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Mumbai

CRISIL Research assigns IPO grade '3/5' to Varahi Ltd

CRISIL Research has assigned a CRISIL IPO grade of '3/5' (pronounced "three on five") to the proposed IPO of Varahi Ltd (Varahi). This grade indicates that the fundamentals of the IPO are 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 takes into account Varahi's established position in the Indian packaging industry, which is on a sustained growth trajectory thanks to the growth in end-user industries – mainly FMCG and pharmaceuticals. CRISIL Research expects this industry to grow at 13-16% CAGR over FY11-14. The grade factors in the company's focus on innovation and product development, ensuring cost savings for its clients. The grade also reflects the company's long-standing relationship with its clients such as Dabur, Perfetti Van Melle and Bajaj Corp, which has translated into repeat orders and provides revenue visibility. Promoter's sound technological knowledge has encouraged product innovations, which has helped in creating a strong brand image. Further, the proximity of Varahi's manufacturing units to key clients' operations ensures timely delivery of its products and lowers logistic costs.

However, the grade is constrained by the highly competitive nature of the packaging industry due to the presence of a large number of unorganised players and low entry barriers. Hence players have limited bargaining power. However, continuous product innovation helps in strengthening client relationships and may provide better margins. In addition, Varahi's high client concentration (two large clients accounted for ~80% of FY11 revenues) remains a key risk. Further, successful completion of the proposed capacity expansion remains a key monitorable. On the corporate governance front, independent directors have significant experience in the plastics industry but their management oversight needs to be further strengthened.

The company's income grew at a two-year CAGR of 21.9% to Rs 1,086 mn in FY11. The adjusted net profit was Rs 108 mn in FY11 as against Rs 77 mn in FY09. It recorded EPS of Rs 5.4 for FY11. Its net worth as of March 2011 was Rs 547 mn. The company's RoNW was 23.4% in FY09, which declined to 21.7% in FY11.

About the company and the issue

Varahi Ltd was incorporated as Varahi Plastics Private Ltd in December 1993. It was converted into a public limited company in May 2011 and the name was changed to Varahi Ltd. It manufactures plastic products such as PET / HDPE / PP bottles, PET jars, PET pre-forms, PET containers, caps and closures. The company caters largely to FMCG, chemicals and pharmaceutical industries. The company has expanded its capacity significantly in the past one decade via organic and inorganic routes; the number of manufacturing units is up from one to five. Few of the firm's plants enjoy fiscal benefits, such as income tax and excise duty exemptions.

The proposed IPO is in the form of fresh issue to raise Rs 1,100 mn (approximate). The proceeds from the fresh issue will be utilized for setting up manufacturing units in Indore, Madhya Pradesh and Manesar, Haryana, and to meet their working capital requirements. The company also intends to utilize proceeds for part repayment of existing term loans.

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.



Press Release

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