

# MONTHLY MAG

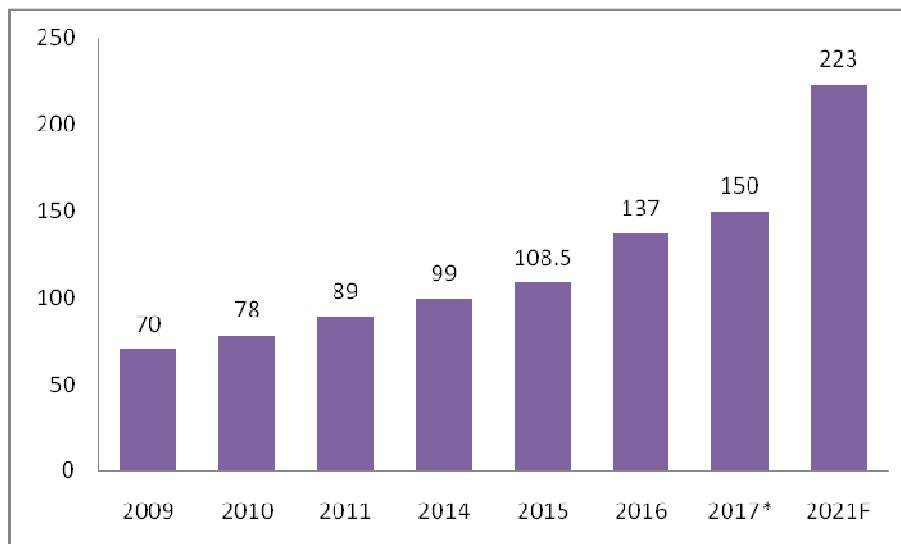
May 2019

- ✓ Sector of the month
- ✓ Picks of the month

**Sector of the Month (Textile):**

- Textiles and apparel industry plays a pivotal role in the Indian economy through its significant contribution to the country's industrial output, employment generation and export earnings. The industry has achieved a noteworthy position as one of the major exporters of varied textile and apparel products including cotton, natural and manmade fibre, silk based textiles, knitted apparel and accessories among others. India currently commands a share of about 4.5% in the world exports of textiles. This is still a very nominal share despite the textile sector in India being one of the oldest sectors and has witnessed revolutionary changes in transforming the industrial and economic landscape of the country.
- The Textile & garments industry in India is highly diversified with a wide range of segments ranging from products of traditional handloom, handicrafts, wool and silk products to the organized textile industry. The organized textile industry is characterized by the use of capital-intensive technology for mass production of textile products and includes spinning, weaving, processing, apparel, and garment
- The size of India's textile market as of November 2017 was around US\$ 150 billion, which is expected to touch US\$ 223 billion market by 2021, growing at a CAGR of 10.14 per cent between 2009-21.

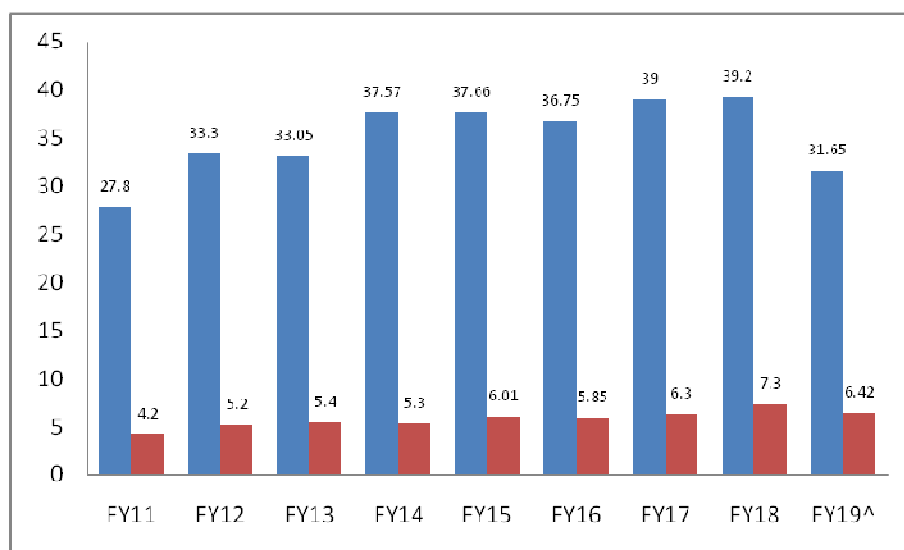
**India's Textile market size (US\$ billion)**



