

## Currency appreciation remains key risk

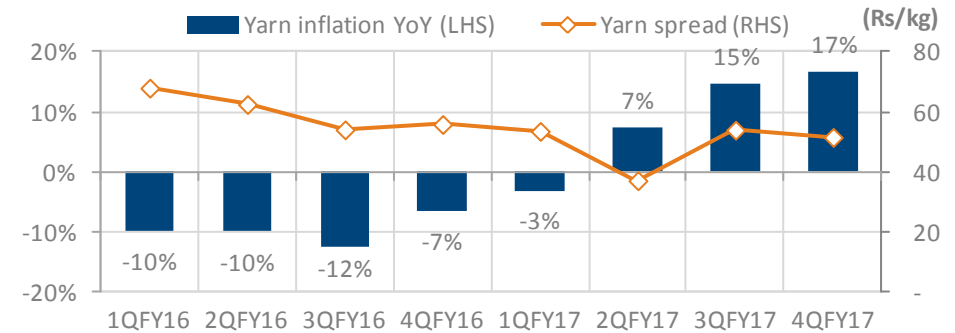
Our interactions with textile players point to tailwinds in 4Q from continued strength in US towel exports (for home textile players) and higher yarn prices (for spinning players). However, given sharp inflation in cotton and the absence of low-cost inventory, Ebitda performance should moderate from 3Q levels (1% Ebitda growth vs. 14% in 3Q for the largest yarn producer in India, Vardhman and 13% Ebitda decline (similar to 3Q) for home textile player, Welspun). We expect cotton prices to decline as summer season drives liquidation of trader inventory (cotton carries risk of fire in summer). Although this should aid FY18 margins, INR appreciation remains the key headwind for FY18 EPS growth as Ebitda margin moderates YoY.

**4Q to benefit from US towel export, rising yarn prices:** Export of Indian bed sheets to the US fell 11% in 4Q (vs 4% growth in 3Q) whereas that of terry towels grew 19% (vs 3% in 3Q). As a result, sales growth differential for Welspun, Trident vs. Indocount should continue. Spinning players such as Vardhman should benefit from rising yarn prices. High cost cotton would hurt margins across the board. We expect 17% EPS growth for Vardhman and 27% EPS decline for Welspun.

**Expect cotton prices to moderate:** The industry highlighted that despite 2% increase in cotton production and flattish demand, India cotton prices are up 28% YoY as traders/speculators have increased inventory. We expect cotton prices to correct as traders/speculators are forced to reduce inventory during summer (poor storage facilities and hot summers increase likelihood of cotton igniting). Poor response to auction of cotton inventory by China remains a risk to our expectations.

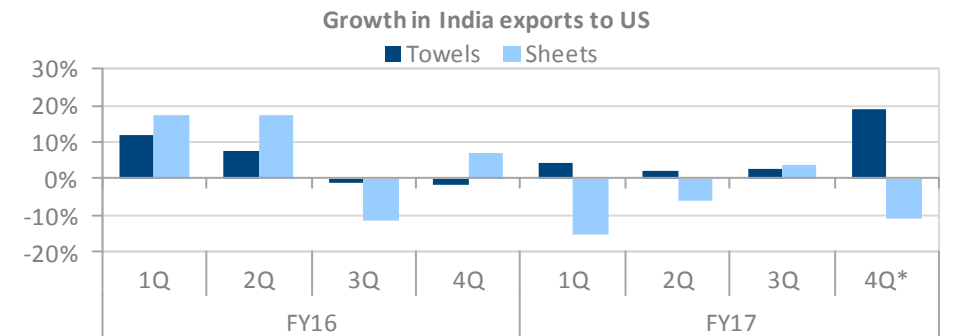
**Currency appreciation key risk:** We upgrade FY17/18/19 EPS for VTEX by 4%/6%/6%, to factor in rising yarn prices. Although reduction in cotton prices would aid margins, the recent INR appreciation remains a key margin headwind as intense competition weighs on players' ability to pass on currency appreciation. With Chinese competition stronger in home textiles vs. cotton yarn (India is a key determinant of cotton prices), we expect Ebitda impact to be lower for spinners vs. home textile players.

