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4 June 2016

India

Consumer

Reuters WLSP.NS
Bloomberg WLSI IS

Priced on 3 June 2016

CNX Nifty @ 8,220.8

12M hi/lo Rs108.20/Rs51.49

12M price target na
±% potential

Shares in issue
Free float (est.)

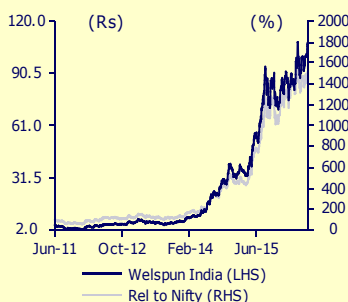
Market cap US\$1,613m

3M average daily volume
148.1 (US\$2.2m)

Major shareholders
None

Stock performance (%)

	1M	3M	12M
Absolute	9.2	27.8	99.8
Relative	2.9	16.2	97.7
Abs (US\$)	7.7	28.0	89.2



Source: Bloomberg

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Global home textiles leader

Vision 2020 - Double revenues

We met with Welspun India's management recently. Welspun (N-R) is a global leader in home textiles (terry towels, bed linens). Management briefed us about its Vision 2020 plans, which has a three-pronged strategy: achieving US\$2bn in revenues (2x over FY16) with 25% branded products share and becoming debt-free by the end of FY20. Welspun's market share in US terry towel imports has increased by 1.4x in the past two years. The company indicated that higher-margin innovative/ branded products would help improve overall profitability. Significant FCF (Rs3.7bn in FY16) should help reduce debt levels. It also suggested gaining further market share in US imports would be important to achieving the company's vision.

Target to achieve US\$2bn revenue by 2020

Welspun reported a 23% revenue Cagr over FY11-16, primarily through rapid market share gains in the US market. The company is now targeting growth from newer geographies (UK, Europe and Japan) and faster growth in institutional sales besides focusing on the branded segment in the domestic market. Welspun is currently operating close to full capacity in towels and sheets category. It expects new capacities planned over FY17 (20% in terry towels and 25% in bed linens) to help drive incremental growth.

Positive FCF generation; target to achieve debt-free status by FY20

Calibrated capex spend, judicious working capital management coupled with improvement in profitability have helped Welspun turn FCF positive (after 3 years). A hyper-investment phase (balance sheet size expanded by 2.7x in the last 10 years) is now behind. Welspun now intends to focus on balance sheet consolidation and quality of growth through higher contribution of branded sales. Management highlighted that capex needs going forward are expected to come down and that would aid improvement in FCF. The company hopes to achieve debt-free status by FY20.

Welspun has seen strong growth and share price performance

Welspun's performance in the last few years has been strong (46% FY13-16 EPS Cagr) with improvement in RoCE (26% FY16) and balance sheet de-leveraging (1.3x FY16 D/E vs 1.8x FY13). This has been reflected in the stock price compounding 75% over the period (doubled in the last 12 months). The stock trades at 6.5x FY18 EV/Ebitda (based on Bloomberg consensus) with 18% Ebitda Cagr over FY16-18E. Gaining further market share in US imports (backdrop of tepid overall growth) is important for the company's 2020 vision.

Financials snapshot

(in Rs mn)	FY13	FY14	FY15	FY16
Net revenue	36,473	43,730	53,025	59,795
Ebitda	5,946	9,211	12,742	15,575
Ebitda margin (%)	16.3	21.1	24.0	26.0
Net profit	2,248	4,195	5,398	7,029
Diluted EPS (Rs/Share)	2.2	4.2	5.4	7.0
ROE (%)	25.9	40.0	42.5	41.1
Net debt/equity (x)	1.8	2.4	1.8	1.3

Source: Company

Company Background

Welspun is the largest Indian home textile exporter of towels, sheets, and rugs and carpets. Per the company, the global home textile market is US\$45bn, with US cotton home textiles accounting for ~US\$7.5bn. Welspun is the largest Indian towel and sheet exporter with 16% and 10% market share, respectively, in the US. Welspun was established in 1985 as a yarn manufacturer and moved into towels in 1993, sheets in 2006, and rugs and carpets in 2010. Welspun has emerged as a leading supplier to 14 of the top 30 global retailers and counts Bed Bath & Beyond, Macy's, Wal-Mart, JC Penney amongst its key customers.

