Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

RISHI LASER LTD

October 07, 2011

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Rishi Laser Ltd (RLL) is an emerging name in the manufacturing of sheet steel/metal fabricated components and assemblies. Over the period the company has expanded its fabrication capacity by setting up units in vicinity of the key clients and at present the company has 12 manufacturing facilities in five different states. The products manufactured by the company are mainly used in the automotive, construction and earth moving machinery, rail transportation and power plant equipments.

Investor's Rationale

- Rishi Laser is one of the few listed independent fabricator engaged in contract manufacturing for the engineering industry in India. All its manufacturing units are equipped with machining, plasma and laser cutting facilities. It operates in four different verticals: construction equipment, power, railways and automotive and has considerable spare capacities to leverage on the growth prospects in these 4 user segments.

- The company has over the past few years invested close to ₹1 billion at its 12 manufacturing facilities in India of which nearly ₹350 million was invested at its Bangalore and Pune facility and we believe that the present market capitalisation of ₹311 million does not truly reflect the value of this ₹2 billion enterprise.

- With the completion of its investment phase, Rishi Laser in our opinion is poised to grow its net profits at a CAGR of 25% over the next 3 years and this would be driven by a 23% CAGR growth in consolidated revenues over the same period.

- In a bid to augment future growth and survive in the competitive market, Rishi Laser made a strategic decision and added new business of "Wear Plate" in its basket. The company has commenced the manufacturing and marketing of "Armour" wear plates from its state-of-the-art manufacturing facility at its Savli plant in Gujarat and ready to reap the benefits from it.

- Given its wide array of diverse and marquee clientele, we believe that Rishi Laser is at an inflexion point to capture the growth envisaged in segments like excavators and construction equipment and more so because it would be able to fabricate large steel capacities that would start coming in the next 18 months.

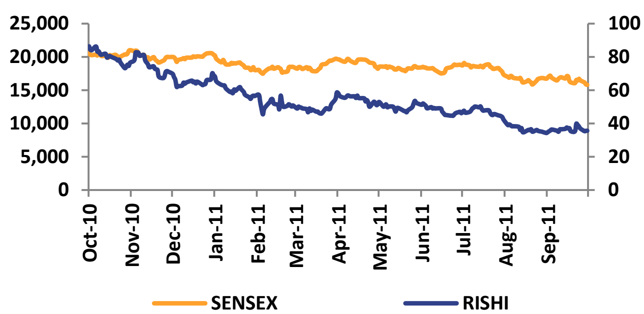
Market Data

Rating	**BUY**
CMP (₹)	36.3
Target (₹)	**54**
Potential Upside	~50%
Duration	Long Term
52 week H/L (₹)	88.3/33.5
All time High (₹)	186.9
Decline from 52WH (%)	52.0
Rise from 52WL (%)	2.8
Beta	0.95
Mkt. Cap (₹ mn)	313.6
Enterprise Val (₹ mn)	921.2

Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹mn)	1,278.3	1,780.5	2,190.0	2,693.7
Net Profit(₹mn)	1.5	55.2	73.7	107.1
Share Capital	85.5	86.4	86.4	86.4
EPS (₹)	0.2	6.4	8.5	11.9
PE (x)	146.3	5.7	4.3	3.0
P/BV (x)	0.7	0.6	0.6	0.5
EV/EBITDA (x)	5.8	3.5	3.0	2.6
ROE (%)	0.3	11.2	13.5	16.3
ROCE (%)	8.7	13.8	15.8	18.0