Figure 1: Yarn spreads have remained largely stable despite inflation in cotton



Source: Company, IIFL Research. \*Data till Feb 2017

Figure 2: Divergent trends between India towels and sheet exports to the US



Source: Company, IIFL Research. \*Data till Feb 2017

Figure 3: Textile valuation matrix

Company	CMP (Rs)	Mcap (US m)	TP (Rs)	P/E		EV/EBITDA		ROE FY17
				FY17	FY18	FY17	FY18	
VTEX	1,300	1,154	1420	10.1	10.8	6.6	6.7	16.7
WLSI	94	1,457	NR	14.1	14.7	7.9	7.5	26.0
Trident	82	649	NR	12.3	9.9	7.4	6.2	19.0
Indocount*	189	576	NR	13.4	11.3	8.7	7.5	30.3
Himatsingka*	344	524	NR	18.3	13.6	11.2	8.2	19.8
KPR*	693	809	NR	17.8	14.9	9.9	8.6	23.7

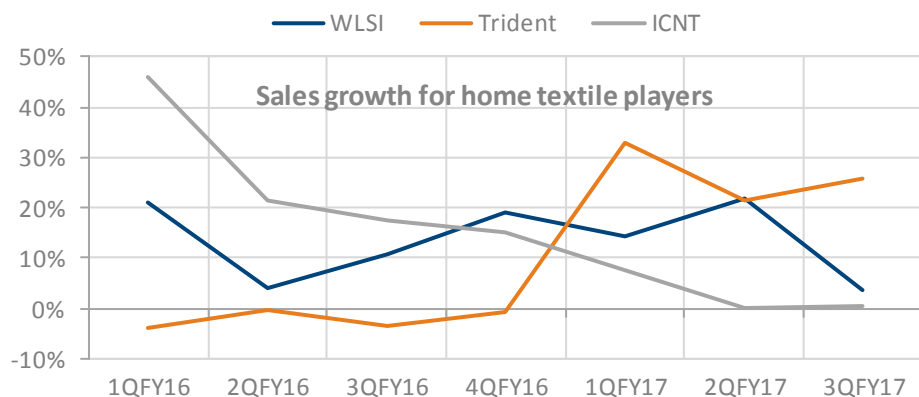
Source: Company, IIFL Research, Bloomberg; \*Bloomberg estimates

## 4Q to benefit from US towel export, rising yarn prices

### US towel exports continue to drive growth for home textile players

- Towel exports to the US from India have seen robust growth in 4QFY17. Until February, towels exports from India to the US grew 19% growth vs. 4% growth in 3Q. On the other hand, sheet exports from India to the US continued to decline (down 11% in 4Q vs 4% growth in 3Q).
- As a result, home textile players with higher exposure to the towel segment such as Trident and Welspun would continue to see stronger growth in 4Q, vs. pure sheet players such as Indocount.
- We expect 3% sales growth for Welspun (similar to 3Q) despite loss of Target business (c10% of business) and moderate growth in bed sheets segments. Trident is expected to see healthy 23% sales growth in 4QFY17 (vs 26% in 4Q) driven by continued strength in towels and incremental sales from sheets, which is not in the base.

Figure 4: Divergent trends between towel and sheet players in 9MFY17



Source: Company, IIFL Research

### Higher yarn prices to benefit VTEX

- Domestic cotton prices have remained high despite new crop arrivals in November, as traders/ speculators have stocked up cotton inventory.
- This was expected to weigh on yarn spreads as yarn prices are linked to international cotton prices which did not see any upward pressures. However, with Chinese cotton production moderating and auction of state cotton inventory finding limited buyers, Indian market conditions have started to bear on international markets. As a result, cotton prices and in turn yarn prices have seen healthy growth over 4QFY17.
- Higher yarn prices should benefit VTEX, driving 7.5% sales growth in 4QFY17. However, with lower-cost cotton inventory no longer there in 4Q, gross margins would be flat (vs. 324bps expansion in 3QFY17). Accordingly we expect flattish Ebitda (up 1%).
- Lower depreciation (reduction in estimate of useful life of assets resulted in one-off depreciation charges in FY16) and interest costs (debt levels lower as cotton procurement has been lower than traditional levels) should result in 16.5% PAT growth.
- INR appreciation vs. USD would put further pressure on margins. We forecast a subdued 1% Ebitda growth.

### Expect cotton prices to moderate

- Domestic cotton prices remain at elevated levels despite increase in cotton production and flattish demand. Industry indicates that increase in inventory levels by traders/ speculators have sustained this price.
- Accordingly, industry has kept lower than traditional inventory levels, expecting price correction.
- We expect cotton prices to correct as traders will be forced to reduce inventory due to storage risks (risk of fire during summers).

