



Pradip Overseas Limited

ICRA has assigned an IPO Grade 2, indicating below average fundamentals, to the proposed initial public offering of Pradip Overseas Limited (POL). ICRA assigns IPO grading on a scale of IPO Grade 5 through IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. The IPO grade assigned by ICRA reflects the established presence of POL as a textile process house, its promoters' experience in the textiles industry, its demonstrated ability to market enhanced capacities in domestic as well as international markets and its healthy order book position. The company is setting up a textile Special Economic Zone (SEZ) near Ahmedabad which could bring in some strategic benefits especially in the exports segment. The grading is, however, constrained by the lower value addition done by the company and business risks arising of POL's limited product diversification, absence of long term contracts with customers, exposure of the textile industry to risks related to changes in government regulations and exposure to raw material price and supply fluctuations besides the high competitive intensity in the industry resulting from high level of fragmentation and competition from neighbouring countries like Pakistan, China and Bangladesh. The grading is also constrained by POL's relatively lower profitability compared to some of the integrated players in the industry, its high financial leverage as indicated by a gearing of 2.5 times as of 31st March 2009 and its tight liquidity position. The export sales in company's portfolio are largely indirect; the presence of intermediaries in domestic as well as international market also has led to lower operating profitability. ICRA also notes the project execution risks associated with the development of

textile SEZ given that the promoters have no prior experience in any similar project and funding risks associated with the projects in hand as funds are not yet fully tied up.

Over the past four years since its inception in 2005, POL has established itself as a large processing house focused on the niche segment of home linen products-both 'Narrow Width (up to 65" width)' and 'Wider Width (up to 120" width)'. The company processes grey fabric and manufactures home textile made ups like beds-sheets, curtains, comforters, quilts (poly/cotton filled), duvet covers, pillow covers and mattress covers to be sold in domestic as well as international markets. As of 31st December 2009, the company had a total installed capacity of 136.5 million meters per annum (MMPA).

In addition to its range of home linen products POL also sells fabric for consumption in local as well as international markets. The operating income also includes income from job works for reputed Indian brands. However, the share of job work income in POL's turnover has consistently declined over the last three years. The company's key markets are India, Europe, USA and Africa. Although export turnover for 2008-09 accounted for around 47.5% of the overall turnover, majority of these were indirect exports through agents of international retailers. In 2008-09 indirect exports was almost 93% of total exports and about 44% of total turnover. Direct exports, constituting less than 5% of revenues in 2008-09, formed a small portion of its operating income. Going forward, POL plans to target direct exports to retailers.

For the past two years, the company has focused on adding wider width

linen capacity as this segment attracts premium pricing. The product mix has undergone a change not only in terms of wider and narrow widths but also to include value added products like quilts, duvet covers, comforters and organic cotton products because of which the growth was much higher in relation to incremental capacity addition and capacity utilizations. Also, the company's sales realization on per meter basis has seen an uptrend in last three years. Further, the company plans to focus on moving closer to the consumer by eliminating the trade intermediaries as against its past business model of selling through intermediaries like agents and distributors in domestic as well as international market. This may also lead to higher realizations and hence better profitability. With the aim of achieving this objective, POL launched its brand "Lucy B Linen" in the domestic market in June 2008. The company is also planning to set up wholly owned subsidiaries in Dubai and the USA with an objective to establish strong presence in the international market and have more close relationship with the retailers.

POL's operating income at Rs. 11.74 billion in 2008-09 marked a growth of 77% over the previous year, aided by capacity enhancement and higher capacity utilization. Nevertheless, the company's topline in 2008-09 also included a trading income of Rs. 2.25 billion. POL's operating profitability declined by 300 basis points to 10.0% in 2008-09 on account of significant trading income and also the pushing of sales through discounts because of demand decline especially in the US and Europe. The net profits at Rs. 443.7 million in 2008-09 marked a growth of 14% over the previous year. The low capital intensity of the business has kept the return indicators healthy. In



2008-09 POL's ROCE (Return on Capital Employed) and RONW (Return on Net Worth) were 29% and 42% respectively. Despite healthy accruals from the business and moderate capital expenditure in the past, the company has high gearing on account of high working capital borrowings to support growth. The gearing, interest cover and NCA/Total Debt as on 31st March 2009 were 2.5 times, 2.6 times and 15% respectively. The company has planned substantive capital expenditure over next two years—setting up of a textile SEZ and an expansion unit within the SEZ. The latter is one of the objects of the proposed IPO Issue and has an estimated project cost of around Rs. 2.0 billion including Rs. 1.0 billion towards incremental working capital.

Recent Results:

For nine months ended 31st December 2009, the company reported an operating income of Rs. 12.18 billion and a net profit of Rs. 511.0 million.

Company Profile:

Pradip Overseas Private Limited (POL) was set up by acquisition of an existing narrow width processing unit at Ahmedabad in 2002. The promoters set up a new processing unit in the year 2006 in the name of M/S Chetan Textiles Private Limited which had wider width processing capacities. With a view to consolidate the textile business under one entity, the narrow width textile unit of erstwhile Pradip Overseas Ltd.(now known as Pradip Enterprises Ltd.) was merged with erstwhile Chetan Textiles Ltd (now known as Pradip Overseas Ltd) with effect from 1st April 2006. Post merger, the entity

was named "Pradip Overseas Limited".

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