

Maxwell Industries Ltd

Key Stock Indicators

NSE Ticker :	MAXWELL	CMP as on 16 May 2011-Rs/share :	18.2	Shares outstanding (mn) :	63.1
Bloomberg Ticker :	MXWI:IN	52 week range up to 16 May 2011 (Rs)(H/L) :	30.4/14.0	Free Float (%) :	36.4
Face value per share :	2.0	Market Cap as on 16 May 2011 (Rs mn) :	1,148	Average daily volumes (12 months) :	75,467
Div.Yield (%) :	2.2	Enterprise Value as on 16 May 2011 (Rs mn) :	2,080	Beta (2 year) :	1.0

Incorporated in 1991, Maxwell Industries Limited (MIL) is the leading manufacturer of innerwear in India. The company was promoted by Mr. Jaipal Reddy and Mr. Jaykumar Pathare. It has manufacturing facilities in Tamil Nadu and Gujarat. It has a wide distribution network and sells to distributors, wholesalers and trade outlets. About 87% of the company's revenues come from the innerwear segment. The company recently entered the women's and children's innerwear segments.

KEY HIGHLIGHTS

Brands are leaders in their respective markets

MIL is the leader in the mid- to high-price segments of men's innerwear in India. The company's "VIP" brand has a high level of market acceptance. This is a key driver of the company's growth in a highly fragmented market, replete with nearly 1,000 domestic brands. Maxwell has brands catering to men, women, and kids at different price points; in the men's segment, Maxwell has "VIP Leader" at the mid-price level and "VIP Frenchie" in the high-price level; in women's products, it has introduced "VIP Feelings"; and in kid's products, it has introduced "VIP Brat".

Ties up with French company for premium offerings

Maxwell has entered into a strategic alliance with France's Eminence group to introduce premium brands in India. As per the agreement, Maxwell commenced manufacturing and selling innerwear under the "Eminence" brand in April 2009. This has helped the company compete with other brands in the premium segments.

Retail footprint covers 110,000 stores

MIL sells products through distributors, wholesalers and modern trade channels. The company has over 550 distributors, linked to many retail stores, resulting in more than 110,000 stores selling VIP products in India. Although sales to distributors constitute a majority of MIL's sales (~80%), wholesale and modern trade channels offer huge potential and are gaining momentum. Recently, the company introduced "Green Room" stores, which exclusively deal in VIP products.

KEY RISKS

- Volatility in raw material prices such as cotton, fabrics, elastics, etc
- Intense competition from regional and foreign brands
- Power crisis in Tamil Nadu could affect revenue from spinning division

Stock Performances vis-À-vis market

	Returns			
	YTD	1-m	3-m	12-m
MAXWELL	-9	-11	16	-7
NIFTY	4	-4	0	9

Note:

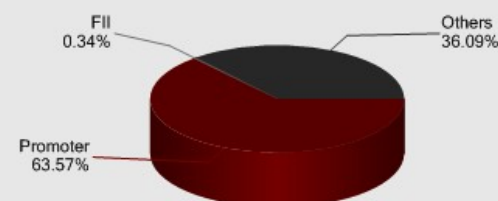
- 1) YTD returns are since Apr 1, 2010 to May 16, 2011.
- 2) 1-m, 3-m and 12-m returns are up to May 16, 2011

Key Financial Indicators

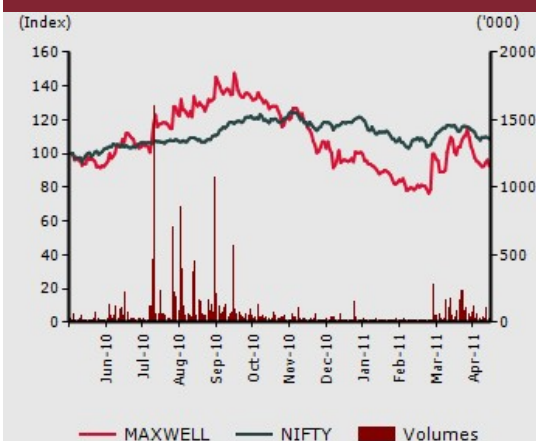
	MAR-08	MAR-09	MAR-10
Revenue (Rs mn)	2,045.9	1,922.7	2,120.5
EBITDA margins (%)	13.5	13.5	13.4
PAT (Rs mn)	102.3	64.7	65.3
PAT margins (%)	5.0	3.4	3.1
Gearing (x)	1.3	1.2	1.3
EPS (Rs/share)	1.6	1.0	1.0
PE (x)	9.8	8.7	17.6
P/BV (x)	1.5	0.8	1.6
RoCE (%)	14.6	12.3	13.7
RoE (%)	15.4	9.3	9.0
EV/EBITDA (x)	6.9	5.5	7.3

n.m. : Not meaningful

Shareholding (As on March 31, 2011)



