

Annexure - I
Grading Rationale

Readymade Steel India Ltd.

IPO Grading

CARE IPO Grade 2

CARE has assigned a '**CARE IPO Grade 2**' to the proposed Initial Public Offer (IPO) of Readymade Steel India Ltd. (RSIL). CARE IPO Grade 2 indicates below average fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the relative assessment of the fundamentals of that issuer.

RSIL proposes to raise a sum aggregating upto Rs.41.31 crore through an IPO of shares having face value of Rs.10 each, at a price which will be determined through book building process.

The grading is constrained by relatively small size of operations of RSIL in terms of revenues and networth, limited clientele, execution risks associated with ongoing expansion project and low bargaining position vis-à-vis customers.

The grading is also constrained by the fact that the concept of ready-to-use steel is at a nascent stage in India and is yet to acquire industry wide acceptance.

However, the grading derives strength from the reasonable experience of RSIL's promoters in steel related industry, established relationship with few key customers, a healthy order book position and moderate gearing ratios.

Background

Incorporated in March 2006, Readymade Steel India Ltd. (RSIL), was a jointly promoted by Mr. Anil Agrawal, CSC Holdings Limited - a leading Singapore based geotechnical engineering company and Krishna Triveni Ltd.- a Bangalore based company. However in 2007, Mr. Agrawal bought-out the entire stake of the other two promoters.

RSIL is engaged the business of producing readymade steel (RMS) i.e. processing of steel to enable its direct use in the construction industry. RSIL processes steel from its existing plant located at Khopoli, Maharashtra, having an installed capacity of 27,000 tpa

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as on March 31, 2010. The company provides customized, prefabricated steel products for all kinds of infrastructure projects and its core activities include cutting and bending of TMT bars. RSIL is one of the early entrants in the domestic industry to venture into the area of RMS and is an ISO 9001:2008 certified company.

Management

As on November 24, 2010, RSIL's Board comprised of five directors including an executive director, one non-executive & non independent director and three independent directors. Mr. Anil Agarwal, managing director, has more than a decade of experience in trading and distribution of steel and related products. Also his family is into steel trading business for more than 25 years.

Corporate Governance

Separation of ownership and management

RSIL has complied with the requirements of corporate governance contained in the listing agreement. The company has a total of three independent directors on its Board out of total of five Directors.

Board Committees

In order to comply with the corporate governance requirements, RSIL has constituted committees such as Shareholders'/Investors' Grievance Committee, Remuneration Committee, Audit Committee and IPO Committee in August 2010.

Pending legal cases

There is no pending litigation or legal cases against the company.

Operations

RSIL processes mainly Thermo-Mechanically Treated (TMT) bars and converts them into various ready-to-use shapes like cranked bars, stirrups, verticals, column/beam, cages etc. as per customer requirement. The company provides customized, prefabricated steel products for all kinds of infrastructure projects and its core activities include cutting and bending of TMT bars. These products find their application in various kinds of construction activities like roads, ports, bridges, mono rail, metro rail, airports, buildings,

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etc. The concept of RMS is at nascent stage in India and it offers advantage of overcoming the time and space constraints of construction activities as compared to conventional labour oriented methods of production. RSIL's current plant caters to the requirements of adjoining areas of Mumbai in western India only.

RSIL initially set-up the plant in Bangalore in FY07, however, it ceased its Bangalore operations in 2008 and it did not generate any significant revenue as the operations were limited to testing of the product and technology. The management later set up the 27,000 metric tonne per annum (MTPA) steel processing facility in Khopoli (near Mumbai) with the promoters based out of Mumbai and to capture the expected higher demand for RMS in the western region on the back of large scale infrastructure projects to be implemented. The required raw material (TMT bars) is mainly procured (based on orders to be processed) from the dealers of large steel manufacturers in India on spot basis.

Mr. Anil Agrawal, Managing Director of RSIL, looks after the sale and marketing division. He is supported by a team of marketing personnel. Also substantial business is generated through reference sales and repeat orders.

RMSIL obtains orders directly from construction companies. Its customers although limited, include players like Larsen & Tourbo Limited, Nagarjuna Construction Company Limited etc. RSIL is also associated with many infrastructure projects being undertaken including Mumbai mono rail project, Nasik elevated corridor, Sahar elevated access road and Palais Royale in Mumbai. RSIL sold 9,021 metric tonnes of RMS in FY10 as against 444 metric tonnes in FY09, with the stabilisation of operations and increase in acceptance and demand of structured steel.

