SANATHAN TEXTILES LIMITED

December 18, 2024

SMC Ranking

Issue Highlights

Industry	Textile
Offer for sale (Shares)	46,72,898
Fresh Issue (Shares)	1,24,61,060
Net Offer to the Public	1,71,33,958
Issue Size (Rs. Cr.)	522-550
Price Band (Rs.)	305-321
Offer Date	19-Dec-24
Close Date	23-Dec-24
Face Value	10
Lot Size	46

Issue Composition

	In shares
Total Issue for Sale	1,71,33,958
QIB	85,66,979
NIB	25,70,094
Retail	59,96,885

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	100.00%	79.70%
QIB	0.00%	10.15%
NIB	0.00%	3.04%
Retail	0.00%	7.10%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The Company proposes to utilise the Net Proceeds towards funding the following objects:

Incremental financingworking capital requirements of the company;

Funding capital expenditure of the company; and General corporate purposes.

Book Running Lead Manager

- DAM Capital Advisors Limited
- ICICI Securities Limited

Name of the registrar

- KFin Technologies Limited

About the company

Incorporated in 2005, Sanathan Textiles Limited is a polyester yarn manufacturer and a global supplier of Cotton Yarn. The company's business is divided into three separate yarn business verticals, consisting of: (a) Polyester yarn products; (b) Cotton yarn products; and (c) Yarns for technical textiles and industrial uses. These technical textiles are used in various sectors such as automotive, healthcare, construction, sports and outdoor activities, and protective clothing. As of September 30, 2024, the company had more than 3,200 active varieties of yarn products (i.e., yarn products manufactured by us from April 1, 2021, to September 30, 2024) and more than 45,000 stock-keeping units (SKUs). It also can manufacture a diversified product portfolio of more than 14,000 varieties of yarn products and more than 190,000 SKUs that are used in various forms and for varied end uses. As of June 30, 2024, Fiscal 2024, and Fiscal 2023, Sanathan Textiles Limited exported its products to 14, 27 and 29 countries. As of June 30, 2024, the company had more than 925 distributors in 7 countries, including India, Argentina, Singapore, Germany, Greece, Canada, and Israel. The company's manufacturing unit is located in Silvassa. The company's clients comprise several multinational, regional and local companies such as Welspun India Limited, Valson Industries Limited, G.M. Fabrics Private Limited, Premco Global Limited, Creative Garments Textile Mills Private Limited, Banswara Syntex Limited, AYM Syntex Limited, Techno Sportswear Private Limited, Haren Textiles Private Limited, Khosla Profil Private Limited, Tulip Elastics Private Limited and more.

Strength

Presence Across Polyester, Cotton, and Technical Textile Sectors: The company operates across three major yarn verticals: (a) Polyester yarn products, (b) Cotton yarn products, and (c) Technical and industrial-use yarns. These are consolidated under a single corporate entity, enabling streamlined operations. As of June 30, 2024, the company manufactures over 14,000 yarn varieties with more than 190,000 SKUs catering to diverse applications. Its extensive product portfolio allows penetration into varied markets, fulfilling unique customer needs across geographies. This diversity mitigates risks associated with market downturns and regional economic fluctuations, ensuring resilience against global uncertainties.

Focus on Product Development and Process Innovation: The company prioritizes innovation through its five-member Product Innovation and Development team at Silvassa. This team comprises professionals with advanced degrees, including Bachelor of Science (Technology), Master of Textiles (Engineering), and Master of Philosophy. As of June 30, 2024, the company has introduced high-margin, value-added yarns such as dope-dyed, superfine/micro, functional, technical, and cationic dyeable yarns, developed through rigorous in-house research. A state-of-the-art testing facility supports these efforts, equipped with advanced tools like wrap reel machines, denier-testing instruments, yarn strength testers, and color evaluation booths. These facilities adhere to international quality standards, enabling the company to deliver customized, high-quality products tailored to global market trends.

