

IPO NOTE

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13 December, 2017

Issue Details

Price Band (Rs)	45-50
Face Value(Rs)	10
Issue Size(Rs)	70cr
Issue Type	Book building
Minimum lot	280 equity shares
Issue Opens	Dec 15,2017
Issue Closes	Dec 20,2017
Listing on	NSE, BSE

“Company to list on T2T category”

Other Detail

Lead Manager	Pantomath Capital Advisors Ltd
Registrar	Link Intime India Pvt Ltd

Astron Paper & Board Mill Ltd

Company Background:

Incorporated in 2010, Astron Paper & Board Mill Ltd (Astron) is an Ahmedabad based manufacturer of Kraft paper, also known as paperboard or cardboard. The paper produced by the company is used mainly in packaging industry for manufacturing corrugated boxes and liners, corrugated sacks, and composite containers.

Astron has its manufacturing facility in Halvad, Gujarat. The company uses waste paper as raw material, which is largely imported from US, UK, and Middle East. The company has an installed captive power plant of 3MW to support its electric requirement. Astron is having Triple Wire Machine with a daily capacity of 350 MT along with daily pulp mill capacity of 400 MT. Astron Paper is ISO 9001-2008, ISO 14001, UKAS Management systems and FSC certified.

The promoters of the company are Mr. Kirit Patel, Mr. Ramakant Patel, and Mr. Karshanbhai Patel. **Asian Granito India Ltd** is the corporate promoter of the company.

Issue Details:

The company through the IPO offers only fresh issue of 1,40,00,000 equity shares of face value of Rs. 10 each amounting to Rs. 70 crore on the upper price band. The net issue would constitute 30.1% of the post issue paid-up equity share capital.

Objective of the issue:

Sr No	Particular	Amount (Rs Cr)
1	Setting up of additional facility for low GSM Kraft paper	23
2	Part repayment of unsecured loan	8
3	Working Capital Requirement	24
4	General Corporate Purpose	-
Total Net Proceeds to be utilized		70

Source: Company RHP, ACMIIL

IPO share allotment pattern

Category	Allocations	No of shares	Issue Size (Rs. Cr) at	
			Lower Band (Rs 45)	Upper Band (Rs 50)
QIB	10%	13,30,000	6	7
Non-Institutional	55%	73,15,000	33	36
Retail	35%	46,55,000	21	23
Employee Reservation*		7,00,000	3	4
	Total	1,40,00,000	63	70

Source: Company RHP, ACMIIL

Note*- Discount to Eligible Employees: Rs. 2.5/- per equity share on Issue Price

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Outlook and Valuations

Astron paper is engaged in manufacturing of Kraft paper. According to FICCI report, Indian packaging industry is expected to touch \$73 billion by 2020 from \$32bn in 2015. As a packaging industry growing more than 15% annually, this will increase demand for corrugated boxes, leading to increased demand for Kraft papers, which is the key raw material. At upper price band of Rs 50/-, the company's stock trades at 12.4x its FY18E EPS of Rs 4.04/- post issue, which seems lucrative. Hence, we recommend to **SUBSCRIBE** the issue.

Business Overview:

Astron Paper & Board Mill Ltd is engaged in manufacturing of Kraft Paper. Within short span of time, this company has developed a name for itself in Kraft paper industry, with an established brand associated with quality and comprehensive range of Kraft papers. The company mainly caters to packaging industry and has been developed a loyal clientele network consisting of various packaging companies and MNC's. Currently, they are operating in the local market with products being supplied on pan India basis. The company is also in the process of exploring export market.

It is one of the major Kraft paper manufacturers in Gujarat with an installation capacity of 96,000mtpa. It is well equipped with requisite plant and machineries and other amenities. With increasing environmental awareness, the company has since inception adopted the use of waste paper as a raw material instead of traditional usage of wood. The company's Kraft papers is used by packaging industry for manufacturing corrugated boxes and liners, corrugated sacks, and compose containers. The company offers varied products such as High RCT, Kraft Liner, Liner to Corrugated medium paper, ranging from 140GSM to 350GSM and 22-35BF.

