

# Company Analysis and Financial Due Diligence

March 2015

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To,  
Mr Jayesh Taori,  
National Stock Exchange of India Ltd  
Exchange Plaza,  
Plot No. C/1, G Block,  
Bandra - Kurla Complex  
Bandra (E)  
Mumbai - 400051

Date: March 23, 2015

Dear Sir,

We refer to your recent meeting with us when you requested us to provide to you a Company Analysis and Financial Due Diligence Report ("FDD Report") covering the limited scope as mentioned in the annexure below and for the purpose of potential listing of Supreme India Impex Ltd ("the Company") in the Small and Medium Enterprise (SME) Exchange of the National Stock Exchange (NSE).

We now enclose our Company Analysis and FDD Report dated March 23, 2015. This Company Analysis and FDD Report is based on the information provided by the company to us and also on the meetings with the Management of the Company.

For the purpose of preparing the Company Analysis and FDD Report, we have not independently verified the information provided by the Company or collected by us from other sources. CRISIL does not guarantee the accuracy, adequacy or completeness of any information contained in such Reports. CRISIL especially states that it has no financial liability whatsoever to you / the Company / users of the Reports. CRISIL's Reports submitted to the NSE do not constitute recommendations to list or not to list the Company on the SME Exchange.

All the Company Analysis and FDD Reports submitted by CRISIL are confidential and are meant for internal use only of the NSE and should not be used for purpose other than the potential listing of the Company on the SME Exchange.

This letter shall form an integral part of the Company Analysis and FDD Reports.

We appreciate the opportunity to conduct financial due diligence on Supreme India Impex Ltd

Yours faithfully,

For CRISIL Ltd

Prasad Koparkar

Senior Director – CRISIL Research

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## Glossary of terms

AS – Accounting standards	MAT – Minimum alternative tax
bps – Basis points	MIS – Management information system
Capex – Capital expenditure	NDA – Non disclosure agreement
CAGR – Cumulative average growth rate	PAT – Profit after tax
CC – Cash credit	PBT – Profit before tax
COGS – Cost of goods sold	RM – Raw materials
CWIP – Capital work in progress	sq ft – Square feet
DRHP – Draft Red Herring Prospectus	y-o-y – year-on-year
EBITDA – Earnings before interest tax depreciation and amortisation	
EPS – Earnings per share	
FA – Fixed assets	
FB – Fund based	
FG – Finished goods	
FIFO – First in first out	
FS – Financial statements	
FYXX – Financial year ended March 31, 20XX	
GFA – Gross fixed assets	

# Company Analysis

## Company background

Supreme India Impex Ltd (Supreme India) was established in 1995 by Mr Jugal Kishore Jhawar as a textile manufacturing company. It manufactures and exports women's garments and undertakes value-added work such as handwork, sequencing and embroidery on fabrics. The company has recently diversified its presence into polyester fully drawn yarn (FDY) which is used in making home furnishing fabrics, terry towels and similar products.

Supreme India's headquarters and manufacturing unit are located in Surat, Gujarat.

## Key positives

- Having started as a textile manufacturing company catering to the domestic market, Supreme India has successfully transformed into an exporter of readymade garments, mainly comprising women's clothing. Over the years, the company has established strong relationships with traders such as Indo Emirates Trading Company and Land Mark General Trading Company who have a strong international footing. This ensures a healthy order book for Supreme India.
- The promoter, Mr Jugal Kishore Jhawar, has extensive experience and in-depth knowledge in apparels, garments and textile and is well acquainted with the export markets. This has contributed significantly to the growth of the company and is expected to play an important role as the company plans to expand its operations.
- Supreme India has an established presence in various geographies such as UAE, Saudi Arabia, Nigeria, Ghana, South Africa, Mexico, Kenya, Tanzania, Ivory Coast, the Netherlands and other Middle East countries.
- The manufacturing capabilities are supported by modern and scalable technology systems and well laid-out processes. The company is equipped with the latest technology and machines such as Schiffli machine, with daily production of 6 tonnes.

The Schiffli machine is a variation of the sewing machine. It embroiders with front thread and bobbin thread (yarn at the back of the cloth) which together form a lock stitch, similar to that of a sewing machine. This simplifies the mechanical system and can be run by a single operator with improved efficiency.

## Key negatives

- **Low profitability and margins:** Supreme India's EBITDA margin and PAT margin have remained in the range of 5-6.5% and 1-1.5%, respectively, over the past five years. The company's profitability and margin profile are weak. Since it does not sell directly to the end user, margins are impacted adversely. The company has limited flexibility with respect to pricing of products as a result of intense competition in a highly fragmented textile industry.
- **High debtor days:** The company's working capital days have increased from 68 in FY09 to 178 in FY14 due to increase in debtor days from 113 in FY09 to 208 in FY14. On account of high debtors, the cash flow from operations is negative. The management mentioned that debtors are given a 90-day credit period. However, longer transit time to ship the products to the end customers has resulted in high debtor days. As per the management, debtors are expected to remain high in the future as well. This may continue to strain cash flows.
- **Client concentration:** Supreme India's largest client accounted for 76% of total revenues in FY14 (94% in FY13). Any change in the client's procurement policy could impact the company's sales.
- **High leverage:** The company's debt-equity ratio is high at 3.7x as of FY14, mainly on account of high debt as a result of bill discounting, which has led to deterioration of the overall capital structure and adversely impacted profitability. Interest coverage ratio was low at 1.5x in FY14.

## Key risks

- Supreme India manufactures and exports women's garments in specific styles and patterns. Demand for its products is highly sensitive to changes in fashion and trends in the respective geographies. Hence, the company needs to constantly keep itself abreast of the changing fashion trends. Any potential change in the consumer's preference can impact Supreme India's business.
- The company does not own any brand and sells its products under the label 'Trendz' and 'Bestex'. Without the ownership of a brand, it may not be able to command a premium and would have to depend on traders and other intermediaries for business, which affects the margins and profitability adversely. Given Supreme India's limited clientele, any change in the client's procurement strategy and policies will directly impact Supreme India's business performance.
- The remuneration paid to the key management personnel (KMP) and promoters is low. A raise in remuneration can adversely impact PAT. The company has passed a resolution to increase the remuneration of promoter director to ₹1.2 mn post H1FY15.

## Management and corporate governance

- The management is promoter-driven. Promoter Jugal Kishore Jhawar is the managing director. He is supported by his son Abhishek Jhawar, who heads the marketing (domestic and exports) function. Based on our interactions with the management, we believe that the decision making is centralised and rests mainly with Mr Jugal Kishore Jhawar.
- As of August 2014, the board consists of three members including the chairman and managing director and two non-executive directors. Ms Sarita Devi Jhawar, promoter's wife, and Ms Bhanwaridevi Jhawar, promoter's mother, are the non-executive directors. Apart from general mentorship, they have no active role in business operations.
- The company owes outstanding interest-free loans of ₹23 mn to the promoter group. As per our interaction with the management, such covenants are required by the banks for disbursement of loans. Though unlikely, any change in the covenants of such loans may affect the profitability.

## Key financials

- Supreme India's revenues have grown at a strong CAGR of 25% over FY10-14 to ₹3.4 bn driven by growth in sales volumes and addition of new capacity over the years. In FY13, the company diversified its presence into polyester FDY, which contributes ~15% to total revenues.
- EBITDA margin has remained between 6% and 6.5% over the past five years.
- PAT has increased at a CAGR of 29% over FY10-14 to ₹53 mn. PAT margin has remained low in the range of 1%-1.5% over the past five years due to low EBITDA margin and significantly high interest cost. Interest cost increased from ₹47 mn in FY10 to ₹146 mn in FY14.
- Supreme India's RoE is low and has been in the range of 12-12.5% over the past five years.

