

CMP: INR16.6

Stock data

BSE code	538733
BSE ID	STARLIT
Face value (INR)	10
No of shares (m)	6.1
Market cap (INRm)	101.5
1m avg. daily vol (No)	761.9
Free float (INRm)	61.9
Dividend yield FY13 (%)	0

S&P BSE SME IPO	861.2
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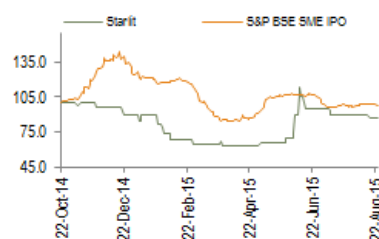
Stock performance (%)

52-week H/L	INR21.5/12.0		
	1M	3M	9M
Absolute (%)	-2.9	31.7	-12.4
Relative (%)	-3.8	39.4	-10.4

Shareholding pattern (%)

Promoters	FIIs	DIIs	Others
39.01%	0.00%	2.49%	58.5%

Relative stock movement



Source: BSE; The company was listed on 22 Oct 2015.

Company Overview

Starlit Group comprises of closely held companies, each with its own unique resource base and skill set. These boutique entities have built unique synergies with one another enabling superior execution of the projects in the fields of infrastructure development & advisory. The group is managed by a multi-disciplinary team of dedicated and experienced professionals. The company's products are supplied to most prominent battery and secondary power back-up companies both in India and abroad. In these fields Starlit Lead Products are a recognized name amongst battery manufacturers in India and countries across the world.

Industry Overview

The world's lead resources are estimated at some 180mt. Australia, China and USA together account for 63% of the world's lead reserve base. The major Lead mines are in China, Australia, USA, Peru, Mexico & India constituting 81% of the total world production. India is among the top six mining countries with a production share of around 2.3%. India is endowed with large resources of lead and zinc which are distributed over 12 states namely: Andhra Pradesh, Bihar, Gujarat, Madhya Pradesh, Maharashtra, Meghalaya, Orissa, Rajasthan, Sikkim, Tamil Nadu, Uttarakhand and West Bengal.

Financial Overview

- Revenue in FY14 increased by 39.3% YoY to INR426.2m. EBITDA margins were recorded at 6.2% in FY14. In absolute terms, EBITDA increased from INR17.0m to INR26.5m.
- PAT decreased to INR0.4m in FY14, mainly due to the increase in interest expenses.
- Earnings per share reduced from INR1.0 in FY13 to INR0.1 in FY14.
- In IPO, the company raised INR29.5m by offering 1.64m shares at an issue price of INR18 per share.

Table 1: Key financials

(Y/e March)	FY12	FY13	FY14
Sales (INRm)	196.5	305.8	426.2
YoY Growth (%)	*	55.6	39.3
EBITDA (INRm)	11.9	17.0	26.5
EBITDA Margin (%)	6.0	5.6	6.2
PAT (INRm)	2.9	3.0	0.4
EPS (INR)	1.3	1.0	0.1
YoY Growth (%)	*	-23.7	-91.8
RoE (%)	21.1	9.2	0.6
P / E (x)	28.9	37.8	463.3

Note: *' Pre IPO Period; Source: Company, Varhad Research

Aug 2015

Industry Overview

Industry size:

The total battery market in India is approx. worth INR250bn out of which the share of organized sector is 60% and unorganized sector is 40%. The share of the Organized Sector is increasing with each passing year and with the GST regime, which integrates the country fiscally the rate of this shift from un-organized to organized is going to be even more pronounced. Of the INR150bn around 40% share is of two big players viz Exide and Amaron in the market. As this market has very oligopolistic character, it leaves the space open for a quality and niche player.

