

ALOK INDUSTRIES

INR 64

Good growth at inexpensive valuations

BUY



Alok Industries' Q4FY07 results were in line with our expectations, with PAT (before extraordinary items) growing by 30.5% Y-o-Y to INR 451 mn on a 41% Y-o-Y revenue growth to INR 5.74 bn. EBITDA margins for the quarter, at 23%, improved 150 bps Y-o-Y. The growth has come from the new capacities attaining scale. Alok has made a forex gain of INR 334.3 mn. Phase I and II of its capacity expansion are complete with the exception of the terry towel unit. Phase III, along with the terry towel unit will be completed by end-FY08E. Alok also announced another round of capex of INR 11.8bn (Phase IV) to be completed by end FY09E to be financed through TUF loans and internal accruals.

Going forward, we expect the vertical integration into spinning and garmenting and the expansion in home textile weaving and apparel width weaving coming in Phase III improving EBITDA margins to 24% in FY08E. We have revised our forward estimates downwards by ~10% to account for higher capital costs due to the fresh capex and rising interest costs as well as flat realizations owing to the appreciating INR environment. AT INR 64, the stock trades at a P/E of 6.5x and 4.2x for our FY08 and FY09 EPS estimates of INR 9.9 and INR 15.2 respectively. We maintain our 'BUY' recommendation on the back of continued visibility on earnings growth and inexpensive valuations.

Result Highlights:

- ◆ Alok Industries' Q4FY07 results were in line with expectations with PAT (before extraordinary items) growing by 30.5% Y-o-Y to INR 451 mn on a 41% Y-o-Y revenue growth to INR 5.74 bn. Top-line and EBITDA growth was much higher than our expectations. However, higher capital costs as well as higher than expected tax outlay resulted in PAT growth being relatively subdued.
- ◆ EBITDA margin for the quarter, at 23%, improved 150bps Y-o-Y. The growth has come from the new capacities attaining scale.
- ◆ The company has repaid the ECB of JPY 11.8 bn and has made a forex gain of INR 334.3 mn, which we have accounted as an extraordinary income. After taking this in to account, the adjusted PAT for the quarter was INR 787 mn.
- ◆ Exports increased by 119% to INR 2.57 bn.
- ◆ The revenue mix for the quarter has been dominated by apparel fabric with 41.5% share of total revenues and a Y-o-Y growth of 5.3%. The texturizing division accounted for 24% of total revenue in the quarter against 22% last year. (Y-o-Y growth of ~54%) on account of capacity expansion from 65,000 TPA to 85,000 TPA. The home textile division grew by 24% and accounts for 18.7% of revenue, and the garment segment has grown its share from 1.25% to 1.6% of revenues.

Financials

Year to March	Q4FY07	Q4FY06	%change	Q3FY07	%change	FY08E	FY09E
Net revenues (INR mn)	5,741	4,077	40.8	4,799	19.6	22,751	29,942
EBITDA (INR mn)	1,321	876	50.8	1,073	23.0	5,478	7,216
Net profit (INR mn)	453	347	30.4	371	22.1	1,962	3,022
EPS (INR)	4.6	2.2	109.6	2.2	112.3	9.9	15.2
P/E (x)						6.5	4.2
EV/EBITDA (x)						7.5	5.8
ROE (%)						14.4	18.7

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Reuters : ALOK.BO
Bloomberg : ALOK IN

Market Data

52-week range (INR) : 99 / 50
Share in issue (mn) : 170.3
M cap (INR bn/USD mn) : 10.9 / 267.0
Avg. Daily Vol. BSE/NSE ('000) : 1,033.7

Share Holding Pattern (%)

Promoters : 29.9
MFs, FIs & Banks : 20.5
FIIIs : 38.2
Others : 11.4

* Capacity expansion status

The projects under Phase I & II have been commissioned. The Phase III project aggregating to INR 11 bn is progressing satisfactorily and expected to be commissioned by March 2008 along with terry towel project. The company is now embarking on Phase IV envisaging expansion of capacities for spinning, normal width processing, knit & knit processing, garments and a 50 MW power plant aggregating INR 11.8 bn. This project is to be funded through TUFs loan of INR 9.5 bn (tied up) and internal accruals of INR 2.3 bn. There is no equity dilution envisaged.

