

Bombay Dyeing & Mfg. Co. Ltd. ₹ 366

Realty worth Retailing

Buy



December 23, 2011

Financial Performance

Bombay Dyeing & Mfg Co. Ltd. continued with its dismal financial performance. Its net sales rose to ₹ 4.93 bn for the quarter ended Sep 30, 2011 as against ₹ 4.09 bn for the quarter ended Sep 30, 2010. Except the real estate business, its other two businesses grew at healthy rates of above 20%. The realty sales declined by 30% to ₹ 210 mn as against ₹ 300 mn during Q2FY11. The textile business contributed ₹ 1.30 bn to revenues - a rise of more than 26% from Q2FY11 whereas polyester business grew by 25% to ₹ 3.62 bn.

Its net expenditure grew by more than 20% to ₹ 5.12 bn during the quarter. Raw material consumed during the quarter stood at ₹ 3.14 bn a rise of 26% from Q2FY11 leading the rise in expenses. The burden of interest continues to weigh on the company. Its inventory level for the quarter stood at ₹ 10 bn as against ₹ 1.6 bn during the previous corresponding quarter. The net loss was at ₹ 339.3 mn for the quarter against ₹ 30.62 crores for the Q2FY11. The company has reported earnings per share of ₹ 8.37 for the quarter as compared to ₹ 7.93 for the same quarter last year. Bombay Dyeing's net investment in realty has increase 3x to ₹ 11.68 bn from ₹ 4.04 bn during previous corresponding quarter.

Investment Rationale

➔ Retail & Realty to safeguard future

Bombay Dyeing has been trying to change its image from a pure manufacturing company to a retail-focused company. It wants to add 365 new ones in coming quarters. It is also opening flagship shops to sell other brands as well. Going ahead, retail will be bigger as there is an opportunity for growth, but, textiles would continue to have a certain volume growth. Apparel market is growing & organised retail is growing faster at expense of unorganised retail. Govt's recent attempt to introduce 100% FDI, though it failed, indicate changes are occurring Govt cannot keep the economy shielded from Global markets longer. The rising cost of finance in the country coupled with failure to meet CAD targets, mean the government would have to allow foreign investments. The retail sector would be benefited immensely when FDI is actually allowed.

Key Financials

Year Ended 31 st	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	15929.4	19386.2	20353.8
Rev. growth (%)	43.19	21.70	4.99
EBITDA (₹ mn)	504.5	2786.6	2510.1
Net profit (₹ mn)	(1946.2)	184.2	213.9
Shares outstanding (mn)	38.6	38.6	40.5
EPS (₹)	(50.4)	4.8	5.3
EPS growth (%)	289.32	(109.46)	10.60
P/E (x)	(3.3)	115.9	69.4
EV/ EBITDA	160.0	82.8	64.1
ROCE (%)	(14.98)	1.19	1.35

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Previous Report

Date	: Aug 12, 2011
Recommendation	: Buy
Price	: ₹ 318
Target Achieved	: Sep 29, 2011

Market Data

52 Wk Range (₹)	: 538 / 284
Shares in Issue (mn)	: 40.55
Mkt. Cap (₹ bn)	: 14.66
BSE 2 Wk Avg Vol	: 21000

Share Holding Pattern (%)

Promoters	: 52.59
DII's	: 15.18
FII's	: 7.29
Others	: 24.94

Investment Theme

Bombay Dyeing, is flagship textile company of Wadia group. Its making losses for a couple of quarters. It is in a transformation phase, as are its peers. The textile companies especially based in Mumbai have been changing from a manufacturing company to retail based ones. That will help them unlock huge real estate value from the land under their mills. Bombay Dyeing being a premier company has far better edge than most competitors. It has started to develop its land bank at Worli & Dadar, two of the premier locations in Mumbai. It has made huge investments in realty & given, location advantage, the net realisation could be very much comfortable, despite any economic slowdown. This will catapult its book value. However, its core business is also showing recovery & better performance

Still feel the Company is Dyeing?

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	15769.1	19601.6	24.30	20945.3	6.86
Other Income	603.9	249.2	(58.73)	437.0	75.36
Change in Stocks	(1494.7)	(2456.8)	64.37	8503.2	(446.11)
Raw Material Con.	8154.2	8223.3	0.85	11694.9	42.22
Employee Exp.	534.4	532.5	(0.36)	662.0	24.32
Indirect Taxes	475.6	507.0	6.60	1065.0	110.06
Other Exp.	5209.6	5344.6	2.59	13953.5	161.08
Operating Exp.	15868.5	17064.2	7.54	18872.2	10.60
Operating Profit	(99.4)	2537.4	(2652.72)	2073.1	(18.30)
Total Interest	1883.2	1969.3	4.57	1622.8	(17.60)
Gross Profit	(1378.7)	817.3	(159.28)	887.3	8.56
Net Dep.	557.3	595.4	6.84	620.8	4.27
Total Taxation	10.2	37.7	269.61	52.6	39.52
Net Profit/Loss	(1946.2)	184.2	(109.46)	213.9	16.12

4 Years Balance Sheet

(₹ mn)

