

Q3FY15 Result Update
Accumulate

Industry	Textiles
CMP (Rs)	68.85
FY16E Target Price (Rs)	92
52 Week H/L (Rs)	94.15/27.20
Volumes (NSE+BSE)*	~419,000
Shares O/S (mn)	45.5
Market Cap (Rs mn)	3,136
Free Float (%)	39.7%
Bloomberg	NEL IN
Reuters	NANE.BO
*Three month average	

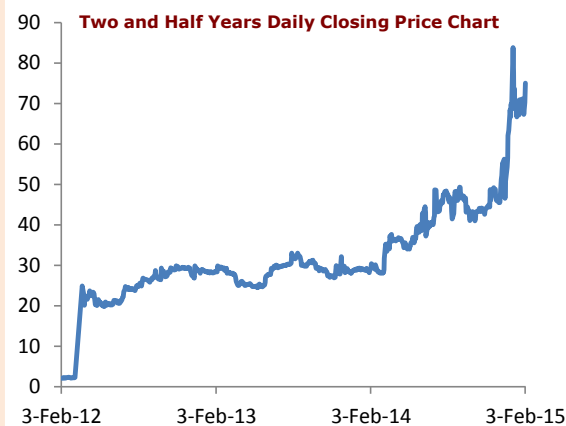
Share Holding Pattern as on Dec 31, 2014

Particulars	Shares (mn)	Holding
Promoters	27.4	60.3%
FII's	1.7	3.8%
Corporate Bodies	5.1	11.1%
Public & Others	11.3	24.8%
Total	45.5	100.0%

Source: BSE

Financial Highlights

(Rs mn)	FY15E	FY16E	FY17E
Sales	10,819	12,689	14,142
EBITDA	1,654	2,061	2,514
EBITDA Margin	15.3%	16.2%	17.8%
PAT	471	637	870
EPS (Rs)	10.3	14.0	19.1
P/E (x)	6.7	4.9	3.6
RoCE	10.2%	10.4%	12.0%
RoE	19.9%	22.3%	24.6%



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Q3FY15 Result Review

In Q3FY15, Nandan Denim (NDL) continued to report robust performance both on the topline and bottomline fronts, exceeding our conservative estimates. The company continued to benefit from the increased competitiveness of the Indian textile industry in the overseas market, leading to a sharp rise in its exports. **The company declared an interim dividend of Rs 0.6 per equity share of Face Value of Rs 10.**

Domestic denim demand continued to remain strong, Shirting Fabric ramp-up aided the topline growth...

NDL reported a growth of 10.8% Y-o-Y in the Denim sales volumes to 18.5mn meters. Shirting Fabric segment too, showed accelerated pick-up and reported 43.5% Q-o-Q growth in the sales volumes to 3.3mn. This coupled with sustained Denim realizations led to a robust growth of 25.7% Y-o-Y and 0.2% Q-o-Q in the net sales to Rs 2,776mn, compared to our estimate of Rs 2,659mn. Increased Denim off-take was also due to continued focus on exports by adding newer geographies. Exports grew 73.4% Y-o-Y to Rs 333mn.

Better Denim realizations and capacity utilizations led to sequentially flat profitability, despite a challenging environment...

On the back of sustained denim demand, NDL reported improved capacity utilizations to about 76-77% in Q3FY15. Higher Denim realizations by about 5.4% Y-o-Y also aided the denim profitability. However, it was offset by an EBIT loss of the newly added Shirting Fabric division. Under the Shirting Fabric segment, NDL continued to operate at lower prices to increase its market share, leading to a hit on its profitability. Overall EBITDA margin stood at 15.7%, higher than our expectations of 14.8%. EBITDA during the quarter stood at Rs 436mn, higher than our estimate of Rs 393mn. Net profit during the quarter grew 38% Y-o-Y to Rs 126mn, compared to our estimate of Rs 106mn.

