

Textile Sector Update

Cotton sheet US market share dips in May'16

In May'16, India's market share in home textile exports (sum total of all products) to the US increased 2% YoY and YTD. Exports in categories other than cotton bed sheets such as terry towels & bedspreads continued to do well gaining further market share. However, cotton sheet category lost c.2% market share YoY during the month. India's market share in cotton sheets still stands at a gain of 2% YTD to c.50% in dollar terms. We also highlight that the total cotton sheets volume imported by the US YTD in CY'16 has declined sharply (refer to Exhibit 1). The structural pillars supporting business flow towards India (Weslun/Indocount/Trident), namely: a) India's advantage in cotton pricing vs. China (spread near record lows), and b) currency depreciation (Yuan depreciation higher than previous years), remain unfavourable in the short term. The sector is at an inflexion point, given the recent capacity additions and ability of the space to garner more market share in the US. Monthly exports data becomes a key factor to watch for in that context.

- **Home textile total exports gain market share in the US:** In May'16, India's market share in home textile exports (sum total of all products) to the US increased 2% YoY and YTD. Exports in categories other than cotton bed sheets such as terry towels and bedspreads continued to do well, gaining market share in May. However, the cotton sheet category lost a c.2% market share YoY during the month. India's market share in cotton sheets still stands at a gain of 2% YTD to c.50% in dollar terms. We also highlight that the total cotton sheets volume imported by the US YTD in CY'16 has declined sharply.

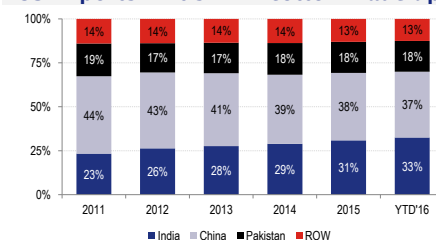
- US imports of cotton sheets at 50% YTD:** India's market share at 45% in bed sheets declined c.2% YoY and 5% MoM; YTD markets share of c.50% still above the CY'15 market share in dollar terms of c.48%. China's May'16 market share (28%) declined 1% YoY, while Pakistan (18%) gained a 3% market share YoY.
- US imports of terry & other towels at 39% YTD:** India's share in terry and other towels increased c.4% YoY and c.1% MoM at 40% in May'16; YTD markets share stands at 39% vs. 38% in 2015; China (25% in May'16) lost 4% YoY and Pakistan (20%) remained flat YoY.
- US imports of total home textiles up at 33% YTD:** India's market share in May'16 at 31% increased c.2% YoY. China's market share declined 5% YoY to 38% in May'16, while Pakistan's market share (18%) increased 2% YoY.
- Delving deeper into the cotton sheet market share decline:** We highlight that the total US imports in dollar terms for combined home textile category and cotton sheets in particular has declined c.7% YTD. The decline in the cotton sheets category is primarily driven by volumes, while the dip in realisation has been muted. Hence, all countries supplying bed sheets to the US witnessed a sharp dip in volume supplies with India reporting flat volumes YTD. However, the estimated c.141 mn mtrs that India has supplied to the US in YTD CY'16 is short of the c.357mn mtrs (CY15) on an annualised basis. This poses a key challenge for the space, given the incremental capacities coming on stream in CY'16.

- **Structural pillars supporting business flow towards India, remain unfavourable in the short term:** India has historically enjoyed a significant cost advantage over China on: a) lower cotton prices and b) the INR depreciation vs. Yuan depreciation against the USD. However, the cotton price spread between India and China is decreasing since: a) Indian cotton prices increased during the recent months due to lesser cotton supply in the previous season (14% monsoon deficit in 2015); the cotton price (Shankar 6) has crossed Rs120/kg to multi-year highs, and b) a relatively lower hike in cotton prices in China. The sector is at an inflexion point, given the recent capacity additions and ability of the space to garner more market share in the US. Monthly exports data becomes a key factor to watch for in that context.

