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Q4 EARNINGS REPORT

Welspun India

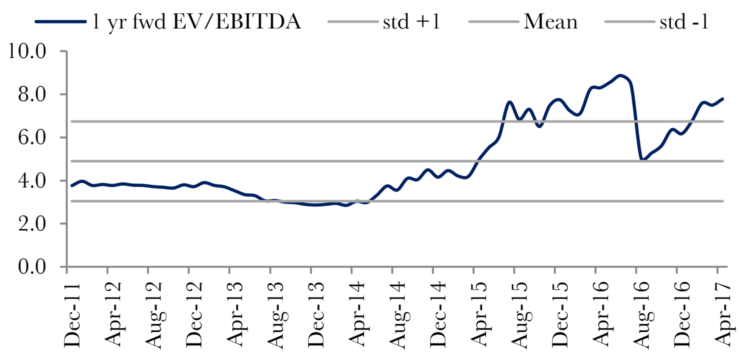
25 Apr 17

CMP (Rs) 94 | **TP (Rs) 112** | **Maintain Outperformer**

Key growth figures	QoQ (%) Actual	YoY (%) Actual	Our Est	Consensus
Net Sales	17.1	8.7	-8.9	-5.7
EBITDA	10.6	-12.0	-25.4	-18.8
Adj PAT	22.4	-23.0	-41.4	-41.4
EPS (Rs)	22.4	-23.0	-41.4	-41.4

Year end	FY16	FY17P	FY18E	FY19E
Valuations				
PER (x)	13.4	10.7	13.5	10.5
PBV (x)	5.0	3.7	3.2	2.6
EV/EBITDA (x)	8.2	7.5	7.9	6.5
Div./Yield (%)	1.3	0.7	1.6	2.0
Key Ratios				
ROE (%)	43.7	37.9	26.3	27.7
ROCE (%)	25.4	19.5	17.6	20.6
Liquidity				
Net Debt/Equity	1.5	1.3	1.0	0.7
Interest cover	6	7	9	13
FCF (Rs mn)	237	-355	5,623	6,978

Historic valuation chart



Key Points from Results

• Consolidated revenue grew by 8.7% YoY to Rs 17.6 bn (B&Ke: 14.7 bn) supported by double digit volume growth (terry towel and rugs segment) and higher mix of innovative products and branded products. This includes currency impact of 4.5% yoy.

• Consolidated EBITDA was adversely impacted higher raw material and power and fuel cost.

Commentary and Outlook

• Share of innovative products stood at 36% in FY17 (vs. 34% in FY16) and that of branded sales stood at 16% in FY17 (vs. 13% in FY16). Domestic retail sales witnessed robust growth of 21% in FY17 while Christy UK sales grew by 12% during the same period.

• WLSI announced capex of Rs 7 bn for FY18E which includes enhancing towel capacity to 80000 MT (72000 MT currently) and flooring solutions (7 Mn sq meters capacity).

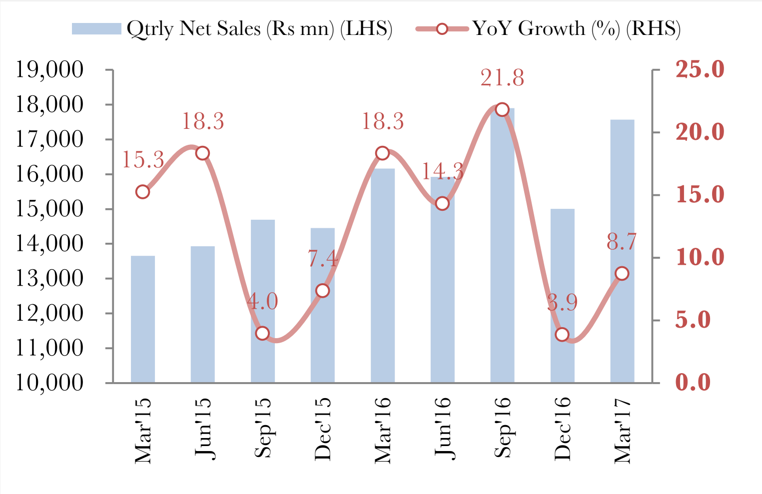
• The company has guided for topline growth of single digit for FY18E with EBITDA margin of 21-22%.

