

# Independent Equity Research

Enhancing investment decisions



In-depth analysis of the fundamentals and valuation

**Beardsell Limited**

# CRISIL Independent Equity Research Team

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- IPO Grading
- White Labelled Research
- Valuation on companies for use of Institutional Investors, Asset Managers, Corporates

Other Services by the Research group include

- CRISINFAC Industry research on over 60 industries and Economic Analysis
- Customised Research on Market sizing, Demand modelling and Entry strategies
- Customised research content for Information Memorandum and Offer documents

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade)

### Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factors in Industry prospects and company's future financial performance
- Management Evaluation: Factors such as track record of the management, strategy are taken into consideration
- Corporate Governance: Assessment of adequacy of corporate governance structure and disclosure norms

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

CRISIL Fundamental Grade	Assessment
5/5	Excellent fundamentals
4/5	Superior fundamentals
3/5	Good fundamentals
2/5	Moderate fundamentals
1/5	Poor fundamentals

### Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Valuation Grade	Assessment
5/5	Strong upside (>25% from CMP)
4/5	Upside (10-25% from CMP)
3/5	Align (+-10% from CMP)
2/5	Downside (negative 10-25% from CMP)
1/5	Strong downside (<-25% from CMP)

### Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

### Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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## List of companies under coverage

Sl. No.	Report Date	Company Name	Sector	CMP	M. Cap (Rs. Mn)	Initiating Coverage		3QFY10 Update	
						Fundamental value	Fundamental grade	Fundamental value	Fundamental grade
1	02-Feb-10	Aarti Industries	Chemicals	49	3,757	56	3/5	56	3/5
2	31-Jan-10	ABG Shipyard	Shipping	315	10,286	242	3/5	259	3/5
3	01-Feb-10	Apollo hospitals	Hospitals	712	44,102	642	4/5	724	4/5
4	04-May-10	Beardsell Limited	Packaging/Expanded Polystyrene	64	245	54	3/5	-	-
5	06-Apr-10	Dhanuka Agritech Ltd	Pesticides	271	2,483	283	3/5	-	-
6	29-Jan-10	DLF	Real Estate	335	568,495	356	3/5	356	3/5
7	27-Jan-10	Dolphin Offshore	Oil & Gas	385	6,060	315	3/5	417	3/5
8	05-Feb-10	EID Parry	Sugar	348	30,050	394	4/5	395	4/5
9	01-Feb-10	Everest Kanto	Manufacturing	131	13,252	270	4/5	135	4/5
10	23-Feb-10	Havells India Ltd	Capital Goods	533	32,070	614	4/5	-	-
11	29-Jan-10	Hero Honda	Automobiles	1,889	377,240	1,747	5/5	1937#	5/5#
12	02-Mar-10	Hindusthan National Glass & Industries Ltd.	Packaging/Glass	240	21,049	314	4/5	-	-
13	11-Feb-10	Indiabulls Securities	Financial Services	31	7,932	60	4/5	48	4/5
14	05-Feb-10	JBF Industries	Textiles	111	6,882	119	3/5	129	3/5
15	05-Feb-10	JM Financial	Financial Services	39	30,550	57	4/5	57	4/5
16	21-Jan-10	KKCL	Fashion and apparels	265	3,292	336	3/5	-	-
17	01-Feb-10	KRBL	Agriculture/Rice	194	4,716	340	3/5	340	3/5
18	31-Jan-10	NTPC	Power	214	1,764,537	228	5/5	231	5/5
19	29-Jan-10	Pantaloon Retail (India)	Retail	406	77,282	*	4/5	*	4/5
20	04-Feb-10	Phoenix Mills	Real Estate	203	29,404	160	2/5	183	2/5
21	22-Apr-10	Polaris Software	Information Technology	186	18,407	247	4/5	-	-
22	19-Apr-10	Sangam (India) Ltd	Textiles	33	1,380	46	3/5	46	5/5
23	03-Feb-10	UTV Software	Media and Entertainment	498	17,066	548	3/5	538	3/5

CMP - Current Market Price (as on date of respective report)

M Cap - Market Capitalisation (as on date of respective report)

\*NA - Not Applicable (Company has requested for a fundamental grading only)

# Includes Q4FY10 result update

# Independent Research Report – Beardsell Limited

Good fundamentals with downside

Industry  
Date

Packaging I Expanded Polystyrene  
May 04, 2010



Chennai-based Beardsell Ltd is one of the largest manufacturers of expanded polystyrene (EPS - thermocol) and prefabrication panels. It is also in the insulation contracting business. We assign Beardsell a fundamental grade of '3/5' indicating that its fundamentals are 'good' relative to other listed securities in India. We also assign a valuation grade of '2/5' indicating that the current market price of Beardsell has 'downside'.

## Growth in user industries to drive demand for EPS

We expect demand for EPS to grow by 14-15% thanks to the growth in user industries such as consumer durables, pharmaceuticals and food processing. Usage of EPS in the Indian construction sector has been very low compared to global standards. With an increased need to save power and use environment-friendly materials, higher usage in the construction sector could provide a significant boost to the EPS industry.

## Beardsell is positioned well to benefit from industry growth

Beardsell has been in the EPS business since 1963 and is one of the largest organised manufacturers of EPS in India. The company currently has a capacity of ~1,600 MTPA; it plans to increase it by 2,000 MTPA. Apart from foraying into newer products like the fire retardant rock wool and glass wool panels, it also plans to put up a plant in Chennai - the auto and electronics manufacturing hub in southern India.

## Change in top management augurs well

Beardsell's previous management (run by professionals and not promoters) lacked aggression, which led to marginal growth in EPS volumes from 895 metric tonnes (MT) in FY01 to 1,010 MT in FY09. Also, the company did not incur any expenditure for capacity expansion or plant modernisation during this period. The company's top management changed in May 2009 and is run by a promoter (family member) of the Nava Bharat Ferro Alloys group. The company now plans to add capacity and launch new products, which augurs well for the future.

## Industry plagued with high competition and limited bargaining power

The EPS industry is highly fragmented with very low entry barriers (low capex and low technology) resulting in intense competition among regional players, which limits the bargaining power with customers. Also, the prices of key raw materials are linked to global commodity prices, where the company has no pricing flexibility. Accordingly, manufacturers rely on volumes for growth and earn thin operating margins in the range of 5% to 7% with low RoE. Hence, the relative positioning of the industry is weak.

## Revenues to grow at a three-year CAGR of 13.5%; RoE to expand

We expect revenues to register a three-year CAGR of 13.1% to Rs 761 mn in FY12 due to growth in EPS, prefab panels and the insulation contracts businesses. EBITDA and PAT margins are expected to grow 45 bps and 18 bps, respectively, from FY10 to FY12. RoE is expected to expand from 10.3% in FY10 to 12.5% in FY12.

## No upside from current levels

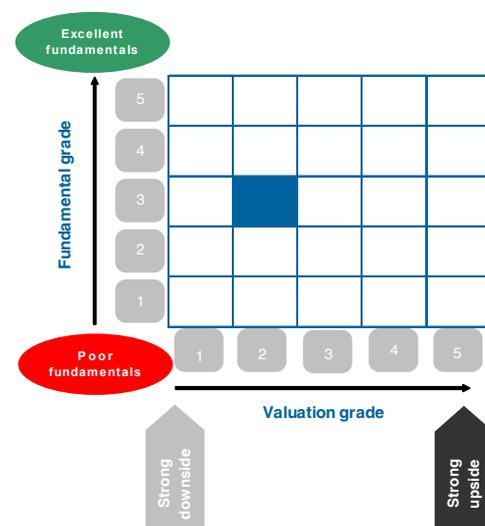
We have valued Beardsell based on the discounted cash flow DCF approach. Based on the DCF valuation method, we arrive at the Fundamental value of Rs 54 per share for Beardsell. We initiate coverage on Beardsell with a Valuation Grade of '2/5' indicating that valuations of Beardsell have 'downside' to current market price. The shares of the company are thinly traded and hence pose liquidity risk.

