



Kandagiri Spinning Mills Ltd

Key Stock Indicators

NSE Ticker :	KANDAGIRI	CMP (as on 06 Dec 2010—Rs/share):	110.7	Shares outstanding (mn) :	3.8
Bloomberg Ticker :	KDSN:IN	52-week range up to 06 Dec 2010 (Rs)(H/L):	131.65/92.15	Free Float (%) :	30.1
Face value / Share :	10.0	Market Cap as on 06 Dec 2010 (Rs mn):	426	Average daily volumes (12 months) :	1,487
Div. Yield (%) :	0.0	Enterprise Value as on 06 Dec 2010 (Rs mn):	1,560	Beta (2 year) :	0.6

Kandagiri is a Tamil Nadu-based textile company focused on manufacturing and selling cotton yarn. Kandagiri was incorporated in 1976 under the name 'The Ammapet Sizing Mills Private Ltd' as part of the Sambandam Group. It was renamed to "Kandagiri Spinning mills" in 1978. The company came up with a public issue in 1995. The Company manufactures Carded, Combed, Auto coned, TFO, Ring Doubled Yarn.

KEY HIGHLIGHTS

Cotton consumption mix has enabled higher realizations.

The company purchases approx 80% of its annual cotton requirement during the cotton season (October to December) and maintains an average of 120-150 days of inventory. It consumes ~87% of indigenously procured cotton, and imports the remaining from West African nations and the US. It also consumes around ~1.5% of organic cotton. The consumption mix of organic cotton and higher grade imported cotton has enabled the company to command higher realisations than the industry average (40s count yarn) on a sustained basis.

Captive power unit helps the company have better control over costs

The company has set up 10.12 MW captive wind turbine generators. The power generated from these turbines met ~60% of its total electricity requirements in FY10. Utilising captive power generation has enabled the company to have better control over its power and fuel costs. However, it continues to reel under the effect of power shortages in the state of Tamil Nadu.

Capacity expansion has boosted revenue.

Kandagiri has undertaken capacity expansions throughout FY05 to FY10, which has enabled it to grow its revenue during this period. It expanded its spindle and rotors capacity from 39,932 and 384 in FY05 to 67,388 and 552 in FY10.

KEY RISKS

- Undiversified product portfolio.
- Volatile cotton prices – the major raw material.
- Power supply shortage in TamilNadu- Company is dependent for 40% of its power requirement on TamilNadu electricity Board.
- High gearing.

Stock Performances vis-à-vis market

	Returns (%)			
	YTD	1-m	3-m	12-m
Kandagiri Spinning Mills Ltd	19	-16	-4	19
NIFTY	13	-4	7	18

Note:

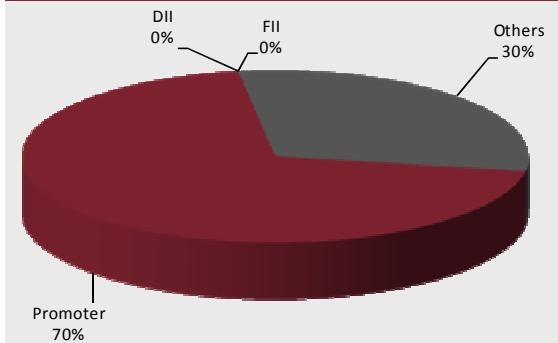
- 1) YTD returns are since April 1, 2010 to Dec 06, 2010.
- 2) 1-m, 3-m and 12-m returns are up to Dec 06, 2010.

Key Financial Indicators

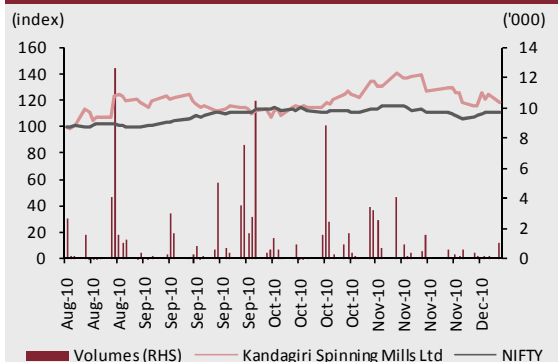
	Mar-08	Mar-09	Mar-10
Revenue (Rs mn)	885.9	923.1	1,133.7
EBITDA margins (%)	16.2	12.7	18.1
PAT (Rs mn)	44.7	-27.5	32.3
PAT margins (%)	5.0	-3.0	2.8
Gearing (x)	4.8	5.6	4.9
EPS (Rs/share)	11.6	-7.1	8.4
PE (x)	-	-	13.2
P/BV (x)	-	-	1.8
RoCE (%)	10.4	3.9	8.9
RoE (%)	21.3	-12.6	14.4
EV/EBITDA (x)	-	-	7.6

n.m. : Not meaningful

Shareholding (As on September 30, 2010)



Indexed price chart



Kandagiri Spinning Mills Ltd

BACKGROUND

Kandagiri is a Tamil Nadu-based textile company focused on manufacturing and selling cotton yarn. Kandagiri was incorporated in 1976 under the name 'The Ammapet Sizing Mills Private Ltd' as part of the Sambandam Group. The company changed to its current name in 1978 and came out with a public issue in 1995.

