

Steady uptick in yarn utilisation aiding recovery...

Vardhman Textiles posted a weak Q4FY20 performance due to lockdown impact in second half of March. Consolidated revenues fell 9.5% YoY to ₹ 1596 crore due to 10% fall in textile segment. Though gross margins improved 340 bps YoY to 48.5% owing to lower input cost, negative operating leverage led to a fall in EBITDA margin by 80 bps to 14.1% with EBITDA down 15% to ₹ 225.1 crore. Hence, PAT fell 18% YoY to ₹ 149 crore.

Export demand supporting yarn segment revival

VTL got approval for starting factory from mid-April. Gradually, demand has started to pick up pace, particularly for yarn exports. The company gradually increased its yarn capacity utilisation levels and is currently operating at ~80-85% utilisation in the yarn segment. Yarn demand has been supported by a recovery in demand from China, Vietnam, South Korea and Bangladesh. The company enhanced its export focus and is currently exporting ~50-55% of its yarn capacity instead of normal average of ~33%.

Fabric demand recovery remains sluggish

The demand for fabric in domestic and exports market continues to be muted as globally there has been a reduction in discretionary purchases by consumers. Also, with channel inventory being high owing to lockdown, the repeat order flow is lower. The company's fabric division is currently operating at a monthly utilisation rate of ~40-45%, which is below the operational breakeven utilisation level of ~60-65%. Owing to extended lockdown in metro cities, domestic demand recovery has been sluggish as metro cities are major contributors to demand.

Industry consolidation can reduce competitive intensity

FY20 has been a tough year for Indian spinners owing to weak demand scenario mainly due to US-China trade issues and input cost pressures. Due to macro headwinds, many smaller capacities have shut down in FY20. The possibility of further closure of smaller capacities due to lockdown can be positive for an established player like VTL. With the probability of lower competitive intensity, operating margins for large Indian spinners can show a positive bias over the medium to long term.

Valuation & Outlook

Vardhman is among the few textile companies that have been able to maintain a debt equity ratio below one despite continuous capacity addition. Though near term financial performance is expected to be dented owing to low domestic demand, we expect VTL to tide over the same owing to its strong balance sheet and long standing relationship with marquee clients, which would enable a gradual demand recovery when the situation normalises. Uncertainty in international trade owing to trade disputes and geopolitical issues can subdue the financial performance. However, due to its strong b/s (FY20 debt equity of 0.3x), the stock is better placed than peers to wade through the current turbulent market conditions. We downgrade from BUY to **HOLD** rating with a target price of ₹ 700 (7x FY22E earnings).

Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	6,248.3	6,877.9	6,735.0	6,047.8	6,734.0
EBITDA	902.7	1,193.7	937.3	664.2	1,013.0
PAT	574.6	724.6	578.8	272.3	565.8
EPS (₹)	101.1	129.4	102.2	49.3	100.1
P/E (x)	6.5	5.1	6.4	13.3	6.6
EV/EBITDA (x)	6.3	4.7	5.8	7.4	4.4
RoCE (%)	10.1	12.9	7.7	3.9	7.9
RoE (%)	11.6	13.1	9.5	4.3	8.1

Source: ICICI Direct Research, Company

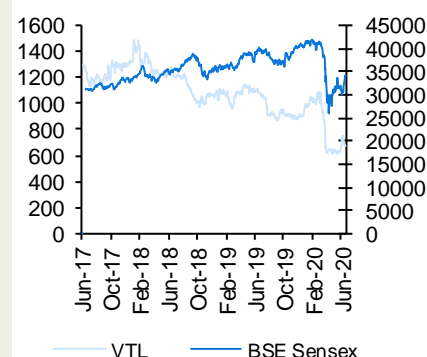


Vardhman

Particulars

Particular	Amount
Market Capitalisation (₹Crore)	3,772
Debt (FY 20) (₹Crore)	2,003.1
Cash (FY 20) (₹Crore)	279.9
EV (₹Crore)	5,495.2
52 week H/L	1102 / 592
Equity Capital (₹Crore)	57.5
Face Value (₹)	10

