

Margins to improve gradually

Revenues grew 17% YoY to ₹ 1763 crore driven by 17% growth in the Textiles segment to ₹1703 crore. Acrylic segment declined by 3% YoY to ₹ 79 crore. On account of spike in raw material price (cotton), gross margins declined by 392 bps YoY to 45.1%. However lower other expenses as a percentage to sales (down 190 bps YoY), aided EBITDA to a certain extent. Subsequently, EBITDA margins declined by 223 bps YoY to 14.9% (I-direct estimate: 16.7%). Absolute EBITDA grew 2% YoY to ₹ 263.5 crore (I direct estimate: ₹ 274.1 crore). On the segmental front, EBIT margins for textile segment and acrylic segment contracted by 51 bps and 127 bps YoY to 14.9% and 9.8%, respectively. Higher other income aided PAT growth which grew by 9.6% YoY to ₹ 179.4 crore (I direct estimate: ₹ 173.5 crore).

Capacity expansion to support revenue growth from H2FY20...

The benefit of VTL's new capacity would come in phases and the major revenue impact would only be visible from H2FY20. VTL is focussing on increasing the share of fabrics in overall revenues and expanding its fabric capacity from 140 million metre to 180 million metre by the start of Q2FY20. Also, the company is adding 100,000 spindles, of which ~30,000 are expected to commence operation in May 2019 while the remaining 70,000 are expected to be operational by June-July 2019. Capex for expansion is ~ 1400 crore, out of which the company has spent ~800 crore in FY19 and will spend another 650 crore in FY20.

Cotton prices would be the key trigger for margins.

Recently cotton prices have been at an elevated level. Industry estimates suggest that cotton output in Cotton Season 2019 (CS2019) could be lower by around 10%-12% ~ 31 million bales which could lead to increase in cotton prices going ahead. VTL has exhausted the low cost inventory and has purchased cotton at ~ ₹ 42000 per candy. The management indicated that the global cotton scenario remains tough and if cotton prices rise further then it could aid in improvement of margins. Another aspect that could enable VTL to mitigate the volatility in the margin would be its increased revenue share from fabric segment due to new fabric capacity expansion.

Valuation & Outlook

We expect revenues to grow at a CAGR of 6% over FY19-21E to ₹ 7760.1 crore as the expanded capacity is likely to come on stream in Q2FY20. In spite of being in a capital intensive business, Vardhman has continuously maintained debt equity ratio below 1. Also, it has a strong balance sheet that would enable it to pursue calibrated growth opportunities. The management's focus would be on converting more yarn to fabric, which would lend better stability to EBITDA margin. We expect the EBITDA margin to be range bound at 17-18% for FY20E, FY21E. We have a **HOLD** rating on the stock with a target price of ₹ 1230 (PE of 8x FY21 EPS).



Particulars	
Particular	Amount
Market Capitalisation (₹ Crore)	6,314
Debt (FY19) (₹ Crore)	1,975.2
Cash (FY19) (₹ Crore)	44.4
EV (₹ Crore)	8,244.8
52 week H/L	1425 / 922
Equity Capital (₹ Crore)	57.4
Face Value (₹)	10

Key Highlights

- Textile segment reported a growth of 17% YoY to ₹ 1703 crore, while Acrylic segment declined by 3% YoY to ₹ 79 crore
- Gross margin declined by 392 bps to 45.1% owing to higher input cost (cotton), which led to 223 bps YoY decline in EBITDA margin to 14.9%.
- Management indicated cotton prices could remain firm going ahead
- Maintain **HOLD** recommendation with a target price of ₹ 1230

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19E	FY20E	FY21E	CAGR % (FY19-21E)
Net Sales	6,066.8	6,205.0	6,877.9	7,329.9	7,760.1	6.2
EBITDA	1,225.9	859.4	1,193.8	1,289.3	1,437.7	9.7
PAT	957.4	531.3	724.6	728.3	865.8	9.3
EPS (₹)	178.7	95.3	129.4	130.0	154.1	
P/E (x)	6.2	11.5	8.5	8.5	7.1	
EV/EBITDA (x)	6.4	9.5	6.8	6.1	5.2	
RoCE (%)	14.5	9.5	12.9	12.4	13.9	
RoE (%)	23.0	10.9	13.1	12.0	12.7	

