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CRISIL CRB Customised Research Bulletin

Sector Focus: Textiles

Key Offerings

Industry

- Market Sizing
- Demand/Supply Gap Analysis
- Input/Commodity Price Forecasting
- Impact Analysis of Economic/Regulatory Variables

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- Competitive Benchmarking
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CRISIL Industry Research covers 65 industries

Foreword

In this edition of the Customised Research Bulletin, we present our views on the 'Textile' sector.

In the Opinion section, we have analysed the technical textiles industry. Although this forms a very small part of the overall textile industry, it is one of the fastest growing segments. CRISIL Research estimates the domestic market size of the technical textile industry to be around Rs 640 billion in 2010-11. Going forward, growth will be led by relatively small but fast growing segments of the technical textile market such as meditech, sportech, geotech and oekotech (environment protection).

The sector insights draw upon our rich and extensive experience and knowledge base built over the last 20 years. This edition also features the interview of Ajay Srinivasan, Head – CRISIL Research who leads our textile research vertical.

We are confident that you will find this report highly informative and useful.

Prasad Koparkar
Head
CRISIL Research

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Opinion

Technical Textiles: Emerging area set to grow at a rapid pace

The technical textiles industry is one of the fastest growing segments of the textiles industry. CRISIL Research estimates the industry size to be around Rs 640 billion in 2010-11. Going forward, growth will be led by relatively small but fast growing segments such as meditech, sportech, geotech and oekotech. The larger segments, packtech, clothtech, hometech and mobiltech, will grow at a steady pace over the same period. (Technical textiles are textile products wherein functionality is the primary criterion.)

Technical textiles industry to grow sharply over the next 3 years

Technical textiles, which comprises products manufactured primarily for technical performance and functional properties rather than aesthetic and decorative characteristics, is growing at a rapid pace. The growth in the domestic technical textiles industry is primarily due to an increase in industrial activity and rising competitiveness vis-à-vis imports.

Technical textiles are used in sectors ranging from agriculture to defence. The industry can be classified into 12 major segments based on end use/areas of applications - agrotech, buildtech, clothtech, geotech, hometech, indutech, meditech, mobiltech, oekotech, packtech, protech and sportech.

Packtech, the largest segment, is estimated to have accounted for 33 per cent share of the industry in 2010-11. Meditech, sportech, geotech and oekotech are smaller in size but will be the fastest growing segments, over the next 3 years.

Packtech to grow at a healthy pace led by packaging

Packtech, the largest segment under technical textiles, is estimated to have comprised around 33 per cent of the domestic technical textiles market in 2010-11. The segment includes packaging materials such as polyolefin woven sacks, flexible intermediate bulk containers (FIBC), leno bags, wrapping fabric, jute fabric, soft luggage products and tea-bags. The products under packtech are mainly used for packing various goods for industrial, agricultural, consumer applications. As per CRISIL Research's estimate, the packtech segment was around Rs 209 billion in 2010-11. Polyolefin woven sacks, the largest product, accounted for 45 per cent of the segment, followed by jute fabric at 30 per cent.

Clothtech demand to be driven by rising consumption of clothing and accessories

Clothtech, the second largest segment, accounted for around 17 per cent of the technical textiles industry in 2010-11. Clothtech is generally used in clothing applications and the footwear industry, and includes products such as sewing threads, labels, shoe laces, Velcro and umbrella cloth. These products are used for better performance of the garment / footwear. As per CRISIL Research's estimate, the clothtech segment stood at around Rs 108 billion in 2010-11. Sewing threads was the largest product, accounting for 58 per cent of the industry in 2010-11, followed by labels.

Rising incomes and growing households to drive demand for hometech

Hometech, the third largest segment, accounted for around 12 per cent of the technical textiles industry in 2010-11. Hometech includes textiles used in households, particularly for interior decoration and furniture, carpeting, protection against the sun, cushion materials, and floor and wall coverings. Some of the hometech products are fibrefill, mattress and pillow fabric, furniture fabric, blinds, mosquito nets and non-woven wipes carpet cloth. As per CRISIL Research's estimate, the hometech industry in India stood at around Rs 75 billion in 2010-11, with furniture fabric being the largest segment, accounting for a 38 per cent share of the industry.

Going forward, the growth in this segment will be driven by an increase in the number of addressable households and a simultaneous increase in household income levels. The fastest growing products under the hometech segment over the next 3 years would be stuffed toys and HVAC (heating, ventilation, and air conditioning) filters.

Growing demand for automobiles to boost mobiltech consumption

Mobiltech accounted for around 9 per cent of the technical textiles industry in 2010-11. These textiles are used in the automobile industry, and include products such as NTCF, seat fabric, airbags, car covers, helmets, sunvisors and sunblinds. As per CRISIL Research's estimate, the mobiltech industry stood at around Rs 57 billion in 2010-11, with NTCF being the largest product, accounting for 60 per cent share of the segment.

Rapid urbanisation, rising working population, an increase in disposable incomes and increasing affordability of vehicles are driving demand for automobiles in the country. This would propel the mobiltech segment.

Annexure 1

Area	Usage	Major products
Packtech	Packaging and protective covering	Sacks, jute bags, FIBC, tea/ coffee bags
Clothtech	Garments, shoes, bags	Threads, labels, zippers, fibre-fill, interlinings
Hometech	Households	Mattress, furnishings, floor mops
Mobiltech	Automobiles, aircrafts, shipbuilding	NTCF, seat covers, seat belts, car upholstery
Indutech	Industrial processes	Filters, conveyor belts,
Sportech	Sports	Performance wear, artificial turf
Buildtech	Construction - houses, dams, tunnels	House/concrete wraps, sewer, pipes, facades
Meditech	Hospitals, hygiene	Surgical gowns, dressings, sutures, diapers
Protech	Protection of person/ property	Face mask, protective gear, fireproof clothes
Agrotech	Agriculture, horticulture, fishing	Shade fabrics, nets, fishing ropes, twines
Geotech	Earth/ soil protection	Ground stabilisers, erosion control
Oekotech	Environmental protection	Insulation, products to restrict oil spills

Source: CRISIL Research

Interview

Mr Ajay Srinivasan, Head- CRISIL Research

Ajay Srinivasan, Head, CRISIL Research, has over 10 years of experience in industry research, financial analysis and forecasting. He is the sector expert in textiles & apparels, banking and financial services. He has written numerous articles on this space, which have appeared in industry journals and magazines. He has worked closely with domestic as well as international clients in areas such as market assessment and demand forecasting. The other sectors under his purview include sugar, telecom, media, information technology and education. He holds a graduate degree in Commerce, and Masters in Management from Mumbai University.

