

IOT Infrastructure and Energy Services Ltd

CRISIL IPO Grade 4/5 (Above average)

December 02, 2010

Grading summary

CRISIL has assigned a CRISIL IPO grade of '4/5' (pronounced "four on five") to the proposed IPO of IOT Infrastructure and Energy Services Ltd (IOT). This grade indicates that the fundamentals of the IPO are above 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, its future market price or suitability for a particular investor.

The IPO grade assigned to IOT reflects its established position in the terminalling business. IOT is credited with introducing storage terminals in India in 1998, especially for oil and gas; until then oil marketing companies (OMCs) themselves largely undertook the construction and maintenance of terminals. The grading also takes into account the robust growth witnessed by IOT in the EPC (engineering, procurement and construction) segment over the past few years. IOT's revenues from the EPC segment grew at 49% every year between FY07 and FY10, with new orders worth nearly Rs 13 bn flowing in over the same period.

The grade also takes into account IOT's strong backing from its promoters - Indian Oil Corporation (50%) and Oiltanking GmbH of Germany (50%). It has enjoyed its parents' financial and technical support as and when required.

The grade is moderated by the fact that IOT is a relatively smaller player in the highly competitive EPC segment populated by large, established and diversified players such as L&T and Punj Lloyd. Also, the Paradip project, awarded by IOC is IOT's largest project to date on its order book, which faces project and client concentration as well as execution risks.

The company posted consolidated revenues of Rs 15.2 bn with an EBITDA margin of 18.5% and net margin of 8.8% during FY10. The net worth of the company as on March 31, 2010 was Rs 6.38 bn and the corresponding debt was Rs 5.1 bn with RoE of 23%.

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About the company

IOT is a 50-50 joint venture between Indian Oil Corporation (IOC) and Oiltanking GmbH of Germany, the world's second largest independent tank storage provider for petroleum products, chemicals and gases. IOT commenced operations in 1998 as an independent tank terminalling company for oil and petroleum products. In 1998, it entered the EPC business through projects related to tank farms, where it had domain expertise. Then it expanded through the acquisition of IOT Anwasha (a specialist tank construction company) and Stewarts and Lloyds (a specialist piping construction company). The company entered the upstream services business in 2008 through the acquisition of Newsco Asia (a leading provider of directional drilling services).

Issue details

Shares offered to public	72.75 mn shares
- Fresh issue	58.2 mn shares
- Offer for sale	14.55 mn shares
As per cent of post issue equity	25%
Object of the issue	<ul style="list-style-type: none"> Funding equity contribution or contribution in the form of shareholder loan in the company's subsidiary, IOT Utkal Energy Services Ltd (IOT Utkal) to partly finance the development of the facilities for handling and storage of crude oil and finished products for Indian Oil on a BOOT basis at its upcoming Paradip refinery in Orissa. To finance construction of the 220,000 kiloliter common user terminal at Raipur, Chhattisgarh General corporate purposes
Amount proposed to be raised	Not available at the time of grading
Price band	Not available at the time of grading
Lead managers	SBI Capital Markets Ltd, Enam Securities Private Ltd

Detailed Grading Rationale

A. Business Prospects

- *Established player in the terminalling business*

Storage terminals are required both at the point of production (refinery) as well as during distribution (ports and consumption hubs). Independent storage, particularly for oil and gas, was introduced in India by IOT. Till then, construction and maintenance of terminals were largely done by OMCs (oil marketing companies) themselves.

IOT's terminalling business provides independent tank terminalling services for the receipt, storage, dispatch and handling of crude oil and petroleum products. It is also engaged in bottling of LPG and dewatering of crude oil, and provides into-plane services at a private sector international airport in south India and New Delhi's international airport. IOT's customers in this business include major oil companies such as IOC, ONGC, OIL, Essar and Shell MRPL Aviation Fuel and Services Pvt Ltd.

