

# Textile

## Export data - a mixed bag; higher raw material prices impact 2Q margins

In Oct'17, India's market share in home textile exports to the US (sum of all products) declined 1ppt YoY. YTD market share in USD terms increased 2ppt YoY to 50% for cotton sheets, driven by volume growth of 4%, while YTD market share for towels remained flat at 40%. The cotton price correction to INR 105/kg currently (from c.INR 120/kg over the past eight months) is a positive for textile players, while INR appreciation (5.3% YTD) remains an overhang. Under the GST regime, duty drawback on cotton made-ups and cotton yarn has been revised from 7.3%/2.5% (without input credit) to 2%/1.2% (with input credit), respectively. The Merchandise Export from India Scheme (MEIS) rate has been increased from 2% to 4%. Volume growth for both terry towels and bed linen, along with India's rising market share in the global home textile space, is a welcome relief for the segment.

- **India's YTD market share in total home textile exports to the US remained flat YoY:** In Oct'17, India's market share in home textile exports to the US (sum of all products) declined 1ppt YoY to 32%. In the same month, India's market share in terry towels declined significantly by 7ppt YoY, while market share in cotton sheets increased 1ppt YoY in USD terms.

a) **India's share in US imports of cotton sheets at 50% YTD:** In Oct'17, India's cotton sheet market share (USD terms) came in at 48%, an increase of 1ppt YoY. The market share stood at 50% YTD, recording a 2ppt YoY increase. In Oct'17, China's market share declined 1ppt YoY to 18%, while Pakistan's share remained flat YoY at 14%.

b) **India's share in US imports of terry towels at 40% YTD:** India's share in the terry towels segment significantly declined 7ppt YoY to 31% in Oct'17. The market share stands at 40% YTD (flat YoY). In the same month, China and Pakistan's market share increased 5ppt/1ppt YoY to 28%/26%, respectively.

c) **India's share in US imports of total home textiles at 33% YTD:** India's market share in Oct'17 declined 1ppt YoY to 32%. In the same month, China's market share declined 1ppt YoY to 36%, while Pakistan's share increased 1ppt YoY to 17%.

- **India's YTD market share in cotton sheets to the US (in USD terms) increased, driven by volumes:** India's YTD exports of cotton sheets to the US (in USD terms) increased 4.0% YoY (vs. a 0.4% increase in world cotton sheet exports to the US), led by a 4.1% rise in volumes, while realisations remained flat. This led to a 2ppt YTD increase in India's market share in cotton sheets. India's YTD exports of terry towels to the US increased 4.9% YoY (vs. a 6% rise in world terry towel exports to the US), driven by 7.9% YoY increase in volumes, partially offset by a 2.8% YoY decrease in realisations. YTD market share in towels remained flat due to a slowdown in the past two months.

- **Cotton price correction provides partial relief, while INR appreciation remains an overhang:** Domestic cotton prices have corrected sharply since mid-Sep'17 to INR 105/kg after remaining at INR 120/kg levels over the past eight months (still higher than the CY15 avg. price of INR 92/kg), while yarn prices have come off highs of INR 224/kg (in Mar'17) to c.INR 187/kg currently, implying a decrease in spread to INR 82/kg. Reduction in the yarn-cotton price spread in 2QFY18 has impacted the margins of integrated textile players such as Trident. INR appreciation (5.3% YoY YTD) continues to adversely impact the Indian advantage. (refer to Exhibits 23 and 26 for sensitivity).

- **Higher raw material price, reduction in export incentives and INR appreciation impact margins across home textile players in 2Q:** Welspun (integrated home textile player) continued to report the highest Home Textile margins at c.19.3% in 1HFY18. Margins declined YoY across peers primarily due to higher cotton prices, reduction in export incentives post GST and INR appreciation. Himatsingka Seide (HSS) outperformed others in 1H revenue growth, driven by commissioning of the new bed sheet unit. HSS witnessed a YoY increase in 1HFY18 EBITDA driven by better product mix, while others witnessed an EBITDA decline. Trident recorded the lowest decline of c.15% in 1H EBITDA vs. peers, driven by high margins from the paper business. Indo Count saw the maximum adverse impact on margins, driven by lower volumes, high costs and INR appreciation.

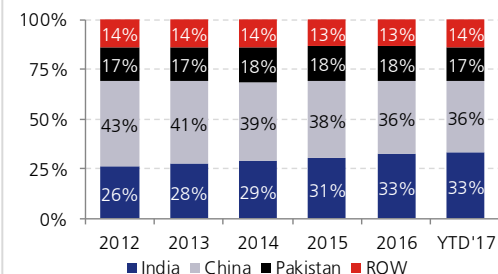
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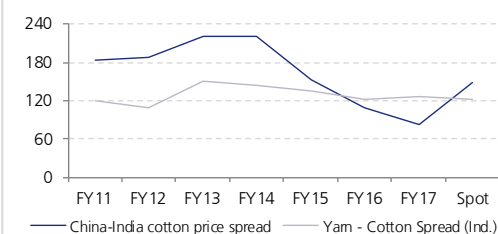
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### US imports mkt shr. in cotton made-ups



