

Rationale for RDB Rasayans Ltd's IPO Grading

RDB Rasayans Ltd IPO Grading: BWR IPO Grade 2 (Below-average fundamentals)

Brickwork Ratings (BWR) has assigned BWR IPO Grade 2 to the proposed IPO of RDB Rasayans Limited (“RRL” or “the Company”). **Brickwork Ratings’ BWR IPO Grade 2 indicates** below average fundamentals for the issue in relation to its peers. BWR assigns IPO grading on a scale of IPO Grade 5 to IPO Grade 1 with Grade 5 signifying strong fundamentals and Grade 1 poor fundamentals of the issue in relation to its peers.

The grading factors RRL’s experienced management team and promoter group, strategic cost/logistic advantage enjoyed by RRL due to their location close to clients and ports, healthy growth of domestic packaging industry as well as demand from Western and European countries and good clientele and suppliers. The grading is constrained by volatility of raw material prices and RRL’s inability to fully pass on the production price hikes, negative cash flows from operations, fragmented nature of industry with high level of regulation, number of litigations against the promoter and group companies, risk of adverse business environment with regard to labor unrests and cyclicity of end-user sectors. In absence of project appraisal by bank or term lending institution the funds utilization is with the RRL.

Company Profile

RRL was incorporated in the year 1995 as public limited company. In 2003, the company changed the objects clause and commenced manufacture of small bags with commissioning of plant at Haldia. In the year 2004, RRL started manufacture of Flexible Intermediate Bulk Containers (FIBC) or Jumbo Bags with installed capacity of 1,800 MTPA. In 2009 the installed capacity was increased to 6,050 MTPA. The present capacity is 7,000 MTPA (increased from 6,050 MTPA to 7,000 MTPA w.e.f. March 31, 2010). RRL is currently a manufacturer of Polypropylene (PP) Tape, PP woven sacks, Woven fabrics, Industrial woven fabric, PP woven fabrics and PP woven bags. With the present installed capacity, RRL can produce 2 lac Jumbo Bags and 25 lac PP woven sacks per month.

RDB Rasayans Ltd is part of The RDB Group (“RDB” or “the Group”) promoted by Mr. Sunder Lal Dugar. The Group is engaged in infrastructure development, cigarettes and tobacco, printing and packaging, containers and bags, automobiles marketing, retail business, production and installation of power transmission lines and logistics. The RDB Group is also credited for takeover and revival of sick companies like Electrical Manufacturing Company Ltd. (EMC). **The Group’s revenues as of March 2010 were ₹ 1102.2 crores¹.**

The RDB Group Financial Overview

S.No	Figures as of March 2010	Sales	PAT	Net worth	Sales	PAT
	Name of Company	Amount in ₹ crores			% share of Total	
1	Electrical Manufacturing Company Ltd.	656.6	24.3	60.2	59.6%	80.5%
2	Regent Finance Corporation Pvt. Ltd.	200.3	0.1	10.8	18.2%	0.2%
3	RD Motors Pvt. Ltd.	113.8	0.8	3.9	10.3%	2.5%

¹ Source: Company

4	RDB Realty & Infrastructure Ltd.	47.3	5.4	56.3	4.3%	18.0%
5	RDB Rasayans Ltd.	30.7	0.8	16.1	2.8%	2.6%
6	RDB Regent Retail Ltd.	14.2	(1.6)	9.8	1.3%	(5.4%)
7	NTC Industries Ltd.	13.7	(0.2)	27.3	1.2%	(0.7%)
8	Others ²	25.7	0.7	209.6	2.3%	2.4%
Group Total		1102.2	30.2	393.9	100%	100%

Objects of the Issue

RRL is raising equity funds primarily to expand its installed capacity by 7450 MTPA by establishing Unit-II adjacent to its existing manufacturing facility in Haldia at an estimated cost of ₹ 32.65 crores.

Breakup of total project cost

Activity	Total Fund requirement (₹ crores)	Fund already deployed (₹ crores)	Schedule of deployment of Balance fund during 2011-2012 (₹crores)	
			Apr-Sep	Oct-Mar
Civil Works	4.43	4.43	--	--
Plant & Machinery	24.34	0.42	4.78	19.13
Pre-operative Expenses	0.70	--	--	0.70
Provision for Contingencies	1.20	--	--	1.20
Security for WBSEDCL	2.00	--	2.00	--
General Corporate Purpose	[•]		[•]	[•]
Issue Expenses	[•]	0.31	[•]	[•]
Total	[•]	5.16	[•]	[•]

The project is at an advanced stage with civil work completed and the company has also purchased few machinery from internal accruals and term loan from Axis Bank.

