

Timbor Home Ltd.

May 30, 2011

Price Band	: ₹54 – 63 per share
Minimum Bid Lot Size	: 100 Equity Shares
Maximum Bid Lot Size	: 3,100 Equity Shares
IPO opens during	: May 30 – June 2, 2011
Book Running Lead Manager	: Corporate Strategic Allianz Limited
To list on	: NSE & BSE
IPO Grading	: 1 / 5 (CRISIL)
PE	: 17.59x (based on base price)* : 20.52x (based on cap price)*
Market Cap post-listing	: ₹92.97Cr or \$20.89mn (based on the cap price)
Market Cap of Free Float	: ₹48.87Cr or \$10.98mn (based on the cap price)

*Based on FY10 EPS

IPO of 3.69mn equity shares of ₹10each, aggregating to ₹23.25Cr or \$5.22mn (at the cap price).

Shareholding Pattern

	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters	7000000	63%	7000000	47%
QIBs (excl. Mutual Funds)	0	0%	1752750	12%
Mutual Funds	0	0%	92250	1%
Non Institutional Investors	0	0%	553500	4%
Public	4066580	37%	5358050	36%
Total	11066580	100%	14756580	100%

Executive Summary

- Timbor Home Ltd. (THL) is engaged in the manufacturing of modular kitchens, furniture, doors & door frames and kitchen baskets and accessories. It operates as a manufacturer-retailer having a Pan-India presence with more than 80 exclusive stores of kitchen, door and furniture retail outlets operating on franchise model.
- The furniture industry in India is estimated to be worth €5bn, out of which, the wooden furniture accounts for €750mn. The major part i.e., 85% of furniture sector in India consists of the un-organized sector while the remaining organized sector is made up of manufactures and importers catering to the various segment of the industry.
- CSIL Milano has classified India as one of the 14 large furniture markets in the world. This is in view of the fact that India has a middle class population of over 400 million, with a purchasing power on the upswing.
- Modular kitchen market in India is still at a nascent stage but has tremendous growth potential. Market has been witnessing a growth rate of 50% YoY.
- The promoters of THL are well experienced and are well versed in the building material and timber industry since the last 15 years.

- THL manufactures almost 75% of the components that go into making a modular kitchen, the major strengths includes raw material sourcing to finishing.

Our View

Looking at low brand recall, no provision for tax for first 9 months of FY11 and small size of the operations, we advise investors to skip the issue.

Company Background

Timbor Home Ltd. (THL) was incorporated as “Inside Outside India Dot Com Private Limited” in May 2000 as an internet portal company for the furniture and interiors industry. In July 2004 a manufacturing plant was set up at Changodar, Ahmedabad to manufacture kitchen components and its name was later changed to “IKI Timbor Pvt Ltd.” in February 2005. The name of the company was further changed to “Timbor Home Private Limited” in May 2007 and was converted into public limited company in June 2009 and subsequently the name was changed to “Timbor Home Limited”.

Promoters and Management

Mr. Anant Sureshchandra Maloo is the Chairman & Managing Director of THL. He has more than 15 years of experience in the field of cement, building materials and timber industry.

Mr. Manan Vidhyapati Patel is the Director of THL. His thought process make him a leader in new product induction, process development and quality assurance of the company.

Industry Overview

Overview of the Furniture Market

The furniture industry in India is estimated to be worth €5bn, out of which, the wooden furniture accounts for €750mn. The major part i.e., 85% of furniture sector in India consists of the un-organized sector while the remaining organized sector is made up of manufactures and importers catering to the various segment of the industry.

Some of the major segments in furniture industry are Residential, Office, Contract and Institutional. There are other segments also based on the application (Kitchen, Bathroom, Bedroom, etc.) or on the raw material (wooden, plastic, metal, bamboo, etc). These industry segments include big payers from the formal sector such as Godrej & Boyce Manufacturing Co. Ltd., BP Ergo, Featherlite, Haworth, Style Spa, Yantra, Renaissance, Millenium Lifestyles, Durian, Kian, Tangent, Furniture Concepts, Furniturewala, Zuari, Truzo, N R Jasani & Company, V3 Engineers, PSL Modular Furniture, etc.

The entry of international brands and changing consumer preference has led to the emergence of furniture retailing in India. CSIL Milano has classified India as one of the 14 large furniture markets in the world. This is in view of the fact that India has a middle class population of over 400 million, with a purchasing power on the upswing.

