

Issue Snapshot:

Issue period June 29 – July 04 2012

Price Band: Rs. 55 – Rs.60

Issue Size: Rs. 55.00 crs

*Issue Size: 91,66,666 equity shares

QIB at least 50% eq sh

Retail upto 35% eq sh

Non Institutional upto 15% eq sh

*= assuming issue subscribed at the upper price band

Face Value: Rs 10

Book value - Rs 23.09 (December 31, 2011)

Bid size: 100 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs 8.00 crs

*Post issue Equity: Rs. 17.16 crs

*= assuming issue subscribed at the upper price band

Listing: BSE & NSE

Lead Manager: Aryaman Financial Services Ltd

Registrar to issue: Bigshare Services Pvt Ltd.

Current Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoters & Promoters Group	99.99	46.60
Public (incl Employees & others)	0.01	53.40
Total	100.0	100.0

*= assuming issue subscribed at the upper price band

CRISIL IPO grading: 1/5 indicating poor fundamentals**Highlights of the issue:**

VKS Projects Limited (VKS) is engaged in the business of undertaking EPC Contracts of CS/SS/Alloy Steel Turnkey Piping, Civil Land Development, Industrial / Commercial Infra Projects, Structural Fabrication and Erection of Equipments, Fire Fighting Projects and Commissioning of Chemical Plants for various industries including but not limited to Chemicals, Oil and Gas (on-shore and offshore), Refinery, Petrochemicals, Dyestuff, Pharma & Bulk Drugs, Metallurgy, Power and Textiles.

VKS has more than a decade of experience in this field having successfully completed projects in diversified sectors for various companies and proposes to enhance its capital equipments base in order to increase on its operational and financial efficiencies w.r.t project executions and also improve its pre-qualification status. It also proposes to expand its operating activities by opening Design Studio/Office and Training Centers at various locations across India.

As on December 31st, 2011 VKS is employing 405 people (on site-and off site), of which 34 employees are on its payroll and the remaining 371 are through contract labor arrangements or sub-contract agreements with external local contractors.

For FY11, it reported a total income of Rs.6025.43 lacs and PAT of Rs.315.97 lacs. For the nine-month ended December 31, 2011, it reported total income of Rs.9755.13 lacs and PAT of Rs. 562.58 Lacs.

Objects of Issue:

The objects of the Issue are:

- To meet long-term working capital requirements.
- To finance the procurement of Construction Equipment and Key Machineries.
- To finance the setting up of Engineering Design Studio/Office and Training Centre in Chennai, Cochin, Delhi, Hyderabad and Ahmedabad
- General corporate purposes.
- To Meet Issue Expenses

Cost of Project:

S. No.	Particulars	Rs. lacs
1	To meet long – term working capital requirements	1500.00
2	To finance the procurement of Construction Equipment and Key Machineries	2264.18
3	To finance the setting up of Engineering Design Studio/Office and Training Centre in Chennai, Cochin, Delhi, Hyderabad and Ahmedabad	1000.00
4	For General Corporate Purposes	*
5	To meet Issue expenses	*
	Total	*

(Source: RHP)

Means of Finance:

The entire fund requirement will be financed out of Issue Proceeds.

VKS's strengths:

- Qualified and Experienced Management Team.
- Multi Locational and Multi Sectoral Client Base.
- Pre-qualification credentials.
- Project Execution Capabilities and Cost competitiveness.
- Robust Existing Order Book.
- Strong Operational Performance and Low Debt Burden.

