

Sector : Packaging (Aluminium Foils)

ESS DEE Aluminium Ltd.

AVOID

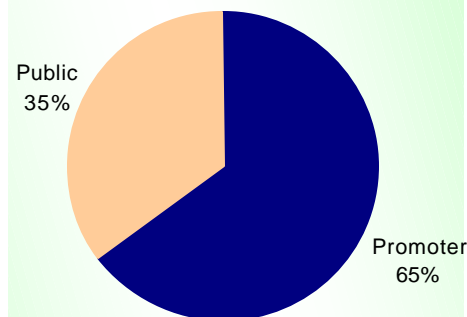
IPO Details

Issue Size (mn shares)	6.96
Issue Size (Rs bn)	1.4 - 1.6
Face value (Rs)	10
Issue Price Band (Rs)	200 - 225

Issue Opens on : Dec 4, 2006
Issue Closes on : Dec 8, 2006

Pre issue share capital : Rs.194.5mn
Post issue share capital : Rs.264.1mn

Shareholding Pattern – Post Issue



Lead Managers:

UTI Securities Limited
Enam Financial Consultants Private Limited.

Company Regd Off. :

Plot No. 124-133, Panchal Udyog Nagar,
Bhimpore - 396210
Tel: +91 - 260 - 2220314 / 15
Fax: +91 - 260 - 2220316.

Company Corp Off. :

Vidya sagar, 4th Floor,
Western Express Highway,
Malad (E) Mumbai - 400 097.
Tel: +91 - 022 - 66919955.
Fax: +91 - 022 - 66940985.
Web site: www.duttagroup.in

About the Company

Ess Dee Aluminium Ltd. was incorporated as Ess Dee Aluminium Private Ltd. on 10th February 2004 under the Companies Act, 1956, with its registered office at Plot No.124-133, Panchal Udyog Nagar, Bhimpore, Daman-396210. Subsequently, it was converted into a Public Limited Company as Ess Dee Aluminium Ltd. on 14th June 2006. The company deals in the business of cold rolling of aluminium "foil stock" to aluminium foil, which is further converted into "printers stock" through the process of lamination for strip pack or coating for blister pack.

The object of the Issue is to raise capital for part financing the funds required for:

- ✍ Setting up of additional manufacturing facilities for aluminium foil based packaging products at Daman (amounting Rs1148mn)
- ✍ General Corporate Purposes
- ✍ Meeting the Public Issue Expenses

Valuations : The net sales for FY06 and H1FY07 have been Rs625mn and Rs477mn respectively. Although the company looks attractive on the basis of the operating and net income margins, if we consider the valuations with respect to P/E ratio we think that the company is issuing the shares at high premium. Going ahead in FY07 the post equity shares would be 26.4mn and we think the EPS of the company to be around Rs5 which will give P/E multiples of 43x on lower band price and 49x on upper band price. Also considering the risks associated with the current project which far outweighs the rationales given for the issue price, we recommend investors to avoid the issue at the stated price band of Rs200 to Rs225.

Key Data

Figures in Rs mn	FY05	FY06	H1FY07
Net Sales	82	625	477
% growth	-	662.2	na
Total expenditure	75	474	357
EBITDA	7	150	119
EBITDA margin (%)	8.9	24.1	25.0
Other Income/losses	0	11	3
Depreciation	1	7	3.7
Interest	5	36	17
PBT	1	118	102
Taxes	4	20	12.6
PAT	(3)	98	90
PAT margin (%)	-	15.7	18.8
Equity Capital (mn shares)	-	7.5	19.4
EPS(calculated)	-	13.0	5
P/E (lower band)	-	15	43
P/E (upper band)	-	17	49

Source: Company & Religare Research

Rationales given for the Issue Price:

- ✍ **Strong Customer Base:** The company has a Customer base of over 250 customers like Pharmaceutical MNC, Indian Pharma majors and small scale industries. The top six customers including wholly owned subsidiary, Flex Art Foil Private Limited, accounted about 85% of the sales volume.
- ✍ **Multi product Relationship with Large number of customers:** The company wants to be in a position to give customers benefits of better solutions to their packaging needs under one roof.
- ✍ **Technical Base:** The company boasts of qualified team of technocrats and in-house research and development capabilities.
- ✍ **Strategic locations:** The company has two manufacturing units, one at daman and other at Goa. Its subsidiary has four units located at Daman, Goa, Vasai and Baddi.

Business Mix: The company is in the business of cold rolling of aluminium “foil stock” to aluminium foil, which is further converted into “printers stock” through the process of lamination for strip pack or coating for blister pack.

