

Q3FY18 Result Update
Buy

Industry	Textiles
CMP (Rs)	143.0
FY19E Target Price (Rs)	216
52 Week H/L (Rs)	186.7/111.8
Volumes (NSE+BSE)*	~171,000
Shares O/S (mn)	48.0
Market Cap (Rs bn)	6.9
Free Float (%)	39.3
Bloomberg	NEL IN
Reuters	NANE.BO
*Three month average	

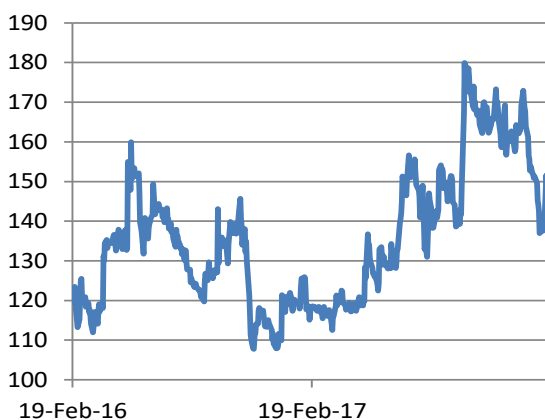
Share Holding Pattern as on December 31, 2017

Particulars	Shares (mn)	Holding
Promoters	29.1	60.7%
FII's	3.4	7.1%
DII's	0.1	0.2%
Public & Others	15.4	32.0%
Total	48.0	100.0%

Source: BSE

Financial Highlights

(Rs mn)	FY17	FY18E	FY19E
Sales	12,204	16,592	17,727
EBITDA	1,899	2,597	2,910
EBITDA Margin	15.6%	15.7%	16.4%
PAT	567	713	1,016
EPS (Rs)	11.8	14.8	21.1
P/E (x)	12.1	9.6	6.8
EV/EBITDA (x)	6.3	4.3	3.3
RoCE	9.3%	11.3%	12.7%
RoE	14.8%	15.8%	19.4%

Daily Closing Price Chart


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Result Review

In Q3FY18, capacity ramp-up of new Denim and Spinning facilities led to robust growth in the revenue, though lower than our estimate. Better shirting realizations led to improved profitability. Net profit too stood lower than our estimate due to higher interest costs. **Gradual ramp-up of Denim capacities, benefits of interest and power subsidies and lower interest costs due to repayment of debt will lead to significant growth in the net profit going forward.**

Key Highlights:

- Nandan Denim Ltd (NDL) reported a stupendous 54.5% Y-o-Y growth in the revenues to Rs 3,634mn, though still lower than our estimate of Rs 4,305mn.
- Revenue growth was driven by a sharp 57.4% Y-o-Y growth in the domestic sales to Rs 3,448mn, while the exports grew by 19.9% Y-o-Y to Rs 193mn.
- Robust revenue growth was driven higher sales of Yarn, due to slow ramp up of Denim business, which will be using the captive Yarn production with gradual ramp-up of newly added Denim capacity. **Shirting business has started showing robust pick-up**
- Shirting and Denim realizations grew by 7% and 3% Y-o-Y respectively in 9MFY18.
- Aided by robust performance of Shirting business, EBITDA margin improved by 304bps Y-o-Y and 117bps Q-o-Q to 16.5%, a tad higher than our estimates of 16.2%.
- EBITDA during the quarter reported a growth 89.3% Y-o-Y to Rs 600mn, though lower than our estimate of Rs 697mn.
- On the back of lower than expected interest expenses due to repayment of debts, net profit during the quarter grew by 56.2% Y-o-Y to Rs 137mn, lower than our estimate of Rs 185mn.
- NDL repaid Rs 450mn of debt in 9MFY18 and is expecting to repay debt of Rs 600mn in FY18. Further, the company expects to avail interest rate subsidy and power subsidy from the next year.

Outlook and Valuations

Denim has started showing early signs of recovery, though a meaningful recovery is expected from Q1FY19. Further, stronger Rupee continues to pose risk to exports. Our net sales estimates for FY18E and FY19E stand at Rs 17bn and Rs 17.7bn, compared to our previous estimates of Rs 17.2bn and Rs 17.9bn respectively. Our EPS estimates for FY18E and FY19E are at Rs 14.8 and Rs 21.1, compared to our previous estimates of Rs 15.6 and Rs 20.6 respectively.

We assign an EV/EBITDA of 4.5x FY19E, giving a target price of Rs 216 with an annualized return of 45.7% from the current price levels. We feel that the worst for the Denim market is behind us and NDL will show robust performance going forward. On the back of recent price correction, we now upgrade our rating on **Nandan Denim Ltd** from 'Accumulate' to 'Buy'.

