



Issue Details	
Issue Dates	2 nd August to 4 th August
Issue Type	Fresh Issue & OFS
Pre Issue Equity Shares Outstanding	1.714 Cr Shares
Post Issue Equity Shares Outstanding	2.516 Cr Shares
Fresh Issue Size	8,022,388 Shares
Offer For Sale	9,00,000 Shares
Issue Size	8,922,388 Shares
Price Band	₹258 to ₹268
Offer Size at Upper Band	₹230.19 Cr
Market Cap at Upper Band	₹674.3 Cr
FY16 PAT	₹34.71 Cr
TTM P/E at Upper Band	19.4x

About the Company: S.P. Apparels is a leading manufacturer and exporter of knitted garments for infants and children based out of Tiruppur, India. It also manufactures and retails menswear garments in India under the brand 'Crocodile'. To better understand the business and its value proposition we must understand and value each of the above business divisions separately.

Garment Division (93.6% of Revenues):

- Key Strengths:-
 - Long term customer relationships with reputed brands such as TESCO & Primark
 - Specialization & focus in the manufacturing of garments for infants and children
 - Strong in-house design, testing, fitment and quality inspection facilities
- Key Risks:-
 - Customer concentration:- Top 5 customers contribute 76.2% of FY16 Revenues
 - Largest customer TESCO (30.8% of FY16 Revenues), is restructuring operations, long term debt obligations have been downgraded to junk by Moody's, S&P and Fitch
 - All of the companies top 5 customers are based out of the UK with no long term purchase obligations, which makes it highly exposed to shifts in UKs economy and consumption patterns
 - The company is exposed to changes in cotton prices as the company is unable to pass-on increases of the same to its customers, this might sharply impact FY17 numbers given cotton prices are up 26% since 31st March 2016

Retail Division (6.4% of Revenues):

- Profile:-
 - Owns a 70% stake in its subsidiary, Crocodile Products Private Limited (CPPL), which is the exclusive licensee for manufacture and sale of products under the 'Crocodile' trademark in India until July 2021
 - The brand is in the large but highly competitive men's casual fashion space

Competitive Benchmarking:

Company	Kitex Garments	S.P Apparels	Jay Mills	KPR Mills	Eastman Exports	SCM Garments
Garmenting Capacity (Mn Units/Annum)	165 (100% Kids & Infant wear)	50 (100% Kids & Infant wear)	18 (15 Infant Wear)	63 (Others)	72 (Kids & Infant Wear)	3.7 (Kids & Infant Wear)

Source (DRHP)

- The Industry seems to be reasonably competitive and would not justify the supernormal profits (30%+ ROE) delivered by industry participants on a sustainable basis



Sustainability of Sharp Jump In Profitability Questionable:

Particulars	FY12	FY13	FY14	FY15	FY16
Revenues (₹Cr)	401.2	429.3	452.1	475.8	536.9
PAT (₹Cr)	11.8	3.1	7.2	10.9	37.3
PAT Margin (%)	2.9%	0.7%	1.6%	2.3%	6.9%
Net-Worth (₹Cr)	68.9	72.1	79.2	89.1	128.4
RONW (%)	17.1%	4.3%	9.1%	12.2%	29.0%

Valuations & Recommendation:

- The business has lower profitability as compared to listed peer KiteX Garments which generated a 20.5% PAT margin in FY16, any bridging of this gap by S.P Apparels would be a massive upside risk to our recommendation
- We believe earnings are highly volatile and fluctuate massively driven by a variety of factors including but not limited to, capacity utilization, raw material prices and foreign exchange fluctuations
- In light of the above earnings fluctuations & significant risks as mentioned for the garments division we believe the issue is highly overpriced at an LTM PE of 19.4x and would recommend investors to avoid the issue

Key Financials:

