

Investor's Delight - Sangam (India) Ltd. (SIL) – Undervalued multibagger...



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BSE Code/NSE Code	514234/SANGAMIND
Bloomberg/Reuters Code	SNGM:IN/SANG.BO
Industry/Employees	Textiles/7,000+
Promoter's holding (%)	38.65
FV	Rs. 10
Equity Share Capital (Rs. in mn)	394.20
Market Capitalization (Rs. in mn)	1,340
52 week high/low	Rs. 66.9(9 th Nov, 2012)/Rs. 33(28 th Mar, 2013)
CMP	Rs. 34
Recommendation	"BUY"
Target/Upside (%)	Rs. 64/Upside: 88%

The Company is among the leading textiles companies in India with presence in PV (polyester viscose) dyed yarn and fabrics. It is the largest producer of PV dyed yarn in Asia at a single location with 25 percent market share in India. The Company is the largest player in Indian dyed PV yarn with around 35 mn kgs annual production. Engaged in the manufacturing of woven fabrics which are mainly used for suits and trousers and are sold in the domestic market. It is a fully integrated player from yarn to branded garments. The Company has manufacturing facilities at Biliya - Bhilwara, Sareri – Bhilwara and Atun – Bhilwara. The textile business has picked pace on favourable government policies to cotton price stabilization and demand push for the apparel sector. With the completion of the Denim expansion, the Company has been able to capitalize by way of growth in textile division. The Company enjoys close proximity to major procurement and consumption markets. Operating Profit witnessed yoy growth of 38.4 percent to Rs. 2,145 mn in FY13. EBITDA margin improved by 356 bps to 14.4 % owing to improved product mix and reduction in operating cost. The Company's FY13 Net Profit witnessed 200 percent growth on yoy basis to Rs. 513 mn as compared to 171 mn in FY12. Topline witnessed a moderate growth of 4.34 percent to Rs. 14.7 bn in FY13. Brand promotion will play a key role in driving Company's topline growth. It has signed bollywood star Ajay Devgan as Brand Ambassador and commenced an extensive brand campaign to promote premium range of suiting fabrics. It has forward integrated in the exports markets and is scouting for a branded partner to make a foray in branded domestic denim trouser segment. The management has guided for a revenue growth of 20-25% for next two years owing to 15-17 percent volume growth and 5-7 percent through change of product mix and better realization. At the CMP, the stock is attractively priced at 3x at FY13 EPS of Rs. 13. On an average, textiles stock deserve a PE multiple of 4 times. Sangam looks very cheap (P/BV: 0.45x and PE multiple of 2.6x) as compared to Zodiac Clothing (P/BV: 1.63 x and PE multiple of 27x). We assign a P/E of 4x at FY14E annualized EPS of Rs. 16 to arrive at a target price Rs. 64 for investors with 1-2 year horizon.

Impressive Background

Established in 1984, Sangam India Ltd. is the flagship Company of Sangam Group. The Company holds business interests across diverse sectors, namely textiles, steel, infrastructure, power and energy. Sangam India represents the textiles vertical. The Company is promoted by first – generation entrepreneurs Mr. RP Soni and Mr. SN Modani, Sangam (India) is one of the largest manufacturers of polyester viscose dyed yarn in the country. At present, it has 162720 spindles of polyester-viscose dyed yarn and 31,200 spindles for cotton yarn installed in Bhilwara along with 257 weaving machines and a 31 MW thermal power plant. It also has a strong presence in the Indian synthetic blended fabric segment with brands like Sangam and Anmol. Key clientele includes Reliance, Reid and Taylor, Donear, S Kumars, Raymond, Bossa and Grasim. The Company's fabric is marketed through a network of 200+ dealers and thousands of retailers.

Sangam suitings has been well positioned as a leading super fine fabric brand in India. The brand is enriched by the legacy of over two and half decades, an uncontested market-leader in the manufacture of PV, PC, worsted and Lycra fabrics, The legacy of sangam transcends from the olden days into a golden future with a production capacity of 30 million meters per annum.

Sangam's leadership in woven fabrics is on account of its colours, blends, textures and finishes. The company's strength to offer a vast product range stems from its ability to blend various yarns to ensure the right texture, style and above all, the right value-for-money products to its customers. High quality fabrics are also exported to South Africa, Egypt, and Middle East.

