

Q2FY16 Result Update
Hold

| Industry | Textiles |
|-------------------------|-----------|
| CMP (Rs) | 127.10 |
| FY17E Target Price (Rs) | 124 |
| 52 Week H/L (Rs) | 174/43.85 |
| Volumes (NSE+BSE)* | ~448,000 |
| Shares O/S (mn) | 45.5 |
| Market Cap (Rs bn) | 5.8 |
| Free Float (%) | 39.1 |
| Bloomberg | NEL IN |
| Reuters | NANE.BO |
| *Three month average | |

Q2FY16 Result Review

Despite lower Denim realizations, a robust growth in exports and sustained domestic Denim demand, led a modest growth in Nandan Denim's (NDL) topline in Q2FY16, almost in-line with our estimate. Lower Cotton prices (down about 5-6%), coupled with lesser fall of a mere 1.3% in the Denim realization due to higher value additions, led to a robust EBITDA margin, better than our expectations. Due to change in fashion trend and lack of full vertical integration, Shirting business reported significant fall in volumes and revenues. **The company targets 1/3rd of the revenues each from exports, value-added products and domestic market by the end of FY17.**

Share Holding Pattern as on September 30, 2015

| Particulars | Shares (mn) | Holding |
|------------------|-------------|---------------|
| Promoters | 27.8 | 60.9% |
| FII's | 1.5 | 3.4% |
| DII's | 0.0 | 0.1% |
| Corporate Bodies | 3.4 | 7.5% |
| Public & Others | 12.8 | 28.1% |
| Total | 45.5 | 100.0% |

Source: BSE

Financial Highlights

| (Rs mn) | FY15 | FY16E | FY17E |
|---------------|--------|--------|--------|
| Sales | 10,965 | 12,717 | 14,121 |
| EBITDA | 1,654 | 2,068 | 2,589 |
| EBITDA Margin | 15.1% | 16.3% | 18.3% |
| PAT | 514 | 701 | 948 |
| EPS (Rs) | 11.3 | 15.4 | 20.8 |
| P/E (x) | 11.3 | 8.3 | 6.1 |
| EV/EBITDA (x) | 5.6 | 5.6 | 4.1 |
| RoCE | 11.8% | 11.6% | 12.8% |
| RoE | 21.6% | 24.2% | 26.2% |

Daily Closing Price Chart


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Key Highlights:

1. NDL reported 10.7% Y-o-Y and 12.6% Q-o-Q growth in Denim sales volumes to 19.7mn meters during the quarter. This coupled with lower Denim realizations (down 1.3% Y-o-Y to Rs 133.7 per meter) led to 16.7% growth in the denim revenue to Rs 2,635mn in Q2FY16.
2. Shirting business reported significant decline in the sales volumes due to sudden change in the trend. Revenues from Shirting business declined 35.9% Y-o-Y to Rs 157mn. The management expects to catch-up with the changing trend in two-three quarters.
3. The company reported a marginal revenue growth of 6.4% Y-o-Y to Rs 2,945mn, largely in-line with our estimate of Rs 2,918mn. Exports jumped 47.8% Y-o-Y to Rs 430mn.
4. Higher exports, lower cotton prices and increasing contribution of value-added products resulted into a significant improvement of 136bps Y-o-Y and 111bps Q-o-Q in the EBITDA margin to 17.2% in Q2FY16 (QS estimate: 16.5%).
5. EBITDA during the quarter grew 15.4% Y-o-Y to Rs 508mn, higher than our estimate of Rs 481mn.
6. Net profit during the quarter grew by 30.5% Y-o-Y to Rs 156mn, lower than our estimate of Rs 174mn due to significantly higher than expected effective tax rate.
7. NDL is planning to issue 2.5mn warrants to (convertible into equity at Rs 200) to UK based FII, Polus Global Fund for a total consideration of Rs 500mn.

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. Our net sales estimates for FY16E and FY17E are unchanged at Rs 12.7bn and Rs 14.1bn respectively. Further, our EPS estimates for FY16E and FY17E are also unchanged at Rs 15.4 and Rs 20.8 respectively.

We assign an EV/EBITDA of 4x FY17E, giving a target price of Rs 124, almost the current price levels. Since our rating downgrade to 'Reduce' on August 10, 2015, the stock has fallen by 18.4%. We now rate Nandan Denim Ltd as a **'Hold'**.

