

Nahar Spinning Mills Ltd

Q2FY12 first cut – Better than previous quarter

Fundamental Grade **3/5 (Good fundamentals)**
Valuation Grade **5/5 (CMP has strong upside)**

Industry **Textiles, Apparel & Luxury Goods**

Nahar Spinning Mills Ltd's (Nahar's) Q2FY12 revenues and earnings were in line with CRISIL Research's expectations. As the company had booked losses on its high-cost cotton inventory carried forward from the previous cotton season in Q1, it was able to register positive EBITDA margin in Q2FY12. We may revisit our estimates post interaction with the management. Based on Nahar's scale and efficient cotton procurement capabilities, we maintain our fundamental grade of **3/5**.

Q2FY12 result analysis

- Revenues grew by 17% y-o-y to Rs 4,085 mn. The 30% growth in the yarn segment (~87% of quarterly revenues) was partially offset by the y-o-y de-growth of ~25% in the garments segment.
- EBITDA margin turned positive this quarter to 5.1% as compared to Q1FY12 (negative 21%), but was significantly lower on a y-o-y basis. The improvement in operating profitability was caused by inventory losses booked by the company on its raw material led by a sharp decline in cotton prices during Q1FY12 and the reduction in finished goods inventory during Q2FY12.
- EBIT margin continues to remain negative for the cotton yarn segment, though it improved significantly from the previous quarter.
- Although the company continued to make a net loss in Q2FY12 (net loss of Rs 172 mn), it was much less than the previous quarter when it registered a net loss of Rs 901 mn.

Valuations: Current market price has strong upside

We continue to use the discounted cash flow method to value Nahar. Based on our fair value of Rs 100 per share and its current market price, the implied valuation grade is **5/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Operating income	10,008	11,093	14,036	16,968	18,747
EBITDA	1,346	1,928	3,039	667	2,606
Adj PAT	(165)	539	1,303	(543)	886
Adj EPS-Rs	(4.6)	14.9	36.1	(15.0)	24.6
EPS growth (%)	(238.3)	(421.6)	123.8	(145.3)	NM
Dividend yield (%)	2.5	2.3	2.0	-	2.7
RoCE (%)	4.7	9.6	13.6	(0.7)	9.8
RoE (%)	(3.2)	10.1	21.0	(8.3)	13.2
PE (x)	(5.0)	5.1	2.7	(6.0)	3.7
P/BV (x)	0.2	0.5	0.5	0.5	0.5
EV/EBITDA (x)	5.2	5.7	5.2	21.4	5.1

NM: Not meaningful; CMP: Current market price

#Based on abridged financial

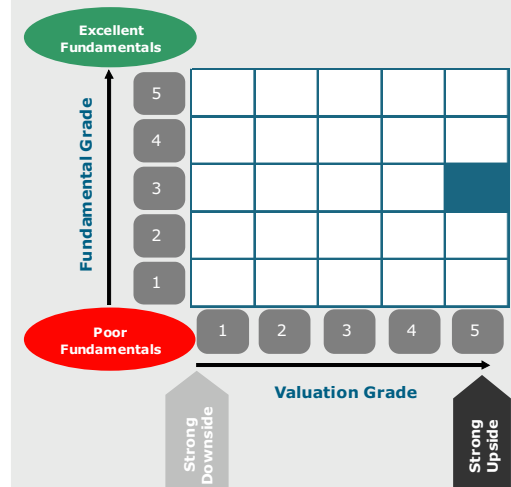
Source: Company, CRISIL Research estimate

November 14, 2011

Fair Value Rs **100**

CMP Rs **53**

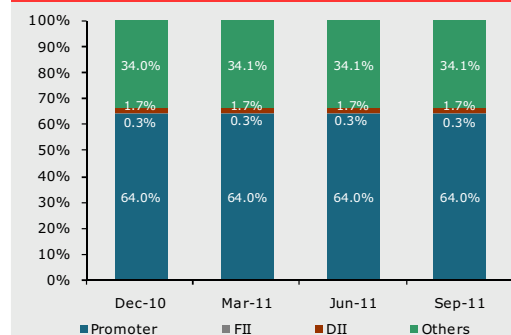
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5148
NSE ticker	NAHARSPING
Face value (Rs per share)	5
Shares outstanding (mn)	36
Market cap (Rs mn)/(US\$ mn)	1,917/38
Enterprise value (Rs mn)/(US\$ mn)	15,161/302
52-week range (Rs) (H/L)	160/53
Beta	1.2
Free float (%)	36.0%
Avg daily volumes (30-days)	9,267
Avg daily value (30-days) (Rs mn)	0.6

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Nahar	-17%	-13%	-45%	-62%
NIFTY	0.3%	1%	-7%	-15%

ANALYTICAL CONTACT

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