

# Nandan Denim Ltd

Bloomberg Code: NAND IN

India Research - Stock Broking

**BUY**

## Strong Growth Prospects Ahead; All Set for the Race!!

- Nandan Denim (NDL) has one of the largest denim fabric manufacturing capacities in the world and will be the second-largest in India with denim capacity of 110 MMPA (post expansion) after Arvind, which has a capacity of 130MMPA. The company manufactures denim, cotton fabrics and khaki cloth. It also has fully integrated facilities for manufacturing a range of products viz. woven fabrics, circular knitted fabrics, polar fleece fabrics, cotton hosiery, denim, etc.

**Denim Expansion to Augur Top-line & Profitability:** NDL plans to carry out huge capacity expansion in denim fabric, spinning and shirting segments. The total capex requirement stands at Rs.6,120mn, which will be funded with a debt-equity ratio of 70:30 and the operations are expected to start by Q2FY16E. The company has increased the denim capacity from 76 MMPA in FY14 to 99 MMPA in FY15; and plans to further increase its capacity to 110 MMPA, which is set to be operational by H2FY16E.

**Well Established Client Base in the Domestic Markets:** NDL has successfully developed a strong client base in the domestic market, including established apparel (such as Spyker, Mufti, Gini & Jony and Color Plus) and textile products manufacturers (such as Tirupati Denim and Vardhman Textiles). The top 10 clients account for ~40%-45% of revenues, indicating moderate concentration risk. In the export market, NDL has developed relationship with some international players, which we believe needs to be further strengthened.

## Valuation and Outlook

At CMP, the stock is trading at 4.7x and 4.0x FY16E & FY17E EV/EBITDA respectively. With capacity expansion, change in product mix & plans to diversify into multiple segments, we initiate a **"BUY"** recommendation with a target price of Rs. 158 per share, which represents an upside potential of 31%.

## Key Risks

- Volatility in the raw material prices.
- Forex risk.
- Capacity under-utilization.

### Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	7031	8938	10965	13157	16558
EBITDA	1069	1327	1654	2184	2815
EBITDA Margin (%)	15.2	14.8	15.1	16.6	17.0
Adj. Net Profit	311	393	514	749	1003
EPS (Rs.)	6.8	8.6	11.3	16.5	22.0
RoE (%)	18.1	19.7	21.6	25.8	27.6
PE (x)	17.8	14.1	10.8	7.4	5.5

Source: Company, Karvy Research

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### Recommendation (Rs.)

CMP (as on Sep 01, 2015)	121
Target Price	158
Upside (%)	31

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	5532 / 89
52-wk High/Low (Rs.)	174 / 40
3M Avg. daily volume (mn)	0.4
Beta (x)	0.9
Sensex/Nifty	25696 / 7788
O/S Shares(mn)	45.5
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

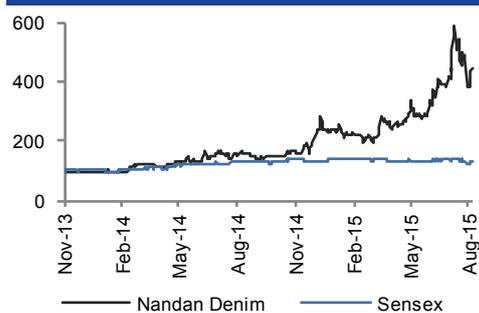
Promoters	60.9
FII	3.1
DII	0.1
Others	35.9

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(13)	44	102	173
Relative to Sensex	(7)	51	124	175

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Analyst Contact

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**Company Financial Snapshot (Y/E Mar)**
**Profit & Loss (Rs. Mn)**

	FY15	FY16E	FY17E
Net sales	10965	13157	16558
Op. Exp (Adj for OI)	9311	10973	13743
EBITDA	1654	2184	2815
Depreciation	596	721	902
Interest	377	488	603
PBT	712	1041	1393
Tax	198	291	390
PAT	514	749	1003

**Profit & Loss Ratios**

EBITDA margin (%)	15.1	16.6	17.0
Net margin (%)	4.7	5.7	6.1
P/E (x)	10.8	7.4	5.5
EV/EBITDA (x)	5.5	4.7	4.0
Dividend yield (%)	1.3	2.0	2.3

Source: Company, Karvy Research

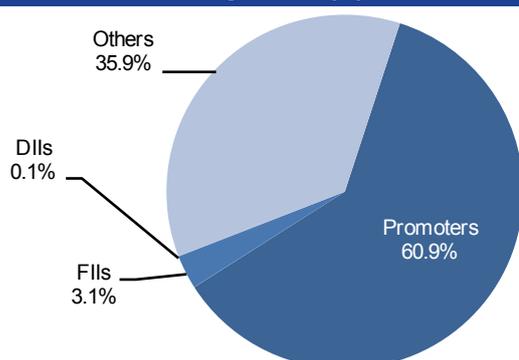
**Balance Sheet (Rs. Mn)**

	FY15	FY16E	FY17E
<b>Total Assets</b>	<b>7066</b>	<b>8988</b>	<b>10831</b>
Net Fixed assets	4474	6253	7351
Current assets	3949	4601	5796
Other assets	175	175	175
<b>Total Liabilities</b>	<b>7066</b>	<b>8988</b>	<b>10831</b>
Net worth	2588	3210	4053
Debt	4229	5529	6529
Current Liabilities	1533	2042	2492
Deferred Tax	249	249	249

**Balance Sheet Ratios**

RoE (%)	21.6	25.8	27.6
RoCE (%)	16.3	19	20.1
Net Debt/Equity	1.4	1.5	1.4
Equity/Total Assets	0.4	0.4	0.4
P/BV (x)	2.1	1.7	1.4

Source: Company, Karvy Research

**Exhibit 2: Shareholding Pattern (%)**


Source: BSE, Karvy Research

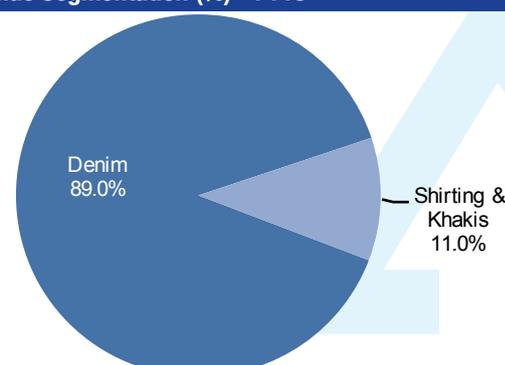
**Company Background**

Headquartered in Ahmedabad, NDL was incorporated as Nandan Exim Pvt. Ltd in 1994. It is part of the Chiripal Group, which has multiple businesses including textiles, real estate, education and construction. The company has commenced commercial operation in 1999. It was initially involved in the trading of textile fabrics. In 2004, the company changed its name to Nandan Exim Ltd and set up a denim fabric manufacturing capacity. The facility commenced operations in 2006. During the same year, the company has come out with its Initial Public Offering (IPO) of Rs.120 mn and got listed on the BSE and the NSE. In FY14, the company changed its name to Nandan Denim Ltd. Over the years, the company has expanded its denim fabric manufacturing capacity and has established itself as one of the leading players in the Indian denim fabric industry. Currently, the company has a denim fabric processing capacity of 110 MMPA (Million Meters Per Annum) and shirting fabric processing capacity 10 MMPA.

