

CRISIL IER Independent Equity Research

Responsive Industries Ltd

Detailed Report

Enhancing investment decisions

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) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation 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 Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

About CRISIL Limited

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

About CRISIL Research

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

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Last updated: April 30, 2012

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.

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Responsive Industries Ltd

In the front row

Fundamental Grade	4/5 (Superior fundamentals)
Valuation Grade	4/5 (CMP has upside)
Industry	Materials

Responsive Industries Ltd (Responsive) manufactures PVC/vinyl flooring solutions, seat covering, upholstery, pharmaceutical packaging, transparent sheeting and shipping ropes. It completed its capacity expansion in Q2FY12 and stabilised the new capacity by end-FY12. The expansion will entrench its dominance in the domestic market and help it further penetrate the global markets. Given strong domestic demand and Responsive's cost advantage in the global markets, we do not expect any offtake risk from the added capacity. We maintain the fundamental grade of **4/5**, indicating that its fundamentals are **superior** relative to other listed securities in India.

Dominance in domestic market continues

Responsive has doubled its PVC products capacity to 90,000 MTPA and increased its shipping ropes capacity to 40,000 MTPA from 33,000 MTPA in FY10. The expansion ensures its leading position with the largest market share in all its segments. Also, the entry of new players is restricted by the long time (three-five years) taken for technology innovation and stringent processes spanning 6-18 months to procure international certifications. Responsive is expected to reach optimum utilisation levels in FY13 given the increasing demand for PVC products combined with increasing penetration in the international markets.

Lower manufacturing costs result in better profitability

Responsive is one of the low-cost producers globally as most competitors have manufacturing facilities in the developed world. Lower overhead and employee costs have enabled Responsive generate better EBITDA margin than the global peers. Due to low-cost positioning, strong distribution base and investments in international sales, we expect the company to benefit significantly from the capacity expansion and register strong growth.

Exposed to fluctuations in raw material prices

- Responsive relies heavily on crude oil derivatives. Adverse movements in international crude oil prices will have an impact on profitability.
- Volatility in currency may increase the outgo for Responsive on its imports and foreign loan repayment. While we expect the rupee to appreciate to Rs 53 by end-FY13, any further depreciation from current levels will have an impact on profitability.

Expect two-year revenue CAGR of 21%

Revenues are expected to register a two-year CAGR of 21% to Rs 24.7 bn in FY14 due to new capacity coming on stream in FY12. EBITDA margin which was impacted by a volatile currency in FY12 is expected to improve to 17.1% in FY14. Adjusted EPS is expected to increase to Rs 7.4 in FY14 from Rs 3.3 in FY12.

Valuations: Current market price has upside

We continue to use the discounted cash flow method to value Responsive at Rs 107 per share. At the current market price of Rs 92, our valuation grade is **4/5**.

KEY FORECAST

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Operating income	8,407	11,797	16,857	21,290	24,728
EBITDA	1,301	1,835	2,167	3,229	4,225
Adj Net income	628	917	879	1,278	1,953
Adj EPS-Rs	2.6	3.6	3.3	4.9	7.4
EPS growth (%)	21.3	38.2	(6.1)	45.4	52.9
Dividend Yield (%)	0.1	0.1	0.1	0.3	0.4
RoCE (%)	18.3	17.1	12.7	16.1	22.3
RoE (%)	23.2	21.2	15.4	18.1	22.8
PE (x)	35.7	25.8	27.5	18.9	12.4
P/BV (x)	7.0	5.0	4.2	3.4	2.7
EV/EBITDA (x)	19.8	14.8	14.0	9.0	6.5

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

For detailed initiating coverage report please visit: www.ier.co.in

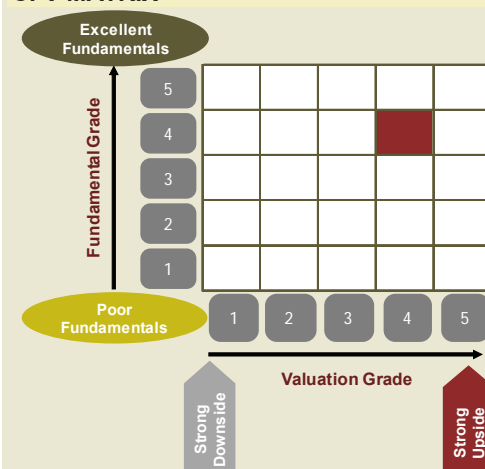
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November 29, 2012

Fair Value Rs 107

CMP Rs 92

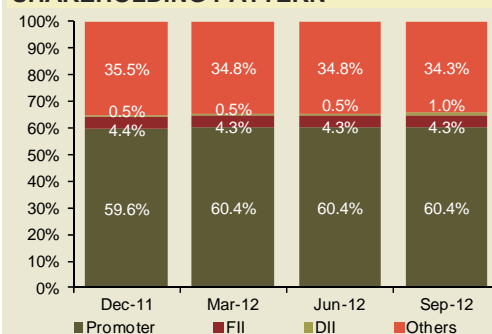
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	5825/ 19171
NSE/BSE ticker	RESPONSIVE
Face value (Rs per share)	1
Shares outstanding (mn)	262.5
Market cap (Rs mn)/(US\$ mn)	24,413/452
Enterprise value (Rs mn)/(US\$ mn)	31,910/591
52-week range (Rs)/(H/L)	145/78
Beta	0.5
Free float (%)	39.6
Avg daily volumes (30-days)	94,529
Avg daily value (30-days) (Rs mn)	8.5

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Responsive	3%	-1%	6%	-6%
NIFTY	-6%	0%	8%	13%

ANALYTICAL CONTACT

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Table 1: Responsive - Business environment

Product	Vinyl/PVC flooring	PVC leather cloth	Shipping ropes
Revenue contribution (FY12)	28%	29%	32%
Product offering	Floor tiles	Artificial leather cloth	Ropes for the shipping industry
Applications	Automobiles, railways, airports, buses, hospitals, fitness centres, shopping malls, educational institutes, commercial spaces, etc.	Railways, automobiles, buses, household items	Shipping, oil exploration, defence & navy, power, construction, transport, telecom, sports, general purposes
Capacity (MTPA)	50,000	33,000	40,000
Market position	<ul style="list-style-type: none"> 65% market share in the domestic PVC flooring market 	<ul style="list-style-type: none"> 85% market share in seat covering and upholstery for the domestic bus-body manufacturing industry 95% share in the auto-canopy OEM and replacement market 	<ul style="list-style-type: none"> 60% market share in the shipping ropes industry
Export contribution in FY12	54% for PVC flooring and PVC leather cloth combined		64%
Sales growth (FY10-FY12- 2 year CAGR)	32%	44%	31%
Demand drivers	<ul style="list-style-type: none"> Capital expenditure by the Indian Railways Shift in consumer preference from traditional forms of flooring to vinyl flooring 	<ul style="list-style-type: none"> Growth in the automotive industry Earmarked capital expenditure by the Indian Railways 	<ul style="list-style-type: none"> Growth in the shipping sector
Key competitors	Tarkett, Armstrong, LG Hausys, Gerflor, James Halstead, Royal Cushion Vinyl Products, Marvel Vinyls, Premier Poly	Tarkett, Armstrong, LG Hausys, Gerflor, James Halstead, Royal Cushion Vinyl Products, Roseli, Marvel Vinyls	DSR Wires (Korea), Garware Wall Ropes
Key risks	Volatility in crude oil prices		

