

Alok Industries

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Shareholding (%)

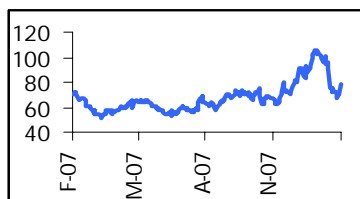
Promoters	33.9
FII's	32.0
MFs	1.5
Banks/FI's	0.8
Others	31.8

Share price performance

52-week high/low (Rs)	108/46		
	-1m	-3m	-12m
Abs (%)	-24.9	16.4	12.0
Rel* (%)	-13.3	24.3	-17.6

*to Nifty

Stock chart



Going strong on its capex

In line with our expectations, Alok Industries posted strong results for Q3FY08, supported by capacity expansions completed in the past few quarters. During the quarter, the company's PAT grew by 31% due to moderate topline growth and improving margins. Operating margins, at 24.5%, were significantly higher than our expectations. With its phase III and the phase IV expansion underway, Alok Industries has completed a large part of its planned capex. As a result, we expect the company to continue recording exponential growth in revenues and profits over the next two years. The fabric, home textile, and garment divisions would continue to be the key growth drivers.

Alok Industries continues to be one of the cheapest pick in the textile sector, trading at 6.5X our FY08 EPS estimates. The valuations do not factor in the company's recent foray into the real estate space through Alok Infrastructure, its 100% subsidiary. We continue to maintain a 'BUY' on the stock.

- ▲ **Moderate topline growth mainly driven by its fabrics segment:** During Q3FY08, Alok Industries reported a 15% growth in topline, mainly led by the apparel fabric, home textiles, and yarn segments. Knitted fabrics (7% of revenues) saw a huge jump of 67% in revenues. The revenues of the woven fabrics segment, however, dropped marginally as the company cut down on low-margin products and grey fabrics. The yarn spinning capacity commissioned during the quarter also contributed to around 17% of the turnover during Q3FY08.
- ▲ **Operating margins improve significantly:** Alok Industries' operating margins saw a jump of 200bps, exceeding our expectations. This was mainly on account of higher realisations in most segments. The average realisations of woven fabrics increased by 14% YoY with the mix shifting towards processed and value added products. Besides, the backward integration to production of yarn also supported the increase in operating margins.
- ▲ Despite higher depreciation on account of the new capacities coming on stream, the company's PAT grew by 31%; this was due to the increase in operating margins.

Buy

Rs78

February 4, 2008

Market cap

Rs bn 14

US\$ mn 345

Avg 3m daily volume

4,572,115

Avg 3m daily value

USD mn 9

Shares outstanding (mn)

175

Reuters/Bloomberg

ALOK.BO/ALOK.IN

NSE/BSE

ALOKTEXT/521070

Sensex

18,660

Nifty

5,464

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- ▲ **Strengthening presence in domestic markets:** Alok Industries continues to expand its retail chains in the domestic market. The company plans to increase its stores from the current 18 to 40 by the end of FY08. The revenues from the retail segment grew 167% to Rs15.7 mn during the quarter.
- ▲ **Expansions on track; Phase IV expansions to commence shortly:** Alok Industries has completed a large part of its Phase III expansion, the benefits of which are already visible in the strong topline growth and increasing operating margins during the last few quarters. Phase IV expansion, which encompasses further expansion of apparel fabrics, home textiles, and made-ups, would be completed by FY09E. With large scale integrated operations, Alok Industries has been consistently delivering on its capex plans. We expect these capacity additions to further drive the company's growth over the next two years.

