

Timbor Home Limited

CRISIL IPO Grade 1 / 5 (Poor)

April 28, 2011

Grading summary

CRISIL Equities has assigned a CRISIL IPO grade of '1/5' (pronounced "one on five") to the proposed IPO of Timbor Home Ltd (Timbor). This grade indicates that the fundamentals of the IPO are poor 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 offer price for the issue may be higher or lower than the level justified by its 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. To arrive at the overall grade, amongst various other parameters, CRISIL has considered the company's business prospects, its financial performance, management capabilities and corporate governance practices.

The assigned grade takes into account Timbor's weak branding in a highly fragmented furniture industry, where unorganised players have ~85% market share. Timbor is a relatively small player in terms of size and number of stores, and has limited brand recall which exposes it to severe competition. The presence of players like Future group, Godrej, Nilkamal, Style Spa, Millennium Lifestyle and Durian - who enjoy a strong brand recall and positioning – further intensifies competition. The grade also takes into account the fact that Timbor has expanded its business through the franchise model; only three of its 84 stores are company owned and company operated (COCO). This exposes Timbor to the risk of franchisee stickiness, which may hinder its future growth prospects. The grade also factors in Timbor's focus on the trading business, which has proven to have thin margins and high debtor days.

The grade takes into account Timbor's in-house manufacturing capacity which provides an edge over other organised players in terms of pricing. However, given the intense competition, the company will have limited flexibility to increase prices. Although managing director Mr Anant Maloo has strong domain expertise and effectively runs the show, there is no proper hierarchy, and clearly defined roles and responsibilities for the second line of management. The grade is also constrained by the relatively weak internal processes and management information systems. Further, the grade also factors in independent directors' limited awareness about the company's operations.

During FY10, the company reported turnover of Rs 510 mn and net profit of Rs 17.8 mn. RoE and RoCE were 13.1% and 14.9%, respectively, during the same period. Timbor earns ~45% of its total revenues from trading in lumbers. The company has issued 3.5. mn equity shares (32% of the current paid-up capital) to Times of India and Dainik Bhaskar for an advertisement space.

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About the company

Ahmedabad-based Timbor Home Limited (Timbor) manufactures and markets modular kitchens, furniture and doors, and door and window frames. The company markets its products under the brand names Timbor Cucine-Modular Kitchens, Timbor Doors-Doors & Door Frames, Timbor Home-Home Furniture, and IKI Kitchens-Hi-end kitchen solutions using 'Hettich' hardware and accessories. It operates as a manufacturer-retailer with 84 retail stores, of which three (all in Ahmedabad) are company owned and company operated (COCO) while the rest are franchisees.

(Rs mn)	FY06	FY07	FY08	FY09	FY10
Sales	68.7	101.7	196.9	267.8	510.5
PBT	1.7	2.4	12.0	18.9	31.5
PAT	1.1	1.5	8.0	11.4	17.8
PAT margin	1.5%	1.5%	4.1%	4.2%	3.5%

Source: DRHP

Issue details

No. of shares being offered (shares in mn)	3.69
Fresh issue (in mn)	3.69
Targeted issue size (Rs mn)	Not available at the time of grading
Face value per share	Rs 10
Proposed price per share	Not available at the time of grading
Lead managers	Corporate Strategic Allianz Ltd
Registrar to the issue	Purva Sharegistry India Private Ltd
Legal advisors to the Issue	Nigam R. Shukla

Detailed Grading Rationale

A. Business Prospects

- Backward integration gives cost advantage*

Timbor's Umreth plant has timber drying capacity of 15 lakh cubic feet and hi-tech machinery to produce home furniture, door and door frames. It imports core veneer from Myanmar and Malaysia, which it processes to make plywood. This makes Timbor a small but integrated player who can market its products at a competitive rate. This gives it an edge over large retailers who outsource manufacturing to other vendors. As per the industry, the average price for a modular kitchen varies between Rs 50,000 and Rs 6, 00,000 depending upon the brand and design, whereas Timbor's products cost Rs 30,000 – Rs 35,000.

