Alok Industries Ltd. CMP Rs 22.4 P/E 2.4x FY2013E STRONG BUY

We initiate coverage on Alok Industries Ltd. (Alok) as a BUY with a 24 month Price Objective of Rs 67.4 (target FY13 P/E of 7.2x) based on our blended valuation methodology. At CMP of Rs 22.4 the stock is trading at 3.5x and 2.4x its estimated earnings for FY2012E & FY2013E representing a potential upside of ~200.2%. Alok is one of the largest integrated fabric producers in India having exposure to garment retailing and realty businesses. With significant capacity expansions and robust growth of Home textiles, Apparel Fabric and Polyester division the earnings are expected to grow at CAGR of 67.0% over the period FY11-13. Although we have not modeled any cash flows from its realty business, successful monetization would lead to improved cash flows and lowered debt which would warrant re rating of the stock price.

PRICE TARGET Rs 67.4 (24 Months)

Index Details

Sensex	18,211
Nifty	5,458
BSE 500	7,028
Industry	Textiles

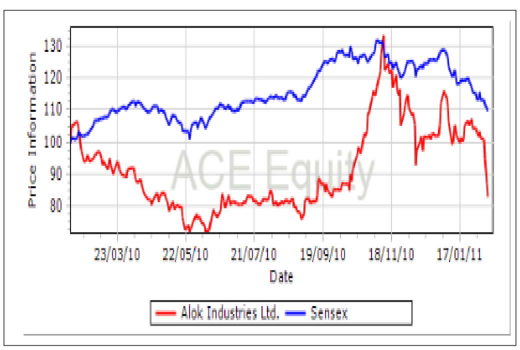
Scrip Details

Mkt Cap (Rs in crore)	1768
Book Value (Rs)	35.4
Eq Shares O/s (Cr)	77.8
Avg Vol (Lacs)	40.4
52 Week H/L	35/17
Dividend Yield (%)	3.3
Face Value (Rs)	10.0
BSE Code	521070
NSE Code	ALOKTEXT

Shareholding Pattern (31st Dec, 2010)

Shareholders	% holding
Promoters	28.4
Indian Institutions	13.8
FII's	16.9
Non Promoter Corporate	10.8
Public	30.1
Total	100.0

Alok vs. Sensex



Global demand and capacity expansion to foster long term growth

The global textile and apparel industry is slated to grow at CAGR of 6.3% to $1 tn in 2020 (from $ 510 bn recorded in 2009). Meanwhile, on the back of burgeoning domestic consumption and increased outsourcing, the Indian textile industry is poised to grow at CAGR 10.5% to reach $140 bn by 2020 (from $52 bn in 2009). Alok, with its Rs 7,000 crore capacity expansion plan is expected to be one of the biggest beneficiaries of this resurgent demand. We expect Alok's Net Sales to grow at a CAGR of 28.7% to Rs 9433.2 crore in FY13 from Rs 4424.4 crore posted in FY10.

Vertical integrated operation resulting into cost optimization

The global sized capacities and integrated operations enable Alok to maximize value, build economies of scale and ensure quality control across the manufacturing process. This has helped Alok to post EBITDA margin of 26.3% in FY10 which is one of the highest in the domestic textile industry. Despite increasing contribution from the Polyester business which has lower profitability margins (~18-20%); the vertically integrated operations would aid the company to maintain existing margins over the forecasted period

Debt burden not very critical; return ratios set to improve

Alok's Rs 10,000 crore debt burden is not very critical as ~65% is long term in nature with majority of it being back ended. Hence repayment is not a critical issue in the near term. Further the company is expected to report an EBITDA of Rs 2476.4 crore in FY13 which should help Debt/EBITDA and Interest coverage ratio to improve to 4.5 & 2.3 respectively from 8.3 and 1.5 recorded in FY10. This clearly signifies that the company's internal cash generation is robust enough to service its entire debt obligation. Further, successful monetization of its land bank would aid in debt reduction leading to improvement in the D/E ratio which could lead to a sharp re rating of its market cap. However we have not modeled the monetization of its realty business in our estimates.

Key Financials

Y/E Mar (Rs Crore)	Net Revenue	EBITDA	PAT	EPS	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (X)	EV/ EBITDA(X)
2010	4424.4	1165.2	157.9	2.0	-	5.7	6.7	11.2	7.0
2011E	5823.4	1681.9	315.1	4.0	99.6	10.4	8.5	5.6	4.9
2012E	7843.3	2134.2	503.1	6.4	59.7	14.5	10.3	3.5	3.8
2013E	9433.2	2474.6	733.8	9.3	45.9	17.8	12.1	2.4	3.3

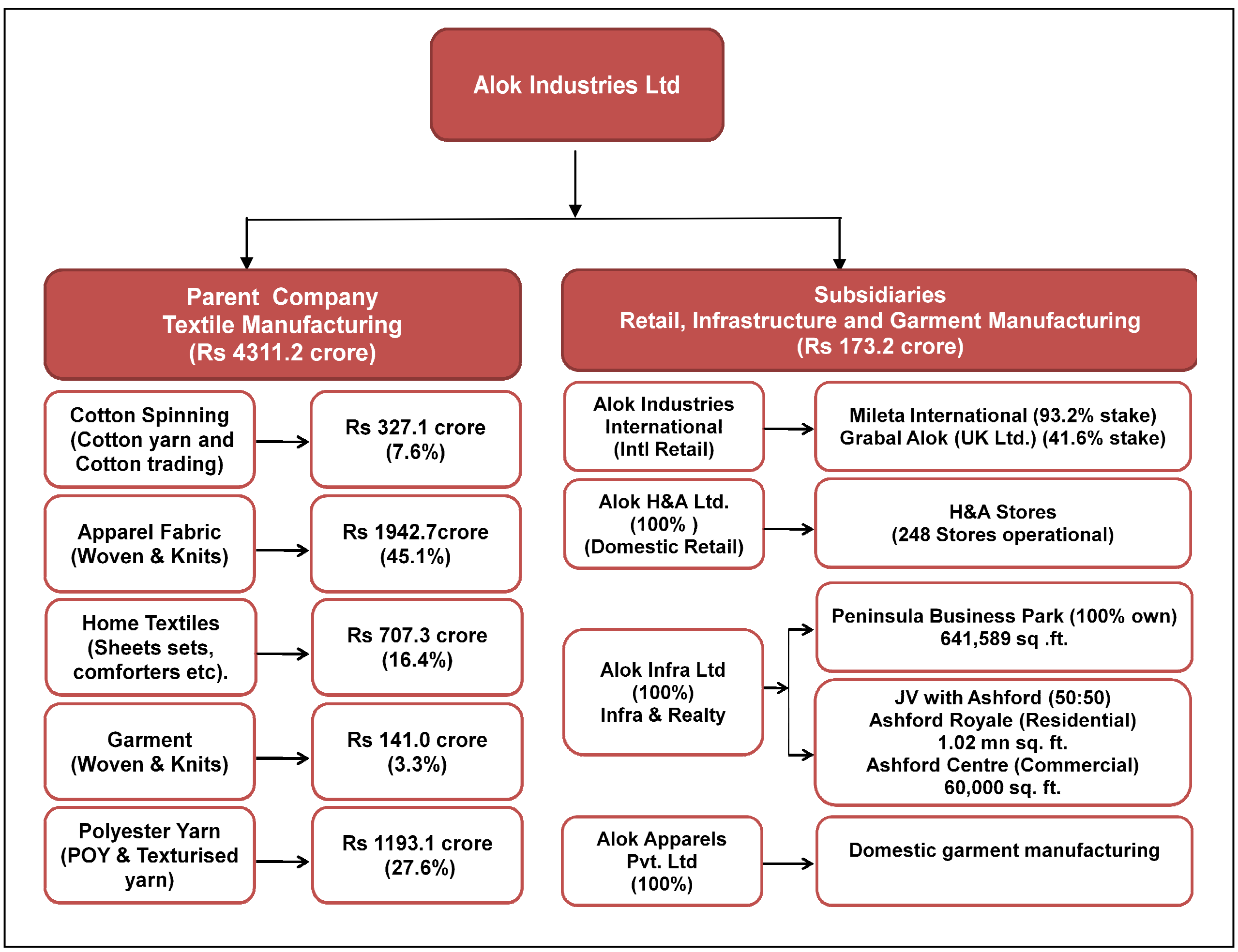
❑ Company Background

Established in 1986, Alok is one of the largest vertically integrated Indian textile manufacturing companies. Alok is engaged in business of cotton & yarn trading, weaving, knitting, processing, home textiles, apparel fabrics, and readymade garments.

