# Stock Note

## S P Apparels Limited

June 24, 2024

# S P Apparels Limited



| Industry | LTP | Recommendation | Base Case Fair Value | Bull Case Fair Value | Time Horizon |
|---|---|---|---|---|---|
| Apparels | Rs 680 | Buy in Rs 675-695 band and add on dips in Rs 590-610 band | Rs 746 | Rs 801 | 2-3 quarters |

| | |
|---|---|
| HDFC Scrip Code | SPALTD |
| BSE Code | 540048 |
| NSE Code | SPAL |
| Bloomberg | SPAL:IN |
| CMP June 21, 2024 | 680 |
| Equity Capital (Rs Cr) | 25.1 |
| Face Value (Rs) | 10.0 |
| Equity Share O/S (Cr) | 2.5 |
| Market Cap (Rs Cr) | 1,709 |
| Book Value (Rs) | 304 |
| Avg. 52 Wk Volumes | 53,885 |
| 52 Week High | 697.9 |
| 52 Week Low | 430.3 |

| Share holding Pattern % (Mar, 2024) | |
|---|---|
| Promoters | 61.93 |
| Institutions | 20.40 |
| Non Institutions | 17.67 |
| Total | 100.00 |


* Refer at the end for explanation on Risk Ratings

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## Our Take:

S P Apparels (SPAL) has an established market position in the infantwear segment and strong relationships with large customers in the UK market. The ban by US on all imports from Xinjiang, which accounts for ~20% of garment imports into US, could benefit Indian companies in that segment. SPAL remains one of the key beneficiaries of the recent extension of duty drawback schemes. The company has been increasing its backward integration and after the ongoing expansion is completed, 75-80% of its yarn requirement would be met in-house. A consistent growth in order inflows from existing large customers and addition of new customers are likely to drive a steady volume growth over the medium term, backed by its strong market presence in the infantwear segment. The company has an outstanding order book of Rs 389 cr as of Q4FY24 and it continues to win repeat orders from existing customers. It is a preferred vendor with large retailers including Tesco, ASDA, Primark, Dunnes, K-Mart, Garan, Mothercare among others. Its branded apparel portfolio includes 2 brands - Crocodile (in licensed) and Natalia (owned).

The company has improved efficiencies over the last few years, resulting in increase in capacity utilization from 68% in FY20 to 76% in FY24 and it further expects it to increase to 90% over the next 2 years, which is expected to fuel future growth. SPAL commands a competitive advantage in the niche infant and kids segment, which is characterized with key entry barriers such as requirement of skilled labour, specialized processes for manufacturing large variety and small batch size orders, stringent safety and quality requirements and severe restrictions on the use of hazardous chemicals, dyes, accessories, etc to prevent harming infants and children.

## Valuation & Recommendation:

In FY24, SPAL reported robust export volumes of 59.6 mn pcs, against a global backdrop of sluggish textile demand in Europe and USA due to high inflationary pressure and geopolitical tensions. In-line with the trend of the past few years, global brands are on track for consolidating suppliers, cutting down the number of suppliers who are underperforming or small or non-vertical setups and they will move the business to much bigger in size, backward integrated and the long term associated factories. This has played well for SPAL.

Within the garment division, the company has adopted a two-fold approach where it continues to grow its well established kids wear business (through its expansion in Sivakasi) while simultaneously diversifying into adult wear and inner-wear segments to accelerate the company's growth. The management aims to grow its garmenting division at 7% - 10% over the next few years, excluding Sri Lanka operations, while sustaining EBITDA margins in the range of 18% - 20%.

**We believe investors can buy the stock in Rs 675-695 band (12.3x FY26E EPS) and add on dips in Rs 590-610 (11.0x FY26E EPS) band for a base case fair value of Rs 746 (13.5x FY26E EPS) and bull case fair value of Rs 801 (14.5x FY26E EPS) over the next 2-3 quarters.**

**Financial Summary:**

| Particulars (Rs cr) | Q4FY24 | Q4FY23 | YoY-% | Q3FY24 | QoQ-% | FY22 | FY23 | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating Income | 295 | 275 | 7% | 252 | 17% | 859 | 1078 | 1087 | 1219 | 1391 |
| EBITDA | 41 | 40 | 3% | 34 | 18% | 152 | 143 | 158 | 188 | 223 |
| RPAT | 28 | 21 | 39% | 18 | 62% | 85 | 82 | 90 | 111 | 138 |
| Diluted EPS (Rs) | 11.3 | 8.2 | 39% | 7.0 | 62% | 33.3 | 32.4 | 35.7 | 44.3 | 55.1 |
| RoE-% | | | | | | 14.2 | 12.6 | 12.5 | 13.6 | 14.7 |
| P/E (x) | | | | | | 20.5 | 21.0 | 19.1 | 15.4 | 12.3 |
| EV/EBITDA (x) | | | | | | 12.6 | 12.9 | 11.5 | 9.0 | 7.1 |

