Textiles

Good times for Home Textile players!

Home Textile companies continue to report strong numbers over the last several quarters on the back of increasing competitiveness leading to increasing market share of Indian players globally. During CY15 (till May), the total import of made-ups in USA was up 7% YoY while India's share grew by 13% YoY leading to further increase in market share to 17%. Strong order book, operating leverage, favourable exchange rate, softer raw material prices, improving consumer sentiments in USA and increasing use of technology are the various factors aiding the robust performance. Higher operating efficiency, better product mix and strengthening of balance sheet are the key highlights common across all the three home textile companies under our coverage.

We believe this trend would continue, provided the players maintain the pricing discipline, supply-demand equilibrium remains healthy and US demand remains intact. We expect the cotton prices to remain at the current levels due to excess inventory in the cotton consuming countries which will keep the largest cost component under check. Also, all these companies are continuously modernising their machineries leading to better operating efficiencies and helps in keeping man power requirement under check. Backward integration and diversification within home textile space will improve the quality of earnings going forward. Advance negotiation on EU FTA and re-introduction of interest subvention for packing credit provides upside risk while possibility of reduction in export incentives and introduction of GST (depending on rate) may negatively impact these companies.

Top pick: Himatsingka Seide (Attractive valuation, lower risk associated with revenue stream because of backward/forward integration, improvement in operating margin of distribution business and improving return ratios).

Valuation matrix

Name of Company	PER (x)			PCE (x)			Price/Book Value (x)		
	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Himatsingka Seide	8.3	12.3	9.7	12.8	9.2	7.7	1.0	1.9	1.7
Indo Count Industries	8.7	14.2	12.1	17.9	13.1	10.8	4.7	6.8	4.8
Welspun India	6.6	12.5	11.3	9.0	7.5	6.8	2.5	4.2	3.3

Name of Company	RoCE (%)			RoE (%)			EV/EBITDA (x)		
	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Himatsingka Seide	11.3	15.8	17.8	12.3	16.8	18.3	7.1	8.3	6.9
Indo Count Industries	36.6	37.8	36.1	70.8	53.9	43.6	6.1	8.7	7.6
Welspun India	23.4	24.7	24.0	42.5	38.1	32.9	4.7	7.0	6.3

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Share Data

(%)	Absolute price performance		
	1M	3M	12M
BSE Sensex	(0.81)	1.84	6.14
Himatsingka Seide	61	134	126
Indo Count Industries	18	78	540
Welspun India	7	48	262
Revenue (Rs mn)		**FY16E**	**FY17E**
Himatsingka Seide		21,351	22,678
Indo Count Industries		21,343	25,535
Welspun India		60,449	69,127
EBITDA (Rs mn)		**FY16E**	**FY17E**
Himatsingka Seide		2,989	3,413
Indo Count Industries		4,212	4,989
Welspun India		15,445	16,832
Adjusted PAT (Rs mn)		**FY16E**	**FY17E**
Himatsingka Seide		1,457	1,837
Indo Count Industries		2,365	2,770
Welspun India		6,309	6,993
EBITDA margin (%)		**FY16E**	**FY17E**
Himatsingka Seide		14.0	15.1
Indo Count Industries		19.7	19.5
Welspun India		25.6	24.4
Adj. PAT margin (%)		**FY16E**	**FY17E**
Himatsingka Seide		6.8	8.1
Indo Count Industries		11.1	10.8
Welspun India		10.4	10.1
Net debt/EBITDA (x)		**FY16E**	**FY17E**
Himatsingka Seide		2.3	1.6
Indo Count Industries		0.8	0.9
Welspun India		1.8	1.6
RoCE (%)		**FY16E**	**FY17E**
Himatsingka Seide		15.8	17.8
Indo Count Industries		40.9	38.2
Welspun India		24.7	24.0
RoE (%)		**FY16E**	**FY17E**
Himatsingka Seide		16.8	18.3
Indo Count Industries		58.4	46.2
Welspun India		38.1	32.9

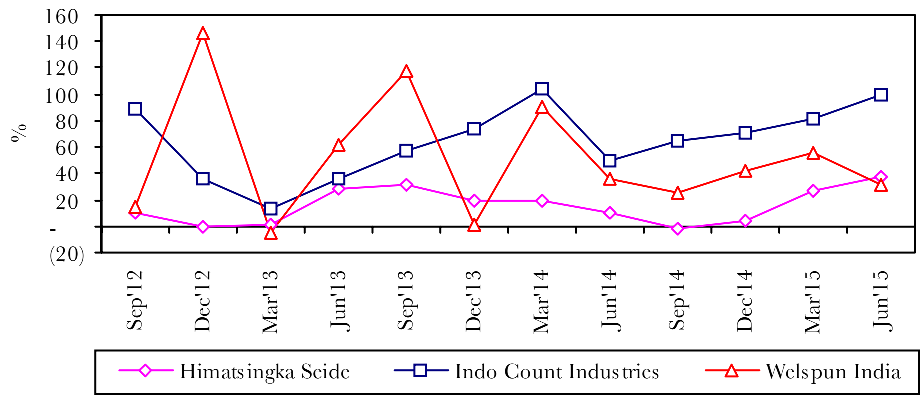
Key result highlights – 1QFY16 (Home Textile players)

Himatsingka Seide: The operating margin of the manufacturing segment jumped from 18.8% in FY15 to 24.9% in 1QFY16 (up 620 bps) supported by MEIS benefit, operating efficiency (modernisation) and better product mix. The management expects to maintain the current manufacturing margins going forward. Expects the margins of distribution business to improve gradually over the next few quarters. Clarity on the capex plan to be announced soon.

Indo Count Industries: 610 bps/340 bps improvement in operating margins on YoY/QoQ basis supported by favourable raw material prices and better product mix. 23 mn meters capacity installed last year to drive volume growth over the next 12 months and operating leverage will aid in margin improvement (gradual ramp-up).

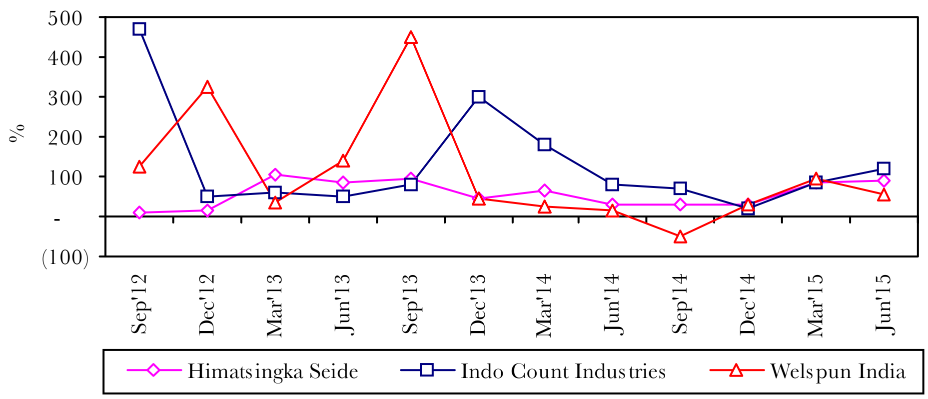
Welspun India: Higher vertical integration (through spinning) and higher share of value-added led to 275 bps improvement in operating margin to 25.9%. Robust PAT growth of ~55%/~12% on YoY/QoQ basis on a higher base. Ongoing capex (including modernisation) to aid volume growth over the next 18-24 months.

EBITDA growth (YoY)



Source: Company, B&K Research

PAT growth (YoY)



Source: Company, B&K Research

Home Textile players – Quarterly result highlights

Revenue

(Rs mn)	1QFY16	1QFY15	YoY (%)	4QFY15	QoQ (%)
Under Coverage					
Himatsingka Seide	4,685	5,027	(6.8)	4,546	3.1
Indo Count Industries	4,610	3,164	45.7	4,567	0.9
Welspun India	13,885	11,773	17.9	13,658	1.7
Not Under Coverage					
Trident	8,791	9,780	(10.1)	9,133	(3.7)

Note: Indo Count Industries Ltd. and Trident Ltd. numbers are on standalone basis while Welspun India and Himatsingka Seide numbers are on consolidated basis.