IOT's expertise has helped it grow revenues from this segment at a three-year CAGR of 28% to Rs 1,218 mn in FY10

- *Robust and diverse order flow in the EPC segment*

Initially an independent terminalling player, IOT leveraged its experience in construction and operation of terminals to enter the EPC business through projects related to tank farms, where it held core expertise. It later expanded its operations to include engineering, procurement and construction of terminals for refinery projects and crude oil storage. IOT bagged orders worth ~Rs 13 bn each year during FY07-FY10; revenues from this segment grew at a CAGR of 49% over the same period.

Having completed a large number of projects awarded by PSUs such as IOC, Hindustan Petroleum Corporation Ltd, Bharat Petroleum Corporation Ltd and upstream players such as ONGC and OIL, the company has bagged projects from private sector players such as Cairn India (including the Viramgam terminal project for Rs 1390 mn in FY08, followed by the Barmer project for Rs 830 mn in FY10 and the Bhogat project for Rs. 3060 mn in September 2010). The company is also executing smaller projects for industries other than oil and gas (some sub-contracted by bigger construction players) including boilers for Mundra UMPP for Doosan (Rs 652 mn) and Jhajar Power (Rs 493 mn), storage tanks for aluminium refineries (Rs 261 mn), and piping and equipment erection work at the Dahej Petrochemical Complex (Rs 252 mn).

- *Strong parentage of IOC and Oiltanking enhances growth prospects*

IOT has had the strong backing of both its promoters over the years. It has enjoyed the financial support from its parent companies when required, as demonstrated by the Rs 1.6 bn equity infusion in January 2008 as well as their expertise in technical matters. Most of IOT's completed as well as ongoing EPC projects have been bagged from IOC following competitive bidding.

The company's association with Oiltanking provides it with access to overseas markets as well as world-class expertise in terminalling. IOT's most profitable EPC contract (contributing 48% to consolidated

PBIT) has been awarded by a JV between Oiltanking and Odfjell Terminals & Co., Oman. Further, IOT has recently won a contract, on a nomination basis from this JV, for additional tankage facilities at Sohar Industrial Port (order size Rs 3,391 mn).

- *Relatively small player in a competitive EPC environment*

IOT is a relatively smaller player operating in the vast EPC segment, which also includes large established players such as L&T and Punj Lloyd and mid-sized players like Engineers India Ltd (EIL), which is largely into design, engineering and project consultancy in the oil and gas space. Although its experience in terminalling and strong parentage has aided growth prospects in the segment, it has had to bid quite aggressively to increase its order intake.

IOT's size and scale of operations are much smaller compared to other players in the segment, especially L&T and Punj Lloyd. As of FY10, IOT's order book size was Rs 29.3 bn compared to L&T's Rs 1,002.4 bn, Punj Lloyd's Rs 276.5 bn and EIL's Rs 62.4 bn. Further, IOT's competitors have a much diversified EPC business profile; the oil and gas sector accounts for around 95% of IOT's revenues but ~24% and 15% of Punj Lloyd's and L&T's order books, respectively.

- *Project and client concentration risk remains*

For the past three fiscal years, IOT has earned around 40-50% of its annual revenues from IOC. The Paradip refinery storage project is IOT's largest order till date. Following the award of this project, IOC accounted for around 56% of IOT's unexecuted order book as of June-end 2010. In order to become a stronger EPC player, IOT would be required to showcase its EPC capability through competitive bidding for non-IOC orders. It is gradually reducing its dependence on IOC for EPC revenues, indicated by the large number of non-IOC projects that it has bid for in FY11; out of the total projects bid for, 61% are non-IOC. Having said that, IOC continues to be the single largest customer for IOT accounting for a large number of bigger orders, as of FY10, leading to a client concentration risk.

B. Financial Performance

IOT's revenues logged a healthy CAGR of 44% between FY07 (Rs 5,098 mn) and FY10 (Rs 15,293 mn) largely driven by strong growth in the EPC segment. EBITDA margin improved from 13.9% in FY07 to 18.5% in FY10 due to increased contribution from terminalling. PAT margin increased from 4.5% in FY07 to 8.8% in FY10 due to better operational performance.

