



Good Fundamentals, Considerable Upside Potential

CMP: 190 / CIV: 255¹

Sensx: 17,151

CARE EQUIGRADE GRID (CEG)

| | 1 | 2 | 3 | 4 | 5 |
|--------------|---|---|---|---|---|
| Fundamentals | | | | | |
| Valuation | | | | | |

CEG is explained on the last page

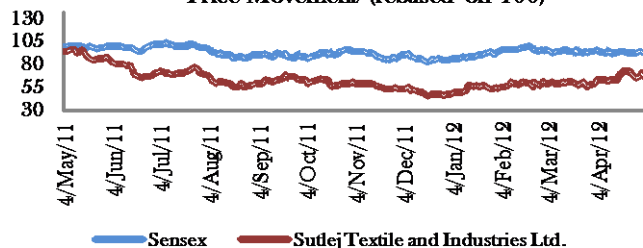
KEY EQUISTATS

| | | |
|------------------------|------------|---------|
| Market Capitalisation | Rs. Crores | 208 |
| Enterprise Value | Rs. Crores | 1,047 |
| 52 Week High / Low | Rs. | 284/127 |
| Diluted EPS (FY12E) | Rs. | 29.2 |
| P/E (FY12E) | times | 6.5 |
| Regression Beta | times | 0.6 |
| Average Daily Volumes* | Lakhs | 0.1 |

* BSE + NSE for last 52 weeks

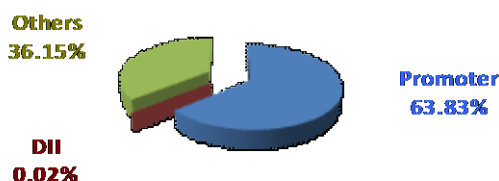
STOCK PERFORMANCE

Price Movement (rebased on 100)



| Returns | 1M | 3M | 6M | 1Yr |
|---------------|----|-----|-----|------|
| Absolute | 6% | 22% | 14% | -29% |
| Rel. to Sensx | 8% | 26% | 17% | -24% |

SHARE HOLDING PATTERN



ANALYTICAL CONTACTS

| | | |
|----------------|-----------------|------------------|
| Amod Khanorkar | General Manager | +91-22-6754 3520 |
| Jumana Badshah | Manager | +91-22-6754 3481 |

¹ CMP: Current Market Price; CIV; Current Intrinsic Value

CARE Equity Research assigns 3/5 on fundamental grade to Sutlej Textile and Industries Ltd. (STIL)

CARE Equity Research assigns a fundamental grade of 3/5 to STIL. This indicates 'Good Fundamentals'. STIL manufactures synthetic/blended/cotton yarns, fabrics, home textiles and garments. The revenues are concentrated more towards the yarn segment which contributed around 94% in FY11 (refers to period April, 1 2010 – March, 31 2011) (cotton yarn contributed around 30% and synthetic yarn contributed around 64%). However the sales are skewed more towards domestic market (contributing around 66% of its revenue for the period FY09-FY11). CARE Equity Research believes key catalysts for STIL would be increase in realization from the yarn business and increased revenue share from the segments other than yarn. Furthermore the turnaround of fabric & apparel segment would be critical going forward.

Valuation

CARE Equity Research assigns a valuation grade of 5/5 to STIL, indicating 'Considerable Upside Potential'. The valuation grade is based on the upside/downside indicated by difference in the Current Intrinsic Value (CIV) of Rs.255 and Current Market Price (CMP) of Rs.190. CARE Equity Research has used the Discounted Cash Flows (DCF) methodology to value the equity shares of STIL.

Financial Information Snapshot

| (Rs. Crores) | FY11 | FY12E | FY13E | FY14E |
|--------------------------|-------|-------|-------|-------|
| Total Revenues | 1608 | 1789 | 1824 | 1829 |
| EBITDA | 267 | 174 | 196 | 201 |
| PAT | 114 | 32 | 50 | 60 |
| Fully Diluted EPS* (Rs.) | 104.7 | 29.2 | 46.0 | 54.9 |
| Dividend Per Share (Rs.) | 8.7 | 5.8 | 5.8 | 5.8 |
| P/E (x) | 1.8 | 6.5 | 4.1 | 3.5 |
| EV/EBITDA (x) | 3.9 | 6.0 | 5.3 | 5.2 |

* Calculated on Current Face Value of Rs.10/- per share



FUNDAMENTAL GRADE

Good Fundamentals

3/5

STIL manufactures synthetic/blended/cotton yarn, fabrics, home textiles and garments, and has facilities in Bhawanimandi (Rajasthan), Kathua (Jammu & Kashmir) and Bhilad (Gujarat). The installed capacity as at the end of FY11, consisted of 2,53,000 spindles, 60 looms along with a fabric processing capacity of 20 million mtrs/annum and garmenting capacity of 16.00 lakh/annum.

Integrated textile player, having presence across value chain, extending from yarns to fabrics to garments to home textile along with a strong customer base

STIL is the one of the leading producers and exporters of value-added synthetic and blended dyed spun yarn in the country. STIL is also one of the prominent manufacturers of cotton and cotton blended dyed and mélange yarn in the country. Furthermore STIL is amongst few exclusive spinners in India for specialty yarns such as modal, lyocell and tencel in the country. STIL has plans to increase the proportion of the value-added yarns, which is expected to help in increasing the realizations.

In the addition to the manufacturing of yarn, STIL also manufactures a variety of fabrics (mainly used for suiting and trousers), trousers (primarily for exports under the brand name 'Club Milano') and has presence in home textiles. Under home textiles, the product range includes curtain fabrics, upholstery fabrics, seats and seat covers; mattress covers, bed spreads and covers; quilts and quilting materials; table linen and kitchen linen, etc.

STIL's has a strong domestic & international clientele, which includes Arvind, Grasim, Harry's Collection, Donear, Digjam, Raymond, Arrow (US), Penny (US), Marks & Spencer (UK), JC, Next (UK), ASDA (UK), Sears (Canada) & others.

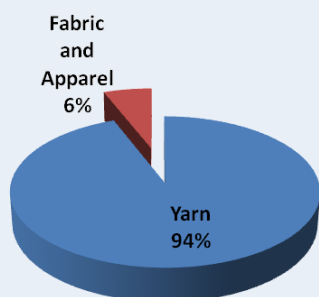
Revenue Break up

The business of the STIL primarily consists of two segments namely Yarn (comprising of Cotton and Man Made Fibres Yarn) and Fabrics & Apparels (comprising of worsted/synthetic staple yarn, fabric processing, home furnishing and garments). The yarn segment was the prime contributor to the total sales at 94% in FY11 & the remaining was contributed by fabric & apparel segment. Going forward, yarn segment is expected to be the major contributor to total sales, with the addition of the capacity in the yarn manufacturing coupled with increase in capacity utilization.

