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Industry Report

EQUITY

RESEARCH:

INDIA

Textiles

6 April 2006

Asia Pacific

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Indian Home Textiles

Home Is Where the Growth Is

- **Welspun and Alok are our top picks in India's Home Textiles, which has markedly lagged the Sensex despite strong growth prospects**
- **Alok upgraded to Buy from Hold on better EPS growth visibility after capacity expansion**
- **Sector earnings CAGR of 46% in FY06-08E and high ROEs should trigger overall re-rating**
- **Outsourcing trend, cost advantages, thrust on value-add, re-imposition of quotas on China and expanded capacity should feed sector growth**

Figure 1. Indian Home Textile Stocks in Order of Preference — Valuation Snapshot

Stocks	RIC	Recom.	Mkt Cap (US$ m)	Price (Rs)	Target Price (Rs)	ETR (%)	P/E (x) FY07E	P/E (x) FY08E	FY06-08E EPS CAGR (%)	Rel. Perf 6M (%)	ROE (%) FY07E
Welspun India	WLSP.BO	1M	210	126.40	154	22	12.8	8.4	54	–31	12.1
Alok Industries	ALOK.BO	1M	334	80.40	100	26	9.2	6.7	48	–30	14.7
Abhishek Industries	ABHP.BO	2M	154	31.65	36	14	9.3	8.5	18	–42	14.1

Source: Citigroup Investment Research estimates. Note: ETR=Expected Total Return.

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Figure 2. Citigroup India Textile Universe — Summary Sheet

Stocks	CIR Rating	Price (Rs.) 05-Apr-06	Target Price Rs.	P/E (x) FY07E	P/E (x) FY08E	CIR Comment
Home Textile stocks						
Welspun India	1M	126.40	154	12.8	8.4	Strong play on home textiles, with thrust on exports. Positives: major expansion has come on stream, focus on moving up the value chain and rapid earnings growth
Alok Industries	1M	80.40	100	9.2	6.7	Positives: large capacities across the value chain – particularly bed linen – now commissioned, thrust on exports and efforts to de-risk business model. Improved earnings growth visibility to expand valuations
Abhishek Industries	2M	31.65	36	9.3	8.5	Growth linked to terry towels, with large part of forthcoming expansions in low-margin paper. Appreciation in valuation appears limited
Other Textile stocks						
Raymond (RYMD.BO)	1L	522.75	540	16.0	12.1	Growth in worsted fabrics and healthy order book for garments are key positives. We believe stock deserves a premium for robust business model and strong brand franchise. Unlocking of real estate value remains an upside catalyst
Gokaldas Exports (GOKL.BO)	1M	769.00	750	16.9	15.0	Play on the garment outsourcing theme post quota dismantling and re-imposition of export limits on China. Its wide product range, strong relationships with global retailers are positives. Strong earnings growth vs. global peers will likely drive valuations
Mahavir Spinning Mills (MHSP.BO)	1L	373.20	405	11.7	8.8	Valuations likely not factoring in efforts to vertically integrate from yarn to fabric; we expect valuations to appreciate as new fabric capacities come on stream
Arvind Mills (ARMI.BO)	1L	111.45	165	9.3	7.7	Vertically integrated capacities, strong relationships with global retailers and thrust on value addition in exports are positives. Presence in retailing and strong earnings growth will, in our view, rerate the stock
JCT (JCTL.BO)	1H	14.48	21	9.2	6.5	A strong turnaround story in the textile sector. Initiatives to modernize, reduce costs, improve product mix and focus on niche businesses are key potential growth drivers
S Kumars Nationwide (SKMK.BO)	2H	56.90	61	15.6	10.1	Play on domestic growth and debt restructuring. Valuations look fair and largely discount the strong earnings performance over the next two years

Source: Citigroup Investment Research estimates.

Investment Summary

We remain positive on India's home-textile segment. With the quota system dismantled, global textile retailers are increasingly outsourcing production to India to capitalize on the country's lower costs. India's home-textile sector, on its part, is focusing on value addition and ramping up capacity to maximize profitability. We forecast an earnings CAGR of 46% for the home-textile sector over FY06-08, and have Welspun and Alok as our top picks.

India an outsourcing destination

After the abolition of the quota system, textile capacities in the EU and the US are shrinking due to the loss of competitiveness. Instead, global retailers are increasingly eyeing India to source their finished products at much lower costs. To India's advantage, closest competitor China is currently confined to export limits. To leverage off the export opportunity, India's textile industry is ramping up capacity and moving up the value chain.

Key growth triggers

Four factors should drive growth for the Indian textile industry: (1) global retailers are looking to diversify their sources of supply from predominantly China to other countries; (2) Indian textile industry's thrust on value addition sets it apart from the competition, and it therefore enjoys better price realizations and a larger market share in profitable segments; (3) new capacity should meet demand; and (4) Indian textile companies' backward integration and efforts to enter the branded home-textile space should cushion any pricing pressure.

Sector earnings CAGR of 46% in FY06-08E to drive re-rating

India's home-textile stocks have underperformed the Sensex significantly over the past six months amid fears of EPS deceleration due to equity dilutions. Our India home textiles universe is trading on 9.5x FY07E P/E, a 14% discount to our India textile universe valuation of 11x. We expect the discount to narrow, given that most expansion plans of the home-textile companies are now complete. We forecast a revenue CAGR of 31% and earnings CAGR of 46% in FY06-08 for the home-textile segment — well above our forecasts for the broader market and the India textile universe of 21% and 27%, respectively.

Top picks: Welspun, Alok

Our top picks are Welspun and Alok. Welspun is a pure outsourcing play with rapid growth in home textiles, and Alok is a major name in bed linens. We have upgraded Alok to a Buy (1M) from Hold (2H) and raised our target price to Rs100 on improved EPS growth visibility. Both these companies have large vertically integrated capacities; enjoy export momentum, value addition and close ties with global retailers; look set to record strong earnings growth in FY06E-8E; and trade at what we think are cheap valuations. Abhishek looks attractive from the terry towel angle, but its large expansion in paper is likely to act as a damper on any re-rating.

Industry in Growth zone

- **Shrinking capacities in the EU and US, along with re-imposition of quotas on China, to throw up growth opportunities for India's home-textile companies**
- **Export growth of 39% pa to drive revenue CAGR of 31% in FY06-08E**
- **Bed linen and decorative bed-sets are the fastest growing segments, followed by terry towels**
- **Capacity expansion plans almost complete, so reduced fund-raising should give better EPS growth visibility and high operating leverage**
- **Value addition differentiates India from China, and provides India better price realizations and larger share in profitable segments**
- **Key risks: (1) greater pricing pressure; (2) delays in commissioning of capacity; and (3) higher interest rates, given the high leverage of the sector (debt/equity at 1.4x FY07E)**

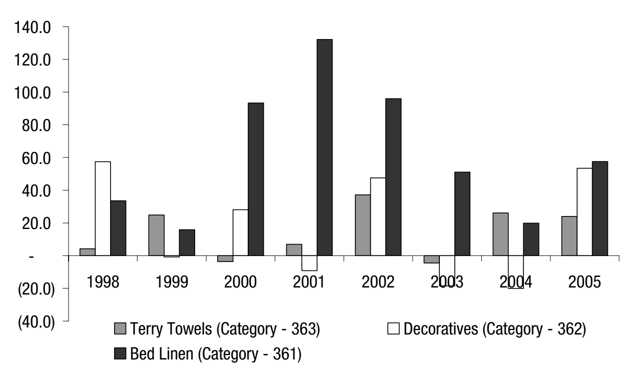
Emerging growth opportunity for India

Home-textile capacities in the EU and the US are shrinking due to the lack of competitiveness. This downscaling, and the dismantling of quotas, is likely to create additional markets of US$1.25bn in towels and US$1.75bn in bed linen for the rest of the world. With outsourcing now becoming the norm among global textile retailers, and the EU and US imposing export limits on China, India's textile industry stands to benefit. Moreover, global retailers are looking at reducing their dependence on a single country for supply. Given Indian companies' strong brand equity in the US home-textile market, low-cost India could be a natural beneficiary in the new environment.