## Key forecast (consolidated financials)

(Rs Mn)	FY08	FY09	FY10E	FY11E	FY12E
Operating income	595	520	541	635	761
EBITDA	36	13	29	34	44
Adj Net income	23	10	18	22	27
EPS-Rs	6.0	2.6	4.7	5.8	7.0
EPS growth (%)	(7.6)	(87.7)	85.5	21.8	21.8
PE (x)	16.1	12.7	13.5	11.1	9.1
P/BV (x)	2.3	0.7	1.3	1.2	1.1
RoCE(%)	17.9	4.2	12.3	12.3	14.2
RoE(%)	15.0	5.9	10.3	11.4	12.5
EV/EBITDA (x)	9.1	4.5	5.8	5.3	4.6

Source: Company, CRISIL Equities Estimate

## CFV matrix



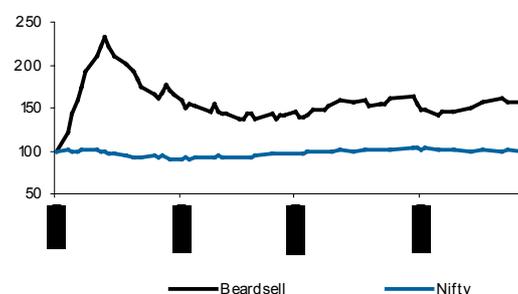
- Fundamental grade of '3/5' indicates good fundamentals
- Valuation grade of '2/5' indicates downside

## Key stock statistics

	Beardsell
NSE Ticker	Beardsell
Fundamental value (Face value Rs 10)	54
Current market price*	64
Shares outstanding (Mn)	3.8
Market cap (Rs Mn)	245
Enterprise value (Rs Mn)	181
52-week range (Rs) (H/L)	100 / 35
P/E on EPS estimate (FY11E)	11.1
Beta	1.7
Free float (%)	51.4
Average daily volumes	298

\* As on report date

## Share price movement



-Indexed to 100

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**Beardsell: Business environment**

Parameter	EPS	Prefab panels	Insulation/prefab contracts
Revenue contribution (FY09)	37.3%	30.5%	24.5%
Revenue contribution (FY12)	40.1%	31.8%	24.7%
Product / Service offering	· Supplies EPS according to specific customers requirements	· Insulated sandwich panels to the different industries	· Building and industrial insulation contracts related to boilers, chimneys, under roof insulation
			· Contracts related to erection of prefab panels at the customer's premises
Geographic presence (Revenue share)	Pan-India	Pan-India	Pan-India
Market Position	· One of the largest organised manufacturer of EPS in India	· One of the few players providing EPS panels	· Small player
	· Volumes and market share declined from FY01 to FY05 before gradually improving in FY09	· Small player in Puff panels	
End market	· Mainly used for packaging in Pharma, electric and household appliances and fish and fruit boxes	· Applications in cold storages, clean rooms, telecom shelters and project site offices	· Varied industries
Key competitors	KK Nag, Modifoam, Thermolite etc. Fragmented industry with many regional players	Metecno (India) Pvt Ltd, Lloyds Insulations, Rinac India Ltd, Bluestar, Voltas etc	Many
Sales growth (FY06-FY09 - 3yr CAGR)	9.4%	31.7%	-2.9%
Sales Forecast (FY09-FY12 - 3yr CAGR) – (organic growth)	16.3%	15.2%	14.0%
Demand driver	· Household appliance industry to grow at a 5-year CAGR of 11-12% till FY14. Growth in food processing and pharma sector likely to increase in the near future	· Increasing demand for cold storages, cleanrooms and project site offices	· Concept of thermal insulation of buildings is slowly increasing. Demand for cold storage and clean rooms on an up move
Margin drivers	· Fragmented industry coupled with low entry barriers leads to intense competition impacting pricing powers.	· Fragmented industry leading to low margins	· Intense competition resulting in low margins
	· Dependent on crude oil prices	· Dependent on crude oil and steel prices	
	· Capex plans for advanced machineries to reduce operating costs going forward	· Diversification in rockwool and glasswool panel to enhance margins	

Source: Company, CRISIL Equities

## Grading Rationale

### Growth in user industries to drive demand for EPS

We expect demand for EPS (commonly known as thermocol) to grow by 14-15% thanks to the growth in user industries such as consumer durables, pharmaceuticals, food processing and construction. EPS is mainly used for the packaging of electrical and household appliances; it is used to cushion fragile items inside boxes.

The Indian packaging industry is estimated to be valued at USD 14 bn as of 2009 and has registered a growth rate of more than 15% annually in the past few years. The industry is dominated by rigid packaging, though there seems to be a shift towards flexible packaging like EPS. Moreover, EPS offers benefits such as lower weight, ease of handling and a longer shelf life of goods, besides providing self-promotion of the product.

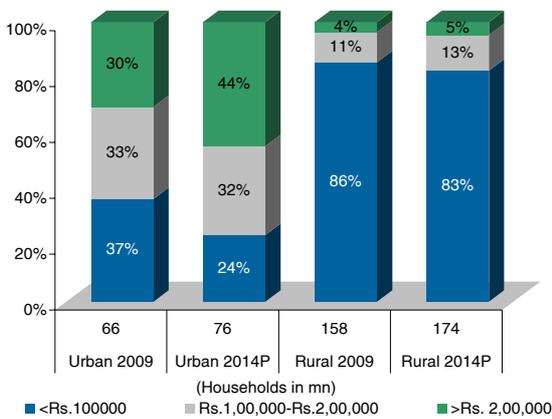
### Consumer durables industry to register healthy growth

The increasing presence of multinationals in electronics, consumer durables and automotive sectors has made the packaging industry grow at an annual rate of 10-12%. The household appliance industry registered a five-year CAGR of 11.5% from FY04 to FY09. We expect it to register a five-year CAGR of 11-12% from FY09 to FY14 mainly due to rising household income and penetration levels in addition to replacement demand. EPS industry is expected to benefit from the growth in consumer durables industry, as it is the most commonly used packing material.

*EPS is used for the packaging of electrical and household appliances*

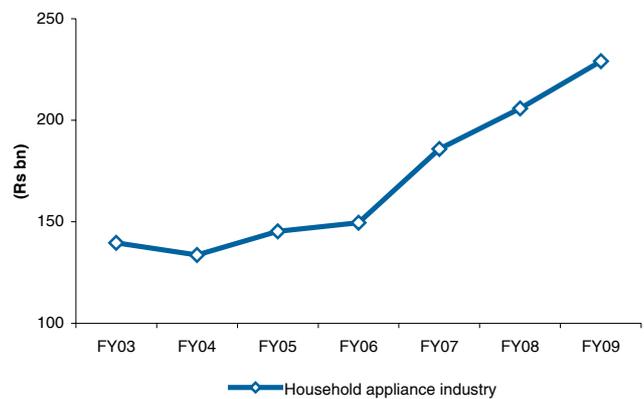
*The household appliance industry is expected to register a five-year CAGR of 11-12% from FY09 to FY14*

**Figure 1: Share of mid- and high-income households to increase**



Source: CRISIL Research

**Figure 2: Growth in the household appliance industry**



Source: CRISIL Equities

### Adoption of EPS in the construction industry could boost growth

EPS is one of the most environment-friendly materials with best ratings (A+) in most of the environmental performance factors and is being used globally in the construction industry for thermal insulation and structural insulated panels (SIP). Since 1950, SIPs have been used in the US housing construction industry as main load bearing members throughout the building (floors, roofs and walls). In the UK, these panels are predominantly used as internal and external walls in dwelling and light-industrial construction of up to three storeys. In some applications, these panels are also used for the roofing structure.

