

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 judgements and forecasts with complete objectivity. We leverage our deep understanding of the macroeconomy 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: May, 2013

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

Weathering the macro headwinds

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

Responsive Industries Ltd's (Responsive's) prospects for FY14-16 look brighter than FY13-9MFY14 when its profitability was under pressure due to a sharp increase in raw material prices. Raw material prices have now stabilised, which should improve its margins. Also, being a leading domestic manufacturer and exporter of vinyl flooring, PVC leather and shipping ropes, the company is well placed to benefit from sustained demand for its products. We maintain our fundamental grade of 4/5.

Well placed to benefit from growing demand for PVC flooring and leather

PVC flooring is gaining share from other forms of flooring globally due to lower cost and the ability to replicate the look of conventional flooring. Properties such as bacteria resistance have increased its use in niche applications. PVC leather is being preferred over natural leather as it is 5-6x cheaper and aesthetically similar to natural leather. Hence, we expect the demand for PVC flooring and leather to remain robust in India and overseas. Responsive is the leading domestic manufacturer and established exporter of these products. Additionally, it has a strong dealer network (both locally and globally) and established relationships with marquee clients. Based on this, we believe that Responsive is well poised to benefit from demand growth in these industries.

Dominant presence in shipping ropes industry, stable demand

Responsive is an established player in the shipping ropes industry with a global market share of ~15% and domestic market share of ~30%. As shipping ropes need to be replaced at regular intervals, which are determined based on the specifications of the ship, the demand for shipping ropes is not significantly impacted by slowdown in cargo traffic. Hence, we expect the demand for shipping ropes to be stable.

Key risks: increase in raw material prices, competition

- Increase in raw material prices: While we expect the exchange rate and PVC prices to stabilise going forward, any increase in raw material prices from the current levels would further delay recovery in Responsive's margins and is a key monitorable.
- Increase in competition: The company faces competition from large global players in the vinyl flooring segment; from the unorganised segment and Chinese manufacturers in PVC leather; and from small Korean manufacturers in the shipping ropes segment. Further increase in competition from these players is a key risk.

Valuations: Current market price has upside

We have valued Responsive by the discounted cash flow (DCF) method and maintain the fair value of ₹110 per share. This fair value implies P/E multiples of 22.2x FY15E and 18.4x FY16E EPS. At the current market price of ₹96, the valuation grade is 4/5.

KEY FORECAST

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Operating income	16,857	21,868	26,007	29,203	33,314
EBITDA	2,167	2,510	3,116	3,859	4,751
Adj net income	879	822	913	1,303	1,878
Adj EPS (₹)	3.3	3.1	3.5	5.0	6.0
EPS growth (%)	(6.1)	(6.4)	11.0	42.8	44.1
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
RoCE (%)	12.7	9.4	11.3	16.4	24.1
RoE (%)	15.4	12.3	11.2	12.9	15.4
PE (x)	26.9	28.7	26.7	18.7	13.0
P/BV (x)	4.1	3.5	3.2	2.7	2.2
EV/EBITDA (x)	13.7	11.9	9.7	7.3	5.5

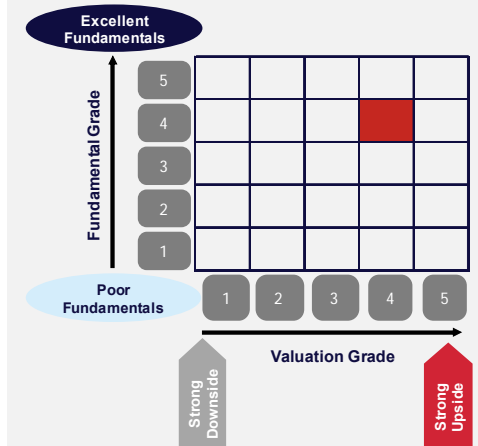
NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

March 07, 2014

Fair Value ₹110
CMP ₹96

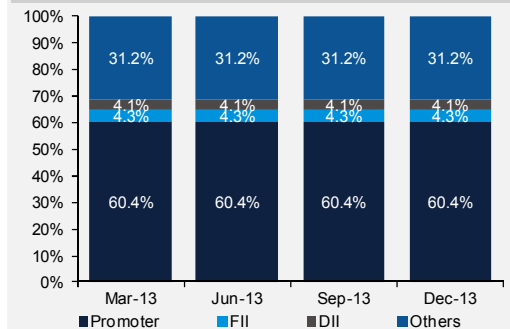
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	6401/ 21514
NSE/BSE ticker	RESPONSIVE
Face value (₹ per share)	1
Shares outstanding (mn)	262.5
Market cap (₹ mn)/(US\$ mn)	25,069/404
Enterprise value (₹ mn)/(US\$ mn)	31,429/507
52-week range (₹)/(H/L)	115/73
Beta	0.5
Free float (%)	39.6
Avg daily volumes (30-days)	43,116
Avg daily value (30-days) (₹ mn)	4.1

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Responsive	2%	5%	11%	3%
CNX 500	3%	0%	12%	6%

ANALYTICAL CONTACT

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Table 1: Responsive's business environment

Product	Vinyl/PVC flooring	PVC leather cloth	Shipping ropes
Revenue contribution (FY13)*	30%	35%	31%
Revenue contribution (FY16E)*	33%	39%	25% (CAGR is low compared to other businesses as revenues are expected to decline in FY14)
EBITDA contribution (FY13)	68%		32%
EBITDA contribution (FY16E)	72%		28%
FY13 RoCE	10%		15%
Product	Floor tiles	Artificial leather cloth (rexine)	PVC ropes (nylon ropes)
Application / end-user industries	Railways, buses, airports, hospitals, educational institutes, retail stores, fitness centres, commercial spaces, residential real estate, etc.	Railways, buses, automobiles, household furniture (upholstery), shoes, handbags, accessories, clothing, etc.	Shipping, oil exploration, defence and navy, power, construction, transport, telecom, sports, general purposes
Capacity (tonnes)	50,000	33,000	56,000
Market position	<ul style="list-style-type: none"> ■ Domestic: 65% market share in the domestic PVC flooring market ■ Global: Small market share globally 	Domestic: <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 ■ Global: Small market share globally 	<ul style="list-style-type: none"> ■ Domestic: 30% market share in the shipping ropes industry ■ Global: ~15% share in the global shipping ropes industry
Export destinations	<ul style="list-style-type: none"> ■ Africa – 25% ■ China – 23% ■ USA and Canada – 17% ■ Europe – 15% ■ Australasia – 12% ■ Caribbean – 8% 		<ul style="list-style-type: none"> ■ Far East – 30% ■ Europe – 25% ■ Middle East – 25% ■ America and Africa – 15%
Export contribution (FY13)	48%		57%
Sales growth (FY10-13 – 3-year CAGR)	34% (23% volume growth, 9% realisation growth)	48% (14% volume growth, 30% realisation growth)	32% (10% volume growth, 20% realisation growth).
Key competitors	<ul style="list-style-type: none"> ■ Domestic: Royal Cushion Vinyl Products Ltd, Marvel Vinyls Ltd, Premier Polyfilm Ltd ■ Global: Armstrong World Industries Ltd, Tarkett, James Halstead Plc, Gerflor, Forbo Flooring Systems, LG Hausys Ltd 	<ul style="list-style-type: none"> ■ Domestic: Royal Cushion Vinyl Products Ltd, Marvel Vinyls Ltd, Premier Polyfilm Ltd, Mayur Uniquoters Ltd, Jasch Industries Ltd, Polynova Industries Ltd, several small manufacturers ■ Global: LG Hausys Ltd, several small manufacturers 	<ul style="list-style-type: none"> ■ Domestic: Garware Wall Ropes Ltd ■ Global: DSR Wire Corp

Product	Vinyl/PVC flooring	PVC leather cloth	Shipping ropes
Demand drivers	<ul style="list-style-type: none"> ■ Shift in consumer preference from traditional forms of flooring to vinyl flooring ■ Addition of commercial real estate space – mainly malls, hospitals, educational institutes, etc. ■ Spending by the Indian Railways, state transport departments, etc. on new coaches/buses and refurbishment of the older ones ■ Introduction of metros, monorails, etc. 	<ul style="list-style-type: none"> ■ Increase in preference for PVC leather over natural leather for household furniture due to lower cost ■ Pick-up in the automobile industry ■ Spending by the Indian Railways, state transport departments, etc. on new coaches/buses and refurbishment of the older ones ■ Introduction of metros, monorails, etc. 	<ul style="list-style-type: none"> ■ Replacement demand from existing ships ■ Growth in the global shipping industry
Key risks	<ul style="list-style-type: none"> ■ Increase in raw material prices may lead to further margin pressure ■ Volatility in forex as the company does not hedge its foreign currency exposures ■ Increase in competition from large global players in vinyl flooring; the unorganised segment and Chinese manufacturers in PVC leather; and Korean players in the shipping ropes segment 		

