

BOMBAY RAYON FASHIONS

INR 292

Riding on expansions

BUY

Bombay Rayon Fashion's (BRFL's) Q3FY08 results were in-line with our expectations. Net revenues showed strong growth and increased 81% Y-o-Y, to INR 2.3 bn. EBITDA margin continued its upward movement and increased 130bps Y-o-Y, to 22.2%. Net profit stood at INR 346 mn, up 151%.

We expect the company to post strong results in the coming quarters on account of increase in capacity addition in the fabric and garment divisions. BRFL's standalone PAT is expected to grow at a CAGR of 63% over FY08-10, continuing the current growth trend. At INR 292, the stock is trading at a PE of 9.0x and 6.0x our FY09 and FY10 standalone EPS estimates of INR 32.3 and 48.3, respectively (fully diluted). We remain bullish on the company's outlook and maintain our 'BUY' recommendation on it.

Key highlights

- Revenues for the quarter grew 81% Y-o-Y, to INR 2.3 bn, largely on account of an increase in garments volumes from 1.6 mn units to 3.8 mn units. During the quarter garment sales stood at 45 % of total revenues and are expected to increase further on account of the ongoing expansions. Going forward, a greater contribution will come from the garment business which will contribute around 52% in FY10E.
- EBITDA increased 93% Y-o-Y, to INR 529 mn, on account of a change in revenue mix (to high value-added garments). Consequently, EBITDA margin increased 130bps Y-o-Y. Increase in EBITDA, coupled with higher other income (479%) due to substantial forex hedging gains, pushed net income upwards by 151% Y-o-Y, to INR 346 mn.

* Outlook and valuations: maintain 'BUY'

We expect BRFL's standalone PAT to grow at a CAGR of 63% over FY08-10, continuing the current growth trend. At INR 292, the stock is trading at a PE of 9.0x and 6.0x our FY09 and FY10 standalone EPS estimates of INR 32.3 and 48.3, respectively (fully diluted). We remain bullish on the company's outlook and maintain our 'BUY' recommendation on it.

Financials

Year to March	Q3FY08	Q3FY07	% change	Q2FY08	% change	FY08E	FY09E
Net rev. (INR mn)	2,388	1,316	81.4	2,246	6.3	9,360	16,768
EBITDA	529	274	92.8	492	7.4	2,034	3,730
Net profit	346	138	151.3	307	12.7	1,263	2,234
EPS (INR)	5.5	2.8	95.4	4.9	12.7	18.3	32.3
P/E (x)						16.0	9.0
EV/EBITDA (x)						12.6	8.3
M cap / Rev. (x)						20.7	27.5

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Reuters : BRFL.BO
Bloomberg : BRFL IN

Market Data

52-week range (INR) : 401 / 150
Share in issue (mn) : 63.0
M cap (INR bn/USD mn) : 18.3 / 465.4
Avg. Daily Vol. BSE/NSE ('000) : 794.0

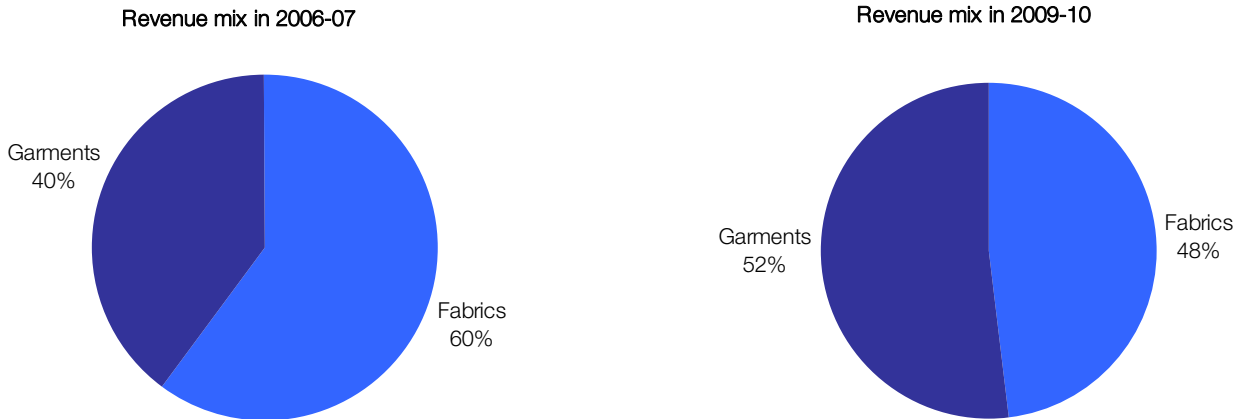
Share Holding Pattern (%)

