



Indian Textile Industry

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Research Analyst

Gunjan Kabra
info@gunjankabra.com

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

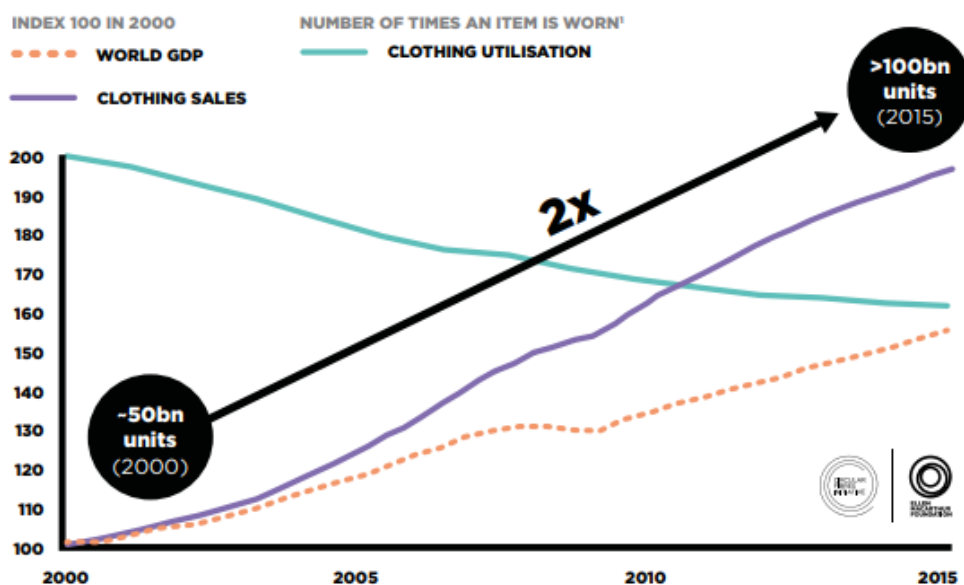
These points are important to be competitive in long term. It is discussed in detail below.

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 utilisation – 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

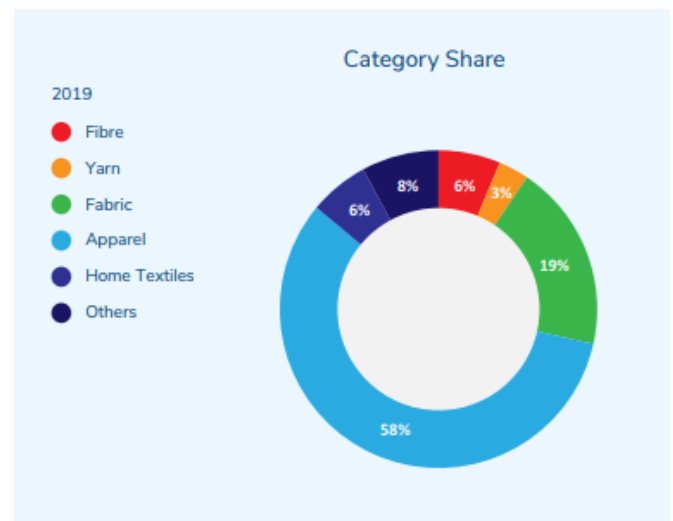
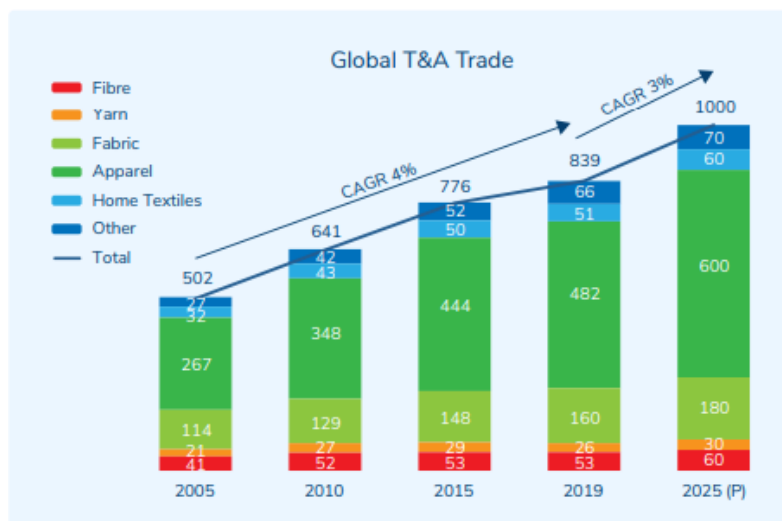
Region	2019	2020	Y-o-Y Change	Projected CAGR 2019-25	2025 (P)
EU-27	264	219	-17%	1%	280
United States	235	171	-27%	2%	265
China	181	173	-4%	11%	340
Japan	106	83	-21%	0.50%	110
India	78	55	-29%	10%	135
Brazil	48	34	-30%	4%	60
Canada	33	27	-19%	2%	37
RoW	690	517	-25%	2%	780
World	1,635	1,280	-22%	3.50%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

Global Apparel Market

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%

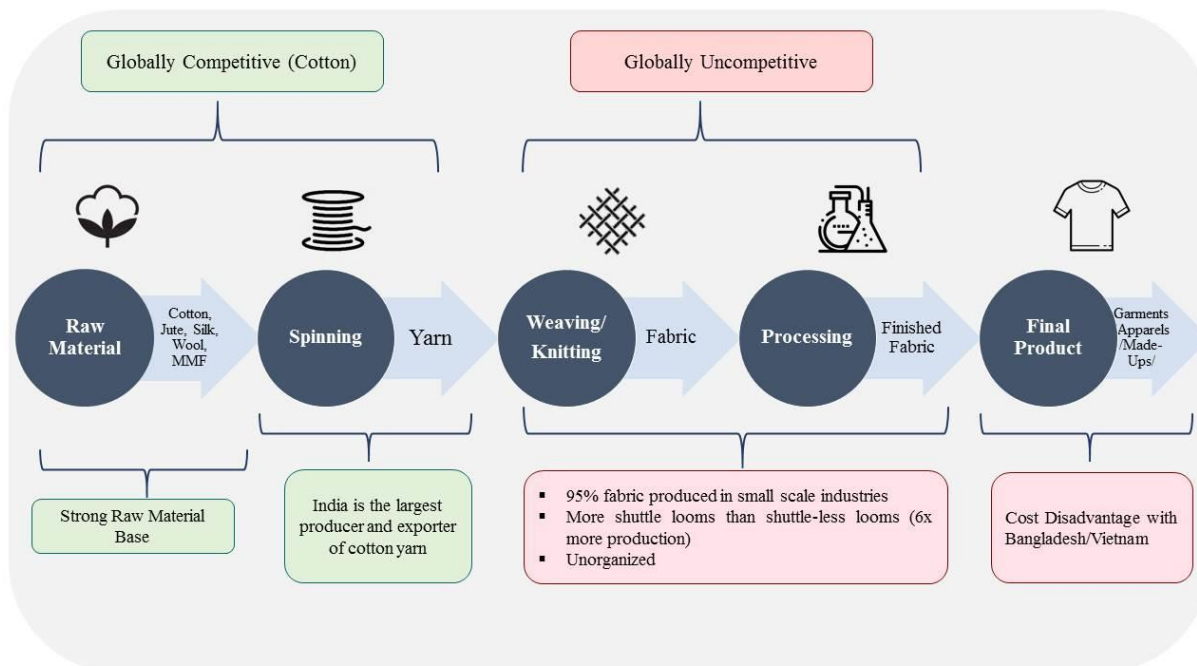
Fabric	 China	 Italy	 S. Korea
Export Value (US\$ Bn)	72.70	7.57	7.26
Market Share	45%	5%	5%

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 unorganised 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

Cost Competitiveness

Factor Cost Comparision of India with Competing Countries

Garment Industry Employable Population (15-39 years)						
(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\$/m ³	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.

