

Surely a money spinner

Companies focusing on integration and scale are good long-term bets

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The finance minister seems to have covered almost all segments of the textile value chain with his Budget announcements, except the politically sensitive labour reforms. Besides, a year after the abolition of global textile quotas, the domestic textile sector has posted decent growth in exports to the developed markets like the US. And it is evident in last year's numbers.

According to US Office of Textile and Apparel (OTEXA), in 2005, India's textile and apparel exports increased by an unprecedented rate of 22 per cent in volumes and 27 per cent in value terms at \$46.16 billion. Though just at half the rate of the world's biggest exporter China, India has fared better than Pakistan and Bangladesh in terms of growth in exports. Factors like abundance of raw materials, such as cotton, and low-cost skilled labour and designers are expected to drive further growth of the Indian textile industry.

Thus, it's time for investors to look at the

sectors or the stocks that have good growth potential.

According to analysts, the three segments, which are likely to benefit the maximum from the opening up of the global markets, are garments, denim and home textiles, such as bed and bath linen.

While the garment segment is poised for growth, thanks largely to the abundant availability of low-cost skilled labour and designers, denim manufacturers are expected to take full ad-

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MONEY MACHINES

Company	Price as on 3-3-2006	% change (y-o-y)	FY07E	FY08E
Raymond	457.45	36.6	14.2	12.2
Alok Industries	72.5	7.33	7.7	5.6
Mahavir Spinning	357.45	80.32	11.2	8.4
Arvind Mills	97	-26.99	16.4	-
Gokaldas Exports	700	11.12	15.2	12.7
Himatsingka Seide	140.4	45.25	24.2	12.4

vantage of the uptrend in the global demand for denim, which, industry experts say, will grow at around 5-6 per cent this year.

Home textiles is emerging another opportunity for exports growth of domestic companies with capacities dwindling in the developed markets, as indicated by the shutting down of Westpoint Stevens and Pillowtex in the US. Further, India - like other Asian countries such as China and Pakistan - is increasing its production capacities.

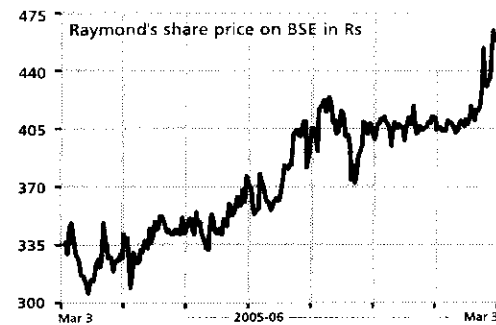
Another factor expected to keep the spinning wheels busy is the booming domestic market led by rising proportion of young working population and changing lifestyle of Indian people. Besides huge potential for garments, the local demand for denim is likely to surge this year, by over 20 per cent. However, like its peers abroad, the domestic denim segment has been grappling with problems of overcapacity and price erosion. But, on the positive side, value-added denim is expected to beat the trend. The domestic market for home textiles is also likely to be buoyant, as local players such as Welspun and Himatsingka have plans of rolling out exclusive stores.

Despite its robust growth potential, stock-picking in this sector is crucial as only the companies having scale and leadership position or a niche presence are likely to take full advantage of the anticipated strong demand, especially in exports. Here are some stocks which analysts are bullish on.

Raymond: Strong brands

Raymond is a diversified player with presence in the worsted fabrics, denim and engineering-and-tools business. It is a leader in the worsted fabrics business and is the third-largest denim manufacturer in India with newly augmented capacity of 28 million metres and 40 million metres, respectively.

With about 0.8 million sq ft of retail space, the



company is a fully integrated unit from spinning to garmenting (shirts and jackets) to retailing. The company recently formed a joint venture with Belgium-based firm UCO NV Denim to form a global capacity of 80 million metres. And this is expected to give it a better reach in the developed markets like the US and the EU by virtue of multi-locational plants in Belgium, the US, Romania and India. The textile major recently forayed into the children's segment with its 'Zapp!' brand.