Source: Ace equity, CARE, IBEF

- The fundamental strength of textile industry in India is its strong production base of natural fibers/ Yarns like cotton, silk, wool and jute to synthetic/ man – made fibers like polyester, viscose, nylon and acrylic. Textile industry contributed 7% of the industry output ( in value terms) of India in 2017-18.
- It contributed two percent to the GDP of India and employs more than 45 million people in 2017-18. The sector contributed 15 percent to the export earnings of India in 2017-18.
- The size of India's textile and apparel market recorded USD 108.5 billion in 2015 and is expected to reach USD 226 billion by 2023, growing at a CAGR of 8.7 per cent between 2009 and 2023.
- Further, the domestic consumption of \$ 97 bn was divided into household consumption at \$ 83 bn and the technical textiles at \$ 14 bn. While exports comprised of textile exports at \$ 23 bn and apparel exports at \$ 17 bn. India also meets the needs of 9% of the world's total consumption of technical textiles.
- Exports have been a core feature of India's textile and apparel sector, a fact corroborated by trade figures. Exports of textiles from India reached US\$ 31.65 billions during FY19<sup>^</sup>. The GST that rolled out in July 2017 is expected to make imported garments cheaper by 5-6 percent, as the GST regime will levy 5 percent tax for both domestic textile manufacturers and importers.
- Cotton Fabrics, Madeups, etc had a share of 40.83 percent in exports and reached US\$ 12.92 billion in FY19<sup>^</sup>.

India's textile trade (US\$ billion)



Source: Ace equity, CARE, IBEF

## Factors Driving Growth

- **Increasing demand for natural fibers:** One of the growth drivers of the global textile market is the increasing demand for natural fibers. The increasing consumption of natural fibers such as cotton, silk, wool, and jute given their various attributes such as environmentally-friendly nature and easy availability will drive the growth of the market during the forecast period.
- Huge investments are being made by Government under Scheme for Integrated Textile Parks (SITP) - (US\$ 185 million) and Technology Upgradation Fund Scheme (TUFS) - (US\$ 216.2 million released in 2017) to encourage more private equity and to train workforce.
- Increased penetration of organised retail, favourable demographics and rising income levels to drive textile demand. Growth in building and construction will continue to drive demand for non-clothing textiles.
- In FY19, growth in private consumption is expected to create strong domestic demand for textiles.
- Textile and apparel exports from India are expected to increase to US\$ 82 billion by 2021. Exports of textiles and Apparels from India reached Rs 1.3 trillion (US\$ 18.5 billion) in FY19.
- Increase in domestic demand set to boost cloth production. Cloth production in FY18 stood at 67.4 billion square metres (provisional) and stood at 33 billion square metres (provisional) in FY19.
- 100% FDI (automatic route) is allowed in the Indian textile sector. Under Union Budget 2018-19, the government has allocated Rs 300 million (US\$ 4 million) for the Scheme for Integrated Textile Parks, under which there are 47 ongoing projects. Free trade with ASEAN countries and proposed agreement with European Union will boost exports.
- In May 2018, textiles sector recorded investments worth Rs 270 billion (US\$ 4 billion) since June 2017.

Source: Ace equity, CARE, IBEF

### Government Initiatives:

The government has been implementing various policy initiatives and programmes for development of textiles and handicrafts, particularly for technology, infrastructure creation, skill development, including:

- Amended Technology Upgradation Funds Scheme (ATUFS)
- PowerTex India Scheme
- Scheme for Integrated Textile Parks
- SAMARTH- scheme for capacity building in Textile Sector
- Silk Samagra- integrated silk development scheme
- North Eastern Region Textile Promotion Scheme (NERTPS)
- National Handicraft Development Programme (NHDP)
- Comprehensive Handicrafts Cluster Development Scheme (CHCDS).

The Textile Ministry of India announced Rs 690 crore (US\$ 106.58 million) for setting up 21 ready-made garment manufacturing units in seven states for development and modernisation of Indian Textile Sector.

