

Sejal Architectural Glass Ltd.

Price Band	: Rs105 - 115 per share	June 9, 2008
Issue open between	: June 9 - 12, 2008	
Recommendation	: Subscribe with a long term view	
Book Running Lead Manager	: Saffron Capital Advisors	
To list on	: NSE & BSE	
IPO Grading	: 1 / 5 by Crisil	
Market Cap post-listing	: Rs322Cr or \$75mn (based on the cap price)	

IPO of 9.2mn equity shares of Rs10 each, aggregating to Rs106Cr or \$25mn (at the cap price)

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters	1,87,73,845	99.8%	1,87,73,845	67.0%
QIBs excluding Mutual Funds	-	0.0%	43,67,224	15.6%
Mutual Funds	-	0.0%	2,29,854	0.8%
Non Institutional Investors	-	0.0%	13,79,123	4.9%
Public	32,000	0.2%	32,49,954	11.6%
Total	1,88,05,845	100.0%	2,80,00,000	100.0%

Recommendation - Subscribe with a long term view

- Incorporated in 1998, Sejal Architectural Glass Ltd. (SAGL) is into processing of insulating, toughened and laminated glass. Its plant is located at Dadra, Nagar Haveli. The company also has a trading division which supports various in-house brands and products of other manufacturers. The products include tiles, sanitary-ware, mirrors, glass, etc. for home and commercial interiors.
- The per capita consumption of glass doubled from 0.4Kg in 1999 to 0.8 Kg in 2007. Float glass and sheet glass constitute 89% and 11% of the flat (float and sheet) glass market respectively. The flat glass industry in India grew by 90% during FY00-07. The demand for flat glass in 2005 was 1977 tonnes per day, a growth of 18.5% y-o-y.
- Construction and auto are the major user industries of float glass. While 83% of glass is used in construction, 15% is used in automotive industry. Both these industries reported phenomenal growth during the past few years, on account of softened interest rates.
- However, the recent macro-economic developments are not very encouraging for construction and automotive industries. In the backdrop of the growing inflation, rising crude oil prices and increasing interest rate scenario, both industries are likely to see a marginal slowdown in the medium term.
- The glass industry is also going under the strain of over-capacity situation, (which is likely to continue for next 1-2 years), cheap Chinese glass imports and lack of codes of standards for Indian glass.
- SAGL plans to set-up a glass manufacturing line (capacity of 550 tonnes per day) in Gujarat. The line is expected to commence production in March 2009.
- The Indian glass industry has immense potential to grow as the long term growth story in the construction and automotive industries in India remains intact. The introduction of low-cost cars and the changing focus of real estate developers to semi-urban cities due to high land prices can be major growth drivers.
- In our view, though SAGL has a track record of 7 years in the glass industry, processing has been its core business. We believe there is an execution risk. Further the expansion will reflect in revenues only from FY10. The company has raised Rs310Cr in debt for the purpose of expansion, servicing of which can further impact profitability. Competing with other market leaders and marketing efforts would require strong management support.

- IPO is priced at 73.3x FY09E and 19.4 FY10E earnings. Considering the aggressive plans of the company (increasing balance sheet size by 6 times) and also taking into account execution risks, high leverage, recent macro-economic scenario, we recommend subscribing with a long term view only.

Company Background

Incorporated in 1998, Sejal Architectural Glass Ltd. (SAGL) is into processing of glass. The company has processing facilities for insulating, toughened, laminated glass, at Dadra, Nagar Haveli.

The company has a trading division named 'Sejal Encasa', located at Kandivali, Mumbai. The division trades in both in-house brands and other manufacturers' products. The products traded include tiles, sanitaryware, mirrors, glass, etc. for home and commercial interiors.

Promoters

Mr. Amrut S. Gada (CMD) has 19 years of experience in the glass industry. In 1991, he started his first venture Sejal Glass House.

Industry Overview

Domestic Glass Industry

The demand for flat glass in India is growing @ 10-12% p.a. for last few years. The increasing activities in construction and automotive industry have fueled this growth. The growth would likely continue, as both these sectors are under expansionary phase.

The demand for flat glass was 1977 tonnes per day in 2005, up 18.5% y-o-y. The year saw depleting exports of glass due to huge domestic demand. The exports were 142 tonnes per day whereas average is ranging in 300-350 tonnes per day. Despite such a strong growth, the Indian market remains mostly untapped. The per capita consumption of glass is 0.8Kg.