Table 1. Phase IV expansion

Open end Spinning (spindles)	100080
Made ups (mn pieces)	3.75
Woven apparel fabric (mn mtrs)	22.5
Knitted fabrics including processing (Tonnes)	50400
Garments (mn pcs)	7
POY (Tonnes)	54000
PET (Tonnes)	182500

Source: IISL research, company

- ▲ **Foray into real estate:** Alok Industries forayed into the real estate space through Alok Infrastructure, its 100% owned subsidiary. The subsidiary has booked 6.25mn sq ft of commercial property in Lower Parel, Mumbai. The construction of the property is expected to be completed by March 2010; post construction, the company plans to lease out part of the property and sell the balance. Besides, Alok Industries is also developing a 182-acre SEZ in Silvassa. It has already secured formal approval for the development of the same. The development of the SEZ is likely to be completed in phases over the next two years.
- ▲ **One the cheapest stocks in the textile sector; 'BUY' maintained:** Alok Industries remains one of the cheapest stocks in the textile sector, trading at 6.5X our FY08 EPS estimates (on a fully diluted basis). The completion of a major part of the capex plan and strong results for the quarter, indicate robust growth in the coming quarters and provide better visibility to our estimates. Hence, we continue to maintain a 'BUY' on the stock. We have not factored in Alok's real estate projects being executed through Alok Infrastructure in the valuations.

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Table 2. Quarterly result table

Rs mn	Q3FY08	Q2FY08	QoQ (%)	Q3FY07	YoY (%)
Net sales from operations	5,507.8	4,647.8	18.5	4,799.2	14.8
Total Expenses	4,163.7	3,561.6	16.9	3,725.9	11.8
%of net sales	75.6	76.6		77.6	
(Increase)/Decrease in stock	(670.4)	635.6		(24.6)	
Raw material Consumed	3,738.9	1,930.1	93.7	2,839.4	31.7
%of net sales	55.7	55.2		58.7	
Employee cost	182.5	179.5	1.7	129.1	41.4
%of net sales	3.3	3.9		2.7	
Other Expenses	912.7	816.4	11.8	782.0	16.7
%of net sales	16.6	17.6		16.3	
EBITDA	1,344.1	1,086.2	23.7	1,073.3	25.2
%of net sales	24.4	23.4		22.4	
Depreciation	434.4	363.7	19.4	325.3	33.5
EBIT	909.7	722.5	25.9	748.0	21.6
%of net sales	16.5	15.5		15.6	
Interest	295.4	282.7	4.5	241.5	22.3
Other Income	88.7	138.7	(36.0)	32.3	174.6
PBT	703.0	578.5	21.5	538.8	30.5
Provision for tax (including deferred tax)	(218.6)	(148.8)		(168.2)	
Net Profit	484.4	429.7	12.7	370.6	30.7
NP margin %	8.8	9.2		7.7	
Equity	1748.5	1717.4		1,703.7	
EPS	2.8	2.51	12.7	2.2	41.4

Source: IISL research, company

Financials

Profit & Loss

In Rs million	FY05	FY06E	FY07E	FY08E
Net sales	12,245.0	13,726.0	17,909.6	22,372.3
YoY (%)	14.6	12.1	30.5	24.9
Total expenses	9,849.0	11,218.9	14,014.2	17,317.8
Inc/dec in stock	(727.5)	(65.7)	(76.7)	(179.9)
Raw material cost	8,386.0	8,795.5	10,667.8	13,274.2
Staff cost	198.7	258.3	413.3	537.3
Power and fuel cost	495.9	557.8	785.2	950.5
Other manufacturing expe	444.6	500.4	673.0	834.6
Other expenses	1,051.3	1,172.4	1,551.7	1,901.1
EBIDTA	2,396.0	2,507.2	3,895.4	5,054.5
YoY (%)	23.9	4.6	55.4	29.8
EBIDTA (%)	19.6	18.3	21.8	22.6
Other income	51.5	21.6	8.3	19.0
PBIDT	2,447.5	2,528.8	3,903.7	5,073.5
Interest	636.8	708.3	782.8	1,057.7
Gross profit	1,810.7	1,820.5	3,121.0	4,015.8
Depreciation	575.6	736.0	1,274.6	1,358.2
PBT and extra ordinary	1,235.1	1,084.5	1,846.4	2,657.6
Extra ordinary items	0.0	0.0	0.0	0.0
PBT	1,235.1	1,084.5	1,846.4	2,657.6
(-) Tax	342.6	298.2	507.8	730.8
Tax/ PBT	27.7	27.5	27.5	27.5
PAT	892.5	786.2	1,338.6	1,926.7
Adjusted net profit	892.5	786.2	1,338.6	1,926.7
YoY (%)	25.6	(11.9)	70.3	43.9

