

26 November 2012
CMP: Rs.10.1

Industry: Textiles - Synthetic

BSE Group/Index: Group 'B'

Promoters

Vinod Kumar Ladia and his family members and associate companies

Year of incorporation

1979

Registered office

 SRSL House Pulla, Bhuwana Road
 National Highway No.8
 Udaipur - 313004
 Rajasthan - India

Company website
<http://www.srsl.in>
Key Data (as on 26 Nov'12)

BSE	503837	ISIN	INE796C01011
Face Value (Rs.)	10	Mkt Cap (Rs.mn)	118.7
Current P/E	-	Current P/BV	0.3
52 week high-low (Rs.)	15.3 - 9.1	30 day avg daily trading vol	3674 nos
Equity capital (Rs.mn)	117.5	Net worth (Rs.mn)	358.5

Company Business

Shree Rajasthan Syntex Limited ('SRSL') is an integrated producer of textile raw materials including blended synthetic yarns, cotton yarns and polypropylene multifilament (PPMF) yarns. The company, headquartered in Rajasthan, is promoted by Vinod Kumar Ladia, who has more than three decades of experience in the textile business. While most (90%) of its revenues are generated from the domestic market, SRSL also exports its products to other countries like Algeria, Indonesia, Germany, Egypt, South Africa, Bangladesh, Italy, Belgium and Spain.

The company's manufacturing facilities for synthetic-blended and cotton yarn are located at Dungarpur (Rajasthan) while PPMF yarn facilities are at Bagru Ravan, Jaipur (Rajasthan).

Peer group analysis

SRSL has underperformed its peers during the year. The weak economic environment has impacted the company's profitability. A reduction in EBIDTA and depletion of the networth has also resulted in a rise in the leverage ratios.

Financials - Standalone

Particulars (FY12, Rs.mn)	Rajasthan Syntex	Indus Fila	Rajvir Industries	Banswara Syntex
Total Income	2,759	4,661	3,089	9,653
EBIDTA	32	523	301	1,356
EBIDTA margin	1%	11%	10%	14%
PBT	(252)	90	(114)	173
PBT margin	(9%)	2%	(4%)	2%
PAT	(168)	63	(95)	149
PAT margin	(6%)	1%	(3%)	2%
EPS	(14.3)	3.1	(31.4)	10.1
Cash accruals	(62)	160	27	580
BV/share	30.5	46.3	145.0	117.6
Debt/EBIDTA (x)	38.4	2.6	6.7	4.6
Debt/Equity (x)	3.5	1.4	4.0	3.6
ROANW	neg	6.4%	(19%)	8%
ROACE	neg	11%	14%	12%
P/E	neg	4.3	(2.4)	6.0
P/BV	0.3	0.3	0.4	0.5

Source: Moneycontrol, Company

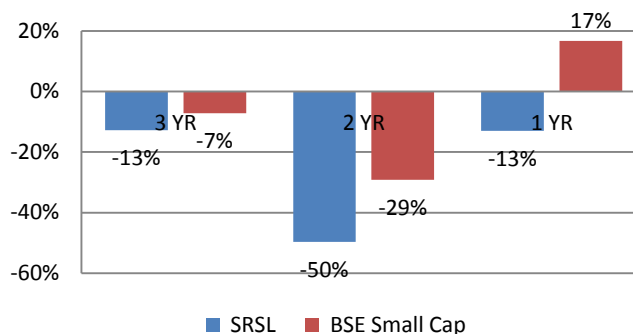
Write to us at:

equity.research@outlook.com

Business capacities

Unit	Product	Installed capacity
Syntex Division	Synthetic Yarn	35,904 spindles
Texchem Division	Synthetic Yarn	31,680 spindles
Polycot Division	Cotton Yarn	14,520 spindles
Filament Division	PPMF	3600 tons/annum

Share Price Performance



Top Public Shareholders with >1% shareholding

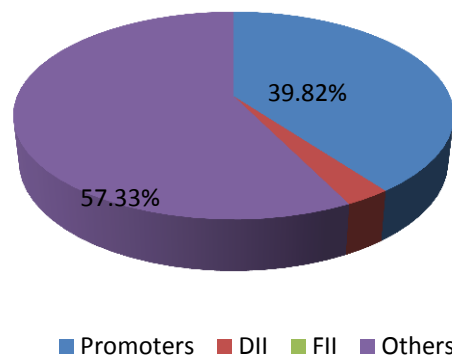
Sl. No.	Name of the Shareholder	No. of Shares held (in 000s)	Shares as % of Total No. of Shares
1	Park Continental Ltd	492.5	4.2
2	ICICI Bank Limited	330.1	2.8
3	Shree Shyam Industries Pvt Limited	210.2	1.8
4	Shree Rajasthan Syntex Emp.Welfare Trust	167.1	1.4
5	Archana Sandeep Tandon	164.1	1.4
6	Bharat Jamnadas	142.0	1.2
	Total	1506.0	12.8

