BANGLADESH CRISIS

Analysts sound caution as textile stocks surge

Shares rise up to 19% on the NSE

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SPINNING A YARN

(As on Aug 6)	CMP (₹)	1-day chg (%)
SP Apparels	945.9	19.8
Kitex Garments	246.3	16.6
KPR Mill	946.7	14.8
Gokaldas Exports	1,061.4	14.4
Century Enka	664.6	13.1
Nahar Spinning	355.5	9.8
Cheviot Company	1,469.2	8.2
RSWM	247.6	7.0
Dollar Industries	525.9	6.9
Ruby Mills	259.6	6.7

CMP: Current market price   Source: Bloomberg

Shares of textiles and garment-related stocks surged up to 19 per cent on the National Stock Exchange (NSE) on Tuesday in the hope of gains for the sector amid a political turmoil in Bangladesh.

Analysts, however, caution against chasing the rally as the crisis may provide only a "temporary window" for gains. They suggest that investors wait for the rally to cool off before adding fundamentally-sound companies with high return on equity to their portfolio from a long-term perspective. "The ongoing crisis in Bangladesh means fresh order flow may get diverted to India till the situation stabilises. This, however, is a temporary window as Bangladesh remains advantageous on the cost front. If the stocks rise sharply, market participants need to think even before taking a trading bet," said Deepak Jasani, head of retail research at HDFC Securities.

On the bourses, Kitex Garments rallied 19 per cent to ₹251, Gokaldas Exports surged 18.7 per cent to ₹1,095 (record high), followed by KPR Mill (16.7 per cent at ₹965; record high), RSMW, 15.4 per cent to ₹267, Arvind (13 per cent at ₹420; record high), GHCL Textiles (10.7 per cent at ₹123; record high), Indo Count Industries (8.3 per cent at ₹408), and Faze Three (8 per cent at ₹561.25). These stocks ended up to 17 per cent higher against 0.26 per cent dip in the Nifty 50 index.

The textiles sector is one the major export income sources for Bangladesh with monthly apparel export pegged at \$3.5-3.8 billion.

Bangladesh has a high double-digit export market share in the European Union and the United Kingdom, and a 10 per cent market share in the United States, reports suggest. With the political crisis deepening in the border country, analysts expect international buyers to shift their focus to alternative markets like India.

They anticipate the gain to be around \$300-400 million per month, assuming 10-11 per cent of Bangladesh's exports get diverted to Indian hubs. Investors, however, should not jump to buy textile shares solely based on the Bangladesh trigger. Its textile industry, they said, will not shut down, though it will take a temporary hit. "This will provide a sentimental boost for related stocks, though the rally should not be chased on this trigger alone," concurred Kranthi Bathini, director-equities, WealthMills Securities.

Buy the dip for long term

The long-term investment in textile stocks, analysts advised, should be based on attractive valuations of select shares, government investments, growth in domestic demand on account of the rising disposable incomes, and the growing popularity of 'fast fashion' products.

On the cost front, average cotton prices declined 3.3 per cent year-on-year (Y-o-Y) in the June 2024 quarter (Q1 FY25) and 0.3 per cent quarter-on-quarter (Q-o-Q) to reach ₹162.1 per kilogram. Average yarn prices increased 0.7 per cent Y-o-Y and decreased 0.5 per cent Q-o-Q during the same period. Moreover, cotton yarn spread widened 7.7 per cent Y-o-Y and shrank 1 per cent Q-o-Q to ₹99.7/kg. Demand from the US and EU markets improved, while the domestic market remained muted. Vardhman Textiles net profit surged 74 per cent Y-o-Y to ₹238.5 crore in Q1 FY25 with net profit margin expanding to 10.04 per cent from 5.66 per cent.

Nitin Spinners, clocked a net profit growth of around 46 per cent Y-o-Y to ₹42.12 crore with net profit margin at 5.24 per cent against 4.68 per cent last year. Analysts at JM Financial expect demand for Indian home textiles and apparel exporters to improve in coming quarters, led by improved global retailers' inventory position.

Deleveraged balance sheets of Indian textile players leave room for chasing revenue growth as and when structural demand drivers pick up. Huge addressable market size and/or top-notch execution, and de-leveraged balance sheet bode well for key players, they added.