## Financial Due Diligence

### Company Overview

#### Business Overview

- Supreme India manufactures and exports women's garments and undertakes value-added work such as handwork, sequencing and embroidery on fabrics. It was established in 1995 by Mr Jugal Kishore Jhawar. The company exports nearly all of its production (99% in FY14), through intermediaries (trading companies) in UAE, to Turkey, Nigeria, Ghana, South Africa, Mexico, Kenya, Tanzania, Ivory Coast, the Netherlands and other Middle East Countries.
- Supreme India has a manufacturing unit in GIDC, Surat, Gujarat.

#### Products

	Brief Description
Sarees	Supreme India manufactures a range of sarees catergorised as designer, ethnic, embroidered, printed, silk, embroidered and handloom sarees. The company offers tailor-made products as per client's specifications.
Salwaar suits	The company specialises in undertaking value-added work such as decoration cuts, curves, patches, embroidery, floral work, thread work, sippy work, glass work on salwars.
Fabrics	The fabric line of the company features an extensive range of dyed, knitted, printed and cotton fabrics.
Embroidery Accessories	The company specialises in embroidery on a range of casual and high fashion fabrics in cotton, silk, polyester, viscose, linen, tulle, net and organza.
Yarn Doubling	The company started yarn doubling & twisting in FY14. The Company purchases, doubles and twists the yarn as per the customer specific requirements and exports it to foreign countries.

Source: Company, CRISIL Research

## Board of Directors

Name	Age	Designation	Qualifications	Profile	Other Directorship
Mr Jugalkishore Jhawar	52	Managing Director	B.Com.	He is the promoter and managing director of the Company since August, 1995. He has more than 25 years of experience in the apparels industry. Presently, he monitors the marketing, financial and operational activities of the business. He is responsible for taking strategic decisions and developing business relations for the Company.	<ol style="list-style-type: none"> <li>1. Redolent (India) Synthetics Pvt. Ltd</li> <li>2. Advance Fibres and Fabrks Pvt. Ltd</li> <li>3. Vamatex Ventures Pvt. Ltd</li> <li>4. Supreme Avenues Pvt. Ltd</li> </ol>
Ms Saritadevi Jhawar	49	Director	NA	She is the Non-Executive Director of the Company since October, 2004. She is not playing an active role in the operations of the company.	<ol style="list-style-type: none"> <li>1. Jhawar Biotech Pvt. Ltd</li> <li>2. Supreme Avenues Pvt. Ltd</li> </ol>
Ms Bhanwaridevi Jhawar	79	Director	NA	She is the Non-Executive Director of the Company since October, 2004. She is not playing an active role in the operations of the company.	Nil
Mr Tansukhraj Lalchand Jain	44	Independent Director	NA	NA	Infoline. In Private Limited
Mr Ajay Buddhiprakash Dalmia	44	Independent Director	NA	NA	Nil
Mr Vikas Chordia	26	Independent Director	Chartered Accountant	NA	Nil

Source: Company, CRISIL Research

## Executive Summary

### Key Findings

#### i) High debtor days leading to stretched working capital

Background	Comments / implications	Management comments
<ul style="list-style-type: none"> <li>Supreme India's debtor days have increased to 208 in FY14 from 120 in FY10. As a result, working capital days have increased to 178 from 130 in FY10.</li> </ul>	<ul style="list-style-type: none"> <li>Debtors are expected to remain high as it is mainly on account of the longer transit time taken to ship the products to the end customer. Further, the company provides 90-day credit to its clients. Hence, we expect the working capital days to remain high and cash flows to remain stretched.</li> </ul>	<ul style="list-style-type: none"> <li>According to the management, the company provides about 90-day credit to its clients. Further, the transit time taken to ship the goods to the end customer is high due to various trade clearances at different countries. As a result, debtor days and, hence, the working capital days are expected to remain high.</li> </ul>

#### ii) High debt levels leading to weak capital structure

Background	Comments / implications	Management Comments
<ul style="list-style-type: none"> <li>The company's debt-equity ratio was as high as 3.7x in FY14. The interest coverage ratio was low at 1.5x.</li> <li>Debt is highly mainly on account of bill discounting facility availed from banks to meet the working capital requirements.</li> </ul>	<ul style="list-style-type: none"> <li>The financial risk is high given the high gearing.</li> <li>The company has raised a large amount of debt to fund its working capital requirements which has resulted in high interest cost, thereby resulting in low PAT margins. Given the high debt-equity ratio and low interest coverage ratio, any incremental debt to fund the working capital requirements and future expansion plans may impact the profitability adversely and is a risk.</li> </ul>	<ul style="list-style-type: none"> <li>As per the management, significant amount of funds are needed for the working capital requirements. IPO proceeds will help reduce the debt-equity ratio slightly. The management also indicated some expansion plans which would be partially funded by debt.</li> </ul>

## Executive Summary

## iii) Investment in a subsidiary which plans to start a project on cotton spinning

Background	Comments / implications	Management Comments
<ul style="list-style-type: none"> <li>In FY14, the company purchased the business of Utility Aquatech Pvt. Ltd for a sum of ₹105 mn. Utility Aquatech is now a subsidiary of Supreme India.</li> </ul>	<ul style="list-style-type: none"> <li>At present, Utility Aquatech is a non-functioning company. It has about 45 acres land in Kosamba near Surat.</li> </ul>	<ul style="list-style-type: none"> <li>As per the management, the company will commence a project on cotton spinning and garments on the land and resources of Utility Aquatech.</li> </ul>

## iv) The remuneration of KMP and promoters is low

Background	Comments / implications	Management Comments
<ul style="list-style-type: none"> <li>Promoter director, Mr Jugal Kishore Jhawar, received salary of ₹0.4 mn in FY14.</li> <li>The salary paid to KMP is low vis-à-vis their roles and responsibilities.</li> <li>The company has passed a resolution to increase the remuneration of promoter director to ₹1.2 mn post H1FY15.</li> </ul>	<ul style="list-style-type: none"> <li>The current salary cost may not be representative of future cost. Salaries may increase post fund raising, impacting future profitability.</li> </ul>	<ul style="list-style-type: none"> <li>As per the management, there was a need to plough back profits into the company and, hence, they have not increased the salaries significantly. Salaries are likely to increase gradually in the future.</li> </ul>

## Details of annual salary of promoters and KMP (FY14)

Name	Designation	CTC (₹ mn per annum)
Mr Jugal Kishore Jhawar	Chairman and MD	0.4
Ms Sarita Devi Jugal Kishore Jhawar	Non-executive director	-
Ms Bhanwaridevi Chhaganlal Jhawar	Non-executive director	-
Dheeraj Jaiswal	Accounts Manager	0.6
Abhishek Jhawar	Export Marketing Manager	0.4
Suresh Babu R	Export Manager	0.4
P.B. Pandey	Production Manager	0.6
Sarvesh Kumar	Production Manager (Yarn)	0.4
Narayan Prasad Jhawar	Research & Development Manager	0.2
Rajesh Jivnani	Admin & Control Manager	1.2

