



22nd Jun 2009

Mr. Ashish Jain CFO  
M/s Jindal Cotex Ltd,  
VPO Jugiana GT Road  
Ludhiana-141 420

Dear Sir,

Sub: Extension of IPO Grading for Jindal Cotex Ltd

Kindly refer our letter dt 20/10/2008 advising BWR IPO Grading 3 (pronounced as Three) assigned and communicated to you. The grading was valid for a period of 6months. Now that the validity was over, you have requested for extension of the period. Based on your request and additional information interalia provisional balance sheet as at 31/03/09, project implementation report, bank term loan sanction letter etc and clarifications received from your end, the matter was placed before the External Rating Committee of Brickwork Ratings.

We are pleased to inform you that Jindal Cotex ltd IPO grading request has been accepted and extended upto 12/09/2009 and the issue is graded accordingly as

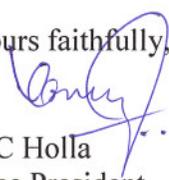
**BWR IPO Grade 3.** Company's IPO with this grading is considered to have Average Fundamentals.

The above grading is subject to terms & conditions agreed in your letter DT 22/09/08.

Kindly communicate your acceptance of the grading. Please call us for any clarifications.

Thanking you

Yours faithfully,

  
K C Holla  
Vice President  
(9611805999)

**Brickwork Ratings India Pvt. Ltd.**

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## Rationale for Jindal Cotex Ltd IPO Grading

Jindal Cotex Ltd (JCL)

BWR IPO Grade '3'

### IPO Details

<b>IPO Grade by Brickwork Ratings</b>	Brickwork Ratings has assigned BWR IPO Grade '3' for the proposed initial public offering of Jindal Cotex Ltd. This grade primarily reveals "Average Fundamentals" in relation to other listed securities in India. Brickwork Ratings IPO grading is a mere opinion on the fundamentals of issuer and is just one parameter that an investor could use before the investment decision. The specific decision relating to invest must also consider the investor's risk profile, asset allocation, time horizon as well as the issue price, relative to the fundamental value. Brickwork does not comment on the price. The grade is neither a recommendation to buy / sell nor hold the graded instrument.
<b>Shares Offered to Public</b>	12,453,894 (about 12 million) Shares Face Value RS.10/- each, representing 49.81% of post issue equity
<b>Lead Managers Registrar</b>	Saffron Capital Advisors Private Limited Bigshare Services Private Limited

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### Company Profile:

Jindal Cotex Limited (JCL) based in Ludhiana, Punjab, incorporated in 1998 has been promoted by Sandeep Jindal, Yash Paul Jindal, Rajinder Jindal and Ramesh Jindal. JCL - an ISO 9001:2000 certified company manufactures Acrylic, Polyester, and Polyester-Viscose, Polyester Cotton, Combed and Carded Yarns for apparels, suitings & knitted fabrics.

It has an installed capacity of 23,472 spindles for acrylic, cotton blended and polyester yarns with a manufacturing capacity of 6500 TPA. JCL manufactures and sells yarns under the

trade name 'JINDAL'. In addition, the company has installed and commissioned a Suzlon make Wind Electric Generator (Wind Mill) of 1250KW capacity at Pithla-Satta-Gorera in the state of Rajasthan.

The IPO funds are proposed to set up a new facility for manufacturing of Cotton Yarn, Yarn Dyeing and Garments as well as invest in its 100% subsidiaries Jindal Medicot Limited and Jindal Specialty Textiles Limited. The company has not contemplated to use the proceeds to repay the bank loans.

## JCL Share Holding Pattern

Category	Pre-issue		Post-issue	
	No.of Shares	% holding	No.of Shares	% Holding
Promoters	1,04,97,114	83.67%	1,17,01,008	46.80 %
Promoters' group	20,48,992	16.33%	20,48,992	8.20 %
Employee	-	-	500,000	2.00 %
Public	-	-	1,07,50,000	43.00%
<b>Total</b>	<b>1,25,46,106</b>	<b>100%</b>	<b>2,50,00,000</b>	<b>100%</b>

Brickwork Ratings considers Business prospects, financial performance, Management Quality, Corporate Governance as well as new project risks to arrive at IPO grade. The salient points of analysis are discussed below.

