India Infoline Result Update
Alok Industries Ltd *(Q2 FY07)*
CMP Rs75, November 01, 2006

- **Net sales up by 20.8% yoy to Rs4.1bn for the quarter.**
- **The operating profit has grown by 36.7% yoy to Rs968 and the OPM has improved by 2.7 to 23.2%.**
- **Net Profit margins have increased from 7.37% to 7.8% for Q2FY07.**

Financials Highlights

Period to	09/06	09/05	Growth	09/06	09/05	Growth	FY06	FY07E
(Rs mn)	(3)	(3)	(%)	(6)	(6)	(%)	(12)	(12)
Net sales	4,172	3,454	20.8	7,750	6,446	20.2	14,207	17,050
Expenditure	(3,204)	(2,746)	16.7	(5,976)	(5,127)	16.6	(11,246)	(13,504)
Operating profit	968	708	36.7	1,774	1,319	34.5	2,961	3,546
Other income	(16)	7	(331.3)	(20)	29	(167.1)	51	40
Interest (expense)/income	(213)	(178)	19.9	(383)	(344)	11.5	(668)	(780)
Depreciation, amortization	(280)	(184)	52.3	(526)	(344)	52.7	(805)	(850)
PBT	459	353	30.0	845	660	28.1	1,540	1,956
Exceptional items			-					
Tax	(132)	(98)	34.8	(250)	(177)	41.1	(448)	(567)
PAT	326	255	28.2	596	483	23.3	1,092	1,389
Extraordinary items			-			-		
APAT	326	255	28.2	596	483	23.3	1,092	1,389
OPM (%)	23.2	20.5	2.7	22.9	20.5	2.4	20.8	20.8
Equity	1,703.7	1,562.9	-	1,703.7	1,562.9	-	1,574.7	1,574.7
EPS (Rs)	7.7	6.5	-	7.0	6.2	-	6.9	8.8

The Net Sales for the quarter has risen by 20.8% yoy to Rs4.1bn and for the half year it has gorwn by 20.2% to Rs7.7bn. The Net profit for the quarter as been up by 28.2% to Rs326mn from Rs255mn and for H1FY07 it has grown by 23.3% to Rs596mn. Improved realizations and volumes in mainly Apparel Fabric and Texturising were the main drivers for growth. The export sales improved by 44.8% yoy to Rs129mn from Rs89mn. Sequentially the sales have grown by 16.57% and the Net Profit has grown by 21%.

The operating margins improved by 2.7% to 23.3%. The PBT has grown by 30% yoy to Rs459mn. The increase in depreciation was due to increased gross block on account of ongoing expansion projects being completed by the company.

Segment Analysis

Revenues	Q2FY07	Q2FY06	yoy(%)
Apparel	1,988	1,714	15.9
Home Textile	818	735	11.3
Texturising	1,321	974	35.6
Garments	43	31	38.9
Retail	2	0	100.0
Total	4,172	3,454	20.8

All the products of the Company i.e. apparel fabrics, home textiles, texturising yarn and garments have shown growth in exports. Revenue from Apparel constitutes 48.4% of the total sales and texturised fabrics constitutes 30.3% of the total sales. The home textile division which has earned revenues all on exports constitutes 19.8% to the total sales.

Revenue Breakup

	09/06	09/05	Growth	03/06	03/05	Growth
	(3)	(3)	(%)	(6)	(6)	(%)
Export	1,287	888	44.9	2,299	1,789	28.5
Domestic	2,885	2,566	12.4	5,451	4,657	17.1
Total	4,172	3,454	20.8	7,750	6,446	20.2

Cost Analysis

	09/06	09/05	Growth	09/06	09/05	Growth
As % of net sales	(3)	(3)	(%)	(6)	(6)	(%)
Raw material	(3.1)	(0.6)	(2.5)	56.4	62.1	(5.7)
Staff cost	3.0	1.7	1.3	3.0	1.7	1.2
Other expenditure	18.7	15.7	3.0	17.7	15.7	2.0
Total Expenditure	76.8	79.5	1.8	77.1	79.5	(2.4)

The increase in operating margins is on account of benefit of backward integration into weaving and sale of value added products.

Alok Industries has been benefited from an expanded product portfolio that includes bed linen and home textiles, garments and apparel fabric, while company is expanding capacity to make woven apparel fabrics by almost fourfold, knitted apparel fabrics by almost threefold and garment production capacity by eightfold. Net Block of Fixed Assets, including Capital Work in Progress, as on 30th September 2006 increased to Rs22.6bn as against Rs18.7bn on 31st March, 2006.

Valuation

Alok's capex plans of Rs11bn (over FY06-FY09) would keep the company in a phase of negative free cash flow for the next few years. Gains from new capex would accrue only post-FY08. It is currently trading at 8.5x its FY07E EPS of Rs8.8 at a CMP of Rs75.

Outlook

Higher export contribution and new capacities are expected to drive growth going forward. Alok proposes to finance its Rs11bn capex through TUF loans and internal accruals without resorting to any equity dilution. It plans to focus on the home textiles business, which will throw up tremendous opportunities, post-quotas. It already has established relationships with large global retailers and brands. Hence due to large capacities across the entire textile chain, from fabrics to made-ups it is set to witness strong growth across all its product lines. Alok Industries also has entered into an agreement with men's apparel manufacturer Teviz Textile to manufacture and market its products in India. Recently, Alok has signed an agreement with Mileta International (Mileta) of the Czech Republic to acquire a 60% stake in that company, but the acquisition is subject to financial and legal due diligences and regulatory approvals. Alok Industries plans to integrate Mileta`s operations within 12 months of acquisition.