

Vardhman Textiles (MAHSPI)

₹ 239

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY13E)	Unchanged
EPS (FY14E)	Unchanged
RATING	Unchanged

Cautiously positive outlook...

Vardhman Textiles' (Vardhman) Q1FY13 numbers were a mixed bag – revenues came in marginally lower than our expectation but EBITDA and PAT surprised positively. The company reported a robust expansion in operating margins (both sequentially and YoY) led by healthy improvement in realisations (sequentially) and substantial reduction in input costs YoY. The company is on track with expansion plans and is also going ahead with the expansion of 55,000 spindles that it had put on hold. Even in a bleak economic situation, the company is going ahead with the expansion plans as it is unable to cater to the customer demands completely and has, hence, laid out a capital expenditure of ₹ 1,800 crore during FY12-14E. Considering the uncertainty over the profitability scenario in H2FY13E we have not revised our estimates. During FY12-14E, we expect sales, EBITDA and PAT to grow at a CAGR of 16.0%, 18.4% and 30.0%, respectively. However, the current valuations do not provide comfort. Therefore, we maintain our HOLD rating on the stock.

Operating margins – a positive surprise...

Vardhman's Q1FY13 revenues remained flat both YoY and QoQ, at ₹ 939.6 crore as against our estimate of ₹ 1,008.2 crore. The yarn segment de-grew 4.6% to ₹ 804.5 crore while the fabric segment grew marginally (up 2.0% YoY) to ₹ 314.8 crore. Operating margins were up 1424 bps YoY to 18.1% as the company had taken a one-time inventory write-off in the corresponding quarter last year.

...but an uncertain H2FY13 prevents change in estimates

Even though the company has positively surprised us on the operating profit front we have not increased our earnings estimates as we are apprehensive about the profitability situation in H2FY13E. With a lower cotton crop expected in cotton season 2012-13, prices of cotton are likely to remain firm or trend upwards, thereby pressuring the profitability.

Uncertain times and a weak past lead to discomfort with valuations

Vardhman is recovering well from a painful FY11 with demand picking up and also an improvement in margins (due to favourable realisations and input prices). However, we feel the current stock prices factor in the positives and see limited upside from current levels. We maintain our HOLD rating with a target price of ₹ 229 (based on an average arrived at by assigning a multiple of 0.7x FY14E book value and 4.5x FY14E EPS).

Exhibit 1: Financial Performance

(₹ crore)	Q1FY13	Q1FY13E	Q1FY12	Q4FY12	QoQ(Ch %)	YoY(Ch %)
Net Sales	939.6	1,008.2	960.2	938.7	0.1	-2.1
EBITDA Margin (%)	18.1	15.8	3.8	15.5	257 bps	1424 bps
Depreciation	62.7	61.7	57.1	60.5	3.6	9.8
Interest	47.7	46.3	49.6	44.8	6.4	-4.0
Other Income	6.7	3.3	6.7	-	-	0.0
Reported PAT	54.9	38.1	(43.1)	56.7	-3.2	LP
EPS (₹)	8.6	6.0	(6.8)	8.9	-3.2	-

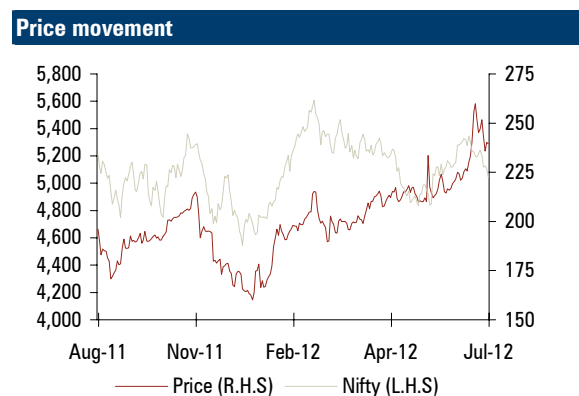
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Hold
Target	: ₹ 229
Target Period	: 12 months
Potential Upside	: -4%

Key Financials (Consolidated)				
(₹ crore)	FY11	FY12E	FY13E	FY14E
Net Sales	4,418	4,641	5,319	6,242
EBITDA	1,091	674	798	944
Net Profit (after MI)	525	141	183	239