What has been the demand for textiles in the domestic market in 2011? What is the growth forecast for 2012?

We expect the domestic sales volume of readymade garments (RMG) to remain flat in the calendar year (CY) 2011 as against the 6-7 per cent growth seen in CY 2010. Growth has been affected by the steep increase in apparel prices and slowdown in economic growth, both dampening consumer sentiments. However, the increase in apparel prices has enabled an 8 per cent growth in turnover in CY 2011, over 2010 levels. Apparel prices were increased to pass on the hike in raw material prices and the mandatory excise duty imposed on branded garments in the Union Budget for 2011-12.

We expect the demand scenario to improve only by the second half of CY 2012, following a drop in apparel prices enabled by lower raw material prices. We expect apparel manufacturers to roll back prices by close to 3 per cent in CY 2012, which could push volumes up by about 5 per cent. We expect growth to be largely volume-driven from 2012.

What was the size of textile exports in 2011? How is it expected to grow in 2012?

India's total apparel exports are expected to increase to $12.6 billion in CY 2011, about 14 per cent higher than in 2010. As in the domestic market, growth in the export market was driven by a sharp increase in the prices of apparels in CY 2011. The price increase however impacted volumes, as Indian garments became less competitive, especially in the EU market, which is the largest export market for Indian apparels. Led by higher prices, India's exports to the EU grew16 per cent in CY 2011 (y-o-y) to reach $6.5 billion (estimates), although volumes fell by about 5 per cent (y-o-y). Exports to the US also grew by around 9 per cent (y-o-y) to reach $3.4 billion (estimates) in CY 2011, while volumes fell by about 3.5 per cent.

However, in CY 2012, we expect India's overall apparel exports to remain flat (in US dollar terms) due to subdued demand in the key export markets and a correction in key raw material prices that is expected to bring down apparel prices.

What is your view on the competitiveness of Indian RMG exporters?

India's competitiveness in the export market is on par with other exporting countries such as Vietnam and Bangladesh, but lower than that of China. The main reason for India's low competitiveness is the lack of adequate investments in state-of-the-art weaving and processing facilities, which has led to high production costs at each of the successive stages after spinning. While India scores over other countries in terms of raw material availability and labour, factors such as the heavy skew towards cotton-based apparels, limited diversification of export markets and low productivity of labour and machinery limit the growth prospects of Indian RMG exporters.

India's share in the global RMG export markets has risen only marginally from 3.0 per cent in 2006 to an estimated 3.4 per cent in 2010. In fact, in recent years, Bangladesh has performed much better than India, and has overtaken India (RMG exports of around $15 billion as of 2010) despite being a late starter. Meanwhile, China continues to hold the lion's share (38-40 per cent) of global RMG exports (in value terms).

Are there any other export markets outside Europe and US that offer opportunities?

Indian apparel exports are dominated by exports to EU and the US. These markets contributed to almost 78 per cent of India's apparel exports (in value terms) in 2011. Indian garment exporters should look at new markets in order to reduce dependence on the US and EU, which are currently battling an economic slowdown. Some of the other promising markets outside Europe and US are Latin America, the Middle-East countries, Japan, South Korea, Australia and South Africa. India's exports of readymade garments to countries other than the US and EU-27 were estimated at USD 2.8 billion in 2011, accounting for 22 per cent of its total RMG exports. India has the potential to increase this share to about 28 per cent by 2016 by increasing its penetration in these markets. However, to achieve this, India has to compete with China - which commands over 50 per cent share of exports to most of these countries on cost, scale and lead time, and also make large investments in marketing and promotion.

What is your outlook on the prices of key raw materials?

Globally, cotton witnessed a sharp run-up in prices during the cotton season (CS) 2010-11 (October 2010 to September 2011). In CS 2010-11, the average international prices doubled (on y-o-y basis) to reach an all-time high of $1.7 per pound. The surge in prices was led by higher imports by China and limited availability of exportable surplus in the international market. In India, robust export demand pushed domestic cotton prices up to record high levels. Average domestic cotton prices rose by around 60 per cent during this period. The surge in domestic cotton prices was lower than that in the international market due to the restrictions imposed by the government on the quantity of cotton that could be exported from India.

The unprecedented increase in cotton prices- the most commonly-used fibre -had a corresponding impact on the prices of other competing fibres such as polyester and viscose, whose prices peaked during the year. The higher raw material prices trickled down to the end products, apparels and other textiles. The increase in apparel prices along with slower economic growth dented consumer sentiment and adversely impacted demand across the value chain.

Slowdown in demand and anticipation of higher cotton production in CS 2011-12 started to pull down prices from April 2011. Since then, cotton prices have come down by about 40 per cent, and the prices of other fibres have followed the suit.

In CS 2011-12, both global and domestic cotton production is expected to be at an all-time high, whereas demand is expected to remain sluggish due to the uncertain market conditions in the US and EU. These two factors combined will precipitate a further correction in cotton and other fibre prices in the last quarter of FY 2011-12 and in FY 2012-13.We believe that lower raw material prices would help revive demand, particularly in the domestic market.

What is your view on profitability across the value chain for 2011-12 and 2012-13?

In the first half of FY 2011-12, operating margins for our sample set of domestic garment manufacturers fell by around 60 basis points (bps) (y-o-y) to 12.1 per cent. Profitability was affected as players were able to pass on only a part of the increase in raw material costs and excise duties, given the sluggish and highly competitive market conditions. Exporters, however, managed to maintain their operating margins at around 7 per cent in the first half of the year.

Spinning companies had to face the brunt of the increase in raw material prices and sluggish demand. Operating margins for cotton yarn spinners plummeted by around 14 percentage points to 5 per cent in the first half of FY 2011-12, as yarn prices fell due to decline in demand and they were saddled with high cost cotton inventory procured during CS 2010-11. The operating margins of man-made fibre players (polyester manufacturers) dipped by 4 percentage points to an average of 5 per cent during this period.

