**Inputs from charles**

Textile industry in Coimbatore is structurally challenged – firms moving to surat in Gujarat to be closer to the produce

Their machines are more efficient too and labour is more productive in Gujarat

Ambika does things differently – ethical promoter, good guys but will struggle in the long run as Coimbatore belt has a lot of issues – power, water, pollution and not close to the source.

**Equity Research: Ambika Cotton Mills Limited**

**Ambika Cotton Mills Limited**

**(BSE:** [**531978**](http://www.bseindia.com/stock-share-price/ambika-cotton-mills-ltd/ambikco/531978/)**, NSE:** [**AMBIKCO**](http://www.nseindia.com/live_market/dynaContent/live_watch/get_quote/GetQuote.jsp?symbol=AMBIKCO&illiquid=0&smeFlag=0&itpFlag=0)**)**

**Industry: Textile -Cotton Yarn**

Ambika Cotton Mills Limited (ACML), incorporated in 1988, is a Coimbatore, Tamil Nadu (India) based company involved in cotton yarn manufacturing. ACML is listed on both Bombay Stock Exchange and National Stock Exchange in India.

ACML specializes in manufacturing of premium quality compact and Eli Twist yarn, which is used in making premium shirts. Company uses extra-long staple (ELS) cotton in its yarn manufacturing by importing high quality Giza and Pima cotton from Egypt and US respectively. ELS fiber provides extra strength while keeping the yarn thin. Thin yarn finds usage in premium quality cloth of higher counts. It has the capability to manufacture yarn for counts varying from 24’s to 140’s allowing it to break free from the commodity products of single count of other spinners. ACML is one of the established players in supplying yarn to almost all premium shirt manufacturers around the world.



|  |  |  |
| --- | --- | --- |
| Current Market Price (INR) | BSE (February 6, 2015) | 528.40 |
| Market Capitalization (INR Cr./10 million) | Full | 310 |
| Free Float | 170 |

One of the readers asked me to write in detail about my reasons for investing in ACML. I am holding in Ambika Cotton Mills Limited since September 2014. I still invest in ACML because I found that ACML is growing at a healthy growth rate while maintaining its profitability margins. It has been increasing its production capacity without deteriorating its capital structure.

I find that ACML’s products have good demand in the market, which it is able to cater to by selling higher quantities at increasing prices. ACML has been realizing its profits as cash and utilizing this cash productively in capacity expansion and paying off debt. ACML has created higher market value for its shareholders for each INR of profits retained by it.

After comparing ACML with its peers, I find that ACML provides an opportunity of investing in a conservatively financed consistent growth story with healthy profitability margins at attractive prices. ACML also offers a healthy margin of safety for its shareholders. After analyzing management of ACML, I find that it has a competent management that believes in company’s future and cares about shareholder’s interests.

All these qualities present ACML as a good investing opportunity to me and I have been consistently increasing my investment in the company.

Below is my analysis of ACML, where I have done as per the framework described in my article “[**Selecting Top Stocks to Buy**](http://www.drvijaymalik.com/2015/01/selecting-top-stocks-to-buy-step-by.html)”. I have divided the analysis into four parts: **Financial Analysis**, **Business Analysis**, **Valuation Analysis** and **Management Analysis**. Let’s delve deeper into it.

**Financial Analysis**

I have used the framework provided by me in the article: [**How to do Financial Analysis of a Company**](http://www.drvijaymalik.com/2014/12/selecting-top-stocks-to-buy-part-6.html) to analyze ACML’s financial statements for determining whether it has a sound financial position**.**

**A) Analysis Of Profit And Loss Statement (P&L):**

**Sales Growth & Profitability:**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (INR Cr./10 million) | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **CAGR** **2005-14** |
| Sales (A) | 86  | 106  | 142  | 160  | 184  | 219  | 320  | 389  | 398  | 477  | 21% |
| Operating profit (B) | 22  | 35  | 44  | 46  | 52  | 57  | 93  | 78  | 87  | 103  | 19% |
| Operating profit margin (B/A) | 25% | 33% | 31% | 29% | 28% | 26% | 29% | 20% | 22% | 22% |  |
| Net profit after tax (C) | 13  | 19  | 17  | 13  | 9  | 19  | 43  | 24  | 31  | 48  | 16% |
| Net profit margin (C/A) | 15% | 18% | 12% | 8% | 5% | 8% | 13% | 6% | 8% | 10% |  |

We can see that over last 10 years (2005-14), ACML has increased its sales at a healthy rate of 21% per annum. It has been able to maintain its operating & net profit margins (OPM & NPM) at healthy levels of 20-22% and 8-10% respectively. When we would compare NPM of ACML with its peers later in business analysis, we would realize that ACML has one of the best profitability margins in the industry.

