

KEYNOTE

I P O A N A L Y S I S

Manaksia Ltd.

Price Band	: Rs140 - 160 per share	December 17, 2007
Issue open during	: December 17 - 19, 2007	
Recommendation	: Subscribe with a long term view	
Book Running Lead Manager	: ICICI Securities	
To List on	: NSE and BSE	
Market Cap post-listing	: Rs11.1Bn \$282mn (based on the cap price)	

IPO of 15.5mn equity shares of Rs10 each, aggregating to Rs248Cr or \$62.8mn (at the cap price)

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters and Promoter Group	40,397,690	74.8%	40,397,690	58.1%
QIBs excluding Mutual Funds	-	0.0%	7,315,000	10.5%
Mutual Funds	-	0.0%	385,000	0.6%
Non Institutional Investors	-	0.0%	2,310,000	3.3%
Employees	86,250	0.2%	186,250	0.3%
Public	13,550,110	25.1%	18,940,110	27.2%
Total	54,034,050	100.0%	69,534,050	100.0%

Recommendation - Subscribe with a long term view

- Manaksia Ltd. is a multi-product company with a product portfolio that includes value-added metal products, metal packaging, mosquito coils and engineering.
- Manaksia has a wide footprint, with subsidiaries in India, UAE, Nigeria and Ghana. We view the geographic footprint, in India and in Nigeria, as a positive. Nigeria, which offers benefits like low raw material prices and fiscal incentives, accounts for as much as 45% of total revenues.
- Its operations are spread across 15 manufacturing units in India and 3 international units in Africa, thereby exploiting the location advantages of raw material procurement, fiscal incentives, proximity to customer resulting in reduction in logistic costs and delivery time.
- Manaksia has successfully been able to integrate certain parts of its operations across a number of products. It has reduced third party dependence for procuring raw materials, leading to cost reductions and better product quality.
- In FY07, metal products constituted 72.5% of aggregate revenues. Going forward, we expect the dominance of metal products to continue, as it further expands its capacity out of the IPO proceeds.
- It plans to achieve vertical integration by setting up a steel cold rolling plant of 50,000tpa at Haldia, West Bengal, expected to be completed by December '07. This will provide raw material for its plants for galvanized operations located at Bankura and Nigeria.
- Production of mosquito coils lacks synergies with the core business of metal products. Even the core business has an erratic track record of revenue growth (see chart on page 3).
- The IPO is priced at 10.3x FY08E and 8.0x FY09E earnings and EV/EBIDTA of 7.6x and 5.8x for FY08E and FY09E respectively. Though the valuation appears to be at a discount to peers (table on page 7), we believe the discount is justified, as peers Bhushan Steel and JSW Steel both have captive power plants. Investors may consider this IPO with a long term view only.

Company Background

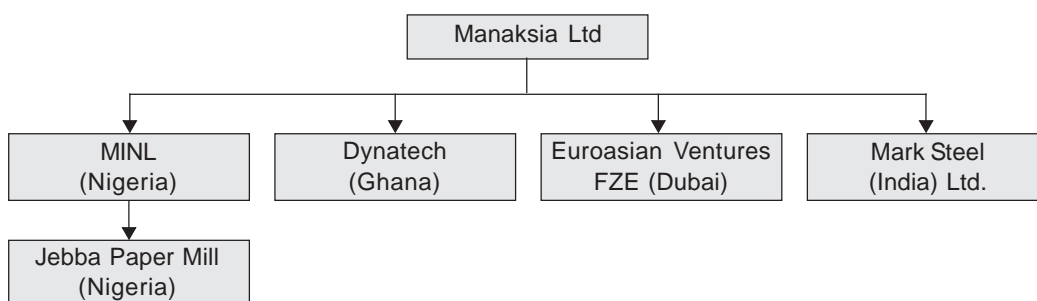
Incorporated as Hindustan Seals Ltd. in 1984, it had commenced international operations in 1996. It changed its name to Manaksia Ltd. in 2003. It is a multi-division and multi-location enterprise with presence in value-added metal products, packaging, mosquito coils and engineering.

It used to also trade in bullion; however the activity was ceased in FY06.

Promoter Background

Mr. Basant Agrawal, promoter and MD, is a commerce graduate and has industry experience of over three decades. Suresh Agrawal, the co-founder is the Chief Operating Officer. He holds a bachelors degree in chemical engineering and also heads the marketing division.

