



(One-time assessment)

RESEARCH Mandhana Industries Ltd IPO Grading Rationale

Mandhana Industries Limited

CRISIL IPO Grade 3/5 (Average)

November 17, 2009

IPO Grade

CRISIL IPO Grade '3/5': CRISIL Research has reaffirmed CRISIL IPO Grade '3/5' for the proposed initial public offering of Mandhana Industries Ltd. (CRISIL Research has undertaken a fresh grading exercise for MIL as the grading assigned to the company on Sept 29, 2008 had expired.) The 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

Issue Details

Shares offered to public	83,00,000
As per cent of post issue equity	25.06%
Object of the Issue	Funding for capital expenditure
Amount proposed to be raised	Rs 1,250 million (approximate)
Price Band	Not available at the time of grading
Lead managers	Edelweiss Capital Ltd Axis Bank Ltd

Company Background

Mandhana Industries Ltd (MIL) was incorporated as Mandhana Textile Mills Pvt Ltd in 1984. The company, promoted by Mr Purshottam Mandhana, Mr Biharilal Mandhana and Mr Manish Mandhana, is based out of Mumbai. It produces fabrics for the domestic market and garments largely for exports. It has fabric weaving capacity of 18 million m and fabric processing capacity of 20.4 million m, at its plants in Tarapur. The company has garmenting (casual wear tops for men and women) capacity of 3.6 million pieces.

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Grading Highlights	
Business Prospects	
➤	Ability to churn out new designs, for fabrics as well as garments, gives it a distinct advantage over its competitors. Caters to top clients such as Armani, OXBOW, Pepe Jeans, FCUK etc
➤	MIL is focused on differentiated products with higher realisations.
➤	Shift in product mix towards the higher margin garment segment.
➤	Favorable government policies towards the industry.
➤	Vendor consolidation happening in view of high degree of competition from many large and small players.
➤	Business model focused on niche market is difficult to scale up.
Financial Performance	
➤	Healthy revenue growth at a CAGR of 35 per cent driven by increased weaving, dyeing and garmenting capacities over the past 3 years.
➤	Finished fabrics sales, in which the company purchases finished fabric then either processes it or out sources value addition operations like embroidery and printing external parties, forms close to 67 per cent of the company's sales as on 2008-09. The EBITDA margin in fabric business improved from 10.03 per cent in 2005-06 to 16.02 per cent in 2008-09. Garments business accounted for ~ 37 per cent of sales in 2008-09. Garments business has also witnessed EBITDA margin expansion from 10.27 per cent in 2005-06 to 25.01 per cent in 2008-09.
➤	In spite of the Indian textile industry going through a downturn, the company's exports witnessed a healthy CAGR of 31.0 per cent from Rs 6,051 Mn in 2005-06 to Rs 13,611 Mn in 2008-09.
➤	High inventory levels for finished goods (at 68 days as on 2008-09) as well as raw materials (at 36 days as on 2008-09) increases the working capital requirements of the company.
Management Capabilities	
➤	The promoters, Mr.Purushottam Mandhana and Mr. Manish Mandhana, possess experience and understanding of fabric as well as garment business
➤	Well structured and long-standing management team.
Corporate Governance	
➤	MIL corporate governance meets the required corporate governance standards.

Detailed Grading Rationale

Overall Grading Summary (CRISIL IPO Grade: 3/5)

To arrive at the overall grade, CRISIL has considered the following parameters:

- > Business prospects and financial performance
- > Management capability
- > Corporate governance

CRISIL has reaffirmed CRISIL IPO Grade '3/5' (pronounced 'three on five') to the proposed Initial Public Offer of Mandhana Industries Limited. (CRISIL Research has undertaken a fresh grading exercise for MIL as the grading assigned to the company on Sept 29, 2008 had expired.) The 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 offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy / sell or hold the graded instrument, 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 sustain volumes and margins in 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.

However, the company faces a high degree of competition from many large and small players in the domestic and international markets. The grading also reflects the management's capability to consistently perform in adverse business conditions.