Outlook and Valuations

Sustained domestic Denim demand and rising exports will lead to strong growth in NDL's topline going forward. Ongoing backward integration will lead to 4-5% higher EBITDA margin. Also, break-even of Shirting Fabric division will aid the margin improvement going forward. Our net sales estimates for FY15E, FY16E and FY17E stand unchanged at Rs 10.8bn, Rs 12.9bn and Rs 14.1bn respectively. Also, our EPS estimates for FY15E, FY16E and FY17E are unchanged at Rs 10.3, Rs 14 and Rs 19.1 respectively.

Since we initiated our coverage on NDL on November 14, 2014, the stock has appreciated by 49.3%. We assign an EV/EBITDA of 3.75x FY17E, giving a target price of Rs 92, with an annualized upside of 15.5% from the current levels. We now rate Nandan Denim Ltd as an **'Accumulate'**, compared to our earlier 'Buy' rating.

Quarterly Result

Particulars (Rs mn)	Q3FY15	Q3FY14	Y-o-Y Change	Q2FY15	Q-o-Q Change	9MFY15	9MFY14	Y-o-Y Change
Denim Volumes (mn meter)	18.5	16.7	10.8%	17.8	3.9%	53.1	49.5	7.3%
Shirting Volumes (mn meter)	3.3	0.0	N.A.	2.3	43.5%	8.7	0.0	N.A.
Denim Realizations (Rs per Meter)	127.1	120.6	5.4%	126.9	0.2%	126.0	123	2.5%
Shirting Realizations (Rs/Meter)	100.2	0.0	N.A.	107.9	-7.1%	103.0	0	N.A.
Net Sales	2,776	2,208	25.7%	2,769	0.2%	8,182	6,549	24.9%
Expenditures:								
Net Raw Materials Cost	1,864	769	142.3%	1,859	0.2%	5,517	3,199	72.5%
Purchase of Traded Goods	29	702	-95.9%	35	-17.7%	101	1,189	-91.5%
Employees Cost	128	95	34.3%	108	18.4%	323	261	23.6%
Other Expenses	320	260	22.8%	328	-2.5%	962	827	16.4%
Total Expenses	2,340	1,827	28.1%	2,330	0.4%	6,903	5,476	26.1%
EBITDA	436	381	14.5%	440	-0.8%	1,279	1,073	19.1%
EBITDA Margin	15.7%	17.3%	-154 bps	15.9%	-16 bps	15.6%	16.4%	-76 bps
Depreciation	153	131	16.6%	153	0.2%	458	368	24.6%
EBIT	283	250	13.4%	287	-1.3%	821	706	16.3%
Interest Expenses	93	92	1.3%	104	-10.2%	296	277	7.0%
Other Income	13	3	302.4%	5	139.0%	26	26	0.8%
PBT	203	161	26.1%	188	7.6%	551	455	21.0%
Taxes	76	69	10.3%	69	11.0%	190	186	2.3%
PAT	126	92	38.0%	120	5.7%	361	269	34.0%
Net Profit Margin	4.6%	4.1%	41 bps	4.3%	23 bps	4.4%	4.1%	30 bps
EPS (Rs)	2.8	2.0	38.0%	2.6	5.7%	7.9	5.9	34.0%

Consolidated Income Statements

Particulars (Y/E March 31)(Rs mn)	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	3,758	5,738	7,031	8,938	10,819	12,689	14,142
<i>Net Sales Growth</i>		52.7%	22.5%	27.1%	21.0%	17.3%	11.5%
Expenditures:							
Raw Materials Expenses	2,574	3,441	4,634	4,776	7,032	8,248	9,192
Personnel Expenses	130	192	254	310	649	761	849
Other Expenses	461	630	829	1,052	1,484	1,619	1,587
Total Expenditure	3,181	4,913	5,962	7,611	9,165	10,628	11,628
EBITDA	577	826	1,069	1,327	1,654	2,061	2,514
Depreciation	226	333	409	497	603	734	851
EBIT	351	493	660	830	1,051	1,327	1,663
Financial Charges	169	278	318	320	395	450	455
Other Income	2	5	15	40	32	40	44
Extraordinary Income	-2	43	0	0	0	0	0
PBT	183	263	358	549	688	917	1,252
Provision of Tax	67	75	47	156	217	280	382
PAT	116	188	311	393	471	637	870

