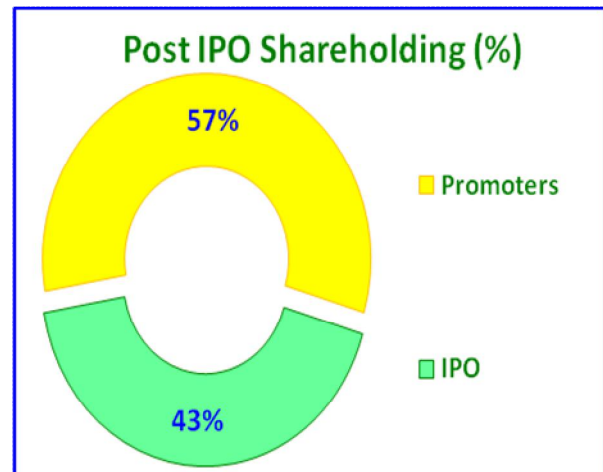




Vaswani Industries Limited (VIL)

INR 45-49 (FV 10)

Sector	Metals
Website	www.vaswaniindustries.com
Issue Opens	29 April 2011
Issue Closes	03 May 2011
Issue	1 Crore
Price Band (Rs.)	45-49
Aggregating	49 Crore
Key Executives	RAVI VASWANI, PRAMOD VASWANI YASHWANT VASWANI
Registrar	Link Intime
BRLM	Ashika Capital
Post Issue Equity	Rs. 23.49 Crore



Assuming Issue at Rs.49/Share Upper Band

Company Background

Raipur (Chhattisgarh) based Vaswani Industries Ltd (VIL) was incorporated in 2003. It is a part of Vaswani group of Industries. Vaswani Group of Industries is one of the reputed group of Chhattisgarh. The Group has a chain of value-added products which include Induction Furnance, Sponge Iron, Steel ingot/billet, Power, Rolling Mill, TMT Bars, Forgings & Casting.

VIL is engaged in integrated business of manufacturing Sponge Iron, Steel Billets & Ingots and power generation. It manufactures Coal-based Sponge Iron. using 3 indigenously developed rotary kilns, with a capacity of 90000 M.T. (3 X 100 MT) along with a Waste Heat Recovery Boiler (WHRB) with a generation capacity of 11.5 MW Power & a Steel Ingot/Billet Plant of capacity 59400 MT. (2 X 9 MT).

It has also installed power generation of 7.5 MW, 5 MW from Waste Heat Recovery Boiler (WHRB) and 2.5 MW from Coal) for captive consumption. Company sells its surplus power generated to private power companies.

Objectives of the Issue

The company is likely to raise about Rs.49 Crore through IPO proceeds (at upper band). It plans to utilize Issue proceeds:

Particulars (INR Crore)	Estimated Cost
Pre-payment of the Term Loan	25.18
Long Term Working Capital Requirements	19.14
Total INR Crore	44.32

Besides, it plans to meet Corporate Expenses, Issue Expenses etc. from the IPO proceeds.

Highlights

- India is the largest producer of sponge iron in the world with total production in the last year, i.e. 2009 being 20.96 million tons. This implies almost 30% growth in production from previous year, i.e. 2007, where production was 16.27 million tons. The major factor for the growth of the Sponge Iron Industry has been the availability of key inputs, iron ore and non-coking coal.



- Sponge iron is used in the manufacture of steel. Its significance has increased in recent times due to capital intensive nature of other steel – making methods. Not only is the cost of setting up steel plant with blast furnace very high, these plants have high power consumption. Even in sponge iron route, it is more economical to put up coal-based sponge iron units and not gas-based units. India has an estimated of 200 sponge iron units, of which more than 100 are coal – based units.
- VIL is small player in Sponge Iron manufacturing. The company’s production unit is located in the vicinity, with easy access to key raw materials like Iron Ore, Coal etc. It has Power purchase agreements with Chhattisgarh Electricity Board and also with Private units near its plants.
- Its Capacity & Capacity Utilization stand as:

Particulars	March 31, 2010	March 31, 2009	March 31, 2008
Installed capacity			
Sponge Iron	90000 MT	60000 MT	60000 MT
Steel Billets/Ingots	36000 MT	36000 MT	36000 MT
Power	7.5 MW	7.5 MW	7.5 MW
Production			
Sponge Iron	47378.03 MT	37809.57 MT	42442.21
Steel Billets/Ingots	4350 MT	36000 MT	14260
Power	7.5 MW	7.5 MW	6.5 MW

Financial Highlights

₹ Crore	FY 10	7 M FY 2011	FY 11 E
Net Sales	90.51	68.51	118.42
Other Income	0.35	0.32	0.50
Total Sales	90.86	68.83	118.92
Operating Expenses	76.36	58.93	101.85
Operating Profits	14.50	9.90	17.08
Interest	5.12	3.25	5.59
Depreciation	3.38	2.61	4.75
PBT	6	4.04	6.74
Tax	2.32	1.35	2.29
PAT	3.68	2.69	4.45
Equity (FV 10)	13.49	13.49	23.49
EPS (Rs. Not Annualized)	2.73	1.99	1.89
PE @ Rs. 49	17.96	24.57	25.88

Peerset Comparison

₹ Crore (FY 10)	VIL	MSP Steel	Godawari Power
FY 10 Total Sales	90.86	395.9	779.5
FY 10 PAT	3.68	32.05	51.4
Equity	13.49	58.1	28.07
Face Value	10	10	10
EPS	2.73	5.52	18.31
CMP	49	59	189
PE	17.96	10.70	10.32
Market Cap	66.10	342.79	530.52
M Cap/FY 10 Sales	0.73	0.87	0.68
PAT (%)	4.05	8.10	6.59



Risks

- The issue is heavily over-priced. Bigger peers with History on bourses are at much attractive valuation.
- The fund raised through IPO will be utilized to retire heavy debt burden, not for any capacity addition.
- Promoters have other entities in same line of business, there is bound to be clash of interest, which may go against the shareholders of VIL.
- ICRA has given a low “2/5” Grading to the issue.

Valuation & Recommendation: Risky.

VIL is small player into Sponge Iron manufacturing. The company also has small captive power plant. The Issue pricing looks stretched as companies in listed space are trading at more attractive valuation. Given a low “2/5” rating by ICRA, the issue looks to be a very risky affair.

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