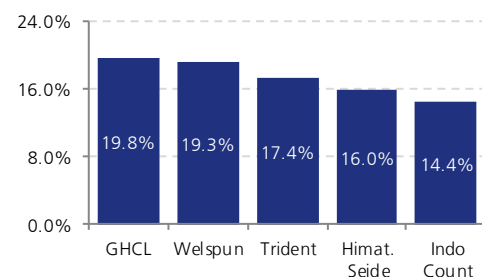
Source: OTEXA, JM Financial

### Price spreads - Indexed



Source: Bloomberg, JM Financial

### 1HFY18 EBITDA margin comparison (%)



Source: JM Financial

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters  
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. US imports of cotton sheets**

	CY15	CY16	YoY (%)	YTD'16	YTD'17	YoY (%)
<b>Value (USD mn)</b>						
World	1,516	1,444	-4.7%	1,200	1,205	0.4%
India	724	702	-3.1%	580	603	4.0%
China	348	313	-10.2%	262	240	-8.6%
Pakistan	254	229	-9.7%	188	190	0.9%
ROW	189	200	5.7%	169	172	1.7%
<b>Volume (mn sq. mts)</b>						
World	1,073	1,061	-1.1%	876	873	-0.4%
India	357	365	2.3%	301	313	4.1%
China	319	305	-4.4%	251	244	-2.6%
Pakistan	282	265	-6.0%	218	212	-3.0%
ROW	116	127	9.3%	107	105	-2.3%
<b>Realisation (USD/mt)</b>						
World	2.8	2.7	-3.6%	2.7	2.8	0.8%
India	4.1	3.8	-5.2%	3.9	3.9	-0.1%
China	2.2	2.1	-6.0%	2.1	2.0	-6.1%
Pakistan	1.8	1.7	-4.0%	1.7	1.8	4.0%
ROW	3.3	3.2	-3.3%	3.2	3.3	4.1%

Source: OTEXA, JM Financial; Note: YTD from Jan - Sep

The YTD import market size of cotton sheets in the US increased marginally YoY, driven by a 0.8% increase in realisations, partially offset by a 0.4% decline in realisations

**Exhibit 2. US imports of terry and other towels**

	CY15	CY16	YoY (%)	YTD'16	YTD'17	YoY (%)
<b>Value (USD mn)</b>						
World	1,629	1,590	-2.4%	1,344	1,424	6.0%
India	623	634	1.7%	541	567	4.9%
China	403	367	-9.0%	312	338	8.2%
Pakistan	357	350	-2.0%	291	299	3.0%
ROW	245	239	-2.6%	200	219	9.8%
<b>Volume (mn sq. mts.)</b>						
World	310	318	2.6%	268	277	3.5%
India	94	100	6.3%	85	92	7.9%
China	59	64	8.2%	54	53	-2.5%
Pakistan	116	115	-0.9%	96	94	-1.4%
ROW	41	40	-3.9%	33	38	16.5%
<b>Realisation (USD/mt)</b>						
World	5.3	5.0	-4.9%	5.0	5.1	2.4%
India	6.6	6.4	-4.3%	6.4	6.2	-2.8%
China	6.9	5.8	-15.9%	5.7	6.4	10.9%
Pakistan	3.1	3.0	-1.1%	3.0	3.2	4.5%
ROW	5.9	6.0	1.3%	6.1	5.7	-5.8%

Source: OTEXA, JM Financial; Note: YTD from Jan - Sep

The YTD import market size of terry towels in the US increased 6% YoY, led by 3.5% and 2.4% increases in volume and realisations, respectively

**Exhibit 3. Exchange rate: Local currency/USD**

Country	Currency	CY09- CY13 (%) dep.*	CY15	CY16	YoY dep. (%)	YTD'16	YTD'17	YoY dep. (%)	CMP	YTD (%) dep.
India	INR	4.0%	64.1	67.2	4.8%	67.1	65.2	-2.9%	64.5	-5.3%
China	CNY	-2.1%	6.3	6.6	5.6%	6.6	6.8	2.2%	6.6	-4.9%
Pakistan	PKR	4.4%	102.8	104.7	1.9%	104.7	105.1	0.3%	105.5	1.0%

Source: Bloomberg, JM Financial; Note: \* CAGR, YTD from Jan - till date

INR appreciation vs. depreciating competitors' currencies has placed Indian peers at a disadvantage

**Exhibit 4. Cotton prices (USD/kg)**

	CY15	CY16	YoY (%)	YTD'16	YTD'17	YoY (%)	CMP	YTD change (%)
Cotlook A	1.5	1.6	6%	1.6	1.8	13%	1.8	4%
US	1.4	1.5	4%	1.5	1.6	8%	1.6	0%
India	1.4	1.6	14%	1.6	1.8	10%	1.6	-1%
China	2.1	2.1	-2%	2.0	2.4	17%	2.4	6%
China India spread	0.7	0.4	-35%	0.4	0.6	43%	0.8	21%

Source: Bloomberg, JM Financial; Note: Cotlook A is an average of the cheapest 5 quotations from a selection of the principal upland cottons traded internationally; Note: YTD from Jan - till date

