

Bombay Rayon

Rs 182

Clothing Smart

Buy

6th Oct 2006

SCRIP DETAILS

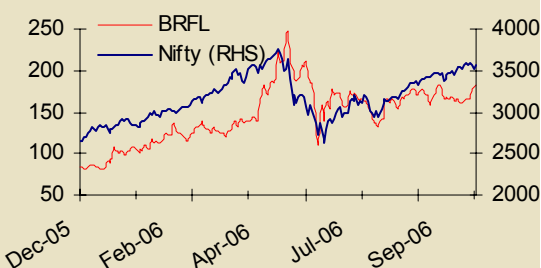
Market Cap (Rs crores)	891.0
P/E (x)-FY07 (E)	16.3
EV/ EBITDA-FY07 (E)	10.9
Market Cap/ Sales	1.8
Market Cap/ EBITDA - FY07 (E)	9.4
Dividend (Rs)/ Yield (%)	1/ 0.6
Equity Capital (Rs crores)	49.0
Face Value (Rs)	10.0
52 Week High/Low (Rs)	259/80

 Website: www.bombayrayon.com

NSE Code	BRFL
Sensex	12389
Nifty	3565

**SHARE HOLDING PATTERN
(As on 30th June 2006)**

Promoters	55.9
Mutual Funds/ Banks/ FIs	8.5
FII's	14.8
Others	10.6
Public	10.2

COMPARATIVE PRICE MOVEMENT


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Bombay Rayon Fashions Ltd (BRFL), is now aggressively expanding its capacity to encash on the rising demand and post expansions, would emerge as the second largest garment manufacturer in India, after Gokaldas Exports. With the dismantling of the quota system the Indian apparel industry is likely to see accelerated growth in exports and BRFL with its integrated business model is emerging as a strong player.

Emerging as a leading garment manufacturer: Currently, BRFL has an annual manufacturing capacity of 11.2 million metres of fabric and a daily capacity of 40,000 pieces of garments. It is setting up an integrated textile plant of yarn, dyeing, weaving, fabric processing and garmenting near Bangalore and post expansion, its daily garment manufacturing capacity would go up to 1 lakh units, while its yearly fabric manufacturing capacity would stand at 46.2 million metres.

Integrated facility would place it in a competitive position: Currently, BRFL is into manufacturing woven fabric and garments but does not have facilities for yarn dyeing, processing of grey fabrics and garment washing and hence, it has to outsource these jobs. The new integrated manufacturing unit would have all these facilities, which would enable the company to lower its operating cost. The presence of an in-house facility would also enable the Company in lowering the turnaround time to 55-60 days.

Focus on fashion garments would ensure better realisation: BRFL addresses the fashion segment of the garment industry, unlike the mass segment addressed by other players and hence, it is likely to enjoy better realisations. The list of esteemed clients includes DKNY, Wrangler, Next, Liz Claiborne, Tom Taylor and Top. However, the fashion industry is fast changing and to meet this demand, the company has a team of 30 designers who come up with 4-5 designs on a daily basis.

Changing revenue mix ensures margin expansions: BRFL's revenue mix is changing favourably towards garments, where it enjoys 22-25% margins, while from fabrics, the margin is 12-13%. The share of garments in total revenues is likely to go up to 62% and 80% in FY07 and FY08, respectively, from the current 24%. Further, with the commencement of operations of its own weaving and dyeing facilities, the Company is likely to meet almost 50% of the fabric requirements from its own production, which would further add to the margins and hence, the EBITDA margin is likely to go up to 19.4% and 20.4% in FY07 and FY08, respectively.

Valuations: BRFL is ramping up its capacity aggressively and with the final capacity expected by March 2006; the real growth is likely to be seen in FY08. We expect the Company's revenue and PAT to grow at a CAGR of 96% and 126%, respectively, during FY06-08. At the CMP of Rs 182, the stock is available at 16.3x and 9.6x its FY07 (E) and FY08 (E) EPS of Rs 11.1 and Rs 19, respectively. We recommend a BUY, with a price target of Rs 275, an upside of 51% from current levels, for a 12-month horizon.