EBITDA

(Rs mn)	1QFY16	1QFY15	YoY (%)	4QFY15	QoQ (%)
Under Coverage					
Himatsingka Seide	754	549	37.3	517	45.8
Indo Count Industries	1,038	520	99.7	871	19.1
Welspun India	3,598	2,727	31.9	3,446	4.4
Not Under Coverage					
Trident	1,963	1,950	0.7	1,824	7.6

EBITDA margin

(%)	1QFY16	1QFY15	YoY (bps)	4QFY15	QoQ (bps)
Under Coverage					
Himatsingka Seide	16.1	10.9	520	11.4	470
Indo Count Industries	22.5	16.4	610	19.1	340
Welspun India	25.9	23.2	280	25.2	70
Not Under Coverage					
Trident	22.3	19.9	240	20.0	230

Interest

(Rs mn)	1QFY16	1QFY15	YoY (%)	4QFY15	QoQ (%)
Under Coverage					
Himatsingka Seide	231	191	20.7	229	0.5
Indo Count Industries	149	139	6.8	166	(10.6)
Welspun India	593	713	(16.9)	569	4.1
Not Under Coverage					
Trident	445	536	(17.1)	581	(23.5)

Adjusted PAT

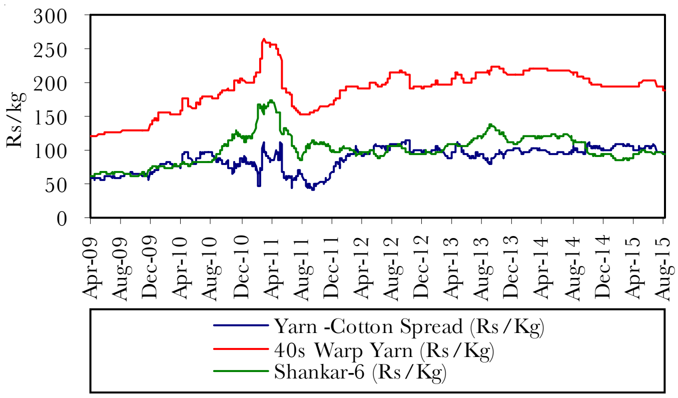
(Rs mn)	1QFY16	1QFY15	YoY (%)	4QFY15	QoQ (%)
Under Coverage					
Himatsingka Seide	408	216	89.3	259	57.7
Indo Count Industries	554	249	122.2	538	3.0
Welspun India	1,632	1,050	55.4	1,614	1.1
Not Under Coverage					
Trident	610	404	50.9	323	88.8

Adjusted PAT margin

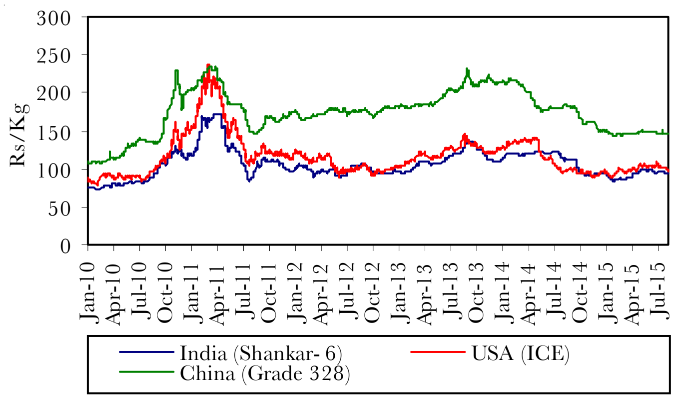
(%)	1QFY16	1QFY15	YoY (bps)	4QFY15	QoQ (bps)
Under Coverage					
Himatsingka Seide	8.7	4.3	440	5.7	300
Indo Count Industries	12.0	7.9	410	11.8	20
Welspun India	11.8	8.9	280	11.8	(10)
Not Under Coverage					
Trident	6.9	4.1	280	3.5	340

Key indicators of the industry

Cotton prices and Yarn prices

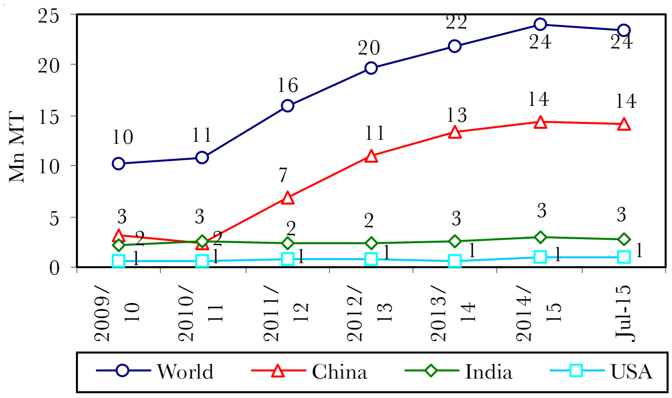


Cotton prices of India, China and USA

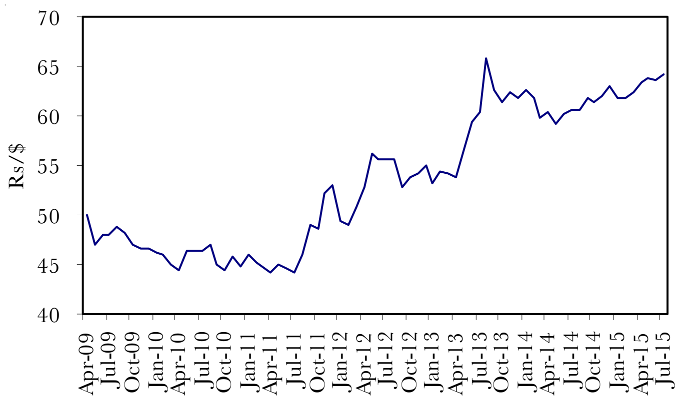


Source: B&K Research

Global cotton inventory

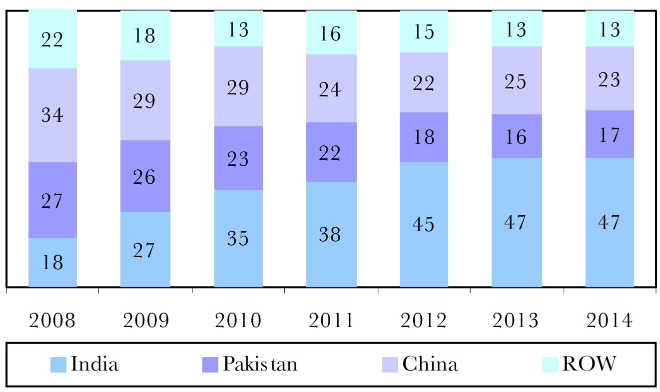


INR/USD movement

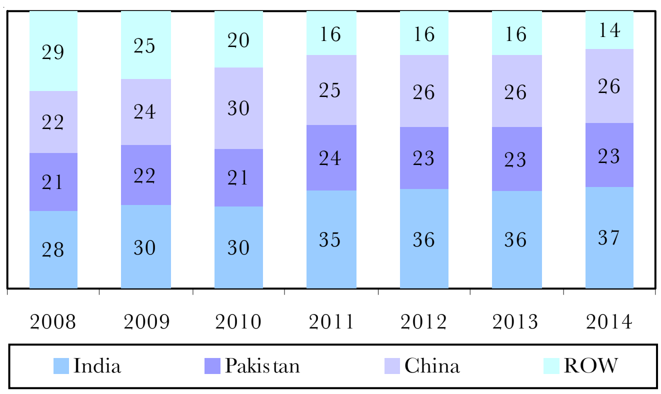


Source: B&K Research

Bed linen market share (US imports)

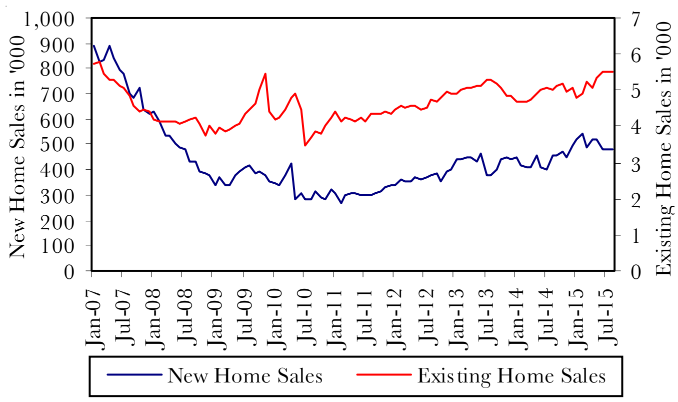


Towels market share (US imports)

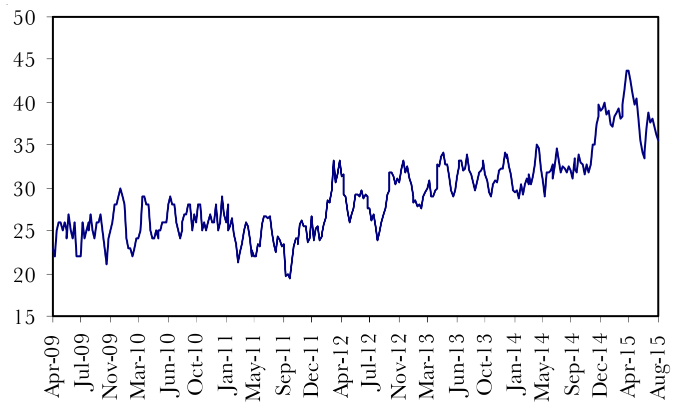


Source: Company, Otexa

US Home Sales (New and existing)