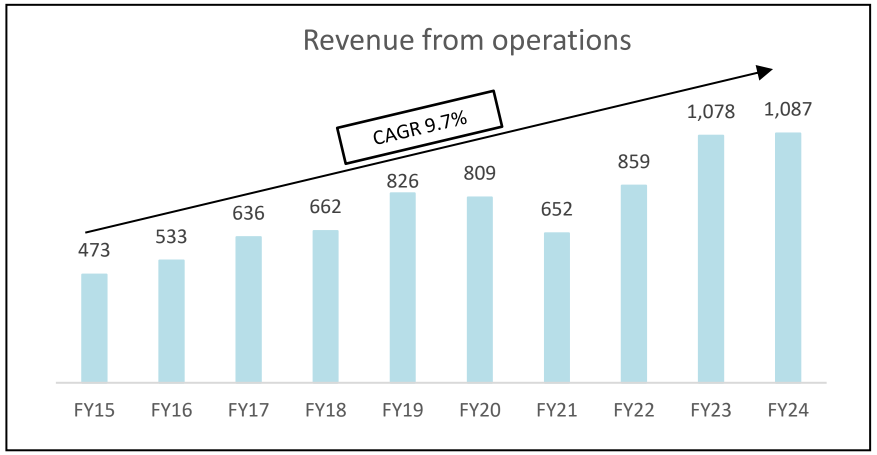
**Segment Mix:**

| | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue (in Rs Cr)** | | | | | | | | | | | | |
| Garment Exports | 116 | 183 | 219 | 220 | 223 | 277 | 219 | 233 | 233 | 246 | 224 | 254 |
| *% of net sales* | *88%* | *82%* | *87%* | *85%* | *88%* | *88%* | *87%* | *85%* | *85%* | *85%* | *89%* | *87%* |
| SPUK | 12 | 25 | 11 | 22 | 12 | 20 | 11 | 15 | 15 | 15 | 14 | 14 |
| *% of net sales* | *9%* | *11%* | *4%* | *9%* | *5%* | *6%* | *4%* | *5%* | *5%* | *5%* | *5%* | *5%* |
| Retail | 5 | 15 | 21 | 16 | 17 | 17 | 21 | 26 | 26 | 28 | 15 | 25 |
| *% of net sales* | *3%* | *7%* | *8%* | *6%* | *7%* | *5%* | *8%* | *9%* | *9%* | *10%* | *6%* | *9%* |
| **EBIT (in Rs Cr)** | | | | | | | | | | | | |
| Garment Exports | 30 | 40 | 44 | 44 | 48 | 50 | 33 | 44 | 41 | 48 | 39 | 39 |
| *EBITDA Margin* | *26%* | *22%* | *20%* | *20%* | *22%* | *18%* | *15%* | *19%* | *18%* | *20%* | *17%* | *15%* |
| SPUK | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | -1 | 1 | -1 |
| *EBITDA Margin* | *0%* | *3%* | *4%* | *5%* | *-2%* | *5%* | *0%* | *-1%* | *-1%* | *-5%* | *4%* | *-5%* |
| Retail | -2 | 0 | -5 | 0 | -1 | -3 | -2 | -3 | -3 | -1 | -3 | 0 |
| *EBITDA Margin* | *-54%* | *3%* | *-26%* | *1%* | *-3%* | *-16%* | *-9%* | *-13%* | *-13%* | *-4%* | *-20%* | *2%* |

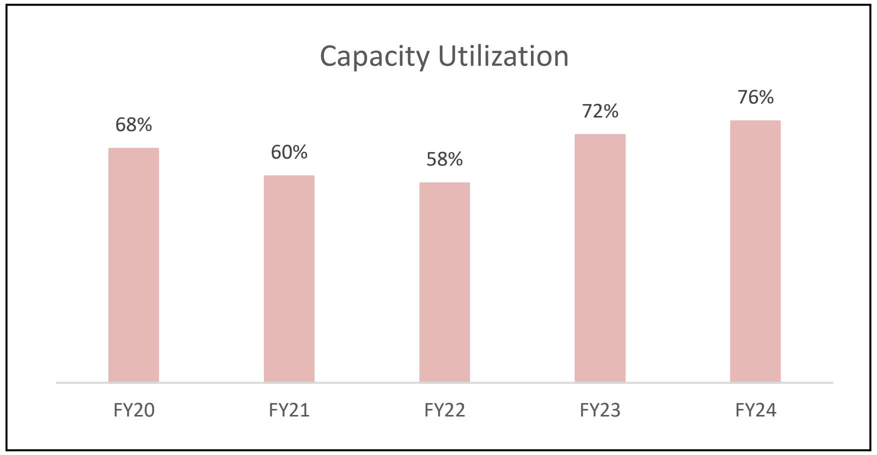
*(Source: Company, HDFC sec)*

## Charts in Focus

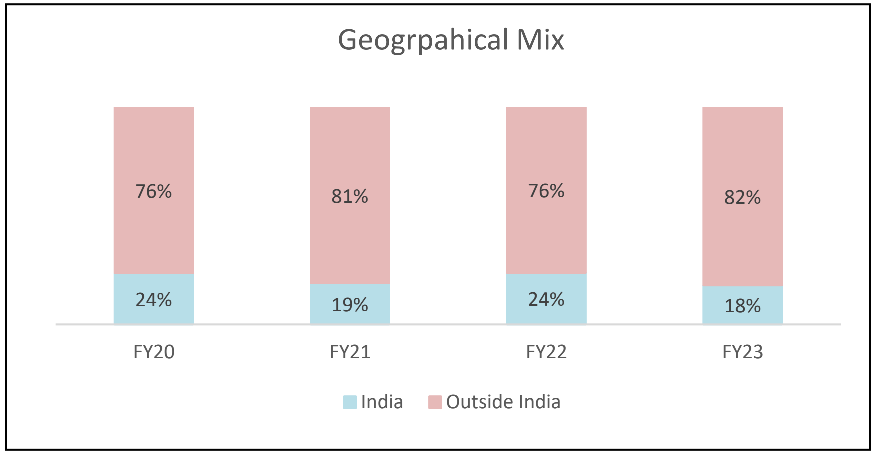
*Strong revenue growth record over the past decade*