China- India cotton spread at multi-year high of USD 0.8/kg favouring Indian peers

Exhibit 5. India yarn/cotton prices

	CY15	CY16	YoY (%)	YTD'16	YTD'17	YoY (%)	CMP	YTD Change (%)
Cotton - Shankar 6	92	109	19%	109	116	6%	105	-6.1%
Cotton yarn	178	191	7%	190	203	7%	187	-4.1%
Yarn Cotton Spread	86	82	-5%	81	87	8%	82	-1.5%

Source: Bloomberg, Crisil, JM Financial; Note: YTD from Jan – till date

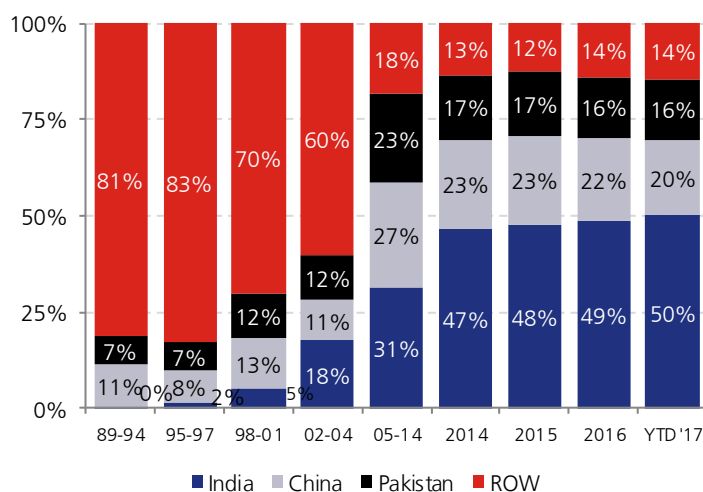
Higher yarn-cotton spread is likely to benefit integrated textile manufacturers

Exhibit 6. US imports value: Countrywise market share

Category	Oct'17			Oct'16			YTD'17		
	India	China	Pakistan	India	China	Pakistan	India	China	Pakistan
Category 360: Pillow cases	50%	17%	14%	47%	19%	14%	52%	19%	13%
Category 361: Cotton sheets	48%	18%	14%	47%	19%	14%	50%	20%	16%
Category 362: Bedspreads & quilts	17%	59%	13%	14%	62%	13%	15%	58%	17%
Category 363: Terry & other towels	31%	28%	26%	38%	23%	25%	40%	24%	21%
Category 369: Bedding & pillow covers	27%	45%	15%	25%	49%	15%	25%	46%	16%
Category 360, 361, 362, 363, 369: Cotton made-ups	32%	36%	17%	33%	37%	16%	33%	36%	17%

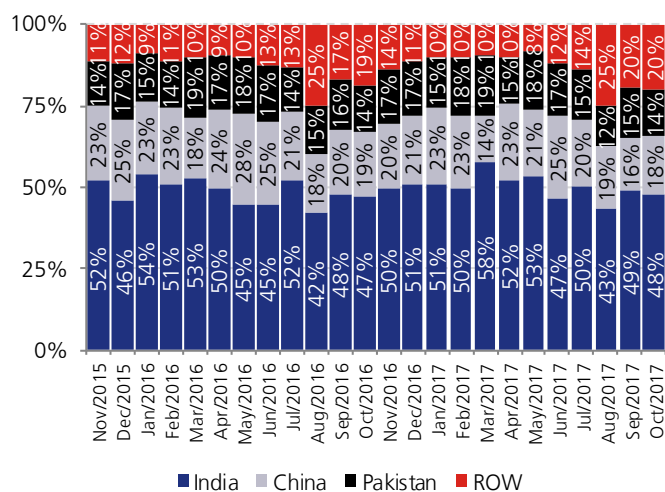
Source: OTEXA, JM Financial

Exhibit 7. Market share for US imports of cotton sheets—yearly



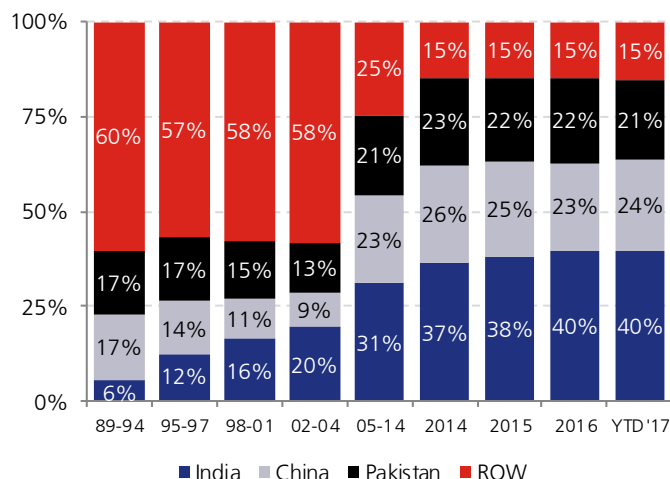
Source: OTEXA, JM Financial; Note: For category 361 as per OTEXA