> Ability to generate new designs gives it a distinct advantage over competition

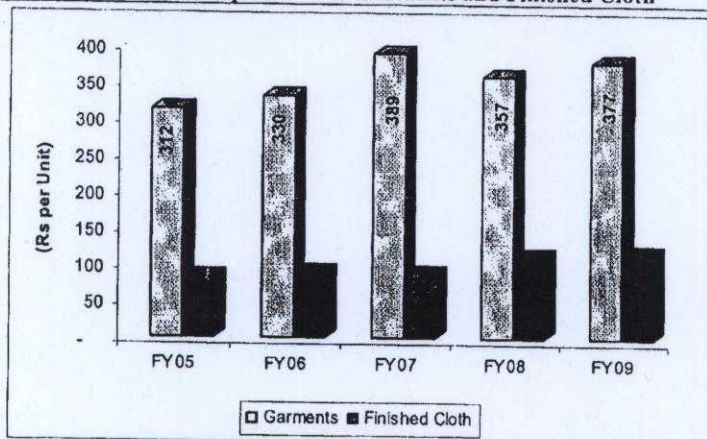
The company has a team of 14 designers for garments for generation of new designs. Close to 1,200 designs are generated in a year, which are achieved in the design studio. The client has the option to select styles from the new designs or from the archive of designs in the design studio. Also, the design staff can modify styles to suit customer requirements. MIL also possesses an extensive sampling unit where designers have options to mix and match fabrics, designs, finishes and embellishments, exercising their creative freedom. The company has seven designers on the fabric side, designing fabrics with differentiated texture, finishes, designs, jacquards and embroideries.

> Focus on high end products with better realisations

MIL is focused on manufacturing value added products in garments as well as fabrics, providing the company with superior realisations. For garments, MIL is focused largely on men's informal wear for big brands in Europe, namely Simint Spa (Armani), OXBOW, Pepe Jeans, FCUK, Promod, Teddy Smith and Rip Curl. The company provides design inputs in addition to manufacturing garments for these brands. These brands order small lots of each style with higher realisation per garment. The average realisation per piece has increased steadily for the company from Rs. 282 in 2003-04 to Rs. 377 in 2008-09

On the fabrics side, the company sells fabrics with different textures and finishes that go into production of premium quality shirting. Some of the fabric clients include exporters of garments and large players like Bombay Rayon Fashions Ltd, Aditya Birla Nuvo, Wrangler and Pantaloon.

Trends in Realisation per unit for Garments and Finished Cloth



Source: DRHP

➤ **Business model of the company is difficult to scale up**

The business model is focused on low volume and high value products, which provide higher margins. As the scale of operations increases with capacity expansion, the company will need to sell higher volumes. The company will have the ability to sustain margins given new design based garment business model.

➤ **Favorable government policies**

The fabric and garments sector is one of the largest employment generators for the country. Hence, the government policies are favorable towards the sector. The company enjoys interest rate subsidy under the TUFS scheme as well as duty drawback benefit for its exports.

➤ **Well-structured management team, especially for managing clients**

The company has a well-structured management team in place for each function. Each function has a head who manages a qualified second line of management with clearly defined roles and responsibilities. The company has well-structured team for managing key clients comprising of 25 merchandisers who are responsible for timely delivery of garments and expanding business from existing customers. This merchandising team aids in understanding and meeting customer expectations, at the same time provides increased business from each client.

➤ **High degree of competition from many large and small players**

The degree of competition is very high on both, fabrics as well as garments side, with many small and large players. Margin expansion is extremely difficult in an industry with a large number of players. The company will have to continuously innovate producing new designs and focus on improving the operational efficiency through technological improvements in order to maintain margins. However, of late the industry has witnessed vendor consolidation in the industry which benefited players integrated players like MIL.