Indexed price chart



BACKGROUND

MIL manufactures and markets hosiery products and readymade garments under the brand names "VIP" and "Blue Chip". It has two divisions: Hosiery & others, which contributed ~87% of FY10 revenue, and spinning mill, which contributed ~13%. The company offers hosiery products and yarn, fabrics, socks, and elastics. MIL is present throughout the spectrum of innerwear industry. Its well-known brands include "VIP Frenchie", "Frenchie X", and "VIP Feelings". MIL's brands and their extensions occupy leadership positions in the respective categories. The company has a well-established all-India network of marketing and distribution channels. It has a dealer network of 550 and 110,000 retail outlets in India. It has six regional offices with a sales force of over 150 individuals. The company also exports to Europe, the US, Korea, Egypt, and Hong Kong. Exports contributed ~5% of FY10 revenues.

COMPETITIVE POSITION

Peer Comparison

	Maxwell Industries Ltd Mar-10	Aarvee Denim & Exports Ltd. Mar-04	Ginni Filaments Ltd. Mar-10	Malwa Cotton Spinning Mills Ltd. Mar-10	Shri Lakshmi Cotsyn Ltd. Jun-10
Revenue (Rs mn)	2,120.5	1,611.4	5,112.2	4,330.6	15,468.2
EBITDA margins (%)	13.4	22.2	12.9	2.9	13.3
PAT (Rs mn)	65.3	140.6	49.8	-172.5	916.5
PAT margins (%)	3.1	8.7	1.0	-4.0	5.9
Gearing (x)	1.3	1.5	4.2	108.7	2.4
EPS (Rs/share)	1.0	7.8	0.7	-23.5	45.9
PE (x)	17.6	7.1	16.5	n.m.	2.1
P/BV (x)	1.5	2.3	0.8	12.9	0.4
RoCE (%)	13.7	26.3	7.8	4.1	12.8
RoE (%)	9.0	38.2	5.6	n.m.	23.6
EV/EBITDA (x)	7.3	4.4	7.2	22.4	6.3

n.m.: Not meaningful

FINANCIAL PROFILE

Top line grows, but EBITDA margin and PAT flat in FY10

MIL top line grew 10.3% to Rs 2.1 bn in FY10 from Rs 1.9 bn in FY09, mainly on account of increase in volumes of innerwear under its hosiery division. Sales from hosiery business stood at Rs 2 bn, as against Rs 1.8 bn the previous year, a growth of ~9.52%. The company manufactured and sold close to 6.32 mn boxes, as against 6.07 mn boxes in the previous year. The socks segment also reported growth. The spinning division reported ~28.6% growth year-on-year. However, the performance of the division continued to be affected by the power shortage in Tamil Nadu, where the division is based.

Operating margin in FY10 remained at similar levels as that of FY09, at ~13%, mainly due to control over raw material costs and operating costs as a percentage of sales.

Despite ~9.5% growth in operating profit, PAT remained flat in FY10 at ~Rs 65 mn, due to increase in interest and finance charges during the year.

INDUSTRY PROFILE

Textiles

The textiles sector includes the apparel, home textiles, and technical textiles segments. The industry contributes around 4 per cent to India's GDP and is also one of the major sources of export earnings for the country. The industry is expected to grow at a CAGR of 7-8 per cent, in volume terms, over the next 5 years, with the domestic market expected to be the main driver. This growth would be driven by growing urbanisation, increasing penetration of organised retail, increasing brand and fashion consciousness, and increasing number of working women.

The industry, with the exception of manmade fibre intermediates, is characterised by the presence of small and fragmented units across the value chain. Policy reforms such as de-reservation of garment manufacturing after 2004-05 and provision of investment support under the Technology Upgradation Fund Scheme (TUFS) have been introduced to bring in consolidation and induce technological development in the industry in order to improve global competitiveness.

Economies of scale, technology modernisation, level of integration across the value chain, value addition in products manufactured, and raw material sourcing abilities are key differentiating factors across players in the industry.

