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Mumbai

CRISIL Research assigns IPO grade '4/5' to ACB (India) Ltd

CRISIL has assigned a CRISIL IPO Grade "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of ACB (India) Ltd (ACB). This grade indicates that the fundamentals of the IPO are 'above 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 grade factors in ACB's position as a leading player in the coal beneficiation industry with a market share of more than 47%. The company is largely present in the coal bearing states of Chhattisgarh and Orissa. It enjoys a competitive edge due to the strategic location of its washeries (in proximity to mines), leading to lower transportation costs. This, coupled with access to railway sidings at most of its plants, enables ACB to manage logistics efficiently. Business fundamentals are supported by a regulatory requirement that power plants located more than 1,000 km from the pit head need to use washed coal having ash content of less than 34%. Around 65% of domestic coal has high ash content which can be beneficiated. The grade also factors in ACB's effective utilisation of coal rejects (reprocessing or blending with raw coal and making them marketable), which has led to superior margins for the company. ACB ventured into power generation to use coal rejects as fuel – it currently has 350 MW of generation capacity using coal rejects. Since the cost of rejects is lower than that of raw coal, power generation costs are lowered. Overall, the company generates a healthy EBITDA margin of 35-40%. The grade is also supported by the management's experience in coal beneficiation and the coal logistics business.

The grade is constrained by the project-related risks associated with setting up of two power projects aggregating to 900 MW capacity (ACB's economic interest is 579 MW). These plants are based on coal linkage from Coal India Ltd (CIL) and, hence, are exposed to fuel supply risk due to CIL's inability to raise production and the consequent delay in signing the fuel supply agreement (FSA). However, 10-15% of fuel requirement can be met through coal rejects. Further, the company's beneficiation business is susceptible to increased competition in the future, which may dent its profitability. CIL has announced plans to set up 20 beneficiation plants under the public-private-partnership (PPP), which is expected to make way for new entrants. Also, ACB's beneficiation business is exposed to the risk of non-renewal of washing contracts.

About the company and the issue

ACB was founded in 1997 and commenced operations in 1999. It has coal beneficiation capacity (by economic interest) of 62.35 mtpa spread across Chhattisgarh, Orissa, Maharashtra and Andhra Pradesh. The company is promoted by Mr Rudra Sen Sindhu, Mr Ganesh Chandra Mrig, Mr Vir Sen Sindhu and Mr Kuldeep Singh Solanki. The promoters hold 76.88% stake and Pineridge Investments Ltd (Warburg Pincus) holds 21.92%. ACB's beneficiation plants generate coal rejects, during the coal beneficiation process, which is sold as it is, after reprocessing and also after blending with raw coal. In 2007, the company ventured into power generation by setting up a 30 MW thermal power plant in Chhattisgarh that would use the low-cost coal rejects. Its current power generation capacity (by economic interest) is around 452 MW including power plants that utilise coal rejects, wind and gas. In FY12, it reported turnover of Rs 13.5 bn, net profit of Rs 2.9 bn and RoE of 16.7%.

ACB has outlined a capex of Rs 5,750 mn to part finance the development of coal-based projects in Chhattisgarh: (a) phase II of the 30 MW Chakabura power plant and (b) 2x300 MW Raigarh power project. These will be funded through the IPO proceeds and offer for sale of 28 mn shares.

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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