

S.P. APPARELS Ltd.

1st Aug, 2016

Rating:



Issue Summary:

Price band (Rs)	258-268
Face Value (Rs)	10
Market Lot	55 shares
Opens	2 nd Aug, 2016
Closes	4 th Aug, 2016
Fresh Issue (Rs)	215 cr
OFS	0.9 cr shares
Listing	BSE, NSE

Issue Break Up:

QIB portion	50%
NIB portion	15%
Retail portion	35%

Book Running Lead Managers:

➤ Motilal Oswal Investment Advisors Private Limited
➤ Centrum Capital Limited

Registrar

➤ Link Intime India Pvt. Ltd.

Company & Business Profile

S.P. Apparels Limited was incorporated in Avinashi, Tamil Nadu, a public limited company under Part IX of the Companies Act, 1956, pursuant to a certificate of incorporation dated November 18, 2005 issued by the Registrar of Companies, Tamil Nadu located at Coimbatore. They are the leading manufacturer and exporter of knitted garments for infants and children in India. These are manufactured at the integrated facilities that allow them to provide end-to-end garment manufacturing services from greige fabric to finished products. They also manufacture and retail menswear garments in India under the brand 'Crocodile'. They believe their core competency lies in their clear understanding of the specifications of knitted garments in the infants and children category, the buying preferences of their customers and their ability to deliver products of a consistent high quality that meet the product specifications and stringent compliance requirements of their international customers. The company's long-standing relationship with major customers has been one of the most significant factors contributing to their growth.

They also manufacture a broad range of menswear garments consisting of shirts, polo shirts, t-shirts, trousers, jeans, sweaters, jackets and men's innerwear consisting of vests, briefs, boxer shorts and socks under the brand 'Crocodile' which is subsidiaries through an agreement with Crocodile International Pte Limited, Singapore. They mainly export their products to United Kingdom. During FY16, the company exported approximately 3.6 crore pieces of knitted garments for infants and children directly to its international customers, including TESCO and Primark.

SP Apparels operates 21 manufacturing facilities in and around the region of Avinashi in Tamil Nadu. Company has 4,874 sewing machines, eight cutting machines, 79 embroidery machines, 17 printing machines, 16,896 spindles and 22 dyeing machines.

Objects of the Issue

The proceeds from the fresh issue will be utilized towards the repayment or prepayment of debt incurred by the Company; Expansion and modernization of their manufacturing facility at Valapady, Salem, Tamil Nadu; Addition of balancing machineries for their existing dyeing unit at SIPCOT, Perundurai; Opening of new stores for the sale of 'Crocodile' products; and General corporate purposes.

Investment Positives

- The Company's long-standing relationship with their major customers has been one of the most significant factors contributing for the growth.
- Over the years, they have developed the expertise to concurrently manage multiple large orders as well as developed a diversified product range which has helped the company to grow into one of the leading manufacturers of knitted garments for infants and children in India.
- In addition to manufacturing of garments the company's key strength is the ability to set-up and provides all necessary facilities at various units and efficiently manages such units from a centralized location that has helped them to efficiently scale-up their operations in a short period of time.

Concern

- A significant portion of their revenue is in British Pound Sterling and US Dollar and hence is exposed to the risks associated with fluctuations in foreign exchange rates which could negatively impact the profitability and financial condition.

**Outlook**

SP Apparels is a leading manufacturer and exporter of knitted garments for infants and children in India. Their facilities are equipped to provide various products within the garments manufacturing production chain to the customers. Their business consists of two main divisions - (i) garments division (for manufacture and export of knitted garments for infants and children); and (ii) retail division (for manufacture, distribution and marketing of products in India under the brand name 'Crocodile'). The wide range of infrastructure and machinery for production of yarn, dyeing of fabric, sewing, cutting, printing, embroidery and finishing of garments enable them to service the customers by fulfilling multiple bulk orders in a timely manner. Their design, testing, fitment and quality inspection laboratory helps them in delivering products of high quality that comply with the 123 stringent standards set by their customers. The proximity of manufacturing facilities and their integrated set-up allows them to optimize the operations and service for their customers in a timely manner.

On the flipside, the company doesn't own any intellectual property in relation to the 'Crocodile' brand, also the export of knitted garments for infants and children constitutes a significant portion of its business for which it does not have long-term sales contracts and is also exposed to the risks associated with fluctuations in foreign exchange rates. The company is also depended on a limited number of customers for significant portion of its export revenues

Valuation

The issue has been offered in a price band of Rs 258-268 per equity share. At the upper price band the stock is available at P/E of 16(x) based on FY16 financials. The issue looks fairly valued against its peer group companies. We have “2 star” rating for the issue.

Peer Group Comparison

Company	Revenue (Rs Cr)	EPS (Rs)	P/E (x)	RoNW (%)	NAV (Rs)	FV (Rs)
S.P. Apparels	542	17	15.6	29.1	75	10
Kitex Garments	546	24	20.0	30.5	77	1

Financials (Rs Cr)

Particulars	Mar 2016	Mar 2015	Mar 2014	Mar 2013	Mar 2012
Net Sales	537	476	452	429	401
Total Income	542	485	454	438	405
PBIDT	94	76	65	60	59
PBT	48	25	13	5	7
PAT	37	11	7	3	12
Reserves and Surplus	111	72	62	55	52
Net Worth	128	89	79	72	69
Total Debt	256	249	294	308	347
ROCE	18.9	14.7	11.9	10.3	10.2
RONW	34.3	12.9	9.45	4.45	18.7
PATM(%)	6.96	2.29	1.58	0.73	2.95
CPM(%)	10.8	6.45	5.45	4.64	6.99
CEPS	33.8	18.2	14.6	11.8	16.6
Enterprise Value	283	287	324	339	378



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