

CMP (₹)	Target (₹)
117	140
Potential upside	Absolute Rating
20%	BUY

Market Info (as on 9<sup>th</sup> January 2017)

BSE Sensex	26726
Nifty S&P	8236

## Stock Detail

BSE Group	B GROUP
BSE Code	532641
NSE Code	NDL
Bloomberg Code	NAND:IN
Market Cap (₹bn)	5.6bn
Free Float (%)	38%
52wk Hi/Low	166/97
Avg. Daily Volume (NSE)	265611
Face Value / Div. per share (₹)	10.0/1.29
Shares Outstanding (mn)	48

## Promoters

58.27

## Public

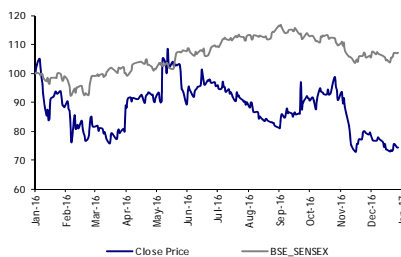
41.73

## Financial Snapshot

(₹mn)

Y/E March	FY15A	FY16A	FY17E	FY18E
Net Sales	10965	11567	12145	13967
EBITDA	1655	1911	1968	2374
PAT	514	633	656	838
P/E(x)	3.2	4.5	8.1	6.4
ROE (%)	19.9%	18.2%	16.2%	17.5%
EPS	11.3	13.9	14.4	18.4

## Share Price Performance



Rel. Perf.	1Mth	3 Mths	6Mths	1Yr
NDL (%)	4.5	(13.9)	(15.6)	(23.0)
Sensex (%)	(0.1)	(4.8)	(1.5)	7.1

Source: Company data, Retail Research

## Company Snapshot

Nandan Denim is a part of Gujarat based, a leading conglomerate Chiripal Group. Company commenced its operations in 1994 with textile trading business & later forayed into textile manufacturing in 2004. Company currently engaged in manufacturing of denims, cotton fabrics & khakis. Company has one of the largest denim fabric manufacturing capacities in the world. Company exports its denim fabric to over 27 countries across the globe through its strong global dealer- distribution network. Company's export constitute 12.7% to overall revenue.

## Investment Rationale

## Indian denim industry poised to grow at 15% CAGR

The denim segment has always reigned as one of the leading segments in the fashion industry. India is a big market with a lot of untapped potential for the denim industry. The total Indian denim fabric market stands at 1,200mn mtrs, of which production is 1,000mn mtrs (700mn mtrs is domestic and 300mn mtrs is exports). Since the last five years, the denim industry has posted a CAGR of 15% and is expected to grow at a similar rate going forward due to the low per capita denim jeans consumption, increasing demand from womens wear segment, rising demand from Tier II and III cities, driven by an expanding organized retail industry. At the current growth rate, the required capacity by FY19 will be 2,000mn mtrs in next 3-4 years owing to huge demand of denim fabric.

## To be largest denim fabric player in domestic market post expansion

During FY14, company had announced Rs6bn expansion plan in phases - 1) denim fabric: 70mmpa to 110mmpa 2) spinning- 54tpd to 124tpd and 3) shirting capacity: 10mmpa. This expansion is currently under its final stage of completion. Company has spent Rs 5.7bn on this expansion as on Sept 30, 2016. As on H1FY17, company's denim/spinning capacities stood at 99mmpa/ 70tpd, remaining capacities are expected to come on stream by Jan 2017. Post expansion to 110mmpa, company is set to be the largest denim fabric-maker in India and the fourth-largest in the world. Also, post expansion of spinning capacity to 124tpd, 85% cotton yarn requirement will be met internally, which was 50% before expansion. In-house production of cotton yarn would result in 10-15% savings compared to purchase of yarn from the market. We believe, incremental capacity to not only aid in incremental revenue in coming quarters but also aid in improvement in operational margins going ahead.

## Strong financial performance &amp; return ratios

In last five years i.e. from FY12- FY16, company's revenue & profitability has grown at a CAGR of 15% & 27.5% respectively. Also, operating margin during the same period was improved from 14.4% in FY12 to 16.5% in FY16. As on Sept 2016, company's debt to equity stands at 1.6x & this is led by 15% CAGR expansion in denim fabric capacity from 52mmpa in FY12 to 99mmpa in FY16. Further, the entire long-term debt is under TUF scheme, with a lower interest rate of 2%, while the overall interest cost stands at 9%. Also, company's ROE has also improved from 12.3% in FY12 to 18.2% in FY16 due to superior profit growth in last five years.

## Valuation

At CMP of Rs 117, NDL trades at 6.4x its FY18E EPS of Rs 18.4/- We believe, marquee client list, final expansion stage along with untapped opportunity in domestic market puts NDL on a high growth phase going ahead. Hence, we recommend BUY rating on a stock price with a target price of Rs 140/-, thus implying 20% upside from current level.

# NANDAN DENIM LTD (NDL)

10<sup>th</sup> January, 2017

## NOTES

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### Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report:

Name : Dhiral Shah

Sector : Textile

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