India is the largest supplier of terry towels and third largest of bed linens to the US

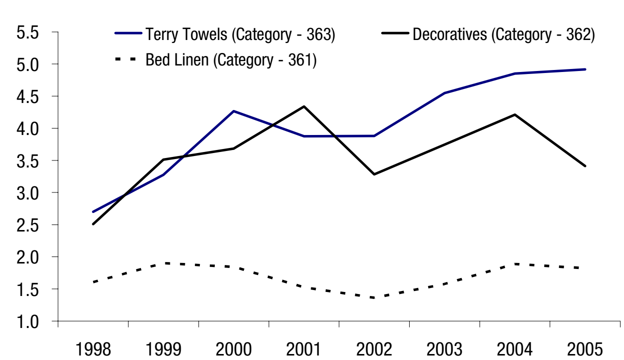
India is the largest supplier of terry towels (a 20.8% market share) and the third largest of bed linens (a 19.2% market share) to the US. These market shares are set to expand in the wake of large capacity expansions by Indian textile companies.

Figure 3. YoY Vol, Gr. in Indian Home Textiles (Percent)



Source: OTEXA.

Figure 4. Realization in Indian Home Textiles (US$/sq m)



Source: OTEXA.

Exports to drive growth in home textiles

Exports to grow at 39% CAGR in FY06-08E

With global retailers looking at vendor rationalization, eliminating complex supply chains and increasing outsourcing from India, we expect India's home-textile export growth to accelerate. We forecast an export CAGR of 39% in value terms over FY06-08, driven by expanding order books, large capacity expansions and value addition.

Expansion plans almost complete

Most major capacity expansion plans commissioned

Indian home-textile companies have expanded rapidly (4-5x) across the textile value chain to take advantage of the emerging growth opportunities. The bulk of the capacity expansion has been commissioned over the past three to six months, which should help provide the sector with improved EPS growth visibility and high operating leverage. The expanded capacity will help meet bulk orders.

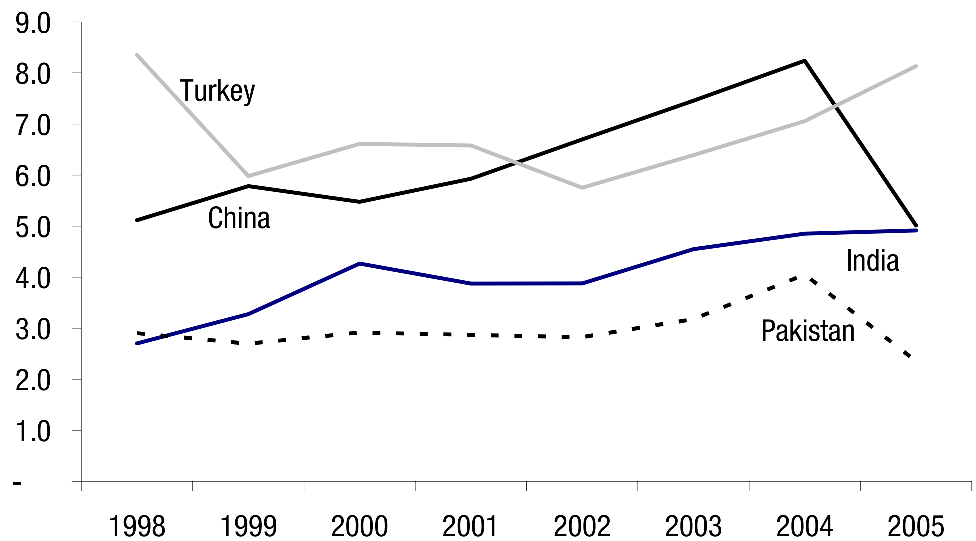
Value addition offers higher price realization, better returns

India's thrust on value addition is an attempt to differentiate itself from China, which focuses more on volumes and lower prices. Indian companies are striving to offer higher-value-added products, such as higher thread count bed linen, innovative products in terry towels and a wider product range in decorative bed-sets. This approach gives Indian textile companies higher realizations and profitability than those of regional peers.

The death of quotas has lowered price realizations across most of the countries in the SE Asian region. The impact on Indian companies, however, has been subdued, thanks to their thrust on value addition — as evidenced by the recent price trends for terry towels and bed linens exported from India to the US. India is one of few destinations where product prices either increased or declined only marginally YoY post-quotas.

Innovative product development has increased India's terry towel realizations

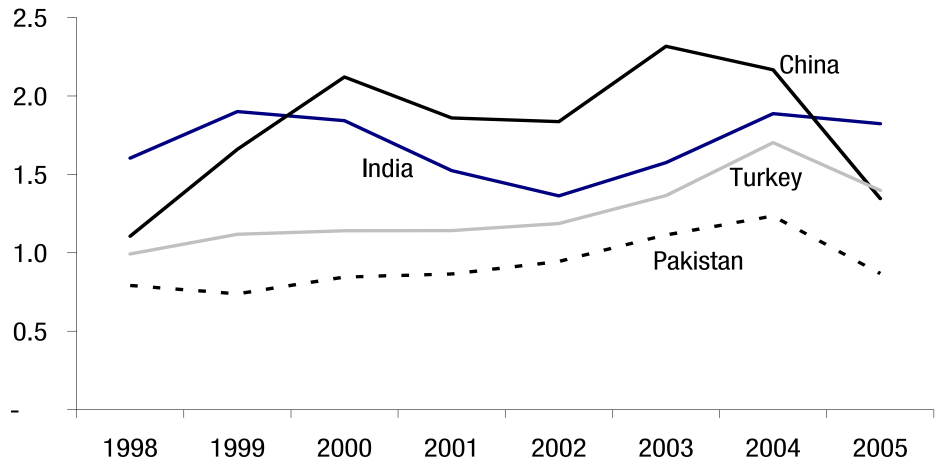
Figure 5. Terry Towel Realizations of Exports to the US (US Dollars per Metre)



Source: OTEXA.

India enjoys higher realizations than China, Pakistan and Turkey

Figure 6. Bed Linen Realization of Exports to the US (US Dollars per Metre)



Source: OTEXA.

Although post-quotas India lost some market share to Pakistan's and China's aggressive shipments at low prices, particularly in bed linen, it continued to grow at a healthy pace in higher-value-add segments. India's growth in decorative bedding further complements its strategy of focusing on value-add.

