Management Meet Note

September 13, 2016

Premco Global (PREGLO)

₹ 550

Niche segment; robust prospects…

Rating Matrix

Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

Key Financials

(₹ Crore)	FY13	FY14	FY15	FY16
Net Sales	52.9	66.0	72.3	73.5
EBITDA	8.7	13.7	20.3	20.1
Net Profit	5.2	8.1	12.1	12.6
EPS (₹)	16.3	24.5	36.4	38.2

Valuation Summary

(x)	FY13	FY14	FY15	FY16
P/E	33.7	22.4	15.1	14.4
EV / EBITDA	18.8	12.0	8.1	8.2
P/BV	8.7	6.3	4.6	3.6
RoNW (%)	24.7	28.2	30.9	24.9
RoCE (%)	26.3	35.7	42.8	36.8

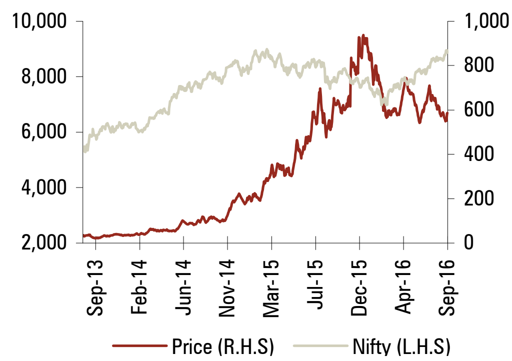
Stock Data

Particular	Amount
Market Capitalization	₹ 182 crore
Total Debt (FY16)	₹ 4 crore
Cash (FY16)	₹ 21 crore
EV	₹ 165 crore
52 week H/L (₹)	974 / 518
Equity capital	₹ 3.3 crore
Face value	₹ 10
FII Holding (%)	0.0
DII Holding (%)	2.2

Price Performance

Return (%)	1M	3M	6M	12M
Premco Global	(10.1)	(1.1)	(4.7)	0.6
Arrow Textiles	2.7	(10.8)	1.0	62.8
Sarla Perf. Fibres	4.7	3.2	(5.5)	13.8

Price Movement



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We recently attended the AGM of Premco Global (Premco) and met Lokesh Harjani, Executive Director at Premco, to get an insight into the global narrow elastic industry and the company's role in the value chain. Premco is a technical textile company established in 1966. It is primarily into manufacturing woven & knitted narrow elastic fabric, which find application in innerwear (both men & women). The company has an installed capacity of 11.1 crore metre annually with production at ~9 crore metre in FY16, implying capacity utilisation of ~80% and blended realisation of ~₹ 9/metre. Premco is primarily an export unit with export sales at ~65% of sales. Domestically, the company's key clients are Rupa, Lux among others while in exports key client is Hanes (US). In FY13-16, sales grew at a CAGR of 11.6% while EBITDA & PAT grew at a CAGR of 32.0% & 34.6%, respectively. In FY16, sales were at ₹ 73.5 crore, EBITDA at ₹ 20.1 crore (EBITDA margins at 27.3%) and PAT at ₹ 12.6 crore. Premco is in the midst of executing a capex programme (capacity 7 crore metre), which will result in healthy sales and PAT growth, going forward. However, the company is susceptible to foreign exchange risk due to high exposure to foreign currency.

Vietnam: Impressive expansion; getting close to customer!

Premco is currently executing an impressive capex programme wherein it is setting up a narrow elastic fibre manufacturing plant in Vietnam with an initial outlay of ₹ 20 crore. The company will hold an 85% stake in the venture with the remaining stake being held by a local partner. The plant in Vietnam is a result of natural preference of its customers to expand manufacturing in Vietnam amid low employee costs and benefits associated with Trans Pacific Pact (TPP). The capex is being implemented in two phases with each phase having a capacity of 3.5 crore metre with revenue potential of ₹ 25 crore each. The company intends to realise almost same margin profile as in Indian operations (~25%). The first phase has already commissioned with first shipment made in Q2FY17.

Unlevered balance sheet; robust return ratios, moat to sustain!

Premco has a debt free balance sheet with surplus cash on books (₹ 21 crore as of FY16). Sustained EBITDA margins and controlled working capital cycle (~100 days) has resulted in healthy return ratios profile at Premco. In FY16, RoE & RoCE stood at 36.8% & 24.9% respectively. Premco is being able to sustain these healthy EBITDA margins to the tune of ~25% on a consistent basis (over FY12-16) due to technical knowhow of the product profile, long gestation period of customer's approval (entry barrier) and innovative product solutions by incorporating a optimum mix of polyester, nylon and cotton (key raw material components).

