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Emerging from the shadows

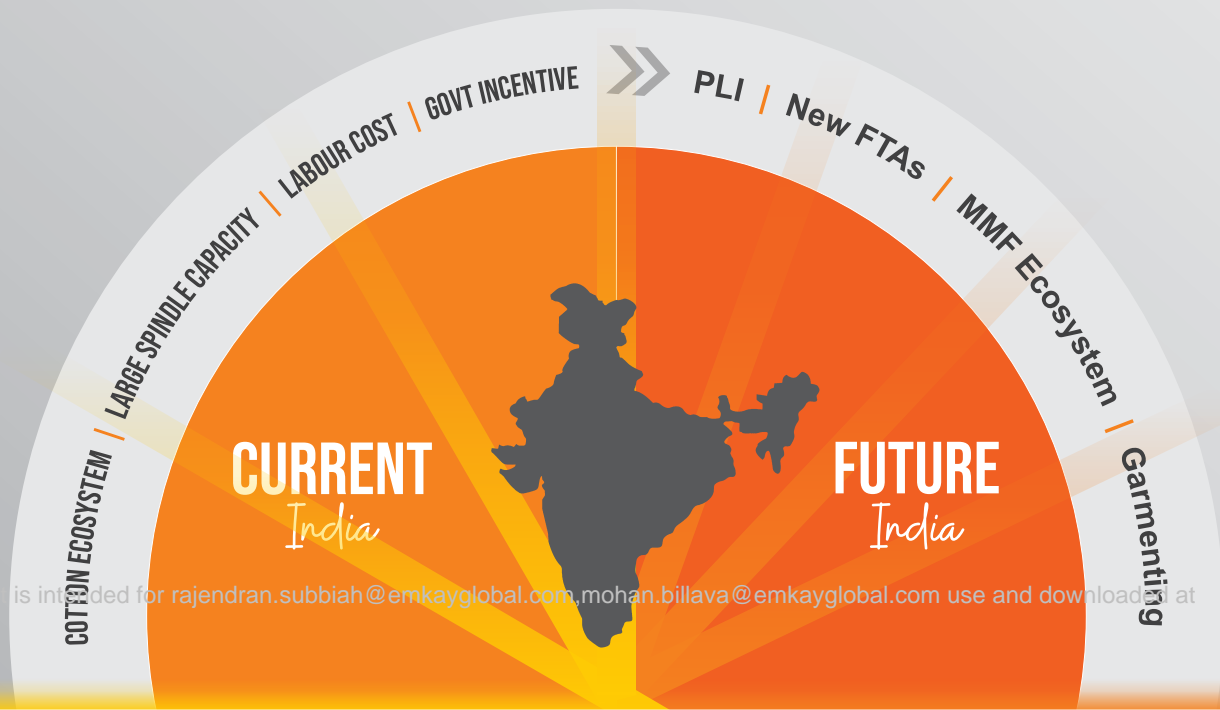


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Emerging from the shadows

- Gloom and Doom:** In the past few quarters, high cotton price and low demand for textiles and apparel, especially in the western world, have meant that most sector players have been operating at low utilization. Inventory at major global retailers stayed high during this period, as consumer allocation to other essentials held priority due to inflation. Cotton prices in India in the last 5 months have been trading at a 25%-50% premium to international cotton price, thus severely impacting exporters who were already feeling the heat on account of slowing demand. More than 40% of Indian spinners either shut down operations or were working at low utilization, as yarn & cotton spread was negligible in most cases. The last few months have been the '**gloom and doom**' for the textiles industry.
- Stumble and Start – The medium-term picture:** When majority of the players were in '**stumble**' mode, correction in cotton prices globally was the only saving grace. Cotton prices in India have corrected from ~Rs1 lakh per candy to ~Rs70,000, given the new crop coming in and the low demand. International cotton futures are down ~50%. Also, cotton sowing in India has been 7% higher than last year's; rainfall in key cotton-growing States has been good. The Cotton Association expects a decent rise in production in FY23 which might eventually lead to lower prices. This should ideally bring down the steep differential in Indian and international cotton prices – the last 5-year differential has averaged at ~5% vs >25% presently. Even in a slightly low-demand scenario, this differential-decrease would bring relief to Indian exporters, esp. spinners. The Xinjiang cotton ban makes Indian cotton/yarn most sought after globally, as India is the second-largest cotton-producing country. Also, other Asian countries are importers of cotton/yarn and India is their nearest source. In coming few quarters, we expect large retailers in USA to '**start**' the re-inventory process, on the back of some uptick in demand, though inflation remains a key concern in such geographies.
- Sprint and Soar – The long-term picture:** Market-share movement, from China to key exporting countries in Asia such as India, Pakistan, Bangladesh and Vietnam, is expected to continue, as the high cost of labor in China is weighing on its competitive strength. Over the last decade, China's market share in US imports for Textiles & Apparel has declined by 1,300bps, which has moved to Vietnam (640bps), India (270bps) and Bangladesh (230bps). Further, the 'China plus one strategy' also plays a crucial role. Vietnam and Bangladesh have gained significant market share in Apparel, while India has gained share in Non-Apparel, largely because it has considerably strong presence in cotton products in USA (more than 550bps improvement in market share). New FTAs would offer opportunities to large established players, capturing a higher wallet share by entering into adjacencies in existing geographies. Textile PLI schemes by the Gov are largely focused on MMF (a weak point presently, for the Indian textile industry), which will help to build an ecosystem similar to cotton textiles', over the medium term. We believe China+1, PLI schemes and FTAs will accelerate growth in the sector. The textile Industry in India could then '**sprint and soar**', in our view.
- Sector plays –** 1) Indian spinners/cotton textile players have access to raw material, get incentives from the State/central government and have labor cost advantage that make them a key beneficiary in the sector. India produces 25% of the global cotton and has 20% of the global spinning capacity. Ban on Xinjiang cotton has increased reliance on Indian spinners. Key Indian players are Vardhman Textiles, Trident and Nitin Spinners. 2) Home textile players have proven their capability by capturing strong market share in geographies like the USA and stand to gain when any FTA comes into force. Such companies are also expanding in adjacencies which will fuel further growth. Key domestic players are Welspun India, Indo Count Industries and KPR Mills. 3) Garmenting would get a significant boost in coming times, on the back of the recent PLIs & policies by the Government and FTAs. Key players in the garment space are Gokaldas, Arvind, and Pearl Global.
- In this note, we initiate coverage on spinners; Vardhman Textiles (BUY; Dec-23 TP: Rs455) and Nitin Spinners (BUY; Dec-23 TP: Rs310). While Vardhman is on track to boost its capacity by ~10% in FY23, it plans adding another ~15% in the medium term, subject to demand revival. Nitin Spinners is expanding spinning capacity by ~40% over the next 12/15 months. We initiate coverage on Gokaldas Exports (BUY; Dec-23 TP: Rs575), as it is the major medium-term beneficiary of the development in the MMF ecosystem in India. Be that as it may, Gokaldas continues to expand its woven capacity and has entered the knitting space too, making it India's best garments player.
- Risks –** Subdued demand; Resurgence of Covid 19 cases; Indian cotton at premium to international cotton; Persistent low spread.

Vardhman Textiles	BUY
CMP	Target Price
308	455
Gokaldas Exports	BUY
CMP	Target Price
342	575
Nitin Spinners	BUY
CMP	Target Price
191	310

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Vardhman Textiles (BUY; Dec-23 TP: Rs455)**Exhibit 1: Vardhman Textiles – Financials and Valuation**

(Rs mn)	FY23	FY24	FY23E	FY24E	FY25E
Revenue	59,262	93,861	85,365	86,369	90,230
EBITDA	7,671	22,621	15,304	17,096	18,873
EBITDA Margin (%)	12.9	24.1	17.9	19.8	20.9
APAT	3,667	16,774	8,698	9,877	11,270
EPS (Rs)	13.0	59.0	30.6	34.8	39.7
EPS (% chg)	(32.8)	355.1	(48.1)	13.5	14.1
ROE (%)	6.2	24.5	11.0	11.4	11.9
P/E (x)	22.6	5.0	9.6	8.4	7.4
EV/EBITDA (x)	13.1	4.3	5.7	4.6	3.6
P/BV (x)	1.4	1.1	1.0	0.9	0.8

Source: Emkay Research

Gokaldas Exports (BUY; Dec-23 TP: Rs575)**Exhibit 2: Gokaldas Exports – Financials and Valuation**

(Rs mn)	FY23	FY24	FY23E	FY24E	FY25E
Revenue	12,107	17,903	22,911	25,911	31,111
EBITDA	1,015	2,055	2,507	3,051	4,126
EBITDA Margin (%)	8.4	11.5	10.9	11.8	13.3
APAT	265	1,171	1,307	1,534	2,186
EPS (Rs)	6.2	19.9	21.6	24.7	34.3
EPS (% chg)	153.1	221.5	8.8	14.3	38.7
ROE (%)	10.3	23.5	16.9	16.7	19.8
P/E (x)	55.3	17.2	15.8	13.8	10.0
EV/EBITDA (x)	17.9	10.0	8.4	6.9	5.0
P/BV (x)	5.1	2.8	2.5	2.1	1.8

Source: Emkay Research

Nitin Spinners (BUY; Dec-23 TP: Rs310)**Exhibit 3: Nitin Spinners – Financials and Valuation**

(Rs mn)	FY23	FY24	FY23E	FY24E	FY25E
Revenue	16,244	26,923	23,254	23,085	25,775
EBITDA	2,573	6,516	3,136	3,984	4,525
EBITDA Margin (%)	15.8	24.2	13.5	17.3	17.6
APAT	689	3,307	1,399	1,764	2,305
EPS (Rs)	12.3	58.8	24.9	31.4	41.0
EPS (% chg)	189.2	380.2	(57.7)	26.1	30.7
ROE (%)	13.0	46.0	14.8	16.1	18.0
P/E (x)	15.0	3.1	7.4	5.9	4.5
EV/EBITDA (x)	7.8	2.6	5.5	5.0	3.8
P/BV (x)	1.8	1.2	1.0	0.9	0.7

Source: Emkay Research

Exhibit 4: Sector Valuation and Financials

Company	Revenue (Rs mn)			EBITDA (Rs mn)			EPS (Rs)			P/E (x)		RoE (%)	
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e
KPR Mills*	59,410	63,964	72,164	13,344	14,808	17,325	25.55	29.45	34.90	16.63	14.03	23.46	22.88
- growth rate		7.67%	12.82%		10.97%	17.00%		15.26%	18.51%				
Vardhman Textiles	84,352	85,344	89,160	15,304	17,096	18,873	30.61	34.75	39.65	8.40	7.40	11.44	11.89
- growth rate		1.18%	4.47%		11.71%	10.40%		13.55%	14.10%				
Welspun India*	80,576	94,502	1,04,302	8,293	14,014	16,353	2.06	5.89	7.57	11.63	9.05	14.58	15.10
- growth rate		17.28%	10.37%		68.99%	16.70%		186.11%	28.56%				
Gokaldas Exports	22,911	25,911	31,111	2,507	3,051	4,126	21.60	24.69	34.25	13.80	10.00	16.74	19.80
- growth rate		13.09%	20.07%		21.71%	35.23%		14.31%	38.74%				
Indo Count*	31,891	37,008	35,990	4,841	5,937	6,270	13.95	17.93	19.10	6.74	6.33	17.38	16.10
- growth rate		16.05%	-2.75%		22.63%	5.61%		28.49%	6.56%				
Nitin Spinners	23,254	23,085	25,775	3,136	3,984	4,525	24.89	31.37	41.00	5.90	4.50	16.15	18.01
- growth rate		-0.73%	11.65%		27.05%	13.58%		26.07%	30.67%				

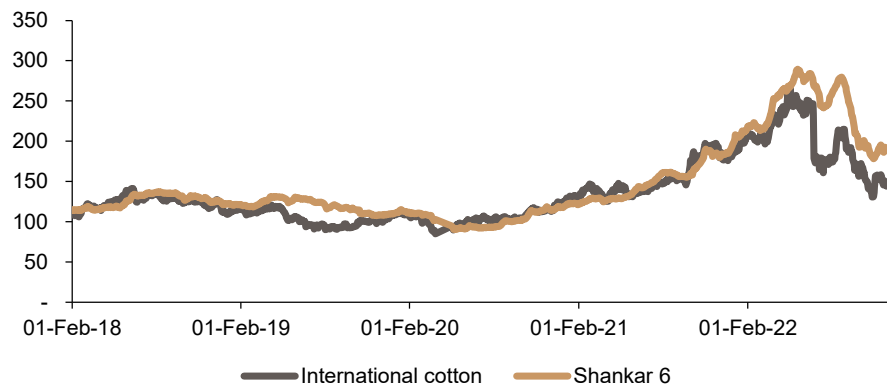
Source: Bloomberg*, Emkay Research

Gloom and doom

In the past few quarters, high cotton price and low demand for textiles and apparel, especially in the western world, have meant that most sector-players have been operating at low utilization. Inventory at major global retailers stayed high during this period, as consumer allocation to other essentials held priority due to inflation. Cotton prices in India in the last 5 months have been trading at 25%-50% premium to international cotton prices, thus severely impacting exporters who were already feeling the heat on account of slowing demand. More than 40% of Indian spinners either shut down operations or were working at low utilization, as yarn & cotton spread was negligible in most cases. The last few months have been the '**gloom and doom**' for the textiles industry.

Cotton prices across the globe have soared in the last few years:

Exhibit 5: Price (per kg) of Indian cotton (Shankar 6) and international cotton more than doubled in the past few years, on better demand and supply-chain issues



Source: Industry, Emkay Research

Cotton price in India and in other parts of the world more than doubled in the past few years, due to surge in demand, lower supply of cotton and supply-chain issues. During Covid, after some correction in price, demand initially saw surge in home-related textiles, before favoring woven fabric, on opening up of offices, etc.

Majority of US retailers have seen sales uptick in essentials and decline in discretionary; still in de-inventory mode:

Business of US retailers has been impacted by extraordinary macroeconomic factors like unprecedented inflation, rising interest rates and a turbulent geopolitical landscape, which have all weighed on consumer confidence.

With shift in consumer preference towards purchase of essential products (food and consumables), demand for discretionary (apparel, home textiles and hardlines) has reduced. This fall in demand has led to excess inventory being piled up with retailers. The high inventory is on the back of higher inflation and volume. Over the last few quarters, inventory has moved from supply chain to stores. Players have seen impact on both, sales and margin, in the last few quarters.

On the tone of the commentary of large retailers, we highlight some of the key aspects below, especially on the type of product sales, inventory and margin.

Exhibit 6: Walmart – Management Commentary

Q1 CY22	Brett Biggs - Executive VP, CFO: "While sales were ahead of plan in Q1, the category mix in the US was heavier in food and consumables as spending shifted somewhat away from more discretionary items, including categories impacted by unseasonably cool weather such as apparel, patio furniture, and landscaping supplies. We remain very bullish on our food and consumables business."
Q2 CY22	John David Rainey - Executive VP and CFO: "Food sales were especially strong with mid-teens growth, while general merchandise sales were soft particularly in electronics, apparel and home. This resulted in additional general merchandise markdowns in our US business, particularly in apparel at a time when inventory clearance was already higher than expected in the industry. Higher fuel prices also pressured our supply chain expense." John David Rainey - Executive VP and CFO: "There's more work to be done in inventory in general with a 25% increase and about 40% of that inflation and remaining does two things."
Q3 CY22	John Furner - President and CEO: "So the inventory has moved from the supply chain to a balance. So now it's in the store. And when you look at the dollar amount that's up, about 70% of it, three-fourths of it roughly is inflation and the rest we can approximate to a pretty significant improvement in stock over last year. Around USD1 billion would be what will be considered excess. That's down pretty significantly, about 1/3 of where we were at the end of Q2. So we're making improvements. Apparel and certain categories in GM are the heavy categories." John David Rainey - Executive VP and CFO: "General merchandise sales declined low single-digits with softness and electronics, home, and apparel. "

Source: Company, Emkay Research

Exhibit 7: Target Corp – Management Commentary

Q4 CY21	Brian Cornell - Chairman and CEO: "We see higher prices across the country. We see supply chain constraints that are steadily working themselves out, but will likely take more time, both of which are made more uncertain by the crisis in Ukraine. "
Q1 CY22	Brian Cornell - Chairman and CEO: "In our other three core merchandise categories, Apparel, Home and Hardlines, we saw a rapid slowdown in the year-over-year sales trend at the beginning of March. "
Q2 CY22	Christina Hennington - Executive VP and CGO: "Apparel also saw a low single-digit decline in the second quarter, but saw meaningful growth in women's fashion forward categories along with performance apparel on top of strong sales growth in the category over the past two years."
Q3 CY22	Christina Hennington - Executive VP and CGO: "Apparel comps were down only slightly in Q3, driven by growth in kids, men's, seasonal, and new fashion-forward assortments, offset by softness in swim, women's accessories and basics. In home, sales declined in the mid-single digits despite strong performance in seasonal areas." Michael Fiddelke - Executive VP and CFO: "Nearly all of the slowdown in the month of October was driven by our discretionary categories, apparel, home and hardlines as our guests became increasingly cautious in their spending in those categories at both Target and throughout the industry more broadly."

Source: Company, Emkay Research

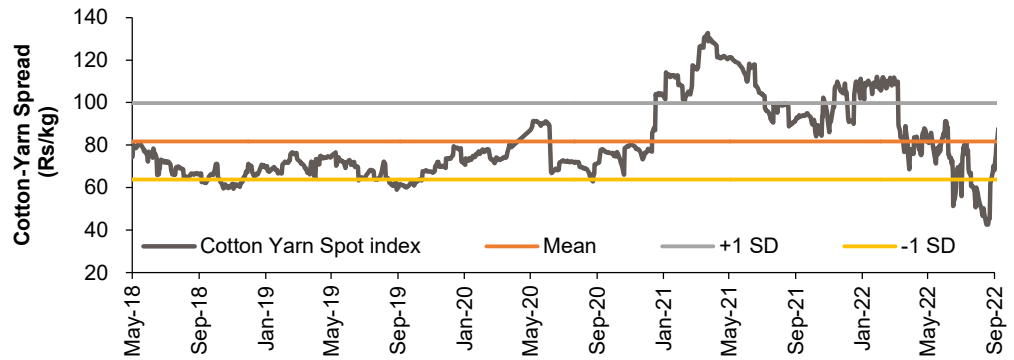
Exhibit 8: Gap Inc. – Management Commentary

Q1 CY22	Sonia Syngal – CEO: "We entered the first quarter anticipating a slowdown as we lapped the impact of the stimulus of the prior year. However, we began to experience a more profound weakness during the quarter at Old Navy, and to a lesser degree, at Gap North America, as those brands were most exposed to the rising inflationary environment, impacting our lower-income customer." Katrina O'Connell – CFO: "First quarter sales of \$3.5 billion were down 13% versus last year, with comparable sales down 14%. The decline was primarily driven by Old Navy, down 19% versus last year, with comparable sales down 22%, stemming from size and assortment imbalances, all compounded by continued lateness in our inventory flows and product acceptance issues in some key categories."
Q2 CY22	Katrina O'Connell – CFO: "Coming off of peak inflation and the higher gas prices, particularly impacting the low income consumer in June, we have seen an improvement in sales trends in July and into August, consistent with many other retailers. "
Q3 CY22	Bob L. Martin - Interim CEO and Chairman: "We saw consistent category strength in dresses, sweaters, pants and woven tops across the portfolio, with active underperforming across the board as consumers continue to shift away from the cozy, at-home lifestyle. It continues to experience softness in spending and shopping frequency from its lowest-income consumers." Katrina O'Connell – CFO: "We continue to anticipate an approximate 200 basis point inflationary and commodity cost headwinds and that ROD will likely be about flat as a percentage of sales versus last year."

Source: Company, Emkay Research

In the last few months, there has been significant demand slowdown although price of cotton remained steep (for a large part of 2QFY23). Indian players' pain has been beyond the demand slowdown, given high price of domestic cotton. Due to low quantity and poor quality of cotton in the last season, firm domestic demand and high import duty, Indian cotton has been trading at 25-50% premium since Jul-22. This led to negligible spread (between the 30-count yarn and cotton) for spinners, and utilization across India dropped by 30-40% on an average.

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Exhibit 9: Cotton Yarn (30-count) Spread turned negligible in 2QFY23

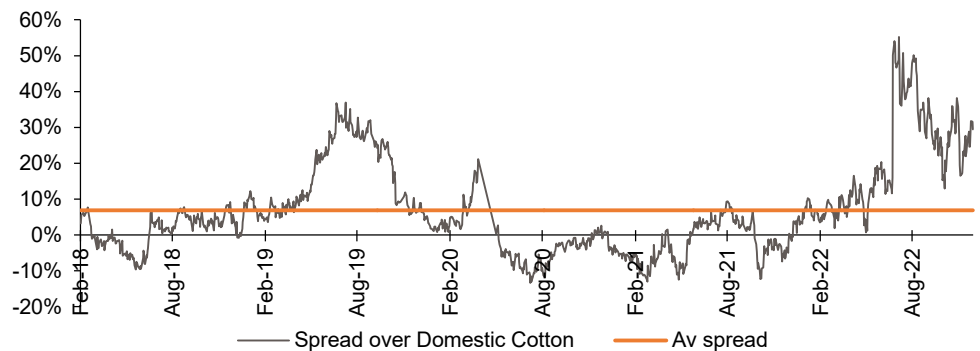
Source: Industry, Bloomberg

Spinners operated at 60-70% capacity during 2QFY23:

Average domestic cotton price during 2QFY23 stood at ~Rs88,000 per candy – a drop of 12-15% from the recent peak during May-June '22. Given the poor spread, most spinners in India were operating at 60-70% utilization. A number of small players in Gujarat and Tamil Nadu had even stopped operations, as they were seeing losses.

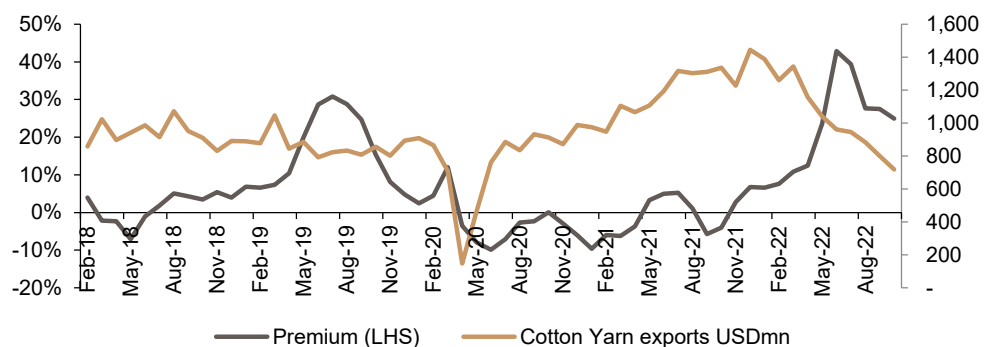
India and International cotton spread:

A comparison of the long-term spread of Indian cotton compared with US cotton clearly indicates a premium of not more than 5-7%, though some periods saw volatility. At the start of July '22, this premium had soared to 50%, and the average spread during 2QFY23 stood at ~36%. This is a strong pointer to why spinners in India are at a disadvantage.

Exhibit 10: Spread of Indian cotton over US cotton

Source: Bloomberg, Emkay Research

Low demand in the western part of the globe (key importing partners) and high cotton prices have had direct impact on exports from India. During Covid, India imposed 11% import duty on cotton which is still being observed; the industry players has been asking for its removal.

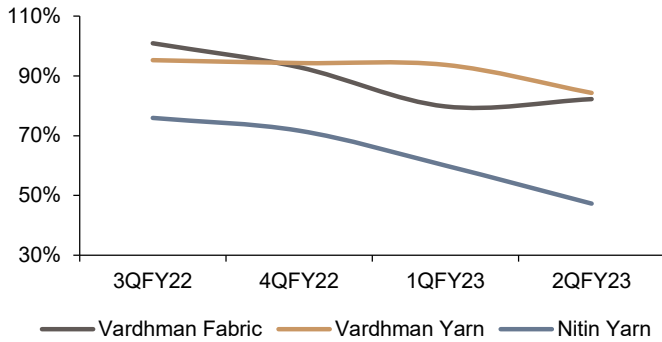
Exhibit 11: Premium and Cotton yarn exports from India

Source: Gol, Emkay Research

Utilization of Indian textile companies already down

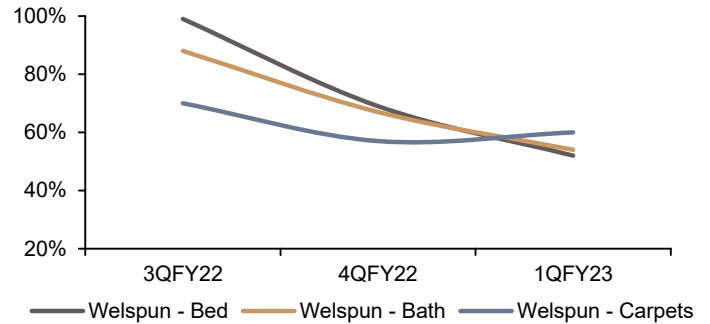
After a near-outstanding FY22, in terms of utilization and profitability for majority of the textile players in India, all players are now feeling the heat of muted demand and, hence, low utilization. For this reason, utilization for Nitin Spinners and Welspun India dropped to near 50% in 2QFY23 (from 80% and 95%, respectively, in 3QFY22). Vardhman was able to maintain ~85% utilization levels, thanks to its fairly-wide product range, size, clientele, blending and reach.

Exhibit 12: Vardhman and Nitin – Quarterly Utilization



Source: Company, Emkay Research

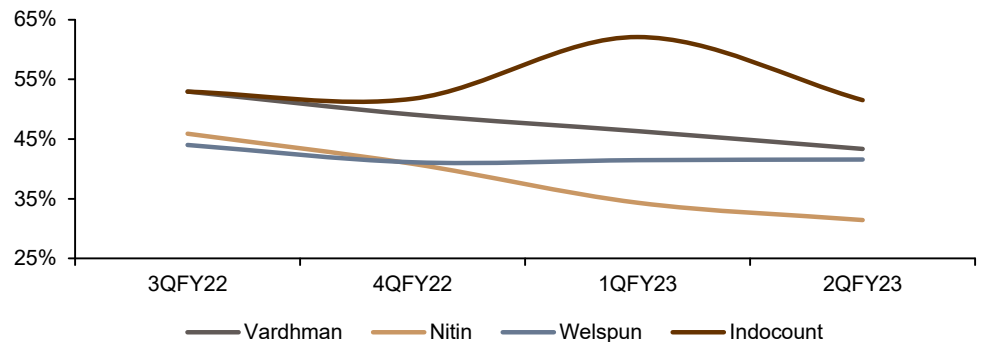
Exhibit 13: Welspun India – Quarterly Utilization



Source: Company, Emkay Research

Gross margin for most players has come off due to the high-cost inventory:

Exhibit 14: Gross Margin of players over the quarters



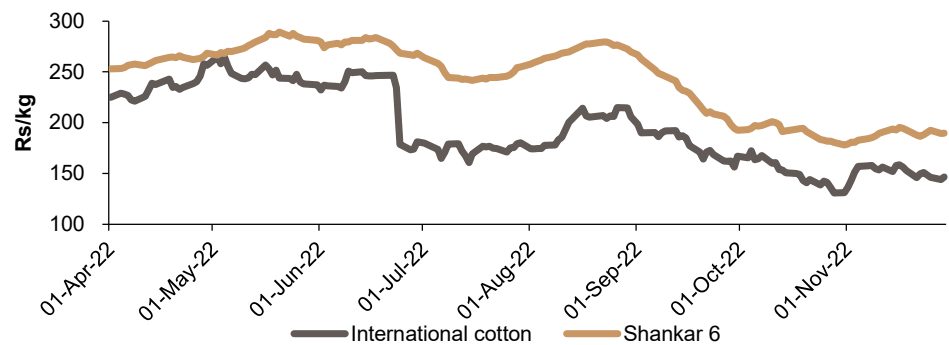
Source: Company, Emkay Research

Stumble and Start – The medium-term picture

When majority of the players were in **'stumble'** mode, correction in cotton prices globally was the only saving grace. Cotton prices in India have corrected from ~Rs1 lakh per candy to ~Rs70,000, given the new crop coming in and the low demand. International cotton futures are down ~50%. Also, cotton sowing in India has been 7% higher than last year's; rainfall in key cotton-growing States has been good. The Cotton Association expects a decent rise in production in FY23 which might eventually lead to lower prices. This should ideally bring down the steep differential in Indian and international cotton prices – the last 5-year differential has averaged at ~5% vs >25% presently. Even in a slightly low demand scenario, this differential-decrease would bring relief to Indian exporters, especially spinners. The Xinjiang cotton ban makes Indian cotton/yarn most sought after globally, as India is the second-largest cotton producing country. Also, other Asian countries are importers of cotton/yarn and India is their nearest source. In coming few quarters, we expect large retailers in USA to **'start'** the re-inventory process, on the back of some uptick in demand, though inflation remains a key concern in such geographies.

Prices of both, Indian and US cotton, have corrected in the last quarter – price of *Shankar 6* is now at ~Rs67,000/kg (down ~35% from the peak), while US cotton prices are down ~48%. Lower demand and the new crop are key reasons for the price correction. The extent of correction in Indian cotton prices is lower vs US cotton price.

