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Confusion About Moser Baer Could Limit Stock's Valuation

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30 rupees the firm paid in 1998. Since then, though, the stock has fallen 22% to end at 265.9 rupees on Thursday.

Should investors, be buying? Even if they wanted to, there isn't always much stock to go around. "**No matter how excited a public institutional fund gets about this stock, there's very little it can do to consummate that excitement," says Jon Thorn, managing director at Mauritius-based India Capital Fund, about the company's lack of liquid free float.**

At the moment, information about the company is also in short supply, and investors aren't likely to get a straight answer from the handful of analysts who cover the stock. Few would comment on the record to support their published research, and one, when asked why Moser Baer's valuation is so low relative to its peers, replied: "We're working on it."

Fewer still could quantify how Moser Baer achieves its huge margins, aside from simply citing lower labor and manufacturing costs without being able to give a comprehensive breakdown of per-unit production costs.

One, trying to explain what he concluded were Moser Baer's cost savings on power of 75% compared with Taiwan rivals, reached for the law of gravity. "Taiwan CD-R factories are located on several floors, while Moser Baer's factory is all on one floor," he observed. "Maybe it requires more power to move things vertically than horizontally, because it takes more traction and energy to move upward than sideways." The analyst, who works for an investment bank, asked not to be identified.

A Salomon Smith , Bamey, report speculates- that Moser Baer negotiated a lower royalty payment to Philips, which holds a patent for CD-Rs, and that this lower fee helps boost its margins. Ritek spokesman Shaun Lee was upfront about the issue. "Ritek's royalty payment is 3.5 to four cents per unit, and it's the same for the whole industry."

Ratul Purl, Moser Baer's executive director, family scion and investor-relations manager, concurs. And for every other piece of speculation offered up by analysts and fund managers, the 30-year-old Mr. Purl counters with a watertight answer and hard numbers.

On royalty payments: "Everybody has the same royalty agreement with Philips." On higher margins: "Our labor costs are 4.7% of total operating costs compared with roughly 15% for our Taiwan competitors, where it amounts to about 10% of the selling price. That accounts for half of our gross-margin differences with the Taiwanese." On proprietary-technology savings: "We are able to coat one disc [with dye chemicals] in about six to seven seconds compared with the conventional process that takes eight to 10 seconds. That improves capacity [now 760 million pieces per year], resulting in 25%-to-30% cost savings." He also said the technology enables the company to price some products 10% to 30% higher.

If only Mr. Purl was able to get his message across more effectively to analysts and investors, maybe Moser Baer's valuation could actually rise. "We are not that well-known outside of India and we need to be more aggressive at marketing ourselves internationally," he says. Until then, It seems best to get to know this company one-on-one, and to, give the storytellers a wide berth until they can sort out fact from fiction.