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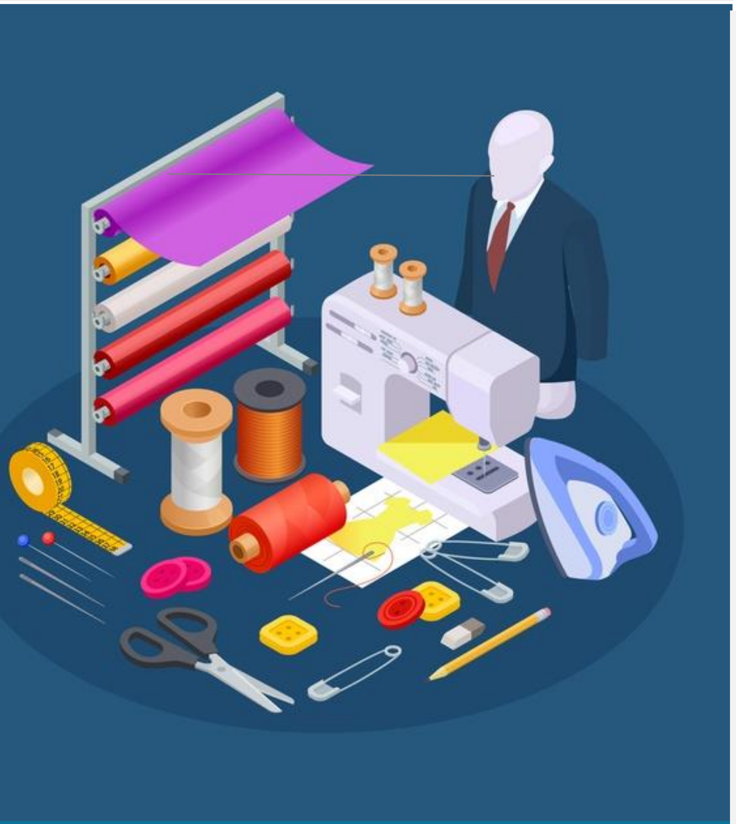


# Indian Textile Industry

## Inside the Report

### 1. Understanding Textile Industry in detail



### 2. Companies discussed:




Research Analyst

Gunjan Kabra
info@gunjankabra.com

# Introduction

We initiated coverage in July, 2021 following a basket approach having exposure in various part of the value chain. While, Nitin Spinners and Indo Count were short term bet considering the nature of the product, we continue to hold Gokaldas Export Ltd. and S P Apparels Ltd.

We believe, apparels can be a long-term story as the capex requirement is low compared to other part of the value chain. Low base of apparel segment in India, large players are well capitalized, weaker brands gone out of market along with government focus makes apparel sector a good investment option in long term. The pandemic has changed the business landscape and global brands are now looking positively towards India. China plus one, supplier consolidation and expected FTA UK and EU are at play.

While one might think that textile is a fragmented market and how to differentiate one company from another in a similar business. In this market, many players can co-exist. Keep in mind the following factors that are important to outperform/gain market share in Indian Textile Industry:

- Scale
- Quality
- Cost Competitiveness
- On Time Delivery
- Strong Customer Relationship
- Operating Efficiency at Factory
    - Reduce Wastage
    - Internal employee management
    - Shahi Exports Success Factor- Professionally managed company
    - Customer Relationship
    - Efficient management of large number of SKUs
    - Improvement in product efficiency
    - Reduced rejection rate

All these factors are discussed in great detail in the subsequent part of the report.

# Why Indian Textile Industry?

- Second largest employer after agriculture
- Contributes 5% to India's GDP, 7% of industrial outputs in value terms, 12% of the country's export earnings

Therefore, it will always be in the focus/priority of the government's industry benefit list.

- Abundance of raw material
- Presence across the entire value chain
- Second largest manufacturer of textiles and clothing in the world

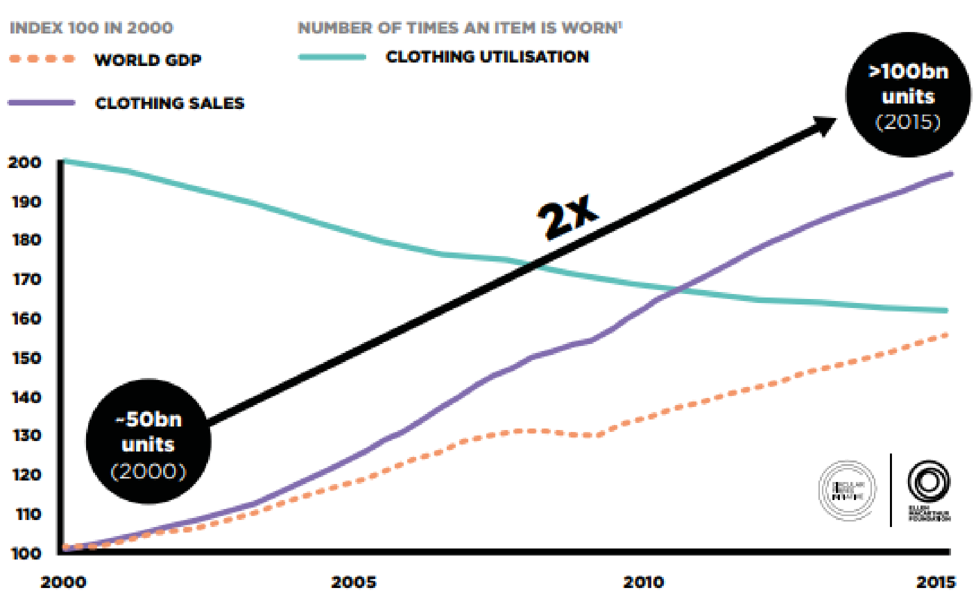
These points are important to be competitive in long term. It is discussed in detail below.

Being, brought up in a textile family and living in the textile city of India, also led me to research on this sector. Of course, there is no bias involved while presenting the report.

According to Maslow's hierarchy theory, clothing is a basic and fundamental need. But, the industry working is quite different according to what the theory describes. This report aims to outline the same.

Apart from the supply chain re-alignment or ban on China, one more emerging trend is clothing is massively underutilized. The customers purchase more clothing than they will use and are quick to throw garments after use. Worldwide, clothing utilization – the average number of times a garment is worn before it ceases to be used – has decreased by 36% compared to 15 years ago. This is known as fast fashion trend.

**Growth of Clothing Sales and Decline in Clothing Utilisation**




Source: Euromonitor International Apparel & Footwear 2016 Edition (volume sales trends 2005–2015); World Bank, World development indicators – GD (2017)

## Understanding Textile Value Chain

Let's do an in-depth analysis on how the industry operates and find out which aspect of the value chain holds the most value and can provide us with great returns. Generally, no single company in India has invested in the entire value chain from yarn to fabric to apparels. Let's find out where the value holds the most.

## Analyzing from Macro to Micro level: Story in Charts

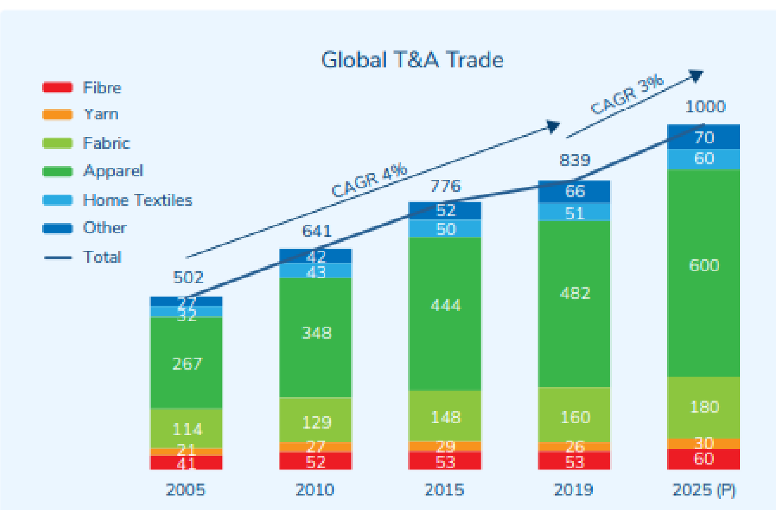
### Global Apparel Market

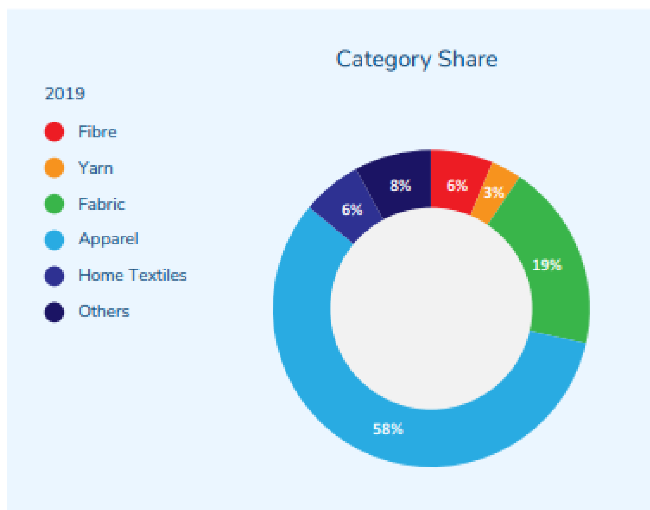
| Region | 2019 | 2020 | Y-o-Y Change | Projected CAGR 2019-25 | 2025 (P) |
|---|---|---|---|---|---|
| EU-27 | 264 | 219 | -17% | 1% | 280 |
| United States | 235 | 171 | -27% | 2% | 265 |
| China | 181 | 173 | -4% | 11% | 340 |
| Japan | 106 | 83 | -21% | 0.50% | 110 |
| India | 78 | 55 | -29% | 10% | 135 |
| Brazil | 48 | 34 | -30% | 4% | 60 |
| Canada | 33 | 27 | -19% | 2% | 37 |
| RoW | 690 | 517 | -25% | 2% | 780 |
| **World** | **1,635** | **1,280** | **-22%** | **3.50%** | **2,007** |

The consumption is expected to reach to pre-Covid levels over next couple of years and then retrace its growth path to reach US$ 2,007 billion by 2025.

The growth is mainly led by China and India.

### Category-wise Share of Global T&A Trade (US$ Billion)



Apparel dominated T&A trade with a 58% share in the overall trade value, followed by fabrics with a share of 19%.

## Leading Textile and Apparel Exporters (2019)

| Country | Exports | | | Share (%) |
|---|---|---|---|---|
| | Textile | Apparel | Total | |
| China | 134.6 | 149.9 | 284.5 | 34 |
| Vietnam | 10.2 | 33.7 | 43.9 | 5 |
| Bangladesh | 1.8 | 40.9 | 42.7 | 5 |
| Germany | 15.5 | 23.8 | 39.3 | 5 |
| India | 20.2 | 16.2 | 36.4 | 4 |
| Italy | 12.8 | 23.6 | 36.4 | 4 |
| Turkey | 12.2 | 16.1 | 28.2 | 3 |
| USA | 21.7 | 5.2 | 26.9 | 3 |
| Spain | 5 | 14.3 | 19.3 | 2 |
| France | 5.6 | 12 | 17.6 | 2 |
| ROW | 117.2 | 146.3 | 263.5 | 31 |
| **Total** | **356.8** | **481.9** | **838.7** | |

- China's share in global T&A trade in 2019 was 34%. The share has come down from 39% in 2015.
- Vietnam and Bangladesh were the second and the third largest textile and apparel exporters in 2019, respectively.
- India is the 5th largest exporter of T&A in the world with exports worth US$ 36.4 billion.

India's export market share across T&A shows that India is relatively strong in the upstream segments of raw material and yarn spinning whereas its market share is much lower in fabrics and finished goods that have a higher value. This significantly limits the value of India's export.

## Leading T&A Exporters Category –Wise

| Fibre | USA | Australia | China |
|---|---|---|---|
| Export Value (US$ Bn) | 6.67 | 3.30 | 3.12 |
| Market Share | 20% | 10% | 9% |

| Home Textiles | China | India | Turkey |
|---|---|---|---|
| Export Value (US$ Bn) | 19.20 | 5.79 | 4.14 |
| Market Share | 37% | 11% | 8% |

| Yarn | China | India | Vietnam |
|---|---|---|---|
| Export Value (US$ Bn) | 5.53 | 3.69 | 3.17 |
| Market Share | 21% | 14% | 12% |

| Apparel | China | Bangladesh | Vietnam |
|---|---|---|---|
| Export Value (US$ Bn) | 149.90 | 40.90 | 33.70 |
| Market Share | 31% | 8% | 7% |

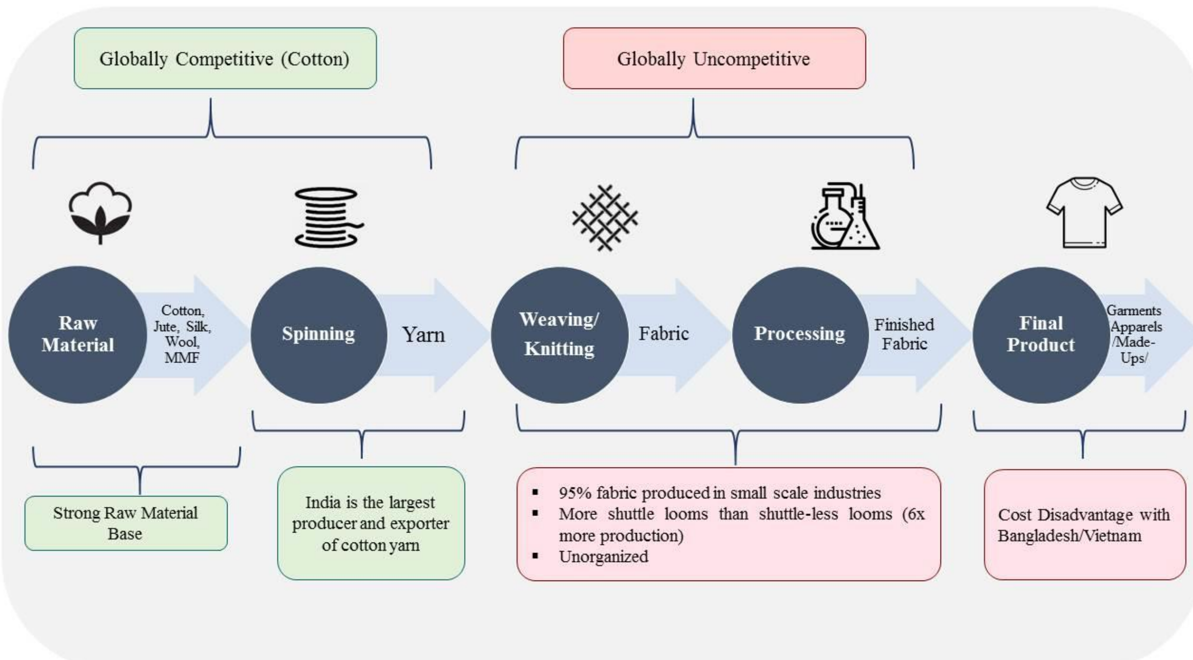
| Fabric | China | Italy | S. Korea |
|---|---|---|---|
| Export Value (US$ Bn) | 72.70 | 7.57 | 7.26 |
| Market Share | 45% | 5% | 5% |

India has 2nd largest market share in yarn and home textiles after China. Nearly two thirds of India's exports of textile is to US and Europe

Before understanding the Indian Textile Market, let's comprehend the textile value chain.

## Part 1: Textile Value Chain

The Indian Textile Industry spans all activities across the value chain




The value chain begins with **raw materials sourcing.** There is abundant availability of raw material. India is the largest producer of cotton in the world and the second-largest exporter of cotton.

The **Spinning sector** in India is completely organized and is globally competitive in terms of variety, process and production quality. This is visible in the performance of many listed companies in this sector.

The **Weaving/Knitting sector** is again highly unorganized, with the organized sector contributing to less than 10% of the total production. This comes out to be the weakest link in the supply chain suffering from problems such as high power tariffs and low investments in technology.

While India leads in cotton yarn exports, it has been a very marginal player when it comes to cotton fabric in world exports. China has a substantial share of 69% in cotton fabrics when compared to India's 9%; the situation is almost the same in case of MMF fabrics. This comparison suggests that India is not able to scale up the value chain significantly enough to meet the global demand despite being the largest producer and exporter of cotton yarn. In India, out of around 25 lakh looms' weaving capacity, the share of shuttle-less looms is about 4%. This indicates a low degree of modernization in the Indian weaving industry. Power looms contribute 60% of total cloth production in the country. According to NITI Aayog, India currently has 23.7 lakhs shuttle looms as compared to 6.5 lakhs in China. However, in China, there are 6.3 lakhs shuttle-less looms compared to 1.2 to 1.4 lakhs in India. This indicates the huge productivity gap India must bridge to become competitive in the global markets.