Company Background

The Bombay Rayon Group was promoted by Mr Janardan Agarwal in 1986 and was earlier know as Mudra Fabrics Ltd. The Group had a number of companies and JVs across different processes. However, with the vision of being a multi-fibre, multi-product Company in the apparel business, the Group companies were merged under one roof and the new entity was know as Bombay Rayon Fashions Ltd, with effect from March 2005.

Earlier, Bombay Rayon was mainly into the manufacturing of branded fabrics for the men's shirting segment. The Company supplies its fabrics both through wholesalers and retailers and also to branded garment manufacturers like Zodiac Clothing and Madura Garments. It also directly exports fabrics to the Middle East and East European Countries. In order to encash on the growing demand of readymade garments, the Company stepped into manufacturing of men's shirts.

The weaving facilities of the Company are located in three locations, in Sonale Village of Thane district, Navi Mumbai and Silvassa, with an annual production capacity of ~11.2 million metres. The garmenting facility is spread across two locations in Bangalore. Currently, the Company employs ~7,000 people and post expansion, the workforce is likely to go up to 18,000 (by FY07). The Company's in-house designing capability, together with integrated manufacturing facility, would ensure better realisation, going ahead.

Emerging as a leading garment manufacturer:

Initially, in 2003, the Company started with a manufacturing capacity of 3,000 garments a day and then added capacity, for another 3,000 units in 2005. In the same year, the Company added further capacity of 8,000-units a day, thus taking the total capacity to 14,000 units a day by Oct05. During Q3FY06, the Company came out with an IPO, raising Rs 94 crores, and added further capacity of 26,000 units, with total capacity going up to 40,000 pieces of garments a day.

Currently, the Company is setting up an integrated textile plant of yarn, dyeing, weaving, fabric processing and garmenting at the apparel park in Dodaballapura, near Bangalore. Another capacity of 20,000 units a day is likely to come up by October-end, which would run in double shift from Dec06, thereby making the total capacity to 81,500-units a day by Dec06. Another facility, with a daily 22,000-unit capacity, would be operational by March06 and as a result, the total capacity of the Company by March 07 would stand at 1,03,500 units of garments a day. Post expansions, the Company would be the second largest garment manufacturer, after Gokaldas Exports, with a yearly manufacturing capacity of 30 million pieces of garments. The new integrated unit will have a processing capacity of 35 million meters p.a. Though the company is setting up the processing unit for captive consumption, the surplus capacities will be utilised for outsourcing. The company plans to exports the entire garments manufactured post expansions and hence the share of exports business is likely to go up to 65% in FY07 and 80% in FY08 from 31.4% in FY06.

Garment Manufacturing Capacity:

Garments / Day	Capacity/ Day	Operational	Cumulative
Unit-1	3,000	Nov-03	3,000
Unit-2	3,000	Apr-05	6,000
Unit-3	8,000	Oct-05	14,000
Unit-4	26,000	Feb-06	40,000
Unit-5*	1,500	Feb-06	41,500
Unit-6	20,000	Oct-06	61,500
Unit-6-II	20,000	Dec-06	81,500
Unit-7	22,000	Mar-07	1,03,500

*Acquisition of facility in New Mumbai.

