

Institutional Equities
 India Research

Vardhman Textiles

RESULT REVIEW

 Bloomberg: VTEX IN
 Reuters: VART.BO

BUY

Revenue growth visibility amid stable margins

Vardhman Textiles sales, EBITDA and net income grew 11%, 33% and 39% YoY respectively during Q3FY13

The Company's top-line grew 11.1% YoY to Rs. 10,927 mn (our expectations Rs. 11,100 mn) during Q3FY13, while sequential growth was registered at 7.1%. Yarn sales grew 9.4% YoY to Rs. 9,055 mn, while revenue from fabric grew 12.0% YoY to Rs. 3,581 mn during the quarter.

Vardhman's EBITDA registered a growth of 32.9% YoY to Rs. 2,258 mn (our expectations Rs. 1,853 mn), with sequential growth of 11.2%. EBITDA margins for the quarter expanded by 340 bps over a corresponding quarter to 20.7% on the back of better spread on yarn and fabric. India was benefitted due to cotton price disparity vis-à-vis China; where spinners are procuring cotton around 10%-15% expensive than India.

Net Income grew 38.7% YoY to Rs. 836 mn, while sequentially growth was registered at 19.5%.

The Company has not disclosed quantitative data as yet, in the view of new compliance guidelines and is in the process to finalize disclosure norms, to file data on the stock exchanges.

During the Quarter, the Company's Budhni plant has started commercial production with capacity of 190 Looms, 30 MMPA of fabric processing and 1440 rotors. Capex of another 120,000 spindles and 240 Looms are in process, which is expected to start commercial production in phases from June'13 onwards and expect to complete by Dec'13. Thus FY15 is likely to witness full benefits of ongoing capex.

Outlook & Valuations

We expect Vardhman's revenue and net income to grow at a CAGR of 10% and 40%, respectively over FY12-15E. We revised our FY13E & FY14E EPS estimates upwards by 17.3% & 4.7% while introducing FY15E EPS. At CMP of Rs. 287, the stock trades at the multiple of 4.7x and 4.0x FY15E earnings and EV/EBITDA respectively. We maintain our "BUY" recommendation with revised target price of Rs. 335 (Rs. 297) per share, valuing at 5.5x FY15E EPS (4.5x FY15E EV/EBITDA), which represents an upside potential of 17%.

Key Financials

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	44,185	46,407	49,927	55,138	61,999
EBIDTA	10,911	6,158	9,187	10,201	11,625
Net Profit	5,014	1,414	3,132	3,301	3,876
EPS (Rs)	78.8	22.2	49.2	51.9	60.9
PER (x)	3.6	12.9	5.8	5.5	4.7
EV/EBITDA (x)	4.3	6.6	4.8	4.9	4.0

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs287
Target Price:	Rs335
Upside (%)	17%

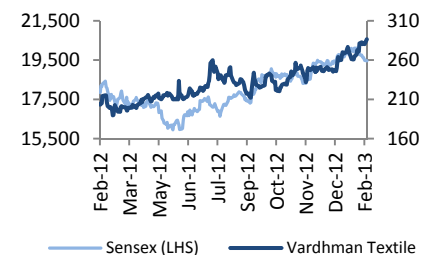
Stock Information

Market Cap. (Rs bn / US\$ mn)	18/340
52-week High/Low (Rs)	291/186
3m ADV (Rs mn /US\$ mn)	12/0.2
Beta	0.7
Sensex/ Nifty	19,461/5,898
Share outstanding (mn)	64

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	6.8	15.2	42.5	16.5
Rel. to Sensex	7.9	10.6	30.0	16.3

Performance



Source: Bloomberg

Analysts Contact

Rahul Singh
 +91-40-44857911
 rahulsingh@karvy.com

Vardhman Textiles
Exhibit 1: Quarterly Performance

(Rs mn)	Q3FY12	Q2FY13	Q3FY13	QoQ (%)	YoY (%)
Net Sales	9,840	10,199	10,927	7.1	11.1
Operating Costs	8,141	8,169	8,669	6.1	6.5
EBIDTA	1,699	2,030	2,258	11.2	32.9
EBIDTA Margin (%)	17.3	19.9	20.7	0.76	3.40
Other Income	106	8	-	(100.0)	(100.0)
Interest	363	439	400	(8.8)	10.2
Depreciation	599	629	652	3.6	8.8
Profit Before Tax	843	969	1,206	24.4	43.1
Tax	240	270	370	37.0	54.2
Tax Rate (%)	28.5	27.8	30.7		
Rep. PAT	603	699	836	19.5	38.7