Current Scenario: Evolving Market Landscape and Business Dynamics

▪ 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

▪ 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 and 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.

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.

Did you know?

Indian Cotton is 30% cheaper than Chinese cotton.

Indian labour is 3x less expensive than China.

▪ Bangladesh vs. Vietnam vs. India

Vietnam and Bangladesh has 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.

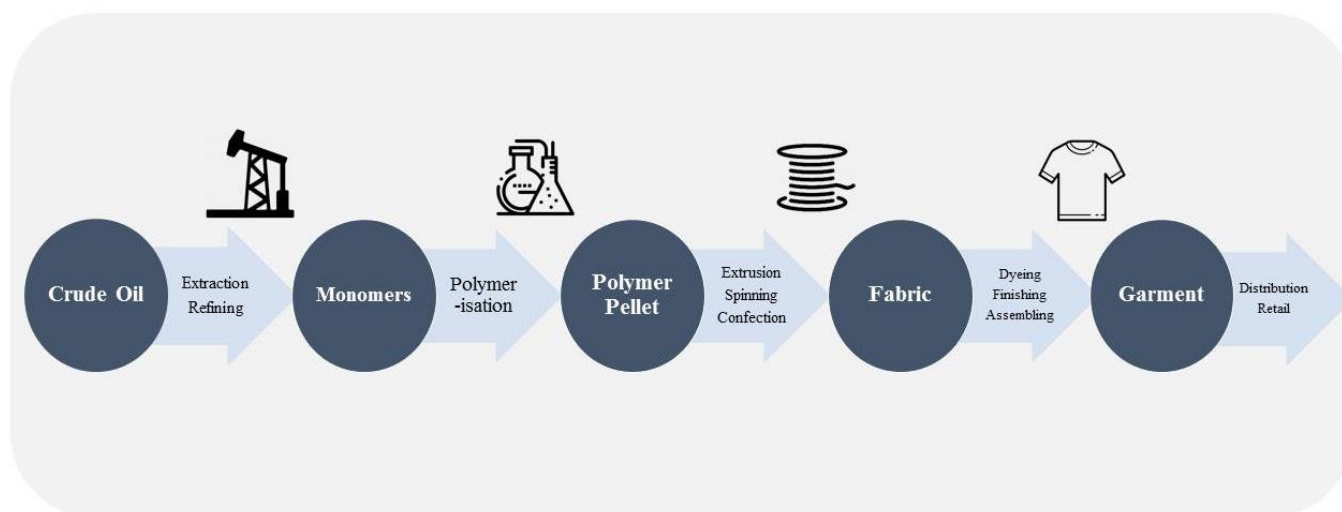
Bangladesh also has duty free access to Europe that itself gives them about 11% reduced cost to sending goods to Europe and labour cost brings the rest of the reduction.

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 EU FTA comes into play then market will open up.

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 polyester 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 substitution in textile industry. It will also indirectly promote investment in textile machinery manufacturing.

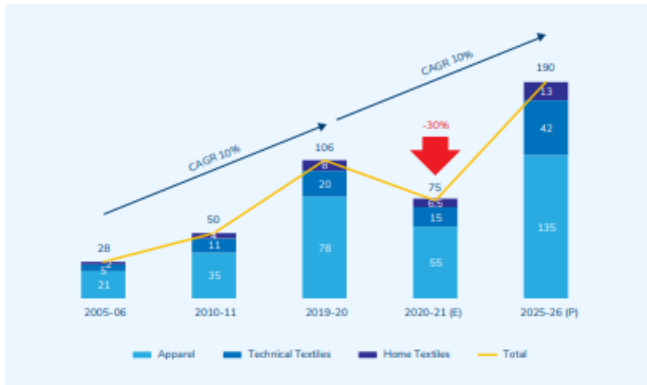
- Abolition of **anti-dumping duty** on Purified Terephthalic Acid (PTA), which is a critical input for man-made textile fibre and yarns.

- **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

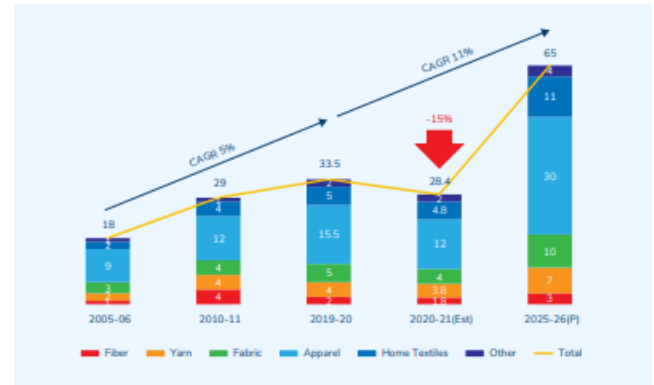
Fig: India's Domestic Textile and Apparel Market Size (US\$ billion)



The market is expected to recover and grow at 10% CAGR from 2019-20 to reach US\$ 190 billion by 2025-26.

Apparel constitutes ~73% share of the total T&A market in India.

Fig: India Textile and Apparel Exports (US\$ billion)



India's exports of T&A are expected to grow to US\$ 65 billion by 2025-26, growing at a CAGR of 11%.

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)

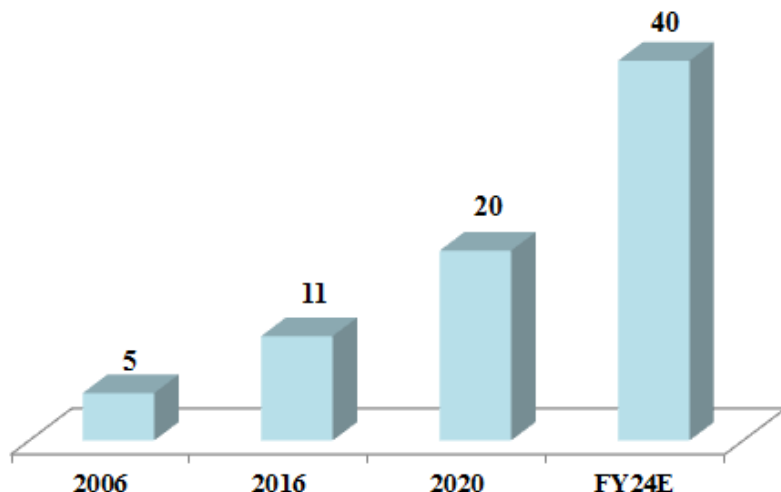
Fabric Production	Production		Share 2019-20
	2015-16	2019-20	
Mill Sector	2315	2022	3%
Decentralised Sector	62269	74266	97%
Grand Total	64584	76288	100%

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.

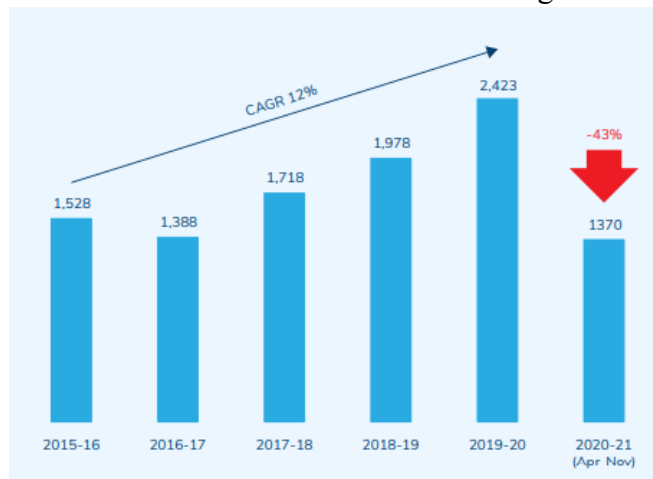
More importantly, this sunrise sector means big business. According to a recent Invest India report, the global demand for technical textiles is expected to grow to \$220 billion by 2025 from \$165 billion in 2018, at a CAGR of 4%. The report mentioned that the Asia-Pacific has captured 40% of the global 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
- ii. Exports or;**
 - US markets are stronger
 - China +1 strategy
 - Re-aligning supply chain
- iii. Home Textiles (Exports)**
 - India has good market share

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.