The company has three spinning units in Salem with a total capacity of 67,388 spindles and 552 rotors as of FY10. It has 10.12 MW wind turbine generators for captive power consumption, through which it also earned income from carbon credits worth Rs 7.9 mn as on FY10. It earns ~96% of its revenues from the sale of cotton yarn; conversion charges (converting cotton yarn to a higher value added yarn), sale of scrap and income from carbon credits account for the rest.

COMPETITIVE POSITION

Peer Comparison

	Kandagiri Spinning Mills Ltd.	Alok Industries Ltd.	Vardhman Textiles Ltd.	Ginni Filaments Ltd.	Nahar Spinning Mills Ltd.
	Mar-10	Mar-10	Mar-10	Mar-10	Mar-10
Revenue (Rs mn)	1,133.7	45,595.2	33,645.0	5,112.2	11,096.2
EBITDA margins (%)	18.1	30.5	21.6	12.9	17.3
PAT (Rs mn)	32.3	1,576.6	3,042.8	49.8	534.9
PAT margins (%)	2.8	3.5	9.0	1.0	4.8
Gearing (x)	4.9	3.9	1.7	4.2	1.5
EPS (Rs/share)	8.4	3.5	50.0	0.7	23.4
PE (x)	13.2	6.8	5.6	20.7	4.7
P/BV (x)	1.8	0.7	1.0	1.0	0.7
RoCE (%)	8.9	8.7	11.9	7.8	8.0
RoE (%)	14.4	6.3	19.4	5.6	9.7
EV/EBITDA (x)	7.6	7.3	5.7	7.5	6.4

n.m.: Not meaningful

FINANCIAL PROFILE

Top-line continues to improve, PAT turns-around in FY10

Kandagiri revenue has increased from 886mn in FY08 to 1134mn in FY10 on account better realization as well as increased sales volume. The realisation has increased from Rs 136 per kg in FY08 to Rs 159 per kg in FY10. The sales volume has shown a growth of 33.4% from FY08 to FY10.

Kandagiri's made a net loss of Rs 27.5 mn in FY09 led by contraction in operating margins and increase in interest costs. PAT margin turned positive to 2.8% in FY10 following improved demand condition and increase in realisations.

Key Financial Indicators

	Units	Mar-08	Mar-09	Mar-10
Revenue	Rs million	885.9	923.1	1,133.7
EBITDA margins	Per cent	16.2	12.7	18.1
PAT	Rs million	44.7	-27.5	32.3
PAT margins	Per cent	5.0	-3.0	2.8
Revenue growth	Per cent	-6.0	4.2	22.8
EBITDA growth	Per cent	-34.0	-18.5	74.9
PAT growth	Per cent	44.2	-161.6	217.3
Gearing	Times	4.8	5.6	4.9
RoCE	Per cent	10.4	3.9	8.9
RoE	Per cent	21.3	-12.6	14.4

INDUSTRY PROFILE

Cotton yarn

The spinning industry is fragmented in nature and spun yarn capacities are concentrated in Tamil Nadu, Maharashtra, Gujarat, Andhra Pradesh and Punjab. These states account for 75 per cent of the total spinning capacity in India. Besides, no single player has an influence on prices given the industry's highly commoditised nature. The top five players account for less than 5 per cent of the industry's capacity. Government policies have been largely supportive of the textiles industry given its potential for export and employment generation. Schemes like Technology Up-gradation Fund Scheme (TUFS) have reduced capital costs of spinning units.

During 2009-10, operating rates for spinners increased to 90 per cent after dropping to 85 per cent in 2008-09, on the back of robust demand for cotton yarn and lack of significant capacity additions. However, cotton prices have increased sharply, which poses a challenge to spinners. Being a seasonal commodity, cotton is procured in the cotton season (October-September). The peak period for cotton arrivals is between November and February; most companies make their cotton purchases during these months. Therefore, cotton prices across 2 cotton seasons influence material costs of spinning companies in a financial year (April-March); for instance, cotton prices during the October 2009 to September 2010 cotton season and the October 2010 to September 2011 cotton season will influence cotton costs of spinning companies for the financial year 2010-11. Movement of cotton prices and ability to alter raw material mix is a key determinant of the profitability of spinning companies.

