Press Release

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Mumbai

CRISIL Research assigns IPO grade '4/5' to Powerica Ltd

CRISIL has assigned a CRISIL IPO grade of '4/5' (pronounced "four on five") to the proposed IPO of Powerica Ltd (Powerica). 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, its future market price or suitability for a particular investor.

The assigned grade reflects Powerica's ability to effectively compete against reputed players in the generator set (genset) industry, and to maintain healthy profitability and operating cash flows. CRISIL Research believes Powerica's long-standing relationship with Cummins India Ltd (Cummins) comprises the core of this ability. Powerica is Cummins' exclusive original equipment manufacturer (OEM) for certain states in southern and western India. It benefits from Cummins' leading position in the domestic genset industry (~33% market share), branding, wide range of gensets (in terms of KVA rating), and its technical and marketing support. While the slowdown in industrial and infrastructure investments has affected the demand for diesel gensets in FY12, we expect the recovery in overall economic environment is likely to lead to steady industry growth over the next five years. Power deficit in India will also aid genset sales. The established relationship between Powerica and Cummins and value addition done by Powerica, mitigate the risk arising from Powerica's dependence on Cummins in the genset business. The planned capacity addition (300 MW) in the wind business is also expected to drive Powerica's growth.

The grade is moderated by Powerica's limited experience in executing a wind project (though it has experience in operation of wind projects). Also, its planned capacity addition is at a nascent stage. Land acquisition is pending in all of the projects and in a few cases the wind studies are yet to be completed, which may lead to delay in commissioning of the projects. Also, during the capacity addition phase, the company's overall RoE will be suppressed.

Powerica's FY12 operating income was Rs 11.6 bn. Operating income recorded 12.7% CAGR over FY07-12 driven by a steady growth in the genset business and the foray into the wind business. EBITDA margin dipped from 17.0% in FY11 to 13.8% in FY12 as weak demand resulted in margin pressure in the genset business. Higher contribution from the high-margin wind business, however, supported EBITDA margin. While EBITDA logged 8.2% CAGR over FY08-11, higher depreciation from the wind business impacted adjusted PAT. Adjusted PAT for FY12 was Rs 627 mn. RoE for FY12 was 8.7%.

About the company and the issue

Incorporated in 1984, Mumbai-based Powerica is promoted by Mr Naresh Oberoi and Mr Kharati Ram Puri. It manufactures and installs diesel gensets, and provides after-sales services. It also provides operation and maintenance, and leasing services for heavy fuel oil (HFO) gensets. It is an OEM of Cummins for diesel gensets (of up to 2000 KVA) and an exclusive dealer of MAN B&W Diesel A/s (MAN) for HFO gensets of 2000-4500 KVA. It owns and operates five genset manufacturing facilities located in Karnataka, Tamil Nadu, Daman & Diu, and Dadra & Nagar Haveli. It has a distribution network comprising 17 sales and marketing offices, and 11 service centers.

The company ventured into wind energy projects in FY09. It currently owns 103 MW of wind power projects in Gujarat and Tamil Nadu. It intends to set up an additional 300 MW over the next two years using the proceeds from the planned IPO. In FY08, the company carried out private placement of shares to Standard Chartered Private Equity (Mauritius) Ltd.

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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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 macro economy 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.

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