Details of funds deployed

Particulars	Amount (₹ crores)
Funds Deployed:	
1) Civil Work	4.43
2) Machinery Purchased	0.42
3) Issue Expenses	0.31
Total	5.16
Sources of Funds:	
1) Internal accruals	4.76
2) Axis Bank Term Loan for Machinery	0.40
Total	5.16

Part of the issue proceeds will also be used for general corporate purpose, which will include marketing of products, up-gradation of infrastructure facilities, and for working capital requirement.

Project Funding

To meet the funding requirements RRL plans to issue 45, 00,000 (45 lacs) Equity Shares of ₹ 10/- each at a premium to be decided later and internal accrual.

² There are 49 other group companies engaged in real estate, construction, financial services and other sectors

The Promoter and promoter group currently holds 87.59% of the equity in company and will be diluting 22.25% of their holding. Post issue, the Promoter **and promoter group's** holding will be 65.34%. The Promoters are not participating in the IPO.

Pre and Post Issue Shareholding Pattern

	Pre-Issue (%)	Post-Issue (%)
Promoters	53.13%	39.63%
Promoter Group	34.46%	25.71%
Non-Promoter Group	12.41%	9.26%
Public Holding	-	25.40%
Total Number of Shares	13,214,800	17,714,800
Grand Total	100%	100%

An aggregate of 20% of the post-Issue equity capital of the Company, held by the Promoters shall be locked in for a period of three years from the date of Allotment in the Issue, which as per **SEBI guidelines will be considered as Promoters' Contribution.**

The funds requirement for the project is neither appraised nor tied-up with any term lending / financial institution. Deployment of funds is at the discretion of the Company and monitored by the Audit Committee of **RRL's** Board.

Board of Directors

The company was promoted by Mr. Sunder Lal Dugar, his son Mr. Vinod Dugar and Ms. Sheetal Dugar. **RRL's** Board currently has of six members of which three are Independent Directors. Given below is the brief profile of the directors:

Mr. Sunder Lal Dugar (56 years) is the Chairman of RDB Group of Industries, RDB Rasayans Ltd. He is the Non-Executive Chairman of EMC Limited. Mr Sunder Lal Dugar is an industrialist with experience of over 30 years in management and administration in various domains that include real estate, energy, tobacco and other industries.

Mr. Shanti Lal Baid, (Managing Director), is an industrialist with about 38 years experience in the Management and Administration of Electrical Goods and Cables Industries. He serves as a Director at RDB Rasayans Ltd. Mr. Shanti Lal Baid has been a Director of Khatod Investments & Finance Co. Ltd. since June, 2002 and R D Motors Private Limited since November, 2003. Mr. Baid is associated with RRL since August 2001 and oversees the operations.

Mr. Sandeep Baid, (Whole Time Director), is the son of Mr. Shanti Lal Baid. He is a commerce graduate and is associated with Company since April 2008. Mr. Sandeep Baid manages daily operations of the Company and was instrumental in capacity expansion of the Plant from 1800 MT to 7000 MT in 2010. He is associated with the Company since April 2007 as a CFO and in April 2008 he was appointed as a Director.

Mr. Mahendra Pratap Singh, aged about 62 years joined the RRL Board in October 2009. Mr. Singh **holds master's degree in Geophysics and MBA degree.** Mr. Mahendra Pratap Singh has

worked with many organizations at different managerial positions and brings varied experience which helps the Board in strategic decision making.

Mr. Sachin Shridhar (Independent Director) holds B.A (Economics) degree, was appointed on the Board in October 2009 and is an ex-civil servant (Indian Police Service).

Mr. Prabir Kumar Sarkar (Independent Director) holds B.Com (Hons) degree and appointed on the Board in December 2009. He has an experience of over 40 years in the field of Financial Management and has held the position of Chief Financial Officer (CFO), President and Senior Advisor in various organizations.

Corporate Governance

The decision making powers are with the Dugar family. The company has fairly independent and experienced Board and complies with the provisions of Clause 49 of the Listing Agreement. Committees of the Board have been constituted in order to look into the matters in respect of compensation, shareholders grievance and audit etc.

Related party transactions – the company has given corporate guarantee to terms loans availed by group companies amounting to ₹ 10 crores.