Profit & Loss Statement (₹Cr)	FY 12	FY 13	FY 14	FY 15	FY 16
Revenue from operations (gross)	400.8	428.5	450.9	472.6	532.8
Less: Excise duty	0.2	-	-	-	-
Revenue from operations (net)	400.6	428.5	450.9	472.6	532.8
Other income	1.0	0.4	1.2	6.7	4.9
Total revenue	401.6	428.9	452.1	479.2	537.8
Expenses					
Cost of materials consumed	157.5	170.8	183.0	202.8	232.3
Changes in inventories of finished goods and work-in-progress	(6.9)	(0.8)	23.8	3.5	(28.1)
Employee benefits expense	74.5	78.6	76.1	100.0	121.1
Finance costs	40.3	34.3	35.6	31.2	25.3
Depreciation and amortisation expense	16.3	16.9	17.6	20.0	20.1
Other expenses (including the impact of qualification)	115.3	124.9	104.0	97.4	122.2
Total expenses	397.0	424.8	440.2	454.8	492.9
Profit / (Loss) before extraordinary items and tax	4.6	4.1	11.9	24.4	44.9
Extraordinary items	-	-	-	-	-
Profit / (Loss) before tax	4.6	4.1	11.9	24.4	44.9
Tax expense / (benefit):	-	-	-	-	-
Current tax expense	1.5	1.2	2.9	7.1	6.7
(Less): MAT credit	(0.8)	(1.0)	(2.5)	(6.9)	(1.5)
Wealth Tax	-	0.0	-	-	-
Deferred Tax	(5.2)	2.0	5.1	14.6	5.5
Net Tax expenses	(4.5)	2.1	5.4	14.7	10.7
Profit / (Loss) for the period / year before share of Minority Interest	9.0	2.0	6.5	9.7	34.1
Minority Interest	(0.7)	(0.3)	(0.2)	(0.4)	(0.6)
Profit / (Loss) for the year, as restated	9.7	2.4	6.7	10.0	34.7



Balance Sheet (₹Cr)	FY 12	FY 13	FY 14	FY 15	FY 16
Shareholders' funds					
Share capital	36.8	36.8	44.0	44.0	37.1
Reserves and surplus	41.3	43.7	50.3	59.3	95.6
	78.1	80.5	94.4	103.3	132.7
Minority Interest	(4.4)	(4.8)	(5.0)	(5.3)	(5.9)
Non-current liabilities					
Long-term borrowings	142.4	100.1	92.0	72.8	67.9
Deferred tax liabilities (net)	10.2	12.2	17.2	31.7	37.2
Long-term provisions	-	-	-	1.5	4.1
Current liabilities					
Short-term borrowings	164.5	162.6	172.8	156.6	162.7
Trade payables	89.9	110.5	107.5	121.5	116.8
Other current liabilities	55.0	66.8	42.2	28.7	35.5
Short-term provisions	3.6	2.6	4.1	8.9	10.4
Total Current Liabilities	313.0	342.5	326.6	315.7	325.3
TOTAL LIABILITIES	539.3	530.5	525.3	519.7	561.2
ASSETS					
Non-current assets					
Fixed assets					
Tangible assets	272.7	290.8	276.9	268.0	270.1
Intangible assets	3.1	2.6	2.0	1.5	1.0
Capital work-in-progress	26.5	-	-	-	3.6
Goodwill on consolidation	5.9	5.9	5.9	5.9	5.9
Non-current investments	0.1	0.1	-	0.5	0.4
Long-term loans and advances	9.0	11.2	15.8	23.2	29.0
	317.2	310.4	300.6	299.1	309.9
Current assets					
Current investments	0.9	0.9	0.7	0.3	0.2
Inventories	122.9	125.7	125.3	107.3	127.5
Trade receivables	56.8	50.9	54.2	74.3	81.6
Cash and bank balances	5.8	6.1	14.4	6.8	11.1
Short-term loans and advances	35.7	36.3	29.3	31.5	30.7
Other current assets	-	0.2	0.8	0.4	0.3
Total Current Assets	222.1	220.1	224.7	220.6	251.3
TOTAL ASSETS	539.3	530.5	525.3	519.7	561.2



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