**Figure 5: USDA India Agriculture Supply and Demand Estimates (updated Apr 2017)**

Cotton (m 480-lb bales)	2014-15	2015-16 Est.	2016-17 Proj
Production	29.5	26.4	27
Consumption	24.5	24.3	23.75
Closing stock	13.5	10.9	12.49
<b>Stock-to-use</b>	<b>55%</b>	<b>45%</b>	<b>53%</b>

Source: USDA, IIFL Research

## Currency appreciation key risk

- Both spinners as well as home textile players are expected to witness Ebitda margin moderation on back of currency appreciation.
- With Chinese competition stronger in home textiles vs. cotton yarn (India is a key determinant of cotton prices), we expect Ebitda impact to be lower for spinners vs. home textile players.
- Further in the home textiles space, we do not expect towels segment to continue witnessing healthy growth as market remains saturated. Further, intense competition in the sheets segment is likely to weigh on player's ability to pass on currency appreciation costs. Government's recent decision to allow rebate on state levies on exports should aid margins for home textile players. However, we expect Ebitda margins for most peers to come under pressure as currency appreciation offsets these gains.
- For Welspun, we expect discontinued Target sales (7 months of Target sales in FY17) to affect FY18 growth.
- For Trident, incremental growth from sheets and increased sheet capacity utilization should moderates growth headwinds in FY18.

**Figure 6: INR has recently seen sharp appreciation vs. USD**


Source: Company, IIFL Research

**Figure 7: Vardhman textiles quarterly estimates**

	1QFY17	2QFY17	3QFY17	4QFY17ii
Net Sales	16,841	17,339	17,157	18,298
% growth	1.9%	5.3%	-0.3%	7.5%
Ebitda	3,865	3,944	4,010	3,855
% growth	10.5%	23.7%	14.3%	0.8%
% margin	23.0	22.7	23.4	21.1
Adj PAT	1,803	1,912	1,808	1,857
% growth	23.8%	52.1%	22.2%	16.5%
% margin	10.7	11.0	10.5	10.2

Source: Company, IIFL Research

**Figure 8: We upgrade FY17/18/19 estimates for VTEX by 4%/6%/6%**

EPS	Current	Old	% change
FY17	129	124	4%
FY18	121	114	6%
FY19	138	130	6%

Source: Company, IIFL Research

## Vardhman Textiles (BUY) financials

### Income statement

Y/e 31 Mar, Consolidated	FY15	FY16	FY17	FY18	FY19
Revenues	67,860	66,369	67,705	69,591	78,836
<b>Ebitda</b>	<b>11,178</b>	<b>13,154</b>	<b>13,745</b>	<b>13,364</b>	<b>15,290</b>
Depreciation and amortisation	-5,322	-4,018	-3,668	-4,060	-4,480
Ebit	5,856	9,136	10,077	9,304	10,810
Non-operating income	1,662	863	1,930	1,935	2,032
Financial expense	-1,249	-977	-956	-916	-876
<b>PBT</b>	<b>6,269</b>	<b>9,022</b>	<b>11,050</b>	<b>10,323</b>	<b>11,966</b>
Exceptionals	0	0	0	0	0
Reported PBT	6,269	9,022	11,050	10,323	11,966
Tax expense	-1,765	-2,724	-3,205	-2,994	-3,590
<b>PAT</b>	<b>4,504</b>	<b>6,299</b>	<b>7,846</b>	<b>7,329</b>	<b>8,376</b>
Minorities, Associates etc.	-502	-513	-466	-398	-459
<b>Attributable PAT</b>	<b>4,002</b>	<b>5,786</b>	<b>7,380</b>	<b>6,932</b>	<b>7,917</b>