US consumer buying sentiment index

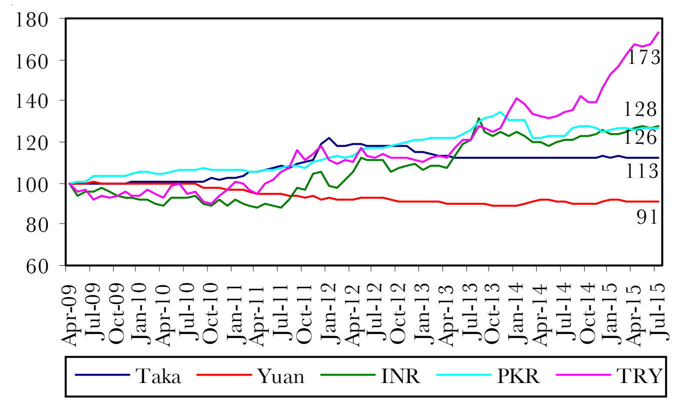


Source: Bloomberg

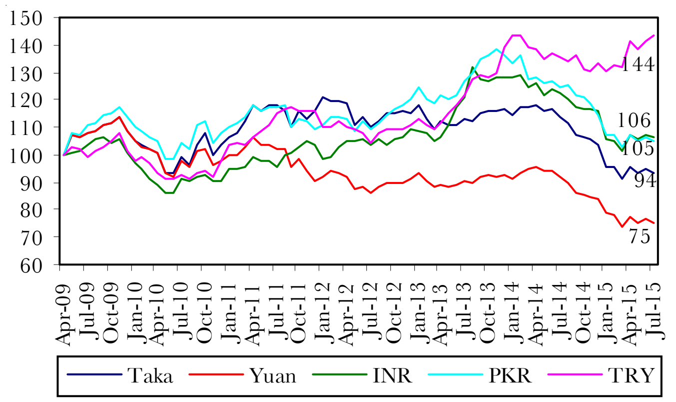
Yuan depreciation – no immediate impact

- We believe that Yuan depreciation of ~4% over the last few days will not immediately impact the competitiveness of Indian textile exporters (except yarn players). We feel that the Chinese government action to depreciate currency to aid export clearly indicates their softer policy stance. So, if the frequency and intensity of such depreciation increases, the competitiveness of Indian players could be tested.
- Relative movement of INR vis-à-vis other Asian currency (including Yuan) will also determine India's competitiveness in the textile sector.
- We feel that yarn companies which are currently facing issues related to supply-demand mismatch may further face headwinds because of Yuan depreciation. Both cotton and blended yarn players may see pressure on margins.
- From various industry participants, we understand that if the intensity of Yuan depreciation increases, then the government may re-introduce certain benefits which were taken-off over the last few years (increasing export incentive rates, bringing back interest subvention for packing credit, etc.)
- Overall, we are not very concerned with the Yuan depreciation currently especially for the cotton textile value chain. However, we remain cautious and will keep a close look at various variables (raw material, currency, wages, power cost, export incentives, trade agreements/restrictions, etc.) affecting the competitiveness of Indian textile exporters.

Currency movement – USD terms (Index to 100) India, Pakistan, Bangladesh, China and Turkey



Currency movement – Euro terms (Index to 100) India, Pakistan, Bangladesh, China and Turkey



Source: B&K Research

Key financial comparison between home textile players in India

Company	Rating	CMP	M-Cap	Net sales (Rs mn)				EBITDA margin (%)				Interest cost (Rs mn)				Adjusted PAT (Rs mn)			
		(Rs)	(Rs mn)	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E
Himatsingka Seide	BUY	182	17,885	20,282	19,406	21,351	22,678	9.9	11.1	14.0	15.1	828	857	844	679	675	952	1,457	1,837
Indo Count	BUY	851	33,595	14,892	17,749	21,343	25,535	12.1	17.3	19.7	19.5	449	612	538	579	1,098	1,713	2,365	2,770
Trident	NR	38	19,125	38,690	37,860	–	–	18.8	18.3	–	–	2,103	2,060	–	–	1,940	1,179	–	–
Welspun India	BUY	786	78,917	44,954	53,025	60,449	69,127	20.5	24.0	25.6	24.4	2,352	2,829	2,539	2,454	5,659	5,398	6,309	6,993

Company	Adjusted EPS (Rs)				Total debt (Rs mn)				Net debt/Equity (x)				Net debt/EBITDA (x)				RoCE (%)			
	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E
Himatsingka Seide	6.9	9.7	14.8	18.7	8,136	7,567	7,154	5,966	1.1	0.9	0.7	0.5	3.9	3.4	2.3	1.6	10.4	11.3	15.8	17.8
Indo Count	31.0	43.4	59.9	70.2	4,408	4,434	4,405	5,488	1.4	0.9	0.5	0.5	2.3	1.3	0.8	0.9	24.4	35.6	40.9	38.2
Trident	6.2	2.3	–	–	18,623	25,117	–	–	2.0	1.7	–	–	2.5	3.6	–	–	16.0	10.6	–	–
Welspun India	56.4	53.7	62.8	69.6	30,293	28,480	31,961	29,800	2.4	1.6	1.5	1.1	3.0	1.9	1.8	1.6	8.9	23.4	24.7	24.0

Company	RoE (%)				PER (x)				Price/Book value (x)				EV/EBITDA (x)				Dividend yield (%)			
	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E
Himatsingka Seide	9.8	12.3	16.8	18.3	8.4	8.3	12.3	9.7	0.8	1.0	1.9	1.7	6.8	7.1	8.3	6.9	2.6	2.5	1.2	1.4
Indo Count	96.0	70.8	58.4	46.2	1.3	8.7	14.2	12.1	0.8	4.7	6.8	4.8	3.0	6.1	8.7	7.6	–	–	1.4	1.6
Trident	24.4	10.1	–	–	2.4	9.9	–	–	0.5	0.8	–	–	3.1	5.3	–	–	2.9	1.6	–	–
Welspun India	53.9	42.5	38.1	32.9	1.8	6.6	12.5	11.3	0.9	2.5	4.2	3.3	4.1	4.7	7.0	6.3	3.0	3.0	2.0	2.2

Key business comparison of home textile players in India

Company	Business	FY15 Revenue (Rs Mn)						Exports	Manufacturing	Rated	Return			
		Spinning	Weaving/ Processing	Made-ups	Brands/ Distribution/ Retailing	Others	Total	(% of revenue)	location		1-mth	3-mths	6-mths	12-mths
Himatsingka Seide	Weaving/ Processing/ Made-ups/ Brands/ Captive Thermal Plant	–	1,454	–	17,607	345	**19,406**	96	Hasan/Bengaluru	BUY	53.7	140.7	111.8	128.7
Indo Count	Spinning/ Weaving/ Processing/ Made-ups / Others	2,691	–	14,488	–	570	**17,749**	84	Kolhapur	BUY	18.8	65.9	95.2	519.5
Trident	Spinning/ Weaving/ Processing/ Made-ups/ Paper/Others	11,584	–	18,071	–	8,206	**37,860**	69	Punjab/MP	Not Rated	16.5	65.4	62.2	80.9
Welspun India	Spinning/ Weaving/ Made-ups/ Brands/ Captive Thermal Plant/Others	53	–	50,168	2,804	–	**53,025**	95	Anjar/Vapi	BUY	6.3	41.8	116.6	257.1

MID CAP

Share Data

Price (Rs)	182
BSE Sensex	27,550
Reuters code	HMSD.BO
Bloomberg code	HSS IN
Market cap. (US$ mn)	275
6M avg. daily turnover (US$ mn)	1.7
Issued shares (mn)	98
Target price (Rs)	203

Performance (%)	1M	3M	12M
Absolute	61	134	126
Relative	64	131	113

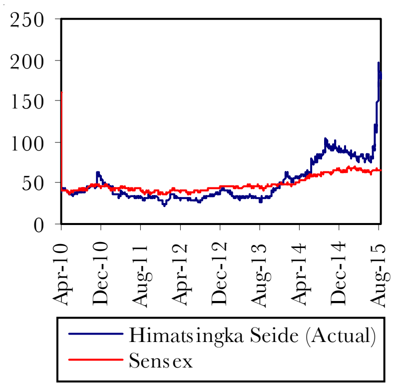
Valuation Ratios

Yr to 31 Mar	FY16E	FY17E
EPS (Rs)	14.8	18.7
+/- (%)	53.1	26.1
PER (x)	12.3	9.7
PBV (x)	1.9	1.7
Dividend/Yield (%)	1.2	1.4
EV/EBITDA (x)	8.3	6.9

Major shareholders (%)

Promoters	57
MFs	15
Public & Others	28

Relative performance



Himatsingka Seide

Maintain BUY

All set to blossom!

Himatsingka Seide (HSS) posted a strong performance in its manufacturing business during 1QFY16. The margin of the segment jumped from 18.8% in FY15 to 24.9% in 1QFY16 (up 620 bps), which it believes could be maintained going forward. HSS also highlighted that the margins of distribution business should also witness improvement gradually over the next few quarters.

Bed linen business will continue to see improvement in profitability: The operating profitability of the bed linen segment has improved significantly during FY15 (up 350 bps YoY) supported by better product mix and operating efficiency. The margin improved further during the quarter due to export incentives, favourable exchange rate, soft raw material prices, improved product mix, higher automation (modernisation last year), cost rationalisation and improved utilisation. We expect this segment to show continuous improvement on the back of 1) increase in capacity, 2) operating leverage and 3) soft raw material scenario.

Manufacturing capex to begin soon: HSS plans to begin its manufacturing capex in the current year. The total capex approved by the Karnataka state government is ~Rs 13 bn. It expects the capex to come in phases over the three years period. It expects the current profitability to support the necessary internal accruals for the capex without having any major dent on the leverage and serviceability ratios.

Retail and distribution business to benefit from re-organisation and brand push: HSS expects its retail and distribution segment to witness improvement over the next few quarters on the back of various initiatives undertaken last year like operationally consolidating two entities i.e. Divatex and DWI Holdings, rationalising manpower and other operating cost, upgrading the ERP system, etc. HSS also guided to take its branded business to ~Rs 8 bn in FY16.