Quarterly Result

Particulars (Rs mn)	Q3FY18	Q3FY17	Y-o-Y Change	Q2FY18	Q-o-Q Change	9MFY18	9MFY17	Y-o-Y Change
Net Sales	3,634	2,352	54.5%	4,150	-12.4%	12,021	8,384	43.4%
Expenditures:								
Net Raw Materials Cost	2,442	1,620	50.8%	2,812	-13.2%	8,136	5,653	43.9%
Employees Cost	195	137	42.3%	201	-2.9%	609	443	37.5%
Other Expenses	397	279	42.5%	500	-20.7%	1,431	998	43.4%
Total Expenses	3,034	2,035	49.1%	3,513	-13.6%	10,176	7,094	43.4%
EBITDA	600	317	89.3%	637	-5.7%	1,845	1,290	43.1%
EBITDA Margin	16.5%	13.5%	304 bps	15.3%	117 bps	15.3%	15.4%	-4 bps
Depreciation	299	169	76.8%	294	1.9%	886	508	74.5%
EBIT	301	148	103.7%	343	-12.3%	959	782	22.6%
Interest Expenses	137	60	128.6%	154	-11.2%	430	236	82.0%
Other Income	7	5	44.0%	5	45.2%	20	18	12.3%
PBT	172	93	84.4%	194	-11.7%	549	563	-2.6%
Taxes	34	5	560.6%	33	3.6%	89	156	-42.8%
PAT	137	88	56.2%	161	-14.8%	459	408	12.7%
Net Profit Margin	3.8%	3.7%	4 bps	3.9%	-11 bps	3.8%	4.9%	-104 bps
EPS (Rs)	2.9	1.8	56.2%	3.4	-14.8%	9.6	8.5	12.7%

Segmental Performance

Particulars (Rs mn)	Q3FY18	Q3FY17	Y-o-Y Change	Q2FY18	Q-o-Q Change	9MFY18	9MFY17	Y-o-Y Change
Denim	2,301	2,030	13.3%	2,783	-17.3%	8,012	7,334	9.2%
Shirting	278	174	59.8%	226	23.0%	706	592	19.3%
Yarn	1,062	148	616.2%	1,141	-6.9%	3,310	458	622.3%
Total	3,641	2,352	54.8%	4,150	-12.3%	12,021	8,384	43.4%

Consolidated Income Statement

Y/E March (Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Net Sales	7,031	8,938	10,965	11,567	12,204	16,592	17,727
<i>Net Sales Growth</i>	22.5%	27.1%	22.7%	5.5%	5.5%	36.0%	6.8%
Expenditures:							
Raw Materials Expenses	4,634	4,776	7,220	7,803	7,888	10,784	11,522
Personnel Expenses	254	310	438	545	578	796	851
Other Expenses	829	1,052	1,295	1,445	1,493	2,414	2,443
Total Expenditure	5,962	7,611	9,311	9,656	10,305	13,995	14,816
EBITDA	1,069	1,327	1,654	1,911	1,899	2,597	2,910
Depreciation	409	497	596	660	862	1,187	1,230
EBIT	660	830	1,059	1,251	1,038	1,410	1,681
Financial Charges	318	320	377	412	362	551	407
Other Income	15	40	30	42	24	27	29
Extraordinary Income	0	0	0	0	0	0	0
PBT	358	549	712	881	700	885	1,303
Provision of Tax	47	156	198	248	133	173	287
PAT	311	393	514	633	567	713	1,016

Consolidated Balance Sheet Summary

Y/E March (Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Sources of Funds							
Equity Capital	455	455	455	455	480	480	480
Reserves & Surplus	1,380	1,710	2,133	3,017	3,721	4,310	5,187
Total Networkth	1,836	2,165	2,588	3,472	4,201	4,791	5,667
Total Loans	3,655	3,907	4,229	4,644	5,797	5,228	4,950
Total Capital	5,666	6,288	7,066	8,345	10,206	10,237	10,847
Application of Funds							
Net Block	3,412	4,223	3,699	5,402	7,191	6,654	5,625
Capital Work-in-Progress	541	300	775	300	500	50	50
Investments	4	42	73	73	32	35	39
Current Assets:							
Inventories	1,198	1,385	1,409	1,951	2,162	2,727	2,914
Sundry Debtors	912	1,214	1,472	1,222	1,352	1,818	1,943
Cash and Bank	199	261	601	649	685	903	2,171
Loans and Advances	479	375	514	558	527	830	886
Total Current Assets	2,818	3,352	4,051	4,402	4,731	6,282	7,918
Current Liabilities & Provisions	1,109	1,629	1,533	1,832	2,248	2,784	2,785
Net Current Assets	1,710	1,723	2,518	2,570	2,482	3,498	5,133
Capital Employed	5,666	6,288	7,066	8,345	10,206	10,237	10,847