## Brickwork Ratings Rationale:

### Business Prospects:

- Strong customer base and enhancing its presence in the international markets is seen as a positive. JCL started its exports in the year 2006 and has aggressively expanded its market base. Presently it is exporting to Bangladesh, Vietnam, Indonesia, China, Iran, Canada and Kenya. In FY 2007-08 exports were over 10% of the turnover amounting to Rs. 109.2 million.
- Strong Focus on quality and investments in new technology, regular process improvements are a plus point. The company has been granted IS/ISO 9001:2000 for quality management system by RQ TUV certification body for their existing manufacturing facility.
- JCL is increasing its capacities in spinning along with forward integration by way of expanding in value chain i.e. Dyeing and Garmenting which is seen very favorably.
- The dismantling of quotas on textiles and clothing in accordance with the agreement on textiles and clothing (ATC) offers significant opportunities for the company in the global markets.
- The overall outlook is presently good for expanding the capacity or starting new business in spinning because there is an increasing induction of high speed looms and large diameter knitting machines for enhanced production of fabrics for feeding the requirements of garment sector, both export and domestic.
- The company plans to move into the life style segment with its 100% subsidiary Jindal Medicot Limited (JML). JML has entered into a technology know-how transfer agreement dated June 26, 2008 with Texkor Industries, Korea for manufacturing 100% Cotton Crepe Bandage Cloth, Cotton Crepe Bandage and cotton stretch bandage manufacturing medical textile products like absorbent bleached cotton wool & its products and cotton crape bandage like stretch bandage, crape bandage cloth, the manufacturing facilities and products are proposed to be as per BP, EP and WHO standards.
- The textile sector enjoys favorable Government Policies and Incentives. The GOI has provided several incentives for the textile sector, from which the Company currently benefits, including the Technology Up gradation Funding

Scheme (TUFS) that subsidizes interest cost and duty drawback benefit for its exports.

- The company has also diversified into the field of power generation by setting up a wind mill of 1250KW. The company has started the commercial generation of electricity during this year. JCL has entered into power purchase agreement with Ajmer Vidyut Vitran Nigam Ltd (AVVNL) for the sale of electricity generated for a period of 20 years.
- The textile industry is highly fragmented and is dominated by large number of unorganized players. Textile being a global industry, JCL faces competition from various domestic and international manufacturers of synthetic yarns.
- There is a significant dependence on few suppliers and customers. The % of contribution of the Company's customers and suppliers vis-a-vis the total sales and purchases respectively, for the FY 2008 is as follows:

Particulars	Customers	Suppliers
Top 3 (%)	59.28	49.65
Top 10 (%)	84.39	89.00

Any loss of business from one or more of them may adversely affect the operations and profitability.

### **Financial Position:**

- For the year ended 31st March, 2008 sales from operations increased by 42.69% to Rs. 994.24 million as

compared to Rs. 696.78 million for the year ended 31st March, 2007.

- Profit before Depreciation, Interest and Tax increased from Rs. 63.11 million to Rs. 96.72 million for the year ended 31st March, 2008 showing an increase of approximately 53.26%.
- Profit after Tax increased from Rs. 8.76 million for the year ended 31<sup>st</sup> March, 2007 to Rs. 42.31 million for the year ended 31<sup>st</sup> March, 2008 showing an increase of 382.99%.
- EPS (Earnings per share) for the year ended 31<sup>st</sup> March, 2008 is Rs.6.04 against Rs.1.26 in the corresponding previous financial year. EPS has been calculated on the basis of weighted average number of Equity Shares.
- The operating profit margin is 21.98% for the year ended 31st March, 2008 as compared to 19.62% for the corresponding previous year.
- Pre-issue net worth of the company as on 31<sup>st</sup> March, 2008 is Rs. 230.83 million.
- The company has not declared dividend in the last 5 years. JCL has raised Rs. 74.20 million through the issue of 7,42,010 Equity Shares of Rs. 10 each at premium of Rs. 90 per share to the Promoters and their relatives on March 27, 2008.