Relative Price Chart

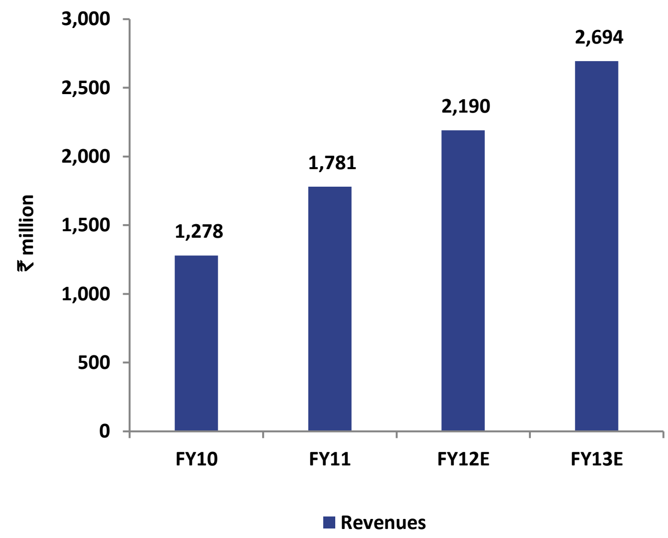


Shareholding Pattern	Jun'11	Mar'11	Diff.
Promoters	19.9%	20.7%	(0.80)
Institutional	-	-	-
General Public	57.7%	56.2%	1.50
Others	22.5%	23.2%	(0.70)

Revenues to witness a CAGR growth of 23% by FY14.

During the first quarter ended June 2011, the net sales of the company stood at around ₹522.7 million as against ₹488.1 million in the previous quarter, fuelled by stable order inflow from the automotive and construction equipment segment. Though operating expenses during the quarter increased significantly to ₹451.7 million from ₹425.5 million, the company reported an operating profit of ₹71.9 million, reflecting a growth of 15.3% (q-o-q). Despite higher taxation, the net earnings of Rishi Laser came in 98.7% higher at ₹15.5 million from ₹7.8 million a quarter earlier. Considering the company's ability to execute a strong order book from the construction equipment segment, especially from L&T and Caterpillar followed by a planned capex of around ₹15 million, the company is expected to witness a strong revenue growth in FY12. Beside, with the completion of a 76 wagons order from Bombardier for Delhi Metro in FY13 and a progressive order inflow in the auto segment, we expect the revenues to grow at a CAGR of 23% in the coming 3 years.

Consistent increase in top-line expected

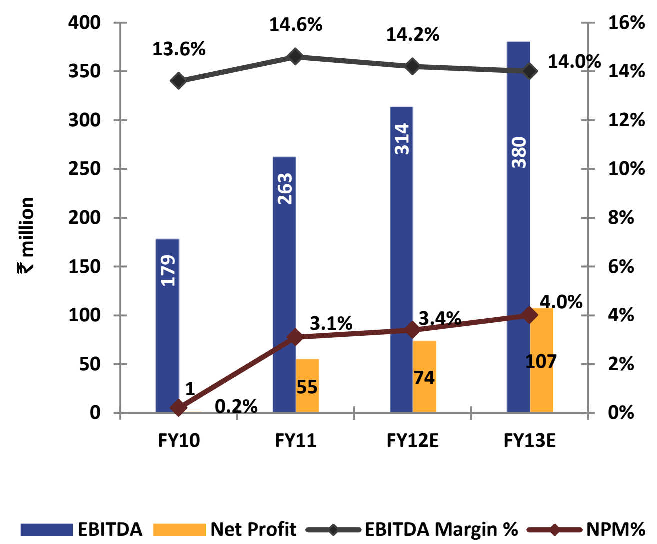


Strong foothold in fabricated components and assemblies driving the growth

Rishi Laser is one of the few listed independent fabricator engaged in contract manufacturing for the engineering industry in India. It has made a strong presence in the manufacturing of sheet steel/metal fabricated components and assemblies. The company operates in four different verticals: construction equipment, power, railways and automotive and has considerable spare capacities to leverage on the growth prospects in these 4 user segments.

All its manufacturing units are equipped with machining, plasma and laser cutting facilities. Availability, under one roof, of state of the art facilities for processing sheet steel ranging from cutting, punching, bending, welding, assembly and painting, ensures the customers about completion of jobs at reasonable pricing and shortened deliveries.

