



Alok Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,091	ALOK IN
	REUTERS CODE
S&P CNX: 4,083	ALOK BO
Equity Shares	199.1
52-Week Range	99/54
1,6,12 Rel.Per. (%)	13/-17/-51
M.Cap (Rs. b)	13.8
M.Cap (US\$ b)	0.3

31 January 2007

Neutral

Previous Recommendation: Neutral

Rs69

YEAR	NET SALES	PAT	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/06A	14,188	1,102	5.5	-18.5	12.5	1.2	9.9	7.1	2.1	10.1
3/07E	18,914	1,451	7.3	31.7	9.5	1.1	12.0	7.6	2.0	9.0
3/08E	23,447	2,057	10.3	41.8	6.7	1.0	15.0	10.0	1.6	6.8

* Fully Diluted EPS

- ✍ Alok reported 3QFY07 results in line with our expectations. Revenues increased by 31% YoY to Rs4.8b v/s our expectation of Rs4.8. EBITDA stood at Rs1.07b, up 33% YoY v/s our expectation of Rs1.05b.
- ✍ Revenues grew by 31% YoY to Rs4.8b aided by 69% YoY growth in exports to Rs1.6b. Exports of POY and texturized yarn increased from Rs36m in 3QFY06 to Rs363m in 3QFY07.
- ✍ PAT increased by 26% YoY to Rs371m v/s our expectation of Rs379m. Due to delay in certain projects in phase 3, we expect FY07revenues to be lower by 1.6% YoY to Rs18.9b and PAT to lower by 6% to Rs1.45b.
- ✍ During 3QFY07, phases 1 and 2 of the expansion projects were completed, aggregating Rs12b, with only the spinning and terry towel projects scheduled for completion by March 2007 and September 2007 respectively.
- ✍ The company has also announced plans for setting up a textiles SEZ unit in Silvassa, through a wholly-owned subsidiary for which it has already received in-principle approval from the GoI. In this connection, it has already acquired close to 132 acre of land at Silvassa.
- ✍ The stock is trading at PER of 9.5x FY07 EPS of Rs7.3 and 6.7x FY08 EPS of Rs10.3. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(Rs Million)

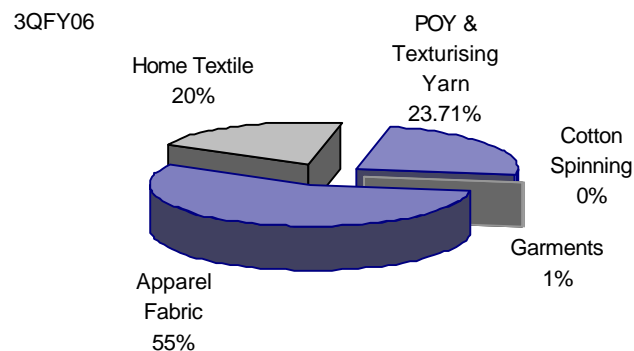
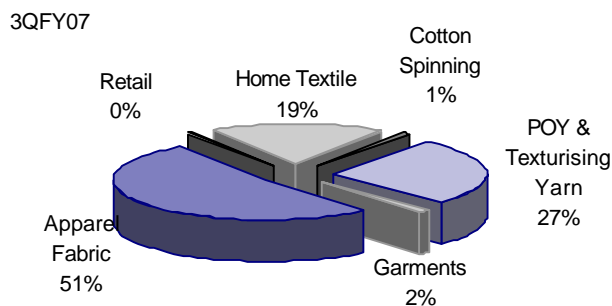
Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	2,992	3,454	3,664	4,077	3,579	4,172	4,799	5,614	14,188	18,164
Change (%)	28.8	23.2	10.7	7.8	19.6	20.8	31.0	37.7	16.1	33.3
Total Expenditure	2,404	2,746	2,854	3,202	2,772	3,204	3,726	4,343	11,226	14,046
EBITDA	588	708	810	876	806	968	1,073	1,271	2,961	4,118
Change (%)	26.9	32.0	31.8	15.8	37.1	36.7	32.5	45.1	24.9	39.0
As % of Sales	19.7	20.5	22.1	21.5	22.5	23.2	22.4	22.6	20.9	22.7
Depreciation	160	184	198	216	246	280	325	349	758	1,200
Interest	166	178	181	173	170	213	242	300	697	925
Other Income	23	7	-28	15	-4	-16	32	52	37	65
PBT	284	353	404	503	386	459	539	674	1,544	2,058
Tax	79	98	109	156	117	132	168	189	442	607
Effective Tax Rate (%)	27.7	27.8	27.0	31.0	28.2	28.9	31.2	28.0	28.6	29.5
Reported PAT	206	255	295	347	269	326	371	485	1,102	1,451
Change (%)	40.6	23.8	18.5	11.8	31.0	28.1	25.7	39.8	21.0	31.7

E: MOSt Estimates

Results in line

Alok reported 3QFY07 results in line with our expectations. Revenues increased by 31% YoY to Rs4.8b v/s our expectation of Rs4.8. EBITDA stood at Rs1.07b, up 33% YoY v/s our expectation of Rs1.05b. Revenues grew by 31% YoY to Rs4.8b aided by 69% YoY growth in exports to Rs1.6b. Exports of POY and texturized yarn increased from Rs36m in 3QFY06 to Rs363m in 3QFY07. PAT increased by 26% YoY to Rs371m v/s our expectation of Rs379m.