Source: Company, Karvy Institutional Research

Exhibit 2: Segmental Performance

(Rs mn)	Q2FY12	Q1FY13	Q2FY13	QoQ (%)	YoY (%)
Revenue*					
Yarn	8,276	8,928	9,055	1.4	9.4
Fabric	3,197	3,267	3,581	9.6	12.0
EBIT					
Yarn	819	1,078	1,132	5.0	38.3
Fabric	377	330	432	30.9	14.7

Source: Company, Karvy Institutional Research, *Includes Inter-segment revenue

Exhibit 3: Variance from Our Earlier Estimates

Parameter	Previous Estimates		Revised Estimates		Variance (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Revenue	50,479	57,084	49,927	55,138	(1.1)	(3.4)
EBITDA	8,430	9,990	9,187	10,201	9.0	2.1
Net Income	2,670	3,154	3,132	3,301	17.3	4.7
EPS	42.0	49.6	49.2	51.9	17.3	4.7
ROCE (%)	6.9	7.2	7.8	7.4	0.9	0.2
ROE (%)	9.9	10.5	11.5	10.8	1.6	0.3

Source: Karvy Institutional Research

Financials (Consolidated)

Exhibit 4: Profit & Loss Statement

Y/ E Mar (Rs. mn)	FY11	FY12	FY13E	FY14E	FY15E
Net revenues	44,185	46,407	49,927	55,138	61,999
% Growth	31.9	5.0	7.6	10.4	12.4
Raw Material	19,619	26,513	24,514	27,293	30,380
Staff	2,584	2,925	3,495	3,722	4,185
Operating Expenses	11,070	10,811	12,731	13,922	15,810
Operating expenses	33,274	40,249	40,741	44,938	50,374
EBIDTA	10,911	6,158	9,187	10,201	11,625
% Growth	54.8	(43.6)	49.2	11.0	14.0
EBIDTA margin (%)	24.7	13.3	18.4	18.5	18.8
Other income	367	579	350	350	400
Interest	1,077	1,736	1,809	2,140	2,245
Depreciation	2,647	2,735	2,783	3,200	3,662
Profit Before Tax	7,553	2,266	4,945	5,211	6,118
Provision for tax	1,763	663	1,483	1,563	1,835
Effective tax rate (%)	23.3	29.3	30.0	30.0	30.0
Adjusted Net Profit	5,790	1,603	3,461	3,648	4,282
% Growth	91.5	(72.3)	116.0	5.4	17.4
Minority Interest	423	270	329	347	407
Reported Net Profit	5,014	1,414	3,132	3,301	3,876

Source: Company, Karvy Institutional Research

Exhibit 5: Balance Sheet

Y/E Mar (Rs. mn)	FY11	FY12	FY13E	FY14E	FY15E
Equity capital	625	625	625	625	625
Reserves & surplus	22,017	21,441	24,483	27,634	31,420
Shareholders' funds	25,784	25,479	28,849	32,347	36,540
Short term Loans	9,452	5,052	6,552	7,452	8,352
Long Term Loans	20,816	20,464	23,589	28,239	25,039
Total Loans	30,268	25,516	30,141	35,691	33,391
Deferred tax liability	2,311	2,322	2,322	2,322	2,322
Total Liabilities and Equity	58,362	53,316	61,311	70,359	72,252
Gross block	44,156	46,584	52,811	61,486	64,786
Depreciation	18,815	20,835	23,618	26,818	30,480
Net block	25,341	25,750	29,193	34,668	34,306
Capital WIP	1,564	1,852	1,875	1,700	400
Goodwill	29	29	29	29	29
Other Non-current Assets	-	735	735	735	735
Investments	1,227	2,649	2,649	2,649	2,649
Inventory	19,329	15,348	17,475	19,574	22,010
Debtors	7,494	6,304	7,489	8,546	9,610
Cash & Bank Balance	707	839	1,423	1,971	2,199
Current Assets	33,696	28,651	33,347	37,797	42,175
Sundry Creditors	1,228	1,162	1,197	1,322	1,486
Other current liabilities	2,266	5,186	5,321	5,897	6,556
Current Liabilities	3,494	6,349	6,517	7,219	8,042
Net current assets	30,201	22,302	26,830	30,578	34,133
Total Assets	58,362	53,316	61,311	70,359	72,252