Source: Company

## Analysis of Financial Statements

### Income Statement Analysis

Particulars	₹ mn						Common size statement					
	FY10	FY11	FY12	FY13	FY14	H1FY15	FY10	FY11	FY12	FY13	FY14	H1FY15
<b>Income</b>												
Gross sales	1,393	1,620	1,875	2,508	3,135	1,714	99.9%	91.9%	91.3%	90.1%	91.7%	92.4%
Traded goods sales	-	9	19	71	33	12	0.0%	0.5%	0.9%	2.6%	1.0%	0.7%
Less: trade discount/excise	-	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net sales	1,393	1,629	1,893	2,580	3,168	1,726	99.9%	92.4%	92.2%	92.6%	92.7%	93.1%
Other operating income	1	133	159	205	249	129	0.1%	7.6%	7.8%	7.4%	7.3%	6.9%
<b>Operating income</b>	<b>1,394</b>	<b>1,763</b>	<b>2,052</b>	<b>2,785</b>	<b>3,417</b>	<b>1,855</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Expenditure</b>												
Raw material consumed	1,162	1,489	1,828	2,353	3,123	1,774	83.4%	84.4%	89.0%	84.5%	91.4%	95.6%
Change in inventory	-	-	(135)	101	(108)	(139)	0.0%	0.0%	-6.6%	3.6%	-3.2%	-7.5%
Power and fuel	-	5	3	3	3	3	0.0%	0.3%	0.1%	0.1%	0.1%	0.2%
Employee costs	6	24	16	18	18	15	0.4%	1.4%	0.8%	0.6%	0.5%	0.8%
Other manufacturing expenses	115	110	173	100	94	69	8.3%	6.3%	8.4%	3.6%	2.8%	3.7%
Other expenses	16	8	(0)	(7)	40	(22)	1.2%	0.5%	0.0%	-0.2%	1.2%	-1.2%
SG&A	12	15	19	31	34	17	0.9%	0.9%	0.9%	1.1%	1.0%	0.9%
<b>EBITDA</b>	<b>82</b>	<b>111</b>	<b>149</b>	<b>186</b>	<b>214</b>	<b>138</b>	<b>5.9%</b>	<b>6.3%</b>	<b>7.3%</b>	<b>6.7%</b>	<b>6.3%</b>	<b>7.4%</b>
Depreciation	7	8	8	8	7	13	0.5%	0.5%	0.4%	0.3%	0.2%	0.7%
<b>EBIT</b>	<b>75</b>	<b>103</b>	<b>142</b>	<b>178</b>	<b>207</b>	<b>125</b>	<b>5.4%</b>	<b>5.8%</b>	<b>6.9%</b>	<b>6.4%</b>	<b>6.0%</b>	<b>6.7%</b>
Interest	47	71	99	130	146	89	3.4%	4.0%	4.8%	4.7%	4.3%	4.8%
<b>Operating PBT</b>	<b>27</b>	<b>32</b>	<b>43</b>	<b>48</b>	<b>61</b>	<b>36</b>	<b>2.0%</b>	<b>1.8%</b>	<b>2.1%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>2.0%</b>
Other income	-	10	10	12	15	5	0.0%	0.6%	0.5%	0.4%	0.4%	0.3%
Exceptional inc/(exp)	(0)	(6)	(1)	(1)	(1)	0	0.0%	-0.3%	0.0%	0.0%	0.0%	0.0%
<b>PBT</b>	<b>27</b>	<b>36</b>	<b>52</b>	<b>60</b>	<b>74</b>	<b>41</b>	<b>1.9%</b>	<b>2.1%</b>	<b>2.5%</b>	<b>2.1%</b>	<b>2.2%</b>	<b>2.2%</b>

Particulars	(` mn)						Common size statement					
	FY10	FY11	FY12	FY13	FY14	H1FY15	FY10	FY11	FY12	FY13	FY14	H1FY15
Tax provision	8	15	17	18	23	13	0.6%	0.9%	0.8%	0.6%	0.7%	0.7%
<b>PAT (reported)</b>	<b>19</b>	<b>21</b>	<b>35</b>	<b>41</b>	<b>51</b>	<b>29</b>	<b>1.3%</b>	<b>1.2%</b>	<b>1.7%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>
Less: Exceptionals	(0)	(6)	(1)	(1)	(1)	0	0.0%	-0.3%	0.0%	0.0%	0.0%	0.0%
<b>Adjusted PAT</b>	<b>19</b>	<b>27</b>	<b>35</b>	<b>42</b>	<b>53</b>	<b>29</b>	<b>1.4%</b>	<b>1.5%</b>	<b>1.7%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>

Source: Company, CRISIL Research

### Revenue analysis

(` mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
<b>Total gross income</b>	1,393	1,620	1,875	2,508	3,135	1,714
y-o-y change	NA	16.4%	15.7%	33.8%	25.0%	NA
Traded goods sales	-	9	19	71	33	12
y-o-y change	NA	NA	106.1%	284.5%	-54.0%	NA
Less: trade discounts/excise	-	-	-	-	-	-
Trade discount as a % of gross sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	1,393	1,629	1,893	2,580	3,168	1,726
y-o-y change	NA	17.0%	16.2%	36.3%	22.8%	NA
Other operating income	1	133	159	205	249	129
Total operating income	1,394	1,763	2,052	2,785	3,417	1,855
y-o-y change	NA	26.5%	16.4%	35.7%	22.7%	NA

Source: Company, CRISIL Research

- Supreme India's net revenues have grown at a four-year CAGR of 25% to ₹3.4 bn in FY14 from ₹1.3 bn in FY10, driven by volume growth of 45% CAGR over FY10-14. The company has diversified into polyester FDY, which contributed ~15% to revenues in FY14.
- The realisations have declined sharply over the past five years. The management has been unable to provide satisfactory explanation on the same.
- Exports accounted for 99.4% of revenues in FY14.
- The company reports both gross sales and net sales. For our analysis, we have used net sales.

## Geographical break-down of revenues

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
<b>Revenues from manufactured goods</b>						
Exports	1,215	1,552	1,838	2,470	3,116	1,710
Domestic	0	2	5	1	3	0
<b>Revenues from traded goods</b>						
Exports	-	9	19	71	33	12
Domestic	-	-	-	-	-	-
<b>Revenues from services rendered</b>						
Job work charges	58	67	32	38	16	3
<b>Other operating revenues</b>						
Duty drawback and export incentives	120	134	160	206	250	128
<b>Total revenues</b>	<b>1,393</b>	<b>1,764</b>	<b>2,054</b>	<b>2,786</b>	<b>3,418</b>	<b>1,855</b>
<b>Share of exports in revenues</b>	<b>96%</b>	<b>96%</b>	<b>98%</b>	<b>99%</b>	<b>99%</b>	<b>100%</b>

Source: Company, CRISIL Research

**Capacity and Production**

- Supreme India's manufacturing facility is equipped with the latest technology including three Schiffli machines from Switzerland and 22 yarn doubling machines.
- The Schiffli machines are capable of making 194,4000 stitches per day and have been running at ~80% utilisation over the past three years. Yarn doubling machines have a daily capacity of manufacturing 6 tonnes.

## Supreme India's top customers

Top clients (FY14)	Amount (₹ mn)	as % of total
Indo Emirates Trading Co. LLC	2,418	76%
Land Mark General Trading Co. FZE	560	18%
Titanium Trading FZE	170	5%
Others	20	1%
<b>Total</b>	<b>*3,168</b>	<b>99%</b>

\*Excludes duty drawback

Top clients (FY13)	Amount (₹ mn)	as % of total
Indo Emirates Trading Co. LLC	2,417	94%
Land Mark General Trading Co. FZE	97	4%
Titanium Trading FZE	6	0%
<b>Total</b>	<b>*2,580</b>	<b>98%</b>

\*Excludes duty drawback

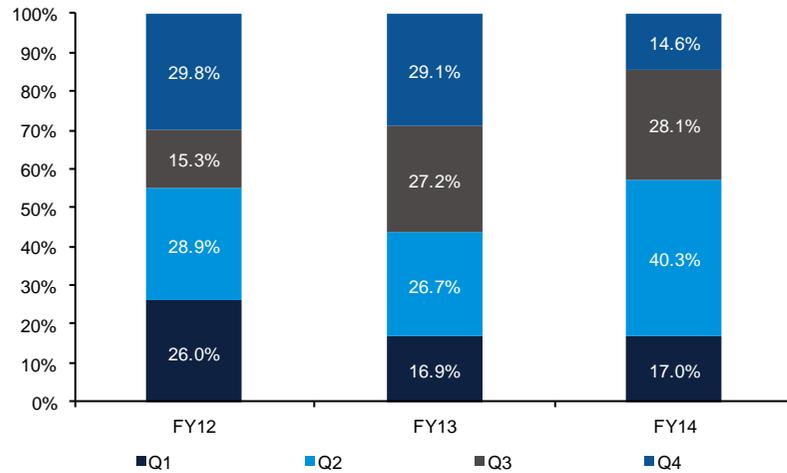
Top clients (FY12)	Amount (₹ mn)	as % of total
Indo Emirates Trading Co. LLC	1,599	84%
Land Mark General Trading Co. FZE	249	13%
<b>Total</b>	<b>1,893</b>	<b>98%</b>

## Source: Company, CRISIL Research

- Over the past three years, the company's top client has been Indo Emirates Trading Co. LLC (Indo Emirates) with 76% contribution to overall revenues in FY14 and 94% in FY13. The company has two other clients. We believe that high dependence on this group of three is a key risk for the company as any change in their procurement policy, especially of Indo Emirates, could adversely impact Supreme India's sales.

