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Industry : **Textile**

Analyst:

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**IPO Price : Rs.525-600**

**Avoid**

Scrip Scan		Key Data		Shareholding (post issue) (%)	
Face Value (INR)	10.00	No of Shares to be issued (mn)	5.98	Promoters	66.82
Premium (INR)	515-595	No of fresh shares issued (mn)	4.76	Public	31.38
Equity Capital (Rs.mn) (pre issue)	143.11	Total issue size (Rs.mn)*	3591	Others	1.80
Equity Capital (Rs.mn) (post issue)	190.70	Issue Opens on	16th Jan'07	<b>Total</b>	<b>100.00</b>
Market Cap.*(Rs.bn)	11.44	Issue Closes on	23th Jan'07		
*(at Rs.600/-, upper band of the offer price)		Listing	BSE, NSE		

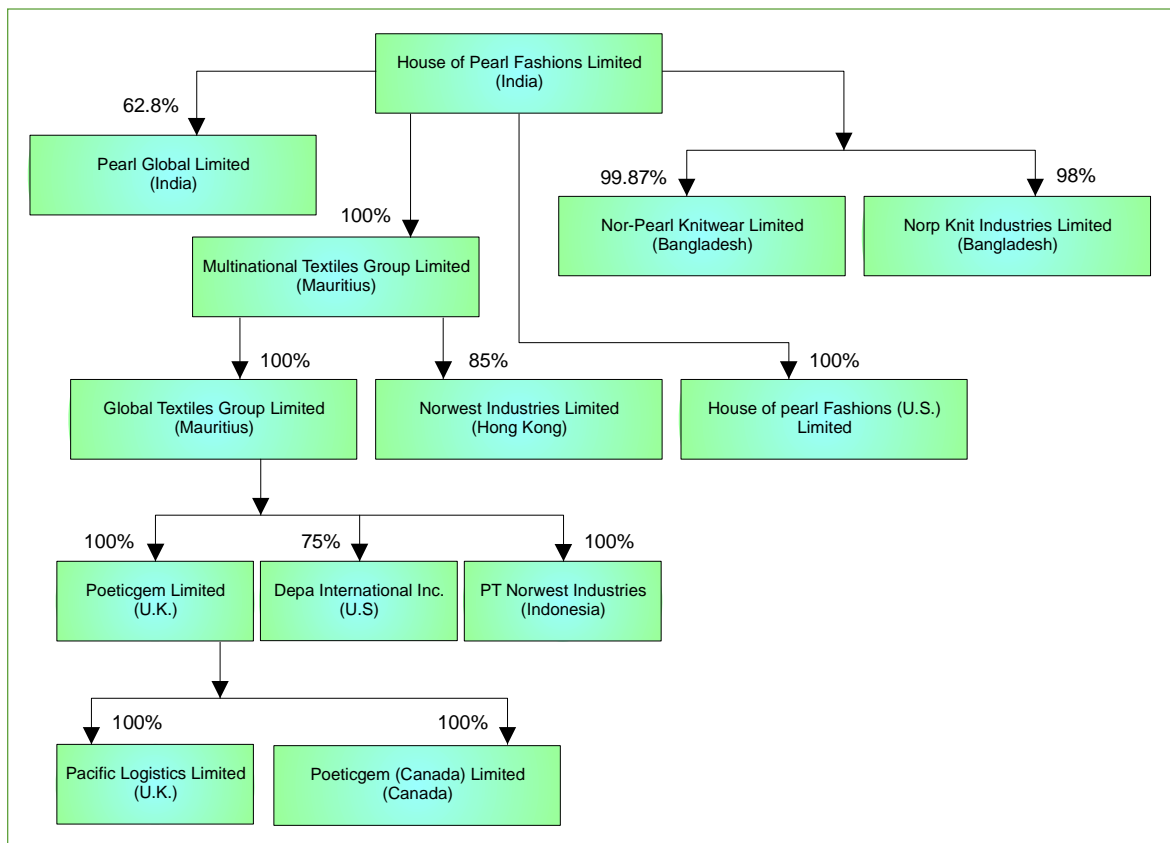
(All the above data are excluding Green Shoe Option of 612,060 shares)

