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Mumbai

## CRISIL Equities assigns IPO grade 2/5 to Shirdi Industries Limited

CRISIL has assigned a CRISIL IPO grade of '2/5' (pronounced "two on five") to the proposed IPO of Shirdi Industries Ltd (Shirdi). 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, its future market price or suitability for a particular investor.

The IPO grade assigned to Shirdi reflects the company's strong position in the manufacturing and marketing of medium density fibre (MDF) and particle boards in India. It is one of the first companies in India to trade in and import MDF boards before setting up a manufacturing plant in Pantnagar, Uttarakhand, giving it an early-mover advantage. This is the largest plant in India at a single location manufacturing a wide variety of wood-based products. Also, the company's new manufacturing facility in Coimbatore is operational now and manufactures designer doors, panel doors and lamination of particle and MDF boards. Additionally, the upcoming facility in Gummidipoondi near Chennai, is expected to increase the current installed capacity of MDF boards from 3.9 mn sq metres to 6.2 mn sq metres.

The grade is constrained by poor corporate governance practices and weak second line of management, which is inadequately informed about the key aspects of business operations. We also believe that the independent directors' oversight on the business is low. According to the auditors, the company's integral audit system needs to be enlarged to match the size and nature of the business. Further, over the past two years, the company has been consistently making delayed payments on bank dues and statutory dues like provident fund, investor education and protection fund, employee state insurance and government taxes. While the company has started making payments on time since July 2010, it continues to remain a key monitorable.

The company's consolidated revenues amounted to Rs 1.8 bn during the first nine months of FY10. EBITDA margin was 28.1% while net margin was 8.9%. Historically, the company has had high leverage resulting in lower PAT margins. Total consolidated debt as on December 31, 2009 was Rs 2.1 bn in comparison to the total net worth of Rs 964 mn. The company's high working capital requirement and expansion plans prompted liquidity problems in FY09 and FY10.

### About the company and the issue

Shirdi Industries, part of the ASIS Group, was originally incorporated as Shirdi International Engineers Private Ltd in December 1993. It was later renamed Shirdi Industries Private Ltd and finally Shirdi Industries Ltd in June 1997. The company started off as an advisor in foreign trade and investment. In 1997, it expanded into custom clearing and forwarding services. Since FY07, the company is primarily engaged in the manufacturing of MDF, pre-laminated MDF and particle boards, laminates, flooring, door skins, panel doors, modular furniture and other allied products. It also trades in transferable export /import incentives by offering forward sell options to exporters and purchase options to importers on a deferred payment basis. Shirdi is promoted by Mr Rakesh Agarwal, Mr Sarvesh Agarwal, Mr Mukesh Bansal and Mr Hariram Agarwal along with corporate promoter Asis Industries Private Limited.

The IPO proceeds will be utilised to fund the setting up of a manufacturing plant in Gummidipoondi near Chennai, amounting to Rs 1,024 mn; to fund the capital expenditure for civil work and purchase of additional equipment for the Pantnagar unit in Uttarakhand, amounting to Rs 114 mn; and for general corporate purposes.

## About CRISIL IPO Grading

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