Company Analysis and Financial Due Diligence

April 2013

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To,
Ms Khyati Shah,
National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G Block,
Bandra - Kurla Complex
Bandra (E)
Mumbai - 400051

Date: April 29, 2013

Dear Madam,

We refer to your request to provide to you a Company Analysis and Financial Due Diligence report ("FDD Report") covering the limited scope as mentioned in Annexure 1 and for the purpose of potential listing of Sanco Industries Ltd ("the Company") in the Small and Medium Enterprise (SME) Exchange of the National Stock Exchange (NSE).

We now enclose our Company Analysis and FDD Report dated April 29, 2013. This Company Analysis and FDD Report is based on the information provided by the Company to us and also on the meetings with the Management of the Company.

For the purpose of preparing the Company Analysis and FDD Report, we have not independently verified the information provided by the Company or collected by us from other sources. CRISIL does not guarantee the accuracy, adequacy or completeness of any information contained in such reports. CRISIL especially states that it has no financial liability whatsoever to you / Company / users of the reports. CRISIL's reports submitted to the NSE do not constitute recommendations to list or not to list the Company on the SME Exchange.

All the Company Analysis and FDD Reports submitted by CRISIL are confidential and are meant for the internal use of the NSE only and should not be used for purposes other than the potential listing of the Company on the SME Exchange.

This letter shall form an integral part of the Company Analysis and FDD Reports.

We appreciate the opportunity to conduct financial due diligence on Sanco Industries Ltd.

Yours faithfully,

For CRISIL Limited

Mohit Modi
Director – CRISIL Research

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Glossary of terms

AS - Accounting standards bps - Basis points Capex - Capital expenditure CAGR - Cumulative average growth rate CC - Cash credit COGS - Cost of goods sold CWIP - Capital work in progress DRHP - Draft Red Herring Prospectus EBITDA - Earnings before interest tax depreciation and amortisation EPS - Earnings per share FA - Fixed assets FB - Fund based FG - Finished goods FIFO - First in first out FS - Financial statements FYXX - Financial year ended March 31, 20XX GFA - Gross fixed assets	MAT - Minimum alternative tax MoA - Memorandum of Association MIS - Management information system NDA - Non disclosure agreement PAT - Profit after tax PBT - Profit before tax RBI - Reserve Bank of India RM - Raw materials sq ft - Square feet y-o-y - year-on-year

Area of concern - Inconsistency in responses to queries raised by us

During the financial due diligence (FDD) exercise on Sanco Industries Ltd, we found discrepancies in the data and responses provided by the company. The management gave different answers at different points of time for the same queries and was unable to provide any satisfactory explanation for the variance. Following are the points on which we have not received satisfactory explanation from the management;

1) De-growth in sales in FY10
2) Volatility in realisation of PVC wires & cables
3) Increasing trend in EBITDA margin
4) Core area of focus going forward: manufacturing business OR trading business
5) Number of dealers
6) Reconciliation of list of institutional clients with list of top-10 clients
7) Volatility in quarterly sales
8) Higher receivable (debtors)
9) Inconsistency in names listed under top-10 clients and under top-10 debtors
10) Nature of business in invested companies
11) Interest free inter corporate deposits (ICDs)

We are, therefore, unable to verify the authenticity of information provided to us for analysis and consequently, are unable to comment on the findings of this document with a high level of confidence.

Company Analysis

Company background - As per the company

Sanco Industries Ltd (Sanco) was incorporated in 1989 as a private limited company. Mr Sanjay Gupta took over business of partnership firm, Sanco Plastic Industries where Mr Sanjay Gupta and Mr Jai Pal Singh Shishodia were earlier partners. The company issued 850 shares as consideration to Mr Jai Pal Singh Shishodia who later sold his shares to Mr Sanjay Gupta. As of date, Mr Shishodia does not hold any stock in the company. In April 2008, the company's name was changed to Sanco Industries Pvt. Ltd. On June 3, 2008, it was converted into a public limited company named Sanco Industries Ltd (Sanco).

The company manufactures polyvinyl chloride (PVC) rigid conduit pipes, PVC casings and capping, PVC/PP-R plumbing pipes and PVC insulated domestic wires and cables. Its manufacturing plant is located in Paonta Sahib, Himachal Pradesh. It sells its products under the following brands - Satyam, Vikrant, Marshall and Superplast. The company's dealer network consists of 125 dealers, mainly in the northern region. It is an approved vendor for the Indian Railways and Siemens Ltd. Sanco also trades in PVC pipes, cables and wires.

Key findings

- Sanco's sales de-grew in FY10 (down 9% y-o-y) and remained flat in FY11. The company initially mentioned that lower GDP growth impacted sales. However, when we shared GDP growth numbers (which show improvement in the GDP growth rate) with the management, they said lower realisation of PVC wires (from ₹96 per meter in FY09 to ₹15 per meter in FY10) impacted sales. They further gave us few more explanations for the de-growth in sales but they were not convincing.
- Sanco entered into trading business in FY10, in which operating margin is usually 3-5%. Trading business' contribution to overall sales has increased from 13% in FY10 to 28% in FY12 to 37% in 9MFY13. Sanco's EBITDA margin simultaneously increased from 10.7% in FY10 to 13.5% in FY12 to 16.1% in 9MFY13. The company was not able to provide satisfactory explanation regarding the expansion in margin despite the increasing share of low-margin trading business. The management offered varied reasons at different points in time but none of the reasons were convincing. In addition there were lot of contradictions in the various explanations offered.
- As per the management, apart from the dealer network, the company also has institutional clients. However, there was no classification specifying the names of retail dealers and institutional clients. As per the management, SURBHI BROADBAND is an institutional client; but we found SURBHI BROADBAND named as a dealer. Also, the management mentioned prominent industry players such as HCL, SIEMENS Ltd., as its clients but the data provided shows that sales made to these clients were not significant.
- We have found that the names appearing in the list of top-10 debtors do not reconcile with the names in the list of top-10 customers. As of 9MFY13, PKG Marketing and Laxmi Narain & Sons appear as top-10 debtors but the same has not been reflected in the list of top-10 customers either in 9MFY13 or in FY12. Also the management gave us two different list of top 10 customers.
- Sanco's operation is working capital intensive; working capital increased to 216 days in FY12 from 79 days in FY08. The reason for increased working capital cycle is higher receivable days from dealers. As per the management, payment term for the dealers is 60-90 days and for institutional clients, it is 45-60 days. Also, we have been told that majority of the sales (~35-40%) happens in Q4 (Jan-March) quarter. We have analysed quarter-wise sales of the company and found that debtors for FY11 is ₹113 mn, which is much higher than Q4FY11 sales of ₹45 mn. It was mentioned that most of the payment is usually received within 80-90 days; hence, receivables until Q3FY11 would have got cleared by March 2011. It implies, collection of sales posted in Q4FY11 is pending. This should have been around ₹45 mn whereas the debtors figure was ₹113 mn. Similarly, in FY10, the last quarter's sales were ₹119 mn whereas debtors at the end of that quarter amounted to ₹158 mn. The management has not given us satisfactory explanation for the same.

- Sanco invested ₹35 mn during FY12 in a three unlisted companies. We have received inconsistent replies from the management on the nature of business of these companies. As per the management, these companies are into similar business as Sanco and investments are made with a view to generate returns. However, we have found that one company is into real estate and one into trading of dry-fruits, and the financial performance of these firms is also not promising. As per the company, it has now sold investments made in two companies at cost and currently hold investment of ₹ 20 mn in one company.
- As of 9MFY13, Sanco's gross block is ₹49 mn of which ~₹7 mn is for vehicles, which includes cars and trucks. We have received various replies on the actual number of trucks owned by the company; the management once mentioned that it has four trucks and later said it owns three.

Analysis of business model

Strengths

- Sanco has a diversified product offering. It manufactures a) wires of different diameters for the housing, power and telecom segments, and b) PVC pipes in the range of 20 mm to 50 mm for open and concealed wiring in residential and commercial buildings, house meters and water pump connections, and concealed wiring in buses, railways coaches, ships, aircraft, etc. Of the total manufacturing revenues of ₹206 mn in December 2012, PVC pipes comprised 52% (19% in FY09) and wires and cables made up 48% (81% in FY09).
- The management mentioned that Sanco's product quality meets international safety and quality standards; it has received ISO 9001:2008 certifications along with relevant certification from the Bureau of Indian Standards (BIS). Well-known names such as Public Work Department (PWD), Bharat Heavy Electric Ltd (BHEL) and Paschimanchal Vidyut Vitran Nigam Ltd (PVVNL) have approved its products, though only minuscule sales have been made to these players.
- Sanco may likely benefit from healthy growth in PVC pipes and wires and cables industries. The PVC pipes industry has grown at a 16-17% CAGR over FY08-12 and is expected at grow at a CAGR of 14% over the next five years. The domestic wires and cables industry has grown at a CAGR of 25% over FY08-12 and is expected to register steady growth in the future.

Weaknesses

- Sanco's operations are working capital intensive as reflected in its working capital cycle of 170 days as on December 2012. The company maintains inventory of two to three months and has high debtor days of 153. Due to the high working capital (especially higher receivable days), operating cash flow remains negative for the company.
- Sanco's promoter has a similar business (trading in PVC resin) under a group company called Sanco Enterprises Pvt. Ltd. This is a potential conflict of interest as there is no non-compete agreement. However, for the past two years, Sanco Enterprises has not traded in PVC resin.
- Sanco does not have long-term raw material contracts with it suppliers. This could affect the company's profitability in case of volatility in raw material prices. PVC resin accounts for nearly 60% of its total raw material costs. The company procures raw material from various suppliers locally and overseas. Further, given the size of operations, Sanco's bargaining power with suppliers is limited.
- During FY12, Sanco invested ₹35 mn (~25% of net worth) in three unlisted private companies, which are in unrelated businesses. In case these companies do not generate adequate financial returns, Sanco may have to write these off, which could result in reduction of Sanco's net worth.
- Sanco's internal controls and MIS systems are weak and need to be strengthened

Management and Corporate Governance

- Promoter and the managing director, Mr Sanjay Gupta, has nearly two decades of experience in the industry. He takes all the major decisions. The second line of management is inexperienced and is not involved in any important decision-making.
- In December 2010, Sidhant Gupta (Mr Sanjay Gupta's son, who was 19 years old then) was appointed as a director in the company. He is a trained pilot from Eagle Flight Academy, New Zealand and is pursuing B. Tech in Nano Technology.
- The board consists of six directors, of whom three are independent. The independent directors have been associated with Sanco only since July 2010. Two of the independent directors are Mr Sanjay Gupta's distant relatives (though they are not "relatives" as per the definition of Companies Act) and one of them is known to the promoters personally. Based on our interactions and given that they are personally related to the promoters, we opine that independent directors have limited ability for management oversight.

