

Ess Dee Aluminium Ltd

Avoid

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Ratings & Recommendation

(all ratings on a scale of 1 of 5)

Business attractiveness	:	4
Management track record	:	3
Offer pricing & valuation	:	1
Overall rating	:	2
Expected listing price band	:	–
RECOMMENDATION	:	AVOID

Offer details

Offer period	:	4-8 Dec 2006
Lead Manager(s)	:	UTI Sec/Enam
Price band (Rs)	:	200-225
Total shares (m)	:	6.96
Employees	:	0.15
Retail	:	2.38
QIB	:	3.40
Non-institutional	:	1.03
Amt to be raised	:	Rs1566m
Post-issue equity	:	Rs264m

Purpose: Additional facility at Daman**Promoter:** Mr Sudip Dutta**Promoters' stake**

Before issue:	87.75%
After issue:	64.62%

Project cost & funding

Project cost	Rs m
Land and Building	181.3
Plant and Machinery	884.3
Electrical Installations	62.7
R&D Equipments	19.6
Total	1147.9
Equity	1147.9
Total	1147.9

Business attractiveness

- Ess Dee manufactures aluminium foils and PVC film based packaging material for the pharma industry. Its has plans to cater to the FMCG sector in future.
- Ess Dee has two plants at Daman and Goa with a combined capacity of 3,600 tpa of aluminium foils which will be expanded to 18,000 tpa by FY08.
- Ess Dee is a potential beneficiary of the pharma sector's growth, including its export thrust. (Packaging accounts for 6-8% of the total pharma cost.)
- **However, packaging material suppliers do not have a very strong bargaining power, either with customers or with suppliers.**

Management track record

- Mr Sudip Dutta, CMD is claimed to have about 15 years of experience in the packaging business.
- **Ess Dee commenced operations only in February 2004, and as such has no long track record. One positive point is the bringing of all related group companies under Ess Dee – Atlanta Vinyl was merged in FY06 and Flex Art Foils (with printing facilities) was converted into a 100% subsidiary.**

Offer pricing & valuation

- At Rs220-225, the offer seems cheap at 7x FY06 EPS of Rs32. However, equity has significantly expanded since then – (i) 14:11 bonus issue; and (ii) pre-issue allotment of shares to various entities at Rs74-160.
- Post-issue equity is 3.5x FY06 equity. So, future EPS growth is contingent on significant topline growth, and hence on timely execution of the expansion project, the cost of which is 7x its FY06 net worth.
- Given Ess Dee's short track record, we would prefer to wait and watch for developments.

In the interim, we recommend Avoid.

FINANCIALS	Rs m		
Year ending	FY04	FY05	FY06
Net sales		82	624.7
EBITDA		7.3	150.3
EBITDA margin (%)		9%	24%
PAT		(3.1)	97.8
PAT margin (%)			16%
RoE (%)			56%
RoCE (%)			24%
Debt-equity (x)			2.5
Equity			75.1
EPS (Rs)			32.0
Book value (Rs)			23.0