Going forward, we see the backward integration into spinning, forward integration into garmenting and the expansion in home textile weaving and apparel width weaving coming in Phase III improving EBITDA margins to 24% in FY08E. The company is setting up a textile SEZ in Silvassa through a wholly owned subsidiary.

Table 1: Capacity expansion schedule

Divisions	Units	Capacity post Phase I & II	Date of commencement	Capacity under Phase III	Capacity post Phase III	Capacity under Phase IV	Capacity post Phase IV
Home textiles							
Weaving	Mn Mtrs	45.2	Completed	24.8	70	0	70
Processing	Mn Mtrs	60	Completed	22.5	82.5	0	82.5
Terry towel	Tpa	6700	Dec-07	0	6700	0	6700
Apparel fabrics							
Wovens	Mn Mtrs	57.5	Completed	25	82.5	0	82.5
Processing	Mn Mtrs	82.5	Completed	0	82.5	22.5	105
Knitting	Tpa	16800	Mar-07	0	16800	50400	67200
Knit processing	Tpa	16800	Mar-07	0	16800	50400	67200
Yarn dyeing	Tpa	3000	Completed	0	3000	0	3000
Garments	Mn Pcs	8	Completed	7	15	7	22
Made-ups	Mn Pcs	6	Completed	4	10	3.75	13.75
Texturising	Tpa	85000	Mar-07	0	85000	0	85000
Spinning							
Ring frame	Tpa	5250	Complete	15000	20250	9750	30000
Open end	Tpa	2000	Complete	0	2000	0	2000
POY	Tpa	54000	Complete	0	54000	0	54000
Power Plant	MW	10	Complete	0	10	50	60

Source: Company

* Ongoing initiatives, tie-ups and JVs

Mileta is expected to start contributing to the bottom-line from FY08 onwards. However, we have not assumed any accretion in our estimates. Alok is awaiting final approval from the government of India for commencing its SEZ construction, after having done the land acquisition. Alok has entered a Trademark License Agreement signed with Peacock Alley Inc, a premium manufacturer and importer of luxury branded bed and bath linens in the USA to market its licensed range of products in India. Peacock Alley will provide design inputs and the brand will be positioned in the super premium category in the domestic market.

* Valuations- Inexpensive with good growth expectations

We have revised our forward estimates downwards by ~10% to account for higher capital costs due to the fresh capex and rising interest costs as well as flat realizations owing to the appreciating INR environment. At INR 64, the stock trades at a P/E of 6.5x and 4.2x for our FY08 and FY09 EPS estimates of INR 9.9 and INR 15.2 respectively. We maintain our 'BUY' recommendation on the back of continued visibility on earnings growth and inexpensive valuations.

Financial snapshot								(INR mn)
Year to March	Q4FY07	Q4FY06	% change	Q3FY07	% change	FY07U	FY08E	FY09E
Revenues	5,741	4,077	40.8	4,799	19.6	18,290	22,751	29,942
Dec/(inc) in stock	10	(653)	(101.5)	-25	(141.1)	(88)	-	-
Raw material	3290	2,973	10.7	2839	15.9	10,577	12,513	16,528
Staff costs	168	98	70.9	129	30.0	527	689	870
Others	953	783	21.7	782	21.8	3,106	4,071	5,328
Total expenditure	4,420	3,202	38.1	3,726	18.6	14,123	17,274	22,726
EBITDA	1,321	876	50.8	1,073	23.0	4,168	5,478	7,216
Interest	269	173	55.6	242	11.2	893	1,358	1,406
Depreciation	354	216	64.2	325	8.9	1,205	1,463	1,691
Other income	19	15	27.3	32	(40.9)	32	50	50
PBT	717	503	42.7	539	33.1	2,101	2,706	4,169
Tax	265	156	69.9	168	57.3	682	744	1,146
Net profit	453	347	30.4	371	22.1	1,419	1,962	3,022
Extraordinary items	334	-	-	-	-	334	-	-
Adjusted net profit	787	347	126.6	371	112.3	1,753	1,962	3,022
Equity capital (FV INR 10)	1,704	1,575	-	1,704	-	1,704	1,704	1,704
No. of shares (mn)	170	157	-	170	-	170	170	170
EPS (INR)	4.6	2.2	-	2.2	-	10.3	11.5	17.7
PE (x)*	3.47	7.27	-	7.36	-	6.2	5.6	3.6
EV/EBITDA (x)	-	-	-	-	-	7.5	7.5	5.8
Market cap / revenues (x)	-	-	-	-	-	0.6	0.5	0.4
as % of net revenues								
Raw material	57.5	56.9	-	58.7	-	57.3	55.0	55.2
Staff expenses	2.9	2.4	-	2.7	-	2.9	3.0	2.9
Other expenses	16.6	19.2	-	16.3	-	17.0	17.9	17.8
EBITDA	23.0	21.5	-	22.4	-	22.8	24.1	24.1
Net profit	7.9	8.5	-	7.7	-	7.8	8.6	10.1
Tax rate (%)	36.9	31.0	-	31.2	-	32.5	27.5	27.5

