

29<sup>th</sup> September, 2016

To,  
BSE Limited  
Phiroze Jeejeebhoy Towers,  
Dalal Street,  
Mumbai – 400 001.

**Scrip Code: 532641**

To,  
National Stock Exchange of India Limited  
Exchange Plaza,  
Plot No. C/1, G – Block,  
Bandra Kurla Complex,  
Bandra (East),  
Mumbai – 400 051.

**Scrip Symbol: NDL**

Dear Sir,

**Sub.: Submission of Research Report by Sunidhi Securities & Finance Limited**

We are pleased to submit herewith a copy of the Research Report by Sunidhi Securities & Finance Limited.

You are requested to kindly take the same on record.

Thanking You,

Yours sincerely,  
For **NANDAN DENIM LIMITED**

  
Purvee Roy  
Company Secretary  
Mem. No. A26925



**Nandan Denim Limited**  
(Formerly known as Nandan Exim Limited)  
(CIN:L51909GJ1994PLC022719)

**Plant & Regd. Office:**

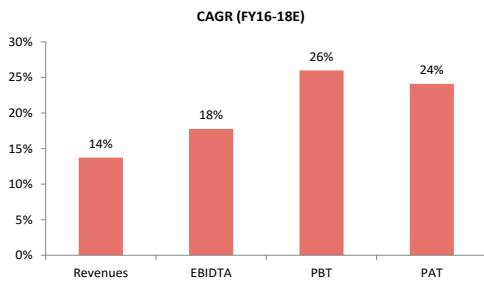
Survey No. 198/1, 203/2, Sajipur-Gopalpur, Pirana Road, Piplej, Ahmedabad - 382 405  
Ph.: +91 9879200199 Website: www.nandandenim.com Email: info@nandandenim.com

**Corporate House:**

Chiripal House, Shivranjani Cross Roads, Satellite, Ahmedabad - 380 015  
Ph.: 079-26734660/2/3 Fax: 079-26768656

September 27, 2016

**Textiles**  
**Sector Outlook - Positive**

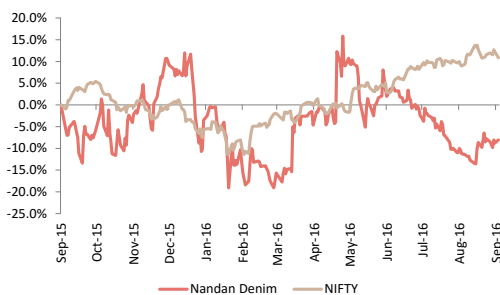


Stock Recommendation	Buy
CMP (₹)	126
Price Target (₹)	219
Upside	74%
52 Week H / L ₹	166/97
BSE 30	28224

Key Data	
No. of Shares, Mn.	45.5
Mcap, ₹ Mn	5738.0
Mcap USD Mn @₹67	86
2 W Avg Qty, (BSE+NSE)	349929

Shareholding, June'16	
Promoters	58.3
FII	11.0
DII	0.1
Public & Others	30.6

Performance	1 M	3 M	6 M	12 M
Stock Return %	3.6	-9.8	9.0	-8.0
BSE Return %	1.8	-17.6	-4.0	-18.9



**Shailesh Kumar**  
shaileshkumar@sunidhi.com  
Ph: +91 22 6677 1671

Nandan Denim Limited, currently the second largest domestic Denim manufacturer with installed capacity of 99MMPA is all set to become the largest manufacturer after completion of its capex plan. Company is a dominant player in Indian denim fabric market and is now setting site to capture export demand.

**Best proxy play on high growth Indian Denim market:** Industry estimates suggest Denim wear market in India is expected to register a Retail Value figure of ₹361 bn by CY 20 from the level of ₹177 bn in CY15 i.e CAGR of 15%. Nandan Denim Ltd, currently the second largest manufacturer of Denim fabric in India with installed capacity of 99MMPA should be a major beneficiary of this secular demand surge.

**Higher Topline and better margin- dual benefit post capex:** Nandan Denim initiated an ambitious capital expenditure project in FY14 with planned capital outlay of ₹6.12bn to increase the denim manufacturing capacity to 110MMPA from 71MMPA, spinning capacity to 124TPD from 54TPD and installing Yarn dyed shirting capacity of 10 MMPA. Post this capex, company is expected to register topline growth of 29% between FY16-FY18E while EBITDA margin should expand by 120bps during the same period to reach a level of 17.8%.

**Change in Product mix should help improve Realization:** Capex based topline growth has its limitations and hence value addition is the only sustainable growth driver. Currently company derives around 10% of revenue from Value Added products (VADP) which it plans to grow to 33% over next 2-3 years period. We expect, Average Denim realization of the company to improve to ₹149/ meter by FY18E from ₹133/ Meter in FY15 helped mainly by growing contribution of Value added products in company's Topline.

**Incentives under Gujrat Textile Policy- Icing on the cake:** Gujrat Textile Policy offers VAT reimbursement to textile companies for 8 years on procurement of raw material from Gujrat from the date of commissioning of spinning & weaving plant. VAT reimbursement benefit is a contingent benefit depending upon quantum of Cotton/ cotton yarn/Other inputs procured from state of Gujrat. VAT reimbursement benefits should start accruing to company from FY18 onwards and upper limit of this benefit could be close to ₹300mn for FY18E.

**Buy with Price target of ₹219**

At the current price of ₹126, Nandan Denim is trading at 8.0x FY17E and 6.1x FY18E Earnings, while in terms of EV/EBITDA it is quoting at 5.2x FY17E and 4.3x FY18 EBITDA respectively. Valuation looks attractive compared to peers like Arvind, Indo Count, Vardhman Textiles and Trident Ltd when compared on parameters like PAT CAGR, ROE and Dividend yield. Post completion of Capex by Q3FY17, Nandan should be able to do ROE of above 20% in a sustained manner and hence we believe 6x FY18E EBITDA is a fair value for the company, which gives us fair value of company's Equity at ₹219. At the fair value of ₹219, stock is valued at 13.9x FY17E PE and 10.6x FY18E PE and offers upside potential of 74%.

Financials	Revenues	EBITDA	PAT	EPS	P/E	EV/EBITDA	ROAE
	₹ Mn	Mn Mn	₹ Mn	₹	x	x	%
FY14	8938	1327	393	8.2	15.4	7.7	19.6
FY15	10965	1654	514	10.7	11.8	6.2	21.6
FY16	11568	1920	642	13.4	9.4	5.3	21.2
FY17E	13336	2285	757	15.8	8.0	5.2	19.3
FY18E	14963	2663	989	20.6	6.1	4.3	20.6

Source: Company, Sunidhi Research



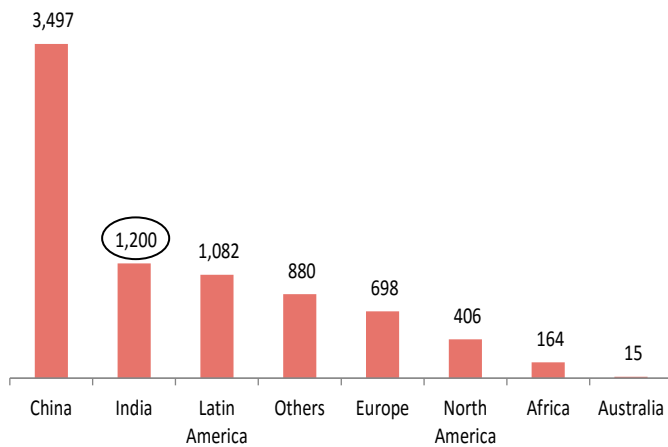
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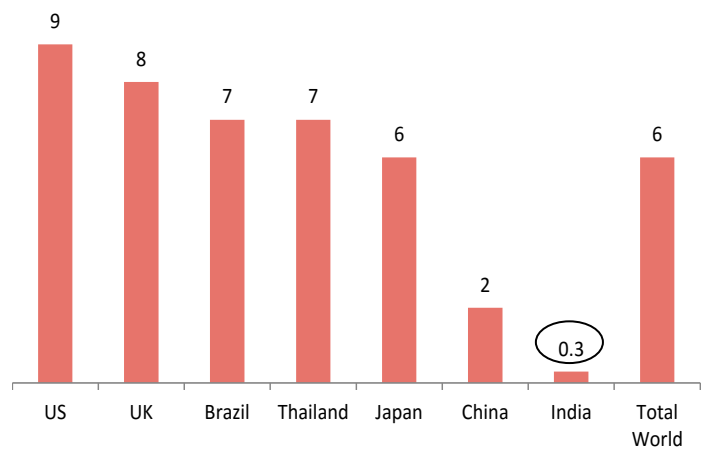
**Best proxy play on high growth Indian Denim market:** India is second largest producer of Denim fabric (installed capacity 1200 mmpa) globally after China (3,497 MMPA) and is the fourth largest Denim Fabric exporter in the world. In spite of this leading global positioning, per capita Denim Jeans consumption in India is meagerly 0.3 pairs per person which is much lower than china (2 pairs), Japan (6 Pairs), Thailand (7 pairs) & US (9 pairs). This consumption disparity leaves enough scope for growth. Some of the key demand drivers are High proportion of Young Population (50% population less than 25 years age), Rising income(per capita income increased to ₹93,231 in FY16 from ₹71,050 in FY 13) & Fashion consciousness, rising acceptance of denim as office wear, rising demand from womens' wear segment and growing penetration in Tier-2 and Tier-3 cities. Due to combination of all these demand drivers Denim wear market in India is expected to register a Retail Value figure of ₹361 bn by CY 20 from the level of ₹177 bn in CY15 i.e CAGR of 15%. Nandan Denim Ltd, currently the second largest manufacturer of Denim fabric in India with installed capacity of 99MMPA should be a major beneficiary of this secular demand surge.

