

Equity indices	% Chg			
	11-Feb	1-day	1-mth	3-mth
<b>India</b>				
Sensex	16,631	(4.8)	(20.1)	(11.2)
Nifty	4,857	(5.1)	(21.7)	(13.5)
<b>Global/Regional markets</b>				
Dow Jones	12,240	0.5	(2.9)	(5.8)
Nasdaq	2,320	0.7	(4.9)	(10.2)
FTSE	5,708	(1.3)	(8.0)	(9.9)
Nikkei	13,032	0.1	(7.6)	(16.4)
Hang Seng	22,963	1.5	(14.5)	(17.0)

Value traded (Rs bn)	BSE	NSE
Cash	76.8	197.1
Derivatives	10.1	412.6
Total	86.9	609.7

Net inflows	Recent trends (days)			
	(Rs bn)	8-Feb	-7d	-15d
FII	(7.9)	5.5	(97.3)	(124.9)
MF	(5.9)	17.4	70.3	70.1

Forex / Crude	% Chg			
	11-Feb	1-day	1-mth	3-mth
Rs/US\$	39.7	0.0	(1.0)	(0.9)
Euro/US\$	1.5	(0.0)	(2.4)	(0.1)
Crude (\$/bbl)	93.2	(0.4)	0.6	(1.5)

Mkt movers (Rs)	Close	Pr. Cl.	% Chg
<b>Top gainers</b>			
KEC International	776.1	708.9	9.5
VSNL	481.3	443.3	8.5
Bajaj Hindusthan	241.0	225.2	7.0
<b>Top losers</b>			
Reliance Energy	1,582.3	1,963.2	(19.4)
Lanco Infratech	399.8	478.6	(16.5)
RNRL	124.3	148.5	(16.4)

## In focus

### Nava Bharat Ventures – Results Update

Surging ahead

CMP: Rs 238 Target: Rs 355 BUY

### Indus Fila – Results Update

Results ahead of estimates led by volume growth

CMP: Rs 255 Target: Rs 561 BUY

## News track

- ❖ According to Nasscom, the Indian IT-BPO industry will exhibit a 33.3% growth in revenues to reach US\$ 64bn by the end of fiscal 2008, as against US\$ 48bn reported in fiscal 2007. (BL)
- ❖ Elecon Engineering has secured an order worth Rs 1.9bn from SAIL for the supply of equipment used for expansion of the IISCO steel plant in West Bengal. The contract involves supply and erection of yard machines, stacker and transfer cars, among other equipment. (BL)
- ❖ Biocon has reached an agreement to acquire a 70% stake in German pharmaceutical company AxiCorp for €30mn. With the acquisition, Biocon will gain entry into the European market. (Mint)
- ❖ SBI has cut its benchmark prime lending rate by 0.25% from 12.75% to 12.50% on Monday. This will bring down the interest rates on retail and corporate loans that are linked to PLR. (BL)
- ❖ Apar Industries has bought a 42% stake in Uniflex Cables for about Rs 500mn. The company will make an open offer for a further 20% in Uniflex at a minimum of Rs 48.5/share (BL)
- ❖ BG Group of the UK is keen on picking up a 25-30% stake in ONGC Krishna Godavari and Mahanadi basin deep sea oil and gas exploration blocks off the east coast. (BS)
- ❖ Welspun Gujarat Stahl Rohren will increase its slab making capacity to 2mn tonnes per year from 1.5mn tones by 2009. The company might think of getting into iron ore and steel making later on. (BL)
- ❖ A Bajaj-Renault study on small car projects will be ready in March 2008. (BL)

Source: BL: Business Line, BS: Business Standard, ET: Economic Times, FE: Financial Express

### Volume shockers

(No of shares)	11-Feb	2-mth avg	Chg (x)
Venus Remedies	265,729	14,309	18.6
M&M Financial	413,714	49,494	8.4
CromptonGreaves	1,412,469	190,558	7.4

### Delivery toppers

Company	Del (%)	Tot. vol	Cons days up
Himadri Chem	94.7	130,241	3
Aban Offshore	54.1	156,796	(4)
ABB India	64.0	476,189	(1)

# Nava Bharat Ventures

## Results Update

CMP: Rs 238

Target: Rs 355 ↓

BUY

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BSE code	513023
NSE code	NBVENTURES

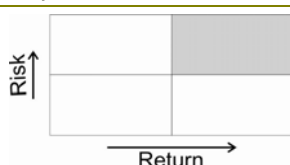
### Company data

Particulars	
Market cap (Rs bn / US\$ mn)	22.0/554.6
Outstanding equity shares (mn)	87.2
52-week high/low (Rs)	352/83
2-month average daily volume	152,731

### Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	5,628.1	8,749.1	10,995.4
Growth (%)	26.0	55.5	25.7
Adj net inc (Rs mn)	1,302.9	2,703.4	2,968.6
Growth (%)	218.3	107.5	9.8
FDEPS (Rs)	18.6	31.0	34.1
Growth (%)	203.8	66.8	9.8
P/E (x)	12.8	7.7	7.0
ROE (%)	35.1	38.5	29.4

### Risk-return profile



### Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	43.6	43.6
FII's	11.3	6.0
Banks & FI's	3.0	2.2
Public	42.1	48.2

### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
NBVL	238	(18.3)	(11.0)	28.7
Sensex	17,465	(16.1)	(7.6)	17.5

<b>Company website</b>	<b>www.nbv.in</b>
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### Surging ahead

Nava Bharat Ventures (NBVL) has posted a strong sales growth of 80% YoY to Rs 2.5bn for Q3FY08, much above our estimates. Higher realisations in ferro alloys (Rs 50,000/tonne for manganese alloys and Rs 58,000/tonne for chrome alloys) coupled with an increasing share of merchant power sales (averaging 50MW) resulted in robust topline growth. The quarter's EBITDA margin has risen by 862bps YoY to 40.2% due to the higher merchant power sales and continued upsurge in ferro alloy realisations during the fiscal. Robust sales growth along with a higher EBITDA margin led to a 107% YoY growth in net profit at Rs 752.8mn for Q3FY08.

We have raised our estimates for FY08 and FY09 considering the quarter's performance. In addition, we have modified our valuation parameters for ferro alloys and sugar, which gives us a revised SOTP-based target price of Rs 355 (from Rs 375 previously). At Rs 355, NBVL will trade at 10x P/E and 7.9x EV/EBITDA on FY09E. We maintain Buy.

### Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	2,520.3	1,752.4	43.8
EBITDA	1,014.0	756.0	34.1
Adj net income	752.8	589.9	27.6
FDEPS (Rs)	9.7	7.3	33.5

Source: Company, Religare Research

### Quarterly results

(Rs mn)	Q3FY08	Q3FY07	% Chg YoY	Q2FY08	% Chg QoQ
Net sales	2,520.3	1,401.9	79.8	1,530.5	64.7
Total expenditure	1,506.3	958.8	57.1	849.9	77.2
EBITDA	1,014.0	443.1	128.8	680.6	49.0
EBITDA margin (%)	40.2	31.6	-	44.5	-
Depreciation	75.9	56.1	35.2	49.0	54.8
Interest	45.4	42.3	7.3	38.5	17.9
Other income	47.5	17.0	179.0	20.5	132.0
PBT	940.2	361.7	159.9	613.6	53.2
Tax	187.4	(2.8)	-	78.3	139.4
PAT	752.8	364.5	106.5	535.3	40.6
EPS (Rs)	9.7	5.5	77.4	7.4	31.4

Source: Company, Religare Research

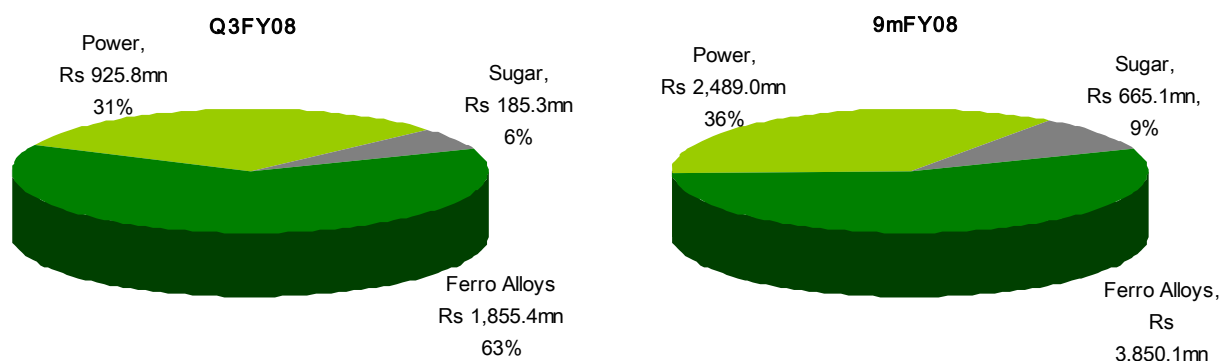
## Result highlights

### Higher ferro alloy realisations and power sales bolster revenues

#### Robust sales growth of 80% YoY to Rs 2.5bn

Surpassing our estimates, NBVL has posted a net sales growth of 80% YoY to Rs 2.5bn, with 63% of the revenues coming from its ferro alloy division. The healthy topline growth was driven by higher ferro alloy realisations coupled with increased merchant power sales owing to generation capacity additions during the quarter. Power and sugar contributed 31% and 6% of revenue respectively for Q3FY08.

### Net sales composition



Source: Company, Religare Research

#### Ferro alloy realisations on an uptrend

During the quarter, NBVL sold ~20,000MT of manganese alloys (silico and ferro manganese) at an average realisation of Rs 50,000/tonne, and 14,000MT of ferro chrome at Rs 58,000/tonne. We expect ferro alloy realisations to remain healthy during Q4FY08 as well, looking at the pricing uptrend witnessed during January. For FY09, we project healthy average realisations of Rs 53,000/tonne for manganese alloys and Rs 57,000/tonne for ferro chrome.

### Ferro alloy division – Sales for 9mFY08

Product	Production (MT)	Sales (MT)	Realisation (Rs/tonne)	Realisation for Jan '08 (Rs/tonne)
Silico manganese	59,000	45,000	45,000	56,000-58,000
Ferro manganese	10,000	9,000	48,000	57,000
Ferro chrome	29,000	19,000	51,000	60,000

Source: Company

### 110mn units of power sold at a net realisation of Rs 4.3/kwh

#### Increasing share of merchant power sales with higher realisations

NBVL has a current generation capacity of 153MW, which comprises 114MW in Andhra Pradesh (AP), 30MW in Orissa and 9MW of cogeneration capacity also in AP. The company commissioned a 32MW unit in October 2007 at AP which is currently operating at 85% PLF. With increased generation capacity, NBVL sold 110mn units of power in the open market at a net realisation of Rs 4.3/kwh while utilising ~150mn units for ferro alloy production.

We expect merchant sale realisations to remain strong at Rs 4.3/kwh during Q4FY08 and FY09, while volumes would improve further in FY09 considering the commissioning of an additional 64MW by May 2008.

**Sugar realisations to improve marginally in FY09**

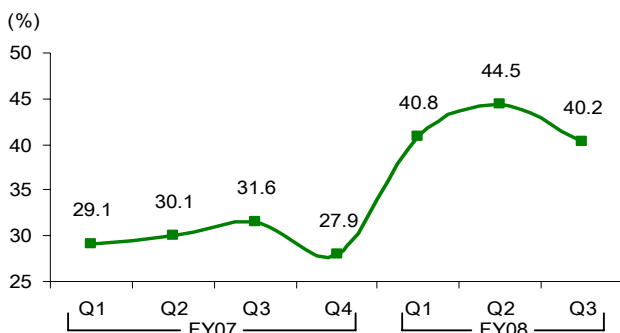
The sugar division contributed just 6% of revenues for Q3FY08 with sale volumes at 10,000 tonnes. Sugar continues to record negative margins; we expect pressure on realisations to continue during Q4FY08, but anticipate a marginal improvement in FY09.

**Significant margin expansion**

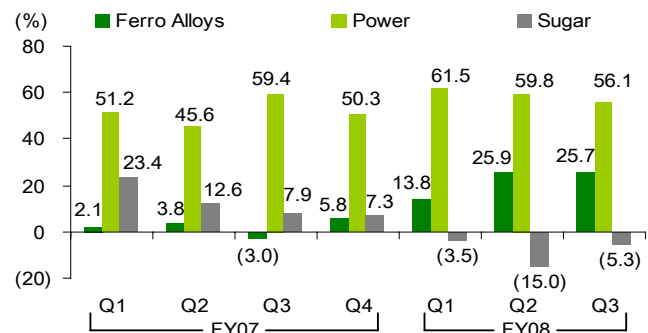
The company's EBITDA margin has improved significantly by 862bps YoY to 40.2% due to increased merchant power sales and higher ferro alloy margins. The PBIT margin for ferro alloys stands at 23% for the nine months ended December 2007 and is expected to remain healthy in Q4FY08. The power division's PBIT margin is also robust at 59% for 9mFY08 and would continue to hold firm with the increasing share of merchant sales.