Products Portfolio

Yarns: PV and Cotton, Woven Fabrics, Branded suiting, Denim Fabric, Texturised Yarn and Wind Power

360 degree Bird's eye view of Sangam

Particulars	Yarn	Fabric
Revenue share	PV Yarn – 44% Cotton Yarn – 9%	PV Fabric – 16% Denim – 21%
Geographic presence	Domestic – 68% Exports – 32%	Domestic – 83% Exports – 17%
Market position	~25% share in the Indian dyed PV yarn market as indicated by management	Highly fragmented industry with large number of unorganized players
Industry growth expectations (in volumes) for 2011-12 to 2016-17	Blended yarn: 5.5-6% Cotton Yarn: 5-5.5%	Domestic RMG segment: 7% CAGR
End market	Synthetic and cotton fabric manufacturers	Synthetic garments and apparel manufacturers
Sales growth (3 yr. CAGR)	PV Yarn – 15% Cotton Yarn – 11% (due to higher internal consumption) Total Yarn Sales: 11%	PV Fabric: 4% Denim: 100% (commenced operations in FY10) Total Fabric Sales CAGR: 29.7%
Margin drivers	Demand conditions Cost of raw material, PSF and VSF Cost of substitute, cotton yarn	Cost of raw material, Backward integration: Yarn produced in – house meets the entire requirement for denim fabric
Key risks	Volatility in prices of PSF and VSF High dependence on key vendors for PSF and VSF requirements	Recent entrant in the branded fabric space. As a result, it faces stiff competition from established brands.

Source: Company, Ajcon Research

Key growth drivers

Industry drivers

- 1) **Price competitiveness of PV vis-à-vis cotton yarn**
 - a) PV yarn enjoys characteristic advantages like higher durability and shine over cotton yet is equally comfortable
 - b) Dyed cotton yarn is ~45 percent costlier than dyed PV yarn as cotton yarn dyeing requires better quality dyes and more processes.
 - c) In the last one year, denim fabric manufacturers have started to use a higher ratio of PV or polyester blend with cotton.
 - d) The average ratio in a denim fabric which is 80 percent cotton yarn and 20 percent blended yarn has been altered by manufacturers to the extent of 60 percent cotton yarn and 40 percent blended yarn in order to reduce production costs and protect margins.
 - e) Historically, the demand for dyed PV yarn has grown inspite of it being costlier than cotton yarn because the incremental cost of dyeing cotton yarn of Rs. 70 per kg makes it costlier than dyed PV yarn.
 - f) P/V blended fabric is comparatively cheaper than Cotton and Polywool Fabric.
 - g) The demand for the PV fabrics in the following segments has been increasing, worldwide for: Suiting, Knits, Ladies dress material, Institutional and corporate uniforms and Carpet yarns.
 - h) Crisil expects demand for blended and non-cotton spun yarns to grow at 7.5-8 percent CAGR, higher than the 6.5 percent CAGR expected for cotton yarn, from 2011-12 to 2015-16.
 - i) **PV yarn to grow above industry...**
 - i. The usage of PV yarn is expected to grow slightly above industry growth rate due to increasing application and supply constraints of cotton yarn.
 - ii. The demand for blended yarn has been driven by increased applications of PV fabrics in knits, ladies dress materials and bottom wear, institutional and corporate uniforms, summer suits and carpet yarns.
- 2) **Limited availability of cotton**
 - a) Cotton production in India, which accounts for ~23 percent of world cotton production, has grown at a 5-year CAGR of 3 percent to 5.7 bn kg in cotton season (CS) 2010-11, of which ~20 percent has been exported.
 - b) The spurt in prices reached its peak in April 2011 leading to high production levels in 2011-12.
 - c) As per the International Cotton Advisory Committee, world cotton production is expected to decline by 5 percent yoy to 25.5 bn kg in 2012-13.
 - d) The Indian government has increasingly started to intervene with imposition of ban on cotton exports, which will ensure adequate availability of cotton in the domestic market and hence keep prices on check.
 - e) However, with supply constraints of cotton, over a long period of time, share of PV yarn is expected to improve from current 3 percent of total yarn market to around 4-5 percent by FY18.

Company drivers

- 1) **Branding and forward integration**
 - a. The Company's synthetic fabric was relatively unknown and price realizations were much low than peers.
 - b. It has stepped up marketing initiatives in fabric segment to create strong brand segment.
 - c. Sangam launched suiting fabrics under the brand "Sangam Suitings". It has signed bollywood star Ajay Devgan as the brand ambassador for Sangam's Men's formal category.
 - d. It has been able to build strong brand connect through new brand endorsements.

