

Flexituff International Ltd.**September 28, 2011**

| | |
|----------------------------------|---|
| Price Band | : ₹145 - 155 per share |
| Minimum Bid Lot Size | : 40 Equity Shares |
| IPO opens during | : Sept 29 – Oct 04, 2011 (for QIB's) |
| | : Sept 29 – Oct 05, 2011 (for Others) |
| Book Running Lead Manager | : Collins Stewart Inga Ltd. |
| To list on | : NSE & BSE |
| IPO Grading | : 3 / 5 (CARE) |
| PE | : 11.47x (based on base price)* |
| | : 12.27x (based on cap price)* |
| Market Cap post-listing | : ₹336.54Cr or \$68.4mn (based on the cap price) |
| Market Cap of Free Float | : ₹252.3Cr or \$51.28mn (based on the cap price) |

*Based on post issue FY11 earnings.

IPO of 6.75mn equity shares of ₹10each, aggregating to ₹104.62Cr or \$21.26mn (at the cap price).**Shareholding Pattern**

| | Pre-Issue | | Post-Issue | |
|-----------------------------|-----------------|----------------|-----------------|----------------|
| | No. of Shares | % Holding | No. of Shares | % Holding |
| Promoters | 5637820 | 32.75% | 5637820 | 25.97% |
| Other Pre-IPO Shareholder | 4486592 | 26.07% | 2236592 | 10.30% |
| Body Corporate | 6847075 | 39.78% | 6847075 | 31.54% |
| QIBs (incl. Mutual Funds) | 0 | 0.00% | 3375000 | 15.54% |
| Non Institutional Investors | 0 | 0.00% | 1012500 | 4.66% |
| Public | 240623 | 1.40% | 2603123 | 11.99% |
| Total | 17212110 | 100.00% | 21712110 | 100.00% |

Executive Summary

- Flexituff International Ltd. (FIL) was originally constituted as a partnership firm in January 1966 and was converted into a public limited company with the name "Flexituff International Ltd." in April 2003. FIL is into manufacturing of FIBC, Geo-Textile Fabric and Ground Cover, Reverse Printed BOPP Woven Bags, Special PP Bags including Leno Bags.
- Despite global competition, the Indian plastics industry is expanding. The per capita consumption of polymers in India is 4 kgs p.a. against 90 kgs p.a. in the US, 60 kgs p.a. in the Europe and a global average of 17 kgs p.a.
- In terms of volume, Indian FIBC Industry is the 2nd largest exporter and 3rd largest producer in the world after China and Turkey respectively.
- FIL's step down subsidiary, Lakshmi Incorporated, U.S.A manufactures reclosable extruded zipper profile which is used as a secondary closure for 5-50 kgs bags.

Our View

FIL priced at the post issue PE multiple 12.27x of FY11 earnings, which is slightly higher than its peers. But considering the revenue growth and scope for margin expansion due to rise in contribution from geo-textiles segment, where the operating margins are high (25% to 40%), we advise the investors **to consider subscription** for the IPO.

Company Background

Flexituff International Ltd. (FIL) was originally constituted as a partnership firm in January 1966 with the name “Saurabh Potteries & Ceramics” at Indore. Further, the name of the partnership firm was changed to “Naviska Packaging” in March 1993. Subsequently, the partnership firm was converted into a private limited company as “Naviska Packaging Private Limited” in April 1993. Later, the name of the company was changed to “Giltpac International India Private Ltd.” in June 2001 and again changed to “Naviska Packaging Private Ltd.” in January 2003. Further, the company was converted into a public limited company and the name was changed to “Flexituff International Ltd.” in April 2003.

FIL is into manufacturing of FIBC, Geo-Textile Fabric and Ground Cover, Reverse Printed BOPP Woven Bags, Special PP Bags including Leno Bags. These products are manufactured at three manufacturing units located in Pithampur (M.P.) and Kashipur (Uttarakhand).

Promoters and Management

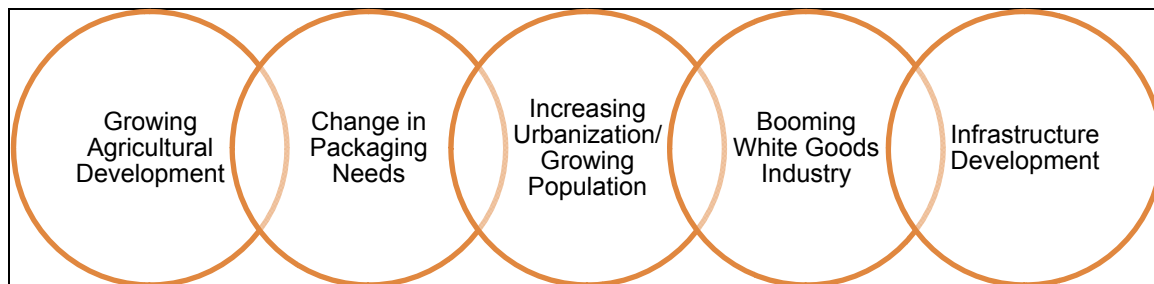
Mr. Manish Kalani is the Managing Director of FIL and under his management the company started its second manufacturing facility at the SEZ in Pithampur in the financial year 2003-04. He has successfully completed various expansion plans undertaken by the company.

