

Company Analysis and Financial Due Diligence

March 2015

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To,
Mr Jayesh Taori,
National Stock Exchange of India Ltd
Exchange Plaza,
Plot No. C/1, G Block,
Bandra - Kurla Complex
Bandra (E)
Mumbai - 400051

Date: March 13, 2015

Dear Sir,

We refer to your recent meeting with us when you requested us to provide to you a Company Analysis and Financial Due Diligence Report ("FDD Report") covering the limited scope as mentioned in the annexure below and for the purpose of potential listing of Shaival Reality 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 March 13, 2015. 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 / the 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 internal use only of the NSE and should not be used for purpose 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 Shaival Reality Ltd.

Yours faithfully,

For CRISIL Ltd

Prasad Koparkar

Senior Director – CRISIL Research

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Glossary of terms

AS – Accounting standards	MAT – Minimum alternative tax
bps – Basis points	MIS – Management information system
Capex – Capital expenditure	NDA – Non disclosure agreement
CAGR – Cumulative average growth rate	PAT – Profit after tax
CC – Cash credit	PBT – Profit before tax
COGS – Cost of goods sold	RM – Raw materials
CWIP – Capital work in progress	sq ft – Square feet
DRHP – Draft Red Herring Prospectus	y-o-y – year-on-year
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	

Company Analysis

Company background

Incorporated in 1996 as a private limited company, Shaival Reality Ltd is a provider of logistics and construction services for housing projects. In February 2015, the company was converted to a public limited company and, subsequently, its name was changed to Shaival Reality Ltd from Shaival Reality Pvt. Ltd. Headquartered in Ahmedabad, Shaival Reality is promoted by Dr. Mayurbhai Desai, who is also the managing director of the company.

Shaival Reality provides logistics services for transportation of bulk LPG and ammonia by road. It has a fleet of 114 transport vehicles with specialised storage systems required for transport of the aforementioned liquids. It offers transportation services across Gujarat, Madhya Pradesh, Maharashtra and Rajasthan.

The company also provides construction services for housing projects; it specialises in precast construction technology. In the past, it has successfully executed housing projects awarded by various government agencies in Gujarat.

Key positives

- Over the years, Shaival Reality has established itself as a well-known logistics services provider and developed strong relationship with clients. Its clients include major oil and gas companies such as HPCL, BPCL, ONGC and Reliance Industries.
- The company has entered into three-year contracts (the contract period extends until October 2017) with some of the leading oil and gas companies, which ensures full utilisation of its fleet until the contract period.
- The company has been an early adapter of precast construction technology for developing low-cost housing and has applied for a patent for the same. In the past, it has successfully constructed low-cost housing complexes for the Gujarat government in Anand and Dahod, and is currently executing few more projects in the state. The company has also been invited by other state governments to bid for their respective housing schemes.
- The promoter, Dr. Mayurbhai Desai, is well acquainted with the dynamics of the logistics business. He guided the company to be an early adopter of the precast construction method for housing. Dr. Desai is responsible for providing strategic guidance to the company, while day-to-day operations are managed by an experienced second line of management.

Key negatives

- **Revenues volatile due to inconsistent construction order book:** Shaival's revenues have been volatile over the past five years mainly due to volatile order inflows in its construction business. As per the management, the company plans to bid for housing projects in Andhra Pradesh, Gujarat and Rajasthan, and expects a more stable order inflow going forward.
- **Volatile margin profile:** Over the past five years, the company's EBITDA margins have been volatile due to inconsistent order inflow in its construction business. In FY12, the company executed high-margin contracts to build CNG fuel stations for a leading oil marketer. As a result, EBITDA margin expanded to 20% in FY12 from 9.6% in FY10. EBITDA margin contracted to 7.3% in FY14 and further to 5.8% in H1FY15 as the company started providing construction services for housing projects. Due to lack of experience in precast construction technology, the company faced cost escalations as well as delays, adversely impacting its margins.
- **Tanker revenues reported net off operating expenses:** Revenues from logistics services are reported under the head 'tanker revenues' net off operating expenses incurred. We opine EBITDA margins would be lower if the company reports gross revenues as part of its operating income and expenses as part of its expense schedule.
- **Negative operating cash flows and net losses:** The company has reported negative cash flow from operations over the past three years on account of an increase in working capital cycle. Owing to weak margins and high depreciation, the company reported net loss of ₹2 mn and ₹16 mn in FY13 and FY14 respectively.
- **High working capital requirement:** The company's overall working capital cycle increased to 1,358 days in FY14 owing mainly to an increase in loans and advances, which grew to ₹432mn in FY14 from ₹64 mn in FY10. Moreover,

debtor days increased to 177 in FY14 from 23 in FY10. As per the company, the payment cycle is ~30 days. The management was unable to satisfactorily explain the increase in debtor days.

- **High leverage:** The company has a high leverage with a debt-equity ratio of 3.8x as of FY14. This is mainly due to high working capital funding requirement. Interest coverage ratio (calculated on EBITDA) was 0.9x in FY14.