**World Denim Capacities (MMPA)**



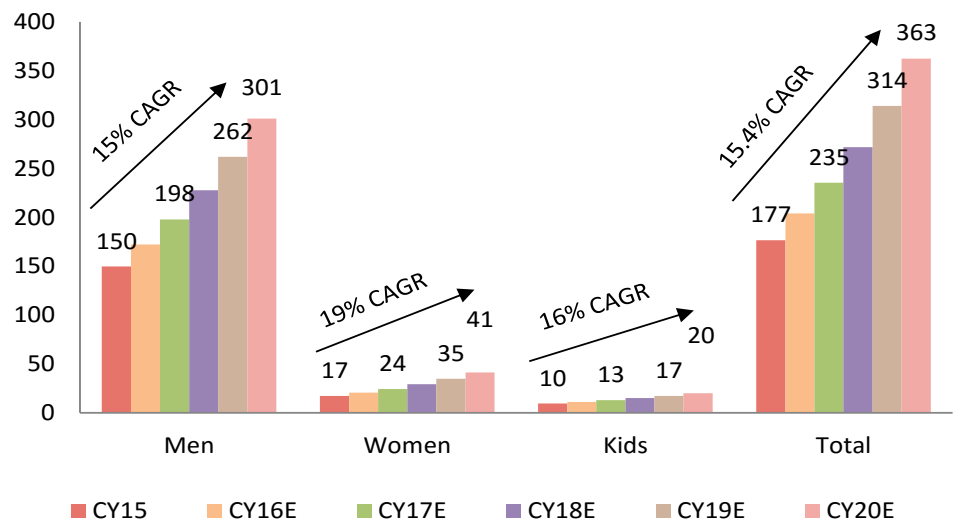
Source: Industry, Sunidhi Research

**Per Capita Denim jeans Consumption (pairs)**



Source: Industry, Sunidhi Research

**Segmentwise Denim demand projection (₹ bn)**



Source: Industry, Sunidhi Research



**Higher Topline and better margin- dual benefit post capex:** Nandan Denim initiated an ambitious capital expenditure project in FY14 with planned capital outlay of ₹ 6.12bn with Debt Equity ratio of 2.4:1. Objective is to increase the denim manufacturing capacity to 110MMPA from 71MMPA, spinning capacity to 124TPD from 54TPD and installing Yarn dyed shirting capacity of 10 MMPA.

Particulars of capex is as given below:

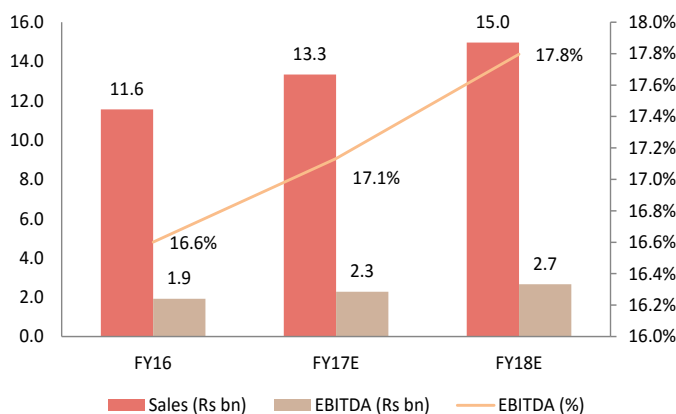
Particulars	Pre Capex	Post Capex	Completion Schedule	Capital Outlay (₹ bn)
Denim (MMPA)	71	110	December 2016	2.50
Spinning (TPD)	54	124	December 2016	2.50
Shirting (MMPA)	0	10	March 2015	1.12*
Processing of Fabric Capacity (MMPA)	0	10	December 2016	-

Source: Company, Sunidhi Research \*this amount is inclusive of shirting and processing capacity.

Post commissioning of this capacity expansion project by Q4FY17, following benefits are expected to accrue to the company.

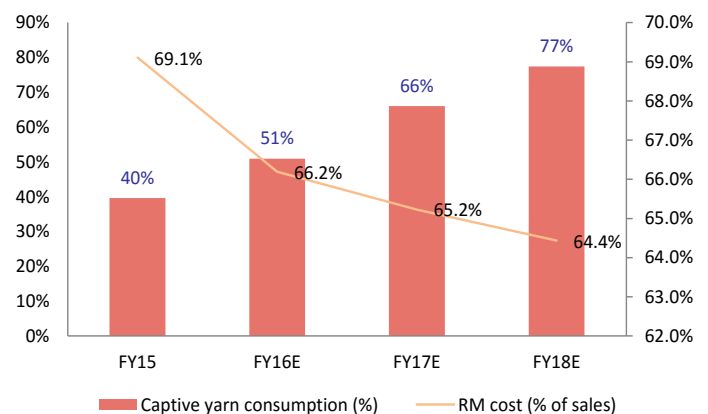
- A) Company will have enhanced denim capacity which would help it grow its volume as well as topline over next 3-4 years,
- B) Additional capacity will also allow the company to supply to overseas customers on sustainable basis,
- C) Higher spinning capacity will allow company meet 77% of yarn requirement in FY18 from captive production from level of 40% in FY15. This will offer dual benefit to the company. One reduced cost of Denim production due to cheaper cost of captive yarn and Second and more important better control over quality and timely availability of yarn. These two factors will allow the company service its customers in competitive and timely manner resulting into enhanced customer retention. We envisage company to register 29% Topline growth between FY 16 and FY18E to ₹14.9bn while EBITDA margin should expand by 120bps to 17.8% during the same period.

Nandan-Sales & EBITDA projection



Source: Industry, Sunidhi Research

RM cost movement with changing proportion of captive yarn

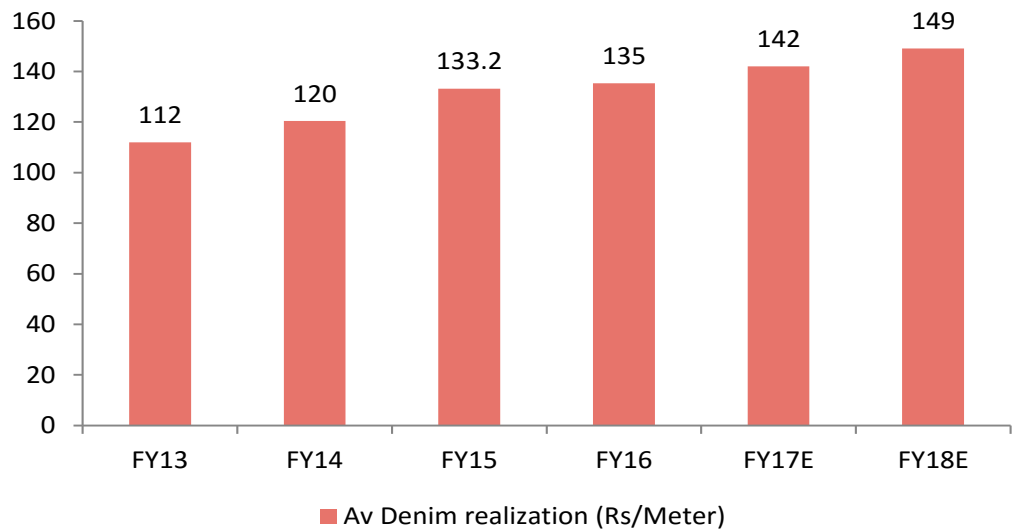


Source: Industry, Sunidhi Research



**Change in Product mix should help improve Realization:** Denim fabric is a commodity product with very little product differentiation. Any new product which is introduced in the market commands premium pricing only for 5-6 months as competition catches up shortly leading to commoditization. Thus, growing Average realization for denim fabric in sustainable manner is a real challenge. Constant and frequent innovation either by weaving or by processing is the only way to keep introducing newer variety of denim fabric which can lead to better product pricing. Management seems to have understood the fact that capex based topline growth has its limitations and hence value addition is the only sustainable growth driver. Company has its own R&D team which keeps on innovating keeping in mind changing fashion trends and consumer preferences. Stretchable Denim fabric, Faded Denim, double coloured Denim are some of the key innovations made by the company. Currently company derives around 10% of revenue from Value Added products (VADP) which it plans to grow to 33% over next 2-3 years period. We expect, Average Denim realization of the company to improve to ₹149/ meter by FY18E from ₹133/ Meter in FY15 helped mainly by growing contribution of Value added products in company's Topline. Thus of the total turnover growth of 28% between FY16-18E, 12% is expected to come from growth in average realization.