In the summer season when the power outages become rampant, the demand for larger batteries used in inverters become very high and that is the time there is shortage of lead and no company can cater to the overall off the shelf demand for batteries. This chronic shortage of batteries in small towns has given rise to a large number of local and at times un-organized players. The domestic lead storage battery industry comprises two main segments: Automotive and Industrial batteries. Storage batteries are basically used as a secondary source of power in vehicles and industrial applications. Automotive batteries account for 60% of the total market while industrial batteries contribute the rest. The unorganized sector in overall terms has a market share of 40% out of INR250bn market.

Exports of lead from the country are in the form of ore and concentrates, lead alloys and scrap, lead waste and scrap, lead unrefined, refined lead unwrought, pig lead, lead and alloys worked and others. Exports of lead ores and concentrate increased sharply to 122,200 tonnes in 2010-11 as compared to 36,476 tonnes in the previous year. China was the single largest importer accounting for almost the entire quantity. Exports of lead and alloys & scrap also increased to 161,430 tonnes during 2010-11 as compared to 53,779 tonnes in the preceding year. Almost entire exports were of lead & alloys while those of scrap were nominal.

Growth drivers:

The segments, be it Four-Wheelers, Two wheelers and inverters are all witnessing a compound annualized growth of 15-20%. The Automobile industry can be subdivided into the OEM and Retail or Replacement markets. The Industrial batteries market can be broken up into the infrastructure market (railways, telecom and power), submarine batteries and fast-moving industrial batteries (UPS and inverters).

Sales of automotive batteries were severely affected due to an unprecedented slowdown in the automobile industry. Growth in production and sales of total vehicles during 2011-12 was around 1% each as compared to the previous year. The major reasons for the dismal performance can be attributed to inflationary pressures, rise in fuel prices, high cost of borrowing, adverse foreign exchange rate, some industrial unrest and above all an overall negative sentiment.

Short term outlook:

Lead, presently is not substituted by any other metal in the production of lead acid batteries, which are vital for automobiles eventually driving the lead industry forward in near future. battery operated small vehicles are used in railway stations and airports, for carrying luggage as well as passengers for short distances and big industries. Lead calcium alloys are used in the manufacture of "maintenance free" batteries also known as VRLA (Valve Regulated Lead Acid) batteries. Calcium addition enhances the performance and life of the batteries. VRLA batteries are preferred in critical applications like telecom, railways, power etc. because of the inherent advantages. Lead when used as metal in batteries, cable sheathing and sheathing for containing radiation is fully recyclable without losing its properties. Therefore, there is a thriving industry of lead recycling in the country. Lead is widely used in shot and other weapons. Pure lead maintains the uniformity and lack of brittleness (molecular cohesion) that has always made it an ideal bullet material driving the demand for lead.

