

# Expensive yarn

Though the moves to expand capacity and forward integrate into value-added products look promising, the IPO pricing is expensive

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The gloomy scenario on the textile exports front put the expansion and modernisation plans of textile companies on the back burner. However, Jindal Cotex, which is coming out with an IPO does not seem to feel the same. This company is not only expanding the current capacity of yarn manufacturing, but notably, it is forward integrating by setting up dyeing and apparel manufacturing facilities (cost Rs 135 crore) as well as foraying into the value-added technical and medical textile space (Rs 81 crore investment) through two subsidiaries. Of the total project cost of about Rs 216 crore, about Rs 91 crore is expected to be funded through debt.

## Gunning for expansion

Jindal Cotex currently manufactures polyester, acrylic and blended yarns and has an annual capacity of 23,500 spindles. The company is planning to expand its yarn capacity by 115 per cent or 50,400 spindles in two phases. The first phase

consisting of 28,000 spindles is expected to be completed by October 2009. The remaining as well as the installation of a yarn-dyeing capacity (six tonnes per day) and a garment manufacturing unit (3,000 pieces a day) is slated to come on stream by March 2010 and, would enhance the company's presence across the value chain. However, given the progress over project implementation, a delay is not ruled out.

The exciting news is its foray into value-added textile space through its two subsidiaries. One of them, Jindal Medicot is planning to produce medical textile products like bleached cotton wool and cotton crape bandages used for healthcare and cosmetic applications. This is slated to complete by March 2010. The second is Jindal Specialty Textiles to manufacture PVC laminated fabrics (import substitute) used in outdoor advertising (like banners), inflatable fabric (boats) and tents. If things materialise as per plan, inflows from the two subsidiaries should start from 2010-11 and should amount to about half of consolidated total revenues by 2011-12. The company does not have relevant experience in these areas though it has a tie-up with a Korean firm for the medical textile business.

## ROBUST, BUT EXPENSIVE

In Rs crore	FY 09	Q1 FY 10	FY 10E	FY 11E
Sales	138.30	29.40	184.65	308.30
EBITDA	10.10	3.80	24.05	43.40
Net Profit	4.30	1.80	12.03	23.25
EPS (Rs)	3.50	5.70*	4.80	9.30
PE (x) @ Rs 70	20.30	12.30	14.60	7.50
PE (x) @ Rs 75	21.70	13.20	15.60	8.10

E: Estimates

\* annualised

## Outlook

About 50 per cent of its revenues are contributed by top 3 customers and 90 per cent come from the domestic markets; even if this proportion has started to moderate recently it is still high. The moves to expand into technical textile space could fairly diversify its business model.

However, considering the recent financials, the valuations look expensive—on the expanded equity capital and assuming annualised earnings for June 2009 quarter, the PE works out to 25 at the upper band. Even after considering its estimated 2010-11 EPS of Rs 9.3, the stock is trading at 7.5 times at lower band and 8.1 times at upper band. This could sound soothing. However, well established and significantly bigger players like Alok Industries (Sales of about Rs 3,000 crore and PAT margin of 6.3 per cent for 2008-09), trading at 2.3 times PE and one of Jindal's peers, Amarjothi Spinning, trading at 5.5 times, the issue looks expensive.