Outlook and valuation

The 1QFY16 operating performance of the company has surprised positively with significant improvement in gross margin (200 bps because of MEIS and remaining mainly because of automation, cost rationalisation, favourable currency and stable raw-material prices). The announcement on the capex is also positive since the risk attached to revenue stream of capex is relatively lower (Front-end in the US to partially take care of expansion). This will significantly increase the profitability of the company without any significant dent on the leverage or serviceability ratios, if the project is carried out in phases. Moreover, it will now be able to further utilise its distribution business assets more effectively with its expanded brand portfolio.

While, we have upward revised our estimates recently to incorporate the change in operating performance of the company based on 1Q results, we have not yet changed the estimates to incorporate the capex announcement due to lack of clarity on the amount of capex and allocation to each of the division within bed linen segment, which provides a significant upside risk. However, we have provided a probable snapshot (Annexure 1) of the financials and key ratios if the company incurs expansion and backward integration capex.

At the current market price of Rs 182, the stock trades at 9.7x FY17E EPS. We maintain our Buy rating on the stock with a target price of Rs 203/share (based on 7.5x FY17E EV/EBITDA) at implied P/E of 11x FY17E EPS.

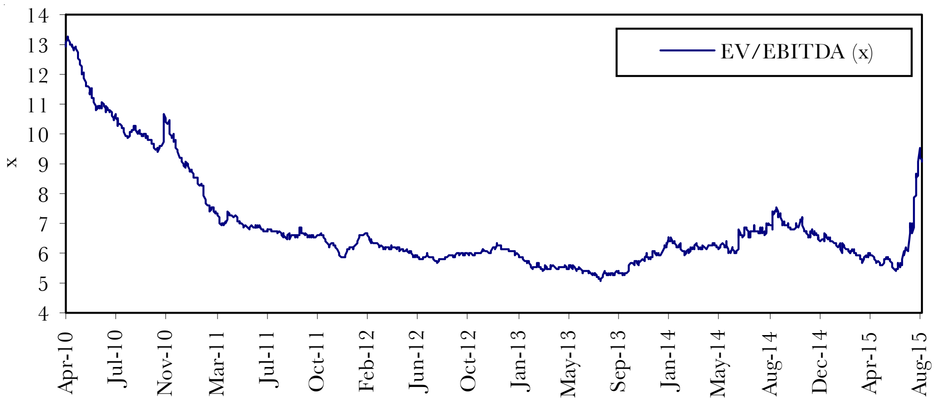
Financial highlights (Consolidated)

(Rs mn)	1QFY15	1QFY16	YoY (%)	4QFY15	QoQ (%)	FY15	FY16E	YoY (%)	FY17E	YoY (%)
Revenue	5,027	4,685	(6.8)	4,546	3.1	19,406	21,351	10.0	22,678	6.2
EBITDA	549	754	37.3	517	45.8	2,145	2,989	39.3	3,413	14.2
EBITDA margin (%)	10.9	16.1	–	11.4	–	11.1	14.0	–	15.1	–
Other income	5	8	66.0	41	(79.8)	70	50	(28.8)	50	–
Interest	191	231	20.7	229	0.5	857	844	(1.5)	679	(19.5)
Depreciation	118	113	(4.7)	103	9.4	446	480	7.6	487	1.5
PBT	245	419	71.2	226	85.6	912	1,715	87.9	2,296	33.9
Tax	33	11	–	(33)	–	(31)	257	–	459	78.6
Minority interest	4	–	–	–	–	9	–	–	–	–
Reported PAT	216	408	89.3	259	57.7	952	1,457	53.1	1,837	26.1
Adjusted PAT	216	408	89.3	259	57.7	952	1,457	53.1	1,837	26.1
Adjusted EPS (Rs)	2.2	4.1	89.3	2.6	57.7	9.7	14.8	53.1	18.7	26.1

Valuation sensitivity

	Valuation based on FY17E		Valuation based on FY18E	
	Without capex assumption	With capex assumption	Without capex assumption	With capex assumption
EV/EBITDA (x)	7.5	7.5	7.5	7.5
EBITDA (Rs mn)	3,413	4,457	3,647	5,950
EV (Rs mn)	25,597	33,425	27,354	44,623
Net debt (Rs mn)	5,622	9,027	4,125	12,557
Target Market-cap (Rs mn)	19,975	24,398	23,229	32,066
Target market price (Rs)	**203**	**248**	**236**	**326**
Implied P/E (x)	10.9	12.3	11.4	13.4
Net debt/EBITDA	1.6	2.0	1.1	2.1

One-year forward EV/EBITDA



Source: B&K Research

Segment snapshot

(Rs mn)	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Consolidated sales							
Manufacturing	**6,504**	**7,145**	**9,837**	**9,450**	**10,219**	**10,730**	**11,266**
Retail and distribution	**13,277**	**15,614**	**19,092**	**17,560**	**19,103**	**20,317**	**21,675**
Consolidation knock-off	5,494	5,864	8,647	7,604	7,971	8,369	8,787
Total	**14,287**	**16,894**	**20,282**	**19,406**	**21,351**	**22,678**	**24,154**
Growth (%)	15.9	18.3	20.1	(4.3)	10.0	6.2	6.5
Consolidated EBITDA							
Manufacturing	**974**	**1,141**	**1,484**	**1,779**	**2,418**	**2,532**	**2,658**
EBITDA margin (%)	15.0	16.0	15.1	18.8	23.7	23.6	23.6
Retail and distribution	**636**	**554**	**488**	**543**	**789**	**1,033**	**1,159**
EBITDA margin (%)	4.8	3.5	2.6	3.1	4.1	5.1	5.3
Consolidation knock-off	165	117	(29)	177	242	152	160
Total	**1,445**	**1,579**	**2,001**	**2,145**	**2,965**	**3,412**	**3,658**
Growth (%)	58.0	9.3	26.8	7.2	38.2	15.1	7.2
EBITDA (%)	10.1	9.3	9.9	11.1	13.9	15.0	15.1

Highlights

Bed linen business will continue to see improvement in profitability

The operating profitability of the bed linen segment has improved significantly during FY15 (up 350 bps YoY) supported by better product mix and operating efficiency. In 1QFY16, it further improved by ~610 bps (as compared to FY15 margins) on the back of export incentives, higher automation (modernisation last year), favourable exchange rate, soft raw material prices, improved product mix, cost rationalisation and improved utilisation.

- **200 bps improvement because of MEIS:** From FY16, HSS will earn incentive under Merchandize Export from India Scheme (MEIS) [Under Chapter 3 of new FTP SEZs is also eligible to receive this incentive]. The earlier schemes like Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme (were available only for companies outside SEZ) available to textile exporters is merged with MEIS. The current applicable rate is 2%. Calculating at this rate, the incentive for FY16 will turnout to be ~Rs 170 mn. This will improve the operating margin by ~200 bps. Further, the company is carrying unabsorbed depreciation and past carry forward losses which will keep the income tax rate lower.
- **Subdued yarn market to support near-term margins:** The cotton yarn market currently is suffering with over-supply scenario because of subdued exports and domestic off-take. HSS currently sources 100% of its yarn requirement from outside, which will help in improving its gross margin.

HSS enjoys highest manufacturing operating efficiency

The current manufacturing margin of HSS is ~18% as compared to 22-25% margins of its competitors in FY15. From the operating margin perspective, HSS margins need to be adjusted for the below mentioned factors to compare it with others on a like-to-like basis.

- HSS was not eligible to receive ~9% of export incentives (~2-3% of export incentives and ~7% duty drawback) since its plant is situated in SEZ.
- HSS has lower integration.
- Diseconomies of scale (HSS – 22 mn mtrs; ICNT – 68 mn mtrs; WLSI – 72 mn mtrs).

Manufacturing capex to begin soon: HSS plans to begin its manufacturing capex in the current year. The total capex approved by the Karnataka state government is ~Rs 13 bn. It expects the capex to come in phases over the next three years. The management is currently considering various options and expect to finalise its capex plan over the next few months. It expects the current profitability to support the necessary internal accruals required for the capex without having any major dent on the leverage and serviceability ratios.

- **Increase in capacity + backward integration = higher profits + operating leverage; with low risk:** HSS currently has the processing capacity of 23 mn meters which it is considering to double (as discussed during previous result conference call). HSS may also invest is weaving (to reduce outsourcing) and spinning given the large capex outlay of Rs 13 bn. We believe that any capex announcement related on expansion or backward integration will be taken positively by the market.
- **Established front-end to help in faster ramp-up:** HSS will be able to quickly ramp-up the new capacity since, it currently outsource a significant portion for its Divatex business (its 100% North America distribution entity) through third party vendors from various countries. HSS may replace the current outsourcing of Divatex with its new capacity. Further, it intends to significantly ramp-up its brands business (DWI Holdings) in North America which will aid in ramping up the capacity.

North American distribution business to benefit from re-organisation: The company is involved with re-organisation activities in North American operations from the last 18 months. The changes include warehouse consolidation, ERP and system upgradation, manpower rationalisation, streamlining product mix and building portfolio of brands. All these measures are expected to bring operating efficiency resulting in improved profitability.