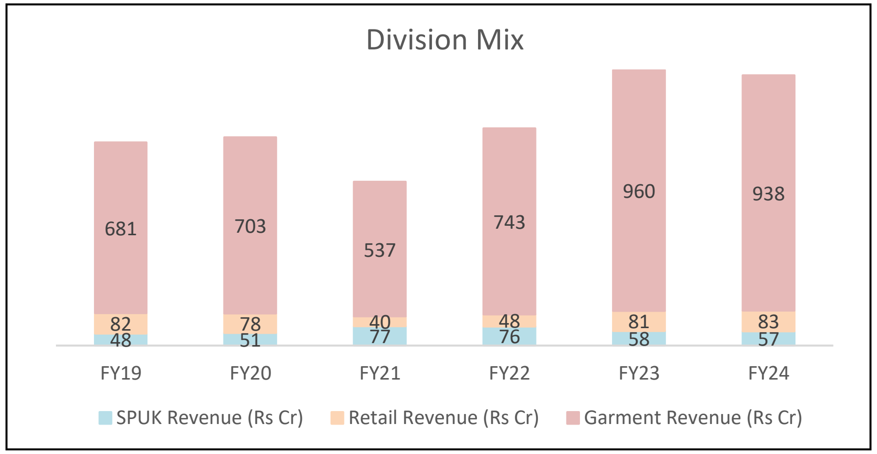

*Focus on improving capacity utilization by improving efficiencies*




*Exports continue to dominate the revenue mix*




*With garment division being the key contributor*




*(Source: Company, HDFC sec)*

## Q4FY24 Result Update

After a challenging few quarters, the Indian textile exports witnessed tailwinds in Q4FY24 on the back of increasing traction towards "China Plus One" strategy, recovery in demand in Europe post the Russia-Ukraine war and concerns regarding increasing concentration of exports from Bangladesh. As a result, international customers have begun to shift their focus on India and Sri Lanka for manufacturing. Consequently, SPAL reported robust consolidated revenue growth of 7.3% YoY to Rs 295 cr in Q4FY24 as compared to Rs 275 cr in Q4FY23. Volume growth led to increase in gross profit by 7.0% YoY to Rs 161.7 cr as compared to Rs 151.1 cr in Q4FY23. Gross profit margin was lower by 13 bps YoY to 54.8% in Q4FY24 as against 54.9% in Q4FY23. EBITDA increased 2.7% YoY to Rs 40.8 cr while EBITDA Margin was down 62 bps YoY to 13.8% during the quarter. Garment exports/SPUK/Retail contribution to the company's topline stood at 86.6%/4.8%/8.6% during the quarter.

## Garment Exports Division

Garment exports recorded topline growth of 9.3% YoY to Rs 254 cr as compared to Rs 233 cr in Q4FY23. Garment export volume improved to 15.5 mn pcs during the quarter as compared to 14.4 mn pcs in the same quarter last year. Garment export volume during the quarter was the highest in the last 8 quarters. Net realization on garment exports also improved to Rs 135.4 per piece as compared to Rs 134.0 in Q3FY24 but remained much lower than Rs 146.6 per piece in Q4FY23. EBITDA for the segment declined by 11.7% YoY to Rs 38.5 cr from Rs 43.6 cr in Q4FY23 on the back of higher air freight due to tensions in the Red Sea. Capacity utilization for the segment stood at 76% in Q4FY24 as compared to 70% in Q4FY23.

Within the garment division, the company has adopted a two-fold approach where it continues to grow its well established kids wear business (through its expansion in Sivakasi) while simultaneously diversifying into adult wear and inner-wear segments to accelerate the company's growth.

## S.P. Apparels UK (SPUK) and Retail Division

SPUK reported 4.4% YoY decline in Q4FY24 to Rs 14.1 cr as compared to Rs 14.7 cr in Q4FY23. EBITDA for the segment declined to Rs -0.7 cr as compared to Rs -0.1 cr in Q4FY23. The company has geared its efforts towards improving the performance of SPUK and aims to double the revenue of the segment in FY25. By the end of Q1FY25, the company anticipates having 5 customers for SPUK, reflecting its growing market presence.

The retail division reported 1.1% YoY decline in revenue in Q4FY24 to Rs 25.4 cr. The segment broke even at the EBITDA level during the quarter, reporting an EBITDA of Rs 0.4 cr in Q4FY24. The company is looking to exit from its HEAD brand under the retail division, shortly. To further fuel growth and capitalize on emerging opportunities, SPAL are considering engaging with strategic or financial partners, a move that will strengthen its footing and enable it to scale new heights in the retail landscape.

**Sri Lanka expansion update –** SPAL's operations in Sri Lanka are already yielding results, with 2 customer orders currently in production. Furthermore, the company has received concurrence from a major customer to proceed with operations that promises to be a significant business opportunity. By the end of this financial year, SPAL anticipates to have 1,000 machines including those from the S.P. UK in addition to S.P. Apparel India, fully operational in Sri Lanka.

**Young Brand acquisition**

During the quarter, the company signed a definitive agreement to acquire 100% stake in Young Brand Apparel Pvt Ltd. (Young Brand or YBAPL) the subsidiary of Bannari Amman Spinning Mills Limited along with the garment unit situated at palladam of Bannari Amman Spinning Mills Limited and land and building situated at SIPCOT (The State Industries Promotion Corporation of Tamil Nadu Limited) for a value of Rs. 223 cr. Incorporated in December 2006, YBAPL is a manufacturing and export company based out of Tamil Nadu. The company manufactures Intimate Wear for brands like American Eagle, Jockey International, Marks & Spencer and Benetton. The company exports to countries like the US, UK, Japan, and Canada.

Under a strategic acquisition initiative, SPAL plans to acquire a 51.33% stake from Bannari Amman of Young Brand Apparel Private Limited and undertake to acquire 49% stake in YBAPL from joint venture partners. To fund this acquisition, SPAL will leverage a balanced combination of internal accruals and borrowed capital. With this acquisition, SPAL will be able to diversify its product offerings by leveraging each other's strengths and further expand its customer base and target markets. The land parcel is expected to boost SPAL's manufacturing capacity to fuel future expansion.

