Orbit Exports

Reco: Buy

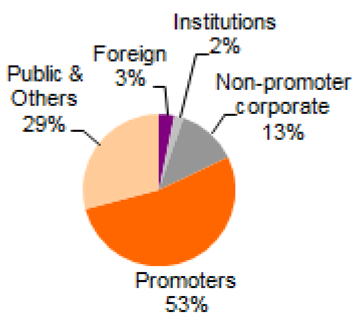
Weak Q2; business fundamentals intact; maintain Buy with revised PT of Rs600

CMP: Rs391

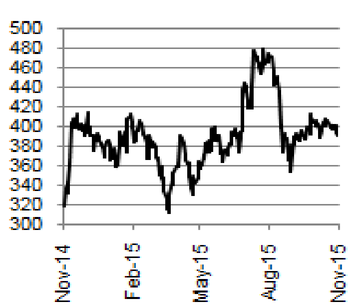
Company details

Price target:	Rs600
Market cap:	Rs559 cr
52-week high/low:	Rs495/163
NSE volume: (No of shares)	11,504
BSE code:	512626
NSE code:	ORBTEXP
Sharekhan code:	ORBTEXP
Free float: (No of shares)	0.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.0	-14.5	8.6	25.7
Relative to Sensex	-1.4	-8.5	11.9	31.6

Key points

- **Weak Q2 performance; earnings grew merely by 1.3% YoY; affected by 7.3% decline in revenue:** For Q2FY2016, Orbit Exports' top line declined by 7.3% on a Y-o-Y basis. The decline in the revenue was on account of weak demand from the South American market owing to currency devaluation making imports costly for the countries, the company lost Rs9 crore revenue on this account. Despite weak top line, improvement in the product profile coupled with strict control on the expenses drove the 10.6% growth in the operating profit. Consequently, resulting in an OPM expansion of 563BPS from 29% in Q2FY2016 to 34.6% in Q2FY2016. Increase in depreciation expense (up 26.2% YoY) coupled with higher tax (+32.7% YoY), restricted the bottom line. The net earnings largely remained flat with a mere 1.3% growth. The earnings for Q2FY2016 were at Rs8.5 crore as against Rs8.4 crore in Q2FY2015.
- **Key management comments:** Despite weak top line in the current quarter, the management remains upbeat about its business model which is largely driven by improvement in the product profile, resulting in higher margins and profitable business. To combat the effect of weak demand in certain geographies, the company has entered into newer countries like Australia, New Zealand and the Middle East, which would drive volume growth ahead. Further, it is fully geared to drive growth in the made-ups business with certification and complete auditing for its textile plant. Thus, overall the management remained confident of driving 12-15% top-line growth and a stable 30% margin over the medium-term time frame.
- **Incorporating results; tweaked estimates:** Incorporating weak revenue growth for the quarter, we have reduced our volume and thereby revenue estimates for FY2016 and FY2017, we expect Orbit Exports to post a 16.7% revenue growth over FY2015-18; while margins are likely to sustain at 30-32% band, leading to a 21% growth in earnings over FY2015-17E, thus leading to tweaking of our EPS estimates. Our revised EPS for FY2016, FY2017 and FY2018 is Rs22.8, Rs27.6 and Rs34.1 respectively.
- **Maintain Buy with revised price target of Rs600:** We believe that Orbit Exports is a quality play in the high-end textile segment with ample scope for growth. Further, the management's hands-on approach in business and client relationship coupled with its strong financial standing (enviable margins at 30%; RoCE and RoE at 28% and 33% respectively; debt equity at 0.18x), and improving product mix makes us positive on the business. Hence, we have maintained our Buy rating on the stock with a revised price target of Rs600 (valued at 22x its FY2017E earnings).

