



Result update – Q4FY16

Sangam India Ltd. – Maintain our “BUY” rating

10th May, 2016

**CMP: Rs. 277|Target Rs. 448|Time horizon: 1 year |Basis of valuation: FY18E Financials|
Upside: 61.3 %| Market Cap: Rs. 1,080 cr.| FV: Rs. 10**

Q4FY16 and FY16 Financial Performance

(Rs cr)	Q4FY16	Q4FY15	%yoy	Q3FY16	%qoq	FY16	FY15	%yoy
Income from Operations	387.4	362.1	7.0	356.4	8.7	1,511.5	1,476.9	2.3
Material costs	(205.9)	(200.7)	2.6	(201.3)	2.3	(830.3)	(830.6)	(0.0)
Purchase of stock in trade	(3.5)	0.6	(671.0)	-	-	(12.5)	(24.7)	(49.4)
Changes in inventory	(8.1)	2.9	(378.3)	11.2	(171.9)	22.2	7.4	201.6
Power and Fuel	(35.8)	(37.1)		(37.7)	(5.1)	(157.9)	(155.5)	1.5
Employee benefit expenses	(36.2)	(31.2)	15.7	(35.2)	2.7	(139.9)	(118.6)	17.9
Other expenditure	(43.7)	(37.0)	18.0	(38.1)	14.7	(159.7)	(137.4)	16.2
Operating profit	54.4	59.6	(8.8)	55.4	(1.8)	233.3	217.4	7.3
OPM (%)	14.0	16.5	(250 bps)	15.5	(150 bps)	15.4	14.7	70 bps
Depreciation	(18.0)	(22.9)	(21.3)	(18.6)	(3.1)	(76.2)	(80.4)	(5.2)
Interest	(15.0)	(17.7)	(15.5)	(15.1)	(0.9)	(64.0)	(67.2)	(4.8)
Other income	12.4	1.3	823.1	1.2	930.8	17.6	2.7	542.0
PBT	33.8	20.4	66.0	22.9	47.6	110.8	72.5	52.8
Tax	(7.8)	(5.5)	41.5	(7.3)	6.4	(33.4)	(20.6)	62.2
Effective tax rate (%)	23.1%	27.1%		32.1	(99.3)	30.1	28.4	
PAT	26.0	14.8	75.1	15.6	67.1	77.4	51.9	49.1
Adj. PAT margin (%)	6.7	4.1	260 bps	4.4	53.7	5.1	3.5	160 bps
Equity capital	39.4	39.4	-	39.4	-	39.4	39.4	0.1
FV (Rs.)	10.0	10.0	-	10.0	-	10.0	10.0	-
No. of equity shares (cr)	3.9	3.9	-	3.9	-	3.9	3.9	0.1
EPS (Rs.)	6.59	3.76	75.1	3.94	67.1	19.63	13.18	49.0

Source: Company, Ajcon Research



Q4FY16 and FY16 result update

The Company's topline increased on qoq basis by 8.7% to touch Rs. 387.4 crores in Q4FY16. On yoy basis too, topline increased marginally by 7%. FY16 topline was inline with our estimates and registered yoy growth of 2.3%. The Company has grown in all the segments like polyester viscose, dyed yarn, denim as well and in the garment division seamless that it had started. Apart from that SIL had increased its exports by 23 percent and has crossed Rs 406 crore accounting for 27 percent of its topline. Especially in denim business, it has increased its exports by 167 percent. Increased integration focus on exports helped the company in maintaining realisations, despite falling prices.

Commodity prices continue to soften globally over the last couple of months and yet the Company has managed to contain its impact on its revenues. Significantly, the response to new seamless product launches has been encouraging. The management's strategy to increase focus on exports seems to be yielding better-than-expected results, with denim exports reporting a sharp jump.

EBIDTA declined by 8.8 per cent to Rs. 54.4 crore on yoy basis. On qoq basis too, EBITDA declined by 1.8% due to fall in realizations. FY16 EBITDA witnessed a growth of 7.3 percent on yoy basis to touch Rs. 233.3 crores.