* Balance is contributed by rigid blister films and soft sheeting

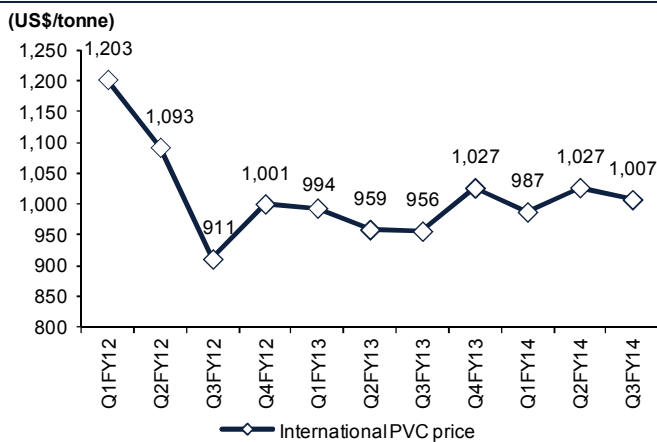
Source: Company, CRISIL Research

Grading Rationale

Macro headwinds impacted profitability in FY13-9MFY14...

Responsive – a leading domestic manufacturer and exporter of vinyl flooring, PVC leather and shipping ropes – witnessed margin pressure over FY13-9MFY14. Domestic PVC prices increased sharply despite flat international prices mainly due to ~22% depreciation in the rupee during this period. Responsive was unable to pass on the full price increase to its clients. Also, lower offtake from two key clients in the shipping ropes segment impacted growth and profitability.

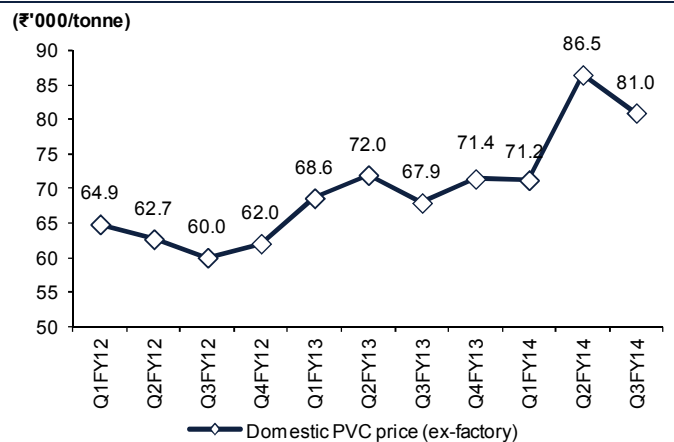
Figure 1: Trend in international PVC prices



Note: Prices exclude customs duty, insurance and handling charges

Source: Company, CRISIL Research

Figure 2: Trend in domestic PVC prices



Source: Company, CRISIL Research

... but improvement expected over FY14-16

CRISIL Research expects the average international PVC price to decline by 1.5-5% y-o-y in CY2014 following an increase in global feedstock supply and sluggish demand. The rupee is also expected to stabilise to an average of ₹62/US\$. Accordingly, we expect stable PVC prices in the next year. Also, the demand for PVC flooring and leather has remained robust and client-specific issues in the shipping ropes segment are likely to be resolved by end-FY14. We expect these factors to improve profitability over FY14-16.

Retains dominance in domestic PVC leather, flooring industries

Responsive is the leading domestic manufacturer of PVC leather and vinyl flooring with installed capacities of 33,000 tonnes and 50,000 tonnes, respectively. While entry barriers in the vinyl flooring industry have ensured limited competition (refer to the box below), the PVC leather industry is highly competitive. In the PVC leather business, the company faces competition from local unorganised and Chinese manufacturers. Despite this, the company has been able to maintain its dominance in both industries and continues to command a healthy market share.

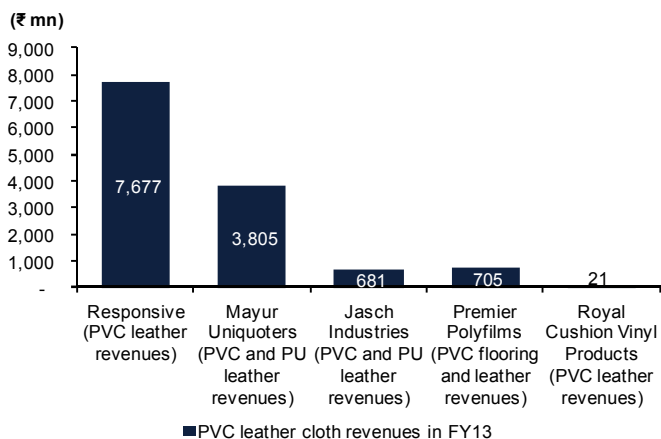
CRISIL Research expects the average international PVC price to decline by 1.5-5% y-o-y in CY2014

Entry barriers in the vinyl flooring industry

The domestic vinyl flooring industry has very few players in the organised segment. This is due to the following entry barriers in the industry:

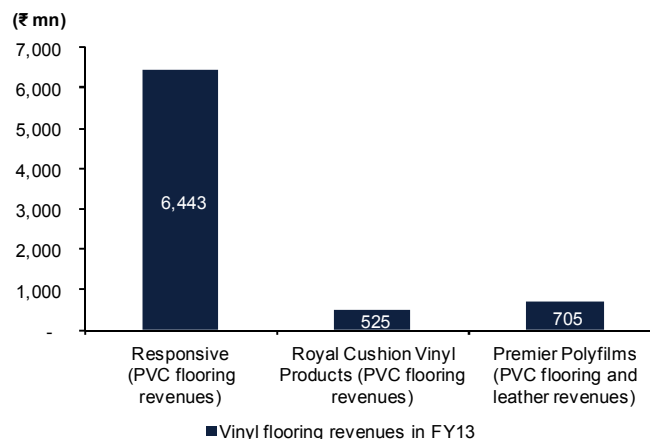
- Technology innovation could span three-five years, and
- Stringent processes spanning 6-18 months to procure international certifications.

Figure 3: Responsive is the largest player in PVC leather...



Source: Company, CRISIL Research

Figure 4: ... and vinyl flooring in India



Source: Company, CRISIL Research

Table 2: Responsive's share in the domestic market

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

Source: Company

Strong distributor network + product customisation = healthy export growth

Responsive's vinyl flooring and PVC leather export revenues have grown at a healthy 37% CAGR over FY09-13, faster than 34% CAGR for domestic revenues over the same period. Export revenues contributed 48% to overall revenues in FY13. Responsive has been able to grow its export revenues despite the presence of a number of large global manufacturers such as Armstrong Industries (the US), Tarkett (France), LG Hausys (Korea), etc. due to the following factors:

- **Strong overseas distribution network:** Responsive has distributors in over 70 countries globally. These distributors provide installation as well as after-sales services to clients.
- **Low storage, selling and distribution expenses:** Since Responsive operates through distributors and does not have warehouses in the export locations, its storage, selling and distribution cost is only 1-2% of sales. Most of its global competitors have their own sales and marketing teams, and also maintain warehouses at various locations due to which their storage, selling and distribution expenses are significantly higher than

Responsive's vinyl flooring and PVC leather export revenues have grown at a healthy 37% CAGR over FY09-13

Responsive's. We believe that this has enabled the company to competitively price its products in the export markets.

- **Product customisation:** As per the management, Responsive customises its offering based on the requirements, even for smaller orders, while most of its global competitors make standardised products. This has enabled the company to add a number of clients.

We expect Responsive's penetration in the global markets to increase further based on the aforementioned factors. Also, the company plans to strengthen its distributor network, which should add to export revenues.

Established relationship with marquee clients, diversified revenues

Responsive has established relationships with marquee clients across industries including auto, healthcare, retail, real estate, etc. in both domestic and export markets – the company accrues 40% of its revenues from direct sales. Domestically, the company is the largest supplier to the Indian Railways for PVC flooring and leather. Further, it has a strong dealer network (60% of overall revenues) for its products both locally and globally which has enabled it to widen its geographical footprint. The company has 300 dealers in the domestic market and ~35 distributors globally, which enable it to service 70 countries. Notably, the company has ensured that its client concentration is low – its top client has contributed less than 5% to total revenues over the years.

