

## FLASH NOTE

## Welspun India

**BUY**

**Price: Rs 776**

**Nifty 8,610**

**20 July 15**

### Share Data

Reuters code	WLSP.BO
Bloomberg code	WLSI IN
Market cap. (US\$ mn)	1,228
6M avg. daily t/o (US\$ mn)	1.6
Issued shares (mn)	100
Target Price (Rs)	842

### Performance (%)

	1M	3M	12M
Absolute	41.8	88.9	274.5
Relative	33.3	88.8	232.3

### 1QFY16 - Actual, BK Estimates, Consensus

Rs mn	Actual	BK Est	Consen.
Revenue	13,885	12,519	13,645
EBITDA	3,598	3,519	3,382
EBITDA Margin %	25.9	28.1	24.8
Reported PAT	1,632	1,483	1,604

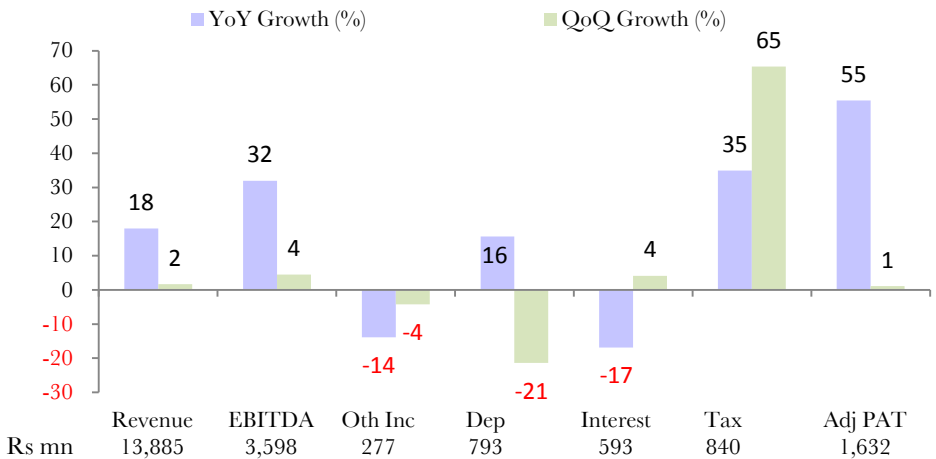
### Valuation Ratios

Year end	Mar-15	Mar-16E	Mar-17E
EPS (Rs)	53.7	57.2	64.4
+/- (%)	-4.7	6.4	12.6
PER (x)	6.6	13.6	12.0
PBV (x)	2.5	4.2	3.4
Div./Yield (%)	3.0	1.8	2.1
EV/Sales (x)	1.1	1.8	1.5
EV/EBITDA (x)	4.7	7.4	6.8

### Major shareholders (%)

Promoters	73
FII's, Custodians	4
MFs	4
BFSF's	1
Public & Others	18

### 1QFY16 - Quarterly Result Snapshot



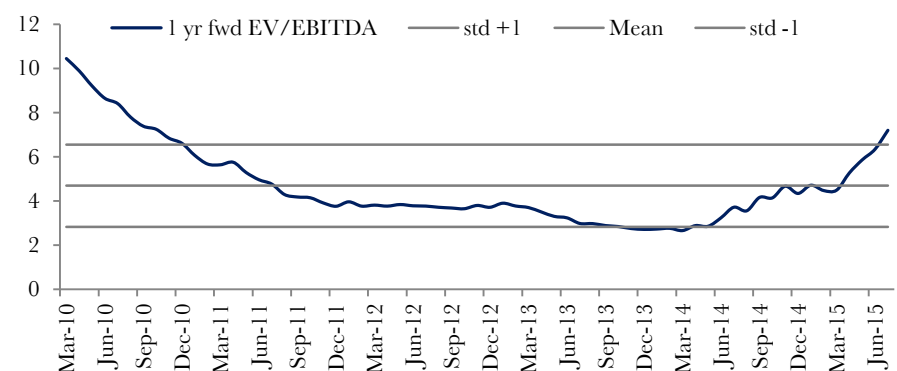
### Key Highlights of Result

1. Revenue for the quarter stood at Rs 13.9 bn (In-line with our estimates), up by 17.9% on YoY basis, driven by strong volume growth.
2. The EBITDA for the quarter stood at Rs 3.6 bn (B&K: Rs 3.5 bn), up ~32% YoY. EBITDA margin grew by 275 bps on YoY basis to 25.9% mainly on account of higher vertical integration and larger share of innovative products.
3. The reported PAT stood at Rs 1.6 bn (B&K: Rs 1.5 bn), as against Rs 1.05 bn in the same quarter last year supported by healthy operating profitability and lower finance cost while higher tax rate (33.7% in 1QFY16 vs. 27.7% in FY15) negatively impacted the profitability.
4. The Company has started availing the benefits under the Gujarat Textile Policy, which has led to a reduction in interest expenses.