Float Glass Demand in India

Float glass is the most produced product in the flat glass industry. It accounts for 89% of aggregate production of flat glass, whereas the global average is 95%. Rest of the glass production comes from sheet glass. Float glass differs from other types of flat glass in terms of superior quality and distortion free nature. It is extremely clear with light transmission upto 90%.

The production of float glass in India is 6,34,275 tonnes, of which 76% is consumed in India.

Float glass demand is divided into Automotive and Non-Automotive consumers. In FY04-05, the Non-Automotive consumers (tonnage wise) accounted for 93% of the demand drivers for float glass in India.

Demand Drivers

1. Real estate sector which is growing at 30% y-o-y growth.
2. Strong growth in automobiles industry, mainly passenger vehicles.

Business Overview

SAGL processes for insulating, toughened, and laminated glasses. The company commenced operations in 2001 by setting up a processing facility for insulating glass. Since then it broadened its product portfolio. The company processes various categories of value-added glass for exterior and interior applications, including decorative glass.

Insulating Glass

Insulating glass saves energy, reduces noise pollution, and controls sunlight. The main applications are in commercial and residential projects, IT parks, passenger vehicles, thermal power stations, airports, hospitality industry, pharmaceutical factories, refrigeration industry and other premises where energy conservation and sound insulation is essential.

Toughened Glass

Toughened Glass is 4-5 times stronger than ordinary glass of same thickness and is used as safety glazing material.

It has applications in automobile sector, space research centre, fire zones, power stations and atomic energy establishment, multi storey buildings, gauge for industries using machine oils in furnace, cinema industry, hotel industry, shopping arcades and public premises, shop main doors and architectural uses.

Laminated Glass

Glass is laminated by bonding two layers of glasses and one or more inter layers of Plasticized Poly Vinyl Butyral (PVB) together under heat and pressure. The laminated glass has the ability to retain itself in the position even after the breakage makes it a safety glass. The company has automated lamination line imported from Bystronic, Germany.

Trading business

In 2007, the company set up its trading division under the name 'Sejal Encasa' in Mumbai. It trades in various in-house and other manufacturers' products.

The products include residential and commercial interior products covering tiles, sanitaryware, mirrors, glass, bathing products, paintings, art and artifacts, sculptures, lights, chandeliers, mirrors and luminaries, amongst others.

Expansion Project

As a backward integration plan, SAGL proposes to set up a 200,750 tonnes p.a. float glass manufacturing facility in Gujarat. The company has acquired 608,540 sq. mts of land. L&T has been appointed as the contractor for executing the construction and civil work.

Particulars	(RsCr)
Manufacturing facility of float glass	
Land acquisition, development, construction and civil works	95.71
Plant & Machinery	309.78
Misc. Fixed Assets	4.00
Preliminary and pre- operative Expenses	15.00
Margin Money for Working Capital Requirements	10.38
General Corporate Purpose	N.A.
Issue Expenses	N.A.
Total	N.A.

Fund Raising Plan

Particulars	(RsCr)
Term Loan	318.00
Unsecured Loans	15.00
Pvt. Placement	39.83
IPO Proceeds	105.73
Total Fund raising	478.56

Peer Comparison

(RsCr)

Company Name	Asahi India Glass	Borosil Glass Works	Haldyn Glass	Saint-Gobain Sekurit India	SGAL
Sales Turnover	995.76	69.06	62.57	67.00	38.24
Profit After Tax	8.44	7.95	9.44	0.69	2.74
Paid-up Equity Capital	15.99	3.61	5.38	91.11	28.00*
Price Rs (9-Jun-08)	55.95	603.00	70.05	20.75	115.00
Market Cap	895	218	38	189	322
EPS (Rs)	0.53	22.02	17.55	0.08	3.42#
Book Value (Rs)	18.41	103.88	40.54	5.52	27.34
P/E (x)	106.0	27.4	4.0	274.0	33.6
P/B (x)	3.0	5.8	1.7	3.8	4.2
P/S (x)	0.9	3.2	0.6	2.8	8.4
EBITDA margin	13.2%	10.1%	30.8%	9.5%	14.0%
52 Week High (Rs)	137	1040	112	48	-
52 Week Low (Rs)	55	380	50	18	-
FVPS (Rs)	1	10	10	10	10

* post-listing equity capital

annualised

Keynote Capitals's Earnings Estimates

For year to March 31 ,	2008E	2009E	2010E
Net Sales	56.38	67.66	246.98
Profit After Tax	6.78	4.39	16.58
EBITDA margin	18.7%	19.0%	17.5%
EPS (Rs)	3.61	1.57	5.92
P/e (x)	31.9	73.3	19.4

