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Initiating Coverage
November 8, 2016

SP Apparels Ltd

Company is at inflection point with newer capacities and margin expansion resulting into better return ratios

Current	Previous
CMP : Rs 326	
Rating : BUY	Rating : NR
Target : Rs 463	Target : NR

(NR-Not Rated)

STOCK INFO	
INDEX	
BSE	540048
NSE	SPAL
Bloomberg	SPAL IN Equity
Reuters	SPAL.NS
Sector	Textiles
Face Value (Rs)	10
Equity Capital (Rs mn)	252
Mkt Cap (Rs mn)	8100
52w H/L (Rs)	361 / 276
Avg Daily Vol (BSE+NSE)	-

SHAREHOLDING PATTERN	%
(as on Sep. 2016)	
Promoters	59.60
Public	40.40

Daljeet S. Kohli
Head of Research
Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

SP Apparels Ltd, Coimbatore based company, is second largest manufacturer and exporter of knitted garments for infants and children's in India. It is one of the leading suppliers for few of the international brands like TESCO, ASDA Stores (Walmart organisation), Primark, Mothercare & DUNNES etc. Also, they are licensed manufacturer and retailer of menswear garment in India under "Crocodile" brand and the business is done in subsidiary company – Crocodile Product Private Limited (CPPL). Company did revenue of Rs 5328.25 mn in FY16, of which 86.13% was exports from children's wear with volume of 39.1 mn pieces.

Key Investment Rationale:

- Backward integration to help them expand their margins
- New capacities to come up, allowing them to attract new clients
- Shift in global manufacturing base for garments, India being a sweet spot
- Margin levers are in place and would see profitability going up
- Company poses as key supplier to some top set of clients

Key Risks:

- Crocodile could be a drag to profitability
- No patent on designing.

Valuation:

At CMP of Rs 326, the stock is trading at 14.5x and 10.5x of FY17 & FY18 expected EPS of Rs 22.3 and Rs 30.9. We believe the company is at inflection point as they were not able to exploit their potential to the fullest due to illiquidity factors and currency derivatives issues that they faced in the past, which are no longer there now. So valuing FY18 EPS of Rs 30.9 at 15x would give us target price of Rs 463 (upside potential of 40% from the current market price). The re-rating would happen due to growth coming back in business and financial position improving due to fresh capital reducing D/E ratio to 0.5x in FY17E compared to 2x in FY16. Hence, we initiate BUY rating on the stock.

YE March (Rs Mn)	Net Sales	EBITDA	Adj. PAT	Adj. EPS (Rs)	EBITDA Margin	ROE (%)	Adj.P /E (x)	EV / EBITDA (x)
FY14	4521	644	72	4.3	14.2	7.2	76.3	12.3
FY15	4758	697	109	6.5	14.7	9.8	50.0	11.0
FY16	5369	892	374	21.8	16.6	28.2	14.9	8.7
FY17E	6507	1183	561	22.3	18.2	20.6	14.6	7.9
FY18E	8056	1551	777	30.9	19.2	18.4	10.5	6.2

Source: Company filings, IndiaNivesh Research

About Company

SP Apparels is a manufacturer and exporter of knitted garments for infants and children's wear in India. It is the 2nd largest manufacturer in India and 4th largest in world followed by Wingloo (China), Gimmell (Singapore), Kitex (India) etc. Unlike other large players, who are into manufacturing of basic wear, SP Apparels focuses largely on fashionable wear (85% of volume). Company as of now is catering to customers like TESCO, PRIMARK etc and have been supplying them since 2 decades now. Company is also into retail business where they sell menswear under the brand "Crocodile".

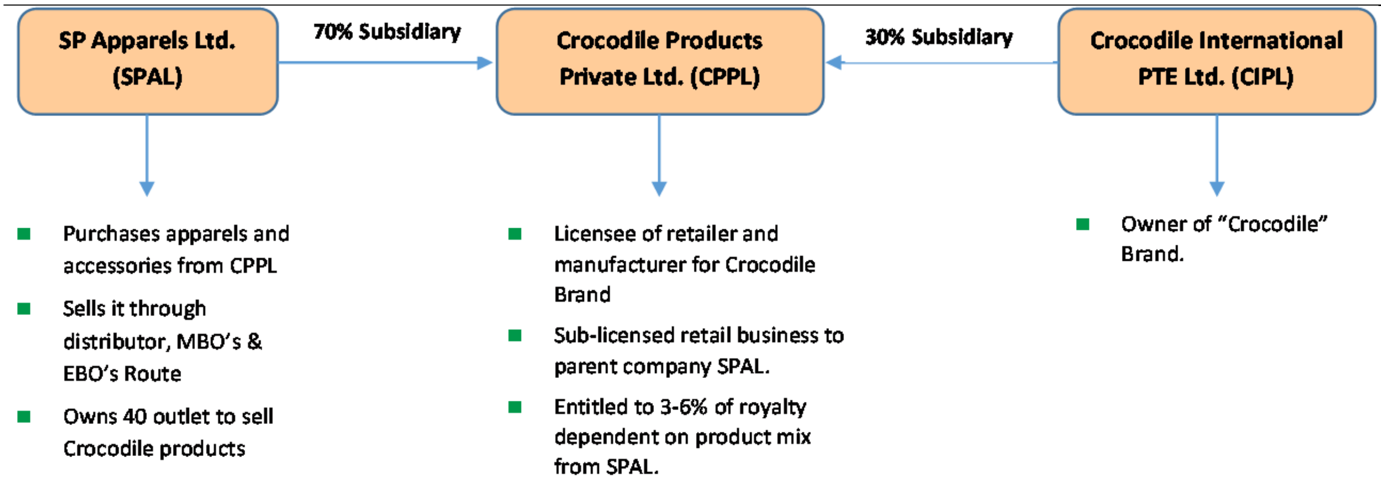
Company has two primary businesses:

- Manufacturing and exporter of knitted garments for infants and children's wear.
- Manufacture and retail menswear garments under the brand of "crocodile.