Exhibit 15: Indian and US Cotton prices have both corrected, though not to the same extent

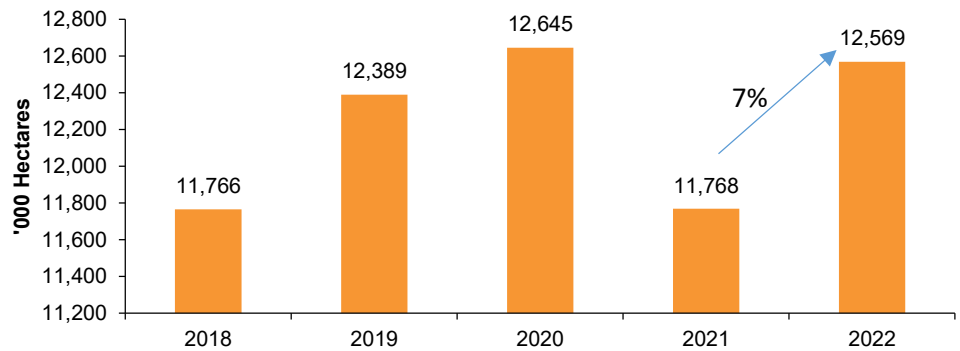


Source: Industry, Emkay Research

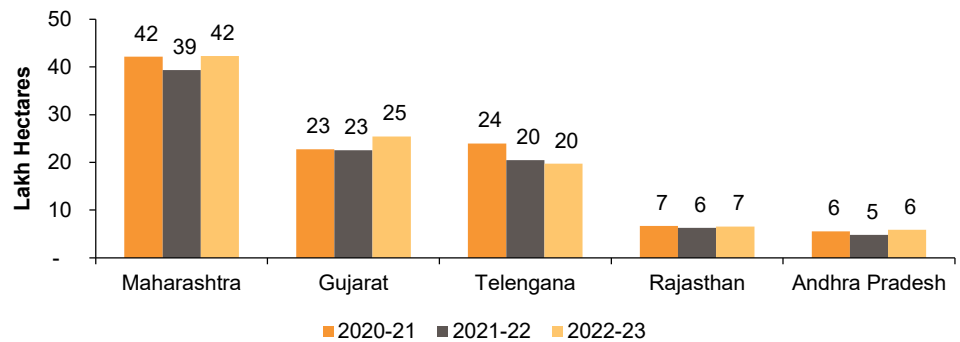
Indian Cotton Outlook:

Higher sowing and yields to lead to double-digit growth in Cotton production, over 2022-23:

As per Industry experts, the sowing area has increased by 7-8% in 2023. This, along with better yield (due to good rain), is expected to result in ~12% increase in cotton production in India, as per estimates by the Cotton Association of India (CAI).

Exhibit 16: Cotton Sowing area has increased in India

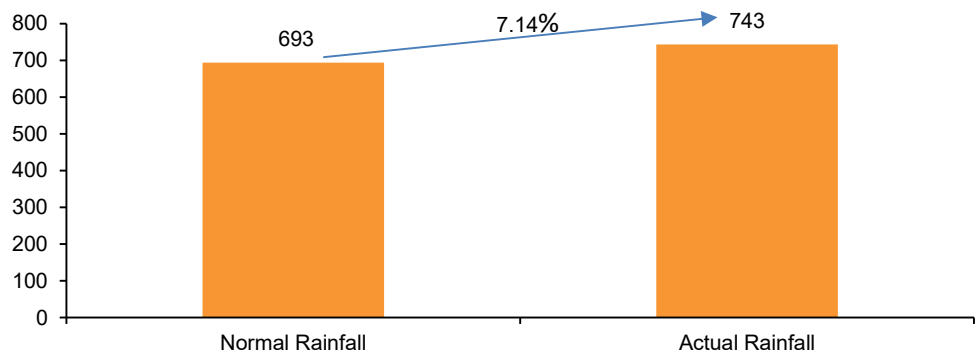
Source: Gol, Emkay Research

Exhibit 17: Area under cotton coverage (key States)

Source: Gol, Emkay Research

Firm prices have led to the cotton-sowing area increasing by approximately 7% in comparison with last year and comparable with 2019/2020.

The States that have contributed to this increase include Maharashtra, Gujarat and Andhra Pradesh. However, States such as Telangana and Haryana have witnessed a fall in the sowing area dedicated to cotton production. As the crop fetched record prices last season, farmers have shifted to sowing more cotton in their fields.

Exhibit 18: Normal vs Actual Rainfall, for current monsoon season

Source: Gol, Emkay Research; Note: Rainfall measured in mm

Key cotton-growing States have consistently seen higher-than-normal rainfall. Above-normal rainfall is a positive indicator of better crop cultivation. Hence, cotton harvest for 2022-23 is expected to be higher than last year's.

With the actual area of production being higher by approximately 7% YoY, and rainfall being well above normal levels, it is highly likely for the actual yield to be well above the projected yield. On the same lines, the projected production and consumption estimates are also likely to see a beat.

Cotton production is expected to increase by 12-15%.

Higher production of cotton leads to increase in supply of cotton, which is beneficial for spinners, who are currently impacted by tight spreads due to higher raw-material costs. Spinners are

expected to benefit because of better spreads, as cotton rates are expected to fall below the current levels.

The CAI expects production to be higher by ~12% for the 2023 season, though demand is estimated to be lower due to overall global slowdown and inventory build-up.

Exhibit 19: Cotton – Balance sheet for 2023 season

The Balance Sheet drawn by CAI

Lakh bales*	2021-22	2021-23	Chg
Opening stock	71.8	31.9	
Production	307.1	344.0	12%
Imports	14.0	12.0	
Total Supply	392.9	387.9	-1%
Total Domestic demand	318.0	300.0	-6%
Available Surplus	74.9	87.9	
Exports	43.0	30.0	
Closing Stock	31.9	57.9	

Source: CAI, Emkay Research; Note: * 1 bale = 170kg;

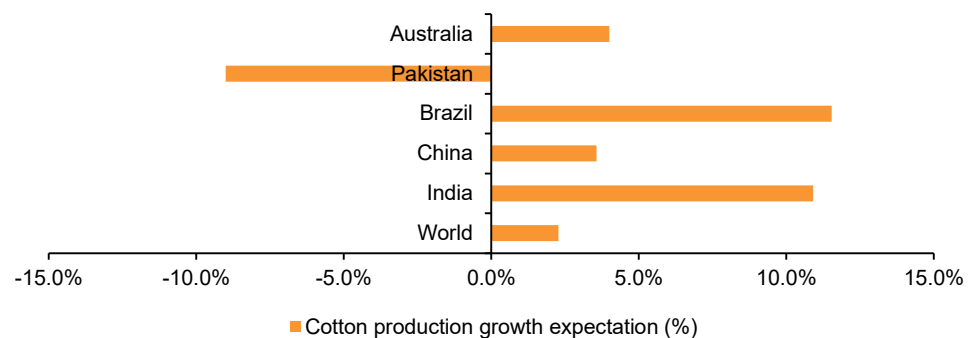
Based on the above estimates, we expect the spread between Indian and US cotton to normalize.

Global Cotton Outlook:

Global Cotton production forecast to be higher in 2023:

The overall cotton production globally is expected to grow by 2.3% YoY, with India and Brazil growing in double digits, China growing by ~4%, albeit Pakistan seeing a ~9% decline due to floods and the heat-wave. A decline is expected in USA too.

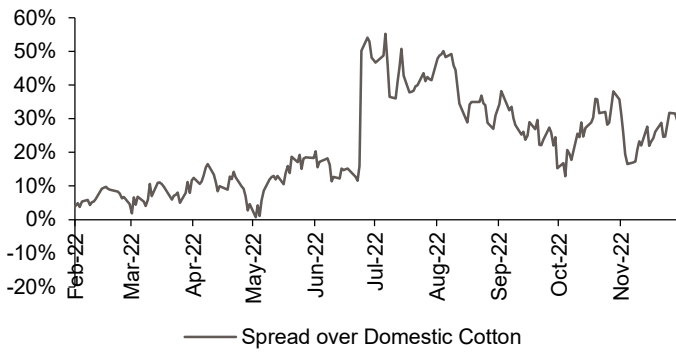
Exhibit 20: Growth in global cotton production expected at 2.3%; and at 11% in India and 12% in Brazil



Source: Industry, Emkay Research

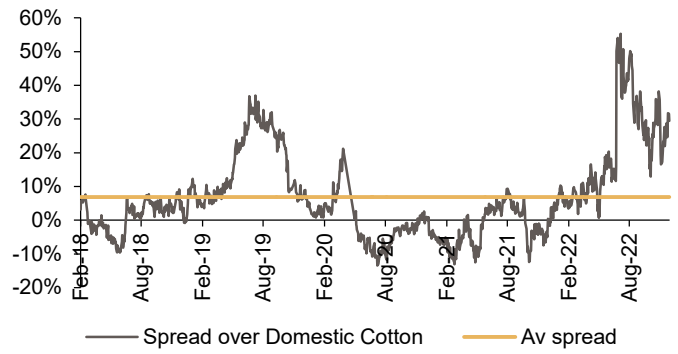
From the perspective of 'mill' use of cotton, a large deviation is not expected from key consumption countries such as China, India, Bangladesh, Pakistan and Vietnam; hence, there is high probability that Indian cotton price moves closer to International cotton price in the current cotton season.

Exhibit 21: Spreads have already started to come down...



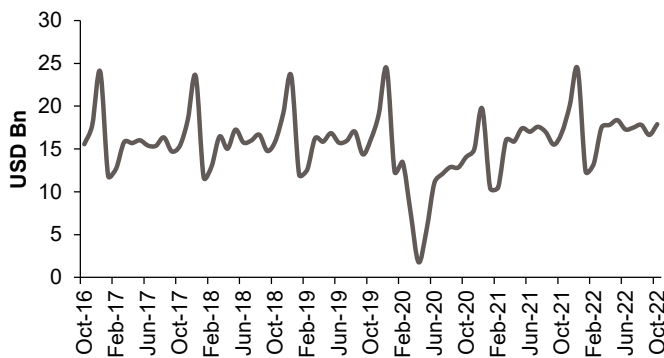
Source: Industry, Emkay Research

Exhibit 22: ...and might normalize in coming quarters (towards single-digit vs ~25% currently)



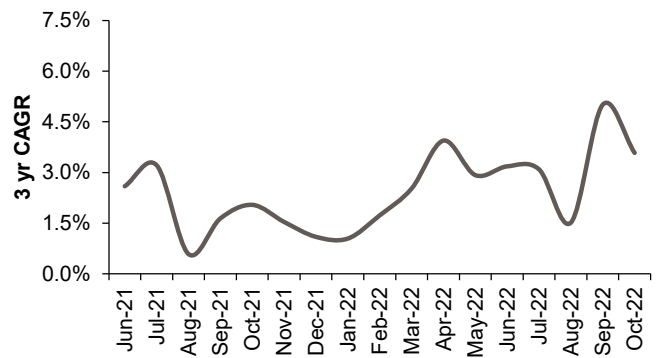
Source: Industry, Emkay Research

Exhibit 23: US retail sales for clothing stores is decent



Source: Bloomberg, Emkay Research

Exhibit 24: US retail sales for clothing (3-year CAGR)



Source: Bloomberg, Emkay Research

Exhibit 25: US Clothing and Accessories – Inventory-to-Sales (x) – at pre-pandemic level



Source: Bloomberg, Emkay Research

While the inventory-to-sales ratio seems to have gone up (from mid-FY21 to the present), it was at the same level pre-Covid (the last 10-year average ratio being ~2.4x).

Over the next few quarters, we expect large retailers in USA to start the re-inventory process, once demand picks up pace.

Sprint and Soar – The long-term picture

Global Apparel Market

The global apparel market reached a turnover of USD1.5trillion in CY21, a 16% rise from CY20; it is expected to reach USD2trillion by 2025.

China is likely to become the largest apparel market by 2025 at USD340bn, followed by the European Union at USD280bn and the United States at USD265bn.

Exhibit 26: Global Apparel Market turnover

Region (USD bn)	2019	2020	2021	2025 (P)
EU-27	264	219	211	280
United States	235	176	257	265
China	184	166	188	340
Japan	101	81	78	105
India	78	55	72	135
Brazil	48	34	39	60
Canada	25	20	22	37
RoW	690	517	600	780
World	1,625	1,268	1,467	2,002

Source: Industry, Emkay Research

Global Textile and Apparel Trade:

Global textile & apparel trade turnover was USD774bn in CY20, lower than previous year's, due to the Covid pandemic. It is expected to reach USD1 trillion by CY25.

Exhibit 27: Global textile and apparel trade

Product (USD bn)	2010	2015	2019	2020	2025 (P)
Fiber	52	53	53	29	60
Yarn	27	29	26	44	30
Fabric	129	148	160	124	180
Apparel	348	444	482	416	600
Home Textiles	43	50	51	49	60
Other	42	52	66	113	70
Total	641	776	838	775	1,000

Source: Industry

Leading Textile and Apparel Exporters:

China is the top exporter in terms of textiles and apparel, with USD294bn and 38% of the total exports. Vietnam is the #2 exporter (5% of the share), followed by Germany, Bangladesh, Italy and India.

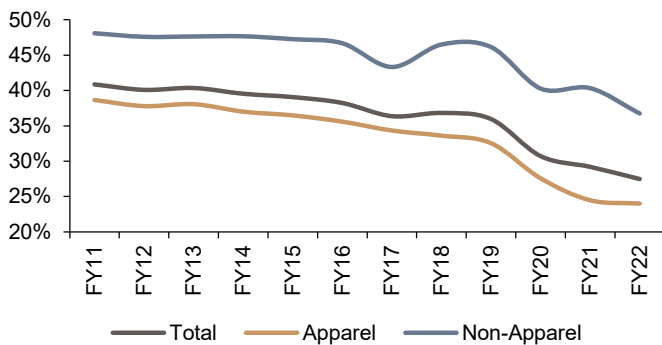
India's share stands at 4%, with textile exports worth USD17.4bn and apparel exports worth USD12.2bn.

Exhibit 28: China is the top exporter of textiles and apparel

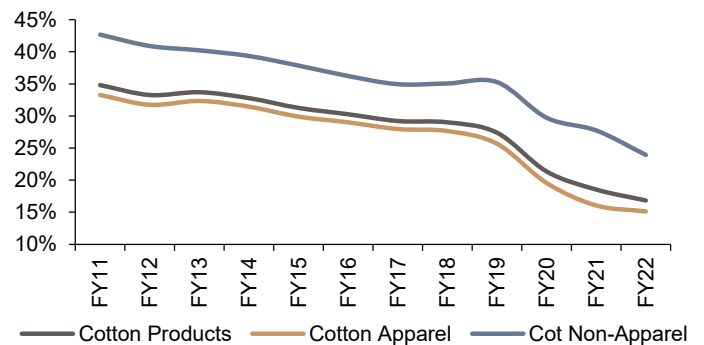
Country (USD bn)	Exports (2020)			Share
	Textile	Apparel	Total	
China	161.4	132.5	293.9	38%
Vietnam	10.1	30.3	40.4	5%
Germany	14.2	22.6	36.7	5%
Bangladesh	4.3	31.5	35.7	5%
Italy	10.0	20.4	30.4	4%
India	17.4	12.2	29.6	4%
Turkey	12.1	15.0	27.0	3%
USA	18.7	4.1	22.8	3%
Netherlands	5.2	11.1	16.2	2%
Spain	4.2	11.6	15.8	2%
ROW	101.2	124.5	225.8	29%
Total	358.8	415.8	774.3	

Source: Industry

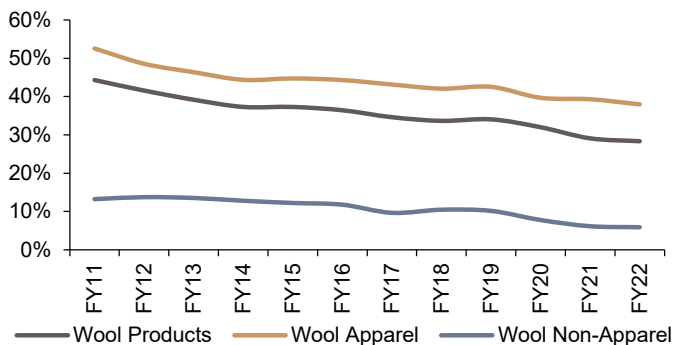
While China continues to be the market leader in terms of global textile and apparel trade, the last decade has seen a clear shift in market share from China to exporting countries in Asia such as India, Pakistan, Bangladesh and Vietnam.

Exhibit 29: Textile exports (market share) from China to USA

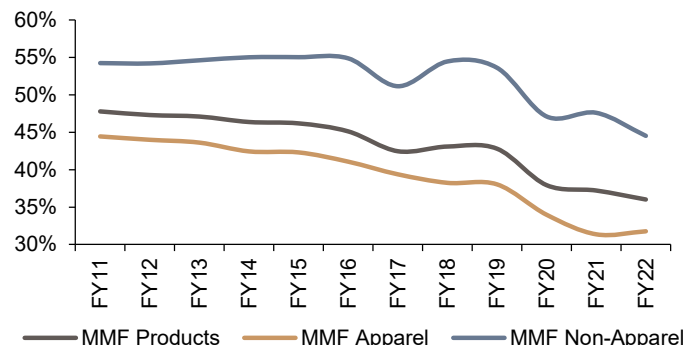
Source: Industry, Emkay Research

Exhibit 30: Cotton Products exports (market share) from China to USA

Source: Industry, Emkay Research

Exhibit 31: Woolen Products exports (market share) from China to USA

Source: Company, Emkay Research

Exhibit 32: MMF Products exports (market share) from China to USA

Source: Company, Emkay Research

The past decade has seen a gradual fall in the share of textile exports from China to USA. High labor cost in China has weighed on its competitive strength.

Although the decline in China's share of textile exports has been measured in the past decade, it escalated post the ban imposed by USA on the Xinjiang region which diverted China's loss in export share to other cotton-growing and textile-producing countries such as India, Vietnam, Bangladesh and Pakistan.

Orders for spindles are witnessing a shift from China to other countries due to increase in cost of production in China. Notably, India seems to be topping the list for around the last two years.

Exhibit 33: Of recent, China is no more the top-country to place new orders for spindles

Geographical shift in orders for spindles		
2011-20	2021	9M 2022
I. China	I. India	I. India
II. Turkey	II. Turkey	II. Turkey
III. India	III. China	III. China
IV. Uzbekistan	IV. Uzbekistan	IV. Uzbekistan
V. USA	V. Pakistan	V. Pakistan

Source: Based on data from a large spindle manufacturer

Cost elements worldwide

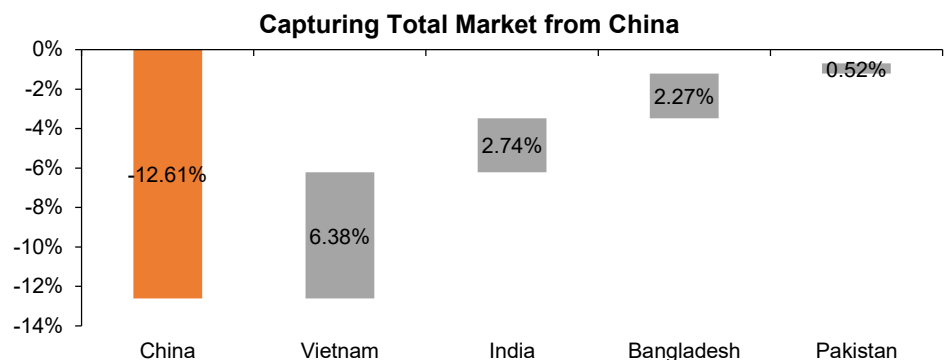
India has a clear advantage over Asian peers like China and Vietnam, in terms of labor cost. India's power & water costs are lower vs China's. Bangladesh's cost of labor is lower than India's and this is one of the key reasons it has succeeded in garmenting, which is more labor-intensive than spinning or home textiles.

Exhibit 34: Cost of production factors

Cost of production	Unit	India	Bangladesh	China	Vietnam
Labor cost	USD/month	160-180	110-120	550-600	190-200
Power cost	USD/KWh	0.10-0.12	0.09-0.12	0.15-0.16	0.08-0.10
Water cost	USD/mtr ³	16-18	20-22	55-60	50-80

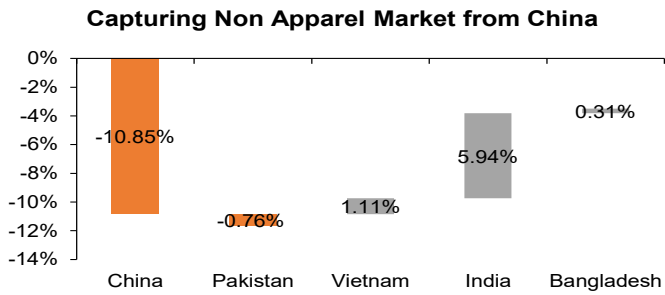
Source: Company, Emkay Research

Exhibit 35: Vietnam, India and Bangladesh are key beneficiaries of China's loss (in the last 10 years) of share in Textiles in the USA



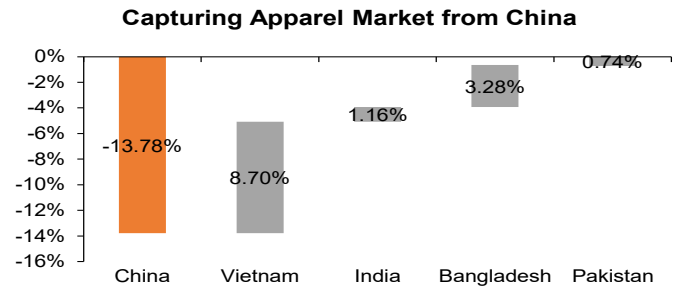
Source: Industry, Emkay Research

Exhibit 36: India and Vietnam are key beneficiaries of China's loss of share in the non-apparel market in USA



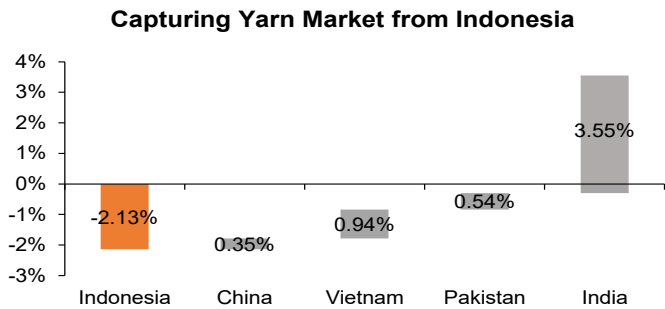
Source: Industry, Emkay Research

Exhibit 37: Vietnam and Bangladesh are key beneficiaries of China's loss of share in the apparel market in USA



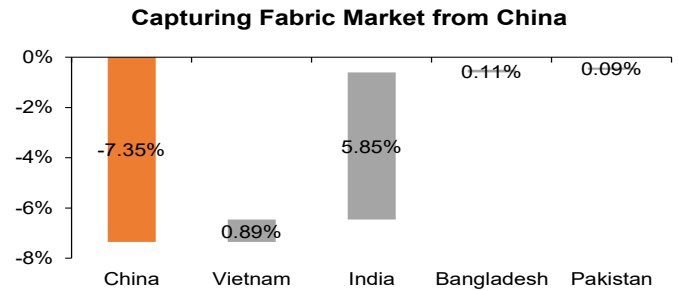
Source: Industry, Emkay Research

Exhibit 38: India has been a major beneficiary in the yarn market in the USA



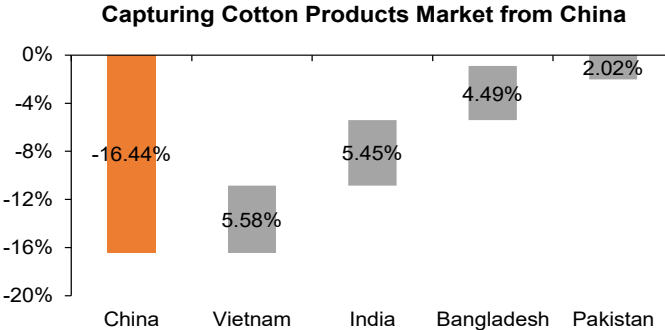
Source: Industry, Emkay Research

Exhibit 39: India is key beneficiaries of China's loss of share in the fabric market in the USA



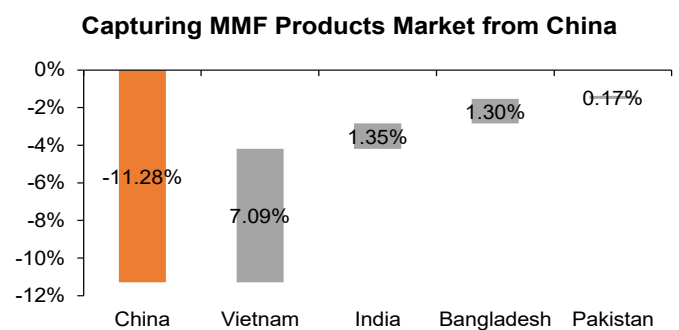
Source: Industry, Emkay Research

Exhibit 40: Vietnam, India and Bangladesh are key beneficiaries of China's loss of share in the cotton products market in USA



Source: Industry, Emkay Research

Exhibit 41: Vietnam is the key beneficiaries of China's loss of share in the MMF Products market in USA



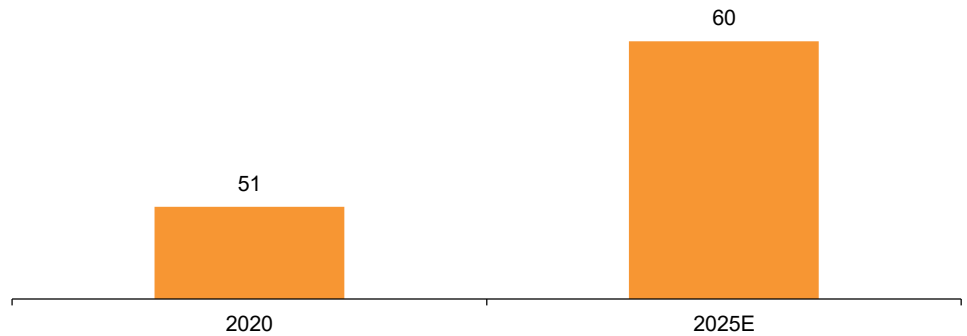
Source: Industry, Emkay Research

Notably, Indian spinners are likely at an advantage due to demand from Asian peers in fabric and apparel, given that other Asian countries are not investing much in Spinning.

Global Home Textile Market

The global home-textile market is expected to reach a turnover of USD60bn by 2025.

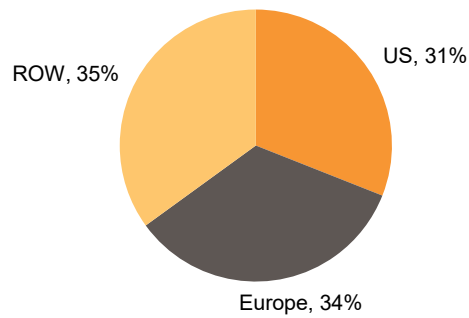
Exhibit 42: Global home textile market to grow (USD bn)



Source: Industry, Emkay Research

Europe (34%) and USA (31%) account for a fairly large pie of the global Home Textile market.

Exhibit 43: Global Home-Textile market composition

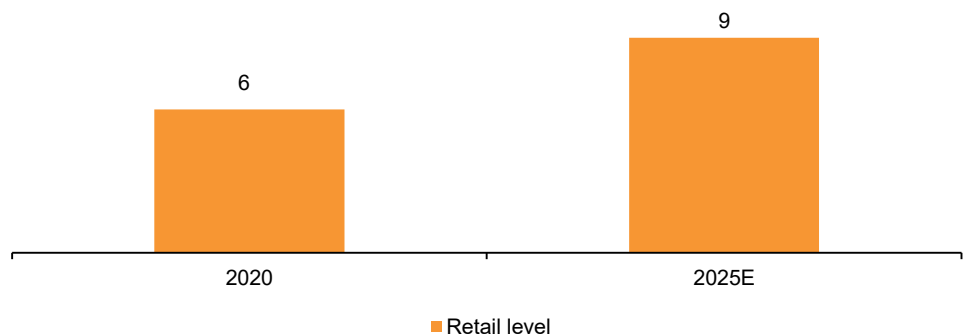


Source: Industry, Emkay Research

India's Home-Textile market

The home-textile market (retail level) in India is large, and is expected to reach USD9bn by 2025.

Exhibit 44: India's Home-Textile market (USD bn)



Source: Industry, Emkay Research

India – Leader in some categories

Indian Textile market:

India has ~4% share in global textile & apparel exports (~USD35bn). Globally, China has ~38% market share, followed by countries such as Vietnam, India, Bangladesh, Pakistan, Germany and Italy that have 3-5% market share. India stands second in Home-Textile exports (11% of market share), while it leads in the export of Spun Yarn Natural (~23% market share). India's share of sheets and pillows in the US market has almost doubled, from 27% in CY2009 to 52% in CY2020.

India is among the top-3 exporters in the world, in categories like Home Textiles, Spun Yarn Natural, and Spun Yarn Manmade, among others.

Home Textiles:

China is leading the pack in terms of Home-Textile exports, with USD18.6bn worth of goods exported and 38% of the total share of exports. India comes in second, with 11% of the share and USD5.2bn worth of goods exported.

Exhibit 45: China and India are the top-two exporters, in terms of Home Textiles

Country	2020 share	Value (USD bn)
China	38%	18.6
India	11%	5.2
Turkey	8%	4.1

Source: Industry

Spun Yarn Natural:

India tops exports in the Spun Yarn Natural category, with 23% of the global export share and USD2.7bn worth of goods exported. The #2 exporter is Vietnam (22% share), followed by China (12% of the share).

Exhibit 46: India is the top exporter of Spun Yarn Natural

Country	2020 share	Value (USD bn)
India	23%	2.7
Vietnam	22%	2.6
China	12%	1.4

Source: Industry

Spun Yarn Manmade:

Exports of Spun Yarn Manmade are dominated by China with 36% of the global share, followed by Indonesia with 9% share. India comes in third, with 6% of share and USD600mn worth of exports.

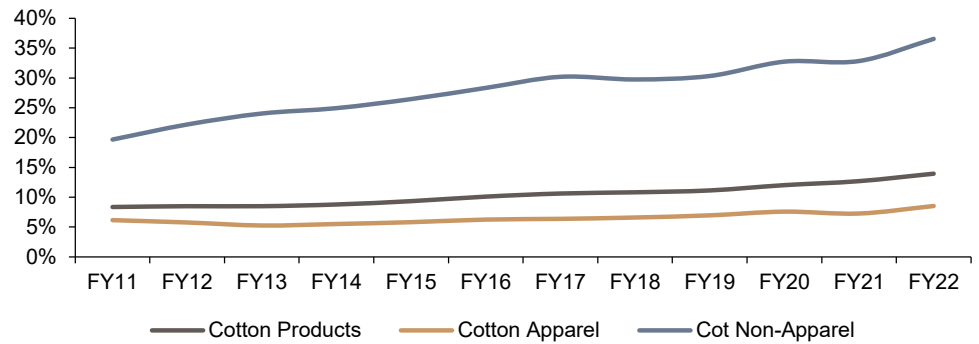
Exhibit 47: China tops in Spun Yarn Manmade exports, with India being #3

Country	2020 share	Value (USD bn)
China	36%	3.1
Indonesia	9%	0.8
India	6%	0.6

Source: Industry

India is extremely strong with regard to Cotton product exports to USA:

Exhibit 48: Exports of cotton products (market share) from India to USA

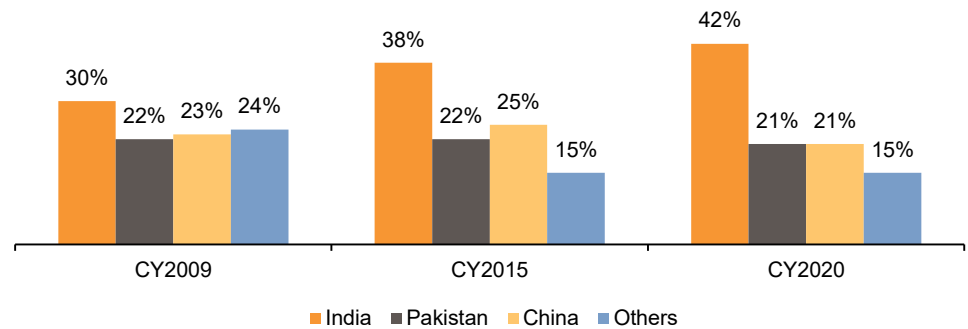


Source: Industry, Emkay Research

India is the largest player with regard to US imports of towels, bed-sheets and pillows.