India has one of the largest installed production bases in the world in the weaving sector but at the same time it uses old technology with low productivity and quality levels. In terms of technology adoption in the weaving sector, India has only 2% share in global shuttle-less looms (i.e. modern looms) installed capacity. The cost of production in India also goes up due to poor technology levels and low scale of operations as 95% of the weaving sector in India is unorganized and in the small scale sector. India also lacks the presence of large fabric manufacturers when compared to China and the US. It largely comprises of MSME units.

The **Processing sector** is largely decentralized with low levels of automation, marked by independent processing units. This has led to inconsistency in production and lack of conformance to quality.

Finally, the **Apparel sector** is largely fragmented with the majority of total units being small operations run by either proprietorship or partnership firms.

There are a number of reasons behind the extensive fragmentation of India's apparel sector. The sector is marked by low entry barriers, as capital required for business entry is low with technology and skills freely available. Taking advantage of this, a number of unorganized players mushroomed in the country. The sector grew horizontally more than it grew vertically. Besides, smaller countries like Bangladesh, Sri Lanka and Vietnam enjoyed attractive tariff concessions for their exports to certain developed countries, making it possible for them to grow faster.

Despite all these inconsistencies, the industry has managed to survive since so many years. Access to variety of raw materials, flexibility in the supply chain combined with availability of low-cost skilled labour provides a significant advantage to the Indian textile industry

## Factors important to outperform/gain market share

This is mainly with respect to apparel companies. The business model of apparel brands is to outsource their requirements. Textile is an man-power intensive industry.

1. **Scale**- Ability to scale up is important for apparel brand companies while choosing their suppliers.
2. **Quality**
3. **Cost**- Elaborated this point in the next section
4. **On-Time Delivery**- This is a very important factor.
5. **Strong Customer Relationship-** It has entry barriers. Companies take time to get any brands onboard. International brands have strict criteria while choosing their suppliers. Generally, they fulfill sample orders and then onboard that brand as a customer. While the entry barriers are high but it's a price sensitive business.
6. **Operating Efficiency at Factory** is another factor that makes one company different from others. One might think that the sector is very fragmented. There are lot of companies in similar business. How to pick up any

company in this sector? Here, firstly, understand the textile value chain and identify which part of the value chain holds the most value. Also, do further analysis on the following points:

- Reduce Wastage
- Internal employee management
- Shahi Exports Success Factor- Professionally managed company
- Customer Relationship
- Efficient management of large number of SKUs
- Improvement in product efficiency
- Reduced rejection rate

## Global Perspective – Why India can perform better in next 3-5 years ?

### Factor Cost Comparison of India with Competing Countries

| Garment Industry Employable Population (15-39 years) | | China | India | Bangladesh | Vietnam | Ethiopia |
|---|---|---|---|---|---|---|
| (Million) | | 489 | 568 | 71 | 39 | 46 |
| (% of Total Population) | | 35% | 42% | 44% | 41% | 42% |

| Parameters | Unit | China | India | Bangladesh | Vietnam | Ethiopia |
|---|---|---|---|---|---|---|
| Labour Wages | US$ / month | 550 – 600 | 160 – 180 | 110 – 120 | 190 – 200 | 80 – 90 |
| Power Cost | US$ / KWh | 0.10 – 0.11 | 0.08 – 0.10 | 0.09 – 0.12 | 0.08 – 0.10 | 0.03 – 0.04 |
| Water Cost | US¢/m³ | 55 – 60 | 16 – 20 | 20 – 22 | 50 – 80 | 30 – 40 |
| Lending Rates | % | 6% – 7% | 08% – 10% | 12% – 14% | 7% – 8% | 8.5% – 9% |

**Wage**
India's wage cost is lower than China & Vietnam

**Power Cost**
The power cost in India is comparable to other manufacturing destinations & is more competitive once state subsidies are considered

**Lending Rate**
With available government subsidies, effective cost of capital in India is competitive.

- China – Labour Cost is continuously increasing, Apparel Exports share is continuously declining, couldn't scale up (one child policy)
- Vietnam – Labour cost is steadily increasing due to alternate sectors doing well
- Bangladesh- cost effective labour, duty free access to Europe gives formidable advantage to Bangladesh and very well supported by govt
- Production did shift to Africa and Latin America but scalability acted hindrance in these regions

**India**

- Competitive Labour Cost
- Presence across the value chain – helps in on time delivery
- Strong ecosystem in cotton value chain
- Rupee Depreciation turned favourable for export oriented companies

- Government is acting as a facilitator in helping textile sector flourish- PLI Scheme, FTA with UAE and Australia, in talks with FTA UK and EU
- Apparel sector characterised by low capex industry

## Business Landscape after COVID-19

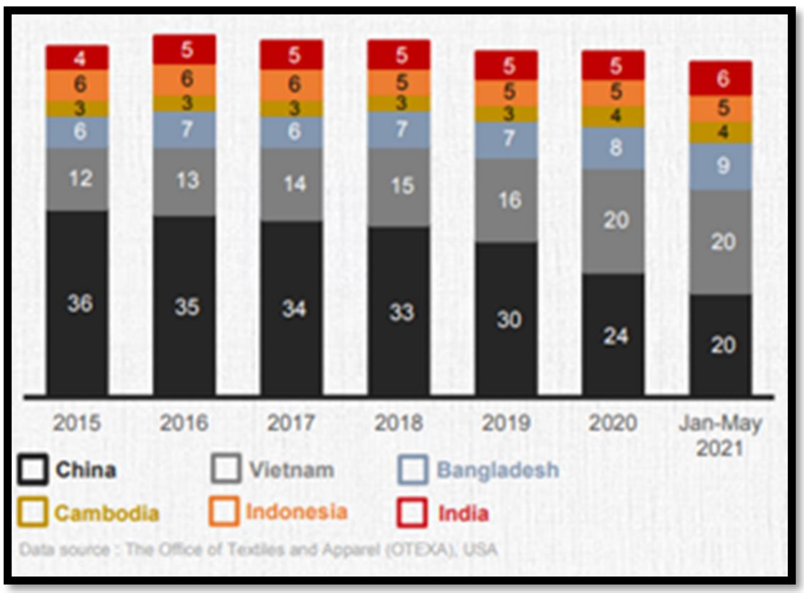
- **The global supply chain during the pandemic got re-aligned.**

The US banned entry of all products containing cotton from Xinjiang. This is bound to trigger material shift in global apparel trade as China is the leading apparel exporter, accounting for more than 35 per cent of the global trade and more than 80% of China's cotton originates from the Xinjiang region. India surely stands to gain as it has a strong presence in the cotton value chain.

Meanwhile, during this time, there was a strong demand seen in the US. The companies that are exporting to US witnessed surge in order book. This was quite evident in the quarterly performance results of these companies.

De-risking supply chain from China or China+1 strategy

**To US**




**To EU**


China's share is reducing as a proportion in apparel supplies to both the countries

## China's share is expected to come down in the global trade

China lost 8% share in US apparel market in CY2020; India witnessed a flat trend, while Vietnam, Bangladesh anxd Cambodia increased their share by 4%, 2% and 2%, respectively (Source: OTEXA, US)

India has been able to take away business in some part of the value chain from China quite a bit now and will continue to do so as costs in China are going up.

### Did you know?

Indian Cotton is 30% cheaper than Chinese cotton.

Indian labour is 3x less expensive than China.

Centrally, the government has realized the reasons why Indian companies in the apparel sector hasn't been able to compete in the global markets. Any measures/policies on this side will significantly change the business environment for these companies. This is discussed in detail in subsequent part of the report. As demand picks up, India is expected to be in a stronger position to become an alternate supplier to China.

**Scenario Analysis: China +1 Strategy**

| 2020<br>in $ bn<br>China's Total Exports | China's exports come to India | Increase in India's exports | Total Exports | Increase in overall exports | Increase in India's exports (Rs. In crores) |
|---|---|---|---|---|---|
| 284.5 | 1% | 2.845 | 39.245 | 7.82% | 20768.5 |
| | 3% | 8.535 | 44.935 | 23.45% | 62305.5 |
| | 5% | 14.225 | 50.625 | 39.08% | 103842.5 |

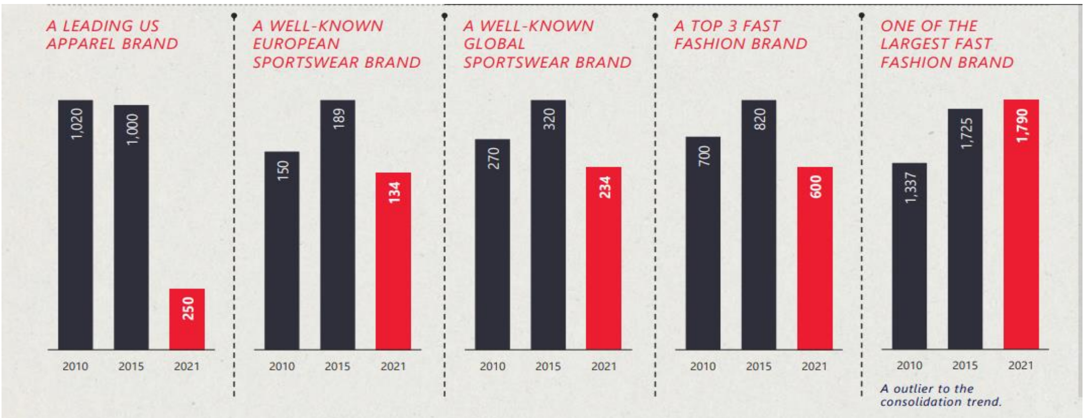
- **Chinese Garment Exports**
  **Europe, US and Japan are the 3 major import markets for China**

| Countries ($ bn) | 2017 | 2018 | 2019 | 2020 | 6 Months 2021 |
|---|---|---|---|---|---|
| Europe | 48.80 | 36.00 | 33.93 | 27.64 | 13.91 |
| US | 45.39 | 35.08 | 32.75 | 30.09 | 17.49 |
| Japan | 20.32 | 16.22 | 15.39 | 14.05 | 6.90 |
| Total | 114.51 | 87.30 | 82.07 | 71.78 | 38.30 |

Source: Shenzhou International Group, Annual Report

## ▪ Supplier Consolidation

Buyers want strategic vendors so there are consolidating their vendor base. Both, on the buyer and supplier side a lot of companies are getting wiped out, so both sides are shrinking a little bit. Demand has dropped, so the tail-end suppliers have been removed from a lot of buyer's vendor lists. This will lead to gain in market share by the leading players in the industry.




For instance, interaction with textile business management highlights that suppose a global brand was sourcing from 450 suppliers, the list has narrowed down to 170 suppliers. Any consolidation in the vendor list means the elimination of small and tail-end suppliers. This will lead to gain in share by the larger companies.

## ▪ Bangladesh vs. Vietnam vs. India

Vietnam and Bangladesh have been able to gain market share in the apparel segment compared to India. Why?

Vietnam has a big advantage that it sources raw material from China. China can supply raw materials to Vietnam at a very short lead time. So, the time taken for good to move from China to Vietnam is just few days as oppose to 2 weeks from China to India. Also, they have develop a strong garmenting base.

On the other hand, they have also witnessed significant cost increase in terms of labour cost. They have limited labour availability and also some of them are migrating to other industries.

Bangladesh has significant cost advantage compared to India in terms of greater availability of labour leading to reduced labour costs. Also, they have good government support.

Bangladesh also has duty free access to Europe that itself gives them about 11% reduced cost to sending goods to Europe and labour cost brings the rest of the reduction.

Otherwise, Bangladesh is dependent on imports for procuring raw materials.

US: There is no duty differential between Bangladesh and India. Only labour costs arbitrage comes into play. Hence, the market share of India in the US is 51% in bed linen and 41% in towels.

If the FTA UK and EU comes into play then new market will open up.

- **Global Brands are positively looking towards India**

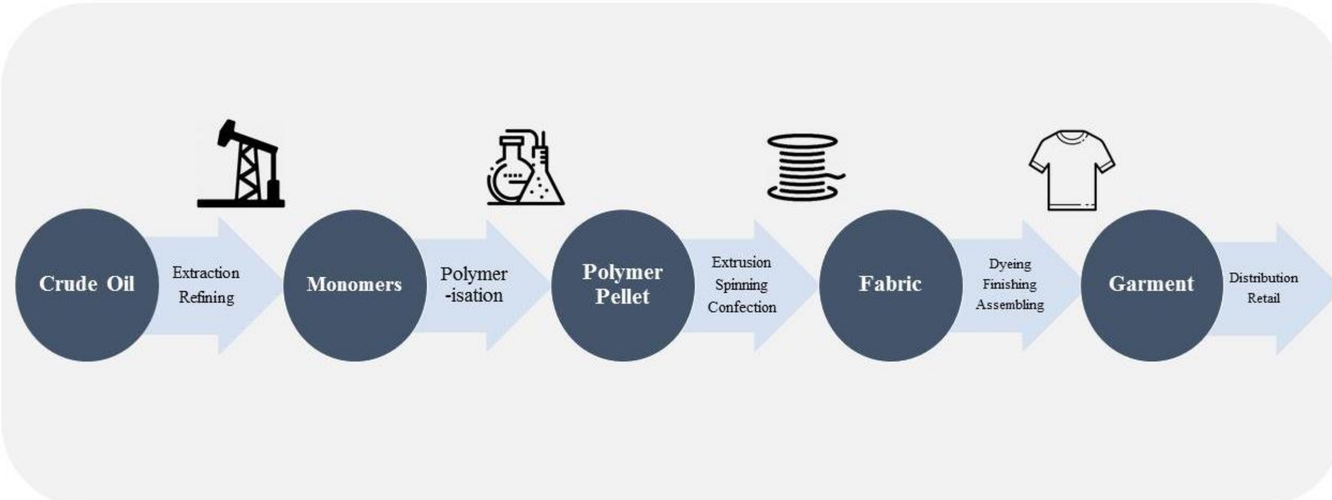
- **Government Support**

  - ROSCTL in July, 21 got extended till Jan 2024
  - Rodtep in effect from Aug, 21

  - Scheme for Integrated Textile Parks (SITP)

  - Production Linked Incentive

## Part 2: Textile Value Chain




The different industries involved in the conventional value chain for polyester apparel are summarized in the above figure. The value chain begins with the oil industry, which extracts and refines the crude oil to generate building blocks used by the chemical industry to produce PET and other chemicals (additives). The chemical industry then supplies PET pellets or chips to the textile industry, which converts the pellets into fibers by extrusion and spinning, and then into fabrics by knitting or weaving. This process also involves the incorporation of dyes and additives to impart particular qualities to the fibers and fabrics. Finally, the clothing industry cuts and sews the fabric into garments and makes them available in retail stores.

### India: Man-Made Fibres

2nd largest producer of both polyester and viscose globally

The domestic MMF industry mainly comprises of two components i.e., polyester and viscose, which together accounts for about 94% (in volume terms). Under this, polyester accounts for about 77.5% while viscose accounts for the remaining share. MMF is primarily used to produce 100% non-cotton fabrics and blended fabrics, which are in turn used in readymade garments, home textiles and other industrial textiles.

### Raw Material Industry

Purified Terephthalic Acid (PTA) is a key raw material component in the polyester value chain and reacts with Mono Ethylene Glycol (MEG) in the process of continuous polymerisation for producing polyester.

The PTA industry is a highly organised industry, with Reliance Industries, Mitsubishi and IOCL being the only PTA manufacturers in India. Likewise, the MEG industry is highly organized as Reliance Industries, India Glycols and IOCL being the only MEG manufacturers in India.

Staple Fibre Production

| Fibre | Production | | Share 2019-20 |
|---|---|---|---|
| | 2015-16 | 2019-20 | |
| **Natural Fibres** | **7516** | **7514** | **81%** |
| **Cotton** | 5750 | 5750 | 62% |
| **Man Made** | **1347** | **1765** | **19%** |
| **Polyester Staple Fibre** | 894 | 1085 | 12% |

India Yarn Production

| Indian Yarn Production | Production | | Share 2019-20 |
|---|---|---|---|
| | 2015-16 | 2019-20 | |
| **Cotton Spun Yarn** | 4138 | 3996 | 71% |
| **Blended & 100% non-cotton spun yarn** | 1527 | 1663 | 29% |
| **Total Spun Yarn** | 5665 | 5659 | 100% |

The above table suggests that Natural Fibres and Cotton Spun Yarn occupies majority of the production share. But, the number also tells us that the share of polyester fibre and yarn have also increased in last 5 years.

But, analyzing the numbers tells us that the polyester industry is at a nascent stage and has immense opportunity in the coming years.