- The Indian Furniture market is worth about \$8bn
- Constitutes 0.5% of the total GDP
- Employs 3,00,000 people
- Highly unorganized- only about 15% in organized sector
- Organized sector growing at 30% CAGR
- Wooden home furniture is the biggest segment
- Key states for wood furniture: Gujarat, Rajasthan, UP, Punjab, Kerala, AP, West Bengal

Demand factors in the Furniture sector

- Real estate / housing boom:
 - a) Housing and real estate construction on a rise gradually after the economic slowdown in late 2008
 - b) Expansion of residential and commercial infrastructure across metros and smaller cities

- Tourism / hospitality industry growth:
 - a) Increasing tourist inflow
 - b) Demand for hospitality space and infrastructure
- Consumer demographics:
 - a) Increasing income levels
 - b) Increased consumption of lifestyle products, including furniture

Modular Kitchen Industry

Modular Kitchen in India has created a revolution for all the homemakers. Kitchen is that special place in every home meant to explore culinary passions and especially in India, everything related to Food is revered. As Home Decor and Home Interiors is gaining importance, the new concepts in Kitchen Decor making waves. One such modern concept of Modular Kitchen is gaining immense popularity in India.

Modular Kitchens are based on functional practicality and the onset of Modular Kitchen in the furniture market of India have spelt a consciousness that even kitchens can have a style statement and at the same time be comfortable and elegant.

According to Industry experts, the modular kitchens segment stands at around ₹1500Cr, with Indian readymade kitchens currently sold at the rate of 10,000 units per month in the country. The increasing number of nuclear families, rising disposable incomes, affordability, and easy budget, will drive awareness levels and demand for modular kitchen, which is already growing at the rate of 40% per annum. Modular kitchen in India is expected to grow 10 times in the next three to four years.

- Modular kitchen market in India is still at a nascent stage but has tremendous growth potential. Market has been witnessing a growth rate of 50% YoY.
- It is largely unorganized with the presence of local and small players. Unorganized market includes carpenters making self-designed kitchens based upon the requirements of the households.
- Modular kitchens are customized based on the requirements of the consumer. Based on the need of the consumer, it can be set up with various accessories like chimney, burner etc.
- Modular kitchen accounts for 40% of the furniture and fittings industry.
- Products in this market are largely focused towards establishments in urban India.

Demand for modular kitchens is rising with change in the lifestyle of consumers

- Kitchen is a key division of a flat. Modular kitchens are custom made and can be assembled at the customer's home. Vacant places can be used more effectively. Designs of racks and cabinets can be changed as per convenience since these parts can be easily dismantled.
- Accessories and hardware like chimney, gas oven, sink, dishwasher can be added based on the requirement of the consumers.
- Growing number of consumers are now focusing on the interior designs of their houses.
- Due to the rise in nuclear families, flats are becoming smaller in size. The space for home décor is limited and it is hence essential that it is done in an organized fashion.
- Depleting land resources coupled with increasing requirements of growing population and migrants have led the builders to keep the size of a functional kitchen to the minimum.
- Owing to its compact design, modular kitchens provide effective space management solutions.
- Furthermore, in case homeowners shift to other locations the modules can be easily dismantled and transported to another place.

Challenge of high price and low Affordability

- Branded modular kitchens are sold at very high price. Price ranges between ₹75,000 to ₹6,00,000 depending on the customer's requirements and the brand
- There is a large population of low income and middle income group in India who cannot afford to spend this amount on home décor

- Organized players have to spend on branding, realty, skilled labour, good quality of raw material, after sales service in order to maintain the goodwill of the brand. These expenses make the finished product, i.e. modular kitchens, very high priced
- High price of the branded modular kitchens provide opportunity to the unorganized market, that includes carpenters (70% of the market is unorganized)
- The base product used for making a modular kitchen is generally wood and various classifications of wood like plywood, fibrewood, medium density fibre. Inferior qualities of these are bought at cheaper prices by the smaller players or carpenters who can hence afford to sell the product at a much lower price
- Also the unorganized players do not have to spend on branding and infrastructure
- Quality differences across finished products manufactured by branded and unbranded players does exist however, the price differential being extremely high, consumers often opt for the cheaper option
- High pricing with cheaper alternatives in a price sensitive market is a major barrier for players in the market

Players do not have an opportunity in the rural areas while very low demand is generated from replacement

Very few people living in houses with regular kitchen opt for renovating their kitchen with modular look, so the demand for modular kitchen is primarily coming from new housing projects and replacement demand is low but slowly picking up.