India's share in US imports of towels has been on the rise, from 30% in CY2009 to 42% in CY2020. India is capturing market share from smaller players, as share of Pakistan and China has remained unchanged.

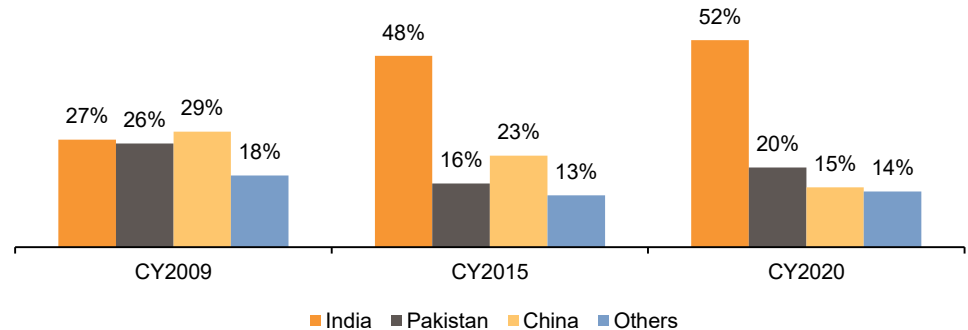
Exhibit 49: US market (Towels) – India's rising exports share



Source: Industry, Emkay Research

India is the largest player in US imports of bed-sheets and pillows, with market share of more than 50%. India has captured market share not only from smaller players, but also from big players like Pakistan and China. US imports were dominated by China (29% in 2009), which now holds only 15%.

Exhibit 50: US market (bedsheets + pillows) – India's exports share is >50%



Source: Company, Emkay Research

India – Lagging in Apparel

India lags in global apparel exports, with total export share of only 3% and USD12.2bn worth of apparel exported. The total apparel segment is large, with ~USD416bn worth of goods exported. China tops the apparel export market with 32% of the global share and USD132.5bn worth of exports. Bangladesh comes in second, with USD31.5bn worth of apparel exports, followed by Vietnam at USD30.3bn of apparel exports.

Exhibit 51: India is #7 in global Apparel exports

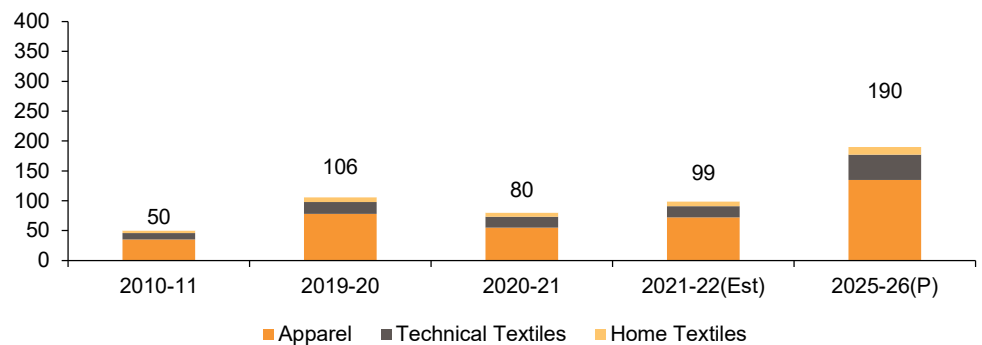
Country	Exports – 2020 (USD bn)	Share
China	132.50	32%
Bangladesh	31.50	8%
Vietnam	30.30	7%
Germany	22.60	5%
Italy	20.40	5%
Turkey	15.00	4%
India	12.20	3%
Spain	11.60	3%
Netherlands	11.10	3%
USA	4.10	1%
ROW	124.50	30%
Total	415.80	

Source: Industry

Domestic Market

India's domestic textile & apparel market is estimated at USD99bn (as of FY22) and is expected to spin-in 10% CAGR from FY20, reaching USD190bn by FY26, with share of Apparel at USD135bn, of Technical Textiles at USD42bn, and of Home Textiles at USD13bn.

Exhibit 52: India's Domestic Textile and Apparel Market (USD bn)



Source: Industry

Disadvantage on Indian textile exports: Tariff

India is at a disadvantage regarding import duty, across many key nations, for textile products.

In comparison with its Asian peers like Bangladesh and Pakistan, India is required to pay additional tariff when exporting to the EU.

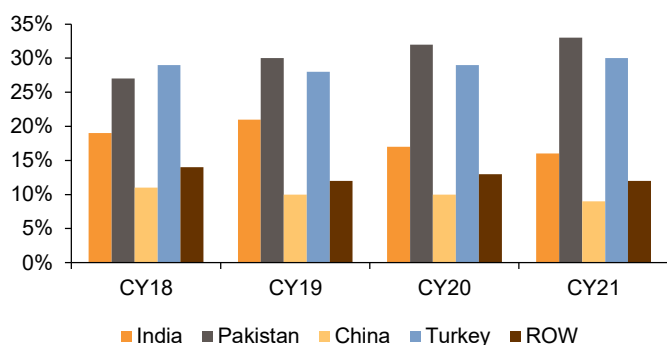
Exhibit 53: Average tariff on textiles imposed by the EU and USA on developing nations

	EU	USA
India	5.9%	6.2%
Pakistan	0.0%	5.3%
Bangladesh	0.0%	3.9%
Vietnam	6.1%	5.5%

Source: Emkay Research

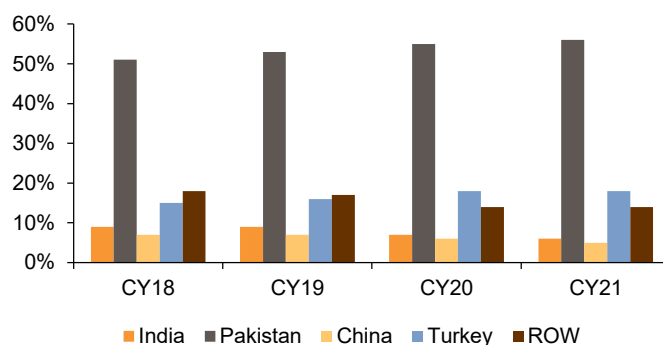
Additionally, India has withdrawn from the Regional Comprehensive Economic Partnership (RCEP) with ASEAN, East Asian nations, Australia and New Zealand; this move is expected to eliminate about 90% of the tariffs for India with its signatories.

Exhibit 54: EU Imports of Terry Towels



Source: Company, Emkay Research

Exhibit 55: EU Imports of Cotton Sheets



Source: Company, Emkay Research

We believe India's textile growth has 2 major arms:

1) **New FTAs and market-share increase in adjacencies for established players in cotton/spinning capacity:** Welspun and Indo Count are established home-textile players in USA. New FTAs will open up growth opportunities in new geographies. Further, these companies have entered adjacencies like top-of-bed products and flooring in USA, to increase their share. Similarly, garment companies like Gokaldas can have access to new geographies with new FTAs; the company is also simultaneously entering into the knitting space, which will open new avenues of growth.

2) **PLIs for Apparel to help develop the ecosystem for MMF:** Gol's PLI schemes are largely targeted at developing an ecosystem for MMFs, in which India has been lagging, given lack of a suitable ecosystem for MMF. In USA, India accounts for ~14% of cotton-product imports, while imports of MMFs are less than 4%. Garment players like Gokaldas can get benefit in the medium term, once an MMF ecosystem is put in place. Importantly, only ~40% of Gokaldas's export are MMF-based, while global MMF demand is more, at 60-65% of the mix.

India-Australia Free Trade Agreement advantage:

India and Australia have signed a comprehensive interim free trade agreement, beneficial to both – while Australia forms a bond with a more reliable partner and an alternative to China, India gains access to uninterrupted supply of key inputs. The Agreement unlocks huge opportunities for Indian exporters, as 95% of its goods, including textiles, will not face any kind of duty.

New FTAs with the UK/EU would offer opportunity to large established players:

India and UK have restarted negotiations for a comprehensive free trade agreement after a gap of eight years. As per media reports, a member of Britain's governing Conservative Party said that India should prioritize reducing tariffs on manufactured goods, to benefit sectors like the

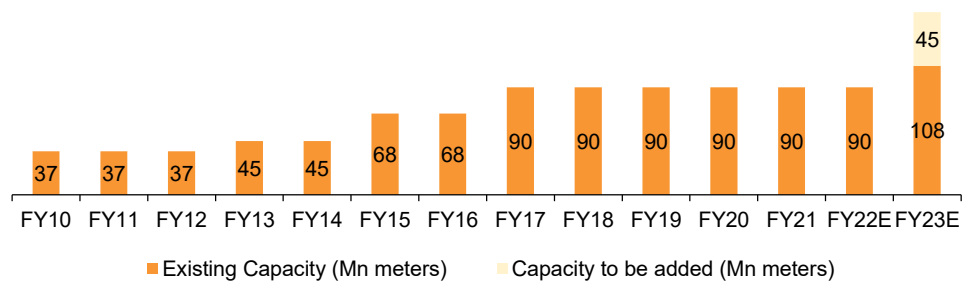
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automotive industry. Government sources also indicate that 14 of the 26 chapters of the trade deal have been finalized. The proposed agreements provide greater market access for Indian exports, in agricultural, textile & engineering goods. There is expectation of finalization of an FTA with the UK in coming quarters.

Players, apart from increasing their present capacity, aspire to capture higher wallet share by entering new product lines:

Indo Count Industries is a leading exporter of bed-sheets and bed-linen in India. Indo Count's bed-linen capacity is 90mn meters. With increasing demand, the company is undertaking brownfield expansion and has also acquired the Home Textile division of GHCL. The brownfield expansion boost production by 18mn meters, while 45mn meters will come via the inorganic acquisition of the GHCL division. The total capacity by end-FY23 will be 153mn meters. Additionally, the company has acquired intellectual property rights of the GHCL American subsidiary: Grace Home Fashion LLC.

Exhibit 56: Indo Count Industries – Bed-linen capacity

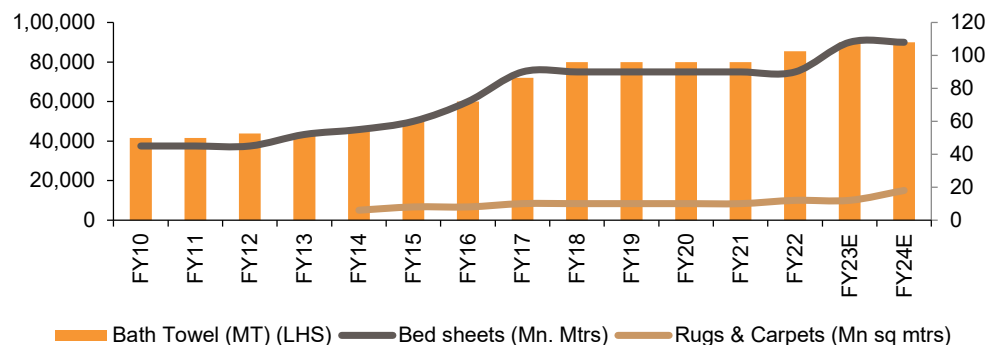


Source: Company, Emkay Research

With the acquisition of GHCL's home textile division, the company has added 9 new brands & technologies to its existing portfolio. This will add a new avenue of untapped customer base that will help Indo Count to gain more market share globally.

Similarly, Welspun India has initiated plans to increase its production capacity for bath towels, bed sheets and rugs & carpets. Its bath-towel capacity, which stand at 85,400mt, is expected to reach 90,000mt by FY23. Bed-sheet capacity, which stands at 90mn meters, is expected to reach 108mn meters by FY23. Rugs & Carpets capacity is expected to increase to 18million square meters by FY24 from 12million square meters.

Exhibit 57: Welspun's expected capacity



Source: Company, Emkay Research

Welspun India has ventured into the emerging business of Flooring and Advanced Textiles.

Flooring:

Welspun has entered into technologically-advanced flooring solutions, to meet the flooring needs of the Home, Hospitality and Commercial segments. Company aims to revolutionize the renovation vertical of the Indian flooring segment. Welspun is the only company that manufactures hard & soft flooring solutions under one roof. The Flooring business was initially

meant to serve the Indian markets; Welspun is seeing positive traction from exports, especially in hard flooring.

Advanced Textiles:

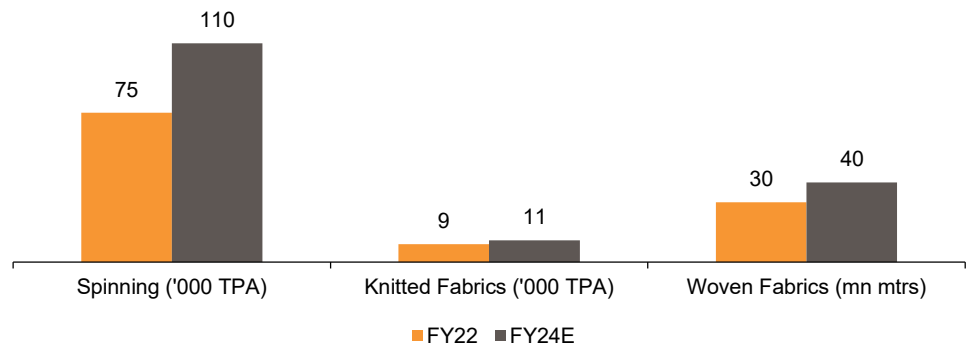
In advanced textiles, Welspun offers products under the following categories:

- Spunlace: Catering to medical disposables, hygiene and cosmetic industries.
- Needle punch: Applications for Air filtration, engine air filter, liquid filtration-Industrial oil, fuel, food & beverages, paints, pharma.
- Wet wipes: End-applications like baby care, personal hygiene, cosmetics, industrial use and home care.

Company has entered the advanced textiles space, given its experience in the home textiles business.

Nitin Spinners is moving up the value chain, from being a pure spinner to acquiring knitting capabilities. The company placed a proposal for expansion within the next 12-15 months at an investment of Rs9.55bn, to increase capacity. The company plans to boost its annual capacity for yarn production from the current 75,000tons to 110,000tons, for knitted fabrics from 9,000tons to 11,000tons, and for woven fabric from 30mn meters to 40mn meters by FY24.

Exhibit 58: Nitin Spinners – Expected increase in capacity



Source: Company, Emkay Research

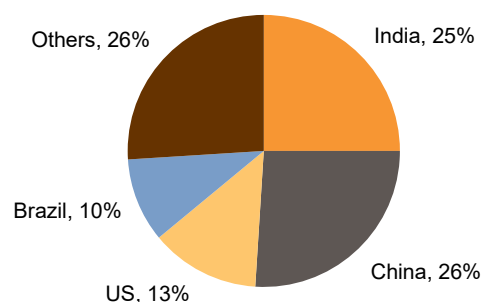
China plus one and Xinjiang issue

The Covid-19 pandemic has altered the global supply-chain, with several textile and apparel brands preferring to source from an alternative destination than China.

China accounts for 26% of the total global cotton production, of which ~80% of the cotton is produced in the Xinjiang region of China. USA and other western nations have accused China of committing crimes against humanity, especially the ethnic Muslim population in the Xinjiang region; this has resulted in the banning of Xinjiang cotton by USA and other nations.

India is the second-largest producer of cotton in the world, after China. Banning of cotton from the Xinjiang region will lead to opportunities for India.

Exhibit 59: Global Cotton production



Source: Company, Emkay Research

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Emkay Research is also available on www.emkayglobal.com and Bloomberg EMKAY<GO>. Please refer to the last page of the report on Restrictions on Distribution. In Singapore, this research report or research analyses may only be distributed to Institutional Investors, Expert Investors or Accredited Investors as defined in the Securities and Futures Act, Chapter 289 of Singapore.

PLIs for Apparel to help develop the ecosystem for MMF

PLI schemes to accelerate growth in the sector:

The government has approved the Production Linked Incentive scheme for textiles, with an outlay of Rs107bn for five years, to promote production of MMF apparel, MMF fabrics, and technical-textile products.

Exhibit 60: Production Linked Incentive (PLI) scheme for textiles

Objective	Promote production of MMF Apparel & Fabrics and Technical Textiles products in the country
Outlay	Rs106.83bn
Period	5 years (2024-25 to 2028-29)
Incentive	Incentive to be given, based on minimum investment made and minimum turnover achieved
	Turnover and incentive, based on minimum investment of Rs3bn

Year	Gestation period	Performance year	Incentives claim year	Minimum Prescribed Turnover	Rate of incentive
*	FY 2022-2023				
*	FY 2023-2024	Optional	Optional		
1		FY 2024-25	FY 2025-26	Rs6bn	15%
2		FY 2025-26	FY 2026-27	Rs7.5bn	14%
3		FY 2026-27	FY 2027-28	~Rs9.385bn	13%
4		FY 2027-28	FY 2028-29	~Rs11.72bn	12%
5		FY 2028-29	FY 2029-30	~Rs14.65bn	11%

Turnover and incentive based on Minimum investment Rs 1 bn

Year	Gestation Period	Performance year	Incentives claim year	Minimum Prescribed Turnover	Rate of incentive
*	FY 2022-2023				
*	FY 2023-2024	Optional	Optional		
1		FY 2024-25	FY 2025-26	Rs2bn	11%
2		FY 2025-26	FY 2026-27	Rs2.5bn	10%
3		FY 2026-27	FY 2027-28	~Rs3.13bn	9%
4		FY 2027-28	FY 2028-29	~Rs3.91bn	8%
5		FY 2028-29	FY 2029-30	~Rs4.88bn	7%

Rules for Incentives	Incentive will only be given when participants achieve:
	a) prescribed turnover target for the year, and
	b) 25% additional incremental turnover over the immediate preceding year's turnover *

Source: Emkay Research; Note: * cap of maximum 35% admissible incremental turnover

PLI schemes will, over the medium term, develop an ecosystem for MMF which will help garment players such as Gokaldas, Arvind and Pearl Global.

Atmanirbhar in Textile – Government incentives:

The Government of India (GoI) has introduced *Atmanirbhar Bharat* to promote the Indian manufacturing industry.

- PLI:** The GoI has approved the Production Linked Incentive scheme for textiles, with an outlay of Rs106.83bn for five years, to promote production of MMF apparel, MMF fabrics and products of technical textiles.
- National Technical Textiles Mission:** The GoI has approved the creation of National Technical Textiles Mission for a period of 4 years (2020-21 to 2023-24), with an outlay of Rs14.8bn. The focus of the mission is the use of technical textiles in agriculture, aquaculture, dairy, poultry, etc.
- Rebate of State and Central taxes & Levies (RoSCTL):** Under this scheme, garment exporters will get rebate on Central and State taxes on their outward shipments till March 2024. The rebate is aimed at enhancing competitiveness of the labor-intensive textile sector.

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Vardhman Textiles

Refer to important disclosures at the end of this report

King of Spinning

CMP	Target Price
Rs 294 as of (December 23, 2022)	Rs 455 12 months
Rating	Upside
BUY	54.9 %

- **We initiate coverage on Vardhman Textiles (VTEX) with a BUY rating and Dec-23 TP of Rs455. Having the largest spinning capacity in India and producing among the widest range of products help VTEX operate at better utilization and clock higher realization than peers. India's position in cotton spinning remains strong, on the back of its large cotton-growing area and high spinning capacity – India boasts of ~20% of the global spinning capacity. VTEX's exposure to the Fabrics segment (contributes ~30% of revenue) further widens its portfolio on better margin. VTEX is best placed for wading through the current troubled times in the Textile industry, reinforced by its strong balance sheet.**

Largest yarn capacity, with wide product portfolio: VTEX is the largest spinner in the country with ~1.16mn spindles, and operates 17 manufacturing units across North, West, Central & South India. Its product profile includes yarn, fabric and acrylic fiber. Its extensive product range and geographical spread grant it procurement & operational advantage. All these qualities make VTEX one of the last few organizations standing in the Textile industry. With issues around Chinese cotton and yarn for exports to USA, various Asian competitors look at Indian spinners for meeting their cotton yarn requirements. Almost 40% of VTEX's revenue comes from exports; hence, it is not just a play on Indian spinning capacity, but also a proxy play for some Asian fabric players.

Expansion on the cards; striding ahead: VTEX is undertaking capex expansion of 0.1mn spindles, which is expected to be completed in FY23. Given the present slowdown, the upcoming capacity will be sufficient for normalized growth for the next few years. From the medium-term perspective, the company intends to reach ~1.5mn spindle-capacity, subject to market-demand conditions. India as a country is adding 3-4% of spinning capacity annually (present capacity being ~55mn), which VTEX alone is on the path to surpass.

Fabric widens the product portfolio and ups the margin profile: In the past 5 years, VTEX has increased its Processed Fabric capacity by 80% (from 100mn meters to 180mn meters), which grants the company a wider product range on a higher margin – typically, fabric would have 400-500bps higher margin than yarn. VTEX's present processed-fabric capacity stands at 180mn meters, 84% of which was utilized in FY22.

Considerably strong balance sheet; best-placed to operate in the current slowdown and flourish during an upturn: VTEX's debt-to-equity stands at 0.24x vs 1.24x a decade ago, while average net debt-to-EBITDA has clocked at ~1.5x for the past 5 years. Given its large geographically-spread capacity, wide product range and strong balance sheet, VTEX is best placed to overcome vexing situations like negligible-to-negative spread in the industry.

Valuation and Outlook: We initiate coverage on VTEX with TP of Rs455/share, based on 12x Dec-24 EPS of Rs38. Our P/E of 12x is based on 70% business from spinning valued at 10x (~25% premium to normal spinner on account of its size & spread) and 30% business from processed fabric valued at 15x.

Risks: Prolonged low yarn-cotton spread; resurgence of Covid cases.

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	59,262	93,861	85,365	86,369	90,230
EBITDA	7,671	22,621	15,304	17,096	18,873
EBITDA Margin (%)	12.9	24.1	17.9	19.8	20.9
APAT	3,667	16,774	8,698	9,877	11,270
EPS (Rs)	13.0	59.0	30.6	34.8	39.7
EPS (% chg)	(32.8)	355.1	(48.1)	13.5	14.1
ROE (%)	6.2	24.5	11.0	11.4	11.9
P/E (x)	22.6	5.0	9.6	8.4	7.4
EV/EBITDA (x)	13.1	4.3	5.7	4.6	3.6
P/BV (x)	1.4	1.1	1.0	0.9	0.8

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Source: Company, Emkay Research

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	NR

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	30.6	34.8
Consensus	38.5	43.7
Mean Consensus TP (12M)	Rs 396	

Stock Details

Bloomberg Code	VTEX IN
Face Value (Rs)	2
Shares outstanding (mn)	289
52 Week H/L	576 / 246
M Cap (Rs bn/USD bn)	85 / 1.02
Daily Avg Volume (nos.)	3,43,927
Daily Avg Turnover (US\$ mn)	1.4

Shareholding Pattern Sep '22

Promoters	63.8%
FIIIs	7.0%
DIIIs	16.7%
Public and Others	12.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(12)	(13)	14	(33)
Rel. to Nifty	(10)	(15)	(1)	(36)

Relative price chart



Source: Bloomberg

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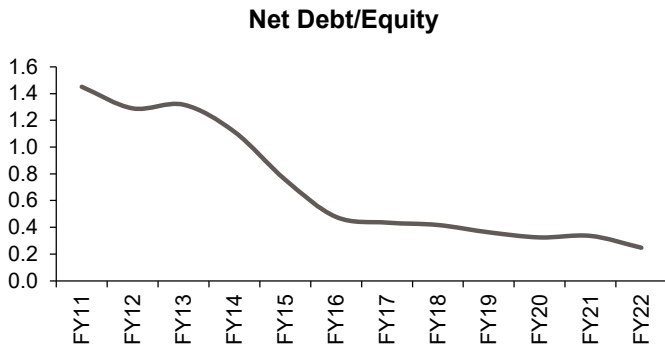
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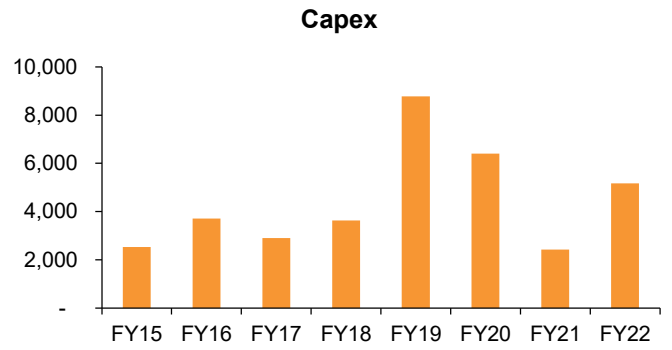
Story in Charts

Exhibit 61: Net Debt-to-Equity on the fall



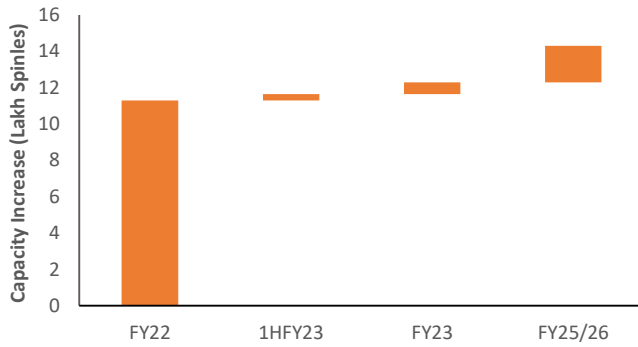
Source: Company, Emkay Research

Exhibit 62: VTEX – Capex of >Rs25bn in the last 5 years, for enhanced capacity and modernization



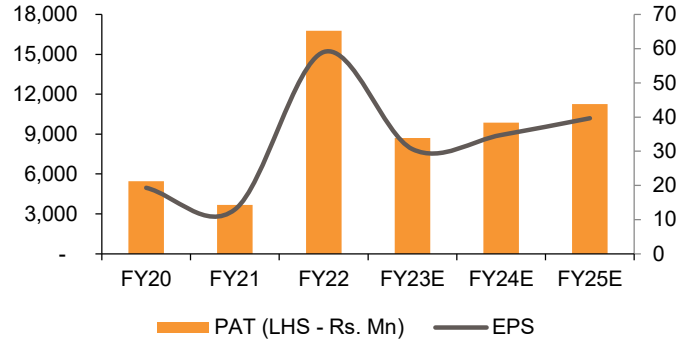
Source: Company, Emkay Research

Exhibit 63: VTEX – Ramp-up in spindle capacity in the near & medium term



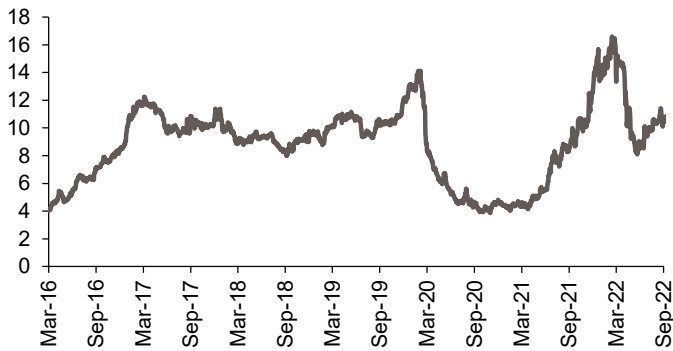
Source: Company, Emkay Research

Exhibit 64: We expect PAT CAGR of 24% for VTEX, over FY23E-25E



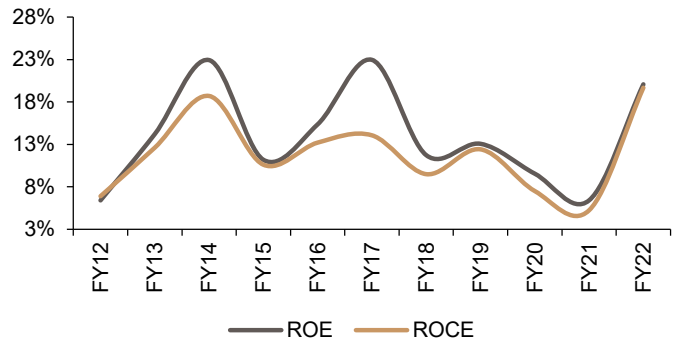
Source: Company, Emkay Research

Exhibit 65: Vardhman Textiles – P/E (x)



Source: Company, Emkay Research

Exhibit 66: VTEX – Avg. ROE/ROCE at 14%/12%, respectively

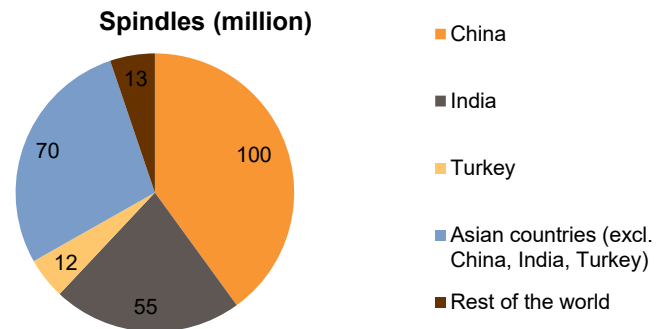


Source: Company, Emkay Research

Largest yarn capacity in India, with a wide product portfolio

Global spindle capacity currently stands at ~250 million, of which China has the largest share with ~100 million spindles, followed by India at 55 million spindles, Turkey with 12 million spindles as well as other Asian countries with a ~70 million spindle-capacity.