Financial performance snapshot

		FY10 Actual 12 months	FY09 Actual 12 months	FY08 Actual 12 months	FY07 Actual 12 months
Total operating income	Rs mn	15293	15885	10952	5098
EBITDA margins	%	18.5	16.1	11.0	13.9
Net profits	Rs mn	1346	1297	551	230
Net margins	%	8.8	8.2	5.0	4.5
RoCE	%	21.8	26.5	19.7	14.8
RONW	%	23.0	27.4	18.0	12.1
Basic EPS	Rs	5.8	5.6	2.4	1.9
Diluted EPS	Rs	5.8	5.6	2.4	1.9
No. of equity shares	Mn	232.3	232.3	232.3	118.0
Net worth	Rs mn	6383	5338	4133	2001
Book value (FV Rs 10)	Rs	27.5	23.0	17.8	17.0
Debt-equity ratio	Times	0.8	0.9	0.6	0.8

Source: DRHP

Note: Numbers have been re-classified as per CRISIL standards; RoCE and RONW are annual figures

C. Management Capabilities and Corporate Governance

Promoters are strong players in their respective fields

IOC is India's largest petroleum refining and marketing company. Oiltanking, specialising in tank storage and related services, is one of the world's leading independent logistic service providers to the oil and chemical industry. IOT stands to benefit from their expertise and reach.

Strong and professional management

IOT is led by Mr Jayanta Bhuyan, the managing director since 1997. Nominee directors, three each from IOC and Oiltanking, actively participate in the functioning of the company and work closely with the management team on strategy and implementation. The second line consists of specialists in their respective business functions such as EPC, terminalling, upstream services and finance. Key managerial personnel have stayed with the company for a long period.

Internal processes and MIS leave room for strengthening

IOT's internal systems and processes in terms of data collation and management information system (MIS) generation have lagged the pace of business growth witnessed by the company over the past several years. These could prove to be impediments to IOT's ambitious growth plans.

Prominent executives on the board

IOT's 12-member board has six independent directors. The independent directors include highly qualified and experienced people from the oil and gas industry, such as Mr P. Sugavanam, the former director (finance) of IOC, Mr Vinod Kumar Sharma, former director (Offshore), Oil & Natural Gas Corporation (ONGC), and Mr Arun Balakrishnan, former chairman and managing director of Hindustan Petroleum Corporation Ltd. All the six independent directors were appointed on September 1, 2010. The company currently has four committees (audit, ESOP compensation, IPO committee, and investor grievance) in place. The audit and investor grievance committees are chaired by independent directors, the rest are chaired by Mr Jayanta Bhuyan.

Annexure I

Business profile

IOT is a 50-50 joint venture between IOC and Oiltanking. It commenced operations in 1998 as an independent tank terminalling company for oil and petroleum products. Its business consists of three broad segments – EPC, terminalling and upstream services.

I) EPC (89% of revenues in FY10)

- 93% of EPC revenues come from the oil and gas sector
- 20% of EPC revenues were from a project carried out through IOTECS Oman, IOT's Oman subsidiary. The project is an EPC contract awarded by Oiltanking Odfjell Terminals and Co LLC
- 72.6% of IOT's EPC contracts are on a fixed-fee basis
- The Paradip Refinery Storage Terminal is the largest EPC project till date
- The EPC order book was valued at Rs 29,160 mn as on March 31, 2010 (2.1x FY10 EPC revenues on a consolidated basis)

Projects snapshot – EPC

	Project	Order size (Rs mn)
Largest completed EPC projects	Offsite and storage facilities for naphtha cracker at IOC's Panipat refinery	12,830
	Storage tanks and terminal for Sohar Industrial Port, Oman for Oiltanking Odfjell Terminal Co – phases 2 and 3	5,990
	Largest ongoing projects	
	IOC Paradip storage-oil and products' storage terminal	19,250
	Strategic oil reserve – Andhra Pradesh	3,940
	Storage tanks and terminal for Sohar Industrial Port, Oman for Oiltanking Odfjell Terminal Co – phases 4 and 5	3,390
	Construction of offsites and utilities for IOC Koyali upgradation project	8,310
	Construction of coke-drum system package for DCU process plant project for IOC – Guwahati	2,096

