



FIRST WINNER INDUSTRIES LIMITED

SMC RANKING ★★

OVERVIEW

First Winner Industries Limited (FWIL) was incorporated in 2003 with an objective to supply the textile fabrics to wholesalers and apparel & garment manufacturers. Initially, the company started trading in the textile fabrics and then with a view to have its own manufacturing facilities, it has set up its own weaving unit during 2006-07. The manufacturing facilities are located at MIDC, Tarapur, District Thane, Maharashtra. FWIL through its two subsidiaries has a total manufacturing capacity of 108 lakh meter grey fabrics per annum by installing 100 looms. The commercial production of the weaving unit commenced w.e.f. March 19, 2007. The company started manufacturing textile grey fabric after identifying the demand and supply factors and also with a view to facilitate the requirement of fabric in its trading segment. Company also undertakes job works for fabric and garment manufacturers. The income from job work constituted 0.07% and 8.42% of total income during 2006-07 and for the period of ten months first quarter ended January 31, 2008.

Use of proceeds	Estimated Amt.
Setting up of an apparel manufacturing facility	1203.98
Setting up of new Weaving Unit	2163.47
Prepayment of Term Loan	1800.00
General Corporate Purposes and Issue Expenses*	-
Total*	-

*Will be incorporated on finalisation of issue price

INDUSTRY OVERVIEW

Domestic textile industry, which currently is braving various odds, could achieve US\$ 55 billion of investments, create job opportunities for 65.4 million workforce and its CAGR could go up at 22% by 2010 provided reforms are initiated into it at quicker speed, according to findings of the Associated Chambers of Commerce and Industry of India (ASSOCHAM). The textiles and apparels sector is a major contributor to our economy in terms of foreign exchange earnings and employment. Moreover certain natural advantages and external factors have fuelled the growth of this industry with a clear competitive edge. The global textiles and apparel trade estimated at US\$ 450 billion and expected to touch US\$ 700 billion by 2010 with demand for textiles and apparels expected to grow to 25 per cent from current figures where Asia will contribute 85 per cent. The sudden growth and demand for textiles and apparels will prompt international brands and buyers will look to source low cost producing countries. India's textiles and apparels industry is estimated to be worth US\$49 billion where 39 per cent is accounted by the exports market. The domestic and exports markets in this sector are expected to grow at 6.5 per cent and 12 per cent CAGR respectively. The growth has continued with total exports increasing to US\$ 19.62 billion in 2006-07. Currently India has a 3.5-4 per cent share in world export of textiles and 3 per cent in clothing exports.

ISSUE HIGHLIGHTS

Industry	Textile
Issue Size	Rs.66 Cr – Rs.71.50 Cr
No. of Shares	55,00,000 Shares
Price Band	Rs.120 – Rs.130
Offer Date	09th June '08
Close Date	12th June '08
Listing	NSE, BSE
Face Value	Rs.10.00
IPO Grading	CARE IPO "Grade 1" (Indicates poor fundamentals)

ISSUE COMPOSITION

Employees	1,00,000 Shares
Net Issue to Public	54,00,000 Shares
QIBs	27,00,000 Shares
NIBs	8,10,000 Shares
RETAIL	18,90,000 Shares
Lot Size	50 Shares

BOOK RUNNING LEAD MANAGER

ALMONDZ GLOBAL SECURITIES LTD

REGISTRAR TO THE ISSUE:

INTIME SPECTRUM REGISTRY LTD

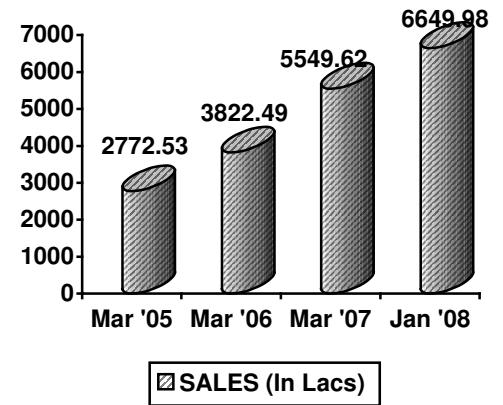
SHAREHOLDING PATTERN

	Pre-issue	Post issue
Promoters	48.74%	33.62%
Promoter Group	11.22%	7.74%
Others	40.04%	27.62%
QIBs	-	15.23%
NIBs	-	4.57%
RETAIL	-	10.66%
Total	100.00%	100.00%