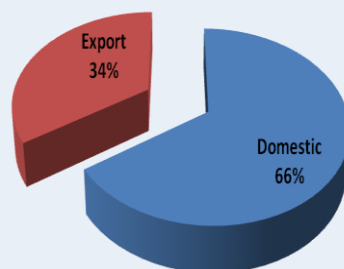
Based on the geographical distribution, the revenues are more skewed towards domestic market, which contributed around 66% of the total revenues for FY11. However given the bleak export market scenario, the contribution of exports going forward is expected to further decline to around 30% from 34% currently.



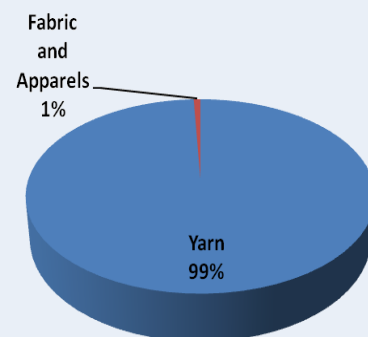
STIL: Segmental Performance



Segment Revenues (FY11)



Geographic distribution (FY11)



EBITDA Contribution (FY11)

Source: Company and CARE Equity Research

Installed capacity and planned expansion

STIL had added around 44,898 spindles during the past three years (FY09-FY11). The table below gives the details of the installed capacities across product lines as on March 31, 2011.

STIL: Installed capacities

| Units | Location | Products | Capacities |
|---------------------------------|---------------------------|------------------------------------|--|
| Rajasthan Textile Mills | Bhawanimandi, Rajasthan | Cotton yarn and manmade fibre yarn | 82384 spindles 336 rotors |
| Chenab Textile Mills | Kathua, Jammu and Kashmir | Cotton yarn and manmade fibre yarn | 170616 spindles |
| Damanganga Fabrics | Daheli, Gujarat | Fabrics | 4.9 million metres per annum (60 looms) |
| | Daheli, Gujarat | Processed fabrics | 20 million metres per annum |
| Damanganga Garments | Daheli, Gujarat | Garments | 1.6 million trousers per annum |
| Damanganga Home Textiles | Daheli, Gujarat | Home textiles furnishing | 2 million metres per annum (24 shuttleless looms) |

Source: Company and CARE Equity Research

STIL is currently in the process of modernization & upgradation (expected to be complete by FY13) of all the three plants, which in turn is expected to increase the efficiencies & lead to improvement in the EBITDA margins. In the addition to the modernization & upgradation, STIL plans to add 7,104 spindles at the existing



plant in Rajasthan. The total capex outlay is expected to be around Rs.126.25 crore & would be funded in a debt equity ratio of approximately 3 times.

Industry trends, to weigh on STIL growth

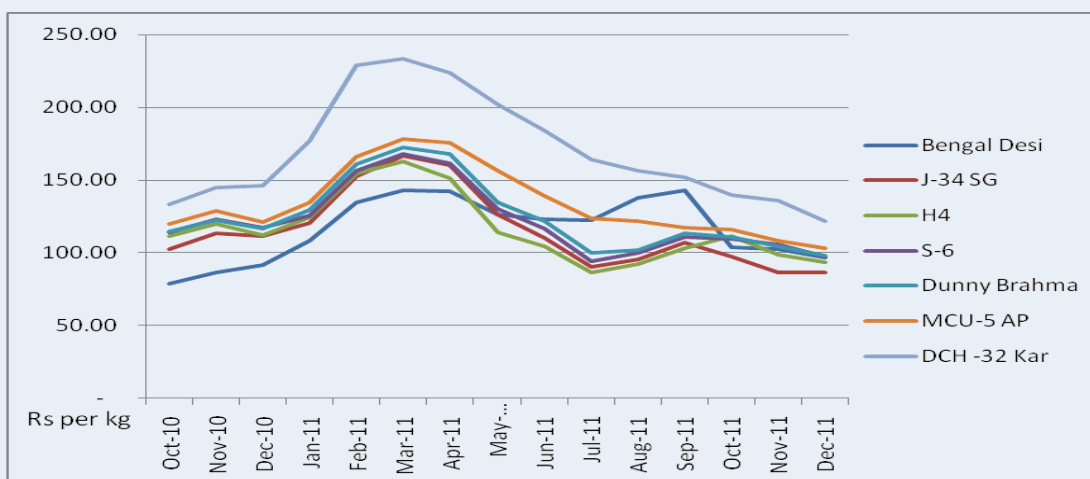
The financial year 2011, was an exceptional year for the entire textile industry especially spinning primarily on the account of the increasing realization of both the yarn as well as fibre. However the trend has reversed in FY12, the textile companies (primarily spinning) are reporting losses or de-growth in their profitability & the realization. Key industry trends are discussed below :

- **Expansion planned by existing players:** The Indian yarn industry is expected to add around 10.6 lakh tonnes of yarn capacity during 2011-14 (*Source: Centre for Monitoring Indian Economy*), out of this 5.5 lakh tonnes is expected to be added in cotton and blended yarn and 5.1 lakh tonnes is expected to be added in the man-made yarn industry.
- **Weakness in yarn prices:** After continuous rise in yarn prices in the past, the industry is now witnessing a downward trend in yarn prices. CARE Equity Research believes the downward trend in prices to continue in the near term. Lower demand from weaving mills and fall in yarn prices would lead to the pile-up of yarn inventory made from expensive cotton, which in turn will lead to decrease in the realization. However STIL being a leader in value-added synthetic and blended dyed spun yarn, CARE Equity Research expect that it will be able to withstand these challenges.
- **Volatile raw material prices:** The principal raw material used by STIL comprise cotton and man-made fibres including polyester staple fibre (PSF), viscose staple fibre (VSF), acrylic staple fibre (ASF) and other specialty fibre. During FY11 cotton prices doubled as global demand outstripped supply due to a combination of factors like disruption in supply from major producer countries like Pakistan, China and Australia due to floods, hoarding by traders and others. The cotton prices had started crashing from end-April 2011 on weak global demand and overstocking and by November 2011, prices have fallen by 40% from their peak in March 2011.

Further with oligopolists raw material market [as VSF is sourced from Grasim Industries and PSF mainly from Reliance], coupled with low bargaining of the spinners (like STIL) to pass on the increase in the prices of the raw material, the EBIDTA margins are susceptible to movement in raw material prices.



Raw material price trend



Source: The Cotton Corporation of India Ltd

- **Volatile currency movement:** With exports forming around 34% of the total revenue (expected to decline to around 30% going forward) coupled with the volatility seen in the currency movements, STIL is exposed to the foreign currency fluctuation risk. However, the company currently has a policy to hedge majority of its foreign exchange exposure through forward contracts; therefore this risk to that extent is mitigated.

