

RESULT UPDATE ✓

# Bombay Rayon (BOMRAY)

## WHAT'S CHANGED...

PRICE TARGET.....	Changed to Rs 106 from Rs 276
EPS (FY09E).....	Changed to Rs 23.46 from Rs 23.85
EPS (FY10E).....	Changed to Rs 26.62 from Rs 39.43
RATING.....	Changed to Hold from Outperformer

<b>Current Price</b> Rs 101	<b>Target Price</b> Rs 106
<b>Potential upside</b> 5%	<b>Time Frame</b> 12-15 months

**HOLD**

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## Growth trajectory to moderate...

Bombay Rayon Fashions (BRFL) reported a 44.4% YoY growth in sales to Rs 344.92 crore in Q3FY09, on account of new capacity additions and consolidation of subsidiary company Leela Scottish Lace Private Ltd. The EBITDA margin rose 228 bps YoY and 52 bps QoQ to 24.4% in Q3FY09. The increase in EBITDA margin was on account of the rise in garment volumes and improvement in raw material cost to sales ratio from 61.1% in Q3FY08 to 58.1% in Q3FY09. The net profit grew 20.5% YoY to Rs 41.68 crore in Q3FY09 from Rs 34.57 crore in Q3FY08.

BRFL exports majority of its garments to the US and Europe. These markets are reeling under recession. We expect the demand from these regions to slow down substantially impacting BRFL's growth trajectory.

## Valuations

At the current price of Rs 101, the stock is trading at 3.7x FY10E earnings of Rs 26.62. Concerns of recession in key markets where BRFL exports majority of its garments could lead to a slowdown in the growth trajectory. Further, the company has pledged 1.48% of its shares as collateral for loans, which would dampen the sentiment and strict outperformance of stock. We have revised our estimates downwards for sales and EPS by 22.7% and 32.4%, respectively for FY10E. We value the stock at 4x FY10E, with a lower target price of Rs 106 downgrading it to **HOLD** rating.

### Stock data

Market Cap.	Rs. 697.91 Crore
Debt( FY08)	Rs. 714.36 Crore
Cash (FY08)	Rs. 55.19 Crore
EV	Rs. 1367.08 Crore
52 week H/L	Rs. 420/82
Equity capital	Rs. 69.10 Crore
Face value	Rs. 10
MF Holding	14.31%
FII Holding	24.77%

### Price performance

Company	Returns (%)			
	1M	3M	6M	12M
Bombay Rayon	-23	-36	-69	-64
Indus Fila	-47	-72	-79	-91
Mudra Lifestyle	-20	-32	-60	-81

## Exhibit 1: Key Financials

	Q3FY09A*	Q3FY09E	Q3FY08	Q2FY09	YoY Gr. (%)	QoQ Gr.(%)	YTDFY09*	FY09E	FY10E
Net Sales	344.92	309.06	238.75	287.02	44.47	20.17	1009.18	1362.86	1768.96
EBITDA	84.29	74.06	52.91	68.66	59.29	22.76	237.80	331.84	412.17
EBITDA Margin (%)	24.44	23.96	22.16	23.92	228bps	52bps	23.56	24.35	23.30
Depreciation	10.95	9.70	7.61	9.61	44.01	13.98	32.43	46.21	65.00
Interest	16.51	11.00	7.69	10.81	114.54	52.69	43.25	59.52	78.24
Other Income/Extraordinary item	1.00	2.30	6.59	1.56	-84.81	-35.82	3.72	8.00	15.00
Reported PAT	41.68	43.06	34.57	36.69	20.56	13.59	123.41	162.11	183.93
EPS (Rs)	6.03	6.23	5.49	5.31	9.84	13.56	18.31	23.46	26.62
<b>Valuation</b>									
PE (x)	-	-	-	-	-	-	-	4.31	3.79
Target PE (x)	-	-	-	-	-	-	-	4.50	4.00
EV to EBITDA (x)	-	-	-	-	-	-	-	4.96	3.70
Price to book (x)	-	-	-	-	-	-	-	0.96	0.78
RoNW (%)	-	-	-	-	-	-	-	22.22	20.62
RoCE (%)	-	-	-	-	-	-	-	16.41	15.61

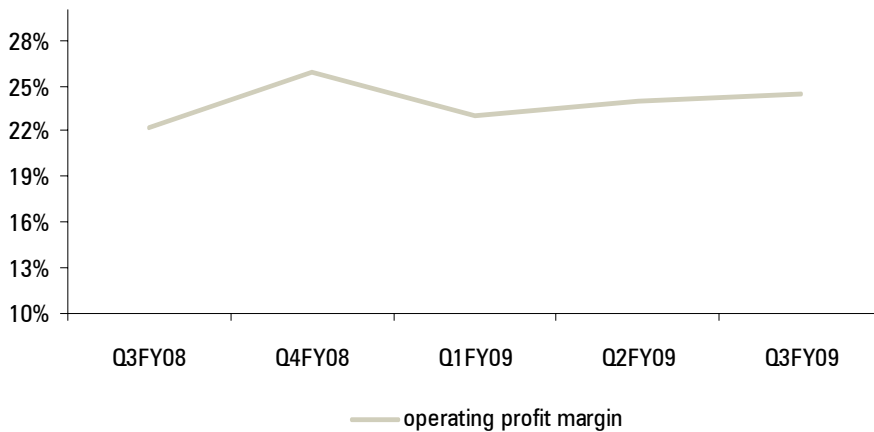
\* quarterly and nine months figures are not strictly comparable due to amalgamation of Leela Scottish with BRFL

Source: Company, ICICIdirect.com Research,

## Improved operating margin

BRFL has been able to maintain an operating margin of more than 20% during the last four quarters. For Q3FY09, BRFL's operating margin increased on a YoY basis by 228 bps to 24.4%. The rise in the EBITDA margin was mainly on account of the fall in raw material cost to sales from 61.3% in Q3FY08 to 58.1% in Q3FY09. We expect the operating margin to come down to 23.3% for FY10E.