Valuation summary				
	FY11	FY12E	FY13E	FY14E
P/E (x)	2.9	10.6	8.2	6.3
Target P/E (x)	2.7	10.1	7.8	6.0
EV to EBITDA (x)	4.1	6.6	4.4	4.1
Price to book (x)	0.7	0.7	0.6	0.6
RONW (%)	29.9	7.2	8.8	10.7
ROCE (%)	17.5	7.7	8.9	9.8

Stock data	
Market Capitalisation	₹ 1523 crore
Debt (Mar-12)	₹ 3017 crore
Cash (Mar-12)	₹ 84 crore
EV	₹ 4458 crore
52 week H/L (₹)	266 / 155
Equity Capital	₹ 63.6 crore
Face Value	₹ 10
MF Holding (%)	22.7
FII Holding (%)	0.7



Analyst's name	
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Exhibit 2: Assumptions Sheet

Particulars	FY11	FY12E	FY13E	FY14E
Volumes				
Yarn Segment (MT)	90,347	123,038	133,960	138,146
Fabric Segment (Mn. Mtrs)*	110	123	141	206
Realisation				
Yarn Segment (₹/MT)	225,914	200,000	208,000	212,000
Fabric Segment (₹/Mtr)*	97	79	104	106
Average Cotton Buying Price (₹/kg)	94	115	112	115

Source: Company, ICICIdirect.com Research

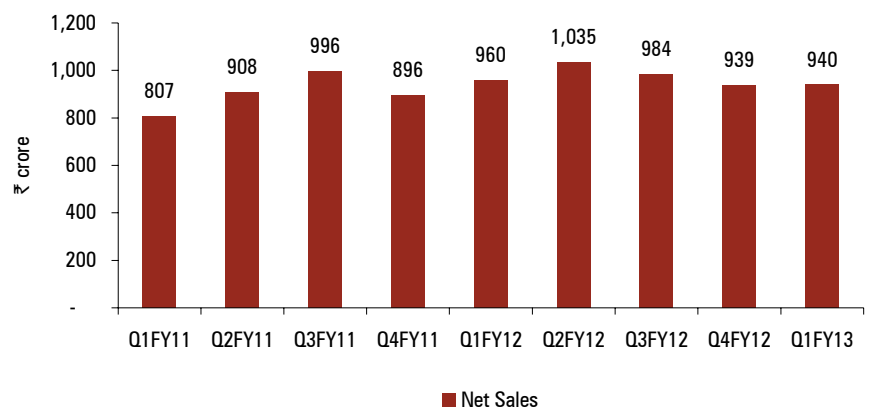
* - Includes both greige & processed fabric

Q1FY13 Result Highlights

- Vardhman reported a mixed set of numbers in Q1FY13. While revenues were marginally lower than our estimates, the EBITDA and PAT surpassed our estimates. The company's revenues remained flat YoY at ₹ 939.6 crore as against our estimate of ₹ 1,008.2 crore
- The operating margin came as a positive surprise. The company reported an operating margin of 18.1%. While these margins are not comparable with Q1FY12 (as the company took a one time write-off of high cost inventory), they are better on a sequential basis also as raw material prices have softened with a relatively lower correction in realisations
- Consequently, PAT also beat our estimates. Vardhman's Q1FY13 PAT stood at ₹ 54.9 crore higher than our expectation of ₹ 38.1 crore

Vardhman's Q1FY13 revenues remained flat at ₹ 939.6 crore with the yarn segment de-growing 4.6% and the fabric segment growing by a mere 2.0%