Promoters : 43.4
MFs, Fls & Banks : 15.3
Fls : 25.7
Others : 15.5

*** Increasing share of the garment business**

During the quarter, the garment sales stood at 45% of the total revenues. Going forward, with the increase in garment capacities, BRFL’s revenues mix is likely to move towards high-value garment business. A greater contribution will come from the garment business which will contribute around 52% in FY10E

Chart 1: Revenue mix



Source: Company, Edelweiss research

*** Recent acquisitions and planned mega expansion to drive growth**

Currently, BRFL has an annual capacity of 30 mn garments and 55 mn meters of fabric. In July 2007, it acquired Leela Scottish Lace (LSL), adding a garment capacity of 15 mn. The company also acquired an RMG factory of the LNJ Bhilwara Group at Bangalore. Further, it has planned a mega INR 11 bn (USD 270 m) expansion in Maharashtra to add capacities of 30 mn garments, 170 mn meters of grey fabric, and 180 mn meters of processed fabric. These acquisitions, coupled with planned expansions, are likely to increase the company’s topline and margins significantly.

Table 1: Increasing capacity addition by BRFL's

Products	Current capacity	Maharashtra project	Total capacity
Garments (pcs/day)	100,000	100,000	200,000
Processed fabrics (mn mtrs/annum)	55	180	235
Grey fabrics (mn mtrs/annum)	30	170	200

Source: Company

With the commissioning of the above-mentioned capacities, the garment capacity will double from the existing 100,000 pieces/day; the processed fabric capacities is likely to quadruple from 55 mn meters currently to 235 mn meters.

Table 2: Capacities in Maharashtra

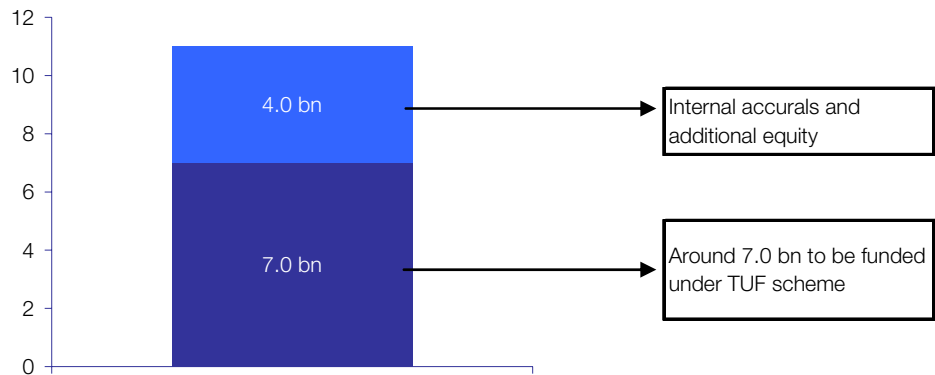
Maharashtra project	Weaving (mn meters/annum)	Garments (pcs/day)	Processed fabrics (mn mtrs/annum)
Islampur	170	-	110
Tarapur		-	70
Ichalkaranji			
Nanded			
Latur			
Osmanabad			
	170	100,000	180

Note: Total garment capacity to be increased by 100,000 units; however, the location-wise capacities have not been finalised.

Source: Company

The company’s capex will be funded largely through GoI’s TUF Scheme (in this scheme, government provides 5% interest subsidy to garment and fabric manufacturers). Moreover, the Maharashtra government has also provided an additional interest subsidy of 4% for the above project. These measures will reduce the company’s interest cost over the long-term, helping it improve margins.

Chart 2: Funding of the project (in bn)



Source: Company

Financial snapshot						(INR mn)		
Year to March	Q3FY08	Q3FY07	% change	Q2FY08	% change	FY07	FY08E	FY09E
Net revenues	2,388	1,316	81.4	2,246	6.3	4,894	9,360	16,768
Dec/(inc) in stock	(78)	(85)	(9.2)	(209)	(62.9)	(415)		
Raw material	1,542	882	74.8	1,585	(2.8)	3,424	5,869	10,505
Job work charges	0	77		0		286		
Staff costs	181	90	101.0	111	62.9	327	613	1,095
Other expenditure	214	79	172.2	266	(19.7)	352	843	1,439
Total expenditure	1,858	1,042	78.4	1,754	6.0	3,974	7,325	13,038
EBITDA	529	274	92.8	492	7.4	920	2,034	3,730
Interest	77	43	80.8	67	15.2	130	275	472
Depreciation	76	35	116.7	66	15.1	104	257	458
Other income	66	11	478.9	94	(30.2)	71	250	300
PBT	442	208	112.3	454	(2.7)	756	1,752	3,100
Tax	96	71	36.4	147	(34.6)	212	490	866
Net profit	346	138	151.3	307	12.7	544	1,263	2,234
Extraordinary items	0	0		0		1	-	-
Net profit	346	138	151.3	307	12.7	545	1,263	2,234
Equity capital (FV INR 10)	630	490	28.6	630	0.0	630	691	691
No. of shares (mn)	63.0	49.0	28.6	63.0	0.0	63.0	69.1	69.1
EPS (INR)	5.5	2.8	95.4	4.9	12.7	8.6	18.3	32.3
P/E (x)						33.8	16.0	9.0
EV/EBITDA (x)						22.8	12.6	8.3
Market cap / Revenues (x)						4.1	2.2	1.2
as % of net revenues								
Raw material	61.3	60.5		61.3		61.5	62.7	62.6
Job work	0.0	5.8		0.0		5.8	0.0	0.0
Staff expenses	7.6	6.8		4.9		6.7	6.5	6.5
Other expenses	9.0	6.0		11.9		7.2	9.0	8.6
EBITDA	22.2	20.9		21.9		18.8	21.7	22.2
Net profit	14.5	10.5		13.7		11.1	13.5	13.3

