

## Company Focus

18 December 2007 | 8 pages

# Abhishek (ABHP.BO)

## Discontinuing Coverage

- We are discontinuing coverage of Abhishek's stock due to limited investor interest and reallocation of coverage resources.
- The firm's final recommendation for the security is Sell / Medium Risk (3M), and our target price is Rs23.
- This is our final rating on Abhishek's's stock; we will not be providing further updates to our research or ratings. Because facts and circumstances may change, the information and analysis contained in this or prior research may no longer be applicable or accurate in the future. Accordingly, you should not rely on this or previous research with respect to this company going forward.

<b>Sell/Medium Risk</b>	<b>3M</b>
Price (18 Dec 07)	Rs28.80
Target price	Rs23.00
Expected share price return	-20.1%
Expected dividend yield	3.5%
<b>Expected total return</b>	<b>-16.7%</b>
Market Cap	Rs5,593M US\$141M

### Price Performance (RIC: ABHP.BO, BB: ABIN IN)



### Statistical Abstract

Year to	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
31 Mar							
2005A	na	na	na	na	na	na	na
2006A	568	2.93	na	9.8	1.6	na	3.5
2007E	513	2.64	-9.7	10.9	1.4	13.7	3.5
2008E	555	2.86	8.3	10.1	1.3	13.6	3.5
2009E	644	3.01	5.2	9.6	1.2	13.5	3.5

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
<b>Valuation Ratios</b>					
P/E adjusted (x)	na	9.8	10.9	10.1	9.6
EV/EBITDA adjusted (x)	na	na	6.8	6.5	6.3
P/BV (x)	na	1.6	1.4	1.3	1.2
Dividend yield (%)	na	3.5	3.5	3.5	3.5
<b>Per Share Data (Rs)</b>					
EPS adjusted	na	2.93	2.64	2.86	3.01
EPS reported	na	2.93	2.64	2.86	3.01
BVPS	na	18.46	20.10	21.96	24.69
DPS	na	1.00	1.00	1.00	1.00
<b>Profit &amp; Loss (RsM)</b>					
Net sales	na	7,436	8,954	10,097	11,212
Operating expenses	na	-6,553	-7,911	-8,752	-9,714
<b>EBIT</b>	<b>na</b>	<b>883</b>	<b>1,043</b>	<b>1,345</b>	<b>1,497</b>
Net interest expense	na	-254	-420	-680	-650
Non-operating/exceptionals	na	91	70	85	60
<b>Pre-tax profit</b>	<b>na</b>	<b>720</b>	<b>693</b>	<b>750</b>	<b>907</b>
Tax	na	-152	-180	-195	-263
Extraord./Min.Int./Pref.div.	na	0	0	0	0
<b>Reported net income</b>	<b>na</b>	<b>568</b>	<b>513</b>	<b>555</b>	<b>644</b>
Adjusted earnings	na	568	513	555	644
Adjusted EBITDA	na	1,497	1,838	2,295	2,597
<b>Growth Rates (%)</b>					
Sales	na	na	20.4	12.8	11.0
EBIT adjusted	na	na	18.1	29.0	11.3
EBITDA adjusted	na	na	22.8	24.9	13.2
EPS adjusted	na	na	-9.7	8.3	5.2
<b>Cash Flow (RsM)</b>					
<b>Operating cash flow</b>	<b>na</b>	<b>940</b>	<b>1,127</b>	<b>1,190</b>	<b>1,530</b>
Depreciation/amortization	na	614	795	950	1,100
Net working capital	na	-242	-181	-316	-215
<b>Investing cash flow</b>	<b>na</b>	<b>-2,844</b>	<b>-2,529</b>	<b>-4,173</b>	<b>-1,642</b>
Capital expenditure	na	-2,620	-2,966	-4,255	-1,725
Acquisitions/disposals	na	-247	348	0	0
<b>Financing cash flow</b>	<b>na</b>	<b>-2,161</b>	<b>-1,790</b>	<b>-3,371</b>	<b>-542</b>
Borrowings	na	-2,032	-1,596	-3,177	-328
Dividends paid	na	-194	-194	-194	-214
<b>Change in cash</b>	<b>na</b>	<b>-4,065</b>	<b>-3,193</b>	<b>-6,355</b>	<b>-655</b>
<b>Balance Sheet (RsM)</b>					
<b>Total assets</b>	<b>na</b>	<b>11,822</b>	<b>13,678</b>	<b>17,373</b>	<b>18,290</b>
Cash & cash equivalent	na	486	142	195	129
Accounts receivable	na	360	448	505	561
Net fixed assets	na	7,676	9,847	13,152	13,777
<b>Total liabilities</b>	<b>na</b>	<b>8,237</b>	<b>9,774</b>	<b>13,108</b>	<b>13,002</b>
Accounts payable	na	457	569	702	862
Total Debt	na	6,895	8,150	11,250	11,000
<b>Shareholders' funds</b>	<b>na</b>	<b>3,585</b>	<b>3,904</b>	<b>4,265</b>	<b>5,288</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	na	20.1	20.5	22.7	23.2
ROE adjusted	na	na	13.7	13.6	13.5
ROIC adjusted	na	na	7.7	8.1	7.5
Net debt to equity	na	178.8	205.1	259.2	205.6
Total debt to capital	na	65.8	67.6	72.5	67.5

