



Vacuum Division



Evaporator Division



Food Division

Mazda Ltd (BSE Code: 523792) – Alpha/Alpha + stock recommendation for Apr'12

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Dear Members,

What if I were to offer you a wallet with ten 100 rupee notes for just Rs 500? You would obviously pay Rs 500 and take that wallet from me and lock in 100% gain.

The other side of the story could be that there may be fake notes in the wallet and you could end up losing your Rs 500 (okay, not a complete loss assuming wallet is not worthless).

Well, this is exactly what can happen with Cash Bargains and thus it becomes all the more important to check if the stock is a real cash bargain or a value trap.

A cash bargain arises when the market value of a company goes below the amount of cash and other liquid assets in its possession, net of all current liabilities and debt.

Well in this case, i.e. Mazda Ltd (BSE Code – 523792), the company is not a typical cash bargain as defined above, however it's no less than a cash bargain considering the operating performance of the company.

Before we discuss the finer details, here's a brief snapshot:

- Market capitalization – Rs 38 crores
- Debt – Rs 17 Lakhs
- Investments in Liquid Funds – Rs 13 crores (proceeds from sales of Valves division)
- Cash and bank balances – Rs 4 crores
- Receivables from Circor Flow Technologies (Valve Division sale) by 1st Jun'12 – Rs 2 crores
- Average cash flows from operations (post tax) for the last 5 years – Rs 5.7 crore
- Average Net profit for the last 5 years – Rs 7.3 crore
- Long standing dividend history, spanning more than a decade with the current dividend yield being 3.9%

Investment Snapshot (As on 30th Apr'12)

Recommendation – Buy

Accumulation Range – 88-95

Portfolio Allocation Strategy – Start with ~3% portfolio allocation. We may increase overall allocation to 5% in case of correction in stock price.

Profit Booking – Refer Alpha/Alpha + weekly

Current Market Price – Rs 92.00

BSE Code – 523792

Bloomberg Code – MZC: IN

Market capitalization – Rs 38 crores

Total Equity shares – 0.42 crore

Face Value – Rs 10.00

52 Weeks High/Low – Rs 104/ Rs 70.25

Promoter's holding – 34.23%

Mazda Ltd – An Introduction

Mazda Ltd is an engineering company engaged in the business of manufacturing Vacuum Systems, Evaporator Systems and Air Pollution control equipments. Besides, in 2006 the company set up BCOOL, the food division of Mazda Ltd.

The company specializes in supplying equipments to various industries like Power, Fertilizers, Chemicals and Bulk Drugs Industries. They also cater to the needs of Refineries, Sugar and Food industries, Pulp and Paper and others. Mazda Limited has a strategic alliance with Croll-Reynolds Inc. USA (C-R), which is a major shareholder in Mazda Ltd and has shared a substantial amount of technology with Mazda.

Mazda derives 95% of its revenue from the engineering business, while the rest is contributed by the Food division. In the engineering division, the company designs and manufactures the Vacuum and Evaporator systems depending on the needs of the clients and thus help them improve upon the efficiency of their plants.

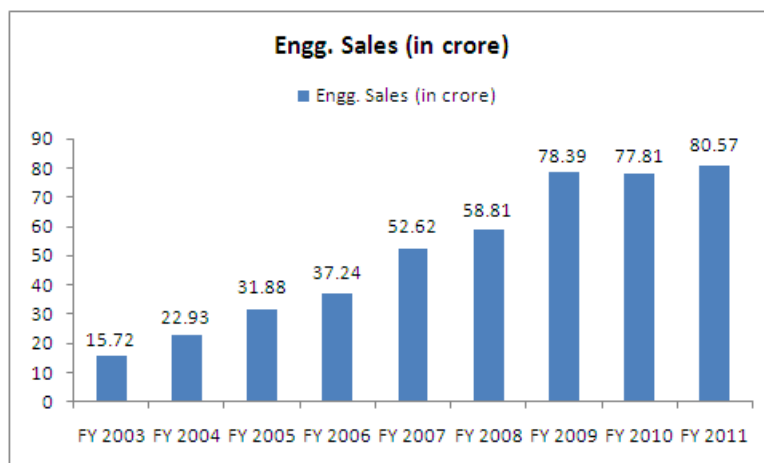
In an effort to provide its customers with world class systems, Mazda has installed one of the world's largest state of the art research and test facility at its plant in Ahmedabad. With this test facility, Mazda has the ability to simulate operating conditions and analyze all anticipated variables that may be encountered during actual operating conditions. It helps the company in optimizing the performance of its vacuum and evaporator systems.

