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Bombay Rayon Fashion - Buy

Investment overview

- Bombay Rayon Fashion (BRFL) has enhanced its overall fabric and garment processing capacity by 1.9 times and 1.2 times respectively.
- Presently it is the largest shirt manufacturer in India.
- The company has recently embarked upon its mega expansion project at Tarapur processing unit increasing its capacity to 180m meters or 5,50,000 mtrs per day. With new capacity expansion it is lowest cost manufacturer of fabric in the world.
- Its different acquisition in recent past has increased its capacity and have expanded customer base.

Business Overview

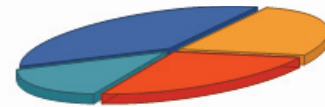
Bombay Rayon Fashions (BRFL) is a multi divisional textile company engaged in the manufacture of a variety of fabrics and garments with modern production facilities. It was the first Indian company to receive direct Equity Investment of Rs. 50 million from Export Import Bank of India (Exim Bank).

It is into the manufacturing of woven fabric for almost two decades. It manufactures woven fabric (both shirting and suiting) of different varieties using cotton, man-made fibres and their blends. Its fabric is sold under the brand name Bombay Rayon to garment manufacturers and retailers. BRFL operates 32 manufacturing facilities, including one sampling unit across several locations.

BRFL's business is divided into two segments- Fabrics and Garments. The company procures yarn and grey fabric (raw material) from the market, converts it into finished fabric, processes it further and then converts the finished fabric into garments. It also sells the intermediate product which is the finished fabric. BRFL caters to both, domestic as well as export market, through an extensive marketing and distribution network.

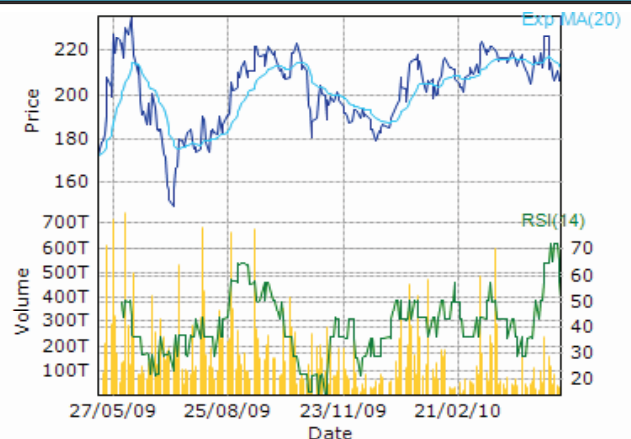
Stock Data		14/05/2010
Current Mkt Price (Rs)		205.90
52 Week High		246.00
52 Week Low		140.15
Mkt Cap (Rs. in Million)		23040.21
Return in last one Month (%)		-2.65

Share Holding



35.09 Indian Promotor	24.03 Total Institutions
23.9 Total Non-Institutions	16.98 Depository Receipt

Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	13424.00	9261.11	44.95
Other Income	47.88	177.61	-73.04
Total Expenditure	10211.14	7145.99	42.89
Operating Profit	3260.74	2292.72	42.22
Interest	659.63	258.30	155.38
Profits After Tax	1484.98	1211.30	22.59
Reserve & Surplus	0.08	0.05	48.84
Reported EPS(Rs)	21.89	19.23	13.85
Core EBITDA Margin (%)	23.93	22.82	4.90



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Financial Health

For the quarter ended December 31, 2009 the company reported sales growth of 21.17% to Rs 417.94 crore compared to Rs 344.93. While its net profit increased 13.34% to Rs 47.23 crore compared to Rs 41.68 crore in the corresponding previous quarter.

The total income for the quarter stood at Rs 419.20 crore compared to Rs 345.93 crore in the same quarter last year, up by 21.18% while the other income increased by 26.17% to Rs 1.26 crore from Rs 1 crore in the Q4 of FY9.

During the quarter the Company has issued 1,90,00,000 Global Depository Receipts (GDRs) representing equivalent number of equity shares to the persons resident outside India at an issue price of \$ 5.11 each resulting into increase of share capital by Rs. 19 crore and Reserves & Surplus by Rs 432 crore.

Industry Scenario

Indian textile industry is one of the oldest industries of the country having its roots in the pre-independence era, It has expanded from domestic small-scale industry to the status of supremacy it currently holds. The Indian textile industry is the second largest in the world -- second only to China. The industry account for 38% of the country's total exports and is, therefore, a very important industry.

The textile industry contributes about 4% to the GDP, 14% to industrial production, and 16% to India's export earnings; apart from this it also provides direct employment to more than 35 million people.

Even as India's textile exports declined through most of the 2009, domestic demand has remained strong largely. This has helped keep the production in green for most of the sub segments after a brief period in the second half of last fiscal. As a result, total cloth production in the country has increased by 7.2% during November 2009 to 4,727 million square meter (msm) compared with 4,398 msm in the same month last year.