- **Brand business performance to improve in FY16:** The major dragger to the performance last year was from DWI Holdings which is into branded business in North America. Last year, the company tied up with few brands (Beekman, Beddit, 9 Novogratz, Kate Spade New York, Lady Antebellum, etc.) in addition to its existing portfolio of brands (CK, Espirit, Waverly, Barbara Beery, Peacock Alley and Bellora). HSS expects its brands business to witness significant jump from Rs 6 bn revenue to Rs 12 bn over the next two-three years. The initial cost related to launch of products, merchandise, product design, product development and promotion were incurred last year which is expected to reduce gradually leading to improvement in profitability from FY16.

Augmenting brands portfolio to benefit over long-term

- The company can leverage its existing resources to market and distribute the new brands leading to better operating margins.
- The additional brands in the portfolio will help to cater customers across the price points and segments.
- The company's strategy of extending the brands geographically also bodes well given its already established supply chain and distribution presence.
- This will also be a big trigger for the company's manufacturing business where it is already running at full capacity. This new revenue stream on distribution side by introducing new brands provides visibility to its manufacturing business and will help company to quickly ramp-up the new capacity (expansion).

Branded portfolio to improve the quality of earnings...

(Rs mn)	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Revenue	4,894	5,245	6,233	5,884	7,076	8,050	9,163
Growth (%)	14.0	7.2	18.8	(5.6)	20.3	13.8	13.8
% of total revenue	34.3	31.0	30.7	30.3	33.1	35.5	37.9

Note: Branded revenue includes US branded business, Bellora (Europe) and Atmosphere (Asia).

Case 1 – Processing capacity

The investment required to double the processing capacity is estimated between Rs 1 bn and Rs 1.5 bn depending on the value added machineries being set up along with the new processing lines (e.g. printing process, etc.). This incremental capacity if added will be in the same location, which is expected to provide operating leverage. The existing plant has ~90% integration for weaving while the incremental capacity may need to completely outsource the fabric requirement initially. Hence, the margins from the incremental capacity will be lower than the existing margin of ~20%. We believe that the incremental margin may range between 10-12% depending on the product mix. The incremental EBITDA from the new capacity could be between Rs 700 mn to Rs 900 mn (~50% jump from the current EBITDA levels) and in addition to this we expect Rs 300 mn of operating leverage.

Case 2 – Processing + weaving capacity

To manufacture 23 mn meters of fabric, HSS will require ~400 looms, for which it need to incur a capex of ~Rs 3 bn. Weaving could generate additional EBITDA (other than processing EBITDA) in the range of Rs 900 mn to Rs 1.1 bn.

Case 3 – Processing + Weaving + Spinning

To manufacture 23 mn meters of fabric, HSS will require ~90,000 spindles, for which it need to incur capex of ~Rs 4 bn. Spinning could generate additional EBITDA of ~Rs 600 mn.

Annexure 1

We have not factored in revenue and profits from the new capex considered (but not yet freezed) by the company (~Rs 13 bn) in our existing estimates. We will revise our financial model with respect to the new capex once the company clearly allocates the capital for each segment i.e. processing, weaving and spinning (to be announced in the next few months).

We have assumed various scenarios with respect to the capex and derived the projects' profitability and serviceability ratios. A snapshot of the same is as under:

Financial snapshot: Probable new capex

(Rs mn) Year 1	Case 1 Processing	Case 2 Processing + Weaving	Case 3 Processing + Weaving + Spinning
Revenue	7,360	7,360	7,360
EBITDA	736	1,766	2,208
EBITDA margin (%)	10	24	30
Depreciation	120	420	830
EBIT	616	1,346	1,378
Interest	166	369	580
PBT	450	978	798
Tax (30%)	135	293	240
PAT	315	684	559
Cash PAT	435	1,104	1,389
No. of shares	98	98	98
EPS	3.2	7	5.7
CEPS	4.4	11.3	14.2
Long-term debt	840	2,940	5,810
Interest rate (%)	6	6	6
Short-term debt	1,050	1,750	2,100
Interest rate (%)	11	11	11
Total debt	1,890	4,690	7,910
Equity investment	810	2,010	3,390
Total investment	2,700	6,700	11,300
Capex	1,200	4,200	8,300
Working capital	1,500	2,500	3,000
Capital employed	2,700	6,700	11,300
RoE (%)	53.7	54.9	41.0
RoCE (%)	22.8	20.1	12.2
Net debt/EBTIDA (x)	2.6	2.7	3.6

Himatsingka Seide

Income Statement (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Revenue	**20,282**	**19,406**	**21,351**	**22,678**
Growth (%)	*20.1*	*(4.3)*	*10.0*	*6.2*
Operating expenses	(18,281)	(17,261)	(18,362)	(19,265)
Operating profit	2,001	2,145	2,989	3,413
EBITDA	**2,001**	**2,145**	**2,989**	**3,413**
Growth (%)	*26.8*	*7.2*	*39.3*	*14.2*
Depreciation	(544)	(446)	(480)	(487)
Other income	47	70	50	50
EBIT	**1,504**	**1,769**	**2,559**	**2,976**
Finance cost	(828)	(857)	(844)	(679)
Exceptional & extradordinary	(41)	0	0	0
Profit before tax	**634**	**912**	**1,715**	**2,296**
Tax (current + deferred)	(89)	31	(257)	(459)
P/(L) for the period	**545**	**943**	**1,457**	**1,837**
P/L of associates, Min Int, Pref Div	88	9	0	0
Reported Profit/(Loss)	633	952	1,457	1,837
Adjusted net profit	675	952	1,457	1,837
Growth (%)	*69.7*	*41.1*	*53.1*	*26.1*

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Share capital	492	492	492	492
Reserves & surplus	6,958	7,557	8,765	10,304
Shareholders' funds	**7,450**	**8,049**	**9,258**	**10,796**
Minority intersts and others	(332)	0	0	0
Non-current liabilities	**3,860**	**3,810**	**3,203**	**2,766**
Long-term borrowings	3,607	3,552	3,072	2,622
Other non-current liabilities	254	258	132	145
Current liabilities	**8,175**	**7,457**	**7,640**	**7,119**
ST borrowings, curr maturity	4,529	4,016	4,083	3,345
Other current liabilities	3,646	3,441	3,557	3,774
Total (equity and liab.)	**19,153**	**19,316**	**20,101**	**20,681**
Non-current assets	**11,147**	**11,829**	**11,722**	**11,601**
Fixed assets (net block)	4,536	4,650	4,541	4,403
Non-current investments	2	2	2	2
Long-term loans and advances	600	771	783	799
Other non-current assets	6,008	6,407	6,396	6,396
Current assets	**8,007**	**7,487**	**8,379**	**9,080**
Cash & current investment	266	264	313	343
Other current assets	7,741	7,223	8,066	8,737
Total (assets)	**19,153**	**19,316**	**20,101**	**20,681**
Total debt	8,136	7,567	7,154	5,966
Capital employed	15,507	15,875	16,543	16,907

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Profit before tax	**634**	**912**	**1,715**	**2,296**
Depreciation	544	446	480	487
Change in working capital	(1,691)	91	(750)	(512)
Total tax paid	1	3	(385)	(459)
Others	828	857	844	679
Cash flow from oper. (a)	**317**	**2,310**	**1,903**	**2,492**
Capital expenditure	(452)	(560)	(371)	(350)
Change in investments	31	0	0	0
Cash flow from inv. (b)	(422)	(559)	(371)	(350)
Free cash flow (a+b)	(105)	1,750	1,532	2,142
Debt raised/(repaid)	1,106	(568)	(413)	(1,188)
Dividend (incl. tax)	(115)	(173)	(231)	(249)
Others	(910)	(1,011)	(840)	(674)
Cash flow from fin. (c)	**81**	**(1,752)**	**(1,483)**	**(2,111)**
Net chg in cash (a+b+c)	**(24)**	**(2)**	**49**	**30**

Key Ratios (Consolidated)

Period end (%)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Adjusted EPS (Rs)	6.9	9.7	14.8	18.7
Growth	69.7	41.1	53.1	26.1
CEPS (Rs)	12.4	14.2	19.7	23.6
Book NAV/share (Rs)	75.7	81.8	94.0	109.7
Dividend/share (Rs)	1.5	2.0	2.2	2.6
Dividend payout ratio	27.3	24.2	17.1	16.3
EBITDA margin	9.9	11.1	14.0	15.1
EBIT margin	7.4	9.1	12.0	13.1
Tax rate	13.2	(3.3)	15.0	20.0
RoCE	10.4	11.3	15.8	17.8
Net debt/Equity (x)	1.1	0.9	0.7	0.5
Net debt/EBITDA (x)	3.9	3.4	2.3	1.6
Du Pont Analysis - ROE				
Net margin	3.3	4.9	6.8	8.1
Asset turnover (x)	1.2	1.0	1.1	1.1
Leverage factor (x)	2.5	2.5	2.3	2.0
Return on equity	9.8	12.3	16.8	18.3

Valuations (Consolidated)

Period end (x)	Mar 14	Mar 15P	Mar 16E	Mar 17E
PER	8.4	8.3	12.3	9.7
PCE	4.6	5.7	9.2	7.7
Price/Book	0.8	1.0	1.9	1.7
Yield (%)	2.6	2.5	1.2	1.4
EV/EBITDA	6.8	7.1	8.3	6.9

MID CAP

Share Data

Price (Rs)	851
BSE Sensex	27,550
Reuters code	ICNT.BO
Bloomberg code	ICNT IN
Market cap. (US$ mn)	516
6M avg. daily turnover (US$ mn)	0.7
Issued shares (mn)	39
Target price (Rs)	1,155