**Thermal insulation of buildings is at a nascent stage in India and is slowly picking up**

In India, the thermal insulation of buildings is at a nascent stage and is slowly picking up, while SIPs are not used. Currently, only 0.25% of buildings in India are thermally insulated. With energy costs rising, there is an increased thrust on investment in the manufacturing of energy-efficient products. The government too has been propagating reduction in power consumption. We expect the Indian construction industry to increase the adoption of EPS for both hot and cold insulation.

**In 2009, WBREDA opened the first low energy consumption complex in Kolkata**

For instance, in 2009, West Bengal Renewable Energy Development Agency (WBREDA) opened the first low energy consumption complex powered by solar energy in Kolkata with the use of EPS for thermal insulation.

**Table 1: EPS has the best ratings for environmental performance**

Water extraction	A+
Mineral resource depletion	A+
Stratospheric ozone depletion	A+
Human toxicity	A+
Ecotoxicity	A+
Nuclear waste	A+
Waste disposal	A+
Fossil fuel depletion	A
Eutrophication	A+
Acidification	A
Note: A+ is the best and E is the lowest	
Source: <a href="http://www.bre.co.uk">www.bre.co.uk</a> , CRISIL Equities	

### **Panel requirements to increase on the back of rising demand for cold storages and cleanrooms**

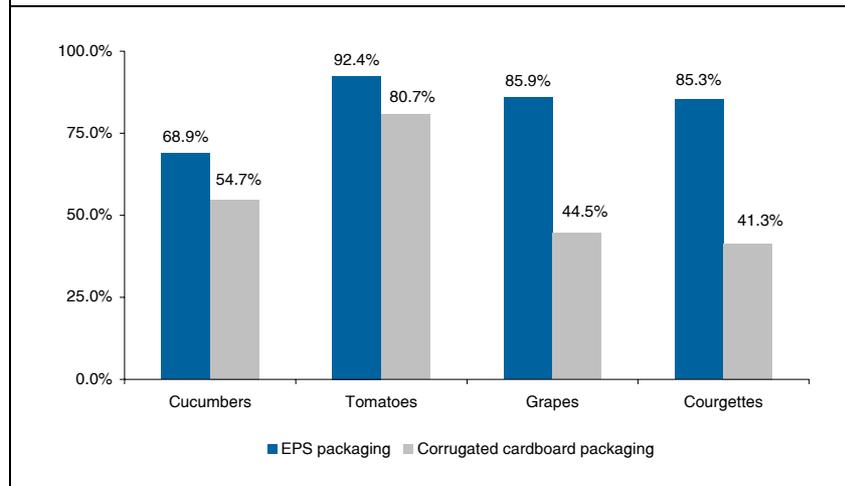
According to a KPMG and Assocham report, more than 30% of produce from fields is lost due to poor post-harvesting facilities and lack of cold chain infrastructure. India's existing food cold storage facilities can accommodate 21.7 mn tons of produce compared with a requirement of more than 31 mn tons. This shortfall is holding back the nation's food industry, including the rapidly developing food processing sector. In March 2010, the Reserve Bank of India (RBI) granted infrastructure status to cold storages to encourage more food production and prevent wastages.

Cleanroom technology is crucial for the Indian pharmaceutical and biotechnology companies to be successful globally. The desire to deliver products of a consistently high quality and credibility has made quality control and assurance a 'must have' for the pharmaceutical and biotechnology companies.

The insulated sandwich panels are widely preferred in cold storages and cleanrooms because of:

- Hygienic and non-contaminable material
- Quick construction and dismantling
- Longevity along with almost zero maintenance
- Considerable thermal comfort and energy savings

**India's existing food cold storage facilities have a shortfall of nearly 10 mn tons**

**Figure 3: EPS is effective in conserving vitamins in food storage**

Source: Korean Food Research Institute, CRISIL Equities

*The company has EPS production capacity of ~ 1,600 MT and prefab panels of 216,000 RMT*

### Beardsell is positioned well to grow with the industry

Beardsell is one of the largest organised manufacturers of EPS in India. The company has its own manufacturing unit in Thane, Mumbai, while small requirements are sourced from different manufacturers across India; land and machineries are given on lease to them. The company has a production capacity of 768 MT p.a. (~1,600 MT p.a. including outsourced capacity) of EPS which is mainly used for packaging and thermal insulation. It also manufactures prefab panels with a capacity of 216,000 RMT (running meters).

Beardsell's clients include companies in the HVAC (heating, ventilating, and air conditioning), pharma and consumer durables segments, where it has built long-standing relationships. Its client list includes Blue Star Ltd, Voltas Ltd, Hindustan Lever Limited, Cipla Ltd, EID Parry Ltd Micro Labs Ltd, Wockhardt Ltd etc. As Beardsell is operating in a stable growth industry, we believe it is positioned well for growth.

### Capacity expansion plans to drive growth

The company plans to incur capex of Rs 100 mn over the next three-four years to enhance the existing capacity at the Mumbai plant, start new operations in Chennai and diversify into manufacturing of rock wool and glass wool panels, which have additional fire resistance properties. We believe Beardsell would benefit from opening a new plant in Chennai, the auto and electronics manufacturing hub of southern India.

*Company plans to incur capex of Rs 100 mn over next three-four years*

**Table 2 – Capacity expansion plans**

Location	Capex (Rs Mn)	Incremental capacity
Chennai (new factory)	47.5	800-900 MTPA of EPS
Delhi	11	250-300 MTPA of EPS
Thane	8.7	250-300 MTPA of EPS, 12,000 RMT of rockwool / glasswool panels
Coimbatore	19	50 MTPA of EPS, 45,000 RMT of sandwich panels
Vada (new factory)	18	500-600 MTPA of EPS
<b>Total</b>	<b>104.2</b>	<b>~2,000 MTPA of EPS, 55,000 RMT of sandwich panels</b>

Source: Company

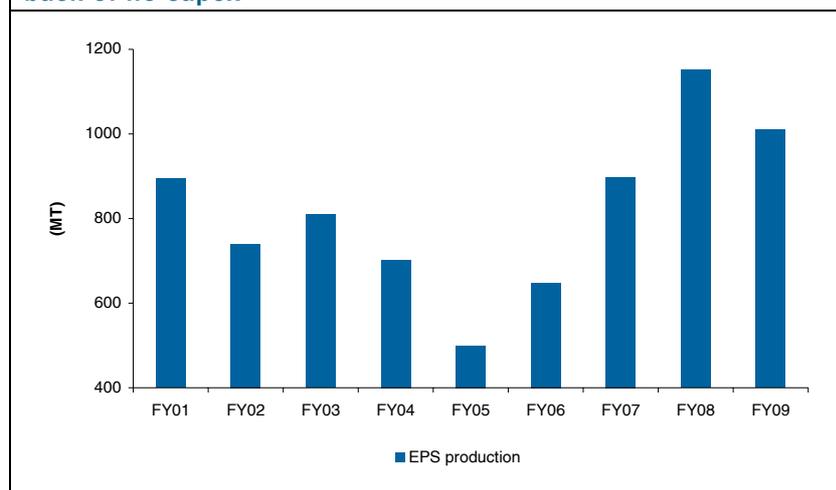
We have assumed the above plans to be executed by FY12-13 and anticipate top-line to grow from Rs 520.2 mn in FY09 to Rs 761.5 mn in FY12, a CAGR of 13.5%.