Change in Shareholding Pattern (%)

Year	Promoters	DII	FII	Others
Jun-12	39.82%	2.85%	-	57.33%
Mar-12	39.82%	2.85%	-	57.33%
Dec-11	39.82%	2.85%	-	57.33%
Sep-11	47.30%	2.85%	-	49.85%
Mar-11	47.30%	2.85%	-	49.85%
Mar-10	47.30%	2.86%	-	49.84%
Mar-09	47.30%	2.86%	-	49.84%
Mar-08	47.00%	2.86%	-	50.14%

A change in the categorization of certain entities from promoter to non-promoter has resulted in a fall in promoter shareholding in the quarter ended Dec'11

Shareholding Pattern (%)



Diversified product mix

Key strengths

SRSL's primary product is synthetic blended yarns which includes both polyester filament yarn (PFY) and viscose filament yarn. In addition, the company also manufactures cotton yarn and polypropylene multifilament yarn (PPMF). Since all these are substitutable products, the diversified portfolio gives SRSL a natural hedge against volatile and uncertain demand conditions.

Volatility in crude oil prices and low bargaining power

Key concerns

PSF and Viscose Staple Fibre (VSF) are the key raw materials for producing synthetic blended yarns. These are manufactured using crude oil derivatives like Purified Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG). Consequently, crude oil prices (which are subject to a high degree of volatility on account of global demand and exchange rates) play a huge role in determining the company's bottom line. Also, given that the supply of these raw materials is essentially governed by two large players - Reliance Industries Limited for PSF and Grasim Industries Limited for VSF, smaller companies like SRSL are left with limited bargaining power and are therefore forced to fully absorb any price increments in these ingredients.

Ban against deforestation reduces availability of wood pulp

Apart from polyester yarns, SRSL also manufactures viscose filament yarn (VFY), the key raw material for which is wood pulp. However, in order to preserve the environment, several states in India have proposed to ban the use of forest areas for growing products like wood pulp. Further constraints of this nature may adversely affect the financial performance of VFY manufacturers like SRSL.

Lack of global competitiveness

Even though cotton-based exports have grown consistently, the man-made fibre (MMF) industry has not yet been able to create a mark globally. The MMF segment in India has been unable to compete with the higher quality yarn from other Asian countries and is therefore unable to maintain/gain market share in the lucrative US/European textile markets.

Textile industry is a key contributor to the economy

Industry overview

The Indian textile industry plays a major role in the economy and contributes 3% to the GDP and 14% to the overall industrial production in the country. The industry is also one of the largest exporters and India has set an export target of \$40.5 bn (Rs.2106 bn) for the fiscal year 2012-13.

Growing demand for polyester fabric

While cotton fabric constituted 60% of the total textile production in the mid-90s, the segment has lost traction over the last 15 years and by the end of FY09, the share of cotton fabrics had decreased to 48%. This is largely attributable to a shift in consumer preferences and growing demand for non-cotton man-made (synthetic) fabrics such as polyesters. India is now the second largest producer of man-made fibre (MMF) at 6.1 million tonnes per annum, 80% of which is contributed by polyester. The reversal is also driven by the limited availability of cotton/cotton yarn, which has resulted in a significant price differential between cotton and man-made fabric.

Hike in excise duty

Government policy

In the last budget, the excise duty on MMFs was hiked from 10% to 12%. This has raised the overall cost of the product and exporters are finding it increasingly difficult to compete in the global markets. It has also made the sector lose ground to the cotton-based fiber manufacturers, thereby prompting the Federation of Indian Chamber of Commerce and Industry (FICCI) to urge the government to partially rollback the hike.

Technology Upgradation Fund (TUF)

In order to ensure that the local textile players are able to match international quality and efficiency standards, the Government has launched the Technology Upgradation Fund Scheme (TUFS) to provide capital at subsidized interest rates and longer repayment periods to textile companies, which would help them reduce interest expenses and become more cost effective.