Figure 7. India's Market Share across Home Textile's Key Categories — Exports to the US vs. Competitor Countries

	India's value share		India's YoY Growth (CY 05)			India's	Competitors			
Description	2004	2005	Value	Volume	Realz	rank	Country	Mrkt Share	Rank	YoY chng in Realz
Bed Linen	**20.1**	**19.2**	**52.0**	**57.5**	**(3.5)**	**3**	**Pakistan**	**26.7**	**1**	**(29.7)**
							China	**22.9**	**2**	**–37.9**
- Cotton Dyed - W/O Embroidery/Surface Ornamentation	28.3	23.7	44.8	41.6	2.3	2	China	27.5	1	–36.0
- Woven, Printed Cotton Sheets W/O Embroidery/Surface Ornamentation	17.7	19.1	101.3	150.2	–19.7	3	Pakistan	35.0	1	–40.1
							China	20.9	2	–42.2
- Woven Dyed Cotton Pillowcases W/O Embroidery	27.0	24.2	49.4	35.7	10.4	2	China	27.4	1	–33.3
- Other Cotton Bed Linen	9.8	8.9	19.0	29.3	–8.6	5	China	34.8	1	–20.2
							Pakistan	9.4	4	–5.4
- Cotton Pillow Shells	10.4	4.2	–60.9	–67.7	20.6	2	China	91.9	1	4.1
- Cotton Shells For Quilts, Comforters	1.9	4.7	104.3	50.0	60.5	3	China	85.9	1	0.3
							Pakistan	6.2	2	55.0
- Printed Cotton Pillowcases	17.1	17.5	89.3	142.3	–21.9	3	Pakistan	33.3	1	–24.8
							China	20.8	2	–24.0
Terry Towels	**20.8**	**20.8**	**25.6**	**24.0**	**1.3**	**1**	**China**	**16.0**	**2**	**–39.2**
							Pakistan	**15.1**	**3**	**–41.9**
							Turkey	**11.5**	**5**	**15.2**
Decorative Bed sets	**10.6**	**9.5**	**24.2**	**53.4**	**–19.0**	**3**	**China**	**44.4**	**1**	**–26.5**
							Pakistan	**22.0**	**2**	**18.8**

Source: OTEXA, Texprocil, Citigroup Investment research.

Quotas on terry towels by US on China augur well for India

Re-imposition of quotas on terry towels from China to benefit India

China responded to the dismantling of the quota system with a surge in textile exports that led to a shake-up in the US market. The US therefore has re-imposed quotas on terry towels from China, which augurs well for India. We believe these measures might prompt global retailing giants to diversify their outsourcing strategy. India offers a competitive alternative to China with its large capacities, wide product range and presence across the textile value chain.

INDIA

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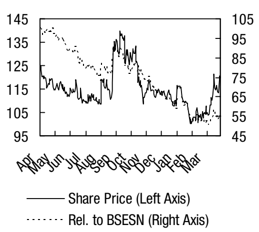
Note Released: 6 April 20066 Apr 2006

Recommendation	
Rating:	1M
Target Price :	Rs154
Expected Share Price Return	21.8%
Expected Dividend Yield	0%
Expected Total Return	21.8%

Market Data	
RIC:	WLSP.BO
Price (5 Apr):	Rs126.40
52-Wk Hi/Lo:	Rs145/Rs95.05
Market Cap. (Mils.):	Rs9221/ US$210
Shares Outst. (Mils.):	76.78



Source: Datastream.

Performance (%):

	3M	6M	12M
Absolute	11.4	(8.0)	(4.0)
Relative	(7.7)	(30.5)	(45.5)

Source: Datastream.

Welspun India Ltd

Earnings Growth Outlook Still Strong, Maintain Buy

BUY (1)
Medium Risk (M)

Summary

- Maintaining Buy (1M) with a target price of Rs154. We see rapid growth in bed linens after initial hiccups, to account for 36% of total revenues by FY08E from 7% in FY06E
- Phase I expansion (Rs5.7bn) operational and Phase II (Rs6.5bn) due for by 4Q FY07, which will step up capacity and backward integration
- Tie-up with popular *Umbro* is a step forward in its strategy to increase presence in branded home textiles in the US — should help enrich product mix and improve profitability
- Retail division (8% of sales) hived off to Welspun Retail at book value from 1 Jan 2006; this should reduce risk and impact of a long gestation period (three to four years) entailed in a retailing business
- Estimates lowered for forex loss and slow bed linen sales in the first year of production, but growth outlook still solid; we expect revenue CAGR of 37% and earnings CAGR of 54% over FY06-08, among the highest in our universe
- Because the stock is a play on the outsourcing theme, our target multiple of 15.5x FY07E P/E is at a premium to India textile universe valuation of 11x

Statistical Abstract

Year to 31 Mar	Net Profit (Rs Mils.)	FD EPS (Rs)	EPS Growth (%)	P/E (x)	P/BV (x)	ROE (%)
2004	277	6.02	–	21.0	2.7	12.8
2005	337	5.58	–7.3	22.6	2.3	10.1
2006E	486	6.33	13.4	20.0	1.8	8.8
2007E	757	9.86	55.8	12.8	1.6	12.1
2008E	1,149	14.97	51.8	8.4	1.3	15.5

Source: Company, Citigroup Investment Research estimates.

Earnings Revision

Year to	Net Profit (Rs Mils.)		Diluted EPS (Rs)			Dividend Per Share (Rs)	
31 Mar	Old	New	Old	New	% Chg	Old	New
2006E	568	486	7.4	6.3	–14.9	0	0
2007E	869	757	11.32	9.9	–12.5	0	0
2008E	1,255	1149	16.35	15.0	–8.3	0	0

Source: Citigroup Investment Research estimates.

Key points

Rapid growth prospects in bed linens

Welspun's entry into the bed linens segment has enhanced growth opportunities. The commissioning of new capacity in 3Q FY06 (low utilization levels initially) and increased export demand are driving up bed linen revenues. The company's thrust on the middle- to top-end bed linen market, new product developments and close ties with a host of global retail brands have started paying off. The bed linen business appears to be at an inflection point, and should reduce the company's dependence on towels (84% of FY06E revenues). On our forecasts, bed linens' share of total revenues will rise from 7% in FY06 to 36% by FY08.

Phase II expansion progressing on schedule

Encouraged by the response to its products and the growing order book for exports, Welspun is going ahead with Phase II of its expansion (Rs6.5bn). It has made some changes to the scale of expansion across categories: (1) expansion in decorative bed sets (high-margin business) now targeted at 1.44m vs. 1.25m earlier; (2) spinning capacity plan raised to 25,000 spindles for backward integration of bed linen; and (3) terry-towel expansion scaled down to 6,500MT from 10,000MT.

Phase II Expansion Plan

Segments	Existing	Expansion	Total	Exp. Comm.
Terry Towel (MT)	24,500	6,500	31,000	2Q FY07
Bed Linen (m meters)				
Processing	35	10	45	2H FY07
Weaving	15	30	45	2H FY07
Decorative Bed Sets	NA	1.44m pcs	1.44m pcs	2H FY07
Spindles (nos.)	57,496	50,000	107,496	2H FY07

Source: Company, Citigroup Investment Research.

Acquires license for marketing under '*Umbro*' brand in US

Leveraging off its presence in the US market, Welspun has acquired a marketing license for towels under the *Umbro* brand (a popular sports jersey and shorts brand) for a royalty based on sales. This is in addition to its existing marketing tie-up with *Nautica* in the US and Canadian markets. These moves are part of the company's strategy to increase its presence in the branded home-textile space in the US in a bid to improve product mix and enjoy higher price realizations and profitability.

