

Alok Industries Ltd

Growth momentum intact

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

Industry **Textiles, Apparel & Luxury Goods**

Alok Industries Ltd's (Alok's) Q2FY12 (standalone) revenues and operating profitability were higher than CRISIL Research's expectations, barring provisioning on account of mark-to-market arising from forex loans. Both domestic and international businesses boosted revenue growth, with the polyester segment being the highest contributor. Although we are cautious considering the rise in interest rates and slowdown in export markets, we believe that Alok will be able to withstand this given its scale of operations and backward integration. High debt level (Rs 121 bn - FY11) and timely exit from real estate are key monitorables. We maintain our fundamental grade of **3/5**.

Q2FY12 result analysis (standalone)

- Revenues increased by 47% y-o-y and 30% q-o-q to Rs 21.4 bn led by strong growth in polyester (up 112%), home textile and apparel fabric (each up 40%). The company has expanded its capacity for polyester from 0.2 mn tonnes/annum (tpa) to 0.3 mn tpa during H2FY11; this increased its contribution to overall revenue to 33% in Q2FY12 from 23% in Q2FY11. Alok's domestic sales increased by 65% and exports grew by 22% y-o-y.
- EBITDA margins improved marginally (~30bps) to 28.9%, EBITDA increased by 49% y-o-y to Rs 6,185 mn, in line with revenue growth. With rising contribution from the low-margin polyester business, we believe that margins will moderate in the coming quarters.
- The company reported extraordinary expenses of Rs 1,000 mn due to provision for restatement of loan and forward contracts along with income of ~Rs 200 mn on account of land sale & insurance claim.
- Reported PAT was marginally higher (2.4% y-o-y) at Rs 817 mn. However, after adjusting for other items PAT is Rs 1,617 mn.

Key developments

- The 'H&A' chain of stores opened an additional 58 shops during the quarter, taking the total number of stores to 369.
- Alok has sold one floor at Ashford Centre Mumbai. Land sale (Silvassa) fetched a profit of Rs 100 mn.

Earnings estimates - revised downward

We maintain our revenue estimates for FY12 and FY13, but revise earnings estimates downward for FY12 and FY13 by 14% and 11%, respectively, on account of higher interest burden.

Valuations: Current market price has strong upside

We continue to use the discounted cash flow method to value Alok. We revise our fair value to Rs 29 per share. Based on the current market price, our valuation grade is **5/5**.

KEY FORECAST (CONSOLIDATED)

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	31,115	44,202	66,114	97,367	116,191
EBITDA	8,017	12,704	18,094	23,368	27,357
Adj PAT	(834)	927	1,935	4,631	6,833
Adj EPS-Rs	(4.2)	1.2	2.5	5.7	8.5
EPS growth (%)	(57.9)	(58.9)	127.5	22.8	96.7
Dividend yield (%)	7.0	1.3	1.3	1.2	2.4
RoCE (%)	6.9	8.4	9.4	10.5	12.3
RoE (%)	(4.9)	4.0	7.0	15.5	19.4
PE (x)	(3.0)	18.9	9.0	3.6	2.4
P/BV (x)	0.1	0.6	0.6	0.5	0.4
EV/EBITDA (x)	8.4	7.8	7.0	5.5	4.6

Source: Company, CRISIL Research estimate

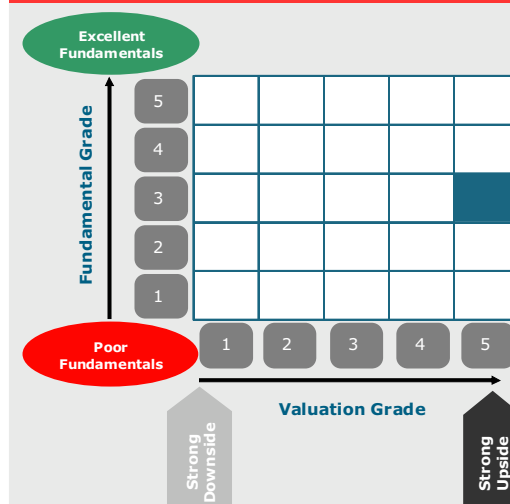


November 15, 2011

Fair Value **Rs 29**

CMP **Rs 19**

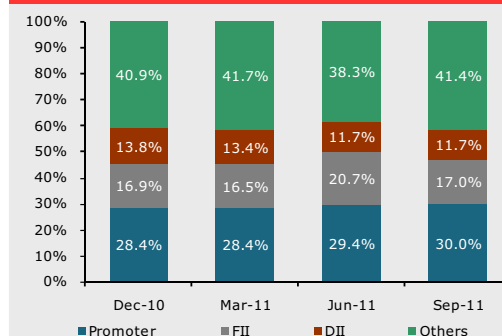
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5069/16883
NSE / BSE ticker	ALOKTEXT/ ALOKIND
Face value (Rs per share)	10
Shares outstanding (mn)	788
Market cap (Rs mn)/(US\$ mn)	14,933/295
Enterprise value (Rs mn)/(US\$ mn)	110/2
52-week range (Rs) (H/L)	35/18
Beta	1.4
Free float (%)	70.1%
Avg daily volumes (30-days)	4,250,889
Avg daily value (30-days) (Rs mn)	106.9

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Alok	-4%	-6%	-27%	-39%
NIFTY	-1%	-0.1%	-9%	-17%

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