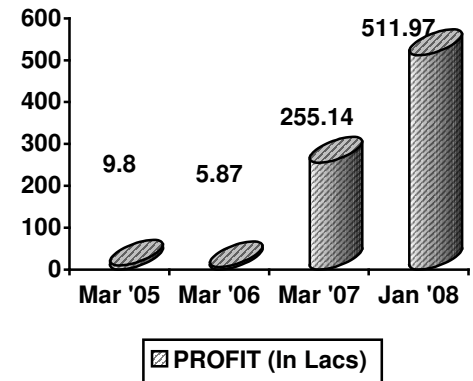
INVESTMENT RATIONALE

- Company has two subsidiaries viz. Ramshyam Textile Industries Limited and First Winner Lifestyle Private Limited (formerly Realgold Exports Private Limited), which are engaged in the same line of business. Ramshyam Textile Industries Limited commenced its operations of weaving from February 1, 2006 and became FWIL's subsidiary on April 1, 2007. Ramshyam Textile Industries Limited is having 48 looms with total installed capacity of 42.24 lakh meter fabrics per annum.
- First Winner Lifestyle Private Limited (Formerly Realgold Exports Private Limited), which was incorporated on December 12, 2002 as Realgold Exports Private Limited also became FWIL's subsidiary on April 1, 2007 and is having weaving unit with 48 looms and total installed capacity of 62 lakh meters per annum. This unit has commenced its commercial production from February 1, 2008. Both the subsidiaries have their manufacturing facilities at MIDC Tarapur, District Thane, Maharashtra.
- FWIL is engaged in trading of various textile fabrics such as cotton fabric, blended fabric, nylon fabric, polyester fabric, furnishing fabric, woolen fabric, and non-cotton fabric to the wholesale customers to facilitate the manufacturing of garments. Company's sales has increased from 32.95 lakh meters as on March 31, 2005 to 91.5 lakh meters as on March 31, 2007 and its trading income which was Rs.2409.07 lacs during 2004-05 had increased to Rs.3683.50 lacs during 2005-06 and to Rs.5545.53 lacs during 2006-07.
- Company has its own in-house designing team headed by Mr. Bharat Shah who has the necessary expertise and experience in formulating the designs to the satisfaction of customers considering changing fashion trends.

Sales over the last 3 financial years



Profit over the last 3 financial years



ABOUT THE PROMOTERS

MR. RINKU PATODIA, Managing Director – He is 29-year-old Commerce graduate from Bombay University and has 4 years experience of trading in textile fabrics. He looks after the day-to-day affairs of the company. He has been instrumental in formulating various business strategies, marketing tie-up and expansion plans of FWIL under the overall supervision and directions of Board of Directors.

DR. M. K. SINHA, Non Executive Chairman – He is a 72 year old doctorate in Operation Research and has done his Masters in Mathematics. He retired as Chairman & Managing Director of State Bank of India in 1995 after serving the bank for almost 39 years. During his tenure in the Bank, he has been involved in critical areas like management audit, human resource, organizational development, foreign exchange, fund management, and financial restructuring. He was a representative of State Bank of India for the East European countries at Moscow for almost 4 years.

BUSINESS STRATEGY

- **FWIL intends to buy 48 more looms** with a production capacity of 62 lakh meters per annum **thereby increasing the total capacity to 170 lakh meters per annum.**
- As a part of forward integration strategy, **company plans to set up a garment manufacturing unit with production capacity of 5,000 pieces of men's wear shirts per day.** Further, it also plans to manufacture entire range of men's wear.
- At present FWIL is not exporting its products but is in the process of **identifying the potential markets outside India.** However, it does not have any definite agreements or arrangements at present to support this strategy but it **plans to explore export opportunities in the textile market after setting up its garment manufacturing unit.**
- At present, the company targets wholesale customers for its grey fabric production. **FWIL proposes to offer apparel products in men's wear category under its own brand and through its own retail outlets.**

INVESTMENT CONCERNS

- FWIL started its manufacturing operations from its own manufacturing units from March 2007 as it was earlier outsourcing its requirements from other suppliers for trading operations. Further, the company plans to set garment manufacturing and weaving unit in MIDC, Tarapur, District Thane, Maharashtra. Company's limited experience in setting up and operating a manufacturing facility of size comparable to the proposed expansion may hinder its ability to operate the proposed facility in a commercially successful manner, in the initial periods.
- In respect of weaving business, the company utilized on 50.88% of its total installed capacity for the period of ten months ended January 31, 2008. In the apparel business, where it proposes to manufacture 5,000 pieces men's wear shirts per day, neither the company has any prior experience of apparel business nor it has tied up with any customers for its sales. FWIL is setting up these units on certain assumptions as to potential for growth, increased demand from customers for weaving unit, export demand for apparel, etc. In the event company's assumptions are not accurate due to external as well as internal factors, it may not be able to sell its production thereby resulting in high inventory or lower capacity utilization.
- FWIL has not yet acquired the land for setting up of the proposed garment and weaving unit and any delay in acquiring the land at competitive prices could adversely impact the business and financial operations.
- The company at present avails term loan facilities up to Rs.1800 Lacs and has decided to prepay the same from the issue proceeds. This amount will not be used for any capital expenditure of the company. FWIL's inability to arrange any future term loan requirement from banks / institutions on terms favourable to the company in comparison to the present terms, could adversely affect the financial operations.
- The proposed initial public offering of FWIL has been assigned the lowest "CARE IPO Grade 1" from Credit Analysis and Research Limited (CARE), which indicate poor fundamentals.
- Company depends on third-party sales agents to promote its grey fabric products to specific customers. Such sales agents are responsible for the total fabric products. Sales agents receive a commission based on the quantity of fabric purchased by the customers they cover. Although FWIL enjoys a good relationship with its sales agents, but it has no agreements in place between the company and the sales agents, and the sales agents are not exclusive to the company.
- The subsidiary companies viz. Ramshyam Textile Industries Limited and First Winner Lifestyle Private Limited (formerly Realgold Exports Private Limited) and Promoter Group Companies viz. Solitaire Texfeb & Traders Private Limited and Rikosh Fashions Private Limited are in the same line of business. FWIL has not signed any non-compete agreement with them and this could result in conflict of interest and adversely affect the business in future.