The food division contributes about 5% to the revenue of the company. The company entered the food division business in 2006, solely for exports. In Food business, the company largely focuses on food colours and food essences under the brand name of BCOOL and has become supplier for many companies in the U.K. and U.S.A. Also, the company has started retailing BCOOL brand into two major supermarkets in the U.A.E. and with one major supermarket in the U.S.A.

The company's main focus for BCOOL is private labeling (it's rather better that they focus on private labeling than compete directly with the big and established players of the industry). The company stresses on customized packing and private labeling, basically outsourcing, for all its products.

Engineering Business

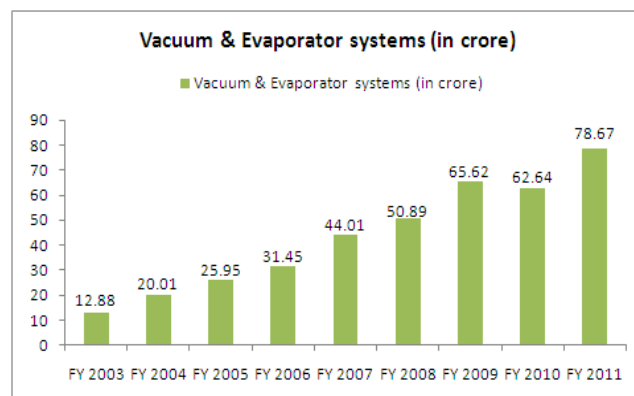
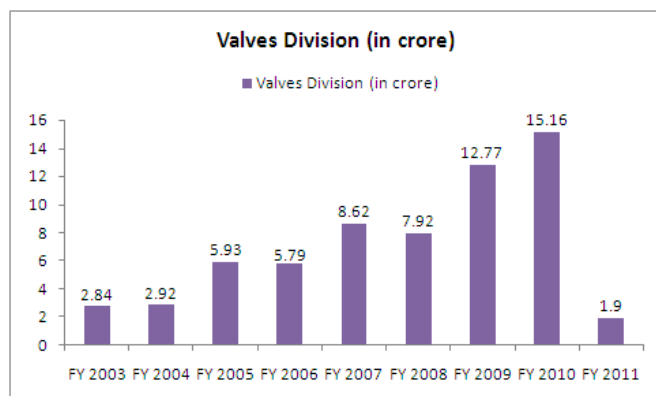
Revenue Growth



Designing and manufacturing Vacuum and Evaporator systems is the main business of Mazda Ltd and the company has done very well in the same over the years. As can be observed above, there was a sequential growth from FY 03 to FY 09, post which the sales have remained more or less same.

However it's important to note here that Engineering business constituted two divisions:

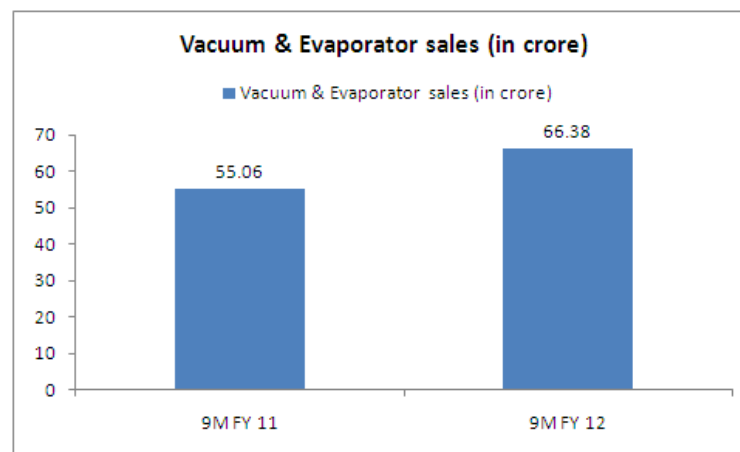
- Vacuum and Evaporator systems, and
- Valves division



On 1st Jun'10, the company sold off its Valves Division and thus the contribution of Valves division was just Rs 1.9 crores for FY 11. In the light of the same, the revenue growth for engineering division seems stagnant for the last 2 years, even though Vacuum and Evaporator systems division has performed fairly well with 25% growth in FY 11 over FY 10 and overall 10% annualized growth for the last 2 years and 15.5% annualized growth for the last 3 years.

