Textile Day

15 December 2024

Demand revival on the horizon

CONFERENCE TAKEAWAYS

Industry	Textiles

Conference companies

	CMP (Rs)	Mkt Cap (Rs bn)
Arvind Ltd.	419	109.7
Brandix	*	*
Filatex India Ltd.	67	29.8
GHCL Textiles Ltd.	111	10.6
Indo Count Industries Ltd.	399	79.1
PDS Ltd.	611	86.1
The Yarn Bazaar	*	*
Welspun Living Ltd.	175	170.7

Source: Systematix Institutional Research
**Unlisted*

We hosted representatives from eight companies and one industry expert at our insightful Textile conference. Companies' optimism on the demand environment could be attributed to a) normalization of apparel channel inventory at the global retailer level, b) increased traction in the home textiles segment, c) stable commodity prices, and d) Bangladesh +1 - shift in orders from Bangladesh to India, given the ongoing political turmoil there. Demand revival at key textile hubs of Tirupur and Surat has led to capacity utilization increasing to more than 90%. Order visibility has soared, evident from the companies' robust bookings for the next two quarters. The government is likely to resume discussions on Free Trade Agreement (FTA) with the UK in the coming new year. We believe FY26 could be robust for India's textile sector. Companies that have expanded capacities in last 12 months or committed to expansion capex would benefit from the surge in demand from Bangladesh +1 strategy. We maintain our positive stance on the sector.

India's Textile and Apparel (T&A) industry to clock ~9% CAGR over FY23-30E: India's T&A industry is projected to grow at 9% CAGR from USD 197bn in FY23 to USD 350bn by FY30E according to Invest India. T&A exports too could report a healthy 16% CAGR from USD 35bn in FY24 to USD 100bn by FY30E. To achieve these ambitious targets, the government is focusing on its '5% of the Fs' strategy—Farmer, Fiber, Fabric, Fashion, and Foreign Markets.

Cotton prices may remain stable in the near term: With the acreage under cotton cultivation this year lower than that in the previous year, overall supply may get affected. However, cotton prices are not hugely influenced by Minimum Support Price (MSP), as MSP-driven cotton purchases account for mere ~10% of total cotton sales in India. Unless demand soars, cotton prices may remain stable near term.

China +1 never picked up, Bangladesh +1 looks more realistic: India's textile industry failed to benefit from China +1 strategy, as India's limited infrastructure forced large global brands to divert orders to countries like Vietnam and Bangladesh. However, the recent political turmoil in Bangladesh has forced big brands to align their supply chains away from Bangladesh. With India's political regime much more stable, big brands are looking to divert orders to India from Bangladesh. A key challenge that India faces is the preferential tariff advantage Bangladesh enjoys (e.g. 16-28% duty waiver in EU markets) which gives it a huge price gain over India.

Factors that could render India competitive in the global markets: India's large and expanding domestic market offers huge scale and demand advantages, while a robust pool of skilled workers supports industry growth. Government initiatives, such as the PLI scheme, provide vital support to the textile and apparel sector. Plus, India is making big investments in developing infrastructure, including transportation network, logistics, and utilities, to enhance efficiency. It is also focusing on sustainability and compliance with industry adopting international labour standards.

Sustainability - a central focus in the fashion industry: Major fast-fashion brands like H&M and Zara are increasingly launching collections centered around eco-friendly practices. While cotton, as a fiber, is facing stagnant consumption due to the impact it has on the environment polyester, which currently accounts for 53% of global fiber consumption, is gaining traction, as major brands such as Nike and Adidas commit to making all of the polyester in their products recyclable and sustainable by 2030, with plans to entirely phase out virgin polyester.

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Expert Session on Textile Sector

Demand revival to spur growth in the sector

CONFERENCE TAKEAWAYS

Industry	Textiles

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We hosted Mr. Amit Jain at our Textiles Expert Session. Mr. Jain is a transformative leader with over 35 years of experience in the home textiles and fashion industries. He founded 'a&m Consulting' in 2017, which specializes in sourcing, branding, and marketing products in the home textiles segment, helping brands like Doctor Towels, Pernia's Pop-Up Studio, and Fashinza to elevate their market presence, profitability and product innovation. Currently, he shares his insights as a lecturer in 'Textile Product Management' at IIT Delhi, towards shaping the next generation of textile leaders. Previously, Mr. Jain led the growth in towels and blankets at Bombay Dyeing and held key roles at Welspun and OBEETEE, driving excellence across multiple sectors of the textile industry.

Global and Indian cotton-yarn industry overview: The global cotton yarn market is slated to post ~4% CAGR from USD 86.11bn in 2024 to USD 117.79 bn by 2032 (according to Fortune Business Insights). The demand for cotton yarn is expected to rise by 12-14% in volume terms in India. Typically, India exports 25-35% of its cotton yarn production and consumes the remaining domestically. Even though India cultivates ~39% of the world's cotton area, with ~31.9mn hectares of land under cotton production, the country lags in yield and ranks 33rd globally, producing 441 kg/hectare of cotton. This is far lower than the global average of 769 kg/hectare and lags leading producers such as China (1,950 kg/ha) and Brazil (1,845 kg/ha). China aces globally in cotton production at ~5.6mn tonnes, with India at a close ~5.5mn tonnes. Together, China and India are the world's largest cotton consumers at ~7.8mn tonnes and ~5.39mn tonnes, respectively. India's cotton to non-cotton fiber mix stands at 60:40, compared with rest of the world at 30:70; this highlights huge growth potential in the non-cotton fibre space. US and Brazil lead cotton exports at ~2.68mn tonnes and ~2.48mn tonnes, respectively. China and Bangladesh are the largest buyers of cotton at ~2.4mn tonnes and ~1.71mn tonnes, respectively.

A pick-up in demand could boost cotton prices, which may otherwise remain stable in the near term: Mr. Jain believes that in the absence of substantial and sustained increase in demand, prices of cotton fiber may not rise significantly. While specific markets such as Surat and Tirupur are showing positive signs, the broader market across India seems subdued, with the overall demand still falling short of expectations.

Growing demand for yarn and value-added products (VAP): India's cotton yarn exports saw remarkable 83% increase in FY24, with the share of yarn exports rising from 19% of total production in FY23 to 32% currently. This growth was primarily driven by rising demand from China, which is facing allegations of forced labour in Xinjiang cotton production. Together, Bangladesh, China, and Vietnam account for 60% of India's cotton yarn exports. Positive signals are emerging from key textile hubs in India, with Tirupur operating at ~95% installed capacity, indicating strong market demand. Surat is also experiencing a notable increase in inquiries from Bangladesh for ready-to-wear garments, with the garment sector expected to grow at 20-25% annually. Mr. Jain noted that in addition to the growing export demand for raw cotton yarn, there is a notable shift towards high-value exports, with the demand for VAP rising. This signals a transformation towards value-driven offerings in the Indian textile sector.

Growing demand for knitted products globally underscores the need for additional knitting hubs in India: Growing global demand for knitted products highlights the urgent need for adding knitting hubs in India. While Bangladesh has long been a dominant player in the global knitting market, India's knitting industry remains concentrated in few key regions, primarily Tirupur (Tamil Nadu) and Ludhiana (Punjab). Mr. Jain emphasised that, although these hubs are thriving, the establishment of more knitting hubs is critical for India to fully capitalize on the expanding global demand for knitted products. Knitting is the fastest-growing segment in the textile industry that has the advantage of setting up operational factories within five to six months. Woven, on the other hand, requires a much larger infrastructure and longer time to set up. Mr. Jain believes that until India develops around 10 more hubs like Tirupur, its potential to emerge as a global leader in the knitting market could stay limited.