Key financials

- Sanco's operating income has grown at a moderate CAGR of 6.7% over FY08-12 to ₹401 mn, mainly due to increasing trading revenues; manufacturing revenues have declined during the same period due to decrease in realisations of PVC wires and cables. 9MFY13 operating income is ₹328 mn, of which 37% is from the trading business.
- EBITDA margin expanded to 16.1% in 9MFY13 and 13.5% in FY12 from 7.2% in FY18. EBITDA margin has increased despite increased contribution from the trading business (up from 13% of FY10 sales to 28% in FY12 and 37% in 9MFY13). EBITDA margin at the current level doesn't appear sustainable. If EBITDA margin contracts from the current level, it will adversely impact the profitability of the company.
- Average PAT margin over FY08-12 was 5.2%. The company's Himachal Pradesh (commenced operations in FY08) plant was eligible for a 100% income tax holiday for a period of five years until FY12. From FY13 onwards, the company is entitled for 30% exemption for a period of five years.

Financial Due Diligence

Company Overview

Background and Key Milestones

- Delhi-based Sanco manufactures and sells PVC pipes, PVC insulated wires and cables in India. It also trades in PVC resins and electric wire, cables and copper rods.
- Sanco was incorporated in 1989 as a private limited company by way of takeover of partnership firm Sanco Plastic Industries. On June 3, 2008, the company was converted into a public limited company.

Product and Brand Profile

- The product portfolio encompasses a) wires of different diameters for the housing, power and telecom segments; and b) PVC pipes in the range of 20 mm to 50 mm for open and concealed wiring in residential and commercial buildings, house meters and water pump connections, and concealed wiring in buses, railways coaches, ships, aircraft, etc.
- Sanco's products are sold under the following brands - Satyam, Vikrant, Marshall and Superplast. The management claims to have a network of 125 dealers, mainly in North India.

Board of Directors

Name	Age	Designation	Date of joining	Qualification	Role and experience
Mr Sanjay Gupta	48	Managing Director	August 25, 2010	MBA in Marketing & Finance	Has over 25 years of experience in the PVC industry. He is responsible for strategic planning, restructuring, operations, import and export and marketing.
Mrs Shakuntla Gupta	71	Whole-time Director	May 03, 2010	Intermediate in Arts	She has over 25 years of experience. She is responsible for day-to-day activities and HR functions.
Mr Sidhant Gupta	21	Whole-time Director	December 06, 2010	Graduate	Was inducted as a non-executive and non-independent director in December 2010. He is responsible for "technical advice and innovative ideas in research & development".
Mr Deepak Gupta	56	Independent Director	July 02, 2010	L.L.B	Has been associated with the aviation and telecom sectors over 1996-2007 by virtue of services in Modiluft and Himachal Futuristic Ltd. Since 2007. He has been engaged in his own business as a franchisee of BSNL.
Mr Saurabh Gupta	32	Independent Director	May 04, 2010	Chartered accountant	He was a practicing chartered accountant until December 2006; he handled the audit and taxation assignments of various private sector organizations, banks, insurance companies and financial institutions. He is working with J K Cement and looks after Finance and Taxation
Mr Sanjeev Kumar Jain	49	Independent Director	July 02, 2010	Chartered accountant	He is a practicing chartered accountant and has handled the audit and taxation assignments of various private sector organisations, banks, insurance companies and financial institutions. He has an experience of 18 years.

Shareholding structure of Sanco Industries Ltd

Name	As on December, 2012	
	No. of shares	Percentage holding
Promoters		
Mr Sanjay Gupta	833,700	13.5
Sanjay Gupta HUF#	3,362,800	54.5
Mrs Shakuntla Gupta	502,000	8.1
Total (a)	4,698,500	76.2
Promoter group		
Mr Anurag Gupta	699,800	11.3
Mr Anil Kumar Sharma	247,600	4.0
Mrs Sadhna Singal	140,000	2.3
Mrs Rita Gupta	156,800	2.5
Mr Om Prakash Gupta	120,500	2.0
Mrs Seema Jain	40,000	0.6
Mr Sidhant Gupta	30,100	0.5
Mrs Mansi Gupta	10,000	0.2
M/s Sanco Enterprises (P) Ltd	26,700	0.4
Total (b)	**1,471,500**	**23.8**
Total (a+b)	**6,170,000**	**100**

#Hindu Undivided family

Details of the promoter group and the family structure

- **Sanjay Gupta** - Promoter and MD
- **Rita Gupta:** Sanjay Gupta's wife
- **Om Prakash Gupta:** Sanjay Gupta's father. He has retired from Central Bank of India
- **Shakuntla Gupta** : Sanjay Gupta's mother
- **Sidhant Gupta:** Sanjay Gupta's son
- **Mansi Gupta:** Sanjay Gupta's daughter
- **Anurag Gupta:** Sanjay Gupta's cousin. He is currently in marketing and sales
- **Sadhna Singhal :** Anurag Gupta's wife
- **Seema Jain:** Sanjay Gupta's sister
- **Anil Kumar Sharma:** Husband of Sikha Sharma, Sanjay Gupta's sister
- **Sanco Enterprises (P) Ltd: It is t**he promoter group company. Sanjay Gupta and his family hold 100% stake in the company

Manufacturing facility overview

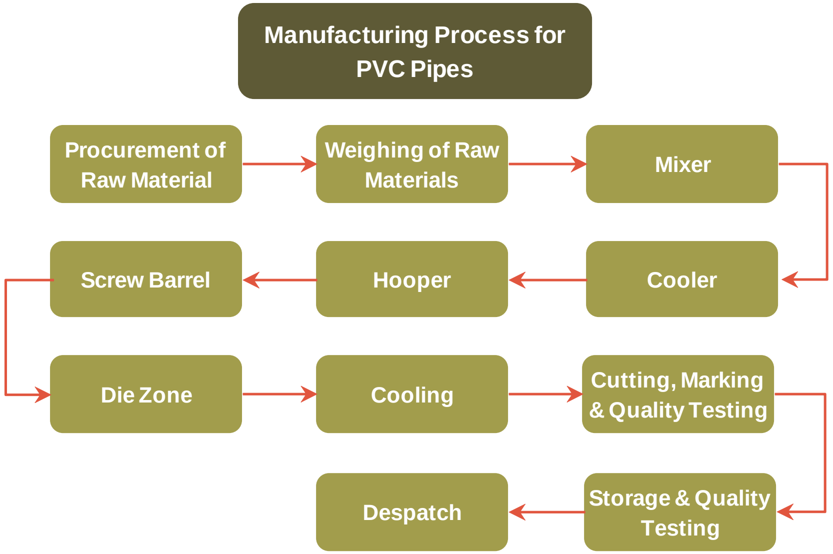
Sanco's manufacturing facility is spread over 5 bighas 4 biswas (87,120 sq ft) in Paonta Sahib, Himachal Pradesh. The company has a capacity of 3,000 MTPA in PVC conduit pipes and 18,000 KMPA in PVC insulated wires and cables. The company plans to expand its manufacturing capacity to 6,000 MTPA for PVC conduit pipes and 36,000 KMPA for PVC insulated wires and cables at an estimated investment of ₹32.1 mn.

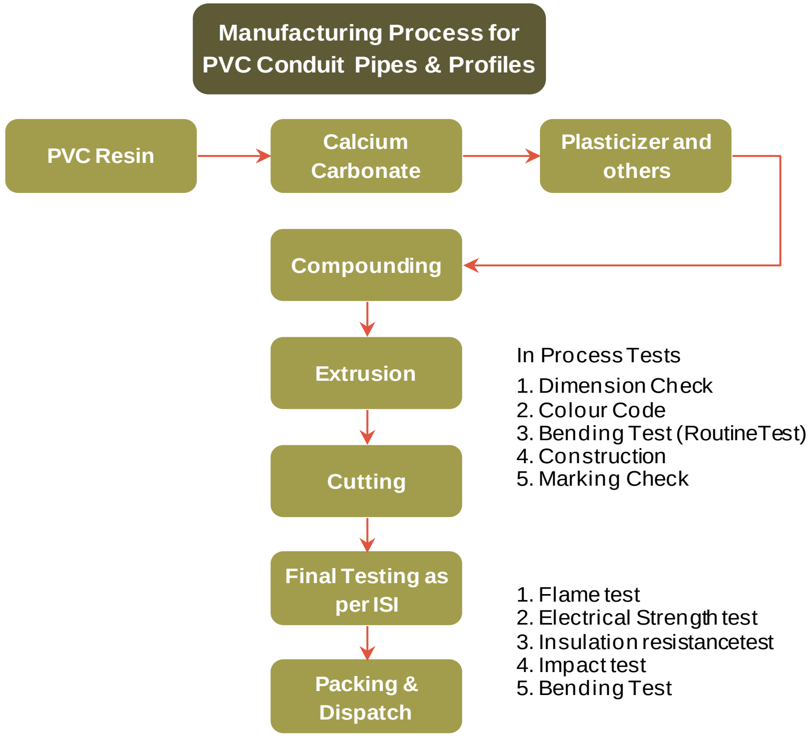
Installed annual assembly capacity

Capacity	As of Dec'12
PVC conduit pipes	3,000 MTPA
PVC insulated wires & cables	18,000 KMPA

- The company enjoys tax benefits under Section 80-IC of the Income Tax Act. All the products manufactured at Himachal Pradesh facility are exempt from central excise for 10 years.
- Key tax benefits:
  - 100% exemption on excise duty for 10 years starting FY06-07
  - 100% income tax exemption for first five years starting FY08
  - 30% income tax exemption for five years starting FY13
  - The company is liable to pay MAT
  - 75% transport subsidy

Manufacturing process





Executive Summary

Key Findings - Operating margins and trading

Sanco's operating margins have been increasing consistently despite its foray into the low-margin trading business

Background	Comments / implications	Management Comments
■ Operating margins have increased consistently over the years; from 7.2% in FY08 to 16.1% in 9MFY13. ■ Operating margins have increased despite Sanco's foray into the low-margin trading business. The contribution of the trading business has increased from 13% in FY10 to 28% in FY12 and 37% in 9MFY13. Gross margins in the trading business are in the range of 3-5%. ■ Sanco was required to take prior approval from the lenders before venturing into the trading business. The company did not comply with this.	■ Since the low-margin trading business contributes one-third of sales, the current margin looks high and may not be sustainable. ■ Future profit growth would suffer if margins decrease from the current levels. ■ The company has got an approval from the lender for the trading business. It changed its lender from State Bank of India (SBI) to Central Bank of India. We do not see any major penalty implications or other financial liability that could arise on account of default of this condition in the beginning.	■ The company stated that the rise in PVC prices over the past few years has resulted in high inventory gain and, consequently, higher margins. According to CRISIL Research, the increase in PVC prices in the past few years has not been substantial enough to result in such margin improvement.