### Analyst views

We remain positive on the company given its multiple growth drivers like penetrating newer geographies, scaling newer product categories, expanding underpenetrated channels, etc. The Company's Increasing vertical integration, higher share of value added products and branded sales will aid healthy operating margins. Fall in the relative debt level despite the on-going large capex is the major highlight in the performance. At the CMP of Rs 776, the stock trades at 6.8x FY17E EV/EBITDA and 12x FY17E EPS. We maintain our Buy rating on the stock.

### Historic valuation chart



## Welspun India

## Income Statement

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
<b>Net sales</b>	<b>44,954</b>	<b>53,025</b>	<b>59,896</b>	<b>68,462</b>
<i>Growth (%)</i>	<i>23.3</i>	<i>18.0</i>	<i>13.0</i>	<i>14.3</i>
Operating expenses	(35,743)	(40,283)	(45,581)	(52,956)
<b>Operating profit</b>	<b>9,211</b>	<b>12,742</b>	<b>14,315</b>	<b>15,507</b>
Other operating income				
<b>EBITDA</b>	<b>9,211</b>	<b>12,742</b>	<b>14,315</b>	<b>15,507</b>
<i>Growth (%)</i>	<i>54.9</i>	<i>38.3</i>	<i>12.3</i>	<i>8.3</i>
Depreciation	(6,863)	(3,329)	(4,570)	(4,824)
Other income	1,042	949	800	800
<b>EBIT</b>	<b>3,389</b>	<b>10,362</b>	<b>10,545</b>	<b>11,483</b>
Finance cost	(2,352)	(2,829)	(2,340)	(2,244)
Exceptional & extraordinary				
<b>Profit before tax</b>	<b>1,037</b>	<b>7,533</b>	<b>8,205</b>	<b>9,239</b>
Tax (current + deferred)	(199)	(2,090)	(2,461)	(2,772)
P / L form discount. Op.				
<b>Profit / (Loss) for period</b>	<b>838</b>	<b>5,443</b>	<b>5,743</b>	<b>6,467</b>
P/L of Ass., Min Int, Pref Div	82	(45)		
Reported Profit / (Loss)	921	5,398	5,743	6,467
Adjusted net profit	5,659	5,398	5,743	6,467
<i>Growth (%)</i>	<i>148.3</i>	<i>-4.6</i>	<i>6.4</i>	<i>12.6</i>

## Balance Sheet

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Share capital	1,003	1,005	1,005	1,005
Reserves & surplus	10,093	13,314	17,377	21,953
<b>Shareholders' funds</b>	<b>11,096</b>	<b>14,319</b>	<b>18,382</b>	<b>22,958</b>
Minority Interests and others	317	378	378	378
<b>Non-current liabilities</b>	<b>18,782</b>	<b>17,607</b>	<b>20,158</b>	<b>19,963</b>
Long-term borrowings	16,795	15,946	18,446	18,196
Other non-current liabilities	1,988	1,661	1,712	1,766
<b>Current liabilities</b>	<b>21,489</b>	<b>24,650</b>	<b>26,014</b>	<b>25,539</b>
ST borrow, Curr maturity	13,498	12,534	13,435	11,531
Other current liabilities	7,990	12,115	12,579	14,008
<b>Total (Equity and Liab)</b>	<b>51,684</b>	<b>56,953</b>	<b>64,932</b>	<b>68,837</b>
<b>Non-current assets</b>	<b>28,336</b>	<b>29,397</b>	<b>34,120</b>	<b>34,469</b>
Fixed assets (Net block)	23,770	26,049	30,651	30,876
Non-current Investments	473	15	16	17
Long-term loans and adv	1,232	1,377	1,515	1,667
Other non-current assets	2,860	1,955	1,938	1,910
<b>Current assets</b>	<b>23,348</b>	<b>27,557</b>	<b>30,812</b>	<b>34,369</b>
Cash & current investment	2,974	4,657	3,303	2,672
Other current assets	20,374	22,900	27,510	31,696
<b>Total (Assets)</b>	<b>51,684</b>	<b>56,953</b>	<b>64,932</b>	<b>68,837</b>
Total debt	30,293	28,480	31,881	29,727
Capital employed	43,694	44,838	52,354	54,829