Performance (%)	1M	3M	12M
Absolute	18	78	540
Relative	19	77	502

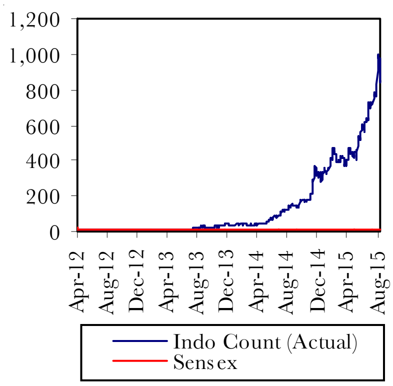
Valuation Ratios (Consolidated)

Yr to 31 Mar	FY16E	FY17E
EPS (Rs)	59.9	70.2
+/- (%)	38.1	17.1
PER (x)	14.2	12.1
PBV (x)	6.8	4.8
Dividend/Yield (%)	1.4	1.6
EV/EBITDA (x)	8.7	7.6

Major shareholders (%)

Promoters	59
FIIs	7
MFs	2
Public & Others	32

Relative performance



Indo Count Industries

Maintain BUY

Product mix changes inched margins northwards

Indo Count Industries Ltd. (ICNT) posted a standalone revenue of Rs 4.6 bn, up 46% YoY driven mostly by volume growth in home textile business. Gross margin improved by 340 bps QoQ led by higher share of home textile business, better product mix and softer raw material prices. EBITDA for the quarter stood at Rs 1.04, up 100%/19% on YoY/QoQ basis with an operating margin of 22.5%. The standalone reported PAT stood at Rs 554 mn (up 122%/97.5% on YoY/QoQ basis) on a higher tax incidence at 34.6%.

Incremental capacity to drive growth: The incremental capacity of 23 mn meters commissioned last year is expected to ramp-up gradually by the end of FY16. The company expects total production of ~55 mn meters for FY15, a growth of ~22%. It expects the revenue growth of ~25% for FY16. The company currently has six-nine months of order book visibility worth ~Rs 9 bn. Institutional business (Hotels/resorts, hospitals, cruise, etc.) and geographical expansion (Europe, Japan, Canada, etc.) are key growth driver for the company in addition to increase in orders from existing customers and addition of new customers. The company expects the revenue from value-added segment to reach ~11% in FY16 from ~5% last year.

Expect to maintain the current operating margins: The management believes that the company will be able to maintain the EBITDA margin of ~22% mainly on the back of changes in product mix and operating leverage given the stable raw material and currency scenario. Further, we expect the raw material (cotton, yarn and fabric) environment to remain soft at least for the next 12 months. While surplus cotton inventory globally will keep the cotton prices under control, slower import of cotton yarn by China is expected to keep the cotton yarn prices soft. Also, with improvement in power scenario in south India, the cotton fabric sourcing will continue to remain attractive for few years till the utilisation reaches healthy levels.

Best debt profile in the industry; expecting further improvement: The net debt as on FY15 was ~Rs 4.4 bn at a net debt/EBITDA of ~1.5x. During FY16, ICNT do not have any major capex plan except ~Rs 200 mn maintenance capex and the gradual ramp-up of new capacity will aid in improving EBITDA and to reduce absolute debt levels. We expect net debt/EBITDA to be ~0.6x by the end of FY16.

Scope for reduction in interest cost during FY16: ICNT interest cost is expected to come down gradually during FY16 due to falling debt and possible reduction in interest rate. Gradual ramp-up of new capacity and no significant capex during the year will help in reducing the debt by ~Rs 800 mn. Moreover, ICNT's credit rating has improved to 'A Rating' for long-term exposures and to 'A1 rating' for short-term exposures which will aid in reducing interest rate.

Financial highlights

(Rs mn)	1QFY15	1QFY16	YoY (%)	4QFY15	QoQ (%)	FY15	FY16E	YoY (%)	FY16E	YoY (%)
Revenue	3,164	4,610	45.7	4,567	0.9	17,749	21,343	20.2	25,535	19.6
EBITDA	520	1,038	99.7	871	19.1	3,068	4,212	37.3	4,989	18.4
EBITDA margin (%)	16.4	22.5	–	19.1	–	17.3	19.7	–	19.5	–
Other income	–	–	–	–	–	30	60	–	80	33.3
Interest	139	149	6.8	166	(10.6)	612	538	(12.0)	579	7.5
Depreciation	36	42	17.9	38	10.2	160	201	26.2	353	75.3
PBT	345	847	145.5	667	27.1	2,069	3,532	70.7	4,137	17.1
Tax	96	294	206.0	129	127.5	611	1,166	90.9	1,365	17.1
Reported PAT	249	554	122.2	280	97.5	1,455	2,365	62.5	2,770	17.1
Adjusted PAT	249	554	122.2	538	3.0	1,713	2,365	38.1	2,770	17.1
Adjusted EPS (Rs)	6.8	14.0	105.9	13.6	3.0	43.4	59.9	38.1	70.2	17.1

Note: Quarterly figures are on standalone basis whereas annual figures are on consolidated basis

Backward integration plan to be considered in the next 12 months: ICNT is considering the next phase of capex which will be finalised by the end of FY16, post the stabilisation of its newly commissioned plant. We believe that the new capex should be mostly to increase its backward integration by increasing its weaving capacity. It may also increase its bed linen processing capacity depending on the utilisation of incremental capacity and demand outlook at that time.

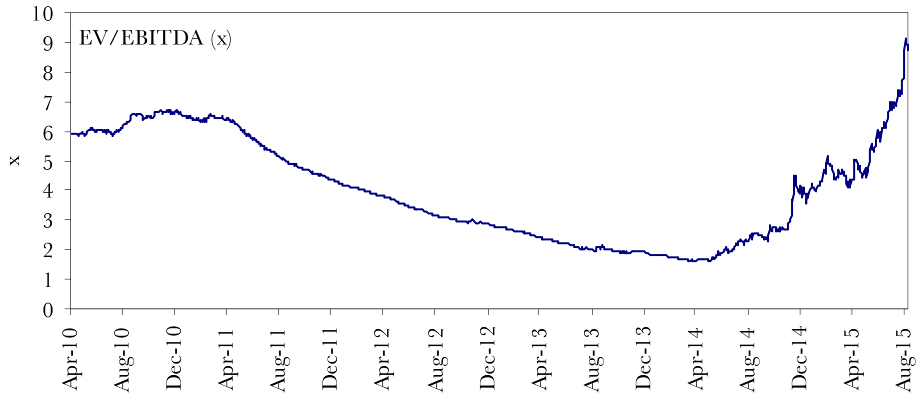
Outlook and valuation

New capacity, product portfolio expansion, geographical expansion, improving client mix and gradual steps into e-tailing are the multiple growth drivers for the company going forward. In addition to this, improving global environment, increasing competitiveness of Indian manufacturers and wider access to European markets (if Europe FTA gets cleared) will also help to keep the growth momentum. The company's ability to efficiently source its raw-material is one of the biggest positive and is helping it grow the business in an asset light way. The gradual ramp-up of newly commissioned capacity during FY16 (will bring operating leverage) and subdued yarn market (better gross margins) will also help it to improve the margins of the home textile business. At the current market price of Rs 851, the stock trades at 7.6x FY17E EV/EBITDA. We maintain our Buy rating on the stock with a revised target price of Rs 1,155/share (based on 10x FY17E EV/EBITDA).

Revised estimates

(Rs mn)	FY16E			FY17E		
	Old	New	Chg (%)	Old	New	Chg (%)
Revenue	20,801	21,343	2.6	24,628	25,535	3.7
EBITDA	3,801	4,212	10.8	4,438	4,989	12.4
EBITDA margin (%)	18.3	19.7	–	18.0	19.5	–
Adjusted PAT	2,175	2,365	8.8	2,549	2,770	8.7
Adjusted EPS (Rs)	55.1	59.9	8.8	64.6	70.2	8.7

One-year forward EV/EBITDA



Source: B&K Research

Indo Count Industries

Income Statement (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Net sales	**14,892**	**17,749**	**21,343**	**25,535**
Growth (%)	*23.2*	*19.2*	*20.2*	*19.6*
Operating expenses	(13,088)	(14,681)	(17,131)	(20,547)
Operating profit	**1,804**	**3,068**	**4,212**	**4,989**
EBITDA	**1,804**	**3,068**	**4,212**	**4,989**
Growth (%)	*61.5*	*70.0*	*37.3*	*18.4*
Depreciation	(196)	(160)	(201)	(353)
Other income	37	30	60	80
EBIT	**1,645**	**2,939**	**4,071**	**4,715**
Finance cost	(449)	(612)	(538)	(579)
Exceptional & extradordinary	0	(257)	0	0
Profit before tax	**1,196**	**2,069**	**3,532**	**4,137**
Tax (current + deferred)	(93)	(611)	(1,166)	(1,365)
P/(L) for the period	**1,104**	**1,459**	**2,367**	**2,771**
P/L of Associates, Min Int, Pref Div	(5)	(3)	(1)	(1)
Reported Profit/(Loss)	1,098	1,455	2,365	2,770
Adjusted net profit	1,098	1,713	2,365	2,770
Growth (%)	*145*	*55.9*	*38.1*	*17.1*