Exhibit 67: Share of Spindle capacity, globally



Source: Industry, Emkay Research

On an average, ~10mn spindles are added worldwide annually, though there are certain capacities that retire as well; hence, there is only marginal increase in the overall spindle capacity. Investments by spinning mill owners are in areas of rationalization, replacement or expansion.

Spindle-count has been trending down in China, while other Asian countries have seen a marginal increase. Indian spindle capacity stands in the 50-55mn range. Chinese spindle capacity has come down, from 110-120mn to 95-100mn in the past decade.

Indian spindle capacity is estimated to grow at a low single-digit rate, as per Industry experts.

Vardhman Textiles is one of India's leading textile manufacturers offering the largest range of textile products. It is the flagship company of the Vardhman Group and was started in 1965 with 6,000 spindles. The company's product profile includes yarn, fabric and acrylic fiber. The company is the key yarn-manufacturing player, as it has the largest number of spindles in India. VTEX's spindle capacity stood at ~1.13 million at end-FY22, far ahead of its competitors'.

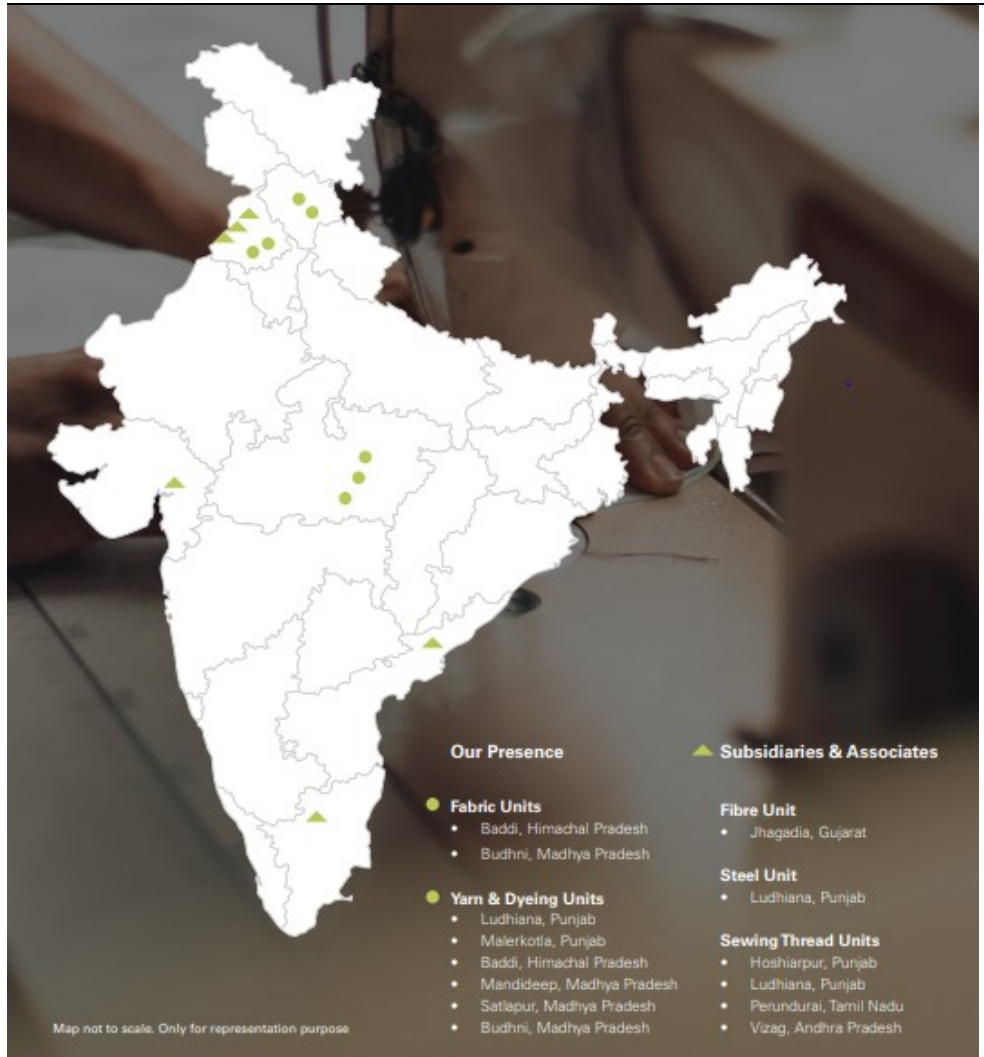
Exhibit 68: Top 5 Spindle Capacities in India

Company name	Number of spindles
Vardhman Textiles	1,129,000
National Textile Corporation	768,000
Sintex Industries	660,000
Trident	589,000
Nahar Spinning Mills	538,000

Source: Emkay Research

VTEX has spent ~Rs24bn in the past 5 years on capacity expansion across various product lines, modernization of capacities, and investment in other equipment for producing sustainable recycled yarn. The company's facilities are spread across North (Punjab and Himachal Pradesh), Central (Madhya Pradesh), West (Gujarat) and South (Tamil Nadu and Andhra Pradesh) India. VTEX has 17 manufacturing units in all.

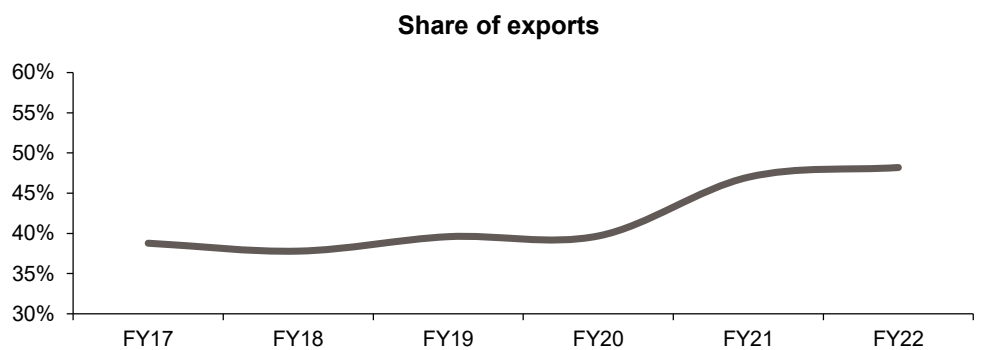
Exhibit 69: Vardhman’s units are present in North, West, Central and South India



Source: Company, Emkay Research

Company’s facilities located in India supply yarn not only to domestic companies but also as exports. The company has a strong export base with presence in 61 countries. Exports contribute close to 40% of its revenue. Asian countries like Bangladesh, Vietnam and Pakistan are key geographies that export textiles & apparel to USA/Europe and other parts of the world. Company exports yarn to neighboring countries like Bangladesh, which is one of the biggest garment export markets in the world, although it does not have much domestic spinning capacity. Ban on Chinese Xinjiang cotton and fall in Chinese spindle capacity bode well for India, which is now the second-highest spindle-count country globally. Hence, we believe that spinners in India will see good demand in the medium term.

Exhibit 70: Vardhman’s share of exports



Source: Company, Emkay Research

VTEX's yarn portfolio:

VTEX has a wide range of yarn products that helps in both, improving as well as enhancing margins. The company has state-of-the-art facilities for producing a wide array of specialized greige and dyed yarns of cotton, polyester, acrylic and other blends. The company also produces fancy yarns for hand knitting, mélange, core-spun yarns, ultra yarns (contamination controlled), gassed mercerized, super fine and slub. Company's yarn has a significant market share in the quality-conscious markets of the EU, USA and Middle East.

Exhibit 71: Yarn Portfolio of VTEX

Specialty yarns
Core spun yarn
Slubs
Cellulosic
Vortex yarn
Special blended yarn
Sustainable yarn
Acrylic, fancy and hand knitting yarns
Grey acrylic
Dyed acrylic
Fancy spun yarn
Fancy structured yarn
Hand knitting yarn
Dyed yarns
Packaged dyed yarn
Mélange / Heather yarn (Brand Rangoli)
Gasses mercerized
Grey yarns
Polyester cotton
Cotton yarn
Compact yarn

Source: Company, Emkay Research

Considering India's good reputation in the spinning space globally, VTEX's leadership in India and its wide-spread portfolio bode well for the company.

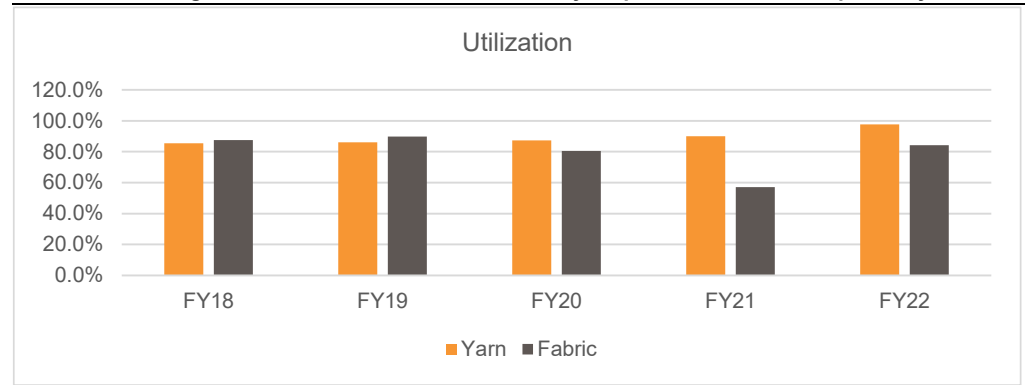
Studying the present spinning market (also at the past 3-month trend) clearly reveals that small & marginal players have seen the maximum hit due to low demand and high cotton price, till some time ago. On the other hand, though, VTEX was able to run its capacities at decent utilization, indicating a strong relationship with large clients and showcasing its ability to survive such adverse industry conditions.

Expansion on the cards; striding ahead

Strong Utilization in past 5 years:

While VTEX's spindle capacity has remained largely in the 1.08-1.13mn range over the past few years, its processed fabric capacity has increased by 50%, from FY17 to FY22. Average utilization levels in the yarn/fabric segments have remained healthy at ~90%/~80%, respectively, during the past 5 years, despite the bad patch during Covid. Company's extensive product range helps it to maintain high utilization levels.

Exhibit 72: Average utilization levels at ~90%/~80% for yarn/processed fabric, respectively



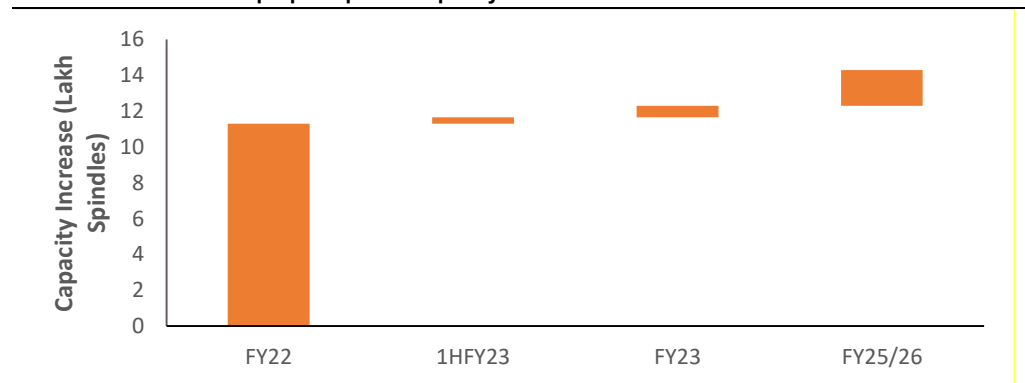
Source: Company, Emkay Research

Adding 0.1mn spindles in FY23:

The company's current spindle capacity is ~1.16million (1.13million at end-FY22; 35,000 spindles added by the end of H1FY23), which is expected to increase by another 65,000 by the end of FY23; this will lead to total capacity of 1.23million.

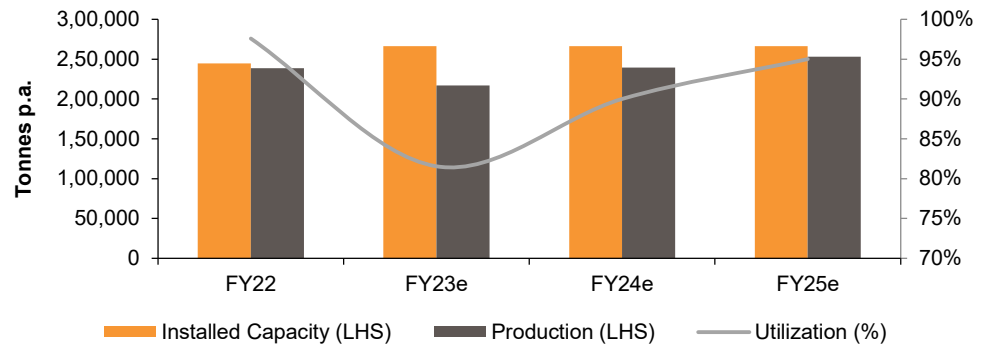
The company has medium-term plans of adding another 0.2mn spindles, which has been slightly deferred for now. The deferment factors-in the current subdued-demand scenario as well as the high price of machinery. Presently, delivery timelines of machinery have a lag of ~2 years and, hence, we believe this capacity would not be ready before end-FY25E or FY26E. By then, the capacity would reach ~1.45m spindles.

Exhibit 73: VTEX – Ramp-up in spindle capacity in the near & medium terms



Source: Company, Emkay Research

Given the current demand environment, we expect VTEX's yarn production (in volume terms) to decline by a mid-single-digit in FY23, post which we have factored-in around 8% CAGR over FY23E-25E. This would still lead to ~95% utilization by FY25E.

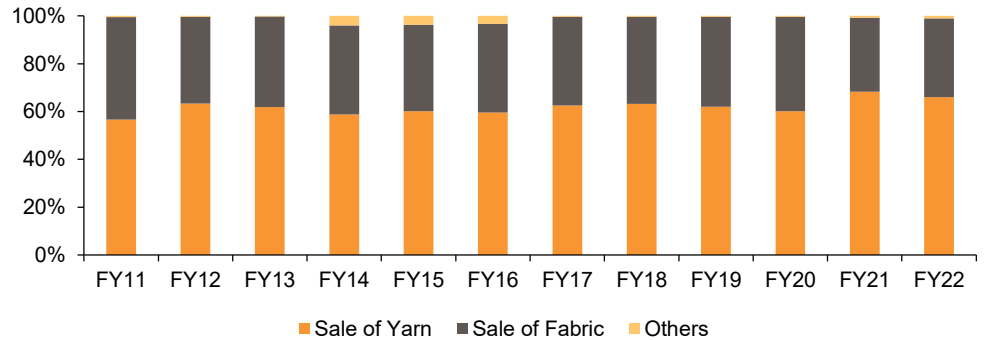
Exhibit 74: Projection of VTEX's spindle utilization and production

Source: Company, Emkay Research

Fabric widens the portfolio and ups the margin profile

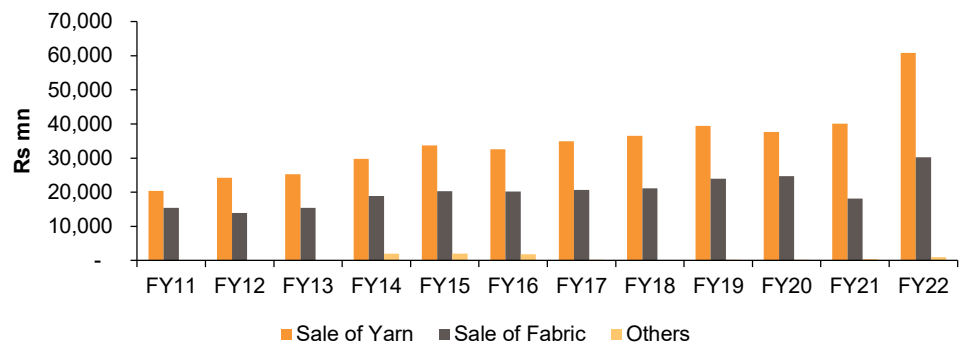
VTEX was incorporated as a yarn manufacturing company in 1965; eventually, the company stepped into the production of fabric as well. Currently, the company manufactures grey fabric and processed fabric. From FY15 to FY22, yarn topline has clocked CAGR of ~9%, whereas Fabric topline has witnessed a CAGR of ~34%. This indicates contribution of fabric production to the company's significant growth. Yarn contributes approximately 70% of the topline, and Fabric approximately 27-29% of the topline.

Exhibit 75: Yarn and Fabric – Revenue contribution to VTEX



Source: Company, Emkay Research

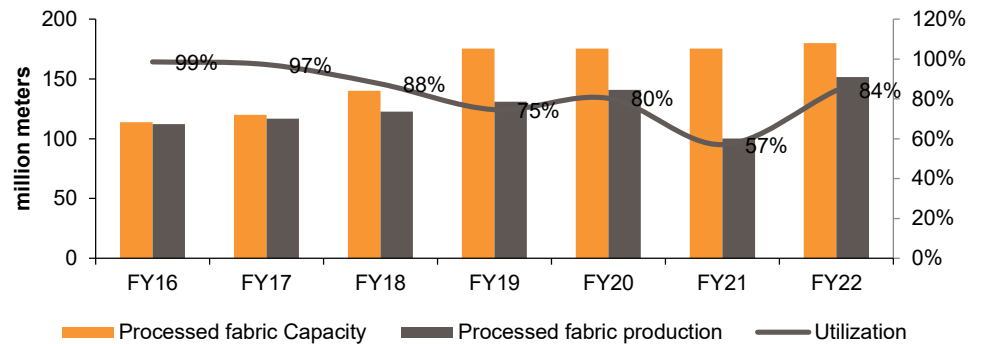
Exhibit 76: Revenue of VTEX, in absolute terms



Source: Company, Emkay Research

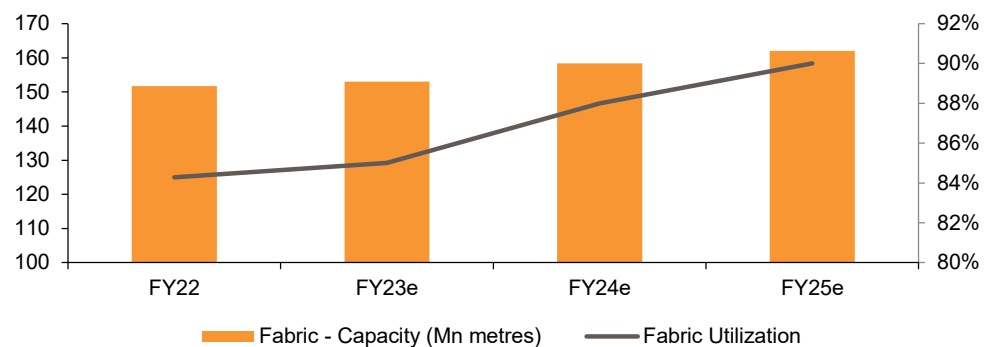
Of the total yarn manufactured by the company, ~70% is sold in the domestic and international markets, and the remaining 30% is used for captive consumption for the production of fabric. The company's specialization in the integrated manufacturing facilities set up by it enables it to have presence across the value chain, spreading across yarn to fabric manufacturing.

In the past 5 years, VTEX has increased its Processed Fabric capacity by 80% (from 100mn meters to 180mn meters), which grants it a wider product range on a higher margin – typically, processed fabric would have 400-500bps higher margin than yarn. VTEX's present processed fabric capacity stands at 180mn meters, 84% of which was utilized in FY22.

Exhibit 77: Fabric production still has more potential

Source: Company, Emkay Research

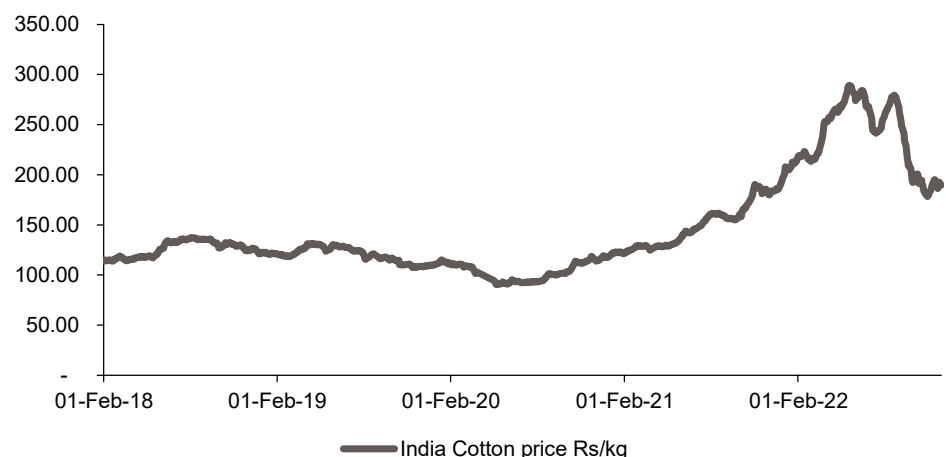
Post the large expansion in capacity on the processed fabric front (~175mn meters in FY19), capacity utilization levels have been ~80%, with FY21 being an exception on account of Covid. During H1FY23 too, fabric utilization has been upward of 80%. Fabric capacity is good enough for medium-term growth.

Exhibit 78: Fabric capacity sufficient to cover medium-term growth

Source: Company, Emkay Research

Cotton price and spread between domestic and international cotton:

Cotton price, both domestic and international, has seen a strong rally due to upsurge in demand and constraints on the supply front in both, China and India. In India, cotton price that ranged at Rs90-120/kg during FY18-20 soared to ~Rs280/kg, as Indian crop was damaged in FY22 leading to supply constraints. At the same time, international demand remained firm till Q3FY22, while domestic demand continues to be robust.

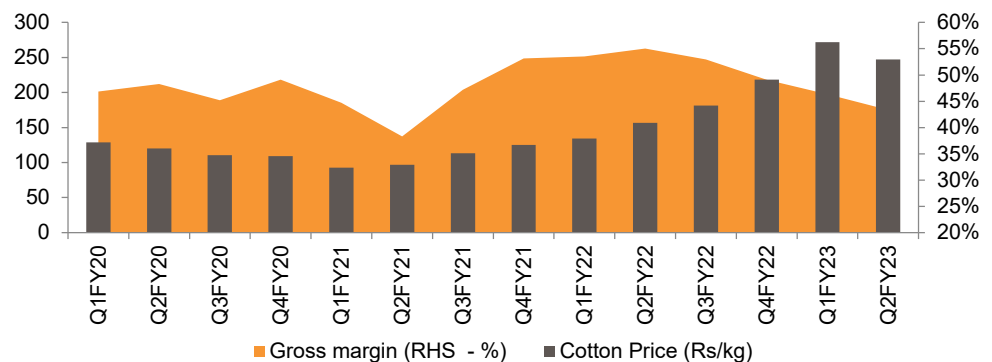
Exhibit 79: Cotton price (India) rose, from ~Rs110/kg to ~Rs280/kg in late-FY22, and is now at ~Rs190/kg

Source: Bloomberg, Emkay Research

Margin is contingent on product mix, cotton price, operational efficiency of the player, competition and the overall demand scenario. In the past 2 years, gross margin has seen substantial variability on account of the volatile cotton price and changing demand scenario. For around the last 2&1/2 years, margin has seen three small phases, based on volatility of cotton prices:

- During the initial part of the Covid-period, while the decadal average gross margin for VTEX was ~50%, H1FY21 saw it dipping to ~42% as cotton prices corrected by ~25% YoY during the period on account of Covid.
- Post this time-period, due to strong demand in Home textiles (with people now spending more time at home, with homes becoming the work center too) and supply issues in cotton, prices surged by 60-80%. As demand remained strong in the period, gross margin expanded to ~54% from H2FY21 to H1FY22.
- Starting Q4FY22, demand in USA was impacted by the next wave of Covid, leading to high inventory at retailers. Gross margin since then has corrected, from ~50% to ~43% in the last three quarters.

Exhibit 80: Indian cotton price and gross margin for VTEX

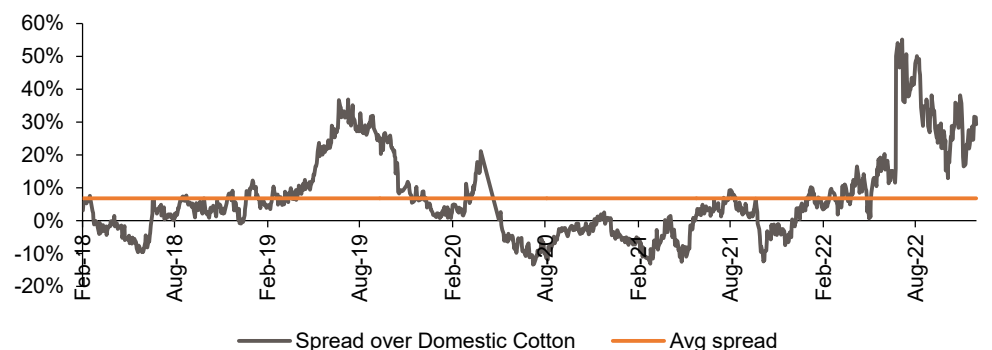


Source: Company, Emkay Research

Higher domestic cotton price hurting Spinners:

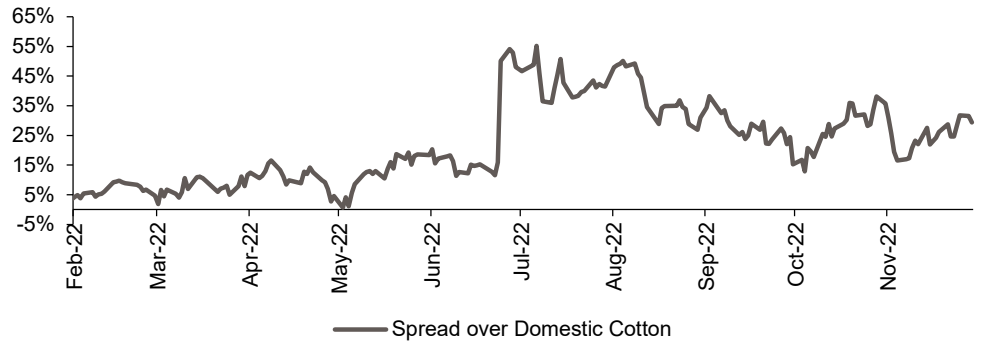
In the last season, Indian cotton crop was impacted on both fronts, of quality and quantity. This along with import duty led to higher domestic cotton price, as demand remained firm in the domestic market. As India is an exporter of yarn, competitiveness on cotton price is crucial at the global level. Unfortunately, international cotton has been much cheaper than Indian cotton in the recent past due to the aforementioned reasons, thus hurting Indian exporters.

Exhibit 81: Average spread, which stood at 5-7%, reached as high as 50% in Q1FY23



Source: Company, Emkay Research

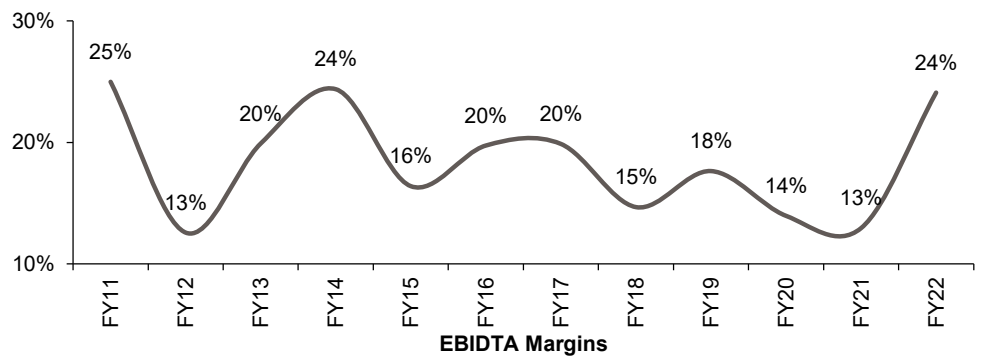
Due to low demand and high domestic cotton price, spread between yarn and cotton had significantly decreased. As per Industry experts, Indian spinners have been working at 40% lower utilization/capacity in the last two quarters. Only large and efficient players (like VTEX) with a varied product range were able to have higher utilization (~90%, including blending).

Exhibit 82: The spread seems to be coming down with the new crop – From 50% in early-Q1FY23 to ~25% now

Source: Company, Emkay Research

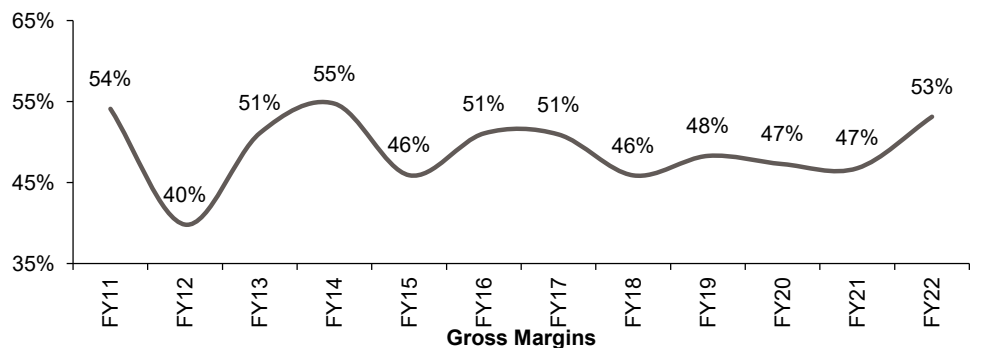
With the new cotton crop (cotton crop is expected to be higher by ~8% this season), it is the general belief that the spread will come back to normal with respect to international cotton price; this might, though, take a few months to unfold, depending on the quantity of crop.

In a normalized year, VTEX expects EBITDA margin of 18-22%, wherein yarn margin would be 15-17% and fabric would see higher margin by 500bps.

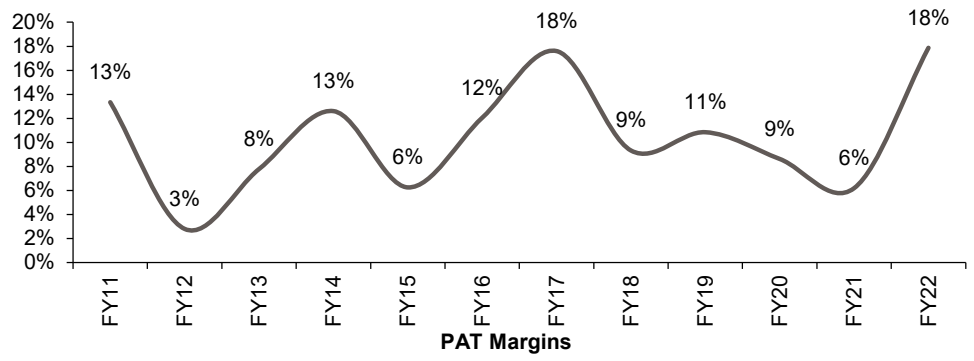
Exhibit 83: FY22 EBITDAM well above normal levels; avg EBITDAM remains at ~18% over the last decade

Source: Company, Emkay Research

Gross margins for the company have remained strong; on an average, gross margins have been ~50% for the last 12 years. FY22 gross margins were higher at 53%, after hovering in the 45-48% range for the last 5 years.

