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In Focus

Eastern Silk

BUY

Rs 327

January 10, 2007

Q3 FY07 Result Update – Margins on the rise

Eastern Silk reported third quarter results, which were slightly better than expectations. While revenues grew by 5.3% YoY and 7.3% QoQ to Rs 1,251m, profits grew at a much faster pace by 68.2% YoY and 13.8% QoQ to Rs 184m. Topline growth appears muted due to the appreciating rupee. Dollar denominated revenues grew by 8% YoY. Exports accounted for about 67% of revenues. EBITDA margin improved substantially YoY from 16.1% to 20.9% but remained flat QoQ (20.8% in Q2FY07). For 9MFY07, the company has reported 18.9% and 64.7% growth in revenues and profits to Rs 3,647m and Rs 489m respectively.

The improvement has come on back of a richer product mix, which includes higher sale of value added fabrics such as embroidered and printed fabrics as well as increased volumes of machine made fabrics. As compared to 1.8m meters sold in 9MFY06, the company sold 2.0m meters of machine made fabrics this year. Average realisations on fabric improved from Rs.379 per meter to Rs.506 this year, which is a YoY improvement of 33.6%.

While both revenues and volumes from made ups have fallen YoY from Rs.489m to Rs.362m and 0.9m pieces to 0.5m pieces, realisation per piece has improved from Rs.529 to Rs.795 (YoY improvement of 50.2). This drop can be misleading since as opposed to sale of home furnishings this year, last year the segment mainly comprised of scarves and stolls. The management has guided that revenues from made ups as a percentage of sales will rise from 10% in FY07 to about 20% in FY08E as the new capacity goes on stream in March this year.

Post results, we have revised our estimates upwards for both FY07E and FY08E. We expect ESIL to achieve revenues of Rs 4,419m in FY07E (Rs 4,246m previously) and Rs 5,137m in FY08E (Rs 4,922m previously) and profits of Rs 559m (Rs 521m previously) and Rs 787m (Rs 757m previously) respectively. EBITDA margins will improve from 17.9% last year to 20.0% this year and 22.2% in FY08E. Further, in FY09E, we estimate revenues and profits to grow by 21.4% and 39.5% on back of rising volumes and changing product mix to Rs 6,238m and Rs 1,098m respectively. Margins will also further rise to 24.6% as revenues from made ups rise to 25% of revenues. RoE and RoCE will rise from 17.8% and 15.8% in FY06 to 21.1% and 17.6% respectively in FY08E and further 23.6% and 20.2% in FY08E.

At the CMP, the stock is trading at 9.4x FY07E and 6.7x FY08E EPS estimates of Rs 34.7 and Rs 49.1 respectively. Its competitor Himatsingka Seide is trading at 23.2x and 13.8x consensus EPS estimates of Rs 6.0 and Rs.10.0 respectively. When compared, Eastern Silk appears to be significantly undervalued. Maintain **BUY**.

(Stock price as on January 9, 2007)



Key Figures

Y/e March	FY05	FY06	FY07E	FY08E	FY09E
Net Sales (Rs M)	3,375	3,905	4,419	5,137	6,238
EBITDA (Rs M)	540	698	883	1,139	1,536
<i>EBITDA Margin (%)</i>	<i>16.0</i>	<i>17.9</i>	<i>20.0</i>	<i>22.2</i>	<i>24.6</i>
PAT (Rs M)	246	388	559	787	1,098
EPS (Rs)	17.8	27.9	34.7	49.1	68.8
PER (x)	18.4	11.7	9.4	6.7	4.8
Cash EPS (Rs)	24.9	37.5	42.6	60.3	82.8
CPER (x)	13.1	8.7	7.7	5.4	4.0
EV/EBITDA (x)	9.9	7.8	6.5	5.0	3.3
EV/Sales (x)	1.6	1.4	1.3	1.1	0.8
<i>RoE (%)</i>	<i>16.2</i>	<i>17.8</i>	<i>19.7</i>	<i>21.1</i>	<i>23.6</i>
<i>RoCE (%)</i>	<i>13.8</i>	<i>15.8</i>	<i>17.2</i>	<i>17.6</i>	<i>20.2</i>

Q3 FY07 Result Overview

(Rs m)

Y/e March	Q3FY07	Q3FY06	yoy gr. (%)	Q2FY07	9MFY07	9MFY06	yoy gr. (%)	FY06	FY07E	yoy gr. (%)
Net Sales	1,251	1,189	5.3	1,166	3,547	2,985	18.9	3,905	4,419	13.2
Expenses										
Inc/ Dec in stock	99	219	(54.9)	13	139	(51)	(374.6)	(98)	-	
RM consumed	702	634	10.7	796	2,241	2,213	1.3	2,662	2,837	6.6
<i>% of NS</i>	<i>64.0</i>	<i>71.7</i>		<i>69.4</i>	<i>67.1</i>	<i>72.4</i>		<i>65.7</i>	<i>64.2</i>	
Employee cost	13	15	(8.7)	12	36	22	61.3	40	46	15.0
<i>% of NS</i>	<i>1.1</i>	<i>1.2</i>		<i>1.1</i>	<i>1.0</i>	<i>0.7</i>		<i>1.0</i>	<i>1.0</i>	
Other Mfg. Exp.	176	122	44.5	102	423	321	31.8	602	653	8.5
<i>% of NS</i>	<i>14.1</i>	<i>10.2</i>		<i>8.7</i>	<i>11.9</i>	<i>10.8</i>		<i>15.4</i>	<i>14.8</i>	
Total Expenses	990	989	0.1	923	2,839	2,505	13.3	3,207	3,536	10.3
EBITDA	262	200	30.9	243	708	479	47.7	698	883	26.4
<i>% of NS</i>	<i>20.9</i>	<i>16.8</i>		<i>20.8</i>	<i>20.0</i>	<i>16.1</i>		<i>17.9</i>	<i>20.0</i>	
Depreciation	26	25	5.3	21	78	59	32.5	118	114	-3.6
EBIT	236	175	34.5	222	630	421	49.8	580	769	32.5
Interest	56	45	25.2	51	144	108	33.6	196	200	1.9
Other Income	35	3	1196.3	12	69	22	220.7	56	70	25.9
PBT	215	134	61.1	183	555	335	66.0	439	639	45.4
Tax	31	24	29.2	21	66	38	76.0	51	80	55.6
<i>Eff. tax rate (%)</i>	<i>14.4</i>	<i>18.0</i>		<i>11.5</i>	<i>11.9</i>	<i>11.2</i>		<i>11.7</i>	<i>12.5</i>	
PAT	184	110	68.2	162	489	297	64.7	388	559	44.0
Less: Ex-Od items	-	-		-	-	-		(1)	-	
PAT after Ex. Items	184	110	68.2	162	489	297	64.7	389	559	43.6

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