

Company Analysis and Financial Due Diligence

August 2014

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To,
Ms. Khyati Shah,
National Stock Exchange of India Ltd
Exchange Plaza,
Plot No. C/1, G Block,
Bandra - Kurla Complex
Bandra (E)
Mumbai - 400051

Date: August 27, 2014

Dear Madam,

We refer to your recent meeting with us when you requested us to provide to you a Company Analysis and Financial Due Diligence Report ("FDD Report") covering the limited scope as mentioned in the annexure below and for the purpose of potential listing of Momai Apparels Ltd ("the Company") in the Small and Medium Enterprise (SME) Exchange of the National Stock Exchange (NSE).

We now enclose our Company Analysis and FDD Report dated August 27, 2014. This Company Analysis and FDD Report is based on the information provided by the company to us and also on the meetings with the Management of the Company.

For the purpose of preparing the Company Analysis and FDD Report, we have not independently verified the information provided by the Company or collected by us from other sources. CRISIL does not guarantee the accuracy, adequacy or completeness of any information contained in such Reports. CRISIL especially states that it has no financial liability whatsoever to you / the Company / users of the Reports. CRISIL's Reports submitted to the NSE do not constitute recommendations to list or not to list the Company on the SME Exchange.

All the Company Analysis and FDD Reports submitted by CRISIL are confidential and are meant for internal use only of the NSE and should not be used for purpose other than the potential listing of the Company on the SME Exchange.

This letter shall form an integral part of the Company Analysis and FDD Reports.

We appreciate the opportunity to conduct financial due diligence on Momai Apparels Ltd.

Yours faithfully,

For CRISIL Ltd

Mohit Modi
Director – CRISIL Research

Table of contents

Company Analysis	6
Financial Due Diligence	9
Company Overview	9
Executive Summary	12
Analysis of Financial Statements	15
Income Statement Analysis	15
Balance Sheet Analysis	22
Appendix	32

Glossary of terms

AS – Accounting standards	MIS – Management information system
bps – Basis points	NDA – Non disclosure agreement
Capex – Capital expenditure	PAT – Profit after tax
CAGR – Cumulative average growth rate	PBT – Profit before tax
CC – Cash credit	RM – Raw materials
COGS – Cost of goods sold	sq ft – Square feet
CWIP – Capital work in progress	y-o-y – year-on-year
DRHP – Draft Red Herring Prospectus	
EBITDA – Earnings before interest tax depreciation and amortisation	
EPS – Earnings per share	
FA – Fixed assets	
FB – Fund based	
FG – Finished goods	
FIFO – First in first out	
FS – Financial statements	
FYXX – Financial year ended March 31, 20XX	
GFA – Gross fixed assets	

Company Analysis

Company background

Incorporated in 2010, Momai Apparels Ltd (Momai) manufactures non-branded intimate garments such as loungewear, bridal nightwear, honeymoon sets, bathrobes, nightwear, sportswear and women's innerwear. Momai is the manufacturing arm of Ashapura Intimates Fashion which is listed on BSE SME exchange. Both the entities are promoted by Mr Harshad Thakkar. It has a ~39,403 sq ft manufacturing facility in Bhiwandi, Mumbai.

Momai is essentially a manufacturing arm of AIFL and was set up to manufacture and supply the finished products to AIFL. In 2012, it acquired the assets and liabilities of M/s Jehan Clothing (proprietorship concern of Mr Hitesh Punjani) and Momai Apparels (proprietorship concern of Mr Dinesh Sodha) and all the manufacturing operations of the group were consolidated into the company.

Key positives

- The parent - AIFL - is an established player in the intimate garments industry operating under the brand name 'Valentine'. In the past, Momai's performance and growth have been in line with that of AIFL's. Momai is well poised to benefit from AIFL's performance and growth, which is likely to reflect the expected healthy growth in the women's apparel wear market. Momai plans to install additional capacity in anticipation of an increase in orders from AIFL.
- The management has extensive experience and in-depth knowledge of the garments industry and is expected to play an important role as the company expands its operations.
- Momai has an in-house design studio for developing products and creating styles which helps it to differentiate its products in a highly competitive industry. It also has good manufacturing capabilities with well laid-out processes.

Key negatives

- **Common shareholding and absence of pricing guidelines:** Momai and AIFL have a common promoter group. The promoter of AIFL – Mr Harshad Thakkar and relatives, holds ~24% stake in Momai. In addition, AIFL holds a 32% stake in Momai. In terms of operations, Momai is the manufacturing arm of the group while AIFL is the marketing and branding arm. We believe that the current ownership structure coupled with absence of any written or legal agreement for the pricing or profit sharing between the two companies is a risk.

Shareholding of Momai and AIFL

Momai's shareholding	% as of June 2014
Ashapura Intimate Fashion Ltd	32%
Harshad Hirji Thakkar	3%
Hitesh Punjani	17%
Dinesh C Sodha	14%
K. Kalidas Fashions Pvt. Ltd	10%
Rasiklal Thakkar	6%
Ranjan Ben Thakkar	6%
Manish Thakkar	4%
Dimple Thakkar	4%
Riya Kotak	2%
Others	3%
Total	100%

AIFL's shareholding	% as of June 2014
Harshad Hirji Thakkar (Promoter)	58%
Promoter Family	10%
Dinesh Chanabha Sodha	5%
SIDBI Trustee Company Ltd A/c India Opportunities Fund	4%
NNM Securities Pvt. Ltd	2%
SAR Capital Pvt. Ltd	2%
Dharmendra Dasinbhai Parmar	1%
Girish C. Joshi	1%
Gangadharam Gangadhara Bhotla	1%
Others	32%