India dominates the US home textiles market: India is home to some of the world's largest manufacturers of bedding and terry towels, capturing ~52% of the total US home textiles market. During YTD 2024, India held a dominant share in the US imports of cotton sheets and terry towels at 61% and 43%, respectively. Over the past three decades, India has successfully leveraged its strong position in the US market, with MSMEs carving out a niche alongside larger players. Major companies like Welspun Living and Trident are expanding their capacities and solidifying their market dominance, with Trident also making significant investments in the PLI scheme. Additionally, companies such as Indo Count are moving up the value chain by acquiring established brands in the US, signalling a shift towards higher-value segments in the home textiles space. These strategic developments highlight the sector's positive growth trajectory.

Bangladesh opportunity: Bangladesh has become a dominant force in the knitting and garment sectors, while Indian policymakers have been slower at recognising the full potential of the knitting industry, which has led to the country's limited infrastructure in this space. Currently, India has only two major knitting hubs, with Tirupur as a standout example. In contrast, Bangladesh has significant advantages, especially in the leisurewear and sportswear categories, areas where India still lags. The global demand for knitted garments, particularly in these segments, presents a missed opportunity for India. One of India's key challenges in competing with Bangladesh is the preferential tariff advantage that Bangladesh enjoys (eg., 16-28% duty waiver in the EU market), which gives provides it with a significant price competitiveness that India struggles to match in certain key markets. To address this, India needs policy adjustments, preferential tariff structures, and strategic investments. Mr. Jain expects India's textile exports to expand at 2% by the end of 2024, driven by Bangladesh +1.

Nearshoring trend is rapidly gaining momentum in the western markets, driven by the need for faster delivery times and sustainability goals: Countries in proximity to the West, including those in the USSR, the Czech Republic, Turkey, and North American partners like Mexico and Canada (which benefit from zero-duty trade agreements under The United States Mexico Canada Agreement) are becoming preferred sourcing destinations for US buyers. US aims to source 70% of its imports from near-shore locations, capitalising on the advantages of faster delivery and better inventory management. Mr. Jain noted that nearshoring is likely to have a significant impact on the garment sector, where the final stages of production require 15-20% value addition. However, certain high-value products, such as 100% cotton bed sheets with 180-200 thread counts, remain cost-competitive for India. These products require specialised manufacturing expertise and economies of scale, which near-shore countries are unlikely to replicate quickly due to infrastructure and cost challenges. This gives India a strong competitive edge in these segments. Despite the increase in near-shoring, India's textile exports to Europe grew by ~6% YoY from April-October 2024, demonstrating India's resilience in the global textile market.

US plans to replace 70% of its Chinese imports: Mr. Jain highlighted that as part of the growing China+1 strategy, US aims to reduce its dependency on China by sourcing at least 70% of its imports from four key Asian countries—Bangladesh, Vietnam, Cambodia, and India. This shift presents significant growth opportunity for India, particularly in the textile and apparel sectors, as US looks to diversify its supply chain and reduce reliance on Chinese imports.

Europe opportunity: Europe's fashion-driven market presents significant opportunities for India's MSME players, given the efficacies of these smaller enterprises in meeting demand and capitalising on Europe's preference for customised, trend-focused products.

Infrastructure gaps, regulatory issues, high labour costs, and limited access to affordable polyester challenge India's global competitiveness: Mr. Jain indicated that while India's infrastructure still lags that of key competitors, impacting efficiency and export timelines, albeit improvements are underway. He further stated that India needs to refine its compliance and regulatory framework to attract foreign investments and buyers. Labour costs are relatively high, and there is a pressing need to improve labour productivity to stay competitive in the global markets. Another key challenge is the lack of access to polyester at global price points, which hinders India's ability to compete in a market where polyester accounts for 53% of global fiber consumption.

Arvind

Strong growth envisaged for garments and AMD

CONFERENCE TAKEAWAYS	
Sector: Textile	Rating: NR
CMP: Rs 419	Target Price: NA

Stock Info	
Sensex/Nifty	82,133/24,768
Bloomberg	ARVND IN
Equity shares (mn)	261.6
52-wk High/Low	446/223
Face value	Rs 10
M-Cap	Rs 112bn/ USD 1.3bn

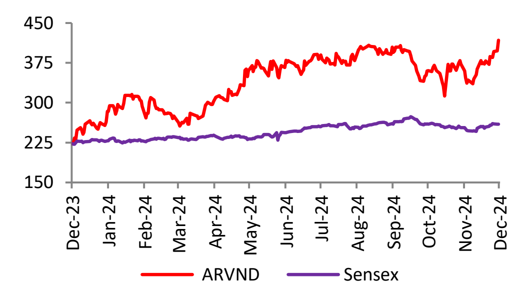
Financial Snapshot (Rs mn)

Y/E Mar	FY22	FY23	FY24
Sales	80,099	83,825	77,378
EBITDA	8,077	8,000	8,452
PAT (adj.)	2,474	3,458	3,342
EPS (Rs)	9.5	13.2	12.8
PE (x)	12.2	6.5	21.2
EV/EBITDA (x)	6.0	4.7	10.1
RoCE (%)	12.0	11.7	12.1
RoE (%)	8.7	11.0	9.7

Shareholding Pattern (%)

	Sep'24	Jun'24	Mar'24
Promoter	39.6	39.6	41.1
- Pledged	7.24	7.24	6.97
FII	18.3	17.5	15.2
DII	17.2	16.3	14.8
Others	24.9	26.5	28.9

Stock Performance (1-year)



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We hosted Mr. Satya Prakash Mishra, General Manager, Finance and Head Investor Relations, and Mr. Nikesh Mahto, Sr. Manager, Strategy, Arvind Ltd (ARVND, NOT RATED), at our Textiles conference. ARVND is one of the leading vertically integrated textile companies in India, headquartered in Ahmedabad, Gujarat. The company has over 8 decades of experience in the textile industry. It is among the largest denim manufacturers in the world and a groundbreaker in advanced materials, having also established itself as a leader in the Technical Textiles segment. The company offers an extensive range of solutions in the areas of textiles, garmenting, advanced materials, waste-water treatment plants, environmental, telecom and omni-channel commerce. With a network of 12 manufacturing facilities, Arvind produces and sells more than 50mn mtrs of denim, 200+mn mtrs of woven fabrics, 74+mn pieces of garments annually, and produces 12,000+ tonnes of knits/year. The stock currently trades at 19x FY26E Bloomberg consensus EPS.

Key takeaways from the conference:

- **Bangladesh issues and international competition:** The Bangladesh turmoil is leading clients to scout for alternative vendor solutions and Vietnam is one such option apart from India, where workers productivity is better than those in India. Bangladesh's RMG market is pegged at USD 40-50bn, and since Vietnam lacks the capacity to fully meet this demand, a portion of it is expected to be shifted to India. Arvind is at par with Bangladesh on the cost front (barring duty-free access to the EU), given that the arbitrage Bangladesh enjoyed has now reduced due to the surging labour costs there. However, the company is addressing the competitive challenges it faces with Vietnam on the efficiency front. The company has invested Rs 500-600mn in Bengaluru to automate processes (such as single stitch operations).