"Raymond has very good brands like Raymond's, Color Plus and Park Avenue, and is in a position to sustain competition on the strength of its extensive retail reach," said an analyst with IDBI Capital. The stock currently trades at around a P/E of 12.2 times for FY08E.

MEASURES IN UNION BUDGET

The UPA government has announced several progressive measures in its Budgets in order to boost investments in the sector and make it internationally competitive (see table). Abolition of mandatory excise duty on cotton textiles made the segment competitive; and it had been further aided by low cotton prices. Increased allocation to TUFs, de-servation of the knitting and hosiery

sector and capital subsidies to processors were all proposed to encourage expansion and investments of large players. However, the man-made fibre industry, which had been reeling under the pressure of spiralling raw material prices and high fiscal duties, was largely ignored. It also got a level playing field in 2006-07 with reduction of duties on final products and raw materials.

2004-05 Abolition of mandatory excise duty on cotton textiles (yam, fibre and garment) • Mandatory excise on PFY at 24%, others man-made fibre and yam 16%

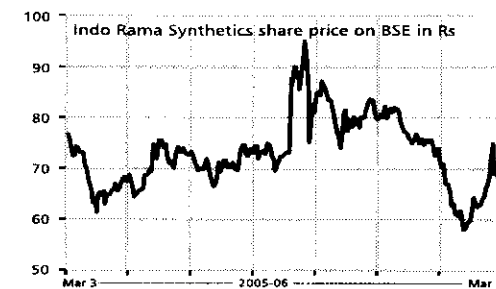
2005-06 De-reservation of 30 products in hosiery and knitting sector • Allocation of Rs 435 crore for Technological Upgradation Fund (TUF) • A 10% capital subsidy scheme for the textile processing sector • Duty on textile machinery reduced from 20% to 10%

2006-07 Excise duty on all man made fibre and yarn cut down from 16% to 8% • Customs duty on all man-made fibre and yarn and raw material like PTA, DMT and MEG down from 15% to 10% • Allocation to TUFs enhanced to Rs 535 crore

Indo Rama Synthetics: Good short-term bet

The company is the second-largest dedicated manufacturer of the polyester filament yarn (PFY) and polyester staple fibre (PSF), the main products in the synthetic textile sector.

It plans to double its current capacity of 3 lakh tonne by June 2006, in line with the expected increase in the supply of important raw materials such as PTA and MEG. This is likely to

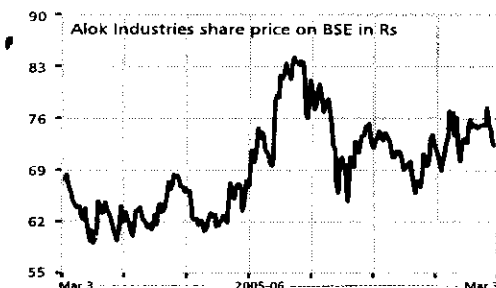


cut the company's input costs.

"Indo Rama is being preferred mainly owing to the positive measures announced in the Budget for the man-made fibre industry. It is the best bet; however, for the short term, as one needs to see how it copes with the competition from the integrated polyester major -- Reliance Industries," said an analyst with the same firm. The stock at present trades at a trailing 12 month P/E of 14 times.

Alok Industries: Emerging home textile player

The company is another integrated textile player with large presence in apparel fabrics, home textiles, like bed linen, and garments. It

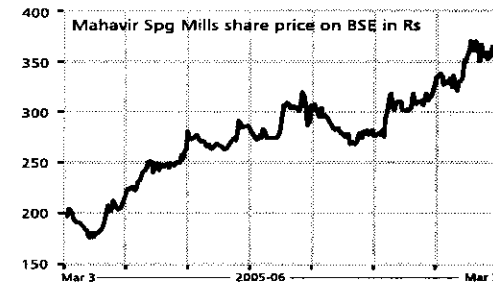


has planned major expansions in the areas such as weaving and knitting and processing, benefits of which are likely to be reflected fully only in FY08.