Exhibit 8. Market share for US imports of cotton sheets—monthly



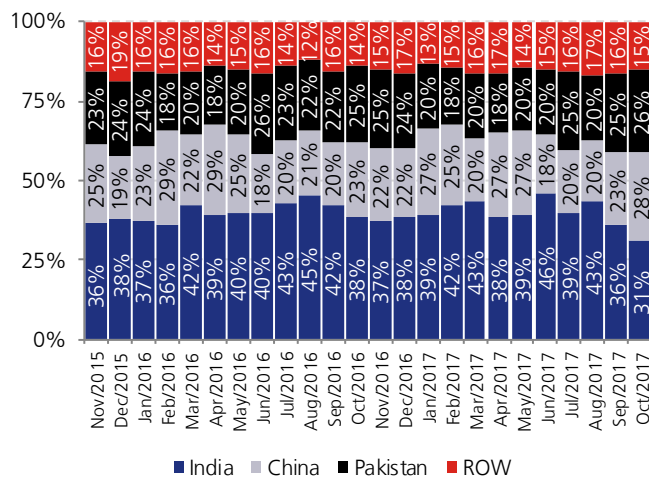
Source: OTEXA, JM Financial; Note: For category 361 as per OTEXA

Exhibit 9. Market share for US imports of terry towels—yearly



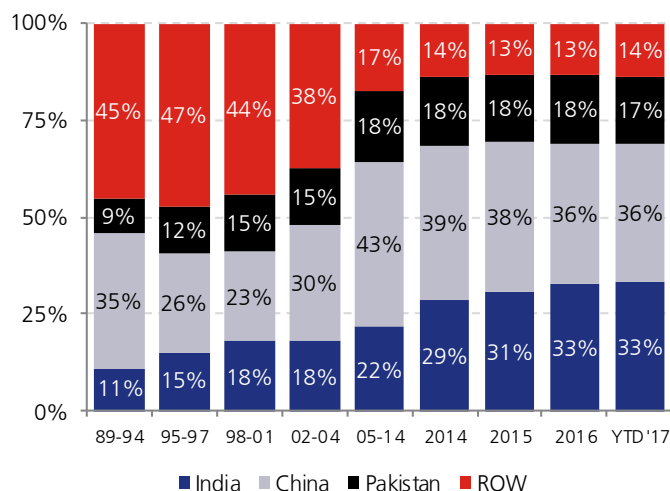
Source: OTEXA, JM Financial; Note: For category 362 as per OTEXA

Exhibit 10. Market share for US imports of terry towels—monthly



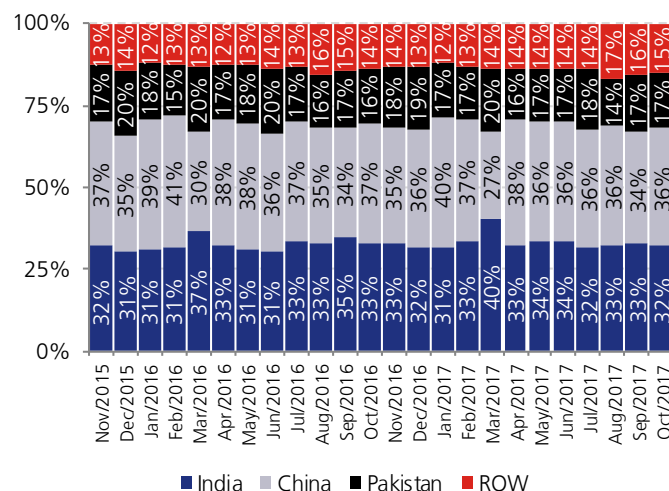
Source: OTEXA, JM Financial; Note: For category 362 as per OTEXA

Exhibit 11. Market share for US imports of cotton made ups—yearly



Source: OTEXA, JM Financial; Note: For sum of category 360,361,362,363 &amp; 369 as per OTEXA

Exhibit 12. Market share for US imports of cotton made ups—monthly



Source: OTEXA, JM Financial; Note: For sum of category 360,361,362,363 &amp; 369 as per OTEXA

Exhibit 13. World cotton supply and distribution

	2015/16 E	2016/17 E	2017/18 E	YoY (%)
Production	21.5	23.0	25.7	11.9%
Consumption	24.2	24.5	25.2	2.9%
Surplus/(Deficit)	-2.7	-1.5	0.5	NA
Imports	7.6	8.1	8.2	0%
Exports	7.6	8.1	8.2	0%
Ending Stocks	20.2	18.7	19.2	3%
Cotlook A Index (cts/lb)*	70	83	72	-13%

Source: ICAC, JM Financial; Note: forecast of ICAC, \*price projection

World cotton production is likely to increase 11.9% in 2017-18, driven by expansion of cotton acreage