REVENUE MIX COMPARISON



Source: Company

Realizations inch up

The table below records Alok’s average realizations for different segments for the nine months ended FY07. Woven apparel fabrics registered a 33% YoY increase to Rs84/meter, while POY realizations were flat at Rs79/kg.

REALIZATIONS ACROSS ALL SEGMENTS FOR 9MFY07

PARTICULARS	UNITS	9MFY07	9MFY06	CHG. %
		AVG. RATE	AVG. RATE	
Apparel Fabrics				
Woven	Rs/Mtr	84	63	33
Knitting	Rs/Kg	150	132	13
Home Textile				
Sets	Rs/Set	898	943	-5
Pieces	Rs/Pcs	362	378	-4
Pair	Rs/Pair	216	182	19
POY & Texturising	Rs/Kg	79	79	0

Source: Company

Potential forex gains of Rs350m-Rs400m in 4QFY07

Management has stated that it is in the process of tying up funds for repayment of ECB loans to the tune of US\$100m (yen-dominated loans) by replacing them by TUF loans, which according to management could lead to forex gains of close to Rs350m-Rs400m (position already hedged). The management expects to account for the entire gain during 4QFY07 or 1QFY08 depending on the date of repayment of the loans.

Key developments in 3QFY07

1) Setting up a SEZ unit

The company has also announced plans to set up a textiles SEZ unit in Silvassa, through a wholly owned subsidiary for which it has already received in-principle approval from GoI. In this connection, it has already acquired close to 132 acre of land at Silvassa. The management has indicated that the cost of the land acquisition for the SEZ unit is just Rs0.8m/acre (total Rs1.1b), while the prevailing land price of non-SEZ land close to the location is Rs6m/acre. It intends to utilize around 30-35 acres of this proposed SEZ unit, for setting up a garment/made-up unit and aims to lease the rest of the land to other manufacturers/producers for setting up production units. It hopes to finance the entire Rs2.5b capex plan (land plus development cost) through internal funding and advances from other potential users of the SEZ. We believe, this initiative if successful could potentially lower tax rates for the company, going forward.

2) Acquisition of 60% stake in Mileta

During 3QFY07, the company acquired 60% stake in Mileta, a company based in the Czech Republic and engaged in manufacture of high-end shirting fabric, bed-linen etc., for a consideration of Euro 14m. The management expects to be able to leverage on the design capabilities of Mileta to further increase product attractiveness for global buyers.

3) Completed phases 1&2 of capex plans

During the quarter, the company completed phase 1 and 11 of the expansion projects aggregating Rs11.8b, with only the spinning and terry towel projects scheduled for completion by March 2007 and September 2007 respectively.

Lowering estimates for FY07

Due to the delay of some projects in phase 3, we expect

revenues for FY07 to be lower by 1.6% YoY to Rs18.9b and PAT to be lower by 6% to Rs1.45b.

REVISED ESTIMATES (RS M)

	OLD	NEW	% CHG
Revenues	19,214	18,914	-1.6
PAT	1,543	1,451	-6.0

Source: Motilal Oswal Securities

Valuations

The stock trades at a PER of 9.5x FY07 EPS of Rs7.3 and 6.7x FY08 EPS of Rs10.3. We believe the company's ambitious capex plans are likely to keep it in a phase of negative free cash flow for the next few years. This coupled with the fact that the company has huge net debt of close to Rs24b (debt/equity ratio of 1.9x) are likely to limit near term upside. Maintain **Neutral**.

