

# K E Y N O T E

## I P O N O T E

**Shekhawati Poly Yarn Ltd.**

**December 27, 2010**

Price Band	: ₹30 per share
Minimum Bid Lot Size	: 200 Equity Share
IPO open during	: December 27 - 29, 2010
Book Running Lead Managers	: HEM Securities Limited
To list on	: NSE & BSE
IPO Grading	: 2 / 5 (CARE)
PE	: 12.7x*
Market Cap post-listing	: ₹66.01Cr or \$14.63mn
Market Cap of Free-Float	: ₹36Cr or \$7.98mn

\* based on FY10 EPS.

IPO of 12mn equity shares of Rs10 each, aggregating to Rs36Cr or \$7.98mn (at the fixed price).

### Shareholding Pattern

Shareholder Categories	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters	76,87,931	77%	76,87,931	35%
Promoter Group	23,14,250	23%	23,14,250	11%
Others	0	0%	1,20,00,000	55%
<b>Total</b>	<b>1,00,02,181</b>	<b>100%</b>	<b>2,20,02,181</b>	<b>100%</b>

### Executive Summary

- Shekhawati Poly-Yarn Limited (SPYL) started manufacturing texturised yarn with its 2 machines setup in 1995-97 (Unit 1). The company further integrated its facilities to manufacture twisted yarn by installing twisting machines (TFO).
- SPYL has currently 20 texturising machines with an installed capacity of 13,200 MTPA to produce polyester texturised yarn (PTY). It also has installed 5 twisting machine (TFO) to produce twisted yarn with installed capacity of 600 MTPA.
- SPYL identified 12 acre land at Silvassa to install 10 additional texturising machines in factory building admeasuring 55000 sq.ft. The civil construction of the factory has been completed and production with 8 new machines has been started.
- SPYL has been in the Polyester Industry for more than a decade and since incorporation has been engaged solely into the manufacture of Polyester Texturised Yarn (PTY), which is used in the process of weaving of fabric used for suiting, shirting, dress materials, etc.
- SPYL has achieved 90.75% capacity utilization in production of Twisted Yarn during the FY10.
- SPYL enjoys certain location advantages such as sales tax exemption, lower cost of power at Rs2.90 per unit at Silvassa Plant and close proximity to air/sea-ports.

### Company Background

Shekhawati Poly-Yarn Limited (SPYL) was incorporated as a private limited company in 1990 with an object to deal in textiles. SPYL started manufacturing texturised yarn with its 2 machines setup in 1995-97 (Unit 1). The company further integrated its facilities to manufacture twisted yarn by installing twisting machines (TFO). It then

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replaced its two texturising machines by installing newer technology high speed texturising machines along with 5 TFO machines in 2005. With aggressive expansion plans, SPYL expanded into Unit 2 by adding 8 additional texturising machines. SPYL identified 12 acre land at Silvassa to install 10 additional texturising machines in factory building admeasuring 55000 sq.ft. The civil construction of the factory has been completed and production with 8 new machines has been started.

### Promoters and Management

**Mr. Mukesh Ruia** is the Managing Director of the company. He has done weaving and designing course from 'The Synthetic and Art Silk Mills Research Association' (SASMIRA), an institute recognized by the Council of Scientific and Industrial Research. He has a diploma awarded by NIIT in computers and has done a course in Import Export from The Indo- American Society.

**Mr. Ramniranjan Ruia** is the Non- Executive Chairman and one of the founders of the company. He has around 40 years of vast experience in manufacturing and trading business.

### Industry Overview

#### Indian textile industry

The Indian Textiles Industry contributes about 14% to industrial production, 4% to the GDP and 17% to the country's export earnings. Thus, the growth and all round development of this industry has a direct bearing on the improvement of the economy of the nation. The Indian textiles industry is extremely varied, 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 of the Textiles Sector. The major sub-sectors that comprise the textiles sector include the organized Cotton / Man-Made Fibre Textiles Mill Industry, the Man-made Fibre / Filament Yarn Industry, the Wool and Woollen Textiles Industry, the Sericulture and Silk Textiles Industry, Handlooms, Handicrafts, the Jute and Jute Textiles Industry, and Textiles Exports.