### Consolidated Balance Sheet for Jindal Cotex Limited

Liability and Shareholder's Equity	As on 31st March, 2008	As on 31st March, 2007	Assets	As on 31st March, 2008	As on 31st March, 2007
	(Amount in Million)			(Amount in Million)	
<b>Current Liabilities &amp; Provisions</b>			<b>Current Assets &amp; Loans and Advances</b>		
- Sundry Creditors	76.41	75.34	- Cash and Bank Balances	28.27	32.78
- Advances from Customers	2.56	0.30	- Sundry Debtors	92.17	54.54
- Other Current Liabilities	9.38	19.50	- Inventories	140.64	142.93
- Provisions	9.75	5.98	- Loans and Advances	109.24	94.38
<b>Total Current Liabilities</b>	<b>98.10</b>	<b>101.12</b>	<b>Total Current Assets &amp; Loans and Advances</b>	<b>370.32</b>	<b>324.63</b>
Secured Loans	363.08	235.28	<b>Fixed assets</b>		
Unsecured Loans	2.30	46.67	Tangible Fixed Assets		
Deferred Tax Liabilities	10.53	11.61	- Property, Plant and Equipment	226.58	178.10
<b>Total Liabilities</b>	<b>474.01</b>	<b>394.68</b>	- Capital Work-in-Progress	71.74	5.26
<b>Share Holder's Equity</b>			- Capital Advances	34.40	0.99
- Share Capital	77.44	70.02	<b>Total Tangible Fixed Assets</b>	<b>332.72</b>	<b>184.35</b>
- Retained Earnings	153.39	44.28	<b>Total Fixed Assets</b>	<b>332.72</b>	<b>184.35</b>
<b>Total Share Holders Equity</b>	<b>230.83</b>	<b>114.30</b>	Investments	1.80	
<b>Total Liabilities and Share Holder's Equity</b>	<b>704.84</b>	<b>508.98</b>	<b>Total Assets</b>	<b>704.84</b>	<b>508.98</b>

<b>Profit and Loss Account of Jindal Cotex Limited</b>		
<b>Particulars</b>	<b>(Amount in Million)</b>	
	<b>For the year ended 31st March, 2008</b>	<b>For the year ended 31st March, 2007</b>
<b>Operating Revenue</b>		
- Net sales	994.24	696.78
<b>Operating Expenses</b>		
- Cost of goods sold	775.65	558.45
- Manufacturing expenses	83.35	89.81
- Selling, General & Administrative expenses	40.15	34.61
- Decrease / (Increase) in Stock	7.03	(46.22)
- Depreciation	25.08	28.53
<b>Profit from operations before other income, Interest and Tax</b>	<b>62.98</b>	<b>31.60</b>
- Other income	8.66	2.98
<b>Profit before Interest and Tax (PBIT)</b>	<b>71.64</b>	<b>34.58</b>
- Interest expenses	20.59	20.18
<b>Profits before Tax (PBT)</b>	<b>51.05</b>	<b>14.40</b>
- Taxes	8.74	5.64
<b>Profit After Tax (PAT)</b>	<b>42.31</b>	<b>8.76</b>
<b>Key Ratios</b>		
- Operating Profit Margin	21.98%	19.62%
- Net Margin	9.73%	9.08%
- ROCE	31.04%	30.27%
- EPS	6.04	1.26
- Book value	29.81	14.75
- Return on Net Worth	18.36	7.70
- Debt-Equity Ratio	1.58	2.47

### Management Quality:

- The board of directors comprises of eight directors. Mr. Yash Paul Jindal is the Chairman of the Board. Mr. Sandeep Jindal is the Managing Director; he is in-charge of the overall management of the Company subject to the supervision and control of the Board. Mr. Ramesh Jindal and Mr. Rajinder Jindal are whole-time directors. Mr. Vipin Kumar Mittal, Mr. Vijesh Gupta, Mr. Madan Lal Arora and Mr. Nirmal Jain are the independent Directors.

- The board is ably supported by professional and technically qualified team of executives.
- All the individual Promoters are experienced and involved in the day to day operation of JCL.
- The company has employed key professionals having technical and commercial backgrounds.
- Since inception of the company the promoters have displayed their ability to consistently grow the company by expanding the capacities, product profile and to identify new opportunities.