Key risks

- The company primarily operates from Gujarat and Maharashtra, and transports to the neighbouring states. The industry in this geography is fragmented with the presence of 8-10 players which, along with low entry barriers, increases competition for the company.
- The company extended loans worth ₹476 mn (as of H1FY15) to parties that are not linked to its primary business activities. As the amount is significant compared to the company's scale of operations, inability to recover the loans may negatively impact the company. The management has indicated that the company is in the process of winding up the loans and intends to shift them to another entity.
- The company is involved in several arbitration petitions with Gujarat Water Supply and Sewerage Board. Any unfavourable ruling can adversely impact profitability. Also, an accident case has been filed against Dr. Mayurbhai Desai involving a fatality. Any adverse ruling in the case may lead to compensation/fine levied on the company/promoter.
- Shaival Reality's top five customers contribute 86% to total revenues as of FY14. Any change in its clients' vendor policies can adversely impact its revenues.

Management and corporate governance

- Shaival Reality is promoted by Dr. Mayurbhai Desai who is responsible for providing strategic guidance to the company. Based on our interactions with the management, we believe the decision-making is fairly de-centralised with daily operations managed by experienced personnel.
- The board consists of six members including the managing director, two promoter directors and three independent directors. The company has all three committees - audit, stakeholder relationship and nomination. Each committee is headed by an independent director.
- The company is currently operating out of rented premises owned by Mrs. Jyotsnaben Desai, the promoter's mother. We feel the rent (₹0.12 mn/year) is below the market rate and any future increase in rent can impact the company's profitability.
- The promoter owns a different company, Shaival Transport LLP, which is also engaged in the tanker operations business. This company operates 40 tankers. The management has indicated that the company and Shaival Transport LLP do not compete for same tenders.

Key financials

- Over FY10-14, revenues have been volatile due to inconsistent order inflow of the construction business. Revenues declined ~50% to ₹49 mn over FY10-12 due to a slump in new order inflow. As the company forayed into the construction of government-sponsored housing projects, revenues grew 135% y-o-y in FY13. Revenues dropped 16% y-o-y to ₹98 mn in FY14 due to execution delays in its construction projects. Revenues from its logistics service increased at a CAGR of 28% over FY10-14 to ₹15 mn.
- EBITDA margin has been volatile over the past five years largely due to changes in the composition of its order book. In FY14, EBITDA margin was ~7% vs ~10% in FY10.
- The company posted an adjusted net loss of ₹2 mn and ₹16 mn in FY13 and FY14 respectively. This was largely on account of 1) contraction in EBITDA margins, 2) rise in depreciation costs as the company added new transportation vehicles and 3) increase in interest cost due to higher working capital requirement.

Financial Due Diligence

Company Overview

Business Overview

- Shaival Reality started operations as a provider of logistics services in 1996, and later started providing construction services for housing projects and executed several projects for government agencies and private organisations. In FY13, it forayed into construction of housing projects using precast construction technology. Currently, it is executing projects for the Gujarat government and plans to bid for low-cost housing programmes of other states.
- The company has a fleet of 114 transportation vehicles specially designed for movement of hazardous liquids such as LPG and ammonia. Its major clientele includes oil and gas majors BPCL, HPCL, ONGC and Reliance. It chiefly transports LPG from client locations to remote bottling plants.

Services

	End uses
Logistics services	Primarily provides transportation services to oil companies such as HPCL to transport LPG to bottling plants
Construction business	Involved in the construction of housing projects floated by government agencies using precast construction technology

Source: Company, CRISIL Research

Board of Directors

Name	Age	Designation	Qualifications	Profile	Other Directorship
Dr. Mayurbhai Desai	51 years	Managing Director	Post graduate	He is the promoter and managing director of the company. He is an MBBS, MD (Gynaecology) from B.J. Medical College, Ahmedabad, Gujarat University. He worked as assistant professor of gynaecology from 1988 to 1998. He has been associated with the company since its inception	<ol style="list-style-type: none"> 1. Shaival Petroproducts Pvt. Ltd 2. InSync Education Pvt. Ltd 3. Shaival Investment Consultancy Pvt. Ltd 4. Olive International Education Foundation 5. Acarya Realty Pvt. Ltd 6. Shaival Transport LLP
Ms. Sonal Mayur Desai	50 years	Director	Post graduate	She is the promoter's wife. She is an MBBS, MD (Gynaecology) from B.J. Medical College, Ahmedabad, Gujarat University. She did regular gynaecology and obstetrics practice from 1991 to 2004. She started an NGO - Sahaj Care - in 2013. Currently, she also runs a guidance clinic for teenage girls	<ol style="list-style-type: none"> 1. Shaival Petroproducts Pvt. Ltd 2. Shaival Investment Consultancy Pvt. Ltd 3. InSync Education Pvt. Ltd 4. Embrion IVF Pvt. Ltd

