

August 24, 2011
Mumbai

CRISIL Research assigns IPO grade '2/5' to Jawed Habib Hair & Beauty Ltd

CRISIL has assigned a CRISIL IPO Grade '2/5' (pronounced 'two on five') to the proposed initial public offer (IPO) of Jawed Habib Hair & Beauty Ltd (JHHBL). 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 reflects JHHBL's dominant position and strong recognition as a promoter-led brand in the hair and beauty salon segment. The promoter, Mr Jawed Habib Akhter, has built the brand over the past ten years through premium services and by creating a differentiated model. JHHBL is one of the earliest entrants and also one of the largest salon chains (176 salons and 36 academies) with a pan-India presence. The company has scaled up primarily through a franchise-based model and the wide coverage enables the company to exploit the largely untapped and highly unorganised hair and beauty salon market. JHHBL also runs hair-styling training centers, which not only address the supply of quality stylists but also provide a revenue stream. The grade also takes into account high growth prospects for the domestic wellness industry.

The grade is moderated by the significant challenges faced by JHHBL in maintaining quality service across all its outlets as it expands the business. Failure to standardise the quality of services across all its franchises could lead to a dilution of its brand. This becomes more pertinent as JHHBL faces stiff competition in a highly fragmented market. The company plans to acquire other brands in the same field; its ability to identify strategic fits and integrate them will be a key monitorable. The grade is further constrained by the company's high dependence on its promoter to maintain the brand value. Any litigation/negative publicity against the promoter or his non-association with the company remains a key risk.

JHHBL is adopting an online ERP system to improve systems and processes by integrating operations, maintaining a standard billing system and tracking inventory. But we believe the company will have to significantly enhance its second line of management, systems and processes to support its next level of growth. The company's ability to retain key personnel given the compensation structure is a challenge too.

About the company and the issue

The company was incorporated in 2006 by Mr Jawed Habib Akhter, a renowned hair expert. The company has emerged as one of the leading hair and beauty salon chains in the country. The hair and beauty care services are mainly provided through franchisee-run outlets. Beginning with 37 outlets in the year of incorporation, the company has grown rapidly. As of January 2011, it runs eight owned and 176 franchised salons in 62 cities across India, and six owned academies and 35 franchised academic outlets across 36 cities. These hair styling and beauty academies provide training in cosmetology.

In FY10, JHHBL reported revenues of Rs 196 mn and a net worth of Rs 23 mn. EBITDA and PAT margins in FY10 were 11.8% and 3.5%, respectively. RoE has been more than 35% over the past two years driven by one-time franchise fees.

Of the IPO proceeds, JHHBL will allocate Rs 134 mn for acquisition of brands, Rs 100 mn for brand building, Rs 126 mn for acquisition of integrated ERP-CRM-BI software and Rs 51.2 mn for setting up its own exclusively branded outlets.

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, Communications & Brand Management 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 Communications & Brand Management 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>

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is the country's largest independent and integrated research house with strong domain expertise on Indian economy, industries and capital markets. We leverage our unique research platform and capabilities to deliver superior perspectives and insights to over 1200 domestic and global clients, through a range of research reports, analytical tools, subscription products and customised solutions.

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfill your request and service your account and to provide you with additional information from CRISIL and other parts of The McGraw-Hill Companies, Inc. you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view McGraw-Hill's Customer Privacy Policy at http://www.mcgrawhill.com/site/tools/privacy/privacy_english.

Last updated: 31 March, 2011

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.