

## CRISIL Research assigns IPO grade '1/5' to VKS Projects Ltd.

CRISIL has assigned a CRISIL IPO grade of '1/5' (pronounced "One on five") to the proposed IPO of VKS Projects Limited (VKS). This grade indicates that the fundamentals of the IPO are poor 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.

Weak revenue visibility is the major factor which has constrained the IPO grade assigned to VKS. As of June 2011, VKS' order book of Rs 967 mn translated into 1.6x FY11 sales; this provides revenue visibility for the next 12-15 months only. Though the company has a fairly good execution track record in handling mechanical, piping and heavy equipment erections for various process industries, of late it has been accepting orders for civil construction or earthworks – recently it accepted two such orders worth ~Rs 950 mn. These are not complex jobs and are positioned lower in the value chain; moreover, these orders could also be margin dilutive. Hence undertaking such jobs indicates that the company is not focusing on its core competency. The grade is further constrained by the company's inability to win large contracts from marquee clients. Although the company has in the past bagged orders from clients such as Reliance, Thermax, Deepak Fertilizer, Rashtriya Chemicals & Fertilizers (RCF), and IG Petro, we believe its inability to get repeat orders of large magnitude from these clients is a matter of concern.

The grade also considers the high concentration risk faced by VKS as orders from two new clients comprise 97% of the order book. Any delay or hiccups in these orders or companies could have an adverse impact on revenues going forward. Moreover, working capital is also high with working capital days in the range of 90-100. Owing to higher working capital requirements, debt increased to Rs 132 mn in FY11 from Rs 52 mn in FY10. Besides, the business is highly dependent on promoter Dr V Sukumaran and there is a need to strengthen the second line of management.

The only positive for VKS is its strong execution track record. So far the company has completed ~40 projects, without any major hiccups, in nine different states across India. Over a period of time, VKS has built up capabilities and obtained necessary pre-qualifications, which have led to an increase in average ticket size to ~Rs 400- 500 mn from ~Rs 20-30 mn.

### About the company and the issue

VKS Projects Pvt Ltd (VKS) is a Mumbai-based engineering, procurement and construction (EPC) company which undertakes mechanical and infrastructural construction contracts for fabrication and erection of high pressure piping, and heavy equipment erection. The company is also well-equipped to fabricate and erect reaction vessels, vacuum tray driers, storage tanks and heat exchangers for industries such as refinery, petrochemicals, dyestuff, pharma and bulk drugs, metallurgy, power and textiles. Of late, it is also undertaking civil and land development contracts.

Some of VKS' major clients are Reliance, Thermax, Deepak Fertilizer, RCF and IG Petro. During FY07-09, the company undertook projects with an average ticket size of Rs 20-30 mn. Post FY09, it started executing relatively higher-value projects. Recently, it received an order worth Rs 450 mn from PACL India Ltd and another worth Rs 490 mn from Lanco Infratech (for civil work at the Anuppur Thermal Power Plant in Madhya Pradesh).

VKS' revenue increased from Rs 33 mn in FY07 to Rs 597 mn in FY11 following its order intake increasing at 102% CAGR. EBITDA margins contracted by 125 bps y-o-y in FY11 to 11.4% due to higher employee cost. Reported net profit has increased to Rs 27 mn in FY11 from Rs 1 mn in FY07, owing to robust revenue growth. VKS's net worth for FY11 stood at Rs 128 mn compared to Rs 32 mn FY10.

Through the IPO, VKS plans to raise ~Rs 550 mn. The proceeds will be utilised for long-term working capital requirements, procurement of construction equipment and machineries and setting up engineering design studios and training centers in Chennai, Kochi, Delhi, Hyderabad and Ahmedabad.

### 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

# Press Release

price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

Media Contacts	Analytical Contacts
<p><b>Mitu Samar</b>  <b>Director, Communications and Brand Management</b>  <b>CRISIL Limited</b>            Tel: +91-22- 3342 1838            Mobile: +91- 98200 61934            Fax: +91-22- 3342 3001            E-mail: <a href="mailto:mitu.samar@crisil.com">mitu.samar@crisil.com</a></p> <p><b>Priyadarshini Roy</b>  <b>Communications and Brand Management</b>  <b>CRISIL Limited</b>            Tel: +91-22- 3342 1812            Mobile: +91- 9819742778            Fax: +91-22- 3342 3001            E-mail: <a href="mailto:priyadarshini.roy@crisil.com">priyadarshini.roy@crisil.com</a></p>	<p><b>Tarun Bhatia</b>  <b>Senior Director, Capital Markets</b>  <b>CRISIL Research</b>            Tel: +91-22- 3342 3226            E-mail: <a href="mailto:tarun.bhatia@crisil.com">tarun.bhatia@crisil.com</a></p> <p><b>Mohit Modi</b>  <b>Director, Equity Research</b>  <b>CRISIL Research</b>            Tel: +91-22- 4254 2860            E-mail: <a href="mailto:mohit.modi@crisil.com">mohit.modi@crisil.com</a></p>

### About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

### About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macroeconomy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

### CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfill your request and service your account and to provide you with additional information from CRISIL and other parts of The McGraw-Hill Companies, Inc. you may find of interest. For further information, or to let us know your preferences with respect to receiving marketing materials, please visit [www.crisil.com/privacy](http://www.crisil.com/privacy). You can view McGraw-Hill's Customer Privacy Policy at [http://www.mcgraw-hill.com/site/tools/privacy/privacy\\_english](http://www.mcgraw-hill.com/site/tools/privacy/privacy_english). Last updated: March 31, 2011

### Disclaimer

A CRISIL IPO Grading is a one-time assessment and reflects CRISIL's current opinion on the fundamentals of the graded equity issue in relation to other listed equity securities in India. A CRISIL IPO Grading is neither an audit of the issuer by CRISIL nor is it a credit rating. Every CRISIL IPO Grading is based on the information provided by the issuer or obtained by CRISIL from sources it considers reliable. CRISIL does not guarantee the completeness or accuracy of the information on which the grading is based. A CRISIL IPO Grading is not a recommendation to buy / sell or hold the graded instrument; it does not comment on the issue price, future market price or suitability for a particular investor.

CRISIL is not responsible for any errors and especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of CRISIL IPO Gradings. For information on any IPO grading assigned by CRISIL, please contact 'Client Servicing' at +91-22-33423561, or via e-mail: [clientservicing@crisil.com](mailto:clientservicing@crisil.com).

For more information on CRISIL IPO Gradings, please visit <http://www.crisil.com/ipo-gradings>

This press release is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The Press release may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution of its Press Releases for consideration or otherwise through any media including websites, portals etc.