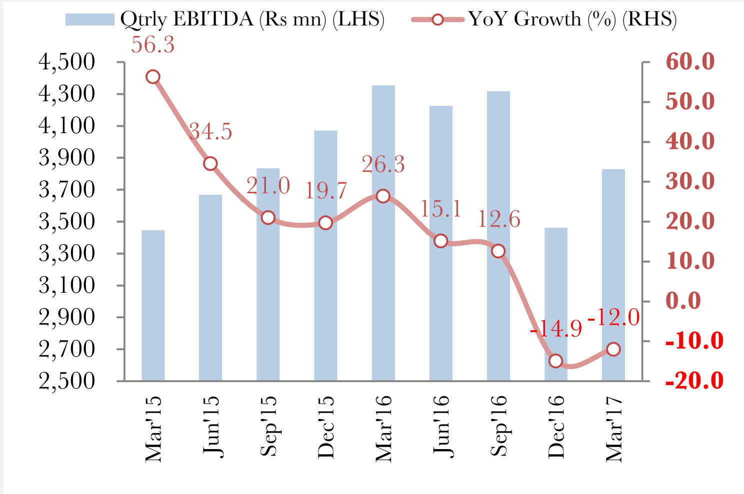
WLSI's continuous capacity enhancement (towel and rugs), increasing vertical integration, higher share of value added products and branded sales will maintain revenue growth momentum. Fall in the relative debt level (net debt to equity 1.27x in FY17 vs 1.58x in FY16) despite the on-going large capex is the major highlight of the performance. We have revised our estimates taking into consideration the higher capacity guidance and improved performance of the company. The stock currently trades at 10.5x FY19E EPS and 6.5x FY19E EV/EBITDA. We maintain our Outperformer rating on the stock with a revised target price of Rs 112/share (Implied EV/EBITDA of 7.5x on FY19E citing stronger performance and ability to handle cost pressures).

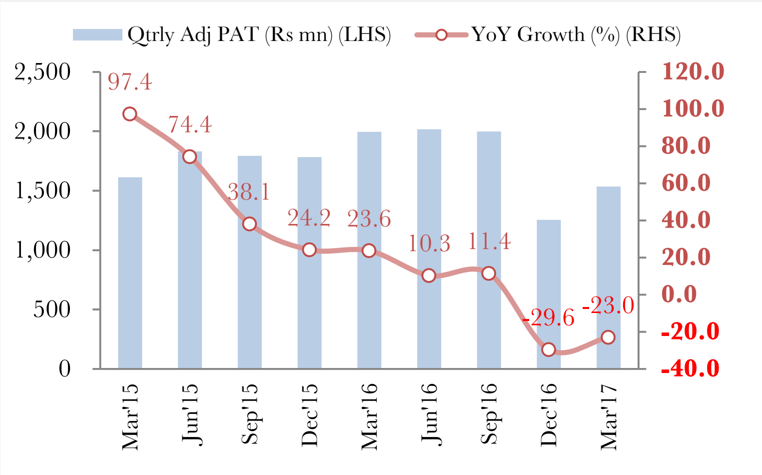
Financial Highlights

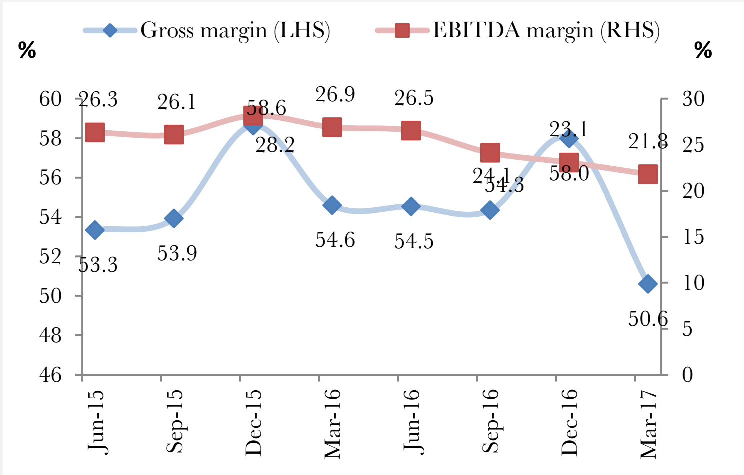
(Rs mn)	4QFY16	4QFY17	YoY (%)	3QFY17	QoQ (%)	FY16	FY17P	FY18E	FY19E
Net Sales	16,162	17,572	8.7	15,009	17.1	59,239	66,405	72,437	83,395
EBITDA	4,353	3,829	-12.0	3,463	10.6	15,927	15,834	15,719	18,430
EBITDA Margin	*26.9*	*21.8*		*23.1*		*26.9*	*23.8*	*21.7*	*22.1*
Other Income	232	156	-33.0	210	-25.8	904	806	846	888
Interest	668	430	-35.6	480	-10.5	2,368	1,583	1,326	1,058
Depreciation	1,036	1,365	31.8	1,305	4.6	3,718	5,054	5,243	5,393
PBT	2,882	2,198	-23.7	2,127	3.4	10,745	5,355	9,996	12,867
Tax	886	653	-26.3	624	4.6	3,254	1,731	2,999	3,860
Adjusted PAT	1,995	1,536	-23.0	1,255	22.4	7,440	8,271	6,997	9,007
NPM (%)	*12.3*	*8.7*		*8.4*		*12.6*	*12.5*	*9.7*	*10.8*
EPS (Rs)	2.0	1.5	-23.0	1.2	22.4	7.4	8.2	7.0	9.0

