



Result update – Q3FY16

Sangam India Ltd. – Maintain our “BUY” rating

19th February, 2016

**CMP: Rs. 258|Target revised downwards to Rs. 448 from Rs. 497|Time horizon: 1 year
|Basis of valuation: FY18E Financials| Upside: 74%| Market Cap: Rs. 1017 cr.| FV: Rs. 10**

Q3FY16 and 9M FY16 Financial Performance

(Rs cr)	Q3FY16	Q3FY15	%yoy	Q2FY16	%qoq	9MFY16	9MFY15	%yoy
Total Income from Operations	356.4	369.0	(3.4)	401.0	(11.1)	1,124.0	1,114.8	0.8
Material costs	(201.3)	(192.9)	4.3	(235.8)	(14.6)	(633.4)	(629.9)	0.6
Purchase of stock in trade	-	(25.3)	(100.0)	-	-	-	(25.3)	(100.0)
Changes in inventory	11.2	3.9	188.7	17.2	(34.9)	30.3	4.5	577.9
Power and Fuel	(37.7)	(38.8)		(44.1)		(122.2)	(118.5)	
Employee benefit expenses	(35.2)	(29.6)	18.8	(35.4)	(0.6)	(103.7)	(87.4)	18.7
Other expenditure	(38.1)	(33.0)	15.3	(41.2)	(7.6)	(116.1)	(100.4)	15.6
Operating profit	55.4	53.2	4.0	61.7	(10.3)	179.0	157.8	13.4
OPM (%)	15.5	14.4	111.1	15.4	0.9	15.9	14.2	176.8
Depreciation	(18.6)	(19.4)	(4.5)	(19.3)	(3.7)	(58.2)	(57.5)	1.2
Interest	(15.1)	(16.5)	(8.2)	(16.3)	(7.6)	(49.0)	(49.5)	(1.0)
Other income	1.2	(0.7)	(271.4)	1.9	(37.2)	5.2	1.4	272.9
PBT	22.9	16.6	37.7	28.0	(18.4)	77.0	52.2	47.6
Tax	(7.3)	(2.8)	158.5	(9.4)	(21.7)	(25.6)	(15.1)	69.7
Effective tax rate (%)	32.1	17.1		33.4	(4.0)	33.2	28.9	
PAT	15.6	13.8	12.8	18.7	(16.7)	51.4	37.1	38.6
PAT margin (%)	4.4	3.7	62.9	4.7	(6.3)	4.6	3.3	124.7
FV	10.0	10.0	-	10.0	-	10.0	10.0	-
No. of equity shares	3.9	3.9	0.1	3.9	-	3.9	3.9	0.1
EPS	3.94	3.50	12.8	4.74	(16.7)	13.04	9.41	38.5

Source: Company, Ajcon Research

The Company's topline declined on qoq basis by 11.% to touch Rs. 356 crores in Q3FY16 due to fall in Commodity prices. However, there was no degrowth witnessed in volumes. On yoy basis too, topline declined marginally by 3.4%.

Increased integration focus on exports helped the company in maintaining realisations, despite falling prices. Commodity prices continue to soften globally over the last couple of months and yet we have managed to contain its impact on our revenues. Significantly, the response to new seamless product launches has been encouraging,' said, R. P. Soni, Chairman, Sangam India Ltd.

The management's strategy to increase focus on exports seems to be yielding better-than-expected results, with denim exports reporting a sharp jump of 204% YoY and suiting fabrics exports rose by 25.7% YoY.



We expect the pressure in commodity prices to remain in Q4FY16 as well. EBIDTA drove up 4.02 per cent to Rs 55.40 crore compared to Rs 53.21 crore in the comparable quarter of the previous fiscal. On qoq basis, EBITDA declined by 10.3% due to fall in realisations. In the high margin segment – Seamless wear, the Company has sold 0.7 mn pieces and has set an internal target to sell 0.6 mn pieces in Q4FY16. The Company is expecting Net Sales of Rs. 25 crores from Seamless wear segment.

