

Foundation Alert

ILP: 3QFY21 Analyst Briefing Takeaways

Event

- Interloop Limited (ILP PA) held its Analyst Briefing today to discuss 3QFY21 financial results. Following are the key takeaways of the briefing.

Impact

- Company's sales inclined by 17% YoY and profitability increased to Rs1.7bn (Rs1.95/sh), up by 169% YoY, during 3QFY21 given global economic rebound following COVID.
- Company's sales are 48% to North America, 39% to Europe, 5% to Asia and 8% to domestic customers. The company has a diversified client base with a mix of brands (Nike – largest customer, Adidas, Puma, etc) and retailers (Target, Tesco, H&M, etc).
- Gross margin increased to 29.9% in Q3FY21 versus 24.0% in Q3FY20 and net margins also increased to 13.6% in Q3FY21 vs 5.9% in Q3FY20. Subsequently, Return on Equity rose to 9.3% in Q3FY21 from 3.6% in Q3FY20.
- Finance cost declined by 22% YoY during Q3 due to lower avg interest rates during Q3 (7% in Q3FY21 vs 12.9% during Q3FY20).
- During 9MFY21, hosiery segment utilization rate is 87% whereas spinning, dyeing and denim utilization is 85/85/87%.
- Hosiery segment is already passing on the higher cost of cotton and its profitability is not expected to be adversely affected going forward because of this.
- Denim segment is currently operating at full capacity but is still showing a gross loss due to (1) US\$ appreciation and (2) unfavorable prices. Segment is projected to become positive in FY22/23. Average selling price of jeans is currently US\$6.5/piece (avg of US\$5.4/piece in 9MFY21) whereas breakeven price is ~US\$7/piece.
- Bangladesh operations will be divested soon due to non-cooperative attitude of Bangladesh govt by not issuing visas to investors.
- Company has also announced US\$300mn investments (knitwear apparel plant, active wear plant, denim fabric mill, 6th hosiery plant, and enhanced spinning/dyeing capacity) over the next 5 years which would double the company's revenue over this period.
- Hosiery expansion project of Rs5.9bn is 72% complete with 12K dozen/day capacity online and 30K dozen/day capacity to come online. Currently, pilot project with 430 machines is fully operational and LC for 580 machines has been established. Construction at new location has started and foundation of building is complete.
- Denim project achieved COD in Q2FY20 with 20K pieces/day capacity online and 20K pieces/day capacity to come online. 83% of the budget (Rs8.3bn) has been consumed and 97% of infrastructure and utilities are complete.

Outlook

- Company is not in our formal coverage. However, we have a liking for the stock given (1) high margins and ROE as compared to industry peers, (2) US\$300mn expansion and investment projects over next 5 years, (3) company's continuous efforts at innovation by running pilot projects, and (4) geographically diversified client base with a mix of high end and retail customers.

Table 1: Interloop Limited - 3QFY21 Financial Highlights

Rs (mn)	Q3FY21	Q3FY20	YoY	QoQ	9MFY21	9MFY20	YoY
Sales	12,507	10,727	17%	-6%	38,769	29,952	29%
Cost of Sales	8,763	8,155	7%	-12%	28,559	22,880	25%
Gross profit	3,743	2,573	45%	11%	10,210	7,072	44%
Admin & Distribution cost	1,397	1,214	15%	12%	3,889	3,387	15%
Other expenses	213	326	-35%	-7%	622	536	16%
Profit from Operations	2,133	1,034	106%	13%	5,699	3,150	81%
Other income	18	63	-71%	-64%	66	100	-34%
Financial charges	301	384	-22%	3%	817	858	-5%
PBT	1,851	713	160%	12%	4,948	2,391	107%
Tax	154	82	88%	23%	346	229	51%
PAT	1,697	631	169%	11%	4,601	2,162	113%
EPS	1.95	0.72			5.28	2.48	
DPS					-	-	
Gross Margin	29.9%	24.0%			26.3%	23.6%	
Net Margin	13.6%	5.9%			11.9%	7.2%	
Effective tax rate	8.3%	11.5%			7.0%	9.6%	