Consolidated Cash Flow Statement

Y/E March (Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
CASH FLOW FROM OPERATING ACTIVITIES							
PBT Before Extraordinary Items	358	549	712	881	700	885	1,303
Adjustments for:							
Depreciation	409	497	596	660	862	1,187	1,230
Interest Expenses	318	320	377	412	362	551	407
Other Adjustments	1	-39	30	42	24	27	29
Operating Profit before WC changes	1,085	1,327	1,715	1,995	1,948	2,650	2,969
Change in Working Capital	-426	-365	-455	-4	124	-798	-368
Cash Generated from Operations	659	963	1,260	1,991	2,072	1,853	2,601
Direct Taxes (Net)	-95	-86	-198	-248	-133	-173	-287
Net Cash from Operating Activities	564	877	1,061	1,743	1,938	1,680	2,314
CASH FLOW FROM INVESTING ACTIVITIES							
Net Purchase of Fixed Assets	-1,329	-822	-546	-1,888	-2,851	-200	-200
Net Purchase of Investments	-136	-142	-32	0	41	-3	-4
Interest Received	9	26	30	42	24	27	29
Net Cash used in Investing Activities	-1,457	-938	-548	-1,846	-2,785	-177	-174
CASH FLOW FROM FINANCING ACTIVITIES							
Equity Share Capital	0	0	0	0	412	0	0
Net Borrowing	1,162	502	322	416	1,152	-568	-278
Interest Paid	-325	-304	-377	-412	-362	-551	-407
Dividend Paid	-52	-95	-85	-95	-112	-123	-140
Net Cash from Financing Activities	785	103	-140	-91	1,092	-1,243	-825
Net Change in Cash & Equivalents	-107	42	373	-194	245	261	1,315
Cash & Equivalents at the beginning	126	19	61	601	649	686	903
Cash & Equivalents at the end	19	61	601	649	686	903	2,171

Key Financial Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Liquidity Ratios							
Current Ratio	2.5	2.1	2.6	2.4	2.1	2.3	2.8
Quick Ratio	1.5	1.2	1.7	1.3	1.1	1.3	1.8
Leverage Ratios							
Total Debt/Networth	2.0	1.8	1.6	1.3	1.4	1.1	0.9
Interest Coverage Ratio	2.1	2.6	2.8	3.0	2.9	2.6	4.1
Working Capital/Sales	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Activity Ratios							
Inventory (Days)	62	57	47	62	65	60	60
Debtors (Days)	47	50	49	39	40	40	40
Creditors (Days)	28	28	27	29	48	45	40
Profitability Ratios							
Operating Profit Margin	15.2%	14.8%	15.1%	16.5%	15.6%	15.7%	16.4%
Net Profit Margin	4.4%	4.4%	4.7%	5.5%	4.6%	4.3%	5.7%
Return on Capital Employed	11.7%	10.4%	11.8%	12.1%	9.3%	11.3%	12.7%
Return on Equity	18.1%	19.7%	21.6%	20.9%	14.8%	15.8%	19.4%
Valuation Ratios							
No. of Shares (mn)	45.5	45.5	45.5	45.5	48.0	48.0	48.0
Book Value (Rs)	38.2	45.1	53.9	72.3	87.4	99.7	117.9
EPS (Rs)	6.5	8.2	10.7	13.2	11.8	14.8	21.1
CEPS (Rs)	15.0	18.5	23.1	26.9	29.7	39.5	46.7
Dividend Payout	18.6%	14.7%	15.0%	13.7%	17.0%	14.8%	11.8%
Dividend Yield	0.8%	0.8%	1.1%	1.3%	1.4%	1.5%	1.7%
P/E	22.1	17.5	13.4	10.9	12.1	9.6	6.8
P/BV	3.7	3.2	2.7	2.0	1.6	1.4	1.2
M Cap/Sales	1.0	0.8	0.6	0.6	0.6	0.4	0.4
EV/Sales	1.5	1.2	1.0	0.9	1.0	0.7	0.5
EV/EBITDA	9.7	7.9	6.3	5.6	6.3	4.3	3.3

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