

# NANDAN DENIM LIMITED

## Q2 & H1 FY15 RESULTS UPDATE

NOVEMBER 2014



*This presentation and the following discussion may contain “forward looking statements” by Nandan Denim Limited (Nandan Denim) that are not historical in nature. These forward looking statements, which may include statements relating to future results of operations, financial condition, business prospects, plans and objectives, are based on the current beliefs, assumptions, expectations, estimates, and projections of the management of Nandan Denim about the business, industry and markets in which it operates.*

*These statements are not guarantees of future performance, and are subject to known and unknown risks, uncertainties, and other factors, some of which are beyond Nandan Denim’s control and difficult to predict, that could cause actual results, performance or achievements to differ materially from those in the forward looking statements. Such statements are not, and should not be construed, as a representation as to future performance or achievements of Nandan Denim. In particular, such statements should not be regarded as a projection of future performance of Nandan Denim. It should be noted that the actual performance or achievements of the company may vary significantly from such statements.*

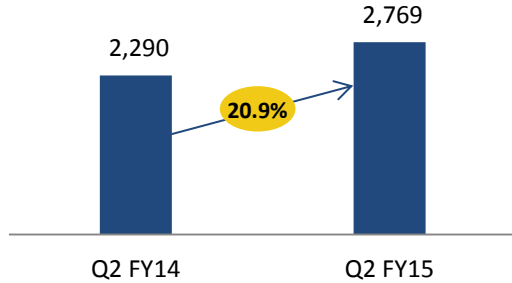


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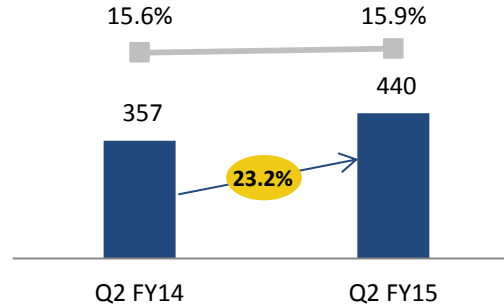