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Share capital	355	395	395	395
Reserves & surplus	2,513	3,819	5,492	7,472
Shareholders' funds	**2,868**	**4,214**	**5,887**	**7,866**
Minority Intersts and others	103	82	82	82
Non-current liablities	**979**	**1,064**	**1,245**	**2,602**
Long-term borrowings	972	672	813	2,127
Other non-current liabilities	7	393	432	475
Current liabilities	**6,159**	**7,059**	**7,713**	**8,170**
ST borrowings, Curr maturity	3,435	3,762	3,592	3,361
Other current liabilities	2,723	3,297	4,120	4,809
Total (Equity and Liab)	**10,109**	**12,419**	**14,926**	**18,720**
Non-current assets	**3,656**	**4,146**	**4,153**	**6,208**
Fixed assets (Net block)	3,461	4,024	4,007	6,034
Long-term loans and advances	57	116	140	167
Other non-current assets	137	6	6	6
Current assets	**6,453**	**8,273**	**10,773**	**12,512**
Cash & current investment	313	508	1,242	1,215
Other current assets	6,140	7,765	9,531	11,298
Total (Assets)	**10,109**	**12,419**	**14,926**	**18,720**
Total debt	4,408	4,434	4,405	5,488
Capital employed	7,385	9,122	10,805	13,911

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Profit before tax	1,196	2,069	3,532	4,137
Depreciation	196	160	201	353
Change in working capital	(1,300)	(1,094)	(964)	(1,104)
Total tax paid	(11)	(109)	(1,129)	(1,324)
Others	449	612	538	579
Cash flow from oper. (a)	**529**	**1,638**	**2,180**	**2,641**
Capital expenditure	(186)	(843)	(304)	(2,500)
Cash flow from inv. (b)	**(186)**	**(843)**	**(304)**	**(2,500)**
Free cash flow (a+b)	**344**	**794**	**1,876**	**141**
Equity raised/(repaid)	13	37	0	0
Debt raised/(repaid)	298	26	(29)	1,083
Dividend (incl. tax)	0	0	(573)	(671)
Others	(427)	(663)	(540)	(580)
Cash flow from fin. (c)	**(116)**	**(600)**	**(1,142)**	**(168)**
Net chg in cash (a+b+c)	**227**	**195**	**734**	**(27)**

Key Ratios (Consolidated)

Period end (%)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Adjusted EPS (Rs)	31.0	43.4	59.9	70.2
Growth	144.6	40.1	38.1	17.1
CEPS (Rs)	36.5	47.4	65.0	79.1
Book NAV/share (Rs)	47.5	79.8	125.2	178.4
Dividend/share (Rs)	0.0	0.0	12.0	14.0
Dividend payout ratio	0.0	0.0	24.2	24.2
EBITDA margin	12.1	17.3	19.7	19.5
EBIT margin	11.0	16.6	19.1	18.5
Tax rate	7.7	26.2	33.0	33.0
RoCE	24.4	35.6	40.9	38.2
Net debt/Equity (x)	1.4	0.9	0.5	0.5
Net Debt/EBITDA (x)	2.3	1.3	0.8	0.9
Du Pont Analysis - ROE				
Net margin	7.4	9.7	11.1	10.8
Asset turnover (x)	1.6	1.6	1.6	1.5
Leverage factor (x)	8.1	4.7	3.4	2.8
Return on equity	96.0	70.8	58.4	46.2

Valuations (Consolidated)

Period end (x)	Mar 14	Mar 15P	Mar 16E	Mar 17E
PER	1.3	8.7	14.2	12.1
PCE	1.1	8.0	13.1	10.8
Price/Book	0.8	4.7	6.8	4.8
Yield (%)	0.0	0.0	1.4	1.6
EV/EBITDA	3.0	6.1	8.7	7.6

MID CAP

Share Data

Price (Rs)	786
BSE Sensex	27,550
Reuters code	WLSP.BO
Bloomberg code	WLSI IN
Market cap. (US$ mn)	1,212
6M avg. daily turnover (US$ mn)	2.5
Issued shares (mn)	100
Target price (Rs)	1,074

Performance (%)	1M	3M	12M
Absolute	7	48	262
Relative	8	47	241

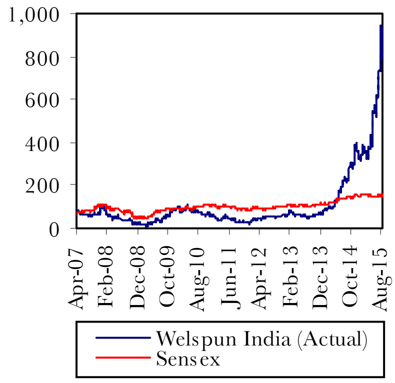
Valuation Ratios (Consolidated)

Yr to 31 Mar	FY16E	FY17E	FY18E
EPS (Rs)	62.8	69.6	77.7
+/- (%)	16.9	10.8	11.6
PER (x)	12.5	11.3	10.1
PBV (x)	4.2	3.3	2.7
Dividend/Yield (%)	2.0	2.2	2.5
EV/EBITDA (x)	7.0	6.3	5.6

Major shareholders (%)

Promoters	73
FIIs	4
MFs	4
BFSI's	1
Public & Others	18

Relative performance



Welspun India

Maintain BUY

Robust performance continues...

Welspun India (WLSI) posted a consolidated revenue of Rs 13.9 bn, up 18% YoY supported by ~14% volume growth and ~3% currency impact. The EBITDA for the quarter stood at Rs 3.6 bn, up ~32% YoY and improvement in opening margin by 275 bps on YoY basis to 25.9% mainly on account of higher vertical integration and larger share of innovative products. Reported PAT stood at Rs 1.6 bn, up 55%, supported by healthy operating profitability and lower finance cost which was marginally offset by higher tax rate (33.7% in 1QFY16 versus 27.7% in FY15).

Revenue to grow at mid teens: WLSI registered strong 14% volume growth during the quarter across the product portfolio. WLSI expects the revenue to grow at mid teen for the next two-three years on the back of expansion in all the product lines. Rugs & Carpets segment to grow at a much faster pace over the next few years albeit on a lower base. Expect growth in towels and bed linen business with increasing institutional business (Hospitality, healthcare, etc.). It also expects higher traction from Japan, South Africa, Middle East and Europe over the next few years.

Operating margins to remain healthy: The operating margin during the quarter improved to 25.9% mainly on the back of higher vertical integration, higher proportion of value-added and innovative products and economies of scale. WLSI indicated that it can maintain the operating margins of ~25%, given the current business environment. However, on a long-term basis, it feels that 22-24% is a sustainable margin bracket (due to probable fall in export incentives).

Swift growth in brands business; margins to improve: WLSI witnessed strong growth of 35% in its domestic brands business during the quarter on the back of increase in distribution network through addition in distributors in tier 2 and 3 cities/towns. It expects this business to grow at ~20% over the next few years. It also expects the margins to improve significantly once it reaches a scale. On the overseas front, WLSI is spreading the brand Christy outside UK in the US, Chinese and Middle East market. It is also actively building its presence in e-retailing platforms in India, US and UK.

Capex through ancillary model kicks in: WLSI had earlier guided that it plans to incrementally secure is backward supply chain through ancillary model (like Auto industry), whereby it allows third party to co-locate their plants with WLSI. WLSI plans to incrementally invest in de-bottlenecking, dyeing, processing, R&D, brands, etc. It has recently signed an agreement for backward integration on ancillary model for yarn procurement in its premises in Anjar. It expects saving of ~3-4% for the manufacturer in this model due to saving on transportation, packaging, working capital, etc.

Debt to start falling in FY17; peak debt in FY16: We expect the net debt levels to peak at ~Rs 29 bn in FY16 and gradually start reducing from FY17. The ongoing capex of Rs 11 bn is expected to be mostly completed by the end of FY16, post which WLSI do not have any major capex.

Financial highlights (Consolidated)

(Rs mn)	1QFY15	1QFY16	YoY (%)	4QFY15	QoQ (%)	FY15	FY16E	YoY (%)	FY17E	YoY (%)
Revenue	11,773	13,885	17.9	13,658	1.7	53,025	60,449	14.0	69,127	14.4
EBITDA	2,727	3,598	31.9	3,446	4.4	12,742	15,445	21.2	16,832	9.0
EBITDA Margin (%)	23.2	25.9	–	25.2	–	24.0	25.6	–	24.4	–
Other Income	322	277	(13.9)	289	(4.2)	949	840	(11.5)	850	1.2
Interest	713	593	(16.9)	569	4.1	2,829	2,539	(10.3)	2,454	(3.4)
Depreciation	686	793	15.6	1,009	(21.4)	3,329	4,230	27.0	4,681	10.7
PBT	1,650	2,490	50.9	2,157	15.4	7,533	9,516	26.3	10,548	10.8
Tax	622	840	34.9	508	65.4	2,090	3,207	53.4	3,555	10.8
Reported PAT	1,050	1,632	55.4	1,614	1.1	5,398	6,309	16.9	6,993	10.8
Adjusted PAT	1,050	1,632	55.4	1,614	1.1	5,398	6,309	16.9	6,993	10.8
Adjusted EPS (Rs)	10.5	16.2	55.3	16.1	1.1	53.7	62.8	16.9	69.6	10.8

