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 Industry : **Stationery**

Analyst:

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**IPO Price : Rs.90-105**
**Avoid**

Scrip Scan	Key Data		Shareholding (post issue)	(%)	
Face Value (INR)	10.00	No of Shares to be issued (mn)	8.78	Promoters	52.57
Premium (INR)	80-95	No of fresh shares issued (mn)	8.78	FII's	3.55
Equity Capital (Rs.mn) (pre issue)	262.25	Total issue size (Rs.mn)	921.38	Public	43.88
Equity Capital (Rs.mn) (post issue)	350.00	Issue Opens on	16th Nov'06	<b>Total</b>	<b>100.00</b>
Market Cap.*(Rs.bn)	3.675	Issue Closes on	22nd Nov'06		
*(at cut-off price)		Listing	BSE, NSE		

## Company Profile:

Blue Bird (India) Ltd (BBL) is one of the leading manufacturers of paper-based notebook products (student/exercise books), files, perforated pads, registers etc, with major presence in western India, especially in Maharashtra (96.9% of sales). BBL claims to have the highest market share of 48% among the organized peers in the Indian stationery market, which is largely (80%) dominated by unorganized players. BBL also deals in commercial printing of items like calendars, diaries, leaflets, product pamphlets etc, as well as publishing in-house produced contents. BBL has very low presence in the overseas market, which is to fulfill export obligation against EPGC scheme for equipment imported in the past.

## Segmental Revenue

Rs in million	FY04	FY05	FY06	H1FY06	H2FY06	H1FY07
<b>Student / Exercise Books</b>	1309.55	2960.61	3530.06	1727.16	1802.90	1946.24
YoY Growth %		126.1	19.2			12.7
As % of total revenue	80.4	89.5	88.0	86.2	89.9	82.1
<b>Publication</b>	199.24	198.12	242.36	162.78	79.58	199.87
YoY Growth %		(0.6)	22.3			22.8
As % of total revenue	12.2	6.0	6.0	8.1	4.0	8.4
<b>Commercial Printing</b>	119.65	123.66	157.94	79.83	78.11	202.33
YoY Growth %		3.4	27.7			153.5
As % of total revenue	7.3	3.7	3.9	4.0	3.9	8.5
<b>Export</b>		25.47	78.82	33.76	45.06	22.67
YoY Growth %			209.5			(32.8)
As % of total revenue		0.8	2.0	1.7	2.2	1.0
<b>Total Sales</b>	<b>1628.44</b>	<b>3307.86</b>	<b>4009.18</b>	<b>2003.53</b>	<b>2005.65</b>	<b>2371.11</b>
YoY Growth %		103.1	21.2			18.3

## Object of the issue

Nearly 53% of the issue proceeds will be deployed in the proposed green field plant in south India and expansion of the existing plant at Pune. The balance of the issue proceeds would be utilized for repayment of long-term debt, augmentation of working capital, ramp-up of marketing activity and purchase of existing office premises from the promoter, which is being operated on a rented basis.

- BBL is planning to set-up a manufacturing facility at a cost of Rs454.10mn (1/3<sup>rd</sup> of the issue proceeds) in south-India for which location is yet to be finalized. The plant is having a long- gestation period and is expected to commence operations in **Q4FY08**.

- BBL's expansion plant at existing Pune facility, entailing an investment of Rs260.72mn (1/5<sup>th</sup> of the issue proceeds) also have long gestation period and will start contributing to the revenue stream in Q2FY08.
- The promoter will garner Rs38mn for the purchase of current office premises they have let-out to BBL. The valuation for this building, having a built-up area of 4950sq ft @ Rs7677 per sq.ft seems high.
- No appraisal for the projects to be undertaken by BBL has been made by any bank and financial institutions, but is based on in-house management estimation.

Particulars (Rs in mn)	FY-2007	FY-2008	FY-2009	Total
Greenfield plant and expansion of existing plant	198.56	516.26	0	714.82
Capex for setting up Regional sales offices	25	50	25	100
Repayment of existing long term debts	192.36	0	0	192.36
Working capital augmentation	0	100	200	300
Purchase of current office premises from promoters	40	0	0	40
Replenishing internal accruals	3.68	0	0	3.68
Total	459.6	666.26	225	1350.86
<i>As % to total issue proceeds</i>	34	49	17	100

## Operating and financial performance

Revenue growth has tapered off in FY-2006 in contrast to earlier years. The slow growth momentum in revenue continues in the current year as well. In the first half of the current fiscal, revenue growth was insipid at 18.35%. Profit at net level also followed the trend of revenue and grew at a slower pace of 19.63% during the first half of FY-07. EBIDTA margin is stagnating around 13%.