Retail division hived off to a separate venture

Welspun has hived off its retail business (8.5% of 9M FY06 revenues) to a separate venture, Welspun Retail, with effect from 1 January 2006 at book value. It now holds a 49% stake in the retail arm, and the other major shareholders own a combined 51%. Although concerns have been raised about the price at which the transaction was done, Welspun's right to increase its stake to 51% within next five years — at an incremental cost of 10% over funds invested from the date of transfer — allays to some extent these concerns. If the retail venture turns around ahead of expectations, the right to resume control would prove positive. The hive-off was primarily designed to eliminate the risks of increased investment and a long gestation period in the retailing business. The de-merger of the retail business results in 3-12% lower revenues over FY06E-08E, but we do not expect any meaningful impact on near-term profitability.

Lowering our earnings estimates

We are lowering our revenue by 12% pa and net profit by 8-15% over FY06E-08E to account for forex losses, lower capacity utilization of bed linens in the first year of operations and the hiving off of the retail division. FY06 estimates have been lowered by forex losses of roughly Rs79m on account of hedging during high currency volatility in 3Q FY06, and lower capacity utilization of 10% for bed linens. We had earlier factored in bed linen utilization of 22% for FY06 and 60-80% for FY07-08, and revenue share of 10-12% from retail in FY07-08.

We still expect revenue growth of 37% and an earnings CAGR of 54% over FY06-08 (vs. 49% previously), driven by the company's hiving off of the retail division, bed linen capacity utilization of 50-70% in FY07E-08E and focus on higher-value-added segments.

Investment thesis

We reiterate our Buy (1M) rating on Welspun, with a target price of Rs154 based on 15.5x FY07E P/E vs. our India textile universe FY07E valuation of 11x. The premium multiple for Welspun is justified in our view by the company's rapid earnings growth and thrust on exports.

The company's key growth drivers are: (1) terry towel exports look set for rapid growth, as capacities have shrunk in the US, and the US has re-imposed quotas until 2008 on China; (2) focus on branded home textiles, moving up the value chain; (3) a wider presence in home textiles, a growing export market; and (4) capacity expansion for backward integration of bed linens and entry into decorative bed sets. Welspun's plan to expand to bed linen and decorative bed sets could mean higher margins and an improved revenue mix. The hiving off of the domestic retail venture eliminates the risks of more investment in the business and the long gestation period involved. Welspun's global scale in terry towels, close ties with global retailers — at a time when capacities are shrinking in the US — and integrated facilities should help the company exploit the emerging export opportunities.

Valuation

Our target price of Rs154 is based on 15.5x FY07E P/E. We have lowered our target multiple from the 16.5x we ascribe to the leaders in the textile segments, to factor in the delay in the scale-up of bed linens. Our target multiple places the stock at a premium to our India textile universe FY07E valuation of 11x. Our universe includes stocks such as Arvind, Raymond, Gokaldas Exports, and Mahavir Spinning, and has traded in a range of 8-12x over the past three years. We accord the stock a premium in recognition of Welspun's rapid earnings growth prospects, leadership in terry towels and thrust on exports.. We use P/E as our primary valuation tool because it best captures the company's strong earnings growth potential.

On a P/BV basis, our second valuation method, the stock trades at 1.6x for FY07E — a small premium to our India textile universe average of 1.5x. We see this premium expanding, and continue to consider 1.8x P/BV for FY07E appropriate given the company's vertically integrated business model, focus on diversifying to higher- value-added products and global scale in terry towels. Our 1.8x P/BV target multiple gives a fair value of Rs150.

Risks

We rate Welspun Medium Risk, as opposed to the Low Risk assigned by our quantitative risk-rating system, which tracks 260-day historical share-price volatility. We prefer to rate the stock Medium Risk due to some uncertainty in the initial stages of capacity expansion in bed linens.

The main company-specific risks include:

- Appreciation of the rupee of more than 5% from a base level of Rs44 would lower export price realizations and impact profitability by 7-8%, on our forecasts, as exports contribute 98% of revenues
- Any high-priced acquisition overseas in the brand home textile retail space would increase pressure on cash flows
- Sharp rises in cotton prices of 10-12% would impact earnings growth by 8-9%, on our estimates. Intense competition in terry towels leading to price realizations lower than a 6% CAGR over FY05-08E would impact overall earnings by an estimated 4-5%
- Significant increases in interest cost would adversely impact our earnings growth assumptions (debt/equity at 1.5x FY07E)
- Delays in commissioning of new projects would impact our revenue growth expectations

If any of these risk factors plays out, Welspun's share price is likely to have difficulty attaining our target price.

Income Statement, FY04–08E (Rupees in Millions)

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Total Revenues	**3,667**	**4,763**	**6,312**	**9,153**	**11,914**
YoY Growth (%)	22	30	33	45	30
EBITDA	**687**	**969**	**1,417**	**2,204**	**3,043**
Margin (%)	18.7	20.3	22.4	24.1	25.5
Depreciation	–147	–277	–485	–715	–915
Other income	86	96	200	145	130
EBIT	**626**	**787**	**1,132**	**1,634**	**2,258**
Interest income(expense)	–180	–181	–345	–485	–550
Profit before tax	446	606	787	1,149	1,708
Tax	–146	–221	–266	–368	–547
Profit after tax	300	386	521	782	1,161
Pref Div	–23	–48	–35	–25	–12
PAT after Pref Div	**277**	**337**	**486**	**757**	**1,149**
Margin (%)	8.2	8.1	8.2	8.5	9.7
Revenue Mix (%)					
Terry Towels	*89*	*75*	*84*	*68*	*62*
Bed Linen	*1*	*1*	*7*	*29*	*36*
Yarn	*3*	*16*	*5*	*2*	*1*
Others	*8*	*7*	*3*	*2*	*1*

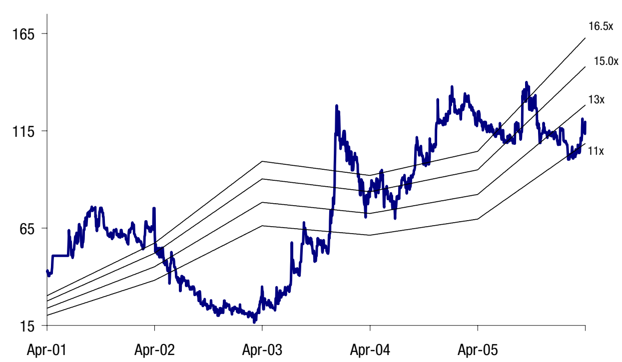
Balance Sheet, FY04 –08E (Rupees in Millions)

As at 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Equity Share Capital	460	638	768	768	768
Reserves	1,706	2,708	4,731	5,488	6,637
Net Worth	**2,166**	**3,346**	**5,499**	**6,256**	**7,405**
Pref Share Capital	163	355	268	190	95
Def. Tax Liability	125	454	496	538	610
Short Term Debt	901	1,328	1,925	2,450	2,750
Long Term Debt	1,303	4,694	5,105	6,648	6,852
Total Debt	**2,204**	**6,022**	**7,030**	**9,098**	**9,602**
Capital Employed	**4,658**	**10,176**	**13,293**	**16,081**	**17,712**
Gross Block	**2,674**	**7,123**	**11,047**	**16,101**	**17,949**
Depreciation	763	1,408	1,893	2,608	3,523
Net Fixed Assets	1,911	5,715	9,154	13,493	14,426
Capital WIP	**246**	**2,571**	**1,960**	**560**	**760**
Investments	**449**	**115**	**95**	**95**	**95**
Inventories	608	1,299	1,673	2,471	3,217
Sundry Debtors	335	348	473	732	953
Other Current Assets	1,046	733	703	632	726
Cash and Bank	471	799	563	278	310
Current Assets	**2,460**	**3,179**	**3,412**	**4,113**	**5,207**
Current Liabilities	–408	–1,404	–1,329	–2,180	–2,776
Net Current Assets	**2,052**	**1,775**	**2,083**	**1,933**	**2,431**
Total Net Assets	**4,658**	**10,176**	**13,293**	**16,081**	**17,712**

