

Retail Research	IPO Note
Sector: Textiles	Price Band (Rs): 305 – 321
17th December 2024	Recommendation: Subscribe for Long term

Sanathan Textiles Ltd

Company Overview:

Sanathan Textiles Ltd is one of the few yarn manufacturers in India with presence across polyester, cotton and technical textile. The company's business is divided into 3 yarn verticals, namely, **(i) Polyester yarn products, (ii) Cotton yarn products and (iii) Yarn for technical textiles and industrial uses.** The company offers more than 3,200 active varieties of yarn products and houses a total installed capacity of 2.2 lakh MTPA.

Key Highlights:

1. Presence across polyester, cotton and technical textile: Sanathan Textiles is one of the few companies domestically to have presence across the three yarn verticals of polyester, cotton and technical textile yarn products. Currently, all the three yarn verticals are housed under a single corporate entity facilitating diversification into new segments. As of 1QFY25, the contribution of the Polyester/Cotton/Technical yarn verticals in the total revenue mix stood at 76.9%/18.7%/4.4% respectively. The company manufactures polyester chips using Purified Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG) and converts them into polyester yarn through various intermediate processing.

2. Focus on Value-added yarn products (VAP): The company has a high-share of value-added products in its product mix and manufactures high value products such as dope dyed, superfine/micro, functional, industrial and technical yarn, cationic dyeable and specialty yarn. As of FY24, the share of VAP in the company's sales mix stood at ~52%.

3. Strategically located plants and expansions: The company manufactures its products at its Silvassa unit located near Gujarat, which is amongst the major strategic locations for polyester yarn manufacturers in India. Additionally, the company has acquired 80 acres of land in Wazirabad, Punjab where it is in the advanced stage of commissioning a greenfield manufacturing facility through its subsidiary. The new facility is being set up solely for manufacturing polyester yarn products and will increase the company's polyester yarn manufacturing capacity from 550 tonne per day to 1,500 tonne per day once fully operational.

4. Strong clientele coupled with export presence: Over the years, Sanathan Textiles has established long-standing relationships with consumer brands like Welspun India, Banswara Syntex, Ganesh Ecosphere, Page Industries, Siyaram Silk Mills, etc. As of 1QFY25/FY24, the company catered to a total of 983/1,571 customers respectively with Gujarat, Maharashtra, Haryana and Punjab emerging as the key markets. While the domestic market is the largest component for the company's revenue, it also has a significant export presence. As of 1QFY25/FY24, the company exported its products to 14/27 countries respectively with Argentina, South Korea, USA and Japan being the key export markets.

Valuation: At the upper price band of Rs 321, Sanathan Textiles Ltd is valued at FY24 P/E multiple of 20.2x on post issue capital. Capacity addition (2.6x over FY24-27) and debt repayment will drive earnings growth going forward. Demand for the company's yarn products is likely to grow significantly over the next few years as the domestic textile industry benefits from the political and economic crisis in Bangladesh and increased alternate sourcing by global brands. We recommend investors to subscribe to the issue at cut-off price.

Issue Details	
Date of Opening	19 th December 2024
Date of Closing	23 rd December 2024
Price Band (Rs)	305 – 321
Offer for sale (Rs cr)	150.0
Fresh Issue (Rs cr)	400.0
Issue Size (Rs cr)	550.0
No. of shares	1,71,33,956 @upper price band
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	2,594 – 2,709
BRLMs	DAM Capital Advisors Ltd, ICICI Securities Ltd
Registrar	KFin Technologies Ltd
Bid Lot	46 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NII shares	15%

Objects of Issue	
Particulars	Estimated utilization from net proceeds (Rs cr)
Repayment or pre-payment, in full or in part, of certain outstanding borrowings availed by the Company	160.0
Investment in subsidiary viz. Sanathan Polycot Pvt Ltd, for repayment and/ or pre-payment, in full or part, of certain borrowings availed by the subsidiary	140.0
General Corporate Purposes	100.0
Total proceeds from fresh issue	400.0