Name	Age	Designation	Qualifications	Profile	Other Directorship
Mr Shaival Desai	23 years	Director	Post graduate	He is a Bachelor of Science in Mechanical Engineering from University of Illinois, USA. He works in investment management and looks after portfolio allocation for managing proprietary money. He is also involved in intensive agriculture of high yielding crops	1. Shaival Transport LLP
Mr Ashish Navnitlal Shah	52 years	Independent Director	Graduate	He worked for HPCL as Sales Officer in the marketing division at Mumbai. In 1992, he co-founded Dalal & Shah Fiscal Services Ltd in Ahmedabad. In 2002, he founded Wealth First Portfolio Management Pvt. Ltd in Ahmedabad	1. Dalal and Shah Fiscal Services Ltd 2. Wealth First Portfolio Managers Pvt. Ltd 3. Wealth First Commodities Pvt. Ltd 4. DSFS Shares and Stockbroking Pvt. Ltd 5. Jindal Worldwide Ltd 6. Ahimsa Industries Pvt. Ltd
Mr Ashish Desai	51 years	Independent Director	Post graduate	He qualified in MD - Paediatric from Gujarat University in 1988. Since then until 1995 he had his own practice. Currently, he is a trustee of Nirma High School, Ahmedabad	1. Multiple Entertainment Pvt. Ltd 2. Acarya Realty Pvt. Ltd 3. Olive International Education Foundation 4. Niche Realty Pvt. Ltd 5. Somnath Infrabuilt Pvt. Ltd
Mr Himanshu Shah	37 years	Independent Director	Post graduate	He has done his MBA with major specialisation in Marketing Management from Indian Business Management School. He has a work experience of 15 years in the real estate sector. Currently, he heads a proprietorship firm - M/s Himanshu Shah & Co.	1. Navdeep Motels Pvt. Ltd 2. Sanjeet Motor Finance Pvt. Ltd 3. Abhishek Warehousing Pvt. Ltd 4. Sundaram Tradecom Pvt. Ltd 5. Sharyans Commodeal Pvt. Ltd 6. Ashima Commerce Pvt. Ltd

Source: Company, CRISIL Research

Executive Summary

Key Findings

i) Volatile revenues

Background	Comments / implications	Management's comments
<ul style="list-style-type: none"> Shaival's revenues have been volatile over the past five years mainly due to volatility in the company's construction business 	<ul style="list-style-type: none"> This was primarily because the company's order inflow in the construction business was inconsistent over the past five years. In the transportation business, the company wins contracts based on a tender process. Failure to win contracts can impact revenues. 	<ul style="list-style-type: none"> Going forward, the company plans to bid for housing projects in Andhra Pradesh, Gujarat and Rajasthan, and expects a healthier order book.

ii) Loans and advances to parties not related to its core operations

Background	Comments / implications	Management's comments
<ul style="list-style-type: none"> The company has given loans worth ₹476 mn as of H1FY15 to parties not related to its primary business activities 	<ul style="list-style-type: none"> Any delay/failure in recovery of these loans may negatively impact the company. 	<ul style="list-style-type: none"> The management has indicated that the company is in the process of winding up the loans and intends to shift them to another entity.

iii) High working capital requirement

Background	Comments / implications	Management's comments
<ul style="list-style-type: none"> The company's overall working capital cycle increased to 1,358 days in FY14 from 94 days in FY10 High debtor days of 177 in FY14 	<ul style="list-style-type: none"> This is mainly due to a four-fold increase in loans and advances to ₹432 mn over FY10-14. 	<ul style="list-style-type: none"> The management intends to restructure its loans and advances. The management mentioned that the payment cycle from its major customers is ~30 days, and was unable to satisfactorily explain the high debtor days.

iv) Volatile margin profile

Background	Comments / implications	Management's comments
<ul style="list-style-type: none"> ■ EBITDA margin expanded to 20% in FY12 from 9.6% in FY10, before contracting to 7.3% in FY14 and further to 5.8% in H1FY15 	<ul style="list-style-type: none"> ■ Higher margins in FY12 were due to execution of a CNG fuel station construction order from a private oil marketer. ■ Margins contracted over FY12-14 as the company faced cost escalations and delays due to its inexperience in using precast construction technology. 	<ul style="list-style-type: none"> ■ As per the management, with higher experience in precast technology, EBITDA margins are likely to improve going forward. ■ Also, it expects to win projects from various state government agencies for low-cost housing using the precast construction method.

Analysis of Financial Statements

Income Statement Analysis

Particulars	₹ mn					Common size statement				
	FY10	FY11	FY12	FY13	FY14	FY10	FY11	FY12	FY13	FY14
Income										
Gross sales	84	37	30	96	71	87.0%	71.4%	60.2%	83.1%	72.5%
Traded goods sales	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Less: trade discount/excise	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Net sales	84	37	30	96	71	87.0%	71.4%	60.2%	83.1%	72.5%
Other operating income	13	15	20	20	27	13%	28.6%	39.8%	16.9%	27.5%
Operating income	97	52	49	116	98	100.0%	100.0%	100.0%	100.0%	100.0%
Expenditure										
Raw material consumed	80	36	29	91	47	82.9%	69.5%	57.9%	78.5%	48.3%
Change in inventory	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Power and fuel	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Employee costs	3	5	5	5	8	2.7%	8.8%	10.1%	4.3%	8.6%
Other manufacturing expenses	0	1	1	1	6	0.4%	1.2%	1.9%	1.0%	5.8%
Other expenses	4	5	5	6	29	4.0%	10.1%	9.7%	5.0%	29.8%
SG&A	0	0	0	0	0	0.4%	0.4%	0.4%	0.2%	0.2%
EBITDA	9	5	10	13	7	9.6%	10.0%	20.0%	10.9%	7.3%
Depreciation	6	7	9	11	16	6.1%	13.5%	18.3%	9.7%	16.6%
EBIT	3	(2)	1	1	(9)	3.5%	-3.5%	1.7%	1.2%	-9.3%
Interest	1	1	3	5	7	0.7%	2.3%	6.5%	4.2%	7.5%
Operating PBT	3	(3)	(2)	(3)	(16)	2.8%	-5.7%	-4.8%	-3.0%	-16.9%
Other income	1	6	14	2	2	1.0%	11.0%	28.8%	1.3%	1.6%
Exceptional inc/(exp)	0	(3)	0	0	(0)	0.0%	-5.7%	0.5%	0.3%	0.0%
PBT	4	(0)	12	(2)	(15)	3.8%	-0.4%	24.5%	-1.4%	-15.2%
Tax provision	2	1	3	(0)	1	2.2%	1.5%	6.9%	-0.4%	0.9%
PAT (Reported)	2	(1)	9	(1)	(16)	1.6%	-2.0%	17.7%	-1.0%	-16.1%
Less: Exceptionals	0	(3)	0	0	(0)	0.0%	-5.7%	0.5%	0.3%	0.0%
Adjusted PAT	2	2	8	(2)	(16)	1.6%	3.7%	17.2%	-1.3%	-16.1%

