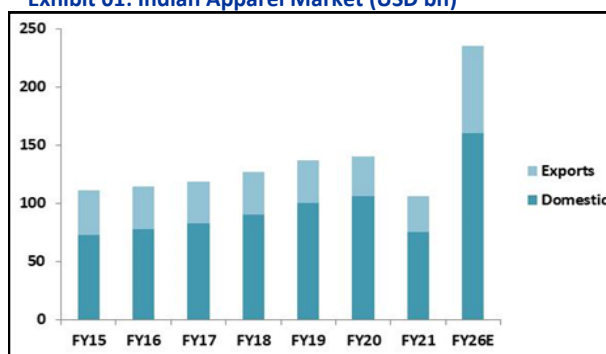


Overview of Textile Sector: The Indian Textiles and Apparel industry (T&A) contributed 2.3% to India's GDP, 13% to industrial production and 12% to export earnings. (as per IBEF). Indian T&A production market stands at USD106bn as of FY21 with as high as ~70% of the demand being driven by the domestic market. The overall Indian textiles market is expected to be worth USD209bn by 2029. The domestic market for apparel and lifestyle products, currently estimated at USD85bn is expected to reach USD160bn by 2025. On the other hand, the exports have been steady at ~USD36-38bn since FY15 and expected to be ~USD44bn by FY22. The combination of higher exports with stable domestic market demand should help the sector grow at a CAGR of ~16% over the next 5 years.

Exhibit 01: Indian Apparel Market (USD bn)

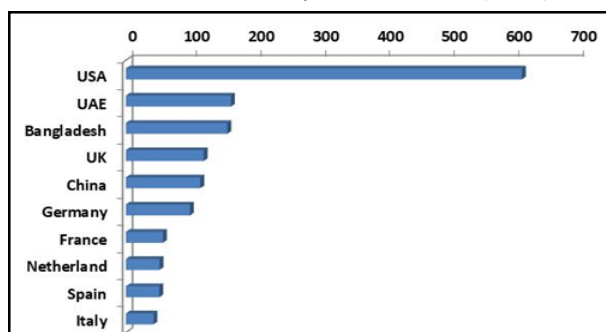


Source: Industry Reports, Progressive Research

India's textile industry is seeing increased exports of cotton and made-ups, which together formed ~37% of the total textile exports in FY21. Exports of knitted and woven readymade garments remain subdued. Cotton, the most used textile fiber in the world; has the largest market share of all the major fibers considered. The Indian textile industry is predominantly cotton based with almost 75% of the spun yarn in the country being produced from cotton. In FY20, the cotton production in India stood at 36.5 million bales, which was expected to increase to 37.1 million bales in FY21 with expected consumption to reach 114 million bales.

Government Initiatives: The added optimism arises from the focus of the GOI on the T&A industry via incentives like rebate of state and central taxes and levies, mega investment textiles parks and PLI for the manmade fiber segment. Further, the stance of the GOI on Free Trade Agreements (FTA) is also a welcome policy change for the T&A players. The GOI since 2014 has been hesitant of signing any new meaningful FTAs, which reflected in Indian T&A sector losing its market share to Bangladesh and Vietnam. However, we see the government being more open to FTAs with the Textile Minister of GOI confirming that several of them could be signed in FY22 (India is currently negotiating with different countries for the FTAs).

Exhibit 02: Indian Textile Export Destinations (Rs bn)