Quarterly Result

| Particulars (Rs mn) | Q2FY16 | Q2FY15 | Y-o-Y Change | Q1FY16 | Q-o-Q Change | H1FY16 | H1FY15 | Y-o-Y Change |
|----------------------------------|--------------|--------------|----------------|--------------|----------------|--------------|--------------|----------------|
| Denim Volumes (mn meter) | 19.7 | 17.8 | 10.7% | 17.5 | 12.6% | 37.2 | 34.6 | 7.5% |
| Shirting Volumes (mn meter) | 1.5 | 2.3 | -34.8% | 2.6 | -42.3% | 4.1 | 5.4 | -24.1% |
| Denim Realizations (Rs /Meter) | 133.7 | 135.4 | -1.3% | 136.4 | -2.0% | 135.6 | 133.6 | 1.5% |
| Shirting Realizations (Rs/Meter) | 105.5 | 107.9 | -2.2% | 100.1 | 5.4% | 102.1 | 104.7 | -2.5% |
| Net Sales | 2,945 | 2,769 | 6.4% | 2,805 | 5.0% | 5,750 | 5,406 | 6.4% |
| Expenditures: | | | | | | | | |
| Net Raw Materials Cost | 1,889 | 1,859 | 1.6% | 1,866 | 1.2% | 3,755 | 3,653 | 2.8% |
| Purchase of Traded Goods | 21 | 35 | -39.8% | 7 | 187.6% | 28 | 73 | -61.4% |
| Employees Cost | 137 | 108 | 27.2% | 111 | 23.2% | 248 | 195 | 27.3% |
| Other Expenses | 391 | 328 | 19.2% | 368 | 6.2% | 759 | 643 | 18.1% |
| Total Expenses | 2,438 | 2,330 | 4.6% | 2,353 | 3.6% | 4,791 | 4,564 | 5.0% |
| EBITDA | 508 | 440 | 15.4% | 452 | 12.2% | 960 | 843 | 13.9% |
| EBITDA Margin | 17.2% | 15.9% | 136 bps | 16.1% | 111 bps | 16.7% | 15.6% | 111 bps |
| Depreciation | 167 | 153 | 9.1% | 166 | 0.2% | 333 | 305 | 9.2% |
| EBIT | 341 | 287 | 18.8% | 286 | 19.3% | 627 | 538 | 16.6% |
| Interest Expenses | 104 | 104 | 0.2% | 97 | 6.6% | 201 | 203 | -0.8% |
| Other Income | 4 | 5 | -20.1% | 10 | -58.2% | 14 | 14 | 4.7% |
| PBT | 241 | 188 | 28.0% | 199 | 21.5% | 440 | 348 | 26.3% |
| Taxes | 85 | 69 | 23.7% | 43 | 96.1% | 129 | 114 | 13.0% |
| PAT | 156 | 120 | 30.5% | 155 | 0.6% | 311 | 234 | 32.8% |
| Net Profit Margin | 5.3% | 4.3% | 98 bps | 5.5% | -23 bps | 5.4% | 4.3% | 108 bps |
| EPS (Rs) | 3.4 | 2.6 | 30.5% | 3.4 | 0.6% | 6.8 | 5.1 | 32.8% |

Segmental Quarterly Revenues

| Particulars (Rs mn) | Q2FY16 | Q2FY15 | Y-o-Y Change | Q1FY16 | Q-o-Q Change | H1FY16 | H1FY15 | Y-o-Y Change |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Denim | 2,635 | 2,258 | 16.7% | 2,391 | 10.2% | 5,026 | 4,341 | 15.8% |
| Shirting | 157 | 245 | -35.9% | 258 | -39.1% | 415 | 564 | -26.4% |
| Unallocated | 153 | 267 | -42.6% | 156 | -1.8% | 309 | 501 | -38.2% |
| Total | 2,945 | 2,769 | 6.4% | 2,805 | 5.0% | 5,750 | 5,406 | 6.4% |