# Q2 FY15 RESULTS – YoY Analysis

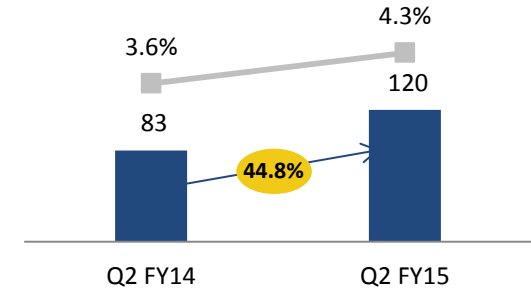
## REVENUES



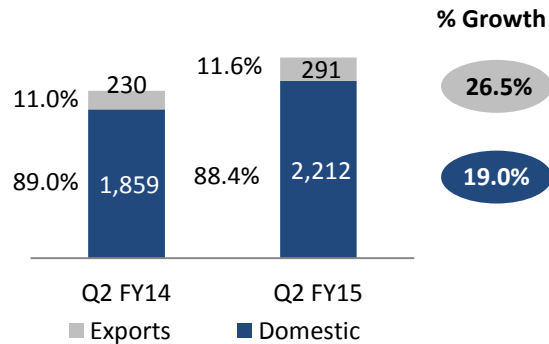
## EBITDA & EBITDA MARGIN



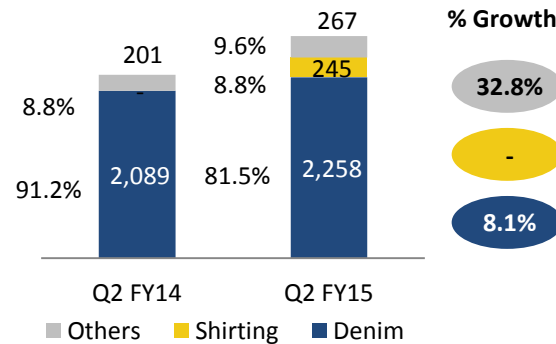
## PAT & PAT MARGIN



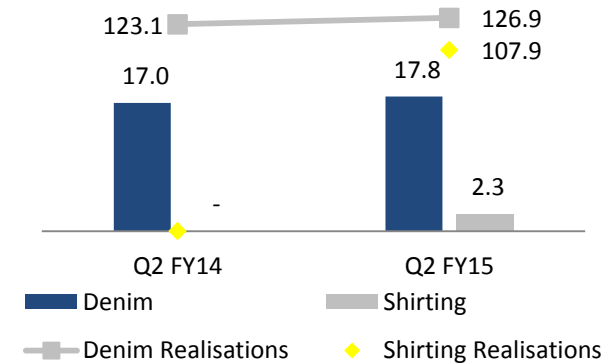
## REVENUES MIX



## REVENUE MIX



## VOLUMES & REALISATIONS

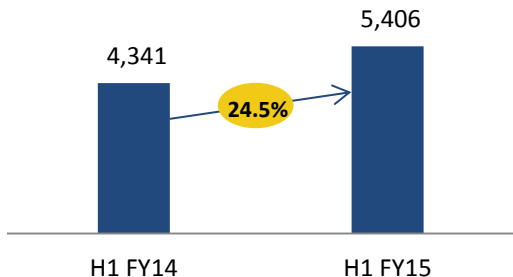


In Rs Mn , Volumes in Mn Metres, Realisations in Rs/Metre

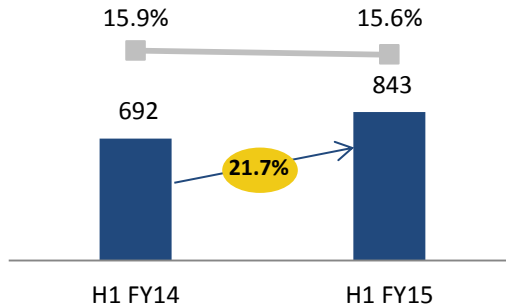


# H1 FY15 RESULTS – YoY Analysis

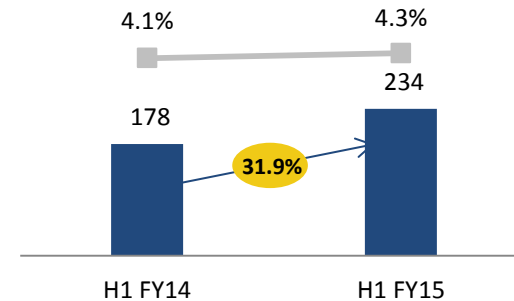
## REVENUES



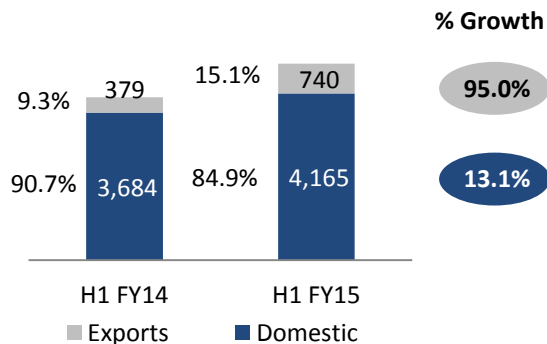
## EBITDA & EBITDA MARGIN



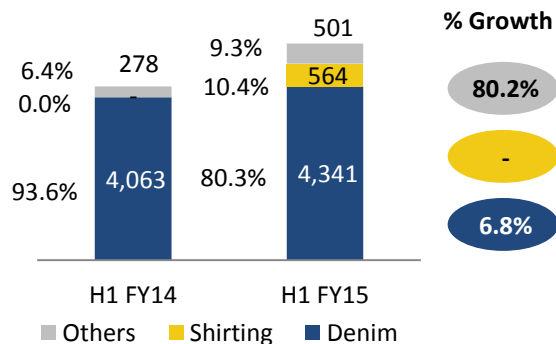
## PAT & PAT MARGIN



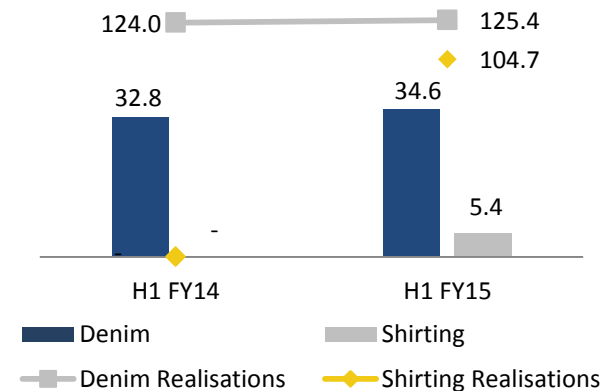
## REVENUES MIX



## REVENUE MIX



## VOLUMES & REALISATIONS



In Rs Mn , Volumes in Mn Metres, Realisations in Rs/Metre

- Q2 FY15 revenues grew by 20.9% YoY and H1 revenues grew by 24.5% YoY driven by –
  - Higher penetration in export markets as well as improved domestic operations.
  - Higher denim volumes driven by expanded denim capacity and improved denim realisations.
  - Incremental contribution from shirting volumes at stable realizations.
  - The company has been successful in diversifying its operations by increasing its share of exports and also enter into shirting fabrics.
- Q2 FY15 gross margin increased by 94 bps YoY driven by –
  - Efficient cotton procurement which helped the company to benefit from decline in cotton prices during Q2 FY15.
- Q2 FY15 EBITDA margin increased by 29 bps YoY –
  - In line with gross margins partially offset by higher employee expenses and operating expenses on account of expansion in denim and shirting capacities.
- Higher depreciation charges were due to change in the accounting policy and incremental on-going capex for capacity expansion.
- Total Debt was stable at Rs 4,354 mn at Sep-14 compared to Rs 4,307 mn at FY14.