Geographical break up of revenues

Particulars	FY13	FY12	FY11
Domestic	80%	78%	78%
Export	20%	22%	22%

Source: Company, Ajcon Research

Key developments in FY 2012

- 1) Total yarn production increased marginally by 7.3 per cent to 53,735 tonnes in 2011-12 from 50,098 tonnes in 2010-11.
- 2) Total fabrics production increased by 19.5 per cent to 41.70 mn metres in 2011-12, as against 34.89 mn metres in 2010-11
- 3) Successfully completed denim expansion; capacity doubled
- 4) Unveiled new brand identity; rechristened the logo
- 5) Debottlenecked capacities, leading to unlocking of additional capacity from existing units
- 6) Augmented employee base and aggressive thrust on branding and marketing

Comparison between Sangam and Zodiac based on FY13

Particulars	Sangam India	Zodiac Clothing
CMP	34	196
Book Value (BV)	75	120
P/BV	0.45x	1.63x
Market Cap (Rs. cr)	134	380
Sales (Rs. cr)	1,485	342
Sales CAGR (%) - 3 YR	23.73	4.34
Market Cap/Sales (x)	0.9	1.11
EBITDA (Rs. cr)	215	29
EBITDA Margin	14.4	8.41%
PAT (Rs. cr)	52	14
PAT Margin	3.5%	4.1%
EPS (TTM)	13	7.26
P/E	2.6x	27x
Equity Capital (Rs. cr)	39.4	42.1
Networth (Rs. cr)	297	231
D/E (x)	1.9	0.24
EV/Sales	0.45	1.21
EV/EBITDA	2.94	14.4

Source: Company, Ajcon Research

Observations:

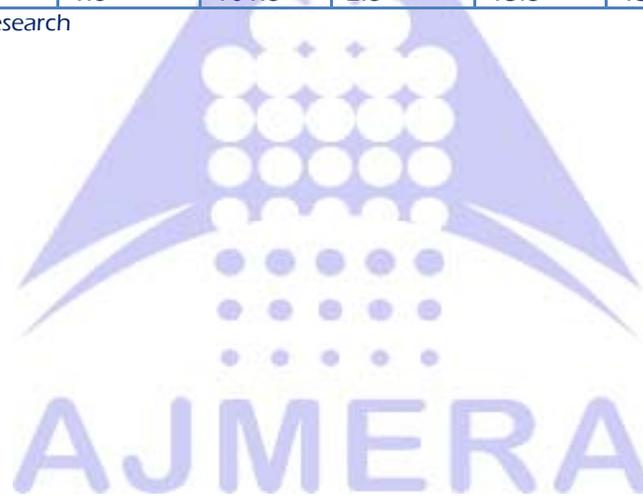
- 1) Zodiac has a established brand, whereas Sangam brand is not so popular yet and established like Zodiac
- 2) Sangam's PAT margins stood at 3.5% against Zodia'c 4.50% mainly because of high debt in Sangam. This can be proved from the fact that the EBITDA margin of Sangam is higher at 14.55% against % of Zodiac.
- 3) Zodiac is trading at premium valuation of 27x against Sangam at a multiple of only 3.

- 4) While the networth of both the companies are almost same at Rs. 297 crore of Sangam and Rs. 231 crore of Zodiac, the market cap of Zodiac is much higher at Rs. 380 crores against Rs. 134 crores of Sangam.

Financial Performance of Sangam (India) Ltd. (Rs. in mn)

Particulars	Q4FY13	Q4FY12	yoy (%)	Q3FY13	qoq (%)	FY13	FY12	yoy (%)
Income	3,573	3,975	(10.1)	3,295	8.4	14,849	14,240	4.3
EBITDA	504	426	18.3	513	(1.8)	2,145	1,549	38.4
EBITDA (%)	14.1	10.7	339 bps	15.6	(146) bps	14.4	10.9	356 bps
PBT	184	91	103.2	161	14.7	749	260	188.2
Tax	60	30	100.7	50	21.3	235	89	163.5
PAT	124	61	104.5	111	11.7	514	171	201.2
Adj. PAT	128	63	101.9	111	15.8	518	174	198.6
PAT (%)	3.6	1.6	199 bps	3.4	23 bps	3.5	1.2	227 bps
No. of equity shares (mn)	39.4	39.4	-	39.4	-	39.4	39.4	-
Adj. EPS (Rs.)	3.3	1.6	101.8	2.8	15.8	13.1	4.4	198.6

Source: Company, Ajcon Research



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