

CMP: ₹ 1900

Target: ₹ 2240 (18%)

Target Period: 12 months

BUY

August 3, 2021

Strong margin performance continues...

About the stock: Vardhman Textiles (VTL) (earlier known as Mahavir Spinning) is part of the Vardhman Group, a large textile conglomerate with a presence across the textile value chain.

- Vardhman is among few textile companies that have been able to maintain a debt equity ratio below one despite continuous capacity addition
- Healthy cash flows have enabled VTL to reduce debt by ~₹ 152 crore in FY21 (D/E: 0.3x in FY21). We expect a further debt reduction of ~₹ 450 crore over the next two years to result in a D/E of ~0.2x in FY23E

Q1FY22 Results: Vardhman Textiles reported a strong EBITDA margin performance in Q1FY22 amid strong demand in the yarn segment.

- Revenues de-grew marginally by 1% QoQ (up 136% YoY) to ₹ 1927 crore
- Gross margin expanded even on a QoQ basis and by 170 bps YoY to 54.8% on lower power cost (down 107 bps QoQ to 8.5%) and decline in other expense by 163 bps QoQ to 12.8% that enabled EBITDA margin expansion of 460 bps QoQ to 24.8%
- Consequently, PAT grew 27% QoQ to ₹ 317 crore

What should investors do? Despite being in the cyclical textile business, VTL's stock price has appreciated at 12% CAGR in the last five years.

- We continue to remain structurally positive and maintain **BUY** rating

Target Price and Valuation: We value VTL at ₹ 2240 i.e. 10x FY23E earnings.

Key triggers for future price performance:

- Global retailers are looking at de-risking their supply chains and VTL is expected to be a beneficiary in the yarn and fabric segment
- Strong demand coupled with supply constraint owing to closure of ~5-6% of capacities due to impact of pandemic is expected to result in stronger spreads in the yarn business
- The improved financial performance is expected to result in augmentation of RoCE profile (570 bps improvement in FY21-23E to 13.4%)
- We model revenue and earnings CAGR of 18% and 76%, respectively, in FY21-23E with higher RoCE of ~16%

Alternate Stock Idea: Apart from VTL, in our textile coverage we also like KPR Mill.

- KPR Mills is among select vertically integrated textile players in India that has displayed consistent operating margins with strong return ratios
- BUY with a target price of ₹ 2310



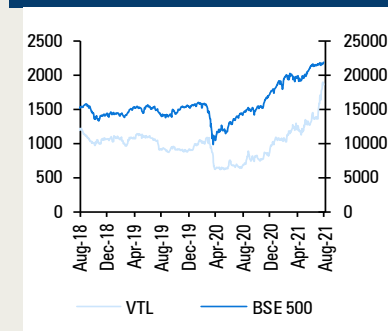
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	10,754
Debt (FY21) (₹ Crore)	1,848
Cash (FY21) (₹ Crore)	211.5
EV (₹ Crore)	12,390.7
52 week H/L	2009 / 650
Equity Capital (₹ Crore)	56.6
Face Value (₹)	10

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	62.2	62.2	62.8	63.3	63.2
FII	6.9	6.1	5.3	4.3	4.4
DII	20.9	21.6	22.1	21.6	21.3
Others	10.0	10.1	9.8	10.9	11.1

Price Chart



Recent event & key risks

- Addition of yarn capacity in FY22
- Key Risk:** (i) Pandemic led restriction can lower sales, (ii) high RM cost to subdue margin

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Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	6,877.9	6,735.0	6,139.9	0.8%	7,840.8	8,622.0	18.5%
EBITDA	1,193.7	937.3	813.8		1,816.6	1,919.8	53.6%
Adjusted PAT	730.7	577.5	409.9		1,168.2	1,265.3	
P/E (x)	14.7	18.6	26.2		9.2	8.5	
EV/EBITDA (x)	10.6	13.3	15.2		6.7	6.1	
RoCE (%)	12.9	7.7	5.5		16.4	15.6	
RoE (%)	13.1	9.5	6.3		15.3	14.5	

