

Sita Shree Food Products Ltd.

IPO Note

Avoid

IPO Statistics

Issue Open On	11 th March 2008
Issue Close On	14 th March 2008
Price Band	Rs 27-30 Per Share
Face Value	Rs 10 Per Share
Bid Lot	200 Equity shares
Issue Size	Rs 315.00 Million
Pre Issue Equity Capital	Rs 115.368 Million

Shareholding Pattern (%)

	Pre Issue	Post Issue
Promoter	63.92	----
Promoter Group	36.10	----
Public	----	----

Other Specifics

Lead Manager	Keynote Corporate Services Ltd
Registrar	Ankit Consultancy Private Ltd

Objects of Issue:

The company intends to use the issue proceeds for:

➤ Financing the following capital expenditure program at its various locations:

- Setting up a Solvent Extraction Plant having 500 TPD capacity,
- Setting up a oil refinery for Solvent Extraction Plant having 100 TPD capacity,
- Setting up a Lecithin Plant for processing the by products of Solvent Extraction Plant having 5 TPD capacity at Badia Kima (M.P),
- Setting up a Flour mill of 275 TPD.

➤ Meeting the working capital requirement of the business.

Business Profile

Sita Shree Food Products Ltd was incorporated in 1996. The company is into the business of Wheat and pulse processing. The company's manufacturing unit is located at Indore. The product portfolio of the Company consists of Wheat Flour, Maida, Rawa, Daliya, Suji, Chana Dal etc. These products are marketed under its own brand like "Sita Shree", "Regular" and "Sita Shree Gold" or sold to other brands. The Company has a very minimal presence in small packing product segment (1kg, 5kg & 10 kg) however its turnover is dominated by bulk packing products segment. Presently the Company is also supplying its products to major players in retail industry such as, Pantaloon Retail and Reliance Retail. The company proposes to set up a solvent extraction plant, a Lecithin plant and one additional flour mill to cater the increasing demand. The proposed project will be set up at Badiakima, Indore. The Company recently started exporting its products to Middle East countries such as Saudi Arabia. The company is also proposing to export products from proposed Oil Mill i.e. Soya Oil & its co-products and byproducts such as Lecithin and Soymeal.

Investment Rationale

- The promoters of the company are in the business of food grains trading since last 35 years. This helps the company to procure its raw material at competitive prices throughout the year. The company is benefited due to past track record of the promoters in sourcing commodities as well as running existing business.
- By virtue of the presence in the industry for a considerable period of time, the company has been able to develop a customer base which can be leveraged for the expanded operations as well as new products manufactured through proposed project.
- The Company is compliant with international quality standard as certified by TUV. This provides Company an edge over other competitive players especially in unorganized sector.

Annual Results

Rs Mn

Particulars	31.03.2005	31.03.2006	31.03.2007	31.10.2007
Total Income	362.66	712.32	813.68	495.06
Growth (%)	----	96.41	14.23	----
Total Expenditure	350.642	695.10	787.93	478.87
EBIDTA	12.02	17.22	25.75	16.20
Growth (%)	-----	43.25	49.52	-----
EBIDTA Margin	3.31	2.42	3.16	3.27
Other Income	2.77	0.89	1.67	3.20
Depreciation	3.82	4.10	3.98	2.39
EBIT	10.97	14.01	23.44	17.01
Interest	6.05	8.60	9.14	7.85
PBT	4.91	5.41	14.29	9.15
Tax	1.75	1.39	5.00	3.23
PAT	3.16	4.01	9.29	5.92
Growth%	----	27.03	131.49	-----
NPM	0.87	0.56	1.14	1.20
Extraordinary Items	0.00	0.00	0.00	0.00
PAT after extraordinary items	3.16	4.01	9.29	5.92
Equity Capital	31.04	54.96	70.11	115.37
Reserves & Surplus	17.75	0.69	5.30	11.42
Net Worth	48.81	55.65	75.41	126.79
Equity Shares	3.10	5.50	7.01	11.54
EPS	1.02	0.73	1.33	0.51
ROE (%)	6.47	7.21	12.32	4.67
Book Value	15.72	10.13	10.76	10.99
ROCE (%)	9.14	10.20	14.02	7.19

Concerns

- The Company has reported negative cash flow of Rs.64.50 lacs from operating activities for the year ended 31/03/2007. Any negative cash flows in the future could have an adverse effect on company's results of operations.
- The Company at present does not have existing marketing network. The Company will face difficulties to market its existing as well as proposed manufacturing products particularly in branded segment which has higher margins.
- The business of the Company is seasonal in nature and hence the Company requires substantial working capital for maintaining the stocks. Any shortage in working capital finance will affect the operations of the company and have an impact on the profitability.

Valuation

The company at a price band of Rs 27-30 will have the p/e multiple of 58.68-65.20 at post issue eps of 0.46 (Basis PAT annualized for 7 months ended 31.09.2007)

The company though has shown decent growth in its financials but looking at the valuations of the company, the issue looks expensive at present levels as peers of company are available at much cheaper valuations.

Hence we recommend the investor to "Avoid" the issue.