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## Abhishek

### Company description

Abhishek is among the largest integrated terry towel manufacturers (54% of FY06 revenues) in India with a capacity of 29,000 MT. It also has a presence in value-added cotton yarn (28% of FY06 revenues). Abhishek is a significant player in agro-based paper (18% of FY06 revenues), focusing on the cream wove segment. Its wide product range and integrated facilities in terry towels make it a preferred vendor to global retailing giants such as Wal-Mart. Exports constituted 56% of FY06 revenues, largely driven by terry towels. With the new capacities in terry towels now phased in, we expect the share of exports to increase. Abhishek is a flagship company of the Trident Group, with the major shareholders having a 64% stake. The company has two plants, both close to the raw-material sourcing region of Punjab.

### Investment strategy

We rate Abhishek shares as Sell / Medium Risk (3M) with a target price of Rs23 based on 8x FY08E P/E. With muted earnings growth and no major earnings surprises forecasted, we believe all the potential upside is priced in. Given Abhishek's scale advantages and relationships with global retailers, it looks well positioned to take advantage of outsourcing opportunity in terry towels. However, slower-than-expected growth in towels and declining profitability of its paper and chemical business are emerging growth concerns. Further, the company's aggressive expansion into the paper business (33% of FY06 operating profits), which is a commodity business, and a muted earnings CAGR of 1% over FY06-09E, are likely to hinder price performance and re-rating.

### Valuation

Our target price of Rs23 is based on 8x FY08E P/E, a discount to our target multiple of 9x for Welspun, which has a wider presence in home textiles. We use P/E as our primary valuation tool, as we believe it captures the company's growth potential.

### Risks

We rate Abhishek Industries shares as Medium Risk based on our quantitative risk-rating systems, which tracks 260-day historical share price volatility. The main upside risks to our target price include: (1) De-merger plans to split the business into separate textile and paper companies would result in value unlocking and re-rating; (2) Increase in paper prices of 10% above a price of Rs32,500/MT would complement earnings growth and downplay the impact on valuations. (3) Any depreciation of the rupee vs. the USD could affect exports and thus earnings. A 5% depreciation of the rupee could lead to a 3-4% rise in earnings, as exports accounted for 56% of FY06 revenues.

## Valuation and Risks – Other Stocks

### Welspun India (WLSP.BO - Rs101.20; 2M)

#### Valuation

Our target price of Rs68 is based on 9x P/E for FY08E PE to factor in earnings volatility due to rupee appreciation and continuing margin pressures. However, we still expect Welspun will trade at 10% premium to our textile universe valuations of 8x FY08E P/E. The premium is a function of Welspun's leadership in terry towels exports with global capacities; focus on branded home textiles and vertically integrated business model, provides a proxy for playing the outsourcing theme in home textiles. P/E is our primary valuation tool as we see it as best capturing earnings growth potential. While near-term earnings will remain under pressure, 24% underperformance over the past 3-months largely discounts this. Trading at 8x FY08E P/E, at par with sector and towards the lower end of its 3-year P/E band of 8-15x, 0.7x FY08E P/BV and our Medium risk rating given the earnings volatility due to forex fluctuation and moderate upside to target - we maintain Hold.