Responsive is the largest supplier of PVC flooring and leather to the Indian Railways

Table 3: 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

Bright prospects for PVC leather and flooring industries

PVC leather - cost advantage, better availability over natural leather

PVC leather is being preferred over natural leather in applications such as automobile seat covers, upholstery, accessories (such as bags, purse and belts), clothing, etc. This is mainly because PVC leather can replicate the look of natural leather and is 5-6x cheaper than natural leather. Also, the supply of natural leather is limited. Based on these factors, we expect the demand for PVC leather from the mentioned industries to remain strong globally. The ₹40-50 bn Indian synthetic leather industry (PVC and polyurethane leather) has grown at 15% annually over the past few years and is expected to maintain robust growth. Further, the share of the organised players (~50% market share currently) has been increasing in the domestic market due to increased preference for quality products. This is expected to benefit large organised manufacturers such as Responsive.

Vinyl flooring – similar aesthetics, lower cost vs conventional flooring

With the technological developments over the past few years, vinyl flooring can replicate the appearance of conventional forms of flooring such as marble, ceramic tiles, wood, etc. At the same time, the cost of vinyl flooring is significantly lower than conventional forms of flooring. It is also easier to install and repair compared to other forms of flooring; the ease of repair has boosted its application in retail malls, where faster turnaround time is required. Further, attributes such as bacteria resistance are increasing its usage in hospitals; vinyl sheets are compulsorily used in operation theatres. However, durability of vinyl is lower compared to ceramic or marble flooring but given the significantly lower cost and niche applications, its usage is increasing. Hence, we expect growth in this industry to remain strong.

The global vinyl flooring industry is currently valued at ~US\$15 bn.

Table 4: Characteristics of vinyl flooring vis-a-vis conventional forms of flooring

Features	Ceramic tiles	Hardwood flooring	Marble flooring	Vinyl flooring
Installation time	2 days	1 day	4-5 days	Few hours
Water resistance	Resistant to water	Vulnerable to water	Resistant to water	Resistant to water
Durability	High - lasts ~10-12 years	Medium - wooden flooring tends to shrink and expand with changes in temperature creating gaps and needs to be replaced in 5-6 years	Very high - over 20 years	Medium - adhesive of vinyl flooring comes off in areas of high footfalls
Bacteria resistance	Bacteria tends to accumulate in the crevices of ceramic flooring	Bacteria tends to accumulate in the crevices of wooden flooring	Bacteria tends to accumulate in the crevices of marble flooring	Vinyl flooring in sheet form is bacteria-resistant
Stain resistance	Resistant to stains	Tends to stain	Tends to stain	Stains need to be cleaned immediately
Fire resistance	Fire resistant	Vulnerable to fire	Fire resistant	Fire retardant
Ease of maintenance	Easy to maintain – it can be cleaned with water	High on maintenance – surface coat needs to be repainted in few years	High on maintenance	Easy to maintain
Time required for repair	Repair takes a long time as ceramic tiles need to be cemented to the surface	Repair takes more time compared with vinyl flooring	Repair takes maximum time compared to other flooring materials	Repair takes less time as vinyl flooring can be reinstalled by using adhesives
Availability of designs	Multiple designs available	Limited styles and colours	Limited styles and colours	Multiple designs available, which can give ceramic, marble or wooden look

Source: Industry sources

Table 5: Pricing comparison of various types of flooring

Type of flooring	Cost per sq ft (₹)*
Vinyl flooring	40-50
Plain ceramic tiles	55-60
Concept ceramic tiles	150-200
Plain marble	150-200
Italian marble	300-400
Wooden flooring	300-400

Note: Represents minimum cost

Source: Industry sources

Well placed to benefit from investments of Indian Railways and domestic bus body builders

Responsive is the largest supplier of vinyl flooring and PVC leather (used in seats) to the Indian Railways and domestic bus body manufacturers. As per the management, the company supplies ~95% of the requirement of the Indian Railways and 85% of seat covering and upholstery requirement of the domestic bus body manufacturers. As per the 12th Five Year Plan, the railway passenger traffic is expected to grow at 7% CAGR over FY13-17. The Indian Railways plans to add a number of new routes and increase trains across existing routes to cater to the growth in passenger traffic, which would result in addition of coaches. On the back of this and refurbishment demand, we expect orders from the Indian Railways to remain robust in the medium term. Further, CRISIL Research expects bus sales to grow at 8-10% CAGR over FY13-18 driven by the government's thrust on improving public transport (under schemes such as Jawaharlal Nehru National Urban Renewal Mission) and demand from niche segments such as schools and corporates. Responsive will also be a beneficiary of growth in demand.

Additional demand expected from rollout of metro and monorail projects

Following Delhi's Metro Rail, similar projects are underway in Mumbai, Bengaluru, Hyderabad, Chennai, Jaipur and Kochi. Additionally, monorail projects are also under implementation in Chennai, Jodhpur and Thiruvananthapuram. These projects are expected to add to the domestic demand for both vinyl flooring and PVC leather going forward.

Shipping ropes – established player, growth impacted due to client-specific issues

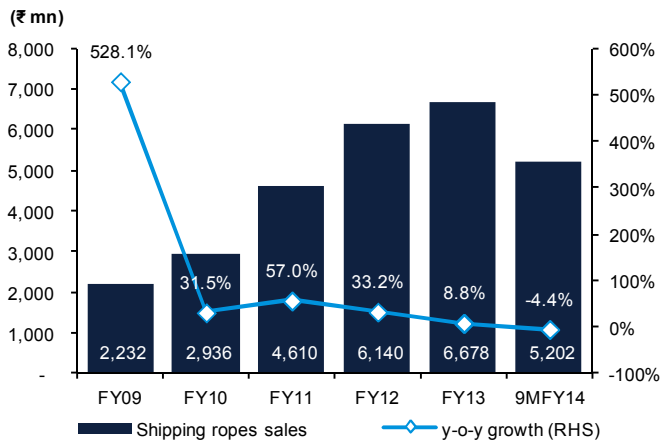
Responsive is an established player in the US\$3.5-4 bn global shipping ropes industry. It has global market share of ~15% and domestic share of ~30%. As shipping ropes need to be replaced at regular intervals, which is determined based on the specifications of the ship, the demand for shipping ropes does not get impacted by slowdown in cargo traffic. Despite this, Axiom Cordages' (Responsive's shipping ropes subsidiary) revenues grew only by 9% y-o-y in FY13 and declined by 4% y-o-y in 9MFY14, after growing at a robust CAGR of 40% over FY09-12. As per the management, the offtake from two of its large overseas clients declined as their management underwent a change and Responsive took some time to set up relations with the new management. Its EBITDA margin contracted to 12.7% in 9MFY14 from 17% in

Responsive supplied 95% of the PVC flooring and leather requirement of the Indian Railways and 85% of seat covering and upholstery requirement of the domestic bus body

Shipping ropes need to be replaced at regular intervals, based on the specifications of the ship

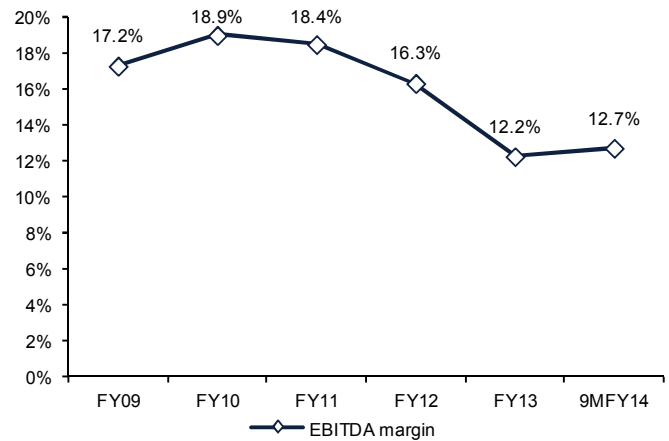
FY09 due to low utilisation rates and sharp increase in raw material prices which the company was unable to pass on completely. We expect the demand for shipping ropes to continue to be stable in the near term and offtake from the aforementioned two clients to normalise from FY15 onwards. This should improve Axiom’s sales. We expect EBITDA margin to also improve to 16% in FY16.