Cash Flow Statement, FY04 –08E (Rupees in Millions)

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Recurring net profit	277	337	486	757	1,149
Depreciation	147	277	485	715	915
Changes in W.Cap	–26	606	–545	–135	–465
Gross cash flow	**398**	**1,220**	**426**	**1,337**	**1,599**
Net capex	**–226**	**–6,407**	**–3,313**	**–3,654**	**–2,048**
Free cash flow	**172**	**–5,186**	**–2,887**	**–2,316**	**–449**
Net investments	–154	334	20	0	0
Non-recurring items	65	0	0	0	0
Other items	450	–155	–282	–321	10
Net change in Debt	–146	3490	1244	2352	472
Cash available for div.	**386**	**–1518**	**–1905**	**–285**	**33**
Dividends paid	**0**	**0**	**0**	**0**	**0**
Equity issued	0	1845	1669	0	0
Inc/(dec) in net cash	386	328	–236	–285	33

P/E Band Chart



Key Ratios, FY04 –08E

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
EPS (Rs)	6.0	5.6	6.3	9.9	15.0
EPS YoY Gr. (%)	73.3	–7.2	13.3	55.8	51.8
Book value (Rs)	47	55	72	81	96
Debt/Equity (x)	1.0	1.8	1.3	1.5	1.3
ROCE (%)	9.2	6.1	6.1	7.4	9.0
ROE (%)	12.8	10.1	8.8	12.1	15.5

Key Assumptions, FY06E-08E

Year to 31 Mar	FY06E	FY07E	FY08E
Terry Realization Gr. (%)	–5	–5	–2
Terry Towel Vol Gr. (%)	54	23	21
Bed-Linen Realization (Rs/mtr)	145	142	138
Raw Mat as % of Sales	37.6	41.7	41.2
Exports as % of Sales	96	98	98

Source: Company, Citigroup Investment Research estimates. .

INDIA

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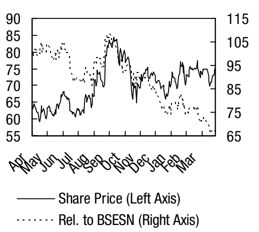
Note Released:	6 Apr 2006
Recommendation	
Rating:	1M
Target Price :	Rs100
Expected Share Price Return	24.3%
Expected Dividend Yield	2.0%
Expected Total Return	26.3%

Market Data	
RIC:	ALOK.BO
Price (5 Apr):	Rs80.40
52-Wk Hi/Lo:	Rs86.25/Rs59
Market Cap. (Mils.):	Rs14515/ US$334
Shares Outst. (Mils.):	199.1



Source: Datastream.

Performance (%):

	3M	6M	12M
Absolute	7.9	(6.8)	17.2
Relative	(10.5)	(29.5)	(33.5)

Source: Datastream.

Alok Industries Ltd

BUY (1)
Medium Risk (M)

Upgrade to Buy, Growth Visibility Improves

Summary

- Upgrading to Buy (1M) from Hold (2H) and raising 12-month target price from Rs88 to Rs100, on a par with the sector valuation of 11x FY07E P/E. Target price raised on solid growth opportunity in home textiles and completion of a large part of the expansion plan
- Potential drivers: (1) bed linen revenue CAGR of 56% over FY06E-08E; (2) more expansions going on stream; (3) a richer product mix; and (4) growing export order book
- Phase II of expansion largely operational, with the balance due by 1H FY07. Phase III (Rs11bn) will focus on backward integration, funded by debt and internal accruals, and is scheduled to come on steam in March 2008
- New expansions should provide the company with significant operating leveraging and drive earnings CAGR of 48% in FY06-08E
- Risk rating lowered to Medium from High following near completion of Phase II of expansion

Statistical Abstract

Year to 31 Mar	Net Profit (Rs Mils.)	FD EPS (Rs)	EPS Growth (%)	P/E (x)	P/BV (x)	ROE (%)
2004	693	7.86	–	10.2	2.2	21.3
2005	797	5.80	–26.2	13.9	1.8	16.3
2006E	1,096	5.50	–5.2	14.6	1.4	12.3
2007E	1,743	8.75	59.1	9.2	1.3	14.7
2008E	2,401	12.06	37.8	6.7	1.1	17.9

Source: Company, Citigroup Investment Research estimates.

Key points

Ready for the growth opportunities in home textiles

With a large part of the Phase II expansion in weaving and processing of bed linen operational — after initial delays — we believe Alok is now poised for solid growth in home textiles. Visibility into the company's EPS growth has improved with this expansion, underpinned by superior manufacturing facilities, a wide product range and close ties with large retail chains of the likes of Kohls, Wal-Mart, Bloomingdales and Meijers. We expect bed linen revenues to grow by 56% CAGR over FY06-08, and forecast its revenue contribution to increase from 22% in FY06 to 34% by FY08.

More expansions to go on stream in 1H FY07E

After our recent visit to Alok's Silvasa and Vapi plants, we expect more expansions in knits, garments and made-up manufacturing being commissioned over the next six months. Improved visibility into the timing (1H FY07E) of these capacities would be seen as positive by the market. The expansions should provide Alok with stronger growth opportunities and increase its presence at the higher end of the textile value chain — reducing its dependence on apparel fabrics (42% of FY06E revenues).

Phase III expansion of Rs11bn — operational by March 2008E

Alok has embarked on Phase III of its expansion plan, primarily for backward integration to spinning and additional capacities in (1) weaving and processing in bed linen processing, (2) apparel weaving, and (3) garment and made-up manufacturing. According to management, this expansion will be funded through a mix of debt (Rs9bn) and internal accruals, and would be operational by March 2008.

Capacity Expansion Rollout Plan

Segment	Existing	Phase II	Phase III	Total	Exp. Comm.
Texturizing Yarn (TPA)	65,000	21,000		86,000	2QFY07
POY Plant		47,000		47,000	1QFY08
Weaving					
Fabric (mn mtrs)					
Apparel Fabric	40.0	17.5	25.0	82.5	Phase II comm, Mar'08
Home Textiles	12.8	32.4	24.8	70	Part Phase II comm, Mar'08
Knit (TPA)	6,400	10,400		16,800	2QFY07
Yarn (Ring Frame) TPA		51000 spindles (5250 MT)	200,000 spindles (15000 MT)	250,000 spindles (20250 MT)	4QFY07, Mar'08
Processing					
Apparel Fabric (mn mtrs)	22.5	30 + 30		82.5	Part Phase II comm & 1QFY07
H.Textiles Fabric (mn mtrs.)	37.5	22.5	22.5	82.5	Phase II comm, Mar'08
Knit Fabric (TPA)	3,000	13,800		16,800	1QFY07
Yarn Dyeing (TPA)	450	2,550		3,000	Phase II comm
Bed Linen (mn sets)	2.5	3.5	4.0	10.0	2QFY07
Garments (mn pcs)	1	7	7	15	2QFY07
Terry Towels (TPA)	na	6,700		6,700	4QFY07
Open Ended Yarn (TPA)	na	1,830		1,830	4QFY07

Source: Company, Citigroup Investment Research.