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	1,763.4	1,645.8	1,509.6	16.8	1,729.4	2.0	Consolidated revenues grew 17% YoY on account of an increase of 17.6% in the textiles segment. The acrylic business revenues de-grew 3% YoY,
Raw Material Expense	968.0	824.6	769.4	25.8	891.6	8.6	
Employee Expense	143.9	142.7	123.8	16.3	138.5	3.9	
Manufacturing & Other Expense	388.1	397.6	357.2	8.6	392.3	-1.1	
EBITDA	263.5	281.0	259.2	1.6	307.1	-14.2	
EBITDA Margin (%)	14.9	17.1	17.2	-223 bps	17.8	-282 bps	
Depreciation	67.1	65.6	62.7	7.0	63.0	6.7	
Interest	30.1	26.7	35.2	-14.7	26.7	12.7	Interest expense declined marginally
Other Income	78.0	60.7	61.3	27.3	60.4	-	Other income was higher on account of profit on sale of land (₹ 15 crore) and foreign exchange gain of ₹ 18 crore.
PBT	244.3	249.4	222.6	9.8	277.9	-12.1	
Tax Outgo	79.1	72.7	61.8	28.0	86.8	-8.9	
PAT	165.2	176.7	160.8	2.7	191.1	-13.6	
Share of Profit/(Loss) in associate	1.9	3.5	4.9	-62.6	4.5	-58.4	
Minority Interest	2.6	2.0	2.1	27.8	-0.2	-1,478.9	
PAT after MI, Share of P/(L) associates	164.4	178.2	163.7	0.5	195.8	-16.0	
Extra Item	15.0		0.0	-	0.0	-	
PAT after Extra Item	179.4	173.5	163.7	9.6	195.8	-8.3	Higher other income aided PAT growth

Source: Company, ICICI Direct Research

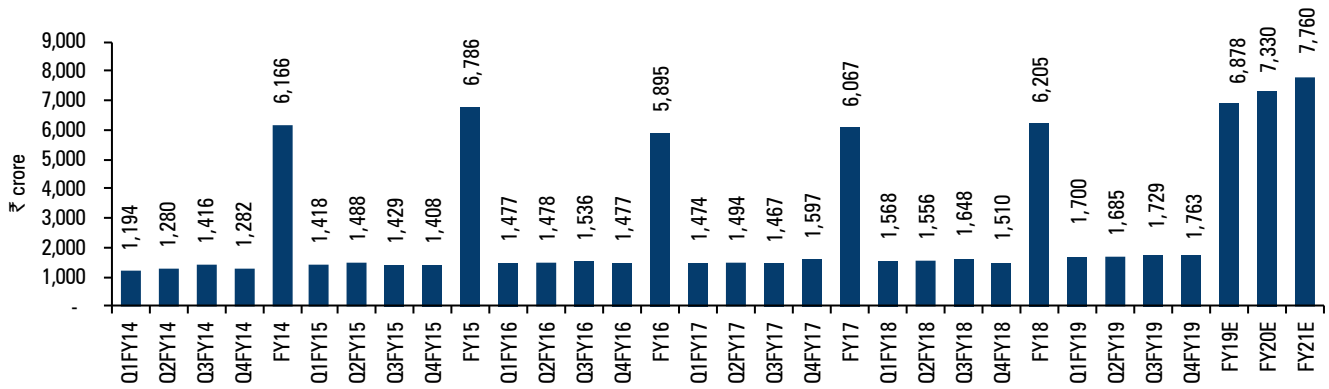
Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E
	Old	New	% Change	Introduced
Revenue	7,559.0	7,329.9	-3.0	7,760.1
EBITDA	1,334.0	1,289.3	-3.4	1,437.7
EBITDA Margin (%)	17.6	17.6	-6 bps	18.5
PAT	765.5	734.1	-4.1	870.4
EPS (₹)	133.3	130.0	-2.5	154.1