FINANCIAL PERFORMANCE

PROFIT & LOSS STATEMENT

(In Lacs)

Particulars	For ten months ended on Jan '08	March '07	March '06
Net Sales	6649.98	5549.62	3822.49
Total Expenditure	5876.62	5159.39	3817.57
OPM (%)	11.63	7.03	0.13
Operating Profit	773.36	390.23	4.92
Other Income	8.72	4.99	5.03
PBT	780.08	395.22	9.95
PAT	511.97	255.14	5.87

PEER GROUP COMPARISON RATIOS

Particulars	FWIL*	Richa Knits	Samtex
Face value	10.00	10.00	10
Latest Equity	17.73	16.93	9.9
Mkt. Price	-	92.7	15.4
Book Value	53.82	24.52	39.43
EPS	3.46	3.38	0.86
P/E	37.57	27.43	17.91
P/B	2.41	3.78	0.39
M.Cap/Sales	3.47	2.51	0.23
PAT/Sales	7.69	4.91	1.65
PBDIT/Sales	16.80	13.76	7.08
M.Cap	230.53	156.94	15.25

*Figures for FWIL include post issue equity and share premium and are for period ended Jan 2008. M.cap is based on the upper price band.

Note – P/E, P/B and M.cap for peers is as on 06th June '08. The remaining figures are for the period ending on March 2007.

BALANCE SHEET

(In Lacs)

Particulars	For ten months ended on Jan '08	March '07	March '06
Shareholder's Fund as represented by:			
Share capital	1223.27	988.50	61.25
Share application money	-	400.00	200.00
Reserves & surplus	1775.50	527.52	164.63
Less: Pre- Exp	(55.20)	(6.81)	(1.24)
Shareholders fund	2943.57	1909.21	424.64
Net Block	2952.01	3015.87	61.31
Investments	972.02	400.10	-
Current Assets, Loans and advances	2374.24	1792.09	1249.82
Secured loans	2578.27	2514.21	498.21
Unsecured loans	-	-	-
Current liabilities	606.65	711.56	385.76
Deferred tax liab	168.78	73.08	2.52
Net Worth	2943.57	1909.21	424.64

DU PONT ANALYSIS

Particulars	For ten months ended on Jan '08	March '07	March '06
Net Profit Margin	7.70	4.60	0.15
Asset Turnover	1.05	1.06	2.92
Equity Multiplier	2.14	2.73	3.09
ROE	17.30	13.31	1.35
ROA	8.09	4.88	0.44

VALUATIONS – The textile industry is fiercely competitive. The threat of competition emerges not only from the organized sector but also from the unorganized sector and from both small and big players. At the international level, FWIL is in direct competition with companies based in nations having a low cost such as Philippines, China and Bangladesh. Total income of the company has grown at CAGR of 41.17% from Rs.2787.06 lakhs in fiscal 2005 to Rs.5554.61 lakhs in fiscal 2007. PAT also increased at a CAGR of 410.20% from Rs.9.80 lakhs in fiscal 2005 to Rs.255.14 lakhs in fiscal 2007.

At a price band of Rs.120 to Rs.130 per equity share, the company trades at a P/E of 23.25x at lower side of the band and 25.19x at the higher side of its annualized EPS of Rs.5.16 for January '08. Looking at the Post issue valuation it will trade at a P/E of 34.68x at the lower side of the band and 37.57x at the higher side, which is more than the industry average of P/E of 31.10. This can adversely affect the price at which the equity shares may be listed and subsequently traded.

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Head (Research)

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RANKING METHODOLOGY

★ **WEAK**

★★ **NEUTRAL**

★★★ **FAIR**

★★★★ **GOOD**

★★★★★ **EXCELLENT**

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