Source: Company Accounts, PSX, Foundation Research, June 2021

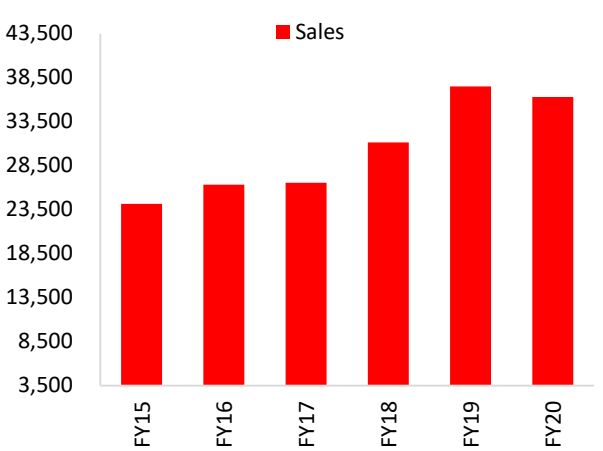
Table 2: Historical Income Statement	FY15	FY16	FY17	FY18	FY19	FY20
Sales	24,150	26,333	26,530	31,139	37,478	36,303
Cost of Sales	(18,504)	(18,888)	(19,504)	(21,994)	(25,524)	(28,439)
Gross Profit	5,646	7,445	7,026	9,144	11,955	7,864
Distribution Cost	(909)	(1,479)	(2,113)	(2,641)	(2,784)	(2,007)
Administrative Cost	(982)	(1,157)	(1,299)	(1,598)	(1,984)	(2,198)
Other operating expenses	(296)	(463)	(108)	(425)	(785)	(505)
Other income	2	2	0	9	14	99
Profit from operations	3,460	4,347	3,506	4,489	6,417	3,253
Finance cost	(891)	(473)	(392)	(484)	(996)	(1,137)
Profit before taxation	2,569	3,875	3,114	4,006	5,421	2,116
Taxation	(78)	(214)	(103)	(120)	(226)	(319)
Profit after taxation	2,491	3,660	3,011	3,886	5,195	1,796

Source: Company accounts, Foundation Research, June 2021

Table 3: Historical Balance Sheet	FY15	FY16	FY17	FY18	FY19	FY20
Property, plant and equipment	11,444	11,711	13,640	15,452	18,256	22,744
Other non current Assets	1,334	1,547	1,527	509	1,169	2,177
Total non current assets	12,777	13,257	15,167	15,961	19,425	24,922
Stores and spares	560	583	697	779	888	1,063
Stock in trade	4,006	3,177	3,566	5,122	6,282	8,811
Trade debts	4,277	4,778	4,814	7,293	8,248	7,207
Other	1,318	1,802	4,177	3,402	4,401	3,214
Cash and bank balances	43	51	59	194	1,539	151
Total current assets	10,203	10,391	13,313	16,789	21,357	20,446
TOTAL ASSETS	22,980	23,649	28,479	32,750	40,783	45,367
Issued, subscribed and paid up capital	1,896	1,896	1,899	1,901	8,722	8,722
Reserves + Unapp. Profit	7,522	10,560	12,544	7,181	9,158	8,558
Total equity	9,418	12,456	14,443	9,083	17,880	17,280
Long term financing	4,452	3,134	1,916	2,248	3,629	6,861
Other Liabilities	1,130	1,262	1,574	1,926	2,483	3,243
Total non current liabilities	5,582	4,396	3,490	4,174	6,111	10,104
Trade and other payables	1,642	2,160	1,815	2,730	3,577	3,031
ST Debt + Curr. Portion of LT Debt	6,171	4,547	8,648	16,150	12,973	14,758
Other	166	89	83	613	241	194
Total current liabilities	7,980	6,796	10,546	19,493	16,791	17,984
TOTAL LIABILITIES AND EQUITY	22,980	23,649	28,479	32,750	40,783	45,367

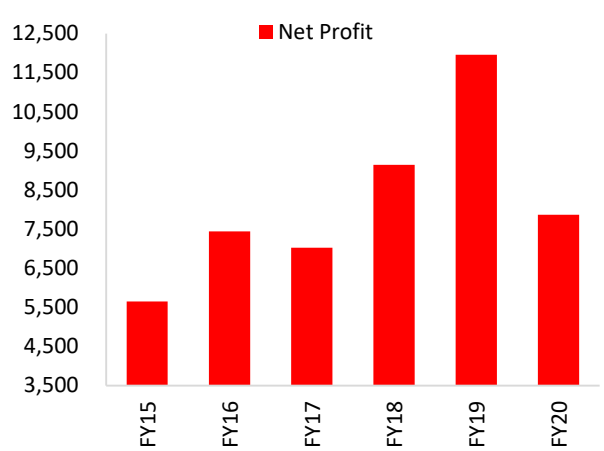
Source: Company accounts, Foundation Research, June 2021

