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Textiles_ Q4FY22 Preview

Heavy margin pressures continue to prevail

Indo Count Industries Limited	
Rating	Accumulate
TP	175
P/E FY24E	12.5x
Dollar Industries Limited	
Rating	Buy
TP	807
P/E FY24E	14.8x
Gokaldas Exports Limited	
Rating	Buy
TP	502
P/E FY24E	15.1x

Source: Arihant Research

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Q4 FY22 Preview

We believe that the overall demand environment will remain stable. However, most of companies are facing a lot of pressure from soaring cotton prices that have recently crossed INR 90,000 per candy. The industry is also facing a chronic shortfall on cotton availability, and many producers in the textile value chain are demanding that duties on imports of cotton be removed. Some of the players are maintaining margins through a mix of absorbing and passing on price hikes, combined with premiumization efforts and revamping value propositions.

Revenue: We expect the revenue growth trajectory to remain steady on a stable base. However, given the global tensions that have come up due to the Russia- Ukraine crisis, and the prevailing container shortage- the international demand will be somewhat adversely affected especially for companies that operate in the export space. We expect that the revenue growth will be 3.06%/ 15.46%/ 7.88% YoY and 6.71%/ -6.83%/ -23.46% QoQ for Indo Count Industries, Dollar Industries, and Gokaldas Exports respectively.

Margin: We expect margins for the industry to continue to remain under pressure, as cotton prices have hit 10- year highs due to shortages in cotton availability. Not All of the price hikes can be successfully passed on to the final consumer. The subsequent increase in prices of cotton could also negatively impact players in present yarn and ginning significantly. We expect the margins will grow by -196bps/ 691bps/ -232bps YoY, and -303bps/ 17bps/ -558bps QoQ for Indo Count Industries, Dollar Industries, and Gokaldas Exports respectively.

PAT: As a lot of textile companies have been undertaking capacity expansions over the past year, the bottom line expenses have been slightly on the higher side. We expect the PAT will grow -30.34%/ 110.84%/ 34.32% YoY and 5.95%/ -4.47%/ -59.11% QoQ for Indo Count Industries, Dollar Industries, and Gokaldas Exports respectively.

View: Given the current market environment, the sector is facing a few hiccups that are expected to somewhat hamper the overall performance in Q4. However, for the long term, our view is positive for a few reasons: 1) The recent ban on Xinjiang Cotton and related products in the USA has created a demand void which can be filled in by India as a leading producer of textiles in the world; 2) The China+1 Strategy is now being adopted by many countries, pushing them to diversify the supplier base away from China- this will be a positive for Indian manufacturers including those in the textile space; 3) Cotton prices are expected to start correcting by September of FY23 which will relieve most of the current margin pressure on textile player; 4) The Government of India has extended the PLI scheme to many textile manufacturers, and it is also looking into signing many FTAs with large export partners. One was recently signed with Australia which is expected to have good payoff for textile manufacturers in the years to come; 5) The Government of India has been aggressively pushing textile exports, as they have a target of attaining a value of USD 100 Bn for textile exports in the next 5 years.

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Q4FY22 Earnings Estimates:

Company	INR Cr (Consolidated)	Q4FY22E	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y	Remarks
Indo Count Industries	Net Revenue	807	756	783	*6.71%*	*3.06%*	The company has constantly been undertaking judicious price hikes, and constantly working on keeping the product mix up to date in order to remain relevant- with an increased focus on value- added products. That, combined with the fact that with the recent GHCL Acquisition, they are now the largest home textile manufacturer.
	EBITDA	131	146	143	*-10.01%*	*-7.99%*	The current price environment is dire with no possibility of improvement in the immediate near term. With the raw cotton prices reaching upward of INR 90,000 per candy having no view of softening until H1FY23, and the container shortage which continues to keep logistics costs high- the EBITDA Margins will be on the lower side. It will also take time for the newly acquired GHCL home textile division to become margin accretive.
	EBITDA M %	16.28%	19.31%	18.24%	*-303bps*	*-196bps*	
	PAT	73	69	105	*5.95%*	*-30.34%*	
Dollar Industries	Net Revenue	356	382	308	*-6.83%*	*15.46%*	The demand base is expected to be stable in Q4 owing to festive demand from Holi. There is also summer demand expected for hosiery products. The company claims to still be in line with its INR 2,000 Cr revenue target by FY25.
	EBITDA	61	64	31	*-5.89%*	*94.44%*	The last price hike taken by the company was at the beginning of December, they plan to take another one in the beginning of April. However, prices have remained flattish for the company between December and most of March. The company claims they will continue to maintain EBITDA Margins at 16-17% levels. This is also owed to the success of project Lakshya which has thus far, streamlined operations and helped maintain margins.
	EBITDA M %	17.00%	16.83%	10.09%	*17bps*	*691bps*	
	PAT	42	44	20	*-4.47%*	*110.80%*	
Gokaldas Exports	Net Revenue	398	521	369	*-23.46%*	*7.88%*	The company expects the base in Q4 to be softer in the short to medium term, due to slowdown in demand from Europe. There will also be an expected slowdown in the delivery of key raw material owing to supply chain issues.
	EBITDA	20	56	27	*-63.52%*	*-25.93%*	Cotton prices have hit a 10- year high, and consequently fabric prices are up 10-15% YoY for the company, which is a substantial increase. About 50% of this is passed on to buyer due to good rapport maintained. Margin pressure will continue to prevail in the near future.
	EBITDA M %	5.08%	10.67%	7.41%	*-558bps*	*-232bps*	
	PAT	18	44	13	*-59.11%*	*34.42%*	

Source: Company, Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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