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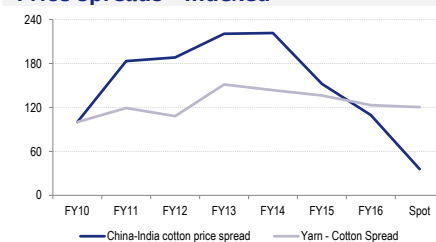
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US imports mkt shr. in cotton made ups



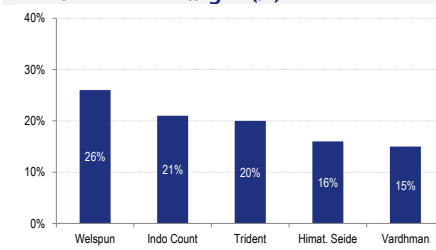
Source: OTEXA, JM Financial

Price spreads - Indexed



Source: Bloomberg, JM Financial

FY16 EBITDA margin (%)



Source: Company, JM Financial

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ and FactSet.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. US imports: Cotton sheets

	CY14	CY15	YoY (%)	YTD15E	YTD16E	YoY (%)
Value (USD mn)						
World	1,500	1,516	1.0%	594	550	-7.3%
India	699	724	3.7%	287	277	-3.7%
China	349	348	-0.3%	147	128	-12.6%
Pakistan	254	254	0.0%	104	91	-12.4%
Volume (mn sq. mts)						
World	1,041	1,073	3.1%	427	400	-6.2%
India	345	357	3.3%	142	141	-0.6%
China	303	319	5.2%	133	120	-10.0%
Pakistan	267	282	5.5%	119	107	-9.5%
Realisation (USD/sq. mt)						
World	1.4	1.4	-2.0%	1.4	1.4	-1.2%
India	2.0	2.0	0.4%	2.0	2.0	-3.1%
China	1.2	1.1	-5.2%	1.1	1.1	-2.8%
Pakistan	1.0	0.9	-5.2%	0.9	0.8	-3.1%

Source: OTEXA, JM Financial

Cotton sheets market size has declined, driven by a sharp dip in volumes

Exhibit 2. US imports: Terry & other towels

	CY14	CY15	YoY (%)	YTD15E	YTD16E	YoY (%)
Value (USD mn)						
World	1,562	1,629	4.3%	757	728	-3.9%
India	571	623	9.3%	287	284	-1.1%
China	404	403	-0.2%	214	187	-12.5%
Pakistan	355	357	0.6%	150	145	-3.1%
Volume (mn sq. mts)						
World	302	310	2.8%	132	138	4.8%
India	90	94	4.0%	40	41	1.1%
China	65	59	-10.1%	28	38	34.9%
Pakistan	107	116	9.0%	47	48	3.7%
Realisation (\$/sq. mt)						
World	5.2	5.3	1.4%	5.8	5.3	-8.3%
India	6.3	6.6	5.0%	7.1	7.0	-2.2%
China	6.2	6.9	11.0%	7.6	4.9	-35.1%
Pakistan	3.3	3.1	-7.7%	3.2	3.0	-6.5%

Source: OTEXA, JM Financial

India continues to gain market share in terry towels import to the US

Exhibit 3. Exchange rate: Local currency/USD

Country	Currency	CY09- CY13 % dep.*	CY14	CY15	% dep.	CMP	% dep.
India	INR	4.0%	61.0	64.1	5.1%	67.4	5.2%
China	CNY	-2.1%	6.2	6.3	2.1%	6.7	6.2%
Pakistan	PKR	4.4%	101.0	102.8	1.7%	104.7	1.9%

Source: Bloomberg, JM Financial; Note: * CAGR

Yuan depreciation has further eaten into the advantage of Indian peers

Exhibit 4. Cotton prices (USD/kg)

	CY14	CY15	YoY (%)	YTD'15	YTD'16	YoY (%)	CMP	% Change
Cotlook A	1.8	1.6	-15%	1.6	1.5	-2%	1.7	6%
US	1.7	1.5	-15%	1.5	1.4	-3%	1.5	2%
India	1.8	1.4	-21%	1.5	1.5	0%	1.8	27%
China	2.8	2.1	-24%	2.2	1.9	-13%	2.0	-5%
China India spread	1.0	0.7	-30%	0.7	0.4	-39%	0.2	-71%

Source: Bloomberg, JM Financial; Note: Cotlook A is an average of the cheapest 5 quotations from a selection of the principal upland cottons traded internationally