Company had clocked revenue of Rs 5368.88 mn in FY16 with sales CAGR of 7.6% between FY12-FY16. This subdued growth came on back of liquidity crunch which happened due to their currency derivatives mistake, which happened in 2008-2009. Since then the company had no liquidity to expand their capacity and the same was reflected in subdued sales growth. Unlike revenue, company had PAT of Rs 373.66 mn in FY16 which grew by 33.3% mainly due to interest income going down from Rs 400 mn in FY12 to Rs 250 mn in FY16 and is expected to further go down to Rs 150 mn levels by FY18E, as company reduced the high cost debt of Rs 630 mn from recently concluded IPO proceeds.

In retail business, company has 40 outlets out of which 37 are owned and rest are franchisee. Currently their retail business is doing revenue of Rs 345 mn and a loss at EBITDA level of Rs 45 mn. The arrangement is such that SPAL is a sub-licensee of retailing the menswear brand "Crocodile" but the licensee of retail and manufacturing lies with their subsidiary CPPL which manufactures or source the apparels and then sell it to SPAL, SPAL then retails it through two different route i.e. B2B and B2C. Under B2B they sale their apparels through distributor route and under B2C they sell it through MBO's and their 40 Exclusive outlets. CPPL is then entitled to royalties. CPPL is 70% subsidiary of SAPL and the rest 30% lies with CIPL Singapore – the original brand owner of "Crocodile".

Company holding chart:



Company had come up with an IPO in August of 2016 at a price of Rs 258-268, which was fully subscribed. It came with an offering of 8.9 million shares out of which 8.02 million shares was fresh issue and 0.9 mn was for sale from their investor “New York Life Investment Management India Fund”.

Object of the Issue:

Net proceeds from the fresh issue in recent IPO were Rs 2150 mn for the company. Company had plans to utilize these funds with objectives like:

- Prepayment of debt (Rs 630 mn)
- Expansion and modernization of manufacturing facilities (Rs 750.7 mn)
- Opening 70 new stores for crocodile brand (Rs 278.5 mn)
- And, general corporate purposes.

Investment Rationale

1. **Backward integration:** Company had plans to utilize Rs 750.7 mn from the IPO proceeds for expansion and modernization of manufacturing facilities, which is align to reduce their cost and dependency on third party for their process. Certain activities undertaken by company are:

   a. **Enhancing spinning capacity at Valapady facility –** presently company has spinning unit at Valapady the production capacity of which varies on the basis of the thread count of the yarn manufactured. Currently, the company manufactures yarn of thread count 90’s CW and 45’s CH in the ratio of 63:37. However this count of yarn is not useful for captive consumption as the garments manufactured by the company do not require 90’s CW. As of now the company is selling the produce from this unit into the open market. The company is now planning to install some new equipment to make this capacity more relevant for its internal consumption.

   Presently, the manufacturing capacity of the Valapady facility is 16,896 spindles and the blowroom has a capacity of 3,200 kilograms per day of cotton. The company proposes to increase the blowroom capacity from 3,200 kilograms per day of cotton to 15,015 kilograms per day of cotton. Also it plans to increase the overall spindalage to 22,272 spindles to reduce dependency on yarn requirements from third party suppliers. The Company expects to spend around Rs 473 mn on this capacity rationalization plan.

   Yarn comprises of 35% of total raw material purchases in FY16. According to our estimates the above activities would result in lowering the yarn costs by around 8-10% thereby improve gross margin by 2-3%(or saving of upto Rs 70-80 mn).

   b. **Setting up a new knitting unit at Valapady facility –** Currently, the company is outsourcing its entire knitting requirement. In order to integrate the entire manufacturing process, the company is setting up a knitting unit adjacent to the spinning unit at the Valapady facility. This would help them reduce cost for transporting the goods to and from the third party knitting facility and increase efficiency of manufacturing process with minimal waste and bottlenecks. In our opinion such rationalization may lead to additional

2-3% EBITDA margin. The company is likely to invest approximately Rs 168.62 mn on this capacity rationalization.

2. **New capacities to come up, allowing them to attract new clients:** The Company as on March 2016 had 4874 sewing machines, but out of these s 3200 are basic sewing machines and rest are into specialized sewing requirement. These specialized machines are required for giving some fashion or different look to the garment other than basic wear (example putting bow, ribbons on waist, cartoon's hands and legs being attached rather than printing). The company normally maintains the ratio of 70% for basic machines and 30% of specialized machines.

   Now the company plans to add another 2000 sewing machines to take the total capacity to 5200 for basic machine till 2018. They have already set up 200+ sewing machine in their currently facility so as to make them eligible to bid for new orders. In totality company plans to take the number of basic machinery to 3620 by end of FY17.

   Due to liquidity crunch, the company was not able to invest in expansion and hence there was no growth in top line, despite the industry growth of upwards of 9%. Despite the fact that the Company have been working with various brands previously like GAP, due to capacity constraints the company was not able to cater to their requirements hence the top line growth was sluggish.

   According to the past trends, the company has done revenue of Rs 1.5 mn per machine in FY16. Assuming the same revenue per machine, with 3620 the company would be able to do revenue of Rs 5430 in FY17E which is a growth of 19% compared to the previous year.