"The company is the best bet in the home textile space since it is well diversified unlike Welspun (mainly into terry towels) and is one of the largest in the manufacture of apparel fabric and processing," said an analyst. The stock currently trades at 5.6 times for FY08E.

Mahavir Spinning: Expansion augers well

The company is the largest domestic cotton yarn manufacturer with over 4.5 lakh spindles and a capacity to make 28 million metres fabric a year. It has lined up a massive investment of Rs



1,600 crore over the next three years in a bid to double its fabric processing capacity as well as augment and modernise its spinning and weaving capacities. This will lead to higher growth in keeping with the company's strategy to focus on value-added products such as fabrics, in addition to commodity yarn. At present, the stock trades at 8.4 times for FY08E.

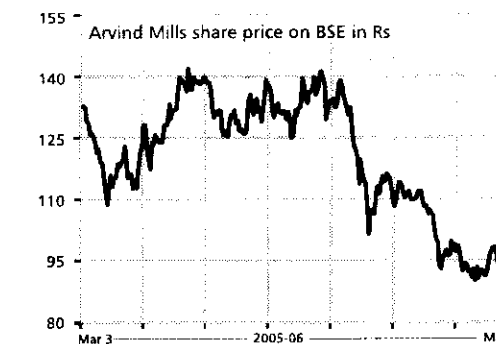
Arvind Mills: Long-term beneficiary of upcycle in denim

The company is the largest domestic cotton textile manufacturer and exporter. It is also the largest denim manufacturer in the country with a capacity of 120 million metres. The company has been witnessing pricing pressure since the end of the quota regime. However, it is expected to benefit from upturn later on.

What goes in the favour of the company as a positive factor is its substantial inventory of low-



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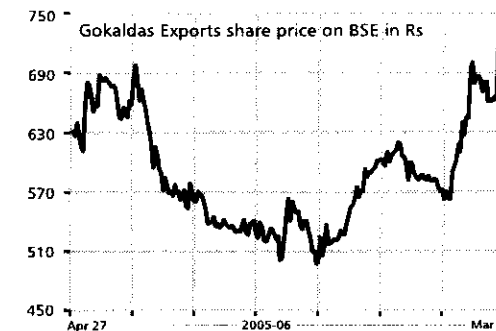


cost cotton, which is likely to last till July this year. Further, a shift from naptha to gas will reduce energy costs.

"Arvind Mills looks good for the long term owing to its large denim volumes and garmenting initiatives," said Sejal Doshi of Angel Broking. The stock currently trades at a P/E of 16.7 times for FY07E.

Gokaldas Exports: Big beneficiary of removal of global garment quotas

The company is likely to be one of the biggest beneficiaries of the post-quota opportunities in the world's largest textile market -- apparel. It is the largest domestic apparel exporter and manufacturer with a capacity of 24 million pieces. It is going to expand capacity to 36 million pieces by FY07 with a presence in most outer-wear, casuals and bottom-wear. Ther company is also expected to benefit from the cut in import duty on fabrics from 15 to 12.5 per cent as the company sources most of its fabrics from abroad. The stock now trades at a P/E of 12.7 times its FY08E.



Himatsingka Seide: Niche player

The company is is largest silk fabric exporter with the highest margins in the domestic textile industry, with a capacity of 2.25 million metres. It is a niche player and manufactures silk and silk-blended fabrics for home textiles, like curtains and upholstery, and apparel such as bridal and women's wear. The company had a chain of 10 furnishing stores, as in March last year. It plans to invest around Rs 400 crore in the fast growing bed linen business. The scrip currently trades at a P/E multiple of 12.2 times its FY08E.

