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IPO Review

Archidply Industries Limited

New kid on the block

Issue Opens	Issue Closes
June 11, 2008	June 17. 2008

Issue Price Band
Rs 70 – Rs 80

SUBSCRIBE

Analyst's Name

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Archidply Industries Limited is the flagship company of the Archidply group. The company is a manufacturer of wood panel products and decorative surfacing products. The company is coming up with an IPO to fund capacity expansion and widening its product range.

Positives

Experienced Management

The promoters of the company have been associated with plywood manufacturing for more than 30 years under the brand 'Archidply'. The company started out with a single plant in Assam and has expanded the business to 3 facilities in UP, Assam and Karnataka.

Favorable industry outlook

The organized plywood industry is growing at a rate of 30% per annum driven by increased demand from institutional clients. Retail stores, corporate spaces and hospitality sector have seen huge growth and are fueling the demand for Interior Infrastructure.

Locational Advantage

The company has manufacturing facilities in the northern and southern part of the country. Raw materials are sourced from nearby districts and almost 60% of the final product is sold in the neighboring regions resulting in lower transportation cost for the company.

Concerns

- The company has yet to receive license to manufacture Medium Density Fiberboard (MDF) for the Rudrapur facility.
- It faces stiff competition from the unorganized sector of the wood based industry. Currently unorganized sector constitutes 85% of the total market size.

Valuations

For FY08, the EPS on a post-IPO fully diluted equity works out to Rs 6.78. P/E at the upper and lower band works out to 11.80x and 10.32x FY08 EPS respectively. On FY10E, EPS of Rs 16.81 the company trades at a P/E of 4.76 and 4.16x at the upper and lower band respectively.

The largest player in the organized plywood segment is Greenply which trades at a P/E of 7.10x FY08 EPS of Rs 23.95 and 4.83x FY10E EPS of Rs 35.20. The company is competitively priced as compared to Greenply on FY10 numbers; hence investors with a long term horizon of 2-3 years can look forward to subscribing to the IPO.

Exhibit 1: Key Financials (Rs crore)

Year to March	FY06	FY07	FY08
Net Sales	44.72	94.02	143.55
EBIDTA	4.97	12.33	26.57
Net Profit after exceptional income	0.21	5.78	14.92
EPS (Rs) (Diluted on current equity)	0.10	2.65	6.78

Source: Company, ICICIdirect Research

Fact sheet

	Pre issue	Post issue
Equity capital (Rs cr)	15.38	22.00
Promoters (%)	97.68	68.31
Others (%)	2.32	1.62
Public (%)	-	30.07

Issue details

Issue size (Rs crore)	46.5-52.92
No of shares on offer	66,15,720
Reserved for employees	0
QIB (50%)	33,07,860
Non-institutional (15%)	9,92,358
Retail (35%)	23,15,502
Minimum lot size	75 shares
Market cap (post issue) (Rs cr)	154-176

Comparative return metrics

Stock return (%)	3 M	6M	12M
Greenply Industries	-41.52	-46.65	27.14
Century Plyboard	5.35	-4.03	119.77

Company Background

Archidply Industries Limited is the flagship company of the Archidply group. The group has been associated with plywood manufacturing for more than 30 years. The company is a manufacturer of wood panel products and decorative surfacing products.

The company offers comprehensive engineered interior products which include:

1. Plywood's
2. Block Board and Flush Doors
3. Particle Boards
4. Decorative Laminates
5. Decorative Veneers

The company has modern state of the art plants which are strategically located in three diverse locations viz:-Rudrapur (North Zone), Mysore (South Zone) and Assam (East Zone) and has a network of branches, distributors and dealers across India.

Objects of the issue

The proceeds from the proposed issue of shares (including Term Loans of Rs. 28 crore) are intended to be deployed for:

Purpose	Amount (Rs cr)
Setting up of new manufacturing capacity at Chintamani in Karnataka	37.66
Setting up of new manufacturing facility of MDF at Rudrapur in Uttarakhand	26.18
Pre Operating Expenses and Provision for Contingencies	7.65
Margin Money for Working Capital Requirement	7.50
Meeting the issue expenses	[*]

KEY CONCERNS

Delay in implementation

The Company aim to commission its new facility in Rudrapur by August, 09. Any delay in commencing operation of the proposed MDF plant will adversely impact the proposed plans.

Threat from unorganized sector

The unorganized sector accounts for almost 85% of the Rs. 14000 Crore Industry. The company faces stiff competition from unorganized sector and this may limit its growth prospects.

Realty sector – Primary growth driver

Demand for high value wood panel and decorative surfacing products is dependent on growth in office and commercial space, infrastructure projects and hospitality sector. Any slowdown in the economic activity would have a direct effect on these sectors which in turn will affect the demand for the company's products.

Pending license to manufacture MDF

The company has not yet received license to manufacture MDF at its Rudrapur facility, which is one of the objects of the Issue forming about 30% of the issue size. Its failure to obtain such license may adversely affect the proposed project of the company.

INVESTMENT RATIONALE

Experienced Management and Proven Execution Capabilities

The promoters of the company have been associated with plywood manufacturing for more than 30 years under the brand 'Archidply'. The management was responsible for the turn around of the Mysore based particle board and plywood manufacturing unit which was shut down for seven years, before being acquired by the Archidply group. The company also has a good track record in executing projects on time which is ably demonstrated by the commencement of commercial production at Rudrapur facility within six months from the date of land acquisition.