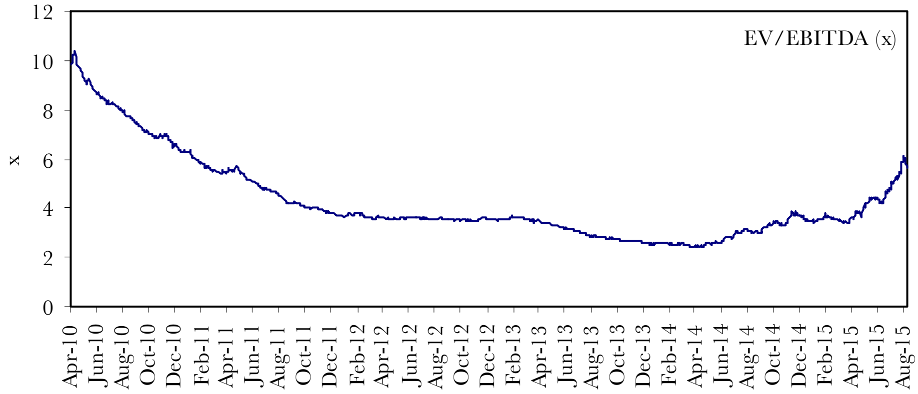
Outlook and valuation

We remain positive on WLSI given its multiple growth drivers like penetrating newer geographies, scaling newer product categories, expanding under-penetrated 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 of the performance. Positive news on FTAs with EU, Canada and Australia and interest subvention on working capital loans will further aid revenue and profit growth. At the current market price of Rs 786, the stock trades at 6.3x FY17E EV/EBITDA and 11.3x FY17E EPS. We maintain our Buy rating on the stock with a revised target price of Rs 1,074 (based on 8x FY17E EV/EBITDA).

Revised estimates

(Rs mn)	FY16E			FY17E			FY18E		
	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)
Revenue	59,896	60,449	0.9	68,462	69,127	1.0	79,609	80,460	1.1
EBITDA	14,315	15,445	7.9	15,507	16,832	8.5	17,395	18,264	5.0
EBITDA margin (%)	23.9	25.6	–	22.7	24.4	–	21.9	22.7	–
Adjusted PAT	5,743	6,309	9.9	6,467	6,993	8.1	7,702	7,805	1.3
Adjusted EPS (Rs)	57.2	62.8	9.9	64.4	69.6	8.1	76.7	77.7	1.3

One-year forward EV/EBITDA



Source: B&K Research

Welspun India

Income Statement (Consolidated)

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Net sales	**53,025**	**60,449**	**69,127**	**80,460**
Growth (%)	*18.0*	*14.0*	*14.4*	*16.4*
Operating expenses	(40,283)	(45,005)	(52,295)	(62,195)
Operating profit	**12,742**	**15,445**	**16,832**	**18,264**
EBITDA	**12,742**	**15,445**	**16,832**	**18,264**
Growth (%)	*38.3*	*21.2*	*9.0*	*8.5*
Depreciation	(3,329)	(4,230)	(4,681)	(4,990)
Other income	949	840	850	800
EBIT	**10,362**	**12,055**	**13,002**	**14,074**
Finance cost	(2,829)	(2,539)	(2,454)	(2,302)
Profit before tax	**7,533**	**9,516**	**10,548**	**11,772**
Tax (current + deferred)	(2,090)	(3,207)	(3,555)	(3,967)
P/(L) for the period	**5,443**	**6,309**	**6,993**	**7,805**
P/L of Associates, Min Int, Pref Div	(45)	0	0	0
Reported Profit/(Loss)	5,398	6,309	6,993	7,805
Adjusted net profit	5,398	6,309	6,993	7,805
Growth (%)	*(4.6)*	*16.9*	*10.8*	*11.6*

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
Share capital	1,005	1,005	1,005	1,005
Reserves & surplus	13,314	17,778	22,726	28,248
Shareholders' funds	**14,319**	**18,783**	**23,731**	**29,252**
Minority Intersts and others	378	378	378	378
Non-current liablities	**17,607**	**20,158**	**19,963**	**19,370**
Long-term borrowings	15,946	18,446	18,196	17,546
Other non-current liabilities	1,661	1,712	1,766	1,823
Current liabilities	**24,650**	**25,934**	**25,434**	**24,596**
ST borrowings, Curr maturity	12,534	13,515	11,604	8,982
Other current liabilities	12,115	12,419	13,830	15,614
Total (Equity and Liab.)	**56,953**	**65,253**	**69,506**	**73,597**
Non-current assets	**29,397**	**34,460**	**34,952**	**33,652**
Fixed assets (Net block)	26,049	30,991	31,359	29,916
Non-current Investments	15	16	17	17
Long-term loans and advances	1,377	1,515	1,667	1,833
Other non-current assets	1,955	1,938	1,910	1,885
Current assets	**27,557**	**30,793**	**34,553**	**39,945**
Cash & current investment	4,657	3,446	3,038	3,098
Other current assets	22,900	27,346	31,515	36,847
Total (Assets)	**56,953**	**65,253**	**69,506**	**73,597**
Total debt	28,480	31,961	29,800	26,528
Capital employed	44,838	52,834	55,675	57,982

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
Profit before tax	7,533	9,516	10,548	11,772
Depreciation	3,329	4,230	4,681	4,990
Change in working capital	1,510	(4,231)	(2,856)	(3,659)
Total tax paid	(1,884)	(3,207)	(3,555)	(3,967)
Others	2,829	2,539	2,454	2,302
Cash flow from oper. (a)	**13,318**	**8,847**	**11,272**	**11,439**
Capital expenditure	(5,609)	(9,172)	(5,049)	(3,547)
Change in investments	(305)	1,404	(1)	(1)
Others	852	(34)	(20)	(22)
Cash flow from inv. (b)	**(5,062)**	**(7,801)**	**(5,070)**	**(3,570)**
Free cash flow (a+b)	**8,256**	**1,045**	**6,202**	**7,869**
Equity raised/(repaid)	1	0	0	0
Debt raised/(repaid)	(1,813)	3,481	(2,161)	(3,272)
Dividend (incl. tax)	(1,234)	(1,845)	(2,045)	(2,283)
Others	(4,290)	(2,487)	(2,404)	(2,254)
Cash flow from fin. (c)	**(7,336)**	**(851)**	**(6,610)**	**(7,809)**
Net chg in cash (a+b+c)	**920**	**194**	**(408)**	**60**

Key Ratios (Consolidated)

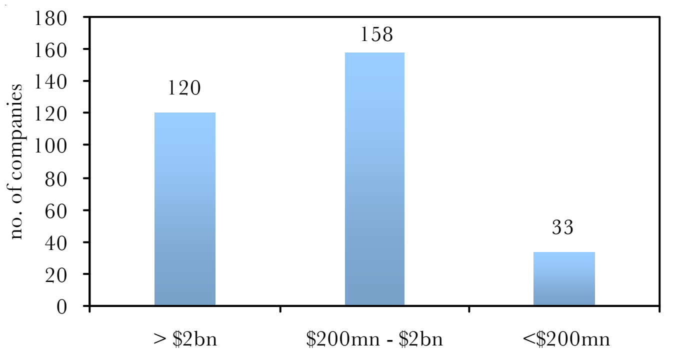
Period end (%)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	53.7	62.8	69.6	77.7
Growth	(4.7)	16.9	10.8	11.6
CEPS (Rs)	86.9	104.9	116.2	127.4
Book NAV/share (Rs)	142.5	187.0	236.2	291.2
Dividend/share (Rs)	10.5	15.7	17.4	19.4
Dividend payout ratio	22.9	29.2	29.2	29.2
EBITDA margin	24.0	25.6	24.4	22.7
EBIT margin	19.5	19.9	18.8	17.5
Tax rate	27.7	33.7	33.7	33.7
RoCE	23.4	24.7	24.0	24.8
Net debt/Equity (x)	1.6	1.5	1.1	0.8
Net Debt/EBITDA (x)	1.9	1.8	1.6	1.3
Du Pont Analysis - ROE				
Net margin	10.2	10.4	10.1	9.7
Asset turnover (x)	1.0	1.0	1.0	1.1
Leverage factor (x)	4.3	3.7	3.2	2.7
Return on equity	42.5	38.1	32.9	29.5

Valuations (Consolidated)

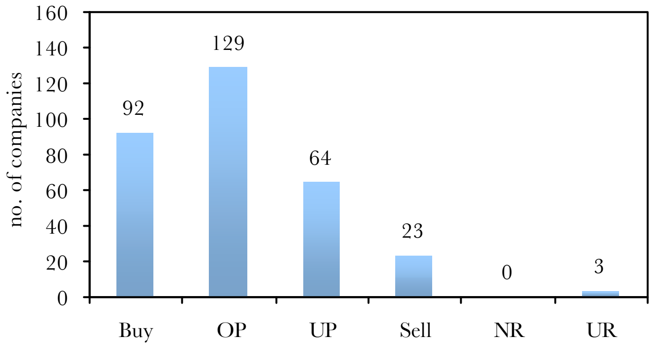
Period end (x)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
PER	6.6	12.5	11.3	10.1
PCE	4.1	7.5	6.8	6.2
Price/Book	2.5	4.2	3.3	2.7
Yield (%)	3.0	2.0	2.2	2.5
EV/EBITDA	4.7	7.0	6.3	5.6

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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