### Volumes grew marginally in the past

Despite being present in the EPS industry since 1963, Beardsell's volumes grew at an eight-year CAGR of 1.5% to 1,010 MT in FY09. Also, the company was not focused on capacity additions and plant modernisation – the gross block declined from 127 mn in FY05 to 80 mn in FY08. Earlier, the company was led by a professional team (not promoter driven), which did not pro-actively explore new opportunities in the industry. Apart from operations in the EPS business, the company's bandwidth is also partly deployed in the trading business of chemicals, electric motors and textile fabrics.

*Company's earlier management was not pro-active to explore new opportunities in the industry*

**Figure 4: The increase in EPS production from FY05 was on the back of no capex**



Source: Company, CRISIL Equities

### Change in top management augurs well

In May 2009, Mr. Bharat Anumolu (member of the promoter family) took over as the managing director and Mr. Narasimha Rao was appointed as the executive director. Mr. Bharat is a graduate from the Indian Institute of Technology, Chennai and has a Masters in Industrial and Systems Engineering, Virginia Tech, USA. He has earlier worked as VP - Information Technology, at Merrill Lynch Bank, US. Mr. Narasimha Rao

*Beardsell's top management changed in April 2009*

has worked as chief operating officer at KCP Sugar and also has experience in the petrochemicals industry. As per our discussions with the company, the new management is pro-active and has significant plans to enhance the capacities and operations of the company.

We believe a change in top management will likely propel growth of the company and help in gaining market share in the EPS industry. We expect top-line to grow by 17% and 20% in FY11 and FY12, respectively, compared to negative growth in FY09 and marginal 4% in FY10.

### High competition limits margins and RoE

As the industry is not technology-oriented and requires very little capex to set up an EPS plant (Rs 5 mn to 10 mn for a small plant), it is highly fragmented and many of the players are regional. Also, as the final product has high mass and low weight, transportation is challenging – typically EPS plants are situated near end-user locations. Due to high competition, manufacturers rely on volumes for growth and earn thin operating margins in the range of 5% to 7%. Beardsell's EBITDA margins have been in the range of 5% to 7% with RoE of 10-15% in past two-three years.

Amongst the organised players, the key competitors include:

- Lloyd Insulations Ltd – It serves a broad spectrum of industries with advanced insulation products.
- Metecno India Pvt Ltd – It produces sandwich panels for the building and cold storage industries.
- Rinac India Ltd – It provides solutions for cold chain and cleanroom infrastructure.
- Blue Star Ltd and Voltas Ltd – They are the largest players in the air conditioning and refrigeration segments.

### Small industry with limited bargaining power

While the Indian packaging industry is estimated at USD 14 bn (Rs 630 bn), the polystyrene industry is only Rs 16.8 bn, of which the size of the EPS industry is estimated at Rs 3.8 bn as of FY09. Also, the EPS cost in the overall consumer durable industry is typically less than 2%. Given that the industry is fragmented, is not technology oriented, with many regional players, the companies in this segment have limited bargaining power with their customers. At the same time, the key raw materials - expandable polystyrene (a crude derivative) and steel (for the prefab panels) - are linked to global commodity prices. Hence, the relative positioning of the industry is weak.

*EPS manufacturers rely on volumes for growth and earn thin operating margins in the range of 5% to 7%*

*Relative positioning of the industry is weak due to low entry barriers and limited bargaining power*

## Financial Outlook

### Revenues to grow at three-year CAGR of 13.5% to Rs 761 mn in FY12

Beardsell's revenues declined 12.6% YoY to Rs 520.3 mn in FY09 mainly due to lower execution of insulation contracts and decline in volumes of prefab panels. Revenues from the contracts business declined 27.8% YoY to Rs 132.9 mn in FY09 as a result of the economic slowdown. We expect revenues from the panel business to grow from Rs 165.9 mn in FY09 to Rs 248.7 mn in FY12, at a CAGR of 14.5%.

We expect total revenues to grow at a three-year CAGR of 13.5% to Rs 761.5 mn in FY12 supported by growth from the EPS, prefab panels and the contracts businesses. We expect the EPS segment to register a three-year CAGR of 16.3% to Rs 319.4 mn, while the prefab panels segment is expected to register 15.2% growth to Rs 253.8 mn in the same period. The insulation contracts business is anticipated to pick up post FY10 and is expected to register 16% growth in the next two years.

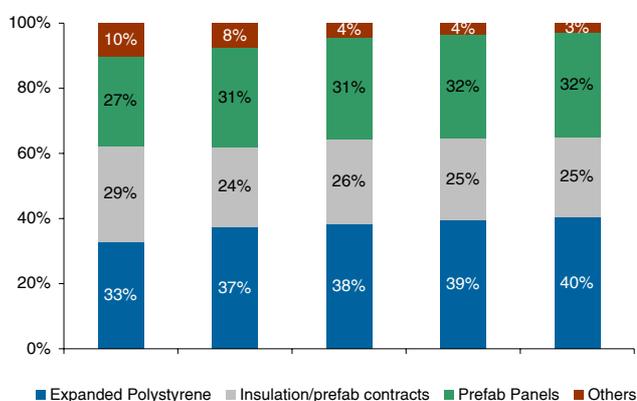
*Revenues likely to register three-year CAGR of 13.5% in FY12*

**Table 3: Key assumptions in major segments**

Particulars	FY07	FY08	FY09	FY10E	FY11E	FY12E
<b>EPS</b>						
Volumes (MT)	1,122	1,151	1,115	1,227	1,472	1,803
Realisation per MT	162,050	178,558	181,892	177,345	177,345	177,168
Sales	182	206	203	218	261	319
YoY growth	17.5%	13.0%	-1.3%	7.3%	20.0%	22.4%
<b>Prefab panels</b>						
Volumes (RMT)	61,194	97,036	89,004	97,904	115,527	139,788
Realisation per RMT	1,724	1,771	1,864	1,817	1,817	1,815
Sales	105	172	166	178	210	254
YoY growth	45.1%	62.9%	-3.5%	7.3%	18.0%	20.9%
<b>Contract revenues</b>						
	167.28	184.1	132.93	146.2	168.2	196.7
YoY growth	15.3%	10.1%	-27.8%	10.0%	15.0%	17.0%

Source: Company, CRISIL Equities Estimate

**Figure 5: Segmental contribution to the top line**



Source: Company, CRISIL Equities Estimate

**Figure 6: Sales and YoY growth**



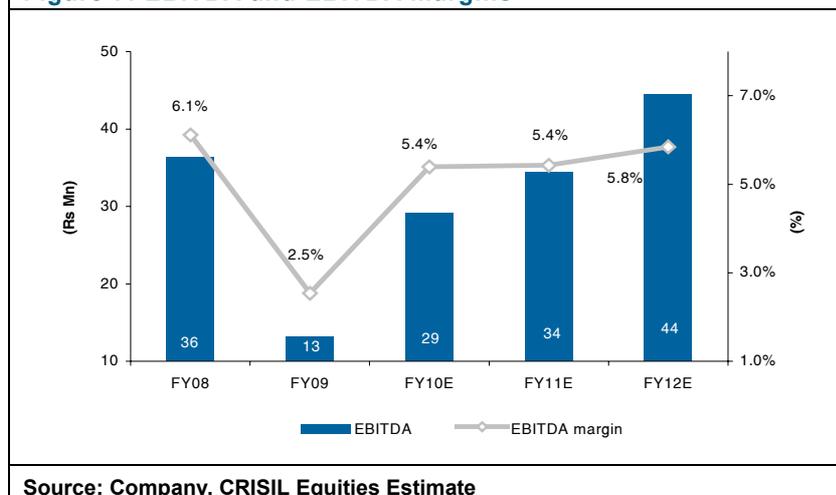
Source: Company, CRISIL Equities Estimate

*Operating margins expected to improve post FY11*

### EBITDA margins expected at 5-5.5% in the near term

The company's operating margins excluding extraordinary expenses increased 160 bps YoY to 7.7% in FY09 due to lower revenues from trading activities which typically earn low margins. The company made a provision for doubtful advances to the tune of Rs 26.9 mn, which resulted in lower reported operating margins of 2.5% in FY09. In 9MFY10, the company reported operating margins of 5.2% as higher margins in the EPS and the prefab panel businesses was offset by losses in the trading business. We expect operating margins at 5.4% in FY10 and FY11 respectively. Benefits of capex in advanced machineries are expected to accrue from FY11 onwards; hence we anticipate operating margins to improve post FY11.