- **Garments business:** The company expects to cross 10mn pieces in garments in 3QFY25. Currently it is focused on men's garments and plans to expand into the kids and women segments. Although women's wear attracts high margins, the category is capital-intensive and requires robust inventory. The company's capacity expansion in Varanasi of 10mn pieces is expected to go live in 3-4 months. Management expects to achieve realisation of Rs 200 per mtr in denim and USD 6-7 for 1.1 mtr in garment fabric, and projects 25% CAGR in the garments business over the next 3 years.

- **Advanced materials division (AMD):** The company is targeting ~20% volume and value growth in the AMD business, to be primarily driven by market share gains and new product development. Management plans to increase AMD revenue from ~Rs 15bn in FY24 to ~Rs 30bn over the next 3 years and scale it to Rs 50bn in 5 years. AMD currently has a portfolio of 20 products, which should enable it to achieve its targeted topline of Rs 30bn; however, the management will need to add new products to expand its topline to Rs 50bn. New product development takes 12-18 months, including all vendor and factory approvals. The AMD category currently generates has Rs 1bn from the defense business, which management expects would see rapid growth.

- **Aspiring for 12-13% margin:** Arvind's margins currently hover at high single digit. Management aspires to achieve 12-13% margins over the next 18 months by

Investors are advised to refer disclosures made at the end of the research report.

diversifying into women and kids wear, increase operational efficiency through automation and capacity expansion. The company also plans to increase its contractual workforce, which could have a positive impact on its margins.

- **Cost structure: Raw material -** 45-50%, **labor and overheads -** 25-30%. Fiber costs are passed through to the customer.
- **Cotton prices to remain stable:** Management expects cotton prices to remain stable as the government has increased MSP and imposed restrictions on cotton imports from China. Management expects prices to rule at Rs 55,000-60,000 per candy.
- **Capex of Rs4bn lined up for FY25:** The company incurred a capex of Rs 1.67bn till 1HFY25 and has a full-year target of Rs 4bn. Of this, 40% is allocated for advanced materials, 35% for garment and 25% for maintenance capex. Post the new capacity addition, the company expects to incur cash burn for 6-9 months due to labour training and associated costs.
- **Customer concentration:** In FY24, the company derived ~33% revenue from its top 10 customers and intends to increase its wallet share from these customers. The company prioritizes long-term customers like Levi's, which accounts for ~40% of their India volumes, over short-term profitable opportunities. New customer additions include Hugo Boss, American Eagle, and JQ.
- **Other updates:** Arvind hopes to garner Rs 500-600mn worth of business from the railways in FY25 (Vande Bharat and metro trains), with plans to scale this to Rs 2 bn in the future, supported by its current capacity. Its wind blades segment has generated revenue of Rs 1.25bn, and the company plans to double capacity in this business from 12,000 MT to 24,000 MT.
- **ESG and sustainability:** Arvind is committed to sustainability, with 45% of its energy sourced from renewable sources, aiming to increase this to 85-90% by FY26. It is sourcing zero freshwater in most of its large facilities and plans to become coal free by next year.

Brandix Apparel (Unlisted)

A prominent player in the global apparel industry

CONFERENCE TAKEAWAYS

Sector: Textile	**Rating: NR**
CMP: NA	**Target Price: NA**

We hosted Mr. Hasitha Premaratne, Managing Director, Brandix Group at our Textiles conference. Brandix Apparel Ltd is a leading apparel manufacturer headquartered in Colombo, Sri Lanka and has grown to become one of the country's largest apparel exporters. Brandix is a 100% subsidiary of Brandix Lanka Limited and primarily covers their operations in Sri Lanka. With a strong focus on design, manufacturing, and distribution, Brandix specializes in a diverse range of garment products that include casual wear, intimate wear, activewear and sleep & loungewear for global customers such as Uniqlo, GAP, Calvin Klein, Tommy Hilfiger, Marks & Spencer, Victoria's Secret and PVH, among others. Over the years, the company has earned a reputation for quality, innovation and sustainability across its processes, making it a prominent player in the global apparel industry.

Key takeaways from the conference

- Brandix is a USD 1bn apparel company headquartered in Sri Lanka, where it carries out most of its product development, design, innovation, sales, and marketing functions. Additionally, it has offices in New York, UK, Hong Kong, and Singapore. Its manufacturing operations are distributed across Sri Lanka, India, Bangladesh, Haiti, and Cambodia. It also entered into manufacturing partnerships in Mexico and Indonesia.
- **An overview of manufacturing distribution:** Brandix group conducts 50-55% of its manufacturing activities in Sri Lanka, 27% in India, 10% in Bangladesh, and the balance at other manufacturing locations (Haiti and Cambodia)
- **Into bespoke tailoring:** The company's manufacturing processes extend beyond traditional tailoring to focus on developing specialized products tailored to customer needs. It accomplishes this through dedicated innovation and product development centres. Also, majority of its in-house design team possesses extensive experience in understanding consumer trends in the Western markets.
- **Strong order book:** The company has a robust order book for the next 3-6 months in volume terms. However, to stay profitable, it intends to focus on developing an efficient and sustainable cost structure. In its next financial year, the company targets an annual revenue growth rate of ~10%.
- **Sri Lanka revenue:** With its operations primarily located in Sri Lanka, the company has the potential to generate ~USD 600mn revenue from this geography.
- **Visakhapatnam (Vizag, India) capacity:** The company established its 1,000-acres SEZ facility (vertically integrated) in Vizag in 2006. It employes about 20,000 people, of which, 80-85% are women. The facility has generated exports of ~USD 350mn.
- **Capacity expansion plans:** The company plans to prioritize its Bangladesh operations, as its capacities there are currently underutilized. It plans to undertake capex to enhance its operations in Vizag. Furthermore, it intends to expand capacities in Mexico and Indonesia, in response to customer requirements. The company may also explore entry into the Egyptian market over the long term, as it is becoming a prominent destination for textile sourcing.

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- **Solar power capacity:** The company has self-sufficient solar power generation capacity of 19MW in Sri Lanka and a comparatively small capacity of 2.5MW in India.

- **Favorable labour costs:** The apparel manufacturing industry in general is plagued by high labour costs, which constitutes ~60% of the total manufacturing cost (excluding raw material), as per management. However, Brandix enjoys favorable labour costs in regions where it has a manufacturing base; for instance, wages in Sri Lanka range between USD 180-250/head/month, while those in Bangladesh ruling at ~USD 200/head/month and Visakhapatnam, India, at ~USD 220/head/month. As against this, China, which 25 years ago boasted of the lowest labour cost, today pays the highest in the industry, averaging ~USD 1,200/head/month. Vietnam too has high labour cost, which hovers at USD 500/head/month.

- **Productivity across manufacturing locations:** The company's Bangladesh facility operates for nearly 60 hours/week, whereas those in India and Sri Lanka operate at less than 60 hours/week. This explains the comparatively 10-15% lower productivity at its facilities in India and Sri Lanka, compared to the one in Bangladesh.

- **India and Sri Lanka to benefit from China+1 and Bangladesh+1 strategies:** Management explained that Vietnam has largely gained from China+1 strategy, given its geographical proximity to China and similarities in the cultural context. Similarly, Bangladesh too is benefiting from this strategy, particularly in light of its duty-free access to the UK and European markets. Management believes China may see gradual reduction in its share of global trade, as China+1 strategy continues to evolve. Compared to Vietnam, it believes India and Sri Lanka stand to gain immensely from the China+1 and Bangladesh+1 strategies, given India's scalable infrastructure capabilities and favorable labour costs. However, management is of the view that India must enhance its productivity (targeting ~60 working hours/week), optimize its cost structure and advance automation to stay competitive in the long-term.

