

Current Price: INR 94

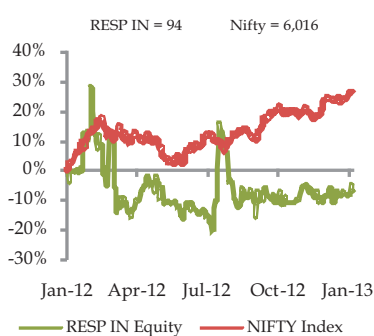
Stock details

Shares O/S (mn)	267
M Cap (INR mn)	25,157
M Cap (USD mn)	458
52 week H/L (INR)	145 / 77
Avg. 6M daily vol	65,607

Shareholding pattern (%)

Promoter group	60.4
FII	4.3
DII	1.0
Others	34.3

Stock chart



Stock price performance

Return(%)	1 Mth	6 Mths	1Yr
Absolute	(1)	13	(7)
Relative	(3)	0	(33)

Analyst

Chintan Modi

+91 9619132418

chintanmodi@smcindiaonline.com

We met Mr. Atit Agarwal, Chairman and Whole Time Director of Responsive Industries Ltd (RIL) to discuss about the recent initiatives taken by the company, its impact and future course of action.

RIL is a manufacturer of PVC based products like Vinyl flooring, PVC leather clothing & seat covering and packaging products. It also manufactures shipping ropes through its subsidiary company Axiom Cordages Ltd. On a consolidated basis, RIL has exhibited robust performance by growing its revenue from INR 4072 mn in FY08 to INR 16841 mn in FY12 which is a CAGR of 42.6%. For FY12, shipping ropes business contributed 39% to the total revenue while PVC flooring and PVC clothing business contributed 26% and 29% respectively.

Recent Capex has doubled the capacity

During 2HFY12, RIL doubled its total PVC capacity from 44000 MTPA to 90000 MTPA with more than 3x increase in Vinyl Flooring capacity from 15000 MTPA to 50000 MTPA at a total cost of approx. INR 5500 mn which was majorly financed through debt. The Net debt equity ratio has changed to 1.0x in FY12 from 0.8x in FY11. Prior to this capacity addition, RIL was operating at more than 92% capacity utilization. Management believes that huge demand supply mismatch was the motivation behind this step and will achieve full capacity utilisation in FY14. The effect of capacity addition is evident from the revenue growth of 65% in H2FY13 on YoY basis in PVC business.

Certifications & Technology acts as an entry barrier for new player

In Vinyl flooring business, management has informed that there are very few players present worldwide which includes Tarkett, Armstrong, LG Hausys, Grefflor, James Halstead and Roseli. While in India also there are very few players and that too with small capacity base which is no match to RIL's capacity. In India, RIL enjoys market leadership with 65% share in PVC flooring business and is also a leader in PVC clothing business. Management believes that high end technology and stringent certifications process which takes approx. 6-18 months, act as major entry barriers to new entrants. RIL with its subsidiary Axiom has been honored with numerous certifications which have provided them access to elite international and domestic clients.

Consolidated Financial Summary

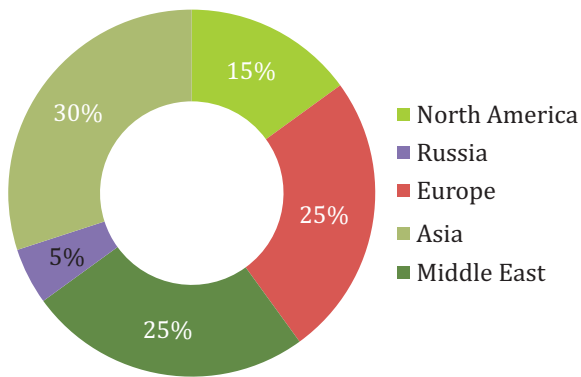
Particulars (Rs Mn)	FY09	FY10	FY11	FY12
Net Revenue	6,501.8	8,393.0	11,887.2	16,840.9
Revenue Growth %	59.7%	29.1%	41.6%	41.7%
EBITDA	888.6	1,286.7	1,916.4	2,133.0
EBITDA Margin %	13.7%	15.3%	16.1%	12.7%
PAT	434.4	625.7	906.2	1,039.8
PAT Margin %	6.6%	7.4%	7.6%	6.2%
EPS	2.4	2.7	3.8	4.2
EPS Growth%	24.8%	13.9%	42.4%	10.7%
RONW	25.4%	26.9%	23.2%	18.9%
ROCE	20.0%	17.4%	18.7%	10.2%
Net Debt/Equity	0.5	1.0	0.8	1.0
P/E	39.0	34.2	24.0	21.7
EV/EBITDA	3.3	3.6	2.9	3.8
P/BV	11.7	9.6	6.1	4.4