Source: Company

II) Terminalling (8% of revenues in FY10)

IOT's terminalling business provides independent tank terminalling services for the receipt, storage, dispatch and handling of crude oil and petroleum products. It is also engaged in bottling of LPG and dewatering of crude oil, and provides into-plane services at the Bengaluru International Airport and New Delhi's Indira Gandhi International Airport. Major Indian oil companies, such as IOC, ONGC, OIL, Essar and Shell, are its major terminalling customers. Independent terminalling refers to providing tank facilities for storage and handling of products for a third party. The company contracts a fixed amount of storage space on a fixed fee basis for a fixed period of time. Ancillary services such as loading and unloading are charged separately. The services are offered under different ownership models - BO, BOO, BOOT. The company has 16 terminals with 1.10 mn kiloliters of storage capacity. IOT owns and operates three of these terminals on an open-access basis.

Terminals owned/operated

	Operations model	Capacity (kl)
Mundra port (for HPCL)	O&M	306,954
Navghar	Owned	250,082
Bahadurgarh, Haryana (for HPCL)	O&M	204,436
IOC terminal in Dumad, near Koyali refinery	BO	72,786
Goa	Owned	71,220
OIL Crude storage	BO	36,000
CPCL LPG terminal	BOOT	25000 kg
ATF Tank farm at Bangalore Airport	BOOT	10,100

Source: DRHP

III) Upstream services (3% of revenues in FY10)

IOT's upstream services business provides integrated directional drilling and seismic services. It has undertaken its first contract to provide seismic services in Karbi Anglong, Assam for OIL.

IOT is also entering the renewable energy business through a joint venture with Mabagas, a biogas plant expert, to identify, develop, build, own and operate biogas and biogas power plants in India.

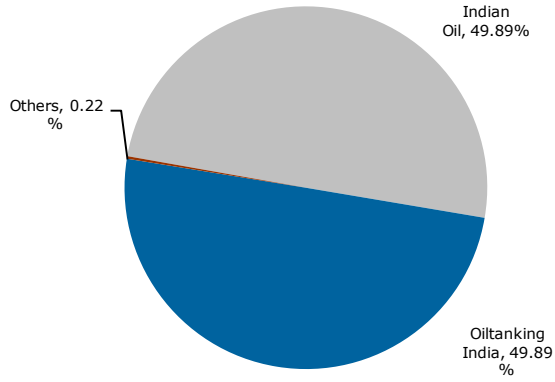
Management and Board Profile

IOT is a 50-50 joint venture between IOC and Oiltanking of Germany, the world's second largest independent tank storage provider for petroleum products, chemicals and gases. Mr Brij Mohan Bansal, who is the present chairman of Indian Oil, is the Chairman of the Board of IOT. Managing director, Mr Jayanta Bhuyan, has occupied this position since 1997. He is an MBA from IIM, Ahmedabad and has over 37 years of experience in the oil and gas industry.

The second line of management includes, among others, Mr Ashutosh Kaushik, President, EPC business, and Mr Jatin Mavani (president - finance) who have been with the company since inception. The other business heads, Mr Jathavedan Nampoothiri (senior vice president, terminalling) and Mr Ashok Kumar Saikia (senior vice president, upstream services) have over 20 years of experience in their respective fields.

IOT has six independent directors in a 12-member strong board. The independent directors include highly qualified and experienced people from the oil and gas industry such as Mr P. Sugavanam, who was the former director (finance) of IOC, Mr Vinod Kumar Sharma, former director (offshore), Oil & Natural Gas Corporation (ONGC), and Arun Balakrishnan, former chairman and managing director of Hindustan Petroleum Corporation Ltd. All the independent directors are highly experienced and qualified in their respective fields. All the six independent directors were appointed on September 1, 2010.