Key Ratios

	FY05	FY06E	FY07E	FY08E
EPS (Rs)	6.7	5.0	7.9	11.3
CEPS (Rs)	12.8	11.0	17.5	22.4
Book value (Rs)	44.6	44.5	52.1	61.9
Dividend per share (Rs)	0.0	1.9	1.6	1.4
Debt-equity (x)	2.3	2.6	2.2	2.3
ROCE	9.1	7.0	9.2	10.5
ROE	14.9	11.2	15.1	18.3
Valuations				
PE (x)	11.7	14.3	9.1	6.3
Cash PE (x)	6.1	6.5	4.1	3.2
Price/book value (x)	1.7	1.6	1.4	1.2
Dividend yield	0.0	2.4	2.1	1.9
Market cap/sales	0.9	0.8	0.7	0.5
EV/sales (x)	1.6	2.1	1.8	1.6
EV/EBDITA (x)	8.1	11.8	8.1	7.2

Balance Sheet

In Rs million	FY05	FY06E	FY07E	FY08E
Equity capital	1,340.2	1,574.7	1,703.4	1,703.4
Preference capital	0.0	0.0	0.0	0.0
Reserves	4,640.5	5,434.4	7,167.0	8,847.0
Net worth	5,980.7	7,009.1	8,870.5	10,550.5
Total borrowings	14,032.4	18,309.8	19,597.8	24,533.6
Deferred tax	751.0	967.9	1,337.2	1,868.7
Total liabilities	20,764.1	26,286.8	29,805.4	36,952.7
Gross block	8,693.8	14,903.8	18,996.3	28,346.3
Less: Acc. depreciation	1,683.0	2,419.0	3,693.6	5,051.8
Net block	7,010.8	12,484.8	15,302.7	23,294.5
CWP	1,781.9	4,765.0	5,500.0	1,650.0
Investments	78.5	1,370.2	43.0	1,112.0
Current assets	13,592.1	9,435.1	11,058.9	13,426.5
Inventories	3,632.7	3,840.4	4,070.3	4,914.8
Debtors	4,029.7	4,532.9	5,926.9	7,350.0
Cash	4,968.0	100.0	100.0	200.0
Loans and advances	961.7	961.7	961.7	961.7
Current liabilities	1,454.0	1,516.8	1,830.3	2,261.3
Provisions	245.2	251.5	268.9	268.9
Net current assets	11,892.9	7,666.8	8,959.7	10,896.3
Miscellaneous expenses	0.0	0.0	0.0	0.0
Total assets	20,764.1	26,286.8	29,805.4	36,952.7

Cash Flow

In Rs million	FY05	FY06E	FY07E	FY08E
Net profit	892.5	786.2	1,338.6	1,926.7
Depn and w/o	575.6	736.0	1,274.6	1,358.2
Deferred tax	245.8	216.9	369.3	531.5
Change in working cap	(1,531.0)	(641.9)	(1,292.9)	(1,836.6)
Other income	0.0	0.0	0.0	0.0
Operating cash flow	182.9	1,097.3	1,689.6	1,979.9
Other income	0.0	0.0	0.0	0.0
Capex	(3,573.0)	(9,193.1)	(4,827.5)	(5,500.0)
Investments	(37.8)	(1,291.7)	1,327.2	(1,069.0)
Investing cash flow	(3,610.8)	(10,484.8)	(3,500.3)	(6,569.0)
Dividend	0.0	(297.3)	(280.8)	(246.8)
Fresh equity	1,745.5	305.0	674.7	0.0
Debt	5,011.5	4,277.4	1,288.0	4,935.8
Financing cash flow	6,757.0	4,285.0	1,682.0	4,689.1
Others	66.2	234.5	(128.7)	0.0
Net change in cash	3,395.3	(4,868.0)	(257.5)	100.0
Opening cash	1,572.7	4,968.0	100.0	100.0
Closing cash	4,968.0	100.0	100.0	200.0

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