

ALOK INDUSTRIES LTD.

Grade : C

Mkt. Cap Rs. 12.1 bn.

CMP Rs.20

November 11, 2009

STOCK DATA

Buy	Target Rs.30	
Reuters Code	ALOK.BO	
Bloomberg Code	ALOK@IN	
BSE Code	521070	
NSE Symbol	ALOKTEXT	
Shares Outstanding(*)	605.7 mn	
52 Weeks H/L	29 / 11	
Avg. Daily Volume (6m)	5453298 Shares	
Price Performance (%)		
1M	3M	6M
(6)	(6)	55
200 Days EMA Rs.22		

SHARE HOLDING (%)

Promoters	36.80
FII	20.92
FI/MF/VC/Insurance Companies	12.58
Body Corporates	8.42
Public & Others	21.28

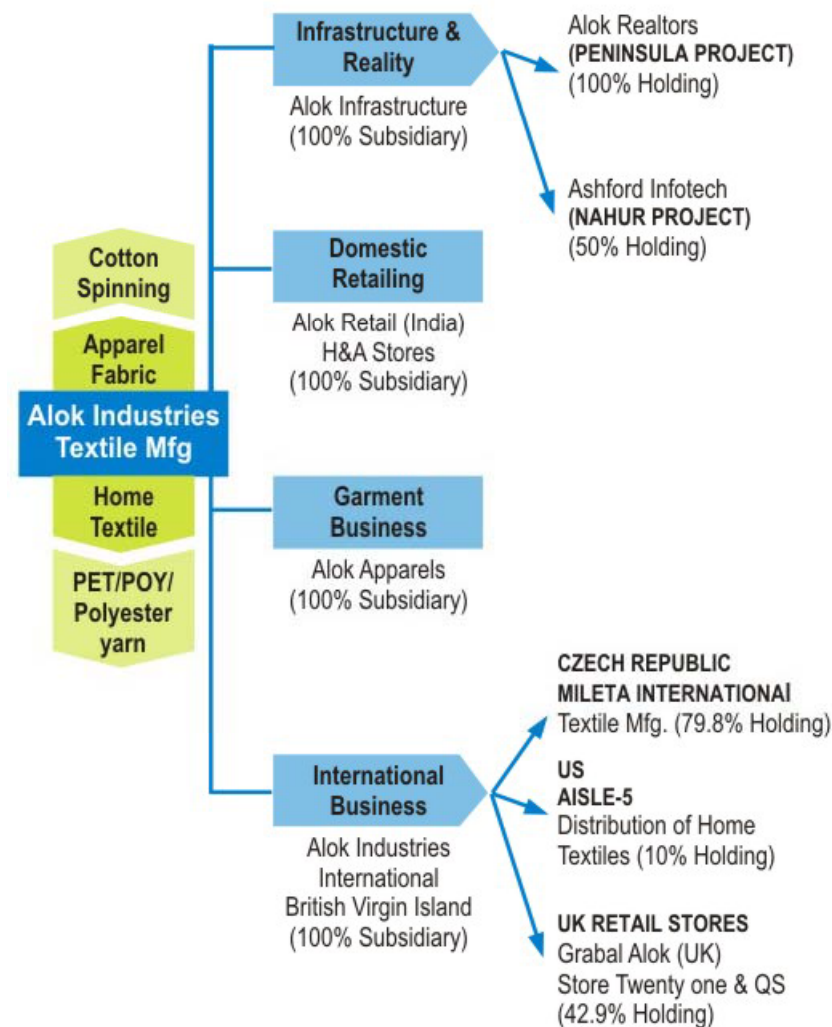
- Alok Industries (AIL) is one of the largest textile players in the country. It is a vertically integrated textile manufacturer having presence across the entire value chain - from fibre to fashion. It has 13 manufacturing units. The company also forayed into real estate business since FY07.
- AIL has a presence in the entire value chain of textiles & offers fully integrated facilities for yarn texturizing, weaving, knitting, processing, made-ups and garments having the largest processing capacity in India. AIL is very well positioned as a 'One-Stop-Shoppe' for its marquee global clientele.
- Over the past few years, AIL has been on an expansion spree resulting in an increase in capacities in almost all its divisions. Post-expansion of approximately Rs. 40 bn, AIL is expected to become one of the largest textile manufacturers of the country.
- AIL has capacities of 82.5 mn meters of sheeting fabric & 6700 tons of terry towels for its home textiles business, 105 mn meters of apparel width woven fabrics, 67200 TPA of knitted fabrics and 22 mn pieces p.a. of garments. With the commencement of spinning of its 58500 TPA cotton yarn facility, Alok has achieved complete integration. It also has a strong presence in the polyester segment with a capacity of 1,14,000 TPA of polyester textured yarn supplemented by 1,82,500 TPA of POY.
- During H1FY10, AIL's standalone net sales increased by 42% YoY to Rs. 17610.7 mn. Its EBIDTA increased by 65.8% to Rs. 5059.1 mn, while its EBIDTA margins increased by 416 bps to 28.7%. Its standalone APAT stood at Rs. 890.1 mn, registering a growth of 18.5%.
- AIL's strategy to make the most of its positioning & the huge global business opportunity by smartly expanding its capacities at very low cost of borrowings, largely under the TUF scheme (Technology Up gradation Scheme) has worked very well off late. Moreover, most of its expansions has gone on stream this year and hence we expect the company to post a consolidated a top line growth of 34% & 19% respectively in FY10E & FY11E & Consolidated APAT growth of 118% & 43% resp. in FY10E & FY11E.
- At the CMP of Rs.20, the stock trades at 5.3x its FY11E earnings. While frequent equity dilution in past led to the stock underperforming the markets, with high revenue growth & improving margins, we expect the stock to get re-rated.