Though 10-15% annualized growth may not seem very exciting, however, given the fact that Indian and global economy has been through one of the toughest periods with companies from capital goods segment witnessing erosion in top-line and bottom-line, the performance of Vacuum division of Mazda Ltd stands out.

FY 12 too has been a very tough year for the Indian economy and the companies supplying engineering goods have performed badly on account of all kinds of delays in the setting up of industrial and power plants.



Despite FY 12 being a tough year, Mazda has again managed to perform well for the nine months ending FY 12 with over 20% sales growth at Rs 66.38 crores. This is not to say that sales growth cannot stagnate, however future is uncertain and thus it's important to take cues from the past performance.

Profitability

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Total Sales (In cr.)	84.68	80.99	81.29	60.23	52.62	37.25	31.88	22.93	15.72
Operating Profit (In cr.)	12.09	16.04	15.56	10.79	8.51	6.86	5.29	3.28	2.36
Operating Profit Margin (%)	14.28%	19.80%	19.14%	17.91%	16.17%	18.42%	16.59%	14.30%	15.01%
Interest (In cr.)		0.01	0.26	0.25	0.46	0.42	0.39	0.43	0.18
Profit Before Tax (In cr.)	11.19	14.89	14.24	9.53	7.16	5.68	4.23	2.25	1.72
Profit After Tax (In cr.)	7.99	9.56	9.11	5.95	4.66	3.69	2.61	1.42	0.92
Profit After Tax Margin (%)	9.44%	11.80%	11.21%	9.88%	8.86%	9.91%	8.19%	6.19%	5.85%
Cash from Opt. (In cr.)	7.78	15.03	3.11	2.55	2.62	0.23	1.37	-0.88	2.05

As can be observed above, besides growth in revenue, the company has been able to maintain a decent growth in profits and that too without compromising with the margins. Here, the turnover is inclusive of sales from food division. The Food division has just turned profitable at operating level. On standalone basis, the margins of Engineering business will thus be a tad higher than depicted in the above illustration.

Both, the quality of operations (high margins and consistent cash flow from operations) and the management's conservative approach towards business has enabled the company achieve debt free status, even before receiving the proceeds from the sale of Valves division.

Consistently delivering high return on equity

	2011	2010	2009	2008	2007	2006	2005	2004	2003
PAT (In cr.)	7.99	9.56	9.11	5.95	4.66	3.69	2.61	1.42	0.92
Net worth (In cr.)	57.87	42.45	34.09	25.79	20.6	14.8	10.16	8.24	7.53
Return on Avg. Equity	15.93%	24.98%	30.43%	25.65%	26.33%	29.57%	28.37%	18.01%	

In the long run, the company can grow only as fast as it delivers return on equity and in the case of Mazda, it has consistently been able to generate 20%+ return on shareholders' wealth, without resorting to excessive debt.

Management says low competition in their line of business

As we noted in the illustrations above, the Engineering division of Mazda has performed exceptionally well over the years. There's something about the operations of the company which enables it to maintain decent growth, retain high margins and receive timely payments from clients.

This is what management has to say about the Engineering division of the company:

Outlook: Your company is focused in the engineering sector and growth prospects are stable for the industry at large. In view of the opportunities available both in international as well as domestic market, your company's unique products in the pressure based systems are capable for the high growth as competition factor is too low in this business.

As stated earlier, we have started the supply of Balance of Plant Equipment for Power Plant Applications. Your company not only have supplied to Thermal Power Plants, but also to Solar Power Plants and Geo Thermal Power Plants. Your company is probably one of the few companies in India to supply the same. Geo Thermal equipment was supplied through Hindustan Turbo Machinery Limited for installation at a Geo Thermal Power Plant in Kenya. Solar Power Plant was supplied through Maxwatt Turbine Private Limited for installation at a Solar Power Plant in Alwar, Rajasthan.

Your company has started supply of evaporation plants on turnkey basis, especially for the starch industries where the equipment is used for manufacture of Glucose, Malt Dextrin, Dextrose and High Maltose Syrup. These multi stage evaporation systems (Four Stage) are highly efficient systems which reduce the steam consumption by about 30% compared to the conventional three stage evaporation systems. The outlook for the development of evaporation system is very positive and your company has received good orders in this line of business.