**Key Drivers**

**Well established infant and children-wear garment export business with 100% backward integration**

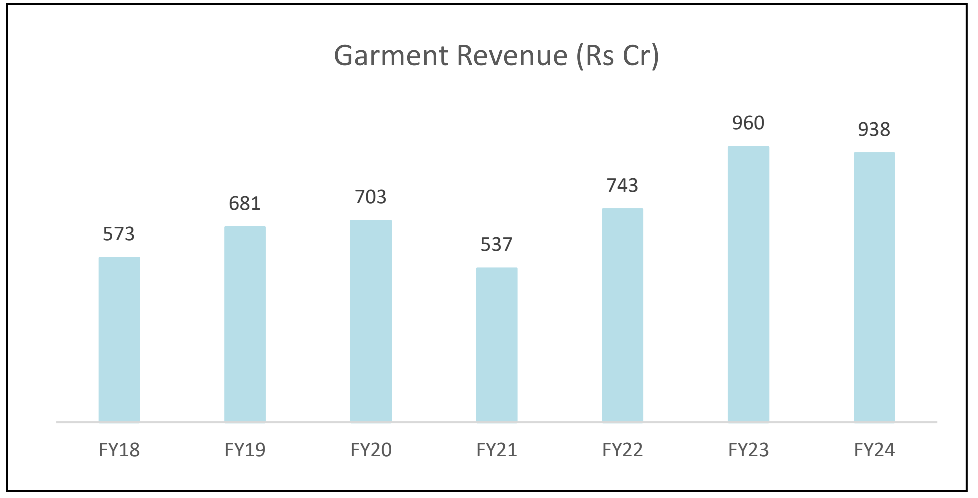
SPAL is a leading exporter of kids and infant apparels, globally. The company predominantly caters to the high-margin value-added infant-wear segment and exports to the leading global retailers, with whom it has established relationships. SPAL's operations are integrated across the textile value chain from spinning to garmenting and further value addition including dying, printing and embroidery. SPAL provides end-to-end garment manufacturing services from grey fabric to finished products. The company currently has around 5,000 manufacturing machines across 21 manufacturing plants. The garment division of the company has grown at a healthy rate of 8.6% CAGR between FY18-24 despite slowdown in demand in key importing nations, inflationary pressure on cotton prices and global geopolitical headwinds. EBITDA margin has remained healthy for the division within the 18%-21% range over the past few years and the management expects it to sustain in the same range, going forward.

The company has improved efficiencies over the last few years, resulting in increase in capacity utilization from 68% in FY20 to 76% in FY24 and it further expects it to increase to 90% over the next 2 years, which is expected to fuel future growth. SPAL commands a competitive advantage in the niche infant and kids segment, which is characterized with key entry barriers such as requirement of skilled labour, specialized processes for manufacturing large variety and small batch size orders, stringent safety and quality requirements and severe restrictions on the use of hazardous chemicals, dyes, accessories, etc to prevent harming infants and children.

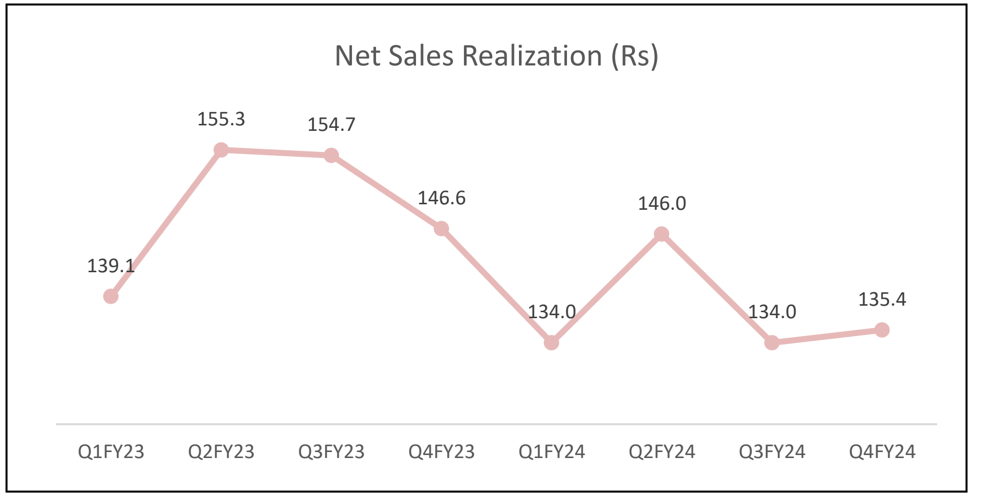
The company through its expertise in concurrently managing multiple large orders with a diversified product range including body suits, sleepsuits, tops, and bottoms has created long standing relationships with reputed global brands across the globe. SPAL continues to grow its foothold in the infants and children-wear garment exports with a planned increase in its manufacturing capacity, both in India and Sri Lanka and also improving its current capacity utilization. The company also aims to increase its offerings in garment exports by diversifying into adultwear and innerwear markets.

The management aims to grow its garmenting division at 7% - 10% over the next few years, excluding Sri Lanka operations, while sustaining EBITDA margins in the range of 18% - 20%.

*Robust garment export revenues over the last few years*




*Realizations have been impacted in recent quarters*



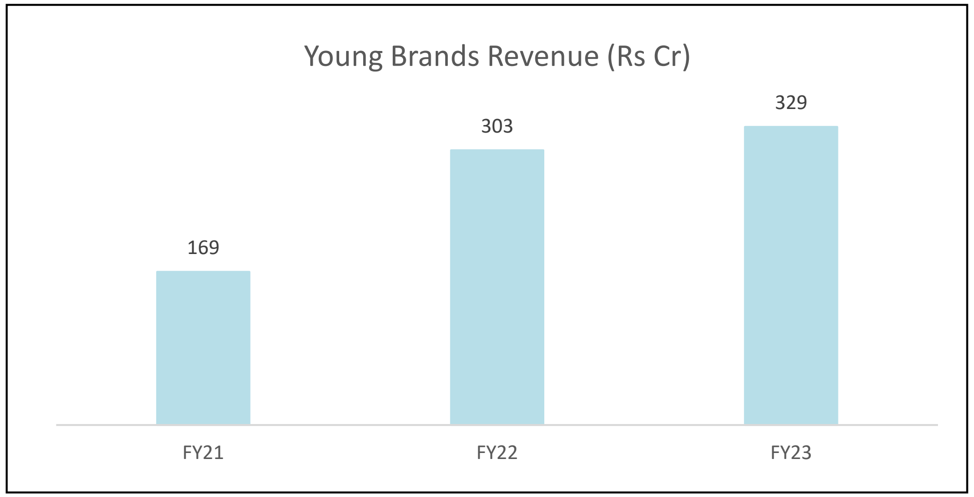

*(Source: Company, HDFC sec)*

**Diversification in adult-wear and inner-wear to provide additional levers of growth**

SPAL aims to improve its product mix by expanding into men, women, intimate wear and other categories both organically and inorganically. To this effect, the company acquired 100% stake in Young Brand Apparels Pvt Ltd, a leading company offering innerwear and outerwear for men, women and kids and specializing in intimate wear. Young Brands owns a 2,80,000 sq. ft state of the art manufacturing facility on a 26-acre site in Chennai's outskirts. Young Brands' marquee export customers include Marks & Spencer, PINK (Victoria's Secret), Jockey and American Eagle. The company exports to countries like the US, UK, Japan, and Canada. The company caters to 2300 direct and around 5000 indirect partners.

