

IPO Note
Mandhana Industries Ltd. (MIL)

Recommendation	Subscribe	
Price Band	Rs. 120 to Rs. 130	
Bidding Date	27th to 29th April 2010	
Book Running Lead Manager	Edelweiss Capital Ltd. & Axis Bank Ltd.	
Sector	Textile	
Valuation		
Diluted EV/ EBITDA (U/L)*	7.96x / 7.63x	
Diluted P/E (U/L)*	11.30x / 10.44x	
No of Equity Shares Offered	8300000	
Post Issue Promoter Holding	37.31%	
Offer structure for different categories		
QIB	50.0%	
Non-Institutional	15.0%	
Retail	35.0%	
Lot Size	50 shares	
Post issue Equity (Rs. in crores)	33.12	
Issue Size (Rs. in crores)	99.60 – 107.90	
Face Value (Rs.)	10	
Retail Application- Detail At Cut off Price		
Number of Shares	750	
Application Money	97500	
Amount Payable	97500	
Shareholding Pattern		
Particulars	Pre-issue	Post-issue
Promoters	49.78%	37.31%
Promoter Group	33.24%	24.91%
Non Promoter Investor	16.98%	12.73%
Public	0.00%	25.06%
Ruchita Maheshwari (022) - 3027 2235		
E-Mail: ruchita.maheshwari@nirmalbang.com		
*(U/L) Upper and lower band on annualized basis		

Background

Mandhana Industries Ltd. (MIL) is a vertically integrated textile and garment manufacturing company in India having presence across operations ranging from yarn dyeing to garment manufacturing. The company started its operations in 1984 with trading in textiles. Their operations and facilities enable them to manufacture a wide variety of value-added fabrics and garments through its integrated operations comprising of dyeing of yarns and fabrics, weaving, processing, garment manufacturing. The domain expertise in designing for both fabrics and garments, helps Mandhana to grow and command premium.

The company operates mainly into two business segments namely Textiles & Garments., wherein, Textile contributed around 66.63% of total revenue and Garment contributed around 33.37% of total revenue in FY2009.

In textile segment, the company derives revenue mainly from sale of fabrics. The company produce greige and finished fabrics like cotton textiles, yarn dyed fabrics, embroidered, embellished and blended cotton fabrics including cotton blends with nylon, lycra, viscose, mélange etc.

In garment segment, the company produces readymade garments for men, women and children which include shirts, ladies tops, dresses, skirts, kids wear, sportswear and jeans wear. For the nine month period ended December 31, 2009, 93.43% of the total garment sales was exported worldwide spanning 25 countries and 5 continents of which the European markets constitute of 77.79% of the total export sales of garments.

The company caters to the overseas customers brands like FCUK, Teddy Smith, PROMOD, RIP CURL, All Saints, Artman, Simint Spa, Gintonic, No Excess, Pepe Jeans, OXBOW, LAFUMA, Sixty Spa, O'neil, Jam Session. In the domestic market the company caters to Pantaloon, Wrangler, Arrow, Spykar, Lee Cooper, Aditya Birla Nuvo and others.

Valuation & Recommendation

Mandhana is available at a P/E multiple of 10.44x & 11.3x FY10E (9MFY10 annualized) at the lower and upper price band (Rs.120-130 per share) respectively on post issue capital. The annualized EPS for the nine months on post issue equity of the company works out to Rs 11.50. If we compare Mandhana with its immediate peers like Bombay Rayon & Mudra Lifestyle, the stock is offered at discount to its peers. Thus, we recommend **"SUBSCRIBE"** rating with a long term outlook.

Investment Rationale

✍ In-house Product designing and development

The company has the ability to produce innovative product design on continuous basis which helps them to provide value – added design products as per the demand of the current fashion trend which improves the competitiveness of the company in the market. The company with the product design, development and sampling is able to serve customers who launch upto 12 fashion seasons globally every year. The design and sampling team continuously interacts with the clients to understand their requirements and provides the designs based on their requirements.

As on July, 2009, they had an archive of over 100,000 designs in garments and more than 150,000 designs in woven fabrics, especially in the yarn dyed variety of fabrics. They also publish a half-yearly magazine showcasing more than 1,000 designs.

✍ Vertically Integrated Operations & Economies of Scale

Mandhana's operations are vertically integrated in textile and garment manufacturing. The operations and facilities enable the company to manufacture a wide variety of value-added fabrics and garments through its integrated operations comprising of dyeing of yarns and fabrics, weaving operations for fabrics, processing, garment manufacturing, sampling, surface ornamentation and embellishments. This helps the company to have cost and quality control of their products.