## Cash Flow Statement

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
<b>Profit before tax</b>	<b>1,037</b>	<b>7,533</b>	<b>8,205</b>	<b>9,239</b>
Depreciation	6,863	3,329	4,570	4,824
Change in working capital	(2,976)	1,510	(4,234)	(2,856)
Total tax paid	(1,681)	(1,884)	(2,461)	(2,772)
Others	2,352	2,829	2,340	2,244
<b>Cash flow from oper. (a)</b>	<b>5,595</b>	<b>13,318</b>	<b>8,420</b>	<b>10,679</b>
Capital expenditure	(13,772)	(5,609)	(9,172)	(5,049)
Change in investments	(184)	(305)	1,404	(1)
Others	375	852	(34)	(20)
<b>Cash flow from inv. (b)</b>	<b>(13,581)</b>	<b>(5,062)</b>	<b>(7,801)</b>	<b>(5,070)</b>
<b>Free cash flow (a+b)</b>	<b>(7,986)</b>	<b>8,256</b>	<b>618</b>	<b>5,610</b>
Equity raised/(repaid)	12	1		
Debt raised/(repaid)	10,014	(1,813)	3,401	(2,154)
Dividend (incl. tax)	(357)	(1,234)	(1,680)	(1,891)
Others	(1,076)	(4,290)	(2,289)	(2,194)
<b>Cash flow from fin. (c)</b>	<b>8,594</b>	<b>(7,336)</b>	<b>(568)</b>	<b>(6,240)</b>
<b>Net chg in cash (a+b+c)</b>	<b>608</b>	<b>920</b>	<b>51</b>	<b>(630)</b>

## Key ratios

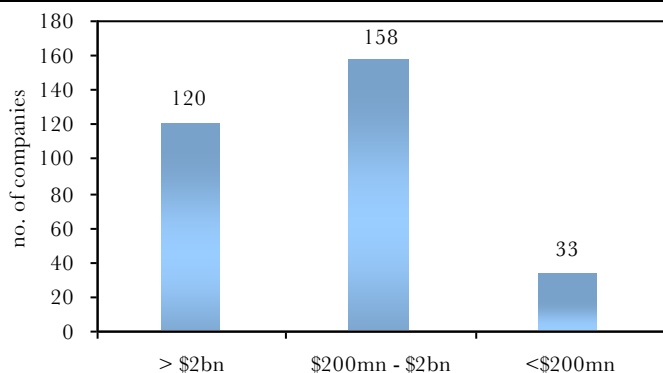
Period end (%)	Mar 14	Mar 15	Mar 16E	Mar 17E
Adjusted EPS (Rs)	56.4	53.7	57.2	64.4
<i>Growth (%)</i>	<i>147.5</i>	<i>(4.7)</i>	<i>6.4</i>	<i>12.6</i>
CEPS (Rs)	124.8	86.9	102.7	112.4
Book NAV/share (Rs)	110.6	142.5	183.0	228.5
Dividend/share (Rs)	3.0	10.5	14.3	16.1
Dividend payout ratio	38.8	22.9	29.2	29.2
EBITDA margin	20.5	24.0	23.9	22.7
EBIT margin	7.5	19.5	17.6	16.8
Tax rate	3.4	27.7	30.0	30.0
RoCE	8.9	23.4	21.7	21.4
Total debt/Equity (x)	2.7	1.9	1.7	1.3
Net debt/Equity (x)	2.4	1.6	1.5	1.2
<b>Du Pont Analysis - ROE</b>				
Net margin	12.6	10.2	9.6	9.4
Asset turnover (x)	1.0	1.0	1.0	1.0
Leverage factor (x)	4.3	4.3	3.7	3.2
Return on equity	53.9	42.5	35.1	31.3