It has also forayed into retailing through its 100% subsidiary Alok Retail (India) under the brand name H & A stores. Presently, the company owns 248 stores (franchisee basis) which are expected to scale upto 500 by FY12. It has also acquired a significant presense in the European retail market through an investment in the leading retail chain named Store 21 which deals in affordable home furnishings and apparel for men, women & children. In addition Store 21 also provides Alok with a ready market for its textile products

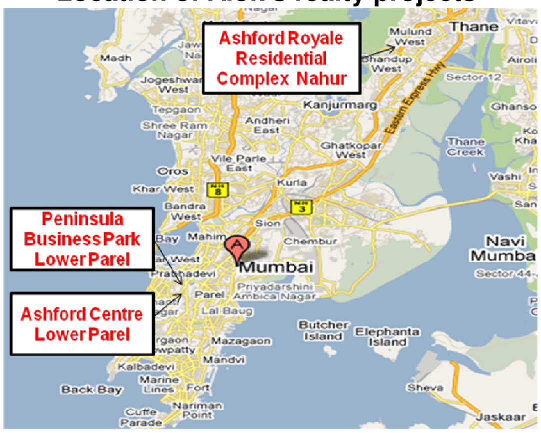
Czech company Mileta acquired in 2007 has helped the company gain access to the finest dyed yarn and hemmed technologies along with deeper penetration in European, Russian and African markets.

Alok's business profile



Source: Alok, Ventura

Location of Alok's realty projects



Source: Alok

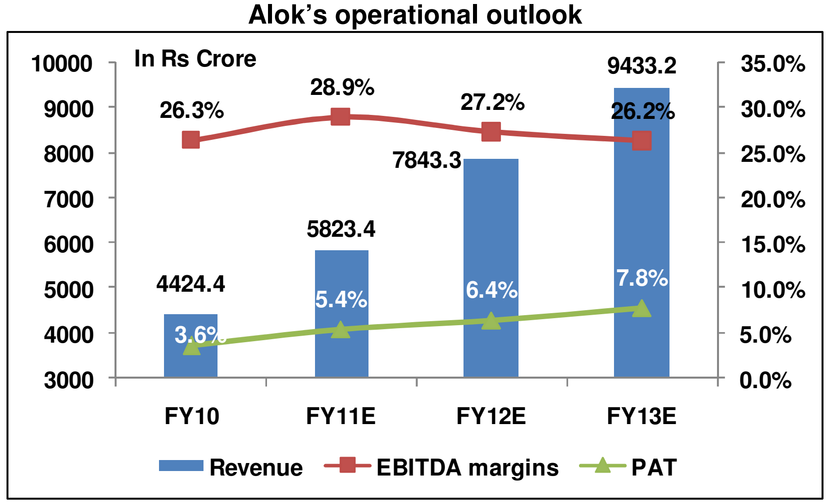
Besides this, the company also has a presense in the realty business through its wholly owned Alok Infra Ltd subsidiary. At present the company is on the verge of completion of 641,589 sq.ft. of premium commercial property in the Lower Parel, Mumbai area. In suburban Mumbai, the company is also developing a premium residential project in JV with Ashford Investment & Trading Company Pvt. Ltd. which is expected to be ready by Dec 2013.

❑ Key Investment Highlights

Global demand and capacity expansion to foster long term growth

The global textile and apparel industry is slated to grow at CAGR of 6.3% to $1 tn in 2020 (from $510 bn recorded in 2009). Meanwhile, on the back of burgeoning domestic consumption and increased sourcing from developed countries, Indian textile industry is poised to grow at a CAGR of 10.5% to reach $140 bn by 2020 (from $52 bn in 2009). Alok, with its Rs 7,000 crore capacity expansion outlay across all product lines, is expected to be one of the biggest beneficiaries of this resurgent demand. Primarily driven by increased volumes, we expect Net Sales to grow at a CAGR of 28.7% to Rs 9,433.2 crore in FY13 from Rs 4,424.4 crore posted in FY10

Alok's operational outlook

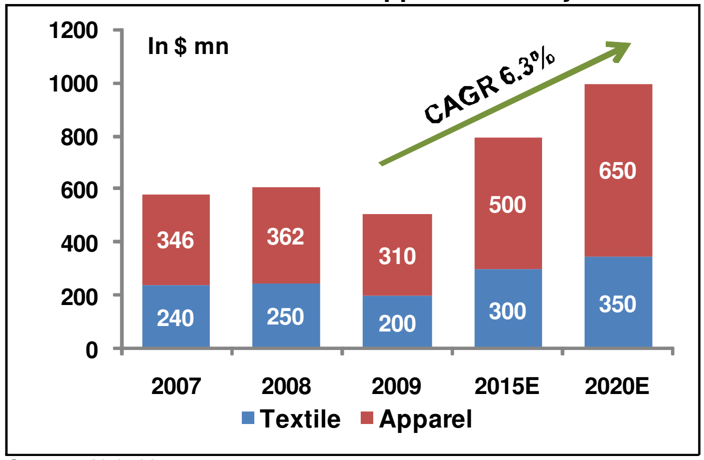


Source: Alok, Ventura

➢ ***Long term growth of textile industry could not have been brighter***

Aided by improved economic stability in Western countries and robust demand in emerging countries, the global textile and apparel industry is slated to grow at CAGR of 6.3% to $1 tn in 2020 from $510 bn in 2009.

Global Textile and Apparel Industry



Source: Alok, Ventura

- ***Shifting of production base toward Asian countries***

As a result of the global meltdown, demand in US and European markets, for luxury textile products has receded leading to shutting down of many textile manufacturing facilities in the West and shifting of the production base to low cost hubs located in Asian countries, notably China and India.

Declining Apparel exports of Western Countries

Country	Trade Value in 2000 ($ mn)	CAGR since 2000 (%)
Korea Republic	5027	-12%
Dominican Republic	2555	-10%
USA	8629	-8%
Mexico	8631	-7%
Canada	328	-6%

Source: Alok, Ventura

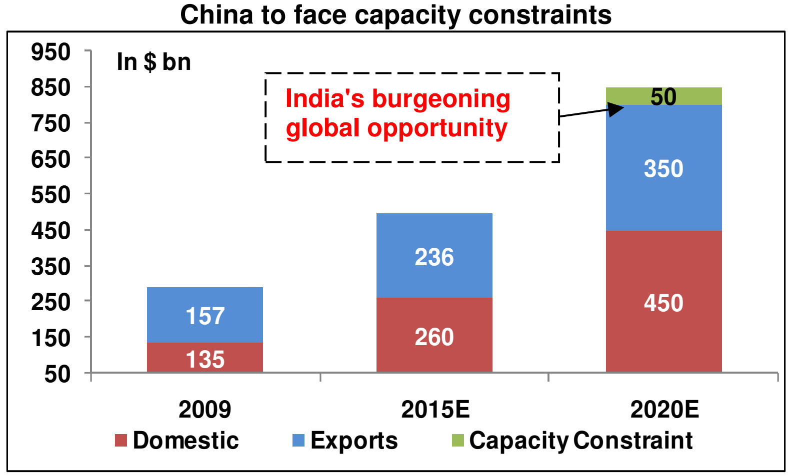
Growing Apparel exports of Asian Countries

Country	Trade Value in 2000 ($ mn)	CAGR since 2000 (%)
Vietnam	1821	22%
Cambodia	970	18%
China	**36071**	**16%**
Bangladesh	**5067**	**10%**
India	**5960**	**8%**
Pakistan	2144	8%

China seen ceding some of its export market to India

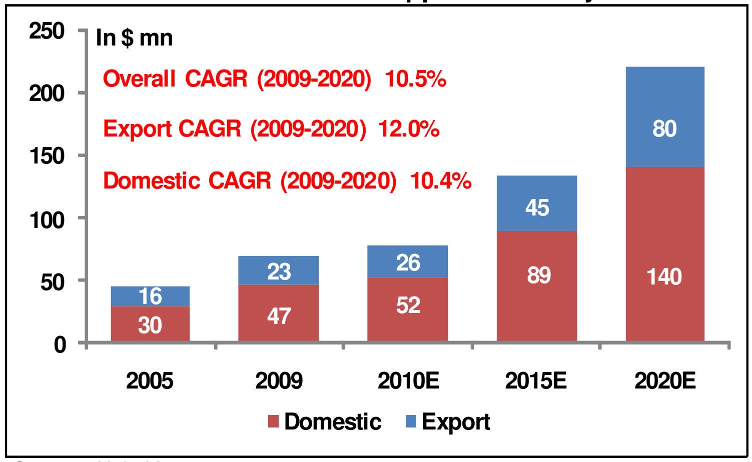
In the long term China will remain the biggest exporter, but with rising domestic demand and capacity constraints, it may give up some export opportunity to other Asian countries such as India and Bangladesh.