Business Structure



Business Overview

Manaksia has four sources of revenues:

1. Metal products that contributed 72.5% in FY07 to the net sales and 82% to EBIT. The segment includes products like aluminium alloy ingots, rolled sheets/coils and galvanized steel sheets/coils.
2. Metal packaging which contributed 14.4% and 9.3% to net sales and EBIT respectively in FY07 includes product like roll on pilfer proof (“ROPP”) caps, crown closures, plastic caps and metal containers.
3. Mosquito coils, and
4. Engineering segment.

A significant part of Manaksia’s business, since the year 2000 was sale of aluminium sheets/coils outsourced under a job work arrangement from Pennar Aluminium Company Ltd. (PALCO), Hyderabad. However, after Hindalco’s acquisition of PALCO in February 2006, it lost access to the latter’s aluminium rolling facilities. Manaksia therefore set up the Haldia plant for rolling facilities leading to overall cost reduction as well as reduction in logistic costs.

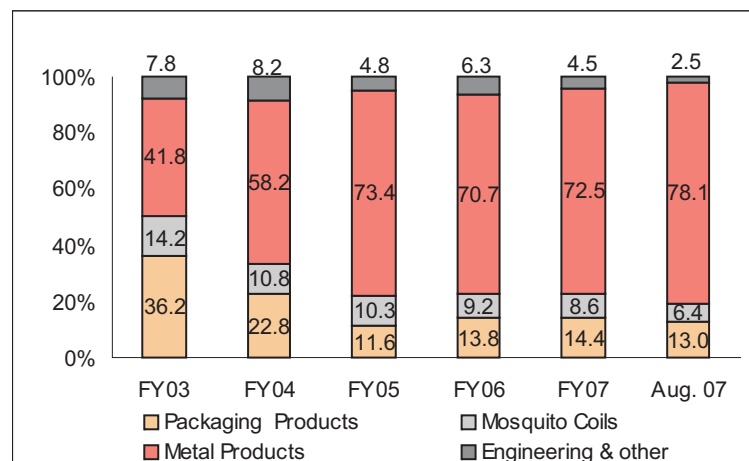
In FY00, Manaksia commenced manufacture of mosquito coils as a third party manufacturer for Mortein (Reckitt Benckiser) and Maxo (Jyothy Laboratories). It produces coils lasting various durations. It also manufactures mosquito coil stands. Its new clients include Eveready Industries and Dabur India.

In our view, mosquito coils is a completely unrelated diversification, with little synergy with the core business of metal products.

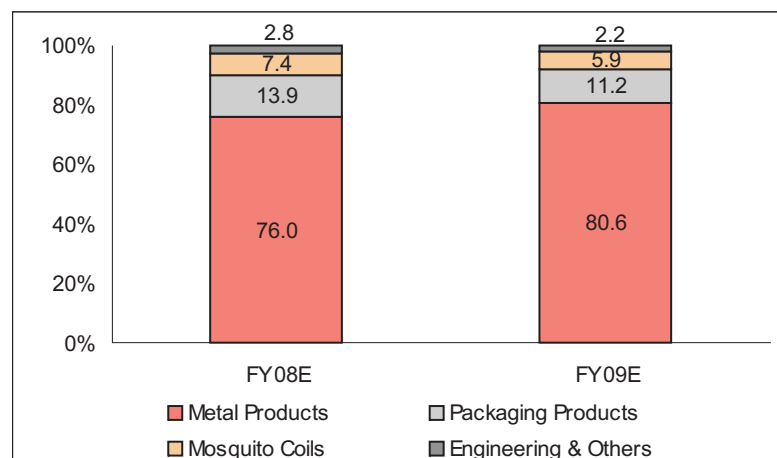
Capacities of Indian and African operations

	Capacity (tpa)
Manaksia Ltd.	
Aluminium Products	60,000
Value Added Steel Products	30,000
Steel Cold Rolled Coil	50,000
MINL Ltd. (Nigeria)	
Aluminium Products	24,000
Value Added Steel Products	28,000
Mark Steel Ltd.	
Sponge Iron	60,000
MS Ingot	53,760
Total	
Aluminium Products	84,000
Valued Added Steel Products	58,000
Steel Cold Rolled Coil	50,000
Sponge Iron	60,000
MS Ingot	53,760