## Company Profile

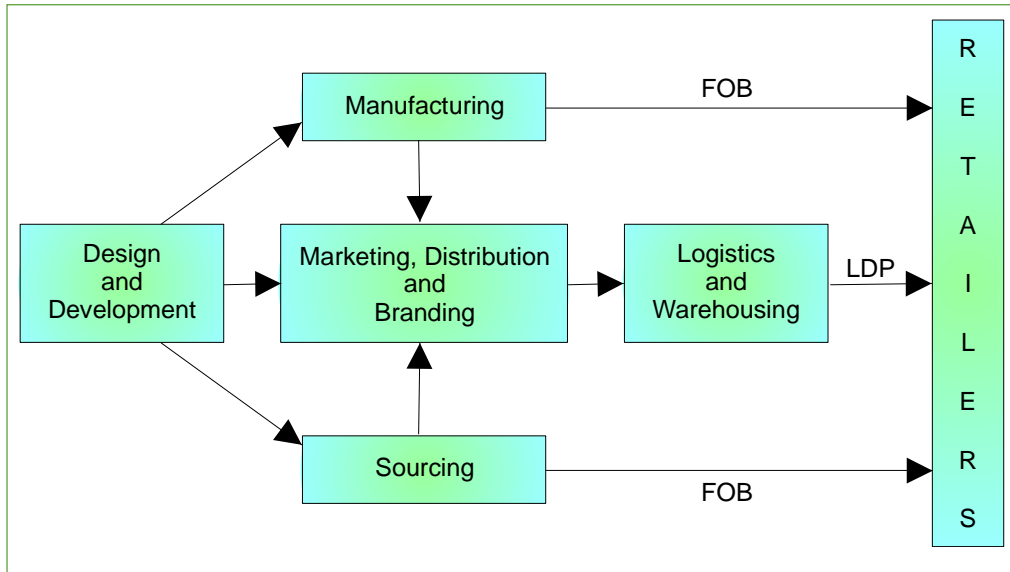
Based in Gurgaon, House of Pearl Fashion Ltd. (HoPFL) is a multinational, ready-to-wear apparel company. It has three streams in its integrated business model namely manufacturing, marketing & distribution, and sourcing. HoPFL customers include value retailers, such as JC Penny, TESCO and ASDA Walmart, as well as higher-end fashion brand retailers, such as The GAP, Next and Esprit. HoPFL have operations in 11 locations globally, including two in India, through manufacturing facilities, marketing & distribution offices, warehouses, sourcing and other offices.

HoPFL is a holding company with limited manufacturing and trading operations and conducts most of its business through its subsidiaries. Historically, the group conducted business as separate companies. Domestic operations have been carried out by Pearl Global, a listed company in India, in which HoPFL currently, owns 62.8% stake. In order to integrate the international operations with domestic operations, it commenced a restructuring of businesses, which was completed in a phased manner.

Following chart shows the current structure of the group.



**Business Model**



➤ **Design & Development –**

HoPFL have fabric development centers in China & India as well as design and product development teams in the U.K., U.S., India and Hong Kong. The fabric development teams circulate the latest fabric ideas to all the designers who develop a product profile, which is then sent to the manufacturing facilities for product development.

➤ **Marketing, Distribution & Branding –**

HoPFL have marketing and distribution offices in the U.K., U.S. and Hong Kong. Its U.S. operation has also developed its own brands **DCC** and **Kool Hearts**.

➤ **Manufacturing -**

o In-house Manufacturing

HoPFL operate ten apparel manufacturing facilities with an aggregate installed production capacity of appx. 20 million pieces per annum. It manufactures knits, woven, sweaters and bottoms.

o Third-Party Sourcing

HoPFL have relationships with over 150 third-party manufacturing units in China, Bangladesh and India which gives access to manufacturing capacities in excess of 120 million pieces per annum.

➤ **Logistics & Warehousing**

o HoPFL own warehousing and processing units in the U.K. and the U.S. with a capacity to handle 2 million garments per month. It performs a range of pre-retailing processes and delivers garments to customers that are ready to be placed on their store shelves for sale.

**The Object of Issue –**

Money raised through this IPO with debt and internal accruals will be used for forward & backward integration and acquisition. HoPFL has already secured Rs. 89.5 million from the Pre-IPO placement.

Particulars	Rs mn
Expand the production capacity by 20 million pieces per annum	577.50
Establishment of a design centre and corporate office	38.00
Setting up an integrated information technology system	143.00
Pre-payment of loans	550.40
Investment in subsidiary company as part of restructuring	510.70
Setting up a domestic branded apparel retail business	545.00
Acquisitions of an existing brand in the U.K. or U.S.	400.00

**Financials –**

Rs in Million / Period	FY-07	FY-06	FY-05	FY-04
	6 Months	12 Months	12 Months	12 Months
Total Income	4484.04	1696.11	1297.64	1040.07
Operating Expenses	3990.63	1511.15	1240.86	967.51
EBIDTA	493.41	184.96	56.78	72.56
EBIDTA Margin	11.0	10.9	4.4	7.0
Financial Expenses	61.44	26.21	16.30	11.85
Depreciation	51.98	27.69	26.90	23.74
PBT	379.99	131.06	13.57	36.97
Tax	121.97	74.00	(9.67)	(5.98)
PAT	258.25	96.16	22.04	70.72
Less: Minority Interest	32.85	11.37	(21.03)	23.91
EPS (Annualised)	23.64			
Diluted Capital	190.70			
P/E	22.2-25.4			

**Valuations –**

Although, HoPFL has unique business model, we feel the issue is aggressively priced. At the lower of Rs. 525 and higher band of Rs.600, it discounts 22.2x and 25.4x respectively, the FY07 annualised EPS of Rs.23.64 at fully diluted equity capital of Rs.190.70mn. The price which the company has asked leaves little scope for investors to cash in on. So, we recommend the investors to avoid from the subscribing.

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