Shareholding pattern (pre-IPO)



Source: DRHP

Annexure II: Profile of the Directors

Name of directors	Designation	Age	Directorships / partnership in other entities
Mr Brij Mohan Bansal	Chairman	59	Domestic companies Indian Oil Corporation Limited Chennai Petroleum Corporation Limited Offshore companies Indian Oil Mauritius Limited Trusts Nil
Mr Jayanta Bhuyan	Managing Director	59	Domestic companies Indian Oil Mauritius Limited IOT Design & Engineering Limited IOT Mabagas Limited IOT Anwasha Engineering & Construction Limited Zuari Indian Oiltanking Limited IndianOil Skytanking Limited IndianOil Skytanking Delhi Private Limited IOT Infrastructures Private Limited IOT Utkal Energy Services Limited Newsco Directional & Horizontal Drilling Services (Asia) Inc. Offshore companies IOT Engineering & Construction Services Pte. Ltd., Singapore Indian Oiltanking Engineering & Construction Services LLC, Oman IOT Canada Limited PT IOT Energy Services Indonesia Trusts The IOT Foundation IOT Infrastructure & Energy Services Limited Employees Group Superannuation Scheme IOT Infrastructure & Energy Services Limited Group Gratuity Cum Assurance Scheme
Mr Rutger Van Thiel	Non-Independent, Non-Executive Director appointed as a nominee of Oiltanking India	66	Companies Oiltanking GmbH Oiltanking Benelux GmbH Oiltanking India GmbH Oiltanking Egypt GmbH Oiltanking Peru GmbH Oiltanking Asia Pacific Pte. Ltd. Oiltanking Odjfell Terminal Pte. Ltd. Oiltanking Singapore Limited Pipe Rack Holding Company Private Limited Oiltanking Terminal Pte. Ltd. PT OT Merak Terminal Oiltanking Daya Bay Co. Ltd. Daya Bay Public Pipe Rack Co. Ltd. Huizhou Daya Bay Oiltanking Petrochemical Public Jetty Oiltanking (Nanjing) Co. Ltd. Oiltanking KNOC Yeosu Co. Ltd. Trusts Nil

Mr Aart Willem Lokhorst	Non-Independent, Non-Executive Director appointed as a nominee of Oiltanking India	66	Companies Marquard & Bahls Aktiengesellschaft Star Energy Resources Ltd. IOT Mabagas Limited Trusts Nil
Mr S. V. Narasimhan	Non-Independent, Non-Executive Director appointed as a nominee of Indian Oil	59	Domestic companies Indian Oil Corporation Limited Petronet LNG Limited Offshore companies Lanka IOC PLC, Sri Lanka Trusts Nil
Mr R. Narayanan	Non-Independent, Non-Executive Director appointed as a nominee of Indian Oil	58	Companies Petronet India Limited Indian Synthetic Rubber Limited Trusts Nil
Mr Shyam Sunder Suri	Non-Executive, Independent Director	61	Companies Magus Customer Dialog Private Limited Tandem Solutions Private Limited Tipco Industrial & Marketing Services Private Limited High Mark Credit Information Services Private Limited Trusts Nil
Mr Arun Balakrishnan	Non-Executive, Independent Director	60	Domestic companies Nil Trusts Nil
Mr T. C. Venkat Subramanian	Non-Executive, Independent Director	61	Domestic companies LIC MF Trustee Co. Private Limited Securities Trading Corporation of India Limited Agricultural Finance Corporation Limited Trusts Foundation for Organisational Research and Education, Delhi
Mr P. Sugavanam	Non-Executive, Independent Director	65	Domestic companies Nil Trusts Nil
Mr Vinod Kumar Sharma	Non-Executive, Independent Director	66	Domestic companies Tata Petrodyne Limited Trusts Nil
Mr Samir Kumar Barua	Non-Executive, Independent Director	59	Domestic companies Bharat Petroleum Company Limited Coal India Limited Securities Trading Corporation Limited Torrent Power Limited Paras Pharmaceuticals Limited Trusts Nil

Note - (The Board composition is as on 9th September 2010)

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