



BOMBAY RAYON FASHIONS LIMITED (BRFL)

Textiles

CMP: Rs 210

Target: Rs 325

STRONG BUY

Key Market Data

BSE Sensex	14,249
Nifty	4,153
Bloomberg Code	BRFL IN
Reuters Code	BRFL.BO
BSE Code	532678
NSE Code	BRFL
Face Value (INR)	10
Free Float	56.6%
Market Cap (INR MM)	13230
52 Week High / Low (INR)	279/140
Avg Daily Volume (6 mth)	394,801

Key Financials

INR MM

Yr Ending : Mar	FY07	FY08E	FY09E
Net Sales	4,893	10,240	15,000
Total Expenses	3,974	8,244	11,926
EBITDA	919	1,996	3,074
Oper. Margin	18.8%	19.5%	20.5%
Interest	130.2	216.0	303.8
Depreciation	104.5	204.8	272.0
Net Profit	544	1,206	1,853
Equity	630	691	691
EPS	8.6	17.5	26.8
P/E		12	7.8
EV/EBITDA		10	6.9
MCap/Sales		1.4	1.0
MCap/EBITDA		7.3	4.7
Book Value	78.6	83.1	92.2
Price/Book Val		2.5	2.3
ROA	6.6%	10.8%	14.1%
ROCE	10.7%	17.0%	22.1%

(Projections exclude Leela Laces & DPJ Clothing)

Shareholding Pattern

As on June 30, 07	%
Promoters	43.4
Institutional Investors	32.9
Public & Others	23.7

About the Company

Bombay Rayon Fashions Limited (BRFL), the biggest manufacturer of shirts in India has emerged as one of the fastest growing garment companies in the Indian textile industry. It also manufactures a wide range of fabrics.

Investment Rationale

- The eleventh five year plan (2007-12), aims to increase the size of the *Indian textile industry* by 16% to **US\$ 115 billion**. Exports are projected to surge from US\$17.1 bn to **US\$60 bn by 2012(E)**.
- In last three years (FY05-07), BRFL has expanded its *garment* producing capacity from 1.09 mn pieces p.a to **19.2 mn pieces p.a**, and its fabric making capacity from 7.06 mn mtrs p.a to **50 mn mtrs p.a**. This has led to a **CAGR of 117% in revenues** during the period.
- BRFL's foray into the export markets (UK and USA) has been remarkable with *exports* rising from Rs 39.9 mn to Rs **2134.1 mn** in last 3 years. This is largely on the back of its *quality* and a *quick lead time* of 30 days.
- BRFL is further scaling up by *increasing its garments manufacturing capacity* by 2.25 times to **45 mn pieces p.a** and its *fabric manufacturing capacity* by 2.4 times to **120 mn meters p.a by Q3FY09**. This would help in sustaining the robust revenue growth.
- Post expansion, the *contribution of garments* would increase to **70%** of the total revenues as against 40% in FY07. Thus, the product mix would also tilt in favor of garments, which provide *better margins* compared to fabrics. This would ensure an improvement in margins.
- BRFL's *flexible production facilities* are capable of manufacturing a range of fabrics like cotton, nylon, polyester etc. This helps in *altering the product mix* in line with the changing trends in textile industry.

Risks

Delay in execution of the expansion plans, unfavorable INR/USD move and volatility in input costs can have an impact upon the prospects of BRFL.

Valuation

At **Rs210**, BRFL's projected FY09 EPS of **Rs 26.8** is discounted **7.8x**. We recommend a **BUY** with a target of **Rs325** by **Dec 08**. The fundamentals would look even better if the acquisitions are taken into account.

***Bombay Rayon Fashions Limited – Tailored to grow!***

The Indian textile industry which contributes 14% to the industrial production, 4% to the GDP and over 16% to India's export earnings is all set to witness an accelerated growth. Buoyancy in Indian economy, rising disposable income, revolution in organized retailing and the abolition of quotas has opened up a plethora of opportunities for the sector. Investments in the sector in past three years have increased from Rs 116 billion to Rs 310 billion. This is further expected to increase to Rs 1,506 billion by 2012.

The Government has also initiated certain measures for facilitating the growth of the sector. These include higher allocation for the sector, rationalization of duties and extension up of the Technology Upgradation Fund Scheme benefits, to list a few.

The eleventh five year plan (2007-12), intends to increase the size of the Indian textile industry by 16% to US\$ 115 billion comprising of US\$ 55 billion of exports and US\$ 60 billion domestic market.

