



Sector – Paper

Bidding Details

Price Band – Rs 27- Rs 29
 Face value – Rs 10
 Bid Size – 200 and in multiple thereof
 Issue Opens – Apr. 27, 2011
 Issue Closes – Apr. 29, 2011

Retail Applications Details

No. of Shares – 200 shares or 34 lots
 Application Money – Rs 1, 97,200
 (At the higher side of the band)

Issue Size –Rs 60 Cr

Issue Allocation

Category	% of Issue	Shares
Net Issue to Public	100%	20689655
QIB's	50%	10344828
Non Institutional	15%	3103448
Retail	35%	7241379

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoters	100%	52.01%
Public	NA	47.99%

Shares Outstanding (Cr.)

Pre-Issue	Post-Issue
2,24,24,000	4,31,13,655

Issue Type - 100% Book Built Issue

Grade

ICRA Rating -
 2/5 indicating below average Fundamentals

Book Running Lead Managers

Keynote Corporate Services Ltd
 Indian Overseas Bank

Registrar

Link Intime India Pvt. Ltd

Listing

BSE, NSE

Captive Power Plant to meet Future Expansion Needs

The company has installed a 15 MW captive power plant for improving efficiency of the paper plant by providing uniform load of power factor. It also saves the input cost of steam and power which will result in better margin for the paper plant. The installed capacity is 25% more than the present requirement which will take care of future expansion needs.

Capacity Addition and Upgrading the Paper Machine

The long term strategic plan covers production and sale of 8250 MT per month of PWP (Printing & Writing Papers) and NP (Newsprint) for FY'13. An additional infusion of Rs.30 cr is being planned to upgrade the paper machine with Top former and Auto Cut size Copier machine branded Copier conversion to introduce Branded Photo Copier paper to increase overall realization and this may constitute around 20% of printing and writing paper. In the long term, the market plan covers 75% Domestic sales and 25% export sales.

State of the Art Technology

The company has adopted the latest technology and the level of automation implemented in each and every area of process, the quality of the product and plant efficiencies will provide significant competitive advantage to the plant.

Maintained Social Responsibilities

The wastages arising out of de-inking process in its factory are processed further and are utilized in boiler as spanning material and thus the pollution is avoided to the maximum level apart from cost reduction. The company's plant facility is designed to meet the requirements of CREP (Corporate Responsibility for Environmental Protection) norms of India and is well equipped with all safety standards necessary.

In- house R&D for better optimization of product line

The company has full-fledged R&D centre for better optimization of new product development. R&D efforts are also made to reduce the cost of production through usage of alternative inputs. The state-of-art facilities enable the company to maintain the consistency in quality. Paper machine is equipped with two QCS system supplied by HONEYWELL AUTOMATION to conform the products to 3-Sigma (Standard deviation) conformity.

Strong Management Team

The company is managed by a team of professionals led by the CMD Mr. R. Ramswamy. The promoter and the senior management team of the company have significant industry experience in the field of paper manufacturing and have been instrumental in company's operations.

Wide Product Range

The company manufactures a wide range of products based on the customer specifications to cater to the diverse demands of its customers and to consolidate and establish its presence across regions.

Selling and Distribution Network

The company has gradually developed their selling and distribution network over a period of time. The company also has an extensive clientele. The company is currently doing business through 38 dealer's network in domestic market and 12 agents for exports.

Locational Advantages

The location of the paper mill is in close proximity to Tuticorin Port and is hardly 5 km away to the national highway. This facilitates efficient movement of raw materials and finished products. This adds Locational advantages to the company which helps in serving their customers.

Maintained Good Relationship with Established Players in the Industry

The company's top client base based on the sales value of the products supplied to them is Times of India, Kerela Kaumudi Pvt Ltd, Deccan Herald, Sakal Paper Ltd, Perfect Coated India Pvt Ltd, Manipal Press Ltdd, Mehra Computer system Ltd, and Arunodaya. The Company is well poised to benefit from this strong relationship with the industry players enabling the company to provide better services to its customers.

