



7<sup>th</sup> June, 2017

To,

|  |  |
|--|--|
| BSE Limited<br>Phiroze Jeejeebhoy Towers,<br>Dalal Street,<br>Mumbai – 400 001<br><br>Scrip Code: 532641 | National Stock Exchange of India Limited<br>Exchange Plaza, Plot No. C/1, G-Block,<br>BKC, Bandra (East),<br>Mumbai – 400 051<br><br>Scrip Symbol: NDL |
|--|--|

Dear Sir,

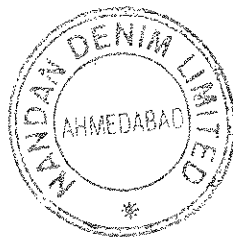
**Sub.: Research Report on Nandan Denim Limited by Ventura Securities Limited**

Pursuant to regulation 30 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015, please find attached the Research Report on Nandan Denim Limited by Ventura Securities Limited.

You are requested to kindly take the same on record.

Yours faithfully,  
For NANDAN DENIM LIMITED

**Purvee Roy**  
Company Secretary  
(Mem. No.: F8978)



**Nandan Denim Limited**  
(Formerly known as Nandan Exim Limited)  
(CIN:L51909GJ1994PLC02719)

Plant & Regd. Office:

Survey No. 198/1, 203/2, Saffipur-Guzpur, Pirana Road, Piprej, Ahmedabad-382405  
Ph.: +91 9879200199 Website: www.nandanddenim.com Email: info@nandanddenim.com

Corporate House:

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

**Target Price Rs. 175**
**CMP Rs. 132**
**4QFY19E PE 7X**

| Index Details |          |
|---------------|----------|
| Sensex        | 31,273   |
| Nifty         | 9,653    |
| Industry      | Textiles |

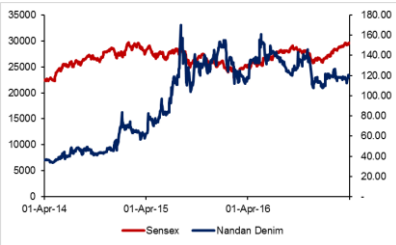
Nandan Denim Ltd (NDL) is likely to report higher profits till FY19 due to increased denim manufacturing capacity and backward integration in spinning. Central and state government incentives will improve profitability further. Denim fabric accounted for 93% of revenues in FY17.

We are optimistic about NDL's prospects given that:

- NDL is the largest denim fabric manufacturer with 110MMPA (Million Meters Per Annum) capacity in India and is 4<sup>th</sup> largest in the world. It would be serving the increasing demand of Indian and international denim market. Exports would likely account for 30% of sales in next two-three years.
- Better market response, efficient capacity utilization and cost savings on backward integration in yarn manufacturing would result in EBITDA margin improvement from 15.6% in FY17 to 18.8% in FY19.
- NDL will be eligible for interest subsidy of 5% as an integrated Spinning facility (2% for standalone facility) from Central Government. Gujarat's reimbursement of state taxes on cotton helps improve profitability and lower finance cost.
- NDL has finished major capex programme in FY17 and benefits from these assets begins from FY18. This will increase ROCE to 20.1% in FY19 from 13.8% in FY17.

| Scrip Details   |          |
|-----------------|----------|
| Mkt Cap (Rs cr) | 641.21   |
| BVPS (Rs)       | 87.4     |
| O/s Shares (Cr) | 4.80     |
| Av Vol          | 1,34,372 |
| 52 Week H/L     | 105/165  |
| Div Yield (%)   | 1.2      |
| FVPS (Rs.)      | 10       |

| Shareholding Pattern |       |
|----------------------|-------|
| Shareholders         | %     |
| Promoters            | 58.3  |
| Public               | 41.7  |
| Total                | 100.0 |

**Nandan Denim vs. Sensex**


We launch coverage with a BUY rating and a price target of Rs. 175, arrived at by applying 7X multiple to its EPS Rs. 24.6 for FY19. We believe that the phase of flat PAT for FY16-17 is now over and expect to see 64% growth in FY18 followed by 27% in FY19. This will lead to a re-rating to 7X from the current 5X. Our target price suggests a return of 32.6% from the current market price of Rs 132 over the next 12 months.

**Key Financials (Rs. in Cr)**

| Y/E Mar | Net sales | EBITDA | PAT | EPS (Rs.) | EPS Growth (%) | RoE (%) | ROCE (%) | P/E(x) | EV/EBITDA (x) |
|---------|-----------|--------|-----|-----------|----------------|---------|----------|--------|---------------|
| 2016    | 1,157     | 191    | 63  | 13.9      | 16.4           | 21.2    | 20.8     | 9.5    | 5.5           |
| 2017    | 1,220     | 190    | 57  | 11.8      | (15.2)         | 23.6    | 14.9     | 11.2   | 6.1           |
| 2018E   | 1,315     | 234    | 93  | 19.4      | 64.3           | 23.5    | 20.4     | 7.1    | 4.9           |
| 2019E   | 1,442     | 271    | 118 | 24.6      | 27.1           | 23.3    | 21.9     | 5.5    | 4.0           |

## ❖ Company Background

Nandan Denim (NDL) is a textile manufacturer and is a part of the Chiripal Group. NDL is a Gujarat based company. It is the second largest denim manufacturer in India and fifth largest in the world. NDL commenced its operations in 1994 with textile trading business and forayed into textile manufacturing in 2004. NDL is currently engaged in manufacturing denims, cotton fabrics and khakis.

## ➤ About the Promoters:

Mr. Ved Prakash Chiripal formed the Chiripal Group 1972 and it is diversified across several businesses. The Group is recognized as the Textile House that produces apparel under one roof with manufacturing facilities for texturizing, cotton spinning, denim weaving, knitting and processing.

### Chiripal Group Portfolio excluding NDL

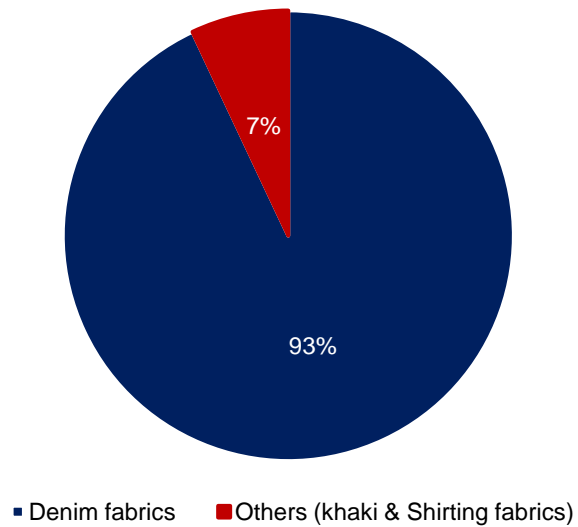
| BUSINESS DIVISION | GROUP COMPANIES   | DETAILS  |
|-------------------|---|--|
| Textiles          | (a) Chiripal Industries Ltd.<br>(b) Vishal Fabrics Ltd.   | <ul style="list-style-type: none"> <li>Fully integrated facilities for manufacturing range of products viz. woven fabrics, circular knitted fabrics, polar fleece fabrics, cotton hosiery</li> </ul>                                       |
| Chemicals         | (a) Chiripal Industries Ltd.  | <ul style="list-style-type: none"> <li>Operates two major divisions – Adhesives &amp; Specialty Performance Chemicals.</li> <li>Equipped to provide solutions to the paints, paper, leather, packaging &amp; textile industries</li> </ul> |
| Packaging         | (a) Chiripal Poly Films Ltd.  | <ul style="list-style-type: none"> <li>Two imported Biaxial orientation of polypropylene (BOPP) lines for manufacturing films capacity of 77,550 MTPA. In addition, CPFL has two Metalizers for producing metalized films.</li> </ul>      |
| Infrastructure    | (a) Shanti Developers<br>(b) Dholi Integrated Spinning Park<br>(c) Vraj Integrated Textile Park | <ul style="list-style-type: none"> <li>Operates a fully equipped industrial park for SME enterprises in the textile sector</li> </ul>  |
| Education         | (a) Shanti Educational Initiatives Ltd.   | <ul style="list-style-type: none"> <li>Runs 5 schools under the brand “Shanti Asiatic” across India with over 3,000 students.</li> </ul>   |

