

**Q4FY15 Result Update**
**Accumulate**

Industry	Textiles
CMP (Rs)	84.60
FY17E Target Price (Rs)	103
52 Week H/L (Rs)	99.45/36
Volumes (NSE+BSE)*	~307,000
Shares O/S (mn)	45.5
Market Cap (Rs mn)	3,853
Free Float (%)	39.1%
Bloomberg	NEL IN
Reuters	NANE.BO
*Three month average	

**Q4FY15 Result Review**

In Q4FY15, Nandan Denim (NDL) continued to report robust performances both on the topline and bottomline fronts on a Y-o-Y basis, 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 final dividend of Rs 1, (total dividend of Rs 1.6 per equity share).**

**Domestic denim demand continued to remain strong, Shirting Fabric volumes declined sequentially...**

NDL reported a growth of 11.3% Y-o-Y in the Denim sales volumes to 18.7mn meters. Denim realizations too were robust during the quarter. However, the Shirting Fabric segment showed a decline in both the sales volumes as well as pricing sequentially. Net sales during the quarter grew by 16.5% Y-o-Y to Rs 2,783mn, compared to our estimate of Rs 2,636mn. Increased Denim off-take was also due to continued focus on exports by adding newer geographies. Exports grew 41% Y-o-Y to Rs 289mn.

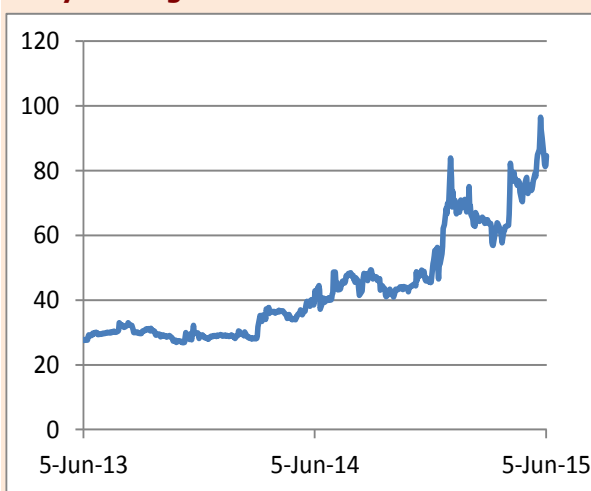
**Share Holding Pattern as on March 31, 2015**

Particulars	Shares (mn)	Holding
Promoters	27.8	60.9%
FII's	1.4	3.1%
Corporate Bodies	3.4	7.4%
Public & Others	12.9	28.6%
<b>Total</b>	<b>45.5</b>	<b>100.0%</b>

Source: BSE

**Financial Highlights**

(Rs mn)	FY15	FY16E	FY17E
Sales	10,965	12,717	14,121
EBITDA	1,654	2,068	2,513
EBITDA Margin	15.1%	16.3%	17.8%
PAT	514	701	893
EPS (Rs)	11.3	15.4	19.6
P/E (x)	7.5	5.5	4.3
RoCE	11.8%	11.6%	12.3%
RoE	21.6%	24.2%	24.9%

**Daily Closing Price Chart**


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**Better Denim realizations and capacity utilizations led a better Y-o-Y profitability...**

On the back of sustained denim demand, NDL reported improved capacity utilizations from ~76-77% in Q3FY15 to ~80% in Q4FY15. Higher Denim realizations by 7.6% Y-o-Y and 5.4% Q-o-Q to Rs 133.9 per meter, also aided the denim profitability. However, the newly added Shirting Fabric division faced pricing pressure and operated at lower capacity utilizations. Despite higher personnel expenses due to expansion and product trial expenses, NDL reported 288bps Y-o-Y improvement in the EBITDA margin to 13.5%, albeit lower than our estimate of 14.2%. EBITDA during the quarter stood at Rs 375mn, exactly in-line with our estimate. Net profit during the quarter grew by 23.6% Y-o-Y to Rs 153mn, compared to our estimate of Rs 110mn, due to lower than expected interest outgo on account of better working capital management.