Source: Company, CRISIL Research

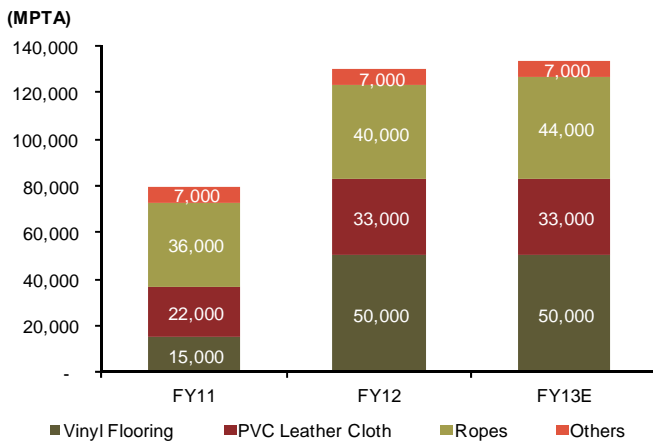
Grading Rationale

Largest domestic player expands capacity

Responsive - the largest domestic manufacturer of PVC flooring solutions, seat covering, upholstery, pharmaceutical packaging and transparent sheeting - doubled its PVC capacity from 44,000 MTPA to 90,000 MTPA in Q2FY12. Responsive has completed the stabilisation of its new capacity and commercial production is now at optimum utilisation levels.

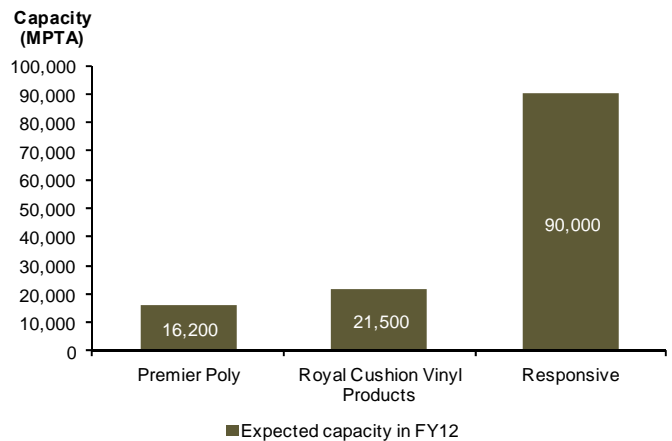
Capacity expansion has helped strengthen domestic dominance

Figure 1: Has more than doubled its capacity



Source: Company, CRISIL Research

Figure 2: Largest installed capacity in India



Source: Company, CRISIL Research

Table 2: Has outpaced domestic peers

Company	Revenues (Rs mn)				EBITDA margin (%)				PAT margin (%)			
	FY09	FY10	FY11	FY12	FY09	FY10	FY11	FY12	FY09	FY10	FY11	FY12
Responsive	6,515	8,407	11,797	16,857	15.4	15.5	15.6	12.9	7.1	7.5	7.8	5.2
Royal cushion vinyl products	508	390	415	468	-1.2	-8.0	-9.2	-10.2	-51.7	-50.4	-55.5	-32.2
Premier Polyfilm	737	507	537	623	4.7	4.8	6.7	6.6	3.3	2.4	1.7	3.1

Source: Company, CRISIL Research

The expansion is expected to not only confer considerable economies of scale but will also drive Responsive much ahead of domestic peers. Given strong demand in the domestic market and Responsive's cost advantage in the global markets (present in over 70 countries through 11 sales offices and 300+ distribution agents and retailers), we do not expect any offtake risk from the new capacity.

Table 3: Market share across segments

Segment	Market share (%)
Domestic vinyl flooring and artificial leather cloth segments	65
Seat covering and upholstery for the domestic bus-body manufacturing industry	85
Domestic auto-canopy OEM and replacement market	95

Source: Company



Effective entry barriers help maintain the dominance

The US\$ 3.7 bn vinyl flooring industry is largely oligopolistic with high entry barriers. The entry of new players is restricted by a) the long time (three-five years) taken for technology innovation and b) stringent processes spanning 6-18 months to procure international certifications.

Responsive has indigenously developed internationally accepted production process technology at a significantly lower capital cost. It is also a member of the US Green Building Council, World Floor Covering Association and Star Net Association. Its manufacturing facility is approved by the US FDA, is ISO certified and has certification from Germanischer Lloyd. These accreditations help the company sell its products in niche and lucrative markets of Europe and the Americas. It also helps the company gain preferred vendor status in some of the markets.

Strong demand growth to drive domestic flooring sales

There is a huge potential demand for vinyl flooring as an alternative to existing ceramic/wooden laminated flooring in the country on account of its durability, resilience, design flexibility and pricing. Qualities like slip-resistant, anti-static and moisture-resistant make it an attractive flooring option vis-à-vis traditional flooring in residential and commercial spaces. Also, vinyl flooring is an ideal flooring solution for hospitals due to its anti-bacterial and stain-resistant nature. Taking into account the low base level effect and increasing awareness of vinyl flooring, the demand for the same is expected to grow at a healthy rate of 25% in the coming years.

Ideal flooring solution in hospitals due to anti-bacterial and stain-resistant nature

Table 4: Advantages of vinyl flooring over other forms of flooring

Property	Vinyl flooring	Traditional forms of flooring
Design flexibility	Are available in myriad styles and colours	Limited styles and colours
Durability	<ul style="list-style-type: none"> ■ Durable under heavy foot traffic ■ Lasts for more than 10 years ■ Is moisture and stain resistant 	Breaks under heavy foot traffic and needs replacement
Sanitary advantages	Vinyl flooring seams can be sealed or welded which prevent contaminants from being lodged in the seam area	Are not bacteria resistant and likely to get contaminated along the seams

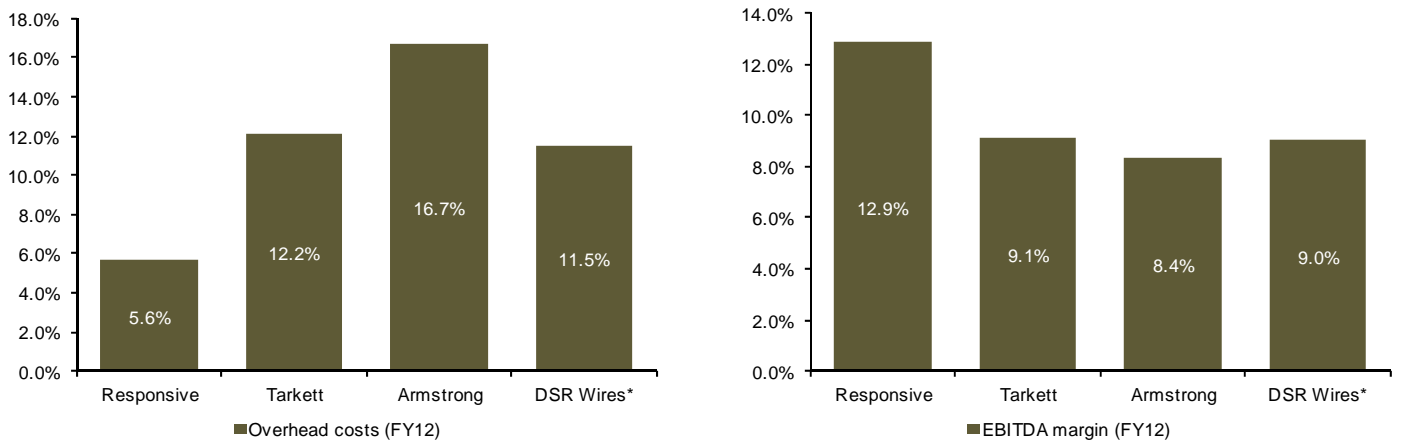
Source: Company, CRISIL Research

Low cost structure to help penetrate global markets

Responsive, by virtue of having its capacity in a low-cost destination like India, enjoys significant cost advantage vis-à-vis global competitors. While Responsive's gross margins are comparable to its peers, the company's EBITDA margins are higher due to low overhead and employee costs. Overhead and employee costs as a percentage of sales are 5-6% for Responsive compared to 12-14% for its peers. Low-cost production enables Responsive to price its products competitively in the export markets and, consequently, grab market share from its peers. Responsive's cost advantage is reflected in the strong revenue growth registered by the company over the past few years - grown at a four-year CAGR of 42%.