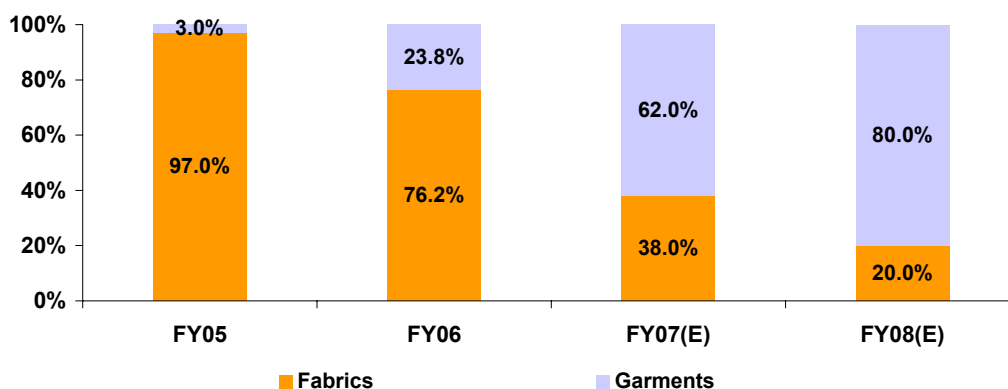
Backward Integration would lead to lower turnaround time: Currently, the Company is into manufacturing of woven fabric and garments. However, it does not have facilities for yarn dyeing, processing of grey fabrics and garment washing and hence, it has to outsource these jobs. The new integrated manufacturing unit would have all these facilities, which would enable in lower the processing cost. The presence of an in-house facility would also enable the Company in lowering the turnaround time. Since garment manufacturing is highly fashion-oriented, and fashion being time bound, any delay in meeting deadlines could result in loss of clientele. The Company has already lowered the turnaround time, from 90 days to 65 days, and with the new facility coming up, the same is likely to further come down to 30 days. In this speedy delivery orders the company believes it can bargain a premium of US \$1-1.5 per garments against its average realisation of ~US \$ 7.

Focus on Fashion garments would ensure better realisation: Bombay Rayon addresses the fashion segment of the garment industry, unlike the mass segment addressed by other players and hence, it is likely to enjoy better realisations. However, the fashion industry is fast changing and therefore, the Company has to adapt to new technology and trends and needs to come up with new designs on a regular basis. The Company has its own designing facility, with a team of 32 people, who come up with 4-5 designs per day to meet the changing demand. BRFL also has a library of 35,000-40,000 designs. Though the company is mainly into the men's shirt manufacturing it is setting up a trouser manufacturing unit with a capacity of 3000 pieces per day and plans to expand the capacity at later stage after stabilizing its shirt manufacturing units.

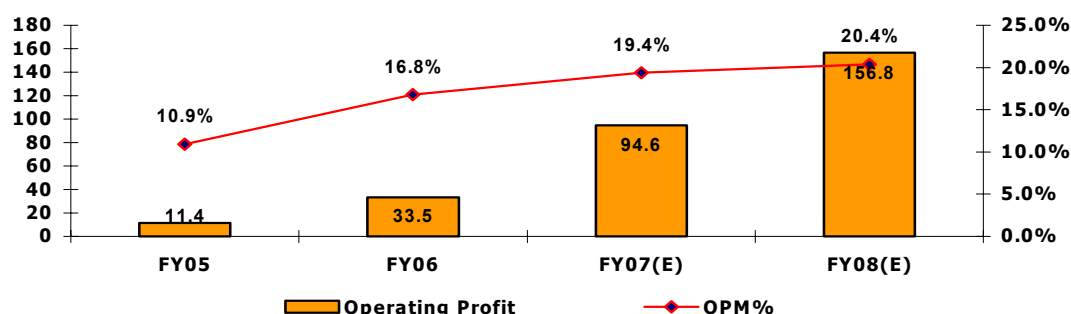
Rich client base across diversified geography: The Company started garment manufacturing in 2003 and, in a short span of three years, has created a strong client-base with international brands and retailers like DKNY, Macy's Wrangler, Next, Liz Claiborne, Tom Taylor, Marc Echo and Top. The revenue, in terms of geography, is also well diversified, with 40% coming from North America and the balance from the rest of world. The revenue-concentration across clients is also well balanced and none of the clients account for more than 10% of the Company's total business and hence, the risk of high client-concentration is very low for the Company. The Company is also actively looking at expanding its business in the competitive European market and has set up a wholly owned subsidiary in Netherlands and plans to open more representative offices, going ahead.

