



April 29th, 2010

To
Mr. Mahesh A. Maheshwari,
Chairman and Managing Director
Aster Silicates Limited
A-602, Fairdeal House, Off C.G Road,
Navrangpura,
Ahmedabad - 380009

Sub: Initial Public Offer for [.] equity shares of face value Rs 10 each at a price to be decided by book building process aggregating up to 53.10 Cr

Dear Sir,

Thank you for giving Brickwork Rating India Pvt Ltd (Brickwork) an opportunity to grade the proposed Initial Public Offer (IPO) of Aster Silicates Limited.

As a part of the grading process, the grading analysis was placed before the External Rating Committee of Brickwork. The Committee after due deliberations has assigned BWR IPO Grade 2 (Pronounced BWR IPO Grade Two) to the proposed public issue of equity shares by Aster Silicates Limited. IPO issues graded BWR IPO Grade 2 indicates, that the fundamentals of IPO are below average relative to other listed equity securities in India.

The grading is subject to terms and conditions as provided in the mandate dated 18th March, 2010 and other correspondence, if any.

The grading is valid for six months from date of mandate

Please communicate your acceptance to the grading.

Best Regards,

For Brickwork Ratings India Pvt Ltd.


Sameer Singhvi
Ratings Analyst

Brickwork Ratings India Pvt. Ltd.

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Aster Silicates Limited

IPO Grading: BWR IPO Grade 2 (Below Average Fundamentals)

Brickwork Ratings (BWR) has assigned BWR IPO Grade 2 to the proposed IPO of Aster Silicates Limited. Brickwork Ratings' BWR IPO Grade 2 indicates below average fundamentals for the issue in relation to the other listed equity securities in India. BWR assigns IPO grading on a scale of IPO Grade 5 to IPO Grade 1, with Grade 5 signifying strong fundamentals and Grade 1 signifying poor fundamentals of the issue in relation to the other listed equity securities in India.

The grading factors Aster Silicates Ltd management's experience in Chemical Industry, investment in latest technology for manufacturing sodium silicate such as triple pass regenerative and recuperative end fired glass furnace with multiple fuel arrangement and non availability of substitute product for sodium silicate. The grading is constrained by company's track record of negative cash flows from operating and investing activities, low profit margins, high customer concentration, absence of diversified product portfolio and below par corporate governance practices. In absence of funding or appraisal by a bank or term lending institution, the project cost is estimated by the company management and promoters are not participating in the issue.

Company Profile:

The Company was incorporated in 1996 as Arbuda Steel Private Limited to carry on the business of Iron and Steel. However, the company did not pursue the iron and steel business. The name of the Company was changed to Aster Silicates Private Limited in April 2006 and it was converted into a public limited company in December, 2009 as Aster Silicates Limited.

Aster Silicates Limited (ASL) commenced manufacture of Sodium Silicate in July 1997. The Company now operates two units in Gujarat at Kheda and Bharuch having a capacity of 100 metric tonnes per day (MTPD) and 50 MTPD respectively. Kheda unit has three furnaces and Bharuch has one furnace. These are triple pass regenerative and recuperative end fired glass furnace with multiple fuel arrangement capable of using bio gas, natural gas and coal.

ASL manufactures sodium silicate which includes food, special drilling and detergent grade silicate in glass and liquid form. Food grade sodium silicate is used in the manufacturing of Silica precipitate and gel which finds its applications in toothpaste, salt, cosmetics, glucose powder, tire & rubber and pesticides etc. Sodium silicate, (special drilling grade silicate) is also used in off-shore drilling and for reactivation of old oil and gas fields.

Management:

Aster Silicates is promoted by Mr. Mahesh A Maheshwari and Mrs. Namrata M Maheshwari.

Mr. Mahesh aged 45 years is the Chairman and Managing Director of the Company. He holds bachelors degree in mechanical engineering. Mr Mahesh has 22 years experience in chemical industry. Prior to promoting ASL, Mr Mahesh provided consulting services for energy conservation, furnace designs and combustion systems to various industries.

Mrs. Namrata Maheshwari aged 41 years is the director of the Company. She holds bachelor's in electrical engineering from Sardar Vallabhai Regional College of Engineering and Technology, Surat. She has experience of working as a lead auditor for ISO 9001 with SGS India. She currently manages the administrative and banking functions of the Company.

Directors other than promoters of company:

Mr. Jaykishore S Rana (75 Years) is a non executive and independent Director. Mr Rana has bachelor and master degree in electrical engineering. He worked in the R&D Centre of Jyoti Ltd, for 18 years. In the year 1983 he started consultancy services in the field of energy issues, energy conservation and energy audits. He retired from active consultancy in the year 2006.

