

Lower yarn realisation dampens performance...

Revenues for the quarter declined 2.9% YoY to ₹ 1650.4 crore (I-direct estimate: ₹ 1742.3 crore). On the segmental front, revenue from the textile division declined 2.2% YoY to ₹ 1589.6 crore whereas revenue from acrylic fibre de-grew 13.2% YoY to ₹ 86.3 crore. Gross margins improved 114 bps YoY to 47.8%. However, higher employee expenses (up 11% YoY to ₹ 146.3 crore) and power expenses (up 16% YoY to ₹ 189.9 crore) impacted EBITDA growth. Subsequently, EBITDA margins declined 200 bps YoY to 15.2% (I-direct estimate: 15.4%, Q4FY19: 14.9%). Higher depreciation expense (up 22.7% YoY to ₹ 76 crore) and finance cost (up 10.5% YoY to ₹ 37.3 crore) further impacted profitability. Hence, PAT de-grew 27% YoY to ₹ 116.1 crore (I-direct estimate: ₹ 144.8 crore). The Board of Directors has approved the scheme of amalgamation among the company and its subsidiaries VMT Spinning Company Ltd, Vardhman Acrylics Ltd, VTL Investments Ltd and Vardhman Nisshinbo Garments Company Ltd. The appointed date for the scheme will be April 1, 2020.

Decline in yarn realisation impacts revenue, profitability...

Due to the ongoing impact of the trade war between US & China, cotton yarn exports from India have declined. India exports ~ 110 mn kg of cotton yarn annually while domestic consumption was around 235 mn kg. Due to lower yarn imports by China, India's cotton yarn exports declined to ~75 mn kg leading to an influx of additional cotton yarn in the domestic market, which led to lower realisation for cotton yarn producers. Hence, margin for cotton spinners was softer and is expected to remain under pressure in near term.

Near term pressure on cotton costs; easing only in CS 2020

Industry estimates suggest that cotton output in cotton season 2019 (CS19) could be lower by around 10-12% to ~ 31 million bales, which could lead to increase in cotton prices in the near term. However, the management expects cotton prices to soften for CS20 as India is likely to have a bumper crop due to increase in cultivated area. Initial estimates indicate that the production could be ~38 mn bales. Softening of cotton price over next year could provide some respite to Indian spinners on the margin front.

Valuation & Outlook

We expect revenues to grow at a CAGR of 5% in FY19-21E to ₹ 7511 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 16-17% for FY20E, FY21E. We have a **HOLD** rating on the stock with a target price of ₹ 990 (PE of 8x FY21 EPS).



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	5,281
Debt (FY19) (₹ Crore)	1,975.2
Cash (FY19) (₹ Crore)	44.4
EV (₹ Crore)	7,211.6
52 week H/L	1165 / 877
Equity Capital (₹ Crore)	57.4
Face Value (₹)	10

Key Highlights

- Textile segment reported de-growth of 2% YoY to ₹ 1590 crore while acrylic segment declined 13% YoY to ₹ 86 crore
- EBITDA margin declined 200 bps YoY to 15.2%
- Management indicated cotton prices could soften over next year due to expected higher cotton output in India in cotton season 2020
- Maintain **HOLD** recommendation with lower target price of ₹ 990

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19E	FY20E	FY21E	CAGR % (FY19-21E)
Net Sales	6,066.8	6,205.0	6,877.9	7,094.3	7,511.1	4.5
EBITDA	1,225.9	859.4	1,193.8	1,124.4	1,262.8	2.8
PAT	957.4	531.3	724.6	580.8	691.4	
EPS (₹)	178.7	95.3	129.4	104.3	123.7	
P/E (x)	5.1	9.7	7.1	8.8	7.4	
EV/EBITDA (x)	5.6	8.3	6.0	6.3	5.3	
RoCE (%)	14.5	9.5	12.9	10.4	11.7	
RoE (%)	23.0	10.9	13.1	9.8	10.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	1,650.4	1,742.3	1,700.0	-2.9	1,763.4	-6.4	Consolidated revenues de-grew 3% YoY on account of a decline of 2% in textiles segment. Acrylic business revenues de-grew 13% YoY
Raw Material Expense	861.1	928.6	906.3	-5.0	968.0	-11.0	
Employee Expense	146.3	146.8	132.3	10.6	143.9	1.7	
Manufacturing & Other Expense	392.5	381.3	369.3	6.3	388.1	1.1	
EBITDA	250.6	285.6	292.2	-14.2	263.5	-4.9	
EBITDA Margin (%)	15.2	16.4	17.2	-201 bps	14.9	24 bps	
Depreciation	76.0	69.1	61.9	22.7	67.1	13.2	Depreciation expense higher on account of phase wise
Interest	37.3	30.8	33.7	10.5	30.1	24.0	Interest expense increase 10% YoY
Other Income	32.7	38.2	27.3	20.0	78.0	-	
PBT	170.0	223.9	223.8	-24.0	244.3	-30.4	
Tax Outgo	51.6	62.1	66.1	-22.0	79.1	-34.8	
PAT	118.5	161.7	157.7	-24.9	165.2	-28.3	
Share of Profit/(Loss) in associate	2.5	3.5	5.0	-49.5	1.9	36.8	
Minority Interest	4.9	2.0	3.6	36.0	2.6	87.4	
PAT after MI, Share of P/(L) associat	116.1	163.2	159.1	-27.1	164.4	-29.4	
Extra Item	0.0		0.0	-	15.0	-	
PAT after Extra Item	116.1	144.8	159.1	-27.1	179.4	-35.3	Subdued operational performance, higher depreciation and interest accelerated decline in PAT