China-India cotton spread at record lows

Exhibit 5. India cotton/yarn prices (Rs/kg)

Rs/kg	CY14	CY15	YoY (%)	YTD'16	YTD'15	YoY (%)	CMP	% Change
Cotton - Shankar 6	110	92	-16%	97	92	5%	121	32%
Cotton yarn	207	177	-14%	183	182	1%	203	14%
Yarn cotton spread	97	86	-11%	86	90	-4%	82	-4%

Source: Bloomberg, Crisil, JM Financial

Exhibit 6. US imports value: Country-wise market share

Category	Jan-May'16			Apr'16			2015		
	India	China	India	India	India	Pakistan	India	China	Pakistan
Category 360: Pillow cases	52%	22%	14%	49%	24%	14%	49%	22%	15%
Category 361: Cotton sheets	50%	23%	17%	45%	28%	18%	48%	23%	17%
Category 362: Bedspreads & quilts	15%	57%	18%	15%	55%	19%	13%	59%	18%
Category 363: Terry & other towels	39%	26%	20%	40%	25%	20%	38%	25%	22%
Category 369: Bedding & pillow covers	23%	47%	17%	22%	49%	17%	22%	49%	16%
Category 360, 361, 362, 363, 369: Cotton made ups	33%	37%	18%	31%	38%	18%	31%	38%	18%