Source: Company, CRISIL Research

- High inventory days:** The company's working capital days have increased from six in FY12 to 110 in FY14 due to increase in inventory days from 11 in FY12 to 128 in FY14. On account of high inventory, the cash flow from operations is negative. In addition, in the fashion industry high inventory is a risk as change in fashion can lead to mark-down of inventory. The total inventory of the company as of FY14 stands at ₹411 mn, out of which the entire inventory is work in progress (WIP) and finished goods. The raw material inventory, as of FY14, is nil which is unusual for a manufacturing concern.
- Client concentration:** Momai's largest client, AIFL, accounts for 74% of its total revenues. Any change in AIFL's procurement policy could impact Momai's sales and is a risk. While there is a concentration risk, the fact that AIFL is the promoter company and a major client ensures a safe and committed order book for Momai. Also, as per the management, the company is looking to scale up its capacity and plans to supply to other customers from the incremental capacity after meeting AIFL's requirements.
- Related party transactions:** We believe that the lease rental arrangement of the factory and machinery is below the market rate and any revision in the lease rentals may affect the potential shareholders adversely. The management has indicated that the lease rentals are unlikely to get revised in the near future as the lease agreement is valid until FY17. However, the company is in the process of shifting its manufacturing facility to Gujarat, which would mitigate this risk.
- Scope for strengthening of MIS:** We believe that there is scope for strengthening the MIS maintained by the company. For instance, the remuneration details of the key managerial personnel did not add up to the figure reported in the financial statements. Also, information such as volumes and realisations is currently not recorded and maintained.

Key risks

- Momai does not own any brand and only acts as a contract manufacturer for AIFL, which owns various brands. Without the ownership of a brand, the company may not be able to command a premium and will always have to depend on other brand owners for business. Given Momai's limited clientele, any change in AIFL's procurement strategy and policies will directly impact Momai's business performance.
- As per our discussion with the management, there are no strict pricing guidelines for sale of goods from Momai to AIFL. Generally, 40% of the total profit on the sale of a product is attributed to Momai which is the manufacturing arm of the group while the remaining 60% is attributed to the marketing arm AIFL. However, at present there is no written or legal agreement for the pricing or profit sharing between the two companies, which is a risk.

Management and corporate governance

- The parent - AIFL - is promoted by Mr Harshad Hirji Thakkar who is the chairman and managing director. Based on our interactions with the management, we believe that most of the decision-making lies with Mr Harshad Hirji Thakkar, who is supported by Mr Dinesh Sodha and Mr Hitesh Punjani responsible for overall administration decisions and manufacturing decisions respectively. The top management is supported by a professional second line of management.

Key financials

- Momai's revenues have grown at a strong CAGR of 93% over FY12-14 to ₹1.1 bn, in line with AIFL's growth.
- EBITDA margin has expanded from 2.8% in FY12 to 7.5% in FY14. The management has attributed the improvement in margins to increase in operational efficiency and scale. The explanation of the increase in margins was unsatisfactory due to which we are unable to comment on the sustainability of margins.
- PAT has increased at a CAGR of 137% over FY12-14 to ₹33 mn. PAT margin has improved marginally to 2.6% in FY14 from 1.8% in FY12 due to an improvement in EBITDA margin.

Financial Due Diligence

Company Overview

Business Overview

- Momai manufactures intimate garments such as loungewear, bridal nightwear, honeymoon sets, bathrobes, nightwear, sportswear and women's innerwear. It was established in 2010 by Mr Harshad Thakkar. In 2012, the company acquired assets and liabilities of M/s Jehan Clothing (proprietorship concern of Mr Hitesh Punjani) and all the manufacturing operations of the group were consolidated into Momai. In 2013, AIFL, promoted by Mr Harshad Thakkar, purchased 51% stake in Momai, making Momai a subsidiary of AIFL (currently, AIFL owns 32.3% stake). AIFL procures a significant proportion of Momai's total supplies (~75% in FY14).
- Momai's ~39,000 sq ft manufacturing facility is located in Bhiwandi, Mumbai. The company plans to set up a high-tech manufacturing facility in Gujarat with six times the capacity of the current facility.
- Production is divided into three processes:

Sourcing

Sourcing of orders
Preparation of samples (including designing)
Approval of samples

Production

Production pattern, grading, marker making, spreading
Cutting, sorting/bundling
Sewing/assembling, inspection, finishing

Post-manufacturing process

Final inspection,
Tagging, packing
Dispatch

Products

Products	Brand for which manufactured	Brief Description
Loungewear for men, women, teenagers and toddlers	Valentine, N-line	Valentine is a premium category brand. The products are available in various fabrics such as viscose, knits, woven, satin, georgette, stretched, lycra-net, terry material, etc. N-line is a mid-market brand
Bridal nightwear and honeymoon sets		
Bathrobes		
Night wear	Night & Day	Night & Day is a premium brand in this category and it specialises in comfort fit products for women. The products are available in fabrics such as woven, viscose, knits, satin, georgette, stretched, etc.
Maternity feeding nightwear - bridal (two-piece)		
Innerwear	Valentine Pink, Valentine Secret Skin, Valentine Leggings	The products in this category are made from fabric such as cotton-lycra, nylon, stretched net, laces, knits with elastics and other accessories
Sportswear	Valentine Sports	Comfort wear garments for exercising and yoga. The products are available in fabrics such as cotton-lycra, looper-lycra, cotton-fleece, polyester, etc.

Source: Company, CRISIL Research

Board of directors

Name	Age	Designation	Profile	Other directorship
Mr Harshad Hirji Thakkar	36	Chairman and Managing Director	He is member and chairman, Lingerie Sub-Committee, Clothing Manufacturing Association of India. With an experience of over 16 years, he oversees the working and affairs of the company's management.	AIFL
Mr Dinesh Chanubha Sodha	36	Executive Director	He is head of the marketing department of the company. With an experience of over 15 years in the intimate garments industry, he looks after the management of centralised warehousing facility and marketing operation located at Bhiwandi.	AIFL
Mr Hitesh Subhash Punjani	31	Executive Director	He looks after the production process of the company. With an experience of over 12 years in the intimate garments industry, he is in charge of ensuring quality production processes and timely delivery of goods.	AIFL
Mr Shrikant Maheshwari		Non- Executive Independent Director	He is a qualified chartered accountant and has an experience of over eight years in audit, compliance, taxation and financial management. Prior to starting his own advisory firm, he worked as CFO of K Sera Sera Ltd.	AIFL
Mr Tarak Bipinchandra Gor	35	Non- Executive Independent Director	He is a chartered accountant by profession and has been in practice since 2001.	<ul style="list-style-type: none"> ■ Optimo Finance Private Ltd ■ Optimo Realty Private Ltd
Mr Alok Nag	33	Non- Executive Independent Director	He has done Master's in Business Administration from ITM University and is currently working as a director in Prime Resource Finserv Private Ltd.	Prime Resource Finserv Private Ltd