### Ratio analysis

Y/e 31 Mar, Consolidated	FY15	FY16	FY17	FY18	FY19
<b>Per share data (Rs)</b>					
Pre-exceptional EPS	62.9	90.9	128.6	120.8	137.9
DPS	10.0	15.0	15.0	17.0	19.0
BVPS	530.3	604.3	675.4	775.4	890.1
<b>Growth ratios (%)</b>					
Revenues	10.0	(2.2)	2.0	2.8	13.3
Ebitda	(23.6)	17.7	4.5	(2.8)	14.4
EPS	(45.3)	44.6	41.4	(6.1)	14.2
<b>Profitability ratios (%)</b>					
Ebitda margin	16.5	19.8	20.3	19.2	19.4
Ebit margin	8.6	13.8	14.9	13.4	13.7
Tax rate	28.2	30.2	29.0	29.0	30.0
Net profit margin	6.6	9.5	11.6	10.5	10.6
<b>Return ratios (%)</b>					
ROE	12.3	16.0	19.1	16.6	16.6
ROCE	10.8	14.4	16.7	15.0	15.9
<b>Solvency ratios (x)</b>					
Net debt-equity	0.4	0.3	0.3	0.2	0.2
Net debt to Ebitda	1.3	1.0	0.9	0.7	0.6
Interest coverage	4.7	9.3	10.5	10.2	12.3

Source: Company, IIFL Research

### Balance sheet

Y/e 31 Mar, Consolidated	FY15	FY16	FY17	FY18	FY19
Cash & cash equivalents	11,836	14,406	14,613	16,511	15,355
Inventories	19,158	20,563	16,654	17,462	19,817
Receivables	8,095	8,257	8,424	8,658	9,808
Other current assets	4,749	4,693	4,788	4,921	5,143
Creditors	2,209	1,992	1,973	2,068	2,347
Other current liabilities	4,720	3,889	5,141	5,489	5,847
<b>Net current assets</b>	<b>36,909</b>	<b>42,038</b>	<b>37,366</b>	<b>39,995</b>	<b>41,929</b>
Fixed assets	29,644	29,796	33,891	36,617	40,944
Intangibles	126	126	126	126	126
Investments	118	134	700	700	700
Other long-term assets	0	0	0	0	0
<b>Total net assets</b>	<b>66,797</b>	<b>72,095</b>	<b>72,082</b>	<b>77,438</b>	<b>83,699</b>
Borrowings	26,402	27,782	26,782	25,782	24,782
Other long-term liabilities	6,643	5,848	6,536	7,155	7,835
Shareholders' equity	33,753	38,465	38,765	44,501	51,082
<b>Total liabilities</b>	<b>66,797</b>	<b>72,095</b>	<b>72,082</b>	<b>77,438</b>	<b>83,699</b>

### Cash flow summary

Y/e 31 Mar, Consolidated	FY15	FY16	FY17	FY18	FY19
<b>EBIT</b>	<b>5,856</b>	<b>9,136</b>	<b>10,077</b>	<b>9,304</b>	<b>10,810</b>
Tax paid	(2,247)	(2,879)	(3,205)	(2,994)	(3,590)
Depreciation and amortization	5,322	4,018	3,668	4,060	4,480
Net working capital change	4,269	(506)	4,880	(732)	(3,089)
Other operating items	923	511	1,396	221	221
Operating cash flow before interest	14,123	10,280	16,817	9,860	8,832
Financial expense	(1,479)	(1,425)	(956)	(916)	(876)
Non-operating income	451	731	1,930	1,935	2,032
Operating cash flow after interest	13,095	9,586	17,790	10,879	9,988
<b>Capital expenditure</b>	<b>(3,051)</b>	<b>(4,064)</b>	<b>(7,762)</b>	<b>(6,786)</b>	<b>(8,807)</b>
<b>Long-term investments</b>	<b>1,281</b>	<b>(1,004)</b>	<b>(566)</b>	-	-
Others	1	-	(7,200)	-	-
<b>Free cash flow</b>	<b>11,326</b>	<b>4,518</b>	<b>2,262</b>	<b>4,092</b>	<b>1,180</b>
Equity raising	-	-	-	-	-
Borrowings	(7,326)	1,380	(1,000)	(1,000)	(1,000)
Dividend	(926)	(3,328)	(1,055)	(1,195)	(1,336)
Net chg in cash and equivalents	3,075	2,570	207	1,897	(1,155)