China to face capacity constraints



Source: Alok, Ventura

Indian Textile and Apparel Industry



Source: Alok, Ventura

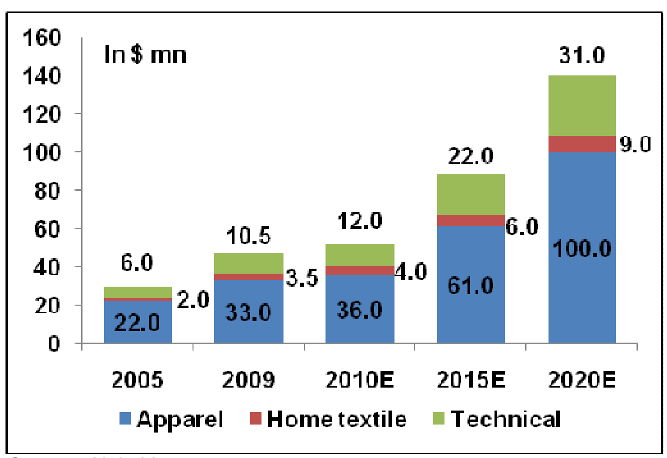
➢ **Indian Textile Industry: Brightest future ever**

Meanwhile, on the back of burgeoning domestic consumption and increased sourcing from developed countries, Indian textile industry is poised to grow at CAGR 10.5% to reach $140 bn by 2020 ($52 bn 2010). In lieu of the impending gap left by the robust domestic demand of the Chinese market, India has the potential to increase its export share in global textile and apparel industry trade to 8% (from the current 4.5%) by 2020.

All categories of textiles to experience strong growth

Majority of the growth is expected to come from the apparels category which is expected to witness a CAGR of 11% and pegged to become a $100 bn market by 2020. Augmented by increased urban household population, the Home textiles segment is also expected to grow at a CAGR of 9% till 2020 to reach $9 bn. On the back of growing industrial usage the textile segment is poised to grow at a CAGR of to 10% to $31bn by 2020.

Indian Textile Market categories wise expected revenues



Source: Alok, Ventura

Significant capital expenditure required by the industry over the next decade

The Indian textile industry would need a capital expenditure to the tune of $68 bn by 2020 to meet this projected demand.

Investment required in textile supply chain by 2020

Segment	Additional production	Additional Capacities Required	Investment in $ bn
Spun yarn	3.9 bn Kg	New Spindles 13.6 mn	9
		Modernized spindles 8 mn	
Filament yarn	5.8 bn Kg	Modernized capacity 0.5 bn kg	7
		Brownfield expansion 4.2 bn kg	
		Greenfield projects 1.1 bn kg	
Weaving	50 bn Sq.m.	New Shuttleless Looms 77000	8
		Old Shuttleless Looms 65000	
		Automatic Looms 100000	
		Semi-automatic 200000	
		Plain 235000	
Knitting	76 bn Sq.m.	New Machines 84000	5
		Old Machines 56000	
Processing	95 bn Sq.m.		19
Garment and Made ups	38 bn pcs	Machines required 21 lakh	14
Technical Textiles			6
Total			68

Source: Industry Sources, Ventura

➢ ***Alok : Building huge capacities to meet future requirements***

Encouraged by the resurgent global demand and strong momentum in domestic textile consumption, Alok has undertaken capacity expansion outlay across all product lines to the tune of Rs 7,000. These capacities are expected to get operational in phases over the period FY2010 – FY2013. So far it has spent Rs 6,000 crore of the capital outlay while the balance Rs 1000 crore would be spent on account of balancing capex over the next couple of years in optimizing its expanded capacities.

Alok's Capacity expansion plans

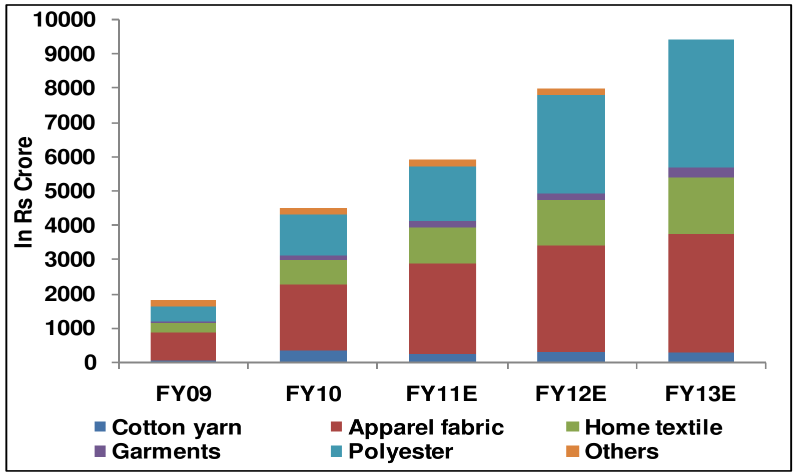
Particulars	Units	Current Capacities	Additions	Capacities Post Expansion	Market position
Spinning	Tons	58500	17960	76460	Largest at single location in India
	Spindles	300096	111744	411840	
Home Textiles					
Processing	Mn mtrs	52.5	17.5	100.00	Largest
Weaving	Mn mtrs	68.0	24.0	92.00	Largest
Terry Towels	Tons	5700	13300	20000	Top 5
Apparel Fabrics					
Processing Woven	Mn mtrs	105.0	21.0	126.0	Largest
Weaving	Mn mtrs	93.0	17.0	110.0	Largest
Knits	Tons	18200	6800	25000	Largest
Garments	mn Pcs.	22.0	-	22.0	Top15
DTY/FDY	Tons	125000	125000	250000	Top 3
	Machines	92	48	140	
	Lines		FDY 12	FDY 12	
Polyester					Top 3
POY	Tons	200000	200000	400000	
Texturising	Tons	114000	-	114000	

Source: Alok, Ventura

- **Alok's business segments firing on all cylinders**

Currently Alok's revenue mix is skewed in favour of cotton based products than polyester products in the 73:27 ratio. However over the longer term this mix is expected to shift more in favour of polyester. Over the forecast period the mix would be 61:39 by end of FY13 and gradually change to 40:60 in favour of polyester over the medium term

Alok's revenue mix



Source: Alok, Ventura

- **Home textiles is the major contributor to exports**

Home textiles is the largest contributor to Alok's exports (contributing ~44% of total exports). With demand for home textile products firming up both in domestic as well as overseas markets, the company is planning to add 17.5 mn mtrs of processing, 24.0 mn mtrs of weaving and 13,000 TPA of Terry Towel capacities. At present this division is working at 90% of its installed capacity and losing out on opportunities due to capacity constraints. With capacities coming on stream by end of Q4FY12, the full impact of the facility expansion would be witnessed in FY13. We expect this division to grow at a CAGR of 31.9% to Rs 1,623.4 crore by FY13 from Rs 707.3 crore in FY10.

- **Apparel fabric - dominant share of turnover**

Presently the company manufactures a wide range of both woven and knit fabrics. The contribution of this division to topline for FY10 stood at 43% and by default is the largest contributor. The company is undertaking significant capacity expansion in terms of processing, weaving and knitting capabilities to grow this division further.

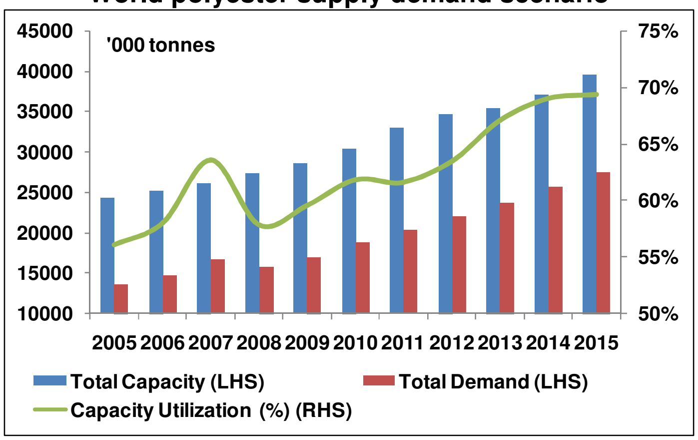
Besides this, the company is also focusing on fashion wear, yarn dyed fabric and work wear & technical textiles segment which offers greater profitability. The company has also commissioned a 5,000 TPA dyed yarn facility to shift its focus toward premium fashion wear products. Apart from this, the company can reap the benefits from limited competition in domestic work wear and technical textile segment (Rs 40,000 crore market size) which is poised to grow at CAGR of 11% to reach Rs 66,000 crore by FY13. We expect this division to grow at a CAGR of 20.9% to Rs 3435.8 crore by FY13 from Rs 1,942.7 crore in FY10.

➢ Polyester - future growth driver

Due to the sharp spurt in raw cotton price, the demand substitution for polyester products has increased rapidly. Also with a cap on global cotton acreage, cotton production is expected to lag consumption leading to further enhanced usage of polyester.

