

Executes stock split; maintain positive view...

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 D/E ratio to stay at ~0.3x in FY24E

Event: Stock Split

- Shares of the company have been split on March 24, 2022 (ex-date) pursuant to the shareholder approval granted for sub-division of shares in its meeting held on March 11, 2022. The record date for the same has been fixed as March 26, 2022. Subsequently, the shares of the company have been split with existing face value of ₹ 10 being subdivided into five equity shares of ₹ 2 face value each
- Today is the ex-date for the stock split. Thus, the stock price has adjusted to one-fifth

What should investors do? Despite being in the cyclical textile business, VTL's stock price has appreciated at 16% CAGR in the last five years.

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

Target Price and Valuation: We value VTL at ₹ 625 i.e. 11x FY24E 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 the impact of the pandemic is expected to result in stronger spreads in the yarn business
- Owing to strong demand from customers the company is expanding its yarn spindle capacity by installing 1,65,000 spindles with capex of ₹ 1400 crore. Further, it is expanding capacity by 70000 spindles with capex of ₹ 600 crore
- We model revenue and earnings CAGR of 22% and 57%, respectively, in FY21-24E with RoCE of ~16% in FY24E

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

- 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 ₹ 820

Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	6,878.3	6,735.0	6,139.9	-2.0%	9,260.6	10,209.1	11,279.2	22.5%
EBITDA	1,194.1	937.3	813.8	-6.2%	2,280.7	2,355.7	2,419.6	43.8%
Adjusted PAT	731.1	577.5	409.9	0.5%	1,516.6	1,549.5	1,589.2	57.1%
P/E (x)	20.7	26.2	36.9		10.0	9.8	9.5	
EV/EBITDA (x)	14.3	18.0	20.6		7.3	7.3	7.1	
RoCE (%)	12.9	7.7	5.5		21.1	18.1	15.8	
RoE (%)	13.1	9.5	6.3		19.1	16.8	15.0	

Source: Company, ICICI Direct Research



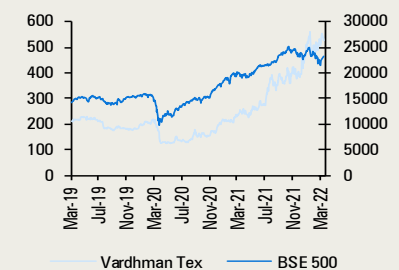
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	14,966.2
Debt (FY21) (₹ Crore)	1,848.2
Cash (FY21) (₹ Crore)	211.5
EV (₹ Crore)	16,602.9
52 week H/L	576 / 224
Equity Capital (₹ Crore)	56.7
Face Value (₹)	2

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	62.8	63.3	63.2	63.2	63.2
FII	5.3	4.3	4.4	4.9	6.3
DII	22.1	21.6	21.3	20.7	18.8
Others	9.8	10.8	11.1	11.2	11.7

Price Chart



Recent event & key risks

- Capacity expansion of 70000 spindles announced
- Key Risk:** (i) Pandemic led restriction can lower sales, (ii) high RM cost can subdue margin

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Financial Summary

Exhibit 1: Profit and loss statement					₹ crore				
(Year-end March)	FY21P	FY22E	FY23E	FY24E					
Total operating Income	6,139.9	9,260.6	10,209.1	11,279.2					
Growth (%)	-8.8	50.8	10.2	10.5					
Raw Material Expenses	3,260.5	4,433.3	5,028.6	5,738.7					
Employee Expenses	590.1	731.6	816.7	902.3					
Mfg, Admin & selling Exps	1,475.5	1,815.1	2,008.1	2,218.6					
Total Operating Expenditure	5,326.0	6,979.9	7,853.5	8,859.6					
EBITDA	813.8	2,280.7	2,355.7	2,419.6					
Growth (%)	-13.2	180.2	3.3	2.7					
Depreciation	363.8	374.5	424.7	444.5					
Interest	113.3	99.2	105.1	124.2					
Other Income	201.6	240.8	265.4	293.3					
Exceptional income	0.0	0.0	0.0	0.0					
PBT	538.3	2,047.7	2,091.3	2,144.2					
Total Tax	136.4	516.0	527.0	540.3					
PAT	401.8	1,531.7	1,564.3	1,603.8					
Minority Interest / Others	12.6	36.8	37.5	38.5					
PAT (after minority interest)	409.9	1,516.6	1,549.5	1,589.2					
Growth (%)	-29.0	270.0	2.2	2.6					
EPS (₹)	14.5	53.5	54.7	56.1					

