

Aug 27, 2009

Issue Details	
Face Value	INR.10
Price	INR 70-INR75 per share
Issue Size	12.5 mn Equity Shares
Issue Amount	INR871.8 mn-INR934 mn
Minimum Lot	90 shares
Minimum Amount	INR. 6300 – INR. 6750
Issue Opens	August 27, 2009
Issue Closes	September 01, 2009

Other Details	
Lead Managers	Saffron Capital Advisors Pvt Ltd
Registrars	Bigshare Services Pvt Ltd
Listing	BSE & NSE

FINANCIAL HIGHLIGHTS			(INR mn)
Particulars	FY08	FY09	Q1 FY10
Total Income	1002.9	1392	299.1
% growth	43.2	38.8	-
PBDIT	96.7	101.4	38.4
% to income	9.7	7.3	12.9
Net Profit	42.4	43.4	18.4
% to income	4.2	3.1	6.2
Diluted EPS (INR)	1.7	1.7	0.7

Analyst

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Jindal Cotex Limited

Public issue of 12.5 million shares with a face value of INR10 at a price band of INR70-75 aggregating to INR 871.8 million - INR 934 million. The issue is through 100% book building process.

Background

Jindal Cotex manufactures acrylic, polyester and polyester-viscose, and polyester cotton combed and carded yarns. The yarns are used in apparels, hosiery and garments.

Objects of the issue

- 1) Setting up a new facility for manufacturing of Cotton Yarn, Yarn Dyeing and Garments
- 2) Investment in subsidiaries:
 - a) Jindal Medicot Limited;
 - b) Jindal Specialty Textiles Limited
- 3) Meeting public issue expenses.

Valuation

In FY09 company had an adjusted EPS of INR 3.5 but on a post issue basis EPS is INR 1.7 which translates into a P/E of 40.3 at the lower band(INR 70) and 43.2 at the higher band(INR75). Majority of the issue proceeds will be used for its subsidiaries which are foraying into “functional textiles”, a very nascent industry. Compared to its peers, like Ambika Cotton and Himachal Fibres the issue appears expensive. Hence we recommend “**Avoid**” to the issue.

Industry Overview

The Indian textile industry, estimated to be around US\$52 billion, is one of the largest in the world with a massive raw material and textile manufacturing base. India's textile exports grew more than 15% to US\$22.13 billion in FY08 from US\$19.14 billion in FY07

Indian textiles, handlooms, and handicrafts are exported to more than 100 countries, with the US being the largest buyer. Readymade garments (RMG) is the largest export segment, accounting for almost 41% of total textile exports. The domestic organized garment retailing segment registered a growth of 13-14% in FY09.

The Indian textile industry is extremely fragmented, with the hand-spun and hand-woven sector at one end of the spectrum and the capital-intensive, sophisticated mill sector at the other. The decentralized powerlooms/hosiery and knitting sectors form the largest section.

Major sub-sectors of the textile industry are organized cotton/man-made fiber textiles, man-made fiber/filament yarns, wool and woollen textiles, sericulture and silk textiles, handlooms, handicrafts, jute and jute textiles, and textile exports.

Organised Textile Mills Industry

Cotton/man-made fiber textiles is the largest organized sector in terms of employment (nearly 1 million workers) and number of units. Moreover, numerous ancillary industries such as those manufacturing machinery, accessories, stores, dyes and chemicals depend on this sector.

As on December 31, 2007, there were 1,744 cotton/man-made fiber textiles mills (non-SSI) in the country with a capacity of 34.9 million spindles, 4,57,000 rotors, and 56,000 looms. Another 1,219 small scale spinning units with 4 million spindles and ~1,57,866 rotors exist in the small scale unorganized sector. During FY07, capacity utilization in the spinning sector of organized textiles mills was 80-93% while that in the weaving sector was 41-63%. The table below indicates production of spun yarn (including SSI units) during the past eight years.