Prerna Jhunjhunwala, Nishant Agrawal









Operating cost break-up (% of Sales)

Particulars	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	YoY(bps)
Raw Material Cost	45.4	45.5	45.7	42.0	49.4	394
Employee Expenses	8.5	9.7	8.5	11.0	9.5	100
Other Operating Expenses	19.1	18.3	21.8	24.0	19.3	20
Total Operating Cost	**73.1**	**73.5**	**75.9**	**76.9**	**78.2**	**514**

Welspun India

Income Statement

Period end (Rs mn)	Mar 16	Mar 17P	Mar 18E	Mar 19E
Net sales	**59,239**	**66,405**	**72,437**	**83,395**
Growth (%)	*11.7*	*12.1*	*9.1*	*15.1*
Operating expenses	-43,312	-50,572	-56,718	-64,965
Operating profit	**15,927**	**15,834**	**15,719**	**18,430**
Other operating income	0	0	0	0
EBITDA	**15,927**	**15,834**	**15,719**	**18,430**
Growth (%)	*25.0*	*(0.6)*	*(0.7)*	*17.3*
Depreciation	-3,718	-5,054	-5,243	-5,393
Other income	904	806	846	888
EBIT	**13,113**	**11,585**	**11,322**	**13,925**
Finance cost	-2,368	-1,583	-1,326	-1,058
Exceptional & extradordinary	0	-4,648	0	0
Profit before tax	**10,745**	**5,355**	**9,996**	**12,867**
Tax (current + deferred)	-3,254	-1,731	-2,999	-3,860
P / L form discont. Op.	0	0	0	0
Profit / (Loss) for period	**7,491**	**3,624**	**6,997**	**9,007**
P/L of Ass., Min Int, Pref Div	-52	0	0	0
Reported Profit / (Loss)	7,440	3,624	6,997	9,007
Adjusted net profit	7,440	8,271	6,997	9,007
Growth (%)	*37.8*	*11.2*	*-15.4*	*28.7*

Balance Sheet

Period end (Rs mn)	Mar 16	Mar 17P	Mar 18E	Mar 19E
Share capital	1,005	1,005	1,005	1,005
Reserves & surplus	18,696	22,967	28,196	34,928
Shareholders' funds	**19,701**	**23,972**	**29,201**	**35,933**
Minority Intersts and others	412	355	355	355
Non-current liablities	**21,181**	**24,682**	**26,767**	**25,264**
Long-term borrowings	17,922	20,160	22,088	20,416
Other non-current liabilities	3,259	4,521	4,679	4,848
Current liabilities	**24,198**	**24,275**	**21,232**	**20,750**
ST borrow, Curr maturity	14,556	13,793	9,566	7,626
Other current liabilities	9,641	10,482	11,667	13,124
Total (Equity and Liab)	**65,491**	**73,283**	**77,555**	**82,302**
Non-current assets	**37,515**	**38,991**	**40,836**	**39,608**
Fixed assets (Net block)	33,508	35,713	37,440	36,081
Non-current Investments	39	29	29	29
Long-term loans and adv	1,292	694	764	840
Other non-current assets	2,677	2,555	2,603	2,659
Current assets	**27,976**	**34,292**	**36,720**	**42,693**
Cash & Current investment	1,490	2,857	1,971	2,126
Other current assets	26,486	31,435	34,748	40,568
Total (Assets)	**65,491**	**73,283**	**77,555**	**82,302**
Total debt	32,478	33,953	31,654	28,042
Capital employed	55,850	62,801	65,889	69,178

