

Grading Rationale for CRISIL IPO Grading

Shriram EPC Ltd

CRISIL IPO Grade 3.0/5.0

Public issue of 5,000,000 equity shares of face value Rs 10 at a targeted price range of Rs 300-400 per share

Bid/Offer Opens	*
Bid/Offer Closes	*
Shares Offered	5,000,000
Shares Outstanding (Post issue)	42,867,790
Lead Managers	
Kotak Mahindra Capital Company Ltd	
ICICI Securities Ltd	
Motilal Oswal Investment Advisors Pvt. Ltd	
Registrar to the Issue	
Cameo Corporate Services limited, Chennai	

Shareholding pattern	Prior to the issue		Post issue	
	No. of shares	%	No. of shares	%
Promoters	18,458,344	48.7	18,458,344	43.1
Others	19,409,376	51.3	19,409,376	45.3
Public	Nil	Nil	5,000,000	11.7
Total	37,867,790	100.0	42,867,790	100.0

Shriram EPC Ltd.			
Past Financial performance		2005-06	2006-07
Operating income	Rs Million	1,527	3,064
Operating margins	Per cent	9.6	7.8
Net profits	Rs Million	75.7	103.2
Net margins	Per cent	5.0	3.4
ROCE	Per cent	10.1	12.6
Return on Equity	Per cent	7.5	6.4
No. of equity shares	Million	37.9	37.9
Net worth	Rs Million	1,556	1,670
Basic Earnings per share	Rs	2.0	2.7
Diluted Earnings per share	Rs	1.7	2.3
Book value	Rs per share	41.1	44.1
Gearing	Times	0.3	0.1

Note: The above financials have been reclassified as per CRISIL's financial analysis framework

In order to arrive at the overall grade, CRISIL has considered the following broad parameters:

- Business prospects and financial performance
- Management capability
- Corporate governance.

Overall assessment

CRISIL has assigned a CRISIL IPO Grade '3/5' (pronounced 'three on five') to the proposed Initial Public Offer of Shriram EPC Ltd. (SEPCL). This grade indicates that the fundamentals of the issue are average in relation to other listed equity securities in India.

The grading reflects the company's strength in executing EPC projects in the captive power and metallurgy sectors. The grading draws strength from the deep experience of the top as well as the middle management team, which has demonstrated strong understanding of market dynamics, as reflected in SEPCL's consistent track record of attracting technology partners in the key business areas. The grading also reflects improvement in the company's corporate governance system following the induction of the private equity investors on the board. The grading is, however, tempered by the fact that SEPCL lacks prior experience in MW-class WEG manufacturing and also in executing large-scale, turnkey EPC projects in the cement sector. The company will be exposed to execution risks in its sole cement sector order, which constituted nearly 30 per cent of the total order book (Rs 18 billion) as on September 30, 2007. The grading also takes into account the challenges SEPCL could face in recruiting experienced manpower to keep pace with its present growth plans.

To benefit from the booming metals sector and growing preference for captive power generation

SEPCL is riding on the boom in the metals sector in the country. The company's EPC business is expected to report impressive growth over the next few years, supported by huge investments in the metal sector. The company is also likely to benefit from the expected growth in captive power generation capacities in India. On an average, we expect nearly 2,000-3,000 MW per annum capacities to be added over the next 5 years. As SPECL is well connected within the southern market with varied small industrial players, it is likely to benefit from the opportunity available in the small or captive power generation segment.

Strong top and middle management

The company's top management has adequate technical know-how, considering their long standing presence in the sector. Their experience and expertise has helped the company bag some very big orders in the recent past. Besides, the management has been proactive in identifying newer growth opportunities and striking right technical collaborations to improve upon their engineering capabilities.

Still to demonstrate its skills in many business segments

Leitwind- the technology partner in the MW-class WEG business- is a relatively new entrant in the field. Although we believe the company's venture with Leitwind BV for MW-class WEG machines holds good potential, one cannot ignore the fact that Leitwind's gearless technology is relatively new and it is yet to establish a proven market. The company's success in this field would therefore depend, to a large extent, on its ability to surmount marketing-related challenges. This is especially true of the export markets, an area in which SEPCL has had limited exposure until now.

The company's EPC order book has soared to Rs 18 billion for the period ended September 2007. SEPCL, which until now has been primarily focused on executing EPC projects in the captive power and the metallurgy segments, has secured one very big order in the cement sector (Sree Jayajothi Cement - Rs 5.7 billion). The order, which is the first and only one as of now in the cement sector, entails setting up a 1.5-mt greenfield cement plant and constituted nearly 30 per cent of the total order book as on September 30, 2007. Considering SPECL's lack of experience in executing turnkey projects in the cement sector, we believe that it is exposed to execution risk on this project, which in turn, can affect future inflow of orders from this sector.