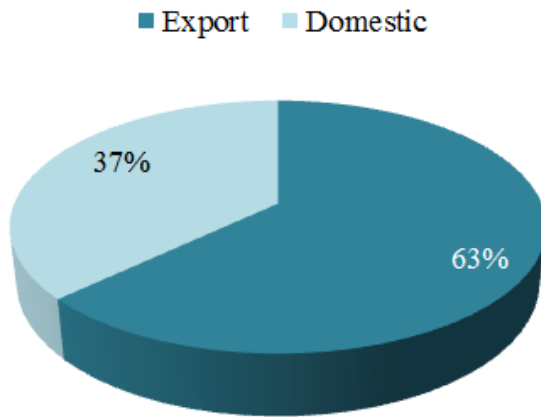
Apart from the above mentioned criteria, while analyzing the industry we realized that every industry has to be analyzed in a different way. Till now, one criterion before investing was to find if the company has a sustainable competitive advantage from the peers. But, the parameter changes with the 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

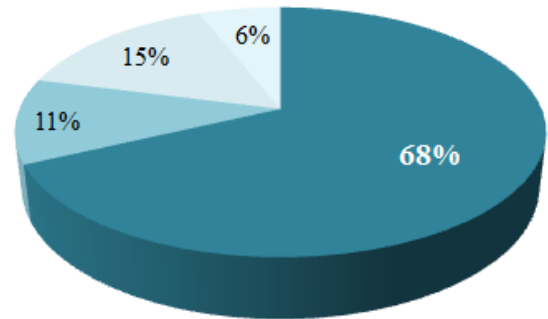
- Yarns
- Knitted Fabrics Segment
- Woven Fabrics Segment
- Others

Geography-wise Revenue (%)



Segment-Wise Contribution to Total Revenue (%)

■ Yarn ■ Knitted Fabrics ■ Woven Fabrics ■ Others



Company Details:

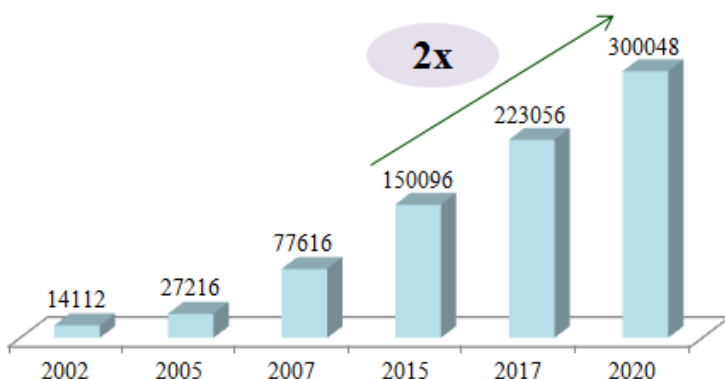
Established in 1992
Headquartered in Bhilwara (Rajasthan)
Listed on BSE/NSE in 2006

Journey of Nitin Spinners Ltd.

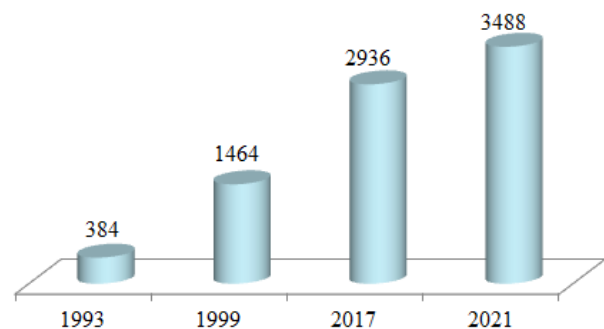
The company commenced its operations in 1993 with 384 Rotors in 1993. Gradually, company took the forward integration route and has established a modernized set up manufacturing finished fabrics.

Summary

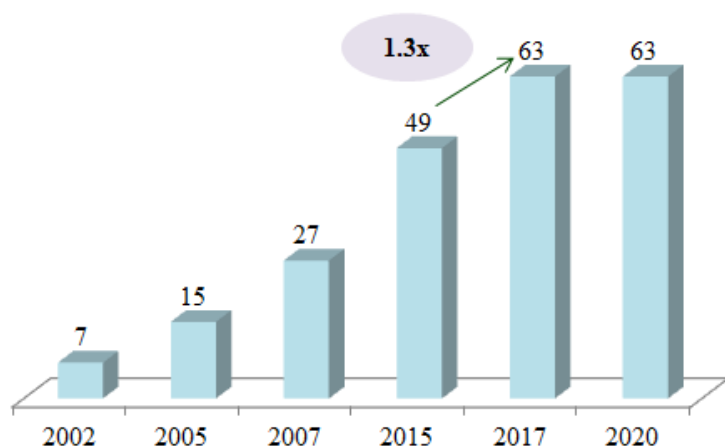
Spindles Installed Capacity



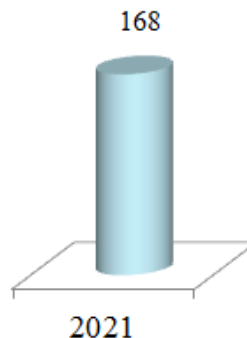
Rotors Installed Capacity



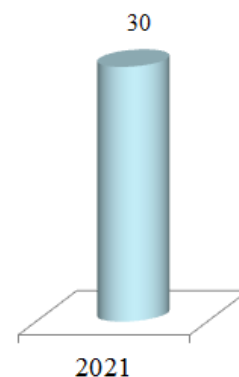
Knitting Wear Installed Capacity



Woven Fabrics (Greige-ooms)



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?

- 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, these 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

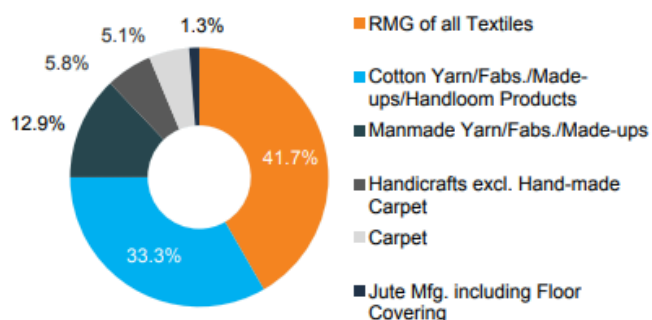
Valuation						
Rs. In crores	2016	2017	2018	2019	2020	2021
EV/EBITDA (x)	4.17	7.77	6.12	7.39	6.60	5.02
FCFF	86.23	-173.13	65.05	-361.74	-47.31	187.43
Dividend Yield	4.58	5.5	6.67	7.03	3.37	8.43
ROCE	19.53%	13.86%	13.02%	10.80%	7.30%	26.10%

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.

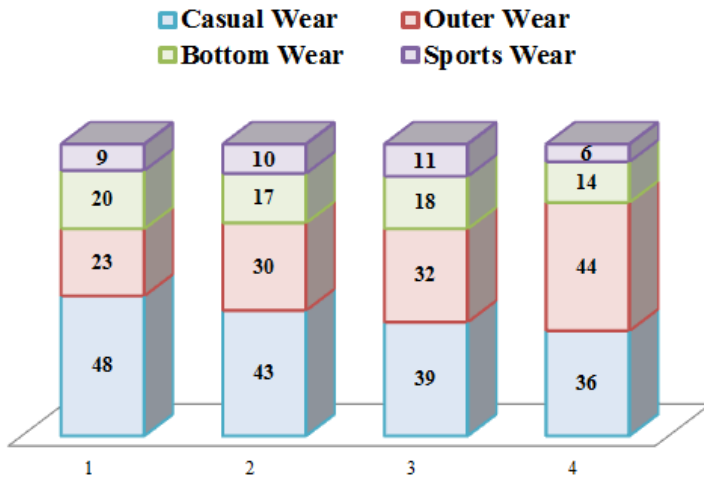
By taking exposure in Gokaldas enables us to participate in the retail story and also become a part of growth story of many brands and not just one. This part of the business is relatively less risky than taking exposure in a particular brand.