**Cash Flow (Rs. Mn)**

	FY15	FY16E	FY17E
EBITDA	1654	2184	2815
Other Income	30	66	83
Interest	(377)	(488)	(603)
Tax	(198)	(291)	(390)
Changes in WC	(425)	(71)	(712)
<b>CF from Operations</b>	<b>632</b>	<b>1266</b>	<b>1033</b>
Capex	(548)	(2500)	(2000)
Investment	(32)	0	0
<b>CF from Investing</b>	<b>(580)</b>	<b>(2500)</b>	<b>(2000)</b>
Change in Equity	0	0	0
Debt	343	1300	1000
Others	(55)	5	0
<b>CF from Financing</b>	<b>288</b>	<b>1305</b>	<b>1000</b>
Change in Cash	340	72	33

Source: Company, Karvy Research

**Exhibit 3: Revenue Segmentation (%) - FY15**


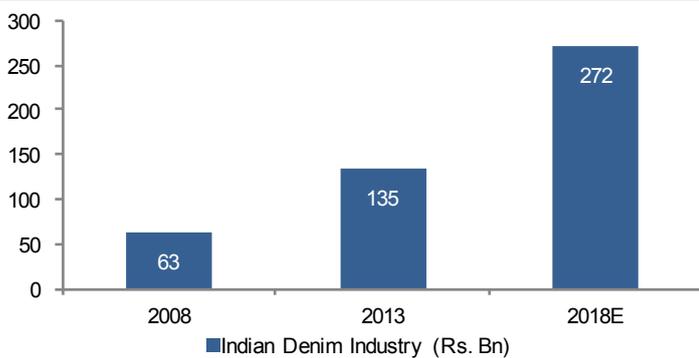
Source: Company, Karvy Research

## Indian Denim Industry Outlook: Well-poised to Capitalize on the Soaring Domestic Demand

Denim is of the most promising category in India's apparel market. In 2013, the denim market of India was worth Rs.135bn, which accounts for 5% of the total apparel market of the country. As per Technopak, the denim market is projected to grow at 15% CAGR to become Rs. 272bn market in 2018 owing primarily to youngster's obsession for cult fabric. The boom will be fuelled by not only due to an increasing demand from small cities and rural areas, but also because of acceptance of the fabric at workplaces etc. In terms of volumes, the denim market is estimated at 300mn pairs of jeans, which is projected to grow to 550mn-600mn by 2015.

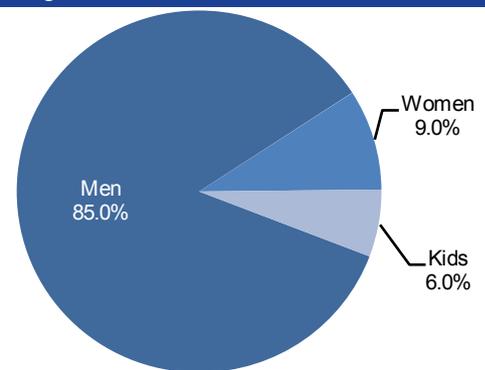
The men, women and kids segments contribute 85%, 9% and 6% respectively to the overall denim market and is expected to witness higher growth rates due to their lower base and increasing focus of brands and retailers on those segments. The value share of Indian denim market is skewed in favor of mega metros and metros which account for 49%, almost half of the total denim market. On the other hand, the urban and rural Indian markets contribute about 51% to the overall share. As the penetration of denim category and the awareness of denim quality increases in those cities and rural India, their share in market value will start increasing with more number of consumers willing to pay premium for the quality, design and fit.

**Exhibit 4: Indian Denim Industry (Rs. Bn)**



Source: Company, Karvy Research

**Exhibit 5: Denim Segmental Contribution**

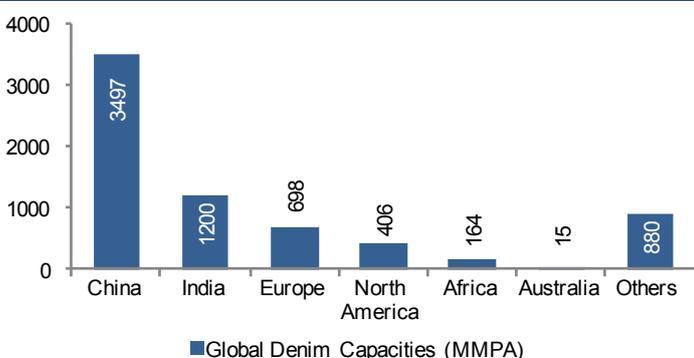


Source: Company, Karvy Research

**Denim Consumption compared to other countries:** The western fashion & lifestyle has accelerated the trend of casualisation across the globe. This trend has boosted the consumption of casual fashion apparel like denims, dress shirts, tees and casual shirts among both men and women consumers in all developing countries including India. The average number of denim items owned by Indian consumer is much lower in comparison to consuming market of the United States, Europe etc. The number is even lower than countries like Brazil and China. This difference in the number demonstrates the huge potential that exists for denim in the domestic market.

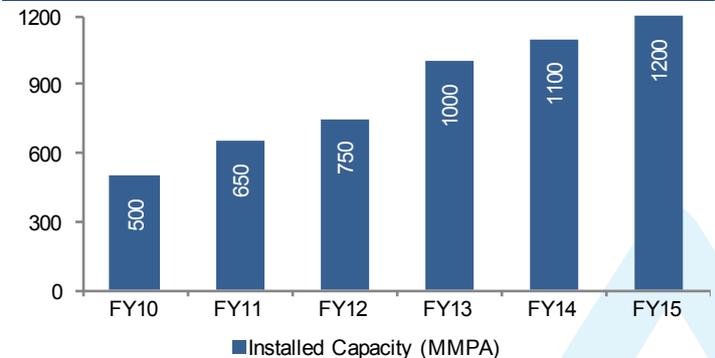
**Denim Value-Chain in India:** India is the second largest denim manufacturer in the world with 1200MMPA capacity, second only to China, which has a capacity of 3497MMPA. Asia accounts for about 70% of the global denim fabric production, while the global denim fabric market is ~\$ 17bn, growing at a modest rate of 3-5%. Asia accounts for 70% of denim fabric capacities.

**Exhibit 6: Global Denim Capacities (MMPA)**



Source: Company, Karvy Research

**Exhibit 7: India's Installed Denim Capacity (MMPA)**



Source: Company, Karvy Research

Denim fabric production in India is concentrated in the western and northern parts of the country with more than 45% coming from Ahmedabad, Gujarat. Denim apparel production in India remains a fragmented industry where only 20%-30% of denim apparel is manufactured in the organized units. The denim apparel production activities are concentrated in Delhi and NCR, Mumbai, Bangalore and Ahmedabad.