Source: Company, ICICI Direct Research

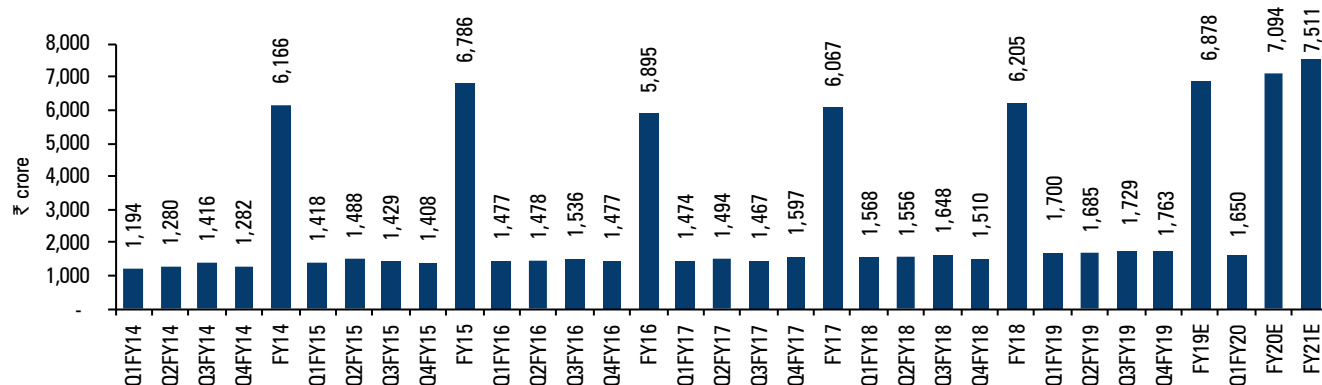
Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Revenue	7,329.9	7,094.3	-3.2	7,760.1	7,511.1	-3.2
EBITDA	1,289.3	1,124.4	-12.8	1,437.7	1,262.8	-12.2
EBITDA Margin (%)	17.6	15.8	-174 bps	18.5	16.8	-171 bps
PAT	728.3	588.9	-19.1	865.4	698.6	-19.3
EPS (₹)	130.0	104.3	-19.8	154.1	123.7	-19.7