Strategic Manufacturing Facilities and Technological Integration: The company's primary manufacturing plant is located in Silvassa, within the strategic West Gujarat Cluster, a hub for polyester yarn production due to proximity to raw material suppliers like Reliance Industries (MEG and PTA). The facility features cutting-edge equipment from globally renowned suppliers, designed to handle high SKU volumes efficiently. Its automation technologies, including automated doffing, transportation, package handling systems, and warehouse management, minimize labor dependency, reduce damage, and enhance inventory control. Additionally, the company is constructing a greenfield Punjab

Manufacturing Facility in Wazirabad on an 80-acre site, exclusively for polyester yarn production. This facility, developed by the wholly-owned subsidiary Sanathan Polycot Private Limited, will increase manufacturing capacity from 550 tonnes per day (TPD) to 1,500 TPD. Phase 1, scheduled for Fiscal 2025, will add 700 TPD, while Phase 2, expected by Fiscal 2027, will contribute another 250 TPD. The Silvassa unit has also expanded into cotton yarn production, with Unit 3 achieving an installed capacity of 540 MTPA, and Unit 4 expected to reach 10,950 MTPA by Fiscal 2026.

Strong Customer Relationships and Distribution Network: From April 1, 2021, to June 30, 2024, the company served 20,066 customers, including 983 new clients. It maintains long-term partnerships with leading brands such as Page Industries, D'Décor, Siyaram Silk Mills, Wildcraft, and Welspun, among others. As of June 30, 2024, the company has a robust distribution network of 925 distributors across seven countries, which facilitates effective supply chain management and geographic sales growth. Many distributors have been associated with the company for over a decade, reflecting the consistent delivery of high-quality, tailor-made products.

Efficient Procurement and Inventory Management: The company leverages a diversified supplier network and localized sourcing to minimize procurement costs. Its inventory and receivables management system ensures a healthy working capital cycle, with a standardized procurement model that balances flexibility and cost efficiency. The procurement team conducts ongoing research to identify optimal sourcing opportunities, contributing to an efficient supply chain and predictable pricing.

Financial Performance and Growth: The company's strong financial performance underscores its operational efficiency and effective supply chain protocols. With steady operating cash flows, it has invested significantly in capacity expansion and facility modernization, particularly at Silvassa. These initiatives bolster its ability to meet customer demands, develop innovative value-added products, and deepen customer relationships, driving sustained growth across geographies.

Strategy

Expanding Manufacturing Capacity: The global yarn industry is poised for steady growth, supported by the textile sector's projected CAGR of 2.5% to 3.5% from CY2023 to CY2027, reaching USD 1,780–1,830 billion by CY2027. In India, the textile and apparel market, estimated at Rs. 9,450–Rs. 9,550 crore in FY2024, is expected to grow at a CAGR of 6.0% to 7.0%, reaching Rs. 12,500–Rs. 12,700 crore by FY2028. This growth is driven by factors such as increased discretionary income, urbanization, and the rise of e-commerce. The Indian market is further bolstered by the shift from cotton to man-made fibers and the growth of technical textiles. To capitalize on these opportunities, the company is scaling operations across its three verticals. Its Punjab Manufacturing Facility, spanning 80 acres, is being established in phases. Phase 1, expected to be operational by FY2025, will add 700 tonnes per day (TPD) capacity, while Phase 2, expected by FY2027, will add another 250 TPD. Upon full completion, the facility will increase the company's production capacity from 550 TPD to 1,500 TPD. As of June 30, 2024, the company has invested Rs. 726.09 crore in the Punjab Manufacturing Facility. The company's Silvassa Facility, with a current capacity of 223,750 MTPA, is also being expanded. Unit 3, recently commissioned, has a capacity of 540 MTPA, and Unit 4, expected to be operational by FY2026, will add 10,950 MTPA. Once all expansions are complete, the total capacity across Silvassa and Punjab will rise to 581,990 MTPA. The Punjab facility's strategic location near key markets like Delhi, Ludhiana, and Panipat will reduce logistics costs and enhance delivery efficiency, boosting customer satisfaction. The company is also enhancing its sustainable textiles segment under the brand "Sanathan Rivero," focusing on converting recycled plastic bottles into yarns. This business, launched in FY2022, is set to expand at the Punjab Manufacturing Facility, supporting growth in the polyester yarn segment and aligning with global sustainability trends.

Enhancing Product Value and Innovation: The company is committed to offering value-for-money products across its diverse portfolio while catering to specific regional needs. It continuously introduces new products and process improvements to expand its market base and strengthen customer relationships. Its in-house Product Innovation and Development team, located in Silvassa, focuses on creating value-added, tailor-made products with unique characteristics. The company's investments in product development, supported by a team of five professionals with advanced

technical qualifications, include enhancing infrastructure and utilizing advanced testing equipment such as yarn strength testers and color evaluation tools. Although the specific costs for innovation are not segregated, this focus ensures product quality and caters to evolving customer needs.

Harnessing Digitization and Sustainability: The company employs advanced digital tools and automation to enhance production efficiency and sustainability. It has invested in state-of-the-art testing equipment, including denier testing and tensile property analyzers, ensuring adherence to international standards. Upgrading technology and infrastructure enhances energy efficiency and reduces production costs. Digitization has streamlined production processes, improving transparency and traceability. These initiatives not only strengthen the company's competitive edge but also align with global trends toward sustainable and energy-efficient practices.

Risk Factor

- Te company does not have long term agreements for supply of its raw materials.
- Its relationship with its distributors is critical to its business.
- The company may not be able to successfully manage the growth of it business if the company is not able to effectively implement its strategies

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Garware Tech.	1428.48	225.55	113.61	41.84	8.40	565.81	10.00	4753.15	9436.51
Vardhman Textile	9599.93	796.17	27.53	20.27	1.71	325.98	2.00	557.95	16134.51
Indo Count Inds.	3783.96	309.34	15.62	26.30	3.70	110.99	2.00	410.85	8137.06
Filatex India	4212.23	115.56	2.61	26.23	2.45	27.98	1.00	68.45	3038.19
K P R Mill Ltd	5781.61	808.98	23.67	46.34	8.01	136.95	1.00	1096.85	37491.87
Sanathan Textiles Limited	2957.50	133.85	15.86	20.24	1.57	204.38	10.00	321.00	2709.37

***Peer companies financials are TTM based**
**** Sanathan Textiles Limited financials are based on FY24**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.321, the stock is priced at pre issue P/E of 17.25 x on FY24 EPS of Rs.18.60. Post issue, the stock is priced at a P/E of 20.24x on its EPS of Rs. 15.86. Looking at the P/B ratio at Rs.321 pre issue, book value of Rs. 184.18 of P/Bvx 1.74x. Post issue, book value of Rs.204.38 of P/Bvx 1.57x.

Considering the P/E valuation, on the lower end of the price band of Rs.305, the stock is priced at pre issue P/E of 16.39 x on 24 EPS of Rs.18.60. Post issue, the stock is priced at a P/E of 19.23x on its EPS of Rs. 15.86. Looking at the P/B ratio at Rs.305 pre issue, book value of Rs. 184.18 of P/Bvx 1.66x. Post issue, book value of Rs.204.38 of P/Bvx 1.49x.

Industry Overview

The global textile industry has grown consistently between CY2018 to CY2023, except for CY2020, which witnessed a decline due to the Covid-19 pandemic. Looking ahead, the industry is projected to grow at a CAGR of 2.5%–3.5% between CY2023 and CY2027, reaching approximately USD 1,780–1,830 billion (Rs. 1,48,900–Rs. 1,53,200 crore) by CY2027. The Indian textile and apparel industry, estimated at Rs. 9,45,000–Rs. 9,55,000 crore in Fiscal 2024, is projected to grow at a CAGR of 6.0%–7.0% to reach Rs. 12,50,000–Rs. 12,70,000 crore by Fiscal 2028. Below is the projected growth of the Indian textile and apparel industry, including exports and domestic sales, from Fiscal 2024 to Fiscal 2028.

Particulars	Projected growth from Fiscal 2024 till Fiscal 2028
Indian textiles and apparel industry	CAGR of 6.0-7.0%
Exports in the textiles and apparel industry	CAGR of 4.5-5.5%
Domestic sales in the textiles and apparel industry	CAGR of 7.0-8.0%.