### Key driving factors for the denim market in India

- Youth (15-29 year olds) with higher spending power than previous generations, which make 26% of the consuming population.
- A wide range of consumer segments that consider denim as an apparel of choice owing to its comfort and style.
- Favored preference for denim amongst youth owing to its versatile association.
- Increasing usage of denim products by women and youth in smaller cities and rural India.

### Denim Expansion to Fuel Growth & Profitability

NDL plans to carry out huge capacity expansion in denim fabric, spinning and shirting segments. The total capex requirement stands at Rs.6,120mn, which will be funded with a D/E ratio of 70:30 and the operations are expected to start by Q2FY16E. The capex expansion is chalked into two phases:

#### Phase I expansion:

- Expansion of denim fabric capacity will help the company to increase its domestic market share as well as increase its share in the export markets.
- Addition of new shirting capacity to further diversify its operations from a single segment earlier.

#### Phase II expansion:

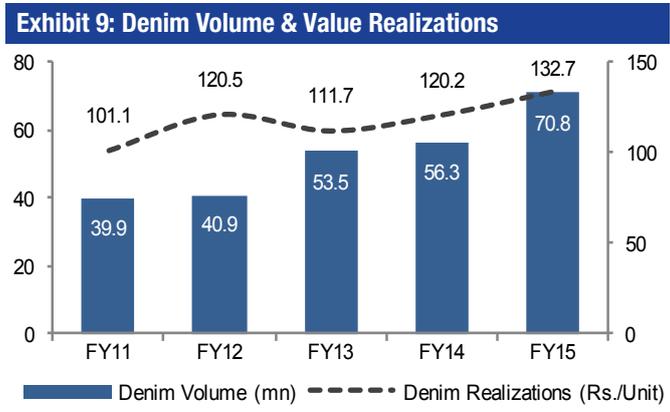
- Expansion of spinning capacity to support the increased denim fabric capacity of 110mmpa.
- Backward integration through spinning capacity expansion will help the company to improve operating flexibility and EBITDA margins.

Since the past two years, NDL has started focusing on premiumisation. NDL's realization improved from Rs111.7/metre in FY13 to Rs120.2/meter in FY14 and Rs132.7/meter in FY15.

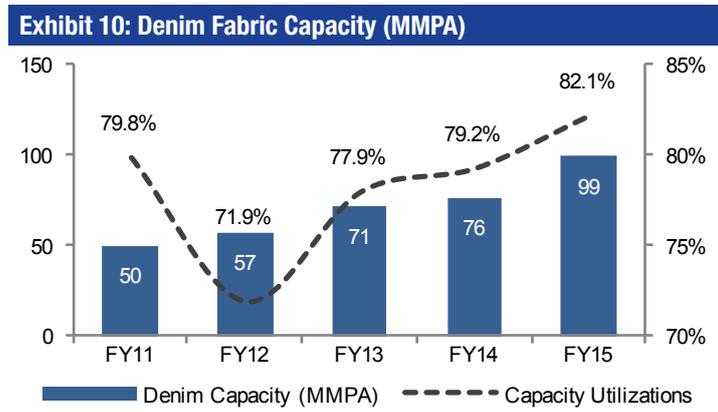
**TUFS (Central government textile policy):** 5% interest subsidy, capital subsidy of 10% for processing capacity and 15% for looms for a period of seven years. NDL is entitled to 5% interest subsidy and 15% capital subsidy for a period of seven years.

Capacity	FY13	FY14 Phase I		FY15 & FY16E Phase II	
	Year End	Additions	Year End	Additions	Year End
<b>Spinning (TPD)</b>					
Open End Spinning	38	6	44	40	84
Ring Spinning	16	4	20	20	40
<b>Fabric (MMPA)</b>					
Denim	71	39	110	-	110
Shirting	-	10	10	-	10