**EBITDA margin up 862bps YoY to 40.2%**

**EBITDA margin**



**Segmental PBIT margins**



Source: Company, Religare Research

**Merchant power sales expected to double to 100MW from FY10**

**Power capacity to be enhanced to 237MW by Q3FY10**

The new 64MW power plant in Kharagprasad (AP) is expected to be fully operational by May 2008, while a 20MW co-generation facility is scheduled for commissioning by October 2009. The company's current capacity of 153MW (including 9MW co-generation) will thus rise to 237MW by October 2009, after which volumes in merchant power sales are expected to double to 100MW. The full benefit of capacity additions will accrue in FY10.

**Phase II of 1,040MW plant expected in Q1FY09**

Clearances for the Rs 42bn 1,040MW (2x520MW) power project at Orissa are currently being obtained. While linkages for phase I are complete, they are yet to be put in place for the second phase of 520MW. The management expects financial closure of phase II by June or July 2008. NBVL currently holds a 50% stake in the project, though this is expected to reduce. We have not factored revenues accruing from this plant into our estimates as we await further clarity.

**250-acre SEZ to be completed over a 5-year period**

**Construction activities at 250-acre SEZ to commence from October**

Construction of the 250-acre Hyderabad SEZ with a total of 15mn sq ft of developable area will commence from October 2008. The company has tied up with Manthri Developers for construction with a 5-year completion timeframe. NBVL holds a 51% stake in the SEZ, which will have a 150-acre processing and 100-acre non-processing area. For now, we have valued the project at Rs 30mn/acre but will revise our estimates once further clarity emerges.

## Valuation

### EPS estimates raised by 47% for FY08 and 23% for FY09

### We revise estimates for FY08 and FY09

With the increasing share of merchant power sales at a higher rate of Rs 4.3/kwh and rising realisations from ferro alloys, we have raised our sales estimates for FY08 and FY09 by 31% and 40% respectively. This has resulted in an upward revision of our net profit estimates by 55% and 29% for these two years respectively.

### Revised estimates

(Rs mn)	FY08E			FY09E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Net sales	6,661.8	8,749.1	31.3	7,829.2	10,995.4	40.4
Adj net income	1,748.2	2,703.4	54.6	2,295.9	2,968.6	29.3
FDEPS (Rs)	21.1	31.0	46.9	27.8	34.1	22.7

Source: Religare Research

### Tweaking of valuation metrics leads to revised target of Rs 355; Buy

### Our revised price target stands at Rs 355; Maintain Buy

We expect ferro alloy margins to come under pressure over the long term considering increasing ore costs. Hence, we have valued ferro alloys at 7x EV/PBIT (as against our previous valuation of 8x EV/PBIT) on FY09E. We expect a marginal improvement in sugar realisations during FY09, resulting in an increased valuation of the sugar division at a replacement cost of Rs 350,000/tonne (previously valued at Rs 300,000/tonne).

Our SOTP model thus yields a revised price target of Rs 355 (from Rs 375 previously). At Rs 355, NBVL would trade at a P/E of 10x and EV/EBITDA of 7.9x on FY09E. We maintain Buy.

### Valuation summary

Particulars	Total value (Rs mn)	(%) to total	Comment
Power	16,320	47.8	Valued using DCF, discounted at 15%
Ferro alloys	8,578	29.4	Valued at 7x EV/PBIT on FY09E
Sugar	1,225	3.1	Replacement value of Rs 350,000/tcd
Real estate (68-acre plot in Secunderabad)	2,720	8.2	Valued at Rs 40mn/acre
SEZ (250 acres)	3,825	11.5	NBVL's 51% stake valued at Rs 30mn/acre
<b>Total value</b>	<b>32,668</b>	<b>100.0</b>	
Debt	(1,697)		
Equity value	30,971		
<b>Fair value per share (Rs)</b>	<b>355</b>		

Source: Religare Research

### Recommendation history

Date	Event	Reco price	Tgt price	Reco
26-Jun-07	Initiating Coverage	164	268	Buy
6-Jul-07	Company Update	170	268	Buy
13-Jul-07	Company Update	196	268	Buy
1-Aug-07	Results Update	198	302	Buy
7-Jan-08	Quarterly Preview	241	375	Buy
11-Feb-08	Results Update	238	355	Buy

Source: Religare Research

### Stock performance



Source: Religare Research

## Standalone financials

### Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	4,467.0	5,628.1	8,749.1	10,995.4
Growth (%)	5.9	26.0	55.5	25.7
EBITDA	713.0	1,638.5	3,531.6	3,899.2
Growth (%)	(54.9)	129.8	115.5	10.4
Depreciation	183.2	224.5	310.0	410.0
EBIT	529.7	1,414.0	3,221.6	3,489.2
Growth (%)	(62.9)	166.9	127.8	8.3
Interest	142.3	175.9	188.1	142.9
Other income	95.0	121.7	150.0	150.0
EBT	387.4	1,238.0	3,033.5	3,346.4
Income taxes	73.1	56.8	480.0	527.8
Effective tax rate (%)	18.9	4.6	15.8	15.8
Adjusted net income	409.3	1,302.9	2,703.4	2,968.6
Growth (%)	64.9	218.3	107.5	9.8
Extra-ordinary items	170.8	101.7	0.0	0.0
Reported net income	580.1	1,404.6	2,703.4	2,968.6
Growth (%)	(45.5)	142.1	92.5	9.8
Shares outstanding (mn)	66.9	70.1	87.2	87.2
Basic EPS (Rs) (adj)	6.1	18.6	38.6	42.4
FDEPS (Rs) (adj)	6.1	18.6	31.0	34.1
DPS (Rs)	3.0	3.6	4.0	4.0

Source: Company, Religare Research

### Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	580.1	1,404.6	2,703.4	2,968.6
Depreciation	183.2	224.5	310.0	410.0
Other adjustments, net	33.6	(54.4)	(31.8)	(35.0)
Changes in working capital	(288.3)	(427.6)	(971.8)	(764.6)
Cash flow from operations	508.7	1,147.1	2,009.8	2,579.0
Capital expenditure	(800.1)	(873.6)	(3,800.0)	(1,800.0)
Change in investments	2.3	5.4	0.0	0.0
Other investing inc/(exp)	-	-	-	-
Cash flow from investing	(797.8)	(868.1)	(3,800.0)	(1,800.0)
Free cash flow	(289.1)	279.0	(1,790.2)	779.0
Issue of equity	0.0	6.4	2,335.2	0.0
Issue/repay debt	385.6	2,531.9	(2,335.2)	0.0
Dividends paid	(141.0)	(293.5)	(407.9)	(407.9)
Other financing cash flow	-	-	-	-
Cash flow from financing	244.6	2,244.8	(407.9)	(407.9)
Change in cash & cash eq	403.1	358.5	2,882.3	684.2
Opening cash & cash eq	(44.5)	2,523.8	(2,198.1)	371.1
Closing cash & cash eq	358.5	2,882.3	684.2	1,055.3

