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Mumbai

CRISIL Research assigns IPO grade '1/5' to Timbor Home Limited

CRISIL Equities has assigned a CRISIL IPO grade of "1/5" (pronounced "one on five") to the proposed initial public offer (IPO) of Timbor Home Limited (Timbor). 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 Timbor's weak branding in a highly fragmented furniture industry, where unorganised players have ~85% market share. Timbor is a relatively small player in terms of size and number of stores, and has limited brand recall which exposes it to severe competition. The presence of players like Future group, Godrej, Nilkamal, Style Spa, Millennium Lifestyle and Durian - who enjoy a strong brand recall and positioning – further intensifies competition. The grade also takes into account the fact that Timbor has expanded its business through the franchise model; only three of its 84 stores are company owned and company operated (COCO). This exposes Timbor to the risk of franchisee stickiness, which may hinder its future growth prospects. The grade also factors in Timbor's focus on the trading business, which has proven to have thin margins and high debtor days.

The grade takes into account Timbor's in-house manufacturing capacity which provides an edge over other organised players in terms of pricing. However, the company has to pass on this cost benefit to the customer to remain competitive. Although managing director Mr Anant Maloo has strong domain expertise and effectively runs the show, there is no proper hierarchy, and clearly defined roles and responsibilities for the second line of management. The grade is also constrained by the relatively weak internal processes and management information systems.

About the company and the issue

Incorporated in 2000, Timbor is a manufacturer and retailer of modular kitchens, furniture and doors, and door and window frames. It has a pan-India distribution network and three manufacturing units in Gujarat. Currently, the company has 84 retail outlets, of which 81 are franchise stores and three are self-owned and operated.

During FY10, the company reported a turnover of Rs 510 mn and net profit of Rs 17.8 mn. RoE and RoCE were 13.1% and 14.9%, respectively, during the same period. Timbor earns ~45% of its total revenues from trading in lumbers. The company has issued 3.5 mn equity shares (32% of the current paid-up capital) to Times of India and Dainik Bhaskar for an advertisement space.

Timbor plans to issue 3.69 mn shares through the IPO and will use the proceeds to fund its capex of Rs 181 mn. The proceeds will be utilised to buy new machineries for its existing plants, set up 20 new stores under the COCO model and to fund its working capital requirements.

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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