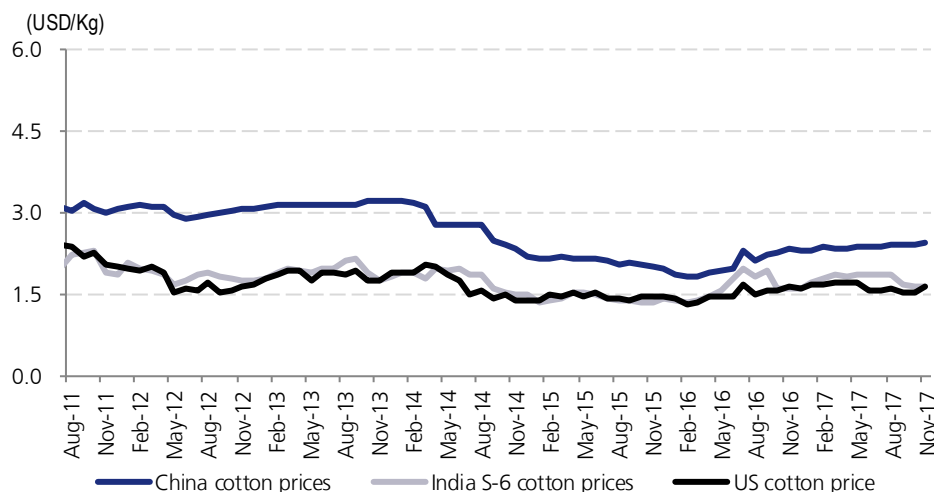
Exhibit 14. India's cotton balance sheet

	2014/15	2015/16	2016/17	2017/18P
Production	6.4	5.6	5.9	6.5
Consumption	5.3	5.3	5.1	5.3
Surplus/(Deficit)	1.1	0.4	0.8	1.2
Exports	0.9	1.3	1.0	1.0
Ending stocks	2.9	2.3	2.6	3.2

Source: USDA, JM Financial

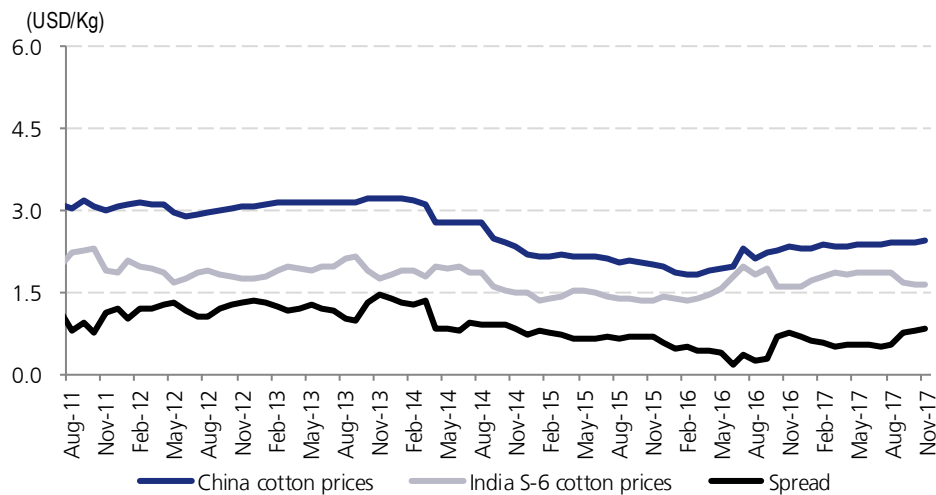
India's cotton production in 2017-18 is expected to increase 11.1% YoY

Exhibit 15. Comparison of cotton prices in various regions



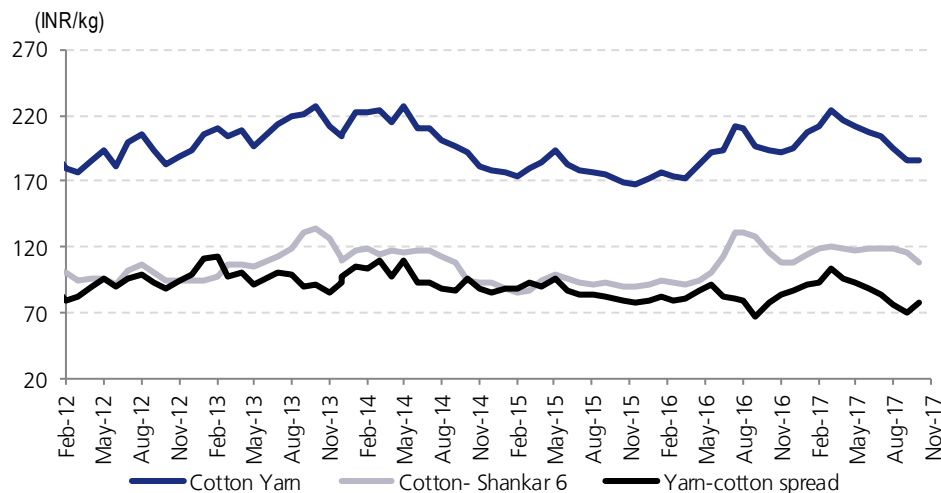
Source: Bloomberg, JM Financial; Note: S-6 = Shankar 6 cotton

While Indian and US' cotton prices remained at similar levels, China's cotton prices have historically remained high

**Exhibit 16. Cotton price spread between India and China**

Source: Bloomberg, JM Financial; S-6 = Shankar 6 cotton

A sharp drop in Indian cotton prices in the past month has moved the China-India cotton price spread in favour of Indian peers