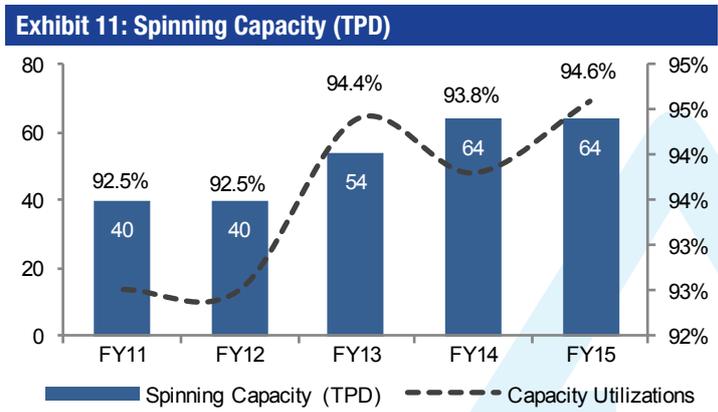
Source: Company, Karvy Research



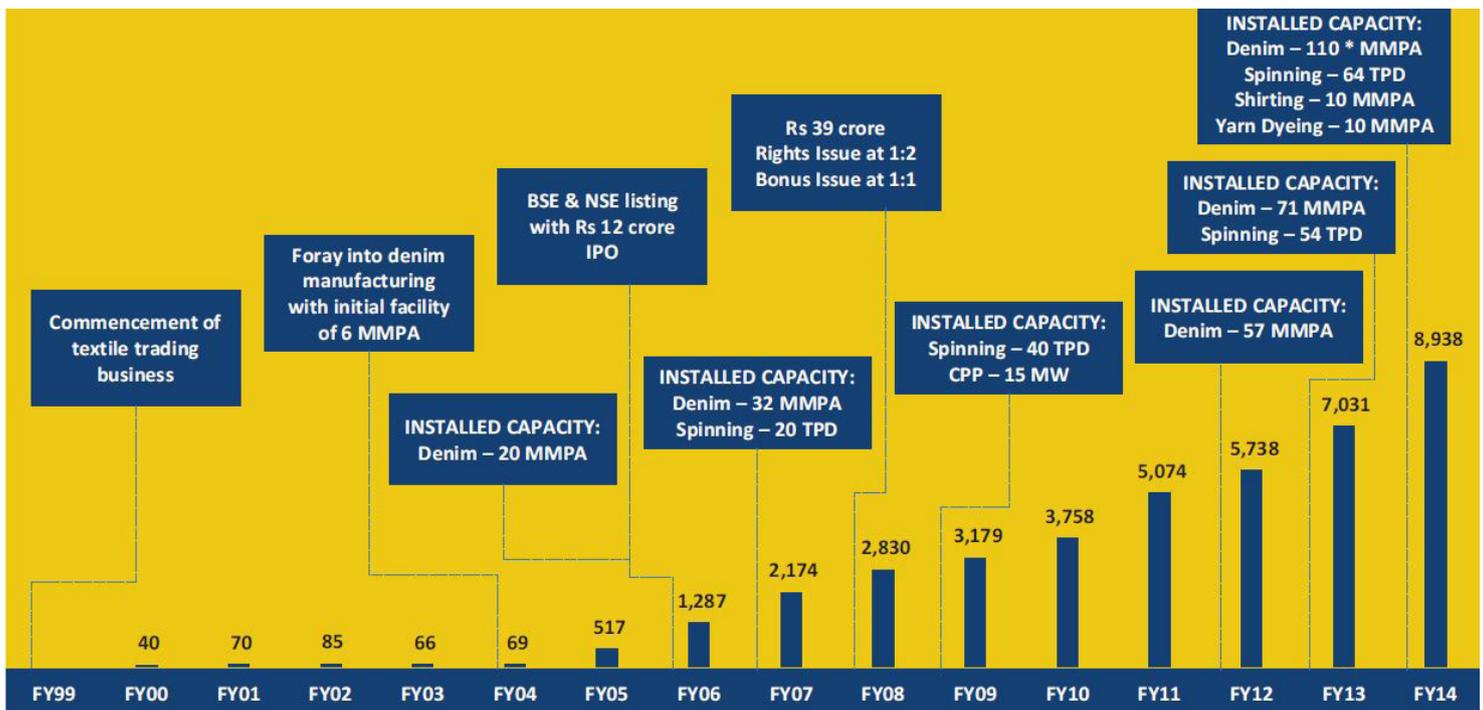
Source: Company, Karvy Research



Source: Company, Karvy Research



Source: Company, Karvy Research



### Backward Integration to Aid Margins; Diversification in Product Portfolio

Under its ongoing capacity expansion plan, NDL plans to backward integrate its spinning facility, which is expected to lead to improvement in operating margin in the medium term. Under the phase II of its capex plan, expected to be completed by FY16E, the company plans to install 2,080 rotors and 22,368 spindles for open end spinning which is expected to increase its spinning capacity to ~124 tonnes/day (TPD) from ~64 TPD currently (post the first phase of expansion). The expanded spinning capacity is likely to enable NDL to increase its captive consumption of yarn. Considering the company currently purchases 25-30% of its yarn requirement from the market, a higher captive consumption of yarn is expected to improve operating margin in the medium term (although captive consumption may decline owing to higher installed capacity in FY15, leading to margin pressure during the year). However, the expanded capacity is likely to increase the company's fixed costs and, hence, low utilization may dent its operating margin owing to lack of operating leverage.

Under its ongoing capex project, NDL has installed 10 MMPA of shirting fabric processing capacity, and is planning to increase the same in the longer run. The company is aiming to leverage its existing dealer network to market its shirting fabrics. NDL has a good distribution network, we expect the company to be able to ensure steady off-take for its new products. Moreover, it also plans to enter the yarn dyeing segment in the future. The foray into shirting fabrics and yarn dyeing is expected to lower the company's dependency on a single product – denim, and widen its revenue base although it is unlikely to be a major contributor to overall revenues in the medium term.

### Diversifying into Multiple Segments & Strengthening its Export Base



In FY15, NDL's domestic sales contribute 87.3% to the overall revenue share and the remaining 12.7% by export sales. Going forward, Nandan Denim plans to expand its base in the export markets, thereby reducing its dependence on the domestic markets. With greater challenges for Chinese manufacturers like increased employee costs, rise in power costs, unfavorable cotton policy (higher MSP or Minimum Sales Price on domestic cotton leading to a fall in production), environmental concerns etc, Chinese manufacturers have slowed down denim production. On the other hand, NDL plans to increase its exports from 12% currently to ~25%-30%, so as to fill in the vacuum created by Chinese players. Nandan Denim exports its denim fabric to over 28 countries across the globe through its strong global dealer- distribution network.

NDL plans to diversify its operations from a single segment to other segments. During the Phase-I capex expansion, the company has added 10 MMPA shirting & khakis segment to its operations, which we believe the revenue share going forward. It has no plans of increasing the capacity in this segment, but plans to expand it further post denim expansion.

## Strong Client Base in the Domestic Markets

NDL has successfully developed a strong client base in the domestic market, including established apparel (such as Spyker, Mufti, Gini & Jony and Color Plus) and textile products manufacturers (such as Tirupati Denim and Vardhman Textiles). The top 10 clients account for ~40%-45% of revenues, indicating moderate concentration risk. In the export market, NDL has developed relationship with some international players, which we believe needs to be further strengthened. According to the management, the company supplies to major global brands such as Ralph Lauren, Armani Exchange, Talbots, Calvin Klein, Tommy Hilfiger, Target, Anntaylor, Carrefour and Polo. Currently, exports account for ~10% of revenues.

Over the past two decades, NDL has established an extensive distribution network in the domestic market, comprising sales offices, agents and distributors. It sells a majority of its products to garment manufacturers and the rest is sold through dealers. It has tie-ups with over 35 distributors across the country, of which 10 exclusively sell NDL's products. Most of the distributors are based in northern (Delhi, Uttar Pradesh, Haryana, Rajasthan and Punjab) and western (Maharashtra, Madhya Pradesh and Gujarat) states – a hub of textile/RMG manufacturers in India. In recent years, the company has established a distributor base in other parts of India, thereby expanding its geographic footprint in the domestic market.

## Raw Material/Cotton Scenario

**Global:** Global share of cotton in textiles is 35%, with the balance 65% being MMF (Man-Made Fiber). Cotton production is expected to decline by 5.2% while consumption is likely to increase by 4.5% (expected to be driven by China). However, because of healthy stock, cotton prices have limited triggers for an upside.

**China:** Cotton consumption is up after a four-year slide. Currently, cotton inventory comprises 58% of global stock. If this is released, global trade will decline, exerting downward pressure on international cotton prices.

If this is not released, cotton imports will increase, providing impetus to exporters and making Chinese textile industry uncompetitive.

**India:** Production is expected to shrink by 3%-6% FY16E. However, Cotton Corporation of India or CCI had inventory of four months to meet industry demand and therefore prices are likely to remain soft. In addition, a benign monsoon will also keep cotton prices soft.

Global denim market is currently worth US\$17bn, of which Asia accounts for 70% of denim fabric production. Indian denim apparel market (14%-15%) is fast outpacing global denim apparel market (3%-5%). India controls ~10% of this market while NDL accounts for ~10% of Indian market. Therefore, effectively, NDL accounts for ~1% of global denim market.

India is fourth-largest denim exporter after China, Pakistan and Turkey. Per capita jeans consumption is currently at 0.3x in India compared to 8.0x-9.0x globally. 7% of the population drives 49% consumption in India whereby 85% is accounted for by men and the rest by women and children. Estimated domestic market CAGR is ~18% and international market CAGR is 3%-5%.