Textile exports	2005	2006	2007E	2012E
In Rs billion	US\$14 bn	US\$17.1 bn	US\$19.7 bn	US\$60 bn

Thus, while the growth prospects are immense, the critical success factors that would enable a company to capitalize on the opportunities include adequate availability of inputs like cotton and man made fibers, availability of skilled labour at low costs, adherence to stringent norms of timely delivery and quality of the product.

One company that scores on all such parameters is Bombay Rayon Fashions Limited (BRFL), the biggest manufacturer of shirts in India. Driven by the vision to be a complete fashion apparel company, BRFL is all set to witness an exponential growth. For FY07-09(E), revenues are estimated to grow at a CAGR of 75% and net profits are expected to register a CAGR of 84%.

Promoted by Mr. Janardan Agrawal, it was incorporated in 1986. The company is into the manufacturing of garments (mainly shirts) and fabrics. Currently, fabrics contribute 60% of the turnover, while 40% is contributed by garments. While garments are exported to the major players in UK and USA; fabrics are sold to other garment manufacturers, wholesalers, exporters, traders etc. The manufacturing facilities are located at Navi Mumbai, Thane, Silvassa and Bangalore.

INVESTMENT RATIONALE***On a fast growth track***

BRFL has emerged as one of the fastest growing companies in the Indian textile industry by expanding its capacity in both garments and fabrics. It has expanded its garment manufacturing capacity from 1.09 mn pieces p.a in March 05 to around 19.20 mn pieces p.a. in March 07, making it the largest player in shirt manufacturing in India. Simultaneously, fabric manufacturing capacity has increased from 7.06 mn mtrs p.a to 50.00 mn mtrs p.a during the period.

Installed Capacity	March 05	March 06	March 07	CAGR
Garments (mn pcs)	1.09	12.00	19.20	318.6%
Fabrics (mn mtrs)	7.06	11.20	50.00	166.1%

This has driven a robust growth in revenues. Net sales have risen from Rs 1038.8 million to Rs 4893.8 million during FY05-FY07, implying a CAGR of 117%.



Changing product mix in favour of garments – To yield better margins

Post expansion of its garments capacity by nearly 18 times in last 3 years, the contribution of garments has increased to 40% of the turnover compared to below 10% in FY05. Also, since garments enjoy better margins compared to fabrics, the rising contribution of garments has enabled a steep rise in operating margins to 18.8% in FY07 as against 11% in FY05. Going forward too, the product mix would further tilt in favour of garments and by 2010, garments would account for 70% of the revenues. This would enable BRFL to sustain a healthy growth in operating margins.

Flexible and Integrated facilities – Leading to operational efficiencies

BRFL has integrated manufacturing facilities comprising of yarn dyeing, weaving, grey fabric processing, manufacturing of garments and packaging. Moreover, it has flexible production facilities through which it is able to produce a range of fabrics like cotton, nylon, polyester etc. Besides processing, BRFL is also strong in designing of fabrics and garments. The company has a library of over 1,000 designs which are updated regularly. This makes BRFL better equipped to alter the product mix to match the changing trends in the textile industry. Presence in fabrics and garments provide BRFL the benefits of vertical integration. While most of the garment manufacturers out source their fabric requirements, BRFL manufactures the fabric in house giving it an edge over competition.

Successful foray in the export markets

Having established itself as a leading garment manufacturer in India, BRFL has also made successful foray in the overseas markets of UK and USA, wherein it enjoys a strong relationship with the top retailers for its garments business. Globally, the size of the textile industry is pegged at US\$ 500 billion. Quality and more importantly timely delivery is the most critical factor facilitating the entry into export markets. BRFL scores on both the parameters. BRFL's focus on quality and design has made its products well accepted abroad. Meanwhile, due to integrated facilities, the company provides the quickest lead time of 30 days which fetches it premium in pricing. BRFL's success in the exports can be gauged by the rapid growth that it has achieved in recent years. Exports have surged from Rs 39.9 million in FY05 to Rs 2,134.1 million in FY07. The company has also adopted a de risked policy which entails a diversified client base. The top 10 clients account for 65% of the export turnover.