### Outlook

The present Government is making rigorous efforts to restructure and to revamp the Indian textile and apparel industry under the ambit of its highly ambitious 'Make in India' program which envisages making India as a 'manufacturing' and 'sourcing hub' in the coming times.

Prime Minister Narendra Modi launched the 'Make in India' campaign on September 25, 2014, to boost domestic manufacturing units. The aim of this campaign was to increase the contribution of manufacturing in GDP from 15 per cent to 25 per cent. PM mentioned this phrase in his Independence day speech 2014 emphasising on his concern that most entrepreneurs are moving out of the country. In the process, the government expects to generate jobs, attract much foreign direct investment, and transform India into a manufacturing hub preferred around the globe.

Source: Ace equity, CARE, IBEF

**Pick of the Month (Raymond Ltd.):**

**CMP: 809**

**Target: 980**

Raymond Ltd. Is based in Mumbai, Maharashtra, it is the largest integrated manufacturer of fabric in the world. It is India's biggest woolen fabric maker and enjoys a market share of 60% in the suiting segment in the country.

**Strong Q4 show:** The company had a strong performance in the Q4 of fiscal year 19. Quarterly revenue increased by 11% from Rs.1665cr (Q4 FY18) to Rs.1837cr. EBITDA increased by 11% and net profit increased by 27% from Rs.53cr to Rs.68cr. . Branded Apparel saw the highest sales growth of 21% followed by growth of 14% in Tools and Hardware segment. Multi-brand outlets (MBOs) performed exceptionally well which can be seen by a 57% growth in the MBO channel for the Branded Apparel segment. Suiting grew by another 3% reinforcing the market leadership, while shirting business grew by 9% driven by a better product mix.

Branded Apparel brands saw double digit growth with 20%+ growth in Parx and in Raymond Ready-to-wear supported by new customer segments.

Better export volumes (especially to the US markets), and new customers and products resulted in growth in garmenting, tools and hardware, and auto component segments.

**Asset light model to continue:** - Record 283 stores were opened last year of which 95% was franchise store. basis. Further, during the quarter, it has closed 14 stores primarily EBOs (11 stores) followed by 2 TRS stores. Overall, blended sales growth across retail format stood at 2.5%.

**Preparing for future growth:** Initiatives undertaken during FY19 were product and service innovation resulting in new product offerings like sunlight print shirts, market and network expansion helping mainly in the growth of MBO channel and increased customer engagement, Supply Chain Management transformation, and investments in new technologies and product re-engineering would help it to further consolidate its market share and provide better service to the customers. Raymond Ltd plans to continue with network expansion with another 100 mini TRS stores set to be launched in FY20.

**Valuation:** We expect the topline to continue its growth trajectory with stable contribution from apparel brands and textiles. The recent price increase of the suitings will help to restore its margins. It is trading at an EPS of 29.7 for FY19 and P/E of 27.2x. We recommend **buy on Raymond Ltd.** with a price target of **Rs 980**.

NSE / BSE Code	RAYMOND/ 500330
Sector	Textile
Industry	Textile - Weaving
Face value / Book Value (₹ per share)	10 / 223.0
Dividend yield (%)	0.4
52 H/L (Rs.)	1140 / 594
Market Cap. (Rs. Cr)	49,657
Shares Outstanding (Cr)	61.4
NSE / BSE Code	431,506

(In Rs.Cr)	Q4FY19	Q3FY19	Q2FY19	Q1FY19
Net Sales	1,809	1,675	1,848	1,251
EBITDA	167	155	186	69
PAT	68	45	67	3
EBITDA %	9.2%	9.2%	10.1%	5.5%
PAT %	3.8%	2.7%	3.6%	0.2%

(In Rs.Cr)	FY15	FY16	FY17	FY18
Net Sales	53,326	51,406	53,533	58,995
Sales Growth	17.3%	-3.6%	4.1%	10.2%
EBITDA	4,262	3,735	3,042	4,229
EBITDA Margin	8.0%	7.3%	5.7%	7.2%
PAT	1,159	759	559	1,466
NPM%	2.2%	1.5%	1.0%	2.5%
Adj. EPS (Rs.')	18.4	13.8	4.2	21.9

