

CMP (Rs) 56

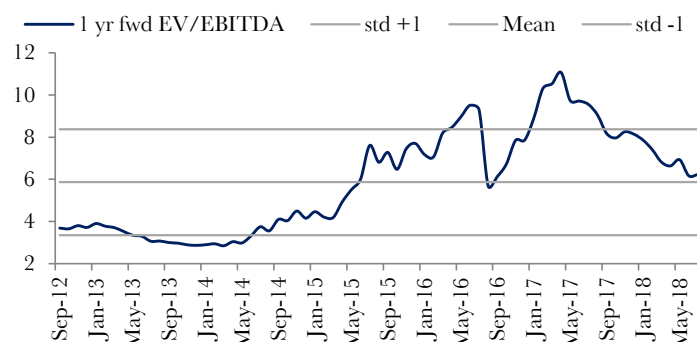
TP (Rs) 79

Upgrade to Buy

Key growth figures	YoY (%)	QoQ (%)			Key Points from Results
	Actual	Actual	Our Est	Consensus	
Net Sales	0.6	2.8	-2.0	n/a	<ul style="list-style-type: none"> Consolidated revenue was 4.9% above B&Ke (up 0.6% YoY) due to higher volume growth. Consolidated Adjusted PAT was 45.7% above our estimates due to better operating leverage, higher other income and lower than expected depreciation.
EBITDA	-8.6	12.5	2.0	n/a	
Adj PAT	2.4	46.9	0.8	n/a	
EPS (Rs)	2.4	46.9	0.8	n/a	

Year end	FY17	FY18	FY19E	FY20E
Valuations				
PER (x)	10.7	15.2	10.2	8.3
PBV (x)	3.7	2.2	1.9	1.6
EV/EBITDA (x)	7.5	7.9	6.7	5.4
Div./Yield (%)	0.7	1.1	2.1	2.5
Key Ratios				
ROE (%)	37.7	15.4	19.8	20.9
ROCE (%)	19.9	11.3	14.6	16.8
Liquidity				
Net Debt/Equity	1.2	1.1	1.0	0.7
Interest cover	7	5	7	8
FCF (Rs mn)	485	3,454	3,629	7,147