Factors that will further boost the demand of manmade fibres

- Increasing use in nonwovens and technical textiles,
- Changing consumer trends including increasing emphasis on fitness and hygiene,
- Rising brand consciousness,
- Cheaper than cotton garments
- Fast changing fashion trends,
- Increasing women participation in workforce

## Competitiveness

**China is the largest producer of man-made fibre. India's polyster yarn is comparatively expensive than China.**

**Roadblocks in growth of Polyester industry in India**

- GST issues
- Lack of global competitiveness
- Limited number of players

## Government Support

- **Amended Technology Upgradation Fund Scheme (ATUFS)**

The government provides credit linked capital investment subsidy. This scheme would facilitate augmenting of investment, productivity, quality, employment, exports and import subsitution in textile industry. It will also indirectly promote investment in textile machinery manufacturing.

- Abolition of **anti-dumping duty** on Purified Terephthalic Acid (PTA), which is a critical input for man-made textile fibre and yarns.

- **Scheme for Integrated Textile Parks (SITP):** The setting up of integrated textile parks would assist small and medium entrepreneurs in the textile industry to clusterize investments in textile parks by providing financial support for world class infrastructure in the parks.

- **Production Linked Incentive (PLI):** The scheme aims to increase manufacturing and export of Indian technical textiles. It would also fill up the gaps caused by existing hurdles in man-made fibre production. PLI hopes to capture a large chunk of this market and elevate India's position to the top exporter of technical textiles.

## Indian Textile Industry

### India's Textile & Apparel Exports (Value in US$ Million)

| Category | Q1 FY20 | Q1 FY21 | Q1 FY22 | CAGR (FY20-22) | Q2 FY20 | Q2 FY21 | Q2 FY22 | CAGR (FY20-22) | H1 FY20 | H1 FY21 | H1 FY22 | CAGR (FY20-22) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fibre | 382 | 314 | 1,086 | 69% | 284 | 505 | 689 | 56% | 666 | 819 | 1,775 | 63% |
| Filament | 299 | 97 | 375 | 12% | 288 | 205 | 392 | 17% | 587 | 302 | 767 | 14% |
| Yarn | 886 | 533 | 1,398 | 26% | 762 | 879 | 1,612 | 45% | 1,648 | 1,412 | 3,010 | 35% |
| Fabric | 1,189 | 504 | 1,290 | 4% | 1254 | 1,099 | 1,451 | 8% | 2,443 | 1,603 | 2,741 | 6% |
| Apparel | 4,172 | 1,448 | 3,408 | -10% | 3708 | 3,343 | 3,929 | 3% | 7,881 | 4,791 | 7,337 | -4% |
| Home Textile | 1,327 | 714 | 1,610 | 10% | 1383 | 1,573 | 1,918 | 18% | 2,710 | 2,287 | 3,528 | 14% |
| Others | 449 | 245 | 531 | 9% | 417 | 441 | 689 | 29% | 866 | 686 | 1,220 | 19% |
| **Total** | **8,704** | **3,856** | **9,700** | **6%** | **8095** | **8,044** | **10,680** | **15%** | **16,799** | **11,900** | **20,380** | **10%** |

### Indian Yarn Exports (million Kg)

| Yarn Exports | Exports | | Share 2019-20 |
|---|---|---|---|
| | 2015-16 | 2019-20 | |
| **Cotton Spun Yarn** | 3572 | 2774 | 58% |
| **Man Made Spun Yarn** | 671 | 680 | 14% |
| **Other Spun Yarn** | 122 | 138 | 3% |
| **Total Spun Yarn** | 4366 | 3593 | 12% |
| **Polyester Filament Yarn** | 914 | 1048 | 22% |

Currently, cotton spun yarn occupies majority of export share.

### Indian Fabric Production (Million Sq. Mtr)

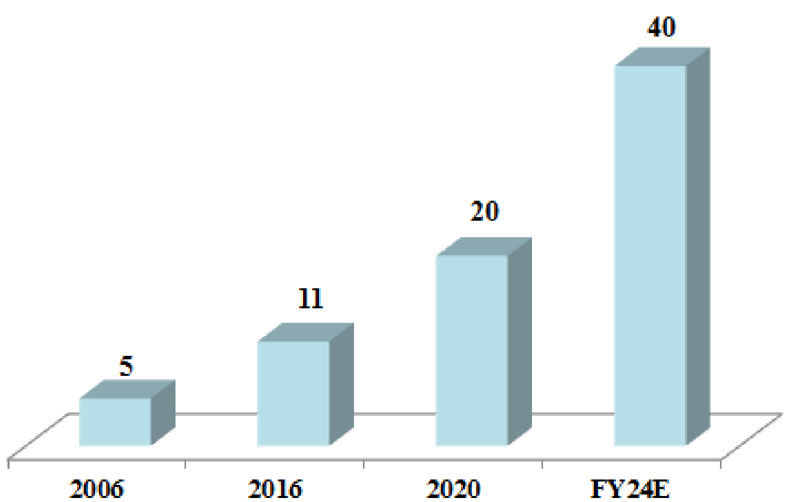
| Fabric Production | Production | | Share 2019-20 |
|---|---|---|---|
| | 2015-16 | 2019-20 | |
| **Mill Sector** | 2315 | 2022 | 3% |
| **Decentralised Sector** | 62269 | 74266 | 97% |
| **Grand Total** | 64584 | 76288 | 100% |

95% of the fabric is produced in small-scale industries in India, which offers tremendous opportunities to big and organized players who can capture market share.

## Technical Textile Industry- a new arena of growth

While this category is still at a nascent stage in India, global demand is expected to grow to $220 billion by 2025.

**Technical Textile Industry (US $ billion)**




### What are technical textiles?

What is common to diapers, tents, fishing nets, helmets, jute sacks, bullet-proof jackets, stuffed toys, seat belts, and shoelaces? Technical textiles. What are they? Technical textiles are engineered products with a definite functionality. It is manufactured using both natural and man-made fibres—which have properties such as improved thermal resistance, higher tenacity, and excellent insulation. Such products find their use across sectors such as agriculture, healthcare, defence, construction, aerospace, automobile, and sports.

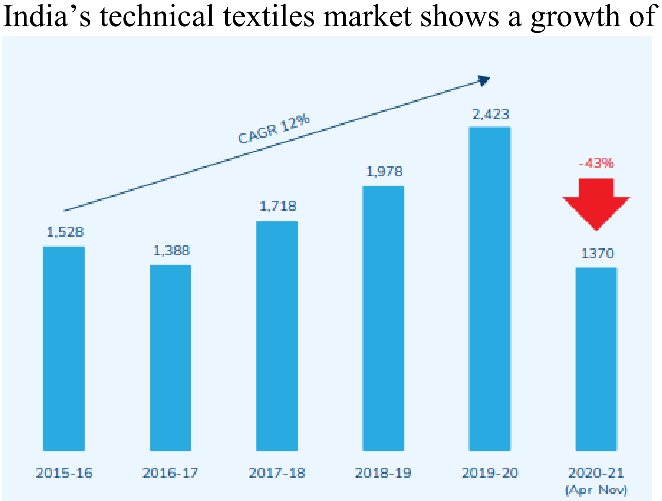
More importantly, this sunrise sector means big business. According to a recent Invest India report, the global demand for technical textiles is expected to grow to $220 billion by 2025 from $165 billion in 2018, at a CAGR of 4%. The report mentioned that the Asia-Pacific has captured 40% of the global market, with North America accounting for 25%, and Europe at 22%.

**India is expected to be a key growth market for the technical textile sector due to cost-effectiveness, durability and versatility of textiles.**

What has worked to India's advantage? Availability of raw materials such as cotton, wood, jute and silk along with a strong value chain, low cost labour, power and changing consumer trends are some of the contributing factors to India's growth in this sector.

**Exports of Technical Textile by India (US $ million)**

India's technical textiles market shows a growth of 20% from $16.6 billion in 2017-18 to $28.7 billion by 2020-21




There's room for more growth. Consumption of technical textiles in India is at only "5%-10% against "30%-70% in some of the advanced countries. Therefore, a National Technical Textiles Mission has been set up "that aims at an average growth rate of 15%-20% to increase the domestic market size of technical textiles to $40 billion-$50 billion" by 2024

Increased awareness of goods, higher disposable incomes, changing customer patterns and some sector-specific growth drivers are estimated to bolster the Indian technical textiles market to US$ 23.3 billion in 2027, up from US$ 14 billion in 2020 in Asia-Pacific.

The technical textiles market for automotive textiles is projected to increase to US$ 3.7 billion by 2027, from US$ 2.4 billion in 2020. Similarly, the industrial textiles market is likely to increase at an 8% CAGR from US$ 2 billion in 2020 to US$ 3.3 billion in 2027

## Identifying which part of the value chain holds the most value

Synopsis from the above analysis tells us that identify a company which is into either

i. **Spinning business/ Backward or Forward Integrated player is a preferable play or;**
-Organized
-Export Market Share is amongst the highest
-Large player enjoy better control over supply chain and are able to mobilize working capital better
-can command additional premium for value-added service resulting in improved margins
- Keep in mind, this is a commoditized business.

ii. **Exports or;**
-US markets are stronger
-China +1 strategy
-Re-aligning supply chain

iii. **Home Textiles (Exports)**
- India has good market share
- This worked well during the lockdown when home became the center stage of our lives. Though, India has a good market share and competitive, but these are replenishment products.

iv. **Apparel Segment**
This looks like a structural long-term story. This segment requires low capex and India has a strong ecosystem in the cotton value chain.

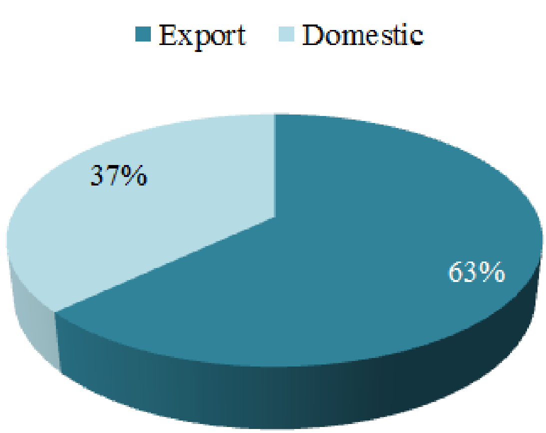
We have identified few companies in this sector which is expected to perform well. The subsequent part of the report discusses the companies in detail.
Apart from the above-mentioned criteria, while analyzing the industry we realized that every industry has to be analyzed in a different way. Till now, one criterion before investing was to find if the company has a sustainable competitive advantage from the peers. But, analysis parameters change with the every industry. For instance, textile is a very management intensive industry. The Indian Textile Industry is expected to grow at a CAGR of 10% in next 5 years. On the other hand, the growth rate of global textile is low. Some part of the growth for Indian companies will come by gaining market share. Understanding the business dynamics, we comprehended that it is important to find a company in the organized space which has the ability to gain market share when the cycle upticks.

# Nitin Spinners Ltd.

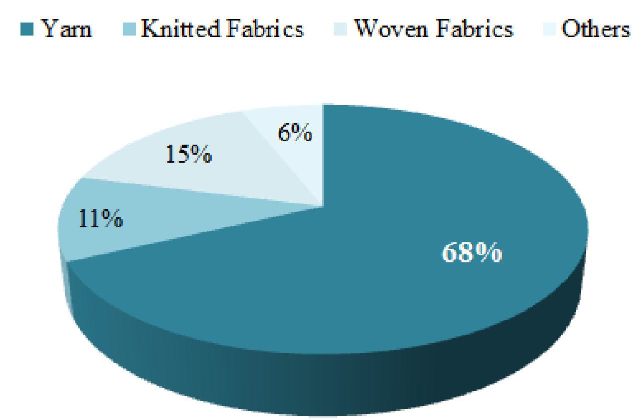
The company is engaged in manufacturing of

- Yarns
- Knitted Fabrics Segment
- Woven Fabrics Segment
- Others

**Geography-wise Revenue (%)**




**Segment-Wise Contribution to Total Revenue (%) (FY**




**Company Details:**

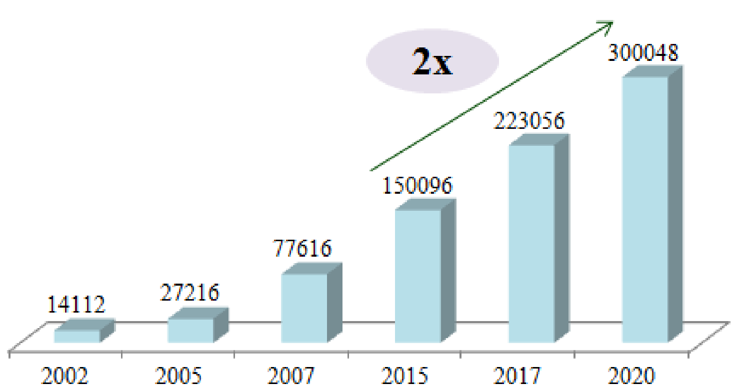
Established in 1992
Headquartered in Bhilwara (Rajasthan)
Listed on BSE/NSE in 2006

## Journey of Nitin Spinners Ltd.

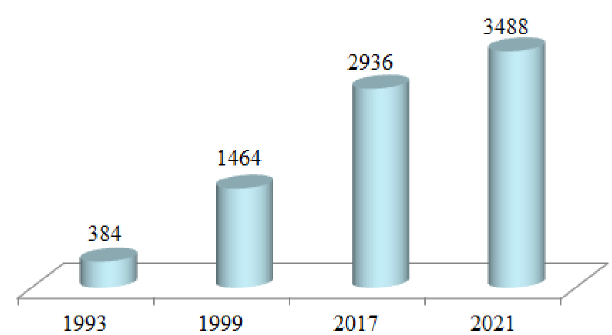
The company commenced its operations in 1993 with 384 Rotors in 1993. Gradually, company took the forward integration route and has established a modernized set up manufacturing finished fabrics.

## Summary

**Spindles Installed Capacity**

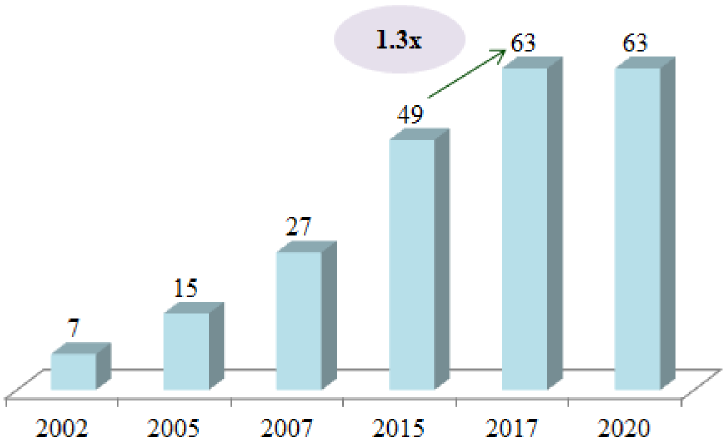



**Rotors Installed Capacity**

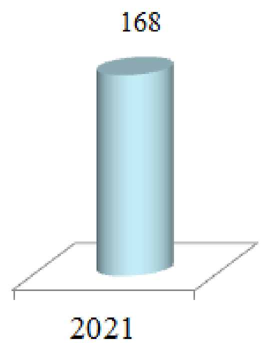


**Finished Fabrics (million mtrs.)**

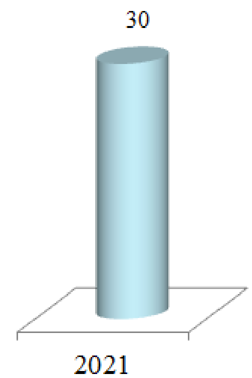
**Knitting Wear Installed Capacity**




**Woven Fabrics (Greige-looms)**




**Fabric Production (million meters)**




### Production Capacity

**Yarn:** 72,000 TPA
**Knitted Fabrics:** 8,500 TPA

### Production (MT)

**Yarn:** 63973 TPA (C.U.- 88%)
**Knitted Fabrics:** 7375 TPA (C.U.-87%)

### Sales(MT)

**Yarn:** 48180 TPA (C.U.- 88%)
**Knitted Fabrics:** 7165 TPA (C.U.-84%)

The company commenced finished fabric production from Jan, 2020 onwards.

## Capex Plans FY22

- The company has planned a capex of Rs. 30 crores in spinning and a small part in fabric division. This will add around 7300 spindles and some de-bottlenecking on printing and dyeing side.

## Why Nitin Spinners?

i. The industry requires continuous investments to grow revenue and profitability. The company has made continuous efforts to expand capacity at different intervals.

| (Rs. In crores) | 2007 | 2011 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sales** | 129 | 411 | 488 | 616 | 766 | 933 | 1145 | 1241 | 1436 | 1624 |
| **Sales Growth (yoy)** | | 36% | 9% | 26% | 24% | 22% | 23% | 8% | 16% | 13% |

The green text box in the above table highlights the major capex years of the company. In 2007, the company increased its spindle capacity by 2.8x and almost doubled the knitting machines. The company doubled its sales in 2009. Then again, almost doubled its spindles and knitting machines in 2015 and incurred capex of 281 crores. The company doubled its revenue in 2019. Then in 2020, the company added spindles, few rotors and entered woven and finished fabrics segment. In FY22. The company has planned a capex of Rs. 30 crores in spinning and a small part in fabric division. This will add around 7300 spindles and some de-bottlenecking on printing and dyeing side.