Source: Company, ICICI Direct Research

Key takeaways of conference Call

- The management indicated that yarn demand was strong in the export market and the order flow for Indian players was good due to China+1 strategy of global brands
- Fabric utilisation, which had recovered in Q4FY21, was impacted in Q1FY22 due to pandemic related restrictions in domestic market. Post relaxation of restrictions, fabric utilisation has currently increased to ~85% level. The management expects fabric demand to pick up from Q3FY22 onwards
- On the cotton inventory front, the management indicated that the company has sufficient inventory till end of September 2021
- On yarn spreads, the management highlighted that spreads continue to be higher than average long term spreads. In spite of some moderation they are expected to be higher than long term average for next few quarters
- On the capacity front, the yarn facility is running at full capacity and new capacity of ~ 8-9% (100000 spindles) is expected to be operational by March 2022
- The management indicated that the EBITDA margin for FY22 could be at the upper end of the long term average EBITDA margin range of 18-22%. The margin trajectory is expected to remain strong amid strong demand in global markets and also improvement in utilisation of fabric capacity that will start supporting margins from Q3FY22 onwards

Financial Summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E	
Total operating income	6,735.0	6,139.9	7,840.8	8,622.0	
Growth (%)	-2.1	-8.8	27.7	10.0	
Raw Material Expenses	3,555.0	3,260.5	3,468.1	3,964.7	
Employee Expenses	595.9	590.1	705.7	728.6	
Mfg, Admin & selling Exps	1,646.8	1,475.5	1,850.4	2,008.9	
Total Operating Expenditure	5,797.7	5,326.0	6,024.2	6,702.2	
EBITDA	937.4	813.8	1,816.6	1,919.8	
Growth (%)	-21.5	-13.2	123.2	5.7	
Depreciation	333.2	363.8	374.5	409.2	
Interest	135.3	113.3	106.7	84.5	
Other Income	174.5	201.6	235.2	275.9	
Exceptional income	0.0	0.0	0.0	0.0	
PBT	643.3	538.3	1,570.5	1,702.0	
Total Tax	64.5	136.4	395.8	428.9	
PAT	578.8	401.8	1,174.8	1,273.1	
Minority Interest / Others	13.5	12.6	28.2	30.6	
PAT (after minority interest)	577.5	409.9	1,168.2	1,265.3	
Growth (%)	-21.0	-29.0	185.0	8.3	
EPS (₹)	102.2	72.5	206.5	223.7	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E	
PAT	577.5	409.9	1,168.2	1,265.3	
Add: Depreciation	333.2	363.8	374.5	409.2	
(Inc)/dec in Current Assets	15.9	-452.7	-300.1	-368.2	
Inc/(dec) in CL and Provisions	-73.2	-20.8	-58.0	-28.0	
Others	0.0	0.0	0.0	0.0	
CF from operating activities:	853.4	300.3	1,184.8	1,278.4	
(Inc)/dec in Investments	200.8	70.4	-107.5	-236.4	
(Inc)/dec in Fixed Assets	-760.6	-274.5	-600.0	-500.0	
(Inc)/dec in CWIP	132.0	63.7	-222.0	100.0	
Others	-21.1	-112.6	0.0	0.0	
CF from investing activities	-448.9	-253.0	-929.5	-636.4	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	27.8	-154.8	-206.2	-234.3	
Others	-194.9	39.1	19.4	-155.6	
CF from financing activities	-167.0	-115.7	-186.8	-390.0	
Net Cash flow	237.6	-68.4	68.5	252.0	
Opening Cash	42.3	279.9	211.5	280.0	
Closing Cash	279.9	211.5	280.0	532.1	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet		₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E	
Liabilities					
Equity Capital	56.5	56.6	56.6	56.6	
Reserve and Surplus	5,991.4	6,417.3	7,573.6	8,649.1	
Total Shareholders funds	6,047.9	6,473.9	7,630.2	8,705.7	
Total Debt	2,003.1	1,848.2	1,642.1	1,407.8	
Deferred Tax Liability	243.5	256.9	256.9	256.9	
Other LT Liabilities	23.7	20.8	23.9	27.5	
Minority Interest / Others	120.6	133.2	161.4	191.9	
Total Liabilities	8,438.8	8,733.0	9,714.5	10,589.8	
Assets					
Gross Block	8,058.2	8,332.6	8,932.6	9,432.6	
Less: Accu Depreciation	4,429.8	4,793.6	5,168.1	5,577.4	
Net Block	3,628.5	3,539.1	3,764.5	3,855.3	
Capital WIP	141.6	78.0	300.0	200.0	
Total Fixed Assets	3,770.1	3,617.0	4,064.5	4,055.3	
Investments	1,144.9	1,074.5	1,182.0	1,418.4	
Inventory	2,681.1	2,796.1	3,114.8	3,425.2	
Debtors	821.0	1,038.6	1,031.1	1,086.6	
Loans and Advances	4.3	2.7	23.5	25.9	
Other Current Assets	525.4	647.0	615.0	615.0	
Cash	279.9	211.5	280.0	532.1	
Total Current Assets	4,311.6	4,695.9	5,064.5	5,684.7	
Creditors	896.0	874.3	815.6	785.9	
Provisions	18.8	19.7	20.4	22.1	
Total Current Liabilities	914.8	894.0	836.0	808.1	
Net Current Assets	3,396.9	3,801.9	4,228.5	4,876.6	
Others Assets	126.9	239.5	239.5	239.5	
Application of Funds	8,438.8	8,733.0	9,714.5	10,589.8	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY20	FY21P	FY22E	FY23E	
Per share data (₹)					
EPS	102.2	72.5	206.5	223.7	
Cash EPS	161.1	136.8	272.8	296.1	
BV	1,070.0	1,144.6	1,349.0	1,539.2	
DPS	0.0	0.0	31.0	33.6	
Cash Per Share	49.5	37.4	49.5	94.1	
Operating Ratios					
EBITDA Margin (%)	13.9	13.3	23.2	22.3	
PBT Margin (%)	9.6	8.8	20.0	19.7	
PAT Margin (%)	8.6	6.5	15.0	14.8	
Inventory days	145.3	166.2	145.0	145.0	
Debtor days	44.5	61.7	48.0	46.0	
Creditor days	36.7	33.5	35.0	35.0	
Return Ratios (%)					
RoE	9.5	6.3	15.3	14.5	
RoCE	7.7	5.5	16.4	15.6	
RoIC	9.3	6.5	19.2	19.0	
Valuation Ratios (x)					
P/E	18.7	26.4	9.2	8.5	
EV / EBITDA	13.4	15.3	6.7	6.1	
EV / Net Sales	1.9	2.0	1.6	1.4	
Market Cap / Sales	1.6	1.8	1.4	1.3	
Price to Book Value	1.8	1.7	1.4	1.2	
Solvency Ratios					
Debt/EBITDA	2.1	2.3	0.9	0.7	
Debt / Equity	0.3	0.3	0.2	0.2	
Current Ratio	4.8	5.4	6.2	7.2	
Quick Ratio	1.8	2.2	2.4	2.9	