## Seasonality of revenues

### Quarterly income break-down



Source: Company, CRISIL Research

- Supreme India's revenues do not exhibit seasonality.

### Raw material cost

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Raw material cost	1,162	1,489	1,693	2,454	3,015	1,634
Raw material cost as a % of sales	83.4%	84.4%	82.5%	88.1%	88.2%	88.1%

Source: Company, CRISIL Research

- Supreme India's main raw material is fabric in case of embroidery/printing, and polyester FDY in case of doubling and twisting. The company locally procures all raw materials.
- Its raw material cost as a percentage of sales has increased from 83.4% in FY10 to 88.2% in FY14. The management has attributed this increase to rise in yarn prices and change in product mix. We found the explanation of the increase in raw material cost unsatisfactory.

**Power and fuel cost**

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Power and fuel cost	-	5	3	3	3	3
Power and fuel cost as a % of sales	0.0%	0.3%	0.1%	0.1%	0.1%	0.2%

**Source: Company, CRISIL Research**

- Power and fuel cost accounts for 0.1% of the company's sales since garment manufacturing is not capital-intensive and requires more labour than machinery.

**Manufacturing expenses**

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Job work expenses and processing charges paid	78.0	103.9	164.6	92.1	86.5	57.5
Repairs to building, plant and machinery	0.7	0.8	0.6	1.0	2.0	1.3
Insurance	3.2	3.5	4.4	3.9	3.8	2.1
Factory expenses	0.6	0.5	0.8	0.8	0.6	0.2
Other expenses	16.3	1.6	2.1	1.8	1.4	7.8
As a % of sales	7.1%	6.3%	8.4%	3.6%	2.8%	3.7%

**Source: Company, CRISIL Research**

- Manufacturing expenses as a percentage of sales decreased significantly from 7.1% in FY10 to 2.8% in FY14 due to increase in outsourcing of job work.

**Employee cost**

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Employee cost	15	24	16	18	18	15
Employee cost as a % of sales	1.1%	1.4%	0.8%	0.6%	0.5%	0.8%

**Source: Company, CRISIL Research**

**Remuneration of promoters**

₹ mn	FY10	FY11	FY12	FY13	FY14	H1FY15
Mr Jugal Kishore Jhawar	-	-	0.4	0.4	0.4	0.3
As a percentage of net profit	0.0%	0.0%	1.0%	0.9%	0.7%	1.1%

*Note: Remuneration excludes perquisites*

**Source: Company, CRISIL Research**

- Employee cost is 0.5-1% of operating income. The company currently has 47 employees excluding labour personnel. (Data is awaited from the company regarding number of employees on rolls.)
- The promoter, Mr Jugal Kishore Jhawar, drew ₹0.4 mn (0.7% of PAT) as total salary in FY14.

### Salary of KMP

Name	Designation	CTC (₹ mn per annum)
Mr Abhishek Jhawar	Export Marketing Manager	0.4
Ruchita Jhawar	Designing Manager	0.2
Dheeraj Jaiswal	Accounts Manager	0.6
Suresh Babu R	Export Manager	0.4
P.B. Pandey	Production Manager	0.6
Sarvesh Kumar	Production Manager (Yarn)	0.4
Narayan Prasad Jhawar	Research & Development Manager	0.2
Rajesh Jivnani	Admin & Control Manager	1.2

Source: Company, CRISIL Research

- In our opinion, salaries of some of the KMP are on the lower side and the company may have to raise the salary levels to retain the key employees.

### Other expenses

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Rent rates and taxes	0.2	0.3	0.9	1.1	1.5	1.2
Directors fees, allowances, audit fees, legal expenses	1.9	2.9	1.8	3.0	7.0	1.2
Travelling and conveyance	2.3	1.9	2.4	2.6	2.9	2.0
Postage phone and telex	1.9	0.8	0.9	0.6	0.7	0.3
Printing and stationery	1.8	0.4	0.2	0.2	0.3	0.2
Donations	0.0	0.0	0.1	0.1	0.6	0.3
Vehicle expenses	1.9	0.5	0.5	0.5	0.5	0.3
Net loss on foreign currency transactions and translation	-	1.2	-	-	26.5	(27.5)
Miscellaneous expenses	0.1	0.1	0.3	0.3	0.2	0.1
As a % of sales	0.73%	0.46%	0.35%	0.30%	1.17%	NM

Source: Company, CRISIL Research

- Other expenses excluding foreign exchange gain/loss have been less than 1% of sales.
- Exports account for nearly 100% sales. The company sold forward contracts in FY14 and incurred a net loss of ₹26 mn on the same due to rupee depreciation.
- The company reported a gain of ₹27.5 mn on foreign currency transactions and translation in H1FY15.

#### Selling, general and administrative (SG&A) expenses

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Sampling and promotion	0.1	0.6	0.8	0.4	0.6	0.1
Commission and sales discount	2.5	3.3	2.3	2.0	2.6	0.0
Freight outward	10.9	11.3	15.7	28.8	30.5	17.3
Total	0.8	15.1	18.8	31.2	33.6	17.5
As a % of sales	0.06%	0.86%	0.92%	1.12%	0.98%	0.94%

Source: Company, CRISIL Research

- SG&A expenses as a percentage of sales have been low at less than 1% as Supreme India only manufactures apparels and does not incur advertising and sales promotion expenses. This is in line with the industry.

#### EBITDA margin

	FY10	FY11	FY12	FY13	FY14	H1FY15
Raw material consumed	83.9%	84.4%	82.5%	88.1%	88.2%	88.1%
Power and fuel	0.3%	0.3%	0.1%	0.1%	0.1%	0.2%
Employee costs	1.1%	1.4%	0.8%	0.6%	0.5%	0.8%
Other manufacturing expenses	7.1%	6.3%	8.4%	3.6%	2.8%	3.7%
Other expenses	0.3%	0.5%	0.0%	-0.2%	1.2%	-1.2%
SG&A	1.0%	0.9%	0.9%	1.1%	1.0%	0.9%
EBITDA	6.4%	6.3%	7.3%	6.7%	6.3%	7.4%

Source: Company, CRISIL Research

- Supreme India's EBITDA margin has remained low and flat between 6% and 6.5% over the past five years. The key reasons are:
  - Dependence on trading companies to sell the products to the end user.
  - Intense competition in the garment manufacturing industry which limits the flexibility with respect to pricing of the products.

**Finance charges**

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Interest expense	49	67	92	123	138	84
Other borrowing cost	4	4	7	7	8	5
Total interest cost	53	71	99	130	146	89
Interest cost as a % of sales	3.8%	4.0%	4.8%	4.7%	4.3%	4.8%
Year end borrowings	605	757	1,032	1,383	1,681	1,774
Interest rate (on average borrowings)	10.07%	10.41%	11.08%	10.78%	9.54%	10.3%

**Source: Company, CRISIL Research**

- Supreme India's interest expense has increased significantly from ₹49 mn in FY10 to ₹138 mn in FY14. This was mainly on account of increase in debt to fund incremental working capital requirement – working capital loans have increased from ₹546 mn to ₹1,648 mn over the same period.

**Depreciation**

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Depreciation	7	8	8	8	7	13
Depreciation as a % of sales	0.5%	0.5%	0.4%	0.3%	0.2%	0.7%
Gross block	137	152	152	153	170	180
Depreciation rate (% of average gross block)	5.85%	5.56%	4.99%	5.11%	4.39%	14.8%

Note: Details of gross block additions are provided under fixed assets

**Source: Company, CRISIL Research**

- The depreciation expense is expected to increase going forward as the company started its yarn doubling and twisting operations in FY14 and installed machinery for the same. Depreciation on all assets is provided on the written-down value method as per Schedule XIV of the Companies Act, 1956, except for plant and machinery where it is provided on the straight-line method.

