



Bombay Rayon

STOCK INFO.	BLOOMBERG
BSE SENSEX: 19,976	BRFL IN
	REUTERS CODE
S&P CNX: 5,932	BRFL.BO

2 November 2007

Buy

Previous Recommendation: Buy

Rs273

Equity shares (m)	63.0
52-Week Range	300/150
1, 6, 12 Rel. Perf. (%)	2/6/-26
M. Cap. (Rs b)	17.2
M. Cap. (US\$ b)	0.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	YoY (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	4,894	544	8.6	133.8	31.6	3.6	17.1	15.3	3.8	20.2
03/08E	9,834	1,158	16.4	89.7	16.3	2.7	19.5	14.8	2.9	13.6
03/09E	14,912	1,786	25.8	57.7	10.6	2.2	23.0	15.1	2.2	9.6

- 2Q results better than expected:** Bombay Rayon's 2QFY08 sales are in line at Rs2.25b. However, EBITDA margin is 260bps higher YoY at 21.9% (expected 19.6%). EBITDA is up 147% YoY at Rs492m (expected Rs433m). Reported PAT is up 176% YoY at Rs307m. Adjusted PAT is up 154% YoY at Rs281m (expected Rs204m).
- Focus on value addition boosts margins:** Bombay Rayon improved its margins despite a stronger rupee. One reason is that 58% of the revenues is sale of fabric in the domestic market. In garment exports, it is focused on value-addition: (1) Fast Track garments (i.e. order to delivery in 30 days), and (2) organic cotton garments. These together account for 14% of total garment sales, which the company plans to increase to 25% by end-FY08.
- Aggressive expansion plans continue:** In October 2007, Bombay Rayon acquired the 6,000 trousers per day unit of RSWM Ltd for Rs255m. This is in addition to the Rs1.55b acquisition of Leela Scottish Lace, with a capacity of 15m garments per annum. By September 2008, the company will have a total annual capacity of 265m meters of fabric and 93m garments, 3-4x the current capacity of 65m meters of fabric and 30m garments.
- Sharp earnings upgrade, SOTP target price of Rs378, maintain Buy:** Based on the higher-than-expected EBITDA margin, we have upgraded Bombay Rayon's earnings estimates. The revised EPS for FY08E is Rs16.4, (26% higher) and for FY09E is Rs25.8 (32% higher). Adjusted for embedded value of Leela Lace and LNJ Apparels, the stock is trading at an attractive PE of 12.8x FY08E and 8.3x FY09E. Our SOTP target price is Rs378, 38% upside from current levels. We maintain **Buy**.

QUARTERLY PERFORMANCE - STANDALONE

(RS MILLION)

	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Income	812	1,033	1,316	1,733	2,013	2,246	2,468	3,107	4,894	9,834
Change (%)	87.3	142.1	139.6	198.6	147.8	117.5	87.5	79.3	145.9	100.9
Total Expenses	659	833	1,042	1,440	1,617	1,754	1,930	2,398	3,974	7,699
EBITDA	153	200	275	293	396	492	538	709	920	2,135
Change (%)	134.4	199.5	213.7	153.6	158.1	146.8	96.1	142.3	174.6	132.2
EBITDA Margin (%)	18.9	19.3	20.9	16.9	19.7	21.9	21.8	22.8	18.8	21.7
Depreciation	13	15	35	42	65	66	70	74	105	274
Interest	20	31	43	36	54	67	75	96	130	291
Other Income	3	13	11	44	40	16	13	11	71	80
Extraordinary inc/ (exp)	0	0	0	0	0	78	0	0	0	78
PBT	123	167	208	258	317	454	407	550	756	1,728
Tax	43	56	71	42	97	147	138	189	212	570
Tax/PBT (%)	34.9	33.5	33.9	16.4	30.4	32.4	33.9	34.3	28.0	33.0
PAT	80	111	138	216	221	307	269	362	544	1,158
Adjusted PAT	80	111	138	216	221	281	269	362	544	1,132
Change (%)	69.1	162.6	145.3	498.6	174.6	153.9	95.5	67.8	199.3	108.1
PAT Margin (%)	9.9	10.7	10.5	12.4	11.0	12.5	10.9	11.6	11.1	11.5

E: MOST Estimates

2Q results better than expected

Bombay Rayon's 2QFY08 sales are in line at Rs2.25b. However, EBITDA margin is 260bps higher YoY at 21.9% (expected 19.6%). As a result, EBITDA is up 147% YoY at Rs492m (expected Rs433m). Reported PAT is up 176% YoY at Rs307m. Adjusted for forex gain of Rs78m, PAT is up 154% YoY at Rs281m (expected Rs204m).