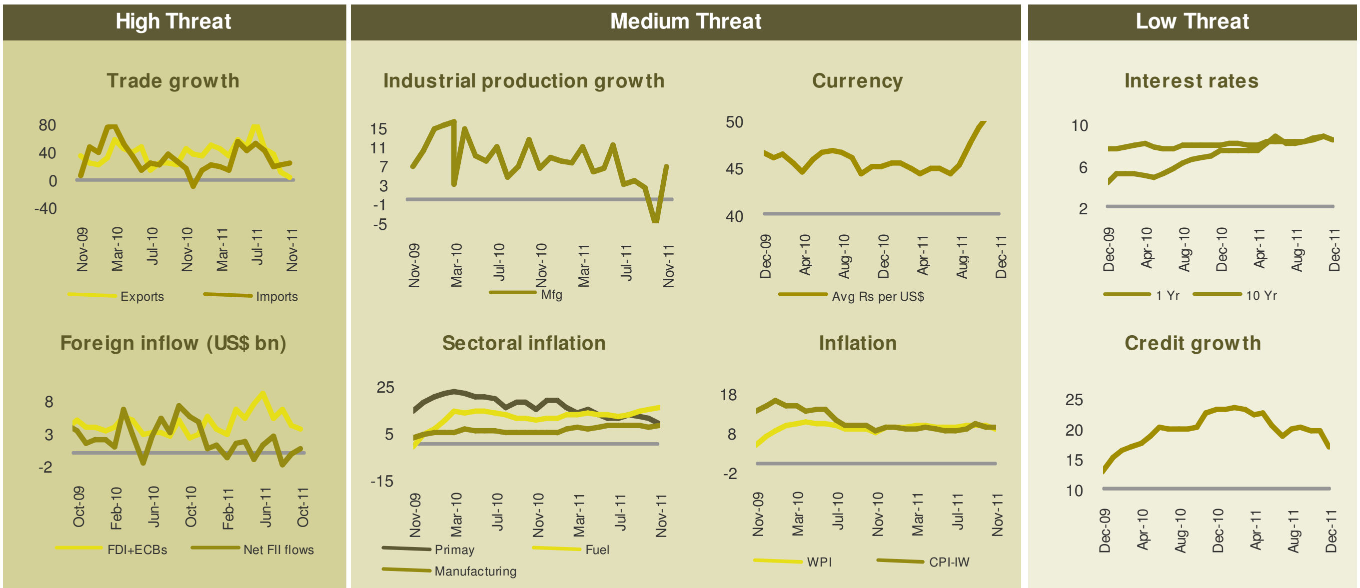
We expect apparel demand to remain sluggish in the second half of FY 2011-12 as well, and exert pressure on the margins of garment manufacturers. Operating margins of domestic garment manufacturers are expected to fall by 100-150 bps (y-o-y) to 10-10.5 per cent in FY 2011-12, whereas exporters are likely to maintain their margins at around 7 per cent. As most of the spinners have cleared their high-cost cotton inventory, their operating margins are expected to improve by 300-400 bps in the second half of the year. However, operating margins of polyester manufactures will remain stable at around 5 per cent, with the rupee depreciation negating the benefit of lower input costs. Lower input costs coupled with moderate demand growth will pave the way for improved profitability in the next year. Overall, we expect an improvement of 100-300 bps in operating margins across the textiles value chain in FY2012-13.

How can Indian textiles companies capitalize on the growth opportunities in the sector better?

India has abundant supply of raw material and labour to cater to the enormous opportunities in the domestic and export markets. However, the industry is plagued with a high level of fragmentation and lacks the economies of scale. Spinning is the only organised segment in the value chain. In order to improve its competitiveness, the industry needs to make significant investments across the value chain, especially in the weaving and processing segments.

Indian Economy

Economic Overview – January 2012



Macroeconomic Indicators - Forecasts

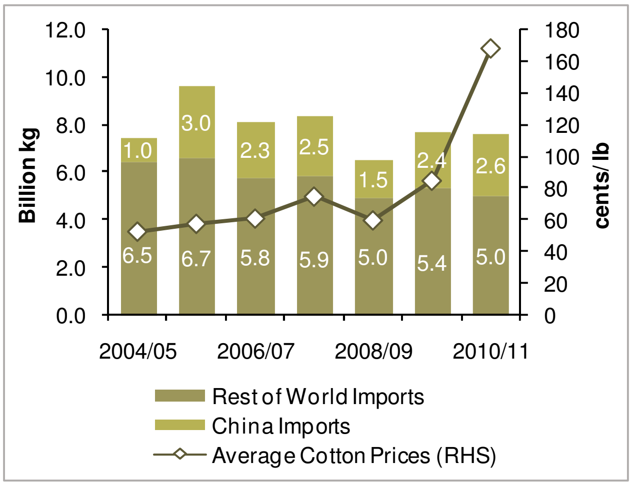
		2012-13	Rationale
Growth	Agriculture	3.0	GDP is expected to grow at 7.0 per cent in 2012-13. This is on the assumption of a mild recession during early 2012 in Euro Zone and no significant progress on domestic policy reforms. The services sector, growing at 8.7 per cent will remain the key driver of growth. At 5.6 per cent, industrial growth would be relatively higher than the preceding year due to the RBI's supportive monetary stance.
	Industry	5.6	
	Services	8.7	
	Total	7.0	
Inflation	WPI-Average	5.8	We expect WPI based inflation to average at 5.8 per cent in 2012-13. Overall inflation will be lower than last year because (a) low pricing power of corporates and (b) high base of last year that will keep food inflation lower.
Interest rate	10-year G-Sec (Year-end)	7.3-7.5	Yield on benchmark 10 year G-sec will be in the range of 7.3 to 7.5 per cent by March-end 2013. Although government borrowing pressure would remain high during the year, crowding out of private sector investment is unlikely due to weak economic activity. Yields will soften due to (a) lower inflation expectations and (b) monetary easing by the RBI.
Exchange rate	Re / US $ (Year-end)	46.5	The rupee is expected to settle at around Rs 46.5 per US dollar by March-end 2013. Although pressure on the current account would ease somewhat during 2012-13 as compared to 2011-12, it will remain on the higher side. However, we expect the situation in the capital account to improve on account of higher inflow of both FDI and FII which will support the rupee against US dollar.
Fiscal deficit	As a % of GDP	5.5	The fiscal deficit for 2012-13 is estimated to be at 5.5 per cent of GDP. We expect the government's revenue position to remain weak during 2012-13 in view of GDP growing at 7 per cent. In addition, we do not expect either a significant compression in government expenditure or in the subsidy burden due to higher food, fuel and fertilizer subsidies.

