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Mumbai

CRISIL Research assigns IPO grade '1/5' to Modern Tube Industries Limited

CRISIL Research has assigned a CRISIL IPO grade of '1/5' (pronounced 'one on five') to the proposed initial public offer (IPO) of Modern Tube Industries Limited (Modern Tube). This grade indicates that the fundamentals of the IPO are 'poor' relative to 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 assigned grade takes into account Modern Tube's weak position in the seamless and welded tubes and pipes segment vis-à-vis established competitors like Zenith, Ratnamani Metals and Prakash Steelage. Despite scaling up its manufacturing assets, Modern Tube continues to operate largely as a trader (~70% of revenues in FY10), due to which margins are low. Further, its debtor days are around 100, which is more than double the industry average of 30 to 45 days. Its asset utilisation rate is on the lower side as the company is in an expansion mode. The grade also reflects the promoter's limited experience in manufacturing; he is highly experienced in the trading of stainless steel products. Further, Modern Tube portrays below average corporate governance. Independent directors' engagement level in the business needs improvement.

The grade takes into account Modern Tube's growth prospects, as it is scaling up assets to supplement existing capacities. The same will enable the company to manufacture high-margin critical application products that will also help in increasing capacity utilisation rates.

About the company and the issue

Vadodara-based Modern Tube manufactures stainless steel seamless and welded tubes, u-tubes and pipes. Its manufacturing facility - spread across 6 acres - is located near the GIDC Port (Gujarat). Although currently it has a capacity of 7,200 metric tonnes per annum (MTPA), up from its initial capacity of 180 MTPA in 2006, it continues to be largely a trading company. When Mr Mahendra Bhansali started Modern Tube, he had over 10 years of trading experience in stainless steel products. The trading business was being run under a proprietary concern - Modern Tube Industries Ltd - floated in 1996, which was converted into a limited company in 2006.

In FY10, Modern Tube derived ~70% of its total sales through trading goods (average of past four years - 80% of net revenues), while the balance was contributed by the manufacturing business. During FY10, the company reported revenue of Rs 1,069 mn and net profit of Rs 21 mn. RoE and RoCE were 1.3% and 13.1%, respectively, during the same period.

Modern Tube plans to raise Rs 650 mn through the IPO and will use the proceeds to expand manufacturing capacity from 7,200 to 14,400 MTPA.

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.

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