Y/E Mar. (Cons.)	Revenues (Rs. mn)	APAT (Rs. mn)	AEPS (Rs)	AEPS (% change)	PER (x)	ROCE (%)	ROE (%)	P/BV (x)
FY09	30907.8	740.6	3.8	(62.9)	5.3	4.2	7.1	0.2
FY10E	41454.6	1614.0	2.7	(29.1)	7.5	5.2	8.6	0.6
FY11E	49109.0	2303.0	3.8	42.7	5.3	6.1	10.4	0.5

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- Alok's export sales comprises 35% of its total sales and the rest is domestic. AIL exports its products to over 70 countries, of which the US forms the most significant market of about 40% and the rest is across Asia, Europe and South America.
- Mileta International, one of the subsidiaries of AIL based in Czech Republic and is one of Europe's high quality textile players. Mileta manufactures premium handkerchiefs, table linen, bed linen and shirting fabrics for global markets especially in Asia, Africa and America. Mileta's brands are Mileta, Erba, Cottonova, Lord Nelson and Wall Street.
- AIL has forayed into real estate business since FY07. AIL has 2 subsidiaries- Alok Infrastructure Ltd. and Alok Landholdings Pvt. Ltd. The companies are involved in 3 major realty projects.
 - ✓ Peninsula Business Park, Tower B, Lower Parel:- Alok Infrastructure Ltd through its wholly owned subsidiary, Alok Realtors Pvt. Ltd. has invested in this project located in Lower Parel, Mumbai with an area of 641,589 sq. ft., with a floor plate of about 32,000 sq. ft. and the car parking facilities for 600 cars. The estimated cost of the project is Rs. 12.75 bn and is expected to be completed by Dec 2010.
 - ✓ Ashford-Premium Residential Complex, Nahur :- Alok Infrastructure with its JV partner Ashford Infotech Pvt. Ltd. is developing a premium residential complex in Mumbai suburb of Nahur. The project proposes to have an area of 1.02 mn sq. ft. with 42 and 37 storey residential towers. The estimated cost of the project is Rs. 4.5 bn and is expected to be completed by Dec 2012.
 - ✓ Ashford Centre :- Alok Infrastructure Ltd has acquired 64,800 sq. ft. (8 floors) building with parking facilities of 40 cars. The building is located in Lower Parel and overlooking Peninsula Corporate Park. The estimated cost of the project is Rs. 1.245 bn and is expected to be completed by Dec 2009.

ORGANISATION STRUCTURE



➤ **Retail Operations:-**

- ✓ Domestic:- Alok Retail (India) has 138 H&A Stores across India and plans to open a total of 300 shops by the end of 2009-10. The shop offers a wide variety of home textile products and accessories to the quality conscious middle class consumer.
- ✓ International:- Retail operations in the UK are managed through Grabal Alok UK Ltd. (GAUKL) The UK retail operations stretch across England, Scotland and Wales- with 216 stores. Originally called 'qs' stores, they are being given a new brand identity- 'Store Twenty One'. GAUKL stores offer quality products at 'value conscious' price points. GAUKL has reported good results in H1FY10, and thus expect to achieve good bottom-line in 2009-10.

KEY UPDATES :-

- During Q2FY10, AIL's standalone net sales increased by 39.6% YoY to Rs. 9747.9 mn. Its EBIDTA increased by 69.3% to Rs. 2909 mn, while its EBIDTA margins increased by 524 bps to 29.8%. Its standalone APAT stood at Rs. 571.1 mn registering a growth of 26.2%.
- AIL's value addition on the products has gone up tremendously and they have been exporting more value added products which has led to increase in sales and increase in margins. Its raw materials cost as a percentage of sales has gone down drastically by 609 bps YoY.
- AIL recently completed its right issue in April 2009 aggregating to Rs. 4.5 bn The issue price was Rs. 11 per share (FV=Rs. 10) in the ratio of 83 new shares for every 40 shares held. This issue was mainly to reduce its debt burden.