Source: Company, IIFL Research

## Welspun India (NR) financials

### Income statement

Y/e 31 Mar, Consolidated	FY15	FY16	FY17ii	FY18ii	FY19ii
Revenues	53,025	59,795	66,122	70,011	78,486
<b>Ebitda</b>	<b>12,742</b>	<b>15,575</b>	<b>15,388</b>	<b>15,753</b>	<b>17,672</b>
Depreciation and amortisation	(3,329)	(3,750)	(4,938)	(5,510)	(6,038)
Ebit	9,412	11,825	10,450	10,243	11,634
Non-operating income	949	915	843	759	759
Financial expense	(2,829)	(2,362)	(1,632)	(1,617)	(1,411)
<b>PBT</b>	<b>7,533</b>	<b>10,378</b>	<b>9,662</b>	<b>9,385</b>	<b>10,982</b>
Exceptionals	-	-	(3,702)	-	-
Reported PBT	7,533	10,378	5,959	9,385	10,982
Tax expense	(2,090)	(3,224)	(2,831)	(2,816)	(3,295)
<b>PAT</b>	<b>5,443</b>	<b>7,153</b>	<b>3,129</b>	<b>6,570</b>	<b>7,688</b>
Minorities, Associates etc.	(45)	(125)	(137)	(158)	(189)
<b>Attributable PAT</b>	<b>5,398</b>	<b>7,029</b>	<b>2,991</b>	<b>6,412</b>	<b>7,498</b>

### Ratio analysis

Y/e 31 Mar, Consolidated	FY15	FY16	FY17ii	FY18ii	FY19ii
<b>Per share data (Rs)</b>					
Pre-exceptional EPS	5.4	7.0	6.7	6.4	7.5
DPS	10.5	1.3	0.8	1.1	1.3
BVPS	14.3	19.8	21.8	26.9	32.8
<b>Growth ratios (%)</b>					
Revenues	21.3	12.8	10.6	5.9	12.1
Ebitda	38.3	22.2	(1.2)	2.4	12.2
EPS	26.9	30.2	(4.8)	(4.2)	16.9
<b>Profitability ratios (%)</b>					
Ebitda margin	24.0	26.0	23.3	22.5	22.5
Ebit margin	17.8	19.8	15.8	14.6	14.8
Tax rate	27.7	31.1	47.5	30.0	30.0
Net profit margin	10.3	12.0	4.7	9.4	9.8
<b>Return ratios (%)</b>					
ROE	42.5	41.1	32.0	26.2	25.0
ROCE	23.5	27.1	22.5	20.5	22.2
<b>Solvency ratios (x)</b>					
Net debt-equity	1.8	1.2	1.2	0.9	0.5
Net debt to Ebitda	2.0	1.6	1.7	1.5	1.0
Interest coverage	3.3	5.0	6.4	6.3	8.2

Source: Company, IIFL Research

### Balance sheet

Y/e 31 Mar, Consolidated	FY15	FY16	FY17ii	FY18ii	FY19ii
Cash & cash equivalents	4,766	1,855	2,169	2,820	3,825
Inventories	11,006	11,046	12,681	14,386	16,127
Receivables	4,467	6,114	6,761	7,158	8,025
Other current assets	8,874	8,027	10,869	9,591	10,752
Creditors	6,910	10,080	11,232	11,892	13,332
Other current liabilities	3,855	4,222	4,410	4,976	5,659
<b>Net current assets</b>	<b>18,348</b>	<b>12,741</b>	<b>16,838</b>	<b>17,086</b>	<b>19,738</b>
Fixed assets	26,049	33,435	33,998	35,988	35,450
Intangibles	1,785	1,775	1,775	1,775	1,775
Investments	6	19	19	19	19
Other long-term assets	-	-	-	-	-
<b>Total net assets</b>	<b>46,188</b>	<b>47,970</b>	<b>52,630</b>	<b>54,868</b>	<b>56,982</b>
Borrowings	30,851	26,412	28,912	25,912	21,912
Other long-term liabilities	1,019	1,681	1,818	1,976	2,165
<b>Shareholders' equity</b>	<b>14,318</b>	<b>19,877</b>	<b>21,900</b>	<b>26,980</b>	<b>32,905</b>
<b>Total liabilities</b>	<b>46,188</b>	<b>47,970</b>	<b>52,630</b>	<b>54,868</b>	<b>56,982</b>

