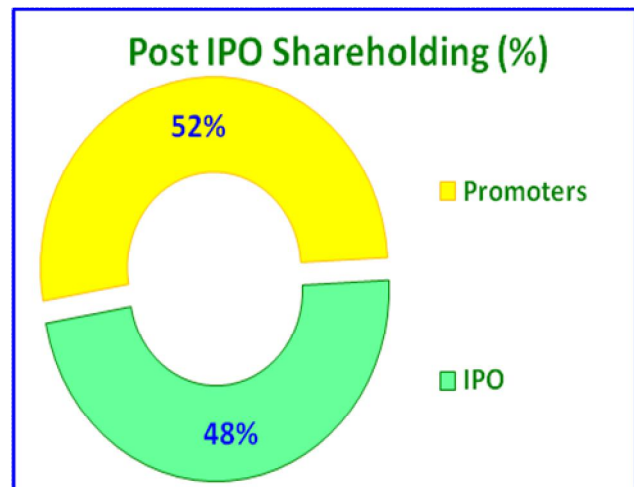




Servalakshmi Paper Limited (SPL)

INR 27-29 (FV 10)

Sector	Paper
Website	www.servalakshmi.in
Issue Opens	27 April 2011
Issue Closes	29 April 2011
Issue	2.07 Crore Shares
Price Band (Rs.)	27-29
Aggregating	60 Crore
Key Executives	R. RAMSWAMY, Y. SHIVARAM PRASAD B. SRIRAMULU, D. MUTHUSAMY
Registrar	Link Intime
BRLM	Keynote Corporate, Indian Overseas Bank
Post Issue Equity	Rs. 43.1 Crore



Assuming Issue at Rs.29/Share Upper Band

Company Background

Incorporated in 2005, Coimbatore based Servalakshmi Paper Limited engaged in the business of manufacturing Printing & Writing Paper and Newsprint. Company's production unit situated at Kodaganallur Village, Tirunelveli district, Tamil Nadu with total installed production capacity of 90,000 MTPA. In printing and writing segment, they produce coated, uncoated, copier, cream wove, SS Maplitho, computer stationary and text/note book papers.

It is part of Tamil Nadu based Servall Group. The Group has presence in all verticals namely paper machinery manufacturing, paper manufacturing, project consultancy and turnkey project implementations. The group produces wide spectrum of papers such as printing & writing, newspapers, industrial paper and speciality papers. The Group has a clientele base of more than 300 paper mills in Asia, Europe, Africa and Gulf Countries.

The Servall group has the following three closely held paper mills which are manufacturing newsprint and specialty papers like wax-match, tissue, OTC, base paper for fax and other grades of printing & writing:

1. Danalakshmi Paper Mills Private Limited (DPMPL),
2. Servalakshmi Paper and Boards (P) Limited (SPBPL)
3. Vijayalakshmi Paper Mills (VPM)

The above three existing group mills together have a combined paper manufacturing capacity of 45,000 tonnes per annum.

SPL is flagship company of the Group. SPL's clients include Times VPL Limited (Times Group), The Hindu Daily, Dinamalar, Kerala Kaumudi Pvt Ltd, The Printers Mysore Pvt Ltd (Deccan Herald), Sakal Papers Ltd, Deshabhimani Daily, Rashtra Deepika Ltd, Metro Vartha, Perfect Systems and Services, Manipal Press Ltd, Vimala Note Book, Rajhans Enterprises and Veer Pack Industries.

SPL clients in the export market include Saifi Trading, Colombo, Sri Lanka, Jupiter Trading Company, Sri Lanka, Vital Solutions PTE Limited, Singapore, New Thought Investments Pvt Ltd, Harare, Zimbabwe, 5. Raccolta, Molnar & Greiner GmbH, Vienna, Austria, Dinowic PTE Limited, Singapore, Paper World Wide, Dubai, UAE.



Apart from the above, the following 2 companies also belong to the Servall Group:

1. Servall Engineering Works Private Limited (SEWL) which is engaged in manufacturing of machineries and accessories for Paper Manufacturing Units.
2. Techno Spin Private Limited (TSPL) which is engaged in the manufacturing of rolls and spares for paper industry.

Objectives of the Issue

The company has embarked upon setting up an integrated paper mill with a capacity to produce 300 tonnes per day (TPD) i.e. 90,000 MTPA, along with a 15 MW multi-fuel captive power plant at a single location. The total investment is estimated to be Rs.340 Crore and the entire project is set to be completed in two phases.

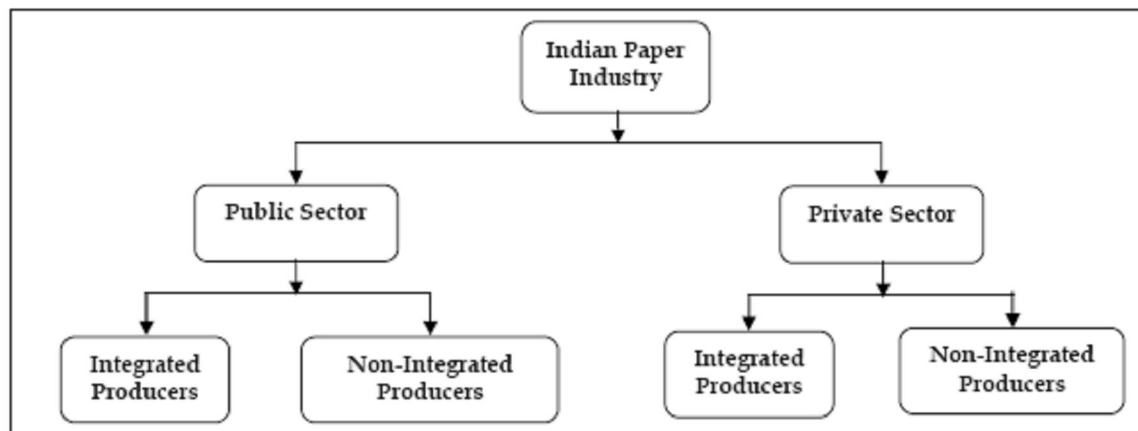
It has already completed the Phase-I of the Project in all respects and has started the commercial production from 1st April, 2010. Having created the required manufacturing facilities through Phase-I it is in the process of implementing the Phase-II of the project which will add balancing equipments for improving productivity and producing value added products, along with augmenting working capital needs.