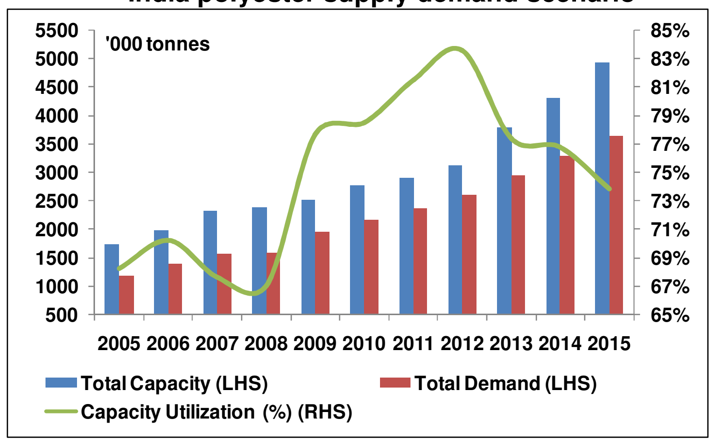
Currently, China, with a huge installed capacity base of 25.8 MMTPA accounts for a lion's share of the world polyester market. Though China will remain the biggest exporter of polyester products in the years to come, it is bound to lose some export opportunity to other South Asian countries due its rising domestic consumption. Besides this, China is also losing out on cost competencies on account of wage inflation, currency appreciation and high cost of funds. Encouraged by aforementioned factors many polyester capacities have been set up in other South Asian countries, notably India.

World polyester supply demand scenario



Source: Industry Sources , Ventura

India polyester supply demand scenario



Source: Industry Sources , Ventura

Along with rising global demand, the domestic market which is 3.5 mmtpa currently is luring textile majors to set up their own polyester manufacturing capacities. In light of these growing opportunities, Alok is planning to double its existing POY capacity to 4,38,000 tpa (with DTY & FDY contributing to 2,50,000 TPA and 72,000 TPA respectively) by end of Q4FY11. Primarily driven by these capacity expansions, we expect this division to grow at a CAGR of 46.3% to Rs 3733.7 crore by FY13 from Rs 1193.1 crore recorded in FY10.

Typical Contribution Structure of the POY chain and its derivatives

Particulars Rs./kg	POY	DTY	FDY	Dyed yarn
Raw material Cost				
PTA/MEG Cost	68.0	68.0	68.0	68.0
(PTA-0.86 + MEG- 0.34)				
Conversion Cost				
From PTA/MEG to POY	6.5	6.5	6.5	6.5
Dye Cost	-	-	-	4.5
Sub Total	74.5	74.5	74.5	79
Conversion Cost				
From POY to DTY/DFY	-	9.5	5.5	9.5
Total Cost	74.5	84	80	88.5
Average Selling Price	88.0	109.0	101.0	128.0
Contribution	13.5	25	21	39.5
Contribution as % of sales	**15.3%**	**22.9%**	**20.8%**	**30.9%**

Alok's Polyester Business Breakup

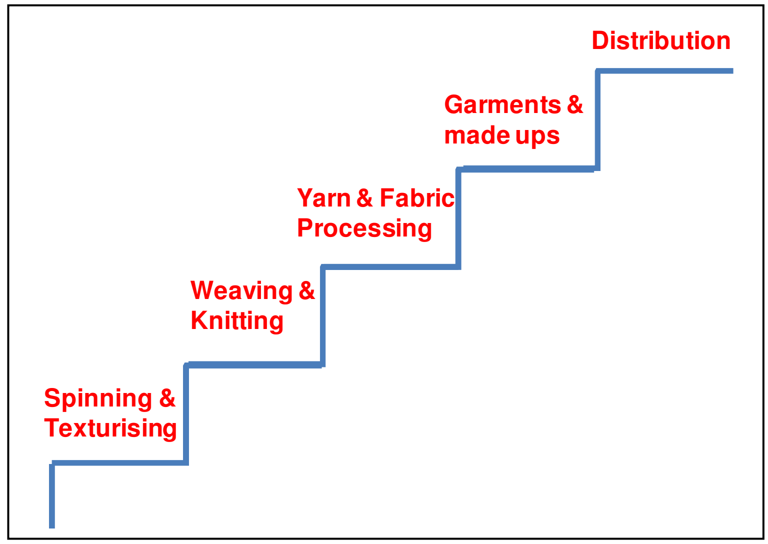
Particulars	FY11E	FY12E	FY13E
POY			
Capacity (MT)	380000	438000	438000
Production (MT)	167313	258850	335688
Capacity Utilization Rate	*44%*	*59%*	*77%*
Internal Consumption	132750	250875	320500
Available Sale (MT)	34563	7975	15188
Unit price Rs/kg	75	86	89
Sales in Rs Crore	**259**	**69**	**135**
DTY			
Capacity (MT)	125000	250000	250000
Production (MT)	112500	168750	212500
Capacity Utilization Rate	*90%*	*68%*	*85%*
Available for Sale (MT)	112500	168750	212500
Unit price Rs/kg	94	104	106
Sales in Rs Crore	**1058**	**1755**	**2244**
FDY			
Capacity (MT)	67500	72000	72000
Production (MT)	13500	38925	
Capacity Utilization Rate	*20%*	*54%*	*75%*
Available for Sale (MT)	13500	38925	54000
Unit price Rs/kg	87	97	99
Sales in Rs Crore	**117**	**378**	**532**
Dyed yarn			
Capacity (MT)	67500	72000	72000
Production (MT)	6750	43200	54000
Capacity Utilization Rate	*10%*	*60%*	*75%*
Available for Sale (MT)	6750	43200	54000
Unit price Rs/kg	95	105	107
Sales in Rs Crore	**64**	**454**	**576**
Cationic Yarn and Fibre			
Capacity (MT)	91250	91250	91250
Production (MT)	13688	18250	22813
Capacity Utilization Rate	*15%*	*20%*	*25%*
Available for Sale (MT)	13688	18250	22813
Unit price Rs/kg	90	106	109
Sales in Rs Crore	**123**	**193**	**248**

Source: Alok , Ventura

❑ Vertical integrated operation resulting into cost optimization

The global sized capacities and integrated operations enable Alok to maximize value, build economies of scale and ensure quality control across all points of the manufacturing process.

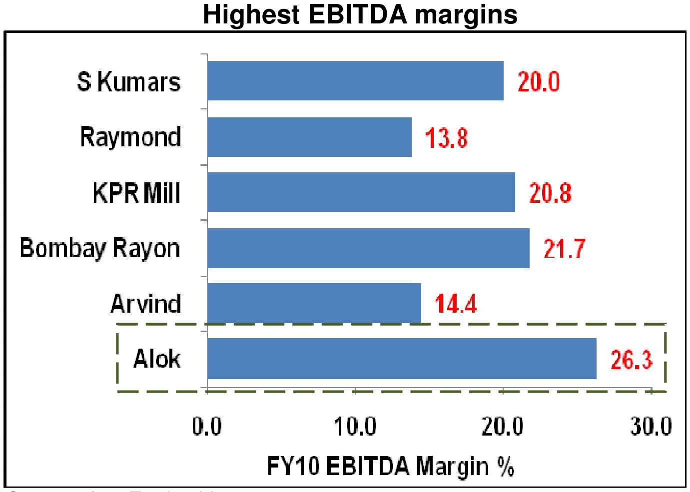
End to end solutions across the value chain



Source: Alok , Ventura

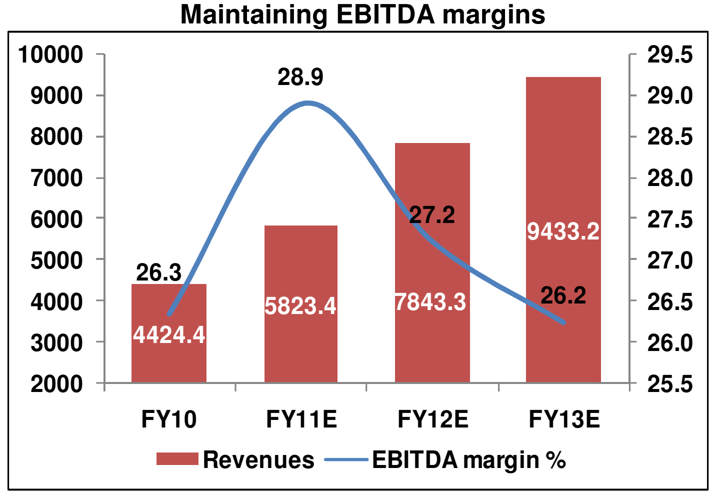
This has helped Alok to post EBITDA margin of 26.3%, in FY10 which is one of the highest in the domestic textile industry. Despite increasing contribution from the Polyester business which has lower profitability margins (~18-20%); the vertically integrated operations would aid the company to maintain the existing margins over the forecast period