Source: CRISIL Centre for Economic Research

World cotton prices fall from record high levels of March 2011

Since September 2010, cotton prices continued rising by around 133 per cent till they reached $2.3 per pound in March 2011. The continued surge in cotton prices was on the back of high import demand from China and low availability of cotton for exports. Thereafter, prospects of better output along with sluggish demand caused world cotton prices to collapse from their all-time high level of $2.29 per pound in March 2011 to $0.95 per pound in December 2011. According to CRISIL Research, tight demand-supply situation caused cotton prices to average $1.68 per pound in CS 2010-11, an increase of about 100 per cent over the previous season.

Higher import demand led to spurt in prices



Source: ICAC, CRISIL Research

In CS 2010-11, world cotton production increased by 12 per cent to around 25 billion kg mainly due to an increase in area under cultivation in major cotton-producing countries such as India, US and Brazil. The cotton acreage is expected to rise because of high cotton prices received by farmers during CS 2009-10. Contrary to other major cotton-producing countries, production in China and Pakistan is estimated to be 8 per cent lower as compared to the previous season.

The decline in production is due to lower acreage as well as lower yield. Since the last two seasons, a shift towards other competing food crops, given high food inflation, has shrunk the area under cotton cultivation in China. In Pakistan, the lower production has been on account of the floods in the country during CS 2010-11.

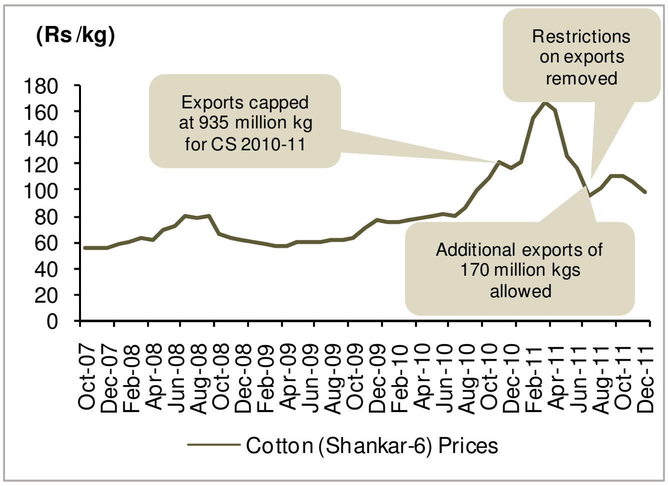
Domestic cotton prices plummet from record highs

Similar to international prices, domestic cotton prices too have been on a downward trajectory, crashing by around 40 per cent from an all-time high of Rs 168 per kg in March 2011 to Rs 99 per kg in December 2011. The Indian government had capped exports of cotton at 935 million kg (around 18 per cent of production) for CS 2010-11 in order to ensure availability of cotton for domestic consumption.

On February 25, 2011, the Centre banned further exports of raw cotton, thereafter halting all exports of cotton from India. Moreover, demand shifted slightly from cotton to polyester due to the high cotton prices. Hence, cotton prices started falling due to the slowdown in demand. To arrest the fall and boost demand, the government allowed additional exports of 170 million kg on June 8, 2011. However, prices kept declining due to a lull in demand, both in global and domestic markets.

To counter this, the government removed all quantitative restrictions on cotton exports, leading to a slight improvement in prices from August 2011 onwards.

Domestic cotton prices corrected from record highs



Source: CRISIL Research

Domestic cotton prices to average around Rs 100 per kg in CS 2011-12

Domestic cotton prices collapsed from an all-time high of Rs 168 per kg in March 2011 to Rs 99 per kg in December 2011. Due to the slowdown in demand in both the domestic and export markets, cotton prices averaged Rs 125 per kg in CS 2010-11 as compared to around Rs 80 per kg in CS 2009-10. Sluggish demand and higher production has led to a correction in cotton prices by around 40 per cent to Rs 95 per kg in December 2011 from Rs 168 per kg in March 2011. Improving stock levels in CS 2011-12 on account of higher production (third consecutive year of higher production) and moderate demand would support average prices for CS 2011-12 at around Rs 100 per kg, down by around 20 per cent y-o-y.

Cotton yarn demand to decline in 2011-12

Cotton yarn demand growth in 2011-12 is estimated to decline owing to sluggish demand from downstream industries catering to the domestic as well as export market. Domestic demand, which accounted for 57 per cent of total yarn demand in 2010-11, will continue to be the main driver in the longterm. CRISIL Research expects cotton yarn demand to grow at a CAGR of 4.5-5.5 per cent over the next 5 years (2011-12 to 2016-17),

Subdued demand and stressed margins in 2011-12

Record-high fibre and yarn prices seen during 2010-11 led to a sharp rise in fabric and garment prices. In addition, the hike in excise duty on all branded apparels resulted in apparel prices being pushed up further. This had an adverse impact on consumer sentiments, thereby impacting demand. Also, the slowdown in economic activities affected demand for non-apparel segments such as technical and industrial textiles. The overall demand slowdown in textile consumption, both in the domestic and export markets, resulted in sluggish growth for all types of yarns / fabrics.

In 2011-12, demand growth for PSF (Polyester Staple Fibre) and VSF (Viscose Staple Fibre) is expected to be moderate at 1.5-2 per cent each, while consumption of POY (Partially Oriented Yarn) and VFY (Viscose Filament Yarn) is expected to decline by about 7 per cent each, due to overall slowdown in textile consumption in both the domestic and global markets. We estimate that demand will pick up gradually in 2012-13. Over the next 5 years, consumption of PSF, VSF and POY would grow at a CAGR of 6.5-7 per cent each, while demand for VFY would remain moderate. With the anticipated further correction in cotton prices, polyester spreads are expected to come under stress in the second half of 2011-12, implying a 500-600 basis points decline in margins.

Prices and spreads to correct

India accounts for only a small percentage of the global feedstock production. As a result, feedstock prices follow landed cost.

