

VMS Industries : Weak Issue ; Avoid IPO Note: Fierce competition and Low margins; Expensive Issue Ranking:*

Issue details

Price band (Rs)	Rs. 36 - Rs. 40
IPO Opening Date	30/05/11
IPO Closing Date	02/06/11
Issue Size	Rs.25.75 Crore

Valuations & Recommendation

The shares of the company are being offered in a price band of Rs 36-40. The company expects to raise about Rs 25.75 crore from the issue. Based on the EPS of Rs 2.77 the P/E comes at 13x at the lower of the price band and 14.44x at the upper end of the price band. The company's strategy is to consolidate its position in Gujarat and penetrate across the country. The strategic location of its plot at Alang-Sosiya will provide it with significant advantages and efficiencies, resulting in lower overheads and cost effectiveness. On the flipside, the company is having limited experience in ship-recycling business and presently holds a limited operational space. The ship recycling business has moderate profit margins due to fierce competition. There is no justification for such premium and hence, we recommend to **AVOID** this issue.

Highlights:

- VMS is a relatively new player in ship-recycling industry having commenced its operations in May 2009.
- IPO grade 1 by ICRA.
- Moderate scale of operation.
- The company has very limited experience in ship recycling.
- Listing only at BSE.
- Negative cash flow in FY10 and FY11.
- Project not appraised by banks / FI.
- In FY10, VMS had a negative fund flow from operations (FFO) on account of high net working capital requirements resulting from the increase in inventory due to purchase of ships and increase in trade & other receivables.
- The industry is characterized by moderate profit margins due to fierce competition, low value addition and long working capital cycles
- Exposure to foreign exchange rate risks could lead to variability in earnings.

DISCLAIMER

The information provided by or in this newsletter is generally from the press reports, electronic media, research websites and other media. The information also includes information from interviews conducted, analysis, views expressed by our research team. Investors should not rely solely on the information contained in this publication and must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors as they believe necessary. The material and the information provided by this newsletter are not, and should not be construed as an advice to buy or sell any of the securities named in this newsletter. SIHL may or may not hold positions in any of the securities named in this newsletter as a part of its business. Past performance is not necessarily an indication of future performance. SIHL does not assure for accuracy or correctness of information of reports in the newsletter.