As was expected, the competition factor is low, though the other side to the same could be lack of scalability. However, as long as company is able to maintain 20% CAGR, scalability is not a concern, especially considering the valuations.

Besides Vacuum systems, the company has started the supply of Balance of Plant Equipment for Power Plant applications. This again seems like a less competitive and high growth area, because a number of companies, including BHEL have cribbed about delay in execution of Balance of Plant (BoP) jobs, which in turn is primarily due to absence of sufficient and competent BoP players who can execute the job within the stipulated time and cost.

Not enough balance-of-plant manufacturers, says Bhel

Mrinalini Prasad



Bharat Heavy Electricals Ltd has expressed serious concern over the limited number and capability of construction contractors on one hand and vendors of balance-of-plant material on the other. According to the public sector major, the capabilities of manufacturers for both standard and supercritical units as well as other main plant package materials were in sync with the planned capacity addition, but delays in acquiring BoP material and issues regarding construction contracts were a menace to the timely completion of power projects.

Bhel officials, at a recent meeting with the ministry of power, said that India had limited number and capability of construction contractors as well as vendors of balance-of-plant materials such as coal and ash handling systems, water treatment plants, cooling water systems, air-conditioning and ventilation systems, fire protection systems, cooling towers, construction equipment, and civil works and services.

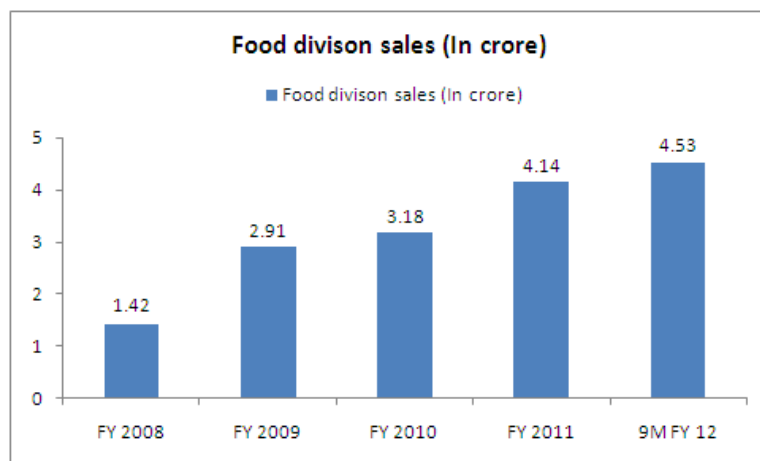
What ails the balance of plant segment?

April 2011

Most thermal power projects in the country are being hampered by lack of BoP vendors and inadequate manufacturing capacity that is not commensurate with the growing demands of the Indian power sector, says **PK Chaubey**.

The power sector in India has witnessed a major thrust in power generation in the last four to five years with a few success stories in its fold. However, the road ahead is dotted with innumerable challenges resulting from gaps between what's planned versus what the power sector has been able to deliver. One of the reasons for the gaps is delay in execution of Balance of Plant (BoP) jobs which in turn is primarily due to absence of sufficient and competent BoP players who can execute the job within the stipulated time and cost.

Food Business



At the moment, the contribution of Foods division to the overall revenue of the company is minuscule and also the base is very small to talk in terms of growth of the unit.

The company entered the food division business in 2008, solely for exports. In Food business, the company largely focuses on food colours and food essences under the brand name of BCool and has become supplier for many companies in the U.K. and U.S.A. Also, the company has started retailing BCool brand into two major supermarkets in the U.A.E. and with one major supermarket in the U.S.A.

The company's main focus for BCool is private labeling (it's rather better that they focus on private labeling than compete directly with the big and established players of the industry). The company stresses on customized packing and private labeling, basically outsourcing, for all its products.

How did Food unit come into existence?

Shanaya Mody, Founder, BCool – Mazda Limited Food Division

Team YS posted 565 days ago



"BCool – making Mazda cool"

Sometimes a company can turn things around for itself and create a new image altogether. "Mazda Limited" would normally be called a engineering company, specializing in tailor-made heavy engineering equipment but due to its new division BCool it is also becoming famous for food products. Shanaya Mody is the woman entrepreneur who has engineered this change with BCool and its lineup of food products such as Instant powder drinks, Jams, Food Colours etc.