Recruiting experienced employees - A daunting task

Recruiting manpower with relevant experience is of utmost importance for the company to achieve the growth plans it has laid out for the next 3-5 years. Even though the company has evolved a very innovative employee retention mechanism, the top management does feel that hiring experienced personnel is one of the key challenges it faces today.

Shriram Ownership Trust, which holds 100 per cent stake in SIHPL, is a non-promoter owned trust that was constituted by a trust deed on September 11, 2006. The Trust is being administered through the Shriram Ownership Scheme. The scheme provides framework to distribute the trust fund on retirement of key Shriram Group employees. The trustees are Mr. R Thyagarajan (the Shriram Group promoter), Mr. Arun Duggal (SEPCL Chairman and non-executive Financial Advisor), Mr. D.A. Prassana, Mr. R. Kannan and Mr. D.V. Ravi.

Moderate corporate governance practices

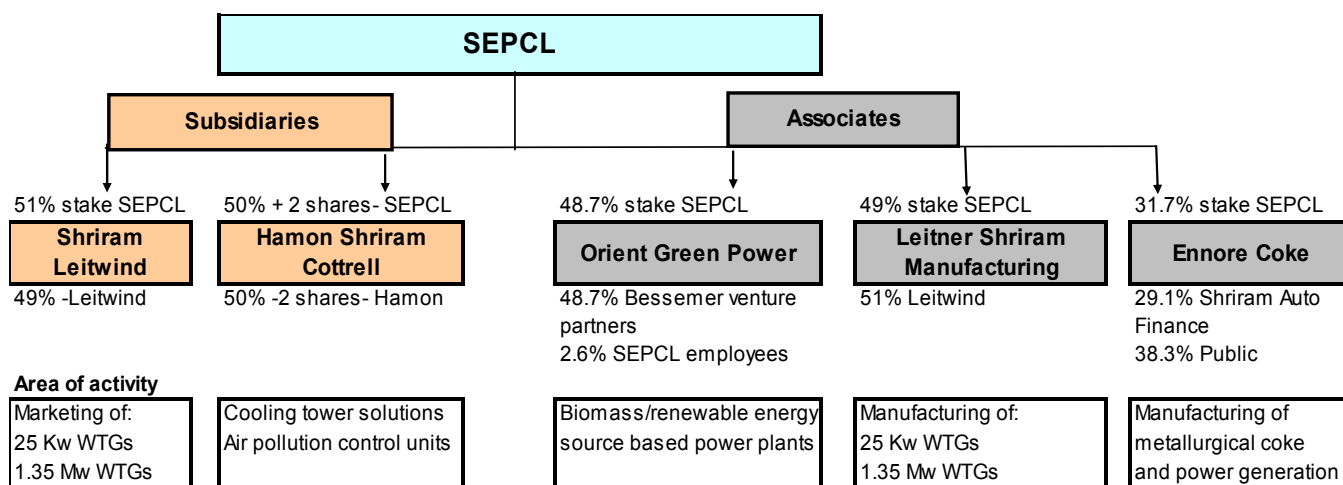
Presence of private equity players like Bessemer on the company's board for over 2 years has ensured that regular internal audit and reporting methods are being followed. We also believe that the independent directors are reasonably equipped to provide management and business oversight.

Business profile

Shriram EPC Ltd (SEPCL) specialises in executing engineering, procurement and construction (EPC) projects in specific sectors such as power (mostly small biomass-based thermal plants), metallurgy and municipal services (pipe rehabilitation and water/sewage treatment). Besides undertaking EPC projects, the company also manufactures 250-Kilowatt (Kw) windmill generators and installs cooling towers.