#### Tax rate and net income

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Profit before tax	34	42	53	60	75	41
PBT margin	2.5%	2.4%	2.6%	2.2%	2.2%	2.2%
Tax	8	15	17	18	23	13
Effective tax rate (%)	30.7%	41.5%	33.0%	30.4%	30.7%	30.7%
Net profit	19	21	35	41	51	29
Adjusted net profit	26	27	35	42	53	29
Adjusted net profit margin (%)	1.9%	1.5%	1.7%	1.5%	1.5%	1.5%

#### Source: Company, CRISIL Research

- PBT margin declined from 2.5% in FY10 to 2.2% in FY14 mainly due to low EBITDA margin and significant increase in interest cost.
- Adjusted net profit grew at a four-year CAGR of 19% to ₹53 mn in FY14 from ₹26 mn in FY10. Adjusted net profit margin declined from 1.9% in FY10 to 1.5% in FY13.

## Balance sheet analysis

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
<b>Liabilities</b>						
Equity share capital	25	30	31	32	36	36
Others	157	239	284	329	424	448
Reserves and surplus	-	-	-	-	-	-
<b>Net worth</b>	<b>182</b>	<b>269</b>	<b>316</b>	<b>361</b>	<b>460</b>	<b>483</b>
Convertible debt						
Other debt	605	757	1,032	1,383	1,681	1,774
<b>Total debt</b>	<b>605</b>	<b>757</b>	<b>1,032</b>	<b>1,383</b>	<b>1,681</b>	<b>1,774</b>
Deferred tax liability (net)	6	9	10	10	12	11
<b>Total liabilities</b>	<b>793</b>	<b>1,035</b>	<b>1,357</b>	<b>1,754</b>	<b>2,152</b>	<b>2,269</b>
<b>Assets</b>						
Net fixed assets	124	131	125	117	127	125
Capital WIP	-	-	-	-	-	0
<b>Total fixed assets</b>	<b>124</b>	<b>131</b>	<b>125</b>	<b>117</b>	<b>127</b>	<b>125</b>
Investments	0	0	0	0	105	105
<b>Current assets</b>						
Inventory	159	205	270	237	253	495
Sundry debtors	458	716	896	1,213	1,786	2,202
Loans and advances	42	62	83	130	133	118
Cash & bank balance	71	62	99	155	78	105
Marketable securities	-	-	-	-	-	-
<b>Total current assets</b>	<b>731</b>	<b>1,045</b>	<b>1,349</b>	<b>1,735</b>	<b>2,250</b>	<b>2,921</b>
<b>Current liabilities</b>						
Creditors	58	129	99	79	307	873
Provisions	4	13	18	19	24	10
<b>Total current liabilities</b>	<b>62</b>	<b>142</b>	<b>117</b>	<b>99</b>	<b>330</b>	<b>883</b>
Net current assets	669	903	1,232	1,637	1,919	2,038
Intangibles/misc. expenditure	0	0	0	0	0	0
<b>Total assets</b>	<b>793</b>	<b>1,035</b>	<b>1,357</b>	<b>1,754</b>	<b>2,152</b>	<b>2,269</b>

Particulars	FY10	FY11	FY12	FY13	FY14	H1FY15
<b>Activity ratios</b>						
Inventory days	45	46	52	34	29	52
Creditor days	16	28	19	11	35	92
Debtor days	120	148	174	177	208	233
Working capital days	130	149	201	171	178	371
Gross asset turnover (x)	11.4	12.2	2.1	18.3	21.2	21.2
Net asset turnover (x)	12.3	13.8	7.0	23.1	28.0	29.4
Sales/operating assets (x)	12.3	13.8	19.3	23.1	28.0	14.7
<b>Liquidity ratio</b>						
Current ratio (x)	11.7	7.4	11.6	17.6	6.8	3.3
<b>Capital structure ratios</b>						
Debt-equity (x)	3.3	2.8	3.3	3.8	3.7	3.7
Net debt/equity (x)	2.9	2.6	3.0	3.4	3.5	3.5
Interest coverage	1.5	1.5	1.4	1.4	1.4	1.4
<b>Profitability / return ratios</b>						
EBITDA margin (%)	6.4	6.3	7.3	6.7	6.3	7.4
Adj PAT Margin (%)	1.9	1.5	1.7	1.5	1.5	1.5
RoE (%)	17.2	11.9	12.1	12.4	12.8	12.1
RoCE (%)	12.0	11.4	11.9	11.5	10.6	11.4

Source: Company, CRISIL Research

### Equity share capital

- As of FY14, Supreme India has one class of equity share (3,575,319 in number) with a face value of ₹10 each.
- The company's share capital has increased from ₹25 mn in FY10 to ₹36 mn in FY14. The shares were subscribed by the promoters at a premium.

### Movement in Supreme India's net worth

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Share capital	25	30	31	32	36	36
Share premium	100	162	174	180	224	224
Others	-	-	-	-	2	(0)
Reserves & surplus	57	77	110	150	199	224
Shareholders' funds	182	269	316	361	460	483

Source: Company, CRISIL Research

### Build-up of equity share capital

Allotment details	Allotment to	Number of shares allotted	Issue price	Cumulative paid up capital (₹ mn)
30-May-95	Promoters and promoter group	7,000	10	0
15-Apr-97	Promoters and promoter group	112,000	10	1
25-Mar-98	Promoters and promoter group	172,000	10	2
31-Mar-02	Promoters and promoter group	452,000	10	5
31-Mar-06	Bonus Issue	1,356,000	-	14
31-Mar-07	Promoters and promoter group	1,431,000	80	14
25-Mar-08	Promoters and promoter group	1,474,880	75	15
31-Mar-08	Promoters and promoter group	1,694,880	80	17
31-Mar-09	Promoters and promoter group	1,923,380	100	19
19-Nov-09	Promoters and promoter group	2,123,380	100	21
31-Mar-10	Promoters and promoter group	2,455,380	125	25
31-Mar-11	Promoters and promoter group	2,992,670	125	30
31-Mar-12	Promoters and promoter group	3,101,670	100	31
31-Mar-12	Promoters and promoter group	3,128,670	100	31

Allotment details	Allotment to	Number of shares allotted	Issue price	Cumulative paid up capital (₹ mn)
31-Mar-13	Promoters and promoter group	3,175,270	125	32
31-Mar-14	Promoters and promoter group	3,575,319	120	36

Source: Company, CRISIL Research

### Borrowings

- As of FY14, the company has loans worth ₹1,681 mn – ₹32 mn long-term loan and ₹1,684 mn short-term loan (details in Appendix 2).

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Working capital loan (secured)	546	713	1,003	1,339	1,648	1,717
Loans from related party (unsecured)	4	1	-	26	23	46
Term loans (secured)	49	30	17	8	5	6
Term loans (unsecured)	6	3	1	-	-	-
Long-term debt due within one year	NA	10	11	10	4	4
Total	605	757	1,032	1,383	1,681	1,774

Source: Company, CRISIL Research

- Working capital loan**

Working capital loans totalling ₹1,772 mn have been taken from Canara Bank, Dena Bank and Bank of India.

- Term loan**

Term loan consists of secured loans taken from Canara Bank.

- Loans from related party**

The company owes outstanding interest-free loans of ₹35 mn to promoter and related parties.

## Fixed assets

### Composition of net fixed assets

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Plot at Apparel Park	3	3	3	3	3	3
Land and buildings	57	55	56	53	46	45
Plant, machinery and equipment	56	65	57	54	72	71
Furniture and fixtures	3	6	6	5	5	4
Vehicles	1	3	2	1	1	1
Office equipment	1	0	1	1	1	0

Source: Company, CRISIL Research

- Supreme India's fixed assets primarily consist of factory building and plant and machinery (in Surat).
- The company installed 22 yarn doubling machines in FY14.