Yourstory learnt more on her entrepreneurial story and how "BCool" is making "Mazda" cool from Shanaya herself.

Tell us how BCool was started and the business idea behind it?

BCool was established in 2006, with not much more than a piece of un-used factory land. We started initially as a company supplying Instant drink powder to the international market; however over time we have diversified to include Jams, Sauces, Essences and food colours.

Today we have a yearly turnover of around 3.25 crore and BCool is a recognized brand name in the U.A.E, U.K, Nepal, Africa, U.S. and several other countries.

We are one of the few instant drink manufacturers that can provide up to 20 different flavours, along with private labeling and a varied range of international packing which meets all export specifications.

What kind of products do you make for which markets?

While there is severe competition in a mass product like ours, our hold in the international market is strong. We are getting into more products, and through vertical integration, try to offer customers not only the product they need but also other complementary requirements. For e.g. we have tied up with a local machine manufacture which enables us to supply customers with both our instant drink powders and also the machine they require to package it. We have several customers globally in Jeddah, Dubai, United Kingdom, Australia, Nepal, Bangladesh and the U.S.A., and are also associated with some big brand names who we privately label our products for.

Where is the main difference in how you execute your business idea from others?



What's special about our business model is that our marketing strategy is slightly different to what most companies would adopt. Having a bulk consumption FMCG product which faces severe competition it is virtually impossible to differentiate yourself via 'product'. At BCool we differentiate ourselves through our novel marketing model. Our repeat product sale is not solely because we manage the balance between quality and competitive pricing, but more because of our intense focus on customer services and strict emphasis on maintaining quality.

What I have brought to the business is an ultra-low cost management style. Even at a revenue value of Rs. 3.25 crore, the whole business is managed solely by me and I am aided by a wonderful Production Manager – Mr. Sachin Patel. I incur no extra travelling costs, and all our sales/service is done solely by phone and internet. Our main marketing portal is a b2b site through which all our queries are generated.

What does the expansion of your business depend upon?

Like most FMCG products, ours is a volume game. Since the profit margins are not too large because of the nature of the product, the more business we generate the faster we can scale-up our business. In addition to this our strategy is very clear – Innovate and Increase our product range to provide the customer with value-add services and vertical integration. While scaling-up the business is important, quality maintenance in any food product is of primary importance.

Who inspired you to try your hand at entrepreneurship?

I would have to say here that it runs in my blood. My father started his own business and I aspire to be like him, I'd always wanted him to be able to proudly say that I was a 'chip of the ol' block'!

What was the biggest challenge that you had to face with BCool?

In 2009, sugar prices sky rocketed globally. Now in a product where sugar is our main raw material, one can imagine the effect this would have had on our business. We took that opportunity to innovate and initiate. We focused on R&D and developed several other products to reduce our dependence on sugar – and that's when we introduced sauces and other products to our range.

What are the toughest lessons you learnt about entrepreneurship?



When I first started, trusting people to uphold their word in business was the mistake I made. I learnt the hard way that the business realm is very ruthless and trust – whether it is for payments or supplies, or delivery – is to be frugally imparted!

Where did you find the seed capital for your company? Any plans to raise money?

Since I already had factory land which was unused by the engineering company and old machines that they had discarded, initial seed money was self generating. Using these we started our initial order and after that the working capital has been self generated. BCool is debt free and currently we have no plans to raise money.

What has your company's growth been like in man power and market share?

In terms of our sales growth in the last two years we've almost doubled our turnover year on year. We started initially with 2 hires and 5 workers and now we've grown to have 5 permanent staff and 50 contract labourers.

What do you think is BCool's biggest achievement?

The single biggest achievement has been that people in foreign countries recognized the brand name 'BCool'. To meet people I don't know internationally and then in conversation have them exclaim 'Oh BCool, I buy that regularly' is to me the biggest achievement.

We are constantly in receipt of emails from customers appreciating the work we've done for them. In addition, Alibaba.com featured our company in their campaigns as one of their selected success stories.

Where do you want to see BCool in the coming two years?

I wish to have a more wide-spread market reach, and make the brand name 'BCool' even more familiar to many other countries and people.