Company also have in house testing laboratory for quality control checks & testing of their products. Company's manufacturing & dispatch process has been assessed & certified as meeting the requirement of ISO 9001:2008, ISO14001:12004 by an international organization viz SGS United Kingdom Ltd. Systems & Services Certifications. Company has been environmental conscious & their products have been also certified as meeting relevant FSC Standards since 2014 by SGS South Africa (Pty) Ltd.

Investment Rationale:

Experienced management team

Astron's operation commenced under the guidance of Mr. Kirit Patel, Ramakant Patel. and Karshanbhai Patel, who have successfully managed the various phases of expansion & growth of their business & operations. Promoter of the company has two decades of experience in paper packaging industry. It has also been instrumental in formulating growth strategy for their company. Their industry knowledge & understanding also gives them a key competitive advantage, thus enabling them to expand to various geographies & customer presence in existing as well as target market, while exploring new growth avenues.

Scalable Business Model & improving utilization rate

In last few years, company has doubled the capacity from 42,600mtpa in FY13 to 96,000mtpa as on H1FY18. Further, company planned to touch production capacity of 129000mtpa by FY19. Also, company has been able to achieve the capacity utilization of over 75%, thus enabling them to add capacities on a regular basis in order to serve existing as well as new customers. Astron business model is order driven & comprises of optimum utilization of their manufacturing facilities, maximum capacity utilization, developing linkages with raw material suppliers & thus achieving economies of scale.

Particular	Actual			Projected		
	FY15	FY16	FY17	FY18	FY19	FY20
Installed (mtpa)	66,000	72,000	80,000	1,01,500	1,29,000	1,29,000
Utilization (mtpa)	54,340	56,669	63,371	81,600	1,06,350	1,08,000
Utilization rate (%)	82.33%	78.71%	79.21%	80.39%	82.44%	83.72%

Source: Company RHP, ACMIIL

Customer Satisfaction led to repeat order

Company believes that meeting customer specific requirements & delivery of orders is key factor for growth. Company has made continuous efforts to ensure customer satisfaction by taking steps to meet customer specific requirements, timely delivery of order as well as maintaining consistency in quality and this has yielded results in the form of repeat orders from their customers. The propose additional manufacturing facility in one of the steps taken by the management towards meeting the requirement of their existing customers.