Key Financial Indicators

	Units	Mar-08	Mar-09	Mar-10
Revenue	Rs million	2,045.9	1,922.7	2,120.5
EBITDA margins	Per cent	13.5	13.5	13.4
PAT	Rs million	102.3	64.7	65.3
PAT margins	Per cent	5.0	3.4	3.1
Revenue growth	Per cent	4.2	-6.0	10.3
EBITDA growth	Per cent	22.2	-5.6	9.5
PAT growth	Per cent	19.3	-36.7	1.0
Gearing	Times	1.3	1.2	1.3
RoCE	Per cent	14.6	12.3	13.7
RoE	Per cent	15.4	9.3	9.0

ANNUAL RESULTS

Income statement

(Rs million)	Mar-08	Mar-09	Mar-10
Net Sales	2,029.9	1,904.1	2,094.4
Operating Income	2,045.9	1,922.7	2,120.5
EBITDA	275.4	260.0	284.8
EBITDA Margin	13.5	13.5	13.4
Depreciation	40.9	44.3	43.5
Interest	77.3	106.5	138.3
Other Income	1.2	0.9	3.7
PBT	160.1	104.0	101.8
PAT	102.3	64.7	65.3
PAT Margin	5.0	3.4	3.1
No. of shares (Mn No.)	63.1	63.1	63.1
Earning per share (EPS)	1.6	1.0	1.0

Cash flow

(Rs million)	Mar-08	Mar-09	Mar-10
Pre-tax Profit	158.4	110.2	106.7
Total tax paid	-37.2	-33.5	-32.9
Depreciation	40.9	44.3	43.5
Change in working capital	-61.1	-33.3	-67.2
Cash flow from operating activities	101.0	87.7	50.1
Capital expenditure	-151.6	-7.6	-71.9
Investments and others	0.6	0.0	0.0
Cash flow from investing activities	-151.0	-7.5	-71.9
Equity raised/(repaid)	0.0	0.0	0.0
Debt raised/(repaid)	113.4	-36.8	68.9
Dividend (incl. tax)	-59.4	-43.8	-43.6
Others (incl extraordinary)	6.4	-3.8	-2.5
Cash flow from financing activities	60.4	-84.4	22.8
Change in cash position	10.4	-4.2	1.0
Opening cash	17.4	27.8	23.6
Closing cash	27.8	23.6	24.6

n.m.: Not meaningful

QUARTERLY RESULTS

Profit and loss account

(Rs million)	Dec-10	% of Rev	Dec-09	% of Rev	Sep-10	% of Rev	Dec-10	% of Rev	Dec-09	% of Rev
No of Months	3		3		3		9		9	
Revenue	547.1	100.0	576.0	100.0	667.7	100.0	1,788.2	100.0	1,671.5	100.0
EBITDA	43.6	8	64.1	11.1	57.3	8.6	158.7	8.9	181.8	10.9
Interest	18.5	3.4	28.1	4.9	29.3	4.4	69.0	3.9	70.9	4.2
Depreciation	9.4	1.7	10.8	1.9	11.1	1.7	31.7	1.8	33.1	2
PBT	15.7	2.9	25.2	4.4	16.8	2.5	58.1	3.2	77.8	4.7
PAT	10.5	1.9	15.4	2.7	11.2	1.7	38.8	2.2	46.0	2.8