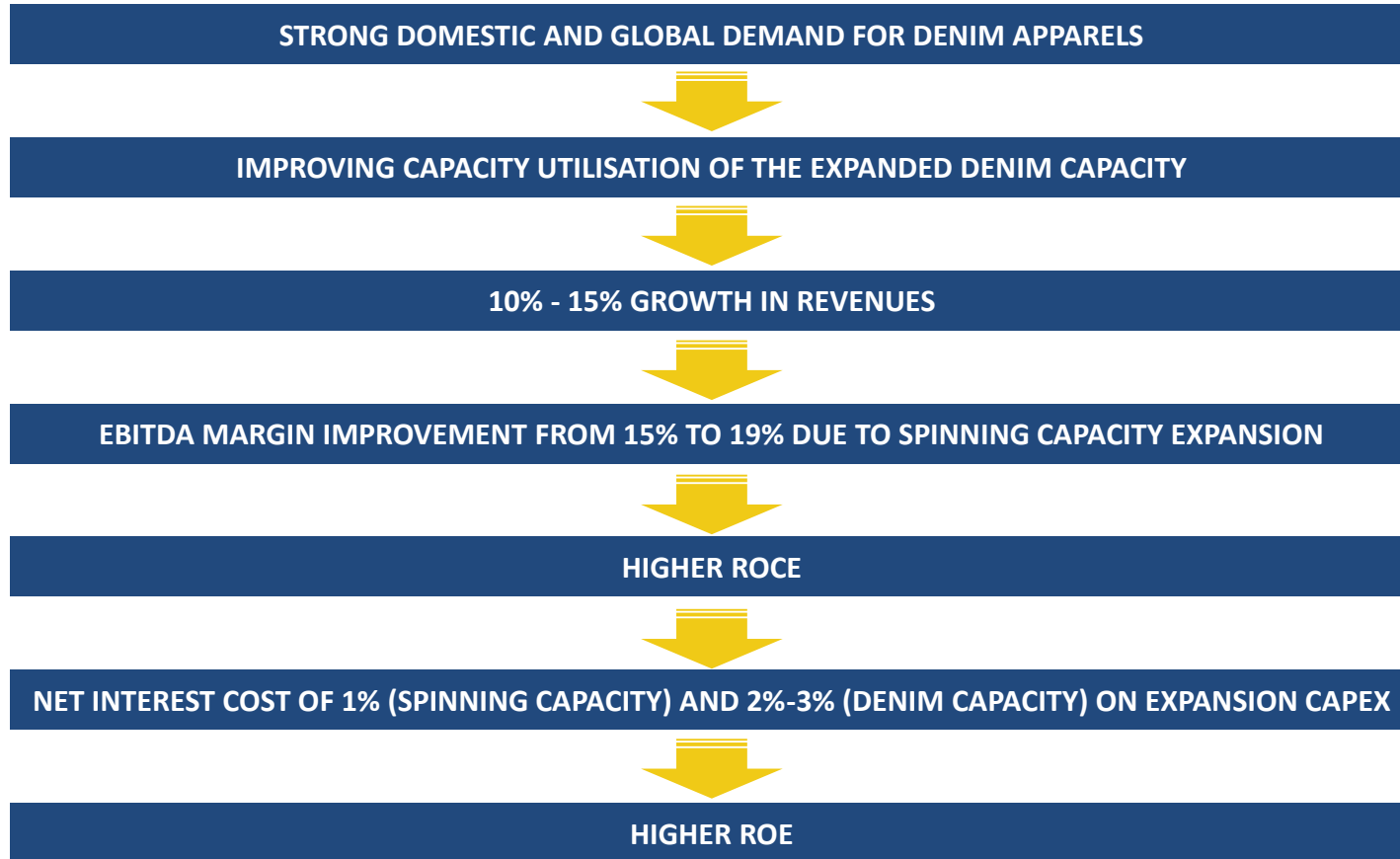
# Q2 & H1 FY15 P&L STATEMENT

Particulars in Rs Mn	Q2 FY15	Q2 FY14	YoY %	Q1 FY15	QoQ %	H1 FY15	H1 FY14	YoY %	FY14
Sales from Operations	2,769	2,290	20.9%	2,637	5.0%	5,406	4,341	24.5%	8,703
Other Operating Income	-	-	-	-	-	-	-	-	234
<b>Total Sales</b>	<b>2,769</b>	<b>2,290</b>	<b>20.9%</b>	<b>2,637</b>	<b>5.0%</b>	<b>5,406</b>	<b>4,341</b>	<b>24.5%</b>	<b>8,938</b>
Cost of Goods Sold	1,894	1,588	19.3%	1,832	3.4%	3,726	2,916	27.8%	6,249
<b>Gross Profit</b>	<b>875</b>	<b>702</b>	<b>24.6%</b>	<b>805</b>	<b>8.7%</b>	<b>1,680</b>	<b>1,425</b>	<b>17.9%</b>	<b>2,689</b>
<b>Gross Margin %</b>	<b>31.6%</b>	<b>30.7%</b>	<b>94 bps</b>	<b>30.5%</b>	<b>108 bps</b>	<b>31.1%</b>	<b>32.8%</b>	<b>-174 bps</b>	<b>30.10%</b>
Employee Expenses	108	91	18.9%	87	23.5%	195	166	17.4%	310
Other Expenses	328	255	28.7%	315	4.1%	643	566	13.5%	1,052
<b>EBITDA</b>	<b>440</b>	<b>357</b>	<b>23.2%</b>	<b>403</b>	<b>9.1%</b>	<b>843</b>	<b>692</b>	<b>21.7%</b>	<b>1,327</b>
<b>EBITDA Margin %</b>	<b>15.9%</b>	<b>15.6%</b>	<b>29 bps</b>	<b>15.3%</b>	<b>60 bps</b>	<b>15.6%</b>	<b>15.9%</b>	<b>-36 bps</b>	<b>14.80%</b>
Depreciation	153	121	26.5%	152	0.4%	305	236	29.1%	497
Other Income	5	17	-	8	-	14	23	-	40
<b>Profits Before Interest and Taxes</b>	<b>292</b>	<b>253</b>	<b>15.6%</b>	<b>259</b>	<b>12.8%</b>	<b>551</b>	<b>479</b>	<b>15.1%</b>	<b>869</b>
Interest Expense	104	94	10.1%	99	4.4%	203	185	9.9%	320
<b>Profits Before Taxes</b>	<b>188</b>	<b>159</b>	<b>18.9%</b>	<b>160</b>	<b>18.0%</b>	<b>348</b>	<b>294</b>	<b>18.3%</b>	<b>549</b>
Taxes	69	76	-9.3%	45	53.1%	114	117	-2.4%	156
<b>Tax rate</b>	<b>36.5%</b>	<b>47.9%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32.7%</b>	<b>39.6%</b>	<b>-</b>	<b>28.40%</b>
<b>Profits After Tax</b>	<b>120</b>	<b>83</b>	<b>44.8%</b>	<b>115</b>	<b>4.2%</b>	<b>234</b>	<b>178</b>	<b>31.9%</b>	<b>393</b>
<b>PAT Margin %</b>	<b>4.3%</b>	<b>3.6%</b>	<b>71 bps</b>	<b>4.4%</b>	<b>-</b>	<b>4.3%</b>	<b>4.1%</b>	<b>24 bps</b>	<b>4.40%</b>
EPS (Rs)	2.63	1.81	-	2.52	-	5.14	3.90	-	8.63