Source: Company, CRISIL Research

Executive Summary

Key Findings

i) Common shareholding coupled with absence of pricing agreements might result in potential conflict of interest

Background	Comments / implications	Management's comments
<ul style="list-style-type: none"> Momai and AIFL have a common promoter group. The promoter of AIFL – Mr Harshad Thakkar and relatives, holds ~24% stake in Momai. In addition, AIFL holds a 32% stake in Momai. With respect to operations, Momai is the manufacturing arm of the group while AIFL is the marketing arm. 	<ul style="list-style-type: none"> We believe that the current ownership structure and absence of any written or legal agreement for the pricing or profit sharing between the two companies is a risk. 	<ul style="list-style-type: none"> The management mentioned that Momai was later set up as AIFL's manufacturing arm and that they want to keep the manufacturing and marketing arms separate due to which they are running these two companies as separate entities with separate management teams. CRISIL's comments: We found instances of overlaps in management as well as the absence of a well laid-out structure with respect to profit sharing, costs, etc.

ii) Stretched working capital cycle led by inventory days

Background	Comments / implications	Management's comments
<ul style="list-style-type: none"> Momai's working capital days have increased from six in FY12 to 110 in FY14 due to an increase in inventory days from 11 in FY12 to 128 in FY14. 	<ul style="list-style-type: none"> High working capital has resulted in negative cash flow from operations. 	<ul style="list-style-type: none"> As per the management, the inventory is high as the company has to maintain a large amount of SKUs, being in the fashion industry. The inventory level as per the management is not expected to come down.

iii) Lease rental terms with AIFL are below the market rate

Background	Comments / implications	Management's comments
<ul style="list-style-type: none"> The company has leased 39,400 sq ft of factory space in Bhiwandi from the promoter group at a rental of ₹123,750 per month. Of the total space, 30,000 sq ft has been leased from AIFL and the other 9,400 sq ft from Mr Harshad Hirji Thakkar (promoter of AIFL) at ₹90,750 per month and ₹33,000 per month respectively. The company has not given any amount as security deposit for the same. The lease rental agreement does not have any escalation clause. 	<ul style="list-style-type: none"> Monthly lease rental rate of ₹123,750 for corporate office premises is lower than the market rates. The company's rental expenses would increase in case the lease rates are raised and may affect the profitability adversely. If the property rent is renegotiated to the market rate of ₹3,15,224 per month (₹8 per sq ft per month), the company's PAT would be impacted by 6-8%. However, the company is in the process of shifting its manufacturing facility to Gujarat, which would mitigate this risk. 	<ul style="list-style-type: none"> The management has indicated that the lease rentals are unlikely to get revised in the near future as the lease agreement is valid until FY17.

iv) The current MIS does not capture some of the critical metrics adequately

Background	Comments / implications	Management's comments
<ul style="list-style-type: none"> The company has not provided some of the information requested by us, which we believe is critical to monitor the performance of the business. We did note a few limitations in the MIS processes maintained by the company, which has constrained our analysis. The company has not provided sales volume, realisations and segment-wise revenues. 	<ul style="list-style-type: none"> Our analysis was restricted due to the unavailability of data such as sales volumes, realisations, segment-wise profitability, which are critical for monitoring and evaluating the company. Hence, we believe that the company needs to strengthen its MIS, especially since it will need to comply with the regulatory norms post listing. 	<ul style="list-style-type: none"> The management mentioned that since there is a large amount of SKUs, it is difficult to maintain volume and realisation data.

v) Related party transactions

Background	Comments / implications	Management's comments
<ul style="list-style-type: none"> ■ Most of the company's sales (~75% in FY14) are to the promoter company - AIFL. ■ In FY13, labour charges amounting to ₹27.5 mn has been paid by AIFL to Momai. 	<ul style="list-style-type: none"> ■ Momai faces the client concentration risk as it supplies mostly to AIFL. ■ The labour charges are, however, not shown in Momai's accounts. The company mentioned that in its accounts, this has been shown under raw material consumption, which in our opinion is not in line with the accounting policy. 	<p>The labour charges that are paid by Momai are classified under raw material consumption.</p>

Analysis of Financial Statements

Income Statement Analysis

Particulars	(` mn)			Common size statement		
	FY12	FY13	FY14	FY12	FY13	H1FY14
Income						
Gross sales	315	1,000	1,173	100.00%	100.38%	100.00%
Less: trade discount/excise	-	(4)	(0)	0.00%	-0.39%	0.00%
Net sales	315	996	1,173	100.00%	99.99%	100.00%
Operating income	315	996	1,173	100.00%	100.00%	100.00%
Expenditure						
Raw material consumed	315	977	1,349	99.83%	98.14%	114.99%
Change in inventory	(9)	(58)	(344)	-2.94%	-5.85%	-29.30%
Power and fuel	-	1	1	0.00%	0.12%	0.06%
Employee costs	0	7	11	0.12%	0.73%	0.95%
Other manufacturing expenses	0	23	62	0.05%	2.31%	5.30%
Other expenses	0	2	5	0.14%	0.21%	0.39%
SG&A	-	0	2	0.00%	0.04%	0.14%
EBITDA	9	43	88	2.80%	4.30%	7.47%
Depreciation	-	1	4	0.00%	0.07%	0.34%
EBIT	9	42	84	2.80%	4.23%	7.13%
Interest	0	12	36	0.00%	1.22%	3.09%
Operating PBT	9	30	47	2.80%	3.00%	4.04%
Other income	-	-	-	0.00%	0.00%	0.00%
Exceptional inc/(exp)	-	-	2	0.00%	0.00%	0.14%
PBT	9	30	49	2.80%	3.00%	4.18%
Tax provision	3	10	16	0.95%	1.04%	1.40%
PAT (Reported)	6	20	33	1.85%	1.96%	2.79%
Less: Exceptionals	-	-	2	0.00%	0.00%	0.14%
Adjusted PAT	6	20	31	1.85%	1.96%	2.65%

