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Bombay Rayon Fashions Ltd.

CMP: Rs. 172

23rd June 2006

Result update: Maintain Market Outperformer

Shareholding pattern (Dec 2005) %

Promoters	55.9
FII / NRI / OCB	9.0
Banks/FI/MFs	10.0
Pvt. Corporate Bodies	12.3
Public (incl others)	12.8
Total	100.0
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CMP (Rs)	172
52 Week H/L (Rs)	259 / 80
3M Avg daily vol	828840
FV (Rs)	10
Equity (Rs. mn)	489.8
Market Cap (Rs mn)	8423.7
EPS (Rs) FY2008E	19.8
P/E FY2008E EPS	8.7x

On a fast track

✓ Net sales up 91.6% yoy

Bombay Rayon Fashions Ltd. (BRFL) registered a 91.6% yoy jump in its net sales to Rs.1990 million in FY2006 as against Rs.1039 million in FY2005 on the back of a jump in its garment sales. Net sales for the quarter stood at Rs.580 million in Q4FY2006 as against Rs.549 million in Q3FY2006, a jump of 5.6%. The jump in sales is on account of 26000 shirts per day capacity going operational in February 2006.

✓ Operating profit for the year up by 195%

Operating profit for the year was up by 194.7% yoy from Rs.114 million in FY2005 to Rs.335 million in FY2006 on the back of 91.6% jump in sales and 5.9% incremental margins in comparison to FY2005. Operating margins for the year were 16.9% as against 11% for FY2005. The jump in operating margins was on account of its forward integration venture into garments.

Raw materials as a % of sales dropped from 61.4% in FY2005 to 56.4% in FY2006 on account of the increased proportion of garments in the total revenue. Staff costs as a % of sales increased from 1.9% in FY2005 to 5.1% in FY2006 which is offset by the fall in the job charges as a % of sales. Job charges as a % of sales decreased from 16.6% in FY2005 to 12.3% in FY2006, a fall of 434 basis points.

For the quarter ended March 2006, operating profit stood at Rs.116 million as against Rs.80 million in Q3FY2006, a jump of 49.6% qoq on the back of jump in its operating margins. Operating margins for the quarter saw a 403 basis points jump over Q3FY2006 from 15.9% to 20.0%. The jump in margins was on account of a higher share of garments in the total revenues.

✓ Net profits up by 150% for the year

Net profits for the year surged by 150.3% yoy to Rs.182 million in FY2006 as against Rs.73 million in FY2005. The jump in the net profits was lower than the jump in the operating profits was on account of higher depreciation and interest expense.

Depreciation for the year stood at Rs.30 million as against Rs.19 million, a jump of 57.6% yoy. Interest expense grew by 143.8% yoy from Rs.26 million in FY2005 to Rs.64 million in FY2006. Higher depreciation and interest expense was on account of the capacity expansions lined up by the company to increase its garment production.

Profit before tax (PBT) was Rs.255 million in FY2006 as against Rs.92 million in FY2005, a jump of 176.8%. However the net profit growth was lower than the PBT growth on account of higher tax expense during the year. Tax expense as a % of PBT for the year stood at 28.6% in FY2006 as against 21.0% in FY2005.

Bombay Rayon Fashions Ltd.

✓ Valuations

BRFL has emerged out as one of the leading garment manufacturers with its aggressive expansion plans in place. The company is expected to see a manifold jump in profits with its revenues growing on the back of capacity expansions and incremental operating margins with the increasing level of integration.

At the current market price of Rs.172, the stock is trading at 8.7x its FY2008E EPS of Rs.19.8. We maintain our recommendation of Market Outperformer.

Quarterly result

	FY2006	FY2005	% chg	Q4FY2006
Net Sales/Income from operations	1989.8	1038.8	91.6%	580.3
(Inc)/dec in stock	(250.5)	(178.5)	40.3%	(109.6)
Consumption of Raw Materials	1373.3	816.3	68.2%	375.8
Staff Cost	101.8	20.1	406.2%	43.6
Job charges	243.8	172.4	41.4%	92.8
Other Expenditure	185.9	94.7	96.3%	61.8
EBIDTA	335.3	113.8	194.7%	115.9
Depreciation	30.0	19.0	57.6%	5.9
Other Income	13.7	23.7	-42.0%	8.9
EBIT	319.1	118.4	169.5%	118.9
Interest	64.5	26.4	143.8%	24.6
Pre-tax recurring Income	254.6	92.0	176.8%	94.2
Current Tax	59.0	24.4	141.4%	45.5
Deferred Tax	11.6	(5.1)	-	11.6
Fringe Benefit Tax	2.2	0.0	-	1.1
Profit After Tax	181.8	72.6	150.3%	36.0

Key Financials

	FY2004	FY2005	FY2006E	FY2007E	FY2008E
Net Sales (Rs mn)	547.3	1038.8	1989.8	5748.1	9055.4
OPM	8.6%	11.0%	16.9%	17.0%	18.1%
Net Profit (Rs mn)	17.1	72.6	181.8	569.9	968.7
Diluted EPS (Rs.)	0.4	1.5	7.6	11.6	19.8
Diluted Cash EPS (Rs.)	0.5	1.9	8.2	14.2	24.0
Book Value (Rs.)	14.6	13.8	33.0	44.6	64.4
RONW	33.0%	27.5%	35.8%	30.0%	36.3%
ROCE	35.9%	28.2%	30.3%	26.1%	32.0%
P/E	466.8	116.0	22.8	14.8	8.7
P/Bv	11.8	12.5	5.2	3.9	2.7
EV/EBIDTA	19.1	52.2	18.0	10.7	6.1
EV/Sales	1.6	5.5	4.7	1.8	1.1

Source: Stratcap estimates

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