### Cash flow summary

Y/e 31 Mar, Consolidated	FY15	FY16	FY17ii	FY18ii	FY19ii
<b>EBIT</b>	<b>9,412</b>	<b>11,825</b>	<b>10,450</b>	<b>10,243</b>	<b>11,634</b>
Tax paid	(1,767)	(2,393)	(2,831)	(2,816)	(3,295)
Depreciation and amortization	3,329	3,750	4,938	5,510	6,038
Net working capital change	(2,252)	2,754	(4,692)	39	(1,888)
Other operating items	668	602	-	-	-
Operating cash flow before interest	9,391	16,538	7,866	12,977	12,489
Financial expense	(3,127)	(2,573)	(1,632)	(1,617)	(1,411)
Non-operating income	237	430	843	759	759
<b>Operating cash flow after interest</b>	<b>6,501</b>	<b>14,394</b>	<b>7,077</b>	<b>12,119</b>	<b>11,837</b>
<b>Capital expenditure</b>	<b>(5,672)</b>	<b>(10,480)</b>	<b>(5,500)</b>	<b>(7,500)</b>	<b>(5,500)</b>
Long-term investments	(362)	925	-	-	-
Others	773	(870)	(2,794)	363	242
<b>Free cash flow</b>	<b>1,240</b>	<b>3,970</b>	<b>(1,218)</b>	<b>4,982</b>	<b>6,579</b>
Equity raising	4	0	-	-	-
Borrowings	568	(4,438)	2,500	(3,000)	(4,000)
Dividend	(711)	(2,443)	(968)	(1,332)	(1,574)
Net chg in cash and equivalents	1,100	(2,911)	314	650	1,005

Source: Company, IIFL Research

## Trident (NR) financials

### Income statement

Y/e 31 Mar, Consolidated	FY15	FY16	FY17ii	FY18ii	FY19ii
Revenues	37,553	36,840	45,571	52,087	57,424
<b>Ebitda</b>	<b>6,608</b>	<b>7,189</b>	<b>9,256</b>	<b>10,555</b>	<b>11,580</b>
Depreciation and amortisation	(3,213)	(3,376)	(4,215)	(4,479)	(4,560)
Ebit	3,395	3,813	5,041	6,075	7,020
Non-operating income	345	317	649	682	716
Financial expense	(2,060)	(1,364)	(1,313)	(1,135)	(968)
<b>PBT</b>	<b>1,680</b>	<b>2,766</b>	<b>4,377</b>	<b>5,622</b>	<b>6,768</b>
Exceptionals	-	-	-	-	-
Reported PBT	1,680	2,766	4,377	5,622	6,768
Tax expense	(501)	(486)	(980)	(1,405)	(1,861)
<b>PAT</b>	<b>1,179</b>	<b>2,280</b>	<b>3,397</b>	<b>4,216</b>	<b>4,907</b>
Minorities, Associates etc.	-	11	12	12	13
<b>Attributable PAT</b>	<b>1,179</b>	<b>2,291</b>	<b>3,409</b>	<b>4,229</b>	<b>4,920</b>

### Ratio analysis

Y/e 31 Mar, Consolidated	FY15	FY16	FY17ii	FY18ii	FY19ii
<b>Per share data (Rs)</b>					
Pre-exceptional EPS	2.3	4.5	6.7	8.3	9.7
DPS	0.6	0.9	1.0	1.5	1.5
BVPS	28.6	34.9	40.4	46.9	54.8
<b>Growth ratios (%)</b>					
Revenues	(2.9)	(1.9)	23.7	14.3	10.2
Ebitda	(9.2)	8.8	28.7	14.0	9.7
EPS	(62.8)	94.1	48.8	24.1	16.3
<b>Profitability ratios (%)</b>					
Ebitda margin	17.6	19.5	20.3	20.3	20.2
Ebit margin	9.0	10.4	11.1	11.7	12.2
Tax rate	29.8	17.6	22.4	25.0	27.5
Net profit margin	3.1	6.2	7.5	8.1	8.6
<b>Return ratios (%)</b>					
ROE	9.9	14.2	17.8	19.0	19.0
ROCE	11.0	9.0	11.2	13.7	15.8
<b>Solvency ratios (x)</b>					
Net debt-equity	1.7	1.8	1.3	1.0	0.6
Net debt to Ebitda	3.8	4.5	2.8	2.2	1.5
Interest coverage	1.6	2.8	3.8	5.4	7.3

