

Price: Rs 765

Nifty 8,275

20 Oct 15

Share Data

Reuters code	WLSP.BO
Bloomberg code	WLSI IN
Market cap. (US\$ mn)	1,186
6M avg. daily t/o (US\$ mn)	3.6
Issued shares (mn)	100
Target Price (Rs)	1,074

Performance (%)

	1M	3M	12M
Absolute	-12.9	-1.4	169.3
Relative	-16.0	2.6	153.2

Major shareholders (%)

Promoters	73
FII's, Custodians	6
MF's	4
BFSF's	0
Public & Others	16

Valuation Ratios

Year end	Mar-15	Mar-16E	Mar-17E
EPS (Rs)	53.7	61.6	67.9
+/- (%)	-4.7	14.6	10.3
PER (x)	6.6	12.4	11.3
PBV (x)	2.5	4.1	3.3
Div./Yield (%)	3.0	2.0	2.2
EV/Sales (x)	1.2	1.8	1.5
EV/EBITDA (x)	4.9	6.9	6.2

Financial Highlights

(Rs mn)	2QFY15	2QFY16	YoY (%)	1QFY16	QoQ (%)	B&K Est	Consensus	FY15	FY16E	FY17E
Net Sales	14,135	14,723	4.2	13,885	6.0	15,547	15,858	53,025	59,983	68,328
EBITDA	3,169	3,743	18.1	3,598	4.0	3,941	3,809	12,742	15,326	16,638
EBITDA Margin (%)	22.4	25.4		25.9		25.4	24.0	24.0	25.6	24.4
Other Income	191	197	3.1	277	-28.9			949	840	850
Interest	731	515	-29.6	593	-13.2			2,829	2,578	2,491
Depreciation	717	918	28.0	793	15.7			3,329	4,255	4,707
PBT	1,913	2,508	31.1	2,490	0.7			7,533	9,332	10,290
Tax	591	747	26.3	840	-11.1			2,090	3,145	3,468
Adjusted PAT	1,299	1,724	32.7	1,632	5.6	1,602	1,805	5,398	6,187	6,822
NPM (%)	9.2	11.7		11.8				10.2	10.3	10.0
EPS (Rs)	12.9	17.2	32.6	16.2	5.6			53.7	61.6	67.9

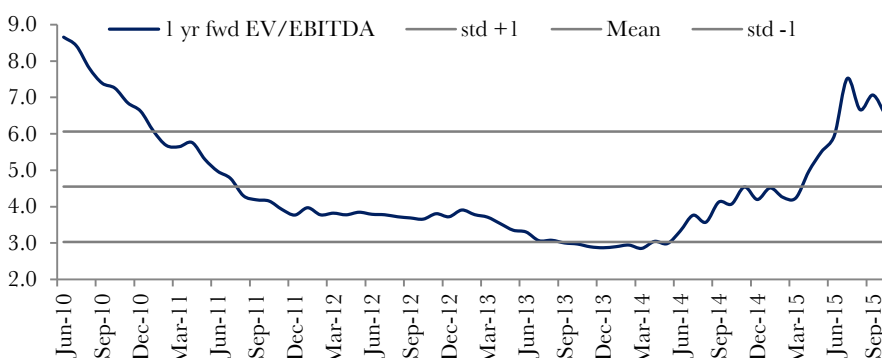
PAT lift by healthy operating profitability and lower finance cost...

Key Highlights of Result

1. Revenue for the quarter stood at Rs 14.7 bn (up ~4% YoY), ~5% below our estimates, primarily on account of base effect and capacity constraint.
2. The EBITDA for the quarter stood at Rs 3.7 bn (5% below our estimates), up ~18% YoY. EBITDA margin grew by 300 bps on YoY basis to 25.4% mainly on account of higher vertical integration and larger share of innovative and branded products.
3. The reported PAT stood at Rs 1.7 bn (B&K: Rs 1.6 bn), as against Rs 1.3 bn in the same quarter last year supported by healthy operating profitability and lower finance cost (Rs 515 mn in 2QFY16 as against Rs 731 mn in the same quarter last year).
4. The company has declared first interim dividend of Rs 6.5/share for FY16.

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. During the quarter, the capital expenditure was Rs 2.3 bn and the balance investment of Rs 8.5 bn is expected over the next 12 months. This capax will entail modernisation, automation and capacity enhancement for towel and sheets as well as routine maintenance. At the CMP of Rs 765, the stock trades at 6.2x FY17E EV/EBITDA and 11.3x FY17E EPS. We maintain our Buy rating on the stock.