Key Findings: Debtors

Debtor days are very high leading to stretched working capital

Background	Comments / implications	Management comments
■ The company reported high debtor days of 186 days in FY12 and 153 days at the end of December 2012. Debtor days are higher than what the payment terms suggest. For example, payment term with the dealers is 60-90 days and with the institutional clients is 45-60 days. However, debtor days are much higher than this.	■ High debtor days will put a strain on the cash flows of the company. ■ Of the total debtors of ₹213 mn as of 9MFY13, ₹75 mn (35% of total) exceeds six months. In case the company is unable to recover it (whole or part), future profits could be impacted. ■ We did an analysis of the same: – Debtors for FY11 are ₹113 mn, which is much higher than Q4FY11 sales of ₹45 mn. It was mentioned that most of the payment is received within 80-90 days; receivables until Q3FY11 would have got cleared by March 2011, which means the sales posted in Q4FY11 were pending to be collected. This should have been around ₹45 mn whereas the debtors figure was ₹113 mn. ■ Similarly, in FY10, the last quarter's sales were ₹119 mn whereas debtors at the end of that quarter amounted to ₹158 mn.	■ The company's reason for high debtor days is that a large portion of sales is in the fourth quarter (Q4: January to March). Hence, debtors are high.

CRISIL RESEARCH

Key Findings - Employee compensation and experience

Key managerial personnel are inexperienced and do not possess skills commensurate with the requirements of their roles and responsibilities

Background	Comments / implications	Management Comments
■ Salaries paid to directors are on the lower side compared to their experience. ■ Mr Sanjay Gupta (promoter and MD) received ₹0.6 mn as salary in FY12. Mrs Shakuntala Gupta (director) also received salary of ₹0.6 mn in FY12. ■ The key managerial personnel are inexperienced and do not possess skills commensurate with the requirements of their roles, responsibilities and designation.	■ The current salary cost may not be representative of future costs. Salary costs could increase post fund raising as the company attains higher scale of operations. ■ Given the low experience levels of the key managerial personnel, we believe all the decisions are taken by the promoter.	■ The management mentioned that the compensation is adequate to the roles and responsibilities. They also mentioned that as the financial strength of the company increases, there could be an increase in management compensation.

Key Findings - Investments in unrelated companies

Have made investments in unrelated companies

Background

■ In FY12, Sanco made an investment worth ₹35 mn in three unlisted private companies. The details are:

Company	Investment (₹ mn)	Sanco's stake in capital	% of Sanco's net worth
A R Com Pvt Ltd	5	NA	3
S D Portfolio Pvt Ltd	10	12%	6
UKB Electronics Ltd	20	3%	13

■ These companies have businesses which are unrelated to Sanco's business.

Company	Business
A R Com Pvt Ltd	Trading of dry fruits, grocery items and spices
S D Portfolio Pvt Ltd	Real estate
UKB Electronics Ltd	Electronics

Comments / implications

■ The total investment made in these companies (₹35 mn) is ~23% of Sanco's net worth. We believe that Sanco made these investments without proper assessment of business model and financials of these companies. Coincidentally, the auditor of AR Com Pvt. Ltd and S D Portfolio Pvt. Ltd is the same - Raj Gupta & Associates, who was also Sanco's auditor until FY12.

■ Two out of these three companies were not generating sufficient returns. As per the management, they have sold off investments in two companies, viz. S R Com Pvt Ltd and S D Portfolio Pvt Ltd to a third party at a price at which these were acquired and hence there was no profit or loss made on the sale of these investments. In case the company does similar investments in future it could be a risk.

Management Comments

■ The company invested in these companies in order to diversify and because these companies do business which is somewhat related to their current business. However, according to us, A R Com and S D Portfolio are not related to Sanco's business.

Key Findings – Lease rental on the lower side

Lease rental terms with related parties may not reflect commonly accepted market practices

Background	Comments / implications	Management Comments
■ Sanco has taken on lease 2,045 sq ft of commercial space in Surajmal Vihar, Delhi from Mrs Shankuntala Gupta and Mrs Rita Gupta for a monthly rent of ₹50,000. In our opinion, the lease rental is significantly below the market rate.	■ Monthly rent of ₹50,000 for corporate office premises is low compared to market standards. In case the rent is revised and increased to market rates, Sanco's profitability could be adversely impacted. ■ No security deposits are given for the properties taken on lease from promoter. ■ According to our analysis, the lease rentals in this area are in the range of ₹50-70 per sq ft	■ The management mentioned that since they are the promoters of the company they want to support the company financially. They could have leased out at market rates but by not doing so they are safeguarding the profitability of the company.

Key Findings: Company needs to significantly strengthen the quality of MIS and internal controls

Inconsistencies in the data provided

Background	Comments / implications	Management comments
We noted gaps and limitations in the information provided for the purpose of our due diligence. Information gaps include: ■ Sanco does not maintain MIS that captures the data on state-wise sales. Also, there is no clear separation between retail dealers and institutional clients. The data, which the company shared with us on the dealers, also included names of institutional clients. ■ The data and information given by the company were inconsistent and discrepant. The company was unable to provide suitable clarifications for the same.	■ The weak quality of MIS and internal control is generally seen across SME companies due to the small scale of operations. ■ There were many gaps in the data and information provided. ■ Some information required for the purpose of due diligence was prepared by the management for the first time. ■ We believe management will have to strengthen MIS and internal controls significantly especially as the company grows in size.	Not applicable

Key Findings: Conflict of interest

Promoter group companies are in similar business line, which could create conflict of interest

Background	Comments / implications	Management comments
■ Sanco had granted a loan to one of the group companies Sanco Enterprises in FY09-10, which was repaid in the same financial year. The granting of such a loan require prior approval of the Central government which the company did not obtain. Sanco has faced penalty for such a transaction and the final order on compounding of offense has been given. ■ A FEMA violation case was filed against Sanco for transfer of shares by way of gift from a resident to a non-resident without taking the necessary approval from the Reserve Bank of India. The regulator asked for reversal of the share transfer and levied a penalty of ₹40,000. The company subsequently got the RBI's approval and the issue has been resolved.	■ In the future, such a violation is a key monitorable. ■ The company, subsequently, got the RBI's approval and the issue has been resolved. ■ The promoter group company Superlink Polyfeb no more trades in PVC	■ The company has paid the penalty and no cases are pending. ■ Sanco Enterprises is no longer in PVC resin trading and it was mentioned that the Memorandum of Association (MoA) has been changed accordingly.

Analysis of Financial Statements

Income statement analysis

Particulars	₹ mn						Common size statement					
	FY08	FY09	FY10	FY11	FY12	Dec'12	FY08	FY09	FY10	FY11	FY12	Dec'12
Income												
Gross sales	309	399	363	368	401	328	100.0%	100.0%	100.0%	99.8%	100.0%	100.0%
Less: trade discount	-	-	-	(0)	(0)	(0)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net sales	309	399	363	368	401	328						
Other operating income	-	-	-	1	-	0	0.0%	0.0%	0.0%	0.2%	0.0%	0.1%
Operating income	309	399	363	369	401	328	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Expenditure												
Raw material consumed	277	359	307	337	299	271	89.6%	89.9%	84.5%	91.5%	74.6%	82.4%
Change in inventory	(1)	(3)	(4)	(37)	20	(18)	-0.4%	-0.8%	-1.2%	-10.1%	5.0%	-5.4%
Power and Fuel	4	6	7	11	10	8	1.3%	1.4%	2.0%	2.9%	2.5%	2.4%
Employee costs	3	5	6	8	11	9	1.0%	1.1%	1.6%	2.3%	2.6%	2.8%
Other manufacturing expenses	3	2	2	1	3	2	0.8%	0.5%	0.7%	0.3%	0.7%	0.7%
Other expenses	1	1	3	2	3	3	0.3%	0.3%	0.8%	0.5%	0.7%	1.0%
SG&A	0	2	3	2	1	0	0.2%	0.5%	0.7%	0.6%	0.3%	0.0%
EBITDA	**22**	**28**	**39**	**44**	**54**	**53**	**7.2%**	**7.1%**	**10.7%**	**12.0%**	**13.5%**	**16.1%**
Depreciation	3	4	4	4	4	3	1.1%	1.0%	1.0%	1.1%	1.0%	0.9%
EBIT	**19**	**25**	**35**	**40**	**50**	**50**	**6.1%**	**6.1%**	**9.7%**	**10.9%**	**12.5%**	**15.2%**
Interest	6	8	15	14	21	21	1.8%	2.0%	4.0%	3.9%	5.3%	6.3%
Operating PBT	**13**	**17**	**21**	**26**	**29**	**29**	**4.3%**	**4.2%**	**5.7%**	**7.0%**	**7.2%**	**8.9%**
Other income	2	0	1	0	1	0	0.6%	0.1%	0.2%	0.1%	0.2%	0.1%
Exceptional inc/(exp)	0	-	(0)	0	4	(1)	0.0%	0.0%	-0.1%	0.0%	0.9%	-0.4%
PBT	**15**	**17**	**21**	**26**	**33**	**28**	**4.9%**	**4.3%**	**5.8%**	**7.1%**	**8.3%**	**8.6%**
Tax provision	2	2	4	5	(0)	7	0.6%	0.5%	1.0%	1.4%	0.0%	2.2%
PAT (Reported)	**13**	**15**	**17**	**21**	**33**	**21**	**4.3%**	**3.8%**	**4.8%**	**5.6%**	**8.3%**	**6.4%**
Less: Exceptionals	0	-	(0)	0	4	(1)	0.0%	0.0%	-0.1%	0.0%	0.9%	-0.4%
Adjusted PAT	**13**	**15**	**18**	**21**	**30**	**22**	**4.3%**	**3.8%**	**4.9%**	**5.6%**	**7.4%**	**6.8%**

Revenue analysis

Revenue details						
(₹ mn)	FY08	FY09	FY10	FY11	FY12	Dec'12
Manufactured goods sales	309	399	317	234	288	206
y-o-y change	204%	29%	-21%	-26%	23%	-
Traded goods sales	-	-	46	134	113	123
y-o-y change	NA	NA	NA	189%	-16%	-
Total gross sales	309	399	363	368	401	328
y-o-y change	204%	29%	-9%	1%	9%	-
Less: trade discount	-	-	-	-	(0)	-
Trade discount as % of gross sales	0%	0%	0%	0%	0%	0%
Net sales / operating income	309	399	363	368	401	328
y-o-y change	204%	29%	-9%	1%	9%	-

- Sanco's sales comprise manufacturing and trading sales. Manufacturing sales declined from ₹309 mn in FY08 to ₹288 mn in FY12 due to decline in realisations of PVC wires and cables. Sales from traded goods grew at a two-year CAGR of 55% to ₹113 mn. Traded goods include PVC resin, calcium carbonate, copper wire, aluminum wire and rods.
- As per the management, realisations declined due to increase in production of lower-value (telecom cables) against higher-value cables used in the power segment. Realisations and volumes have reported high volatility over the years.
- The company reports net sales - net of discount and duties. For our analysis, we have used net sales.

