

### IPO Note

### Allied Computers International (Asia) Ltd

**Do not Subscribe**

#### IPO Details

Face Value	Rs. 10
Offer Price	Rs. 12
Issue Opens	October 19, 2007
Issue Closes	October 23, 2007
Bloomberg	ACIA IN
BRLM	CIL Securities Limited
Registrar to issue	Bigshare Services Private Limited
Shares on offer for sale	5 mn

#### Pre issue shareholding pattern

Shareholders	% Stake
Promoters	84.1
Non-Promoter Group	15.9

#### Post issue shareholding pattern

Shareholders	% Stake
Promoters	62.0
Non-Promoter Group	38.1

#### Segmented Allocation

QIBs	500,000
Public	4,500,000

#### IPO Details

	Offer Price
Offer Price	Rs. 12
Equity Shares prior to issue (mn)	14.0
Fresh Issue of shares (mn)	5.0
Total Equity Shares (mn)	19.0
Share Capital (mn)	Rs. 190.0
Implied market cap (mn)	Rs. 228.0
Debt (mn) (as on 30/06/2007)	Rs. 58.8
Cash (mn) (as on 30/06/2007)	Rs. 1.5
Implied EV (mn)	Rs. 285.3

Established in 2002, Allied Computers International Asia Ltd (ACi) is engaged in the business of assembling and marketing of laptops. It has two divisions: assembling of laptops and chip level repairs of laptop hardware. The Company also undertakes services and maintenance contracts of all branded laptops and their parts.

ACi plans to increase production volumes, strengthen its distribution network, and enter into the bio-metric based applications industry. The Company is also exploring opportunities to launch a laptop for less than Rs. 15,000.

ACi is planning to raise Rs. 60 mn by offering 5 mn shares at an offer price of Rs. 12 for Rs. 10 face value share. The proceeds will primarily be utilised to set up a unit at Vasai, Mumbai to undertake major repairs and to recycle faulty motherboards in volume and undertake contracts from suppliers of laptops from Taiwan and China.

#### Valuation and Recommendations

The Company at FY07 P/E of 14.8x at the offer price is at a premium of 80.1% to its peer group average of 8.2x. Further, on the basis of EV/EBITDA multiple, the issue is over priced.

ACi's ROE for FY07 stood at a meager 7.3%. Besides, factors such as dependence on limited number of vendors, stiff competition from industry majors, poor customer satisfaction, and negative operating cash flows do not support such high valuation. We recommend the investors not to subscribe to the issue.

#### Valuation Analysis

	EV (Rs. mn)	P/E Ratio	EV / EBITDA
Zenith Computers Limited	1,129	3.9x	3.7x
HCL Infosystems Limited	38,808	12.2x	9.6x
MRO-TEK Limited	519	8.5x	3.3x

#### Peer Group Average

	EV (Rs. mn)	P/E Ratio	EV / EBITDA
Peer Group Average		8.2x	5.5x
Allied Computers International (Asia) Ltd.			
Offer Price	285	14.8x	10.1x
Premium / (Discount) to Peer Group			
Offer Price		80.1%	83.2%

### IPO

#### *Issue details*

ACi has planned an initial public offering of 5 mn equity shares. The promoters hold 84.1% of the issued and paid-up share capital of the Company. After the issue, the promoters will own 62% of the post-issue paid-up equity share capital. The Company has reserved 4.5 mn shares for retail investors and 0.5 mn shares for allotment to QIBs.

#### *Issue objective*

The IPO is being carried out to raise funds to develop and expand the Company's business. The main objects of the issue are as follows:

- To set up a Global Laptop, TFT and other equipments service centre at Vasai, Mumbai, and
- To meet the issue expenses.

<b>Funds required for</b>	<b>(Rs. in mn)</b>
Building and Infrastructure	30.00
Plant & Machinery	38.80
Electrical Equipments	2.50
Furniture & Fixtures	1.80
Public Issue expenses	4.70
<b>Total</b>	<b>77.80</b>

<b>Means of Finance</b>	<b>(Rs. in mn)</b>
Proceeds from the proposed public issue	60.00
Term Loan from Andhra Bank	17.80
<b>Total</b>	<b>77.80</b>

### Promoters

The promoter of the Company is Mr. Hirij Kanji Patel. He holds a BSc (Hon) degree in Avionics and has worked with a team of top missile scientists in the R&D section of the Guidance Weapon Division of GEC Avionics and British Aerospace plc. He has extensive experience in the field of software development, hardware (digital electronics) design, and mathematical modelling. Prior to forming the company, he worked as a commercial software consultant for over six years.

