

# Vardhman Textiles

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## Tough times but signs of improvement visible

- Vardhman Textiles reported a sharp drop in EBITDA for the quarter (down 46% YoY and 32% QoQ) on account of 9% YoY lower sales and gross margin contraction.
- Gross margin declined to 37% from 52% YoY and 43% QoQ because of the sharp drop in yarn prices along with inventory of high-cost cotton. Consequently, EBITDAM stood at ~7.3% in Q3FY23 vs. 24.2% YoY and 14.6% QoQ. This is the lowest quarterly EBITDAM in the past almost 10 years, barring Q1FY21 (Covid lockdown period).
- We maintain our BUY recommendation with Dec-23 TP of Rs440 (from Rs455 earlier), as we believe earnings have bottomed and there are clear signs of improvement with lower cotton price and improving yarn-cotton spread.

**Margin hit by high cotton inventory and falling yarn price:** As companies had high-cost cotton inventory at the end of Q2FY23 and yarn prices corrected sharply in Q3FY23, margin for most players took a sharp hit. This impact is expected to be marginal going forward and, hence, margin is expected to improve from hereon.

**Domestic cotton price has corrected and yarn-cotton spread has improved as well:** Yarn-cotton spread, which had touched a low of Rs30-40/kg in Q2FY23, averaged Rs60-70/kg in Q3FY23. Given subdued global demand, despite the correction in cotton price, spreads are still below Rs80-100/kg levels.

**Indian cotton premium has come down, though it is still higher than the historical differential:** With the recent correction in Indian cotton prices, the premium over international cotton has corrected from Q2FY23 levels. Q2FY23/Q3FY23 premium stood at 37%/24%, which now stands at 12%. This is still higher than the historical average of 5-6%. Management indicated hoarding of cotton by farmers is mostly keeping prices at current levels, else it would have gone even lower.

**Tough times, but signs of improvement visible:** We believe while the textile sector is going through tough times, there are signs of improvement in the sector. While demand from US and UK remains a key concern, correction in domestic cotton price, expanding yarn-cotton spread, initiation of demand from some retailers, better demand from China, and lowering of premium of domestic cotton over international cotton price are key positives in our view.

**Valuation and outlook:** Given the sharp correction in gross margin and EBITDAM, we have cut our TP by 3%. Our EPS of FY24E/FY25E has been cut by 7%/2%. We expect margin improvement as raw-material inventory levels are at one month, which will imply only a small inventory loss if cotton remains at near current levels. By the end of FY23, Vardhman would have added 1lakh spindle, thus increasing its capacity by ~9%.

### Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	59,262	93,861	94,769	82,450	85,731
EBITDA	7,671	22,621	12,637	15,349	17,733
EBITDA Margin (%)	12.9	24.1	13.3	18.6	20.7
APAT	3,667	16,774	7,389	9,193	11,029
EPS (Rs)	13.0	59.0	26.0	32.3	38.8
EPS (% chg)	(32.8)	355.1	(55.9)	24.4	20.0
ROE (%)	6.2	24.5	9.4	10.8	11.9
P/E (x)	22.2	4.9	11.1	8.9	7.4
EV/EBITDA (x)	12.9	4.2	7.3	5.1	3.8
P/BV (x)	1.3	1.1	1.0	0.9	0.8

Source: Company, Emkay Research

<b>CMP</b> Rs 288 as of (January 29, 2023)	<b>Target Price</b> Rs 440 (▼) 12 months
<b>Rating</b> BUY (■)	<b>Upside</b> 53.0 %

### Change in Estimates

EPS Chg FY23E/FY24E (%)	(15)/ (7)
Target Price change (%)	(3.3)
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	26.0	32.3
Consensus	30.6	34.8
Mean Consensus TP (12M)	Rs 396	

### Stock Details

Bloomberg Code	VTEX IN
Face Value (Rs)	2
Shares outstanding (mn)	289
52 Week H/L	565 / 246
M Cap (Rs bn/USD bn)	83 / 1.02
Daily Avg Volume (nos.)	2,77,630
Daily Avg Turnover (US\$ mn)	1.1

### Shareholding Pattern Dec '22

Promoters	63.9%
FIIIs	7.1%
DIIIs	16.9%
Public and Others	12.2%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(12)	(15)	(6)	(40)
<b>Rel. to Nifty</b>	(10)	(15)	(12)	(41)