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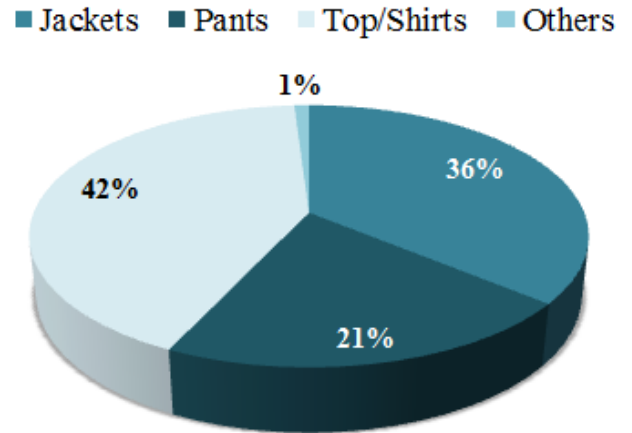
About the Company

The company is engaged in manufacturing of apparels.

Product Category Sales FY2021

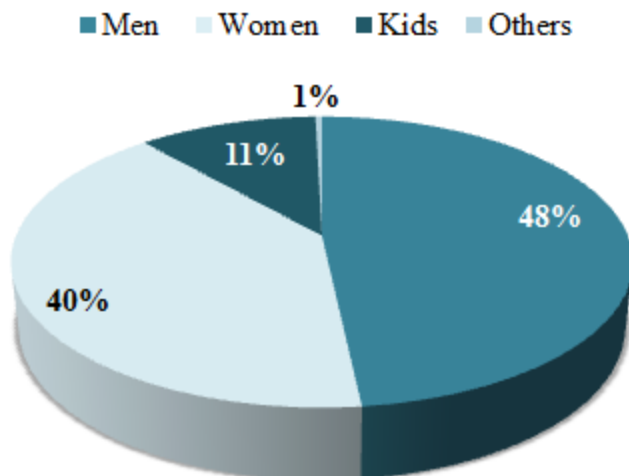


Product Mix FY2021

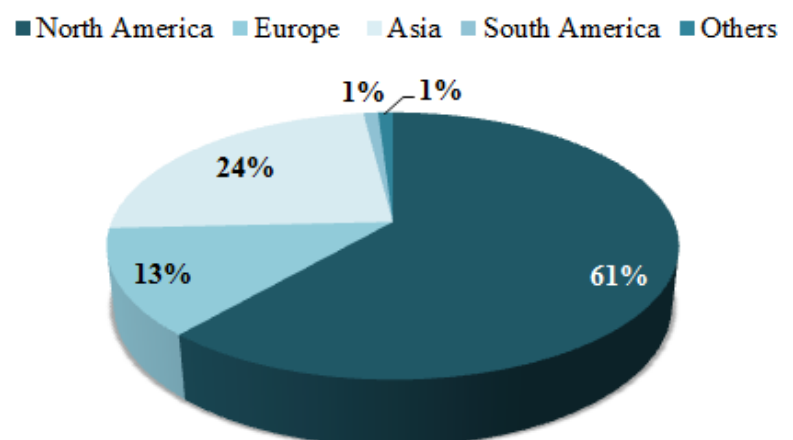


The outer wear share grew from 23% in FY2018 to 44% in FY21. A continuous growth in outerwear segment is positive sign for the business, as it balances the seasonality of the business and delivers better margin.

Product Category Sales FY2021



Geography-Wise Sales FY2021



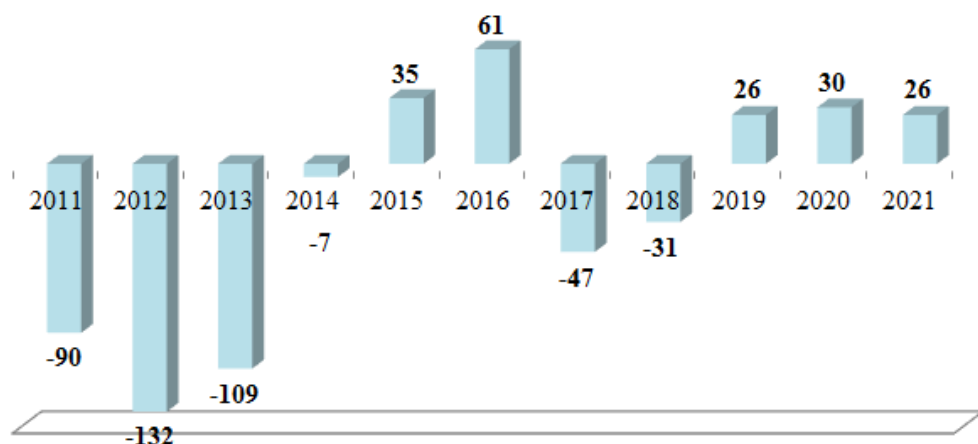
Journey of Gokaldas Exports Ltd.

Earlier the company was owned by the Hinduja Group. Then, in 2007, Blackstone company bought 68% stake in the company. This buy-out brought 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.

Why Gokaldas Exports Ltd. ?

i. It meets the criteria of investing in a textile company: Exports + Restructuring + 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 quarters ahead.

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

Capex: New plant coming up in July 2021 in Karnataka

ii. Scope of margin expansion

After the change in management, the company has been able to improve operating margins. Since, the company is into finished garment, it commands high margin (value added in nature). We believe, the turnaround has just begun, with any uptick in the textile industry, the company will be able to perform well in the coming years.

Cost/Piece	FY 18	FY 19	FY 20	FY21 E
Realization	384	463	515	596
Cost of Raw Material Consumed	199.68	206.27	261.02	302.07
Employee	126.10	155.69	176.32	182.91
Power	8.46	9.51	8.89	11.89
Freight	8.57	8.91	7.17	11.02
Total	342.81	380.38	453.40	507.89
Spread	41.19	82.62	61.60	88.11
Margins	10.73%	17.84%	11.96%	14.78%

Source: Niveshaay Research

In this industry, better product mix and incremental capacity are the key contributors to growth. Apart from this, better raw material management and reducing wastage also leads to better operating efficiency.

Waste Management (%) Unbilled Production

	FY 2018	FY 2019	FY 2020
	4.8	3.1	2.7

iii. 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. The company plans to invest 120 crores in FY22 and FY23.

Revenue estimates from the new capex

Rs. in crores	per annum
Revenue	520
EBITDA	52
EBITDA Margins	10%

The company has guided to do revenue of 1500 crores in FY22.

iv. Opportunities: Changes in the supply chain after the crisis

▪ Decentralisation and Consolidation

Our various discussions with industry people say that after the pandemic there is a structural change visible in the industry working. Decentralization as a theme is playing out in the industry after the crisis. China +1 strategy is not just confined to China but is used in various other strategies. Buyers are not keeping it set to one place region-wise. No one country in the company's sourcing list will occupy a larger share. For instance, for an apparel sourcing company, Bangladesh was a major supplier but now they will source from other countries like India too.

APPAREL RESOURCES

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

If confirmation by some garment factories is anything to go by, a certain percentage of sourcing of apparels may shift to India from China. According to Raja Shanmugham, Chairman, Warsaw International, Tirupur, he has just received a huge order from one of its biggest buyers – Marc O'Polo which is a German leisurewear brand.

"The same product has been shipped from Warsaw's competitor of China over the years. Now it's huge and a test for us as well as India," commented Raja adding, "If this is well cracked, gates will open for more apparel brands to increase sourcing from 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.

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 1 players in the industry.

