

Eastern Silk Industries

Equity Research Initiation Coverage: **STRONG BUY**

Current Price: 7.33

Target Price: 49.95

Appreciation Potential: 581%

شركة إنجاز مينا للاستثمار (ش.م.ع)
Injaz Mena Investment Co. PSC



March 26 , 2009

Lead Analyst

Rubina Malvankar
+97126728400 – Ext 419
Rubina.malvankar@injazmena.com

Capital Markets Division

Uppiliappan Varadraján
Portfolio Manager
Uppiliappan.v@injazmena.com

Rubina Malvankar
Financial Analyst
Rubina.malvankar@injazmena.com

Mohammed Sheikh
Financial Analyst
Mo.sheikh@injazmena.com

Injaz Mena Investment Co. PSC,

Ali and Sons Bldg, 4th Floor,
2nd Zayed street
Abu Dhabi, UAE,
P.O.Box 107394,
www.injazmena.com

Country	India	Shares outstanding	78.96 mn
Exchange	BSE, NSE	Market Cap	INR 561mn
Sector	Textile	52 Week High	43
Bloomberg Ticker	ESLK IN	52 Week low	6.6

- Expansion Plans to drive volumes :The company is starting a new plant worth INR 800mn in Bangalore which should be operational from July 2009. This will surge the total production capacity of silk yarn and fabrics.
- Shift in Product Mix :The company is now focusing on machine made silk fabrics rather than handloom made silk fabrics. Machine made silk fabrics fetches higher margins and have better demand in developed countries.
- More Focus on Domestic markets to improve margins :ESIL plans to venture into domestic markets due to an increase in demand for silk in the furnishing sector in India. The margins in the domestic markets are higher as the finished products are sold to the retailers directly.
- We have initiated a coverage with a price target of INR 49.95 giving an appreciation potential of 581% in the next 2 years.

Price Volume Movement

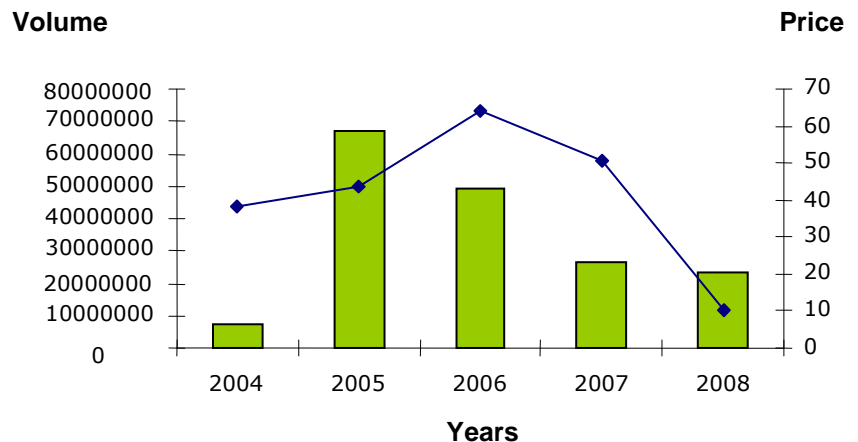


Table of Contents

Investment Rationale	3
Company Information	
Company Overview	4
Share Holding Pattern	5
Merger Synergies	5
Realizations Scale up	6
Mechanization of Production Techniques	6
Raw Material	6
Sector Overview	
Sector walk	7
Crisis Impact	7
Domestic Textile	8
Textile Exports	8
Prospects	
Country Prospects	9
Industry Prospects	9
Risk Factors	
Sector	10
Forex	10
Financials	
Financial Analysis	11
Revenue Movement and Break up	13
Recent Quarterly results	14
Comparisons	
Peers Comparison	15
Eastern silk Vs Sensex Movement	16
DCF Valuation	17
SWOT Analysis	18
Technical Analysis	19
Annexure	20
Disclaimer	22



Investment Rationale

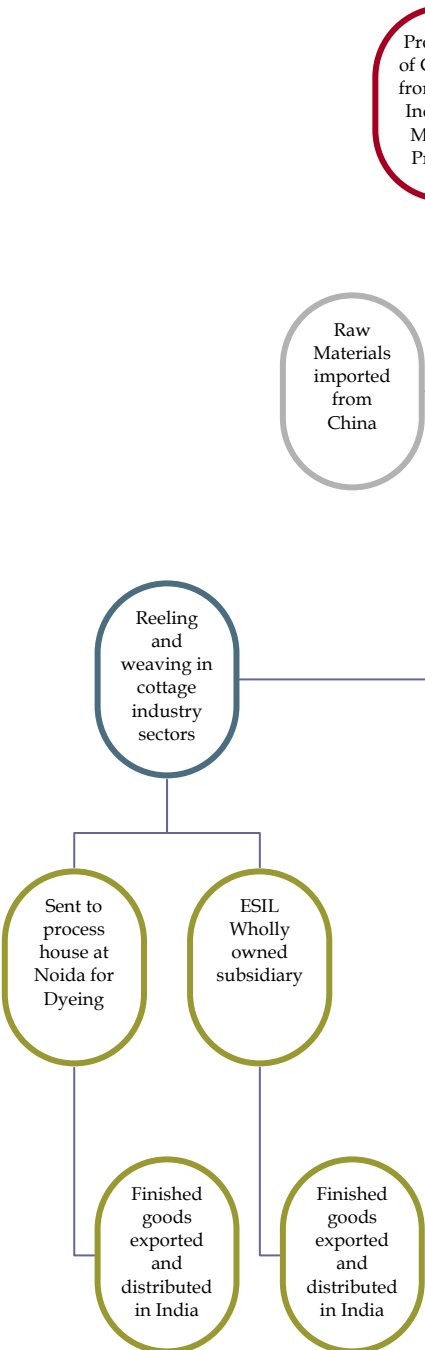
- The growth of silk fabric industry is largely influenced by the health of the US and European economies, its principal consumers (65% of consumption).
- The hotel industry, which is amongst the largest corporate consumers of silk, has also driven the demand for silk owing to capacity expansions.
- Manufacturing capacities for silk fabrics are being shifted from Europe to destinations such as India and China primarily on cost and environment considerations.
- India is the second largest producer of silk and international acceptance of its textile designers is improving its positioning in the global silk industry. Indian textile industry also stands to gain considerably from the removal of export quota restrictions, US restrictions on Chinese textile imports and value-added quality.
- Strategic expansions in the company ever since inception has urged a positive momentum in the top line growth of the company.
- Change in the product mix has enhanced the profit margin and enabled the company to serve better to the international demands.
- The New plant, expected to commence business in Bangalore by FY2009, will help pushing up the top line and bottom line growth of the company starting 2011.
- The company has been recognized as the golden star export house by the Government of India.
- We have valued the share based on a combination of DCF, PE and P/BV methods of valuation. The weighted average value evaluates to INR 49.95 using the following matrix.

