

**Midfield Industries
Limited****IPO Grading: BWR IPO Grade 2 (Below Average
Fundamentals)**

Brickwork Ratings (BWR) has assigned BWR IPO Grade 2 to the proposed IPO of Midfield Industries Limited (MIL). Brickwork Ratings' BWR IPO Grade 2 indicates below average fundamentals for the issue in relation to the listed peers. BWR assigns IPO grading on a scale of Grade 5 to Grade 1, with Grade 5 signifying strong fundamentals and Grade 1 signifying poor fundamentals of the issue in relation to the listed peers.

The grading factors in Midfield Industries Ltd management's experience in Packaging Industry, established relationship with customers which includes well known companies, focus on providing end to end packaging solutions and non availability of substitutes for steel strapping. The grading is constrained by competitive nature of the industry, volatility in the raw material prices, low pricing power, weak second line of management and long working capital cycle. In the absence of funding or appraisal by a bank or term lending institution, the project cost is estimated by the company management.

Company Profile:

Midfield Industries Ltd was incorporated in 1990 under the name "Midfield Steels Pvt. Ltd" The Company was promoted by Mr. Appasani Radhakrishna and Mr. Kancharla Bala Bhanu with the object of entering industrial packaging in India. In 1993, the company commenced manufacture of low tensile steel strapping at IDA Jeedimetla, Hyderabad. In 1994, Mr. M Madhu Mohan Reddy (present Chairman and Managing Director) joined company as General Manager – Marketing. In the year 1997 Mr. A Radhakrishna discontinued his association with the company. A year later Mr. K Bala Bhanu also discontinued his association with the company. Mr. Madhu took over the mantle and was appointed as Managing Director of the company.

In the year 2000 the company installed heat treatment line to manufacture high tensile steel strapping a facility at its Hyderabad facility. In 2007, the company set up unit at Roorkee, Uttaranchal to manufacture angle boards.

Management:

Mr. Madhu Mohan Reddy (51 years) is the Chairman and Managing Director of MIL. Mr Reddy holds a Bachelors degree in commerce and Masters Degree in Business administration. He worked with ITW Signode India Limited for 12 years as Divisional Manager (Steel Strapping), before joining Midfield Industries in 1994. Mr Reddy brings rich experience in industrial packaging. He oversees the operations of the company and guides the strategies for the company's growth.

Mr. Ashok Sagar Mudumba (51 years) is the Whole Time Director of MIL. He holds a Bachelors degree in commerce and Diploma in management (Marketing). In his past assignments Mr Mudumba has worked with corporate like Nagarjuna Steels Ltd, Foundation to Aid Industrial Recovery & ITW Signode India Ltd. Mr Mudumba joined MIL in 1994 and currently oversees the marketing operations.

Mr. Ashok Kumar Kolla (49 years) is Non-Executive Director of MIL. He is an undergraduate and in November 2008 conferred Doctorate of Honors in Business Management by The Open University of Complementary Medicines, Colombo, Sri Lanka. Mr Kolla over 25 years experience in the film industry in different capacities.

Mr. Raja Raju Kothapalli (37 years) is the Independent Director of MIL. He is Bachelor of Laws and Masters in Business Administration (specialization in Marketing and Human Resource). He has eleven years of work experience of which seven years as an Advocate. Mr Kothapalli worked in marketing and legal division of Frontier Trading Company, an M.N.C.. Presently, he has business interests in Real Estate, Construction and Agro Industries.

Mr. Kamlesh Kumar Bhargava (64 years) is an independent Director of MIL Board. He is Bachelor of Science and an A. C. A. Mr Bhargava is a practicing Chartered Accountant since October 1979. He also advises his clients on matters relating to accounting, taxation and corporate affair.

Mr. Vegulla Gopala Krishna Rao (62 years) is an independent Director on MIL Board. He is a Bachelor of Engineering (Mechanical) from Master of Technology in Industrial Engineering

from Indian Institute of Technology, Chennai. He has 36 years of experience and has worked in various companies in different capacities.

Corporate Governance:

Midfield Industries Limited is compliant with the provisions of Clause 49 of the Listing Agreement. Presently, the Board of Directors of Midfield consists of a Chairman and Managing Director, Whole Time Director, non independent – non executive Director and 3 Independent Directors. One of the independent directors was appointed in Feb 2007 while other two were appointed in June 2008.