Source: Company, IIFL Research

### Balance sheet

Y/e 31 Mar, Consolidated	FY15	FY16	FY17ii	FY18ii	FY19ii
Cash & cash equivalents	377	1,026	2,887	1,738	3,329
Inventories	7,508	9,092	7,491	10,703	11,799
Receivables	2,033	1,767	2,186	2,499	2,755
Other current assets	3,603	4,939	6,110	6,984	7,699
Creditors	2,191	2,219	2,123	2,426	2,675
Other current liabilities	1,282	1,222	1,656	1,962	1,962
Net current assets	10,048	13,385	14,896	17,535	20,945
Fixed assets	31,447	39,084	35,868	32,539	29,129
<b>Intangibles</b>					
Investments	102	729	729	729	729
<b>Other long-term assets</b>					
Total net assets	41,597	53,197	51,493	50,802	50,803
Borrowings	25,801	33,681	29,181	25,181	21,181
Other long-term liabilities	1,242	1,727	1,727	1,727	1,727
Shareholders' equity	14,554	17,789	20,585	23,894	27,895
<b>Total liabilities</b>	<b>41,597</b>	<b>53,197</b>	<b>51,493</b>	<b>50,802</b>	<b>50,803</b>

### Cash flow summary

Y/e 31 Mar, Consolidated	FY15	FY16	FY17ii	FY18ii	FY19ii
<b>EBIT</b>	<b>3,395</b>	<b>3,813</b>	<b>5,041</b>	<b>6,075</b>	<b>7,020</b>
Tax paid	(501)	(486)	(980)	(1,405)	(1,861)
Depreciation and amortization	3,213	3,376	4,215	4,479	4,560
Net working capital change	(1,022)	(2,866)	(85)	(4,094)	(1,819)
<b>Other operating items</b>					
Operating cash flow before interest	5,085	3,838	8,191	5,055	7,900
Financial expense	(2,060)	(1,364)	(1,313)	(1,135)	(968)
Non-operating income	345	328	661	694	729
<b>Operating cash flow after interest</b>	<b>3,370</b>	<b>2,802</b>	<b>7,539</b>	<b>4,614</b>	<b>7,660</b>
<b>Capital expenditure</b>					
Long-term investments	883	(627)	-	-	-
Others	94	391	-	-	-
<b>Free cash flow</b>	<b>(11,159)</b>	<b>(8,354)</b>	<b>6,539</b>	<b>3,464</b>	<b>6,510</b>
Equity raising	4,280	1,669	434	306	0
Borrowings	7,179	7,880	(4,500)	(4,000)	(4,000)
Dividend	(341)	(546)	(613)	(919)	(919)
Net chg in cash and equivalents	(41)	649	1,861	(1,149)	1,591

Source: Company, IIFL Research



**Disclosure : Published in 2017, © India Infoline Ltd 2017**

India Infoline Group (hereinafter referred as IIFL) is engaged in diversified financial services business including equity broking, DP services, merchant banking, portfolio management services, distribution of Mutual Fund, insurance products and other investment products and also loans and finance business. India Infoline Ltd ("hereinafter referred as IIL") is a part of the IIFL and is a member of the National Stock Exchange of India Limited ("NSE") and the BSE Limited ("BSE"). IIL is also a Depository Participant registered with NSDL & CDSL, a SEBI registered merchant banker and a SEBI registered portfolio manager. IIL is a large broking house catering to retail, HNI and institutional clients. It operates through its branches and authorised persons and sub-brokers spread across the country and the clients are provided online trading through internet and offline trading through branches and Customer Care.