**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 the Shirting Fabric division will aid the margin improvement going forward. Our net sales estimates for FY16E and FY17E are largely unchanged at Rs 12.7bn and Rs 14.1bn respectively. Our EPS estimates for FY16E and FY17E are at Rs 15.4 and Rs 19.6, compared to our previous estimates Rs 14 and Rs 19.1 respectively.

We assign an EV/EBITDA of 3.75x FY17E, giving a target price of Rs 103, with an annualized upside of 9.9% from the current levels. We continue to rate Nandan Denim Ltd as an **'Accumulate'**.

## Quarterly Result

Particulars (Rs mn)	Q4FY15	Q4FY14	Y-o-Y Change	Q3FY15	Q-o-Q Change	FY15	FY14	Y-o-Y Change
Denim Volumes (mn meter)	18.7	16.8	11.3%	18.5	1.1%	71.8	69.3	3.6%
Shirting Volumes (mn meter)	2.9	1.5	93.3%	3.3	-12.1%	11.6	1.5	673.3%
Denim Realizations (Rs per Meter)	133.9	124.5	7.6%	127.1	5.4%	132.7	120.2	10.4%
Shirting Realizations (Rs/Meter)	99.9	97.1	2.9%	100.2	-0.3%	99.9	97.1	2.9%
<b>Net Sales</b>	<b>2,783</b>	<b>2,388</b>	<b>16.5%</b>	<b>2,776</b>	<b>0.3%</b>	<b>10,965</b>	<b>8,938</b>	<b>22.7%</b>
<b>Expenditures:</b>								
Net Raw Materials Cost	1,923	1,456	32.1%	1,864	3.2%	7,440	4,655	59.8%
Purchase of Traded Goods	36	405	-91.1%	29	26.9%	138	1,594	-91.4%
Employees Cost	115	49	134.6%	128	-9.6%	438	310	41.1%
Other Expenses	333	225	47.9%	320	4.1%	1,295	1,052	23.1%
<b>Total Expenses</b>	<b>2,408</b>	<b>2,135</b>	<b>12.8%</b>	<b>2,340</b>	<b>2.9%</b>	<b>9,311</b>	<b>7,611</b>	<b>22.3%</b>
<b>EBITDA</b>	<b>375</b>	<b>253</b>	<b>48.2%</b>	<b>436</b>	<b>-14.0%</b>	<b>1,654</b>	<b>1,327</b>	<b>24.7%</b>
<b>EBITDA Margin</b>	<b>13.5%</b>	<b>10.6%</b>	<b>288 bps</b>	<b>15.7%</b>	<b>-223 bps</b>	<b>15.1%</b>	<b>14.8%</b>	<b>24 bps</b>
Depreciation	137	130	5.9%	153	-10.3%	596	497	19.8%
<b>EBIT</b>	<b>238</b>	<b>124</b>	<b>92.4%</b>	<b>283</b>	<b>-15.9%</b>	<b>1,059</b>	<b>830</b>	<b>27.7%</b>
Interest Expenses	81	44	85.8%	93	-13.2%	377	320	17.7%
Other Income	4	14	-70.9%	13	-68.7%	30	40	-23.7%
<b>PBT</b>	<b>161</b>	<b>94</b>	<b>71.7%</b>	<b>203</b>	<b>-20.5%</b>	<b>712</b>	<b>549</b>	<b>29.7%</b>
Taxes	8	-30	N.A.	76	-89.3%	198	156	27.2%
<b>PAT</b>	<b>153</b>	<b>124</b>	<b>23.6%</b>	<b>126</b>	<b>21.2%</b>	<b>514</b>	<b>393</b>	<b>30.7%</b>
<b>Net Profit Margin</b>	<b>5.5%</b>	<b>5.2%</b>	<b>32 bps</b>	<b>4.6%</b>	<b>95 bps</b>	<b>4.7%</b>	<b>4.4%</b>	<b>29 bps</b>
<b>EPS (Rs)</b>	<b>3.4</b>	<b>2.7</b>	<b>23.6%</b>	<b>2.8</b>	<b>21.2%</b>	<b>11.3</b>	<b>8.6</b>	<b>30.7%</b>