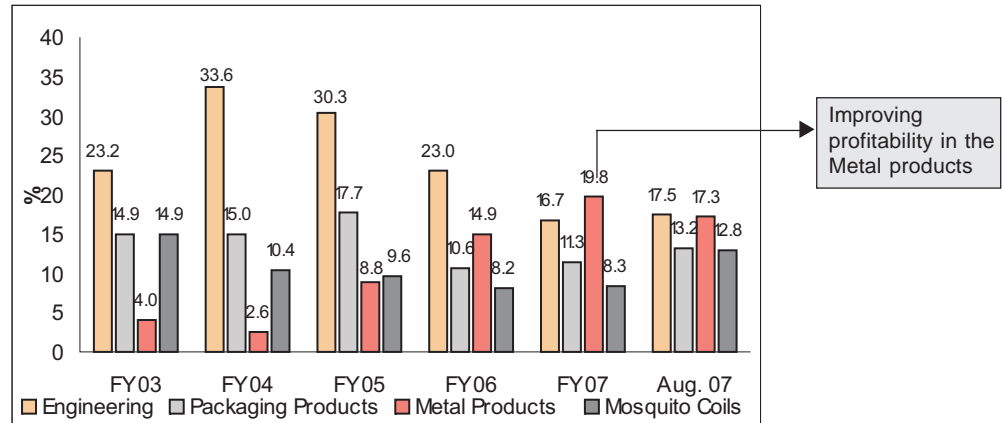
Revenue Mix predominantly dominated by metal products...



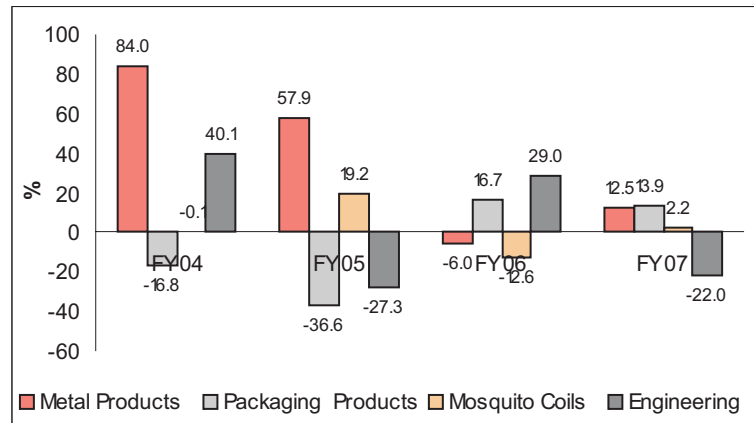
...dominance of metal products to continue going forward



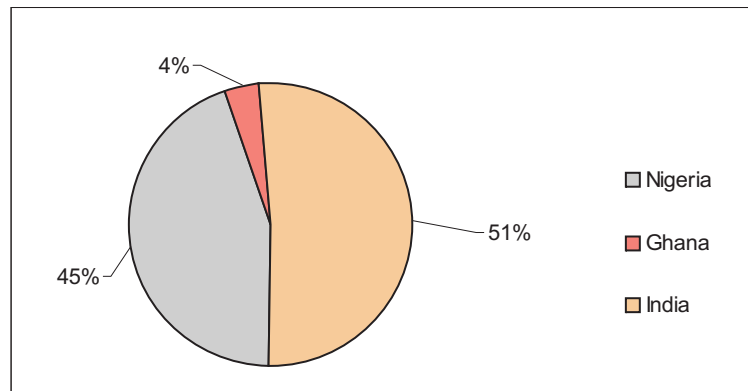
EBIT margins by product segments



Erratic trend of revenue growth in the core segment



Revenue by geography in FY07



Raw material availability at Nigeria

- Ban on Aluminium scrap exports ensures availability of cheaper scrap of aluminium ingots
- Low power and fuel costs as Nigeria is rich in mineral and natural resources and a net exporter of electricity

Capacity and utilization levels

Capacity (tpa)	FY05	FY06	FY07
Aluminium Products	55,900	55,900	55,900
Value added Steel pr.	58,000	58,000	58,000
Sponge Iron	60,000	60,000	60,000
MS Ingot	-	53,760*	53,760