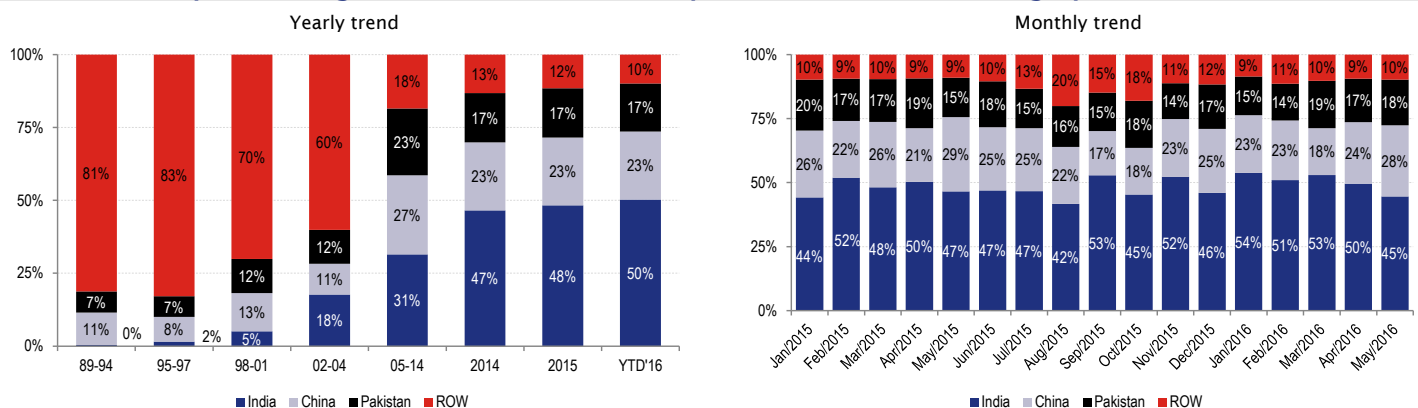
Source: OTEXA, JM Financial

Exhibit 7. Growth rate of key players in US imports

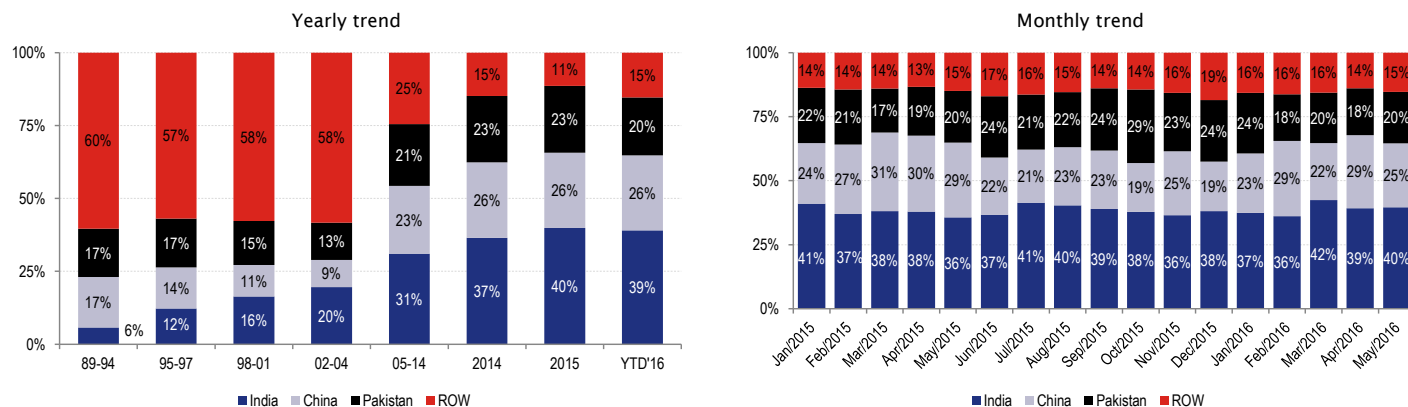
Country	89-94	95-97	98-01	02-04	05-14
Key trade changes					
Elimination of quotas		16%	Another 17%	Another 18%	Remove 49%
Cotton sheets (CAGR)					
India	0%	2%	5%	18%	31%
China	11%	8%	13%	11%	27%
Pakistan	7%	7%	12%	12%	23%
Bangladesh	1%	0%	0%	1%	0%
Terry & other towels (CAGR)					
India	6%	12%	16%	20%	31%
China	17%	14%	11%	9%	23%
Pakistan	17%	17%	15%	13%	21%
Bangladesh	3%	4%	3%	4%	3%

Source: OTEXA, JM Financial

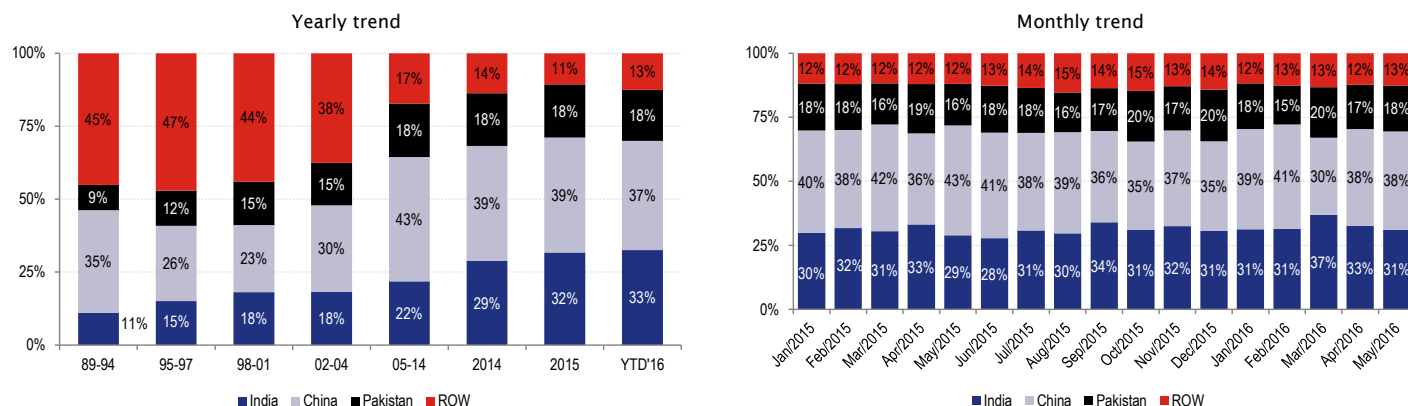
The quota regime in the textile sector now stands completely phased out since the end of 2004

Exhibit 8. Country-wise change in market share for US imports of cotton sheets (category: 361)

Source: OTEXA, JM Financial

Exhibit 9. Country-wise change in market share for US imports of terry and other towels (category: 363)

Source: OTEXA, JM Financial

Exhibit 10. Country-wise change in market share for US imports of cotton made ups (category: 360,361,362,363 & 369)