✍ Diversified Domestic and International Customer base

The company has over three decades of experience in the textile industry and has developed long standing relations with overseas and domestic customers for their fabrics and garments. The company has a strong base of more than 700 customers. The company has the ability to offer in-house designs and samples, timely responsiveness, and capacity to cater to various order sizes resulting into the increase in customer confidence.

 **Established Overseas Marketing Base**

The company has set – up a liaison office at Paris, France, in the year 2005 to consolidate their position in the European markets, build their international image and to serve their customers more effectively. This setup helps the company to closely interact with their Customer, showcase their latest product offerings and solicit new customers.

 **Focus on garment business in overseas and domestic markets including female garments business**

According to CRISIL Research, Readymade Garments Industry is expected to grow at a compounded annual growth rate of 6.4% to touch Rs. 2,209 billion in 2014 from Rs. 1,615 billion in 2009. To capture the opportunity in readymade garment industry, the company has drawn up a plan to enhance their garment manufacturing capacity from the current 3.6 million pieces per annum to 8.3 million pieces per annum by setting-up a new garment manufacturing facility at MIDC, Tarapur.

 **Benefit of increase in Capacities**

The new processing house started in with limited machines in March 2009 was not able to fully contribute in march FY10. The new process house with a capacity of 100000 mtrs./day with complete set of machines has commissioned now and will be contributing to the revenue and profitability of FY11E. Apart from this, the new expansion of weaving and garment manufacturing will start from the end of FY11E which will further drive the growth of the company.

Objects of the issue

Means of Finance:

Particulars	Amount (Rs. in crores)
Term Loan Under TUFs	103.8
IPO	99.6 - 107.9
Internal Accruals	x

Source: Company & Nirmal Bang Research

Proceeds of the issue will be used for:

Particulars	Amount (Rs. in crores)
Setting up of Garment Manufacturing Facility	69.09
Expansion of Yarn Dyeing and Weaving Facility	102.79
Margin Money for Working Capital	35.5
General Corporate Purpose	x
Issue Related Expenses	x

Source: Company & Nirmal Bang Research

Mandhana plans to use most of the funds raised to increase garment manufacturing capacity to 8.3 million pieces a year from its existing 3.6 million pieces and to double weaving production capacity to 36 million meters a year. The plants will be functional towards end-FY11E, and revenues from the same will flow in from FY-12E onwards. Land for both has already been acquired.

Investment Concerns

- ✍ Increase in cost of raw-material prices can adversely affect the profitability.
- ✍ The company experiences the seasonality in the garment business. The company experiences second and fourth quarter to be the best quarter in the financial year and any disturbances or disruptions caused during these particular quarter could lead to reduction in revenues and could have material adverse effect on financial performance of the company.
- ✍ Customer's tastes and preferences can change leading to fall in demand.
- ✍ A slowdown in economic growth in India and especially Europe can adversely impact the business.
- ✍ Currency rate fluctuations could have an adverse effect on financial results.

Valuation & Recommendation

Mandhana is available at a P/E multiple of 10.44x & 11.3x FY10E (9MFY10 annualized) at the lower and upper price band (Rs.120-130 per share) respectively on post issue capital. The annualized EPS for the nine months on post issue equity of the company works out to Rs 11.50. Since Q4 is comparatively a good quarter in garment industry, possibility of Mandhana reporting a higher EPS in FY10E than the EPS calculated on the basis of 9MFY10 annualized figure is expected. If we compare Mandhana with its immediate peers like Bombay Rayon & Mudra Lifestyle, the stock is available in line with its peers on PE basis but if we compare it on EV/EBIDTA and EV/Sales, Mandhana is available at a discount to its peers. Looking at the near term benefit on account of increase in revenue with full commissioning of new process house, its strength in design and development of garment and fabric and increasing opportunity in industry, we recommend to “**SUBSCRIBE**” the issue with a long term outlook.

PEER Comparison

FY10E

Particulars	Bombay Rayon*	Mudra Lifestyle**	Mandhana***	
CMP (Rs.per share)	215	45	120	130
Sales (Rs.in cr.)	2043.65	362.30	585.68	585.68
M.Cap (Rs.in cr.)	2284.33	161.96	397.44	430.56
EV (Rs.in cr.)	4022.19	510.67	773.99	807.11
P/E(x)	11.98	11.00	10.44	11.30
EV/Sales(X)	1.97	1.40	1.32	1.38
EV/EBIDTA(X)	9.05	9.20	7.63	7.96
EBIDTA%	21.8%	15.48%	17.3%	17.3%
PAT%	9.7%	4.14%	6.5%	6.5%

Source: *Bloomberg Consensus

** Nirmal Bang Research

*** 9MFY10 Annualized figure

Financials

Post Issue (Rs. in crores)

Particulars	Rs. 120	Rs. 130
	9MFY10*	9MFY10*
M.Cap	397.44	430.56
EV	773.99	807.11
EV/EBIDTA(x)	7.63	7.96
EV/Sales(x)	1.32	1.38
P/E(x)	10.44	11.30

Source: Nirmal Bang Research

*9MFY10 Annualized Figures

Mandhana Industries Ltd. (MIL) is available at an EV/EBIDTA of 7.63x and 7.96x, PE of 10.44x and 11.3x and EV/Sales of 1.32x and 1.38x, at the lower and upper band respectively on 9MFY10 annualized figures.