*Production commenced in March 2006

Production (tonnes)	FY05	FY06	FY07
Aluminium Products	19,733	34,379	36,894
Value added Steel pr.	19,488	32,712	36,482
Sponge Iron	27,840	25,020	27,240
MS Ingot	-	2,365	17,203

Change in composition of revenues

Part of revenue growth for Manaksia during FY04-06 was attributable to trading revenues (see financials on page 8). Accordingly EBITDA margin reduced from 12.4% in FY03 to 8.3% in FY04, which improved to 11.4% in FY06. However, with the reduction in trading revenues in FY07, EBITDA margins improved significantly to 20.8%. This is also attributable to vertical integration in certain parts of operations across a number of products.

Impact of reduced demand for coils

We understand that Jyothy Laboratories which currently outsources 60% of its Maxo coils production, intends to eliminate outsourcing completely, going forward. We expect this development to impact Manaksia's margins to the extent of its exposure to Maxo.

Industry overview

Indian Steel Industry

According to the National Steel Policy, 2005, India produces 38 MT of steel making it the 9th largest steel producer in the world. In the last 15 years steel production in India has increased at a CAGR of about 7% p.a. The steel production is expected to grow from the current 38 Mt during FY05 to 65 Mt by FY12 and 110 Mt by FY20, which implies a CAGR of 7.3% p.a.

After facing difficult times in FY 2002 with depressed global steel prices and chronic excess capacities the industry has experienced a trend reversal on account of stronger global demand and firmer prices. The Indian steel industry's resurgence started in FY03 and continued in FY04 and FY05 driven by sharp surge in international prices and an increase in both exports as well as domestic demand.

Indian Aluminium Market

According to the Indian Bureau of Mines, India has the sixth largest bauxite deposit in the world. Bauxite deposits are found in the states of Andhra Pradesh, Orissa, Chhattisgarh, Jharkhand, Gujarat and Maharashtra. Indian Companies have emerged as low cost producers of Aluminium due to several reasons. Indian bauxite is of superior quality and is largely located on a single plateau, thus making bulk mining possible.

This translates into significant cost savings for producers. Aluminium is also a power intensive business. Many producers have also set up captive power plants to overcome the problem of expensive power. Backed by abundant, good quality bauxite and coal, as well as lower cost labour, Indian companies have emerged as low cost producers of aluminium.

The domestic aluminium industry consists of three primary producers: Hindalco, National Aluminum Company Limited and Vedanta Resources Plc, which controls Bharat Aluminum Company Limited, or BALCO, and Madras Aluminum Company Limited, or MALCO, all of whom are integrated producers with a presence ranging from bauxite mining to aluminum metal production.

The combination of low per capita consumption of aluminium in India at 0.67 kg in India compared to 20-30 kgs in developed countries and the increased demand for aluminium from the automobile, construction and consumer durables sector presents significant potential for the players in the Indian aluminium space.

Packaging

The metal packaging industry has witnessed intense price competition in the past few years. Increasingly, suppliers have to compete on price in order to build a long-term strategic partnership with their customers. Metal crown closures have minimal product differentiation and this provides the customer with better bargaining powers while determining the supply price.