**Figure 7: EBITDA and EBITDA margins**

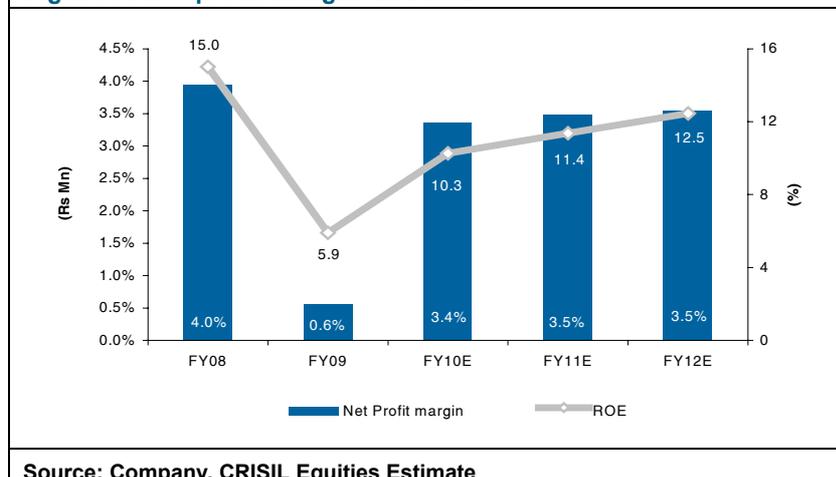


Source: Company, CRISIL Equities Estimate

*Capex of Rs 90 mn is expected to be financed partly from debt and partly from internal accruals*

We have assumed a capex of Rs 90 mn over the next three years. As per our discussions with the company, capex is expected to be financed partly from debt and partly from internal accruals. We expect the company to raise a debt of Rs 20 mn in the next two years; as a result interest expenses will likely rise from Rs 1.1 mn in FY09 to Rs 2.6 mn in FY12. Depreciation expenses are likely to go up from Rs 5.9 mn in FY09 to Rs 11 mn during the same period. In line with our operating margin assumption, net profit margins likely to improve from 3.4% in FY10 to 3.5% in FY12. RoE is expected at 10.3% and 12.5% in FY10 and FY12 respectively.

**Figure 8: Net profit margin and RoE**



Source: Company, CRISIL Equities Estimate

## Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

### Longstanding history and organised manufacturer of EPS in India

Beardsell pioneered the manufacturing of EPS in 1963. Moving along with the changing trends, the company launched different products according to customer specifications. The quality of its shape-moulding products was well recognised and awarded the 'India Star' for excellence in packaging. The company has a long history - the core area of work centres around EPS and holds the credit of being one of the largest organised manufacturers of EPS in India.

### Lack of aggression in the past led to low volume growth

Despite being the largest manufacturer of EPS, volumes registered marginal CAGR of 1.5% from FY01 to FY09. The company's earlier management (non promoter) did not pro-actively explore new opportunities in the EPS industry.

### Change in top management bodes well

Mr. Bharat Anumolu and Mr. Narasimha Rao were appointed as managing director and executive director, respectively, in May 2009. Mr. Bharat, graduate from IIT, Chennai and masters in industrial and systems engineering, has 13 years of experience in investment banks like Merrill Lynch, Deutsche Bank and Credit Suisse. Since April 2007, Mr. Bharat is on the board of the company and took over as managing director in May 2009. Mr. Rao has experience in the sugar and petrochemical industries. Prior to his induction in the board of the company, he was COO at KCP Sugar. We expect the new management to introduce new strategies and drive the growth of the company in the near future.

### Second line of management

Based on our interactions with heads of various departments, we believe there is a reasonably experienced second line of management — operational heads who report to the executive and managing director — in place. Key managerial personnel have 10 to 20 years of experience in different industries and have been associated with the company for an average of five to 10 years.

*In 1963, Beardsell pioneered the manufacturing of EPS*

*EPS volumes increased marginally from 895 MT in FY01 to 1,010 MT in FY09*

*New management is expected to introduce new strategies and drive growth of the company*

## Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at Beardsell presents good practices supported by a strong and fairly independent board. Although the current board lacks relevant EPS industry experience, we feel, given their past experience in different industries, they would be able to constructively contribute to the board. We feel the company's corporate governance practices are adequate and meet the minimum required levels.

### Board composition

Beardsell's board comprises of seven members of which four are independent, which exceeds the stipulated SEBI listing guidelines. Given the background of directors, we believe that the board is fairly diversified. Mr. Bharat Anumolu, one of the promoters, and Mr. Narasimha Rao are the executive directors. Mr. Gowri Shanker (independent director), has over 25 years of experience with multinational companies like AT&T, Fedex and Holiday Inn. Another independent director, Mr. Thirumal Rao, has 30 years of experience in company law, excise and custom and was a member of Expert Committee of Madras Chamber of Commerce and Industry.

### Board's processes

The balance sheet disclosures are sufficient to gauge the involvement of board members in meetings. The company has various committees in place to support corporate governance practices. However, the company's disclosures can be more comprehensive to analyse various business aspects of the company. CRISIL Equities assesses from its interactions with independent directors of the company that the quality of agenda papers and the level of debate of discussions at the board meetings is good.

We feel that the independent directors are well aware of the business and are fairly engaged in all the major decisions reflecting good corporate governance practices. Further, we assess that the audit committee, is chaired by an independent director – Mr. P.C.Nambiar (former Chairman of State Bank of India), and it meets at timely and regular intervals.

*Board comprises seven members, of which two are executive and four independent directors*

*Independent directors are well aware of the business and are engaged in all the major decisions*

## Valuation

**Grade: 2/5**

We expect Beardsell to earn an EPS of Rs 5.8 and Rs 7.0 in FY11 and FY12 respectively, up from Rs 4.7 in FY10.

Based on the DCF method, we believe the fundamental value of Beardsell's businesses to be Rs 54.4 per share. We initiate our coverage on Beardsell with a valuation grade of **2/5**. This grade indicates that the market price of the company has **downside** from the current levels.

Following are the key factors in our valuation:

1. We have considered discounted free cash flows from FY11 to FY15.
2. We have assumed a target debt-equity ratio of 0.05x
3. We have considered cost of equity at 17.2%

Given the highly competitive nature of the industry, the company's financial performance, including its cash flows, is highly vulnerable to growth in the household appliance industry and order inflows in insulation and prefab panel businesses. Although we remain cautious in our assumptions, we feel any positive change may significantly impact valuations.