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	7,19,43,000	100.0
Public & Others	-	-
Total	7,19,43,000	100.0

Post Issue @ Lower Price Band	No. of Shares	%
Promoter & Promoter Group	6,70,24,967	78.8
Public & Others	1,80,32,787	21.2
Total	8,50,57,754	100.0

Post Issue @ Upper Price Band	No. of Shares	%
Promoter & Promoter Group	6,72,70,103	79.7
Public & Others	1,71,33,956	20.3
Total	8,44,04,059	100.0

Source: RHP, SSL Research

Key Financials

Particulars (Rs cr)	FY22	FY23	FY24	1QFY25
Revenue from operations	3,185.3	3,329.2	2,957.5	781.1
EBITDA	537.6	259.5	226.6	76.4
PAT	355.4	152.7	133.8	50.1
EBITDA Margin (%)	16.9	7.8	7.7	9.8
PAT Margin (%)	11.2	4.6	4.5	6.4
RoE (%)	36.0	13.4	10.5	-
RoCE (%)	37.5	16.3	12.4	-
P/E (x)*	6.5	15.1	17.3	-

*Note: Pre-issue P/E based on upper price band

Source: RHP, SSL Research

Risk Factors

- **Supplier concentration:** The company is dependent on third party suppliers for sourcing its primary raw materials like Purified Terephthalic Acid (PTA), Mono Ethylene Glycol (MEG), Industrial Yarn (IDY) chips and Raw cotton. It does not have any long-term agreements with these suppliers. As of 1QFY25/FY24, the top 5 suppliers accounted for ~52%/45% of the total expenses while the top supplier accounted for ~23%/18% of the total expenses respectively.
- **Inventory risk:** The company's success depends on its ability to anticipate and forecast customer demand and trends in an effort to maintain an optimal level of inventory. Any error in forecast could result in either surplus stock or under-stocking, which will affect the company's ability to conduct business.
- **Geographical risk:** As of 1QFY25/FY24, the company derived ~63%/65% of its revenue from domestic sales to its customers in Gujarat, Maharashtra and Punjab. This exposes the company to risks specific to these domestic geographies and markets which may include civil unrest, adverse social/economic/political events, natural disasters and any other unforeseen events.
- **Import risk:** The company imports a large portion of its raw material from international suppliers and any adverse foreign exchange fluctuation could increase its cost of operations affecting profitability and dampening effective competitiveness. As of 1QFY25/FY24 imports accounted for ~40%/42% of the total raw materials consumed.

Growth Strategies

- Expanding manufacturing capacity
- Enhance value addition in existing products and development of new products
- Housing digitization and technology in production process
- Focus on energy efficiency and sustainable practices

Revenue split – Vertical wise

Business Vertical	FY22		FY23		FY24		1QFY25	
	Rs cr	% of OR*	Rs cr	% of OR	Rs cr	% of OR	Rs cr	% of OR
Polyester yarn products	2,448.9	76.9%	2,600.4	78.1%	2,284.5	77.2%	600.5	76.9%
Cotton yarn products	642.6	20.2%	624.3	18.8%	548.9	18.6%	146.2	18.7%
Industrial & Technical textile yarn	93.8	2.9%	104.6	3.1%	124.1	4.2%	34.4	4.4%
Total	3,185.3	100.0%	3,329.2	100.0%	2,957.5	100.0%	781.1	100.0%

*OR = Overall Revenue

Source: RHP, SSL Research

Revenue split – Domestic v/s Exports

Particulars	FY22		FY23		FY24		1QFY25	
	Rs cr	% of OR*	Rs cr	% of OR	Rs cr	% of OR	Rs cr	% of OR
Exports	415.6	13.0%	340.2	10.2%	129.7	4.4%	26.8	3.4%
Domestic	2,769.7	87.0%	2,989.0	89.8%	2,827.8	95.6%	754.4	96.6%
Total	3,185.3	100.0%	3,329.2	100.0%	2,957.5	100.0%	781.1	100.0%