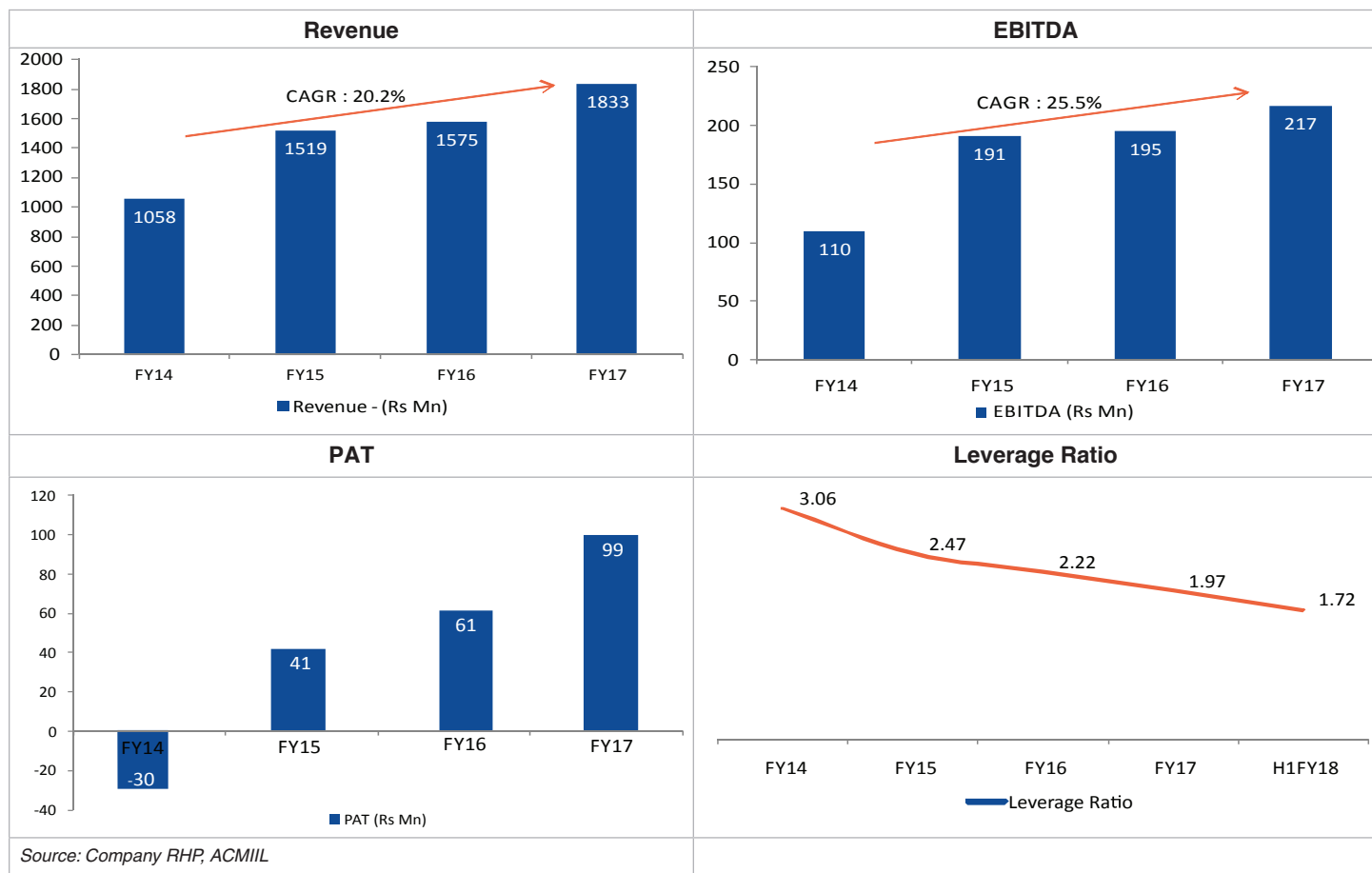
Location Advantages

Company's manufacturing unit is strategically located in terms of access to key raw materials. Their existing manufacturing facility is located in Halvad, Morbi which is approx 200kms away from Mundra Port & thus facilitate with ease of imports. Further company is accredited with Authorized Economic operator T1 certificate. This certificate entitles them to benefits from better facilitation of imports & exports of their consignment, thereby ensuring shorter cargo release time, facility of Direct Port delivery (DPD) of their import containers

and or Direct Port entry of their export containers. Thus, company believes that their manufacturing facility helps in catering the demand of products in markets within India & outside India. In last four years (FY14-17), the company's revenue has grown at a CAGR of 15%.

Improving Financial performance

In last four years (FY14-17), the company's revenue has grown at a CAGR of 20%. Further, during the same period, company has turnaround its business from a loss of Rs 3cr to a profit of Rs 10cr. Also, company's operating profit has grown at a CAGR of 25.4% with an operating margin of 13% as on H1FY18. Moreover, company's ROE has improved from 14.1% in FY15 to 22% in FY17. However, company's net working capital cycle stands at 3.47 month due to high inventory days. Also, company's debt to equity ratio currently stands at 1.72x as on H1FY18, down from 3.06x during FY14.