Through the acquisition of Young Brands, SPAL added new customers, which provides additional cross-selling opportunities for the company by targeting this additional clientele for cross selling its children-wear products. Young Brands is currently operating at 67% capacity and additional customers from SPAL for innerwear products is expected to result in additional capacity utilization. At current capacity, the revenue potential from Young Brands stands at Rs 450 cr annually, whereas it also has spare land parcel, which can be used by SPAL to increase capacity, thus adding additional revenue potential. We have not considered figures from this acquisition in our estimates awaiting latest and detailed numbers.

*Young brands acquisition to drive growth in innerwear*



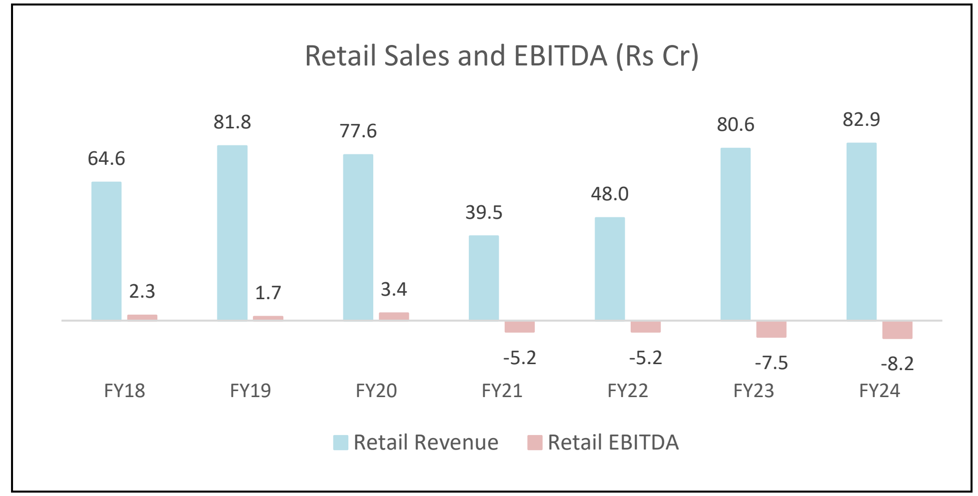

*(Source: Company, HDFC sec)*

**Retail Division evolving into a future growth force**

One of the fastest growing divisions of SPAL, the retail division of SPAL houses a mix of leading and new emerging brands such as “Crocodile”, “Angel & Rocket”, “Head” and “Natalia”. The division has more than 100K loyal customers and operates 246 large format stores across 85,693 sq. ft. retail space and has tie-ups with around 90 distributors. After acquiring a majority stake in CCPL (Crocodile Products Private Limited) in 2006, SPAL opened its first exclusive Crocodile brand outlet in 2008. Further in 2022, SPAL acquired licensee of Angel & Rocket a premium kids wear brand based in the UK and of HEAD brand, premium brand for sports equipment and apparel. SPAL has also acquired the niche brand “Natalia” from Chennai garment exporter SM apparels with an aim to cater to a unique segment of the market, offering western wear with an ethnic flair targeting upwardly Indian women in the age group 20-35 years. While the annual revenue from retail division has improved pre-COVID levels of Rs 77.6 cr in FY20 to Rs 82.9 cr in FY24, the division turned EBITDA positive on a quarterly basis for the first time in Q4FY24. Going forward, the company believes that the division can breakeven at an annual revenue level of Rs 100 cr and given the significant growth potential, the company expects to achieve this milestone in FY25. Given the diversified product portfolio, well-established brands with a pan-India presence, retail division is expected to significantly contribute to the company’s growth, going forward.

*Investing strategically in the retail division to create brands of the future*


*Retail division expected to turn profitable in upcoming years*




*(Source: Company, HDFC sec)*

**Increase in capacity provides growth visibility**

SPAL's current capacity in terms of machines stands at around 5000 machines. The company last year closed down its 4 smaller manufacturing units and is moving to a bigger manufacturing facility in Sivakasi which along with improvement in efficiency is expected to add around 500 machines in FY25. The company's planned expansion in Sri Lanka, where it expects to take advantage of cheap labour following the economic crisis in the country, is expected to add capacity of around 1000 machines over the next year. Additionally, the acquisition of Young Brands will add another 1800 machines. This entire capacity of 8300 machines will be available with company by the end of FY25. Significant capacity addition, along with improving capacity utilization is expected to result in significant growth over the next few years.

**Sri Lanka diversification to provide competitive edge**

In order to take advantage of the cheap labor and cost-effective manufacturing in Sri Lanka, following its economic crisis last year, the company has forayed into having manufacturing units in the country. The company has plans to set up around 1000 machines in FY25 and expand it further to 2000 machines over the next few years in Sri Lanka. With growing anti-China sentiments and customers also looking to diversify away from Bangladesh, India and Sri Lanka have started gaining traction for garment exports. The company is able to leverage its existing customer base for both SPAL as well as SPUK to sell its products from Sri Lanka as well.

In November 2023, the Council of EU Member States and the European Parliament signed an amendment to the existing Generalised Scheme of Preferences (GSP) Regulation, in order to extend the GSP scheme for the period 2024-2027. Sri Lanka is one of the beneficiary countries.