Its Product range consists of aluminium foil and pvc based packaging materials to the Health Care Industry:

- ✍ Aluminium strip pack foil
- ✍ Aluminium blister pack foil
- ✍ PVC film
- ✍ PVDC coated PVC film
- ✍ Cold form alu alu laminate
- ✍ Child resistant laminates
- ✍ Laminates for oral rehydration salts, cough lozenges and anti TB kit

Capacity Details of Daman Unit I & Proposed Unit III are mentioned below:

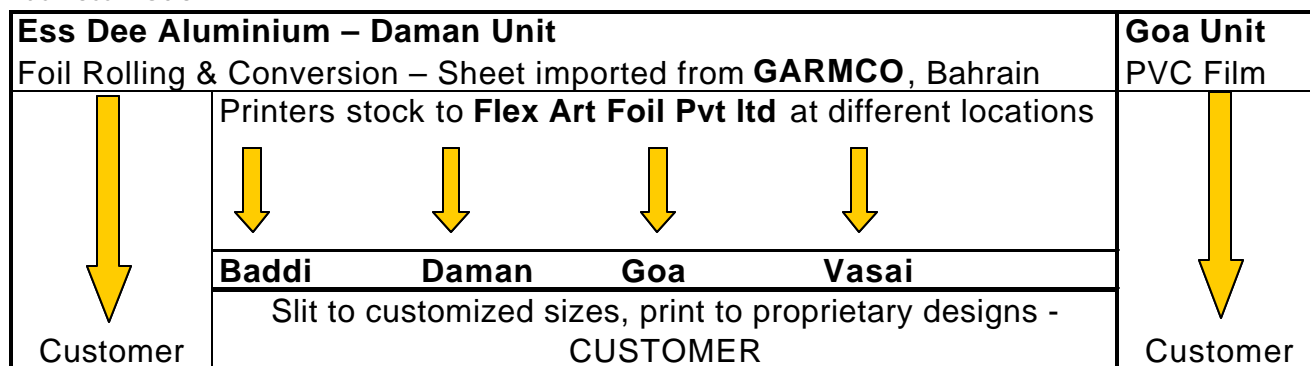
Year	2004-05 (A)	2005-06 (A)	2006-07 (P)	2007-08 (P)	2008-09 (P)
Installed Capacity (MTPA)	3600	3600	9100	18000	18000
Annualised Capacity Utilisation (%)	31.93	67.81	58.09	64.96	77.78
Commercial Production (MTPA)	479	2441	5286	11693	14000

(A): Actual (P): Projected

Capacity Details of Goa Unit II are mentioned below:

Year	2003-04 (A)	2004-05 (A)	2005-06 (A)	2006-07 (P)	2007-08 (P)	2008-09 (P)
Installed Capacity (MTPA)	4200	4200	4200	4200	5800	5800
Annualised Capacity Utilisation (%)	30.98	51.95	52.48	85.71	81.03	94.14
Commercial Production (MTPA)	1301	2182	2204	3600	4700	5460

(A): Actual (P): Projected

Business Model:


The company proposes to set up a new unit at Daman to enhance the product portfolio for food and FMCG packaging products.

Risk Factors:

- ✍ **Import of second hand Plant & Machinery of Rs358mn:** The proposed import of Plant & Machinery of Rs358mn constitutes 40.43% of the total cost of Plant & Machinery required for the Project. They are not covered by the warranty of the manufacturers.
- ✍ **Negative cash flows from operating activities during H1FY07 and FY06:** Cash flows from operating activities for H1FY07 were negative due to increase in the amount of inventories and debtors aggregating Rs48mn and Rs193mn respectively. The same were negative for FY06 due to increase in amount of inventories, debtors and other

current assets aggregating to Rs43mn, Rs19mn and Rs28mn respectively.

- ✍ **Sales Volume dependent upon wholly owned subsidiary Flex Art Foil Private Ltd.:** The company sells about 57% of the products to the wholly owned subsidiary which in turn prints and sells aluminium foil based packaging products to its customers.
- ✍ **Dependent upon one supplier for Aluminium Sheets, which constitutes the largest component of raw material costs:** The company imports Aluminium sheets from one supplier namely, GARMCO, Bahrain. Any problems faced by GARMCO could adversely impact the business of the company.
- ✍ **Volatility in aluminium prices may have a negative impact on the company's performance:** The company would be severely affected if it is not able to pass any increase in the cost of aluminium to the customers.
- ✍ **The project size of Rs1148mn is very large in comparison to its current size of operations:** The project involves expansion of foil rolling capacity from 3600 MTPA to 18000 MTPA, which is about five times of the existing capacity. Further, the Project size is about 6.6 times of total networth of the company as at 31st march 2006. The success of the project heavily depends upon the management's capability.
- ✍ **The company have not obtained any Banks' or Financial Institutionals' appraisal for the project.**

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