Financial Performance

STIL's income from operations grew by 37% in FY11 as compared to the previous year primarily on the account of growth in the realization [as can be seen from the table below] coupled with the growth in volume of yarn sold (9%).

STIL: Realisation trend

| Particulars | Units | FY09 | FY10 | FY11 |
|-------------------------|----------|------|------|------|
| Man Made Fibres Yarn | Rs./Kg | 134 | 144 | 176 |
| y-o-y change (%) | | | 7 | 22 |
| Cotton yarn | Rs./Kg | 138 | 155 | 213 |
| y-o-y change (%) | | | 12 | 37 |
| Fabrics | Rs./Mtr. | 87 | 87 | 98 |
| y-o-y change (%) | | | - | 13 |
| Home Furnishing Fabrics | Rs./Mtr. | 64 | 70 | 97 |
| y-o-y change (%) | | | 9 | 39 |

Source: Company and CARE Equity Research

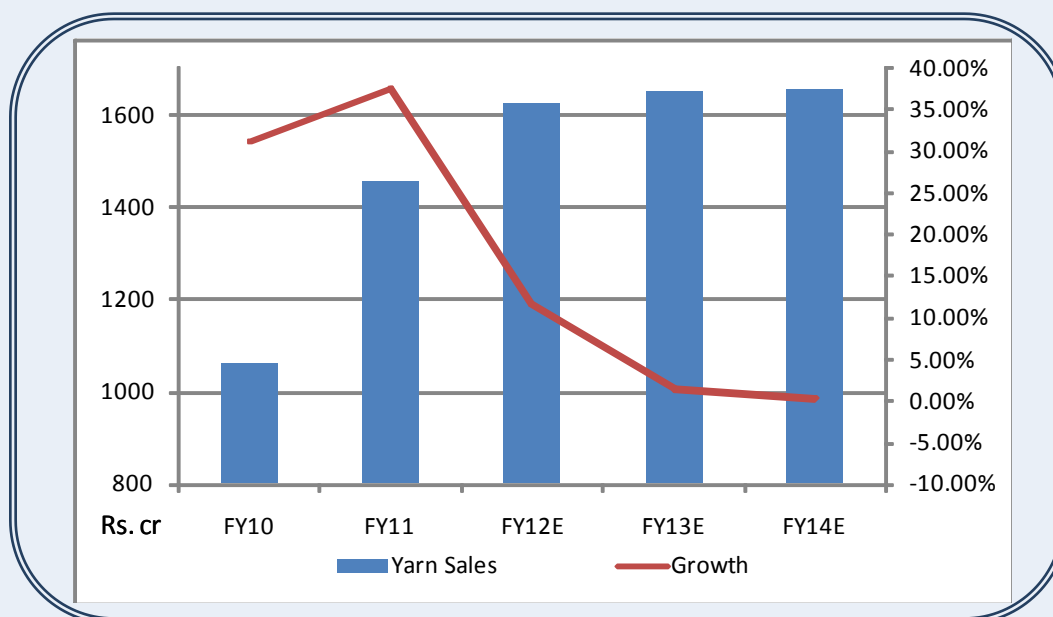


Although the income from operations grew by 37%, EBIDTA grew by 77% during FY11 (vis-à-vis FY10). Furthermore gains on carry forward low-cost inventory also led to improvement in EBITDA margin during the year. However the trend has reversed in FY12 & STIL had reported a PAT of Rs.26.57 crore in 9MFY12 (vis-à-vis Rs.61.75 crore in 9MFY11) on a total income of Rs.1,187.40 crore (which grew by 4% vis-à-vis 9MFY11).

Yarn revenue growth to slowdown

During the past three years, STIL has added around 44,898 spindles. The increase in capacity coincided with superior yarn realization primarily on the account of the higher demand coupled with other factors discussed earlier. Two things that transpired out of the result were: revenue crossed Rs.1,000 crore and from net loss of Rs.30.15 crore (in FY09) transformed to PAT of Rs.114.34 crore (in FY11). However, after the exceptional FY11 for the textile industry, going forward, CARE Equity Research expects STIL's yarn sales to grow at subdued rate due to stagnant cotton yarn sales and sluggish growth in MMF yarn sales. Along with this, CARE Equity Research also expects realization growth would stay muted.

STIL: Yarn Sales and Growth

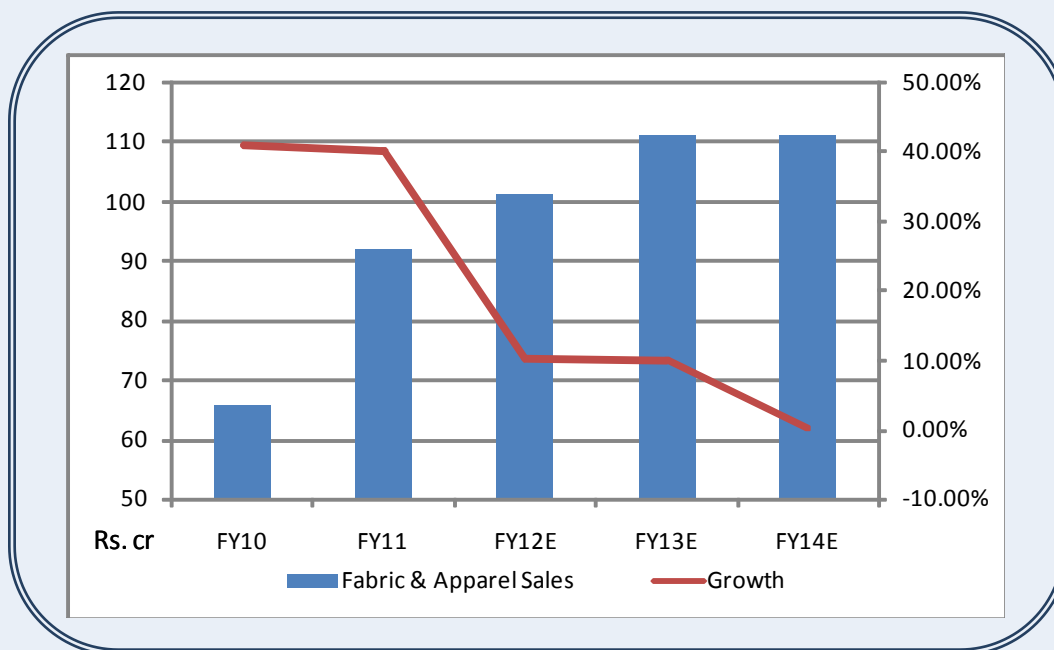


Source: Company and CARE Equity Research

Fabric and Apparel Segment – expected to be EBIT positive by FY13

As seen in the past, CARE Equity Research expect fabric and apparel segments contribution (to total sales) to remain around 6% going forward. Smaller size of the total production capacity and lack of branding would weigh on the business going forward. However CARE Equity Research expect this segment to turn EBIT positive from FY13E led by growth in the home textile segment.