Mr. S. Venkatachalam (60 years) is a non executive and independent director. Mr Venkatachalam is a graduate in commerce and post graduate in import and export management from Saint Xavier's Institute of Management, Mumbai. He has worked with Karur Vysya Bank and has 25 years experience in foreign exchange.

Mr. Manish G Asawa (36 year) is a non executive and independent director, Mr Asawa is B Com, ICWAI and CA (Inter). He has experience of 10 years in business of agriculture and farms and was the CEO of Pmanek Biofarms Pvt Ltd, Jamnagar. Mr Asawa promoted a proprietorship concern in the name of Alpha B&G in the year 2007 which deals in essential and organic oils, Aloe Vera and Natural Organic Fertilizers etc.

Currently Promoter and promoter group holds 71.43% equity in company and they are not participating in the IPO. Post issue their equity holding will be diluted to about 51%.

Table 1: Pre and Post issue equity holding

Particulars	Pre-Issue (%)	Pre-Issue No. of Shares	Post Issue* No. of Shares	Post Issue (%)	Post issue holding cost/share (Rs.)
Mr. Mahesh A Maheshwari	57.40	59,47,780	59,47,780	--	--
Mrs. Namrata Maheshwari	11.93	12,35,131	12,35,131	--	--
Promoter Group	2.10	2,18,200	2,18,200	--	--
Promoter and Promoter Group Total	71.43	74,01,111	74,01,111	~51%	--
Public	28.57	29,60,000	--	~49%	--
GRAND TOTAL	100	1,03,61,111	--	100	--

**The final Post Issue Shareholding pattern will be determined after the Book-Building Process*

Objectives of the Issue:

The main objects of the issue are

- √ Expansion of existing manufacturing facilities at Bharuch from an existing capacity of 50 MTPD of Sodium Silicate to 350 MTPD.
- √ To fund additional working capital requirements; and
- √ To meet public issue expense.

Table 2: Breakup of total project cost

Sr. No	Particulars	Amount (Rs lakhs)	Amount (Rs lakhs)
1	Expansion of manufacturing facilities		
	Land Development	71.20	
	Civil Works	440.00	
	Plant & Machinery	3665.99	
	Contingencies	200.00	
	Deposit with Gujarat Gas	55.00	4432.19
2	Additional Working capital requirement		750.00
3	Public Issue Expenses		500.00
	Total		5682.19

Source: DRHP

The enhancement in capacity is being undertaken on the existing land and no further land is being purchased for expansion. The company has to still place orders for machinery worth Rs 744.99 Lakhs.

Project Funding:

To meet the funding requirements, Aster Silicates plans to raise approximately Rs. 53.10 Crores by issue of equity shares having face value of Rs.10 per share at a premium to be decided later and internal accruals, if required. The promoters are not participating in the public issue.

The funds requirement for the project is neither appraised nor funded by any bank / financial institution. In absence of participation by bank/ financial institution the utilization of issue proceeds will be by the company. The project funding shortfall, if any, will be funded by internal accruals.

Currently the promoters and promoter group' holds 71.43% equity in company which will be diluted to 50% post issue.

Corporate Governance:

Aster Silicates is complaint with provisions of Clause 49 of the Listing Agreement. Chairman of Board is Mr. Mahesh A Maheshwari who is also the promoter. The board has 5 directors of which 3 are independent. The board members have substantial expertise in chemical industry. All the independent directors and company secretary were appointed in Nov - Dec 2009. We believe the corporate governance practice of company has substantial room for improvement.

Industry Analysis:

Aster Silicates is a part of Indian chemical Industry which is one of the oldest industries in India and in terms of volume it is the 12th largest producer of chemicals in World. The Chemical Industry contributes to 3% of India's GDP. Gujarat dominates with 51% of the total share of major chemicals produced in the Country. Indian chemical market accounts for 1.5% of global chemical market. Net value added of chemicals industry is the highest within the manufacturing sector with a share of over 22% of total value added.

The key sectors that make up the chemical industry are petrochemicals, chlor-alkali and inorganic chemicals, organic chemicals, paints and dyes, pesticides and agrochemicals. Sodium silicate forms part of inorganic chemicals which is around 8% of Indian chemical industry. Inorganic chemicals are mainly used in paper, soap, detergents, PVC, medical, chlorinated paraffin wax etc. The total size of Indian chlor alkali and inorganic chemical industry is about US \$ 2500 million. The chlor alkali and soda ash are the major inorganic chemicals accounting for 62% in this sector.

Industry Risks:

High Prices of basic feed stock: Basic raw material constitute major portion of the production cost in the chemical industry. Indian chemical industry either uses natural gas or crude oil as feedstock for manufacturing process. The fluctuations in oil prices therefore affect the growth projections of the firms. At times the manufacturers are unable to pass on the cost escalation to end consumers. Cost optimization is thus critical for the chemical units, as their margins may go under pressure during oil price increases.