<u>Valuation Matrix</u>	<u>Gross</u>	<u>Weight</u>	<u>Net</u>
<u>P/E</u>			
Estimated EPS FY2009	3.65		
Sector PE	2.32		
Price based on P/E valuation	8.48	20%	1.70
<u>P/BV</u>			
Estimated BV FY2009	48.67		
Sector P/BV	1.14		
Price based on P/BV valuation	55.48	20%	11.10
<u>DCF</u>			
	61.93	60%	37.15
Weighted Average Value			49.95

Company Information

Company Overview

Operating Chart



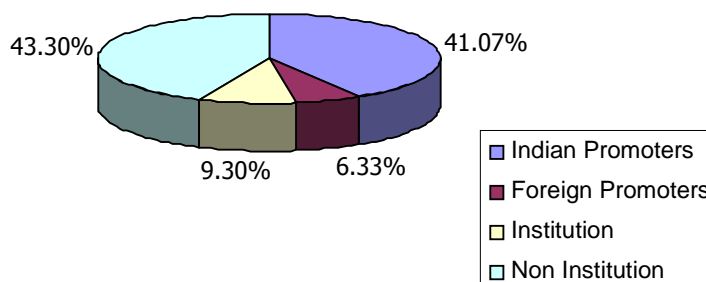
EASTERN SILK INDUSTRIES, LTD. engages in the manufacture, sale, and export of silk yarn and fabrics primarily in India. It offers fabrics and made-ups, home furnishings, fashion fabrics, handloom fabrics, double width fabrics, scarves, laces and belts, and embroidered fabrics. EASTERN SILK INDUSTRIES exports its products to the United States and Europe, as well as to Australia, the Middle East, and the Far East. The company was founded in 1946 and is based in Kolkata, India. The company was thereafter converted into a Private Limited Company in the name of Eastern Silk Manufacturing Company Private Limited on 12th June 1956. The company was again converted to a Public Limited company in the name of Eastern Silk Manufacturing Company Limited and fresh certificate of incorporation consequent to change of name was issued by the Asst. Registrar of Companies West Bengal on 26th July 1975. The name of the company was further changed to "Eastern Silk Industries Limited" and a fresh certificate of incorporation consequent on change of name issued by the Asst Registrar of Companies West Bengal was obtained on 12th August 1975.

The company manufactures silk fabrics with an annual processing capacity of 4.05 million mtr pa. Most of its production is exported to Japan, the US and the UK. A government-recognized export house, it also exports made-ups, leather goods and shrimps. The company has two subsidiaries - Eastern Enterprises and Mayur International Corporation. Eastern subsidiaries markets a part of the ESIL products in the US and Canada.

ESIL is involved in an integrated production facility of silk products starting from reeling of yarn from cocoons to finished silk. ESIL procures the cocoons from the southern part of India and Madhya Pradesh. The yarn is reeled on a contract basis by the various units in different villages in the cottage industry sector. The reeled yarn is sent either directly in to company's process house at Noida for dyeing or given to Eastern Enterprises Ltd. (EEL) a wholly owned subsidiary of ESIL. Around 50% to 60% of the yarn requirement is imported mainly from China or Brazil . After the weaving of the fabric, ESIL processes and finishes the fabric at its process house at Noida. The made-ups like scarves etc. are mainly manufactured in Naraina in New Delhi.



Shareholding Pattern



- The current promoter holding including the Indian and the foreign holdings is 47.4%. The FII holding stood at 6.33%.
- Non institutional holders include Individual holders of 25.28%, and corporate bodies hold 16.75%.

The company underwent a Stock-Split in June 2008. The face value was changed from INR 10 to INR 2 each, increasing the outstanding no of shares to 78.96mn. This was followed by a cash dividend of INR0.90 per share in November 2008.