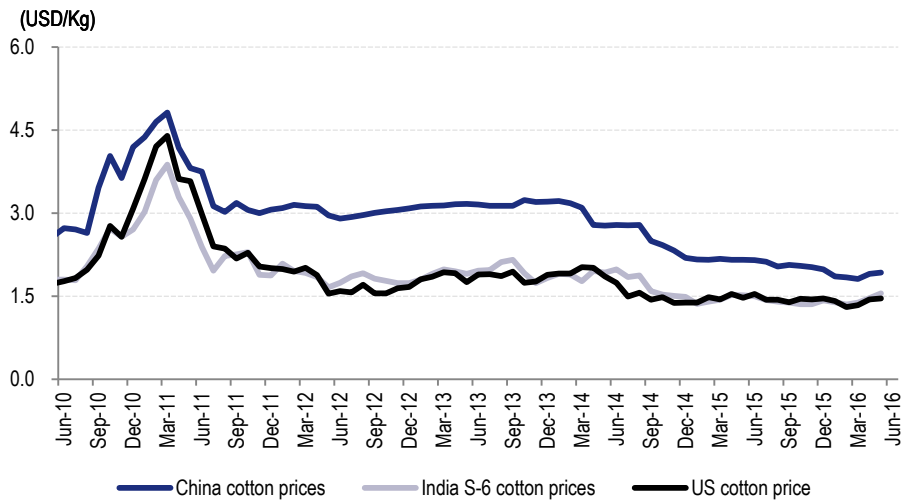
Source: OTEXA, JM Financial

Exhibit 11. World cotton supply and distribution (mn tons)

	2014/15	2015/16E	2016/17E
Production	26.1	22.1	23.0
Consumption	24.3	23.7	23.8
Imports	7.6	7.4	7.4
Exports	7.7	7.4	7.4
Ending stocks	22.1	20.4	19.6
Cotlook A Index*	71	70	72

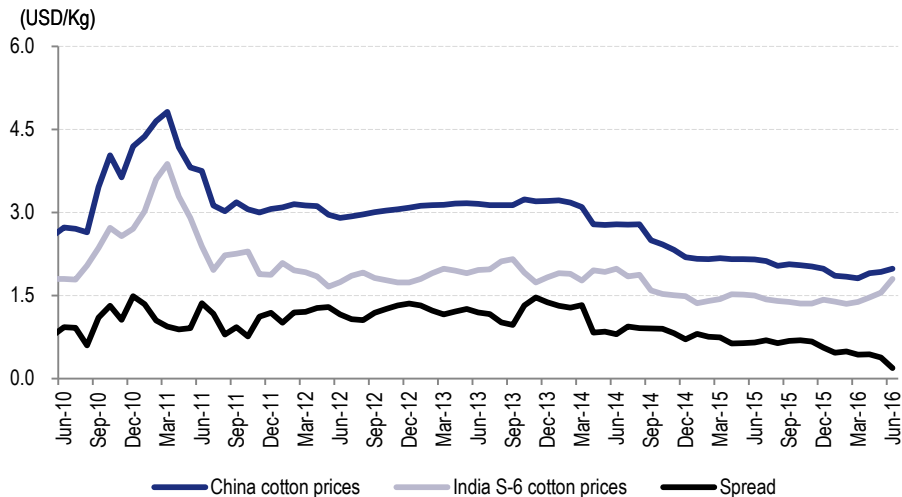
Source: ICAC; 2016-17: forecast of ICAC *price projection

World cotton production is likely to rise 4% due to improved yields, while consumption is likely to fall 3% on weakened cotton yarn imports by China and low polyester prices

