

For Q4FY23, Vardhman reported 6% QoQ sales growth, owing to better utilization. EBITDAM came in at ~11%, leading to 66% QoQ growth in PAT (down 53% YoY). Sales during the quarter witnessed an uptick, while normalized margin still remains elusive as India cotton is at a 10-15% premium to international cotton. Management stated that demand from China is growing. Given low cotton-yarn spread, management presently has refrained from any near-term capacity addition (this year, 1lakh spindles have already been added), though the same will be relooked if margin improves. We maintain our **BUY** rating on the stock with an unchanged TP of Rs440. During the last two years, the company has registered extreme margins (high of 28% and low of 7%); though in a normalized scenario, 16-20% is realistic.

Vardhman Textiles: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	59,262	93,861	98,408	89,466	91,170
EBITDA	7,671	22,621	12,851	14,119	17,403
Adj. PAT	3,667	16,774	7,491	8,083	10,602
Adj. EPS (Rs)	13.0	59.0	26.4	28.4	37.3
EBITDA margin (%)	12.9	24.1	13.1	15.8	19.1
EBITDA growth (%)	(13.1)	194.9	(43.2)	9.9	23.3
Adj. EPS growth (%)	(32.8)	355.1	(55.3)	7.9	31.2
RoE (%)	6.2	24.5	9.5	9.4	11.3
RoIC (%)	5.6	24.5	11.6	13.4	18.6
P/E (x)	24.4	5.4	12.0	11.1	8.5
EV/EBITDA (x)	14.0	4.6	7.2	5.6	4.0
P/B (x)	1.5	1.2	1.1	1.0	0.9
FCFF yield (%)	(0.3)	12.9	16.0	17.7	22.3

Source: Company, Emkay Research

Improved sales on account of better utilization

Higher utilization (spinning is working almost at full capacity) led to sales of Rs24.3bn during the quarter, registering a sequential improvement. During the year, the company had added 1lakh spindles on a base of ~12lakh spindles.

Margin improvement remains key

EBITDA margin improved to ~11% in Q4FY23 in comparison to 7% in Q3FY23. While cotton-yarn spreads have remained almost flat in the last two quarters, lower cotton price has aided in these margins. Although domestic cotton prices have corrected to Rs60,000-65,000/bale, Indian spinners are not at the same level playing field in the international market compared to their international peers due to a 10-15% premium for domestic cotton. Cotton arrivals during the season have been slow. Over the long term, Vardhman has had an average margin of 16-20%.

Expansion

Management has maintained its position that no new capacity will be added in the near future until the price of cotton in India remains at a double-digit premium to international cotton, as this puts India's spinners at a competitive disadvantage to players in other regions. The company might make an aggressive addition (2.5-3.0 lakh spindles) if this returns to normal levels and demand increases.

Valuation and Outlook

We roll forward our valuation to Mar-24 and maintain our TP of Rs440, based on 12x its FY25 EPS of Rs37. We have assumed a 15.8%/19% margin for FY24E/FY25E vs. 13.1% margin in FY23E. We believe strong spinning utilization (industry at 90%) and improvement in the home textile market demonstrate that demand is increasing, but not as per previous levels. Over the medium term, we expect better demand and a lower price differential between domestic and international cotton to ensure better margins.

Target Price – 12M	Mar-24
Change in TP (%)	0
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	38.9
CMP (09-May-23) (Rs)	317.0

Stock Data	Ticker
52-week High (Rs)	380
52-week Low (Rs)	246
Shares outstanding (mn)	289.1
Market-cap (Rs bn)	92
Market-cap (USD mn)	1,117
Net-debt, FY24E (Rs mn)	-10,905

ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	75.4
ADTV-3M (USD mn)	0.9
Free float (%)	-
Nifty-50	18,266
INR/USD	82.0

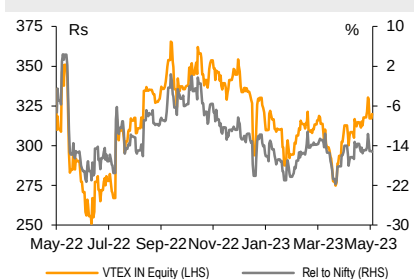
Shareholding, Mar-23

Promoters (%)	63.9
FPIs/MFs (%)	6.9/17.0

Price Performance

(%)	1M	3M	12M
Absolute	1.3	5.2	(10.9)
Rel. to Nifty	(2.4)	3.1	(20.5)