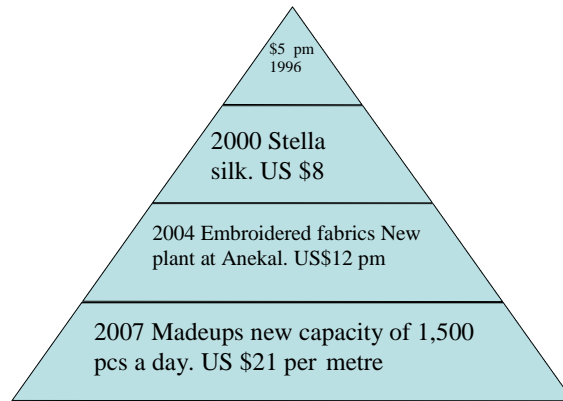
Merger synergies

Eastern silk, which was earlier a pure handloom silk player with an established global marketing network, merged Stella Silks (with mechanized manufacturing infrastructure but no global exposure) and Eastern Jingying (standalone yarn manufacturing facility) with itself in FY05. The said merger lent Eastern Silk a presence across the silk value chain - right from in-house yarn manufacturing capacity to mechanized high-realization fabric manufacturing capacity. This also reduced the company's turnover time and gave it a better bargaining power vis-a-vis its customers. Streamlining of administrative activities dismissed the duplication of costs and enhanced the company's EBIDTA margins from 10% in FY04 to 18% in FY06. Also, due to Stella Silk's location in a SEZ, Eastern Silk is liable to get MAT (minimum alternate tax) benefit until FY09, which will reduce its effective tax rate by approximately 400 to 500 basis points.

Major Customers for Fashion Fabrics

Company	Region
Reynaud Rexo	France
Incomo	Italy
Basman	Switzerland

Realizations scale up

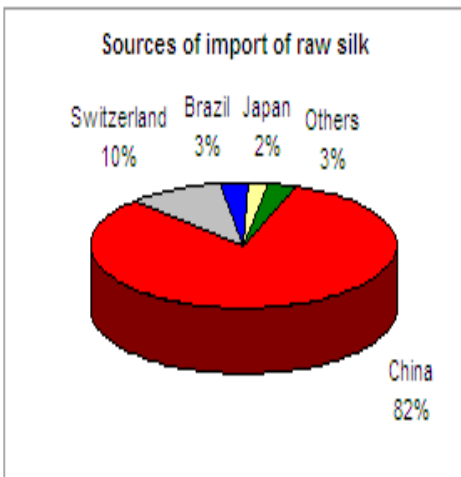


Eastern Silk has consistently made an effort to enhance the proportion of value added products in its product mix since FY00. Apart from increasing its reliance on in-house power-loom fabrics, the company has also forayed into higher margin embroidered fabrics and made ups. The proportion of value added products in its product portfolio has increased from 12% in FY05 to 15% in FY06. Since the cost of conversion of fabric into a value-added product is less than 50% of the incremental realization, it makes a significant contribution to the company's bottom line.

Mechanization of Production techniques

The proportion of handloom-made to machine-made fabrics has improved from 70:30 in FY04 to 50:50 in FY06 and this further went up to 30:70 by FY08. This enhanced the company's net realizations by approximately US\$ 3 per metre.

Raw Materials



Eastern Silk imports 55% of its total yarn requirements and 45% is being acquired from domestic sources. The high dependence on imported raw materials exposes the company to considerable raw material supply and cost risk. Out of the imported raw materials, 82% is imported from china and 18% from rest of the world . Its relations with its Chinese suppliers span over 3 decades. To that extent, the supply risk remains limited. While China consumes nearly 50% of its raw silk output, it exports the rest to countries like India. Globally, the quality of silk and silk-blended fabrics, superior design and the ability to deliver reliable products within given time frame are the most important criterions for selection of a supplier. As the European buyers prefer India to china to fulfill their silk requirements, the products are sourced from India, which makes the case stronger for players like Eastern Silk.

Major Customers for furnished fabrics

Company	Region
Karvet	US
Angely Paris	France
SATI Group	Spain
SMD Textile	UK
Fabric Exchange	Australia



Sector Overview

Sector Walk

The sector has been a clear laggard in the last three years and the industry stocks have also reacted in a predictable fashion. The poor performance of the industry is attributable to the domestic companies' inability to compete effectively with other low-cost destinations such as China, Bangladesh, Vietnam and Sri Lanka.

India is the world's third largest cotton producer and a hub of comparatively cheaper and skilled labor. The domestic textile manufacturers were expected to benefit from this and grab a sizeable portion of textile markets like the US and European Union (EU). Many companies used the opportunities thrown open by the expiry of MFA by drastically scaling up their exports.

However, export-led top line growth came at a huge debt burden restricting profit growth. For the past three years, companies took advantage of fiscal support like cheap credit under Technology Up-gradation Funds (TUFs) to increase their production base and scale up exports. As a result, the total debt of 11 companies in our sample increased at a compounded growth of 37%, while gross Fixed assets grew by 29% CAGR during the period. The picture so far indicates that while Indian companies have equipped themselves to reap the supposed benefits of global trade, rising competition from low-cost suppliers from Asia along with structural and resource-related barriers have weighed heavy on the profitability of the sector.

In FY2009, the industry is expected to suffer an additional blow of the slowdown in developed nations while Bangladesh and Sri Lanka are catching up with India in unit labor cost. Indian companies also are yet to show competitive strength in high value design and fashion segments in order to offset the loss of volumes to their Asian competitors.