Product-wise realisations

Particulars	FY08	FY09	FY10	FY11	FY12	9M Dec 12
PVC pipe Sold (MTPA)	1,738	1,495	2,205	2,139	2,706	2,109
Sales (₹ mn)	51	77	120	117	139	107
Realisation (₹ /Kg)	29.5	51.7	54.4	54.8	51.2	50.6
PVC wires & cables sold (km)	3,020	3,363	13,219	13,801	4,228	5,434
Sales (₹ mn)	258	322	197	117	120	99
Realisation (₹ /mtr)	85	96	15	8	28	18

Sales break-down

	FY08	FY09	FY10	FY11	FY12	Dec'12
Dealers (%)	-	-	42.8	51.7	53.0	78.6
Institutional sales (%)	-	-	57.2	48.3	47.0	21.4

- Sanco sells its goods through 125 dealers, most of them located in the northern region especially Uttar Pradesh. The company plans to expand its dealer network to other regions once it expands capacity.
- Though the company initially mentioned that it has 125 dealers, the data sent highlighted close to 666. The company mentioned that while the total number of dealers may be 666, the active dealer list includes only 125.

- On an average, top three customers account for ~35% of total revenues. Of this, one client – Surbhi Broadband – has accounted for ~25% of sales on an average in the past four years. This exposes the company to concentration risk. Inability to get business from Surbhi Broadband in the future could impact its revenues.
- In the past three years (FY10 to FY12), sales through dealers and institutions has been ~50% each. However, sales through the institutional channel have decreased significantly this year so far as seen in 9M FY13 numbers.
- The company mentions Siemens, HCL and Wipro as its clients. However, sales to these clients are miniscule (just 0.1% of overall sales).

Sanco's top customers are:

Top customers (FY11)	% of total sales
Surbhi Broad Band (P) Ltd	18%
A N Manufacturing (P) Ltd	7%
Sane Electricals (P) Ltd	5%
Nirmal Traders	3%
Diyana Polyfeb Ltd	3%
Mahabali Impex (P) Ltd	2%
Finelex Cables (P) Ltd	2%
Vidit Auto Industries	2%
Kent Cables (P) Ltd	2%
Nidhi Cables (P) Ltd	2%

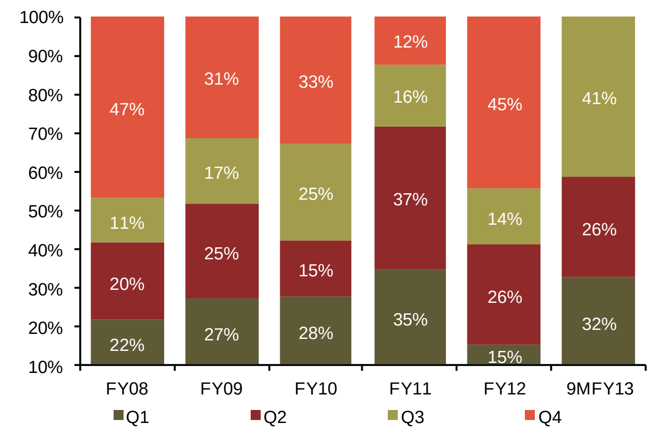
Top customers (FY12)	% of total sales
Surbhi Broad Band (P) Ltd	16%
Ghaziabad Containers (P) Ltd, Delhi	5%
Polyglass Acrylic Mfg. Co. Pvt. Ltd	4%
Nirmal Traders	3%
Vee Aar Marketing, Delhi	2%
Tayaje & Sons (P) Ltd	2%
Om Sai Trading, Gorakhpur	2%
Crosslink Wheel Electronics Pvt. Ltd	1%
Bhagwati Udyog, Delhi	1%
Dipika & Sons, Agra	1%

Top customers (Dec'12)	% of total sales
Rayban Insulation Pvt. Ltd	17%
Shri Ram Enterprises	12%
Surbhi Broad Band (P) Ltd	11%
Reliable Metal Industries	3%
Nirmal Traders	2%
Om Sai Trading, Gorakhpur	2%
Raghav Trading Company	2%
Dipika & Sons, Agra	1%
Power Links, Noida	1%
Shri Krishna Electricals	1%

Volatility in quarterly revenues

According to the management, Sanco's revenues are seasonal; Q4 (January to March) contributes the most to annual sales. This is because construction activities typically peak in Q4. The company maintains quarterly/half yearly financials. While Q4 sales as reported by the company have been 35-40% of yearly revenues, Q4FY11 contributed just 12% to overall sales. The management could not provide adequate clarifications for the same.

Volatility in quarterly revenues



Production and capacity utilisation

	FY08	FY09	FY10	FY11	FY12	Dec'12
PVC pipes & bends						
Installed capacity (MTPA)	2000	2000	3000	3000	3000	3000
Capacity utilisation (%)	86%	69%	78%	82%	86%	71%
Production (MTPA)	1,724	1,383	2,331	2,474	2,566	2,118
PVC wires & cables						
Installed capacity (km)	4,000	4,000	18,000	18,000	18,000	18,000
Capacity utilisation (%)	76%	83%	74%	78%	73%	34%
Production (km)	3,027	3,325	13,253	14,015	13,131	6,049

- Sanco's installed capacity for PVC pipes and bends is 3,000 MTPA and PVC wires and cables is 18,000 KMPA. The company increased both capacities in FY10.
  - Capacity expansion primarily comprised investment in additional space within the company's factory premises. This includes additional space for assembly operations and plant and machinery.
- The company is operating at an utilisation rate of more than 80% for PVC pipes and ~75% for PVC wires and cable. It plans to add capacity and increase it to 6,000 MTPA for pipes and 36,000 Km for wires and cables.

Raw material cost

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
PVC resin	157	131	124	137	107	97
Calcium carbonate	3	5	6	11	12	7
Plasticisers	18	53	17	11	10	12
PVC stabilisers	2	3	4	5	5	2
Copper wire	27	142	76	24	44	27
Aluminum wire	18	8	0	7	5	(0)
PVC compound	36	1	0	7	2	1
PP-R compound	-	0	0	-	-	-
Custom duty on import	10	10	19	7	9	0
Clearing exp.	0	1	0	0	0	0
Freight forward	4	5	14	7	9	3
Loading & unloading	-	-	0	0	0	0
Purchase of traded goods	-	-	44	122	96	121
Demurrages'	0	-	0	-	-	-
Packaging expenses	1	-		-	-	-
Total	277	359	307	337	299	271
As % of sales	90%	90%	85%	92%	75%	83%
Imported raw materials	0%	0%	0%			0%
Indigenous	0%	0%	0%			0%

Raw material cost per unit	FY08	FY09	FY10	FY11	FY12	Dec'12
PVC resin (₹ mn)	157	131	124	137	107	97
Volume consumed (MT)	1,604	1,387	1,266	1,339	997	1,055
Average cost per unit (₹ /MT)	98	95	98	102	107	92

	FY08	FY09	FY10	FY11	FY12	Dec'12
Imported (%)	13%	12%	41%	15%	19%	45%
Indigenous (%)	87%	88%	59%	85%	81%	55%

- Raw material cost as a percentage of sales decreased during FY08-12. The company was unable to clearly explain the same. We also believe that in case the prices of raw materials rise in the future, margins could be adversely impacted.
- The company sources raw materials locally and through imports.

Major suppliers of raw materials as of December 2012

Suppliers	Location
Hindalco Industries Ltd	India
Bhutan Cable Industries	Bhutan
Kartik Polychem	India
Siddharth Polychem (India) Pvt. Ltd	India
Noble Marketing	India
Competent Polymers (P) Ltd	India
Sonshriya polymers Pvt. Ltd	India
Shree Marketings	India

Employee cost

(₹ mn)	FY08	FY09	FY10	FY11	FY12	Dec-12
Salary	0.8	1.2	2.1	2.7	2.6	6.4
Wages	1.0	1.5	1.7	3.0	5.0	-
Director remunerations	0.8	1.3	1.5	1.2	1.3	1.1
Staff welfare	0.2	0.3	0.4	0.5	0.6	0.4
Employee contribution to PF	0.1	0.2	0.2	0.3	0.5	0.6
Employee contribution to ESI	0.0	0.1	0.1	0.1	0.2	-
Gratuity & leave encashment	-	-	-	0.4	0.3	0.5
Employee compensation expenses	-	-	-	0.2	0.0	-
Total	2.9	4.5	6.0	8.5	10.6	9.1
As % of operating income	1%	1%	2%	2%	3%	3%

	FY08	FY09	FY10	FY11	FY12	Dec-12
No. of employee	48	55	55	107	107	117
Cost per employee (₹)	61,438	82,055	108,855	79,281	99,121	77,427

- Employee cost as a percentage of sales has increased from 1% of sales in FY08 to 3% in FY12.
- Average cost per employee has decreased in the past two years in spite of increase in the number of employees. The management could not provide adequate clarifications for the same.
- According to the management, the company has historically given an average increase of 10-12% in salaries and wages. However, employee cost has increased by around 25% in FY12 mainly because of increase in wages and the number of head counts. The management attributes this to increase in labour force at the manufacturing unit.

- Promoters drew ₹1.3 mn in salary in FY12. We believe this is on the lower side and if there is an increase, profitability could be impacted

Remuneration of directors

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
Sanjay Gupta	0.4	0.5	0.6	0.6	0.6	0.5
Shakuntla Gupta	0.2	0.5	0.6	0.6	0.6	0.5
Anurag Gupta*	0.2	0.3	0.3	-	-	-
Sidhant Gupta	-	-	-	-	-	0.2
Total	**0.8**	**1.3**	**1.5**	**1.2**	**1.3**	**1.1**

*Anurag Gupta resigned on August 05, 2010

Remuneration of key managerial personnel (other than promoters - as of FY11)

Key managerial personnel	Designation	Salary (₹ mn)
Mr Vipul Singhal	CFO	0.2
Mr Randhir Singh	Marketing Manager	0.3
Mr Sunil Kaushik	Account Manager	0.2
Ms. Preeti Gupta	Company Secretary	0.1
Mr Virender Vashisht*	General Manager- Works	0.3

*Resigned

Power and other manufacturing expenses

	FY08	FY09	FY10	FY11	FY12	Dec'12
Power and fuel (₹ mn)	4	6	7	11	10	8
Power and fuel (% of sales)	0.4%	0.4%	0.6%	0.7%	0.4%	0.5%
Other manufacturing expenses (₹ mn)	2.6	1.9	2.5	1.2	3.0	2.4
Other manufacturing expenses (% of sales)	0.8%	0.5%	0.7%	0.3%	0.7%	0.7%

- Power and fuel costs (electricity charges and fuel expenses for trucks) are a small proportion of the total costs. The company has a sanction for 496 KW from Himachal Pradesh State Electricity Board (HPSEB), which is sufficient to meet its power requirements; Sanco has a DG set of 600 KVA for standby purposes such as power failure.
- Other manufacturing expenses include insurance, repairs to plant and building and others; as a percentage of sales they are negligible.

