



26nd April, 2009

India

Textiles

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Equity Analyst: Fairwealth Securities Private. Ltd.

Priced on April 16th, 2009

±% potential	50%
Target set on	24 th April

Market Data

Beta	.98
12M hi/lo	66/11.3
Market cap, INR Crores	840
Shares in issue (mn.)	605
Reuters	ALOK.BO
Bloomberg	ALOK@IN

Share Holding Pattern (%)

Promoters	35%
FII	19%
Domestic Inst. & Corp Bod.	7%
Public & Others	39%

Alok Industries

CMP: Rs. 14

Target: Rs. 28

Alok Industries is a leading vertically integrated textile player of the country with Sales of more than 3000 crore and strong bottom line. **We initiate a buy call on the company on basis of its attractive valuation, huge growth in topline over next three years and increased bottom line from higher foreign currency earnings, increased sale of Value added products and Vertical/ backward Integration.** We estimate Alok Industries Net Profit to grow at 30% compounded over next 3 yrs. Profit margins for FY09 are likely to taper to 6.1% for FY09 and move back to 9-10% by FY11E.

Company is currently trading at 4.5x is FY08 Earnings; At estimated profits of 290 crores and 412 crores for FY10E and FY11E stock is currently valued at 2.9 and 2.1 times its EPS of 4.8 and 6.8 respectively.

Alok Industries has its Cost of Capital lowest in industry at around 10% as company after tax cost of Debt is around 6%. Out of total Debt of 6500 crores 4000 crores has been raised as part of TUF scheme.

Earnings Estimate:

We expect company to post decent set of numbers for Q4 on account of higher Foreign Exchange Earnings. [Alok Industries'](#) March quarter sales are expected to go up 20% to Rs 870 crore on yoy basis. The company's net profit is seen flat at Rs. 53 crore on yoy basis.

Outlook:

	FY07	FY08	FY09E	FY10E	FY11E
Total Income	1805	2235	2930	3800	4875
EBITDA(Inc Interest Inc)	497	705	960	1200	1500
EBIT	372	538	670	890	1105
EBIT Margin	20.6%	24.1%	23.4%	22.6%	22.7%
PAT	164	187	175	290	412
Pat Margin(%)	9.1%	8.4%	6.1%	7.4%	8.5%
AEPS	2.7	3.1	2.9	4.8	6.8
EV/EBITDA	6.6	6.9	5.0	4	3.2
P/E	5.2	4.5	4.0	2.92	2.06

Source: Fairwealth Research Estimates

Result Analysis:

Net Sales increased by 48% Y-o-Y and 17% Q-o-Q led by huge spurt in Export Earnings and increased capacities.

Interest Costs spurted by 140% as Phase-IV of expansion is causing higher Capital Expenditure in FY09 leading to increased Interests..

PAT stood at Rs. 50 crore showing an increase of only 15% mainly led by Interests and Depreciation costs

Quarterly Result Round up:

	Q3 FY09	Q3 FY08	Y-o-Y Growth(%)	Q2 FY09	QoQ(%)
Net Sales	816.41	550.78	48%	698.14	17%
Operating Profit	211.91	134.78	57%	168.68	26%
OPM Margin(%)	0.26	0.24	(+150bps)	0.24	(+200bps)
Other Income Operating	0.45	6.45	-93%	0.42	7%
PBIDT	212.36	141.23	50%	169.1	26%
Depreciation	70.38	43.44	62%	53.05	33%
PBIT	141.98	97.79	45%	116.05	22%
Net Interest	70.16	29.54	138%	51.47	36%
PBT	71.82	68.25	5%	64.58	11%
Extra-Ordinary	-2.52	5.63	-145%	-3.11	-19%
PBT after EO & Min	74.34	62.62	19%	67.69	10%
Tax	24.5	19.45	26%	22.43	9%
PAT	49.84	43.17	15%	45.26	10%
EPS*	0.83	0.72		0.75	

Source: Company Data, Capital Line

Quarterly Highlights:

Company has declared Final Dividend of 7.5% or 75 paise on an Equity share of of FV Rs. 10. Dividend yield for the share stands at around 5.5%. Company's Dividend outgo will see a massive increase on expansion of Equity base.