The Audit committee, Remuneration Committee and Shareholders & Investor Grievance Committee are headed by independent directors. The remuneration committee is headed by Mr V G Krishna Rao and other 2 members of committee are also independent directors.

Pre and post IPO equity holding:

Currently Promoter and promoter group holds 79.76% in company and they are not participating in the IPO. Post issue the promoter's equity holding will be diluted to 51.77%. Table 1 gives the pre issue and post issue holding of the promoters and the promoters group

Table 1: Pre and Post issue equity holding

PRE AND POST ISSUE SHARE HOLDING PATTERN					
Particulars	Pre-Issue (%)	Pre-Issue No. of Shares	Post Issue No. of Shares	Post Issue (%)	Post issue holding cost/share (Rs.)
M Madhu Mohan Reddy	48.83%	4,063,116	4,063,116	31.69%	12.35/-
M Supraja	16.64%	1,384,393	1,384,393	10.80%	12.54/-
Promoter Group	14.29%	1,189,566	1,189,566	9.28%	
Promoter & promoter group	79.76%	6,637,075	6,637,075	51.77%	

Director(s) and Key Management Personnel	14.88%	1,238,209	1,238,209	9.66%	
Others	5.36%	445,966	4,945,966	38.57%	
GRAND TOTAL	100.0%	8,321,250	12,821,250	100.0%	--

Objectives of the Issue:

The main objects of the issue are :

- ✓ Expansion of capacities at the existing plants;
- ✓ Setting up new facilities;
- ✓ Augmenting long term working capital requirement of the Company;
- ✓ General Corporate Purposes; and
- ✓ Achieve the benefits of listing on the Stock Exchange.

Table 2: Breakup of total project cost

Sl. No	Particulars	Amount (Rs. Crs)
1	Expansion of existing manufacturing facility at Hyderabad, by setting up PET Strap, Stretch Films, PP Strapping, Collated nails – nails making machine, Seals	14.40
2	Setting up new facility for manufacture of VCI Paper at Hyderabad	4.16
3	Expansion at existing manufacturing facility at Mumbai, by setting up Angle Board, Collated Nails, Seals and Heat Treatment Plant	6.27
4	Expansion at existing manufacturing facility at Roorkee, by setting up Angle Board and Collated Nails, Seals	1.59
5	Setting up new facility for manufacturing High Tensile Steel Strapping and seals at Sharjah	12.78
6	Augmenting Long Term Working Capital Requirement	5.03
7	General Corporate Purposes *	---
8	Issue Expenses *	---
	Total	---

Source: DRHP

* will be determined after finalization of the issue price.

For setting up new facility at Hyderabad and Sharjah, the lands have been identified but not yet acquired. The expansion of existing facility is done on existing land and no further land is acquired for this purpose.

Project Funding:

To meet the funding requirements, Midfield plans to raise funds by issue of 45,00,000 equity shares with FV of Rs.10/- 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 at the discretion of the company. The project funding shortfall, if any, will be funded by internal accruals.

Industry Analysis

The packaging industry is diverse and can be categorized based on the material used and industries serviced. Plastics, metals (steel, aluminum), glass and paper/board are some of the basic materials used in this industry. Industrial packaging, which deals primarily with bulk, industrial packaging can be divided into 2 segments – one catering to Heavy Industries & another to Light Industries. Shipping sacks, film wrap, strapping & paper products are some of the products serving industries like steel, glass, cement, chemicals, FMCG goods and pharmaceuticals.

The global packaging industry is expected to grow to USD 597 billion by 2014. India accounts for approximately 3% of this market at USD 18 billion and ranks 12th globally by market share. However, it is a highly fragmented and unorganized industry with the consequent lack of pricing power.

The Indian packaging industry is growing at a CAGR of 20-25% p.a. Growth in certain segments of the industry (such as laminated products and paperboard) is as high as 30% p.a.

India's per capita packaging consumption is less than USD 15 against a worldwide consumption of nearly USD 100.