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17E	2017-18E
Basic Machine	3200	3200	3200	3200	3200	3620	4320
Specialized machine	1674	1674	1674	1674	1674	1854	2154
Garments revenue	3387.9	3567.5	3501.7	3936.9	4655.7	5430.0	6804.0
Growth %		5.3%	-1.8%	12.4%	18.3%	16.6%	25.3%
Revenue per basic machine	1.1	1.1	1.1	1.2	1.5	1.5	1.6
Growth		5.3%	-1.8%	12.4%	18.3%	3.1%	5%

Source: Company filings, IndiaNivesh Research

3. **Shift in global manufacturing base for garments, India being a sweet spot:** Along with China, South Asian and South-East Asian countries have emerged as key competitors to India in apparel exports. Turkey, due to its close proximity to Europe retains its competitiveness in exports for high-end apparel that have high inventory carrying cost. China, undoubtedly, has emerged as the top player in apparel production and exports and has the largest share in the global exports. However, with increasing shift of production to low wage countries and increasing labour and energy cost in China, it is expected that manufacturing will shift towards other Asian countries including India. In addition to China, Bangladesh, Vietnam, Indonesia, Pakistan, Turkey are key competing countries.

Swot Analysis of Country Wise Competition:

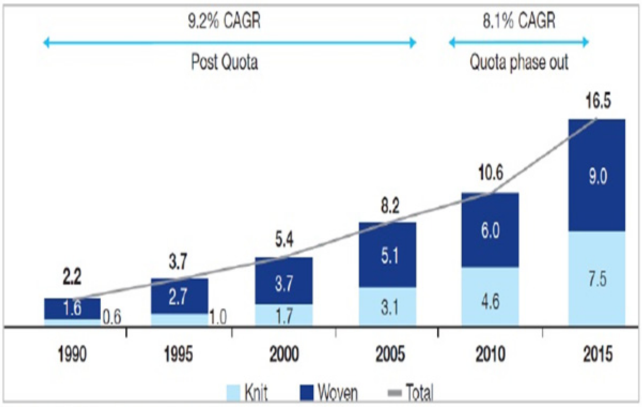
Country	Strengths	Weaknesses	Opportunities	Threats
China	■ Access to raw material ■ Ability to execute large orders ■ Integrated supply chain ■ Availability of skilled labor	■ Rising labor and power cost ■ Dependency on imports for raw material	■ Low wage in central and west China ■ Proximity to trading hubs like Hong Kong and Singapore	■ Competition from other Asian countries ■ Shifting focus to growing domestic market
India	■ Access to cotton ■ Availability of skilled labor ■ Integrated supply chain ■ Ability to meet compliance norms ■ Design and product development capabilities ■ Long term relationship with brands and retailers	■ Poor infrastructure ■ Lack of polyester value chain ■ Quality of power supply	■ FTAs with key markets including EU-28 ■ Converting more of fibre, yarn and fabric to apparel within the country	■ Shifting of production to Africa ■ FTAs of key markets with other countries
Bangladesh	■ Low wage ■ Conducive government policies ■ Duty-free access to Europe market	■ Lack of vertical integration ■ Poor Infrastructure ■ History of failure in meeting compliance norms	■ More support from government as the sector plays central role ■ More favorable import duty from developed markets	■ Social unrest and poor industrial relation
Pakistan	■ Access to cotton ■ Low wage ■ Government support ■ Considered as a denim and home textile producer	■ Political instability ■ History of failure in meeting compliance norms ■ Poor power supply	■ GSP status with EU-28 ■ Huge pool of labor	■ Threat of terrorism and policy reversal ■ Social and political unrest
Indonesia	■ Government support ■ Economic partnership with Japan	■ Rising labor cost ■ Lack of cotton production ■ Poor infrastructure	■ More conducive government policies ■ Incentives to FDI	■ Losing cost competitiveness ■ Vulnerability to natural disasters
Vietnam	■ Stable social, economic and political conditions ■ Young workforce	■ Lack of access to raw material ■ Rising power cost ■ High lead time	■ FTAs including TPP ■ Scope of specialization and modernization	■ Import dependency ■ High lead time for western markets
Turkey	■ Proximity to Europe ■ Ability to produce high value high fashion apparel	■ High labor cost ■ Poor cost competitiveness in commodity apparel	■ Government support ■ Product development and innovation	■ Other Asian, South american and african countries

However with recent case of Rana Plaza in Bangladesh, importing countries have realised that treatment of employees and stringent quality standards have to be put in place, also fair share of thought is given to the construction quality of the facility. So, for the same reason Indian manufacturers have been gaining edge over Bangladeshi players. Also other countries can't produce the scale India and China can produce, so we believe Indian textile industry is at inflection point and would see multiyear high double digit growth from here on. Bangladesh, Vietnam and Sri Lanka lack backward integration but they manage to leverage their advantage in low wage labour in manufacturing of basic apparel products.

India's apparel exports have increased at a CAGR of 9.2% between 1990 and 2005 and at 8.1% from 2005 to 2014 (Source: UN Comtrade) (Exhibit 16). India has traditionally been exporting more of textiles (fibre, yarn, fabric) than apparel. However, India's focus has shifted to more value addition within the country and exports of finished products rather than exporting raw material and intermediate products.

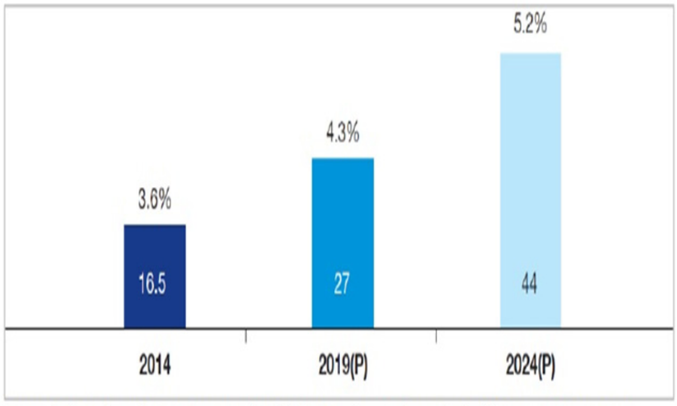
Both Indian and international manufacturers compete in the exports market for children'swear. Some of the key international exporters include Wingloo of China, Gimmel of Singapore, Kitex Garments and S.P. Apparels of India, Urmi Group, Divine Group, Textown etc. of Bangladesh. Wingloo has a production capacity of 225 million pieces per annum while the production capacity of Gimmel is 195 million pieces per annum (Source: Industry Reports). India based Kitex Garments and S.P. Apparels have production capacity of 165 million pieces and 50 million pieces respectively. Urmi Group of Bangladesh has a production capacity of 22 million pieces per annum and around 15% of the group's exports revenue comes from children's wear. Divine group has a production capacity of 18 million pieces per annum. However with recent expansion, SP Apparels capacity would reach 80 mn pieces and with that company would be able to clock revenue of more than Rs 11.2 bn.