Source: Company, CRISIL Research

Revenue analysis

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Contract Receipt	84	37	30	96	71	46
<i>y-o-y change</i>		-56.2%	-19.3%	223.9%	-26.4%	-
Tanker Income – Net*	6	8	11	9	15	5
<i>y-o-y change</i>		40.0%	44.2%	-19.8%	67.4%	-
Rent income	7	7	9	11	12	6
<i>y-o-y change</i>		0.0%	21.4%	24.7%	12.0%	-
Total Operating income	97	52	49	116	98	58
<i>y-o-y change</i>		-46.6%	-4.3%	134.7%	-15.6%	-

*Tanker income is reported net off operating expenses

Source: Company, CRISIL Research

Other income

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Interest income	0.6	2.9	2.1	0.8	1.6	0.3
Dividend income	-	-	0.0	0.0	0.0	-
Net gain/loss on sale of investments/property	-	1.5	11.3	-	-	-
Other non operating income	0.4	1.3	0.8	0.7	0.0	0.2
Total	1.0	5.7	14.2	1.5	1.6	0.5

- Shaival Reality's total operational revenues comprise contract receipt – construction business, tanker income – logistics business and rent income.
- Contract receipt constituted 72% of total income (total of contract receipt, rent income and net tanker income) in FY14. However, revenues from this segment have been volatile as the company's order inflow in the construction business was inconsistent over the past five years.
- The company reports transportation income net of operating expenses. Net tanker income grew at a CAGR of 28% between FY10 and FY14 to ₹14.9 mn.
- However, if we consider gross revenues from the transportation division, the same stand at ₹63.7 mn, or ~44% of the total income (total of contract receipt, rent income and gross tanker income) in FY14.

For FY14, when calculated on gross tanker revenues EBITDA margin would be ~5% vs ~7% when calculated on net revenues.

Top clients

Top clients (FY14)	Amount (₹ mn)	as % of total
Anand Nagarpalika	55.8	42%
LPG Infrastructure Pvt. Ltd	22.4	17%
Indian Oil Corporation	19.6	15%
HPCL	10.3	8%
Dahod Nagarpalika	8.2	6%
Total	116.3	86%

Top clients (FY13)	Amount (₹ mn)	as % of total
GSPC Gas Co. Ltd	48.5	36%
Reliance Rural Development Trust	35.2	26%
LPG Infrastructure Pvt. Ltd	16.1	12%
Indian Oil Corporation	10.0	7%
AMC Pirana Precast Work	9.2	7%
Total	119.1	88%

Top clients (FY12)	Amount (₹ mn)	as % of total
LPG Infrastructure Pvt. Ltd	24.4	36%
Reliance Rural Development Trust	11.5	17%
GSPC Gas Co. Ltd	10.2	15%
Police Housing Corporation	7.9	12%
Reliance Port & Terminal Ltd	4.1	6%
Total	58.2	86%

Source: Company, CRISIL Research

- Historically, there has been high revenue concentration; the top five clients account for ~86% of total revenues. Any change in the clients' vendor policies can lead to customers shifting away, adversely impacting revenues.

Raw material cost

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Raw material cost	80	36	29	91	47
As a % of sales	82.9%	69.5%	57.9%	78.5%	48.3%

Source: Company, CRISIL Research

- Raw materials mainly include cement and steel; additionally there is equipment related cost for the construction business.
- Fuel costs are a part of its tanker operations and not separately reported by the company.
- Raw material cost dropped to ~48% of sales in FY14 to ₹47 mn from ~83% of sales in FY10.

Employee cost

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Employee cost	2.6	4.5	5.0	5.0	8.4
As a % of sales	2.7%	8.8%	10.1%	4.3%	8.6%

Source: Company, CRISIL Research

- Employee cost was 8.6% of operating income in FY14. The company currently has 17 office-based employees and ~120 drivers on its rolls.
- Overall employee cost over FY10-14 increased mainly due to increase in the number of personnel and staff welfare expenses, and general increments.