Historic valuation chart



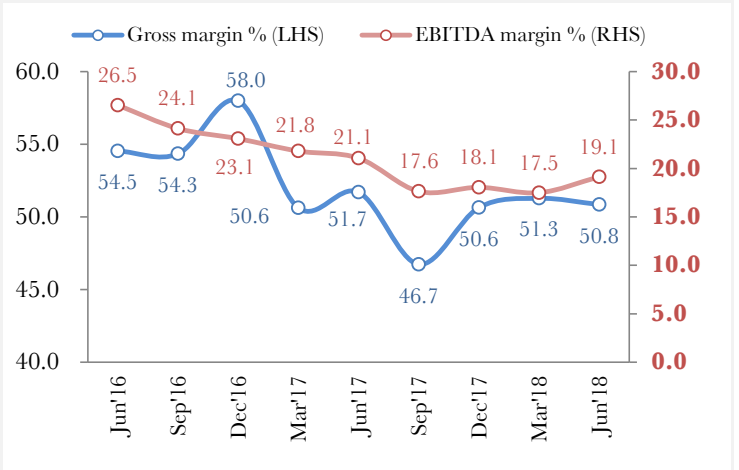
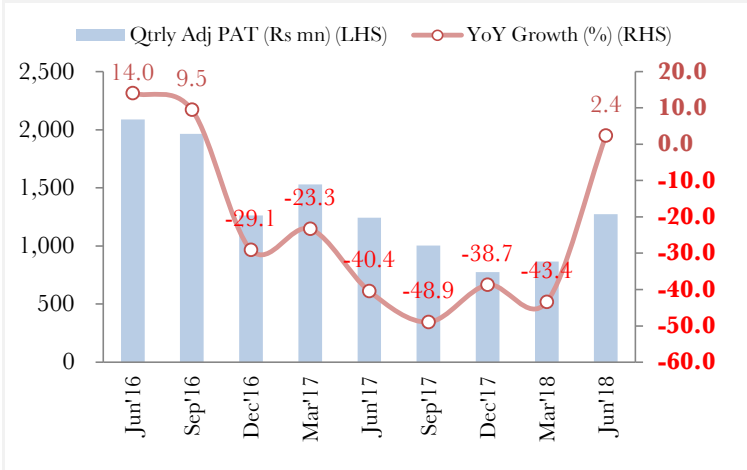
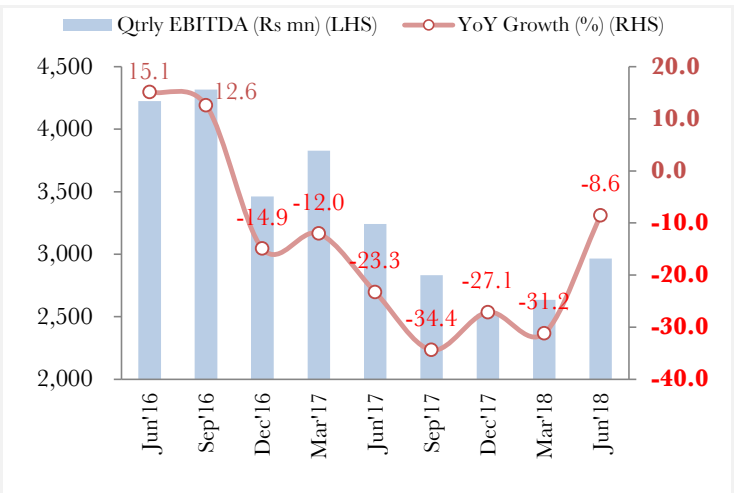
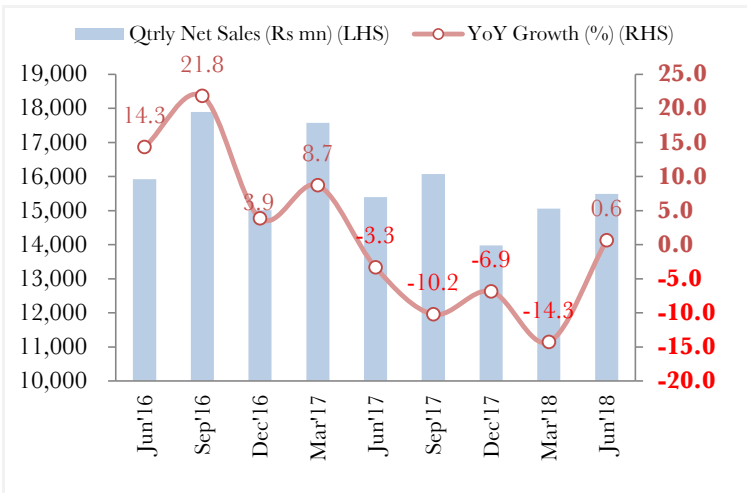
Commentary and Outlook

- WLSI incurred a capex of Rs 700 mn in 1QFY19 and expects to spend Rs 9 bn for FY19E.
- The management is confident that destocking by major US customers is almost coming to an end and order book of the company is encouraging.
- Welspun India reported better than expected performance led by higher margins and lower fixed cost including depreciation and interest. The management maintained its guidance of 8-10% topline growth with EBITDA margin of 19-20%. We are positive on the management strategies to improve their sales including higher focus on branded sales (Christy and Spaces), supply to e-commerce in the US and increased service levels to the existing customers. We revise our estimates upwards marginally due to rupee depreciation and significant reduction in depreciation cost in 1QFY19 (which is likely to be similar in the next few quarters). However, we maintain our EBITDA margin estimates due to oversupply scenario coupled with higher raw material prices and lower incentives. Accordingly, we are revising our earnings estimate upward by 12.9%/12.6% for FY19E/FY20E respectively. Given the stock price correction of ~20% over the last 2 months and improvement in business scenario, we upgrade the stock to BUY from Outperformer earlier. However, we retain our target price of Rs 79 valuing at 7x FY20E EV/EBITDA.