Operating profit margins expanded 111.1 bps to 15.5 per cent in the third quarter of the current fiscal on yoy basis due to reduction of purchase of stock in trade. On qoq basis, OPM improved moderately by 0.9 basis points.

Net profit increased by 12.8% on yoy basis to Rs. 15.6 crores. However on qoq basis, PAT declined by 16.7%. PAT margin reported an improvement by 62.9 bps on yoy basis to touch 4.4% in Q3FY16.

The Company is executing an expansion project having outlay of Rs. 198 crores being part funded by Term Loans of Rs. 157.50 crores and balance from internal accruals. The project envisages installation of 26736 spindles on P/V Dyed Yarns. 74 imported Airjet Shuttleless Weaving Machines, One Denim Line and 2 MW Solar Power Plant. The Project activities are in progress as per schedule.

We revise our FY16E estimates. The revised topline for FY16 would be around 1520 crs (as against expected Rs. 1633 crores), EBITDA – Rs. 267 crores (as against expected Rs. 277 crores) and Profit after Tax Rs. 76 crores (as against expected Rs. 82 crs.). Based on the profitability, we arrive at an EPS of Rs. 19.27 for FY16E.

Investment rationale

Strong background

Established in 1984, Sangam India Ltd. is the flagship company of Sangam Group a Rs. 4,000 crores + business conglomerate having diverse business interests across textiles, steel, infrastructure, power and energy sectors. Mr. RP Soni, Chairman & First Generation entrepreneur, leads the Group. Sangam ranks among the leading players in Indian textiles sector with presence in PV (polyester viscose), dyed yarn and fabrics. One of market leaders in PV dyed yarn with 25% share. Today, SIL is a leading manufacturer of PV yarn in India. The company is also present in the Indian synthetic blended fabric and denim segments with brands such as Sangam Suitings and Sangam Denim. Sangam also has garnered respectable market – share in denim segment within three years of commencement of production. Sangam was promoted as a fabric manufacturing unit, under the name of Arun Synthetics Pvt. Ltd, by Mr. R.P. Soni and Mr. S.N. Modani. The company took a strategic decision to backward integrate and forayed into spinning in 1995 by installing 17,280 spindles for manufacturing PV dyed yarn. Sangam's manufacturing facilities are located in Bhilwara, Rajasthan. As of FY15, the company has a spinning capacity of 211,296 spindles and 3,128 rotors; weaving capacity of 437 looms; and processing capacity of 53 mn meters P.A.

Largest producer of PV dyed yarn

SIL is the largest producer of PV dyed yarn in Asia at Single location. SIL is a forerunner in manufacturing ready to stitch Fabric with the annual capacity to produce 24 million meters of fabric and 32 million meters of denim.

Marquee clients

The company's client base includes Raymond, RSWM, Banswara Syntex, Donear, Siyaram and Grasim. It has a network of 100 dealers and 1,000 retailers across India.

Domestic Clientele: Raymonds, Siyaram Silk Mills, Grasim Bhiwani Textile, BSL Ltd., Donear Industries, S. Kumar Nationwide, Shri. Dinesh Mills, RSWM.

