

**Astron Paper & Board Mill Ltd.**

**IPO Note**

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**Analyst:**

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**14 December 2017**

# IPO details

Key Data	
Issue Opens	15-Dec-17
Issue Closes	20-Dec-17
Equity Shares Offered (in mn.)	14.00
QIB	Up to 10%
NIB	Min 55%
Retail	Min 35%
Face Value (₹)	10
Price Band (₹)	45-50
Max. Issue Size (₹ mn)	700
Lot Size (Eq. Shares)	280 and multiple thereof

Valuation	@ ₹45 per share	@ ₹50 per share
Market Cap (₹ mn)	2,093	2,325
Net Debt (₹ mn)	751	751
Enterprise Value (₹ mn)	2,844	3,076
EV/ Sales	1.6	1.7
EV/ EBITDA	13.1	14.2
P/B	3.9	4.3
P/E	21.0	23.3

Source: Red Herring Prospectus, Destimoney Research

	Pre Issue		Post Issue <sup>^</sup>	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	20.4	62.6%	20.4	43.8%
Public	12.1	37.4%	12.1	26.1%
Fresh Issue			14.0	30.1%
Total	32.5	100.00%	46.5	100.0%

## Recommendation

Revenue CAGR of ~14.8%, EBITDA CAGR of 17.8% and average ROE of 19% is impressive. The small cap company (Post issue market cap of Rs.232.5 crore) becomes risky with 1.8x D/E. Asking price at 16x and 23.3x FY17 earnings on pre and post issue basis is fairly valued and at par with the peers. However, the small scale business is risky but fundamentally strong and lucrative paring the temporary drag on ROE post issue. Therefore, we advise **to SUBSCRIBE the issue for long term returns.**

## Object of Offer for sale

- Setting up of additional facility for manufacturing of lower GSM and lower B.F Kraft Paper,
- Part repayment of unsecured loan
- Funding the working capital requirements and
- General corporate purposes.

## One of the major kraft paper manufacturers in Gujarat

- ❑ Incorporated in 2010, Astron Paper and Board Mill Limited is engaged in manufacturing of kraft paper. Within a short span of time, it has developed a name for itself in kraft paper industry and has been able to establish a brand associated with qualitative and comprehensive range of kraft papers.
- ❑ One of the major kraft paper manufacturers in Gujarat with manufacturing facility having an installed capacity of 96,000 mt p.a. Its manufacturing facility is situated at Halvad, Gujarat and is well equipped with requisite plant and machineries and other facilities. It has in house testing laboratory for quality control checks and testing of products.
- ❑ Its manufacturing and dispatch process has been assessed and certified as meeting the requirements of ISO 9001: 2015, ISO 14001: 2015 by an international organisation viz. SGS United Kingdom Ltd. Company has since its inception adopted the use of waste paper as raw material instead of traditional usage of wood. The process of manufacturing Kraft paper involves recycling of waste paper and with many organisations, now supporting the Go Green Campaign, it increases the demand of FSC certified Kraft paper as the same is eco friendly. It has been environmentally conscious and its products have been certified as meeting relevant FSC Standards since 2014 by SGS South Africa (Pty) Ltd.
- ❑ Its product Kraft paper is used by packaging industry for manufacturing corrugated boxes and liners, corrugated sacks and composite containers. It offers varied products like High RCT, Kraft Liner, Liner to Corrugated Medium Paper, ranging mainly from 140 GSM to 350 GSM and 22-35 BF.
- ❑ From FY 2013-14 to FY 2016-17, as per Restated Financial Statements, Total revenue has shown growth from Rs. 1,061.98 million to Rs. 1,845.89 million, representing a CAGR of 14.82%, EBITDA has shown growth from Rs. 113.32 million to Rs. 230.06 million, representing a CAGR of 17.95%, profit after tax has shown growth from Rs. a loss of Rs. (30.21) million to a profit of Rs. 99.59 million and Return on network has shown a growth from (12.78)% to 21.98%.
- ❑ The Kraft Paper Manufacturer, Astron Paper & Board Mill Ltd (APBML) has emerged quickly since its inception in 2010. The company primarily supplies the Kraft Paper to packaging industry across India. Varied range of papers from 140-350 GSM and 22-35 BF, manufacturing capacity expansion in place (current capacity of 96,000 MTPA), sustained margin by using waste paper as raw material and, scalable business model and overseas expansion in sight are the major business drivers for the company.
- ❑ Revenue CAGR of ~14.8%, EBITDA CAGR of 17.8% and average ROE of 19% is impressive. The small cap company (Post issue market cap of Rs.232.5 crore) becomes risky with 1.8x D/E. Asking price at 16x and 23.3x FY17 earnings on pre and post issue basis is fairly valued and at par with the peers. However, the small scale business is risky but fundamentally strong and lucrative paring the temporary drag on ROE post issue. Therefore, we advise to **SUBSCRIBE** the issue for long term returns.

Source: Red Herring Prospectus, Destimoney research

# Strengths

- ❑ **Experienced management and dedicated employee base:** Its operations commenced under the guidance of its individual Promoters Kirit G. Patel, Ramakant Patel and Karshanbhai Patel, who have successfully managed various phases of expansion and growth of business and operations. Their industry knowledge and understanding also gives it the key competitive advantage enabling it to expand geographical and customer presence in existing as well as target markets, while exploring new growth avenues.
- ❑ **Scalable Business Model:** Company has been able to achieve capacity utilisation of over 75% at its manufacturing facility at Halvad, thus enabling it to add capacities on a regular basis to serve its existing customers as well as to add new customers. Its business model is order driven, and comprises of optimum utilization of its manufacturing facilities, maximum capacity utilization, developing linkages with raw material suppliers and achieving consequent economies of scale. From 42600 MTPA, it has doubled its capacity to 96000 MTPA.
- ❑ **Quality certifications:** Company believes in qualitative manufacturing and adheres to various qualitative standards. Its products undergo quality check at various levels of production to ensure that any quality defects or product errors are rectified on real time basis. Its manufacturing and dispatch process has been assessed and certified as meeting the requirements of ISO 9001: 2015, ISO 14001: 2015 by an international organisation viz. SGS United Kingdom Ltd.
- ❑ **Repeat orders:** It believes that meeting customer specific requirements and delivery of orders is key factor for growth. Company has made continuous efforts to ensure customer satisfaction by taking steps for meeting customer specific requirements, timely delivery of orders to its customers as well as maintaining consistency in quality and this has yielded results in the form of repeat orders from its customers.
- ❑ **Location Advantages:** Its manufacturing unit is strategically located in terms of access to key raw materials. Its existing manufacturing facility is located in Halvad, Morbi which is approx. 200 Kms away from Mundra Port and facilitates ease of import. Further its is accredited with Authorised Economic Operator T1 certificate. The certificate entitles it to many benefits such as it accords better facilitation in imports and export of its consignments, thereby ensuring shorter cargo release time, facility of Direct Port Delivery (DPD) of its import Containers and/ or Direct Port Entry (DPE) of their Export Containers. Its manufacturing facility is also well connected with Road to cater to the demand of its domestic customers. Its manufacturing facility will help it cater to the demand for its products in markets within and outside India.

Source: Red Herring Prospectus, Destimoney research

## Future road ahead

- ❑ **Setting up of additional manufacturing facility which will increase its product range:** It is setting up additional manufacturing facility to manufacture Kraft Paper with lower GSM ranging from 80 to 180 GSM and lower B.F ranging from 12 B.F to 20 B.F. The proposed facility will ensure to meet the requirements of the customers who require lower GSM and lower B.F Kraft paper. This facility will complement its existing capacity as the Kraft paper used in inner layer of corrugated boxes is generally of lower GSM and lower B.F which was not manufactured by it till now. This will increase range of product for its existing customer.
- ❑ **Expand its domestic geographical reach through marketing network:** It intends to aggressively penetrate in the domestic markets and expand its domestic market presence by expanding its sales and distribution network. To augment its efforts in increase in sales of its products, it intends to deploy additional field force consisting of sales and marketing representatives who shall meet its customers/ prospective customers to market its product. Further in line with the increasing sale of products through online retail, the potential for the packaging industry may increase and thereby the demand for Kraft paper for manufacturing corrugated boxes may also increase.
- ❑ **Continue to improve operating efficiencies through technology enhancements:** Continue to further develop its technology systems to increase asset productivity, operating efficiencies and strengthen its competitive position. It believes that its in-house technology capabilities will continue to play a key role in effectively managing and expanding its operations, maintain strict operational and fiscal controls and continue to enhance customer service levels.
- ❑ **Forward integration:** It aims to enter into packaging industry and thereby expanding its business operations. It can have an edge over its competitors in corrugated boxes manufacturing industry with its kraft paper manufacturing facility, being its distinguished strength as Kraft paper is one of the key raw material for manufacturing of corrugated boxes.

Source: Red Herring Prospectus, Destimoney research

# Products offered

Product Type	Specifications
High RCT Paper	GSM Range: 135-185 Thickness range: 175-225μ COBB (60 second): Top-40-50; Bottom-40-50 Moisture:6.0-8.0%
Kraft Liner	GSM Range: 145-365 BF range: 22-35 Thickness range: 190-450μ COBB (60 second): Top-40-50; Bottom-40-50 Moisture:6.0-9.0%
Liner	GSM Range: 145-365 BF range: 22-35 Thickness range: 190-450μ COBB (60 second): Top-40-50; Bottom-40-50 Moisture:6.0-9.0%
Corrugated Medium Paper	GSM Range: 135-205 BF range: 18-24 Thickness range: 180-260μ COBB (60 second): Top-50-60; Bottom-50-60 Moisture:7.0-9.0%

Source: Red Herring Prospectus, Destimoney research

## Peers comparison

Company	FY17 Revenue ₹ mn	EBIDTA Margin (%)	PAT Margin ROE (%)		Market Cap	EV/EBIDTA	EV/Sales	P/E
<b>Astron Paper</b>	<b>1,845.89</b>	<b>11.70</b>	<b>5.40</b>	<b>22.00</b>	<b>2325.00</b>	<b>14.2</b>	<b>1.7</b>	<b>23.3</b>
Genus Paper & Boards Ltd.	3086.88	4.67	2.11	2.16	3363.21	11.60	1.23	31.68
South India Paper Mills Ltd.	1952.71	11.28	6.10	9.55	2014.50	17.85	1.97	15.50
Star Paper Mills Ltd.	3241.24	19.89	17.44	64.09	4084.71	5.39	1.21	6.83
West Coast Paper Mills Ltd.	17693.42	12.23	6.85	22.34	18853.66	6.61	1.36	9.94

Source: Red Herring Prospectus, Destimoney research

# Consolidated Summary Financials

## Income Statement

₹ mn	Sept' FY17	FY17	FY16	FY15	FY14
Total Income	1,110	1,833	1,575	1,519	1,058
Operating Expense	963	1,616	1,380	1,328	949
<b>EBIDTA</b>	<b>146</b>	<b>217</b>	<b>195</b>	<b>191</b>	<b>110</b>
Depreciation	17	32	28	27	32
Other Income	0	13	4	2	4
Finance Costs	58	113	107	107	95
<b>PBT</b>	<b>71</b>	<b>85</b>	<b>64</b>	<b>60</b>	<b>(14)</b>
Tax	(24)	(15)	3	18	16
<b>PAT(Before exceptional items)</b>	<b>95</b>	<b>100</b>	<b>61</b>	<b>41</b>	<b>(30)</b>
Less : Exceptional items	-	-	-	-	-
<b>Net Profit</b>	<b>95</b>	<b>100</b>	<b>61</b>	<b>41</b>	<b>(30)</b>

₹ mn	Sept' FY17	FY17	FY16	FY15	FY14
EBIDTA Margin	13.2%	11.7%	12.3%	12.6%	10.3%
Net Margin	8.5%	5.4%	3.9%	2.7%	-2.8%
ROE	17.5%	22.0%	17.2%	14.1%	-12.8%
ROCE	19.7%	33.6%	31.7%	36.1%	24.2%
EBIT	187.36	310.56	277.59	273.60	176.83

## Balance Sheet

₹ mn	Sept' FY17	FY17	FY16	FY15	FY14
<b>Liabilities</b>					
Share capital	325	325	325	325	310
Reserves and surplus	215	128	29	(32)	(74)
Minority interest	-	-	-	-	-
Long-Term Borrowings	348	385	332	323	370
Deferred tax liabilities(Net)	20	44	58	56	37
Other Long Term Liabilities	41	41	129	86	87
Long term provisions	2	1	1	1	0
Short term borrowings	514	427	371	329	284
Trade payables	250	252	219	176	156
Other current liabilities	90	106	106	100	96
Short term provisions	19	19	13	10	-
<b>Total Liabilities</b>	<b>1,823</b>	<b>1,728</b>	<b>1,584</b>	<b>1,372</b>	<b>1,266</b>
<b>Assets</b>					
Net Block	794	790	747	658	671
Intangible assets	0	1	1	1	0
Capital work in progress	17	14	-	11	3
Non current Investments	0	0	-	1	1
Long Term Loans & Advances	0	0	0	0	0
Current Investments	-	-	1	-	-
Inventories	415	424	353	342	230
Trade receivables	464	349	371	285	284
Cash and cash equi.	62	61	53	34	28
Short Term Loans & Advances	70	89	59	42	49
Other Current Assets	-	-	0	0	0
<b>Total Assets</b>	<b>1,823</b>	<b>1,728</b>	<b>1,584</b>	<b>1,372</b>	<b>1,266</b>

Source: Red Herring Prospectus, Destimoney research



## Key Risks

- ❑ The Company, its Group Companies and its Promoters are parties to certain legal proceedings. Any adverse decision in such proceedings may have a material adverse effect on its business, results of operations and financial condition.
- ❑ Its Statutory auditors have included certain observations and emphasis of matters on certain matters which include delay in payment of statutory dues, delay in repayment of loans non maintenance of fixed assets register, etc. in their auditor's reports.
- ❑ There have been some instances of non-filing/ delays /incorrect filings in the past with certain statutory authorities. If the authorities impose monetary penalties on it or take certain punitive actions against the Company in relation to the same, its business, financial condition and results of operations could be adversely affected.
- ❑ Its historical revenues have been significantly dependent on few customers. The loss of one or more of its significant customers or significant reduction in production and sales of, or demand for its product from its significant customers may adversely affect its business, financial condition, result of operations and cash flows.
- ❑ The Company is yet to place orders for 21.64% of its plant & machinery for its proposed object, as specified in the Objects of the Issue. Any delay in placing orders, procurement of plant & machinery may delay its implementation schedule and may also lead to increase in price of these plant & machinery, further affecting its revenue and profitability.
- ❑ It generates major portion of sales from operations in certain geographical regions especially Gujarat, Madhya Pradesh and Rajasthan. For the year ended March 31, 2017, and September 30, 2017 Company generated 64.96% and 77.31% respectively of its net revenue from manufacturing operations, cumulatively from these three states. Any adverse developments affecting its operations in these regions could have an adverse impact on its revenue and results of operations.

Source: Red Herring Prospectus, Destimoney research

# Destimoney Securities Private Limited

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