

Research Analyst

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IPO Analysis

Midfield Industries Ltd.

Sector: Packaging
Date: 20th July 2010
IPO Highlights

No. of Shares Offered	45,00,000
Price Band (Rs.)	126-133
Issue Size (Rs. Cr)	56.70-59.85
Face Value (Rs.)	10
Date of Opening	19 th July 2010
Date of Closing	21 st July 2010

Object of the Issue

- Expansion of capacities at the existing plants, estimated fund requirement of the company is Rs. 22.265 cr.
- Setting up new facilities, where estimated fund requirement of the company is Rs. 16.954 cr.
- Augmenting long term working capital requirement of the Company is estimated at Rs. 5.037 cr.

Share Holding Pattern (in %)

	Pre Issue	Post Issue
Promoters	79.76	51.77
Directors & key mgmt personnel	14.88	9.66
Others	5.36	3.48
Public	-	35.10

Company Snapshot

Midlife Industries Limited established in the year 1991, the company was formerly known as Midfield Steels Pvt Ltd. Ever since the inception, company has grown in multi-fold in Industrial packaging Products, Services, Solutions and volumes.

Midfield Industries Ltd, promoted by Madhu Mohan Reddy and his wife M. Supraja is amongst the few players in the organized segment of packaging industry catering to the growing demand for Industrial packaging consumables in India. Midfield Industries is one of the leading manufacturers of Steel Strapping, Seals, packaging tools and accessories in India. Midfield also manufactures Angle boards, edge protectors, collated nail coils and deals in pneumatic nailers and PET Strap. It caters to companies across a wide spectrum of industries like steel, aluminum, glass, copper, paper, automobile, white goods and refractory.

The company provides comprehensive end to end packaging solutions to its customers at their locations which enables them to focus on their core products and competencies. The endeavor is to position itself as a one-stop shop for complete packaging solutions. Given their long year of experience in manufacturing and marketing of industrial packaging consumables they understand the packaging requirements of their clientele and serve both domestic, as well as, international markets. To position themselves as a "one stop shop for end to end packaging solutions".