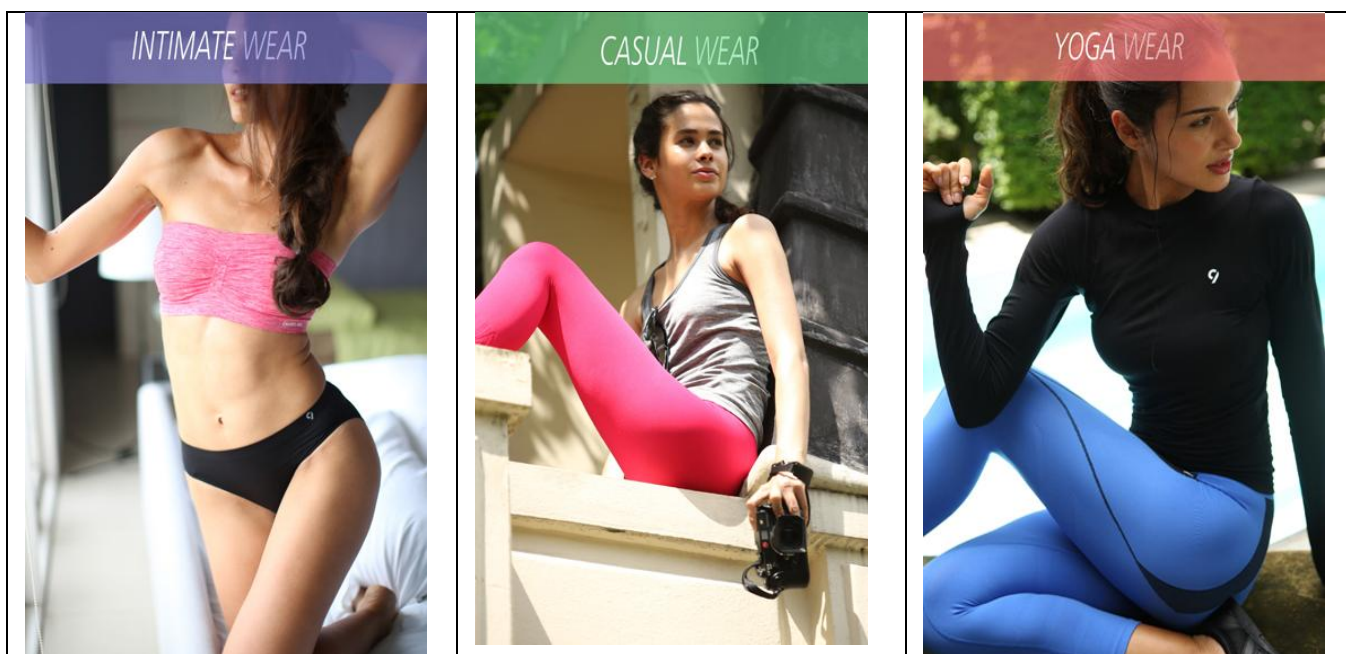


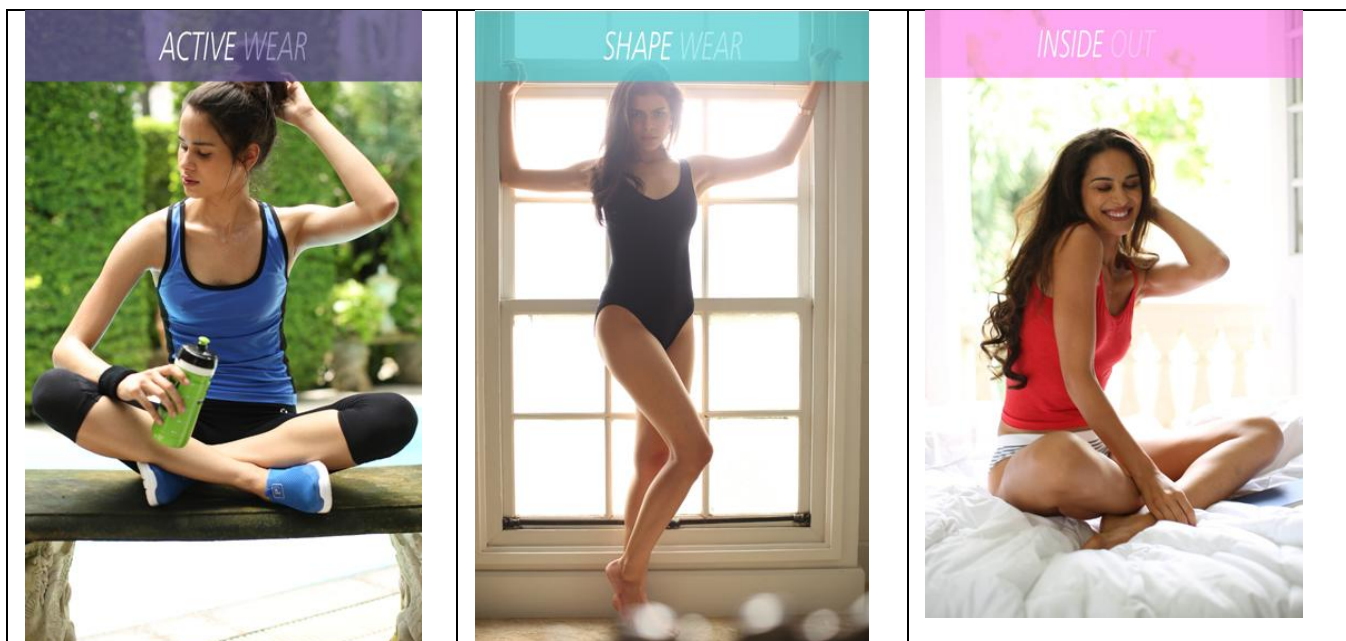
Overseas Cientele: Bossa Ticaret Ve Sanayi Islatmeleri (Turkey – PV Dyed Yarn), Oguz Textil (Turkey – PV Dyed Yarn), Baekart (USA – PV Dyed Yarn), TBM Textil bezero De Menezes (Brazil – PV Grey Yarn), Vanden Berghe Roger NV (Belgium – Carpet Yarn), EDPA (USA – Cotton Yarn, Knitted fabric), Melmar Knit Wear Company (Egypt – Cotton Yarn)