Mr. Anirudh Sonpal is the Chairman and Independent Director of FIL. His core areas of practice include Internal, Management & Operations Audit, Internal Controls, Risk Management, Corporate Governance and Indirect Taxes.

Industry Overview

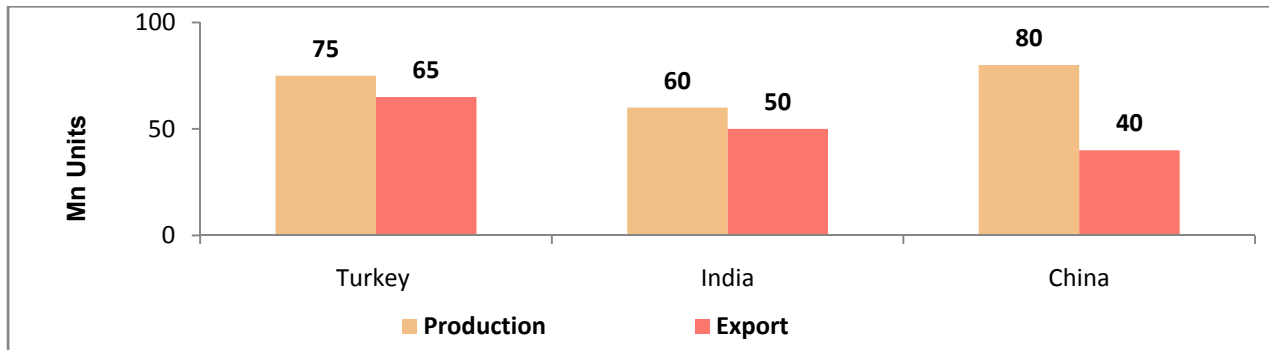
Despite global competition, the Indian plastics industry is expanding. Large projects have been set up or are under construction for the production of polymers. The Indian industry has the capacity to export polymers in million of tons, which will go up as some of the Indian petrochemical majors are currently operating at low capacity utilisation. With the steady build-up of capacities, the downstream products industry is increasingly accessing local supplies. The per capita consumption of polymers in India is 4 kgs against around 90 kgs p.a. in the US, around 60 kgs p.a. in the Europe and a global average of 17 kgs p.a. With the end user profile changing and new applications being introduced.

Industry demand drivers



FIBC Industry (Flexible Intermediate Bulk Containers)

- In past, US market has grown at a rate of 10%-15% p.a. whereas Europe has grown at approx 4.5% p.a.
- Five years ago, market share of Indian FIBC was 3%, however today, it commands a considerable position. Currently, India's exports approx 75000 mtpa.
- In terms of volume, Indian FIBC Industry is the 2nd largest exporter and 3rd largest producer in the world after China and Turkey.

Production and Export (FIBC)**Geotextile Industry**

- The principal functions performed by Geo-textiles are confinement/separation, reinforcement, filtration, drainage, and protection and is mostly used in roads for separation and reinforcement.
- Application includes Civil Engineering (roads and pavements, slope stabilization and embankment protection, tunnels, rail-track bed stabilization, ground stabilization and drainage etc), Marine Engineering (Soil erosion control and embankment protection, breakwaters) and Environmental engineering (landfills and waste management).

Reverse Printed BOPP (Biaxially Oriented Polypropylene) bags Industry

- Reverse printed BOPP bags is a new development in packaging industry and has advantage over ordinary woven PP bags. It is used for packing of products in 5-50 kgs capacities. Globally, it is mainly used by the retail segment.
- In USA, instead of paper bags, Reverse-printed BOPP woven bags are being used as it has better strength and it also retains/improves printing qualities thereby improving aesthetics of the bag.
- BOPP woven bags were mainly exported to USA from China but due to the imposition of anti dumping duty on exports of BOPP bags from China the Indian manufacturers has gained huge opportunity to enter the USA's vast market.