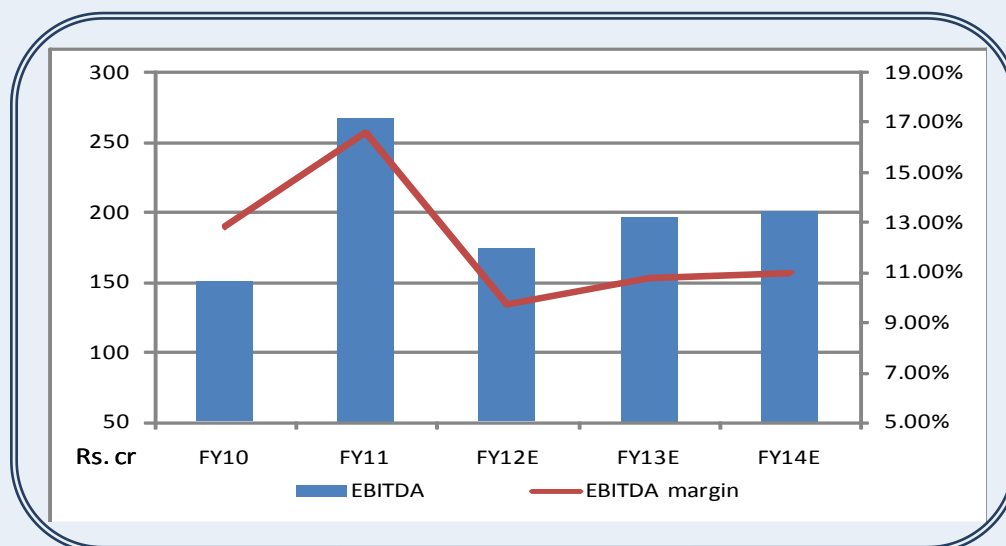


STIL: Fabric and Apparel Sales and Growth

Source: Company and CARE Equity Research

Margin to remain flat

After an exceptional FY11, CARE Equity Research expects STIL's EBITDA margin to dip to around 10 per cent in FY12 and then moderate at around 11 per cent going forward on the account of improved efficiencies due to modernization & upgradation.

STIL: EBITDA margin

Source: Company and CARE Equity Research



In compliance with the listing agreement 49

The company has nine members in the Board, with one of them being Executive, one being Non-Executive Promoter and seven Non Executive and Independent Directors. The Board has formed four sub-committees for audit, remuneration, finance & corporate affairs and shareholders/investor's grievance. The Chairmen of both audit committee & remuneration committee are independent directors, thereby complying with the Clause 49 of the listing agreement.

STIL: Board of Directors

| Name | Category of Director |
|---------------------------|-----------------------------|
| Mr. C. S. Nopany | Non Executive & Promoter |
| Mr. U. K. Khaitan | Non Executive & Independent |
| Mr. Rajiv K Podar | Non Executive & Independent |
| Mr. S. M. Agarwal | Non Executive & Independent |
| Mr. Mahmoodur Rahman | Non Executive & Independent |
| Mr. Amit Dalal | Non Executive & Independent |
| Mr Rajan A. Dalal | Non Executive & Independent |
| Mr. Chaturbhuji Singhania | Executive Director |
| Mr. Ashok Mittal | Non Executive & Independent |

Source: Company and CARE Equity Research



VALUATION GRADE

Considerable Upside Potential

5/5

CARE Equity Research assigns a valuation grade of 5/5 to STIL

According to CARE Equity Research, the Current Intrinsic Value (CIV) of STIL stands at Rs. 255 per share, which translates into an Enterprise Value of Rs. 1117 crore. Thus, STIL shares have ‘Considerable Upside Potential’ at the Current Market Price of Rs.190 per share.

The CIV is calculated based on Discounted Cash Flow (DCF) model

- CARE Equity Research has used Free Cash Flow (FCF) methodology to arrive at the firm value. The forecasted FCF is as per CARE Equity Research estimates.
- Terminal value is arrived at by using Gordon Growth Model.
- The terminal value forms 60 per cent of the firm’s total firm value, which appears to be reasonable.
- The overall firm Weighted Average Cost of Capital (WACC) is calculated based on our long-term assumptions of cost of financing as summarized in the below table.

STIL: Valuation Assumptions

| Item | Value | Basis |
|----------------------|--------------|----------------------------|
| Risk Free Rate | 8.5% | 10 year G-sec yield |
| Equity Risk Premium | 6.5% | |
| Beta | 0.86 | Adjusted beta |
| Cost of Equity | 14.1% | |
| Cost of Debt | 10.5% | Long term cost of debt |
| Tax Rate | 30.0% | Long term tax rate |
| D/E Ratio | 2.0 | Long term target D/E ratio |
| WACC | 9.59% | |
| Terminal growth rate | 1.0% | |

Source: CARE Equity Research



STIL: Valuation based on DCF methodology

| | (Rs. Crore except per share data) | | | |
|-----------------------------|-----------------------------------|------------|------------|------------|
| | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| PAT | 50 | 60 | 67 | 80 |
| Depreciation | 73 | 71 | 65 | 61 |
| Interest * (1-Tax Rate) | 46 | 43 | 36 | 29 |
| Capital Expenditure | -63 | -14 | -14 | -14 |
| Increase in Working Capital | -16 | -5 | 19 | -1 |
| Free Cash Flow (FCF) | 90 | 155 | 174 | 155 |
| Discount Rate | 0.91 | 0.83 | 0.76 | 0.69 |
| PV of FCF | 83 | 129 | 132 | 107 |
| PV of Terminal Value | | | | 667 |

| | |
|--------------------------------|------------|
| Total Discounted Value of Firm | 1117 |
| Less: Net Debt (FY12E) | (840) |
| Present Value of equity | 278 |
| No of Equity Shares (Crores) | 1.09 |
| CIV | 255 |

Source: CARE Equity Research

CIV of Rs.255 per share results into EV/EBITDA multiple of 5.7x one-year forward EBITDA

The CIV of STIL at Rs.255 per share as arrived by CARE Equity Research translates into Enterprise Value to EBITDA (EV/EBITDA) multiple of 5.7 times the one-year forward EBITDA of Rs.196 crore. This seems reasonable, as the average one-year forward rolling EV/EBITDA multiple since April 2011 stands at 5.9 times.