# SEP-14 BALANCE SHEET

Particulars in Rs Mn	FY14	Sep-14
<b>Shareholders Funds</b>	<b>2,165</b>	<b>2,399</b>
Long Term Debt (incl. CPLTD)	3,229	3,226
Short Term Debt	1,078	1,128
<b>Total Debt</b>	<b>4,307</b>	<b>4,354</b>
Other Long Term Liabilities	216	245
<b>Sources of Funds</b>	<b>6,688</b>	<b>6,998</b>
Fixed Assets	4,523	4,326
Other Non-Current Assets	165	143
Inventory	1,385	1,510
Trade Receivables	1,214	1,312
Cash & Bank Balances	261	280
Other Non-Current Assets	369	368
Trade Payables	576	190
Other Current Liabilities	653	590
<b>Net Current Assets</b>	<b>2,000</b>	<b>2,690</b>
<b>Application of Funds</b>	<b>6,688</b>	<b>6,998</b>





# ABOUT US: CHIRIPAL GROUP – EMERGING CONGLOMERATE



**Group Turnover**  
Rs 28,955 mn

**Group EBITDA**  
Rs 3,207 mn

**Group PAT**  
Rs 825 mn

**Employee Strength**  
5,000

BUSINESS DIVISION	GROUP COMPANIES	DETAILS
<b>Textiles</b>	Nandan Denim Ltd. Chiripal Industries Ltd. (Processing Division) Vishal Fabrics Pvt. Ltd.	<ul style="list-style-type: none"> <li>Fully integrated facilities for manufacturing range of products viz. woven fabrics, circular knitted fabrics, polar fleece fabrics, cotton hosiery, denim, etc.</li> </ul>
<b>Petrochemicals</b>	Chiripal Industries Ltd. (Petrochemicals Division) CIL Nova Petrochemicals Ltd.	<ul style="list-style-type: none"> <li>Offers integrated range of products ranging from POY – 50-250 denier and FDY – 50-150 denier.</li> <li>Employs latest and fully automated machinery operated with Japanese and German technology.</li> </ul>
<b>Chemicals</b>	Chiripal Industries Ltd. (Chemicals Division)	<ul style="list-style-type: none"> <li>Operates two major divisions – Adhesives &amp; Speciality Performance Chemicals.</li> <li>Equipped to provide world class solutions to the paints, paper, leather, packaging &amp; textile industries</li> </ul>
<b>Packaging</b>	Chiripal Poly Films Ltd.	<ul style="list-style-type: none"> <li>World Class two imported Biaxial orientation of polypropylene (BOPP) lines from Bruckner, Germany for manufacturing films capacity of 77,550 MTPA.</li> <li>In addition, CPFL has two Metalizers for producing metalized films.</li> <li>The company is also implementing BOPET Line to cater to wide demand for BOPET Products.</li> </ul>
<b>Infrastructure</b>	Shanti Developers Dholi Integrated Spinning Park Vraj Integrated Textile Park	<ul style="list-style-type: none"> <li>Operates a fully equipped industrial park for SME enterprises in the textile sector</li> <li>Has made a successful foray in the area of residential infrastructure as well.</li> </ul>
<b>Education</b>	Shanti Educational Initiatives Ltd.	<ul style="list-style-type: none"> <li>Runs 6 schools under the brand “Shanti Asiatic” located in Ahmedabad, Surat and Jaipur with over 2,700 students.</li> <li>Present in the management education space having student strength of 450 students.</li> <li>Successfully running over 130 pre-K franchise – Shanti Juniors with over 6,000 students.</li> </ul>



## STRONG PEDIGREE

- Nandan Denim Limited is a part of a leading conglomerate, Chiripal Group, which was established in 1972 and is currently diversified across several businesses like Textiles, Petrochemicals, Chemicals, Packaging, Infrastructure and Education.
- Nandan Denim commenced its operations in 1994 with textile trading business and forayed into textile manufacturing in 2004. The company currently engages in manufacturing of denims, cotton fabrics and khakis.
- The company is run by a professional management team with an average experience of more than two decades..

## LEADING INTEGRATED DENIM MANUFACTURER

- Nandan Denim has one of the largest denim fabric manufacturing capacities in the world.
- The company expanded its denim fabric capacity from 71 MMPA to 110 \* MMPA in FY14.
- The company plans to backward integrate by expanding its spinning capacity from 64 TPD (tonnes per day) to 124 TPD in FY15-16 resulting into higher operating margins and improved return ratios.
- The company also owns a captive power plant of 15 MW.

## STRONG FINANCIAL PERFORMANCE

- Consolidated revenues, EBITDA and PAT were Rs 8,938 mn, Rs 1,327 mn and Rs 393 mn in FY14 having grown at CAGR of 24%, 23% and 36% over last five years.
- Stable EBITDA margins of around 14% - 15% over last five years.
- Return ratios have improved over last five years driven by improving asset turnover.
  - ROCE – 9.0% in FY10 to 14.1% in FY14.
  - ROE – 9.5% in FY10 to 19.6% in FY14.
- FY14 Debt : Equity was 2:1.