Going forward, theses value added segment will also contribute in the top line.

ii. The company deals in cotton yarn. India is quite competitive in cotton yarn industry globally. It garners 63% of revenue from exports.

| Raw Material | |
|---|---|
| **Cotton** | 96% |
| **Yarn** | 1% |
| **Polyester** | 3% |

iii. Capacity augmentation in place to meet the growing demand arising due to China +1 strategy or re-alignment of supply chain or industry uptick. High volumes along with expansion of margin accretive business segments are expected to improve profitability and cash flows.

iv. Its value integration process will not help in improving margins but also provide some sort of diversification. Also, the value added services enables the company to be in a better position to command additional premium.

v. Strong Customer Base in Domestic as well as International Markets
Arvind, D-Décor, Siyaram, Welspun, Trident are some of the domestic customers and Zara, H&M, UCB are some of the international names.

## Management Quality

- The company has at least 50% independent directors in the BOD Committee.
- The audit committee is chaired by an independent director and other members are also independent.
- Remuneration as a % of Net Profit is optimal

# Financials

| Ratios | | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **NP Margin** | 0.06 | 0.06 | 0.05 | 0.05 | 0.02 | 0.04 |
| **Asset Turnover** | 1.21 | 1.05 | 1.23 | 0.87 | 0.87 | 1.46 |
| **Leverage** | 3.41 | 3.77 | 2.73 | 3.19 | 3.37 | 2.11 |
| **ROE** | 24% | 24% | 15% | 14% | 5% | 13% |
| | | | | | | |
| **Debtor Days** | 18.98 | 17.14 | 21.75 | 30.67 | 34.71 | 35.80 |
| **Payable Days** | 9.25 | 10.69 | 11.54 | 14.66 | 16.01 | 20.51 |
| **Inventory Days** | 86.15 | 97.37 | 99.02 | 104.17 | 102.48 | 132.00 |
| **Cash Conversion Cycle** | 95.87 | 103.81 | 109.23 | 120.17 | 121.18 | 147.29 |
| | | | | | | |
| **Debt to Equity** | 1.45 | 1.90 | 0.95 | 1.67 | 1.95 | 1.50 |
| | | | | | | |
| **EBITDA Margins** | 18% | 15% | 13% | 14% | 12% | 16% |

| Rs. In crores | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| **CFO** | 100.4 | 53.56 | 66.29 | 103.73 | 98.19 | 154.87 |

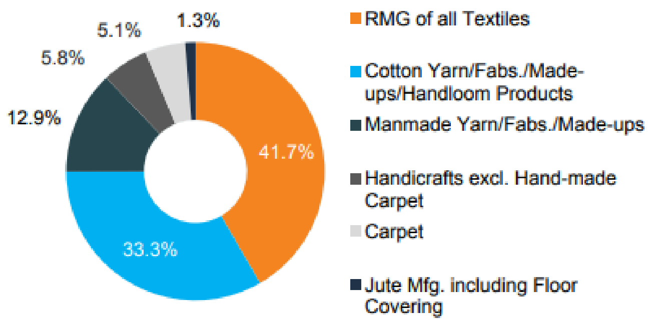
| Valuation | | | | | | |
|---|---|---|---|---|---|---|
| **Rs. In crores** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **EV/EBITDA (x)** | 4.17 | 7.77 | 6.12 | 7.39 | 6.60 | 5.02 |
| **FCFF** | 86.23 | -173.13 | 65.05 | -361.74 | -47.31 | 187.43 |
| **Dividend Yield** | 4.58 | 5.5 | 6.67 | 7.03 | 3.37 | 8.43 |
| **ROCE** | 19.53% | 13.86% | 13.02% | 10.80% | 7.30% | 26.10% |

# Gokaldas Exports Ltd. - Indian Apparel Industry

## Textile Commodities Export in India (March 2021)

| Commodities | Value (US $ million) |
|---|---|
| **RMG of all Textiles** | 1425.59 |
| Cotton Yarn/Fabs./Made-Ups/Handloom Products | 1104.48 |
| Man-Made Yarn/ Fabs./Made-ups | 460.02 |
| Handicrafts excl. Hand-made Carpet | 176.7 |
| Carpet | 157.17 |
| Jute Mfg. including Floor Covering | 44.48 |

## Shares in India’s Textile Export (FY21)




## India’s Garments and Made-ups Exports (US$ million)

| | Exports | | Share 2019-20 (%) |
|---|---|---|---|
| | 2019-20 | 2020-21 | |
| **Cotton Garments** | 8359 | 8205 | 53% |
| **Synthetic Garments** | 3994 | 3371 | 22% |
| **Other Garments** | 4637 | 3933 | 25% |
| **Total Garments** | 16990 | 15509 | |
| **Made-Ups** | 6494 | 6941 | |

Garment production in India was estimated at 22 billion pcs in 2019-20, while made-ups production stood at approx. 2.4 billion Kg.

## Industry Business Model: Brands Procurement Strategy

Speed in retail is very important. To compete in today's retail landscape, brands look to their supply chains to drive value by strategically using levers in flexibility and speed to respond to consumers.

Majority of the brands prefer to outsource fabrics from other players. With this model, they can focus on building their brands.

**' Outsourcing Speeds Production' says Apparel Brand Owners**

H&M does not own any manufacturing facilities. The company relies on outsourcing to bring its massive collection to market on time. Work begins a year in advance and picking trends so far out is made possible with the help of fashion trend-forecasting companies.

The designs are then sent to one of H&M's 700+ manufacturing partners across the world with the necessary fabric available in their region. H&M also outsources the procurement of fabric.

Nike contracts 100% of its manufacturing for footwear and apparel out to independent suppliers. It was one of the earliest multinationals to adopt this approach.

Similar model is followed by GAP and many other brands too. They source fabrics from companies like Gokaldas, Arvind etc.

By taking exposure in Gokaldas enables us to participate in the retail story and also become a part of growth story of many brands and not just one. This part of the business is relatively less risky than taking exposure in a particular brand.

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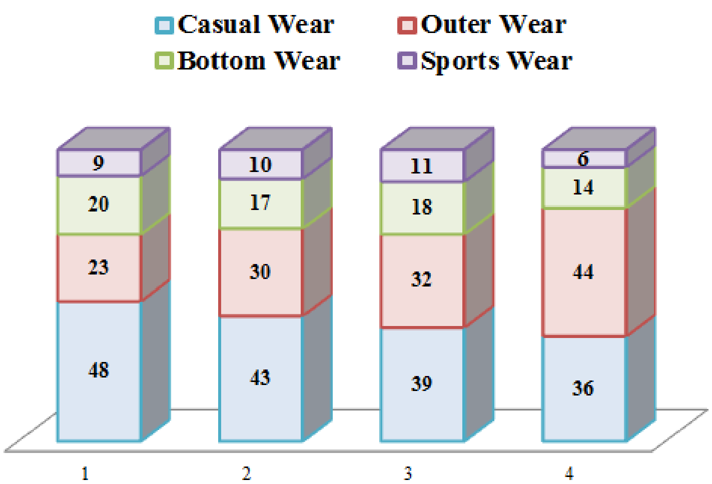
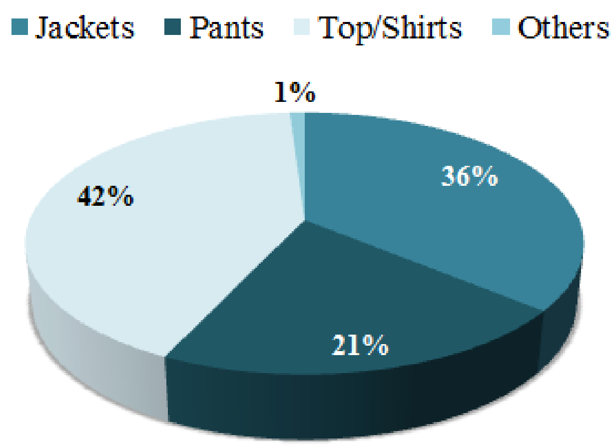
## About the Company

The company is engaged in manufacturing of apparels.

**Product Category Sales FY2021**




**Product Mix FY2021**

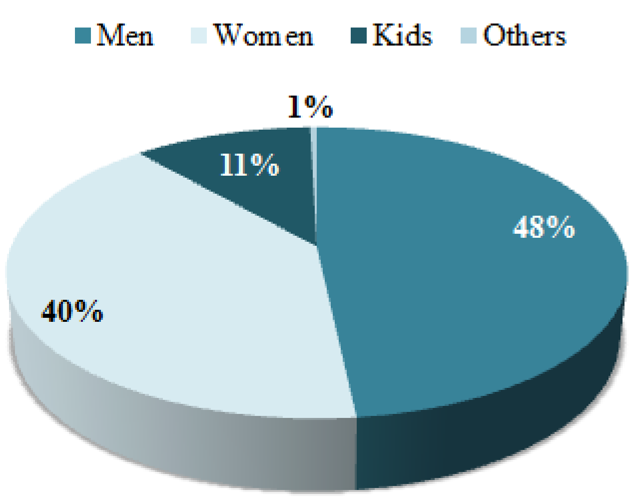



The outer wear share grew from 23% in FY2018 to 44% in FY21. A continuous growth in outerwear segment is positive sign for the business, as it balances the seasonality of the business and delivers better margin.

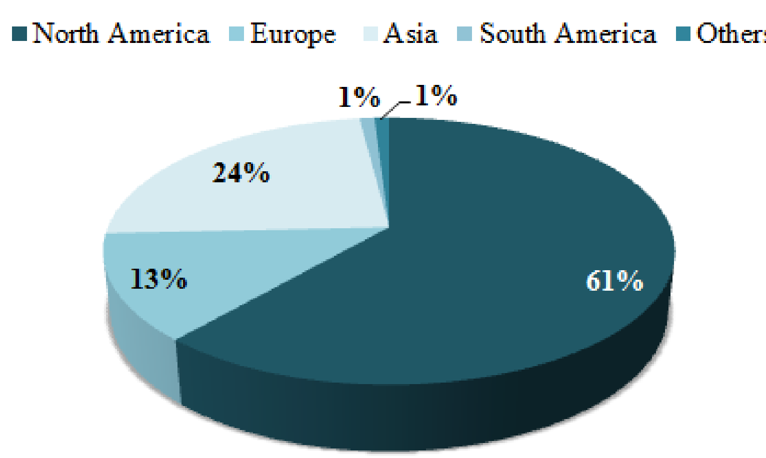
**Product Mix on RM Basis**

- Cotton- 60%
- Linen, Viscose- 10-12%
- MMF- 28-30%

**Product Category Sales FY2021**




**Geography-Wise Sales FY2021**



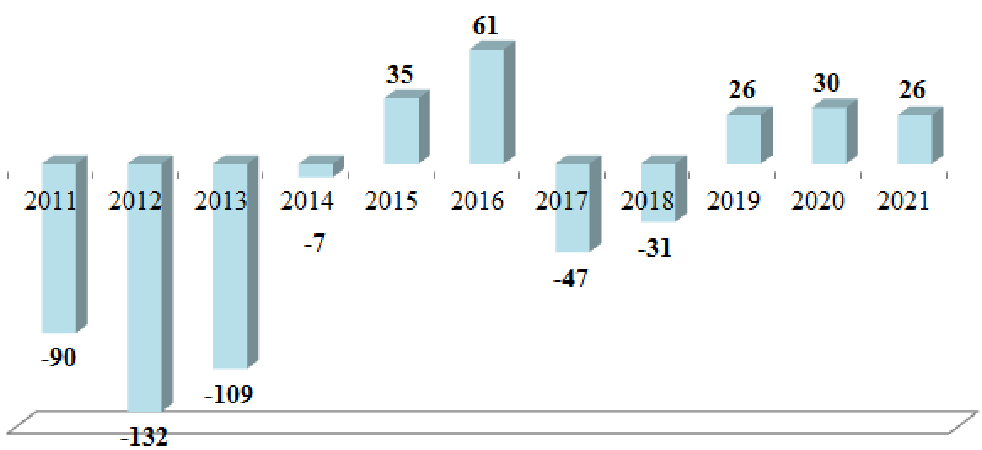
## Journey of Gokaldas Exports Ltd.

Earlier the company was owned by the Hinduja Group. Then, in 2007, Blackstone company bought 68% stake in the company. This buy-out bought a huge change in the performance of the company in terms of execution impacting gross margins and operational efficiencies.

In 2017, Clear Wealth Consultancy Services LLP acquired GEXP from Blackstone. Also, Mr. Siva Ganapathi was appointed as Managing Director of the company. He has led several high growth businesses in diverse industries across several countries in Asia, North America and Europe. At Gokaldas Exports, he has been instrumental in setting the company on a profitable growth path. He has earlier worked with the Aditya Birla Group for 21 years.

The company saw a turnaround in the 2019 financial year.

**Product Category Sales FY2021**




### Analytical Conclusions

This typically also explains that the working of every industry is different. Textile is a management intensive industry and works very differently from the way private equity firms work and this impacted the growth. Typically, when PE investors invest in the textile space, they always leave the running of the company in the hands of the promoters as relationships have been built over a period of time and the promoter knows the in and outs of the trade.

Before, the company made a turnaround, going concern about it was also a doubt. There were a lot of measures taken by the team led by Mr. Siva Ganapathi like:

- Focus on on-time delivery
- Modernisation in technology
- Initially, working capital was stretched. The team worked on to reduce the same.
- Built strong customer relationship over time by providing them quality garments and on-time delivery at competitive rate
- Prudent SKUs management. They have to manage a lot of SKUs which makes the supply chain elaborated.
- Company worked on improving internal efficiency. This is visible in the results too.
    - Reduced Wastage over time

**Waste Management (%) Unbilled Production**

| | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|
| | 4.8 | 3.1 | 2.7 |

- Improved production efficiency. Tracked production of each line and every hour and raw material supply. Increased production per hour.
- Labour Intensive Industry- worked on internal labour management
- Capacity unlocking- worked on how to improve capacity utilization which was uneven due to seasonality.

**Improvement in all these factors have led to Gokaldas Exports gain market share and become one the biggest beneficiaries of these structural trends**

## Why Gokaldas Exports Ltd. ?

**i. It meets the criteria of investing in a textile company: Exports + Restructuring + one of the largest apparel exporters**

It is a fantastic combination to play on a company when the following happens together:

- Volume Growth
- Margins Growth Probability
- Restructuring
- Operating Leverage Play
- Tax Benefit

Exports help in de-risking concentration across geographies.

Restructuring: The company appointed a new MD in 2017. With certain measures taken like augmented supply chain, making the process more effective, reduced employee attrition, reducing wastage, timely delivery, the company made a turnaround in 2019.

Capacity: 30 million pieces per annum

**ii. Scaling up the capacity: Incremental revenue will come up at incrementally higher profitability**

The incremental revenue will come at an incrementally higher profitability as not all fixed cost, scale ups so capacity expansion in the existing factories itself by adding more lines will come at a much higher profitability. The factory EBITDA itself runs at about 5% higher than the overall EBITDA. So, incremental revenue will come at a higher EBITDA which will automatically give margin inflation as we keep expanding the business

Given the order book, the company is actively looking at ramping up incremental capacities at existing units by adding more lines.

| | Facilities | Capacity (pieces in million) | Commencement Date | Expected Revenue |
|---|---|---|---|---|
| 1 | Tumkur Unit | 1.35 | Sep-21 | At peak, both facilities will contribute 160 crores of Revenue |
| 2 | Bommanahalli, Banglore | 1.35 | Sep-21 | Q4 FY22, ramp up and Q1 FY23: expected to operate at full capacity |
| 3 | MP (Greenfield Expansion | 1.95 | Early FY23 | Expansion would be done in 2 phases: Expected Revenue in both phases Rs. 150 crores |
| 4 | Tamil Nadu | Not announced | | Garmenting Capacity , Capex- 15-20 crores , Expected Revenue: 70-80 crores |
| 5 | Tamil Nadu | Knitting Fabric | FY 23 | Rs. 100 crores of capex |
| 6 | Dubai | Not announced | | Planning to set up manufacturing facilities |
| 7 | Total Expected Revenue | | | Rs. 1300-1500 crores |

## iii. Competitive Scenario

### Industry Data

| | 2013 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| India's Apparel Exports | 12.9 | 16.7 | 16.2 | 12.2 |

### Top Apparel Exporters of India

| | Rs. in crores | CY 2013 | CY 2018 | CY 2021(Approx) |
|---|---|---|---|---|
| 1 | Shahi Exports | 1903 | 6380 | 7000-8000 |
| 2 | Orient Crafts Ltd. | 1108 | 2046 | incurring losses |
| 3 | Pearl Global Industries Ltd. | 571 | 1650 | 1200-1300 |
| 4 | Eastman Exports Global Clothin | 930.67 | 1600 | 1600-1700 |
| 5 | Arvind Lifestyle | 600 | 1293 | 1200-1300 |
| 6 | Shivalik Prints Ltd. | 488 | 1200 | 700-800 |
| 7 | Gokaldas Exports Ltd. | 750 | 1079 | 1600-1700 |
| 8 | KPR Mill Ltd. (Quantum Unit) | 247.97 | 1000 | 800-1000 |
| 9 | Pratibha Syntex | 271 | 818 | 400-500 |

Indian Apparel Exporters have grown at a higher rate than the industry growth.