#### Risks

We rate Welspun shares Medium Risk, as opposed to the High Risk rating assigned by our quantitative risk-rating system. Our rating includes: (1) Secular growth prospects in home textiles post quotas and shrinking capacities in the US; (2) Rapid growth given new capacity expansion; (3) Welspun's leadership in India and its relationships with global brands; and (4) Peer stocks are rated Low or Medium Risk. Downside risks to our target price are: (1) Rupee appreciation; (2) Sharp increases in cotton prices; and (3) Delays in commissioning new projects. The upside risks to our target price are: 1) Faster than expected break even of the bed-linen business; and 2) Long-term sourcing tie-ups with global branded home textile retailers.

# Appendix A-1

## Analyst Certification

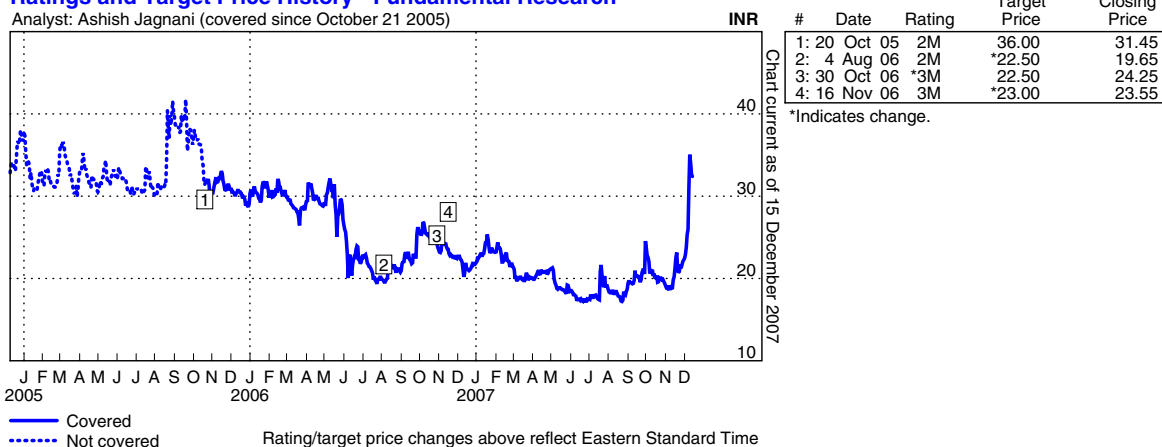
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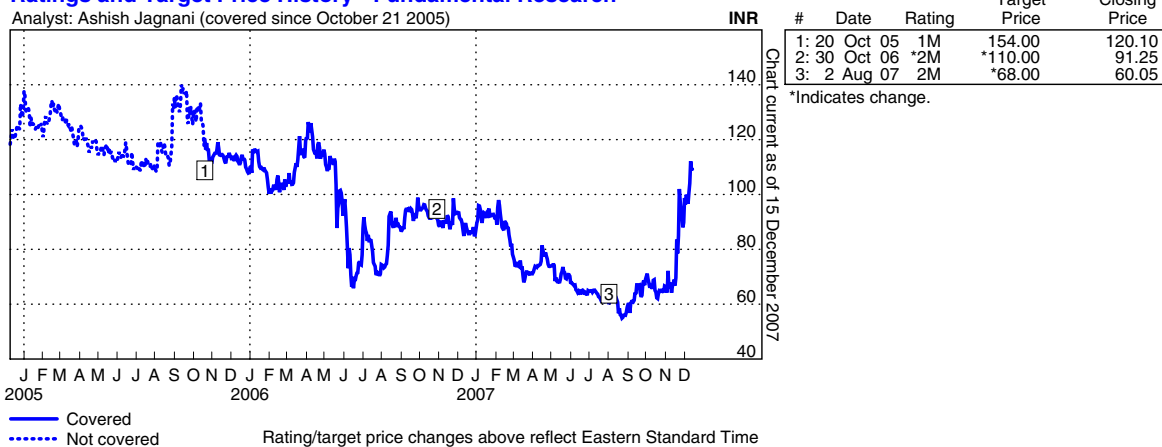
Analyst: Ashish Jagnani (covered since October 21 2005)



### Welspun India (WLSP.BO)

#### Ratings and Target Price History - Fundamental Research

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