1-Year share price trend (Rs)



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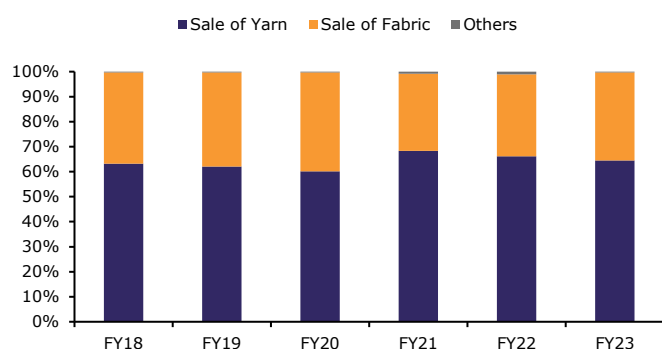
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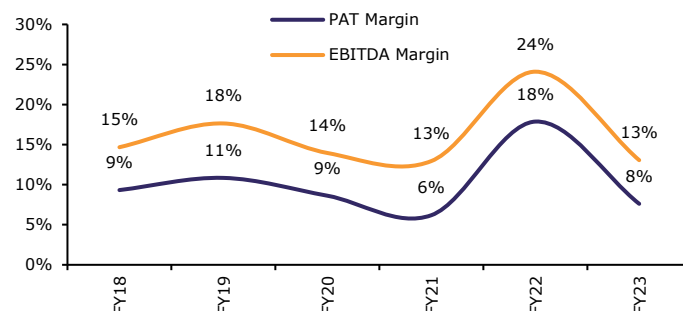
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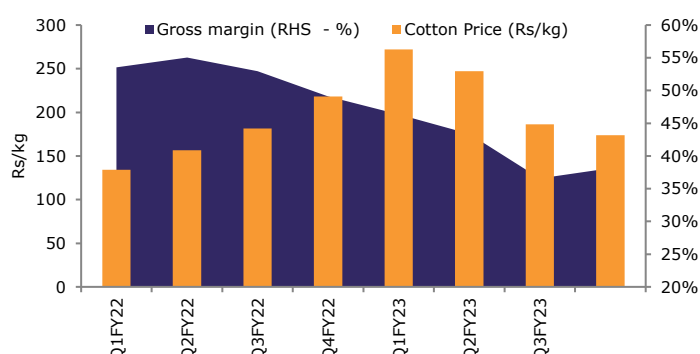
Story in Charts

