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1QFY07 RESULT REVIEW

August 7, 2006

Alps Industries Ltd. (Rs.91) — Buy

Mkt. Cap. : Rs.1.5 bn	Free Float: 75%	Sensex: 10866.51	Sector: Textiles

Table 1: 1QFY07 Result Snapshot

Year to March (Rs mn)	1QFY07	1QFY06	YoY (%)	FY06	FY07P	YoY (%)	FY08P	YoY (%)
Net Sales	**931**	**521**	**79**	**2630**	**4362**	**66**	**6542**	**50**
Consumption of raw materials	614	344	**79**	1744	2900	**66**	4330	**49**
as % sales	36.9	66.0		66.3	66.5		66.2	
Staff Cost	21	11	**94**	44	96	**118**	130	**35**
as % sales	1.2	2.1		1.7	2.2		2.0	
Other expenditure	146	83	**76**	428	616	**44**	930	**51**
as % sales	8.9	15.9		16.3	14.1		14.2	
Total Expenses	**781**	**438**	**78**	**2216**	**3612**	**63**	**5390**	**49**
Operating Profit	**150**	**84**	**79**	**414**	**750**	**81**	**1152**	**54**
OPM %	16.1	16.1		15.7	17.2		17.6	
Total other income	0	0	**33**	2	4	**111**	5	**25**
EBDITA	**151**	**84**	**79**	**416**	**754**	**81**	**1157**	**53**
EBDITA %	16.2	16.1		15.8	17.3		17.7	
Interest	42	18	**139**	85	140	**65**	200	**43**
Depreciation	30	17	**81**	68	190	**178**	240	**26**
PBT	**79**	**50**	**57**	**263**	**424**	**61**	**717**	**69**
Taxes	8	5		19	28	**51**	50	**79**
PAT	**71**	**45**	**58**	**244**	**396**	**62**	**667**	**69**
PAT %	**7.6**	**8.6**		**9.3**	**9.1**		**10.2**	
Equity share capital (Rs mn)	163	67		163	163		163	
EPS (Rs)	**4.4**	**6.7**	**-35**	**15.0**	**24.4**		**41.0**	**69**
P/E (x)				**6.1**	**3.7**		**2.2**	

Source: Company/UTISEC Research

Additional spinning capacity drives Alps Industries' 1QFY07 revenues up by 79%

Alps Industries (AIL) 1QFY07 are up by 79% largely backed by higher spinning capacity. The company's Jaspur spinning unit of 15 TPD went on-stream during the quarter taking the total yarn sales to Rs.275 mn compared to Rs.187 mn in 4QFY06.

Operating profit increases by 79% but operating margin is flat

AIL's operating profit rose by 79%, however margins remained flat at 16.1% owing to increase in expenses corresponding to increasing sales.

Net Profit After Tax rises by 51%; however net margin falls…

Profit After Tax increased by 51%, however net margin fell by 100bps. Interest and depreciation increased due to the ongoing expansion plans of the company.

Dividend

The company has announced a dividend of 7.5% for all existing shareholders including GDR holders.

SEGMENTAL ANALYSIS

Table 2: Segment Break-up

Year to 31st March	1QFY07	1QFY06	*YoY %*	FY06
Revenues (Rs mn)				
Home Furnishings & Fashion Accessories	578	467	*24*	2125
Yarn*	275			229
Architectural Products	77	51	*50*	276
Revenue Constituents				
Home Furnishings & Fashion Accessories	62	90		81
Yarn	30			9
Architectural Products	8	10		10
PBDIT				
Home Furnishings & Fashion Accessories	81	61	*33*	288
Yarn	31			25
Architectural Products	9	6	*50*	33
PBDIT Constituents				
Home Furnishings & Fashion Accessories	67	91		83
Yarn	25			7
Architectural Products	8	9		10
PBDIT Margins				
Home Furnishings & Fashion Accessories	14	13		14
Yarn	11			11
Architectural Products	12	12		12

Source: Company

Note: AIL has started reporting "Yarn" as a separate segment only since 3QFY06. Hence previous year comparable figures are not available.

The yarn division has grown to 30% of sales compared to 22% in the last quarter. Consequently, the share of the home furnishings division, which has risen by 24% over last year is down to 62%. The architectural products division has grown substantially by 50% albeit on a lower base. Profit margins in the home furnishings segment have improved by 90bps, from 13.1% to 14%.

Change in expansion plans

AIL had previously chalked out a Rs.2500mn expansion plan for setting up a 30 TPD terry towels capacity. However considering the current scenario in the terry towels segment wherein even top players are facing lower realisations & margin pressures, AIL has instead planned to infuse funds in further expanding its spinning capacity by 58 TPD (58% increase over the current capacity) at Haridwar and setting up of a furnishing fabric capacity of 8 mn mtrs at Sahibabad. For this purpose, the company intends to set up an additional 63600 spindles and 32 Jacquard looms. Jacquard fabric fetches much higher realisations than the traditional home furnishing fabric that the company is producing. We have assumed a base realisation of Rs.150/mtr for Jacquard. The capacities are expected to be commissioned by March 2007. AIL intends to fund the plan through term loans (Rs.2950mn), GDR proceeds (Rs. 900 mn) and the balance through internal accruals.

Consequent to this change, we are revising our FY08 topline estimates by 3.6% and bottomline by 13.4% downwards. However our FY07 will remain the same as the erstwhile terry towels capacity was expected to contribute to revenues only by FY08. Our estimates stand changed as given below:

Rs. In mn	FY08P (New)	FY08P (Old)	% Change
Net Sales	6542	6789	-3.6
Operating Profit	1152	1216	-5.2
Profit After Tax	667	771	-13.4
EPS	41.0	47.4	-13.5

VALUATION

Our revised estimates result in an EPS of Rs.41.0 for FY08, 13.5% lower than our previous estimate of Rs.47.4. At CMP, the stock is trading at 3.7x and 2.2x FY07P and FY08P earnings respectively, at less than half its FY06 book value of Rs. 153. The stock achieved our earlier target price of Rs.200 (Initiating coverage report dated 13th January 2006) in April 2006 and has fallen to the current levels of Rs.91 since then. We find valuations to be quite attractive at these levels and recommend the stock as a Buy with a 12 month target price of Rs.123, an upside of 35% from current levels.

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