#### Av Denim realization (₹/Meter)



Source: Company, Sunidhi Research

**Incentives under Gujrat Textile Policy- Icing on the cake :** In order to promote investment in Textile sector, Gujrat government via Gujrat Textile Policy had offered many incentives to companies who are investing money in Textile spinning and weaving infrastructure in Gujrat state subject to condition that money should be invested between 5th September 2012 and 4th September 2017. These incentives are in addition to incentives offered by Central government under TUFs scheme. Besides interest subsidy (@ 5% except spinning where it is 7%) and power subsidy (₹1 /unit for 5 years), it also offers VAT reimbursement for 8 years from the date of commissioning of plant. Subsidized interest cost is already factored into our financial projections, however VAT reimbursement benefit is a contingent one depending upon quantum of Cotton/cotton yarn/Other inputs procured from state of Gujrat and thus not factored in our estimates. VAT reimbursement benefits should start accruing to company from FY18 onwards. Generally 70% of cotton requirement is procured from Gujrat and most of yarn requirement is also procured from Gujrat subject to price and quality. In case, same trend continues, company should be entitled to VAT reimbursement of ₹310mn for FY18E, which should increase in line with higher cotton and yarn purchase by company in coming years for next 8 years. Any benefit accruing to company would further boost the bottomline. However, this benefit is contingent upon raw material procurement from Gujrat itself.



**SWOT Analysis:**

**Strengths**

1. Nandan is currently the second largest denim manufacturer in India and after completion of latest round of capital Expenditure, will become the largest denim manufacturer. Company's plant and machinery are the most modern one offer unparalleled efficiency. Thus company has the advantage of economy of scale and cost effectiveness compared to others.
2. Increase in spinning capacity to 124TPD from 54TPD will make Nandan backward integrated to the tune of 85% for its yarn requirement. This will not only enhance margin but will also help company exercise control over quality of product and timeliness of delivery. This offers big competitive advantage for customer retention.
3. Nandan Denim has one of the largest distribution network compared to many denim manufacturers in India. This distribution network helps the company reach those corners of country where not all competitors can reach.
4. Company's revenue base is quite diversified. It caters to 100 clients and out of that top 10 clients contribute close to 25% of topline only.
5. Rationalisation of Central Government subsidy for new capex will provide competitive advantage to Nandan which has already availed it.

**Weaknesses**

1. Company is fully dependent upon a single product segment namely Denim fabric. Any weakness in denim demand or shift in consumer preference away from denim fabric could adversely impact company's topline and bottomline.
2. Cotton is the key raw material and its price is very volatile. However, industry being very competitive, it is not easy to pass on the increased raw material price to end consumer which leads to margin contraction.
3. Company's Net debt as on March 31, 2016 has exceeded its net worth resulting into over leveraged balance sheet which reduces financial flexibility. However, company has taken enabling resolution to raise ₹1 bn via convertible Warrants in order to strength the balance sheet.

SWOT ANALYSIS

**Opportunities**

1. Per capita denim consumption in India is among the lowest (0.3 pairs per person). With almost 50% of population under 25, growing income level and increasing acceptability of denim as an all occasion clothing is expected to lead to double digit growth in denim demand. This demand surge offers tremendous growth opportunity for Nandan denim which is on way to become the largest denim manufacturer in India and fourth largest globally.
2. Currently, company derives 12%-13% of sales from export. Once new capacity comes on the stream, Nandan can cater to export demand in much better way.

**Threats**

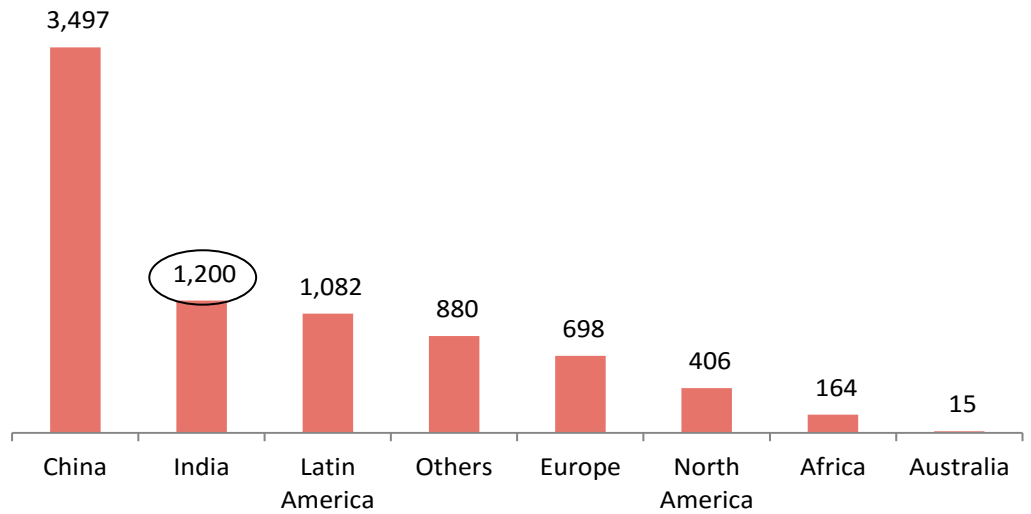
1. Denim is a commoditized product and industry is very competitive which always puts pressure on average Realization. However, company is putting emphasis on value added products to improve its average realization.
2. Textile Industry is a major polluting industry and China, the largest player in Textile globally has stopped aggressive expansion in order to preserve environment. It is a matter of time before which India will also impose strict pollution control norms for textile industry. This will have adverse impact on competitiveness of domestic textile industry including Nandan Denim. However, chances are that it may lead to closure of small and marginal players in industry vacating the space for stronger players like Nandan Denim.
3. Overcapacity in domestic market could result into pressure on average realization for the industry, however, this is essentially a short term phenomena.



### Sector View: Indian Denim Market

India is the second largest producer of Denim fabric after China with installed capacity of 1200MMPA.

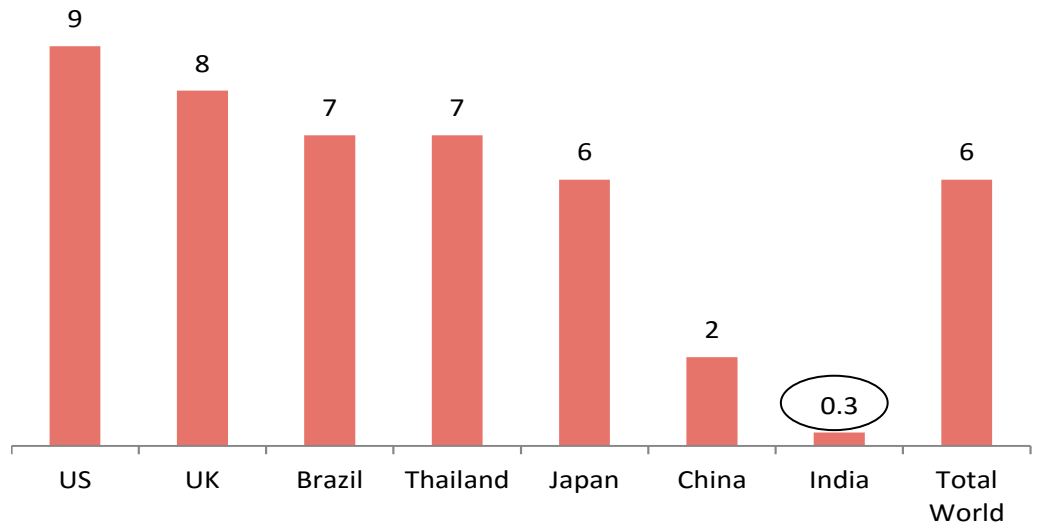
#### World Denim Capacities (MMPA)



Source: Company, Sunidhi Research

However Per capita Denim jeans consumption in India is among the lowest at 0.3 pairs per person.

#### Per Capita Denim Jeans consumption (pairs)



Source: Company, Sunidhi Research

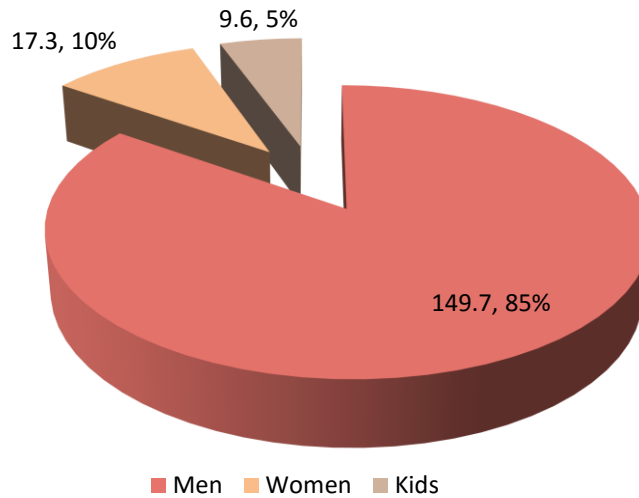




This wide disparity between average global consumption and domestic consumption leaves enough scope for Denim consumption growth in India.