Crisis Impact

Due to reduced export demand from the USA and the EU countries, the textile industry in both India and China has been in a slow growth phase. Due to drying up of textile/clothing export orders, exports plummeted 10.5% in Oct 2008. Both the exports of apparel and textiles have gone down already by 10-11% with respect to last year's. The erstwhile key drivers for growth of the Indian textile industry have been the global/export demand for its products and competitive price for domestic cottons. While, there has been a comfortable Cotton crop, at 32.5 mn Bales for the new 2008-09 season, the fixing of higher MSP by the government has not enabled the input price for the textile industry to go down; which in effect is making Indian textile products out priced and not duly competitive.

Due to the above and the ongoing contraction in demand and prices, the domestic textile sector is in 'decline' mode. In the domestic markets, the drastic erosion of share market value [which is now lowest in last 4 years] has in effect led to the flight of much required FDI capital. Also, the high cost of borrowings [along with the corresponding liquidity and credit crunch] is still fuelling negative sentiments and consumers are in a bearish mood.



Domestic textile

Owing to the already increased burden of fuel and interest costs, there is slow down of consumption in the domestic economy. With lowering of repo. rate by the central bank (RBI) , it is expected that there will be infusion of credit and liquidity in the economy. The impact of this interim Govt. relief to the financial system may show 'positive' signs perhaps over Q1 of 2009 provided the USA/Europe/Japan are able to make some corrections to their sinking economies. To a greater extent, this depends upon the success of the Bailout package in USA.

Meanwhile, the Govt. declaration of providing Rs.14 bn for the TUF scheme will not have any significant impact on the health of industry. It seems this amount is only to clear the 'backlog' of last years. With the interest rates still ruling high, there would be no takers for new investment. As of present, the Textile and clothing sector has touched the bottom of the 'U' and this is reflected in the downtrends in production and demand as shown below:

- A. Cotton yarn, production down to 227 from 320 Mn kg per month
- B. Apparel exports down to \$8.7 from \$9.6 bn for last year

The decline of demand for retail garments and made ups, in exports and domestic retail, has affected the Indian fabric manufacturers. The cotton fabric output has shrunk to the lowest rate in the last 4 years; and is down 11.4% from a year ago. Also, with the break on the growth in domestic Retail segment and with corresponding down-streams unlikely to see a sustainable 'rebound' soon, the Output of textile mills [especially the spinning and fabric mills] is likely to slide down further in Q1 of 2009. This will put retailers under pressure.

Textile Exports

Due to cut down in textile /clothing by the global retail chains, the expected and enhanced buying interest from overseas buyers for Christmas season did not come through.

This has negatively impacted the textile exports from India, which have shown a decline of about 10% for Q4 of 2008. Other than the appreciation of US Dollar versus the rupee, there is no marginal relief for textile exports. The export demand and orders for apparel and textiles, for spring-summer 2009, will remain subdued.

Overall, the short and medium term sentiment in the textile sector will continue to remain weak over next 2 Quarters of 2009, and the real stepwise correction may not begin before mid-2009.



Prospects

Country Prospects

In the current situation of financial crisis, if India can stabilize itself in 2009, it will emerge stronger in 2010. Last year, the focus of the global economy shifted eastwards and Asia emerged as an engine of growth. India still has the potential to be an engine of future growth. The fundamentals of Indian economy are stronger than is often recognized. India's growth has been based on a sustained rise in capital formation and gross savings rate as a percentage of GDP. In comparison to this, Western economic development was significantly based on ever expanding consumption of goods.

The stock markets had become too dependent on external factors. The focus of attention must shift to the real economy. India needs growth in its core sectors, especially manufacturing, construction and agriculture. The slowdown in the export-based sectors and services will have to be balanced. This has been clearly brought out by the National Manufacturing Competitiveness Commission. 2009 has to be the year of manufacturing revival in India. The inflation rate in India is expected to stabilize around 8.0 per cent and GDP to grow at 7 per cent.

The Government announced a comprehensive stimulus package of INR 200 bn. This package focuses specifically on stressed sectors such as commercial vehicles, non-banking finance companies, real estate, infrastructure and small and medium businesses. The Centre has also provided states the leeway to borrow another Rs 300 bn.

Industry Prospects

The high-end silk-based fabric and yarn industry is highly fragmented, with a large number of small to medium-sized manufacturers and suppliers having local presence with focus on specific geographical areas. Only a few large manufacturers and suppliers have a global presence, with a great disparity in terms of relative size, capacities and financial resources. Globally, the supplier's ability to provide superior design followed by timely service and technical support are the key parameters for the buyers' selection. Thus, despite India being the second largest producer of silk, it enjoys an upper hand over China with respect to silk exports to the US and European markets. India consumes approximately 60% of Chinese raw silk exports and India exports 30% of its total silk output (the domestic consumption being reasonably high).



Risk Factors

Sector

- The growth in the global silk industry is closely linked to the GDP growth of the US and European nations. A slower growth rate in these countries may lower the demand for silk fabrics as the consumption level decreases.
- The supply of silk being limited (5,500 silkworms are required to manufacture 1 kg of silk), and well in short of the expected demand, the prices for the fibre are not expected to decrease.
- The over dependence on China for supplies cannot be ignored. Also, rising inflation and interest rates may limit economic growth in the overseas markets.

