

**Q3FY16 Result Update**
**Hold**

Industry	Textiles
CMP (Rs)	112.50
FY17E Target Price (Rs)	114
52 Week H/L (Rs)	174/54
Volumes (NSE+BSE)*	~332,000
Shares O/S (mn)	45.5
Market Cap (Rs bn)	5.1
Free Float (%)	39.1
Bloomberg	NEL IN
Reuters	NANE.BO
*Three month average	

**Share Holding Pattern as on September 30, 2015**

Particulars	Shares (mn)	Holding
Promoters	27.8	60.9%
FIIs	1.5	3.4%
DIIIs	0.0	0.1%
Corporate Bodies	3.4	7.5%
Public & Others	12.8	28.1%
<b>Total</b>	<b>45.5</b>	<b>100.0%</b>

Source: BSE

**Financial Highlights**

(Rs mn)	FY15	FY16E	FY17E
Sales	10,965	11,613	13,437
EBITDA	1,654	1,949	2,472
EBITDA Margin	15.1%	16.8%	18.4%
PAT	514	638	844
EPS (Rs)	11.3	14.0	18.5
P/E (x)	10.0	8.0	6.1
EV/EBITDA (x)	5.2	5.5	4.0
RoCE	11.8%	10.9%	11.8%
RoE	21.6%	22.3%	24.1%

**Daily Closing Price Chart**


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**Q3FY16 Result Review**

In Q3FY16, domestic Denim demand and realizations were robust. However, significant softening of global Denim demand and muted performance by the Shirting Fabric business of Nandan Denim Ltd (NDL) led to a marginally lower than expected revenues. Volatile Cotton prices led to marginal sequential decline in the profitability, though significantly higher on a Y-o-Y basis. With Cotton prices stabilizing at lower levels, profitability is expected to improve going forward.

**Key Highlights:**

1. NDL reported 3.2% Y-o-Y (though lower by 3% Q-o-Q) growth in Denim sales volumes to 19.1mn meters during the quarter. However, improved realization, led to a 13.5% Y-o-Y growth in the denim revenue to Rs 2,674mn in Q3FY16.
2. Shirting business reported significant decline in the sales volumes due to sudden change in the trend. Revenues from Shirting business declined 60% Y-o-Y to Rs 134mn. Also, part of Shirting facility is being used now for Denim weaving. The management expects to catch-up with the changing trend in two-three quarters, when its processing facility will be operational.
3. The company reported a marginal revenue growth of 3.5% Y-o-Y to Rs 2,874mn, compared to our estimate of Rs 3,076mn. Exports slumped 27.2% Q-o-Q to Rs 313mn.
4. Volatile Cotton prices led to marginal sequential decline of 52bps in the EBITDA margin to 16.7%. Though it was higher by 100bps Y-o-Y (QS estimate: 17.2%).
5. EBITDA during the quarter grew 10.1% Y-o-Y to Rs 480mn, lower than our estimate of Rs 529mn.
6. Net profit during the quarter grew by 23.8% Y-o-Y (though almost flat Q-o-Q) to Rs 156mn, lower than our estimate of Rs 179mn.
7. NDL issued 2.5mn warrants (convertible into equity at Rs 200) to UK based FII, Polus Global Fund for a total consideration of Rs 500mn.
8. NDL declared an interim dividend of Rs 0.8 per equity share.
9. The company targets 1/3<sup>rd</sup> of the revenues each from exports, value-added products and domestic market by the end of FY17.

**Outlook and Valuations**

After showing significant decline, the Shirting business is expected to show revival from Q2FY17, as setting up of processing facility is progressing on time. However, sluggishness in exports may continue for a few quarters. Our net sales estimates for FY16E and FY17E are at Rs 11.6bn and Rs 13.4bn, compared to our previous estimates of Rs 12.7bn and Rs 14.1bn respectively. Further, our EPS estimates for FY16E and FY17E stand at Rs 14.0 and Rs 18.5, compared to our earlier estimates of Rs 15.4 and Rs 20.8 respectively.

We assign an EV/EBITDA of 4x FY17E, giving a target price of Rs 114, almost the current price levels. We continue to rate Nandan Denim Ltd as a **'Hold'**.