Foreign players are opening stores in India to capitalize on the growth opportunities

Modular Kitchen market in India, being a growing segment, has witnessed the entry of increasing number of foreign players. The concept of modular kitchen is relatively old in foreign countries. Foreign players have a better understanding of the market which allows them to establish their business.

Entry of international players serves well for the domestic players as they receive more exposure from the know-how gained by international players over the years.

Players are forming joint ventures and collaborations

Companies engaged in the modular kitchen segment are setting up joint ventures with international players who are engaged in the similar line of business. Domestic players get benefit from the technological expertise which the international players provide. International players are entering the market through tie-ups with domestic firms for the distribution of their products in India.

Business Operations

THL was originally incorporated as an internet portal company for the furniture and interiors industry. Later a manufacturing plant was set up by the company to manufacture kitchen components. THL now manufactures modular kitchens, furniture, doors & door frames and kitchen baskets and accessories. The company operates as a manufacturer-retailer having a Pan-India presence with more than 80 exclusive stores of kitchen, door and furniture retail outlets operating on franchise model.

THL has three manufacturing units one located at Changodar, Ahmedabad, the second unit is at Vatva GIDC, Ahmedabad, and the third at Umreth, in Anand district. The total manufacturing facility of the company amounts to 2,00,000 sq feet. The kitchen & furniture manufacturing is based at the Changodar unit, the Stainless Steel Kitchen baskets and accessories is manufactured at the Vatva Unit while manufacturing of doors, wood treatments and storage is based at Umreth.

THL markets its products under the brand names Timbor Cucine- Modular Kitchens, Timbor Doors- Doors & Door Frames, Timbor Home- Home Furniture, and IKI Kitchens- Hi-end kitchen solutions using 'Hettich' Hardware and accessories.

Strengths

Experienced promoters

The promoters of THL are well experienced and are well versed in the building material and timber industry since the last 15 years

Wide network of Exclusive Brand Outlets

THL is a manufacturer retailer in the modular kitchen industry and currently has more than 80 exclusive 'Timbor Cucine' stores in more than 17 states selling only the company's products. For the doors and furniture, THL is planning to open exclusive stores across India. Furthermore as the company manufactures and supplies fully finished products it is in direct touch with the end buyer and consumer.

Integrated low-cost producer

THL manufactures almost 75% of the components that go into making a modular kitchen, the major strengths includes raw material sourcing to finishing. The company employs extensive logistics and supply chain management systems to maintain maximum flexibility, which enables it to meet their needs in an efficient manner without relying on any one vendor, factory or country.

Follows an established raw material policy

THL procures its raw material directly from licensed saw mills, reputed manufacturers, importers and suppliers which helps the company to establish an efficient supply chain at competitive prices and ensures timely delivery. The management of the company places significant emphasis on the sourcing and logistics of raw material. The company is able to source key raw materials close to the factories resulting in reduction of transportation costs. The company has also implemented ERP which helps in raw material planning.

Scaleable and unique business model

THL has a very unique business model for creating a nation-wide franchisee network. The investment and the space requirement burden are small and one time and are passed on to the business partner. This model will help the company to even look at rural markets.

Unique brand positioning

THL believes in providing the customers value for their money and have positioned the kitchens at an affordable price with a focus on the middle income segment. It believes that there is an untapped market in the middle income segment which is both brand conscious and aspirational in nature. The company is targeting one of the fastest growing segments, having an increasing level of disposable income.

Experience and Technical know-how

THL has acquired machinery from European and Indian Suppliers and they also provide technique and joinery details. The Felder Group has supplied Machinery worth ₹1.13Cr for the purpose of sizing, cutting, drilling and formatting the wood by computerized software with European Technology.

Objects of the Issue

The objects of the issue are as follows:

- Purchase of Machinery
- Establishment of new stores across India
- Additional working capital requirements
- Public Issue Expenses
- General Corporate Purpose.

Utilisation of Net Proceeds

Particulars	Amount (₹ Cr)
Plant and Machinery for Capacity Expansion	2.60
Establishment of Stores	4.00
Additional Working Capital Requirement	13.18
Public Issue Expenses	[•]
General Corporate Purpose	[•]
TOTAL	[•]

Investment Risks

- The objects of the Issue for which funds are being raised have not been appraised by any bank or financial institution.
- The company's operating cash flows are negative.
- Raw Materials sourcing which includes wood, coating chemicals, and hardware which constitutes the largest component of our material costs, is crucial.
- Stiff competition from organized and unorganized players.