Forex

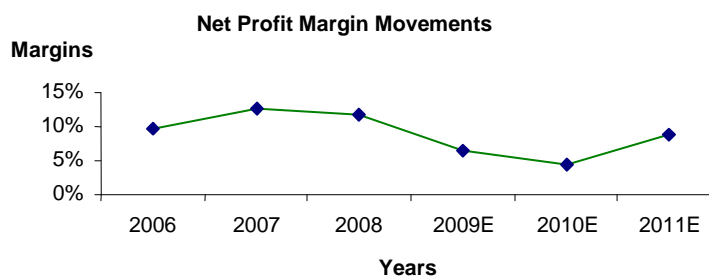
Eastern Silk is affected by cross currency fluctuations due to two reasons. Firstly, yarn requirement is mainly imported and secondly, nearly 70% of the company's turnover is derived from exports. However, it should be noted that this works as a natural hedge, as export revenues cover the import liability. Also, to protect itself from currency fluctuations, the company has a dollar denominated bank account, which helps meeting the foreign currency liabilities with minimum forex risk. Further, the fact that Eastern Silk is a 100% export oriented unit exempts it from payment of customs duty.

Financials

Financial Analysis

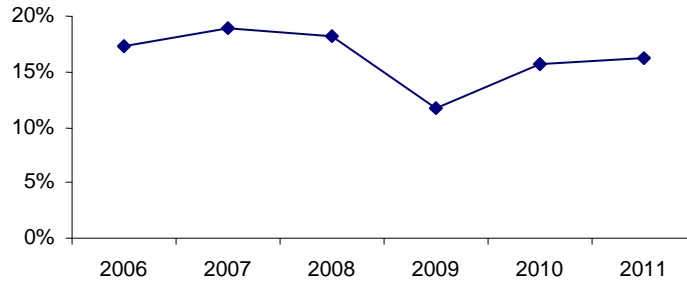
Ratios	2006	2007	2008	2009E	2010E	2011E
Operating Margin	17%	19%	18%	12%	16%	16%
Net Profit Margin	10%	13%	12%	6%	4%	8%
ROE	16%	17%	15%	8%	5%	11%
ROA	8%	10%	9%	5%	3%	6%
Current Ratio	2.66	3.17	2.72	3.51	3.77	3.61
Debt to assets	0.49	0.39	0.41	0.37	0.45	0.45
Asset Turnover	0.81	0.79	0.76	0.75	0.70	0.71
Equity Multiplier	1.97	1.64	1.69	1.58	1.80	1.81

- With the additional capital raised in 1QFY07, Eastern Silk's debt to asset ratio has come down to 0.37 in FY2009, and is expected at 0.45 with rising of new long term debts for financing the Bangalore plant.
- Eastern Silk has a consistent dividend history of 25 years. The 5 year dividend growth rate for the company is 24.57%.
- Net Margin for the year FY2009 is expected to decline by 48% due the decline in exports to US. The company is expected to see a slump in its margins by FY2010 due to increase in depreciation and Interest charges from the new plant. However the installation of the new plant will improve the net profit margin from 2011 on wards.



- The Operating Margin had been growing rapidly till FY 2007 and stabilized in FY2008. The fall in margin in FY2009 is mainly due to decline in sales growth due to demand slowdown. The margins are expected to improve and continue their positive movement starting FY2010.

Operating Margin



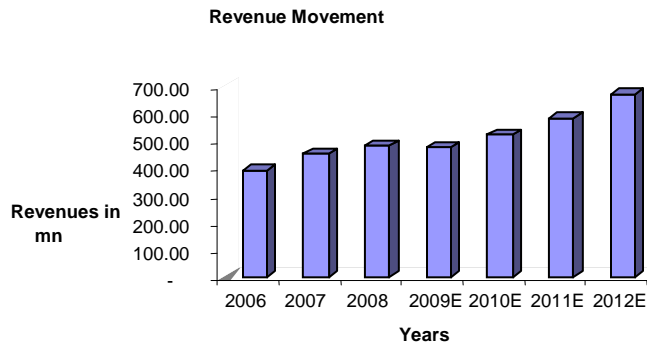
- The ROE and ROA had been maintaining a stable history till FY2008 and are expected to move downward in FY2009 and FY2010 due to demand slowdown. However we can expect a reversal in the ROE and ROA after FY 2010 when the Bangalore plant starts adding up to the returns.

ROE and ROA

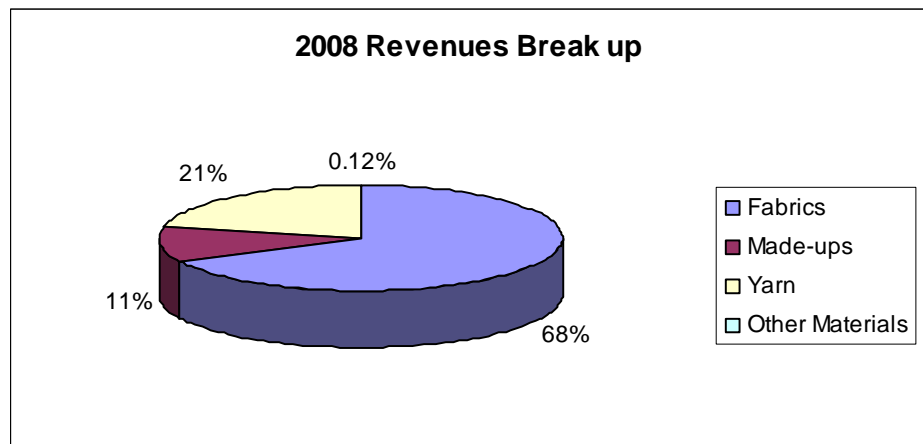


Revenues movement and Breakup

Revenues reflect a positive momentum YOY, lead by the expansion in exports, change in product mix, and rupee appreciation. The Projected revenues decline in FY2009 is due to the current financial crisis. The Top line Growth is projected to grow at 10%- 15% beginning FY2010 with the new plant commencing business and adding to the revenues.