Ongoing Project:

RSIL is setting up new manufacturing facilities in Delhi and Raipur and expanding its processing capacity at Khopoli. While the new units proposed to be set-up in Delhi and Raipur will have capacity of 50,000 MTPA each, the capacity of Khopoli plant will be expanded to 90,000 MTPA. Total cost of project is estimated at Rs.61.21 crore (including IPO related expenses) of which Rs.40 crore would be funded through equity (from proposed IPO), Rs.15.10 crore through debt and Rs.6.11 crore through internal accruals. Till March 31, 2011, company has incurred expenditure of Rs.8.75 crore on the project,

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which was funded through term loan of Rs.5.46 crore and the balance through equity contribution from promoters and internal accruals. The expanded capacity at Khopoli is expected to start commercial production from July 2011 while the other plants are expected to be commissioned in January 2012. The Delhi and Raipur projects are in initial stage of development with land yet to be acquired and various approvals to be obtained from authorities. Progress of these projects depends on the funds from the IPO. The proposed plants at these two new locations would enable the company to expand its geographical presence in northern and central India in future.

IPO Details

Size of the Issue

RSIL proposes to raise Rs. 41.31 crore through issue of equity shares having face value of Rs. 10 each. Price band and number of equity shares to be issued for IPO are yet to be decided. However, the company is also considering Pre-IPO Placement of 20, 00,000 equity shares aggregating Rs. 18.00 crore. If pre-IPO placement is completed, the issue size offered to public would reduced to the extent of such pre-IPO placement, subject to a minimum size of 25% of post issue paid-up equity share capital being offered to public.

Terms of the issue

The current issue comprises of fresh issue of shares only and there is no offer for sale by any of existing shareholders.

Purpose of the issue

The object of the issue are to part finance the company's expansion plan at its existing facility at Khopoli and setting up of two new facilities near New Delhi and Raipur and to achieve the benefits of listing on the stock exchanges. The company believes that listing on stock exchange will increase its corporate image and brand value.

The company intends to deploy the proceeds of issue as under:

1. To part finance the cost of enhancing the capacity at RSIL existing facility at Khopoli and cost of setting up of new facilities near New Delhi and Raipur.
2. To meet margin money requirement of working capital
3. To meet general corporate purpose
4. To meet the pre-operative expenses including issue expense.

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Financial Analysis

RSIL's total income rose more than fivefold in FY10 as it was the first full year of operations for Khopoli plant. The revenue growth was mainly driven by increased sales volume on the back of growth in orders executed. However, the PBILDT margin continued to decline. The decline in FY09 was due to the operations of RSIL being limited to six months after setting up of the new Khopoli plant and closure of Bangalore plant. The margins further declined in FY10 as company focused on boosting revenue growth with flexible pricing, thereby earning lower margins. The interest cost increased over the years due to increased scale of operations resulting in higher dependence on working capital borrowings. PAT jumped in FY10 in line with increased sales.

RSIL's gearing ratios increased as at end-FY09 due to drawl of term debt for setting up of Khopoli plant. The ratios improved as at end-FY10 with additional equity contribution, accretion to reserves and commencement of term debt repayment. During FY10, company issued equity shares to promoters and promoter related entities of Rs.3.27 crore. During FY09, though current ratio dipped below unity (due to higher creditors and current portion of term debt, both of which were not there in FY08) however, with first full year of operations in FY10 it improved to above unity. RSIL's collection period is on higher side in past as company granted higher credit period to its customers to increase the acceptance of its product i.e. RMS. Similarly while procuring raw material for the same, RSIL generally obtained higher credit period. As per the 9MFY11 provisional results, RSIL posted net sales of Rs.81.61 crore and PAT of Rs.2.13 crore.

Industry Review

The incentives announced by the GoI to bring back the economic growth on track (post slowdown in FY09) and easing liquidity scenario provided some respite to the construction industry in FY 10 and construction registered a growth of 6.5% on yoy basis. With the recovery in the macroeconomic conditions and the industrial sector, order inflow to the construction companies gathered momentum. In the first nine of FY 11, economic growth stood at 8.6% and construction registered a growth of 9%. In the third quarter of FY11, growth in construction slightly slowed down to 8% on yoy basis from

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8.7% registered in the second quarter. The slowdown in construction was mainly due to the prolonged heavy rains.

GoI had set an ambitious target to increase the proportion of the investment in the infrastructure sector to 9% of GDP by the terminal year of Eleventh Five Year plan. Accordingly, estimated investment in the infrastructure sector during the Eleventh Five Year plan is expected to surpass Rs.20,000 bn. In the Union Budget 2011-12, Rs.2,14,000 crore (48.5% of the Gross Budgetary Support to total planned expenditure) have been allocated for the infrastructure sector for this fiscal. The outlay is 23.3% higher than the corresponding figure earmarked in the last budget. In addition, Rs.58,000 crore have been allocated to 'Bharat Nirman' project, an increase of Rs.10,000 crore from 2010-11. The budget has also raised the limit for foreign institutional investor (FII) investment in infrastructure bonds with residual maturity of five years by US\$ 5 bn to US\$ 25 bn. Besides, tax-free bonds of around Rs.30,000 crore are proposed to be raised by Government infrastructure institutions.