### Financial Summary:

In FY24, SPAL reported robust export volumes of 59.6 mn pcs, against a global backdrop of sluggish textile demand in Europe and USA due to high inflationary pressure and geopolitical tensions. In-line with the trend of the past few years, global brands are on track for consolidating suppliers, cutting down the number of suppliers who are underperforming or small or non-vertical setups and they will move the business to much bigger in size, backward integrated and the long term associated factories. This has played well for SPAL.

Revenue from operations for the year increased by 5.8% YoY to Rs 1087 cr as compared to Rs 1027 cr in FY23. Garments/SPUK/Retail contributed 86.4%/5.2%/8.5% to the company's topline during the year. On the back of improving realizations and reduction in cotton candy prices, gross margins improved by 357 bps during the year to 58.5% from 54.9% in FY23. This also translated into improved EBITDA Margins to 14.5% in FY24 as against 13.2% in FY23. Absolute EBITDA increased 10.7% YoY to Rs 157.8 cr during the year. Consequently, reported PAT was up by 8.6% YoY to Rs 89.6 cr in FY24.

SPUK in FY24 reported revenue of GBP 5.48 mn compared to GBP 5.98 mn in FY23 still grappling with the cascading effect from slowdown due to COVID-19. However, the company expects it to be back on the growth trajectory and double the revenue over the next year with added capacity in Sri Lanka and growing market presence of SPUK. Retail division, during FY24 recorded revenues amounting to Rs. 82.9 crores compared to Rs. 80.6 crores in FY23. The company plans to shortly exit from its retail brand "Head". To further fuel growth and capitalize on emerging opportunities, SPAL is considering engaging with strategic or financial partners, a move that will strengthen its footing and enable it to scale new heights in the retail landscape.

### Risks & Concerns:

**Labour intensive operations -** The products manufactured by the company are labour intensive and it has to constantly hire new people to expand its operations. It faces the problem of finding and retaining skilled labour whenever it wants to add capacity.

**Volatility in cotton prices may impact margins –** The company's key raw materials are cotton and cotton yarn, the prices of which have remained volatile in the past. The high cost of raw materials, including cotton, dyes, chemicals and packaging material, continued to put pressure on the industry. Cotton prices, which had peaked to Rs 1 lakh per candy, came down to Rs 60,000-70,000 per candy but continues to remain above normal levels. Volatile input costs may impede company's margin expansion plans, going forward.

**Geopolitical headwinds may impede exports growth –** The demand situation in the key export markets, especially in the Europe has been volatile over the last 2 years. Global brands and retailers remained cautious in the backdrop of the persistent geopolitical tensions, inflation spikes and energy crisis, along with cost pressures and a tightening monetary policy to fight the same. Higher than target inflation in the US, continuing war in Europe, and reopening of China have been the key factors contributing to the cautious approach. With exports contributing more than 82% of sales, SPAL remains vulnerable to the persistence of geopolitical headwinds going forward. The latest disturbances in the Red sea region has resulted in increase in freight costs which has impacted margins of SPAL.

**Rising competition from neighboring countries –** With the cost of production being much lower in neighboring countries like Bangladesh, Vietnam and Philippines, India's textile exports to US and Europe have faced stiff competition from these countries in the recent years. India's textiles and garments exports have declined over the last five years by 7.6 per cent to $34.24 billion in calendar year 2023 from $37.16 billion in 2018, with China, the EU, Bangladesh and Vietnam dominating global garments trade.
Rising competition and consumption slowdown in developed economies has led to pressure on realisations for SPAL and impacted its margins.

**Changes in regulations and government policies -** The Indian government has come up with several export promotion policies for the textile sector. It has also allowed 100% FDI in the sector under the automatic route. Additionally, the government has also announced other schemes such as PLIs for Textile, 7 Mega Integrated Textile Region and Apparel (PM MITRA) Parks, amongst others. Any changes in government support to the sector may impact the demand environment adversely. Also, weak contract enforcement and rigid labor laws may hinder industry growth.

**Foreign exchange fluctuations -** SPAL derives more than 80% of its revenues from export of garments. Sharp fluctuation in forex rates could impact its margins. This risk is mitigated by back-to-back hedging arrangement undertaken by SPAL, with more than 80% of the receivables hedged in stages upon order confirmation.

## Industry Overview

India is the world's second-largest producer of textiles and garments. It is also the sixth-largest exporter of textiles spanning apparel, home and technical products. India has a 4% share of the global trade in textiles and apparel. The textiles and apparel industry contribute 2.3% to the country's GDP, 13% to industrial production and 12% to the country's exports. The textile industry has around 45 million of workers employed in the sector, including 3.5 million handloom workers. India's textiles and garments exports have declined over the last five years by 7.6% to $34.24 billion in calendar year 2023 from $37.16 billion in 2018. From 2018 to 2023, India saw a 25.46% increase in textile and garment imports, indicating a domestic demand unmet by local production.

### Key Trends:

- Innovation and technology are driving significant advancements in the textile manufacturing industry and transforming the way textiles are produced, designed, and used, and are shaping the future of the textile manufacturing industry.
- At present, the rising demand for textiles and apparel to manufacture premium quality clothing represents one of the key factors influencing the market positively in India
- The easy accessibility and availability of various raw materials, such as cotton, wool, and silk, in India is contributing to the growth of the market.
- Key market players are manufacturing textiles and apparel with sustainable and ethically sourced materials, such as vegan leather and plant-based faux fur, to prevent animal cruelty and reduce the implementation of unethical practices in rearing animals.
- The growing number of e-commerce businesses and distribution channels selling premium quality fabrics and apparel online is offering a favorable market outlook.
- Total FDI inflows in the textiles sector stood at US$ 4.34 billion between April 2000-September 2023. The textile sector has witnessed a spurt in investment during the last five years.

### Government Initiatives:

The Indian government has come up with several export promotion policies for the textile sector. It has also allowed 100% FDI in the sector under the automatic route. Other initiatives taken by the Government of India are:

- PLIs for Textile was launched in 2017 by the Ministry of Textiles to incentivise the manufacturing of textile products in India and to promote their exports.