Restated Profit & Loss Statements

(₹Cr)

For period ended	31.03.06	31.03.07	31.03.08	31.03.09	31.03.10	31.12.10
INCOME						
SALES:						
Net Sales	6.82	10.15	19.58	26.68	51.04	54.83
Total	6.82	10.15	19.58	26.68	51.04	54.83
Other Income	0.05	0.03	0.14	0.15	0.01	0.02
Increase /(Decrease) in stock	0.10	0.16	0.43	1.20	0.04	0.23
Total	0.15	0.18	0.57	1.35	0.05	0.25
Total Income	6.97	10.33	20.14	28.02	51.09	55.08
EXPENDITURE:						
Raw Material Consumed/Purchases	5.67	7.98	15.23	19.72	39.80	44.40
Other Manufacturing Exp.	0.42	0.64	0.65	0.55	0.98	1.53
Selling, General & Admin Expenses	0.55	1.09	2.41	4.40	4.86	3.26
Interest and Financial Charges	0.11	0.31	0.54	1.18	1.89	2.31
Preliminary Exp. Written Off	0.01	0.01	0.01	0.01	0.01	0.01
Depreciation	0.04	0.06	0.10	0.28	0.40	0.50
Total Expenses	6.80	10.08	18.94	26.14	47.95	52.01
Profit (Loss) before Taxes	0.17	0.25	1.21	1.89	3.15	3.06
Provision for Taxation:						
Income Tax	0.02	0.04	0.39	0.36	0.85	0.00
Fringe Benefit Tax	0.01	0.01	0.02	0.02	0.00	0.00
Total	0.15	0.20	0.80	1.50	2.30	3.06
Less: Deferred Tax	0.04	0.05	0.08	0.28	0.52	0.00
Profit (Loss) after Taxes	0.11	0.15	0.72	1.23	1.78	3.06
Total	0.11	0.15	0.72	1.23	1.78	3.06
Balance brought forward from last yr.	0.01	0.12	0.26	0.98	2.21	3.99
Net Profit/ (Loss) carried over to Balance Sheet	0.12	0.26	0.98	2.21	3.99	7.05
EPS (₹)	5.26	3.94	4.51	5.97	3.07	3.07

Restated Balance Sheets

(₹Cr)

As at,	31.03.06	31.03.07	31.03.08	31.03.09	31.03.10	31.12.10
FIXED ASSETS						
Gross Block	1.29	1.57	3.61	7.05	10.78	13.77
Less: Depreciation	0.05	0.11	0.21	0.49	0.90	1.40
Net Block	1.24	1.45	3.39	6.55	9.89	12.37
Capital Work in Progress	0.03	0.05	0.19	0.00	0.00	0.00
Net Block Total	1.28	1.50	3.58	6.55	9.89	12.37
Investments	0.00	0.00	0.00	0.00	0.00	0.00
CURRENT ASSETS, LOANS AND ADVANCES						
Inventories	1.71	2.96	6.31	11.19	11.34	15.35
Sundry Debtors	2.14	2.45	5.68	6.44	18.70	37.20
Cash and Bank Balances	0.18	0.07	0.53	0.31	0.30	0.31
Loans and Advances	0.01	0.54	5.53	6.74	9.17	9.82
Total	4.03	6.02	18.04	24.67	39.51	62.67
LIABILITIES AND PROVISIONS						
Secured Loans	0.93	2.52	6.46	10.88	19.14	27.60
Unsecured Loans	1.19	1.72	6.32	6.52	3.01	3.08
Current Liabilities and Provision	2.83	2.53	5.68	4.95	7.46	21.60
Deferred Tax Liability	0.07	0.11	0.19	0.47	0.98	0.98
Total	5.01	6.88	18.66	22.82	30.60	53.27
NET WORTH	0.30	0.65	2.98	8.41	18.80	21.78
REPRESENTED BY:						
Share Capital	0.20	0.40	2.00	2.12	8.58	11.07
Share Application Money	0.00	0.00	0.00	0.00	2.68	0.00
Share Premium	0.00	0.00	0.00	4.09	3.62	3.82
Reserve & Surplus	0.12	0.26	0.98	2.21	3.99	7.05
Total	0.32	0.66	2.98	8.41	18.87	21.94
Less: Miscellaneous Exp. Not W/O	0.02	0.01	0.01	0.00	0.07	0.15
Net Worth	0.30	0.65	2.98	8.41	18.80	21.78

Keynote Capitals Ltd.

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Registered Office

4th Floor, Balmer Lawrie Building,
5, J. N. Heredia Marg,
Ballard Estate, Mumbai 400 001.
Tel Nos. 022-2269 4322 / 24 / 25

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