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VKS's strategy:

- Further enhance engineering and design capabilities.
- Continue to geographically expand its operations.
- Increase Pool of Owned Capital Equipments and improve on its Pre-Qualification capabilities.
- Focus on performance and project execution.
- Continue to improve on its internal systems and procedures
- Develop and maintain strong relationship with clients and suppliers

Risks & Concerns:

- "CRISIL Limited has assigned "IPO Grade 1" to the Issue indicating poor fundamentals.
- VKS may not realize the expected revenues, cash flow and profit from its EPC Order Book. Such under realizations, if any, may adversely affect its financial condition and results of operations.
- VKS's growth strategy to expand into new functional areas poses risks.
- VKS typically enter into contracts on a fixed fee basis for its EPC Business, which exposes it to various forms of risks with respect to the cost of contract execution.
- VKS typically enter into contracts for its EPC Business that require it to complete project execution within a specified timeframe, which exposes it to various forms of risks with respect to delays in contract execution.
- The nature of VKS's EPC Business exposes it to defect liability and warranty claims
- Any inability to manage VKS's growth may have a material and adverse effect on its business, results of operations and financial condition.
- VKS's inability to qualify for or win large EPC contracts and compete with other engineering companies could adversely affect its margins and results of operations.
- Business of VKS is dependent on few clients each year. Its inability to execute the work orders on time or loss of a major order may adversely affect its business.
- VKS is a labour intensive industry and hence may face labour disruptions and other planned and unplanned outages that would interfere with its operations.
- VKS's inability to obtain, renew or maintain the statutory and regulatory permits and approvals required to operate its business may have a material adverse effect on its business
- Increases in interest rates may affect VKS results of operations
- Applicability of certain labour laws may adversely affect VKS's profitability

Extract from grading rationale by CRISIL:

"Weak revenue visibility is the major factor which has constrained the IPO grade assigned to VKS. As of June 2011, VKS' order book of Rs 967 mn translated into 1.6x FY11 sales; this provides revenue visibility for the next 12-15 months only. Though the company has a fairly good execution track record in handling mechanical, piping and heavy equipment erections for various process industries, of late it has been accepting orders for civil construction or earthworks – recently it accepted two such orders worth ~Rs 950 mn. These are not complex jobs and are positioned lower in the value chain; moreover, these orders could also be margin dilutive. Hence, undertaking such jobs indicates that the company is not focusing on its core competency. The grade is further constrained by the company's inability to win large contracts from marquee clients. Although the company has in the past bagged orders from clients such as Reliance, Thermax, Deepak Fertilizer, Rashtriya Chemicals & Fertilizers (RCF), and IG Petro, we believe its inability to get repeat orders of large magnitude from these clients is a matter of concern.

However, the grade is moderated by the fact that the food service industry is highly fragmented and there is stiff competition from organised (domestic and international) as well as unorganised players. To beat competition, the company will have to consistently setup new outlets, as older ones tend to mature in four-five years. Besides, Speciality's business is dominated by the success of a singular brand, Mainland China, which contributes more than 50% to revenue.

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The grade also considers the high concentration risk faced by VKS as orders from two new clients comprise 97% of the order book. Any delay or hiccups in these orders or companies could have an adverse impact on revenues going forward. Moreover, working capital is also high with working capital days in the range of 90-100. Owing to higher working capital requirements, debt increased to Rs 132 mn in FY11 from Rs 52 mn in FY10. Besides, the business is highly dependent on promoter Dr V Sukumaran and there is a need to strengthen the second line of management. The only positive for VKS is its strong execution track record. So far, the company has completed ~40 projects, without any major hiccups, in nine different states across India. Over a period of time, VKS has built up capabilities and obtained necessary pre-qualifications, which have led to an increase in average ticket size to ~Rs 400-500 mn from ~Rs 20-30 mn.

VKS' revenue increased from Rs 33 mn in FY07 to Rs 597 mn in FY11 following its order intake increasing at 102% CAGR. EBITDA margins contracted by 125 bps y-o-y in FY11 to 11.4% due to higher employee cost. Reported net profit has increased to Rs 27 mn in FY11 from Rs 1 mn in FY07 owing to robust revenue growth. VKS' net worth for FY11 was Rs 128 mn compared to Rs 32 mn FY10."

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