Foreign Direct Investment (FDI) policy

The government has approved 100% FDI in the textile sector under the automatic route. The ministry of textiles has also set up a FDI Cell to attract foreign investments in the textile sector. The role of the cell will be to assist foreign companies in finding out potential joint venture partners in India and to provide support for co-ordination with state governments.

Textile parks

The government has initiated the process of setting up textile parks across the country under the private-public partnership model. The product mix in these parks would include apparels and garment parks, hosiery parks, silk parks, processing parks along with technical textiles including medical textiles, carpet and power looms. The development of these parks is expected to catalyze significant additional investments in the industry and generate employment for close to 400,000 textile workers.

Modernization program

Company fundamentals

SRSL is in the process of modernizing and expanding its Polycot division. The installed capacity is proposed to be augmented by an additional 3000 spindles, by installing longer ring frames and removing the smaller ones. The company has also planned to replace some of its older equipment and invest in new machines like autoconer etc. A capex outflow of Rs.90 mn is expected in 2012-13 to carry out the proposed expansion.

In addition, provisions have also been made for capital expenditure of Rs.1 mn in each of the four units. These are routine investments, the bulk of which shall be funded from internal accruals of the company.

Fall in profits

Key financial indicators

2011-12 has been a challenging year for SRSL, primarily due to a weaker economic environment and slowdown in demand from overseas markets. Production levels fell from 19,816 metric ton (MT) in FY11 to 16,535 MT in FY12. During the same time, export driven sales halved from Rs.383 mn to Rs.189 mn. Consequently, the top line declined by 16% to Rs.2.76 bn.

Disposal of high value inventory at lower costs severely dented the profitability. While EBIDTA margins reduced to 1% (9% in FY11), high interest and depreciation charges resulted in a net loss of Rs.168 mn for the company. The company has not paid any dividends to equity shareholders during the year, citing poor profitability and the need to conserve its cash resources. In FY11, the company had paid 18% of its profits as dividend (Rs.11.8 mn).

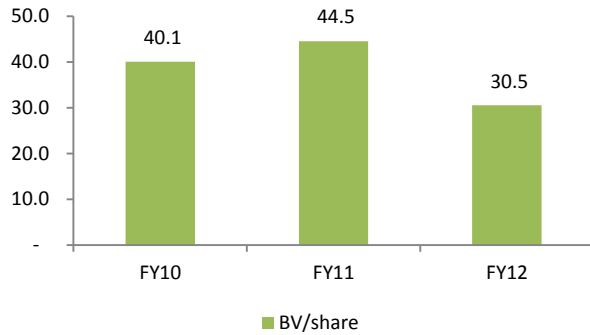
Quarterly results

Particulars (Rs in mn)	Apr '12 to Jun '12	Apr '11 to Jun '11	% Change ¹	Jan '12 to Mar '12	% Change ²
Total income	742.7	614.7	20.8%	728.6	1.9%
Total expenditure	696.0	574.3	21.2%	706.2	(1.4%)
EBIDTA	46.7	40.4	15.6%	22.4	108.5%
PBT	(21.0)	(22.4)	-	(53.0)	-
PAT	(14.2)	(12.0)	-	(41.4)	-
EPS	negative	negative	-	negative	-

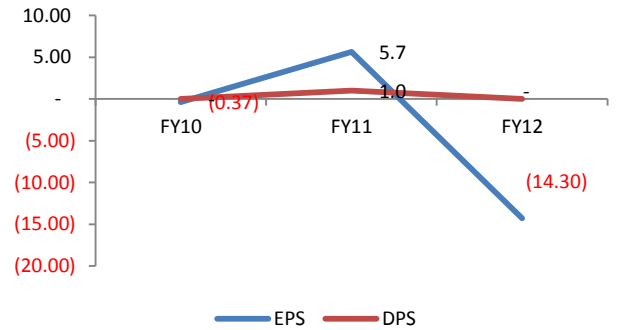
¹ compared to corresponding quarter in the previous year