About the company

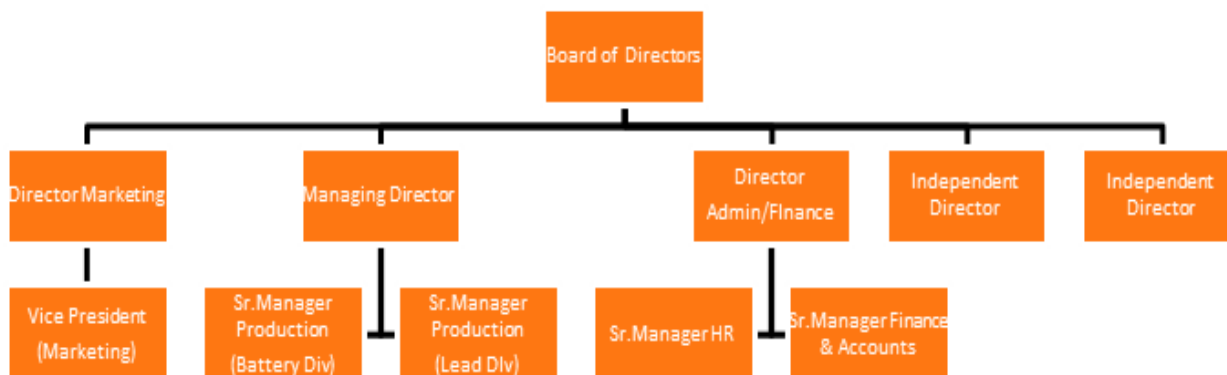
Starlit Power Systems Limited is a group company of the diversified Starlit Group. The company was incorporated in the year 2008 with its focus Lead and based products. The Company is engaged in Smelting of Battery & Lead Scrap, manufacture, supply and export of pure lead, different Lead Alloys like Calcium Aluminum alloy Antimonial Alloy and Selenium Alloy, Lead Oxides like Lead Sub Oxide and Red Lead. It has a smelting capacity of 15,000mtpa and refining/alloying capacity of over 12,000mtpa with technical capacity to convert assorted heterogeneous lead scrap into pure lead of upto 99.98 % purity. Committing to quality & environment protection, the company works on streamlined processes and principles. The Company uses producer gas as a fuel for all smelting and refining operations. The producer gas is generated captive biomass gassifier plant thereby considerably reducing dependence on Hydro-carbons like furnace oil and diesel. The biomass gassifier technology is Developed by TERI and approved by Ministry of New & Renewable Energy, Government of India. The company’s plant has been selected as successful demonstration manufacturing plant by United Nations Environment Program (UNEP), Japan for efficient energy operation. The company is an ISO 9001:2008 & ISO 14001:2004 certified company and all the systems & procedures are documented as per certification requirements. Stringent quality measures & processes are implemented at each stage right from the procurement of raw material till the final dispatch of finished products.

Starlit Group comprises of closely held companies, each with its own unique resource base and skill set. These boutique entities have built unique synergies with one another enabling superior execution of the projects in the fields of infrastructure development & advisory. The group is managed by a multi-disciplinary team of dedicated and experienced professionals. Our products are supplied to most prominent battery and secondary power back-up Companies both in India and abroad. In these fields Starlit Lead Products are a recognized name amongst battery manufacturers in India and countries across the world.

Organisation structure

The organisation structure shows that all the powers vest with the Board of Directors. The directors for marketing, administration, finance and operations are next in command.

Chart 1: Organisation structure



Board of Director

Table 2: Composition of Board

Name	Director Type	Business Relationship with company
Mr.Yogesh Kumar Gupta	Managing Director	
Mr.Abhay Kumar Chandalia	Non-Executive Director	Chairman and Independent director
Mr.Surinder Pal	Executive Director	
Mr.Kamaljeet Singh Jaswal	Executive Director	
Mr.Amit Nath Sood	Non-Executive Director	Independent

Source: Company

Key Strength and growth drivers

- 12 years of rich experience of promoters
- Deep understanding of business environment and dynamics.
- Knowledge and experience of the governmental, municipal and regulatory framework.
- Long term relationship with vendors and clients.
- Strong in - house engineering, management and legal resources.
- Strong association and working relationship with ULB's and consultants.
- Strong management and quality systems in place.

Risk and concerns

- The Company and its promoters are involved in legal proceedings; any adverse decision in such proceedings may adversely affect the company's results of operations.
- Top five clients of the company contribute to 85% of the total revenue; any loss of business from these clients may adversely affect the company's revenue.
- The Company is subject to exchange rate fluctuation risk.
- Due to absence of any written agreement with vendors/suppliers, the company is exposed to risk due to supply obligation not clearly specified in writing.

IPO Details

In IPO, the company raised INR29.5m by offering 1.64m shares at an issue price of INR18 per share. The utilization of funds will be for financing working capital, general corporate purpose and issue expenses.

