

RDB Rasayans Ltd.**September 21, 2011**

Price Band	: ₹72 – 79 per share
Minimum Bid Lot Size	: 80 Equity Shares
Maximum Bid Lot Size	: 2480 Equity Shares
IPO opens during	: Sept. 21 – 23, 2011
Book Running Lead Manager	: Chartered Capital and Investment Ltd.
To list on	: BSE
IPO Grading	: 2 / 5 (Brickwork Ratings)
PE	: 52.2x (based on base price)* : 57.3x (based on cap price)*
Market Cap post-listing	: ₹139.95Cr or \$30.42mn (based on the cap price)
Market Cap of Free Float	: ₹48.51Cr or \$10.55mn (based on the cap price)

*Based on FY11 EPS

IPO of 4.5mn equity shares of ₹10each, aggregating to ₹35.55Cr or \$7.73mn (at the cap price).**Shareholding Pattern**

	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters	11574800	87.59%	11574800	65.34%
Other Pre-IPO Shareholder	1640000	12.41%	1640000	9.26%
QIBs (excl. Mutual Funds)	0	0.00%	2137500	12.07%
Mutual Funds	0	0.00%	112500	0.63%
Non Institutional Investors	0	0.00%	675000	3.81%
Public	0	0.00%	1575000	8.89%
Total	13214800	100.00%	17714800	100.00%

Executive Summary

- RDB Rasayans Ltd. (RDBRL) was incorporated as public limited company in October 1995. RDBRL, an ISO 9001:2008 certified organization, is engaged into manufacturing of PP Tape, PP woven sacks, woven fabrics, industrial woven fabric, PP woven fabrics and PP woven bags and manufacturing facility is located in West Bengal.
- Packaging industry is largely dependent on the fast moving consumer goods sector. Indian Packaging industry with a growth of more than 15% p.a. accounts for \$14Bn.
- The market volume of the Indian packaging industry amounts to about ₹77,570Cr and has constantly grown by approximately 15% year on year and the pace of growth will accelerate to between 20-25% over the next five years.
- West Bengal, specifically the port cities of Haldia and Kolkata has all the potential to become an export hub for FIBC, tarpaulin, leno bag & other raffia products. The global demand for these products is extremely high and due to labor intensivity of the raffia manufacturing process, the developed countries find it more economic to source this from the developing world. West Bengal has already been recognized by the world as a sourcing hub for such products.

- RDBRL has constantly shown growth in production and sales. The sale has increased from ₹5.11Cr in the year 2003-04 to ₹46.13Cr in the year 2010-11. As the company was working at over 100% capacity utilization since 2006-07, the installed capacity was increased in March 2009 to total 6050 MTPA (5400 MT for Extruder and 650 MT for Liners) from 1800 MTPA (for Extruder). The installed capacity was increased further in March 2010 to total 7000 MTPA.

Our View

The company operates at negative cash flows and low profitability. Further, higher dependence on top 10 clients (contributes 85%) and top 10 suppliers (contributes 91%) leads to limited scope for growth. At the issue price, the company is priced at 57.30x FY11 EPS, which is expensive as compared to its peers. We therefore advise investors to skip the issue.

Company Background

RDB Rasayans Ltd. (RDBRL) was incorporated as public limited company in October 1995. RDBRL, an ISO 9001:2008 certified organization, is manufacturer of PP Tape, PP woven sacks, Woven fabrics, Industrial woven fabric, PP woven fabrics and PP woven bags. The company is engaged in the manufacturing and sale of Flexible Intermediate Bulk Container (FIBC) and woven sacks and various woven polymer based products like container liners, protective irrigation system, canal liners, etc. which find large scale application in the segments like cement and fertilizer. The manufacturing facility of RDBRL is located in West Bengal.

Promoters and Management

Mr. Shanti Lal Baid is the Managing Director of RDBRL having an experience of about 39 years in the field of electrical goods and cables industries. He was actively involved in setting up the plant at Haldia and currently looking after the marketing, finance and sales of the company.

Mr. Sandeep Baid is a Whole Time Director of RDBRL with an experience of about 9 years in the field of manufacturing and marketing of electrical goods, cables and packing materials & woven sack. He is currently looking after the production along with the full administration of the plant.

Industry Overview

Packaging may be looked at as several different types. For example a transport package or distribution package is the package form used to ship, store, and handle the product or inner packages. Some identify a consumer package as one which is directed toward a consumer or household. It is sometimes convenient to categorize packages by layer or function primary and secondary.