**Tax Rate:**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (INR Cr./10 million) | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| Profit before tax (A) | 12.2  | 20.3  | 23.7  | 19.0  | 16.9  | 19.9  | 56.1  | 32.2  | 40.7  | 59.7  |
| Tax paid (B) | 0.6  | 1.6  | 6.6  | 5.8  | 3.7  | 5.2  | 16.7  | 8.3  | 9.7  | 11.5  |
| Tax rate (B/A) | 4% | 8% | 28% | 30% | 22% | 26% | 30% | 26% | 24% | 19% |

General corporate tax rate applicable in India is 30%. However, textile sector has been getting various tax incentives from Govt. to promote exports. ACML has been utilizing these incentives and paying tax at varying rates of 20-30% over the years. This healthy tax paid rate can be used to infer that company has been paying taxes due to it, which is a healthy sign.

**Interest Coverage:**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (INR Cr./10 million) | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| Operating profit (A) | 21.5  | 34.7  | 44.3  | 45.7  | 52.2  | 57.2  | 93.2  | 78.0  | 86.6  | 103.1  |
| Interest expense (B) | 4.1  | 6.4  | 9.5  | 13.0  | 17.3  | 16.7  | 15.5  | 19.7  | 18.8  | 12.0  |
| Interest coverage (A/B) | 5.3  | 5.4  | 4.7  | 3.5  | 3.0  | 3.4  | 6.0  | 4.0  | 4.6  | 8.6  |

ACML has been maintaining its leverage levels within comfortable levels of serviceability. Interest coverage ratio has always been more than 3 and is increasing recently. This is a sign of a healthy company.

**B) Analysis Of Balance Sheet (B/S):**

**Debt to Equity ratio (D/E, Leverage):**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (INR Cr./10 million) | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| Total Debt (D) | 105  | 141  | 202  | 279  | 252  | 234  | 260  | 121  | 63  | 70  |
| Total Equity (E) | 65  | 97  | 98  | 111  | 121  | 136  | 175  | 196  | 220  | 260  |
| D/E | 1.6  | 1.4  | 2.1  | 2.5  | 2.1  | 1.7  | 1.5  | 0.6  | 0.3  | 0.3  |

Debt to equity ratio of ACML has been reducing consistently from 2.5 in 2008 to 0.3 in 2014 as the company is using the cash generated from profits to pay off its debt. I like such companies, which use the profits to improve their capital structure. Decreasing debt levels reduce interest costs and thereby improve the profitability of the company. If you revisit the profitability table above, ACML’s net profit margin increased from 6% (2012) to 10% (2014), which is the direct result of decrease in debt of the company.

**Current Ratio (CR):**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (INR Cr./10 million) | **2010** | **2011** | **2012** | **2013** | **2014** |
| Current Assets (CA) | 193 | 209 | 128 | 131 | 165 |
| Current Liabilities (CL) | 95 | 105 | 121 | 140 | 125 |
| Current Ratio (CA/CL) | 2.0 | 2.0 | 1.1 | 0.9 | 1.3 |

Current ratio of ACML is currently 1.3 and has been consistently above 1 meaning that current assets are sufficient to take care of current liabilities.

**C) Analysis Of Cash Flow Statement (CF):**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (INR Cr./10 million) | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **Total** |
| Cash from Operating Activity | 20  | 5  | 17  | 56  | 51  | 39  | 72  | 135  | 87  | 38  | **520**  |
| Cash from Investing Activity | (39) | (59) | (50) | (95) | (15) | (2) | (83) | (4) | (9) | (28) | **(385)** |
| Cash from Financing Activity | 23  | 52  | 35  | 47  | (47) | (34) | 8  | (132) | (79) | (8) | **(134)** |
| Net Cash Flow | 4  | (2) | 2  | 8  | (11) | 3  | (2) | (1) | (1) | 1  | **1**  |
| Cash & Eq. at the end of year | 6  | 4  | 6  | 13  | 2  | 6  | 3  | 2  | 2  | 3  |  |

We can see that ACML has been consistently generating cash from its operations and using it for capital expenditure and paying off debt. If we refer the Debt to Equity ratio above, it would substantiate this conclusion as debt of ACML reduced from INR 260 Cr. (2.60 billion) in 2011 to INR 70 Cr. (0.70 billion) in 2014. I prefer to keep such companies in my portfolio that generate cash from operations to take care of investments and debt servicing.

