

BANSWARA SYNTEX

INR 73

Moving up the value chain

BUY

* **Forward integration for better efficiencies**

Banswara Syntex (BSL), which has historically been into spinning, has extended its presence across the value chain over the last few years. Having ventured into value added fabrics as well as garments; we expect ~20% of its FY09 revenues to accrue from the sale of garments as compared to 4% in FY06. Yarn sales on the other hand will go down from the existing 61% of revenues to ~50% in FY09. We believe the change in product mix will enhance revenue growth whereas the efficiencies arising out of scale will fuel margin growth.

* **Growth led by capacity expansions**

In line with its forward integration, BSL is also adding spinning and weaving capacities, to support its garment manufacturing activity. It is adding 50,000 spindles, taking the total spinning capacity from 24.5mn kgs p.a to ~37mn kgs p.a in FY09. It is also adding looms to increase its weaving capacity to ~35mmtpa and almost tripling its garmenting capacity to 3mn trousers p.a by FY09E. We believe that these expansions being done at a cost of ~INR 2.2bn will help BSL post healthy revenue CAGR of 21% between FY07 to FY09E.

* **Product mix + power plant = enhanced margins**

BSL will notably improve its operating margins, once it scales up its weaving and garmenting capacities by FY09. Operating margins in garmenting are at ~20-22% as compared to that of 8-10% in yarn. Hence as BSL's revenue concentration moves away from yarn to garmenting we expect a huge jump in its operating margins.

To overcome the paucity as well as high cost of power at its plant in Banswara, Rajasthan, BSL has put up a captive power plant of 15MW, scheduled to be operational by April 2007. The INR 400 mn power plant will bring the power costs down to ~7% of revenues by FY09E from 11.5% in FY06, which translates to a saving of ~INR 100 mn p.a. On account of the improved product mix as well as the benefits of captive power consumption we expect BSL's EBITDA margins to improve from 15.5% in FY07E to 18.4% in FY09E. Net margins too will grow from 4.2% to 6.3% over the same period.

* **Valuations**

We expect BSL's revenues and profits to grow at a 21% and 48% CAGR, respectively, from FY07E to FY09E. At CMP of INR 73, BSL is trading at 6.2x its FY07E EPS of INR 11.8 and 3.9x its FY08E EPS of INR 18.8. Given its forward integration, capacity addition, excellent past performance, and highly attractive valuations, we initiate coverage with a "BUY" recommendation on the stock.

Financials

Year to March	FY06	FY07E	FY08E	FY09E
Revenues (INR mn)	3,141	3,685	4,509	5,360
EBITDA (INR mn)	368	571	831	985
Net profit (INR mn)	93	155	247	339
EPS (INR)	11.9	11.8	18.8	25.8
EPS growth (%)	118.5	(1.0)	59.2	37.1
CEPS (INR)	29.1	24.4	40.8	45.1
PE (x)	6.1	6.2	3.9	2.8
EV/EBITDA	6.6	5.7	4.7	3.8
Dividend yield (%)	2.7	2.7	2.7	2.7
ROE (%)	14.7	18.4	23.3	24.8



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Prakash Kapadia
+91-22-2286 4432
prakash.kapadia@edelcap.com

Prachi Hattangadi
+91-22-4019 4988
prachi.hattangadi@edelcap.com

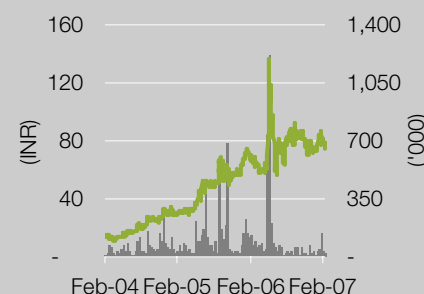
Reuters : BANS.BO
Bloomberg : BWSL IN

Market Data

52-week range (INR) : 137 / 51
Share in issue (mn) : 11.7
M cap (INR bn/USD mn) : 0.8 / 19.1
Avg. Daily Vol. BSE ('000) : 52.2

Share Holding Pattern (%)

Promoters : 57.6
MFs, FIs & Banks : 0.5
FIIs : 0.0
Others : 41.9



Risk and Concerns

Volatility in raw material prices

Exchange rate fluctuations

High Debt- Equity Ratio

Company Profile

Mr. R.L Toshniwal promoted Banswara Syntex (BSL) in 1976, jointly with the Rajasthan State Industrial Development (RSID) and Investment Corporation Ltd. (RIICO), in Banswara, but later bought out RIICO's holding. The company, set up as a yarn spinner, started operating with a capacity of 12,480 spindles, mainly producing synthetic yarn. In 1992, it ventured into cloth weaving and in 2004 diversified into cotton spinning and manufacturing of readymade garments. The company has two spinning units and a fabric finishing unit, located at Banswara and a garment processing unit in Daman.