Rights Issue in the ratio 83:40, 83 shares to be allotted for every 40 shares held as of 25th March at a price of Rs.11 per equity share.

Spinning:

As part of Phase-IV expansion installed spinning capacity to increase from 33000 currently to 58000 tonnes by end of March'09.

Expansion in Silvassa and Vapi to the tune of 2000 crore completed.

POY: Partially Oriented Yarn

POY manufacturing Capacity to increase from 54,000 tonnes per annum to 1,08,000 by March'09.

Weaving:

Plans to take total capacity from 117 million tonnes presently to 152 million tonnes within an year.

Knitting

Company has 167 machines with capacity of 18,200 tonnes. Company plans to take to total installed capacity to 67200 tonnes.

Company Description

The company is a nominated vendor for some of the big international retailers like GAP, Marks & Spencer and JC Penny etc.

Plans to expand Retail outlets to 500 stores by 2010-11

Alok Industries is the largest vertically integrated textile companies in India. Company has commenced massive expansion plans since 2006 which is expected to be completed by Q1 FY10.

As part of the expansion policy Company aims to achieve the following:

1. Integrated Operations and Economies of Scale
2. Become a 'Nominated Supplier' to Global Customers
3. Expansion of retail of products manufactured by the company

Divisions

1. Apparel Fabrics
2. Home Textiles
Store 21 in UK with more than 200 stores and H&A in India with more than 53 stores and target of over 100 by end of this year.
3. Cotton Yarn

Ratio Analysis

	FY08	FY07
Debt-Equity	3.91	3.26
Current Ratio	2.35	2.06
Invtry Turnover	3.73	4
Debtors Turnover	3.89	3.41
Interest Cover	2.14	2.64
PBIDTM (%)	30.6	26.74
PBIDTM (%)	19.66	19.11
APATM (%)	8.13	8.86
ROCE (%)	9.35	8.58
RONW (%)	15.97	16.02
EV/EBIDTA	7.37	7.09

Source: Capital Line

Outlook and Valuation

Company has total debt of about 6500 crores out of which 4500 crore long term debt has been raised as part of TUF's at subsidised rates rest 2000 crores is raised as working capital loans.

In view of company's high net D/E ratio of 3:1 Company has decided to issue rights issue at 83:40 raising around 450 crores. Post right issue company's total Net worth would reach around 2300 crores with cash balance of around 1800 crores.

Company's Long Term Debt: Equity ratio post right issue will be around 1.8 to 2 which would be much more stable.

Another thing in favour of the company is low cost of debt. Long term Debt has been raised as part of the textile promotion scheme, TUF which will provides 5% subsidy on interest cost of debt.

Increased Capacity to sales. Company has almost completed its Phase-IV expansion. Most of the expansion is likely to be completed with in next 3 months. 90% of the overall capacities is expected to be utilized by 2011 from current levels of around 75%

Debt: Equity ratio of 4:1 as of March 08, however Net Debt: Equity Ratio of less than 3:1 on account huge Cash balance.

After Rights Issue Company's net effective Debt: Equity will come to less than 2.5:1 on account higher Equity Value of around 2000 crores.

We expect top line growth of compounded 30-35% over next 3 years, with bulk growth coming from exports and retail sales. By 2010 exports would contribute about 50 percent of company's Net Sales up from current 40%.

Bottomline will get boosted through backward integration steps; company expects to meet 50% of its yarn demand in house and increased margin from dollar depreciation.

We value company at 4.5 x its 2009 expected EPS of 3.1. For FY10E and FY11E we expect company to post PAT of 320 crores and 410 crores respectively giving it a valuation of 2.6x and 2x its FY10E and FY 11E EPS of 5.4 and 6.9 respectively.

Note: All calculations and valuation are after considering Rights Issue.

Investment Rational

1. Impetus on moving up the value chain by expanding its retail operations and offering more high margin products like home textiles.
2. Cost savings through backward integration and vertical integration(50% of yarn demand now met in-house)
3. Better product line through acquisitions and R&D to help secure large orders globally.
4. Increased Capacities over next 2 years With completion of Phase IV, we expected company to double its projected topline to touch 5000 crores by FY11E.

Company completed 2000 crore expansion in Silvassa and Vapi in Gujarat. Company expects to take utilization to over 90% across all segments and units.