Foray in Seamless Wear garment segment to improve margins

Recently, SIL has forayed into seamless garments for women under Channel Nine brand. For this segment, the Company has latest world class seamless technology imported from Italy. Having established its presence across the value chain, its foray into branded seamless garments not only will enable it to extend its value proposition directly to consumer segments through its own brand; but more importantly pave way for improving margins going forward. Given the explosion of demand in the women-wear segment, Channel Nine would offer diverse range at affordable price across customer segments. Channel Nine range comprises an exquisite range of seamless garments for women including Intimate wear (seamless bra and panties), Active wear (seamless sports bra and leggings), Yoga wear (Yoga T shirt, Yoga Legging, Yoga Track Pant) Shape wear (low compression and high compression), Casual wear (leggings and tanktop), Outwear, products for fitness, shaping and technical products. Apparels with performance features like odour resistance and moisture management find loyalty with customers. The rising per capita income and change in lifestyle has increased demand for quality products. However, with the increasing exposure to international fashion trends, the Indian consumer today wants more than just need – based clothing. In addition to old parameters like basic functionality, comfort and price, better look, perfect fit and trendiness have also become key purchase parameters. Innovations in casual wear products are primarily related to product design, color selection options and fiber mix.

SIL is also leveraging its existing channels of distribution as well as initiating newer channels (online) to capture the market share in Rs.15,000 crore domestic apparel industry. SIL has introduced seamless garment manufacturing facility with 36 seamless knitting machines with current capacity to produce 3.6 mn pieces per annum which will eventually scale up to 10.8mn units by FY18. The steady increase in the operating margin percentage is mainly due to the higher margins in the seamless garments business. Key clients in Seamless Garments include Nike, Urban Yoga, JC Penny and many other reputed players.