Figure 5: Responsive’s revenue growth slowed in FY13



Source: Company, CRISIL Research

Figure 6: Profitability under pressure due to slow demand



Source: Company, CRISIL Research

Axiom to be merged with Responsive

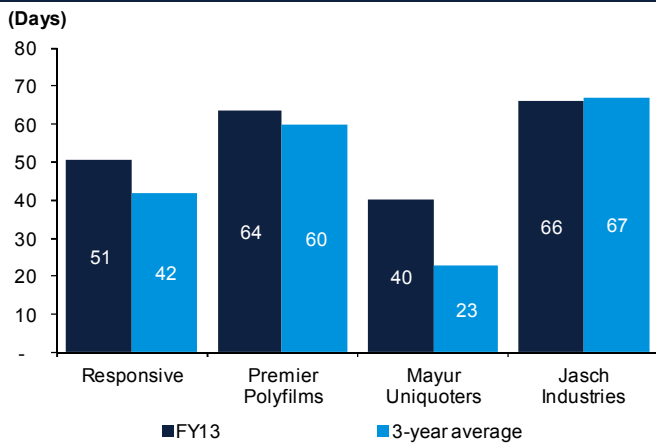
Responsive currently holds 58% stake in Axiom. Its stake declined from 86% in the previous year post conversion of debentures issued to Banyan Tree and FMO (The Netherlands-based investor). Responsive now plans to merge Axiom with the parent company. The company has received an approval from its board of directors and is awaiting approval from the stock exchanges. We have currently not factored in the effect of the merger in our estimates.

Working capital comparable to peers; robust inventory management

Responsive’s working capital cycle of 50-55 days is comparable to that of its peers. Its creditors have declined sharply from 72 days in FY09 to seven days in FY13 as the company avails of discounts on upfront payments; they are significantly lower than the peers’. Despite this, the company has been able to maintain a lean working capital cycle mainly because of ~20 inventory days, lowest among its domestic peers. Responsive has a policy of maintaining a six-week order book across business segments. It procures raw materials and manufactures finished products only against this order book, which has enabled it to effectively manage its inventory days. Further, finished goods inventory is maintained with the dealers (the company accrues ~60% of sales through its dealer network) without recourse to the company. As a result, Responsive’s finished goods inventory is two-three days.

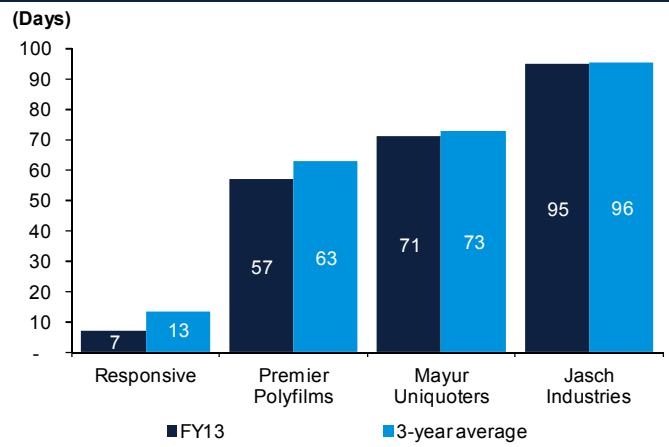
Responsive procures raw material and manufactures finished goods only against its six-week order book

Figure 7: Working capital comparable to peers...



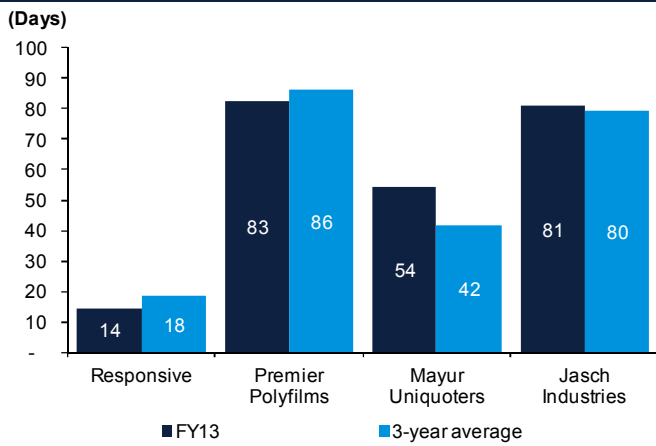
Source: Company, CRISIL Research

Figure 8: ... despite lower creditor days...



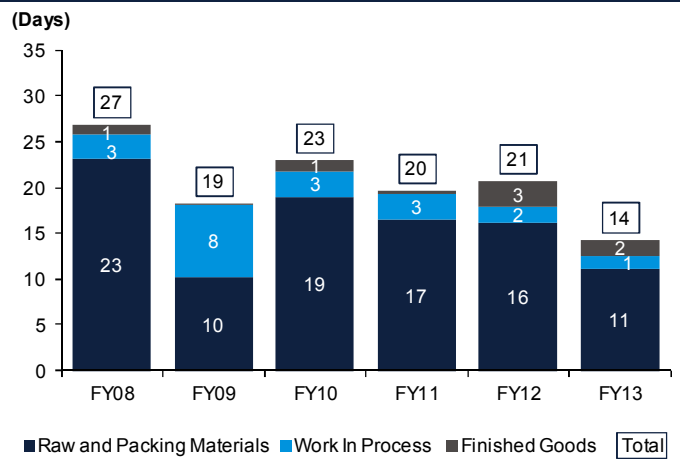
Source: Company, CRISIL Research

Figure 9: ... due to low inventory days vs peers



Source: Company, CRISIL Research

Figure 10: Break-up of Responsive's inventory days



Source: Company, CRISIL Research

Key Risks

Increase in competition across businesses

Expansion in India by global vinyl flooring players

Some of Responsive's large global competitors in the vinyl flooring industry – Armstrong, Tarkett and Gerflor – have entered India over the past few years. While they have set up sales offices and distribution networks, these players currently do not have a manufacturing facility in India. Also, the pricing of their products is 1.5-2x higher than locally manufactured products since they have to import their products. As a result, these players currently do not have a large market share in India. However, steps taken by these companies to strengthen their presence in India by setting up manufacturing facilities could increase competition for Responsive.

Increase in competition from Chinese manufacturers in PVC leather

Responsive faces stiff competition from Chinese manufacturers of PVC leather both in India and globally. China, with abundant local supply of raw materials, is a low-cost manufacturer of PVC leather. Despite an import duty of 10% on PVC leather and the recent depreciation of the rupee against other currencies, competition from China has remained strong. Further increase in competition would adversely impact Responsive's growth and profitability.

Rise in acceptability of Korean products in shipping ropes

The global shipping ropes industry is highly fragmented and is dominated by South Korean companies. Most of these players have small capacities and their products currently do not meet the quality specifications of the large shipping companies. However, increase in acceptability of their products in future may impact Responsive's market share.

Increase in raw material prices

PVC is Responsive's key raw material, accounting for 70-80% of the total raw material cost. The cost of procuring PVC is impacted by prices prevailing in the global markets as well as the foreign exchange rate. The company maintains only a six-week order book and incorporates the prevailing raw material prices into its product pricing. However, there have been instances in the past when the company has found it difficult to pass on the increase in raw material prices completely, which has led to margin pressure.

While the company faces stiff competition from imports in the domestic market, further depreciation of rupee may make imports more expensive

Further depreciation of rupee to impact financials

Responsive accrues over 50% of its sales from exports and imports 50% of its raw material requirements. Since it has a natural hedge, it does not cover its foreign currency exposure. In FY13, the company had outstanding foreign currency borrowing of ₹6 bn (including short-term borrowing, ~80% of its gross debt). It has not hedged its external commercial borrowing (ECB) repayments due to the high cost of long-term hedges. The transactional forex loss (incurred on account of difference in sales and purchases in foreign currency for a particular period) is booked in the P&L. However, in case of ECB, the company increases the carrying value of the assets which have been financed through the ECB without showing any impact in the P&L – the company has changed the carrying value of assets in FY13 and H1FY14 following rupee depreciation. The impact of the same would be seen in future financials in the form of increase in depreciation and interest outgo. Any adverse movement in foreign currencies in future would significantly impact the company's financials.

Table 6: Responsive has incurred forex loss in the past

(₹ mn)	FY09	FY10	FY11	FY12	FY13	H1FY14
Forex loss (net) accounted in the P&L	3	-	-	108	4	17
Increase/(decrease) in value of assets due to fluctuation in foreign currency	44	8	2	(0)	249	569

Source: Company

Financial Outlook

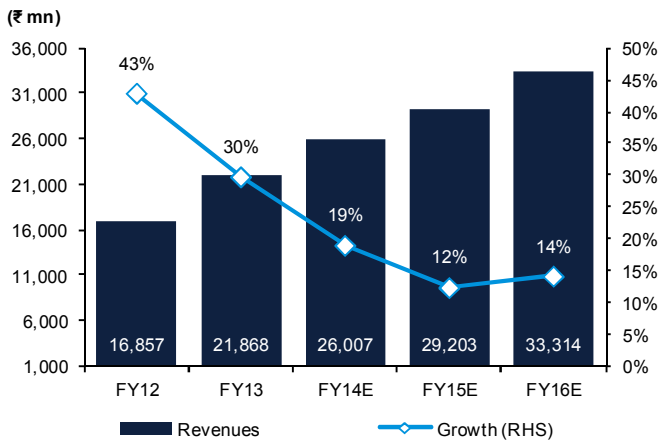
Revenues to grow at three-year CAGR of 15%

We expect Responsive’s revenues to grow at a three-year CAGR of 15% to ₹33.3 bn in FY16. Standalone revenues (PVC leather cloth, vinyl flooring, PVC sheeting and PVC rigid) are expected to post 18% CAGR over FY13-16. We expect shipping ropes revenues to grow at 7% CAGR over the same period, slower than the other business as we expect sales to grow only by 3% in FY14 due to muted volumes.