Source: Company, Religare Research

### Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	358.5	2,882.3	684.2	1,055.3
Accounts receivable	497.1	409.3	538.0	617.0
Inventories	1,293.8	1,404.9	2,078.8	2,467.9
Others current assets	343.2	1,172.1	1,834.2	2,313.6
Current assets	2,492.7	5,868.6	5,135.2	6,453.7
Long-term investments	21.8	16.4	16.4	16.4
Net fixed assets	3,433.1	3,325.5	7,286.1	8,676.1
CWIP	49.7	870.6	400.0	400.0
Deferred tax assets, net				
Other assets	178.5	200.2	293.5	370.2
Total assets	6,175.8	10,281.3	13,131.1	15,916.4
Accounts payable	579.6	873.8	1,345.1	1,604.1
Others	142.0	294.0	408.9	409.4
Current liabilities	721.5	1,167.8	1,754.0	2,013.5
Debt funds	2,184.7	4,716.6	2,381.4	2,381.4
Other liabilities	198.4	195.3	163.5	128.5
Equity capital	133.7	140.1	174.3	174.3
Reserves	2,937.5	4,061.4	8,657.9	11,218.6
Shareholder's funds	3,071.2	4,201.5	8,832.2	11,392.9
Total liabilities	6,175.8	10,281.3	13,131.1	15,916.4
BVPS (Rs)	45.9	60.0	101.3	130.7

Source: Company, Religare Research

### Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	17.2	29.5	40.1	35.1
EBIT margin (%)	11.9	25.1	36.8	31.7
Net profit margin (%)	9.2	23.2	30.9	27.0
FDEPS growth (%)	(64.9)	203.8	66.8	9.8
Receivables (days)	43.1	26.5	22.0	20.0
Inventory (days)	112.1	91.1	85.0	80.0
Payables (days)	50.2	56.6	55.0	52.0
Current ratio (x)	3.5	5.0	2.9	3.2
Quick ratio (x)	1.7	3.8	1.7	2.0
Interest coverage ratio (x)	3.7	8.0	17.1	24.4
Debt / equity (x)	0.7	1.1	0.3	0.2
ROE (%)	14.4	35.1	38.5	29.4
ROA (%)	9.3	18.0	24.7	21.4
ROCE (%)	11.4	20.9	28.7	24.9
EV/Sales (x)	4.0	3.8	2.6	2.1
EV/EBITDA (x)	25.4	13.0	6.5	5.9
P/E (x)	38.8	12.8	7.7	7.0
P/BV (x)	5.2	4.0	2.3	1.8

Source: Company, Religare Research

## Indus Fila

## Results Update

CMP: Rs 255

Target: Rs 561

BUY

## Dalpat Mehta

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BSE code	532821
NSE code	INDUSFILA

## Company data

Particulars	
Market cap (Rs bn / US\$ mn)	4.9/125.1
Outstanding equity shares (mn)	19.4
52-week high/low (Rs)	394/117
2-month average daily volume	25,662

## Financial snapshot (Consolidated)

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	2,689.4	5,200.0	7,700.0
Growth (%)	226.0	93.4	48.1
Adj net profit (Rs mn)	261.4	454.7	725.0
Growth (%)	405.9	74.0	59.4
FDEPS (Rs)	13.5	23.5	37.4
Growth (%)	36.3	74.0	59.4
P/E (x)	18.9	10.9	6.8
ROE (%)	33.8	29.9	35.3

## Risk-return profile



## Shareholding pattern

(%)	Sep-07	Dec-07
Promoters	71.2	71.2
FIIIs	4.0	3.5
Banks & FIs	2.6	0.0
Public	22.2	25.4

## Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Indus Fila	255	(28.1)	20.3	26.4
Sensex	17,465	(16.1)	(7.6)	17.5

Company website [www.indusfila.com](http://www.indusfila.com)

## Results ahead of estimates led by volume growth

Indus Fila (IFL) has surpassed our expectations for Q3FY08 with a 60% YoY topline growth to Rs 1.2bn and a 61% growth in bottomline to Rs 121mn. The performance was driven by increased volume sales of both garments and fabric, stemming from expanded capacities, along with substantially higher realisations. While the EBITDA margin has declined 110bps YoY to 18.5%, this is still substantially higher than the industry average of 14.9%. The margin de-growth is on account of lower initial pricing of high-end garments to gain market acceptance. We expect margins to improve as the contribution of garments to revenue (currently at 25%) moves up.

IFL has been delivering consistently strong results, with a revenue CAGR of over 100% in the last five years accompanied by above-industry margins. We expect the company to experience continued growth momentum as its capacity enhancement project draws to a close by the end of FY08. At the current price of Rs 255 the stock is trading at a P/E of 10.9x on FY08E and 6.8x on FY09E earnings. We maintain our Buy recommendation on the stock with a one-year price target of Rs 561, based on a P/E of 15x on FY09E.

## Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	1,242.2	1,050.0	18.3
EBITDA	229.9	200.0	15.0
PAT	120.9	95.0	27.3
EPS (Rs)	6.2	4.9	27.3

Source: Company, Religare Research

## Standalone quarterly results

(Rs mn)	Q3FY08	Q3FY07	% Chg YoY	Q2FY08	% Chg QoQ
Net sales	1,242.2	774.3	60.4	1,169.2	6.2
EBITDA	229.9	151.8	51.4	212.5	8.2
Depreciation	20.8	17.7	17.3	19.9	4.5
EBIT	209.1	134.1	56.0	192.6	8.6
Interest	33.6	28.9	16.2	38.9	(13.7)
Other income	18.7	9.3	100.6	21.8	(14.3)
PBT	194.2	114.5	69.6	175.5	10.7
Tax	73.3	39.5	85.7	59.6	23.0
PAT	120.9	75.0	61.2	115.9	4.3
EPS (Rs)	6.2	5.3	17.1	6.0	4.3