- The leader in paper industry BILT has recently hiked paper prices w.e.f. Nov-06 and other major paper mills are planning a hike in writing and printing paper in January 2007. Since, paper constitutes 73.5% of raw material; any further hike in price in the 2<sup>nd</sup> Half of FY-07 will constrict the margin.
- BBL sells 79% of goods on credit basis of approximately 90days, whereas same sort of credit facility is not being enjoyed by BBL, resulting in negative operating cash flows in the past. Since, the business is working-capital intensive, such poor working-capital management does not bode well for future.
- BBL does not have any long-term contracts with customers and most of the agreements with customers are without any commitment to future work-orders. This indicates low loyalty of customers for the product off-take. In the industry, characterized by dominance of unorganized players, change of loyalty for the sake of better price is the norm, which makes growth of business quite hazy.
- BBL has entered the sub-Saharan African market for export in FY-2005, which saw good revenue growth of 209% on a very low base. But during H1FY07 export revenue declined by 32.9% to Rs22.67mn from Rs33.76mn in H1FY06. BBL has an export obligation of Rs526.06mn by 2014 due to import of equipments under EPCG scheme. The overseas market does not seem lucrative for BBL, and its presence in overseas market is merely to fulfill the export obligation.
- Although, BBL claims to have pricing power on the back of "Blue Bird" brand, but the same is yet to be registered as a trade mark for BBL. Launch of products by other players in "Blue Bird" name can not be ruled out in the absence of such trade-mark protection, which may affect negatively the financial of the company.

## Financials

(Rupees in million)	FY04	FY05	FY06	H1FY06	H2FY06	H1FY07
Total Sales	1628.44	3307.86	4009.18	2003.53	2005.65	2371.11
<i>YoY Growth %</i>		<b>103.13</b>	<b>21.20</b>			<b>18.35</b>
Total Operating Expenditure	1495.91	2968.08	3487.53	1745.87	1741.66	2060.52
EBIDTA	132.53	339.78	521.65	257.66	263.99	310.59
<i>EBIDTA Margin %</i>	<b>8.14</b>	<b>10.27</b>	<b>13.01</b>	<b>12.86</b>	<b>13.16</b>	<b>13.10</b>
Interest & Finance Charges	39.7	62.79	103.62	48.62	55	61.42
Depreciation	3.19	10.84	33.33	16.14	17.19	18.82
PBT before Other Income	89.64	266.15	384.7	192.9	191.8	230.35
Other Income	2.29	9.13	7.81	3.92	3.89	4.42
Miscellaneous Expenses	-0.01	-0.01	-0.06	0	0	0
Profit Before Tax	91.94	275.29	392.57	196.82	195.69	234.77
Provision for Tax	38.84	115.41	141.41	70.6	68.52	83.75
Effective Taxation %	42.2	41.9	36.0	35.9	35.0	35.7
Profit after Tax	53.1	159.88	251.16	126.22	127.17	151.02
<i>YoY Growth %</i>		<b>201.09</b>	<b>57.09</b>			<b>19.65</b>
<i>NPM %</i>	<b>3.26</b>	<b>4.83</b>	<b>6.26</b>	<b>6.30</b>	<b>6.34</b>	<b>6.37</b>
Equity Capital (post-issue)						350
EPS (annualised)						8.63
PE x @ Rs 105/-						12.17

## Valuation

The growth of the organized stationery market has been quite insipid. Further, in the organized market BBL will continue to find fierce competition from ITC and Navneet Publications, who have pan-India presence. Navneet's EBIDTA margin of around 20% (sustained for last 4 years) is far healthier than BBL, due to increasing exposure of the former to the publication business, which is more profitable than the paper stationery business. BBL has very small presence in publication business contributing only 6% to the revenue stream. BBL does not have much presence in south-India, where ITC is a major player in the premium segment. Now, that BBL plans to spread its wings in this market, it may find the going tough in the presence of ITC and Navneet. Navneet's entry into overseas market has not met with much success due to levy of anti-dumping duty by US. Hence, going ahead, export may not be a growth area for BBL. Navneet's FY-07 EPS (E) of Rs 4.77 is discounted 11.5x, the ruling price of Rs55. Considering the long gestation period of the proposed projects and lack of growth visibility till FY-2009, we recommend investors to avoid subscribing to the issue.

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