▪ Opportunities in the new supply chain

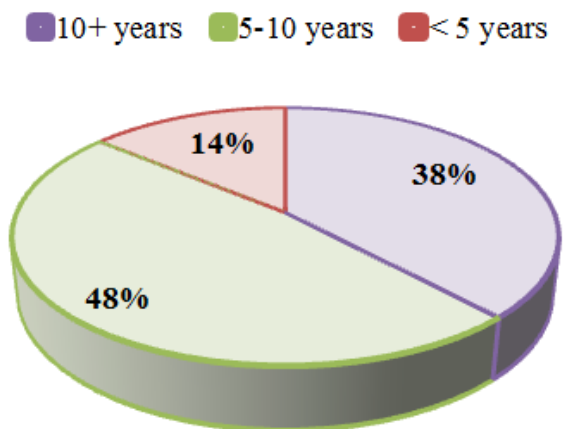
The idea of actually partnering with brands and retailers. For instance Shahi Exports is in conversation with one of their biggest customers to set up a manufacturing unit in the US together.

Walmart is asking interested strategic suppliers to set up units in the US.

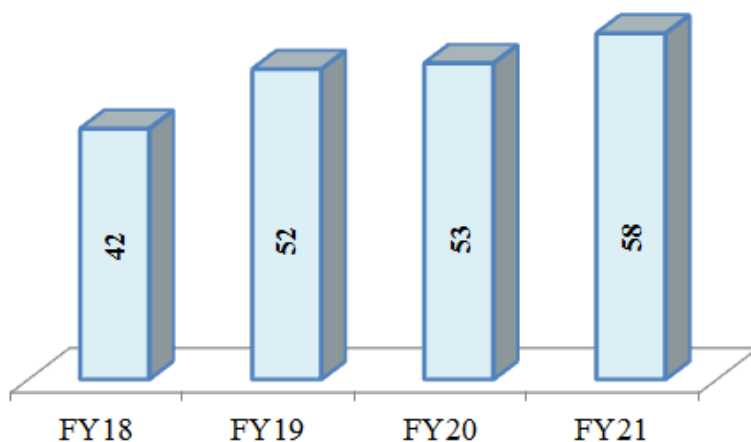
For instance, H&M sources from 71 suppliers in India. Any consolidation in the vendor list of H&M means the elimination of small and tail-end suppliers. This will lead to gain in share by the larger companies.

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 %)

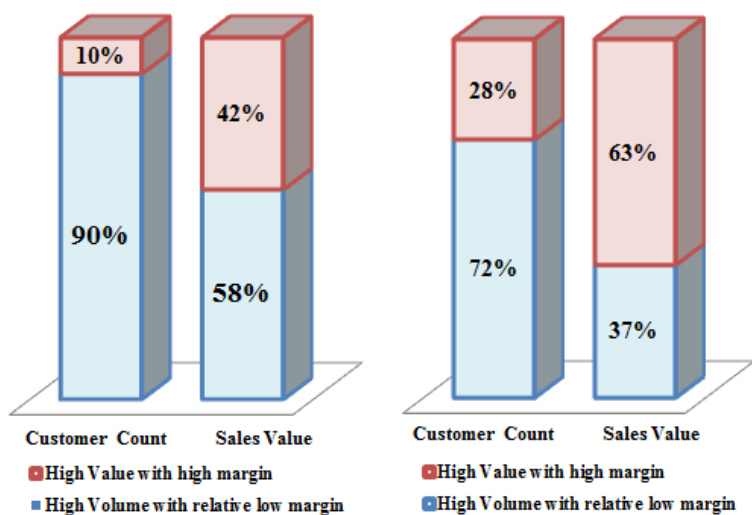


After the change in management, the company made efforts in deploying marketing strategies and this has given them good traction in form of increased wallet share from existing customers and addition of new customers.

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.

- **If India signs a FTA with EU- 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.

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

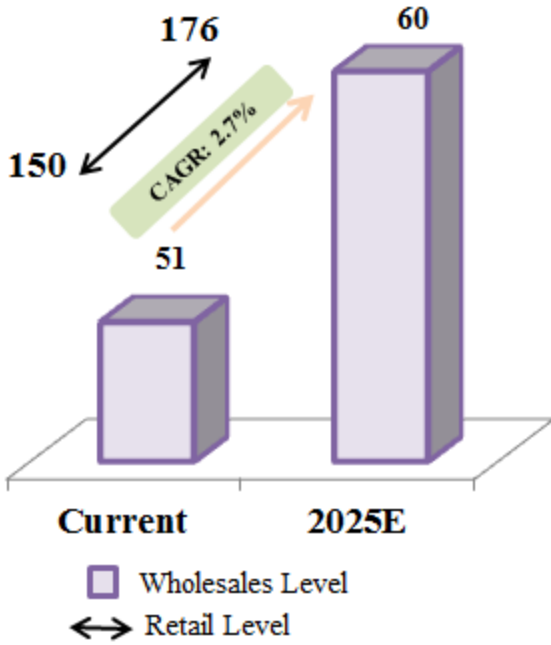
Ratios						
	2016	2017	2018	2019	2020	2021
NP Margin	0.05	-0.05	0.03	0.02	0.02	0.02
Asset Turnover	1.55	1.17	1.32	1.45	1.48	1.22
Leverage	3.93	4.16	5.20	4.36	3.96	3.83
ROE	33%	-25%	21%	14%	13%	10%
Debtor Days	26.68	58.26	76.03	58.71	40.80	48.74
Payable Days	62.89	70.57	60.58	76.44	54.85	64.94
Inventory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

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

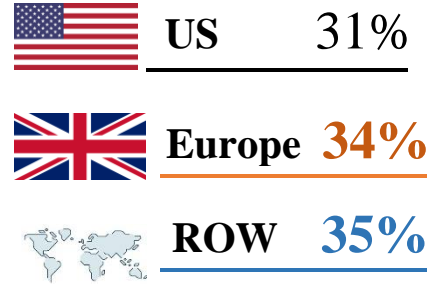
Valuation						
Rs. In crores	2016	2017	2018	2019	2020	2021
EV/EBITDA (x)	8.50	-21.99	-32.56	12.47	7.71	6.38
FCFF	121.18	37.61	50.65	60.28	97.67	116.95
Dividend Yield	4.58	5.5	6.67	7.03	3.37	8.43
ROCE	6.93%	28.85%	29.52%	17.19%	4.75%	12.62%

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.

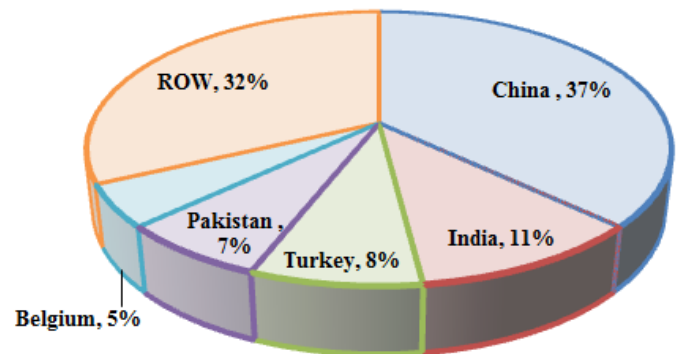
While US is a level playing field, Europe market is heterogeneous and provides preferential tariff rates to some competing countries.

India remains one of the fastest growing markets.

India 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.

India – second largest exporter of home textiles globally

Share of Home Textiles Exports (%)

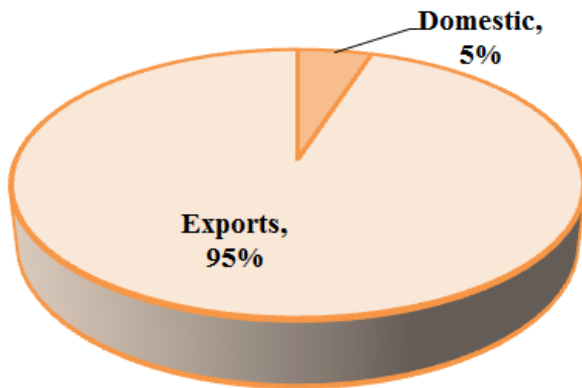


The company provides end-to-end bedding providers in India.