- Ministry of Textiles has issued a notification to set up 7 Mega Integrated Textile Region and Apparel (PM MITRA) Parks with a total outlay of Rs. 4,445 cr.
- In June 2023, the Government approved R&D projects worth US$ 7.4 million (Rs. 61.09 crore) in the textile sector.
- In February 2023, according to the Union Budget 2023-24, the total allocation for the textile sector was Rs. 4,389 cr. Out of this, Rs. 900 cr is for Amended Technology Upgradation Fund Scheme (ATUFS), Rs. 450 cr for National Technical Textiles Mission, and Rs. 60 cr for Integrated Processing Development Scheme.

## Company Background

Promoted originally as a partnership firm by Mr P Sundararajan in 1989, S P Apparels Ltd (SPAL) is an integrated readymade garment manufacturer of 100% cotton garments, primarily for the infant wear export market. Its manufacturing facilities are located in Tamil Nadu. The company has 18 manufacturing units in and around Avinashi, District Tirupur (knitting, processing, garmenting, printing and embroidery facilities), and in Salem (spinning facility). The company exports to renowned brands/marketers in the EU and US, lending stability to operations.

In order to take advantage of the cheap labor and cost-effective manufacturing in Sri Lanka, the company announced setting up manufacturing operations in the country in 2023. The company has plans to set up around 1000 machines in FY25 and expand it further to 2000 machines over the next few years in Sri Lanka.

## Peer Comparison

| Company | Mcap (Rs cr) | Revenue | | | | EBITDA Margin | | | | PAT | | | | P/E (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY23 | FY24 | FY25E | FY26E | FY23 | FY24 | FY25E | FY26E | FY23 | FY24 | FY25E | FY26E | FY23 | FY24 | FY25E | FY26E |
| SPAL | 1709 | 859 | 1078 | 1087 | 1219 | 17.7 | 13.2 | 14.5 | 15.4 | 85 | 83 | 90 | 111 | 21.0 | 19.1 | 15.4 | 12.3 |
| KPR Mills | 30129 | 5960 | 6060 | 6854 | 7668 | 21.4 | 20.4 | 21.7 | 22.7 | 790 | 789 | 1000 | 1187 | 38.1 | 38.2 | 30.7 | 25.5 |
| Gokaldas Exports | 6447 | 2066 | 2379 | 3843 | 4395 | 14.0 | 9.6 | 10.9 | 12.0 | 158 | 112 | 208 | 292 | 36.6 | 51.5 | 30.0 | 21.4 |

## Financials

### Income Statement

| Particulars (in Rs Cr) | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| **Net Revenues** | **652** | **859** | **1078** | **1087** | **1219** | **1391** |
| ***Growth (%)*** | ***-19.4*** | ***31.8*** | ***25.4*** | ***0.9*** | ***12.1*** | ***14.1*** |
| Operating Expenses | 548 | 708 | 935 | 930 | 1031 | 1168 |
| **EBITDA** | **104** | **152** | **143** | **158** | **188** | **223** |
| ***Growth (%)*** | ***25.5*** | ***45.4*** | ***-6.1*** | ***10.7*** | ***19.0*** | ***18.5*** |
| ***EBITDA Margin (%)*** | ***16.0*** | ***17.7*** | ***13.2*** | ***14.5*** | ***15.4*** | ***16.0*** |
| Depreciation | 32 | 35 | 36 | 38 | 40 | 42 |
| Other Income | 1 | 9 | 23 | 16 | 18 | 21 |
| **EBIT** | **73** | **127** | **129** | **136** | **166** | **202** |
| Interest expenses | 14 | 12 | 19 | 19 | 18 | 17 |
| **PBT** | **59** | **115** | **111** | **118** | **148** | **185** |
| Tax | 16 | 30 | 28 | 28 | 37 | 47 |
| **PAT** | **43** | **85** | **83** | **90** | **111** | **138** |
| Share of Asso./Minority Int. | 0 | 0 | 0 | 0 | 0 | 0 |
| **Adj. PAT** | **43** | **85** | **82** | **90** | **111** | **138** |
| ***Growth (%)*** | ***8.0*** | ***96.4*** | ***-2.7*** | ***8.6*** | ***24.0*** | ***24.5*** |
| EPS | 16.8 | 33.3 | 32.4 | 35.7 | 44.3 | 55.1 |

### Balance Sheet

| Particulars (in Rs Cr) - As at March | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| **SOURCE OF FUNDS** | | | | | | |
| Share Capital | 26 | 26 | 25 | 25 | 25 | 25 |
| Reserves | 533 | 612 | 649 | 739 | 850 | 988 |
| **Shareholders' Funds** | **558** | **638** | **674** | **764** | **875** | **1013** |
| Minority Interest | -6 | -7 | -6 | -6 | -6 | -6 |
| Total Debt | 194 | 231 | 245 | 203 | 203 | 203 |
| Other Non-Curr. Liab | 14 | 14 | 11 | 9 | 14 | 13 |
| Net Deferred Taxes | 30 | 33 | 29 | 29 | 29 | 29 |
| **Total Sources of Funds** | **790** | **909** | **952** | **999** | **1115** | **1253** |
| **APPLICATION OF FUNDS** | | | | | | |
| Net Block & Goodwill | 444 | 450 | 459 | 454 | 439 | 447 |
| CWIP | 10 | 8 | 10 | 19 | 19 | 19 |
| Investments | 0 | 3 | 113 | 51 | 171 | 271 |
| Other Non-Curr. Assets | 22 | 37 | 22 | 67 | 84 | 96 |
| **Total Non-Current Assets** | **476** | **497** | **604** | **591** | **713** | **833** |
| Inventories | 241 | 332 | 297 | 265 | 284 | 320 |
| Debtors | 117 | 116 | 105 | 165 | 164 | 183 |
| Cash & Equivalents | 41 | 52 | 60 | 79 | 87 | 79 |
| Other Current Assets | 37 | 65 | 31 | 42 | 33 | 38 |
| **Total Current Assets** | **436** | **565** | **493** | **551** | **568** | **620** |
| Creditors | 91 | 113 | 99 | 99 | 117 | 145 |
| Other Current Liab & Provisions | 31 | 39 | 46 | 44 | 49 | 56 |
| **Total Current Liabilities** | **122** | **152** | **145** | **143** | **166** | **200** |
| Net Current Assets | 313 | 412 | 347 | 408 | 402 | 420 |
| **Total Application of Funds** | **790** | **909** | **952** | **999** | **1115** | **1253** |