Source: Company, ICICI Direct Research

Exhibit 5: ICICI Direct coverage universe (Textile)

Sector / Company	CMP			M Cap (₹ Cr)	EV/Sales (x)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
	(₹)	TP(₹)	Rating		FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY23E	
KPR Mill	1,987	2,310	Buy	13,675	4.3	4.0	3.4	2.8	36.3	26.5	25.0	18.1	23.0	16.9	15.4	11.8	19.6	24.0	21.4	26.8	20.2	21.9	19.6	23.3
Gokaldas Exports	212	280	Buy	909	0.8	0.9	0.7	0.6	29.9	34.3	19.0	11.3	16.6	10.6	8.1	5.7	7.7	9.3	12.3	16.7	13.4	9.1	14.2	19.2
Filatex India	100	125	Buy	2,197	1.0	1.2	0.9	0.7	18.1	13.3	7.4	5.8	13.0	7.9	5.3	4.1	14.0	22.3	29.1	31.7	20.4	21.7	28.5	27.2
Vardhman Textiles	1,900	2,240	Buy	10,754	1.9	2.0	1.5	1.3	18.6	26.2	9.2	8.5	13.3	15.2	6.7	6.1	7.7	5.5	16.4	15.6	9.5	6.3	15.3	14.5
Indo Count	270	225	Buy	5,333	2.7	2.2	1.9	1.6	73.0	21.4	18.0	14.4	30.2	14.9	12.2	9.7	14.6	20.2	21.5	22.2	7.4	19.4	18.7	18.9
Siyaram Silk	430	350	Buy	2,015	1.4	2.0	1.3	1.2	29.1	563.0	16.8	13.4	14.4	39.6	10.3	8.6	8.1	-0.8	14.6	17.6	9.1	0.5	14.7	17.1

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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