Other expenses

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Rent rates and taxes	0.2	1.1	0.7	0.9	4.6
Directors fees, allowances, audit fees, legal expenses	1.9	0.3	0.5	1.1	0.8
Travelling and conveyance	2.3	0.7	0.7	0.4	2.2
Repairs to building, plant and machinery	0.1	0.5	0.2	1.1	5.1
Insurance	0.3	0.2	0.7	0.1	0.6
Postage phone and telex	1.9	0.2	0.2	0.3	0.3
Printing and stationery	1.8	0.1	0.1	0.1	0.1
Donations	0.0	0.2	0.8	0.4	0.3
Vehicle expenses	1.9	-	-	-	-
Net loss on foreign currency transactions and translation	-	-	-	-	-
Miscellaneous expenses	0.1	2.6	2.0	2.7	20.9
As a % of sales	10.9%	11.3%	11.6%	6.0%	35.6%

Source: Company, CRISIL Research

- Other expenses increased to ~36% of total operating income in FY14 from ~6% in FY13.
- Substantial increase of other expenses in FY14 compared to FY13 due to:
 - Miscellaneous expenses increased 7 times to ₹21 mn as the company incurred additional expenses in one of its construction projects. These include labour charges, site preparation expenses, tools and spares, shuttering costs and transportation expenses.
 - Machinery cost rose ~5 times to ₹5.1 mn as the company introduced new machinery in its construction operations in FY14.
 - Rent increased to ₹4.6 mn from ₹0.2 mn as the company classified hiring charges of machinery for its ongoing construction projects under the same.
 - Travelling and conveyance increased to ₹2.2 mn from ₹0.4 mn as the company promoted its precast construction services at various conferences and forums.

Selling, general and administrative (SG&A) expenses

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Sampling and promotion	0.1	0.2	0.2	0.3	0.2
Commission and sales discount	0.3	-	-	-	-
Total	0.4	0.2	0.2	0.3	0.2
As a % of sales	0.41%	0.44%	0.37%	0.23%	0.24%

- The company does not incur SG&A expenses as it primarily targets tenders floated by government organisations.

Finance charges

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Interest expense	1	1	3	5	7
Other borrowing cost	-	-	-	-	-
Total interest cost	1	1	3	5	7
Interest cost as a % of sales	0.7%	2.2%	5.9%	4.2%	7.2%
Year end borrowings	34	37	18	275	489
Interest rate (on average borrowings)	3.9%	3.2%	10.4%	3.3%	1.8%

Source: Company, CRISIL Research

- Shaival's interest expense increased from ₹1 mn in FY10 to ₹7 mn in FY14 mainly on account of increase in debt to fund incremental working capital requirement – working capital loans rose to ₹75 mn in FY14 from ₹7 mn in FY11.

Depreciation

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Depreciation	6	7	9	11	16
Depreciation as a % of sales	6.1%	13.5%	18.3%	9.7%	16.6%
Gross block	93	121	102	146	219
Depreciation rate (% of average gross block)	12.7%	6.5%	8.1%	9.1%	8.9%

Source: Company, CRISIL Research

- The depreciation expense is mainly on account of transportation vehicles the company owns. It has gone up in tune with new vehicle additions over FY10-14.

Tax rate and net income

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Profit before tax	4	(0)	12	(2)	(15)
PBT margin	4.3%	-0.6%	40.7%	-1.7%	-21.6%
Tax	2	1	3	(0)	1
Effective tax rate (%)	58.1%	NM	28.0%	NM	NM
Net profit	2	(1)	9	(1)	(16)
Adjusted net profit	2	2	8	(2)	(16)
Adjusted net profit margin (%)	1.6%	3.7%	17.2%	-1.3%	-16.1%

Source: Company, CRISIL Research

- Decline in EBITDA, high depreciation and rise in interest expenses led to a net loss of ₹16 mn in FY14 compared to a net profit of ₹8 mn in FY13.
- The company does not have any special tax exemptions.

Balance Sheet Analysis

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Liabilities					
Equity share capital	14	14	14	14	14
Others	122	121	130	130	114
Reserves and surplus	-	-	-	-	-
Net worth	136	135	144	144	128
Convertible debt	-	-	-	-	-
Other debt	34	37	18	275	489
Total debt	34	37	18	275	489
Deferred tax liability (net)	2	2	3	2	3
Total liabilities	172	175	165	421	620
Assets					
Net fixed assets	87	108	80	112	170
Capital WIP	-	-	-	-	-
Total fixed assets	87	108	80	112	170
Investments	32	3	0	3	1
Current assets					
Inventory	0	2	-	-	4
Sundry debtors	6	19	28	42	34
Loans and advances	64	46	60	289	432
Cash & bank balance	5	10	9	9	20
Marketable securities	-	-	3	-	-
Total current assets	75	76	99	340	490
Current liabilities					
Creditors	12	12	11	31	37
Provisions	10	1	4	3	4
Total current liabilities	22	13	15	35	40
Net current assets	53	64	84	306	449
Intangibles/misc. expenditure	-	-	-	0	0
Total assets	172	175	165	421	620

