

GRABAL ALOK IMPEX

INR 152



Designed for growth

NOT RATED

* **Embroidery exports – an INR 6 bn opportunity**

Embroidery exports from India are expected to grow at 14% CAGR to INR 6 bn by FY08, making it the second largest supplier of embroidered products after China. India enjoys the advantage of being a low cost producer with high design capabilities, which makes it a preferred outsourcing destination globally. Such outsourcing opportunities present great growth prospects for organised and large scale players like Grabal Alok Impex Limited (Grabal).

* **Capacity expansion to boost revenues**

In view of the growing export opportunity as well as domestic demand, Grabal is increasing its capacity by ~75%. Its annual capacity is expected to go up from the current 9bn stitches to 16bn stitches by June 2007 at an expenditure of INR 250 mn. We expect Grabal's revenues to double from FY06 to FY08E, on the back of increased production volumes and higher realisations on value added products.

* **Hamsard acquisition- a huge upside**

Grabal recently acquired a 26% stake in Hamsard 2353 Ltd (Hamsard) for USD 11.6mn, which it further plans to increase to 75%. Hamsard is a value for money retailer in the UK with sales of USD 200mn. This acquisition gives Grabal access to 207 retail stores named 'qs' and marks its venture into retailing. Grabal's initiatives like shifting Hamsard's sourcing base to India, financial restructuring, and refurbishing of the stores, we believe, will lead to a turnaround in Hamsard's profitability.

* **EBITDA margins to expand**

Grabal's EBITDA margins have improved from 17.2% in FY05 to 32.1% in H1FY07, with a fall in raw material prices and enhanced product quality. The company has also been able to reduce its overhead costs, which has led to its margin growth. Grabal's increasing focus on the high value, high margin exports, synergies from the acquisition, and retail exposure are likely to add to its margin improvement further.

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Market Data

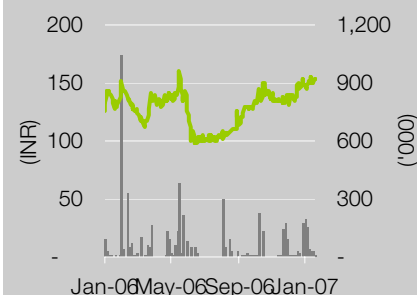
52-week range (INR) : 163 / 94
Share in issue (mn) : 13.9
M cap (INR bn/USD mn) : 2.1 / 47.6
Avg. Daily Vol. BSE ('000) : 31.8

Share Holding Pattern (%)

Promoters : 45.0
MFs, FIs & Banks : 7.0
FIs : 13.0
Others : 18.1

Financials

Year to March	FY04	FY05	FY06
Revenues (INR mn)	458	423	565
EBITDA (INR mn)	87	73	135
Net profit (INR mn)	33	34	54
EPS (INR)	4.0	4.1	4.7
EPS growth (%)	(7.5)	0.9	16.3
PE (x)	37.8	37.5	32.3
EV/EBITDA (x)	21.2	28.3	20.7
Dividend yield (%)	0.5	0.5	0.5
ROE (%)	12.5	14.4	19.8



* **Financials**

For H1FY07 Grabal's revenues and profits grew by 60% and 94% respectively, following its excellent performance in FY06. Revenues have been robust on account of higher volumes; margins too showed a huge jump as a result of value added products being directly exported to the US. Prudent cost management and operational efficiencies accruing from the increased scale of operations are likely to push the company's margins further. In FY07 Grabal expects sales of ~INR 850-880mn and EBITDA margins of ~30%.

Grabal is well-poised to cash in on the buoyant fashion and embroidery industry. The Hamsard acquisition gives it further leverage in terms of a retail presence in the international market. These factors coupled with the company's capacity expansions, entry into new markets, and improving product mix and margins, we believe will offer good returns to investors over the next 12-18 months.