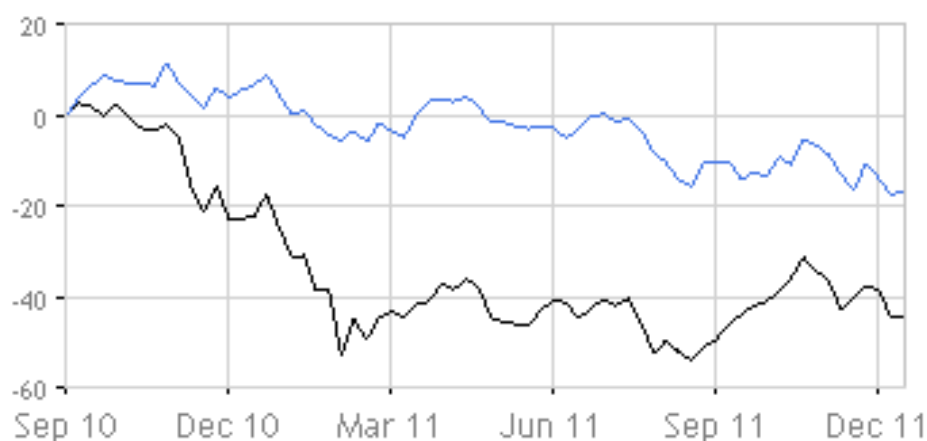
Balance Sheet as on 31 st	Mar 08	Mar 09	Mar 10	Mar 11
SOURCES OF FUNDS	18211.8	18797.4	19854.6	15866.6
Equity Share capital	386.1	386.1	386.1	405.4
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	3573.0	1302.5	1717.4	2820.7
Loan Funds	10092.5	14990.0	16119.7	11732.4
Unsecured Loans	4160.2	2118.8	1631.4	908.1
USES OF FUNDS	18211.8	18797.4	19854.6	15866.6
Gross Block	12931.6	13592.9	13893.6	13834.6
Less : Revaluation Reserves	0.0	2015.6	0.0	7788.3
Less : Accumulated Depreciation	1236.7	1787.2	2312.6	2928.1
Net Block	11694.9	9790.1	11581.0	3118.2
Capital Work in Progress	710.9	193.1	24.7	122.3
Investments	1317.2	652.2	698.0	601.9
Current Assets	8449.3	12801.5	12070.7	16691.7
Less : Current Liabilities	3988.4	4653.5	4519.8	4667.5
Total Net Current Assets	4460.9	8148.0	7550.9	12024.2
Misc. Expenses not written	27.9	14.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	651.7	652.2	698.0	601.9
Mkt Val. Quoted Investments	665.5	0.0	0.0	0.0
Contingent Liabilities	1908.8	1707.2	1893.0	2405.1
Dividend (%)	35	10	25	35

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 10	Mar 11	Jun 11	Sep 11
Net Sales	4472.60	6384.60	4142.60	5119.60
Cost Of Sales	3890.10	5033.60	4031.10	4900.40
Operating Profit	582.50	1351.00	111.50	219.20
Recurring Income	3.80	1.30	3.40	30.90
Adjusted PBDIT	586.30	1352.30	114.90	250.10
Financial Expenses	426.50	331.40	361.30	438.90
Depreciation	153.10	153.80	151.50	150.50
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	6.70	867.10	(397.90)	(339.30)
Tax Charges	0.00	52.60	0.00	0.00
Adjusted PAT	6.70	814.50	(397.90)	(339.30)
Non Recurring Items	0.00	5.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	6.70	819.50	(397.90)	(339.30)

52 Week Index Relative Percentage Appreciation



Bombay Dyeing vs SENSEX

Sector Overview

- The government's attempt to pass the FDI bill failed miserably. Many states, including ruling parties have opposed the bill strongly. Though this has been a huge blow to retail industry, the FDI is inevitable. The huge financing required to boost the infrastructure in the country means, the financing sources from abroad need to be allowed & encouraged.
- The global economy continues to remain in the territory of uncertainty. The Euro crisis still remains a cause of worry. As a result, Stock indices world over continued with their fall. The emerging markets especially from Asian region were heavily hit by the deceleration in their currencies. Indian Rupee was hit largest. It has fallen to its all time low of below 53 against USD. This was due to the huge speculative trades.
- Though it could have been an advantage to exporters, the downturns in the economy in developed markets have restricted the sales. However, the fall in rupee has made imports far more expensive other than the hedging losses. However, subsequent remedy measures taken by the RBI would help reduce the volatility in the Currency market in the near term.
- The textile companies are betting on the realty business to unlock the huge value in their land banks. However, the realty industry has been hit heavily in the last 15 months. The higher financing cost has kept the demand critically low.

In a Nutshell

Bombay Dyeing was established in the year of 1879. It is the flagship textile company of the iconic Wadia Group. It has been in the business for the past 130 years. The company has witness the golden era of textiles in the erstwhile city of Bombay. It is one of the few companies to have retained its business post the era of textiles. The Brand Bombay Dyeing is well known for its quality and quality product. Over the years the Wadia group has forayed into many business adventures & as the oldest company of the group, Bombay Dyeing has a stake in most of these businesses. The company now has decided to focus on more on the retail business & real estate development. It has huge land bank at the prime locations in Mumbai. The construction work has already begun in the Dadar mills compound. We believe that the restructuring of the business would unlock huge value for the company. The recent retail fiasco & poor quarters has resulted in sharp decline in the share price. However, the long term prospects remain quite intact for the company. Going forward we believe the stock would outperform in the long term. Therefore we recommend to buy this stock.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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