Source: Company, CRISIL Research

Revenue analysis

(₹ mn)	FY12	FY13	FY14
Total gross income	315	1,000	1,173
y-o-y change	NA	217.1%	17.3%
Less: trade discounts/excise	-	(4)	(0)
Trade discount as a % of gross sales	0.0%	-0.4%	0.0%
Net income	315	996	1,173
y-o-y change	NA	215.8%	17.8%
Other operating income	-	0	0
Total operating income	315	996	1,173
y-o-y change	NA	215.9%	17.8%

Source: Company, CRISIL Research

Momai's top customers

Top customers (FY14)	Amount	as % of total
Ashapura Intimate Fashions Ltd	869	74%
Shree Shiv Lingeries Pvt. Ltd	204	17%
Ruby Cotex Pvt. Ltd	100	9%
Total	1,173	100%

Top customers (FY13)	Amount	as % of total
Ashapura Intimate Fashions Ltd	796	79%
Shree Shiv Lingeries Pvt. Ltd.	127	13%
Jehaan Clothing	85	8%
Total	1,008	100%

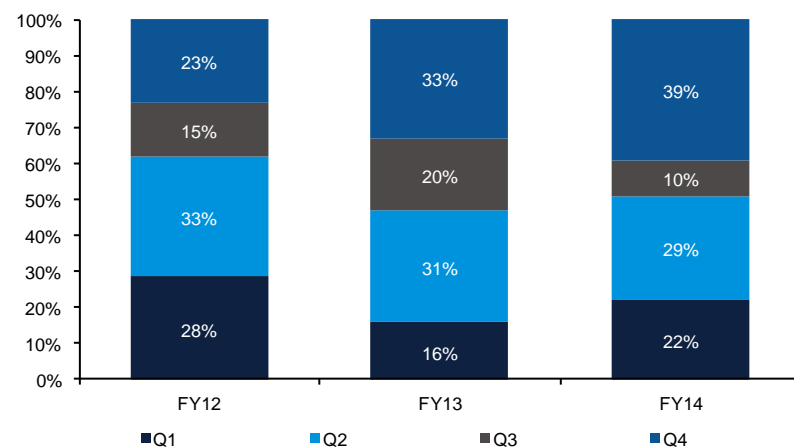
Source: Company

- The company's top client - AIFL - dominates the revenue share (79% in FY13 and 74% in FY14).

- Momai's net revenues have grown at a two-year CAGR of 93% to ₹1.1 bn in FY14 from ₹315 mn in FY12, in line with AIFL's growth.
- The management has not shared details regarding volume and realisation data and, hence, we are unable to comment on the same.

Seasonality of revenues

Quarterly income break-down



Source: Company, CRISIL Research

- Momai's revenues are seasonal – the second and fourth quarters contribute the maximum. This is in line with the industry.

Raw material cost

(₹ mn)	FY12	FY13	FY14
Raw material cost	306	919	1,005
Raw material cost as a % of sales	96.9%	92.3%	85.7%

Source: Company, CRISIL Research

- Momai's raw materials are fabric, accessories and packing material such as polyester cotton fabric, polyester, cotton, lycra, underwire fabric, etc. All the raw materials are procured from domestic suppliers.
- Its raw material cost as a percentage of sales reduced from 97% in FY12 to 86% in FY13. However, the management has not been able to satisfactorily explain the reasons behind the reduction in raw material costs.

Power and fuel cost

(₹ mn)	FY12	FY13	FY14
Power and fuel cost	-	1	1
Power and fuel cost as a % of sales	0.00%	0.12%	0.06%

Source: Company, CRISIL Research

- Power and fuel cost accounts for 0.1% of the company's sales since garment manufacturing is not capital-intensive and requires more labour than machinery.

Manufacturing expenses

(₹ mn)	FY12	FY13	FY14
Direct manufacturing expense	-	21	58
Factory rent	0	1	2
Rent on machinery	0	0	1
Electricity and power	-	1	1
Stitching charges	-	1	-
Cutting charges	-	0	-
Manufacturing expenses as a % of sales	0.07%	2.39%	5.28%

Source: Company, CRISIL Research

- Manufacturing expenses increased to 5.28% in FY14 from 0.07% of sales in FY12, mainly due to scaling up of operations after FY12.

Employee cost

(₹ mn)	FY12	FY13	FY14
Employee cost	0	7	11
Employee cost as a % of sales	0.12%	0.73%	0.95%

Source: Company, CRISIL Research

- The employee cost reported by Momai is significantly lower than the industry standards. According to the industry standards, employee cost for apparel manufacturing companies is approximately 10% of the sales. However, Momai's employee cost is significantly low at ~1% of sales.
- As per the management, the company outsources the job work and captures that expense in the raw material cost resulting in lower employee cost.

Remuneration of promoter

₹ mn	FY11	FY13	FY14
Mr Harshad Thakkar	-	2.4	2.4
As a percentage of net profit	0%	12%	8%

Note: The remuneration excludes perquisites

Source: Company, CRISIL Research

- The remuneration of the promoters has been significantly high at 8% of PAT in FY14 and 12% of PAT in FY13.

Selling, general and administrative (SG&A) expenses

(₹ mn)	FY12	FY13	FY14
SGNA	-	0.4	1.6
As a % of sales	0.00%	0.04%	0.14%

Source: Company, CRISIL Research

- SG&A expenses as a percentage of sales have been very low at 0.1% of sales as Momai only manufactures apparels and does not incur advertising and sales promotion expenses. This is in line with the industry.