Exhibit 1: Segment-wise annual sales


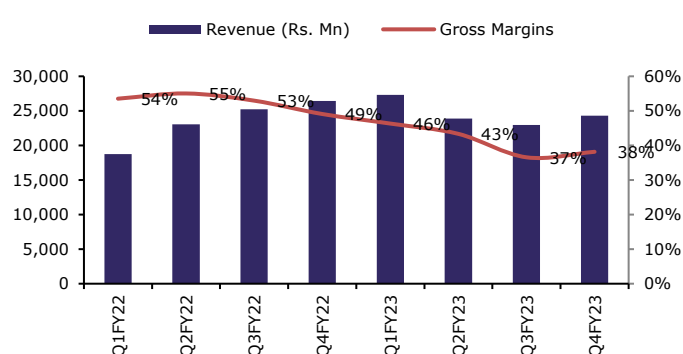
Source: Company, Emkay Research

Exhibit 2: PAT and EBITDA margins


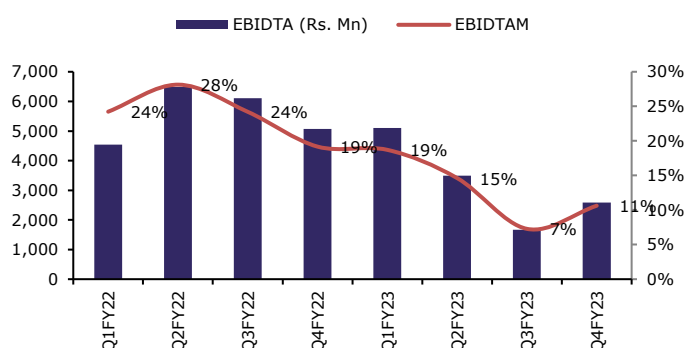
Source: Company, Emkay Research

Exhibit 3: Gross margin recovering and cotton price falling


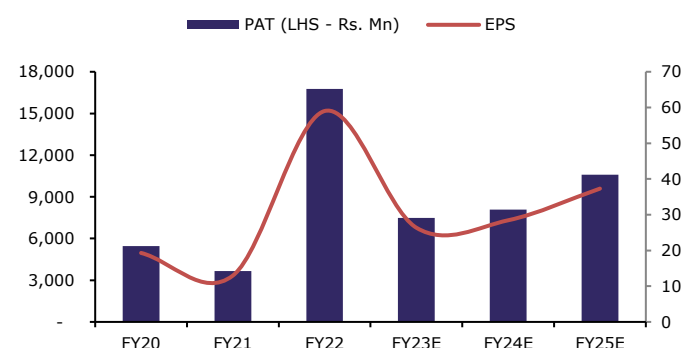
Source: Company, Emkay Research

Exhibit 4: Revenue and gross margins


Source: Company, Emkay Research

Exhibit 5: EBITDA and EBITDAM for the quarters


Source: Company, Emkay Research

Exhibit 6: PAT and EPS (Rs)


Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q4FY23)

(Rs mn)	Actual	Estimates		% Variation	
		Emkay	Consensus	Emkay	Consensus
Sales	24,284	20,645	25,413	18%	-4%
EBITDA	2,581	2,366	2,785	9%	-7%
EBITDA margin	10.6%	11.5%	11.0%	-83 bps	50 bps
PAT	1,504	1,401	1,545	7%	-3%

Source: Company, Emkay Research

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Exhibit 8: Summary of quarterly and annual financials

(Rs mn)	Q1FY22	Q2FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	YoY (%)	QoQ (%)	FY22	FY23	YoY (%)
Revenue	18,740	23,067	25,209	26,420	27,310	23,875	22,939	24,284	-8.1%	5.8%	93,435	98,408	5.3
Expenditure	(14,199)	(16,576)	(19,106)	(21,353)	(22,201)	(20,383)	(21,269)	(21,703)	1.6%		-71,235	-85,556	20.1
As a % of sales	-75.8%	-71.9%	-75.8%	-80.8%	-81.3%	-85.4%	-92.7%	-89.4%			-76.2%	-86.9%	
Employee Cost	(1,559)	(1,689)	(1,860)	(1,863)	(1,863)	(1,875)	(1,850)	(1,911)	2.6%		-6,971	-7,500	7.6
As a % of sales	-8.3%	-7.3%	-7.4%	-7.1%	-6.8%	-7.9%	-8.1%	-7.9%			-7.5%	-7.6%	
Other expenditure	(3,932)	(4,516)	(5,387)	(6,042)	(5,680)	(4,982)	(4,868)	(4,774)	-21.0%		-19,877	-20,303	2.1
As a % of sales	-21.0%	-19.6%	-21.4%	-22.9%	-20.8%	-20.9%	-21.2%	-19.7%			-21.3%	-20.6%	
EBITDA	4,541	6,490	6,103	5,066	5,109	3,492	1,670	2,581	-49.1%	54.6%	22,200	12,852	-42.1
Depreciation	(878)	(880)	(910)	(909)	(918)	(974)	(972)	(1,026)	12.9%		-3,577	-3,890	8.7
EBIT	3,663	5,610	5,193	4,158	4,191	2,519	697	1,556	-62.6%		18,623	8,962	-51.9
Other Income	427	645	2,311	481	223	294	677	735	52.7%		3,863	1,928	-50.1
Interest	(256)	(234)	(212)	(288)	(262)	(248)	(206)	(303)	5.2%		-990	-1,019	2.9
PBT	3,834	6,021	7,291	4,351	4,152	2,564	1,168	1,987	-54.3%	70.1%	21,496	9,872	-54.1
Total Tax	936	1,483	1,451	1,124	1,019	616	263	483	-57.0%		4,993	2,380	-52.3
Adjusted PAT	2,898	4,538	5,840	3,227	3,134	1,949	906	1,504	-53.4%	66.1%	16,503	7,492	-54.6
Extraordinary items	-	-	-	-	-	-	-	-			0	0	
Reported PAT	2,898	4,538	5,840	3,227	3,134	1,949	906	1,504	-53.4%		16,503	7,492	-54.6
Adjusted EPS (Rs)	10.1	15.7	20.2	11.2	10.8	6.7	3.1	5.2	-53.4%	66.1%	57	26	-54.7