FDI in chemical Industry: 100% FDI is permitted in Indian Chemical Sector except few chemicals for which compulsory licensing is applicable due to their hazardous nature. Hence Indian Companies have to gear up for the competition likely to be faced from the multi national companies setting up their chemical manufacturing units in India.

Business Risk:

The customer concentration of company is very high with approximately 80.90% of the revenue from top five customers. Largest customer contributed approximately 35% of the revenue in FY 09. After the expansion of Bharuch facility, the revenue contribution from the largest customer will increase to approximately 75% - 80% of the Company's revenues. The supply to its largest customer, who has the plant in the close proximity, is by way of underground pipeline from ASL to the facilities of the customer. The demand for sodium silicate depends upon customer requirements which further depend on market conditions and competition. The company does not have any long term arrangement with its customers and suppliers and the top five suppliers contribute nearly 94.60% to company's purchases.

The Company is in process of entering into CDM Emission reduction purchase agreement with a German public company, the success of this agreement can fetch additional revenue in future by sale of carbon credits. However, this is subject to satisfactory conclusion of due diligence.

Financial Performance:

The company's revenues grew by 115% in FY 09; this is mainly attributed to increase in demand for sodium silicate for which company increased its capacity at Kheda unit.

The average OPM & NPM for last three years (FY 07 – FY 09) is at 11.45% & 4.66% respectively. The average return on capital employed (ROCE) for last 3 years is at 8.96%, while average return on net worth (RONW) for same period is at 9.12%. Company is moderately leveraged with total debt to total equity (D/E) ratio of 1.36 as on Dec 30, 2009.

The Company has negative Cash Flow from Operation (CFO) for last three years from Fy 070 - 09 due to large working capital requirements. The cash flow from investing activities (CFI) is also negative for last five years (FY 05 – FY 09) due to significant capacity expansions. Company also expects to utilize part of IPO proceeds (Rs 7.5 Crs) to fund their growing WC needs.

Table 3: Profit and Loss (Consolidated) Amount in Rs Lakhs

	FY 07	FY 08	FY 09	Sept 09 (6 mths ended)
Net Sales	714.6	1526.6	3290.6	3009.18
Other income / expenses	0.94	54.5	4.6	0.072
Cost of Sales	574.0	1350.5	2669.3	2477.50
Selling general and administrative expenses	46.58	60.0	52.5	25.63
EBITDA	94.96	170.6	573.4	506.13
Depreciation	26.01	33.6	57.0	30.9
EBIT	68.95	137.06	516.4	475.23
Interest	35.18	40.9	150.9	103.4
PBT	33.77	96.1	365.5	371.83
Provision for taxes	19.55	30.4	110.6	178.91
Net profit / (loss)	14.24	65.8	254.9	192.92
<i>Growth in Net sales</i>	--	<i>113.63%</i>	<i>115.55%</i>	--
<i>Growth in EBITDA</i>	--	<i>79.65%</i>	<i>236.11%</i>	--
<i>Growth in PAT</i>	--	<i>362.08%</i>	<i>287.39%</i>	

Source: Company data

Table 4: Key Financial Indicators

(in Rs lakhs)	FY 07	FY 08	FY 09	Sept 09 (6mths ended)
Net Sales	714.6	1526.6	3290.6	3009.18
Networth	370.92	704.6	1797.7	2076.56
Borrowings	349.56	898.2	1357.8	1616.7
Net Fixed Assets	432.15	1108.3	2168.6	2142.37
Debt /Equity (x)	0.94	1.27	0.76	0.78
Fixed Asset Turnover (x)	1.94	1.38	1.96	1.39
Current Ratio (x)	1.90	3.47	3.74	5.62
OPM (EBIT/Core Sales)	9.64%	9.0%	15.7%	15.8%
NPM (PAT/Core Sales)	1.99%	4.3%	7.7%	6.41%
ROCE	1.97%	8.55%	16.36%	5.22%
RONW	3.83%	9.34%	14.18%	9.29%
Interest Cover (x)	1.95	3.35	3.42	4.59
Total no of shares	3000000	5376500	7000000	1,03,61,111
EPS	0.47	1.75	6.75	1.86
Book Value	12.36	18.74	47.62	20.04

Other factors:

Changes in the accounting policy:

There are no significant changes in accounting policy. The company has revalued the fixed assets and increased the value by 492.01 lacs in the FY 09.

Compliance and Litigation:

Litigations with government bodies:

- Criminal case to the tune of Rs. 4.69 lacs and excise case to the tune of Rs. 21.05 lacs has been filed against the company and arbitration proceedings to the tune of Rs. 371.07 lacs has been initiated by the Company against Gas Authority of India Ltd.

Litigations with business associates:

- Criminal case against the Company has been filed by AB & Co Corporate Services Ltd, GAIL and Neesa Agritech Pvt Ltd.

Analysts	Media
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