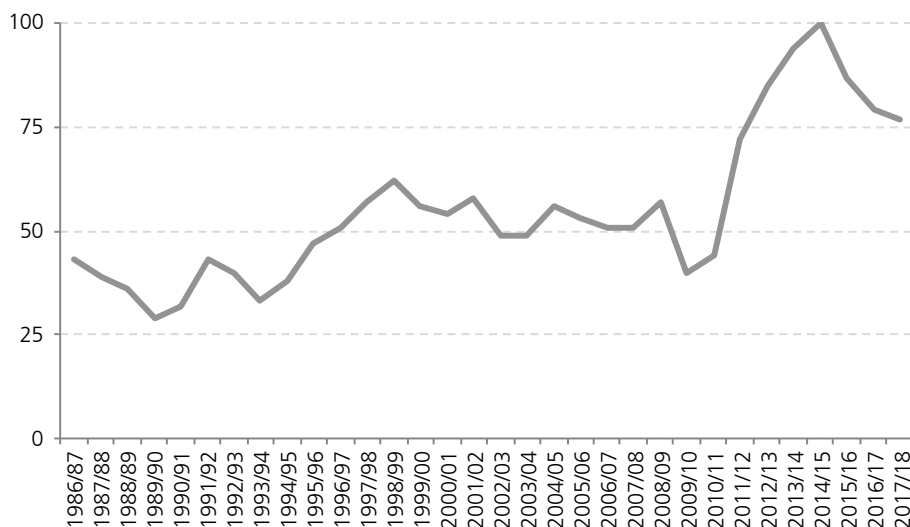
**Exhibit 17. Yarn-cotton spread**

Source: Bloomberg, Crisil, JM Financial; Note: Jun-17 price of yarn is estimated

The Indian yarn-cotton spread declined sharply in 2QFY18 from a high of INR 104/kg in Mar'17

**Exhibit 18. World cotton – stock-to-use ratio**

(% )



Source: USDA, JM Financial

World cotton stock-to-use ratio has historically been at 50% levels before it increased to 80%+ levels over the past 5 years

## Exhibit 19. 2QFY18 earnings comparison

(INR mn)

	2QFY18					YoY (%)				
	Indo Count*	Welspun	Trident*	GHCL*	Himat. Seide*	Indo Count*	Welspun	Trident*	GHCL*	Himat. Seide*
Total Income from Operations	4,928	16,070	11,549	7,143	5,785	-15%	-10%	-1%	2%	10%
Adj. EBITDA	711	2,833	1,734	1,358	995	-39%	-34%	-26%	-6%	10%
Adj. EBITDA margin (%)	14.4%	17.6%	15.0%	19.0%	17.2%					
Adj. PAT	359	1,003	509	633	506	-43%	-58%	-36%	-32%	10%

Source: Company, JM Financial; Note: Indo Count, Trident and GHCL on standalone; Welspun and Himatsingka Seide on consolidated

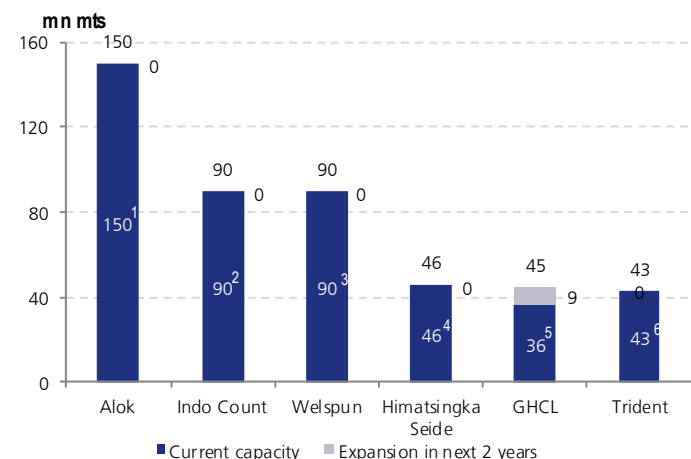
## Exhibit 20. 1HFY18 earnings comparison

(INR mn)

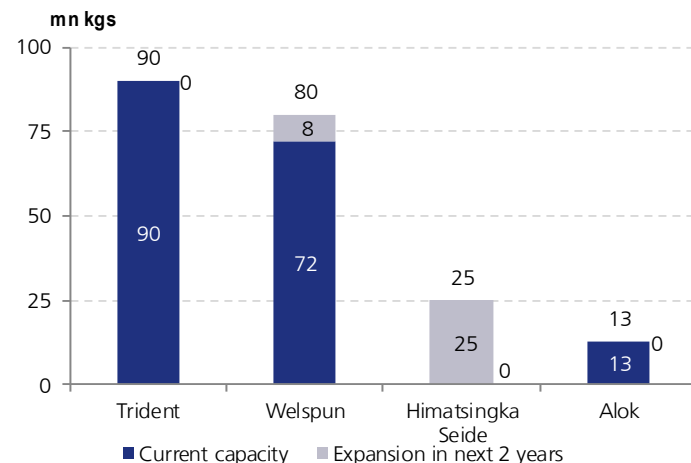
	1HFY18					YoY (%)				
	Indo Count*	Welspun	Trident*	GHCL*	Himat. Seide*	Indo Count*	Welspun	Trident*	GHCL*	Himat. Seide*
Total Income from Operations	9,245	31,464	23,233	15,156	10,900	-15%	-7%	0%	6%	8%
Adj. EBITDA	1,364	6,075	4,031	2,998	1,746	-40%	-29%	-15%	-19%	17%
Adj. EBITDA margin (%)	14.8%	19.3%	17.4%	19.8%	16.0%					
Adj. PAT	679	2,288	1,398	2,112	1,012	-45%	-48%	-12%	8%	11%

