

Sudar Garments

SECTOR: TEXTILES


AVOID
Issue Snapshot

Issue Open:	21-Feb-11
Issue Close:	24-Feb-11
Price Band (INR)	72 to 77
Issue Size (INR Mn)	654 to 700
Market Cap (INR Mn)	1,335 to 1,428

Issue Size (No. of Shares)	9,088,000
QIB:	4,544,000
Non-Institutional:	1,363,200
Retail:	3,180,800

Face Value (INR):	10
Book Value as of FY10 (INR):	20.4

Capital Structure:

Pre Issue Equity (INR Mn)	95
Post Issue Equity (INR Mn)	185

Shareholding Pattern	Pre Issue (%)	Post issue (%)
Promoter & Promoter Groups	100%	51%
Public	0%	49%
Total	100%	100%
Total Shares	9,458,975	18,546,975

Objects of the Issue	INR Mn.
Expansion of Existing Manufacturing Facilities	263
Meeting Working Capital Requirement	273
Setting up Retail Outlets and Brand Building	59
General corporate purposes	60
Issue Expenses	[•]
Total	[•]

 Website: www.sudargarments.com

Sudar Garments Limited (SGL) is engaged in manufacturing of garments for Men wear, Women wear and Kids wear. The company currently operates through its manufacturing unit located in Raigad District, Maharashtra with a capacity of 2mn pieces p.a.

Investment Rationale

- SGL functions as an integrated apparel manufacturer with the capability of cutting, body stitching, washing, ironing and finishing. The company currently manufactures under brand name 'Glory to Glory' and will be launching two more brands namely 'St. Paul' and 'Majesty'.
- In order to enhance economies of scale and an improvement in the price competitiveness of its apparels, SGL plans to increase its capacity to 4.5mn pieces by FY12E at a capital outlay of INR 263mn.

Investment Concerns

- Increase in raw material prices especially cotton prices will bring the margins of the company under pressure.
- Presence of big and established players with nation-wide presence poses tough competition to SGL having presence only in South India.
- Over 95% of revenues in the past two years came from six clients. High client concentration is a risk for sustained growth of the company.

Valuation & Recommendation

At the upper band of INR 77, the stock is available at a P/E and P/BV multiple of 34.7x and 1.6x based on its FY10 EPS of INR 2.2 and post issue BVPS of INR 48.1. The issue seems quite expensive based on current peer group valuations. We recommend **Avoid** to the issue.

Investment Rationale

Enhancing Manufacturing Capacities

The company is focused on establishing and increasing its in-house manufacturing facilities as this will allow it to exercise control over both the manufacturing costs and the quality of the apparel being manufactured. SGL intends to utilize INR 263mn of the IPO proceeds to increase its manufacturing capacity to 4.5mn pieces by FY12E. Currently, the company operates with a capacity of 2mn pieces per annum.

Particulars	Existing Capacity			Proposed Capacity		
	FY08	FY09	FY10	FY11E	FY12E	FY13E
Total Capacity (Mn Pieces)	0.5	0.8	2.0	3.0	4.5	4.5
Utilization (%)	64%	82%	94%	100%	89%	90%

Increased Focus on Branded Fashion

Presently SGL manufactures under brand name Glory to Glory. The company further plans to bring out 2 new brands namely St. Paul and Majesty. The brands are focused on the 22 to 45 age bracket intended to consolidate SGL's position by capitalizing on the growing young population having increased spending capacity.

Network Expansion and Increase Brand Recall

SGL currently has selling agents in South India for its existing brand Glory to Glory. Going ahead, the company intends to set up 25 new retail outlets in major cities of South India at an estimated cost of INR 24mn. Out of these, company proposes to open 10 own retail outlets on leased premises and balance 15 retail outlets proposed to be operated on franchisee basis.

Also the company has budgeted a brand building exercise of INR 35mn for advertising to consumers through billboards, event sponsorships, celebrity sponsorships, special event advertisements and advertisements in selected periodicals.

Company Background

Incorporated in 2002, SGL is primarily involved in the manufacture and sale of garments for men wear, women wear and kids wear. The products are sold to the wholesale market, while a portion is routed through its own brand via multi-brand outlets. The company functions as an integrated apparel manufacturer with the capability of designing and manufacturing involving cutting, body stitching, washing, ironing and finishing.

Company has its manufacturing setup at Raigad District, Maharashtra with a capacity of producing 1,66,667 pieces of shirts, dress, pants tops, skirts and denims per month.

Currently the company sells its products through 5 retail stores/retail chain of stores spread over Mangalore and Chennai. Glory to Glory brand caters to mid-priced segment with the prices around INR 300-400.