**Cumulative PAT vs. cumulative CFO:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (INR Cr./10 million) | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **Total** |  |
|  |
| Profit After Tax (PAT) | 13  | 19  | 17  | 13  | 9  | 19  | 43  | 24  | 31  | 48  | **236**  |  |
| Cash from Operations (CFO) | 20  | 5  | 17  | 56  | 51  | 39  | 72  | 135  | 87  | 38  | **520**  |  |

If we compare the cumulative PAT and CFO for last 10 years (2005-14), we realize that company has collected cash more than its profits. It indicates that the company is able to collect its profits in cash and it is not stuck in receivables & inventory. It is a good sign for a healthy company.

**Conclusion:**

After analysis of financials of Ambika Cotton Mills Limited for last 10 years (2005-14), we realize that it is growing at a healthy growth rate while maintaining good profitability margins. ACML is able to increase its sale by capacity expansion without overly leveraging its balance sheet, as it has been using cash generating from operations to pay off its lenders. Company is in a comfortable debt-servicing situation, which is reflected by its healthy interest coverage ratio.

**Business Analysis**

I have used the 5 parameter highlighted by me in the article: [**How to do Business Analysis of a Company**](http://www.drvijaymalik.com/2014/12/selecting-top-stocks-to-buy-part-8.html) to analyze ACML’s business performance to determine whether it has a business advantage.

**Comparison with Industry Peers:**

|  |  |  |  |
| --- | --- | --- | --- |
| **10 years sales growth** | **Sales CAGR (2005-14)** | **NPM%** | **D/E** |
| Ambika Cotton Mills Limited | 21.0% | 10.1% | 0.3 |
| Vardhman Textiles Limited | 12.1% | 12.6% | 1.0 |
| Arvind Limited | 15.1% | 5.4% | 1.1 |
| Trident Limited | 20.8% | 5.1% | 1.8 |

We see that Ambika has outperformed most of its peers over last 10 years (2005-10) without compromising on its profit margins. Its net profit margin (NPM) is one of the best in the industry. As discussed during financial analysis, we can notice that the growth of ACML has not come at the cost of impairment of capital structure. ACML is one of the most conservatively financed companies in its industries, which is reflected by comparison of its D/E ratio with its peers.

**Increase In Production Capacity And Sales:**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2005** | **2014** | **CAGR** **2005-14** |
| Production capacity (No. of spindles) (A) | 42,446 | 109,872 | 11% |
| Revenue generation per spindle (B) | 20,732 | 43,414 | 9% |
| Total sales (INR Cr./10 Million)  | 88 | 477 | 21% |

The above table indicates that the sales growth achieved by ACML over last 10 years has been contributed equally by product price increase (measured by revenue per spindle, assuming each spindle produced same amount of yarn in 2005 and 2014) and increased quantity of product sold (measured by production capacity). This is a good sign that ACML is not relying solely on product price increases to achieve sales growth but also expanding its reach in consumer markets by selling higher quantities.

**Conversion Of Sales Growth Into Profits:**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (INR Cr./10 million) | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **CAGR** **2005-14** |
| Sales (A) | 86  | 106  | 142  | 160  | 184  | 219  | 320  | 389  | 398  | 477  | 21% |
| Net profit after tax (B) | 13  | 19  | 17  | 13  | 9  | 19  | 43  | 24  | 31  | 48  | 16% |
| Net profit margin (B/A) | 15% | 18% | 12% | 8% | 5% | 8% | 13% | 6% | 8% | 10% |  |

We can see that though the profit margin has been fluctuating over the years, it has still been able to maintain it at respectable levels of 8-10%. Profit margin decreased during 2008-10 due to higher interest cost consequent to capital expenditure done by company on capacity expansion as well as on wind power generation. Company now **generates 110% of its power requirement by wind energy**, thereby protecting itself from risks of fluctuating power cost and availability.

**Conversion Of Profits Into Cash:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  (INR Cr./10 million) | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **Total** |  |
|  |
| PAT | 13  | 19  | 17  | 13  | 9  | 19  | 43  | 24  | 31  | 48  | **236**  |  |
| CFO | 20  | 5  | 17  | 56  | 51  | 39  | 72  | 135  | 87  | 38  | **520**  |  |

The above table reflects that the profits of ACML are flowing to the company as cash. Profits are not being stuck in the receivables and inventory. This is a good sign.