STIL: Implied EV/ EBITDA

| Implied EV/ EBITDA | (Rs Crore) |
|---------------------------|------------|
| EBITDA (FY13) | 196 |
| Fair Value | 255 |
| No. of Shares (Crore) | 1.1 |
| Market Cap | 278 |
| Net Debt (FY11) | 840 |
| EV | 1117 |
| Implied EV/ EBITDA | 5.7 |

Source: CARE Equity Research



STIL: Peer Comparison

| Financial Statements | Units | Sutlej Textile | | Nahar Spinning | | RSWM | |
|-------------------------------------|------------|----------------|---------|----------------|---------|---------|---------|
| | | FY10 | FY11 | FY10 | FY11 | FY10 | FY11 |
| Net Operating Income | Rs. Crores | 1,172.9 | 1,608.0 | 1,055.1 | 1,368.4 | 1,530.8 | 1,950.6 |
| EBITDA | Rs. Crores | 150.5 | 266.8 | 195.5 | 299.9 | 171.8 | 281.8 |
| EBIT | Rs. Crores | 83.9 | 199.0 | 125.6 | 230.1 | 84.2 | 201.7 |
| PAT | Rs. Crores | 26.3 | 114.3 | 53.5 | 119.7 | 36.0 | 123.0 |
| Margins | | | | | | | |
| EBITDA Margin | % | 12.8% | 16.6% | 18.5% | 21.9% | 11.2% | 14.4% |
| PAT Margin | % | 2.2% | 7.1% | 5.1% | 8.7% | 2.4% | 6.3% |
| Per Share Data | | | | | | | |
| Fully Diluted EPS | Rs. | 24.1 | 104.7 | 14.6 | 32.8 | 14.7 | 53.1 |
| Dividend Per Share | Rs. | 2.5 | 7.5 | 1.5 | 2.0 | 2.5 | 15.0 |
| Book value Per Share | Rs. | 132.2 | 228.6 | 150.8 | 184.7 | 101.2 | 134.3 |
| Valuations Ratios (Trailing) | | | | | | | |
| Price / Earnings (P/E) Ratio | times | | 1.8 | | 1.4 | | 1.3 |
| Price / Book Value(P/BV) | times | | 0.8 | | 0.3 | | 0.5 |
| Enterprise Value (EV)/EBITDA | times | | 3.8 | | 5.0 | | 5.1 |
| Profitability Ratios | | | | | | | |
| RoCE | % | | 18.6% | | 13.5% | | 14.5% |
| RoE | % | | 58.0% | | 19.8% | | 45.1% |

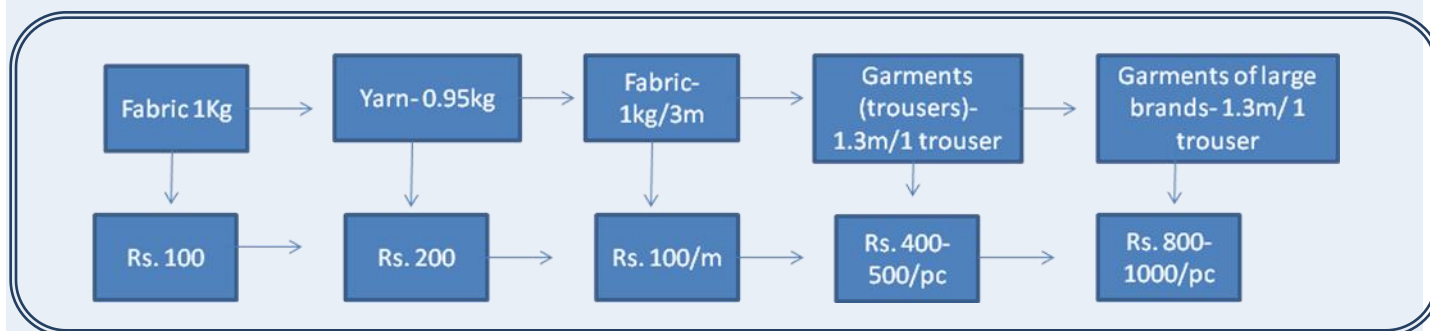
Source: Capitaline, Company and CARE Equity Research



COMPANY BACKGROUND

Sutlej Textile and Industries Ltd. (STIL) was incorporated on June 22, 2005. The company was formed by merging the demerged textile division of Sutlej Industries Limited and Damanganga Processors Limited into itself. STIL is an integrated textile player, manufacturing synthetic/blended/cotton yarns, fabrics, home textiles and garments, and has facilities in Bhawanimandi (Rajasthan), Kathua (Jammu & Kashmir) and Bhilad (Gujarat). The installed capacity as at the end of FY11, consisted of 2,53,000 spindles, 60 looms along with a fabric processing capacity of 20 million mtrs/annum and garmenting capacity of 16 lakh pcs/annum. STIL also has a coal-based captive power plant of 12MW capacity at Bhawanimandi which is sufficient to meet the entire requirement of the plant. STIL is predominantly a yarn manufacturer with sales of cotton yarn contributing around 30% and synthetic yarn contributing around 64% in FY11. STIL is the one of the leading producer and exporters of value-added synthetic and blended dyed spun yarn in the country.

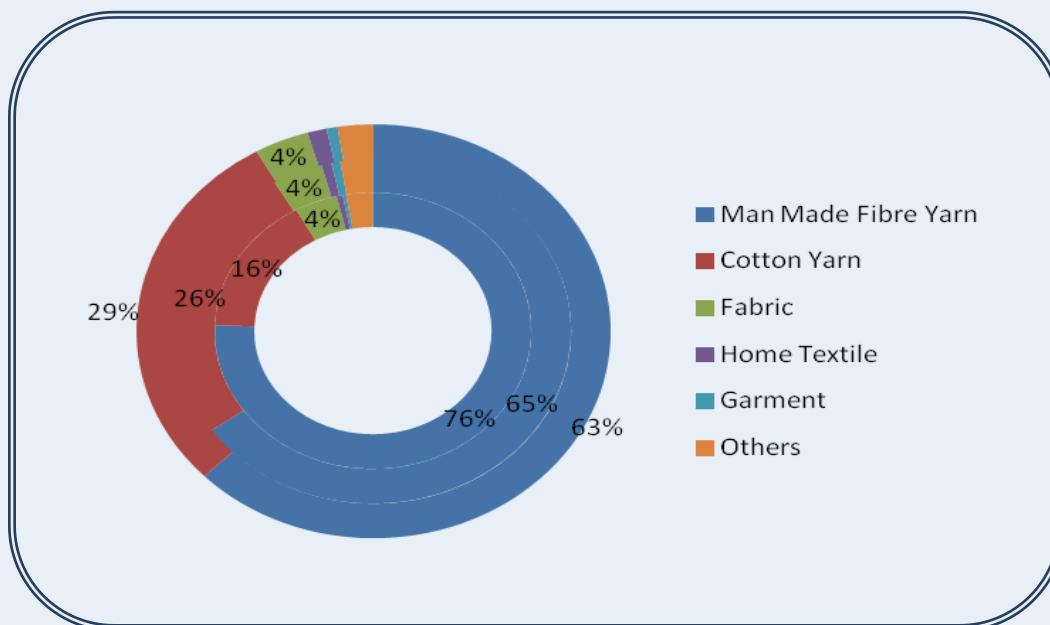
STIL: Integrated Value chain



Source: Company



STIL: Revenue Mix



Note: Inner most ring refers to FY09, centre ring refers to FY10 and outer most ring refers to FY11