Source: Nandan Denim, Ventura Research

➤ **Product Portfolio**

NDL is broadly present into two segments- denim fabrics, khakis and shirting fabrics. In FY17, denim contributed to around 93% of the revenues while others are only 7%. NDL produces premium khakis having a capacity of over 10 MN meters per annum. NDL is the second largest manufacturer of denim in India. The denim fabric is available under different collections as it has the capacity to produce 110 MN meters of denim per annum.

**Product Portfolio**



Source: Nandan Denim, Ventura Research

❖ **Key Investment Highlights:**

➤ **Strong demand from Global and Indian Denim industry**

**India's Denim Market**

The denim market in India is growing at a consistent CAGR of 15%–18% despite a slowdown in apparel exports and domestic market growth. The industry's future looks promising due to the following factors:

- Rising disposable incomes
- Rapid growth of the retail sector
- The westernization trend prevalent in India
- Booming internet retailing sector
- Young population demographics (15-29-year-old) with higher spending power
- A wide range of consumer segments that consider denim as an apparel of choice owing to its comfort and style
- Favored preference for denim amongst youth owing to its versatile association
- Increasing usage of denim products by women and youth in smaller cities and rural India

For a majority of the Indian youth, denim is not just a casual wear, but more of a fashion statement. Almost 85% of the market by value is dominated by men, with 10% contribution from the women segment and the kids segment contributing about 5% of the market.

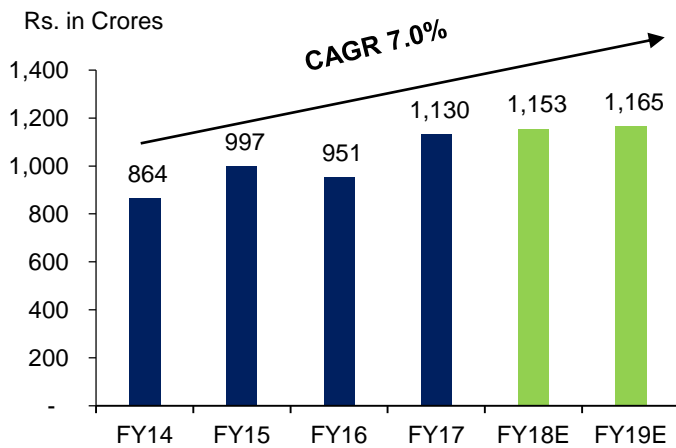
NDL has one of the largest domestic distribution networks, which will make it possible to extend into unexplored markets (due to capacity constraint) from a competitive perspective. NDL will not find it challenging to market additional production. Addition of value-added products will enable NDL to reach customers where it was earlier unable to match qualitative parameters.

**International Denim Market**

The Indian denim industry is also looking to increase its share of exports from the current 35%. The position is strengthened with the cotton availability advantage as compared to other sizable producers in the world, who have to import it from other producing nations. Increase in additional denim manufacturing capacities, encouraging textile policies and favorable exchange rate movement will help India achieve a significant export growth. The domestic and export ratio is expected to change from 65:35 to 55:45 by 2020.

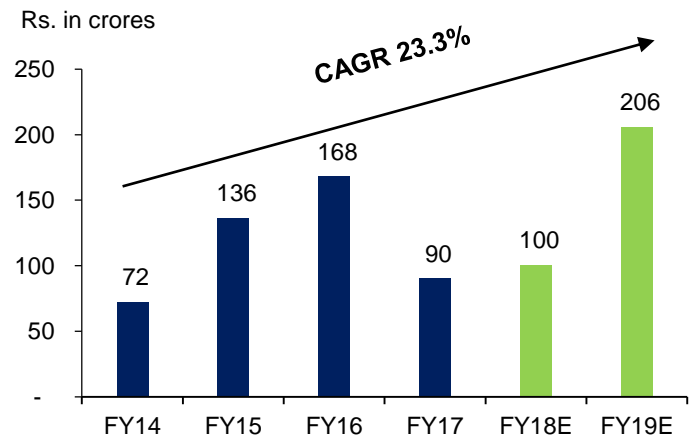
NDL Denim has got one full-fledged export department to cater to the export markets. NDL intends to increase its share of exports from 15% to 30% over the next 2-3 years through a focused approach that could widen marketing opportunities.

### India Denim Sales



Source: Nandan Denim, Ventura Research

### Export Denim Sales



Source: Nandan Denim, Ventura Research

#### ➤ Strategic Location of Manufacturing Facilities

NDL is located in Ahmedabad in Gujarat state, the textile hub of India. It is the largest producer of denim fabric (65- 70%) in India and third largest in the world. Gujarat is also the largest producer of cotton in India with ~31% share. Ahmedabad has infrastructure connectivity through roads, rail, airport and ports.

NDL has the location advantage of being in close proximity to machinery vendor, fabric dealers and leading garment manufacturers resulting in faster delivery and services. Proximity to the market also helps in lowering the marking and transportation overheads for NDL.