Table 1: Details of manufacturing capacity

Plant No.	Location	Product	Existing Capacity
Unit 1	Changodar	Modular kitchen & Home furniture	5,000 p.a.
Unit 2	Umreth	Doors & Door component	99,000 pieces and 15 lakh cubic feet timber drying capacity
Unit 3	Vatva	Stainless steel basket & accessories	N.A.

Source: Company

- Wide-spread network with major focus on semi-urban market*

Timor began its operations in 2005 with just two franchises and rapidly expanded through a pan-India network. Currently, the company has 84 stores in 17 states with a relatively higher number of stores in Gujarat. Since inception, the company has adopted the franchise model, 81 of 84 stores are under the franchise model.

Table 2: Details of stores

No.	State/Union Territory	Cities	No.of stores
1	Andhra Pradesh	5	6
2	Chhattisgarh	1	2
3	Gujarat	14	20
4	Goa	2	2
5	Haryana	2	2
6	Jammu & Kashmir	1	1
7	Jharkhand	1	1
8	Karnataka	3	6
9	Kerala	5	6
10	Madhya Pradesh	3	7
11	Maharashtra	6	6
12	Nepal	1	1
13	Orissa	1	1
14	Punjab	2	2
15	Rajasthan	7	7
16	Tamil Nadu	2	4
17	Uttar Pradesh	7	9
18	Uttaranchal	1	1
Total		64	84

- *Lack of brand strength*

Although the company has been in the business for the past five to six years, it has not been able to establish the brand. Brand recall is low compared to major brands like Godrej and Tome Town (Pantaloon), Durian, etc., which are well established and have good recall in the market.

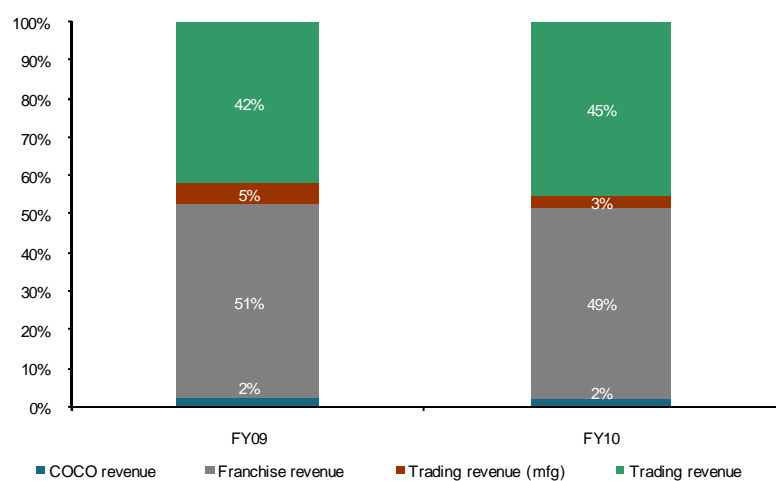
- *Low entry barrier; tough competition from existing and new players*

Furniture retailing has low entry barriers as no major technology or other relevant experience is required to run the business. Apart from unorganised players dominating the market, Timbor faces large retailers with strong brands as well as strong balance sheets. The retail furniture industry includes big players from the formal sector such as Future Group, Trent, RPG, Vishal Retail and Godrej. Besides there are popular names like Nilkamal, BP Ergo, Featherlite, Haworth, Style Spa, Yantra, Renaissance, Millennium Lifestyle, Durian, Kian, Tangent, Furniture Concepts, Furniturewalla and PSL Modular among others. Given that there are already a large number of players in the organised retail furniture market - some already established as strong brands - in our opinion, it would not be easy for Timbor to penetrate the market even though it is competing through lower pricing. Also, pricing pressure on the company will have an impact on its profitability.

- *Heavy reliance on franchise revenue*

The company has expanded its network aggressively by pursuing the franchisee model - 97% of its stores are franchise stores and just 3% company owned company operated. During FY10, the company generated 49% of revenues from franchise stores. We believe this is risky as franchise stickiness becomes the key to success in this very competitive industry. Further, the selection criteria for franchises needs to improve as current norms do not include any strict clause for termination and default to ensure franchise stickiness. Further, the average size of franchise stores is 400 sq.ft., which could restrict the company from offering a variety of products to end users.