Source: Company, ICICI Direct Research

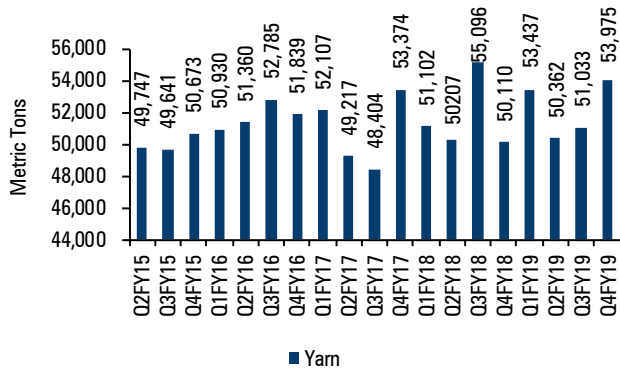
Financial story in charts

Exhibit 3: Revenue trajectory



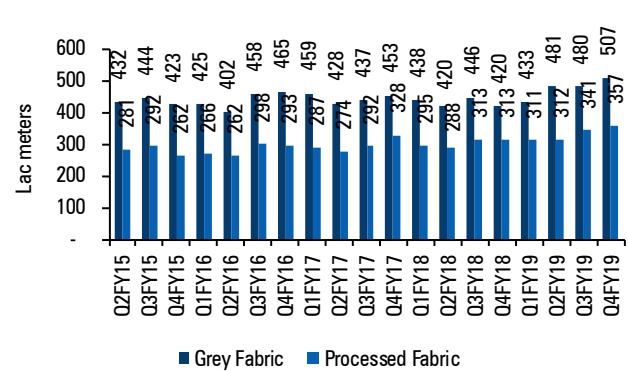
Source: Company, ICICI Direct Research

Exhibit 4: Yarn sales volume



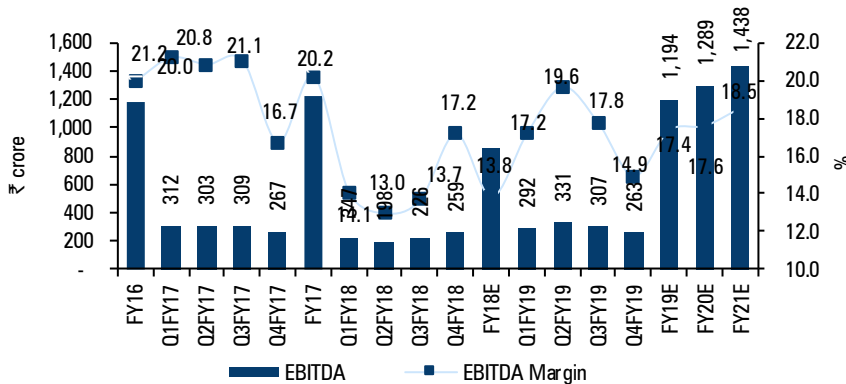
Source: Company, ICICI Direct Research

Exhibit 5: Grey fabric and processed fabric sales volume



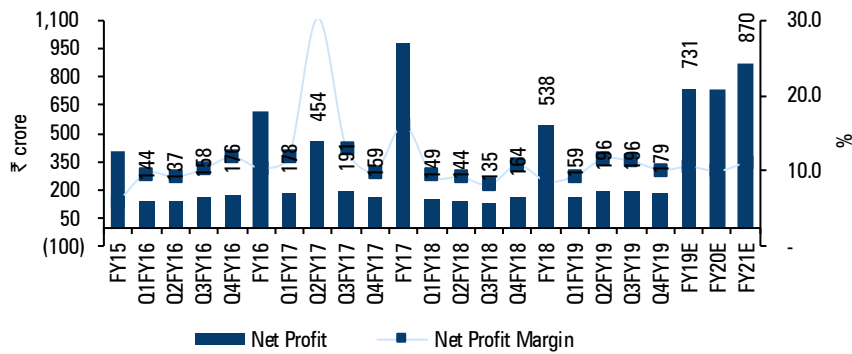
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend...