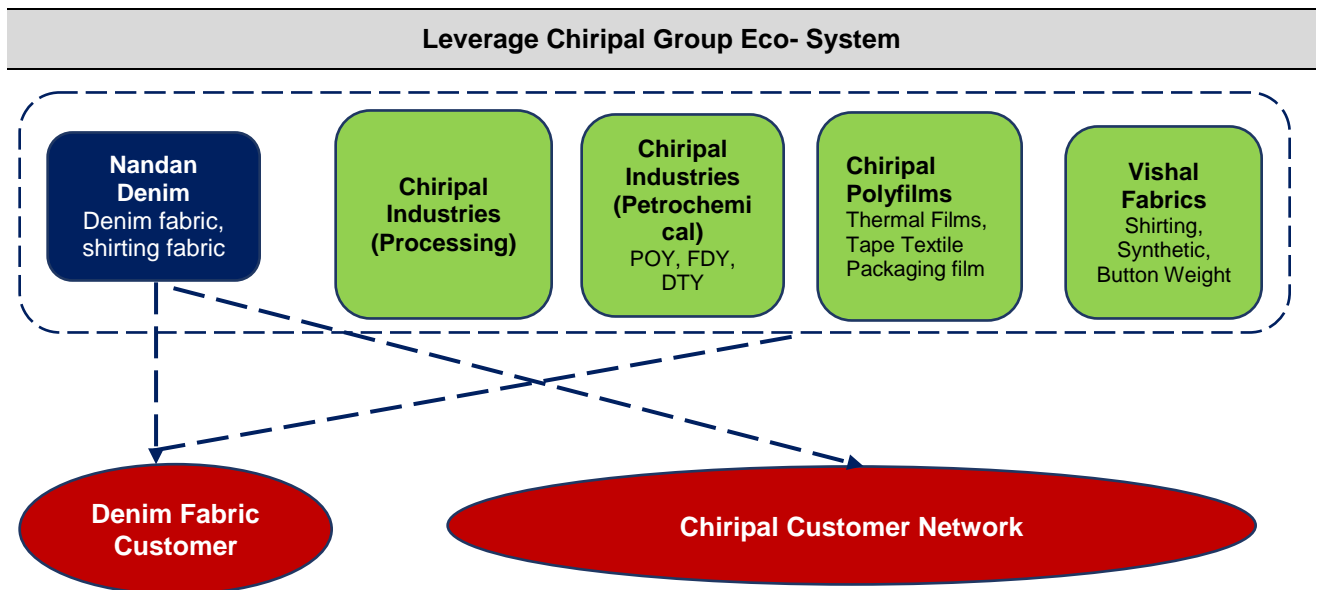
NDL has an advantage of low cost of production as raw material i.e. cotton, is easily available in Gujarat. Gujarat meets around 70% of the cotton requirement of Nandan Denim. There is an uninterrupted power supply in state of Gujarat. Easy availability of skilled and unskilled labour in Gujarat is another advantage for NDL.

#### ➤ Leveraging the market network of Chiripal Group

NDL is leveraging the agent based domestic and global network of the Chiripal Group. NDL has a pan- India network of ~35-40 distributors associated for almost a decade. NDL

has strategic tie-ups with 10 firms to exclusively sell NDL products. 2/3<sup>rd</sup> of the orders are confirmed through long term agreements involving minimum yearly quantity commitment.

NDL has a global network of ~15 distributors spread across 8 countries- Peru, Mauritius, Hong Kong, Dubai, Thailand, Bangladesh, New York and Columbia. It exports denim fabrics to over 27 countries across the globe. The merchant's exports through various export houses to give an additional boost to exports.



Source: Nandan Denim, Ventura Research

➤ **Beneficial Policies of the Central and State Government**

**Central Textile policy (Technology Upgradation Fund Scheme)**

The Government of India (GoI), Ministry of Textiles (MoT), introduced Technology Upgradation Fund Scheme (TUFS) for Textile and Jute Industries on April 1, 1999. The objective of the TUF Scheme is to leverage investments in technology up gradation with a special emphasis on balanced development across the value chain. It aims at providing capital for modernization of Indian textile industry at international interest rate.

Segments such as spinning, cotton ginning & pressing, silk reeling & twisting wool scouring, combing and carpet industry, synthetic filament yarn texturizing, crimping and twisting, Viscose Filaments Yarn (VFY)/ Viscose Staple Fiber (VSF), weaving/knitting, fabric embroidery and technical including non-woven, garment, design studio, made-up manufacturing, processing of fibers, yarns, fabrics, garments and made-ups and the jute

industry is eligible to avail subsidy under this Scheme for their technology upgradation requirements. NDL gets 5% interest subsidy and 10% capital subsidy for 7 years under the Central Textile policy.

### **Gujarat Textile policy**

The Gujarat government has introduced benefits to the textile sector to attract investments in textile sector in the state. In addition to the interest subsidy by the Central Government through TUFS, the Gujarat government offers additional interest subsidy for 5 years: 7% on spinning & garment facilities, 6% on Technical textiles and 5% on all other facilities. The policy provides power tariff subsidy at Re. 1 per unit for 5 years, VAT reimbursement for 8 years and 100% stamp duty reimbursement.

NDL is entitled to these subsidies and reimbursement under Central as well as Gujarat policies. Thus, these benefits give a boost to the overall profitability of the company. Management expects VAT reimbursement (for cotton purchased from Gujarat traders) up to Rs. 400 crores (over next several years) on the capex of Rs. 612 crores FY18E onwards which would be reflected as operating income.



**Key Benefits from Gujarat and other states policies**

| Textile Policy                                  | Gujarat  | Karnataka  | Maharashtra                       | Rajasthan  | Madhya Pradesh                                       |
|---|--|--|-----------------------------------|--|--|
| <b>Interest Subsidy</b>                         | 7% for Spinning unit, 6% for technical textiles, 5% For others without any ceiling   | -  | 12.5% without any ceiling.        | 5% with an additional 1% on investment > Rs. 250 mn. 7% for technical textiles | 5% for standalone units and 7% for integrated units. |
| <b>Capital Subsidy</b>                          | -  | Lower of 20% of assets value or Rs 2 mn. Additional subsidy of lower of 5% of assets value or Rs 0.5 mn for units in designated textile parks. | 10% for new projects.             | -  | 25% for new machinery                                |
| <b>Power Subsidy</b>                            | @ Rs 1/unit for 5 years  | @ Rs 1/unit  | -                                 | -  | -  |
| <b>Stamp Duty Reimbursement</b>                 | 100% reimbursement   | 100% reimbursement   | -                                 | 50% exemption.   | -  |
| <b>VAT/Entry Tax Reimbursement</b>              | For 8 years  | Yes  | -                                 | 60% reimbursement.   | VAT and CST reimbursement or 8 years                 |
| <b>Common Infra/ Textile Park/ Cluster Devp</b> | 50% with max limit of Rs 100 mn (Rs 300 mn) for spinning park of total project cost. | 10% - 40% of the project cost depending upon the zone and project size (Rs 100-200 mn)   | Interest subsidy for textile park | -  | -  |

Source: Nandan Denim, Ventura Research

➤ **Margin improvement due to capacity expansion**

NDL has increased its denim fabric manufacturing capacity, spinning capacity and shirting capacity. The total Capex was Rs. 612 crores and was incurred in FY16-17. It was funded through the Debt/ Equity ratio of 2.4:1.

The Capex includes expansion of denim capacity from 99 million meters per annum (MMPA) to 110 MMPA; adding a shirting capacity of 10 MMPA and backward integrating by increasing spinning capacity from 64 tons per day to 141 tons per day.

Efficient capacity utilization would result in EBITDA margin improvement from 14-15% to 19-20% till FY20. The expanded capacity would help to provide a wider product range and effectively tap the increasing demand from both Indian and international market.

➤ **Improvement in the operational flexibility**

We expect improvement in the operational flexibility and overall profit margins due to integrated facility and backward integration by NDL. Integrated facility will help NDL to service the increasing market demand. Faster and timely executions would be possible due to limited dependency on the external factors along the value chain. NDL will be able to achieve optimum capacity utilization and also maintain consistency and high standards expected by the clients.

NDL has expanded its spinning capacity from 64 tons per day to 141 tons per day. It plans full backward integration in FY18. This backward integration would help it meet significant percentage of yarn requirement in-house which would increase the margins and give more control on the supply chain. Expanded spinning capacity will meet the captive yarn requirement resulting in higher operating margins. The cost of cotton yarn would be ~Rs. 150/kg, about 15% lower compared to the raw material purchased from the market. This would help in better management of the working capital and improve the operational efficiencies.