Source: Company, SMC Research

Well diversified geographically and user industry wise

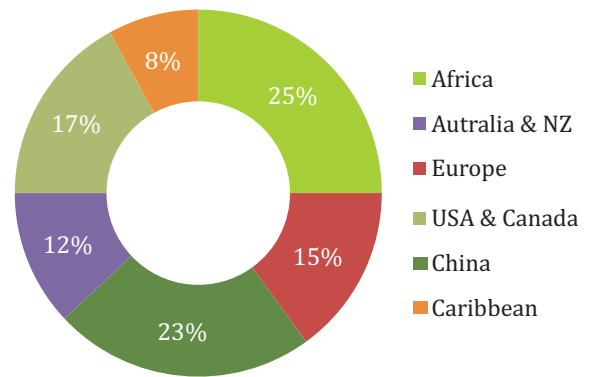
With 57.7% of its revenue coming from export business, RIL has its presence across the world and targets to be present in over 130 countries by FY13 while Axiom's products are available in 65 countries globally.

RIL's Geographic Revenue Break up



Source: Company, SMC Research

Axiom's Geographic Revenue Break up



Source: Company, SMC Research

It caters to diverse portfolio of user industry which prevents substantial impact on P&L by any kind of slowdown in a particular industry. Few of its major clientele includes Indian Railways, Reliance Industries, Ashok Leyland, Eicher, Bombardier, TATA, Marcopolo, Mercedes Benz, Indian Navy, MSTRC, Seven Hills Hospital and Future Group.

Key Challenges

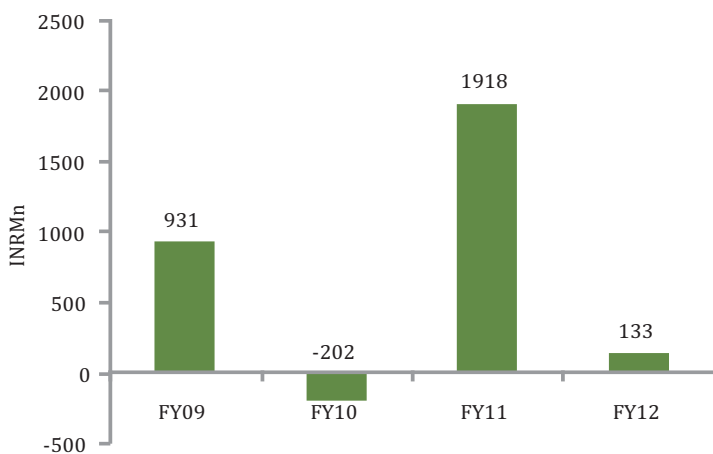
Raw material price volatility

The majority of its raw material includes PVC resin, Nylon, HDPE and PP granules which are crude oil derivatives which are exposed to high price volatility. However, management has mitigated this risk to certain level by resorting to short term contracts of approx. 6 weeks.

Leveraging the balance sheet at optimum levels

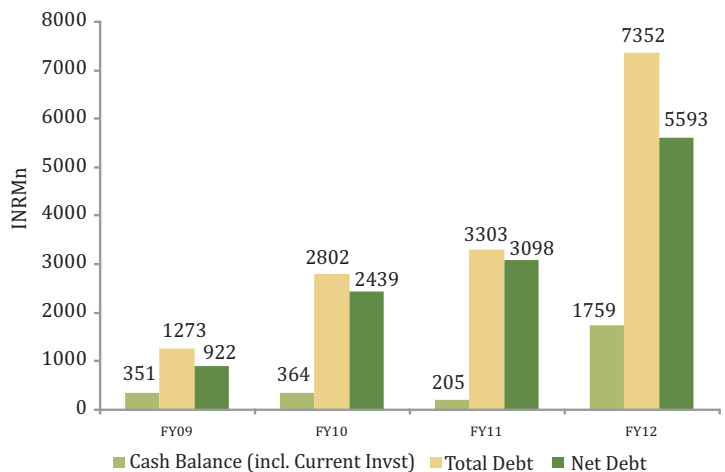
As the business is based on capex intensive model, the company requires to expand its capacity on regular intervals in order to continue the growth momentum. To fuel such expansion, the company will require regular financing and leveraging the balance sheet at optimum levels will be a key challenge. For FY12, the Net Debt to Equity is 1.0x.