Feedstock [PTA (Purified Terephthalic Acid) and MEG (Mono Ethylene Glycol)] prices are expected to remain firm in 2011-12 and soften in 2012-13 following the anticipated correction in naphtha and ethylene prices.

Polyester prices are expected to start softening from the second half of 2011-12 following the correction in cotton prices. With firm feedstock prices and correction in polyester prices, spreads would come under pressure resulting in a 500-600 basis points dip in operating margins for manufacturers during 2011-12.

Feedstock prices and exchange rate

($ / tonne)	FY-07	FY-08	FY-09	FY-10	FY-11
Naphtha	550	721	664	602	747
PX	1,194	1,142	1,079	994	1,192
PTA	911	892	859	904	1,098
Ethylene	1,154	1,198	989	987	1,098
MEG	867	1,198	763	765	948
Feedstock	1,070	1,162	990	1,030	1,257
USD - INR	45	40	46	47	46

Note:

Polyester feedstock = 0.86 tonnes of PTA + 0.33 tonnes of MEG

Source: CRISIL Research

Polyester spreads and prices (ex factory)

(Rs / tonne)	FY-07	FY-08	FY-09	FY-10	FY-11
PSF prices	67,967	64,140	64,396	65,304	82,500
PSF spreads	13,054	11,425	13,388	11,269	17,794
POY prices	74,951	76,994	71,437	70,954	88,903
POY spreads	20,054	24,279	20,429	16,919	24,197

Note:

PSF: Polyester staple fibre; POY: Partially oriented yarn

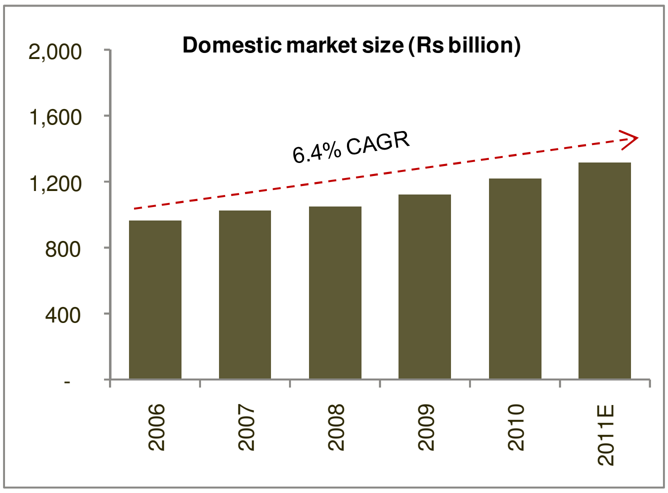
Source: CRISIL Research

Domestic apparel market to grow at a healthy pace over the next 5 years

In the last one year, apparel prices have been hiked by around 5-10 per cent, largely in order to pass on the unprecedented increase in raw material costs and the compulsory excise duty of 10 per cent on 45 per cent of the maximum retail price (MRP) of branded garments levied in the Union Budget 2011-12. The increase in apparel prices adversely impacted sales volumes, As a result, we estimate growth in RMG demand to have been led by increase in prices.

The domestic apparel market can be divided into the rural and urban segments. Despite being a big chunk of India's population - around 70 per cent - the rural segment contributed only 54 per cent to the total domestic RMG industry (value terms) in 2011. The urban population, made up for the balance 46 per cent of the value. The domestic market size of RMG has grown at a CAGR of 6.4 per cent over the past 5 years (2006 to 2011). By 2016, we expect the domestic apparel market size to reach Rs 1,855 billion, translating into a 7.0 per cent CAGR. CRISIL Research expects the share of rural markets in RMG sales to increase marginally over the next 5 years.

Domestic RMG demand



E: Estimated

Source: CRISIL Research; Textiles Committee- Government of India

All segments to register healthy growth during 2011-2016

The domestic apparel market can be classified into the rural and urban segments. Both these segments can be further classified into the men's wear, women's wear and kids' wear segments.

In 2011, growth in both domestic demand and exports was driven by higher realisations, as RMG manufacturers mostly passed on the rise in costs of raw materials (cotton and polyester) to the end users. The sharp increase in apparel prices, however, impacted volume growth, amidst weak consumer sentiment. While exports to the US and EU are estimated to have declined by around 3.5 per cent and 5 per cent, respectively, in 2011, domestic volumes rose by only 1 per cent.

Over the next 5 years (2011-2016), all the three segments are expected to grow at a marginally faster pace as compared to the previous 5 years. This growth would be primarily driven by volumes, as realisations are expected to increase only marginally.

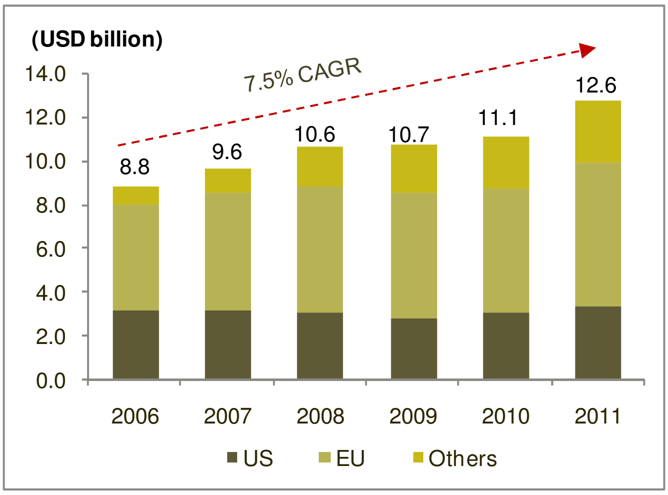
Rural areas dominate volumes but realisations higher in urban areas

Shirts, trousers, sarees, salwar kameez, jeans and T-shirts account for more than 60 per cent of the domestic RMG market (value terms). Volumes of shirts, trousers, jeans and T-shirts in the rural areas are higher compared to the urban areas. However, as per unit realisations of these categories are higher in the urban areas than in the rural areas, their market size is higher in the urban areas. For sarees and salwar kameez, the gap in realisations in rural and urban areas is the least among the above-mentioned six major categories. Moreover, owing to higher sales volumes, the market size for sarees and salwar kameez in rural areas is higher than that in urban areas.