Changing revenue-mix ensures margin expansions: BRFL's revenue mix is changing favourably, towards garments from fabrics. In the garment segment, the Company enjoys margins of 22-25%, while in the fabric segment, the margin is 12-13%. Going ahead, the share of garments in total revenues is likely to go up to 62% and 80% in FY07 and FY08, respectively, from the current 24%, and this rising share of garments in total business would ensure better margins for the Company. Further, with the operations of its own weaving and dyeing facilities, the Company is likely to meet almost 50% the fabric requirements from its own production, which would further add to the margins and hence, the EBITDA margin is likely to go up to 19.4% and 20.4% in FY07 and FY08, respectively, from 16.8% in FY06. The Company is also setting up a 2.5-MW power plant and with the commencement of operations of the same, the power cost would come down to Rs 2.5-3 per unit from the present Rs 5 from the State Electricity board.

Revenue Mix of Fabrics and Garments:



Improving Margins:



Project Details: Initially the company had envisaged the total project cost at Rs161.7 crores. However, during March 2006 it decided to expand the scope of the project with additional garment facilities of 7.8 million pieces p.a. Also the yarn dyeing capacity earlier planned at 2000 kg/ day was raised to 4000 kg/ day. The additional capex for this was estimated to be Rs 85 crores thus taking the total project cost to Rs 246.7 crores. The company has raised the total debt of Rs 152.72 crores from Banks under the Technology Upgradation Funds Scheme (TUFS) for which the company will get interest subsidy of 5%. Also under TUFS for total investments in Processing Machineries, the company will be entitled for a 10% capital subsidy, ~Rs 5 crores.

Expansions Plans		FY06	FY07
Yarn Dyeing	Kgs/ day	NA	4000
Weaving	Looms	150	304
Processing	Meters/ day	NA	94,000
Garments	Pieces/ day	40,000	100,000

(Rs Crores)	Initial	Additional	Total Cost
Project Cost	161.7	85.0	246.7
Means of Finance			
Equity	60	29	89
Debt	101.7	51.0	152.7
Capital Subsidy		5	5

Promoters:

Mr. Janardan Agrawal (Age 56): Janardan Agarwal, the Chairman of the Company, is the main person behind the establishment and the growth of Bombay Rayon Group, and has been involved in the business of BRFL since its inception. He has over 28 years of experience in the textile industry. As the Chairman, he provides strategic direction to the Company and is accredited with the establishment of the Bombay Rayon brand of fabrics in the local market.

Mr. Aman Agrawal (Age 33): Aman Agarwal, elder son of Janardan Agrawal, is the Executive Vice Chairman of the Company. He has over 11 years of experience in the textile industry. Over the years, he has developed expertise in weaving technology. Currently, he is in charge of fabric manufacturing and controls all activities including procurement of yarn, other raw materials, production planning & control and packing & logistics.

Mr. Prashant Agrawal (Age 31): Prashant Agrawal is the MD of the Company. Younger son of the chairman, he has 9 years of experience in the textile industry. He is in charge of fabric designs and overseas marketing of fabrics and holds complete responsibility, from initiation to delivery of garments.

Key Concerns

Inability to ensure offtake, post expansions: BRFL is aggressively expanding its manufacturing capacities. The garment manufacturing capacity, post expansion, would go up to 1,00,000 units a day by FY07, from 3,000 units in FY03. Though the Company is very aggressive in capacity addition, the real challenge would be to ensure the optimum utilisation of the added capacity.

Delay in start of projects: The Company is setting up an integrated textile plant of yarn, dyeing, weaving and fabric processing & garmenting at the apparel park in Dodaballapura, near Bangalore. Any delay in the completion of the project could have an adverse impact on the revenues and profits of the Company, going ahead.

Unavailability of skilled labour: The Company is setting up its new manufacturing facility at Bangalore. Over the last couple of years, Bangalore has emerged as a preferred destination by apparel manufacturing companies for setting up new facilities and with the increasing competition; the availability of skilled labour could be a key concern.

Increased competition from other economies: Post dismantling of the exports quota, India has been a major beneficiary and the textile and apparel exports in particular have seen strong growth. Further, the quota imposed on China by the USA and the EU has also helped India in scaling-up exports. However, with the quota on China ending in 2008, the competition is likely to increase and this could result in lower realisation and thus impact the profitability of the Company.