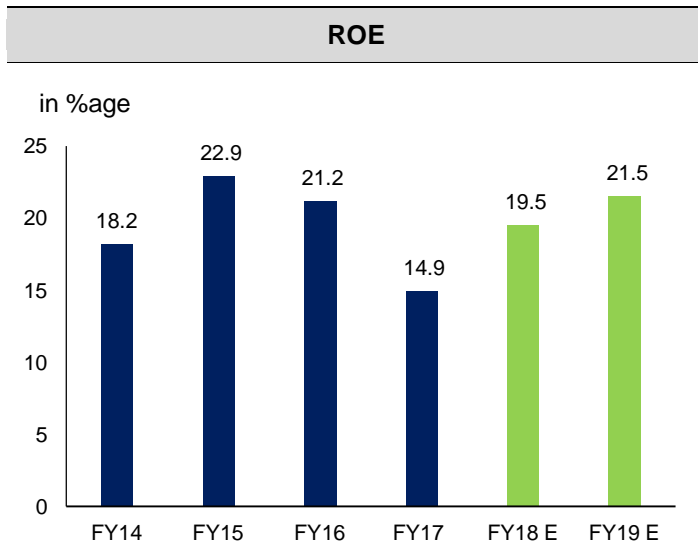
**In-house production of yarn can result in ~15% cost savings**

| Spinning Economies                        |              |
|---|--------------|
| COST PER KG OF CAPTIVE YARN               |              |
| Cotton yarn                               | 1.14         |
| Cotton Blended Price (Rs/kg of cotton)    | 112.0        |
| Transport Cost (Rs/kg of cotton)          | 1.0          |
| Commission (Rs/kg of cotton) @0.5%        | 0.6          |
| VAT on Cotton @ 5% (Rs/kg of cotton)      | 5.6          |
| Electricity Cost (Rs/Kg)                  | 11.0         |
| Electricity required (Kwh/kg)             | 1.7          |
| Electricity Cost (Rs/Kwh)                 | 6.4          |
| Labour and other Costs (Rs/kg)            | 2.7          |
| <b>Total Cost of Captive Yarn (Rs/kg)</b> | <b>148.7</b> |
| COST PER KG OF MARKET YARN                |              |
| Cost of Market Yarn (Rs/kg)               | 165.0        |
| Transport Cost - Market Yarn (Rs/kg)      | 1.0          |
| VAT on Market Yarn @ 5% (Rs/kg)           | 8.3          |
| Commission (Rs/kg of Yarn) @0.5%          | 0.3          |
| <b>Total Cost of Market Yarn (Rs/kg)</b>  | <b>175.1</b> |

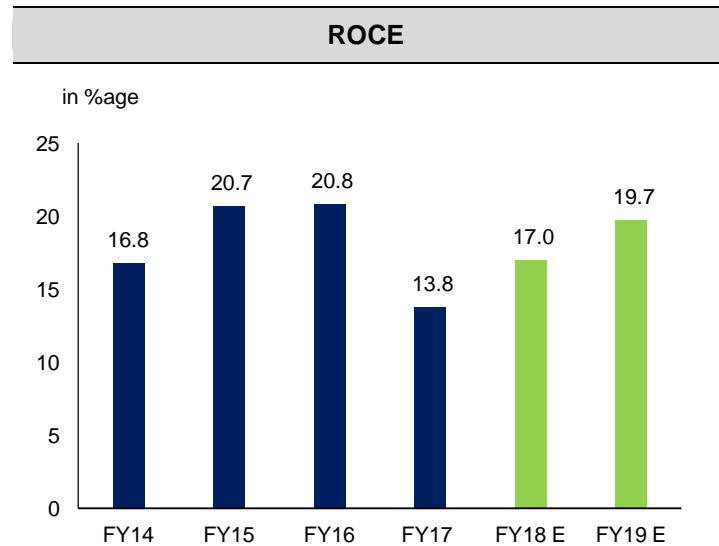
Source: Nandan Denim, Ventura Research

### Asset Turnover and Return ratios

NDL is expected to improve its asset turnover with the increase in the sales and improvement in the margins post expansion. This would result in better operating leverage and improved return ratios. The ROE is expected to improve from 14.9% in FY17 to 21.5% in FY19E and the ROCE is expected to improve from 13.8% in FY17 to 19.7% in FY19E supported by improved profitability and efficient capital deployment.



Source: Nandan Denim Presentation, Ventura Research



Source: Nandan Denim presentation, Ventura Research

## ❖ **Global Denim Industry:**

The denim segment has always reigned as one of the leading segments in the fashion industry. The blue denim has been a wardrobe staple and a fashion essential for decades. According to NDL, global denim industry is expected to grow at a CAGR of over 6.5% during 2015 to 2020, with the market value expected to increase from \$113 billion to \$153 billion. In terms of pricing behavior, the growth is expected to be the highest in the Premium and Super Premium categories of the denim products with smaller base numbers. The Latin Americas and Asia are expected to lead the growth in the segment.

### **Growth Forecast**

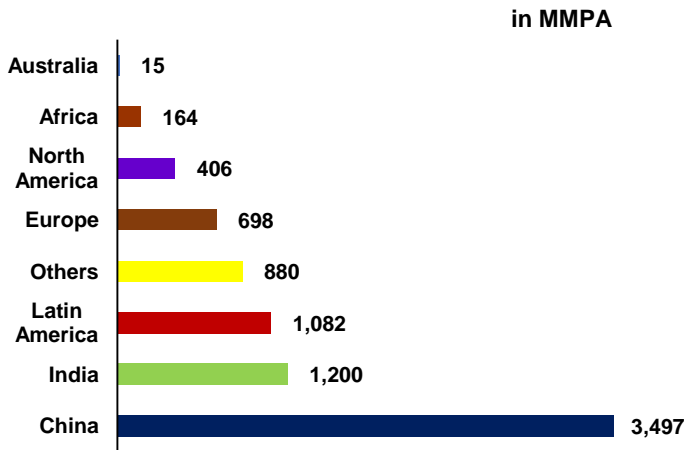
Global market for Denim Jeans is forecast to reach \$153 billion by 2020, driven by increasing disposable income, westernization of work culture and the ensuing rise in popularity of denim jeans as business casual wear. Denim jeans have presently become a necessity and an essential wardrobe staple, as it provides comfort and has a longer life span, compared to other apparels. Currently, jeans are available in a variety of colours and styles to suit various consumer needs. Denim jeans have also demonstrated their capability to transcend beyond age and gender barriers. It represents an evergreen fashion trend and is widely endorsed by a number of fashion models. Growth in the market is influenced by economic, social and demographic trends. Growing penetration of casual wear in the workplace as a result of the retirement of aging baby boomers, and a parallel rise in young professional workforce is benefitting growth in the market.