Growth-even inorganically

In July 2007, BRFL acquired Leela Scottish Laces, a part of the Leela Group. The company is engaged in the manufacturing of garments and has a capacity of 12 mn pieces p.a. It exports its garments to USA and Wal-Mart is the biggest client. Unlike BRFL, it manufactures both tops and bottoms and thus complements BRFL's product range. The company was acquired for Rs 1,550 million and has a turnover of Rs 4,000 million. Since the acquisition is completed in August 2007, Leela's contribution to the consolidated turnover would be Rs 2,000 million equivalent to its seven months sales. Earlier, in February 2007, BRFL acquired UK based DPJ Clothing Limited, a wholesale marketing and distribution company for a consideration of US\$ 2.90 million. DPJ is currently working with various retail fabric chains facilitating the outsourcing of fabrics and garments. Through this acquisition, BRFL will be able to expand its customer base in the European region for its designer garments and also get an opportunity for outsourcing and distributing products in UK. The impact of the above acquisitions has not been considered in our projections.

***Excellent future prospects to sustain the growth momentum***

While the past performance is excellent, the future is equally promising. After increasing its capacities rapidly in last 3 years, the company is further scaling up its operations by doubling its capacities in the next 12-15 months. BRFL is augmenting its garment manufacturing capacity by 2.25 times to 45 mn pieces p.a and its fabric manufacturing capacity by 2.4 times to 120 mn metres p.a by Q3FY09. This will enable the company to maintain the pace of growth witnessed earlier. The cost of the project is Rs 3,520 million and would be funded by equity of Rs 1,240 million and a debt component of Rs 2,280 million. The term loan is obtained under TUF scheme, entitling BRFL an interest subsidy of 5% and capital subsidy of 10% on the total investment in processing machineries. In FY07, BRFL has raised Rs 2944.3 million through QIP's by allotting 140.2 million shares at a premium of Rs 200 per share to FII's, MF's and banks. BRFL has also raised Rs 1,262.7 million by allotting 6.1 mn warrants to promoters at Rs207 per warrant which are convertible into equal number of shares before June 18, 2008.

RISKS & CONCERNS

Delay in execution of the expansion plans, unfavorable INR/USD move and volatility in input costs can have an impact upon the prospects of BRFL.

VALUATION

At the current price of **Rs 210**, BRFL's projected EPS (FY09) of **Rs 26.8** is discounted **7.8x**. We recommend a BUY with a price target of Rs 325 by December 2008. The fundamentals would look even better if one takes into account the benefits from the acquisition of Leela Scottish Laces and DPJ Clothing Limited. An update on this shall follow in due course, as and when the company declares the consolidated figures.



Annexure: 1

BOMBAY RAYON FASHIONS LIMITED-PROFIT & LOSS ACCOUNT STATEMENT								
(In Rs mm)	FY06	Var %	FY07	Var %	FY08E	Var %	FY09E	Var %
Net sales	1989.8	-2.90%	4893.8	145.9%	10240	109.2%	15000.0	46.5%
Total Inc.	2003.5	-2.80%	4964.7	147.8%	10340	108.3%	15100.0	46.0%
Cons of raw material	1122.8	-9.30%	3009	168.0%	6635.5	120.5%	9720.0	46.5%
(% of net sales)	56.4%		61.5%		64.8%		64.8%	
Staff costs	101.8	12.20%	326.9	221.1%	583.7	78.6%	855.0	46.5%
(% of net sales)	5.1%		6.7%		5.7%		5.7%	
Other expenditure	429.7	15.60%	637.6	48.4%	1024.0	60.6%	1350.0	31.8%
(% of net sales)	21.6%		13.0%		10.0%		9.0%	
Total expenditure	1654.9	-6.7%	3974.2	140.1%	8243.9	107.4%	11925.7	44.7%
PBDIT (Ops)	334.9	45.9%	919.6	174.6%	1996.1	117.1%	3074.3	54.0%
(% of net sls)	16.8%		18.8%		19.5%		20.5%	
Interest	64.5	-22.20%	130.2	101.9%	216.0	65.9%	303.8	40.6%
PBDT (Ops)	270.4	67.8%	789.4	192.0%	1780.1	125.5%	2770.5	55.6%
(% of net sls)	13.6%		16.1%		17.4%		18.5%	
Depreciation	29.5	-2.10%	104.5	254.2%	204.8	96.0%	272.0	32.8%
PBT (Ops)	240.9	118.70%	684.9	184.3%	1575.3	130.0%	2498.5	58.6%
(% of net sls)	12.1%		14.0%		15.4%		16.7%	
Other income	13.7	4.70%	70.9	417.5%	100.0	41.0%	100.0	0.0%
PBT	254.6	95.10%	755.8	196.9%	1675.3	121.7%	2598.5	55.1%
Tax	72.8		211.8		469.0	121.4%	744.7	58.8%
(% of PBT)	28.6%		28.0%		28.0%		28.7%	
PAT	181.8	35.70%	544.0	199.3%	1206.3	121.7%	1853.8	53.7%
Equity	489.8		630		691		691	
EPS	3.7		8.6		17.5		26.8	
Cash EPS	4.3		10.3		20.4		30.8	
EBDITA per share	6.8		14.6		28.9		44.5	