Source: Company and CARE Equity Research

SNAPSHOT OF THE INDIAN TEXTILE INDUSTRY

Industry overview:

The Indian Textile and Apparel (T&A) industry was estimated to be worth USD 55 billion in 2009-10 as per the Office of the Textiles Commissioner. It has witnessed robust growth over the last two decades, especially in the period after the abolition of the Quota regime on January 1, 2005, which led to free cross-border textile trade. India is positioned as a key manufacturing destination with inexpensive labor, abundant cotton supplies and good designing skills. Approximately 60% of the total T&A production is consumed domestically. India's T&A exports grew from USD 17.7 billion in FY06 to USD 22.4 billion in FY10, registering a CAGR of 6 per cent. T&A is one of the largest and the most important sectors for the Indian economy in terms of output, foreign exchange earnings and employment. It contributes approximately 14% to India's industrial production, 4% to the country's GDP and 17% to the country's export earnings. It provides direct employment to over 35 million people and is the second-largest employment provider after agriculture. The development of this sector has had a significant overall impact on the economy. Indian T&A makes up approximately 4% of the global T&A market.

As an industry with economic importance, the textile industry has always been an important sector for the government. The government has therefore introduced policies such as Technology Upgradation Fund Scheme, Scheme for Integrated Textile Parks, National Textile Policy low excise duty and high import duty (to discourage imports) to benefit the development of the textile sector. The largest sector within the textile industry is the decentralized power-loom and knitting sector. The major sub-sectors that comprise the textile sector include the cotton/Man-Made Fiber (MMF) textile mill industry, the MMF/filament yarn industry, the wool & woollen textile industry, the sericulture and silk textiles Industry, handlooms, the jute & jute textiles industry and textiles exports. A growing economy, rising disposable incomes and the growing aspirations of Indian consumers are expected to continue driving growth in the Indian T&A industry.

Classification of the Indian Textile Industry based on fibres:

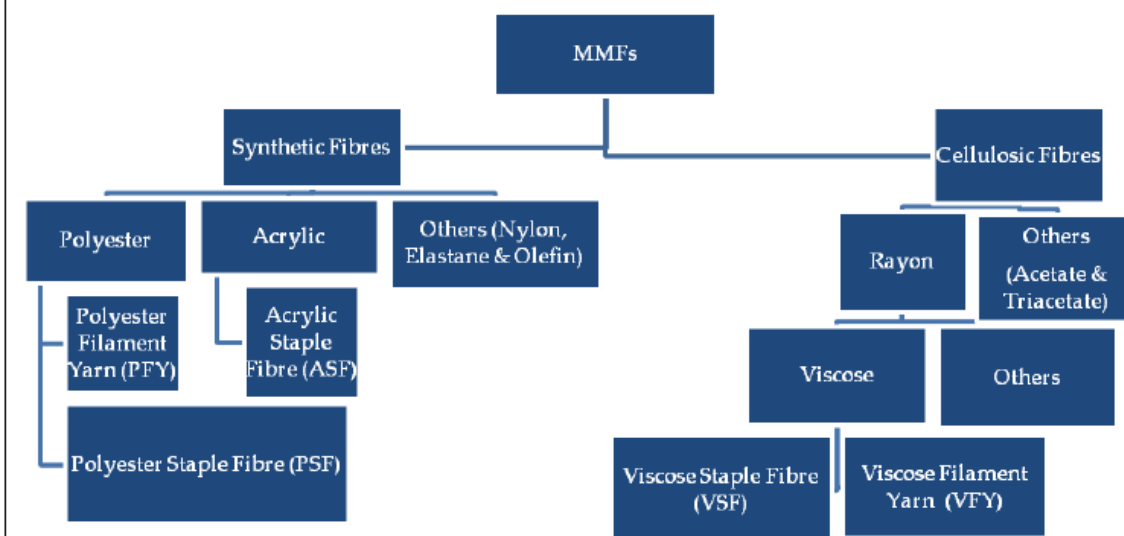
Cotton: Cotton is a natural fibre that is harvested from a cotton plant and is one of the oldest forms of fibres under cultivation as its history dates back over 7,000 years. It is a soft, fluffy staple fibre that grows in a protective capsule of a cotton plant. Cotton is used to make a number of textile products like terrycloth for bath towels & robes that require high absorbent qualities, denim jeans, corduroy and t-shirts. Cotton is also used in manufacturing bed linen. Cotton may also be used by blending it with other fibres like rayon & synthetic products like polyester. World cotton production in the cotton season 2010-11 has increased by 13% to 24.8 million tonnes on yoy basis. This rise in production was driven by USA & India whereas China &



Pakistan witnessed a decline in production. BT Cotton that constitutes almost 88% of the total acreage under cotton saw harvests touching to 5.30 million tonnes in 2010-11 v/s 5.02 million tonnes in 2009-10, witnessing a growth of 6%.

MMFs: MMFs are synthetically produced using fibre forming chemical substances. It is a fibre in which the basic chemical units have been formed by chemical synthesis followed by fibre formation. Products that fall under the MMF category can be broadly classified into Synthetic Fibre/ Yarn & Cellulosic Fibre/Yarn. Within the Synthetic Fibre/Yarn segment, Indian players manufacture most of the products like Polyester Staple Fibre (PSF), Polyester Filament Yarn (PFY), Nylon Filament Yarn (NFY), Acrylic Staple Fibre (ASF), and under the Cellulosic Fibre/Yarn segment, predominantly Viscose Staple Fibre (VSF), Viscose Filament Yarn (VFY) etc.

Classification of MMFs



Source: CARE Research

Silk & Jute: Silk is another form of natural fibre that can be woven into textiles. Jute is a long, soft, & shiny vegetable fibre that can be spun into coarse, strong threads. It is one of the cheapest & the strongest of all natural fibres. Jute is not only a major textile fibre but is also used as a raw material for non-traditional & value-added non-textile products. Jute is extensively used to manufacture packaging fabrics, sacks, carpets, mats, tarpaulins, ropes & twines etc.

Fiber-wise consumption scenario

Indian textile industry is predominantly a cotton-based industry. However, with the limited supply, robust demand and huge price differential, the MMF industry has witnessed a notable growth in India. Still, cotton is the dominant fiber but the share of MMF is gradually increasing.