Source: Company, CRISIL Research

Particulars	FY10	FY11	FY12	FY13	FY14
Activity ratios					
Inventory days	1	17	-	-	18
Creditor days	52	91	103	110	149
Debtor days	23	132	340	160	177
Working capital days	92	361	541	584	1,358
Gross asset turnover (x)	2.1	0.5	0.5	0.9	0.5
Net asset turnover (x)	2.2	0.5	0.5	1.2	0.7
Sales/operating assets (x)	2.2	0.5	0.5	1.2	0.7
Liquidity ratio					
Current ratio (x)	3.4	6.0	6.6	9.8	12.1
Capital structure ratios					
Debt-equity (x)	0.3	0.3	0.1	1.9	3.8
Net debt/equity (x)	0.2	0.2	0.0	1.9	3.7
Interest coverage	4.9	(1.5)	0.3	0.3	(1.2)
Profitability / return ratios					
EBITDA margin (%)	9.6	10.0	20.0	10.9	7.3
Adj PAT Margin (%)	1.6	3.7	17.2	(1.3)	(16.1)
RoE (%)	2.2	1.4	6.1	(1.1)	(11.6)
RoCE (%)	3.9	(1.0)	0.5	0.5	(1.8)

Equity share capital

- As of FY14, Shaival Reality has one class of equity share (1,401,000 in number) with a face value of ₹10 each.
- The company's share capital is unchanged between FY10 and FY14.

Movement in Shaival Reality's net worth

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Share capital	14	14	14	14	14	14
Share premium	36	36	36	36	36	36
Others	-	-	-	1	1	1
Reserves & surplus	86	85	94	93	77	61
Shareholders' funds	136	135	144	144	128	112

Source: Company, CRISIL Research

Build-up of equity share capital

Allotment details	Allotment to	Number of shares allotted	Issue price	Cumulative paid-up capital (₹ mn)
15-Feb-99	Promoters and promoter group	7,000	10	0
10-Mar-99	Promoters and promoter group	140,782	10	1
15-Mar-99	Promoters and promoter group	10,500	10	2
30-Jun-99	Promoters and promoter group	268,109	10	4
24-Mar-00	Promoters and promoter group	1,031,000	10	15
29-Mar-00	Promoters and promoter group	80,000	10	15
31-Mar-02	Promoters and promoter group	160,000	10	17
2-Nov-11	Promoters and promoter group	1,800,000	10	35
15-Oct-12	Promoters and promoter group	200,000	10	37

Source: Company, CRISIL Research

Borrowings

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Working capital loan (secured)	-	7	1	52	75	283
Loans from related party (unsecured)	15	12	8	160	243	110
Term loans (secured)	15	18	9	63	171	199
Term loans (unsecured)	4	-	-	-	-	-
Total	34	37	18	275	489	592

Source: Company, CRISIL Research

- As of H1FY15, the company has loans worth ₹592 mn: ₹199 mn long-term loan and ₹283 mn working capital loan (details in Appendix 2).
- Working capital loan:** Working capital loans of ₹283 mn as of H1FY15, taken from HDFC Bank and Deutsche Bank. As per our understanding increase in working capital requirement stems from high loans and advances.
- Term loan:** Term loan consists of ₹160 mn taken from Deutsche Investment India Pvt. Ltd and ₹39 mn of vehicle loans taken from HDFC Bank, ICICI Bank and Tata Finance.
- Loans from related party:** The company has ₹110 mn in outstanding interest-free loans extended by Dr. Mayurbhai Desai, the promoter.

Fixed assets

Composition of net fixed assets

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Land and buildings	68.3	84.9	64.0	63.8	64.1	48.0
Tankers	9.2	16.1	9.7	22.3	70.0	77.1
Furniture and fixtures	1.1	0.9	0.8	1.0	1.0	0.8
Vehicles (car)	7.6	5.6	4.9	4.5	4.2	3.6
Office equipment	0.8	0.9	0.9	0.9	10.3	10.9

Source: Company, CRISIL Research

- Shaival Realty's net fixed assets consist primarily of buildings and tankers.
- The company currently owns 114 transportation vehicles. As per the management, each tanker costs ₹2.5 mn. However, as H1FY15 the tanker gross block was only ₹137.4 mn. We are unclear of the reason for the same.

Investments

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Investments in shares and bonds	32.1	2.6	2.6	0.6	0.6	0.6
Investment in Shaival Investment Consultancy Pvt. Ltd	-	-	-	-	-	-
Total non-current investments	32.1	2.6	2.6	0.6	0.6	0.6
As a % of net worth	23.5%	1.9%	1.8%	0.4%	0.5%	0.5%

Source: Company, CRISIL Research

- Shaival Reality's investments include ₹0.6 mn in equity instruments.

Inventories

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Raw material	-	-	-	-	3.5
Work in progress	0.1	1.5	-	-	-
Finished goods	0.2	0.2	-	-	-
Stock-in-trade	-	-	-	-	-
Stores and spares	-	-	-	-	-
Total inventory	0.3	1.7	-	-	3.5
Inventory days (based on sales)	1	17	-	-	18

Source: Company, CRISIL Research

- Inventory is mainly related to the precast construction business.
- The company had 18 days of inventory in FY14.

Sundry debtors

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Total sales	97	52	49	116	98
Debtors	6	19	28	42	34
Debtor days (based on sales)	23	132	340	160	177

Source: Company, CRISIL Research

- Debtor days of the company are high, up from 23 in FY10 to 177 in FY14. The management mentioned that the payment cycle from its major customers is normally around one month and was not able to satisfactorily explain the high debtor days.

Ageing analysis of debtors (excluding amount due from affiliates)

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Less than six months	6	17	13	20	15	28
More than six months	0	2	2	3	2	2

- The company's debtors outstanding for more than six months have remained stable over the past couple of years. Most of the amount due has been for less than six months.