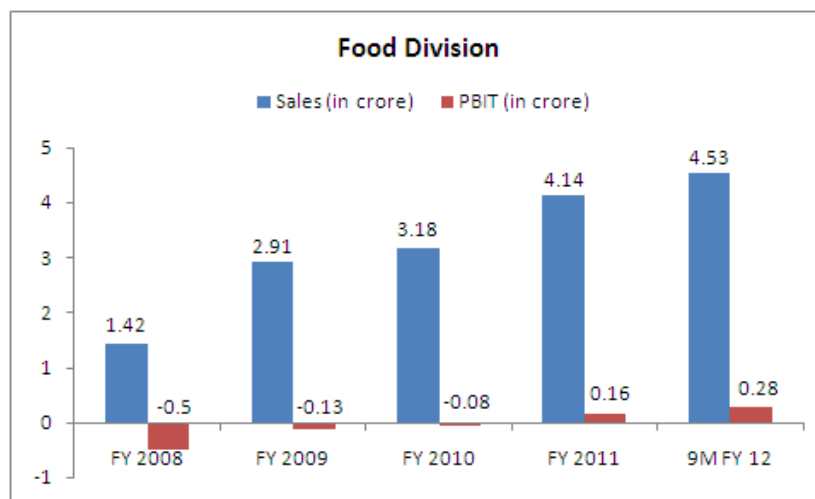
What is the technology platform that is empowering BCool?

Our business is solely powered by technology. As previously mentioned all our business is through B2B websites, and phone calls. We have very little face interaction in our customers; if this is required we use video conferencing.

Profitability

It would have been a cause of concern, had the Foods division been employing large amounts of capital and reporting losses. Being headed by Promoter's daughter, the management may have continued with the unit, even if had been draining the capital generated by the good performance of the Engineering division.

However, within 3 years of operating history, the Foods division has turned profitable, albeit marginally.



It will be too early to speak anything about the performance of Foods Division, though the above interview of Ms. Shanaya Mody does suggest that they have tried to keep the operating cost as low as possible, and as the company achieves higher volumes, the margins may expand further.

In future, the Foods division can turn out to be a joker in the pack, though we would like to add here that Foods division is not a part of equation and at the moment the only positive about the same is that it's not a drain on company's resources.

The Sales and Services Operations Manager of Alibaba.com quotes the case of BCOOL in his interview

“India is a priority market for Alibaba with registered users’ growth rate of 53% year on year”- Nayan Thakkar, Sales & Services Operations Manager, Alibaba.com India

February 7, 2012 By [Jitendra Singh](#) [Leave a Comment](#)



Nayan Thakkar - Sales & Services Operations Manager, Alibaba.com India

With more than 40,000 Indian SMEs registering on Alibaba every month, India has become a priority market for Alibaba with over 2.4 million registered users as of September 30, 2011. In Asia, India has the highest users clinching deals on Alibaba’s international English-language marketplace. They have expressed no limits for investment in India and they will continue to make more joint ventures to penetrate Indian SME market. However, Alibaba is primarily focusing on four countries China, US, Japan and India. The B2B player has made a phase-wise plan to expand itself in India. In order to get more insight and gain more information on Alibaba plans and services in India, iamwire interacted with the most talked-about but hard to get company that rarely speaks to the Indian media. Here are the excerpts of the exclusive conversation with Mr. Nayan Thakkar, Sales & Services Operations Manager, Alibaba.com India.

What would be your suggestion to the entrepreneurs and start-ups?

There are several SMEs who have turned around their business while leveraging the power of the internet. The success of Ahmedabad based Shanaya Mody is awe-inspiring - she branched out to start a new business- 'BCool' - moving away from the family-led typical heavy engineering business Mazda Ltd branching out from the traditional family business. From a piece of unused factory land, equipped with machinery, she ventured out into manufacturing and exporting premium instant powdered soft drink mixes, food color, flavoring essence, rose-syrups and jams kick-started this business via Alibaba.com in 2005 and today her business has grown 125%. She has been a Gold Supplier on Alibaba.com for over seven years now. Almost 100% of her business comes from Alibaba.com and by March 2012 the annual turnover of her company is expected to reach INR 6 crores.