#### Organised cotton/ man-made fibre textiles industry

The Cotton/ Man-made fibre textile industry is the largest organized industry in the country in terms of employment and number of units. Besides, there are a large number of subsidiary industries dependent on this sector, such as those manufacturing machinery, accessories, stores, ancillaries, dyes & chemicals. As on 31.10.2009, there were 1834 cotton/man-made fibre textile mills (non-SSI) in the country with an installed capacity of 37.07 million spindles, 4, 89,718 rotors and 56,526 looms.

Textile production covering man-made fibre, filament yarn and spun yarn showed a minor setback in 2008-09. Manmade fibre production recorded a fall of about 15% and filament yarn production recorded a fall of about 6% during 2008-09. Blended and 100% non-cotton yarn production recorded a fall of about 4% during 2008-09. Cloth production by mill sector showed an increase of 1% during 2008-09. During 2008-09 cloth production by handloom, power loom decreased by about 4% and 3%, hosiery sectors production increased by 2%. An overall cloth production has decreased by about 2% during 2008-09.

## **Man-made staple fibre and filament yarn industry**

The production of man-made staple fibre industry which decreased by 14% in 2008-09 as compared to 2007-08 is expected to increase by 19% during 2009-10. The production of all the Man-made staple fibres except Polypropylene staple fibre is expected to record a positive growth in 2009-10 as compared to previous year. Viscose, Polyester and Acrylic staple fibre are expected to increase by 29%, 16%, 20% respectively while Polypropylene staple fibre is expected to decrease by about 6% in 2009-10.

The total production of man-made filament yarn is expected to increase by 7% during 2009-10. The production of viscose, nylon and polyester filament yarn are expected to increase by 1%, 6% and 8% respectively while for polypropylene filament yarn, is expected to decrease marginally by 1% during 2009-10.

## **National fibre policy**

The Report of the Working Group on Textiles & Jute Industry for the 11th Five Year Plan recommended consolidating the raw material base including cotton, wool, silk, man-made fibre, technical textiles and jute, to facilitate the growth process in the industry. Further, the high level committee on manufacturing (HLCM) in June 2007, under the Chairmanship of the Prime Minister to consider, inter alia, the action plan for the growth of Textiles and Garments decided to formulate a Comprehensive Fibre Policy. It was held that man-made fibre sector required special attention as the fibre consumption was in the ratio of 57:43 between cotton and man-made fibres in contrast to the 40:60 ratio prevailing worldwide. HLCM felt that a long term Comprehensive Fibre Policy (natural & manmade) was required for steady availability of fibre.

Thus, in the above background and keeping in view the fact that the market economy and availability of fibre have been the determining forces in natural selection of production process, Minister of Textiles considered it imperative that a Comprehensive National Fibre Policy be devised as early as possible. Thus, he made a public announcement in June, 2009 regarding formulation of a 'National Fibre Policy', with a view to achieve a growth rate of 7 to 8% for the textiles industry. In line with the announcement, a Working Group on National Fibre Policy was constituted on the 29th July, 2009, comprising Government organizations, export promotion councils, industry associations and experts in the field drawn from eminent institutions/ organizations. As decided in the Working Group meeting in September 2009, eight Sub-Groups on various fibres were formed to critically examine the relevant aspects and make recommendations to facilitate formulation of a comprehensive Fibre Policy. The issue is being pursued vigorously to put a policy in place as early as possible in consultation with all concerned stakeholders.

## **Exports**

India's textiles and clothing industry is one of the mainstays of national economy. It is also one of the largest contributing sectors of India's exports worldwide. At current prices the Indian textiles industry is pegged at \$55bn, 64% of which services domestic demand. The textiles industry accounts for 14% of industrial production; employs 35 million people and accounts for nearly 12% share of the country's total exports basket.

**Business Operations**

Shekhawati Poly-Yarn Limited (SPYL) has currently 20 texturising machines with an installed capacity of 13,200 MTPA to produce polyester texturised yarn (PTY). It also has installed 5 twisting machine (TFO) to produce twisted yarn with installed capacity of 600 MTPA. SPYL has implemented an integrated facility at Silvassa for manufacturing PTY with a total project cost of Rs40.15Cr. Under this the company has established yarn texturising facility of 14200 MTPA with 20 texturising machines. 8 machines, out of the proposed 10 have been made operational as on 31 October 2010.