Margins (%)									(bps)	(bps)			(bps)
EBIDTA	24.23	28.14	24.21	19.18	18.71	14.63	7.28	10.63	-855	335	23.8	13.1	-1070
EBIT	19.5	24.3	20.6	15.7	15.3	10.5	3.0	6.4	-933	337	19.9	9.1	-1082
EBT	20.5	26.1	28.9	16.5	15.2	10.7	5.1	8.2	-829	309	23.0	10.0	-1298
APAT	15.5	19.7	23.2	12.2	11.5	8.2	3.9	6.2	-602	224	17.7	7.6	-1005
Effective Tax rate	24.4	24.6	19.9	25.8	24.5	24.0	22.5	24.3	-153	183	23.2	24.1	88

Source: Company, Emkay Research

Exhibit 9: Change in estimates

Y/E, March (Rs mn)	FY24E			FY25E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	82,450	89,466	9%	85,731	91,170	6%
EBITDA	15,349	14,119	-8%	17,733	17,403	-2%
EBITDAM (%)	18.6%	15.8%	283 bps	20.7%	19.1%	160 bps
APAT	9,193	8,083	-12%	11,029	10,602	-4%
EPS (Rs)	31.8	28.0	-12%	38.2	36.7	-4%

Source: Company, Emkay Research

Vardhman Textiles : Standalone Financials and Valuations

Profit & Loss					
Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	59,262	93,861	98,408	89,466	91,170
Revenue growth (%)	(6.3)	58.4	4.8	(9.1)	1.9
EBITDA	7,671	22,621	12,851	14,119	17,403
EBITDA growth (%)	(13.1)	194.9	(43.2)	9.9	23.3
Depreciation & Amortization	3,584	3,621	3,890	4,354	4,488
EBIT	4,087	19,000	8,961	9,765	12,914
EBIT growth (%)	(27.5)	364.9	(52.8)	9.0	32.3
Other operating income	0	0	0	0	0
Other income	1,882	3,853	1,928	2,024	2,126
Financial expense	1,128	995	1,019	1,012	904
PBT	4,841	21,858	9,870	10,778	14,136
Extraordinary items	0	0	0	0	0
Taxes	1,173	5,083	2,380	2,694	3,534
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	3,667	16,774	7,491	8,083	10,602
PAT growth (%)	(32.8)	357.4	(55.3)	7.9	31.2
Adjusted PAT	3,667	16,774	7,491	8,083	10,602
Diluted EPS (Rs)	13.0	59.0	26.4	28.4	37.3
Diluted EPS growth (%)	(32.8)	355.1	(55.3)	7.9	31.2
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	12.9	24.1	13.1	15.8	19.1
EBIT margin (%)	6.9	20.2	9.1	10.9	14.2
Effective tax rate (%)	24.2	23.3	24.1	25.0	25.0
NOPLAT (pre-IndAS)	(950)	(4,229)	(2,071)	(2,344)	(3,099)
Shares outstanding (mn)	282.8	284.2	284.2	284.2	284.2

Source: Company, Emkay Research

Cash flows					
Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	4,841	21,858	9,870	10,778	14,136
Others (non-cash items)	0	0	0	0	0
Taxes paid	0	0	0	0	0
Change in NWC	(5,151)	(4,288)	8,421	2,654	(203)
Operating cash flow	2,520	18,334	21,272	16,773	17,200
Capital expenditure	(2,835)	(4,931)	(6,398)	(2,729)	(1,800)
Acquisition of business	639	(4,700)	(2,610)	0	0
Interest & dividend income	263	1,929	1,929	1,929	1,929
Investing cash flow	(3,504)	(7,525)	(12,357)	(10,705)	(4,674)
Equity raised/(repaid)	0	2	0	0	0
Debt raised/(repaid)	1,427	(1,515)	(3,032)	(1,627)	(1,608)
Payment of lease liabilities	23	14	0	0	0
Interest paid	(1,128)	(995)	(1,019)	(1,012)	(904)
Dividend paid (incl tax)	0	0	0	0	0
Others	(119)	(7,854)	(2,322)	(4,386)	(5,353)
Financing cash flow	180	(10,362)	(6,372)	(7,025)	(7,865)
Net chg in Cash	(804)	446	2,543	(956)	4,660
OCF	2,520	18,334	21,272	16,773	17,200
Adj. OCF (w/o NWC chg.)	(2,631)	14,046	29,693	19,427	16,997
FCFF	(315)	13,403	14,874	14,044	15,400
FCFE	(1,180)	14,337	15,784	14,961	16,424
OCF/EBITDA (%)	32.9	81.0	165.5	118.8	98.8
FCFE/PAT (%)	(32.2)	85.5	210.7	185.1	154.9
FCFF/NOPLAT (%)	33.2	(317.0)	(718.2)	(599.2)	(496.8)