Table 3: Proposed usage of proceeds of IPO

Particulars	Proposed Use (INRm)
Working Capital Requirement	23.0
General Corporate Purpose	2.0
Issue Expense	4.52
Total	29.52

Source: Company

Financial Performance

- Revenue in FY14 increased by 39.3% YoY to INR426.2m. EBITDA margins increased from 5.6% in FY13 to 6.2% in FY14. In absolute terms, EBITDA increased from INR17.0m in FY13 to INR26.46m in FY14.
- PAT decreased to INR0.4m in FY14 from PAT of INR3.0m in FY13, mainly due to the increase in raw material and other costs.
- Free Cash Flow decreased from cash outflow of INR18.9m in FY12 to cash inflow of INR12.5m in FY13.
- Trade receivable increased from INR33.8m in FY13 to INR77.9m in FY14 and Inventory has improved from INR22.5m in FY13 to INR38.7.
- Net Financing Cash Flow decreased from cash inflow of INR23.9m in FY12 to cash inflow of INR20.0m in FY13.
- Fixed assets increased from INR52.0m in FY13 to INR117.4m in FY14.

Competition analysis

The battery market is only controlled by two-three large players which leave room for a regional player offering superior contact and service to the channel partners with a quality product a good possibility. The entry barriers in the Industry to put up a decent plant are rising as the small plants find it difficult to come up consistently with a product giving longevity and quality assurance. With Lead Prices high and volatile, the hand casting and pasting models of battery grids is becoming economically non-feasible and quality wise suspect. Hence a good production facility runs with process and quality consciousness will do well. Volatility of Lead prices however will continue to remain challenging and will call for innovative and pro-active hedging measures. Improving power availability will affect future inverter sales adversely and this will also affect the inverter battery replacement market. With the growth in the automotive, information & communication technology and infrastructure sectors, the demand for lead is poised to increase and sustain in future. Expansion of Solar energy and e-rickshaws will also provide the fillip. It is expected that down-stream industrial development, improvement in standard of living and consumer awareness is set to further increase the demand for secondary power derived from lead acid batteries in the coming years.

Table 4: Peer comparison

Company	CMP (INR)	Mcap (INRm)	Rev (INRm)	EBITDA Margin (%)	EPS (INR)	PE (x)
Starlit Power Systems Ltd	19.0	115.9	426.2	0.06	0.1	331.1
Shirpur Gold Refinery Ltd	81.6	2,373.1	17,404.6	0.01	1.9	42.3
Gravita India Ltd	89.1	6,081.4	5,171.8	0.06	3.17	28.1
Rapicut Carbides Ltd	47.4	254.6	384.9	0.10	4.6	10.3

Source: BSE; the data considered is as on 22 Oct 2014 i.e. the date of listing of the stock.

Valuation

On valuation front, pre-IPO basis, the company was trading at 463.3x in FY14 on P/E basis. On EV/Sales basis, the stock is trading at 0.7x in FY14, whereas on P/B basis, the stock is trading at 2.0x in FY14.