Name of Directors	Designation	Age (Years)	Qualification	Background	Date of Joining the Board	Other Directorship
Mr. Sandeep Jindal	Managing Director	31	B.Com	He has an Overall experience of 10 Years in Textile sector	18 <sup>th</sup> Feb, 1998	a. Jindal Medicot Ltd b. Jindal Specialty Textiles Ltd c. Jindal Info Media Private Ltd
Mr. Yash Paul Jindal	Chairman	53	B.A	He has an Overall experience of 31 Years in various businesses.	10 <sup>th</sup> Dec, 1998	1. Jindal Medicot Ltd 2. Jindal Specialty Textiles Ltd 3. Jindal Cycles Pvt Ltd
Mr. Rajinder Jindal	Whole Time Director	48	B.Sc	He has an Overall experience of 27 Years in various businesses.	10 <sup>th</sup> Dec, 1998	1. Jindal Medicot Ltd 2. Jindal Specialty Textiles Ltd 3. Jindal Cycles Pvt Ltd
Mr. Ramesh Jindal	Whole Time Director	50	B.Com	He has an Overall experience of 31 Years in the trading and manufacturing of Cycle parts.	30 <sup>th</sup> Sep, 2000	1. Jindal Medicot Ltd 2. Jindal Specialty Textiles Ltd 3. Jindal Cycles Pvt Ltd
Mr. Madan Lal Arora	Independent Director	70	LLB	He has 33 years of experience as company secretary in the industry and profession.	10 <sup>th</sup> July, 2008	1. Chuneja Management Constultans Pvt Ltd
Mr. Vipin Kumar Mittal	Independent Director	49	B.Com	He has 29 years of experience in the hosiery and textile industry.	31 <sup>st</sup> March, 2005	1. Kuda Knit Process Pvt. Ltd. 2. Supple Innovations Ltd

Mr. Vijesh Gupta	Independent Director	34	B.Com, CA	He has 11 years of experience in CA practice	10 <sup>th</sup> July, 2008	Nil
Mr. Nirmal Jain	Independent Director	54	B.Sc	He has an overall 33yrs experience.	10 <sup>th</sup> July, 2008	Nil

### Annexure: Profile of the directors

#### Corporate Governance:

- The board has eight directors, four are independent directors.
- There are no sales or purchases between companies in the Promoter Group.
- The directors are not involved in companies with similar Product line.
- Promoters have not been identified as a willful defaulter by RBI or any other Government authority and there are no violations of securities laws committed by the Promoters in the past or any such proceedings are pending against the Promoters.
- Directors and the members of the Promoter group will beneficially own approximately 55% of our post-Issue Equity Share Capital.
- The company has taken necessary steps to implement the provisions of the Corporate Governance. The constitution of our Board of Directors is in compliance with the said provisions and it has the necessary committees in place in compliance with the said provisions:
  - (A) Audit Committee
  - (B) Investor Grievance Committee
  - (C) Remuneration Committee
- Company has taken on lease land owned by Mr. Yash Paul Jindal, Mr. Ramesh Jindal and Mr. Rajinder Jindal, at VPO Jugiana, GT Road, Ludhiana for a period of 30 years from June 22, 1998 at a monthly rental of Rs. 4000 each aggregating Rs. 12,000 along with non interest bearing security deposit of Rs. 1.50 million each aggregating Rs. 4.5 million.
- Promoter Group company Jindal Cycles Private Limited has given on lease, Godown to JCL at a rent of Rs. 5000 per month for a period of 10 years from August 24, 2004
- As per the financial statements, as on June 30, 2008, the JCL has unsecured loan of Rs. 18.31 million, which is from Promoter Group / associate concerns / directors and their relatives which is repayable on demand
- 3 of the 4 independent directors have joined after July 2008, by this time the company has drawn its expansion plans and taken a decision for an IPO.
- The promoters are subscribing to 20,48,992 shares of Rs.10/- each representing 9.59% of the proposed issue of shares.

**Other Factors:**

- As per the audited balance sheet, JCL has the following Contingent Liabilities, which are not provided for,
  - Bond executed in favour of Central Excise Authorities for Rs. .55 million (Previous Year Rs. .55 million) and
  - Bond executed in favour of Custom Authorities for Rs.4.35 million (Previous Year Rs 2.64 million).
  - The company has not charged Vat amounting to Rs.16.06 million under the Exemption period on the basis of Eligibility certificate for the grant of incentive of Sales tax exemption issued by District industries centre, Ludhiana but the issue of Exemption/Entitlement certificate is disputed by concerned Sales Tax Authority.
  - There is demand for Rs. 10.43 million by the Sales Tax Authorities and the same is disputed by the company and not provided in the books of accounts (Previous Year Rs 10.43 million).
- JCL has 6 pending litigations. 2 each in labour matters, Indirect Tax proceedings (Sales Tax) and civil matter against the director.
- The company is yet to complete the acquisition of land for its proposed projects of its 100% subsidiaries.

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