

BOMBAY RAYON FASHIONS

INR 211

*Moving on to the next orbit*

BUY

Bombay Rayon's (BRFL) Q3FY07 results were in line with our expectations with PAT growing by an impressive 145% Y-o-Y. EBITDA margin continued to expand (492bps improvement Y-o-Y to 20.9%). This was driven largely by higher value added sales due to expanded processing capacities as well as growth in garmenting (generates 2x fabric margins). However, net margin during the quarter was up only 23 bps to 10.5% on account of higher capital costs as well as a higher tax rate.

We expect BRFL to continue to post strong results in the coming quarters as operational garmenting capacity increases to 60,000 pcs/day by end of this fiscal (there is a further delay in this expansion at the Doddaballapur integrated plant) against ~40,000 pcs currently, as also higher capacity utilization.

BRFL has also announced another huge expansion plan which should take its fabric capacity to 120 MMPA and garments capacity to 150,000 pcs/ day by the end of 2007. The total cost of the project is Rs.3.5bn to be funded through internal accruals and funds raised from the recent QIP- amounting to INR 2.95 bn.

We expect BRFL's PAT to grow at stupendous CAGR of 128% over FY06-09E, continuing the current traction. At INR 211, the stock trades at a P/E of 13.8x and 7.3x our FY08E and FY09E revised EPS estimates of INR 15.2 and 28.7 respectively (fully diluted). We maintain our 'BUY' recommendation based on continued momentum in earnings growth.

Key highlights of the quarter

- Revenues for the quarter grew 140% Y-o-Y and 27% Q-o-Q to INR 1.32 bn
 - Q-o-Q growth was driven by fabric growing at 51% Q-o-Q to INR 783mn BRFL sold 7.1 mn meters of fabric (up 58% Q-o-Q) at INR 110/meter (down 4% Q-o-Q).
 - Garments sales grew 11% Q-o-Q with flat realization at INR 296/ pc
 - Higher growth in fabric sales mirrored the delay in the Doddaballapur garments unit, while the processing plant being on stream already pushed fabric sales up.
- EBITDA up 214% Y-o-Y to INR 274 mn leading to a strong growth in margin (492bps)
 - Growth driven by increase in higher value added sales- in both fabric and garments
- Net income rose ~145% Y-o-Y to INR 138 mn
 - Higher tax rate as well as higher capital costs (expansion related) were the reasons.

Financials

Year to March	Q3FY07	Q3FY06	% change	Q2FY07	% change	FY07E	FY08E
Net revenues (INR mn)	1,316	549	139.6	1,033	27.5	4,673	9,024
EBITDA (INR mn)	274	88	213.6	199	37.6	953	2,031
Net profit (INR mn)	138	56	145.1	111	24.2	490	1,053
EPS (INR)	2.8	1.1	145.1	2.3	24.2	7.8	15.2
P/E (x)						27.1	13.8
EV/EBITDA (x)						14.3	6.5
ROE (%)						18.1	26.4

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Reuters : BRFL.BO
Bloomberg : BRFL IN

Market Data

52-week range (INR) : 276 / 104
Share in issue (mn) : 49.0
M cap (INR bn/USD mn) : 10.3 / 229.3
Avg. Daily Vol. BSE/NSE ('000) : 1,109.9

Share Holding Pattern (%)

Promoters : 55.9
MFs, FIs & Banks : 7.0
FIs : 14.1
Others : 23.1

* **Other Highlights**

- Delay in the garmenting capacity at Doddaballapur- The garmenting capacity at Doddaballapur (22,000 garments/ day capacity) is now likely to go on-stream in March' 2007 with commercial production from April' 2007.
- BRFL has also announced another round of ambitious expansion plan which should take its fabric capacity to 120 MMPA and garmenting capacity to 150,000 pcs/ day by the end of this year. The total cost of the project is Rs.3.5bn to be funded through internal accruals and funds raised from the recent QIP of 14mn shares at INR 210/ share recently, amounting to INR 2.95 bn. It has also issued 6.1 mn convertible warrants to a promoter group company, convertible within 18 months at INR 207/ share. We have factored this in while revising our FY08 estimates and introducing our FY09 estimates.

* **Outlook & Valuations- explosive growth likely to continue- best in class**

We continue to believe that BRFL is one of the best in class in the textile space - a unique business model offering a high growth play (PAT expected to grow at a CAGR of 128% for FY06-09E) coupled with proven delivery capabilities, and available at attractive valuations (At INR 211, the stock trades at 13.8x and 7.3x of our FY08E and FY09E revised EPS estimates of INR 15.2 and 28.7 respectively (fully diluted)). We maintain our **'BUY'** recommendation.

