

Margin recovery critical for improved performance...

Vardhman Textiles reported a recovery on the revenue front with revenues in Q2FY21 declining YoY marginally by 2.3% to ₹ 1625 crore. However, gross margins fell 940 bps YoY to 38.5%, which led EBITDA margin to decline 612 bps YoY to 8.9% in spite of 267 bps reduction in power & fuel cost. EBITDA fell 42% YoY to ₹ 144.7 crore. EBITDA was impacted by hedging loss on cotton derivative contracts to the tune of ₹ 26 crore. Consequently, PAT declined 49% to ₹ 61.6 crore.

Revival in yarn volumes though realisations remain muted

The company has seen a revival in demand for yarn, particularly in the international markets. However, realisations have been lower. Vardhman gradually increased its yarn capacity utilisation levels and is currently operating at close to 100% utilisation in the yarn segment. Yarn demand has been supported by a recovery in demand from Asian countries.

Woven fabric demand continues to remain laggard

Owing to work from home culture across the globe, fabric demand for formal wear (woven fabric) has been negatively impacted. Demand for fabric in domestic, exports market continue to be muted compared to normal scenario with a gradual recovery as globally there has been a reduction in discretionary purchases by consumers. Also, channel inventory being high, the new order flow is lower. VTL's fabric division is currently operating at a monthly utilisation of ~60-65%, which is negatively impacting the margins.

Shift in Vardhman's cotton procurement strategy

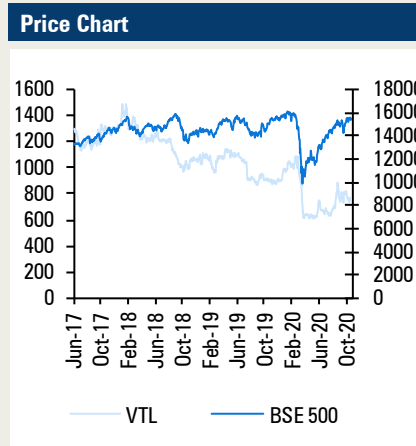
Vardhman traditionally buys cotton at the start of cotton season to get good quality cotton at reasonable prices. Currently, the company has high cost inventory of cotton owing to purchase made at start of last cotton season at significantly higher prices than those currently prevailing in domestic market. The high cost inventory would be fully utilised by mid Q3FY21. The management indicated that in the next cotton season, the management will be buying in batches gradually rather than stocking up for the entire year.

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 the 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. Margins in the textile business have been lower. An improvement in the same is critical for enhancement of financial performance. We maintain **HOLD** rating with a target price of ₹ 740 (~6x FY23E earnings).



Particulars	Amount
Market Capitalisation (₹ Crore)	4,266
Debt (FY20) (₹ Crore)	2,003
Cash (FY20) (₹ Crore)	279.9
EV (₹ Crore)	5,989.0
52 week H/L	1102 / 592
Equity Capital (₹ Crore)	56.5
Face Value (₹)	10



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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	6,877.9	6,735.0	5,949.8	6,732.0	7,192.5	2%
EBITDA	1,193.7	937.3	600.1	1,018.5	1,199.9	9%
PAT	724.6	578.8	225.5	557.8	689.9	
EPS (₹)	129.4	102.2	41.2	98.7	121.6	
P/E (x)	5.8	7.4	18.3	7.7	6.2	
EV/EBITDA (x)	5.2	6.4	9.1	5.0	4.0	
RoCE (%)	12.9	7.7	3.1	8.0	9.6	
RoE (%)	13.1	9.5	3.6	8.0	9.1	

Financial summary

Exhibit 1: Profit & Loss Statement (₹ crore)				
(Year-end March)	FY20P	FY21E	FY22E	FY23E
Total operating Income	6,735.0	5,949.8	6,732.0	7,192.5
Growth (%)	-2.1	-11.7	13.1	6.8
Raw Material Expenses	3,555.0	3,297.0	3,448.2	3,583.1
Employee Expenses	595.9	565.2	599.2	632.9
Mfg, Admin & selling Exps	1,646.8	1,487.4	1,666.2	1,776.5
Total Operating Expenditure	5,797.7	5,349.6	5,713.6	5,992.6
EBITDA	937.4	600.1	1,018.5	1,199.9
Growth (%)	-21.5	-36.0	69.7	17.8
Depreciation	333.2	351.6	363.8	392.9
Interest	135.3	125.5	97.5	78.8
Other Income	174.5	178.5	188.5	194.2
Exceptional income	0.0	0.0	0.0	0.0
PBT	643.3	301.5	745.7	922.3
Total Tax	64.5	76.0	187.9	232.4
PAT	578.8	225.5	557.8	689.9
Minority Interest / Others	13.5	5.4	13.4	16.6
PAT (after minority interest)	577.5	232.9	557.8	687.4
Growth (%)	-21.0	-59.7	139.5	23.2
EPS (₹)	102.2	41.2	98.7	121.6