Exhibit 84: Average gross margin for the last decade at ~50%

Source: Company, Emkay Research

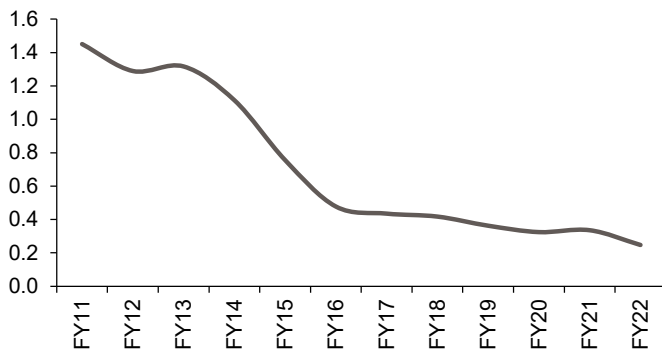
Exhibit 85: PAT Margins have tripled over the year

Source: Company, Emkay Research

Considerably strong balance sheet; VTEX best-placed to operate in current slowdown and flourish during an upturn

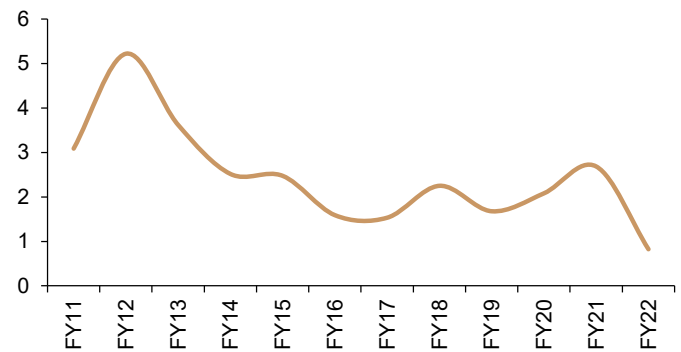
VTEX's debt-to-equity stands at 0.24x vs 1.24x a decade ago, while average net debt-to-EBITDA has stood at ~1.5x for the past 5 years. Given its large, geographically-spread capacity, wide product range and strong balance sheet, VTEX is best placed to overcome precarious situations like negligible-to-negative spread in the industry.

Exhibit 86: VTEX – Net Debt-to-Equity (x)



Source: Company, Emkay Research

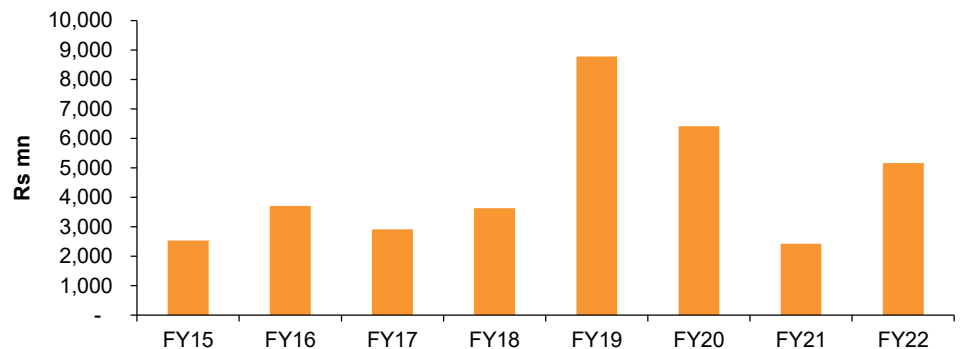
Exhibit 87: VTEX – Net Debt-to-EBITDA (x)



Source: Company, Emkay Research

VTEX's net debt-to-equity and net debt-to-EBITDA have improved, despite continued investment in plants and machinery for enhancement of capacity and upgradation of infrastructure. VTEX has invested ~Rs25bn in the past 5 years for enhancing capacity and modernization.

Exhibit 88: VTEX – Capex of >Rs25bn in the last 5 years, for enhanced capacity and modernization



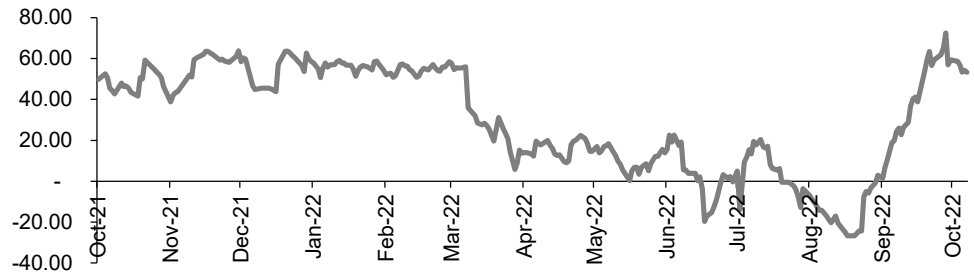
Source: Company, Emkay Research

Valuation and Outlook

Given that the spread (yarn and cotton) has been soft in the past few quarters, owing to weak demand and high cotton price, we believe FY23E earnings will decline by ~37%. We estimate the spread might have bottomed out in H1FY23, as cotton prices have softened in India on the back of expectation of better cotton production.

Exhibit 89: India's Yarn and Cotton spread

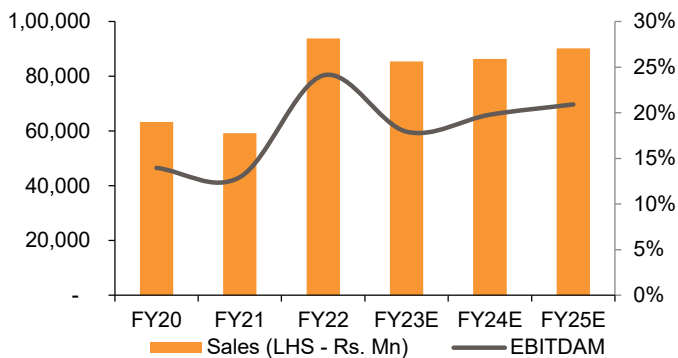
Yarn Cotton Spread (Rs/kg) has now turned positive after correction in cotton prices



Source: Emkay Research

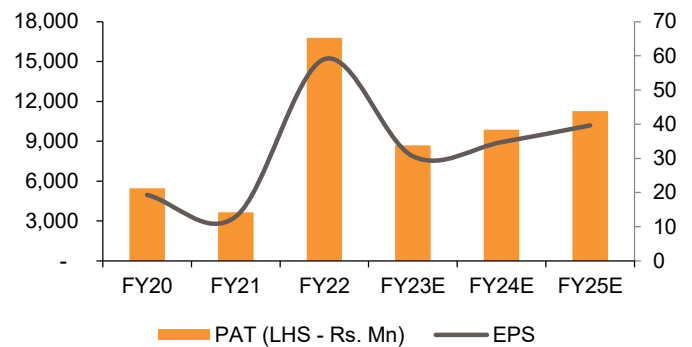
We expect improvement in demand and earnings from FY24, leading to EPS CAGR of 24% over FY23E-25E.

Exhibit 90: We expect VTEX's margin to decline in FY23 and then normalize to ~18%



Source: Company, Emkay Research

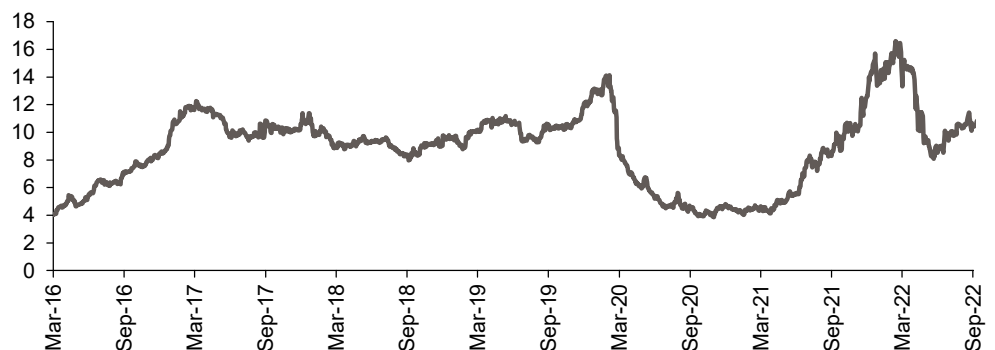
Exhibit 91: We expect PAT CAGR of 24% for VTEX, over FY23E-25E



Source: Company, Emkay Research

P/E for VTEX over the last 5 years has averaged at ~10x, excluding FY21, which was marred by Covid. The stock has generally traded in the 8x-14x range over this time-period.

Exhibit 92: Vardhman Textiles' P/E (x)



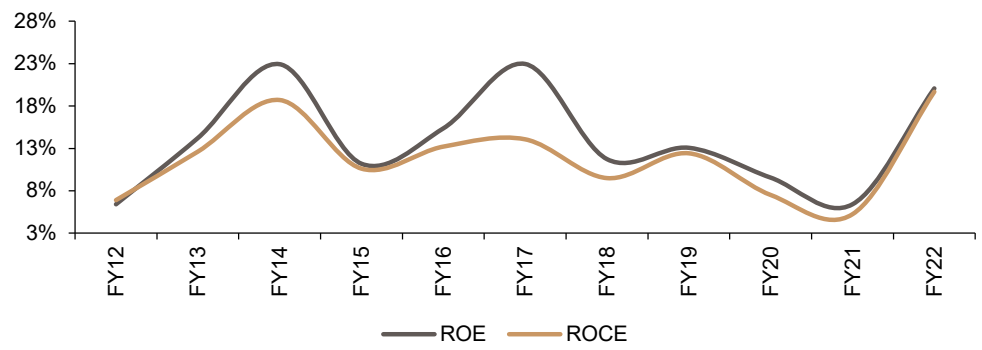
Source: Company, Emkay Research

We have assigned 12x P/E, based on 10x PER for the yarn business (70% contribution at revenue level) and 15x PER for the fabric segment (30% contribution). Our Dec-23 TP stands at Rs455/share, and we initiate coverage on the stock with a BUY recommendation.

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Average RoE/ROCE for VTEX over the last decade has been 14%/12%, respectively.

Exhibit 93: VTEX – ROE and ROCE at 14% and 12%, respectively



Source: Company, Emkay Research

About the company and Management

Vardhman Textiles was incorporated on October 8, 1973. The company is one of the leading textile manufacturers in India offering the largest range of textile products across fiber (acrylic) yarn and fabrics. Headquartered in Ludhiana, it is presently engaged in the manufacture of cotton yarn, synthetic yarn and woven fabric. Yarn constitutes the largest business for Vardhman.

Vardhman Textiles is one of the very few vertically-integrated fabric manufacturers in India, producing fabric for both tops and bottoms in the apparel segment, and serving large retailers across USA, Europe, Asia and other emerging nations.

Exhibit 94: Milestones

1965	Commenced operations with 6,000 spindles
1982	Entered into manufacturing of sewing threads
1992	Diversified into weaving business with operating unit at Baddi, Himachal Pradesh
1999	Ventured into the production of acrylic fiber, with a unit in Bharuch, Gujarat
2000	Commenced the processing of woven fabrics
2007	1st Composite plant with spinning, weaving and fabric processing facilities at Budhni, MP
2011	Entered the garments business, with manufacturing of formal shirts for men
2013	Highest spindle-count in the country
2016	Printed Fabric line at Baddi, Himachal Pradesh

Source: Company

Exhibit 95: Key Management

Name	Description
Paul Oswal	Shri Paul Oswal is the Chairman & Managing Director of Vardhman Textiles. He holds a Master's degree in Commerce (Gold Medalist) from Panjab University, Chandigarh. He has an experience of more than 54 years in the Textiles Industry. Under his leadership, the Vardhman Group has achieved manifold growth in its textile business.
Neeraj Jain	Neeraj Jain is the Joint Managing Director of Vardhman Textiles. He holds a Bachelor's in Commerce and is a qualified Chartered Accountant as well. He has experience of more than 29 years with the Group, in finance and the yarn business.
Suchita Jain	Suchita Jain is the Vice-Chairperson and Joint Managing Director of Vardhman Textiles. She holds a Master's in Commerce from Panjab University, Chandigarh. She has an over 28-year experience in the Textile Industry and has been instrumental in starting the Fabric manufacturing (both gray and processed) operations of the company.

Source: Company

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	59,262	93,861	85,365	86,369	90,230
Expenditure	51,592	71,240	70,061	69,272	71,357
EBITDA	7,671	22,621	15,304	17,096	18,873
Depreciation	3,584	3,621	3,720	4,264	4,398
EBIT	4,087	19,000	11,584	12,832	14,475
Other Income	1,882	3,853	1,033	1,137	1,250
Interest expenses	1,128	995	1,019	799	699
PBT	4,841	21,858	11,598	13,169	15,026
Tax	1,173	5,083	2,899	3,292	3,757
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	3,667	16,774	8,698	9,877	11,270
Adjusted PAT	3,667	16,774	8,698	9,877	11,270

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	576	578	578	578	578
Reserves & surplus	60,810	74,814	81,772	89,674	98,690
Net worth	61,386	75,391	82,350	90,251	99,267
Minority Interest	0	0	0	0	0
Loan Funds	21,318	19,803	17,152	13,449	11,761
Net deferred tax liability	2,490	2,516	2,516	2,516	2,516
Total Liabilities	85,194	97,711	1,02,018	1,06,216	1,13,544
Net block	34,680	34,357	37,637	35,372	32,974
Investment	8,132	14,579	20,480	20,480	20,480
Current Assets	47,047	54,413	50,067	56,362	66,461
Cash & bank balance	713	1,160	990	5,319	13,974
Other Current Assets	8,716	12,051	10,846	11,063	11,284
Current liabilities & Provision	5,444	8,050	7,169	7,200	7,373
Net current assets	41,603	46,363	42,899	49,162	59,088
Misc. exp	2	2	2	2	2
Total Assets	85,194	97,711	1,02,018	1,06,216	1,13,544

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	2,959	18,005	10,564	12,032	13,776
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(5,151)	(4,287)	3,295	(1,934)	(1,271)
Operating Cashflow	2,520	18,334	18,599	15,162	17,602
Capital expenditure	(2,836)	(4,931)	(5,590)	(2,200)	(1,800)
Free Cash Flow	(316)	13,403	13,009	12,962	15,802
Investments	(2,550)	(6,447)	(5,901)	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(3,504)	(7,525)	(10,458)	(1,063)	(550)
Equity Capital Raised	0	2	0	0	0
Loans Taken / (Repaid)	1,427	(1,515)	(2,652)	(3,703)	(1,688)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(119)	(7,854)	(4,640)	(5,268)	(6,010)
Financing Cashflow	180	(10,362)	(8,310)	(9,770)	(8,397)
Net chg in cash	(804)	446	(170)	4,329	8,655
Opening cash position	1,517	713	1,160	990	5,319
Closing cash position	713	1,160	990	5,319	13,974

Source: Company, Emkay Research

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Emkay Research is also available on www.emkayglobal.com and Bloomberg EMKAY<GO>. Please refer to the last page of the report on Restrictions on Distribution. In Singapore, this research report or research analyses may only be distributed to Institutional Investors, Expert Investors or Accredited Investors as defined in the Securities and Futures Act, Chapter 289 of Singapore.

Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	12.9	24.1	17.9	19.8	20.9
EBIT Margin	6.9	20.2	13.6	14.9	16.0
Effective Tax Rate	24.2	23.3	25.0	25.0	25.0
Net Margin	6.2	17.9	10.2	11.4	12.5
ROCE	7.3	25.0	12.6	13.4	14.3
ROE	6.2	24.5	11.0	11.4	11.9
RoIC	5.6	24.5	14.6	16.2	18.4

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	13.0	59.0	30.6	34.8	39.7
CEPS	25.6	71.8	43.7	49.8	55.1
BVPS	217.1	265.3	289.8	317.6	349.3
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	22.6	5.0	9.6	8.4	7.4
P/CEPS	11.4	4.1	6.7	5.9	5.3
P/BV	1.4	1.1	1.0	0.9	0.8
EV / Sales	1.7	1.1	1.0	0.9	0.8
EV / EBITDA	13.1	4.3	5.7	4.6	3.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.3	0.2	0.0	0.0	(0.1)
Net Debt/EBIDTA	2.3	0.6	0.2	(0.3)	(0.8)
Working Cap Cycle (days)	251.8	175.8	179.2	185.3	182.5

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(6.3)	58.4	(9.1)	1.2	4.5
EBITDA	(13.1)	194.9	(32.3)	11.7	10.4
EBIT	(27.5)	364.9	(39.0)	10.8	12.8
PAT	(32.8)	357.4	(48.1)	13.5	14.1

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	63.2	63.2	62.9	62.9	63.8
FIIIs	4.9	6.3	8.3	7.5	7.0
DIIIs	20.7	18.8	16.5	16.6	16.7
Public and Others	11.2	11.7	12.3	13.0	12.5

Source: Capitaline

Gokaldas Exports

Refer to important disclosures at the end of this report

A long growth runway

CMP	Target Price
Rs 342 as of (December 23, 2022)	Rs 575 12 months
Rating	Upside
BUY	68.5 %

- Increasing emphasis on high-value, high-margin products:** Over the last few years, Gokaldas Exports (GEXP) has focused on increasing revenue contribution from high-value high-margin products. Contribution from high ASP products (ASP >Rs450) has increased, from 49% in FY19 to 88% in FY22; hence, even though the number of pieces shipped in FY22 has not yet reached pre-pandemic levels, the company has witnessed significant increase in topline during FY22 when compared with pre-pandemic figures. Better product mix (higher proportion of outerwear at 41% in FY22 vs 23% in FY18) has also contributed to the improvement in Company financials. Further, over the years, sales have increased to the USA, which ideally has a better margin profile, given no tariff disadvantage.
- Strong customer relationship and further capex – Building blocks towards continued growth ahead:** Gokaldas has focused on building a strong customer base by virtue of continual engagement via its quality resource and infrastructure. In FY22, ~44% of GEXP's sales were contributed by customers with whom it has nurtured a relationship for 10 or more years, indicating high customer confidence for meeting order requirements. Its top-5 customers contribute ~15% of the revenue vs <2% in FY18. GEXP is investing ~Rs3bn over FY23-24, for expanding its woven capacity at Madhya Pradesh (advantage of lower labor cost), entering the knitting vertical with capex in Tamil Nadu (majority of its top customers have large knitting exposure; hence GEXP expect higher revenue from them) and entering Bangladesh (via the JV route which will help to tap the ecosystem in the country, along with FTA benefits).
- PLIs for MMF to act as trigger for long-term growth:** The Govt has introduced PLI schemes in the Textile sector for the MMF (man-made fiber) segment, given India's not-so-strong presence in the space. We believe that over the medium term, the ecosystem for MMF will develop with participation by various companies, thus paving the way for LT growth in the RMG segment. GEXP has, in the past 5 years, outshot the overall RMG exports from India, with Company's sales CAGR at ~15% vs India RMG exports at ~3%.
- Equity raised, debt paid off; expansion plans:** In Oct-21, the company raised Rs3bn, with the intention of repaying/prepaying borrowings, financing working-capital requirements, and towards growth opportunities. Additionally, Company invested Rs8.4mn in FY22 towards modernization and capacity augmentation of existing units as well as new capacity addition, with the aim to increase revenue and improve operational productivity.
- Valuation and outlook:** We initiate coverage on Gokaldas Exports with a BUY and Dec-23 TP of Rs575/share, based on 18x PER. In the last ~5 years, the P/E has averaged at ~14x, with a 14% RoE profile. During FY22-25E, we believe GEXP will clock 24% EPS CAGR with ~18% RoE. We reckon a better RoE profile and higher earnings CAGR demand a superior PER and, hence, assign a higher P/E of 18x. Notably, home textile (HT) companies like Welspun and Indo Count, which have a similar asset turnover and RoE, trade in the 15-20x range. Further, capacity expansion in woven, low labor cost, entry in knitting and expansion in Bangladesh – all point to consistent growth along with margin expansion. Risks: delay in demand uptick in key importing geographies and lag in setting up manufacturing facilities.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	12,107	17,903	22,911	25,911	31,111
EBITDA	1,015	2,055	2,507	3,051	4,126
EBITDA Margin (%)	8.4	11.5	10.9	11.8	13.3
APAT	265	1,171	1,307	1,534	2,186
EPS (Rs)	6.2	19.9	21.6	24.7	34.3
EPS (% chg)	153.1	221.5	8.8	14.3	38.7
ROE (%)	10.3	23.5	16.9	16.7	19.8
P/E (x)	55.3	17.2	15.8	13.8	10.0
EV/EBITDA (x)	17.9	10.0	8.4	6.9	5.0
P/BV (x)	5.1	2.8	2.5	2.1	1.8

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	NR

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	21.6	24.7
Consensus	22.3	26.5
Mean Consensus TP (12M)	Rs 518	

Stock Details

Bloomberg Code	GEXP IN
Face Value (Rs)	5
Shares outstanding (mn)	61
52 Week H/L	520 / 284
M Cap (Rs bn/USD bn)	21 / 0.25
Daily Avg Volume (nos.)	5,01,966
Daily Avg Turnover (US\$ mn)	2.3

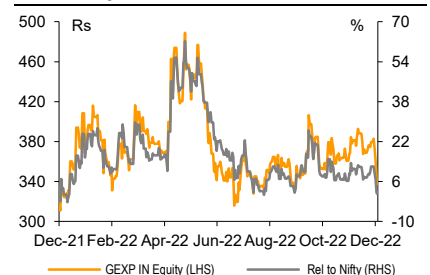
Shareholding Pattern Jun '22

Promoters	23.5%
FIIIs	11.0%
DIIIs	25.5%
Public and Others	40.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	(2)	-	12
Rel. to Nifty	(9)	(4)	(13)	8

Relative price chart



Source: Bloomberg

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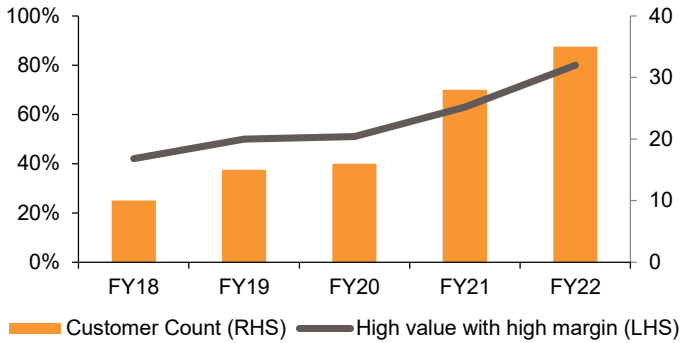
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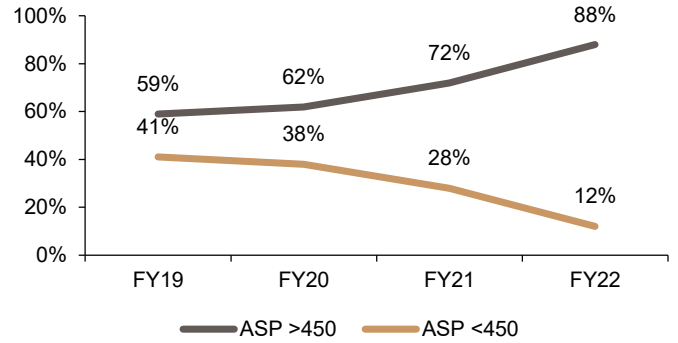
Story in Charts

Exhibit 96: No. of high-value high-margin customers has increased



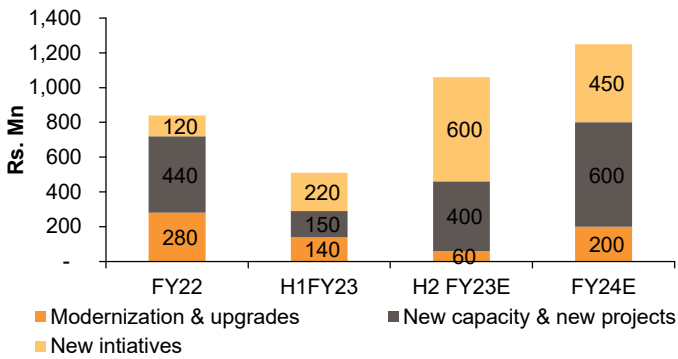
Source: Company, Emkay Research

Exhibit 97: Sales contribution based on ASP (Rs)



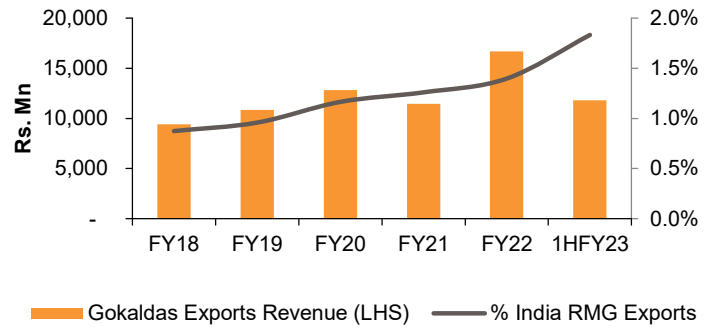
Source: Company, Emkay Research

Exhibit 98: Capex guidance by Management



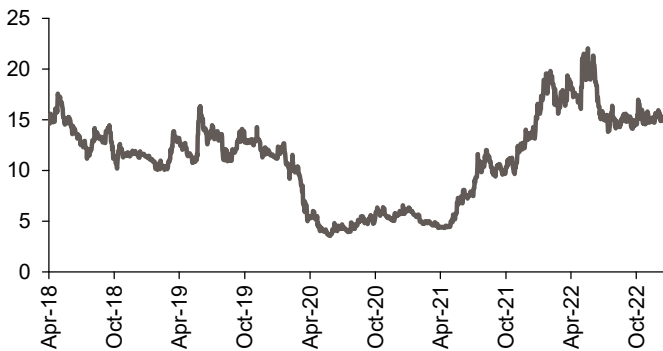
Source: Company, Emkay Research

Exhibit 99: Gokaldas' share in India's RMG exports is increasing



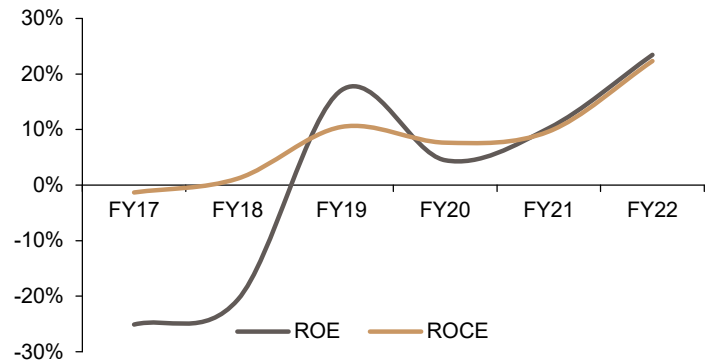
Source: Company, Emkay Research

Exhibit 100: Gokaldas Exports – P/E (x)



Source: Company, Emkay Research

Exhibit 101: GEXP's average ROE/ROCE at 14%/13%, respectively

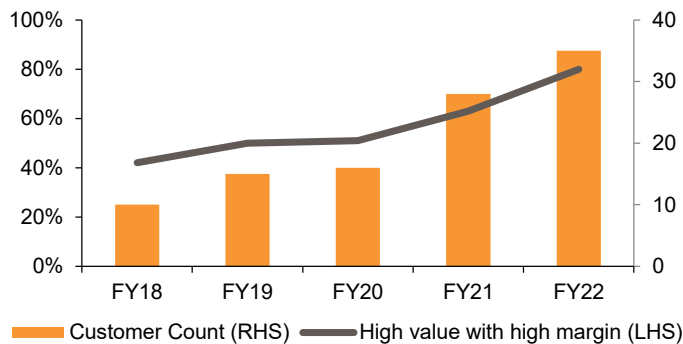


Source: Company, Emkay Research

Increasing emphasis on high-value high-margin products

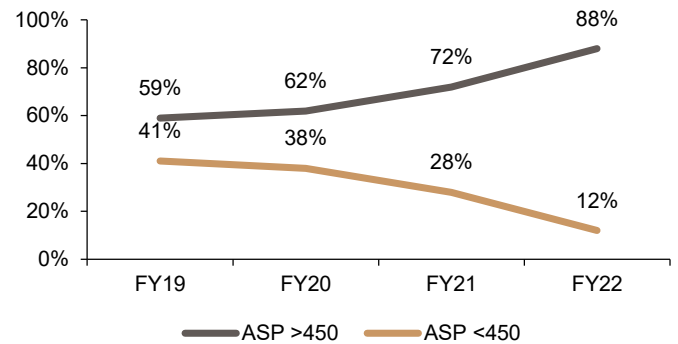
Over the years, the company has witnessed robust increase in revenue contribution from high-value high-margin products (which entail 42% of the company's FY18 sales value), with ~10% of its customers contributing to the high-value sales. In FY22, this ratio increased to 80% of revenue from high-value high-margin products, contributed by 35% of the customers, indicating significant improvement in the proportion compared with FY18.

Exhibit 102: No. of high-value high-margin customers has increased



Source: Company, Emkay Research

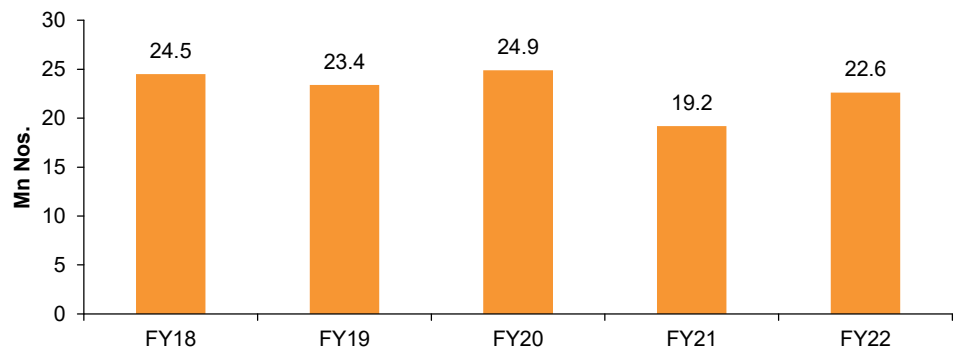
Exhibit 103: Sales contribution based on ASP (Rs)



Source: Company, Emkay Research

Gokaldas has been able to improve its revenue on the back of increase in prices. Contribution from high ASP products (ASP: >Rs450) has increased, from 59% in FY19 to 88% in FY22, and the fall in contribution from low ASP products (ASP: <Rs450) has fallen, from 41% in FY19 to 12% in FY22.