Historical Trend of Apparel Exports of India (US$ billion)



Source: UN Comrade, Technopak Analysis

Projected Trend of Apparel Exports of India (US$ billion)



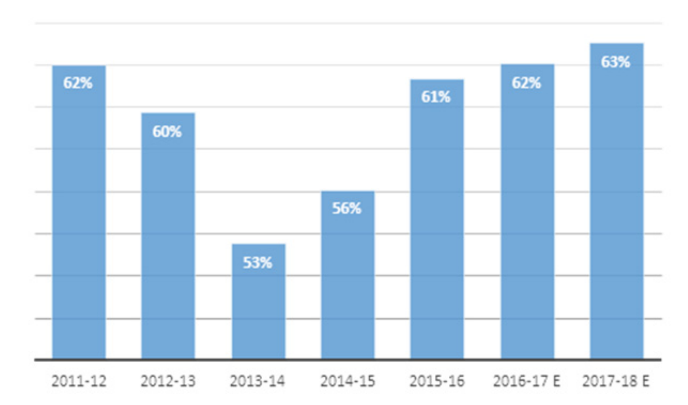
Source: Technopak Analysis

Players	Capacity	Value per piece (Rs)	Value (In Mn Rs)
Kitex	165	55	9075
SP Apparels	50	130	6500
Post expansion in 2018			
SP Apparels	80	140	11200

Source: Company filings, IndiaNivesh Research

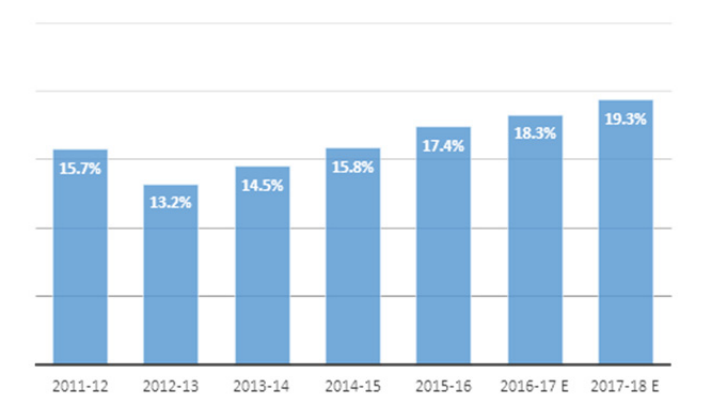
4. **Margin levers are in place and would see profitability going up:** We believe SPAL has potential to increase gross margin from current 61.3% in FY16 to 63% by FY18 on the back of various capacity expansion & rationalization measures taken recently (as discussed above). Similarly we expect EBITDA margin to expand from 17.4% in FY16 to 19.3% in FY18.. The company paid off their debt of Rs 630 mn from IPO proceeds which would bring interest savings to the company and due to which we believe current PAT margin of 6.9% in FY16 can go upto 9.7% in FY18. Though the asset turn would largely remain same but all these things combined would lead to ROCE improvement from 18.5% in FY16 to 21.5% in FY18.

Gross Margin



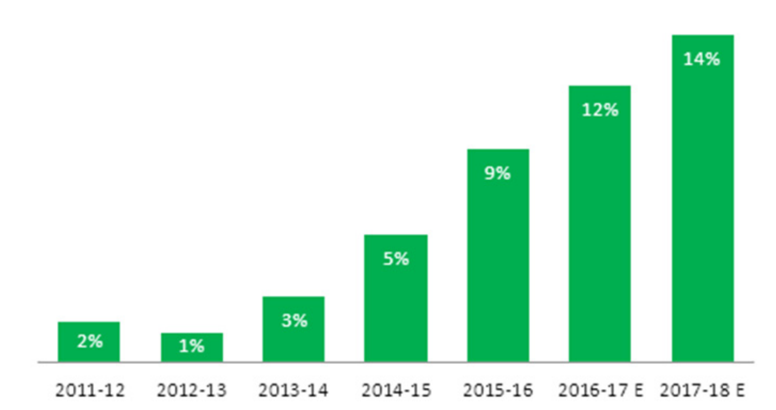
Source: Company filings, IndiaNivesh Research

EBITDA Margin



Source: Company filings, IndiaNivesh Research

PBT Margin



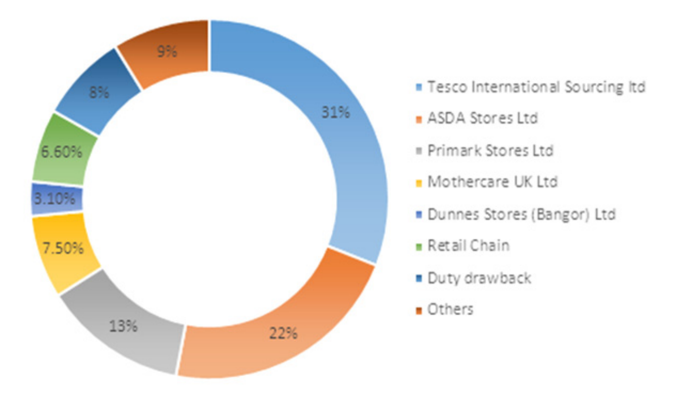
Source: Company filings, IndiaNivesh Research

5. **Company poses as key supplier to some top set of clients:** The Company has marque customers in international market and has been associated with them since past many years. As at end of FY16, 86% of revenue comes from top 5 clients which includes Tesco, ASDA (Walmart subsidiary), Primark, Mothercare UK and Dunnes Stores (Bangor). Companies involved into manufacturing for US and European market requires expertise as these countries follow strict norms in terms of quality and chemicals used, this creates a barrier to new entrant. Company would face less difficultly with new capacity coming up, as China is losing competition and next best supplier would be India due to its sheer size.