Source: Company, ICICI Direct Research

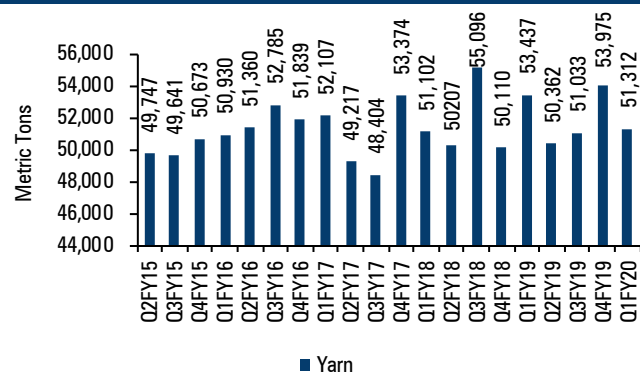
Financial story in charts

Exhibit 3: Revenue trajectory



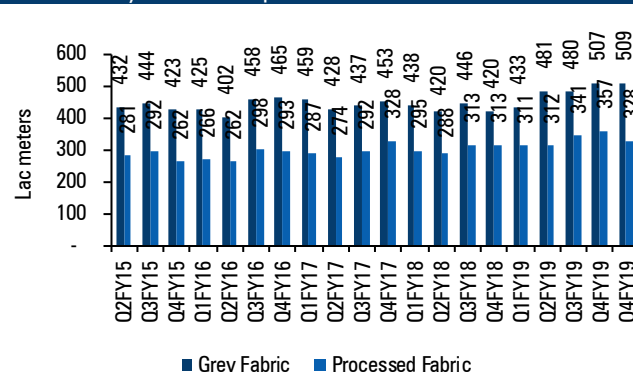
Source: Company, ICICI Direct Research

Exhibit 4: Yarn sales volume



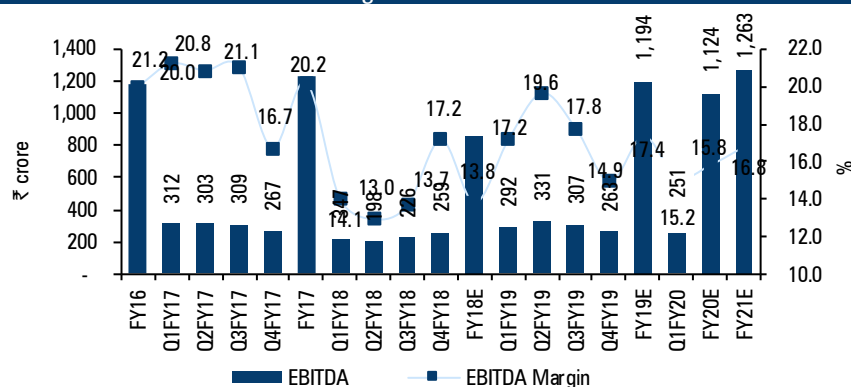
Source: Company, ICICI Direct Research

Exhibit 5: Grey fabric and processed fabric sales volume



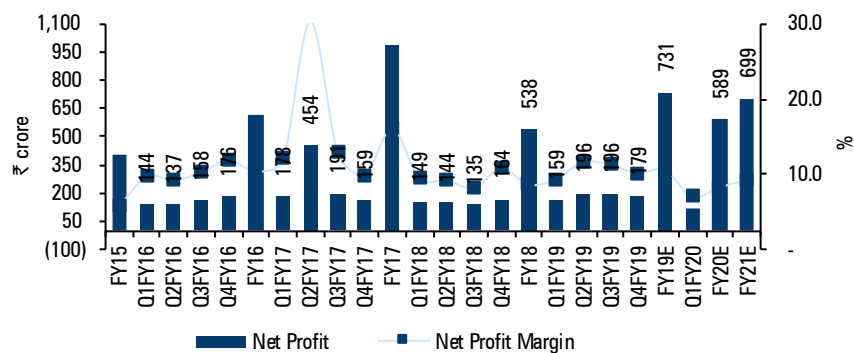
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend...



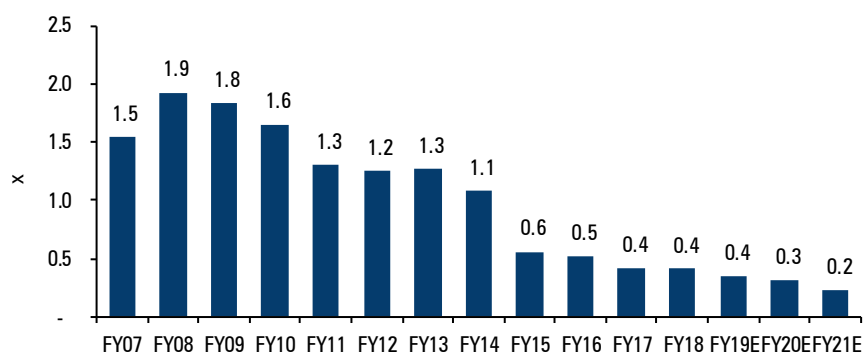
Source: Company, ICICI Direct Research

Exhibit 7: PAT and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 8: Debt/equity ratio...