* Products

BSL specialises in manufacturing blends of viscose staple fibre, polyester stable fibre, lycra, cotton, and wool. It sells ~80% of its yarn production in the domestic and export markets equally, and utilises the balance internally. The company also processes yarn for producing medium count fabric that is used to manufacture trousers. Banswara supplies its trousers to retailers like Park Avenue, Lifestyle, and Westside in the domestic market and to Levis, Dockers, and Next, globally.

* Forward integration through capacity expansions

BSL is focused on transforming itself into a fully integrated textile company. It has already taken several steps in this direction and is expanding capacities across its product categories. BSL is increasing its spindlage by ~60% and weaving capacity by ~45%, whereas its garmenting capacity will triple to 3mn pcs p.a. The company will also start manufacture ~30,000 jackets per month in FY09.

Table1: Capacity expansion schedule

Divisions	Units	Present Capacity	Capacity post expansion	Capex (INR mn)
Spinning	spindles	92,608	150,000	900
	tpa	24,500	37,038	
Weaving	looms	143	207	390
	mn mtrs	25	37	
Processing				170
Garmenting*	mn pcs	0.9	3.4	330
Power plant	MW	0	15.0	400

Source: Company * includes jacket manufacturing capacity of 0.36mn p.a

BL plans to sell ~78% of its yarn outside and transfer the rest internally to the weaving division, which would then be processed further. ~85% of the processed fabric will be sold and the remaining passed on to the garmenting division for production of trousers.

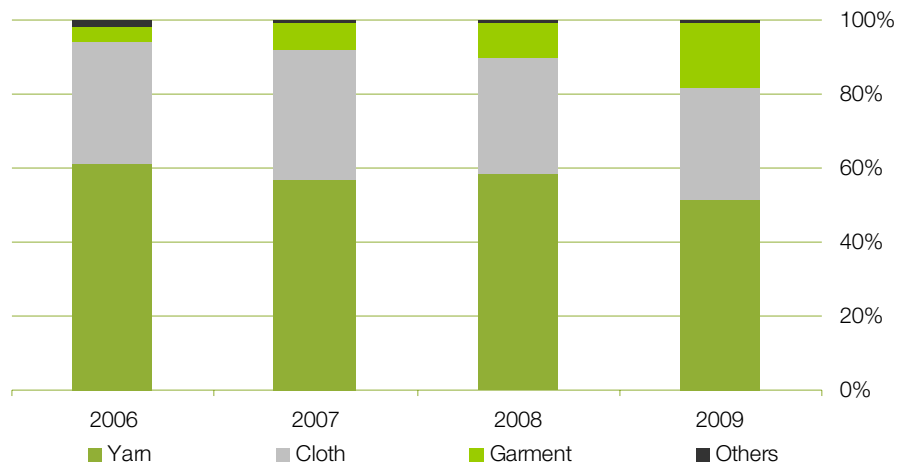
The expansions are being done in two phases and entail a total expenditure of INR 2.2bn. BSL set out with a capital expenditure plan of INR 2.2 bn spread over two phases. The first phase which commenced in FY06 comprising all-around capacity expansions, entailing an expenditure of INR ~1 bn, is nearing completion.

The second phase is scheduled to be completed in FY08 and is likely to cost INR 1.1bn. The capex is being funded through debt, under the Textile Up gradation Fund (TUFS) and internal accruals.

The promoters too have infused ~INR 113 mn in BSL, by subscribing to 1.5 mn warrants at a price of INR 75.83 in FY07. The fully diluted equity on conversion of these warrants works out to INR 131mn.

Post capacity expansions, there will be a significant change in the product mix of the company. Garment sales that contributed only 4% to the revenues in FY06, will form ~20% of the total FY09E sales. Similarly, contribution of yarn to the company's total revenues will dip from 61% FY06 to ~52% in FY09E.

Chart 1: Changing revenue mix.



Source: Company, Edelweiss Research

* Power plant

At a cost of INR 4.5 per unit, power costs accounted for ~11.5% of BSL's FY07 revenues. BSL is putting up a 15 MW power plant that is scheduled to start operations by April 2007. Funding for the power plant is being done through a TUFS loan of INR 400 mn. The power generated at a cost of INR 2.5 per unit will be captively utilised resulting in power savings of ~INR 100 mn every year. We believe the power costs will be low as ~7-7.25% of revenues once the power plant starts generation in FY08. The plant also enjoys a five year tax holiday. Though there is no possibility of revenues accruing from power plant, the cost saving resulting through it is likely to improve the company's margins significantly.