Positive industry outlook

The organized plywood industry is growing at a rate of 30% per annum driven by increased demand from institutional clients. Retail stores, Corporate Spaces and Hospitality Sector have seen huge growth and are fueling the demand for Interior Infrastructure.

Government Incentives

In order to promote affordable housing and environment friendly products Government has reduced the excise duty for plywood products from 16% to 8% in the Finance Bill 2007. Some of the state governments like Delhi, U P, West Bengal, M P have reduced the VAT from 12.5% to 4% in the recent past and other states are expected to follow shortly.

Locational Advantage

The company has manufacturing facilities in the northern and southern part of the country. Raw materials are sourced from nearby districts and almost 60% of the final product is sold in the neighboring regions resulting in lower transportation cost for the company.

FINANCIALS

For the Full year FY08, net sales grew by 52.68% to Rs 143.55 crore from Rs. 94.02 crores in FY07 and total revenues grew by 41.93% to Rs 142.82 crores from 100.63 crores. EBITDA grew by 194.46% y-o-y to Rs 32.02 crores while EBITDA margin increased from 11.05% to 21.75% primarily due to reduced raw material cost and manufacturing cost.

PAT grew by 185.53% from Rs 5.25 crore to Rs 14.99 crore resulting in net profit margin increase of 4.66% points.

VALUATIONS

	Archidply			Greenply		
	FY08	FY09	FY10	FY08	FY09	FY10
Revenue	143.55	211.14	310.50	532.45	633.50	735.20
% Growth		47.09%	47.06%		18.98%	16.05%
EBITDA	26.57	38.53	55.89	77.25	93.90	109.50
% Growth		31.05%	31.06%		21.55%	16.61%
EBITDA Margins	18.51%	18.25%	18.00%	14.51%	14.82%	14.89%
EPS	6.78	9.71	16.81	23.95	29.70	35.20
% Growth		43.22%	73.12%		24.01%	18.52%
	(at upper band of Rs.80)			(at price of Rs 170)		
PE	11.80	8.24	4.76	7.10	5.72	4.83
	(at lower band of Rs.70)					
PE	10.32	7.21	4.16			

Source: ICICIdirect Research, Reuters consensus estimates

For FY08, the EPS on a post-IPO fully diluted equity works out to Rs 6.78. P/E at the upper and lower band works out to 11.80x and 10.32x FY08 EPS respectively.

Assuming that by FY10, the company manages to garner a 10% market share of the organized plywood market, the EPS increases to Rs 16.81. On FY10E, EPS of Rs 16.81, the company trades at a P/E of 4.76x and 4.16x at the upper and lower band respectively.

The largest player in the organized plywood segment is Greenply which trades at a P/E of 7.10x FY08 EPS of Rs 23.95 and 4.83x FY10E EPS of Rs 35.20.

Though the company is aggressively priced as compared to its peers, the company has aggressive plans to grow its market share by increasing its capacity and providing a diverse product offering. The company is competitively priced as compared to Greenply on FY10 numbers; hence investors with a long term horizon of 2-3 years can look forward to subscribing to the IPO.

FINANCIAL SUMMARY

Profit & Loss A/c (Consolidated) (Rs crore)

Year to March	FY06	FY07	FY08
Total Revenue	**44.72**	**94.02**	**143.55**
Operating expenditure	39.75	81.69	116.98
EBIDTA	**4.97**	**12.33**	**26.57**
Other Income	0.27	0.75	1.06
Interest	2.68	4.05	7.08
Depreciation	1.14	2.59	3.72
Profit Before Tax	**1.42**	**6.44**	**16.83**
Tax	0.56	1.14	1.79
Net Profit before Adjustments	**0.85**	**5.30**	**15.04**
Adjustments	0.64	-0.53	0.12
Net profit as adjusted	**0.21**	**5.83**	**14.92**
OPM (%)	11.10%	13.11%	18.51%
NPM (%)	0.47%	6.16%	10.31%
Outstanding Shares (Cr)	1.46	1.53	1.54
Post Issue Outstanding Shares(Cr)			2.20
EPS (Rs)	**0.10**	**2.65**	**6.78**
(Diluted on post issue equity)			

Balance Sheet (Consolidated) (Rs crore)

Year to March	FY06	FY07	FY08
Sources of funds			
Equity Share Capital	14.63	15.30	15.38
Advance against share capital	0	0	0
Reserves & Surplus	-0.52	11.33	27.71
Secured Loans	25.07	48.48	53.75
Unsecured Loans	0.54	6.47	0.38
Current liability & Provisions	13.56	25.20	24.68
Deferred Tax Liability	0.80	0.50	0.18
Total Liabilities	**54.07**	**107.29**	**122.08**
Application of Funds			
Net Block	22.58	40.96	39.17
Capital work in progress	0.00	0.08	1.70
Investments	0.03	0.02	0.02
Cash and bank balances	2.12	2.75	4.98
Inventories	12.57	25.88	26.24
Sundry debtors	12.23	31.90	39.81
Loans and advances	4.41	5.51	10.01
Miscellaneous Exp not w/off	0.12	0.20	0.15
Total Assets	**54.06**	**107.29**	**122.08**

RATING RATIONALE

ICICIdirect endeavors to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more;
Performer: Between 10% and 20%;
Hold: ±10% return;
Underperformer: -10% or more.

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