Industry

India is the third largest producer of Flexible Intermediate Bulk Containers (FIBC) in the world after China and Turkey. Indian producers are increasingly penetrating newer markets by either selling overseas through resellers or direct supply to end users. Indian companies enjoy strategic benefits compared to other international players due to low labor costs, procurement of raw material and proximity to end markets. In the international market, Indian producers compete with price competitive Chinese producers. However, the Chinese producers lack consistency of supply and quality. The Turkish producers have advantage in terms of proximity to European countries but lack price competitiveness compared to Indian and Chinese producers.

Bulk packaging products – FIBC, Jumbo Bags – are increasingly gaining acceptance over other forms of packaging such as jute based products both in the domestic as well as overseas markets. FIBCs are cost effective, easy to handle and produce, can be customized based on client requirement and have superior quality in terms of load handling (safety factor of 5:1 on nominal load) and resistance to chemicals. Over the period the capacity of FIBC has increased manifold. Within packaging industry which is estimated at \$500 bn³, polymer-based flexible bulk packaging products account for about 18% of the demand and the industry is expected to grow by about 15-20% in the next five years. Raw material expenses, the major cost component, are crude derivatives and are expected to rise in FY12 and FY13 keeping profit margins of players under pressure.

Demand Drivers

- Increasing acceptance of FIBCs over other forms of packaging in domestic markets
- Growth in end-user industries – cement, food, alumina, chemicals

3 www.indiapackagingshow.com/ConfPDF2010/JumboBags.pdf

- Indian players are getting competitive vis-à-vis international players in terms of price and quality

Risk Factors

- Volatility in raw material prices and the company's inability to pass or only partially pass on the hike to the customer could impact profitability (low pricing power)
- Highly regulated industry especially for food grade products
- Fragmented nature of the industry increases competition
- Adverse business environment esp. labor unrest could hamper operations
- Cyclicity in the end-use sectors, export markets could impact growth in revenues

Business Risks

RRL is a mid-sized player engaged into manufacture of industrial packaging products - FIBCs which are used in bulk packaging, and Poly Propylene (PP) woven sacks and fabrics. FIBCs account for about 60% of gross sales of the company. RRL caters to the domestic market and has clients located mainly in West Bengal. RRL also exports its products to various countries in Europe, Australia, and the Middle East. Export revenues contributed about 12% of RRL's gross revenues. **The top ten clients on an average accounted for about 84% of RRL's gross sales over past four years and include companies operating in various industries - chemical, fertilizers, cement, carbon black, agro products etc.** The company has several large clients such as Haldia Petrochemicals Ltd, Tata Chemicals Ltd., Phillips Carbon Black Ltd., Mitsubishi Chemical Corp-PTA, Hi-tech Carbon etc.

The company's sales have grown sequentially over the years; however, profitability has been under pressure from increased input costs and inability to fully pass on the price hikes, in line with industry trend. The company does not enjoy technological advantage and faces stiff competition from other players, however, strategic location advantage in terms of proximity to clients and nearby ports enable it to timely deliver consignments with minimal logistics costs. While the company has adequate infrastructure facilities and work force to meet **client's** requirement, it has experienced labor unrest in the past. Occurrence of such events in the future **could hamper company's operations.**

The ability of the company to optimize raw material consumption, effectively manage operational and foreign exchange risks, adhere to the prescribed quality standards and increase its clientele will be vital to enhance profitability.

Financial Performance

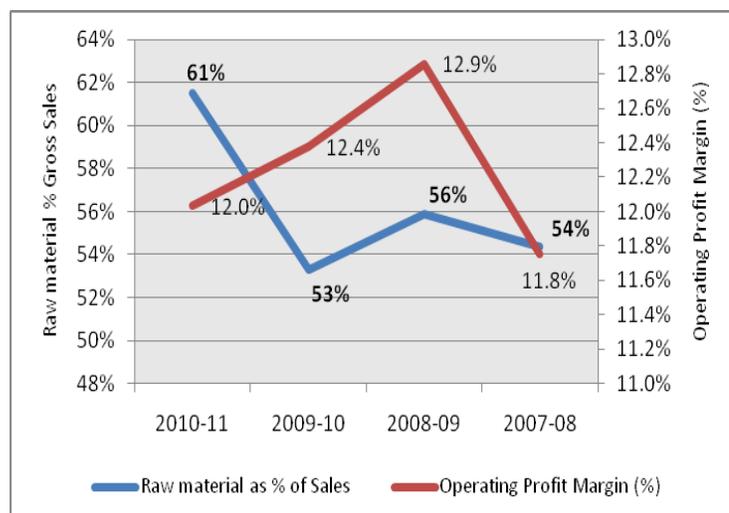
RRL's Sales have grown at an average rate of 17% from 2008-2011. Gross Sales increased from ₹ 28.19 crores in FY08 to ₹ 46.13 crores in FY11. However, this growth has not been consistent. Gross Sales have grown 50% in FY11, -10% in FY10, 21% in FY09 and 6% in FY08. While the **company's domestic revenues have shown stable to increasing trends in the last four years, the export revenues declined substantially by about 50% in FY10 due to slowdown in the western economies and consequent decline of trade volumes.** Export revenues have subsequently picked up in FY11 and expected to improve due to upturn in demand from other countries.