## ❖ **Indian Denim Industry:**

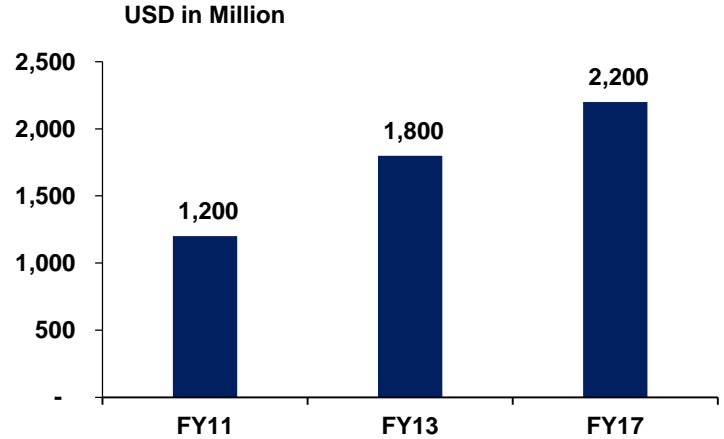
NDL reports that India is the 2nd largest denim manufacturer in the world with 1,200 MPA capacities, next only to China with 3,497 MPA capacity. The installed capacity is expected to increase to 2000 million meters in by FY18 owing to the huge demand of the fabric. India's share in the overall denim manufacturing capacities is ~10%, at present its share in the global jeans trade works out to 2.5%. In terms of retail sales, due to the popularity of denims in India, Denim wear market is expected to register a retail value figure of Rs. 361 billion by 2020 from the level of Rs. 177 billion in 2015, growing at a consistent CAGR above 15%.

### **Demand for Indian denim**

According to NDL, the demand for Indian denim has witnessed a robust growth over the past four years, growing at a CAGR of 23.6% during this period. The per capita consumption of denim is the lowest in India – at 0.3 pairs per person, showcasing the vast growth opportunity. The denim market will register a CAGR of 15-18% in the next 5 years, significantly outpacing the global denim apparel market CAGR growth of 3-5%.

**2<sup>nd</sup> Largest Denim Fabric Capacity in the World**


Source: Nandan Denim Presentation, Ventura Research

**Indian Denim Apparel**


Source: Nandan Denim presentation, Ventura Research

India is set to establish as the global denim fabric and apparel production hub. It is the 4<sup>th</sup> largest fabric exporter in the world. Advantages to India:

- Low cost and competitive currency.
- Favorable government textile policies.
- China's decreasing competitive edge.

**Growth drivers of the Indian denim industry**

- Domestic denim manufacturing is picking up pace with emergence of large and improved units.
- Fast-growing youth and urban population and more people wearing the fabric to the workplace.
- The young generation (either gender) has accepted denim as "normal" wear rather than a "functional" wear.
- Current domestic market is dominated by metro cities that account for almost two-third of consumption, while having got less than 10% of national population.
- With ever-expanding retail network of distribution and higher per capita income at disposal in Tier II & III towns, the availability of denim will register an improvement, leading to higher penetration.

- The multiple price-point strategy of branded jeans is further fueling growth. With affordable availability of better fabrics to 90% of the Indian population, the segment is bound to register growth.
- The rising number of working women, lifestyle changes and the evolving western culture has driven the demand for western wear, specifically jeans, amongst women in India.
- Growing brand awareness and consciousness has given push to the organized denim market

### SWOT Analysis of Indian Denim Industry

#### Strengths:

Existence of sufficient productive capacity.  
 Managements with professional and business background.  
 Existence of qualified technical personnel.  
 Easy availability of raw materials.  
 Large domestic market.  
 Abundant availability of excellent quality cotton suitable for denim.

#### Weaknesses:

Non-availability cost efficient skilled labour.  
 Not ready for diversification of products.  
 Cost based market set up.

#### Opportunities:

Growing domestic and international demands.  
 Indian market is most reliable and efficient market for US, Europe & UK. Buyers.  
 Product mix and product diversification.

#### Threats:

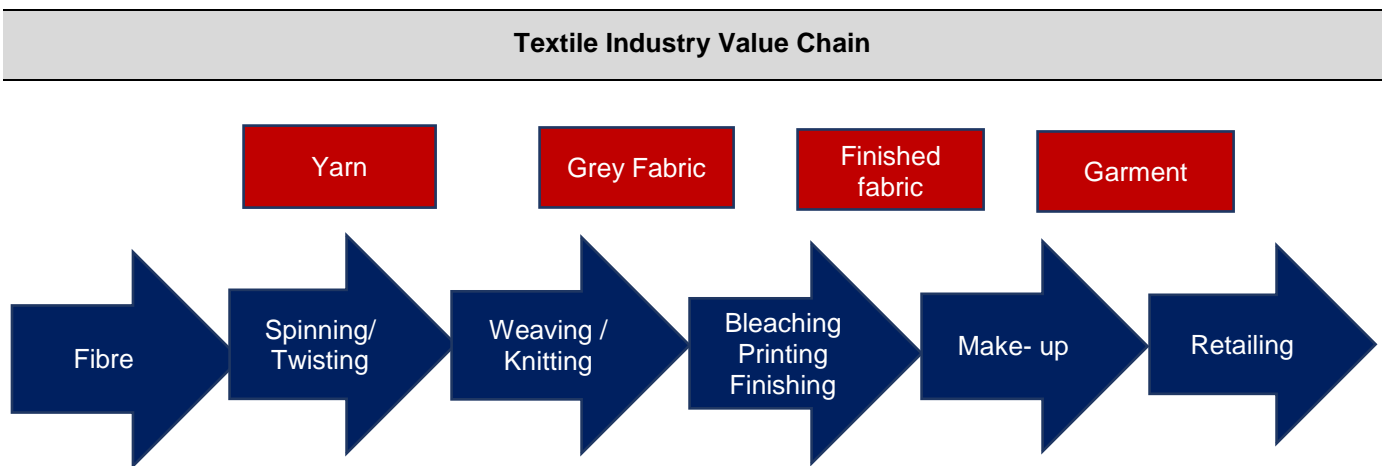
Entry of multinational in domestic markets.  
 Demand supply mismatch, resulting into oversupply position in Domestic Market.  
 Stiff competition from other Asian countries such as China, Indonesia, Thailand, Bangladesh and Pakistan.  
 Fast changing fashion and fabric demands.

Source: Company presentation, Ventura Research

❖ **Impact of Cotton on Denim**

Denim is predominantly a cotton fabric. Cotton prices impact cotton yarn the most. Yarn prices have a cascading effect on fabric. The higher the product is in the value chain, the higher is the insulation from volatility of cotton prices.

NDL has not entered the highest value-added segment of garments. As a result, it is exposed to cotton price volatility. It tries to pass on the increased cost of cotton to its customers but there could be time lag and it may have to absorb some of the cotton price increase itself.



Source: Company presentation, Ventura Research

## ❖ Key Risks

1. **Industry Risk:** Slowdown in the denim industry could impact business growth
2. **Competition risk:** Growing capacities by existing players and new players entering the denim market could adversely affect realizations and business profitability.
3. **Geographic risk:** An overdependence on a single geography could impact business growth going forward.
4. **Raw material risk:** Non-availability of adequate cotton and volatility in the prices of cotton could impede business profits and prospects.
5. **Quality risk:** Inability to match the stringent quality standards of leading retail brands consistently could impact product offtake.
6. **Working capital risk:** Increased business scale would necessitate increased working capital requirement.