### Relative price chart



Source: Bloomberg

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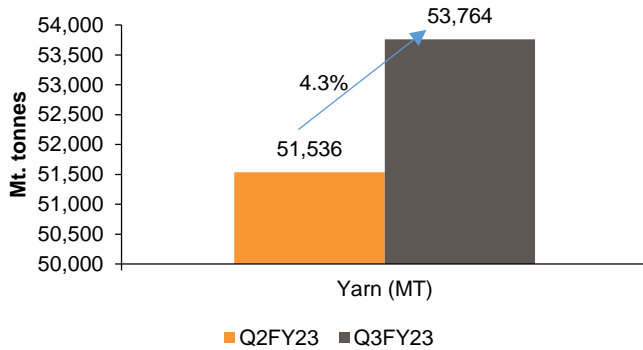
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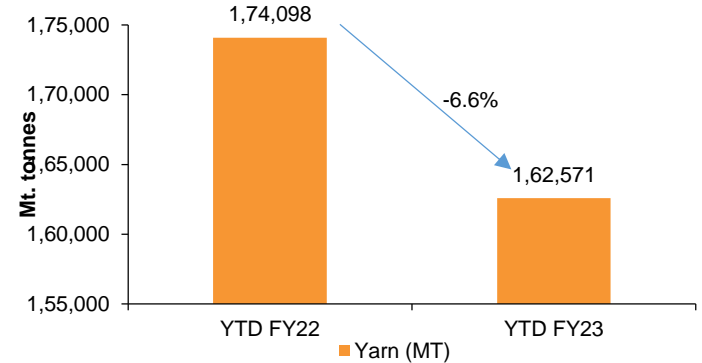
## Story in Charts

