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Mumbai

CRISIL Equities assigns IPO grade 3/5 to Ramky Infrastructure Ltd

CRISIL Equities has assigned a CRISIL IPO grade of "3/5" (pronounced "three on five") to the proposed initial public offer (IPO) of Ramky Infrastructure Ltd. This grade indicates that the fundamentals of the IPO are 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, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grade reflects huge infrastructure spending in the country, which is expected to continue in the medium term and accordingly, provide huge growth opportunities for construction players. The grading further reflects Ramky Infra's strong business position in the waste-water segment of the construction business and its good order-book position, which stood at about 4.1 times its 2008-09 revenues. The company's strong order book of Rs 58 billion (as on Sept 2009) is diversified across segments and geographical regions.

The grading is moderated by the fact that Ramky Infra is an average player and faces intense competition in the construction business other than the water & waste-water segment. In the build -operate -transfer (BOT) road business, the company is relatively a new entrant, having completed only one project; therefore, its execution capability remains a key monitorable.

Considering the fast pace of growth in future and geographical diversification of company's order book, management needs to further enhance and stream line its processes and information systems to support the growth. Mr. Ayodhya Rami Reddy, the key promoter of Ramky Infra has a major stake in other group companies, which are in similar lines of business. Although there is a demarcation of business lines of Ramky Infra and other group companies, few overlaps in the business operations from past still exist.

About the company and the issue

Ramky Infrastructure Ltd (Ramky Infra) was incorporated in April 1994 by Mr Alla Ayodhya Rami Reddy and Mr Yancharla Ratnakar Nagaraja. Primarily a construction contractor, the company is into construction of water and waste water projects, buildings, irrigation and road projects. Ramky Infra's revenues have registered a CAGR of 30 per cent over the last 3 years (2006-07 to 2008-09), with operating margins at 9.9-10.7 per cent.

In 2006-07, the company ventured into development activity, where it executes projects on public-private partnership and BOT basis. In the development business, Ramky Infra is involved in development of residential and commercial real estate, BOT roads, and industrial parks and, to a small extent, operation and maintenance of bus terminal.

Ramky Infra's operating income amounted to Rs 7,118 mn for the six months ended September 2009, of which the construction business accounted for ~97% and the development business accounted for the rest. For the six months ended September 2009, the company's operating margins were at 9.9% and net profit at Rs 278 mn.

Ramky Infra's board comprises 9 directors, including two executive directors and five independent directors. Mr Alla Ayodya Rami Reddy, one of the promoters, serves as executive chairman on the board. The board also has two nominee directors - one from SAPE and another from IL&FS.

The funds to be raised via the IPO will be used by the company to fund its investment in capital equipments and working capital requirements. The proceeds will also be utilised to prepay identified loan facilities and finance general corporate expenses.

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