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IPO Report

18th Dec'24

Snapshot

Company is one of the few companies (amongst peer group) in India with presence across the polyester, cotton and technical textile (which find application in multiple end-use segments including automotive, healthcare, construction, sports and outdoor, and protective clothing) sectors and based on its operating income, company had a market share of 1.7% in the overall Indian textile yarn industry as of Fiscal 2024. As on September 30, 2024, company have more than 3,200 active varieties of yarn products (i.e. yarn products manufactured by it during the period April 1, 2021 to September 30, 2024) and more than 45,000 stock keeping units (SKUs), and capability to manufacture a diversified product portfolio of more than 14,000 varieties of yarn products and more than 190,000 SKUs that are used in various forms and for varied end uses.

VALUATION

Company is bringing the issue at price band of Rs 305-321 per share at p/e multiple of 20x on post issue FY25 PAT basis. It is one of the few companies in India with presence across the polyester, cotton and technical textile sectors. Company has focus on the product development of new products, through process innovation. It has fully integrated yarn manufacturing plant set up at a strategic location with equipment supplied by domestic and globally renowned players. Company has shown healthy financial performance.

Hence Looking after all above , we recommend “Subscribe” on issue.

Price Band (Rs./Share)	305-321
Opening date of the issue	19th Dec '2024
Closing Date of the issue	23rd Dec '2024
No of shares pre issue	71,943,000 Eq Shares
Issue Size	Rs 550 Cr
Fresh Issue	Rs 400 Cr
Offer For Sale	Rs 150 Cr
Face Value (Rs/ share)	Rs 10/share
Bid Lot	46

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 9,016,392 Eq Shares)
Non-Institutional	15% of the offer (Approx 2,704,918 Eq Shares)
Retail	35% of the offer (Approx 6,311,476 Eq Shares)
Lead managers	DAM Capital Advisors, ICICI Securities
Registrar to the issue	KFin Technologies Ltd

WHAT WE LIKE

Company is one of the few companies (amongst its peer group) in India with presence across the polyester, cotton and technical textile sectors.

Company is present across three yarn verticals, i.e. (a) Polyester yarn products; (b) Cotton yarn products; and (c) Yarns for technical textiles and industrial uses. All the three yarn verticals are, currently, housed under a single corporate entity. One of its business strengths lies in the diversity of its product range and the relatively higher share of value-added products. As of June 30, 2024 company manufacture more than 14,000 varieties of yarn products with more than 190,000 SKUs that are used in various forms and for varied end uses.

Long standing association with leading consumer brands with a low customer concentration

Company have long-standing relationships with institutional investors, financial sponsors, corporates and family offices as a result of company’s experienced team and consistent coverage of clients, many of whom have provided company with repeat business. Company develop and maintain long-term relationships with its clients and are dedicated to providing them with a comprehensive range of products and services. This helps company successfully navigate through periods of market volatility.

Strong track record of revenue growth and profitability

Company have established long-standing relationships with few of the leading consumer brands such as Welspun India Limited, Valson Industries Limited, G.M. Fabrics Private Limited, Premco Global Limited, Creative Garments Textile Mills Private Limited, Banswara Syntex Limited, AYM Syntex Limited, Techno Sportswear Private Limited, Haren Textiles Private Limited, Khosla Profil Private Limited, Tulip Elastics Private Limited, Ganesha Ecosphere Limited, Udyogi International Private Limited, Page Industries Limited, D'Décor Home Fabrics Private Limited, Siyaram Silk Mills Limited, Duvalli S.A., G.M. Syntex Private Limited, Maruti Rub-Plast Private Limited, Geosys India Infrastructures Limited.



COMPANY BACKGROUND

Company also have a high share of value-added products such as dope dyed, superfine / micro, functional, industrial and technical yarn, cationic dyeable and specialty yarn which are produced after extensive in-house research. These value added products are tailor-made to customer requirements and have properties and characteristics which are distinctive from company's other products. Company's business is divided into three separate yarn business verticals, consisting of: (a) Polyester yarn products; (b) Cotton yarn products; and (c) Yarns for technical textiles and industrial uses.