Figure 1: Higher dependence on franchise revenues



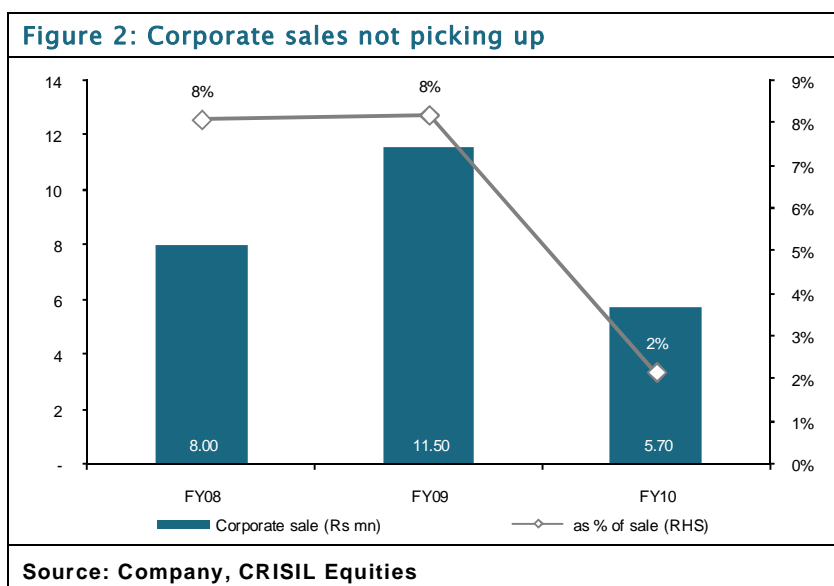
Source: Company, CRISIL Equities

- Corporate sale model to de-risk franchise model...*

In order to reduce dependence on franchise sales and to curtail investment in the COCO stores, the company is increasingly looking at the corporate sale model. Under this model, the company makes an arrangement with the builders and architects of big corporate houses to supply interiors for their premises. The company has started dealing with many local builders in Gujarat. In our opinion, this will help the company increase its penetration in an industry which is highly competitive.

- ... But momentum is not encouraging*

Although Timbor has moved to corporate sales with a view to increase its market share and strengthen its brand, it could not take off much and contributed only 2% of total sales in FY10, down from 8% in FY08.



- Moving to COCO model; increases risk given the high operating leverage*

The company plans to open 20 stores under the COCO model over the next two years. These stores will be larger in size, around 3,000-4,000 sq.ft. and located in tier-II cities of Gujarat and other states of the country. The company has started shifting its focus from the franchise to the COCO model in order to improve profitability. However, this model has its own risks given the high overhead costs.

B. Financial Performance

Timbor's revenues registered robust growth of 91% (y-o-y) to Rs 510 mn in FY10 primarily driven by new store additions and newly launched premium kitchen brand 'iKI', which the company markets at a higher rate than its basic modular kitchen. However, EBITDA margin for FY10 declined by 166 bps to 10.7% due to higher input cost. The decline in profitability is also attributed to the trading business on which the company earns thin margins. PAT margin declined by 76 bps to 3.5% due to higher interest and tax outgo.

Financial performance snapshot

	Unit	FY09	FY10
Sales	Rs mn	267.8	510.5
EBITDA	Rs mn	33.0	54.4
EBITDA margin	%	12.3%	10.7%
Net Profit	Rs mn	11.4	17.8
Net margins	%	4.2%	3.5%
RoE	%	21.4	13.1
RoCE	%	13.9	14.9
Basic EPS	Rs	5.8	2.1
No.of Equity shares	mn	2.1	8.6
Net worth	Rs mn	84.1	188.0
Book value (FV Rs 10)	Rs	39.7	21.9
Current ratio	Times	5.9	5.2

Source: DRHP

C. Management Capabilities

- *Timbor has a well-experienced team at senior level*

Mr Anant Maloo is the promoter and managing director of the company. He holds a Bachelor's degree in Commerce and has a Diploma in international business. He has been in this business over the past decade and is also running a building material business through a private limited company. He is supported by Mr Manan Vidhyapati Patel and Mr Abhijeet Dwarkadas Daga. Mr Patel has a Bachelor of Engineering (with specialisation in electronics) from the Bangalore University and takes care of marketing activities. Mr Daga has a Bachelor of Commerce from Gujarat University and has more than nine years of experience in plywood and timber trading.

