

Company Focus

18 December 2007 | 8 pages

Vardhman Textiles (VART.BO)

Discontinuing Coverage

- We are discontinuing coverage of Vardhman Textiles due to lack of investor interest.
- The firm's final recommendation for the security is Buy/Low Risk, and our target price is Rs260.
- This is our final rating on Vardhman Textile'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.

Buy/Low Risk	1L
Price (18 Dec 07)	Rs170.00
Target price	Rs260.00
Expected share price return	52.9%
Expected dividend yield	2.9%
Expected total return	55.9%
Market Cap	Rs9,821M US\$248M

Price Performance (RIC: VART.BO, BB: VTEX IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	1,691	29.28	40.0	5.8	1.0	19.2	2.4
2007A	1,717	29.72	1.5	5.7	0.9	16.6	2.4
2008E	1,788	30.95	4.1	5.5	0.8	15.1	2.9
2009E	2,372	37.01	19.6	4.6	0.6	15.9	2.9
2010E	2,863	44.68	20.7	3.8	0.6	15.4	3.5

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	5.8	5.7	5.5	4.6	3.8
EV/EBITDA adjusted (x)	4.9	6.0	6.4	5.0	3.8
P/BV (x)	1.0	0.9	0.8	0.6	0.6
Dividend yield (%)	2.4	2.4	2.9	2.9	3.5
Per Share Data (Rs)					
EPS adjusted	29.28	29.72	30.95	37.01	44.68
EPS reported	33.98	29.72	30.95	37.01	44.68
BVPS	166.47	192.19	218.14	270.33	309.00
DPS	4.00	4.00	5.00	5.00	6.00
Profit & Loss (RsM)					
Net sales	18,937	20,876	23,833	29,062	33,709
Operating expenses	-16,475	-18,582	-21,005	-25,082	-28,866
EBIT	2,462	2,294	2,828	3,980	4,844
Net interest expense	-378	-377	-835	-945	-965
Non-operating/exceptionals	150	340	360	305	211
Pre-tax profit	2,234	2,258	2,353	3,340	4,090
Tax	-543	-541	-565	-969	-1,227
Extraord./Min.Int./Pref.div.	272	0	0	0	0
Reported net income	1,963	1,717	1,788	2,372	2,863
Adjusted earnings	1,691	1,717	1,788	2,372	2,863
Adjusted EBITDA	3,476	3,489	4,178	5,605	6,854
Growth Rates (%)					
Sales	1.9	10.2	14.2	21.9	16.0
EBIT adjusted	23.8	-6.8	23.2	40.8	21.7
EBITDA adjusted	17.4	0.4	19.7	34.2	22.3
EPS adjusted	40.0	1.5	4.1	19.6	20.7
Cash Flow (RsM)					
Operating cash flow	2,378	186	2,600	3,702	2,984
Depreciation/amortization	1,013	1,194	1,350	1,625	2,010
Net working capital	-599	-2,726	-538	-294	-1,889
Investing cash flow	-2,913	-8,190	-5,401	-3,452	-2,281
Capital expenditure	-3,302	-6,430	-7,112	-3,846	-1,807
Acquisitions/disposals	273	-1,964	1,632	290	-215
Financing cash flow	807	8,003	2,800	-250	-702
Borrowings	1,038	8,234	3,089	-2,599	-318
Dividends paid	-231	-231	-289	-320	-384
Change in cash	272	0	0	0	0
Balance Sheet (RsM)					
Total assets	23,517	32,010	35,546	37,721	39,994
Cash & cash equivalent	2,715	1,739	590	469	537
Accounts receivable	2,220	2,714	2,860	2,906	3,708
Net fixed assets	10,376	15,611	21,373	23,594	23,391
Total liabilities	13,901	20,908	22,944	20,399	20,193
Accounts payable	491	522	393	704	1,074
Total Debt	11,022	18,280	20,220	17,500	17,250
Shareholders' funds	9,617	11,103	12,602	17,322	19,801
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	18.4	16.7	17.5	19.3	20.3
ROE adjusted	19.2	16.6	15.1	15.9	15.4
ROIC adjusted	11.3	7.8	7.6	8.8	10.0
Net debt to equity	86.4	149.0	155.8	98.3	84.4
Total debt to capital	53.4	62.2	61.6	50.3	46.6