* Carreman Micheal Thierry: The French connection

BSL has formed a 50:50 joint venture (JV) with Carreman Micheal Thierry (CMTG) of France, to set up a plant at Banswara for weaving and exporting high value Lycra-based designer fabrics. CMTG, engaged in the business of manufacturing and marketing of quality fabric, is highly reputed in fashion garments markets of the US and Europe. CMTG will provide technology for weaving and designing the fabric, while the yarn will be sourced from BSL. Dyeing and processing of the fabric will also be done at BSL under the supervision of CMTG's technicians.

The JV proposes to produce 4 mn metres of fabric per year and the project attained commercial production in May 2006. The project entailed a capital expenditure of INR 367 mn, of which, plant and machinery accounts for INR 282.60 mn. This is being funded by promoter's equity of INR 124 mn (equal contribution by both parties) and a term loan of INR 195 mn. The JV will jointly market the product through CMTG's channels. We have not factored in any profits accruing from the JV in our estimates.

Financial Statements

Income statement					(INR mn)
Year to March	FY05	FY06	FY07E	FY08E	FY09E
Net sales	2,482	3,141	3,685	4,509	5,360
Raw material cost	1,191	1,549	1,674	2,109	2,507
Employee cost	175	232	287	361	442
Power & fuel cost	223	376	424	325	375
Other mfg exp	395	327	385	467	555
Selling & administration expenses	200	260	307	372	442
Miscellaneous expenses	27	29	37	45	54
Total operating expenses	2,211	2,773	3,114	3,678	4,375
EBITDA	271	368	571	831	985
Other income	29	66	20	20	20
Interest expense	126	144	191	238	262
Depreciation	107	133	165	289	254
Profit before tax	67	157	235	324	489
Provision for tax	30	65	80	76	150
Profit after tax	37	93	155	247	339
Net profit	37	93	155	247	339
Earnings per share (INR)	5.5	11.9	11.8	18.8	25.8
Shares outstanding (mn)	6.8	7.8	13.1	13.1	13.1
Dividend (INR/share)	1.2	2.0	2.0	2.0	2.0

Common size metrics as % on revenues

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Operating expenses	89.1	88.3	84.5	81.6	81.6
Depreciation	4.3	4.2	4.5	6.4	4.7
EBITDA	10.9	11.7	15.5	18.4	18.4
Net profit	1.5	3.0	4.2	5.5	6.3

Growth metrics (%)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Revenues	6.5	26.6	17.3	22.4	18.9
EBITDA	(12.4)	35.8	55.1	45.5	18.5
PBT	(48.9)	133.7	49.7	37.5	51.0
Net profit	(57.3)	149.3	67.5	59.2	37.1
EPS	(57.5)	118.5	(1.0)	59.2	37.1

Cash flow statement					(INR mn)
Year to March	FY05	FY06	FY07E	FY08E	FY09E
Cash flow from operations	145	226	320	536	593
Cash for working capital	(191)	(178)	(90)	(176)	(182)
Net operating cash flow- A	(47)	48	230	360	412
Net purchase of fixed assets	(315)	(535)	(700)	(1,000)	(250)
Net purchase of investments	-	(26)	(0)	-	-
Net cash flow from investing- B	(315)	(561)	(700)	(1,000)	(250)
Proceeds from equity	0	34	47	-	-
Proceeds from preference issue	1	37	38	-	-
Proceeds/repayments from borrowing	362	493	400	650	(125)
Dividend payments	(9)	(18)	(30)	(30)	(30)
Net cash flow from financing- C	354	547	455	620	(155)
Net cash flow (A+B+C)	(7)	34	(16)	(19)	7

Balance sheet					(INR mn)
As on 31st March	FY05	FY06	FY07E	FY08E	FY09E
Equity capital	68	78	131	131	131
Reserves & surplus	398	530	693	911	1,221
Shareholders funds	466	632	842	1,060	1,369
Secured loans	1,352	1,768	2,168	2,818	2,693
Unsecured loans	154	151	151	151	151
Deferred tax liability	139	184	184	184	184
Total debt	1,507	1,919	2,319	2,969	2,844
Source of funds	2,112	2,735	3,345	4,213	4,397
Gross block	1,888	2,384	3,114	4,114	4,364
Depreciation	659	810	975	1,264	1,518
Net block	1,229	1,575	2,139	2,850	2,845
Capital work in progress	91	129	100	100	100
Net fixed assets	1,320	1,704	2,239	2,950	2,945
Investments	1	28	28	28	28
Cash, bank bal & deposits	28	61	46	27	34
Inventory	627	773	909	1,112	1,322
Sundry debtors	219	288	333	408	485
Loans & advances	273	360	360	360	360
Total current assets	1,147	1,483	1,648	1,906	2,200
Sundry creditors	283	394	454	556	661
Others	39	27	57	57	57
Provisions	34	60	60	60	60
Total current liabilities	356	481	571	673	778
Net current assets	791	1,002	1,076	1,233	1,422
Miscellaneous exp not w/off	0	2	2	2	2
Application of funds	2,112	2,735	3,345	4,213	4,397
Book value (BV) per share (INR)	68	81	64	81	104