Consumption of Cotton/Man-Made Fibres & Filament Yarns ('000 Tonnes)

| Item | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 |
|--------|-------|-------|-------|-------|-------|-------|-------|
| Cotton | 2,886 | 3,383 | 3,675 | 3,702 | 3,570 | 3,910 | 4,386 |
| VSF | 225 | 228 | 237 | 251 | 218 | 260 | 266 |
| PSF | 623 | 611 | 675 | 738 | 655 | 726 | 756 |
| ASF | 126 | 112 | 106 | 96 | 89 | 96 | 69 |
| VFY | 42 | 37 | 34 | 38 | 43 | 48 | 48 |
| PFY | 1,041 | 1,075 | 1,170 | 1,291 | 1,247 | 1,247 | 1,080 |
| NFY | 30 | 33 | 31 | 28 | 30 | 29 | 31 |
| Others | 154 | 156 | 158 | 160 | 159 | 160 | 160 |

Source: Centre for Monitoring Indian Economy (CMIE)

Indian textile industry outlook:

CARE Research expects the domestic consumption of MMF to grow at a CAGR of 5.8 per cent from 2,802 thousand tonnes in FY12 to 3,717 thousand tonnes in FY17. The share of MMF in the overall fibre consumption by the textile industry is expected to increase from 41 per cent in FY11 to 45 per cent in FY17. With this, the Indian textile industry (predominantly a cotton-based industry) would inch towards the global benchmark where the share of MMF is dominant at about 62%.

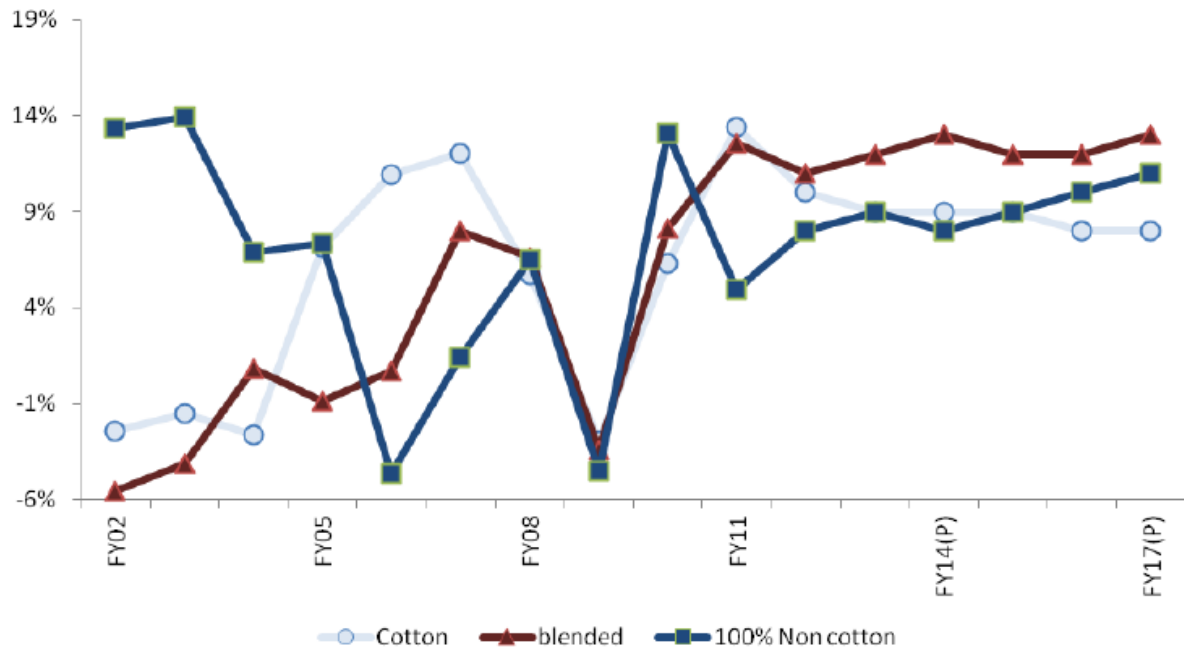
Supply-side constraints and the huge price differential between the cotton and MMF prices will help the MMF industry grow its share in the overall fibre consumption pattern of the textile industry. Also, the inherent superior quality of polyester and viscose over the cotton is likely to have a positive impact on its demand, especially from the technical textiles and blended yarn segments

Blended yarn demand poised for high growth

CARE Research expects the demand for blended yarn to grow at a faster rate compared to cotton & 100% non-cotton yarn during the next five years. The demand for blended yarn is expected to grow at a CAGR of 12.4 per cent over the period of FY12-FY17 whereas the cotton yarn and 100 per cent non-cotton yarn demand is expected to grow at a CAGR below 10 per cent. The demand of yarn would come from both domestic as well as the international markets. The domestic demand comprises yarn used to make apparels and home textiles which are consumed domestically and exported. The demand would also be driven by the rising yarn exports.



Yarn-wise demand growth (per cent)



Source: CARE Research



FINANCIAL ANALYSIS

Income Statement

| (Rs. Crores) | FY09 | FY10 | FY11 | FY12 P | FY13 P | FY14 P |
|--|--------------|-------------|--------------|-------------|-------------|-------------|
| Net Sales | 800 | 1091 | 1523 | 1763 | 1798 | 1803 |
| Operating Income | 887 | 1,173 | 1,608 | 1789 | 1824 | 1829 |
| EBITDA | 75 | 150 | 267 | 174 | 196 | 201 |
| Depreciation and amortization | 54 | 67 | 68 | 70 | 73 | 71 |
| EBIT | 21 | 84 | 199 | 104 | 123 | 130 |
| Interest | 85 | 57 | 56 | 73 | 66 | 61 |
| PBT | -42 | 34 | 148 | 39 | 65 | 78 |
| Ordinary PAT (After minority interest) | -30 | 26 | 114 | 32 | 50 | 60 |
| PAT (After minority interest) | -30 | 26 | 114 | 32 | 50 | 60 |
| Fully Diluted Earnings Per Share* (Rs.) | -27.6 | 24.1 | 104.7 | 29.2 | 46.0 | 54.9 |
| Dividend, including tax | 1 | 3 | 10 | 6 | 6 | 6 |

* Calculated based on ordinary PAT on Current Face Value of Rs. 10/- per share

Balance Sheet

| (Rs. Crores) | FY09 | FY10 | FY11 | FY12 P | FY13 P | FY14 P |
|---|------------|-------------|-------------|-------------|-------------|-------------|
| Tangible Net worth (incl. Minority Interest) | 120 | 144 | 250 | 277 | 321 | 375 |
| Debt (incl. Preference Shares) | 850 | 872 | 808 | 841 | 814 | 706 |
| Deferred Liabilities /(Assets) | 17 | 20 | 50 | 49 | 49 | 47 |
| Capital Employed | 987 | 1036 | 1108 | 1168 | 1184 | 1128 |
| Net Fixed Assets, incl. Capital WIP, net of reval reserve | 679 | 644 | 613 | 605 | 596 | 538 |
| Investments | 0 | 0 | 2 | 52 | 52 | 52 |
| Inventory | 202 | 284 | 342 | 357 | 369 | 378 |
| Receivables | 72 | 96 | 133 | 138 | 144 | 144 |
| Cash and Cash Equivalents | 9 | 7 | 5 | 1 | 12 | 8 |
| Current Assets, Loans and Advances | 88 | 74 | 105 | 110 | 108 | 104 |
| Less: Current Liabilities and Provisions | 61 | 70 | 91 | 95 | 95 | 95 |
| Total Assets | 987 | 1036 | 1108 | 1168 | 1184 | 1128 |

