



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

Vardhman Textiles

11 May 2024

Healthy operating performance, in line with estimates

RESULT UPDATE

Sector: Textiles

Rating: BUY

CMP: Rs 437

Target Price: Rs 502

Stock Info

Sensex/Nifty	72,664/22,055
Bloomberg	VTEX IN
Equity shares (mn)	284
52-wk High/Low	Rs 476/ 313
Face value	Rs 2
M-Cap	Rs 123bn/USD 1.5bn
3-m Avg value	USD 2mn

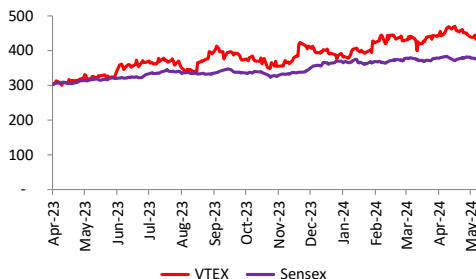
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net sales	95,047	1,02,617	1,12,266
EBITDA	9,732	14,698	20,156
PAT (adj.)	6,316	10,217	14,279
EPS (adj.) (Rs)	22.2	35.9	50.2
PE (x)	19.5	12.1	8.6
P/B (x)	1.4	1.2	1.1
EV/EBITDA (x)	14.4	9.5	6.7
RoE (%)	7.2	10.8	13.7
RoCE (%)	5.2	9.1	12.6
D/E (x)	0.2	0.2	0.1
OPM (%)	10.2	14.3	18.0
DPS (Rs)	4.0	6.9	9.6
Dividend Yield (%)	0.9	1.6	2.2

Shareholding Pattern (%)

	Mar-24	Dec-23	Sep-23
Promoter	64.1	64.1	64.1
- Pledged	-	-	-
FII	6.3	6.4	6.9
DII	16.5	16.8	16.7
Others	13.1	12.7	12.3

Stock Performance (1-year)



Vardhman Textiles' (VTEX) reported a strong 4Q, marked by healthy EBITDA (inline with estimates) and EBITDA margins surpassing estimates. 4Q revenue fell marginally by 1% YoY and grew 6% QoQ to Rs 24.6bn (8% lower than our estimate). Sales volumes in yarn/grey/processed fabric grew by 5%/20%/24% YoY, respectively, on improving demand momentum. Gross margin expanded 471bps YoY and 32bps QoQ to 43.2% (estimated at 43%) on soft raw material prices and inventory gains. EBITDA reported double-digit growth of 18% YoY and 26% QoQ to Rs 3.1bn, inline with our estimate. EBITDA margin expanded 199bps YoY and 205bps QoQ to 12.5% (above our estimate of 11.6%). Finance cost declined 6% YoY but increased 47% QoQ to Rs 285mn. Depreciation fell 7% YoY and 3% QoQ to Rs 968mn. Other income fell 11% YoY and 10% QoQ to Rs 672mn. Adjusted PAT (APAT) grew 26% YoY and 25% QoQ to Rs 2bn (in line). Consequently, APAT margin expanded 177bps YoY and 128bps QoQ to 8.2% (estimated at 7.5%). Management said demand for yarn and fabric in the domestic as well as export markets has improved over the last few quarters and expects the momentum to sustain. Normalization of channel inventory and supply chain are supporting the improving demand. To cater to the rising demand, management is strategically focused on enhancing and modernizing its existing capacities and operational efficiencies. In addition to the Rs2bn expansion announced in Feb 2024, it has planned a capex of Rs 20bn, which it expects to complete by FY26. We have factored in slight softness in cotton yarn prices and lowered our FY25E earnings by 5.5%, but raised FY26E EPS by 7%, as we expect margins to improve on the back of stable cotton prices, enhanced yarn capacities, better capacity utilisation in fabric and lower energy costs due to commissioning of green energy. Reiterating BUY with a target price of Rs 502 (Rs 469 earlier), based on 10x FY26E P/E (unchanged). Key risks: a) slower-than-anticipated demand recovery in India and the US, b) lower availability of cotton and c) lower realisations in yarn.

Yarn division – Volume uptick

4Q yarn sales volumes rose 5% YoY and 10% QoQ to 69,289MT on improved demand. Cotton prices in India currently hover at Rs 56,000-58,000/candy (equivalent to USD 86-88 cents), with international prices (New York Futures) ruling at USD 77-78 cents. Yarn prices have surged from USD 2.9-3 cents to USD 3-3.25 cents currently and if this trend persists, it will improve spreads. Management anticipates demand to gradually rise over the next 6-9 months, anticipating a superior cotton crop, stable cotton prices and improving utilization levels.