- Ever since change in mechanization (product mix), approximately 68% of the revenue comes from fabrics (machine made).
- Revenues from yarn, made ups and other materials came from hand made handloom material which is approximately 32%





Recent Quarterly results

Particulars	Q107	Chg	1Q08
INR mn			
Revenue	1,689.60	-25%	1,273.50
EBIT	382.00	-72%	107.00
Net profit	255.20	-99%	2.47
EBIT margin	22.61%	-63%	8.40%
Net profit margin	15.10%	-99%	0.19%

Eastern Silk Industries Ltd. announced standalone earnings results for the third quarter ended December 31, 2008. For the period, the company's profit declined 99.03% to INR 2.47 million from INR 255.17 million in the same quarter last year. Net sales declined 24.63% to INR 1,273.51 million. The company posted 99.81% decline in net profit margin over prior year period.

On the 24th Sept 2008, the company announced, it will spend INR 800 million at its Bangalore plant for manufacturing velvet and jacquard fabrics. The new plant will be operational by July 2009. These fabrics were needed for home furnishing, the market size of which was around INR 10 billion. Major players in the home furnishing sector were Bombay Dyeing and Welspun. The Company said that this new plant would result in 10% to 15% higher sales value realization of the Company.

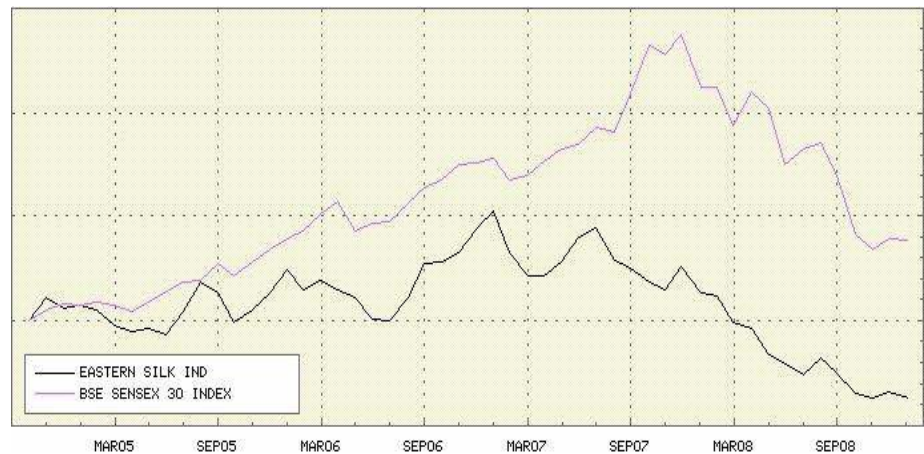


Comparisons

Peers Comparison (Figures for FY2008)

Company	Mkt Cap	Revenues	Opt Margin %	Net Income	Net profit Margin %	EPS	PE
<i>(in INR million)</i>							
Surat Textile	313	895.03	0.88	3.00	0.34	0.04	38.06
Shanti Vijay	350	723.04	4.33	22.74	3.15	7.58	15.40
Gildiam Intl	285	2,806.47	3.59	72.15	2.57	2.67	4.18
Uniproducts Ltd	330	1,196.81	6.47	39.11	3.27	4.60	8.59
Indus Fila	349	4,174.33	17.63	360.12	8.63	18.59	0.97
Filatex Fashion	462	101.16	18.63	13.59	13.43	1.20	59.40
Voith Fabrics	363	410.35	16.32	67.91	16.55	15.46	5.35
Classic Diamonds	283	7,104.35	8.77	311.46	4.38	8.31	0.88
Winsome Yarns	221	2,517.70	7.68	47.49	1.89	1.85	4.65
Aarvee Denims	296	2,429.66	4.79	53.39	2.20	1.30	9.66
Sutlej textiles	332	7,913.43	3.25	30.34	0.38	2.78	10.94
Bannari Amman	262	1,997.51	11.41	110.53	5.53	7.02	3.92
Flawless Diamond	234	5,559.07	3.99	241.09	4.34	15.80	0.89
Ambika Cotton	232	1,557.39	21.89	143.29	9.2	24.39	1.62
Eastern Silk	561	4,816.00	18	581.36	12	36.11	0.19
Industry			8%		5%	15.60	2.32

- Above comparison is based on the companies having highest market capitalization and margins in textile industry in India, and the data is compiled from various resources.
- Among the peers, Sutlej Textiles has reported the highest revenue with INR 7913.43mn for FY2008. Eastern silk stands fourth with INR 4816mn and the lowest revenues is reported by Filatex Fashion with INR 101.16mn.
- ESIL has the highest market capitalization among its peers with a profit margin of 12%. In terms of operating margin ESIL (18%) ranks third, highest being Ambika cotton (21.89%).
- ESIL maintained an EPS of 36.11 highest in the run and lower in terms of the PE 0.19 in FY2008. (The EPS shown above is before the stock split)

Eastern silk Industries Vis a Vis Sensex

- The Bench mark of the Indian stock index , Sensex, moved from a low of 4228 in 2004 to a high of 21,182 in 2008. Since then it started falling and is currently at 9001.
- Eastern silk as well started moving from INR 23.77 in 2004 to a high of INR 72.80 in 2007 and it currently trading at INR 7. (Prices adjusted to the spilt)
- The stock price of Eastern Silk moved inline with the Sensex and maintained a positive correlation till June 2008 when the company underwent a Stock - split (5 for 1). Post spilt the stock formed a negative correlation and moved in the opposite direction and resumed its momentum in line with sensex back in November when the company announced the Cash Dividend.

