

Industry :
Textiles (Home Furnishing)

Target Price : Rs.17

CMP : Rs. 12

Buy

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Analyst

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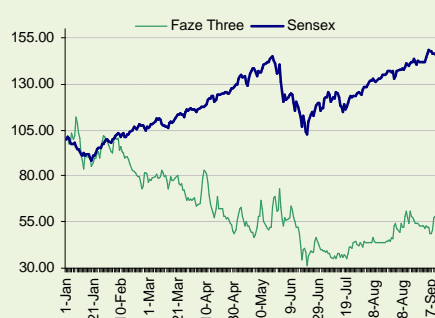
Scrip Scan

BSE Code	:	530079
NSE Code	:	-
Reuters Code	:	FAZE.BO
Bloomberg	:	FTX@IN
52 Wk H/L	:	25/6.20
Par Value	:	2
Book Value	:	11.7
Equity	:	121.9
EPS	:	1.1
P/E	:	11.0
Market Cap	:	731.4
Avg. Wkly Vol.	:	85684

**Share Holding Pattern as on
30/06/2006**

	% Holding
Promoters	53.42
Private Corporate Bodies	28.33
Public	18.25
Total	100.00

Faze Three v/s Sensex



We had initiated the coverage on the stock in July 2005 with high expectation of FTL's ability to tap the growth potential in the home textile segment. FTL has seen some hick ups in implementing the Bath Mat project which delayed the growth for FTL. However the company is gradually gaining growth momentum and we believe the growth opportunity for FTL is expected to come across gradually.

Investment Rationale

- Faze Three Ltd (FTL) is the one of the largest exporter of home textile products from India. The removal of the quota restriction from January 2005 has resulted into strong order booking for Faze Three Ltd in the past two quarters. FTL has focused on rubber backed Bath Mats, Rugs and home textile fabrics as key products to tap the opportunities opened up in the home textile segment.
- It has recently bagged a big order worth Rs.280mn from Wal Mart to supply Rugs. It is also expected to scale up supplies in Bath Mats, which currently is confined to Whitley Willows (WW), a market leader in Bath Mat in UK. FTL is expected to benefit from the plant closure that Whitley Willow has under taken in Europe.
- It is also expected to go through the plant certification process for other retailing majors such as J C Penny, Kohl's, etc. This is expected to step up supplies for Bath Mats in FY08.
- FTL has put up a facility to manufacture 8mn pcs of Bath Mats p.a. at Dadra (near Vapi, Gujarat) at the cost of Rs.450mn. The facility is in addition to its existing Panipat and Dapada unit, which manufactures other products like Rugs, Kitchen Textiles, Bed linen and Decorative Pillow.
- FTL caters to most of the global retailing giants such as Wal-Mart, J C Penny, Target, Kohl's, Sears, Loblaws, Shopco, Potterybarn. FTL has a current order book of Rs.470mn to be executed by March end. It is also under negotiation with one of its clients to supply made ups.

Valuations

FTL has made a significant investment in the new facility to tap the up coming opportunity in Bath Mats due to closing down of the high cost manufacturing facilities in US and Europe. The factory is under going an evaluation process and product stabilization stage which is expected to yield results in FY08. FTL has seen a strong growth in the products other than the Bath Mats which will drive growth in FY07. The current order book of Rs.470mn is expected to sustain the growth momentum seen in the first half of FY07. We expect revenues for FTL to grow by 45% CAGR for next two years. Since the margins in Bath Mat is higher than that of the existing product range, FTL is expected to see an improvement in operating margins for next two years. At current market price, the stock trades at 11x and 6.8x FY07E and FY08E earnings respectively. We recommend 'Buy' on the stock with a target price of Rs.17 over next 12 months.

Continued focus on Home Textiles

Faze Three Ltd (FTL) is promoted by first generation entrepreneur Mr. Ajay Anand having experience of more than two decades in the home textile industry. FTL is a leading exporter of home textiles for the past two decades with a wide product range which includes Bath Mats, Area Rugs, Bathroom Curtains, Kitchen Textiles, Blankets, Bed linen and Decorative Pillow. It generates 80% of its revenues from exports.

FTL has kept its focus on Bath Mats in the home textile segment for future growth. FTL is the only organized player in India to manufacture Bath Mats of export quality. The US market for Bath Mats stands at \$1bn in size according to Home textile magazine. The size of the European market is equal to that of US. The low cost manufacturing base in India due to captive availability of cotton and labour advantage gives India an edge over developed countries.