SPYL has presence in the under mentioned activities:

- Texturising Yarn from Partially Oriented Yarn (Texturised Yarn)
- Twisting Yarn from Texturised Yarn (Twisted Yarn)

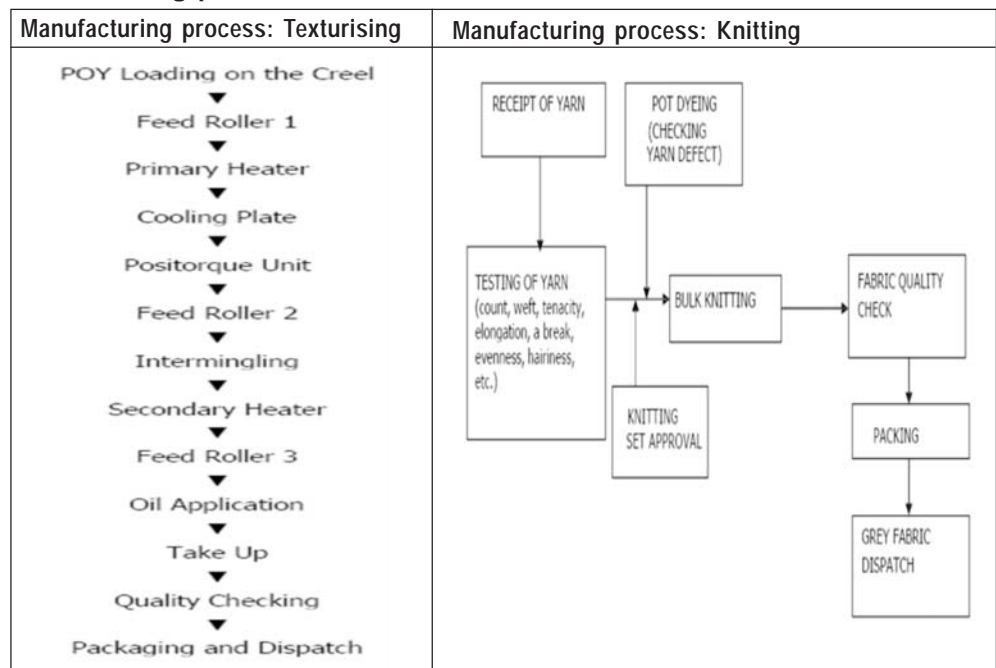
The Company now proposes to commence manufacturing of knitted fabric from texturised yarn.

SPYL has been in the polyester industry for more than a decade and since incorporation has been engaged solely into the manufacture of polyester texturised yarn (PTY), which is used in the process of weaving of fabric used for suiting, shirting, dress materials, saris, hosiery, knitted fabric, zipper fastener, curtain & industrial cloth as also to manufacture fancy yarn for high value dress materials and upholstery. Polyester texturised yarn is obtained after further processing of POY.

In order to take advantage of the growing market, SPYL has planned to expand their business activity in the twisting and knitwear segment.

SPYL has an established client base and is marketing its products through various dealers and distributors in Mumbai, Bhiwandi, Surat, Ludhiana, Secunderabad, Meerut, Panipat, Delhi, Bhilwara, Erode, Salem, Coimbatore, Ichalkaranji, Malegaon and Calcutta markets. It's manufacturing facility locations are considered suitable in view of the demand and supply position of PTY, as its manufacturing units are located at Silvassa, which is near to Bhiwandi and Surat, the major consumption centres of texturised Yarn.

**Manufacturing process**



## **Exports**

SPYL has been exporting its products from the FY09. As per the Audited Balance Sheet for the 6 months period ended September 30, 2010 of the company, it had exported its products worth Rs4.74Cr.

## **Strengths**

### **Experienced promoters with over 40 years of experience in the industry**

Mr. Ram Niranjana Ruia, Non- Executive Chairman and one of the founders of the company, has over 40 years of manufacturing and trading business experience. He took over the company in 1993 and has been actively involved in evolving strategic planning and growth strategy for the company. His vast experience and long term vision has put the company on strong fundamentals.