Figure 1

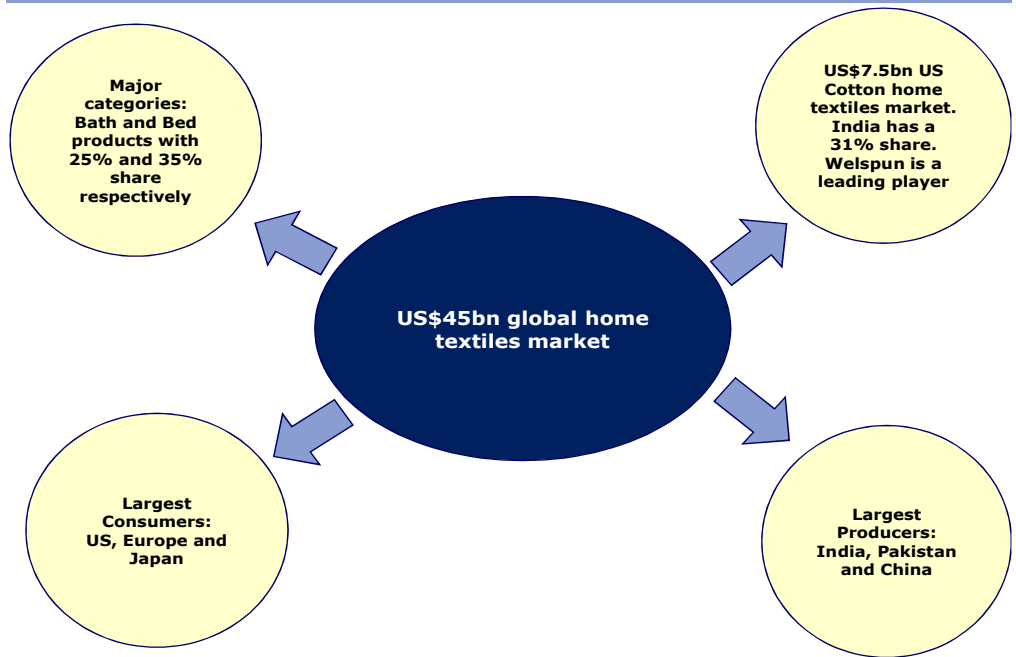
Welspun India - Company snapshot

	Remarks
Position	-Welspun India is among the top 3 home textile manufacturers in the world and the largest textile company in Asia
Distribution network	- Welspun is the leading home textile exporter to US market -Welspun India has a distribution network in more than 50 countries. -Brands like Space and Welhome are available in more than 250MBOs and around 200 shop-in-shop outlets
Clients	- Welspun has emerged as a trusted partner to 14 of top 30 global retailers like Bed Bath and Beyond, Macy's, Wal-Mart and JC Penney among others
Manufacturing facility	-Welspun has state-of-the-art manufacturing facilities at Anjar and Vapi (Gujarat)
Products	-Welspun is the leading exporter of terry towels (20% market share in FY16) and bed linen (11% market share in FY16) to the US

Source: Company, CLSA

Figure 1

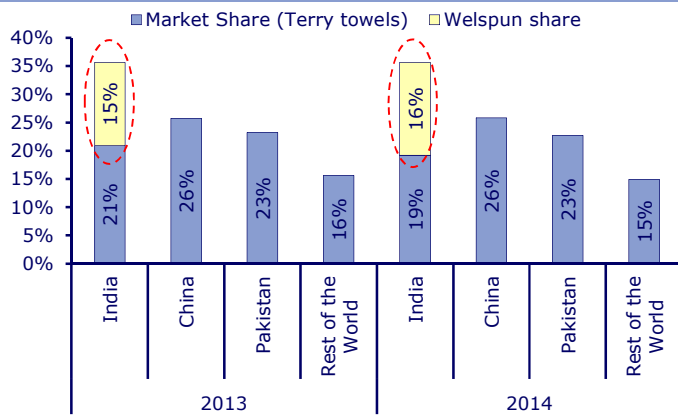
India is a dominant player in the global home textiles market; Welspun is a leading exporter from India



Source: CLSA, Company. Note: Global home textile market size is the wholesale market size.

