

May 29, 2008

Rating	BUY
Price	Rs443
Target Price	Rs689
Implied Upside	55.7%
Sensex	16,525

(Prices as on May 28, 2008)

Trading Data

Market Cap. (Rs bn)	12.3
Shares o/s (m)	27.8
Free Float	40.0%
3M Avg. Daily Vol ('000)	27.1
3M Avg. Daily Value (Rs m)	13.8

Major Shareholders

Promoters	60.0%
Foreign	15.2%
Domestic Inst.	17.7%
Public & Others	7.1%

Stock Performance

(%)	1M	6M	12M
Absolute	(15.5)	(29.5)	(1.2)
Relative	(10.6)	(16.5)	(15.1)

Price Performance (RIC: ESDA.BO, BB: EDA IN)



Source: Bloomberg

■ **Results:** Ess Dee Aluminium's (EDAL) Q4FY08 results exceed our expectations. Consolidated net sales grew by 42% YoY from Rs708m to Rs1,007m (we expected Rs730m), mainly due to higher capacity utilisation during the quarter. The company's EBIDTA margin improved by 340bps from 25.9% to 29.4% YoY (we expected 30.5%) due to decline in material cost. Personnel expenses increased marginally by 10bps from 2.3% to 2.4% of net sales. The company's net profit grew by 51% YoY from Rs161m to Rs244m (we expected Rs205m).

■ **Capex update:** EDAL is setting up a greenfield manufacturing facility at Sikkim and Dubai at a capital outlay of Rs300m and Rs1,250m respectively. The company has plans to spend over Rs1.0bn on the development of anti-counterfeit materials and devices for pharma packaging. Capacity expansion from 9,100tpa to 18,000tpa is likely to commence production in Q1FY09.

■ **Valuation:** We expect the company to report 31% CAGR in net sales and 48% CAGR in net profit over FY08-10. We also expect its EBIDTA margin to improve from 27.9% in FY08 to 32.4% in FY10 due to the introduction of new products, capacity expansion and entry into FMCG segment.

At the CMP of Rs443, the stock trades at 16.8x FY08 EPS of Rs26.4, 9.0x FY09E EPS of Rs49.4 and 7.7x FY10E EPS of Rs57.4. We reiterate BUY rating on the stock with a price target of Rs689 (12x FY10 earnings) over the next 12 months giving a 55.7% upside from the current level.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	1,672	3,169	4,809	5,470
Growth (%)	167.7	89.5	51.8	13.7
EBITDA (Rs m)	467	884	1,515	1,772
PAT (Rs m)	371	734	1,374	1,597
EPS (Rs)	13.3	26.4	49.4	57.4
Growth (%)	298.1	97.9	87.3	16.2
Net DPS (Rs)	2.0	2.0	4.0	4.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	27.9	27.9	31.5	32.4
RoE (%)	30.0	24.4	31.1	27.7
RoCE (%)	24.8	22.7	28.9	26.8
EV / sales (x)	7.3	4.0	2.7	2.3
EV / EBITDA (x)	26.1	14.5	8.5	7.0
PE (x)	33.2	16.8	9.0	7.7
P / BV (x)	5.3	3.2	2.4	1.9
Net dividend yield (%)	0.5	0.5	0.9	1.0

Source: Company Data; PL Research

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Highlights

Excellent sales growth

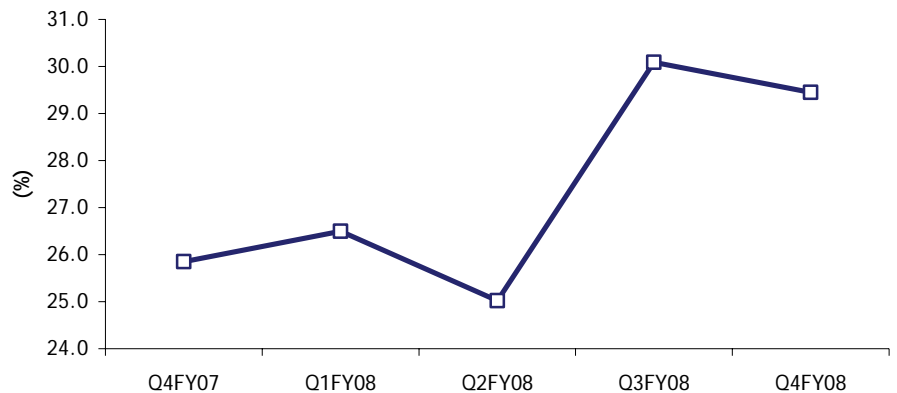
EDAL posted growth of 42.4% YoY in net revenue from Rs708m to Rs1,007m due to higher capacity utilisation. Sales growth was 42.6% QoQ, as the company has undertaken some conversion job involving lamination and printing only, due to optimum utilisation of rolling capacity in Q3FY08. EDAL is further increasing its rolling capacity from 9,100tpa to 18,000tpa in Q1FY09 and hence will contribute substantially in FY09.

Margin improved by 340bps

Due to the sharp decline in material cost, EDAL's EBIDTA margin improved by 340bps from 25.9% to 29.4% YoY. Personnel expenses increased marginally by 10bps from 2.3% to 2.4% of net sales. Other expenses declined by 70bps from 2.8% to 2.1% of net sales due to higher sales growth.