Highest EBITDA margins



Source: Ace Equity, Ventura

Maintaining EBITDA margins



Source: Alok, Ventura

Typical Contribution Structure of Cotton Fabric and forward integration

Value addition from Cotton to Finished Fabric

Particulars	Rs.
Raw Material Cost	132.0
Conversion Cost	123.0
Total	255.0
Wastage @ 5%	13.0
Total cost per kg	268.0
Cost per mtr (1kg =4.5 mtr)	59.6
Average Selling Price of 1 mtr of Fabric	100.0
Contribution	40.4
Contribution as % of sales	**40.4%**

Value addition from Fabric to Garment

Particulars	Alok	Standalone player
	Rs.	**Rs.**
Fabric Cost	59.6	100.0
Add Fabric cost (0.5mtr /fabric)	29.8	50.0
Total RM cost	89.4	150.0
Conversion cost	100.0	100.0
Add Wastage @ 2%	4.0	5.0
Total cost	193.4	255.0
Average Selling Price of Garment	280.0	280.0
Contribution	86.6	25.0
Contribution as % of sales	**30.9%**	**8.9%**

Value addition from Cotton to Bed sheet set

Particulars	Alok
	Rs.
Raw Material Cost	132.0
Conversion Cost	138.0
Cost	270.0
Wastage @ 5%	14.0
Total cost per kg	284.0
Conversion (1kg= 2.75 mtrs)	103.0
Total Fabric Cost per Bed sheet set (1 Sheet set = 5.6 mtrs)	577.0
Stitching and packaging Cost	70.0
Cost	647.0
Add Wastage @2.5%	16.0
Total Cost	633.0
Average Selling Price	
Contribution	327.0
Contribution as % of sales	**33.0%**

Source: Alok, Ventura

❑ Debt burden not very critical; return ratios set to improve

Alok's Rs 10000 crore debt burden is not very critical as ~65% is long term in nature with majority of it being back ended. Hence repayment is not a critical issue in the near term. Further the company is expected to report an EBITDA of Rs 2476.4 crore in FY13 which should help Debt/EBITDA and interest coverage ratio to improve to 4.5 & 2.3 respectively from 8.3 and 1.5 in FY10. This clearly signifies that the company's internal cash generation is robust to service its entire debt obligation. Successful monetization of its land bank would aid in further reduction in debt leading to improvement in the D/E ratio which could lead to sharp re rating of its market cap. However we have not modeled the monetization of its realty business in our estimates.

➢ Monetization of real estate to lower the debt burden

As part of its debt reduction strategy the company is looking to exit the realty business and concentrate on its core competencies in the textile segment. Currently the company has exposure to three realty projects- 2 commercial (Peninsula Business Park, Ashford Centre) and 1 residential (Ashford Royale). Alok expects to generate cash flows to the tune of Rs 1500 crore over the next 3 years through the monetization of these properties which if successful would help the company repay high cost debt. In addition to the above Alok also has 500 acres of free hold industrial property near Silvassa, the sale of which is expected to accrue ~Rs 350 crore to its kitty

Detail of Alok's Realty Projects Portfolio

Particulars	Peninsula Business Park	Ashford Royale Residential Project	Ashford Centre
Nature of Ownership	Own	50:50 JV	50:50 JV
Project Size (sq.ft.)	641,589	1,020,000	60,000
Location	Lower Parel	Nahur	Lower Parel
Project Cost in Rs Crore	1,270.6	500.0	124.5
Equity in Rs Crore	520.6	150.0	-
Debt in Rs Crore	750.0	200.0	-
Advance from Customers	-	150.0	124.5
Development Stage	Completed	Construction started	Completed
Date of Possession	Dec-10	Dec-13	Ready

Source: Alok, Ventura

While the Peninsula Business Park is expected to be completed only in FY12, its other commercial project Ashford Centre is complete and the company is in talks to lease out 2-3 floors to an MNC the announcement of which is expected shortly. In addition to this, the company is also mulling to sell a minority stake in its UK retail arm Store 21 through which it hopes to raise ~Rs 1000 crore but only after FY13.

Since the monetization of the realty business has yet to occur we have not modeled the cash flows from the same in our estimates and any traction on the same would be an upside risk to our estimates.

➢ Debt Profile offers comfort while D/E ratio set to improve

Although Alok's balance sheet is stretched due to its high debt burden of Rs 10,000 crore (on consolidated basis) we draw comfort from the fact that nearly ~65% is long term in nature. Of the long term debt, Textile Upgradation Funds Scheme (TUFS) constitutes ~53.8% and is repayable over a period of 10 years with large portion of the principal being balloon payments which are back ended. Hence repayment of debt is not a glaring concern as of now.

Alok's Debt profile

Particulars	Amount (Rs crore)	Average Interest Rate	Average Maturity
TUFS	3500	~6.5%	10 years
ECB	1000	Libor +300 bps	3-4 years
Working Capital Loan	2500	6-7%	Revolving
Long Term Debt	2100	11-12%	5-6 years
Realty Debt	900	11-12%	1-2 years
Total	**10000**	**-**	**-**

Source: Alok

Interest Rate and EPS Sensitivity

Interest Rate	6.25%	6.75%	7.25%	7.75%	8.25%
FY13 EPS	10.3	9.8	9.3	8.8	8.4
Change in EPS	10.8%	5.4%	-	-5.4%	-9.7%

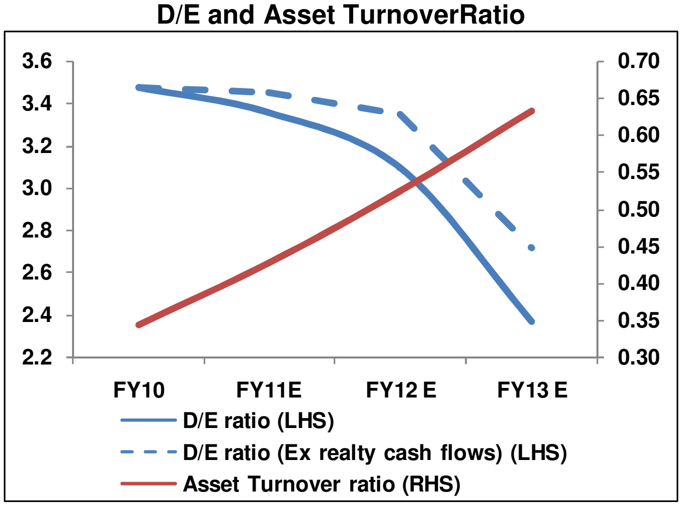
Source: Ventura

➢ **Internal cash generation robust enough to service debt**

We draw comfort from the fact that the core business which is expected to record Rs 2474.6 crore of EBITDA by FY13 and enhance the Net Worth by 53.3% will help lower the Debt to EBITDA ratio to 4.5 by FY13 and augment interest coverage ratio to a comfortable 2.3 by FY13. The entire calculation doesn't involve the repayment of realty debt through cash flows generated from sale of real estate properties.

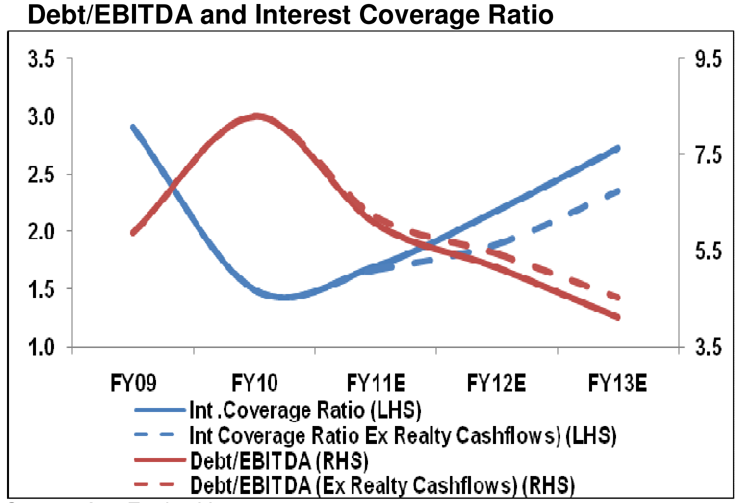
In case the company is successful in monetizing its aggregate land bank Interest Coverage and Debt/EBITDA ratios would stand further improved to 2.7 and 4.1 respectively. This clearly signifies that the company's internal cash generation is robust to service its entire debt obligation.

