

## Operational performance inching towards normalcy...

Vardhman Textiles' (VTL) revenues for Q3FY21 fell 4% YoY to ₹ 1750 crore. Gross margin improvement of 340 bps YoY to 48.3% and lower power cost (down 120 bps YoY to 9.9%) enabled EBITDA margin expansion of 421 bps YoY to 15.8%. EBITDA was up 31% YoY at ₹ 276 crore. Consequently, PBT grew 31% YoY to ₹ 219 crore. However, PAT fell 13% to ₹ 175 crore owing to deferred tax adjustment in the base quarter.

## Yarn volume growth in positive zone, fabric volumes nearing normalcy

The yarn business (including internal transfer) volumes grew 3% YoY to 61178 metric tonnes while fabric business volumes showed signs of a pick-up in demand and recovered to 87% of pre-Covid levels (69% on Q2FY21). The company's grey fabric segment is operating at utilisation of 95% and the processed fabric has also recovered to ~85% utilisation level.

## Lower channel inventory aiding fabric segment demand

The fabric business has been witnessing a revival on the back of demand rebound from the retail & mill sector. Strong festive season coupled with wedding demand has led to lower channel inventory, leading to a revival of fabric demand. The fabric capacity utilisation is ~85% and the company is expecting the same to improve further in ensuing quarters.

## New capex to aid revenue growth

The management indicated that yarn demand was improving due to enhanced demand from China as Chinese exporters to US were keen on showing raw material sourcing from India and other destinations. VTL plans to expand its yarn capacity by ~1 lakh spindles with capex of ~₹ 700 crore. VTL indicated that the new capacity would be in Madhya Pradesh. The company expects to complete the project in the next 12 months.

## Valuation & Outlook

VTL's yarn business is witnessing strong demand while demand recovery for the fabric segment has picked up pace in Q3FY21. The management indicated that profitability in the yarn business has improved owing to higher yarn spreads, the impact of which could be visible in ensuing quarters. The yarn industry has also witnessed supply constraint owing to closure of ~6-7% of capacity due to stress faced by smaller players, which could benefit larger players like VTL. Vardhman is among the few textile companies that have been able to maintain a debt equity ratio below one despite continuous capacity addition. We expect VTL to capitalise on the emerging demand scenario owing to its strong balance sheet and long standing relationship with marquee clients. Improvement in margins on a sustainable basis is critical for enhancement of financial performance. We maintain **HOLD** rating with a revised target price of ₹ 1100 (7x FY23E earnings) (earlier TP: ₹ 740).



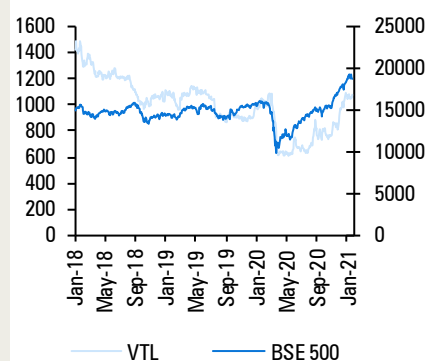
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	5,904
Debt (FY20) (₹ Crore)	2,003
Cash (FY20) (₹ Crore)	279.9
EV (₹ Crore)	7,627.5
52 week H/L	1165 / 592
Equity Capital (₹ Crore)	56.5
Face Value (₹)	10

### Key Risks

- Uncertainty in international trade owing to trade disputes and geo-political issues can subdue the financial performance
- Faster than expected revenue recovery can lead to higher than estimated revenue growth

### Price Chart



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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	6,877.9	6,735.0	5,970.0	6,732.0	7,360.0	3%
EBITDA	1,193.7	937.3	714.2	1,146.0	1,459.2	16%
PAT	724.6	578.8	311.1	653.2	886.4	
EPS (₹)	129.4	102.2	56.0	115.2	155.5	
P/E (x)	8.1	10.2	18.7	9.1	6.7	
EV/EBITDA (x)	6.6	8.1	9.8	6.2	4.6	
RoCE (%)	12.9	7.7	4.5	9.5	12.4	
RoE (%)	13.1	9.5	4.8	9.2	11.2	

