

# CRISIL PUBLIC ISSUE REPORT

(One time assessment)

## Overall Assessment of Fundamentals

### Minar International Limited

### Evaluation Score 2.0 / 5.0

Public Issue of 8,000,000 Equity Shares of face value Rs 10 at a price band of Rs \* to Rs \* per share.

Bid/Offer Opens \*

Bid/Offer Closes \*

Shares Offered 8,000,000

As % of post issue equity 33%

Shares Outstanding (post issue) 24,297,665

#### Lead Manager

Keynote Corporate Services Ltd.

#### Registrar to the Issue

Intime Spectrum Registry Ltd.

#### Bankers

Union Bank of India, State Bank of Indore  
Corporation Bank & Standard Chartered Bank

#### Background:

Formed as a partnership by name of M/s Minar Exports on April 1995 and incorporated as a public limited company in January 17, 2006. The company is one of the largest exporters of cotton bed-linen from India.

	Minar	Alok	Welspun	Arvind Mills	Raymond
P/E	22	12	19	16	26

Market capitalisation as of March 31, 2006 and earnings for FY 2005-06 have been used for calculating P/E

Shareholding Pattern	Prior to issue		Post issue	
	No. of shares	%	No. of shares	%
Promoters	15836127	97.2	15836127	65.2
Others	461538	2.8	8461538	34.8
Total	16297665	100.0	24297665	100.0

Minar Intl.			
		2004-05	2005 (9M)
Operating income	Rs. Million	2873.6	2425.9
Operating margins	Per cent	5.18	7.1
Net profits	Rs. Million	68.78	90.21
Net margins	Per cent	2.39	3.72
ROCE	Per cent	26.06	28.91
RoE	Per cent	40.15	50.98
No. of equity shares	Million	3.8	15.8
Networth	Rs. Million	213.3	258.6
Return on Equity	Per cent	40.15	50.9
EPS	Rs.	17.99	7.6
Book value	Rs per share	55.77	16.33
Gearing	Times	1.83	2.85

#### Overall evaluation

The grading assigned to Minar International Limited reflects the illustrious track record of Mr. U.K. Nambiar as a merchant exporter of made-up textiles from India to the US markets and his ability to build relationships with merchant importers in the US. The grading also reflects the evolving nature of the company's target markets (merchant exporters) post quota abolition, and the fact that the company does not have past experience in setting up or running textile manufacturing facilities. The grading is constrained by the inadequate corporate governance systems and processes in the company, the high dependance on Mr. Nambiar for running the day-to-day operations of the company, and an inexperienced second line of management. The grading is also constrained by the existence of other promoter owned entities in similar lines of business and the past instances of legal non-compliance by the company.

## **Business prospects**

Crisil Research expects India's bed linen exports (comprising of cotton sheets, pillow cases and bed spreads & quilts) to the US to grow from \$ 322 mn. in 2005 to \$ 850 million by 2010. However much of this growth will benefit large vertically integrated suppliers who are capable of supplying directly to retailers.

Crisil Research also believes that price competition in the export market will be intense and that Indian companies would need to reduce their prices to compete effectively against China.

Moreover, the US market is evolving and the merchant importers who until the expiry of quotas on December 31, 2004, played the key role of aggregating supplies for retailers, based on the availability of quotas across companies in various countries, have now been forced to evolve into designers and merchandisers in a quota-free market. This changing role of merchant importers have forced them to prune their supply chains and source from suppliers who are vertically integrated and have better control over costs.

Given this scenario, the company's lack of prior experience in setting up or managing textile manufacturing facilities, and its complete dependance on the US market, Crisil Research believes that the company faces a challenging business environment.

## **Financial performance**

Minar's sales during the nine-month ended December 2005 increased by around 20% from the corresponding period in the previous period. During the same period, operating margins have improved from 5.2% in to 7.1%. However, Crisil Research believes that future profitability will be under pressure, as the company would need to reduce prices to compete effectively against Chinese companies.

Going forward, the company's ability to successfully implement the processing project on time will play a significant role in improving its financial performance.

## **Management capability and Corporate Governance**

Mr. U.K. Nambiar has an illustrious track record of promoting Indian made-up textiles in the US market. This is reflected in the strong growth of over 50% increase in sales (in value terms between March-02 and March-05) in the last five years of the quota period. Mr. Nambiar has also displayed strong ability in building relationships with merchant importers in the US.

However, there is a high level of dependance on Mr. U.K. Nambiar for running the day-to-day operations of the company and the second line is relatively inexperienced, posing possible risks to business continuity.

Minar's Board consists of 8 directors, of which four are deemed to be independent and the rest represented by family members. However, Crisil Research believes that some independent directors are not sufficiently distant from the promoter group. Moreover, although the independent directors have a good track record in their respective professions, their ability and willingness to exercise management oversight is open to question.

The presence of the group company, Vibhgyor Texotech Limited in Crisil Research's opinion is very similar to Minar's business. Our concern arises from the fact that Vibhgyor Texotech is entirely owned by the Nambiar family, and the fact that, in the absence of any clear agreement between the two companies, there is scope for a potential conflict of interests.

The Enforcement Committee (EC), under the Ministry of Textiles had during June 2005 confirmed a temporary debarment order (issued earlier during November 2005 by Texprocil against the erstwhile partnership, Minar Exports) from exporting to quota countries on grounds of circumvention of quota restrictions and fabrication of documents. The EC also imposed monetary penalties on Minar Exports. While the Bombay High Court subsequently stayed the penalties during April 2006, upon the company furnishing a bank guarantee of Rs. Five Crores, the temporary debarment was upheld.