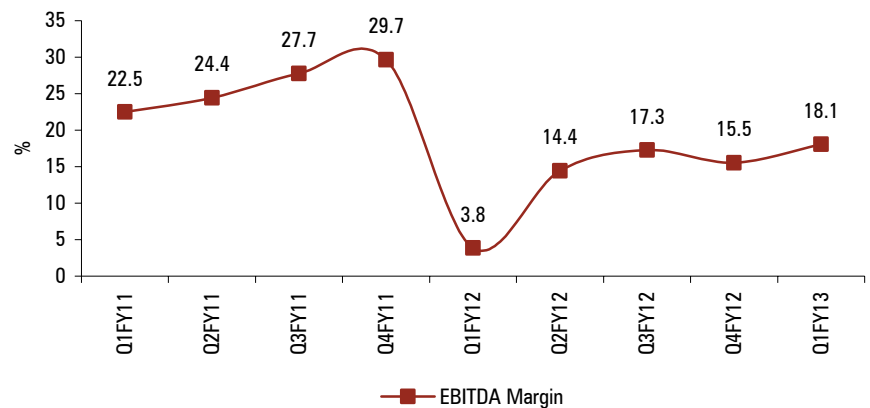
Exhibit 3: Sales trend (Standalone)



Source: Company, ICICIdirect.com Research

The company posted a healthy operating margin of 18.1% led by lower input costs. Also, Q1FY12 was an exceptional quarter where the company reported dismally low margins on the back of a one-time inventory write-off taken by the company

Exhibit 4: EBITDA margin trend (Standalone)



Source: Company, ICICIdirect.com Research

Exhibit 5: Segmental analysis

	Q1FY13	Q1FY12	YoY(Ch %)
Revenue*			
Yarn	804.5	843.7	-4.6
Fabric	314.8	308.5	2.0
EBIT			
Yarn	81.5	(41.0)	-
Fabric	34.7	21.7	59.8
Capital Employed			
Yarn	2,931.6	2,738.7	7.0
Fabric	924.7	988.7	-6.5
EBIT Margin			
Yarn	10.1	(4.9)	-
Fabric	11.0	7.0	398 bps
ROCE			
Yarn	2.8	(1.5)	-
Fabric	3.7	2.2	155 bps

Source: Company, ICICIdirect.com Research

* - Includes Inter-segment Revenue

Yarn segment

Yarn segment revenues de-grew 4.6% to ₹ 804.5 crore despite a volume growth of 8%. However, on the back of significantly lower cotton prices the EBIT margin witnessed a substantial improvement. From an EBIT loss in Q1FY12 the company reported a healthy EBIT margin of 10.1% in Q1FY13.

Fabric segment

The fabric segment grew marginally (up 2.0% YoY) to ₹ 314.8 crore. In the fabric segment also, growth was led by higher volumes (up 17% YoY for greige fabric and up 13% YoY for processed fabric). On the back of a steeper correction in input prices (as compared to realisations) the fabric segment also witnessed an operating margin expansion of ~400 bps YoY. The fabric segment margins improved from 7.0% in Q1FY12 to 11.0% in Q1FY13.

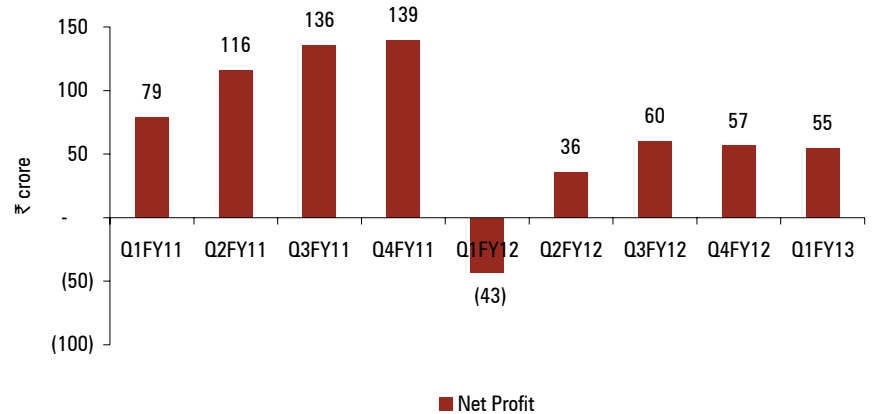
A substantially lower raw material cost aided an operating margin expansion both sequentially and YoY

Exhibit 6: Cost analysis (as a percentage of sales)

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Raw Material Cost	47.7	45.4	44.0	68.1	62.6	54.7	55.2	50.1
Employee Cost	5.7	5.0	5.3	5.6	5.2	5.6	6.2	6.4
Other Expenses	23.7	23.2	22.3	23.4	17.8	22.4	23.2	25.5

Source: Company, ICICIdirect.com Research

Exhibit 7: Net profit trend (Standalone)



Source: Company, ICICIdirect.com Research

Valuation

Vardhman is recovering well from a painful FY11 with demand picking up and also an improvement in margins (due to favourable realisations and input prices). However, we feel the current stock prices factor in the positives and see limited upside from current levels. We maintain our **HOLD** rating with a target price of ₹ 229 (based on an average arrived at by assigning a multiple of 0.7x FY14E book value and 4.5x FY14E EPS).