**Creation Of Value For Shareholders From The Profits Retained By The Company:**

|  |  |  |
| --- | --- | --- |
|   (INR Cr./10 million) | **2005-14** |  |
|  |
| Total retained profits of last 10 years (A) | 214 |  |
| Total increase in market capitalization in 10 years (B) | 246 |  |
| Value created per INR of retained profits (B/A) | **1.15** |  |

We can see that the company passed the test of creating at least one INR of market value generation for its shareholders for each INR profits retained by it over last 10 years.

**Conclusion:**

Upon testing ACML at all the 5 parameters to judge the business performance, we can safely conclude that it has passed on all the five parameters. It has demand for its products in the market that it is able to tap by selling higher quantities and able to pass on increase in its costs as higher prices to its customers. Its profits are not being stuck in receivables & inventory and are realized as cash. The cash generated is being utilized productively in capacity expansion and debt reduction and it has created equivalent market value for its shareholders.

**Valuation Analysis**

I have used the framework provided by me in the article: [**How to do Valuation Analysis of a Company**](http://www.drvijaymalik.com/2014/12/selecting-top-stocks-to-buy-part-7.html) to analyse ACML’s share market data for determining whether it is available at attractive valuations.

**Price To Earnings Ratio (P/E Ratio):**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **10 years sales growth** | **P/E** | **PEG** | **Sales CAGR (2005-14)** | **NPM%** | **D/E** |
| Ambika Cotton Mills Limited | **6.6** | 0.31 | 21.0% | 10.1% | 0.3 |
| Vardhman Textiles Limited | **6.6** | 0.55 | 12.1% | 12.6% | 1.0 |
| Arvind Limited | **18.6** | 1.23 | 15.1% | 5.4% | 1.1 |
| Trident Limited | **7.8** | 0.38 | 20.8% | 5.1% | 1.8 |

At February 6, 2015, ACML is available at a P/E ratio of 6.6, which is cheap when compared with its peers. If we see the whole package of conservatively financed growth rate while keeping healthy profitability margins, ACML comes out to be a clear winner among its peers.

**P/E to Growth Ratio (PEG Ratio):**

If we compare the PEG ratio in the above table, we come to the same conclusion that ACML presents a case of healthy growth, which is available cheaply in the market. This is a one of the desirable quality of an investment worthy stock.

**Earnings Yield (EY) and Margin of Safety (MoS):**

At P/E ratio of 6.6, ACML provides an earnings yield of 15.2%. If we compare it to the 10 year government securities (G-Sec) yields, which are currently in the range of 8.0-8.5%, then we realize that, as per [**Benjamin Graham’s teachings**](http://www.drvijaymalik.com/2015/01/book-review-intelligent-investor-by.html), ACML presents a good margin of safety for the investors. This margin of safety might provide a cushion to the price fall and might help to restrict the capital loss that an investor may suffer by investing in ACML.

**Price to Book Value Ratio (P/B Ratio):**

I am not a big advocate of referring to P/B ratio for manufacturing companies. P/B ratio is relevant for companies operating in financial services. However, as it is one of the widely tracked measures of value and has been promoted by Benjamin Graham as well, I would analyze ACML for its P/B ratio as well.

P/B ratio of ACML at February 6, 2015, is 1.04. P/B ratio of 1.04 is within the conservative valuation levels as per Graham.

**Dividend Yield (DY):**

ACML paid a dividend of INR 12.5 for FY2014. At current price (February 6, 2015) of INR 528, it provides a yield of 2.4%, which is a decent yield.

**Conclusion:**

After doing the valuation analysis of ACML and comparing it with its peers, we realize that ACML provides an opportunity of investing in a conservatively financed consistent growth story with healthy profitability margins at attractive prices when compared to its peers. Simultaneously, ACML also provides a healthy margin of safety for its shareholders.

**Management Analysis**

I have used the framework provided by me in the article: [**How to do Management Analysis of a Company**](http://www.drvijaymalik.com/2014/12/selecting-top-stocks-to-buy-part-9.html) to analyse ACML’s management quality and performance to determine whether it has a good & competent management that keeps shareholder’s interests in mind:

**Background Check of Promoters & Independent Directors:**

ACML is promoted by Mr. P.V. Chandran, who is an entrepreneur. He plays an active role in the management of ACML. [As per Bloomberg](http://www.bloomberg.com/research/stocks/people/person.asp?personId=25727175&ticker=20440541), he is also a whole time director on the board of Mathrubhumi Printing and Publishing Co. Ltd, which publishes a Malayalam language newspaper Mathrubhumi. Mathrubhumi has a daily circulation of about 1.5 million. Further web search about Mr. Chandran and other directors did not reveal any negative information.

