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Analyst Meet Update
June 25, 2015

Nandan Denim Ltd.

Current	Previous
CMP : Rs.97	
Rating : NR	Rating : NR
Target : NR	Target : NR

(NR-Not Rated)

STOCK INFO	
BSE	532641
NSE	NDL
Index	S&P BSE SMALLCAP
Bloomberg	NAND IN
Reuters	NANE.BO
Sector	Textiles
Face Value (Rs)	10
Equity Capital (Rs mn)	455
Mkt Cap (Rs mn)	4,414
52w H/L (Rs) (Adj.)	99/40
3m Avg Daily Volume (BSE + NSE)	299,045

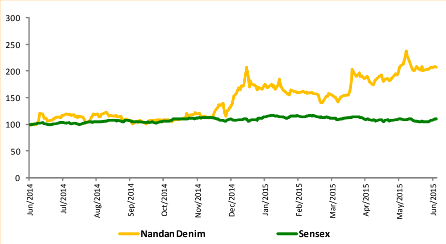
SHAREHOLDING PATTERN	%
(as on Mar. 2015)	
Promoters	60.9
FIIs	3.1
DIIs	0.1
Public & Others	35.9

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
NANDAN DENIM	12	60	140
SENSEX	1	-1	10

Source: Capitaline, IndiaNivesh Research

NANDAN DENIM v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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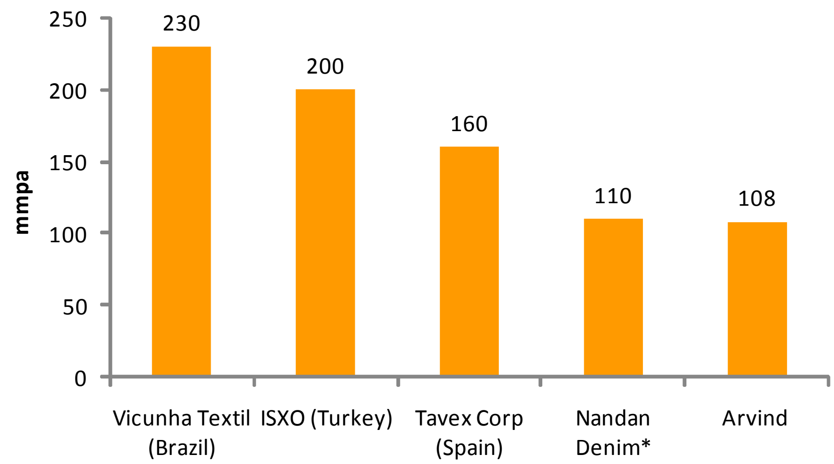
Nandan Denim Ltd (NDL), part of the Chiripal Group, is the second largest denim player in India with capacity of 99 mn metres per annum (mmpa). It also has 10 mmpa manufacturing capacity of shirting fabrics. The company is on an expansion spree to become the largest manufacturer of denim in India. We met the management of the company at the Analyst Meet and following are the key takeaways:

Global denim industry to grow at 3-5% while Indian denim industry is likely to grow at 18% CAGR

Indian denim capacity is poised to reach 2 bn meters per annum (bmpa) by 2018 from 1.2 bmpa currently, signifying 18.5% CAGR. In contrast, international market capacity is likely to grow at 3-5% CAGR. Of the 1.2 bmpa Indian denim capacity, usable installed capacity is 1 bmpa. Domestic market demand is of 800 mmpa while the balance 200-300 mmpa is exported. India houses 10% of global denim capacity and NDL manufactures 10% of Indian denim capacity. Nandan Denim is poised to become the largest manufacturer of denim fabrics in India post expansion of its capacity to 110 mn meters per annum (mmpa). Arvind Ltd with capacity of 108 mmpa and Aarvee with capacity of 85 mmpa would be the second and third largest denim players. NDL, Arvind and Aarvee, (together) would constitute one-third of the Indian denim industry.

Global top 5 denim players (FY15)



Source: Company, IndiaNivesh Research

** Note: Post completion of capex*

Consumption in India is skewed with 7% of population consuming 49% of denim. Male segment contributes 85% to the total consumption while balance 15% is consumed by female and kids segment. E-commerce offers good opportunity to improve consumption, though it is at a nascent stage.

Cotton –key raw material

Cotton prices remained below minimum support price (MSP) in last year. However, it has now stabilised due to intervention of Cotton Corporation of India. China import of cotton is declining. The management does not expect any correction in cotton MSP. It expects cotton prices to remain range bound with decreased volatility. The management mentioned that decline in cotton prices would be beneficial for the company. The company keeps an inventory of ~4 months depending on the outlook and trend of cotton prices.