Operating profit margins in Q4FY16 declined by 240 bps to 14 per cent in the fourth quarter of the current fiscal on yoy basis due to increase in employee and other expenditure. On qoq basis, OPM reduced by 150 basis points. The margins are this level because when the prices were falling down for the raw materials, the stock losses etc., despite that the sales realizations is less by 8-9 percent but the margins are maintained owing to adjustment in relation to prices coming down. When the prices are going up, there are better margins because whatever it offers, yields more realisation.

For FY16, OPM improved by ~72 bps to 15.4 percent.

The Company's other income includes Rs. 12.47 crores on account of an arbitration award received in favour of the Company in respect of Usaka toll plaza (U.P) contract with NHAI which was terminated and disputed by the Company. The losses incurred due to the said contract were fully provided in the earlier years.

Q4FY16 Net profit increased by whopping 63.6% on yoy basis to Rs. 6.7 crores. However on qoq basis, PAT declined by 56.9%. PAT margin reported an improvement by 260 bps on yoy basis to touch 6.7% in Q4FY16. FY16 PAT witnessed 49.1 percent yoy growth owing to improvement in net realizations and reduced interest cost.

The Company is executing an expansion project having outlay of Rs. 198 crores being part funded by Term Loans of Rs. 157.50 crores and balance from internal accruals. The project envisages installation of 26736 spindles on P/V Dyed Yarns. 74 imported Airjet Shuttleless Weaving Machines, One Denim Line and 2 MW Solar Power Plant. The Project activities are in progress as per schedule.

Balance Sheet (Rs. crs.)

	Particulars	Audited FY16	Audited FY16
A	EQUITY AND LIABILITIES		
1.	Shareholder's Funds		
a)	Share Capital	39.42	39.42
b)	Reserves & Surplus	399.83	332.28
	Networth	439.25	371.70
2.	Non – current Liabilities		
a)	Long – term borrowings	281.34	257.78
b)	Deferred tax liabilities	42.05	40.35
c)	Other long-term liabilities	-	-
d)	Long – term provisions	-	-
		323.39	298.13
3.	Current liabilities		
a)	Short-term borrowings	301.5	276.93
b)	Trade payables	76.47	75.05
c)	Other current liabilities	137.48	142.83
d)	Short term provisions	14.17	11.97
		529.62	506.78
	Total – Equity & Liabilities	1292.26	1176.61
B	ASSETS		
1.	Non-current assets		
a)	Fixed assets	598.94	565.69
b)	Non-current investments	5.85	5.85
c)	Long-term loans and advances	19.71	14.51
		624.50	586.05
2.	Current assets		
a)	Inventories	294.49	265.09
b)	Trade receivables	271.10	251.71
c)	Cash & Cash Equivalents	3.61	3.91
d)	Short-term loans and advances	76.43	57.72
e)	Other current assets	22.13	12.13
		667.76	590.56
	Total - Assets	1292.26	1176.61

Source: Company



Investment rationale

Strong background

Established in 1984, Sangam India Ltd. is the flagship company of Sangam Group a Rs. 4,000 crores + business conglomerate having diverse business interests across textiles, steel, infrastructure, power and energy sectors. Mr. RP Soni, Chairman & First Generation entrepreneur, leads the Group. Sangam ranks among the leading players in Indian textiles sector with presence in PV (polyester viscose), dyed yarn and fabrics. One of market leaders in PV dyed yarn with 25% share. Today, SIL is a leading manufacturer of PV yarn in India. The company is also present in the Indian synthetic blended fabric and denim segments with brands such as Sangam Suitings and Sangam Denim. Sangam also has garnered respectable market – share in denim segment within three years of commencement of production. Sangam was promoted as a fabric manufacturing unit, under the name of Arun Synthetics Pvt. Ltd, by Mr. R.P. Soni and Mr. S.N. Modani. The company took a strategic decision to backward integrate and forayed into spinning in 1995 by installing 17,280 spindles for manufacturing PV dyed yarn. Sangam's manufacturing facilities are located in Bhilwara, Rajasthan. As of FY15, the company has a spinning capacity of 211,296 spindles and 3,128 rotors; weaving capacity of 437 looms; and processing capacity of 53 mn meters P.A.

Largest producer of PV dyed yarn

SIL is the largest producer of PV dyed yarn in Asia at Single location. SIL is a forerunner in manufacturing ready to stitch Fabric with the annual capacity to produce 24 million meters of fabric and 32 million meters of denim.

