On a growth curve

SIL repositions itself in the market by entering the branded garment segment

PHOTOS: SANJAY BORADE

Soni: improving margins

Bhilwara-based Sangam (India) Ltd (SIL) has undergone a big transformation. From being the largest polyester-viscose (PV) dyed yarn manufacturer with almost 25 per cent market share in the domestic market, the ₹1,500 crore company has emerged over the last decade or so as one of the most vertically-integrated textile players in the country. It has presence across the value chain, from spinning to weaving and processing, as also now garmenting. Employing 7,000-odd people across four sites (seven facilities) in and around Bhilwara, Rajasthan, the company has built up a well-diversified product portfolio.

Apart from being a leader in the PV dyed yarn (capacity: 45,000 tonnes per annum) segment, SIL is also into the manufacture of 100 per cent cotton yarn (20,000 tonnes). SIL boasts a total installed spinning capacity of 211,296 spindles (PV and cotton yarn) and 3,900 open-ended rotors. The company also has the distinction of being the largest producer of PV dyed yarn in Asia at a single location.

Integrating forward, it also has 24-million metre per annum manufacturing capacity for synthetic blended fabrics in PV, polyester cotton, PV lycra and polyester woollen segments. Besides, there is a modern facility to produce 32 million metres of denim fabrics. The company also has a facility to produce 3,000 tonnes per annum of knitted fabrics. SIL's entire fabric production is well-backed up by a state-of-the-art processing facility of 53 million metres per annum, allowing it to produce fabrics as finished products for much higher realisation. These fabrics are represented in the market under two well-accepted brands Sangam Suitings and Sangam Denim.

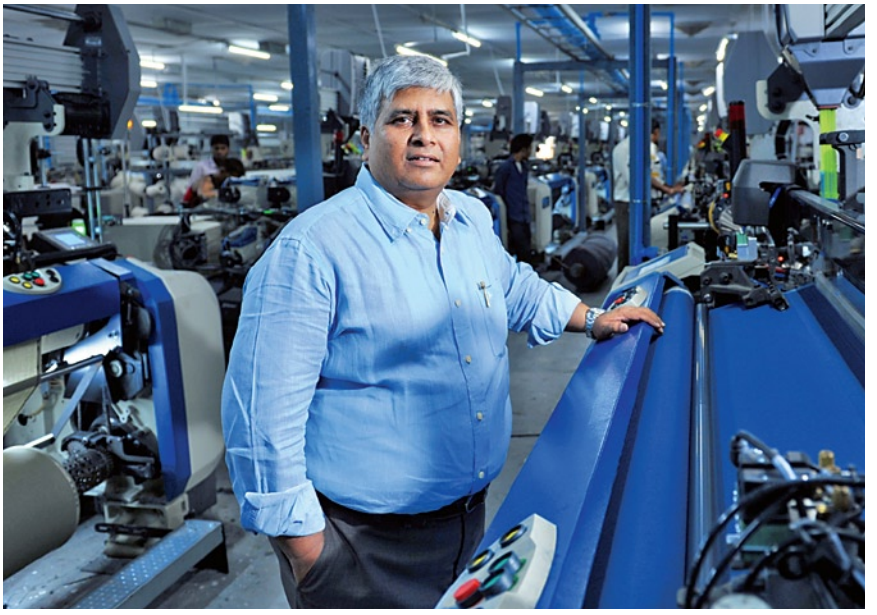
SIL's yarn division, which accounts for almost 55 per cent of its revenue currently, has a client base including big names like Raymond, S Kumar Nationwide, Bansware Syntex, Donear Industries, Siyaram, BSL, Vimal and Grasim. Besides, it has a strong presence in the domestic market through a network of 100 dealers and 1,000 retailers across India. Using this network, the company sells its fabrics in the domestic market. It also exports over 27 per cent of its overall production of yarn and fabrics to more than 25 countries including the US, the EU, Canada, Latin America, Turkey, Bangladesh and South Africa.

Having consolidated its position in the yarn and fabrics segments, the company has recently chalked out a major plan to venture into garmenting. Last year, it forayed into the branded apparel segment, with the production of women's seamless garments, such as intimate wear, active wear, maternity wear and casual wear. For this segment, the company has the latest, world-class, seamless technology, imported from Santoni, Italy. It has set up a capacity in Bhilwara for making 3.6 million pieces per annum of these niche garments, the market for which presents huge potential, even as most of the demand is currently met through imports. SIL has launched these garments by creating a new brand C9, currently available in around 600 multi-brand outlets.