KEY RISKS :-

- The textile sector was affected the most during the global economic slowdown. Sales to the US form a significant part of AIL's export turnover. Though the US economy is showing some signs of revival, there is a high risk of slump in the demand from US.
- AIL had planned an expansion of Rs. 40 bn, of which approximately 75%-85% of the project expansion is already on stream. Apart from debt financing, AIL has significantly diluted its equity to finance such an aggressive expansion plan.
- AIL has forayed into non-core venture of real estate business in FY07 when the demand was very strong. Due to the global economic slowdown, risk in the real estate sector has increased significantly.
- AIL has huge debt in its Balance Sheet (loans are taken under TUFs are at concessional rates and long maturities). AIL's interest obligation are based on floating rates. Thus any upward movement on the interest rates has an adverse impact on their profitability.
- AIL's exports are mainly US dollar denominated and also some portion of its debt is denominated in other currencies. Therefore fluctuations in the exchange rates impact both the top line and the interest costs of the company.
- POY a major raw material input for AIL for its Polyester Yarn division is subject to price fluctuations based on crude oil prices. Any major fluctuations in crude prices would affect the profitability of this division.

BALANCE SHEET STATEMENT (Consl) (Rs.mn)

As on 31 st March	FY08	FY09	FY10E	FY11E
Share Capital	1871.7	1969.7	6056.9	6056.9
Share Application Money	0.0	3290.6	0.0	0.0
Share Warrants	1101.6	102.0	0.0	0.0
Reserves	11331.8	13944.0	15090.2	16516.6
Shareholders Funds	14305.1	19306.3	21147.1	22573.6
Minority Interest	237.5	55.7	61.3	67.4
Total Debt	58339.6	69564.7	72626.4	74145.3
Total Liabilities	72882.2	88926.7	93834.8	96786.2
Fixed Assets	39697.8	62846.4	62822.5	61347.8
Investments	0.0	492.2	541.4	568.5
Intangible Assets	3452.8	4639.4	5103.3	5103.3
Foreign Currency Translation Monetary A/C	0.0	112.0	0.0	0.0
Sundry Debtors	6382.4	9137.7	12275.2	14552.6
Cash and Bank	17051.4	4274.3	2066.4	2186.7
Loans and Advances	6522.2	6653.2	8937.6	10595.8
Inventory	7712.5	10686.9	14356.3	17019.8
Current Assets	37668.5	30752.1	37635.4	44354.9
Current Liabilities	5458.8	6533.3	8776.5	10404.9
Provisions	375.8	318.1	427.3	506.6
Current Liabilities	5834.6	6851.4	9203.9	10911.5
Net Current Assets	31833.9	23900.7	28431.6	33443.4
Deferred Tax Assets (Net)	(2102.3)	(3064.0)	(3064.0)	(3676.8)
Miscellaneous Expenditure	0.0	0.0	0.0	0.0
Total Assets	72882.2	88926.7	93834.8	96786.2

PROFIT & LOSS STATEMENT (Consl) (Rs.mn)

Y/E March	FY08	FY09	FY10E	FY11E
Revenue	22820.1	30907.8	41454.6	49109.0
RM Consumption	12063.3	15452.1	20068.3	23779.7
Staff costs	1101.1	1483.5	1769.7	2060.7
Other Expenses	4488.6	6287.2	8488.2	10022.8
Total Expenditure	17653.0	23222.8	30326.2	35863.2
EBITDA	5167.1	7685.0	11128.4	13245.8
Interest	1331.3	3410.3	4949.4	5641.4
EBDT	3835.8	4274.7	6179.0	7604.4
Depreciation	1661.9	2401.5	3523.9	4224.7
PBT excl. OI	2173.9	1873.2	2655.1	3379.7
Other Income	690.8	459.6	401.5	431.9
PBT incl OI	2864.7	2332.8	3056.6	3811.5
Tax	994.0	967.4	1237.2	1472.7
APAT	1870.7	1365.4	1819.4	2338.8
Minority Interest	25.5	55.7	66.8	100.3
Sh of P/L in the ass cos	(0.3)	(680.5)	(272.2)	(136.1)
CON APAT	1895.9	740.6	1614.0	2303.0
Extraordinary Exp./ (Inc)	0.0	0.0	0.0	0.0
RPAT	1895.9	740.6	1614.0	2303.0
EPS (Rs)	10.1	3.8	2.7	3.8
EBIDTA Margin (%)	22.6	24.9	26.8	27.0
Net Profit Margin (%)	8.3	2.4	3.9	4.7
Tax/PBT (%)	34.7	41.5	40.5	38.6

Source: Company, Sushil Finance Research Estimates

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