Source: Company, Karvy Institutional Research

Vardhman Textiles
Exhibit 6: Cash Flow Statement

Y/E Mar (Rs. mn)	FY11	FY12	FY13E	FY14E	FY15E
EBIT	8,264	3,423	6,404	7,000	7,963
(Inc./)Dec in working capital	(10,449)	8,657	(3,944)	(3,200)	(3,328)
Cash flow from operations	(2,185)	12,079	2,459	3,800	4,635
Other income	367	579	350	350	400
Depreciation	2,647	2,735	2,783	3,200	3,662
Interest paid (-)	(1,077)	(1,736)	(1,809)	(2,140)	(2,245)
Tax paid (-)	(1,763)	(663)	(1,483)	(1,563)	(1,835)
Dividends paid (-)	(429)	(423)	(420)	(496)	(496)
Deferred Tax Liability	24	11	-	-	-
Extraordinaries	(354)	-	-	-	-
Net cash from operations	(2,771)	12,583	1,880	3,152	4,121
Capital expenditure (-)	(3,503)	(2,716)	(6,250)	(8,500)	(2,000)
Net cash after capex	(6,274)	9,866	(4,370)	(5,348)	2,121
Inc./(Dec.) in short-term borrowing	5,682	(4,399)	1,500	900	900
Inc./(dec.) in long-term borrowing	(1,867)	(353)	3,125	4,650	(3,200)
Inc./(dec.) in borrowings	3,816	(4,752)	4,625	5,550	(2,300)
(Inc./)Dec. in investments	(1,412)	(2,782)	-	-	-
Equity issue/(Buyback)	2,000	-	-	-	-
Cash from Financial Activities	4,404	(7,534)	4,625	5,550	(2,300)
Others	(47)	(2,201)	329	347	407
Opening cash	2,624	707	839	1,423	1,971
Closing cash	707	839	1,423	1,971	2,199
Change in cash	(1,917)	132	584	548	227

Source: Company, Karvy Institutional Research

Exhibit 7: Key Ratios

Y/E Mar	FY11	FY12	FY13E	FY14E	FY15E
Raw Material Cost / Sales (%)	44.4	57.1	49.1	49.5	49.0
Manpower Cost / Sales (%)	5.8	6.3	7.0	6.8	6.8
Operating & Other cost / Sales (%)	25.1	23.3	25.5	25.3	25.5
Revenue Growth (%)	31.9	5.0	7.6	10.4	12.4
EBIDTA Margins (%)	24.7	13.3	18.4	18.5	18.8
Net Income Margins (%)	13.1	3.5	6.9	6.6	6.9
ROCE (%)	12.0	4.3	7.8	7.4	7.8
ROE (%)	22.5	5.5	11.5	10.8	11.3

Source: Company, Karvy Institutional Research

Exhibit 8: Valuation Parameters

Y/E Mar	FY11	FY12	FY13E	FY14E	FY15E
EPS (Rs.)	78.8	22.2	49.2	51.9	60.9
P/E (x)	3.6	12.9	5.8	5.5	4.7
BV (Rs.)	405.1	400.3	453.2	508.2	574.1
P/BV (x)	0.7	0.7	0.6	0.6	0.5
EV/EBIDTA (x)	4.3	6.6	4.8	4.9	4.0
Fixed assets turnover ratio (x)	1.7	1.8	1.8	1.7	1.8
Debt/Equity (x)	1.15	0.97	1.00	1.04	0.85
EV/Sales (x)	1.1	0.9	0.9	0.9	0.8

Source: Company, Karvy Institutional Research

Institutional Equities Team

Rangachari Muralikrishnan	Head – Institutional Equities / Research / Strategy	+91-22 61844301	muralikrishnan@karvy.com
K. Anant Rao	Head - Sales-Trading & Derivatives	+91-22 61844303	k.anantrao@karvy.com
Uday Raval	Karvy Inc. USA	+1 212 2674334	udayr@karvy.com