Brands	Country situated in	No of Countries present	No of Stores	Revenue
Tesco	UK	14	2500	$ 54 bn
ASDA	UK	4	525	$ 1 bn
Primark	Ireland	9	325	$ 6.81 bn
Mothercare	UK	60	1060	$ 762 mn
Dunnes Stores	Ireland	4	150	$ 2.5 bn

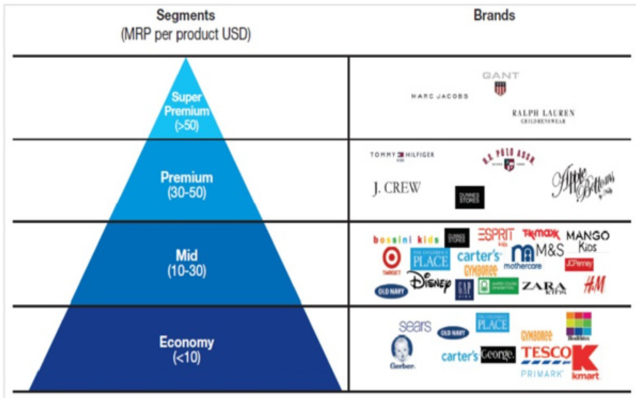
Source: Company filings, IndiaNivesh Research

Revenue Mix



Source: Company filings, IndiaNivesh Research

Price Positioning of International Brands and Retailers (Infants and Kids)

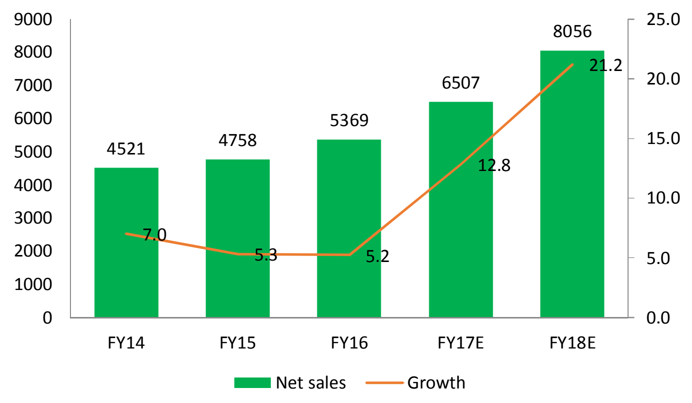


Source: Company websites, Technopak Analysis

Financials

Net sales is expected to grow at 22.5% CAGR from FY16-FY18E

Net Sales and Growth

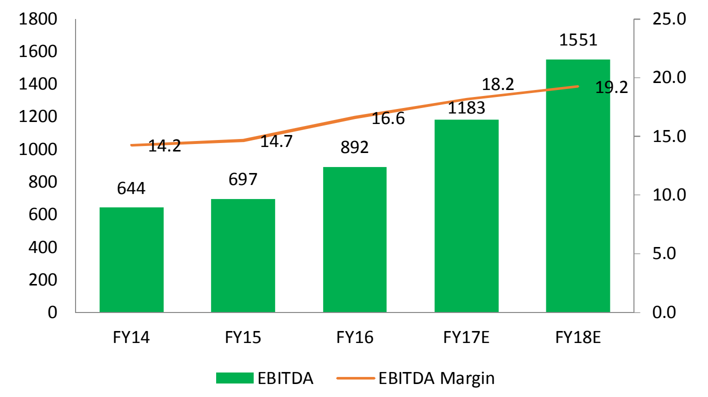


Source: Company filings, IndiaNivesh Research

Net sales is expected to grow at 22.5% CAGR from FY16-FY18E on account of greenfield expansion taken by company and a volume growth is expected to be 15% from 39.1 mn units in FY16 to 50.1 mn units in FY18E. Company is going to increase number of sewing machines from 3200 in FY16 to 4320 in FY18E. As of FY16, company does revenue of Rs 1.5 million per machine which we expect it to grow by 3-5% per year. This would lead to revenue of Rs 6804 mn from their core business.

EBITDA margin expected to expand to 19.2%

EBITDA and EBITDA margin

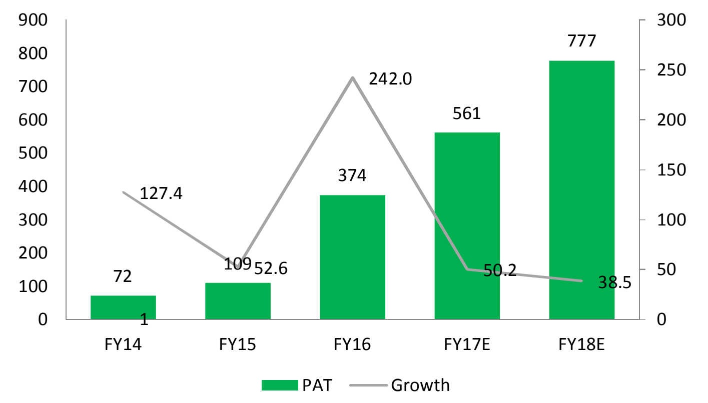


Source: Company filings, IndiaNivesh Research

With lower cotton prices and better operational efficiency due to steps discussed above EBITDA margin is likely to expand by 263 bps to 19.2% in FY18E. We believe company would be able to sustain EBITDA margins at 18-20% levels over the long term.