Business Operations

FIL is into manufacturing of FIBC, Geo-Textile Fabric and Ground Cover, Reverse Printed BOPP Woven Bags, Special PP Bags including Leno Bags. These products are manufactured at three manufacturing units located in Pithampur (M.P.) and Kashipur (Uttarakhand). The company also has a recycling and reprocessing plant at Kandla which is used for recovering polypropylene and making various compounds of plastics. FIL's R&D centre at Kashipur is engaged in the research and development of various compounds for plastic products including engineering plastic, bio-degradable plastic and other new product developments.

FIL's step down subsidiary, Lakshmi Incorporated, U.S.A manufactures reclosable extruded zipper profile which is used as a secondary closure for 5-50 kg bags. Recently, the company has manufactured trap bags for AmeriGlobe USA, who was contracted by the City of Fargo to provide trap bag container barrier system for flood protection in eight Fargo City locations. The company has manufactured 35 miles of 100 feet long, 4 and 6 feet tall trap bags chains, which have been air freighted to different flood locations at Fargo, North Dakota and Lafayette, Los Angeles for Red river and Mississippi river. FIL exports to around 30 countries across the globe and are present in 4 continents with major thrust of exports being to U.S.A and Europe.

Strengths**Multi-Product Portfolio**

The aim of FIL is to be one-stop shop to the customers for all packaging woven products. It has been expanding product portfolio and currently produce FIBCs (500 kgs), Special PP Bags and Reverse Printed BOPP Woven Bags (5

to 50 kgs), Leno Bags for Agri-products packing, Woven Geo Textile Bags and Fabric for prevention of land-slides, control for soil erosion, river bank protection, underlay of roads etc.

Multi-Location Company

The company has presence at 3 different locations in India and has 4 separate completely integrated facilities, which gives an edge in terms of better management and control, regional advantages, ability to manage labour, proximity to local markets. Over and above this, it mitigates the risk of any calamity, catastrophe at any single location

Multi-market company

FIL is not dependent on a single market. It has presence in overseas as well as domestic market. Its products are exported to 30 different countries and in the domestic market. Further, the company has exported around 9.3mn FIBC bags during FY 2011.

Objects of the Issue

The objects of the issue are:

- Expansion of manufacturing facilities at SEZ and DTA units at Pithampur;
- Setting up of Dripper Project at Kashipur;
- Working capital requirements;
- General corporate purposes;

Utilization of net proceeds

| Particulars | Amount (₹Cr) |
|---|--------------|
| Expansion of facilities at SEZ and DTA units at Pithampur Purchase of plant & machinery at SEZ ₹ 6.32cr Factory building ₹4.23cr Purchase of plant & machinery at DTA ₹8.38cr | 18.93 |
| Dripper Project at Kashipur Purchase of plant & machinery | 8.09 |
| Working capital requirement | 25.00 |
| General corporate purposes and issue expenses | [•] |
| Total | [•] |

Investment Risks

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

- The purposes for which the proceeds of the Fresh Issue are to be utilized have not been appraised by any bank or financial institution. In the event of any upward revision in the estimates, proposed expenditure of the company would increase which could adversely affect the results of operations, profitability and ability to effectively implement the business plans.
- The company's exports to USA and Europe contribute 49.2% of the revenues. As both nations are going through the recession phase, the business of the company could adversely affect the business.
- The company has negative net cash flow from operating and investment activities as per restated financial statements. Any negative cash flow in the future would adversely affect the business, results of operations and financial condition.
- The company doesn't have any long term contracts with the customers and around 90% of the business on standalone basis comes from spot purchase orders and failure to procure such orders on a continuous basis could adversely impact the revenues and profitability of the company.

Restated Profit & Loss Statements

(₹Cr)

| Particulars | FY07 | FY08 | FY09 | FY10 | FY11 |
|--|---------------|---------------|---------------|---------------|---------------|
| Total Revenues | 161.41 | 220.23 | 260.75 | 301.11 | 489.08 |
| Total Expenditure | 143.68 | 192.41 | 225.21 | 258.29 | 421.43 |
| Manufacturing Expenses | 123.41 | 168.42 | 199.67 | 229.02 | 367.78 |
| Employees Expenses | 3.18 | 3.90 | 5.41 | 7.61 | 10.61 |
| Selling Expenses | 14.36 | 16.83 | 16.83 | 16.74 | 35.67 |
| Admin Expenses | 2.73 | 3.26 | 3.3 | 4.92 | 7.37 |
| Gross Profit | 17.73 | 27.82 | 35.54 | 42.82 | 67.65 |
| Other Income | 0.57 | 1.27 | 0.51 | 0.8 | 1.29 |
| EBIDTA | 18.30 | 29.09 | 36.05 | 43.62 | 68.94 |
| Depreciation | 2.24 | 3.91 | 5.1 | 11.12 | 13.1 |
| Interest | 5.58 | 14.09 | 20.68 | 20.29 | 24.49 |
| Earnings before Tax before extra item | 10.48 | 11.09 | 10.27 | 12.21 | 31.35 |
| Miscellaneous Expenditure | 0.01 | 1.35 | 0.03 | 0.03 | 0.03 |
| Earnings before Tax | 10.48 | 9.74 | 10.25 | 12.19 | 31.32 |
| Tax | 2.26 | 2.11 | 2.11 | 5.27 | 4.33 |
| Profit After Tax | 8.22 | 7.63 | 8.14 | 6.91 | 26.99 |
| Prior Period Expenses | 0.29 | 0.03 | 0.20 | -0.60 | -0.44 |
| Net Profit after adjustments | 7.93 | 7.61 | 7.94 | 7.52 | 27.44 |