Analysis of EBITDA margin

	FY12	FY13	FY14
Raw material consumed	96.9%	92.3%	85.7%
Power and fuel	0.0%	0.1%	0.1%
Employee cost	0.1%	0.7%	1.0%
Other manufacturing expenses	0.0%	2.3%	5.3%
Other expenses	0.2%	0.3%	0.6%
SG&A	0.0%	0.0%	0.1%
EBITDA margin	2.8%	4.3%	7.5%

Source: Company, CRISIL Research

- Momai's EBITDA margin improved from 2.8% in FY12 to 7.5% in FY14. AIFL's EBITDA margin also improved significantly from 4.7% in FY12 to 7.4% in FY14.
- The management has attributed the improvement in margins to increase in operational efficiency and scale. Based on our interactions with the company, we are unable to comment on the sustainability of margins.

Finance charges

(₹ mn)	FY12	FY13	FY14
Interest expense	-	11	30
Other borrowing cost	0	1	6
Total interest cost	0	12	36
Interest cost as a % of sales	0.00%	1.22%	3.09%
Year end borrowings	0	323	346
Interest rate (on average borrowings)	8.61%	7.53%	10.82%

Source: Company, CRISIL Research

- Momai's interest expense has increased significantly from nil in FY12 to ₹36 mn in FY14. This was mainly on account of increase in debt to fund the incremental working capital requirement – working capital loans have increased to ₹267 mn over the same period.
- The company plans to raise further debt to fund the new facilities to be set up in Gujarat.

Depreciation

(₹ mn)	FY12	FY13	FY14
Depreciation	-	0.7	4.0
Depreciation as a % of sales	0.0%	0.1%	0.3%
Gross block	-	51	89
Depreciation rate (% of average gross block)	NA	0.67%	1.44%

Note: Details of gross block additions are provided under fixed assets

Source: Company, CRISIL Research

- The depreciation expense increased to ₹4 mn in FY14 from ₹0.7 mn in FY12 mainly as the company set up office space in Dadar, Mumbai. Depreciation on fixed assets is provided on written down value (WDV) at the rate and manner prescribed in Schedule XIV of the Companies Act, 1956 over their useful life.

Tax rate and net income

(₹ mn)	FY12	FY13	FY14
Profit before tax	9	30	47
PBT margin	2.8%	3.0%	4.0%
Tax	3	10	16
Effective tax rate (%)	34.0%	34.7%	33.4%
Net profit	6	20	33
Adjusted net profit	6	20	31
Adjusted net profit margin (%)	1.85%	1.96%	2.65%

Source: Company, CRISIL Research

- PBT margin increased from 2.8% in FY12 to 4% in FY14 mainly due to increase in EBITDA margin. The increase in PBT margin would have been higher but for the increase in interest cost as a percentage of sales.
- Adjusted net profit has grown at a two-year CAGR of 131% to ₹31 mn in FY14 from ₹6 mn in FY12. Adjusted net profit margin has increased from 1.85% in FY12 to 2.65% in FY14.

Balance sheet analysis

(₹ mn)	FY12	FY13	FY14
Liabilities			
Equity share capital	1	15	89
Others	(0)	(0)	(0)
Reserves and surplus	6	25	83
Net worth	6	41	172
Convertible debt			
Other debt			
Total debt	0	323	346
Deferred tax liability (net)	-	(0)	1
Total liabilities	6	364	518
Assets			
Net fixed assets	-	51	84
Capital WIP	-	-	-
Total fixed assets	-	51	84
Investments	-	-	-
Current assets			
Inventory	9	169	411
Sundry debtors	52	320	161
Loans and advances	15	21	1
Cash & bank balance	1	2	40
Marketable securities	-	-	-
Total current assets	77	512	613
Current liabilities			
Creditors	68	182	159
Provisions	3	16	20
Total current liabilities	71	199	179
Net current assets	6	313	434
Intangibles/misc. expenditure	-	-	-
Total assets	6	364	518

Source: Company, CRISIL Research

Particulars	FY12	FY13	FY14
Activity ratios			
Inventory days	11	62	128
Creditor days	81	70	54
Debtor days	61	117	50
Working capital days	6	58	110
Gross asset turnover (x)	NA	39	17
Net asset turnover (x)	NA	39	17
Sales/operating assets (x)	NA	39	17
Liquidity ratio			
Current ratio (x)	1.1	2.6	3.4
Capital structure ratios			
Debt-equity (x)	0.0	8.0	2.0
Net debt/equity (x)	(0.1)	7.9	1.8
Interest coverage	12,803.1	3.5	2.4
Profitability / return ratios			
EBITDA margin (%)	2.8	4.3	7.5
Adj PAT margin (%)	1.8	2.0	2.6
RoE (%)	186.7	83.4	29.2
RoCE (%)	282.6	22.8	19.0

Equity share capital

- As of FY14, Momai has one class of equity share (88,74,335 in number) with a face value of ₹10 each.
- The company's share capital has increased from ₹1 mn in FY12 to ₹89 mn in FY14. On May 27, 2013, 1.6 mn shares were allotted to AIFL (please refer to the table below for details) at ₹10 per share. Further, 1.3 mn shares were issued as bonus to AIFL. The balance shares are subscribed by the promoters and promoter family.
- K. Kalidas Fashions Ltd, the biggest creditor of the company, also has a 10% stake in Momai.