India Denim market Bifurcation- User based

Denim Market size- CY15 (Rs bn)



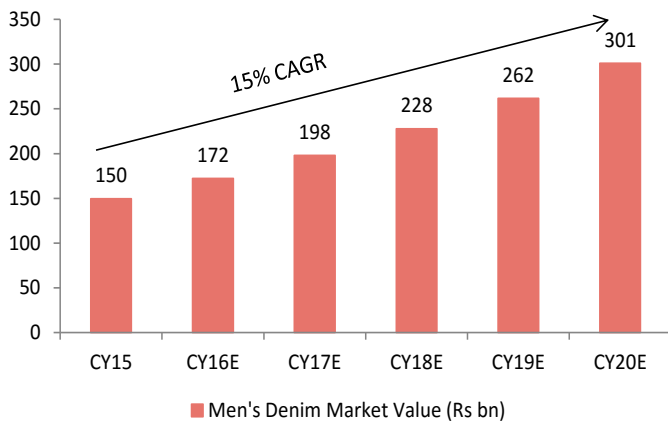
Source: Company, Sunidhi Research

Indian Denim market is dominated by Men’s category which account for 85% of total denim consumed domestically while women segment account for meager 10% and kids segment remaining 5%.

Growth Forecast for domestic Denim Market: Segment wise

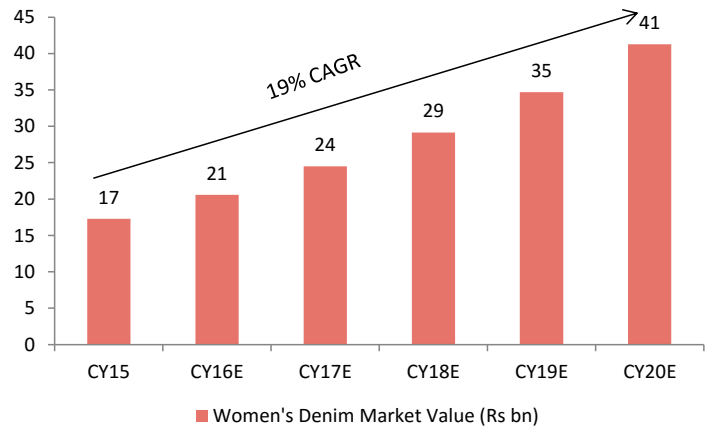
Growing urban population in India, increasing Per capita income, growing acceptance of denim as all occasion wear, pairing of denim with ethnic women’s wear, more denim based fashion wear launches for kids along with mushrooming of E- Commerce platforms are some of the key growth drivers for Denim fabric demand in India. Industry estimates suggest that between CY15- CY20 India denim retail value should grow @ CAGR of 15.4% to ₹ 361bn on the back of 15% CAGR in men’s category, 19% CAGR in women’s category and 16% CAGR in Kid’s category.

Men's Denim Market Value (₹ bn)



Source: Industry, Sunidhi Research

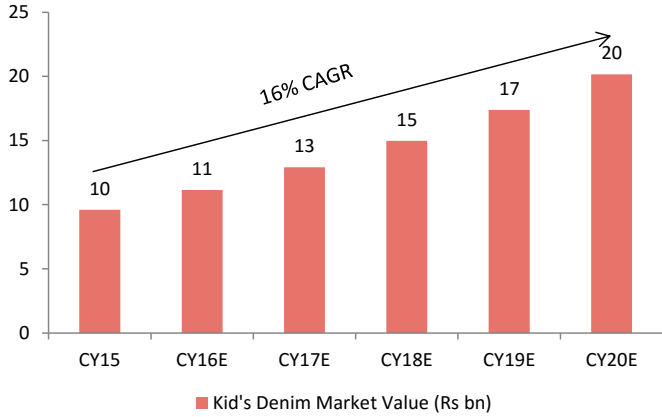
Women's Denim Market Value (₹ bn)



Source: Industry, Sunidhi Research

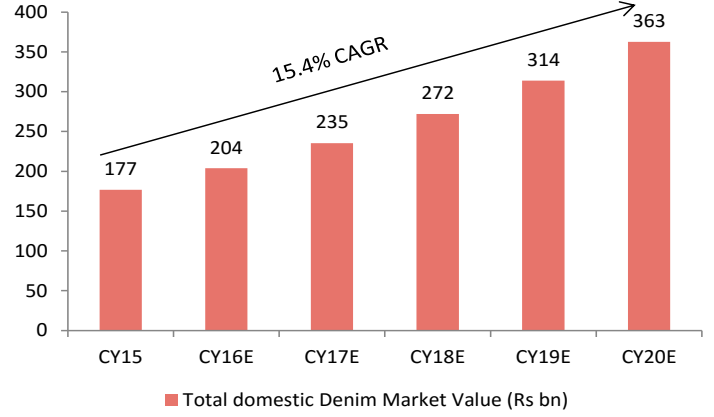


Kid's Denim Market Value (₹ bn)



Source: Industry, Sunidhi Research

Total domestic Denim Market Value (₹ bn)

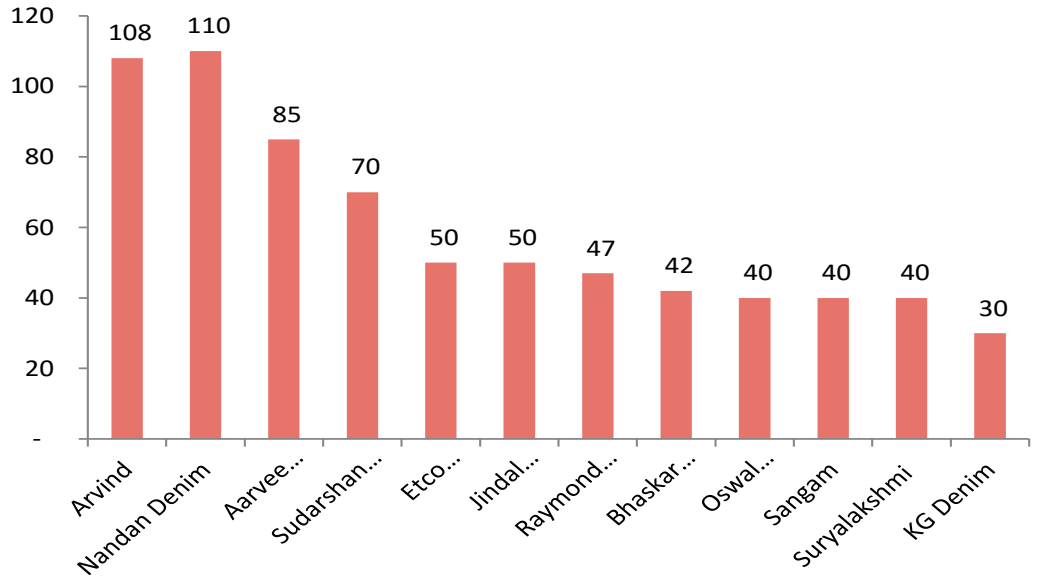


Source: Industry, Sunidhi Research

Denim supply In India:

There are 32-33 players in India with combined capacity of 1200 MMPA. Out of this top 10 command more than 50% market share while Top 3 command 1/3<sup>rd</sup> of market share. Some of the key players In Indian Denim space along with installed capacity are as follows.

Key Denim Producers in India with installed capacity



Source: Industry, Sunidhi Research

Denim Price Points:

Denim Fabric is available in wider price points of ₹80- ₹300 per meter. Denim fabric at various price points are classified as follows:

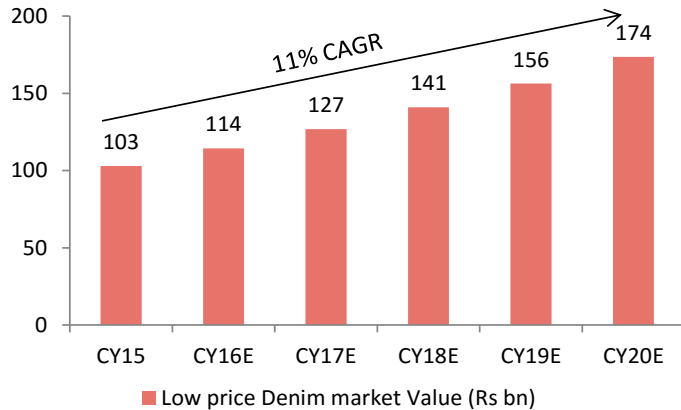
Category	Price points (₹)
Low Price Products	80-100
Mass Products	101-175
Mid Range products	176-250
Premium/ Luxury Products	250 onwards

Source: Industry, Sunidhi Research



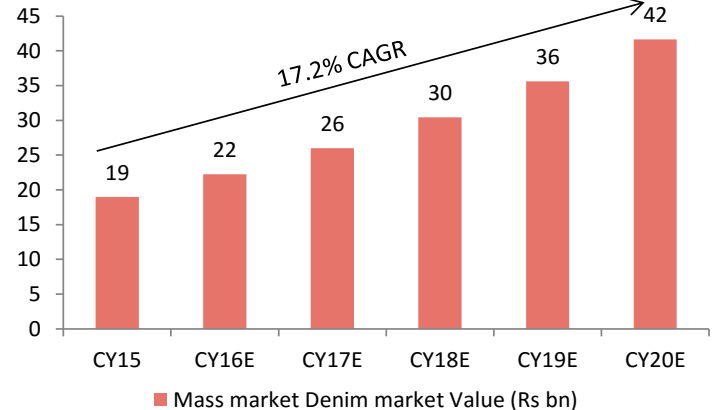
With growing income level, highest level of growth is expected to be registered in Mid and premium segment between CY15- CY20.