The company which is aiming to increase its presence to around 1,000 multi-brand outlets by the end of this fiscal, is also in the process of launching around 20-25 exclusive outlets in the next 12-16 months. SIL has also signed up with all major e-commerce players including Flipkart, Snapdeal, Amazon and Myntra on the online front.

"Entering into garmenting is part of our latest business strategy, where we are looking for profitable growth by bringing in more integration into our textile value chain," says S.N. Modani, 53, managing director & CEO, SIL. "As the market has undergone a sea change, we are trying to be closer to the retail segment of consumer market through our offering of branded garments. This will provide us with a much-needed trigger to pursue our next phase of growth". The company expects to generate about 20 per cent of its revenue, coming from its garment business, in the next four-five years. It has grown at a CAGR of about 2 per cent in the last five years and is aiming to clock a growth rate in excess of 15 per cent in the coming years. It is also targeting an OPM in excess of 18 per cent during the period, from 15.5 per cent at present, in the wake of its quest to move up in the value chain as also much better integration.

"Having established our presence across the value chain, our foray into branded seamless garments will not only enable us to extend our value proposition directly to the consumer segment through our own brand, but also pave the way for improving our margins, going forward," says Ram Pal Soni, 70, chairman, SIL. "This will also enable us to optimise the usage of our existing capabilities and resources in a much more effective manner". Soni, a first generation entrepreneur, started his venture in 1984 as a small weaving unit (just eight semi-automatic looms), called Arun Synthetics Pvt Ltd, at village Atun near Bhilwara. The same unit was later rechristened Sangam (India) Ltd in April 1992.



Modani: garmenting will be part of the profitable growth

The rise of the business

Soni, a diploma engineer (civil) began his career way back in 1964 with a humble state government job in Rajasthan. However, in 1978, he decided to start his own business and put up a small civil contracting firm, which carried out construction works for the same irrigation department he was once working for. Though he continued this firm for some time, he was not getting the kind of satisfaction he was looking out for and, hence, started searching for other avenues.

Meanwhile, during early 1980s, the entire Bhilwara region was fast-evolving as a cluster for synthetic textile units. Several small weaving units were being put up in the polyester-viscose segment following the state government's encouraging policy. The region also gained a good deal of traction from the fact that many weaving units in Maharashtra's Malegaon and Bhiwandi powerloom centres had to shut down their operations during that period, following communal violence and other micro-economic reasons.

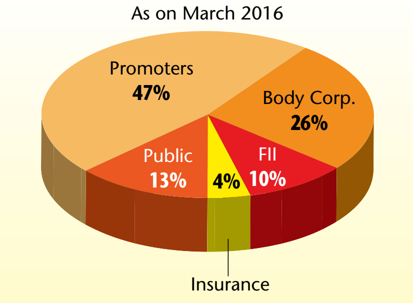
Like many others in Bhilwara, Soni also found that this was a good opportunity. In 1982, he, along with some of its friends, decided to set up a processing unit (capacity: 80,000 metres per day) named Sangam Process Bhilwara Ltd (SPBL) at Atun village near Bhilwara, keeping in mind the processing demand arising out of weaving units coming up in the region. While the processing business was growing in size, in 1984, he decided to have his own weaving unit, Arun Synthetics Pvt Ltd at the same site in Atun village.

The next few years saw his fabric business growing at a brisk pace. From just eight looms, the unit expanded to 100 looms by 1989. The same year also saw Soni finding an able hand in Modani, the present managing director, who joined the business. Modani, a management graduate

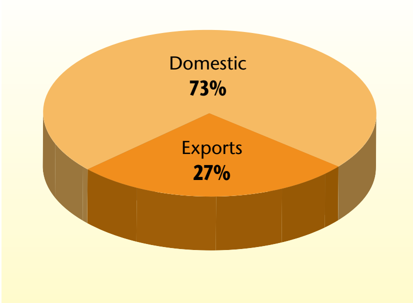
Financials

(₹ crore)	FY2016	FY2015	FY2014	FY2013	FY2012
Sales	1,511	1,477	1,433	1,479	1,417
Net profit	77	52	41	51	17
EBIDTA	233	217	196	214	155
EPS (Rs)	19.5	13.1	10.3	13	4.3