Cash Flow Statement

Period end (Rs mn)	Mar 16	Mar 17P	Mar 18E	Mar 19E
Profit before tax	**10,745**	**5,355**	**9,996**	**12,867**
Depreciation	3,718	5,054	5,243	5,393
Change in working capital	-3,287	-3,278	-2,120	-4,357
Total tax paid	-2,567	-891	-2,999	-3,860
Others	2,368	1,583	1,326	1,058
Cash flow from oper. (a)	**10,977**	**7,823**	**11,446**	**11,101**
Capital expenditure	-11,177	-7,259	-6,970	-4,034
Change in investments	1,135	-972	1,229	0
Others	-699	54	-81	-90
Cash flow from inv. (b)	**-10,741**	**-8,177**	**-5,823**	**-4,123**
Free cash flow (a+b)	**237**	**-355**	**5,623**	**6,978**
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	1,627	1,475	-2,299	-3,612
Dividend (incl. tax)	-1,558	-786	-1,768	-2,275
Others	-2,315	50	-1,213	-936
Cash flow from fin. (c)	**-2,246**	**740**	**-5,280**	**-6,824**
Net chg in cash (a+b+c)	**-2,009**	**385**	**343**	**154**

Key ratios

Period end (%)	Mar 16	Mar 17P	Mar 18E	Mar 19E
Adjusted EPS (Rs)	7.4	8.2	7.0	9.0
Growth (%)	*37.8*	*11.2*	*(15.4)*	*28.7*
CEPS (Rs)	11.1	13.3	12.2	14.3
Book NAV/share (Rs)	19.6	23.9	29.1	35.8
Dividend/share (Rs)	1.3	0.7	1.5	1.9
Dividend payout ratio	20.9	21.7	25.3	25.3
EBITDA margin	26.9	23.8	21.7	22.1
EBIT margin	22.1	17.4	15.6	16.7
Tax rate	30.3	n/a	30.0	30.0
RoCE	25.4	19.5	17.6	20.6
Total debt/Equity (x)	1.6	1.4	1.1	0.8
Net debt/Equity (x)	1.5	1.3	1.0	0.7
Du Pont Analysis - ROE				
Net margin	12.6	12.5	9.7	10.8
Asset turnover (x)	1.0	1.0	1.0	1.0
Leverage factor (x)	3.6	3.2	2.8	2.5
Return on equity	43.7	37.9	26.3	27.7

Valuations

Period end (x)	Mar 16	Mar 17P	Mar 18E	Mar 19E
PER	13.4	10.7	13.5	10.5
PCE	8.9	6.6	7.7	6.6
Price/Book	5.0	3.7	3.2	2.6
Yield (%)	1.3	0.7	1.6	2.0
EV/EBITDA	8.2	7.5	7.9	6.5

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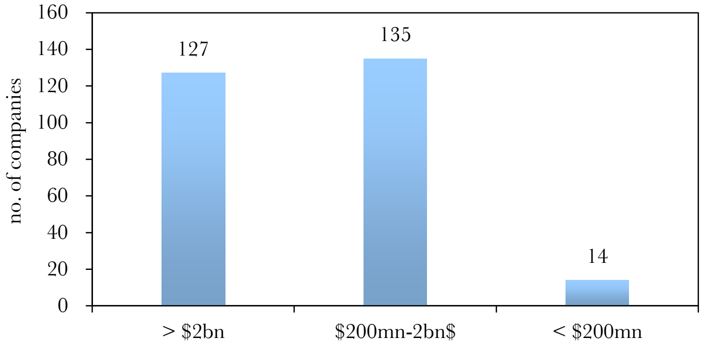
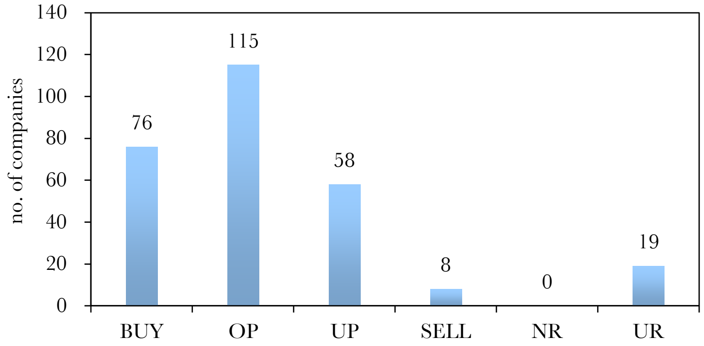
B&K Universe Profile

By Market Cap (US$ mn)



By Recommendation



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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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