Figure 2

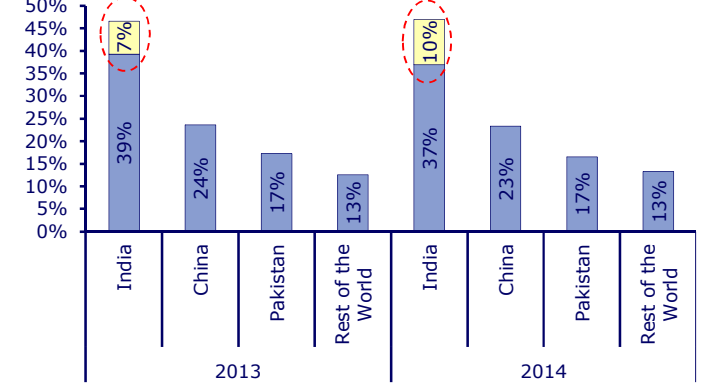
Welspun is the leading exporter of terry towels and bed sheets to the US



Source: CLSA, Company

Figure 3

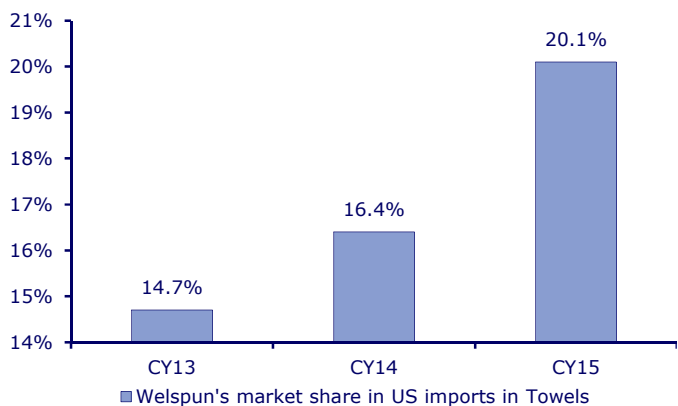
Market Share (Cotton sheets) and Welspun share



Source: CLSA, Company

Figure 4

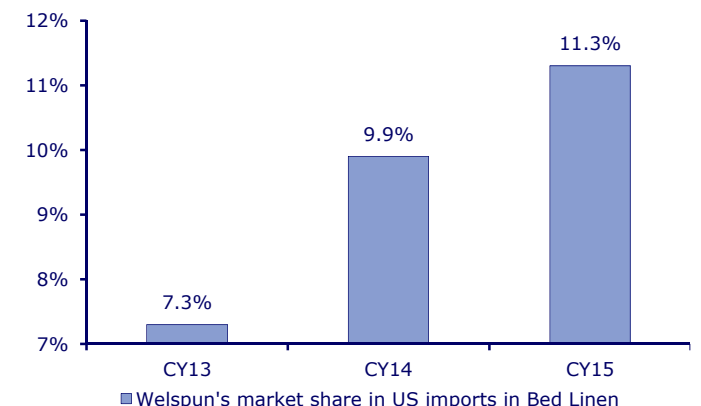
Welspun has achieved significant market share gains in the US in the last two years



Source: CLSA, Company

Figure 5

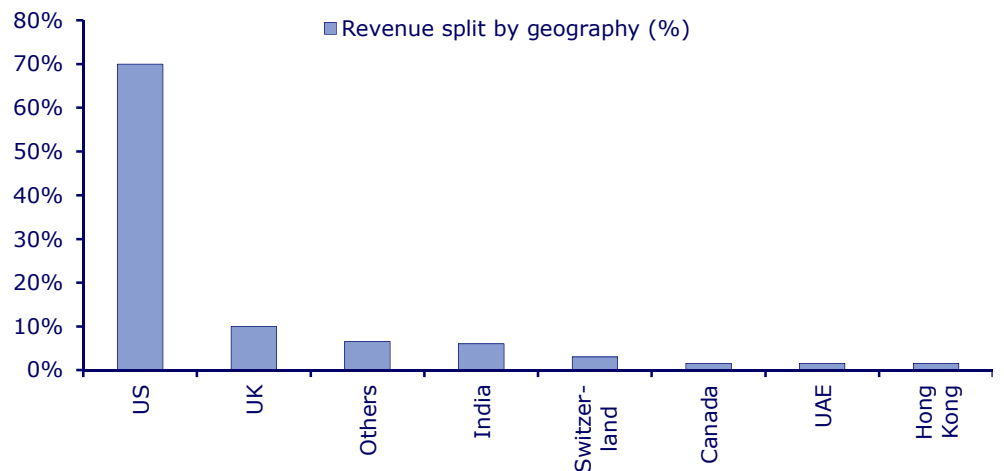
Welspun's market share in US imports in Bed Linen