## ❖ Financial Performance

NDL reported a growth in revenues by 29.8% YoY in 4QFY17 to Rs. 382 crores from 294 crores in 3QFY16. The problem faced by the company due to demonetization is over.

EBITDA for 4QFY17 was reported at Rs. 60 crores as against Rs. 47 crores in 4QFY16, a growth of 28%. The EBITDA margins stood at 15.8% for 4QFY17 vs 16% in 4QFY16 due higher raw material prices as the industry supply chain faced difficulties post demonetization and increasing cotton prices. The depreciation has increased due to the completion of the capex in this quarter.

PAT declined by 5.7% YoY to Rs. 16 crores in 4QFY17 as against Rs. 17 crores in 4QFY16. The operating conditions are expected to be normalized from 1QFY18 with the reducing effect of demonetization.

### Quarterly Financial Performance (Rs. in crores)

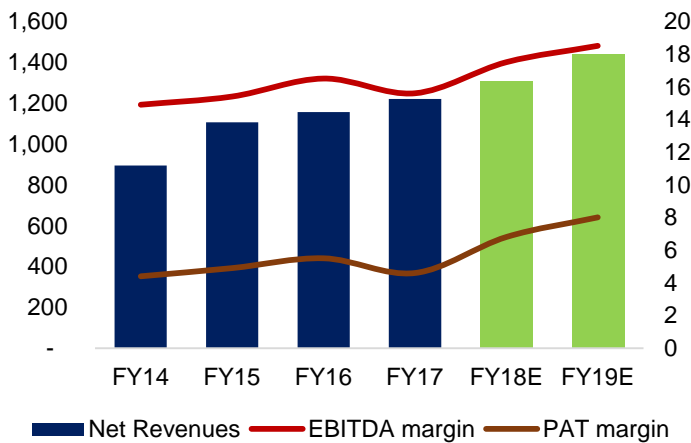
| Description               | 4QFY17      | 4QFY16      | FY17         | FY16         |
|---------------------------|-------------|-------------|--------------|--------------|
| <b>Net Sales</b>          | <b>382</b>  | <b>294</b>  | <b>1,220</b> | <b>1,157</b> |
| <i>Growth (%)</i>         | <i>29.8</i> |             | <i>5.5</i>   |              |
| Total expenditure         | 322         | 247         | 1,030        | 966          |
| <b>EBITDA</b>             | <b>60</b>   | <b>47</b>   | <b>190</b>   | <b>191</b>   |
| <i>Margin (%)</i>         | <i>15.8</i> | <i>16.0</i> | <i>15.6</i>  | <i>16.5</i>  |
| Depreciation              | 35          | 16          | 86           | 66           |
| EBIT (Ex. Other Income)   | 25          | 31          | 104          | 125          |
| Non-operating Income      | 1           | 2           | 2            | 4            |
| <b>EBIT</b>               | <b>26</b>   | <b>33</b>   | <b>106</b>   | <b>129</b>   |
| <i>Margin (%)</i>         | <i>6.8</i>  | <i>11.1</i> | <i>8.7</i>   | <i>11.2</i>  |
| Finance Cost              | 13          | 11          | 36           | 41           |
| Exceptional Items         | -           | -           | -            | -            |
| <b>PBT</b>                | <b>13</b>   | <b>21</b>   | <b>70</b>    | <b>88</b>    |
| <i>Margin (%)</i>         | <i>3.5</i>  | <i>7.3</i>  | <i>5.7</i>   | <i>7.6</i>   |
| Prov. For Tax             | -3          | 5           | 13           | 25           |
| <b>Reported PAT</b>       | <b>16</b>   | <b>17</b>   | <b>57</b>    | <b>63</b>    |
| <i>Margin (%)</i>         | <i>4.2</i>  | <i>5.6</i>  | <i>4.6</i>   | <i>5.5</i>   |
| <b>Share of Associate</b> | -           | -           | -            | -            |
| Minority Interest         | -           | -           | -            | -            |
| <b>Profit after Tax</b>   | <b>16</b>   | <b>17</b>   | <b>57</b>    | <b>63</b>    |
| <i>Margin (%)</i>         | <i>4.2</i>  | <i>5.6</i>  | <i>4.6</i>   | <i>5.5</i>   |

Source: Nandan Denim, Ventura Research

❖ **Financial Outlook**

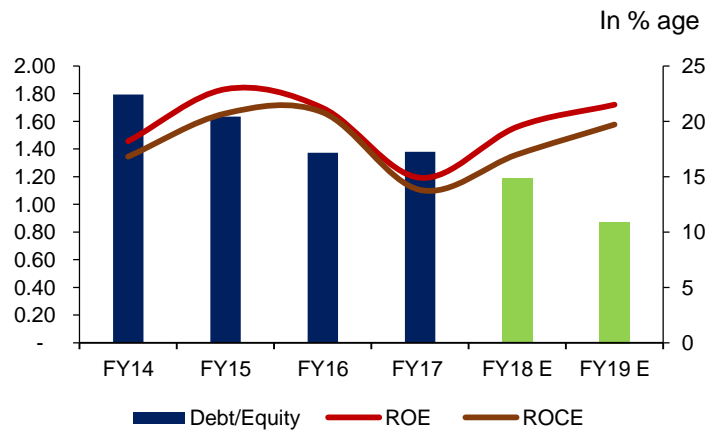
NDL is expected to maintain its revenue growth track at a CAGR of 9% for FY17-FY19E because of a) grip on denim business b) efficient capacity utilization and c) cost savings on captive yarn. We expect the EBITDA margins to reach around 19% in FY19E due to the reduction in expenses. The net profit is expected to grow at a CAGR of 42.5% for FY17-FY19E with higher ROE and ROCE.