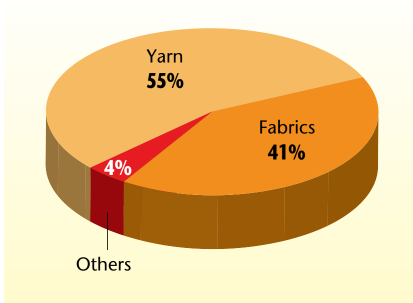
Shareholding pattern



Geography-wise revenue



Product-wise revenue



and married to Soni's eldest daughter, has been managing the company's day-to-day affairs ever since. In fact, he has played a crucial role in the overall growth of the group in recent times.

In 1995, the company took a strategic decision to integrate backwards and installed 17,280 spindles at village Biliya Kalan near Bhilwara, for PV dyed yarn. The spinning activity offered the company the desired margins, as also some surplus cash. By this time, its weaving unit at Atun has also been converted into a state-of-the art facility with 127 high-speed looms. To fund these efforts, Sangam came out with an IPO of ₹4.80 crore in 1993, followed by a rights issue of ₹10.40 crore a year later.

The following years saw the company carrying out more than one expansion plan to increase its PV dyed yarn spinning capacity. By 2004-05, the company had expanded the spinning capacity at its Biliya Kalan site to 64,000 spindles. Moreover, it had also commissioned a 10 MW captive thermal power plant at the site. The year also saw another rights issue of ₹12 crore. At this point in time, the company had a total capacity to produce 21,800 tonnes of PV yarn, as well as 12 million metres of PV fabric, per annum. The company clocked revenues of ₹289.6 crore and a net profit of ₹14 crore during the fiscal.

However, the mega expansion came in 2005-06, when the company commenced a ₹650-crore capex programme, in view of the opening up of the global textile market from 1 January 2005. Dismantling of quota regime had thrown open huge opportunities for the Indian textile players in export markets. The Indian government also incentivised investments under its Technology Upgradation Fund Scheme (TUFS), where industry players could enjoy interest subsidies on loans availed. Sensing the emerging opportunities, SIL not only expanded its capacities, but also took a conscious decision to diversify its portfolio in a big way.

Diversification and expansion

Under this capex programme, which was successfully completed in 2008-09, the company diversified into cotton yarn and denim fabric. It added 31,200 spindles for cotton yarn at a new site in Sareri village near Bhilwara and a line of 8 million metres of denim at its Biliya site. Moreover, it also expanded its PV yarn capacity considerably to about 1,58,000 spindles from 64,000 spindles. It modernised its facility for synthetic (PV) fabrics by replacing old looms with high-speed automated looms and thus increased its capacity to 22 million metres from 10 million metres. It also undertook modernisation of its processing facility at its Atun site (processing unit, SPBL was merged with the company in 2006). The facility can currently process 53 million metres of grey fabrics annually. Besides, the company also commissioned a 16 MW coal-fired captive power plant at its Sareri site. SIL boasts of a captive power generation of about 31 MW today, which also includes 5 MW of wind power.

The capex was funded through a term loan of about ₹480 crore from banks under the TUF scheme, which enabled the company to take advantage of low-cost funds at about 4 per cent. The remaining amount was financed through internal accruals, as also equity funding from ICICI Venture and its other associates.

"Considering our turnover of ₹347 crore in 2005-06, the capex programme was a major move on our part," says Soni. "It was a strategic decision to not only expand our existing capacities but also diversify into other segments of the textile value chain. Our aim was to scale up the value chain and come up with a portfolio that could help us in getting into the next level of growth trajectory".

"This was an expansion that provided the entire business of SIL a real momentum," says Arun Kejriwal of Kejriwal Research & Investment Services. "In fact, this saw the company joining the big league, with its revenue more than trebling in a span of five years to ₹1,172 crore in 2010-11. Entering into cotton-based production provided the business with the desired level of diversification and vibrancy".

Even as the capacities were stabilising after the mega capex, the company went on to invest a total of about ₹300 crore through 2011-12, 2012-13 and 2013-14, with a focus on downstream products. It added three more lines of 8 million each to its denim facility, taking the total capacity to 32 million metres from 8 million tonnes. This denim expansion was well-backed up by installing 3,908 rotors on the yarn side. Besides, it put up a texturing yarn capacity of 7,200 tonnes per annum (used in production synthetic fabrics), as also a 3,000-tonnes knitting facility. The company also augmented its PV yarn capacity by adding 10,000 spindles.