Indian apparel exports to record 3.9 per cent CAGR between 2011 and 2016

CRISIL Research expects Indian apparel exports to grow to USD 15.4 billion, at a CAGR of 3.9 per cent from 2011 to 2016. This growth will be led by exports to the US and EU, which together account for about 80 per cent of total apparel exports from India. In 2012, overall Indian exports are expected to remain flat on the back of a decline in realisations and subdued demand. However, over the longer term, growth in the export market, as well, will be driven by volumes.

Destination-wise break-up of India's RMG exports



Source: CRISIL Research, Eurostat, OTEXA, Commerce Ministry

Independent Equity Research Report

Kewal Kiran Clothing Ltd (February 01, 2012)

Kewal Kiran Clothing Ltd's (Kewal Kiran's) Q3FY12 revenues and profitability were below CRISIL Research's expectations. Revenues remained flat y-o-y owing to an early Diwali festival in 2011 (sales factored in Q2FY12), management's conscious decision to go slow on sales growth to keep the rising receivables in check (receivable days reduced to 47 days as at Q3FY12 from 51 days as at Q2FY12) and an overall slowdown in consumer spending. EBITDA margin dipped 850 bps y-o-y to 18.6% on account of slower sales growth and higher outsourcing expenses. We have lowered our FY12 and FY13 estimates to factor in the cautious economic environment and the slowdown in discretionary spending. However, we maintain our fundamental grade of **4/5**, as we derive confidence from its strong balance sheet and established brand profile which will help the company tide over the short term slowdown in consumer spending.

Q3FY12 result analysis

Revenues remained almost flat y-o-y at Rs 646 mn (36% de-growth q-o-q). Apparel sales volume dropped 9.2% y-o-y, while realisations increased 10.6%. The drop in sales volumes can be attributed to a) an early Diwali season with most of the festive sales occurring in September 2011 (Q2FY12); b) the company deliberately slowing down volume off-take to bring down the receivable days - its receivable days had increased to 51 days as at September 2011 from an average 45-47 days; however, it came down to 47 as at December 2011; and c) slowdown in consumer spending. The accessories segment clocked revenues of Rs 36.8 mn in Q3FY12 as compared to Rs 65 mn in Q2FY12.

EBITDA margin declined by 850 bps y-o-y to 18.6% on account of lower sales growth and higher raw material expenses (which increased to 46% of revenues from 38% in Q3FY11). In spite of cotton yarn prices reducing by 15% y-o-y in Q3FY12, the benefit of price reduction in denim fabric is likely to seep in from Q4FY12. Besides, outsourcing expenses for winter wear also increase during 3Q, which also increases the raw material expenses.
The company reported PAT of Rs 88 mn against Rs 113 mn in Q3FY11. Higher other income of Rs 30 mn (Kewal Kiran has surplus cash balance of Rs 1 bn as of Q3FY12) helped the company restrict its PAT margin dip at 420 bps to 13.5%.

Valuation: Current market price is aligned

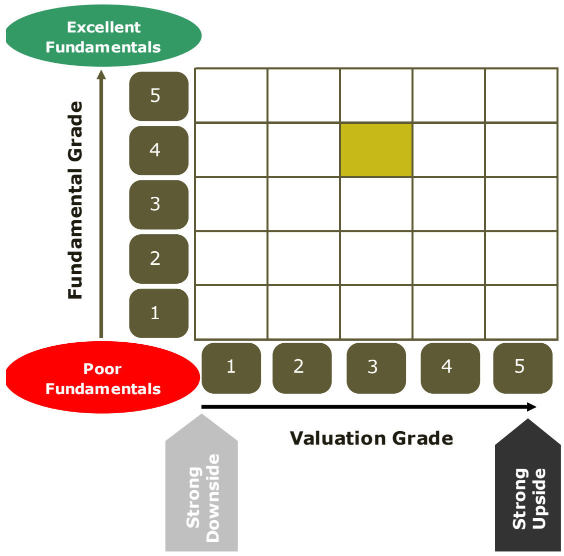
We continue to use the discounted cash flow method to value Kewal Kiran. We maintain our fair value of Rs 672 per share. We are positive on its strong business model and believe that it will tide over the short-term growth concerns.

Key Forecast

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	1,454	1,759	2,344	3,073	3,693
EBITDA	237	480	683	705	890
Adj PAT	143	322	460	503	633
Adj EPS-Rs	11.6	26.1	37.3	40.8	51.4
EPS growth (%)	-32.4	128.1	42.2	8.9	25.7
Dividend yield (%)	2.7	3	3.1	2.3	2.9
RoCE (%)	10.9	23.1	31.7	28.9	30.9
RoE (%)	9.8	19.7	24.6	23.5	25.2
PE (x)	11.3	8.9	16.8	15.3	12.2
P/BV (x)	1.1	1.6	3.9	3.3	2.8
EV/EBITDA (x)	3.9	4	9.6	8.9	6.8

E: Estimate
Source: Company, CRISIL Research estimate

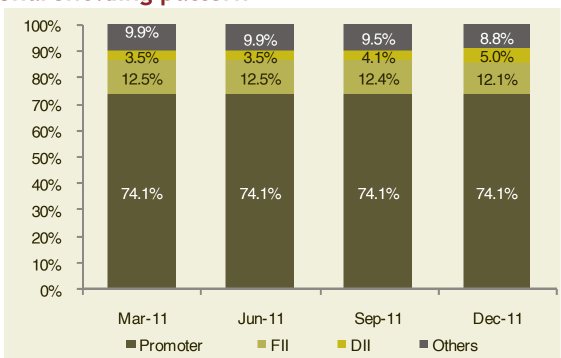
CFV matrix



Key stock statistics

NIFTY / SENSEX	5199/17194
NSE / BSE ticker	KKCL
Face value (Rs per share)	10
Shares outstanding (mn)	12.3
Market cap (Rs mn)/(US$ mn)	7,702/155
Enterprise value (Rs mn)/(US$ mn)	6,857/138
52-w eek range (Rs) (H/L)	875/431
Beta	0.7
Free float (%)	25.90%
Avg daily volumes (30-days)	2,694
Avg daily value (30-days) (Rs mn)	1.7