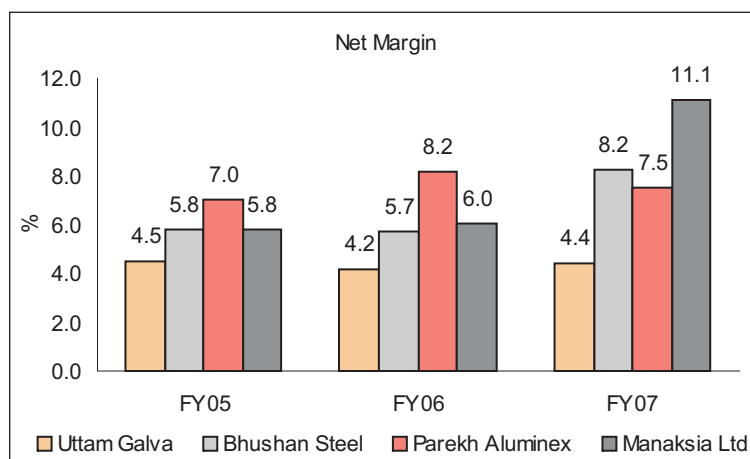
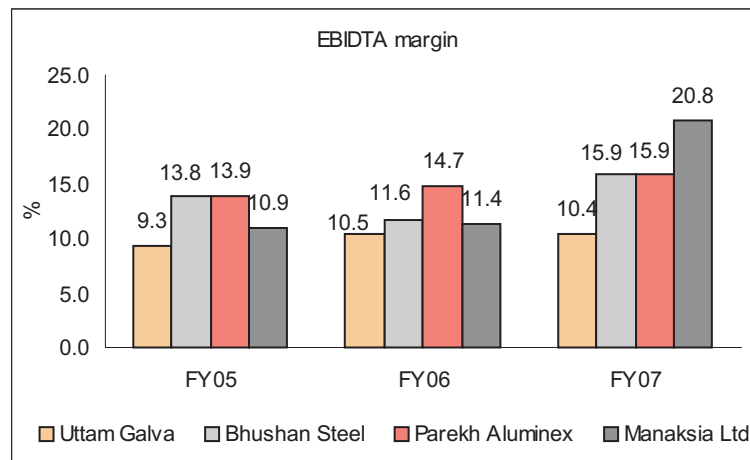
Higher level of consumer spending and changing consumer tastes has encouraged increases in line extensions and new product introductions.

Household Insecticides

The mosquito repellent industry in India is a Rs14 billion industry. The various forms of repellent available in the market include mosquito repellent coils, mats, vapourisers, creams and newer forms of repellent including personal sprays and gels. Tortoise, launched by Bombay Chemicals Ltd. (BCL) in the 1970s was the first brand of coils to be introduced in the Indian Market.

Besides these large players, a number of local brands are also available across the country. While the coil, vapouriser, cream markets have matured and are logging minimal growth, the personal mosquito repellent segment is in its infancy but growing fast. Coils account for a substantial portion of the market in India for personal mosquito repellent.

Trends in EBITDA and net margins of peers in metal products



Project Overview

(RsCr)

Objects of Issue	Metal product category	FY 08	FY 09
Capital Expenditure for De-bottlenecking - Haldia	Aluminium Rolling Mill	-	84.6
Equipments for Specialty Alloy Plant	Specialty Alloy Plant	-	17.4
Additional Machinery for Steel Cold Rolling Plant	Haldia Steel Plant	-	13.5
Prepayment/repayment of Debt		60	115.5
Total		60	115.5

Means of Finance

The objects of the Issue are proposed to be financed entirely through the proceeds of the fresh Issue

Shortfall, if any, shall be financed through internal accruals.

Keynote Capitals's earnings estimates

Particulars	FY08E	FY09E
Sales (RsCr)	936.44	1,216.21
Net Profit (RsCr)	108.08	138.77
EBITDA margin	20.4%	20.3%
EPS (Rs)	15.54	19.95
P/B (x)	1.4	1.2
EV/EBIDTA (x)	7.6	5.8
P/E (x)	10.3	8.0

Investment Concerns

- Lacks backward integration as it is not self sufficient in iron ore, coal, alumina resources and has no captive power generation capacity.
- Any change in incentive policy/structure may impact profitability.
- Nigeria accounting for 45% of FY07 sales, any currency rate fluctuation may impact earnings.

Peer Comparison

	EPS (Rs)		Price (Rs)	P/e (x)		EV/EBIDTA (x)	
	FY08	FY09		FY08	FY09	FY08	FY09
Manaksia Ltd	15.54	19.95	160	10.3	8.0	7.6	5.8
Bhushan Steel Ltd	89.07	103.57	1504	16.9	14.5	12.9	10.8
JSW Steel Ltd	94.31	109.38	1337	14.2	12.2	7.6	6.2

Comparison with AMD Metplast, a peer in the metal packaging segment

	Net Sales			EBIT margins		
	FY05	FY06	FY07	FY05	FY06	FY07
AMD Metplast	64.13	70.22	68.5	13.0%	13.4%	12.0%
Manaksia	89.51	104.49	119.05	17.7%	10.6%	11.3%

Profit & Loss Statements

(RsCr)

