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Mumbai

CRISIL Research reaffirms IPO grade 3/5 assigned to the IPO of Mandhana Industries Ltd

CRISIL has reaffirmed CRISIL IPO Grade "3/5" (pronounced "three on five") to the proposed initial public offer of Mandhana Industries Ltd (MIL). (CRISIL Research has undertaken a fresh grading exercise for MIL as the grading assigned to the company on September 29, 2008 had expired.) This grade indicates that the fundamentals of the issue are average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy / sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The grading reflects the company's design oriented operations in niche segments of both fabrics and garments business. The company's Europe based design-focused client profile has helped it to register an CAGR of 31 per cent in its exports business (which constituted 27 per cent of the total revenues in 2008-09) during last three years in spite a period of turmoil for Indian garment exporters. MIL's ability to create a shelf of fabric and garment designs gives it an edge while dealing with its design-focused client profile in the casual wear segment and has helped the company to improve its EBITDA margins from 9.6 per cent in 2005-06 to 19.1 per cent in 2008-09.

However, the company faces a high degree of competition from many large and small players in the domestic and international markets, although the company has benefited from the vendor consolidation taking place in the Indian textile industry. The grading also reflects the management's capability to deliver consistent performance even during the downturn in the Indian textiles industry.

About the company and the issue

MIL is a Mumbai based company, engaged in the production of fabrics for domestic market and garments largely for export markets. The company, promoted by four brothers of the Mandhana family, was incorporated in 1984 as Mandhana Textile Mills Private Ltd. It was engaged in the business of trading of fabrics. Subsequently, the company entered fabric processing and garmenting businesses and was renamed as MIL. In 2003, a separation in the family led to the two elder Mandhana brothers separating and taking the garmenting business. The younger brothers, Mr. Purshottam Mandhana and Mr. Biharilal Mandhana (brother of Mr. Purshottam), took control of MIL. They became the promoters of the company along with Mr. Manish Mandhana (nephew of Mr. Purshottam and son of Mr. Biharilal). After separation, the company set up new garmenting capacities and entered yarn dyeing and weaving segment. They also expanded the fabric processing capacities.

The company dyes yarn, converts cotton yarn into grey fabric and also processes grey fabric into finished fabric at its three facilities in Tarapur in Maharashtra. It also buys fabric which is dyed, texturised and provides various finishes like stone finish, oil repellent, water repellent, peach finish, silicon finish etc.

The company has 3.0 million kg of yarn dyeing capacity, 18 million m of fabric weaving capacity and 51.6 million m of fabric processing capacity at Tarapur in Maharashtra. In addition, it has forward integrated into garmenting, with two units in Bangalore and a smaller unit in Mumbai, having an aggregate capacity to produce 3.6 million pieces per annum.

In 2008-09, the company reported a net profit of Rs 366 million on a turnover of Rs 4,635 million, translating to a net margin of 7.9 per cent. It posted an EPS of Rs 32.3 during the same period, while its

book value per share stood at Rs 128.6. MIL's return on capital employed (ROCE) and return on equity (ROE) for the year stood at 17.0 per cent and 31.4 per cent, respectively.

The IPO proceeds are expected to fund the capacity expansion of weaving facility by 12 Mn meters per annum and to set up of a garmenting unit having capacity of 4.7 Mn pieces per annum at Tarapur.

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