

14<sup>th</sup> July 2010

## Key Take Away

CMP	Rs 37
Recommendation	Not Rated

## Scrip Details

Market Cap (Rs crores)	146.8
P/E (x) - FY12E	3.2
Mkt Cap/Sales - FY13E	0.14
Equity Capital (Rs crores)	39.4
Face Value (Rs)	10.0
52 Week High/Low (Rs)	44/17

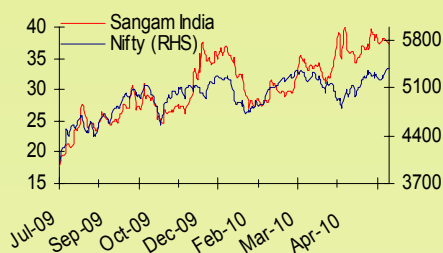
Website: [www.sangamgroup.com](http://www.sangamgroup.com)

NSE Code	SANGAMIND
Sensex	17,938
Nifty	5,386

## Shareholding Pattern (%)

As on March 2010	
Promoters	36.0
MFs, FIs & Banks	5.2
FII's	8.4
Other Bodies corporate	19.3
Public and others	31.0

## Comparative Price Movement



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Bhilware based Sangam India is the largest player in the Indian poly viscose (PV) yarn market. At present, Sangam India has 162720 spindles of polyester-viscose dyed yarn and 31,200 spindles for cotton yarn installed in Bhilwara along with 257 weaving machines and a 31 MW thermal power plant. Its Yarn division contributes 70% of the total revenue and the balance 30% is contributed by the Fabrics division. It is a market leader in certain counts (like 2/15's count and 2/18's count) where it is a price setter. The Company has strong presence in Indian synthetic blended fabric segment with brands like Anmol and Sangam. Its clients base comprise of Reid & Taylor, Banswara Syntex, Donear, Siyaram Silk Mills, Grasim.

We recently met the management of the Company to gain an insight of the textile industry and future prospects of the Company. Key highlights are as below:

- **PV yarn market to see revival:** Sangam is the market leader in PV dyed yarn in India (25% market share). The industry capex cycle (FY06-08) is over and there are no new CapEx planned by any players. So supply side constraint is expected to result in an improvement in the prices of PV yarn which augurs well for Sangam India.
- **Value addition, better product mix to see margin expansion:** Sangam was earlier mainly concentrated on coarser counts (realisation are lower than finer counts). Its per kg. realisation of yarn was Rs 130/kg. for FY09 and Rs 142/kg. for FY10. This is expected to improve to Rs 155/kg. in FY11 as the Company plans to focus more on value added products (fabrics converted to garments) and on account of better product mix. It also plans to open its own retail stores.
- **Financials set to improve:** The Company plans to bring down its debt:equity ratio from 3.5x in FY09 to 1:2 as there are no new CapEx planned. It plans to use cash accruals to repay debt. However, the net interest cost is set to increase from 1% to ~4.5-5%. The management expects the Topline to grow at 15-20% to Rs 1000+ crores in a two-year period and the PAT to multi-fold to Rs 45 crores by FY12. EBIDTA margins are expected to be in the range of 17-18% to Rs 160-180 crores by FY12. The RoE and RoCE were -8.7% and 1.8% respectively in FY09 and 10% and 7% in FY10. This is set to improve further.
- **Man-made fiber (MMF) to grow at a faster rate than cotton chain:** According to CRISIL Research, MMF is expected to grow at 7% CAGR over FY09-FY14 driven by strong domestic demand. This is expected to result in growth in demand for spun yarn and filament yarn. In terms of pricing, the gap between PV yarn is expected narrow with regards to cotton as the demand for PV yarn increases.
- At the CMP of Rs 37, the stock quotes at P/E of 3.2x its FY12E EPS of Rs 11.4 and marketcap/sales of 0.14x.

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