

## Alok Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 7,686	ALOK IN
	REUTERS CODE
S&P CNX: 2,316	ALOK BO

28 October 2005

Neutral

*Previous Recommendation: Neutral*

Rs65

Equity Shares	199.1
52-Week Range	86/57
1,6,12 Rel.Per. (%)	-5/-18/-24
M.Cap (Rs. b)	12.9
M.Cap (US\$ b)	0.3

YEAR	NET SALES	PAT	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/05A	12,217	910	6.8	-15.7	9.6	1.4	19.2	10.9	2.0	10.4
3/06E	16,149	1,069	5.4	-21.0	12.1	1.2	12.5	9.3	1.6	8.0
3/07E	23,417	1,913	9.6	79.0	6.8	1.0	16.4	13.1	1.1	5.1

\* Fully Diluted EPS

- ✍ Alok reported 2QFY06 results in line with our expectations with revenues increasing by 23.2% YoY to Rs3.5b. PAT reported an increase of 23.8% to Rs255m, against our estimates of Rs262m.
- ✍ EBITDA margin reported a 140bp improvement to 20.5% against our estimate of Rs708m. The increase in EBITDA margin was led by increasing sales of value added products.
- ✍ Export in 2QFY06 reported an increase 18% YoY to Rs888m. The increase in exports was led by a sharp increase in the exports of home textiles.
- ✍ During 2QFY06, the share of home textiles stood at 21%, while the share of apparel fabric at 50%. The share of texturised yarn also increased to 28% in 2QFY06, against 24% in 2QFY05.
- ✍ We expect Alok to report a 37% CAGR in revenues and 56% CAGR in net profit over FY05-07. The stock quotes at 12.1x FY06E and 6.8x FY07E earnings. We have a **Neutral** rating on the stock.

**QUARTERLY PERFORMANCE**

(Rs Million)

Y/E MARCH	FY05				FY06				FY05	FY06E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Sales</b>	<b>2,322</b>	<b>2,804</b>	<b>3,309</b>	<b>3,782</b>	<b>2,992</b>	<b>3,454</b>	<b>4,764</b>	<b>4,938</b>	<b>12,217</b>	<b>16,149</b>
Change (%)	10.3	10.9	18.9	16.7	28.8	23.2	44.0	30.6	34.0	32.2
<b>EBITDA</b>	<b>464</b>	<b>536</b>	<b>615</b>	<b>756</b>	<b>588</b>	<b>708</b>	<b>886</b>	<b>981</b>	<b>2,370</b>	<b>3,163</b>
Change (%)	11.8	19.6	20.0	22.5	26.9	32.0	44.1	29.7	39.1	33.5
As % of Sales	20.0	19.1	18.6	20.0	19.7	20.5	18.6	19.9	19.4	19.6
Depreciation	127	131	143	151	160	184	285	353	551	983
Interest	155	154	158	164	166	178	156	149	632	649
Other Income	2	2	32	4	23	7	6	5	39	40
<b>PBT</b>	<b>183</b>	<b>253</b>	<b>346</b>	<b>445</b>	<b>284</b>	<b>353</b>	<b>451</b>	<b>483</b>	<b>1,227</b>	<b>1,572</b>
Tax	37	47	97	135	79	98	163	162	316	503
Effective Tax Rate (%)	20.2	18.7	28.1	30.3	27.7	27.8	36.3	33.6	25.8	32.0
<b>Reported PAT</b>	<b>146</b>	<b>206</b>	<b>249</b>	<b>310</b>	<b>206</b>	<b>255</b>	<b>287</b>	<b>321</b>	<b>910</b>	<b>1,069</b>
<b>Adj. PAT</b>	<b>146</b>	<b>206</b>	<b>249</b>	<b>310</b>	<b>206</b>	<b>255</b>	<b>287</b>	<b>321</b>	<b>910</b>	<b>1,069</b>
Change (%)	9.8	29.0	71.3	63.9	40.6	23.8	15.5	3.3	28.1	17.4

E: M0St Estimates

Siddharth Bothra (Sbothra@MotilalOswal.com); Tel: +91 22 3982 5407

© Motilal Oswal Securities Ltd., 3 Floor, Hoechst House Nariman Point, Mumbai 400 021 Tel: +91 22 38925500 Fax: 2281 6161

[www.MotilalOswal.com](http://www.MotilalOswal.com)

## Revenues up 23% YoY

Alok reported total revenues of Rs3.5b in 2QFY06, a 23% YoY growth. Export sales increased by 18% YoY to Rs888m, driven by growth in the home textiles segment. During 2QFY06, the share of home textiles stood at 21%, while the share of apparel fabric at 50%. The share of texturised yarn also increased to 28% in 2QFY06, against 24% in 2QFY05.