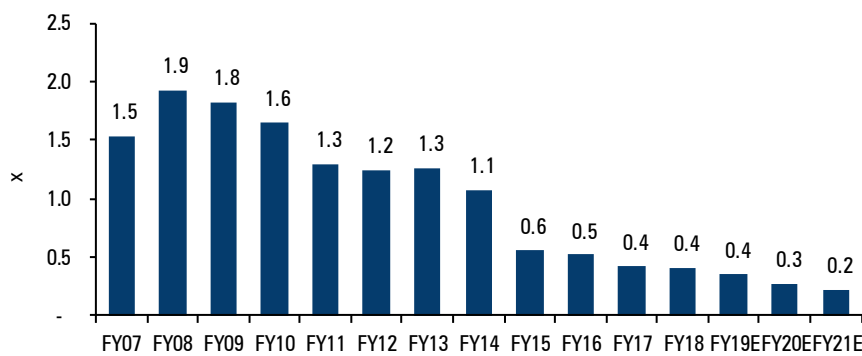
Source: Company, ICICI Direct Research

Exhibit 7: PAT and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 8: Debt/Equity ratio...



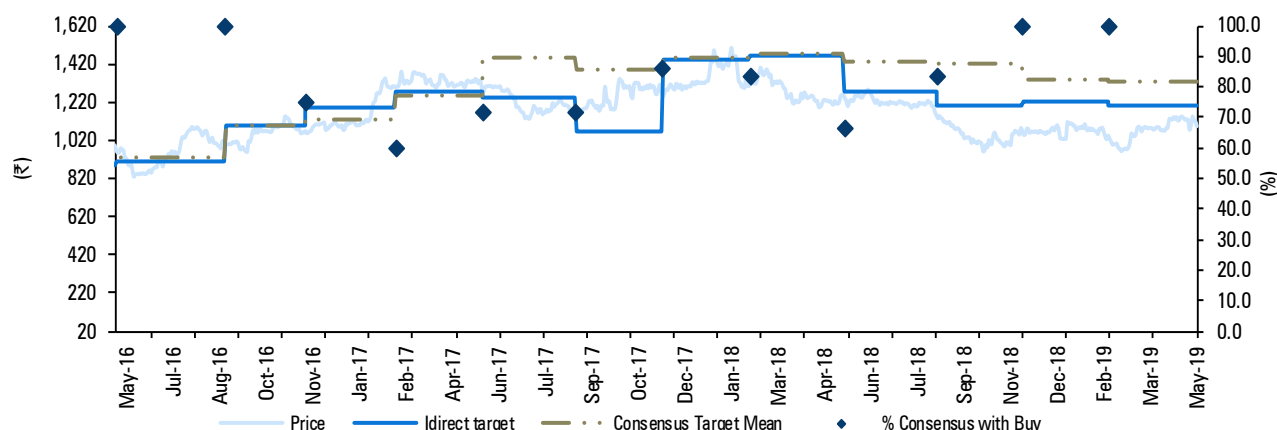
Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	6,205.0	2.3	95.3	(46.7)	6.2	6.4	23.0	14.5
FY19E	6,877.9	10.8	129.4	35.8	11.5	9.5	10.9	9.5
FY20E	7,329.9	6.6	130.0	0.5	8.5	6.8	13.1	12.9
FY21E	7,760.1	5.9	154.1	18.6	8.5	6.1	12.0	12.4

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S Position (m)	Change (m)
1	Vardhman Group	31-Mar-19	28.4%	16.32
2	Adishwar Enterprises, L.L.P.	31-Mar-19	17.9%	10.32
3	Devakar Investment & Trading Company Pvt. Ltd.	4-Apr-19	10.8%	6.23
4	HDFC Asset Management Co., Ltd.	31-Mar-19	6.1%	3.49
5	Templeton Asset Management Ltd.	31-Mar-19	4.3%	2.49
6	DSP Investment Managers Pvt. Ltd.	31-Dec-18	3.7%	2.10
7	Franklin Templeton Investment Management Ltd.	31-Mar-19	3.3%	1.92
8	Reliance Nippon Life Asset Management Limited	31-Mar-19	3.1%	1.81
9	Franklin Templeton Asset Management (India) Pvt. L	31-Mar-19	3.1%	1.79
10	UTI Asset Management Co. Ltd.	31-Mar-19	1.7%	0.97