Shaival Reality – top debtors

Top debtors (FY14)	Amount (₹ mn)	as % of total
Dahod Nagarpalika	7.9	23%
LPG Infrastructure Pvt. Ltd	1.8	5%
Indian Oil Corporation	1.3	4%
V.K. Patel Translines	0.9	3%
HPCL	0.8	2%
Total	12.8	37%

Top debtors (FY13)	Amount (₹ mn)	as % of total
GSPC Gas Co. Ltd	5.9	14%
LPG Infrastructure Pvt. Ltd	4.0	10%
Anand Nagarpalika	2.8	7%
Indian Oil Corporation	1.0	2%
HPCL	0.9	2%
Total	14.6	35%

Top debtors (FY12)	Amount (₹ mn)	as % of total
LPG Infrastructure Pvt. Ltd	2.8	10%
GSPC Gas Co. Ltd	1.6	6%
Reliance Port & Terminal Ltd	0.8	3%
Police Housing Corporation	0.6	2%
V.K. Patel Translines	0.3	1%
Total	6.1	22%

Source: Company, CRISIL Research

- For FY14, the company's top five clients contributed 86% of the overall revenues. However, their contribution to total debtors is only 37%.

Loans and advances

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Security deposits	16.8	9.0	12.0	22.1	30.3	30.7
Loans and advances to employees	0.1	0.4	0.4	0.4	0.6	0.5
Prepaid expenses	-	-	-	-	-	-
Balances with revenue authorities	0.3	0.3	0.3	0.3	0.2	0.2
Advances to others	25.7	32.4	41.4	276.7	400.8	476.5
Others	22.1	2.9	5.8	9.7	17.5	18.3
Total	65.1	45.0	59.9	309.2	449.4	526.2

Source: Company, CRISIL Research

- The company's loans and advances mainly include advances to parties not related directly to its operations. In FY14, ₹401 mn was given to different parties, which grew to ₹477 mn by H1FY15.
- Security deposits reported were deposited as earnest money for securing various contract awarded by government agencies. In H1FY15, ₹31 mn was deposited for various contracts.

Cash and bank balances

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Cash on hand	1.3	1.5	2.2	0.1	0.5	1.2
Balance with banks	2.7	8.5	6.3	7.5	18.5	8.4
Total	4.0	10.0	8.5	7.6	19.0	9.6

Source: Company, CRISIL Research

- As of H1FY15, Shaival Reality has ₹1.2 mn in cash and ₹8.4 mn in the current account.

Marketable securities

- The company has no marketable securities.

Creditors

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Total creditors	12	12	11	31	37
Creditor days	52	91	103	110	149

Source: Company, CRISIL Research

- Shaival Reality's creditors include trade payables and other current liabilities.

Shaival Reality – top 5 creditors

Top creditors (FY14)	Amount* (₹ mn)	as % of total
Suraj Enterprises	2.90	8%
Ekta Trading & Transportation	1.11	3%
Dhanlaxmi Automobiles	0.36	1%
Protect Construction Chemicals Pvt. Ltd.	0.39	1%
Kailash Auto Service	0.27	1%
Total	5.03	14%

Top creditors (FY13)	Amount* (₹ mn)	as % of total
SVP Precast Pvt. Ltd	4.6	15%
Waffle' Rapid Construction	2.6	9%
DNP Infrastructure Pvt. Ltd.	0.6	2%
Dhanlaxmi Automobiles	0.4	1%
Kailash Auto Service	0.1	0%
Total	8.3	27%

Top creditors (FY12)	Amount* (₹ mn)	as % of total
DNP Infrastructure Pvt. Ltd.	0.56	5.0%
Dhanlaxmi Automobiles	0.45	4.0%
SVP Precast Pvt. Ltd	0.11	1.0%
Nagarjun Petroleum	0.02	0.1%
Apabhai Patel & Co. - Dholka	0.01	0.1%
Total	1.14	10.2%

* outstanding amount payable at the end of respective financial year

Source: Company, CRISIL Research

Provisions

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Provision for income tax	9.7	1.3	3.8	3.5	3.6	3.4
Total provisions	9.7	1.3	3.8	3.5	3.6	3.4

Source: Company, CRISIL Research

- Total provisions amounted to ₹3.4 mn in H1FY15.

Other matters***Related party transactions***

- Details of the other related party transactions not covered before are as follows:

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Directors' remuneration						
Mayur Mukundbhai Desai (Managing Director)	0.9	2.1	1.7	2.3	2.8	0.7
Sonal Mayurbhai Desai (Director)	0.3	0.3	0.4	0.4	0.4	0.2
Salary						
Mukundbhai Chandubhai Desai (Director)		0.5	0.3	0.3	0.3	0.2
Car rent						
Mayur Mukundbhai Desai (Managing Director)	0.4	Nil	Nil	Nil	Nil	Nil
Tanker service charge						
Shaival Petro Products Pvt. Ltd	2.1	Nil	Nil	Nil	Nil	Nil

Source: Company, CRISIL Research

Auditor and auditor's remuneration

- The company's auditor is Ahmedabad-based Jaimin Deliwala & Co.

