

Investment Call : Nandan Denim



Nandan Denim: Capex to drive growth

Nandan Denim (NDL) is a part of Chiripal group and currently the second largest integrated denim fabric company in India based in Ahmedabad. The company manufactures and supplies quality grey cotton fabrics, khakis and denims. Denim contributes 90% of the total revenue. It has invested heavily in capacity expansion to become the largest denim company in India and fourth largest in the world by March 2016.

Capacity expansion to boost growth: NDL is under expansion process from last 2 years with an investment plan of Rs. 620 crores to become India's leading denim company. Denim fabric capacity is being increased to 110 MMPA (million metres per annum), spinning capacity almost double to 124 TPD (tonnes per day), new yarn dyed shirting capacity of 10 MMPA and yarn dyeing capacity of 6 TPD. The new capacities will be streamlined and fully operational from Q1 FY17.

Focus on exports: Currently NDL exports its products to 27 countries with export's share of 12.7% to the total revenue in FY15. The management aims to boost export share to 25-30% in next 2 years to scale down dependence on domestic markets and improve its clientele list.

Backward integration to improve margins: NDL is doubling its spinning capacity to 124 TPD to enhance captive consumption of yarn from 50% to around 80-85%. This will reduce the cost of the fabric and improve operational margins. Also NDL has set up power plant to meet its captive power consumption and support from state power grids in case of power shortage.

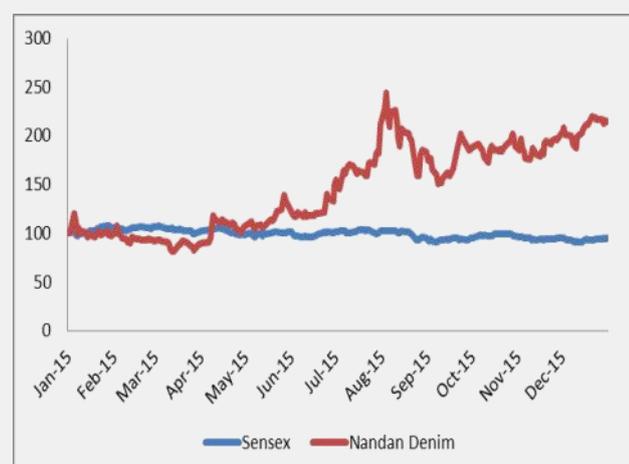
Value added products and strong clientele: The company entered into premium shirting in 2015 to leverage on its strong distribution network. The management has plans to raise the current shirting capacity in next couple of years. Spykar, Mufti, Armani, Polo, Tommy, Colorplus, etc. are among the top clients of NDL.

Domestic demand to outpace global demand: Domestic market contributed 87.3% to the total topline in FY15. India has one of the lowest per capita consumption of denim compared to other developing and developed nations. According to Technopak, Indian denim market is expected to grow at 14-15% in next few years while global market at 3-5% and the size of the Indian denim market is expected to reach Rs. 27,200 crores by 2018. NDL has 10% market share in India with competition from many organized and unorganized players. But with enhanced capacity and growing demand, NDL will be able to garner market share going forward.

BUY

Target price Rs.	183		
CMP Rs.	150		
Mkt Cap Rs. Cr.	679		
52wk H/L (Rs.)	174/50.5		
Avg Vol (30 days)	200,000		
FV Rs.	10		
Shareholding			
	Latest (%)		
Promoters	60.94		
FII	3.37		
DII	0.06		
Bodies Corporate	7.52		
Others	28.11		
Returns			
	3M	6M	12M
Sensex (%)	(4.3)	(8.8)	(8)
Company (%)	12	48	78.4

Relative stock price performance



Financials (Rs. In crores)	FY13 A	FY14 A	FY15 A	FY16 E	FY17 E
Total revenue	703.1	893.8	1,096.5	1,173.3	1,338
PAT	31.1	39.3	51.4	62.3	74.6
EPS (Rs)	6.8	8.6	11.3	13.7	16.4