Source: Reuters, ICICI Direct Research

Exhibit 12: Recent Activity

BUYS			SELLS		
Investor name	Value (Mn)	Shares (Mn)	Investor name	Value (Mn)	Shares (Mn)
IDFC Asset Management Company Private Limited	2.35	0.15	Templeton Asset Management Ltd.	-18.48	-1.17
Reliance Nippon Life Asset Management Limited	1.22	0.08	Pictet Asset Management Ltd.	-1.25	-0.08
DSP Investment Managers Pvt. Ltd.	0.36	0.02	Asset Management One Co., Ltd.	-0.99	-0.07
Devakar Investment & Trading Company Pvt. Ltd.	0.16	0.01	Northern Trust Investments, Inc.	-0.34	-0.02
Kotak Mahindra Asset Management Company Ltd.	0.14	0.01	UTI Asset Management Co. Ltd.	-0.08	-0.01

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	62.2	62.1	62.1	62.1	62.2
FII	10.6	10.0	9.2	8.4	7.9
DII	14.8	18.0	18.5	19.2	19.8
Others	12.5	9.8	10.2	10.2	10.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating Income	6,205.0	6,877.9	7,329.9	7,760.1
Growth (%)	2.3	10.8	6.6	5.9
Raw Material Expenses	3,404.6	3,595.7	3,852.6	4,025.4
Employee Expenses	506.3	550.2	582.7	613.0
Mfg, Admin & selling Exps	1,434.8	1,538.2	1,605.2	1,683.9
Total Operating Expenditure	5,345.6	5,684.2	6,040.6	6,322.4
EBITDA	859.4	1,193.8	1,289.3	1,437.7
Growth (%)	-29.9	38.9	8.0	11.5
Depreciation	240.0	254.0	336.2	307.4
Interest	118.2	119.7	98.1	89.7
Other Income	197.4	207.7	185.4	196.3
Exceptional income	0.0	15.0	0.0	0.0
PBT	698.5	1,042.8	1,040.5	1,236.9
Total Tax	167.2	318.2	312.1	371.1
PAT	531.3	724.6	728.3	865.8
Minority Interest / Others	11.3	9.8	10.9	13.0
PAT (after minority interest)	537.6	730.7	734.1	870.4
Growth (%)	-45.2	35.9	0.5	18.6
EPS (₹)	95.3	129.4	130.0	154.1

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	56.4	56.5	56.5	56.5
Reserve and Surplus	4,897.3	5,535.0	6,071.9	6,789.6
Total Shareholders funds	4,953.7	5,591.5	6,128.4	6,846.0
Total Debt	2,031.0	1,975.2	1,690.9	1,546.8
Deferred Tax Liability	255.6	323.3	323.3	323.3
Other LT Liabilities	22.8	25.2	28.9	33.3
Minority Interest / Others	108.8	113.1	113.1	113.1
Total Liabilities	7,371.9	8,028.2	8,284.6	8,862.5
Assets				
Gross Block	6,473.4	7,297.6	7,947.6	8,201.6
Less: Accu Depreciation	3,842.5	4,096.5	4,432.7	4,740.2
Net Block	2,630.9	3,201.1	3,514.9	3,461.5
Capital WIP	105.7	273.7	30.0	30.0
Total Fixed Assets	2,736.6	3,474.8	3,544.9	3,491.5
Investments	1,833.7	1,345.7	1,459.2	1,573.8
Inventory	2,256.6	2,610.3	2,570.5	2,721.4
Debtors	757.5	803.1	843.4	892.9
Loans and Advances	30.4	18.4	58.6	62.1
Other Current Assets	448.8	613.8	450.0	450.0
Cash	73.8	44.4	92.1	331.6
Total Current Assets	3,567.1	4,089.9	4,014.6	4,457.9
Creditors	859.0	972.7	826.4	750.4
Provisions	13.2	15.3	13.5	16.1
Total Current Liabilities	872.2	988.0	839.9	766.5
Net Current Assets	2,694.9	3,102.0	3,174.7	3,691.5
Others Assets	106.7	105.8	105.8	105.8
Application of Funds	7,371.9	8,028.2	8,284.6	8,862.5