### Exhibit 2: Quarterly operating margin



Though BRFL reported a healthy operating margin of 24.4% in Q3FY09, we expect it to moderate to 23.3% in FY10E owing to pressure on average realisations.

Source: Company, ICICIdirect.com Research

## Capex on track

BRFL's capex of Rs 1100 crore continues to remain on track with the garment facilities in Islampur and Osmanabad already commencing production. The other garment facilities coming up at Ichalkaranji, Nanded and Latur are expected to start operations by the end of Q4FY09. BRFL, with its expansion in the garments segment, is focusing on improving its operating margins. Further setting up of captive yarn capacities will reduce BRFL's dependence on suppliers and, in turn, lead to reduction in risk of higher raw material cost. The fabric capacity unit is coming up at the Tarapur plant and will be operational by Q4FY09.

### Exhibit 3: Fabric (Mn mtrs/annum)-capacity expansion and completion date

Location	Existing	Expansion capacity	Capacity expansion completion date
Tarapur	55	180	Q4FY09

Source: Company, ICICIdirect.com Research

### Exhibit 4: Garment (Pieces/day) - capacity expansion and completion date

Location	Existing	Expansion capacity	Capacity expansion completion date
	100,000		
Islampur	-	25,000	Production commenced
Ichalkaranji	-	25,000	Q4FY09
Nanded	-	20,000	Q4FY09
Latur	-	20,000	Q4FY09
Osmanabad	-	25,000	Production commenced

Source: Company, ICICIdirect.com Research

## Detailed Valuations

BRFL is trading at 3.7x its FY10E earnings, which we believe is reasonable. However, the negative news flows like recession in key markets could lead to a slowdown of the growth trajectory while concerns over pledged shares would restrict the outperformance of the stock. We have revised our FY10E sales and earnings estimates downwards by 22.7% and 32.4%, respectively. We are downgrading the rating on the stock from OUTPERFORMER to **HOLD**.

### Exhibit 5: Revised estimates

Particulars	Now	FY10E	
		Earlier	Change (%)
Sales (Rs)	1768.96	2290.89	-22.78%
Net Profit (Rs)	183.93	272.45	-32.49%
EPS (Rs)	26.62	39.43	-32.49%

Source: ICICIdirect.com Research

### Exhibit 6: Valuations

	Sales (Rs. crore)	Sales Growth (%)	EPS (Rs.)	EPS Growth (%)	PE (x)	EV/EBIDTA (X)	RoNW (%)	RoCE (%)
<b>FY08</b>	926.08	89.23	19.23	122.62	5.25	5.46	20.03	15.77
<b>FY09E</b>	1362.86	47.16	23.46	22.02	4.31	4.96	22.22	16.41
<b>FY10E</b>	1768.96	29.80	26.62	13.46	3.79	3.70	20.62	15.61

Source: Company, ICICIdirect.com Research

## ICICIdirect.com Coverage Universe

### Exhibit 7: Valuation Matrix

			Sales							
			(Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA	RoNW (%)	RoCE (%)		
<b>Bombay Rayon</b>										
<b>Idirect Code</b>	BOMRAY	<b>CMP (Rs.)</b>	101	<b>FY08</b>	926.08	19.23	5.25	5.46	20.03	15.77
		<b>Target (Rs.)</b>	148	<b>FY09E</b>	1362.86	23.46	4.31	4.96	22.22	16.41
<b>MCap</b>	697.91	<b>Upside (%)</b>	47	<b>FY10E</b>	1768.96	26.62	3.79	3.70	20.62	15.61
<b>JBF Industries</b>										
<b>Idirect Code</b>	JBFIND	<b>CMP (Rs.)</b>	33	<b>FY08</b>	2741.45	18.39	1.79	3.01	25.22	20.14
		<b>Target (Rs.)</b>	39	<b>FY09E</b>	4212.04	16.40	2.01	2.08	19.61	25.90
<b>MCap</b>	205.26	<b>Upside (%)</b>	18	<b>FY10E</b>	5036.97	38.11	0.87	1.18	34.38	30.24
<b>Kewal Kiran</b>										
<b>Idirect Code</b>	KEWKIR	<b>CMP (Rs.)</b>	112	<b>FY08</b>	159.60	17.11	6.49	5.91	15.01	16.71
		<b>Target (Rs.)</b>	-	<b>FY09E</b>	144.79	10.15	10.93	8.98	10.35	13.00
<b>MCap</b>	138.10	<b>Upside (%)</b>	-	<b>FY10E</b>	159.88	10.61	10.46	7.30	10.20	15.13

Source: Company, ICICIdirect.com Research

## **RATING RATIONALE**

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**Outperformer (OP):** 20% or more;

**Performer (P):** Between 10% and 20%;

**Hold (H):**  $\pm 10\%$  return;

**Underperformer (U):** -10% or more;

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## **ANALYST CERTIFICATION**

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