Infrastructure in place

FTL has rolled out the desired infrastructure to tap the opportunities in the home textile segment. FTL currently has three plants at Panipat and three plants at Silvasa (Vapi). The Panipat plants manufactures Throws, Carpets, Rugs, Pillow Covers, Bed Sheets and Curtains while Dadra and Dapada factory manufactures Bath Mats and Baby blankets. It has recently put up a new facility at Dadra for manufacturing 8mn pcs of rubber backed Bath Mats p.a. at the cost of Rs.450mn. FTL has also set up a dyeing house which supports its three manufacturing facilities in Vapi. The Company has its own Design Center at two prime locations viz; Mumbai and Panipat backed by individual design centers at each of the company's manufacturing units. FTL has demonstrated all its capabilities to cater to the global retailing majors offering cost advantage.

FTL currently caters to all major retailers such as Wal-Mart, J C Penny, Target, Kohl's, Sears, Loblaws, Shopco, Potterybarn etc. The strong relationship built over the past two decades in the pre quota regime with these clients is expected to result into strong volume growth in the coming years for Bath Mat product as well.

Growth in non-bath mat products better than expectation

FTL has seen an acceleration in the non-Bath Mat product range in the past few quarters. The order booking in Rugs, Curtains and Bed Sheets has remained better than Bath Mats. It has recently bagged one of the biggest orders worth Rs.280mn from Wal Mart to be executed in next 6-8 months. We expect strong demand for non-bath mat products to drive growth for FTL in FY07. We also see the growth traction in these products to continue in FY08.

Client approvals to come in

FTL currently derives most of its sales in Bath Mat from Whitley Willows of UK which is gradually closing down all its manufacturing facilities due to high cost. The current Bath Mat manufacturing facility at Dadra is undergoing product stability and quality approval with various international clients.

Many of the international names like J C Penny and Wal Mart are likely to inspect the Dadra facility for global outsourcing requirements in the coming months. The business from this facility is expected to see significant pick up in FY08.

Changing product mix to improve margins

FTL is expected to see 80bps improvement in margins in FY08 due to increasing contribution from Bath Mats where it enjoys better margins. The contribution of Bath Mat in total revenues is expected to go up from 12% in FY07 to 20% in FY08.

Strong order book ensures sustained growth

FTL currently has an order book of Rs 470mn as on 30th September 2006 to be executed by March 2006. Besides, it is under negotiation for orders in made ups segment. The current strong order book is expected to result into sustained growth for FTL in second half of FY07.

Further expansion on cards

FTL is building up its manufacturing capability in Bath Mats by adding up new capacity at its Dadra Plant in anticipation of increasing demand due to plant closure of Whitley Willows. The total capacity is expected to go up from current 8 mn pcs p.a. to 16mn pcs at the end of the expansion. It is also expanding the capacity to manufacture Rugs and Throws at Dapada facility. The total cost for the project at Rs.447mn, which is expected to be funded through equity issue and internal accruals.

Quarterly Performance
(Rs.mn)

	Q2 FY07	Q2 FY06	Q1 FY07	H1 FY07	H1 FY06
Net Sales	321.0	247.4	228.3	549.4	434.5
% Change (yoy)	29.7			26.4	
Total Expenditure	274.6	219.7	195.6	470.2	381.0
EBIDTA	46.4	27.7	32.7	79.2	53.5
% Change (yoy)	67.5			48.0	
EBIDTA Margin (%)	14.5	11.2	14.3	14.4	12.3
Interest	13.4	9.1	9.2	22.6	13.4
Depreciation	7.1	7.0	7.7	14.8	13.4
Other Income	0.0	0.0	0.0	0.0	0.0
PBT	25.9	11.6	15.8	41.8	26.7
Tax	2.4	1.6	1.8	3.9	3.1
Ex Ord Item	0.0	0.0	0.0	0.0	0.0
Adj Net Profit	23.5	10.0	14.0	37.9	23.6
% Change (yoy)	135.0			60.6	
Net Profit Margin (%)	7.3	4.0	6.1	6.9	5.4
Equity	121.8	47.4	121.8	121.8	47.4
EPS	0.4	0.4	0.2	0.6	1.0

Financial Analysis...