We have seen many such entrepreneurs across various industries who have harnessed the opportunities that internet has provided today. The process of discovering potential business partners is perhaps the lengthiest and costliest phase of the sourcing cycle. Trade fairs and exhibitions are a great way to showcase one’s products and network with business partners. Traditional selling methods, especially, to overseas markets can be expensive. But with e-commerce portals offering ready information on products, suppliers and trade leads from across the globe, SMEs can decrease the time required to find potential partners by a great extent.

Management and Shareholding Pattern

	Mar'12	Dec'11	Sep'11	Jun'11	Mar'11
Promoter and Promoter Group	34.23%	34.19%	33.95%	33.91%	33.39%
India	34.23%	34.19%	33.95%	33.91%	33.39%
Foreign					
Public	65.77%	65.81%	66.05%	66.09%	66.61%
Institutions	2.81%	3.37%	3.37%	3.37%	3.88%
FII	2.57%	3.12%	3.12%	3.12%	3.63%
DII	0.24%	0.25%	0.25%	0.25%	0.25%
Non-Institutions	62.96%	62.44%	62.68%	62.72%	62.73%
Bodies Corporate	7.61%	7.97%	8.85%	9.17%	9.06%
Custodians					
Total	42,58,000	42,58,000	42,58,000	42,58,000	42,58,000

The promoters of the company, Mr. Sorab Mody and family hold 34.23% stake in the company.

Besides, Mr. Percy Avari, the Whole time Director, and Croll Reynolds International Inc., the Technology partner hold 1.06% and 6.80% respectively.

At the end of Sep'10 quarter, Croll Reynolds had 11.74% stake in the company while the promoters had 28.45%. During the Dec'10 quarter, promoters bought 4.94% stake from Croll Reynolds and thus increased their stake to 33.39%.

Further, as can be observed in the above illustration, the promoters have increased their stake by 0.84% in the last 1 year with open market purchases in the range of Rs 70-85.

Mr. Mody is a first generation entrepreneur and has steered the company, along with Mr. Percy Avari, in the right direction over the last 2 decades. Ms. Shanaya Mody, joined the company in 2004 and later on started the Foods division of Mazda.

We didn't find anything negative about the management, except for the fact that gross remuneration of the three sums up to 15% of the net profit of Mazda Ltd. We believe that

remuneration of the management should have high Performance linked component, than the fixed salary component and at the moment Mazda lacks in this department.

Dividend Policy

The company has been consistently paying dividends, with the dividend payout being in the range of 10-15%. We believe 10-15% payout is reasonable as the company has been able to maintain a healthy mix of debt and equity, with consistent return on equity in excess of 20%.

Valuations

UNAUDITED BALANCE SHEET AS ON 30TH SEPTEMBER, 2011			
SR. NO.	PARTICULARS	30/09/2011 (RS. IN LACS)	30/09/2010 (RS. IN LACS)
<u>SOURCES OF FUNDS</u>			
1	SHAREHOLDERS FUNDS :		
	SHARE CAPITAL	425.80	425.80
	RESERVES & SURPLUS	5711.37	5338.37
		6137.17	5764.17
2	BORROWED FUNDS :		
	SECURED LOANS	2.13	10.36
	UNSECURED LOANS	15.00	15.00
		17.13	25.36
3	DEFERRED TAX LIABILITY	160.90	175.52
	TOTAL	6315.20	5965.05
<u>APPLICATION OF FUNDS</u>			
1	FIXED ASSETS		
	GROSS BLOCK	2855.59	2130.93
	LESS : DEPRECIATION	674.05	817.03
		2181.54	1313.90
2	INVESTMENTS	1336.74	2620.92
3	<u>CURRENT ASSETS, LOANS & ADVANCES</u>		
	DEBTORS	1679.15	1319.33
	CASH & BANK BALANCE	404.87	211.97
	INVENTORIES	2545.29	1542.51
	LOANS, ADVANCES & DEPOSITS	2284.41	2337.85
		6913.72	5411.63
	<u>LESS : CURRENT LIABILITIES & PROVISIONS</u>		
	SUNDRY CREDITORS	1630.37	936.23
	ADVANCES FROM CUSTOMERS	595.10	263.13
	OTHER CURRENT LIABILITIES	764.07	207.64
	PROVISIONS	1127.26	1974.40
		4116.80	3381.43
		2796.92	2030.23

As mentioned in our introductory note, the most striking feature of Mazda Ltd is its valuations.