Ratios

Year to March	FY05	FY06	FY07E	FY08E	FY09E
ROE (%)	8.0	14.7	18.4	23.3	24.8
ROCE (%)	7.7	8.6	10.3	11.5	13.7
Inventory days	92	90	90	90	90
Debtor days	32	33	33	33	33
Fixed assets t/o	1.4	1.4	1.2	1.2	1.3
Debt /Equity	3.2	3.0	2.8	2.8	2.1

Valuation parameters

Year to March	FY05	FY06	FY07E	FY08E	FY09E
EPS (INR)	5.5	11.9	11.8	18.8	25.8
Y-o-Y growth (%)	(57.5)	118.5	(1.0)	59.2	37.1
CEPS (INR)	21.2	29.1	24.4	40.8	45.1
PE (x)	13.4	6.1	6.2	3.9	2.8
P/CEPS (x)	3.4	2.5	3.0	1.8	1.6
Price/BV (x)	1.1	0.9	1.1	0.9	0.7
EV/Sales (x)	0.8	0.8	0.9	0.9	0.7
EV/EBITDA (x)	7.3	6.6	5.7	4.7	3.8

BANSWARA SYNTEX (CMP INR 73)



- BSL despite of repeated attempts has failed to break above the INR 90 and now is trading close to its long term support line at INR 65 and on a break below INR 65 the stock is expected to test INR 50.
- It is advisable to accumulate the stock around INR 50-55 range with long term perspective or an aggressive player can wait for some clear bullish set ups on charts.

Edelweiss Securities

14th Floor, Express Towers,
Nariman Point, Mumbai – 400 021
Board: (91-22) 2286 4400
Email: pcgresearch@edelcap.com



Nilesh Shah – 2286 4210

Head, Private Client Services

Nirmal Rungta – 2286 4417

Co-Head, Private Client Services

Direct Clients

Biren Shah – 22864212

Jai Mehra – 22864423

Amit Mangain - 22864529

Ajay Saraf – 22864340

Amit Joshi – 22864271

Hitesh Shah – 22864275

Shirin Kothari – 22864272

Aditya Parange – 22864400

Anuraj Benara – 22864400

Divij Narain – 22864400

Hiralal Chopra – 22864220

Head-Insurance

Bakhtawar Pastakia – 22864217

Vinay Sohani – 22864400

Manish Rathie – 22864219

Gautam Pathania – 22864400

CNS Rao – 22864392

Franchises & ICs

Alpesh Busa – 22864224

Bhaumik Vora – 22864215

Nikunj Raichura – 22864425

DERIVATIVES DESK

Navin Amarnani – 22864290

WEALTH MANAGEMENT

Anurag Mehrotra – 22864400

RESEARCH TEAM

Fundamental

Prakash Kapadia – 22864432

Pranav Parekh – 22864277

Sanjeev Rohra – 40194982

Grishma Shah – 40194941

Prachi Hattangadi – 40194988

Technical

Ashok Nagori – 22864400

Commodities

Vikas Agarwal – 22864400

BRANCHES

Ahmedabad

Rajiv Jhaveri – 079-30088445

Bangalore

Rajrashi Panigrahi– 09900249231/32/33

Borivali - Mumbai

Purvash Desai – 022-28955885/1

Chennai

Satyanarayan Y – 044-42148976/7/8

Cochin

Brijesh Mathew – 0484-2359204/8/10

Gurgaon

Gaurav Kulshreshtha – 0124-4300070/71/72/73

Hyderabad

Vinay Pratti – 040-66849440/1

Indore

Uttam Srimal – 0731-4266631/32/33/34/35

Jaipur

Dharmendra Sharma – 0141-2378053/72

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Nashik

Pratyush Singh – 0253-66102442/43/44/45/46

New Delhi

Gaurav Kulshreshtha – 011-41531011/2/3

Opera House – Mumbai

Puneet Jain – 022- 23675621/3/4

Pune

Amol Erande – 020-56048461/2/3/4

Vile Parle – Mumbai

Rakesh Bhatt – 022-26102505/6

Email addresses: firstname.lastname@edelcap.com

eg. nilesh.shah@edelcap.com

unless otherwise specified

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