Supply Side Consolidation has resulted in market share gain by Gokaldas Exports Ltd. Now, it is among Top 3 players

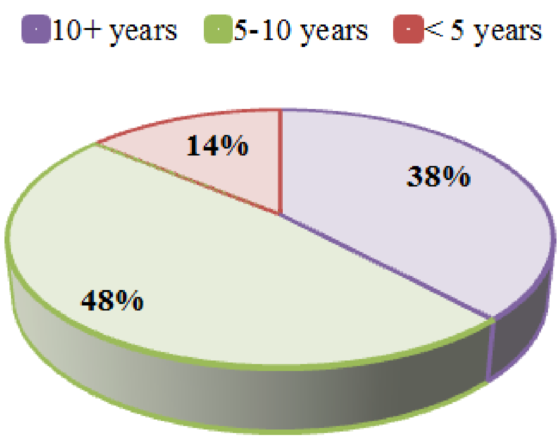
Companies like Orient Crafts Ltd., Shivalik Prints have lost market share

### iv. Huge Beneficiary from Supply Side Consolidation

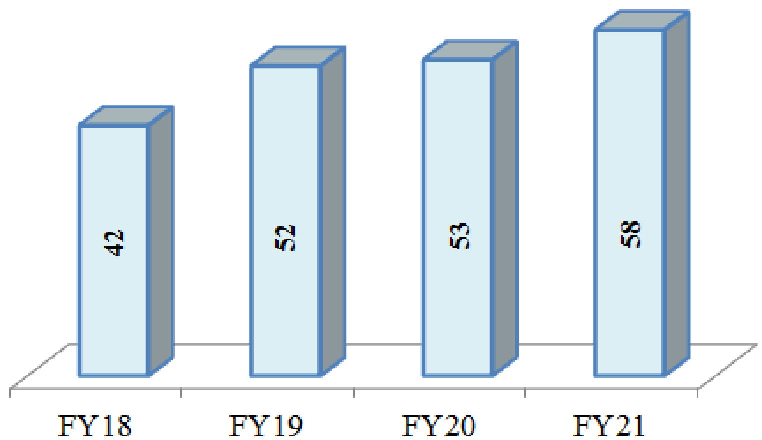
| Rs. in crores | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 |
|---|---|---|---|---|---|---|---|---|---|
| **Sales** | 234 | 342 | 265 | 370 | 241 | 444 | 521 | 585 | 611 |
| **EBITDA** | 15 | 30 | 21 | 35 | 18 | 52 | 59 | 76 | 78 |
| **EBITDA Margins** | 6.41% | 8.77% | 7.92% | 9.46% | 7.47% | 11.71% | 11.32% | 12.99% | 12.77% |
| | Plant shutdown due to COVID | | | | Plant shutdown due to COVID | | | | |

### v. Strong customer connect and the business is moving towards high value and high margin product mix

**Long Standing Relations with Marquee Global Brands (in % of Revenue)**



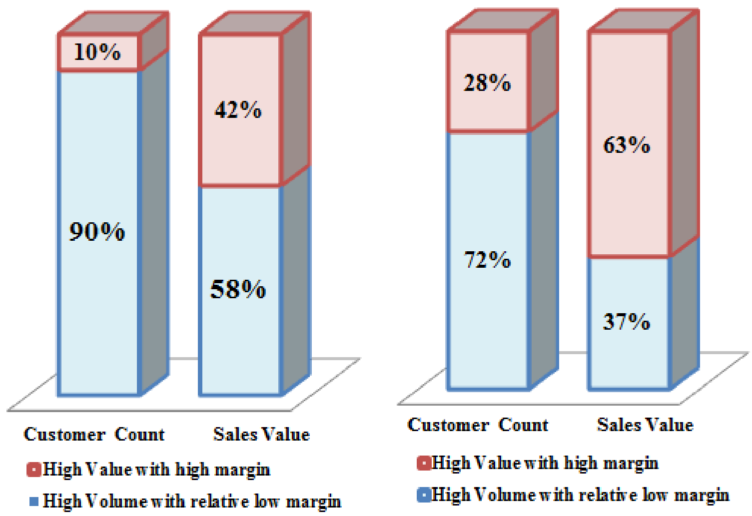

**Wallet Share of top 3 customers (in %)**




After the change in management, the company made efforts in deploying marketing strategies and this has given them good traction in form of increased wallet share from existing customers and addition of new customers.

**Value/ Volume Customer Level**

**FY18** **FY21**




The company is slowly making a transition towards high value business. This is also visible in the realization per piece trend over the last 3 years.

| | FY 18 | FY 19 | FY 20 | FY21 |
|---|---|---|---|---|
| **Realization** | 384 | 463 | 515 | 596 |

vi. **Fast Fashion**

Fast Fashion has become a buzz word in the fashion industry: Fast fashion is a design, manufacturing, and marketing method focused on rapidly producing high volumes of clothing. Stores like Zara and H&M, two of the largest retailers in the world, still hold a stronghold over most people's shopping habits. These cheaply made, trendy pieces have resulted in an industry-wide movement towards overwhelming amounts of consumption.

vii. **Co-location and Proximate Sourcing**

Where there's cotton, there's a mill. By working with vendors who cut and sew garments in the same country where raw materials are grown and processed – known as co-location-the transit time between mills and garment vendors reduces. India has an advantage here.

Similarly, proximate sourcing refers to the proximity between the manufacturing country and the final retail destination.

**viii. If India signs a FTA with EU and UK - the market opportunity size for India will increase tremendously**

In this regard, **the Apparel Export Promotion Council (AEPC)** had said that India's apparel exports could double in three years if disadvantages in the trade agreements are eliminated. Also, a new market would open up for home textiles too.

**Direct Beneficiary**: Indo-Count Industries Ltd, Gokaldas Exports Ltd, SP Apparels Ltd.

**ix. Exhibit pricing power**

The company is in **the favorable part of the value chain**. There are few players in India and making garment is a value-added business. It is easier for players like Gokaldas to pass on the price and retail brands will take some time to pass on the increased prices. The company source fabrics in bulk. Hence, they have a negotiating power

## Recent Quarterly Update

### 1. Financials

| Rs. in crores | Q1 FY23 | Q4 FY22 | Change (in %) | Q1 FY22 | Change (in %) |
|---|---|---|---|---|---|
| Sales | 610.63 | 584.62 | 4.45% | 240.96 | 153.42% |
| Other Income | 2.05 | 2.98 | | 2.01 | 1.99% |
| Expenses | | | | | |
| COGS | 329.26 | 308.57 | 6.71% | 113.9 | 189.08% |
| Gross Profit | 281.37 | 276.05 | 1.93% | 127.06 | 121.45% |
| Gross Profit Margin | 46% | 47% | | 53% | |
| Employee | 164.68 | 153.75 | 7.11% | 85.71 | 92.14% |
| Other Expenses | 39.16 | 44.27 | -11.54% | 28.32 | 38.28% |
| Job Work | 4.26 | 7.58 | -43.80% | 1.46 | |
| Total Expenses | 537.36 | 514.17 | 4.51% | 229.39 | 134.26% |
| Adj EBITDA | 78.29 | 75.91 | 3.14% | 17.92 | 336.89% |
| EBITDA Margins | 12.82% | 12.98% | | 7.44% | |
| Dep | 17.07 | 17.62 | -3.12% | 12.42 | 37.44% |
| Finance Cost | 6.43 | 9.19 | -30.03% | 10.06 | -36.08% |
| Gain on FX | 5.02 | 5.46 | | 6.35 | |
| Adj PBT | 56.84 | 52.08 | 9.14% | -2.55 | |
| Exceptional items | | | | | |
| Tax | 11.42 | -8.48 | | | |
| Adj PAT | 45.42 | 60.56 | -25.00% | -2.55 | |
| Adj EPS | 7.51 | 10.33 | | -0.59 | |
| Excluding shared based compensation of Rs, 6 cr in Q1 FY23 | | | | | |

The last 1-2 months before the quarterly result were full of curiosity on whether the company's sales would remain resilient amidst the eventualities like the US inflation led demand slowdown and high inventory of apparel brands. On the other hand, many articles suggested that apparel brands from Middle East, Spain and Greece to name a few want to source more from India and move away from China. This was also guided by the management in the conference call. Based on the company's performance in the last one year and the management commentary, we believed company would be able to maintain its sales in macro headwinds environment. Increasing the wallet share in existing customers helps to manage headwinds better. Overall, our investment thesis remains intact that supplier consolidation and China plus one is at play in apparel segment. India can be a huge beneficiary. There might be a hiccup in short term for 1-2 quarters but long-term tailwinds remain intact. With decrease in cotton prices and thereby reduced apparel prices, the demand is expected to increase.

i. **EBITDA Margins remained intact qoq (reducing the non-cash share-based compensation expense of Rs. 6 crores)**

- **Sales Growth**
  - Guided a 20% growth for FY23 conservatively.
  - From FY24, revenue growth looks good due to structural tailwinds in the sector.
  - Don't foresee any issues with Gap, one of the major customers of the company.
  - Realization can decrease on account of fall in raw material prices offset by rupee depreciation.
  - This quarter also got impacted due to supply chain disruptions from China. The company imports fabrics from China. Raw material availability was an issue in April and May, the situation got eased in June, 2022.

ii. **Industry Outlook and Demand Scenario**

While the next 6 months look challenging, tailwinds in the sector looks strong which would drive growth in FY24. Due to Sri-Lanka and Pakistan economic crisis, the company is getting a little traction in orders but it is not huge as they don't directly compete in the product mix.

The company is getting reasonable traction from new customers in other geographies. They are also looking at EU apparel brands in anticipation of FTA EU next year. This can be a huge new market for them.

iii. **Capital Expansion plan on track**

The greenfield expansion in Madhya Pradesh and Tamil Nadu is expected to commence this year and ramp up by end of FY23. The Tumkur unit and the Bengaluru unit which commenced last year is operating at 95% capacity utilization.

iv. **Industry Business Model**

The company is into seasonal business where the product mix changes every quarter. In Q4, sales would be higher on account of high average price of the product in that quarter.

Freight cost is coming down compared to last year and is expected to continue the downward trajectory. For the company, all orders are exported on FOB basis. Freight cost impacts only on the import part of the business.

v. **Financial Result Analysis**

- There was Rs. 6 crores share based compensation charge, a non-cash expense during the quarter, excluding that the EBITDA margins remained intact at 13%. This expense is applicable for 3 years.
- Till FY22, the company had accumulated losses. Going forward, the company would pay tax at normal rate.
- Q1 FY22 was a COVID impacted quarter. Hence, direct comparison isn't apt here.

### vi. PLI Scheme Approval

The company received an approval in the government PLI Scheme. The Madhya Pradesh expansion is under PLI Scheme. The incentive would start reaping in from FY25. The company plans to invest Rs. 149 crores under the PLI Scheme.

### vii. Other Highlights

- Woven Fabrics based garments constitutes the major portion in the product mix. The company is expanding to manufacture knitting fabrics. The management guided that the knits market is growing faster than the woven market. With this expansion, the company get higher wallet share from its existing customers. The margins from this segment is expected to be around 15%.

While the next six months look a little challenging in maintaining the same growth run rate as compared to last year on account of macro headwinds but the long-term thesis remains intact. What we also like is that the management led by Mr. Sivaramkrishnan Ganapathi has been able to show resilience amidst the eventualities and during good times have been able to gain market share. They have been able to improve operating efficiencies over time which is visible in the last few results too. At various instances, tried to negate the rise in raw material prices with improving operating efficiencies. While the FTA with EU and UK looks like a trigger along with tailwinds in long term, we think management can navigate these short-term challenges efficiently.

## Competitive Scenario

**1. Shahi Exports**

-Largest apparel manufacturing company in India

-Largest exporter of ready-made garments

-80% of raw material requirement is met by vertical plant

-Presence across the value chain from Spinning to Design of Apparels

### 2. Top Apparel Exporters of India

| Rs. in crores | | Export Turnover (2018) | Export Turnover (2013) |
|---|---|---|---|
| 1 | **Shahi Exports** | 6380 | 1903.42 |
| 2 | Orient Craft Ltd. | 2046 | 1108.43 |
| 3 | Pearl Global Industries Ltd. | 1650 | 571.98 |
| 4 | Eastman Exports Global Clothing | 1600 | 930.67 |
| 5 | Arvind Lifestyle | 1293 | 600 |
| 6 | Shivalik Prints Ltd. | 1200 | 488.31 |
| 7 | Gokaldas Exports Ltd. | 1079 | 750.82 |
| 8 | KPR Mill Ltd (Quantum Knit) | 1000 | 247.97 |
| 9 | Prathiba Syntex | 818 | 271 |
| | Collective Turnover of top 100 | 34699 | 18660.76 |

Source: Apparel Resource

From the above data, we can infer that the industry has grown by 1.8x in 5 years and some of the larger companies have grown more than the industry growth. Currently, India might not be competitive in garments globally but some Indian companies like Shahi exports, KPR Mills or Shivalik Prints have been able to grow significantly in last few years.

During the aforementioned period, Gokaldas Exports was under restructuring phase. With the change in management and restructuring being done, we believe the company is likely to perform well in the coming quarters.

## Management Quality

- The company only has 2 out of 6 independent directors in the BOD Committee.
- The audit committee is chaired by an independent director
- Remuneration as a % of Net Profit is high

# Risks

i. Change in government policies
ii. Foreign Exchange Fluctuations: majority of the earnings come from exports
iii. Client Concentration (Top 3 customers account for 58% of the total share)
iv. There was a worker protest in 2020 as the company had shut one of its plant due to reduction in orders during the COVID times.