Year (In MMTns)	Cotton Yarn	Blended Yarn	100% Non-cotton yarn	Total Yarn
1999-2000	2.2	0.6	0.2	3.0
2000-2001	2.3	0.6	0.2	3.2
2001-2002	2.2	0.6	0.3	3.1
2002-2003	2.2	0.6	0.3	3.1
2003-2004	2.1	0.6	0.3	3.1
2004-2005	2.3	0.6	0.4	3.2
2005-2006	2.5	0.6	0.3	3.5
2006-2007 (P)	2.8	0.6	0.4	3.8
2007-2008 (E)	2.9	0.7	0.4	4

P-Provisional, E-Estimated Source: RHP

Cotton

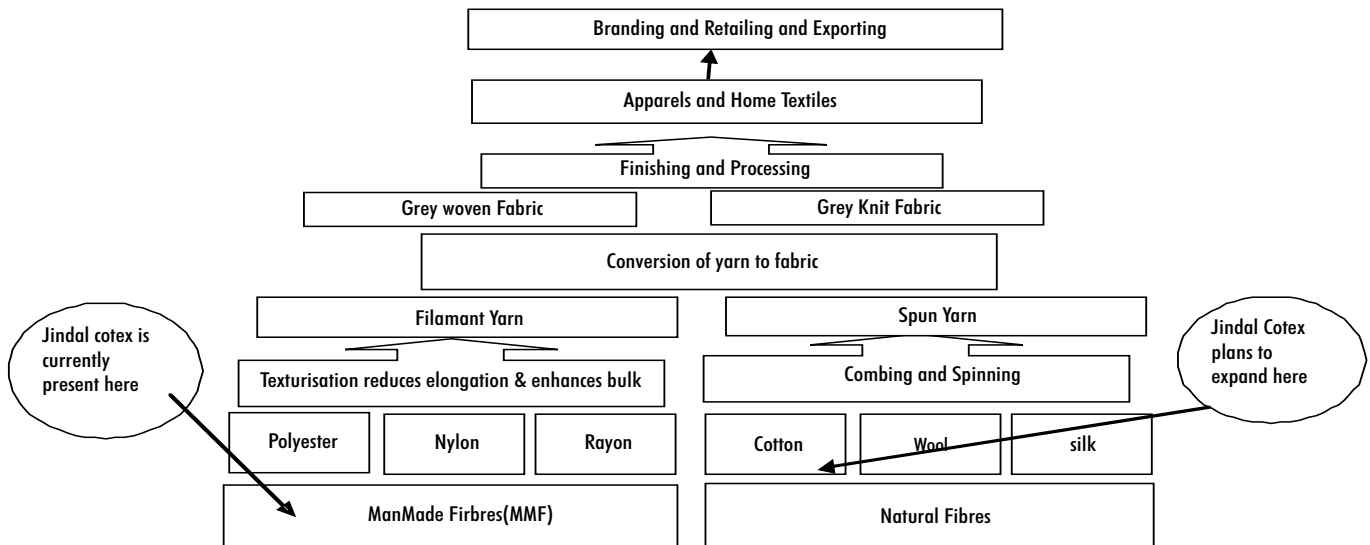
India produces nearly 23 varieties of cotton. The ratio of the use of cotton to man-made fiber and man-made continuous filament yarn is 60:40 (in FY06). Around 6 million farmers are engaged in production of cotton, while another 40-50 million depend on activities relating to cotton cultivation, cotton trade and its processing. It is an important raw material for the domestic textile industry. Cotton and cotton-related textiles contribute significantly toward the exports earnings of India.

India was the second-largest producer (4.8 MMTns) of cotton in the world in FY07, accounting for 18.5% of global production. During the same period, India led the world in cultivated area (9.2 million hectares) as well. In terms of productivity (0.5

MT/ha), however, India was far behind many countries (US: 0.9 MT/ha; China: 1.3 MT/ha; and World Average: 7.6 MT/ha) as 65% of the area under cotton is rain-fed. It is estimated that the country's cotton output in 2006-07 (October-September) was at a record 28 million bales (0.2 MT each).