Exhibit 12. Comparison of cotton prices in various regions

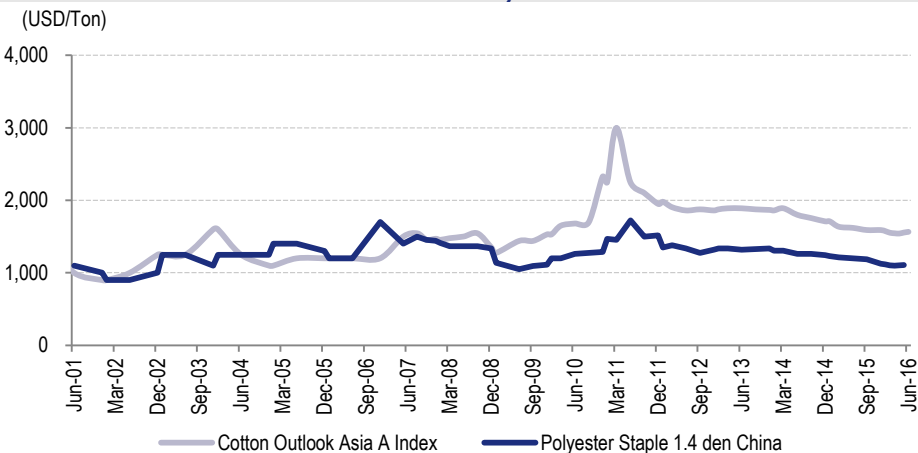
While Indian and US cotton prices remained at similar levels, China cotton prices have historically remained high

Source: Bloomberg, JM Financial; S-6 = Shankar 6 cotton

Exhibit 13. Cotton price spread between India and China

The cotton price spread between India and China has constantly declined in the past few months

Source: Bloomberg, JM Financial; S-6 = Shankar 6 cotton

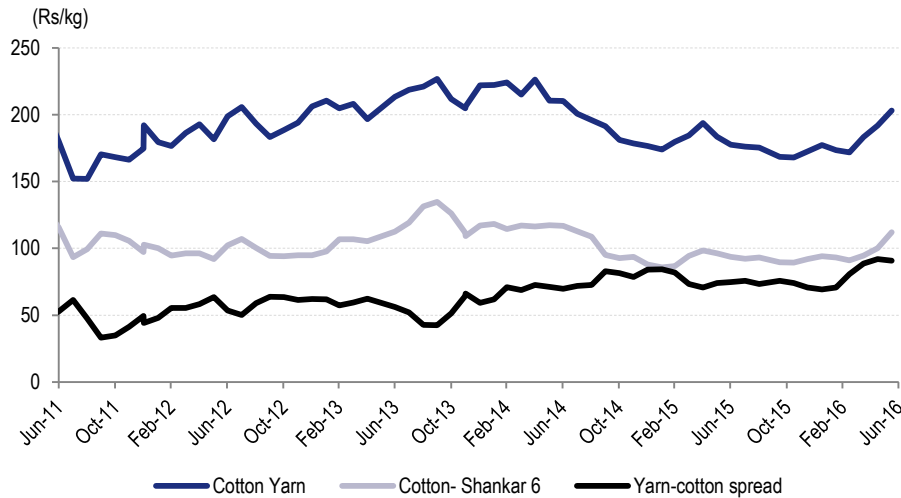
Exhibit 14. Cotlook A Index and China Polyester Index

Falling polyester prices may bring down cotton prices further in China

Source: Bloomberg, JM Financial

Exhibit 15. Yarn-cotton spread

Rising yarn-cotton spread benefited textile manufacturers with in-house yarn facilities



Source: Bloomberg, Crisil, JM Financial; Note: Jun-16 price of yarn is estimated

Exhibit 16. 4QFY16 earning comparison

Rs mn	FY16					YoY (%)				
	Indo Count	Welspun	Vardhman	Trident	Himat. Seide	Indo Count	Welspun	Vardhman	Trident	Himat. Seide
Net sales	5,398	16,284	17,027	9,680	4,496	14%	19%	-1%	-1%	-1%
EBITDA	1,161	4,229	3,824	1,942	827	32%	23%	9%	0%	60%
EBITDA margin (%)	22%	26%	22%	20%	18%					
Adjusted PAT	657	1,933	1,594	555	427	22%	20%	46%	37%	65%

Source: Company, JM Financial; Note: Indo Count, Welspun, Vardhman, Himatsingka Seide on Consolidated, Trident on standalone