### Exhibit 13: Nandan Denim: The Chiripal Group Overview

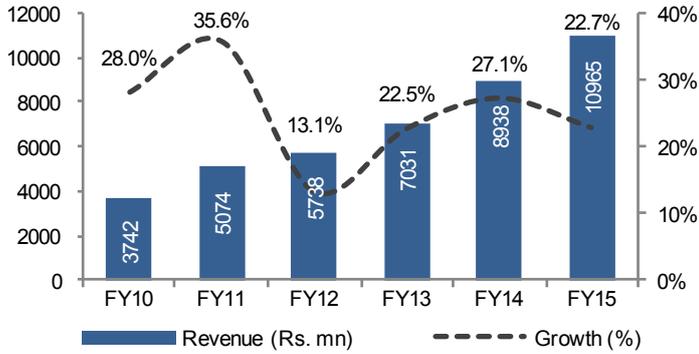
Group Companies	Business	Details
Nandan Denim Ltd, Chiripal Industries Ltd	Textiles	Denim, Processed and Woven Fabric, Fleece Fabric, Cotton Hosiery etc.
Chiripal Industries Ltd, CIL Nova Petrochemicals Ltd	Petrochemical	Product ranging from POY050-250 denier, FDY 50-150 denier.
Chiripal Industries Ltd	Chemicals	Adhesives & Specialty Performance Chemicals.
Chiripal Poly Films Ltd	Packaging Films	BOPP lines from Bruckner, Germany for manufacturing films capacity of 77,550 MTPA.
Shanti Developers, Dholi Integrated Spinning Park, Vraj Integrated Textile Park	Infrastructure	Operates a fully equipped industrial park for SME enterprises in the textile sector, also in residential infrastructure.
Shanti Educational Initiatives Ltd	Education	Runs 6 schools under the name 'Shanti Asiatic'.

Source: Company, Karvy Research

## Healthy Growth & Margins Despite Huge Capex Plans; Growth to Shoot up Post Expansion

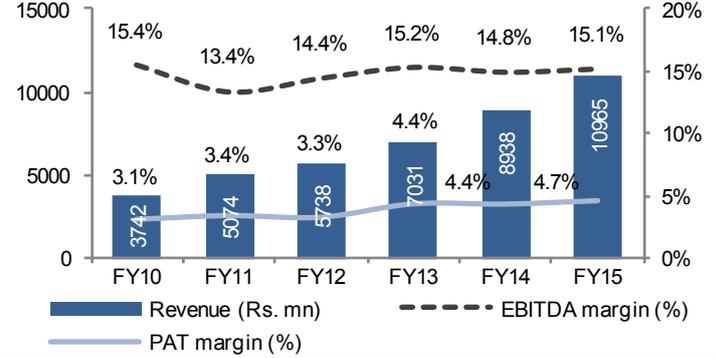
NDL reported healthy growth & margins during FY10-15 with a revenue CAGR of 24%. With capex expansion of Rs.2000mn- 3000mn, the company plans to expand its current denim capacity to 110 MMPA, which is expected to be operational by H2FY16E. Going forward, we believe this expansion to add significantly to the top-line, which thereby will increase the profitability and margins in the long run. As of FY15, the company reported EBITDA growth of 25% & high PAT growth of 31% on the back of strong domestic demand & realizations. With expansion in capacity, stable input costs and improving efficiencies, we believe EBITDA & PAT to grow by 31% & 41% respectively over FY15E-17E.

**Exhibit 14: Revenue Growth (%)**



Source: Company, Karvy Research

**Exhibit 15: EBITDA & PAT Margins (%)**



Source: Company, Karvy Research

**Exhibit 16: Business Assumptions**

Y/E Mar (Rs. Mn)	FY14	FY15	FY16E	FY17E	Comments
<b>Consolidated</b>					
Revenue	8938	10965	13157	16558	Higher sales on account of improving volume and value realizations; Huge capex in the denim segment to meet the growing demand.
Revenue Growth (%)	27.1	22.7	20.0	25.8	
EBITDA	1327	1654	2184	2815	EBITDA to grow further due to lower input and manufacturing costs.
EBITDA Margin (%)	14.8	15.1	16.6	17.0	
PAT (normalized)	393	514	749	1003	PAT to increase further due to additional contribution for the top-line and higher margins.
Normalized PAT Margins	4.4	4.7	5.7	6.1	
Fully Diluted EPS (Rs.)	8.6	11.3	16.5	22.0	
Fully Diluted EPS Growth (%)	26.6	30.7	45.9	33.8	
Capex (ex. Acquisitions)	(1011)	(548)	(2500)	(2000)	Capex planned is Rs. 6,120 mn, which is expected to be completed by H2FY16E. This includes expansion of denim capacity to 110 MMPA as well as addition of shirting & khakis capacity of 10 MMPA.
Net CFO	886	632	1266	1033	
Net Debt	3583	3554	4783	5750	Due to increasing capacity and debt, the company has no plans of debt repayment till FY17E.
Free Cash Flow	(125)	84	(1234)	(967)	

Source: Company, Karvy Research

**Exhibit 17: Karvy vs Consensus**

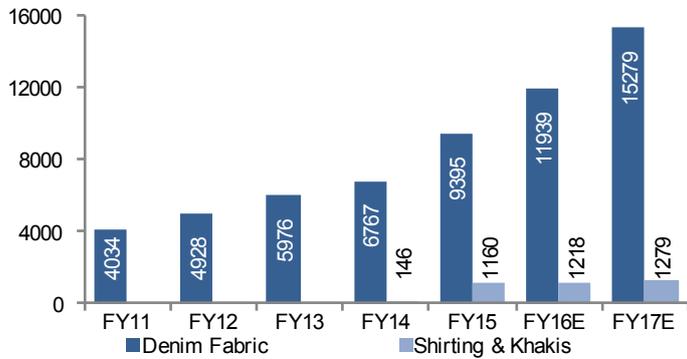
	Karvy	Consensus	Divergence (%)	Comments
<b>Revenues (Rs. Mn)</b>				
FY16E	13157	12942	1.7	Higher revenue due to higher value realizations in the denim segment.
FY17E	16558	16225	2.1	
<b>EBITDA (Rs. Mn)</b>				
FY16E	2184	2110	3.5	Higher EBITDA margins on account of lower input costs and increasing revenue growth.
FY17E	2815	2725	3.3	
<b>EPS (Rs.)</b>				
FY16E	16.5	16.0	3.1	PAT to be significantly higher on the back of healthy growth & margins.
FY17E	22.0	21.5	2.3	

Source: Bloomberg, Karvy Research

## Revenues to grow at 14% CAGR during FY15-17E

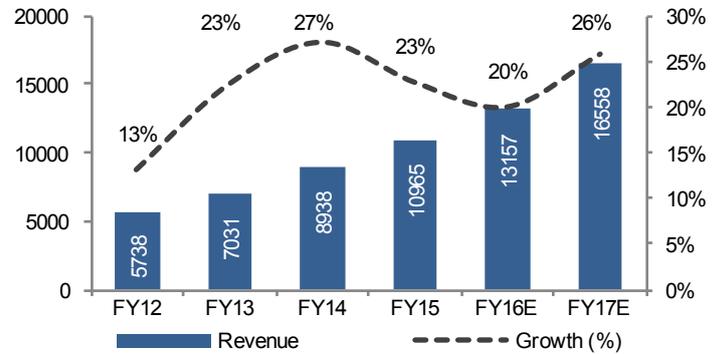
NDL has experienced revenue growth at 24% during FY10-15. Increase in domestic demand coupled with diversification into shirting & khakis segment to add to the overall revenue share, played a major role. NDL's revenue is expected to grow at a CAGR of 23% during FY15-17E driven by a robust demand going forward. We expect NDL to maintain exports momentum going forward and expect exports to contribute to 25%-30% of total sales over the next two years.