Responsive’s revenue growth is forecast to slow down to 15% CAGR from 35% CAGR clocked over FY09-13 as the management is cautious on future capex due to uncertain macroeconomic conditions. We have factored in capacity addition only in FY17.

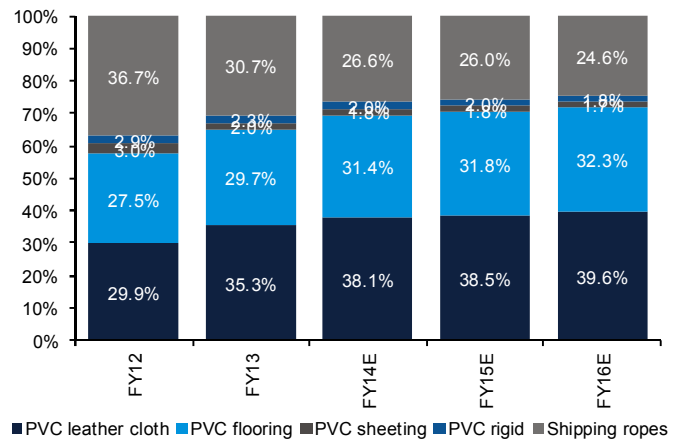
PVC leather cloth and PVC flooring segments to drive sales

Figure 11: Revenue growth expected to moderate



Source: Company, CRISIL Research

Figure 12: Product-wise revenue contribution

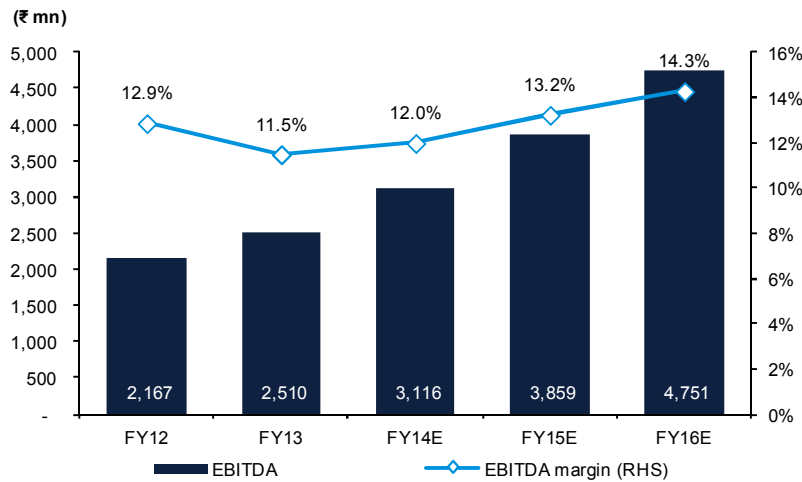


Source: Company, CRISIL Research

EBITDA margin to increase to 14.3% in FY16

Responsive’s EBITDA margin declined by 140 bps y-o-y in FY13 and 160 bps 9MFY14 mainly due to a sharp increase in raw material prices which the company has been unable to pass on completely. We expect EBITDA margin to improve by 280 bps over FY13-16.

Figure 13: EBITDA margin to improve



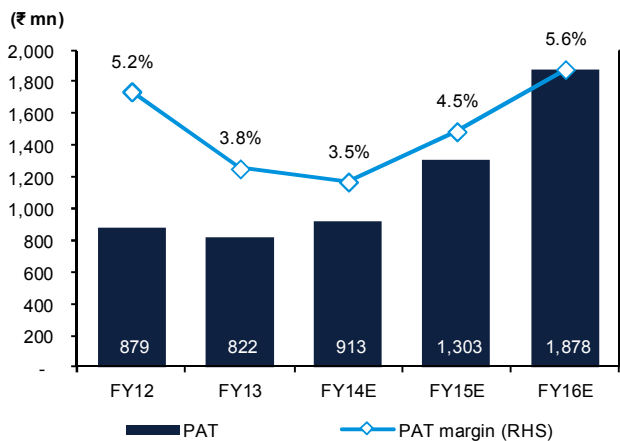
Source: Company, CRISIL Research

Adjusted PAT estimated to grow at a three-year CAGR of 32%; return ratios to improve

Responsive's consolidated PAT is expected to grow from ₹822 mn in FY13 to ₹1,878 mn in FY16, driven by revenue growth along with an improvement in EBITDA margin. Also, debt levels are likely to decline since the company does not have any significant capex plans over FY13-16. Accordingly, interest cost is expected to decline. RoE is expected to expand to 15.4% in FY16 from 12.3% in FY13 due to improvement in profitability.

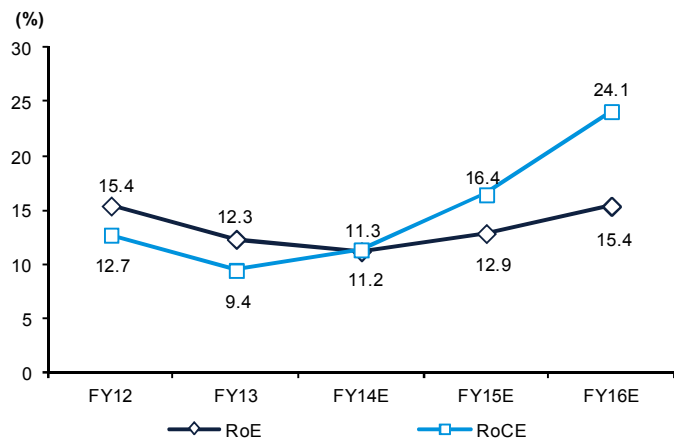
Debt is likely to decline since the company does not have any significant capex plans over FY13-16

Figure 14: PAT margin to increase to 5.6% in FY16



Source: Company, CRISIL Research

Figure 15: Return ratios to improve on better margins

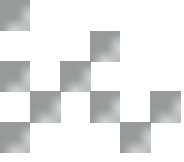


Source: Company, CRISIL Research

Analysis of consolidated 9MFY14 performance

(₹ mn)	9MFY14	9MFY13	% y-o-y
Net sales	19,031	16,516	15.2
Raw materials cost	15,794	13,441	17.5
Raw materials cost (% of net sales)	83.0%	81.4%	161bps
Employees cost	79	80	(1.1)
Other expenses	868	751	15.6
EBITDA	2289.8	2243.4	2.1
EBITDA margin	12.0%	13.6%	-155bps
Depreciation	1,086	882	23.1
EBIT	1,204	1,361	(11.6)
Interest and finance charges	231	232	(0.3)
Operating PBT	972	1,129	(13.9)
Other income	183	98	86.5
Extraordinary Income/(expense)	-	-	
PBT	1,156	1,227	(5.9)
Tax	395	333	18.6
Minority interest	68	62	
PAT	692	832	(16.8)
Adj PAT	692	832	(16.8)
Adj PAT margin	3.6%	5.0%	-140bps
No. of equity shares (mn)	262	262	-
Adj EPS (₹)	2.6	3.2	(16.8)

- Responsive's consolidated revenues grew 15.2% y-o-y to ₹19 bn in 9MFY14. Standalone revenues posted healthy growth of 25% y-o-y and contributed 73% to overall sales during this period. Axiom sales declined by 4.4%.
- Consolidated EBITDA margin declined by 155 bps y-o-y to 12% due to margin pressure across businesses.
- PAT declined by 17% y-o-y to ₹692 mn due to low EBITDA, 23% y-o-y increase in depreciation due to commissioning of addition ropes capacity, and higher tax rate as the company has exhausted its MAT credit in FY13.



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.

Promoters hold top management positions, professional second line

All the top management positions in Responsive are currently held by members of the Agarwal family. Management is led by promoter Mr Atit Agarwal, who is the chairman and whole-time director. He looks after finance and production verticals and also the overall operations of the company. The management has indicated that they may induct some professionals in the top line in future. The company has several professionals from the industry in the second line of management.