**Low price Denim market Value (₹ bn)**



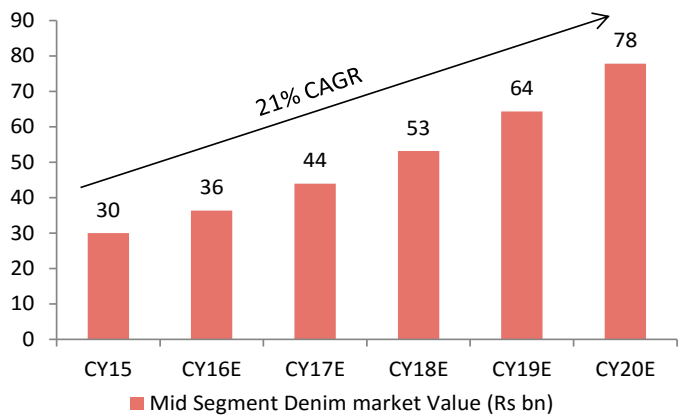
Source: Industry, Sunidhi Research

**Mass market Denim market Value (₹ bn)**



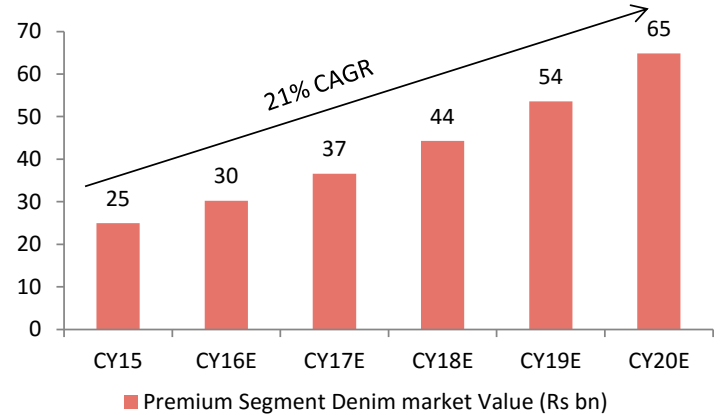
Source: Industry, Sunidhi Research

**Mid Segment Denim market Value (₹ bn)**



Source: Industry, Sunidhi Research

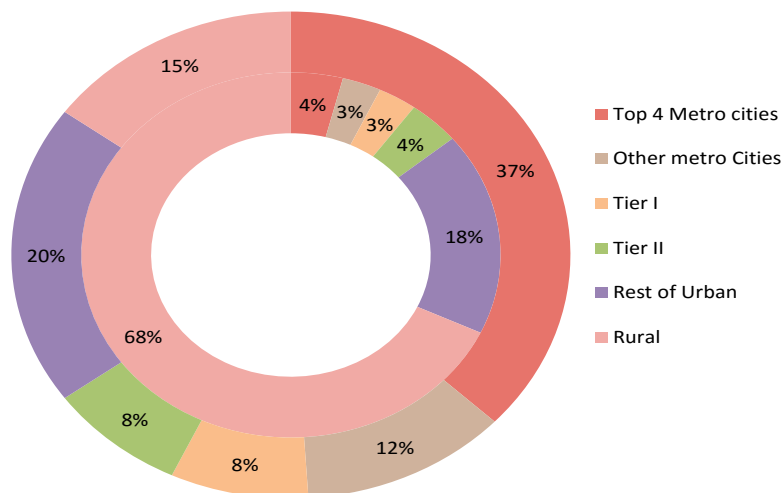
**Premium Segment Denim market Value (₹ bn)**



Source: Industry, Sunidhi Research

**Denim consumption pattern in India: Population vs consumption**

Denim uses pattern in India is very asymmetric where Top 4 metro cities consume 37% of denim in spite of having only 4% of total Population while Rural India consumes 15% of denim in spite of having 68% of total population.



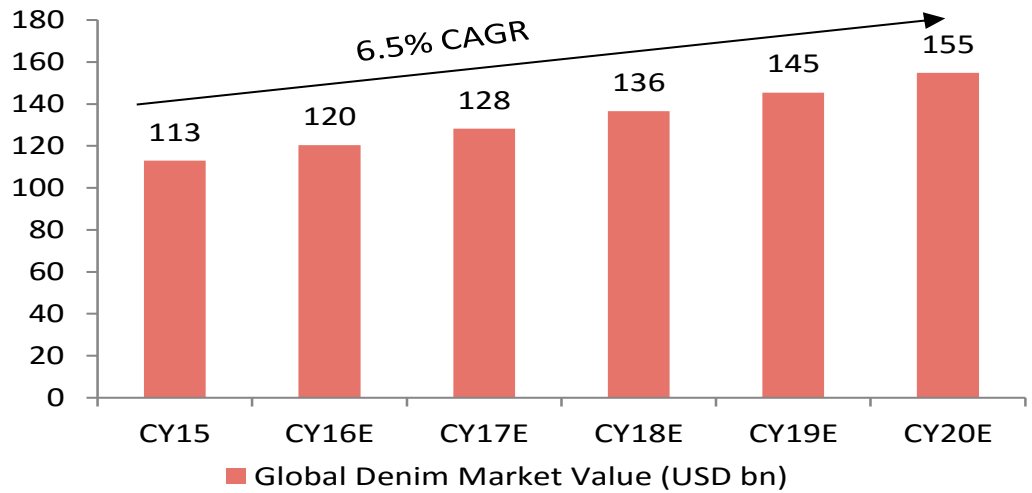
Source: Industry, Sunidhi Research



**Global Denim Market & Indian export:**

As per Industry estimates size of Global Denim market in CY 15 was USD 113 bn which is expected to grow to USD 153 bn by CY20E registering CAGR of 6.5%.

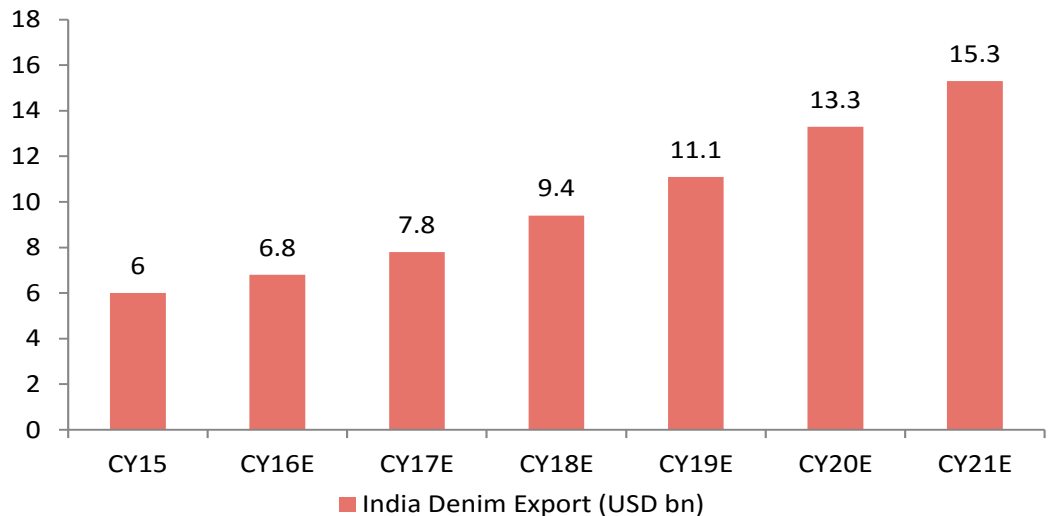
**Global Denim Market Value (USD bn)**



Source: Industry, Sunidhi Research

- Latin America, Asia and North America market size is expected to grow in absolute terms by 15%, 12% and 10% respectively during the said period.
- India is currently forth largest exporter of Denim fabric globally after China, Pakistan and Turkey . India’s competitive advantage is mainly due to its status as the largest producer of cotton globally, availability of low cost skilled manpower and various fiscal incentives offered by State and Central Government .Central Government has already rationalised the benefit for the new entries in the segment but benefits will continue to those who have been sanctioned such advantage in the past.
- From the Indian perspective Bangladesh is the biggest importer of Denim fabric accounting for more than 50% of Denim exports from India. it is followed by 50 other countries.
- Denim currently accounts for 35% of Total Cotton Textile exports from India and this proportion is set to change to 45% by CY20E.