Company's products are manufactured at its facility at Silvassa. Over the years, company has scaled up its production and as on June 30, 2024, its facility at Silvassa had a total installed capacity of 223,750 MTPA across the three yarn verticals. While company manufacture products across all verticals, polyester yarn products continue to be company's largest item of production. Company manufacture polyester chips using purified terephthalic acid (PTA) and mono ethylene glycol (MEG) and convert the chips into polyester yarn through various intermediate processing to impart specific properties to the yarn. Company expect the global yarn industry as well as the demand for yarn products to steadily grow over the next few years. Increasing demand for apparel from the fashion industry coupled with the growth of e-commerce platforms is expected to drive the market over the forecast period. Indian textile and apparel industry is also projected to grow at a CAGR of 6.0-7.0% from Fiscal 2024 till Fiscal 2028. During this period, exports are expected to grow at a CAGR of 4.5-5.5% while domestic industry is expected to grow at slightly higher pace of 7.0-8.0%. The future growth in Indian textile and apparel market will be led by various economic factors such as increase in discretionary income, rising urban population. Further, the demand is poised by increase in online retailing, shift from cotton to man-made fiber, robust growth of technical textiles segment. Additionally, global industry expanding outside of China would aid the Indian export markets in the growth trajectory. Company will seek to capitalize on the growth opportunities in the yarn industry considering company's current scale of operations, network of distributors, number of customers that it cater to and spearheaded by an experienced management team.

Company have, over the years, established long-standing relationship with consumer brands such as Welspun India Limited, Valson Industries Limited, G.M. Fabrics Private Limited, Premco Global Limited, Creative Garments Textile Mills Private Limited, Banswara Syntex Limited, AYM Syntex Limited, Techno Sportswear Private Limited, Haren Textiles Private Limited, Khosla Profil Private Limited, Tulip Elastics Private Limited, Ganesha Ecosphere Limited, Udyogi International Private Limited, Page Industries Limited, D'Décor Home Fabrics Private Limited, Siyaram Silk Mills Limited, Duvalli S.A., G.M. Syntex Private Limited, Maruti Rub-Plast Private Limited, Geosys India Infrastructures Limited, Wildcraft India Limited, SRF Limited, RSWM Limited, Sangam (India) Limited, Ateliers Reunis De Filature, Abhay Trading Company and Ascent Yarns Private Limited.

During June 30, 2024, Fiscal 2024 and Fiscal 2023, company catered to 983, 1,571 and 1,684 customers, respectively. While revenue from domestic sales is the largest component of its revenue from operations, a significant portion of its revenues also emanate from exports. Further, during June 30, 2024, Fiscal 2024, and Fiscal 2023, Company exported its products to 14, 27 and 29 countries, respectively. As on June 30, 2024, company had more than 925 distributors in 7 countries comprising India, Argentina, Singapore, Germany, Greece, Canada and Israel. On January 2, 2024, company was accorded the status of a 'Three Star Export House'.

Company's Promoters i.e., Paresh Vrajlal Dattani, Ajay Vallabhdas Dattani, Anilkumar Vrajdas Dattani and Dinesh Vrajdas Dattani have experience of 44 years, 27 years, 44 years and 44 years, respectively, in the textile industry. Company's Promoter and Chairman & Managing Director, Paresh Vrajlal Dattani has been responsible for augmenting relationships with various stakeholders which has helped company expand by increasing its product portfolio on a continuous basis. Company's Joint Managing Director and Promoter, Ajay Vallabhdas Dattani, and its Promoters, Anilkumar Vrajdas Dattani and Dinesh Vrajdas Dattani, all have considerable experience in the textile industry, which has contributed to the growth trajectory of Company.