Financial Highlights

- Sales increased by 508% from INR 86.8mn in FY08 to INR 527.6mn in FY10.
- EBITDA grew by 607% from INR 12.7mn in FY08 to INR 89.8mn in FY10.
- PAT increased to INR 41.1mn in FY10 from INR 2.8mn in FY08.

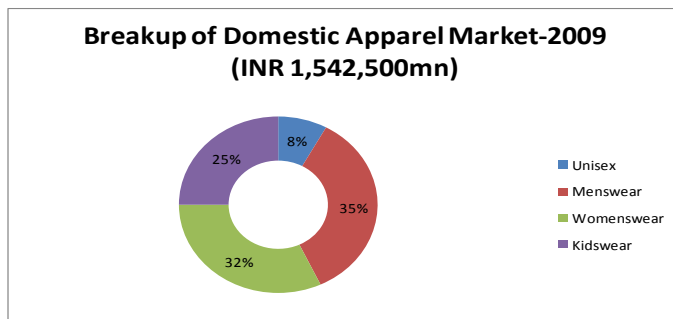
Industry Overview

Textile and Apparel Market Size

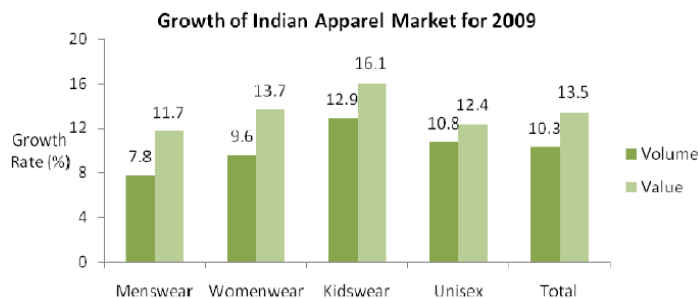
In 2009, the total Indian Textile and Apparel market was estimated to be US\$ 67bn. In the last five years the industry has grown at a rate of more than 10% CAGR.

Domestic Apparel Market

Currently the apparel retail market in India is estimated to be US\$ 33bn. The market has grown at a CAGR of 18% in the last five years. The market grew by 13 % in 2009 which is in contrast to the negative trends seen in several countries.



In year 2009, the kidswear category witnessed the maximum growth of 16% in value terms followed by women's wear with 14% growth.



With the global economy picking up, the domestic apparel industry is set to grow further and is estimated to touch ~US\$ 50bn in the five years (growing at CAGR of 9%).

Promoter Background

Mr. Murugan Muthiah Thevar is the founder and Promoter of the Company. He is currently the Chairman and Managing Director of SGL. He has been associated with the apparel manufacturing business since 1992. He is responsible for developing business strategies and instrumental in formulating strategic growth of the company.

Valuation & Recommendation

At the upper band of INR 77, the stock is available at a P/E and P/BV multiple of 34.7x and 1.6x based on its FY10 EPS of INR 2.2 and post issue BVPS of INR 48.1. Increase in cotton prices as well as presence of established competitors on a national level pose risk to company's operational as well as financial performance. The issue seems quite expensive based on current peer group valuations. We recommend **Avoid** to the issue.

Financials

Income Statement (INR Mn)	FY08	FY09	FY10	H1FY11
Income from Operations	86.8	206.7	527.6	492.6
Less: Excise Duty	-	-	-	-
Operating Expenditure	76.2	179.1	450.0	430.0
Other Income	0.0	0.2	0.1	0.0
Increase/(decrease) in stock	2.1	2.1	12.1	33.4
EBIDTA	12.7	29.9	89.8	96.0
EBITDAM%	14.6%	14.5%	17%	19.5%
Depreciation	2.5	4.9	10.6	15.3
Profit before Interest & Tax	10.2	25.0	79.2	80.7
Financial Charges	6.5	16.0	16.1	20.7
Profit Before Tax	3.7	9.0	63.0	60.0
Tax Expenses	0.9	3.1	21.9	19.2
PAT	2.8	5.9	41.1	40.8
PATM%	3.2%	2.8%	7.8%	8.3%