Management has a proven track record

The current management has grown the company's revenues at a healthy 40% CAGR over FY08-13. The company has consistently maintained a lean working capital cycle due to which its balance sheet has been healthy. Also, Responsive has been able to retain its market share across various categories in the domestic market and also in tenders from the Indian Railways. Further, the company has been able to add and retain marquee clients such as Tata Motors, Mercedes Benz, Volvo, Bajaj Auto, Eicher, Ashok Leyland, etc.

Responsive's management is led by the promoter family

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.

Overall, corporate governance at Responsive is good, supported by good board practices and an independent board.

Overall corporate governance practices at Responsive are good

Board conforms to listing guidelines; processes in place

Responsive's board comprises six members, three of whom are independent, which meets the requirement under Clause 49 of SEBI's listing guidelines. The company has all the necessary committees – audit, remuneration, and investor grievance – in place to support corporate governance practices. The audit committee is chaired by Mr S S Thakur, an independent director.

Experienced independent directors from diverse backgrounds

The company has highly reputed and experienced independent directors. They have diverse industry experience and a fairly good understanding of the company's business. One of the independent directors, Mr S S Thakur, was previously the Controller, Foreign Exchange at the Reserve Bank of India, former chairman of HDFC Ltd and Central Depository Services (India) Ltd. Mr V K Chopra has over three decades of experience in the banking industry and was previously the chairman and managing director of SIDBI and Corporation Bank. The company also has Mr Michael Freedman on its board, who has a strong experience in the commercial flooring industry and has developed successful products for global companies such as Armstrong, Marley Flexco and LG Floors.

Disclosure levels meet statutory requirements; taking steps to strengthen MIS

The company's disclosure levels meet statutory requirement judged by the level of information and details furnished in the annual report. However, the company currently does not track various operational parameters such as end-user industry-wise sales, sales volumes in tonnes etc. To address these issues, the company is planning to install SAP (system, applications and products) system, which would help the company effectively track several operational metrics.

Dividend payout has been low in the past

Over the past five years, Responsive's dividend payout has varied in the range of 3-7%. As per the management, since the company is in the growth phase, they have reinvested the amount.

Valuation

Grade: 4/5

We have valued Responsive by the DCF method and maintain the fair value of ₹110 per share. This fair value implies P/E multiples of 22.2x FY15E and 18.4x FY16E EPS, and EV/EBITDA multiples of 8.5x FY15E and 6.4x FY16E EBITDA. At the current market price of ₹96, the valuation grade is **4/5**, indicating upside from the current levels.

Maintain fair value of ₹110 per share to Responsive

Key DCF assumptions

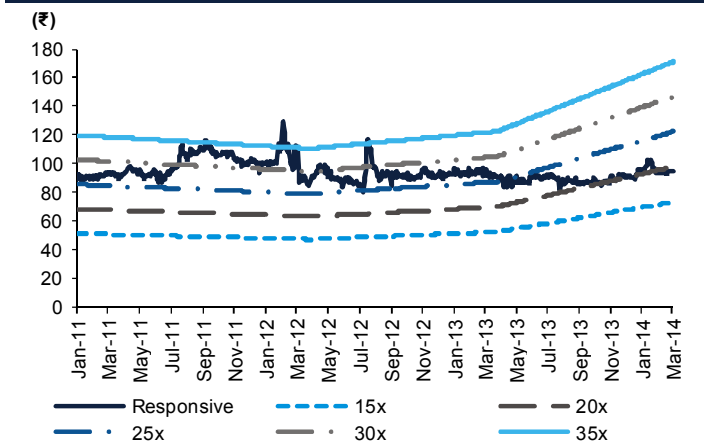
We have forecast free cash flows from FY14 to FY24. The following are our key assumptions.

- We have assumed cost of equity of 16.5%
- We have assumed a terminal growth rate of 3% beyond the explicit forecast period

WACC computation

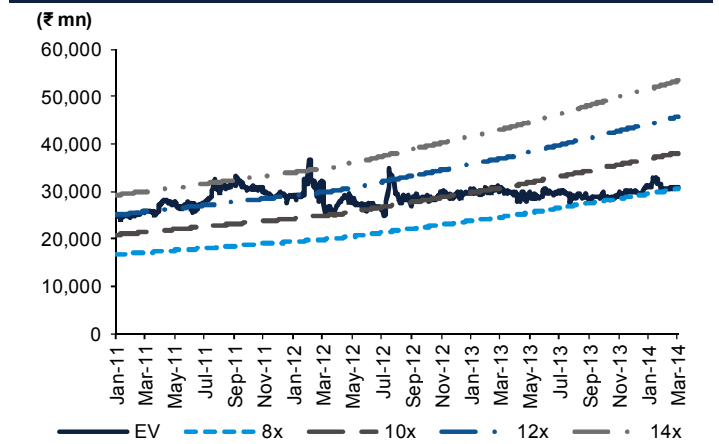
	FY14-24	Terminal value
Cost of equity	16.50%	16.50%
Cost of debt (Post tax)	6.70%	6.70%
Debt:equity	35.4%	50.0%
WACC	13.0%	11.6%
Terminal growth rate		3%

One-year forward P/E band



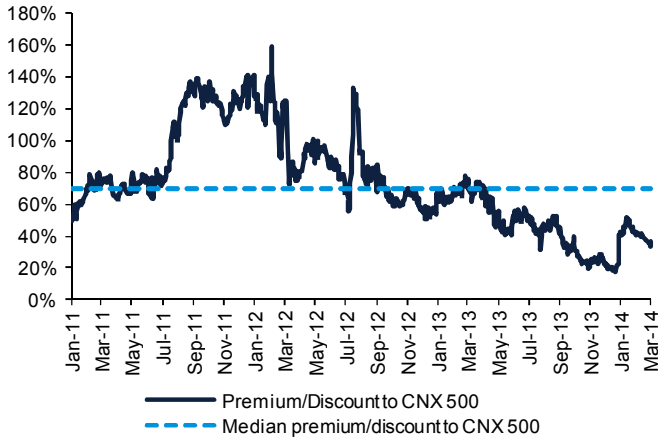
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



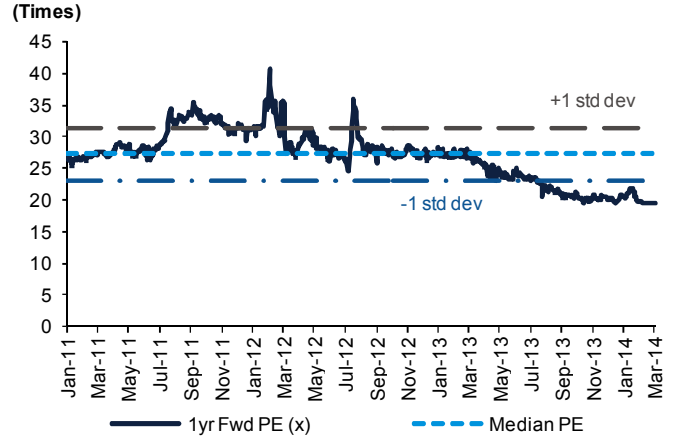
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



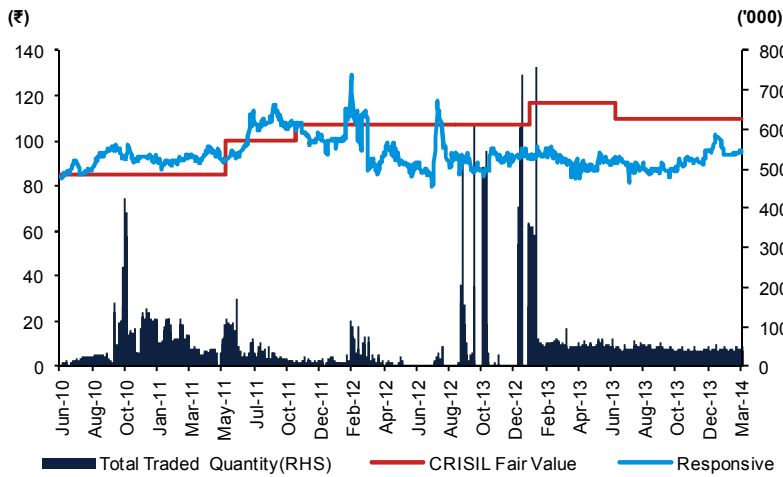
Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