Investment thesis

We upgrade Alok to a Buy (1M) from a Hold (2H) and raise our 12-month target price to Rs100. Our upgrade is premised on the solid growth opportunity in home textiles and Alok's expansion in weaving-processing capacities of bed linen and apparel fabric coming on stream. We see the expansion providing the company with significant operating leveraging and earnings CAGR of 48% over FY06-08.

Key growth drivers for Alok are: (1) more expansions coming on stream over the next two years; (2) a richer product mix; (3) a growing order book for exports; and (4) benefits accruing from the 10% capital subsidy granted for investment in the textile processing sector — recently extended to March 2007. Its presence across a large part of the textile value chain and close ties with global retailers should help it exploit the outsourcing opportunities in the sector and improve margins. However, the company's aggressive expansion plans would hinder improvement in ROCE.

Valuation

Our revised 12-month target price of Rs100 is based on 11x FY07E P/E (vs. earlier sector multiple of 10x) — on a par with our India textile universe FY07E valuation. Our universe includes Arvind Mills, Raymond, Gokaldas Exports, and Welspun India, and has traded in a range of 8-12x over the past three years. Our target price implies 26% return on a 12-month horizon. We have raised our target multiple to be in line with the sector valuation, following completion of a major part of its expansion plan and greater EPS growth visibility. The stock is trading at 9.2x FY07E P/E, towards the mid-cycle of its band of 8-10x over the past two years. Because P/E captures the earnings growth potential of a company, we consider it as our primary valuation method.

On a P/BV basis, our second valuation tool, the stock is trading at 1.3x FY07E multiple, a 20 % discount to the sector, largely due to concerns about equity dilution. With management assuring no further equity dilution and the thrust on value addition improving overall profitability, we see the stock's valuation catching up with the sector's 1.5x P/BV for FY07E, which gives a fair value of Rs95.

Risks

We lower our risk rating to Medium from High to factor in Alok's progress in capacity expansion. Our quantitative risk-rating system would assign a Low Risk to the stock based on historical 260-day share-price volatility. But we prefer Medium Risk due to expansion-related concerns. The main risks to our target price include:

- Equity dilution and the prospect of the company reporting the lowest ROCE of 6% in the sector
- Delay in commissioning of new capacity by a quarter would push back the growth we are projecting for FY07-08
- Significant increase in interest cost would adversely impact our earnings growth assumptions given its high leverage (debt/equity at 1.9x in FY07E)
- Sharp increases in cotton prices by more than 10% from Rs50/kg would impact profitability by 7-8%, on our estimates
- Appreciation of the rupee by more than 5% from a base level of Rs44 would reduce price realizations of exports, which contributed 26% of FY06E revenues but which are expected to increase sharply as new capacity goes on stream
- Any over-priced acquisition of spinning facilities in its bid to backward integrate its home-textiles business

Income Statement, FY04-08E(Rupees in Millions)

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Total Revenues	**10,624**	**12,293**	**14,727**	**20,111**	**26,157**
YoY Growth (%)	*34.1*	*15.7*	*19.8*	*36.6*	*30.1*
EBITDA	**1,924**	**2,384**	**3,048**	**4,486**	**6,035**
Margin (%)	18.1%	19.4%	20.7%	22.3%	23.1%
Depreciation	–383	–576	–815	–1,197	–1,606
Other income	70	118	83	105	100
EBIT	**1,610**	**1,926**	**2,316**	**3,395**	**4,529**
Int inc(exp)	–685	–691	–725	–905	–1,050
PBT	926	1,235	1,591	2,490	3,479
Tax	–215	–343	–477	–747	–1,079
PAT before Ext.	711	893	1,114	1,743	2,401
Pref Dividend	–18	–96	–18	0	0
PAT after Ext.	**693**	**797**	**1,096**	**1,743**	**2,401**
Margin (%)	*6.5*	*6.5*	*7.4*	*8.7*	*9.2*
Revenue Mix (%)					
Apparel Fabric	*41*	*45*	*42*	*37*	*36*
Knit Fabric	*6*	*5*	*5*	*8*	*7*
Texturizing Yarn	*21*	*29*	*28*	*22*	*19*
Home Textiles	*5*	*16*	*22*	*30*	*34*
Garments	*0*	*1*	*1*	*2*	*3*
Others	*27*	*4*	*2*	*1*	*0*

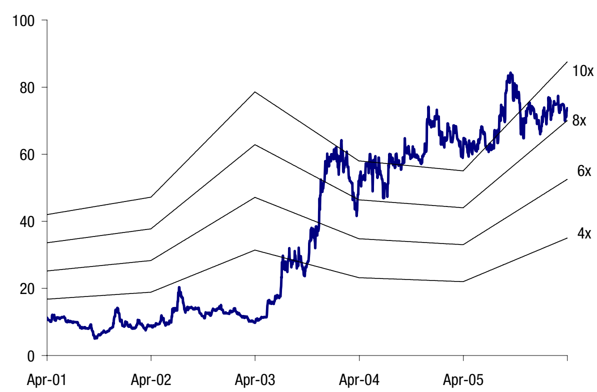
Balance Sheet, FY04-08E(Rupees in Millions)

As at 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Equity Share Capital	1,097	1,373	1,991	1,991	1,991
Reserves	2,180	4,607	9,096	10,441	12,443
Net Worth	**3,277**	**5,981**	**11,087**	**12,432**	**14,434**
Pref Share Capital	837	843	150	0	0
Def Tax Liability	505	751	1,025	1,205	1,160
Short Term Debt	3,669	3,927	5,625	6,468	7,100
Long Term Debt	4,515	9,262	12,900	17,750	20,450
Total Debt	**8,184**	**13,189**	**18,525**	**24,218**	**27,550**
Capital Employed	**12,803**	**20,764**	**30,787**	**37,855**	**43,144**
Gross Block	**5,594**	**8,694**	**15,676**	**22,576**	**28,676**
Depreciation	1,113	1,683	2,498	3,695	5,300
Net Fixed Assets	4,481	7,011	13,178	18,881	23,375
Capital WIP	1,314	1,782	2,150	2,350	1,500
Investments	41	79	41	65	66
Inventories	2,035	3,633	4,856	6,153	6,745
Sundry Debtors	4,203	4,030	5,395	6,674	7,825
Other Current Assets	640	962	925	1,251	1,619
Cash and Bank	1,573	4,968	5,898	4,677	5,098
Current Assets	8,451	13,592	17,073	18,755	21,287
Current Liabilities	–1,484	–1,699	–1,654	–2,196	–3,084
Net Current Assets	**6,967**	**11,893**	**15,419**	**16,559**	**18,203**
Total Net Assets	**12,803**	**20,764**	**30,787**	**37,855**	**43,144**

Cash Flow Statement, FY04-08E(Rupees in Millions)