^On current equity base, not fully diluted

Company Description

Alok Industries has emerged as one of the largest textile weaving and processing players after it undertook an INR 23 bn capacity expansion. It has a diversified product mix comprising of apparel fabrics, home textile, texturized yarn, and garments. It has a strong hold in the domestic market with relationships with all major garment exporters. Alok is also focusing on the export segment with around 30% of revenues coming from this source. Its home textile division is totally focused on exports. Its investment in processing gives the company an edge due to the lack of quality processing facilities in the country. The company is actively pursuing inorganic acquisitions with its latest acquisition being a 60% stake in Mileta, a Czech-based company with significant presence in the high-end European market.

Investment Theme

Alok has been proactive in using the TUFs benefit extended by the government to set up large scale capacities that will ensure it caters better to large export orders. Its investment has resulted in a diversified product mix and its inorganic initiatives have given it an entry into the front-end of marketing-retailing on a global scale. Its domestic retail foray through home and apparel will complement its global operations. We believe that the company, with its large scale facilities, fully integrated operations and a diversified rich product mix, will benefit from both the export and domestic opportunities. We expect revenue CAGR of 28% and a profit CAGR of 35% over FY06-09. With the management no more looking at equity dilution, profit growth is likely to trickle down to the EPS as well.

Key Risks

Any delay in expansion plans over and above our assumptions will be a key risk to our recommendation.

Given the ambitious expansion plans, Alok faces the risk of unutilized capacities, especially in case there are over-capacities in its business segments.

An appreciating INR environment will impact realizations on dollar denominated sales for the company and hence impact profitability. This risk is becoming increasingly likely to play out in the current environment. Continuing weak dollar will likely be a problem for all exporting companies from Q1/ Q2 onwards depending on their hedging position. FY08 in general should see impact across the board. Alok's exports will be ~50-55% of its sales in FY08, spread across US & Europe, thereby limiting the downside. However, Alok's valuation remains inexpensive, even after assuming no growth in realization in the coming years.

Any future equity dilution beyond the assumed 199 mn shares will impact our estimates.

Financial Statements

Income statement					(INR mn)
Year to March	FY05	FY06	FY07U	FY08E	FY09E
Net revenues	12,245	14,207	18,290	22,751	29,942
Manufacturing expenses	8,647	9,791	12,802	14,811	19,522
Employee expenses	194	280	527	689	870
S G & A expenditure	1,020	1,174	794	1,773	2,334
EBITDA	2,384	2,961	4,168	5,478	7,216
Depreciation	576	805	1,205	1,463	1,691
EBIT	1,808	2,157	2,963	4,015	5,525
Interest expenditure	637	668	893	1,358	1,406
Other income	64	51	32	50	50
Profit before tax	1,235	1,540	2,101	2,706	4,169
Provision for taxation	343	448	682	744	1,146
Profit after tax	892	1,092	1,419	1,962	3,022
Recurring net profit	892	1,092	1,419	1,962	3,022
Extraordinary items	-	-	334	-	-
Reported profit	892	1,092	1,753	1,962	3,022
EPS (INR) fully diluted	6.7	6.9	8.8	9.9	15.2
CEPS (INR) fully diluted	11.0	12.0	14.9	17.2	23.7
Dividend per share	1.9	1.6	-	-	-

Common size metrics- as % of net revenues

Year to March	FY05	FY06	FY07U	FY08E	FY09E
Manufacturing expenses	70.6	68.9	70.0	65.1	65.2
Employee expenses	1.6	2.0	2.9	3.0	2.9
S G & A expenses	8.3	8.3	4.3	7.8	7.8
Depreciation	4.7	5.7	6.6	6.4	5.6
Interest expenditure	5.2	4.7	4.9	6.0	4.7
EBITDA margin	19.5	20.8	22.8	24.1	24.1
EBIT margin	14.8	15.2	16.2	17.6	18.5
Net profit margin	7.3	7.7	7.8	8.6	10.1