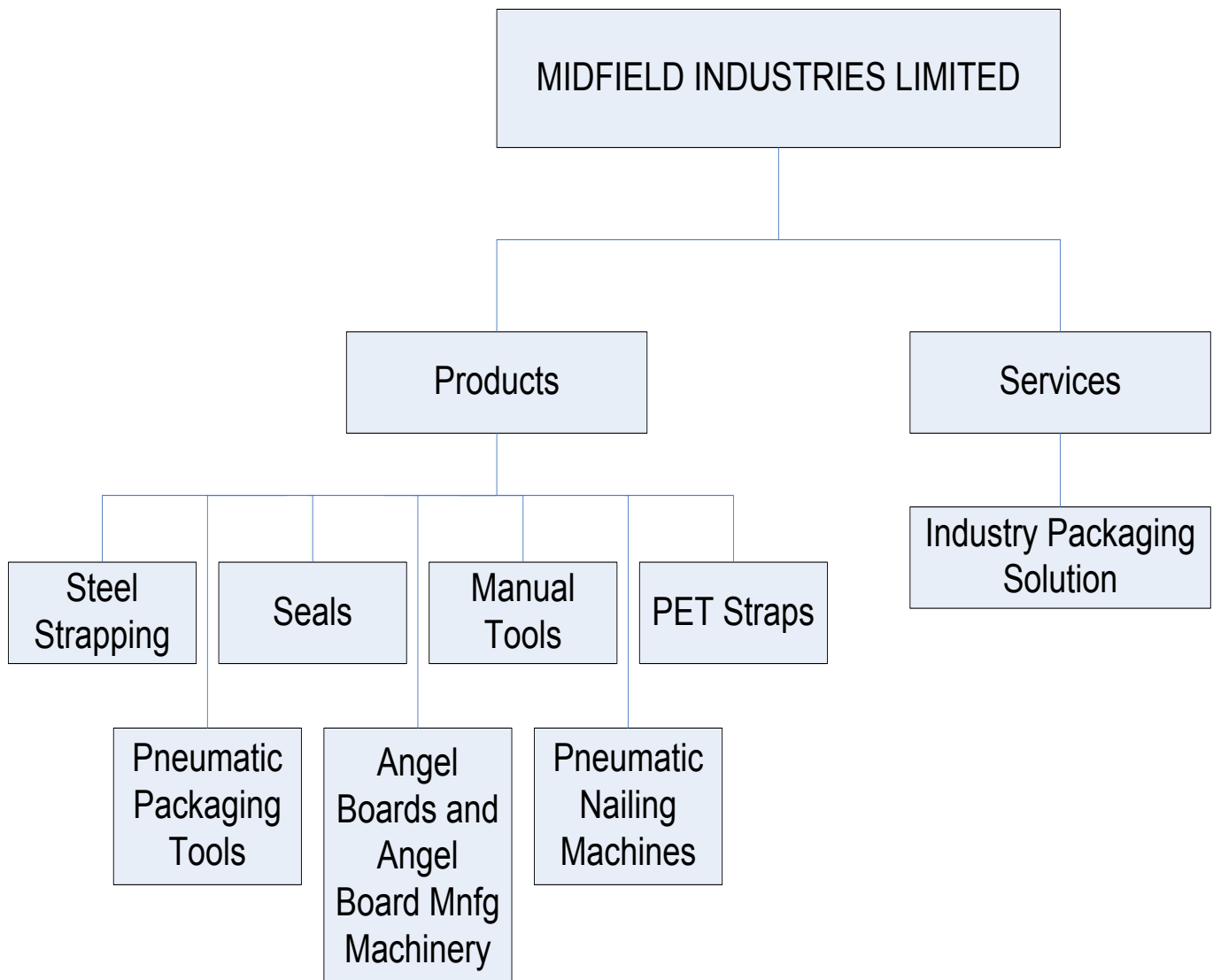
Besides, expanding their reach across India they also set their footsteps in overseas markets. With a modest beginning in the year 2001; when they exported their first consignment of steel strapping to Sri Lanka, while currently, they export to USA, UK, Canada, South Africa, Australia and Middle East countries to mention a few. For the year ended March 31, 2009 exports have contributed 9.88% of our total

Source: Red Herring Prospectus

Products & Services Offered

Products manufactured for the industrial packaging products are steel strapping, seals, manual tools, pneumatic packaging tools, angle boards, PET strap, pneumatic nailing machines and angle board manufacturing machinery.

As manufacturer suppliers of Steel Strapping and accessories, Midfield undertakes complete packaging solutions at customer's place. It offers complete survey, field engineering with regard to identifying the appropriate, economical and competitive packaging solutions for the customers, based on which, Midfield designs and develop the most suitable packaging system for the Customer. The other kinds of services provided are after sales services, turn-key packaging contracts, packaging equipment maintenance, suggestion of the best system, technical and engineering resources for on-going packaging needs, designing optimum protective packaging systems. Industry packaging solution are mainly provided to Metal and Paper Industry.



SWOT Analysis

Strengths

Niche segment of Industrial Packaging

We are in niche segment of industrial packaging offering a complete bouquet of industrial packaging consumables and catering to the growing demand of packaging material required by various medium & large scale manufacturing companies in India & abroad.

Well established Brand

We have been in this industry for over 15 years and our brands 'Mega Supreme' and 'Supreme' are established in the industry.

Operational Contracts: One stop solution

We provide end to end solutions to our clientele & position ourselves as 'One Stop Shop' for their packaging needs providing complete packaging solutions to them at their production site.

Large clientele: Strong customer retention

We currently cater to more than 500 customers both in domestic and international market from various sectors and have a strong relationship with our customer as is evident from the repeat orders received from majority of them. It hedges us against downturn or slowdown in any particular industry.

Focus on Process Innovation

Our focus has been on delivering quality products to the customers. We endeavor to innovate and improve on the processes involved in the manufacture of our products particularly strapping.

Experienced Management

Our company is managed by team of qualified professionals with a varied experience in the packaging industry ranging from production to marketing. Our key managerial personnel have experience in various facets of this business like Strapping, Operational Contracts, Collated Nails and Finance.