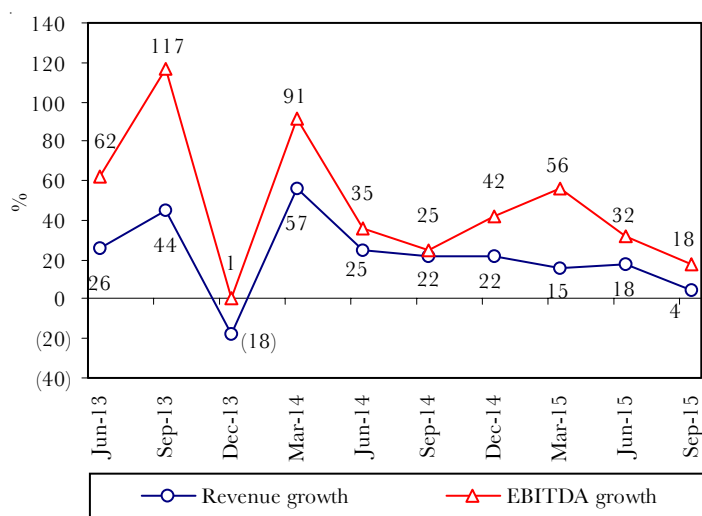
Historic valuation chart



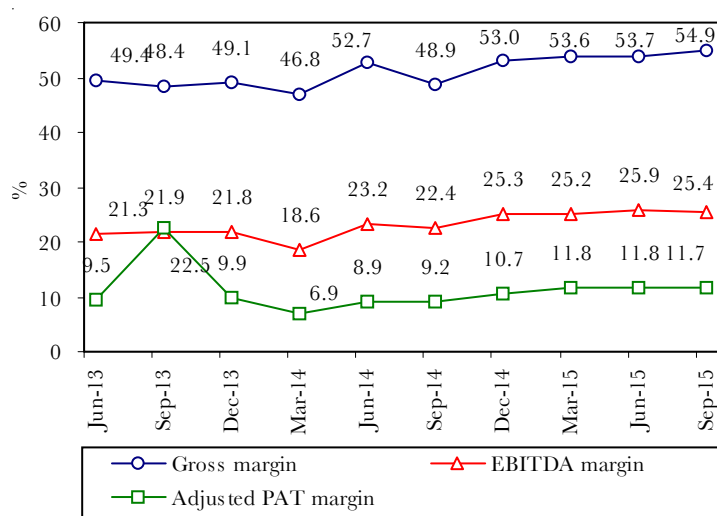
Operating cost break-up (% of Sales)

Cost items	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	YoY Change (bps)	QoQ Change (bps)
Raw Material Cost	51.1	47.0	46.4	46.3	45.1	(602)	(121)
Power & Fuel Cost	1.4	2.0	2.4	2.4	1.8	34	(60)
Employee Expenses	8.1	8.4	8.6	8.9	9.0	91	7
Other Operating Expenses	17.0	17.3	17.4	16.5	18.7	177	223
Total Operating Cost	77.6	74.7	74.8	74.1	74.6	(300)	50

Revenue growth and EBITDA growth (YoY)



Gross margin, EBITDA margin and Adjusted PAT margin (%)



Source: Company, B&K Research

Welspun India

Income Statement

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Net sales	44,954	53,025	59,983	68,328
<i>Growth (%)</i>	<i>23.3</i>	<i>18.0</i>	<i>13.1</i>	<i>13.9</i>
Operating expenses	-35,743	-40,283	-44,657	-51,690
Operating profit	9,211	12,742	15,326	16,638
Other operating income				
EBITDA	9,211	12,742	15,326	16,638
<i>Growth (%)</i>	<i>54.9</i>	<i>38.3</i>	<i>20.3</i>	<i>8.6</i>
Depreciation	-6,863	-3,329	-4,255	-4,707
Other income	1,042	949	840	850
EBIT	3,389	10,362	11,911	12,781
Finance cost	-2,352	-2,829	-2,578	-2,491
Exceptional & extraordinary				
Profit before tax	1,037	7,533	9,332	10,290
Tax (current + deferred)	-199	-2,090	-3,145	-3,468
P / L form discount. Op.				
Profit / (Loss) for period	838	5,443	6,187	6,822
P/L of Ass., Min Int, Pref Div	82	-45		
Reported Profit / (Loss)	921	5,398	6,187	6,822
Adjusted net profit	5,659	5,398	6,187	6,822
<i>Growth (%)</i>	<i>148.3</i>	<i>-4.6</i>	<i>14.6</i>	<i>10.3</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	17,640	22,411
Shareholders' funds	11,096	14,319	18,645	23,416
Minority Interests and others	317	378	378	378
Non-current liabilities	18,187	17,607	20,158	19,962
Long-term borrowings	16,795	15,946	18,446	18,195
Other non-current liabilities	1,392	1,661	1,712	1,766
Current liabilities	22,085	24,650	23,349	22,994
ST borrow, Curr maturity	13,498	14,905	13,448	11,517
Other current liabilities	8,586	9,745	9,901	11,477
Total (Equity and Liab)	51,684	56,953	62,530	66,749
Non-current assets	28,336	29,396	34,249	34,714
Fixed assets (Net block)	23,770	26,049	30,780	31,122
Non-current Investments	473	15	15	15
Long-term loans and adv	1,232	1,377	1,515	1,667
Other non-current assets	2,860	1,955	1,939	1,911
Current assets	23,348	27,557	28,281	32,035
Cash & current investment	2,974	4,657	2,717	2,987
Other current assets	20,374	22,900	25,564	29,048
Total (Assets)	51,684	56,953	62,530	66,749
Total debt	30,293	30,851	31,894	29,712
Capital employed	43,098	47,208	52,629	55,272

