

Sangam (India) Limited

Subdued performance

Fundamental Grade **3/5 (Good fundamentals)**

Valuation Grade **3/5 (CMP is aligned)**

Industry **Textiles, Apparel and Luxury Goods**

Sangam (India) Ltd's (Sangam's) Q3FY12 revenue was lower than CRISIL Research's expectations. Its textile revenues dipped q-o-q and y-o-y to Rs 2,539 mn. EBITDA margin remained flat q-o-q at 10.7%. Considering the uncertain macro-environment, the company has tightened its working capital cycle and is operating at low inventory levels and debtor days. Sangam has bagged a new toll collection contract from National Highway Authority of India to operate toll booths in JNPT (Mumbai), while the existing contract in Bhilwara (Rajasthan) has been extended by four months. We have revised our earnings estimates to factor in incremental toll-collection revenues and lower short-term borrowing with lower working capital requirement. Given Sangam's established position in the domestic poly viscose (PV) yarn segment and its continued thrust on value addition, we maintain our fundamental grade of **3/5**.

Q3FY12 result analysis:

- Revenues declined by 18% q-o-q (up 6.7% y-o-y) to Rs 3,079 mn. Revenues from the textile business de-grew by 23% q-o-q and 9% y-o-y to Rs 2,539 mn as PV yarn and fabric volumes de-grew owing to slowdown in the textile sector. The company's export revenue declined 40% q-o-q and 7% y-o-y to of Rs 558.2 mn as it had pushed most of its export sales to Q2FY12 to take the benefit of the Duty Entitlement Passbook Scheme (DEPB), which was to be retracted post September. The toll collection division, which commenced in Q3FY11, reported revenues of Rs 540 mn, as compared to Rs 466 mn in Q2FY12.
- Sangam's EBIT margin in the textile segment remained flattish q-o-q at 5.6%, while the EBIT margin in the toll segment declined to 2.4% from 6.8% in Q2FY12 on account of higher operating expenses.
- The company has reported Rs 62 mn of notional loss on account of mark-to-market conversion of forex-based contracts in other expenditure. We have re-classified the same under extraordinary expenses.
- Sangam reported an adjusted net profit of Rs 44 mn as against Rs 60 mn profit in Q2FY12. It reported an adj EPS Rs 1.1 in Q3FY12 as against Rs 1.5 in Q2FY12.

Valuation: Current market is aligned

We continue to use the sum of the parts method to value Sangam and maintain our fair value of Rs 51.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	7,548	8,579	11,676	14,406	14,823
EBITDA	756	1,309	2,011	1,582	1,968
Adj PAT	(160)	172	607	279	423
Adj EPS-Rs	(4.1)	4.4	15.4	7.1	10.7
EPS growth (%)	(397.4)	NM	253.1	(54.1)	51.8
Dividend yield (%)	-	3.9	4.0	2.3	3.4
RoCE (%)	1.8	7.7	14.9	9.0	11.2
RoE (%)	(8.7)	9.4	28.3	11.1	15.0
PE (x)	NM	6.8	2.9	5.7	3.7
P/BV (x)	0.2	0.6	0.7	0.6	0.5
EV/EBITDA (x)	9.6	6.1	4.4	5.8	4.8

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

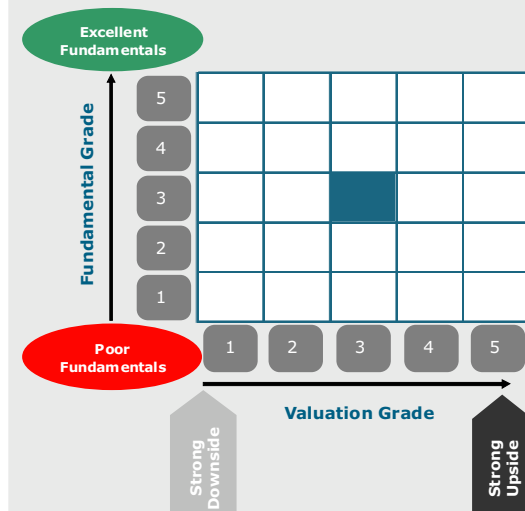


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Fair Value **Rs 51**

CMP **Rs 47**

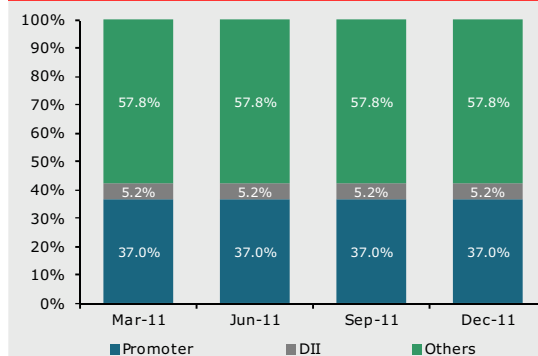
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5564/18289
NSE / BSE ticker	SANGAM
Face value (Rs per share)	10
Shares outstanding (mn)	39.4
Market cap (Rs mn)/(US\$ mn)	1,860/38
Enterprise value (Rs mn)/(US\$ mn)	8,945/182
52-week range (Rs) (H/L)	55/26
Beta	0.9
Free float (%)	63%
Avg daily volumes (30-days)	67,197
Avg daily value (30-days) (Rs mn)	2.8

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
SANGAM	31%	69%	48%	5.2%
NIFTY	12%	13%	10%	0.3%

ANALYTICAL CONTACT

Chetan Majithia (Head) chetanmajithia@crisil.com
 Neeta Khilnani nkhilnani@crisil.com
 Arun Vasu avas@crisil.com

Client servicing desk

+91 22 3342 3561 clientservicing@crisil.com