INSTITUTIONAL RESEARCH

Analysts	Industry / Sector	Desk Phone	Email ID
Amey Chalke	Pharmaceuticals	+91 -22 61844325	amey.chalke@karvy.com
Dwaipayan Poddar	Chief Technical Strategist	+91-22 61844372	dwaipayan.poddar@karvy.com
Hatim Broachwala, CFA	Banking	+91-22 61844329	hatim.broachwala@karvy.com
Kruti Shah	Economist	+91-22 61844320	kruti.shah@karvy.com
Manoj Kumar Manish	Derivatives and Quant Analyst	+91-22 61844327	manojkumar.m@karvy.com
Maruti Kadam	Automobiles / Metals & Mining	+91-22 61844326	maruti.kadam@karvy.com
Mitul Shah	Automobiles	+91-22 61844312	mitul.shah@karvy.com
Naveen Trivedi	FMCG	+91-22-61844316	naveen.trivedi@karvy.com
Paresh Jain	BFSI	+91-22 61844324	paresh.jain@karvy.com
Parikshit Kandpal	Infra / Real Estate / Strategy	+91-22 61844311	parikshit.kandpal@karvy.com
Rahul Sharma	Pharmaceuticals	+91-22 61844310	rahul.sharma@karvy.com
Rahul Singh	MidCap	+91-40-44857911	rahulsingh@karvy.com
Rajesh Kumar Ravi	Cement & Logistics	+91-22 61844313	rajesh.ravi@karvy.com
Rupesh Sankhe	Power/Capital Goods	+91-22 61844315	rupesh.sankhe@karvy.com
Vinay Nair	Oil & Gas	+91-22 61844319	vinaynair@karvy.com

INSTITUTIONAL SALES

Dinesh Bajaj	Sales	+91-22 61844341	dinesh.bajaj@karvy.com
R. Sriram	Sales	+91-22 61844340	sriram.rangarajan@karvy.com
Shabbir Dahodwala	Sales (USA)	+1-212-2674334	shabbir@karvy.com
Tejash Gandhi	Sales	+91-22 61844345	tejash.gandhi@karvy.com

INSTITUTIONAL SALES TRADING & DEALING

Bhavesh Gandhi	Institutional Dealer	+91-22 61844368 /69	bhavesh.gandhi@karvy.com
Prashant Oza	Institutional Dealer	+91-22 61844370 /71	prashant.oza@karvy.com
Parag Shah	Sales Trader	+91-22 61844364 /65	parag.shah@karvy.com
Sriram Jagdish	Sales Trader	+91-22 61844366 /67	sriram.jagdish@karvy.com
Gurdarshan Singh Kharbanda	Sales Trader	+91-22-61844368 / 69	gurdarshansingh.k@karvy.com

PRODUCTION

Asim Kumar Mohapatra	Editor	+91-22 61844318	asim.mohapatra@karvy.com
Vijayalaxmi L. Moolya	Production	+91-22 61844328	vijayalaxmi.m@karvy.com

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

For further enquiries please contact:

research@karvy.com

Tel: +91-22-6184 4300

Disclosures Appendix

Analyst certification

The following analyst(s), who is (are) primarily responsible for this report, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

Disclaimer

The information and views presented in this report are prepared by Karvy Stock Broking Limited. The information contained herein is based on our analysis and upon sources that we consider reliable. We, however, do not vouch for the accuracy or the completeness thereof. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither Karvy nor Karvy Stock Broking nor any person connected with any associate companies of Karvy accepts any liability arising from the use of this information and views mentioned in this document.

The author, directors and other employees of Karvy and its affiliates may hold long or short positions in the above mentioned companies from time to time. Every employee of Karvy and its associate companies are required to disclose their individual stock holdings and details of trades, if any, that they undertake. The team rendering corporate analysis and investment recommendations are restricted in purchasing/selling of shares or other securities till such a time this recommendation has either been displayed or has been forwarded to clients of Karvy. All employees are further restricted to place orders only through Karvy Stock Broking Ltd. This report is intended for a restricted audience and we are not soliciting any action based on it. Neither the information nor any opinion expressed herein constitutes an offer or an invitation to make an offer, to buy or sell any securities, or any options, futures nor other derivatives related to such securities.

Karvy Stock Broking Limited

Institutional Equities

Office No. 702, 7th Floor, Hallmark Business Plaza, Opp.-Gurunanak Hospital, Mumbai 400 051

Regd Off : 46, Road No 4, Street No 1, Banjara Hills, Hyderabad – 500 034.

Karvy Stock Broking Research is also available on: Bloomberg - KRVY <GO>, Thomson Publisher & Reuters.