Thrust on the infrastructure development is expected to continue in the Twelfth Five Year Plan which is expected to witness an investment of more than Rs. 40,000 bn in the infrastructure sector. Power and road sectors are expected to witness the major investment among various infrastructure segments. The outstanding industrial investment is expected to result into the effective construction investment of about Rs. 2,900 bn during next 4-5 years.

Currently, ratio of order backlog to net sales of various construction companies is in the range of 3-5 times. Growth momentum in the order book of construction companies is expected to continue as the awarding of projects in infrastructure and industrial space progresses. Construction companies having strong order book position coupled with better execution capability are likely to register robust revenue growth in the coming years.

Prospects

With increased spending by Government of India and private sector companies on various construction and infrastructure projects and with increasing acceptance of readymade steel, the demand outlook for companies like RSIL is positive for medium to

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long term. RSIL will, however, have to continuously invest into increasing customer awareness, acceptance and demand for the value addition its readymade product provide.

Financial Performance

(Rs. crore)			
For the period ended / as at Mar.31,	2008 (12 m, A)	2009 (12 m, A)	2010 (12 m, A)
Working results			
Net Sales	1.35	4.89	32.37
Income from Operations	1.39	5.00	32.45
PBILDT	0.57	1.01	2.11
Interest	0.16	0.57	0.99
Depreciation	0.09	0.37	0.29
PBT	0.29	0.11	1.07
PAT (After def. Tax)	0.27	0.03	0.76
Gross Cash Accruals	0.36	0.43	1.03
Financial Position			
Equity Share capital	4.28	4.28	7.55
Net Worth	4.28	4.38	8.53
Total Capital Employed	6.26	10.48	15.91
Key Ratios			
<i>Growth</i>			
Growth in Total income (%)	-48.04	259.73	548.61
Growth in PAT (after D. Tax) (%)	NM	-88.89	NM
<i>Profitability (%)</i>			
PBILDT / Total Income	40.62	20.21	6.51
PAT / Total Income	19.23	0.57	2.34
ROCE	7.53	7.71	13.87
RONW	5.49	0.66	11.77
EPS (Rs.)	6.26	0.67	10.06
<i>Solvency</i>			
Debt Equity Ratio	0.39	0.90	0.43
Overall Gearing	0.46	1.39	0.85
Interest coverage (times)	3.54	1.77	2.14
Term Debt/GCA	5.45	13.98	7.06
<i>Liquidity</i>			
Current ratio	1.08	0.64	1.14
Quick ratio	1.05	0.37	0.81

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For the period ended / as at Mar.31,	2008 (12 m, A)	2009 (12 m, A)	2010 (12 m, A)
Working results			
Working Capital Cycle			
Avg. Collection Period (days)	NM	95	102
Average Inventory (days)	NM	83	54
Average Creditors (days)	NM	123	108
Operating cycle (days)	NM	55	48

NM- Not meaningful

DISCLAIMER:

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

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Annexure - II

Press Release

CARE assigns 'CARE IPO Grade 2' to Readymade Steel India Ltd.

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The grading is also constrained by the fact that the concept of ready-to-use steel is at a nascent stage in India and is yet to acquire industry wide acceptance.

However, the grading derives strength from the reasonable experience of RSIL's promoters in steel related industry, established relationship with few key customers, a healthy order book position and moderate gearing ratios.

Company Profile

Readymade Steel India Ltd. (RSIL), incorporated in March 2006, is engaged the business of producing readymade steel (RMS) viz. processing of Thermo-mechanically treated (TMT) bars and converting it into various ready-to-use shapes like cranked bars, column/beam, cages etc. as per customer requirement. RSIL's existing plant is located at Khopoli, Maharashtra with an installed capacity of 27,000 MTPA as on March31, 2010. Currently RSIL is setting up new manufacturing facilities in Delhi and Raipur of 50,000

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MTPA each and expanding its existing capacity at Khopoli to 90,000 MTPA. Total cost of project is Rs.61.21 crore (including IPO related expenses) of which Rs.40 crore is to be funded through equity (from proposed IPO), Rs.15.10 crore through debt and Rs.6.11 crore through internal accruals. Till March 31, 2011, company has incurred Rs.8.75 crore on the expansion project which was funded through term loan of Rs.5.46 crore and balance through equity contribution & internal accruals.

RSIL reported a PAT of Rs.0.76 crore on net sales of Rs.32.37 crore in FY10. As per the 9MFY11 provisional results, RSIL posted net sales of Rs.81.61 crore and PAT of Rs.2.13 crore.

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