Momai's net worth

(₹ mn)	FY12	FY13	FY14
Share capital	1	15	89
Share premium	-	-	55
Others	(0)	(0)	(0)
Reserves & surplus	6	25	28
Shareholders' funds	6	41	172

Source: Company, CRISIL Research

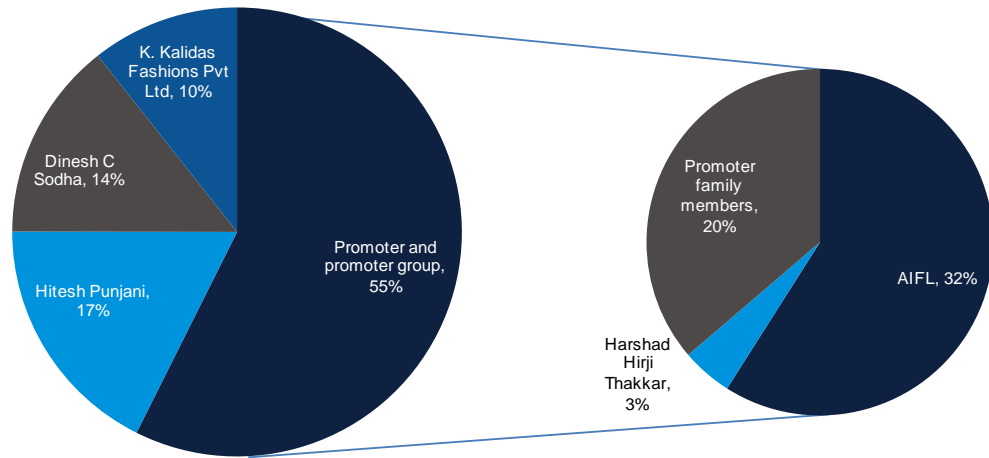
Build-up of equity share capital

Allotment details	Allotment to	Number of shares allotted	Issue Price	Cumulative paid up capital (₹ mn)
21/1/2010	Dinesh Sodha	25,000	10	1
	Harshad Thakkar	25,000		
21/05/2013	Dinesh Sodha	1,480,000	10	15
27/05/2013	Ashapura Intimates Fashion Ltd	1,592,500	10	31
28/02/2014	Harshad Thakkar	19,996	27	57
	Dinesh Sodha	540,000		
	Hitesh Punjani	664,000		
28/02/2014	Bonus Issue	2,498,000	-	56
4/4/2014	Dimple Thakkar	55,555	27	58
	Manish Thakkar	55,555		
8/4/2014	Alka Nilesh Thakkar	18,515	27	58
	Nilesh Thakkar	18,515		

Allotment details	Allotment to	Number of shares allotted	Issue Price	Cumulative paid up capital (₹ mn)
	Nitin Panchal	18,515		
10/3/2014	Nilesh Thakkr	25,925	27	59
11/3/2014	Rasiklal Thakkar	277,775	27	68
	Ranjanben Thakkar	277,775		
	K Kalidas Fashion Pvt. Ltd	333,330		
12/3/2014	Alka Nilesh Thakkar	11,110	27	72
	Riya Kotak	1,481,450		
	Ranjanben Thakkar	2,777,750		
13/3/2014	Rasiklal Thakkar	277,775	27	75
28/3/2014	Manish Thakkar	55,555	27	82
	Nilesh Thakkar	37,035		
	Purbi C Sodha	724,050		
	K Kalidas Fashion Pvt. Ltd	566,670		
29/3/2014	Dimple Thakkar	240,735	27	89
	Harshad Thakkar	185,185		
	Manish Thakkar	188,885		
	Alka Thakkar	37,035		
	Nitin Panchal	18,515		

Source: Company, CRISIL Research

Shareholding structure



Source: Company, CRISIL Research

Borrowings

- As on March 31, 2014, the company has loans worth ₹346 mn – ₹79 mn of long-term loan and ₹267 mn of short-term loan (details in Appendix 2).

(₹ mn)	FY12	FY13	FY14
Working capital loan (secured)	-	170	267
Loans from directors, shareholders and relatives (unsecured)	0	87	-
Term loans (secured)	-	57	65
Term loans (unsecured)	-	-	1
Long-term debt due within one year	-	10	13
Total	0	323	346

Source: Company, CRISIL Research

- Working capital loan**

Working capital loan of ₹267 mn has been taken from Punjab National Bank.

- Term loan**

Term loan consists of secured loans from Punjab National Bank, SIDBI, HDB Financial Services Ltd, Capri Global Capital Ltd, Money Matters Financial Services Ltd and Reliance Commercial Finance. Unsecured loan of ₹0.75 mn has been taken from Magma Fincorp Ltd.

Fixed assets**Composition of net fixed assets**

(₹ mn)	FY12	FY13	FY14
Office premises	-	41	50
Plant and machinery	-	5	4
Furniture and fixtures	-	4	4
Office equipment	-	0	0
Computers and printers	-	0	0
Air conditioner	-	0	0
Building no.1	-	-	6
Building no.2	-	-	20
Capital work in progress	-	-	-

Source: Company, CRISIL Research

- Momai's fixed assets primarily consist of office premises, factory building and plant and machinery. The company has not provided details with respect to the capacity.
- Fixed assets are stated at cost, less accumulated depreciation and impairment loss, if any.
- The company started manufacturing capacities in FY12.

Intangibles

- The company does not have intangible assets.

Investments

- The company does not have investments.

Inventories

(₹ mn)	FY12	FY13	FY14
Raw material	-	101	-
WIP and finished goods	9	68	411
Stores and spares	-	-	-
Total inventory	9	169	411
Inventory days (based on sales)	11	62	128

Source: Company, CRISIL Research

- Momai's inventory days have increased to 128 in FY14 from 11 in FY12 mainly because it supplies a significant proportion of the finished products to AIFL. The promoter has considerable discretion over the procurement of finished goods and its reporting in the financial statements. WIP and finished goods inventory levels have increased considerably over FY12-14.
- Momai's raw material inventory, as of FY14, is nil, which is unusual for a manufacturing concern.

Sundry debtors

(₹ mn)	FY12	FY13	FY14
Gross sales	315	1,000	1,173
Debtors	52	320	161
Debtor days (based on sales)	61	117	50

Source: Company, CRISIL Research

- As per the management, Momai receives payments from AIFL and other domestic customers in 60-90 days.

Ageing analysis of debtors

- In the past, 100% of the company's debtors were outstanding for less than six months.
- The company's top debtor (AIFL) comprises ~69% of total debtors in FY14.