Annexure 2

BOMBAY RAYON FASHIONS LIMITED QUARTERLY PERFORMANCE									
Description (Rs mm)	Jun-07	Var %	Mar-07	Var %	Dec-06	Var %	Sep-06	Var %	Jun-06
Net Sales	2012.5	16.1%	1732.8	31.7%	1316.2	27.5%	1032.6	27.1%	812.3
Total Income	2052.3	15.5%	1776.5	33.8%	1327.6	27.0%	1045.4	28.2%	815.4
Cons. of Raw Material	1303.1	18.4%	1101.0	38.2%	796.4	27.7%	623.8	27.9%	487.8
(% of Net Sales)	64.8%		63.5%		60.5%		60.4%		60.1%
Staff costs	115.2	43.6%	80.2	-10.7%	89.8	-0.8%	90.5	36.3%	66.4
(% of Net Sales)	5.7%		4.6%		6.8%		8.8%		8.2%
- Other Expenditure	198.5	-23.4%	259.0	66.6%	155.5	30.9%	118.8	13.3%	104.9
(% of Net Sales)	9.9%		14.9%		11.8%		11.5%		12.9%
Total Expenditure	1616.8	12.3%	1440.2	38.3%	1041.7	25.0%	833.1	26.4%	659.1
PBDIT (Ops)	395.7	35.2%	292.6	6.6%	274.5	37.6%	199.5	30.2%	153.2
(% of Net Sales)	19.7%		16.9%		20.9%		19.3%		18.9%
Interest	54.0	49.2%	36.2	-15.0%	42.6	37.4%	31.0	52.0%	20.4
PBDT (Ops)	341.7	33.3%	256.4	10.6%	231.9	37.6%	168.5	26.9%	132.8
(% of Net Sales)	17%		15%		18%		16%		16%
Depreciation	64.5	52.8%	42.2	20.2%	35.1	140.4%	14.6	15.9%	12.6
PBT (Ops)	277.2	29.4%	214.2	8.8%	196.8	27.9%	153.9	28.0%	120.2
(% of Net Sales)	14%		12%		15%		15%		15%
Other Income	39.8	-8.9%	43.7	283.3%	11.4	-10.9%	12.8	312.9%	3.1
PBT	317.0	22.9%	257.9	23.9%	208.2	24.9%	166.7	35.2%	123.3
Tax	96.5	127.6%	42.4	-39.9%	70.6	26.3%	55.9	30.0%	43.0
(% of PBT)	30.4%		16.4%		33.9%		33.5%		34.9%
Profit after Tax	220.5	2.3%	215.5	56.6%	137.6	24.2%	110.8	38.0%	80.3
(% of Net Sales)	11.0%		12.4%		10.5%		10.7%		9.9%
Equity Capital	630		630		489.8		489.8		489.8
EPS	3.50		3.42		2.81		2.26		1.64
EPS Published	3.50		3.50		3.50		3.50		3.50
EBITDA per Share	6.28		4.64		5.60		4.07		3.13



Annexure : 3

BOMBAY RAYON FASHIONS LIMITED - BALANCE SHEET				
Rs in Mn (Mar year-ending)	FY06	FY07	FY08(E)	FY09(E)
I.SOURCES OF FUNDS				
Share capital	489.8	630.0	691.0	691.0
Reserves	1043.8	4326.3	5051.8	5683.6
	1533.6	4956.3	5742.8	6374.6
Loan funds:				
Secured	841.1	3195.6	5225.0	6500.0
Unsecured	108.8	138.9	175.0	250.0
	949.9	3334.5	5400.0	6750.0
Deferred tax liability	0.0	0.0	0.0	0.0
Total	2483.5	8290.8	11142.8	13124.6
II.APPLICATION OF FUNDS				
I) Fixed Assets				
Gross block	783.9	3256.4	5120.0	6800.0
Less: Acc. Deprn.	96.9	196.9	401.7	673.7
Net block	687.0	3059.5	4718.3	6126.3
Capital WIP	515.2	480.6	400.0	500.0
Miscellaneous exp.	0.0	0.0	0.0	0.0
Investments	100.1	1357.7	1737.7	1737.7
CA, loans & advances:				
Inventories	833.5	1751.1	3132.6	4293.2
S. debtors	346.2	1020.0	1843.2	2400.0
Cash & Bank	117.1	772.6	826.7	933.9
Loans & Advances	288.2	734.7	1031.8	1212.5
Others	0.0	0.0	0.0	0.0
Total CA	1585.0	4278.4	6834.3	8839.6
Less:				
CL & Provisions				
Liabilities	302.9	650.8	1676.1	2727.2
Provisions	86.0	100.5	722.5	1202.9
Total CL	388.9	751.3	2398.6	3930.1
Net CA	1196.1	3527.1	4435.7	4909.5
Net deferred tax	-14.9	-134.1	-148.9	-148.9
Total	2483.5	8290.8	11142.8	13124.6