The board consists of seven directors. Three directors are of promoter’s group, three are independent directors and one nominee director of the lender (IDBI Bank). The composition of board and presence of nominee director indicates presence of sufficient oversight.

**Management Succession Plans and the Salary being paid to Potential Successors:**

Mr. P.V. Chandran has introduced his two daughters into the board of directors. Mrs. Bhavya Chandran was inducted in FY2008 and Mrs. Vidya Jyothish was inducted in FY2012 in the board as directors. Mr. Chandran is currently about 65 years of age and it is assumed that he would be able to train her daughters in the business before he takes retirement from active management of the company.

As per FY2014 annual report, Mrs. Bhavya Chandra and Mrs. Vidya Jyothish were paid remuneration of INR 60,000 and INR 45,000 for the year, which is not exorbitant by any means.

**Salary of Promoters vs. Net Profits:**

I have analysed total remuneration being paid to Mr. P.V. Chandran viz-a-viz net profit of ACML:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (INR Cr./10 million) | **2010** | **2011** | **2012** | **2013** | **2014** |
| Profit after tax | 19 | 43 | 24 | 31 | 48 |
| Remuneartion of Mr. P.V. Chandran | 0.7 | 0.8 | 0.8 | 0.8 | 1.4 |
| (B/A) | 3.8% | 1.9% | 3.4% | 2.6% | 3.0% |

The above table reflects that the remuneration of Mr. Chandran has been fluctuating in line with the profits of ACML. Mr. Chandran’s remuneration increased in FY2014 after the company recovered from the profits fall witnessed post FY2011 where it doubled its profits from INR 24 Cr. to INR 48 Cr. His remuneration is about 2.5-3.0% of net profits which when compared with other promoter directors of Indian firms is reasonable. Many other Indian companies have promoters who draw remuneration almost at 8-10% of net profits.

**Project Execution Skills:**

ACML promoters & managers have increased it production capacity from about 6,000 spindles in early 1990s to 109,872 spindles currently. Company has also installed wind power generation capacity of about 27.4 MW over last decade. These instances reflect that the promoters and management has good project execution skills. This experience would be useful for further capacity expansion projects that would be essential for future growth.

**Consistent Increase in Dividend Payments:**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (INR Cr./10 million) | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **CAGR** **(2005-14)** |
| Net profit (A) | 12.7  | 19.0  | 17.3  | 13.2  | 9.4  | 18.5  | 43.1  | 23.9  | 31.0  | 48.1  | 16% |
| Dividend Payout (B) | 0.9  | 1.0  | 1.2  | 1.0  | 1.0  | 1.5  | 2.5  | 2.5  | 4.7  | 6.1  | 24% |

We can see from the above table that as net profits of the company have increased over the years, the dividend paid by ACML to its shareholders has increased. In fact, dividend payout has increased at a higher rate than profits. This pattern indicates that the company is rewarding its shareholders by sharing the outcome of its growth over the years. This is one of the signs of a shareholder friendly management.

**Promoter Shareholding and Insider's Buying Pattern:**

Current shareholding of promoters in the company is 48.6% (December 31, 2014), which is little below my comfortable levels of minimum 51%. However, when I observe the pattern of promoters buying shares of ACML, I find that since July 2009, Mr. P.V. Chandran has bought 0.75 million shares of ACML at 46 occasions. He has increased his stake in ACML by 12.7% during this period (from 35.9% to 48.6%)

I draw a lot of comfort when promoters buy shares of their own companies. I believe that no one knows about a company better than its promoters do. Therefore, **when promoters buy shares, investors should buy too**.

**Foreign Institutional Investors (FII) Holding:**

I prefer investing in companies with nil or very low FII shareholding. I believe that if an investor invests in a company that initially have low FII holding and then the company keeps growing consistently. The sustained good business performance of the company would bring it to the notice of other market participants including FIIs and create increased demand for its shares. This demand would increase the P/E multiple of the shares of the company. I have noticed that this P/E expansion might account for more than 75% of total gains from an investment. (Read: [**How to Earn High Returns at Low Risk**](http://www.drvijaymalik.com/2015/01/how-to-earn-high-returns-at-low-risk.html))

ACML has 0.37% FII shareholding at December 31, 2014.