(Rs.mn)	2004-05	2005-06	2006-07E	2007-08E
SOURCES OF FUNDS				
Equity share capital	40.8	121.9	121.9	121.9
Preference Share	03.6	0.0	0.0	0.0
Reserves & Surplus	537.2	536.3	593.0	689.3
Equity share holders funds	581.6	658.2	714.9	811.2
Secured Loans	272.4	488.6	488.6	461.7
Un Secured Loans	74.7	62.7	67.0	67.0
Total Loan funds	347.1	551.3	555.6	528.7
Deferred Tax Liability	41.5	59.0	59.0	59.0
Capital Employed	970.2	1268.5	1329.5	1398.9
APPLICATION OF FUNDS				
Gross Block	623.1	859.0	889.0	909.0
Less: Depreciation	96.2	125.0	165.0	210.0
Net Block	526.9	734.0	724.0	699.0
Investments	57.6	57.2	57.2	57.2
Inventories	158.0	276.0	324.0	425.0
Sundry Debtors	90.6	103.4	162.0	227.7
Cash & Bank Bal	18.3	07.7	12.0	17.0
Loans & Advances	162.8	179.5	179.5	179.5
Curr Assets, Loans & Adv	429.7	566.6	677.5	849.2
Curr Liabilities & Provision	45.0	89.6	129.5	206.8
Provision	19.0	13.9	13.9	13.9
Curr Liab & Prov	64.0	103.5	143.4	220.7
Net Current Assets	365.7	463.1	534.1	628.5
Miscellaneous Exp	20.0	14.2	14.2	14.2
Total Assets	970.2	1268.5	1329.5	1398.9

Profit & Loss

(Rs.mn)	FY05	FY06	FY07E	FY08E
Net Sales	600.2	718.7	1080.0	1518.0
<i>Growth (%)</i>		19.7	50.3	40.6
Other Income	40.8	71.7	54.0	75.0
Total Expenditure	564.7	659.3	969.3	1350.4
<i>% to sales</i>	94.1	91.7	89.8	89.0
R M Cost	276.2	397.1	588.6	827.3
<i>% to sales</i>	46.0	55.3	54.5	54.5
Power Cost	23.5	36.9	54.0	75.9
<i>% to sales</i>	3.9	5.1	5.0	5.0
Selling & Distribution	41.7	53.6	77.7	110.8
<i>% to sales</i>	7.0	7.5	7.2	7.3
Employee Cost	52.6	66.6	87.0	108.7
<i>% to sales</i>	8.8	9.3	8.1	7.2
Other Expenditure	170.7	105.1	162.0	227.7
<i>% to sales</i>	28.4	14.6	15.0	15.0
Operating Profit	35.5	59.4	110.7	167.6
<i>Margins (%)</i>	5.9	8.3	10.3	11.0
Interest	16.8	48.4	47.0	55.0
Gross Profit	59.5	82.7	117.7	187.6
Depreciation	18.0	29.7	40.0	45.0
Tax	3.4	23.1	11.0	35.6
Net Profit	38.1	29.9	66.7	107.0
<i>Margins (%)</i>	6.4	4.2	6.2	7.1

Ratios

	2004-05	2005-06	2006-07	2007-08
Growth (%)				
Net Sales	(15.00)	19.74	50.27	40.56
Adjusted Net Profit	4.64	(21.93)	123.08	60.42
EBITDA	3.78	66.39	86.36	51.40
EPS	4.64	(21.93)	123.08	60.42
CEPS	(6.63)	(64.48)	79.03	42.46
Gross Fixed Assets	47.27	37.86	3.49	2.25
Capital Employed	24.70	30.75	4.81	5.22

Valuation

EPS (Rs.)	1.87	0.49	1.09	1.76
CEPS (Rs.)	2.75	0.98	1.75	2.49
BVPS (Rs)	28.33	10.80	11.73	13.31
PER (x)	6.41	24.46	10.97	6.84
PEG (x)	1.38	(1.12)	0.09	0.11
P/CEPS (x)	4.36	12.27	6.85	4.81
P/BV (x)	0.42	1.11	1.02	0.90
EV/EBITDA (x)	14.10	9.80	7.80	5.20
EV/Net Sales (x)	1.68	1.62	1.13	0.80

Profitability

ROCE (%)	8.24	10.84	12.96	18.11
ROE (%)	6.59	4.54	9.33	13.19
EBIDTA Margin (%)	5.95	8.26	10.25	11.04
EBDTA Margin (%)	3.15	1.53	5.90	7.42
Net Profit Margin (%)	6.38	4.16	6.18	7.05
Tax/PBT (%)	8.15	43.58	14.16	24.96

Turnover

Avg. Collection Period (Days)	55.10	52.51	54.75	54.75
Avg. Payment Period (Days)	59.47	82.36	80.30	91.24
Net Fixed Assets (x)	1.14	0.98	1.49	2.17
Total Assets (x)	0.60	0.84	0.78	0.65

Other Financial Ratios

Interest Coverage (x)	2.13	1.23	2.36	3.05
Debt to Equity Ratio (x)	0.60	0.84	0.78	0.65

Basic Data

Market Capitalisation	73.14	73.14	73.14	73.14
Enterprise Value	107.85	128.27	128.70	126.01
Sales/Mcap	0.82	0.98	1.48	2.08

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