**Exhibit 1: Marginal improvement in yarn sales on a QoQ basis**



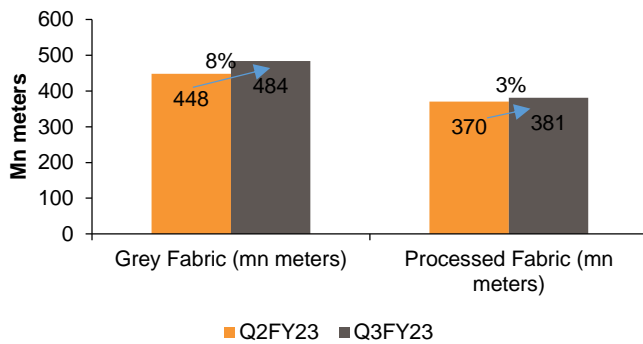
Source: Company, Emkay Research

**Exhibit 2: Dip in yarn sales due to subdued demand YTD**



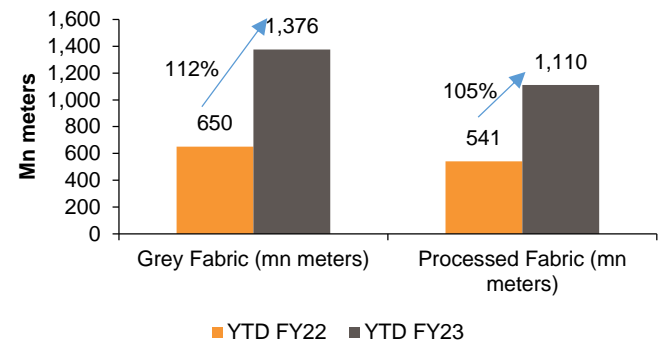
Source: Company, Emkay Research

**Exhibit 3: QoQ marginal uptick in fabrics showing comeback demand**



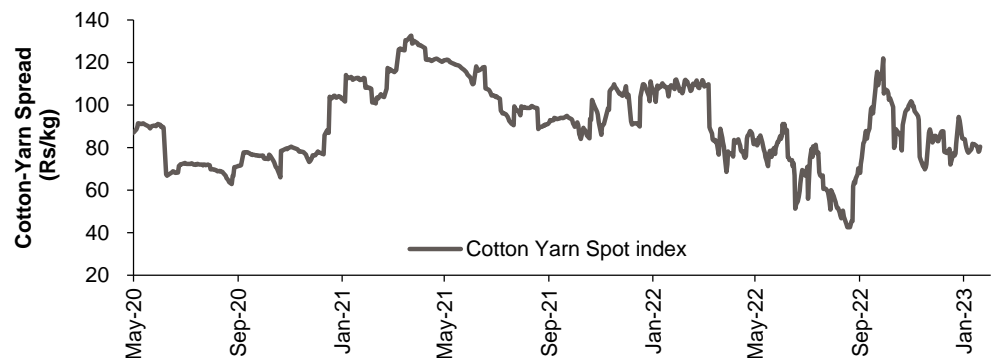
Source: Company, Emkay Research

**Exhibit 4: YTD significant sales in the fabric segment**



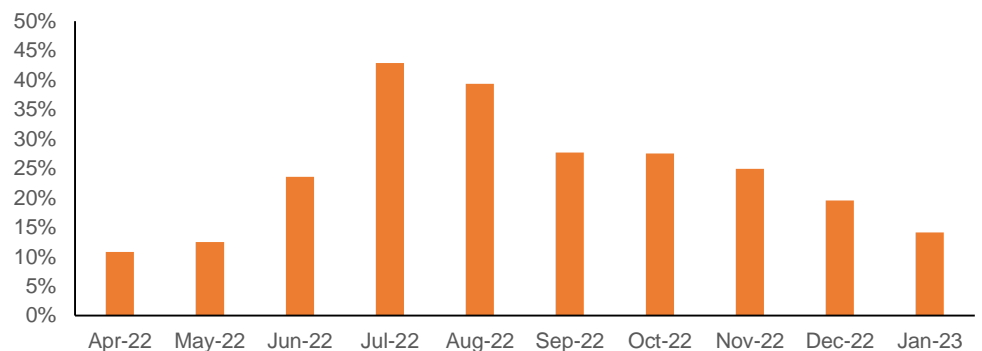
Source: Company, Emkay Research

**Exhibit 5: Cotton yarn spread coming back to normal levels**



Source: Industry, Emkay Research

**Exhibit 6: Reducing premium of Indian cotton prices over international prices**



Source: Industry, Emkay Research

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**Exhibit 7: Change in Estimates**

Y/E, March (Rs. mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	85,365	94,769	11%	86,369	82,450	-5%	90,230	85,731	-5%
EBITDA	15,304	12,637	-17%	17,096	15,349	-10%	18,873	17,733	-6%
EBITDAM (%)	17.9%	13.3%	459 bps	19.8%	18.6%	118 bps	20.9%	20.7%	23 bps
APAT	8,698	7,389	-15%	9,877	9,193	-7%	11,270	11,029	-2%
EPS (Rs)	30.1	25.6	-15%	34.2	31.8	-7%	39.0	38.2	-2%

Source: Emkay Research

**Exhibit 8: Quarterly Results**

Rs mn	Q1FY22	Q2FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	YoY (%)	QoQ (%)	YTD FY22	YTD FY23	YoY (%)
Revenue	18,740	23,067	25,209	26,420	27,310	23,875	22,939	-9.01%	-3.92%	67,015	74,124	10.6
Expenditure	(14,199)	(16,576)	(19,106)	(21,353)	(22,201)	(20,383)	(21,269)	11.32%	4.35%	-49,882	-63,853	28.0
As a % of sales	-75.8%	-71.9%	-75.8%	-80.8%	-81.3%	-85.4%	-92.7%			-74.4%	-86.1%	
Employee Cost	(1,559)	(1,689)	(1,860)	(1,863)	(1,863)	(1,875)	(1,850)	11.02%	0.64%	-5,108	-5,589	9.4
As a % of sales	-8.3%	-7.3%	-7.4%	-7.1%	-6.8%	-7.9%	-8.1%			-7.6%	-7.5%	
Other expenditure	(3,932)	(4,516)	(5,387)	(6,042)	(5,680)	(4,982)	(4,868)	10.32%	-12.29%	-13,835	-15,529	12.2
As a % of sales	-21.0%	-19.6%	-21.4%	-22.9%	-20.8%	-20.9%	-21.2%			-20.6%	-20.9%	
EBITDA	4,541	6,490	6,103	5,066	5,109	3,492	1,670	-46.19%	-31.64%	17,134	10,271	-40.1
Depreciation	(878)	(880)	(910)	(909)	(918)	(974)	(972)	10.61%	6.10%	-2,669	-2,864	7.3
EBIT	3,663	5,610	5,193	4,158	4,191	2,519	697	-55.11%	-39.91%	14,465	7,407	-48.8
Other Income	427	645	2,311	481	223	294	677	-54.44%	31.70%	3,382	1,193	-64.7
Interest	(256)	(234)	(212)	(288)	(262)	(248)	(206)	6.12%	-5.24%	-702	-715	1.9
PBT	3,834	6,021	7,291	4,351	4,152	2,564	1,168	-57.41%	-38.24%	17,146	7,885	-54.0
Total Tax	936	1,483	1,451	1,124	1,019	616	263	-58.48%	-39.57%	3,870	1,897	-51.0
Adjusted PAT	2,898	4,538	5,840	3,227	3,134	1,949	906	-57.06%	-37.81%	13,276	5,988	-54.9
Extraordinary items	-	-	-	-	-	-	-			0	0	
Reported PAT	2,898	4,538	5,840	3,227	3,134	1,949	906	-57.06%	-37.81%	13,276	5,988	-54.9
Adjusted EPS (Rs)	10.1	15.7	20.2	11.2	10.8	6.7	3.1	-57.16%	-37.81%	46	21	-55.0