Kandagiri Spinning Mills Ltd

ANNUAL RESULTS

Income Statement

(Rs million)	Mar-08	Mar-09	Mar-10
Net Sales	816.2	844.1	1,016.2
Operating Income	885.9	923.1	1,133.7
EBITDA	143.8	117.2	205.0
EBITDA Margin	16.2	12.7	18.1
Depreciation	59.3	73.8	79.0
Interest	69.9	97.3	91.9
Other Income	2.0	1.8	1.8
PBT	69.0	-39.3	43.8
PAT	44.7	-27.5	32.3
PAT Margin	5.0	-3.0	2.8
No. of shares (Mn No.)	3.9	3.9	3.9
Earnings per share (EPS)	11.6	-7.1	8.4

Cash flow

(Rs million)	Mar-08	Mar-09	Mar-10
Pre-tax profit	16.6	-52.1	35.9
Total tax paid	-0.5	-0.5	0.0
Depreciation	59.3	73.8	79.0
Change in working capital	12.3	20.4	-144.1
Cash flow from operating activities	87.7	41.6	-29.2
Capital Expenditure	-362.7	-64.7	-13.2
Investments and others	0.0	0.0	0.0
Cash flow from investing activities	-362.7	-64.7	-13.2
Equity raised/(repaid)	0.0	0.0	0.0
Debt raised/(repaid)	222.7	19.3	27.0
Dividend (incl. tax)	-9.0	0.0	0.0
Others (incl extraordinary)	56.1	16.0	12.7
Cash flow from financing activities	269.8	35.3	39.7
Change in cash position	-5.2	12.2	-2.7
Opening cash	10.6	5.5	17.6
Closing cash	5.5	17.6	14.9

n.m : Not meaningful;

Balance sheet

(Rs million)	Mar-08	Mar-09	Mar-10
Equity share capital	38.6	38.6	38.6
Reserves and surplus	191.1	166.8	203.8
Tangible net worth	229.7	205.3	242.4
Deferred tax liability: asset	142.2	129.8	141.3
Long-term debt	852.0	841.5	789.5
Short-term-debt	250.1	280.0	359.0
Total debt	1,102.2	1,121.5	1,148.5
Current liabilities	130.4	88.1	122.1
Total provisions	18.7	15.0	12.2
Total liabilities	1,623.2	1,559.7	1,666.5
Gross block	1,474.8	1,849.3	1,863.8
Net fixed assets	1,167.0	1,157.9	1,092.1
Investments	24.5	24.5	24.5
Current assets	431.6	377.4	549.9
Receivables	102.9	151.5	108.8
Inventories	234.7	106.4	332.7
Cash	5.5	17.6	14.9
Total assets	1,623.1	1,559.8	1,666.5

Ratio

	Mar-08	Mar-09	Mar-10
Revenue growth (%)	-6.0	4.2	22.8
EBITDA growth(%)	-34.0	-18.5	74.9
PAT growth(%)	44.2	-161.6	217.3
EBITDA margins(%)	16.2	12.7	18.1
Tax rate (%)	0.7	-1.3	0.0
PAT margins (%)	5.0	-3.0	2.8
Dividend payout (%)	17.2	0.0	0.0
Return on Equity (%)	21.3	-12.6	14.4
Return on capital employed (%)	10.4	3.9	8.9
Gearing (x)	4.8	5.6	4.9
Interest coverage (x)	2.1	1.2	2.2
Debt/EBITDA (x)	7.7	9.6	5.6
Asset turnover (x)	0.6	0.6	0.6
Current ratio (x)	1.1	1.0	1.1
Gross current assets (days)	178	149	177