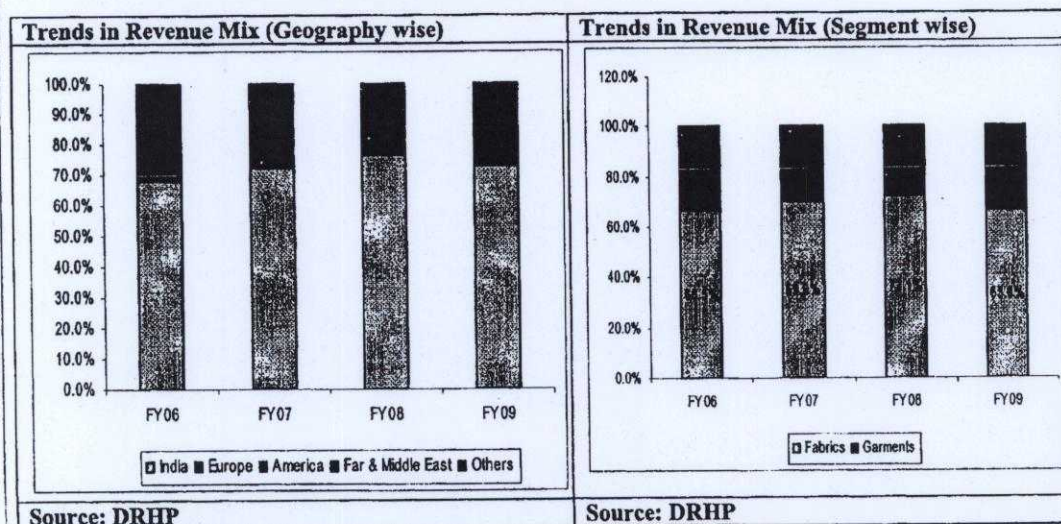
Financial Profile

- The company's revenues grew at a 3-year CAGR of 35% to Rs 4.7 billion at 2008-09. Of the total revenues finished fabrics contribute ~ 67% of revenues whereas the garment business contributes to ~37% of the total revenues.
- The net income of MIL has improved from Rs 64 Mn in 2004-05 to Rs 366 Mn in 2008-09. The net margins have improved from 4.6 per cent in 2004-05 to 7.9 per cent in 2008-09.
- Geographically, the Europe contributed to 84% of MIL's exports revenues in 2008-09, up from 81% in 2004-05. In 2008-09, export revenues form 29% of the total revenues.
- MIL has reported an EPS (Earning per Share) of Rs 32.3 in 2008-09 as compared to Rs 6.1 in 2004-05.
- The company ROE (Return on Equity) stood at 31.4 per cent in 2008-09 as compared to an ROE of 29.0 per cent in 2004-05.

Financial performance snapshot

		FY05	FY06	FY07	FY08	FY09
		Actual	Actual	Actual	Actual	Actual
Operating Income	Rs. Mn.	1,278	1,865	2,619	4,069	4,635
Operating Margins	Percent	10.1	9.6	16.7	18.7	19.1
Net Profits	Rs. Mn.	64	121	194	353	366
Net Margins	Percent	4.6	5.9	7.0	7.9	7.9
ROCE	Percent	16.9	16.0	18.3	22.1	17.0
RONW	Percent	29.0	37.7	42.5	41.9	31.4
Basic EPS	Rs	6.1	11.5	18.5	31.2	32.3
Diluted EPS	Rs	6.1	11.5	18.5	31.2	32.3
No. of equity shares	Mn.	10.5	10.5	10.5	11.3	11.3
Net worth	Rs. Mn.	271.6	372.0	542.3	997.8	1,456.6
Book Value(FVRs10)	Rs	25.9	35.4	51.6	88.1	128.6
Source: DRHP						

*Note: Numbers have been reclassified as per CRISIL standards



Business Profile

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.

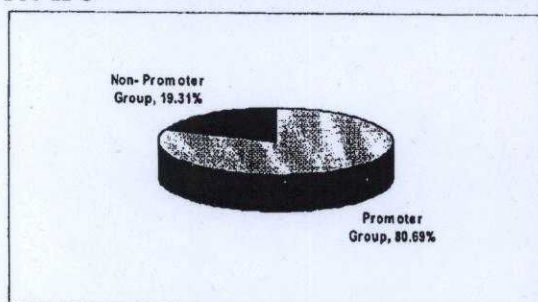
The company dyes yarn, converts cotton yarn into grey fabric and also processes grey fabric into finished fabric at its three facilities in Tarapur in Maharashtra. MIL also buys fabric which is dyed, texturised and provided with various finishes like stone finish, oil repellent, water repellent, peach finish and silicon finish. The company has 3.0 million kg of yarn dyeing capacity, 1.8 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. The garments produced by the company are largely exported. Exports constituted nearly 29 per cent of MIL's revenues in 2008-09. MIL is a relatively small player, both in fabric and garments segment. However, it is focused on the higher realisation and lower volume business both in fabrics as well as garments.

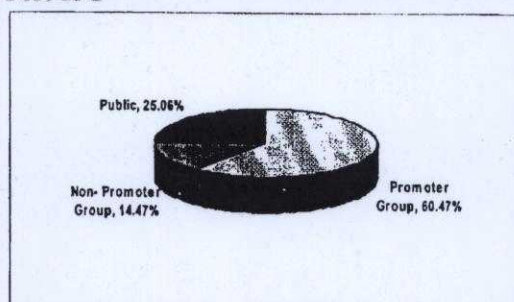
The company plans to expand its weaving capacity to 30 million m and garmenting capacity to 8.3 million pieces per annum. As per the company, the expansion plans are expected to get completed in March 2010.