The company is likely to raise Rs.60 Crore through the IPO. It plans to utilize the proceeds as:

Particulars (INR Crore)	Estimated Cost
Purchase of equipments for value added products	25
Long term working capital requirement	30
Preliminary & Pre Operative Expenses including expenses for IPO	5
Total Cost of Phase-II	60

Highlights

- The Indian Paper manufacturing Industry, which is highly power and capital intensive, is broadly divided into paper, paperboards, and newsprint. The Indian Paper Industry accounts for about 1.6% of the world's production of paper and paperboard. The estimated turnover of the industry is Rs.25, 000 crore (USD 5.95 billion).
- Indian paper Industry can be divided into two main sectors Public sector and Private sector.



- A fully-integrated paper mill is one that receives forest logs or wood chips and processes them to the individual fiber level. The fully-integrated paper mill processes this fiber to pulp slurry, which is then made into a sheet of paper.
- Non-integrated paper mills, on the other hand, purchase the pulp slurry after it has already been created at a pulp mill.



- India is presently, the 15th largest paper producing country in the world. In India the relatively smaller capacity mills account to 95% of the total mills having production capacity of less than 50,000 MTPA. The total production of paper in the year 2008 is estimated at 9.00 million tonnes whereas; the consumption of paper was around 10.00 million tonnes. The newsprint production was 0.8 million tonnes and the printing & writing paper production was 3.3 million tonnes
- Of the total capacity, 39% is Wood based, 31% Agro based and the balance 30% Waste paper (recycled fibre) based. 35% of the capacity is located in North, 30% in West, 30% in South and 5% in East. Whereas, of the total consumption, Printing and Writing paper accounts for about 35%, Newsprint 20% and Industrial and Specialty Papers 45%. The per capita consumption of paper in India is about 8 Kg against the world average of 56 kg and Asian average of 45 kg.
- India has emerged as the fastest growing market when it comes to consumption, posting 10.6% growth in per capita consumption of paper in 2009-10.
- The futuristic view is that growth in paper consumption would be in multiples of GDP and hence an increase in consumption by one kg per capita would lead to an increase in demand of 1 million tons. With the continuous growth in the GDP and improvements in literacy rate and standard of living, the demand for paper and paper products is growing at the annual rate of 7 - 8%. The demand growth in the next three years is as follows:

Sr No.	Type of Paper	Growth Rate (%)
1	Newsprint	4-5
2	Printing & Writing Paper	
	- Non-Surfaced Sized Paper	6-7
	- Surface Sized Paper	7-8
	- Cut Size Copier Paper	15
3	Speciality Paper	5

(Source: Indian Agro & Recycled Paper Mills Association (IARPMA)).

- SPL's paper plant is located at Kodaganallur Village, Tirunelveli district of Tamil Nadu. The plant is located in an area covering about 340 acres of land.
- The location of the mill is in close proximity to Tuticorin Port, which is 72 km away, also near to National Highway (NH7) which is just 5 km away and 6 km away from river Thaimrabarani.
- The paper mill has a total production capacity of 90,000 tonnes per annum, which is one of the largest single location plants in India and ranks within fifteen major plants in India.
- The group's expertise in paper industry has made it possible for access to superior technology in its paper mill.
- It provides diverse variety of Paper to meet the requirements of different sectors. SPL has strong client base of domestic and global customers.

Financial Highlights

Crore	7 M FY 2011	FY 11 E
Net Sales	51.95	89.80
Other Income	0.6	1.00
Total Sales	52.55	90.80
Operating Expenses	50.23	80.82
Operating Profits	2.32	9.98
Interest	12.72	20.25
Depreciation	4.5	8.50
PBT	-14.9	-18.77
Tax	0	0.00
PAT	-14.9	-18.77



Equity (FV 10)	22.42	43.1
EPS (Rs. Not Annualized)	-6.65	-4.36
PE @ Rs. 29	-4.36	-6.66

Peerset Comparison

Please see APRIL “Market Mantra” on our website parasramindia.com for complete coverage on Paper Sector.

Risks

- The company is loss making. Its major capacity started only in FY 2011. It will take some time, before profits start to flow in.
- Promoters have other companies in similar business and there will be clash of interest that may not be in the interest of SPL Shareholders.
- Paper is a cyclical commodity, margins have huge fluctuations. Further, the industry is taken as against environment, often faces social and Govt action against it.

Valuation & Recommendation: Better Option in Listed Space.

Servalakshmi Paper is small entity into paper manufacturing. The company is into losses, as new capacity has started operations in FY 2011. Listed companies with Dividend payment track record are trading at better valuation. **ICRA has give a low “2/5” rating to the IPO. We find this to be RISKY.**

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Shri Parasram Commodities Pvt. Ltd.

FMC Regn. No. -NCDEX/TCM/CORP/0572, MCX/TCM/CORP/0828,

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