Filatex India

Demand to drive volumes and margins

CONFERENCE TAKEAWAYS

Sector: Textile	**Rating: NR**
CMP: Rs 67	**Target Price: NA**

Stock Info

Sensex/Nifty	82,133/24,768
Bloomberg	FLTX IN
Equity shares (mn)	444
52-wk High/Low	78/45
Face value	Rs 1
M-Cap	Rs 31bn/ USD 0.4bn

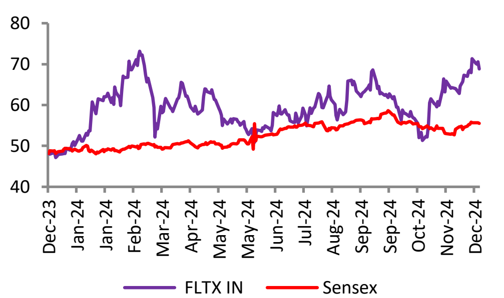
Financial Snapshot (Rs mn)

Y/E Mar	FY22	FY23	FY24
Sales	38,281	43,039	42,859
EBITDA	5,311	2,320	2,392
PAT (adj.)	3,027	899	1,107
EPS (Rs)	6.7	2.0	2.5
PE (x)	18.7	15.9	23.5
EV/EBITDA (x)	6.0	7.0	11.4
RoCE (%)	31.1	11.8	11.3
RoE (%)	32.8	8.2	9.6

Shareholding Pattern (%)

	Sep'24	Jun'24	Mar'24
Promoter	64.8	64.8	64.8
- Pledged			
FII	5.2	5.2	5.9
DII	2.3	2.3	2.3
Others	27.7	27.7	27.0

Stock Performance (1-year)



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We hosted Mr. Nitin Agarwal (CFO), Ms. Stuti Bhageria (SVP, Corporate Strategy) and Mr. Vedansh Bhageria (VP, Corporate Strategy) of Filatex India Ltd (FLTX: NOT RATED) at our Textiles Conference. FLTX is India's 4th-largest manufacturer of polyester filament yarn, having been in the textiles business for more than 30 years. The company forayed into monofilament yarn manufacturing in 1994 by setting up limited capacity of 500 TPA (tonnes per annum), which the company significantly expanded to ~401,040 TPA, manufacturing a wide range of products, including polyester and polypropylene multifilament yarn, polyester chips, narrow woven fabrics, and various specialty products such as filigree, ocean, chubby yarn, etc., all of which are manufactured at its two state-of-the-art facilities. The company operates in over 45 countries across five continents. In line with its commitment to sustainability, FLTX is currently in advanced stages of discussions with equipment suppliers to set up a new facility to produce recycling chips of ~26,250 TPA capacity. The stock trades at 27.2 TTM P/E.

Key takeaways from the conference:

- **MMF holds substantial potential in India:** Compared to conventional cotton, polyester fiber shows reduced environmental impact, necessitates fewer resources, and has greater durability from a lifecycle perspective. Management believes synthetic fibers have contributed ~95% growth to global fiber production in the last 15 years. With India's man-made fiber (MMF) consumption at 56%, much lower than the global average of 69% in developed countries, MMF holds huge consumption potential in India.
- **Implementation of QCO (quality control order) reduces imports from China:** China's zero-COVID policy in FY23 significantly impacted its domestic consumption, resulting in Chinese companies dumping polyester yarn at cheaper rates in India. To restrict the same and establish quality standards, Indian Government implemented QCO on polyester yarn effective 5 October 2023, mainly for fully drawn yarn (FDY) and partially oriented yarn (POY), after multiple extensions. This move resulted in polyester yarn imports declining by nearly 60% YoY in November 2023.
- **Polyester yarn capacity:** While China has polyester yarn manufacturing capacity of ~32mn TPA, India's stands at ~5mn TPA. With a capacity of ~401,040 TPA, FLTX enjoys ~7-8% market share.
- **Dealer-distribution model:** The company operates on a dealer-distribution model and does not have any long-term contracts.
- **Ecosis technology - Pioneering the circular textile recycling solution:** FLTX is the only company in India that pioneers textile-to-textile recycling through its initiative, **Ecosis**, which helps transforms used textiles into new materials. Following extensive research and successful laboratory trials, the company established a 1.5 tonnes/day pilot plant in 2022. FLTX plans to develop facilities to produce recycling chips and is targeting a capacity of 26,250 TPA at a capex of Rs 3-3.5bn. It expects to commission this capacity by mid-July 2026. The company expects to generate Rs 2.5-3bn revenue from this investment, and projects 30%-40% EBITDA margin, significantly higher than the industry average of 6%-12% (commodity polyester yarn).

- **EBITDA margin guidance:** Management anticipates an overall EBITDA margin of 7-8% for 3QFY25 and 8-9% for 2HFY25. For FY25, it expects margins to hover at 6.5% and improve to 8-10% in FY26. The company aims to achieve a sustainable margin of 10-12% over 2-3 years.
- **Sales volume guidance:** Management indicated ~2.5% YoY volume growth for FY25, to be largely driven by the cationic chips line. The company recorded 401,052 tonnes of sales volume in FY24 and 192,217 tonnes in 1HFY25.
- **Raw material sourcing:** FLTX imports 40% of its raw materials and the balance from domestic markets (Reliance and IOCL).
- **Renewable power:** 30% of the power cost at the Dahej unit comes from renewable sources.
- **Improving demand:** Management is optimistic about demand recovery in the polyester industry, as a) the consumption of polyester is rising with changing lifestyles, b) China+1 is playing out, c) cheaper imports from China are reducing, and d) no new capex is coming up in China. Recyclable polyester is gaining traction, as major brands such as Nike and Adidas have committed to making all polyester in their products recyclable and sustainable by 2030, with plans to entirely phase out virgin polyester. These sustainability shifts are being driven by brands, highlighting the growing role of brand-led recyclable polyester initiatives.
- **Textured polyester yarn:** Management believes textured Polyester yarn (labour-intensive segment) holds huge growth potential and India has huge labour cost advantage compared to China (~USD 1,200/head/month), as labour in India is much cheaper (~USD 200/head/month). Polyester drawn textured yarn (DTY) constitutes ~39% (largest) of FLTX's total product portfolio.