Business Risk:

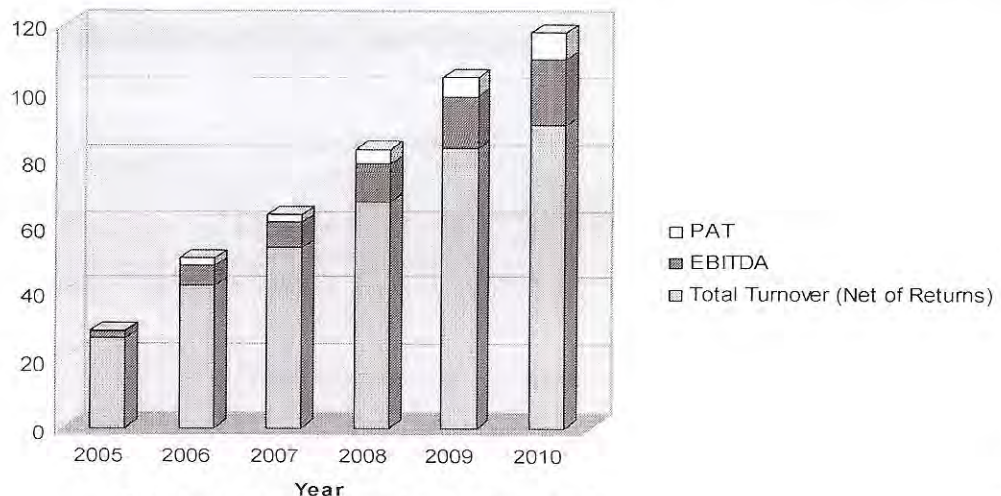
The industrial packaging industry is highly competitive and fragmented. MIL's business is working capital intensive with average receivable days in the range of 155 – 207 for past 3 years. Both the suppliers of raw material and its clients are relatively large companies leaving MIL with little bargaining power.

Company has not yet applied for some of regulatory approvals with regard to new manufacturing facilities being set up in Thane & Hyderabad also they have neither acquired land for proposed facilities at Hyderabad or Sharjah nor placed firm orders for machinery & equipment. The company is completely dependent on IPO proceeds for proposed Brownfield and Greenfield projects. Objects of IPO are not appraised by any bank or financial institution.

Financial performance:

Net Sales of MIL has increased from Rs.45.54 Cr in FY06 to Rs.90.51 Cr in FY10. MIL derives approximately 70% – 75% of its revenues from the sale of Steel Strapping; Trading in VCI paper, polyester strapping and Stretch film contributes another 5% while the rest of the revenue comes from products such as Angle boards, seals and collated nails. Net sales have been growing at a CAGR of 17% between FY06 and FY10. EBITDA has grown from Rs. 6.27 Cr in FY06 to Rs. 18.97 Cr in FY10, reflecting a CAGR of 24.78%. As of FY09, the top ten clients accounted for 42.66% of revenues.

Midfield Industries Ltd.



May-10

Brickwork Ratings India Pvt. Ltd.

Source: Company Data

On an average 90% of revenue comes from domestic market and rest from exports. In FY09 exports contributed 9.9% of Net sales. This figure dropped to 3.3% in FY10 due to capacity constraints and MIL's commitments to existing Operational Contracts. However, Management expects exports to reach approximately 12% of revenues in FY11. They plan to achieve this by ear-marking approximately 80% of production in Thane plant (Capacity = 6000 MTPA) for export markets. The company does not currently hedge its foreign exchange risk arising from export sales, and in future, as its exports grow, this risk will increase.

Average realization per ton of Steel strapping is in the range of Rs. 60,000 to 65,000 per metric ton. The major approximate expenses of MIL are as follows:

- ✓ Raw materials: 65% of Core Sales
- ✓ Manufacturing Expenses: 7% of Core Sales
- ✓ Employee Costs: 2% of Core Sales
- ✓ Selling & Distribution Expenses: 1% of Core Sales
- ✓ Interest Cost: 6% of Core sales

MIL has negative Cash Flow from Operations (CFO) in FY06, FY07 and FY09, owing to increased working capital investments, primarily in Inventory and receivables. FY2010 shows a slight improvement with CFO standing at Rs 1.28 Cr. Cash flow from investing activities (CFI) is also negative for the last five years (FY06 to FY10) due to significant capacity expansions. Funding requirements have been met by raising secured loans and through new share capital. Company also expects to utilize part of IPO proceeds (approximately Rs 5 Cr) to fund their growing working capital needs.