	FY15	FY16	FY17	FY18
P/E (x)	42.9	65.4	88.8	33.9
P/B (x)	4.3	4.1	3.0	2.7
EV/Sales(x)	1.1	1.1	1.1	1.0
EV/EBITDA(x)	13.4	15.3	18.8	13.5
ROCE(x)	10.3%	10.0%	6.8%	10.0%
ROE(x)	8.8%	6.2%	3.3%	8.4%

Source: Ace equity, CARE, IBEF

**Pick of the Month (Trident Ltd.):**

**CMP: 66**

**Target: 93**

Trident Limited is a terry towel, yarn and wheat straw-based paper manufacturer. The Company's segments include Textiles, Paper and Chemical/Chemicals, and Others. The Company's geographical segments include USA and Rest of the world. The Textiles segment includes yarn, towel, bed sheets and dyed yarn manufacturing (including utility service). The Paper and Chemical/Chemicals segment includes paper and sulfuric acid (including utility service). The other segment includes sale of software and related services.

**Strong momentum growth:** Rapid growth in Q3FY19 was mainly due to strong volume growth in bed linen at 41.7% YoY and bath linen at 10.1% YoY. Realisation on bed and bath linen was also up by 15% & 8% respectively. A price increase and a better product mix offset the impact of 10% YoY decline in volume growth. The only drag to the margins came from yarn due to a decline in the spread (as cotton cost rose ~10% YoY, but realization increased merely by 5% YoY).

**Robust quarterly performance:** Revenue grew 18%YoY to INR12, in 3QFY19. EBITDA adjusted for forex loss increased 21% YoY to INR2,427m. EBITDA margin expanded 50bp YoY to 18.8%, largely driven by inventory gain and better realizations. Adj. PAT grew 74.8% YoY to INR 945m.

**Better utilization to help increase margins:** In bed linen utilization rate stood at 63% in 3QFY19 and 60% in 9MFY19 (v/s 44% in FY18). Management guided to achieve utilization of 65-70% by FY20. Expect the segment to deliver revenue CAGR of 28% over FY18-21. In bath linen utilization remain muted at 48% in 9MFY19, management expects utilization to improve to 50% by end of FY19. Margins in Paper segment expanded by 910bp YoY to 38.1% and in expected to deliver a revenue CAGR of 2% over FY18-21.

**Valuation:** With growth momentum in the bed linen and paper segment and a better utilization expected going further which will expand its margin and realization. We expect company to deliver growth of 9% CAGR over FY18-21. It is trading at a valuation P/E of 9x for FY19. We recommend **buy on Trident Ltd.** with a price target of **Rs 93**.

NSE / BSE Code	TRIDENT/ 521064
Sector	Textile
Industry	Textile - Spinning
Face value / Book Value (₹ per share)	10 / 61.6
Dividend yield (%)	2.2
52 H/L (Rs.)	76 / 51
Market Cap. (Rs. Cr)	33,633
Shares Outstanding (Cr)	509.6
NSE / BSE Code	431,506

(In Rs.Cr)	Q3FY19	Q2FY19	Q1FY19	Q4FY18
Net Sales	1,291	1,392	1,131	1,185
EBITDA	243	261	196	217
PAT	112	109	59	51
EBITDA %	18.8%	18.8%	17.3%	18.3%
PAT %	8.7%	7.8%	5.2%	4.3%

(In Rs.Cr)	FY15	FY16	FY17	FY18
Net Sales	37,553	36,657	46,252	45,575
Sales Growth	-2.9%	-2.4%	26.2%	-1.5%
EBITDA	6,608	7,297	8,855	8,172
EBITDA Margin	17.6%	19.9%	19.1%	17.9%
PAT	1,179	2,421	3,366	2,634
NPM%	3.1%	6.6%	7.3%	5.8%
Adj. EPS (Rs. `)	2.3	4.8	6.8	5.3

	FY15	FY16	FY17	FY18
P/E (x)	349.8	170.3	122.5	156.5
P/B (x)	28.3	17.1	15.0	14.0
EV/Sales(x)	11.9	12.1	9.6	9.8
EV/EBITDA(x)	67.4	61.0	50.3	54.5
ROCE(x)	10.9%	9.3%	6.8%	10.0%
ROE(x)	10.1%	12.5%	3.3%	8.4%

Source: Ace equity, CARE, IBEF

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