² sequential comparison

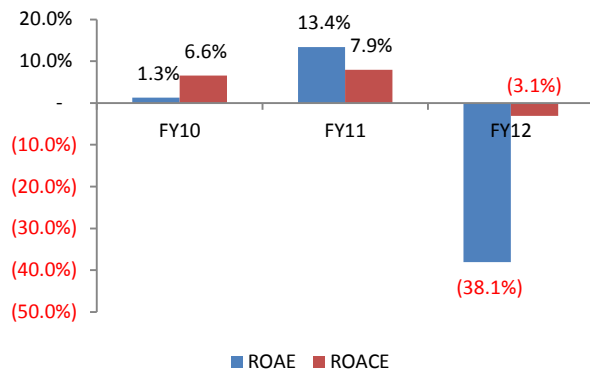
Book Value per share



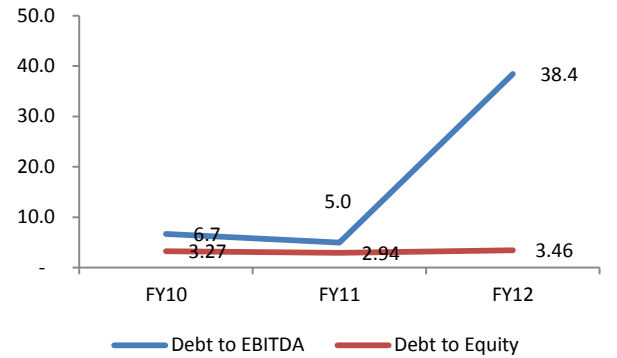
Key ratios



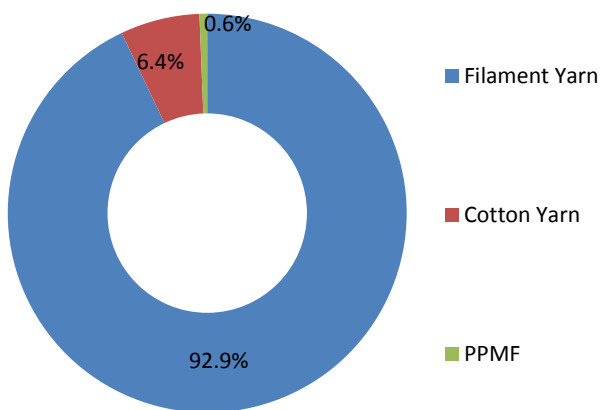
Profitability ratios



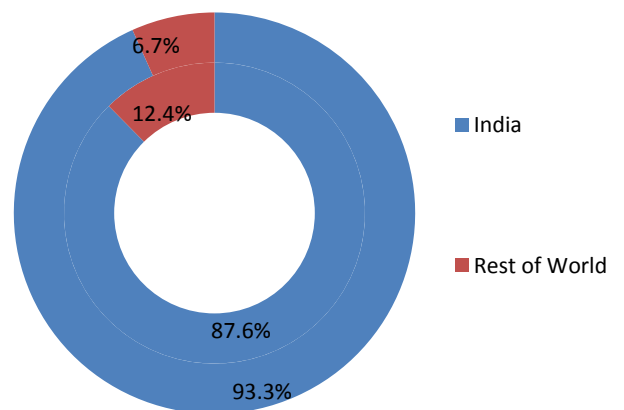
Leverage ratios



Segment wise contribution to revenues



Geography wise contribution to revenues



Ring represents FY11 data
FY12 data not available

Inner ring represents FY11 data
Outer ring represents FY12 data

Financials

P&L (Rs. mn)	FY10	FY11	FY12
Total income	2,893	3,282	2,759
EBIDTA	230	310	32
EBIDTA margin	8%	9%	1%
Depreciation	106	106	106
EBIT	124	204	(74)
Interest	133	107	179
PBT	(9)	97	(252)
Tax	(5)	31	(84)
PAT	(4)	67	(168)
PAT Margin	neg	2%	neg
Dividend	-	12	-
Dividend Payout	0%	18%	0%

Valuation ratios	FY10	FY11	FY12
P/E	neg	3.2	neg
P/BV	0.3	0.4	0.3

Balance Sheet (Rs. mn)	FY10	FY11	FY12
Share Capital	118	118	118
Reserves & Surplus	353	406	241
Net worth	471	523	359
Borrowings	1,539	1,537	1,240
Other liabilities	624	444	643
Total liabilities	2,634	2,504	2,241
Net fixed assets	1,432	1,345	1,252
Other non-current assets	4	4	4
Loans and Advances	554	356	332
Current Assets	645	799	654
Total assets	2,634	2,504	2,241

Cash Flow (Rs.mn)	FY10	FY11	FY12
PBT	(9)	97	(252)
CF from Operation	189	136	338
CF from Investment	(17)	(20)	(13)
CF from Financing	159	205	14
Inc/(dec) Cash	12	8	(6)
Closing Balance	21	29	23

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