BOMBAY RAYON – 2QFY08 VOLUME ANALYSIS

	2QFY07	2QFY08	YOY (%)	FY07	YOY (%)
Total Sales (Rs m)	1,043	2,246	115	4,897	145
Garments	521	918	76	1,954	307
Fabric	521	1,328	155	2,942	94
Product mix (%)					
Garments	50	42	-8	40	16
Fabric	50	58	8	60	-16
Volumes					
Garments (m pcs)	1.9	3.5	82	7.0	293
Fabric (m meters)	5.1	12.3	141	26.5	41
Realization (Rs)					
Garments (per piece)	271	262	-3	278	4
Fabric (per meter)	102	108	6	111	38
Export mix (%)					
US	50	29	-21	50	0
Europe	50	71	21	50	0

Source: Motilal Oswal Securities

Focus on value addition boosts margins

Bombay Rayon improved its margins even when most textile exporters are being adversely affected by the stronger rupee. There are three major reasons –

1. Domestic sales of fabric
2. Focus on value-added garment exports
3. Shift in export mix from US to Europe

Domestic sale of fabric: During 2QFY08, 58% of the Bombay Rayon's revenue continues to be sale of fabric in the domestic market. The company enjoys strong brand equity for its fabric, and is thus immune to rupee strengthening. In fact, it has marginally increased its realization in the domestic market to Rs108 per meter compared to Rs102 per meter a year ago.

Focus on value-added garments: In garment exports, it is focused on value-addition, including (1) Fast Track garments (i.e. order to delivery in 30 days), and (2) organic cotton garments (which enjoy 30% price premium). Fast Track and organic cotton garments together account for 14% of total garment sales, which the company plans to increase to 25% by end-FY08.

Shift in export mix from US to Europe: Over the last three quarters, Bombay Rayon has increased its focus on Europe to lower exposure to the US dollar. In 2QFY08, exports to Europe was 71% of total, and during the quarter, the rupee has marginally depreciated against the euro. This too helped protect margins.

Aggressive expansion plans continue

In October 2007, Bombay Rayon acquired LNJ Apparels, the 6,000 trousers per day unit of RSWM Ltd for Rs255m. In FY09, the company expects this unit to generate revenue of Rs500m and PAT of Rs50m. This LNJ Apparels acquisition is in addition to the Rs1.55b acquisition of Leela Scottish Lace, with a capacity of 15m garments per annum.

Further, the company confirmed its Maharashtra expansion plan – capex of Rs11b for 200m meters of fabric capacity and 30m garment capacity, to be commissioned by September 2008. At that time, the company will have a total annual capacity of 265m meters of fabric and 93m garments, 3-4x the current capacity of 65m meters of fabric and 30m garments.

The capex will be funded out of Rs7b debt (concessional loans under TUFSS, Textile Upgradation Fund Scheme), and the balance through balance QIP proceeds, warrant conversion by promoters and internal accruals. No equity dilution is planned.

Sharp earnings upgrade – 26% for FY08E and 32% for FY09

Bombay Rayon's EBITDA margin for 1HFY08 stands at 20.9% (19.1% for 1HFY07), compared to our estimate of 19.6%. The company is confident of improving margins further going forward.

Accordingly, we have raised our margin estimates by about 200bps – 21.7% for FY08 (19.5% earlier) and 23.5% for FY09 (21.2% earlier). This has led to a sharp earnings upgrade. The revised EPS for FY08E is Rs16.4, (26% higher) and for FY09E is Rs25.8 (32% higher). FY07-12 EPS CAGR is a strong 55%.

