

**BUY**

**Rs 181.2**

**Sensex: 10,609, Nifty: 3,128**

**Stock data**

Bloomberg	ACML.IN
Reuters	AMBK.BO
Shares outstanding (mn)	5.9
Market cap (Rs mn)	1065
Market cap (USD mn)	23
Three-month daily avg vols	17,092

**Share price performance**

52-week high/low (Rs)	373/145		
	-1m	-3m	-12m
Abs (%)	(25.9)	(24.2)	(27.1)
Rel* (%)	(23.4)	(18.4)	(71.3)

\*to Nifty

**Financial Snapshot**

	Rs mn		
Ye March	FY06	FY07E	FY08E
Net Sales	1049.0	1302.4	1440.8
% change	23.7	25.9	10.6
Net Income	189.6	152.5	216.5
% change	49.8	-20.2	42.0
EPS (Rs.)	32.3	24.7	35.1
% change	27.5	-24.1	42.0
P/E (x)	5.6	7.3	5.2
ROE (%)	19.3	12.6	15.3
ROCE (%)	11.1	8.5	10.8

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**Ambika Cotton Mills Ltd.**

June 30, 2006

**Capex drives strong turnover growth**

For the fourth quarter FY06, Ambika reported a 43% y-o-y increase in topline to Rs288.9mn and a 20% y-o-y increase in bottomline to Rs46mn. The results were almost in line with our topline and bottomline estimates of Rs274mn and Rs47mn respectively. The topline growth was mainly volume led, on account of the capacity additions completed during the year. Operating margins continued to be higher at around 32% mainly on account of lower other expenses.

For the full year FY06, the company reported a topline of Rs1.05bn and a bottomline of Rs189.7mn. The company enjoys a relatively better RoE and RoCE as compared to its peers, reflecting its higher operating efficiencies. Besides, the windmill installations also enable it to earn higher EBIDTA margins. The stock price has dropped sharply since our last quarterly update and currently trades 7.3X our EPS estimates FY07E. Hence, we upgrade the rating on the stock to 'BUY'.

- ◆ The company reported a topline and a bottomline of Rs288.9mn and Rs46mn respectively. The results were mainly in line with our expectations. The higher volume growth was driven by the addition of 14,112 spindles during the year.
- ◆ The operating margins of the company continued to be high during the quarter at around 32% on account of the installation of windmills leading to lower power costs. During the year, the company installed 6.4MW of windmill capacity during the year taking the total windmill capacity to 13MW.
- ◆ The company is further expanding its spinning capacity by around 10,080 spindles, which is expected to be completed by September 2006.
- ◆ For the full year FY06, the company reported net sales of Rs1.05bn and a PAT of Rs189.7mn. The operating margins for the year was at 32.3%.
- ◆ With long staple cotton prices expected to firm up by around 5-7% over the medium term, operating margins of the company is expected to drop over the medium term and stabilise at around 29-30%

The company has relatively higher RoE and RoCE as compared to other yarn manufacturers. The stock price has dropped sharply since our last update and currently trades at around 7.3X our EPS estimates for FY07, though the fundamentals remain intact. Hence, we upgrade the stock from a 'HOLD' to a 'BUY'

<b>Quarterly result table</b>					Rs mn
	<b>Q4FY06</b>	<b>Q3FY06</b>	<b>QoQ (%)</b>	<b>Q4FY05</b>	<b>YoY (%)</b>
Net sales from operations	288.9	308.1	(6.2)	201.1	43.7
Total Expenses	195.8	207.0	(5.4)	145.3	34.8
<i>%of net sales</i>	67.8	67.2		72.3	
(Increase)/Decrease in stock	5.5	(5.7)		5.2	
Raw material Consumed	152.0	155.2	(2.1)	108.9	39.6
<i>%of net sales</i>	54.5	48.5		56.7	
Employee cost	13.1	14.4	(9.0)	12.1	8.3
<i>%of net sales</i>	4.5	4.7		6.0	
Other Expenses	25.2	43.1	(41.5)	19.1	31.9
<i>%of net sales</i>	8.7	14.0		9.5	
EBITDA	93.1	101.1	(7.9)	55.8	66.8
<i>%of net sales</i>	32.2	32.8		27.7	
Depreciation	24.9	24.0	3.7	9.4	164.9
EBIT	68.2	77.1	(11.5)	46.4	47.0
<i>%of net sales</i>	23.6	25.0		23.1	
Interest	18.4	16.5	11.5	10.7	72.0
Other Income	1.3	1.9	(31.6)	4.4	(70.5)
PBT	51.1	62.5	(18.2)	40.1	27.4
Provision for tax (including deferred tax)	(5.1)	(6.0)		(1.9)	
Net Profit	46.0	56.5	(18.6)	38.2	20.4
<i>NP margin %</i>	15.9	18.3		19.0	
EPS	7.8	9.6	(18.6)	7.6	2.5

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