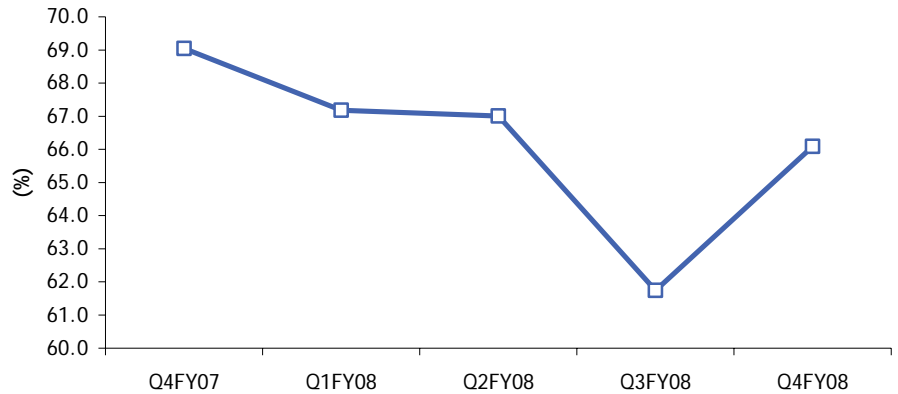
Material cost and EBIDTA margin of EDAL over the last five quarters are shown in the following graphs:

EBITDA margin



Source: Company Data, PL Research

Material cost as % of sales



Source: Company Data, PL Research

As seen from the above graphs, the company's EBIDTA margin declined from 25.9% in Q4FY07 to 25.0% in Q2FY08 and further improved to 29.4% in Q4FY08. Similarly, material cost also declined from 69.0% in Q4FY07 to 67.0% in Q2FY08 and further declined to 66.1% in Q4FY08. This indicates a constant improvement in performance over the last two quarter. The decline in material cost indicates that the company can pass the increase in material cost to its customers.

PAT grew by 51% YoY

EDAL's depreciation increased by 171% from Rs4m to Rs10m due to capacity expansion at its Daman facility. Interest cost was up by 16% from Rs19m to Rs22m during the quarter due to rise in working capital. EDAL's PBT for the quarter grew by 55% from Rs182m to Rs281m. Effective tax rate increased from 11.1% to 13.5% during the quarter. This has resulted in a PAT growth of 51% from Rs161m to Rs244m.

Outlook

We expect the company to report higher sales in the coming quarters due to its expansion going on stream in Q1FY09. The new manufacturing facility at Sikkim and Dubai will help to serve its customers effectively.

The company has launched cold forming alu-alu foil in the premium segment. It has also entered into flexible packaging and metalised PVC films.

EDAL is looking at acquisition in the domestic and overseas market for inorganic growth and is exploring various opportunities in Europe and South Africa.



The company has entered into an agreement with Madras Aluminium, a Vedanta Group company and present promoters of India Foils (IFL), for its rehabilitation. IFL was referred to BIFR in 2006. Currently, it has a debt of Rs3.0bn, which will be cleared by IFL. The company has a strong client base in non-pharma segment and has considerable exports. This will be a complimentary business for EDAL. IFL has installed capacity of 18,000tpa and hence the combined capacity will be 36,000tpa. This will put EDAL in a commanding position in the domestic market.

Concerns

EDAL's working capital cycle is high with debtors of over 110 days. Its entry into the FMCG segment is likely to bring down debtor days.

Since the company is in the customised service business, any lapse in quality or timely delivery could adversely affect sales and profitability of the company.

Valuation

We expect the company to report 31% CAGR in net sales and 48% CAGR in net profit over FY08-10. We also expect its EBIDTA margin to improve from 27.9% in FY08 to 32.4% in FY10 due to the introduction of new products, capacity expansion and entry into FMCG segment. We expect EDAL's RoCE to improve from 22.7% in FY08 to 26.8% in FY10. Similarly, RoE is likely to improve from 24.4% in FY08 to 27.7% in FY10.

At the CMP of Rs443, the stock trades at 16.8x FY08 EPS of Rs26.4, 9.0x FY09E EPS of Rs49.4 and 7.7x FY10E EPS of Rs57.4. We reiterate BUY rating on the stock with a price target of Rs689 (12x FY10 earnings) over the next 12 months giving a 55.7% upside from the current level.



Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Net sales	1,007	708	42.4	706	1,672	3,169	89.5
Expenditure							
Raw materials	666	489	36.3	436	993	2,078	109.4
<i>as % of net sales</i>	<i>66.1</i>	<i>69.0</i>		<i>61.7</i>	<i>59.4</i>	<i>65.6</i>	
Personnel expenses	24	16	48.1	24	64	98	54.3
<i>as % of net sales</i>	<i>2.4</i>	<i>2.3</i>		<i>3.3</i>	<i>3.8</i>	<i>3.1</i>	
Other expenses	21	20	6.0	34	149	109	(26.9)
<i>as % of net sales</i>	<i>2.1</i>	<i>2.8</i>		<i>4.8</i>	<i>8.9</i>	<i>3.4</i>	
Total expenditure	711	525	35.5	494	1,205	2,285	89.6
OPBDIT	297	183	62.2	213	467	884	89.2
<i>OP margin (%)</i>	<i>29.4</i>	<i>25.9</i>		<i>30.1</i>	<i>27.9</i>	<i>27.9</i>	
Other income	17	21	(21.2)	15	32	80	146.9
PBDIT	313	204	53.5	228	500	964	93.0
Depreciation	10	4	171.1	10	12	35	184.6
Interest	22	19	15.5	15	65	76	17.8
PBT	281	182	55.0	202	423	853	101.8
Prov. for tax	38	20	87.6	22	52	119	129.2
<i>% of PBT</i>	<i>13.5</i>	<i>11.1</i>		<i>10.7</i>	<i>12.3</i>	<i>14.0</i>	
PAT	244	161	50.9	181	371	734	97.9



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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