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	576	578	578	578	578
Reserves & Surplus	60,810	74,814	82,362	88,828	97,310
Net worth	61,386	75,391	82,939	89,406	97,888
Minority interests	0	0	0	0	0
Deferred tax liability (net)	2,425	2,298	2,428	2,428	2,428
Total debt	21,320	19,805	16,773	15,146	13,537
Total liabilities & equity	85,130	97,494	102,140	106,980	113,853
Net tangible fixed assets	34,575	34,258	38,708	36,353	33,865
Net intangible assets	18	14	14	14	14
Net ROU assets	86	85	84	84	84
Capital WIP	778	2,410	471	1,200	1,000
Goodwill	0	0	0	0	0
Investments [JV/Associates]	4,943	9,643	12,253	12,253	12,253
Cash & equivalents	3,902	6,095	13,915	23,033	32,391
Current assets (ex-cash)	46,334	53,253	43,164	40,164	40,331
Current Liab. & Prov.	5,508	8,267	6,468	6,122	6,086
NWC (ex-cash)	40,826	44,987	36,696	34,042	34,245
Total assets	85,130	97,494	102,141	106,980	113,853
Net debt	17,418	13,709	2,858	(10,905)	(21,159)
Capital employed	85,129	97,492	102,139	106,978	113,851
Invested capital	75,506	79,344	75,501	70,493	68,207
BVPS (Rs)	217.1	265.3	291.8	314.6	344.4
Net Debt/Equity (x)	0.3	0.2	0.0	(0.1)	(0.2)
Net Debt/EBITDA (x)	2.3	0.6	0.2	(0.8)	(1.2)
Interest coverage (x)	0.2	0.0	0.1	0.1	0.1
RoCE (%)	7.3	25.0	10.9	11.3	13.6

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	24.4	5.4	12.0	11.1	8.5
P/CE(x)	12.4	4.4	7.9	7.2	6.0
P/B (x)	1.5	1.2	1.1	1.0	0.9
EV/Sales (x)	1.8	1.1	0.9	0.9	0.8
EV/EBITDA (x)	14.0	4.6	7.2	5.6	4.0
EV/EBIT(x)	26.2	5.5	10.4	8.1	5.3
EV/IC (x)	1.4	1.3	1.2	1.1	1.0
FCFF yield (%)	(0.3)	12.9	16.0	17.7	22.3
FCFE yield (%)	(1.3)	15.9	17.5	16.6	18.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	6.2	17.9	7.6	9.0	11.6
Total asset turnover (x)	0.7	1.0	1.0	0.9	0.8
Assets/Equity (x)	1.4	1.3	1.3	1.2	1.2
RoE (%)	6.2	24.5	9.5	9.4	11.3
DuPont-RoIC					
NOPLAT margin (%)	(1.6)	(4.5)	(2.1)	(2.6)	(3.4)
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	5.6	24.5	11.6	13.4	18.6
Operating metrics					
Core NWC days	251.5	174.9	136.1	138.9	137.1
Total NWC days	251.5	174.9	136.1	138.9	137.1
Fixed asset turnover	1.2	1.7	1.6	1.4	1.4
Opex-to-revenue (%)	33.8	29.0	28.3	30.7	28.8

Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
21-Feb-23	314	440	Buy	Abhineet Anand
29-Jan-23	288	440	Buy	Abhineet Anand
23-Dec-22	294	455	Buy	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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