### 2QFY06 REVENUE BREAK-UP (RS M)

	2QFY06	2QFY05	% CHG.
Apparel Fabric	1,714	1,524	12
Woven	1,533	1,295	18
Knitting	125	138	-9
Job Work	56	91	-38
Home Textile	735	579	27
Texturising	974	674	44
Garments	31	26	18
<b>Total</b>	<b>3,454</b>	<b>2,804</b>	<b>23</b>

Source: Company/Motilal Oswal Securities

## Working capital cycle improves

Net current assets in 2QFY06 stood at Rs12b, compared to Rs7.6b in 2QFY05. Net working capital (minus cash) in 2QFY06 stood at Rs6.6b, compared to Rs5.98b in 2QFY05. Net working capital days improved from 195 days in 2QFY05 to 164 days in 2QFY06.

### WORKING CAPITAL SCHEDULE (RS M)

	2QFY06	2QFY05
<b>Inventories</b>	<b>3,594</b>	<b>3,450</b>
Sundry debtors	3,709	3,447
Cash	5,558	1,590
Loans & Advances	1,105	649
<b>Total Current Assets</b>	<b>1,3967</b>	<b>9,137</b>
Current Liabilities	1,735	1,567
<b>Net Current Assets</b>	<b>6,673</b>	<b>5,980</b>

Source: Company/Motilal Oswal Securities

## Will benefit from scarcity in wide-width segment

Alok will benefit from the scarcity in the wide-width weaving and processing segment. It has wide-width

processing capacity of 37.5m meters and wide-width weaving capacity of 12.8m meters. This will go up to 60m meters (processing) and 45.2m meters (weaving), respectively. Such global-sized capacities will give Alok a tremendous headstart and the company will benefit from the large untapped opportunity in this segment.

## Well poised to exploit the opportunities, post quotas

Alok is well placed to participate in the unique growth opportunity provided by the abolishment of quotas. Global buyers have indicated that the company not only meets global scale requirements but also enjoys competitive pricing in comparison with the Chinese players. The company has modeled its business on the lines of the Chinese players, positioning itself as a one-stop shop with large production capacities, a wide product range and an aggressive pricing strategy.

## Strategic acquisition in Shirt Company (India) Private Limited

Alok has acquired a strategic stake of 5% in Shirt Company (India) Private Limited (SCPL) for Rs75m in 2QFY06. SCPL is engaged in the business of readymade garments, catering to the domestic and export market for the last 20 years. The company also has the domestic license for *Barbie* and *Hot Wheels* in India. SCPL plans to open 30 retail shops all over the country in the next one year.

## Valuation and view

Alok is fast emerging as one of the leading home textile players with global capacities. It has strengths in wide-width fabric weaving and processing, the weakest link in the Indian textile industry. We expect the company to report 37% CAGR in revenues and 56% CAGR in net profit over FY05-07. The stock quotes at 12.1x FY06E and 6.8x FY07E earnings. We have a **Neutral** rating on the stock.

## Alok Industries: an investment profile

### Company description

Alok Industries has one of the most modern and technologically advanced plants in India. It has integrated facilities from fabric, texturized yarn, knitting and processing to home textiles and garmenting. It plans to focus on the home textiles business, which will throw up tremendous opportunities, post-quotas. It already has established relationships with large global retailers and brands.

### Key investment arguments

- ✎ Focusing on home textiles (made-ups) for future growth.
- ✎ Has a large customer base of international retailers and Indian garment exporters including DKNY, Tommy Hilfiger, Britannica and Federated Merchandising Group.
- ✎ Has large capacities across the entire textile chain, from fabrics to made-ups, and is set to witness strong growth across all its product lines.

### Key investment risks

- ✎ Texturizing, which is a very low-margin activity, accounts for almost one-third of its business.

### Recent developments

- ✎ Low-margin trading business declining steadily over the last couple of quarters.
- ✎ During 1QFY06, the company allotted 1,400, 1%, unsecured foreign currency convertible bonds (FCCBs) of US\$50,000 each aggregating US\$70m.
- ✎ Alok acquired a strategic stake of 5% in Shirt Company (India) Private Limited (SCPL) for Rs75m, during 2QFY06.

### Valuation and view

- ✎ Alok's revenues and net profit are slated to increase by 37% and 56%, CAGR, respectively, during FY05-07. Margins are likely to expand from 19.5% in FY05 to 23.3% in FY07.
- ✎ The stock quotes at 12.1x FY06E and 6.8x FY07E earnings. We maintain **Neutral**.