Financial snapshot

Chart 1: Sales trend

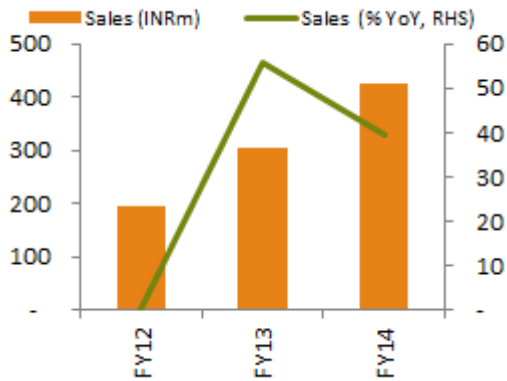


Chart 2: Margin trend

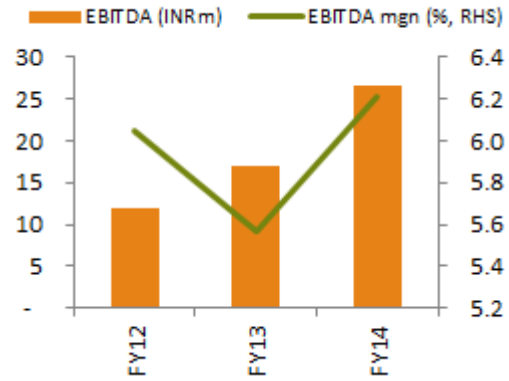


Chart 3: EPS trend

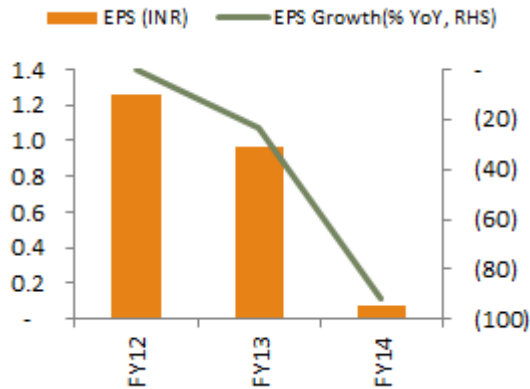


Chart 4: Working capital profile

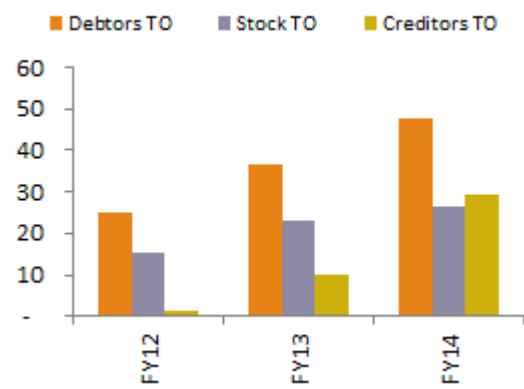


Chart 5: Return trend

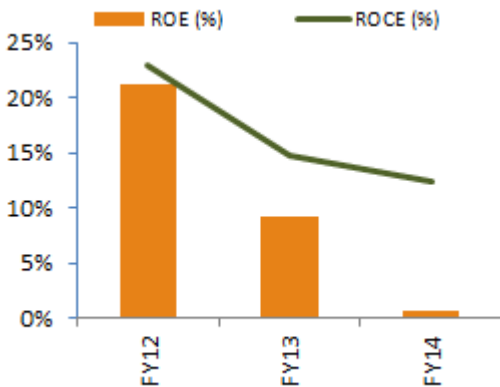
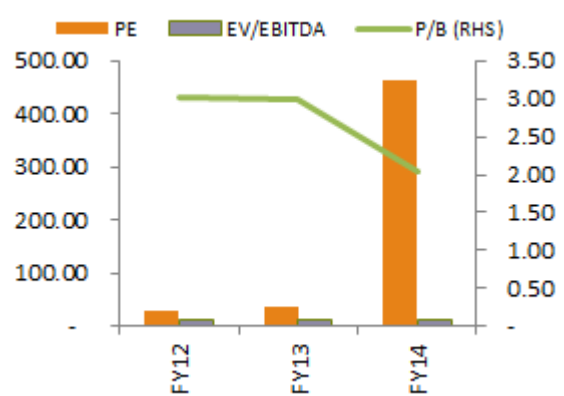