Fig 1: Sales take a dip owing to COVID



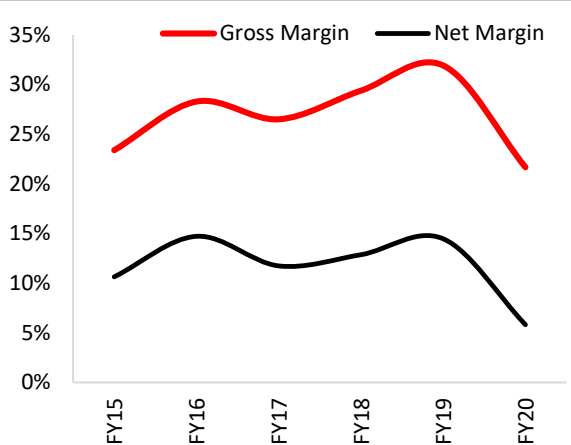
Source: Company acc, FSL Research, June 2021

Fig 2: FY20 Net Profit lower due to COVID



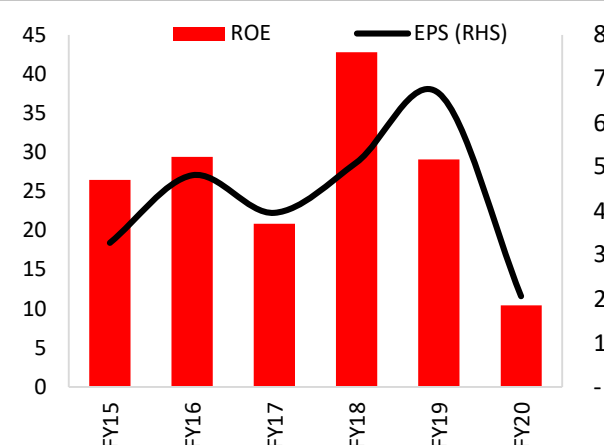
Source: Company acc, FSL Research, June 2021

Fig 3: Profit margins declined due to COVID



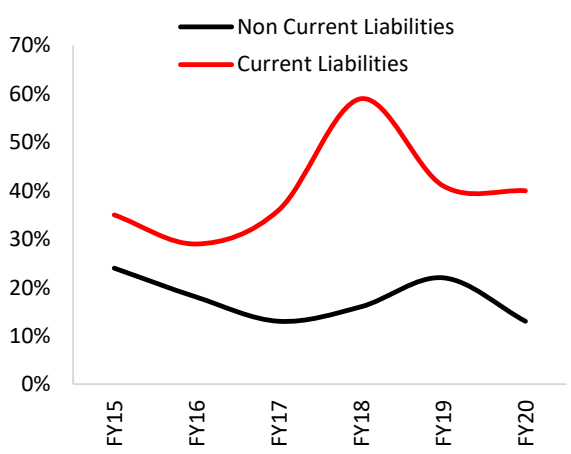
Source: Company acc, FSL Research, June 2021

Fig 4: Profitability still better than peers



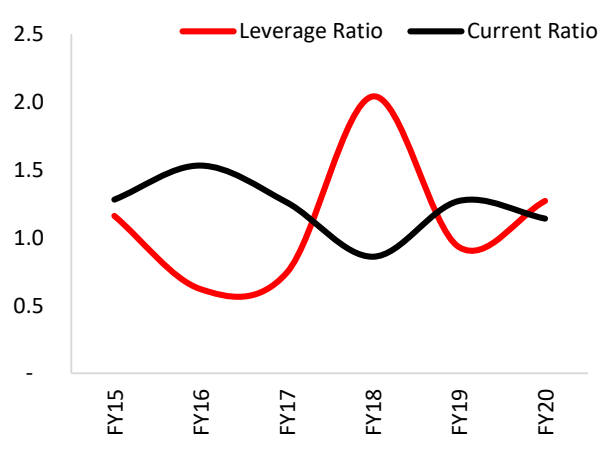
Source: Company acc, FSL Research, June 2021

Fig 5: Liabilities on the declining path...



