IPO Snapshot

February 21, 2011

Issue Snapshot:

Issue period February 21– February 24 2011

Price Band: Rs. 72– Rs. 77

Issue Size: Rs. 65.43 - 69.97 crs

Issue Size: 90,88,000 equity shares

QIB	Upto	45,44,000 eq sh
Retail	atleast	31,80,800 eq sh
Non Institutional	atleast	13,63,200 eq sh

Face Value: Rs 10

Book value: Rs 24.72 (September 30, 2010)

Bid size: 81 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs	9.45 crs
Post issue Equity:	Rs.	18.54 crs

Listing: BSE & NSE

Lead Manager: Ashika Capital Ltd.

Registrar to issue: Link Intime India Pvt Ltd

Current Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoters & Promoters Group	90.09	45.94
Public (incl Employees & others)	9.91	54.06
Total	**100.0**	**100.0**

CRISIL IPO grading: 1/5 indicating poor fundamentals

Highlights of the issue:

Sudar Garments Ltd (SGL) is engaged in the manufacturing of garments for Men wear, Women wear and Kids wear. Until 2006-07, It had a small manufacturing set up, having 150 Sewing Machines and other supporting machines, under which each and every worker undertook independently the manufacturing of a garment. In order to bring efficiency into manufacturing, it undertook an expansion plan in the year 2007- 08 and its capacity was enhanced to 5 Lacs garments by installing 150 Sewing Machines along with few specialized supporting machines. It introduced an assembly line approach for producing garments as is used by large apparel manufacturers. This greatly enhanced the company's capacity to take on large orders. During the year 2008-09, its capacity was enhanced to 8 Lacs garments by installing 180 Sewing Machines and during the year 2009-10, its capacity further enhanced to 20 Lacs garments by installing 116 Sewing Machines along with other balancing automatic specialized machines. SGL specializes in shirts, trousers and wide range of other apparel. It functions as an integrated apparel manufacturer with the capability of designing and manufacturing involving cutting, body stitching, washing, ironing and finishing.

SGL has its own manufacturing setup at Khalapur Taluka, Raigad District, Maharashtra with a built-up area of about, 29,626.30 Sq. Mtr. having a combined capacity of producing 1,66,667 pieces of shirts, dress, pants tops, skirts, and denims per month. This unit caters to the requirement of Whole Sellers as well as own branded products through retail distribution network such as Malls and Multi Branded Outlets. It is presently manufacture under its own brand name **"**Glory to Glory" and will be launching shortly two more brands namely 'St. Paul' and 'Majesty'. It has selling agents in South India for its existing brand 'Glory to Glory' and is rapidly consolidating its network.

Its products are available at the following major retail stores/ retail chain of stores:-

- Bharat Mall- Mangalore
- City Mall – Mangalore
- Emporia Mall – Mangalore
- Mischief Mall – Mangalore
- Sarvana Store, Chennai

Objects of Issue:

The objects of the Issue are:

- Expansion of the existing apparel manufacturing unit
- Meeting Working Capital Requirement
- Setting up Retail Outlets and Brand Building
- Meeting General Corporate Expenses
- Meeting the Issue Expenses

Means of Finance

The entire fund requirement will be met from the proceeds of the Net issue and Internal accruals

Cost of Project: Rs. Crs

S. No.	Particulars	Total Amount
1	Expansion of the existing apparel manufacturing unit	26.28
2	Meeting Working Capital Requirement	27.30
3	Setting up Retail Outlets and Brand Building	5.90
4	Meeting General Corporate Expenses	6.00
5	Meeting the Issue Expenses	*
	Total	*

(Source: RHP)

Please read important disclosures on the last page

For FY10, it reported net sales of Rs.52.76 cr and PAT of Rs.4.11 cr. The company reported net sales of Rs 49.26 cr for the Half year ended September 30, 2010, and PAT of Rs 4.07 cr.

SGL's strengths:

- Understanding the consumer.
- In-house integrated unit.
- Efficient supply chain management.
- Distribution network.
- Technology
- Strong Customer Base
- Strong management team.

SGL's strategy:

- To penetrate across different consumer segments and demographics through its brand.
- Increase geographic penetration by spreading the network of exclusive brand outlets.
- Enhancing manufacturing capacities.
- Target the growing segments.
- Strengthen the competitive position and recognition of its brands.
- Continue to train employees and seek entrepreneurship from employees.
- Increase in customer base.
- Maintain Focus on Long-term Relationships.
- Marketing and proposed marketing setup.

Risks & Concerns:

- SGL is yet to place orders aggregating to Rs 1400 Lacs for entire plant and machinery including miscellaneous assets for the proposed expansion project. Any delay in their procurement or change in its assumptions or change in market conditions, etc. may delay the implementation schedule which may also lead to increase in price further affecting its cost, revenue and profitability.

- Any demand from the lenders for repayment of unsecured loan may affect SGL's cash flow and financial condition.

- SGL's inability to maintain sufficient cash flow, credit facilities and other sources of funding, in a timely manner, or at all, to meet requirement of working capital or pay out debts, could adversely affect its operations.

- SGL require a number of statutory and regulatory permits and licenses to operate its business and any delay or inability to obtain or renew the same in a timely manner may have an adverse impact on its business

- There can be delay in the setting up of the Retail Outlets for which Rs. 180 lacs have been earmarked in this Issue. This may affect SGL's financial condition and result of operations.

- SGL's manufacturing activities are labour intensive and depend on availability of skilled and unskilled labourers in large numbers. In case of unavailability of such laboures and / or inability to retain such personnel, its business operations could be affected.

- SGL derives a significant portion of its revenue from a few customers and a loss of one or more customers or a reduction in their demand for its products and services could adversely affect its business, financial condition and result of operations

- There has been significant increase in the amount of receivables due to increase in credit sales between financial year 2007-08 and financial year 2009-10. Any non-receipt or delay in receipt from debtors may affect the operations and profitability.

- SGL does not have a registered trademark. Its inability or failure to protect the trademark may adversely affect its business goodwill on account of possible misuse by any third party.

- SGL has certain financial indebtedness, which could adversely affect its financial condition and results of operations, and further it may not be able to meet its obligations under the debt financing agreements.

- There are certain restrictive covenants in the loan agreements of banks in respect of the Term Loans and Working Capital facilities availed by SGL from them.

- SGL has limited experience of handling Retail or franchise business, which could also impact its business operations.

- Volatility in the prices of fabrics, which is the basic raw material, may adversely impact SGL's total cost of goods sold.
- SGL depends on timely identification of evolving fashion trends and creating new designs. Any lag on the part of it in this regard may adversely affect its business operations. Failure on SGL's part to meet consumer expectations could impact its business operations
- SGL faces competition from various brands and any inability to compete with them could adversely impact its business and financial operations.
- SGL is dependent on key managerial personnel and the loss of such key managerial persons and/or its inability to attract and retain such talented professionals in the future, could affect it adversely.
- Manufacturing facilities of SGL is geographically located in one area and any localized social unrest, natural calamities, etc. could have material adverse effect on business and financial operations.

Extract from grading rationale by CRISIL:

The assigned grade is constrained by SGL'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. 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.

RETAIL RESEARCH Fax: (022) 30753435 Corporate Office
HDFC Securities Limited, I Think Techno Campus, Bulding –B, "Alpha", Office Floor 8, Near Kanjurmarg Station Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Fax: (022) 30753435 Website: www.hdfcsec.com