

February 1, 2008

CARE ASSIGNS 'IPO GRADE 2' TO AUSTRAL COKE & PROJECTS LTD.

CARE has assigned '**CARE IPO Grade 2**' to the proposed (IPO) initial public offer of (ACPL) Austral Coke & Projects Ltd. CARE IPO Grade 2 indicates below average fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the relative assessment of the fundamentals of the issuer.

ACPL proposes an IPO of 100 lakh equity shares of face value Rs 10 each for which the price band is yet to be decided.

The grading is constrained by ACPL's relatively small size of operations, unorganised and highly competitive industry in which the company operates, cyclicity in steel industry, high dependence on IPO proceeds for the proposed expansion plans, moderate corporate governance practices and low professional management. The grading is also constrained by risks associated with proposed deployment of funds from the IPO in setting up new manufacturing units.

However, the grading factors in promoters' experience in setting up coke manufacturing plant, favourable industry scenario for LAM coke and power, proposed backward integration in form of coal mine acquisition by group company, comfortable gearing levels, and improvement in technology for expansion projects.

Austral Coke & Projects Ltd. (ACPL) was incorporated as NRE Stocknet Ltd on Apr. 22, 1994 as a public limited company. In 1998, the company changed its name to NRE Interactive Ltd and subsequently to Austral Coke & Projects Ltd in 2005. The promoters of the company are Mr. Ratan Lal Tamakuwala, Mr. Rishi Raj Agarwal, M/s Hanuman Investments Pvt Ltd and M/s Anarcon Resources Pvt Ltd. The company has two operating facilities in Kutch, Gujarat that undertake manufacturing activities of coke division and refractory division at village Lunva.

According to the organizational structure of ACPL, Mr. Ratan Lal Tamakuwala (Chairman), looks after the project design and execution, whereas the day-to-day operations are looked after by Mr. Rishi Raj Agarwal (Managing Director). Out of the total strength of six directors, ACPL has four independent non-executive directors on its board. The majority of director appointments, plus the recruitment of key managerial personnel and formation of committees (audit, remuneration & investors grievance) took place during 2006-07 in view of the forthcoming IPO.

ACPL started equipment rental in 1994 and later added coke manufacturing, refractory & textile trading in FY06. However, it plans to phase out of the equipment rental and textile trading activities which are relatively low margin businesses. ACPL sources its raw material (coking coal) requirements through imports from China and Australia on a spot basis. Going forward, with the acquisition of coal mines by its group company in Mozambique; South Africa, it has ensured equipped with stable raw material supply.

The company is proposing to make a fresh public offer of 100 lakh equity shares of Rs 10 each for cash which would constitute 34.45%, of the fully diluted post-offer paid-up capital of ACPL. The IPO proceeds will be deployed for expansion of existing manufacturing facilities, setting up a new coke manufacturing plant plus captive power plant at Sindhudurg alongwith prepayment of high cost debt and acquisition of coal mines.

Backed by increased demand for the equipments from the infrastructure sector, the equipment hiring segment alongwith coke, textile and refractory division, aided the company in posting a compounded growth of 109%, in the total income for FY04-07. Despite additional borrowings aggregating to Rs 48 crore for capital expenditure during FY06-07, equity infusion to the tune of Rs 63.84 crore resulted in low gearing levels. During FY07 the company reported net sales of Rs 176 crore and PAT of Rs 9.15 crore on account of increased contribution from coke divisions which further translated into improved RoNW and RoCE. Liquidity ratios of the company throughout remained comfortable above 1.0x.

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