- *Second line of management needs to be strengthened*

The second line includes Mr Chetan Gajjar (head - finance), who has been with the company for the past five years and looks after all finance-related matters. The company lacks a professionally qualified CFO. Also, there is no proper hierarchy in place and no clearly defined roles and responsibilities. We believe that the company needs to rope in more professionals and experienced people to take the company to the next level of growth.

D. Corporate Governance

Independent directors' engagement level is low

From our conversation with the independent directors, we feel that they are not fully conversant with their roles and responsibilities in the company. Further, we believe that their awareness about company's operations is limited.

Weak internal controls and processes

Based on our interactions, we believe that the internal processes and systems are weak which may lead to leakages. Also, there are no proper MIS in place.

Annexure I

Business Profile

Timbor Home Ltd is a manufacturer and retailer of modular kitchens, furniture and doors, and door and window frames with a pan-India distribution network consisting of franchisee stores. The company has three manufacturing units - one each at Changodar (Ahmedabad district), Vatva GIDC, Ahmedabad, and Umreth (Anand district). The company's total manufacturing facility is 2,00,000 sq. ft. Its products include:

- Modular kitchens
- Home furniture
- Doors
- Treated and kiln dried lumber

Modular kitchens

The company markets its modular kitchens under the Timbor Cucine and IKI Kitchens brands.

Timbor Cucine –Timbor Cucine products belong to the affordable category (range starts from as low as Rs 30,000), and are targeted at the middle class. The company has designed its own software, which helps the customer to have a look at the kitchen before ordering. The software is shared with all the exclusive stores. The product is completely customised as per customer specifications - the cost, the material, hardware, and cabinetry.

IKI Kitchens – Products under this brand cater to the high-end (in the price range of Rs 1 lakh and above). These are hi-end modular kitchens with customised solutions, shutters, storage and hardware using Hettich (well-known international kitchen brand) hardware and accessories.

Home furniture

The company manufactures and markets a range of home furniture including sofas, centre tables, side tables, TV units, chairs, bath vanities, beds, wardrobes, dressers, bar units, dining tables, dining chairs, kid's bedroom units, etc. The products are marketed under the brand Timbor Home. The company also does customisation in terms of size and individual requirements and preferences in wardrobes. All its products are designed and made in-house.

Doors

The company has set up a new facility at Umreth for manufacturing doors. The company manufactures a wide range of products with various designs and types. It also manufactures eco-friendly doors with Sinewave/Honeycomb core. The company also provides customised solid wood door frames.

Treated and kiln-dried lumber

The company has a large timber drying and chemical treatment facility. The company converts soft and hardwood logs into kiln-dried sawn timber to be used in the construction and joinery industry. The company's products are sold to traders and actual users.

Annexure II: Profile of the Directors

Name of Directors	Designation	Status	Age (Years)	Qualification	Exp. (yr)	Directorships in other entities
Mr Anant Sureshchandra Maloo	Chairman & Managing Director	Executive & Non Independent	45	B.Com, Diploma in International Business	10	Maloo Building Material Pvt. Ltd, Shree Nidhi Cements Pvt. Ltd
Mr Manan Vidhyapati Patel	Director	Executive & Non Independent	38 s	B.E. Electronics	-	Adgum Pvt. Ltd
Mr Abhijeet Dwarkadas Daga	Director	Executive & Non Independent	29 s	B.Com	8	Maloo Building Material Pvt. Ltd
Mr Rakesh Surajkumar Bhagat	Director	Non-Executive & Non Independent	38	B.Com	-	-
Mr Tejdeep Singh Harvindersingh Anand	Director	Non-Executive & Non Independent	44	B.Com, C.A Inter	-	-
Mr Rakesh Mohinder Puri	Profession	Non-Executive & Non Independent	43	B.Com, C.A	21	-

Source: DRHP

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