(INR mn)

Financial snapshot								
Year to March	Q3FY07	Q3FY06	% change	Q2FY07	% change	FY06	FY07E	FY08E
Revenues	1,316	549	140	1,033	27	1,990	4,673	9,024
Dec/(inc) in stock	(85)	(34)	154	(98)	-13			
Raw material	882	378	134	722	22	1,153	2,816	4,692
Job work charges	77	51	51	48	61			
Staff costs	90	23	290	90	-1	102	404	1,234
Other expenditure	79	44	79	71	10	417	500	1,068
Total expenditure	1,042	462	126	833	25	1,672	3,720	6,993
EBITDA	274	88	214	199	38	318	953	2,031
Interest	43	18	130	31	37	64	129	126
Depreciation	35	10	267	15	141	29	114	366
Other income	11	2	399	13	-11	14	30	50
PBT	208	62	237	167	25	238	739	1,588
Tax	71	6	1156	56	26	71	249	535
Net Profit	138	56	145	111	24	167	490	1,053
Extraordinary items	-	-		-		1	-	-
Adjusted net profit	138	56	145	111	24	168	490	1,053
Equity capital (FV INR 10)	490	490		490		490	630	691
No. of shares (mn)	49.0	49.0		49.0		49.0	63.0	69.1
EPS (INR)	2.8	1.1		2.3		3.4	7.8	15.2
PE (x)						61.5	27.1	13.8
Market cap / Revenues (x)						5.2	2.2	1.1
as % of net revenues								
Raw material	60.5	62.6		60.4		57.9	60.3	52.0
Job work	5.8	9.3		4.6		-	-	-
Staff expenses	6.8	4.2		8.8		5.1	8.7	13.7
Other expenses	6.0	8.0		6.9		20.9	10.7	11.8
EBITDA	20.9	15.9		19.3		16.0	20.4	22.5
Net profit	10.5	10.2		10.7		8.4	10.5	11.7
Tax rate	33.9	9.1	-	33.5	-	30.0	33.7	33.7

Company Description

BRFL has been one of the most ambitious Indian textile companies to take advantage of the removal of quotas from 2005 onwards. It has added garments as a product segment from 2005 besides growing its fabric capacity. This has resulted in its revenues doubling every year since FY04 and profits multiplying at a much faster rate. It has focused on developing design capabilities, vertical integration and lower lead-time production to push up ASPs of its products. It offers industry highest RoCE, growth and profitability margin.

Investment Theme

BRFL is one of the best in class in the textile space - a unique business model offering a high growth play (PAT expected to grow at a CAGR of 128% for FY06-09E) coupled with proven delivery capabilities, and available at attractive valuations. Amongst our basket of textile stocks, it has been among the few which has consistently delivered up-to the great expectations that had been built-up in the investor community post the quota removal. The recently announced expansion plan adds to the visibility on further growth prospects for the company. At INR 211, the stock trades at 13.8x and 7.3x of our FY08E and FY09E revised EPS estimates of INR 15.2 and 28.7 respectively (fully diluted).

Key Risks

- Any major delays in the capacity addition plans
- Any major demand slow-down in the end consumer countries resulting in dip in realizations.
- Garmenting being a labor intensive industry, BRFL might find it difficult to keep expanding its man-power base at a fast enough pace in sync with its capacity growth.

Financial Statements

Income statement					(INR mn)
Year to March	FY05	FY06	FY07E	FY08E	FY09E
Net revenues	1,039	1,990	4,673	9,024	16,141
Manufacturing expenses	847	1,438	3,006	5,130	9,038
Employee expenses	23	102	404	1,234	2,520
S G & A expenditure	65	132	310	630	1,047
EBITDA	104	318	953	2,031	3,536
Depreciation	19	29	114	366	468
EBIT	85	289	839	1,664	3,068
Interest expenditure	26	64	129	126	129
Other income	24	14	30	50	50
Profit before tax	82	238	739	1,588	2,989
Provision for taxation	19	71	249	535	1,006
Profit after tax	63	167	490	1,053	1,983
Recurring net profit	63	167	490	1,053	1,983
Extraordinary items	(0)	1	-	-	-
Reported profit	62	168	490	1,053	1,983
EPS (INR)	1.9	3.4	7.8	15.2	28.7
CEPS (INR)	2.5	4.0	9.6	20.5	35.5