## Quarterly Result

Particulars (Rs mn)	Q3FY16	Q3FY15	Y-o-Y Change	Q2FY16	Q-o-Q Change	9MFY16	9MFY15	Y-o-Y Change
Denim Volumes (mn meter)	19.1	18.5	3.2%	19.7	-3.0%	56.3	53.1	6.0%
Shirting Volumes (mn meter)	1.3	3.3	-60.6%	1.5	-13.3%	5.4	8.7	-37.9%
Denim Realizations (Rs/Meter)	139.7	127.1	9.9%	133.7	4.5%	136.8	126.1	8.5%
Shirting Realizations (Rs/Meter)	103.1	100.2	2.9%	105.5	-2.3%	101.7	103.3	-1.6%
<b>Net Sales</b>	<b>2,874</b>	<b>2,776</b>	<b>3.5%</b>	<b>2,945</b>	<b>-2.4%</b>	<b>8,624</b>	<b>8,182</b>	<b>5.4%</b>
<b>Expenditures:</b>								
Net Raw Materials Cost	1,921	1,864	3.1%	1,889	1.7%	5,676	5,517	2.9%
Purchase of Traded Goods	3	29	-88.4%	21	-84.1%	31	101	-69.0%
Employees Cost	130	128	1.6%	137	-5.5%	378	323	17.1%
Other Expenses	340	320	6.2%	391	-13.1%	1,099	962	14.2%
<b>Total Expenses</b>	<b>2,393</b>	<b>2,340</b>	<b>2.3%</b>	<b>2,438</b>	<b>-1.8%</b>	<b>7,184</b>	<b>6,903</b>	<b>4.1%</b>
<b>EBITDA</b>	<b>480</b>	<b>436</b>	<b>10.1%</b>	<b>508</b>	<b>-5.4%</b>	<b>1,440</b>	<b>1,279</b>	<b>12.6%</b>
<b>EBITDA Margin</b>	<b>16.7%</b>	<b>15.7%</b>	<b>100 bps</b>	<b>17.2%</b>	<b>-52 bps</b>	<b>16.7%</b>	<b>15.6%</b>	<b>107 bps</b>
Depreciation	167	153	9.0%	167	0.2%	500	458	9.1%
<b>EBIT</b>	<b>313</b>	<b>283</b>	<b>10.7%</b>	<b>341</b>	<b>-8.1%</b>	<b>940</b>	<b>821</b>	<b>14.6%</b>
Interest Expenses	97	93	4.6%	104	-6.2%	299	296	0.9%
Other Income	12	13	-7.9%	4	175.6%	26	26	-1.4%
<b>PBT</b>	<b>228</b>	<b>203</b>	<b>12.3%</b>	<b>241</b>	<b>-5.6%</b>	<b>668</b>	<b>551</b>	<b>21.1%</b>
Taxes	71	76	-6.8%	85	-16.4%	200	190	5.0%
<b>PAT</b>	<b>156</b>	<b>126</b>	<b>23.8%</b>	<b>156</b>	<b>0.3%</b>	<b>468</b>	<b>361</b>	<b>29.7%</b>
<b>Net Profit Margin</b>	<b>5.4%</b>	<b>4.6%</b>	<b>89 bps</b>	<b>5.3%</b>	<b>15 bps</b>	<b>5.4%</b>	<b>4.4%</b>	<b>101 bps</b>
<b>EPS (Rs)</b>	<b>3.4</b>	<b>2.8</b>	<b>23.8%</b>	<b>3.4</b>	<b>0.3%</b>	<b>10.3</b>	<b>7.9</b>	<b>29.7%</b>

## Segmental Quarterly Revenues

Particulars (Rs mn)	Q3FY16	Q3FY15	Y-o-Y Change	Q2FY16	Q-o-Q Change	9MFY16	9MFY15	Y-o-Y Change
Denim	2,674	2,355	13.5%	2,635	1.5%	7,700	6,696	15.0%
Shirting	134	335	-60.0%	157	-14.6%	549	899	-38.9%
Unallocated	66	86	-23.5%	153	-57.1%	375	587	-36.1%
<b>Total</b>	<b>2,874</b>	<b>2,776</b>	<b>3.5%</b>	<b>2,945</b>	<b>-2.4%</b>	<b>8,624</b>	<b>8,182</b>	<b>5.4%</b>

