Asia market. The order book at the end of the quarter was at INR 6.2 bn executable over next 12-14 months with smart cards business order book at INR 1 bn & AIDC solutions business order book at INR 5.2 bn. Of the smart card business, G&D would be 25% & balance is from telecom mainly BSNL & associate companies like ITI. Of the solutions order book, domestic is about INR 2.4 bn, Singapore is about INR 1.2 bn & US is about INR 1.4 bn. In the sequential quarter, the order book was INR 6 bn, smart cards at INR 1.4 bn, solutions with INR 4.6 bn. The order pipeline is also from Logistics sector (transportation & material handling) & manufacturing (auto, Pharma etc.). The order book at the end of the quarter stood at INR 6.5 bn down against INR 7 bn at the end of sequential quarter. The order book includes US subsidiary order book of INR 1.5 bn & Singapore subsidiary of INR 200 mn.

which would bring more business opportunity for BIL. It recently bagged a significant order 'Aapke Dwar' from the Delhi Government for setting up kiosks, which will act as a data bank of local consumers, service providers & businesses, with various facilities like utility bill payments & air, train & cinema ticketing. The order size is a substantial INR 50 bn, making it the largest-ever deal won by BIL & is to be executed over nine years, implying annual revenue bookings of well over INR 5 bn. Currently, the Aapke Dwar Project has been funded to the tune of INR 3 bn. The total project cost is INR 8 bn to be funded through debt – INR 6 bn, Internal accruals – INR 1.5 bn & promoters – INR 0.50 bn. The scheduled completion of implementation of the project is October 2010 & the company plans to add 350–400 kiosks by December 2009. The management expects revenues of INR 2.5 bn for FY10 & INR 5 bn in FY11.

➔ Huge order book positions

BIL has won the 'Aapke Dwar' project from Delhi Municipal Corporation to install Kiosk, with the total project cost of INR 8 bn & the company is expecting it to complete the project by September 2010, which would help BIL to increase its revenues. The order book at the end of the quarter was at INR 6.2 bn executable over next 12-14 months with smart cards business order book at INR 1 bn & AIDC solutions business order book at INR 5.2 bn. Of the smart card business, G&D would be 25% & balance is from Telecom mainly BSNL & associate companies like ITI. Of the solutions order book, domestic is about INR 2.4 bn, Singapore is about INR 1.2 bn & US is about INR 1.4 bn. In the sequential quarter, the order book was INR 6 bn, Smart cards at INR 1.4 bn, AIDC Solutions at INR 4.6 bn.

Current Order Book Position of INR 6 bn



Key Financials

Year Ended Mar 31 st	FY 07	FY 08	FY 09
Revenue (INR mn)	644.4	1844.3	3760.5
Rev. growth (%)	118.66	186.20	103.90
EBITDA (INR mn)	178.0	478.8	1057.4
Net profit (INR mn)	134.6	327.3	481.1
Shares outstanding (mn)	17.82	26.54	28.98
EPS (INR)	7.6	12.3	16.6
EPS growth (%)	106.09	63.27	34.61
P/E (x)	14.5	12.3	4.7
EV/ EBITDA	110.8	90.2	26.7
ROCE (%)	14.58	10.39	7.68

Positive factors

Bartronics has established itself as a brand successfully over the past couple of years. With a strong media presence & having a strong portfolio of clients, the company provides a state-of-the-art solutions based on RFID & Smart Cards Technologies to its valuable clients. The company successfully started operations in South Asia & the USA last year. In the South Asian market, Bartronics Asia Pvt Ltd., a wholly owned subsidiary of BIL has during the year emerged as a significant player in the South Asian Market. In USA it has its wholly-owned subsidiary, Bartronics America Inc. (BAI). In early 2008, BAI acquired Proximities Inc. & SRG America Inc. in the US market for a total consideration of US USD 50 mn. Proximities, Inc. is a privately held company that develops, markets & supports secure RFID cashless payment, access control & age verification solutions. Proximities' proprietary technologies enable fast, efficient & secure transactions. Software Research Group, Inc. (SRG) is an organisation that has served the information technology (IT) market place for over ten years. These acquisitions, with a size of INR 1 bn, will result in further growth & will enable BIL to become a global player in the AIDC space. With the company tapping global markets & with the upcoming opportunities from India, BIL would be benefited due to large market share in almost all its segments along with having a strong base of clients providing with a lots of business opportunities.

