

Midfield Industries Ltd : Weak Issue ; Avoid

**IPO Note: High P/E Ratio at 21.2 times
Rating***

Issue details

Price band (Rs)	Rs.126-133
IPO Opening Date	19/07/10
IPO Closing Date	21/07/10
Issue Size	Rs.56.70- 59.85 Crore

Valuations & Recommendation

The operating margin has been increasing over the last 4 years, from 14.2% in FY 2007 to 21.7% in FY 2010. Midfield Industries has set a price band of Rs 126 to Rs 133 per equity share of Rs 10 face value. At the lower band, the P/E would be 20 times and at the upper price band, the P/E would be 21.2 times the EPS of Rs 6.3 for FY 2010. There is no comparable listed company. However, companies in the packaging sector are currently trading at a composite average TTM P/E of around 10. Looking to its fundamentals, the offer price is too high and we recommend to avoid.

Highlights

- ◆ 90% of revenue comes from the domestic market and rest from exports.
- ◆ Brickwork Ratings (BWR) has assigned an IPO Grade 2 to Midfield Industries Ltd IPO. This means as per Brickwork Ratings company has 'Below Average Fundamentals'.
- ◆ Currently, the company exports to the USA, the UK, Canada, South Africa, Australia and Middle East countries.
- ◆ Despite more than 500 customers, top 10 customers gives 50% of business. Loss of any key customers could adversely affect revenue.

Company Introduction

Business & Products

Midfield Industries, is present in the organized segment of the packaging industry catering to the growing demand for industrial packaging consumables in India. Its product basket includes high tensile steel strapping in various dimensions and strengths, different seals for different applications, collated nails and corner boards and end-of-the-line packaging. The company also trades in VCI (volatile corrosion inhibitor) paper used for packaging of various metals to protect them from corrosion. It caters to companies across a wide spectrum of industries like steel, aluminum, glass, copper, paper, automobile, white goods and refractory.

Midfield Industries also undertakes operational contracts for comprehensive end-to-end packaging solutions at customers' locations, enabling clients to focus on their core products and competencies. The endeavor is to position itself as a one-stop shop for complete packaging solutions entailing supply of steel strapping, seals, angle boards, pneumatic packaging tools, L-plates, VCI paper, besides

Financial Summary

Particulars	0803 (12)	0903 (12)	1003 (12)
Sales	87.73	80.54	64.69
OPM (%)	21.7	19.4	17.7
Net Profit	8.14	5.91	4.16
EPS* (Rs)	6.3	4.5	3.2

* Annualised on post-issue equity of Rs 12.82 crore;

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

rendering field engineering services. Essar Steel, Nalco, Vizag Steel Plant and Bhilai Steel plant are some of the key clients for such contracts.

Capacity

The company had an installed capacity of 12,000 tonnes per annum of steel strapping, 100 lakh meters per annum of angel boards, 2.5 crore per annum of seals, 8.4 lakh coils per annum of nails in FY 2010. It has production facility in Hyderabad, Andhra Pradesh, and Roorkee, Uttaranchal, and serves more than 500 customers worldwide.

Expansion

Rs 13.15 crore will be used for expansion of its existing Hyderabad manufacturing facility to produce PET straps, stretch films, PP strapping, collated nails and seals, Rs 4.17 crore will be used to set up manufacturing units for VCI paper in Hyderabad; Rs 6.27 crore for expansion of the Thane manufacturing facility for production of angel board, collated nails, seals and heat treatment plant; Rs 1.6 crore for expansion of the Roorkee plant for manufacturing angel board and collated nails and seals; RS 1.27 crore for manufacturing high tensile steel strapping and seal production at Sharjah; and Rs 5.35 crore for augmenting long-term working capital requirement of Rs 5.35 crore.

Revenue & Export

On an average, 90% of revenue comes from the domestic market and rest from exports. In FY 2009, exports contributed 10% of net sales. The figure dropped to 3% in FY2010 due to capacity constraints and commitments to its existing operational contracts. Currently, the company exports to the USA, the UK, Canada, South Africa, Australia and Middle East countries.

IPO

The company intends to enter the capital markets to raise money in the range of Rs 56.7 crore to Rs 59.85 crore by issuing around 45 lakh equity shares of face value of Rs 10 each in a price range of Rs 126 to Rs 133 per share.

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