**Other Remarkable Feature:**

ACML was hampered with power crisis in the state of Tamil Nadu during 2007-2009 when companies were directed to draw only about 60% of allotted power. ACML took a timely step and started installing wind power generation plants to shield it from such issues in future. Currently, ACML has 27.5 MW of wind power generating capacity, which is sufficient to meet entire current power requirement of the company. **This is also a sign of timely steps taken by the management to deal with business hurdles.**

**Conclusion:**

After analyzing management of ACML, we can notice that it has a competent management, which thinks about shareholder’s interests and believes in company’s future. Mr. P.V. Chandran seems to have put in place a succession plan, which would enable the next generation to take over the company by the time Mr. Chandran retires from the day-to-day management of ACML.

I am a bottom-up fundamental investor following value-investing approach for stock selection. I do not focus on any particular industry while picking stocks for investing. Therefore, you would notice that I have not discussed a lot about industry growth projections and supply & demand scenarios etc. I believe in investing for long-term time horizon during which many cycles of supply & demand would pass. If a company has good product and competent management, then it would be able to survive tough times and generate wealth for its shareholders. I agree with Peter Lynch that **moderate fast growers (20-25%) in non-growth industries** are ideal investments.

Stock investing is full of uncertainties where assumptions might take long time to materialize. There might be times when a company that has been performing exceeding well, but the market might keep on ignoring it for years. On the contrary, the price may fall and investors may start questioning their analysis. However, every market correction in the past has been followed by a full recovery and investors of good companies have been highly rewarded. Therefore, an investor should buy stocks of a fundamentally good company and stay invested.

There is **no price target for ACML** in this report. It is deliberate because I agree with Nobel Laureate Nils Bohr, when he says, “Prediction is very difficult, especially if it’s about future.” I believe that ACML has what it takes to grow its earnings in future and if it could succeed in growing consistently, then market would recognize its potential and reward it with high stock price. However, when it is going to happen is anybody’s guess. It might take a few months, years, or more.

Nevertheless, credit rating agencies have started to recognize the strong performance of ACML. Credit rating agency CARE Ltd has consistently upgraded ACML’s rating from **BBB+ (2012) to A- (2013) to A (2014)**. Each rating upgrade lowers the cost of debt for ACML and smoothens its future growth path.

Therefore, the gist is “[**Buy Right & Sit Tight**](http://www.drvijaymalik.com/2015/01/trading-diary-of-value-investor.html)”.

Barani damodharan – texentrepreneurs

Utilization is always at 98 % - Gujarat is 85% - tamil nadu workers are very efficient and highly skilled

LGB, LMW – outperforming

CRI pumps, texmo pumps

Texpreneurs

Premier, pricot and super are the pioneers of compact yarn. Ambika started late but is very consistent

Even ramco textikles is a renowned name. None of the textile mills in TN do less than 40 count any more – as labour costs are higher, water/pollution norms are costlier. On top of it, Gujarat government gives 4 % TUF subsidy and gives a Rs. 1/ unit subsidy on power. All put together, the difference between TN and Gujarat works out to Rs. 24/kg including the logistics cost of Rs. 5/kg to ship from Gujarat to Coimbatore. As a result, all the coarse counts are being done in Gujarat and rajasthan while TN does only fine counts.

Key competitive advantages for players like ambika are ;

* Consistently high utilization – utilizations are more than 95-98% unlike in Gujarat where they are 85%
* Gingerly done capacity expansion – to maximize cash flows
* Since TN government does not provide any extra subsidies, they prefer to grow at the pace of internal accruals.

However, Gujarat cotton is not suited for coarse counts and when such companies mix imported cotton which is imported from china, turkey or Greece, the cost advantages get nullified.

The learning curve for TN is at least a decade ahead – others are catching up fast. The new elephant in the room is seemandhra, where chandrababu naidu is planning to give 5 % TUF subdiry and is giving a 5 year VAT exemption and a Rs. 1 /unit power subsidy and wants to put in place 50 lakh spindles. This will kill the industry in TN since all other costs are comparable between TN and AP.

The industry has made a representation to the chief minister to restore a level playing field.

All in all,he did acknowledge that the moat for ambika is strong but slowly shrinking. He particularly mentioned welspun - since they are vertically integrated a 2 % subsidy for them cuts costs across all parts of the value chain and he thinks welspun is the most promising company (now, that’s a tip ).

Inputs from xin – Chinese buyer july 2015

Ambika is the only name Chinese buyers can pronounce. Ambika has a reputation for quality and it does not break easily.