GHCL Textiles

Capex to drive growth

CONFERENCE TAKEAWAYS

Sector: Textile	**Rating: NR**
CMP: Rs 111	**Target Price: NA**

Stock Info

Sensex/Nifty	82,133/24,768
Bloomberg	GHCLTEXT IN
Equity shares (mn)	191
52-wk High/Low	123/68
Face value	Rs 2
M-Cap	Rs 10.4bn/ USD 0.12bn

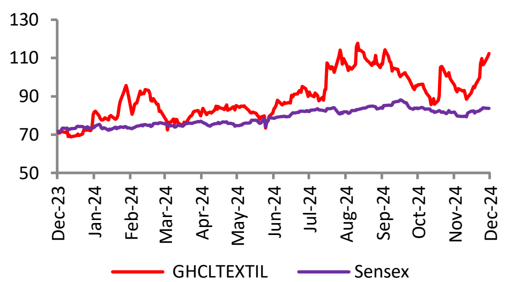
Financial Snapshot (Rs mn)

Y/E Mar	FY24
Sales	10,539
EBITDA	836
PAT (adj.)	231
EPS (Rs)	2.6
PE (x)	28.8
EV/EBITDA (x)	8.7
RoCE (%)	2.7
RoE (%)	1.8

Shareholding Pattern (%)

	Sep'24	Jun'24	Mar'24
Promoter	19.2	19.2	19.2
- Pledged	1.09	1.09	1.09
FII	16.0	15.7	15.8
DII	6.2	6.4	6.0
Others	58.7	58.8	59.0

Stock Performance (1-year)



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We hosted Mr. Manu Jain, General Manager F&A, GHCL Textiles (GHCL: NOT RATED) at our Textiles conference. GHCL was originally a soda ash manufacturer but has a long-standing (40+ years) and successful spinning business, which has grown from 65,000 to 225,000 spindles. The company recently demerged (2.5 years ago) its home textiles business and sold it to Indo Count Industries; GHCL Textiles is now a separate listed entity (FY24 being its first-year post-demerger). The stock currently trades at 22x TTM P/E.

Key takeaways from the conference:

- **Capacity and expansion: Current capacity:** 225,000 spindles. **Near-term:** Adding 25,000 spindles by June 2025 at a capex of Rs 2.15bn. **Long-term:** Expanding to 270,000 spindles by FY30, part of its 40,000-spindle addition plan, of which the company has already spent Rs 3.5bn.
- **Financials:** The company is currently debt free but estimates Rs 6-6.5bn of gross debt by FY28 based on its planned expansion (1:1 debt-to-equity ratio for Rs 10bn capex). **EBITDA Margin:** Historically ~15%, projected to improve to ~18% post forward integration. **Revenue CAGR:** 14% and **EBITDA CAGR:** 30%.
- **Strategic initiatives:** Forward integration into knitting, weaving, and processing with capex expected to be completed by FY28. **High-capacity utilization:** ~98% in last 2-3 years (all its spindles are in Tamil Nadu). **Renewable energy usage:** Consumes 70% of the energy from its 62MW in-house wind and solar generation.
- **Product and sourcing: Product composition:** ~45% blended yarn production. **Sourcing:** 50% of cotton requirement is met from procuring cotton from Gujarat and Australia. The company produces customized yarn based on customer requirements. Cotton arrival begins in October.
- **Markets and demand: Domestic market:** ~80% of sales; **Export market:** 21% YTD (up from 6% three years ago), of which, 7% is to Bangladesh and the remaining is to European countries (Italy, Turkey, etc.). Management expects exports to account for ~15% of total sales in FY25. **US market:** Minimal exposure in spinning, but improvement is expected. **Demand Recovery:** Demand for home textiles and garments is recovering after two slow years, with the European market seeing a recovery**.**
- **Industry dynamics**: The spinning sector is undergoing consolidation, with a shift from the unorganised to organised players.
- **Key cost drivers** include fluctuations in cotton prices, energy costs, and labor costs, all of which significantly impact margins and operational expenses.
- **Growth drivers** include increased volume and pricing, driven by higher demand and efficient capacity utilisation, along with margin expansion likely from forward integration and recovery in the industry.
- **Key success factors** include efficient cost control, strong focus on meeting customer requirements, and maintaining optimal spindle utilisation levels.

Investors are advised to refer disclosures made at the end of the research report.

Indo Count Industries

Gradually turning into a branded play

CONFERENCE TAKEAWAYS

Sector: Textile	**Rating: NR**
CMP: Rs 400	**Target Price: NA**

Stock Info

Sensex/Nifty	82,133/24,768
Bloomberg	ICNT IN
Equity shares (mn)	396.1
52-wk High/Low	451/254
Face value	Rs 2
M-Cap	Rs 75bn/ USD 0.9bn

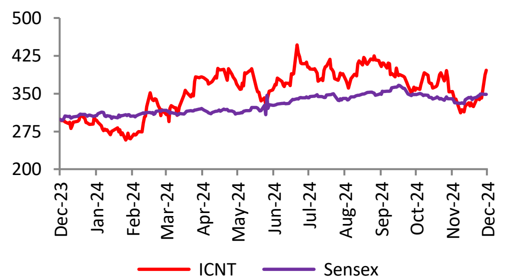
Financial Snapshot (Rs mn)

Y/E Mar	FY22	FY23	FY24
Sales	28,420	30,116	35,571
EBITDA	4,341	4,543	5,590
PAT (adj.)	3,586	2,768	3,379
EPS (Rs)	18.2	14.0	17.1
PE (x)	8.8	8.0	20.8
EV/EBITDA (x)	9.4	6.6	14.2
RoCE (%)	14.1	12.3	16.9
RoE (%)	28.2	16.4	17.4

Shareholding Pattern (%)

	Sep'24	Jun'24	Mar'24
Promoter	58.7	58.7	58.7
- Pledged	-	-	-
FII	10.7	10.7	10.7
DII	3.7	2.2	1.1
Others	26.9	28.4	29.5

Stock Performance (1-year)



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We hosted Mr. Kailash Lalpuria, Executive Director & CEO, Indo Count Industries Ltd (ICNT: NOT RATED) at our Textiles conference. ICNT is one of the top 3 global bedsheet suppliers in the US. It is a leading manufacturer and exporter of bedsheets, bed linen, utility bedding, pillowcases, fashion bedding, institutional bedding, comforters, quilts, decorative pillows, etc. Headquartered in Mumbai, ICNT has state-of-the-art manufacturing facilities in Kolhapur, Maharashtra and Bhilad, Gujarat, with cutting-edge technology. ICNT exports to more than 50 countries across 5 continents. The US is its largest market, where ICNT commands a substantial ~20% market share. It significantly increased its manufacturing capacity to 153mn meters, of which, 108mn meters is at Kolhapur. The company added 45mn meters of processing capacity at Bhilad, Gujarat, through the GHCL acquisition. It recently acquired Wamsutta brand and licensed brands Fieldcrest and Waverly. These, along with its existing brands, are set to drive innovation and broaden the company's presence in the market. The stock currently trades at 15.35x FY26E Bloomberg consensus EPS.

Key takeaways from the conference:

- **Guidance:** The company is targeting USD 100mn revenue in its branded business over the next 2-3 years, leveraging brands like Wamsutta, Fieldcrest, and Waverly. By FY26, it expects to generate USD 30-40mn from its US go-to-market strategy and aims for Rs 60bn revenue by FY27.
- **Margin:** The branded business is expected to achieve an operating margin of over 20% after royalty payments.
- **Demand:** Festive demand in 3QFY25 was stronger compared to 3QFY24, which was impacted by high inflation.
- **Interest cost:** The company is grappling with high interest rates, which have risen from 5.5% to 7.5%.
- **Utilization of cash generated:** The company expects to use the cash it generates towards growth and improving its supply chain, focusing on acquisitions, and aims to recover the investment in a span of four years.
- **Acquisitions:** The company acquired an 81% stake in a US-based quilt and pillow manufacturer, Fluvitex, in October 2021. It entered the utility bedding segment with an annual production capacity of 5mn pillows and 1.5mn quilts. Fluvitex generates USD 25mn revenue, which management believes should touch USD 50mn by 2027. The company has also signed a 4-year customer contract worth USD 120mn. Additionally, ICNT acquired a 175-year-old US legacy brand, Wamsutta, to strengthen its portfolio, enhance market presence, and expand retail reach to drive growth.
- **Benefits from FTA:** The company expects to benefit from India's free trade agreement (FTA) with the UK and Europe. As a result, raw materials, which currently account for 20-22% of supply from India, will be sold domestically, leading to lower raw material prices for the company.
- **Country-wise market share:** Pakistan holds 30-35% market share in the UK and 20% in the US, while Bangladesh has 20-25%. The rest is dominated by China,

which controls 38% of the polyester market, especially in utility bedding. Both Pakistan and Bangladesh benefit from duty-free access to these markets.