- a) This research report ("Report") is for the personal information of the authorized recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without IIL's prior permission. The information provided in the Report is from publicly available data, which we believe, are reliable. While reasonable endeavors have been made to present reliable data in the Report so far as it relates to current and historical information, but IIL does not guarantee the accuracy or completeness of the data in the Report. Accordingly, IIL or any of its connected persons including its directors or subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this publication.
- b) Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by IIFL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.
- c) The Report also includes analysis and views of our research team. The Report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed in the Report are our current opinions as of the date of the Report and may be subject to change from time to time without notice. IIL or any persons connected with it do not accept any liability arising from the use of this document.
- d) Investors should not solely rely on the information contained in this Report and must make investment decisions based on their own investment objectives, judgment, risk profile and financial position. The recipients of this Report may take professional advice before acting on this information.
- e) IIL has other business segments / divisions with independent research teams separated by 'Chinese walls' catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc and therefore, may at times have, different and contrary views on stocks, sectors and markets.
- f) This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject IIL and its affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this Report may come are required to inform themselves of and to observe such restrictions.
- g) As IIL along with its associates, are engaged in various financial services business and so might have financial, business or other interests in other entities including the subject company(ies) mentioned in this Report. However, IIL encourages independence in preparation of research report and strives to minimize conflict in preparation of research report. IIL and its associates did not receive any compensation or other benefits from the subject company(ies) mentioned in the Report or from a third party in connection with preparation of the Report. Accordingly, IIL and its associates do not have any material conflict of interest at the time of publication of this Report.
- h) As IIL and its associates are engaged in various financial services business, it might have:-
  - (a) received any compensation (except in connection with the preparation of this Report) from the subject company in the past twelve months; (b) managed or co-managed public offering of securities for the subject company in the past twelve months; (c) received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) engaged in market making activity for the subject company.
- i) IIL and its associates collectively do not own (in their proprietary position) 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report.
- j) The Research Analyst engaged in preparation of this Report or his/her relative:-
  - (a) does not have any financial interests in the subject company (ies) mentioned in this report; (b) does not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) does not have any other material conflict of interest at the time of publication of the research report.
- k) The Research Analyst engaged in preparation of this Report:-
  - (a) has not received any compensation from the subject company in the past twelve months; (b) has not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) has not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) has not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the research report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.
- L) IIFL/CAP accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of IIFL/CAP and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

We submit that no material disciplinary action has been taken on IIL by any regulatory authority impacting Equity Research Analysis.

A graph of daily closing prices of securities is available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp>, [www.bseindia.com](http://www.bseindia.com) and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" period in the price chart).

**Name, Qualification and Certification of Research Analyst:** Avi Mehta(PGDBM), Sameer Gupta(PGPM)

**India Infoline Limited (Formerly "India Infoline Distribution Company Limited"), CIN No.: U99999MH1996PLC132983**, Corporate Office – IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai – 400013 Tel: (91-22) 4249 9000 .Fax: (91-22) 40609049, Regd. Office – IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane – 400604 Tel: (91-22) 25806650. Fax: (91-22) 25806654 E-mail: mail@indiainfoline.com Website: www.indiainfoline.com, Refer www.indiainfoline.com for detail of Associates.

**National Stock Exchange of India Ltd. SEBI Regn. No. :** INB231097537/ INF231097537/ INE231097537, Bombay Stock Exchange Ltd. SEBI Regn. No.:INB011097533/ INF011097533/ BSE-Currency, MCX Stock Exchange Ltd. SEBI Regn. No.: INB261097530/ INF261097530/ INE261097537, United Stock Exchange Ltd. SEBI Regn. No.: INE271097532, PMS SEBI Regn. No. INP000002213, IA SEBI Regn. No. INA000000623, SEBI RA Regn.:- INH000000248

**Key to our recommendation structure**

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

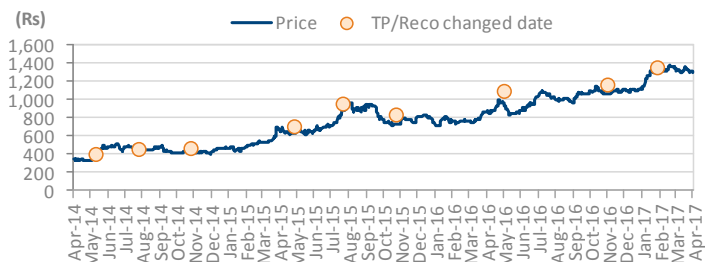
**Add** - Stock expected to give a return of 0-10% over the hurdle rate, i.e. a positive return of 10%+.

**Reduce** - Stock expected to return less than the hurdle rate, i.e. return of less than 10%.

**Distribution of Ratings:** Out of 206 stocks rated in the IIFL coverage universe, 113 have BUY ratings, 9 have SELL ratings, 57 have ADD ratings and 27 have REDUCE ratings

**Price Target:** Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.

**Vardhman Textiles: 3 year price and rating history**



Date	Close price (Rs)	Target price (Rs)	Rating
27 May 2014	361	405	BUY
11 Aug 2014	441	460	BUY
11 Nov 2014	420	470	BUY
13 May 2015	638	710	BUY
07 Aug 2015	844	960	BUY
09 Nov 2015	728	840	BUY
18 May 2016	972	1100	BUY
17 Nov 2016	1061	1170	BUY
13 Feb 2017	1291	1360	BUY