Although the company enjoys a higher Current ratio (4.34 in FY09) compared to select peers, this is primarily owing to the high level of Inventory and receivables that it carries. Further the company's Cash conversion cycle (which measures the length of time it takes the company to push capital through one complete cycle of production up to the final realization of cash from Debtors) shows a deteriorating trend, having increased from 80 days in FY06 to 166 days in

FY09, and 189 days in FY10. Receivables Days have increased from 86 days in FY06 to 208 days in FY10, reflecting tight liquidity and low bargaining power with customers. One of the factors contributing to this is the company's focus on Operational Contracts, which are typically working capital intensive. MIL has undertaken four such major contracts within the last two years, with companies such as NALCO, Essar, Bhilai and Vizag Steel plants, to harness opportunities within this segment of Industrial packaging business.

MIL is moderately leveraged with total debt to equity (D/E) ratio of 1.21 as at 31st Mar, 2010. Its fixed asset turnover ratio is 7 times. The average OPM & NPM for last five years (FY 06 – FY 10) stands at 17.34% & 6.18% respectively. Average Return on Capital Employed (ROCE) for last five years is 8.81% and average Return on Net worth (RONW) for the same period is 22.75%.

Table 3: Consolidated Profit and Loss (in Rs Cr)

	2006	2007	2008	2009	2010
Net Sales	41.54	53.21	67.43	83.47	90.51
Other income	0.1	0.13	0.16	0.15	0.19
Total Income	41.64	53.34	67.59	83.62	90.7
Total Expenditure	35.37	45.52	56	67.97	71.72
EBITDA	6.27	7.82	11.59	15.65	18.98
Depreciation	0.87	0.8	0.91	1.69	1.51
EBIT	5.4	7.02	10.68	13.96	17.47
Finance & Interest Cost	2.37	3.22	4.25	5.77	4.99
Profit Before Tax	3.03	3.8	6.43	8.19	12.48
Less: Provision for Tax	-1.02	-1.48	-2.22	-2.78	-4.34
Profit After Tax	2.01	2.32	4.21	5.41	8.14
Growth in Net Sales	--	28.09%	26.72%	23.79%	8.43%
Growth in EBITDA	--	24.72%	48.21%	35.03%	21.28%
Growth in PAT	--	15.42%	81.47%	28.50%	50.46%

Table 4: Key Financial Indicators

Particulars	2006	2007	2008	2009	2010
Net Sales (Rs. Cr)	41.54	53.21	67.43	83.47	90.51

Networth (Rs. Cr)	7.87	11.32	18.1	25.56	34.98
Borrowings (Rs. Cr)	14.9	19.72	28.02	41.34	42.32
Net fixed assets (Rs. Cr)	5.71	5.6	12.86	12.63	13.08
EBITDA (Rs. Cr)	6.27	7.82	11.59	15.65	18.98
PAT (Rs. Cr)	2.01	2.32	4.21	5.41	8.14
OPM (%)	15.09%	14.70%	17.19%	18.75%	20.97%
NPM (%)	4.84%	4.36%	6.24%	6.48%	8.99%
Fixed Asset Turnover (Rs. Cr)	7.03	9.41	7.31	6.55	7.04
RONW (%)	25.54%	20.49%	23.26%	21.17%	23.27%
ROCE (%)	8.83%	7.47%	9.13%	8.09%	10.53%
Current Ratio (Rs. Cr)	3.65	2.97	3.52	4.34	3.44
Debt Equity ratio (x)	1.89	1.74	1.55	1.62	1.21
Interest Cover (x)	2.28	2.18	2.51	2.42	3.50
Number of Shares	41,00,000	68,70,000	80,65,450	83,21,250	83,21,250
BVPS (Rs.)	19.19	16.47	22.44	30.71	42.03
EPS (Rs.)	4.9	3.38	5.22	6.5	9.77

Compliance and Litigation:

Litigations with government bodies: The Company is involved in certain proceedings/claims with commercial tax officer to the tune of Rs. 0.67/- Crores.

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