- **Domestic market strategy:** The company currently generates 2.5% of its revenue from the domestic market (FY24). It has formulated a strategy to increase the visibility of its 2 brands - Boutique Living and Layers – that target the mass market. The company is moving at a slow pace with this strategy and expects its domestic revenue to double to 5% over the next 2-3 years. The company plans to expand its reach from ~1,200 to 2,500 stores within India's fragmented textile market (Rs 140bn unorganized and Rs 40bn organized).

PDS

A nimble footed fashion value chain platform

CONFERENCE TAKEAWAYS	
Sector: Textile	**Rating: NR**
CMP: Rs 611	**Target Price: NA**

Stock Info

Sensex/Nifty	82,133/24,768
Bloomberg	PDSL IN
Equity shares (mn)	263
52-wk High/Low	644/355
Face value	Rs 2
M-Cap	Rs 82bn/ USD 0.98bn

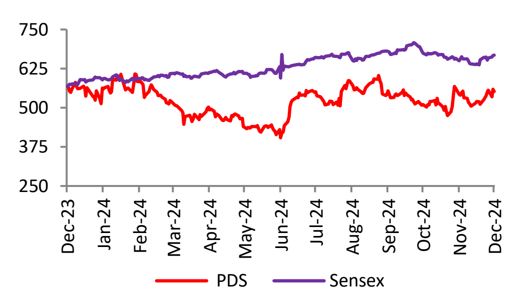
Financial Snapshot (Rs mn)

Y/E Mar	FY22	FY23	FY24
Sales	88,282	1,05,770	1,03,726
EBITDA	3,225	4,592	3.920
PAT (adj.)	2,484	2,650	1,442
EPS (Rs)	18.9	20.1	10.9
PE (x)	17.6	16.5	53.3
EV/EBITDA (x)	13.8	9.5	20.6
RoCE (%)	24.1	25.5	16.8
RoE (%)	32.7	27.5	13.0

Shareholding Pattern (%)

	Sep'24	Jun'24	Mar'24
Promoter	61.7	65.7	65.8
- Pledged	-	-	-
FII	5.2	3.7	3.7
DII	5.3	0.9	0.9
Others	27.8	29.7	29.6

Stock Performance (1-year)



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We hosted Ms. Reenah Joseph, Deputy Group CFO of PDS Ltd. (PDSL, NOT RATED) at our Textiles conference. PDS is a global fashion infrastructure company that serves as a sourcing, manufacturing and fashion value chain platform for leading brands and retailers worldwide. PDS operates via three business segments a) sourcing, b) manufacturing and c) PDS ventures & others. Over the years, the company established a worldwide presence with over 90+ offices in 22 countries. PDS provides integrated and customised end-to-end solutions to more than 250 global fashion brands and retailers. PDS maintains an extensive network of 600+ partner factories that are capable of shipping ~1mn garments/day on a global scale. The company continues to prioritise sustainability and leverages its extensive industry experience to cater to the fast-evolving global fashion industry, while addressing changing consumer preferences. The stock currently trades at 27.4x FY26E Bloomberg consensus EPS.

Key takeaways from the conference:

- **Business model:** PDS' asset-light model focuses on design and product development. The company provides end-to-end solutions for apparel, footwear, and accessories, connecting brands and retailers with manufacturers.
- **Market focus:** UK and Europe account for 75% of PDS' business, while US contributes the remaining 15%. The company is actively striving to increase its US market share to 25%.
- **Sourcing network:** Bangladesh, China, Turkey, and Sri Lanka are PDS' key sourcing hubs. The company is branching out into newer regions, including India (with a potential manufacturing facility in Tirupur), South and Central America, the Middle East (Jordan), and Portugal to mitigate geographical risk.
- **Product diversification:** PDS started off with apparel sourcing to successfully expand into home textiles, which now contributes 10-15% of its topline. The company is also evaluating venturing into the footwear, accessories, and sports apparel categories, in which the company would take 3+ years to gain significant traction.
- **Strategic manufacturing:** PDS owns two factories in Bangladesh and one in Sri Lanka, which cumulatively constitute 5-7% of its topline. PDS intends to stay asset-light and views its manufacturing presence as a tool to build trust with retailers and deepen their sourcing expertise. The company is considering a potential Rs 2.5-3bn manufacturing facility in Tirupur, India.
- **Client relationships:** PDS boasts of a diversified client portfolio, with no single customer accounting for more than 15% of its topline. The company's largest 10 partners account for 75% of revenue. The company prioritises clients who are insurable, utilise bank recourse factoring, and avoids those with open exposure. A USD 550mn credit line supports its operations.
- **Financial highlights:** PDS aims to achieve 5% PAT margin over five years. The company recently raised Rs 4.3bn through a qualified institutional placement (QIP) to strengthen its manufacturing and sourcing capabilities. Management projects USD 5bn GMV (gross merchandise value) by FY29, which it believes

should translate into USD 3.5bn in revenue. In 1HFY25, PDS recorded robust 25% revenue growth.

- **Focussing on the textile value chain through PDS Venture:** PDS Venture, its investment arm, focuses on the textile value chain. Currently, the company has invested USD 25-30mn (11% of capital employed) and is targeting to raise it to 10-15%. Management expects the footwear and beauty segments to deliver 200-400bps higher margin than textiles.
- **Outlook on Bangladesh:** PDS remains committed to Bangladesh despite potential disruptions. Management cited labour, duties, electricity, and freight costs as key competitive advantages in the country. With 25 years of experience in Bangladesh and no political ties, PDS has weathered past unrest, experiencing only seven days of factory closure during peak protests.
- **Partnering model:** PDS onboards business partners who operate independently, receiving support in finance, working capital, and human resources (HR). Partner remuneration is tied to equity share, reported as minority interest in consolidated financials. A three-year business plan is agreed upon, acknowledging potential losses during the initial 18 months due to factory onboarding and compliance setup. PDS closely monitors partner performances and intervenes when necessary. Partners have had ~60% success rate within the first 18 months, with PDS funding the working capital and initial losses for new partners. Most partners have been added in the last 10 years, with a significant portion (8-10 partners) having been added within the last 18 months. PDS is currently not onboarding new partners and expects incremental revenue from those added in the last 18 months to materialize from 1QFY26 onwards.
- **Operational scale:** PDS sources roughly 1mn pieces/day (300mn pa) globally, with 25mn pieces from in-house manufacturing. The company operates at 100% capacity utilization.
- **Risk management:** PDS actively manages risks related to customer credit, compliance, currency fluctuations, and inventory. It monitors receivables, payables, and inventory on a weekly basis.
- **Growth strategy:** PDS plans to ramp up its US presence and capitalise on further growth opportunities in the UK and Europe. The company is actively diversifying its sourcing footprint and investing in new teams to drive topline and bottomline growth in future, which management believes should improve the RoCE. The company's RoCE was impacted by post-COVID effects, inventory destocking, geopolitical events, and rising interest rates.
- **Growth in North America and Europe:** Favorable global economic conditions, robust strategic relationships in the US, and sustained demand are driving growth. PDS anticipates continued 60% growth in North America and steady growth in Europe. While US market entry requires senior-level engagement, established connections with retailers like Walmart, Target, and American Eagle are paving the way for significant long-term growth.

