

Garden Silk Mills Limited
CMP Rs 102.1
PE 6.3x
FY2012E

BUY

We initiate coverage on Garden Silk Mills Limited (GSML) as a BUY with an 18 month Price Objective of Rs 191 (target PE of 6.3x for FY2012) based on our blended valuation methodology. At CMP of Rs 102.1, the stock is trading at 4.7x and 3.4x its FY2011E & FY2012E earnings respectively, representing a potential upside of ~87%. GSML operates in the textile segment with presence in fabrics, yarns (11% market share) and PET Chips market share (38% respectively). We expect an earnings growth of 43% CAGR over the next two years on the back of steady growth in its PET chips (2 year CAGR of 0.24%) and yarns business (2 year CAGR of 36.6%), new capacities getting operational and firm spreads.

**PRICE TARGET Rs 191/- (15-18 Months)
Index Details**

Sensex	19,799
Nifty	5,944
BSE 500	7,756
Industry	Textiles

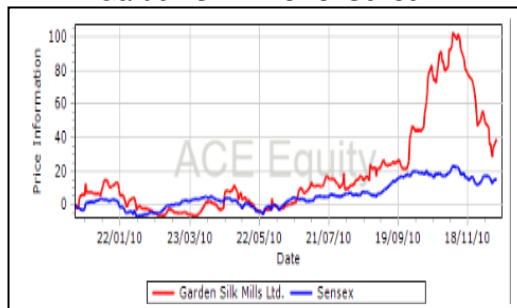
Script Details

Mkt Cap (Rs in crore)	391
Book Value (Rs)	128
Eq Shares O/s (Cr)	3.8
Avg Vol (Lacs)	0.18
52 Week H/L	154/67
Dividend Yield (%)	1.8
Face Value (Rs)	10.0

BSE Code	500155
NSE Code	GARDENSILK

Shareholding Pattern (30th Sep, 2010)

Shareholders	% holding
Promoters	56.3
Indian Institutions	1.4
FII's	0.0
Non Promoter Corporate	10.9
Public	31.4
Total	100.0

Garden Silk Mills vs. Sensex

Stable raw material prices, strong demand outlook with firm to rising spread for PET chips and yarn augur well for the business prospects of GSML.

Despite tight domestic supplies, adequate global spare capacity, in both its principal raw materials PTA and MEG, should lead to reduced volatility in input costs over the forecast period.

Although globally overcapacities are prevailing, robust domestic demand for PET Chips (CAGR of 7.7% till FY2014) and PFY (CAGR of 8.4% till FY2014), product price discount vis a vis international prices and the import duties will help maintain pricing power. In addition, restricted cotton supplies and their high prices should result in strong demand visibility for manmade fibres leading to higher volume growth.

PET & POY spreads are expected to be maintained at Rs 12-14/kg & Rs 23-26/Kg respectively for the forecast period with upside risks to our estimates.

Capacity expansions to boost revenue growth and profitability

GSML's PET chip capacity has increased by 21.6% to 506,000 tpa while yarn capacities are expected to be augmented by 34% to 281,700 tpa. While the chips capacity has already been commissioned, the POY facilities are expected to come into operation in a phased manner over the period Jan-June 2011. The company has further expanded its Draw Warping capacity by 35TPD to 109 TPD. These enhanced capacities across the value chain would help the company improve its EBITDA margins by 160 bps to 11.7% by FY2012. We expect revenues and earnings to grow at a CAGR of 16% and 42.8% respectively over the forecast period.

Attractive Valuations

Based on our blended valuation methodology, we initiate a BUY with an 18 month Price Objective of Rs 191 (target PE of 6.3x for FY2012). At CMP of Rs 102.1, the stock is trading at 4.7x and 3.4x its FY2011E & FY2012E earnings respectively, representing a potential upside of ~87%.