Consolidated Cash Flow from Operating Activities



Source: Company, SMC Research

Consolidated Cash and Debt position



Source: Company, SMC Research

2QFY13 Quarterly Result

Particulars	Q2FY13	Q2FY12	YoY%	Q1FY13	QoQ %
Net Sales	5633.7	3698.6	52.3%	5388.5	4.6%
Other Operating Income	14.9	34.5	-56.8%	15.2	-2.0%
Total	5648.6	3733.1	51.3%	5403.7	4.5%
Cost of Raw Material Consumed	4644.9	2826.7	64.3%	4326.8	7.4%
Changes in Inventories	13.2	-36.9	-135.7%	0.9	1370.0%
Employee Expenses	28.4	29.7	-4.5%	27.5	3.0%
Other Expenditure	244.2	296.7	-17.7%	271.6	-10.1%
Total Expenditure	4930.7	3116.3	58.2%	4626.9	6.6%
EBITDA	717.9	616.8	16.4%	776.8	-7.6%
Depreciation & Ammortisation	290.4	195.0	48.9%	287.1	1.2%
EBIT	427.5	421.8	1.3%	489.7	-12.7%
Finance cost	70.3	25.2	178.6%	85.4	-17.7%
EBT	357.2	396.6	-9.9%	404.4	-11.7%
Other Income	76.5	21.3	258.5%	11.4	568.7%
PBT	433.7	417.9	3.8%	415.8	4.3%
Less: Taxes	85.2	111.8	-23.8%	99.0	-14.0%
PAT	348.5	306.2	13.8%	316.8	10.0%
Less: Minority Interest	22.8	26.7	-14.6%	22.7	0.3%
PAT (After Minority Interest)	325.7	279.5	16.5%	294.0	10.8%
Basic EPS	1.3	1.2	7.4%	1.2	9.2%
EBITDAM %	12.7%	16.5%	-380 bps	14.4%	-170 bps
PATM%	5.8%	7.5%	-170 bps	5.4%	-40 bps

Source: SMC Research

Details of Shareholding – as on 30th Sept 2012

Description	% of Holding
Promoter and Promoter Group	
Abhishek Omprakash Agarwal	0.21
Atit O Agarwal	0.29
Axiom Cordages Ltd*	1.66
Efficient Builders Ltd	0.60
Mavi Business Ventures Ltd	1.23
Saudamini Abhishek Agarwal	0.35
Swati Atit Agarwal	0.49
Wellknown Business Ventures Pvt Ltd	55.61
Total (A)	60.44
Public Shareholding - More than 5% stake	
Brenzett Ltd	8.45
Fossebridge Ltd	12.33
Xaxis International Ltd	12.25
Total (B)	33.03
Total (A) + (B)	93.47

Source: Company, SMC Research

Axiom Cordages Ltd which holds 1.66% in RIL is a subsidiary of RIL where RIL holds 86.10% stake and Wellknown Business Ventures Pvt. Ltd. holds 13.78% directly.

Outlook & Valuation

India offers huge potential for growth as the flooring market is currently dominated by ceramic tiles and PVC consumption per capita being very low as compared to western countries. At present, RIL caters to Institutional business only while we believe that there is a huge untapped potential in retail business also.

Recent capacity addition will continue the growth momentum of RIL through FY14 as management has informed that recent capex will achieve full utilization in FY14. However, growth beyond FY14 will depend upon management's future course of action.

At CMP of INR 94, the stock trades at P/E of 21.1x its TTM EPS of INR 4.4 and TTM EV/EBITDA 13.1x. It also implies TTM P/BV of 3.9x.

Key to ratings

Ratings	Definition
Outperformer	ESR is greater than EMR + 5%
Market Performer	ESR falls between EMR - 5% and EMR + 5%
Underperformer	ESR is lesser than EMR - 5%

Notes:

ESR = Expected Security Return

EMR = Expected Market Return, defined as 1 year domestic yield + 5% (as a proxy for market risk premium)



Moneywise. Be wise.

SMC Global Securities Ltd

302/303, Enterprise Centre, Nehru Road, Near Orchid Hotel,

Vile Parle (E), Mumbai 400 099

Email ID: smcinstitutional@smcindiaonline.com

www.smcindiaonline.com

Disclaimer:

This report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to you. It is only for private circulation and use. The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of the report. The report should not be reproduced or redistributed to any other person(s) in any form without prior written permission of the SMC.

The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions.

Please note that we and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned here in or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such company(ies) or © may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.