NPM to stay elevated



Strategic foray into new business segment to increase earnings

To augment the future growth, Rishi Laser made a strategic decision to add new businesses in its basket. The company decided to add "Wear Plate" in the portfolio of products. It has set up a state of the art manufacturing facility at its Savli plant in Gujarat to manufacture "Armour" wear plates and hired a strong team of professionals to supervise the manufacturing process of wear plates, ensuring strict quality standards.

Wear plates are used in the plants which requires frequent replacement of certain parts, subjected to wear-tear, like in cement, steel & power plants etc. Hence, such parts are made of wear plate to enhance the life of these parts.

Thus, Rishi Laser is well positioned to drive the growth from new segment as it already commenced the manufacturing and marketing of wear plates. This will also enable the company to provide end to end solutions in steel fabrication.

Capacity expansion to reap benefits in coming years

The company is growing at a rapid pace to grab the opportunity thrown by robust Indian economy in general and infrastructure sector in particular. In view of these opportunities, the company undertook an extensive CAPEX in last couple of years. It invested close to ₹1 billion at its 12 manufacturing facilities in India of which nearly ₹350 million was invested at its Bangalore and Pune facility. Now, the company is well placed to reap the benefits by utilizing the additional capacities generated in the past, which would cater to the growing demand for the coming years as forecasted.

Further, the company cater to demand from automotive paint shops for supply of paint booths and conveyors. It is also engaged in fabrication of components and assemblies for commercial vehicles. With regard to this, it is investing further in this vertical and doing expansion in the state of Gujarat as revenue visibility is strong.

Having completed its investment phase, Rishi Laser in our opinion is poised to grow its net profits at a CAGR of 25% over the next 3 years and this would be driven by a 23% CAGR growth in consolidated revenues over the same period.

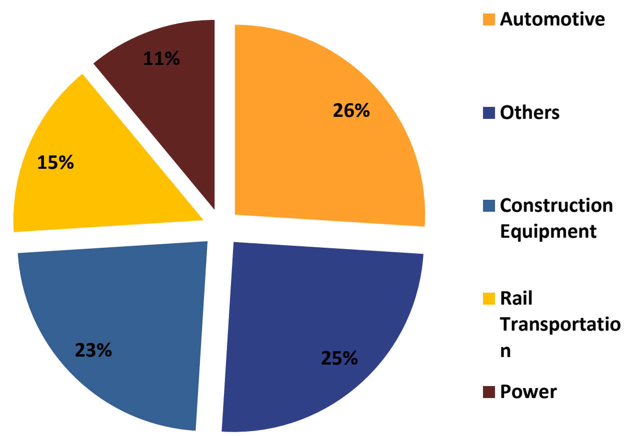
Rishi Laser enjoys strong client base that provides regular revenue source

Rishi Laser has a strong clientele across all the four verticals including Caterpillar, L&T Komatsu, Volvo, Asia Motor Works (AMW), Bombardier, Transportation, JCB, Tata Group, Ingersol Rand, ABB, Areva, Alsthom and Railways among others. Its 74% subsidiary Rishi Consfab will be a ₹500 millon company this fiscal and supplies solely to L&T Komatsu. Larsen and Toubro hold a 26% equity stake in this subsidiary.

Increased interaction with quality-focussed customers has led Rishi Laser becoming a reliable one-stop flat steel processor, thus providing an excellent value proposition.

With almost 80% of its revenues coming from four main verticals namely Construction Equipment, Power, Automotive and Rail transportation, and that to from the top players reflects its dominance and stability in revenues proposition.