Financial Highlights

(Rs mn)	1QFY18	1QFY19	YoY (%)	4QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	15,394	15,492	0.6	15,062	2.8	66,405	60,506	65,838	73,927
EBITDA	3,242	2,965	-8.6	2,635	12.5	15,834	11,234	12,838	15,081
EBITDA Margin	21.1	19.1		17.5		23.8	18.6	19.5	20.4
Other Income	132	286	116.6	287	-0.2	806	812	853	895
Interest	356	342	-3.9	381	-10.1	1,583	1,408	1,426	1,395
Depreciation	1,183	1,059	-10.5	1,301	-18.6	5,054	5,042	4,310	4,825
PBT	1,835	1,850	0.8	1,241	49.1	5,355	5,597	7,955	9,756
Tax	550	522	-5.1	342	52.5	1,731	1,615	2,387	2,927
Adjusted PAT	1,243	1,272	2.4	866	46.9	8,223	3,849	5,569	6,829
NPM (%)	8.1	8.2		5.8		12.4	6.4	8.5	9.2
EPS (Rs)	1.2	1.3	2.4	0.9	46.9	8.2	3.8	5.5	6.8

Prerna Jhunjhunwala, Priyank Boricha



Operating cost break-up (% of Sales)

Particulars	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	YoY(bps)
Raw Material Cost	48.3	53.3	49.4	48.7	49.2	85
Employee Expenses	10.8	10.7	12.1	11.2	11.2	46
Other Operating Expenses	19.9	18.4	20.5	22.6	20.5	61
Total Operating Cost	78.9	82.4	81.9	82.5	80.9	192

Welspun India

Income Statement

Period end (Rs mn)	Mar 17	Mar 18	Mar 19E	Mar 20E
Net sales	66,405	60,506	65,838	73,927
<i>Growth (%)</i>	<i>12.1</i>	<i>(8.9)</i>	<i>8.8</i>	<i>12.3</i>
Operating expenses	(50,572)	(49,272)	(53,000)	(58,846)
Operating profit	15,834	11,234	12,838	15,081
Other operating income	0	0	0	0
EBITDA	15,834	11,234	12,838	15,081
<i>Growth (%)</i>	<i>(0.6)</i>	<i>(29.1)</i>	<i>14.3</i>	<i>17.5</i>
Depreciation	(5,054)	(5,042)	(4,310)	(4,825)
Other income	806	812	853	895
EBIT	11,585	7,004	9,381	11,151
Finance cost	(1,583)	(1,408)	(1,426)	(1,395)
Exceptional & extraordinary	(4,648)	0	0	0
Profit before tax	5,355	5,597	7,955	9,756
Tax (current + deferred)	(1,731)	(1,615)	(2,387)	(2,927)
P / L form discount. Op.	0	0	0	0
Profit / (Loss) for period	3,624	3,982	5,569	6,829
P/L of Ass., Min Int, Pref Div	(48)	(132)	0	0
Reported Profit / (Loss)	3,576	3,849	5,569	6,829
Adjusted net profit	8,223	3,849	5,569	6,829
<i>Growth (%)</i>	<i>10.2</i>	<i>-53.2</i>	<i>44.7</i>	<i>22.6</i>

Balance Sheet

Period end (Rs mn)	Mar 17	Mar 18	Mar 19E	Mar 20E
Share capital	1,005	1,005	1,005	1,005
Reserves & surplus	22,967	25,052	29,214	34,153
Shareholders' funds	23,971	26,056	30,218	35,158
Minority Interests and others	355	467	467	467
Non-current liabilities	23,979	20,660	21,607	20,308
Long-term borrowings	20,160	17,028	17,749	16,200
Other non-current liabilities	3,819	3,632	3,858	4,107
Current liabilities	24,275	24,686	24,151	23,463
ST borrow, Curr maturity	12,954	15,779	13,533	11,209
Other current liabilities	11,321	8,907	10,618	12,254
Total (Equity and Liab)	72,581	71,870	76,443	79,395
Non-current assets	38,289	36,762	40,777	40,629
Fixed assets (Net block)	35,713	33,641	37,502	37,178
Non-current Investments	29	278	278	278
Long-term loans and adv	748	967	1,112	1,279
Other non-current assets	1,800	1,876	1,886	1,895
Current assets	34,292	35,108	35,666	38,766
Cash & Current investment	2,857	2,661	2,024	2,113
Other current assets	31,435	32,447	33,642	36,653
Total (Assets)	72,581	71,870	76,443	79,395
Total debt	33,114	32,807	31,282	27,409
Capital employed	61,260	62,962	65,826	67,142