Fabric division –Volumes surge

Grey fabric sale volumes surged 20% YoY and 2% QoQ in 4Q to 55.4mn meters; processed fabric too surged 24% YoY but fell 3% QoQ to 41.7mn meters. Management has planned to de-bottleneck the operations in its fabric business at a capital outlay of ~Rs 1-1.5bn to enhance capacity and improve serviceability to customers.

Valuation - Maintain BUY

Management is optimistic on the demand scenario for the upcoming quarters and anticipates better margins with better spreads and improving capacity utilization levels. Its proposed investment of Rs 20bn should boost operating productivity, strengthen business synergies, provide it a competitive edge and meet the rising demand. It expects this capex to generate an asset turnover of 0.3-0.4x, with the benefits largely trickling to the bottom line. Going forward, management will be focusing on acquiring new customers and developing innovative fabric blends to offset any shortfall in demand. We reiterate BUY, with a revised target price of Rs 502 (Rs 469 earlier).

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Investors are advised to refer disclosures made at the end of the research report.

Key takeaways from management call

Demand: Management indicated that the worst for the textiles industry is over and expects yarn demand to gradually improve in the next 2-3 quarters, as demand for Indian yarn should increase with the upcoming FTAs and China+1 also playing out. Implementation of the 'China+1' policy, recent exemption of import duty on Extra Long Staple (ELS) cotton, introduction of Remission of Duties and Taxes on Exported Products (RoDTEP), and upcoming FTAs are anticipated to significantly propel growth in the Indian textiles industry.

Capacity utilization: The industry has been operating at 70-75% spinning capacity, which increased by 10-15% in the last six months. Margins are slated to improve once capacity utilization touches 80-90%; VTEX operates at nearly full capacity spinning.

Yarn exports: Indian yarn exports are currently within the normal range (pre-COVID levels) of 105-110 million kg per month, indicating stable export demand. However, global spinning utilization levels are subdued, resulting in margins getting squeezed.

4Q textile margins: Margins in the textiles segment improved to 10.8% (up 252bps YoY) due to fall in raw material costs, as cotton was available at the low price.

Foray into technical textiles: India currently has 80:20 product mix between cotton and man-made fabric, which presents significant growth potential to man-made products. Thus, VTEX is strategically venturing into technical textiles (TT). Phase 1 will operate at a capacity of 1.5mn mtrs/month, involving a capex of Rs 3 bn. The product mix will comprise 80% polyester and 20% nylon, catering to applications in activewear, sportswear, and various industrial sectors such as defense, raincoats, tents, etc. Its customer base would encompass both, new and existing clients like Decathlon. The company plans to procure filaments externally and establish in-house weaving and processing capabilities. Phase 2 will be initiated after Phase 1 is firmly established.

Asset turnover and margins for TT: Management has indicated an asset turn of 0.6-0.7x for Phase 1, in which it expects to incur a capex of Rs 3bn. However, it expects asset turn to improve to ~1x once it commences Phase 2. Management estimates 16-18% margins in the TT division.

Red sea transit: The impact is expected to be minimal, as VTEX exports most of its products within Asia, with a miniscule portion exported to Europe.

Capex: VTEX has announced a capex of ~Rs 20bn towards enhancing and modernizing existing capacities in the spinning and fabric businesses, and towards generating green power. It has proposed a) installing of 5.52k rotors and 17k spindles (totaling to about 50k equivalent spindles) at a capex of ~Rs 10bn, expected to be completed by April-May 2025, b) installing a new capacity in TT to produce 1.5mn mtrs of fabric/month at a capex of ~Rs 3bn, expected to be completed in 1-1.5 years, c) modernization schemes for yarn/fabric operations, d) upgrading the existing IT system, and e) generating green power through solar/ wind/ hybrid project (directly/ SPV mode), thereby enhancing its green power consumption from 2.5% currently to 25-30% in 1-1.5 years. For FY25, it has made a provision of Rs 3.5-4bn towards green power.

Debt: VTEX expect to finance its Rs 20bn capex by taking a long-term debt for 50-60% of the capex (Rs 10-12bn).

Change in estimates

We have raised our revenue estimates by 2%/6% for FY25/FY26E, respectively, to factor in better volumes and higher utilisation amid an improving demand environment. We have also reduced our FY25E EBITDA/PAT by 5.5% each, as we expect low cotton prices to keep yarn prices subdued. For FY26E, we have raised EBITDA margin by 25bps to 18% and EPS by 7%. We reiterate BUY rating, with a revised target price of Rs 502 (Rs 469 earlier) is based on 10x FY26E P/E (unchanged).