Company is an environmentally conscious Company, encourage the use of renewable resources. Company has also recently entered into an agreement with third party for purchase of electricity from a solar power generating station and has also entered into an agreement to subscribe to shares of the vendor of the electricity. As of June 30, 2024, Company had installed rooftop solar projects at its Silvassa facility with a capacity of 2.35 MW. Further, during Fiscal 2024, 0.86% of the energy consumed is derived from renewable resources, i.e. the rooftop solar projects at its Silvassa facility. Company's first rooftop solar project become operational from the calendar year 2019.

Company's facility is designed with 'Zero Liquid Discharge Solution', where no industrial wastewater is discharged into surface waters, thereby minimizing environmental pollution. Company also manufacture products from recycled materials which are sold under the brand 'Sanathan Reviro'. The scale of its operations and vast distribution network along with its customers' confidence have had a significant impact on its revenues and profitability.



INVESTMENT RATIONALE	
<i>Focus on the product development of new products, through process innovation</i>	Company constantly seek to innovate and design products that are unique in colour, property, characteristics to suit specific customer requirements. Company have an in-house Product Innovation and Development team that is continually focusses on developing value added products and using its existing machines and infrastructure to prepare customized made to order products. Value added products and customisation of products is an integral element to ensuring longevity of customer relationships and repeat business. Company offer a varied range of value added products which constitute a significant proportion of its revenues have higher margins since these are tailor-made to customer requirements and distinctive properties and characteristics.
<i>Fully integrated Yarn manufacturing plant set up at a strategic location with equipment supplied by domestic and globally renowned players</i>	Company's products are manufactured at its facility at Silvassa which lies in western Gujarat (Operating Facility). The West Gujarat Cluster is amongst the major strategic locations for polyester yarn manufacturers in India due to availability of manufacturing facilities across supply chain of polyester segment. Presence of raw materials manufacturers, for MEG and PTA, such as Reliance industries, provides a logistical advantage for manufacturers in the location. Company's facility has access to the textile markets of Gujarat and Maharashtra. The equipment in its facility has been designed and supplied by few of the domestic and globally renowned players in the yarn industry and has been designed to handle high number of SKUs so as to service made to order products as well as high value-added products. Company believe that its automatic doffing, transportation and package handling systems meet global inventory management standards, and its automated warehouse management system ensures high efficiency, less damage and better inventory management in limited space for handling a large number of SKUs. The process automation and technology help in reduction of labour dependency and brings in more efficiency. Further, the data driven decision making helps in timely management of production resulting in higher profitability.
<i>Long standing association with leading consumer brands with a low customer concentration</i>	Company have established long-standing relationships with few of the leading consumer brands such as Welspun India Limited, Valson Industries Limited, G.M. Fabrics Private Limited, Premco Global Limited, Creative Garments Textile Mills Private Limited, Banswara Syntex Limited, AYM Syntex Limited, Techno Sportswear Private Limited, Haren Textiles Private Limited, Khosla Profil Private Limited, Tulip Elastics Private Limited, Ganesha Ecosphere Limited, Udyogi International Private Limited, Page Industries Limited, D'Décor Home Fabrics Private Limited, Siyaram Silk Mills Limited, Duvalli S.A., G.M. Syntex Private Limited, Maruti Rub-Plast Private Limited, Geosys India Infrastructures Limited, Wildcraft India Limited, SRF Limited, RSWM Limited, Sangam (India) Limited, Ateliers Reunis De Filature, Abhay Trading Company and Ascent Yarns Private Limited, which company has been possible due to decades of association, delivery of quality products, made to order products 244 and by maintaining high quality standards
<i>Deep knowledge and understanding of optimal product assortment and strong supplier network enabling procurement at predictable and competitive pricing, leading to an overall efficient cycle.</i>	Company have a diversified product portfolio for which it focus on using its deep knowledge of the clusters and regions in which company operate to customise its product assortment keeping in mind local demands and preferences. Company also continuously focus on enhancing the products that it manufacture.



OBJECTS OF OFFER

The Offer comprises the Fresh Issue and an Offer for Sale by the Selling Shareholders. Offer for Sale The Offer for Sale aggregating up to ₹ 1,500.00 million.