MIL: Shareholding Pattern

Pre-IPO



Post-IPO



Source: DRHP

Profile of Management and Board

Promoter, Mr. Purushottam Mandhana holds the position of an Executive Chairman and Managing Director. He holds a bachelors degree in Commerce from the University of Rajasthan and has over 29 years of experience in the textile industry. He is a great administrator and a visionary entrepreneur. He is well versed with different textile technologies like dyeing and processing. He has successfully set up the weaving unit and has also played a pivotal role in the modernization of process unit. Under his administrative supervision, our Company's export division has performed consistently. He currently oversees the overall management of all the divisions of the Company. He heads a team of fairly experienced senior management and key management personnel who have rich domain expertise. The senior management includes, Mr. Biharilal Mandhana (Executive Director) with over 35 years of experience in textiles business. The key management personnel of Infinite have more than 15 years of work experience and all have been with MIL for at least 3 to 4 years. The Infinite Board has four independent directors. All the independent directors have extensive work experience in relevant fields.

Annexure: Profile of the Directors

Board of Directors					
Name of Director	Designation	Age	Qualification	Background	Other Directorships
Mr. Purshottam Mandhana	Chairman & Managing Director	51	B.Com	Involved in the textile business for nearly 27 years	Mahan Synthetic Textiles Pvt. Ltd, Golden Seam Textiles Pvt. Ltd, Vicky Jhunjhunwala Resorts Pvt Ltd, Sundhya Chayya Fininvest Pvt Ltd, Dhumketu Fininvest Pvt Ltd, Tarapur Environment Protection Society, Parag Kunj Finvest Pvt Ltd, CKM Investment Pvt Ltd
Mr. Biharilal Mandhana (brother of Mr. Purshottam Mandhana)	Executive Director	61	-	Involved in the textile business for nearly 33 years	Mahan Synthetic Textiles Pvt. Ltd, Vicky Jhunjhunwala Resorts Pvt Ltd, Sundhya Chayya Fininvest Pvt Ltd
Mr. Manish Mandhana (nephew of Mr. Purshottam Mandhana)	Executive Joint Managing Director	39	B.Com	13 years experience in the textile industry	Golden Seam Textiles Pvt. Ltd, Dhumketu Fininvest Pvt Ltd, Nutech Global Ltd
Mr. G. N. Bajpal	Independent Director	65	M.Com, L.Lb	Ex- Chairman of SEBI and LIC	Future Generali India Life Insurance Company Ltd, Future Generali India Insurance Company Ltd, Emaar MGF Land Limited, The Dhanalakshmi Bank Ltd, Future Capital Holdings Ltd, Kshitij Investment Advisory Company Ltd, Future Capital Investment Advisors Ltd, Kingfisher Airlines Ltd, Future Ventures India Ltd, Intuit Consulting Private Ltd, Invent Asset Securitisation and Reconstruction Company Private Ltd, Invent ARC Private Ltd, Infomerics Valuation and Rating Private Ltd, Apnapaisa Private Ltd, IDE India, Nitesh Estates Private Ltd, Dalmia Cement (Bharat) Ltd
Mr. Sanjay Asher	Non - independent and non-executive Director	42	B.Com, L.Lb, CA	Partner and practicing advocate with M/s Crawford Bayley & Co	Asian Electronics Ltd, Bajaj Allianz Life Insurance Ltd, Finolex Cables Ltd, Infomedia India Ltd, Morgan Stanley Investment Management Pvt Ltd, Shree Renuka Sugars Ltd
Mr. Khurshed Thanawalla	Independent Director	65	B.Com, Associate at Textile Institute UK & Associate of British Institute of Management	Managing Director of Oerlikon Textile India Ltd and has extensive experience in the textile industry	Oerlikon Textile India Pvt Ltd, Oerlikon Textile Components India Pvt Ltd, Stovec Industries Ltd, Ahura Holdings Pvt. Ltd, Sauer Precelcomp Pvt. Ltd

(One-time assessment)

Mandhana Industries Ltd IPO Grading Rationale

Mr. Robin Cornelius	Independent Director	52	Graduate	Founder promoter and CEO of Switcher SA retailer of apparels, Swiss Entrepreneur of the year in 2005 by E&Y	Switcher SA (Swiss apparel brand)
Mr. Ajay Joshi	Independent Director	50	B.A Economic(Hon s), Fellow Member of ICWAI	Ex-Director, Finance of Alfa Laval Ltd	Value Qb Consulting Pvt Ltd

Source: DRHP

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