Raw material expenses, which mainly comprise of polypropylene, have increased substantially by 73% during FY11 and account for about 60% of gross sales. In FY10, raw material consumption had declined due to restructuring of operations of a key supplier. PBIDT has increased from ₹ 2.95 crores in 2008 to ₹ 5.10 crores in 2011.

Abridged Profit and Loss (Amount in ₹ Crores)

Particulars	2011	2010	2009	2008
Gross Sales, of which	46.13	30.70	34.07	28.19
Domestic	40.69	26.92	26.49	18.38
Export	5.44	3.77	7.59	9.81
Less: Excise Duty	3.71	2.22	3.47	3.12
Net Sales	42.42	28.47	30.61	25.07
Sales growth %	50%	-10%	21%	6%
Expenditure of which:				
(Increase)/Decrease in stocks	(2.99)	(1.19)	1.25	(0.46)
Trading purchase	-	2.38	-	1.54
Consumption of Raw Material	28.36	16.35	19.04	15.32
Power & Fuel	2.83	1.46	1.25	0.99
Employee Cost	2.56	1.69	0.56	0.45
Selling, distribution, admin and general	3.97	2.63	3.53	3.42
Other expenses	2.59	4.01	1.04	2.42
Total Expenditure	37.32	24.95	26.67	22.12
Raw material as % of Sales	61%	53%	56%	54%
PBIDT	5.10	3.52	3.94	2.95
Cost of Borrowings (Net)	1.16	1.55	1.17	1.11
PBDT	3.94	1.97	2.76	1.84
Depreciation	1.51	1.27	1.03	0.73
Other Income	0.13	0.30	0.59	0.20
PBT	2.56	1.00	2.33	1.31
Taxes	0.76	0.22	0.38	0.36
PAT	1.80	0.78	1.95	0.95
PAT growth (%)	129%	-60%	104%	-39%

The average PBIDT margin for the period 2008-2011 was 12.3%. The net profit margin has been fluctuating from one year to other due to volatility in raw material prices as well as higher depreciation on account of capex incurred during FY09. The main raw material used in the manufacture of FIBC is polypropylene, which is a crude oil derivative, and subject to price fluctuations. Any variation in its prices could impact profit margins of the company. RRL's financial risk



profile was stable as reflected by low gearing and comfortable coverage ratios. The company's cash flow from operations has been negative in the past.

Key Financial Indicators

Particulars	2011	2010	2009	2008
Net Worth (₹ crores)	17.9	16.1	15.3	13.3
Debt (₹ crores)	12.52	10.61	11.18	8.7
Net Block (₹ crores)	14.40	15.15	14.67	11.18
Debt - Equity Ratio (Times)	0.76	0.66	0.73	0.66
Interest Coverage Ratio (Times)	4.38	2.27	3.35	2.66
Operating Profit Margin (%)	12.0%	12.4%	12.9%	11.8%
Profitability Margin (%)	4.2%	2.8%	6.4%	3.8%
ROE (%)	10.6%	5.0%	13.6%	7.2%
ROCE (%)	14%	10%	15%	23%
Net Cash Accruals to total Debt (%)	26%	19%	27%	19%
Current Ratio (Times)	6.34	4.90	5.90	5.39
Inventory days	50	39	34	43
Creditors days	20	29	20	21
Debtor days	39	46	33	40

Changes in the accounting policy

In FY 2008 Company had changed their accounting policy for recognition of retirement benefit, **other employees' benefits which has been adopted on accrual basis instead of cash basis and in case of interest subsidy the accounting policy has been adopted on realization basis instead of accrual basis.** Since then there have been no changes in the accounting policy of the Company.

Compliance and Litigation

Environmental norms and other licensing or statutory approvals/clearances shall be obtained by the company once the additional facility is ready to commence operations.

While the company i.e. RDB Rasayans Ltd does not have any litigations against it, however, there are number of outstanding litigations against other group companies and the promoter which are under various stages of proceeding in courts or regulatory authorities.

- Outstanding Litigations against Promoter - ₹ 26.14 crores
- Outstanding Litigations against group companies and associate concerns - ₹ 123.61 crores.

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