**Exhibit 18: Segment wise revenue contribution (Rs. Mn)**



Source: Company, Karvy Research

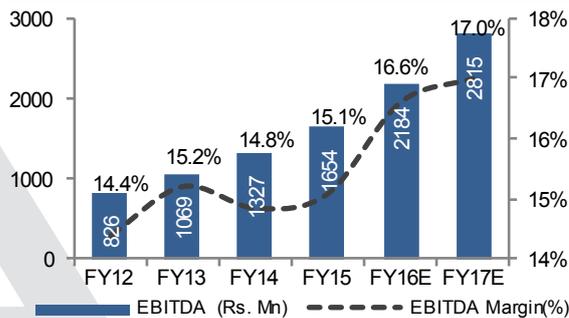
**Exhibit 19: Revenue (Rs. Mn) & Growth (%)**



Source: Company, Karvy Research

## Backward Integration to expand EBITDA margins

**Exhibit 20: EBITDA & EBITDA Margins**



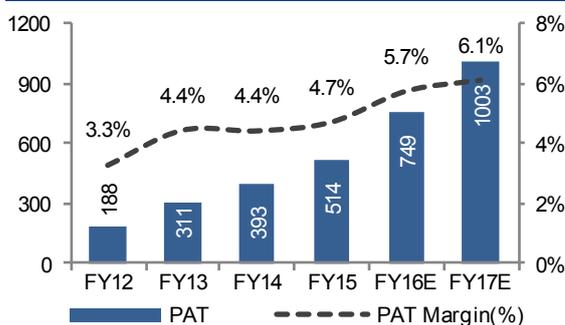
Source: Company, Karvy Research

NDL's EBITDA stood at Rs. 1,654mn and margins reached to 15.1% by FY15. The company has constantly been improving its operational efficiency and has recently expanded its denim segment and also added shirting & khakis segment to its revenue operations.

Going forward, with stable cotton prices, we expect EBITDA to grow at 30.4% CAGR during FY15-17E and EBITDA margins to stabilize around 17.0% during the same period owing to capacity expansion and better product mix.

## Net Income to continue uptrend with Margin improvement

**Exhibit 21: PAT (Rs. Mn) & PAT Margin (%)**



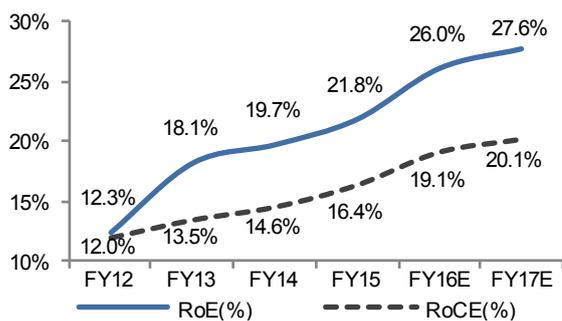
Source: Company, Karvy Research

PAT grew by 31% in FY15 on the back of higher growth from domestic clients and increase in demand from the export markets. We expect profitability to improve significantly over FY15-17E with 40% CAGR driven by increasing contribution in denim segment.

PAT grew at a CAGR of 35% during FY10-15 while the PAT margin grew by 4.7% in FY15 on the back of healthy volume dispatches. The company has no plans of debt repayment for the next two years on account of high capex.

## RoE & RoCE to improve significantly

**Exhibit 22: RoE (%) & RoCE (%)**

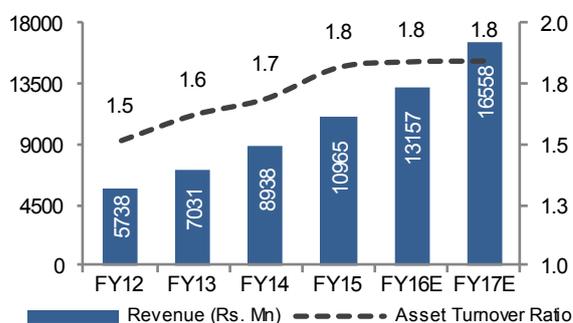


Source: Company, Karvy Research

The company's RoCE and RoE have improved due to increased EBIT margins moving forward. RoCE & RoE will improve to 20.1% & 27.6% by FY17E, as the company is expected to witness improvement in RoE & RoCE due to huge capex expansion in the denim segment.

## Asset Turnover Expected to be Higher on Capacity Expansion & Growing Demand

**Exhibit 23: Asset Turnover**



Source: Company, Karvy Research

NDL's asset turnover increased from 1.5x in FY12 to 1.8x in FY15 amid turbulent market conditions. However, with stable raw material prices, the prices are expected to stabilize. New capacities for denim are likely to improve asset turnover further. The asset turnover is likely to improve further on the back of healthy volume dispatches with new capacities.

**Exhibit 24: Company Snapshot (Ratings)**

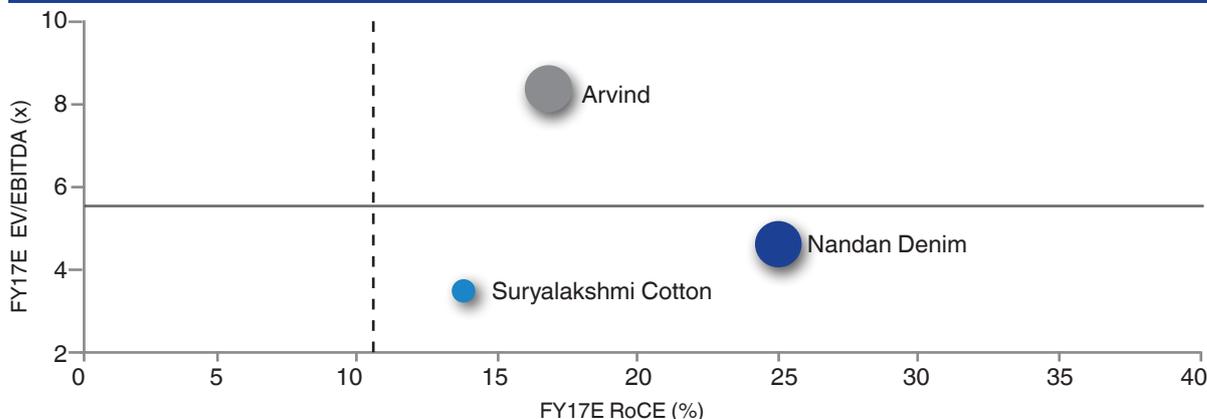
	Low	1	2	3	4	High
						5
Quality of Earnings					✓	
Domestic Sales					✓	
Exports			✓			
Net Debt/Equity				✓		
Working Capital Requirement					✓	
Quality of Management					✓	
Depth of Management					✓	
Promoter					✓	
Corporate Governance					✓	

Source: Company, Karvy Research

## Valuation & Outlook

At CMP of Rs. 121 per share, the stock is valued at 4.7x and 4.0x FY16E and FY17E EV/EBITDA respectively. We recommend a **“BUY”** with a target price of Rs. 158 per share based on 4.25x FY17E EV/EBITDA, representing an upside potential of 31%.