**Consolidated Income Statements**

Particulars (Y/E March 31)(Rs mn)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Net Sales</b>	<b>5,074</b>	<b>5,738</b>	<b>7,031</b>	<b>8,938</b>	<b>10,965</b>	<b>12,717</b>	<b>14,121</b>
<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>
<b>Expenditures:</b>							
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	1,582
<b>Total Expenditure</b>	<b>4,395</b>	<b>4,913</b>	<b>5,962</b>	<b>7,611</b>	<b>9,311</b>	<b>10,648</b>	<b>11,608</b>
<b>EBITDA</b>	<b>679</b>	<b>826</b>	<b>1,069</b>	<b>1,327</b>	<b>1,654</b>	<b>2,068</b>	<b>2,513</b>
Depreciation	<b>13.4%</b>	333	409	497	596	724	851
<b>EBIT</b>	<b>254</b>	<b>493</b>	<b>660</b>	<b>830</b>	<b>1,059</b>	<b>1,344</b>	<b>1,663</b>
Financial Charges	<b>426</b>	278	318	320	377	402	455
Other Income	168	5	15	40	30	38	42
Extraordinary Income	3	43	0	0	0	0	0
<b>PBT</b>	<b>260</b>	<b>263</b>	<b>358</b>	<b>549</b>	<b>712</b>	<b>980</b>	<b>1,249</b>
Provision of Tax	87	75	47	156	198	279	356
<b>PAT</b>	<b>173</b>	<b>188</b>	<b>311</b>	<b>393</b>	<b>514</b>	<b>701</b>	<b>893</b>

**Consolidated Balance Sheet Summary**

Particulars (Y/E March 31) (Rs mn)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Sources of Funds</b>							
Equity Capital	455	455	455	455	455	455	455
Reserves & Surplus	999	1,134	1,380	1,710	2,133	2,738	3,526
<b>Total Networkth</b>	<b>1,454</b>	<b>1,589</b>	<b>1,836</b>	<b>2,165</b>	<b>2,588</b>	<b>3,194</b>	<b>3,981</b>
<b>Total Loans</b>	<b>2,622</b>	<b>2,542</b>	<b>3,655</b>	<b>3,907</b>	<b>4,229</b>	<b>6,500</b>	<b>5,630</b>
<b>Total Capital</b>	<b>4,264</b>	<b>4,334</b>	<b>5,666</b>	<b>6,288</b>	<b>7,066</b>	<b>9,955</b>	<b>9,886</b>
<b>Application of Funds</b>							
<b>Net Block</b>	<b>2,664</b>	<b>3,014</b>	<b>3,412</b>	<b>4,223</b>	<b>3,699</b>	<b>6,000</b>	<b>6,050</b>
Capital Work-in-Progress	146	47	541	300	775	750	50
Investments	34	3	4	42	73	81	89
<b>Current Assets:</b>							
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	794
Loans and Advances	253	316	479	375	514	636	706
<b>Total Current Assets</b>	<b>2,094</b>	<b>2,196</b>	<b>2,818</b>	<b>3,352</b>	<b>4,051</b>	<b>4,880</b>	<b>5,620</b>
<b>Current Liabilities &amp; Provisions</b>	<b>673</b>	<b>926</b>	<b>1,109</b>	<b>1,629</b>	<b>1,533</b>	<b>1,756</b>	<b>1,922</b>
<b>Net Current Assets</b>	<b>1,421</b>	<b>1,271</b>	<b>1,710</b>	<b>1,723</b>	<b>2,518</b>	<b>3,124</b>	<b>3,697</b>
<b>Capital Employed</b>	<b>4,264</b>	<b>4,334</b>	<b>5,666</b>	<b>6,288</b>	<b>7,066</b>	<b>9,955</b>	<b>9,886</b>