DCF Valuation

DCF	2009	2010	2011	2012
INR in Millions				
Free Cash Flow to Firm	96	(401)	421	376
Present Value of the Free Cash flow	84	(311)	288	226
Cumulative				287
Terminal value of Firm				5,980
Less : Long Term Debt and Preference shares				1,379
Net Value to the equity				4,889
Outstanding Shares				78.96
Fair Value of Share				61.93

The following DCF methodology was used in the analysis.

1. Cost of Equity

- Cost of Equity was calculated based on CAPM i.e. Risk Free Return+ Beta * (Market Return – Risk Free Return)
= 6% + 1.25 * (16% - 6%) = 18%
- Market returns have been arrived at by calculating 20 years return given by Sensex which is a leading market index in India.
- A Risk Free Rate of 6% is the yield on 10 years Indian Government Bond with a coupon of 9.39%. 6% is the average yield based on the price movements in the bond for the last one week (between 2nd to 13th March 2009).
- The Beta of 1.25 has been calculated taking the Price data for 4 years and comparing the same with Sensex.

2. Cost of Debt

The cost of debt was arrived at by multiplying the long term and short term rate of debt for the company (5.11%) by the debt adjustment factor depending on the company's bond ratings (1.38) after adjusting for Effective tax of 17.17% which comes to 5.84%.

3. Cost of Preferred Equity

The cost of Preferred is calculated by dividing preferred dividend by Preferred Equity which comes to 8%.

4. Weighted Average Cost of Capital

The WACC was arrived at by applying a weight of 61% for Equity, 37% for Debt and 2.2% for Preferred equity. The weightage was based on 2008 Balance sheet which was taken as the right capital structure for the company. Though in our calculations we have assumed a higher debt in subsequent years, in the long run the weightages will tend to move towards ideal capital structure.

5. The terminal growth rate is assumed to be at 2%.



SWOT Analysis

Strength

- 1) Leading exporter of silk fabrics with extensive integration for higher value addition.
- 2) Over 50 years of experience in silk industry, 25 years uninterrupted dividend record.
- 3) Longstanding relationship with over 225 international clients.
- 4) More than 80% repeat sales from existing customers
- 5) Initiatives taken such as, capacity expansion, forward Integration and greater market reach.
- 6) Strong in house fabric design capability.

Weakness

- 1) Expansion mainly by raising debt while maintaining low equity capital ratio.
- 2) High reliance on imported raw material imports creating potential price / Quality available issues.
- 3) Realization per metre is still lower than competition

Opportunities

- 1) New applications in home textiles e.g. Curtains, wall covers bedspreads and upholstery.
- 2) Scope for export of value added products e.g. Garments and made ups.
- 3) Expansion for manufacturing double width fabric in plain and embroidered versions.
- 4) Increase in the country's disposable income, increased preference towards improved lifestyles, greater incidence of impulsive purchases in large format retail outlets and a growing demand for silk as fabric and in home furnishing.

Threats

- 1) China is the largest producer of silk fabrics in the world i.e. 72% and is focusing mass production, thus can give severe competition and stiff margins.
- 2) Possibilities of china introducing smaller order sizes and value added products.
- 3) Possibility of cheaper substitutes replacing expensive silk products.
- 4) Change in fashion trends globally and in domestic markets.



Technical Analysis



Currently the stock is trading near its 52 week low of INR6.60 which also happens to be its historic low.

The stock is hovering around its 20 days moving average which indicates a possibility for a technical pull back to INR 8.63 which will be its 50 days moving average given the market marks out some positive rally. This could be a short rally from current level, and the stock could again get some resistance at a 23% retracement to INR 10.23 and if the rally continues further up, it can face another resistance at INR12.37 based on 38.2% retracement from the bottom towards the recent top.

The stock is trading at its all time low. The stock is forming a series of lower tops and lower bottoms which is a bearish sentiment.

The stock made a double top at around INR 70 levels, the first being on 11th Feb 07 and the second being 29th July 2007 which was a signal for a downward reversal for the stock. Ever since then ESIL has been moving downward till date.

ESIL tried to regain positive momentum after its fall on 21st Oct 2007 to INR34.23, but could not beat INR 58 in an upside rally which ended on 13th Jan 2008.

The stock has reached a kind of inflexion point now. It is trading at attractive valuation offered by the company based on analysis. It should get into a positive mode in line with the global market sentiment turning positive.