Adherence to strict Quality Standards

We maintain high quality standards in manufacturing of packaging consumables as well as in performance of Operational Contracts. Our commitment towards quality is amply demonstrated by the repeat orders from our clients over a period of time.

Weakness

Capacity Constraints

Demand for industrial packaging in India has grown drastically over a couple of years. We have not been able to expand capacities to meet the growing demand.

Financial Constraints

To achieve an aggressive growth in business, infrastructure needs to be developed & upgraded at regular intervals. Setting up of the requisite infrastructure and thereafter gradation thereof entails capital expenditure. We are unable to expand aggressively due to financial constraints.

SWOT Analysis

Opportunity

Spurt in demand

Last couple of years has witnessed a strong growth in manufacturing sector which in turn has led to strong growth in consumption. The advent of globalization wherein the international players have become an integral part of the business fraternity which has resulted in packaging now being looked upon as a necessity than being a mere product. As a result domestic players have started demanding quality packaging product which would spurt the overall demand. Companies

across sectors have increased their production capacities which have resulted in an increase in demand for industrial packaging products. Despite present market situation we believe that there would be a strong demand of these products as soon as the economy upturns which will provide us with an opportunity.

Wider Range of products

Strong vendor consolidation practices currently being pursued by the companies would tend to limit the number of vendors. In the present downturn the vendor consolidation is likely to be pursued more aggressively. Thus widening the range of products being offered to the client will be of utmost importance to encash on the opportunity. Complete bouquet of industrial packaging consumables will enable us to be competitive & enable us cater to our clients economically & efficiently.

Huge export potential

The demand for industrial packaging consumables is increasing especially in Middle East markets as well as Australian subcontinent. By setting up production capacities in Shrajah, UAE we shall be able to tap the potential of the overseas market.

Threats

Downturn in the Economy & the Globe

The downturn in the economic activities in India and around the Globe for a longer duration would slow down the projected growth, as the companies are likely to put on hold their expansion plan owing shrinking demand which in turn would affect our demand and consequently our growth.

Competition with ITW an MNC in Operational contract space

We are competing with ITW Singnode India Limited in operational contracts space. They have a relatively stronger balance sheet and better band-width than us, which gives them a competitive edge over us.

Fluctuating prices of Raw material

The fluctuation in the price of steel and commodities as witnessed in the recent past would adversely affect our ability to maintain uninterrupted supply of raw material. Our inability to adequately cover these fluctuations in the orders procured by us would affect our margins. However, we are taking care of this aspect by incorporating an escalation clause in our contracts with our clients.

Competitors

Midfield Industry is into niche segment of Industrial packaging where competition is between few existing players both in domestic and international market. Their competition depends on the products being offered in the organized segment besides several other factors like quality, price, capacity to deliver etc. Competition emerges not only from organized sector but also from the unorganized sector and from both small and big players.

In an organized industrial packaging segment company face competition from ITW India Ltd. In the international market they face competition from ITW Ltd, M.J. Mailis Ltd. and companies having low capital base especially from countries like China, Other than these, they have competition from companies which manufacture packaging consumables and are selling it as a commodity rather than systems. Most of the end-users for some of their products are price conscious. Pricing is one of the factors that play an important role in selection of the product.

Major Customers

Company continued focus on delivering quality products and nurturing their customers over the years has resulted in their customer base growing from 25 as on March 31, 1993 to over 500 customers located in India as well as internationally in the year ending March 31,2009. Company having more than 500 customers, where top 10 customers gives 50% of the business.

Their major customers for their products in the domestic market are Essar steel Ltd, Narbada steels ltd, Saint Gobain glass India Ltd, Rashtriya Ispat Nigam Ltd, Steel Authority of India Limited (SAIL), Bharat Aluminium Company Limited (BALCO), Tata Steel Limited, National Aluminium Company Limited (NALCO) and Hindalco Industries Ltd.

On an average, 90% of revenue comes from the domestic market and rest from exports. In FY 2009, exports contributed 10% of net sales. The figure dropped to 3% in FY2010 mainly due capacity constraints.