Selling, general and administrative (SG&A) & other expenses

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
Advertising and sales promotion expenses	0.2	0.5	0.7	0.1	0.3	0.0
% of sales	0.1%	0.1%	0.2%	0.0%	0.1%	0.0%
Commission on sales	0.2	1.6	2.0	2.1	0.9	0.0
% of sales	0.0%	0.4%	0.6%	0.6%	0.2%	0.0%
Cartage outward	0.1	-	-	-	-	-
% of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-offs / discounts	-	0.1	-	0.0	0.0	-
% of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0
Inspection charges	0.1	-	-	-	-	-
as % of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0
Total SG&A	**0.5**	**2.1**	**2.7**	**2.3**	**1.3**	**0.1**
% of sales	0.1%	0.7%	0.8%	0.6%	0.3%	0.0%
Other expenses	1	1	3	2	3	3
% of sales	0.3%	0.3%	0.8%	0.5%	0.7%	1.0%
Total SG&A and other expenses	2	3	6	4	4	3
% of sales	0.5%	0.8%	1.6%	1.2%	1.0%	1.0%

- SG&A expenses as a percentage of sales have declined in FY12 primarily due to decline in commission on sales. Sanco pays commission to agents for selling its product
- Other expenses include rent, legal expenses, travelling and conveyance.

EBITDA margin

As a percentage of sales	FY08	FY09	FY10	FY11	FY12	Dec'12
Raw material cost	89%	89%	83%	81%	80%	77%
Power and fuel	1%	1%	2%	3%	3%	2%
Other manufacturing expenses	1%	0%	1%	0%	1%	1%
Employee cost	1%	1%	2%	2%	3%	3%
Selling, general and administrative expenses	0%	1%	2%	1%	1%	1%
Total cost	93%	93%	89%	88%	86%	84%
EBITDA margin	7.2%	7.1%	10.7%	12.0%	13.5%	16.1%

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- Sanco's EBITDA margin has increased over FY08-12 despite an increase in the contribution of the low-margin trading business to sales (up from 13% in FY10 to 37% in 9MFY13). According to the company, EBITDA margin increased because of i) rise in prices of PVC resin leading to inventory gains and ii) efficient allocation of raw materials between local and overseas sources. However, according to our industry research, the prices of PVC resin have not increased at a rate leading to such an inventory gain. Also, there was no pattern of procuring raw material between indigenous and imported sources.

	FY08	FY09	FY10	FY11	FY12	Dec'12
Imported as % of total raw material	13%	12%	41%	15%	19%	45%
Indigenous as % of total raw material	87%	88%	59%	85%	81%	55%

Interest cost

The following table illustrates the break-down of interest cost over the period under review:

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
Interest to banks	5	7	12	13	15	12
Interest to others					2	4
Bank charges	1	1	2	1	2	2
Forex gain/(loss)	-	-	-	-	2	2
Total	**6**	**8**	**15**	**14**	**21**	**21**

- Given the stretched working capital loan, interest expense has increased significantly from FY08 to FY12. Total debt has increased from ₹49 mn in FY08 to ₹179 mn in FY12 and ₹154 mn as of December 2012.

Depreciation

	FY08	FY09	FY10	FY11	FY12	Dec'12
Depreciation expense (₹ mn)	3.5	3.9	3.7	4.1	4.2	3.0
Depreciation expense (% of sales)	1.1%	1.0%	1.0%	1.1%	1.0%	0.9%
Gross block (₹ mn)	34	36	42	47	50	49
Depreciation rate (% of average gross block)	7.0%	10.3%	11.3%	9.5%	9.1%	8.5%

- Depreciation expense increased marginally from ₹3.5 mn in FY08 to ₹4.2 mn in FY12 because of investments in plant and machinery, furniture and fixtures and vehicles. Depreciation on all fixed assets is provided on the written-down value method.

Tax rate and net income

- The company's manufacturing facility in Himachal Pradesh enjoys income tax benefit offered by the State Government of Himachal Pradesh. It has got 100% outright excise duty exemption for 10 years from the date of commencement.
- It also enjoys income tax exemption; 100% income tax exemption for an initial period of five years starting FY08 and thereafter 30% income tax holiday for the next five years starting FY13.
- The company, however, is liable to pay MAT.
- Central sales tax is 1% until 2012 and 75% transport subsidiary is available until further change.

	FY08	FY09	FY10	FY11	FY12	Dec'12
Profit before tax (₹ mn)	15	17	21	26	30	30
Profit before tax (% of sales)	4.9%	4.3%	5.9%	7.1%	7.4%	9.0%
Tax (₹ mn)	1.8	1.9	3.6	5.2	(0.0)	7.2
Effective tax rate (₹ mn)	12.0%	11.4%	16.9%	20.1%	-0.2%	24.3%
Net profit (₹ mn)	13.4	15.0	17.8	20.8	29.7	22.5

- Sanco's PBT margin has improved in line with EBITDA margin. It has expanded from 4.9% in FY08 to 7.4% in FY12 and 9.0% in December 2012.
- Net profit has increased at a four-year CAGR of 22% from ₹13 mn in FY08 to ₹33 mn in FY12 and ₹22 mn as of December 2012. The increase in PAT is attributed to:
  - Lower tax outgo on account of tax holiday availed by the company.
  - Increase in operating profit.

However, PAT margin is expected to decline going forward as income tax benefit of 100% will get moderated to 30% from FY13 onwards.

Balance Sheet Analysis

(₹ mn)	FY08	FY09	FY10	FY11	FY12	Dec'12
Liabilities						
Equity share capital	30	30	60	60	60	62
Others	-	-	-	(4)	(6)	(6)
Reserves and surplus	20	35	23	44	77	101
Net worth	50	65	83	100	131	157
Convertible debt	-	-	-	-	-	-
Other debt	49	83	123	93	179	154
Total debt	49	83	123	93	179	154
Deferred tax liability (net)	1	1	1	1	1	1
Total liabilities	100	149	206	193	310	312
Assets						
Net fixed assets	29	26	29	31	29	26
Capital WIP	-	-	-	2	3	3
Total fixed assets	29	26	29	33	32	29
Investments	4	9	2	3	39	43
Current assets						
Inventory	17	28	44	77	71	84
Sundry debtors	81	150	158	113	205	213
Loans and advances	5	5	4	5	70	33
Cash & bank balance	1	1	1	3	1	3
Marketable securities	-	-	-	-	-	-
Total current assets	103	183	207	198	347	333
Current liabilities						
Creditors	34	67	29	36	102	88
Provisions	2	2	4	6	6	6
Total current liabilities	36	69	33	41	109	94
Net current assets	67	114	175	157	238	239
Intangibles/Misc. Expenditure	-	-	-	-	-	-
Total assets	100	149	206	193	310	312

Particulars	FY08	FY09	FY10	FY11	FY12	Dec'12
Activity ratios						
Inventory days	20	25	44	77	65	94
Creditors days	41	61	29	35	93	98
Debtor days	96	137	159	112	186	236
Working capital days	79	104	175	153	216	263
Gross asset turnover (x)	9.1	11.4	9.3	8.2	8.2	6.6
Net asset turnover (x)	10.8	14.5	13.0	12.2	13.3	11.8
Sales/operating assets (x)	10.8	14.5	13.0	11.8	12.2	10.6
Liquidity ratio						
Current ratio (x)	2.9	2.7	6.4	4.8	3.2	3.5
Capital structure ratios						
Debt-equity (x)	1.0	1.3	1.5	0.9	1.4	1.0
Net debt/equity (x)	1.0	1.3	1.5	0.9	1.4	1.0
Interest coverage	3.4	3.1	2.4	2.8	2.4	2.4
Profitability / return ratios						
EBITDA margin (%)	7.2	7.1	10.7	12.0	13.5	16.1
Adj PAT Margin (%)	4.3	3.8	4.9	5.6	7.4	6.8
RoE (%)	30.6	25.9	24.0	22.7	25.8	15.6
RoCE (%)	22.3	19.8	19.8	20.1	20.0	16.1

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Equity share capital

- The company increased its share capital from ₹30 mn in FY08 to ₹60 mn in FY10. It issued bonus shares in the ratio 1:1 on March 30, 2010.
- In FY13, the company issued 0.17 mn shares at a premium of ₹20 per share to the promoters.

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
Share capital	30	30	60	60	60	62
Share premium	-	-	-	-	-	3
Reserves & surplus	20	35	23	40	71	92
Shareholders' funds	**50**	**65**	**83**	**100**	**131**	**157**

Share allotment history

Allotment details	Number of shares allotted	Total consideration for allotment (₹ mn)	Face value (₹)	Issue price (₹/share)
Bonus issue 1 bonus share for each equity share 30.03.2010	3,00,000	NA	10	10
Allotment on June 19, 2012 to Mr Sanjay Gupta (promoter)	23,500	0.7	10	30
Allotment on June 19, 2012 to Mr O P Gupta (promoter group)	16,500	0.5	10	30
Allotment on June 19, 2012 to Mrs Shakuntla Gupta (promoter)	8,400	0.3	10	30
Allotment on June 19, 2012 to Mrs Rita Gupta (promoter group)	25,000	0.8	10	30
Allotment on June 19, 2012 to Mrs Rita Gupta (promoter)	19,100	0.6	10	30
Allotment on June 19, 2012 to Mr Sanjay Gupta HUF(promoter)	50,800	1.5	10	30
Allotment on June 19, 2012 to M/s Sanco Enterprises (P) Ltd (promoter group)	26,700	0.8	10	30

Borrowings

Details of the company's borrowings

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
Term loan	6	7	6	1	-	-
Vehicle loan	1	1	1	1	2	2
Other loan term loan	-	2	10	7	3	23
Loans due within 12 months	6	8	36	12	4	10
Working capital loan	36	65	71	72	100	106
Loan from TATA Capital- Short term	-	-	-	-	23	14
ICDs	-	-	-	-	47	-
Total loans	**49**	**83**	**123**	**93**	**179**	**154**

- **Interest-free loans from other companies:** Sanco raised ₹47 mn via interest-free ICDs in FY12 for expansion, which could not materialize. The company has repaid ICDs in the current fiscal. Among lenders, none of the companies were directly or indirectly related to the promoter, but they gave interest-free loans.