Exhibit 104: Number of pieces shipped has not yet reached pre-Covid levels, as focus remained on high-value products



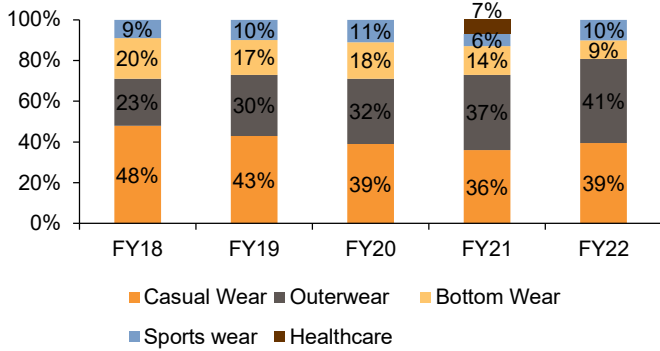
Source: Emkay Research, Company

Gokaldas functions on purchase-order basis and does not enter long-term agreements with any of its customers; and, over the past few years, it has witnessed repeat orders from the same customer. In FY22, the company shipped 22.6 million pieces. Over the years, the company's focus has shifted, from volume to value. Hence, despite lower number of pieces, revenue has grown by ~14% over the past 5 years.

Further, GEXP has consistently focused on improving the product mix. Share of outer wear (high price/margin) has increased, from 23% to 41% over the past 5 years. Casual-wear and bottom-wear contribution has come down, from 48% to 39% and from 20% to 9%, respectively. Over the years, contribution from sportswear to revenue has been consistent. At the onset of the pandemic in FY21, the company converted the crisis into an opportunity and entered the PPE business, seizing the opportunity to design and manufacture PPEs; this led to the company becoming one of the largest producers of the product, thus fetching revenue of up to Rs800mn.

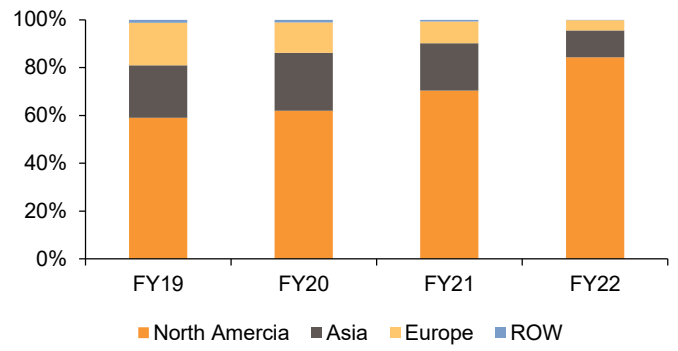
This highlights the company's ability to promptly adapt to changes and showcases the management confidence in tackling challenges.

Exhibit 105: Less than 50% of Company revenue comes from Casual- & Outer-wear



Source: Company, Emkay Research

Exhibit 106: USA has consistently remained the biggest contributor to exports revenue



Source: Company, Emkay Research

The company exports to over 50 countries, which has contributed ~82.4% of the FY22 revenue. Company has its strong-hold in USA and, over the years, its share in total exports has increased to 84.3%, followed by 11.3% in Asia and 4.2% in the UK, totaling to 99.8% of the total apparel exports.

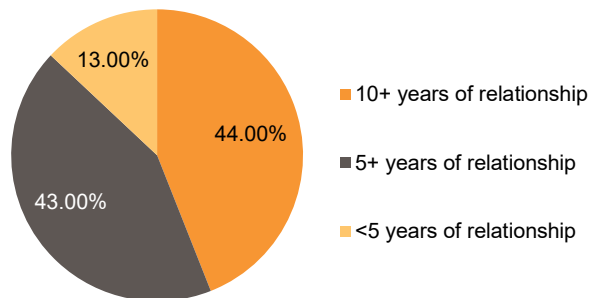
Over the years, there has been significant increase in the share of exports to USA due to tariff agreements. Absence of FTA with the UK/EU is one the key disadvantages for most Indian players; signing of any agreement will open up new opportunities for the company, as it is already an established player in the USA.

Strong customer relationship and further capex – Building blocks to continued growth ahead

Gokaldas has focused on building a strong customer base by virtue of continued engagement via its quality resource and infrastructure. From having experienced designers, to building a strong IT infrastructure has helped the company to develop customer relationships.

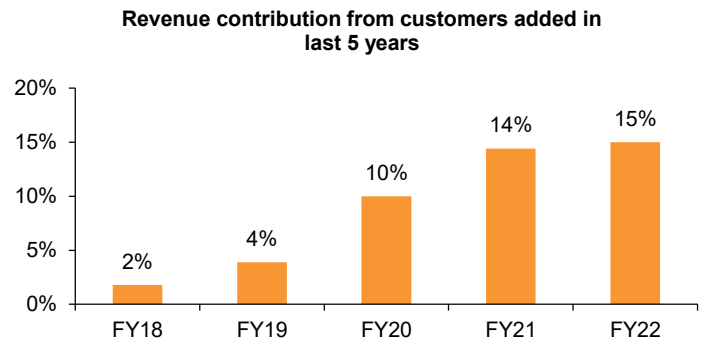
In FY22, nearly 44% of GEXP's sales were contributed by customers with whom the company has nurtured a relationship for 10 or more years, indicating high customer confidence to meet their order requirements. Top-5 customers contribute ~15% of the revenue presently vs <2% in FY18.

Exhibit 107: As of FY22, 43% of the revenue is contributed by customers with more than 5 years of relationship with Gokaldas



Source: Company, Emkay Research

Exhibit 108: Revenue from customers added in the last 5 years has been increasing over the years



Source: Company, Emkay Research

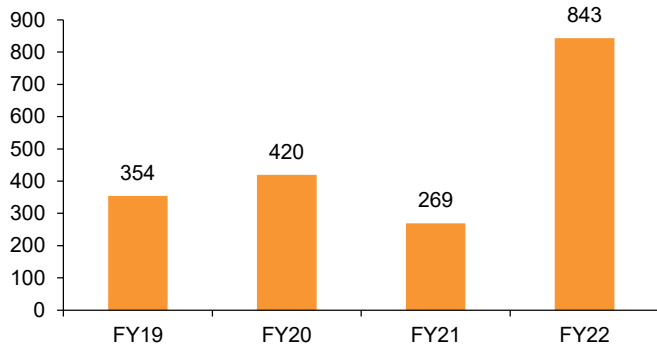
Continued Capex:

GEXP is investing ~Rs3bn over FY23-24, to expand its woven capacity at MP (advantage of lower labor cost), to enter the knitting space with capex in TN (majority of its top customers have large knitting exposure; hence, GEXP can expect higher revenue from this customer segment) and to make a foray into Bangladesh (via the JV route which will help to tap the ecosystem in the country, along with granting FTA benefits).

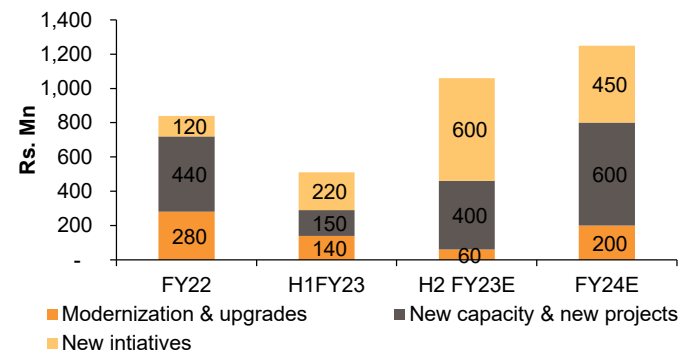
Given that labor cost is an important factor in garmenting, GEXP is investing in Madhya Pradesh (MP) for expanding its woven capacity (to ~2mn garments). Estimated capex stands at ~Rs1bn, with revenue potential of Rs4.5bn. Labor cost in MP is 20% lower than that at the company's other existing factories. The facility will be operational from start of 1QFY24, though full revenue potential will be achieved in 4QFY24 – implying full utilization in FY25, if demand remains firm.

GEXP is also entering the knitting segment through investment of Rs1-1.2bn in TN. Typically, all large retailers' mix entails 45-50% knitted products. Given GEXP's strong relationship on the woven front, we believe that adding knitwear to the company's product basket will not be difficult. Further, this facility is targeted to be far more integrated than the company's present woven-wear facilities and will have revenue potential of ~Rs4bn, with a better margin profile than the woven-wear facilities.

GEXP is also acquiring a facility in Bangladesh (through the JV route). Given that Bangladesh has a strong ecosystem for garments in the country along with FTA benefits in geographies like EU, GEXP stands to benefit, even if FTAs are delayed for India.

Exhibit 109: Capex contribution till FY22 accumulating to Rs1,900mn

Source: Company, Emkay Research

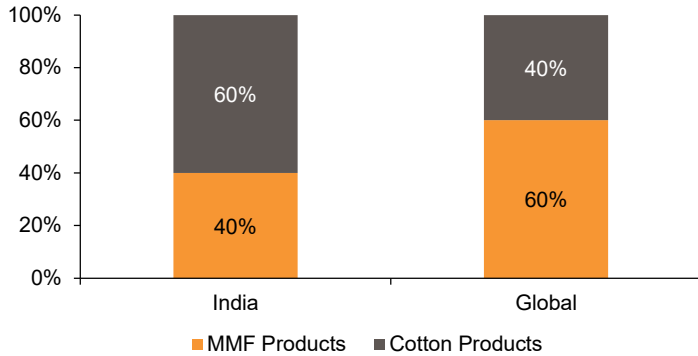
Exhibit 110: Capex guidance by Management

Source: Company, Emkay Research

PLIs for MMF to act as trigger for long-term growth

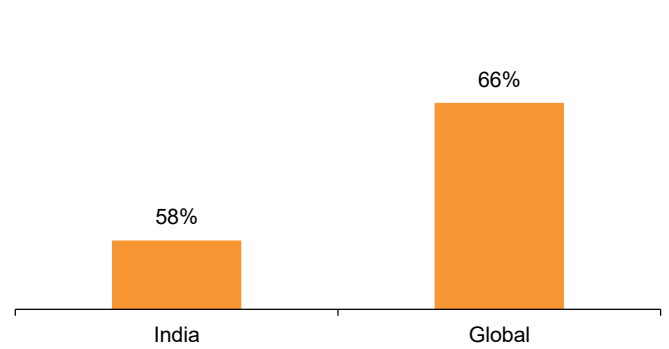
Globally, MMF has a higher market share in textiles and apparel compared with cotton products – 60-65% of the products are MMF-based. On the other hand, given the access to cotton in India and the country’s strong ecosystem for growing this raw material, the proportion is tilted towards cotton products. India has not been able to develop an MMF ecosystem.

Exhibit 111: The Indian & global product portfolios not in sync



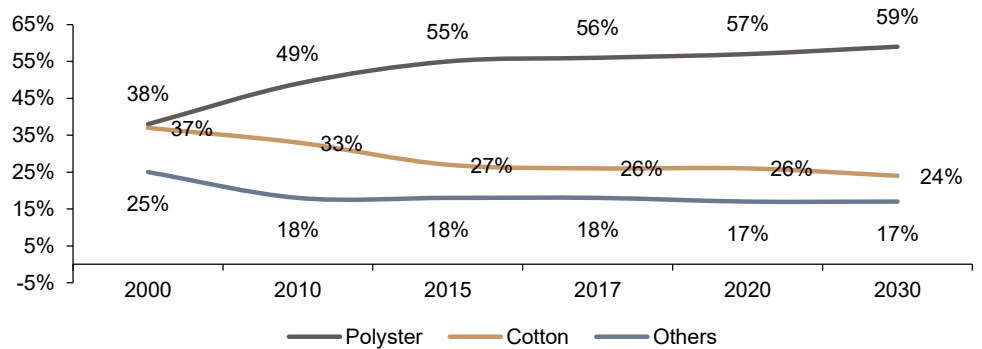
Source: Industry, Emkay Research

Exhibit 112: Parity between global and Indian fiber consumption



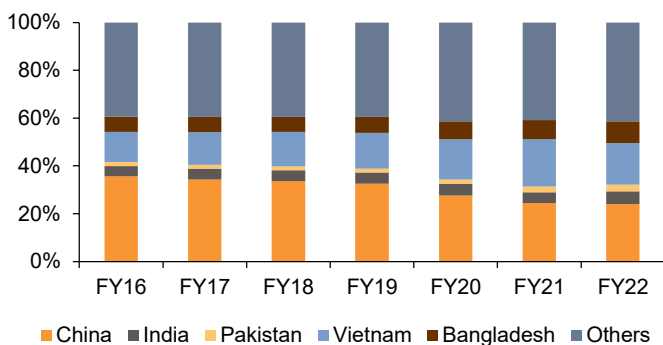
Source: Industry, Emkay Research

Exhibit 113: Global demand for fiber consumption



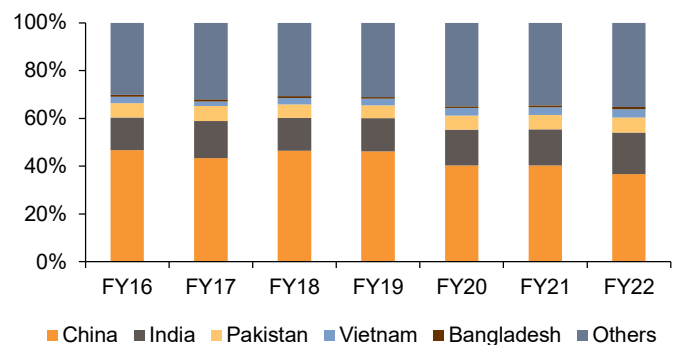
Source: Industry, Emkay Research

Exhibit 114: India’s share in apparel exports to USA is fairly low

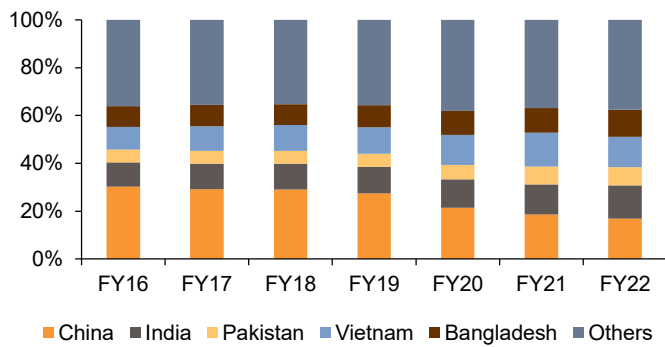


Source: Industry, Emkay Research

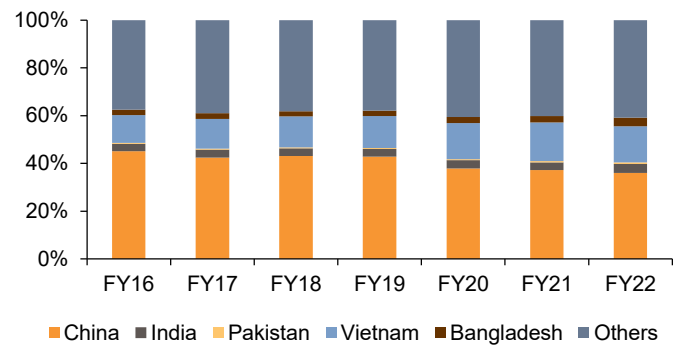
Exhibit 115: India – The #2 nation in non-apparel exports to USA



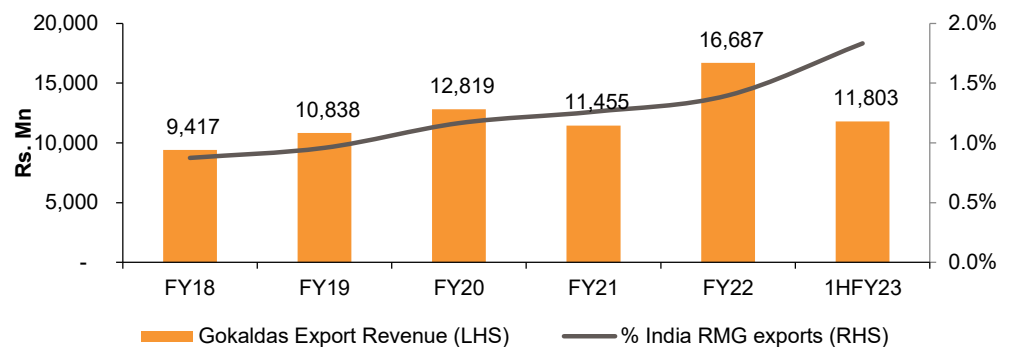
Source: Industry, Emkay Research

Exhibit 116: India has strong presence in cotton-product exports to USA

Source: Industry, Emkay Research

Exhibit 117: India's share in MMF exports to USA has been insignificant

Source: Industry, Emkay Research

Exhibit 118: Gokaldas' share in India's RMG exports is increasing

Source: Industry, Emkay Research

Gokaldas has, in the past 5 years, outgrown the overall RMG exports from India, with sales CAGR of ~15% vs India RMG exports at ~3%.

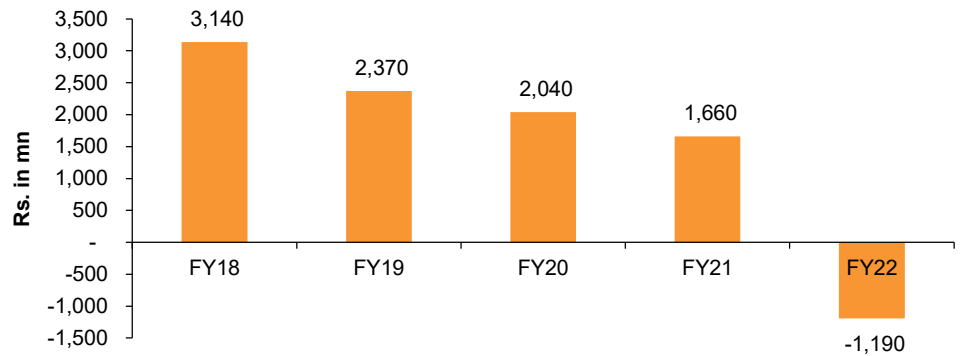
To boost this transition, the Government of India has introduced PLI schemes in the Textiles sector for the MMF segment, given India's negligible presence here in MMF. The Gol has taken several strategic steps to boost manufacturing of man-made fibers and has recently approved a policy of ~Rs107bn through the PLI scheme, in order to promote the production of high-value MMF, garments, and technical textiles.

Presently, ~35-40% of GEXP's products are MMF-based. We believe that over the medium term, the ecosystem for MMF will develop with participation of various companies, thus paving the way for long-term growth in the RMG segment.

Equity raised, debt paid off

In October 2021, the company raised Rs3bn from marquee investors and the funds were used to repay longer-tenure loans carrying higher rate of interest, to bring down working-capital loan, and to hold the rest in various liquid debt instruments for deploying in line with a fund-raise objective. In FY22, the company turned net cash positive.

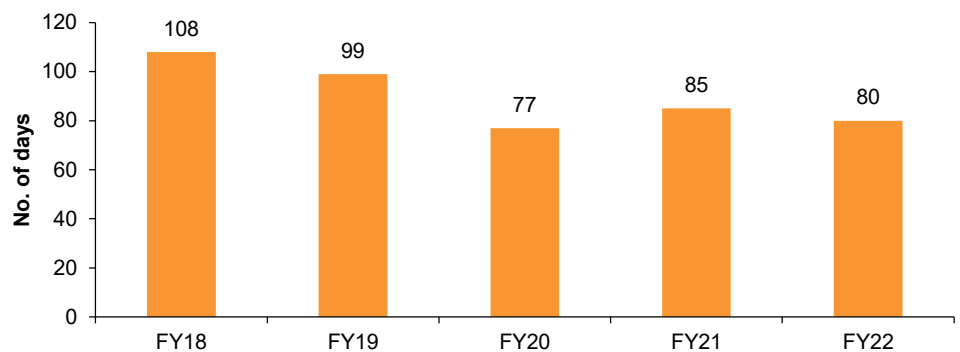
Exhibit 119: Over the years, Company has shifted from being in debt to logging a cash surplus



Source: Company, Emkay Research

The typical business working-capital cycle is 75 days, which enhanced to 83 days in the first half of FY22 on account of supply-chain disruptions. Hence, the company focused on bringing back the working capital cycle to 75 days, by optimizing funds. Through availability of additional funds on hand due to equity raised, negotiating better payment-terms with customers, increasing the number of days to pay raw-material suppliers, and tight management of inventory, the company was able to bring the WC cycle down to 70 days by end-FY22.

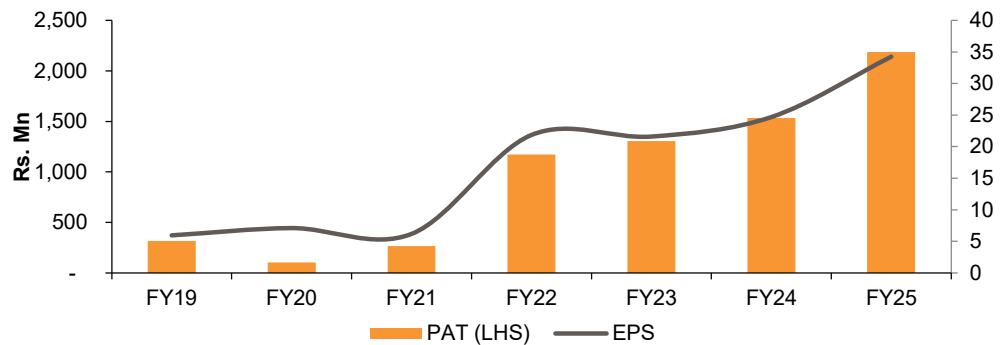
Exhibit 120: Working Capital Days close to pre-Covid levels, despite supply-chain challenges



Source: Company, Emkay Research

Valuation and outlook

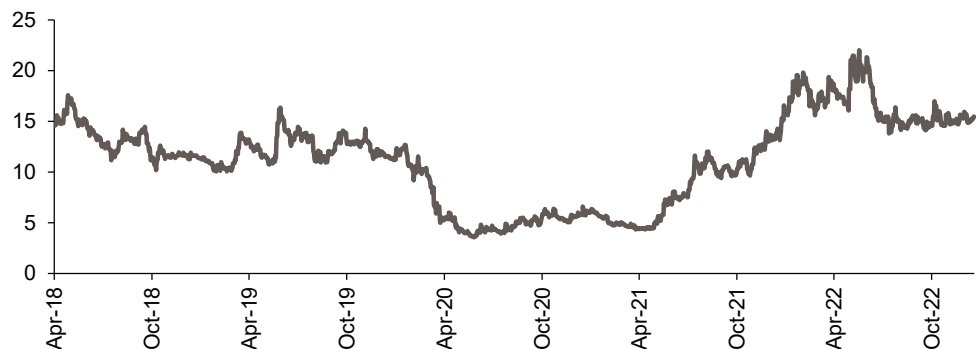
Exhibit 121: We expect PAT CAGR of 29% over FY23E-25E



Source: Company, Emkay Research

The company's earnings profile has been consistent since FY18. Pre-Covid, the stock traded at an average P/E of ~12.5x, which increased to ~15x post-Covid. Average P/E in the past 5 years, excluding the Covid period, has been ~14x. During this period, RoE averaged at ~14%.

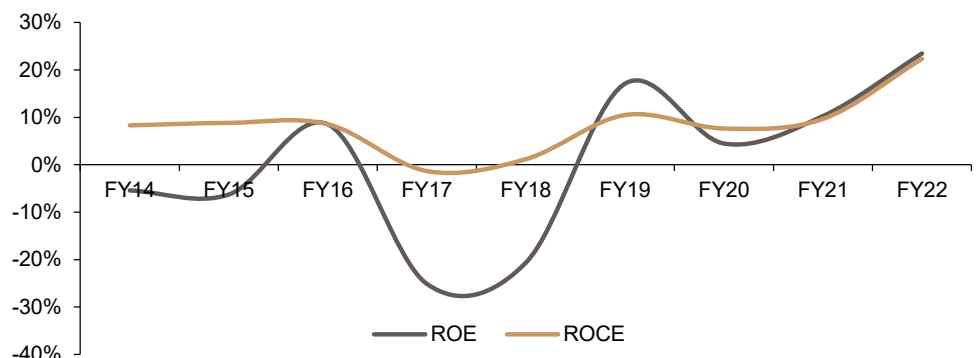
Exhibit 122: Average PER of ~14x, if one were to ignore the Covid-impacted period



Source: Company, Emkay Research

The RoE profile is expected to average at ~18% going forward, given the improvement in EBITDA margin. We estimate EPS CAGR of 24% during FY22-25. Given the better margin & RoE profile and the long growth run-way for garmenting, we assign PER of 18x, to arrive at our Dec-23 TP of Rs575/share.

Exhibit 123: ROE and ROCE



Source: Company, Emkay Research

We also highlight that HT players like Welspun and Indo Count, which have similar asset turnover and RoE profile, trade within the 15-20x P/E range.

About the company

Gokaldas Exports (GEL) was incorporated in 1979. GEL is a major player in the readymade garment industry across the globe. The company is one of the largest manufacturers/exporters of Outerwear Blazers and Pants (Formal and Casuals), Shorts, Shirts, Blouses, Denim-wear, Swim-wear Active and Sports-wear.

In 2007, Blackstone put in Rs4,825mn for 50.1% stake, or Rs275 per share, i.e. a 20% premium to the prevailing share price. Blackstone then acquired another 20% stake through an open offer. Over the next decade, however, the company stagnated, its dollar revenues halved, and its share price was hammered down to double-digits. Gokaldas was weighed down not just by the structural challenges in India's apparel-exports industry, but also by the low margins, a fluctuating Rupee and competition from countries such as Vietnam, the Philippines, Pakistan and Bangladesh.

Gokaldas Exports had scripted a major turnaround since March 2017, when Clear Wealth Consultancy bought a 39% stake in it from the Blackstone Group for Rs580mn, or Rs42 per share. The US private-equity firm had booked heavy losses on its 10-year investment. In September 2017, the Board brought in Mr Ganapathi and, since then, the company's revenue and workforce have doubled, and share price has jumped four times. The once debt-ridden company now sits on a cash surplus of Rs1,506 mn, doing business with only overseas clients.

Exhibit 124: Milestone

Year	Milestones
Since 1947	After India's partition in 1947, the Founder moved their silk-trading business, Gokaldas Harbhagwandas Partners, to India.
1979	The business was split among the three brothers. Company was subsequently run by the Founder's three sons, who have been involved in the running of the business since its inception.
2005	Company went public in 2005 and was listed on the Indian stock exchanges.
2007	Gokaldas Exports crossed the Rs10-billion sales milestone. Blackstone acquired a controlling stake of approximately 70% in the company.
2007-17	Over the next 10 years, the company functioned under the management and leadership of Blackstone. Company confronted a changing business environment, ushered in by abolition of the Multi Fibre Agreement.
2017	Blackstone reduced its investment in the company and exited by selling its stake to Clear Wealth Consultancy Services LLP.
2021	Clear Wealth holds about 33% stake in the Company.