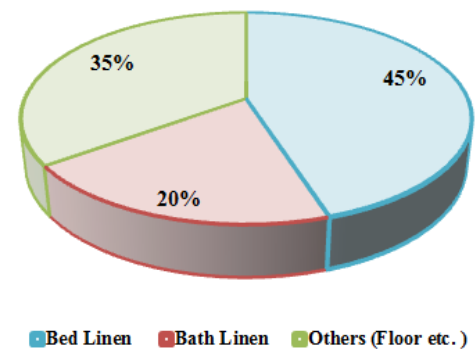
Product Portfolio:

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

Revenue based on geography



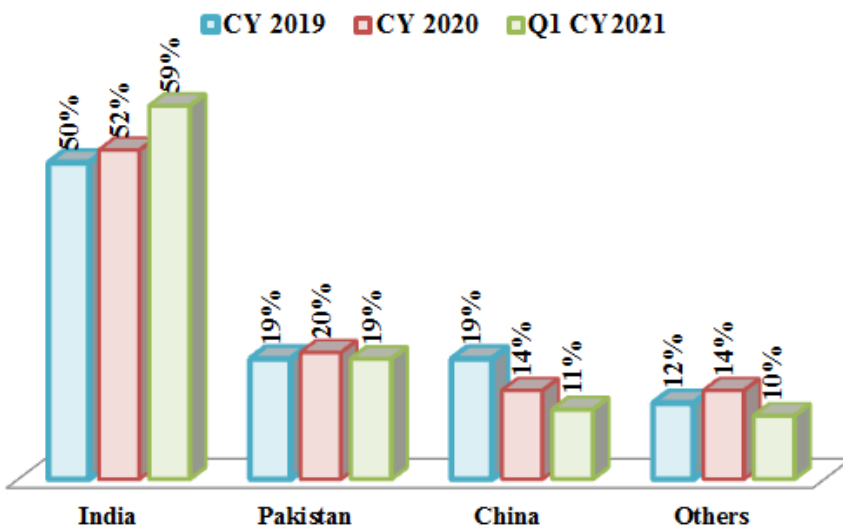
Global Home Textile Market Composition



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



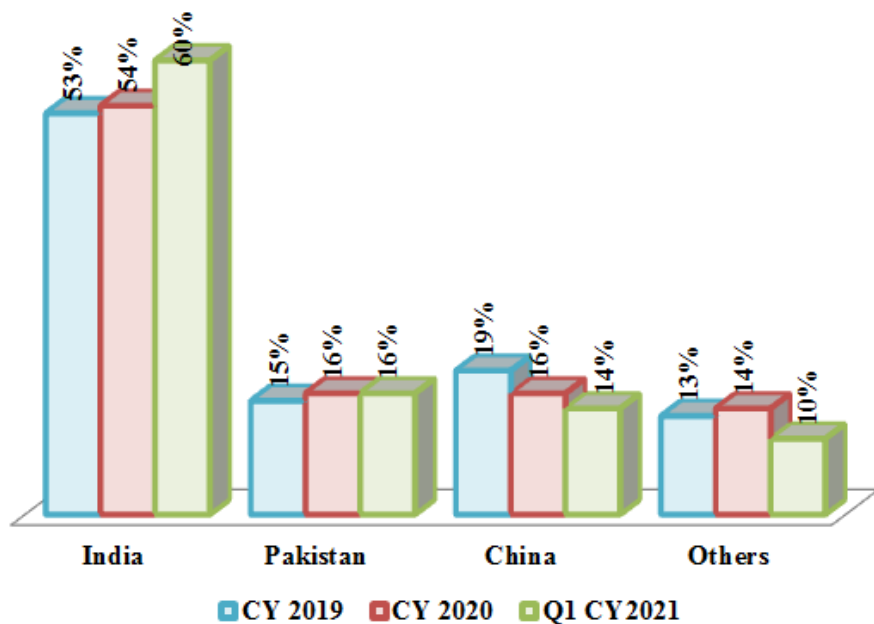
The US banned import of products from Xinjiang region in China.

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.

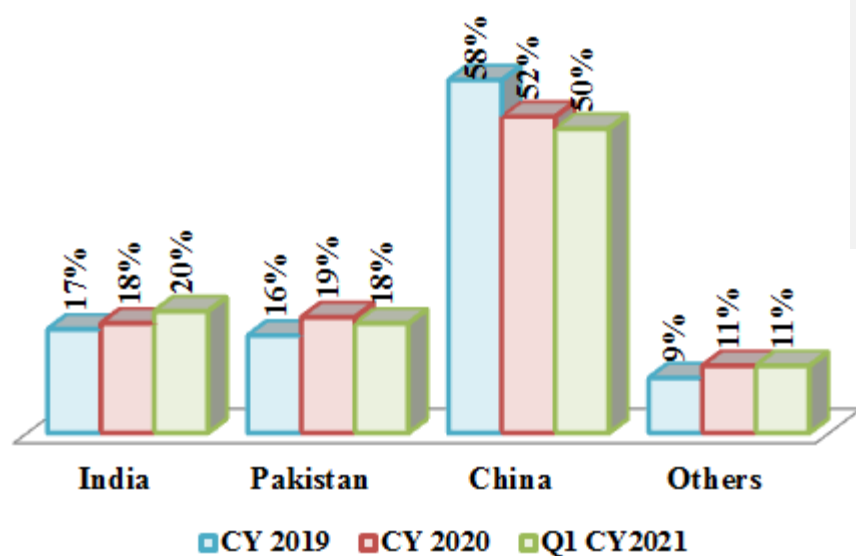
The decline in China's market share is a gain in India's market share

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.

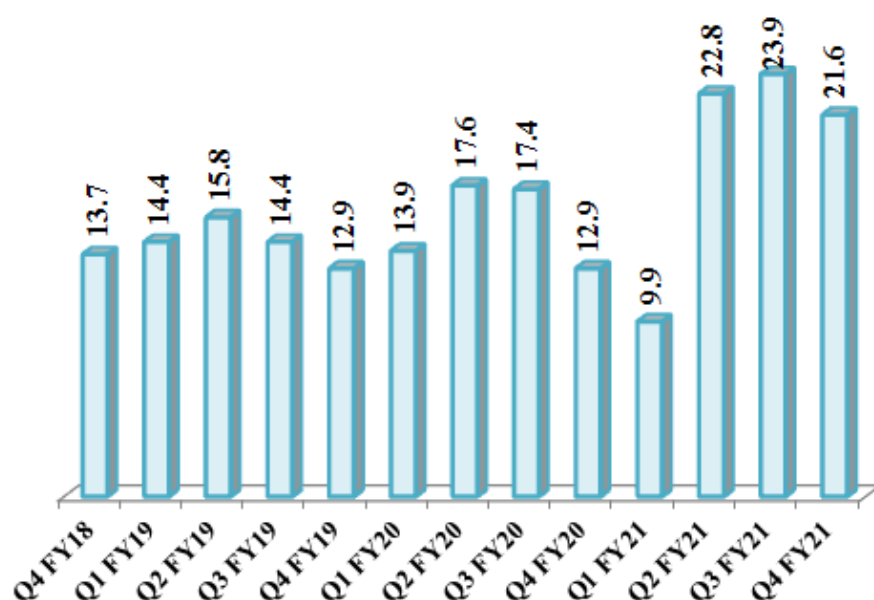
Global Competitiveness

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)



