

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

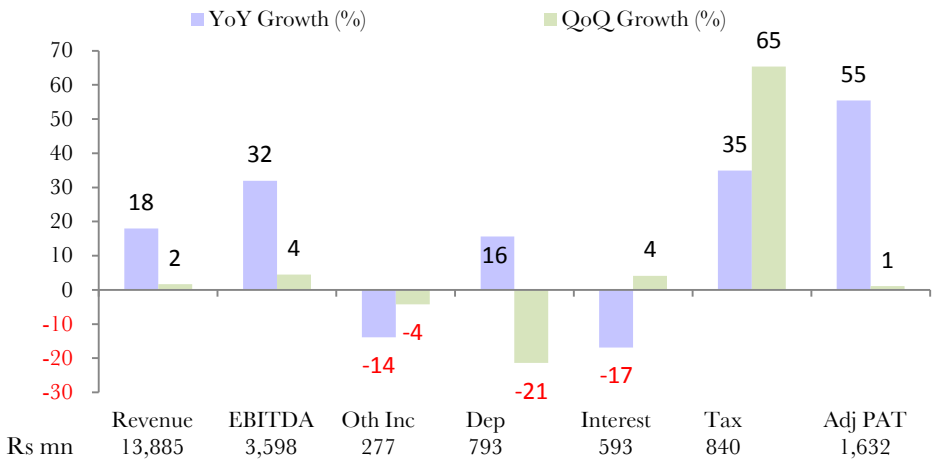
Valuation Ratios

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



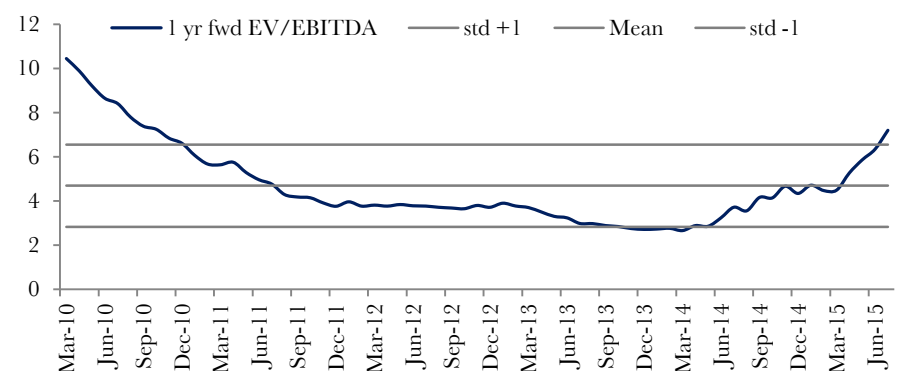
Key Highlights of Result

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
Net sales	44,954	53,025	59,896	68,462
<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)
Operating profit	9,211	12,742	14,315	15,507
Other operating income				
EBITDA	9,211	12,742	14,315	15,507
<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
EBIT	3,389	10,362	10,545	11,483
Finance cost	(2,352)	(2,829)	(2,340)	(2,244)
Exceptional & extraordinary				
Profit before tax	1,037	7,533	8,205	9,239
Tax (current + deferred)	(199)	(2,090)	(2,461)	(2,772)
P / L form discount. Op.				
Profit / (Loss) for period	838	5,443	5,743	6,467
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
Shareholders' funds	11,096	14,319	18,382	22,958
Minority Interests and others	317	378	378	378
Non-current liabilities	18,782	17,607	20,158	19,963
Long-term borrowings	16,795	15,946	18,446	18,196
Other non-current liabilities	1,988	1,661	1,712	1,766
Current liabilities	21,489	24,650	26,014	25,539
ST borrow, Curr maturity	13,498	12,534	13,435	11,531
Other current liabilities	7,990	12,115	12,579	14,008
Total (Equity and Liab)	51,684	56,953	64,932	68,837
Non-current assets	28,336	29,397	34,120	34,469
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
Current assets	23,348	27,557	30,812	34,369
Cash & current investment	2,974	4,657	3,303	2,672
Other current assets	20,374	22,900	27,510	31,696
Total (Assets)	51,684	56,953	64,932	68,837
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
Profit before tax	1,037	7,533	8,205	9,239
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
Cash flow from oper. (a)	5,595	13,318	8,420	10,679
Capital expenditure	(13,772)	(5,609)	(9,172)	(5,049)
Change in investments	(184)	(305)	1,404	(1)
Others	375	852	(34)	(20)
Cash flow from inv. (b)	(13,581)	(5,062)	(7,801)	(5,070)
Free cash flow (a+b)	(7,986)	8,256	618	5,610
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)
Cash flow from fin. (c)	8,594	(7,336)	(568)	(6,240)
Net chg in cash (a+b+c)	608	920	51	(630)

Key ratios

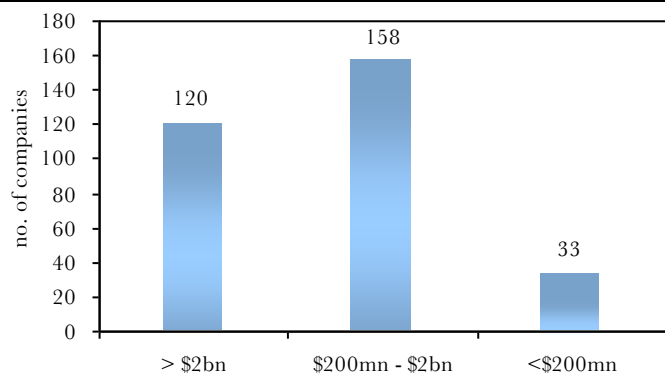
Period end (%)	Mar 14	Mar 15	Mar 16E	Mar 17E
Adjusted EPS (Rs)	56.4	53.7	57.2	64.4
<i>Growth (%)</i>	<i>147.5</i>	<i>(4.7)</i>	<i>6.4</i>	<i>12.6</i>
CEPS (Rs)	124.8	86.9	102.7	112.4
Book NAV/share (Rs)	110.6	142.5	183.0	228.5
Dividend/share (Rs)	3.0	10.5	14.3	16.1
Dividend payout ratio	38.8	22.9	29.2	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
Du Pont Analysis - ROE				
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

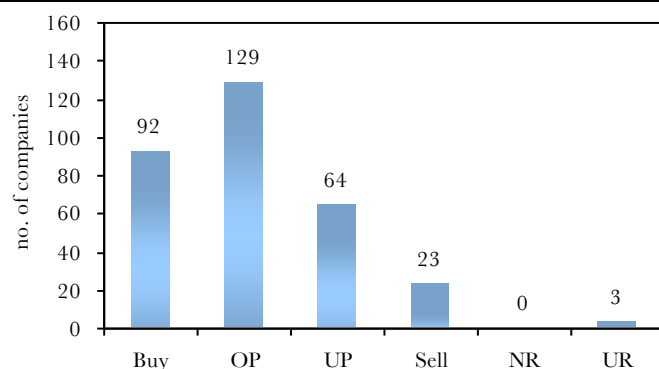
Period end (x)	Mar 14	Mar 15	Mar 16E	Mar 17E
PER	1.8	6.6	13.6	12.0
PCE	0.8	4.1	7.6	6.9
Price/Book	0.9	2.5	4.2	3.4
Yield (%)	3.0	3.0	1.8	2.1
EV/EBITDA	4.1	4.7	7.4	6.8

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.

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

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