# Financials

| Ratios | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| NP Margin | 0.05 | -0.05 | 0.03 | 0.02 | 0.02 | 0.02 | 0.07 |
| Asset Turnover | 1.55 | 1.17 | 1.32 | 1.45 | 1.48 | 1.22 | 1.48 |
| Leverage | 3.93 | 4.16 | 5.20 | 4.36 | 3.96 | 3.83 | 2.43 |
| ROE | 33% | -25% | 21% | 14% | 13% | 10% | 23.38% |
| | | | | | | | |
| Debtor Days | 26.68 | 58.26 | 76.03 | 58.71 | 40.80 | 48.74 | 27.73 |
| Payable Days | 62.89 | 70.57 | 60.58 | 76.44 | 54.85 | 64.94 | 26.41 |
| Inventory Days | 123.89 | 144.02 | 122.55 | 183.37 | 151.38 | 157.61 | 118.99 |
| Cash Conversion Cycle | 87.68 | 131.72 | 138.00 | 165.65 | 137.33 | 141.41 | 120.31 |
| | | | | | | | |
| Debt to Equity | 1.45 | 2.80 | 3.61 | 1.58 | 1.73 | 1.17 | 0.09 |
| | | | | | | | |
| EBITDA Margins | 3% | -3% | -2% | 5% | 5% | 9% | 11.46% |

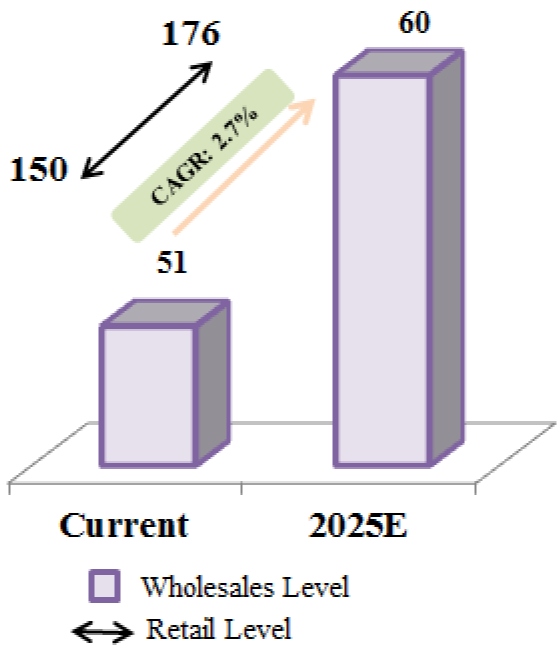
| Rs. In crores | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|
| CFO | 82.51 | 11.75 | 25.14 | 51.14 | 98.6 | 118.71 | 117 |

| Rs. In crores | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|
| FCFF | 121.18 | 37.61 | 50.65 | 60.28 | 97.67 | 116.95 | 77.21 |
| ROCE | 6.93% | 28.85% | 29.52% | 17.19% | 4.75% | 12.62% | 17.82% |

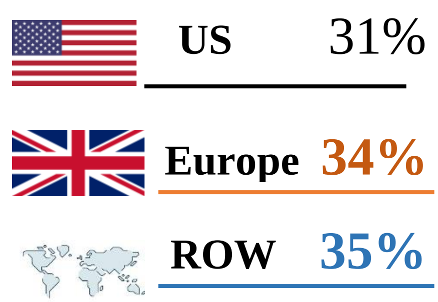
| Rs. in crores | Q1 FY22 | Q2 FY22 | Q3FY22 | Q4 FY22 | FY22 | Q1 FY23 |
|---|---|---|---|---|---|---|
| Sales | 240.96 | 443.44 | 520.61 | 584.62 | 1789.63 | 610.63 |
| Other Income | 2.01 | 2.2 | 3.44 | 2.98 | 10.63 | 2.05 |
| Expenses | | | | | | |
| COGS | 113.9 | 213.81 | 251.48 | 308.57 | 887.76 | 329.26 |
| Gross Profit | 127.06 | 229.63 | 269.13 | 276.05 | 901.87 | 281.37 |
| Gross Profit Margin | 53% | 52% | 52% | 47% | 50% | 46% |
| Employee | 85.71 | 141.63 | 157.54 | 153.75 | 538.63 | 164.68 |
| Other Expenses | 28.32 | 33.86 | 45.53 | 44.27 | 151.98 | 39.16 |
| Job Work | 1.46 | 8.21 | 10.51 | 7.58 | 27.76 | 4.26 |
| Total Expenses | 229.39 | 397.51 | 465.06 | 514.17 | 1606.13 | 537.36 |
| EBITDA | 17.92 | 51.42 | 59.33 | 75.91 | 204.58 | 78.29 |
| EBITDA Margins | 7.44% | 11.60% | 11.40% | 12.98% | 11.43% | 12.82% |
| Dep | 12.42 | 13.61 | 14.95 | 17.62 | 58.6 | 17.07 |
| Finance Cost | 10.06 | 11.48 | 9.22 | 9.19 | 39.95 | 6.43 |
| Gain on FX | 6.35 | 5.49 | 3.78 | 5.46 | 21.08 | 5.02 |
| PBT | -2.55 | 28.53 | 38.6 | 52.08 | 116.66 | 56.84 |
| Exceptional items | | | | | | |
| Tax | | | 8.48 | -8.48 | 0 | 11.42 |
| PAT | -2.55 | 28.53 | 30.12 | 60.56 | 116.66 | 45.42 |
| Adj EPS | -0.59 | 6.59 | 5.11 | 10.33 | 21.44 | 7.51 |

# Indo Count Industries Ltd.

**Global Home Textile Market (USD Bn)**




**Market Composition**




The US and Europe contribute significant chunk to global home textiles market The US and Europe are the biggest consumers, constituting ~53% of home textile imports, with nations like India, China and Pakistan being among the key suppliers

## Characteristics of Global Market

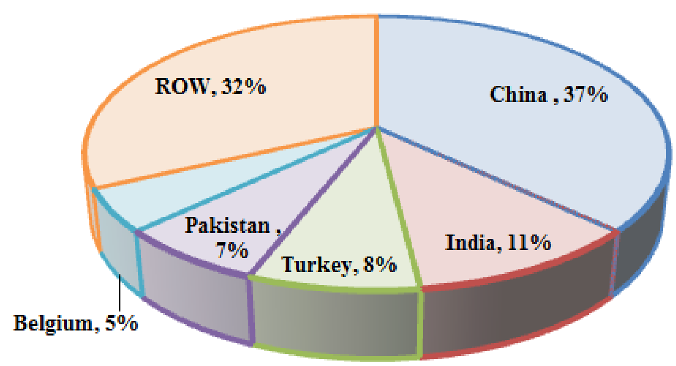
US is a large and homogenous market making it more attractive.

While US is a level playing field, Europe market is heterogeneous and provides preferential tariff rates to some competing countries.

India remains one of the fastest growing markets.

**India – second largest exporter of home textiles globally**

**Share of Home Textiles Exports (%)**



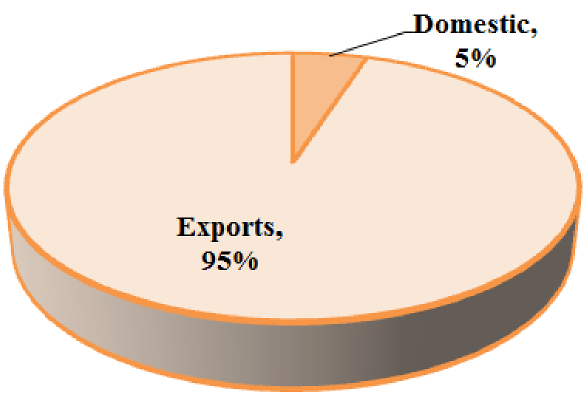

India commands a significant position (11% market share) in the global home textile exports, particularly in cotton-based home textile products. This is largely due to multiple competitive advantages that India has over its competitors, which puts it in a unique spot over other competing nations like Pakistan, Bangladesh, and Vietnam.

The company provides end-to-end bedding providers in India.

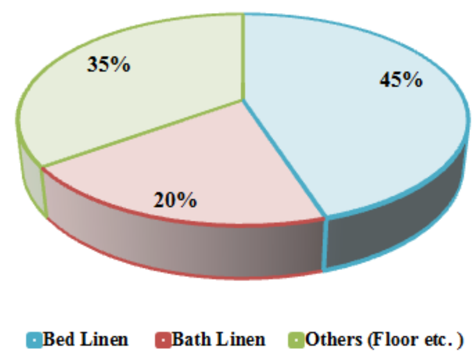
**Product Portfolio:**

i. Bed Sheets
ii. Fashion Bedding
iii. Utility Bedding
iv. Institutional Bedding

**Revenue based on geography**



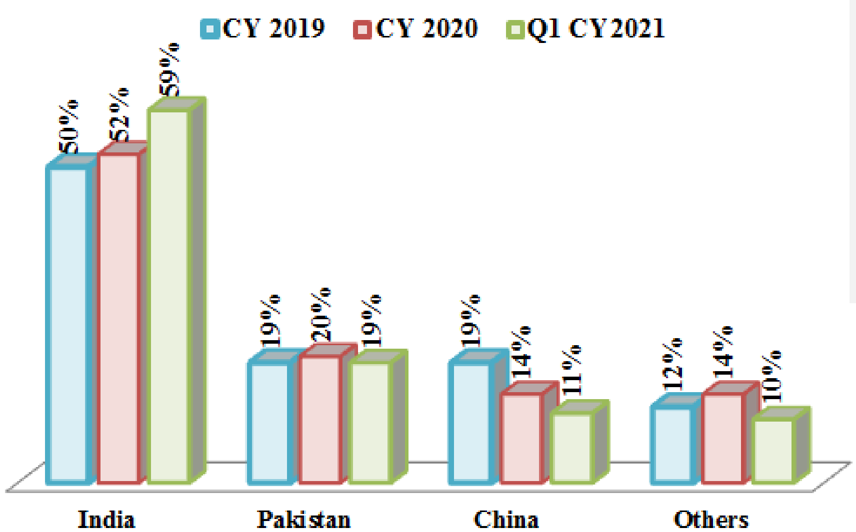

**Global Home Textile Market Composition**




75% of revenue is derived from US. It becomes important to study the US markets.

## India's gaining market share in USA home textiles market

**US imports of Cotton Sheets**



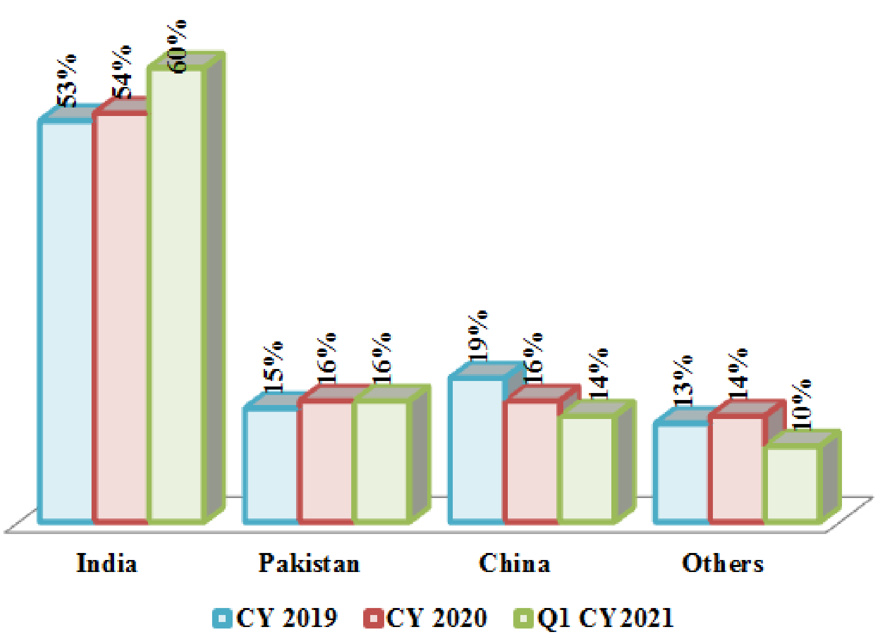

The US banned import of products from Xinjiang region in China.

This move benefited India as seen in the charts.

China is continuously losing market share across all segments and the part of it is gained by India.

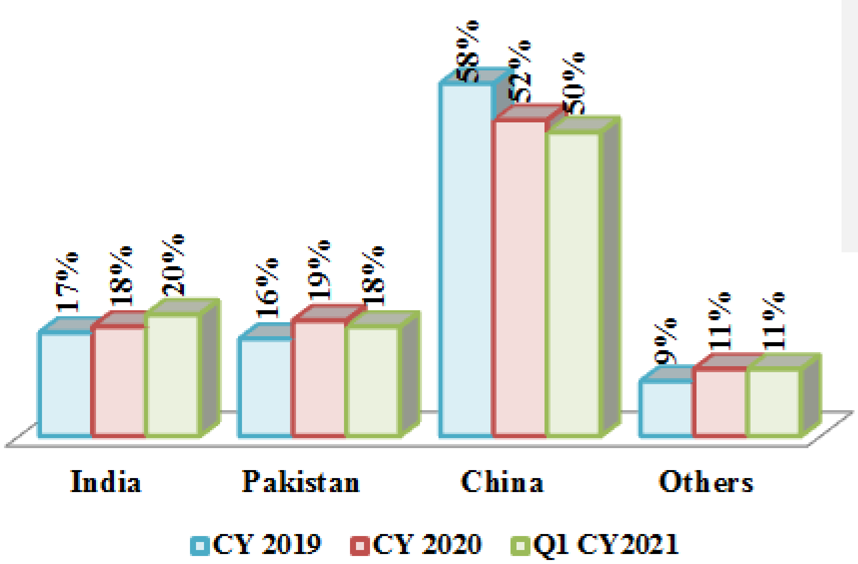
The decline in China's market share is a gain in India's market share

### US imports of Cotton Pillow Cases




The decline in China's market share is a gain in India's market share

### US imports of Cotton Bedspread




**The company is the leader in bed linen exports to US (12% of the total bed sheets imported by the US.)**

**It is expected to increase on account of:**

- Home improvement focus due to WFH
- China +1 strategy (India-attractive alternative)

India has been able to gain some market share lost by China.

Pakistan's share has increased significantly in EU home textile imports led by tariff benefits not available to India

The share increased from 28% in CY13 to 38% in CY17. The market share of India remained stagnant. If there. If EU FTA comes into play, the whole market will open up for India.

**India's advantage over China and Pakistan**

| India | China | Pakistan |
|---|---|---|
| World's largest cotton producer | Major importer of cotton and yarn | Cotton importer |
| Surplus available for exports as cotton/yarn | Losing Export Competitiveness | Energy Issues |
| Competitive Costs | Wage Inflation | Geopolitical Issues |
| Favorable government policies | Increasing Power Costs | Compliance Issues |

**Why Indo Count Industries Ltd. ?**

Overall, the home textiles segment witnessed a slowdown after 2017 because of Brexit, GST implementation. The revenue decline by almost 16% followed by slower rate of growth in 2019. After 3 subdued years, the company saw an increase in volumes and margins in FY21 on account of

- Recovery in bed linen exports in the US
- Ban on cotton exports from China's Xinjiang region
- China +1 strategy
- Increased consumer focus on home due to WFH scenario

Also, the company expanded its capacity in 2017 from 68 million meters to 90 million meters. These adverse macro factors that prevailed in 2018 led to lower capacity utilization levels. This impacted the operating margins. It contracted from 15% in 2017 to 9% in FY2020. The company witnessed a volume increase of 26% in 2021.

i. **It fits the criteria of Exports + Integrated Value Chain + Global Competitiveness**

Exports: Largest player in the US in bed linen market.

Value Integrated: The company is present across the supply chain from Spinning to Printing and Cut and Sew.

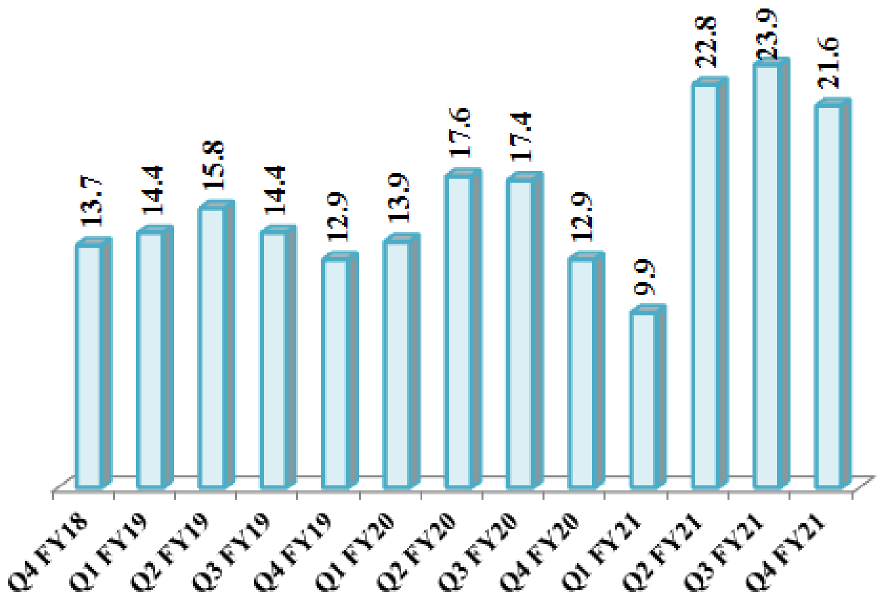
Global Competitiveness

India has the second largest market share of 11% in global home textiles markets. This point is explained above.

ii. **Improvement in US Home Textiles demand**

In 2021, the United States showed strength with all-time high retail sales, adoption of omni-channel distribution, consolidation towards big box retailers increasing importance of health, hygiene and wellness products have all contributed to the rising trend.