Expansion plan of Rs 6.12 bn till FY16E

NDL has embarked on an expansion plan of Rs 6.12 bn which would increase its denim, spinning and yarn dyeing capacity. Of the total expansion Rs 2.5 bn would be used for spinning, Rs 2.5 bn for denim and balance Rs 1.12 bn for yarn dyeing to be used in shirting manufacturing. The company would get set off of Value Added Tax (VAT) for 8 years post completion of project in March 2016. With the establishment of higher spinning capacity, the cost of fabric is likely to reduce which would lead to better margins and ROCE. The management mentioned that margin improvement is likely to be in the range of 4-5% due to an advantage of ~Rs 12.5 per meter in the cost of fabric by in-house manufacturing of yarn.

Capacity expansion plan

Capacity	FY13	FY14	FY15	FY16E
Spinning (tons per day)	54	64	64	124
Denim (mmpa)	71	76	99	110
Shirting	0	10	10	10

Source: Company, IndiaNivesh Research

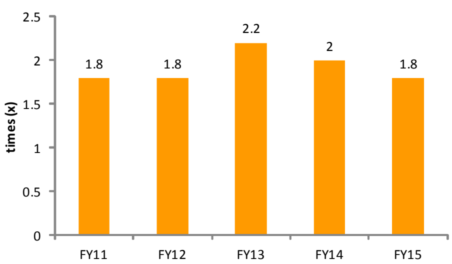
The expansion is likely to be financed through a mix of debt and equity in 70:30 ratio. Of the total expansion cost, Rs 3.049 bn has already been incurred till FY15. Debt of the company stood at Rs 4.7 bn at the end of FY15. The management expects its peak debt to be ~Rs 6.5 bn by FY16E. The company is planning to raise Rs 500 mn – Rs 1 bn to part firnance the equity portion. It has already passed a Board resolution to raise Rs 1 bn through convertible warrants on preferential basis to promoter / non-promoter investors.

Post-expansion, the management mentioned that it would consolidate its capacities for one year. Post FY17E, the Textile Upgradation Funds Scheme would expire. The company would plan its next growth phase post clarity on investment avenues. Free Cash generated through the current expansion plan is likely to be distributed in the form of dividends, in the event of non-finalisation of further investments.

Exports to be in focus

Currently, exports contribute 10% to the topline of the company. NDL exports to 22 countries in the world; however, more than 80% of the exports are to Latin America, Africa and Bangladesh. Polo, Target, Calvin Klein are the indirect client of the company, supplied through the wholesaler/distributor export channel. The company plans to increase the share of exports to 25% in its revenue mix with an aim of diversifying its clientele and de-risk its revenue model. The realisations and margins are almost same in domestic and export market for the current product mix of the company.

Debt Equity Ratio



Source: Company, IndiaNivesh Research

Financial Performance

The revenue of the company has increased at a CAGR of 21.2% over FY11-15. This was driven by higher volume due to increasing capacities. Shift to higher value added products, backward integration and lower share of traded products in revenue mix enabled the company to improve its EBITDA margin to 15.1% in FY15 from 13.4% in FY11. However, debt remains a key negative for the company with leverage of 1.8x in FY15. This is likely to reach 2.1x by FY16E. ROE of the company increased to 21.6% in FY15 from 12.7% in FY11 while ROCE increased to 15.8% in FY15 from 10.6% in FY11.

Valuation

At CMP of Rs 97, the stock trades at PE and EV/EBITDA 5.8x and 3.3x of its FY17E Bloomberg consensus estimates respectively. The company is on an expansion mode till FY16E which will start showing results from FY17E. It would be the largest manufacturer of denim in the country. It is likely to manufacture shirting with premium quality. Profitability of the company is likely to increase. Key risk includes high leverage, equity dilution and any sharp volatility in cotton prices. We do not have any formal rating on the stock.

Quick Fundamentals

Particulars (Rs Mn)	FY11	FY12	FY13	FY14	FY15
Net Sales	5074	5738	7031	8938	10965
Growth (%)	*35.0*	*13.1*	*22.5*	*27.1*	*22.7*
EBITDA	679	826	1069	1327	1654
Margin (%)	*13.4*	*14.4*	*15.2*	*14.8*	*15.1*
PAT	173	188	311	393	514
Margin (%)	*3.4*	*3.3*	*4.4*	*4.4*	*4.7*
EPS	0.3	4.13	6.82	8.63	11.28
Debt:Equity (x)	1.8	1.8	2.2	2	1.8
ROE (%)	12.7	12.3	18.1	19.6	21.6
ROCE (%)	10.6	11.7	13.1	14.1	15.80

Source: Company, IndiaNivesh Research

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