Annexure: 4

BOMBAY RAYON FASHIONS LIMITED - CASH FLOW STATEMENT				
<i>Cash Flow Statement (In Rs mm)</i>	FY06	FY07	FY08(E)	FY09(E)
(Mar -year ending)				
<i>Inflows</i>				
Profit before tax	254.6	755.9	1675.4	2598.6
Depreciation	29.5	104.5	204.8	272.0
less:				
Tax Payout	72.8	211.8	469.0	744.7
Operating cashflow	211.3	648.6	1411.2	2125.9
Increase in Equity share capital	160.2	140.2	61.0	0.0
Increase in Preference share capital	0.0	0.0	0.0	0.0
Increase in share premium	788.4	2830.5	0.1	0.0
Increase in other reserves	126.0	452.0	725.4	631.8
Less: PAT	181.8	544.1	1206.4	1853.9
Increase in loans	677.4	2384.6	2065.5	1350.0
Financing Cashflow	1570.2	5263.2	1645.6	127.9
Total inflows	1781.5	5911.8	3056.8	2253.8
<i>Outflows</i>				
<i>Working capital changes</i>				
Increase in Debtors	138.1	673.8	823.2	556.8
Increase in Inventories	449.5	917.6	1381.5	1160.6
Increase in Loans and advances	203.8	446.5	297.1	180.7
Increase in other CA's	0.0	0.0	0.0	0.0
Less:				
Increas in current liabilities	85.9	347.9	1025.3	1051.1
Increase in Provisions	53.7	14.5	622.0	480.4
Increase in Working Capital	651.8	1675.5	854.5	366.6
<i>Increase in Investments</i>	89.0	1257.6	380.0	0.0
Increase in Gross Block	462.8	2477.0	1863.6	1680.0
Increase in Capital WIP	473.2	-34.6	-80.6	100.0
Increase in misc expenditure	-3.7	-119.2	-14.8	0.0
Increas in Cash Balance	108.4	655.5	54.1	107.2
Total Outflows	1781.5	5911.8	3056.8	2253.8



Annexure : 5

BOMBAY RAYON FASHIONS LIMITED - KEY RATIOS				
(Mar- Year ending)	FY06	FY07	FY08(E)	FY09(E)
Liquidity Ratios				
Current Ratio	4.1	5.7	2.8	2.2
Acid Test Ratio	3.8	4.7	2.5	2.0
Cash Ratio	0.1	0.2	0.1	0.1
Leverage Ratios				
Debt: Equity	0.6	0.7	0.9	1.1
Debt : Asset	0.4	0.4	0.5	0.5
Interest Coverage Ratio	2.0	4.2	6.1	7.3
Turnover Ratios				
Inventory Turnover	2.0	2.3	2.6	2.8
Debtors Turnover	5.7	4.8	5.6	6.3
Sales: Gross fixed assets	2.5	1.5	2.0	2.2
Working Capital turnover	1.7	1.4	2.3	3.1
Raw material: Sales	56.4%	61.5%	64.8%	64.8%
Labour (Staff) : Sales	5.1%	6.7%	5.7%	5.7%
Profitability Ratios				
Operating Margin	16.8%	18.8%	19.5%	20.5%
Net Profit Margin	9.1%	11.1%	11.8%	12.4%
ROA	7.3%	6.6%	10.8%	14.1%
ROE	11.9%	11.0%	21.0%	29.1%
ROCE	12.8%	10.7%	17.0%	22.1%
EPS Growth		132.7%	102.1%	53.7%
Valuation Ratios				
P/E			12.0	7.8
EV : Sales			1.9	1.4
EV : EBIDTA			10.0	6.9
Market Cap : Sales			1.4	1.0
Market Cap : EBIDTA			7.3	4.7
Price : Book Value			2.5	2.3
Price : Cash earnings			10.3	6.8

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