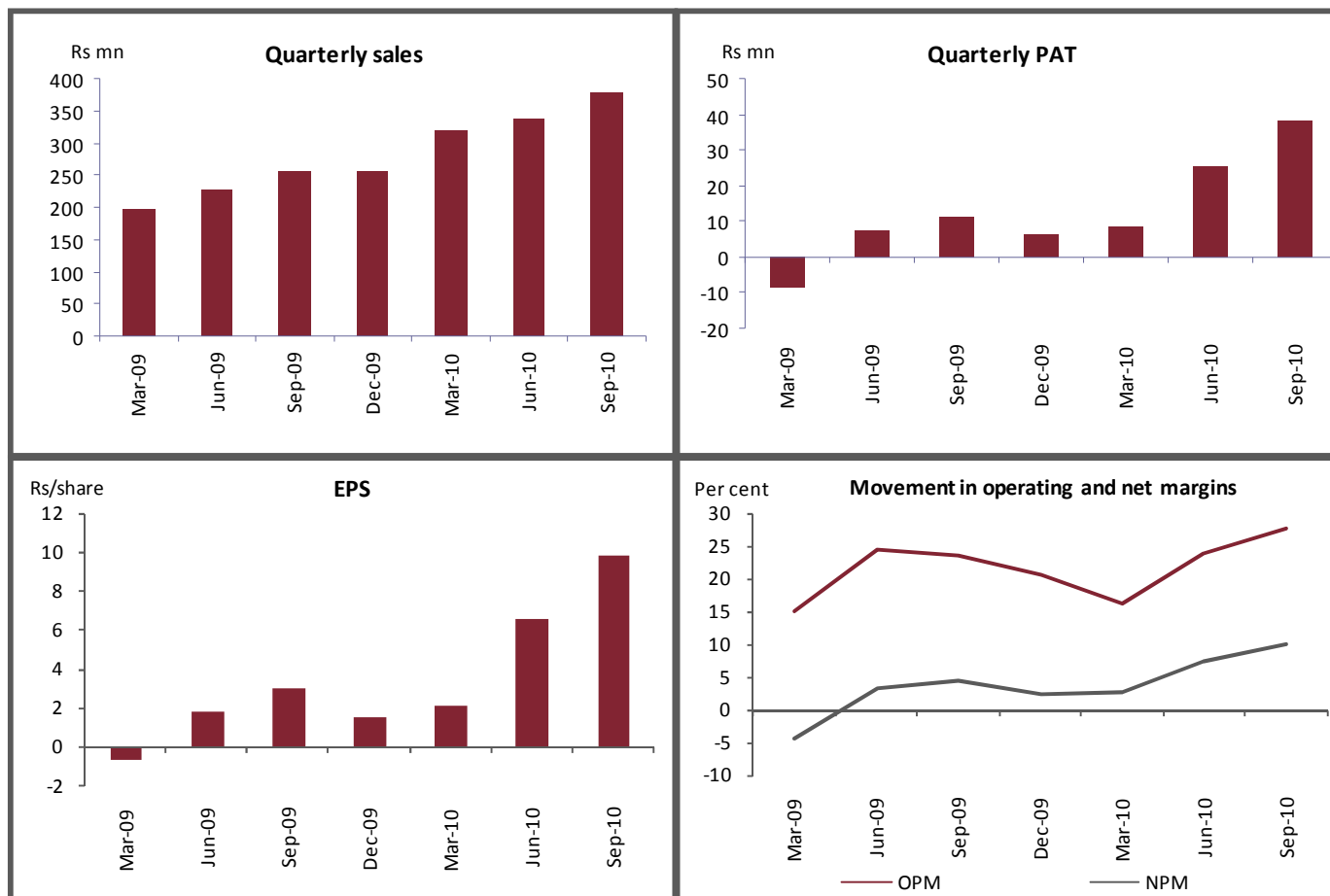
QUARTERLY RESULTS

Profit and loss account

(Rs million)	Sep-10	% of Rev	Sep-09	% of Rev	Jun-10	% of Rev	Sep-10	% of Rev	Sep-09	% of Rev
No of Months	3		3		3		6		6	
Revenue	3,792.0	100.0	2,577.0	100.0	3,360.0	100.0	7,144.0	100.0	4,877.0	100.0
EBITDA	1,044.0	27.5	604.0	23.4	802.0	23.9	1,850.0	25.9	1,162.0	23.8
Interest	257.0	6.8	239.0	9.3	251.0	7.5	509.0	7.1	506.0	10.4
Depreciation	193.0	5.1	194.0	7.5	195.0	5.8	388.0	5.4	386.0	7.9
PBT	379.0	10.0	114.0	4.4	251.0	7.5	633.0	8.9	189.0	3.9
PAT	379.0	10.0	114.0	4.4	251.0	7.5	633.0	8.9	189.0	3.9

Kandagiri Spinning Mills Ltd

FOCUS CHARTS & TABLES



Shareholding Pattern (Per cent)

	Dec 2009	Mar 2010	Jun 2010	Sep 2010
Promoter	69.9	69.9	69.9	69.9
Others	30.1	30.1	30.1	30.1

Board of Directors

Director Name	Designation
V Mahadevan	
S Devarajan	
M Rajamani	
S Vijay Shankar	Jt Managing Director
R Selvarajan	Chairman & Managing Director
N Asoka	
P S Ananthanarayanan	
V Gopalan	

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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