## Margins (%)

EBITDA	18.5	19.6	-	18.2	-
EBIT	16.8	17.3	-	16.5	-
PBT	15.6	14.8	-	15.0	-
PAT	9.7	9.7	-	9.9	-

Source: Company, Religare Research



## Result highlights

**Expansion of capacities in the weaving and apparel segments raised volume sales**

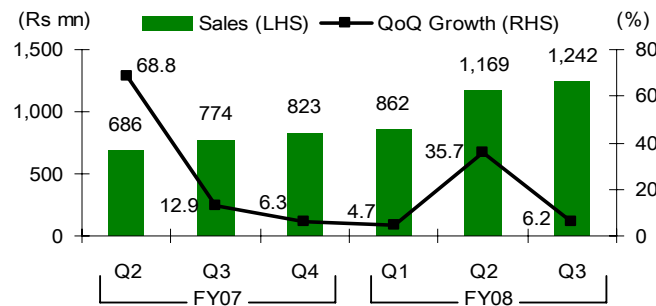
### Higher volumes and realisations fuel sales growth

Net sales for Q3FY08 have risen to Rs 1.2bn as against Rs 774mn for the corresponding year-ago quarter, a growth of 60.4%. Garment sales increased 105% YoY to Rs 313mn, contributing 25% of the quarter's revenues. Fabric accounted for the balance 75% of revenue, having witnessed a rise of 40% during the quarter to Rs 929mn.

The growth during Q3FY08 has been achieved on the back of a phased expansion of capacities in the weaving and apparel segments, which raised volume sales, paired with higher realisations. A total of 24 air-jet looms and 1,000 sewing machines were added during H1FY08. This supported a 41.3% increase in garment volume sales from 0.9mn pcs to 1.3mn pcs during the quarter. Fabric volume sales improved by 38.6% to 9.48mn mtr from 6.84mn mtr.

IFL's net realisation for garments has also improved substantially by 45% YoY during the quarter, while net fabric realisation improved by 1.2%. Exports contributed 27% of revenues, with garment exports accounting for 25% of the total.

### Sales growth trend



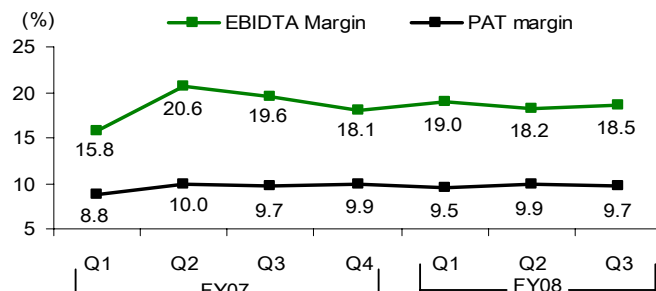
Source: Company, Religare Research

**EBITDA margin dips to 18.5% due to lower initial pricing of premium-label garments**

### EBITDA margin down 110bps YoY

The company's operating profit has risen to Rs 230mn as against Rs 152mn in the corresponding year-ago quarter, registering an increase of 51.4%. The EBITDA margin has witnessed a decline of 110bps YoY to 18.5% due to its focus on high-value garments, where prices have to be kept low initially in order to raise market acceptance. However, this is still substantially higher than the industry average margin of 14.9%. We expect margins to improve as the contribution of garments to revenues moves up on commissioning of expanded apparel capacities.

### EBITDA margin trend



Source: Company, Religare Research



**Net profit expands 61%**

A comparatively lower increase in depreciation and interest cost and higher other income resulted in PAT growth of 61.2% YoY to Rs 120.9mn. PAT has expanded robustly despite an 86% increase in tax provisions to Rs 73.3mn. EPS for the quarter stands at Rs 6.2 on an equity base of Rs 1.9bn. The net profit margin remained stable at 9.7%, protected by currency hedges, since profit on hedging is booked as interest income.

**Robust 9mFY08 performance despite industry-wide slowdown**

For the first nine months of the fiscal, net sales have risen 75.4% to Rs 3.3bn accompanied by a 77.6% rise in PAT to Rs 318.7mn. The EBITDA margin has declined by 60bps, but the PAT margin remains stable at 9.7% despite the appreciating rupee. In view of its nine-month performance, we believe IFL would comfortably achieve our projections for FY08, even without consolidating the numbers of Indus Garments. The Indus Garments acquisition is expected to add Rs 80mn–90mn to consolidated revenues and Rs 30mn–35mn to earnings. The figures of Indus Garments have not been consolidated in the quarterly results.

The textile industry is currently going through a rough patch owing to the continued rupee appreciation. Further, high interest and depreciation costs towards large-scale capacity expansion are restricting profitability across the industry. Against this backdrop, IFL's strong performance during the fiscal stands out sharply vis-à-vis the dismal performance posted by a majority of textile players.

**9mFY08 performance (Standalone)**

(Rs mn)	9mFY08	9mY07	% Chg	FY07
Net sales	3,273.3	1,866.1	75.4	2,689.4
EBITDA	606.3	356.9	69.9	505.9
Depreciation	59.5	49.5	20.1	67.3
EBIT	546.8	307.4	77.9	438.6
Interest	119.1	70.0	70.2	87.2
Other income	67.7	34.2	97.7	47.0
PBT	495.4	271.6	82.4	398.3
Tax	176.6	92.1	91.7	136.9
PAT	318.7	179.5	77.6	261.4
EPS (Rs)	16.4	12.8	29.0	13.5

**Margins (%)**

EBITDA	18.5	19.1	-	18.8
EBIT	16.7	16.5	-	16.3
PBT	15.1	14.6	-	14.8
PAT	9.7	9.6	-	9.7

Source: Company, Religare Research

**Business update****Capacity addition underway; outsourcing options being explored**

IFL is implementing a Rs 1.7bn capacity expansion programme. During H1FY08, a total of 24 air-jet looms and 1,000 sewing machines were added which have started contributing to enhanced production. The remaining 72 looms and 1,000 sewing machines which were expected to come onstream by Q1FY09 may be delayed further as the company is now exploring options to outsource certain activities at competitive prices. IFL is further looking to acquire units for which the board plans to raise Rs 2bn.

**9mFY08 PAT up 78% to Rs 319mn**

**May favour outsourcing over further capacity additions to save costs**

### Capacity expansion

Segment	Existing capacity	Capacity post-expansion
Yarn dyeing	2,300kg	12,300kg
Weaving	59,575mt	97,575mt
Processing	69,000mt	100,000mt
Apparel	9,000 pcs per day	42,000 pcs per day

Source: Company

### Bangalore centre to enhance design capabilities and speed-to-market

#### Centre of Excellence to keep pace with latest fashion trends

IFL is in the process of setting up a fully integrated Centre of Excellence (COE) spread over 20 acres in Bangalore, which aims at revolutionising product development and enhancing speed-to-market logistics. This centre will offer strong design expertise with talent sourced from the fashion hubs of Italy, Paris and Amsterdam. The COE will also develop innovative products across the value chain from yarn to garments.