Overhead costs are 5-6% of sales for Responsive compared to 12-14% for global peers

Figure 3: Low overhead costs led to better EBITDA margins



*Peer in shipping ropes business

Source: Company, CRISIL Research

Diversified client base lowers revenue concentration risk

Responsive has a diverse clientele across sectors and geographies, which reduces revenue concentration risks. Its global client base includes sectors like commercial, fitness, healthcare, transportation, specialty and real estate. Also, Responsive has an exposure below 5% of revenues across all its clients and all the geographies in the export market (exports account for 58% of revenues).

No client or geography (in export market) accounts for more than 5% of revenues

Table 5: Client profile

Sector	Clients
Government	Indian Railways, UAE-Ministry of Health, South African Department of Health
Transportation	Tata Motors, Mercedes Benz, Volvo, Bajaj Auto, Eicher
Commercial	Al Jaber, Al Habtoor, Toyota Al Futtaim, Spacemaker
Others	Big Bazaar, Reliance Retail, Ikea, Walmart, BARC, Home Store, Seven Hills Hospitals

Source: Company, CRISIL Research

To benefit from increase in demand from Indian Railways

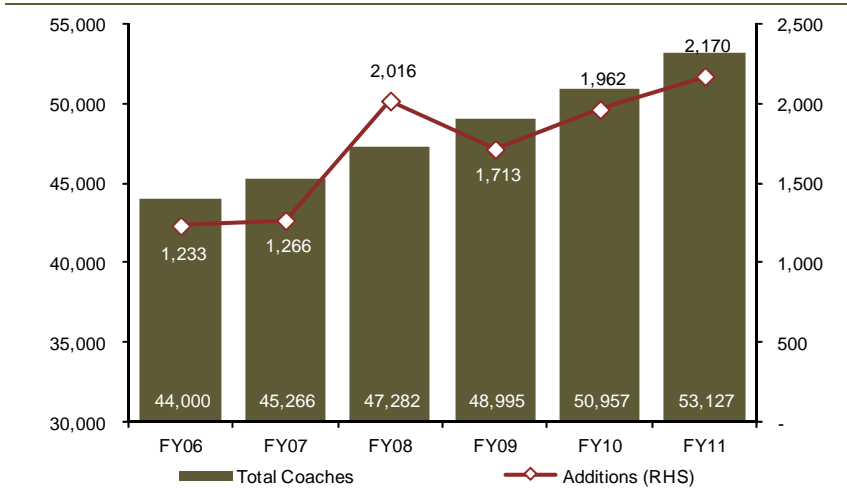
Responsive derives 42% of its revenues from the domestic market, where it mainly caters to the transportation industry. Demand for the company's products is expected to be driven by increased manufacturing of railway coaches. Also, as per the 2012 Railway Budget, there will be an emphasis on upgradation of existing coaches. Demand for new coaches along with replacement demand is expected to drive the growth of Responsive's PVC flooring and artificial leather cloth businesses. According to the Railway Budget 2012, passenger traffic is expected to increase by 5.4% in FY13. The Indian Railways plans to add ~43,000 new coaches over FY13-FY20 to cater to the increasing passenger traffic. This translates to an incremental demand for ~5,500 passenger coaches p.a. It is also planning to replace seats in existing coaches (which were made of wood) with new artificial leather cloth seats. Being a

New coach addition and replacement demand expected to drive growth



major supplier to them, Responsive is expected to be a key beneficiary of the high demand from Indian Railways.

Figure 4: Emphasis on addition of new coaches



Source: Indian Railways yearbook, CRISIL Research

Established position in shipping ropes business

Responsive, through its subsidiary Axiom Cordages (capacity of 40,000 MTPA), is one of the largest players in the global shipping ropes industry. Axiom also has a 30% market share in the domestic market. While the demand for shipping ropes from developed countries has plateaued, we expect strong demand from the developing Asian nations. The company, with its extensive B2B distribution and lower cost of production, is expected to meet this demand and increase its market share. The company already has large shipping companies as its customers such as MSC Lines, APL, Hyundai, and companies catering to defence, navy and offshore oil and gas sectors.

This industry is highly fragmented and is dominated by South Korean companies. According to industry sources, the estimated size of the shipping ropes market is around US\$3-3.5 bn. Most of the players in this industry have capacities in the range of 2,000 MTPA to 3,000 MTPA and fail to meet the quality requirements of the reputed shipping companies. Axiom had enhanced its capacity to 40,000 MTPA from 33,000 MTPA in FY10 and is poised to further strengthen its foothold in the shipping ropes industry.

Axiom Cordages, 86% subsidiary, manufactures synthetic ropes used in oil rigs and the shipping industry

Key Risks

Volatility in raw material prices

Responsive is dependent on crude oil for its raw materials (resin and plasticisers) and is susceptible to high volatility in crude oil prices. The company's present policy to incorporate any change in crude oil costs into its product pricing helps it address the risk better than the earlier practice of entering into long-term contracts. Crude oil prices are expected to remain high in CY12 as well due to geopolitical tensions in the MENA region and concerns over sanctions on Iran. However, increasing supply and worry over the recovery of debt-ridden European economies will lead to a decline in crude oil prices to US\$ 95-100 per barrel. Post CY13, prices are expected to be at US\$ 85-95 per barrel as global supply increases. Responsive's ability to continue to pass on increases in crude oil prices is a key monitorable.

Exposed to fluctuations in currency

Exports are expected to account for 60% of Responsive's revenues. The company imports 40% of its raw materials and to that extent has a natural hedge from currency fluctuations. However, Responsive has an ECB loan of Rs 3.5 bn which increases its forex exposure. While we expect the rupee to appreciate to Rs 53/US\$ by end-FY13, any further depreciation from current levels will have a negative impact on profitability.

Expansion by large global players in India is a monitorable

Large global players such as Tarkett, Armstrong and Gerflor have a small presence in India; they do not have a manufacturing base here. Tarkett has a manufacturing facility in Pune for ceiling solutions and has been setting up a distribution network in India for vinyl flooring and PVC leather cloth. Armstrong is currently focussing on the Chinese market with its manufacturing facility in China expected to be commissioned by end-CY12. Going forward, any concrete steps by these companies to set up manufacturing facilities in India will increase the competition for Responsive.