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Auditor's remuneration	0.12	0.20	0.20	0.20	0.01	0.23

Source: Company, CRISIL Research

Appendix

Appendix 1: KMP

Name	Designation
Dr. Mayurbhai Desai	Managing Director
Mr Jagdish Limbachiya	CFO
Mr Atul Patel	Project Director – Construction
Mr Dhaval Majumdar	General Manager

Source: Company

Appendix 2: Summary of term loan facilities

Term loans

Lender	Balance as on September 2014 (₹ mn)	Nature
Deutsche Investment India Ltd	160	Secured
HDFC Bank (tanker loan)	5.9	Secured
ICICI Bank (tanker loan)	18.1	Secured
Tata Finance (tanker loan)	15.4	Secured

Source: Company

Appendix 3: Summary Financials

Income statement

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Operating income	97	52	49	116	98
EBITDA	9	5	10	13	7
EBITDA margin	9.6%	10.0%	20.0%	10.9%	7.3%
Depreciation	6	7	9	11	16
EBIT	3	(2)	1	1	(9)
Interest	1	1	3	5	7
Operating PBT	3	(3)	(2)	(3)	(16)
Other income	1	6	14	2	2
Exceptional inc/(exp)	0	(3)	0	0	(0)
PBT	4	(0)	12	(2)	(15)
Tax provision	2	1	3	(0)	1
Minority interest	-	-	-	-	-
PAT (Reported)	2	(1)	9	(1)	(16)
Less: Exceptionals	0	(3)	0	0	(0)
Adjusted PAT	2	2	8	(2)	(16)

Ratios

	FY10	FY11	FY12	FY13	FY14
Growth					
Operating income (%)	-	(46.6)	(4.4)	134.8	(15.6)
EBITDA (%)	-	(44.2)	90.8	28.4	(43.6)
Adj PAT (%)	-	26.4	340.8	(118.2)	922.2
Adj EPS (%)	-	26.4	340.8	(118.2)	922.2
Profitability					
EBITDA margin (%)	9.6	10.0	20.0	10.9	7.3
Adj PAT Margin (%)	1.6	3.7	17.2	(1.3)	(16.1)
RoE (%)	2.2	1.4	6.1	(1.1)	(11.6)
RoCE (%)	3.9	(1.0)	0.5	0.5	(1.8)
RoIC (%)	4.8	6.0	16.5	1.7	(1.3)
B/S ratios					
Inventory days	1	17	-	-	18
Creditors days	52	91	103	110	149
Debtor days	23	132	340	160	177
Working capital days	92	361	541	584	1,358
Gross asset turnover (x)	2.1	0.5	0.5	0.9	0.5
Net asset turnover (x)	2.2	0.5	0.5	1.2	0.7
Sales/operating assets (x)	2.2	0.5	0.5	1.2	0.7
Current ratio (x)	3.4	6.0	6.6	9.8	12.1
Debt-equity (x)	0.3	0.3	0.1	1.9	3.8
Net debt/equity (x)	0.2	0.2	0.0	1.9	3.7
Interest coverage					
EBITDA/Interest	13.6	4.4	3.1	2.6	1.0
EBIT/Interest	4.9	(1.5)	0.3	0.3	(1.2)

Balance Sheet

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Liabilities					
Equity share capital	14	14	14	14	14
Reserves	122	121	130	130	114
Minorities	-	-	-	-	-
Net worth	136	135	144	144	128
Convertible debt	-	-	-	-	-
Other debt	34	37	18	275	489
Total debt	34	37	18	275	489
Deferred tax liability (net)	2	2	3	2	3
Total liabilities	172	175	165	421	620
Assets					
Net fixed assets	87	108	80	112	170
Capital WIP	-	-	-	-	-
Total fixed assets	87	108	80	112	170
Investments	32	3	0	3	1
Current assets					
Inventory	0	2	-	-	4
Sundry debtors	6	19	28	42	34
Loans and advances	64	46	60	289	432
Cash & bank balance	5	10	9	9	20
Marketable securities	-	-	3	-	-
Total current assets	75	76	99	340	490
Total current liabilities	22	13	15	35	40
Net current assets	53	64	84	306	449
Intangibles/Misc. expenditure	-	-	-	0	0
Total assets	172	175	165	421	620

Cash flow

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Pre-tax profit	4	3	12	(2)	(15)
Total tax paid	(1)	(0)	(2)	-	(0)
Depreciation	6	7	9	11	16
Working capital changes	(49)	(5)	(20)	(224)	(132)
Net cash from operations	(40)	4	(1)	(215)	(131)
Cash from investments					
Capital expenditure	(93)	(28)	19	(43)	(73)
Investments and others	(32)	29	0	0	1
Net cash from investments	(125)	1	19	(43)	(72)
Cash from financing					
Equity raised/(repaid)	50	-	-	-	-
Debt raised/(repaid)	34	3	(19)	256	215
Dividend (incl. tax)	-	-	-	-	-
Others (incl extraordinary)	85	(3)	0	1	0
Net cash from financing	169	0	(19)	258	215
Change in cash position	5	6	(1)	(0)	12
Closing cash	5	10	9	9	20

Source: Company

Disclaimer / Important notice

This Company Analysis and FDD Report is based on the limited scope of financial due diligence of Shaival Reality 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/un-audited consolidated financial statements for FY10, FY11, FY12, FY13, FY14 and H1FY15.

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 up to 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, 2010, March 31, 2011, March 31, 2012, March 31, 2013, March 31, 2014 and September 30, 2014 (“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) Analyse 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) Analyse 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 capitalisation 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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