With a possibility of increase in use of Bt seeds/hybrid seeds and a decline in the cost of such seeds, it is estimated that by FY12 the yield per hectare will increase to 0.7 MT and cotton production will reach 39 million bales. Total consumption rose from 11.1 million bales in FY92, to 23.5 million bales in the cotton season of 2006-07.

Value chain



Source: RHP

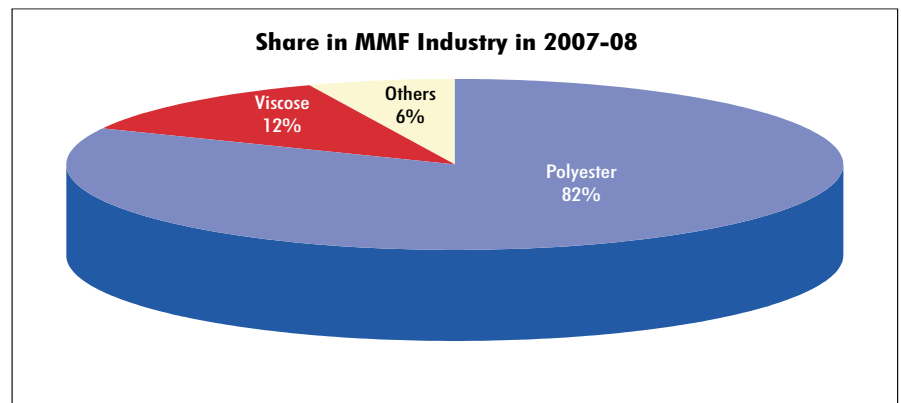
Man Made Yarn Industry

The domestic man-made fiber (MMF) industry was INR 212 billion in FY08 with volume growing at a CAGR of 4.3% from FY03 - FY08.

Types of man-made fibers:

1. Acrylic
2. Polyester
3. Nylon
4. Viscose
5. Polypropylene

Polyester is the biggest component of the domestic MMF industry, accounting for 82% of the total share, followed by viscose at 12%.



Source: Cris-infac

Technical Textiles

Technical or functional textiles have some functional properties and are different from traditional textiles that are used for clothing. Technical textiles are meant for various end-use applications in health, construction, agriculture, defence, aerospace and sports segments. Currently the domestic technical textiles' market size is INR 371.2 billion and it is expected to reach INR664.1 billion by 2012. Although India has abundant raw material and technical capabilities, the country remains import intensive due to lack of trained manpower and testing facilities. Indigenous production, range is limited to traditional commodities such as tarpaulin, jute carpet backing, hessian, fish nets and surgical dressings. Thus, GoI has designed 'Centres of Excellence' for agrotech, buildtech, meditech and geotech group of technical textiles with an outlay of US\$9 million. GoI intends to launch a US\$122.4 million Technology Mission on Technical Textiles and create a Development Council for Technical Textiles. To promote the technical textile industry in the country, the central government has also formed a committee to put in place a regulatory framework for usage of technical textile products in different areas.

Company

Jindal Cotex manufactures acrylic, polyester and polyester-viscose, and polyester cotton combed and carded yarns which are used in apparels, hosiery and garments.

Jindal Cotex, a flagship company of the Jindal group of Ludhiana, was incorporated in 1998 in Ludhiana, Punjab. The Jindal Group was promoted by Jagdish Rai Jindal in 1977 with trading business of iron and steel. The company is promoted by Mr. Sandeep Jindal, Mr. Yash Paul Jindal, Mr. Rajinder Jindal and Mr. Ramesh Jindal. Jindal Cotex initially set up 6,912 spindles and started manufacturing acrylic yarns in May 1999. Subsequently, it ventured into polyester yarns in 2001. In 2006, the company expanded its product range to polyester cotton blended yarns and also marked its presence in exports

The company has an installed capacity of 23,472 spindles for acrylic, cotton blended and polyester yarns with a manufacturing capacity of 7,000 TPA.

Jindal Cotex successfully installed and commissioned a 1.25 MW w/m at Pithla-Satta-Gorera in Jaisalmer, Rajasthan, in FY08. The entire power generated through this wind mill will be sold to Ajmer Vidyut Vitran Nigam Limited (AVVNL), under a PPA.