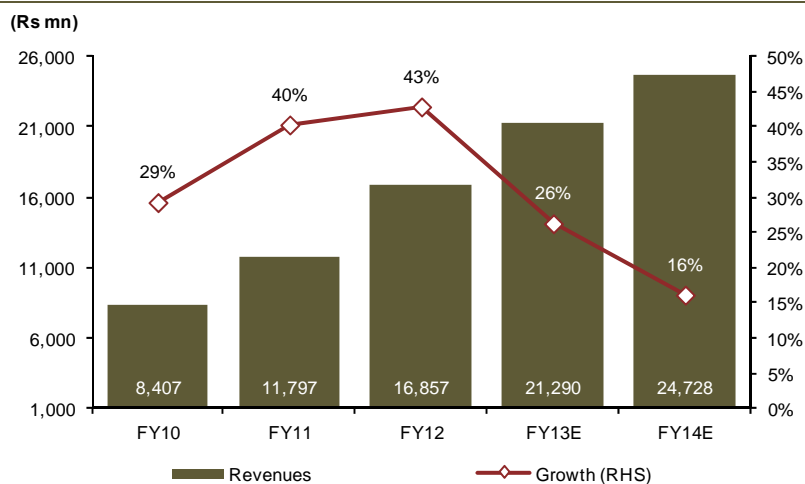


Financial Outlook

Revenues to grow at a two-year CAGR of 21%

Responsive completed the stabilisation of its new capacity by end-FY12. We expect optimum utilisation of this new capacity over FY13-FY14 driven by strong demand in the domestic and global markets. Revenues are expected to increase at a two-year CAGR of 21% to Rs 24.7 bn by FY14 from Rs 16.9 bn in FY12.

Figure 5: Robust growth to continue



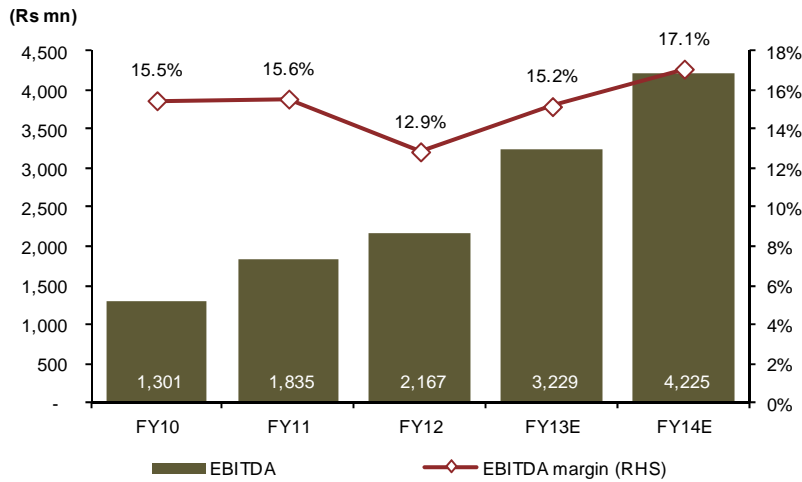
Source: Company, CRISIL Research

EBITDA margin to increase to 17.1% in FY14

Due to higher revenue contribution from the high-margin products from the expanded capacity, the overall EBITDA margin of the company is expected to improve to 16.1% in FY13. EBITDA margin had declined to 12.9% in FY12 from 15.6% in FY11 as the company had to incur higher outgo on its raw material imports due to the sharp rupee depreciation during the year. Responsive will enjoy the full benefit of the expanded capacity in FY14 and, consequently, EBITDA margin is expected to improve to 17.1%.

EBITDA margin to improve to 17.1% in FY14 from 12.9% in FY12

Figure 6: EBITDA margin to improve

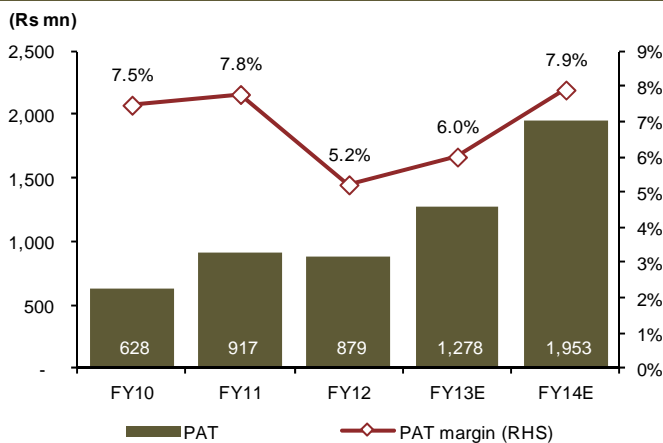


Source: Company, CRISIL Research

Adjusted PAT to grow at a two-year CAGR of 49%

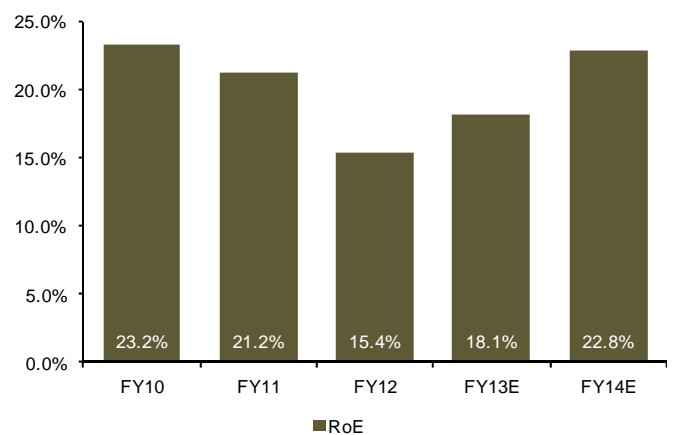
Responsive's consolidated PAT is expected to grow to Rs 1,953 mn in FY14 from Rs 879 mn in FY12, primarily driven by strong growth in revenues along with an improvement in EBITDA margin. PAT margin is expected to improve to 7.9% in FY14 from 5.2% in FY12. The improvement in PAT margin is lower than the same in EBITDA margin due to higher depreciation costs from the expanded capacity. Adjusted EPS is expected to increase to Rs 7.4 in FY14 from Rs 3.3 in FY12. RoE is expected to expand to 22.8% in FY14 from 15.4% in FY12 as the company will realise the benefit of the expanded capacity.

Figure 7: PAT margin to increase to 7.8% in FY14



Source: Company, CRISIL Research

Figure 8: Healthy RoE expected



Source: Company, CRISIL Research



Q2FY13 Result Update

Responsive Industries Ltd's (Responsive's) Q2FY13 revenues grew 51.3% y-o-y to Rs 5,649 mn, in line with CRISIL Research's expectations, due to new capacity coming on stream in the PVC flooring and other PVC products businesses. Sequentially, consolidated revenues increased 4.5% driven by strong 10.8% q-o-q growth in the standalone business. Revenues of Axiom Cordages, shipping rope subsidiary, declined 6.3% q-o-q due to seasonal factors. Responsive continues to be a dominant player in the domestic PVC flooring and other PVC products markets. Commercial production from Responsive's new capacity is now at optimum utilisation levels and will boost exports.

Higher raw material costs in Axiom resulted in lower EBITDA margin

EBITDA margin declined by 167 bps q-o-q (down 381 bps y-o-y) to 12.7% due to increase in raw material costs. Raw material costs as a percentage of sales increased to 82.5% from 80.1% in the previous quarter. EBITDA margin remained stable q-o-q at 13.5% in the standalone business but for Axiom it declined to 11% from 15.8% in the previous quarter. According to the management, this was due to certain bulk orders that were booked in Q2FY13; EBITDA margin is expected to come back to normal levels of 16% in Q3FY13.

PAT increased 16.5% y-o-y to Rs 326 mn. PAT margin declined 172 bps y-o-y to 5.8% due to higher depreciation and interest costs (which were capitalised earlier) from the new capacity. There was a q-o-q improvement of 33 bps in PAT margin despite the decline in EBITDA margin due to lower finance cost, lower tax outgo and higher other income.

