

Pakistan Textiles

ILP PA: Weaving a growth trajectory

In FY23, textile exports clocked in at US\$16.5bn vs. US\$19.3bn in SPLY. However, GoP was eyeing to fetch textile exports of US\$25bn which were dampened by prevailing global and domestic challenges resulting in decline of 15% YoY. However, ILP's dollarized revenue was down by only 7% YoY, performing better than the sector. Moreover, looking at a broader horizon country's textile exports have grown at a 5-Year CAGR of 4% while, ILP's dollarized revenue outperformed the sector posting a 5-Year CAGR of 10%. To highlight, in FY23, company posted topline PKR119.2bn growing at 5-Year CAGR of 31% in PKR terms.

We reiterate 'BUY' stance on ILP with a Dec'24 DCF based TP of PKR72/sh, providing ~58% upside. Our liking for the stock stems from the following facts; i) Superior margins among peers, ii) Addition of apparel complex to further augment value, iii) Capacity enhancement in denim segment, iv) Dollarized revenue stream, v) Declining cotton prices & better output, vi) Strong customer base and vii) Enhanced focus towards ESG initiatives.

Key risks to our valuation thesis include; i) Appreciation of PKR against USD, ii) Delays in projects commissioning, iii) Abrupt increase in energy costs and iv) Lower than expected export orders.

ILP's path to US\$700mn

To keep up with the growing demand, ILP is heavily investing in capacity enhancement with the aim of achieving revenue of US\$700mn by FY26. To highlight, company has already achieved revenue of ~US\$446mn in FY23.

Under Vision 2025, company has announced a capital outlay of US\$300mn to become a full family clothing partner. To recall, US\$100mn has already been invested for apparel complex following which the new apparel plant is in final commissioning phase. Along with that, the denim plant is en-route to achieve an annual capacity of 12mn pieces by 2025, which currently stands at 6mn pieces. Moreover, the company is looking to setup its 6th hosiery plant to cater the increasing demand. To note, ILP's PPE has grown at a 5-year CAGR of 31% and we expect to grow it further at a 5-year CAGR of 12%.

Hosiery setting the tone for ILP

Hosiery segment is the major contributor of ILP's topline with contribution of ~75% in FY23. Revenues from this segment clocked in at ~PKR89bn in FY23, growing at a 5-year CAGR of 28%. Moreover, hosiery being the value added product is a high margins segment. To highlight, in FY23 hosiery segment posted gross margin of ~40% vs. 5-Year average of 30%.

ILP holds a prominent position as a major global exporter of socks. At present, the company has an annual production capacity of ~796mn pairs of socks. However, to meet the overwhelming demand company is planning to setup 6th hosiery plant. Despite slowdown in demand for textile products amid

Interloop Limited **INTERLOOP**

BUY

HOLD

SELL

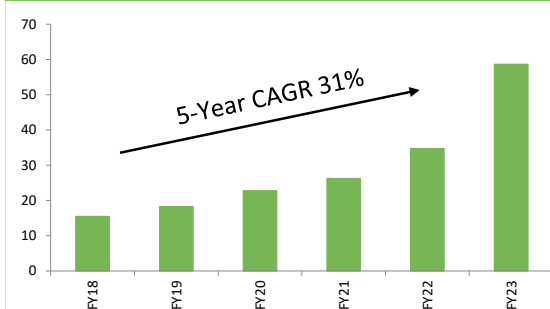
We recommend BUY with Dec'24 DCF based target price of PKR72/sh, providing 58% Capital Upside

Current Price		45.5
Market cap	PKR b	63.8
Market cap	US\$ m	219.9
Free Float Market cap	US\$ m	44.0
30-day Avg. turnover	m Shares	0.6
30-day Avg. turnover	PKR m	23.4
52 week range	PKR/sh	32 - 64
Shares Outstanding	m	1,401.4
Free float	%	20%
Major Sponsors	Directors & Family	
Bloomberg Ticker	ILP PA	

Financials (PKR m)	FY23	FY24E	FY25E
Sales	119,200	151,076	170,881
Cost of sales	79,328	105,433	118,558
Gross Profit	39,872	45,643	52,323
Operating Profit	29,674	33,933	39,007
Profit Before Tax	21,584	21,073	26,168
Profit after Tax	20,172	19,191	24,040
Key Ratios	FY23	FY24E	FY25E
EPS	14.4	13.7	17.2
DPS	5.0	2.1	5.1
Div. Yield	11%	5%	11%
P/E	3.2	3.3	2.7
P/B	1.5	1.1	0.8
ROE	46%	32%	31%

Source: Company Accounts, Insight Research

ILP's growing fixed asstes



Source: Company Accounts, Insight Research

inflationary pressure across the globe, ILP's sales are expected to exhibit resilience due to its concentration towards hosiery segment, which is less elastic as compare to other value added products.