STATUS OF CAPEX

CAPACITY	UNIT	CAPACITY UNDER PHASE I & II	EXPECTED DATE OF COMMENCEMENT	CAPACITIES UNDER PHASE III*	CAPACITIES POST ALL EXPANSIONS
Spinning					
Ring Frame	TPA	5,250	Dec-06	15,000	20,250
Open End	TPA	1830	Dec-06	-	1,830
Home Textile					
Wider Width Weaving	M mtrs.	45.2	Completed	24.8	70
Wider Width Woven Processing	M mtrs.	60	Completed	22.5	82.5
(equivalent sheet sets)	M sets	-10		-3.75	-13.75
Terry Towels	TPA	6700	Jun-07	-	6,700
Apparel Fabrics					
Apparel Width Weaving	M mtrs.	57.5	Completed	25	82.5
Apparel Width Woven Processing	M mtrs.	82.5	Completed	-	82.5
Knitting	TPA	1,600	Nov-06	-	16,800
Knit Processing	TPA	1,500	Nov-06	-	16,800
Yarn Dyeing	TPA	3,000	Completed	-	3,000
Garments					
	M pcs.	8	Dec-06	7	15
Texturising					
POY	TPA	85,000	Dec-06	-	85,000
	TPA	-	Nov-06	-	47,000

*Note: All capacities under phase III will be set up by March 2008 in a phased manner.

Alok Industries: an investment profile

Company description

Alok Industries has one of the most modern and technologically advanced plants in India. It has integrated facilities from fabric, texturised yarn, knitting and processing to home textiles and garmenting. It plans to focus on the home textiles business, which will throw up tremendous opportunities, post-quotas. It has already established relationships with large global retailers and brands.

Key investment arguments

- ✍ Focusing on Home Textiles (made-ups) for growth ahead.
- ✍ Has a large customer base of international retailers and Indian garment exporters including DKNY, Tommy Hilfiger, Britannica and Federated Merchandising Group.
- ✍ Has large capacities across the entire textile chain from fabrics to made-ups and is set to witness strong growth across all its product lines.

Key investment risks

- ✍ Texturising, which is a very low-margin activity, accounts for almost one-thirds of its business.
- ✍ Unabated capex, high leverage and frequent equity dilution.

Recent developments

- ✍ Low-margin trading business declining steadily over the last couple of quarters.
- ✍ In 1QFY07, Alok signed an MoU with Teviz Textile Vizela SA (Teviz), a European manufacturer of high-end yarn dyed flannel shirting.
- ✍ During 2QFY07, Alok acquired 60% stake in Mileta International (Mileta) at a cost of €13.96m.

Valuation and view

- ✍ Alok's revenues and net profit are expected to witness 22% and 33% CAGR respectively over FY07-FY09.
- ✍ Margins are likely to expand from 20.9% in FY06 to 23.6% in FY08. The stock is trading at PER of 9.5x FY07 EPS of Rs7.3 and 6.7x FY08 EPS of Rs10.3. Maintain **Neutral**.

Sector view

- ✍ Exports from China are likely to be severely constrained due to safeguard measures imposed by the US and EU.
- ✍ India registered robust export growth rates to the US and EU in the post-quota era.
- ✍ Global buyers are focusing on building vendor partners that have high product development skills.

COMPARATIVE VALUATIONS

		ALOK IND	WELSPUN	RAYMOND
P/E (x)	FY07E	9.5	14.5	13.6
	FY08E	6.7	11.6	11.3
P/BV (x)	FY07E	1.1	2.6	1.7
	FY08E	1.0	2.2	1.6
EV/Sales (x)	FY07E	2.0	1.0	1.3
	FY08E	1.6	0.8	1.2
EV/EBITDA (x)	FY07E	9.0	9.3	8.7
	FY08E	6.8	7.7	7.2

SHAREHOLDING PATTERN (%)

	DEC.06	SEP.06	DEC.05
Promoter	28.9	28.7	28.3
Domestic Inst	23.2	22.6	21.8
Foreign	37.8	8.7	28.0
Others	10.2	40.0	21.9

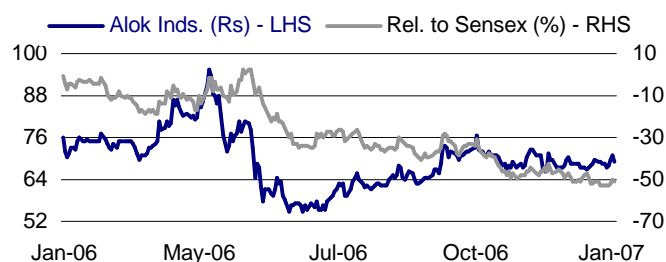
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	7.3	8.3	-12.0
FY08	10.3	10.7	-4.0