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)				
(Year-end March)	FY20P	FY21E	FY22E	FY23E
PAT	577.5	232.9	557.8	687.4
Add: Depreciation	333.2	351.6	363.8	392.9
(Inc)/dec in Current Assets	15.9	138.8	-25.2	-225.9
Inc/(dec) in CL and Provisions	-73.2	-51.8	-142.5	-45.6
Others	0.0	0.0	0.0	0.0
CF from operating activities	853.4	671.4	753.9	808.8
(Inc)/dec in Investments	200.8	-114.5	-125.9	-138.5
(Inc)/dec in Fixed Assets	-760.6	-254.0	-250.0	-300.0
(Inc)/dec in CWIP	132.0	41.6	30.0	-20.0
Others	-21.1	0.0	0.0	0.0
CF from investing activities	-448.9	-326.9	-345.9	-458.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	27.8	-393.6	-343.6	-228.6
Others	-194.9	188.3	-66.7	-81.2
CF from financing activities	-167.0	-205.3	-410.4	-309.8
Net Cash flow	237.6	139.2	-2.4	40.5
Opening Cash	42.3	279.9	419.1	416.7
Closing Cash	279.9	419.1	416.7	457.2

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)				
(Year-end March)	FY20P	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	56.5	56.5	56.5	56.5
Reserve and Surplus	5,991.4	6,403.6	6,877.2	7,462.1
Total Shareholders funds	6,047.9	6,460.1	6,933.7	7,518.7
Total Debt	2,003.1	1,609.5	1,265.8	1,037.2
Deferred Tax Liability	243.5	243.5	243.5	243.5
Other LT Liabilities	23.7	27.3	31.4	36.1
Minority Interest / Others	120.6	126.1	139.4	156.0
Total Liabilities	8,438.8	8,466.4	8,613.8	8,991.5
Assets				
Gross Block	8,058.2	8,312.2	8,562.2	8,862.2
Less: Accu Depreciation	4,429.8	4,781.3	5,145.1	5,538.0
Net Block	3,628.5	3,530.9	3,417.1	3,324.2
Capital WIP	141.6	100.0	70.0	90.0
Total Fixed Assets	3,770.1	3,630.9	3,487.1	3,414.2
Investments	1,144.9	1,259.4	1,385.4	1,523.9
Inventory	2,681.1	2,445.1	2,508.4	2,679.9
Debtors	821.0	815.0	774.6	827.6
Loans and Advances	4.3	17.8	20.2	21.6
Other Current Assets	525.4	615.0	615.0	615.0
Cash	279.9	419.1	416.7	457.2
Total Current Assets	4,311.6	4,312.1	4,334.9	4,601.3
Creditors	896.0	859.0	710.8	662.9
Provisions	18.8	3.9	9.7	12.0
Total Current Liabilities	914.8	862.9	720.5	674.9
Net Current Assets	3,396.9	3,449.1	3,614.4	3,926.4
Others Assets	126.9	126.9	126.9	126.9
Application of Funds	8,438.8	8,466.4	8,613.8	8,991.5

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios				
(Year-end March)	FY20P	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	102.2	41.2	98.7	121.6
Cash EPS	161.1	103.4	163.1	191.1
BV	1,070.0	1,143.0	1,226.8	1,330.3
DPS	0.0	0.0	14.9	18.1
Cash Per Share	49.5	74.2	73.7	80.9
Operating Ratios				
EBITDA Margin (%)	13.9	10.1	15.1	16.7
PBT Margin (%)	9.6	5.1	11.1	12.8
PAT Margin (%)	8.6	3.8	8.3	9.6
Inventory days	145.3	150.0	136.0	136.0
Debtor days	44.5	50.0	42.0	42.0
Creditor days	36.7	45.0	35.0	35.0
Return Ratios (%)				
RoE	9.5	3.6	8.0	9.1
RoCE	7.7	3.1	8.0	9.6
RoIC	9.3	4.0	10.3	12.4
Valuation Ratios (x)				
P/E	7.4	18.3	7.7	6.2
EV / EBITDA	6.4	9.1	5.0	4.0
EV / Net Sales	0.9	0.9	0.8	0.7
Market Cap / Sales	0.6	0.7	0.6	0.6
Price to Book Value	0.7	0.7	0.6	0.6
Solvency Ratios				
Debt/EBITDA	2.1	2.7	1.2	0.9
Debt / Equity	0.3	0.2	0.2	0.1
Current Ratio	4.8	5.0	6.1	6.9
Quick Ratio	1.8	2.2	2.6	2.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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