Company	₹ mn
Anurag Ferro Products (P) Ltd	12
Bellisma Impex	15
Dhanlaxmi Merchandise (P) Ltd	8
Madonis Vyapar (P) Ltd	3
Mangalmayee Hirise (P) Ltd	5
Pushpandant Infrastructure Ltd	3
Rajani Investment (P) Ltd	3
Total	**47**

- **Working capital loan:** The working capital loan of ₹100 mn has been taken from various banks. (For details, please refer to Appendix 1)
- **Term loans:** Term loans represent the secured term loan taken from various banks and financial institutions. (For details, please refer to Appendix 1)
- **Hire purchase loans** Hire purchase loans represent vehicle financing obtained from HDFC Bank, BMW Financials and others. (For details, please refer to Appendix 1)

Fixed assets

Composition of net fixed assets

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
Land	1.4	1.4	1.4	1.4	1.4	1.4
Land & building	1.8	1.7	1.7	1.7	1.7	1.7
Factory building	8.2	7.6	7.7	6.9	6.3	5.8
Plant & machinery	15.4	13.4	16.4	18.0	15.9	14.2
Furniture & fixture	0.03	0.02	0.02	0.02	0.01	0.01
Office equipment	0.1	0.1	0.1	0.6	0.5	0.5
Vehicles	1.6	2.1	2.1	2.2	3.7	2.9
Computer software	-	-	-	-	0.0	0.0
Total assets	**29**	**26**	**29**	**31**	**29**	**26**
CWIP	-	-	-	2	3	3

- Sanco's assets primarily comprise plant, machinery and factory building. The installed capacity for PVC pipes and bends is 3,000 MTPA and for PVC wires and cables is 18,000 KMPA
- Fixed assets are stated at actual cost less accumulated depreciation. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Depreciation on all fixed assets is provided on the written-down value method as per the rates and in the manner specified in Scheduled XIV of the Companies Act, 1956.

Intangibles

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
Computer software	-	-	-	-	0.01	0.1

- Computer software includes software for filling online income tax and RoC returns.

Investments

	FY08	FY09	FY10	FY11	FY12	Dec'12
Investments (₹ mn)	4	9	2	3	39	43
As % of net worth	8	13	3	3	30	28

- Investments include fixed deposits with banks and investments in three private companies.

(₹ mn)		FY08	FY09	FY10	FY11	FY12
A R Com Pvt. Ltd	-	-	-	-	5	5
S D Portfolio Pvt. Ltd	-	-	-	-	10	10
UKB Electronics Ltd	-	-	-	-	20	20
FD with banks	4	9	2	3	4	8
Total	**4**	**9**	**2**	**3**	**39**	**43**
As % of net worth	**8%**	**13%**	**3%**	**3%**	**30%**	**28%**

- The total investment made in these companies (₹35 mn) is ~23% of the Sanco's net worth. We believe that Sanco made these investments without proper assessment of business model and financials of these companies. As per the management, these investments are made with a view to get good returns. Also, we were told that these companies are in a similar line of business. However, these companies are not in similar business. Also coincidentally, the auditor of AR Com Pvt. Ltd and S D Portfolio Pvt. Ltd is the same - Raj Gupta & Associates, who was also Sanco's auditor until FY12.
- Two out of these three companies were not generating sufficient returns. As per the management, they have sold off these investments to a third party at a price at which they acquired and hence there was no profit or loss made on the sale of these investments. In case the company does similar kind of investments in future it could be a risk.

Company	Business
A R Com Pvt. Ltd	Trading of dry fruits, grocery items & spices
S D Portfolio Pvt. Ltd	Real estate
UKB Electronics Ltd	Electronics

- Financial performance of companies in which Sanco has made investments are:

A R Com			S D Portfolio			UKB Electronics		
₹ mn	FY11	FY12	₹ mn	FY11	FY12	₹ mn	FY11	FY12
Sales	0.02	225.20	Sales	-	15.40	Sales	1,040.8	1,015.1
EBITDA	0.01	2.28	EBITDA	-	0.04	EBITDA	32.3	38.1
margin	29.3%	1.0%	margin	0.0%	0.3%	margin	3.1%	3.8%
PAT	0.00	0.15	PAT	0	0.0	PAT	12.3	13.1
margin	9.0%	0.1%	margin	0.0%	0.1%	margin	1.2%	1.3%
RoCE	2.1%	1.8%	RoCE	0%	0%	RoCE	5.0%	4.2%
RoE	1.5%	0.3%	RoE	0%	0%	RoE	6.2%	4.6%

Inventories

	FY08	FY09	FY10	FY11	FY12	Dec'12
Sales (₹ mn)	309	399	363	368	401	328
Inventory (₹ mn)	17	28	44	77	71	84
Inventory days (based on sales)	20	25	44	77	65	94

- An overview of Sanco's inventory is as follows:

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
Raw material	13	21	17	29	36	38
Finished goods	4	7	11	49	29	46
Stock in trade	-	-	16	0	7	0
Goods in transits	-	-	-	-	-	-
Total	**17**	**28**	**44**	**77**	**71**	**84**

- As of December 2012, Sanco's inventory days (on sale basis) were 61 days as compared to 65 days in FY12.
- Inventory of raw material, stock of finished goods and stock in trade are valued at lower of cost or net realisable value. FIFO is used for determining the historical cost.

Sundry debtors

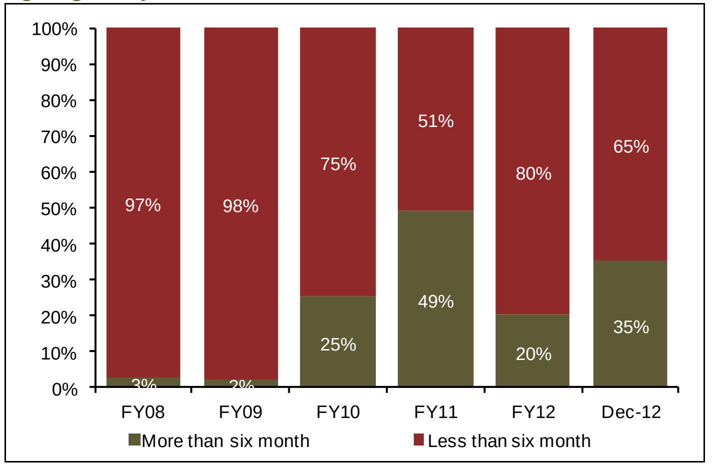
	FY08	FY09	FY10	FY11	FY12	Dec'12
Sales (₹ mn)	309	399	363	368	401	328
Debtors (₹ mn)	81	150	158	113	205	213
Debtor days	96	137	159	112	186	236

- Sundry debtors mainly include amount receivable from dealers. As of December 2012, debtor outstanding for more than six months is ₹75 mn, which is 35% of total debtors.
- Debtors are on a higher side compared to the payment terms that the company has with its dealers (60-90 days) and institutional clients (45-60 days). However, debtor days as seen in the balance sheet are much higher as can be seen in the table above.
- According to the company, high debtor days are because a large portion of sales is in Q4 (January to March). However, we found the following:

- Debtors for FY11 is ₹113 mn, which is much higher than Q4FY11 sales of ₹45 mn. As most of the collections happen within 80-90 days, receivables until Q3FY11 should have been cleared by March 2011, which means sales posted in Q4FY11 were pending to be received. Therefore, debtors should have been in the range of Q4FY11 sales i.e.₹45 mn.
- Similarly, in FY10, Q4 sales were ₹119 mn whereas debtors at the end of the quarter were ₹158 mn.

■ Due to lack of strong internal control and MIS, the company was not able to give us satisfactory explanation for changes in list of top-10 customers and top-10 debtors

Ageing analysis of debtors



Loans and advances

Long-term loans and advances (₹ mn)	FY08	FY09	FY10	FY11	FY12	Dec'12
VAT Receivable	1	4	2	1	-	0
Deposits	1	1	2	0	0	0
Pre-paid expenses	-	0	0	0	-	0
Advance Tax (MAT Credit)	0	0	0	1	10	8
Total	**2**	**5**	**4**	**2**	**10**	**9**

Short-term loans and advances (₹ mn)	FY08	FY09	FY10	FY11	FY12	Dec'12
Advances recoverable in cash/kind	3	1	0	1	35	1
Advances to supplier	-	0	0	2	24	24
Special duty receivable	-	-	-	0	1	
Pre-paid expenses	-	0	0	0	-	0
Accrued interest	-	-	-	-	-	0
Total	**3**	**1**	**0**	**3**	**60**	**25**

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- Advance recoverable in cash/kind in FY12 includes advance of ₹35 mn paid to CPR Capital for the purchase of new office premises in Delhi. The company had plans for an IPO in FY12 with the objective of capacity expansion, diversification in the copper segment and to set up a new office. However, due to unfavorable market conditions the IPO could not happen. The company has been paid back the advance of ₹35 mn by CPR Capital in May 2012.
- Long-term loans and advances increased in FY12 and December 2012 due to MAT credit entitlement. Since the company operates in a tax-exempt zone, it is exempted from income tax until FY17.

Cash and bank

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
Cash on hand	0	0	0	3	1	0
Current account balance	1	0	1	-	0	2
Balances with banks to the extent held as margin money						
Total	**1**	**1**	**1**	**3**	**1**	**3**

- Sanco had ₹3 mn in cash and ₹2 mn in current accounts with Central Bank of India and SBI as on December 31, 2012. During FY11, the current account had a credit balance of ₹0.9 mn.

Creditors

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
Creditors for goods	34	66	27	33	98	83
Sundry advances from parties	0	0	0	1	0.4	1
Expenses payable	0	0	2	2	4	3
Total	**34**	**67**	**29**	**36**	**102**	**88**

- Creditors include creditors for goods and expenses.
- Sundry advances from parties include advances received from customers but sales have not happened during the fiscal. We understand that the company takes advances from some of its customers/dealers.

Top suppliers (FY11)	% of total
Ameeja Enterprises	2
Arti Chemical Industries	1
Devansh Chemicals (P) Ltd	3
Diyana Polyfeb Ltd	9
Formosa Plastics Corporation, Taiwan	75
Rishiroop Chemical Co (P) Ltd	4
Shree Marketing	2
Silvassa Plast	2
Standard Polyvinyls	1
Synergy Poly Additives (P) Ltd	1

Top suppliers (FY12)	% of total
M/s Ameeja Enterprises	1
Bhairav Polymers	1
Bhutan Cable Industries (P) Ltd	24
Competent Polymers (P) Ltd	1
Devansh Chemicals (P) Ltd	1
Formosa Plastics Corporation, Taiwan	10
L G Chem Ltd, South Korea	10
Sakshi Markfin (P) Ltd	14
Shree Marketings	2
Standard Polyvinyls	32

Top suppliers (Dec'12)	% of total
Bhutan Cable Industries (P) Ltd	21
Competent Polymers (P) Ltd	3
Hindalco Industries Ltd	38
Kartik Polychem (P) Ltd	10
Noble Marketing	7
Shree Marketings	2
Siddharth Polychem (India) Pvt. Ltd	9
Sonshriya Polymers Pvt. Ltd	3

Provisions

₹ mn	FY08	FY09	FY10	FY11	FY12	Dec'12
Provision for income tax	2	2	4	5	6	5
Provision for gratuity & leave encashment	-	-	-	0	1	1
Total	2	2	4	6	6	6

- Provision for income tax amounted to ₹5 mn as on December 31, 2012.