Source: dashboard.commerce.gov.in, Progressive Research

SNAPSHOT				
52 week H / L	Mcap (INR mn)			
206/38	509			
Face value: 10				
BSE Code	NSE CODE			
502873	-			
Annual Performance				
(Rs mn)	FY19	FY20	FY21	FY22E
Total Revenue	914	818	966	1,364
EBITDA	28	44	94	157
EBITDA (%)	3.1	5.4	9.7	11.5
Other Income	21	19	13	16
Interest	30	33	25	28
Depreciation	19	26	27	28
PBT	0	4	55	116
PAT	(3)	3	36	76
Equity (Rs mn)	38	38	38	39
EPS (INR)	(1)	1	9	20
Quarterly Performance				
Parameters (Rs mn)	Mar-21	Jun-21	Sept-21	Dec-21
Sales (Net)	311	309	335	357
EBITDA	29	46	45	28
EBITDA (%)	9.4	14.9	13.5	7.8
Other Income	4	6	4	3
Interest	8	6	7	8
Depreciation	7	7	7	8
PAT	10	29	27	11
Equity (Rs mn)	38	38	38	38
Ratio Analysis				
Parameters (Rs mn)	FY19	FY20	FY21	FY22E
EV/EBITDA (x)	25.3	14.5	7.2	4.9
EV/Net Sales (x)	0.8	0.8	0.7	0.6
M Cap/Sales (x)	0.6	0.6	0.5	0.4
M Cap/EBITDA (x)	18.1	11.5	5.4	3.2
Debt/Equity (x)	1.7	0.9	1.1	1.0
ROCE (%)	12	17	31	40
Price/Book Value (x)	2.8	2.7	2.3	1.7
P/E (x) (TTM)	-	8.8	5.3	6.0
Shareholding Pattern as on 31st December, 2021				
Parameters	No of Shares	%		
Promoters	2,433,304	63.9		
Institutions	-	-		
Public	1,376,696	36.1		
TOTAL	3,810,000	100.0		

Source: Annual Report, Progressive Research

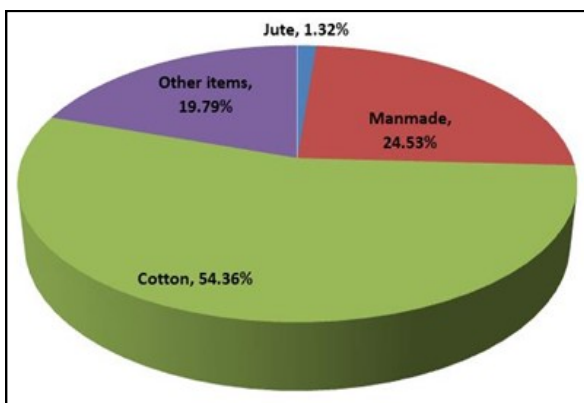
Note: Data is calculated as on 30th March, 2022

Overview of Textile Sector (contd.):

The other steps by the government include number of export promotion policies for the textiles sector. 100% FDI is also allowed in the Indian textile sector under the automatic route. The government allocated funds worth Rs17,822cr (USD2.38bn) between FY16 and FY22 for the Amended Technology Up-gradation Fund Scheme (A-TUFS), to boost the Indian textile industry and enable ease of doing business. Historically initiatives include the introduction of Technology Mission on Cotton (TMC), Technology Upgradation Fund Scheme (TUFS), and Scheme for Integrated Textile Park (SITP), etc. Some of the recent measures include National Technical Textiles Mission (NTTM) for a period of four years (2020-21 to 2023-24) with an outlay of Rs1,480cr.

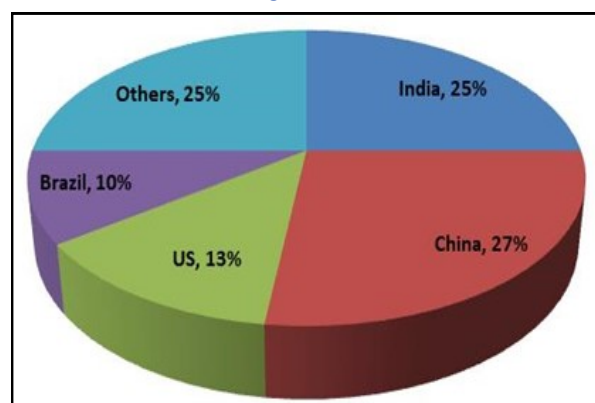
PLI Scheme: The Rs10,683cr (USD1.44bn) PLI scheme over a period of 5 years is expected to be a major booster for the textile manufacturers. The scheme proposes to incentivise Man-Made Fibre (MMF) Apparel, MMF fabrics and 10 segments of Technical Textiles products.

Exhibit 03: Share of Cotton in India's Textile Exports



Source: IBEF Report, Progressive Research

Exhibit 04: India 2nd Largest Producer Of Cotton After China



Source: IBEF Report, Progressive Research

Sectors' Challenges:

- Fund allocation is a major limitation for the textile industry, where the Finance Ministry approved only Rs3,631.64cr for the textile ministry as against the proposed outlay of Rs16,883cr during FY22.
- Industry risk factors are related to the GST issue, gap in proposed outlay and amount approved, low performance/manufacturing activity but high prices, and poor textile machinery performance.
- Other generic factors like weakened consumer demand or production networks; obsolete technology, inflexible labour laws, infrastructure bottlenecks, and fragmented industry; the major role of the unorganised and small players hit by demonetization, rolling out of GST and the Covid-19 pandemic.