We have assumed a terminal growth rate of 3%, equity risk premium of 6% and a risk free rate of return of 7%.

*Financial performance is highly susceptible to growth in the household appliance industry and order inflows in the insulation and prefab businesses*

**Table 4: Sensitivity to WACC and terminal growth rate**

		Terminal growth rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
WACC	14.7%	57	60	64	68	74
	15.7%	53	56	59	62	67
	16.7%	50	52	<b>54</b>	58	61
	17.7%	47	49	51	53	56
	18.7%	44	46	48	50	52

Source: CRISIL Equities Estimate

## Company Overview

*Beardsell is engaged in the manufacturing of EPS and prefab panels*

Beardsell Ltd started as a trading company in 1914 and diversified into the textile business in 1937. In the late 1960s, the company ventured into exports, insulation and contracting, packaging, technical consultancy services and agency business.

The company pioneered the manufacturing of EPS products in 1963. The company's product line includes thermofrost and metoplast, which impart valuable support to industrial packaging. The company has manufacturing plants in Mumbai and New Delhi, while third party processing plants are situated in Bangalore, Coimbatore, Hyderabad and Ghaziabad. The company's core area of work centres on EPS and holds the credit of being the single largest manufacturer of EPS in the country with a pan-India presence including third party processing plants.

**Table 5: History of Beardsell**

<b>1914</b>	Birth of the company W.A.Beardsell as a trading company
<b>1937</b>	Transformed its attention towards textiles and promoted a textile manufacturing unit
<b>1963</b>	Pioneered the manufacturing of EPS
<b>1967</b>	Amalgamated with Mettur Industries Ltd and became Mettur Beardsell Ltd
<b>1967-73</b>	Spread wings to venture into exports, insulation and contracting, packaging, technical consultancy services and agency lines
<b>1974</b>	Awarded the India Star for excellence in packaging
<b>1983</b>	Metter Beardsell transformed into Beardsell Ltd
<b>1985</b>	Controlling interest was taken by Nava Bharat Ferro Alloys Ltd
<b>1990</b>	Expanded processing units in various locations
<b>2009</b>	Change in the management with new executive and managing director

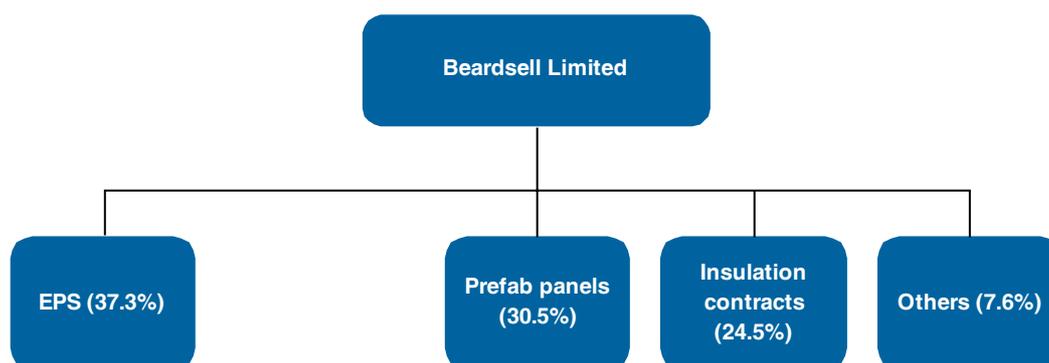
Source: Company

## Business Overview

*Beardsell operates in the niche EPS industry catering to industrial packaging mainly household appliances*

Beardsell operates in the niche EPS industry and caters to industrial packaging mainly household appliances. The company undertakes industrial and building insulation contracts according to the specifications of the consumers. The company started manufacturing isobuild prefab panels in 1995-96 which has EPS sandwiched between pre-coated steel. Beardsell also earns 8-10% of the revenues from trading activities in electric motors and fabrics.

Chart 1: Business segments



*Earns 35% of the revenues from the EPS segment*

### EPS

Beardsell has been in the EPS industry since 50 years and serves varied industries like pharmaceuticals, consumer durables, etc. The company earns approximately 35% of the total revenues from this segment, while operating margins are in the range of 4% to 6%. The EPS business can be further classified into following segments:

#### Thermofrost

Thermofrost ceiling tile is a light weight and multi-purpose designed tile, ideally suited for false ceiling and stick on ceiling tile for instant application. The tile is free from contamination and reduces the cost of ceiling insulation and power consumption up to 15%. This kind of versatile insulation tile finds applications in homes, showrooms, office complex, banks and hotels and is available in snow white colour.

#### Metoplast

Metoplast, made out of EPS with the latest technology, helps in keeping the things either hot or cold. The product – Igloo - retains flavour and nutrients, and has been tested and certified by the Institute of Catering Technology and Applied Nutrition, Chennai.

#### Solar shield

Solar shield helps in effective thermal insulation which possesses high compressive strength and very low moisture absorption properties. The board can be designed and manufactured to match existing profiled sheeting and cladding of asbestos or metal.

*Prefab panels are used for cold storages in food processing and cleanrooms of pharma companies*

### **Prefabrication panels**

Prefabrication panels are a structural sandwich laminate used as an alternative to conventional construction material. The prefabricated panel is a rapidly growing business. The panels which were initially meant to improve working efficiency and energy conservation of cold storages has found demand from other sectors like pharma, food processing, etc.

The basic component of the structural panel is a pre-stressed skin of steel, permanently bonded to an insulating core with heat polymerising adhesive. The panel's thickness ranges from 50mm to 250mm enabling it to meet all insulation requirements. Besides being self supportive and environmentally friendly (CFC free), the panels are also designed to meet a wide range of strength, colour and finish requirements. The prefab panel finds applications in industrial and commercial buildings, cold storages, clean rooms, refrigerated vehicles, etc.

Prefabricated building comprises of the panel, where the high strength to weight ratio of the panel means significant cost savings by minimising steel framework. These panels can be manufactured in any transportable length, while its installation is quick and efficient, resulting in substantial savings over concrete and masonry construction.

Revenues from the prefab panels grew at a four-year CAGR of 42.3% from FY05 to FY09, while its contribution to the total revenues increased from 11.9% to 30.5% during the same period. The company earns operating margins of 5-7% from prefab panels.

### **Contracting**

*The company has strong expertise in designing, fabricating, supplying and installing advanced insulation according to client specifications*

Beardsell has nearly four decades of comprehensive expertise to design, fabricate, supply and install advanced insulation to a client's specific requirements. Construction management systems, planned project, well qualified and experienced engineers and trained technicians enable the company to meet the deadlines. The company has established countrywide network of branch offices, which helps it ensure smooth execution of projects even in the remote corners of the country. Revenues from this segment registered a three-year CAGR of 16% from FY05 to FY08 but witnessed negative growth in FY09 as a result of the global economic slowdown. The segment had a revenue contribution of 24.5% in FY09.

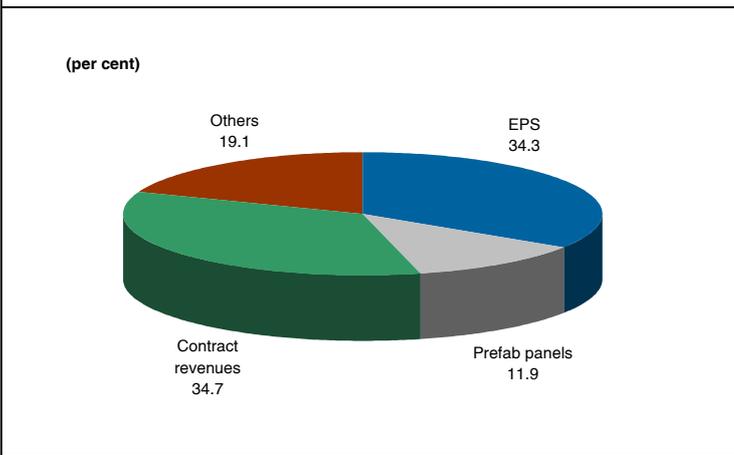
### **Industrial insulation**

The company undertakes both hot and cold insulation work for boilers, pressure vessels, piping, tanks, chimneys, cold storages, etc. The company uses thermal insulation materials like EPS, polyurethane foam (PUF), phenolic foam, rockwool, fiber glass, calcium silicate, etc. as per the projects specifications.