Further, man-made textiles had the second largest market share between CY2018-CY2023(E) and is expected to remain in similar range in CY2027. Set out below are the growth details of global sales by raw material (value) of the man-made textile industry and cotton industry during the period mentioned below:

Particulars	Growth during CY 2018-CY 2023	Growth during CY2023(E)- CY2027(P)
Man-made textile industry*	CAGR of 2.2%	CAGR of 2.7-3.2%
Cotton	CAGR of 2.3%	CAGR of 2.7-3.2%

Outlook

Sanathan Textiles Limited is poised for significant growth, driven by its diversified product offerings, strategic expansion plans, and a strong focus on sustainability. The company aims to increase its production capacity from 223,750 MTPA to 581,990 MTPA by Fiscal 2027 with the completion of the Greenfield Punjab Manufacturing Facility. Having already invested ₹726.1 crore in this facility, the company demonstrates a strong commitment to its growth initiatives. In line with evolving market trends, Sanathan Textiles plans to expand its sustainable textile (recycled yarn) business under the 'Sanathan Rivero' brand, tapping into the rising demand for eco-friendly products. The company's long-term relationships with prominent consumer brands, including Welspun India, Siyaram Silk Mills, and D'Decor Home Fabrics, strengthen its market position and revenue potential. However, maintaining profitability amidst fluctuations in raw material costs and global demand will be critical. Additionally, the timely commissioning of the Punjab facility and execution of expansion plans are key to realizing its growth potential.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
IPO Open Date	Thursday, December 19, 2024
IPO Close Date	Monday, December 23, 2024
Basis of Allotment	Tuesday, December 24, 2024
Initiation of Refunds	Thursday, December 26, 2024
Credit of Shares to Demat	Thursday, December 26, 2024
Listing Date	Friday, December 27, 2024

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-24 (3 Months)	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)
Revenue from operations	781.13	2957.50	3329.21
Total expenditure	704.69	2730.92	3069.68
Operating Profit	**76.44**	**226.58**	**259.53**
OPM%	9.79	7.66	7.80
Other Income	6.63	22.30	15.81
PBDIT	**83.07**	**248.88**	**275.34**
Depreciation	11.20	44.39	43.49
PBIT	**71.87**	**204.49**	**231.85**
Interest	5.10	23.08	22.42
Profit BeforeTax	**66.77**	**181.41**	**209.43**
Tax	16.70	47.56	56.69
PAT	**50.07**	**133.85**	**152.74**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-24	As on 31-Mar-24	As on 31-Mar-23
Non-current assets			
Property, plant and equipment	923.80	926.47	948.37
Capital work-in-progress	372.31	140.51	18.80
Intangible assets	2.23	2.48	0.00
Intangible assets under development	0.00	0.00	2.13
Goodwill	**1.91**	**1.91**	**1.91**
Financial Assets			
Other financial assets	15.01	15.53	5.95
Income-tax assets (net	0.00	0.00	4.41
Other non-current assets	271.44	207.46	123.60
Total Non Current Assets	**1586.69**	**1294.35**	**1105.16**
Current assets			
Inventories	404.13	405.50	401.60
Financial Assets			
Investments	130.00	106.95	47.50
Trade Receivables	157.13	125.68	141.74
Cash and cash equivalents	18.19	29.93	9.02
Bank Balances other than (iii) above	53.45	71.47	97.32
Other financial assets	2.31	1.60	0.44
Other Current Assets	177.63	168.20	103.89
Total current assets	**942.84**	**909.33**	**801.51**
Total Assets	**2529.53**	**2203.68**	**1906.67**
Non-current liabilities			
Financial liabilities			
Borrowings	607.27	337.20	221.64
Provisions	8.32	7.62	7.00
Deferred tax liabilities (net)	78.00	77.53	71.21
Other non-current liabilities	2.81	1.01	0.54
Total non-current liabilities	**696.40**	**423.36**	**300.40**
Current liabilities			
Financial liabilities			
Borrowings	37.66	42.68	59.36
Trade payables - MSME	10.49	12.72	14.78
Trade payables - other than MSME	421.65	424.22	362.54
Other financial liabilities	9.09	7.34	6.82
Other Current Liabilities	16.13	14.98	20.16
Provisions	2.85	2.76	2.51
Current tax liabilities (net)	10.38	0.65	0.00
Total current liabilities	**508.25**	**505.35**	**466.16**
Total	**1204.64**	**928.71**	**766.56**
Net worth represented by:			
Equity Share Capital	71.94	71.94	71.94
Other equity	1252.94	1203.03	1068.17
Net Worth	**1324.89**	**1274.97**	**1140.11**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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