SOTP target price of Rs378; Buy

We have valued Bombay Rayon standalone at 12x FY09E to arrive at a value of Rs310. We have valued Leela Lace (under 100% subsidiary Bombay Rayon Apparel) also at 12x FY09E for a value of Rs58 per share. Finally, we have valued the recently acquired LNJ Apparels on a DCF basis to arrive at a value of Rs10 per share. Our SOTP target price for Bombay Rayon is Rs378, which offers a 38% upside from current levels. We maintain **Buy**.

BOMBAY RAYON – SOTP VALUATION

BUSINESS	BASIS	RS
Bombay Rayon	12x FY09E	310
Leela Lace	12x FY09E	58
LNJ Apparels	DCF	10
Total	SOTP	378
Current price		273
Upside (%)		38

Source: Motilal Oswal Securities

Bombay Rayon: an investment profile

Company description

Bombay Rayon is a fast-growing exporter of fashion garments from India. Its clients include leading names such as Liz Claiborne, DKNY, Next, Guess and Zara. Besides, Bombay Rayon also sells a wide range of fabric in the domestic market. It has 40 distributors and its products are retailed in over 1,900 outlets.

Key investment arguments

- ✍ Integrated operations – from buying yarn to selling garment – leading to significant value-add, faster delivery to customers and high margins.
- ✍ Continuous economies of scale via aggressive expansion, both organic and inorganic, including acquisition of Leela Scottish Lace and a mega Rs11b expansion in Maharashtra.
- ✍ EPS CAGR of 55% through FY12 with no equity dilution planned.

Key investment risks

- ✍ Strengthening of rupee, affecting margins.
- ✍ Execution risk, specially the mega project planned in Maharashtra.

Recent developments

- ✍ July 2007 – Acquired Leela Scottish Lace, garment company of the Hotel Leela group for Rs1.55b
- ✍ October 2007 – Acquired LNJ Apparels, the trouser unit of RSWM Ltd.

Valuation and view

- ✍ Adjusted for the embedded value of Leela Lace and LNJ Apparels, the stock is trading at an attractive PE of 12x FY08E and 8x FY09E.
- ✍ We value Bombay Rayon standalone at Rs310 (12x FY09E), Leela Lace at Rs58 (12x FY09E) and LNJ Apparel at Rs10 per share (DCF-based). Our SOTP price target of Rs378 offers 38% upside.

Sector view

- ✍ Textiles sector – specially exports – is currently going through tough times due to the sharp appreciation of the rupee. In any case, it is dogged by rising competition from China, Pakistan, Bangladesh, etc.
- ✍ We believe Bombay Rayon is a contrarian bet in the textiles sector.

COMPARATIVE VALUATIONS

		BOMBAY RAYON	GOKALDAS EXPORT
P/E (x)	FY08E	16.3	11.9
	FY09E	10.6	9.8
P/BV (x)	FY08E	2.7	1.8
	FY09E	2.2	1.5
EV/Sales (x)	FY08E	2.9	0.7
	FY09E	2.2	0.6
EV/EBITDA (x)	FY08E	13.6	9.3
	FY09E	9.6	7.8

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	43.4	43.4	55.9
Domestic Inst	12.5	8.2	9.0
Foreign	28.1	25.7	13.8
Others	16.0	22.7	21.3

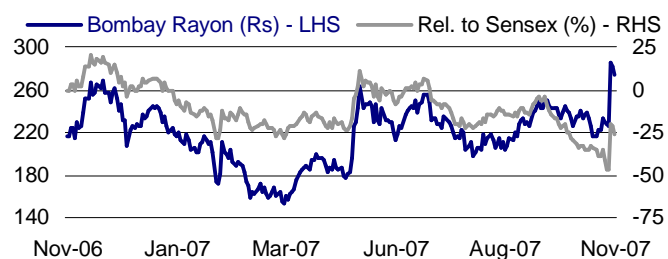
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	16.4	15.9	2.9
FY09	25.8	27.3	-5.2