Subsidiaries

Jindal Cotex has two wholly owned subsidiaries namely,

1. Jindal Medicot Limited
2. Jindal Specialty Textiles Limited.

Jindal Medicot Limited was incorporated in May 2008 to manufacture medical textile products like absorbent bleached cotton wool and its products and cotton crepe bandage such as stretch bandage and crepe bandage cloth.

Jindal Specialty Textiles Limited was also incorporated in May 2008 to manufacture laminated technical textile products and Banner fabrics textile products.

Revenue recognition

Major products of the company:

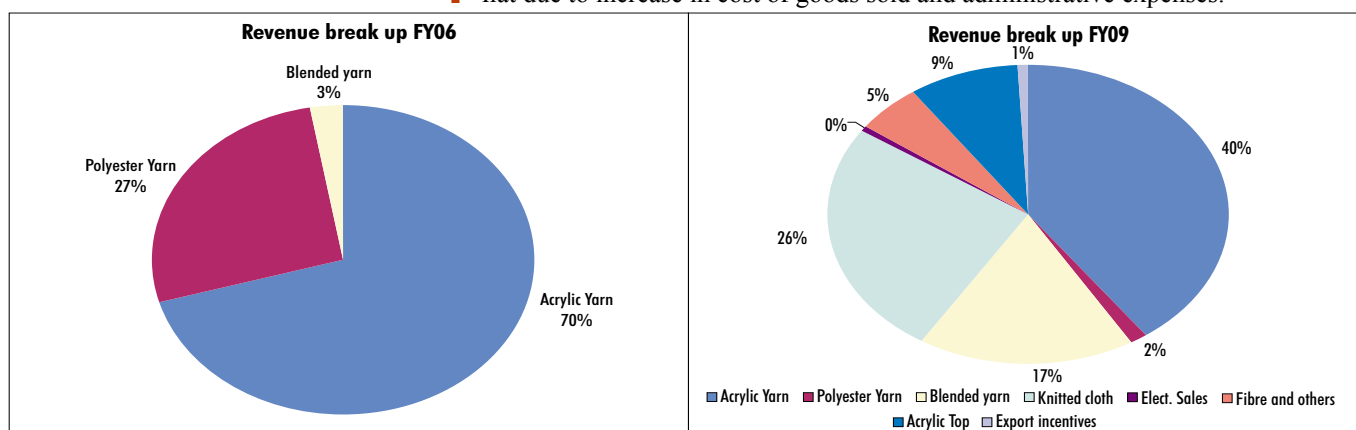
Products	Description
Acrylic Yarn	Count from 16-40 Ne, Single/Multifold, in hank/Auto coned and TFO on cone
Polyester spun Yarn	Count from 1/20-1/50 Ne, single/Doublefold/Auto coned and TFO on cone
Polyester Viscose Yarn	Count from 20-40 Ne, Single/Multifold/Auto coned and TFO on cone
Polyester cotton Yarn	Yarn count from 20-40 Ne, Single/Multifold/Auto coned and TFO on cone

Source: RHP

Jindal cotex has an installed capacity of 7,000 MT and it is currently operating at capacity utilization of 88 %, and plans to increase its capacity to 90% by FY10.

Jindal cotex's revenue breakup has undergone a change with acrylic's share declining from 70% to 40% in the last four years. Correspondingly the balance has been taken up by knitted cloth, acrylic top and blended yarn.

Exports contributed 13% to total sales in FY09. The company's sales increased ~36% due to better sales realization of yarn, increase in sales of acrylic yarn, and trading sales of knitted cloth and acrylic top. However the net profit of the company has remained flat due to increase in cost of goods sold and administrative expenses.