Source: CLSA, Company

Figure 6

US is the most important geography for Welspun with more than 2/3 revenue contribution



Source: Company

Figure 7

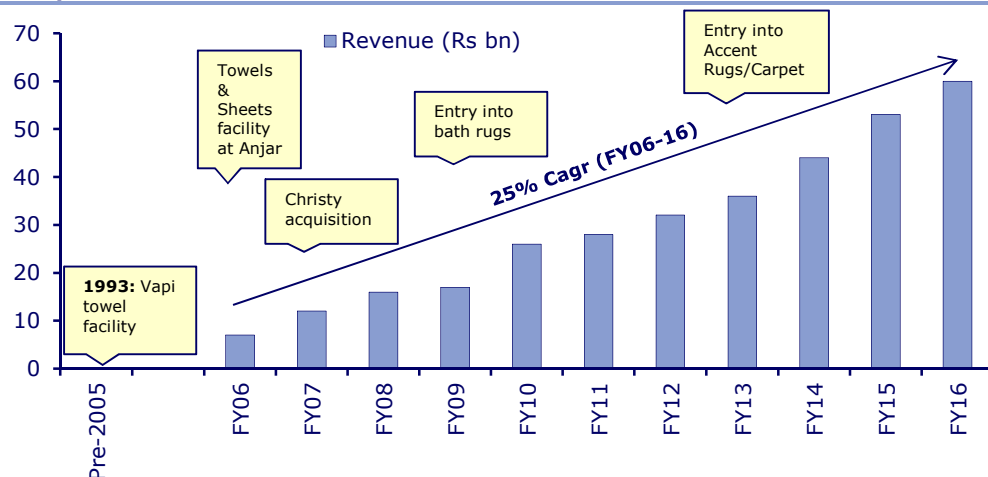
Welspun India has one of the largest terry towel and bed sheet capacities in India

Terry towel capacity (tpa)	FY14	FY15	FY16E
Welspun India	45,000	50,000	60,000
Alok Industries	13,400	13,400	13,400
Trident	42,000	90,000	90,000
Bed sheet Capacity (mn meters pa)			
Welspun India	55	60	72
Indo Count	45	68	68
Trident	-	-	43
Himatsingka Seide	23	23	23
Alok Industries	150	150	150

Source: Company data

Figure 8

Welspun India - Revenue milestones

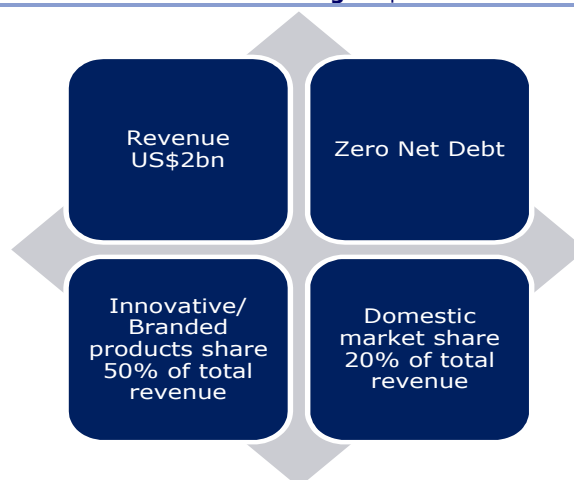


Source: Company

Welspun India – Vision 2020

Figure 9

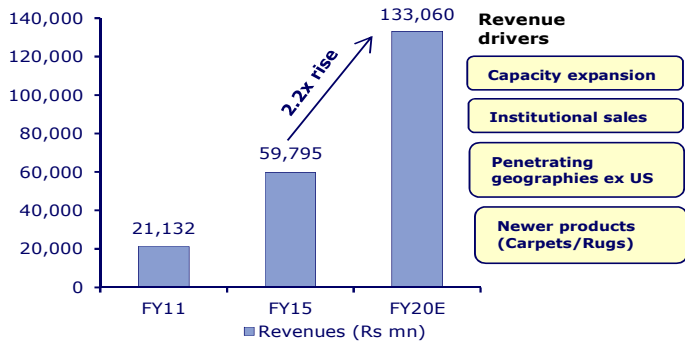
Welspun aims to be debt-free while achieving US\$2bn in revenues by 2020