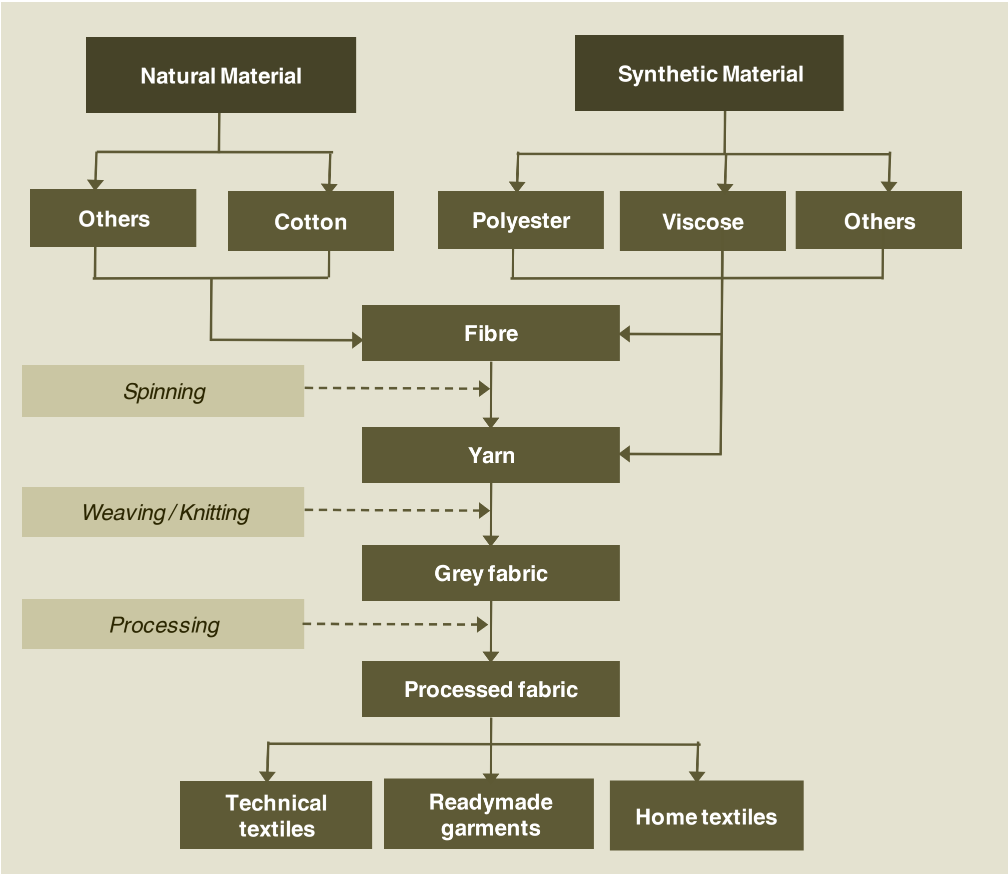
Shareholding pattern



Performance vis-à-vis market

	Returns			
	1-m	3-m	6-m	12-m
KKCL	-10%	-20%	-15%	11%
NIFTY	12%	-2%	-5%	-6%

Coverage



Key Offerings

Industry level

- Business opportunity across textile segments
- Analysis of industry size, structure, regulatory & policy framework
- Demand-supply dynamics; Investment opportunity and growth outlook

Company level

- Benchmarking studies
- Valuation studies
- Evaluation of alternate business models

Project level

- Demand-supply assessment of specific plant / project locations
- Financial modeling and vetting of project reports
- Project feasibility assessment

Media Coverage

mint

Friday, March 25, 2011

Rising global cotton prices worry yarn mills

Publication: Mint, Edition: Ahmedabad/Bangalore/Chennai/Delhi/Mumbai/Pune, Journalist: Vatsala Kamat, Page No: 18, Location: Bottom-Center, Width(cms): 19, Height (cms): 10, Size(sq.cms): 190

Rising global cotton prices worry yarn mills

Global cotton prices have been on the upswing for the last several months. Between October and February, cotton prices surged by about 60% in world markets, spurred by unabated demand from China, which accounts for a little less than half the world's consumption of cotton. This, coupled with a growing shortage in Chinese production of the fibre and a ban on exports from India, has kept global prices high. In fact, industry experts say that cotton prices during the current season (September 2010-October 2011) will be double the average of the previous season.

In India, cotton prices in February were about 110% higher (Shankar-6 variety) than the year-ago period, touching all-time highs. They may soften marginally as the rush to meet export obligations cools off.

However, spinning units will certainly feel the heat as yarn prices are not moving in tandem. Most of the large spinning mills will get a major portion of their cotton requirement for fiscal 2012 during the current cotton season ending October.

According to C. Sridhar, head of **Crisil Research**, "Yarn mills would see their procurement costs rise by 30-35% for fiscal 2012, but they are unlikely to be in a position to pass on the higher cost to customers (weavers), as there could be resistance or even a shift to use of blended yarn."

According to the Cotton Advisory Board data, the spinning industry's closing stock for fiscal 2011 would be three times that of the previous year. This along with additional yarn produced would increase supply to keep prices lower. In short, yarn mills would see a squeeze in profits, as higher stock would also increase the carrying cost and increase interest expenses.

In a recent report, Crisil Research estimates that if the current season continues to see higher cotton prices, it may reduce the operating profit margins of yarn mills during fiscal 2012 by at least 200-250 basis points. One basis point is one-hundredth of a percentage point.

Can one infer then that the profitability of yarn mills has peaked? Firms such as **Vardhman Textiles Ltd, KPR Mill Ltd, Alok Industries Ltd** and **Suryavanshi Mills Ltd** had registered robust 300-400 basis points increases in operating profit margins between fiscal 2010 and 2011. Analysts estimate the operating profit margin may fall to about 14% in fiscal 2012 from an industry average of around 16.5% in the current fiscal.