"Textile is a capital-intensive business and one has to ramp up capacities on a continuous basis for ensuring a desired growth," says L.L. Soni, joint-president, finance & investor relation. "However, there is need to indentify the right areas. In our case, all the recent investments are strategic ones which will not only help us maintain our growth momentum but also achieve improved realisations and much better returns on our investments".

Pursuing its strategy of focusing on margin accretive segments, SIL has now entered the last mile of integration by venturing into garmenting with a focus on the hugely potential seamless garment wear segment. Last year (March 2015), it installed 36 modern seamless knitting machines (these machines can produce garments directly from yarn with few requirements for stitches) at a project cost of ₹40 crore at its Atun site. These garments, which offer diverse range at affordable prices (₹200-2,000 per piece) across customer segments, comprise an exquisite range of seamless garments for women, including intimate wear, active wear (seamless sports bra and leggings), yoga wear (T-shirts, legging, track pants) and casual wear (leggings and tank tops). The company has already created design and marketing teams to ramp up its garmenting business going forward.

"We are quite bullish on our garmenting venture," says Pranal Modani, 24, head, business development, SIL. "Having installed our initial capacity, we are in the process of brand building and expanding our reach with our newly-launched consumer-focussed brand C9. Our approach will be multi-pronged. Apart from having our own outlets, we will use multi-brand outlets as also online platforms. Above all, we are also going to leverage our existing network of dealers and distributors". Son of managing director Modani, with a B tech and Masters in management from the London Business School, Pranal joined the company two years back and now spearheads the company's apparel vertical.

Apart from expanding its existing basket for women, the company is also looking to add men's seamless garments to its portfolio in the future. While 75 per cent of its products will be sold under its own brand, it is also looking to sell to private levels (domestic as well as foreign names). It is in talks with brands like Madura, Raymond and Urban Yoga in the domestic market and has been growing at a CAGR in excess of 15 per cent in the last five years. The same momentum is likely to be sustained, going forward as well, in view of the changing demographics and growing urbanisation. The ₹15,000 crore seamless garment market is primarily driven by imports. SIL aims to treble its garmenting capacity to 10.8 million in the next two years and expects to generate about 10 per cent of its revenue from this venture by 2017-18, doubling it to about 20 per cent by 2019-20. "We expect our garment brand (C9) to become a ₹400-450 crore brand in the next two-three years," adds Pranal.

Peer comparision

(₹ crore)	Share price (₹)	Market Cap	Revenue	PAT
Sangam India	276.50	1,090.00	1,477	52.00
RSWM	385.80	893.00	3,003	85.00
Banswara Syntex	127.10	215.17	1,226	8.03
Suryalakshmi Cotton	147.30	245.58	705	12.17

Price as on May 17, 2016

The next phase

"Undoubtedly, seamless apparel is a fast-emerging segment," says Vijay Agarwal, chairman, Creative Garments, Mumbai. "We see huge opportunity emerging in this segment of garment business, as most of the requirements in the domestic market is met through imports. Importantly, these garments command much better margins".

SIL is undertaking another capex of ₹198 crore now, availing a loan (effective cost of fund: about 3 per cent) under the Rajasthan government's textile policy. Under the capex programme (started last year in October 2015 and estimated to be completed by the end of the current fiscal), the company is strengthening its position further, by installing one more line of denim at its existing Biliya site. This will expand its denim capacity to 40 million metres from the present 32 million. It is also installing 74 new weaving machines at Atun for increasing its PV fabric capacity to 40 million metres from 24 million metres. Moreover, the company is also putting up 26,736 spindles for PV yarn at a new site in village Soniyana (Chittorgarh) near Bhilwara, while also adding a 2 MW solar plant.

With all these initiatives in place, SIL is well geared up to commence its next phase of growth, where it is focussing not only on achieving higher growth trajectory but also doing it in a profitable way. It is in the process of tweaking its business model in favour of high-margin businesses. The company has expanded its denim capacity considerably. By the end of this fiscal, it will have a capacity of 40 million metres of denim and is looking to add one more line (8 million metres) in the next fiscal or so, in order to strengthen its position further in a market where it is competing with players like, KG Denim, Aarvee, Nandan Denim, Suryalakshmi Cotton Mills and others. In the last five years, the domestic market for denim has grown at a CAGR of over 15 per cent. The last couple of years have been quite remarkable for the industry, as demand has seen real upsurge.

