

Subscribe to Archidply Industries IPO: SPA

SPA Securities has come out with a report on Archidply Industries' IPO. It has recommended investors to subscribe the issue.

The issue has opened for subscription with its initial public offering (IPO) of 66,15,720 equity shares of face value Rs 10 each. The issue will close on June 17, 2008. The price band has been fixed at Rs 70 to Rs 80 per equity share.

SPA's report on Archidply Industries' IPO:

Investment Positives:

Experienced promoters; Entry barrier; EWP demand driven by strong growth in furniture & construction segment; Good distribution & dealers network; Diversified product portfolio; Diversified customer base; Tax benefit at Uttarakhand; Increase presence in tier II & III cities; Continuous brand building; Foray into export business; Curtailed transportation cost of its goods by selling 60% of the manufactured goods in the same region; Growth rate to continue.

Investment Concerns:

The license to manufacture MDF has not yet been received; Promoter group company is in the same line of business; Industry is prone to change in excise rates; Stiff competition due to fragmented nature of the industry; Exposure to volatility in wood prices; Declining forest cover with concerns of climate change lead to increase in prices.

ICRA has assigned an IPO grade "3/5" to this issue. This indicates average fundamentals of the company.

Valuation:

The stock is available at P/E of 10x and 12x on its lower and upper price band respectively on its annualized FY08 EPS of Rs.6.81. AIL has shown a robust growth within the last three years operation and we expect the same to continue. AIL has a diversified product portfolio and customer base which reduces its dependency on a single factor for revenue generation. Government policy regarding excise duty will be a cause of concern. The tax benefit at Uttarakhand will enable the company to continue recording high margins at EBITDA & PAT level. We expect that the expansion into MDF and tier II & III cities will increase the market share of the company. The demand for engineered wood product is driven by the strong growth in furniture and construction segment. Hence, we recommend, "Subscribe" to the issue.

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