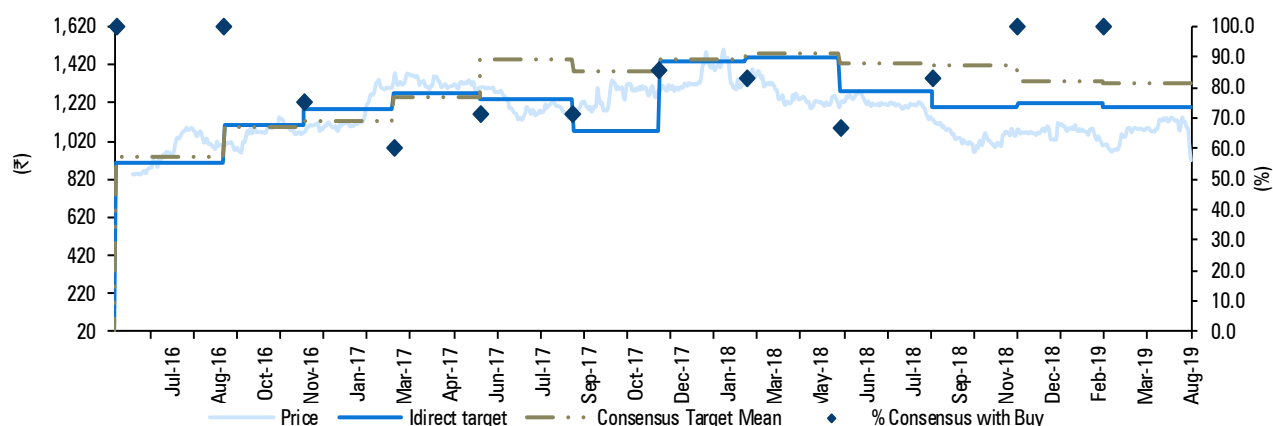
Source: Company, ICICI Direct Research

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)	5.1	5.6	23.0	14.5
FY19E	6,877.9	10.8	129.4	35.8	9.7	8.3	10.9	9.5
FY20E	7,094.3	3.1	104.3	(19.4)	7.1	6.0	13.1	12.9
FY21E	7,511.1	5.9	123.7	18.6	8.8	6.3	9.8	10.4

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	30-Jun-19	28.4%	16.32
2	Adishwar Enterprises, L.L.P.	30-Jun-19	17.9%	10.32
3	Devakar Investment & Trading Company Pvt. Ltd.	30-Jun-19	10.8%	6.23
4	HDFC Asset Management Co., Ltd.	30-Jun-19	5.1%	2.91
5	Templeton Asset Management Ltd.	30-Jun-19	4.2%	2.42
6	DSP Investment Managers Pvt. Ltd.	30-Jun-19	3.9%	2.23
7	Franklin Templeton Investment Management Ltd.	30-Jun-19	3.4%	1.94
8	Reliance Nippon Life Asset Management Limited	30-Jun-19	3.3%	1.90
9	Franklin Templeton Asset Management (India) Pvt. L	31-Jul-19	3.3%	1.87
10	IDFC Asset Management Company Private Limited	30-Jun-19	1.8%	1.03

Source: Reuters, ICICI Direct Research

Exhibit 12: Recent Activity

BUYS			SELLS		
Investor name	Value (Mn)	Shares (Mn)	Investor name	Value (Mn)	Shares (Mn)
HDFC Asset Management Co., Ltd.	2.22	0.14	Florida State Board of Administration	-0.37	-0.02
IDFC Asset Management Company Private Limited	2.16	0.14	Bessemer Trust Company, N.A. (US)	-0.05	0.00
DSP Investment Managers Pvt. Ltd.	1.96	0.13	Dimensional Fund Advisors, Ltd.	-0.04	0.00
Reliance Nippon Life Asset Management Limited	1.39	0.09	Mellon Investments Corporation	-0.02	0.00
UTI Asset Management Co. Ltd.	0.45	0.03	BlackRock Institutional Trust Company, N.A.	-0.01	0.00

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	62.1	62.1	62.1	62.2	62.2
FII	10.0	9.2	8.4	7.9	7.8
DII	18.0	18.5	19.2	19.8	20.0
Others	9.8	10.2	10.2	10.1	10.0

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	7,094.3	7,511.1
Growth (%)	2.3	10.8	3.1	5.9
Raw Material Expenses	3,404.6	3,595.7	3,852.3	4,025.0
Employee Expenses	506.3	550.2	564.0	593.4
Mfg, Admin & selling Exps	1,434.8	1,538.2	1,553.7	1,629.9
Total Operating Expenditure	5,345.6	5,684.2	5,969.9	6,248.3
EBITDA	859.4	1,193.8	1,124.4	1,262.8
Growth (%)	-29.9	38.9	-5.8	12.3
Depreciation	240.0	254.0	317.1	329.8
Interest	118.2	119.7	119.4	95.4
Other Income	197.4	207.7	141.9	150.2
Exceptional income	0.0	15.0	0.0	0.0
PBT	698.5	1,042.8	829.8	987.8
Total Tax	167.2	318.2	248.9	296.3
PAT	531.3	724.6	580.8	691.4
Minority Interest / Others	11.3	9.8	8.7	10.4
PAT (after minority interest)	537.6	730.7	588.9	698.6
Growth (%)	-45.2	35.9	-19.4	18.6
EPS (₹)	95.3	129.4	104.3	123.7