## Financial summary

Exhibit 1: Profit & Loss Statement (₹ crore)				
(Year-end March)	FY20P	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>6,735.0</b>	<b>5,970.0</b>	<b>6,732.0</b>	<b>7,360.0</b>
Growth (%)	-2.1	-11.4	12.8	9.3
Raw Material Expenses	3,555.0	3,196.2	3,300.5	3,409.4
Employee Expenses	595.9	567.2	599.2	647.7
Mfg, Admin & selling Exps	1,646.8	1,492.5	1,686.4	1,843.7
Total Operating Expenditure	5,797.7	5,255.8	5,586.1	5,900.8
<b>EBITDA</b>	<b>937.4</b>	<b>714.2</b>	<b>1,146.0</b>	<b>1,459.2</b>
Growth (%)	-21.5	-23.8	60.5	27.3
Depreciation	333.2	351.6	363.8	392.9
Interest	135.3	125.8	97.5	80.1
Other Income	174.5	179.1	188.5	198.7
Exceptional income	0.0	0.0	0.0	0.0
PBT	643.3	415.9	873.2	1,185.0
Total Tax	64.5	104.8	220.1	298.6
PAT	578.8	311.1	653.2	886.4
Minority Interest / Others	13.5	7.5	15.7	21.3
<b>PAT (after minority interest)</b>	<b>577.5</b>	<b>316.4</b>	<b>650.9</b>	<b>879.1</b>
Growth (%)	-21.0	-45.2	105.7	35.1
<b>EPS (₹)</b>	<b>102.2</b>	<b>56.0</b>	<b>115.2</b>	<b>155.5</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)				
(Year-end March)	FY20P	FY21E	FY22E	FY23E
PAT	577.5	316.4	650.9	879.1
Add: Depreciation	333.2	351.6	363.8	392.9
(Inc)/dec in Current Assets	15.9	127.6	-14.1	-308.1
Inc/(dec) in CL and Provisions	-73.2	-62.7	-144.0	-46.3
Others	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>853.4</b>	<b>732.8</b>	<b>856.6</b>	<b>917.6</b>
(Inc)/dec in Investments	200.8	-114.5	-125.9	-138.5
(Inc)/dec in Fixed Assets	-760.6	-254.0	-700.0	-250.0
(Inc)/dec in CWIP	132.0	41.6	30.0	-20.0
Others	-21.1	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-448.9</b>	<b>-326.9</b>	<b>-795.9</b>	<b>-408.5</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	27.8	-390.2	-347.1	-211.8
Others	-194.9	190.4	-78.5	-105.0
<b>CF from financing activities</b>	<b>-167.0</b>	<b>-199.8</b>	<b>-425.6</b>	<b>-316.9</b>
Net Cash flow	237.6	206.1	-365.0	192.2
Opening Cash	42.3	279.9	486.0	121.1
<b>Closing Cash</b>	<b>279.9</b>	<b>486.0</b>	<b>121.1</b>	<b>313.2</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)				
(Year-end March)	FY20P	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	56.5	56.5	56.5	56.5
Reserve and Surplus	5,991.4	6,487.1	7,039.7	7,787.8
Total Shareholders funds	6,047.9	6,543.6	7,096.2	7,844.4
Total Debt	2,003.1	1,612.9	1,265.8	1,054.0
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	128.1	143.8	165.1
<b>Total Liabilities</b>	<b>8,438.8</b>	<b>8,555.4</b>	<b>8,780.7</b>	<b>9,343.0</b>
<b>Assets</b>				
Gross Block	8,058.2	8,312.2	9,012.2	9,262.2
Less: Accu Depreciation	4,429.8	4,781.3	5,145.1	5,538.0
Net Block	3,628.5	3,530.9	3,867.1	3,724.2
Capital WIP	141.6	100.0	70.0	90.0
Total Fixed Assets	3,770.1	3,630.9	3,937.1	3,814.2
Investments	1,144.9	1,259.4	1,385.4	1,523.9
Inventory	2,681.1	2,453.4	2,508.4	2,742.4
Debtors	821.0	817.8	774.6	846.9
Loans and Advances	4.3	17.9	20.2	22.1
Other Current Assets	525.4	615.0	615.0	615.0
Cash	279.9	486.0	121.1	313.2
Total Current Assets	4,311.6	4,390.2	4,039.3	4,539.6
Creditors	896.0	846.6	696.6	646.2
Provisions	18.8	5.4	11.4	15.4
Total Current Liabilities	914.8	852.0	708.0	661.7
Net Current Assets	3,396.9	3,538.2	3,331.3	3,877.9
Others Assets	126.9	126.9	126.9	126.9
<b>Application of Funds</b>	<b>8,438.8</b>	<b>8,555.4</b>	<b>8,780.7</b>	<b>9,343.0</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios				
(Year-end March)	FY20P	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	102.2	56.0	115.2	155.5
Cash EPS	161.1	118.2	179.5	225.1
BV	1,070.0	1,157.8	1,255.5	1,387.9
DPS	0.0	0.0	17.4	23.2
Cash Per Share	49.5	86.0	21.4	55.4
<b>Operating Ratios</b>				
EBITDA Margin (%)	13.9	12.0	17.0	19.8
PBT Margin (%)	9.6	7.0	13.0	16.1
PAT Margin (%)	8.6	5.2	9.7	12.0
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
<b>Return Ratios (%)</b>				
RoE	9.5	4.8	9.2	11.2
RoCE	7.7	4.5	9.5	12.4
RoIC	9.3	5.7	11.5	15.3
<b>Valuation Ratios (x)</b>				
P/E	10.2	18.7	9.1	6.7
EV / EBITDA	8.1	9.8	6.2	4.6
EV / Net Sales	1.1	1.2	1.0	0.9
Market Cap / Sales	0.9	1.0	0.9	0.8
Price to Book Value	1.0	0.9	0.8	0.8
<b>Solvency Ratios</b>				
Debt/EBITDA	2.1	2.3	1.1	0.7
Debt / Equity	0.3	0.2	0.2	0.1
Current Ratio	4.8	5.2	5.8	7.0
Quick Ratio	1.8	2.3	2.2	2.8

Source: Company, ICICI Direct Research

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