**Growing Revenues margin and EBITDA margin, PAT**



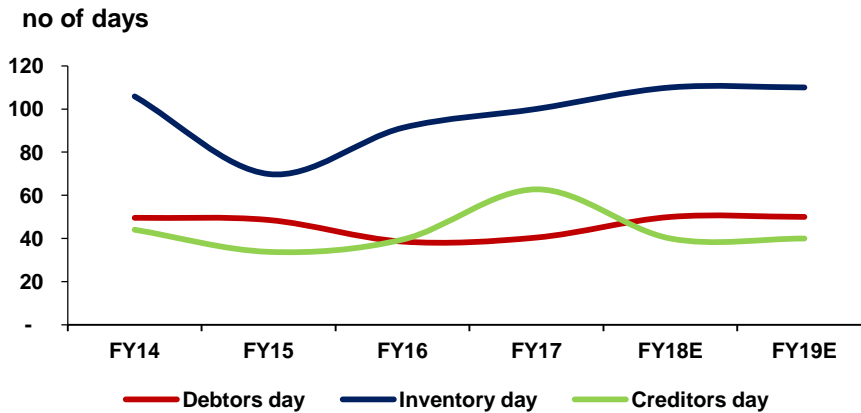
Source: Nandan Denim, Ventura Research

**ROE, ROCE and Debt to Equity**



Source: Nandan Denim, Ventura Research

**Stable Working Capital going ahead**



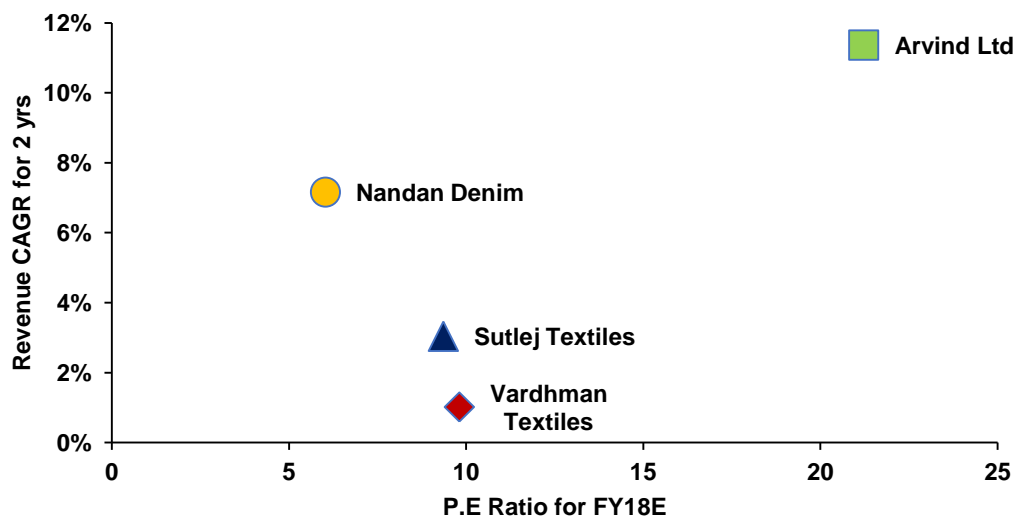
Source: Nandan Denim, Ventura Research

## ❖ Valuation

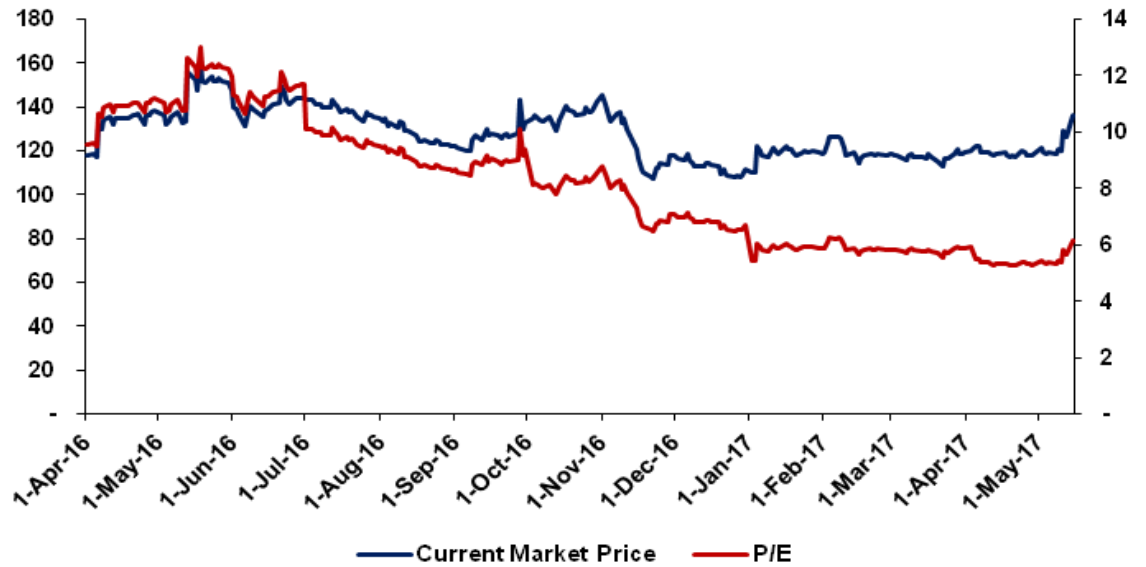
We initiate coverage on Nandan Denim Ltd as a BUY with a price objective of Rs. 175. This represents a potential upside of 32.6% from the CMP of Rs.132. At the CMP of Rs. 132, the stock is trading at 7.1X and 5.5X its estimated earnings for FY18 and FY19. We have assigned a PE multiple of 7X on the Mar 19 EPS of Rs. 24.6 to arrive at the target price. We are optimistic about the company due to:

- Strong earnings momentum.
- Improvement in the operating margins and operational flexibility.
- Higher ROE and ROCE going forward

### Attractive Valuation along with High Growth



Source: Ventura Research

**Share Price & P/E**


Source: Ventura Research

From FY13 to YTD, NDL's P.E. has ranged from 2.5X to 13X. Considering the PAT and overall growth over FY16-FY19E, we are assigning P.E. multiple of 7X for March-19E (EPS at Rs. 24.6)

**Peer Comparison for Financial performance with estimates**

| In Rs Mn                 | Sales  | EBITDA | PAT | EBITDA Mgn | PAT Mgn | EPS   | ROE (%) | P/E (x) | P/BV (x) | EV/EBITDA (x) |
|--------------------------|--------|--------|-----|------------|---------|-------|---------|---------|----------|---------------|
| <b>Indian Peers</b>      |        |        |     |            |         |       |         |         |          |               |
| <b>Arvind Ltd</b>        |        |        |     |            |         |       |         |         |          |               |
| FY17                     | 9,236  | 928    | 314 | 10.1       | 3.4     | 12.1  | 9.0     | 31.3    | 2.6      | 13.7          |
| FY18E                    | 10,424 | 1,109  | 438 | 10.6       | 4.2     | 17.1  | 11.8    | 22.2    | 2.3      | 11.5          |
| FY19E                    | 11,889 | 1,358  | 574 | 11.4       | 4.8     | 23.3  | 14.9    | 16.3    | 2.0      | 9.4           |
| <b>Vardhman Textiles</b> |        |        |     |            |         |       |         |         |          |               |
| FY17                     | 6,067  | 1,717  | 981 | 28.3       | 15.8    | 163.0 | 17.8    | 7.9     | 1.9      | 7.6           |
| FY18E                    | 6,609  | 1,363  | 777 | 20.6       | 11.8    | 137.0 | 15.6    | 9.5     | 1.5      | 9.6           |
| FY19E                    | 7,369  | 1,591  | 927 | 21.6       | 12.6    | 166.0 | 16.6    | 7.8     | 1.3      | 8.0           |
| <b>Sutlej Textiles</b>   |        |        |     |            |         |       |         |         |          |               |
| FY17                     | 2,287  | 282    | 158 | 12.3       | 6.9     | 96.4  | 19.0    | 9.5     | 2.0      | 5.4           |
| FY18E                    | 2,557  | 362    | 166 | 14.2       | 6.5     | 101.0 | 18.5    | 9.1     | 1.5      | 4.2           |
| FY19E                    | 3,003  | 448    | 238 | 14.9       | 7.9     | 145.0 | 22.4    | 7.8     | 1.3      | 3.4           |
| <b>Nandan Denim</b>      |        |        |     |            |         |       |         |         |          |               |
| FY17                     | 1,220  | 190    | 57  | 15.6       | 4.6     | 11.8  | 14.9    | 11.2    | 1.5      | 6.1           |
| FY18E                    | 1,315  | 234    | 93  | 17.8       | 7.1     | 19.4  | 20.4    | 7.1     | 1.3      | 4.9           |
| FY19E                    | 1,442  | 271    | 118 | 18.8       | 8.2     | 24.6  | 21.9    | 5.5     | 1.1      | 4.0           |