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
PAT	537.6	730.7	588.9	698.6
Add: Depreciation	240.0	254.0	317.1	329.8
(Inc)/dec in Current Assets	-609.8	-552.2	-66.5	-81.9
Inc/(dec) in CL and Provisions	-157.2	115.8	-87.5	-71.1
Others	0.0			
CF from operating activities	10.5	548.3	751.9	875.4
(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	-79.6	-381.2
Others	124.8	-18.7	-168.0	-118.3
CF from financing activities	348.3	-74.4	-247.5	-499.4
Net Cash flow	30.2	-29.3	-15.4	7.3
Opening Cash	43.5	73.8	44.4	29.0
Closing Cash	73.8	44.4	29.0	36.4

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	5,952.1	6,528.1
Total Shareholders funds	4,953.7	5,591.5	6,008.6	6,584.6
Total Debt	2,031.0	1,975.2	1,895.6	1,514.4
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	8,369.5	8,568.7
Assets				
Gross Block	6,473.4	7,297.6	7,947.6	8,201.6
Less: Accu Depreciation	3,842.5	4,096.5	4,413.7	4,743.5
Net Block	2,630.9	3,201.1	3,534.0	3,458.2
Capital WIP	105.7	273.7	30.0	30.0
Total Fixed Assets	2,736.6	3,474.8	3,564.0	3,488.2
Investments	1,833.7	1,345.7	1,459.2	1,573.8
Inventory	2,256.6	2,610.3	2,623.9	2,695.8
Debtors	757.5	803.1	816.3	823.1
Loans and Advances	30.4	18.4	56.8	60.1
Other Current Assets	448.8	613.8	615.0	615.0
Cash	73.8	44.4	29.0	36.4
Total Current Assets	3,567.1	4,089.9	4,141.1	4,230.3
Creditors	859.0	972.7	889.7	816.5
Provisions	13.2	15.3	10.8	12.8
Total Current Liabilities	872.2	988.0	900.5	829.4
Net Current Assets	2,694.9	3,102.0	3,240.6	3,401.0
Others Assets	106.7	105.8	105.8	105.8
Application of Funds	7,371.9	8,028.2	8,369.5	8,568.7

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	95.3	129.4	104.3	123.7
Cash EPS	137.8	174.4	160.4	182.1
BV	877.8	990.0	1,063.8	1,165.8
DPS	11.1	17.8	15.6	18.6
Cash Per Share	13.1	7.9	5.1	6.4
Operating Ratios				
EBITDA Margin (%)	13.8	17.4	15.8	16.8
PBT Margin (%)	11.3	15.2	11.7	13.2
PAT Margin (%)	8.6	10.5	8.2	9.2
Inventory days	132.7	138.5	135.0	131.0
Debtor days	44.6	42.6	42.0	40.0
Creditor days	30.8	32.0	32.0	32.0
Return Ratios (%)				
RoE	10.9	13.1	9.8	10.6
RoCE	9.5	12.9	10.4	11.7
RoIC	12.5	15.9	12.6	14.4
Valuation Ratios (x)				
P/E	9.7	7.1	8.8	7.4
EV / EBITDA	8.3	6.0	6.3	5.3
EV / Net Sales	1.2	1.0	1.0	0.9
Market Cap / Sales	0.8	0.8	0.7	0.7
Price to Book Value	1.0	0.9	0.9	0.8
Solvency Ratios				
Debt/EBITDA	2.4	1.7	1.7	1.2
Debt / Equity	0.4	0.4	0.3	0.2
Current Ratio	4.2	4.2	4.7	5.2
Quick Ratio	1.5	1.5	1.7	1.9

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		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Kewal Kiran Cloth.	980	1,235	Buy	1,210	65.2	67.8	77.0	15.0	14.5	12.7	9.5	8.8	7.9	19.9	20.4	21.3	18.7	18.3	19.4
Page Industries (PAGIND)	18,190	18,050	Hold	20,289	353.2	373.6	440.1	51.5	48.7	41.3	31.9	29.8	25.9	69.1	62.9	60.8	50.8	44.3	43.3
Rupa & Co	180	170	Reduce	2,230	9.3	9.4	10.1	19.3	19.2	17.7	16.1	16.0	15.1	18.1	16.1	16.2	13.6	12.6	12.5
Vardhman Textiles	920	990	Hold	5,281	129.4	104.3	123.7	7.1	8.8	7.4	6.0	6.3	5.3	12.9	10.4	11.7	13.1	9.8	10.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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