Growth metrics (%)

Year to March	FY05	FY06	FY07U	FY08E	FY09E
Net revenues	14.6	16.0	28.7	24.4	31.6
EBITDA	23.9	24.2	40.7	31.4	31.7
EBIT	17.4	19.3	37.4	35.5	37.6
Net profit	25.6	22.4	60.5	11.9	54.0
EPS	61.1	4.2	27.2	11.9	54.0

Cash flow statement					(INR mn)
Year to March	FY05	FY06	FY07E	FY08E	FY09E
Cash flow from operations	1,430	1,866	3,713	3,966	5,547
Cash for working capital	1,531	(193)	4,315	518	3,655
Net operating cash flow (A)	(101)	2,059	(602)	3,448	1,892
Net purchase of fixed assets	3,573	10,755	7,956	8,238	2,087
Net purchase of investments	38	319	-	500	1,000
Net cash flow for investing (B)	3,611	11,073	7,956	8,738	3,087
Proceeds from LTB/STB	5,005	8,256	9,596	(41)	-
Dividend payments/increase in capital	2,350	1,120	2,155	-	-
Net cash flow from financing	7,355	9,376	11,751	(41)	-
Free cash flow	(3,674)	(8,695)	(8,558)	(4,790)	(195)

Balance sheet					(INR mn)
As on 31st March	FY05	FY06	FY07E	FY08E	FY09E
Share capital	2,217	2,255	1,987	1,987	1,987
Equity share capital	1,340	1,575	1,704	1,704	1,704
Preference share capital	843	680	283	283	283
Share warrants	33	-	-	-	-
Reserves	4,607	6,501	10,676	12,639	15,661
Secured loans	12,395	18,002	23,218	28,000	29,000
Unsecured loans	794	3,443	7,823	3,000	2,000
Deferred tax liability	751	1,001	1,421	1,963	2,796
Sources of funds	20,764	31,201	45,126	47,588	51,444
Gross assets	8,694	14,034	20,763	28,000	33,500
Less: Depreciation	1,683	2,477	3,682	5,145	6,836
Net fixed assets	7,011	11,558	17,081	22,855	26,664
Capital WIP	1,782	7,185	8,413	9,413	6,000
Investments	79	397	397	897	1,897
Current assets	13,592	14,039	21,020	17,899	21,458
Debtors	4,030	3,545	5,305	5,610	7,383
Cash and bank balance	4,968	5,330	8,189	2,858	1,663
Inventory	3,633	3,582	4,454	5,610	7,383
Current liabilities	1,699	1,977	1,785	3,476	4,574
Creditors	1,397	1,540	1,740	3,476	4,574
Other liabilities	71	173	-	-	-
Provisions	232	263	44	-	-
Uses of funds	20,764	31,201	45,126	47,588	51,444
BV (INR)	51	56	64	74	89

Ratios					
Year to March	FY05	FY06	FY07E	FY08E	FY09E
ROE (%)	16.3	14.0	16.4	14.4	18.7
ROCE (%)	11.2	8.5	7.8	8.8	11.3
Debtors days	120	91	106	90	90
Inventory days	108	92	89	90	90
Fixed assets t/o	1.4	1.0	0.8	0.8	0.9
Debt/equity	1.2	1.8	1.8	1.9	1.7
Interest coverage	2.9	3.3	3.4	3.0	4.0

Valuations parameters					
Year to March	FY05	FY06	FY07E	FY08E	FY09E
EPS (diluted) (INR)	6.7	6.9	8.8	9.9	15.2
Y-o-Y growth (%)	61.1	4.2	27.2	11.9	54.0
CEPS	11.0	12.0	14.9	17.2	23.7
PE (x)	9.6	9.2	7.3	6.5	4.2
FCFPS (INR)	(27.7)	(57.2)	(43.1)	(26.6)	(6.0)
Price/BV (x)	1.3	1.2	1.0	0.9	0.7
EV/sales (x)	1.4	1.8	1.9	1.8	1.4
EV/EBITDA (x)	7.0	8.8	8.5	7.5	5.8
Dividend yield (%)	28.0	22.3	0.0	0.0	0.0

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INDIA RESEARCH

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Yogesh Radke - 2286 4328	Alternative & Quantitative	

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unless otherwise specified

RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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