At current prices, Mazda is available at a market capitalization of Rs 38 crores. Now, as can be observed above, as of 30th Sep'11, company is debt free, holds investments in Mutual funds worth Rs 13 crores and cash & bank balances worth Rs 4 crores. Besides, the company will receive the last tranche of Rs 2 crores by Jun'12 for the sale of Valves division.

Thus, the operating business of the company is available for Rs 19 crores. Assuming a hair cut of 50% to the cash and cash equivalents, the operating business is available at Rs 30 crores.

Now, from our analysis in the previous sections, we know the following facts about the operating business of the company:

- Relatively less competitive business
- Recorded an annualized growth of 25% for the last 8 years and 15.5% for the last 3 years
- Average net profit of Rs 7.45 crores for the last 5 years.
- Positive cash flows, almost in line with the reported profits
- Consistently high ROE, in excess of 20%
- High net profit margins to the tune of 9-11%
- Already recorded a net profit of Rs 6.7 crore for the nine months ending FY 12 and could end the year with a net profit of Rs 9-10 crores.

Thus, we find the valuations extremely low at 3 times FY 12 (E) earnings, 4 times average earnings for the past 5 years, 0.62 times the Book value and a dividend yield of 3.8%.

The legendary Walter Schloss checked the stock on the following 4 criteria to determine if the stock merits a place in the portfolio:

- Zero or very low debt equity ratio
- High Promoter holding

- Dividend yield of at least 3%
- Stock purchase price lower than book value

Mazda Ltd satisfies 3 criteria, except for high promoter holding. However, as illustrated in the previous sections, the promoters have been increasing their stake with open market purchases.

Valuation check

On 1st Jun'10, the company sold off its Valves Division for ~ Rs 20 crores. For FY 10, the Valves division recorded sales of Rs 15 crores and thus Mazda fetched 1.33 times the annual sales.

Valves Division				Vacuum and Evaporator division			
Year	Sales (in cr.)	Operating profit (In cr.)	Margin (%)	Year	Sales (in cr.)	Operating profit (in cr.)	Margin (%)
FY 2003	2.84	0.47	16.55%	FY 2003	12.89	3.38	26.22%
FY 2004	2.92	0.35	11.99%	FY 2004	20.01	3.81	19.04%
FY 2005	5.93	1.13	19.06%	FY 2005	25.95	5.62	21.66%
FY 2006	5.79	1.44	24.87%	FY 2006	31.45	11.30	35.93%
FY 2007	8.62	2.13	24.71%	FY 2007	44.01	12.62	28.68%
FY 2008	7.92	1.92	24.24%	FY 2008	50.89	17.88	35.13%

Note: The segment information for valves division is not available for 2009 and 2010

As can be observed from the above illustration, the performance of Vacuum and Evaporator division of the company was superior in comparison to that of Valves division.

Thus, the operating business of the company should theoretically command higher valuations in comparison to what Mazda fetched for Valves division.

Since the Vacuum division is expected to close FY 12 with sales of Rs 90 crores, at 1.33 times annual sales, theoretically the operating business should be valued at Rs 120 crores. Add to the above Rs 19 crore cash and cash equivalents and thus the company should be valued at ~ Rs 140 crores.

Here, we are not accounting for the fourth unit of the company which was inaugurated on 28th Mar'12 and will add 15-20% to the production capacity of the company. Also, we are not accounting for the Foods division.

Since the off market transactions take place at a premium, assuming a 50% discount for the operating business and for the cash and cash equivalents, the company should still be valued at ~ Rs 70 crores, while it is currently being valued at Rs 38 crores, i.e. a 45% discount.

Risks & Concerns

- These days' promoters are engaging in transactions where the business units are being sold at great premium to prevailing market caps; however minority shareholders are left holding pennies on account of lack of clarity on use of cash available with the company (ex. Eon electric, Numeric power, Smart link, etc). In case of Mazda, promoters can well engage in a transaction and sell the Vacuum and Evaporator unit at say 100 crores, while pay just a fraction of it in the form of special dividend and retain rest of the cash with the company for the development of Foods division.
- In case the company is not able to maintain the growth rate, the market may continue to value the company at current or lower valuations for extended period.

Katalyst Wealth – Alpha Portfolio



Katalyst Wealth Alpha Portfolio service is focused on helping individual investors/institutions beat market returns by a wide margin without taking large risks through in-depth research, analysis and follow up on the stock.

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