Source: Company, JM Financial; Note: Indo Count, Trident and GHCL on standalone; Welspun and Himatsingka Seide on consolidated

## Exhibit 21. Installed capacity of Indian bed sheet players

Source: Company, JM Financial; Note: <sup>1</sup>Capacity utilisation may be much lower, <sup>2</sup>ICNT added 22mn mts capacity in FY17, <sup>3</sup>WLSI added 18 mn capacity added in FY17, <sup>4</sup>Trident added 43 mn mts capacity in FY16 end; <sup>5</sup> HimatSingka Seide added 23 mn mts capacity in FY17

## Exhibit 22. Installed capacity of Indian terry towel players



Source: Company, JM Financial; Note: Himatsingka Sales expected to begin from FY19; Welspun added 12mn ton capacity in FY17

## Exhibit 23. Indo Count: FY19E EPS sensitivity to INR/USD and cotton price

(INR)

		Avg. price of cotton (INR/kg)				
		100	105	110	115	120
Avg. INR/USD	63	11.6	10.7	9.8	8.9	8.0
	64	12.7	11.8	10.9	10.0	9.1
	65	13.8	12.9	12.0	11.1	10.2
	66	14.9	14.0	13.1	12.2	11.3
	67	16.0	15.1	14.2	13.3	12.4

Source: JM Financial

Reducing yarn prices and INR depreciation may positively impact profitability

## Exhibit 24. Indo Count: Target price sensitivity to INR/USD and cotton price

(INR/share)

		Avg. price of cotton (INR/kg)				
		100	105	110	115	120
Avg. INR/USD	63	141	130	119	108	97
	64	154	143	132	121	110
	65	167	156	145	134	123
	66	180	169	158	147	136
	67	193	183	172	161	150

Source: JM Financial

A 1% decrease in cotton prices increases fair value by 1.3%, while a 1% INR depreciation increases fair value by 5.2%

**Exhibit 25. Trident: FY19E EPS sensitivity to INR/USD and cotton price (INR)**

		Avg. price of cotton (INR/kg)				
		100	105	110	115	120
Avg. INR/USD	63	8.8	8.0	7.3	6.5	5.8
	64	9.5	8.7	8.0	7.3	6.5
	65	10.2	9.4	8.7	8.0	7.2
	66	10.9	10.1	9.4	8.7	7.9
	67	11.6	10.8	10.1	9.4	8.6

Source: JM Financial

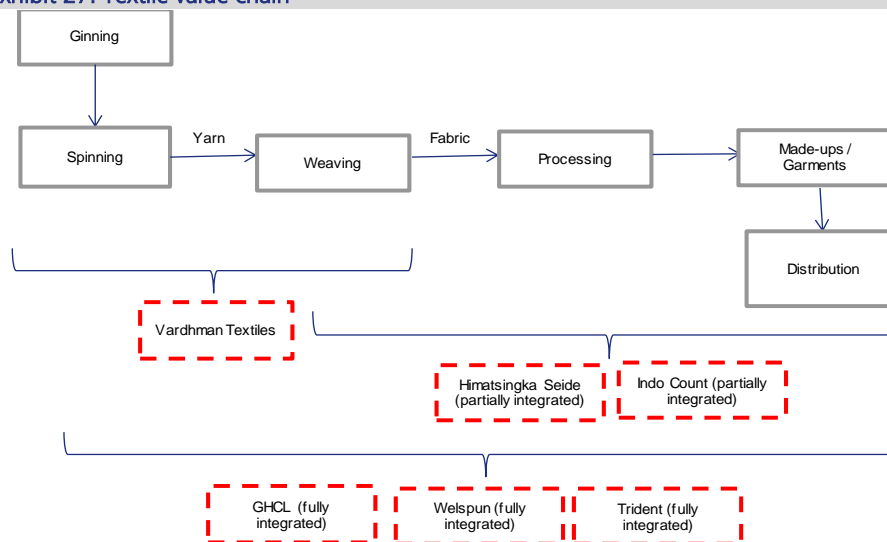
Reducing yarn prices and INR depreciation may positively impact profitability

**Exhibit 26. Trident: Target price sensitivity to INR/USD and cotton price (INR/share)**

		Avg. price of cotton (INR/kg)				
		100	105	110	115	120
Avg. INR/USD	63	106	97	88	80	71
	64	115	106	97	88	79
	65	123	114	105	97	88
	66	132	123	114	105	96
	67	140	131	122	113	105