5. Increased topline due to higher competitive position versus other exporting countries like China(Yuan Valuation) and Pakistan(Increased political and Economic instability) and Increased bottomline due to dollar appreciation(15% of Sales)
6. Company's other divisions like Real Estate arm is also likely to contribute a lot to company's growth.

TECHNICAL OUTLOOK: Alok Industries

Source:Meta Stock



Alok Industries is trading in a narrow range between 14 and 16 for most part during last 6 months. Stock remains in a bearish mode below 15 and can go down to around 12. Above 15 stock can face resistance at around 20 and then 25 which happens to be 200 DMA.

So we recommend to buy the stock on dips at around 12, or above 15 for a price Target of 20 and then 25.

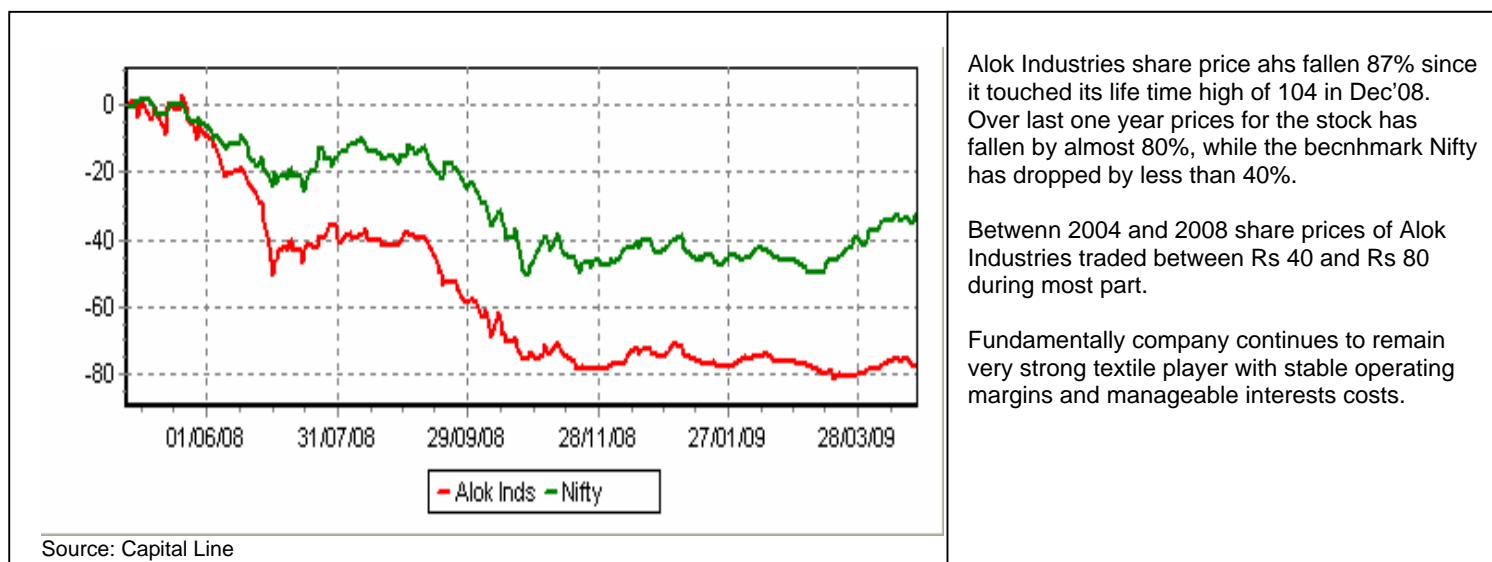
Key Risks:

Although we believe there is limited downside for the stock from here however inherent business risks in the sector has over weighed basic strength and strong management of the company.

Very visible risks that we foresee could be following:

- A. Capacities could remain unutilized longer than expected due to:
 - 1. Continued global recession
 - 2. Legal and Geopolitical Risks that could leave Indian Textile sector unattractive to importers.
- B. Lower profitability on lines of business
 - 1. Company has entered into a lot of new businesses like Organized Retail and newer businesses like Speciality Textiles. As company doesn't have expertise in these sectors it might have to book losses in these sectors.
 - 2. Company exposed itself into Real Estate sectors in 2008. Lower overall profitability in this sector and slowdown in Construction sector, some of the projects might become non-starter; adversely affecting the company's bottom line.