Exhibit 1: Financial Performance

(₹ Crore)	FY12	FY13	FY14	FY15	FY16
Net Sales (₹ crore)	33.8	52.9	66.0	72.3	73.5
EBITDA (₹ crore)	2.8	8.7	13.7	20.3	20.1
Net Profit (₹ crore)	0.6	5.2	8.1	12.1	12.6
EPS (₹)	2.0	16.3	24.5	36.4	38.2
P/E (x)	273.8	33.7	22.4	15.1	14.4
Price / Book (x)	11.4	8.7	6.3	4.6	3.6
EV/EBITDA (x)	59.5	18.8	12.0	8.1	8.2
RoCE (%)	3.8	24.7	28.2	30.9	24.9
RoE (%)	7.5	26.3	35.7	42.8	36.8
RoIC (%)	9.7	29.3	47.2	64.9	68.9

Source: Company, ICICIdirect.com Research

Other AGM highlights

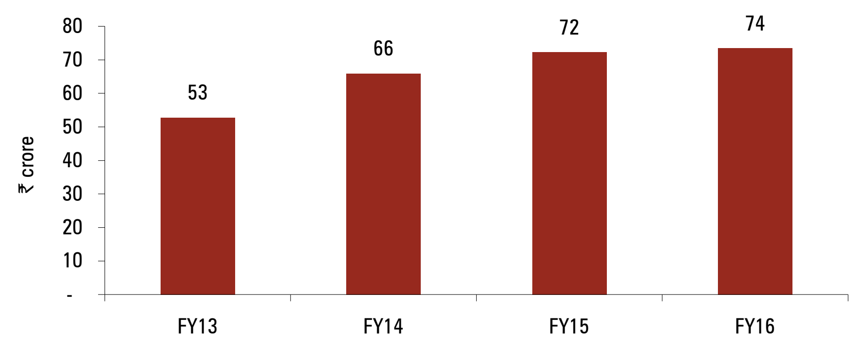
1) Vietnam is developing as a very big sourcing hub of textiles with a lot of US players setting up their manufacturing base there. Vietnam would be one of the major countries to benefit once TPP comes into force by January-February 2018. Currently, China is ranked No. 1 in terms of textile apparel exports with exports at US$34 billion, Bangladesh is second at US$18 billion, Vietnam third at US$ 17 billion while India is fourth at US$14 billion
2) The company has guided for 10-15% sales growth from domestic operations in addition to incremental sales from the Vietnam plant in FY16. Phase 1 will meaningfully start contributing from H2FY16
3) Premco has also developed Jockey International (US) as its clients to be served from the Vietnam facility
4) Vietnam Phase 1 is expected to attain peak utilisation levels in FY18E, which will also mark commissioning of Phase 2 with phase 2 expected to attain peak utilisation levels by the end of FY18E
5) In the Vietnam plant, Premco currently employs ~50 people of which 15 are Indians and the rest are locals with plans to augment the same to 120 once phase 2 becomes operational

Key financials

Revenues have grown at 11.6% CAGR in FY13-16 to ₹ 74 crore in FY16 (₹ 53 crore in FY13). Revenues can be sub-divided into domestic (₹ 27.4 crore in FY16) and exports (₹ 46.1 crore in FY16).

Domestic revenues were up 38% YoY in FY16 while export sales were down 12% YoY in FY16. Exports were subdued in FY16 due to the general slowdown at its key clients in the international market. Sensing the same, the company pushed its sales in the readily available domestic market

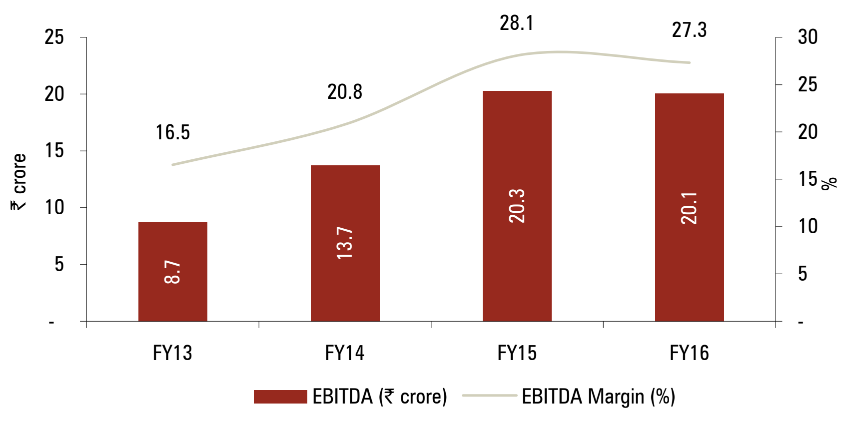
Exhibit 2: Revenue trend; grows at CAGR of 11.6% in FY13-16