Financial summary

Profit and loss statement (Consolidated)

	(₹ Crore)			
(Year-end March)	FY11	FY12E	FY13E	FY14E
Total operating Income	4,418.5	4,698.6	5,318.6	6,242.2
Growth (%)	31.9	6.3	13.2	17.4
Raw Material Expenses	1,962.7	2,651.3	2,690.6	3,131.2
Employee Expenses	258.4	292.5	391.8	479.4
Manufacturing Expenses	851.8	835.2	1,135.0	1,332.1
Selling Expenses	159.6	150.8	191.5	224.7
Administrative Expenses	94.8	95.1	111.7	131.1
Total Operating Expenditure	3,327.4	4,024.9	4,520.6	5,298.4
EBITDA	1,091.1	673.7	798.0	943.8
Growth (%)	54.7	(38.3)	18.5	18.3
Depreciation	264.7	273.5	301.1	328.7
Interest	107.7	173.6	225.9	259.7
Other Income	36.7	-	13.3	15.6
PBT	755.4	226.6	284.4	370.9
Total Tax	176.3	66.3	83.2	108.5
PAT	579.1	160.3	201.2	262.4
PAT (after minority interest)	525.3	141.4	183.1	238.8
Growth (%)	100.9	(73.1)	29.5	30.4
EPS (₹)	84.0	22.6	29.3	38.2

Source: Company, ICICIdirect.com Research

Balance sheet (Consolidated)

	(₹ Crore)			
(Year-end March)	FY11	FY12E	FY13E	FY14E
Liabilities				
Equity Capital	62.5	62.5	62.5	62.5
Reserve and Surplus	2,201.7	2,144.1	2,295.1	2,500.3
Total Shareholders funds	2,264.2	2,206.6	2,357.6	2,562.8
Total Debt	2,944.4	3,017.3	3,614.4	4,026.1
Deferred Tax Liability	231.1	232.2	233.3	235.0
Minority Interest / Others	314.2	341.2	359.3	382.9
Total Liabilities	5,753.9	5,797.4	6,564.6	7,206.9
Assets				
Gross Block	4,415.6	4,794.9	5,323.3	5,734.1
Less: Acc Depreciation	1,881.5	2,155.0	2,456.1	2,784.8
Net Block	2,534.1	2,639.9	2,867.3	2,949.3
Capital WIP	156.4	120.2	200.0	160.0
Total Fixed Assets	2,690.5	2,760.1	3,067.3	3,109.3
Investments	233.4	511.6	537.2	564.1
Inventory	1,932.9	1,534.8	2,040.0	2,428.5
Debtors	667.0	630.4	772.3	940.6
Loans and Advances	505.9	442.8	386.0	386.0
Other Current Assets	-	-	-	-
Cash	70.7	83.9	99.1	162.1
Total Current Assets	3,176.5	2,691.9	3,297.4	3,917.1
Creditors	316.7	116.2	306.0	342.0
Provisions	32.7	52.9	34.1	44.5
Total Current Liabilities	349.4	169.1	340.1	386.6
Net Current Assets	2,827.1	2,522.7	2,957.3	3,530.6
Others Assets	2.9	2.9	2.9	2.9
Application of Funds	5,753.9	5,797.4	6,564.6	7,206.9

Source: Company, ICICIdirect.com Research

Cash flow statement (Consolidated)