Source: JM Financial

A 1% decrease in cotton prices increases fair value by 1.4%, while a 1% INR depreciation increases fair value by 4.5%

**Exhibit 27. Textile value chain**

Source: JM Financial

Welspun and Trident (fully integrated) are better placed vs. peers to benefit from the stringent quality norms in the value chain

**Exhibit 28. Comparative valuation**

Companies	PE		EPS CAGR		EV/EBITDA		ROE		ROCE	
	FY18E	FY19E	FY17-19E		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
<b>Home textile average</b>	<b>16.0</b>	<b>13.6</b>			<b>9.8</b>	<b>7.3</b>				
Trident	11.8	10.1	15%		6.9	5.8	12%	13%	8%	9%
Welspun India	13.0	10.6	33%		7.2	6.2	18%	19%	15%	17%
Indo Count Industries	11.5	9.5	1%		6.7	5.6	27%	19%	20%	16%
Himatsingka Seide	15.2	10.7	30%		11.1	8.4	14%	17%	17%	21%
Luolai Lifestyle Technology-A	20.2	18.0	24%				13%	13%	18%	19%
Sunvim Group Co Ltd-A	11.4	10.2	24%		7.2	6.7	14%	14%		
Hunan Mendale Hometextile-A	26.6	23.8	41%		17.3		11%	11%		
Shenzhen Fuanna Bedding-A	14.4	12.7	16%		9.5	9.8	15%	15%	21%	21%

Source: Bloomberg, JM Financial; Note: Valuation as of 08/12/2017



**Exhibit 29. USDA world cotton production, supply and trade****(million tons)**

	2013/14	2014/15	2015/16	2016/17	2017/18P	YoY (%)
<b>Production</b>						
India	6.8	6.4	5.6	5.9	6.5	11.1
China	7.1	6.5	4.8	5.0	5.4	9.9
United States	2.8	3.6	2.8	3.7	4.7	24.5
Pakistan	2.1	2.3	1.5	1.7	2.0	18.9
<b>Total</b>	<b>26.2</b>	<b>26.0</b>	<b>20.9</b>	<b>23.2</b>	<b>26.4</b>	<b>14.1</b>
<b>USE Dom. Consumption</b>						
China	7.5	7.4	7.6	8.2	8.4	2.7
India	5.1	5.3	5.3	5.1	5.3	4.2
Pakistan	2.3	2.3	2.2	2.2	2.3	2.9
Bangladesh	1.2	1.3	1.4	1.5	1.6	7.5
United States	0.8	0.8	0.8	0.7	0.7	4.5
<b>Total</b>	<b>23.9</b>	<b>24.3</b>	<b>24.3</b>	<b>24.9</b>	<b>26.0</b>	<b>4.4</b>
<b>Surplus (production - consumption)</b>						
China	(0.4)	(0.9)	(2.8)	(3.2)	(2.9)	(8.5)
India	1.7	1.1	0.4	0.8	1.2	57.2
Pakistan	0.2	-	0.7	0.6	0.3	(44.3)
United States	2.0	2.8	2.1	3.0	3.9	29.2
<b>Total</b>	<b>2.3</b>	<b>1.7</b>	<b>(3.4)</b>	<b>(1.7)</b>	<b>0.5</b>	<b>(128.5)</b>
<b>Imports</b>						
China	3.1	1.8	1.0	1.1	1.1	1.3
Bangladesh	1.2	1.3	1.4	1.5	1.6	8.2
Pakistan	0.3	0.2	0.7	0.5	0.5	-
<b>Total</b>	<b>9.0</b>	<b>7.9</b>	<b>7.7</b>	<b>8.2</b>	<b>8.3</b>	<b>1.1</b>
<b>Exports</b>						
United States	2.3	2.4	2.0	3.2	3.2	(2.8)
India	2.0	0.9	1.3	1.0	1.0	1.1
<b>Total</b>	<b>8.9</b>	<b>7.7</b>	<b>7.6</b>	<b>8.1</b>	<b>8.3</b>	<b>2.6</b>
<b>Ending Stocks</b>						
China	13.7	14.6	12.7	10.5	8.6	(18.1)
India	2.5	2.9	2.3	2.6	3.2	20.6
United States	0.5	0.8	0.8	0.6	1.3	110.9
Pakistan	0.5	0.6	0.6	0.5	0.6	25.4
<b>Total</b>	<b>22.5</b>	<b>24.3</b>	<b>20.9</b>	<b>19.3</b>	<b>20.1</b>	<b>4.2</b>
<b>Stock to Use ratio</b>						
China	182%	197%	166%	129%	103%	
India	49%	55%	43%	52%	60%	
United States	66%	102%	110%	85%	171%	
Pakistan	47%	51%	41%	34%	39%	
<b>World</b>	<b>94%</b>	<b>100%</b>	<b>86%</b>	<b>78%</b>	<b>77%</b>	

Source: USDA, JM Financial; Note: Season beginning August 1



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
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Sell	Price expected to move downwards by more than 10%

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