Balance Sheet (INR Mn)	FY08	FY09	FY10	H1FY11
Share Capital	9.0	9.0	94.6	94.6
Reserves & Surplus	37.8	43.7	98.5	139.3
Net Worth	46.8	52.7	193.1	233.9
Share Application Money	-	15.9	-	-
Borrowed Funds	95.7	169.6	290.6	362.6
Deferred Tax Liability	-	-	3.8	4.8
Current Liabilities	6.9	10.2	99.2	126.0
Total Liabilities	149.4	248.4	586.6	727.2
Net Block	44.8	39.9	264.4	252.3
Capital WIP	54.1	136.0	12.0	64.9
Total Fixed Assets	98.9	175.9	276.4	317.2
Investment	0.1	2.4	34.8	36.7
Current Assets	50.5	70.1	275.4	373.3
Total Assets	149.4	248.4	586.6	727.2

Cash Flow Statement (INR Mn)	FY08	FY09	FY10	H1FY11
From Operating Activities	1.6	10.4	-11.7	-20.9
From Investing Activities	-95.2	-84.2	-143.5	-58.0
From Financing Activities	93.7	73.8	188.2	51.3
Net Cash Flow	0.1	0.1	33.0	-27.6
Opening Cash	0.0	0.1	0.2	33.1
Closing cash	0.1	0.2	33.1	5.6

Ratios	FY08	FY09	FY10
Debt to Equity (x)	2.0	3.2	1.5
ROCE (%)	7.1%	10.5%	16.2%
Cash EPS (INR)	0.6	1.1	5.5
BV/Share (INR)	4.9	5.6	20.4
P/BV at 77 (x)	15.6	13.8	3.8
RoNW (%)	5.9%	11.2%	21.3%
EPS (INR)	0.3	0.6	4.3
P/E at 77 (x)	264.1	123.8	17.7
EBIDTA Margin (%)	14.6%	14.5%	17.0%
PAT Margin (%)	3.2%	2.8%	7.8%

*Pre Issue Figures

Peer Comparison

Company	CMP (INR)	M-Cap (INR Mn)	M-Cap/Sales (x)	Sales (INR Mn)	EPS (INR)	P/E (x)	BVPS (INR)	P/BV (x)
SGL @ 72	72.0	1,335	2.5	527.6	2.2	32.5	45.7	1.6
SGL @ 77	77.0	1,428	2.7	527.6	2.2	34.7	48.1	1.6
Arvind Ltd.	60.5	15,391	0.5	33,066.1	2.1	28.9	51.6	1.2
Cantabil Retail	42.2	688	0.3	2,018.3	9.0	4.7	34.6	1.2
Kewal Kiran Clothing	543.9	6,703	3.8	1,760.6	26.4	20.6	142.1	3.8
Provogue (India)	45.2	5,163	1.0	4,932.9	1.9	24.2	72.7	0.6
S.Kumars Nationwide	64.3	17,069	0.4	38,405.1	10.4	6.2	88.0	0.7

*EPS and BVPS are calculated using post issue shares

Disclaimer: This report is for the personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. SPA Securities Limited (hereinafter referred as SPA) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The intent of this document is not in recommendatory nature. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. 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 such. SPA or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. SPA or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement.

The recipients of this report should rely on their own investigations. SPA and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. SPA has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

1. Analyst ownership of the stock - No
2. Group/Directors ownership of the stock - No
3. Broking relationship with company covered - No

This information is subject to change without any prior notice. SPA reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, SPA is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Research	Srinivas Reddy	Head of Research	srinivas.reddy@spagroupindia.com	Tel: +91-22-4289 5000 Ext. 633
-----------------	----------------	------------------	--	--------------------------------

SPA Securities Limited

SPA House, Nyay Sagar, Near Gurunanak Hospital, Bandra (E), Mumbai - 400051, Tel. No. : +91-22-4289 5000

 For More Information Visit Us At www.spasecurities.com

SPA CAPITAL SERVICES LIMITED	SPA MERCHANT BANKERS LTD.	SPA Securities Ltd.			
Investment Advisory services, AMFI Reg. No. ARN-0007	SEBI registered Category-1 Merchant Bankers SEBI Regn. No. INM000010825	Membership	SEBI Regn. No.	NSE - CM & WDM	INB231178238
		NSE - F&O	INF231178238	NSE - CD&IRF	INE231178238
		BSE - CM & WDM	INB011178234	BSE - CD	INE011178234
SPA COMTRADE PRIVATE LIMITED	SPA INSURANCE BROKING SERVICES LTD.	MCX-SX - CD	INE261178238	OTCEI - Cash	INB200891838
Member of NCDEX & MCX. NCDEX TMID-00729, NCDEX FMC no.NCDEX/TCM/CORP/0714	Direct Broker for Life and General Insurance broking IRDA Lic. Code No. DB053/03	DP - CDSL	IN-DP-CDSL-485-	DP - NSDL	IN-DP-NSDL-316-
		SEBI - PMS	INP000003179		