Other Matters

Contingent liabilities

- As per the information provided to us, there are no significant claims, pending or threatened litigations against the company in the latest available period.

Other related party transactions

- Sanco's purchase of goods from related parties includes purchase of wires and cables from group companies, primarily Superlink Polyfeb Ltd and sales to group company Sanco Enterprises.
- Rent to KMP includes rent paid to Mrs Shankuntala Gupta and Mrs Rita Gupta for office premises.

Nature of transaction	FY08	FY09	FY10	FY11	FY12	Dec'12
Rent to KMP (₹ mn)	-	-	-	-	0.6	0.5
Loan from KMP (net- ₹ mn)	-	-	-	-	-	-
Loan from group companies (net - ₹ mn)	-	-	22.7	(0.6)	-	-
Commission paid to group companies (₹ mn)	0.1	0.6	1.0	-	-	-
Interest paid to group companies (₹ mn)	-	-	2.9	-	-	-
Purchases from group companies (₹ mn)	-	6.9	-	-	-	-
Sales from group companies (₹ mn)	4.5	5.9	-	-	-	-

Appendix

Appendix 1: Summary of loan agreements

Lender	Nature of Loan	Amount Sanctioned (₹ mn)	Primary security	Collateral Security	Balance as at Dec'12 (₹ mn)	Interest rate	No. of EMI	Amount of EMI (₹ mn)	Starting date of Re-payment
Central Bank of India, Delhi	Working capital	Fund base 100 non-fund 90	Hypothecation of stocks, debtors, & all other current assets	1) Equitable mortgage of factory land and building in the name of company at Village Sattiwala, Pantola Sahib District 2) Equitable mortgage of commercial property no. 51, block no. 9, Bazar Gali, Delhi 3) Equitable mortgage of resident. House of Mrs Shakuntla Gupta and Mrs Rita Gupta in Delhi 4) Personal guarantee of Mr Sanjay Gupta, Mr Sidhant Gupta, Mr O P Gupta and Mrs Rita Gupta	105.7	13.00%	NA	NA	NA
Small Industries Corporation (Delhi)	Working capital under raw material assistance scheme	10	Bank guarantee of limit sanctioned	NA	9.5	13.40%	NA	NA	NA
SIDBI, Okahla	Machinery term loan	2.78	First charge by way of hypothecation of all plant and machinery financed under project loan amounting ₹2.78 mn	NA	0.2	11.50%	48	0.006	NA
SIDBI, Okahla	Machinery term loan	3.33	First charge by way of hypothecation of all plant and machinery financed under project loan for amounting ₹3.33 mn	NA	1.5	11.50%	60	0.004	NA
HDFC Bank	Hire purchase	0.316	Hypothecation of vehicle under finance	Nil	0.2	13.00%	36	0.011	5th June 2011

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Lender	Nature of Loan	Amount Sanctioned (₹ mn)	Primary security	Collateral Security	Balance as at Dec'12 (₹ mn)	Interest rate	No. of EMI	Amount of EMI (₹ mn)	Starting date of Re-payment
HDFC Bank	Hire purchase	0.342	Hypothecation of vehicle under finance	Nil	0.3	12.00%	60	0.008	5th June 2011
BMW Financial Services	Hire purchase	2.0	Hypothecation of vehicle under finance	Nil	1.7	10.84%	60	0.043	1st January 2012
LIC of India	Loan against Keyman policy	8.523	Nil	Secured with Keyman policy bonds worth ₹25 mn	9.0	9.50%	NA	NA	NA

Appendix 2: Key managerial personnel

Name	Age (years)	Designation	Date of joining	Qualification	Experience (years)	Salary (₹ mn)
Mr Vipul Singhal	28	CFO	December 17, 2007	M.B.A (Marketing & Finance)	3	0.2
Mr Randhir Singh	41	Marketing Manager	March 05, 2003	MA (English)	10	0.3
Mr Sunil Kaushik	36	Account Manager	September 01, 2001	B.Sc , Diploma in Financial Accounting	10	0.2
Ms Preeti Gupta*	28	Company Secretary & Compliance Officer	May 11, 2011	C. S., B Com	2	0.1
Mr Virender Vashisht#	50	General Manager- Works	April 01, 2008	B Com	10	0.3

*Joined as Assistant Company Secretary and promoted to Company Secretary & Compliance Officer

Resigned

Income statement

(₹ mn)	FY08	FY09	FY10	FY11	FY12	Dec-12
Operating income	**309**	**399**	**363**	**369**	**401**	**328**
EBITDA	**22**	**28**	**39**	**44**	**54**	**53**
EBITDA margin	**7.2%**	**7.1%**	**10.7%**	**12.0%**	**13.5%**	**16.1%**
Depreciation	3	4	4	4	4	3
EBIT	19	25	**35**	**40**	**50**	**50**
Interest	6	8	15	14	21	21
Operating PBT	13	17	**21**	**26**	**29**	**29**
Other income	2	0	1	0	1	0
Exceptional inc/(exp)	0	-	(0)	0	4	(1)
PBT	15	17	**21**	**26**	**33**	**28**
Tax provision	2	2	4	5	(0)	7
Minority interest	-	-	-	-	-	-
PAT (Reported)	**13.4**	**15.0**	**17.4**	**20.8**	**33.3**	**21.0**
Less: Exceptionals	0	-	(0)	0	4	(1)
Adjusted PAT	**13.4**	**15.0**	**17.8**	**20.8**	**29.7**	**22.5**

Ratios

	FY08	FY09	FY10	FY11	FY12	Dec-12
Growth						
Operating income (%)	204.1	29.0	(9.0)	1.6	8.7	(18.1)
EBITDA (%)	109.4	27.2	36.4	13.6	23.2	(2.6)
Adj PAT (%)	227.6	12.2	18.3	17.0	43.0	(24.5)
Adj EPS (%)	227.6	12.2	(40.8)	17.0	43.0	(26.5)
Profitability						
EBITDA margin (%)	7.2	7.1	10.7	12.0	13.5	16.1
Adj PAT Margin (%)	4.3	3.8	4.9	5.6	7.4	6.8
RoE (%)	30.6	25.9	24.0	22.7	25.8	15.6
RoCE (%)	22.3	19.8	19.8	20.1	20.0	16.1
RoIC (%)	25.4	19.7	19.4	18.1	22.7	16.3
B/S ratios						
Inventory days	20	25	44	77	65	94
Creditors days	41	61	29	35	93	98
Debtor days	96	137	159	112	186	236
Working capital days	79	104	175	153	216	263
Gross asset turnover (x)	9.1	11.4	9.3	8.2	8.2	6.6
Net asset turnover (x)	10.8	14.5	13.0	12.2	13.3	11.8
Sales/operating assets (x)	10.8	14.5	13.0	11.8	12.2	10.6
Current ratio (x)	2.9	2.7	6.4	4.8	3.2	3.5
Debt-equity (x)	1.0	1.3	1.5	0.9	1.4	1.0
Net debt/equity (x)	1.0	1.3	1.5	0.9	1.4	1.0
Interest coverage	3.4	3.1	2.4	2.8	2.4	2.4

Per share

	FY08	FY09	FY10	FY11	FY12	Dec-12
Adj EPS (₹)	4.5	5.0	3.0	3.5	5.0	3.6
CEPS	5.6	6.3	3.6	4.1	5.6	4.1
Book value	16.8	21.8	13.8	16.7	21.8	25.4
Dividend (₹)	-	-	-	-	-	-
Actual o/s shares (mn)	3.0	3.0	6.0	6.0	6.0	6.2

Balance Sheet

(₹ mn)	FY08	FY09	FY10	FY11	FY12	Dec-12
Liabilities						
Equity share capital	30	30	60	60	60	62
Reserves	20	35	23	40	71	95
Minorities	-	-	-	-	-	-
Net worth	**50**	**65**	**83**	**100**	**131**	**157**
Convertible debt	-	-	-	-	-	-
Other debt	49	83	123	93	179	154
Total debt	**49**	**83**	**123**	**93**	**179**	**154**
Deferred tax liability (net)	1	1	1	1	1	1
Total liabilities	**100**	**149**	**206**	**193**	**310**	**312**
Assets						
Net fixed assets	29	26	29	31	29	26
Capital WIP	-	-	-	2	3	3
Total fixed assets	**29**	**26**	**29**	**33**	**32**	**29**
Investments	4	9	2	3	39	43
Current assets						
Inventory	17	28	44	77	71	84
Sundry debtors	81	150	158	113	205	213
Loans and advances	5	5	4	5	70	33
Cash & bank balance	1	1	1	3	1	3
Marketable securities	-	-	-	-	-	-
Total current assets	**103**	**183**	**207**	**198**	**347**	**333**
Total current liabilities	**36**	**69**	**33**	**41**	**109**	**94**
Net current assets	**67**	**114**	**175**	**157**	**238**	**239**
Intangibles/Misc. expenditure	-	-	-	-	**0**	**0**
Total assets	**100**	**149**	**206**	**193**	**310**	**312**

Cash flow

(₹ mn)	FY08	FY09	FY10	FY11	FY12	Dec-12
Pre-tax profit	15	17	21	26	30	30
Total tax paid	(2)	(2)	(4)	(5)	0	(7)
Depreciation	3	4	4	4	4	3
Working capital changes	(26)	(47)	(60)	20	(83)	1
Net cash from operations	**(9)**	**(28)**	**(39)**	**45**	**(49)**	**27**
Cash from investments						
Capital expenditure	(3)	(2)	(7)	(8)	(3)	0
Investments and others	(4)	(4)	7	(1)	(36)	(4)
Net cash from investments	**(7)**	**(6)**	**(0)**	**(9)**	**(40)**	**(4)**
Cash from financing						
Equity raised/(repaid)	-	-	30	-	-	5
Debt raised/(repaid)	16	34	40	(30)	86	(25)
Dividend (incl. tax)	-	-	-	-	-	-
Others (incl extraordinaries)	0	0	(30)	(4)	1	(1)
Net cash from financing	**16**	**34**	**39**	**(34)**	**87**	**(21)**
Change in cash position	(0)	0	0	2	(2)	2
Closing cash	1	1	1	3	1	3