Key Financials (Rs in Cr)

Y/E Mar (Rs Crore)	Net Revenue	EBITDA	PAT	EPS	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (X)	EV/EBITDA(X)
2010	2514.9	232.4	63.2	16.5	27.5	12.9	16.7	6.2	5.3
2011E	3102.5	260.4	83.3	21.8	31.8	14.7	12.6	4.7	4.7
2012E	3313.1	352.3	116.3	30.4	39.6	17.3	16.5	3.4	3.5

Exhibit 01: Financials and Projections

Profit & Loss Statement				Key Ratios			
Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e	Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e
Net Sales	2514.9	3102.5	3313.1	Per Share Data (Rs)			
% Chg.	92%	24%	7%	EPS	16.5	21.8	30.4
Total Expenditure	2282.5	2842.1	2960.8	Cash EPS	35.5	44.0	56.3
% Chg.	94%	25%	4%	DPS	1.8	1.8	2.0
EBIDTA	232.4	260.4	352.3	Book Value	128.0	147.7	175.7
EBIDTA Margin %	9%	8%	11%	Capital, Liquidity, Returns Ratio			
Other Income	20.4	31.1	34.4	Debt / Equity (x)	2.1	3.1	2.5
PBIDT	252.8	291.4	386.7	Current Ratio (x)	2.3	2.3	2.4
Depreciation	72.6	85.0	99.4	ROE (%)	12.9	14.7	17.3
Interest	87.2	87.4	121.2	ROCE (%)	16.7	12.6	16.5
Exceptional items	0.0	0.0	0.0	Dividend Yield (%)	1.8	1.8	2.0
PBT	93.1	119.0	166.2	Valuation Ratio (x)			
Tax Provisions	29.9	35.7	49.9	P/E	6.2	4.7	3.4
Reported PAT	63.2	83.3	116.3	P/BV	0.8	0.7	0.6
PAT Margin (%)	2.5%	2.7%	3.5%	EV/Sales	0.5	0.4	0.4
				EV/EBIDTA	5.3	4.7	3.5
Raw Materials / Sales (%)	77.2	76.4	74.7	Efficiency Ratio (x)			
Employee Exp / Sales (%)	1.9	2.2	2.3	Inventory (days)	68.7	61.5	62.7
Other Mfr. Exp / Sales (%)	2.8	2.9	3.0	Debtors (days)	18.4	18.9	21.1
Tax Rate (%)	32.1	30.0	30.0	Creditors (days)	7.1	7.1	7.0

Balance Sheet				Cash Flow Statement			
Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e	Y/E March, Fig in Rs. Cr	FY2010	FY2011e	FY2012e
Share Capital	38.3	38.3	38.3	Profit After Tax	63.2	83.3	116.3
Reserves & Surplus	452.0	527.2	634.6	Depreciation	72.6	79.1	99.4
Minority Interest	0.0	0.0	0.0	Working Capital Changes	-52.7	-108.8	-54.7
Total Loans	1027.9	1755.9	1670.9	Others	10.4	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	Operating Cash Flow	93.5	53.6	161.0
Total Liabilities	1518.2	2321.5	2343.8	Capital Expenditure	-221.7	-748.0	-50.0
				Change in Investment	-26.1	-15.3	0.0
Gross Block	1503.6	2064.6	2102.1	Cash Flow from Investing	-247.7	-763.3	-50.0
Less: Acc. Depreciation	556.1	641.1	740.5	Proceeds from equity issue	0.0	0.0	0.0
Net Block	947.6	1423.5	1361.7	Inc/(Dec) in Debt	124.2	728.0	-85.0
Capital Work in Progress	195.0	382.0	394.5	Dividend Paid	-8.1	-8.1	-9.0
Investments	82.6	98.0	98.0	Cash Flow from Financing	116.1	719.9	-94.0
Net Current Assets	416.5	535.5	607.2	Net Change in Cash	-38.1	10.2	17.0
Deferred Tax Assets/Liability	-117.6	-117.6	-117.6	Opening Cash Balance	72.9	34.8	45.0
Total Assets	1518.2	2321.5	2343.8	Closing Cash Balance	34.8	45.0	62.0

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