**India Denim Export (USD bn)**

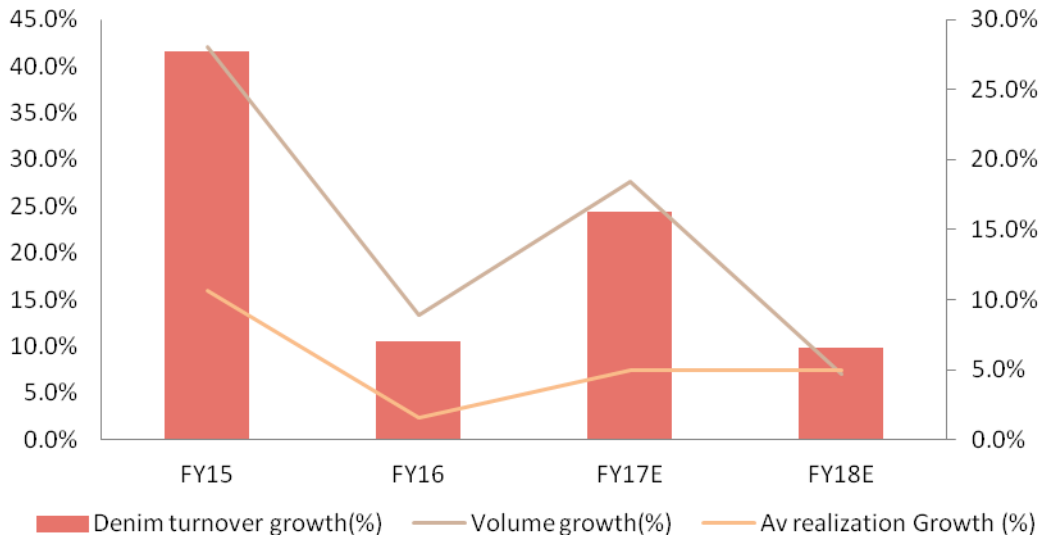


Source: Industry, Sunidhi Research



Financial Analysis:

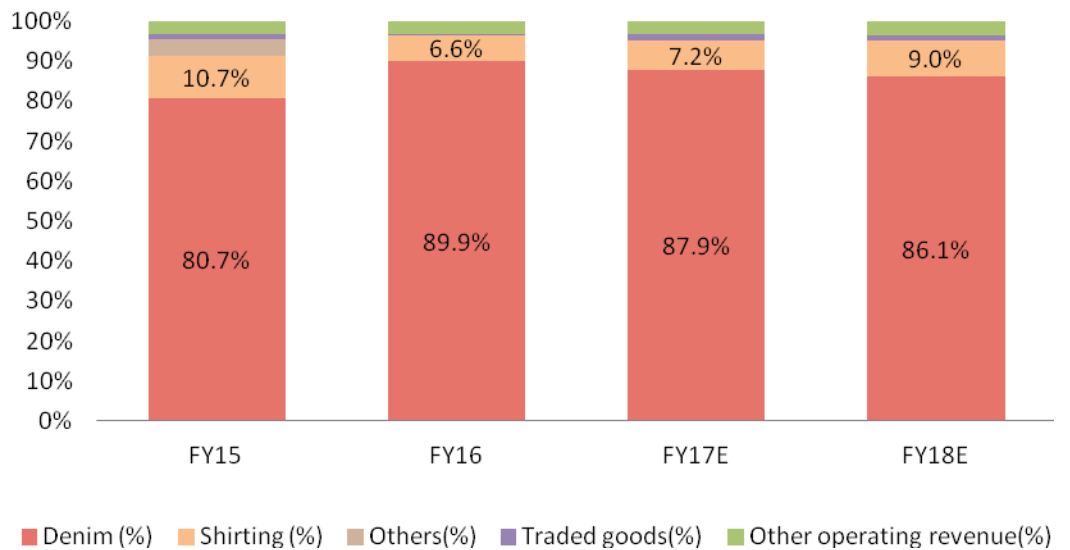
Denim- Volume vs price



Source: Company, Sunidhi Research

WE have been extremely conservative about Realization growth in Denim Fabric vis-à-vis raw price growth in cotton and yarn. This gives enough margin of safety.

Changing sales composition

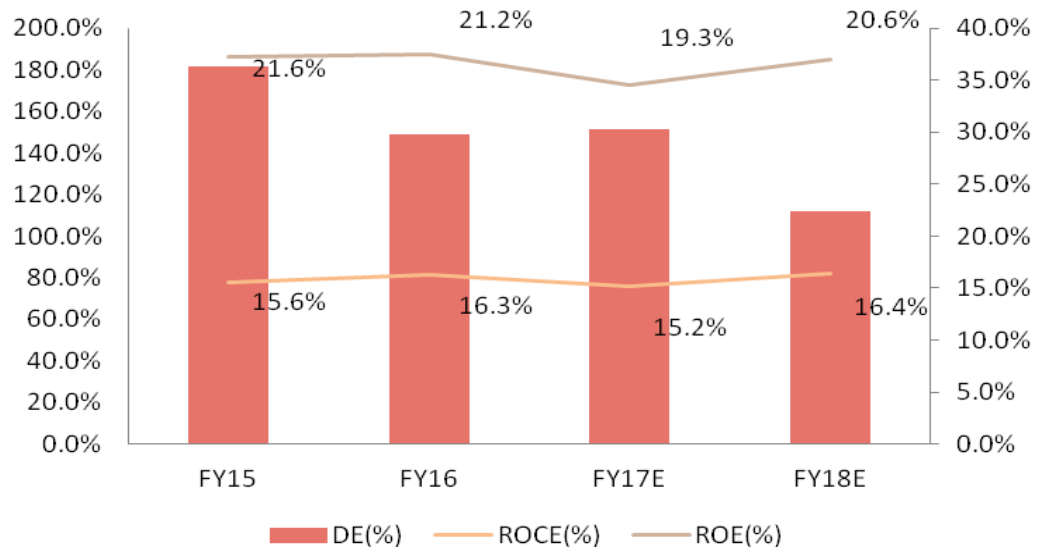


Source: Company, Sunidhi Research



Denim contribution to topline is growing to above 87% in Fy19E from close to 81% in Fy15 mainly due to capex.

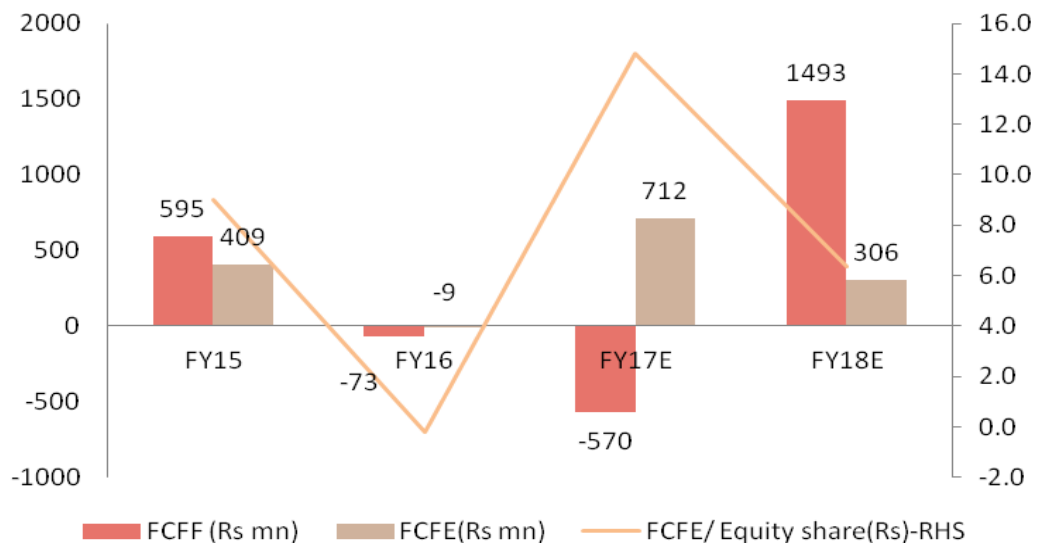
**ROE & leverage**



Source: Company, Sunidhi Research

Post capex, company is expected to show better return ratios which should also lead to improved leverage ratio.

**FCF Movement trend**



Source: Company, Sunidhi Research

FCFE is improving from FY18 onwards as capex programme is over in FY17 and new capacity has started generating cash. In spite of Debt repayment FCFCE is improving due to increasing PAT.



## Peer Comparison:

Company	Sales CAGR(%)-FY16-FY18E	PAT CAGR(%)-FY16-FY18E	EBITDA (%)			ROACE (%)			ROAE (%)			D/E
			FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	
Nandan Denim Ltd	13.7%	24.1%	16.6%	17.1%	17.8%	20.8%	18.0%	18.3%	21.2%	19.3%	20.6%	1.5
Arvind Ltd	13.0%	23.6%	13.8%	12.8%	13.0%	13.8%	14.7%	15.3%	12.5%	11.8%	13.3%	1.4
Suryalakshmi Cotton	9.8%	19.8%	14.5%	14.4%	15.0%	14.46%	11.7%	13.0%	8.9%	9.4%	10.9%	1.3
Vardhman Textiles	3.6%	15.7%	21.1%	21.5%	21.9%	17.9%	18.8%	20.6%	15.1%	23.0%	18.6%	0.8
Indocount Industries	16.6%	16.7%	22.3%	21.8%	20.9%	58.9%	36.2%	34.1%	40.2%	46.0%	36.2%	0.8
Trident Ltd	19.8%	22.3%	20.4%	20.4%	20.2%	10.1%	11.0%	13.5%	12.9%	16.4%	18.9%	1.8