**Exhibit 25: Peer Comparison: EV/EBITDA vs. RoCE (%)**



Source: Company, Karvy Research

**Exhibit 26: Comparative Valuation Summary**

	CMP	Mcap (Rs. Mn)	EV/EBITDA (x)		P/E (x)		CAGR (FY15E-17E)			RoE (%)		Price Perf (%)		
			FY16E	FY17E	FY16E	FY17E	Sales	EBITDA	EPS	FY16E	FY17E	3m	6m	12m
Nandan Denim	121	5532	4.7	4.0	7.4	5.5	23.0	30.4	39.7	26.0	27.6	44.0	102.0	173.0
Arvind	272	78744	8.2	6.9	14.8	11.2	18.0	18.1	30.1	16.6	18.6	14.0	(11.0)	(5.0)
SLCM*	101	1689	4.5	4.1	11.3	9.6	6.0	15.0	20.0	5.9	6.5	15.0	9.0	(25.0)

Source: Bloomberg, Karvy Research, \* SLCM: Suryalakshmi Cotton Mills

**Exhibit 27: 1-Yr Forward EV/EBITDA Band**



Source: Company, Karvy Research

Over the past 3 years, Nandan Denim has traded in the EV/EBITDA band of 3.5x-7.0x. At CMP of Rs. 121, the stock trades at 4.7x FY16E and 4.0x FY17E EV/EBITDA respectively. The company trades at a significant discount compared to its peers, despite significant growth and margin improvement visibility. We initiate coverage on Nandan Denim Ltd with a **“BUY”** rating 4.25x FY17E EV/EBITDA with a target price of Rs. 158/-, representing an upside potential of 31% from the current levels. We expect significant improvement in its performance from FY17E onwards due to the high capex plans in the denim segment. We believe its return ratios to improve further on account of better efficiencies and realizations.

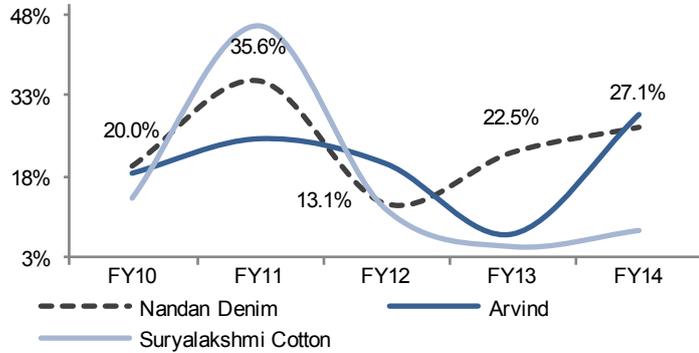
During FY10-15, NDL's revenues grew at 24% CAGR due to higher realizations, premium pricing & higher domestic demand. Going forward, we expect NDL to post 21% revenue CAGR coupled with 17.1% margin expansion yielding to a better product mix & dedicated management. We believe PAT to post 37% CAGR over FY15-17E. The company currently has capacity utilization of 82% & 95% in Denim Fabric & Spinning segments respectively.

RoE is expected to grow to 27.6% by FY17E from 21.8% in FY15. We expect the dividend payout to be stable on the back of higher capex plans over the next two to three years. We believe the company is in a better position to tap the domestic markets on account of its strong customer base, high return ratios and plans to increase its base in the export markets going forward.

## Peer Comparison

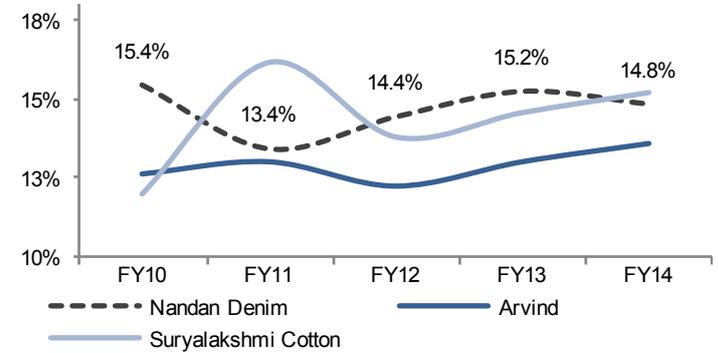
NDL operates majorly in the Denim Segment. Post expansion, Nandan Denim will be the second-largest denim manufacturer in India and fifth-largest in the world with 110MMPA. Peers include Arvind and Suryalakhmi Cotton Mills. With huge capex plans in the denim segment, management confidence and improving return ratios, we remain positive on Nandan Denim in the long term.