Fair value movement since initiation



Source: Company, CRISIL Research

Sensitivity analysis

		Terminal growth rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
Terminal WACC	9.6%	122	136	153	177	212
	10.6%	106	116	128	145	167
	11.6%	93	100	110	121	137
	12.6%	83	88	95	104	115
	13.6%	74	79	84	91	99

		Terminal growth rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
Terminal EBITDA margin	10.2%	78	84	92	101	113
	11.2%	85	92	101	111	125
	12.2%	93	100	110	121	137
	13.2%	100	108	119	131	148
	14.2%	107	116	128	142	160

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	₹85	3/5	₹85#
04-Oct-10	Q1FY11 result update	3/5	₹85	2/5	₹96#
23-Nov-10	Q2FY11 result update	3/5	₹85	3/5	₹90
08-Apr-11	Q3FY11 result update	3/5	₹85	3/5	₹95
13-Jun-11	Q4FY11 result update	3/5	₹100	2/5	₹95
18-Aug-11	Q1FY12 result update	3/5	₹100	3/5	₹107
28-Oct-11	Detailed report	4/5	₹107	3/5	₹107
21-Nov-11	Q2FY12 result update	4/5	₹107	3/5	₹100
27-Feb-12	Q3FY12 result update	4/5	₹107	3/5	₹99
18-Jun-12	Q4FY12 result update	4/5	₹107	4/5	₹90
17-Aug-12	Q1FY13 result update	4/5	₹107	4/5	₹95
29-Nov-12	Detailed report	4/5	₹107	4/5	₹92
01-Mar-13	Q3FY13 result update	4/5	₹117	4/5	₹94
03-Jul-13	Q4FY13 result update	4/5	₹110	4/5	₹93
07-Mar-14	Detailed report	4/5	₹110	4/5	₹96

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

Company Overview

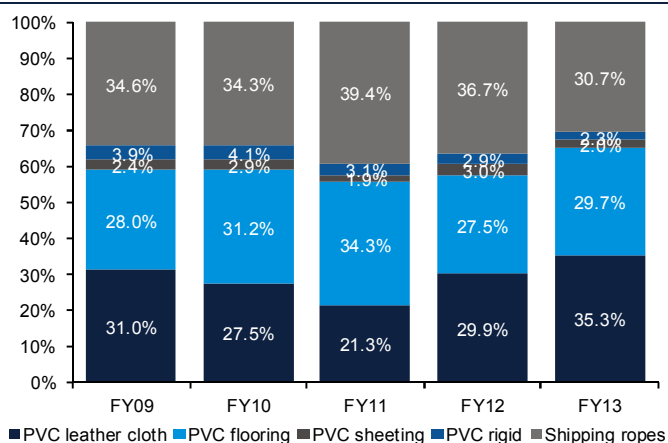
Responsive is one of the leading domestic manufacturers of vinyl flooring, PVC leather cloth, soft sheeting, rigid PVC and PVC shipping ropes. The company was incorporated in 1982 as Sinhal Holding Ltd, which mainly traded in PVC products. In FY07, the company amalgamated Responsive Polymers Ltd (manufacturer of PVC flooring and artificial leather cloth) with itself and the name was changed to Responsive.

Capacity

Segment	Capacity in tonnes
Vinyl flooring	50,000
PVC leather cloth	33,000
Rigid blister films	3,000
Soft sheeting	4,000
Shipping ropes (Axiom Cordages)	56,000

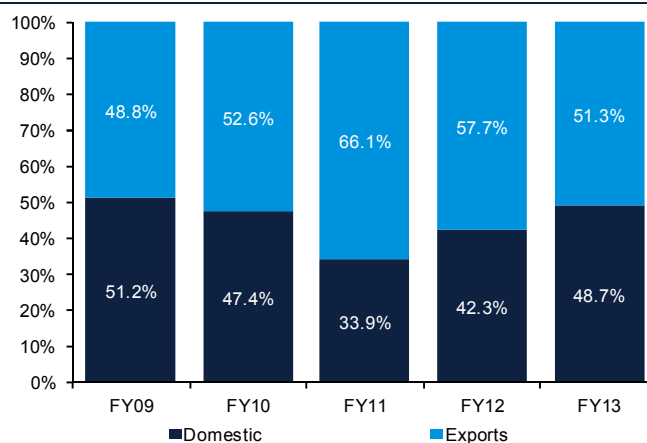
Source: Company, CRISIL Research

Trend in product-wise revenue contribution



Source: Company, CRISIL Research

Trend in geography-wise revenue contribution



Source: Company, CRISIL Research

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 of PVC products was commissioned
2013	Listed on MCX Stock Exchange
	Further expanded Axiom's capacity

Annexure: Financials

Income statement

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Operating income	16,857	21,868	26,007	29,203	33,314
EBITDA	2,167	2,510	3,116	3,859	4,751
EBITDA margin	12.9%	11.5%	12.0%	13.2%	14.3%
Depreciation	793	1,208	1,478	1,523	1,455
EBIT	1,374	1,303	1,638	2,336	3,297
Interest	121	314	304	270	153
Operating PBT	1,253	989	1,334	2,066	3,144
Other income	44	92	197	212	123
Exceptional inc/(exp)	161	(12)	-	-	-
PBT	1,458	1,070	1,530	2,279	3,267
Tax provision	347	202	505	752	1,078
Minority interest	72	57	113	224	311
PAT (Reported)	1,040	811	913	1,303	1,878
Less: Exceptionals	161	(12)	-	-	-
Adjusted PAT	879	822	913	1,303	1,878

Ratios

	FY12	FY13	FY14E	FY15E	FY16E
Growth					
Operating income (%)	42.9	29.7	18.9	12.3	14.1
EBITDA (%)	18.1	15.8	24.1	23.9	23.1
Adj PAT (%)	(4.1)	(6.4)	11.0	42.8	44.1
Adj EPS (%)	(6.1)	(6.4)	11.0	42.8	20.3

Profitability

EBITDA margin (%)	12.9	11.5	12.0	13.2	14.3
Adj PAT Margin (%)	5.2	3.8	3.5	4.5	5.6
RoE (%)	15.4	12.3	11.2	12.9	15.4
RoCE (%)	12.7	9.4	11.3	16.4	24.1
RoIC (%)	10.5	9.4	10.8	14.4	18.4

Valuations

Price-earnings (x)	28.5	30.5	27.5	19.2	13.4
Price-book (x)	4.3	3.8	3.3	2.7	2.2
EV/EBITDA (x)	14.4	12.5	9.9	7.5	5.6
EV/Sales (x)	1.9	1.4	1.2	1.0	0.8
Dividend payout ratio (%)	3.1	3.9	2.9	3.0	2.8
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2

B/S ratios

Inventory days	21	14	18	18	18
Creditors days	11	7	8	8	8
Debtor days	44	30	40	40	38
Working capital days	44	51	49	53	52
Gross asset turnover (x)	2.0	1.7	1.8	1.9	2.1
Net asset turnover (x)	2.6	2.3	2.6	3.1	3.9
Sales/operating assets (x)	2.1	2.2	2.6	3.1	3.9
Current ratio (x)	11.1	11.1	10.5	10.2	9.9
Debt-equity (x)	1.3	1.1	0.9	0.5	0.2
Net debt/equity (x)	1.0	0.9	0.7	0.3	0.1
EBITDA/interest (x)	18.0	8.0	10.3	14.3	31.1
EBIT/interest (x)	11.4	4.2	5.4	8.6	21.6

Per share

	FY12	FY13	FY14E	FY15E	FY16E
Adj EPS (₹)	3.3	3.1	3.5	5.0	6.0
CEPS	6.4	7.7	9.1	10.8	12.7
Book value	22.0	25.4	29.1	34.8	42.9
Dividend (₹)	0.1	0.1	0.1	0.2	0.2
Actual o/s shares (mn)	263	263	263	263	263

Balance Sheet

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Liabilities					
Equity share capital	263	263	263	263	263
Reserves	5,232	6,052	6,934	8,191	10,007
Minorities	285	342	455	679	989
Net worth	5,779	6,656	7,651	9,132	11,259
Convertible debt	-	-	-	-	-
Other debt	7,637	7,531	7,031	4,631	2,336
Total debt	7,637	7,531	7,031	4,631	2,336
Deferred tax liability (net)	610	679	878	1,174	1,174
Total liabilities	14,026	14,866	15,560	14,937	14,769
Assets					
Net fixed assets	8,999	10,262	9,884	8,811	8,137
Capital WIP	125	144	44	94	64
Total fixed assets	9,124	10,406	9,928	8,905	8,200
Investments	5	4	4	4	4
Current assets					
Inventory	825	753	1,069	1,200	1,369
Sundry debtors	2,115	1,890	2,862	3,214	3,484
Loans and advances	684	740	650	730	833
Cash & bank balance	139	188	309	210	287
Marketable securities	1,620	1,325	1,325	1,325	1,325
Total current assets	5,382	4,896	6,216	6,679	7,298
Total current liabilities	484	442	589	653	736
Net current assets	4,897	4,455	5,626	6,026	6,562
Intangibles/Misc. expenditure	-	2	2	2	2
Total assets	14,026	14,866	15,560	14,937	14,769