Source: Company

Figure 10

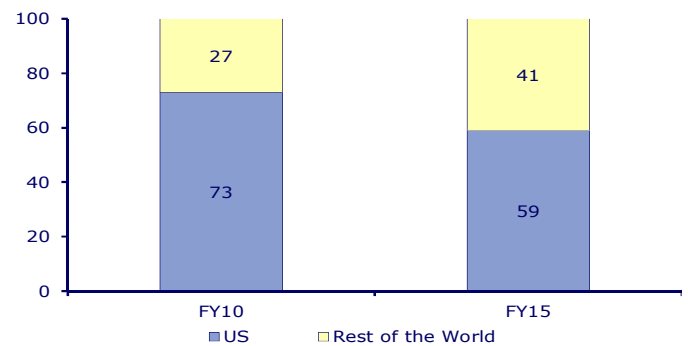
Welspun expects more than 2-fold rise in its revenues by 2020



Source: Company

Figure 11

Welspun aims to de-risk its dependency on US markets by increasing revenue share from newer geographies



Welspun plans around Rs8bn in capex in FY17

Increase in capacity expansion to support incremental growth

Figure 12

Welspun plans to expand its capacity by 20-25% in FY17 which it expects will aid incremental revenue growth

Products	FY16 capacity	Sales volume	Utilisation (%)	Expected capacity FY17
Towels (in Metric Tonnes)	60,000	55,400	92%	72,000
Sheets (in '000 mtrs)	72,000	66,500	92%	90,000
Rugs & Carpets (in '000 sq. mtrs.)	8,000	6,100	76%	10,000

Source: Company

Innovative/Branded products key focus area for Welspun

Welspun has been able to differentiate itself due to its constant focus on innovation and product development. "Hygro" (ultra soft, ultra absorbent, quick drying) and "Flexifit" (fits a range of mattress sizes) are some of the innovative products launched by the company.

Hygro

Hygro Cotton is a patented proprietary spinning technology that produces a hollow core yarn which creates unique products which get softer, loftier and more fluffy and comfortable over time. Welspun has taken several steps to brand its innovation capabilities. As a first step, a campaign was launched in the US to introduce the patented Hygro Cotton technology to consumers.

Figure 13

Welspun expects to increase share from innovative products to 40% and share from branded products to 25% by 2020, thereby implying a blended revenue share of 50% from innovative/branded products from 40% currently

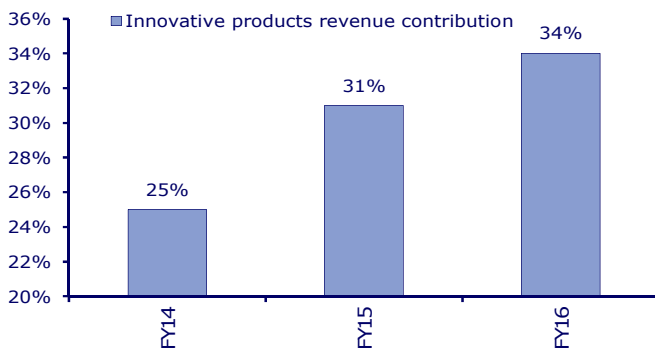
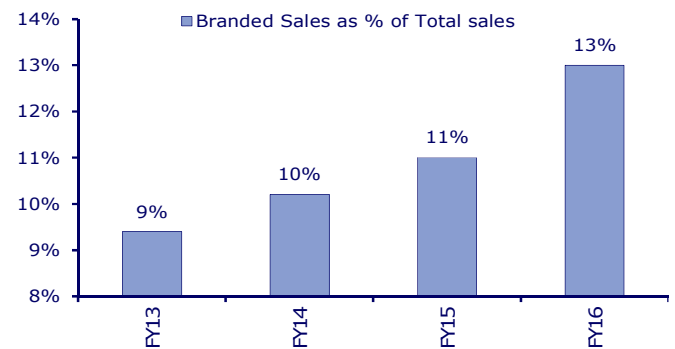