Results Rs cr

Particulars	Q2FY16	Q2FY15	YoY %	Q1FY16	QoQ %
Net income from ops	**41.4**	**44.7**	**(7.3)**	**43.7**	**(5.1)**
Total expenditure	27.1	31.8	(14.8)	30.7	(11.8)
Cost of goods sold	15.9	20.8	(23.2)	20.1	(20.5)
Employee cost	3.8	2.8	35.5	3.1	22.5
Other expenditure	7.3	8.2	(10.8)	7.6	(2.9)
Operating profit	14.3	13.0	10.6	12.9	10.9
Operating profit margin (%)	34.6	29.0	563BPS	29.6	498BPS
Interest	0.3	0.3	(24.0)	0.3	(14.5)
Depreciation	1.4	1.1	26.2	1.4	1.0
Non operating income	0.2	0.2	2.2	0.1	20.9
PBT	12.7	11.5	10.1	11.3	12.7
Tax	4.4	3.3	32.7	3.1	39.0
Net earnings	8.5	8.4	1.3	8.3	2.9

Valuations (consolidated)

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Net sales (Rs cr)	133	158	175	209	251
Growth (%)	10.1	18.9	10.5	19.5	20.2
EBITDA (Rs cr)	31.8	44.2	53.8	64.9	79.4
Growth (%)	34.8	39.0	21.8	20.6	22.4
EBITDA margin (%)	23.9	27.9	30.8	31.0	31.6
PAT (Rs cr)	20.4	27.9	32.8	39.7	49.1
Growth (%)	41.0	36.9	17.5	21.1	23.7
RoCE (%)	21.1	20.9	21.1	20.9	21.9
RoE (%)	33.5	32.4	30.5	29.4	29.1
EPS (fully diluted) (Rs)	14.2	19.4	22.8	27.6	34.1
PER (x)	27.6	20.2	17.2	14.2	11.5
EV/EBITDA (x)	18.5	13.6	11.2	9.3	7.6

- **Revenue declined by 7.3% YoY; led by weak demand in South America:** Led by currency devaluation in the South American countries (Brazil, Columbia, Suriname), the demand remained weak for the quarter, resulting in a Rs9-crore revenue loss for H1FY2016, thereby affecting the overall revenue growth, which declined for Q2FY2016, and grew by a mere 2.9% year on year (YoY) for H1FY2016.

- **Improving product mix drives gross margin expansion resulting in healthy growth in operating profit:** A healthy (22% YoY) growth in the high-margin jacquard business and an improvement in margin from the traditional domestic market led by lower raw material reflected strongly in the overall operating performance. Thus, despite a fall in the revenue, the operating profit for the quarter grew by 10.6% YoY; consequently, the margin expanded by 563 basis points (BPS) YoY. The Q2FY2016 margin came at 34.6% as against 29% in Q2FY2015.

- **Net earnings grew 1.3% YoY:** Despite a healthy operating profit margin (OPM) expansion, increased depreciation (+26.2% YoY), coupled with higher taxes (+32.7% YoY) and effective tax rate at 34.2% in Q2FY2016 vs 28.4% in Q2FY2015 restricted the growth in the bottom line. The net earnings for the quarter stood at Rs8.52 crore as against Rs8.42 crore in Q2FY2015.

Key developments & updates

- **First leg of expansion completed; benefits to accrue in FY2017:** The company has completed its first leg of fabric expansion at Kosamba (Surat), with a capital expenditure (capex) of Rs12 crore. With the said expansion, the overall fabric capacity has increased by 7.5 lakh metre to 88 lakh metre annually. Further, the Aseemta plant (which is a made-up unit) is also certified and geared for order execution that would start from Q1FY2017 onwards. Thus, we believe that despite the softness in the current quarter, the company is geared up for a healthy and high quality earnings growth ahead.

- **Balance sheet continues to be robust:** The company's balance sheet continues to remain robust with a debt-equity ratio at 0.3x, strong OPM at around 32% for H1FY2016 and annualised return on equity (RoE) at 29%.