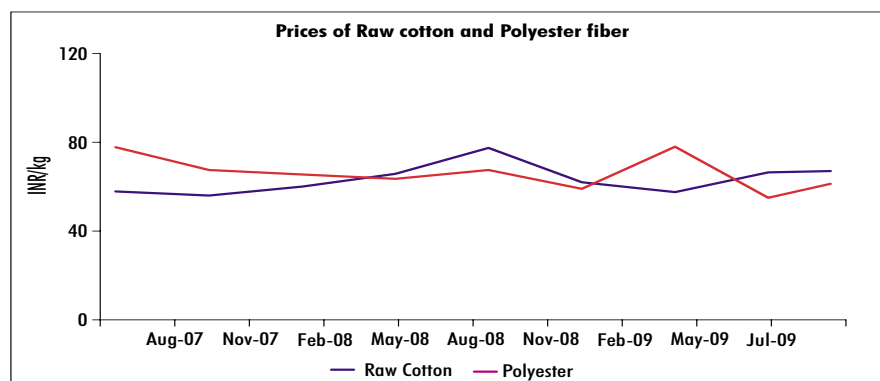
Source: RHP

Raw materials

Major raw materials:

- Acrylic fiber
- Polyester staple fiber
- Raw cotton

Currently, 50% of Jindal Cotex's acrylic fiber requirement is met from domestic market while the rest is met via imports. Entire requirement of the polyester and raw cotton requirement is met indigenously.



Source: IAS

The prices of the raw cotton and man made fibers have again started increasing .If this continues then Jindal Cotex will not be in the position to pass on the cost to its customers, and neither the firm will be in the position to negotiate the prices for its raw material because of high concentration of its customers and suppliers.

Project Overview

1) To set up a new facility for manufacturing of Cotton Yarn, Yarn Dyeing and Garments

Phase I

- Setting up a new facility to manufacture cotton yarn with a capacity of 28,800 spindles.

Phase II

- Expansion of the cotton yarn manufacturing capacity by adding another 21,600 spindles
- Setting up yarn dyeing facilities with a capacity of 6 TPD
- Setting up of a garment unit with a capacity of 3,000 pcs per day.

This project has been granted 'Mega Project' status; therefore, following concessions would be available:

1. Exemption from electricity duty up to 5% for five years;
2. Exemption from stamp duty as levied in schedule 1-A of Indian Stamp Duty Act on purchase/lease of land;
3. Exemption from advance consumption deposit in case of expansion projects, provided consumption does not exceed the present level, subject to clearance from the Punjab State Electricity Regulatory Authority.

The commercial production of phase I is likely to start from October 2009 and phase II in April 2010.

	FY10	FY11	FY12
100% cotton yarns – Unit II			
Licensed Capacity (Spindles no.)	50,400	50,400	50,400
Installed Capacity (Spindles no.)	28,800*	50,400	50,400
Estimated Production at 100% capacity (MTs)	34,03.8*	9,800	11,200
Total Estimated Production (MTs)	23,82.7*	7,840	8,960
Capacity Utilization (%)	70%	70%	80
Dyeing – 6 TPD – Unit II			
Licensed Capacity (TPD)	6	6	6
Installed Capacity (TPD)	6	6	6
No.of working Days	Nil	350	350
Estimated Production at 100% capacity (in tpa)	Nil	2100	2100
Total Estimated Production	Nil	1470	1680
Capacity Utilization (%)		70%	80%
Garmenting – Unit II			
Licensed Capacity (in 1000pcs.)	1050	1050	1050
Installed Capacity (in 1000pcs.)	1050	1050	1050
No.of working Days	Nil	350	350
Estimated Production at 100% capacity (in1000 pcs)	Nil	1050	1050
Total Estimated Production (in1000 pcs)	Nil	735	840
Capacity Utilization (%)	Nil	70%	80%
*Production starting in October 2009 Source: RHP			

2) Investment in Subsidiaries

Jindal Cotex proposes to invest in equity shares of its wholly-owned subsidiaries that are setting up independent projects.

a) Jindal Medicot Limited

Jindal Medicot Limited is setting up facilities to manufacture medical textile products such as absorbent bleached cotton wool and its products and cotton crepe bandage such as stretch bandage and crepe bandage cloth. Comber noil is the main raw material for Jindal Medicot; and a by-product of Jindal Cotex's spinning operations. The total capacity of the plant will be 5,000 TPA. Jindal Cotex plans to invest INR300.1 million in the project from the issue proceeds. The total cost of the project is estimated at INR880.1 million, with the balance being funded through a term loan from SBI. The commercial production of the project is likely to start from March 2010.