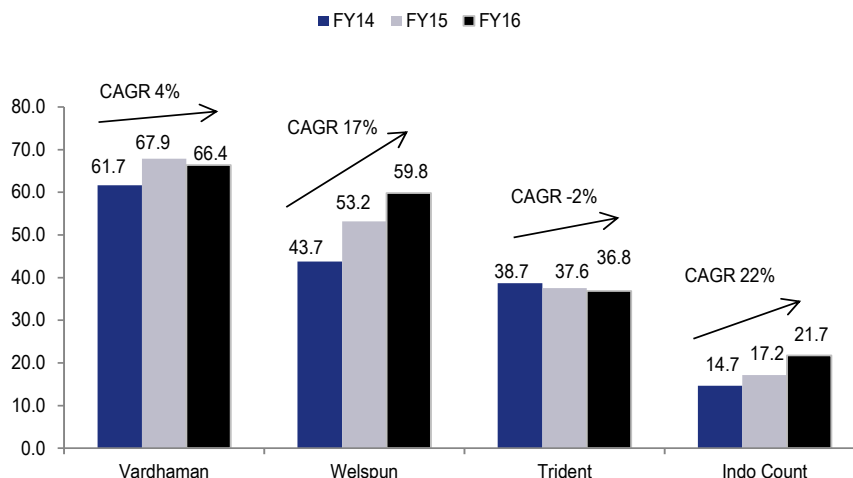
Exhibit 17. FY16 earning comparison

Rs mn	FY16					YoY (%)				
	Indo Count	Welspun	Vardhman	Trident	Himat. Seide	Indo Count	Welspun	Vardhman	Trident	Himat. Seide
Net sales	22,128	59,795	67,233	36,840	18,888	24%	13%	-3%	-2%	-3%
EBITDA	4,735	15,575	10,402	7,189	3,070	51%	22%	-19%	8%	43%
EBITDA margin (%)	21%	26%	15%	20%	16%					
Adjusted PAT	2,647	7,153	5,786	2,290	1,666	54%	31%	45%	94%	75%