Company Description

BRFL has been one of the most ambitious Indian textile companies to take advantage of the removal of quotas in 2005. Since then, it has added garments as a product segment, besides growing its fabric capacity. This has resulted in its revenues doubling every year since FY04 and profits multiplying at a much faster rate. The company has focused on developing design capabilities, vertical integration, and lower lead-time production to push up ASPs of its products.

Investment Theme

BRFL is a fast-growing exporter of fashion garments from India. It is among the best-in-class in the textile space, with a unique business model offering a high-growth play (PAT expected to grow at a CAGR of 63% for FY09-10E). Amongst our basket of textile stocks, this company has been amongst the few that have consistently lived up to great expectations built-up in the investor community post the quota removal. The company's recent announcement of expansion and acquisition adds to its positive growth prospects. We retain our bullish outlook on this growth story.

Key Risks

- Any major delays in the capacity addition plans.
- Any major demand slowdown in the end-consumer countries, resulting in dip in realisations.
- Garmenting being a labour intensive industry, BRFL might find it difficult to keep expanding its manpower base in sync with its capacity additions.

Financial Statements (Standalone)

Income statement					(INR mn)
Year to March	FY06	FY07	FY08E	FY09E	FY10E
Net revenues	1,990	4,894	9,360	16,768	25,267
Manufacturing expenses	1,421	3,415	6,268	11,133	16,664
Employee expenses	102	327	613	1,095	1,698
S G & A expenditure	132	233	445	811	1,201
EBITDA	335	920	2,034	3,730	5,704
Depreciation	29	104	257	458	772
EBIT	305	815	1,778	3,272	4,933
Interest expenditure	64	130	275	472	662
Other income	14	71	250	300	360
Profit before tax	255	756	1,752	3,100	4,631
Provision for taxation	71	211	490	866	1,294
Profit after tax	183	545	1,263	2,234	3,337
Recurring net profit	183	545	1,263	2,234	3,337
Extraordinary items	1	0	0	0	0
Reported profit	185	545	1,263	2,234	3,337
EPS (INR)	3.8	8.6	18.3	32.3	48.3
CEPS (INR)	4.4	10.3	22.0	39.0	59.5

Common size metrics- as % of net revenues

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Manufacturing expenses	71.4	69.8	67.0	66.4	66.0
Employee expenses	5.1	6.7	6.5	6.5	6.7
S G & A expenses	6.6	4.8	4.8	4.8	4.8
Depreciation	1.5	2.1	2.7	2.7	3.1
Interest expenditure	3.2	2.7	2.9	2.8	2.6
EBITDA margin	16.8	18.8	21.7	22.2	22.6
EBIT margin	15.3	16.7	19.0	19.5	19.5
Net profit margin	9.2	11.1	13.5	13.3	13.2

Growth metrics (%)

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Net revenues	91.6	145.9	91.3	79.2	50.7
EBITDA	78.0	78.0	78.0	78.0	78.0
EBIT	92.2	92.2	92.2	92.2	92.2
Net profit	135.9	195.2	131.8	76.9	49.4
EPS	58.8	129.2	111.6	76.9	49.4

Cash flow statement

Cash flow statement					(INR mn)
Year to March	FY06	FY07	FY08E	FY09E	FY10E
Cash flow from operations	175	676	1,267	2,245	3,441
Cash for working capital	652	1,676	(85)	1,559	1,789
Net operating cash flow (A)	(477)	(999)	1,352	686	1,653
Net purchase of fixed assets	937	2,442	4,019	6,050	50
Net purchase of investments	99	1,258	1,550	0	0
Net cash flow for investing (B)	1,036	3,700	5,569	6,050	50
Proceeds from LTB/STB	677	2,385	2,500	5,500	(1,500)
Change in equity	949	2,971	1,263	0	0
Net cash flow from financing	1,626	5,355	3,763	5,500	(1,500)
Free cash flow	(1,414)	(3,442)	(2,668)	(5,364)	1,603