#### Moving towards garment supply to top labels

The company has established itself as a quality, cost-competitive fabric supplier to several reputed international and domestic fashion labels. In a short span of five years, it has added prestigious names to its client roster including Izod, Arrow, Chaps, Phillips Van Heusen, Liverpool, Liz Caliborne, Sears, Mexx, Calvin Klein, Armani Exchange and Levi Strauss. IFL is now gradually moving towards supplying garments to these international clients.

The 2007 textile and apparel report brought out by the Confederation of Indian Industry and Ernst & Young has forecast that sourcing from India by global retailers is set to increase at a CAGR of 12% through 2011 from US\$ 22bn-25bn in 2008E to US\$ 35bn-37bn by 2011. This represents a huge opportunity for established players like IFL.

#### Foray into retailing and own brands

The company plans to market its garments via its own retail outlets and create distinctive brands for the same. It is further looking to acquire a fashion brand in India and abroad, and is open to growing organically and inorganically.

## Valuation

#### Consistently strong performance

IFL has recorded consistent growth over the years, with a 100% CAGR in revenue over the last five years accompanied by above-industry margins and a track record of strong client traction. We expect the company to deliver a topline CAGR of 69% over FY07-FY09 to Rs 7.7bn and an earnings CAGR of 67% to Rs 725mn. This will translate into an EPS of Rs 23.5 for FY08E and Rs 37.4 for FY09E.

#### Maintain Buy with target of Rs 561

At the current price of Rs 255, the stock is trading at 10.9x and 6.8x on FY08E and FY09E earnings, and an EV/EBITDA of 6.4x and 3.9x respectively. Considering its consistently strong results aided by phased expansion, supplies to prominent international customers, and design-driven capabilities, we maintain our positive view on the company. We reiterate our Buy recommendation with a target price of Rs 561, which is based on a P/E of 15x on FY09E.

We value IFL at a P/E of 15x on FY09E; Buy

Peer comparison

(Rs mn)	Fiscal	Indus Fila	Bombay Rayon	Gokaldas	Kewal Kiran	Mudra	House of Pearl
P/E (x)	FY07	18.9	36.4	11.4	28.6	13.9	7.2
	FY08E	10.9	18.7	10.8	22.2	8.2	6.3
	FY09E	6.8	9.9	8.0	18.1	5.1	5.8
EV/EBITDA (x)	FY07	12.2	24.6	8.9	21.1	8.6	6.4
	FY08E	6.4	11.0	8.2	13.8	5.4	5.2
	FY09E	3.0	6.3	6.6	10.9	3.1	4.7

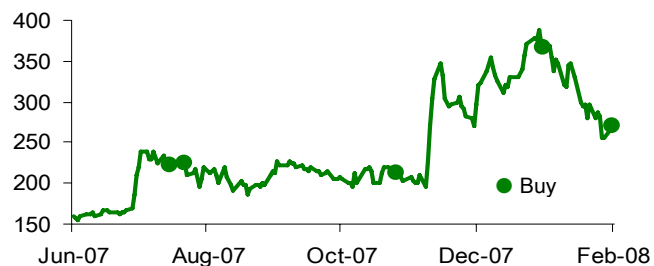
Source: Religare Research

Recommendation history

Date	Event	Reco price	Tgt price	Reco
20-Jul-07	Initiating Coverage	223	352	Buy
26-Jul-07	Results Update	224	352	Buy
01-Nov-07	Results Update	212	352	Buy
05-Jan-07	Quarterly Preview	366	561	Buy
11-Feb-07	Result Update	255	561	Buy

Source: Religare Research

Stock performance



Source: Religare Research

## Consolidated financials

### Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	824.9	2,689.4	5,200.0	7,700.0
Growth (%)	108.8	226.0	93.4	48.1
EBITDA	127.4	505.9	960.0	1,585.0
Growth (%)	109.5	297.0	89.8	65.1
Depreciation	24.0	67.3	131.0	210.0
EBIT	103.4	438.6	829.0	1,375.0
Growth (%)	99.9	324.0	89.0	65.9
Interest	16.4	87.2	176.0	260.0
Other income	11.8	47.0	100.0	50.0
EBT	98.9	398.3	753.0	1,165.0
Growth (%)	121.9	302.7	89.1	54.7
Tax	47.2	136.9	255.0	395.0
Effective tax rate	47.8	34.4	33.9	33.9
Adj net income	51.7	261.4	454.7	725.0
Growth (%)	29.8	405.9	74.0	59.4
Shares outstanding (mn)	5.2	19.4	19.4	19.4
FDEPS (Rs)	9.9	13.5	23.5	37.4
DPS (Rs)	1.0	1.5	2.0	3.0
CEPS (Rs)	18.8	18.6	37.7	59.6

Source: Company, Religare Research

### Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	51.7	261.4	454.7	725.0
Depreciation	24.0	67.3	131.0	210.0
Other adjustments	47.3	46.1	146.8	392.6
Changes in WC	(310.0)	(803.7)	(560.7)	(400.0)
Operating cash flow	(187.0)	(428.9)	171.8	927.6
Capital expenditure	(69.0)	(1,044.1)	(1,585.2)	(188.9)
Investments	-	(393.0)	294.4	-
Other investing inc/(exp)	-	-	-	-
Investing cash flow	(69.0)	(1,437.1)	(1,290.8)	(188.9)
Free cash flow	(256.0)	(1,866.1)	(1,118.9)	738.7
Issue of equity	87.0	922.4	4.6	0.0
Issue/repay debt	177.7	1,084.4	1,353.9	97.8
Dividends paid	(5.2)	(23.2)	(45.3)	(68.0)
Others	(0.9)	(80.1)	-	-
Financing cash flow	258.6	1,903.4	1,313.2	29.8
Beg. cash & cash eq	4.9	7.4	44.8	239.0
Chg in cash & cash eq	2.6	37.4	194.2	768.5
Closing cash & cash eq	7.4	44.8	239.0	1,007.5