Marquee clients

The company's client base includes Raymond, RSWM, Banswara Syntex, Donear, Siyaram and Grasim. It has a network of 100 dealers and 1,000 retailers across India.

Domestic Clientele: Raymonds, Siyaram Silk Mills, Grasim Bhiwani Textile, BSL Ltd., Donear Industries, S. Kumar Nationwide, Shri. Dinesh Mills, RSWM.

Overseas Clientele: Bossa Ticaret Ve Sanayi Islatmeleri (Turkey – PV Dyed Yarn), Oguz Textil (Turkey – PV Dyed Yarn), Baekart (USA – PV Dyed Yarn), TBM Textil bezero De Menezes (Brazil – PV Grey Yarn), Vanden Berghe Roger NV (Belgium – Carpet Yarn), EDPA (USA – Cotton Yarn, Knitted fabric), Melmar Knit Wear Company (Egypt – Cotton Yarn)

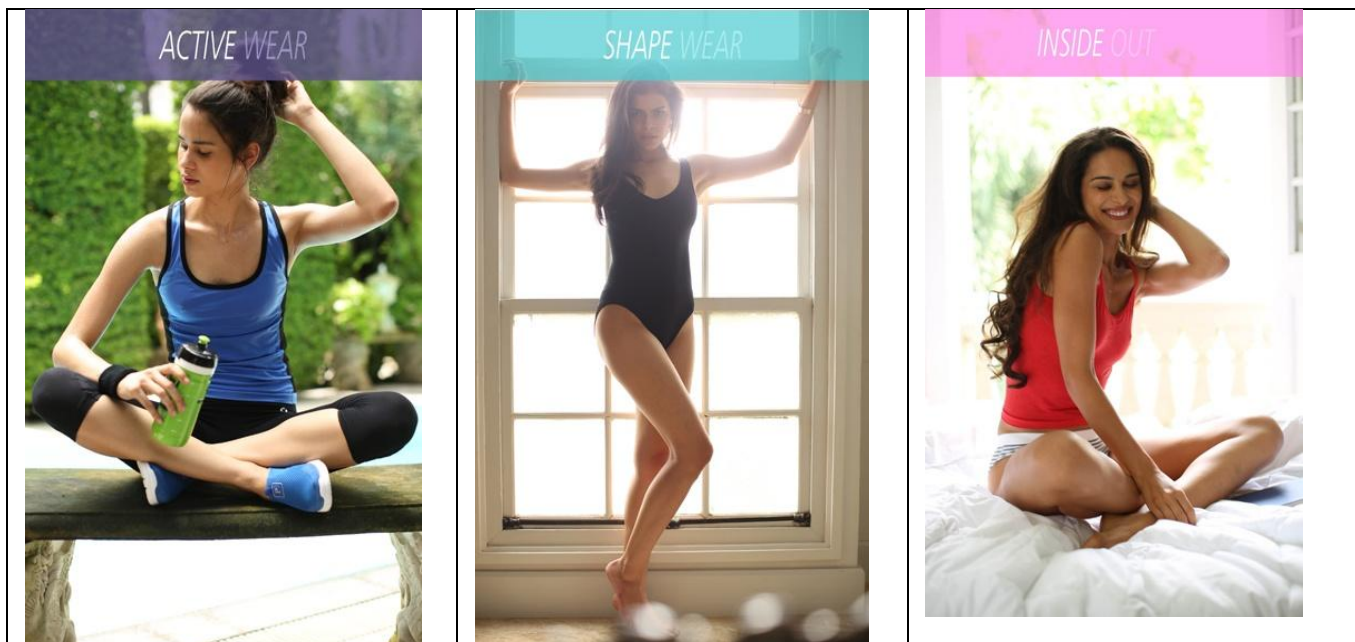
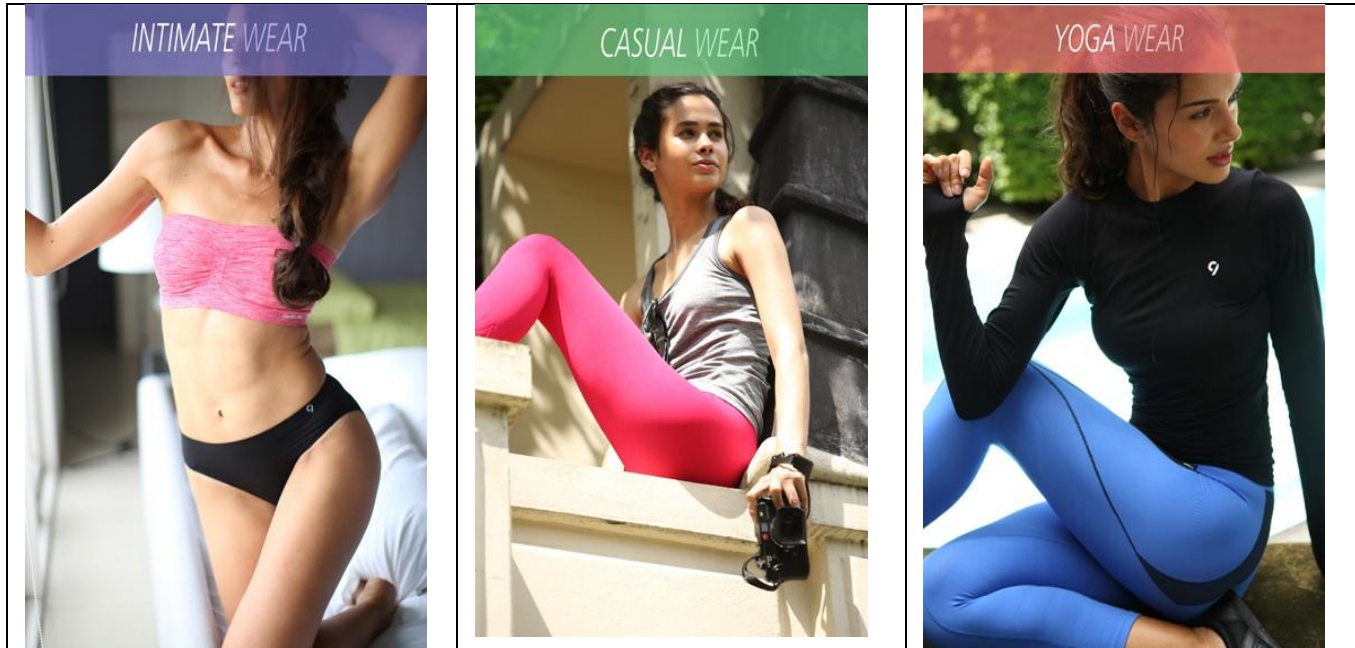
Foray in Seamless Wear garment segment to improve margins