Risks

- ◆ Changing fashion trends
- ◆ As exports form ~50% of Grabal's revenues, it is exposed to fluctuations in foreign currency

Business overview

Incorporated in 1993, Grabal is engaged in the business of manufacturing embroidered fabrics and laces that find application in apparels as well as home textiles. The company is promoted by Alok Industries Limited in collaboration with an Austrian collaborator M/s Grabal, Albert Grabher Gessellschaft m.b.H & Co. (Grabal Group of Australia).

Grabal has two manufacturing facilities in Mahape (New Mumbai) and Silvassa (Dadra and Nagar Haveli). Initially set up with a capacity of 290mn stitches annually, it now boasts of a capacity of 9248mn stitches. Grabal's clients include GAP, Banana Republic, DKNY globally, and Orient Craft, Morarjee Mills, and Ambattur Clothing in the domestic market.

* Retail venture - Hamsard

In December 2005, Grabal acquired a 26% stake in Hamsard 2353 Ltd (Hamsard), a UK based retail company, for a consideration of USD 11.6 mn.

Hamsard has ~207 retail outlets across England, Scotland, and Wales, and sales of ~ USD 200 mn. The outlets of Hamsard operate under the brand "qs" and positioned as value for money retail outlets for garments and home textiles. Grabal is planning to increase its stake in Hamsard from the existing 26% to ~75%. The total cost of which will be around USD 19.5 mn.

Hamsard was going through rough times for the past 2-3 years, however, is set to turnaround now. It has negotiated a creditor's voluntary arrangement, which has helped infuse funds into the company for the purpose of internal restructuring.

Hamsard has predominantly been sourcing 75% of its garments from the UK. Grabal, however, plans to shift this sourcing base to India that is cheaper by 8-10%. The direct sourcing along with other initiatives like refurbishing of the stores, consolidation of warehousing, and other infrastructure, are likely to turn Hamsard back to profitability.

* Funding / FCCB

Grabal plans to raise an FCCB issue up to USD 40 mn in two tranches: USD 15–20 mn of compulsorily convertible FCCB and an optionally convertible FCCB of USD 20–25 mn.

Utilisation of the above proceeds will be done as follows:

- ◆ USD 15.5 mn to acquire additional stake in Hamsard.
- ◆ USD 4 mn extended as working capital loan to Hamsard.
- ◆ USD 11 mn to repay existing loan.
- ◆ USD 9.5 mn to incur capacity expansion and other capital expenditure.

With the proposed FCCB and the conversion of share warrants and earlier FCCB issuance, the fully diluted equity capital will be INR 202 mn in FY07 to INR 320 mn in FY09.

Industry Overview

* Domestic

Embroidery is an important part of Indian trade. For centuries this art has been developed in different parts of the country and is largely dominated by the unorganised sector. Machine embroidery contributes to ~80% of the total 28,890mn stitches embroidery market. The total current embroidery market (machine based) for India is pegged at Rs. 11 bn, growing at a CAGR of 15%.

After China, India is the top most in the world embroidery market and is competitive due to its low labour costs. India exports embroidered fabric and products worldwide to around 100 countries, especially the UAE, Africa, and Asia Pacific.

Considering the domestic and export demand for embroidery, growth of readymade garment industry, and changing fashion trends, there is a huge opportunity for Indian embroidery abroad.

* Global scenario

Between 2002 and 2006, in quantity terms, the global trade in embroidery had been growing at a CAGR of 14% and had reached to 154 mn kgs. in 2006. It translated into a trade of USD 1,585 mn. However, in value terms, due to the induction of highly mechanised computerised embroidery technology, the prices of embroidered goods have been falling. This is reflected in a mere 2% CAGR in value terms during the above period.

In the last two years, with the distinct preferences of designers for embroidery and all major international forecasts favouring decoration through embroidery, the international demand for embroidered goods has stepped up even further. Like in every other textile product sector, the embroidered goods manufacturing too is shifting to lower cost countries. While countries like China and India are investing rapidly in installing new capacities for mass production of both Schiffli and Multihead embroidery, countries like Belgium, Switzerland and Thailand are now focusing only on the very high end products.