For period ending	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	31.08.07
Sales	433.66	562.95	599.06	679.36	727.32	382.00
Trading revenues	34.53	138.91	348.13	434.87	100.47	71.28
Net Sales	468.19	701.87	947.19	1114.23	827.78	453.28
Raw Materials Consumed	264.38	393.07	351.04	364.50	386.53	223.18
Cost of Trade Goods Sold	35.96	135.12	340.30	451.83	96.45	64.55
Staff Costs	13.92	16.67	19.12	23.81	28.72	11.35
Other Manufacturing Exps.	58.08	58.61	80.49	89.72	82.14	41.92
Admin. & SGA Exps.	37.95	40.37	52.73	57.31	62.04	23.98
Total Expenditure	410.29	643.84	843.69	987.16	655.88	364.97
EBIDTA	57.90	58.03	103.50	127.07	171.91	88.31
Other Income	1.92	11.15	0.98	2.69	6.40	0.42
Interest Exps	18.07	7.03	8.78	27.46	43.32	20.24
EBDT	41.75	62.16	95.69	102.29	134.99	68.48
Depreciation	8.41	13.15	19.79	26.14	33.81	14.05
Net Profit before tax	33.34	49.01	75.90	76.15	101.18	54.44
Total Tax	6.30	8.32	21.28	8.94	9.11	3.61
Profit after Tax	27.03	40.68	54.62	67.22	92.06	50.82
EBIDTA margin	12.4%	8.3%	10.9%	11.4%	20.8%	19.5%
EPS (Rs)	5.13	7.72	10.36	18.66	17.04	9.41
Book value (Rs)	25.15	32.04	43.54	87.56	73.44	82.83
ROE (%)	20.4%	24.1%	23.8%	21.3%	23.2%	11.4%
Net margin	5.8%	5.8%	5.8%	6.0%	11.1%	11.2%

Balance Sheets

(RsCr)

As at,	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	31.08.07
Sources of Funds						
Paid-up Equity Share capital	10.55	10.55	10.55	7.21	10.81	10.81
Preference Share capital	0.00	0.00	0.00	0.00	2.37	2.37
Capital Suspense account	0.00	0.00	0.00	2.37	0.00	0.00
Total Share Capital	10.55	10.55	10.55	9.58	13.18	13.18
Reserves & Surplus	121.80	157.70	217.86	304.15	383.65	434.39
Minority Interest	0.26	0.69	1.20	1.71	0.00	0.00
Total Shareholders Funds	132.61	168.94	229.61	315.44	396.83	447.57
Secured Loans	184.18	232.94	318.34	334.71	351.35	338.17
Unsecured Loans	47.86	99.25	60.83	76.24	76.06	39.19
Total Debt	232.04	332.19	379.16	410.95	427.40	377.36
Deferred Tax Liability	22.14	26.55	40.36	40.42	42.85	43.82
Total Liabilities	386.79	527.67	649.13	766.81	867.08	868.74
Applications of Funds						
Gross Block	225.42	412.27	520.61	587.62	662.87	673.59
(-) Depreciation	31.69	42.67	62.37	89.45	122.25	134.83
Net Block	193.73	369.60	458.24	498.16	540.61	538.75
Investments	1.47	0.02	0.02	0.58	0.49	0.23
Curr. Ass., Loans and Adv.						
Inventories	117.24	146.09	154.11	246.02	314.89	221.89
Sundry Debtors	83.06	107.93	111.57	105.36	142.10	128.35
Cash and Bank Balances	3.40	5.95	2.83	7.11	9.10	12.45
Loans and Advances	41.74	38.55	48.96	82.63	95.03	95.85
Total Curr. Ass.	245.43	298.51	317.47	441.12	561.12	458.53
Current Liab. and Provisions	55.52	144.75	132.65	177.24	243.09	139.96
Net Curr. Assets	189.91	153.77	184.82	263.87	318.03	318.57
Misc. Exp. not written off	1.68	4.29	6.05	4.20	7.94	11.19
Total Assets	386.79	527.67	649.13	766.81	867.08	868.74

Keynote Capitals Ltd.

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Subscribe & Hold	:	subscribe for listing gains, hold for further appreciation
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Subscribe with a medium term view	:	stock can deliver only over 6-8 months after listing
Subscribe with a long term view	:	value can only be realised over 12-18 months
Await listing	:	good fundamentals; consider valuations on listing

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