

Q1FY16 Result Update
Reduce

Industry	Textiles
CMP (Rs)	155.70
FY17E Target Price (Rs)	124
52 Week H/L (Rs)	174/40
Volumes (NSE+BSE)*	~484,000
Shares O/S (mn)	45.5
Market Cap (Rs bn)	7.1
Free Float (%)	39.1%
Bloomberg	NEL IN
Reuters	NANE.BO
*Three month average	

Q1FY16 Result Review

After a sharp price correction, both cotton and yarn prices have started showing stability, leading to better performance by Nandan Denim (NDL) in Q1FY16. The company reported a marginal topline growth during the quarter largely in-line with our estimate. However, this translated into robust net profit growth due to lower raw materials' prices, higher exports and larger content of value added products.

Key Highlights:

1. Nandan Denim reported a marginal growth of 6.4% Y-o-Y to Rs 2,805mn, largely in-line with our estimate of Rs 2816mn. This was driven by stupendous growth in exports.
2. Exports during the quarter grew 113.4% Y-o-Y and 33.2% Q-o-Q to Rs 382mn, accounting for 13.6% of the revenues.
3. Denim sales volumes grew 4.2% Y-o-Y to 17.5mn meters. This coupled with 3.6% Y-o-Y rise in realizations led to a robust 14.8% Y-o-Y growth in the Denim revenues to Rs 2,391mn.
4. Shirting business was muted Y-o-Y, both, on the sales volumes as well as realizations fronts.
5. Lower cotton prices and increasing contribution of value-added products, resulted in a significant improvement of 84bps Y-o-Y and 263bps Q-o-Q in the EBITDA margin to 16.1% in Q1FY16 (QS estimate: 14.8%).
6. EBITDA during the quarter grew 12.3% Y-o-Y to Rs 452mn, higher than our estimate of Rs 417mn.
5. Net profit during the quarter grew by 35.2% Y-o-Y to Rs 155mn, compared to our estimate of Rs 137mn.

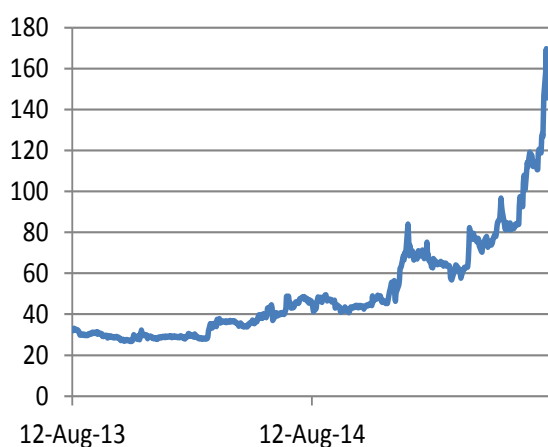
Share Holding Pattern as on June 30, 2015

Particulars	Shares (mn)	Holding
Promoters	27.8	60.9%
FII's	1.4	3.2%
DII's	0.0	0.1%
Corporate Bodies	3.8	8.3%
Public & Others	12.5	27.5%
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)	13.8	10.1	7.5
EV/EBITDA (x)	6.4	6.3	4.6
RoCE	11.8%	11.6%	12.8%
RoE	21.6%	24.2%	26.2%

Daily Closing Price Chart


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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. On the back of faster than expected margin improvement, our EPS estimates for FY16E and FY17E are at Rs 15.4 (unchanged from our previous estimate) and Rs 20.8 (compared to our previous estimate of Rs 19.6) respectively.

We assign an EV/EBITDA of 4x FY17E, giving a target price of Rs 124, lower by 20.2% from the current levels. Since our Initiating coverage on the report on November 14, 2014, the stock has appreciated ~238%. On the back of high valuations, we now rate Nandan Denim Ltd as a **'Reduce'**.

Quarterly Result

Particulars (Rs mn)	Q1FY16	Q1FY15	Y-o-Y Change	Q4FY15	Q-o-Q Change
Denim Volumes (mn meters)	17.5	16.8	4.2%	18.7	-6.4%
Shirting Volumes (mn meters)	2.6	3.1	-16.1%	2.9	-10.3%
Denim Realizations (Rs/Meter)	136.4	131.7	3.6%	133.9	1.9%
Shirting Realizations (Rs/Meter)	100.1	102.4	-2.2%	99.9	0.2%
Net Sales	2,805	2,637	6.4%	2,783	0.8%
Expenditures:					
Net Raw Materials Cost	1,866	1,794	4.0%	1,923	-3.0%
Purchase of Traded Goods	7	38	-81.0%	36	-80.0%
Employees Cost	111	87	27.5%	115	-3.6%
Other Expenses	368	315	17.0%	333	10.7%
Total Expenses	2,353	2,234	5.3%	2,408	-2.3%
EBITDA	452	403	12.3%	375	20.5%
EBITDA Margin	16.1%	15.3%	84 bps	13.5%	263 bps
Depreciation	166	152	9.3%	137	21.2%
EBIT	286	251	14.1%	238	20.0%
Interest Expenses	97	99	-1.9%	81	20.6%
Other Income	10	8	20.3%	4	155.3%
PBT	199	160	24.3%	161	23.1%
Taxes	43	45	-3.4%	8	432.5%
PAT	155	115	35.2%	153	1.3%
Net Profit Margin	5.5%	4.4%	118 bps	5.5%	3 bps
EPS (Rs)	3.4	2.5	35.2%	3.4	1.3%

Segmental Quarterly Revenues

Particulars (Rs mn)	Q1FY16	Q1FY15	Y-o-Y Change	Q4FY15	Q-o-Q Change
Denim	2,391	2,083	14.8%	2,498	-4.3%
Shirting	258	319	-19.1%	261	-1.1%
Unallocated	156	234	-33.3%	24	548.5%
Total	2,805	2,637	6.4%	2,783	0.8%

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%	0.6%	0.8%	0.8%	1.0%	1.2%	1.3%
P/E	40.9	37.7	22.8	18.0	13.8	10.1	7.5
P/BV	4.9	4.5	3.9	3.3	2.7	2.2	1.8
M Cap/Sales	1.4	1.2	1.0	0.8	0.6	0.6	0.5
EV/Sales	1.9	1.7	1.5	1.2	1.0	1.0	0.8
EV/EBITDA	14.1	11.5	9.9	8.1	6.4	6.3	4.6

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