

Industry : Textiles

Price Target : Rs 554

Result Update

CMP : Rs 285

Buy

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Current	
Recommendation	Buy
CMP (INR)	285.00
Target Price (INR)	554.00
Key Data	
Bloomberg code	BRFL@IN
Reuters code	BRFL.BO
BSE code	532678
NSE code	BRFL
Face Value (INR)	10.00
Market Cap. (INR Mn.)	17955.00
52 Week High (INR)	401.00
52 Week low (INR)	150.00
Average Monthly Volume (No.)	295866
Post Dilution Equity (Rs Mn)	691.00
Script Scan	
FY08 EPS (INR)	15.61
FY09 EPS (INR)	25.77
FY10 EPS (INR)	46.19
Shareholding as on 31.12.07 (%)	
Promoter	43.00
Non promoter corporate Holding	8.00
FII	26.00
Institutions	15.00
Public & Other	7.00
Total	100
Returns (%)	
	1M 3M 6M 1YR
Absolute (%)	-20.3 1.7 42.3 41.3
Rel. to Sensex (%)	-7.7 11.7 23.8 15.3

Bombay Rayon Fashions Ltd. (BRFL) reported fantastic results in Q3FY08. Net sales rose 81% YoY to Rs 2,387.54mn and PAT surged 151% YoY to Rs 345.69mn.

Result Analysis

- Garment realization improved from Rs 262 per piece during Q2FY08 to Rs 273 per piece in Q3FY08 with volume increased of 12% QoQ. Fabric realization also improved by 3%.
- During the quarter garment sales stood at 44% of total revenue, and have been inching upwards. The changed of garments contribution to total revenue helped the company to expand its margins as garments EBIDTA margins are around 25%. Also US contribution to the total export sales fell to 25% from 30% during last quarter.
- Express delivery contributed 4% and organic cotton garments contributed 5% to its total garment exports. These both modules have EBIDTA margins of more than 35% and total share of both the module to garment export is expected to increase to 15% by next year.
- EBIDTA have grown by 93% to Rs 529.05 mn, helped by 131 bps improvement in EBIDTA margins. Staff cost was doubled during the quarter as the company added new labour for its additional capacity at Bangalore and at Maharashtra. Higher staff cost was compensated by lower other expenditure which dropped to 9% of net sales from 12% a year ago, benefiting from economies of scale.
- The company's interest cost was just 2%, as the company has taken a loan for its Maharashtra facilities on which it enjoys 9% interest subsidy (TUF - 5% and Maharashtra State Government Subsidy - 4%).
- The company reported Rs 5.5 and Rs 5 basic and diluted EPS respectively almost doubled from a year ago.

Maharashtra Expansion Update

During the quarter, the company announced its Rs11 bn investment plan in Maharashtra. BRFL will set-up 10 factories across 6 cities, will enhance the fabric manufacturing capacity by 4.3 times to 235 mn mtr p.a. and garment manufacturing will double to 2 lac pcs per day. With our earlier expectations we are positive that the new capacity will be on on-stream by Q3FY09E.

- In Maharashtra BRFL will add 20-30,000 employees and labour cost in Maharashtra is 35-40% cheaper than Bangalore.
- As we reported in our report, the fabric facility in Maharashtra will be largest in the world and will be least cost producer of garments and fabrics.

- The company is also setting up 40 MW power plant, produce from baggas. The company will sell 50% of the power in the market and its is expected that the company will make good money out of this as the generation cost of power will be Rs 2-2.25 per unit and realization will be much higher. But, we have not consider it in our valuation.

Outlook and Valuation

At the current market price of Rs 285, the stock is trading at a P/E of 22.3x, 11.1x and 6.2x its FY08(E), FY09(E) and FY10(E) EPS respectively. The proposed Maharashtra facility will be operational by Q3FY09. Post expansion the financials will shape up much better in terms of higher margins and robust growth. We have estimated CAGR of 71% in net sales during FY07-10 and 80% CAGR in PAT. Operating margin will improve from 19% in FY07 to 23% in FY10. Looking at the future growth and strong fundamentals, we have maintain the price target of Rs 554, by assigning 12 P/E multiple to its FY10 EPS of Rs 46.14. Using Discounted Cash Flow method we arrived at the fair value of Rs 601.

Financials Summary

(Rs.Mn)

	Q3FY08	Q3FY07	% Chg.	9MFY08	9MFY07	% Chg.	FY08 (E)	FY09 (E)	FY10 (E)
Net Sales	2387.54	1316.16	81.4	6646.12	3161.00	110.3	10070.00	15905.00	24609.70
Cost of Materials	1464.09	796.44	83.8	4143.68	1908.04	117.2	6243.40	9622.53	14642.77
Staff Cost	180.54	89.82	101.0	406.56	246.65	64.8	546.00	800.00	1190.00
Other Expenses	213.87	155.45	37.6	678.81	379.18	79.0	1222.35	2755.03	4366.13
Operating Expenses	1858.49	1041.72	78.4	5229.05	2533.87	106.4	8011.75	12377.55	19008.90
Operating Profit	529.05	274.45	92.8	1417.07	627.13	126.0	2058.25	3527.45	5600.80
Operating Margin	22%	21%	-	21%	20%	-	20%	22%	23%
Depreciation	76.06	35.10	116.7	206.64	62.27	231.8	300.91	706.73	785.25
Interest	76.94	42.56	80.8	197.65	93.99	110.3	355.93	351.44	371.24
Other Income	65.92	11.39	478.9	200.18	27.28	633.8	240.00	238.58	369.15
PBT	441.97	208.18	112.3	1212.96	498.16	143.5	1641.41	2707.86	4813.45
Provision For Tax	96.29	70.61	36.4	339.98	169.49	100.6	562.92	927.40	1645.09
% of PBT	22	34	-	28	34	-	34	34	34
PAT	345.69	137.57	151.3	872.98	328.66	165.6	1078.49	1780.46	3168.36
PAT Margin	14%	10%	-	13%	10%	-	11%	11%	13%

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