Chart 6: Valuation



Source: Company, Varhad Research

Financial Summary*

Profit and loss (INR m)				Balance sheet (INR m)			
Year ending 31 March	FY12	FY13	FY14	Year ending 31 March	FY12	FY13	FY14
Revenue	196.5	305.8	426.2	Net Block	22.2	52.0	117.4
Raw Materials	171.0	274.1	373.6	Investments	0.0	0.0	1.0
Staff Cost	2.9	2.9	6.4	Cash and Banks Balance	0.3	0.3	0.3
Other Expenditure	10.8	11.8	19.7	Inventory	16.3	22.5	38.7
Total Cost	184.6	288.8	399.7	Sundry Debtors	27.1	33.8	77.9
EBITDA	11.9	17.0	26.5	Loans and Advances	8.8	14.7	61.5
<i>EBITDA margin (%)</i>	<i>6.0</i>	<i>5.6</i>	<i>6.2</i>	Other Current Assets	0.0	0.0	0.0
Depreciation	2.3	2.7	4.4	Other	0.0	0.0	0.1
EBIT	9.5	14.3	22.0	Total Assets	74.7	123.4	296.9
Interest Expenses	5.4	9.8	19.8	Gross Debt	43.5	66.1	139.6
Non-operating Income	0.0	0.0	0.0	Trade Payables	1.6	15.4	52.8
PBT	4.1	4.5	2.3	Provisions & other curr lia	1.7	2.7	22.0
Provision for Tax	1.2	1.5	1.9	Others	0.5	1.0	2.8
PAT (Adjusted)	2.9	3.0	0.4	Equity Capital	22.7	31.4	44.8
<i>Growth %</i>	<i>*</i>	<i>5.6</i>	<i>-88.4</i>	Reserves & Surplus	3.8	6.8	34.9
<i>PAT margin (%)</i>	<i>1.5</i>	<i>1.0</i>	<i>0.1</i>	Share Application money	0.9	0.0	0.0
Minority Interest	0.0	0.0	0.0	Minority Interest	0.0	0.0	0.0
Extra Ordinary	0.0	0.0	0.0	Shareholders' funds	27.3	38.2	79.7
PAT (Reported)	2.9	3.0	0.4	Total Liabilities	74.7	123.4	296.9
Cash Flow Metrics				Ratios, growth and per share analysis			
	FY12	FY13	FY14	Y-o-Y % change	FY12	FY13	FY14
Cash Flow from Operations	12.4	17.6	#	Revenue	*	55.6	39.3
Changes in Working Capital	-31.3	-5.1	#	EBITDA	*	43.5	55.3
Operating Cash Flow	-18.9	12.5	#	Recurring EPS	*	-23.7	-91.8
Capex	-4.9	-32.5	#	Ratios (%)			
FCF	-23.8	-20.0	#	ROE	21.1	9.2	0.6
Investing Cash Flow	-4.9	-32.5	#	ROCE	22.9	14.7	12.5
Financing Cash Flow	23.8	20.0	#	EBITDA Margin	6.0	5.6	6.2
Net Change in Cash	0.0	0.0	#	EBITDA/Net Interest (x)	2.2	1.7	1.3
Ratio - Du Pont Analysis				Net Debt/Equity (x)	-10.17	-0.32	120.6
	FY12	FY13	FY14	Net Debt/ EBITDA (x)	2.8	-0.9	0.0
Net Profit Margins (%)	1.5	1.0	0.1	Inventory days	15.1	23.2	26.2
Total Assets Turnover	5.4	3.5	2.6	Debtors days	25.2	36.4	47.9
Leverage Multiplier	2.7	2.7	2.8	Payables day	1.5	10.1	29.2
ROAE (%)	21.1	9.2	0.6	Total Asset TO ratio	5.4	3.5	2.6
Valuation				Fixed Asset TO Ratio	17.7	8.2	5.0
	FY12	FY13	FY14	Per share data (INR)			
EV/Sales	0.6	0.589	0.7	EPS reported (diluted)	1.3	1.0	0.1
EV/EBITDA	10.6	10.6	11.4	Recurring EPS (diluted)	1.3	1.0	0.1
P/E (x)	28.9	37.8	463.3	DPS	0.0	0.0	0.0
P/B(x)	3.0	3.0	2.0	Book Value(basic)	12.0	12.2	17.8
Dividend yield (%)	0.0	0.0	0.0	Wtd avg ord shares (m)	2.3	3.1	4.5
FCF yield (%)	-161.6	-792.4	-173.9	Wtd avg dil shares (m)	2.3	3.1	4.5

Note: *Data is for pre-IPO period; # Data not provided by company. Source: BSE, Company, Varhad research

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