Projects in the pipeline

With the business growing across geographies they took a considered decision of setting up manufacturing facilities at certain key locations in India. Setting up a unit for manufacturing of angle boards unit in Roorkee, Uttranchal was the first step in this direction. Currently they are in the process of setting up facilities for manufacturing of low tensile steel strapping with an installed capacity of 6,000 MTPA in Thane Dist. Maharashtra. The plant is expected to be operational by the end of Financial Year 2010. This plant is being financed by a combination of internal accruals and debt.

To tap the overseas market, setting up of manufacturing facilities is proposed at Sharajah, UAE from the proceeds of the issue. Going forward the company proposes to set up facilities for the manufacture steel strapings at Rourkela. The company had applied to Orissa Industrial Infrastructure Development Corporation, Orissa for allotment of land/shed which has been recommended for allotment by the corporation. The structure for financing the same would be decided at an appropriate time.

Valuation

The company is the packaging space and has no direct competitor to its products. Though it trades at a premium to its closest competitors who trade at a P/Ex of 5x-10x. At the issue price the company will command a significant premium over its peers and is valued at 19x-21x FY2011 with an expected EPS of ~Rs.7.5. We believe that the company will not be able to sustain the high premium and giving the most conservative outlook, the company should trade at a multiple of 15x-16x giving its stock a value of ~Rs.111-120. We have taken this approach as we believe that the company should not be trading at such a premium over time and also having said that, it should not be compared directly with the peers price multiples. Hence we are neutral to the valuation of the company and believe that the issue price discounts the company's potential very well.

<i>Particulars</i>					<i>Pre</i>	<i>Post</i>	(Rs Cr)
	2006	2007	2008	2009	<i>Issue</i>	<i>Issue</i>	
Net Sales	39.84	50.95	64.48	80.33	87.73	87.73	105.19
Total Income	39.94	51.18	64.84	81.09	88.21	88.21	105.19
Total Expenditure	33.97	43.81	53.3	64.94	68.76	68.76	82.17
PBIDT	5.97	7.37	11.54	16.15	19.45	19.45	23.02
Interest	2.37	3.22	4.25	5.77	5.53	5.53	5.65
PBDT	3.6	4.15	7.29	10.38	13.92	13.92	17.37
Depreciation	0.87	0.8	0.91	1.69	1.51	1.51	2.40
Tax	1.22	1.47	1.96	3.01	4.34	4.34	5.42
Reported Profit After Tax	1.71	1.87	4.16	5.91	8.14	8.14	9.55
Equity	4.1	6.87	8.07	8.32	8.32	12.82	12.82
Face Value	10	10	10	10	10	10.00	10.00
EPS	-	-	-	7.1	9.78	6.35	7.45

Valuation Matrix

Investment in the company will come in the "H-L" category, which indicates that the stock has a very limited upside and is fairly valued.

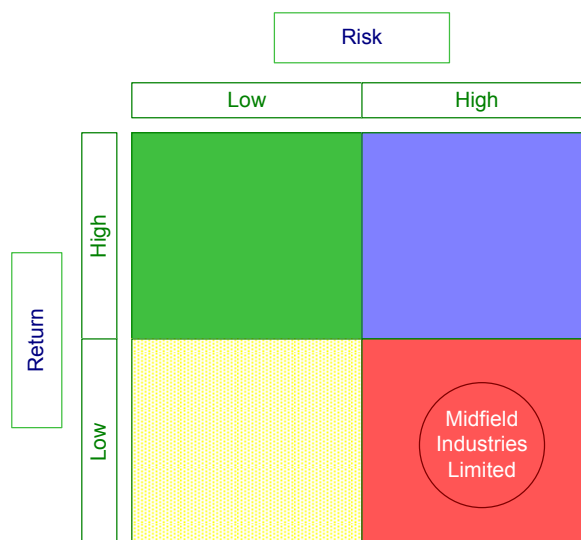
Key:

H-L - High Risk, Low Return (Coloured in Red)

H-H - High Risk, High Return (Coloured in Blue)

L-H - Low Risk, High Return (Coloured in Green)

L-L - Low Risk, Low Return (Coloured in Pale Yellow)



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