Risk Factors:

- Fluctuation in foreign currency may have impact on business operation & financial performance
- Delay in scheduling of new capex may impact future business growth
- Any shortage or non-availability of power and water facilities may adversely impact manufacturing process

Peer Comparison

Particular - (FY17)	Shree Ajit Pulp	Genus Paper	South Indian Paper	Astron Paper
Revenue (Rs Mn)	2087	3087	1953	1833
EBITDA (Rs Mn)	185	217	314	217
EBITDA (%)	8.9%	7.0%	16.1%	11.8%
PAT (Rs Mn)	64	69	126	99
PAT (%)	3.1%	2.2%	6.5%	5.4%
EPS (Rs)	12.0	2.7	8.1	3.06
ROE (%)	6.8%	2.1%	12.6%	21.9%
Face Value (Rs)	10	1	10	10
PE (x)	17.7	20.4	12.2	16.3

Source: Company RHP, ACMIL

Financials

Profit & Loss statement

						(Rs. millions)
Particulars (Rs Mns)	FY13	FY14	FY15	FY16	FY17	H1FY18
Revenue from Operations	266	1058	1519	1575	1833	1109
Less: Operating exp						
Cost of raw material consumed	211	690	970	984	1106	722
Purchased of traded goods	0	0	0	18	57	0
Changes in Inventories	-40	5	-5	0	11	-20
Employee Benefit Expenses	15	53	64	66	77	42
Other Expenses	62	200	299	311	365	219
Total Expenses	248	948	1328	1379	1616	963
EBITDA	18	110	191	196	217	146
<i>EBITDA %</i>	<i>6.8%</i>	<i>10.4%</i>	<i>12.6%</i>	<i>12.4%</i>	<i>11.8%</i>	<i>13.2%</i>
Less : Dep & Amortization	10	32	27	28	32	17
EBIT (before other income)	8	78	164	168	185	129
Add : Other Income	1	3	2	4	13	0
EBIT (after other income)	9	81	166	172	198	129
Less : Finance cost	30	95	107	107	113	58
PBT	-21	-14	59	65	85	71
Less : Tax/deferred tax	21	16	18	4	(14)	(23)
Net Profit	-42	-30	41	61	99	94
<i>PAT %</i>	<i>-15.8%</i>	<i>-2.8%</i>	<i>2.7%</i>	<i>3.9%</i>	<i>5.4%</i>	<i>8.5%</i>
EPS (Rs)	-3.18	-1.12	1.33	1.87	3.06	2.91

Source: Company RHP, ACMIIL

Balance sheet

(Rs. millions)					
Particulars	FY13	FY14	FY15	FY16	FY17
Share Capital	270	310	325	325	325
Reserves	-43	-73	-32	28	128
Total Shareholders Fund	227	237	293	353	453
Non Current Liabilities					
Long term borrowings	445	370	323	332	385
Deferred Tax Liabilities	21	37	56	58	44
Other long term liabilities	81	87	86	129	41
Long term provisions	0	0	1	1	1
Total Non Current Liabilities	547	494	466	520	471
Current Liabilities					
Short term borrowings	113	283	328	373	427
Trade Payables	136	156	176	219	252
Other Current Liabilities	84	96	99	106	106
Short Term Provision	0	0	10	13	18
Total Current Liabilities	333	535	613	711	803
Total Liabilities	1107	1266	1372	1584	1727
Assets					
Tangible Assets	653	671	657	747	790
Intangible assets	0	0	1	1	1
CWIP	12	3	11	0	14
Non Current Investment	0	1	1	0	0
Total Non Current Assets	665	675	670	748	805
Current Asset					
Current Investment	0	0	0	1	0
Inventories	143	230	342	353	424
Trade Receivables	150	284	285	371	349
Cash & Cash Eq	70	28	33	53	61
Short Term Loans & Advances	79	49	42	58	88
Other Current Assets	0	0	0	0	0
Total Current Asset	442	591	702	836	922
Total Asset	1107	1266	1372	1584	1727

Source: Company RHP, ACMIIL

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