Large dependence on a few numbers of clients: The Company has to depend on a limited number of clients for its business. The number of active clients now is 20. However, for the new capacity, the Company would have to ensure continuous large orders for the optimum utilisation of its facilities.

Financials

YE Mar 31 (Rs crores)	FY 05	FY 06	FY 07(E)	FY 08(E)
Net Sales	107.3	202.5	493.7	778.4
EBIDTA	11.4	33.5	94.6	156.8
Other Income	2.4	1.4	1.0	1.0
PBT	9.2	25.5	81.1	138.3
PAT	7.3	18.2	54.6	93.3
Equity Paid Up	33.0	49.0	49.0	49.0
Networth	45.9	153.4	193.9	267.3
Capital Employed	73.5	249.8	360.4	433.8
Gross Block	32.1	78.3	160.0	160.0
EPS (Rs)	2.2	3.6	11.1	19.1
CEPS (Rs)	2.6	4.7	12.5	21.0
Dividend (%)	-	10	25	35
Payout (%)	-	32.3	25.8	21.3
Debt: Equity (times)	0.6	0.6	0.8	0.6
ROCE (%)	16.1	12.8	24.7	34.2
RONW (%)	15.8	11.3	28.2	34.9
EBIDTM (%)	10.9	16.8	19.4	20.4

Latest Quarter results

(Rs crores)	Q1FY07	Q4FY06	Chg (%) QoQ
Net Sales	81.2	58.0	40.0
Total expenditure	65.9	46.5	41.8
Operating Profit	15.3	11.5	32.8
OPM (%)	18.9	19.9	
PBT	12.3	9.4	30.8
Profit After Tax	8.0	3.6	123.0
Equity Share capital	49.0	49.0	
EPS (Rs)	1.6	0.7	123.0

Valuation and Conclusion

BRFL is present in the fast growing garment manufacturing business mainly targeting the fashion segments, which gives it an extra edge over others in terms of realisation. The company's integrated business model from yarn dyeing, fabric manufacturing, to garmenting also ensures better margins. BRFL is ramping up its capacity aggressively and with the final capacity likely to come by March 2006, the real growth is likely to be seen in FY08. We expect the Company's revenue and PAT to grow at a CAGR of 96% and 126%, respectively, during FY06-08. At the CMP of Rs 182, the stock is available at 16.3x and 9.6x its FY07 (E) & FY08 (E) EPS of Rs 11.1 and Rs 19, respectively. We believe the stock is attractively priced as compared to the growth prospects and hence recommend a BUY on the stock, with a price target of Rs 275, an upside of 51% from current levels, for a 12-month horizon.

Peer Comparison

(Rs crores)	FY07 (E)		FY08 (E)	
	Bombay Rayon	Gokaldas	Bombay Rayon	Gokaldas
Revenue	493.7	1,030	778.4	1,170.0
Total Expenditure	391.7	914.1	610.7	1,039.0
EBITDA	102.0	115.9	156.8	131.0
PBT	81.1	85.4	138.3	105.3
PAT	54.6	78.6	93.3	98.0
EBITDA (%)	19.4	11	20.4	11.2
PBT (%)	16.7	8.3	18.0	9.0
PAT (%)	11.2	7.6	12.2	8.4
Equity	49.0	17.2	49.0	17.2
FV	10.0	10.0	10.0	10.0
EPS	11.1	45.7	19.0	57.0
ROE (%)	28.2	20.1	34.9	21
ROCE (%)	25.0	18.3	34.2	20
Debt/Equity	0.8	0.4	0.6	0.3
CMP	182	625	182	625
Market Cap	891	1074	891	1074
P/E	16.3	13.7	9.6	11.0
EV	1,041.4	1,292.3	1,041.4	1,292.3
EV/ EBITDA	10.2	11.1	6.6	9.9
EV/Sales	2.1	1.3	1.3	1.1
Market Cap/ Sales	1.8	1.0	1.1	0.9
Market Cap/ EBITDA	8.7	9.3	5.7	8.2

Prices as on 5th Oct 2006.

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