Customers Profile 2010-2011

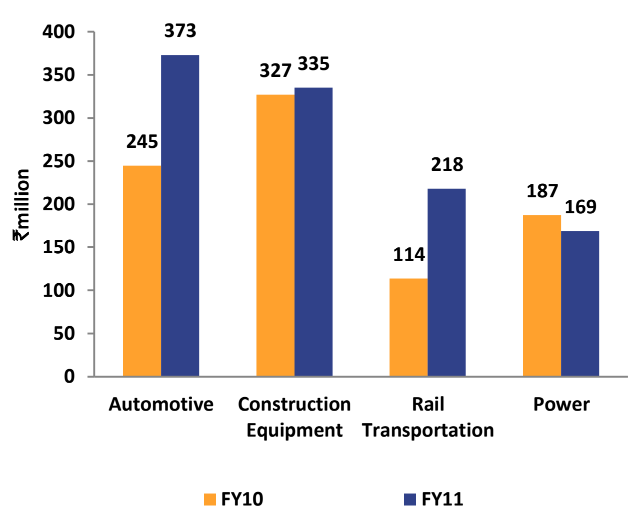


Automotive, Construction equipment and Railways segment leading the growth trajectory, while power segment to come on path

Automotive and construction equipment segments are the major verticals of the company. In automotive segment, it mainly caters to commercial vehicles segment which witnesses the strong demand. Further, revenues from railways vertical also witnessed healthy growth, mainly on account of export orders from Italy for steel moulds for concrete sleepers. While, slowdown in growth is witnessed in power segment but it hold promise as numbers of High Speed Transmission Corridors (HSTC) projects are in the pipeline to be awarded.

Given its wide array of diverse and marquee clientele, we believe that Rishi Laser is at an inflexion point to capture the growth envisaged in segments like excavators and construction equipment and more so because it would be able to fabricate large steel capacities that would start coming in the next 18 months.

Segmental Revenues

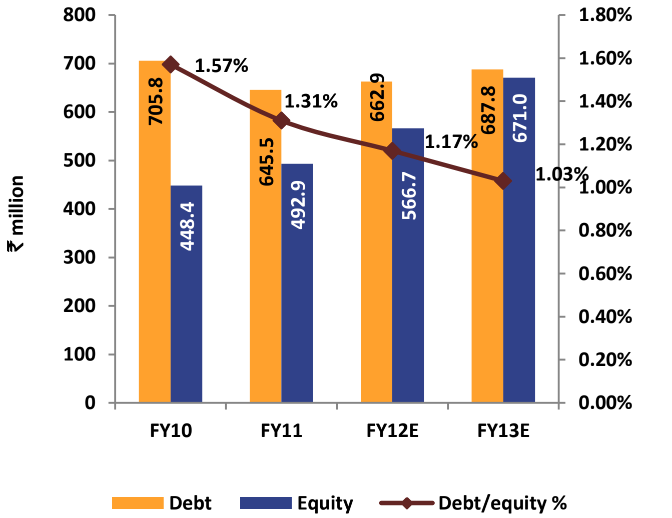


Focus on sectors related with infrastructure development to drive the growth

The company has decided to focus on sectors, namely the construction equipment industry and the power sector. Majorly, it provides higher-end precision engineering products to L&T Komatsu from its Bangalore facility under construction equipment segment and supplies SS Tanks, switch gear parts and laminations as major products to power companies. These two sectors are linked to the infrastructure building of India and it felt that there was unlimited potential in these sectors.

The other area which provides large opportunity is the Rail - transportation sector. This sector is undergoing a transformational change with the introduction of stainless steel cars and wagons. The modernisation and expansion of the Rail transportation offers very good opportunities and is a focus area for the company. Thus, the company is hunting on the opportunities from the sectors whose demand scenario is likely to improve in coming years.

Leverage to improve



Government spending to boost the growth

Rishi Laser's fortunes are meshed with infrastructure creation. The 12th five year plan from 2012-17 is targeting investment of trillion of rupees in infrastructure. The hurdles regarding land acquisition has also been resolved by the government which will keep the pace of infrastructure growth. This can give a huge boost to the manufacturing sector, especially engineering.