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
69	-	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Net Sales	12,217	14,188	18,914	23,447	27,973	
Change (%)	14.3	16.1	33.3	24.0	19.3	
Total Expenditure	9,807	11,226	14,796	17,921	21,354	
EBITDA	2,370	2,961	4,118	5,526	6,619	
Change (%)	11.7	24.9	39.0	34.2	19.8	
% of Net Sales	19.4	20.9	21.8	23.6	23.7	
Depreciation	551	758	1,200	1,538	1,790	
EBIT	1,819	2,204	2,918	3,988	4,829	
Interest & Finance Charges	632	697	925	955	1,048	
Other Income	39	37	65	65	85	
PBT	1,227	1,544	2,058	3,098	3,866	
Tax	316	442	607	1,041	1,300	
Effective Rate (%)	25.8	28.6	29.5	33.6	33.6	
Reported PAT	910	1,102	1,451	2,057	2,566	
Change (%)	28.1	21.0	31.7	41.8	24.8	
Adjusted PAT	910	1,102	1,451	2,057	2,566	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Equity Capital	1,340	1,991	1,991	1,991	1,991	
Share Capital	2,239	2,141	1,991	1,991	1,991	
Reserves	4,845	9,137	10,134	11,737	13,848	
Net Worth	7,084	11,278	12,125	13,728	15,839	
Loans	12,637	18,728	24,778	24,403	24,803	
Deferred Tax Liability	725	1,048	1,351	1,872	2,521	
Capital Employed	20,446	31,054	38,254	40,002	43,163	
Gross Fixed Assets	13,229	21,079	28,579	31,979	34,979	
Less: Depreciation	1,661	2,417	3,617	5,155	6,945	
Net Fixed Assets	11,567	18,661	24,961	26,823	28,033	
Capital WIP	0	0	0	0	1	
Investments	86	750	750	750	751	
Curr. Assets	10,294	13,746	14,856	15,350	17,966	
Inventory	3,564	4,803	5,270	6,137	7,313	
Sundry Debtors	3,676	4,426	5,596	6,745	7,894	
Cash & Bank Balances	1,894	2,777	1,466	323	400	
Loans & Advances & Other C	1,160	1,740	2,523	2,145	2,359	
Current Liab. & Prov.	1,502	2,103	2,313	2,921	3,588	
Sundry Creditors	1,455	2,027	2,104	2,649	3,182	
Other Liabilities	0	0	0	0	0	
Provisions	47	76	209	272	407	
Net Current Assets	8,792	11,643	12,542	12,429	14,378	
Application of Funds	20,446	31,054	38,254	40,002	43,163	

E: Most Estimates

RATIOS						
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Basic (Rs)						
EPS	6.8	5.5	7.3	10.3	12.9	
Cash EPS	8.4	11.0	14.8	20.7	25.1	
Book Value per Share	46.2	55.9	60.9	68.9	79.6	
DPS	10	10	2.0	2.0	3.0	
Payout (Incl. Div. Tax) %	18.1	13.9	12.0	0.0	0.0	
Valuation (x)						
P/E		12.5	9.5	6.7	5.4	
Cash P/E		6.3	4.7	3.3	2.8	
EV/EBITDA		10.1	9.0	6.8	5.8	
EV/Sales		2.1	2.0	1.6	1.4	
Price to Book Value		12	1.1	1.0	0.9	
Dividend Yield (%)		14	2.9	2.9	4.3	
Profitability Ratios (%)						
RoE	14.7	9.9	12.0	15.0	16.2	
RoCE	8.9	7.1	7.6	10.0	11.2	
Turnover Ratios						
Debtors (Days)	110	114	108	105	103	
Inventory (Days)	68	70	70	70	70	
Creditors (Days)	68	70	70	70	70	
Working Capital (Days)	263	300	242	193	188	
Asset Turnover (x)	0.6	0.5	0.5	0.6	0.6	
Fixed Asset Turnover (x)	0.9	0.7	0.7	0.7	0.8	
Leverage Ratio						
Debt/Equity (x)	19	17	2.0	1.8	1.6	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
PBT before EO Items	1,227	1,544	2,058	3,098	3,866	
Add : Depreciation	551	758	1,200	1,538	1,790	
Less : Direct Taxes Paid	96	138	304	520	650	
Inc/Dec in WC	1,505	1,967	2,210	1,030	1,872	
CF from operations	177	196	744	3,086	3,134	
CF from Op. incl. EO	177	196	744	3,086	3,134	
(Inc)/dec in FA	-6,320	-7,850	-7,500	-3,400	-3,000	
(Pur)/Sale of Investments	-45	-664	0	0	0	
CF from Investments	-6,366	-8,514	-7,500	-3,400	-3,000	
Inc/Dec in Networth	2,210	3,337	0	0	0	
Inc/Dec in Debt	4,453	6,092	5,900	-376	397	
Less: Dividend Paid	153	227	454	454	454	
CF from Fin. Activity	6,510	9,202	5,446	-830	-57	
Inc/Dec of Cash	321	884	-1,310	-1,144	77	
Add: Beginning Balance	1,573	1,894	2,777	1,466	323	
Closing Balance	1,894	2,777	1,467	322	400	



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Disclosure of Interest Statement

Alok Industries

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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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