### **Successfully implemented various expansion schemes in the past with in-house expertise**

SPYL has successfully implemented various expansion schemes in the past in Unit 1 and Unit 2 and has also completed construction of Unit 3 measuring 55,000 sq.ft., wherein installation of 8 texturising machines is completed and commercial production started. In addition to this, 2 more texturising machines which have been procured will be installed, thus making a total of 10 texturising machines.

### **Consistently achieved capacity utilisation over 90%**

SPYL has achieved 90.75% capacity utilization in production of Twisted Yarn during the FY10, 85.96% for FY09 and 91.00% during FY08.

### **Location advantages**

SPYL enjoys certain location advantages such as sales tax exemption, lower cost of power at Rs2.90 per unit at Silvassa Plant and close proximity to air/sea-ports. Silvassa is about 180 kms from Mumbai and 17 kms from Vapi, the nearest railway station. Usually, most of the raw material is purchased from depots at Silvassa, Daman and neighboring cities. At Silvassa, there are many transport operators and the necessary road infrastructure is in place to facilitate easy transportation.

### **Products are well accepted in the market**

SPYL has an established client base and is marketing its products through various dealers and distributors in Mumbai, Bhiwandi, Surat, Ludhiana, Secunderabad, Meerut, Panipat, Delhi, Bhilwara, Erode, Salem and Coimbatore, Ichalkaranji, Malegaon and Calcutta markets. SPYL's manufacturing locations are considered suitable in view of the demand and supply position of PTY, as its manufacturing units are located at Silvassa, which is near to Bhiwandi and Surat, the major consumption centers of Texturised Yarn.

### **Easy availability of raw material**

SPYL procure its raw material from Reliance Group, Indo Rama, Sanghi Polyester, Century Enka & JBF Industries, accounting for nearly 60% of the total industry capacity. Skilled and cheap labour is easily available at Silvassa, where the manufacturing units of the company are situated, due to concentrated industrialization thereat and in the neighboring areas.

### Objects of the Issue

The objects of the Issue are as stated herein below:

- To acquire factory building amounting to Rs6.78Cr (Total Cost is Rs7Cr, out of which the company had obtained a loan of Rs0.22Cr).
- To acquire corporate office building amounting to Rs0.37Cr (Total Cost is Rs3.25Cr, the company had obtained a loan of Rs2.88Cr).
- To repay loans aggregating to Rs3.38Cr obtained for acquiring factory building, corporate office and payment towards issue expenses.
- To meet IPO expenses.
- To meet working capital margin money requirements.

### Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

- SPYL's business is dependent on the availability/supply and cost of raw materials, which the company source from domestic suppliers. Any significant increase in the price of raw materials or fall in availability of raw materials, may adversely affect the business of the company.
- Any fall in the utilization of proposed enhanced capacity to its maximum level, the profitability of the company may adversely affect.
- SPYL is completely dependent upon the growth prospect of the textile industries, which consume its products. Any slowdown in the rate of growth of the industry may seriously impact the growth prospect of the company.

# KEYNOTE

## Restated Profit & Loss Statements

(RsCr)