Competition Mapping (Product & Price)

Brand	Sports Wear	Inner Wear	Casual Wear	Shape Wear	Night Wear	Swim Wear	Men's range	Seamless range	Pricing
Channel Nine	√	√	√	√	-	-	-	√	Rs. 299 onwards
Enamor	√	√	-	√	√	-	-	-	Rs. 199 onwards
Amante	-	√	-	√	√	-	-	-	Rs. 395 onwards
Zivame	√	√	√	√	√	√	-	√	Rs. 400 onwards
Adidas	√	-	-	-	-	-	√	√	Rs. 800 onwards
Nike	√	-	-	-	-	-	√	√	Rs. 800 onwards

Source: Company, Ajcon Research



Successful backward integration

The company has successfully modified their capacities, thereby resulting in better integration and efficiency in the value chain. Today, its denim fabrics and seamless garments rely minimally on the externally sourced raw materials. In the past four years, their in-house consumption of PV yarn has grown from 5% in 2010-11 to 18% in 2014-15. At the same time, they consume about 50% of the cotton yarn captively, despite nearly doubled capacities in the past four years. SIL is initiating further investments in yarn and fabric capacities to ensure complete integration of the textile value chain in the coming years. Investments in capacities lead to scale. However, they have continued to focus on reducing controllable costs to improve their profitability, despite regular expansion.

Impressive financial performance and strong cashflows

Sangam has witnessed a topline compounded annual growth rate (CAGR) of 11% in its revenues and 25% in its net profits over the last five years. In the same period, it has invested close to Rs300 crore in capex (forward and backward integration) but reduced its debt/equity ratio to 1.43x in FY2015 from over 3.6x in FY2010 due to focus on cash inflows. The return ratios have also improved consistently with return on equity (RoE) and return on capital employed (RoCE) at over 15% in FY2015 from less than 10% in FY2010. The significant improvement and consistency in its financial performance is driven by its efforts to continuously move in backward-forward integration.

Stock Price Movement



Recommendation & Valuation

Sangam being probably the only Company which has all the segments of textiles industry including seamless women which has value addition. With due consideration to factors like a) Company managed by very well qualified, experienced and dedicated professional management, b) a fully corporate governance compliant Company with full transparency, c) diversified product mix with market leadership in most of its products, d) foray into seamless female garments segment with its own brand of "Channel Nine" which will add tremendous value to the Company, e) impressive financial performance with strong cash flows, f) prudent debt management – debt/equity to improve to 0.99x by FY18E from current 1.65x in FY15 inspite of expansions for capacity additions, g) ROE set to improve, h) stock attractively trading at cheap valuations of 7x at estimated FY18 EPS, hence we recommend a "BUY". We value the stock at Rs. 448 (by assigning a multiple of 12x (which is appropriate considering the strengths of the Company and its market leadership) at FY18E EPS of Rs. 37.1.



Financial Summary (Rs. in crores)

Particulars	2014-15	2015-16	2016-17	2017-18
	Aud.	Esti.	Proj.	Proj.
Net Revenue from Operation	1468.6	1523.0	1941.7	2281.74
Other Income	11.02	24.00	15.23	17.14
Total Revenue	1479.6	1547.0	1956.9	2298.8
Increase %	2.37	4.55	26.50	17.47
EBITDA	220.13	267.40	335.59	399.77
EBITDA Margin%	14.99%	17.56%	17.28%	17.52%
Interest :Term Loan	28.55	30.00	31.84	29.67
: Working Capital	38.67	38.00	39.14	26.68
Depreciation	80.40	80.00	100.68	109.16
Prov. For Book debts.	0.35			
PBT	72.16	119.40	163.93	234.26
Income tax	20.59	43.42	39.89	86.80
Net Profit	51.57	75.98	124.04	147.47
N.P. Margin	3.49%	4.91%	6.34%	6.41%
Interest Coverage (x)	6.36	7.65	9.31	12.58
Book Value (Rs.)	94.29	109.22	138.28	173.28
P/BV (x)	2.74	2.36	1.87	1.49
EPS (Rs.)	13.08	19.27	31.47	37.41
P/E (x)	19.72	13.39	8.20	6.90
ROE (%)	13.87%	17.65%	22.76%	21.59%
Inventory days	66	64	67	64
Debtors days	58	61	64	60
Creditors days	32	32	30	29
Debt/Equity (x)	1.65	1.69	1.44	0.99

Source: Company, Ajcon Research



Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160431 (D)

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Corporate and Broking Division

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office:

101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40