## Intangibles

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Brands/ trademarks	0.03	0.04	0.04	0.04	0.03	0.03
Computer Software	-	0.07	0.05	0.12	0.07	0.06

- Supreme India's products are marketed under the labels Trendz and Besttex.

## Investments

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Equity instruments of other entities (1200 shares of Canara bank)	0.04	0.04	0.04	0.04	-	-
Gold coins	-	-	-	-	0.13	0.13
Equity instruments of subsidiary company Utility Aquatech Pvt. Ltd	-	-	-	-	105.11	105.11
Total investments	0.04	0.04	0.04	0.04	105.24	105.24
As a % of net worth	0.02%	0.02%	0.01%	0.01%	22.88%	20.28%

Source: Company, CRISIL Research

- Supreme India's investments include ₹105.1 mn in equity shares of Utility Aquatech.

- The company purchased the business of Utility Aquatech in FY14, which was engaged in aquaculture activities. Utility Aquatech closed its operations in FY12. As per the management, the company plans to implement a project on cotton spinning and garments on the land and resources of Utility Aquatech.

### Inventories

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Raw material	51	182	110	179	87	189
Finished goods	108	23	158	56	165	304
Stock-in-trade	-	1	2	2	1	1
Stores and spares	0	0	0	0	1	1
Total inventory	159	205	270	237	253	495
Inventory days (based on sales)	45	46	52	34	29	52

Source: Company, CRISIL Research

- Supreme India's inventory days decreased to 29 in FY14 from 45 in FY10. Inventory days stood at 52 as at H1FY15.
- The management attributed the decrease in raw material inventory in FY14 to the increasing use of readymade purchases with small requirements of value-addition work.

### Sundry debtors

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Gross sales	1,297	1,629	1,893	2,580	3,168	1,726
Debtors	458	716	896	1,213	1,786	2,202
Debtor days (based on sales)	120	148	174	177	208	233

Source: Company, CRISIL Research

- As per the management, the clients are given ~90-day credit period. However, longer transit time taken to ship the product to the end customers has resulted in higher debtor days.
- Debtor days increased to 120 in FY10 to 208 in FY14 and 233 in H1FY15.

### Ageing analysis of debtors

- In the past, 100% of the company's debtors were outstanding for less than six months.
- The company's top debtor (Indo Emirates) comprised ~76% of total debtors in FY14.

**Supreme India – top debtors**

Top debtors as of FY14	Amount outstanding (₹ mn)	As a percentage of total debtors
Indo Emirates Trading Co LLC	1,348	76%
Land Mark General Trading Co. FZE	368	21%
Titanium Trading FZE	67	4%
Others	2	0.1%
<b>Total outstanding debtors</b>	<b>1,786</b>	<b>100%</b>

Source: Company, CRISIL Research

**Loans and advances**

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Security deposits	0.2	0.5	0.5	5.0	1.3	2.4
Loans and advances to employees	0.2	0.0	0.0	0.2	0.2	0.1
Prepaid expenses	0.4	1.5	0.5	1.6	1.6	0.4
Balances with government authorities	41.6	51.0	67.5	106.8	105.0	98.4
Advances to others	-	1.3	1.3	1.3	1.3	17.0
<b>Total loans and advances</b>	<b>42.4</b>	<b>54.3</b>	<b>69.8</b>	<b>114.8</b>	<b>109.3</b>	<b>118.4</b>

Source: Company, CRISIL Research

- The company's loans and advances mainly include balances with Central Excise and Customs, refundable excise duty and service tax, security deposits and advances given to staff.

**Cash and bank balances**

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Cash on hand	0.2	0.1	2.1	1.4	1.8	0.5
In current accounts	(12.9)	(5.1)	2.4	17.4	0.8	5.5
In deposit accounts	83.3	65.1	90.5	130.3	71.5	93.5
Others - recurring deposit account	0.4	0.7	0.1	0.4	0.8	1.0
<b>Total</b>	<b>71.1</b>	<b>60.8</b>	<b>95.0</b>	<b>149.5</b>	<b>74.9</b>	<b>100.5</b>

Source: Company, CRISIL Research

- As of H1FY15, Supreme India has ₹0.5 mn in cash and ₹5.5 mn in the current account. It also has ₹93.5 mn worth of deposits with banks.

#### Marketable securities

- The company has no marketable securities.

#### Creditors

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Sundry Creditors: Supplies	33	90	59	50	254	841
Sundry Creditors: Capital goods	1	-	-	0	3	3
Others	24	39	39	29	50	29
Total creditors	58	129	98	79	307	873
Creditor days	16	28	19	11	35	92

Source: Company, CRISIL Research

- Supreme India's creditors include creditors of raw material supplies and capital goods, advances received from customers, outstanding salaries and statutory dues payable.

#### Supreme India - top 10 creditors

Top 10 creditors	Outstanding amount payable as on March 31, 2014	% of total creditors
Epson Trading Pvt. Ltd	86	29%
Ealdor Retails Pvt. Ltd	49	17%
Modern Trading Business Pvt. Ltd	36	12%
Panama Overseas Pvt. Ltd	31	11%
Jhunjhunwala Cotspin Pvt. Ltd	14	5%
Priority Traders Pvt. Ltd	13	5%
Yug Exports	8	3%
Bluechip Fabrics Pvt. Ltd	7	2%
Best Processors Pvt. Ltd	6	2%
Genewa Corporation	3	1%
<b>Total</b>	<b>292</b>	<b>86%</b>

Source: Company, CRISIL Research

**Provisions**

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Provision for income tax	3.0	4.3	4.8	2.4	0.4	0.7
Provision for proposed dividend	1.1	1.2	1.5	1.6	1.8	-
Provision for tax on proposed dividend	0.2	0.2	0.2	0.3	0.3	-
Fringe benefit tax	-	-	-	-	-	0.1
Total provisions	4.2	5.7	6.6	4.2	2.4	0.8

Source: Company, CRISIL Research

- Total provisions amounted to ₹2.4 mn in FY14.

**Other matters****Contingent liabilities**

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Export obligation pending under EPCG license	-	-	-	-	17	43

Source: Company, CRISIL Research

- As of H1FY15, the company has an export obligation pending under EPCG licence to the extent of ₹43 mn.

**Other related party transactions**

- Details of the related party transactions are as follows:

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
<b>Unsecured borrowings received</b>						
Jugal Kishore Jhawar	1.0	-	-	7.5	14.6	36.9
Sarita Devi Jhawar	2.3	-	-	9.8	3.5	-
Bhanwari Devi Jhawar	0.1	-	-	8.5	5.3	-
Kamla Devi Jhawar	0.1	-	-	-	-	-
Nand Kishore Jhawar	0.1	-	-	-	-	-
<b>Remuneration</b>						
Jugal Kishore Jhawar	-	-	0.4	0.4	0.4	0.3

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Abhishek Jhawar	0.3	0.2	0.3	0.4	0.4	-
Ruchita Jhawar	0.1	0.1	0.2	0.2	0.2	-
<b>Purchases</b>						
Supreme Fabstyle	-	-	-	-	2.7	-
Supreme India Overseas Corporation	-	70.8	2.8	35.7	42.4	-
Jhawar Biotech Pvt. Ltd	-	53.1	-	-	-	-
Vama Tex India Ltd	5.2	-	-	-	-	-
<b>Job work charges</b>						
Jhawar Biotech Pvt. Ltd	-	-	-	3.4	-	-
Vama Tex India Ltd	-	-	-	4.8	-	-
Supreme Fine Fab Pvt. Ltd	5.5	-	-	2.8	-	-

**Source: Company, CRISIL Research**

- Remuneration is paid to Mr Abhishek Jhawar and Ms Ruchita Jhawar, who are not the directors of the company. We believe this to reduce tax liability of the promoter family. Since the amount involved is insignificant (₹0.6 mn collectively in FY14), this is not a major issue.