\* Post complete expansion



# ABOUT US: INTEGRATED DENIM FABRIC FACILITY



**FIBRE**

### Ginned Cotton

70% of cotton requirement is met from Gujarat



**YARN**

### Spinning

Ring Spinning – 44 TPD  
Open End Spinning – 20 TPD



**FABRIC**

### Weaving & Processing

Denim – 110 \* MMPA  
Shirting – 10 MMPA

## KEY HIGHLIGHTS

- One of the largest denim fabric facility in the world and second largest in India.
- Machinery with latest technology from Germany and Japan, capable of producing wide range of denim fabrics.
- ~10% domestic fabric market share.
- ~80% denim capacity utilisation.
- Sufficient power through 15 MW captive power plant.

\* Post complete expansion

## THE GUJARAT ADVANTAGE

### GUJARAT TEXTILE HUB OF INDIA

- Largest producer of denim fabric (65-70%) in India and third largest in the world.
- Largest producer of cotton in India with 31% share.
- Textile hub of India housing the entire textile value chain.

### GUJARAT TEXTILE POLICY – BENEFITS

- Interest Subsidy (in addition to Central subsidies) for 5 years:
  - 7% - Spinning & garment facilities
  - 6% - Technical textiles
  - 5% - All other facilities
- Power tariff subsidy @ Rs 1/unit for 5 years.
- VAT/Entry Tax reimbursement for 8 years.
- 100% stamp duty reimbursement.



### SUPERIOR CONNECTIVITY

- Located in Ahmedabad, the financial capital of Gujarat.
- Superior infrastructure connectivity through roads, rail, airport and ports.

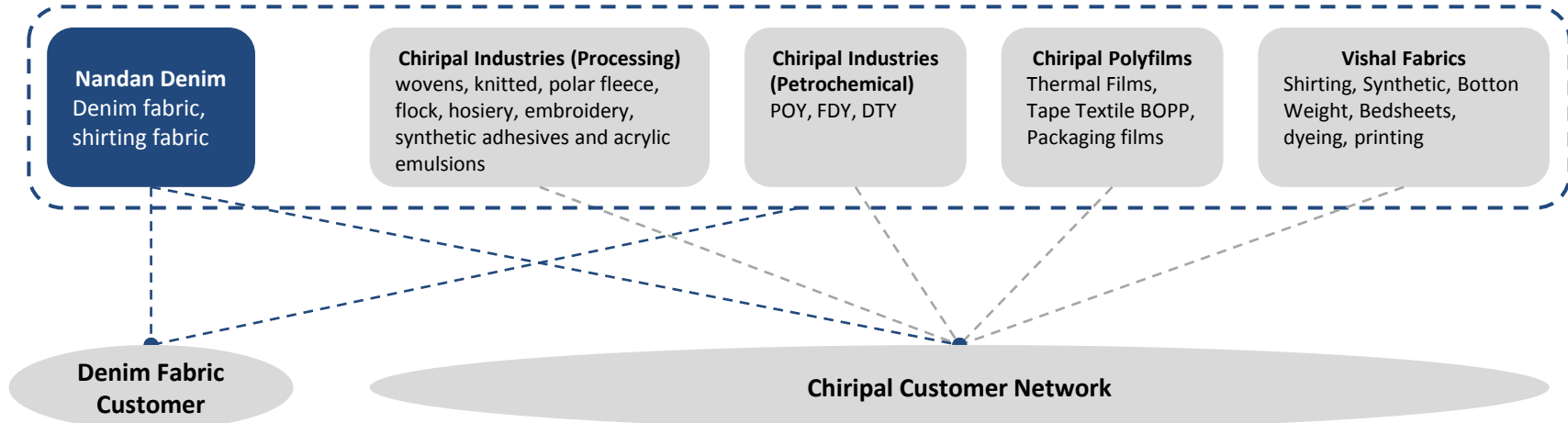
### PROXIMITY TO MARKET

- Close proximity to machinery vendors, fabric dealers and leading garment manufacturers resulting in faster delivery and service.
- Lower marketing and transportation overheads.

### LOW COST OF PRODUCTION

- Easy availability of key raw material - Cotton.
- Uninterrupted power supply in state of Gujarat.
- Gujarat meets around 70% of the cotton requirement.
- Easy availability of skilled and unskilled labour.

## LEVERAGE CHIRIPAL GROUP ECO-SYSTEM



- Access to the large customer network of the Chiripal Group.
- Successful customer acquisition and retention through the cross-leveraging of group capabilities and cross-selling of group offerings.
- One of the largest group level processing capacity of ~0.8 MMPD adding significant value to customers by fulfilling their printing, dyeing, bleaching, synthetic yarn and other processing requirements under one roof.



## MARKETING & DISTRIBUTION – DOMESTIC MARKETS

- Leveraging the strong agent-based domestic network of the Chiripal group.
- Strong pan-India network of around 35 – 40 distributors associated with the company for close to a decade.
- Strategic tie-ups with 10 firms to exclusively sell Nandan Denim's products.
- Around 2/3<sup>rd</sup> of the orders are confirmed through long term agreements involving minimum yearly quantity commitment.

## MARKETING & DISTRIBUTION – EXPORTS MARKETS

- Leveraging the strong agent-based global network of the Chiripal group.
- Strong global network of around 15 distributors spread across 8 countries – Peru, Mauritius, Hong Kong, Dubai, Thailand, Bangladesh, New York, Columbia.
- Export of denim fabric to over 22 countries across the globe.
- Merchant exports through various star export houses to give an additional boost to exports.