Recent changes in the company architecture:

- Orient Green Power (OGPL), an associate company in which SEPCL holds 48.7 per cent stake was incorporated in December 2006. OGPL focuses on developing renewable energy source-based (biomass and hydel) power plants on BOO and BOOT basis.
- SEPCL has also set up another associate company, namely Leitner Shriram manufacturing (49 per cent owned by SEPCL and 51 per cent by Leitwind BV, Netherlands), and a subsidiary company called Shriram Leitwind Ltd (49 per cent owned by Leitwind BV, Netherlands and 51 per cent by SEPCL) to manufacture and market 1.35 MW-class WTG machines. It even plans to shift the Kw machine business to the newly formed JV manufacturing firm. These entities are expected to commence operations in early 2008.
- SEPCL invested in Hamon Thermopack Engineers Pvt Ltd, which was an operating company. The company's name was subsequently changed to Hamon Shriram Cottrell Ltd (HSCL). Effective April 1, 2007, HSCL became a subsidiary of SEPCL (50 per cent plus 2 shares); it carries out the business of cooling towers and Air pollution control unit erection.
- Ennore Coke Ltd., an associate company (31.7 per cent held by SEPCL), is setting up plants to manufacture metallurgical coke and it also plans to venture into power generation.



Financial profile

The growth in power and metallurgical sectors has propelled SEPCL's business growth over the past few years. In 2006-07, EPC and Wind electric generator businesses contributed nearly 55 per cent and 35 per cent, respectively, to the total revenues of the company; the balance was contributed by the Cooling towers business. In 2006-07, the company registered a net profit of Rs 103 million on a turnover of Rs 3,064 million. The company's return on capital employed (RoCE) and return on equity (RoE) was 12.6 per cent and 6.4 per cent, respectively, in 2006-07 on a total asset base of Rs 2,929 million and total net worth of Rs 1,670 million.

Profile of Management and Board

SEPCL has evolved a well-distributed decision making structure. Mr. T. Shivaraman (aged 41), the son of the Shriram Group promoter Mr R. Thaygarajan, who has been with the group since 1993 has come up the ranks in the organisation and was appointed as Additional Director and Managing Director on September 20, 2007. Alongside Mr. T. Shivaraman, Mr. Amjad Shariff, who has been associated with the group for the past 18 years, is also at the helm of the company's decision making structure. Several members of the senior management team have also been with the company/Group for long.

Board of Directors

Name of Directors	Designation	Age (yrs)	Qualification	Key positions held
Mr. Arun Dugggal	Chairman and Non-Executive Director	60	B. Tech (Mechanical) IIT Delhi; MBA-IIM (A)	CEO- Bank of America; CFO- HCL Technologies
Mr. T. Shivaraman	Managing Director and Chief Executive Officer	41	B. Tech and MS- (Chemical) from IIT Madras	-
Mr. M. Amjad Shariff	Joint Managing Director	51	M. Tech (Chemical - IIT Madras	-
Ms. Vathsala Ranganathan	Whole Time Director	55	PG-Economics from Madras Univ.	President- Shriram Group of companies
Mr. R. S. Chandra	Nominee Director (Bessemer Venture Partners)	41	BA- Univ. of California; MBA- Harvard Business School	General Partner- Commonwealth capital Ventures; Engagement Manager- McKinsey & co.; Senior Associate- Accenture
Mr. K.E.C Raja Kumar	Nominee Director (UTI IAS)	44	M.Sc. from Sri Venkateswara Univ.; Advanced management programme- Harvard Business School	MD and CEO of UTI Venture Funds; Regional manger SEBI; Senior Officer with the Indian Civil Services
Mr. S. R. Ramakrishnan	Independent Director	72	ME- Engineering College Anantapur; Metallurgy and Business mgt. course from Carnegie Institute of Technology	Advisor- C.K Birla Group; Commercial Director on the board of Steel Authority of India
Major General A.L. Suri (Retd.)	Independent Director	73	BE- College of Military Engineering, Pune	Major General- Indian Army; CEO- Suri Capital & Leasing Ltd
Mr. R. Sundararajan	Independent Director	59	BE-Jadhavpur Univ. Calcutta; MBA- IIM (A); and Associate of the Insurance Institute of India	Exc. VP- Strategic Business planning Matrix Laboratories Ltd

Mr. K. Madhava Sarma	Independent Director	69	PG- Mathematics from Andhra Univ.; PG- Statistics, Calcutta	Held positions with the Govt. of Tamil Nadu and Central Govt. through Indian Administrative Services; Member of Technology and Economic Assessment Panel of the Montreal Protocol of the United Nations Environment Programme and the Technology and Finance Standing Committee of the GOI.
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Source: Company prospectus

Of the 10-member board, four are independent directors and two are investor nominee directors. Three of the four independent directors, viz. Mr. R. Sundararajan (October 22, 2005), Mr. S. R. Ramakrishnan (May 14, 2005) and Retd Major General A.L. Suri (May 14, 2005) have been on the board of the company for over 2 years now. Mr. K. Madhava Sarma has been on the board for over 1 year now.

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