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Vardhman Textiles

Company description

Vardhman Textiles (erstwhile Mahavir Spinning Mills) is a leader in its sector, with 550,000 spindles offering the widest product range in cotton and blended yarn in India. It is the second-largest company with an 18% market share in sewing threads. The company has a vertically integrated business model, giving it a significant presence in fabrics (20% of FY07 revenues). It is also present in special and alloy steel hot rolled products and is a vendor to OEMs in the automotive and engineering space. Its superior quality and wide product range in higher-value-add products make it a preferred supplier to domestic and international manufacturers in textiles and apparels. Direct exports contribute 21% of revenues, excluding the sales to exporters. It is the flagship company of the SP Oswal Group, with the major shareholders owning a 62% stake.

Investment strategy

We have a Buy (1L) rating on Vardhman Textiles and a target price of Rs260 based on 8.4x Mar 08E P/E, on a par with sector. Vardhman's large-scale expansion, focus on higher value addition and vertical integration into fabric will help de-risk its business model by reducing dependence on commodity yarn business. We expect large capacity expansions in fabric, initiatives to consolidate sewing thread business through de-merger and thrust on richer product in yarn to drive growth. Expansion in yarn and fabric is part of a strategy to invest in capital-intensive projects taking advantage of TUF (Technology Upgradation Fund). We believe this will differentiate Vardhman from other Indian companies and maintain focus on core segments in the textile value chain, like spinning and weaving.

Valuation

We set our target price at Rs260, based on 8.4x FY08E P/E, on a par with our India textile universe valuations (our base assumption is Mar 08E). P/E is our primary valuation tool as we think it best captures earnings growth potential. While the company's efforts to move away from the commodity business of yarn and its vertical integration into fabric are positive, earnings growth will be back-ended.

Risks

We rate Vardhman Textiles Low Risk based on our quantitative risk-rating system, which measures the stock's volatility over a 260-day period. The main company-specific risks include: 1) Any sharp increase in cotton prices of over 10-12% above Rs53/kg would impact estimates as cotton is a key raw material for Vardhman's product range; 2) Any fall of more than 4-5% in yarn price realizations, due to the commodity nature of business, would impact the profitability of the company's yarn business; 3) Any delay in the commissioning of fabric capacities would further lower our forecast revenue growth of 15% CAGR over FY07-10E; and 4) Lower-than-the-expected decline in price

realizations of steel alloy business would adversely impact the operating profitability of its steel alloy business (14.5% of total operating profits). If any of these risk factors plays out, Vardhman's share price is likely to have difficulty attaining our target price.

Appendix A-1

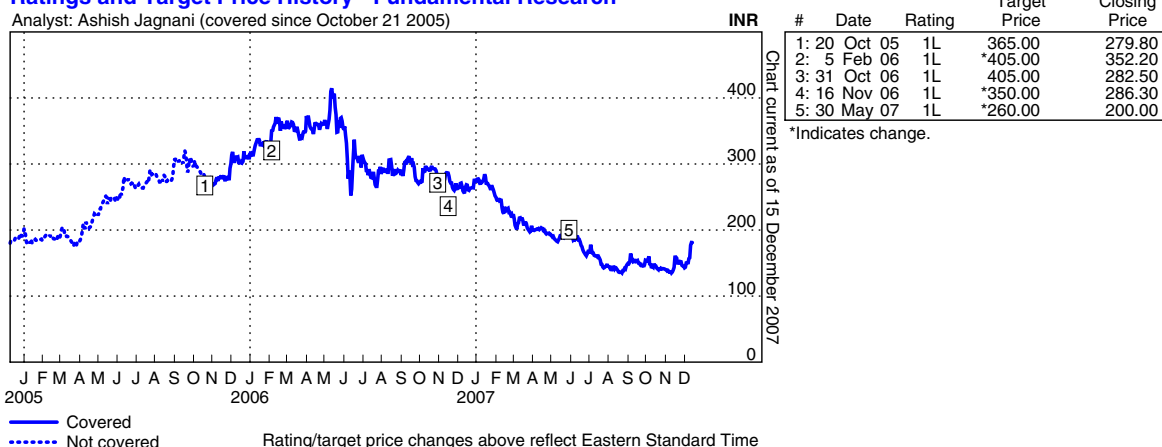
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Analyst: Ashish Jagnani (covered since October 21 2005)



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Data current as of 30 September 2007

	Buy	Hold	Sell
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