Peer Analysis

Peers	Servalakshmi	Emami Papers	Star Paper	Seshasayee Paper
Sale (Rs lacs)	-	39,789	25,127	50,926
EBITDA (Rs lacs)	2.5	6,311.3	1,104.0	11,298.8
EBITDA Margins (%)	NA	16%	4%	22%
PAT (Rs lacs)	3.2	699	834	3,993
PAT Margins (%)	Na	2%	3%	8%
CMP (Rs)	29.0	52.0	26.0	268.2
Equity Cap (Rs lacs)	2,139	1,210	1,561	1,125
Networth (Rs lacs)	5,395	16,050	13,737	22,459
Face Value (Rs)	10.0	2.0	10.0	10.0
Shares outstanding (Rs lacs)	213.9	605.0	156.1	112.5
EPS (Rs)	NA	1.20	5.30	35.5
PE (x)	NA	45.0	4.90	7.60
P/BV(x)	1.15	1.96	0.30	1.34

* At higher price of the stock

At the higher side of the price band, the issue is available at a P/BV of 1.15x.

Recommendations

As of now, the company has not commenced its production yet, so no revenue earned by the company. Owing to this, the company is making losses at operating level, since last 3 financial years.

The company is carrying huge debt of Rs 230.51 cr as at FY'10 and there is absence of enough liquidity in the balance sheet. Debt to equity ratio of the company is as high as 4.35 indicating high leverage.

On the one hand, there is no income and at the same time, on the other hand, there is burden of interest payment.

The current issue of Rs 60 cr is not enough to meet the company's requirements. The company is expanding its plant area and buying other fixed assets from the debt. The company is all set to start production and generate revenue streams.

An investor with long term view can apply for the issue owing to high gestation period involved.

About the Company

Servall is a Tamil Nadu based group having presence in paper industry for more than four decades. The company was incorporated in the year 2005 by Servall Group to setup paper plant at Kodaganallur Village, at Tamil Nadu. The plant is located in an area covering about 340 acres of land. 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. To ensure consistent availability of power, the paper mill has installed a co-generation power plant with a capacity of 15 MW to supply uninterrupted power and steam for the paper plant. The commercial production of power has been synchronized with the paper plant. Servall group's expertise in paper industry has made it possible for the company to save capital cost by more than Rs.100 Cr by adopting superior technology in the paper mill as compared to other paper mills being setup in India.

Income Statement

Income Statement (Rs Lacs)				
	Full Year Ending	31-Mar-08	31-Mar-09	31-Mar-10
Net Revenue		-	-	-
Total Expenditure		6.81	11.5	2.5
EBITDA		(6.81)	(11.53)	(2.46)
Depreciation & Amortization		1.09	6.4	6.6
Total operating Exp.		7.90	17.9	9.1
EBIT		(7.90)	(17.9)	(9.1)
Other Income		5.44	11.37	1.73
Interest		-	0.24	0.32
EBT		(2.46)	(6.75)	(7.69)
Provision for tax		0.84	1.74	1.10
PAT		(3.30)	(8.49)	(8.79)
	<i>PAT Growth</i>	<i>NA</i>	<i>157.3%</i>	<i>3.5%</i>
No. of shares Outstanding (lacs)		420.8	800.8	2,138.8
EPS (Basic) (Rs)		(0.08)	(0.11)	(0.04)

Balance Sheet

Balance Sheet	12M	12M	12M
As on	31-Mar-08	31-Mar-09	31-Mar-10
SOURCES OF FUNDS:			
Share Capital	420.8	800.8	2138.8
Share Warrants & Outstandings	244.0	254.9	99.1
Total Reserves	1675.9	3187.4	3183.6
Shareholder's Funds	2340.7	4243.1	5421.5
Secured Loans	1776.8	12375.4	23051.4
Total Debts	1776.8	12375.4	23051.4
Total Liabilities	4117.5	16618.5	28473.0
APPLICATION OF FUNDS :			
Gross Block	260.9	319.6	381.8
Less: Accumulated Depreciation	1.1	7.4	14.1
Capital Work in Progress	2372.6	12917.8	21593.2
Pre-operative Expenses pending	142.4	1131.1	4056.2
Current Assets, Loans & Advances			
Inventories	-	-	2025.8
Sundry Debtors	-	-	48.8
Cash and Bank	699.3	667.0	255.9
Other Current Assets	1.8	14.2	3.9
Loans and Advances	675.3	2398.1	1860.1
Total Current Assets	1376.4	3079.3	4194.5
Less: Current Liabilities and Provisions			
Current Liabilities	39.1	829.8	1765.3
Total Current Liabilities	39.1	829.8	1765.3
Net Current Assets	1337.3	2249.5	2429.1
Miscellaneous Expenses not written off	5.4	8.0	26.7
Total Assets	4117.5	16618.5	28473.0

For Further Details/Clarifications please contact

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