Price Chart



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Financial summary

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY19	FY20P	FY21E	FY22E
Total operating Income	6,877.9	6,735.0	6,047.8	6,734.0
Growth (%)	10.1	-2.1	-10.2	11.3
Raw Material Expenses	3,595.7	3,555.0	3,297.1	3,448.2
Employee Expenses	550.2	595.9	574.5	606.1
Mfg, Admin & selling Exps	1,538.2	1,646.8	1,512.0	1,666.7
Total Operating Expenditure	5,684.2	5,797.7	5,383.6	5,721.0
EBITDA	1,193.7	937.4	664.2	1,013.0
Growth (%)	32.2	-21.5	-29.1	52.5
Depreciation	254.0	333.2	351.6	363.8
Interest	119.7	135.3	130.1	101.3
Other Income	207.7	174.5	181.4	208.4
Exceptional income	15.0	0.0	0.0	0.0
PBT	1,042.8	643.3	364.0	756.4
Total Tax	318.2	64.5	91.7	190.6
PAT	724.6	578.8	272.3	565.8
Minority Interest / Others	9.8	13.5	6.5	13.6
PAT (after minority intere	730.7	577.5	278.5	565.6
Growth (%)	25.8	-21.0	-51.8	103.1
EPS (₹)	129.4	102.2	49.3	100.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY19	FY20P	FY21E	FY22E
PAT	730.7	577.5	278.5	565.6
Add: Depreciation	254.0	333.2	351.6	363.8
(Inc)/dec in Current Assets	-552.5	15.9	84.7	27.9
Inc/(dec) in CL and Provision	115.8	-73.2	-51.0	-143.1
Others	0.0	0.0	0.0	0.0
CF from operating activiti	548.0	853.4	663.8	814.1
(Inc)/dec in Investments	487.9	200.8	-114.5	-125.9
(Inc)/dec in Fixed Assets	-824.2	-760.6	-254.0	-254.0
(Inc)/dec in CWIP	-168.0	132.0	41.6	30.0
Others	0.9	-21.1	0.0	0.0
CF from investing activitie	-503.3	-448.9	-326.9	-349.9
Issue/(Buy back) of Equity	-1.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-55.8	27.8	-376.9	-360.1
Others	-62.0	-194.9	189.5	-67.2
CF from financing activitie	-118.7	-167.0	-187.5	-427.2
Net Cash flow	-74.0	237.6	149.4	36.9
Opening Cash	116.3	42.3	279.9	429.3
Closing Cash	42.3	279.9	429.3	466.2

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY19	FY20P	FY21E	FY22E
Liabilities				
Equity Capital	56.5	56.5	56.5	56.5
Reserve and Surplus	5,535.0	5,991.4	6,449.2	6,929.9
Total Shareholders funds	5,591.5	6,047.9	6,505.7	6,986.4
Total Debt	1,975.2	2,003.1	1,626.1	1,266.1
Deferred Tax Liability	323.3	243.5	243.5	243.5
Other LT Liabilities	25.2	23.7	27.3	31.4
Minority Interest / Others	113.1	120.6	127.2	140.8
Total Liabilities	8,028.2	8,438.8	8,529.8	8,668.1
Assets				
Gross Block	7,297.6	8,058.2	8,312.2	8,566.2
Less: Accu Depreciation	4,096.5	4,429.8	4,781.3	5,145.1
Net Block	3,201.1	3,628.5	3,530.9	3,421.1
Capital WIP	273.7	141.6	100.0	70.0
Total Fixed Assets	3,474.8	3,770.1	3,630.9	3,491.1
Investments	1,345.7	1,144.9	1,259.4	1,385.4
Inventory	2,612.4	2,681.1	2,485.4	2,509.1
Debtors	803.1	821.0	828.5	774.9
Loans and Advances	18.4	4.3	18.1	20.2
Other Current Assets	613.8	525.4	615.0	615.0
Cash	42.3	279.9	429.3	466.2
Total Current Assets	4,089.9	4,311.6	4,376.3	4,385.4
Creditors	972.7	896.0	859.0	710.8
Provisions	15.3	18.8	4.7	9.8
Total Current Liabilities	988.0	914.8	863.8	720.6
Net Current Assets	3,102.0	3,396.9	3,512.5	3,664.7
Others Assets	105.8	126.9	126.9	126.9
Application of Funds	8,028.2	8,438.8	8,529.8	8,668.1

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	129.4	102.2	49.3	100.1
Cash EPS	174.3	161.1	111.5	164.4
BV	990.0	1,070.0	1,151.0	1,236.1
DPS	18.2	0.0	0.0	15.0
Cash Per Share	7.5	49.5	76.0	82.5
Operating Ratios				
EBITDA Margin (%)	17.4	13.9	11.0	15.0
PBT Margin (%)	15.2	9.6	6.0	11.2
PAT Margin (%)	10.5	8.6	4.5	8.4
Inventory days	138.6	145.3	150.0	136.0
Debtor days	42.6	44.5	50.0	42.0
Creditor days	32.0	36.7	45.0	35.0
Return Ratios (%)				
RoE	13.1	9.5	4.3	8.1
RoCE	12.9	7.7	3.9	7.9
RoIC	15.9	9.3	4.9	10.3
Valuation Ratios (x)				
P/E	5.1	6.4	13.3	6.6
EV / EBITDA	4.7	5.8	7.4	4.4
EV / Net Sales	0.8	0.8	0.8	0.7
Market Cap / Sales	0.5	0.6	0.6	0.6
Price to Book Value	0.7	0.6	0.6	0.5
Solvency Ratios				
Debt/EBITDA	1.7	2.1	2.4	1.2
Debt / Equity	0.4	0.3	0.2	0.2
Current Ratio	4.2	4.8	5.1	6.2
Quick Ratio	1.5	1.8	2.2	2.6

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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