### Rationale

#### *Unimpressive operating performance*

ACi's revenues have grown at a CAGR of 73.2% over FY03-07. Though operating margins have improved successively, the growth has been slow and uninspiring. Rising depreciation costs and interest expenses have resulted in low PAT margins in the range of 0.4%-4.2% since ACi's inception in FY03. The Company's debt burden has increased from Rs. 7.9 mn in FY03 to Rs. 58.8 mn in FY07. ROE stood at 7.3% in FY07, having fluctuated between 3.7% and 9.3% over FY04-06.

The fact that the Company may have to invest heavily in its sales and marketing channels, might put additional pressure on its razor-thin margins, further compounding its problems.

Moreover, considering the negative operating cash flows over the past several years, declining inventory turnover ratio and rising DSO, we believe that ACi would face problems in meeting its working capital requirements.

#### *Weak and incompetent distribution channels*

ACi depends on a limited number of vendors for the supply of its products. The Company operates in a segment which is volume driven and it has not been able to garner a substantial market share due to its limited distribution network. Moreover, since the Company does not have any long term contracts with its distribution partners, it is exposed to fluctuations in the demand environment.

#### *Concerns over customer satisfaction in the wake of stiff competition*

The Company offers laptops at breakthrough prices. However, on account of inadequate distribution channels, ACi has not been able to capitalize on the potential market opportunity. Additionally, the quality of laptops manufactured by the Company is not impressive as a number of customers have complained about faulty configuration of its products in the Consumer court.

The inability to capitalize on emerging market opportunities coupled with intense competition from industry majors such as IBM, Lenovo, Compaq, Dell and HP puts ACi in a tough situation.

*Delay in implementation of proposed expansion plans*

ACi has not entered into any agreement for the acquisition of the identified manufacturing site in Vasai, Mumbai or for the procurement of the equipment/machinery required for the expansion. Any delay in the above process might result in price escalations, which may affect the Company's financial performance.

**Outlook**

Established in 2002, ACi operates in a sector which is characterized by frequent technology changes and intense competition from industry majors. The Company marked its entry into the market with the introduction of low-priced assembled laptops. However, it has not been able to garner a decent market share on account of various factors which include dependence on limited number of vendors, poor consumer satisfaction, and inadequate distribution channels. Further, low operating margins, meager ROE, rising debt burden, and negative cash flows add to the woes of the Company.

ACi plans to foray into the bio-metric based applications industry, which requires high technological expertise. However, it will not be easy for the Company to establish itself as it will face stiff competition from players like Bartronics, HCL Infosystems, and Tata Elxsi.

The Company at FY07 P/E of 14.8x at the offer price is at a premium of 80.1% to its peer group average of 8.2x. Further, on the basis of EV/EBITDA multiple, the issue is over priced. Based on our analysis of the Company, we recommend the investors not to subscribe to the issue.

**Company Background**

ACi (Asia) was established in India in May 2002 to promote the notebook specialist brand 'ACi'. The Company is engaged in the business of assembling and marketing of laptops. It has two divisions: assembling of laptop/notebook computers, and chip level repairs of motherboard, screen, digital versatile disc (DVD) and hardware of all brands of laptops. In addition, it has a software division that is developing software related to hardware used to perform reverse engineering and fault diagnosis of populated printed circuit boards (PCBs), together with explorations of security-enhanced applications by use of biometric technology.

The Company also undertakes service and maintenance contracts of all branded laptops under PC Protect Plan to repair and service laptops and its parts including motherboards, TFT screens, inverter cards, optical drives, and keyboards. The plan, backed by assurance companies, covers laptops for all types of major and minor repairs and replacements and has been sold to corporates, bank, insurance companies, and SME sector. ACi has its own marketing network in metros and mini metros with dealers and stockists at Mumbai, Kolkata, Ahmedabad, Pune, Bangalore, Hyderabad, and Delhi.

The Company has service setup at its registered office at Mumbai with in-house equipments and machines for service and repairs of laptops. Presently, the manufacturing capacity is 1,000-1,200 units per month. The Company's notebook assembly-cum-manufacturing EHTP plant was established in Dec 2004 in Gandhinagar, Gujarat and facilitates manufacturing/assembly of 1,000 to 2,000 notebooks per month.

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