Income Statement (Rs. in crores)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	9MFY2010
Sales	126.56	181.35	240.34	406.94	463.25	439.26
Other Income	1.24	6.47	1.03	4.66	-3.29	-17.24
Total Income	127.80	187.82	241.37	411.60	459.96	422.01
Cost Of Raw Material	72.77	115.66	152.27	291.91	302.05	311.91
Stock Adjustment	-0.01	-3.34	-20.26	-34.79	-12.23	-32.37
Employee Expenses	5.84	9.90	14.76	21.56	28.73	24.51
Cost of goods traded	1.50	1.01	1.43	0.91	1.08	0.75
Selling & Administrative Expenses	10.32	13.33	16.62	16.94	16.27	12.07
Other Operating expenses	21.29	24.27	27.79	32.57	35.07	25.87
Misc. Expenses	1.71	2.19	3.50	4.74	4.17	3.25
Total Expenditure	113.42	163.02	196.10	333.83	375.14	345.98
Operating profit less other income	13.14	18.33	44.23	73.11	88.12	93.28
EBITDA	14.38	24.80	45.26	77.76	84.83	76.04
Interest	2.31	2.84	7.95	14.52	17.57	19.73
Depreciation & Amortization	2.68	3.20	7.47	9.17	11.21	12.96
Profit Before Tax	9.40	18.76	29.85	54.07	56.04	43.36
Total Taxes	2.99	6.64	10.42	13.51	6.30	4.86
Net Income After Taxes	6.41	12.13	19.43	35.63	36.89	28.56
Extraordinary Items	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted Net Profit	6.41	12.13	19.43	35.33	36.48	28.56
Preferred Dividends	0.00	0.00	0.00	0.00	0.00	0.00
Net Income Available to EqSh holders	6.41	12.13	19.43	35.33	36.48	28.56
Earnings Per Share (Rs)	6.10	11.55	18.51	31.19	32.21	11.51
Shares Outstanding (Diluted)	1.05	1.05	1.05	1.13	1.13	2.48
Retained Earnings	6.41	12.13	19.43	35.33	36.48	28.56

Balance Sheet (Rs. in crores)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	9MFY2010
Sources of Funds						
Shareholders' Equity	10.50	10.50	10.50	11.33	11.33	24.82
Reserves	16.66	26.70	43.73	88.47	122.03	159.42
Share Holders Funds	27.16	37.20	54.23	99.79	133.36	184.24
Secured Loans	45.87	136.48	156.47	214.61	305.35	356.48
Unsecured Loans	1.13	5.07	4.79	13.01	12.82	27.41
Total Debt	47.00	141.56	161.26	227.62	318.17	383.88
Net Deferred Tax	6.44	11.33	18.37	23.31	36.16	46.09
Total Liabilities and Equity	80.60	190.08	233.87	350.72	487.69	614.22
Application Of Funds						
Gross Fixed Assets	54.85	145.27	163.28	242.29	360.30	414.44
Less: Depreciation	11.46	14.42	21.30	29.49	40.66	53.49
Net Fixed Assets	43.39	130.85	141.98	212.80	319.64	360.94
Investments	0.00	0.00	0.00	0.00	0.00	0.00
WIP	9.29	16.68	18.48	3.23	-	0.55
Current Assets, Loans & Adv						
Cash	1.30	1.74	2.34	2.15	5.59	7.34
Receivables	18.97	19.70	29.36	31.47	40.78	96.25
Inventories	14.48	25.23	49.49	90.36	137.26	179.46
Loans and Advances	10.29	15.94	16.42	54.15	46.60	43.77
Total Current Assets	45.04	62.61	97.60	178.13	230.24	326.81
Current Liabilities & Prov						
Current Liabilities	16.70	19.98	23.23	34.31	58.95	70.94
Provisions	0.42	0.08	0.97	9.12	3.25	3.14
Total Curr.Liabs & Prov.	17.12	20.06	24.20	43.43	62.19	74.08
Net Current Assets	27.92	42.55	73.41	134.70	168.04	252.73
Total Assets	80.60	190.08	233.87	350.72	487.69	614.22

NOTE

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