**Exhibit 28: Revenue Growth (%)**



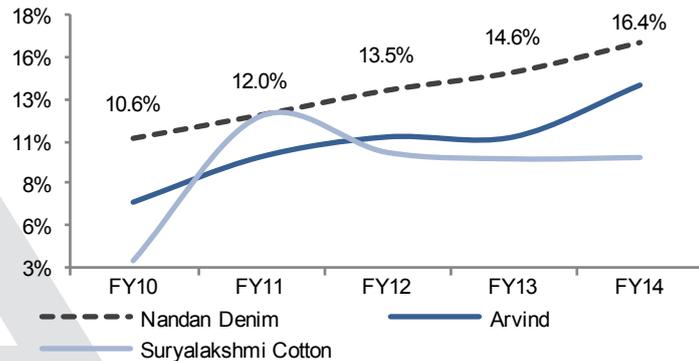
Source: Company, Karvy Research

**Exhibit 29: EBITDA Margin (%)**



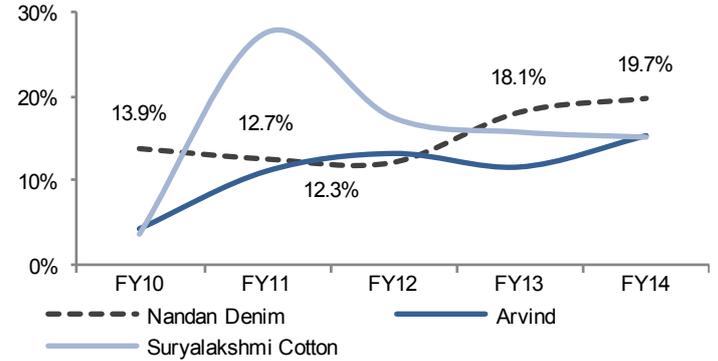
Source: Company, Karvy Research

**Exhibit 30: RoCE (%)**



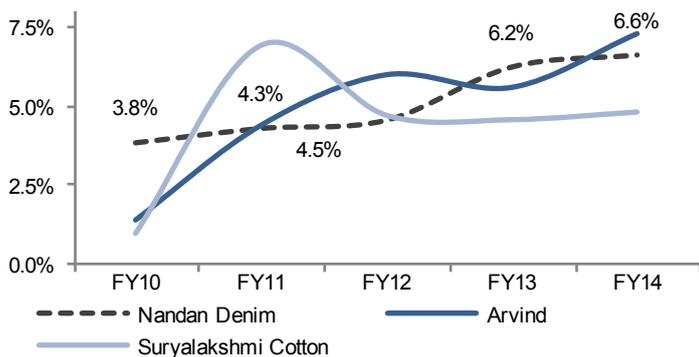
Source: Company, Karvy Research

**Exhibit 31: RoE (%)**



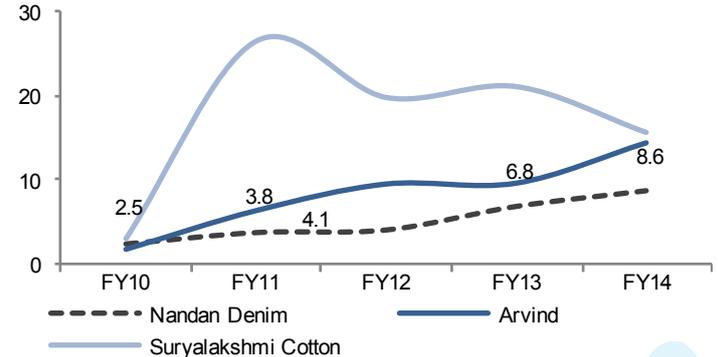
Source: Company, Karvy Research

**Exhibit 32: RoA (%)**



Source: Company, Karvy Research

**Exhibit 33: EPS (Rs.)**



Source: Company, Karvy Research

## Key Risks

- **Volatile Raw material Prices:** Nandan Denim's major raw material is cotton. Any adverse price movements could pose margin pressure for the company. If there is an increase in the raw material prices going forward, it could impact the margins of the company.
- **Forex Risk:** NDL contributes ~12% of the revenue from the export sales and plans to increase its share to ~25%-30% over the next two years. We believe sharp volatility in INR could affect its overall revenue.

## Financials

### Exhibit 34: Income Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Revenues	7031	8938	10965	13157	16558
Growth (%)	22.5	27.1	22.7	20.0	25.9
Operating Expenses	5962	7611	9311	10973	13743
EBITDA	1069	1327	1654	2184	2815
Growth (%)	29.5	24.1	24.7	32.0	28.9
Depreciation & Amortization	409	497	596	721	902
Other Income	15	40	30	66	83
EBIT	660	830	1059	1463	1913
Interest Expenses	318	320	377	488	603
PBT	358	549	712	1041	1393
Tax	47	156	198	291	390
Adjusted PAT	311	393	514	749	1003
Growth (%)	65.2	26.6	30.7	45.9	33.8

Source: Company, Karvy Research

### Exhibit 35: Balance Sheet

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Cash & Inventories	199	261	601	673	706
Sundry Debtors	912	1214	1472	1474	1871
Inventory	1198	1385	1409	2237	2898
Loans & Advances	335	369	393	145	248
Investments	4	42	73	73	73
Gross Block	5134	6686	7234	9734	11734
Net Block	3412	4523	4474	6253	7351
CWIP	541	0	0	0	0
<b>Total Assets</b>	<b>5666</b>	<b>6266</b>	<b>7066</b>	<b>8988</b>	<b>10831</b>
Current Liabilities & Provisions	1109	1651	1533	2042	2492
Debt	3655	3885	4229	5529	6529
Other Liabilities	175	216	249	249	249
Total Liabilities	4939	5752	6010	7820	9270
Shareholders' Equity	455	455	455	455	455
Reserves & Surplus	1380	1710	2133	2754	3597
<b>Total Networkth</b>	<b>1836</b>	<b>2165</b>	<b>2588</b>	<b>3210</b>	<b>4053</b>
<b>Total Networkth &amp; Liabilities</b>	<b>5666</b>	<b>6266</b>	<b>7066</b>	<b>8988</b>	<b>10831</b>

Source: Company, Karvy Research

**Exhibit 36: Cash Flow Statement**

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
EBIT	660	830	1059	1463	1913
(Inc.)/Dec in working capital	(416)	19	(425)	(71)	(712)
Other income	15	40	30	66	83
Depreciation	409	497	596	721	902
Interest paid	(318)	(320)	(377)	(488)	(603)
Tax paid	(47)	(156)	(198)	(291)	(390)
Others	(28)	41	34	0	0
Dividends paid	(64)	(64)	(85)	(133)	(160)
<b>Cash flow from operations</b>	<b>212</b>	<b>886</b>	<b>632</b>	<b>1,266</b>	<b>1,033</b>
Inc/dec in capital expenditure	(1300)	(1011)	(548)	(2500)	(2000)
(Inc.)/Dec. in investments	(1)	(38)	(32)	0	0
<b>Cash flow from investing activities</b>	<b>(1301)</b>	<b>(1049)</b>	<b>(580)</b>	<b>(2500)</b>	<b>(2000)</b>
(Inc)/dec in borrowings	1113	231	343	1300	1000
Others	20	(6)	(55)	5	0
<b>Cash flow from financing activities</b>	<b>1112</b>	<b>193</b>	<b>311</b>	<b>1300</b>	<b>1000</b>
Net change in cash	44	61	340	72	33

Source: Company, Karvy Research

**Exhibit 37: Key Ratios**

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin (%)	15.2	14.8	15.1	16.6	17.0
EBIT Margin (%)	9.4	9.3	9.7	11.1	11.6
Net Profit Margin (%)	4.4	4.4	4.7	5.7	6.1
Dividend Payout ratio	17.6	13.9	14.2	15.2	13.6
Net Debt/Equity	1.9	1.7	1.4	1.5	1.4
RoE (%)	18.1	19.7	21.6	25.8	27.6
RoCE (%)	13.5	14.6	16.3	19.0	20.1

Source: Company, Karvy Research

**Exhibit 38: Valuation Parameters**

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs.)	6.8	8.6	11.3	16.5	22.0
DPS (Rs.)	1.2	1.2	1.6	2.5	3.0
BV (Rs.)	40.3	47.5	56.8	70.5	89.0
PE (x)	17.8	14.1	10.8	7.4	5.5
P/BV (x)	3.0	2.6	2.1	1.7	1.4
EV/EBITDA (x)	8.4	6.9	5.5	4.7	4.0
EV/Sales (x)	1.3	1.0	0.8	0.8	0.7

Source: Company, Karvy Research; \*Represents multiples for FY13, FY14 & FY15 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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