**Despite the current over-supply in the domestic denim market, Nandan Denim has been able to grow its revenues at a CAGR of 24% (compared to industry growth of 12% - 15%) over last 5 years, while maintaining stable EBITDA margins of around 14% - 15%.**

# ABOUT US: BUILDING GLOBAL PRESENCE



**Nandan Denim exports its denim fabric to over 22 countries across the globe through its strong global dealer-distribution network.**

# ABOUT US: GLOBAL ACCEPTANCE FROM LEADING BRANDS

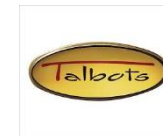


DOMESTIC BRANDS



GLOBAL DENIM FABRIC SUPPLIER TO MAJOR BRANDS AROUND THE WORLD

GLOBAL BRANDS



ANN TAYLOR





Capacity	FY13	FY14 – Phase I		FY15-16 – Phase II	
	Year End	Additions	Year End	Additions	Year End
<b>Spinning (TPD)</b>					
Open End Spinning	38	6	44	40	84
Ring Spinning	16	4	20	20	40
<b>Fabric (MMPA)</b>					
Denim	71	39	110 *	-	110 *
Shirting	-	10	10	-	10

## CAPACITY EXPANSION:

- Capacity expansion plan to increase the denim fabric manufacturing capacity, spinning capacity and shirting capacity.
- Total capital requirement of Rs 6,120 mn to be funded with a D:E ratio of 2.4 : 1.

## PHASE I EXPANSION:

- Expansion of denim fabric capacity will help the company to increase its domestic market share as well as diversify its operations on a global scale through increasing share of exports.
- Addition of new shirting capacity to further diversify its operations.

## PHASE II EXPANSION:

- Expansion of spinning capacity to support the increased denim fabric capacity of 110 \* MMPA.
- Backward integration through spinning capacity expansion will help the company to improve its operating flexibility and margins.

## LATEST UPDATE:

- Capex incurred as on Sep-14: Rs 2,375 mn.

\* Post complete expansion

## STRONG DOMESTIC AND GLOBAL DEMAND

- Strong domestic demand backed by majority young population (78% < 45 years), rising disposable incomes and fashion consciousness and increasing organised retail industry penetration in Tier II and III cities.
- Strong global demand and potential for being a global production hub driven by easy availability of cotton, competitive currency and low cost labour.
- Set to benefit from China's decreasing competitiveness . As per CITI estimates, if China loses 10% market share in global textiles, India's market share will increase by 80%.

## LOCATION ADVANTAGE

- Located in Gujarat – Textile hub of India, largest exporter of denim fabric, largest producer of cotton etc.
- Easy availability of cotton (Gujarat meets 70% requirement) and skilled & unskilled labour.
- Close proximity to machinery vendors, fabric dealers and leading garment manufacturers resulting in faster delivery and service and lower overheads.

## BENEFITS UNDER CENTRAL AND STATE GOVERNMENT POLICY

- **Gujarat textile policy:** 5% (7% - spinning facility) interest subsidy and power subsidy @ Rs1/unit for 5 years, VAT/Entry Tax reimbursement for 8 years, 100% stamp duty reimbursement.
- **TUFS (Central textile policy):** 5% interest subsidy and 10% capital subsidy for period of 7 years.

## IMPROVED OPERATIONAL FLEXIBILITY

- Integrated facility will improve the overall operational flexibility, helping the company to absorb the increasing market demand.
- Faster delivery and timely execution due to limited dependency on external factors along the value chain.
- Achieve optimum capacity utilisation.
- Maintain consistency and high quality standards.

## IMPROVED MARGINS THROUGH BACKWARD INTEGRATION

- In-house production of cotton yarn would result in ~10% - 15% savings compared to purchase of yarn from the market.
- Integrated facility to help in better management of the working capital and improve the operational efficiencies.
- Better market response, efficient capacity utilisation and cost savings on captive yarn would result in EBITDA margin improvement from current 14% - 15% to around 19% - 20%.

## FUTURE IMPROVEMENT IN ASSET TURNOVER AND RETURN RATIOS

- Upfront expansion capex of Rs 6,120 mn at financing cost of only 1% - 3% (post state and central interest subsidies).
- Higher asset turnover along with improved operating margins will result in positive operating leverage and better return ratios.

# ANNEXURE

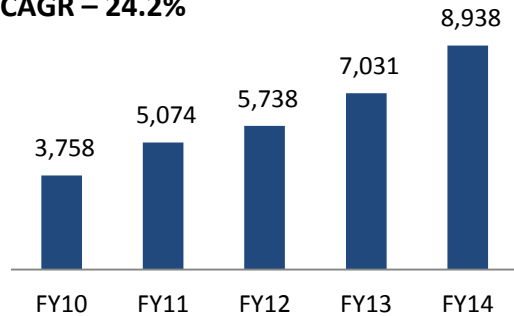


# ABOUT US: FINANCIAL SUMMARY



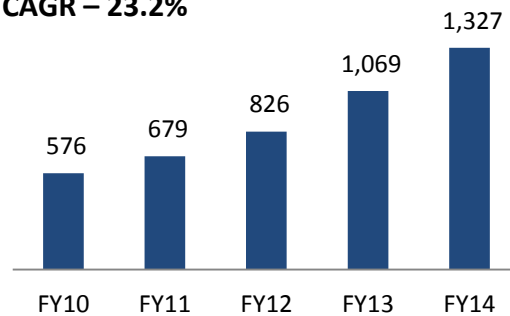
## REVENUES (RS MN)