VATSALA KAMAT

THE ECONOMIC TIMES

Thursday , December 15, 2011

Profitability of Textile Cos to Improve: Crisil

Publication: The Economic Times , **Agency:**Bureau
Edition: Delhi , **Page No:** 15, **Location:** Top-Right , **Size(sq.cms):** 30

Profitability of Textile Cos to Improve: Crisil

Mumbai : Profitability oftextile companies will improve in next few quarters on low input costs and ris-. ing demand, a Crisil report said on Wednesday. "Companies' valuations offer potential upside as margins expand and we expect profitability of cotton yarn and man-made fibre players to improve over the next few quarters on account of decline in input costs and moderate demand growth," Crisi l said. During the first half of this fiscal, companies witnessed severe profitability pressures.

bluebytes
news that matters

Wednesday, March 23, 2011

Firm cotton prices to trim spinning cos` margins: CRISIL

Publication: www.myiris.com, Edition: Internet, Journalist: Bureau

Firm cotton prices to trim spinning cos` margins: CRISIL

Bureau

CRISIL Research expects soaring cotton prices to reduce operating margins of spinning companies by around 250 bps in 2011-12.

``These companies will see cotton procurement costs rising sharply as domestic cotton prices are expected to rise by close to 80% in the cotton season 2010-11 (October to September). However, cotton yarn prices are unlikely to rise as much. Rising cotton imports from China and a cap on Indian cotton exports are the main factors driving up global cotton prices,`` CRISIL Research said.

``A sharp increase in global prices due to rising imports from China has spurred cotton prices in India to new peaks. But prices in India have not increased as sharply as global prices because the government capped cotton exports from India for CS 2010-11 at 935 million kg - about 17% of the projected output, to ensure cotton supply for domestic consumers.``

``The ensuing rush by cotton exporters to procure cotton to meet the February 2011 export deadline lifted domestic prices by 40% to Rs 174 per kg, their highest level ever, between October 2010 and February 2011. In the remaining months of the season, domestic prices are likely to soften, as exportershave exhausted their quota and global prices are projected to decline. Even then, average domestic prices for the whole of CS 2010-11 will rise by almost 80% to Rs 140 per kg.``

``Spinning companies in India will feel the effect of rising cotton prices in 2011-12 (fiscal year: April to March). They would have procured three-fourths of their cotton requirements for 2011-12 during CS 2010-11, and the increased cotton prices during the season would push their procurement costs for 2011-12 up by 30-35%. By contrast, cotton yarn prices will rise by only around 20% during the fiscal, with domestic fabricproducers likely to resist any sharp increase in prices.``

CRISIL Research, therefore, expects the operating margins of spinners to drop by 250 basis points in 2011-12. ``So far, strong demand growth has enabled spinning companies to pass on the increase in cotton prices to buyers. Cash accruals for players have, therefore, jumped by more than 65% year on year in 2010-11. Spinners, however, will not be able to increase prices significantly in the coming months, as downstream fabric and garmenting companies would find it difficult to get similar increases from their consumers. This would impact profitability,`` said **Sridhar C, Head, CRISIL Research.**

Between October 2010 and February 2011, global cotton prices jumped by 65% to an unprecedented USD 2.1 per pound. CRISIL Research expects global prices to soften from April onwards, as the marketfactors in expectations of a robust rise in cotton output during CS 2011-12.

``Nevertheless, average global cotton prices in CS 2010-11 at USD 1.8 per pound would be around 120% higher than the previous season`s average. China, which accounts for 40% of the world`s cotton consumption, is facing a growing shortage of the fibre, as a part of the country`s cotton acreage has shifted to more lucrative food grain cultivation. Consequently, China`s cotton imports will increase by 35% to 3.2 billion kg in the current season,`` **CRISIL Research** added.

Afternoon
DESPATCH & COURIER

powered by blueb

Friday , December 02, 2011

Companies Must Adopt Prudent Water Management Policies

Publication: Afternoon Despatch & Courier , **Agency:**Bureau
Edition: Mumbai , **Page No:** 23, **Location:** Bottom-Right , **Size(sq.cms):** 96

Companies Must Adopt Prudent Water Management Policies

Statistics indicate that India has already acquired the status of a water-stressed nation.

The shrinking per capita availability of water in India necessitates that Corporates have a formal plan for water management including disclosures and reporting mechanisms. The per capita water availability in India, which is currently at 1544 cubic meters in 2011 vis-a-vis the international benchmark 1,700 cubic meters, is projected to further shrink to 1,140 cubic meters by 2050. Statistics indicate that India has already acquired the status of a water-stressed nation.

CRISIL Research conducted a comprehensive assessment of water disclosure practices of 500 publicly held companies in India. The study revealed that in 2010, only 30% of companies reported that they have company level water policy for prudent management of water usage. Similarly, 22% of companies reported that they have policies to manage waste water discharge. Only 3.3% of companies disclosed information on total quantity of water used and merely 1.5% reported the source from where water used is drawn. The study pointed out that sectors such as energy, materials and utilities are more proactive in disclosing information on waste water discharge.

Says Mukesh Agarwal, Senior Director, CRISIL Research "Most companies continue to have a cavalier approach towards use of water /waste water discharge and consequently, have been forced to face physical, regulatory and reputational damages. This has often led to significant impact on the financial performance, and in select cases, companies have even had to shift or shut down their business operations.. Indian companies must therefore manage their water usage/discharge in a responsible and sustainable manner." So far only 39 Indian companies have released sustainability reports in adherence to the Global Reporting Initiative (GRI).

Infact, given the likely impact of these risks on companies' financial performance, recently SEBI has made it mandatory for top 100 listed companies in terms of market capitalisation to submit Business Responsibility Reports, as a part of their Annual Reports, describing measures taken by them along the key principles enunciated in the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' framed by the Ministry of Corporate Affairs (MCA).

CRISIL Customised Research

CRISIL Research, the leading independent and credible provider of economic, sectoral and company research in India, utilises its proprietary information networks, database and methodologies to provide you customised research inputs and conclusions for business planning, monitoring and decision-making.

CRISIL Research provides research inputs and conclusions to support your decisions while

- Lending to an entity
- Taking a stake in an entity
- Transacting/partnering with an entity
- Feasibility of entry into a new business segment
- Feasibility of capacity expansion
- Choice of location, fuel, other inputs
- Choice of markets, targeted market share
- Product mix choices
- Production/sales planning

CRISIL Research provides you the following inputs to help you identify/assess business opportunities or review business risks

- Identification/assessment of new business themes/areas
- Building futuristic scenarios and discontinuity analysis over the long term
- Assessing the impact of changes in economic variables, commodity prices on your business
- Field-based information on variables and tracking indicators for ongoing review of opportunities/risks in your sectors of interest
- Assessment of credit/investment quality of your portfolio

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