**Auditor and auditor's remuneration**

- The company's auditor has been Gujarat-based Soni Surana & Company since FY12.

(₹ mn)	FY10	FY11	FY12	FY13	FY14	H1FY15
Auditor's remuneration	0.1	0.1	0.1	0.1	0.1	-

**Source: Company, CRISIL Research**

## Appendix

### Appendix 1: KMP

Name	Designation	Qualification
Mr Jugal Kishore Jhawar	Managing Director	Bcom
Sarita Devi Jugal Kishore Jhawar	Director	-
Bhanwaridevi Chhaganlal Jhawar	Director	-
Mr Abhishek Jhawar	Export Marketing Manager	Bcom
Ruchita Jhawar	Designing Manager	-
Dheeraj Jaiswal	Accounts Manager	ACA, Bcom
Suresh Babu R	Export Manager	MA, LLB
P.B. Pandey	Production Manager	BA
Sarvesh Kumar	Production Manager (Yarn)	-
Narayan Prasad Jhawar	Research & Development Manager	-
Rajesh Jivnani	Admin & Control Manager	ACA, Bcom

Source: Company

## Appendix 2: Summary of loan agreements

### Term loans

Lender	Balance as of September 2014 (₹ mn)
Canara Bank	6

Source: Company

### Working capital loans

Name of Bank / NBFC	Nature of loan	Amt. O/s on H1FY15(₹ mn)
Canara Bank	Packing credit	55
Canara Bank	Foreign bills purchase	1,135
Canara Bank	C/C Hypothecation	10
Dena Bank	Foreign bills purchase	26

Source: Company

### Appendix 3: Major outstanding litigations

- The company has not provided the data regarding litigations.

## Appendix 5: Summary Financials

## Income statement

(₹ mn)	FY10	FY11	FY12	FY13	FY14
<b>Operating income</b>	<b>1,392</b>	<b>1,763</b>	<b>2,052</b>	<b>2,785</b>	<b>3,417</b>
<b>EBITDA</b>	<b>89</b>	<b>111</b>	<b>149</b>	<b>186</b>	<b>214</b>
<b>EBITDA margin</b>	<b>6.4%</b>	<b>6.3%</b>	<b>7.3%</b>	<b>6.7%</b>	<b>6.3%</b>
Depreciation	7	8	8	8	7
<b>EBIT</b>	<b>82</b>	<b>103</b>	<b>142</b>	<b>178</b>	<b>207</b>
Interest	53	71	99	130	146
<b>Operating PBT</b>	<b>29</b>	<b>32</b>	<b>43</b>	<b>48</b>	<b>61</b>
Other income	6	10	10	12	15
Exceptional inc/(exp)	(8)	(6)	(1)	(1)	(1)
<b>PBT</b>	<b>27</b>	<b>36</b>	<b>52</b>	<b>60</b>	<b>74</b>
Tax provision	8	15	17	18	23
Minority interest	-	-	-	-	-
<b>PAT (Reported)</b>	<b>19</b>	<b>21</b>	<b>35</b>	<b>41</b>	<b>51</b>
Less: Exceptionals	(8)	(6)	(1)	(1)	(1)
<b>Adjusted PAT</b>	<b>26</b>	<b>27</b>	<b>35</b>	<b>42</b>	<b>53</b>

## Ratios

	FY10	FY11	FY12	FY13	FY14
<b>Growth</b>					
Operating income (%)	30.1	26.7	16.4	35.7	22.7
EBITDA (%)	72.4	25.1	34.5	24.6	15.0
Adj PAT (%)	116.1	2.8	31.6	18.5	25.6
Adj EPS (%)	69.3	(15.7)	25.9	16.8	11.6
<b>Profitability</b>					
EBITDA margin (%)	6.4	6.3	7.3	6.7	6.3
Adj PAT Margin (%)	1.9	1.5	1.7	1.5	1.5
RoE (%)	17.2	11.9	12.1	12.4	12.8
RoCE (%)	12.0	11.4	11.9	11.5	10.6
RoIC (%)	14.0	12.8	13.1	13.0	12.0

## B/S ratios

Inventory days	45	46	52	34	29
Creditors days	16	28	19	11	35
Debtor days	120	148	174	177	208
Working capital days	130	149	201	171	178
Gross asset turnover (x)	11.4	12.2	2	18.3	21.2
Net asset turnover (x)	<b>12.3</b>	<b>13.8</b>	<b>7</b>	<b>23.1</b>	<b>28.0</b>
Sales/operating assets (x)	12.3	13.8	19	23.1	28.0
Current ratio (x)	11.7	7.4	11.6	17.6	6.8
Debt-equity (x)	3.3	2.8	3.3	3.8	3.7
Net debt/equity (x)	2.9	2.6	3.0	3.4	3.5
Interest coverage					
EBITDA/Interest	1.7	1.6	1.5	1.4	1.5
EBIT/Interest	1.5	1.5	1.4	1.4	1.4

## Per share

	FY10	FY11	FY12	FY13	FY14
Adj EPS (₹)	10.7	9.0	11.3	13.2	14.7
CEPS	13.6	11.7	13.7	15.7	16.7
Book value	74.1	89.8	100.9	113.7	128.6
Dividend (₹)	0.4	0.4	0.5	0.5	0.5
Actual o/s shares (mn)	2.5	3.0	3.1	3.2	3.6

## Balance Sheet

(₹ mn)	FY10	FY11	FY12	FY13	FY14
<b>Liabilities</b>					
Equity share capital	25	30	31	32	36
Reserves	157	239	284	329	424
Minorities	-	-	-	-	-
<b>Net worth</b>	<b>182</b>	<b>269</b>	<b>316</b>	<b>361</b>	<b>460</b>
Convertible debt	-	-	-	-	-
Other debt	605	757	1,032	1,383	1,681
<b>Total debt</b>	<b>605</b>	<b>757</b>	<b>1,032</b>	<b>1,383</b>	<b>1,681</b>
Deferred tax liability (net)	6	9	10	10	12
<b>Total liabilities</b>	<b>793</b>	<b>1,035</b>	<b>1,357</b>	<b>1,754</b>	<b>2,152</b>
<b>Assets</b>					
Net fixed assets	124	131	125	117	127
Capital WIP	-	-	-	-	-
<b>Total fixed assets</b>	<b>124</b>	<b>131</b>	<b>125</b>	<b>117</b>	<b>127</b>
<b>Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>105</b>
<b>Current assets</b>					
Inventory	159	205	270	237	253
Sundry debtors	458	716	896	1,213	1,786
Loans and advances	42	62	83	130	133
Cash & bank balance	71	62	99	155	78
Marketable securities	-	-	-	-	-
<b>Total current assets</b>	<b>731</b>	<b>1,045</b>	<b>1,349</b>	<b>1,735</b>	<b>2,250</b>
<b>Total current liabilities</b>	<b>62</b>	<b>142</b>	<b>117</b>	<b>99</b>	<b>330</b>
<b>Net current assets</b>	<b>669</b>	<b>903</b>	<b>1,232</b>	<b>1,637</b>	<b>1,919</b>
<b>Intangibles/Misc. expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total assets</b>	<b>793</b>	<b>1,035</b>	<b>1,357</b>	<b>1,754</b>	<b>2,152</b>

## Cash flow

(₹ mn)	FY10	FY11	FY12	FY13	FY14
Pre-tax profit	34	42	53	60	75
Total tax paid	(6)	(12)	(16)	(18)	(22)
Depreciation	7	8	8	8	7
Working capital changes	(201)	(243)	(292)	(349)	(360)
<b>Net cash from operations</b>	<b>(165)</b>	<b>(205)</b>	<b>(248)</b>	<b>(299)</b>	<b>(299)</b>
<b>Cash from investments</b>					
Capital expenditure	(28)	(15)	(1)	(0)	(17)
Investments and others	-	-	-	-	(105)
<b>Net cash from investments</b>	<b>(28)</b>	<b>(15)</b>	<b>(1)</b>	<b>(0)</b>	<b>(122)</b>
<b>Cash from financing</b>					
Equity raised/(repaid)	62	67	14	6	48
Debt raised/(repaid)	162	152	275	351	298
Dividend (incl. tax)	(1)	(1)	(2)	(2)	(2)
Others (incl extraordinary)	(28)	(6)	(1)	(1)	0
<b>Net cash from financing</b>	<b>195</b>	<b>212</b>	<b>286</b>	<b>354</b>	<b>344</b>
Change in cash position	1	(9)	37	55	(77)
Closing cash	71	62	99	155	78

Source: Company

## Disclaimer / Important notice

This Company Analysis and FDD Report is based on the limited scope of financial due diligence of Supreme India Impex Ltd (“the Company”). The Scope of Work covering the procedures to be performed for financial due diligence of the Company is defined below. In this Report, we may choose to not include matters that we believe to be insignificant. There may be matters, other than those noted in this Report, which might be relevant in the context of the issue and which a wider scope might uncover. The financial due diligence is based on the audited/un-audited consolidated financial statements for FY10, FY11, FY12, FY13, FY14 and H1FY15.