**Consolidated Income Statements**

Y/E March (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>11,613</b>	<b>13,437</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>5.9%</i>	<i>15.7%</i>
<b>Expenditures:</b>							
Raw Materials Expenses	3,935	3,441	4,634	4,776	7,220	7,549	8,734
Personnel Expenses	147	192	254	310	438	697	806
Other Expenses	473	630	829	1,052	1,295	1,419	1,425
<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>9,664</b>	<b>10,965</b>
<b>EBITDA</b>	<b>679</b>	<b>826</b>	<b>1,069</b>	<b>1,327</b>	<b>1,654</b>	<b>1,949</b>	<b>2,472</b>
Depreciation	254	333	409	497	596	671	851
<b>EBIT</b>	<b>254</b>	<b>493</b>	<b>660</b>	<b>830</b>	<b>1,059</b>	<b>1,278</b>	<b>1,621</b>
Financial Charges	<b>426</b>	278	318	320	377	404	455
Other Income	168	5	15	40	30	32	35
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>906</b>	<b>1,202</b>
Provision of Tax	87	75	47	156	198	268	358
<b>PAT</b>	<b>173</b>	<b>188</b>	<b>311</b>	<b>393</b>	<b>514</b>	<b>638</b>	<b>844</b>

**Consolidated Balance Sheet Summary**

Y/E March (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	2,676	3,414
<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>3,131</b>	<b>3,869</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>9,893</b>	<b>9,774</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>6,053</b>	<b>6,103</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	1,750	2,025
Sundry Debtors	550	695	912	1,214	1,472	1,591	1,841
Cash and Bank	78	155	199	261	601	754	860
Loans and Advances	253	316	479	375	514	581	672
<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>4,676</b>	<b>5,397</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>1,667</b>	<b>1,864</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>3,009</b>	<b>3,533</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>9,893</b>	<b>9,774</b>

## Consolidated Cash Flow Statement

Y/E March (Rs mn)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
CASH FLOW FROM OPERATING ACTIVITIES							
<b>PBT Before Extraordinary Items</b>	<b>260</b>	<b>263</b>	<b>358</b>	<b>549</b>	<b>712</b>	<b>906</b>	<b>1,202</b>
Adjustments for:							
Depreciation	254	333	409	497	596	671	851
Interest Expenses	168	278	318	320	377	404	455
Other Adjustments	-1	-46	1	-39	30	32	35
<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>2,013</b>	<b>2,543</b>
Change in Working Capital	232	40	-426	-365	-455	-337	-418
<b>Cash Generated from Operations</b>	<b>913</b>	<b>868</b>	<b>659</b>	<b>963</b>	<b>1,260</b>	<b>1,676</b>	<b>2,124</b>
Direct Taxes (Net)	-105	-55	-95	-86	-198	-268	-358
<b>Net Cash from Operating Activities</b>	<b>809</b>	<b>813</b>	<b>564</b>	<b>877</b>	<b>1,061</b>	<b>1,408</b>	<b>1,766</b>
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	32	35
<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>-2,975</b>	<b>-173</b>
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	-404	-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>1,772</b>	<b>-1,431</b>
Net Change in Cash & Equivalents	9	101	-107	42	373	205	163
Cash & Equivalents at the beginning	17	25	126	19	61	601	742
<b>Cash &amp; Equivalents at the end</b>	<b>26</b>	<b>126</b>	<b>19</b>	<b>61</b>	<b>601</b>	<b>742</b>	<b>835</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	1.8	1.8
<b>Leverage Ratios</b>							
Total Debt/Networth	1.8	1.6	2.0	1.8	1.6	2.1	1.5
Interest Coverage Ratio	2.5	1.8	2.1	2.6	2.8	3.2	3.6
Working Capital/Sales	0.3	0.2	0.2	0.2	0.2	0.3	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%	16.8%	18.4%
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%	10.9%	11.8%
Return on Equity	12.7%	12.3%	18.1%	19.7%	21.6%	22.3%	24.1%
<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	68.7	84.9
EPS (Rs)	3.8	4.1	6.8	8.6	11.3	14.0	18.5
CEPS (Rs)	9.4	11.4	15.8	19.5	24.4	28.7	37.2
Dividend Payout	0.0%	24.2%	17.6%	13.9%	14.2%	12.8%	10.8%
Dividend Yield	0.0%	0.9%	1.1%	1.1%	1.4%	1.6%	1.8%
P/E	29.5	27.3	16.5	13.0	10.0	8.0	6.1
P/BV	3.5	3.2	2.8	2.4	2.0	1.6	1.3
M Cap/Sales	1.0	0.9	0.7	0.6	0.5	0.4	0.4
EV/Sales	1.5	1.3	1.2	1.0	0.8	0.9	0.7
EV/EBITDA	11.2	9.1	8.0	6.6	5.2	5.5	4.0

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