OEM supplier to international players

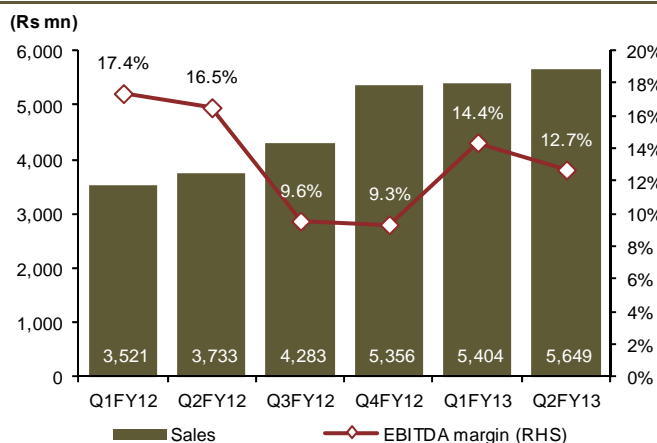
Since the previous quarter, Responsive has been tying up with existing shipping rope players to manufacture shipping ropes for them. This has helped it by a) opening up an additional revenue stream and b) providing an upper hand over competitors by gaining access to their customer base.

Q2FY13 & H1FY13 Consolidated Results Summary

(Rs mn)	Q2FY13	Q1FY12	Q2FY12	q-o-q (%)	y-o-y (%)	H1FY13	H1FY12	y-o-y (%)
Net sales	5,649	5,404	3,733	4.5	51.3	11,052	7,254	52.4
Raw materials cost	4,658	4,328	2,790	7.6	67.0	8,986	5,473	64.2
Raw materials cost (% of net sales)	82.5%	80.1%	74.7%	238 bps	773 bps	81.3%	75.4%	586 bps
Employees cost	28	28	30	3.0	(4.5)	56	54	3.4
Other expenses	244	272	297	(10.1)	(17.7)	516	498	3.6
EBITDA	718	777	617	(7.6)	16.4	1,495	1,229	21.6
EBITDA margin	12.7%	14.4%	16.5%	-167 bps	-381 bps	13.5%	16.9%	-342 bps
Depreciation	290	287	195	1.2	48.9	578	382	51.0
EBIT	427	490	422	(12.7)	1.3	917	847	8.3
Interest and finance charges	70	85	25	(17.7)	178.6	156	46	241.4
Operating PBT	357	404	397	(11.7)	(9.9)	762	801	(4.9)
Other Income	76	11	21	568.7	258.5	88	28	211.3
Extraordinary Income/(expense)	-	-	-	-	-	-	-	-
PBT	434	416	418	4.3	3.8	849	829	2.4
Tax	85	99	112	(14.0)	(23.8)	184	233	(21.1)
Minority interest	23	23	27	-	-	46	48	-
PAT	326	294	280	10.8	16.5	620	548	13.0
Adj PAT	326	294	280	10.8	16.5	620	548	13.0
Adj PAT margin	5.8%	5.4%	7.5%	33 bps	-172 bps	5.6%	7.6%	-195 bps
No of equity shares (mn)	263	263	263	-	-	263	263	-
Adj EPS (Rs)	1.2	1.1	1.1	10.8	16.5	2.4	2.1	13.0

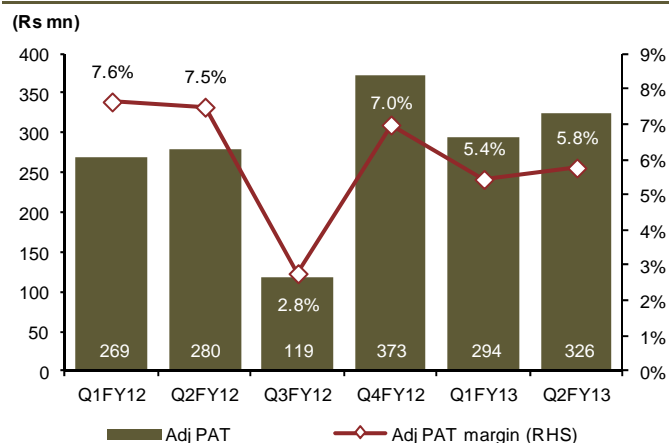
Source: Company, CRISIL Research

EBITDA margin declined q-o-q



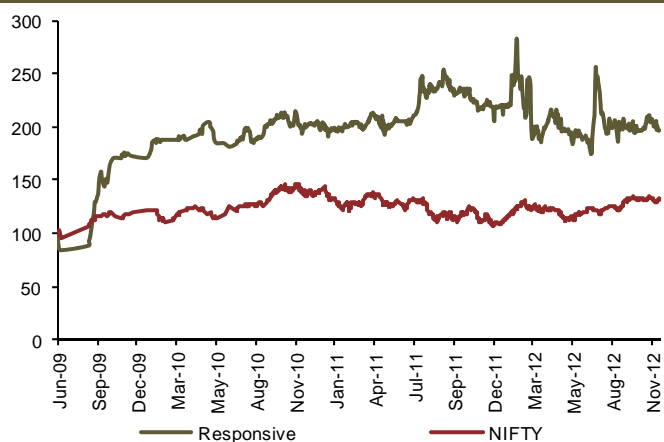
Source: Company, CRISIL Research

PAT margin improved q-o-q due to higher other income



Source: Company, CRISIL Research

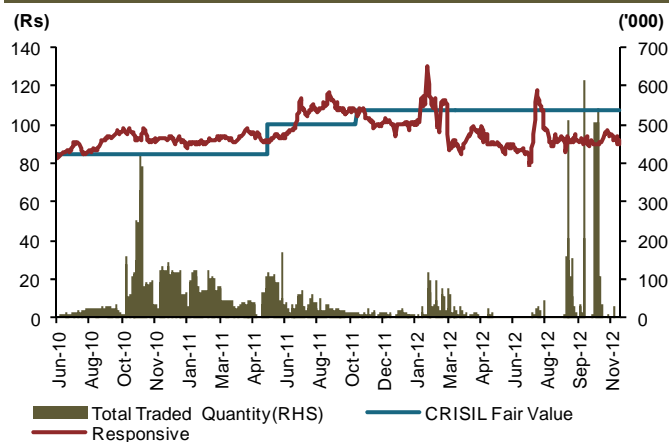
Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

Earnings Estimates Revision

Particulars	Unit	FY13E			FY14E		
		Old	New	% change	Old	New	% change
Revenues	(Rs mn)	20,221	21,290	5.3%	23,897	24,728	3.5%
EBITDA	(Rs mn)	3,239	3,229	-0.3%	4,088	4,225	3.3%
EBITDA margin	%	16.0%	15.2%	-85 bps	17.1%	17.1%	0
PAT	(Rs mn)	1,365	1,278	-6.4%	1,918	1,953	1.8%
PAT margin	%	6.7%	6.0%	-75 bps	8.0%	7.9%	0
EPS	Rs	5.2	4.9	-6.4%	7.3	7.4	1.8%

Source: CRISIL Research estimates

Line item	FY13	FY14
Revenues	Estimate raised due to strong revenue growth in the standalone business	Estimate raised due to strong revenue growth in the standalone business
EBITDA margins	Estimate lowered due to higher-than-expected raw material costs	No change
PAT margins	Estimate lowered in line with reduction in EBITDA margin	No change

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.

Experienced management

Responsive has an experienced management headed by chairman and whole-time director Mr Atit Agarwal; he is from the second generation of the promoter family. Under his management, Responsive has reported 42% revenue CAGR over the past four years. His business acumen and marketing initiatives are instrumental in taking the company forward.

He is supported by Mr Abhishek Agarwal, who heads corporate sales and looks after the company's domestic and institutional marketing. Mr Rajesh Pandey, executive director at Axiom with over 15 years of experience, oversees the plant's operations.

Ability to maintain market leadership

Management has displayed its ability to maintain market share in the face of competition as indicated by its leading position in the PVC vinyl flooring, PVC artificial leather cloth and shipping ropes segments.