Momai – top debtors

Top debtors as of FY14	Amount outstanding (₹ mn)	As a percentage of total debtors
Ashapura Intimate Fashions Ltd	110	68.6%
Ruby Cotex Pvt. Ltd	50	31.1%
Mahindra Retail Pvt. Ltd	1	0.3%
Total outstanding from top 10 debtors	161	100%

Source: Company, CRISIL Research

Loans and advances

(₹ mn)	FY12	FY13	FY14
Advances recoverable in cash or kind	15.0	17.7	0.7
Prepaid expenses	2.9	0.6	0.3
Total loans and advances	17.9	18.3	1.0

Source: Company, CRISIL Research

- The company's loans and advances include advance given to suppliers of raw materials and advances given to the staff.

Cash and bank balances

(₹ mn)	FY12	FY13	FY14
Cash on hand	0.0	0.9	0.8
Bank balance with scheduled banks	0.7	1.1	39.3
Total	0.8	2.0	40.1

Source: Company, CRISIL Research

- As of FY14, Momai has ₹40.1 mn in cash.

Marketable securities

- The company has no marketable securities.

Creditors

Top 10 creditors	Outstanding amount payable as on March 31, 2014 (% of total creditors)
K. Kalidas Fashions Pvt. Ltd	35%
Dweta Garments Pvt. Ltd	16%
Krushna Cotex Pvt. Ltd	15%
Vintex Enterprises	12%
Knitline Fab India Pvt. Ltd	8%
Vardhman Filaments	5%
Supremo Fashions	2%
Nirvan Fabrics	2%
Monarch Clothings	2%
Jalaram Packaging	2%
Total	100%

Source: Company, CRISIL Research

- K. Kalidas Fashions Pvt. Ltd, which represents 35% of the total creditors, also has a stake (10%) in the company as of FY14.

Provisions

(₹ mn)	FY12	FY13	FY14
Provision for taxation	3	13	12
Duties and taxes	-	3	2
Proposed dividend on equity shares	-	-	4
Provision for income tax on proposed dividend	-	-	1
Total provisions	3	16	20

Source: Company, CRISIL Research

- Total provisions amounted to ₹20 mn in FY14.
- Provisions have increased in FY14 mainly due to proposed dividend.

Other matters

Change in auditors and auditor qualifications

- The company's auditors are Mumbai-based Bagaria and Co.LLP. They were appointed in FY14 after the previous auditors, JDNG and Associates, did not seek a re-appointment. As per the management, JDNG and Associates were not re-appointed as they lacked the expertise to audit large corporate companies.

(₹ mn)	FY11	FY12	FY13
Auditor remuneration	0.0	0.2	0.2

Source: Company, CRISIL Research

Appendix

Appendix 1: Key managerial personnel

Name	Designation
Harshad H. Thakkar	Executive Director
Dinesh C. Sodha	Executive Director
Hitesh Punjani	Executive Director
Haresh Bodade	Human Resources
Praveen Waghmare	Finance Head
Bhavik Dhirwani	Dispatch Head
Tamil Seloan A	Production Manager
Venji C. Sodha	Production Manager
Bhoomi Mewada	Company Secretary and Compliance Officer

Source: Company

Appendix 2: Summary of loan agreements

Term loans

Lender	Balance as of March 2014 (₹ mn)
SIDBI - term loan	8.9
SIDBI - GEM Scheme	10.0
HDB Financial Services Ltd	9.0
Capri Global Capital Ltd - I	10.3
Capri Global Capital Ltd - II	9.7
Reliance Commercial Finance	17.0

Source: Company

Working capital loans

Lender	Balance as of March 2014 (₹ mn)
PNB	267.4

Source: Company

Appendix 4: Summary Financials

Income statement

(₹ mn)	FY12	FY13	FY14
Operating income	315	996	1,173
EBITDA	9	43	88
EBITDA margin	2.8%	4.3%	7.5%
Depreciation	-	1	4
EBIT	9	42	84
Interest	0	12	36
Operating PBT	9	30	47
Other income	-	-	-
Exceptional inc/(exp)	-	-	2
PBT	9	30	49
Tax provision	3	10	16
Minority interest	-	-	-
PAT (Reported)	6	20	33
Less: Exceptionals	-	-	2
Adjusted PAT	6	20	31

Ratios

	FY12	FY13	FY14
Growth			
Operating income (%)	-	215.9	17.8
EBITDA (%)	-	385.1	104.8
Adj PAT (%)	-	235.7	58.8
Adj EPS (%)	-	(89.0)	(72.6)
Profitability			
EBITDA margin (%)	2.8	4.3	7.5
Adj PAT Margin (%)	1.8	2.0	2.6
RoE (%)	186.7	83.4	29.2
RoCE (%)	282.6	22.8	19.0
RoIC (%)	212.9	17.3	16.0
B/S ratios			
Inventory days	11	62	128
Creditors days	81	70	54
Debtor days	61	117	50
Working capital days	6	58	110
Gross asset turnover (x)	-	38.7	16.7
Net asset turnover (x)	-	39.2	17.4
Sales/operating assets (x)	-	39.2	17.4
Current ratio (x)	1.1	2.6	3.4
Debt-equity (x)	0.0	8.0	2.0
Net debt/equity (x)	(0.1)	7.9	1.8
Interest coverage			
EBITDA/Interest	12,803.1	3.5	2.4
EBIT/Interest	12,803.1	3.5	2.3

Per share

	FY12	FY13	FY14
Adj EPS (₹)	116.4	12.8	3.5
CEPS	116.4	13.2	4.0
Book value	124.7	26.5	19.4
Dividend (₹)	-	-	0.5
Actual o/s shares (mn)	0.1	1.5	8.9

Source: Company

Balance Sheet

(₹ mn)	FY12	FY13	FY14
Liabilities			
Equity share capital	1	15	89
Reserves	6	25	83
Minorities	-	-	-
Net worth	6	41	172
Convertible debt	-	-	-
Other debt	0	323	346
Total debt	0	323	346
Deferred tax liability (net)	-	(0)	1
Total liabilities	6	364	518
Assets			
Net fixed assets	-	51	84
Capital WIP	-	-	-
Total fixed assets	-	51	84
Investments	-	-	-
Current assets			
Inventory	9	169	411
Sundry debtors	52	320	161
Loans and advances	15	21	1
Cash & bank balance	1	2	40
Marketable securities	-	-	-
Total current assets	77	512	613
Total current liabilities	71	199	179
Net current assets	6	313	434
Intangibles/Misc. expenditure	-	-	-
Total assets	6	364	518