Particulars	FY06	FY07	FY08	FY09	FY10	As at Sept 2010
Products Manufactured	8.10	15.63	32.52	77.63	89.37	57.57
Products Traded	1.31	2.06	0.00	0.00	0.00	0.00
Net Sales	9.41	17.69	32.52	77.63	89.37	57.57
Increase /(Decrease) in Inventories	-0.07	0.19	1.42	-0.25	0.10	2.38
<b>Total Expenditure</b>	<b>9.34</b>	<b>17.87</b>	<b>33.94</b>	<b>77.38</b>	<b>89.47</b>	<b>59.95</b>
Materials Consumed/ Sold	7.97	15.29	28.54	63.77	72.49	48.20
Manufacturing Expenses	0.61	1.05	2.11	6.53	7.35	4.49
Staff Costs	0.12	0.21	0.39	0.64	0.65	0.53
Administrative, Selling & Other Expenses	0.11	0.16	0.17	0.33	0.74	0.83
<b>Total Expenditure</b>	<b>8.81</b>	<b>16.71</b>	<b>31.20</b>	<b>71.27</b>	<b>81.23</b>	<b>54.04</b>
EBITDA	0.53	1.16	2.74	6.11	8.24	5.91
Other Income	0.08	0.01	0.02	0.14	0.04	0.01
Interest and other finance charges	0.17	0.46	0.98	2.50	2.63	2.07
Depreciation	0.21	0.50	0.80	1.95	2.18	1.57
Net Profit before tax	0.23	0.21	0.98	1.79	3.47	2.28
Current Tax	0.02	0.02	0.11	0.22	0.64	0.51
Fringe Benefit Tax	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Tax Liability/(Assets)	0.08	0.07	0.29	0.61	0.72	0.19
MAT Credit Entitlement	0.00	0.00	0.00	-0.30	-0.10	0.00
<b>Net Profit after tax</b>	<b>0.13</b>	<b>0.11</b>	<b>0.58</b>	<b>1.26</b>	<b>2.21</b>	<b>1.58</b>
Weighted average number of Shares	4,622,355	4,622,355	6,959,516	7,777,958	9,553,554	9,889,049
EBITDA margin (%)	5.7%	6.5%	8.1%	7.9%	9.2%	9.9%
EPS (Rs)	0.28	0.23	0.72	1.62	2.36	1.59
Book Value (Rs)	6.06	6.32	13.85	17.17	21.67	22.37

## Restated Profit & Loss Statements

(RsCr)

Particulars	FY06	FY07	FY08	FY09	FY10	As at Sept 2010
<b>Fixed Assets</b>						
Gross Block	4.23	5.24	18.93	22.56	44.12	47.89
Less Depreciation	0.93	1.26	1.95	3.90	6.06	7.64
Net Block	3.30	3.98	16.99	18.66	38.06	40.25
CWIP (including capital advance)	0.38	0.25	2.94	0.65	2.70	5.89
<b>Total Fixed Asset</b>	<b>3.68</b>	<b>4.23</b>	<b>19.93</b>	<b>19.31</b>	<b>40.75</b>	<b>46.14</b>
Investments	0.00	0.00	0.00	0.00	0.05	0.05
<b>Current Assets, Loans &amp; Advances</b>						
Inventories	0.39	0.82	3.93	2.88	2.98	5.80
Sundry Debtors	2.11	4.57	8.56	13.98	17.61	21.79
Cash and Bank Balances	0.18	0.08	0.22	0.34	0.41	0.21
Other Current Assets, Loans and Advances	0.84	1.57	3.42	5.03	8.53	11.12
<b>Total Current Assets, Loans &amp; Advances</b>	<b>3.52</b>	<b>7.05</b>	<b>16.14</b>	<b>22.23</b>	<b>29.52</b>	<b>38.91</b>
Liabilities & Provisions	0.00	0.00	0.00	0.00	0.00	0.00
Secured Loans	3.81	5.97	22.80	24.68	39.88	53.46
Unsecured Loans	0.36	0.96	1.35	1.28	4.15	4.15
Current Liabilities and Provisions	0.07	1.21	1.76	1.12	3.76	3.34
<b>Total Liabilities &amp; Provisions</b>	<b>4.25</b>	<b>8.14</b>	<b>25.92</b>	<b>27.07</b>	<b>47.79</b>	<b>60.95</b>
Deferred Tax Liability (net)	0.14	0.22	0.51	1.12	1.84	2.03
<b>Total Net Worth</b>	<b>2.80</b>	<b>2.92</b>	<b>9.64</b>	<b>13.35</b>	<b>20.70</b>	<b>22.12</b>
Share Capital	1.03	1.03	1.65	1.65	1.65	10.00
Reserves and Surplus	1.78	1.90	7.99	9.19	11.31	12.12
Share Application Money	0.00	0.00	0.00	2.51	7.74	0.00
<b>Total Net Worth</b>	<b>2.80</b>	<b>2.92</b>	<b>9.64</b>	<b>13.35</b>	<b>20.70</b>	<b>22.12</b>

**Keynote Capitals Ltd.**

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