Professional setup

Responsive's management has adopted a professional approach towards managing the company. The company has recently inducted various professionals from the industry at the senior and mid management levels to prepare for the next level of growth.

Strong growth over the past four years

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 the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualification by regulators or auditors also serves as a useful input while assessing a company's corporate governance.

Board composition

Responsive's board comprises six members, of whom three are independent directors, which meets the requirement under Clause 49 of SEBI's listing guidelines. The directors are highly qualified with strong industry experience. Given the background of directors, we believe the board is well-rounded. Based on our interactions, we believe they have a fairly good understanding of the company's business and its processes. Overall, corporate governance meets the necessary levels supported by reasonably good board practices and an independent board.

Independent director	Profile
Mr S.S. Thakur	Was Controller, Foreign Exchange at the RBI; senior advisor to UN International Civil Service; and chairman at HDFC Bank. Mr Thakur is a graduate in mathematics from Madras University.
Mr V.K. Chopra	Has over 31 years of experience in the banking industry. He was chairman and managing director of SIDBI and Corporation Bank. His last assignment was with SEBI as a whole-time member. He is a fellow member of the Institute of Chartered Accountants of India by profession and is a Certified Associate of Indian Institute of Bankers.
Mr Michael Freedman	He has a strong experience in the commercial flooring industry and has developed successful products for companies such as Armstrong, Marley Flexco and LG Floors. He is a graduate from the New York University Stern School of Business.

Source: Company, CRISIL Research

Board processes

The company's quality of disclosure can be considered moderate judged by the level of information and details furnished in the annual report. There is scope for greater disclosures through presentations, websites and other publicly available data. The company has all the necessary committees – audit, remuneration, and investor grievance - in place to support corporate governance practices.

Valuation

Grade: 4/5

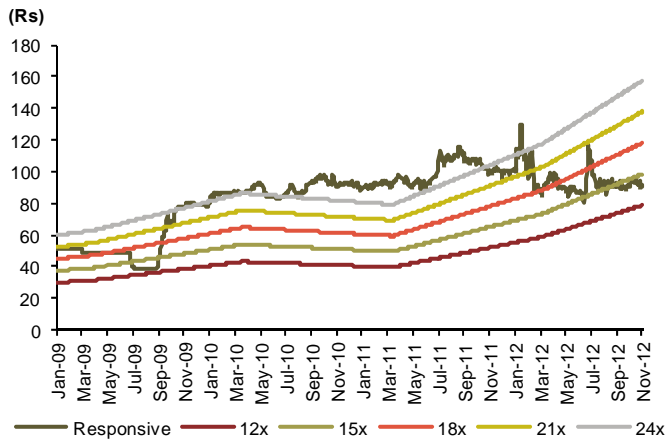
We continue to use the discounted cash flow (DCF) method to value Responsive at a fair value of Rs 107 per share. At this value, the implied P/E multiples are 22x FY13 earnings estimate and 14.4x FY14 earnings estimate. The stock is currently trading at Rs 92 per share. Consequently, we maintain the valuation grade of 4/5.

**Implied P/E multiple of 22x FY13
and 14.4x FY14 earnings**

Key DCF assumptions

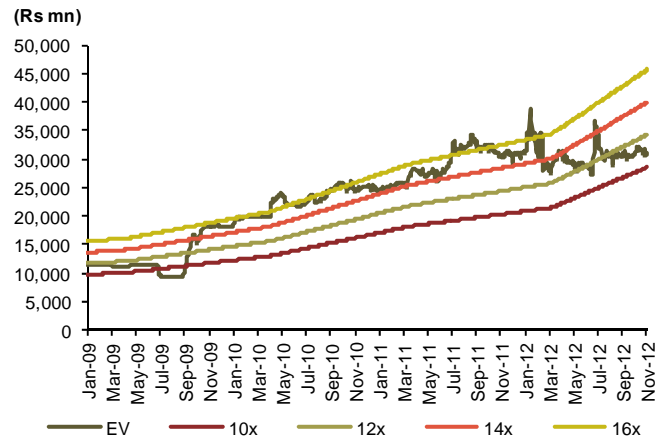
- We have considered the discounted value of the firm's estimated free cash flow from FY14 to FY22.
- We have assumed a terminal growth rate of 3% beyond the explicit forecast period.
- We have used a cost of equity of 17.3%.

One-year forward P/E band



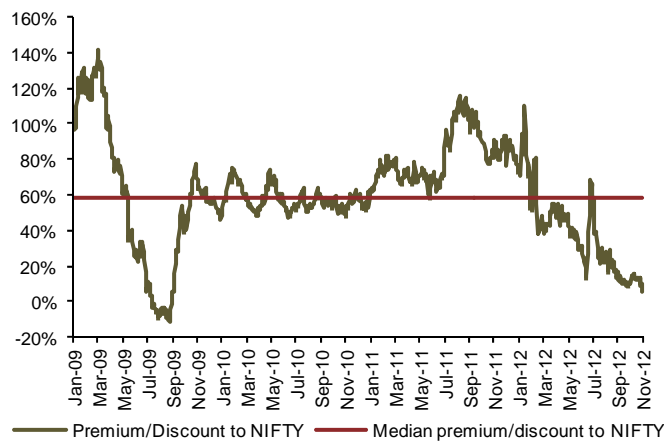
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



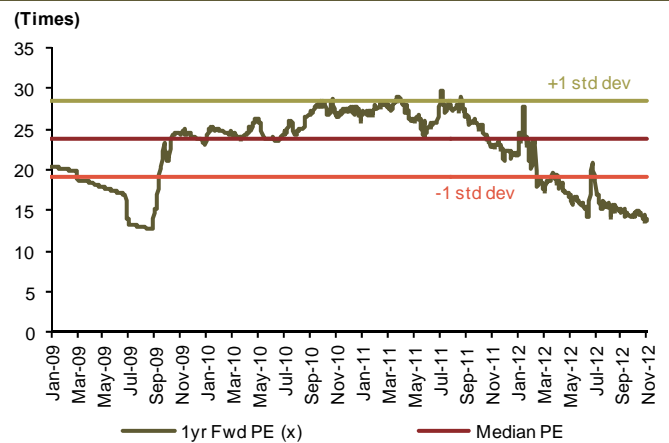
Source: NSE, CRISIL Research

P/E – premium / discount to NIFTY



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

		Terminal growth rate				
Terminal WACC		1%	2%	3%	4%	5%
	10.3%	116	125	136	150	170
	11.3%	105	111	119	130	143
	12.3%	96	101	107	115	124
	13.3%	89	93	97	103	110
	14.3%	83	86	90	94	99

CRISIL IER reports released on Responsive Industries Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
07-Jun-10	Initiating coverage	3/5	Rs 85	3/5	Rs 85#
04-Oct-10	Q1FY11 result update	3/5	Rs 85	2/5	Rs 96#
23-Nov-10	Q2FY11 result update	3/5	Rs 85	3/5	Rs 90
08-Apr-11	Q3FY11 result update	3/5	Rs 85	3/5	Rs 95
13-Jun-11	Q4FY11 result update	3/5	Rs 100	2/5	Rs 95
18-Aug-11	Q1FY12 result update	3/5	Rs 100	3/5	Rs 107
28-Oct-11	Detailed report	4/5	Rs 107	3/5	Rs 107
21-Nov-11	Q2FY12 result update	4/5	Rs 107	3/5	Rs 100
27-Feb-12	Q3FY12 result update	4/5	Rs 107	3/5	Rs 99
18-Jun-12	Q4FY12 result update	4/5	Rs 107	4/5	Rs 90
17-Aug-12	Q1FY13 result update	4/5	Rs 107	4/5	Rs 95
29-Nov-12	Detailed report	4/5	Rs 107	4/5	Rs 92

Adjusted for stock split of FV Rs 10 to FV Rs 1 (record date October 11, 2010)

Company Overview

Responsive is a manufacturer of vinyl flooring, soft sheeting, rigid polyvinyl chloride (PVC) and leather cloth. Vinyl flooring includes printed and homogenous flooring, flooring of transportation interiors, antistatic and conductive flooring, multi-layered and sports flooring.

