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Mumbai

CRISIL Equities assigns IPO grade 4/5 to IOT Infrastructure and Energy Services Ltd

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 grade also takes into account robust growth recorded 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 the largest project to date on IOT's order book, which entails 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%.

About the company and the issue

IOT is a 50-50 joint venture between Indian Oil Corporation (IOC) and Oiltanking GmbH, 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).

The IPO proceeds will be utilised to fund the equity contribution or contribution in the form of shareholder loan in the company's subsidiary, IOT Utkal Energy Services Ltd to a) partly finance the development of the facilities for handling and storage of crude oil and finished products for IOC on a BOOT basis at its upcoming Paradip refinery in Orissa; b) to fund the construction of the 220,000 kilolitre common user terminal in Raipur, Chhattisgarh; and c) to meet general corporate purposes.

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