Consolidated Income Statements

| Particulars (Y/E March 31)(Rs mn) | FY11 | FY12 | FY13 | FY14 | FY15 | FY16E | FY17E |
|-----------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Net Sales | 5,074 | 5,738 | 7,031 | 8,938 | 10,965 | 12,717 | 14,121 |
| <i>Net Sales Growth</i> | <i>35.0%</i> | <i>13.1%</i> | <i>22.5%</i> | <i>27.1%</i> | <i>22.7%</i> | <i>16.0%</i> | <i>11.0%</i> |
| Expenditures: | | | | | | | |
| Raw Materials Expenses | 3,935 | 3,441 | 4,634 | 4,776 | 7,220 | 8,266 | 9,178 |
| Personnel Expenses | 147 | 192 | 254 | 310 | 438 | 763 | 847 |
| Other Expenses | 473 | 630 | 829 | 1,052 | 1,295 | 1,619 | 1,506 |
| Total Expenditure | 4,395 | 4,913 | 5,962 | 7,611 | 9,311 | 10,648 | 11,531 |
| EBITDA | 679 | 826 | 1,069 | 1,327 | 1,654 | 2,068 | 2,589 |
| Depreciation | 254 | 333 | 409 | 497 | 596 | 724 | 851 |
| EBIT | 254 | 493 | 660 | 830 | 1,059 | 1,344 | 1,739 |
| Financial Charges | 426 | 278 | 318 | 320 | 377 | 402 | 455 |
| Other Income | 168 | 5 | 15 | 40 | 30 | 38 | 42 |
| Extraordinary Income | 3 | 43 | 0 | 0 | 0 | 0 | 0 |
| PBT | 260 | 263 | 358 | 549 | 712 | 980 | 1,326 |
| Provision of Tax | 87 | 75 | 47 | 156 | 198 | 279 | 378 |
| PAT | 173 | 188 | 311 | 393 | 514 | 701 | 948 |

Consolidated Balance Sheet Summary

| Particulars (Y/E March 31) (Rs mn) | FY11 | FY12 | FY13 | FY14 | FY15 | FY16E | FY17E |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sources of Funds | | | | | | | |
| Equity Capital | 455 | 455 | 455 | 455 | 455 | 455 | 455 |
| Reserves & Surplus | 999 | 1,134 | 1,380 | 1,710 | 2,133 | 2,738 | 3,580 |
| Total Networkth | 1,454 | 1,589 | 1,836 | 2,165 | 2,588 | 3,194 | 4,036 |
| Total Loans | 2,622 | 2,542 | 3,655 | 3,907 | 4,229 | 6,500 | 5,630 |
| Total Capital | 4,264 | 4,334 | 5,666 | 6,288 | 7,066 | 9,955 | 9,941 |
| Application of Funds | | | | | | | |
| Net Block | 2,664 | 3,014 | 3,412 | 4,223 | 3,699 | 6,000 | 6,050 |
| Capital Work-in-Progress | 146 | 47 | 541 | 300 | 775 | 750 | 50 |
| Investments | 34 | 3 | 4 | 42 | 73 | 81 | 89 |
| Current Assets: | | | | | | | |
| Inventories | 1,213 | 984 | 1,198 | 1,385 | 1,409 | 1,916 | 2,128 |
| Sundry Debtors | 550 | 695 | 912 | 1,214 | 1,472 | 1,742 | 1,934 |
| Cash and Bank | 78 | 155 | 199 | 261 | 601 | 530 | 842 |
| Loans and Advances | 253 | 316 | 479 | 375 | 514 | 636 | 706 |
| Total Current Assets | 2,094 | 2,196 | 2,818 | 3,352 | 4,051 | 4,880 | 5,667 |
| Current Liabilities & Provisions | 673 | 926 | 1,109 | 1,629 | 1,533 | 1,756 | 1,915 |
| Net Current Assets | 1,421 | 1,271 | 1,710 | 1,723 | 2,518 | 3,124 | 3,752 |
| Capital Employed | 4,264 | 4,334 | 5,666 | 6,288 | 7,066 | 9,955 | 9,941 |