	(₹ Crore)			
(Year-end March)	FY11	FY12E	FY13E	FY14E
Profit before Tax	755.4	226.6	284.4	370.9
Add: Depreciation	264.7	273.5	301.1	328.7
(Inc)/dec in Current Assets	-996.5	497.9	-590.3	-556.8
Inc/(dec) in CL and Provisions	94.5	-180.3	171.0	46.4
Taxes Paid	-182.7	-66.3	-83.2	-108.5
Others	95.5	138.3	191.5	224.8
CF from operating activities	30.8	889.6	274.4	305.6
(Inc)/dec in Investments	-132.9	-278.2	-25.6	-26.9
(Inc)/dec in Fixed Assets	-355.5	-343.2	-608.2	-370.8
Others	32.1	-121.4	35.5	36.6
CF from investing activities	-456.4	-742.8	-598.3	-361.1
Issue/(Buy back) of Equity	196.69	-	-	-
Inc/(dec) in loan funds	193.6	72.9	597.1	411.7
Dividend paid & dividend tax	-26.8	-32.9	-32.1	-33.5
Others	-129.6	-173.6	-225.9	-259.7
CF from financing activities	233.9	-133.6	339.1	118.5
Net Cash flow	-191.7	13.2	15.2	63.0
Opening Cash	262.4	70.7	83.9	99.1
Closing Cash	70.7	83.9	99.1	162.1

Source: Company, ICICIdirect.com Research

Key ratios (Consolidated)

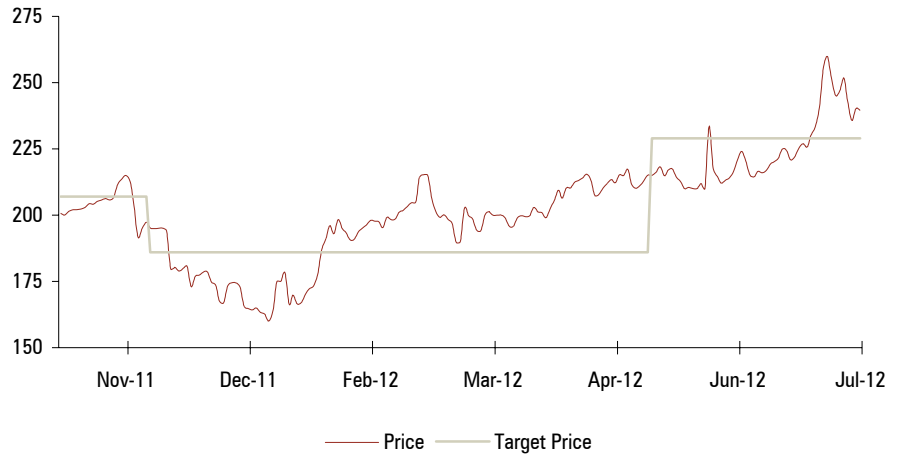
(Year-end March)	FY11	FY12E	FY13E	FY14E
Per share data (₹)				
EPS	84.0	22.6	29.3	38.2
Cash EPS	126.4	66.4	77.4	90.8
BV	362.2	353.0	377.1	409.9
DPS	5.7	4.5	4.4	4.6
Cash Per Share	11.3	13.4	15.8	25.9
Operating Ratios				
EBITDA Margin (%)	24.7	14.5	15.0	15.1
PBT Margin (%)	17.1	4.8	5.3	5.9
PAT Margin (%)	13.1	3.5	3.8	4.2
Inventory days	133.4	136.4	140.0	142.0
Debtor days	47.2	51.0	53.0	55.0
Creditor days	21.0	19.6	21.0	20.0
Return Ratios (%)				
RoE	29.9	7.2	8.8	10.7
RoCE	17.5	7.7	8.9	9.8
RoIC	11.8	3.5	3.8	4.5
Valuation Ratios (x)				
P/E	2.9	10.6	8.2	6.3
EV / EBITDA	4.1	6.6	4.4	4.1
EV / Net Sales	1.0	1.0	0.7	0.6
Market Cap / Sales	0.4	0.3	0.3	0.2
Price to Book Value	0.7	0.7	0.6	0.6
Solvency Ratios				
Debt/EBITDA	2.7	4.5	4.5	4.3
Debt / Equity	1.3	1.4	1.5	1.6
Current Ratio	10.0	23.2	10.8	11.5
Quick Ratio	3.9	10.0	4.1	4.4