*OR = Overall Revenue

Source: RHP, SSL Research

Sales Mix trend

Period	Total Products Sold (mn)	VAP sold (mn)	VAP % in total sales
FY22	241.95	124.15	51.3%
FY23	240.47	114.81	47.7%
FY24	225.83	117.21	51.9%
1QFY25	57.81	30.07	52.0%

*VAP = Value added products

Source: RHP, SSL Research

Customer concentration

Particulars	FY22		FY23		FY24		1QFY25	
	Rs cr	% of OR*	Rs cr	% of OR	Rs cr	% of OR	Rs cr	% of OR
Top 10 customers	653.1	20.5%	734.1	22.1%	685.0	23.2%	193.6	24.8%
Top 5 customers	408.8	12.8%	469.4	14.1%	420.0	14.2%	131.7	16.9%

*OR = Overall Revenue

Source: RHP, SSL Research

Aggressive Capacity expansion

As of 1QFY25, Sanathan Textiles housed an existing total installed capacity of 2,23,750 MTPA at its Silvassa unit.

Product	Capacity (MTPA)	Capacity Utilization
Polyester Yarn	2,00,750	101.7%
Cotton Yarn	14,000	111.2%
Yarn for Technical textiles	9,000	93.9%
Total	2,23,750	102.0%

Source: RHP, SSL Research

To capitalize on the industry growth opportunity, the company is in progress of expanding the total capacity to 5,81,990 MTPA by FY27. The expansion will include capacity additions for the Polyester Yarn and Cotton Yarn verticals. The company has acquired 80 acres land parcel in Punjab, which will see a greenfield facility being set up for the Polyester yarn vertical, while the Silvassa unit will see capacity expansions for the Cotton yarn segment.

Punjab Manufacturing Facility:

Sanathan Textiles acquired 80 acres of land in Wazirabad, Punjab, where it is in the advanced stage of commissioning a greenfield manufacturing facility through its wholly-owned subsidiary Sanathan Polycot Pvt Ltd. This facility will be set up solely for manufacturing polyester yarn products and is expected to increase the polyester yarn manufacturing capacity from 550 tonne per day to 1,500 tonne per day once fully commissioned. The expansion is expected to complete by FY27, with Phase 1 being operational by FY25 and Phase 2 by FY27, details of which are provided in the table below:

Phase	Capacity (MTPA)	Capacity per day (MT)	Expected Commissioning
Phase 1	2,55,500	700	FY25
Phase 2	91,250	250	FY27
Total	3,46,750	950	-

Source: RHP, SSL Research

The company also plans to integrate this strategically located facility with a fabric weaving or knitting division which will provide value addition within the same facility. It also plans to set up an inhouse facility to make specialized high intrinsic viscosity raw material required to make yarns for technical textiles and industrial end-use. Further in line with the company's vision of sustainable growth, the company has proposed to augment its own sustainable textile business (i.e. recycled yarn business) under the polyester yarn vertical. It plans to grow this segment in the coming years at the Punjab facility to a significant capacity and thereby expanding the polyester yarn business vertical.

Silvassa Manufacturing Facility:

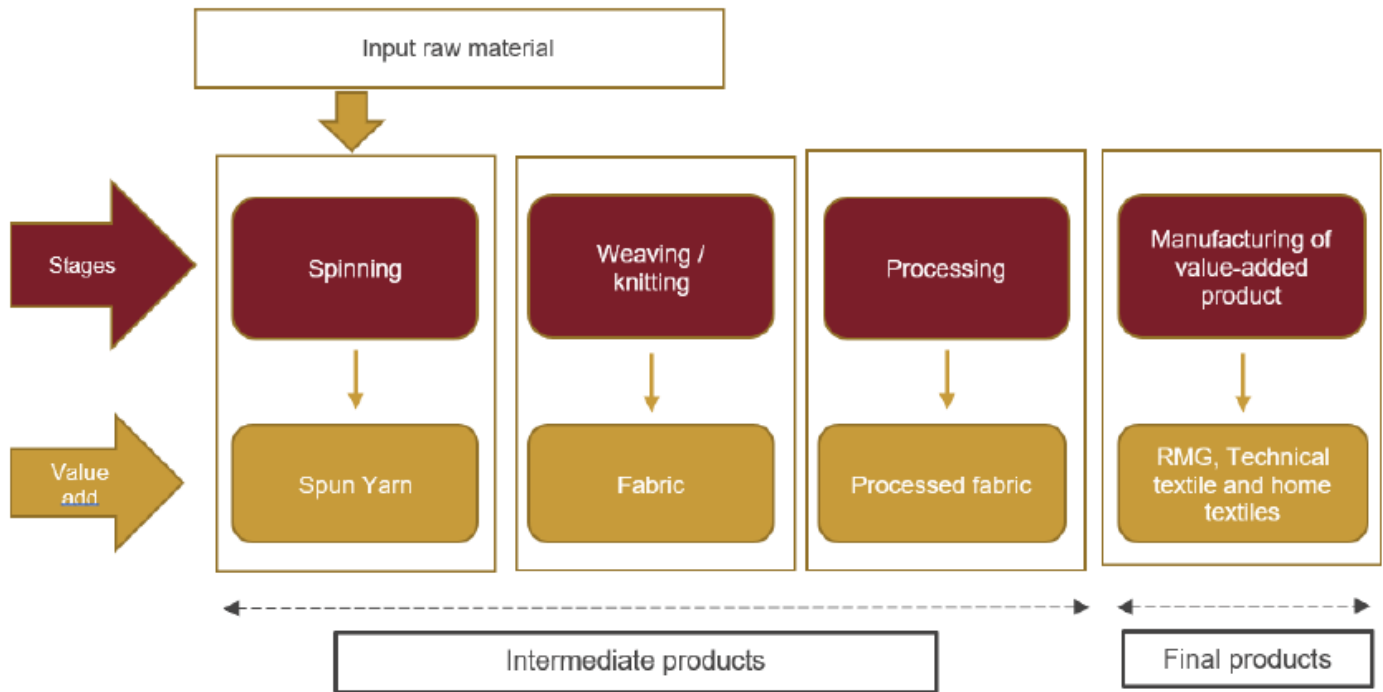
In a move towards enhancing the cotton yarn production, Sanathan Textiles has recently commenced cotton yarn operations at Unit 3 of the Silvassa facility through its subsidiary with an installed capacity of 540 MTPA, and will look towards commencing cotton yarn operations at Unit 4 by FY26 which is expected to have an installed capacity of 10,950 MTPA.

Unit	Capacity (MTPA)	Capacity per day (MT)	Expected Commissioning
Unit 3	540	1.5	<i>Commissioned</i>
Unit 4	10,950	30	FY26
Total	11,490	31.5	-

Source: RHP, SSL Research

Industry Overview

Textile value chain:

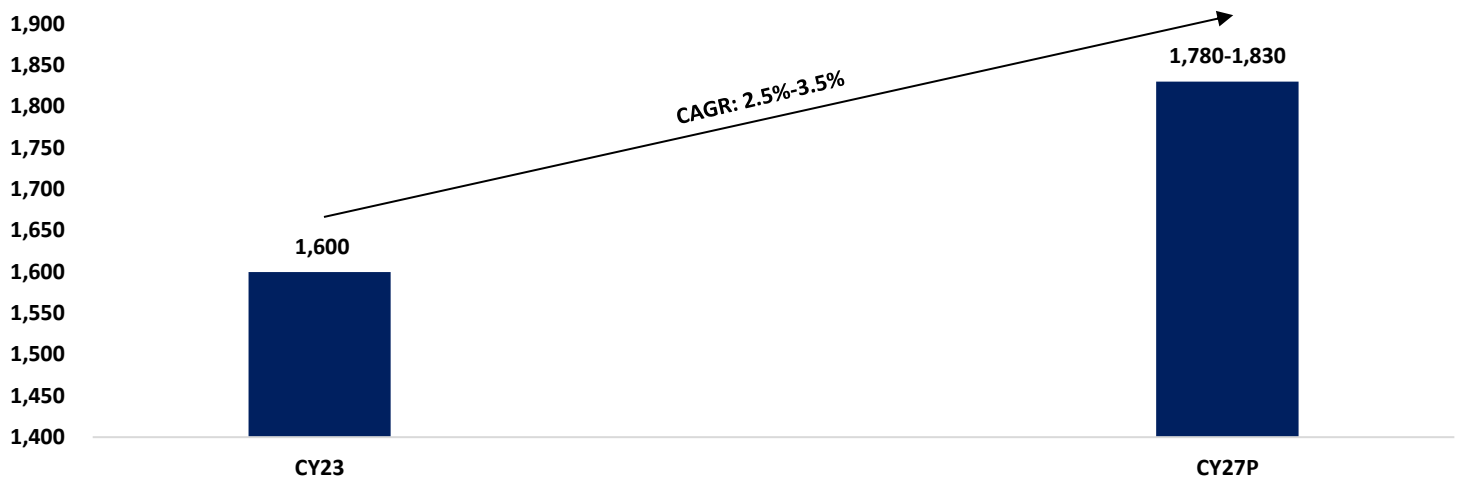


Source: RHP, SSL Research

Global Textile Industry:

In value terms, the global textile industry is expected to grow at a CAGR of 2.5%-3.5% between CY23-CY27 to reach USD 1,780-1,830 bn by CY27 from ~USD 1,600 bn in CY23.

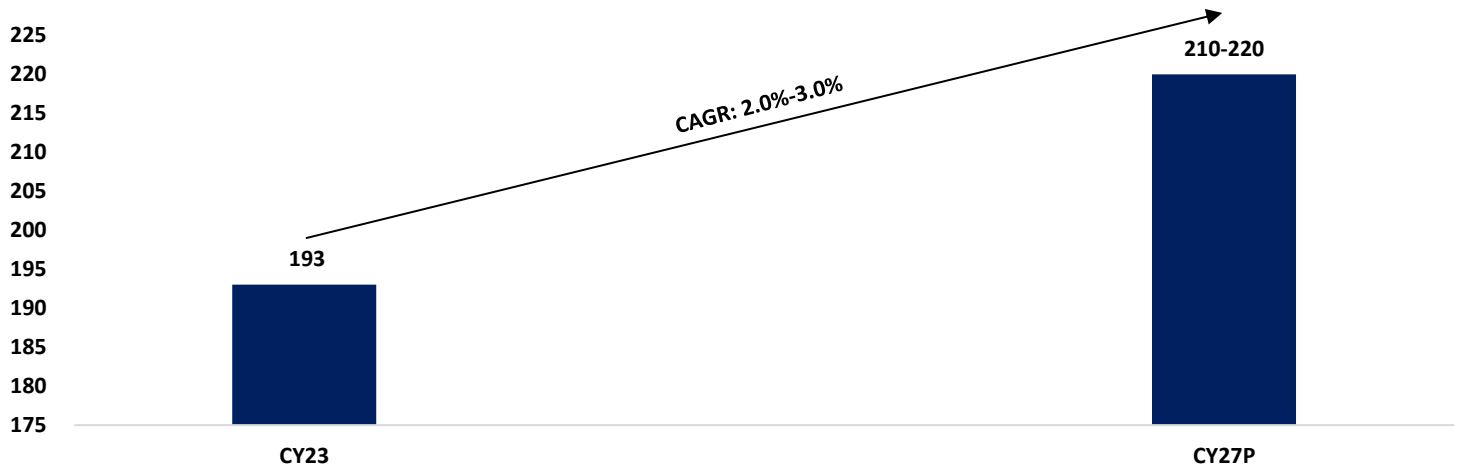
Global Textile Industry (USD bn)



Source: RHP, SSL Research

While on the volume basis, the industry is expected to grow from 193 bn tons in CY23 to 210-220 bn tons by CY27, marking a CAGR of 2.0%-3.0%.