D/E and Asset TurnoverRatio



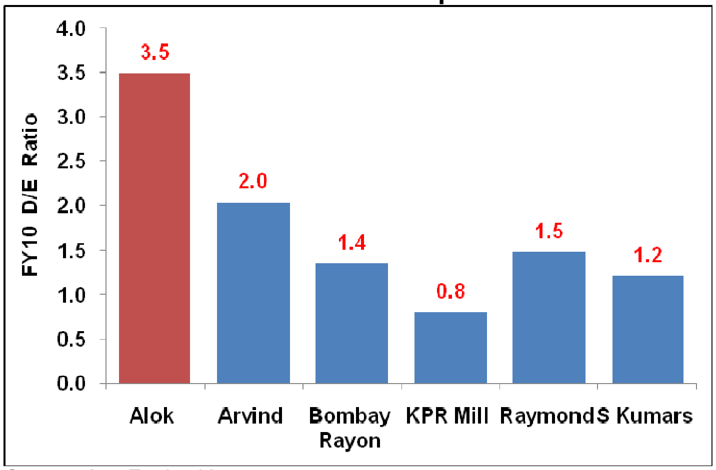
Source: Ace Equity, Ventura

Debt/EBITDA and Interest Coverage Ratio



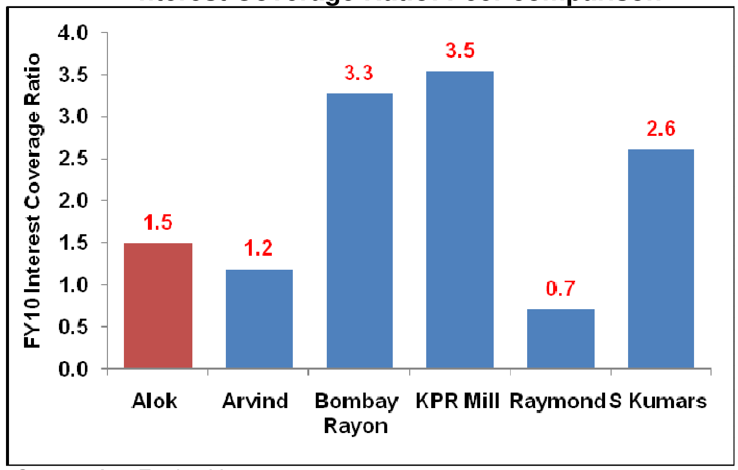
Source: Ace Equity, Ventura

D/E Ratio: Peer Comparison



Source: Ace Equity, Ventura

Interest Coverage Ratio: Peer comparison

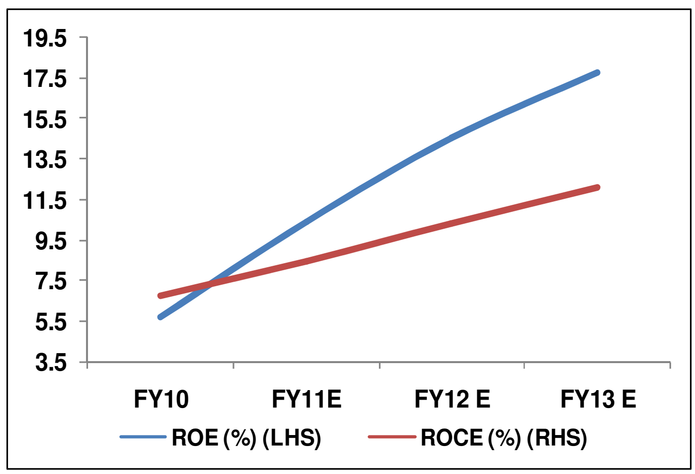


Source: Ace Equity, Ventura

Return ratios set to improve

Augmented by higher asset turnover of polyester business, consolidated asset turnover ratio is expected to rise to 0.60 in FY13 from 0.34 in FY10. Subsequently by end of FY13 we expect ROE and ROCE to improve to 17.8% and 12.1% from 5.7% and 6.7% in FY10.

Return Ratios



Source: Alok, Ventura

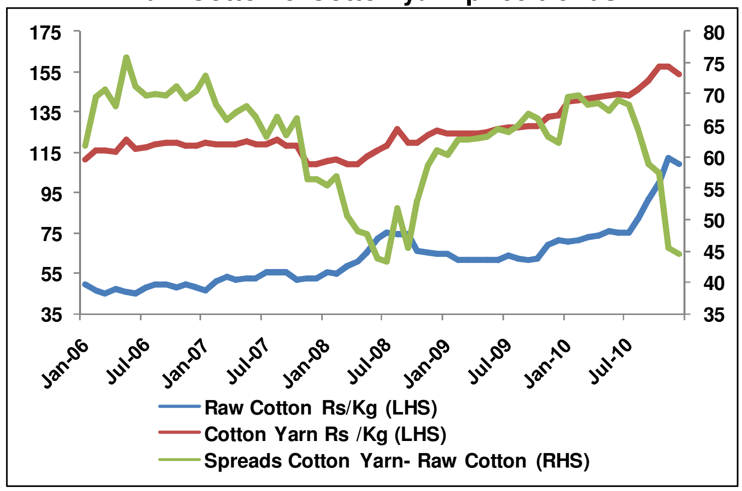
❑ Key Concerns

Rising input prices

As raw material forms a significant part of the operating costs, profitability of a textile company largely depends on its raw material sourcing policy. With raw cotton prices escalating to Rs 55,000-56,500/candy (Shankar 6 variety), operating margins of domestic apparel manufacturers are severely impacted. Manufacturers are left with no choice but to pass the cost burden to consumers which may result in decreased demand for textiles.

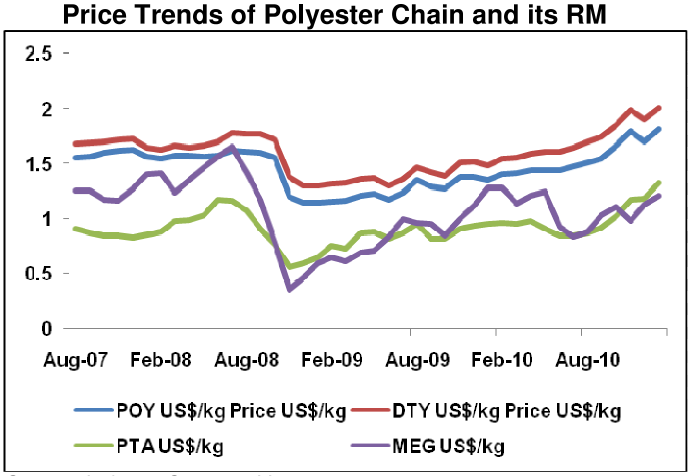
The problem is further aggravated with rising prices of PET and MEG prices which are hovering around the levels of Rs 58.2/kg and 52.8/kg. Although the PTA and MEG prices have rallied in recent past, spreads between POY and RM cost have been maintained. However an inability to pass on raw material price increases can severely dent the profitability.

Raw Cotton & Cotton yarn price trends



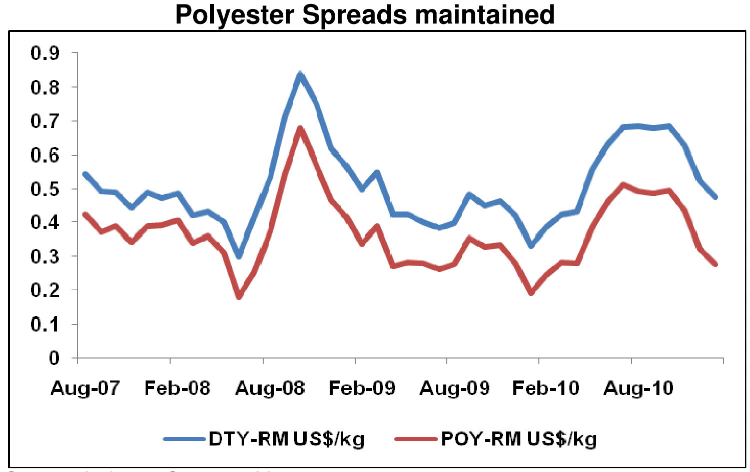
Source: Industry Sources, Ventura

Price Trends of Polyester Chain and its RM



Source: Industry Sources, Ventura

Polyester Spreads maintained



Source: Industry Sources, Ventura

However, Alok with its vertically integrated business model and sound raw cotton sourcing policy has been able to source cotton cheaply and maintain its operating margins. Infact Alok has already booked forward its 6-9 month requirement at a price of Rs 39,000/candy (current prevailing price of Rs 56,500 / candy) and this will more rather help Alok enhance margins in FY12 let alone mitigate the risks.

Inability to monetize realty projects

Alok heavily depends on the monetization of its land bank to deleverage its stretched balance sheet. Any delays in the plans to monetize the land bank could severely affect the debt reduction plans and consequently affect the profitability of the company.