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
PAT	537.6	730.7	734.1	870.4
Add: Depreciation	240.0	254.0	336.2	307.4
(Inc)/dec in Current Assets	-609.8	-552.2	123.0	-203.8
Inc/(dec) in CL and Provisions	-157.2	115.8	-148.1	-73.5
Others	0.0			
CF from operating activities	10.5	548.3	1,045.2	900.5
(Inc)/dec in Investments	34.6	487.9	-113.5	-114.6
(Inc)/dec in Fixed Assets	-280.3	-824.2	-650.0	-254.0
(Inc)/dec in CWIP	-56.7	-168.0	243.7	0.0
Others	-26.3	0.9	0.0	0.0
CF from investing activities	-328.6	-503.3	-519.8	-368.6
Issue/(Buy back) of Equity	1.5	0.0	0.0	0.0
Inc/(dec) in loan funds	221.9	-55.8	-284.3	-144.1
Others	124.8	-18.7	-193.4	-148.4
CF from financing activities	348.3	-74.4	-477.8	-292.5
Net Cash flow	30.2	-29.3	47.7	239.5
Opening Cash	43.5	73.8	44.4	92.1
Closing Cash	73.8	44.4	92.1	331.6

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	95.3	129.4	130.0	154.1
Cash EPS	137.8	174.4	189.5	208.5
BV	877.8	990.0	1,085.1	1,212.1
DPS	11.1	17.8	19.5	23.1
Cash Per Share	13.1	7.9	16.3	58.7
Operating Ratios				
EBITDA Margin (%)	13.8	17.4	17.6	18.5
PBT Margin (%)	11.3	15.2	14.2	15.9
PAT Margin (%)	8.6	10.5	9.9	11.2
Inventory days	132.7	138.5	128.0	128.0
Debtor days	44.6	42.6	42.0	42.0
Creditor days	30.8	32.0	26.0	26.0
Return Ratios (%)				
RoE	10.9	13.1	12.0	12.7
RoCE	9.5	12.9	12.4	13.9
RoIC	12.5	15.9	15.3	17.5
Valuation Ratios (x)				
P/E	11.5	8.5	8.5	7.1
EV / EBITDA	9.5	6.8	6.1	5.2
EV / Net Sales	1.3	1.2	1.1	1.0
Market Cap / Sales	1.0	0.9	0.8	0.8
Price to Book Value	1.3	1.1	1.0	0.9
Solvency Ratios				
Debt/EBITDA	2.4	1.7	1.3	1.1
Debt / Equity	0.4	0.4	0.3	0.2
Current Ratio	4.2	4.2	4.9	5.9
Quick Ratio	1.5	1.5	1.7	2.3

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Apparel)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Kewal Kiran Cloth.	1,300	1,500	Buy	1,602	59.4	65.2	70.8	21.9	20.0	18.4	13.8	12.5	11.3	20.6	19.9	20.6	18.3	18.7	19.0
Page Industries (PAGIND)	21,417	24,045	Hold	23,888	311.1	382.8	462.4	68.8	55.9	46.3	9.7	8.3	7.1	57.2	63.4	62.8	41.0	45.4	44.6
Rupa & Co	295	340	Hold	2,330	10.8	12.5	14.2	27.2	23.7	20.7	17.1	15.1	13.2	22.7	23.1	24.4	17.3	17.9	18.4
Vardhman Textiles	1,100	1,230	Hold	6,266	95.3	129.4	130.0	11.5	8.5	8.5	9.5	6.8	6.1	9.5	12.9	12.4	10.9	13.1	12.0

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruvi Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Bharat Chhoda, MBA; Cheragh Sidhwa MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.