## Valuations

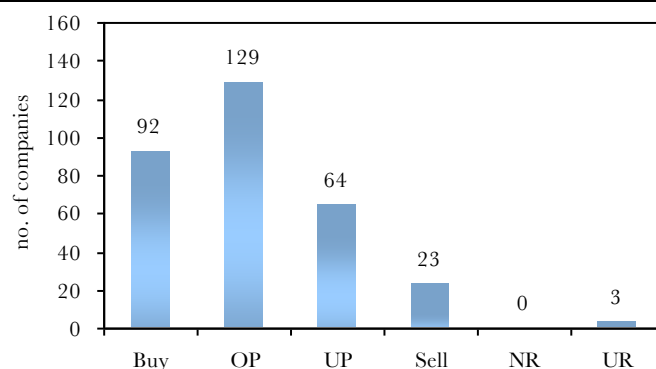
Period end (x)	Mar 14	Mar 15	Mar 16E	Mar 17E
PER	1.8	6.6	13.6	12.0
PCE	0.8	4.1	7.6	6.9
Price/Book	0.9	2.5	4.2	3.4
Yield (%)	3.0	3.0	1.8	2.1
EV/EBITDA	4.1	4.7	7.4	6.8

**B&K Universe Profile**

**By Market Cap (US\$ mn)**



**By Recommendation**



**B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.**

**B&K Investment Ratings.**

	<b>LARGE CAP</b> (Market Cap > USD 2 bn)	<b>MID CAP</b> (Market Cap of USD 200 mn to USD 2 bn)	<b>SMALL CAP</b> (Market Cap < USD 200 mn)
<b>BUY</b>	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
<b>OUTPERFORMER</b>	+10% to +20%	+15% to +25%	+20% to +30%
<b>UNDERPERFORMER</b>	+10% to -10%	+15% to -15%	+20% to -20%
<b>SELL</b>	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

**Disclaimer:** This report was prepared, approved, published and distributed by Batlivala & Karani Securities India Private Limited (“B&K”) located outside of the United States (a “non-US Group Company”), which accepts responsibility for its contents. It is distributed in the U.S. by Enclave Capital, a U.S. registered broker dealer, on behalf of B&K, only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the “Exchange Act”)) pursuant to the exemption in Rule 15a-6. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. (“FINRA”) or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization. Outside the United States, this report is distributed by B&K or an authorized affiliate of B&K.

The report has been compiled or arrived from sources believed to be reliable and in good faith, but no representation or warranty, express or implied is made as to their accuracy, completeness or correctness. B&K has not verified the factual accuracy, assumptions, calculations or completeness of the information. Accordingly, B&K accepts no liability whatsoever for any direct or consequential loss or damage arising from (i) the use of this communication (ii) reliance of any information contained herein, (iii) any error, omission or inaccuracy in any such Information or (iv) any action resulting there from. B&K provides the information for the purpose of the intended recipient’s analysis and review and recipients are advised to verify the factual accuracy, assumptions, calculations and completeness of the information.

This report was produced by B&K solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions. This document does not constitute an offer of, or an invitation by or on behalf of B&K or its affiliates or any other company to any person, to buy or sell any security.

**Analyst Certification:** Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

**Disclosures, applying to B&K and the Analyst (together with associates and family members)**

Ownership interest in the issuer of the securities mentioned	<b>&lt; 1%</b>
Other financial interest in the issuer	<b>None</b>
Other material conflict of interest	<b>None</b>
Compensation/benefits received from issuer/3rd Parties in past 12 months:	
Public offerings managed/co-managed for issuer	<b>None</b>
Fees for merchant banking, investment banking or brokerage services (as percentage of issuer’s turnover)	<b>&lt; 0.1%</b>
Compensation for other services (as percentage of issuer’s turnover)	<b>&lt; 0.1%</b>
Analyst service as officer, director or employee of the issuer	<b>None</b>
Involvement in market-making in the issuer’s securities	<b>None</b>

**Important US Regulatory Disclosures on Subject Companies**

1. B&K or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
2. B&K or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. B&K or its Affiliates have not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more person of B&K or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
5. B&K or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.
6. As of the publication of this report, Enclave Capital does not make a market in the subject securities.

Enclave Capital is the distributor of this document in the United States of America. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital (19 West 44<sup>th</sup> Street, suite 1700, New York, NY 10036).

---

**B & K SECURITIES INDIA PRIVATE LTD.**

**Equity Research Division:** 298 City Ice Bldg., Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai-400 001, India.  
Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.

**Registered Office:** Room No. 3/4, 7 Lyons Range, Kolkata-700 001. Tel.: 91-033-2243 7902.

---

***B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext***