

Ess Dee Aluminium Ltd.

INR 349

Pac(K)ing**ACCUMULATE**

Gateway to Prosperity

Sep 11, 2009

Company Background

Ess Dee Aluminium Limited (EDAL) is a leading supplier of primary packaging materials based in India & specializes in providing tailor made Aluminium foil based flexible packaging laminates & PVC based thermoforming solutions to an array of clients in the domestic & international markets. The company is committed to providing their business partners with optimum, innovative & customized packaging solutions. The Company has three manufacturing facilities with two in Daman & one in Goa. The company's rapidly growing clientele includes Pharmaceutical companies & Food & FMCG companies. EDAL has recently acquired India Foils Limited (IFL) which has contributed the company to become India's largest pharmaceutical foil manufacturing company. It has existence in Columbia, Chile, Nigeria, Egypt, Dubai & Ghana. As the company's focus the growth in the Pharma, FMCG sectors they also plan to expand their global footprint aggressively.

➔ Financial performance (Standalone basis)

For the quarter ended June 2009, Company reported Net Sales of INR 1023 mn as against INR 950 and registered an increase of around 8%. Its Net Profit were around INR 164 mn as against INR 185 mn, with a decline in comparison to previous year's quarter figures led by increase in Interest payments & Expenditure during the current quarter. Its Total Income were around INR 1025 mn vs INR 952 mn, while Other Income decreased to INR 1.54 mn vs INR 2.32 mn. The company has maximum market share in the Indian packaging market, while it is likely to increase further in the coming years, due to availability of opportunities from Global Packaging Industry.

Investment Overview**➔ IFL merger benefits**

EDAL has recently acquired 90% stake in IFL, from Madras Aluminium Ltd a Vedanta Group Company. It infused INR 1.2 bn into IFL & is likely to merge it during the current fiscal, which would help EDAL to increase its strength for 19000 mn tpa to around 36000 mn tpa. EDAL along with MALCO has infused INR 2.61 bn in the form of equity and preference shares to repay all outstanding debt IFL has with various lenders, thus making it totally debt free.

➔ Impressive Clientele

The company has a diversified customer base of over 250 companies, including big Global companies like Cipla, Lupin, Unichem, GlaxoSmithkline, Ranbaxy, Dr Reddy's Laboratories, Wockhardt Etc

➔ Enters into new Pharma applications & FMGC segment

The company has established itself as a leading supplier of primary packaging materials and as a specialist in providing tailor made aluminium foil based flexible packaging. Even the firm has made inroads into Indian FMGC sector, where it is going to be benefited more from the Food Processing segment due to wide availability for packaging works. Merger with IFL would be a trigger point, due to IFL's presence in 37 countries, thus providing with the wide opportunities due to the Global companies turning to use aluminium foils for packaging of their respective products.

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Reuters	: ESDA.BO
Bloomberg	: EDA@IN
NSE	: ESSDEE
BSE	: 532787

Market Data

52 Wk Range (INR)	: 389 / 111
Shares in Issue (mn)	: 27.82
Mkt. Cap (INR bn)	: 9.49
BSE 2 Wk Avg Vol	: 187830

Share Holding Pattern (%)

Promoters	: 60.20
MFs, FIs & Banks	: 10.63
FII's	: 10.71
Others	: 18.46

Investment Theme

Being the largest company in its Pharmaceuticals packaging, EDAL is likely to be beneficial firm due to global companies turning to aluminium foil packaging in the recent times. Merger with IFL is likely to be the favourable point, due to IFL's presence in 37 countries catering to wide list of domestic & international players which would help EDAL to increase its footprints in International markets too. The company has maximum market share in Indian packaging area, while it has reduced its risk by entering into FMGC sector, where Food Processing segment is going to provide with huge opportunities for its packaging related products.

Packing up for Going Overseas

Ess Dee's Subsidiaries

➔ Flex Art Foil Pvt Ltd

Flex Art Foil Private Limited, a wholly owned subsidiary of the company provides facilities for printing of aluminium blister & poly to pharmaceutical companies for their packaging solutions at various locations across the country.

➔ India Foils Ltd (IFL)

IFL is one of the largest producers of aluminium Foil in Asia. Every foil specification used in packaging in India has been innovated & developed by India Foils. With the current installed capacity of about 19000 TPA, India Foils has integrated manufacturing facilities & exports to over 35 countries globally. Equipped with state of the art foil rolling mills & backed by the latest technology in foil conversion, IFL has a dominant share of the aluminium foil market in India. EDAL acquired IFL from Madras Aluminium in November 2008 & now it holds 90% share in it. EDAL infused INR 1.2 bn into IFL & would merge it during the current fiscal. It has plans to revive IFL, currently under BIFR through a Rehabilitation Scheme. EDAL along with MALCO have infused around INR 2.61 bn in IFL in the form of equity & preference shares to repay all outstanding debt IFL has with various lenders, thus making it totally debt free.

Product Profile

➔ Aluminium Strip Pack Foil

Its an soft aluminium foil laminated to LDPE. When sealed at an appropriate temperature, pressure & dwell time it does not allow moisture, odour & gases penetrate. .

➔ Lid foil for blister pack

Its an hard aluminium foil coated with heat seal lacquer. When sealed at an appropriate temperature, pressure & dwell time, it reduces the risk of reaction, spillage & leakage. It also protect drugs till the specified shelf life. The lidding material consists of support material like aluminium that has printed primer on one side & a seating agent like a heat sealing lacquer on the other side. The sealing agent side faces the product & the forming foils.

➔ PVC Films

It scores high on properties like thermoforming, shape retention & sealing. PVS is an excellent thermoforming material providing good dimensional stability. When it is used as a forming firm, it is called Rigid PVS because it is almost free of softening agents used for packaging stable products.

➔ PVdC Coated PVC Films

It is a primary packaging material for pharmaceuticals applications for high moisture & oxygen products like capsules & vitamins tablets. PVdC coated PVC Films has excellent barrier properties against moisture, water vapour & is used for packaging mid sensitive to sensitive products.

➔ Adding capacity

When fully integrated, the IFL-EDAL combine will have a capacity of 36,000 tonnes, twice the level of EDAL's present capacity, making it the largest pharmaceutical foil manufacturing company. The synergy would provide EDAL with additional capacity, thus providing it with an opportunity to grow its volumes. Further, IFL has three manufacturing facilities located in West Bengal backed by adequate front end conversion capacity which would allow EDAL the flexibility to offer value added products. This also saves the time & cost involved in greenfield expansions.

Global Packaging Industry

Global Packaging markets stands at USD 500 bn, which is estimated to grow at 3-5% CAGR from the year 2006-10 driven by Asian region (48%). Indian packaging industry stands at USD 14 bn (2.8% of world market & is growing at 14-15% annually). Packaging sector has served Indian economy by preservation of the quality & lengthening the shelf life of innumerable products ranging from milk & biscuits, drugs, medicines, processed & semi processed foods, fruits & vegetables, edible oils, electronic goods etc. In Indian pharma packaging industry, flexible packaging is gaining more importance as against rigid packaging because of the protection it offers to the product against environmental threats like moisture, heat & chemical reaction along with the convenience it offers in handling the products. Even the US Pharma packaging is shifting from glass & plastic containers to unitised packs by 2012, which is going to benefit the Indian packaging companies like EDAL which is having a market share of 60%. Thus there lies a huge opportunity for Indian packaging material suppliers.

Global Packaging by Market type

Materials	Percent
Paper Board	38%
Rigid Plastic	19%
Metals	17%
Flexi Plastic	13%
Glass	7%
Others	6%

➔ Enters into new Pharma Applications

Pharmaceutical Packaging occupies a considerable portion of the overall drugs & pharmaceutical market in India & is growing with the same pace of the industry. Pharma packaging consists of various types of glass, pet bottles, strip & blister packs, injectibles, bulk packs etc. In order to meet the ever growing need for sophisticated & technologically advanced products the company has launched new products like Cold Form & Child Resistant packaging. These new pharmaceutical applications include Cold Form Blister packs, Oral Rehydration Salts, PVDC-coated PVC, Child Resistant Packs, Cough Lozenges & Anti-TB combo packs. The company's product portfolio has been significantly enhanced enabling it to cater to the entire product requirement with range of its clients. In India, close to 100% of Cold Form Blister packaging requirement was imported from South Korea & EU, till Ess Dee's early entry into this segment. This entry gives it the first mover advantage in establishing significant brand equity & in enhancement of its product mix. It is easier for the client to source the same from Ess Dee on account of its close proximity. Even Pharmaceutical companies are now increasingly looking at Ess Dee for this product as they have easy access to indigenously manufactured products.

➔ Foray into FMCG segment

With the core competency in Aluminium packaging, Ess Dee has extended its product portfolio which includes packaging for the Food & FMCG sectors. As per ASSOCHAM estimates, the organized retail segment would grow at 30-35% over the next 3-4 years indicating the need for an additional investment of USD 70 bn by 2010. Further of all the segments in the retail market, the single most important is the Food & Grocery segment as this segment accounts for a phenomenal 74% of total retail sales (i.e. of both the organized & the unorganized sectors). Thus, it translates into a huge opportunity for EDAL, given the demand for packaged foods where the company has already made significant inroads. Ess Dee's facility at Daman has been approved by contraceptive manufacturing companies like TTK & Hindustan Latex for this product. With this, the company is well on course towards emerging as a leading player in addressing contraceptive laminate requirements, both in the domestic as well as international markets. Besides giant strides in contraceptive wrap, Ess Dee is also present in the field of speciality laminates for chewing gum wrap, confectionary, frozen desserts & FMCG items like Fevikwik for Pidilite.

➔ EDAL eyes Italian acquisition

Ess Dee Aluminium is in advanced talks to buy Comita, an Italian firm for USD 125-150 mn. This deal would help EDAL, a leading provider of packaging solutions, to expand its presence in the consumer packaging business & ramp up global operations. In India, EDAL owns close to 60% of the publicly listed firm, which provides packaging solutions for drugmakers & food industry. The Italian acquisition will give Ess Dee a significant presence in Europe, with almost two third of the revenues of Comital comes from the Italian market, with the rest of Europe accounting for another third. Comital has a large consumer packaging business under its own brands including Cuki & Domopak for products such as food wraps for storage & food containers. Comital is also into aluminium sheets, flexible packaging & metallic yarns which are used in various sectors such as pharmaceuticals, food packaging, construction, clothing and industrial applications.

FMCG Sector

In FMCG sector, packaging plays an important role not merely in increasing the shelf life of a product but also enhance its attractiveness with its colourful pack to lure target customers. Packaging is a critical component for any brand trying to increase or maintain its market share in this highly competitive consumer segment. As per ASSOCHAM estimates, the organized retail segment would grow at 30-35% over the next 3-4 years indicating the need for an additional investment of USD 70 bn by 2010. With the growing demand of Pharma & FMCG products, flexible packaging is gaining market share.

Global Packaging Mkt by segment

Materials	Percent
Food	52%
Beverage	18%
Pharma	5%
Beauty	5%
Others	6%

Global Packaging Mkt by Geography

Materials	Percent
EU	33%
North America	29%
Asia	25%
Latin America	4%
Others	9%

Even US pharma companies are shifting from bottles & plastic packaging to aluminium foil packaging, it would create an additional opportunity for the players engaged in manufacturing of aluminium foil.

➔ Ess Dee plans for high capex

EDAL has planned to infuse around INR 14 bn for upgradation of its existing facility in Daman & also for the India Foils Ltd (IFL) revamp activity, in a bid to strengthen its base in both domestic as well as the international market. Also, the company is in the process to set up its own manufacturing facility in Turkey. EDAL will be raising the sum from internal accruals. IFL is also engaged in the businesses of manufacturing, processing & selling of aluminium foil & foil based products. The company has three manufacturing facilities located in West Bengal with total foil rolling capacity of 19,000 tons backed by adequate front end conversion capacity that allows it the flexibility to offer value added products. The company is likely to open IFL's Hoera, its West bengal facility & would start its commercail production from Sep 2009. It is also upgrading its Kamarhati, its West Bengal manufacturing facility & installing INR 150 mn nine colour printing machine at its Daman facility by Sep 09. With the total Pharma packaging market in Bangladesh estimated to be around 5000 tn p.a, the company is seeing more opportunity & is likely to look beyond Bangladesh & its near by markets & is too expanding its Kamarhati facility. After the upgradation of its Hoera facility, the company would be able to start its processes in castor manufacturing. The company's Sikkim facility is ready for the commercial production. With the help of this facility EDAL will have unlimited raw material access, while it has presence in 37 countries across the globe. EDAL too has its footprints in South East Asia, Middle East, Latin America, Europe, US & Africa & are in the process of enlarging it through its own manufacturing facility. In Europe the company is looking to set up our own factory, which will help to cater their clients in a better way.

➔ Sectorial Impact

Strong growth witnessed in Indian Pharma, FMCG, Food & Retail sectors have led to robust demand in packaging, On account of better quality of aluminium packaging as compared to the traditional materials, companies are switching to aluminium packaging & this factor is likely to benefit EDAL which is a leading player in this segment. As per estimates, the global pharmaceutical packaging demand will increase at 6% annually to over USD 34 bn in 2011. in India, around 50% of the products are imported & 25% are in the hands of unorganised players. This provides a huge opportunity for EDAL to gain a larger share of the market pie. In order to de-risk its business, the company has entered into FMGC sector recently, where the company aims to change the ratio to 50:50 going forward.

Key Financials

Year Ended Mar 31 st	FY 06	FY 07	FY 08
Revenue (INR mn)	635.4	1438.2	2884.1
Rev. growth (%)	674.88	126.35	100.54
EBITDA (INR mn)	151.5	351.8	775.1
Net profit (INR mn)	93.9	276.2	617.1
Shares outstanding (mn)	7.51	26.41	27.82
EPS (INR)	12.5	10.5	22.2
EPS growth (%)	2260.00	(16.36)	112.10
P/E (x)	NA	26.4	23.3
EV/ EBITDA	NA	206.5	186.6
ROCE (%)	47.58	23.31	20.61

Some important Clientele

Pharma & Healthcare Companies

Ajanta Pharma Ltd.
 Aurobindo Pharmaceuticals Ltd.
 Cadila Pharmaceuticals Ltd.
 Cipla Ltd.
 Dabur Pharma Limited
 Dr. Reddy's Laboratories Limited
 FDC Ltd.
 Glaxo Smith Kline Ltd.
 Glenmark Pharmaceuticals Ltd.
 Indico Remedies Ltd.
 IPCA Laboratories Ltd.
 JB Chemicals Ltd.
 Karnataka Antibiotics and Pharma Ltd.
 Lupin Ltd.
 Madras Pharmaceuticals Ltd.
 Pfi zer (India) Ltd.
 Ranbaxy Laboratories Ltd.
 Reckitt Benckiser Ltd.
 Sun Pharmaceuticals Ltd.
 Themis Laboratories Ltd.
 Torrent Pharmaceuticals Ltd.
 Ultratech Pharmaceuticals Limited
 Unichem Laboratories Ltd.
 Windles Biotech Limited
 Wockhardt Ltd.
 Cadila Healthcare Ltd.

FMCG and Other Clients

Godfrey Phillips Industries Limited
 GTC Industries Ltd.
 Hindustan Uniliver Limited
 ITC Limited
 Perfetti Van Melle India Pvt. Limited
 Pidilite Industries Limited
 Wrigley India limited
 Sutures India Private Limited
 Hindustan Latex Ltd.
 TTK LIG
 Johnson & Johnson

Financial Statements

Income Statement

(INR mn)

Year end Mar 31 st	FY 06	FY 07	% Chg	FY 08	% Chg
Operating Income	716.7	1529.5	113.41	3068.6	100.63
Other Income	10.7	31.0	189.72	79.3	155.81
Change in Stocks	8.3	6.6	(20.48)	(3.0)	(145.45)
Raw Material Con.	388.8	975.6	150.93	1884.3	93.14
Employee Exp.	25.8	44.9	74.03	82.2	83.07
Excise	92.0	122.3	32.93	263.8	115.70
Other Exp.	77.6	72.5	(6.57)	139.5	92.41
Operating Exp.	575.9	1208.7	109.88	2372.8	96.31
Operating Profit	140.8	320.8	127.84	695.8	116.90
Total Interest	26.7	29.1	8.99	25.4	(12.71)
Gross Profit	124.8	322.7	158.57	749.7	132.32
Net Dep.	6.5	9.7	49.23	30.6	215.46
Total Taxation	24.4	36.8	50.82	102.0	177.17
Net Profit/Loss	93.9	276.2	194.14	617.1	123.43

4 Years Balance Sheets

(INR mn)

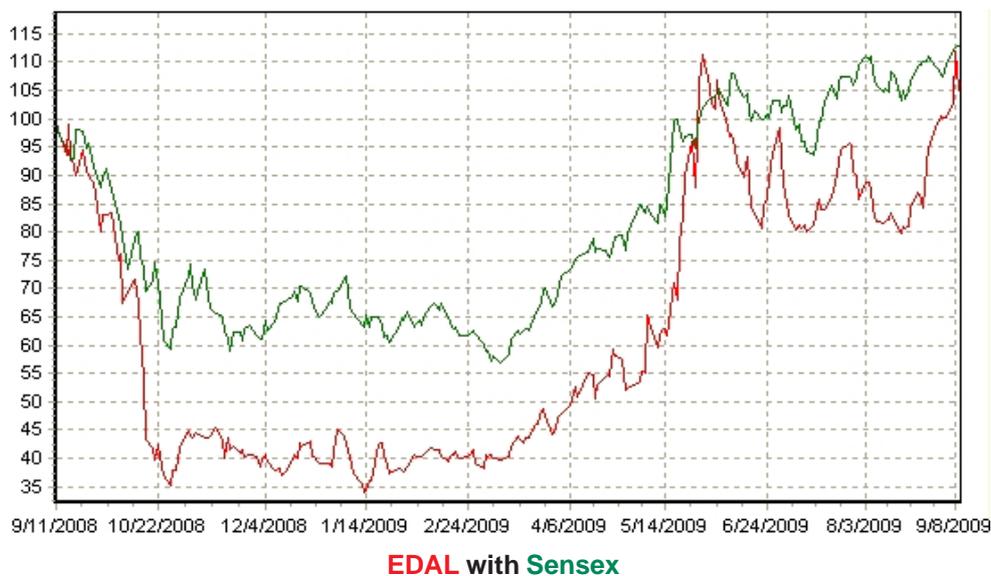
Balance Sheet as on 31 st	Mar 05	Mar 06	Mar 07	Mar 08
SOURCES OF FUNDS	119.2	431.2	2316.3	4185.0
Equity Share capital	15.1	75.1	264.1	278.2
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	0.8	98.7	1792.8	3141.4
Loan Funds	82.1	237.5	258.5	764.5
Unsecured Loans	21.2	19.9	0.9	0.9
USES OF FUNDS	119.2	431.2	2316.3	4185.0
Gross Block	81.0	166.4	289.1	871.1
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	1.2	12.9	22.6	53.1
Net Block	79.8	153.5	266.5	818.0
Capital Work in Progress	0.0	34.6	341.3	618.2
Investments	0.0	40.2	555.9	358.6
Current Assets	75.1	355.8	1477.9	2872.1
Less : Current Liabilities	35.7	152.9	325.3	481.9
Net Current Assets	39.4	202.9	1152.6	2390.2
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	0.0	40.2	555.9	358.5
Mkt Val. Quoted Investments	0.0	0	0	0
Contingent Liabilities	0.0	2.6	9.1	1.0
Dividend (%)	0	0	20	20

Quarterly Income Sheets

(INR mn)

Quarter Ended	Sep 08	Dec 08	Mar 09	Jun 09
Net Sales	1023.7	1037.8	1003.6	1023.3
Cost Of Sales	693.2	730.8	750.3	699.0
Operating Profit	330.5	307.0	253.3	324.3
Recurring Income	10.7	26.4	4.1	1.5
Adjusted PBDIT	341.2	333.4	257.4	325.8
Financial Expenses	19.9	28.4	50.9	38.8
Depreciation	10.4	10.6	21.2	23.1
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	310.9	294.4	185.3	263.9
Tax Charges	87.6	49.8	53.5	56.6
Adjusted PAT	223.3	244.6	131.8	207.3
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	33.1	37.3	50.0	43.6
Net Profit	190.2	207.3	81.8	163.7

52 Week Index Relative Percentage Appreciation



Risks Associated

Volatility in Raw Material prices

Aluminium foil is the major raw material accounting for 63% of sales & around 80% of total costs. The raw material prices are determined by LME & this can impact the raw material costs of the company. Though the aluminium prices have reduced in recent times, once the demand picks up the company's costs would go up.

Dependence on sole supplier for key raw material

EDAL imports 100% of its requirement of aluminium sheets from a single supplier, GARMCO-Bahrain. Aluminium sheets procurement constitutes a significant part of its total lead-time. Any problems faced by GARMCO in their manufacturing facilities or any kind of strain in relationship that the company shares with GARMCO can affect its operations as it has no alternate suppliers.

Lack of bargaining power

On account of dependence on only one supplier for its key raw material, EADL does not have the bargaining power. On the other hand, it supplies to big names in the pharma & FMCG (Cipla, Ranbaxy, Torrent Pharma etc) space making it difficult to display any kind of bargaining power with either its customers or suppliers.

In a Nutshell

Established in 1994, EDAL is one of the fastest growing pharma packaging company in India. The group provides tailor made aluminium & PVC packaging solutions to diverse clientele. EDAL is in to the business of cold rolling of aluminium 'foil stock' to aluminium foil, which is further converted into 'printer stock' through the process of lamination for strip pack or coating for blister pack. It also manufactures thermoforming poly vinyl chloride films as well as PVdC-Coated PVC barrier thermoforming films for blister packaging. The company has a diversified customer base of 250 customers both within India & Overseas. Some of the company's clients include Cipla, Lupin, Unichem, GlaxoSmithKline, Zydus Cadila, Pfizer, Cadila Pharma, Blue Cross, Bayer, Ranbaxy, Dr Reddy's Laboratories, Wockhardt, Sun Pharma, Aurobindo Pharma, Glenmark etc.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate up to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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