Source: Ventura Research, Reuters

NDL trades at a discount compared to its peers, despite significant growth and margin improvement visibility.

| Y/E March (₹ crore)              | FY16         | FY17         | FY18E        | FY19E        | Y/E March (₹ crore)                      | FY16        | FY17        | FY18E      | FY19E       |
|----------------------------------|--------------|--------------|--------------|--------------|--|-------------|-------------|------------|-------------|
| <b>Profit and Loss statement</b> |              |              |              |              | <b>Per Share Data (Rs)</b>               |             |             |            |             |
| <b>Net Sales</b>                 | <b>1,157</b> | <b>1,220</b> | <b>1,309</b> | <b>1,438</b> | Adj. EPS                                 | 13.9        | 11.8        | 18.5       | 24.0        |
| % Chg.                           |              | 1.2          | 19.4         | 9.3          | Cash EPS                                 | 32.2        | 37.6        | 29.9       | 38.8        |
| Total Expenditure                | 966          | 1,030        | 1,081        | 1,171        | DPS                                      | 2.8         | 2.2         | 3.9        | 5.0         |
| % Chg.                           |              | -0.2         | 18.7         | 8.3          | Book Value                               | 74.3        | 87.4        | 102.1      | 121.0       |
| <b>EBITDA</b>                    | <b>191</b>   | <b>190</b>   | <b>229</b>   | <b>266</b>   | <b>Capital, Liquidity, Returns Ratio</b> |             |             |            |             |
| <i>EBITDA Margin %</i>           | <i>16.5</i>  | <i>17.7</i>  | <i>18.1</i>  | <i>18.8</i>  | Debt/ Equity (x)                         | 1.4         | 1.3         | 1.0        | 0.7         |
| Other Income                     | 4            | 2            | 4            | 4            | Current Ratio (x)                        | 0.1         | 0.2         | 0.2        | 0.2         |
| <b>PBDIT</b>                     | <b>195</b>   | <b>192</b>   | <b>233</b>   | <b>270</b>   | ROE (%)                                  | 21.2        | 23.6        | 23.5       | 23.3        |
| Depreciation                     | 66           | 86           | 80           | 80           | ROCE (%)                                 | 20.8        | 17.6        | 19.9       | 22.2        |
| Interest                         | 41           | 36           | 29           | 30           | Dividend Yield (%)                       | 1.0         | 1.3         | 1.8        | 2.1         |
| Exceptional Items                | 0.0          | 0.0          | 0.0          | 0.0          | <b>Valuation Ratio (x)</b>               |             |             |            |             |
| <b>PBT</b>                       | <b>88</b>    | <b>70</b>    | <b>124</b>   | <b>160</b>   | P/E                                      | 9.5         | 11.2        | 7.1        | 5.5         |
| Tax Provisions                   | 25           | 13           | 35           | 45           | P/BV                                     | 1.8         | 1.5         | 1.3        | 1.1         |
| <b>Reported PAT</b>              | <b>63</b>    | <b>57</b>    | <b>89</b>    | <b>115</b>   | EV/Sales                                 | 0.9         | 0.9         | 0.9        | 0.8         |
| Minority Interest                | 0.0          | 0.0          | 0.0          | 0.0          | EV/EBITDA                                | 5.5         | 6.1         | 5.0        | 4.1         |
| <b>PAT</b>                       | <b>63</b>    | <b>57</b>    | <b>89</b>    | <b>115</b>   | <b>Efficiency Ratio (x)</b>              |             |             |            |             |
| <i>PAT margin (%)</i>            | <i>5.5</i>   | <i>7.6</i>   | <i>7.6</i>   | <i>8.3</i>   | Inventory (days)                         | 91.3        | 100.0       | 110.0      | 110.0       |
| <i>Other opr Exp/ Sales (%)</i>  | <i>0.0</i>   | <i>0.0</i>   | <i>0.0</i>   | <i>0.0</i>   | Debtors (days)                           | 38.6        | 40.4        | 45.0       | 50.0        |
| <i>Tax Rate (%)</i>              | <i>28.1</i>  | <i>21.6</i>  | <i>33.0</i>  | <i>33.0</i>  | Creditors (Days)                         | 39.5        | 62.7        | 50.0       | 50.0        |
| <b>Balance Sheet</b>             |              |              |              |              | <b>Cash Flow Statement</b>               |             |             |            |             |
| Share Capital                    | 46           | 48           | 48           | 48           | <b>Profit Before Tax</b>                 | <b>88</b>   | <b>70</b>   | <b>124</b> | <b>160</b>  |
| Reserves and Surplus             | 293          | 372          | 442          | 534          | Depreciation                             | 66          | 86          | 80         | 80          |
| Minority Interest                | 0.0          | 0.0          | 0.0          | 0.0          | Working Capital Changes                  | -27         | 4           | -55        | -39         |
| Long Term Borrowings             | 318          | 422          | 420          | 400          | Others                                   | 20          | 21          | -5         | -14         |
| Deferred Tax Liability           | 23           | 21           | 20           | 20           | <b>Operating Cash Flow</b>               | <b>147</b>  | <b>180</b>  | <b>144</b> | <b>187</b>  |
| Other Non-Current Liabilities    | 0.0          | 0.0          | 0.0          | 0.0          | Capital Expenditure                      | -182        | -285        | -60        | -50         |
| <b>Total Liabilities</b>         | <b>680</b>   | <b>863</b>   | <b>931</b>   | <b>1,002</b> | Other Investment Activities              | 2           | 3           | -20        | -20         |
| Gross Block                      | 824          | 1,199        | 1,249        | 1,299        | <b>Cash Flow from Investing</b>          | <b>-180</b> | <b>-282</b> | <b>-80</b> | <b>-70</b>  |
| <i>Less: Acc. Depreciation</i>   | <i>344</i>   | <i>430</i>   | <i>510</i>   | <i>590</i>   | Changes in Share Capital                 | 25          | 25          | 0.0        | 0.0         |
| Net Block                        | 480          | 769          | 739          | 709          | Changes in Borrowings                    | 59          | 115         | -15        | -57         |
| Capital Work in Progress         | 90           | 0            | 10           | 10           | Dividend and interest                    | -52         | -36         | -48        | -54         |
| Non-Current Investments          | 7            | 3            | 3            | 3            | <b>Cash flow from Financing</b>          | <b>32</b>   | <b>104</b>  | <b>-62</b> | <b>-112</b> |
| Net Current Assets               | 90           | 82           | 168          | 269          | <b>Net Change in Cash</b>                | <b>-2</b>   | <b>2</b>    | <b>2</b>   | <b>5</b>    |
| Long term Loans & Advances       | 12           | 8            | 10           | 10           | <b>Opening Cash Balance</b>              | <b>19</b>   | <b>17</b>   | <b>20</b>  | <b>22</b>   |
| <b>Total Assets</b>              | <b>680</b>   | <b>863</b>   | <b>930</b>   | <b>1,002</b> | <b>Closing Cash Balance</b>              | <b>17</b>   | <b>20</b>   | <b>22</b>  | <b>27</b>   |

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