Recently, SIL has forayed into seamless garments for women under Channel Nine brand. For this segment, the Company has latest world class seamless technology imported from Italy. Having established its presence across the value chain, its foray into branded seamless garments not only will enable it to extend its value proposition directly to consumer segments through its own brand; but more importantly pave way for improving margins going forward. Given the explosion of demand in the women-wear segment, Channel Nine would offer diverse range at affordable price across customer segments. Channel Nine range comprises an exquisite range of seamless garments for women including Intimate wear (seamless bra and panties), Active wear (seamless sports bra and leggings), Yoga wear (Yoga T shirt, Yoga Legging, Yoga Track Pant) Shape wear (low compression and high compression), Casual wear (leggings and tanktop), Outwear, products for fitness, shaping and technical products. Apparels with performance features like odour resistance and moisture management find loyalty with customers. The rising per capita income and change in lifestyle has increased demand for quality products. However, with the increasing exposure to international fashion trends, the Indian consumer today wants more than just need – based clothing. In addition to old parameters like basic functionality, comfort and price, better look, perfect fit and trendiness have also become key purchase parameters. Innovations in casual wear products are primarily related to product design, color selection options and fiber mix.

SIL is also leveraging its existing channels of distribution as well as initiating newer channels (online) to capture the market share in Rs.15,000 crore domestic apparel industry. SIL has introduced seamless garment manufacturing facility with 36 seamless knitting machines with current capacity to produce 3.6 mn pieces per annum which will eventually scale up to 10.8mn units by FY18. The steady increase in the operating margin percentage is mainly due to the higher margins in the seamless garments



business. Key clients in Seamless Garments include Nike, Urban Yoga, JC Penny and many other reputed players.