Source: Bloomberg, Sunidhi Research

Company	CMP	P/E			P/B			EV/EBITDA			Div Yield (%)
		FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16
Nandan Denim Ltd	126	9.4	8.0	6.1	1.7	1.4	1.2	5.3	5.2	4.3	1.3%
Arvind Ltd	342	24.3	20.1	15.9	3.0	2.7	2.4	11.1	10.2	8.8	0.7%
Suryalakshmi Cotton	137	7.8	6.5	5.3	0.7	0.7	0.6	NA	4.8	4.1	0.9%
Vardhman Textiles	1016	11.0	9.0	8.3	1.7	1.4	1.3	6.1	6.0	5.4	1.0%
Indocount Industries	792	12.5	10.5	9.2	4.9	3.3	2.4	8.1	6.7	5.7	0.3%
Trident Ltd	56	12.6	9.4	8.1	1.6	NA	NA	7.8	6.2	5.4	1.1%

Source: Bloomberg Consensus, Sunidhi Research

## Valuation &amp; Recommendation:

At the current price of ₹126, Nandan Denim is trading at 8.0x FY17E and 6.1x FY18E Earnings, while in terms of EV/EBITDA it is quoting at 5.2x FY17E and 4.3x FY18 EBITDA respectively. Valuation looks attractive compared to peers like Arvind, Indo Count, Vardhman Textiles and Trident Ltd when compared on parameters like PAT CAGR, ROE and Dividend yield. Post completion of Capex by Q3FY17, Nandan should be able to do ROE of above 20% in a sustained manner and hence we believe 6x FY18E EBITDA is a fair value for the company, which gives us fair value of company's Equity at ₹219.

Company's Debt cost in FY18E	6.27%	Low
expected ROE in FY18E	20.63%	Superior
Hence company can be given 6x FY18E EBITDA multiple		
Target EV @ 6x FY18E EBITDA (₹ mn)	15976.8	
Target Market Cap (₹ mn)	10530.6	
<b>target price / Equity Share (₹)</b>	<b>219</b>	

Source: Sunidhi Research

At the fair value of ₹219, stock is valued at 13.9x FY17E PE and 10.6x FY18E PE and offers upside potential of 74%.



**Risk to Call:**

We have been prudent and conservative in our assumptions, yet there might be possibility of actual performance deviating in either direction. This may lead to some risk to our projection which could impact the targeted valuation of the company.

Some of the key risks are outline below.

**Downside:**

- We have assumed certain level of inflation in cotton prices in coming years and certain level of growth in Average Realization for finished product. Supply disruption of cotton crop can lead to higher raw material inflation while over capacity in domestic denim market could put pressure on average realization. Higher than anticipated raw material cost or lower than anticipated growth in average realization could pose downside risk to projected Top Line as well as bottomline.

**Upside:**

- In case, company is able to add newer customers at a faster rate or is able to sell more of the value added products, it would pose upside risk to projected topline and margin.
- Higher level of VAT reimbursement under Gujrat Textile policy could also pose upside risk to projected profitability.

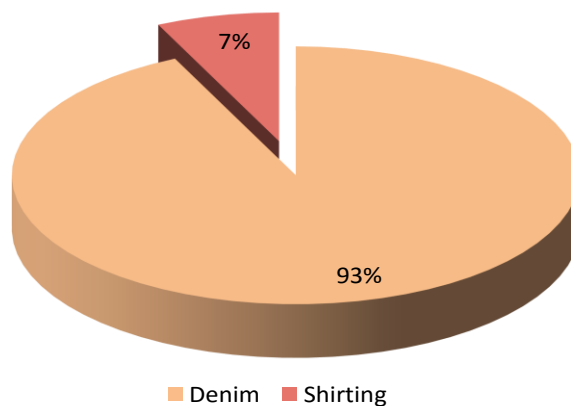
**Company Background:**

- Headquartered in Ahmadabad, Nandan Denim Ltd (Commenced Operation in 1994) is currently the second largest Denim fabric manufacturer in India with installed capacity of 99 Mn Meter Per Annum (MMPA) as on June 30, 2016.
- Company currently holds 10% share of domestic Denim Fabric market.
- Besides Denim, company also produces cotton fabrics and grey shirting fabrics as well with installed shirting capacity of 10 MMPA.
- Company has integrated Denim manufacturing facility with 70 Tons per Day (TPD) of spinning capacity and 15MW of captive power plant.
- Besides catering to key domestic brands, company also exports its products to 27 countries catering to some of the well-known Global brands.
- Killer, Spykar, Wrangler, Oxemberg, Numero Uno, Shopper’s Stop, GAP, Calvin Klein, POLO, TOMMY HILFIGER, TARGET, RALPH LAUREN are some of the leading brands where company supplies its fabric.

**Product Segment:**

Nandan Denim is mainly into cotton fabric product category. However its product basket can be divided into two broad categories - Denim and Shirting. For the year ended March 31, 2016 Segmental revenue break –up is as follows.

**FY16 Segmental Revenue (Rs Mn)**



Source: Company, Sunidhi Research



**Highlights of Product segment:**

Segment	Brief Introduction	Sales	
		FY16 Sales (₹ mn)	CAGR (%) FY14-FY16
Denim	Denim fabric mainly for bottom wear, jackets and other garments is produced and sold to various reputed brands both domestic and international.	10394	11.7%
Shirting	Company currently produces mostly grey shirting grade fabric both normal and value added products which are sold to various garment manufacturers	767	129%

Source: Company, Sunidhi Research

**Business Infrastructure:****Spinning & Weaving:**

Nandan Denim has integrated Denim manufacturing facility at Ahmedabad. Capacity details as on June 30, 2016 is as given below.

Sl. No	Product Segment	Installed Capacity
1.	Denim Fabric	99 MMPA (mn meter per annum)
2.	Shirting Fabric	10 MMPA (mn Meter per annum)
3.	Yarn	70 TPD ( Tons per day)
4.	Captive Power	15MW

**Sales & Distribution: Domestic:** Nandan has pan India network of 35-40 distributors out of which company has tie-up with 10 firms to exclusively sell Nandan Denim's products. Around 2/3 rd of orders are confirmed through long term agreements involving minimum yearly quantity commitment.

**Export :** Company exports its denim products to over 27 countries via global network of 15 distributors spread across 8 countries .These countries are New York, Columbia, Bangladesh, Thailand, Hong Kong, Dubai, Mauritius and Peru. Company also undertakes merchant exports through various star export houses to give additional boost to exports. Nandan gets 12-13% revenue from export sales.

**Business Model:**

**Business Generation:** Company's business falls under B2B category. Company's products are sold to various brands/ garment manufacturers via its 35-40 distributors. Production is made against order from Distributors and almost 2/3 rd of orders are confirmed through long term agreement involving minimum yearly quantity commitment.

**Export:** Export sales is done against firm order only. Currently exports comprises 12% of companies turnover. Further company keeps on introducing value added denim products which it tries to push with its consumers.

**Raw material sourcing:** Based on its production plan, company makes assessment of raw material requirement. Cotton is the key raw material for the company and depending upon price, quality and availability it plans its cotton sourcing strategy. On an average 65%-70% cotton is sourced from Gujrat itself due to good quality and savings in logistics cost. Some of the cotton varieties which are not available in Gujrat are sourced from other states e.g MECH variety from Maharashtra, J-34 from Rajasthan, Haryana and Punjab etc. At any given time company maintains 1-2 months of cotton inventory in order to avoid volatility in cotton prices.



**Spinning & Weaving:** Company has integrated Denim manufacturing facility at Ahmedabad which includes installed Denim capacity of 99MMPA, spinning capacity of 70TPD, Yarn Dyeing capacity of 6 TPD and captive power plant of 15MW. Thus, company not only produces finished denim and shirting fabric but also produces yarn for captive consumption as well. Company also has facility to do customized processing of fabric for discerning clients.

**Sales & Distribution:** Company's products are sold both domestically as well as globally through network of distributors. In India Company sells its products through network of 35-40 distributors out of which 10 deal exclusively into Nandan Denim products. Internationally, company has network of 15 distributors across 8 countries through which it sells its products.

**Payment Terms:** Company extends 45 days credit to domestic clients while it gives 15-20 days credit to overseas clients against letter of credit. It prefers to pay its raw material suppliers in cash in order to get cash payment discount. Cash payment to suppliers coupled with Credit to clients and 3 months inventory leads to high working capital needs for the company.

**Key Competitors:**

Some of the key players who compete with the company in the Denim Fabric market place are named below.

Arvind Ltd	Etco Jeans
Aarvee Denim	Jindal Worldwide
Sudarshan Jeans	KG Denim
Sangam	Suryalakshmi Cotton Mills

**Management Profile:**

Nandan Denim's board is heavily leaned towards independent directors and only two members of promoter's family are part of the board.