Figure 14



Source: Company

Figure 15

Welspun plans to create more value through its brands

	<ul style="list-style-type: none"> • Premium brand with presence in India • Footprint of around 200 shop-in-shop outlets and distribution
	<ul style="list-style-type: none"> • Value brand presence in India via retailers; also growing via the distributor network
	<ul style="list-style-type: none"> • Largest terry towel brand in the UK with growing presence in China and the Middle East • Present in over 40 retailers within UK • Also present in the USA and seeing aggressive growth in ecommerce
	<ul style="list-style-type: none"> • Value brand in the UK with a focus on bedding • Targeting the affordable fashion segment
	<ul style="list-style-type: none"> • Patent 'Hygro Cotton' launched as a brand in Q3FY16 • Ingredient branding with retailer's brands
	<ul style="list-style-type: none"> • Licensed the Amy Butler range of home products for the US business with a special focus on E-Commerce • Launched own brand of luxury linen in the US via E-Commerce • Licensed the Annie Phillip brand for floor coverings in US, UK and India

Source: CLSA, Company

Figure 16

Strategic shift to a more consumer-focussed business model

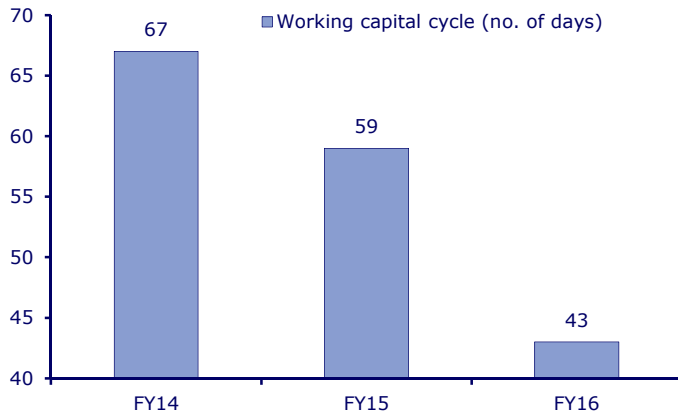
Transitioning towards a more...	...consumer centric business model
<ul style="list-style-type: none"> • Limited presence in domestic market • Limited sales from branded products • High dependence from US markets • Lower vertical integration • More of a B2B player 	<ul style="list-style-type: none"> • Increase presence in domestic market • Increase share of branded products in overall product mix • Reduce dependence from US markets, explore newer geographies • Higher vertical integration • Transforming to a B2C player

Source: Company

Free cashflow generation should help Welspun lower its debt levels

Figure 17

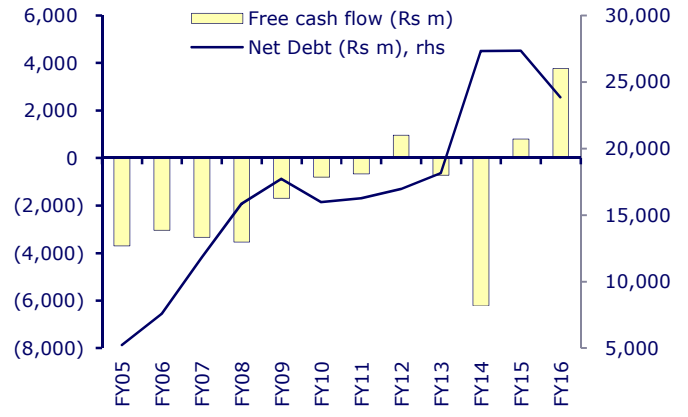
Welspun has achieved significant working capital efficiency in the last few years



