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Mumbai

CRISIL Equities assigns IPO grade 1/5 to Sudar Garments Limited

CRISIL Equities has assigned a CRISIL IPO grade of '1/5' (pronounced "one on five") to the proposed IPO of Sudar Garments Ltd (Sudar). This grade indicates that the fundamentals of the IPO are poor 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, its future market price or suitability for a particular investor. To arrive at the overall grade, amongst various other parameters, CRISIL has considered the company's business prospects, its financial performance, management capabilities and corporate governance practices.

The assigned grade is constrained by Sudar's weak corporate governance practices. One of the independent directors is closely involved in business activities and is known to influence the promoter's business and financial decisions. Other independent directors do not have sufficient understanding of their role and lack the ability to exercise management oversight. We believe this will limit the independent directors' ability to act in the best interest of minority shareholders. Also, the company does not have a strong second line of management to match the growing business. While the company has taken steps to strengthen its team, the efficacy of the same will be seen only over the medium term. The grade is further impacted by a weak business risk profile due to the company's limited experience in retail business, the absence of long-term contracts and high dependence on few buyers for a bulk of its revenues.

However, the grade does factor in the growth prospects of Sudar's domestic apparel business, which includes contract manufacturing for several domestic apparel brands and sale of its own brands through distributors and multi-brand outlets. The domestic apparel market is buoyant and CRISIL Research expects it to grow at a CAGR of 9% from Rs 1,400 bn in FY11 to Rs 2,100 bn by FY16. The grade also takes into account the company's long-standing relationship with key buyers in the export market.

About the company and the issue

Sudar was founded in 1992 by Mr Murugan Muthiah Thevar. It is an integrated apparel manufacturer with facilities for cutting, body stitching, washing, ironing and finishing. It specialises in shirts and trousers for men, women and kids, catering to domestic as well as export markets. The company undertakes contract manufacturing for domestic brands and merchant exporters. It also sells its own brands through its established distribution network and selling agents in South India.

Sudar's revenues have grown at a healthy CAGR of nearly 150% between FY08 and FY10 to Rs 528 mn. It posted PAT of Rs 43 mn in FY10. EBITDA and PAT margins during the same period were 17.1% and 8.1% respectively. RoE has improved to ~32% in FY10.

Through the IPO, Sudar proposes to fund the expansion of its existing apparel manufacturing unit at Khalapur Taluka, Raigad District, Maharashtra for Rs 263 mn, to meet working capital requirements for Rs 250 mn and to set up retail outlets and brand building for Rs 59 mn.

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