Common size metrics- as % of net revenues

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Manufacturing expenses	81.6	72.2	64.3	56.8	56.0
Employee expenses	2.2	5.1	8.7	13.7	15.6
S G & A expenses	6.2	6.6	6.6	7.0	6.5
Depreciation	1.8	1.5	2.4	4.1	2.9
Interest expenditure	2.5	3.2	2.8	1.4	0.8
EBITDA margin	10.0	16.0	20.4	22.5	21.9
EBIT margin	8.2	14.5	17.9	18.4	19.0
Net profit margin	6.0	8.4	10.5	11.7	12.3

Growth metrics (%)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Net revenues	107.3	91.6	134.9	93.1	78.9
EBITDA	147.8	207.5	199.3	113.1	74.1
EBIT	136.3	241.1	190.4	98.5	84.3
Net profit	420.4	168.8	191.9	114.9	88.2
EPS	(21.1)	80.9	126.9	95.9	88.2

Cash flow statement

Cash flow statement					(INR mn)
Year to March	FY05	FY06	FY07E	FY08E	FY09E
Cash flow from operations	73	158	494	1104	1857
Cash for working capital	364	652	394	968	1,182
Net operating cash flow (A)	(291)	(494)	100	136	675
Net purchase of fixed assets	261	937	3,485	1,900	1
Net purchase of investments	-	99	50	50	50
Net cash flow for investing (B)	261	1,036	3,535	1,950	51
Proceeds from LTB/STB	232	677	1,800	(450)	(300)
Change in equity	310	949	2,944	1,263	1
Net cash flow from financing	542	1,626	4,744	813	(299)
Free cash flow	(552)	(1,431)	(3,385)	(1,764)	674

Balance sheet

As on 31st March	FY05	FY06	FY07E	FY08E	FY09E
Share capital	330	490	630	691	691
Reserves	129	1,044	4,191	6,130	7,519
Shareholders funds	459	1,534	4,821	6,821	8,210
Secured loans	266	841	2,750	2,300	2,000
Unsecured loans	6	109	-	-	-
Deferred tax liability	3	15	51	51	52
Sources of funds	735	2,498	7,622	9,173	10,263
Gross assets	321	784	3,784	6,684	6,684
less accumulated depreciation	69	97	211	577	1,045
Net fixed assets	252	687	3,573	6,106	5,639
Capital WIP	42	515	1,000	-	1
Investments	1	100	150	200	250
Current assets	685	1,585	3,847	4,634	7,584
Debtors	208	346	896	1,731	3,096
Cash and bank balance	9	117	1,427	425	750
Inventory	384	834	1,024	1,978	3,538
Advances	84	288	500	500	200
Current liabilities	250	389	947	1,768	3,211
Creditors	186	294	947	1,768	3,211
Other liabilities	31	9	-	-	-
Provisions	33	86	-	-	-
Working capital	436	1,196	2,900	2,866	4,373
Misc expenditure	4	-	-	-	-
Uses of funds	735	2,498	7,622	9,173	10,263
BV (INR)	14	31	77	99	119

Ratios

Year to March	FY05	FY06	FY07E	FY08E	FY09E
ROE (%)	23.5	16.9	15.4	18.1	26.4
ROCE (%)	25.3	18.7	17.2	20.4	32.1
Debtors days	73.1	63.5	70.0	70.0	70.0
Inventory days	134.9	152.9	80.0	80.0	80.0
Fixed assets t/o	3.5	2.7	1.6	1.7	2.7
Debt/equity	0.6	0.5	0.3	0.3	0.2
Interest coverage	4.1	4.7	6.7	13.6	24.2

Valuations parameters

Year to March	FY05	FY06	FY07E	FY08E	FY09E
EPS (INR)	1.9	3.4	7.8	15.2	28.7
Y-o-Y growth (%)	(21.1)	80.9	126.9	95.9	88.2
CEPS	2.5	4.0	9.6	20.5	35.5
PE (x)	111.2	61.5	27.1	13.8	7.3
FCFPS (INR)	(16.7)	(31.2)	(54.5)	(26.3)	9.0
Y-o-Y growth (%)	(776.4)	86.5	74.6	(51.8)	NA
Price/BV	15.1	6.7	2.8	2.1	1.8
EV/sales	6.9	5.6	3.1	1.8	1.0
EV/EBITDA	69.7	35.1	15.3	8.1	4.5
Dividend yield (%)	-	0.5	1.4	3.1	5.8

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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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