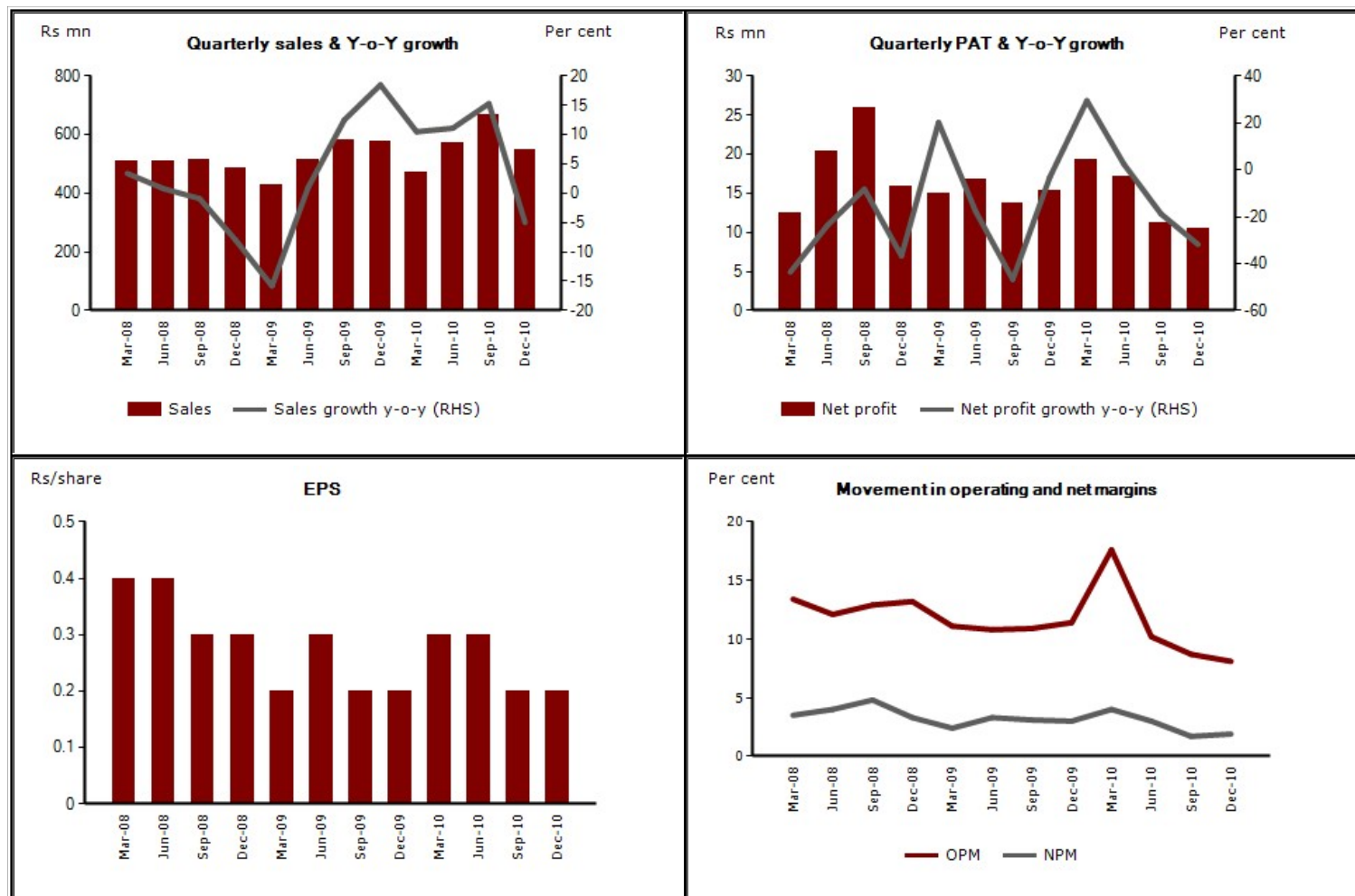
Balance Sheet

(Rs million)	Mar-08	Mar-09	Mar-10
Equity share capital	126.2	126.2	126.2
Reserves and surplus	561.5	584.8	608.8
Tangible net worth	687.6	710.9	734.9
Deferred tax liability: asset	100.6	106.4	110.0
Long-term debt	545.0	441.8	445.8
Short-term-debt	379.8	446.2	511.1
Total debt	924.8	888.0	956.9
Current liabilities	392.3	313.3	370.4
Total provisions	82.2	75.9	76.5
Total liabilities	2,187.5	2,094.5	2,248.7
Gross block	1,209.5	1,213.0	1,217.2
Net fixed assets	703.7	666.9	695.3
Investments	0.1	0.1	0.1
Current assets	1,483.7	1,427.5	1,553.3
Receivables	675.6	575.3	560.6
Inventories	706.1	734.0	885.7
Cash	27.8	23.6	24.6
Total assets	2,187.5	2,094.5	2,248.7

Ratios

	Mar-08	Mar-09	Mar-10
Revenue growth(%)	4.2	-6.0	10.3
EBITDA growth(%)	22.2	-5.6	9.5
PAT growth(%)	19.3	-36.7	1.0
EBITDA margins(%)	13.5	13.5	13.4
Tax Rate(%)	23.2	32.2	32.3
PAT margins(%)	5.0	3.4	3.1
Dividend payout(%)	27.8	39.0	38.6
Dividend per share(Rs)	0.1	0.2	0.2
BV(Rs)	10.9	11.3	11.7
Return on Equity(%)	15.4	9.3	9.0
Return on Capital employed(%)	14.6	12.3	13.7
Gearing(x)	1.3	1.2	1.3
Interest coverage(x)	2.8	2.2	1.9
Debt/EBITDA(x)	3.4	3.4	3.4
Asset turnover(x)	1.9	1.6	1.7
Current ratio(x)	1.7	1.7	1.6
Gross current assets(days)	265	271	267

FOCUS CHARTS AND TABLES



Shareholding pattern (Per cent)

	Jun 2010	Sep 2010	Dec 2010	Mar 2011
Promoters	63.6	63.6	63.6	63.6
FII	0.4	0.3	0.3	0.3
DII	-	-	-	-
Others	36.0	36.1	36.1	36.1

Board of Directors

Directors Name	Designation
Jaykumar Khanderao Pathare	Executive Chairman, Promoter-Director
Sunil Jaykumar Pathare	Vice Chairman & Managing Director, Promoter-Director
Arvind Kulkarni	Non-Executive Director
Kapil Jaykumar Pathare	Wholetime Director
Gopal Sehjpal	Non-Executive Director
Chetan Sheth	Non-Executive Director
Robin Banerjee	Director
Manish Chhajed	Director

Additional Disclosure

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

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