Financial Statements

Income Statement

(INR mn)

Year end Mar 31 st	FY 07	FY 08	% Chg	FY 09	% Chg
Operating Income	635.1	1834.8	188.90	3764.7	105.18
Other Income	9.3	11.3	21.51	1.6	(85.84)
Change in Stocks	18.3	1.0	(94.54)	(0.1)	(110.00)
Raw Material Con.	432.0	595.8	37.92	1178.2	97.75
Employee Exp.	24.8	31.1	25.40	81.8	163.02
Excise	0.0	1.8	NA	5.8	222.22
Other Exp.	27.9	739.6	2550.90	1443.0	95.11
Operating Exp.	466.4	1367.3	193.16	2708.9	98.12
Operating Profit	168.7	467.5	177.12	1055.8	125.84
Total Interest	13.4	33.0	146.27	152.3	361.52
Gross Profit	164.6	445.8	170.84	905.1	103.03
Net Dep.	16.9	35.5	110.06	293.7	727.32
Total Taxation	13.1	83.0	533.59	130.3	56.99
Net Profit/Loss	134.6	327.3	143.16	481.1	46.99

4 Years Balance Sheets

(INR mn)

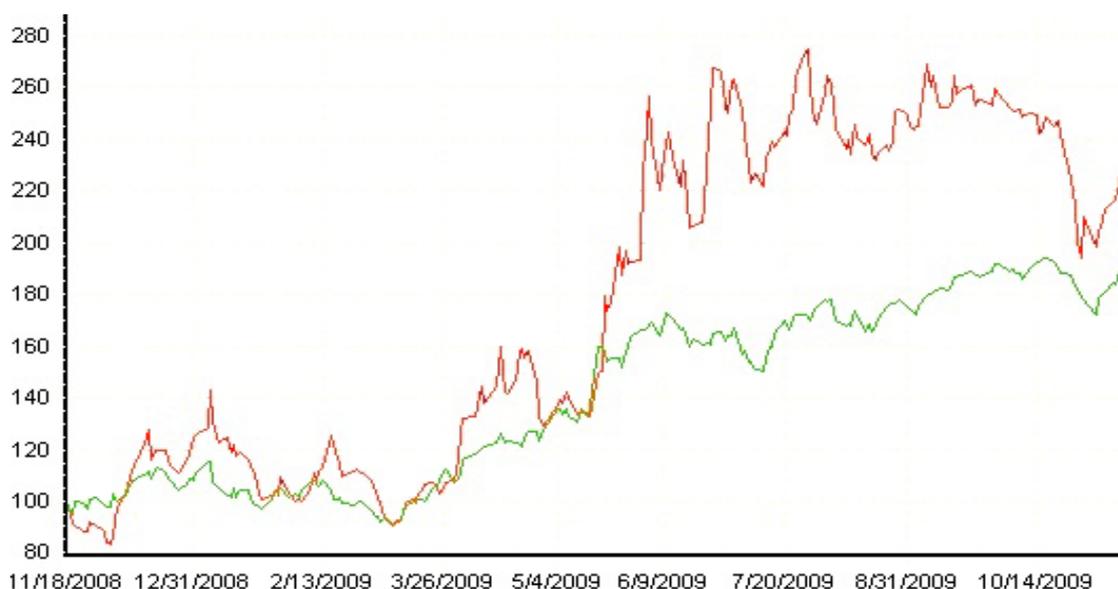
Balance Sheet as on 31 st	Mar 2006	Mar 2007	Mar 2008	Mar 2009
SOURCES OF FUNDS	767.1	1327.4	5553.9	8566.9
Equity Share capital	145.7	178.2	265.4	289.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	538.2	997.8	2158.2	2780.8
Loan Funds	83.2	151.4	602.2	2574.5
Unsecured Loans	0.0	0.0	2528.1	2921.8
USES OF FUNDS	767.1	1327.4	5553.9	8566.9
Gross Block	118.6	166.0	674.2	3013.8
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	32.6	49.4	81.2	357.6
Net Block	86.0	116.6	593.0	2656.2
Capital Work in Progress	161.1	109.1	1202.8	314.5
Investments	0.0	0.0	20.5	20.8
Current Assets	605.6	1516.9	4110.0	7383.4
Less : Current Liabilities	85.8	431.3	387.3	1808.0
Net Current Assets	519.8	1085.6	3722.7	5575.4
Misc. Expenses not written	0.2	16.1	14.9	0.0
NOTE				
Bk Val Unquoted Investments	0	0	20.5	20.8
Mkt Val. Quoted Investments	0	0	0	0
Contingent Liabilities	0	0	8.20	30.8
Dividend (%)	0	0	0	10