**Consolidated Cash Flow Statement**

<b>Particulars (Y/E March 31)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16E</b>	<b>FY17E</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>							
<b>PBT Before Extraordinary Items</b>	<b>260</b>	<b>263</b>	<b>358</b>	<b>549</b>	<b>712</b>	<b>980</b>	<b>1,249</b>
Adjustments for:							
Depreciation	254	333	409	497	596	724	851
Interest Expenses	168	278	318	320	377	402	455
Other Adjustment	-1	-46	1	-39	30	38	42
<b>Operating Profit before WC changes</b>	<b>681</b>	<b>828</b>	<b>1,085</b>	<b>1,327</b>	<b>1,715</b>	<b>2,144</b>	<b>2,597</b>
Change in Working Capital	232	40	-426	-365	-455	-677	-309
<b>Cash generated from Operations</b>	<b>913</b>	<b>868</b>	<b>659</b>	<b>963</b>	<b>1,260</b>	<b>1,468</b>	<b>2,288</b>
Direct Taxes (Net)	-105	-55	-95	-86	-198	-279	-356
<b>Net Cash from Operating activities</b>	<b>809</b>	<b>813</b>	<b>564</b>	<b>877</b>	<b>1,061</b>	<b>1,188</b>	<b>1,932</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>							
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
<b>Net Cash used in Investing Activities</b>	<b>-539</b>	<b>-683</b>	<b>-1,457</b>	<b>-938</b>	<b>-548</b>	<b>-2,969</b>	<b>-166</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>							
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
<b>Net Cash from Financing activities</b>	<b>-261</b>	<b>-29</b>	<b>785</b>	<b>103</b>	<b>-140</b>	<b>1,774</b>	<b>-1,431</b>
Net Change in Cash & Equivalents	9	101	-107	42	373	-7	335
Cash & Equivalents at the beginning	17	25	126	19	61	601	530
<b>Cash &amp; Equivalents at the end</b>	<b>26</b>	<b>126</b>	<b>19</b>	<b>61</b>	<b>601</b>	<b>530</b>	<b>795</b>

**Key Financial Ratios**

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Liquidity Ratios</b>							
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
<b>Leverage Ratios</b>							
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
<b>Activity Ratios</b>							
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
<b>Profitability Ratios</b>							
Operating Profit Margin	13.4%	14.4%	15.2%	14.8%	15.1%	16.3%	17.8%
Net Profit Margin	3.4%	3.3%	4.4%	4.4%	4.7%	5.5%	6.3%
Return on Capital Employed	6.8%	8.3%	11.7%	10.4%	11.8%	11.6%	12.3%
Return on Equity	12.7%	12.3%	18.1%	19.7%	21.6%	24.2%	24.9%
<b>Valuation Ratios</b>							
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	87.4
EPS (Rs)	3.8	4.1	6.8	8.6	11.3	15.4	19.6
CEPS (Rs)	9.4	11.4	15.8	19.5	24.4	31.3	38.3
Dividend Payout	0.0%	24.2%	17.6%	13.9%	14.2%	11.7%	10.2%
Dividend Yield	0.0%	1.2%	1.4%	1.4%	1.9%	2.1%	2.4%
P/E	22.2	20.5	12.4	9.8	7.5	5.5	4.3
P/BV	2.6	2.4	2.1	1.8	1.5	1.2	1.0
M Cap/Sales	0.8	0.7	0.5	0.4	0.4	0.3	0.3
EV/Sales	1.3	1.1	1.0	0.8	0.7	0.8	0.6
EV/EBITDA	9.4	7.6	6.8	5.6	4.5	4.7	3.4

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