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
273	378	38.5	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Net Revenue	1,990	4,894	9,834	14,912	23,698	
Change (%)	91.5	145.9	100.9	51.6	58.9	
EBITDA	335	920	2,135	3,505	5,999	
Change (%)	195.1	174.6	132.2	64.1	71.2	
EBITDA Margin (%)	16.8	18.8	21.7	23.5	25.3	
Depreciation	30	105	274	479	1,163	
EBIT	305	815	1,861	3,026	4,835	
Interest	65	130	291	451	759	
Other income	14	71	80	90	100	
PBT	255	756	1,728	2,665	4,176	
Tax	73	212	570	880	1,378	
Tax/PBT (%)	28.6	28.0	33.0	33.0	33.0	
PAT	182	544	1,158	1,786	2,798	
Change (%)	150.4	199.3	112.8	54.2	56.7	
PAT margin (%)	9.1	11.1	11.8	12.0	11.8	

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Equity Share Capital	490	630	691	691	691	
Reserves	1,044	4,200	6,350	7,812	10,109	
Net Worth	1,534	4,830	7,041	8,503	10,800	
Loans	950	3,335	9,915	14,524	16,045	
Net Deferred Tax	15	134	134	134	134	
Capital Employed	2,498	8,299	17,090	23,162	26,979	
Gross Fixed Assets	784	3,256	4,637	15,137	15,887	
Less: Depreciation	97	197	301	576	1,054	
Net Fixed Assets	687	3,060	4,336	14,561	14,833	
Capital WIP	515	481	6,300	100	100	
Investments	100	1,358	1,309	1,289	1,294	
Net current assets	1,196	3,401	5,145	7,212	10,752	
Total Assets	2,498	8,299	17,090	23,162	26,979	

E: MOSt Estimates

RATIOS						
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Basic Ratios (Rs)						
EPS	3.7	8.6	16.4	25.8	40.5	
Growth (%)	64.2	133.8	89.7	57.7	56.7	
Cash EPS	4.3	10.3	20.7	32.8	57.3	
Book Value	31.3	76.7	101.9	123.1	156.3	
Dividend per share	1.0	1.3	2.6	4.0	6.2	
Payout (incl. Div. Tax.) (%)	27.0	14.5	15.5	15.5	15.3	
Valuation (x)						
P/E		31.6	16.3	10.6	6.7	
Cash P/E		26.5	13.2	8.3	4.8	
Price/Book Value		3.6	2.7	2.2	1.7	
EV/Sales		3.8	2.9	2.2	1.5	
EV/EBITDA		20.2	13.6	9.6	5.8	
Dividend Yield (%)		0.5	1.0	1.5	2.3	
Profitability Ratios (%)						
RoE	18.2	17.1	19.5	23.0	29.0	
RoCE	19.0	15.3	14.8	15.1	19.4	
Turnover Ratios						
Debtors (days of sales)	63	76	75	75	75	
Asset Turnover (x)	0.8	0.6	0.6	0.6	0.9	
Leverage Ratio						
Debt/Equity (x)	0.6	0.7	1.4	1.7	1.5	

CASH FLOW STATEMENT		(RS MILLION)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
PBT before EO items	255	756	1,650	2,665	4,176	
Add : Depreciation	30	105	274	479	1,163	
Interest	65	130	291	451	759	
Less : Direct Taxes	73	212	570	880	1,378	
(Inc)/Dec in WC	-652	-1,549	-2,317	-2,017	-3,490	
CF from Operations	-376	-771	-672	699	1,230	
Extraordinary Items	0	0	78	0	0	
CF from Oper. incl. EO	-376	-771	-593	699	1,230	
(Inc)/Dec in Fixed Assets	-937	-2,442	-7,370	-4,504	-1,435	
(Pur)/Sale of Investments	-99	-1,258	48	21	-5	
CF from Investments	-1,036	-3,700	-7,321	-4,483	-1,440	
Inc/(Dec) in Net Worth	946	2,831	1,263	0	0	
Inc/(Dec) in Debt	677	2,385	6,581	4,609	1,520	
Inc/(Dec) in Deferred Tax	12	119	0	0	0	
Less : Interest Paid	65	130	291	451	759	
Dividend Paid	49	79	210	323	501	
CF from Fin. Activity	1,521	5,126	7,342	3,835	260	
Inc/(Dec) in Cash	109	656	-573	50	50	
Add: Opening Balance	9	117	773	200	250	
Closing Balance	117	773	200	250	300	



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Bombay Rayon

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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