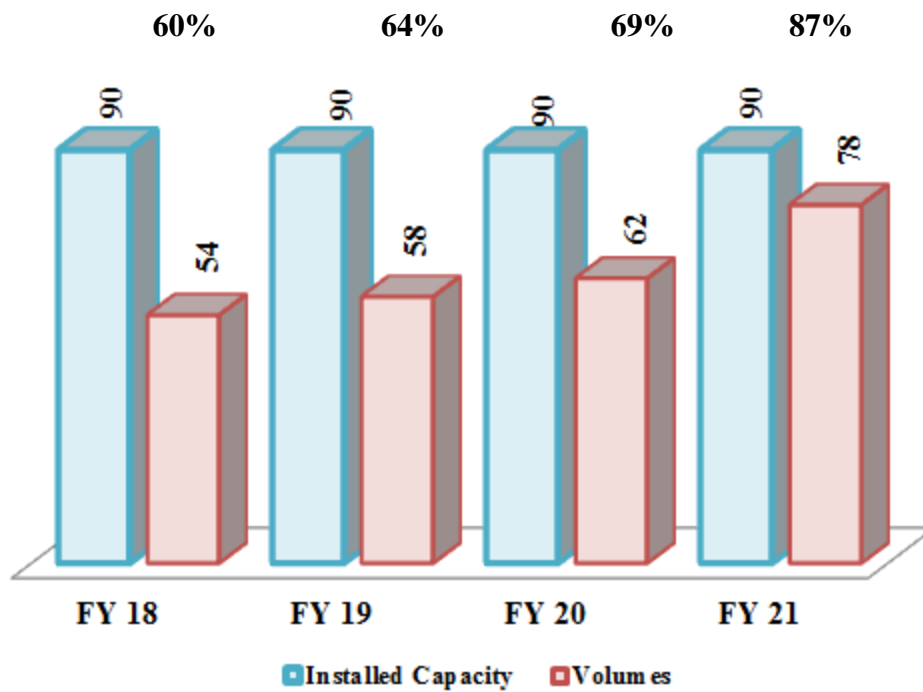
iii. China +1 strategy to spur growth

- 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

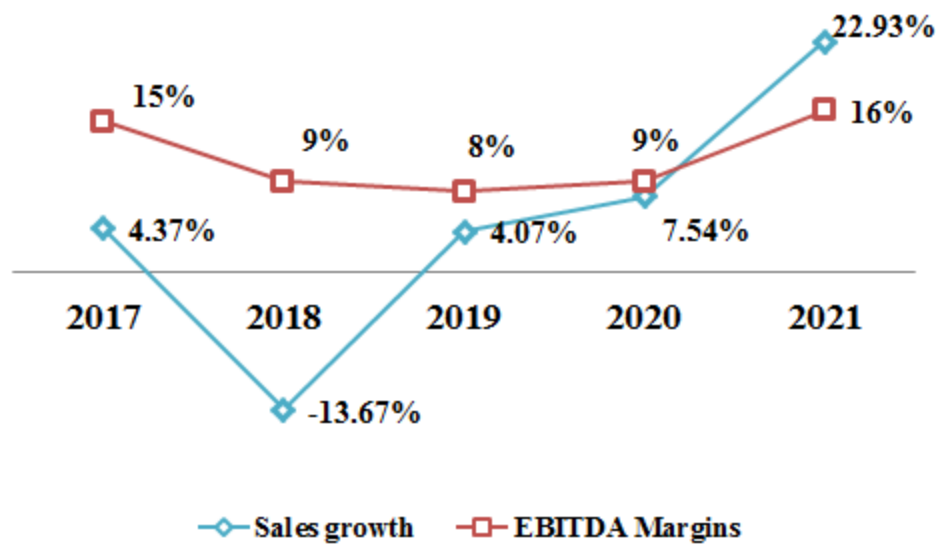
iv. Capex plans to further spur growth

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%

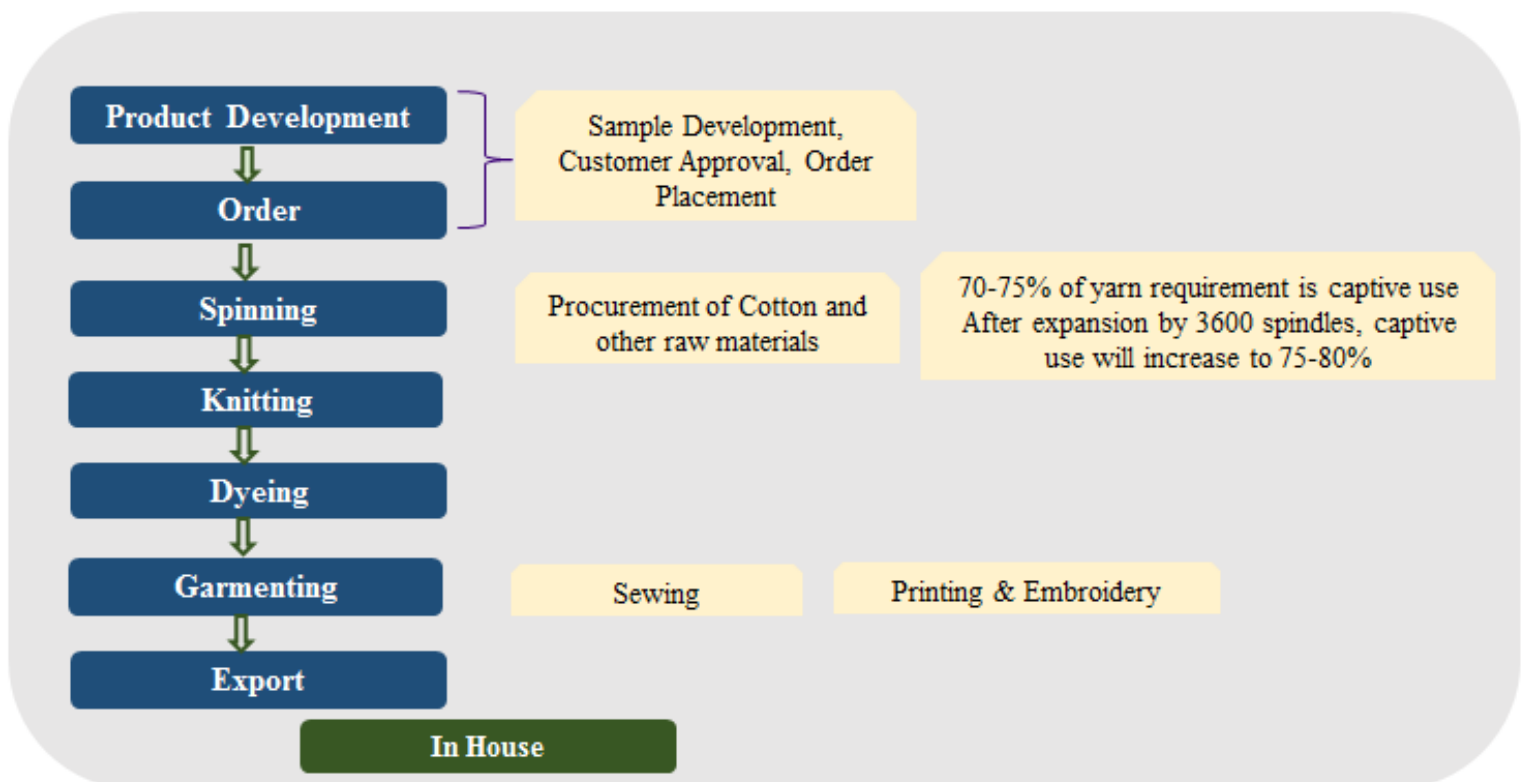
Revenue Break-Up

Garment- 85%

SPUK- 6.1%

Retail - 9%

Integrated Business Model



Industry Business Model: Brands Procurement Strategy

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 States¹.

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.



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.

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 that 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 50-60% 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).

Total Capacity is 5100 sewing machines

In Q1 FY22, the company operated at 50% capacity utilization due to COVID shutdown of factories. The peak revenue in the garment business with the current capacity can be around Rs. 1000 crores. The company has outstanding order book of Rs. 335 crores as per Q1 FY22 concall.

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

The company is expanding 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. Opportunities: Changes in the supply chain after the crisis

▪ **Decentralisation and Consolidation**

The management has guided that there is huge consolidation in the supplier base going on in the market after the pandemic. Our various discussions with industry people also say that after the pandemic there is a structural change visible in the industry working. Decentralization as a theme is playing out in the industry after the crisis. China +1 strategy is not just confined to China but is used in various other strategies. Buyers are not keeping it set to one place region wise. No one country in the company's sourcing list will occupy a larger share. For instance, for an apparel sourcing company, Bangladesh was a major supplier but now they will source from other countries like India too.