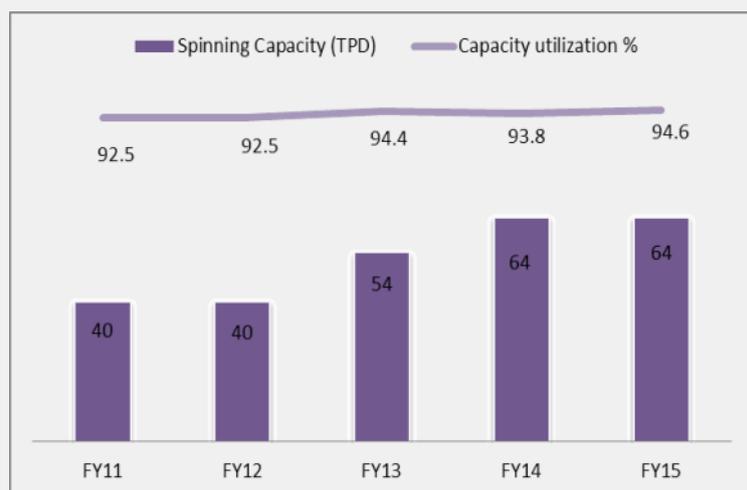
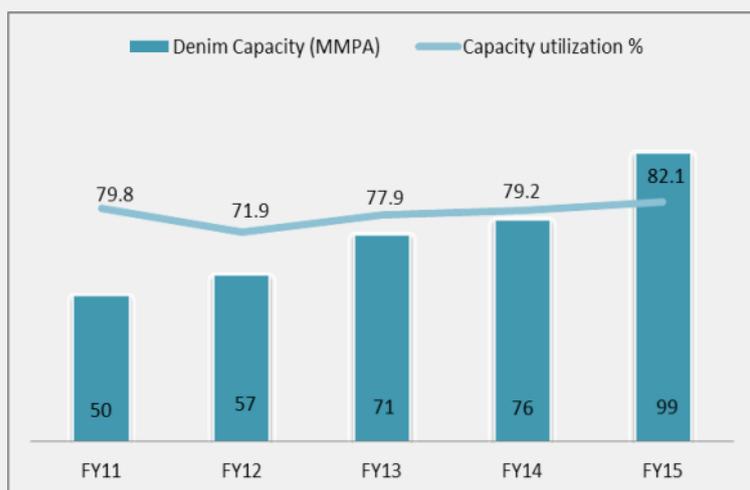
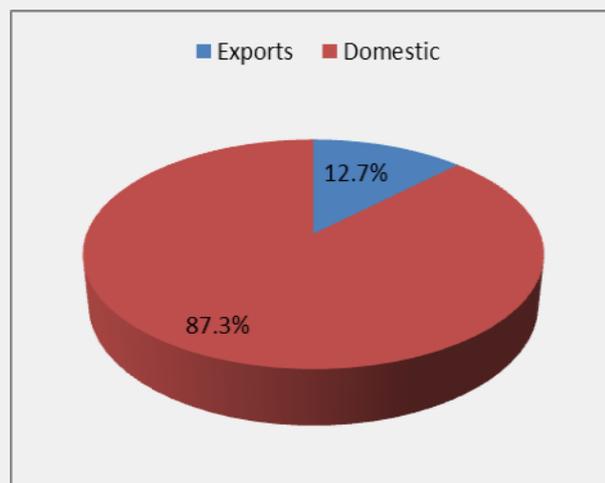
Outlook and Valuation:

After huge capex investment plan, NDL will create itself as the biggest denim player in India with exports to many countries. We believe demand for Denim will surge going forward mainly due to improving standard of living, rising population and income levels, online sales, penetration in smaller cities, more women workforce and brand awareness.

India's share in global textile industry will advance because of problems faced by China and other exporting countries. Also favorable government policies like capital subsidy, interest rate subsidy, lower power tariffs and VAT reimbursement have benefitted our textile industry and we foresee the same to continue in the future.

With strong distribution network, proactive management and growing presence, NDL will be able to escalate its market share in denim segment from existing share of 10%. Out of the total capex investment of Rs. 620 crores, 70% is financed with debt and 30% with fresh equity. We expect debt to peak out in FY16. NDL's operational margins will improve on addition of spinning capacity and value added products in its portfolio.

Net sales and Net Profit surged at CAGR of 23.9% and 34.7% respectively in last 5 years. We expect NDL to grow around 10-15% in following 2-3 years. At CMP of Rs. 150 the company is trading at FY16E PE of 11 and FY17E PE of 9.1 times. We recommend to buy NDL for long term horizon with price target of Rs. 183.



Key risks:

1. Competition from other denim companies.
2. Cotton being the key raw material, increase in cotton prices can reduce margins.
3. Huge debt and interest cost due to capacity expansion.

Financials (Rs. In crores)	FY11	FY12	FY13	FY14	FY15
Total revenue	507.7	574.4	703.1	893.8	1,096.5
EBITDA	68.2	83.1	106.9	132.7	165.4
EBITDA %	13.4	14.5	15.2	14.8	15.1
PAT	17.4	18.8	31.1	39.3	51.4
PAT %	3.4	3.3	4.4	4.4	4.7
EPS (in Rs)	3.8	4.1	6.8	8.6	11.3
Total shareholder funds	145.4	158.9	183.6	216.5	258.8
Total debt	230.7	254.2	365.5	390.7	422.9
Fixed Assets	281.0	306.0	395.3	452.4	447.4
DE	1.6	1.6	2.0	1.8	1.6
ROC %	10.6	11.7	13.1	13.9	15.6
ROE %	12.7	10.3	18.1	19.7	21.6
Payout %	-	25.2	18.2	14.3	14.6

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S. No.	Statement	Answer	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I/we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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