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Textiles)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Alok Industries (ALOTEX)	16	21	Buy	1,274	4.6	6.1	8.2	3.4	2.6	1.9	4.5	4.5	3.9	12.6	12.0	12.9	10.4	12.7	15.5
JBF Industries (JBFIND)	138	120	Sell	992	31.0	38.3	46.6	4.4	3.6	3.0	4.6	5.1	5.1	17.0	12.5	11.5	14.7	16.2	17.3
Kewal Kiran Clothing (KEWKIR)	496	611	Buy	611	42.3	51.9	61.1	11.7	9.5	8.1	7.2	5.7	4.6	27.9	29.9	30.2	23.1	24.3	24.2
Lovable Lingerie (LOVLIN)	316	350	Buy	532	10.5	13.9	17.9	30.1	22.7	17.7	23.5	18.3	14.2	14.4	16.5	18.4	11.4	13.5	15.4
Page Industries (PAGIND)	2,850	3,115	Hold	3,179	80.7	104.7	135.4	35.3	27.2	21.0	24.4	18.7	14.7	53.2	52.3	53.0	54.3	52.8	51.6
Rupa & Company (RUPACO)	140	-	Unrated	1,113	5.5	6.2	7.8	25.6	22.6	18.0	14.6	13.5	11.2	22.9	21.4	23.7	21.9	21.1	22.4
Vardhman Textiles (MAHSPI)	239	229	Hold	1,523	22.6	29.3	38.2	10.6	8.2	6.3	6.6	4.4	4.1	7.7	8.9	9.8	7.2	8.8	10.7

Exhibit 8: Recommendation History



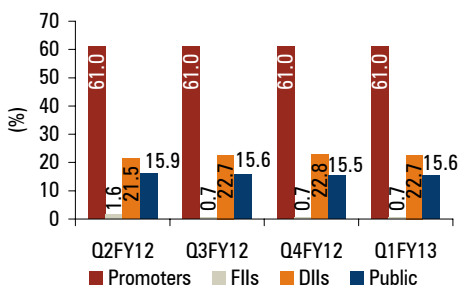
Source: Company, ICICIdirect.com Research

Exhibit 9: Recent Releases

Date	Event	CMP	Target Price	Rating
5-Oct-11	Q2FY12 Preview	191	207	HOLD
16-Nov-11	Q2FY12 Result Update	196	186	HOLD
6-Jan-12	Q3FY12 Preview	170	186	HOLD
25-Jan-12	Q3FY12 Result Update	193	186	HOLD
4-Apr-12	Q4FY12 Preview	199	186	HOLD
11-May-12	Q4FY12 Result Update	215	229	HOLD
5-Jul-12	Q1FY13 Preview	222	229	HOLD

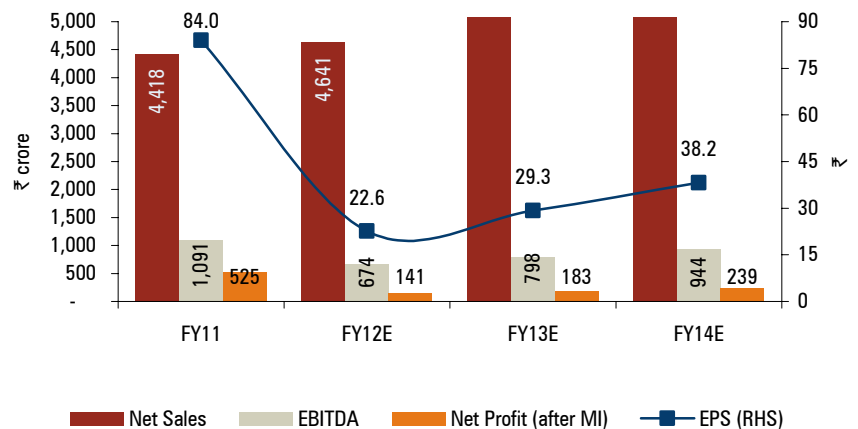
Source: Company, ICICIdirect.com Research

Shareholding Pattern



Source: Company, ICICIdirect.com Research

Exhibit 10: The road ahead



Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: > 10%/ 15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



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