Balance sheet					(INR mn)
Year ended 31 March	FY06	FY07E	FY08E	FY09E	FY10E
Share capital	490	630	691	691	691
Reserves	1,044	4,326	6,538	8,325	10,995
Shareholders funds	1,534	4,956	7,229	9,016	11,686
Secured loans	841	3,196	5,696	11,196	9,696
Unsecured loans	109	139	139	139	139
Deferred tax liability	15	134	134	134	134
Sources of funds	2,498	8,425	13,198	20,485	21,655
Gross assets	784	3,256	5,756	13,756	13,806
less accumulated depreciation	97	197	454	912	1,684
Net fixed assets	687	3,059	5,303	12,845	12,123
Capital WIP	515	481	2,000	50	50
Investments	100	1,358	2,908	2,908	2,908
Current assets	1,585	4,279	4,899	8,079	11,675
Debtors	346	1,020	1,795	3,216	4,846
Cash and bank balance	117	773	318	453	556
Inventory	834	1,751	2,051	3,675	5,538
Advances	288	735	735	735	735
Current liabilities	389	751	1,911	3,397	5,100
Creditors	294	598	1,911	3,397	5,100
Other liabilities	9	53	0	0	0
Provisions	86	100	0	0	0
Working capital	1,196	3,527	2,988	4,683	6,574
Uses of funds	2,498	8,425	13,198	20,485	21,655
BV (INR)	31	79	105	130	169

Ratios

Year to March	FY06	FY07	FY08E	FY09E	FY10E
ROE (%)	18.5	16.8	20.7	27.5	32.2
ROCE (%)	19.7	16.2	18.8	21.2	25.1
Debtors days	63	70	70	70	70
Inventory days	153	80	80	80	80
Fixed assets t/o	2.7	2.1	1.7	1.7	2.0
Debt/equity	0.5	0.5	0.8	1.2	0.8
Interest coverage	4.9	6.8	7.4	7.6	8.0

Valuations parameters

Year to March	FY06	FY07	FY08E	FY09E	FY10E
EPS (INR)	3.8	8.6	18.3	32.3	48.3
<i>Y-o-Y growth (%)</i>	<i>58.8</i>	<i>129.2</i>	<i>111.6</i>	<i>76.9</i>	<i>49.4</i>
CEPS	4.4	10.3	22.0	39.0	59.5
P/E (x)	77.5	33.8	16.0	9.0	6.0
FCFPS (INR)	(30.9)	(74.6)	(61.0)	(77.6)	23.2
<i>Y-o-Y growth (%)</i>	<i>89.9</i>	<i>141.4</i>	<i>(18.2)</i>	<i>27.2</i>	<i>(129.9)</i>
Price/BV	9.3	3.7	2.8	2.2	1.7
EV/sales	7.6	4.3	2.7	1.9	1.2
EV/EBITDA	45.2	22.8	12.6	8.3	5.2
Dividend yield (%)	0.3	0.4	1.4	2.4	3.6

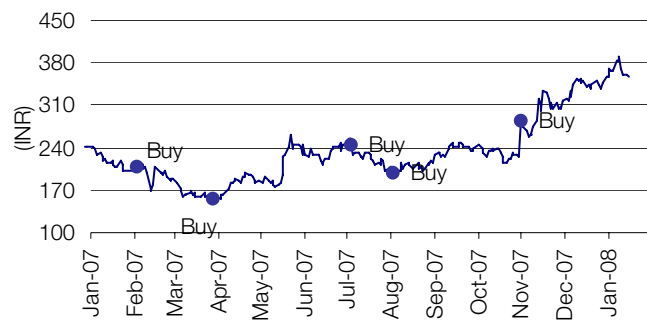
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Coverage group(s) of stocks by primary analyst(s): Textiles:

Alok Industries, Bombay Rayon Fashions, Vardhman Textiles, Welspun India, Himatsingka Seide, Spentex Industries

Bombay Rayon Fashion



Recent Research

Date	Company	Title	Price (INR)	Recos
21-Jan-08	Textile	Fact Sheet		
27-Dec-07	Textile	Fact Sheet		
26-Nov-07	Textile	Fact Sheet		
01-Nov-07	Alok Industries	Tepid results; Result Updat	67	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	108	44	16	3	188

* 12 stocks under review / 5 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	103	66	19

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period

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