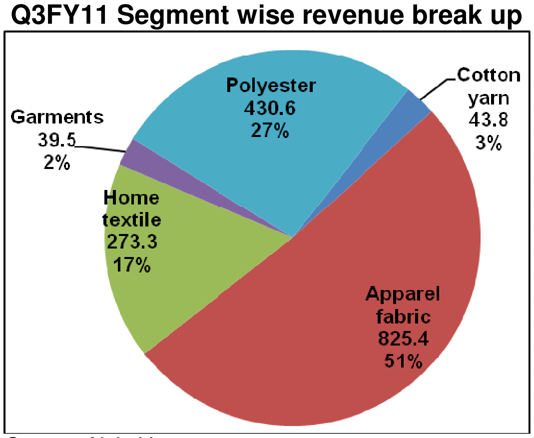
Unfavourable currency trends could severely impact profitability
Alok derives roughly 35% of revenues in foreign currency and stands exposed to currency fluctuations. However the company has minimized MTM losses by following the strategy of hedging 50-60% of its forex revenues over a period of 12 months.

❑ Financial Performance

On the backdrop of increased volumes and higher realizations, Alok posted a 49.0% rise in Q3FY11 Net Sales to Rs 1,612.6 crore while net profit grew by 55.7% to Rs 90.5 crore. Despite steep rise witnessed in raw cotton prices, vertical integration and good sourcing policy enabled the company to maintain its margins ~ 28.9% for Q3FY11. Net profit margin also grew marginally by 20 bps to 5.6%.

For 9MFY11 net sales grew by 46.4% on yearly basis to Rs 4,163 crore while net profit grew by Rs 47.3% to Rs 216.8 crore. EBITDA margins for 9MFY11 declined marginally by 10 bps to 29.0%. Net margin for 9MFY11 stood at 5.2%.

Q3FY11 Segment wise revenue break up



Source: Alok, Ventura

Alok (Stand alone) Quarterly Financials

RESULTS Q3FY11					
PARTICULARS	**Q3FY11**	**Q3FY10**	**9MFY11**	**9MFY10**	**FY10**
Net Sales	1612.6	1082.5	4163.0	2843.5	4314.7
Growth %	*49.0%*		*46.4%*		
Expenditure	1147.2	759.6	2955.1	2014.8	3057.8
EBITDA	465.4	322.8	1207.9	828.8	1256.9
Margin %	*28.9%*	*29.8%*	*29.0%*	*29.1%*	*29.1%*
Depreciation	145.0	90.4	364.4	253.4	356.2
EBIT (EX OI)	320.3	232.5	843.5	575.4	900.7
Other Income	2.8	1.6	4.0	2.6	4.3
EBIT	323.1	234.0	847.5	578.0	905.0
Margin %	*20.0%*	*21.6%*	*20.4%*	*20.3%*	*20.9%*
Interest	187.6	145.5	522.9	356.3	537.9
PBT	135.5	88.5	324.6	221.7	367.1
Margin %	*8.4%*	*8.2%*	*7.8%*	*7.8%*	*8.5%*
PAT	90.5	58.1	216.8	147.2	242.6
Margin %	*5.6%*	*5.4%*	*5.2%*	*5.2%*	*5.6%*

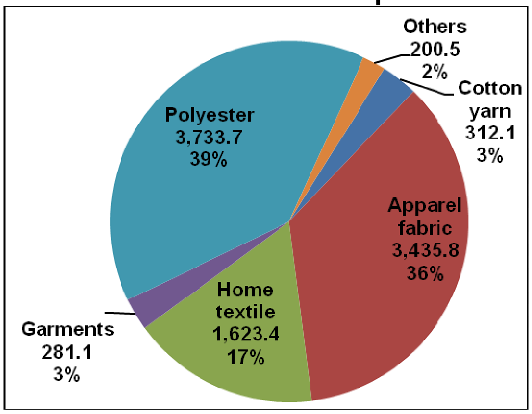
Source: Alok, Ventura

❑ Financial Outlook

Alok has already spent a sum of Rs 6,000 crore towards capex expansion in its textile business and intends to spend another Rs 1,000 crore over the next couple of years for optimization of newly inducted capacities.

We forecast Net Sales to grow at a CAGR of 28.7% to Rs 9,433.2 crore by FY2013 as newly inducted capacities get operational while earnings are expected to grow at CAGR of 67.0%.

FY13 Sales Break Up



Source: Alok

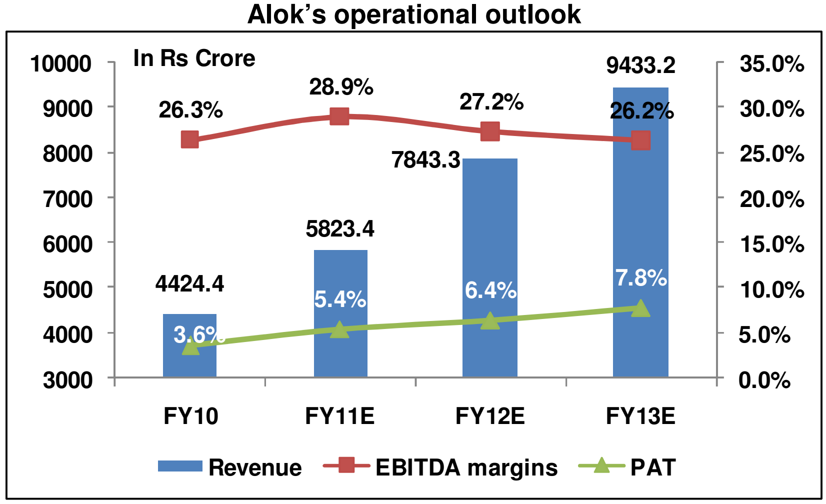
Alok's segmental revenues

Particulars	FY10	FY11E	FY12E	FY13E	*CAGR%*
Cotton yarn	327.1	249.0	285.2	312.1	*-1.6*
Apparel fabric	1942.7	2651.3	3123.6	3435.8	*20.9*
Home textile	707.3	1035.2	1298.5	1,23.4	*31.9*
Garments	141.0	179.2	224.4	281.1	*25.9*
Polyester	1193.1	1621.5	2848.2	3733.7	*46.3*
Others	173.2	181.9	191.0	200.5	*5.0*

Source: Alok, Ventura

Although contribution from the polyester business (which has lower operating margins) is expected to go up, the operating profit margins are expected to be retained or experience marginal improvements on back of increased volumes and integrated operations. Subsequently, Net margins are also expected to improve to 7.8% for FY13 from the current 3.6%.

Alok's operational outlook



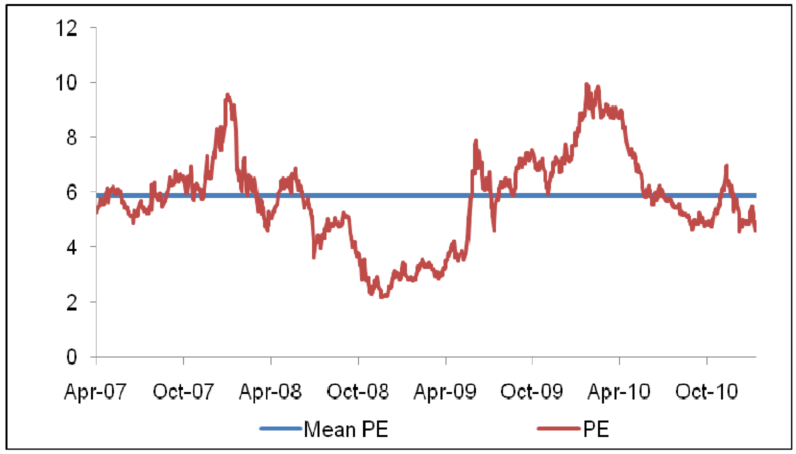
Source: Alok, Ventura

❑ Valuation

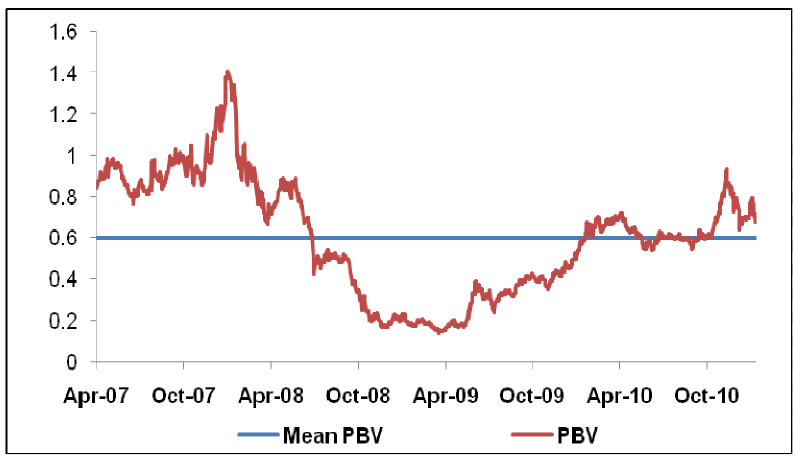
At CMP of Rs 22.4, the stock is trading at 3.3x FY13 EV/EBIDTA and 2.4x its estimated earnings for FY2013E. We initiate coverage on Alok as a BUY with a 24 month Price Objective of Rs 67.4 (7.2x FY13 P/E) based on our blended valuation methodology representing an upside potential of ~200.2% over a period of 24 months.