Net profit is expected to grow at 44.2% CAGR from FY16-FY18E

Net Profit and Growth

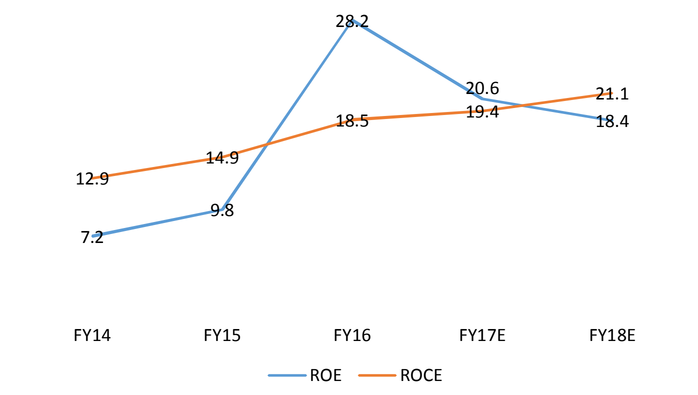


Source: Company filings, IndiaNivesh Research

Net profit margin is expected to go from 7% in FY16 to 9.7% in FY18 which implies net profits is expected to grow at 44.2% during the same period taking the profits to Rs 777 mn in FY18E. New capacity aided by operational efficiency and some cost rationalization and reduction in debt would lead to increase in margins.

Return ratios would be a mixed bag

ROE & ROCE



Source: Company filings, IndiaNivesh Research

ROE would go down from 28% in FY16 to 18.4% in FY18E. This is mainly because of fresh capital which came into the company making the reserves heavy without much coming into profits. We believe once expansion is completed and IPO proceeds are fully utilized, ROE's will bounce back. However during the same time ROCE of the company is witnessing increase by 260 bps to 21.1% in FY18E.

Key Points:

- In FY16, company had converted 7.25 mn Convertible preference shares into equity which increased number of shares by 345,212.
- However company still have non-convertible shares of Rs 200 mn at rate of 10% due to which we see capital of Rs 245 mn is shown as Rs 425 mn.

Q1FY17 Update:

SP Apparels on which we had subscribe rating during the IPO came up with Q1FY17 results. The company started FY17 with good set of numbers as we can see revenue stood at Rs 1.64 bn up 32% YoY and 7.8% QoQ. With higher topline growth the company witnessed operational efficiency which led to EBITDA margin expansion of 120 bps (adjusted for MTM gain of Rs 47.7 mn) to 18%. PAT which stood at Rs 156 mn was up 132% YoY due to operational efficiency and interest savings as company paid off Rs 640 mn debt which led to interest savings.

Quick Fundamentals (Rs. Mn)			
SPAL (Standalone)	**Q1FY17**	**Q1FY16**	**Y-o-Y %**
Net sales	**1,498**	1127	32.9
Other Operating Income	126	91	39.6
Total Revenue	**1,624**	**1,218**	33.4
Cost of Revenues	1,302	1,037	25.5
(Increase) / Decrease in Stock in Trade	-2	-79	-97.0
Consumption of raw material	614	542	13.3
Employees Cost	373	293	27.1
Other Expenditure	318	282	12.9
EBIDTA	**322**	**180**	78.6
Depreciation	49	49	-0.6
EBIT	**274**	**131**	108.0
Interest Expense	67	58	15.9
Other income	20	28	-27.8
PBT	**226**	**101**	123.8
Exceptional Item	0	0	**NA**
Provision for taxation	71	34	106.5
PAT	**164.3**	**67.4**	143.7
Adj PAT	**164.3**	**67.4**	143.7
EPS (RS.)	**9.58**	**3.93**	143.7
	Margin %	**Margin %**	**Basis Points (BPS)**
EBITDA %	*19.8*	*14.8*	502
EBIT %	*16.8*	*10.8*	605
PBT %	*13.9*	*8.3*	563
PAT %	*10.1*	*5.5*	458

Source: Company Filings; IndiaNivesh Research

Rs.mn	**Q1FY17e**	**Q1FY16**	**Y-o-Y %**
Revenue	1624	1218	33.4
EBIDTA	322	180	78.6
PAT	164	67	143.7
EPS	9.6	3.9	143.7
	Margin %	**Margin %**	**Basis Points (BPS)**
EBITDA %	19.8	14.8	502
PAT %	10.1	5.5	458

Source: Company Filings; IndiaNivesh Research

Valuation:

At CMP of Rs 326, the stock is trading at 14.5x and 10.5x of FY17 & FY18 expected EPS of Rs 22.3 and Rs 30.9. We believe the company is at inflection point as they were not able to exploit their potential to the fullest due to illiquidity factors and currency derivatives issues that they faced in the past, which are no longer there now. So valuing FY18 EPS of Rs 30.9 at 15x would give us target price of Rs 463 (upside potential of 40%+ from the current market price). The re-rating would happen due to growth coming back in business and financial position improving due to fresh capital reducing D/E ratio to 0.5x in FY17E compared to 2x in FY16. Hence, we initiate BUY rating on the stock.

Valuation Matrix	
CMP	326.00
FY18 E EPS	30.901
P/E	10.52
Forward P/E	15
Target Price	463.5
Upside potential	43%

With increasing margins and profitability, we believe the stock would be re-rated from current levels. KPR Mills ltd, the company which is under our coverage is trading at 14 x of FY18E EPS of Rs 82.5 and though it's not the exact comparison, we believe profile of both companies are somewhat similar (B2B, Garments). So looking at the comparable space we believe SP apparels should get slightly higher earnings multiple of 15 to its FY18E EPS of Rs 30.9, which gives us price of Rs 463.5. Though Kitex Garments have been falling on back of bad results for Q2FY17 and some issues related to foreign currency, stock is trading at discount of 12.8x its FY18E earnings.