The Yarn Bazaar (Unlisted)

Expert Session – A one-stop shop for yarn solutions

CONFERENCE TAKEAWAYS

Industry	Textiles

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We hosted Mr. Pratik Gadia, Founder & CEO of The Yarn Bazaar, at our Textiles conference. Founded in 2019, The Yarn Bazaar is revolutionising the textile industry through its transparent and efficient solutions for buying and selling yarn. The company's mission is to organise the unorganised sector and empower small yarn buyers and suppliers through innovative approaches and technology. It serves as a one-stop shop for yarn solutions. Its wide array of services include discovery, quality control, transactions, fulfilment, financing, advisory, and market intelligence. The Yarn Bazaar has partnered leading companies like Bannari Aman, Damodar Yarn, Pallavaa Group and Shivkrupa Cotspin, among others.

Key takeaways from the conference

- **An online platform:** As a B2B online platform, the company specialises in streamlining the entire process of sourcing yarn. The company facilitates in the the discovery, quality control, and timely delivery of all types of yarn, ensuring manufacturers meet their production demand. The platform optimises sourcing efficiency and provides comprehensive solutions towards meeting the evolving needs of manufacturers.
- **MSME-driven textile industry:** The Indian textile industry is predominantly driven by MSMEs, which represent ~83% of the sector. The company primarily serves MSMEs and SMEs, addressing their unique sourcing and supply chain needs within this critical segment of the industry.
- **Entry into the fast fashion supply chain:** The company has recently entered the fast fashion supply chain. Following political unrest in Bangladesh and surge in demand, driven by the festive season, the company saw notable increase in yarn sourcing demand from companies supplying to global fashion brands such as Zara, H&M, and Walmart, as well as domestic brands like Zudio, etc., post August. In the last two weeks, it has successfully fulfilled orders worth USD 0.5mn for Bannari Amman Spinning Mills Ltd.
- **Operates on a pre-order model:** The company currently works with 18-20 suppliers and sources an average of 100-150 tonnes of yarn per month per factory. It operates on a pre-order model, aligning delivery schedules with supplier arrival timelines, and does not maintain any inventory. This approach ensures efficient supply-chain management.
- **A recommended supply chain partner:** Currently, the company is recognized as a recommended supply chain partner and its long-term goal is to become a nominated supply chain partner for global fast fashion brands.
- **Commission and invoicing model:** Earlier the company billed customers on commissions averaging ~1%. It is gradually moving towards an invoicing model (especially with entry into the fast fashion supply chain) where the ticket size is 6-7%. The company operates only on advance payments.
- **Bangladesh+1 opportunity:** Bangladesh exports close to USD 50bn of RMG (readymade garments) annually, while India's exports lag at a much lower USD 16-17bn. Mr. Gadia sees significant opportunity for India, if it manages to capture mere 10% of Bangladesh's export share. With the Bangladesh+1 strategy growing because of the political turmoil, many European brands are seeing to be

diversifying from Bangladesh to India. To capitalize on this shift and expand its market presence, the company is aggressively targeting vendors that supply major fast fashion brands in Europe.

- **Knitting capacities can be built faster than woven:** Pre-pandemic, Indian textiles and apparel (T&A) exports was valued at USD 37-38 bn. Exports slumped to USD 35-36bn post pandemic but are now recovering. Management expects exports to rebound to USD 37-38bn in FY25, and projects ~USD 40bn+ exports from FY26. It believes Bangladesh+1 strategy will primarily drive this growth. In response to the surge in demand from Bangladesh+1, many Indian companies are rapidly scaling up capacity. Management highlighted that building a knitting capacity offers strategic advantages, as it is easier, faster (taking 4-5 months), and requires lower capex compared to a woven capacity. This should enable the Indian textile industry to capitalise on the Bangladesh+1 opportunity.

- **Key factors that management believes will drive long-term competitiveness in the textile industry**: a) **Move to automation –** this would reduce labour dependency and associated costs and boost operational efficiency and scalability, b) **Focus on value-added products (VAP) -** VAP offer higher price realisations and improve profit margins, and c) **Investments in renewable energy** – this would reduce electricity costs, enhance cost efficiency, and meet sustainability objectives.

- **India's focus on MMF (man-made fibres) sector**: Management believes India's share of cotton production fell from 65% few years ago to less than 55% currently, primarily as ramp up in polyester capacities accelerated. Moreover, with government policies increasingly prioritizing the MMF sector, there is a strategic shift in the industry's focus.

- **Apparel sector expected to perform better over the long term:** From a long-term perspective, management expects the apparel sector to perform better in terms of profitability over the next decade, driven by increased focus on VAP and evolving consumer demand for sustainable and high-quality apparels.

- **Focus on sustainability:** Sustainability has become a central focus within the fashion industry, with leading fast-fashion brands such as H&M and Zara increasingly launching eco-conscious collections. Polyester (currently constitutes 53% of global fiber consumption), is gaining prominence, as major brands like Nike and Adidas are committed to making all polyester in their products recyclable and sustainable by 2030, with plans to completely phase out the use of virgin polyester. These shifts are being largely driven by brand-led initiatives, underscoring the growing influence of sustainability-focused strategies in shaping the future of the industry.

Welspun Living

Adding capacities to cater to rising demand

CONFERENCE TAKEAWAYS

Sector: Textile	**Rating: BUY**
CMP: Rs 176	**Target Price: 196**

Stock Info

Sensex/Nifty	82,133/24,768
Bloomberg	WELSPUNL IN
Equity shares (mn)	959.1
52-wk High/Low	213/123
Face value	Rs 1
M-Cap	Rs 165bn/ USD 1.9bn

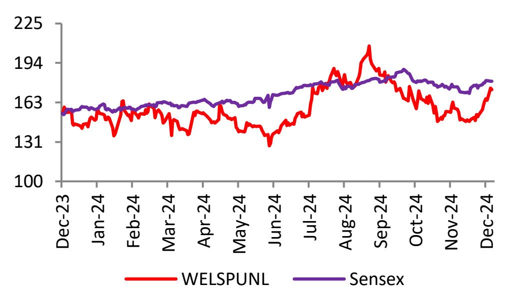
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net revenue	96,792	1,09,963	1,25,824
EBITDA	13,689	15,206	19,115
PAT (adj.)	6,811	7,718	10,560
EPS (adj.) (Rs)	7.0	7.9	10.9
PE (x)	19.6	21.7	15.8
P/B (x)	3.0	3.2	2.7
EV/EBITDA (x)	11.8	12.8	10.1
RoE (%)	15.8	15.9	18.6
RoCE (%)	14.6	15.3	18.5
D/E (x)	0.67	0.52	0.41
OPM (%)	14.1	13.8	15.2
DPS (Rs)	0.0	0.8	1.1
Dividend Yield (%)	0.0	0.5	0.6

Shareholding Pattern (%)

	Sep'24	Jun'24	Mar'24
Promoter	66.2	70.5	70.5
- Pledged	-	-	-
FII	7.1	5.9	7.1
DII	7.7	6.0	5.8
Others	19.0	17.7	16.5

Stock Performance (1-year)



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We hosted Mr. Sanjay Gupta, President & CFO, and Mr. Salil Bawa, President & Group Head IR, Welspun Living (WELSPUNL IN) at our Textiles conference. WELSPUNL is a distinguished leader in the global home solutions sector, with a distribution network spanning more than 50 countries. The company excels across 3 primary business segments - Home Textiles (HT), Advanced Textiles and Flooring solutions. It has cultivated a robust brand portfolio, featuring a mix of owned and licensed brands that cater to diverse markets and customer preferences. It has fully vertically integrated HT facility in Vapi and Anjar (Gujarat) with an additional flooring facility in Telangana. To tap into the growing US market, WELSPUNL is also establishing a new pillow manufacturing facility in Ohio. We maintain BUY rating with a target price of Rs 196 (unchanged), based on 18x FY26E P/E (unchanged).