### **Building insulation**

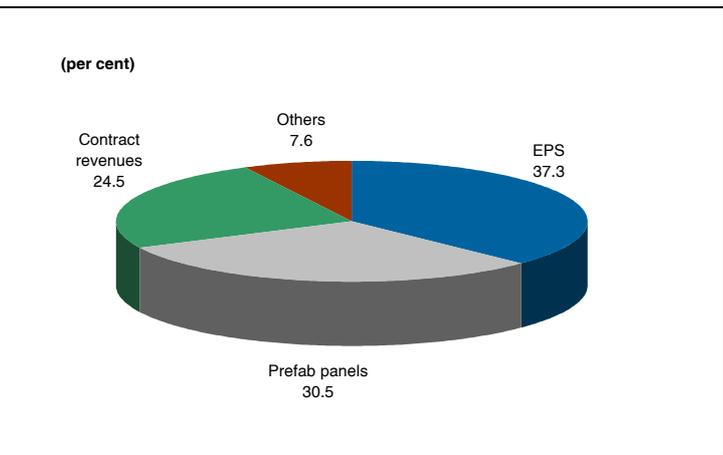
The company carries building insulation contracts on under/over roof insulation with the help of EPS, false ceiling with EPS, AC sheet, interiors and partitions with wood and glass, aluminum, etc. It also undertakes sound proofing and weather proofing for both RCC roof and asbestos/metal roofing as an extension of services to the building industry.

**Figure 9: Segmental contribution to the top line (FY05)**



Source: Company, CRISIL Equities

**Figure 10: Segmental contribution to the top line (FY09)**



Source: Company, CRISIL Equities

*Beardsell earns 8-10% revenues from the trading business*

**Trading business**

The company earns 8-10% of its revenues from trading activities in electrical, chemical and textile business. Operating margins are in the range of 2-3% from trading activities.

Beardsell is an authorised dealer for Siemens Ltd for electric motors and represents Schenectady Herdillia Chemicals Ltd, Mumbai for their range of bulk chemicals. The company is also a marketing agent for Anglo French Textiles, a unit of Pondicherry Undertaking. The product range in textiles includes gray, processed and printed 100% cotton fabric.

**Plans to merge third party EPS manufacturing units into Beardsell**

Till 2007, EPS enjoyed the small scale industries (SSI) benefits of zero excise duty. To benefit from this, Beardsell gave land, plant and machinery on lease to different regional parties and sourced EPS requirements exclusively from them to meet the regional demand. Of the total EPS production in the previous years, the company has procured nearly 35% from third party manufacturers.

As per our discussion with management, SSI units do not enjoy excise duty benefits. Hence, the company plans to merge all the existing third party units into Beardsell in the next couple of years.

**Raw material requirements**

Polystyrene resin is the basic raw material used to manufacture EPS and constitutes 55-60% of the total raw material cost. The company imports the raw material mainly from China with a one-month inventory. Prefab panels also require steel which the company sources from local companies like SAIL, Ispat and Essar Steel.

*The company imports polystyrene, while steel is locally sourced*

## Annexure: Financials

Table 6: FINANCIAL STATEMENTS

### Income Statement

(Rs Mn)	FY07	FY08	FY09	FY10E	FY11E	FY12E
Net sales	504	583	509	529	621	745
<b>Operating Income</b>	<b>516</b>	<b>595</b>	<b>520</b>	<b>541</b>	<b>635</b>	<b>761</b>
<b>EBITDA</b>	<b>17</b>	<b>36</b>	<b>13</b>	<b>29</b>	<b>34</b>	<b>44</b>
Depreciation	6	6	6	6	8	11
Interest	2	2	1	1	2	3
Other Income	29	9	7	8	10	9
<b>PBT</b>	<b>37</b>	<b>37</b>	<b>13</b>	<b>29</b>	<b>34</b>	<b>40</b>
<b>PAT</b>	<b>25</b>	<b>23</b>	<b>10</b>	<b>18</b>	<b>22</b>	<b>27</b>
No. of shares	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>
Earnings per share (EPS)	<b>6.6</b>	<b>6.0</b>	<b>2.6</b>	<b>4.7</b>	<b>5.8</b>	<b>7.0</b>

### Balance Sheet

(Rs Mn)	FY07	FY08	FY09	FY10E	FY11E	FY12E
Equity (Including reserves)	146	162	169	185	205	228
Debt	21	13	4	13	20	20
Current liabilities and provisions	122	138	145	147	173	207
Deferred tax liability/(asset)	6	4	(7)	3	4	5
Minority interest	-	-	-	-	-	-
<b>Capital Employed</b>	<b>294</b>	<b>318</b>	<b>310</b>	<b>348</b>	<b>401</b>	<b>460</b>
Net fixed assets	39	40	63	67	93	127
Capital WIP	5	3	10	10	10	10
Intangible assets	-	-	-	-	-	-
Investments	1	1	1	1	1	1
Loans and advances	59	61	46	48	56	67
Inventory	35	39	23	25	31	38
Receivables	127	120	99	109	129	156
Cash and bank balance	29	55	68	88	82	61
<b>Applications of Funds</b>	<b>294</b>	<b>318</b>	<b>310</b>	<b>348</b>	<b>401</b>	<b>460</b>

Source: Company, CRISIL Equities Estimate

Table 7: FINANCIAL STATEMENTS

**Cash Flow**

(Rs Mn)	FY07	FY08	FY09	FY10E	FY11E	FY12E
Pre-tax profit	37	37	13	29	34	40
Total tax paid	(11)	(16)	(15)	(1)	(10)	(12)
Depreciation	6	6	6	6	8	11
Change in working capital	(30)	17	59	(12)	(8)	(11)
<b>Cash flow from operating activities</b>	<b>2</b>	<b>44</b>	<b>62</b>	<b>23</b>	<b>24</b>	<b>28</b>
Capital expenditure	1	(5)	(36)	(10)	(35)	(45)
Investments and others	(1)	-	-	-	-	-
<b>Cash flow from investing activities</b>	<b>(0)</b>	<b>(5)</b>	<b>(36)</b>	<b>(10)</b>	<b>(35)</b>	<b>(45)</b>
Equity raised/(repaid)	0	0	4	-	-	(0)
Debt raised/(repaid)	4	(7)	(10)	9	8	-
Dividend (incl. tax)	(4)	(7)	-	(2)	(3)	(3)
Others (including extra ordinaries)	0	0	(7)	-	-	-
<b>Cash flow from financing activities</b>	<b>(1)</b>	<b>(13)</b>	<b>(13)</b>	<b>7</b>	<b>5</b>	<b>(3)</b>
<b>Change in cash position</b>	<b>2</b>	<b>26</b>	<b>13</b>	<b>20</b>	<b>(6)</b>	<b>(20)</b>
Opening cash	27	29	55	68	88	82
Closing cash	29	55	68	88	82	61