Further, large flat steel capacities are coming on stream in the next three years. The domestic steel production is expected to be close 100 million tons by 2015. Also, the per capita steel consumption in India is very low at 48 kg as against world average of 180 kg which would likely to increase with government's thrust on building better infrastructure. Thus, growth in steel capacity presents a great and promising opportunity for the industry.

Hence, the company would be benefitted from the increase in spending on infrastructure.

Risk Factors

- The company is operating in a raw material intensive industry. The main inputs used are various types and grades of steel which constitute a substantial percentage of its overall cost. Unexpected rise and volatility in the steel prices can adversely affect profit margin or have a negative impact on the demand.
- The Company's fortunes are directly co-related to infrastructure creation. In the recent past, infrastructure growth has been slower than anticipated and will miss the target of 11th plan by a big margin. However, the government proposed huge investments in the infrastructure sectors for 12th five year plan from 2012-17 but any further slowdown in spending can impact the growth.
- The biggest worry in the short-term is the rising cost of borrowing. At the current rates many large projects will be unviable and hence investments will be deferred.

The Steel Industry

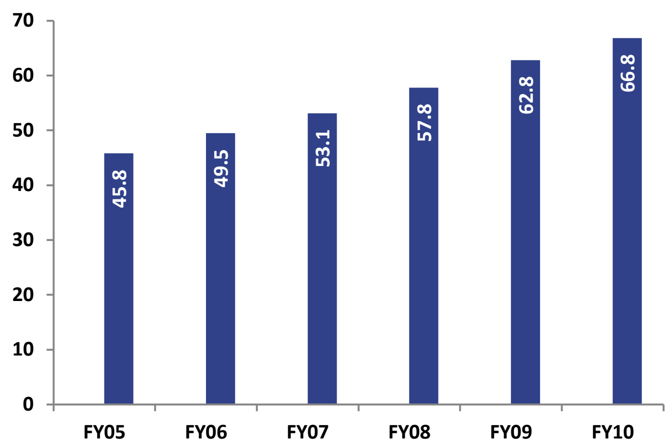
Robust economic outlook supporting surge in demand

India currently the 5th largest producer of crude steel in the World and is expected to become the 2nd largest producer of crude steel in the World by 2016. The increasing demand of steel from the various like infrastructure, real estate and automobile are the growth triggers for the steel sector. India also maintained its lead position as the world's largest producer of direct reduced iron or sponge iron. As per the latest estimates, the crude steel capacity in the country is likely to reach 120 MT by 2012 from 72.9 MT in 2010.Global crude steel production during 2010 has reached a new pinnacle at 1,414 million metric tonnes, up by 15% over 2009 with China leading the race in terms of volume of steel produced, with a growth of 9.3%. Japan stood as the second largest steel producer reported a growth of 25.2% in 2010, followed by United States and Russia registered a growth of 38.5% and 11.7% respectively.

Performance scenario during FY’11

The production of flat products and long products of major Indian companies is estimated to have grown by around 12% and 8% annually respectively during FY’11. However, the Steel consumption for the flat products and long products during FY2011 increased by 6.7% and 10.6% respectively. On the exports front, the flat products exports during the period grew by 1.8%, while the exports of long products decline by 33.7%. On the imports front, the flat products and long products imports dropped by 3.8% and 23.6% respectively. Further, the steel prices during FY’11 have reported a sharp rise from the average prices prevailing in the previous financial year on the back of increase in the prices of input raw materials during the same period.

Indian Crude Steel Production (million tonnes)



Growth Drivers

The growth rate in steel consumption in India is expected to be highest in the World surpassing China in 2012. The sectors like manufacturing, construction, consumer durables, capital goods, intermediate groups along with infrastructure spending to fuel growth in steel sector. The country is likely to achieve a Steel production capacity of nearly 124 mn tonnes by the FY’12. Apart from this, the growth in demand for steel has outpaced the growth in production, leading to increased import dependency. To make up this demand supply mismatch various Brownfield and Greenfield expansion programmes are announced. The capacity additions by various Indian steel producers as well as foreign producers are on the anvil. Around 222 MoUs have been signed by the various steel players with the State Government to set up an additional capacity of 275 mt by 2020.