The expanded capacity of denim will not only help the company explore the opportunities in the booming denim market but also ensure better integration with its upstream production of cotton yarn and thus improving the overall margins. SIL's entire denim production is backed up by captive production of cotton yarn. The company currently consumes almost 50 per cent of its cotton yarn production in-house


Doing well through strategic investments

through manufacturing of denim fabrics. In the last 18 months, SIL has also entered export markets and is exporting almost 30 per cent of denim production to major global markets.

"Our foray into the denim market has proved to be a major boon for our overall growth strategy," says Soni. "During the last couple of years, we have witnessed a big traction in the domestic market and the impetus is likely to be maintained in the coming years as well on account of changing dynamics of Indian consumer base. SIL would actively like to be part of this growth story". Soni feels that denim, which currently contributes about 21 per cent of company's revenue, will increase its share to over 24 per cent by the end of the next fiscal.

"The domestic denim market is showing a great deal of traction in the wake of favourable demographics and increasing income levels," says Paritosh Agarwal, managing director, Suryalakshmi Cotton Mills. "The momentum is expected to continue in coming years, in view of the abysmally low penetration level and favorable demographics".

In the overall product mix also, the share of fabrics (denim as well as synthetics) has gone up to 41 per cent in 2015-16 from 38 per cent in 2014-15, while the yarn share (PV yarn and cotton yarn) has come down to 55 per cent from 58 per cent. This happened at a time when contribution in absolute terms has increased in both cases. The company is looking for an ideal mix of about 35 per cent yarn, 40 per cent fabrics and about 25 per cent garments in the next four years.

Expanded production

In PV yarn, it continues to enjoy the leadership position as it has kept on expanding its capacity in a market where it is competing with players like RSWM, Sutlej and Banswara Syntex (these three companies, along with SIL, hold about 80 per cent of the PV market share). Even as SIL is enjoying leadership position in the domestic market, it exports about 20 per cent of its PV yarn. Ensuring improved degree of integration, today, the company is consuming more than 15 per cent (as against 5 per cent five years ago) of its PV yarn production internally in the production of PV fabrics, where it is competing with players like Siyaram, Donear, Banswara Syntex, Grasim, BSL, Vimal and others. It also exports almost 50 per cent of its PV fabric production.

"The overall polyester viscose sector has shown steady growth in the last decade or so, as it is gaining in market share at the cost of other synthetic blends," says M.L. Jhunjhunwala, president, RSWM. "With specialised designs and products coming in the market, the demand will continue to be encouraging in the future".

Backed by all these developments, SIL is all set to grow at a higher pace in the coming years. For the current fiscal, the company expects incremental revenue of about ₹350 crore. During 2015-16, it had registered a moderate growth of 2.3 per cent in revenue of ₹1,511 crore and an impressive surge of 49 per cent on a net profit of ₹77 crore.

In the last five years, the company's net profit has grown at a CAGR of 30 per cent and it is likely to continue this march, with enhanced share of margin-accretive businesses. During the period, the company has rationalised its debt considerably to about ₹583 crore in 2015-16. Its debt-equity ratio has also come down to 1.32 from 3.00 in 2010-11. The return ratios have also improved consistently, with return on equity (RoE) and return on capital employed (RoCE) at over 18 per cent in 2015-16 from about 10 per cent in 2011-12.

With all these developments in place, SIL is well placed to march forward. The company has created a well-diversified product offering in favour of high-margin businesses. With expanded production of denim, it will be able to ride the booming denim market and explore the opportunities emerging in that space. Garmenting is another area which will help it improve its margin considerably. By getting into the niche area of seamless garments, it has tried to be in a business which presents huge potential.

The market for seamless garments has shown an impressive traction and the same is in all likelihood to be maintained going forward. In its traditional businesses of PV yarn and fabrics also, the company has attempted to consolidate its position further, maintaining a leadership position in the PV yarn segment. Moreover, it has also infused better integration across the value chain in order to rationalise its cost of production. Over the last few years, the company has improved its presence in export markets considerably, which will infuse vibrancy in its business model and bring about the desired element of de-risking against market vagaries.

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