- Primary packaging is the material that first envelops the product and holds it. This usually is the smallest unit of distribution or use and is the package which is in direct contact with the contents.
- Secondary packaging is outside the primary packaging – perhaps used to group primary packages together.
- Tertiary packaging is used for bulk handling and shipping.

Primary Packaging	Secondary Packaging	Tertiary Packaging
• Aerosol spray can	• Boxes	• Bales
• Bags-In-Boxes	• Cartons	• Barrel
• Beverage can	• Shrink wrap	• Crate
• Wine box		• Container
• Bottles		• Edge protector
• Blister packs		• Insulated shipping container
• Carton		• Intermediate bulk container
• Cushioning		• Pallets
• Envelopes		• Slip Sheet
• Plastic bags		• Stretch wrap

The role of packaging has changed from that of a carrier and protector to that of a marketing tool, performing a vital role in brand communication. Technological advancement has been one of the key drivers of growth in this industry. This industry is largely dependent on the fast moving consumer goods sector. Indian Packaging industry with a growth of more than 15% p.a. accounts for \$14Bn. This shows the immense potential in the industry. This growth is expected to be doubled in next two years and figures indicate towards a change in the industrial and consumer set up. Packaging today, has grown in importance and is regarded as vital marketing tool. It enhances product value and helps expand market within and outside country. The packaging industry can be characterized as global and fast growing industry.

➤ **The Indian packaging industry holds a lot of potential.**

- The market volume of the Indian packaging industry amounts to about ₹77,570Cr and has constantly grown by approximately 15% year on year.
- The pace of growth will accelerate to between 20-25% over the next five years.
- The highest demand for packaging and the associated equipment come from the food processing industry at 50% and from the pharmaceutical industry at 25%.
- The large growing middle class, liberalization and organized retail sector are the catalysts to growth in packaging. Also food and Pharma packaging are the key driving segments.
- The Indian food market is estimated to total about ₹8,82,350Cr according to the 'India Food Report 2008' published by Research and Markets.
- Food retail turnover is expected to grow from the current ₹3,39,365Cr mark to ₹7,27,212Cr by 2025.
- The pharmaceutical industry is expected to average an annual growth of 16% till 2012.
- There are about 600-700 packaging machinery manufacturers, 95% of which are in the small and medium sector located all over India.

➤ **Demand – Supply Gap**

The demand supply summary of woven sack / fabric market in Eastern India is given in the table below:

Demand	112, 200 MTA
Production	91,200 MTA
Exports	9000 MTA
Domestic Supply	82200 MTA
Gap	30000 MTA
Available Market for New Unit	30000 MTA + Exports + National Sales

➤ **Demand in Eastern India**

The projected demand level of Synthetic Woven Sacks is expected to undergo a step rise in the coming years. The following tables seek to summarize the findings of the report as compared to the actual demand level of 2008-2009:

(Fig in MTA)

Sector	WB	Bihar	Jharkhand	Orissa	CG	EMP	NE	Total
Cement	6660	1390	7280	6560	13280	21380	1790	59500
Fertilizer	2000	-	-	3640	118	3179	594	9530
Chemicals	6590	120	245	250	245	120	120	7690
Sugar	720	450	0	50	30	15	-	1270
Tarpaulin	5100	2850	1150	2200	2400	-	2300	16000
Food Grain	3575	250	200	1930	600	35	1680	8270
Flour	1000	830	590	460	410	-	1270	4560
Cattle Feed	410	105	-	130	245	150	75	1100
Potato (Leno)	5300	50	-	-	-	-	-	5350
Tea	107	-	-	-	-	-	305	412
Paper	150	-	-	350	-	-	850	1350
Sponge Iron	-	-	-	960	880	-	-	1840
Steel wrapping	-	0	370	500	-	-	-	870
Other	2700	1050	900	2250	600	450	1200	9150
Total	29900	5830	9590	18415	17760	21180	9525	126900

➤ Future growth

- Raffia market (processed product) in the East has witnessed 16% growth in demand in 07-08 over 06-07. Similar growth is likely to continue in the coming years (20% CAGR by 2009-10 over 2007-08).
- East is likely to witness a significant cement capacity addition in the coming years. Around 20 million MTA of cement capacity is to be added between 08-09 & 09-10 in the East, which will generate additional demand of 32000 MTA of raffia bags.
- Leno bag, a variant of raffia bags, is being used in potato packaging in West Bengal and become popular in Bihar. This market is still in short supply and about two third market being catered primary from South India. This sector has a longer term potential of 6000 MTA in the East.
- West Bengal, specifically the port cities of Haldia and Kolkata has all the potential to become an export hub for FIBC, tarpaulin, leno bag & other raffia products. The global demand for these products is extremely high and due to labor intensively of the raffia manufacturing process, the developed countries find it more economic to source this from the developing world. West Bengal has already been recognized by the world as a sourcing hub for such products.