Peer Group Valuation

	Revenue		EBITDA		Adj. PAT		EPS		ROE (%)		Adj P/E		CMP
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	
Kitex Garments*	6222.31	7031	2313	2591	1307	1503	27.5	31.6	27.3	25.1	14.7	12.8	405.0
KPR Mills Ltd	27011	29765	4381	4938	2646	3229	70.2	82.5	22.3	22.7	16.5	14.0	1155
SP Apparels	6507	8056	1183	1551	561	777	22.3	30.9	20.6	18.4	14.6	10.5	325

*Source: *Concensus, IndiaNivesh Research*

Peer Group Comparison

SPAL is 2nd largest manufacturer and exported of knitted wear in children's wear segment with capacity of 50 million pieces followed by Kitex garments which has capacity of 165 million pieces per year.

Capacity Wise top players in globe:

International Players	Country	Capacity (Mn Pieces)
Wingloo	China	225
Gimmel	China	295
Kitex	India	165
SP Apparels	India	50
Urmi Group	Bangladesh	22
Devine group	Bangladesh	18

Source: Company filings, IndiaNivesh Research

Indian peer group comparison:

Players	Products	Production Capacity (Million Pieces per year)	Export Markets	Key Customers
Kitex	Infant and Kidswear – Body Suit, Sleepwear, Rompers, Burps, Bibs, Training Pants	165	US, EUROPE	Kidswear: TCP, Gerber, Babies/Toys R Us, Carter's, Mothercare, Jockey
SP Apparels	Infant and Kidswear - Rompers, T-shirts, Shorts, Skirts, Frocks	50	EUROPE	George, TESCO, Crystal Martin, Mother Care, Dunnes Stores, Primark etc.
Jay Mills	Infants - Bodysuits, Sleepsuits, Caps, Mittens and Booties, Blankets, Bibs, Hooded Towels, Washcloths, Fitted Sheets for Bassinets, Cradles, Cribs, Cots. Toddlers - T-Shirts, Thermal Nightwear, Long Johns (Pyjama Set)	15 (infant wear) 3 (Basic T-shirts)	UK, US, Brazil, France, Sweden	Kappahl Stores - Sweden, Dunnes Store - Ireland, Gerber Childrenswear Inc. - U.S. , Mothercare – U.K.
KPR Mills	Menswear, Womenswear and Kidswear across the categories of Casual Wear, Sports Wear, Active Wear, Sleep Wear and Work Wear	92 Million Pieces Per Annum (Childrens wear is less than 15%). 90, 000 Metres (Yarn) and 27,000 Metres (Fabric)	EUROPE, US	Around 40 major brands in Europe (Major Market)
Eastman Exports	Infant and Kidswear - Rompers, P.J.s, T-Shirts, Shorts, Skirts. Bibs and other Baby Products manufactured according to order	72 (T-Shirts) 36 (Underwears)	U.S., Europe, Canada, Mexico, Brazil, Hong Kong, Korea, Japan, South Africa, Australia etc.	E.U. - Diesel, Tommy Hilfiger, Guru, Esprit, Fila, Timberland, Mexx Quicksilver, Outrage, Base London, Nike, Calvin Klein, sOliver, Tom Tailor, Vetir. U.S. - Tommy Hilfiger, Carribean Joe, Abercrombie & Fitch, Kappa, Coogi
SCM Garments Pvt Ltd	Childrenswear - T-Shirts, Babysuits, Frocks, Boy's Shirts	2.1 (T-Shirts) 1.6 (Underwear)	US, EUROPE, Canada	Decathlon, TESCO, Carrefour, Lindex, C&A, Hanes Brand, Polo, Ralph Lauren, NEXT, Ciabi, Columbia Sportswear, Bhs, Walmart, Aldi Store, Guess Jeans and Spring Field
Total Indian Capacity		560 million Pieces		

Key Risk:

1. **Crocodile could be a drag to profitability:** As of march 2016, company operated 40 stores for retailing menswear brand “crocodile” out of which 37 are company operated and 3 are franchise.
   Out of Rs 345 mn, company had revenue of Rs 200 mn through its distributor route (Hub and spoke model) and rest of its products were sold through MBO's and EBO's. Currently their 40 stores are doing revenue of Rs 80 mn i.e. per store sales of Rs 2 mn and majority of stores are EBITDA positive. This business is making loss of Rs 45 mn on account of head office expenses which we believe would breakeven at revenue of Rs 850 mn.
   In FY16, the CPPL clocked revenue of Rs 346 mn with loss of Rs. 45 mn. Company plans to open 70 stores in next 3 years leading to total number of stores to 110 for which they would be using Rs 280 mn from the IPO proceeds. If company is not able to rationalize the business economics then the subsidiary would be drag on profitability. Company operates in BOT model, which means once the store is profitable they would transfer the store operating rights to franchisee.
   Looking at competitive scenario of retail business, company's inability to generate revenue from stores would lead to drag on financials of SPAL.

This would remain the hang on the financials of the company and would be under the constant look for anything to go out of the whack which would impact financials of SPAL.

2. **No patent on designing:** Company does not own any patent on designing they create for customer but its verbal agreement that particular design selected by a customer won't be cross sold to another customer. And also there is no obligation with customer to order them if the design is developed by them.