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Dec 2009	Dec 2008	Change(%)
Net Sales	4179.37	3449.26	21.17
Expenditure	3163.35	2606.32	21.37
Other Income	12.63	10.01	26.17
EBITDA	1028.65	852.95	20.60
Interest	230.37	165.04	39.58
Net Profit	472.34	416.75	13.34
EBITDA Margin (%)	0.25	0.25	-0.47
NPM (%)	0.11	0.12	-6.46
EPS	4.91	6.03	-18.57

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	13424.00	9261.11	44.95
Total Income	13471.88	9438.71	42.73
Total Expenditure	10211.14	7145.99	42.89
Operating Profit	3260.74	2292.72	42.22
Profits After Tax	1484.98	1211.30	22.59

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	691.00	630.00	9.68
Reserve & Surplus	7873.18	5289.65	48.84
Total Liabilities	29049.03	13189.51	120.24
Investments	3322.79	580.75	472.15
Current Liabilities	1161.61	708.61	63.93
Net Current Assets	10657.49	6040.16	76.44
Total Assests	29049.03	13189.51	120.24

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	21.89	19.23
Core EBITDA Margin (%)	23.93	22.82
EBIT Margin (%)	20.95	21.30
ROA (%)	7.03	11.28
ROE (%)	20.51	22.54
ROCE (%)	13.32	18.38
Price/Book (x)	1.19	3.11
Net Sales Growth (%)	44.95	89.24
EBIT Growth (%)	42.49	122.78
PAT Growth (%)	22.59	122.61
Total Debt/Mcap (%)	1.68	0.39



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Peer group comparison (Rs. crore)

*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS*	P/E*
Bombay Rayon	200903	1342.40	321.29	148.50	11.06	14.37	14.33
JaybharatTextiles	200903	487.25	72.56	26.52	5.44	1.00	299.24
Alok Industries	200903	1316.26	801.79	188.37	6.33	3.08	6.51
SKum.Natn.	200903	1550.23	246.58	60.07	3.88	1.51	46.63

The government has however taken some measures in recent days to bring down the prices of cotton yarn to help ease pressure on textile companies' costs side. The government first suspended the duty concession of 7.5% available to cotton yarn exporters under the Duty Entitlement Pass Book (DEPB) scheme. Later, the finance ministry imposed a duty of Rs 2,500 a tonne on export of all varieties of raw cotton with effect from April 9. Additionally, it also imposed a levy of 3% on cotton waste exports. We expect these moves to result in decline in prices of raw cotton and cotton yarn in the country which will help ease pressure on costs and will thus help the textile players in both Indian as well export markets.

Overall, the demand fundamentals remain strong in the domestic textiles sector but the export segment remains weaker and will take some more months before stabilising. We expect that the domestically-focused and synthetic textile companies will continue to improve rapidly going forward given the stable demand outlook,

Investment Rationale

BRFL is having the largest fabric capacity at a single location and is moving with a strategy to make most of this unique strength as a leading low cost end to end player in global textile segment.

The company's in-house designing and sampling capabilities with integrated manufacturing chain has led to a quick turnaround time of 30-60 days as against the industry average of 60-90 days.

Since FY07, the company has been regularly diluting its equity share capital and raising the debt to expand its capacity in both,

fabric as well as garment business substantially. (It issued 1.8 crore Equity Shares of Rs 10 each representing 20.67% of the enhanced Equity Capital on preferential allotment basis to AAA United B.V)

The growing contribution in revenue from the garment segment which is considered a higher margin business in the sector and backward integration in the Tarapur plant, would certainly add to the profit of the company.

One concern for the company could be the higher appreciation of rupee as its exports contribute 65% of the total revenue. Rupee has been appreciating strongly against dollar as well as euro and pound in the recent days, but the company's better pricing policy and presence in larger fashion segment may help its to mitigate the risk.

The company has in recent past acquired garment business of Leela Scottish Lace at a cost of Rs 155 crore, which increased the group's opportunity to cater all segment. It also acquired garment manufacturing unit of LNJ Apparel for Rs 25.5 crore, strengthening its capacity of garments. Most recently it acquired the garment unit of Maryan Apparel at the cost of Rs 14.74 crore.

At the CMP of Rs 206, Bombay Rayon Fashion is currently trading at an FY11 (E) EPS of 6.06x and at 32.19x of the FY 11(E) PE multiple. The scrip in the recent days has been in the price range of Rs 200-230. Presently it is trading at near to its lower level of the quarter so we will be recommending a buy in the stock with a price target of Rs 298 keeping in view its inherent strength of being a strong player in the sector, business model and growth potential which will put it ahead of its peers in the coming few quarters.



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