

Gulshan Sugars & Chemicals Ltd

Avoid

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Ratings & Recommendation

(all ratings on a scale of 1 of 5)

Business attractiveness	:	3
Management track record	:	3
Offer pricing & valuation	:	1
Overall rating	:	2
Expected listing price band	:	-
RECOMMENDATION	:	AVOID

Offer details

Offer period	:	22-28 Nov 2006
Lead Manager(s)	:	SREI Capital Markets Ltd
Price	:	Rs 40
Total shares (m)	:	6.6
Retail	:	3.3
Others	:	3.3
Amt to be raised	:	Rs264m
Post issue Equity	:	Rs102.5m

Purpose: To fund expansion of ground calcium carbonate capacity by 20,000 tpa and power generation capacity by 3mw

Promoter: Mr. C K Jain

Promoters' stake

Before issue: 72.97%
After issue : 35.38%

Project cost & funding

Project cost	Rs m
Calcium Carbonate unit	104
Captive power plant	100
Working capital	61
Other exp.	78
Issue exp	31
TOTAL	374

Means of funding	
Issue proceeds	264
Term Loan	80
Internal accruals	30
TOTAL	374

Business attractiveness

- Unlike the name, Gulshan Sugars is not in the sugar business. It is one of India's largest manufacturers of calcium carbonate with a capacity of 70,000 tpa, and captive power generation capacity of 3mw.
- Calcium carbonate finds application across diverse industries like tooth paste, paints and coatings, PVC, Plastic, rubber, pharmaceuticals and paper.
- Gulshan has clients across sectors and include leading names like Colgate, HLL, Nirma, Asian Paints, Berger Paints, Bata, Novartis and E Merck.
- Gulshan is now raising funds to set up a 20,000 tpa ground calcium carbonate plant, focused on the paper industry. It is also increasing its power generation capacity by 3mw.
- Gulshan's topline is flat for the last 3 years, partly due to competition from the unorganized sector. Overall, its business is moderately attractive.**

Management track record

- Dr. C. K. Jain, MD has been associated with the company since its inception in 1980 and has over 33 years experience in calcium carbonate industry.
- The company has managed to improve its PAT despite flat sales due to good cost management. However, RoCE continues to be low, and overall quality of management could be improved.**

Offer pricing & valuation

- Gulshan's offer is at 8.8x FY06 EPS of Rs4.5. However equity dilution is over 100%, and EPS growth going forward is likely to remain muted.
- We recommend AVOID.**

FINANCIALS

	Rs m		
Year ending	FY04	FY05	FY06
Net sales	429.8	417.2	412.7
% growth	4.5	-2.9	-1.1
EBITDA	64.4	64.2	68.2
EBITDA margin (%)	15.0	15.4	16.5
PAT	19.0	21.8	28.1
PAT margin (%)	4.42	5.22	6.80
RoE (%)	16.21	16.57	18.52
RoCE (%)	10.68	10.74	11.84
Debt-equity (x)	2.40	2.08	1.85
Equity (Rs8 face value)	49.7	49.7	49.7
EPS (Rs)	3.1	3.5	4.5
% growth		14.7	28.8
Book value (Rs)	18.8	21.2	24.4