The Sweeping Ban: US Senate passed the bill to ban Xinjiang imports

The US market is ~15% of the global T&A imports making it one of the key consumers' in the global T&A trade. In December 2021, the US President signed into law legislation that bans imports from China's Xinjiang region over concerns about forced labour. The workers' rights consortium estimates that American brands and retailers import more than 1.5 billion garments that use Xinjiang materials every year, representing more than USD20bn in retail sales. Xinjiang constitutes ~20% of the global cotton market. The ban definitely is the key for garment manufacturers. This has led to increase in demand for Indian Cotton and Cotton yarn catering to the supply re-adjustment. (CAGR growth of ~35%, FY19-21). More countries are dependent on India for the cotton requirements post the ban leading to strong growth in Indian cotton exports. The fact that Indian yarn is still cheaper than the global prices indicates the underlying global demand, and hence the cotton players in India are enjoying more exports. 85% of the cotton produced in China is from the Xinjiang region, thereby translating to ~22% of the global demand.

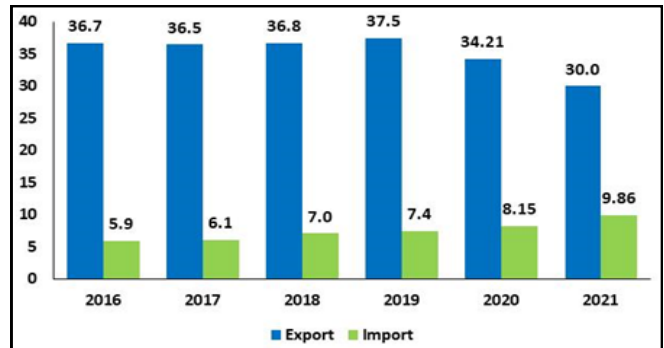
About the Company: H.P. Cotton Textile Mills Limited (HP Cotton) is one of the largest exporters of cotton specialty yarns and cotton sewing threads from India. Primarily it is engaged in the manufacturing of threads. Established in 1984, the company, which is a part of the Dora Group, a leading textile group of India; specializes in the manufacturing of cotton yarns and threads. The company's manufacturing plant at Hisar (Haryana), processes raw fiber into finished and packaged product, having a manufacturing capacity of 4.8 million kilograms per year. The plant is equipped with the latest machinery which consists of 25,000 ring spinning spindles including combing integrated with autoconers, doubling, TFO-twisting, gas-singeing, hank-winding; modern process house for scouring, bleaching, mercerizing, dyeing, polishing and glazing; complete finishing facility for balling, skeining, spooling, tubing and packaging. Mr. Kailash Kumar Agarwal is the Chairman and Managing Director of the company.

Investment Rationale:

(A) Presence in Textile Exports: The Key Edge

Exports have always been a key feature of India's textile and apparel sector. India is world's sixth largest textile and apparel exporter globally. The capacities which have been built over the years have led to economies of scale resulting into low cost of production per unit. This gives an edge to the country's textile exporters (over the key global peers) as reflected in the value of exports from the sector over the years. As per the Textile Secretary; India's textiles exports are expected to cross USD40bn during the current fiscal (USD100bn target over the next 5 years). The growth being witnessed in the textile sector has been largely led by increase in exports of Cotton and Cotton yarn and the Made-ups. More than 3/4th of the textile export market in India is from Knitted RMG, Woven RMG, Cotton and Made-ups.

Exhibit 05: Trends In Textile Trade (USD bn)

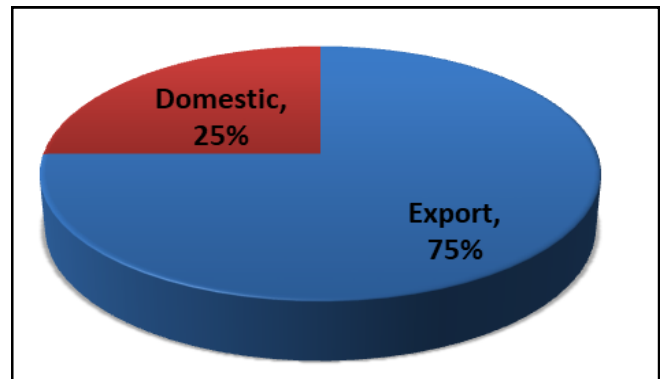


Source: IBEF/Ministry Of Commerce & Industry/Textiles, Progressive Research

Some of the key factors that would lead to further growth of exports:

- China Plus One has led to several western countries looking at alternate markets
- Better availability of skilled man power in India
- Government initiatives such as PLI and others
- The trade tension between US-China leading to higher import duty on Chinese apparels
- The ban of cotton from the Xingjiang region should benefit Indian cotton yarn exporters
- Probable FTAs
- Given the sourcing advantage, vertically integrated players should gain more tractions
- India has the right to win in the made-ups being the 2nd largest

Exhibit 06: Domestic and Exports Breakup



Source: IBEF/Ministry Of Commerce & Industry/Textiles, Progressive Research

HP Cotton has very well capitalized on tapping the export opportunities. It stands a strong market reputation for its high-quality products; evident from the fact that it exports to over 63 countries worldwide. **Exports contribute about 75% of the total revenues of the company.** Also, about 65-70% of the total exports is customised or tailor made exports for the company. The expertise and long standing presence of the company provides it the edge of being a preferred vendor both in the domestic as well as the exports market.

(B) Consumerism and Higher Disposable Income: Rising income and resultant higher disposable income in the rural and urban economy has been one of the key factors propelling the growth of textile sector. With disposable income comes a change in the lifestyle of the consumers, attire being one of the influenced. Although pandemic was a laggard, with things getting back to normalcy so should be the attire consciousness. Variety additions across the apparels industry is and will be a boost to the key suppliers like H.P. Cotton. The start material for the value chain would be the first to be in demand. Further, growth in the e-commerce arena where abundant supply, both in terms of latest trend and economical edge is the key; will be an add-on to the overall demand in the industry. This upward push will augur well for the company with the range of offerings that it has and the extent of customization that is possible to suit the requirements of different customers.

(C) The Natural Trigger-Environmental Concern: One of the environmental issues faced globally is global warming (increase in the average temperature). Increased temperatures are to be dealt led by the environmental heat, where attire is one of the essentials. There is a significant increase in the usage of cotton fiber over worsted-spun fiber, leading to uptrend in the usage of cotton fabrics. Being strongly present in this domain of business; H.P. Cotton stands to make from the opportunity, further expanding and growing its business with the focus being more towards the overseas demand; while it is already catering to the domestic requisites.

(D) Range of Products With Customization: H.P. Cotton is majorly known as the manufacturer of threads. Threads being the base for any further value-add; there is a range of products that the company offers. The company produces two types of threads, including Sewing Threads and Hosiery Yarn. It offers products ranging in composition, yarn thicknesses, strength, size, shapes, twists, make-up, packaging and palette of colors to mention a few. The product range includes, Crocheta-Crochet Threads, Peacock Hand Knitting Yarn, Embroidery Threads, Lace Threads, Patchwork and Quilting Threads, Kite Flying Thread and Cotton Sewing Threads. It offers its products for a range of domestic and industrial applications. Overall, the company has been present in the offering space for decades and exactly understands the industry dynamics as well as the product variations that it demands.

Investment Rationale (contd.):

Make your own thread:

One of the initiatives taken by the company to be a customized supplier is the concept of **Create your own thread**. The company has the mechanism to create the thread as per the customers' requirement in terms of every aspect of the thread, be it the colour, thickness, fiber composition, length, shape; all parameters can be mutated as per the requisite. This is one of the key offerings of the company towards selective customization across its entire product range which would be a key distinguishing factor going forward.

Exhibit 07: Product Range

Crocheta-Crochet Threads



Peacock Hand Knitting Yarn



Kite Flying Threads



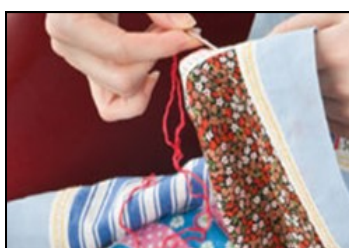
Lace Threads



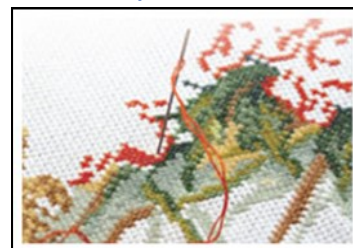
Cotton Sewing Threads



Patchwork & Quilting Threads



Embroidery Threads



Source: Company Website

(E) Capex Cycle Across The Sector:

There has been a sharp improvement seen in the capacity utilization across most of the textile players, especially the ones with exposure to exports with the opening up of the global economy. There have been aggressive capex plans announced across the different segments of T&A (spinning, processing, made-ups and garment manufacturing) to meet the pent up global demand which would be beneficial to Indian spinners/home textile players/garment and apparels space with regard to exports. The Indian textile space enjoys the benefits of presence across the value chain, availability of raw material, superior quality of products, and long standing relationship with global customers. All of these give the edge the industry needs over other countries with regard to uptick in the export revenues. This indicates the upcoming demand for yarns and threads as an integral part of manufacturing and that's where H.P. Cotton stands to benefit. Fructifying capex will upscale the demand locally as well as on exports front as a trigger, we bet on overall growth of the company going forward.

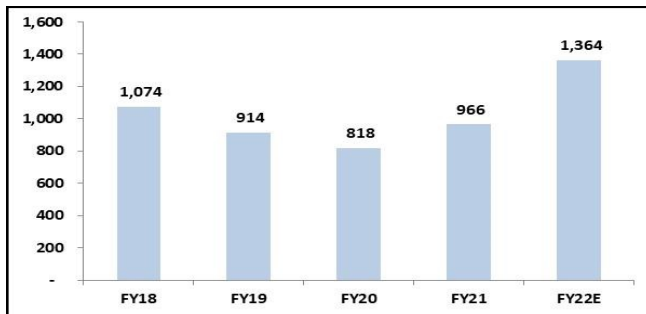
(F) PLI Benefit-Establishing Wholly Owned Subsidiary:

The PLI scheme is intended to promote production of MMF Apparel & Fabrics and Technical Textiles products in the country to enable the textile industry to achieve size and scale; become globally competitive and a creator of employment opportunities for people. The scheme is to support creation of a viable enterprise and competitive textile industry. The overall financial outlay stands at Rs10,683cr. HP Cotton has received approval to establish a wholly owned subsidiary for PLI scheme for textiles and to make investment by way of capital/debentures/loans/and or corporate guarantees, subject to the approval of application filed under PLI scheme issued by Ministry of Textiles, GOI. Subsequent to the approval of application under the PLI Scheme; the Board of Directors will approve and authorize any director of the company to establish a wholly owned subsidiary company and complete the necessary formalities thereof.

Financials:

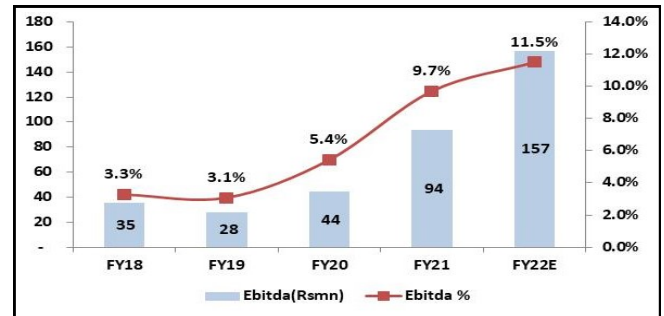
FY21 saw a decent growth in the revenues coupled with higher operating margins. The gradual turnaround in profits is also pretty evident in FY21 numbers which continued in 9MFY22 as well. This is attributed to the enhanced capacities across the plants through modernization and upgradation as well as through the new additions. With regard to the capex, the company has routed Rs110mn towards the new plant (dyeing) for enhancing capacities. Through the capex undertaken, enhancement of the output ratio and better quality end products are expected going forward.

Exhibit 08: Sales Trend (Rs mn)



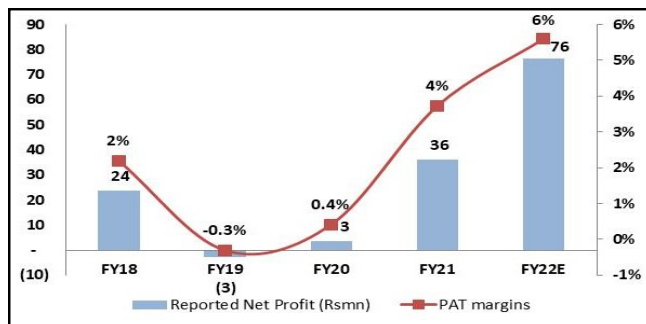
Source: Annual Reports, Progressive Research