Source: Company

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>59,262</b>	<b>93,861</b>	<b>94,769</b>	<b>82,450</b>	<b>85,731</b>
<b>Expenditure</b>	<b>51,592</b>	<b>71,240</b>	<b>82,132</b>	<b>67,101</b>	<b>67,999</b>
<b>EBITDA</b>	<b>7,671</b>	<b>22,621</b>	<b>12,637</b>	<b>15,349</b>	<b>17,733</b>
Depreciation	3,584	3,621	3,836	4,264	4,398
<b>EBIT</b>	<b>4,087</b>	<b>19,000</b>	<b>8,801</b>	<b>11,084</b>	<b>13,334</b>
Other Income	1,882	3,853	1,873	1,967	2,065
Interest expenses	1,128	995	921	794	694
<b>PBT</b>	<b>4,841</b>	<b>21,858</b>	<b>9,753</b>	<b>12,257</b>	<b>14,705</b>
Tax	1,173	5,083	2,364	3,064	3,676
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>3,667</b>	<b>16,774</b>	<b>7,389</b>	<b>9,193</b>	<b>11,029</b>
<b>Adjusted PAT</b>	<b>3,667</b>	<b>16,774</b>	<b>7,389</b>	<b>9,193</b>	<b>11,029</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	576	578	578	578	578
Reserves & surplus	60,810	74,814	80,725	88,079	96,902
<b>Net worth</b>	<b>61,386</b>	<b>75,391</b>	<b>81,303</b>	<b>88,657</b>	<b>97,480</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>21,318</b>	<b>19,803</b>	<b>17,152</b>	<b>13,449</b>	<b>11,761</b>
Net deferred tax liability	2,490	2,516	2,516	2,516	2,516
<b>Total Liabilities</b>	<b>85,194</b>	<b>97,711</b>	<b>1,00,971</b>	<b>1,04,622</b>	<b>1,11,757</b>
<b>Net block</b>	<b>34,680</b>	<b>34,357</b>	<b>37,521</b>	<b>35,256</b>	<b>32,858</b>
<b>Investment</b>	<b>8,132</b>	<b>14,579</b>	<b>12,980</b>	<b>22,980</b>	<b>27,980</b>
<b>Current Assets</b>	<b>47,047</b>	<b>54,413</b>	<b>57,227</b>	<b>52,278</b>	<b>57,125</b>
Cash & bank balance	713	1,160	1,640	2,533	6,691
Other Current Assets	8,716	12,051	10,846	11,063	11,284
<b>Current liabilities &amp; Provision</b>	<b>5,444</b>	<b>8,050</b>	<b>7,759</b>	<b>7,093</b>	<b>7,209</b>
<b>Net current assets</b>	<b>41,603</b>	<b>46,363</b>	<b>49,468</b>	<b>45,184</b>	<b>49,917</b>
Misc. exp	2	2	2	2	2
<b>Total Assets</b>	<b>85,194</b>	<b>97,711</b>	<b>1,00,971</b>	<b>1,04,623</b>	<b>1,11,757</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>2,959</b>	<b>18,005</b>	<b>7,880</b>	<b>10,290</b>	<b>12,640</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(5,151)	(4,287)	(2,624)	5,177	(575)
<b>Operating Cashflow</b>	<b>2,520</b>	<b>18,334</b>	<b>10,012</b>	<b>20,525</b>	<b>17,158</b>
Capital expenditure	(2,836)	(4,931)	(5,590)	(2,200)	(1,800)
<b>Free Cash Flow</b>	<b>(316)</b>	<b>13,403</b>	<b>4,422</b>	<b>18,325</b>	<b>15,358</b>
Investments	(2,550)	(6,447)	1,599	(10,000)	(5,000)
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(3,504)</b>	<b>(7,525)</b>	<b>(2,118)</b>	<b>(10,233)</b>	<b>(4,735)</b>
Equity Capital Raised	0	2	0	0	0
Loans Taken / (Repaid)	1,427	(1,515)	(2,652)	(3,703)	(1,688)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(119)	(7,854)	(3,841)	(4,902)	(5,883)
<b>Financing Cashflow</b>	<b>180</b>	<b>(10,362)</b>	<b>(7,413)</b>	<b>(9,399)</b>	<b>(8,266)</b>
<b>Net chg in cash</b>	<b>(804)</b>	<b>446</b>	<b>481</b>	<b>893</b>	<b>4,158</b>
Opening cash position	1,517	713	1,160	1,640	2,533
<b>Closing cash position</b>	<b>713</b>	<b>1,160</b>	<b>1,641</b>	<b>2,533</b>	<b>6,691</b>