**Ratios**

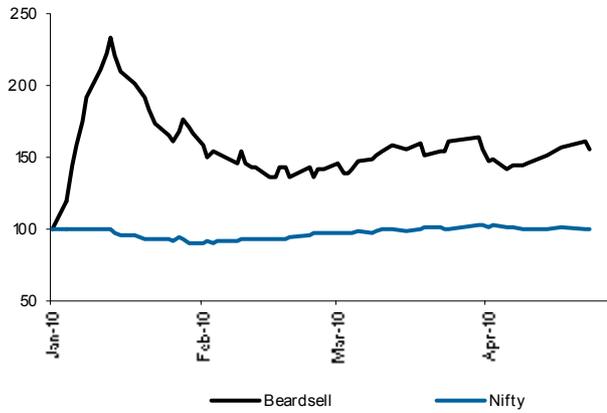
	FY07	FY08	FY09	FY10E	FY11E	FY12E
<b>Growth ratios</b>						
Sales growth (%)	25.1	15.2	(12.6)	3.9	17.4	19.9
EBITDA growth (%)	(14.6)	107.8	(63.7)	121.0	18.2	29.1
EPS growth (%)	86.7	(7.6)	(87.7)	527.7	21.8	21.8
<b>Profitability Ratios</b>						
EBITDA margin (%)	3.4	6.1	2.5	5.4	5.4	5.8
PAT margin (%)	4.9	3.9	1.9	3.4	3.5	3.5
Return on capital employed (RoCE) (%)	7.2	17.9	4.2	12.3	12.3	14.2
Return on equity (RoE) (%)	18.8	15.0	5.9	10.3	11.4	12.5
<b>Dividend and Earnings</b>						
Dividend per share (Rs)	1.2	1.8	0.0	0.5	0.6	0.7
Dividend payout ratio (%)	17.6	28.6	0.0	10.0	10.0	10.0
Dividend yield (%)	0.5	1.8	-	0.7	0.9	1.1
Earnings per share (Rs)	6.6	6.0	2.6	4.7	5.8	7.0
<b>Efficiency ratios</b>						
Asset turnover (Sales/GFA)	5.1	6.8	5.7	5.0	4.9	4.5
Asset turnover (Sales/NFA)	12.2	15.2	10.1	8.3	7.9	6.9
Sales/Working Capital	6.2	6.6	10.0	18.7	16.4	15.8
<b>Financial stability</b>						
Net debt-equity	-0.1	-0.3	-0.4	-0.4	-0.3	-0.2
Interest coverage	4.7	13.4	6.6	18.8	12.5	13.1
Current ratio	2.0	2.0	1.6	1.8	1.7	1.6
<b>Valuation Multiples</b>						
Price-earnings	34.7x	16.1x	12.7x	13.5x	11.1x	9.1x
Price-book	6.1x	2.3x	0.7x	1.3x	1.2x	1.1x
EV/EBITDA	49.9x	9.1x	4.5x	5.8x	5.3x	4.6x

Source: Company, CRISIL Equities Estimate



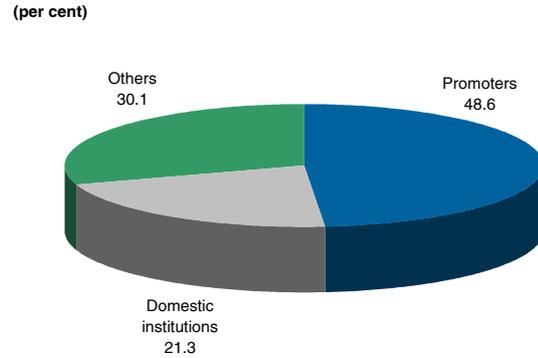
**Focus Charts**

**Stock movement vs market**



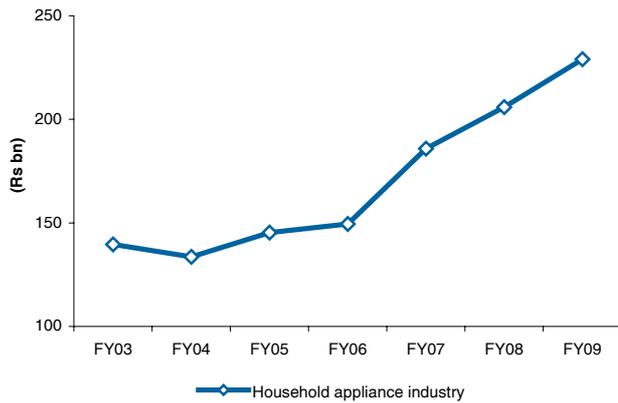
Source: NSE

**Shareholding as on March 2010 (percent)**



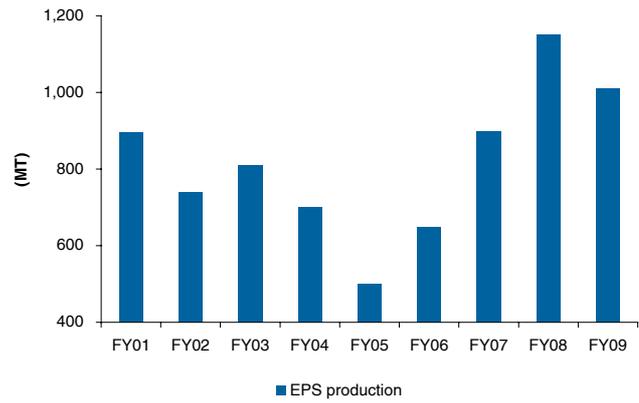
Source: NSE

**Growth in the household appliance industry**



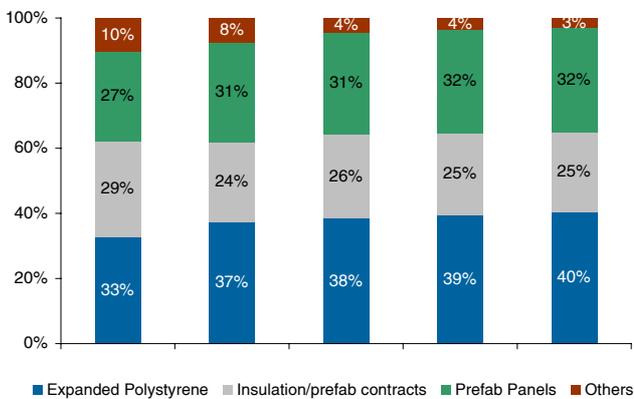
Source: CRISIL Research

**Historical EPS production of Beardsell**



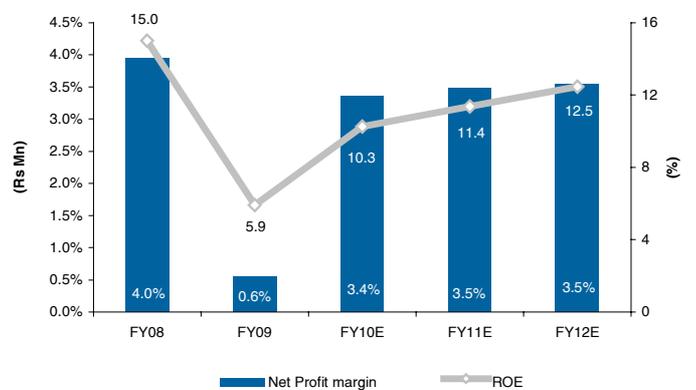
Source: Company, CRISIL Equities

**Segmental contribution to the top-line**



Source: Company, CRISIL Equities Estimate

**Net profit margin and RoE**



Source: Company, CRISIL Equities Estimate

## About CRISIL Limited

CRISIL is India's leading Ratings, Research, Risk and Policy Advisory Company

## About CRISIL Research

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