Source: Company, Religare Research

### Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	7.4	44.8	239.1	1,007.6
Accounts receivable	170.1	406.9	700.0	900.0
Inventories	198.9	756.2	1,100.0	1,500.0
Others current assets	218.2	314.5	314.5	314.5
Current assets	594.6	1,522.3	2,353.6	3,722.1
LT investments	1.4	394.4	100.0	100.0
Net fixed assets	407.1	1,285.9	2,339.9	2,718.8
CWIP	0.0	99.8	500.0	100.0
Total assets	1,003.1	3,302.4	5,293.5	6,640.9
Payables	117.6	186.4	250.0	400.0
Others	55.8	88.0	102.6	325.2
Current liabilities	173.3	274.5	352.6	725.2
LT debt	563.6	1,648.0	3,001.9	3,099.7
Other liabilities	34.2	65.8	210.8	430.8
Equity capital	*139.2	189.2	193.8	193.8
Reserves	92.7	1,125.0	1,534.5	2,191.5
Net worth	231.9	1,314.2	1,728.2	2,385.2
Total liabilities	1,003.1	3,302.4	5,293.5	6,641.0
BVPS (Rs)	44.4	67.8	89.2	123.1

Source: Company, Religare Research \*includes share application money

### Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	15.4	18.8	18.5	20.6
EBIT margin (%)	12.5	16.3	15.9	17.9
Net profit margin (%)	6.3	9.7	8.7	9.4
FDEPS growth (%)	12.5	36.3	74.0	59.4
Receivables (days)	75.3	55.2	49.1	42.7
Inventory (days)	88	103	77	71
Payables (days)	52	25	18	19
Current ratio (x)	3.4	5.5	6.7	5.1
Interest coverage (x)	6.3	5.0	4.7	5.3
Debt/equity ratio (x)	2.4	0.9	1.6	0.9
ROE (%)	31.3	33.8	29.9	35.3
ROCE (%)	15.6	22.7	20.8	25.3
ROAE (%)	13.1	22.4	20.5	23.4
EV/Sales (x)	7.5	2.3	1.2	0.8
EV/EBITDA (x)	48.3	12.2	6.4	3.9
P/E (x)	25.8	18.9	10.9	6.8
P/BV (x)	5.7	3.8	2.9	2.1
P/CEPS (x)	13.6	13.7	6.8	4.3

Source: Company, Religare Research

## Recommendation tracker

Date	Company	Report type	Stock price (Rs)	Target (Rs)	Reco
22-Jan-08	Sasken Communication Tech	Results Update	276	235	SELL
23-Jan-08	ICICI Bank	Results Update	1,125	1,478	BUY
23-Jan-08	HDFC Bank	Results Update	1,470	1,879	BUY
23-Jan-08	EMCO	Results Update	1,194	1,631	BUY
24-Jan-08	Bank of India	Results Update	390	457	BUY
24-Jan-08	Binani Cement	Results Update	91	148	BUY
24-Jan-08	Bharat Forge	Results Update	300	404	BUY
25-Jan-08	HT Media	Results Update	195	247	HOLD
25-Jan-08	Sterlite Technologies	Results Update	202	384	BUY
25-Jan-08	Cipla	Results Update	175	179	SELL
28-Jan-08	State Bank of India	Results Update	2,405	2,827	BUY
28-Jan-08	Tulip IT	Results Update	974	1,392	BUY
29-Jan-08	HDIL	Results Update	1,002	1,445	BUY
29-Jan-08	Allahabad Bank	Results Update	113	167	BUY
29-Jan-08	Ashok Leyland	Results Update	37	65	BUY
29-Jan-08	Divi's Laboratories	Results Update	1,543	1,825	BUY
29-Jan-08	Garware Offshore Services	Results Update	214	364	BUY
29-Jan-08	Venus Remedies	Results Update	424	708	BUY
29-Jan-08	Dena Bank	Results Update	74	109	BUY
30-Jan-08	Garware Wall Ropes	Results Update	152	301	BUY
31-Jan-08	TVS Motor	Results Update	42	41	SELL
31-Jan-08	Punjab National Bank	Results Update	667	795	BUY
31-Jan-08	Bharti Airtel	Results Update	852	1,150	BUY
31-Jan-08	PVR	Results Update	260	416	BUY
1-Feb-08	Jagran Prakashan	Results Update	124	158	BUY
1-Feb-08	C & C Constructions	Results Update	214	376	BUY
1-Feb-08	Federal Bank	Results Update	309	397	BUY
4-Feb-08	Cadila Healthcare	Results Update	257	381	BUY
4-Feb-08	Maruti Suzuki	Results Update	849	1,225	BUY
4-Feb-08	KPR Mill	Results Update	126	212	BUY
4-Feb-08	Hero Honda	Results Update	725	771	HOLD
5-Feb-08	Ganesh Housing Corp	Results Update	601	1,201	BUY
5-Feb-08	Dewan Housing Finance	Results Update	199	302	BUY
6-Feb-08	Elecon Engineering	Results Update	224	383	BUY
6-Feb-08	Bajaj Auto	Results Update	2,404	2,942	BUY
6-Feb-08	Jubilant Organosys	Results Update	351	405	BUY
6-Feb-08	Bihar Tubes	Results Update	154	242	BUY
7-Feb-08	Indian Overseas Bank	Results Update	178	204	HOLD
7-Feb-08	UTV Software	Results Update	857	892	BUY
8-Feb-08	Mercator Lines	Results Update	107	177	BUY
8-Feb-08	Parsvnath Developers	Results Update	274	512	BUY
11-Feb-08	Opto Circuits (India)	Results Update	400	568	BUY
11-Feb-08	Balaji Telefilms	Results Update	217	375	BUY
11-Feb-08	Nava Bharat Ventures	Results Update	238	355	BUY
11-Feb-08	Indus Fila	Results Update	255	561	BUY
11-Feb-08	GSS America Infotech	Results Update	400-440	NA	NA

## Market trends

### BSE sectoral indices

	% Chg				Constituent performance
	11-Feb	1-day	1-mth	3-mth	
Automobiles	4,581	(3.4)	(15.4)	(10.4)	
Banks	9,745	(4.1)	(21.9)	(4.3)	
Capital Goods	15,034	(5.2)	(22.8)	(23.4)	
Comm. & Tech.	3,282	(2.4)	(13.7)	(7.2)	
Consumer Durables	4,507	(4.9)	(27.4)	(11.3)	
FMCG	2,053	(5.6)	(14.3)	(0.2)	
Healthcare	3,519	(3.2)	(15.9)	(8.4)	
IT	3,848	0.1	(6.2)	(6.9)	
Metal	14,274	(5.6)	(23.9)	(14.9)	
Oil & Gas	9,886	(7.1)	(28.5)	(13.0)	
Mid-caps	7,220	(5.4)	(23.5)	(9.1)	
Small-caps	9,440	(4.8)	(25.6)	(1.9)	