Source: Company

Exhibit 125: Key Management and Designation

Name	Category/Designation
Richard B Saldhana	Non-executive and independent director and chairman
Anuradha Sharma	Non-executive and independent director
Gautham Madhavan	Non-executive director
Mathew Cyriac	Non-executive director
Sivaramakrishna Vilayur Ganapathi	Executive Director - MD
Prabhat Kumar Singh	Executive Director - WTD

Source: Company

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	12,107	17,903	22,911	25,911	31,111
Expenditure	11,092	15,848	20,404	22,860	26,985
EBITDA	1,015	2,055	2,507	3,051	4,126
Depreciation	526	589	683	949	1,189
EBIT	489	1,466	1,823	2,102	2,937
Other Income	122	107	110	132	158
Interest expenses	345	402	242	267	293
PBT	266	1,170	1,691	1,967	2,802
Tax	1	(1)	384	433	616
Extraordinary Items	0	118	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	265	1,289	1,307	1,534	2,186
Adjusted PAT	265	1,171	1,307	1,534	2,186

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	214	295	303	311	319
Reserves & surplus	2,686	6,787	8,094	9,628	11,814
Net worth	2,901	7,082	8,397	9,939	12,133
Minority Interest	0	0	0	0	0
Loan Funds	3,652	631	424	524	524
Net deferred tax liability	(68)	(118)	(118)	(118)	(118)
Total Liabilities	6,485	7,595	8,703	10,345	12,539
Net block	2,374	2,879	3,446	3,996	4,307
Investment	368	1,545	895	895	895
Current Assets	7,089	7,461	9,313	10,942	13,521
Cash & bank balance	153	127	60	645	1,506
Other Current Assets	540	1,208	1,208	1,208	1,208
Current liabilities & Provision	3,346	4,400	5,061	5,598	6,295
Net current assets	3,743	3,061	4,252	5,344	7,226
Misc. exp	0	0	0	0	0
Total Assets	6,485	7,595	8,702	10,345	12,538

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	144	1,063	1,581	1,835	2,644
Other Non-Cash items	0	0	0	0	0
Chg in working cap	662	607	(1,258)	(507)	(1,022)
Operating Cashflow	1,677	2,662	1,249	2,544	3,104
Capital expenditure	(1,168)	(1,205)	(1,250)	(1,500)	(1,500)
Free Cash Flow	509	1,457	(1)	1,044	1,604
Investments	(368)	(1,176)	650	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(1,414)	(2,275)	(490)	(1,368)	(1,342)
Equity Capital Raised	0	80	8	8	8
Loans Taken / (Repaid)	(257)	(3,021)	(207)	100	0
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	368	2,930	(384)	(433)	(617)
Financing Cashflow	(234)	(413)	(826)	(591)	(902)
Net chg in cash	30	(26)	(67)	585	861
Opening cash position	123	153	127	60	645
Closing cash position	153	127	60	645	1,506

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	8.4	11.5	10.9	11.8	13.3
EBIT Margin	4.0	8.2	8.0	8.1	9.4
Effective Tax Rate	0.5	0.0	22.7	22.0	22.0
Net Margin	2.2	6.5	5.7	5.9	7.0
ROCE	9.7	22.3	23.7	23.5	27.1
ROE	10.3	23.5	16.9	16.7	19.8
RoIC	8.1	24.9	27.1	25.7	31.4

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	6.2	19.9	21.6	24.7	34.3
CEPS	18.4	29.8	32.9	40.0	52.9
BVPS	67.6	120.1	138.8	159.9	190.1
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	55.3	17.2	15.8	13.8	10.0
P/CEPS	18.5	11.4	10.4	8.5	6.5
P/BV	5.1	2.8	2.5	2.1	1.8
EV / Sales	1.6	1.2	0.9	0.8	0.7
EV / EBITDA	17.9	10.0	8.4	6.9	5.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	1.2	0.1	0.0	0.0	(0.1)
Net Debt/EBIDTA	3.4	0.2	0.1	0.0	(0.2)
Working Cap Cycle (days)	108.2	59.8	66.8	66.2	67.1

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(11.7)	47.9	28.0	13.1	20.1
EBITDA	18.3	102.5	22.0	21.7	35.2
EBIT	57.7	199.9	24.4	15.3	39.7
PAT	(12.8)	386.4	1.4	17.4	42.4

Shareholding Pattern (%)	Jun-21	Oct-21	Dec-21	Mar-22	Jun-22
Promoters	33.1	24.1	24.1	24.1	23.5
FIIIs	5.5	12.6	12.4	11.0	11.0
DIIIs	3.7	24.0	26.2	27.2	25.5
Public and Others	57.7	39.3	37.3	37.7	40.1

Source: Capitaline

Nitin Spinners

Refer to important disclosures at the end of this report

Graduating to higher level

CMP	Target Price
Rs 184 as of (December 23, 2022)	Rs 310 12 months
Rating	Upside
BUY	68.3 %

- Over the last decade, NSPL has clocked ~15% CAGR in its yarn & knitted-fabric production volume, on the back continued investment and resilient demand. It presently has 75,000/9,000mn ton installed-capacity of yarn/knitted fabric.
 - NSPL has moved up the value chain by widening its product portfolio – i.e. increasing share of fabric in the overall offering. Fabric, which constituted ~10% of the overall sales a decade ago, now forms ~25%. Woven fabric, the segment that the company entered a few years ago, has seen sales reach ~Rs4bn by FY22. Fabric commands a better margin than yarn. Further, NSPL has increased its presence in cotton-blended yarn and fabric.
 - Over the next 12-15 months, NSPL plans to expand capacity across segments: in spinning (from 75ton to 110ton), knitting (9,000ton to 11,000ton) and weaving (from 30mn meters to 40mn meters), as utilization in yarn/knitting remained above 90% in FY22.
 - We initiate coverage on NSPL with a BUY rating and Dec-23 TP of Rs310/share, based on 8x earnings. Our EPS for FY23E stands at Rs25 – a decline of 58% owing to weakened spinning margin. While spinning margin is currently negligible, we believe that better demand and lower cotton price would yield normalized margin in coming quarters. We reckon the company will clock ~20% earnings CAGR over FY23-25E.
- Moving up the value chain:** From being a pure spinner to now wielding knitting capabilities, NSPL derives as much as >10% revenue from woven fabric now, considering that it commenced operations only a few years ago. Overall, fabric accounts for ~25% of revenue currently. Fabric, given its greater value-addition, commands higher margin (up by 300-400bps) and provides market flexibility at times. Within spinning, Company has been able to convert ~10% of capacity to blended yarn, given the low spread in cotton yarn presently. Continued investment in capacity and strong demand have led to ~15% CAGR in yarn & knitting production in the last decade.
 - Geographical diversification key to better utilization:** Apart from widening its product portfolio, 60-70% of NSPL's sales entail exports across the globe which shields the company from slowdown in any specific region.
 - Expansion across segments:** Yarn/Knitting/Weaving utilization in FY22 stood at 96%/90%/70%, respectively; hence, despite the low margin in cotton yarn presently, the company is on track to increase its yarn, knitting & weaving capacities by 30-50% within the next 12-15 months, at an investment of Rs9.5bn – this will grant benefit of low-cost debt, given initiatives offered by the state government.
 - Valuation and Outlook:** We initiate coverage on Nitin Spinners with a BUY and Dec-23 TP of Rs310/share, based on 8x earnings (5-year average). RoE/RoCE are likely to register at ~20%/17%, respectively, over the same period. Demand uptick and lower cotton price remain key triggers.
 - Risks:** Persistent low spread and delay in expansion; resurgence of Covid-19 cases.

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	16,244	26,923	23,254	23,085	25,775
EBITDA	2,573	6,516	3,136	3,984	4,525
EBITDA Margin (%)	15.8	24.2	13.5	17.3	17.6
APAT	689	3,307	1,399	1,764	2,305
EPS (Rs)	12.3	58.8	24.9	31.4	41.0
EPS (% chg)	189.2	380.2	(57.7)	26.1	30.7
ROE (%)	13.0	46.0	14.8	16.1	18.0
P/E (x)	15.0	3.1	7.4	5.9	4.5
EV/EBITDA (x)	7.8	2.6	5.5	5.0	3.8
P/BV (x)	1.8	1.2	1.0	0.9	0.7

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	NR

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	24.9	31.4
Consensus	-	-
Mean Consensus TP (12M)	Rs 512	

Stock Details

Bloomberg Code	NSPL IN
Face Value (Rs)	10
Shares outstanding (mn)	56
52 Week H/L	346 / 182
M Cap (Rs bn/USD bn)	10 / 0.12
Daily Avg Volume (nos.)	1,16,721
Daily Avg Turnover (US\$ mn)	0.3

Shareholding Pattern Sep '22

Promoters	56.4%
FIIIs	3.8%
DIIIs	5.6%
Public and Others	34.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(17)	(4)	(24)
Rel. to Nifty	1	(19)	(17)	(27)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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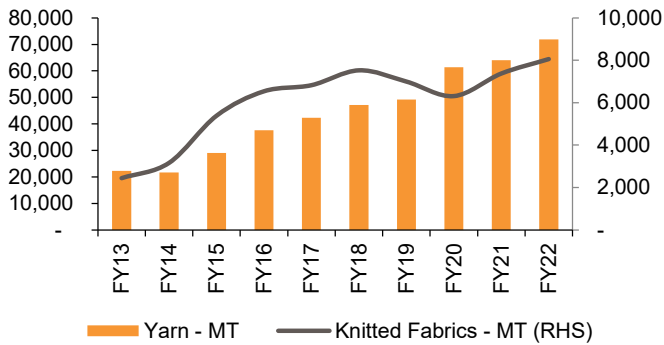
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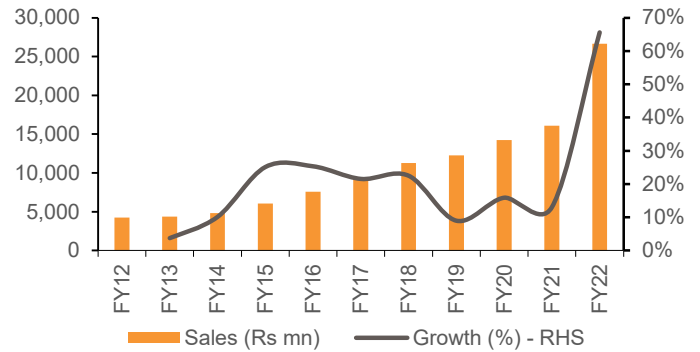
Story in Charts

Exhibit 126: Yarn and Fabric see secular growth over the last decade



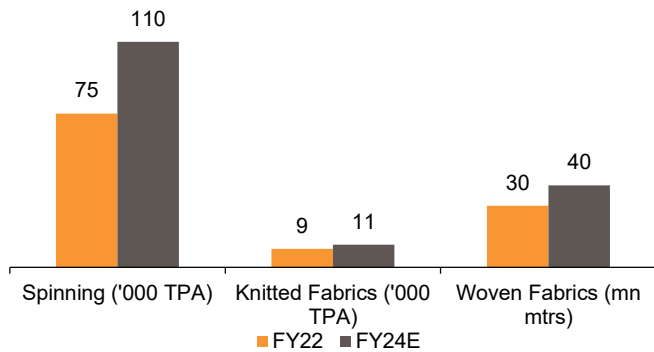
Source: Company, Emkay Research

Exhibit 127: Sales CAGR of 15% in the last decade



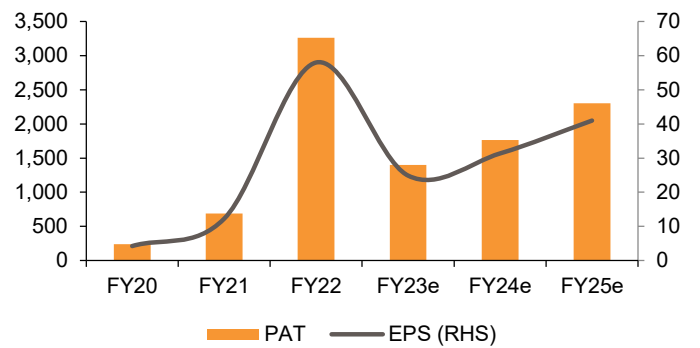
Source: Company, Emkay Research

Exhibit 128: Expected increase in capacity



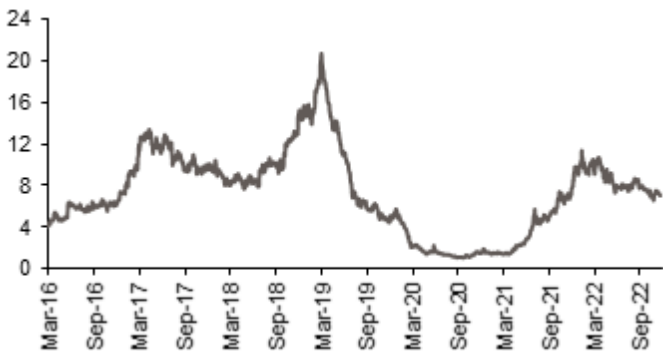
Source: Company, Emkay Research

Exhibit 129: We expect PAT CAGR of 24% over FY23E-25E



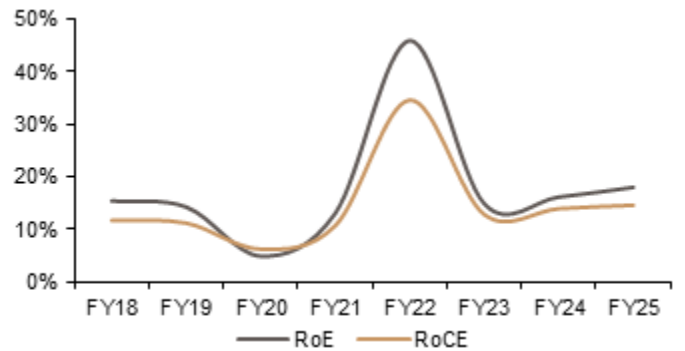
Source: Company, Emkay Research

Exhibit 130: Nitin Spinners' P/E (x)



Source: Company, Emkay Research

Exhibit 131: ROE and ROCE trend



Source: Company, Emkay Research

Moving up the value chain

Over the last decade, NSPL has progressed from being a pure-play small spinner to a decent-size spinner, with an additional portfolio of knitted fabric and finished-woven fabric. While knitted fabric is largely grey fabric, which was supplied to various finished-knitted players, entry into finished-woven fabric in FY20 is an important milestone for the company, in our view. These forays command better margins and are evidently a step up in the value chain.

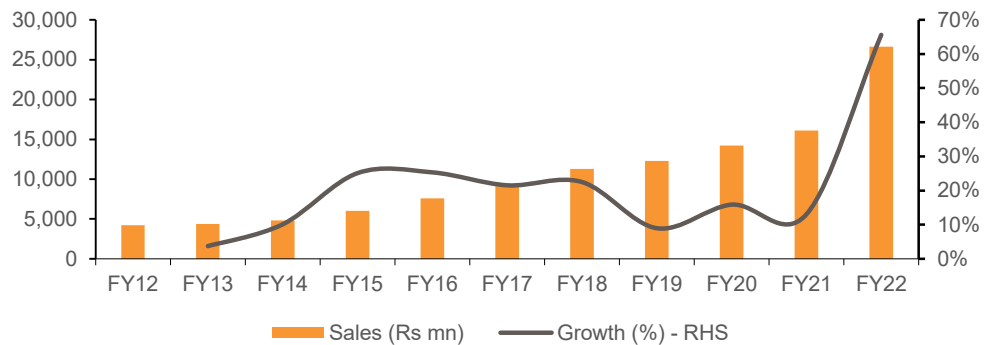
Exhibit 132: NSPL – Portfolio of Products

Yarn	Knitted Fabric	Finished Woven Fabrics
<p>Recognized worldwide as the industry leader for spun yarns, we have enhanced the spinning process at every stage of yarn manufacturing process by investing in cutting-edge technology and innovation.</p>	<p>The threads produced in our manufacturing unit are converted into high quality Grey Fabrics to meet the rising demand of knitted fabrics in the global apparel industry. We offer fabrics in greige form in tubular and open width in different diameters and gauges</p>	<p>Complete range of Dyed and Printed Fabrics made out of 100% Cotton and blends for Fashion, Apparel and Workwear industry in different Finishes and Stretchwear</p>
Offerings		
<ul style="list-style-type: none"> # 100% cotton and blended Ring spun combed and carded yarns # Open end yarns # Compact yarns # Slub yarns # Core spun yarns # Multifold yarns # Yarns made from Supima Giza, Organic, BCI cotton etc # Yarns made from Recycled fibres # Count range 6 to 100s 	<ul style="list-style-type: none"> # Single Jersey # Open width with Elastene # 3 t fleece # Interlock # Rib etc 	<ul style="list-style-type: none"> # 100% Cotton, Cotton Spandex Fabrics. # Poly/Cotton, Poly/Cotton Spandex Fabrics. # RFD, Bleached, Dyed, Print and Yarn Dyed Fabrics with Various Special Finishes like, Teflon, Wrinkle Free # Water Repellant, Nano Care, Soil Release, Anti Bacteria Finish, Aero Finish, Bio Polish etc. # Various Weaves -Twill, Gabardines, Broken Twill, Ripstop, Canvas, Mattie's, Ducks, Plain Tussor, Dobby, Cord ,Ottoman, etc. # Health & Eco – Friendly Fabrics made from BCI/Organic Cotton
End-User Applications		
<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> Woven Apparel</div> <div style="text-align: center;"> Knitted Apparel</div> <div style="text-align: center;"> Furnishing Fabrics</div> <div style="text-align: center;"> Denims</div> </div>	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> Inner Wear</div> <div style="text-align: center;"> Comfort Wear</div> <div style="text-align: center;"> Sports Wear</div> </div>	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> Fashion and Image Wear</div> <div style="text-align: center;"> Uniform</div> <div style="text-align: center;"> Health Care Apparel</div> </div>
<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> Terry Towel</div> <div style="text-align: center;"> Medical Fabrics</div> <div style="text-align: center;"> Tea Bags</div> <div style="text-align: center;"> Bed Linen</div> </div>	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> Baby Wear</div> <div style="text-align: center;"> Winter Wear</div> </div>	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> Hotel Apparel</div> <div style="text-align: center;"> Industrial and Protective Wear</div> <div style="text-align: center;"> Defence Wear</div> </div>

Source: Company, Emkay Research

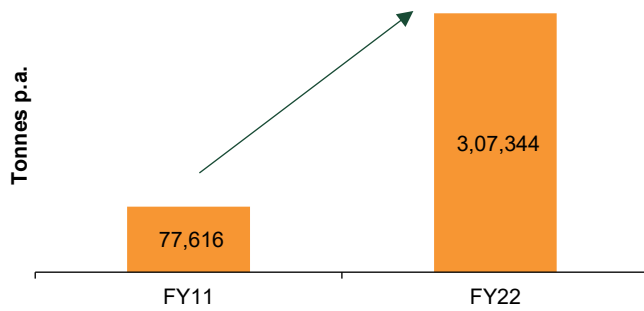
Continued investment in yarn along with expansion in fabric has led to ~15% sales CAGR in the last decade for NSPL.

Exhibit 133: Sales CAGR of 15% in the last decade

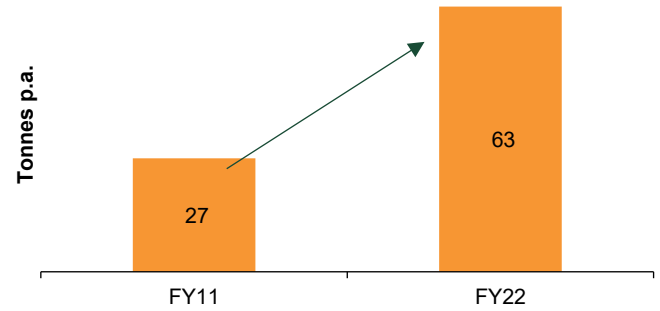


Source: Company, Emkay Research

Within a span of 10 years, the company has increased its number of knitting machines from 27 to 63, leading to increase in share of knitted fabric revenue from 12% to 17%. FY20 onward, the company expanded into production of woven fabric which, though did not have an impact on the sales volume of knitted fabric, led to a fall in its revenue share. Woven Fabric has clocked a 3-year CAGR of 75%, with average revenue share of 13%. Fabric sales now collectively contribute approximately 30% of the total revenue.

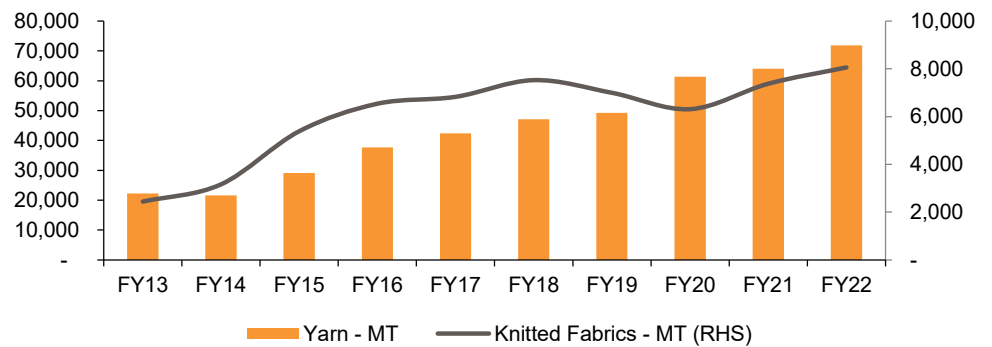
Exhibit 134: Increase in number of Spindles

Source: Company, Emkay Research

Exhibit 135: Expansion in number of Knitting Machines

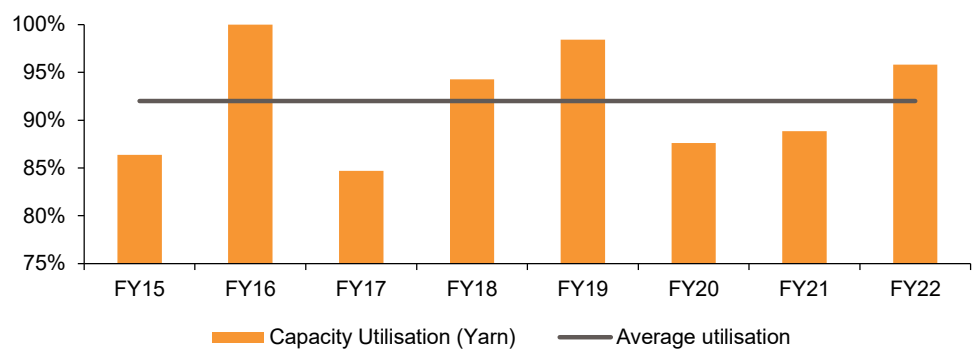
Source: Company, Emkay Research

From a spindle count of 77,000 in FY11, the company has a present count of 0.307mn spindles which signifies that yarn production is the company's bread & butter and has consistently bagged the largest share in the revenue pie. Both yarn and fabric has witnessed steady growth in the past, highlighting Management's clear focus on both segments.

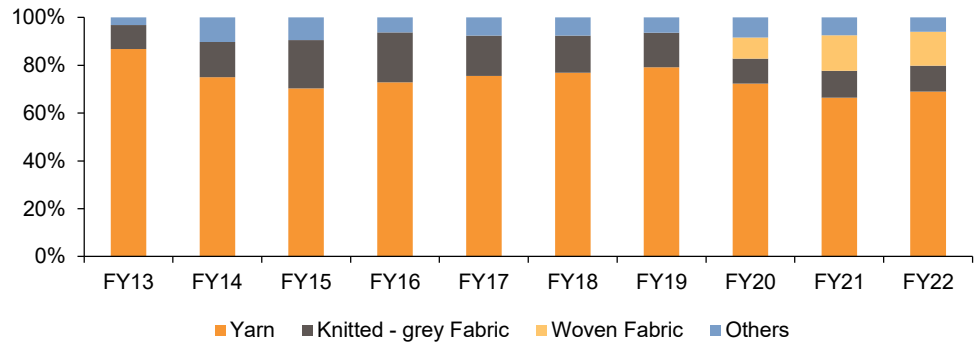
Exhibit 136: Yarn and Fabric have seen secular growth over the last decade

Source: Company, Emkay Research

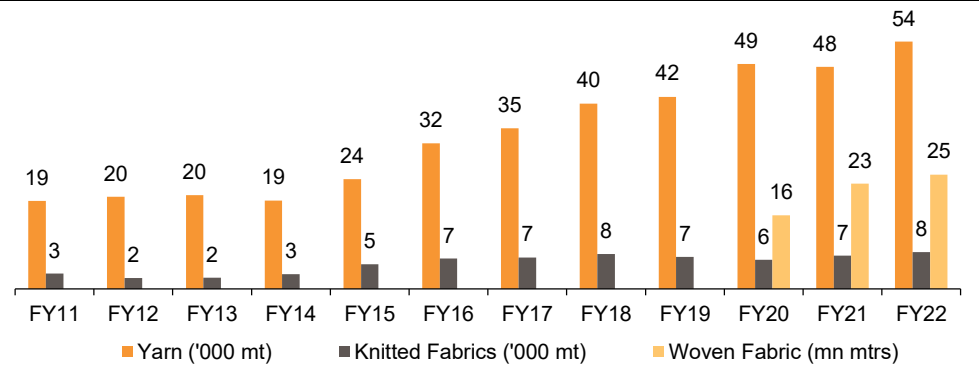
Average utilization levels have been high, indicating investment.

Exhibit 137: FY22 capacity utilization has been higher than the average-utilization levels

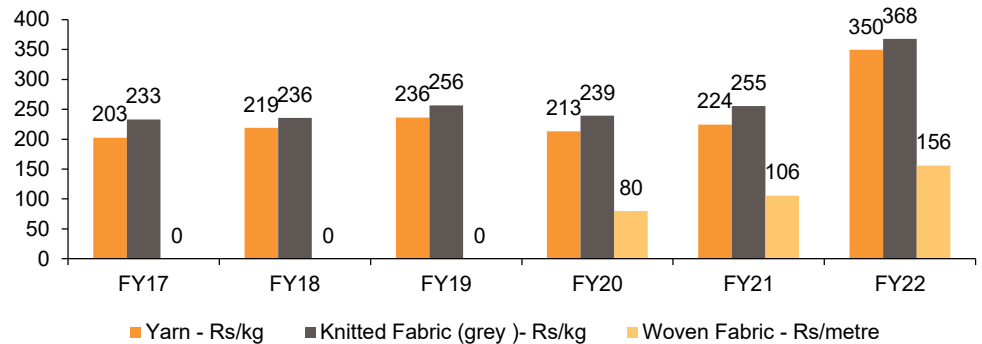
Source: Company, Emkay Research

Exhibit 138: Revenue growth in woven fabric is higher vs knitted-fabric

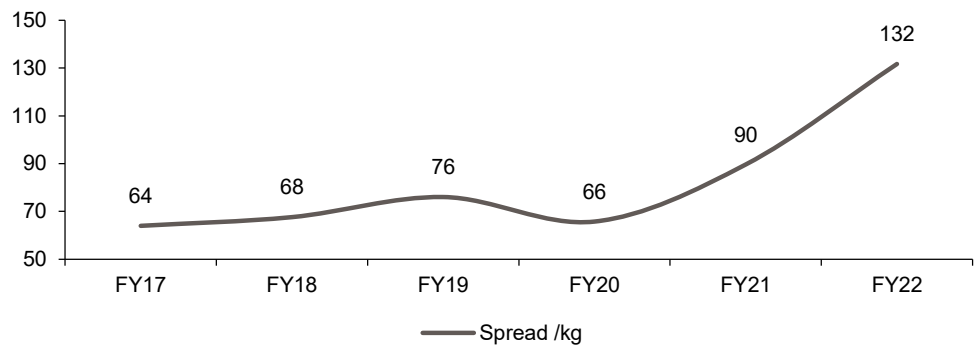
Source: Company, Emkay Research

Exhibit 139: Sales Volume

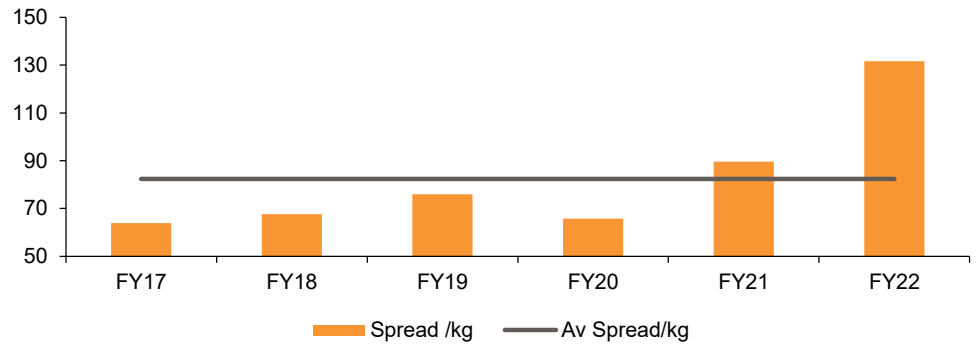
Source: Company, Emkay Research

Exhibit 140: Price Realization

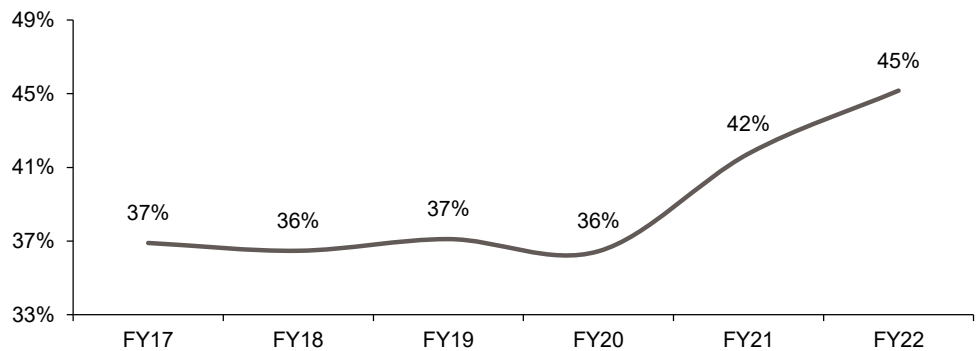
Source: Company, Emkay Research

Exhibit 141: Cotton Yarn Spread

Source: Company, Emkay Research

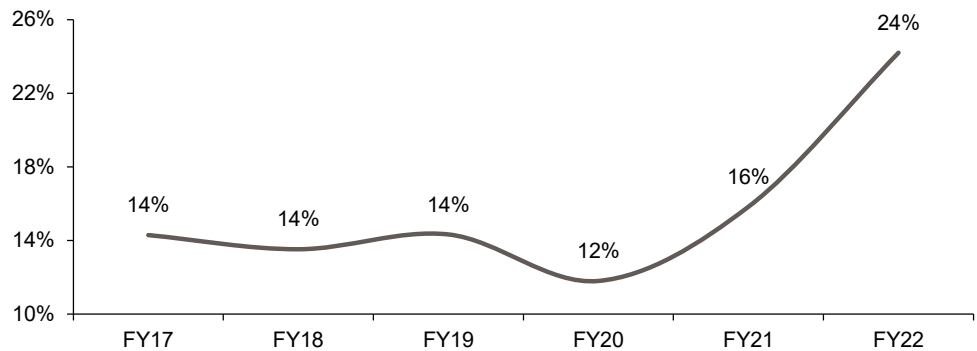
Exhibit 142: FY22 spread has significantly crossed the average-spread levels

Source: Company, Emkay Research

Exhibit 143: Gross Margin level has been increasing over a long period

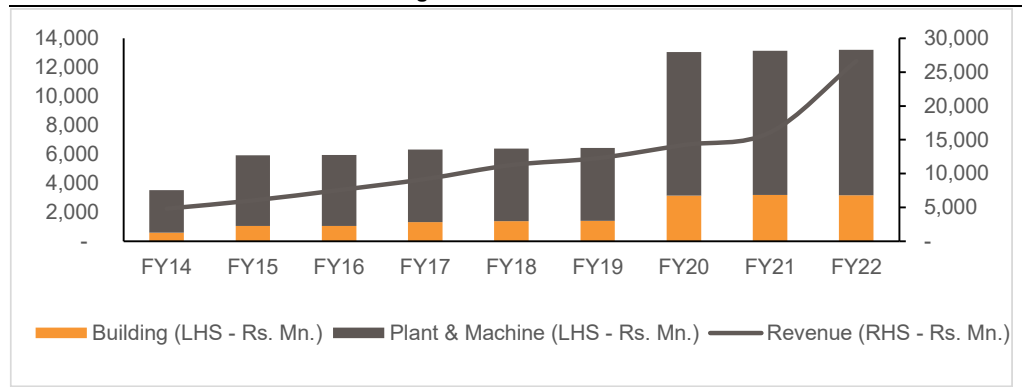
Source: Company, Emkay Research

With the product mix now being ~70% yarn, ~12% knitted fabric and ~17% for finished-woven fabric, EBITDA margin is better than that of pure spinners. Normalized margin for spinning is ranging over 14-16%, while that for finished fabric is higher by 400-500bps.