Consolidated Balance Sheet Summary

Particulars (Y/E March 31) (Rs mn)	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Sources of Funds							
Equity Capital	455	455	455	455	455	455	455
Reserves & Surplus	825	1,134	1,380	1,710	2,117	2,691	3,482
Total Networkth	1,281	1,589	1,836	2,165	2,573	3,146	3,937
Total Loans	2,718	2,542	3,655	3,907	5,500	6,500	5,630
Total Capital	4,158	4,334	5,666	6,288	8,299	9,884	9,817
Application of Funds							
Net Block	1,968	3,014	3,412	4,223	5,440	6,731	6,537
Capital Work-in-Progress	660	47	541	300	506	506	50
Investments	34	3	4	42	46	50	55
Current Assets:							
Inventories	680	984	1,198	1,385	1,867	2,190	2,441
Sundry Debtors	1,283	695	912	1,214	1,482	1,738	1,937
Cash and Bank	48	155	199	261	212	67	331
Loans and Advances	230	316	479	375	541	634	707
Total Current Assets	2,242	2,196	2,818	3,352	4,222	4,752	5,541
Current Liabilities & Provisions	745	926	1,109	1,629	1,915	2,156	2,367
Net Current Assets	1,497	1,271	1,710	1,723	2,307	2,596	3,175
Capital Employed	4,158	4,334	5,666	6,288	8,299	9,884	9,817

Key Financial Ratios

Y/E March	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Liquidity Ratios							
Current Ratio	3.0	2.4	2.5	2.1	2.2	2.2	2.3
Quick Ratio	2.1	1.3	1.5	1.2	1.2	1.2	1.3
Leverage Ratios							
Total Debt/Networth	2.1	1.6	2.0	1.8	2.1	2.1	1.4
Interest Coverage Ratio	2.1	1.8	2.1	2.6	2.7	2.9	3.7
Working Capital/Sales	0.4	0.2	0.2	0.2	0.2	0.2	0.2
Activity Ratios							
Inventory (Days)	66	63	62	57	63	63	63
Debtors (Days)	125	44	47	50	50	50	50
Creditors (Days)	56	26	28	28	30	30	30
Profitability Ratios							
Operating Profit Margin	15.4%	14.4%	15.2%	14.8%	15.3%	16.2%	17.8%
Net Profit Margin	3.1%	3.3%	4.4%	4.4%	4.4%	5.0%	6.2%
Return on Capital Employed	10.8%	8.3%	11.7%	10.4%	10.2%	10.4%	12.0%
Return on Equity	18.1%	12.3%	18.1%	19.7%	19.9%	22.3%	24.6%
Valuation Ratios							
No. of Shares (mn)	45.5	45.5	45.5	45.5	45.5	45.5	45.5
Book Value (Rs)	28.1	34.9	40.3	47.5	56.5	69.1	86.4
EPS (Rs)	2.5	4.1	6.8	8.6	10.3	14.0	19.1
CEPS (Rs)	7.5	11.4	15.8	19.5	23.6	30.1	37.8
Dividend Payout	0.0%	24.2%	17.6%	13.9%	11.6%	8.6%	7.8%
Dividend Yield	0.0%	1.5%	1.7%	1.7%	1.7%	1.7%	2.2%
P/E	27.1	16.7	10.1	8.0	6.7	4.9	3.6
P/BV	2.4	2.0	1.7	1.4	1.2	1.0	0.8
M Cap/Sales	0.8	0.5	0.4	0.4	0.3	0.2	0.2
EV/Sales	1.5	1.0	0.9	0.8	0.8	0.8	0.6
EV/EBITDA	10.0	6.7	6.2	5.1	5.1	4.6	3.3

Notes:

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