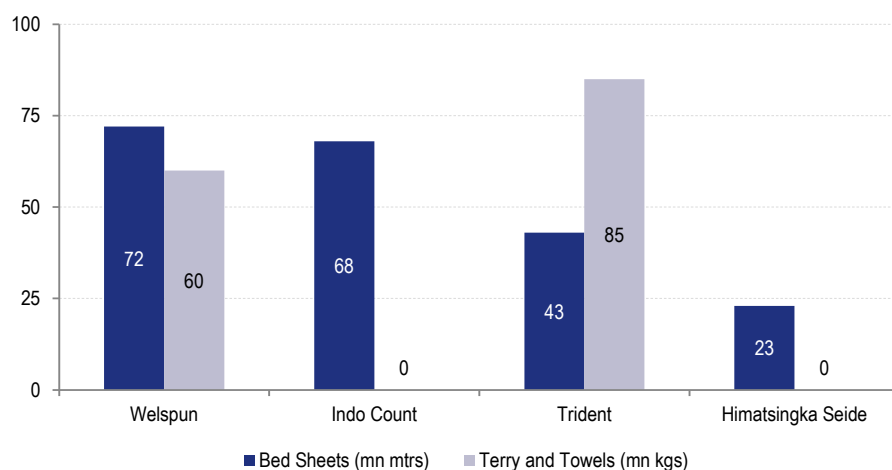
Source: Company, JM Financial

Exhibit 18. Revenue comparison

Welspun and Indo Count witnessed high revenue growth aided by capacity expansion

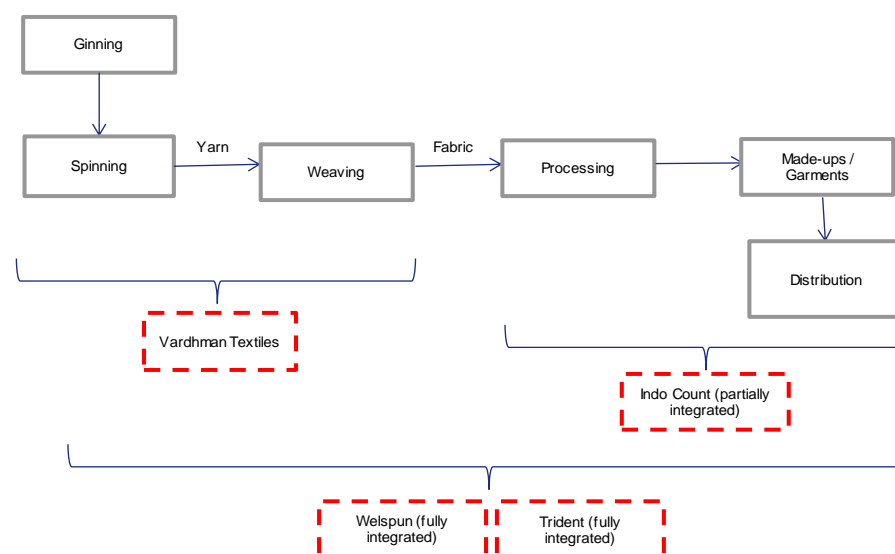


Source: Company, JM Financial

Exhibit 19. FY16 installed capacity: Bed sheets and towels

Source: Company, JM Financial

Textile companies have ramped up their capacities by more than 50% in the past two years

Exhibit 20. Textile value chain

Source: JM Financial

Welspun and Trident (fully-integrated) better placed to benefit from declining yarn-cotton price spread

Exhibit 21. Comparative valuation

Companies	P/E		EPS CAGR	RoE		RoCE	
	FY17E	FY18E	FY16-18E	FY17E	FY18E	FY17E	FY18E
Apparel	26.8	22.2	22%	26%	29%	38%	38%
Arvind	19.7	15.9	25%	14%		14%	14%
Page Industries	51.8	41.7	24%	44%	44%	61%	61%
Kitex Garments	18.4	15.4	17%	29%	27%	45%	45%
Home Textiles	11.5	9.1	27%	25%	25%	27%	27%
Trident	8.7	6.3	33%	15%		12%	12%
Welspun India	13.1	11.1	22%	32%		27%	27%
Indo Count Industries	12.0	10.8	16%	33%	27%	26%	24%
Himatsingka Seide	12.5	9.5	27%	17%		18%	18%
Spinning & Other Textiles	10.0	8.1	27%	18%	17%	16%	16%
Vardhman Textiles	9.2	8.3	11%	15%	13%	17%	17%
Suryalakshmi Cotton Mills	7.1	5.5	26%	12%	13%	15%	15%

Source: Bloomberg, JM Financial; Note: Valuations as of 07/07/2016

Exhibit 22. USDA World cotton production, supply and trade

('000 tons)	2013/14	2014/15	2015/16	2016/17P	YoY (%)
Production					
India	6,750	6,423	5,835	6,096	(9.2)
China	7,131	6,532	5,182	4,899	(20.7)
United States	2,811	3,553	2,806	3,222	(21.0)
Pakistan	2,068	2,308	1,524	1,960	(34.0)
Total	26,207	25,925	21,674	22,721	(16.4)
USE Dom. Consumption					
China	7,512	7,185	7,076	7,294	(1.5)
India	5,084	5,334	5,334	5,334	-
Pakistan	2,264	2,308	2,232	2,286	(3.3)
Bangladesh	1,154	1,197	1,241	1,306	3.7
United States	773	778	784	784	0.8
Total	23,903	23,976	23,739	24,120	(1.0)
Surplus (production - consumption)					
China	-381	-653	-1,894	-2,395	190.0
India	1,666	1,089	501	762	(54.0)
Pakistan	196	0	708	326	NA
United States	2,038	2,775	2,022	2,438	(27.1)
Total	2,304	1,949	-2,065	-1,399	(206.0)
Imports					
China	3,075	1,804	925	980	(48.7)
Bangladesh	1,154	1,176	1,219	1,285	3.7
Pakistan	261	207	675	370	226.1
Total	8,977	7,779	7,399	7,206	(4.9)
Exports					
United States	2,293	2,449	1,960	2,286	(20.0)
India	2,016	914	1,252	827	37.0
Total	8,909	7,697	7,439	7,209	(3.4)
Ending Stocks					
China	13,653	14,788	13,786	12,349	(6.8)
India	2,495	2,936	2,370	2,457	(19.3)
United States	512	806	871	1023	8.1
Pakistan	539	642	550	533	(14.3)
Total	22,477	2,484	22,392	21,006	801.4
Stock to Use ratio					
China	182%	206%	195%	169%	
India	49%	55%	44%	46%	
United States	66%	104%	111%	130%	
Pakistan	47%	54%	44%	41%	
World	94%	10%	94%	87%	

Source: USDA, JM Financial; Note: Season beginning August 1

APPENDIX I

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