

Investor's Delight: Parekh Aluminex Ltd. (PAL) – "BUY"

"Leader in domestic AFC business; growing rapidly globally as well"

Investment Summary

Parekh Aluminex Ltd. is India's largest manufacturer and exporter of Aluminum Foil Containers (AFC). PAL is an emerging leading name in AFCs in the entire sub-continent, being the first Indian company to receive ISO 9001:2000 certification from BVQI, UK. With their two manufacturing facilities situated in the tax haven of the Union Territory of Dadra and Nagar Haveli, India, PAL has 80 percent share in the domestic market. Over the last six years PAL has enhanced the production capacity of its products more than 10 folds. It has augmented the capacity of AFC's to 5750 million pieces per annum (mppa) in FY11 from 457.23 mppa in FY05, PAL has also augmented the production capacity of AFR's from 7.5 mppa to 98 mppa and Aluminium lids from 185 mppa to 1590 mppa during the same period.

It is also the only company from India to break into the highly quality conscious European markets and continues to break through to newer markets with higher growth standards.

The Company founded by the father and son duo of Mr. Arun Parekh and Mr. Amitabh Parekh was originally incorporated on September 01, 1994 as Parekh Aluminex Private Limited. The Company was converted into public limited company on February 14, 1995. The Company was promoted with the main objective of manufacturing aluminium foil containers, aluminium foils and allied products. The Company also manufactures AFC & AFR for Hindalco, a Aditya Birla group company. Hindalco sell these products under their brand name as mentioned hereunder.

(i) AFC's are sold under the brand name of "Freshpak" (ii) AFR's are sold under the brand name of "Freshwrap" by Hindalco.

The Company also started sales to big retailers like Bharti Walmart, Reliance, Big Bazaar etc. Export business grew with growth coming from US and UK markets.

PAL has diverse strategic job-work orders and tie-ups with world-class players. These tie-ups ensure the supply of raw materials at preferential rates from PAL. In domestic market PAL is also the biggest supplier of AFC's to Railways, Flight kitchens, Airlines and Five star hotels. Apart from these on the global front PAL has also long term agreements with one of the largest producers of aluminum in the world, In Germany while marketing the AFC's and AFR's PAL has adequate opportunity to increase its presence in German market. Moreover, PAL has also contracts with various other world-class players from Food, catering supplies and Packaging industry.

Over the past few years, PAL has secured many multi-multimillion dollar deals with leading international aluminium manufacturers around the world. Recently the company acquired full control of a USA based company called American Foils Inc. American Foils Inc is engaged in the business of manufacturing of aluminium pans, rolls, containers, foils, etc and PAL made it a wholly owned subsidiary by acquiring the 100% shares of the company. This significant acquisition by PAL will able to strengthen its presence in Northern American markets. Apart from this, PAL is also building up a steady repute in the European markets and looking to venture into various other new emerging markets like Nigeria, Yemen and Sri-Lanka.

The manufacturing units of various locations of PAL are exempted from sales tax under section 10B of Income Tax Act, 1961 over the last many years, however now only five years more left to avail the benefits. However, sever Export Oriented Units

Date	December 4, 2013
Industry	Packaging
CMP	Rs. 58
Target Price	Rs. 100
Upside	69 %
BSE/NSE Code	532606/PARAL
Bloomberg Code	PKAL:IN
52 Week High	Rs. 320 (4 th Dec, 2012)
52 Week Low	Rs. 39 (25 th June, 2013)
Face Value	Rs. 10
Market Capitalization	Rs. 760 mn
Beta v/s Sensex	1.04
Book Value	Rs. 38
Price/Book Value (x)	1.5x
Shareholding Pattern (%)	As on September 2013
Promoters	6.22 %
FII's	15.83 %
DII's	-
Public and Others	77.95 %

(EOU) duties were payable but at concessional rates and its products are exempted under certain notifications and subsequent to it. Currently two manufacturing units of PAL, which are situated in Union Territory of Dadra and Nagar Haveli, India comes under the tax haven. Hence, with the nominal tax outgo, PAL is able to optimize its bottom line margins since past many years and the trend is likely to continue further for few more years.

Opportunity...

India has witnessed a huge transformation in economic and social growth resulting into emergence of the large Aluminium container and Kitchen Foil Industry. This industry predominantly was run as small scale operations by individual operators but has been transformed into organized structured Industry recognized as Packaging products mainly in Food sector, Caterings, Railways, Airlines, Hotels, Restaurants, etc. Aluminium being biodegradable and good for Food packaging, the Industry is gradually migrating into a FMCG sector.

Further the product application for Aluminium containers has been into Health and Hygiene sector also like Hospitals and Health centres resulting into a sector being termed as Aluminium Consumer goods sector. Currently India has limited players in organized sector in Aluminium Containers and Kitchen Foils. Hardly couple of players may fall in category of unorganized and organized players while on small scale and local area basis there may be few more who have insignificant share in market making. The Country has been seeing huge demand of these products due to increased urbanization and hygiene awareness resulting into growth by existing players and also few global Companies are trying to market their product initially and may get into operations as and when they find the market ready for their products. Further the Company is constantly introducing newer products for newer application for newer markets; thereby increasing the overall market of the products

Domestically many states are banning plastic, the best replacement to that is the PAL's products. The Company's products are 100% recyclable, eco- friendly, aesthetically appealing, safe, and convenient and comparatively cheaper. A further boost to the product demand comes from changing lifestyle from 2 and 3 tier cities. The young population, urbanization, international exposure to the current people, environmental rules and regulations, nuclear family concepts, huge demand for improved hygiene levels, huge growth in retail markets, provides huge opportunities to scale up this business and industry will see huge multiple growth in years to come.

Going forward Company plans to focus more towards retail business, product brand building, develop custom made products for food chains. This will result in a fundamental change in perception about the Company and there will be lots of value addition thereby increasing the bottom line of the Company. Branding of the Company's product range will also improve the image of the Company. Company has also started sales of coloured foil containers and foil rolls, which not only gives edge to the product line but also creates value additions.

At CMP of Rs. 59, the stock is currently trading at 1.5 x its FY2013 Book Value of Rs. 38. The Company made a huge loss in FY13 owing to higher finance cost and increased prices of raw material. However, we believe, the Company would turnaround in due course of time due to its strong domestic presence and global reach with good product mix. We recommend a "BUY" target price of Rs. 100 for investors with a horizon 6-9 months.

Threats

Substitution with other packaging material

- Not meeting the demand due to production constraints
- Managing the new retail business viz: logistics, selling chain, etc.

However substitution product to be successful needs to be cheaper, eco- friendlier and better than the Company's products. Company shall plan expansion in advance to meet the demand and with a strong new management team the new retail business should be able to be managed effectively.

Risks and Concerns

All the plants of the Company are at one location. Due to that Company derives huge economies of scale & efficiencies. But there is always a risk of any natural / unnatural eventualities occurring; that shall effect the entire operations of the Company. Since Company is entering retail sales; there would be challenges over supply chain, logistics etc. Inventories and debtors level is expected to be high till such time that the retail business stabilizes.

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