Appendix 3: Shareholding pattern of key related entities

Shareholding pattern of Sanco Enterprises Pvt. Ltd as of March 2012

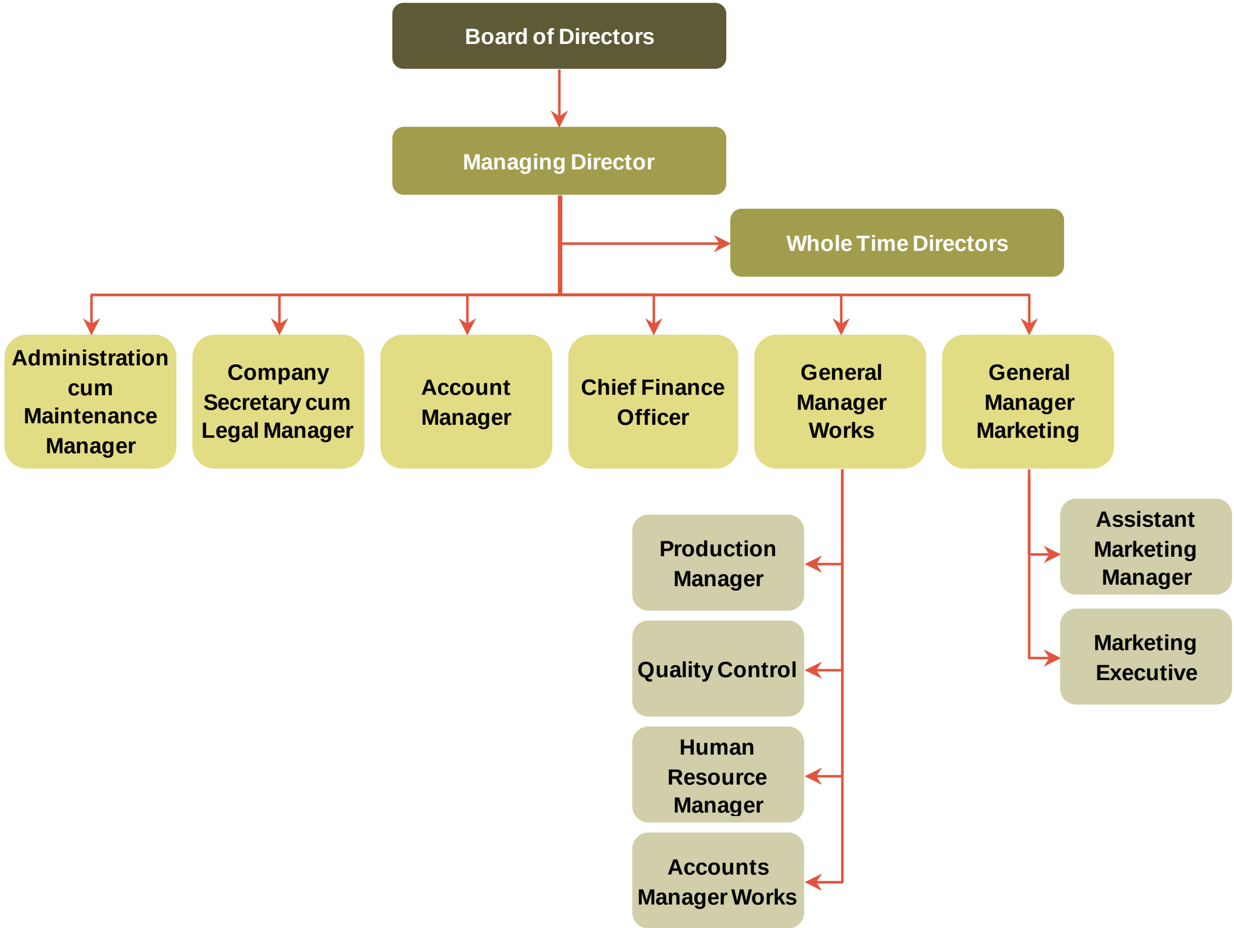
Name	Holding as % of total outstanding shares
Rita Gupta	18.8
Shakuntla Gupta	20.7
Sanjay Gupta	17.7
Om Prakash Gupta	17.5
Sidhant Gupta	7.1
Anil & Shikha Sharma	15.8
Mansi Gupta	1.5
Anil Kumar Sharma	1.0
Total	**100**

Shareholding pattern of Superlink Polyfeb Ltd as of December 2012

Name	Holding as % of total outstanding shares
Manoj Jain	14.5
Manoj Jain & Sons (HUF)	1.0
Manish Jain	3.4
Anshu Jain	0.5
Alka Jain	7.2
Sanjay Jain	0.4
Shaibala Jain	6.5
Preeti Jain	0.5
Rajeev Jain	0.5
Sanjeev Jain	0.5
Arun Jain	0.5
Satish Chand Jain	1.0
Rahul Jain	0.8
Vaibhav Jain	0.3
Gaurav Jain	1.5
Mudit Jain	2.2
Akriti Jain	1.4
Kavita Jain	1.8
Chopra Agri & property ltd	1.1
Total (a)	**45.5**
Sanjay Gupta	1.1
Om Prakash Gupta	10.9
Sidhant Gupta	0.8
Mansi Gupta	0.2
Rita Gupta	5.3
Shakuntla Gupta	4.2
Anurag Gupta	5.7
Seema Jain	1.3
Sanjay Gupta (HUF)	5.0
Sikha Sharma	0.3
Anil Sharma	14.2
Sadhna Singhal	5.4
Total (a)	**54.5**
Total (a+b)	**100**

Note:
Mr Sanjay Gupta has been disassociated from business related activities of Superlink Polyfeb since July 10, 2010 but remains a shareholder of the company

Appendix 4: Organisational structure



Disclaimer / Important notice

This Company Analysis and FDD Report is based on the limited scope of financial due diligence of Sanco Industries Ltd ("the Company"). The Scope of Work covering the procedures to be performed for financial due diligence of the Company is defined below. In this Report, we may choose to not include matters that we believe to be insignificant. There may be matters, other than those noted in this Report, which might be relevant in the context of the issue and which a wider scope might uncover. The financial due diligence is based on the audited standalone financial statements for FY08, FY09, FY10, FY11, FY12 and December 2012.

The Report has been issued on the understanding that the Company's management has drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on our Report upto the date of this Report. Additionally, we have no responsibility to update this Report for events and circumstances occurring after this date.

Our work does not constitute recommendations about the completion of the operation. This Report also does not constitute an audit in accordance with the Audit Standards and we have not independently verified all the matters discussed in this Report and have relied on the explanations and information as given by the management (verbal as well as written) of the Company. We have assumed the genuineness of all signatures and the authenticity of all documents submitted to us, whether original or copies. In this regard, management of the Company is responsible for the proper recording of transactions in the books of account and maintaining an internal control structure sufficient to permit the preparation of reliable financial information, including financial accounts. Consequently, we do not express an opinion on the figures and other information included in this Report. CRISIL does take any responsibility towards the usage of the Report in any form.

The information and conclusions of this Report should not be the basis for the listing or for any investor to place a value on the business of the Company or to make a decision whether to acquire or invest in the Company. Our due diligence and analysis should not be construed as investment advice; specifically, we do not express any opinion on the suitability or otherwise of entering into any transaction in this regard. We accept no responsibility for matters not covered by the Report or omitted due to the limited nature of our analysis. The future plans of the Company, if any, are as informed to us by its Management. We do not have any view on the same.

Scope of Work

The limited scope of coverage of the Company Analysis and Financial Due diligence Report would be:

i) Study of the financial statements of the Company for the financial periods ended March 31, 2008, March 31, 2009, March 31, 2010, March 31, 2011 and March 31, 2012 and December 31, 2012 ("Historical Period").

ii) Review and comment on the reasonability and consistency of significant accounting policies adopted

iii) Highlight significant matters in internal audit reports, audit committee reports and RBI audit reports

iv) Analyze quality of earnings with particular focus on:

  a) recurring versus non-recurring transactions (income and expenditure)

  b) changes in accounting policies

  c) impact of related party transactions, if any.

v) Analyze the key drivers of revenue and margin growth with particular reference to:

  a) price and volume changes of key products

  b) geographical distribution

vi) Comments on the branch distribution network. Highlight significant issues in the lease rent agreement.

vii) Analysis of selling costs and marketing overheads.

viii) Analysis of interest cost and depreciation expense.

ix) Analysis of variances in significant administrative overheads.

x) Analysis of movement in head count and employee costs during the reporting period.

xi) Highlight the movement of debtors over the past four years.

xii) Analysis of the cost sheet and comment on the movements in the costs over the Historical Period

xiii) Analysis of historical trends in capex. Based on discussion with management, comment if there has been any deferred maintenance/replacement capex.

xiv) Analysis of the basis of capitalization and components of costs such as borrowing costs, pre-operative expenditure, exchange fluctuations, etc.

xv) Summarise details of investments held, highlighting investments in related entities, if any.

xvi) Analysis of the trends in working capital during the reporting period.

xvii) Analysis of and comment on the ageing profile of receivables and inventories. Inquire into provisioning policy and comment on provisions for uncollectible amounts and write-offs.

xviii) Analysis of the basis of inventory valuation. (physical verification of inventories will not be conducted)

xix) Comment on other current assets, loans and advances and major creditors. Comment on recoverability and provisioning for uncollectible amounts.

xx) Comment on the current liabilities including accounts payable and provisions/accruals.

xxi) Obtaining bank reconciliations for key accounts and comment on reconciling items.

Commitments, contingencies and litigation

xxii) Highlight significant claims, pending or threatened litigations against the company at latest available period, after discussions with the Management of the Company their views on the likely outcome of the cases/claims.

xxiii) Highlight significant guarantees, performance bonds, letters of comfort or similar documents of assurance and any indemnities provided by / or for the benefit of the Company, including details of such guarantees, etc given by the company for the period under review.

xxiv) Status of tax claims and disputes thereof, if any.

Related party transactions

xxv) Highlight major related party transactions and comment on recoverability / payment of balance due from / to related parties at period end.

xxvi) Comment on key financial terms and conditions of such related party transactions after discussions with the Management.

The following areas (indicative list) are excluded from the scope of the Report.

1) Valuation of the Issuer's business

2) Human Resource review

3) Technical and Commercial Due Diligence

4) Legal and Tax Due Diligence

5) IT review and risk management

6) Physical verification and valuation of fixed assets, inventories and other current assets

7) Third-party confirmations, meetings with suppliers/customers

8) Environmental compliances

9) Overview of the Supply Chain Management

10) Actuarial valuation of the company's retirement benefit arrangements

11) Checking of accounting records

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About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

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CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macro economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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