Key risks: Slower-than-anticipated demand recovery in India and the US, lower cotton availability and higher cotton prices.

Exhibit 1: Change in estimates

(Rs mn)	Old Estimates		Revised Estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY24E	FY25E
Net Sales	1,00,776	1,05,833	1,02,617	1,12,266	1.8	6.1
EBITDA	15,405	18,738	14,698	20,156	(4.6)	7.6
EBITDA Margin (%)	15.3	17.7	14.3	18.0	-96bp	25bp
Adjusted PAT	10,807	13,338	10,217	14,279	(5.5)	7.1
EPS (INR)	38.0	46.9	35.9	50.2	(5.5)	7.1
Target Price		469		502		7.1

Source: Company, Systematix Institutional Research

Exhibit 2: Quarterly financial statement

YE March (Rs mn)	4QFY24	4QFY23	YoY(%)	3QFY24	QoQ(%)	FY24	FY23	YoY(%)
Net Sales	24,594	24,856	(1.1)	23,295	5.6	95,047	1,01,375	(6.2)
Raw Materials	13,977	15,289	(8.6)	13,311	5.0	55,938	59,299	(5.7)
Staff cost	2,097	1,958	7.1	2,301	(8.9)	8,400	7,672	9.5
Other Expenses	5,439	4,990	9.0	5,241	3.8	20,977	12,396	69.2
Expenditure	21,512	22,236	(3.3)	20,853	3.2	85,315	79,367	7.5
% of Sales	87	89	(199.2)	90	-205bp	90	78	1,147bp
EBITDA	3,082	2,620	17.6	2,442	26.2	9,732	22,008	(55.8)
EBITDA Margins (%)	12.5	10.5	199.2	10.5	205bp	10.2	21.7	-1,147bp
Depreciation	968	1,039	(6.8)	994	(2.6)	4,046	3,944	2.6
Other Income (OI)	672	751	(10.6)	749	(10.4)	3,259	1,920	69.8
Finance Cost	285	304	(6.2)	194	47.2	1,023	1,022	0.1
PBT	2,500	2,028	23.3	2,004	24.8	7,923	10,194	(22.3)
Tax	619	512	21.1	497	24.8	1,982	2,552	(22.3)
Effective Tax Rate (%)	23	24	-79bp	23	-2bp	25	25	-1bp
Reported PAT	1,881	1,516	24.0	1,507	24.8	5,941	7,642	(22.3)
NPM (%)	7.6	6.1	155bp	6.5	118bp	6.3	7.5	-129bp
Share of profit from associates	140	82	70.4	111	26.0	427	406	5.2
Minority Interest	15	11	32.7	16	(8.0)	51	96	(46.7)
Adjusted PAT	2,006	1,587	26.4	1,602	25.2	6,316	7,952	(20.6)
No. of equity shares	284	284		284		284	284	
Adj. EPS (Rs)	7	6	26.4	6	25.2	22	28	(20.6)

Source: Company, Systematix Institutional Research

Exhibit 3: Key Ratios

Key Ratios (% of revenues)	4QFY24	4QFY23	YoY(%)	3QFY24	QoQ(%)	FY24	FY23	YoY(%)
Raw Material Cost	57	62	-468bp	57	-31bp	59	58	36bp
Staff Costs	9	8	65bp	10	-135bp	9	8	127bp
Other Expenses	22	20	204bp	22	-39bp	22	12	984bp
Effective Tax rate	23	24	-79bp	23	-2bp	25	25	-1bp
Gross Margin	43.2	38.5	468bp	42.9	31bp	41.1	41.5	-36bp
OPM	12.5	10.5	199bp	10.5	205bp	10.2	21.7	-1,147bp
NPM	7.6	6.1	155bp	6.5	118bp	6.3	7.5	-129bp

Source: Company, Systematix Institutional Research

Exhibit 4: Segmental Performance

YE March (Rs mn)	4QFY24	4QFY23	YoY(%)	3QFY24	QoQ(%)	FY24	FY23	YoY(%)
Textile	24,132	24,284	-1%	22,888	5%	92,987	98,408	-6%
Acrylic Fiber	684	806	-15%	619	10%	2,975	4,267	-30%
Less: Intersegment Revenue	222	234	-5%	212	5%	915	1,300	-30%
Net Revenues	24,594	24,856		23,295		95,047	1,01,375	
Sales mix:								
Textile	97%	97%	46bp	97%	-12bp	97%	96%	106bp
Acrylic Fiber	3%	3%	-46bp	3%	12bp	3%	4%	-106bp
EBIT								
Textile	2,613	2,018	30%	2,008	30%	7,846	10,550	-26%
Acrylic Fiber	38	18	109%	36	3%	96	354	-73%
EBIT %								
Textile	10.8%	8.3%	252bp	8.8%	206bp	8.4%	10.7%	-228bp
Acrylic Fiber	5.5%	2.2%	327bp	5.9%	-38bp	3.2%	8.3%	-507bp

