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Mumbai

CRISIL Research assigns IPO grade '2/5' to Automark Industries (India) Ltd

CRISIL has assigned a CRISIL IPO Grade '2/5' (pronounced 'two on five') to the proposed initial public offer (IPO) of Automark Industries (India) Ltd (Automark). This grade indicates that the fundamentals of the IPO are 'below average' 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 assigned grade takes into account Automark's leading position in the organised segment of the road marking industry. Automark is present across the value chain in the road marking industry – it not only manufactures and sells thermoplastic material and road marking machineries but also takes on road marking contracts. The company has an in-house R&D facility to ensure manufacturing of superior quality homogeneous products and adherence to specifications mentioned by National Highway Authority of India (NHAI) and the Ministry of Road Transport and Highway. Automark has successfully executed more than 4 mn sq. mt. of road marking including more than 50 projects for NHAI. The grade also factors in increased government thrust to improve road infrastructure in the country, which will provide large opportunities for established road marking players like Automark. Further, the management's more than 40 years of industry expertise support the grade.

The grade is constrained by low entry barriers given the absence of any major technology or capital investment requirement in the industry. As a result, the industry is dominated by unorganised players who constitute ~60-70% of the industry; the sizeable presence of unorganised players leads to pricing pressure. The grade is constrained by Automark's high working capital requirement due to high debtor and inventory days, which necessitates continuous fund raising. The company also plans to set up a material manufacturing unit in Kenya and Uganda, which could be a challenge since it does not possess relevant experience in the overseas market. The grade is further constrained by the company's significant dependence on the top management. Most of the key managerial people as well as independent directors have been inducted recently.

About the company and the issue

Automark is a Nagpur (Maharashtra)-based company founded in 1988 by Mr Arun Khara. The company operates in the niche segment of road marking. Automark, through its wholly owned subsidiary company Automark Technology (India) Pvt. Ltd., manufactures thermoplastic road marking materials and primers for application of thermoplastic road marking materials on concrete roads.

In FY11, the company reported consolidated turnover of Rs 677 mn and net profit of Rs 20 mn, which translated into a net margin of 3.0%. Its revenues registered a CAGR of 50.5% during FY07-11. RoE and RoCE were 16.9% and 19.6% during the same period. It posted an EPS of Rs 1.7 at the end of FY11, while its book value per share was Rs 15.6.

The company plans to raise Rs 680 mn via an IPO, which will be utilised towards working capital requirement, purchase of road marking machines and setting up a thermoplastic material manufacturing capacity.

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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