Exhibit 09: Ebitda (Rs mn) v/s Ebitda Margins (%)



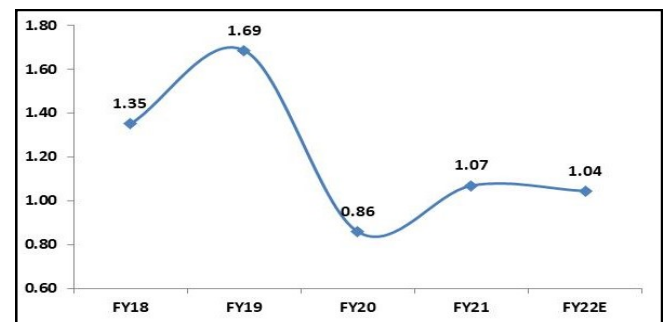
Source: Annual Reports, Progressive Research

Exhibit 10: PAT (Rs mn) v/s PAT Margins (%)



Source: Annual Reports, Progressive Research

Exhibit 11: Debt/Equity Ratio

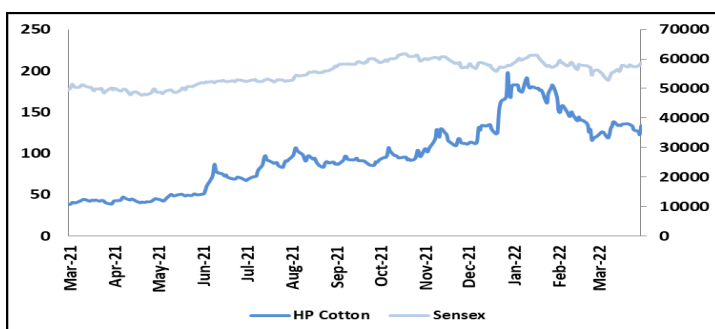


Source: Annual Reports, Progressive Research

Risk and Concerns: The price of cotton, the main raw material, has been highly volatile in recent years. The sudden price increase has resulted in an operating loss. Also, the fragmented industry provides limited flexibility for an immediate increase in prices of finished products. Any significant increase in the price of cotton, and hence in the prices of final products, can impact profitability. As the company has major exports, currency fluctuation is another risk.

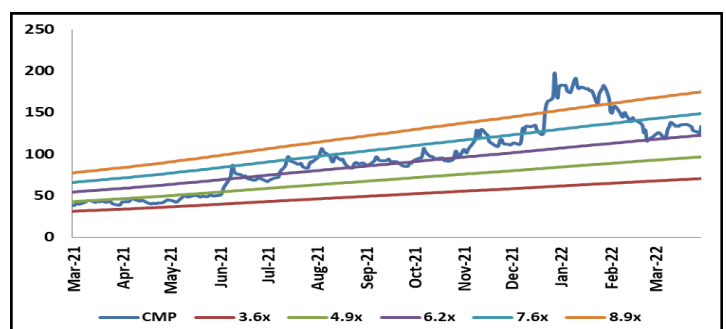
Outlook and Recommendations: We have been witnessing the gradual shift from relying on a single country and diversifying the supply chain as one of the most prominent resultants of the global pandemic. The textile & apparel industry being one of the largest in global trade and exports is also witnessing the similar shift to its benefit through the underlying strength across the value chain, to capitalize on the opportunity which is huge for the Indian textile industry. In line with the same, most of the large textile players have chalked out ambitious expansion plans to spur next leg of growth opportunity. Benefits and growth across the sector would lead to growth of HP Cotton as well. The Management has strongly indicated that the company is effectively dedicated to set and achieve the highest parameters of success through improving operational efficiency, quality enhancement, focus on optimal product mix and effective cost saving practices going forward. This gives a heads up to the conviction that one can build in the company going forward. The Management is rightly chalking out growth plans, keeping in mind the increase in demand expected from the industry. Overall, we feel that with the gradual turnaround in the textile space with modernization taking a stand, the company is well poised to grow and working towards getting a leading position with its range of offerings. We recommend a BUY on the stock with a target price of Rs200 over a 12 months horizon.

Exhibit 12: Price v/s Sensex



Source: Ace Equity, Progressive Research

Exhibit 13: One Year Forward P/E



Source: Ace Equity, Progressive Research

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