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Recurring net profit	711	893	1,114	1,743	2,401
Depreciation	383	576	815	1,197	1,606
Changes in W.Cap	–1,132	–1,531	–2,596	–2,361	–1,223
Gross cash flow	–39	–63	–667	578	2,784
Net capex	–2,373	–3,567	–7,350	–7,100	–5,250
Free cash flow	**–2,411**	**–3,630**	**–8,017**	**–6,522**	**–2,466**
Net investments	0	–38	38	–24	–1
Non-recurring items	18	96	18	0	0
Other items	863	56	–437	–425	1
Net change in Debt	**2743**	**5005**	**5336**	**5694**	**3332**
Cash available for div.	1212	1489	–3063	–1278	865
Dividends paid	–88	–187	–299	–398	–398
Equity issued	207	2093	4292	0	0
Inc/(dec) in net cash	**1,331**	**3,395**	**930**	**–1,676**	**467**

P/E Band Chart



Key Ratios, FY04-08E

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
EPS (Rs)	7.9	5.8	5.5	8.8	12.1
EPS YoY Gr. (%)	66.5	–26.2	–5.1	59.0	37.8
Book value (Rs)	37	45	56	62	72
Debt/Equity (x)	2.5	2.2	1.7	1.9	1.9
ROCE (%)	9.2	6.7	5.4	6.4	7.4
ROE (%)	21.3	16.3	12.3	14.7	17.9

Key Assumptions, FY06-08E

Year to 31 Mar	FY06E	FY07E	FY08E
Apparel Fabric Volume Gr. (%)	10	17	25
Bed-Linen Revenue Gr (%)	64	86	32
Knit Fabric Revenue Gr. (%)	12	112	17
Exports as % of Sales	26	34	38

Source: Company, Citigroup Investment Research estimates.

Abhishek Industries Ltd

HOLD (2)

Medium Risk (M)

Upbeat on Terry Towel, but Paper to Limit Re-rating

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Mumbai

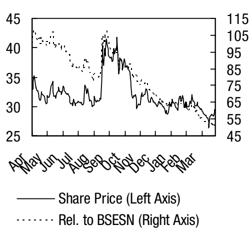
Note Released:	6 Apr 2006

Recommendation

Rating:	2M
Target Price :	Rs36
Expected Share Price Return	13.7%
Expected Dividend Yield	0%
Expected Total Return	13.7%

Market Data

RIC:	ABHP.BO
Price (5 Apr):	Rs31.65
52-Wk Hi/Lo:	Rs43.80/Rs26.20
Market Cap. (Mils.):	Rs6779/ US$154
Shares Outst. (Mils.):	214.20



Source: Datastream.

Performance (%):

	3M	6M	12M
Absolute	(3.0)	(23.0)	(10.8)
Relative	(19.6)	(41.8)	(49.4)

Source: Datastream.

Summary

- Maintaining Hold (2M) with a target price of Rs36 based on 10.6x FY07E P/E. Lowering FY06E earnings 16% on delayed scale-up of terry towel capacity and more-than-expected pricing pressure
- We see terry towel utilization picking up significantly; re-imposition of quotas on China by the US, shrinking capacities in the US and increasing order flows will drive terry towel revenues by 15% CAGR over FY06E-08E
- With terry towel expansion phased in, Abhishek is working toward setting up two captive power plants (Rs4bn) and ramping up capacities in yarn (Rs1.8bn) and paper (Rs6.8bn); on anvil is capex of Rs10bn for FY06E-08E
- We expect revenue and earnings CAGRs of 21% and 18%, respectively, over FY06-08E — economies of scale and savings in power costs are key drivers

Statistical Abstract

Year to 31 Mar	Net Profit (Rs Mils.)	FD EPS (Rs)	EPS Growth (%)	P/E (x)	P/BV (x)	ROE (%)
12 months ended Dec 2003	359	1.85	88.2	17.1	2.3	13.3
15 months ended Mar 2005	426	2.19	18.8	14.4	2.0	13.5
2006E	566	2.64	20.5	12.0	1.5	12.9
2007E	717	3.35	26.8	9.3	1.3	14.1
2008E	785	3.67	9.5	8.5	1.1	13.4

Source: Company, Citigroup Investment Research estimates.

Earnings Revision

Year to	Net Profit (Rs Mils.)		Diluted EPS (Rs)			Dividend Per Share (Rs)	
31 Mar	Old	New	Old	New	% Chg	Old	New
2006E	673	566	3.14	2.64	–15.9	0	0
2007E	775	717	3.62	3.35	–6.9	0	0
2008E	827	785	3.86	3.67	–4.9	0	0

Source: Citigroup Investment Research estimates.

Key points

Well positioned to take advantage of growth in terry towels

Abhishek commissioned towel capacity of 8,000MT in December 2005, two months behind schedule. It is now among the largest players in terry towels in Asia, with capacity of 29,000MT. Backed by large capacities, a growing order book for exports and efforts to move up to higher-value-added products, we believe the company is well positioned to tap the outsourcing opportunity in terry towels. Re-imposition of quotas by the US on China for terry towels is also positive for India. We expect the company's terry towel revenues to post a CAGR of 15% in FY06-08.

Progress on expansion

With terry towel expansion operational, it is aggressively working toward ramping capacities in yarn and paper. It has on anvil capex of Rs10bn (to be funded primarily through a mix of debt and internal accruals), which includes Rs1.8bn for value-add ring spun yarn, Rs1.4bn for two 20MW captive power plants (for commissioning in June 2006 and Sept 2007) and Rs6.8bn for paper. We expect significant operating leverage in terry towels, savings in power costs and capacity additions in yarn to drive earnings over the next two years.

Capacity Expansion

Segments	Existing	Expansion	Total	Exp Comm.
Terry Towel	21000 MT	8000 MT	29000 MT	Comm. In Dec'05
Yarn	78,684 spindles	25,000 spindles		1QFY07
		19,000 spindles	122,684 spindles	2QFY07
Paper	40,500 MT	85,500 MT	126,000 MT	2QFY08

Source: Company.

Lowering earnings estimates for FY06-08

Slower-than-expected ramp-up in new capacities, increased pricing pressure in terry towels and higher captive consumption of yarns have led us to reduce our revenue and net profit estimates for Abhishek by 10-18% and 5-16% respectively over FY06-08. A lower FY06E is triggered by a lower utilization level (60%) for new terry towel capacity and a steep decline of 17% in terry towel prices vs. our earlier assumption of a higher capacity utilization of 70% for terry towels and a 9% decline in towel prices.

We expect the impact of these two factors to ease given the benefits flowing to the company from savings in power costs and economies of scale after the recent expansion. We expect revenue and earnings CAGRs of 21% and 18%, respectively, over FY06-08.

Investment thesis

We maintain our Hold (2M) rating on Abhishek and 12-month target price of Rs36, based on a FY07E P/E of 10.6x — at a 32% discount to our target multiple for Welspun (WLSP.BO, Rs126.40, 1M), which has a wider presence in home textiles.

Terry towel exports from India are set for rapid growth, as towel capacity in the US is shrinking and the US has re-imposed quotas until 2008 on China. Given Abhishek's scale advantages and relationships with global retailers, we believe it is well positioned to ride this potential growth wave in terry towels. The company's growing order book and diversifying customer base for exports are positives. We forecast an earnings CAGR of 18% over FY06-08 on improved margins, given the company's high operating leverage in terry towels, focus on value-added products and cost benefits in raw materials and power.

However, the company's aggressive expansion into the paper business (30% of FY06E operating profits), which is a commodity business, is likely to prevent any rerating. However, with the stock trading at 9.3x FY07E P/E — a 15% discount to our India textile universe — and given our positive view on home textiles in general, we maintain our Hold rating.