Business Operations

RDBRL is engaged in manufacture and sale Flexible Intermediate Bulk Container (FIBC) and Woven Sacks and various woven polymer based products like container liners, protective irrigation system, canal liners, etc. which find large scale application in the segments like cement and fertilizer. RDBRL, an ISO 9001:2008 certified organization with a track record of business in the field is manufacturer of PP Tape, PP woven sacks, woven fabrics, industrial woven fabric, PP woven fabrics and PP woven bags. The manufacturing facility of the company is located in West Bengal.

RDBRL has constantly shown growth in production and sales. The sale has increased from ₹5.11Cr in the year 2003-04 to ₹46.13Cr in the year 2010-11. The company manufactures high strength, low GSM FIBC with high safety factor. The company also manufactures Jumbo Bags (FIBCs) with 140 GSM Bags, 5:1 safety factor for 1000kg safe working load and 160 GSM Bags, 6:1 safety factor for 1500kg safe working load. RDBRL produces FIBCs of U+2 panel, circular jumbo bags, baffle bags, all panel bags, conductive FIBC and static dissipative FIBCs. In addition to FIBC, the company also manufactures various woven polypropylene products including small bags, box woven

bags, roofing underlayment fabric, courier bags, ground covers, silt fence and geotextiles. The company offers woven bags and fabrics in both PP and HDPE. Its products are UV stabilized and pre-conditioned against shrinkage.

In June 2003, RDBRL commissioned its plant at Haldia with the manufacturing capacity of 1800 MTPA. Initially RDBRL started the manufacturing of small bags and later in the year 2004 the company entered into the segment of manufacturing FIBC (Jumbo Bags). As the company was working at over 100% capacity utilization since 2006-07, the installed capacity was increased in March 2009 to total 6050 MTPA (5400 MT for Extruder and 650 MT for Liners) from 1800 MTPA (for Extruder). The installed capacity was increased further in March 2010 to total 7000 MTPA.

Strengths

- **Strong management Team**

The management team of RDBRL has significant industry experience and has been instrumental in the consistent growth of the company's income and operations.

- **Relationship with established players in industry**

RDRBL enjoys credible relationship with its growth partners such as Debtors, Creditors, Bankers etc. The company is well poised to benefit from this strong relationship with the industry players, enabling the firm to provide better services to its customers.

- **Multiple products**

The company distributes a wide range of products such as Flexible Intermediate Bulk Container, PP & HDPE Woven Sack, Box Bags, Woven Polypropylene Sheets and PP Fibrillated Twisted Yarn, which helps RDRBL to cater to the diverse demands of its customers and to consolidate and establish its presence across regions.

- **New Products in pipeline**

RDRBL is in the process of entering new Technical Textile applications consisting of geotextiles, pond liners, canal liners, flexi-tanks, etc. these value-added products are well accepted in the western world and offer good realizations and margins as compared to its PP-based woven packaging products. The company believe there is a good potential for concept products like rain water pond and woven PP canal liner in India, at the backdrop of water scarcity, drought etc.

Objects of the Issue

The objects of the issue are:

- To finance the capital expenditure to enhance the manufacturing capacity by 7450 MTPA by establishing the Unit -II.
- To meet General Corporate Purpose
- To meet Issue Expenses

Utilization of net proceeds

(₹Cr)

Activity	Total Fund requirement	Net Amount to be deployed from Issue Proceeds	Fund already deployed	Estimated schedule of deployment of Balance fund during 2011-2012	
				Apr-Sept	Oct-Mar
A. To finance the capital expenditure to enhance the manufacturing capacity by 7450 MTPA by establishing the Unit -II. (A)					
Civil Works	4.43	0.00	4.43	--	--
Plant & Machinery	24.34	[•]	0.42	4.78	19.13
Pre-operative Expenses	0.70	[•]	--	--	0.70
Provision for Contingencies	1.20	[•]	--	--	1.20
Security for WBSEDCL	2.00	[•]	--	2.00	--
Sub Total (A)	32.66	[•]	4.85	6.78	21.03
B. General Corporate Purpose (B)	[•]	[•]	---	[•]	[•]
C. Issue Expenses (C)	[•]	[•]	0.31	[•]	[•]
Total (D)=(A)+(B)+(C)	[•]	[•]	5.17	[•]	[•]

Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

- The Company is largely dependent on single and few customers, as the top one and top ten customers constitutes around 15% and 85% of the total income for the year 2010-11. In addition, company is also dependent on few suppliers as top one and top ten suppliers constitutes around 43% and 91% of the total purchases (other than capital goods) for the year 2010-11. The loss of one or more significant clients or suppliers for any reason may have an adverse effect on operations of the company.
- Promoters do not have any experience in packaging industry and are not involved in the day to day activities of the Company due to which the promoters are dependent on the key managerial personnel of the Company for successfully running of the Company. The future performance will depend upon the continued services of these persons. Demand for key managerial personnel in the industry is intense and inability to attract and retain key managerial personnel may affect the operations of the Company.
- SEBI is investigating the case of Genex Laboratories Ltd, wherein Mr. Vinod Baid is the Chairman. Mr. Vinod Baid is also the trustee of Regent Education & Research Education Foundation (Group entity).
- The major raw materials which are used by the company are Poly Propylene, Poly Ethylene, LDPE and LLDPE. The raw material consumption cost is 64.90% of the total expenditure of the Company for FY11. The Company is dependent on a few suppliers for raw materials and does not currently have long term contracts or exclusive supply arrangements with any of the vendors. In the event of a delay, inadequacy or default in deliveries by any of the vendors, could affect the business.

Restated Profit & Loss Statements

(₹Cr)

Particulars	FY07	FY08	FY09	FY10	FY11
Net Sales	23.96	25.07	30.61	28.47	42.42
Total Expenditure	20.88	22.13	26.66	24.95	37.32
Raw material cost	16.6	16.97	20.93	18.23	26.29
Mfg & other expenses	4.28	5.16	5.73	6.72	11.03
Gross Profit	3.08	2.94	3.95	3.52	5.1
Other Income	0.16	0.2	0.59	0.3	0.13
EBIDTA	3.24	3.14	4.54	3.82	5.23
Depreciation	0.67	0.72	1.02	1.27	1.51
Interest	0.49	1.1	1.17	1.55	1.16
Profit before Tax	2.08	1.32	2.35	1.00	2.56
Tax	0.52	0.34	0.66	0.22	0.74
Profit After Tax	1.56	0.98	1.69	0.78	1.82
IT Adjusted for earlier years	0.00	0.02	-0.28	0.00	0.02
Net PAT	1.56	0.96	1.97	0.78	1.80
No of Shares	0.33	0.33	0.33	1.32	1.32
EPS(₹)	4.73	2.97	5.12	0.59	1.38
Price	79	79	79	79	79
PE(x)	16.71	26.60	15.43	133.69	57.30

Restated Balance Sheets

(₹Cr)

Particulars	FY07	FY08	FY09	FY10	FY11
Fixed Assets (including Capital WIP)	11.15	13.70	18.22	19.94	20.70
Less: Accumulated Depreciation	1.83	2.52	3.54	4.79	6.29
(A) Net Block	9.32	11.18	14.68	15.15	14.41
(B) Investments	0.00	0.00	0.00	0.00	0.00
Inventories	2.62	3.39	3.19	3.53	9.53
Sundry debtors	2.15	3.10	3.03	4.75	4.98
Cash and bank balances	4.09	0.07	0.50	0.88	0.81
Loans and advances	4.12	7.88	8.80	6.77	5.11
(C) Total Current Assets & Advances	12.98	14.44	15.52	15.93	20.44
Secured loans	7.00	8.77	11.18	10.61	12.52
Deferred tax liability	0.77	0.82	1.10	1.14	1.23
Current liabilities & Provisions	2.15	2.68	2.63	3.25	3.22
(D) Total Liabilities and Provisions	9.91	12.27	14.91	15.00	16.97
Net Worth (A+B+C-D)	12.39	13.34	15.29	16.07	17.88
1 Share capital	3.30	3.30	3.30	13.21	13.21
2 Share application money	0.00	0.00	0.00	0.00	0.00
3 Reserves and Surplus	9.09	10.04	11.99	2.86	4.66
Net Worth (1+2+3)	12.39	13.34	15.29	16.07	17.88

Keynote Capitals Ltd.

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