Financial Statements

Income statement

Year to March	FY04	FY05	FY06
Total revenues	458	423	565
Raw material cost	298	259	233
Power oil & fuel	4	4	11
Employee cost	17	19	30
Other manufacturing expenses	24	26	90
Selling & administrative exp	4	8	31
Miscellaneous exp	26	34	35
Total operating expenses	371	350	430
EBITDA	87	73	135
Other income	10	11	29
Interest expense	20	23	36
Depreciation	27	31	62
Profit before tax	50	29	66
Provision for tax	18	7	6
Profit after tax	33	23	45
Net profit	33	34	54
Fully diluted earnings per share (INR)	4.0	4.1	4.7
Shares outstanding (mn)	8.3	8.3	11.4
Dividend (INR/share)	0.8	0.8	0.8

Common size metrics as % on revenues

Year to March	FY04	FY05	FY06
Operating expenses	81.0	82.8	76.1
Raw materials	65.0	61.4	41.3
Depreciation	5.8	7.4	10.9
EBITDA	19.0	17.2	23.9
Net profit	7.3	7.9	9.5

Growth metrics (%)

Year to March	FY04	FY05	FY06
Revenues	(12.5)	(7.7)	33.7
EBITDA	(23.9)	(16.1)	85.3
PBT	(24.8)	(40.8)	125.4
Net profit	(7.5)	0.9	59.8
EPS	(7.5)	0.9	16.3

Cash flow statement

Year to June	FY04	FY05	FY06
Cash flow from operations	60	65	115
Cash for working capital	28	94	(114)
Net operating cash flow- A	88	159	1
Net purchase of fixed assets	(6)	(217)	(484)
Net purchase of investments	0	0	(314)
Net cash flow from investing- B	(6)	(217)	(799)
Proceeds from equity	0	(88)	127
Proceeds/Repayments from borrowings	(27)	465	632
Dividend payments	(7)	(7)	(10)
Net cash flow from financing- C	(34)	370	750
Net cash flow (A+B+C)	48	312	(47)

(INR mn)

Balance sheet			(INR mn)
As on 31st March	FY04	FY05	FY06
Equity capital	83	83	114
Pref capital	69	3	-
Reserves & surplus	122	106	237
Shareholders funds	274	192	351
Secured loans	168	266	1,041
Unsecured loans	5	438	344
Net deferred tax liability	40	40	55
Source of funds	487	936	1,791
Gross block	324	486	1,024
Depreciation	134	119	129
Net block	191	367	895
Capital work in progress	5	60	6
Net fixed assets	195	427	901
Investments	36	36	350
Cash, bank bal & deposits	61	373	326
Inventory	108	88	219
Sundry debtors	133	128	68
Loans & advances	31	47	31
Total current assets	334	635	644
Sundry creditors	52	45	55
Others	6	104	34
Provisions	21	12	14
Total current liabilities	78	162	104
Net current assets	256	473	540
Application of funds	487	936	1,791
Book value (BV) per share	33	23	31

Ratios

Year to March	FY04	FY05	FY06
ROE (%)	12.5	14.4	19.8
ROCE (%)	11.0	8.0	6.6
Inventory days	86	76	55
Debtor days	106	110	124
Fixed assets t/o	2.3	1.0	0.6
Debt /Equity	0.6	3.7	3.9

Valuation parameters

Year to March	FY04	FY05	FY06
EPS (INR)	4.0	4.1	4.7
<i>Y-o-Y growth (%)</i>	<i>(7.5)</i>	<i>0.9</i>	<i>16.3</i>
CEPS (INR)	7.2	7.8	10.1
PE (x)	37.8	37.5	32.3
Price/BV (x)	4.6	6.6	4.9
EV/sales (x)	4.0	4.9	4.9
EV/EBITDA (x)	21.2	28.3	20.7

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Ajay Saraf – 22864340

Amit Joshi – 22864271

Hitesh Shah – 22864275

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Anuraj Benara – 22864400

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Hiralal Chopra – 22864220

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