

July 23, 2010
Mumbai

CRISIL Equities assigns IPO grade 2/5 to Commercial Engineers & Body Builders Co. Ltd.

CRISIL Equities has assigned a CRISIL IPO grade of "2/5" (pronounced "two on five") to the proposed initial public offer (IPO) of Commercial Engineers & Body Builders Co. Ltd. (CEBBCO). This grade indicates that the fundamentals of the IPO are below average 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 IPO grade assigned to CEBBCO takes into account the company's established presence in the body fabrication business of commercial vehicles (CVs) and its strong relationship with one of the largest players in this segment – Tata Motors. By virtue of this position, CEBBCO is set to reap the benefits of the high growth in the end-segment on the back of higher economic activity in the country, especially in the construction and mining sectors. In addition, the change in focus of the industry players towards selling fully build vehicles (FBVs) rather than chassis to the end-users bodes well for the company's business prospects. CEBBCO's foray into the railway segment through refurbishment of wagons during 2008-09 has met with reasonable success.

The grading is, however, constrained by the inherent risks involved in the company's fabrication business, which is prone to intense competition from existing and new players due to low entry barriers. Further, players in this business have low bargaining power and are exposed to the cyclicity in the CV industry. The grading is also influenced by CEBBCO's client concentration risk (around 70% of its revenues from the CV fabrication business in 2008-09 came from one client – Tata Motors) and its weak competitive position since it has to source a key raw material component (hydraulic jacks) from one of its competitors. CEBBCO is a relatively new entrant in the railway segment and is likely to face stiff competition from the incumbent players in the sector.

Further, its current management team size and internal processes seem to be inadequate and could prove to be an impediment in achieving the ambitious growth plans.

About the company and the issue

Incorporated in 1979, CEBBCO is a flagship company of the JN Group and is engaged in the production of vehicle and locomotive bodies for diverse applications for road and railway transportation. It designs and manufactures vehicle bodies for the commercial vehicles industry with an extensive portfolio of product offerings. The company also conducts refurbishment of wagons as well as manufacturing of components for wagons, coaches and locomotives for the Indian Railways.

Currently, the company operates five factories - four are in Madhya Pradesh (Richhai I and II, Mandla and Indore) and one is in Jamshedpur, Jharkhand.

CEBBCO's operating income amounted to Rs 1.10 bn for the nine months ended December 2009, of which the CV segment accounted for ~72% and the railway segment accounted for the rest. For the nine months ended December 2009, the company's operating margins were higher at 19.9% compared to 6.8% in FY09. The improvement in operating margins was mainly on account of reduction in prices of key raw materials and an increase in contribution to CEBBCO's top line from the railway segment.

CEEBCO has two executive directors on its six-member board. Of the two executive directors, Dr. Kailash Gupta's involvement in the business is negligible. CEBBICO is almost single-handedly run by his son-in-law, Mr Ajay Gupta. He is the whole time executive director of the company. Non-executive board members include Mr Bharat Bakhshi, who is the nominee director for NYLIM. CEBBICO has three independent directors, who have a reasonable understanding of the company's business and have the ability to exercise management oversight.

The funds to be raised via the IPO will be used by the company to fund the capital expenditure of the company's railway project. The proceeds will also be utilised to prepay identified loan facilities and finance general corporate expenses.

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 Phone: +91-22- 3342 1818 Mobile: +91- 98192 48980 Facsimile: +91-22- 3342 3001 Email: tabhinandan@crisil.com</p>	<p>Tarun Bhatia Director, Capital Markets Tel: +91-22- 3342 3226 E-mail: tbatia@crisil.com</p> <p>Sudhir Nair Head, Research Tel: +91-22- 3342 3526 E-mail: snair@crisil.com</p> <p>Chetan Majithia Head, Equities Tel: +91-22- 3342 4148 E-mail: chetanmajithia@crisil.com</p>

About CRISIL Limited

CRISIL is India's leading Ratings, Research, Risk and Policy Advisory Company.

About CRISIL Research

CRISIL Research is India's largest independent, integrated research house. We leverage our unique, integrated research platform and capabilities spanning the entire economy-industry company spectrum to deliver superior perspectives and insights to over 600 domestic and global clients, through a range of subscription products and customised solutions.

CRISIL PRIVACY NOTICE

Contacting us via e-mail or registering with CRISIL reveals your e-mail address and any other information you include such as phone number and/or mailing address. We will use this information to help us process your registration, fulfill your request or respond to your inquiry. All of your personal information will be stored in a secure database in India. Access to this database is limited to authorized persons.

Occasionally, we use data collected about customers and prospects to inform them about products or services from CRISIL, and our parent company Standard & Poor's (a subsidiary of The McGraw-Hill Companies), and reputable outside companies that may be of interest to them. Many of our customers find these e-mail promotions valuable, whether they are shopping for merchandise, taking advantage of a special offer, or purchasing unique services. On rare occasions, and subject to applicable laws, CRISIL may also share your information with outside "3rd Party" vendors who will be authorized to use this information solely to perform services (such as a "mailing" house) on our behalf.

If at any time you would like your name removed from lists that are shared for promotional reasons within CRISIL, Standard & Poor's, and with other units of The McGraw-Hill Companies, or with third parties simply send a written request to privacy@crisil.com or Privacy Official, CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai - 400 076, India.

You can also send an email request to privacy@crisil.com if you would like to confirm the accuracy of the information we have collected from you, or if you have questions about the uses of this information.

Disclaimer

A CRISIL IPO Grading is a one-time assessment and reflects CRISIL's current opinion on the fundamentals of the graded equity issue in relation to other listed equity securities in India. A CRISIL IPO Grading is neither an audit of the issuer by CRISIL nor is it a credit rating. Every CRISIL IPO Grading is based on the information provided by the issuer or obtained by CRISIL from sources it considers reliable. CRISIL does not guarantee the completeness or accuracy of the information on which the grading is based. A CRISIL IPO Grading is not a recommendation to buy / sell or hold the graded instrument; it does not comment on the issue price, future market price or suitability for a particular investor.

CRISIL is not responsible for any errors and especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of CRISIL IPO Gradings. For information on any IPO grading assigned by CRISIL, please contact 'Client Servicing' at +91-22-33423561, or via e-mail: clientservicing@crisil.com.

For more information on CRISIL IPO Gradings, please visit <http://www.crisil.com/ipo-gradings>

This press release is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The Press release may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution of its Press Releases for consideration or otherwise through any media including websites, portals etc.