Consolidated Cash Flow Statement

| Particulars (Y/E March 31) (Rs mn) | FY11 | FY12 | FY13 | FY14 | FY15 | FY16E | FY17E |
|--|-------------|-------------|---------------|--------------|--------------|---------------|---------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | | | | | |
| PBT Before Extraordinary Items | 260 | 263 | 358 | 549 | 712 | 980 | 1,326 |
| Adjustments for: | | | | | | | |
| Depreciation | 254 | 333 | 409 | 497 | 596 | 724 | 851 |
| Interest Expenses | 168 | 278 | 318 | 320 | 377 | 402 | 455 |
| Other Adjustments | -1 | -46 | 1 | -39 | 30 | 38 | 42 |
| Operating Profit before WC changes | 681 | 828 | 1,085 | 1,327 | 1,715 | 2,144 | 2,673 |
| Change in Working Capital | 232 | 40 | -426 | -365 | -455 | -677 | -315 |
| Cash Generated from Operations | 913 | 868 | 659 | 963 | 1,260 | 1,468 | 2,357 |
| Direct Taxes (Net) | -105 | -55 | -95 | -86 | -198 | -279 | -378 |
| Net Cash from Operating Activities | 809 | 813 | 564 | 877 | 1,061 | 1,188 | 1,980 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | | | | |
| Net Purchase of Fixed Assets | -520 | -740 | -1,329 | -822 | -546 | -3,000 | -200 |
| Net Purchase of Investments | -21 | 53 | -136 | -142 | -32 | -7 | -8 |
| Interest Received | 2 | 4 | 9 | 26 | 30 | 38 | 42 |
| Net Cash used in Investing Activities | -539 | -683 | -1,457 | -938 | -548 | -2,969 | -166 |
| CASH FLOW FROM FINANCING ACTIVITIES | | | | | | | |
| Equity Share Capital | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Borrowing | -96 | 249 | 1,162 | 502 | 322 | 2,271 | -870 |
| Interest Paid | -165 | -278 | -325 | -304 | -377 | -402 | -455 |
| Dividend Paid | 0 | 0 | -52 | -95 | -85 | -95 | -106 |
| Net Cash from Financing Activities | -261 | -29 | 785 | 103 | -140 | 1,774 | -1,431 |
| Net Change in Cash & Equivalents | 9 | 101 | -107 | 42 | 373 | -7 | 383 |
| Cash & Equivalents at the beginning | 17 | 25 | 126 | 19 | 61 | 601 | 530 |
| Cash & Equivalents at the end | 26 | 126 | 19 | 61 | 601 | 530 | 843 |

Key Financial Ratios

| Y/E March | FY11 | FY12 | FY13 | FY14 | FY15 | FY16E | FY17E |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|
| Liquidity Ratios | | | | | | | |
| Current Ratio | 3.1 | 2.4 | 2.5 | 2.1 | 2.6 | 2.8 | 2.9 |
| Quick Ratio | 1.3 | 1.3 | 1.5 | 1.2 | 1.7 | 1.7 | 1.8 |
| Leverage Ratios | | | | | | | |
| Total Debt/Networth | 1.8 | 1.6 | 2.0 | 1.8 | 1.6 | 2.0 | 1.4 |
| Interest Coverage Ratio | 2.5 | 1.8 | 2.1 | 2.6 | 2.8 | 3.3 | 3.7 |
| Working Capital/Sales | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| Activity Ratios | | | | | | | |
| Inventory (Days) | 87 | 63 | 62 | 57 | 47 | 55 | 55 |
| Debtors (Days) | 40 | 44 | 47 | 50 | 49 | 50 | 50 |
| Creditors (Days) | 53 | 26 | 28 | 28 | 27 | 30 | 30 |
| Profitability Ratios | | | | | | | |
| Operating Profit Margin | 13.4% | 14.4% | 15.2% | 14.8% | 15.1% | 16.3% | 18.3% |
| Net Profit Margin | 3.4% | 3.3% | 4.4% | 4.4% | 4.7% | 5.5% | 6.7% |
| Return on Capital Employed | 6.8% | 8.3% | 11.7% | 10.4% | 11.8% | 11.6% | 12.8% |
| Return on Equity | 12.7% | 12.3% | 18.1% | 19.7% | 21.6% | 24.2% | 26.2% |
| Valuation Ratios | | | | | | | |
| No. of Shares (mn) | 45.5 | 45.5 | 45.5 | 45.5 | 45.5 | 45.5 | 45.5 |
| Book Value (Rs) | 31.9 | 34.9 | 40.3 | 47.5 | 56.8 | 70.1 | 88.6 |
| EPS (Rs) | 3.8 | 4.1 | 6.8 | 8.6 | 11.3 | 15.4 | 20.8 |
| CEPS (Rs) | 9.4 | 11.4 | 15.8 | 19.5 | 24.4 | 31.3 | 39.5 |
| Dividend Payout | 0.0% | 24.2% | 17.6% | 13.9% | 14.2% | 11.7% | 9.6% |
| Dividend Yield | 0.0% | 0.8% | 0.9% | 0.9% | 1.3% | 1.4% | 1.6% |
| P/E | 33.4 | 30.8 | 18.6 | 14.7 | 11.3 | 8.3 | 6.1 |
| P/BV | 4.0 | 3.6 | 3.2 | 2.7 | 2.2 | 1.8 | 1.4 |
| M Cap/Sales | 1.1 | 1.0 | 0.8 | 0.6 | 0.5 | 0.5 | 0.4 |
| EV/Sales | 1.6 | 1.4 | 1.3 | 1.1 | 0.9 | 0.9 | 0.7 |
| EV/EBITDA | 12.2 | 9.9 | 8.6 | 7.1 | 5.6 | 5.6 | 4.1 |

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