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net revenues	96,223	1,01,375	95,047	1,02,617	1,12,266
Revenue growth (%)	56.7	5.4	-6.2	8.0	9.4
- Op. expenses	73,484	88,135	85,315	87,919	92,110
EBITDA (Excl. OI)	22,739	13,240	9,732	14,698	20,156
EBITDA margins (%)	23.6	13.1	10.2	14.3	18.0
- Interest expenses	997	1,022	1,023	1,014	865
- Depreciation	3,675	3,944	4,046	4,136	4,656
+ Other income	2,245	1,920	3,259	3,575	3,933
- Tax	5,197	2,552	1,982	3,283	4,646
Effective tax rate (%)	26	25	25	25	25
Reported PAT	15,115	7,642	5,941	9,840	13,922
Add: Profit from associate/JV 397		406	427	427	427
+/- Minority interest	43	96	51	49	70
Adjusted PAT	15,469	7,952	6,316	10,217	14,279
EPS (Rs/share)	54.4	28.0	22.2	35.9	50.2

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	568	568	568	568	568
Reserves & Surplus	76,469	85,065	90,432	98,317	1,09,506
Networth	77,037	85,634	91,001	98,885	1,10,074
Minority interest	1,375	885	879	928	998
Total Debt	20,050	16,961	18,054	16,661	12,943
Def. tax liab. (net)	2,491	2,683	2,850	2,850	2,850
Capital employed	1,00,953	1,06,163	1,12,784	1,19,324	1,26,866
Net Fixed assets	37,352	39,885	38,298	50,662	55,806
Investments	16,911	25,488	16,991	15,991	14,991
Net Working capital	45,474	37,048	56,618	51,689	55,122
Cash and bank balance	1,217	3,742	877	983	947
Capital deployed	1,00,953	1,06,163	1,12,784	1,19,324	1,26,866
Net debt	18,833	13,219	17,177	15,678	11,996
WC (days)	135	109	186	173	173
DE(x)	0.3	0.2	0.2	0.2	0.1

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PAT	15,469	7,952	5,941	9,840	13,922
+ Non cash items	3,597	4,137	4,213	4,136	4,656
Cash profit	19,066	12,088	10,154	13,976	18,578
- Incr/(Decr) in WC	2,637	-8,426	19,570	-4,929	3,433
Operating cash flow	16,428	20,514	-9,416	18,904	15,145
- Capex	4,857	6,477	2,460	16,500	9,800
Free cash flow	11,572	14,037	-11,876	2,404	5,345
- Dividend	1,964	1,964	1,137	1,955	2,732
+ Equity raised	260	67	-	-	-
+ Debt raised	-3,177	-3,089	1,093	-1,393	-3,718
- Investments	6,165	8,578	-8,498	-1,000	-1,000
- Misc. items	1,423	-2,052	-557	-49	-70
Net cash flow	-898	2,525	-2,865	105	-35
+ Opening cash	2,115	1,217	3,742	877	983
Closing cash	1,217	3,742	877	983	947

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	8.0	15.5	19.5	12.1	8.6
P/BV (x)	1.6	1.4	1.4	1.2	1.1
EV/EBITDA (x)	6.3	10.3	14.4	9.5	6.7
RoE (%)	21.8	9.8	7.2	10.8	13.7
RoCE (%)	19.8	9.0	5.2	9.1	12.6
Fixed Asset turnover (x)	1.7	1.7	1.4	1.5	1.5
Dividend (%)	1,700	175	200	344	481
Dividend yield (%)	7.8	0.8	0.9	1.6	2.2
Dividend payout (%)	13	26	19	19	19
Debtors days	50	43	47	45	45
Creditor days	24	20	22	22	22
Inventory days	109	86	161	150	150
Revenue growth (%)	57	5	-6	8	9
EBITDA growth (%)	179	-42	-26	51	37
PAT growth (%)	273	-49	-21	62	40

Source: Company, Systematix Institutional Research

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DISCLOSURES/APPENDIX

I. ANALYST CERTIFICATION

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