The company was incorporated in 1982 as Sinhal Holding Ltd, which mainly traded PVC products. In FY07, the company amalgamated Responsive Polymers Ltd (manufacturer of PVC flooring and artificial leather cloth) with itself and the name of the company was changed to Responsive.

Capacity

Segment	Capacity in MTPA
Vinyl flooring	50,000
PVC leather cloth	33,000
Rigid blister films	3,000
Soft sheeting	4,000
Total	90,000
Shipping ropes (Axiom Cordages)	40,000

Source: Company, CRISIL Research

Products

Responsive manufactures a wide variety of PVC flooring solutions, seat covering and upholstery solutions, pharmaceutical packaging and transparent sheeting. It has an export-oriented subsidiary company, Axiom Cordages Ltd, which manufactures synthetic ropes used in oil rigs and the shipping industry. Exports contribute 58% to total revenues. Asia Pacific accounted for 30% of total exports, Middle-East 25%, North America 15% and the euro zone 30%.

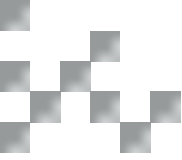
Soft sheeting includes:

- Opaque sheeting - used for diary and passbook covers, files, folders and other stationery items such as soft lug.
- Printed film - used in tablemats, raincoats, covers for fridge, television and washing machines, and shower curtains, among others.
- Clear transparent film - used in making of stationery items, diary covers, files, folders, raincoats, shower curtains, table mats and other applications.

Rigid PVC products include PVC packaging film under brands like Magic, Armstrong and Pearl. Leather cloth or artificial leather comes in three different types: sponge leather, un-foamed leather and coated leather cloth.

Raw materials

PVC resin, plasticisers and chemicals are the key raw materials; they are procured from Reliance Industries Ltd, LG Korea, Thai Petro, Exxon Mobil and LyondellBasell.



Milestones

1982	Incorporated as Sinhal Holding Ltd
1996	Renamed as Responsive Polymers Ltd
2000	Undertook international certifications and processes
2004	Undertook significant upgradation of machinery and production capabilities
2004	Investment in Axiom Cordages for capacity expansion and product innovation
2007	Name of the company changed to Responsive Industries Ltd
2010	10:1 stock split
2010	Completed capacity expansion in Axiom Cordages
2011	New capacity commissioned

Annexure: Financials

Income statement

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Operating income	8,407	11,797	16,857	21,290	24,728
EBITDA	1,301	1,835	2,167	3,229	4,225
EBITDA margin	15.5%	15.6%	12.9%	15.2%	17.1%
Depreciation	373	531	793	1,051	1,037
EBIT	927	1,304	1,374	2,178	3,188
Interest	50	16	121	476	473
Operating PBT	878	1,289	1,253	1,703	2,715
Other income	39	18	44	88	117
Exceptional inc/(exp)	(2)	(7)	161	-	-
PBT	914	1,300	1,458	1,791	2,833
Tax provision	247	314	347	403	765
Minority interest	41	76	72	110	115
PAT (Reported)	626	910	1,040	1,278	1,953
Less: Exceptionals	(2)	(7)	161	-	-
Adjusted PAT	628	917	879	1,278	1,953

Ratios

	FY10	FY11	FY12	FY13E	FY14E
Growth					
Operating income (%)	29.0	40.3	42.9	26.3	16.2
EBITDA (%)	29.2	41.1	18.1	49.0	30.8
Adj PAT (%)	35.5	46.0	(4.1)	45.4	52.9
Adj EPS (%)	21.3	38.2	(6.1)	45.4	52.9
Profitability					
EBITDA margin (%)	15.5	15.6	12.9	15.2	17.1
Adj PAT Margin (%)	7.5	7.8	5.2	6.0	7.9
RoE (%)	23.2	21.2	15.4	18.1	22.8
RoCE (%)	18.3	17.1	12.7	16.1	22.3
RoIC (%)	16.3	14.2	10.5	14.6	19.7
Valuations					
Price-earnings (x)	35.7	25.8	27.5	18.9	12.4
Price-book (x)	7.0	5.0	4.2	3.4	2.7
EV/EBITDA (x)	19.8	14.8	14.0	9.0	6.5
EV/Sales (x)	3.1	2.3	1.8	1.4	1.1
Dividend payout ratio (%)	5.3	3.8	3.1	5.1	5.4
Dividend yield (%)	0.1	0.1	0.1	0.3	0.4
B/S ratios					
Inventory days	23	20	21	21	21
Creditors days	25	21	11	16	16
Debtor days	44	26	44	49	48
Working capital days	17	31	44	57	55
Gross asset turnover (x)	2.1	2.4	2.0	1.8	2.0
Net asset turnover (x)	2.7	3.2	2.6	2.4	2.8
Sales/operating assets (x)	2.0	1.9	2.1	2.4	2.8
Current ratio (x)	3.7	2.8	11.1	7.2	8.1
Debt-equity (x)	1.2	0.7	1.3	0.9	0.7
Net debt/equity (x)	1.0	0.7	1.0	0.7	0.3
Interest coverage	18.7	83.9	11.4	4.6	6.7

Per share

	FY10	FY11	FY12	FY13E	FY14E
Adj EPS (Rs)	2.6	3.6	3.3	4.9	7.4
CEPS	4.1	5.6	6.4	8.9	11.4
Book value	13.2	18.3	22.0	27.0	34.4
Dividend (Rs)	0.1	0.1	0.1	0.3	0.4
Actual o/s shares (mn)	244	257	263	263	263

Balance Sheet

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Liabilities					
Equity share capital	244	257	263	263	263
Reserves	2,843	4,229	5,232	6,433	8,263
Minorities	136	213	285	395	510
Net worth	3,223	4,699	5,779	7,090	9,035
Convertible debt	-	-	-	-	-
Other debt	3,820	3,504	7,637	6,637	5,887
Total debt	3,820	3,504	7,637	6,637	5,887
Deferred tax liability (net)	224	264	610	643	631
Total liabilities	7,267	8,467	14,026	14,370	15,552
Assets					
Net fixed assets	3,533	3,817	8,999	8,948	8,511
Capital WIP	1,961	3,354	125	0	0
Total fixed assets	5,494	7,172	9,124	8,948	8,511
Investments	113	105	5	5	5
Current assets					
Inventory	449	535	825	992	1,152
Sundry debtors	1,067	903	2,115	2,813	3,267
Loans and advances	162	157	684	532	618
Cash & bank balance	364	205	139	336	1,375
Marketable securities	227	58	1,620	1,620	1,620
Total current assets	2,268	1,857	5,382	6,293	8,033
Total current liabilities	608	668	484	877	996
Net current assets	1,660	1,190	4,897	5,416	7,036
Intangibles/Misc. expenditure	-	-	-	-	-
Total assets	7,267	8,467	14,026	14,370	15,552