Stock Pointer

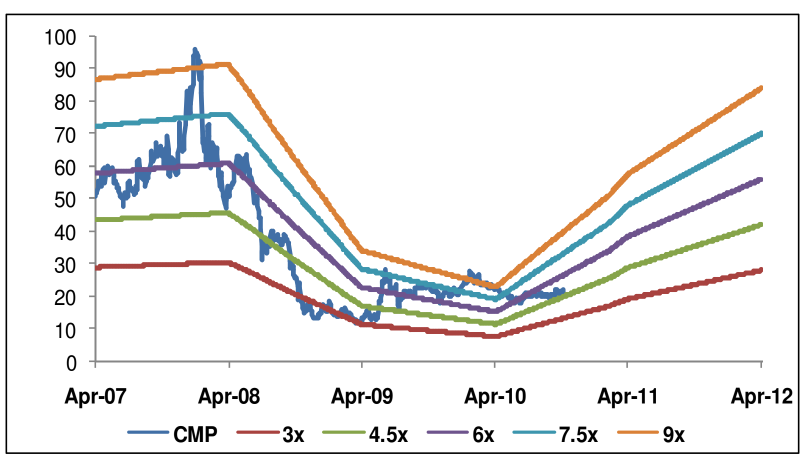
1 year forward P/E and Mean P/E



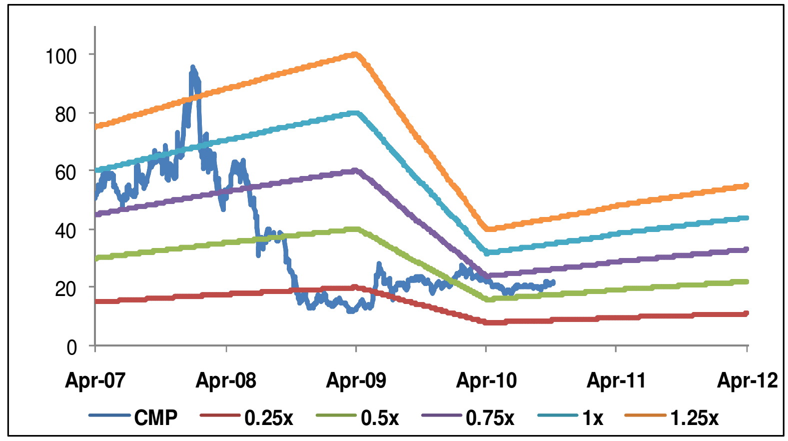
1 year forward P/BV and Mean P/BV



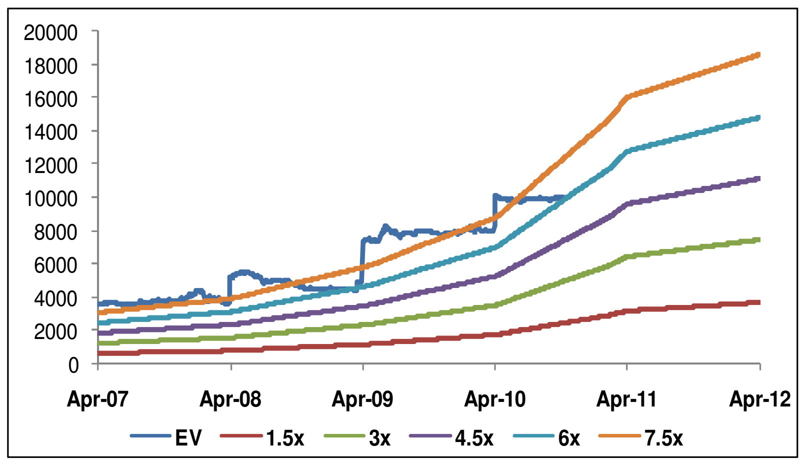
P/E bands



P/B bands



EV/EBIDTA bands



Source: Ace Equity, Ventura

Exhibit 01: Financials and Projections

Profit & Loss Statement

Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e	FY2013e
Net Sales	**4424.4**	**5823.4**	**7843.3**	**9433.2**
% Chg.	*43.8*	*31.6*	*34.7*	*20.3*
Total Expenditure	**3259.2**	**4141.5**	**5709.1**	**6958.6**
% Chg.	*47.5*	*23.0*	*23.0*	*23.0*
EBITDA	**1165.2**	**1681.9**	**2134.2**	**2474.6**
EBDITA Margin %	*26.3*	*28.9*	*27.2*	*26.2*
Other Income	66.6	7.0	8.0	9.0
Fx (Gain)/Loss	(0.0)	-	-	-
PBDIT	**1231.8**	**1688.9**	**2142.2**	**2483.6**
Depreciation	366.9	510.1	545.3	576.4
Interest	578.9	708.5	846.0	812.0
PBT	286.0	470.3	750.8	1095.2
Tax Provisions	**128.2**	**155.2**	**247.8**	**361.4**
Reported PAT	**157.9**	**315.1**	**503.1**	**733.8**
PAT Margin (%)	*3.6*	*5.4*	*6.4*	*7.8*
Raw Materials / Sales (%)	*47.1*	*50.0*	*50.0*	*49.0*
Employee Exp / Sales (%)	*3.9*	*3.4*	*3.4*	*3.2*
Other Mfr. Exp / Sales (%)	*22.6*	*17.7*	*19.4*	*21.6*
Tax Rate (%)	*44.8*	*33.0*	*33.0*	*33.0*

Key Ratios

Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e	FY2013e
Per Share Data (Rs)				
EPS	2.0	4.0	6.4	9.3
Cash EPS	6.7	10.5	13.3	16.6
DPS	0.8	0.8	0.8	0.8
Book Value	35.4	38.5	44.0	52.5
Capital, Liquidity, Returns Ratio				
Debt / Equity (x)	3.5	3.4	3.3	2.7
Current Ratio (x)	6.4	6.1	6.1	5.6
ROE (%)	5.7	10.4	14.5	17.8
ROCE (%)	6.7	8.5	10.3	12.1
Dividend Yield (%)	3.3	3.3	3.3	3.3
Valuation Ratio (x)				
P/E	11.2	5.6	3.5	2.4
P/BV	0.6	0.6	0.5	0.4
EV/Sales	1.9	1.4	1.0	0.9
EV/EBITDA	7.0	4.9	3.8	3.3
Efficiency Ratio (x)				
Inventory (days)	127.6	120.5	109.5	98.6
Debtors (days)	91.7	98.6	91.3	87.6
Creditors (days)	64.1	63.4	61.3	59.5

Balance Sheet

Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e	FY2013e
Share Capital	1015.4	1015.4	1015.4	1015.4
Reserves & Surplus	1769.6	2015.0	2448.4	3112.5
Minority Interest	3.6	4.3	4.9	5.5
Total Loans	9672.6	10450.0	11600.0	11200.0
Deferred Tax Liability	407.2	407.2	407.2	407.2
Total Liabilities	**12868.3**	**13891.8**	**15475.8**	**15740.5**
Gross Block	7583.6	9275.0	9915.0	10480.0
Less: Acc. Depreciation	1157.2	1667.3	2212.7	2789.1
Net Block	**6426.4**	**7607.7**	**7702.4**	**7691.0**
Capital Work in Progress	1691.4	640.0	565.0	515.0
Goodwill	49.2	49.2	49.2	49.2
Investments	416.9	416.9	416.9	416.9
Net Current Assets	**4227.6**	**5121.1**	**6685.5**	**7011.6**
Deferred Tax Assets	**56.8**	**56.8**	**56.8**	**56.8**
Total Assets	**12868.3**	**13891.8**	**15475.8**	**15740.5**

Cash Flow Statement

Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e	FY2013e
Profit After Tax	157.9	315.1	503.1	733.8
Depreciation & W/o	366.9	510.1	545.3	576.4
Working Capital Changes	-854.3	-830.8	-838.6	-484.9
Others	562.4	-	-	-
Operating Cash Flow	**232.9**	**-5.6**	**209.8**	**825.3**
Capital Expenditure	-2192.9	-640.0	-565.0	-515.0
Change in Investment	47.1	-	-	-
Cash Flow from Investing	-2145.8	-640.0	-565.0	-515.0
Proceeds from equity issue	590.8	-	-	-
Inc/(Dec) in Debt	2716.1	777.4	1150.0	-400.0
Dividend Paid	-23.0	-69.1	-69.1	-69.1
Cash Flow from Financing	**3283.9**	**708.4**	**1080.9**	**-469.1**
Net Change in Cash	**1371.0**	**62.7**	**725.7**	**-158.8**
Opening Cash Balance	39.7	1410.7	1473.4	2199.1
Closing Cash Balance	**1410.7**	**1473.4**	**2199.1**	**2040.3**

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