Press Release

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Mumbai

CRISIL Equities assigns IPO grade 4/5 to Virgo Engineers Limited

CRISIL Equities has assigned a CRISIL IPO grade of "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Virgo Engineers Limited (VEL). 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, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grade reflects VEL's strong position in the ball valve manufacturing business - the company is on the approved manufacturer's list of six out of ten oil and gas players indicating good execution capabilities and quality standards. The grade also reflects favourable business prospects arising from growth in demand for ball valves following an expected increase in investments in the oil and gas industry over the next three-five years. The grade is supported by the high level of customer loyalty enjoyed by VEL; its repeat business accounts for over 90% of revenues. The grade also takes into account sound corporate governance structure and the promoters' business acumen. They have successfully captured opportunities in the past, translating them into strong performance recorded by the company. Going forward, growth is expected to be driven by geographic and product diversification.

However, the grade is constrained by the competitive nature of the valve industry and the risk of forex volatility. Though VEL has established a client base that comprises leading oil and gas players, its global market share is less than 2% and it faces stiff competition from its global counterparts. Also, of the total revenues earned in foreign currency, only 50% is naturally hedged. This is because of the presence of manufacturing facilities in the USA and Europe, where the costs are in their respective local currency. The balance 50% continues to be exposed to the currency risk arising from high volatility in forex rates for which the company enters into forward contracts.

VEL's revenues have grown at a healthy three-year CAGR of nearly 29.8% to Rs 6.7 bn in FY10. It posted PAT of Rs 855 mn in FY10. EBITDA and PAT margins during the same period were 21.1% and 12.6%, respectively. EPS was Rs 20.3 (adjusted for 1:1 bonus issue) and RoE was 27%.

About the company and the issue

VEL is one of the leading manufacturers of manual and automated ball valves globally. These are flow control valves used to regulate the volume or pressure of a fluid (liquid or gas) and are largely used in the oil and gas, infrastructure and certain process industries. VEL has manufacturing units in India (Pune and Coimbatore), the USA and Europe. From being predominantly a domestic player, VEL has gradually expanded its global footprints in the USA, Europe, Far East and the Middle East. The company has expanded its product portfolio by acquiring RIFOX, a steam trap manufacturing company, and launched a new improved product line - triple offset valves. This product will help the company serve industries other than oil and gas and infrastructure, such as power, mining and paper. VEL's business direction and vision is governed by its promoter, Mr Mahesh Desai, who is supported by his brother Mr Jagdish Desai. They are backed by an experienced second line of management.

VEL aims to raise Rs 3.4 bn by the proposed public issue of 10.7 mn fresh issue and 2.7 mn offer for sale. The IPO proceeds will be used to fund capital expenditure plans; it plans to spend ~Rs 2,529 mn to expand capacities, Rs 72 mn on information and technology and Rs 805 mn to part repay debt.

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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