Annexure

Income Statement

Profit / Loss	2006	2007	2008	2009E	2010E	2011E
<i>INR in Millions</i>						
Revenues	3,904.90	4,511.91	4,816.50	4,729.80	5,202.78	5,827.12
COGS	(2,662.44)	(2,851.40)	(3,066.09)	(3,168.28)	(3,389.34)	(3,780.11)
Gross Profit	1,242.46	1,660.51	1,750.41	1,561.52	1,813.45	2,047.00
Other Manufacturing, S & A Exp	(661.73)	(745.79)	(943.52)	(954.78)	(1,050.26)	(1,170.50)
Change in finished goods	97.60	(59.85)	73.96	(49.83)	47.70	70.49
Total Operating expenses	(564.13)	(805.64)	(869.56)	(1,004.62)	(1,002.56)	(1,100.01)
Operating Profit	678.33	854.87	880.85	556.91	810.89	946.99
Other Income	55.60	147.30	108.34	68.69	75.55	84.60
EBITDA	733.93	1,002.17	989.20	625.60	886.44	1,031.59
Interest	(176.37)	(202.24)	(229.76)	(226.23)	(377.16)	(391.66)
Depreciation	(118.30)	(103.73)	(157.80)	(38.21)	(240.72)	(52.16)
Other Written Off	(0.60)	-	-	-	-	-
	(295.26)	(305.97)	(387.56)	(264.44)	(617.88)	(443.82)
EBT	438.67	696.21	601.63	361.16	268.56	587.77
Total Tax	(52.09)	(119.51)	(20.28)	(61.40)	(45.65)	(99.92)
Net Profit	386.58	576.70	581.36	299.76	222.90	487.85
Preference Dividend	11.20	11.20	11.20	11.20	11.20	11.20
Equity Dividend	47.22	71.06	71.06	71.06	71.06	71.06
Corporate Dividend Tax	4.20	8.20	14.00	14.00	14.00	14.00
No of Shares	13.49	15.79	15.79	78.96	78.96	78.96
EPS**	27.82	35.81	36.11	3.65	2.68	6.04

* Figures from FY2006 – FY2008 are before the stock split

** EPS is calculated after reducing preference dividend

Balance Sheet

Balance Sheet	2006	2007	2008	2009E	2010E	2011E
<i>INR in Millions</i>						
Assets						
Cash and Bank Balance	171.30	249.86	181.73	330.62	519.18	638.98
Sundry Debtors	1,194.89	1,333.36	1,427.02	1,401.33	1,541.46	1,726.44
Inventories	1,564.89	1,437.12	1,689.01	1,658.61	1,824.47	2,043.41
Current Assets	2,931.07	3,020.33	3,297.76	3,390.56	3,885.12	4,408.83
Fixed Assets	1,949.04	1,956.12	2,579.70	2,708.69	3,521.29	3,697.36
Less: Depreciation	(443.16)	(576.56)	(764.20)	(802.41)	(1,043.13)	(1,095.29)
Net Fixed Assets	1,505.88	1,379.56	1,815.50	1,906.28	2,478.16	2,602.07
Loans and Advances	386.65	1,116.10	1,112.44	931.74	1,024.91	1,147.90
Total Loans and advances	386.65	1,116.10	1,112.44	931.74	1,024.91	1,147.90
Investments	10.12	135.60	100.87	48.25	12.42	17.68
Capital Work In progress	12.06	69.82	29.18	30.64	39.83	41.82
Misc Expenses	0.01	0.01	0.00	0.00	0.00	0.00
Total Assets	4,845.80	5,721.41	6,355.76	6,307.46	7,440.44	8,218.30
Liabilities						
Current Liabilities	917.12	679.27	939.84	760.11	827.76	916.14
Provision	183.16	274.48	272.26	205.18	203.26	304.15
Total Current Liabilities	1,100.28	953.75	1,212.10	965.30	1,031.03	1,220.29
Secured loans	1,171.44	977.94	1,019.86	1,004.18	1,674.11	1,738.50
Unsecured loans and others	2.47	160.05	218.14	214.82	471.49	590.11
Long term Debts	1,173.91	1,137.99	1,238.00	1,219.00	2,145.60	2,328.61
Deferred Tax Liability	115.15	147.34	140.58	140.58	140.58	140.58
Total liabilities	2,389.33	2,239.08	2,590.67	2,324.88	3,317.21	3,689.48
Equity Share Capital	134.90	157.90	157.90	157.90	157.90	157.90
Preference share capital	140.00	140.00	140.00	140.00	140.00	140.00
Retained earnings	2,181.72	3,184.48	3,467.18	3,684.68	3,825.33	4,230.92
Total Equity	2,456.63	3,482.38	3,765.09	3,982.59	4,123.23	4,528.82
Total Liabilities and equities	4,845.96	5,721.46	6,355.76	6,307.46	7,440.44	8,218.30
NAV	171.72	211.66	229.57	48.67	50.45	55.59



Disclaimer

This document is for information and illustrative purposes only; it is in no way an offer or solicitation to buy or sell any investment products. Views expressed in this report are the views of the analysts in the capital market division of Injaz Mena and Injaz Mena, as a company, will not be held liable for any information provided or views expressed in this document. This report is intended for the general information of clients of Injaz Mena only and it neither constitutes a personal recommendation nor takes into account the particular investment objectives, financial situations, or needs of individual clients. Any prospective investors should not treat the contents of the material as investment, tax or legal advice and any such prospective investors must make their own investigation and evaluation of an opportunity to invest and should consult their own advisors concerning the suitability of the investment considering its own financial and tax circumstances and risk preferences before deciding to make any investment acting upon the information contained in this material. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material may from time to time have long or short positions in, act as principal in, and buy or sell the securities or derivatives (including options) of companies mentioned herein. This information may be based on assumptions or market conditions and may change without notice.

The information contained herein has been obtained from sources that Injaz Mena believes to be reliable, but Injaz Mena does not guarantee its accuracy, adequacy, completeness, reliability or timeliness, and will not be held liable for any investment decisions made based on this information. Moreover, Injaz Mena is not responsible for any errors or omissions or for the results obtained from the use of such information. Injaz Mena and stake holders of Injaz Mena may own common equity securities of this company and the holdings may increase or decrease from time to time.

Ratings Distribution