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 large players in the industry.

ix. 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.

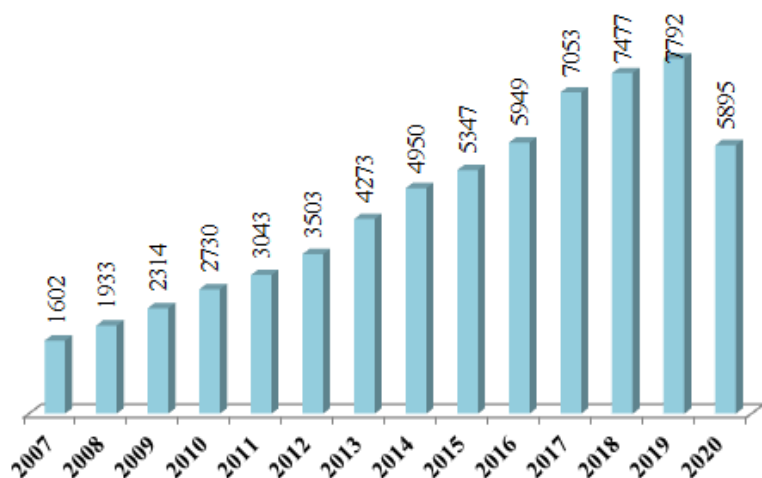
x. Extension of export incentive duty would add to margins

The government has extended the continuation of RoSCTL with the same rates till March 24. This would add to the margins. The maximum rate of rebate for apparel is 6.05%.

xi. Established Customer Base

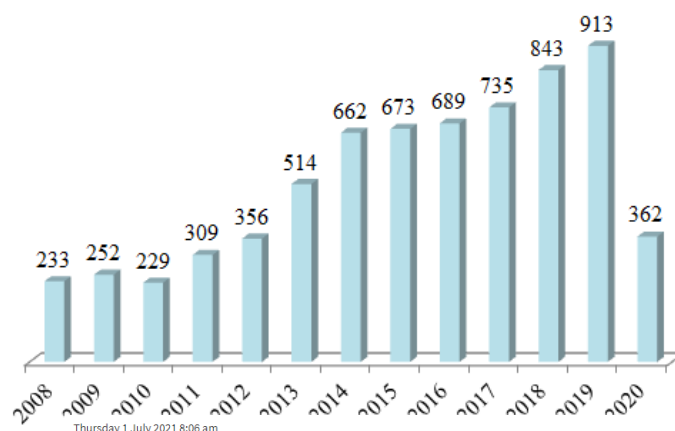
- **Primark** is one of the major customers.

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



Source: Statista.co, Niveshaay Research

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



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”.

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

▪ Carters Inc

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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.

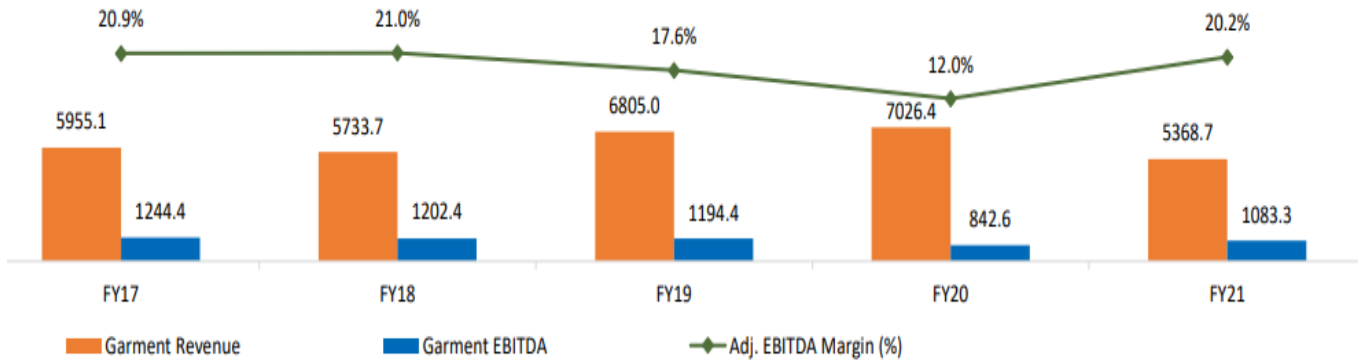
Rs. in crores		Export Turnover (2018)	Export Turnover (2013)
	Eastman Exports Global Clothing	1600	930.67

3. Jay Jay Mills Ltd. (Private Company)

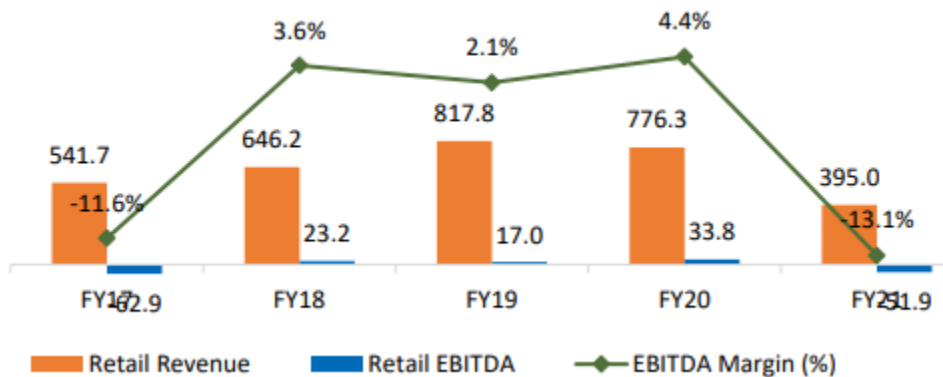
- Established in Tripura (manufacturer of cotton knitwear)
- Apparels and home products for infants, toddlers
- Caters to US and EU brands
- Facilities in India, Sri Lanka, Bangladesh and Ethiopia

Financials

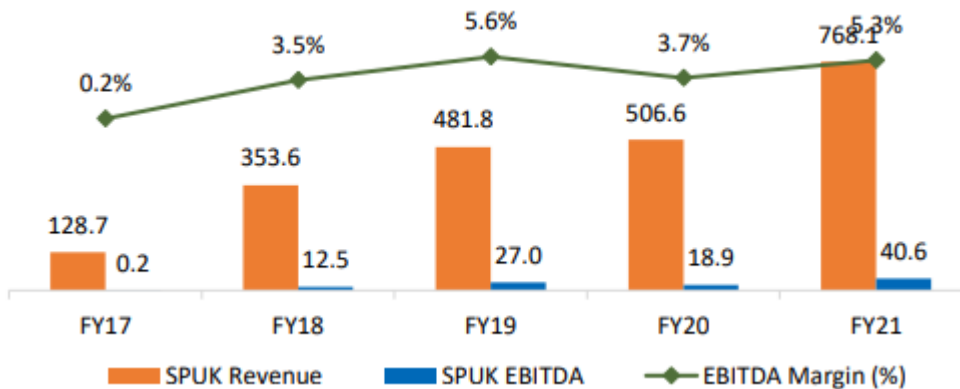
Garment Division



Retail Division



SPUK Division



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

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

Valuation					
Rs. In crores	2017	2018	2019	2020	2021
EV/EBITDA (x)	12.24	9.75	7.10	4.04	5.19
FCFF	-4.53	-20.45	-0.04	55.24	46.19
ROCE	19.61%	17.64%	20.29%	8.75%	11.08%
P/E	20.28	17.42	10.85	3.40	9.11

Overall, we maintain positive outlook on all four companies discussed above.

Outlook Interpretation –

Positive – Expected Return of 12%+ on annualized basis in the long term

Neutral – Expected return in the range of +/- 12%

Negative – Expected return in negative

Disclaimer:

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