Valuation

Our target price of Rs36 is based on 10.6x FY07E P/E, which implies a 14% expected share price return on a 12-month horizon. Our target multiple of 10.6x is now based on a 32% discount to Welspun's target valuation of 15.5x FY07E P/E, down from a 36% discount we used earlier following our new numbers for Welspun. We consider the premium reasonable given Welspun's leadership, wider presence in home textiles and absence in the paper business. We are using P/E as our primary valuation tool, as we believe it captures the company's earnings growth potential. With the stock currently trading at 9.3x FY07E P/E, we expect growth in terry towel exports will drive valuations. However, we believe the company's paper expansion plans are likely to hinder price performance and a re-rating

On an EV/EBITDA basis, our second valuation methodology, the stock is trading at 6.6x for FY07E, a 16% discount to our India textile universe average of 7.9x. We see this multiple appreciating to 7.4x, giving us a fair value of Rs40, on the company's efforts to diversify its product mix to more value-added segments in textiles.

Risks

We rate Abhishek Medium Risk based on our quantitative risk-rating system, which tracks 260-day historical share-price volatility.

The main upside risks to our target price include:

- Declaration of dividend
- Plans to split the business into separate textiles and paper companies would result in value un-locking and re-rating
- Increase in paper prices of 5% over and above our average price realization of Rs30,500/MT would complement earnings growth and downplay the impact on valuations

The main downside risks facing our investment thesis include:

- Any appreciation of the rupee vs. the USD could affect exports and thus earnings. A 5% appreciation of the rupee could lead to a 3-4% fall in earnings, as exports accounted for 45% of FY05 revenues
- A rise of 10-12% from current cotton price levels of Rs48/kg could lead to a 6-7% fall in our earnings estimates for the terry-towel and cotton-yarn business (which accounted for 78% of FY06E revenues)
- Lower towel demand and/or price would impact our growth and profitability assumptions for the company's towel business
- Any delay in the commissioning of new projects (even by a quarter) would push back our revenue growth assumptions by four to five months

Income Statement, 2003-08E (Rupees in Millions)

Yr to 31 Mar	Dec-03	FY05 (15m)	FY06E	FY07E	FY08E
Total Revenues	**4,638**	**7,056**	**7,471**	**9,388**	**11,017**
YoY Growth (%)	*51*	*52*	*6*	*26*	*17*
EBITDA	**1,026**	**1,397**	**1,630**	**2,253**	**2,739**
Margin (%)	*22.1*	*19.8*	*21.8*	*24.0*	*24.9*
Depreciation	–405	–592	–665	–850	–1,025
Other income	61	66	75	65	85
EBIT	**683**	**870**	**1,040**	**1,468**	**1,799**
Interest income(expense)	–203	–239	–285	–480	–715
Profit before tax	479	631	755	988	1,084
Tax	–121	–205	–189	–257	–282
Profit after tax	**359**	**426**	**566**	**731**	**802**
Margin (%)	*7.7*	*6.0*	*7.6*	*7.8*	*7.3*
Revenue Mix (%)					
Yarn	32	27	16	21	19
Terry Towel	36	46	62	64	56
Paper	19	18	14	10	20
Others	13	9	8	5	4

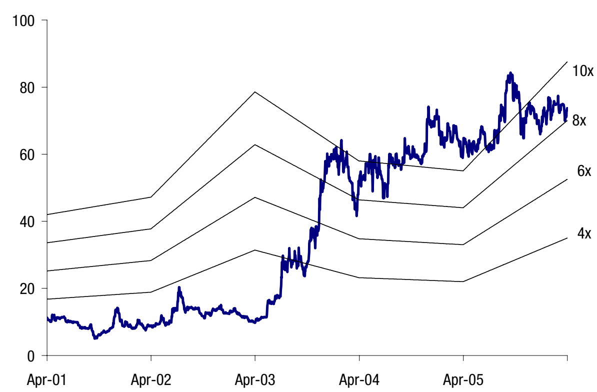
Balance Sheet, 2003-08E (Rupees in Millions)

As at 31 Mar	Dec-03	FY05 (15m)	FY06E	FY07E	FY08E
Equity Share Capital	1,942	1,942	2,142	2,142	2,142
Reserves	759	1,208	2,234	2,951	3,736
Net Worth	**2,701**	**3,150**	**4,376**	**5,093**	**5,878**
Def. Tax Liability	377	536	691	757	862
Short Term Debt	624	1,162	1,125	1,500	1,650
Long Term Debt	1,317	3,502	5,000	6,650	9,600
Total Debt	**1,941**	**4,664**	**6,125**	**8,150**	**11,250**
Capital Employed	**5,019**	**8,349**	**11,192**	**14,000**	**17,990**
Gross Block	**4,951**	**8,218**	**10,756**	**13,658**	**18,706**
Depreciation	2,523	3,031	3,696	4,546	5,596
Net Fixed Assets	**2,427**	**5,187**	**7,060**	**9,111**	**13,110**
Capital WIP	**515**	**484**	**750**	**951**	**265**
Investments	88	257	266	156	156
Inventories	1,341	1,778	2,092	2,723	3,305
Sundry Debtors	753	289	388	610	716
Other Current Assets	404	490	667	712	608
Cash and Bank	142	287	222	143	249
Current Assets	2,640	2,844	3,370	4,188	4,878
Current Liabilities	–652	–422	–254	–406	–418
Net Current Assets	**1,989**	**2,422**	**3,116**	**3,782**	**4,460**
Total Net Assets	**5,019**	**8,349**	**11,192**	**14,000**	**17,990**

Cash Flow Statement, 2003-08E (Rupees in Millions)

Yr to 31 Mar	Dec-03	FY05 (15m)	FY06E	FY07E	FY08E
Recurring net profit	359	426	566	717	785
Depreciation	405	592	665	850	1,025
Changes in W.Cap	–439	–288	–759	–744	–572
Gross cash flow	324	730	472	822	1,238
Net capex	–658	–3,320	–2,805	–3,102	–4,337
Free cash flow	**–334**	**–2,590**	**–2,332**	**–2,280**	**–3,099**
Net investments	–36	–169	–9	110	0
Other items	208	326	90	–13	211
Net change in Debt	**266**	**2578**	**1526**	**2104**	**2994**
Cash available for div.	103	145	–725	–79	106
Dividends paid	0	0	0	0	0
Equity issued	0	0	660	0	0
Inc/(dec) in net cash	**103**	**145**	**–65**	**–79**	**106**

P/E Band Chart



Key Ratios, 2003-08E

Year to 31 Mar	Dec-03	FY05 (15m)	FY06E	FY07E	FY08E
EPS (Rs)	1.8	2.2	2.6	3.3	3.7
Book value (Rs)	13.9	16.2	20.4	23.8	27.4
Debt/Equity (x)	0.7	1.5	1.4	1.6	1.9
ROCE (%)	11.1	8.8	8.0	8.5	8.2
ROE (%)	13.3	13.5	12.9	14.1	13.4

Key Assumptions, FY06E-08E

Year to 31 Mar	FY06E	FY07E	FY08E
Paper revenues Gr (%)	–13.3	3.4	97.1
Terry Volume Gr. (%)	73.7	36.7	3.4
Terry Realization Gr. (%)	–17.0	–5.0	–1.5
Exports/Total sales (%)	64.9	67.7	61.0
RM cost/sales (%)	42.5	42.5	42.3

Source: Company, Citigroup Investment Research estimates.

Notes

Notes

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2006-AP101