Income Statement (Standalone)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Net sales	**4,521**	**4,758**	**5,369**	**6,507**	**8,056**
Growth (%)	*5*	*5*	*13*	*21*	*24*
Operating expenses	(3,877)	(4,061)	(4,477)	(5,324)	(6,505)
Operating profit	**644**	**697**	**892**	**1,183**	**1,551**
Other operating income	0	0	0	0	0
EBITDA	**644**	**697**	**892**	**1,183**	**1,551**
Growth (%)	*15*	*8*	*28*	*33*	*31*
Depreciation	(175)	(197)	(207)	(230)	(275)
Other income	12	67	49	5	5
EBIT	**481**	**567**	**734**	**958**	**1,281**
Finance Cost	(356)	(312)	(252)	(200)	(170)
Exceptional Item	0	0	0	0	0
Profit before tax	**126**	**255**	**481**	**758**	**1,111**
Tax (current + deferred)	(54)	(146)	(108)	(197)	(333)
Profit / (Loss) for the period	**72**	**109**	**374**	**561**	**777**
Associates, Min Int	0	0	0	0	0
Reported net profit	**72**	**109**	**374**	**561**	**777**
Extraordinary item	0	0	0	0	0
Adjusted net profit	**72**	**109**	**374**	**561**	**777**
Growth (%)	*127.4*	*52.6*	*242.0*	*50.2*	*38.5*

Source: Company, IndiaNivesh Research

Balance Sheet (Standalone)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Share capital	440	440	371	452	452
Reserves & surplus	625	723	1,113	3,526	4,001
Net Worth	**1,065**	**1,164**	**1,485**	**3,978**	**4,453**
Minority Interest	0	0	0	0	0
Total Liabilities	**1,065**	**1,164**	**1,485**	**3,978**	**4,453**
Non-current liabilities	**1,056**	**1,026**	**1,062**	**421**	**433**
Long-term borrowings	884	694	649	0	0
Deferred tax liabilities	172	317	373	373	373
Other Long term liabilities	0	0	0	0	0
Long term provisions	0	15	41	49	60
Current Liabilities	**3,249**	**3,114**	**3,234**	**3,211**	**3,838**
Short term borrowings	1,728	1,566	1,622	1,322	1,522
Trade payables	1,060	1,192	1,155	1,401	1,712
Other current Liabilities	419	284	353	391	484
Short term provisions	41	72	104	98	121
Total Liabilities and Equity	**5,307**	**5,235**	**5,697**	**7,527**	**8,640**
Non Current Assets	**2,925**	**2,998**	**3,098**	**3,944**	**4,730**
Net Block	2,775	2,785	2,829	3,684	4,408
Goodwill	0	0	0	0	0
Non-current Investments	0	0	0	0	0
Long-term loans and advances	149	213	269	260	322
Deferred tax Assets	0	0	0	0	0
Other non current Assets	0	0	0	0	0
Current Assets	**2,382**	**2,237**	**2,599**	**3,582**	**3,910**
Inventories	1266	1089	1298	1550	1919
Sundry Debtors	553	762	860	1,034	1,279
Cash & Bank Balances	144	67	101	102	100
Other current Assets	8	4	3	3	3
Loans & Advances	405	313	335	391	484
Current Investments	7	3	2	503	125
Total (Assets)	**5,307**	**5,235**	**5,697**	**7,527**	**8,640**

Source: Company, IndiaNivesh Research

Cash Flow Statement (Standalone)

Y E March (Rs m)	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**
Profit before tax	**126**	**255**	**481**	**758**	**1,111**
Depreciation	175	197	207	230	275
Change in working capital	(281)	15	(217)	(141)	(176)
Total tax paid	(4)	(1)	(52)	(197)	(333)
Others	352	272	126	148	10
Cash flow from operations (a)	**367**	**739**	**545**	**799**	**887**
Capital expenditure	(30)	(207)	(252)	(1,085)	(999)
Change in investments	3	(2)	(12)	(501)	378
Others	12	67	49	5	5
Cash flow from investing (b)	**(15)**	**(141)**	**(215)**	**(1,581)**	**(616)**
Free cash flow (a+capex)	**338**	**532**	**293**	**(286)**	**(112)**
Equity raised/(repaid)	72	0	(69)	80	0
Debt raised/(repaid)	14	(352)	10	(949)	200
Dividend (incl. tax)	0	0	0	0	0
Others	(356)	(322)	(236)	1,652	(472)
Cash flow from financing (c)	**(269)**	**(674)**	**(295)**	**783**	**(272)**
Net change in cash (a+b+c)	**84**	**(77)**	**34**	**0**	**(1)**
Cash at the begning	60	144	67	101	102
Cash at the end of the year	144	67	101	102	100

Source: Company, IndiaNivesh Research

Key Ratios (Standalone)

Y E March	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**
Adjusted EPS (Rs)	4.3	6.5	21.8	22.3	30.9
Growth	*127.4*	*52.6*	*235.1*	*2.4*	*38.5*
Dividend/share (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio	0.0	0.0	0.0	0.0	0.0
EBITDA margin	14.2	14.7	16.6	18.2	19.2
EBIT margin	10.6	11.9	13.7	14.7	15.9
Net Margin	1.6	2.3	7.0	8.6	9.7
Tax rate (%)	43.1	57.2	22.4	26.0	30.0
Debt/Equity(x)	2.5	1.9	1.5	0.3	0.3
Inventory Days	102	84	88	87	87
Sundry Debtor Days	45	58	58	58	58
Trade Payable Days	86	91	79	79	78
Du Pont Analysis - ROE					
Net margin	1.6	2.3	7.0	8.6	9.7
Asset turnover (x)	0.8	0.9	1.0	1.0	1.0
Leverage factor (x)	2.5	1.9	1.5	0.3	0.3
ROE(%)	7.2	9.8	28.2	20.6	18.4
RoCE (%)	12.9	14.9	18.5	19.4	21.1
Valuation (x)					
PER	76.3	50.0	14.9	14.6	10.5
PCE	22.1	17.8	9.6	10.3	7.8
Price/Book	5.1	4.7	3.8	2.1	1.8
EV/EBITDA	12.3	11.0	8.7	7.9	6.2

Source: Company, IndiaNivesh Research

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IndiaNivesh Securities Limited

Research Analyst SEBI Registration No. INH000000511

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in