Cash Flow Statement

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Profit before tax	1,037	7,533	9,332	10,290
Depreciation	6,863	3,329	4,255	4,707
Change in working capital	-2,380	-1,456	-2,596	-2,006
Total tax paid	-1,681	-1,884	-3,145	-3,468
Others	2,352	2,829	2,578	2,491
Cash flow from oper. (a)	6,191	10,351	10,425	12,014
Capital expenditure	-13,772	-5,608	-8,986	-5,048
Change in investments	-184	-305	1,405	
Others	375	852	-34	-20
Cash flow from inv. (b)	-13,581	-5,061	-7,615	-5,069
Free cash flow (a+b)	-7,390	5,290	2,810	6,945
Equity raised/(repaid)	12	4		
Debt raised/(repaid)	10,014	558	1,043	-2,182
Dividend (incl. tax)	-357	-1,268	-1,861	-2,052
Others	-1,672	-3,662	-2,527	-2,442
Cash flow from fin. (c)	7,998	-4,370	-3,345	-6,676
Net chg in cash (a+b+c)	608	920	-535	270

Key ratios

Period end (%)	Mar 14	Mar 15	Mar 16E	Mar 17E
Adjusted EPS (Rs)	56.4	53.7	61.6	67.9
<i>Growth (%)</i>	<i>147.5</i>	<i>(4.7)</i>	<i>14.6</i>	<i>10.3</i>
CEPS (Rs)	124.8	86.9	103.9	114.8
Book NAV/share (Rs)	110.6	142.5	185.6	233.1
Dividend/share (Rs)	3.0	10.5	15.4	17.0
Dividend payout ratio	38.8	23.5	30.1	30.1
EBITDA margin	20.5	24.0	25.6	24.4
EBIT margin	7.5	19.5	19.9	18.7
Tax rate	3.4	27.7	33.7	33.7
RoCE	9.0	22.9	23.9	23.7
Total debt/Equity (x)	2.7	2.1	1.7	1.2
Net debt/Equity (x)	2.4	1.8	1.5	1.1
Du Pont Analysis - ROE				
Net margin	12.6	10.2	10.3	10.0
Asset turnover (x)	1.0	1.0	1.0	1.1
Leverage factor (x)	4.3	4.3	3.6	3.1
Return on equity	53.9	42.5	37.5	32.4

Valuations

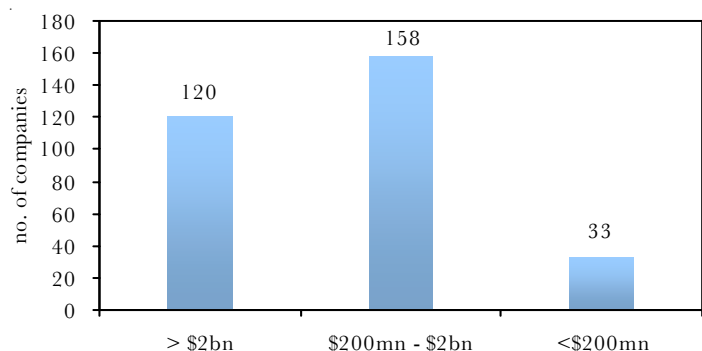
Period end (x)	Mar 14	Mar 15	Mar 16E	Mar 17E
PER	1.8	6.6	12.4	11.3
PCE	0.8	4.1	7.4	6.7
Price/Book	0.9	2.5	4.1	3.3
Yield (%)	3.0	3.0	2.0	2.2
EV/EBITDA	4.1	4.9	6.9	6.2

Resham Jain, CFA
 reshham.jain@bksec.com
 +91-22-4031 7133

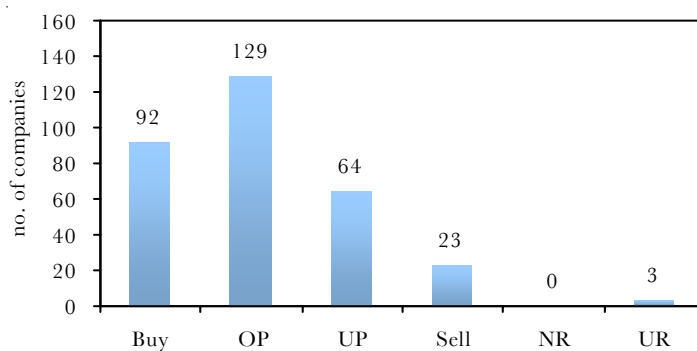
Nishant Agrawal
 nishant.agrawal@bksec.com
 +91-22-4031 7185

B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



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	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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