Exhibit 144: EBITDA Margins

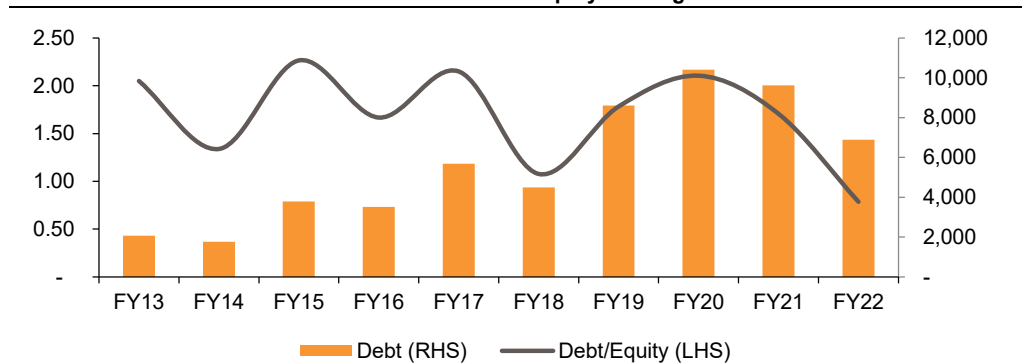
Source: Company, Emkay Research

Capacity is building up every few years which increases the revenue, before the next round of capex.

Exhibit 145: Fixed Assets and Revenue growth have been in-line

Source: Company, Emkay Research

The strong earnings in FY22 were used to lower the debt, leading to fairly comfortable debt-to-equity; this is an ideal time for further expansion, as utilization remains high.

Exhibit 146: Debt Level has decreased and Debt-to-Equity is benign

Source: Company, Emkay Research

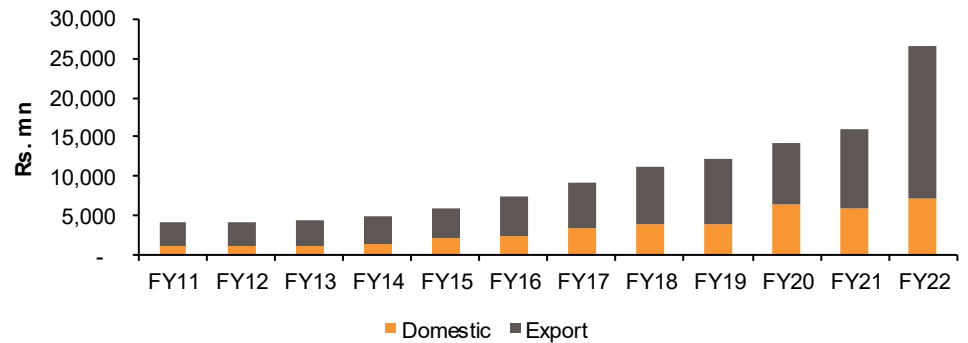
While cotton is a preferred raw material in India (India being a large producer of cotton), it is inclined towards cotton-based products; globally, the tilt is towards man-made fiber (MMF) and, hence, the requirement for blended-yarn is huge.

At present, 27,000-28,000 of the total 0.307 spindles are dedicated to blended yarn and, so, the company has been able to achieve a 10% capacity for producing blended yarn; going ahead, the company has plans to bolster capacity by up to 20%.

Geographical diversification key to better utilization:

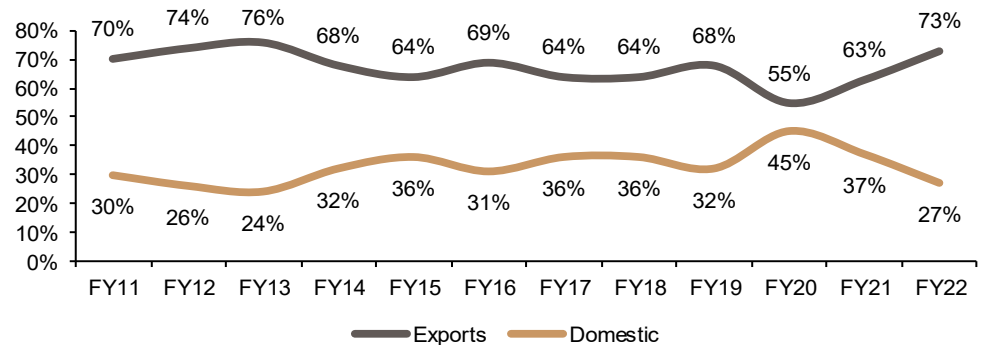
Nitin Spinners sells its products in more than 50 countries globally. The company has developed a wide variety of cotton and blended yarn as well as value-added yarn and knitted fabrics, in line with the evolving market trends, thus strengthening its presence across geographies. The company's woven-fabric division offers fabrics in various weaves, finishes, and special finishes including stretch wear, to cater to the needs of apparel manufacturers.

Exhibit 147: Revenue – Domestic and Exports



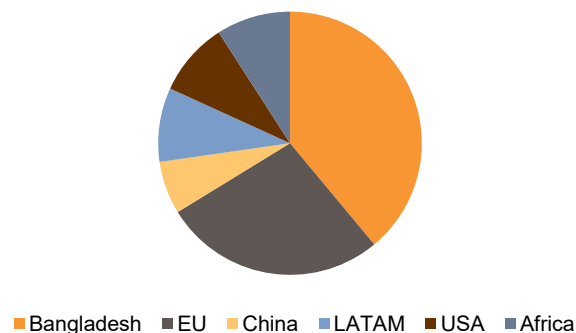
Source: Company, Emkay Research

Exhibit 148: Domestic and Exports – Revenue Growth rate



Source: Company, Emkay Research

Exhibit 149: Diversified Exports



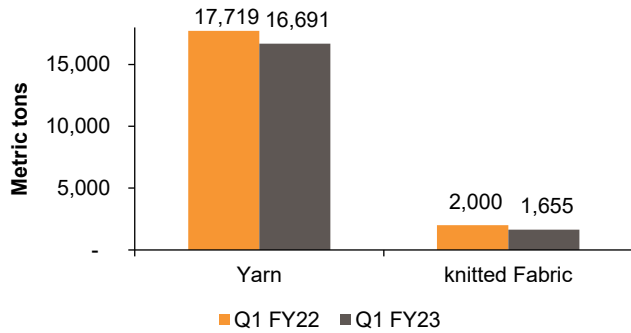
Source: Company, Emkay Research

Through the previous decade, the company logged 65-67% export sales on an average, with the balance 23% being domestic sales. Export sales over the past decade have clocked ~19% CAGR, with domestic sales witnessing 17% CAGR over the same period. This was possible because of the company expanding its business with existing customers, increasing the number of clients and associating with global & domestic brands.

Post Q3FY22, export orders for the company have started reducing. Export customers had anticipated high demand for garments post Q3FY22, thus placing bulk orders. However, the geopolitical strains from Feb-2022 led to supply-chain disruptions, due to which the inventory eventually piled up with customers expected to be cleared only by Q2FY23. On the revenue

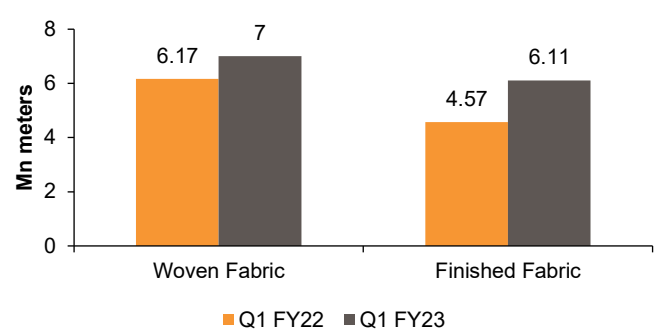
front, comparing Q1FY23 (Rs7,090mn) with Q1FY22 (Rs5,540mn), it has gone up solely due to increase in prices, as volume has reduced over the same period, indicating inflationary pressure in the market.

Exhibit 150: Yarn and Knitted Fabric Production – Q1FY23 vs Q1FY22



Source: Company, Emkay Research

Exhibit 151: Woven & Finished Fabric Production – Q1FY23 vs Q1FY22

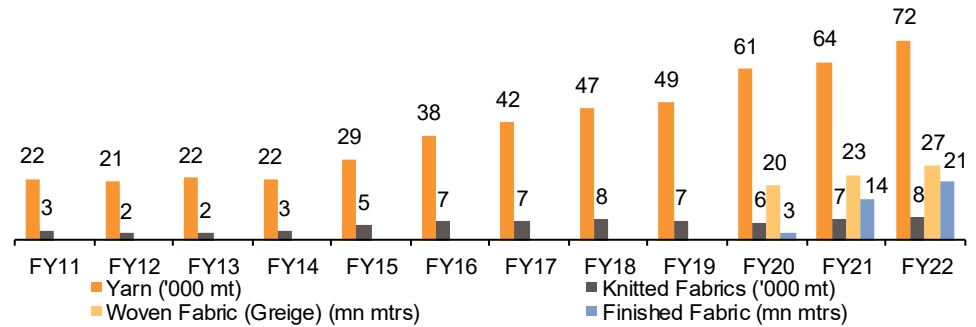


Source: Company, Emkay Research

Expansion across segments

Despite the current low margins in cotton yarn, the company was able to achieve capacity utilization of 96%/90%/70% in yarn/knitting/weaving, respectively, in FY22. This indicates that although there was high volatility in cotton prices around end-FY22, demand remained intact. Continued investment in capacity and strong demand have led to ~15% CAGR in yarn & knitting production over the last decade.

Exhibit 152: Existing production volume

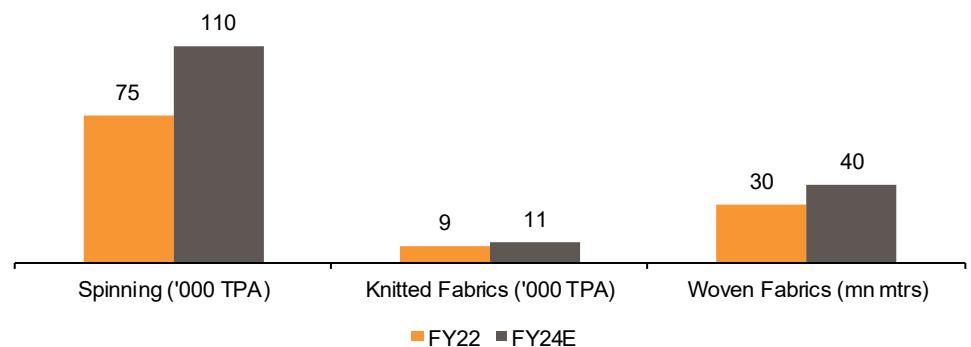


Source: Company, Emkay Research

The company proposes expansion within the next 12-15 months at an investment of Rs9.55bn, which will lead to increase in capacity. Of this investment, Rs8.6bn will be capital expenditure and the balance will entail working-capital expenditure. In order to fund the expansion, internal accruals up to Rs3bn will be used, along with a fresh term loan being taken for the balance Rs6.55bn. The current cost of debt for the company is around 7%, which reduces to about 4.5%, backed by state investment subsidies. Similarly for the new term loan that will be taken, the company will enjoy the benefit of low-cost debt by the state government.

With expansion expected by FY24, the company plans to increase its capacity: for yarn production, from the current 75,000tpa to 110,000tpa; for knitted fabrics, from 9,000tpa to 11,000tpa; and for woven fabric, from 30mn meters to 40mn meters.

Exhibit 153: Expected increase in capacity



Source: Company, Emkay Research

Although fabric generally provides higher margin than yarn and reduces margin volatility, the company also receives the benefit of forward integration.

As regards Spinning, the company has achieved a decent cost structure. It also possesses technical capabilities and can produce yarn at fairly reasonable cost. Additionally, with an aim to increase its product portfolio given the expansion plan, some types of yarn that were previously not being produced by the company will now be added to its portfolio; there are many kinds of cotton yarn that are not yet in production and will also be taken up by the company.

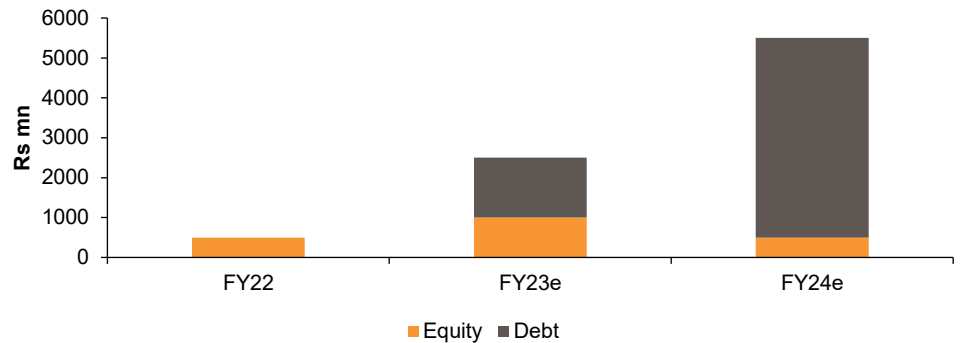
Valuation and Outlook

NSPL has prudently trimmed down its debt, on the back of outstanding earnings during FY22, when the majority of spinners clocked above-normal spread. In FY22, the company registered OCF of ~Rs4bn. Further, given that majority of its capacity is near full-utilization, it is on a capex mode despite slight slowdown in demand, as installation will take some more time.

Capex plan of Rs8.5bn

NSPL intends to invest Rs8.5bn, as its capex plan for the next 2 years. This will be financed by Rs6.5bn of debt and Rs2bn of internal accrual. By the end of FY22, ~Rs500mn was spent on the same. This capex will have the potential to add ~Rs12bn of maximum revenue in a normal scenario.

Exhibit 154: Capex Plan



Source: Company, Emkay Research

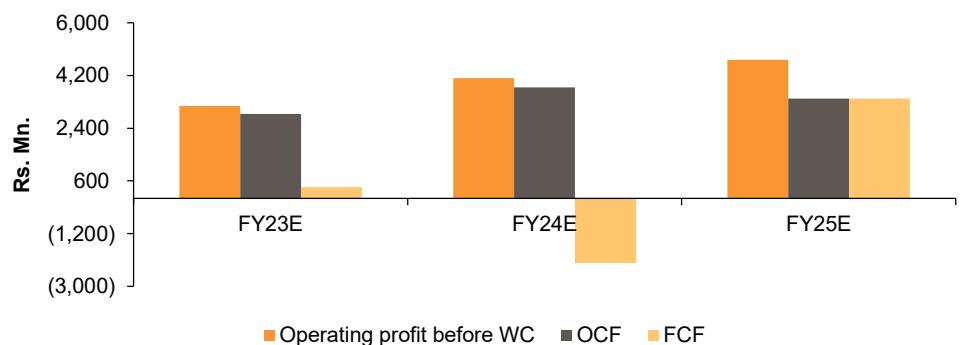
Exhibit 155: Phases in capex

Unit-wise capacity addition

FY22	Advance Money
Mar-23	Weaving, Finishing, Knitting units
Sep-23	Spinning unit

Source: Company, Emkay Research

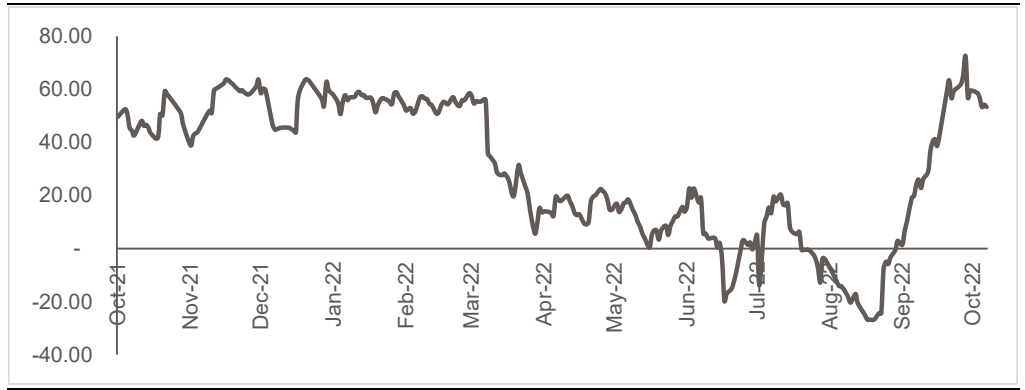
Exhibit 156: Operating and Free Cash Flow



Source: Company, Emkay Research

Given that the spread (Yarn and cotton) has softened in the past few quarters on the back of weak demand, we estimate that earnings for FY23E will decline by ~37%. We estimate the spread may have bottomed out in 1HFY22, as cotton prices have softened in India owing to expectation of better cotton production.

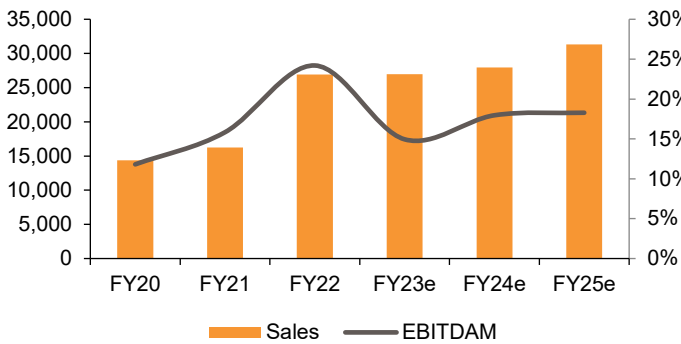
Exhibit 157: Cotton Yarn Spread over one year



Source: Company, Emkay Research

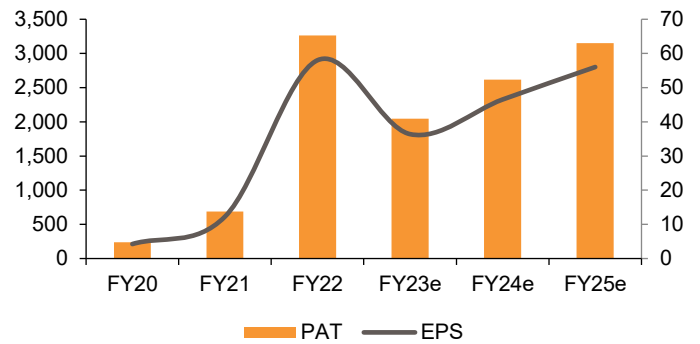
We expect improvement in demand and earnings from FY24E, which will lead to EPS CAGR of 24% over FY23E-25E.

Exhibit 158: We expect margin to decline in FY23 and then normalize to ~18%



Source: Company, Emkay Research

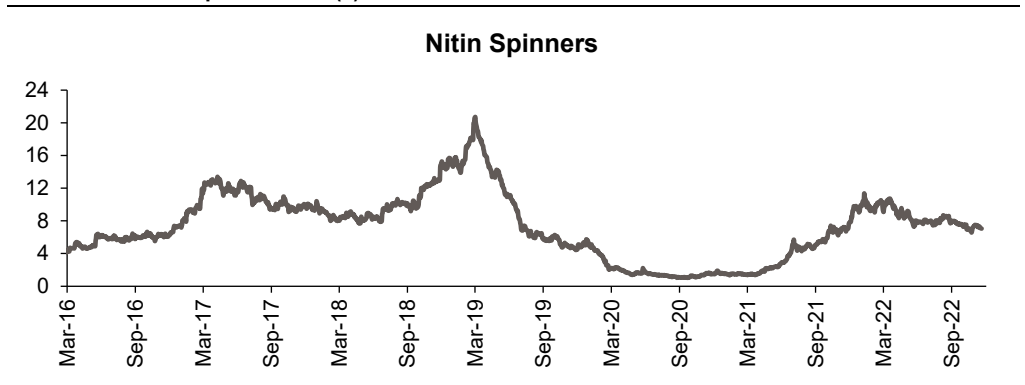
Exhibit 159: We expect PAT CAGR of 24% over FY23E-25E



Source: Company, Emkay Research

Average PER for NSPL over the last 5 years has been ~7-8x. We believe that in the last 2 years, the company has seen change in the product mix, with 15% of the revenue coming from finished-woven fabric. Further, future capex would keep the product mix intact, which implies better earnings and multiple (as neither is asset-heavy). Hence, we have assigned 8x PER to arrive at our Dec-23 TP of Rs310/share.

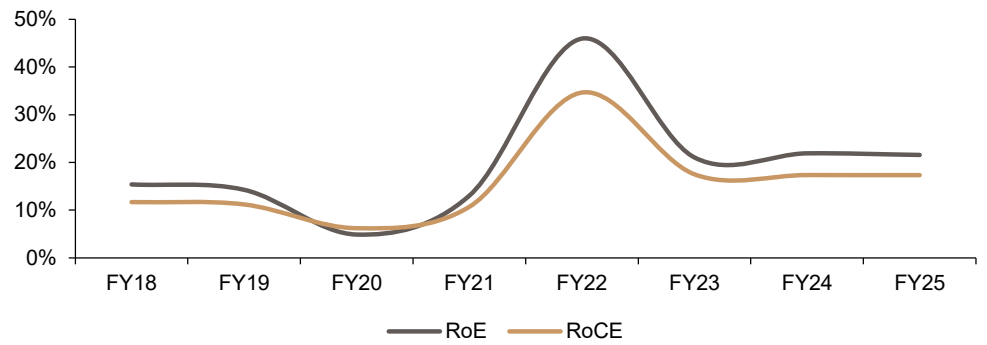
Exhibit 160: Nitin Spinners' P/E (x)



Source: Company, Emkay Research

We are assigning PER of 8x vs 7x, as 15% of the business is now Fabric, which entails better realization and margin.

Exhibit 161: ROE and ROCE trend



Source: Company, Emkay Research

Risks

Slowdown in demand will continue to pressurize sales and, resultantly, the margin of the company. This can lead to lower-than-estimated earnings.

While cotton prices have corrected in the last few months, any disruption in cotton production can lead to shortage and thus to higher prices.

There may be delay in execution of the present capex due to issues in delivery of machinery, etc. Our thesis is based on improvement in demand and NSPL ramping up capacity to benefit from this.

Resurgence of Covid-19 cases can lead to disruptions on a macro country-level as well as at the sector-level which will have a domino effect on the day-to-day business of the company.

About the Company and Management

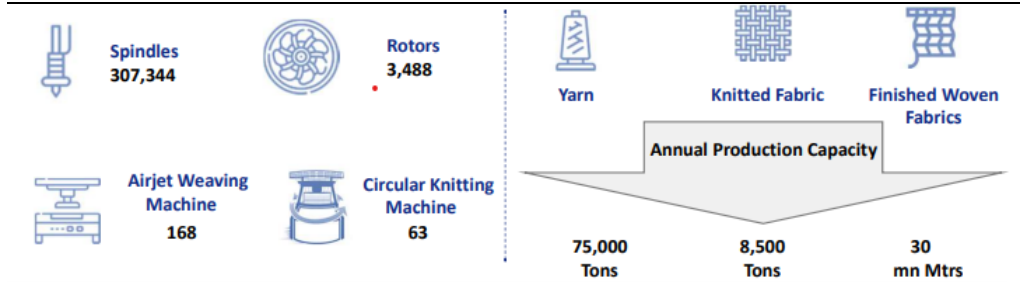
About the company

NSPL was established in 1992 and has its headquarters in Bhilwara (Rajasthan). The company has expertise in the production & sale of yarn (Production: 71,850ton; FY22 sales: 53,709ton), woven fabric (Production: 26.95mn meters; Sales: 24.8mn meters) and knitted fabric (Production: 8,057ton; Sales: 7,967ton), which are finally converted to finished & printed fabric. On an average, exports contribute approximately 65% of the total revenue, with the balance coming from domestic markets. The company exports its products to >50 countries and has its manufacturing units set up at Bhilwara and Chittaurgarh in Rajasthan.

The company commenced operations in 1993 with 384 rotors, which it eventually increased to 1,464 by CY1999. In CY2002, it ventured into ring spinning and manufacturing knitted fabric by installing 14,112 spindles. It has seen growth in the number of spindles over the years, with the company now boasting of approximately 307,344 spindles. In FY20, the company completed setting-up its integrated textiles complex in Begun District, Rajasthan

The company was listed in 2006 and approximately 56.25% of its shares are held by the promoters of the company at present, with the remaining held by the public, indicating nil backing from institutional investors. The company aims to become an integrated textiles manufacturer by forward & vertical integration and remain at the forefront in high-quality textile product manufacturing.

Exhibit 162: Production Capacity at the end of FY22



Source: Company, Emkay Research

Exhibit 163: Key Management

Name	Description
Ratan Lal Nolkha	Ratan Lal Nolkha is the Chairman and promoter of the Company. He has more than five decades of experience in the textile industry. He is a member of ICAI, ICSI and ICWA. Prior to joining Nitin Spinners, he was associated with Surya Roshni, RSWM and BSL at senior positions.
Dinesh Nolkha	Dinesh Nolkha is the Managing Director of the Company. He has 26 years of experience in the industry and is a qualified Chartered Accountant and Cost Accountant.
Nitin Nolakha	Nitin Nolakha is Joint Managing Director and one of the key promoters of the Company. He has a vast experience of more than 23 years in the Textile industry. He is a Bachelor of Commerce and Master of Business Administration.

Source: Company, Emkay Research

Exhibit 164: Milestones

Year	Milestone
1993	Commenced Operations With Open-End Spinning - Installed 384 Rotors with an Investment of Rs30mn
1999	Total Installed Rotors reached 1,464
2002	Ventured into Ring Spinning by installing 14,112 spindles. Forward integration into Knitted Fabric by installing 7 knitting machines
2005	Ring Spinning Capacity doubled to 27,216 spindles and number of Knitting Machines to 15
2007	Completed expansion program by installation of 50,400 spindles, 12 knitting machines
2008	Expansion of open-end spinning by installation of 2,000 Rotors
2015	Expansion of Spinning & Knitting capacity by installing 72,480 Spindles & 18 Knitting Machines
2017	Completed Spinning expansion by adding 72,960 Spindles and 14 Knitting Machines, taking the total number of spindles to 223,056, 2,936 Rotors and 63 Knitting Machines
2020	Completed an Integrated Textiles Complex At Begun District, Chittorgarh, by setting up 76,992 Spindles For manufacturing cotton and blended yarn, 552 Rotors for blended open-end yarn, 168 Air-Jet Weaving Machines along with facilities for dyeing, printing and finishing of fabrics
2022	Added 7,296 Spindles in June-21; announced ~Rs9,550mn worth expansion plans across all segments

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	16,244	26,923	23,254	23,085	25,775
Expenditure	13,672	20,407	20,118	19,101	21,250
EBITDA	2,573	6,516	3,136	3,984	4,525
Depreciation	910	874	877	1,034	1,034
EBIT	1,662	5,642	2,259	2,949	3,490
Other Income	19	18	27	125	210
Interest expenses	616	553	420	722	627
PBT	1,065	5,107	1,865	2,352	3,073
Tax	377	1,800	466	588	768
Extraordinary Items	0	(45)	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	689	3,261	1,399	1,764	2,305
Adjusted PAT	689	3,307	1,399	1,764	2,305

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	562	562	562	562	562
Reserves & surplus	5,071	8,196	9,525	11,201	13,275
Net worth	5,634	8,758	10,087	11,763	13,837
Minority Interest	0	0	0	0	0
Loan Funds	9,616	6,885	7,475	12,325	10,325
Net deferred tax liability	535	1,251	1,251	1,251	1,251
Total Liabilities	15,785	16,895	18,814	25,340	25,414
Net block	10,597	10,119	10,492	16,708	15,673
Investment	0	0	0	0	0
Current Assets	6,150	8,124	8,485	10,010	11,232
Cash & bank balance	9	6	493	2,779	3,331
Other Current Assets	819	1,067	1,067	1,067	1,067
Current liabilities & Provision	978	1,349	1,413	1,378	1,491
Net current assets	5,172	6,775	7,072	8,632	9,741
Misc. exp	0	0	0	0	0
Total Assets	15,785	16,895	18,814	25,340	25,414

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	1,046	5,089	1,839	2,227	2,863
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(684)	(890)	190	726	(557)
Operating Cashflow	1,889	5,627	3,326	4,710	3,968
Capital expenditure	(128)	(381)	(2,499)	(6,000)	0
Free Cash Flow	1,761	5,246	827	(1,290)	3,968
Investments	0	0	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(109)	(362)	(2,473)	(5,875)	210
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(788)	(2,731)	590	4,850	(2,000)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(372)	(1,983)	(536)	(676)	(999)
Financing Cashflow	(1,776)	(5,267)	(366)	3,451	(3,626)
Net chg in cash	4	(2)	487	2,286	552
Opening cash position	4	9	6	493	2,779
Closing cash position	8	6	493	2,779	3,331

Source: Company, Emkay Research

This report is intended for rajendran.subbiah@emkayglobal.com, mohan.billava@emkayglobal.com use and downloaded at

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	15.8	24.2	13.5	17.3	17.6
EBIT Margin	10.2	21.0	9.7	12.8	13.5
Effective Tax Rate	35.3	35.3	25.0	25.0	25.0
Net Margin	4.2	12.3	6.0	7.6	8.9
ROCE	10.7	34.6	12.8	13.9	14.6
ROE	13.0	46.0	14.8	16.1	18.0
RoIC	6.8	22.4	10.0	11.2	11.7

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	12.3	58.8	24.9	31.4	41.0
CEPS	28.4	74.4	40.5	49.8	59.4
BVPS	100.2	155.8	179.4	209.2	246.1
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	15.0	3.1	7.4	5.9	4.5
P/CEPS	6.5	2.5	4.5	3.7	3.1
P/BV	1.8	1.2	1.0	0.9	0.7
EV / Sales	1.2	0.6	0.7	0.9	0.7
EV / EBITDA	7.8	2.6	5.5	5.0	3.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	1.7	0.8	0.7	0.8	0.5
Net Debt/EBIDTA	3.7	1.1	2.2	2.4	1.5
Working Cap Cycle (days)	116.0	91.8	103.3	92.5	90.8

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	13.0	65.7	(13.6)	(0.7)	11.7
EBITDA	51.5	153.3	(51.9)	27.0	13.6
EBIT	86.6	239.4	(60.0)	30.6	18.3
PAT	189.2	373.6	(57.1)	26.1	30.7

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	56.2	56.3	56.3	56.4	56.4
FIIIs	2.7	4.0	4.8	4.3	3.8
DIIIs	4.1	4.3	4.6	5.0	5.6
Public and Others	37.0	35.5	34.3	34.4	34.3

Source: Capitaline

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 23 Dec 2022 21:01:29 (SGT)

Dissemination Date: 23 Dec 2022 21:02:29 (SGT)

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