Cash flow

(₹ mn)	FY12	FY13	FY14
Pre-tax profit	9	30	47
Total tax paid	(3)	(10)	(16)
Depreciation	-	1	4
Working capital changes	(5)	(305)	(83)
Net cash from operations	0	(285)	(47)
Cash from investments			
Capital expenditure	-	(51)	(37)
Investments and others	-	-	-
Net cash from investments	-	(51)	(37)
Cash from financing			
Equity raised/(repaid)	1	15	129
Debt raised/(repaid)	0	323	23
Dividend (incl. tax)	-	-	(5)
Others (incl extraordinary)	(0)	0	(23)
Net cash from financing	0	338	123
Change in cash position	1	1	38
Closing cash	1	2	40

Disclaimer / Important notice

This Company Analysis and FDD Report is based on the limited scope of financial due diligence of Momai Apparels Ltd (“the Company”). The Scope of Work covering the procedures to be performed for financial due diligence of the Company is defined below. In this Report, we may choose to not include matters that we believe to be insignificant. There may be matters, other than those noted in this Report, which might be relevant in the context of the issue and which a wider scope might uncover. The financial due diligence is based on the audited/un-audited consolidated financial statements for FY12, FY13 and FY14.

The Report has been issued on the understanding that the Company's management has drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on our Report up to the date of this Report. Additionally, we have no responsibility to update this Report for events and circumstances occurring after this date.

Our work does not constitute recommendations about the completion of the operation. This Report also does not constitute an audit in accordance with the Audit Standards and we have not independently verified all the matters discussed in this Report and have relied on the explanations and information as given by the management (verbal as well as written) of the Company. We have assumed the genuineness of all signatures and the authenticity of all documents submitted to us, whether original or copies. In this regard, management of the Company is responsible for the proper recording of transactions in the books of account and maintaining an internal control structure sufficient to permit the preparation of reliable financial information, including financial accounts. Consequently, we do not express an opinion on the figures and other information included in this Report. CRISIL does take any responsibility towards the usage of the Report in any form.

The information and conclusions of this Report should not be the basis for the listing or for any investor to place a value on the business of the Company or to make a decision whether to acquire or invest in the Company. Our due diligence and analysis should not be construed as investment advice; specifically, we do not express any opinion on the suitability or otherwise of entering into any transaction in this regard. We accept no responsibility for matters not covered by the Report or omitted due to the limited nature of our analysis. The future plans of the Company, if any, are as informed to us by its Management. We do not have any view on the same.

Scope of Work

The limited scope of coverage of the Company Analysis and Financial Due diligence Report would be:

- i) Study of the financial statements of the Company for the financial periods ended March 31, 2012, March 31, 2013, and March 31, 2014 (“Historical Period”).
- ii) Review and comment on the reasonability and consistency of significant accounting policies adopted.
- iii) Highlight significant matters in internal audit reports, audit committee reports and RBI audit reports.
- iv) Analyse quality of earnings with particular focus on:
 - a) recurring versus non-recurring transactions (income and expenditure)
 - b) changes in accounting policies
 - c) impact of related party transactions, if any.
- v) Analyse the key drivers of revenue and margin growth with particular reference to:
 - a) price and volume changes of key products
 - b) geographical distribution
- vi) Comments on the branch distribution network. Highlight significant issues in the lease rent agreement.
- vii) Analysis of selling costs and marketing overheads.
- viii) Analysis of interest cost and depreciation expense.
- ix) Analysis of variances in significant administrative overheads.
- x) Analysis of movement in head count and employee costs during the reporting period.
- xi) Highlight the movement of debtors over the past four years.
- xii) Analysis of the cost sheet and comment on the movements in the costs over the Historical Period
- xiii) Analysis of historical trends in capex. Based on discussion with management, comment if there has been any deferred maintenance/replacement capex.
- xiv) Analysis of the basis of capitalisation and components of costs such as borrowing costs, pre-operative expenditure, exchange fluctuations, etc.
- xv) Summarise details of investments held, highlighting investments in related entities, if any.
- xvi) Analysis of the trends in working capital during the reporting period.
- xvii) Analysis of and comment on the ageing profile of receivables and inventories. Inquire into provisioning policy and comment on provisions for uncollectible amounts and write-offs.
- xviii) Analysis of the basis of inventory valuation (physical verification of inventories will not be conducted).
- xix) Comment on other current assets, loans and advances and major creditors. Comment on recoverability and provisioning for uncollectible amounts.
- xx) Comment on the current liabilities including accounts payable and provisions/accruals.
- xxi) Obtaining bank reconciliations for key accounts and comment on reconciling items.

Commitments, contingencies and litigation

- xxii) Highlight significant claims, pending or threatened litigations against the company at latest available period, after discussions with the management of the Company their views on the likely outcome of the cases/claims.
- xxiii) Highlight significant guarantees, performance bonds, letters of comfort or similar documents of assurance and any indemnities provided by / or for the benefit of the Company, including details of such guarantees, etc. given by the company for the period under review.
- xxiv) Status of tax claims and disputes thereof, if any.

Related party transactions

- xxv) Highlight major related party transactions and comment on recoverability / payment of balance due from / to related parties at period end.
- xxvi) Comment on key financial terms and conditions of such related party transactions after discussions with the Management.

The following areas (indicative list) are excluded from the scope of the Report.

- 1) Valuation of the issuer's business
- 2) Human resource review
- 3) Technical and commercial due diligence
- 4) Legal and tax due diligence
- 5) IT review and risk management
- 6) Physical verification and valuation of fixed assets, inventories and other current assets
- 7) Third-party confirmations, meetings with suppliers/customers
- 8) Environmental compliances
- 9) Overview of the supply chain management
- 10) Actuarial valuation of the company's retirement benefit arrangements
- 11) Checking of accounting records

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About CRISIL Ltd

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macroeconomy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.



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