CAGR – 24.2%



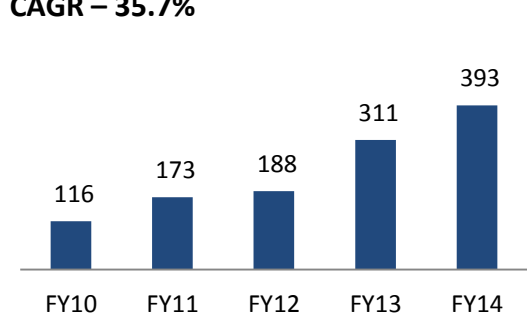
## EBITDA (RS MN)

CAGR – 23.2%

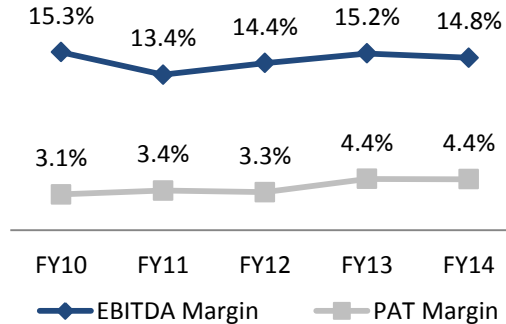


## PAT (RS MN)

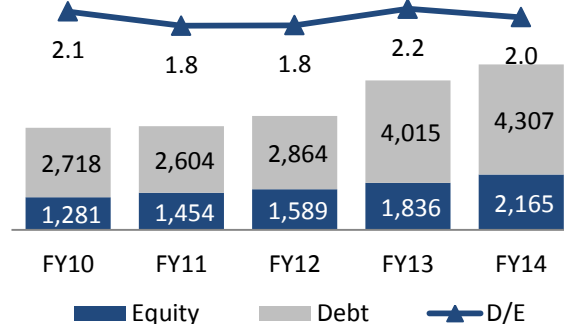
CAGR – 35.7%



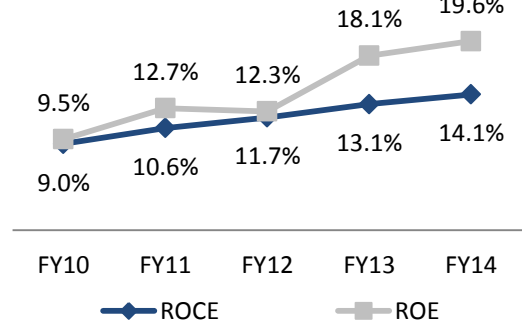
## MARGIN ANALYSIS (%)



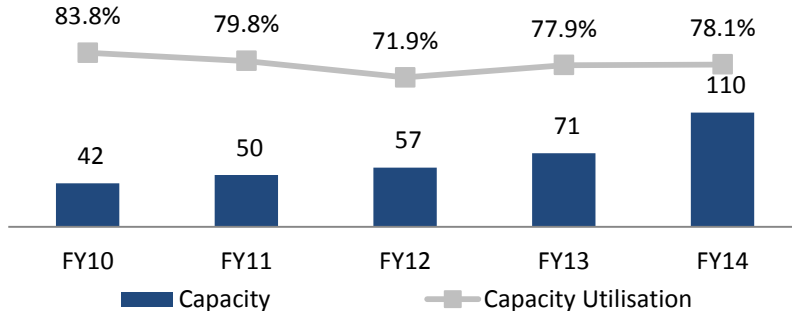
## LEVERAGE ANALYSIS (RS MN)



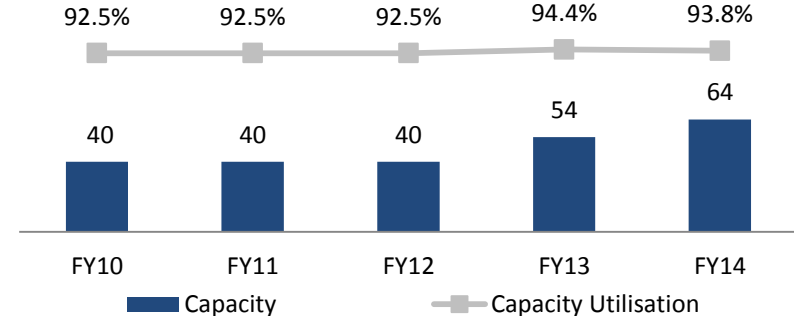
## RETURN METRICS (%)



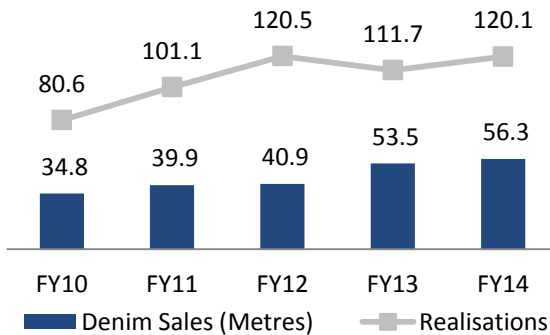
## DENIM FABRIC CAPACITY (MMPA)