Number of companies: down 5% down 2-5% down 0-2% up 0-2% up 2-5% up 5%

### Emerging markets

Country	% Chg				
	11-Feb	1-day	1-mth	3-mth	6-mth
Brazil	60,643	2.7	(2.1)	(1.4)	15.2
Shanghai	4,600	(1.6)	(14.2)	(16.9)	(0.6)
Hong Kong	22,947	1.5	(14.6)	(17.1)	5.3
India	16,631	(4.8)	(20.1)	(11.2)	11.9
South Korea	1,648	0.4	(7.5)	(14.3)	(9.9)
Taiwan	7,592	(1.1)	(7.6)	(18.3)	(15.1)

### FII statistics

(US\$ mn)	1-day	WTD	MTD	YTD
India	(41.8)	914.9	1,171.3	(3,099.3)
South Korea	(558.8)	(558.8)	(338.8)	(9,813.3)
Taiwan	151.9	433.0	151.9	(1,252.3)
Thailand	859.6	27.1	592.8	(578.5)

## Events calendar

### Board meetings

February 12		13	14
Mather & Platt Pumps - Audited results	Hindustan Unilever – Dividend	Seamec – Results	
Mather & Platt Fire Systems	Rajesh Exports – Allotment of bonus shares	Fag Bearings India - Results, Dividend	
JIK Industries		Abbott India - Results & Dividend	
Mather & Platt Fire Systems - Audited Results		Koramaandel Cements - Bonus Shares	
MTZ Polyfilms- Results			
15	16	17	
Disa India – Results	Micro Inks - Audited Results & Dividend	-	
18	19	20	
Crisil - Audited Results & Dividend	Castrol India - Results & Final Dividend	Wockhardt - Audited Results, Dividend	
BEML - Interim Dividend	Lanxess ABS - Audited Results	SKF India - Audited Results & Dividend	
Castrol India - Results & Final Dividend	ABB - Interim Dividend		



## Trade data

### Institutional bulk deals

Scrip	Client	Buy/Sell	Quantity	Avg Price (Rs)
Arealty	Mavi Investment Fund	B	75,000	400.0
KEI Industries	Deutsche International Trust Corporation	B	305,000	87.1
Shree Ashta	Mavi Investment Fund	B	100,000	330.0
Venus Remedies	Merrill Lynch Capital Markets Espana	B	200,000	490.0

Source: BSE

### Disclosures under insider trading regulations

Scrip	Acquirer/Seller	Buy/Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Asian Oilfield Services	Nimit Finance	B	300,000	3.4	300,000	3.4
Asian Oilfield Services	Neelam Manchanda J/W Avinash	B	100,000	-	101,000	1.3
Baba Arts	Angira Mankad	B	5,000	-	10,500	0.1
Birla Power Solutions	Lotus Global Investments	B	4,240,000	10.0	4,240,000	10.0
Birla Power Solutions	Mavi Investment Fund	B	3,420,000	8.1	3,420,000	8.1
Birla Power Solutions	Somerset Emerging Opportunities Fund	B	4,150,000	9.8	4,150,000	9.8
Birla Power Solutions	Somerset India Fund	B	4,150,000	9.8	4,150,000	9.8
Citiport Financial Services	Rambai Plastico	S	98,400	3.2	-	-
Citiport Financial Services	Alok Kumar Agarwal	S	74,800	2.4	-	-
Contech Software	M/S Pramod Pesticides	B	25,000	0.5	281,215	5.1
Contech Software	M/S Pramod Pesticides	B	25,000	0.5	306,215	5.5
Dai-Ichi Karkaria	Adi H Jehangir	S	84,228	1.1	100	-
Dai-Ichi Karkaria	Jehangir HC Jehangir	S	115,742	1.5	100	-
Dai-Ichi Karkaria	SF Vakil	B	199,170	2.6	780,875	10.3
English Indian Clays	Dbh International	B	424,809	9.5	2,168,778	48.5
Greycells Entertainment	Ketan Rajnikant Chokshi	S	44,000	1.4	-	-
Gujarat Lease Financing	Gujarat Industrial Invest Corpn	S	14,791	0.1	2,317,237	8.5
ICSA (India)	Goldman Sachs Invest(Mauritius)	B	1,342,500	3.1	2,627,354	6.0
Indradeco	Jignesh P Rokadia	S	100,000	-	2,500,000	1.6
Ion Exchange (India)	P Sampathkumar	B	25,000	-	25,000	-
Ion Exchange (India)	Akhil Marfatia	B	20,000	-	20,000	-
Jk Lakshmi Cement	Bengal & Assam Co	B	2,968,761	5.2	4,116,526	7.2
Jubilant Organosys	Rajesh Bhaskar	B	8,810	-	8,810	-
Jubilant Organosys	Ashok Kumar Ghose	B	3,500	-	3,500	-
Jubilant Organosys	Satya Dev Adurti	B	5,000	-	5,000	-
Jubilant Organosys	AP Srivastava	B	8,000	-	8,000	-
KS Oils	Ramesh Chand Garg	B	318,635	-	27,350,704	8.7
KRBL	Radha Raj Ispat	B	39,114	-	2,294,793	9.4
Mahindra & Mahindra	Nadir B Godrej	B	2,000	-	113,782	0.1
Mahindra Forgings	Arisaig Partners(Asia) Pte	B	213,976	2.3	1,681,534	3.0
Mahindra Forgings	Scholz Ag	B	8,257,959	12.0	8,257,959	12.0
Orchid Chemicals &	Dr I Seetharam Naidu	S	2,000	-	365,280	0.6
Orchid Chemicals &	Dr I Seetharam Naidu	S	2,000	-	363,280	0.6
Quantum Digital Vision (India)	Dileep Baid	B	425,000	14.0	425,000	14.0
Rap Media	Polyole Fibre	B	401,000	6.8	401,000	-
Rap Media	Jai Corp	B	350,000	6.0	350,000	-
Rap Media	Nidhi Polyester	B	130,000	2.2	130,000	-
Satyam Computer Services	K Sriram	S	1,000	-	-	-

Scrip	Acquirer/Seller	Buy/Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Softpro Systems	A Mallikharjuna Rao	S	6,902	-	121,148	2.0
Tvs Motor Company	Franklin Templeton Mutual Fund	S	1,811,964	0.8	6,580,967	2.8
Zenotech Laboratories	Ranbaxy Laboratories	B	758,851	2.2	16,127,293	49.0

Source: BSE

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**Recommendation parameters**

<b>Large-caps*</b>	> 10%	< - 5%	<b>Returns</b>	<b>Absolute</b>
	BUY	SELL		
<b>Mid-caps**</b>	> 25%	< 10%		

*\*Market cap over US\$ 1bn \*\*Market cap less than US\$ 1bn*

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