Outlook

Asian countries, including India, continued to enjoy robust demand of steel from several sectors resulting in increased volumes and a richer product mix. With the expansion of consumer markets, Indian steel industry is likely to bag some major domestic and foreign investments. Further, to protect domestic companies from cheap Chinese supply, the government has announced broader change in customs duty rates and plans to invest over USD 350 bn in industries related to infrastructure and construction which will give a fillip to the steel sector.

Balance Sheet (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	85.5	86.4	89.9	89.9
Reserve and surplus	362.9	406.5	471.8	568.1
Net Worth	448.4	492.9	561.7	658.0
Minority Interest	27.6	30.0	30.0	30.0
Loan Funds	705.8	645.5	672.9	715.4
Net Deferred Tax Liability	46.8	44.4	45.0	45.0
Capital Employed	**1,228.6**	**1,212.8**	**1,309.6**	**1,448.4**
Gross fixed assets	1145.2	1172.9	1266.2	1348.3
Less: accumulated depreciation	288.8	380.0	484.1	600.9
Capital Work in Progress	34.4	37.9	40.0	40.0
Net Fixed assets	890.8	830.8	822.1	787.4
Investment	8.8	12.8	15.0	15.0
Net Current Assets	328.9	369.2	472.6	646.0
Capital Deployed	**1,228.6**	**1,212.8**	**1,309.6**	**1,448.4**

Profit & Loss Account (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Net Sales	**1,278.3**	**1,780.5**	**2,190.0**	**2,693.7**
Other income	5.2	2.2	2.2	2.2
Total Income	**1,283.5**	**1,782.7**	**2,192.3**	**2,696.0**
Expenses	1,104.9	1,520.0	1,878.6	2,315.8
EBITDA	**178.6**	**262.7**	**313.6**	**380.2**
EBITDA Margin %	13.6	14.6	14.2	14.0
Depreciation	66.5	92.5	107.4	116.8
EBIT	**112.1**	**170.2**	**206.2**	**263.4**
Interest	102.4	98.5	106.7	114.7
Profit Before Tax	**9.7**	**71.7**	**99.5**	**148.7**
Tax	8.3	16.5	25.9	41.6
Profit after Tax	**1.5**	**55.2**	**73.7**	**107.1**
NPM %	0.2	3.1	3.4	4.0

Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	13.6	14.6	14.2	14.0
NPM (%)	0.2	3.1	3.4	4.0
ROCE (%)	8.7	13.8	15.8	18.0
ROE (%)	0.3	11.2	13.5	16.3
EPS (₹)	0.2	6.4	8.5	11.9
P/E (x)	146.3	5.7	4.3	3.0
BVPS (₹)	52.5	57.1	62.5	73.2
P/BVPS (x)	0.7	0.6	0.6	0.5
EV/Operating Income(x)	0.8	0.5	0.4	0.4
EV/EBITDA (x)	5.8	3.5	3.0	2.6
EV/EBIT (x)	9.3	5.5	4.6	3.7

Valuation

Rishi Laser is in a great position to garner the benefits of the government's planned spending on infrastructure for 12th five year plan from 2012-17, by capacity expansions done over the years and venturing into new segments. Further, it has a presence across the country except Eastern India where it is looking to put up a facility. The company has reported strong financial performance in FY'11 and would continue to grow at CAGR of 23% over the next 3-yrs. Growing product offerings along with growth in end-user industries will lift its future revenues. Given its strong capabilities and clientele, we rate the stock as 'BUY' at current market price of ₹36.3 with one year price target of ₹54. Rishi Laser has P/BV of 0.6 and trades at 4.3xFY'12E and 3.0xFY'13E earnings.

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