Cash flow

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Pre-tax profit	916	1,307	1,298	1,791	2,833
Total tax paid	(167)	(273)	-	(370)	(777)
Depreciation	373	531	793	1,051	1,037
Working capital changes	(1,361)	142	(2,211)	(321)	(581)
Net cash from operations	(238)	1,706	(120)	2,150	2,512
Cash from investments					
Capital expenditure	(2,740)	(2,208)	(2,746)	(875)	(600)
Investments and others	(295)	177	(1,462)	(0)	-
Net cash from investments	(3,035)	(2,031)	(4,208)	(876)	(600)
Cash from financing					
Equity raised/(repaid)	760	525	(0)	-	0
Debt raised/(repaid)	2,561	(317)	4,133	(1,000)	(750)
Dividend (incl. tax)	(33)	(35)	(32)	(77)	(123)
Others (incl extraordinary)	(2)	(7)	161	-	-
Net cash from financing	3,286	166	4,262	(1,077)	(873)
Change in cash position	12	(158)	(66)	198	1,039
Closing cash	364	205	139	336	1,375

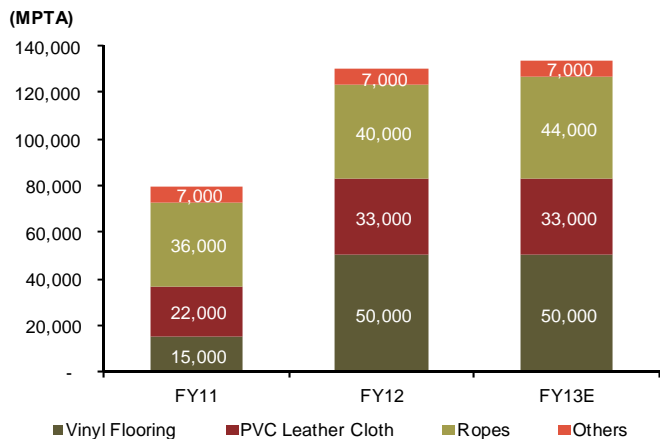
Quarterly financials

(Rs mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Net Sales	3,733	4,283	5,356	5,404	5,649
Change (q-o-q)	6%	15%	25%	1%	5%
EBITDA	617	410	496	777	718
Change (q-o-q)	1%	-34%	21%	57%	-8%
EBITDA margin	16.5%	9.6%	9.3%	14.4%	12.7%
PAT	280	119	373	294	326
Adj PAT	280	119	373	294	326
Change (q-o-q)	4%	-58%	214%	-21%	11%
Adj PAT margin	7.5%	2.8%	7.0%	5.4%	5.8%
Adj EPS	1.1	0.5	1.4	1.1	1.2

Source: CRISIL Research

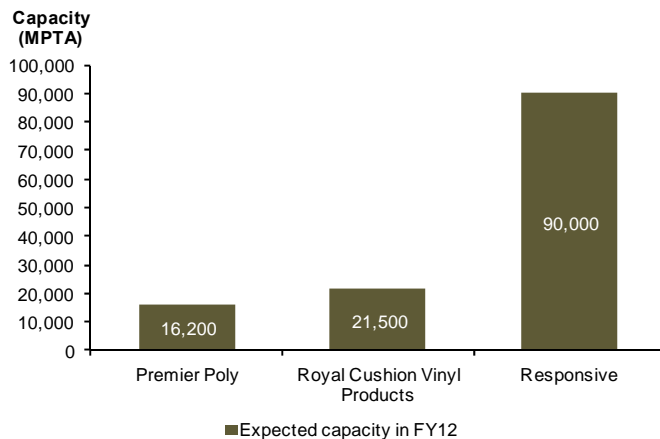
Focus Charts

Capacity expanded in FY12



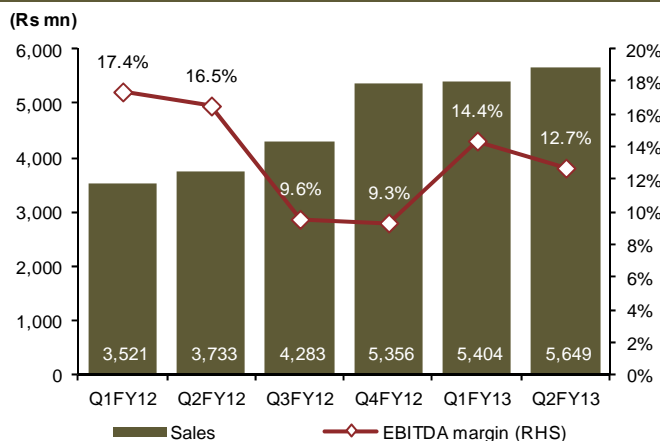
Source: Company, CRISIL Research

Largest capacity in domestic market



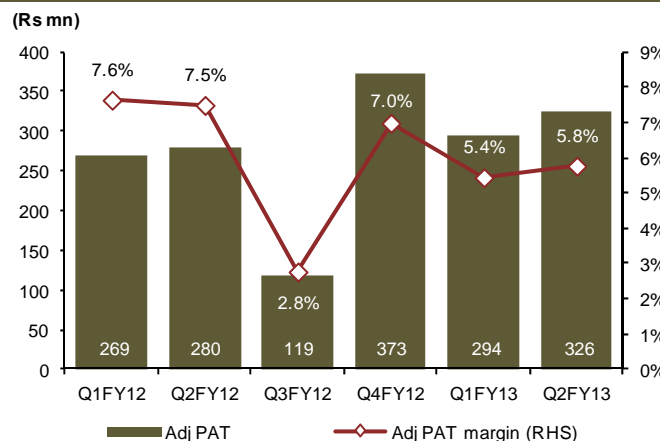
Source: Company, CRISIL Research

Quarterly sales and EBITDA margin



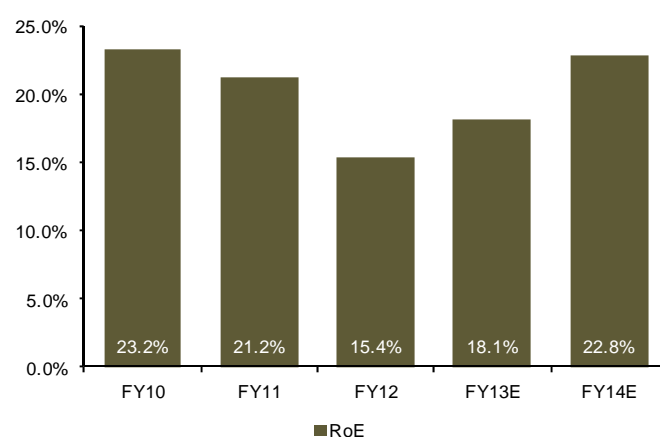
Source: Company, CRISIL Research

Quarterly PAT and PAT margin



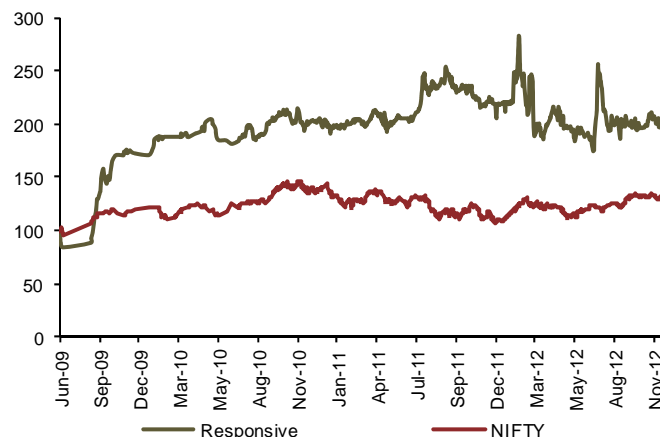
Source: Company, CRISIL Research

Healthy RoE expected



Source: Company, CRISIL Research

Share price movement



-Indexed to 100

Source: Company, CRISIL Research

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