Quarterly Income Sheets

(INR mn)

Quarter Ended	Dec 08	Mar 09	Jun 09	Sep 09
Net Sales	923.1	1145.3	1247.4	1364.3
Cost Of Sales	601.6	521.1	657.6	911.7
Operating Profit	321.5	624.2	589.8	452.6
Recurring Income	116.9	0.0	0.0	98.1
Adjusted PBDIT	438.4	624.2	589.8	550.7
Financial Expens	56.8	96.4	86.5	89.2
Depreciation	84.7	97.3	101.6	111.9
Other Write Off	s0.0	0.0	0.0	0.0
Adjusted PBT	296.9	430.5	401.7	349.6
Tax Charges	88.3	205.9	84.7	203.8
Adjusted PAT	208.6	224.6	317.0	145.8
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	23.7	203.2	127.5	0.0
Net Profit	184.9	21.4	189.5	145.8

52 Week Index Relative Percentage Appreciation



BIL with Sensex

Risks Associated

Increased competition in Smart Cards

Currently, BIL enjoys a maximum position in the manufacture of Smart Cards in the country. However, going ahead new players are likely to enter the sector. Thus this would lead realisations to decline with competition getting more tougher & tougher.

Updation of technology

The companies related to the industry operates into the business where regular updation of technology is needed. Non updation of technology on regular basis can hinder the volumes of the companies, due to use of the outdated technology. The companies needs to infuse a huge capex in R&D to keep it up to date.

Dependence on suppliers

The companies engaged in the sector need not to be totally dependent on external suppliers for its key raw material rather any delay in supply, would affect its business.

In a Nutshell

Bartronics Ltd, a Hyderabad based company is a market leader in Automatic Identification & Data Capture technologies. BIL is the oldest & the leading identification technology specialist in India & has two subsidiaries namely Bartronics America Ltd & Bartronics Asia Ltd both providing AIDC solutions. The company has subsidiaries & marketing alliances in USA, Middle East, Malaysia, Singapore, Sri Lanka & many other countries. The company operates in two broad business verticals the solutions segment & smart card segment. It offers solutions based on emerging technologies like Radio Frequency Identification, Bio Metrics, Point of Sale technologies. BIL estimates suggest a market share of 25% in Bar Coding, 25% in Bio Metrics & around 95% in RFID, with the company expecting the Indian AIDC market to grow at an annual rate of 35-40%, thus providing huge potential to earn a significant portion of revenue. BIL has tie up with the Intel for POS technologies, where the products are likely to be available in 2009 & are suppose to get 20% cheaper to ones used by the industry currently & would even give more information to there tailer.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate up to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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