### Sector view

- ✎ The Indian textile industry occupies a unique niche in the global market; it parallels China's strengths.
- ✎ India will be one of the biggest beneficiaries of the end of the quota system, after China.

#### COMPARATIVE VALUATIONS

		ALOK	RAYMOND	ARVIND
P/E (x)	FY06E	12.1	16.9	11.2
	FY07E	6.8	12.4	10.0
P/BV (x)	FY06E	1.2	1.9	1.4
	FY07E	1.0	1.7	1.3
EV/Sales (x)	FY06E	1.6	1.5	1.8
	FY07E	1.1	1.2	1.6
EV/EBITDA (x)	FY06E	8.0	9.7	7.6
	FY07E	5.1	7.6	6.6

#### SHAREHOLDING PATTERN (%)

	SEP.05	JUN.05	SEP.04
Promoters	28.5	27.9	28.0
Domestic Institutions	21.5	18.2	13.1
FII's/FDIs	29.1	18.1	38.2
Others	21.0	35.8	20.7

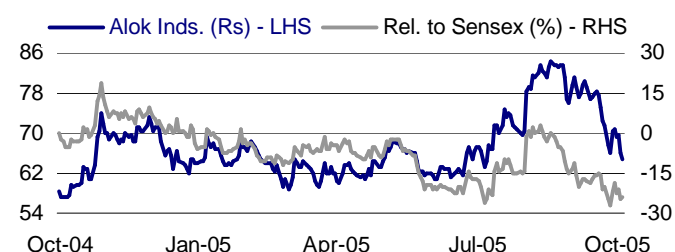
#### EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY06	5.4	-	-
FY07	9.6	-	-

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
65	72	10.9	Neutral

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2003	2004	2005	2006E	2007E
<b>Net Sales</b>	<b>7,838</b>	<b>10,689</b>	<b>12,217</b>	<b>16,149</b>	<b>23,417</b>
Change (%)	41.0	36.4	14.3	32.2	45.0
Total Expenditure		8,567	9,807	12,985	18,294
<b>EBITDA</b>	<b>1,383</b>	<b>2,122</b>	<b>2,370</b>	<b>3,163</b>	<b>5,123</b>
Change (%)	39.7	53.4	11.7	33.5	61.9
% of Net Sales	17.6	19.9	19.4	19.6	21.9
Depreciation	254	383	551	983	1,601
VRS- Amortisation					
<b>EBIT</b>	<b>1,131</b>	<b>1,739</b>	<b>1,819</b>	<b>2,180</b>	<b>3,522</b>
Interest & Finance Charges	512	664	632	649	749
Other Income	2	49	39	40	40
<b>PBT</b>	<b>594</b>	<b>926</b>	<b>1,227</b>	<b>1,572</b>	<b>2,813</b>
Tax	171	215	316	503	900
Effective Rate (%)	28.7	23.2	25.8	32.0	32.0
<b>Reported PAT</b>	<b>423</b>	<b>711</b>	<b>910</b>	<b>1,069</b>	<b>1,913</b>
Change (%)	6.5	68.0	28.1	17.4	79.0
<b>Adjusted PAT</b>	<b>423</b>	<b>711</b>	<b>910</b>	<b>1,069</b>	<b>1,913</b>

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2003	2004	2005	2006E	2007E
Equity Capital	877	882	1,340	1,991	1,991
Share Capital	927	1,719	2,239	2,141	1,991
Reserves	1,627	2,394	4,845	8,985	10,415
<b>Net Worth</b>	<b>2,554</b>	<b>4,113</b>	<b>7,084</b>	<b>11,126</b>	<b>12,406</b>
Loans	5,442	8,184	12,637	14,228	13,564
Deferred Tax Liability	363	505	725	1,077	1,527
<b>Capital Employed</b>	<b>7,996</b>	<b>12,803</b>	<b>20,446</b>	<b>26,432</b>	<b>27,497</b>
Gross Fixed Assets	4,223	5,594	13,229	18,229	20,079
Less: Depreciation	732	1,113	1,661	2,644	4,245
<b>Net Fixed Assets</b>	<b>3,491</b>	<b>4,481</b>	<b>11,567</b>	<b>15,585</b>	<b>15,834</b>
Capital WIP	313	1,314	0	0	0
Investments	41	41	86	150	150
<b>Curr. Assets</b>	<b>5,932</b>	<b>8,451</b>	<b>10,294</b>	<b>12,742</b>	<b>14,413</b>
Inventory	2,789	2,035	3,564	4,447	5,413
Sundry Debtors	2,655	4,203	3,676	4,867	6,608
Cash & Bank Balances	242	1,573	1,894	1,862	512
Loans & Advances & Other Cr	246	640	1,160	1,566	1,880
<b>Current Liab. &amp; Prov.</b>	<b>1,428</b>	<b>1,484</b>	<b>1,502</b>	<b>2,045</b>	<b>2,899</b>
Sundry Creditors	1,289	1,185	1,455	1,969	2,691
Other Liabilities	52	0	0	0	0
Provisions	87	150	47	76	208
<b>Net Current Assets</b>	<b>4,503</b>	<b>6,967</b>	<b>8,792</b>	<b>10,697</b>	<b>11,513</b>
<b>Application of Funds</b>	<b>7,996</b>	<b>12,803</b>	<b>20,446</b>	<b>26,432</b>	<b>27,497</b>