**Quarterly volumes (in mn meters)**



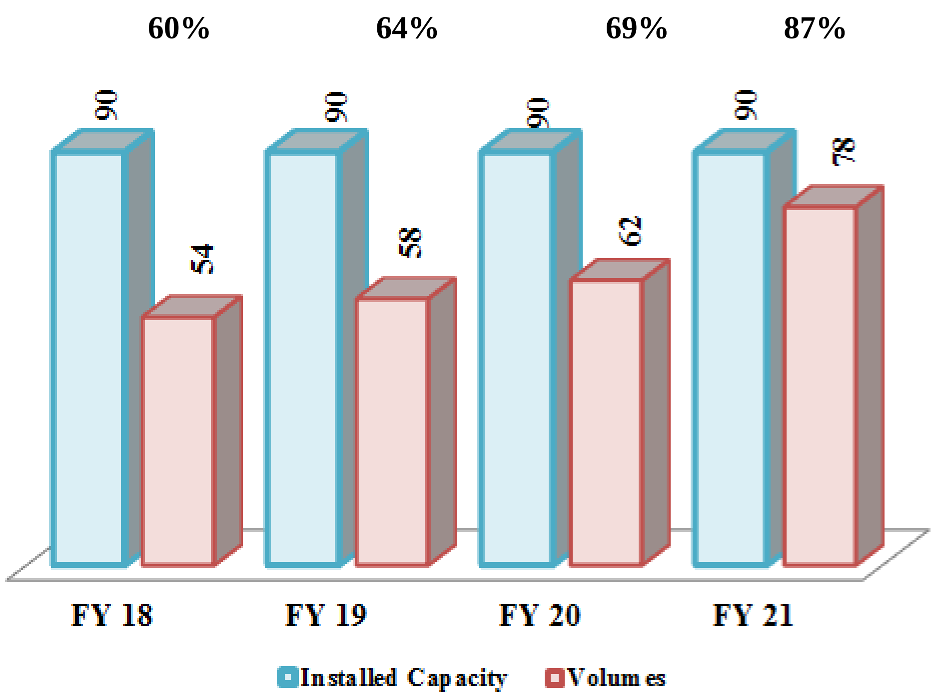

iii. **China +1 strategy to spur growth**

- The COVID-19 induced re-alignment of supply chain.
- China has the largest share in global home textile markets followed by India leading to India becoming the next best alternative.
- China ban of cotton from Xinjiang region has also led to growth of textiles

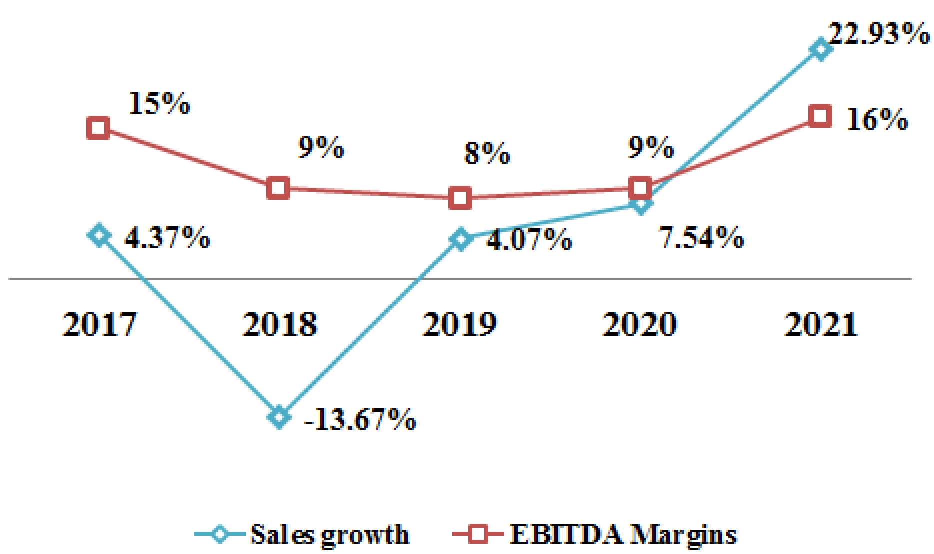
iv. **Capex plans to further spur growth**

ICIL has recently announced brownfield capacity expansion plans for bed linen from 90mn metres to 108mn metres by debottlenecking and balancing its facilities at a total capex of INR200cr, which will be funded via a mix of internal accruals and debt. While INR150cr would be utilised to enhance capacity of bed linen and top bed products, the balance INR50cr will be used to modernise its spinning unit with compact spinning technology. Post modernization the captive consumption of yarn will increase by 5-7%. Currently, it is 25-30%.

Capacity Utilisation (%)




Sales Growth and EBITDA Margins



v. **Substantial growth coming from fashion bedding, utility bedding as well as institutional bedding**

In 2017, the company moved up the value chain by foraying into new bedding segments, which includes Fashion bedding (Decorative bedding), Institutional linens (catering to high-end hotels, resorts and cruises), and Utility bedding (basic white bedding). With this initiative, ICIL expanded its addressable market by 3x from USD4bn to USD14bn. Fashion, Utility and Institutional beddings currently contribute ~15% of ICIL's overall revenue.

The new capacity would be catering to this segment

It's a customized business and differentiated products. Hence, it can command a greater premium. Therefore, this segment is expected to enhance overall margins of the company.

## Management Quality

- The company has atleast 50% independent directors in the BOD Committee.
- The audit committee is chaired by an independent director and other members are also independent directors
- Remuneration as a % of Net Profit is high

## Key Risks

- Fluctuations in raw material prices
- Geography Concentration
- Foreign Exchange Fluctuations

# Financials

| Ratios | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| NP Margin | 0.12 | 0.11 | 0.07 | 0.03 | 0.04 | 0.10 |
| Asset Turnover | 1.45 | 1.41 | 1.09 | 1.19 | 1.23 | 1.11 |
| Leverage | 2.17 | 1.80 | 1.78 | 1.65 | 1.72 | 1.79 |
| ROE | 38% | 27% | 13% | 6% | 7% | 20% |
| | | | | | | |
| Debtor Days | 32.75 | 46.99 | 58.76 | 51.19 | 43.66 | 54.10 |
| Payable Days | 59.88 | 42.30 | 64.27 | 56.13 | 43.48 | 61.76 |
| Inventory Days | 157.59 | 148.51 | 209.58 | 187.58 | 167.85 | 210.80 |
| Cash Conversion Cycle | 130.45 | 153.20 | 204.07 | 182.64 | 168.03 | 203.14 |
| | | | | | | |
| Debt to Equity | 0.52 | 0.36 | 0.39 | 0.33 | 0.35 | 0.44 |
| | | | | | | |
| EBITDA Margins | 0.16 | 0.15 | 0.09 | 0.08 | 0.09 | 0.16 |

| Rs. In crores | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| CFO | 152.81 | 215.92 | 42.32 | 214.51 | 139.76 | -16.3 |

| Valuation | | | | | | |
|---|---|---|---|---|---|---|
| Rs. In crores | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| EV/EBITDA (x) | 12.81 | 12.90 | 12.50 | 8.07 | 3.65 | 8.37 |
| FCFF | 67.85 | 163.04 | 11.52 | 178.29 | 132.94 | -33.89 |
| Dividend Yield | 4% | 8% | 19% | 24% | 50% | 22% |
| ROCE | 39.49% | 29.17% | 11.39% | 10.36% | 12.63% | 25.88% |

# SP Apparels Ltd.

- differentiated children's wear exporter (0-8 years)
- actively involved in design development; provides customized products
- compliance with stringent quality norms
- China plus one strategy, ban of cotton imports from Xinjiang by US, any consolidation in the supplier base augurs well for the company.

Manufacturing of infant and kids wear is a highly specialized business. Adhering to stringent quality safety measures, higher degree of complexity as compared to adult apparels (small size, greater variety, small batch size orders) and high reliability makes it a high entry barrier business.

In Q1 FY22, the company operated at 50% capacity utilization due to COVID shutdowns. The company has adequate capacity unutilized and has the capability to increase the same on account of established customer base and strong order book. The continuation of export scheme along with increase in capacity utilization will help in improving margins, going forward.

India can be a lead source destination for kids wear suppliers:

- Cotton is the most used fibre in children's wear and India is one of the few cotton surplus country with presence across the value chain.
- Product development capabilities give India an edge over the competitors. China does more of bulk production than customized. If a supplier wants specialized smaller batch, then it would come to countries like India.
- Presence across the value chain leads to low lead time

Hence, the larger brands will gain market share at the expense of smaller ones.

## About the Company

- Leading manufacturer and exporter of infant and children wear
- Amongst the top exporters in India
- Integrated operations across the textile value chain from spinning to garmenting

### Revenue based on Geography


US 12%


UK 53 %


Europe 35%

### Revenue Break-Up

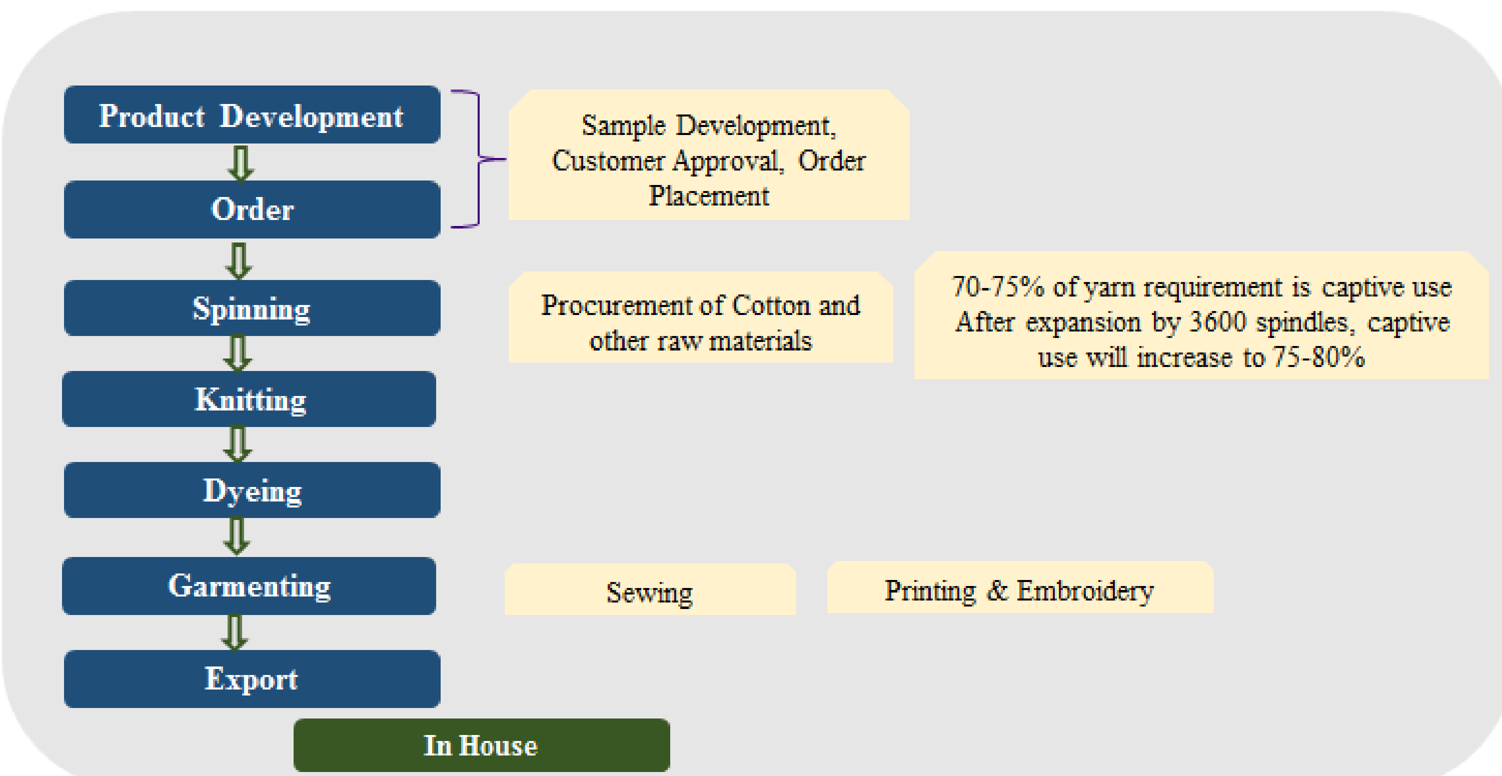
Garment- 85%

SPUK- 6.1%

Retail - 9%

## Industry Business Model: Brands Procurement Strategy

### Integrated Business Model



The pandemic has provided valuable lessons to the industries, companies and the way to move forward. First, it is important to establish a resilient supply chain. Second, it is necessary to diversify the demand base to reduce over reliance on a few customers.

All leading kids brands prefer to outsource their garments, have global sourcing network and focus on marketing strategies to expand their distribution network.

For instance: Carters Inc, is a leading branded marketer of young children's apparel in North America. It is the number one brand in baby apparel, with over four times the share of our nearest competitor in the United States[1].

**Business Model:**

The company doesn't own any raw materials or manufacturing facilities. They source all of their garments and other products from a global network of third-party suppliers, primarily located in Asia and source the remainder products primarily through Central America. During fiscal 2020, approximately 76% of the product was sourced from Cambodia, Vietnam, China, and Bangladesh, and approximately 78% of the fabric that is used in the manufacture of their products is sourced from China, with the remainder primarily from Bangladesh, Thailand, and Taiwan.

Carter is one of the customers of SP Apparels Ltd. With China plus one strategy and consolidation of supplier base in place, the leading players of the country will gain market share.

APPAREL RESOURCES

APPAREL SOURCING WEEK 2021
India's Premier Sourcing Show with unlimited business opportunity
Bengaluru, India

United States based Carter, once the largest baby wear brand in the world, also wants to shift its significant portion of its business from China to India. It has asked western Tamil Nadu based SP Apparels to work on developing a new fabric using man-made fibres.

1. Source: Annual Report

Similar model is followed by GAP and many other brands too.

Another point is that the global growth rate in this industry is low. The growth would be mainly led by the Asian countries. But, what we are betting on is tha,t if there is any change in the strategy of procurement by global brands, which will bring tremendous growth to the leading Indian companies. This shift has started to be visible in the quarterly results and the concalls of textile companies. Also, other industries results also guide us that this transition looks persistent.

## Why S P Apparels Ltd. ?

i. **It meets the criteria of investing in a textile company: Exports + one of the largest apparel exporters**

Exports help in de-risking concentration across geographies. With vaccination drive gaining momentum in all the countries that the company exports to, we can expect good demand recovery. This is already being reflected in the strong order book for the quarter ahead.

ii. **Can scale-up revenue without incurring capital expenditure: Low Capacity Utilisation and Double Shifts at some locations**

The company is operating at 72% capacity utilization. With the emerging macro tailwinds in the sector, the company can increase the capacity utilization leading to higher EBITDA. With the integrated business model, the company can maintain margins at 18% as guided by the management. Also, the management is planning to do double shift at some locations (1500 machines). One line has been operational.

**Total Capacity is 5100 sewing machines**

iii. **Defect** % is minimal, a parameter which is very important in kids wear. Hence, they will be able to gain market share in consolidating market.

iv. **Managing labor issue** is critical in this industry. The company has been able to do that efficiently. We got an insight during the factory visit that they have established training centers where regular training is provided

v. **The company is expected to do a revenue of Rs. 2000 crores by FY25 as per the management guidelines.**

| (Rs. In crores) | FY2019 | FY2020 | FY2021 | **FY2025E** | **FY2025E** |
|---|---|---|---|---|---|
| **Revenue** | 825 | 808 | 652 | 2000 | 2000 |
| **EBITDA** | 134 | 84 | 105 | 320 | 360 |
| **EBITDA Margins** | 16% | 10% | 16% | 16% | 18% |
| **PAT** | 73.03 | 46.64 | 43.8 | 190.26 | 218.26 |
| **EPS** | 28.43 | 18.16 | 17.05 | 74.06 | 84.96 |

vi. **Scope of margin expansion: Capacity Expansion in spinning division done**

The company expanded its spinning capacity by 3,600 spindles. SPAL currently sources 70-75% of its yarn requirement internally which would increase to ~75-80% after the expansion. This is expected to enhance its margins. The management is confident of sustaining 18% EBITDA margins without the duty drawbacks.

vii. **Cotton is the most preferred material in kids wear. India has a key advantage in the cotton value chain.**

Cotton is abundantly available in our country unlike the leading competing apparel manufacturing countries. The company stands to benefit from the macro tailwinds in the industry as it has a well-integrated business model from yarn to the final garment.

viii. **High entry barrier business**

- Customer Stickiness is high
- Difficult to onboard a customer
- If any defect, then high penalty is imposed on the company

ix. **Expected FTA UK in Oct-22 is a big trigger in the company**

x. Based on the management commentary, we believed company would be able to maintain its sales in the macro headwinds environment on account of:

- The labour issue which was a hindrance in ramping up the capacity utilization is now getting resolved.
- The management guided that it would be operating at 80-85% capacity utilization by Oct-Dec-22.
- Also, guiding to maintain 18% EBITDA margins
- FTA with UK is in talks and is expected to get implemented by Oct-2022.
- Bangladesh plus one is really playing out. In spite of recession in Europe and UK, the company thinks that they grow their topline by 15-20% on account of reduced orders given to Bangladesh (infamous for uncertainties in deliveries and unethical policies) and coming to India. FTA UK will further trigger this.

xi. **Steady growth in SPUK is expected to continue**

This division is consistently growing at steady rate. This division takes care of the customers who want full service like designs and sourcing, quality control and compliances which they would not be able to manage. The company plans to double the revenue in 2-3 years.

xii. **Going forward, ramp up in capacity utilization to drive growth:**

- Current Order Book is around Rs. 400 crores which was Rs. 337 crores in Q4 FY22.
- Current capacity utilization is around 75%. The company is guiding a utilization of 80-85% by Nov-Dec-22 translating to a top line growth by 15-20%.
- There might be a margin impact of 1% in Q1 FY23 due to rise in raw material price.
- Chances of FTA UK approval in Oct, 2022 looks strong. This will provide the company level playing field when compared to competitors in Sri Lanka and Bangladesh.
- Trial orders for two new customers would begin this year was announced last quarter. This is expected to begin in Q3 FY23.
- Labour issue which acted as a hindrance in ramping up the capacity utilization is expected to get resolved.