Global Textile Industry (bn tons)

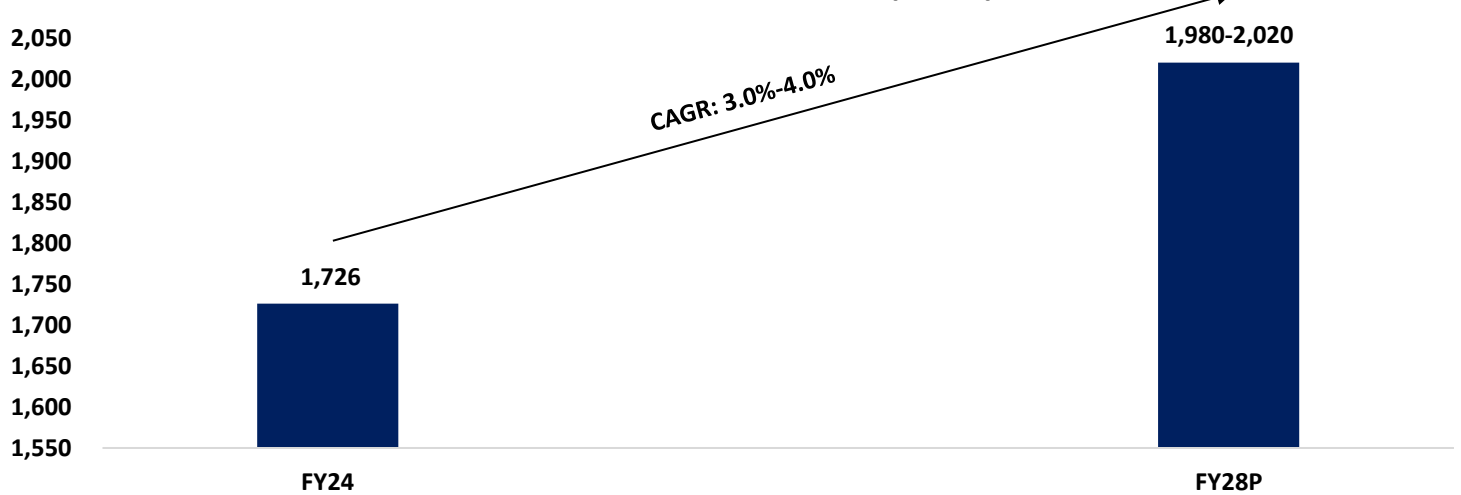


Source: RHP, SSL Research

Indian Textile Yarn Industry:

The Indian Textile Yarn market is expected to reach Rs 1,980-2,020 bn by FY28 from Rs 1,726 bn in FY24, marking a CAGR of 3.0-4.0% during the forecast period of FY24-FY28.

Indian Textile Yarn Market (Rs bn)



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT				
(Rs cr)	FY22	FY23	FY24	1QFY25
Revenue from Operations	3,185	3,329	2,958	781
YoY growth (%)	-	4.5%	(11.2%)	-
Cost Of Revenues (incl Stock Adj)	2,024	2,405	2,132	557
Gross Profit	1,162	924	825	224
Gross margins (%)	36.5%	27.8%	27.9%	28.7%
Employee Cost	95	89	91	24
Other Operating Expenses	529	576	508	124
EBITDA	538	260	227	76
EBITDA margins (%)	16.9%	7.8%	7.7%	9.8%
Other Income	16	16	22	7
Interest Exp.	32	22	23	5
Depreciation	42	43	44	11
PBT	479	209	181	67
Tax	124	57	48	17
PAT	355	153	134	50
PAT margin (%)	11.2%	4.6%	4.5%	6.4%
EPS (Rs)	49.4	21.2	18.6	7.0