Restated Ratios

| Particulars | FY07 | FY08 | FY09 | FY10 | FY11 |
|----------------|-------|-------|-------|-------|--------|
| EBIDTA Margins | 11.3% | 13.2% | 13.8% | 14.5% | 14.1% |
| EBT Margins | 6.5% | 4.4% | 3.9% | 4.0% | 6.4% |
| PAT Margins | 5.1% | 3.5% | 3.1% | 2.3% | 5.5% |
| RONW % | 19.0% | 13.0% | 11.5% | 9.0% | 16.8% |
| ROCE % | 19.2% | 16.3% | 11.6% | 9.2% | 12.4% |
| Book Value | 72.04 | 51.85 | 61.10 | 51.12 | 74.99* |
| EPS | 13.67 | 6.73 | 7.03 | 4.60 | 12.64* |
| PE | 11.34 | 23.03 | 22.06 | 33.72 | 12.27 |
| BV/Price | 2.15 | 2.99 | 2.54 | 3.03 | 2.07 |

*Based on post IPO equity

Restated Balance Sheets

(₹Cr)

| Particulars | FY07 | FY08 | FY09 | FY10 | FY11 |
|-----------------------------------|--------------|---------------|---------------|---------------|---------------|
| Gross Block | 77.20 | 95.38 | 228.04 | 264.96 | 290.21 |
| Less: Accumulated Depreciation | 6.00 | 10.01 | 15.07 | 25.58 | 38.67 |
| Net Block | 71.19 | 85.37 | 212.96 | 239.38 | 251.54 |
| Capital WIP | 1.76 | 31.46 | 13.28 | 33.99 | 71.43 |
| Patent | 0.00 | 0.00 | 0.06 | 0.06 | 0.06 |
| Total Fixed Assets (A) | 72.95 | 116.84 | 226.31 | 273.43 | 323.03 |
| Investments(B) | 0.00 | 0.04 | 1.75 | 2.88 | 10.47 |
| Inventories | 19.97 | 26.56 | 35.53 | 61.87 | 96.18 |
| Sundry Debtors | 18.01 | 37.42 | 22.55 | 49.06 | 119.48 |
| Cash & Bank Balance | 2.36 | 2.76 | 12.16 | 13.41 | 12.23 |
| Loans & Advances | 9.15 | 9.23 | 25.21 | 34.74 | 38.76 |
| Total Current Assets (C) | 49.48 | 75.97 | 95.44 | 159.07 | 266.64 |
| Secured Loans | 41.35 | 49.50 | 149.41 | 222.10 | 287.24 |
| Unsecured Loans | 0.50 | 46.56 | 47.25 | 46.00 | 1.90 |
| Current Liabilities | 33.04 | 28.91 | 48.17 | 68.30 | 126.99 |
| Provisions | 0.63 | 1.56 | 0.70 | 1.33 | 3.42 |
| Total Liabilities (D) | 75.52 | 126.53 | 245.53 | 337.72 | 419.55 |
| Deferred Tax Liability (E) | 5.13 | 6.84 | 8.17 | 13.44 | 17.76 |
| Net Worth(A+B+C-D-E) | 41.79 | 59.47 | 69.80 | 84.22 | 162.83 |
| Represented by: | | | | | |
| 1.ShareCapital | 2.70 | 11.09 | 11.31 | 11.52 | 17.21 |
| 2.Share Application Money Pending | 0.00 | 0.00 | 0.00 | 6.96 | 0.00 |
| 3.Reserves&Surplus | 39.09 | 47.50 | 57.72 | 65.11 | 146.56 |
| 4. Miscellaneous Expenditure | 0.00 | 0.00 | 0.00 | 0.00 | 0.95 |
| Net Worth (1+2+3) | 41.79 | 58.59 | 69.04 | 83.59 | 162.83 |

Keynote Capitals Ltd.

Member

Stock Exchange, Mumbai (INB 230930539)
National Stock Exchange of India Ltd. (INB 010930556)
Over the Counter Exchange of India Ltd. (INB 200930535)
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

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