

Alok Industries

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Shareholding (%)

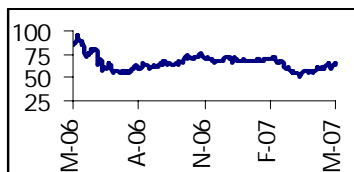
Promoters	28.9
FII's	37.1
MFs	8.9
Insurance Co.	9.0
Others	16.1

Share price performance

52-week high/low (Rs)	99/50
	-1m -3m -12m
Abs (%)	13.9 -7.7 -25.9
Rel* (%)	2.3 -6.2 -38.7

*to Nifty

Stock chart



Delivering on its capex

Alok Industries Ltd's (Alok) strong performance for Q4FY07 is indicative of the fact that it has started delivering on the capex undertaken in the past few quarters. Topline and bottomline (excluding extra-ordinary gains) for Q4FY07 grew by 41% and 31% respectively. Alok has completed a large part of its capex, with phase II expansion being wrapped-up and phase III expansion underway. As a result, we expect exponential growth in revenue and profit to continue over the next two years, in line with our expectations. Fabric, home textile and the garment divisions would continue to be key growth drivers.

Alok continues to be one of the cheapest picks in the textile sector, trading at 8.2x and 5.7x our FY07 and FY08 EPS estimates respectively. We continue to maintain 'Buy' on the stock.

During Q4FY07, Alok registered topline growth of 40.8% YoY to Rs5.74bn, marginally above our expectation. Home textiles and POY division continued to be major contributors to its topline, with 24% and 54% growth over its Q4FY06 numbers respectively. Apparel fabric, which forms 41% of total revenue, registered a steady 5.3% YoY growth. Garment sales also gained momentum, clocking 79.9% growth; though on a lower base.

Alok's operating margin saw an improvement of 150bps for Q4FY07, while margin for the full year improved by 330bps. The improvement in margin is on account of strong growth in value added products, such as processed fabrics, home textiles and garments increasing their share in the overall revenue. The share of low margin products, such as POY, reduced sharply to 28% of revenue in FY07 from 37% in FY06.

During the quarter, Alok had a one-time forex gain of Rs334mn from repayment of ECB of JPY11.8bn. This boosted Q4 bottomline to Rs787mn. Adjusting for this gain, net profit has grown 30.6% YoY to Rs453mn. Net margin declined marginally on account of higher capital costs incurred on new capacities. Utilisation rates for these capacities would pick up gradually over the next few quarters.

Alok has completed a large part of its expansion, with phase I and phase II of the capex being completed. The rise in utilisation for these capacities would drive revenue and profit growth for Alok over the next two years.

Buy

Rs64

May 4, 2007

Market cap

Rs bn 12

US\$ mn 287

Avg 3m daily volume

709,496

Avg 3m daily value

Rs mn 43

Shares outstanding (mn)

170

Reuters

ALOK.BO/ALOKTEXT.NS

Bloomberg

ALOK IN

Sensex

13,934

Nifty

4,117

Alok Industries

Phase III of the capex, involving expansion of its fabric and home textile capacities, is currently underway and expected to be completed by March 2008.

- ▲ Alok has covered its foreign exchange receivables for the next 3-4 months; and hence would not be affected by appreciation of the rupee. However, realisations from its export business would be marginally affected, if a strong rupee continues with its forward march. Exports contributed to about 46% of revenue in FY07.
- ▲ Alok remains to be one of the cheapest stocks in the textile sector, trading at 8.2x and 5.7x our FY07 and FY08 EPS estimates. On fully diluted basis, the stock trades at 9.6x and 6.6x its FY07 and FY08 EPS. Completion of a major part of the capex plan and strong results for the quarter, are indicators of strong growth in the coming quarters and provide better visibility to our estimates. Hence, we continue to maintain 'Buy' on the stock.

Table 1. Quarterly result table

Rs mn	Q4FY07	Q3FY07	QoQ (%)	Q4FY06	YoY (%)
Net sales from operations	5,740.8	4,799.2	19.6	4,077.4	40.8
Total expenses	4,420.2	3,725.9	18.6	3,201.5	38.1
% of net sales	77.0	77.6		78.5	
(Increase) / Decrease in stock	10.1	(24.6)		(652.5)	
Raw material consumed	3,289.6	2,839.4	15.9	2,972.9	10.7
% of net sales	57.5	58.7		56.9	
Employee cost	167.8	129.1	30.0	98.2	70.9
% of net sales	2.9	2.7		2.4	
Other expenses	952.7	782.0	21.8	782.9	21.7
% of net sales	16.6	16.3		19.2	
EBITDA	1,320.6	1,073.3	23.0	875.9	50.8
% of net sales	23.0	22.4		21.5	
Depreciation	354.2	325.3	8.9	215.7	64.2
EBIT	966.4	748.0	29.2	660.2	46.4
% of net sales	16.8	15.6		16.2	
Interest	268.5	241.5	11.2	172.6	55.6
Other income	19.1	32.3	(40.9)	15.0	27.3
PBT	717.0	538.8	33.1	502.6	42.7
Provision for tax (including deferred tax)	(264.1)	(168.2)		(155.7)	
Net profit	452.9	370.6	22.2	346.9	30.6
NP margin %	7.9	7.7		8.5	
Equity	1,703.7	1,703.7		1,574.7	
EPS	2.7	2.2	22.2	2.2	20.7

Source: IISL research, company

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