### Cash Flow Statement

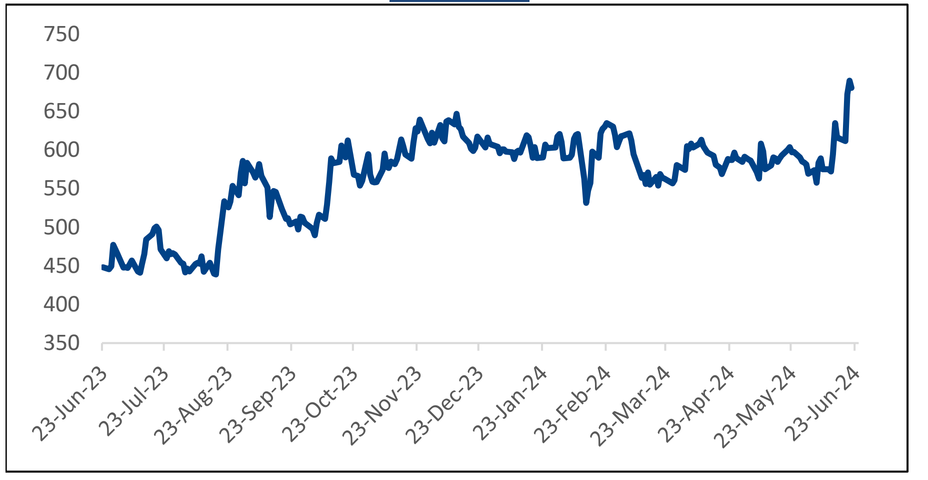
| Particulars (in Rs Cr) | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| Reported PBT | 59 | 115 | 111 | 118 | 148 | 185 |
| Non-operating & EO items | -4 | -8 | 6 | -22 | -12 | -12 |
| Interest Expenses | 10 | 9 | 14 | 17 | 18 | 17 |
| Depreciation | 32 | 35 | 36 | 38 | 40 | 42 |
| Working Capital Change | -3 | -98 | 76 | -38 | 15 | -26 |
| Tax Paid | -14 | -25 | -27 | -33 | -37 | -47 |
| **OPERATING CASH FLOW ( a )** | **81** | **27** | **216** | **79** | **171** | **159** |
| Capex | -44 | -33 | -52 | -54 | -25 | -50 |
| Free Cash Flow | 36 | -6 | 164 | 25 | 146 | 109 |
| Investments | 22 | 3 | -109 | 73 | -120 | -100 |
| Non-operating income | 1 | 1 | 1 | 3 | 0 | 0 |
| **INVESTING CASH FLOW ( b )** | **-21** | **-29** | **-160** | **21** | **-145** | **-150** |
| Debt Issuance / (Repaid) | -32 | 41 | 7 | -42 | 0 | 0 |
| Interest Expenses | -10 | -12 | -14 | -17 | -18 | -17 |
| FCFE | 17 | 27 | 49 | 41 | 8 | -8 |
| Share Capital Issuance | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividend | 0 | -6 | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | -40 | 0 | 0 | 0 |
| **FINANCING CASH FLOW ( c )** | **-42** | **24** | **-48** | **-59** | **-18** | **-17** |
| **NET CASH FLOW (a+b+c)** | **17** | **21** | **8** | **41** | **8** | **-8** |

### Key Ratios

| Particulars | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| **Profitability Ratios (%)** | | | | | | |
| EBITDA Margin | 16.0 | 17.7 | 13.2 | 14.5 | 15.4 | 16.0 |
| EBIT Margin | 11.3 | 14.7 | 12.0 | 12.5 | 13.6 | 14.5 |
| APAT Margin | 6.6 | 9.9 | 7.7 | 8.2 | 9.1 | 9.9 |
| RoE | 8.0 | 14.2 | 12.6 | 12.5 | 13.6 | 14.7 |
| RoCE | 9.8 | 15.6 | 14.5 | 14.5 | 16.2 | 17.6 |
| **Solvency Ratio (x)** | | | | | | |
| Net Debt/EBITDA | 1.5 | 1.2 | 1.3 | 0.8 | 0.6 | 0.6 |
| Net D/E | 0.3 | 0.3 | 0.3 | 0.2 | 0.1 | 0.1 |
| **PER SHARE DATA (Rs)** | | | | | | |
| EPS | 16.8 | 33.3 | 32.4 | 35.7 | 44.3 | 55.1 |
| CEPS | 29.4 | 46.8 | 46.5 | 50.7 | 60.1 | 71.7 |
| BV | 217.3 | 250.2 | 264.2 | 304.3 | 348.6 | 403.7 |
| Dividend | 2.3 | 0.0 | 3.0 | 0.0 | 0.0 | 0.0 |
| **Turnover Ratios (days)** | | | | | | |
| Debtor days | 59 | 49 | 37 | 45 | 49 | 45 |
| Inventory days | 131 | 122 | 106 | 94 | 82 | 79 |
| Creditors days | 49 | 43 | 36 | 33 | 32 | 34 |
| **Valuation (X)** | | | | | | |
| P/E | 40 | 20 | 21 | 19 | 15 | 12 |
| P/BV | 3 | 3 | 3 | 2 | 2 | 2 |
| EV/EBITDA | 18 | 13 | 13 | 11 | 9 | 7 |
| EV / Revenues | 3 | 2 | 2 | 2 | 1 | 1 |
| Dividend Yield (%) | 0.3 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 |
| Dividend Payout (%) | 13.4 | 0.0 | 9.3 | 0.0 | 0.0 | 0.0 |

(Source: Company, HDFC sec)

Price chart




(Source: Company, HDFC sec)

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This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

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