Cash Flow Statement

Period end (Rs mn)	Mar 17	Mar 18	Mar 19E	Mar 20E
Profit before tax	5,355	5,597	7,955	9,756
Depreciation	5,054	5,042	4,310	4,825
Change in working capital	(2,448)	(3,850)	505	(1,393)
Total tax paid	(863)	(1,715)	(2,387)	(2,927)
Others	1,583	1,408	1,426	1,395
Cash flow from oper. (a)	8,680	6,481	11,810	11,657
Capital expenditure	(7,259)	(2,970)	(8,171)	(4,500)
Change in investments	(972)	(25)	0	0
Others	36	(32)	(9)	(10)
Cash flow from inv. (b)	(8,196)	(3,027)	(8,180)	(4,510)
Free cash flow (a+b)	485	3,454	3,629	7,147
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	636	(307)	(1,525)	(3,873)
Dividend (incl. tax)	(786)	(786)	(1,408)	(1,727)
Others	51	(2,333)	(1,334)	(1,458)
Cash flow from fin. (c)	(100)	(3,426)	(4,266)	(7,058)
Net chg in cash (a+b+c)	385	28	(637)	89

Key ratios

Period end (%)	Mar 17	Mar 18	Mar 19E	Mar 20E
Adjusted EPS (Rs)	8.2	3.8	5.5	6.8
<i>Growth (%)</i>	<i>10.2</i>	<i>(53.2)</i>	<i>44.7</i>	<i>22.6</i>
CEPS (Rs)	13.2	8.8	9.8	11.6
Book NAV/share (Rs)	23.9	25.9	30.1	35.0
Dividend/share (Rs)	0.7	0.7	1.2	1.4
Dividend payout ratio	22.0	20.4	25.3	25.3
EBITDA margin	23.8	18.6	19.5	20.4
EBIT margin	17.4	11.6	14.2	15.1
Tax rate	17.3	28.9	30.0	30.0
RoCE	19.9	11.3	14.6	16.8
Total debt/Equity (x)	1.4	1.2	1.0	0.8
Net debt/Equity (x)	1.2	1.1	1.0	0.7
Du Pont Analysis - ROE				
Net margin	12.4	6.4	8.5	9.2
Asset turnover (x)	1.0	0.8	0.9	0.9
Leverage factor (x)	3.1	2.9	2.6	2.4
Return on equity	37.7	15.4	19.8	20.9

Valuations

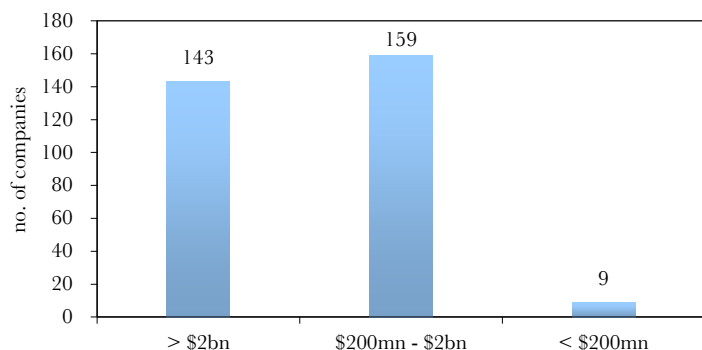
Period end (x)	Mar 17	Mar 18	Mar 19E	Mar 20E
PER	10.7	15.2	10.2	8.3
PCE	6.6	6.6	5.7	4.9
Price/Book	3.7	2.2	1.9	1.6
Yield (%)	0.7	1.1	2.1	2.5
EV/EBITDA	7.5	7.9	6.7	5.4

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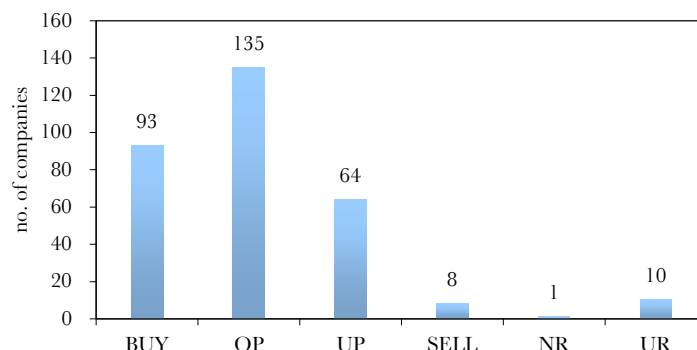
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B&K Universe Profile

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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