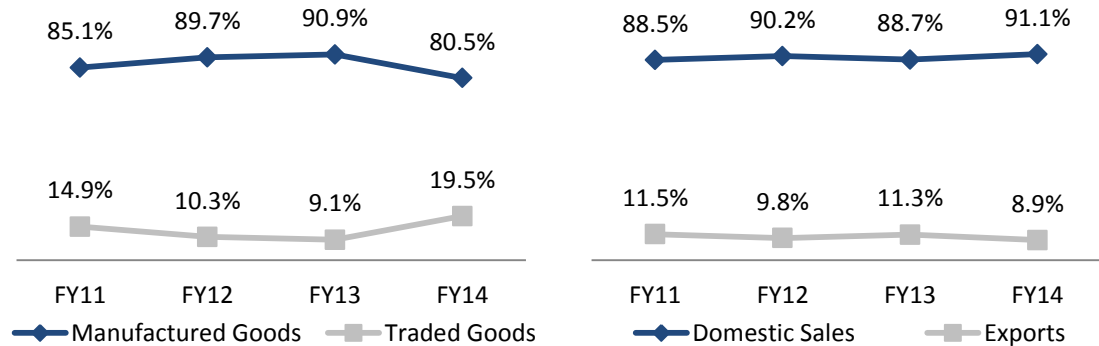
## SPINNING CAPACITY (TPD)



## DENIM REALISATIONS (RS/METRE)



## SALES BREAKUP



# CONSOLIDATED PROFIT & LOSS STATEMENT

Particulars in Rs Mn	FY10	FY11	FY12	FY13	FY14
Sales from Operations	3,699	4,941	5,622	6,819	8,703
Export Incentive	48	43	40	59	63
Other Operating Income	11	90	76	153	171
<b>Total Sales</b>	<b>3,758</b>	<b>5,074</b>	<b>5,738</b>	<b>7,031</b>	<b>8,938</b>
<i><b>Growth (%)</b></i>	<i><b>18.2%</b></i>	<i><b>35.0%</b></i>	<i><b>13.1%</b></i>	<i><b>22.5%</b></i>	<i><b>27.1%</b></i>
Cost of Goods Sold	2,590	3,775	4,090	4,879	6,249
<b>Gross Profit</b>	<b>1,169</b>	<b>1,299</b>	<b>1,648</b>	<b>2,152</b>	<b>2,689</b>
<i><b>Gross Margin %</b></i>	<i><b>31.1%</b></i>	<i><b>25.6%</b></i>	<i><b>28.7%</b></i>	<i><b>30.6%</b></i>	<i><b>30.1%</b></i>
Employee Expenses	130	147	192	254	310
Other Expenses	463	473	630	829	1,052
<b>EBITDA</b>	<b>576</b>	<b>679</b>	<b>826</b>	<b>1,069</b>	<b>1,327</b>
<i><b>EBITDA Margin %</b></i>	<i><b>15.3%</b></i>	<i><b>13.4%</b></i>	<i><b>14.4%</b></i>	<i><b>15.2%</b></i>	<i><b>14.8%</b></i>
Depreciation	226	254	333	409	497
Other Income	2	3	5	15	40
Interest Expense	169	168	278	318	320
Prior Period/Exceptional Items	-	-	43	-	-
<b>PBT</b>	<b>183</b>	<b>259</b>	<b>263</b>	<b>358</b>	<b>549</b>
Taxes	67	86	75	47	156
<i><b>Tax rate</b></i>	<i><b>36.8%</b></i>	<i><b>33.1%</b></i>	<i><b>28.6%</b></i>	<i><b>13.2%</b></i>	<i><b>28.4%</b></i>
<b>PAT</b>	<b>116</b>	<b>173</b>	<b>188</b>	<b>311</b>	<b>393</b>
<i><b>PAT Margin %</b></i>	<i><b>3.1%</b></i>	<i><b>3.4%</b></i>	<i><b>3.3%</b></i>	<i><b>4.4%</b></i>	<i><b>4.4%</b></i>
Number of Shares (mn)	455.50	455.50	45.55	45.55	45.55
<b>Basic EPS (Rs)</b>	<b>0.25</b>	<b>0.38</b>	<b>4.13</b>	<b>6.82</b>	<b>8.63</b>

# CONSOLIDATED BALANCE SHEET

Particulars in Rs Mn	FY10	FY11	FY12	FY13	FY14
<b>Shareholders Funds</b>	<b>1,281</b>	<b>1,454</b>	<b>1,589</b>	<b>1,836</b>	<b>2,165</b>
Long Term Debt (incl. CPLTD)	1,885	1,820	2,192	3,012	3,229
Short Term Debt	833	784	673	1,004	1,078
<b>Total Debt</b>	<b>2,718</b>	<b>2,604</b>	<b>2,864</b>	<b>4,015</b>	<b>4,307</b>
Other Long Term Liabilities	159	189	203	175	216
<b>Sources of Funds</b>	<b>4,158</b>	<b>4,247</b>	<b>4,656</b>	<b>6,027</b>	<b>6,688</b>
Gross Block	3,377	3,813	4,393	5,693	6,760
Less: Accumulated Depreciation	750	1,004	1,332	1,740	2,237
Net Block	2,627	2,810	3,060	3,953	4,523
Other Non-Current Assets	69	81	198	178	165
Inventory	680	1,213	984	1,198	1,385
Trade Receivables	1,283	550	695	912	1,214
Cash & Bank Balances	16	25	126	19	261
Other Non-Current Assets	228	258	196	516	369
Trade Payables	351	457	345	458	576
Other Current Liabilities	395	233	259	290	653
<b>Net Current Assets</b>	<b>1,462</b>	<b>1,356</b>	<b>1,398</b>	<b>1,896</b>	<b>2,000</b>
<b>Application of Funds</b>	<b>4,158</b>	<b>4,247</b>	<b>4,656</b>	<b>6,027</b>	<b>6,688</b>