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Bartronics India: Invest at cut-off **S. Vaidya Nathan**



As bar coding benefits retailers and suppliers, buoyant demand is imminent.

AN investment can be considered in the initial public offering of Bartronics India as it has immense growth potential; it offers product-tracking services that are likely to play an increasingly important role with companies focussing on logistics to improve profitability. The boom in organised retailing, the increasing awareness of the need to ensure quality products and packaging, and the likelihood of mandatory tracking information for an expanding range of products in the domestic and overseas markets should drive growth.

Bartronics is likely to benefit from new product tracking services that are gaining popularity and may become the norm over a five-year period. Opportunities in the healthcare and security spaces are also likely to expand in the developed countries and in India. We expect Bartronics to post robust revenue growth. Earnings are also to follow a similar path, though profitability levels could slip, as the company deals with bigger players in the years ahead. However, higher revenue growth could compensate for the slip in margins. The Bartronics IPO is in the Rs 63-Rs 73 price band. In line with the IPO trends over the past six months, this, too, appears a tad stiffly priced; there would have been a greater degree of cushion for investors had it been priced at the lower end of the price band. The stock is priced at 10-12 times its earnings for FY-07 based on conservative estimates of earnings growth. We expect the company to grow at higher rates and this could enhance the comfort level for investors. As a small-cap stock, Bartronics will be subject to a high degree of volatility; the returns are, however, likely to compensate for the risk element.

As a company that offers technology-based product tracking solutions and services, Bartronics is likely to be perceived as a logistics play. Stocks from this space have attracted investor fancy over the past year and as we expect this trend to continue, Bartronics is also likely to be a beneficiary. Our recommendation does not, however, factor gains on listing. Bartronics offers services that enable automatic identification of products and persons and creates the infrastructure to keep track of their movement. Such services are critical to efficient management of the supply chain; the availability of high-speed computer networks enhances the scope for using information generated in such a tracking process in a comprehensive manner and capitalise on every opportunity to maximise efficiency in logistics.

Bartronics has so far focussed on the manufacturing sector and has a clientele that includes frontline players in several industries. Even as opportunities open up in this space, we expect retailing to emerge the major avenue for such services in India. Domestic retailing companies appear to be moving gradually towards comprehensive tracking information as it improves inventory management, ensures superior control over payments and billing, and enhances the ability to stock fast-moving products. Recently, they indicated that such information should be made mandatory. As suppliers benefit from such systems, we expect the market to grow at a rapid pace over the next five years.

As FDI in retail is only a matter of time in the Indian context, the entry of global majors will also lead to adoption of best practices. If their outsourcing from India increases in the process (as has happened in China), it could boost the product-tracking services.

But the demand for the more contemporary tracking services is likely to improve only when prices decline to form a small percentage of the cost of a product. This is likely to happen over three/five years as demand for such products rise in the global markets, driven by initiatives by companies such as Wal-Mart, Metro and Carrefour, to name a few. Declining costs of technology processors will also further the process. As security concerns mount across the globe, tracking services in airports, Railways and where people congregate, will offer a revenue opportunity. Bartronics has implemented people management systems in Vaishno Devi and Tirupati and this should stand it in good stead to tap opportunities driven by security concerns.

We also note that the company, despite its small size, has pursued growth using debt, and managed to service it comfortably. Now, it aims to use the offer proceeds to acquire a debt-free status, the savings in interest cost will boost earnings. Expansion of its service network, and investment in a research and development facility are likely to prove beneficial over the longer term.

The principal risks to our recommendation are a threat from global players which may eye the Indian markets, and the possibility of a decline in profitability levels. The risks of a small-cap status will be neutralised by commensurate returns. Buy with a one-to-two year perspective.

Offer details: Bartronics is offering 6.5 million shares and will mobilise Rs 40 crore-50 crore depending on the pricing. The offer opens on December 20 and closes on December 24. The lead managers to the book-built offer are Karvy Investor Services and Centum Capital. The final offer document is available on www.bartronicsindia.com and www.sebi.gov.in