Source: Company acc, FSL Research, June 2021

Fig 6: Leverage remains steady despite COVID



Source: Company acc, FSL Research, June 2021

Table 4: Ratio Analysis

Profitability Ratios		2015	2016	2017	2018	2019	2020
Gross Profit Margin	%	23.4	28.3	26.5	29.4	31.9	21.7
Operating profit Margin	%	14.3	16.5	13.2	14.4	17.1	8.7
Profit Before tax Margin	%	10.6	14.7	11.7	12.9	14.5	5.8
Net Profit Margin	%	10.3	13.9	11.4	12.5	13.9	5.0
EBIT to Sales	%	14.1	16.3	12.9	14.2	16.8	8.6
EBITDA to Sales	%	18.6	20.6	17.5	19.0	21.2	14.1
Return on Equity	%	26.5	29.4	20.9	42.8	29.1	10.4
Return on Assets	%	10.8	15.5	10.6	11.9	12.7	4.0
Return on Capital Employed	%	22.7	25.4	19.8	36.0	27.7	12.7
Operating Self Sufficiency Ratio	Times	1.1	1.2	1.1	1.2	1.2	1.1
Operating Leverage Ratio	Times	2.1	2.9	(26.7)	1.7	2.1	(16.2)
Liquidity Ratios							
Current Ratio	Times	1.3	1.5	1.3	0.9	1.3	1.1
Quick/Acid Test Ratio	Times	0.7	1.0	0.9	0.6	0.8	0.6
Leverage Ratio	Times	1.2	0.6	0.7	2.0	0.9	1.3
Long term debt to Equity Ratio	Times	0.6	0.4	0.2	0.4	0.3	0.4
Total Liabilities To Equity	Times	1.4	0.9	1.0	2.6	1.3	1.6
Interest Cover	Times	4.1	10.4	10.8	10.6	7.1	3.1
Cash and Cash Equivalent to Current Liabilities	Times	0.0	0.0	0.0	0.0	0.2	0.0
Cash flow from operations to sales	%	14.7	20.2	4.7	(9.0)	15.6	7.2
Efficiency Ratios							
Inventory Turnover	Times	3.9	4.5	4.9	4.3	3.9	3.3
Debtors Turnover	Times	6.2	5.8	5.5	5.1	4.8	4.7
Creditors Turnover	Times	10.8	9.9	9.8	9.7	8.1	8.6
Operating Cycle	Days	119.1	106.5	103.9	117.6	124.0	144.7
Total Assets Turnover Ratio	Times	1.1	1.1	0.9	1.0	0.9	0.8
Fixed Assets Turnover Ratio	Times	2.1	2.2	1.9	2.0	2.1	1.6
Capital employed Turnover Ratio	Times	1.6	1.6	1.5	2.5	1.7	1.5
Equity Ratios							
Cash dividend per share - declared	Rs	4.3	3.0	5.2	5.0	3.0	2.0
Earnings per share - basic *	Rs	3.3	4.8	4.0	5.1	.7	2.1
Earnings per share - diluted *	Rs	3.3	4.8	4.0	5.1	6.7	2.1
Price Earnings Ratio	Times			-	-	6.6	21.3
Price to Book Ratio	Times			-	-	1.0	0.9
Breakup value per share	Rs	49.7	65.7	76.0	47.8	20.5	19.8
Bonus share issue for the year	No. in'mn'	-	-	-	-	571.8	-
Dividend Yield Ratio	%	-	-	-	-	6.8	4.6
Dividend cover	Times	0.8	1.6	0.8	1.0	2.2	1.0
Dividend pay out	%	32.7	15.7	32.8	24.5	45.0	97.1
Plough back ratio	%	67.3	84.3	67.2	75.6	55.0	2.9

Source: Company accounts, Foundation Research, June 2021

About the company

Interloop Limited (the Company) was incorporated in Pakistan on 25th April, 1992 as a private limited company. On 18th July 2008, the Company was converted into public limited company and on 5th April 2019 it was publicly listed on PSX. Interloop has grown into one of the world's largest Hosiery manufacturers and is completely vertically integrated with state of the art Spinning, Yarn Dyeing, Knitting and Finishing facilities. The Company is engaged in the business of manufacturing and sale of socks, leggings, denim and yarn. Interloop is Pakistan's 6th largest exporting firm and the largest listed Textile Company on PSX by Market Capitalization. The company has 23K+ employees and is located in Faisalabad, Pakistan.

Subsidiary Company: IL Apparel (Pvt) Limited

Auditors: Kreston Hyder Bhimji & Co.

Key Personnel

Board of Directors	Mr. Musadaq Zulqarnain	Chairman
	Mr. Navid Fazil	Chief Executive Officer
	Mr. Muhammad Maqsood	Director
	Mr. Jahan Zeb Khan Banth	Director
	Mr. Shereen Aftab	Director
	Mr. Saeed Ahmad Jabal	Director
	Mr. Tariq Iqbal Khan	Director
Management	Mr. Navid Fazil	Chief Executive Officer
	Mr. Muhammad Maqsood	Chief Financial Officer
	Mr. Rana Ali Raza	Company Secretary

Source: Company Report, Foundation Research, June 2021

Pattern of Shareholders	Holding	Shares
Directors and their spouse and minor children	81.6%	709.2
Executives	2.7%	23.5
Others	15.7%	136.6
Free Float	15%	130.8

Source: Company Report, Foundation Research, June 2021

ILP Capacity	Current
Spinning	29.9 mn lbs
Dyeing	4.9 mn kgs
Hosiery	59.8 mn dozen
Denim	4.3 mn pieces

Source: Company Report, Foundation Research, June 2021

Acronyms

Bn billion
CY Calendar Year

Analyst

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Important disclosures:

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.