Products to be Manufactured	Application
Absorbent Cotton Wool Products	Medical & Cosmetic Applications
a) Absorbent Bleached cotton	
b) Cotton Rolls	
c) Cotton Zig Zags	
d) Cotton Pads	
e) Cotton Dental Rolls	
f) Cotton Balls	
g) Cotton Buds	
Cotton Crepe Bandage Products	Medical application
a) Crepe Bandage Cloth	
b) Crepe Bandage Roll (Leno Type)	
c) Crepe Bandage Roll (Self Edged Type)	
d) Cotton Stretch Bandage	
Source: RHP	

b) Jindal Specialty Textiles Limited

Jindal Specialty Textiles is setting up facilities to manufacture PVC laminated products for various applications such as frontlit banner fabric, backlit banner fabric, inflatable fabric for boats, tent fabric, tarpaulin fabric, etc. The estimated annual capacity of the plant will be 60 million Sq. meters. Jindal Cotex intends to invest INR510.1 million from the proceeds of the issue. The total project cost is estimated at INR1510.1 million. The rest of the project will be funded through a loan from Punjab National and UCO Bank. Commercial production is likely to start in October 2010.

Products to be Manufactured	Application
PVC Laminated Product	Outdoor advertising media
a)Frontlit Banner Fabric	
b)Backlit Banner Fabric	
Inflatable Fabric for Boats etc	Boats for recreation and army applications
Tent Fabric	Used for Outdoor Tents
Truck Siders	Used for advertisement in trucks
Source: RHP	

Key Concerns:

1. Jindal Cotex has a high client concentration with top three customers accounting for ~60% and the top ten customers contributed ~76.3% of FY09 sales.
2. The company depends on few suppliers for its raw material requirements. About 52.1% of the company's purchases rely on top three suppliers and top 10 suppliers contributed about 85% of FY09 sales.
3. Prices of cotton and polyester fiber have started increasing again. If this continues, we believe the company will not be able to pass on the increase in the raw material prices to its customers, given that three customers contribute ~60% to the company's sales.
4. Foreign exchange rate fluctuations could have an impact on Jindal Cotex's input costs, especially the cost of sodium that is imported from China.
5. Jindal Cotex has not made firm arrangements for funding of balance working capital requirement by banks.
6. There have been delays in the implementation of the company's and its subsidiaries' projects.
7. Any prolonged decrease in cotton prices may have a material adverse effect on the performance of the company.

Peer comparison

FY09 (Figs Mln)	Sales	PBIDT	PAT	PBIDT %	PAT%	RONW/ROE	EPS	P/E
Ambika Cotton	1851.5	482	94.2	26.0	5.1	7.8	16.	4.8
Himachal Fibres	324.8	18.8	1.6	5.8	0.5	0.8	4.88	7.5
Jindal Cotex @ INR 70	1385.8	101.4	43.4	7.3	3.1	15.9	1.74*	40.2
Jindal Cotex @ INR 75								43.1