Source: Company, ICICIdirect.com Research

Operational efficiencies and increasing share of value-added products drove the improvement in EBITDA margins over FY13-16. EBITDA margins have improved ~900 bps in FY13-16 with FY16 EBITDA margins at 27.3% vs.16.5% in FY13

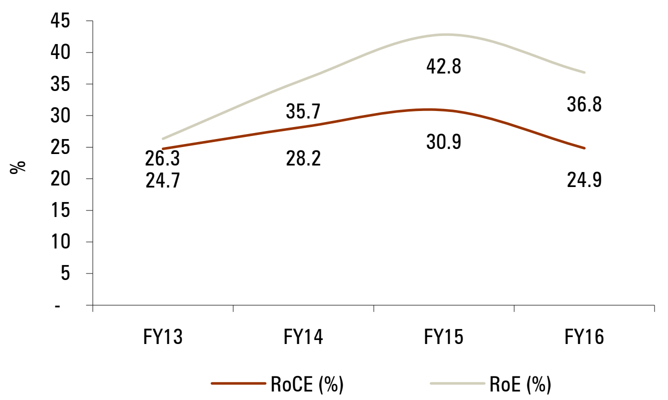
Exhibit 3: EBITDA & EBITDA margins (EBITDA grows at CAGR of 32.0% in FY13-16)



Source: Company, ICICIdirect.com Research

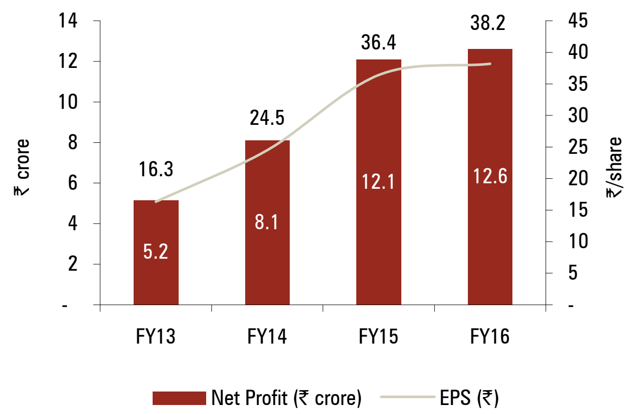
A continuous improvement in EBITDA margins coupled with a healthy balance sheet amid low equity base resulted in robust return ratios. FY13-16 average RoE & RoCE were at 35% & 27%, respectively. PAT has grown at a CAGR of 34.6% in FY13-16.

Exhibit 4: RoCE & RoE trend



Source: Company, ICICIdirect.com Research

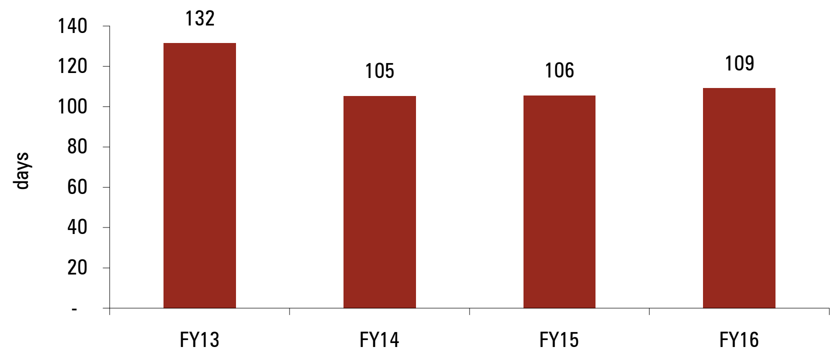
Exhibit 5: PAT grows at CAGR of 34.6% in FY13-16



Source: Company, ICICIdirect.com Research

Net working capital days are a bit stretched at ~100 days due to the higher proportion of exports in the total sales mix. Exports: domestic sales mix in FY16 was at 63:37

Exhibit 6: Net working capital days



Source: Company, ICICIdirect.com Research

Exhibit 7: Product profile : Elastic and non–elastic narrow fabrics

Source: Company, ICICIdirect.com Research

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