Elevating apparel production

Company had announced to undertake construction of vertically integrated apparel complex with a capex of US\$100mn to achieve its vision 2025. During FY23, company expanded its apparel capacity with the establishment of high tech and fully vertically integrated facility. The new apparel plant is in final commissioning stage and company is anticipating its first commercial output to be carried out from 2QFY24. Currently, ILP has an annual apparel production capacity of 22mn garments which is expected to increase to ~58mn garments, after the commissioning of new apparel complex. To note, in FY23, apparel segment's sales stood at PKR6.8bn vs. PKR5.9bn in SPLY, up by 17% YoY.

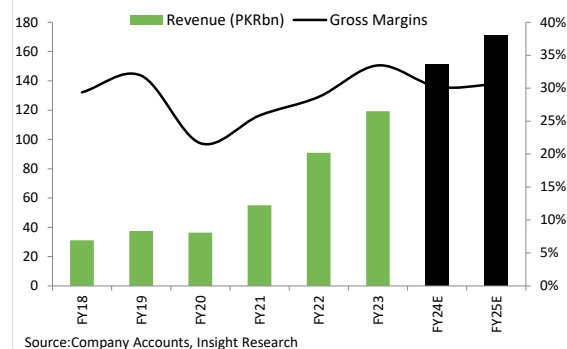
ILP's denim division

ILP ventured into denim business in Dec'19. Initially, segment utilization was only ~56% in both FY20 & FY21 due to Covid-19-induced lockdowns in European countries, which led to cancellation of orders. However, despite global economic slowdown company was able to achieve utilization level of 71% in FY23 amid growing customer base. Previously, denim segment was in loss due to lower fixed-cost absorption and operational inefficiency. As per latest accounts, denim sales have increased by 2x to clock in at PKR12.6bn in FY23 where company has posted a gross profit of PKR1.6bn vs. gross loss of PKR0.9bn in SPLY. Considering the growing demand, company is planning to increase denim capacity by twofold. Currently, denim capacity stands at 500k pcs/month which is expected to increase to 1,000k pcs/month by FY25.

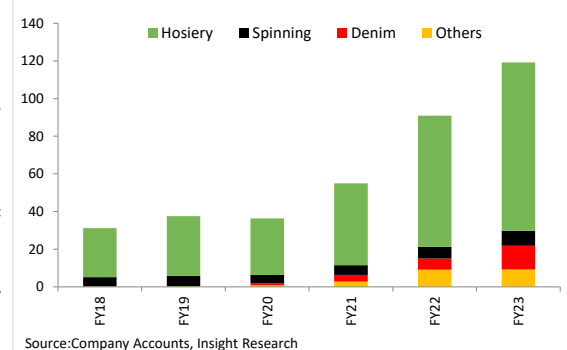
Environmental & social commitment

ILP is making substantial investments to achieve its environmental and social objectives. ILP is the first company in Pakistan to sign the UN "Race to Zero" global campaign aiming for 30% reduction in carbon footprint. In alignment with its Vision 2025, the company is not solely focused on revenue growth but has also established various environmental targets. One of the primary objectives is to reduce GHG emissions by 25% through implementing large-scale rollout of renewable and clean energy sources. ILP is actively working towards this goal, with plans to reach 15-20MW of solar capacity by FY26 of which 8MW has already been installed. While, 4.6MW installation is under process. Furthermore, company has shifted from coal to biomass fuel for steam generation, resulting in a significant reduction in its carbon emissions. According to the Vision 2025 plan, ILP aims to reduce water consumption by 25%. To achieve this, a water recycling plant has been installed at hosiery plant 5, which recycles 100% of processed water. Furthermore, hosiery plant 4-5 has been designed for zero liquid discharge. Additionally, there are several other ongoing initiatives aimed at realizing ILP's environmental goals. ILP is strongly committed to manufacturing sustainable products which has not only contributed to environmental progress but has also attracted numerous new customers to its expanding global clientele.