Source: Company, Emkay Research

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**Key Ratios**

<b>Profitability (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBITDA Margin	12.9	24.1	13.3	18.6	20.7
EBIT Margin	6.9	20.2	9.3	13.4	15.6
Effective Tax Rate	24.2	23.3	24.2	25.0	25.0
Net Margin	6.2	17.9	7.8	11.1	12.9
ROCE	7.3	25.0	10.7	12.7	14.2
ROE	6.2	24.5	9.4	10.8	11.9
RoIC	5.6	24.5	10.7	13.6	17.3

<b>Per Share Data (Rs)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EPS	13.0	59.0	26.0	32.3	38.8
CEPS	25.6	71.8	39.5	47.4	54.3
BVPS	217.1	265.3	286.1	311.9	343.0
DPS	0.0	0.0	0.0	0.0	0.0

<b>Valuations (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
PER	22.2	4.9	11.1	8.9	7.4
P/CEPS	11.8	4.2	7.7	6.4	5.6
P/BV	1.3	1.1	1.0	0.9	0.8
EV / Sales	1.7	1.0	1.0	1.0	0.8
EV / EBITDA	12.9	4.2	7.3	5.1	3.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

<b>Gearing Ratio (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Debt/ Equity	0.3	0.2	0.1	0.0	(0.2)
Net Debt/EBIDTA	2.3	0.6	0.8	(0.3)	(0.8)
Working Cap Cycle (days)	251.8	175.8	184.2	188.8	184.0

<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Revenue	(6.3)	58.4	1.0	(13.0)	4.0
EBITDA	(13.1)	194.9	(44.1)	21.5	15.5
EBIT	(27.5)	364.9	(53.7)	26.0	20.3
PAT	(32.8)	357.4	(55.9)	24.4	20.0

<b>Quarterly (Rs mn)</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>	<b>Q3FY23</b>
Revenue	25,209	26,420	27,310	23,875	22,939
EBITDA	6,103	5,066	5,109	3,492	1,670
<b>EBITDA Margin (%)</b>	<b>24.2</b>	<b>19.2</b>	<b>18.7</b>	<b>14.6</b>	<b>7.3</b>
PAT	5,840	3,227	3,134	1,949	906
<b>EPS (Rs)</b>	<b>20.5</b>	<b>11.4</b>	<b>11.0</b>	<b>6.9</b>	<b>3.2</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>	<b>Dec-22</b>
Promoters	63.2	62.9	62.9	63.8	63.9
FIs	6.3	8.3	7.5	7.0	7.1
DIs	18.8	16.5	16.6	16.7	16.9
Public and Others	11.7	12.3	13.0	12.5	12.2

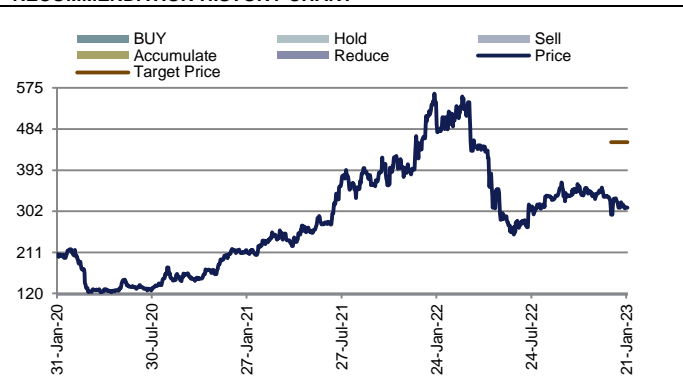
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
23-Dec-22	294	455	12m	Buy	Abhineet Anand

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 30 Jan 2023 01:31:46 (SGT)

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