

## Aster Silicates : Weak Issue ; Avoid

**IPO Note: Highly Overpriced ; PE Ratio 39 times of FY10 EPS**

**Ranking:\***

### Issue details

Price band (Rs)	Rs.112 - Rs.118
IPO Opening Date	24/06/2010
IPO Closing Date	28/06/2010
Issue Size	Rs.53.1 Crore

### Valuations & Recommendation

The company is targeting to raise Rs 53.1 crore at a price band of Rs.112-118. As of March 31, 2010, top 5 clients accounted for 83.08% of the company's turnover, and it expects the top 5 customers to generate more than 80% of its revenues in the next 3-5 years. However, the company intends to bring down its exposure to the top 5 clients to a level of 60% of its revenue in 5-8 years.

**The company issued 0.33-crore equity shares to the promoter group at a price of Rs 10 in the last one year. At issue price of Rs 112-118, EPS for the year ended March 2010 is Rs 2.9-3.0 resulting in PE of 38.6-39.3. There is no listed peer company. However, TTM PE of the inorganic chemical sector is 9.9. Thus, the issue is highly priced. Looking to all above factors we recommend to avoid this issue.**

### Highlights:

- It operates from two units in Gujarat with aggregate installed capacity of 150 tonnes of glass per day. Unit I at Kheda has a capacity of 100 tonnes of glass per day and Unit II at Bharuch has a capacity of 50 tonnes of glass per day.
- After expansion, the total capacity shall increase to 450 tonnes per day from current 150 tonnes per day. The project is to be completed by January 2011.
- Brickwork Ratings (BWR) has assigned BWR IPO Grade 2 to the proposed IPO of Aster Silicates
- Sodium silicate mostly caters to the FMCG sector, which has a steady growth rate based on the growing domestic economy.

### Company Introduction

#### Promoters and Company details

The promoters of the company are Mahesh A Maheshwari and Namrata M Maheshwari. The company started commercial production of sodium silicate in July 1997 at the Kheda unit with a capacity of 12 MT glass/day.

#### Products

Aster Silicates is engaged in the business of manufacturing of sodium silicate which includes food grade sodium silicate, special drilling grade silicate and detergent grade silicate. The company produces sodium silicate both in glass and liquid form.

#### Application of Products

Food grade sodium silicate is used in the manufacturing of silica

precipitate and gel which finds its applications in toothpaste, salt, cosmetics, glucose powder, tyre & rubber and pesticides, etc. Sodium silicate, (special drilling grade silicate) is also used in offshore drilling and for reactivation of old oil & gas fields. The sodium silicate manufactured by the company is also used in water-proofing, foundries and for investment casting, paper, silica gel, textiles and detergents. Sodium silicates serve a wide range of end-use markets, including soaps and detergents, pulp and paper, paint and pigments, catalysts and metal cleaning.

### Capacity

Currently, the company operates from two units in Gujarat having an aggregate installed capacity of 150 MT of glass/day. Unit-I has three furnaces with an average combined capacity of 100 MT of glass/day. All the three furnaces are triple-pass regenerative and recuperative end-fired glass furnace with multiple fuel arrangement, capable of using bio-gas, coal and also natural gas. Unit-II has a single furnace with a capacity of 50 mts of glass/day, which is also triple pass regenerative and recuperative end-fired glass furnace.

### Expansion Plan

The company is raising this money for expansion of its Bharuch manufacturing facilities by adding a 300-tonne facility to manufacture sodium silicate and additional working capital requirements. After expansion, the total capacity shall increase to 450 tonnes per day from current 150 tonnes per day. The project is to be completed by January 2011.

### IPO and Proceeds

The company intends to enter capital market to raise Rs 53.10 crore by issuing around 0.47- 0.45- crore equity share of face value of Rs 10 each in a price range of Rs 112 to Rs 118 per share.

### Financial Summary

Particulars	0803 (12)	0903 (12)	1003 (12)
Sales	15.27	32.91	61.87
Net Profit	0.66	2.55	4.42
EPS* (Rs)	0.4	1.7	2.9

\* Annualised on post-issue equity of Rs 15.10 crore.

### RANKING METHODOLOGY

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

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