* Diluted EPS, Source : BSE

Profit & Loss Statement						INR Mn
	FY05	FY06	FY07	FY08	FY09	Q1 FY10
Net Sales	637.5	656.0	694.7	994.2	1385.8	290.8
Other Income	0.0	9.8	5.0	8.7	6.2	8.3
Total income	637.5	665.8	699.8	1002.9	1392.0	299.1
Increase/decrease in inventories	5.7	39.6	46.2	7.0	9.4	4.9
Materials consumed	492.0	456.7	539.2	570.0	662.9	146.9
Cost of Goods Sold	0.0	0.0	19.2	205.6	484.0	73.3
Staff Costs	26.1	34.2	25.6	25.9	31.5	9.3
Other manufacturing expenses	60.7	73.6	89.8	83.3	81.9	23.0
Administration, selling, distribution expenses	16.0	7.8	9.0	14.3	20.8	3.1
Loss on sale of fixed asset	0.0	0.1	0.0	0.0	0.0	0.0
Total Expenditure	589.1	612.1	636.7	906.2	1290.6	260.7
PBDIT	48.4	53.8	63.1	96.7	101.4	38.4
Depreciation	31.5	26.7	28.5	25.1	26.1	5.9
PBIT	16.9	27.0	34.6	71.6	75.3	32.5
Interest	8.4	14.5	20.2	20.6	22.9	7.9
PBT	8.4	12.6	14.4	51.1	52.5	24.7
Tax	2.5	4.6	5.5	8.7	9.1	6.2
Net profit	5.9	7.9	8.9	42.4	43.4	18.4

Source: RHP

Balance Sheet						INR Mn
Particulars	FY05	FY06	FY07	FY08	FY09	
Share capital	125.5	77.4	70.0	70.0	70.0	70.0
Share Application Money	59.0	0.0	0.0	0.0	0.0	0.0
Reserves and surplus	147.2	152.5	44.2	35.4	27.6	27.6
Secured loans	569.7	363.1	235.3	243.6	143.2	143.2
Unsecured loans	11.3	2.3	46.7	45.3	49.7	49.7
Deferred Tax Liability	9.4	10.5	11.6	12.0	8.8	8.8
Sources of funds	922.0	605.9	407.8	406.4	299.4	299.4
Gross block	466.3	464.0	390.9	379.1	278.2	278.2
Less: Depreciation	262.9	237.5	212.8	184.3	158.6	158.6
Net Block	203.4	226.6	178.1	194.9	119.6	119.6
CWP and capital advances	342.2	106.1	6.3	3.2	5.9	5.9
Investments	1.0	1.8	0.0	0.0	0.0	0.0
Net current assets	375.3	271.3	223.5	208.3	173.9	173.9
Application of funds	922.0	605.9	407.8	406.4	299.4	299.4

Source: RHP

Cash Flow Statement					INR Mn
	FY05	FY06	FY07	FY08	FY09
Net Cash Flow From Operating Activities	31.8	9.4	61.1	26.0	67.4
Net Cash Flow From Investing Activities	-11.0	-99.5	-14.8	-175.3	-233.2
Net Cash Flow From financing Activities	-2.4	81.7	-24.5	144.7	222.3
Net increase/(decrease) in cash & Cash equivalents	18.4	-8.4	21.8	-4.5	56.6
Cash and Cash Equivalent at beginning of year	1.0	19.4	11.0	32.8	28.3
Cash and Cash Equivalent at the end of year	19.4	11.0	32.8	28.3	84.8

Source: RHP

Growth rate (%)				
	FY06	FY07	FY08	FY09
Sales	2.9	5.9	43.1	39.4
PBDIT	11.1	17.4	53.3	4.8
PAT	34.3	11.7	378.5	2.4
RATIOS				
Profitability ratios				
PBDIT (%)	8.1	9.0	9.6	7.3
PAT (%)	1.2	1.3	4.2	3.1
RONW/ROE (%)	7.5	7.8	18.0	13.1
ROCE (%)	2.9	3.8	7.8	8.2
Pershare data				
Adjusted EPS (INR)	1.1	1.3	5.4	3.5
Diluted EPS (INR)	0.32	0.35	1.7	1.7
PE (X) at Higher band	236.4	211.7	44.2	43.2
PE(X) at Lower band	220.6	197.6	41.3	40.3
Capital structure ratios				
Debt/Equity	4.3	4.2	4.9	4.7
Current Ratio	9.3	3.4	4.2	6.2
Quick Ratio	5.3	1.9	2.6	4.6
Turnover ratios				
Fixed Asset Turnover (X)	3.3	3.8	3.0	2.5
Debtors turnover ratio (X)	16.0	8.6	4.7	5.9

Source: ACMIL Research

Notes:

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