Ratios based on Financials

| | FY09 | FY10 | FY11 | FY12 P | FY13 P | FY14 P |
|--------------------------------|--------|--------|--------|--------|--------|--------|
| Growth in Operating Income | 6.7% | 32.2% | 37.1% | 11.3% | 1.9% | 0.3% |
| Growth in EBITDA | -33.8% | 99.5% | 77.3% | -35.0% | 13.1% | 2.7% |
| Growth in PAT | NM | 187.3% | 334.6% | -72.1% | 57.4% | 19.4% |
| Growth in EPS | NM | 187.3% | 334.6% | -72.1% | 57.4% | 19.4% |
| EBITDA Margin | 8.5% | 12.8% | 16.6% | 9.7% | 10.8% | 11.0% |
| PAT Margin | NM | 2.2% | 7.1% | 1.8% | 2.8% | 3.3% |
| RoCE | 2.5% | 8.3% | 18.6% | 9.1% | 10.5% | 11.3% |
| RoE | NM | 19.9% | 58.0% | 12.1% | 16.8% | 17.2% |
| Net Debt-Equity (times) | 6.1 | 6.0 | 3.2 | 2.3 | 1.9 | 1.8 |
| Interest Coverage (times) | 0.2 | 1.5 | 3.5 | 1.4 | 1.9 | 2.1 |
| Current Ratio (times) | 1.1 | 1.1 | 1.3 | 1.5 | 1.5 | 1.6 |
| Inventory Days | 83 | 76 | 71 | 71 | 73 | 74 |
| Receivable Days | 29 | 26 | 26 | 28 | 28 | 29 |
| Price / Earnings (P/E) Ratio | | | 1.8 | 6.5 | 4.1 | 3.5 |
| Price / Book Value(P/BV) Ratio | | | 0.8 | 0.7 | 0.6 | 0.6 |
| Enterprise Value (EV)/EBITDA | | | 3.9 | 6.0 | 5.3 | 5.2 |

Source: Company and CARE Equity Research



CARE EquiGrade Grid (CEG)

Through CEG, CARE Equity Research addresses two critical factors considered by an investor while investing in a particular company's equity shares:

1. **Fundamentals:** Whether the company is fundamentally sound with respect to its business, its financial position, its management and its prospects.
2. **Valuation:** What is the Current Intrinsic Value (CIV) of the stock and how it compares vis-a-vis its Current Market Price (CMP).

These factors are answered assigning quantitative grades to both these parameters. CEG is the snapshot of 'Fundamental Grade' and 'Valuation Grade' assigned by CARE Equity Research.

Fundamental Grade

This grade represents how sound the company is fundamentally, vis-à-vis other listed companies in India. This grade captures:

1. Business Fundamentals and Prospects
2. Financial Soundness
3. Management Quality
4. Corporate Governance Practices

The grade is assigned on a five-point scale as under:

| CARE Fundamental Grade | Evaluation |
|------------------------|------------------------|
| 5/5 | Strong Fundamentals |
| 4/5 | Very Good Fundamentals |
| 3/5 | Good Fundamentals |
| 2/5 | Modest Fundamentals |
| 1/5 | Weak Fundamentals |

Valuation Grade

This grade represents the potential value in the company's equity share for the investor over a 1-year period. The Current Intrinsic Value (CIV) or the price arrived by CARE Equity Research on fundamental basis is compared with the Current Market Price (CMP) of the stock and the grade is assigned based on the gap between CIV and CMP of the stock.

The grade is assigned on a five-point scale as under:

| CARE Valuation Grade | Evaluation |
|----------------------|--|
| 5/5 | Considerable Upside Potential (>25% upside from CMP) |
| 4/5 | Moderate Upside Potential (10-25% upside from CMP) |
| 3/5 | Fairly Priced (+/-10% from CMP) |
| 2/5 | Moderate Downside Potential (10-25% downside from CMP) |
| 1/5 | Considerable Downside Potential (>25% downside from CMP) |

Grading determination is a matter of experienced and holistic judgment, based on relevant quantitative and qualitative factors of the company in relation to other listed companies.



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- Each member of the team involved in the preparation of this grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.
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CREDIT ANALYSIS & RESEARCH LTD

HEAD OFFICE | Mr. Saikat Roy | Cell: +91-9820998779 | Tel: +91-22-6754 3547 | E-mail: saikat.roy@careratings.com
4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022 |
Tel: +91-022- 6754 3456 | E-mail: care@careratings.com | Fax: +91-022- 6754 3457

KOLKATA | Mr. Sukanta Nag | Cell: +91-98311 70075 | Tel: +91-33- 2283 1800/ 1803, 2280 8472 | E- mail:
sukanta.nag@careratings.com | 3rd Flr., Prasad Chambers (Shagun Mall Bldg), 10A, Shakespeare Sarani, Kolkata -700 071

CHENNAI | Mr. V Pradeep Kumar | Cell: +91 9840754521 | Tel: +91-44-2849 7812/2849 0811 | Fax: +91-44-2849 0876 |
Email: pradeep.kumar@careratings.com | Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai - 600 002

AHMEDABAD | Mr. Mehul Pandya | Cell: +91-98242 56265 | Tel: +91-79-40265656 | Fax: +91-79-40265657 |
E-mail:mehul.pandya@careratings.com | 32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015.

NEW DELHI | Ms. Swati Agrawal | Cell: +91-98117 45677 | Tel: +91- 11- 2331 8701/ 2371 6199 | E-mail:
swati.agrawal@careratings.com | 3rd Floor, B -47, Inner Circle, Near Plaza Cinema, Connaught Place, New Delhi - 110 001.

BANGALORE | Mr. Dinesh Sharma | Cell: +91 9900041975 | Tel: +91-80-22117140 | Email: dinesh.sharma@careratings.com|
Unit No. 8, I floor, Commander's Place, No. 6, Raja Ram Mohan Roy Road, (Opp. P F Office), Richmond Circle, Bangalore - 560 025.

HYDERABAD | Mr. Ashwini Kumar Jani | Cell: +91-91766 47599 | Tel: +91-40-40102030 | E-mail:
ashwini.jani@careratings.com | 401, Ashoka Scintilla | 3-6-520, Himayat Nagar | Hyderabad - 500 029