Requirement of Funds

Company proposes to utilise the Net Proceeds towards the following objects:

1. Repayment and/ or pre-payment, in full or part, of certain borrowings availed by company;
2. Investment in its subsidiary viz. Sanathan Polycot Private Limited, for repayment and/ or pre-payment, in full or part, of certain borrowings availed by company's subsidiary viz. Sanathan Polycot Private Limited; and
3. General corporate purposes.

RISKS

Company do not have long term agreements for supply of its raw materials. If company is unable to procure raw materials of the required quality and quantity, at competitive prices, its business, results of operations and financial condition may be adversely affected. Majority of company's raw materials are sourced from few key suppliers. Discontinuation of operations of such suppliers may adversely affect its ability to source raw materials at a competitive price.

Source:RHP

INDUSTRY OVERVIEW

Industrial and technical textile industry in India

Technical textile can be grouped into 12 segments depending on final product

Technical textiles are defined as textile materials and products used primarily for their technical performance and functional properties rather than their aesthetic or decorative characteristics. Other terms used for defining technical textiles include industrial textiles, functional textiles, performance textiles, engineering textiles, invisible textiles and hi-tech textiles. Technical textiles are used individually or as a component/part of another product. Technical textiles are used individually to satisfy specific functions such as fire-retardant fabric for uniforms of firemen and coated fabric to be used as awnings. As a component or part of another product, they are used to enhance the strength, performance or other functional properties of that product. Technical textiles have been slowly but steadily gaining ground due to one or more of the reasons such as: functional requirement, health & safety; cost effectiveness; durability; high strength; light weight; versatility; customization; user friendliness; eco friendliness; logistical convenience etc. Unlike conventional textiles used traditionally for clothing or furnishing, technical textiles are used basically on account of their specific physical and functional properties and mostly by other user industries. Depending on the product characteristics, functional requirements and end-use applications the highly diversified range of technical textile are grouped into 12 segments.



Consolidated Financials

(Rs in Mn)

Financials	FY22	FY23	FY24	Q1 FY 2025
Total Revenue (A)	31853.20	33292.13	29575.04	7811.28
Total Expenditure (B)	26477.08	30696.83	27309.23	7046.9
EBIDTA	5376.12	2595.30	2265.81	764.38
EBIDTA Margin	16.88	7.80	7.66	9.79
Other Income	161.40	158.06	223.00	66.33
Depreciation	421.70	434.86	443.86	112.04
EBIT	5115.82	2318.50	2044.95	718.67
Interest	324.60	224.18	230.84	50.96
PBT	4791.22	2094.32	1814.11	667.71
Share of profit in Asso	0.00	0.00	0.00	0.00
PBIT	4791.22	2094.32	1814.11	667.71
Exceptional	0.00	0.00	0.00	0.00
PBT	4791.22	2094.32	1814.11	667.71
Tax	1236.80	566.91	475.60	166.98
PAT	3554.42	1527.41	1338.51	500.73
NPM	11.16	4.59	4.53	6.41
ROE%	36.03	13.40	10.42	3.72
EPS	49.40	21.24	18.60	6.96
Eq Cap	719.43	719.43	719.43	719.43
Net Worth	9,866.38	11,401.10	12,749.74	13,248.87

(Source: RHP)

Peer Comparison

Company Name	Face Value	EPS	P/E	ROE %	NAV
<i>Sanathan Textiles Limited*</i>	<i>10</i>	<i>18.60</i>	<i>--</i>	<i>10.42</i>	<i>177.22</i>
Peers					
K.P.R. Mill Ltd	1.00	23.56	39.68	18.48	127.50
Vardhman Textiles Ltd.	2.00	22.20	21.19	7.00	314.69
Indo Count Industries Ltd	1.00	17.06	22.75	16.35	105.48
Filatex India Ltd.	1.00	2.49	24.30	9.19	27.13
Garware Technical Fibres Ltd	10.00	102.16	39.57	16.87	621.49

(Source: RHP)



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