The Report has been issued on the understanding that the Company's management has drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on our Report up to the date of this Report. Additionally, we have no responsibility to update this Report for events and circumstances occurring after this date.

Our work does not constitute recommendations about the completion of the operation. This Report also does not constitute an audit in accordance with the Audit Standards and we have not independently verified all the matters discussed in this Report and have relied on the explanations and information as given by the management (verbal as well as written) of the Company. We have assumed the genuineness of all signatures and the authenticity of all documents submitted to us, whether original or copies. In this regard, management of the Company is responsible for the proper recording of transactions in the books of account and maintaining an internal control structure sufficient to permit the preparation of reliable financial information, including financial accounts. Consequently, we do not express an opinion on the figures and other information included in this Report. CRISIL does take any responsibility towards the usage of the Report in any form.

The information and conclusions of this Report should not be the basis for the listing or for any investor to place a value on the business of the Company or to make a decision whether to acquire or invest in the Company. Our due diligence and analysis should not be construed as investment advice; specifically, we do not express any opinion on the suitability or otherwise of entering into any transaction in this regard. We accept no responsibility for matters not covered by the Report or omitted due to the limited nature of our analysis. The future plans of the Company, if any, are as informed to us by its Management. We do not have any view on the same.

## Scope of Work

The limited scope of coverage of the Company Analysis and Financial Due diligence Report would be:

- i) Study of the financial statements of the Company for the financial periods ended March 31, 2010, March 31, 2011, March 31, 2012, March 31, 2013, March 31, 2014, and September 30, 2014 (“Historical Period”).
- ii) Review and comment on the reasonability and consistency of significant accounting policies adopted.
- iii) Highlight significant matters in internal audit reports, audit committee reports and RBI audit reports.
- iv) Analyse quality of earnings with particular focus on:
  - a) recurring versus non-recurring transactions (income and expenditure)
  - b) changes in accounting policies
  - c) impact of related party transactions, if any.
- v) Analyse the key drivers of revenue and margin growth with particular reference to:
  - a) price and volume changes of key products
  - b) geographical distribution
- vi) Comments on the branch distribution network. Highlight significant issues in the lease rent agreement.
- vii) Analysis of selling costs and marketing overheads.
- viii) Analysis of interest cost and depreciation expense.
- ix) Analysis of variances in significant administrative overheads.
- x) Analysis of movement in head count and employee costs during the reporting period.
- xi) Highlight the movement of debtors over the past four years.
- xii) Analysis of the cost sheet and comment on the movements in the costs over the Historical Period
- xiii) Analysis of historical trends in capex. Based on discussion with management, comment if there has been any deferred maintenance/replacement capex.
- xiv) Analysis of the basis of capitalisation and components of costs such as borrowing costs, pre-operative expenditure, exchange fluctuations, etc.
- xv) Summarise details of investments held, highlighting investments in related entities, if any.
- xvi) Analysis of the trends in working capital during the reporting period.
- xvii) Analysis of and comment on the ageing profile of receivables and inventories. Inquire into provisioning policy and comment on provisions for uncollectible amounts and write-offs.
- xviii) Analysis of the basis of inventory valuation (physical verification of inventories will not be conducted).
- xix) Comment on other current assets, loans and advances and major creditors. Comment on recoverability and provisioning for uncollectible amounts.
- xx) Comment on the current liabilities including accounts payable and provisions/accruals.
- xxi) Obtaining bank reconciliations for key accounts and comment on reconciling items.

### Commitments, contingencies and litigation

- xxii) Highlight significant claims, pending or threatened litigations against the company at latest available period, after discussions with the management of the Company their views on the likely outcome of the cases/claims.
- xxiii) Highlight significant guarantees, performance bonds, letters of comfort or similar documents of assurance and any indemnities provided by / or for the benefit of the Company, including details of such guarantees, etc. given by the company for the period under review.

**xxiv)** Status of tax claims and disputes thereof, if any.

**Related party transactions**

**xxv)** Highlight major related party transactions and comment on recoverability / payment of balance due from / to related parties at period end.

**xxvi)** Comment on key financial terms and conditions of such related party transactions after discussions with the Management.

The following areas (indicative list) are excluded from the scope of the Report.

- 1) Valuation of the issuer's business
- 2) Human resource review
- 3) Technical and commercial due diligence
- 4) Legal and tax due diligence
- 5) IT review and risk management
- 6) Physical verification and valuation of fixed assets, inventories and other current assets
- 7) Third-party confirmations, meetings with suppliers/customers
- 8) Environmental compliances
- 9) Overview of the supply chain management
- 10) Actuarial valuation of the company's retirement benefit arrangements
- 11) Checking of accounting records

## Contact us

Phone: +91 (22) 3342 3561/ 62

Fax: +91 (22) 3342 3501

E-mail: [clientservicing@crisil.com](mailto:clientservicing@crisil.com) | [research@crisil.com](mailto:research@crisil.com)

## Our Office

### Ahmedabad

706, Venus Atlantis  
Nr. Reliance Petrol Pump  
Prahladnagar,  
Ahmedabad  
Phone : 91-79-4024 4500  
Fax : 91-79-2755 9863

### Hyderabad

3rd Floor, Uma Chambers  
Plot No. 9&10, Nagarjuna Hills,  
(Near Punjagutta Cross Road)  
Hyderabad - 500 482  
Phone : 91-40-2335 8103 - 05  
Fax : 91-40-2335 7507

### New Delhi

The Mira, G-1,  
1st Floor, Plot No. 1 & 2  
Ishwar Nagar, Mathura Road,  
New Delhi - 110 065  
Phone : 91-11-4250 5100  
Fax : 91-11-2684 2212

### Bengaluru

W-101, Sunrise Chambers,  
22, Ulsoor Road,  
Bengaluru - 560 042  
Phone : 91-80-2558 0899  
Fax : 91-80-2559 4801

### Kolkata

Horizon, Block 'B', 4th Floor  
57 Chowringhee Road  
Kolkata - 700 071  
Phone : 91-33-2289 1949 - 50 |  
Fax : 91-33-2283 0597

### Pune

1187/17, Ghole Road,  
Shivaji Nagar,  
Pune - 411 005  
Phone : 91-20-2553 9064 - 67  
Fax : 91-20-4018 1930

### Chennai

Thapar House,  
43/44, Montieth Road, Egmore,  
Chennai - 600 008  
Phone : 91-44-2854 6205 - 06  
Fax : 91-44-2854 7531

### About CRISIL Ltd

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

### About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 5,000 primary sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.



CRISIL Ltd  
CRISIL House, Central Avenue, Hiranandani Business Park,  
Powai, Mumbai – 400076. India  
Phone: + 91 22 3342 3000 Fax: + 91 22 3342 3001  
Email: [clientservicing@crisil.com](mailto:clientservicing@crisil.com)  
[www.crisil.com](http://www.crisil.com)