Key takeaways from the conference:

- **Guidance:** Management maintained FY25 EBITDA margin guidance at 15%. It is targeting 15% revenue CAGR over FY24-27E, with core/emerging business clocking 10%/25% CAGR respectively. Flooring revenue is likely to increase from Rs 9bn in FY24 to Rs 20bn by FY27 and EBITDA margin from 7-8% to 15% during this period. Advanced Textile revenue is estimated to surge from Rs 4.5bn in FY24 to Rs 10bn by FY27. Management is targeting RoCE of 20%+ for FY27.
- **Capex:** The company has planned a capex of Rs 8.5bn for FY25 and Rs 5bn over the next two years. As part of its **bedsheet capacity expansion**, it aims to increase capacity from the current 300,000 meters per day to 400,000 meters per day, with production from this expansion expected to commence by FY27. Additionally, the company incurs an annual maintenance capex of Rs 1–1.5bn.
- **Ohio plant: Investment:** USD 12.5mn, **Capacity:** 13mn pillows at full capacity, **Commercial production:** September 2024, **Revenue potential:** USD 50mn, **EBITDA margin:** 11-12%, **Capacity ramp-up:** 30-40% by FY25, 80-85% by FY26, and full capacity by FY27. Management is also planning a plant on the West Coast after the one on the East Coast ramps up.
- **Anjar plant: Investment:** Rs 3.4bn, **Capacity:** 6,400 MT, **Revenue potential:** Rs 4-4.5bn, **EBITDA margin:** 18-19%, and **RoCE:** 20%+. The plant is to be commissioned by 4QFY25, with an immediate ramp-up as orders have been received.
- **RM prices:** Yarn prices have declined by 5-7%, though cotton prices remain flat.
- **Operational challenges:** 2QFY25 was impacted by container shortages, thus increasing freight and warehousing costs. Freight rates doubled, leading to higher inventory costs. Despite this, deliveries to US continued with minimal disruption.
- **Franchise and outlet expansion:** 25 franchises are operational, and the company is targeting 350 by FY27. Outlets are expected to expand from 20,000 to 50,000 by FY27. Franchise counters at premium locations in the US and UK will likely grow from 40 to 70+ over the next 2 years.
- **Innovation:** The company holds 42 patents, with **Hygro Cotton** standing out as one of its best-selling product designs.
- **Working capital (WC) and debt: Net WC:** 82 days, target: 75-80 days. Net debt down from Rs 30bn in FY21 to Rs 13.5bn in FY24; targeting net-zero debt by FY28.

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net revenue	**93,115**	**80,938**	**96,792**	**1,09,963**	**1,25,824**
Revenue growth (%)	26.9	(13.1)	19.6	13.6	14.4
- Op. expenses	79,528	73,412	83,103	94,757	1,06,709
EBITDA (Excl. OI)	**13,587**	**7,526**	**13,689**	**15,206**	**19,115**
EBITDA margins (%)	**14.6**	**9.3**	**14.1**	**13.8**	**15.2**
- Interest expenses	1,313	1,299	1,534	2,056	1,866
- Depreciation	4,205	4,421	3,945	4,235	4,678
+ Other income	658	1,213	1,458	1,657	1,896
Profit/Loss from associate	1	1	1	-	-
- Tax	2,663	994	2,942	2,855	3,906
Effective tax rate (%)	31	33	30	27	27
Reported PAT	6,067	2,026	6,727	7,718	10,560
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	55	37	(84)	-	-
Adjusted PAT	**6,011**	**1,989**	**6,811**	**7,718**	**10,560**
EPS (Rs/share)	6.1	2.0	7.0	7.9	10.9

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	988	988	972	972	972
Reserves & Surplus	38,728	39,890	44,186	51,132	60,636
Networth	39,716	40,878	45,158	52,104	61,608
Minority interest	1,046	1,082	973	973	973
Total debt	36,532	28,413	30,928	27,807	25,517
Def. tax liab. (net)	1,730	2,012	3,705	3,705	3,705
Capital employed	**79,024**	**72,386**	**80,764**	**84,589**	**91,803**
Net fixed assets	41,713	39,638	38,618	42,983	45,806
Investments	6,939	6,347	9,088	9,088	9,088
Net working capital	27,716	24,587	30,510	31,711	36,179
Cash and bank balance	2,655	1,814	2,548	807	731
Capital deployed	**79,024**	**72,386**	**80,764**	**84,589**	**91,803**
Net debt	33,877	26,600	28,380	27,000	24,786
WC (days)	77	92	90	85	85
DE (x)	0.90	0.68	0.67	0.52	0.41

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PAT	6,011	1,989	6,811	7,718	10,560
+ Non-cash items	4,561	4,704	5,637	4,235	4,678
Cash profit	10,572	6,693	12,448	11,953	15,238
- Incr/(Decr) in WC	3,450	(3,130)	5,923	1,201	4,468
Operating cash flow	**7,122**	**9,823**	**6,525**	**10,752**	**10,770**
- Capex	6,044	2,346	2,925	8,600	7,500
Free cash flow	**1,078**	**7,476**	**3,601**	**2,152**	**3,270**
- Dividend	148	99	48	772	1,056
+ Equity raised	(2,017)	-	(1,254)	0	-
+ Debt raised	6,095	(8,119)	2,515	(3,121)	(2,290)
- Investments	5,828	(593)	2,741	-	-
- Misc. items	515	693	1,338	-	-
Net cash flow	**(1,335)**	**(842)**	**734**	**(1,741)**	**(76)**
+ Opening cash	3,991	2,655	1,814	2,548	807
Closing cash	2,655	1,814	2,548	807	731

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	14.6	31.6	19.6	21.7	15.8
P/BV (x)	2.2	1.5	3.0	3.2	2.7
EV/EBITDA (x)	9.0	11.8	11.8	12.8	10.1
RoE (%)	15.8	4.9	15.8	15.9	18.6
RoCE (%)	13.5	5.7	14.6	15.3	18.5
Fixed asset turnover (x)	1.4	1.1	1.3	1.4	1.4
Capital employed turnover (x)	1.3	1.1	1.3	1.3	1.4
Dividend payout (%)	2	5	10	10	10
Dividend yield (%)	0.2	0.2	0.0	0.5	0.6
Debtor days	39	43	47	45	45
Creditor days	40	41	36	35	35
Inventory days	78	89	78	75	75
Revenue growth (%)	27	(13)	20	14	14
EBITDA growth (%)	0	(45)	82	11	26
PAT growth (%)	11	(67)	242	13	37

Source: Company, Systematix Institutional Research

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