Competition Mapping (Product & Price)

Brand	Sports Wear	Inner Wear	Casual Wear	Shape Wear	Night Wear	Swim Wear	Men's range	Seamless range	Pricing
Channel Nine	√	√	√	√	-	-	-	√	Rs. 299 onwards
Enamor	√	√	-	√	√	-	-	-	Rs. 199 onwards
Amante	-	√	-	√	√	-	-	-	Rs. 395 onwards
Zivame	√	√	√	√	√	√	-	√	Rs. 400 onwards
Adidas	√	-	-	-	-	-	√	√	Rs. 800 onwards
Nike	√	-	-	-	-	-	√	√	Rs. 800 onwards

Source: Company, Ajcon Research

Successful backward integration

The company has successfully modified their capacities, thereby resulting in better integration and efficiency in the value chain. Today, its denim fabrics and seamless garments rely minimally on the externally sourced raw materials. The Company's in-house consumption of PV yarn has grown from 5% in 2010-11 to 18% in 2014-15. At the same time, they consume about 50% of the cotton yarn captively, despite nearly doubled capacities in the same period. SIL is initiating further investments in yarn and fabric capacities to ensure complete integration of the textile value chain in the coming years. Investments in capacities lead to scale. However, they have continued to focus on reducing controllable costs to improve their profitability, despite regular expansion.

Impressive financial performance and strong cashflows

Sangam has witnessed a topline compounded annual growth rate (CAGR) of 10% in its revenues and 29% in its net profits over the period FY10-16. In the same period, it has invested over Rs300 crore in capex (forward and backward integration) but reduced its debt/equity ratio to 1.33 x in FY2016 from over 3.6x in FY2010 due to focus on cash inflows. The return ratios have also improved consistently with return on equity (RoE) and return on capital employed (RoCE) at over 15% in FY2016 from less than 10% in FY2010. The significant improvement and consistency in its financial performance is driven by its efforts to continuously move in backward-forward integration.



Stock Price Movement



Source: www.moneycontrol.com

Recommendation & Valuation

Sangam being probably the only Company which has all the segments of textiles industry including seamless women which has value addition. With due consideration to factors like a) Company managed by very well qualified, experienced and dedicated professional management, b) a fully corporate governance compliant Company with full transparency, c) diversified product mix with market leadership in most of its products, d) foray into seamless female garments segment with its own brand of "Channel Nine" which will add tremendous value to the Company, e) impressive financial performance with strong cash flows, f) prudent debt management - debt/equity to improve to 0.99x by FY18E from current 1.33x in FY15 inspite of expansions for capacity additions, g) ROE set to improve, h) stock attractively trading at cheap valuations of 7x at estimated FY18 EPS, hence we recommend a "BUY". We value the stock at Rs. 448 (by assigning a multiple of 12x (which is appropriate considering the strengths of the Company and its market leadership) at FY18E EPS of Rs. 37.1.



Financial Summary (Rs. in crores)

Particulars	2014-15	2015-16	2016-17	2017-18
	Aud.	Aud.	Proj.	Proj.
Net Revenue from Operation	1468.6	1511	1941.7	2281.74
Other Income	11.02	17.59	15.23	17.14
Total Income	1479.6	1528.9	1956.9	2298.8
Increase %	2.37	3.3		17.47
EBITDA	220.13	233.3	335.59	399.77
EBITDA Margin%	14.99%	15.4	17.28%	17.52%
Interest	67.22	64	70.98	56.35
Depreciation	80.40	76.2	100.68	109.16
Prov. For Book debts.	0.35	-	-	-
PBT	72.16	110.8	163.93	234.26
Income tax	20.59	33.4	39.89	86.80
Net Profit	51.57	77.4	124.04	147.47
N.P. Margin	3.49%	5.1%	6.34%	6.41%
Book Value (Rs.)	94.29	111.4	138.28	173.28
P/BV (x)	2.74	2.49	1.87	1.49
EPS (Rs.)	13.08	19.54	31.47	37.41
P/E (x)	21	14	9	7
ROE (%)	13.87%	17.5	22.76%	21.59%
Inventory days	66	71	67	64
Debtors days	58	65	64	60
Creditors days	32	18	30	29
Debt/Equity (x)	1.65	1.33	1.44	0.99

Source: Company, Ajcon Research



Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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