

C Mahendra Exports Ltd IPO : Weak Issue, Avoid

IPO Note: The High PE Compared To Other Established Players Rating*

Issue Open	31-12-2010
Issue closes	06/01/2011
Issue Price	Rs. 95-110

Valuations & Recommendation

The issue has been offered in a price band of Rs 95-110 per equity share, the P/E based on the FY10 earnings of Rs 3.75(on expanded equity) comes to 25.33x at the lower price band and 29.33x at the upper price band, much higher than the industry highest. Though, the debt to equity ratio of the company is comparatively better than its peers.

The stocks in this sector are not fancied by investors. Goenka Diamonds and Shree Ganesh Jewellery have disappointed. Stocks from other established players like Gitanjali Gems, Su-raj Diamond, Suashish Diamonds are also trading cheap at PE multiple between 4.5 to 10.0, so we suggest to avoid this issue.

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

C Mahendra Exports Ltd IPO

Recommendation : **Avoid**

- ◆ The Company has two facilities for cutting and polishing of diamonds at Varachha and Udhana, in Surat.
- ◆ IPO grade 2 by ICRA, indicating below average fundamentals
- ◆ The industry is already facing skilled worker crisis due to non availability.
- ◆ The company is dependent upon the job workers. In Fiscal 2009, Fiscal 2010 and for the period ended June 30, 2010, 42.13%, 45.87% and 57.36% of diamonds were processed on a job work basis respectively.
- ◆ The company is involved in Income Tax litigation, had paid penalty for violation of Customs rules.
- ◆ Competitive business- depends on luxury market like USA and HK for business. Any slowdown in that economy will affect the company's fortune.
- ◆ The expansion project is not apprised by any bank /FI and fully equity funded.
- ◆ The company's revenues and margins have shown considerable volatility in the past .

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