Price Performance



Annexure:

1. Income Statement:

	200803 (12)	200703 (12)
INCOME :		
Net Sales	2233.57	1805.94
Other Income	230.99	109.25
Stock Adjustments	103.83	65.33
Total Income	2568.39	1980.52
EXPENDITURE :		
Raw Materials	1310.16	1109.2
Power & Fuel Cost	121.62	89.74
Employee Cost	110.11	48.22
Other Manufacturing Expenses	127.91	96.07
Selling and Administration Expenses	193.6	140.38
Total Expenditure	1863.93	1483.4
Operating Profit	704.46	497.12
Interest	251.8	141.8
Gross Profit	452.66	355.32
Depreciation	166.19	123.04
Profit Before Tax	286.47	232.28
Total Tax	99.4	67.62
Net Profit before Minority Interest	187.07	164.66
Minority Interest & EO	-1.76	0.1
Adj. Net Profit	188.83	164.56
EPS (Adj)	2.84	2.34
Adj Book Value (Unit Curr.)	22.94	22.94

Source: Company Report, Capital Line

2. Cash Flow Statement:

	200803	200703
Cash and Cash Equivalents at Beginning of the year	556.73	531.78
Net Cash from Operating Activities	74.25	74.18
Net Cash Used in Investing Activities	-1511.07	1096.74
Net Cash Used in Financing Activities	2454.55	1047.51
Net Inc/(Dec) in Cash and Cash Equivalent	1017.73	24.95
Cash and Cash Equivalents at End of the year	1574.46	556.73

Source: Company Report, Capital Line

Fund Flow Statement:

	200803	200703
SOURCES OF FUNDS :		
Share Capital	187.17	170.37
Reserves Total	1133.18	852.67
Total Shareholders Funds	1320.35	1023.04
Minority Interest	23.75	0
Secured Loans	4885.28	2833.05
Unsecured Loans	948.68	503.72
Total Debt	5833.96	3336.77
Total Liabilities	7178.06	4359.81
APPLICATION OF FUNDS		
Net Block	3132.87	1975.32
Capital Work in Progress	1025.18	666.25
Investments	157.01	80.03
Current Assets, Loans & Advances		
Inventories	771.25	464.46
Sundry Debtors	638.24	544.52
Cash and Bank	1705.14	785.38
Loans and Advances	652.22	278.65
Total Current Assets	3766.85	2073.01
Less : Current Liabilities and Provisions		
Current Liabilities	656.04	255.5
Provisions	37.58	37.48
Total Current Liabilities	693.62	292.98
Net Current Assets	3073.23	1780.03
Net Deferred Tax	-210.23	-141.82
Total Assets	7178.06	4359.81
Contingent Liabilities	56.44	70.37

Coverage:

Our Stock coverage and Returns.

Stock	Target		Price as on Call date		Price on 2nd April	% return absolute		% return Relative to Sensex
	Set Date	Target Price	Stock	Sensex	Stock	Stock	Sensex	
Educomp	22-Jan-09	2750	1715	8814	2560	49.3%	28.5%	20.7%
Havells*	30-Jan-09	280	115	8325	153	33.0%	36.1%	-3.0%
Jaiprakash Associates	12-Feb-09	110	73	9466	126	72.6%	19.7%	52.9%
Lupin	3-Feb-09	780	630	8607	705	11.9%	31.6%	-19.7%
Tata Steel	6-Mar-09	250	152	8325	261	71.7%	36.1%	35.6%
M&M	12-Mar-09	440	345	8344	475	37.7%	35.8%	1.9%
Unitech	25-Mar-09	51	34	9667	45	32.4%	17.2%	15.2%
Punj Lloyd	30-Mar-09	120/145	85	9549	116	36.5%	18.6%	17.8%
Financial Technologies	6-Apr-09	850	660	10500	685	3.8%	7.9%	-4.1%
Sintex Industries	16-Apr-09	200-240	136	11023	142	4.4%	2.8%	1.6%

Note: Based on 16th April Sensex closing of 11329

Note: All calls are initial/ first time calls

Note: All reports can be accessed on our website under <http://www.fairwealth.in/Research.aspx>

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