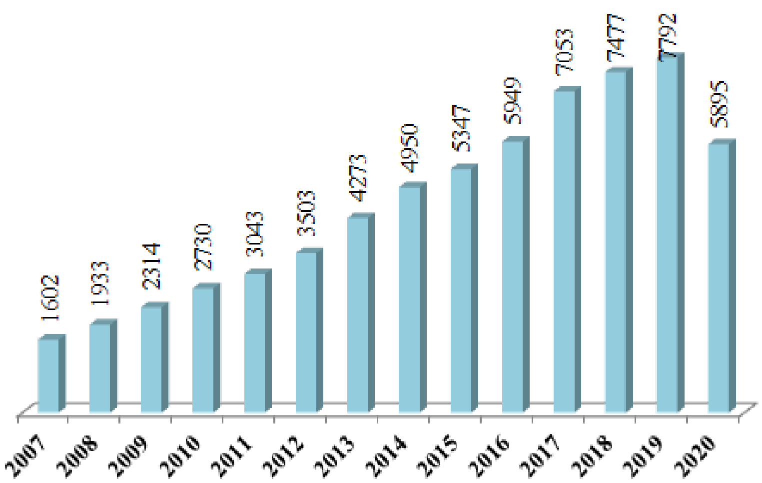
**xiii. Capacity Expansion**

The company is planning to set up a new factory by end of June-23.

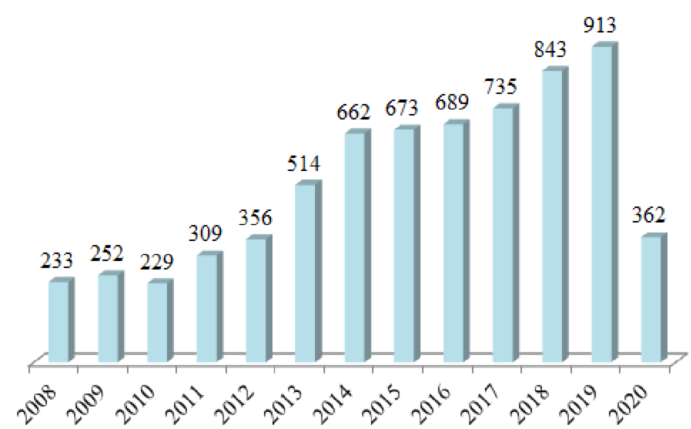
**xiv. Established Customer Base**

- **Primark** is one of the major customers.

**Primark Revenue from Sept 2007-2020 (in million GBP)**




**Adjusted Operating Profit from Sept-2008-20 (in million GBP)**




Source: Statista.co, Niveshaay Research

As of 2018, it ranked 2nd largest clothing retailer in the UK, following Marks and Spencer, with a market share of approximately 7%.

Thursday 1 July 2021 8:06 am

**Primark lifts profit forecast after store reopenings boost sales**

Primark owner ABF said sales were stronger than expected after stores reopened (Getty Images)

**Primark has hiked its profit forecast for the full year after the easing of lockdown restrictions drove a sharp rise in sales for the third quarter.**

Parent company Associated British Foods (ABF) said profit at the budget fashion chain would be roughly in line with last year – up from previous guidance of "somewhat lower".

- **Carters Inc**

It's a leading branded marketer of young children's apparel in North America. It is the number one brand in baby apparel, with over four times the share of our nearest competitor in the United States.

## Management Quality

- The company has at least 50% independent directors in the BOD Committee.
- The audit committee is chaired by an independent director and other members are also independent.
- Remuneration as a % of Net Profit is optimal

## Key Risks

i. Change in government policies
ii. Foreign Exchange Fluctuations: majority of the earnings come from exports
iii. Client Concentration (Primark used to contribute around 35% to the total revenue, after COVID the percentage has been reduced to 20%)
iv. Recurrence of COVID wave

**Recent Development:**

The company has incorporated a new subsidiary for the retail division for which it would also be raising funds. Currently, in the retail business, company has just one brand; Crocodile. Now, the company plans to make it a multi-brand format.

## Competitive Scenario

**1. Kitex Garments Ltd.**

- Capacity: 4,32,000 pieces per day (15.76 crores pieces per annum)
- It is into bulk production category

| Revenue | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| Kitex Garment Ltd. | 546 | 546 | 557 | 607 | 739 | 455 |
| **S P Apparels Ltd.** | 532 | 632 | 662 | 825 | 808 | 652 |

| EBITDA | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| Kitex Garment Ltd. | 189 | 170 | 134 | 139 | 132 | 100 |
| **S P Apparels Ltd.** | 85 | 104 | 106 | 134 | 84 | 104 |

| Capacity (in million pieces per annum) | |
|---|---|
| Kitex Garment Ltd. | 157 |
| **S P Apparels Ltd.** | 80 |

Apart from a different business model, Kitex has a capacity which is almost double of SP Apparels. The growth rate is higher in SP Apparels.

## 2. Eastman Exports Global Clothing (Private Company)

It manufactures apparels for men, women and kids.

| Rs. in crores | | Export Turnover (2018) | Export Turnover (2013) |
|---|---|---|---|
| | Eastman Exports Global Clothing | 1600 | 930.67 |

## 3. Jay Jay Mills Ltd. (Private Company)

- Established in Tripura (manufacturer of cotton knitwear)
- Apparels and home products for infants, toddlers
- Caters to US and EU brands
- Facilities in India, Sri Lanka, Bangladesh and Ethopia

# Recent Quarterly Update

### 1. Financials

| Rs. in crores | Q1 FY23 | Q4 FY22 | Change (in %) | Q4 FY21 | Change (in %) |
|---|---|---|---|---|---|
| Sales | 245.7 | 253.8 | -3.19% | 133.07 | 84.64% |
| Other Income | 7.16 | 4.6 | 55.65% | 0.35 | 1945.71% |
| Expenses | | | | | |
| COGS | 93.76 | 110.3 | -15.00% | 43.08 | 117.64% |
| Gross Profit | 151.94 | 143.5 | 5.88% | 89.99 | 68.84% |
| Gross Profit Margin | 62% | 57% | | 68% | |
| Employee | 57.76 | 53 | 8.98% | 32.41 | 78.22% |
| Other Expenses | 51.26 | 45.7 | 12.17% | 29.49 | 73.82% |
| Total Expenses | 202.78 | 209 | -2.98% | 104.98 | 93.16% |
| EBITDA | 42.92 | 44.8 | -4.20% | 28.09 | 52.79% |
| EBITDA Margins | 17.47% | 17.65% | | 21.11% | |
| Dep | 9.52 | 9 | 5.78% | 8.42 | 13.06% |
| Finance Cost | 5.05 | 3.64 | 38.74% | 3.19 | 58.31% |
| PBT | 35.51 | 36.76 | -3.40% | 16.83 | 110.99% |
| Exceptional items | 0.1 | | | | |
| Tax | 9.65 | 11.3 | | 5.25 | |
| PAT | 25.76 | 25.46 | 1.18% | 11.58 | 122.45% |
| EPS | 10.04 | 9.83 | | 4.50 | |

i. **Labor Challenge getting resolved**

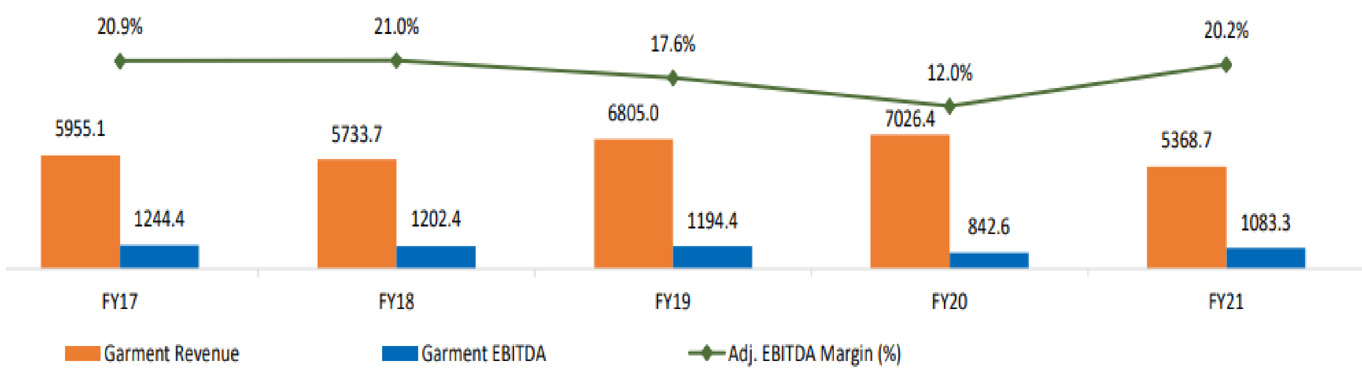
Though the company has guided that there is an improvement in managing labour inflow and skill development in last few months. The management guided the issue is getting resolved. vii. Setting up of solar plant for spinning unit Spinning is a power intensive industry.

ii. The company is setting up 1 MW of solar plant. This would fulfil a very small requirement of their total power needs. Total requirement is around 8-10 MW.

iii. The company plans to do buy-back. However, the amount is not known yet.

## Financials

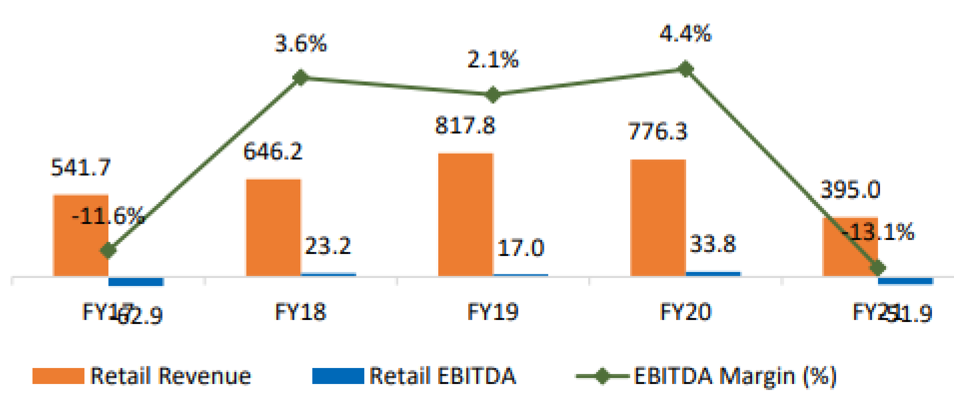
### Garment Division




| Rs. in crores | Q1 FY23 | Q4 FY22 | Q3 FY22 | Q4 FY22 |
|---|---|---|---|---|
| **Garment Division** | 223.43 | 219.92 | 223.8 | 163.4 |
| **EBITDA Margins** | 21.60% | 20.10% | 19.70% | 17.80% |

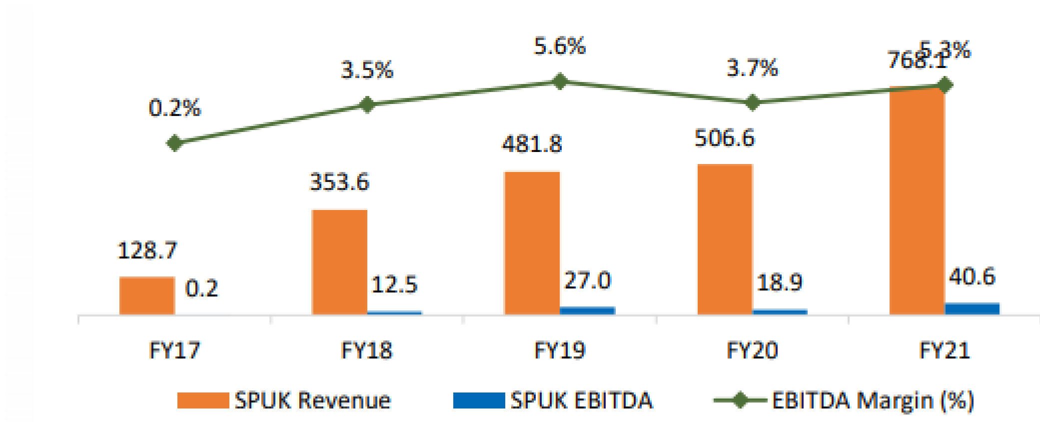
| Rs. in crores | Q1 FY23 | Q4 FY22 | Q3 FY22 | Q4 FY21 |
|---|---|---|---|---|
| **Garment Pieces in mn** | 14.8 | 14 | 13.6 | 12.6 |

### Retail Division




| Rs. in crores | Q1 FY23 | Q4 FY22 | Q3 FY22 | Q4 FY22 |
|---|---|---|---|---|
| **Retail Division** | 17 | 16.06 | 12.9 | 8.26 |
| **EBITDA Margins** | 2.90% | 1.40% | -25.90% | -55.40% |

## SPUK Division




| Rs. in crores | Q1 FY23 | Q4 FY22 | Q3 FY22 | Q4 FY22 |
|---|---|---|---|---|
| **SPUK Division** | 12.03 | 22.1 | 17.6 | 21.96 |
| **EBITDA Margins** | -1.90% | 5.50% | 3.60% | 2.70% |

| Ratios | | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| NP Margin | 0.09 | 0.07 | 0.09 | 0.06 | 0.07 | 0.10 |
| Asset Turnover | 0.94 | 0.82 | 0.93 | 0.91 | 0.72 | 0.81 |
| Leverage | 1.89 | 2.04 | 1.83 | 1.71 | 1.63 | 1.79 |
| ROE | 15% | 12% | 15% | 9% | 8% | 14.34% |
| | | | | | | |
| Debtor Days | 62.22 | 82.65 | 64.98 | 50.18 | 58.92 | 49.33 |
| Payable Days | 122.30 | 183.79 | 144.49 | 93.94 | 125.10 | 83.74 |
| Inventory Days | 150.27 | 310.27 | 298.59 | 230.41 | 334.11 | 235.22 |
| Cash Conversion Cycle | 90.19 | 209.14 | 219.07 | 186.65 | 267.94 | 200.81 |
| | | | | | | |
| Debt to Equity | 0.54 | 0.60 | 0.45 | 0.45 | 0.36 | 0.34 |
| | | | | | | |
| EBITDA Margins | 0.16 | 0.16 | 0.16 | 0.10 | 0.16 | 17.66 |

| Rs. In crores | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| CFO | 26 | -1 | 82 | 83 | 80 | 27 |

| Rs. In crores | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| FCFF | -4.53 | -20.45 | -0.04 | 55.24 | 46.19 | 2.37 |
| ROCE | 19.61% | 17.64% | 20.29% | 8.75% | 11.08% | 15.73% |
| P/E | 20.28 | 17.42 | 10.85 | 3.40 | 9.11 | 10.36 |

| Rs. in crores | Q1 FY22 | Q2 FY22 | Q3 FY22 | Q4 FY22 | FY22 | Q1 FY23 |
|---|---|---|---|---|---|---|
| Sales | 133.07 | 222.14 | 250.3 | 253.8 | 859.31 | 245.7 |
| Other Income | 0.3 | 0.68 | 3.8 | 4.6 | 9.38 | 7.16 |
| Expenses | | | | | | |
| COGS | 43.08 | 84.71 | 115.9 | 110.3 | 353.99 | 93.76 |
| Gross Profit | 89.99 | 137.43 | 134.4 | 143.5 | 505.32 | 151.94 |
| Gross Profit Margin | 68% | 62% | 54% | 57% | | 62% |
| Employee | 32.4 | 52 | 52.7 | 53 | 190.1 | 57.76 |
| Other Expenses | 29.49 | 44.93 | 42.98 | 45.7 | 163.1 | 51.26 |
| Total Expenses | 104.97 | 181.64 | 211.58 | 209 | 707.19 | 202.78 |
| EBITDA | 28.1 | 40.5 | 38.72 | 44.8 | 152.12 | 42.92 |
| EBITDA Margins | 21.12% | 18.23% | 15.47% | 17.65% | | 17.47% |
| Dep | 8.42 | 8.61 | 8.5 | 9 | 34.53 | 9.52 |
| Finance Cost | 3.19 | 1.36 | 3.6 | 3.64 | 11.79 | 5.05 |
| PBT | 16.79 | 31.21 | 30.42 | 36.76 | 115.18 | 35.51 |
| Exceptional items | | | | | | 0.1 |
| Tax | 5.25 | 7.91 | 5.5 | 11.3 | 29.96 | 9.65 |
| PAT | 11.54 | 23.3 | 24.92 | 25.46 | 85.22 | 25.76 |
| EPS | 4.5 | 9.05 | 9.59 | 9.83 | 32.97 | 10.04 |

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