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore				
(Year-end March)	FY21P	FY22E	FY23E	FY24E					
PAT	409.9	1,516.6	1,549.5	1,589.2					
Add: Depreciation	363.8	374.5	424.7	444.5					
(Inc)/dec in Current Assets	-452.7	-801.4	-562.3	-514.7					
Inc/(dec) in CL and Provisions	-20.8	40.8	-19.6	-213.5					
Others	0.0	0.0	0.0	0.0					
CF from operating activities	300.3	1,130.5	1,392.3	1,305.5					
(Inc)/dec in Investments	70.4	-107.5	-236.4	-283.7					
(Inc)/dec in Fixed Assets	-274.5	-700.0	-1,300.0	-800.0					
(Inc)/dec in CWIP	63.7	-222.0	-50.0	-130.0					
Others	-112.6	0.0	0.0	0.0					
CF from investing activities	-253.0	-1,029.5	-1,586.4	-1,213.7					
Issue/(Buy back) of Equity	0.0	0.1	0.0	0.0					
Inc/(dec) in loan funds	-154.8	-44.2	530.7	425.6					
Others	39.1	-24.1	-191.3	-234.3					
CF from financing activities	-115.7	-68.1	339.4	191.3					
Net Cash flow	-68.4	32.9	145.3	283.2					
Opening Cash	279.9	211.5	244.4	389.7					
Closing Cash	211.5	244.4	389.7	672.9					

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet					₹ crore				
(Year-end March)	FY21P	FY22E	FY23E	FY24E					
Liabilities									
Equity Capital	56.6	56.7	56.7	56.7					
Reserve and Surplus	6,417.3	7,869.9	9,187.0	10,537.8					
Total Shareholders funds	6,473.9	7,926.6	9,243.7	10,594.5					
Total Debt	1,848.2	1,804.1	2,334.7	2,760.3					
Deferred Tax Liability	256.9	256.9	256.9	256.9					
Other LT Liabilities	20.8	23.9	27.5	31.6					
Minority Interest / Others	133.2	170.0	207.5	207.5					
Total Liabilities	8,733.0	10,181.5	12,070.3	13,850.9					
Assets									
Gross Block	8,332.6	9,032.6	10,332.6	11,132.6					
Less: Accu Depreciation	4,793.6	5,168.1	5,592.9	6,037.3					
Net Block	3,539.1	3,864.5	4,739.8	5,095.3					
Capital WIP	78.0	300.0	350.0	480.0					
Total Fixed Assets	3,617.0	4,164.5	5,089.8	5,575.3					
Investments	1,074.5	1,182.0	1,418.4	1,702.1					
Inventory	2,796.1	3,425.2	3,915.8	4,326.3					
Debtors	1,038.6	1,217.8	1,286.6	1,421.5					
Loans and Advances	2.7	27.8	30.6	0.0					
Other Current Assets	647.0	615.0	615.0	615.0					
Cash	211.5	244.4	389.7	672.9					
Total Current Assets	4,695.9	5,530.2	6,237.8	7,035.7					
Creditors	874.3	908.2	888.0	673.8					
Provisions	19.7	26.6	27.2	27.9					
Total Current Liabilities	894.0	934.8	915.1	701.6					
Net Current Assets	3,801.9	4,595.5	5,322.7	6,334.0					
Others Assets	239.5	239.5	239.5	239.5					
Application of Funds	8,733.0	10,181.5	12,070.3	13,850.9					

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					₹ crore				
(Year-end March)	FY21P	FY22E	FY23E	FY24E					
Per share data (₹)									
EPS	14.5	53.5	54.7	56.1					
Cash EPS	27.4	66.7	69.7	71.7					
BV	228.9	279.6	326.1	373.8					
DPS	0.0	8.0	8.2	8.4					
Cash Per Share	7.5	8.6	13.7	23.7					
Operating Ratios									
EBITDA Margin (%)	13.3	24.6	23.1	21.5					
PBT Margin (%)	8.8	22.1	20.5	19.0					
PAT Margin (%)	6.5	16.5	15.3	14.2					
Inventory days	166.2	135.0	140.0	140.0					
Debtor days	61.7	48.0	46.0	46.0					
Creditor days	33.5	35.0	35.0	35.0					
Return Ratios (%)									
RoE	6.3	19.1	16.8	15.0					
RoCE	5.5	21.1	18.1	15.8					
RoIC	6.5	23.8	20.5	18.8					
Valuation Ratios (x)									
P/E	36.9	10.0	9.8	9.5					
EV / EBITDA	20.6	7.3	7.3	7.1					
EV / Net Sales	2.7	1.8	1.7	1.5					
Market Cap / Sales	2.5	1.6	1.5	1.3					
Price to Book Value	2.3	1.9	1.6	1.4					
Solvency Ratios									
Debt/EBITDA	2.3	0.8	1.0	1.1					
Debt / Equity	0.3	0.2	0.3	0.3					
Current Ratio	5.4	6.1	7.0	10.4					
Quick Ratio	2.2	2.3	2.6	4.0					

Source: Company, ICICI Direct Research

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Sell: <-15%



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