BALANCE SHEET				
(Rs cr)	FY22	FY23	FY24	1QFY25
Assets				
Net Block	895	948	926	924
Capital WIP	2	19	141	372
Intangible Assets	2	2	4	4
Other Non-current Assets	37	134	223	286
Current Assets				
Inventories	444	402	405	404
Current Investment	55	48	107	130
Trade receivables	136	142	126	157
Cash and Bank Balances	79	106	101	72
Other Current Assets	147	104	170	180
Total Current Assets	860	802	909	943
Current Liabilities & Provisions				
Trade payables	338	377	437	432
Other current liabilities	21	27	23	36
Short-term provisions	3	3	3	3
Total Current Liabilities	361	407	463	471
Net Current Assets	499	395	447	472
Total Assets	1,435	1,500	1,741	2,059
Liabilities				
Share Capital	72	72	72	72
Reserves and Surplus	915	1,068	1,203	1,253
Total Shareholders Funds	987	1,140	1,275	1,325
Total Debt	378	281	380	645
Long Term Provisions	7	7	8	8
Other Long-Term Liabilities	1	1	1	3
Net Deferred Tax Liability	63	71	78	78
Total Liabilities	1,435	1,500	1,741	2,059

Cash Flow (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	295	362	192
Cash flow from Investing Activities	(114)	(235)	(245)
Cash flow from Financing Activities	(199)	(126)	74
Free Cash Flow	252	149	(24)

RATIOS			
	FY22	FY23	FY24
Profitability			
Return on Assets	19.8%	8.0%	6.1%
Return on Capital Employed	37.5%	16.3%	12.4%
Return on Equity	36.0%	13.4%	10.5%
Margin Analysis			
Gross Margin	36.5%	27.8%	27.9%
EBITDA Margin	16.9%	7.8%	7.7%
Net Profit Margin	11.2%	4.6%	4.5%
Short-Term Liquidity			
Current Ratio (x)	1.9	1.7	1.8
Quick Ratio (x)	0.9	0.9	1.0
Avg. Days Sales Outstanding	16	16	16
Avg. Days Inventory Outstanding	80	61	69
Avg. Days Payables	47	45	58
Fixed asset turnover (x)	3.6	3.5	3.2
Debt-service coverage (x)	1.2	0.8	0.5
Long-Term Solvency			
Total Debt / Equity (x)	0.4	0.2	0.3
Interest Coverage Ratio (x)	15.8	10.3	8.9
Valuation Ratios*			
EV/EBITDA (x)	4.9	9.6	11.4
P/E (x)	6.5	15.1	17.3
P/B (x)	2.3	2.0	1.8
EV/Sales (x)	0.8	0.7	0.9
P/Sales (x)	0.1	0.1	0.1

**Valuation ratios are based on pre-issue capital at the upper price band
Source: RHP, SSL Research*

Peer Comparison – FY24

Particulars (Rs cr)	Sanathan Textiles	K.P.R. Mill	Vardhman Textiles	Ganesha Ecosphere	Filatex India	Garware Technical Fibres
CMP	321.0	1,074.0	556.0	2,245.0	68.0	4,760.0
Sales	2,957.5	6,060.0	9,505.0	1,123.0	4,286.0	1,326.0
EBITDA	226.6	1,237.0	973.0	138.0	239.0	272.0
Net Profit	133.8	805.0	637.0	41.0	111.0	208.0
Mkt Cap.	2,709.4	36,709.0	16,064.0	5,697.0	3,020.0	9,451.0
Enterprise Value	2,587.8	37,688.0	17,767.0	5,942.0	3,211.0	9,396.0
EBITDA Margin (%)	7.7	20.4	10.2	12.3	5.6	20.5
Net Profit Margin (%)	4.5	13.3	6.7	3.7	2.6	15.7
PE (x)	20.2	45.6	25.5	140.2	27.3	46.6
EV/EBITDA (x)	11.4	30.5	18.3	43.1	13.4	34.5
RoE (%)	10.5	18.5	7.0	3.9	9.2	16.9
RoCE (%)	12.4	19.0	5.2	6.1	11.6	18.2
EV/Sales	0.9	6.2	1.9	5.3	0.7	7.1

For Sanathan Textiles Ltd, the Market Cap, P/E (x), Enterprise Value, EV/EBITDA (x) and EV/Sales (x) are calculated on post-issue equity share capital based on the upper price band.

RoE and RoCE calculated on Pre-issue capital

CMP of peer companies is as of 17th December, 2024.

Source: RHP, SSL Research

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