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Mumbai

CRISIL Research assigns IPO grade '1/5' to Olympic Cards Ltd

CRISIL has assigned a CRISIL IPO Grade "1/5" (pronounced "one on five") to the proposed initial public offer (IPO) of Olympic Cards Ltd (Olympic Cards). This grade indicates that the fundamentals of the IPO are 'poor' relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The grade assigned to Olympic Cards reflects its presence in an industry which by its very nature - highly fragmented, due to low entry barriers - weakens the bargaining power of players. Even though Olympic Cards is a leading player in South India, low product differentiation does not really give any player an edge. Plus, the current state concentration will adversely affect the company's long-term prospects. Olympic Cards does have plans to more than treble its manufacturing capacity in Chennai to cater to geographies outside Tamil Nadu. However, the spectre of localised competition looms large. The grade factors in the company's exposure to the risk of brand dilution. It shares the 'Olympic' brand with the promoter's relatives who have a similar business.

Centralised management, and relatively weak internal processes and management information systems have also influenced the grade. Further, the independent directors' have limited ability to exercise management oversight.

The grade does derive support from the company's presence in the wedding card segment, which is expected to grow 15-18% over the next three-five years with nearly 35% of the population in the marriageable age group and expected increase in wedding budgets.

About the company and the issue

Incorporated in 1992, Olympic Cards is a Chennai-based manufacturer and trader of wedding and greeting cards, business cards, envelopes, letterheads, calendars, notebooks and account books. It also trades in printing inks. Its manufacturing facility is located in Chennai with an installed capacity of 145 mn pieces as of FY10. Manufacturing sales contribute 82% to 86% to total revenues, trading sales make up the rest. Wedding cards comprise almost 45% of total sales.

The company reported turnover and profit of Rs 315 mn and Rs 13 mn, respectively, in FY10. The company's EBITDA margin expanded to 17.0% in FY10 from 10.5% in FY09, the sustainability of which remains a key monitorable. The company's RoE and RoCE were 16.6% and 20.7%, respectively, in FY10.

Olympic Cards plans to issue 8.2 mn new shares through the IPO and will use the proceeds to fund its capex of Rs 362 mn. The proceeds will be utilised for expanding manufacturing facility to 531 mn pieces from 145 mn pieces in Chennai and setting up four more new outlets. Part of the proceeds will be used for general corporate purposes.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

Media Contacts	Analytical Contacts
<p>Mitu Samar Head, Market Development & Communications CRISIL Limited Tel: +91-22- 3342 1838 Mobile: +91- 98200 61934 Fax: +91-22- 3342 3001 E-mail: msamar@crisil.com</p> <p>Tanuja Abhinandan Market Development & Communications CRISIL Limited Tel: +91-22- 3342 1818 Mobile: +91- 98192 48980 Fax: +91-22- 3342 3001 E-mail: tabhinandan@crisil.com</p>	<p>Tarun Bhatia Director, Capital Markets CRISIL Research Tel: +91-22- 3342 3226 E-mail: tbhatia@crisil.com</p> <p>Chetan Majithia Head, Equities CRISIL Research Tel: +91-22- 3342 4148 E-mail: chetanmajithia@crisil.com</p>

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