Cash flow

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	1,298	1,082	1,530	2,279	3,267
Total tax paid	-	(134)	(306)	(456)	(1,078)
Depreciation	793	1,208	1,478	1,523	1,455
Working capital changes	(2,211)	194	(1,050)	(499)	(458)
Net cash from operations	(120)	2,349	1,652	2,846	3,185
Cash from investments					
Capital expenditure	(2,746)	(2,489)	(1,000)	(500)	(750)
Investments and others	(1,462)	343	-	-	-
Net cash from investments	(4,208)	(2,146)	(1,000)	(500)	(750)
Cash from financing					
Equity raised/(repaid)	(0)	47	-	-	-
Debt raised/(repaid)	4,133	(105)	(500)	(2,400)	(2,296)
Dividend (incl. tax)	(32)	(37)	(31)	(46)	(61)
Others (incl extraordinary)	161	(11)	-	-	-
Net cash from financing	4,262	(107)	(531)	(2,446)	(2,357)
Change in cash position	(66)	96	121	(100)	78
Closing cash	139	188	309	210	287

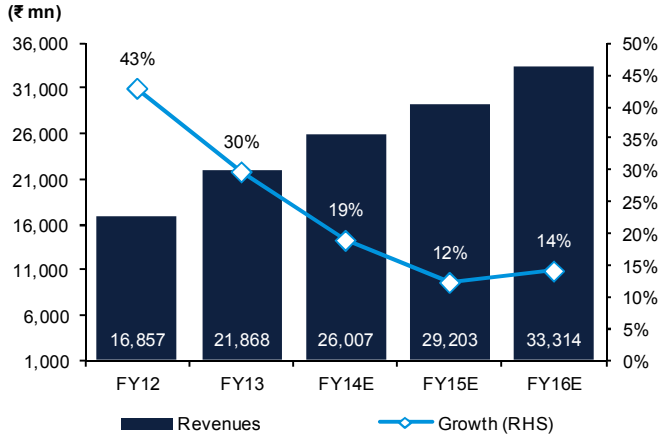
Quarterly financials

(₹ mn)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Net Sales	5,463	5,349	5,789	6,313	6,929
Change (q-o-q)	-3%	-2%	8%	9%	10%
EBITDA	749	261	760	751	779
Change (q-o-q)	4%	-65%	191%	-1%	4%
EBITDA margin	13.7%	4.9%	13.1%	11.9%	11.2%
PAT	212	(21)	200	279	213
Adj PAT	212	(21)	200	279	213
Change (q-o-q)	-35%	-110%	-1046%	39%	-23%
Adj PAT margin	3.9%	-0.4%	3.5%	4.4%	3.1%
Adj EPS	0.8	(0.1)	0.8	1.1	0.8

Source: CRISIL Research

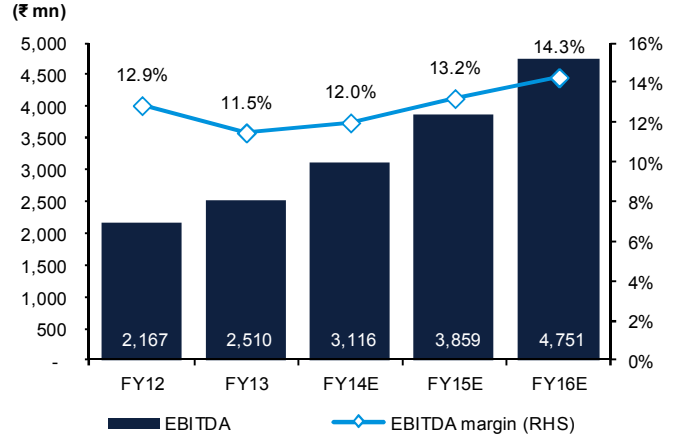
Focus Charts

Revenue growth to moderate



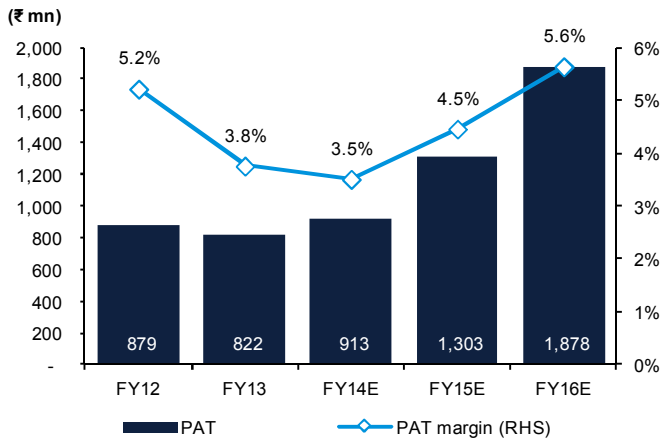
Source: Company, CRISIL Research

EBITDA margin to expand by 280 bps over FY13-16



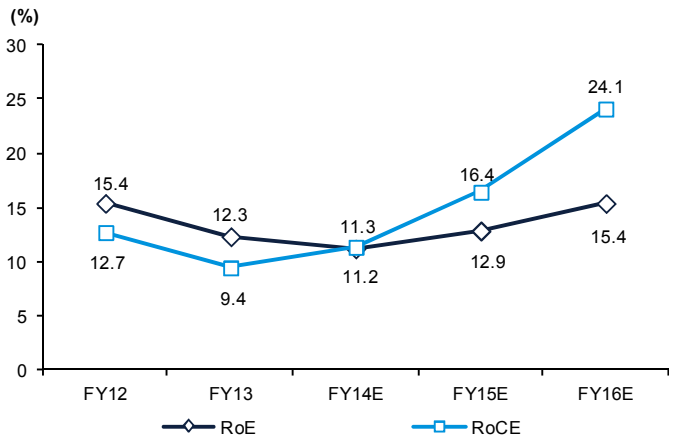
Source: Company, CRISIL Research

PAT margin to improve by 190 bps over FY13-16



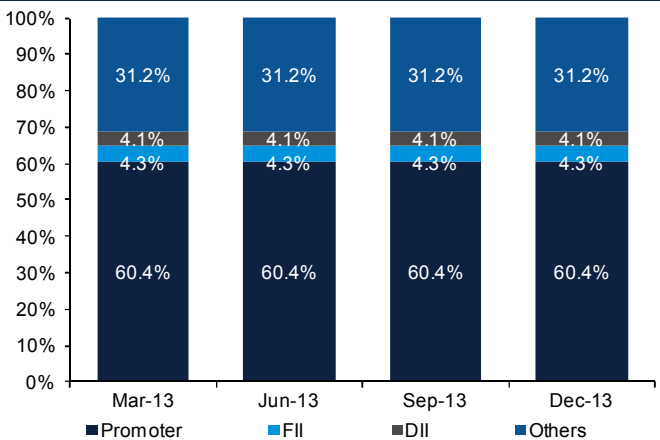
Source: Company, CRISIL Research

Return ratios to improve



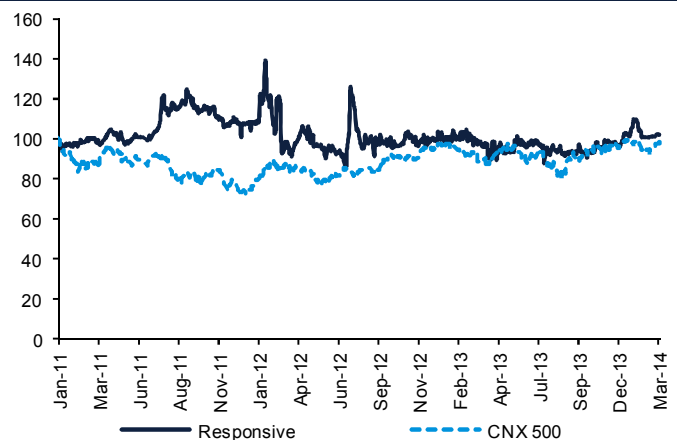
Source: Company, CRISIL Research

Shareholding pattern over the quarters



Source: Company, CRISIL Research

Performance vis-a-vis CNX 500



-Indexed to 100

Source: Company, CRISIL Research

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