

ILP: Higher Taxes to dent 1QFY25 earnings; long-term prospects intact

- We preview Interloop Limited (ILP) 1QFY25 earnings, where we expect company to report EPS of Rs1.76, reflecting a 5% QoQ decline. The expected decline in our earnings estimate is mainly due to change in tax regime from 1QFY25, increasing company's effective tax rate to 39% in 1QFY25 from 15% in 4QFY24, as our expected Profit before Tax clocks in 31% QoQ higher.
- On a YoY basis, we expect ILP to report 16% YoY increase in revenue (29% YoY excluding the impact of exchange loss expected from currency appreciation). Except for the spinning segment, we expect all other segments to report double-digit YoY growth in revenues (US\$ value). Gross margins, however, are expected to dip from 33% to 23%, owing to exchange loss and negative margins on Apparels business (lower operating levels of the newly commissioned plant).
- Moving forward from near-term headwinds, our long-term investment thesis remains intact. We reiterate our Buy rating for the stock based on its long-term growth prospects from aggressive expansion plans.

1QFY25 Earnings Preview

We preview Interloop Limited (ILP) 1QFY25 earnings where we expect the company to report EPS of Rs1.76, -56% YoY. The expected decline in earnings is mainly due to change in tax regime for the company this quarter.

ILP- Key Stats from Earnings preview

(Rs mn)	1QFY25E	1QFY24	YoYΔ	4QFY24	QoQΔ
Net Sales	44,824	38,500	16%	43,273	4%
Gross Profit	10,251	12,746	-20%	9,057	13%
PAT	2,474	6,042	-59%	2,616	-5%
EPS (Rs)	1.76	4.31	-59%	1.87	-5%
EPS exc. Exchg gain (loss)	1.85	4.16	-56%	1.84	0%
Gross margin	23%	33%	10ppt	21%	2ppt
Effective tax rate	39%	8%	31ppt	15%	24ppt

Source: Company accounts, JS Research

The key highlights of the quarter are discussed below:

1. Exchange loss from currency appreciation:

During 1QFY25, Average PKR/US\$ declined by 5% and the closing rate was down 0.3% QoQ and 3% YoY. Apart from its implication on the PKR base revenue, this is expected to result in Rs117mn exchange loss on Trade Debts based on our calculations compared to Rs220mn gain booked during 1QFY24.

2. Strong double-digit Revenue growth to continue

We expect ILP to report 26% YoY growth in dollarized revenue contributed by capacity enhancement for Hosiery and Apparels plant during FY24 and improvement in Denim sales. Spinning segment sales were impacted due to lower attractiveness for low-margin segment and decline in local cotton output.

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Bloomberg Code: ILP PA

Target Price: Rs106.00

Market Price: Rs72.45

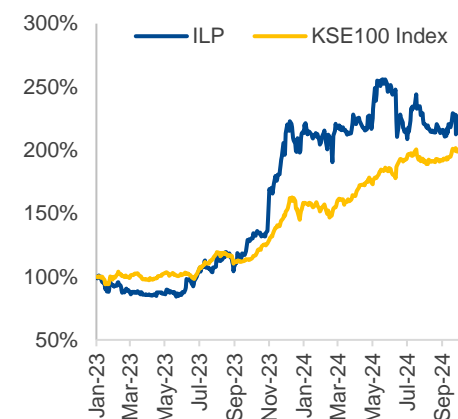
Market Cap: Rs102bn, US\$365mn

1-yr ADTO: 0.8mn shares, Rs57mn, US\$0.2mn

1-yr High / Low: Rs84.08 / 44.51

Estimated free float: 280mn shares (20%)

Price performance relative to KSE100



Source: Bloomberg, PSX, JS Research

3. Lower cotton prices to back margins, Apparels margins to remain in red:

We believe, ILP has pro-actively managed its raw cotton supplies by timely placement of orders while International cotton prices were down. To recall, benchmark cotton prices (Cotton A Index) were down 18% YoY/ 7% QoQ during 1QFY25. This coupled with favorable exports outlook for Pakistan, is likely to help the company to report slight improvement in QoQ margins. On YoY basis, however, the company is likely to report decline in margins due to higher fixed cost of the newly commissioned apparels plant.

4. Decline in Interest rates to cushion PBT growth

With 266bps QoQ decline in average KIBOR rates and 450bps cut in EFS rates since Jun-2024, we expect 8% QoQ decline in ILP financial charges, boding well for the Company's profitability during the quarter.

5. Change in Tax regime from this quarter

In our estimates, we incorporate a 39% effective tax rate for ILP 1QFY25-onwards estimates, to account for change in tax regime effective from 1st July 2024, to 39% normal tax (including super tax) from 1% Turnover tax earlier.

In the meantime, we do not rule out the possibility of the company reporting a lower than expected effective tax, due to realization of deferred tax benefit on the newly commissioned Apparels plant, which is expected to Capitalize 80% of its Capex outlay (50% completed by Jun-2024) by the end of this quarter.

Long term growth outlook remains intact; Reiterate Buy

We reiterate our Buy rating for ILP with a target price of Rs106. Given strong earnings CAGR of 20% over FY24-FY29F, we believe the stock demands premium valuations compared to its peer group companies. Our liking for the stock is premised on its strong earnings growth prospects emerging from company's aggressive expansion plans, improved outlook for Pakistani value-added textile products, decline in cotton prices, and softening of interest rates.

ILP: Key statistics

(Rs mn)	FY24	FY25E	FY26F
Net Sales (Rs mn)	156,129	179,602	219,811
YoY growth	31%	15%	22%
Gross Profit (%)	30%	36%	36%
PAT (Rs mn)	15,771	13,199	19,810
EPS (Rs)	11.25	9.42	14.13
EPS Exl Exchg gain (Rs)	11.78	8.95	12.96
DPS (Rs)	4.50	4.50	4.50
P/E (x)	6.41	7.69	5.13
D/Y (%)	6%	6%	6%
PKR/USD	283	280	292

Source: Company Accounts, JS Research

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