E: Inquire Estimates

RATIOS					
Y/E MARCH	2003	2004	2005	2006E	2007E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>4.8</b>	<b>8.1</b>	<b>6.8</b>	<b>5.4</b>	<b>9.6</b>
Cash EPS	3.4	6.2	8.4	12.1	19.9
Book Value per Share	28.6	37.1	46.2	55.1	62.3
DPS	1.0	1.0	1.0	1.0	1.5
Payout (Incl. Div. Tax) %	16.6	14.2	18.1	13.9	12.1
<b>Valuation (x)</b>					
P/E		8.1	9.6	12.1	6.8
Cash P/E		10.5	7.7	5.4	3.3
EV/EBITDA		9.6	10.4	8.0	5.1
EV/Sales		1.9	2.0	1.6	1.1
Price to Book Value		1.7	1.4	1.2	1.0
Dividend Yield (%)		1.5	1.5	1.5	2.3
<b>Profitability Ratios (%)</b>					
RoAE	19.4	24.6	19.2	12.5	16.4
RoACE	15.7	16.7	10.9	9.3	13.1
<b>Turnover Ratios</b>					
Debtors (Days)	124	144	110	110	103
Inventory (Days)	78	61	68	68	68
Creditors (Days)	78	61	68	68	68
Working Capital (Days)	210	238	263	242	179
Asset Turnover (x)	1.0	0.8	0.6	0.6	0.9
Fixed Asset Turnover (x)	1.9	1.9	0.9	0.9	1.2
<b>Leverage Ratio</b>					
Debt/Equity (x)	2.2	2.2	1.9	1.3	1.1

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2003	2004	2005	2006E	2007E
PBT before EO Items	594	926	1,227	1,572	2,813
Add: Depreciation	254	383	551	983	1,601
Interest	512	664	632	649	749
Less: Direct Taxes Paid	171	215	316	503	900
(Inc)/Dec in WC	-1,172	-1,132	-1,505	-1,936	-2,166
<b>CF from operations</b>	<b>-345</b>	<b>252</b>	<b>137</b>	<b>427</b>	<b>1,757</b>
<b>CF from Op. incl. EO</b>	<b>-345</b>	<b>252</b>	<b>137</b>	<b>427</b>	<b>1,757</b>
(Inc)/dec in FA	-985	-2,373	-6,320	-5,000	-1,850
(Pur)/Sale of Investments	1	0	45	64	0
<b>CF from Investments</b>	<b>-985</b>	<b>-2,373</b>	<b>-6,320</b>	<b>-5,000</b>	<b>-1,850</b>
(Inc)/Dec in Networth	-460	794	-2,244	-5,843	-150
(Inc)/Dec in Debt	-972	-2,743	-4,453	-445	664
Less: Interest Paid	512	664	632	649	749
Dividend Paid	79	101	165	175	260
<b>CF from Fin. Activity</b>	<b>1,392</b>	<b>3,451</b>	<b>6,504</b>	<b>4,541</b>	<b>-1,257</b>
<b>Inc/Dec of Cash</b>	<b>61</b>	<b>1,331</b>	<b>321</b>	<b>-32</b>	<b>-1,350</b>
Add: Beginning Balance	181	242	1,573	1,894	1,862
<b>Closing Balance</b>	<b>242</b>	<b>1,573</b>	<b>1,894</b>	<b>1,862</b>	<b>512</b>

**N O T E S**

For more copies or other information, contact

**Institutional:** Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOS*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOS or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOS or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOS and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOS has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

**Disclosure of Interest Statement**

**Alok Industries**

- |  |    |
|--|----|
| 1. Analyst ownership of the stock            | No |
| 2. Group/Directors ownership of the stock    | No |
| 3. Broking relationship with company covered | No |

MOS is not engaged in providing investment-banking services.

This information is subject to change without any prior notice. MOS reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOS is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.