KEYNOTE

Profit and Loss Statements

(RsCr)

For period to,	31.3.03	31.3.04	31.3.05	31.3.06	31.3.07	31.12.07
Net Sales						
- Sales & Income from Operations	17.20	19.32	24.20	29.50	33.67	35.38
- Traded Sales	0.00	0.37	0.10	0.00	4.57	6.28
Total sales	17.20	19.70	24.30	29.50	38.24	41.66
Expenditure						
Raw materials	12.12	12.82	15.56	20.23	25.47	24.93
Labour Charges	0.28	0.40	0.68	0.57	0.53	0.93
Admin Exps	0.40	0.65	0.87	1.22	2.31	2.80
Mfg., Selling & Other Exps.	1.62	1.90	2.97	3.92	4.59	5.21
Total Expenditure	14.42	15.76	20.08	25.94	32.90	33.87
EBITDA	2.79	3.94	4.21	3.57	5.34	7.79
Other Income	0.08	0.26	0.44	1.07	1.46	2.89
Interest	1.76	1.32	1.03	0.93	1.57	2.84
PBDT	1.11	2.88	3.62	3.71	5.23	7.85
Depreciation	0.51	0.55	0.60	0.65	1.22	1.60
Profit Before Tax	0.60	2.33	3.03	3.06	4.00	6.25
Tax	0.40	0.64	0.40	0.83	1.22	1.55
Reported Profit	0.20	1.69	2.62	2.23	2.78	4.70
Extra-ordinary items	0.05	-0.04	0.12	0.07	0.04	0.00
Adjusted Profit	0.15	1.73	2.50	2.16	2.74	4.70
EBITDA margin	16.2%	20.0%	17.3%	12.1%	14.0%	18.7%
EPS (Rs)	0.50	5.76	8.33	7.21	2.65	3.42*
Book Value (Rs)	12.23	16.67	23.72	28.69	41.71	27.34
Paid-up Equity Capital	3.00	3.00	3.00	3.00	10.34	18.30

* annualised

Balance Sheets

(RsCr)

As at,	31.3.03	31.3.04	31.3.05	31.3.06	31.3.07	31.12.07
Sources of funds						
Share Capital	3.00	3.00	3.00	3.00	10.34	18.30
Share Application	0.20	0.15	0.00	0.00	29.67	0.05
Reserves	0.47	1.85	4.12	5.61	3.10	31.67
Total Shareholders' Funds	3.67	5.00	7.12	8.61	43.11	50.02
Loan Funds						
Secured Loans	10.51	10.24	9.43	15.11	24.69	72.42
Unsecured Loans	0.00	0.48	1.02	4.43	5.82	17.02
Total Debt	10.51	10.72	10.44	19.54	30.50	89.44
Total Liabilities	14.18	15.72	17.56	28.15	73.61	139.46
Application of funds						
Gross Block	11.21	12.50	13.31	26.50	44.59	57.15
Less Depreciation	1.00	1.55	2.14	2.79	4.01	5.58
Net Block	10.21	10.95	11.17	23.71	40.58	51.57
Work- in- Progress	0.38	0.11	0.04	11.41	19.10	17.42
Pre-Operative Exps.						
- Float Glass Project	0	0	0	0	4.1637	14.4802
- Sejal Encassa Project	0	0	0	0.02	0.3085	0
Investments	0.01	0.01	0.01	0.12	0.01	0.06
Curr. Assets, Loans and Adv.						
Inventories	3.02	2.80	2.43	4.98	10.15	15.96
Sundry Debtors	5.46	6.15	6.30	6.99	15.73	17.76
Cash and bank balances	0.20	0.29	0.30	0.60	1.94	1.48
Loans and Advances	0.52	1.96	3.33	2.50	7.85	55.32
Total Current Assets	9.19	11.20	12.36	15.07	35.66	90.52
Curr.Liabilities and prov.						
Current Liabilities	5.04	5.52	4.86	20.85	24.15	31.76
Net current assets	4.15	5.68	7.50	-5.77	11.51	58.76
Deferred Tax Liability	-0.57	-1.02	-1.15	-1.34	-2.05	-2.82
Misc. Expenditure	0.00	0.00	0.00	0.00	0.00	0.00
Total Assets	14.18	15.72	17.56	28.15	73.61	139.46

Keynote Capitals Ltd.

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Ratings structure

Subscribe & Hold	:	subscribe for listing gains, hold for further appreciation
Subscribe for listing gains	:	expect decent appreciation on listing
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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