

Issue Snapshot:

Issue period March 11 – March 15, 2010

Price Band: Rs. 100 – Rs. 110

Issue Size: Rs. 106 cr – Rs. 116.60 cr

Issue Size: 1,06,00,000 equity shares

QIB upto 50,50,000 eq sh

Retail atleast 35,35,000 eq sh

Non Institutional atleast 15,15,000 eq sh

Employee upto 5,00,000 eq sh

Face Value: Rs 10

Book value: Rs 59.70 (December 31, 2009)

Bid size: 60 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 29.76 cr

Post issue Equity: Rs. 40.36 cr

Listing: BSE & NSE

Lead Manager: Anand Rathi Advisors Ltd

Registrar to issue: Link Intime India Private Ltd

Current Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoters & Promoters Group	80.07	59.03
Others	16.63	37.29
Employees	3.30	3.68
Total	100.0	100.0

ICRA IPO grading: 2/5 indicating below average fundamentals

Highlights of the issue:

Pradip Overseas Ltd (POL) is one of the few textile manufacturers with niche focus on Home Linen Products of both, wider width and narrow width. In addition to the sales in the domestic markets, its products are being exported to markets in more than twenty countries (directly and indirectly). Its current manufacturing capacity is 136.50 million metres per annum with an average capacity utilization of 92%. Its existing facility is located at Changodar near Ahmedabad in Gujarat. It is enhancing its capacities to 169.50 million metres per annum in order to meet the expanding demand and further consolidate its position in the home linen market.

In order to strengthen its business presence, POL has undertaken key business initiatives such as receiving permission from International Development LLC for using and marketing the brand “Lucy B Linens” for Home Linen Products in India and other pertinent countries and signing a MOU with C. A. Patel Textiles Private Limited for marketing its products in the domestic market. The existing manufacturing facilities are located at Changodar near Ahmedabad in Gujarat and are on the Sarkhej-Bavla highway. The existing unit has easy access to road and rail transport enabling the movement of materials and finished products. The proposed Project will be located in the Proposed Textile SEZ to be developed by POL at NH8A, near village Bhamasra, Taluka Bavla, dist. Ahmedabad in Gujarat. The expansion project will have the advantage of being situated with the sector specific SEZ and thus have easy access to various inputs required for its facilities. In addition, the existing Unit at Changodar will also be able to derive the benefits of being in close proximity to the Proposed Textile SEZ for sourcing its requirements. Its existing Unit as well as the proposed Unit at Bhamasra can meet each other's requirements

Through a combination of increased capacities, reduced costs, wider range of products adhering to global standards, marketing initiatives, competitive pricing and more efficient use of resources, POL intends to expand its global footprint and become a preferred supplier for large format international retail chains and institutions. With the well balanced Narrow and Wider Width manufacturing facilities, POL will be technically capable to focus on value added products such as quilts and organic cotton Home Linen Products. These value added products in the Home Linen Products segment do not normally have high volumes but typically command premium pricing which would have a positive impact on its margins. Its business model is order driven, and comprises of optimum utilization of its Narrow Width and Wider Width manufacturing facilities, maximum capacity utilization, developing linkages with quality raw material suppliers and achieving consequent economies of scale. In FY 2006, 2007, 2008 and 2009 and period ended December 31, 2009, it has increased capacities (on consolidated basis) to 24.96 million meters, 79.20 million meters, 108.50 million meters, 115.50 million meters and 136.50 million meters per annum respectively, with a capacity utilization of 2.96 %, 86.32 %, 90.57 %, 97.92 % and 95.96% respectively. This business model has proved successful and scaleable for POL in the last three financial years

POL recorded Total Income and Profit after Tax (PAT) for FY09 of Rs. 1210.09 crore and Rs. 41.46 crore respectively. Its Total Income and PAT for 9MFY10 stood at Rs 1269.84 crores and Rs 51.09 crore respectively.

Objects of Issue:

The objects of the Issue are:

- To part finance the setting up of the proposed manufacturing facility within the Proposed Textile SEZ
- To part finance the incremental margin money requirement for working capital
- Meet the issue expenses.

Cost of Project:

		Rs. Crore
S. No.	Particulars	Total Cost
1	To part finance the setting up of the proposed manufacturing facility within the Proposed Textile SEZ	99.95
2	To part finance the incremental margin money requirement for working capital	99.95
3	To meet the issue expenses	*
	Total	*

(Source: RHP)

Means of Finance:

		Rs. Crore
S. No.	Particulars	Total Cost
1	Issue Proceeds	*
2	Term Loan:	
	Dena Bank vide sanction letter dated September 23, 2008	25.00
	SBI vide sanction letter dated October 08, 2008	16.00
	Allahabad Bank vide sanction letter dated August 24, 2009	24.00
3	Internal Accruals	*
	Total	*

(Source: RHP)

Risks & Concerns:

- There are certain licenses / approvals incidental or ancillary to the business of POL for which it has applied for to the statutory authorities and there are certain licenses / approvals for which the company is yet to apply. Non-receipt of notification of land, non-receipt of the requisite approvals, or delayed receipt of the same, may delay its projects and would adversely affect its growth plans. Also any delay in renewing the expired licenses or non-approval for the same could impact the business of the company.
- POL is wholly dependent on external suppliers for its raw materials requirements. The cost of grey cloth comprises approximately 80% of its total sales value. It does not have any long-term agreement or contract for supply of the same. POL also does not have any long-term agreements or contracts for any other inputs in its manufacturing process and consequently are exposed to price and supply fluctuations for its raw materials
- In addition to setting up the Proposed Manufacturing Facility, which is one of the objects of the Issue, POL is also implementing the Proposed Textile SEZ. It does not intend to utilize the Issue Proceeds towards implementation of the same. It would require funds for the initial implementation of the Proposed Textile SEZ, for which it may need further debt/equity funding. It has not tied-up the means of funding for the initial implementation for the Proposed Textile SEZ. Any delay or inability to complete the Proposed Textile SEZ, or cost overrun in the same, would have a material adverse effect on its results of operations and financial condition.
- POL's sales take place on the basis of purchase orders. It does not have any long-term sales contracts with its customers. Its business is order-driven, and there is no assurance that the company would be able to obtain sufficient orders to meet its existing and proposed manufacturing capacities, which could eventually affect the business of the company.
- Entities promoted by POL Promoters namely. M/s. Anu Impex, Pradip Enterprises Limited and M/s. Pradip Exports had been involved in similar business in the past as that of the company. M/s. Anu Impex has a MOU with POL for supply of grey cloth and other material required by the company for manufacture and exports of Home Linen Products from its manufacturing Unit at Changodar near Ahmedabad. Though currently none of these entities are competing with POL, going ahead there is no assurance that this could not take place.
- POL has concentrated primarily on the Home Linen Products industry. It competes with other manufacturers on a global basis. Any downturn in demand in Home Linen Products would have a material adverse effect on its business. Further, its business is subject to ever-changing trends in the Home Linen Products market.
- POL is yet to fulfill the export obligations under an advance license. The period for fulfillment of the same has expired, and the company is yet to apply for renewal of the same. Further, there is no assurance that POL would meet its export obligations arising from the Proposed Manufacturing Facility in the Proposed Textile SEZ.
- As on January 31, 2009, of the 12,13,350 Sq. Mt. acquired by POL for the Proposed Textile SEZ, it has acquired 8,45,534 Sq. Mt. by way of sale deeds and lease (both held in its name and on its behalf) and 3,67,816 Sq. Mt. by way of MOU's, pending the execution of final sale deeds. There is no assurance that POL will execute final sale deeds with respect to the land for which it has entered into MOU's.

Please read important disclosures on the last page

- Most of the end-users for some of its products are price conscious. Pricing is one of the factors that play an important role in selecting these products. The market for textiles, specifically Home Linen Products, is highly competitive with both organized players and unorganized players across continents and countries. It may face increased competition as a result of India entering into or being a party to international level trade agreements with other countries, which may encourage imports into India or discourage exports to other countries. Growing competition may result in a decline in its market share, reduce the margins and adversely impact its revenues.
- No orders have been placed for 100% of the machinery worth Rs 57.05 Crs, required for its Proposed Manufacturing Facility to be setup. The estimated costs of various plant and machinery have been taken from the Appraisal Report and are not based on supplier quotations. Delays in acquisition of the same could result in the cost and time overrun in the implementation of the Project, which would have a material adverse affect on its business, results of operations and financial condition.
- POL is yet to place orders for the plant and machinery aggregating to Rs. 27.25 Crs proposed to be imported by them. Since POL has placed no orders as on date, it has not availed of any hedging facility to cover the risk arising out of foreign exchange fluctuations in relation to the aforesaid imports.
- POL's present manufacturing facility is situated and Proposed Manufacturing Facility are proposed to be situated around Changodar in Ahmedabad district and its business operations are vulnerable to damage or interruptions in operations due to adverse weather conditions and other unforeseen natural circumstances arising in or near this area. It does not have a diversified base of manufacturing operations, and local disturbances would have a material adverse effect on its business, and consequently on the results of operations and financial condition.
- POL is heavily dependent on its top clients for its overall revenue. The top ten clients of the company contributed about 38.23% of the overall revenue in 2008-09 while the top 5 clients contributed 22.11% to the total revenues for the same period.

Conclusion:

POL is one of the few textile manufacturers with niche focus on Home Linen Products of both, wider width and narrow width. POL has an established presence as a textile process house. It has demonstrated its ability to market enhanced capacities in domestic as well as international markets and also has a healthy order book position (Rs 333.78 crs as on February 15, 2010). 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. POL's growth in business is constrained by the lower value addition done by the company and business risks arising of POL's limited product diversification. Also absence of long term contracts with customers and exposure to raw material price and supply fluctuations besides the high competitive intensity in the industry adds to the drawback of the company. 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.

It 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.

Compared to its listed peers like Welspun India and Alok Inds, the IPO is not priced cheap.

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