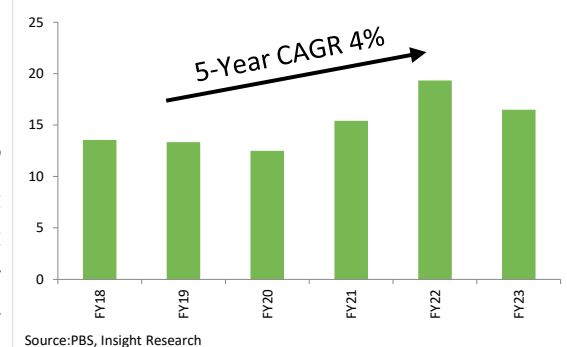
ILP: Revenue vs. gross margins



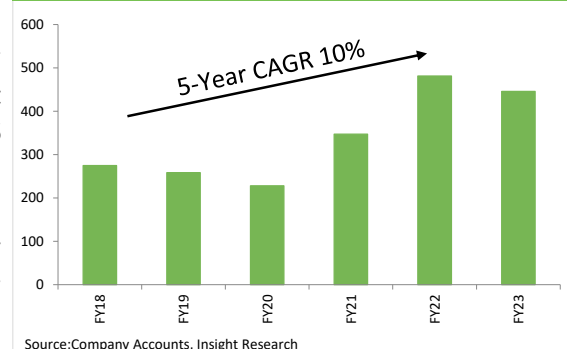
ILP's segment wise revenue (PKRbn)



Pakistan Textile Exports (US\$bn)



ILP's dollarized revenue US\$m (Ex exchange gain)



IMPORTANT DISCLAIMER AND DISCLOSURES

Disclaimer: This report has been prepared by **Insight Securities (Private) Ltd.**, hereinafter referred as 'ISL' and is provided for information purposes only. Under no circumstances is to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Statements regarding future prospects may not be realized while all such information and opinions are subject to change without notice. ISL recommends investors to independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

Investments in capital markets are subject to market risk and ISL accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular need of individuals, who should seek further advice before making any investment or rely upon their own judgment and acumen before making any investment. The views expressed in this document are those of the ISL Research Department and do not necessarily reflect those of ISL or its directors.

ISL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their clients. ISL, as a full-service firm, has/intends to have business relationships, including investment-banking relationships, with the companies in this report. Investors should be aware of that the ISL may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision. This report may not be reproduced, distributed or published by any recipient for any purpose whatsoever without prior written approval by ISL. Action may be taken for unauthorized reproduction, distribution or publication.

ISL Stock Rating System: ISL employs a 3-tier rating mechanism i.e 'BUY', 'HOLD' and 'SELL', which is based upon the level of expected annualized return for a specific stock. When total annualized return (capital gain + dividends) exceeds 22.5%, a 'BUY' rating is assigned. A 'SELL' rating is issued whenever total annualized return is less than negative 5% and for return in between the 2 ranges, 'HOLD' rating is meted out. An 'Under Review' stance is given if ISL research stance depends upon the outcome of an uncertain event having significant impact on the valuations. Different securities firms use a variety of rating terms/systems to describe their recommendations. Similar rating terms used by other securities companies may not be equivalent to ISL rating system.

Time horizon is usually the annual financial reporting period of the company (unless otherwise mentioned in the report). Ratings are updated daily and can therefore change daily. They can change because of a move in the stock's price, a change in the analyst's estimate of the stock's fair value, a change in the analyst's assessment of a company's business risk, or a combination of any of these factors. In addition, research reports contain information carrying the analyst's views and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations.

Target price risk disclosures: Any inability to compete successfully in the markets may harm the business. This could be a result of many factors which may include (but not limited to) geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company may enter into transactions, including transactions in derivative instruments, to manage/offset certain of these exposures.

Valuation Methodology: To arrive at our period end target prices, ISL uses different valuation methodologies including

- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES

Analyst Certification: The research analyst(s), if any, denoted by AC on the cover of this report, who exclusively reports to the research department head, primarily involved in the preparation, writing and publication of this report, certifies that (1) the views expressed in this report are unbiased and independent opinions of the Research Analyst(s) which accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The research analyst or any of its close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months. The Research analyst or its close relatives have not traded in the subject security in the past 7 days and will not trade in next 5 days.

Disclosure of Financial Interest: ISL or any of its officers and directors does not have a significant financial interest (above 1% of the value of the securities of the subject company) in the securities of the subject company. Under normal course of business, ISL, their respective directors, officers, representatives, employees and/or related persons may have a long or short position in any of the securities or other financial instruments mentioned or issues described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise. ISL or its employees may trade contrary to the recommendation given by ISL Research through this report or any other. ISL may be providing, or have provided within the previous twelve months, significant advice or brokerage services to the subject company. ISL may have, within the past twelve months, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all, the entities mentioned in this report or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company. Apart from this, ISL or any other of its officers and directors have neither served as a director/officer in any company under ISL research coverage in the past 3 years nor received any compensation from the subject company in the past 12 months.

ISL Research Dissemination Policy: ISL endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Insight Securities (Pvt.) Limited

Suite 509, Business and Finance Centre,

I. I. Chundrigar Road , Karachi, Pakistan

+92-21-32462541-44