Name	Profile
Mr Vedprakash D Chiripal, Chairman	B.Com, He is the promoter of the company with more than 4 decades of experience in manufacturing, trading and export of various Textile products. Company has benefitted immensely from his foresight and knowledge of Textile sector.
Mr Brijmohan D Chiripal, Managing Director	B.E (Chemical), He has got 20 years of business experience in Textile Processing, Export and domestic trading. Company's current status as a leading Denim manufacturer is the outcome of his joint contribution with his brother and Chairman of the company.
Mr T S Bhattacharya Independent Director	MBA, M.Sc., He has 35 years of experience in the banking industry and retired as Managing Director of SBI. Holds directorship in companies like IDFC AMC, Jindal Stainless Ltd, IDFC Securities Ltd etc.
Ms Pratima Ram Independent Director	Graduate, She is banker with three decades of experience in corporate, international and investment banking, had held positions like Chief General manager and country head of US operation of SBI, CEO of South African Operation of the bank. She has versatile experience in Corporate Advisory, M&A and project appraisal.
Mr Ambalal C Patel Independent Director	B.E (Met), B.Sc, He has retired from GIDC as DGM and has vast experience in project evaluation and finance. He also holds directorship in Jindal Hotels Ltd, SAL Steel Ltd and Sumeru Steel Ltd.
Mr Giriraj Mohan Sharma Independent Director	He is a seasoned management professional with three decades of varied experience and a founder Director of Brand and strategy consultancy Boutique- Behind the Moon Consultants. Brands 'strategic positioning is his forte.
Dr Y V Verma Independent Director	B.E, PGDBA, PhD, He has three decades of experience in man management and has been the Chief operating Officer of LG Electronics India between 2009-2013. He has also been a director in Dena Bank Ltd, has been recognized for his contribution in the field of professional management.



## Valuations Summary

Year End-March	FY 14	FY 15	FY 16	FY 17E	FY18E
<b>Per share (₹)</b>					
Adj. EPS	8.2	10.7	13.4	15.8	20.6
CEPS	18.5	23.1	27.1	33.1	40.2
Adj BVPS	45.1	53.9	72.4	91.0	108.4
DPS(Adj)	1.2	1.6	1.6	2.0	2.7
Payout (%)	14.7%	15.0%	12.0%	13.0%	13.0%
<b>Valuation (x)</b>					
P/E	15.4	11.8	9.4	8.0	6.1
P/BV	2.8	2.3	1.7	1.4	1.2
EV/EBITDA	7.7	6.2	5.3	5.2	4.3
Dividend Yield (%)	1.0%	1.3%	1.3%	1.6%	2.1%
<b>Return ratio (%)</b>					
EBIDTA Margin	14.8%	15.1%	16.6%	17.1%	17.8%
PAT Margin	4.4%	4.7%	5.5%	5.7%	6.6%
ROAE	19.6%	21.6%	21.2%	19.3%	20.6%
ROACE	17.7%	20.2%	20.8%	18.0%	18.3%
<b>Leverage Ratios (x)</b>					
Gross D/E	2.1	1.8	1.5	1.5	1.1
Net Debt/Equity	2.1	1.7	1.3	1.3	1.0
Interest Coverage	2.7	2.9	3.2	3.6	4.6
Current ratio	1.2	1.3	1.3	1.6	1.8
<b>Growth Ratios (%)</b>					
Income growth	27.1%	22.7%	5.5%	15.3%	12.2%
EBITDA growth	24.1%	24.7%	16.1%	19.0%	16.5%
PAT growth	27%	31%	25%	18%	31%
<b>Turnover Ratios</b>					
Gross F.A Turnover x	1.3	1.5	1.3	1.2	1.3
Inventory Days	56.6	46.9	61.6	49.6	49.0
Debtors Days	49.6	49.0	38.6	42.9	42.9
Payable days	23.5	22.7	23.9	20.9	20.6
Net WC as %of sales	24.0%	24.0%	20.3%	19.4%	19.6%
<b>Income Statement (₹ mn)</b>					
Year End-March	FY 14	FY 15	FY 16	FY 17E	FY18E
<b>Revenues</b>	8937.5	10965.3	11567.7	13336.2	14962.7
<b>Op. Expenses</b>	7610.7	9311.0	9647.3	11051.3	12299.9
<b>EBITDA</b>	1327	1654	1920	2285	2663
Other Income	39.9	30.4	41.5	45.8	83.4
Depreciation	497.3	595.5	660.0	833.7	942.8
EBIT	869	1089	1302	1497	1803
Interest	320.3	377.1	412.0	415.1	391.0
<b>PBT</b>	549	712.1	890	1081.8	1412.3
Tax	156.0	197.9	247.9	324.5	423.7
<b>Adj. PAT</b>	393.1	514.2	642.0	757.3	988.6
Minority	0	0	0	0	0
Sh. of Associates	0	0	0	0	0
Ex. ordinary	0.0	0.0	0.0	0.0	0.0
<b>Reported Pat</b>	393.1	514.2	642.0	757.3	988.6

## Balance Sheet (₹ mn)

Year End-March	FY 14	FY 15	FY 16	FY 17E	FY18E
<b>Equity and Liabilities</b>					
Share Capital	455.5	455.5	455.5	480.5	480.5
Reserves and Surplus	1710	2134	3025	3892	4730
<b>Total Shareholders' funds</b>	<b>2166</b>	<b>2589</b>	<b>3480</b>	<b>4372</b>	<b>5211</b>
<b>Minority Interest</b>					
<b>Non-Current Liability</b>	<b>3023</b>	<b>3026</b>	<b>3411</b>	<b>5358</b>	<b>4813</b>
Long Term Borrowings	2807	2777	3182	5129	4584
Deferred Tax Liabilities (Net)	216	249	229	229	229
Long Term Liab/ Provisions	0	0	0	0	0
<b>Current Liabilities</b>	<b>2729</b>	<b>2984</b>	<b>3294</b>	<b>2830</b>	<b>2697</b>
Short Term Borrowings	1710	1931	2002	1502	1252
Trade Payables	576	683	752	763	845
other CL/Short Term Prov.	443	370	535	565	600
<b>Grand Total</b>	<b>7918</b>	<b>8599</b>	<b>10180</b>	<b>12560</b>	<b>12721</b>
<b>Assets</b>					
<b>Gross fixed Asset</b>	6704.3	7146.3	9142.1	11434.1	11834.1
<b>Net Fixed Assets</b>	<b>4523</b>	<b>4366</b>	<b>5702</b>	<b>7160</b>	<b>6618</b>
<b>CWIP</b>	<b>0</b>	<b>108</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long term Loan and Adv.	5.8	120.5	93.8	93.8	93.8
non-Current Investments/assets	159.1	128.2	95.2	645.2	1245.2
<b>Current Assets</b>	<b>3229</b>	<b>3876</b>	<b>4289</b>	<b>4661</b>	<b>4764</b>
Inventories	1385	1409	1951	1812	2009
Trade Receivables	1214	1472	1222	1569	1760
Cash and Cash Equivalents	61.4	195.8	649.0	746	389
Short Term Loans & Advances	369	393	240	276	317
Other Current Assets	200.0	405.8	226.8	257.7	288.6
<b>Grand Total</b>	<b>7918</b>	<b>8599</b>	<b>10180</b>	<b>12560</b>	<b>12721</b>
<b>Cash flow Statement</b>					
Year End-March	FY 14	FY 15	FY 16	FY 17E	FY18E
PAT	393	514	642	757	989
Depreciation	441	599	660	834	943
Interest (Net)	320	377	412	415	391
Others	-86	129	-82	-46	-83
<b>CF before W.cap</b>	<b>1068</b>	<b>1619</b>	<b>1632</b>	<b>1960</b>	<b>2239</b>
Inc/dec in W.cap	-115	-475	183	-238	-346
Op CF after W.cap	954	1145	1815	1722	1893
Less Taxes	0	0	0	0	0
<b>Net CF From Operations</b>	<b>954</b>	<b>1145</b>	<b>1815</b>	<b>1722</b>	<b>1893</b>
(Inc)/dec in F.A + CWIP	-1012	-550	-1888	-2292	-400
(Pur)/sale of Investments	-38	-32	0	-550	-600
others	20	-175	221	15	52
<b>CF from Invst Activities</b>	<b>-1029</b>	<b>-757</b>	<b>-1667</b>	<b>-2827</b>	<b>-948</b>
Loan Raised/(repaid)	502	192	476	1447	-796
Interest Paid	-320	-377	-412	-415	-391
Dividend	-64	-64	-87	-85	-115
Equity raised	0	0	250	250	0
<b>CF from Fin Activities</b>	<b>117</b>	<b>-249</b>	<b>227</b>	<b>1196</b>	<b>-1302</b>
<b>Net inc /(dec) in cash</b>	<b>42</b>	<b>138</b>	<b>369</b>	<b>97</b>	<b>-357</b>
Op. bal of cash	19	61	195	649	746
Other bank balance	0	-4	85	0	0
<b>Cl. balance of cash</b>	<b>60.9</b>	<b>195.3</b>	<b>649</b>	<b>746</b>	<b>389</b>



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The price target for a **large capstock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

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BUY	Absolute Return >20%
HOLD	Absolute Return Between 0-20%
SELL	Absolute Return Negative

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Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

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Member: National Stock Exchange (Capital, F&O & Debt Market) & The Stock Exchange, Mumbai

SEBI Registration Numbers: NSE: INB 230676436 BSE: INB 010676436

Kalpataru Inspire, Unit 1, 8th Floor, Opp. Grand Hyatt Hotel, Santacruz (East), Mumbai 400 055

Tel: (+91-22) 6677 1777 Web-site: <http://www.sunidhi.com>