Source: Company

Figure 18

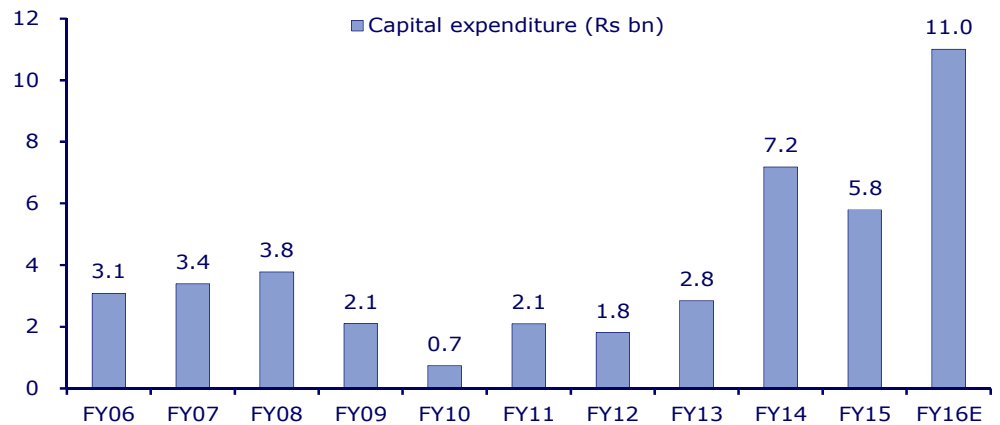
Welspun was in hyper-investment phase in the past 10 years but has now turned net FCF positive



Source: Company

Figure 19

Welspun has undergone a substantial expansion phase in the past 10 years



Source: Company, Bloomberg

Financial Statements

Figure 20

Profit & Loss summary

(Rs m)	FY15	FY16	YoY
Revenue	53,025	59,795	12.8%
Ebitda	12,742	15,575	22.2%
Ebitda margins (%)	24.0%	26.0%	202bps
Finance Cost	2,829	2,362	-16.5%
Depreciation	3,329	3,750	12.6%
PBT	7,533	10,378	37.8%
Net profit	5,398	7,029	30.2%
PAT Margin	10.2%	11.8%	157bps
EPS (in Rs)	5.4	7.0	30.2%

Source: Company

Welspun's Ebitda margins have expanded by 2% from FY15 to FY16 and EPS has seen a robust growth of 30%

Welspun's net debt to equity has declined from 1.9x to 1.3x through FY15-16

Figure 21

Balance sheet summary

(in mn Rs)	FY15	FY16
Net Worth	14,318	19,877
Short Term Loans	10,034	7,732
Long Term Loans	20,817	18,901
Gross Debt	30,851	26,632
Cash & Cash Equiv.	4,757	1,384
Net Debt	26,094	26,248
Capital Employed	47,208	48,347
Net Fixed Assets (incl CWIP)	26,049	33,435
Net Current Assets	13,155	11,054
Total assets	56,953	62,272

Source: Company

Figure 22

Du-Pont Analysis highlights the improvement in net profit margin driving ROE of Welspun India

	FY13	FY14	FY15	FY16
Net profit margin (%)	6.2	2.1	10.2	13.0
Asset Turnover	1.0	1.0	1.0	0.9
Leverage Ratio	4.3	4.3	4.3	3.5
ROE (%)	25.9	8.8	42.5	41.1

Source: Company data, Bloomberg

Figure 23

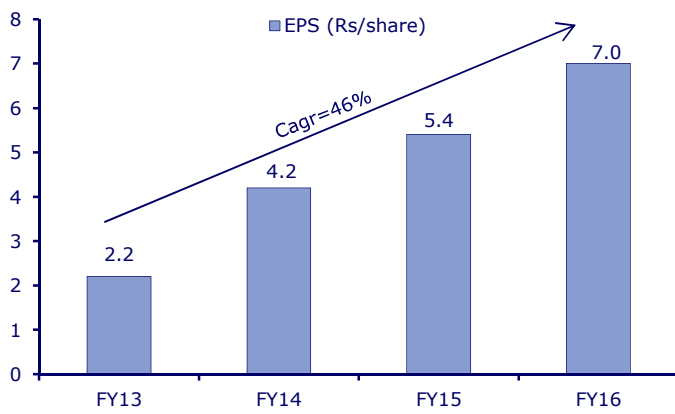
Welspun India - Equity issuance history

Date	New Equity share Capital (in Rs mn)	% increase in share capital
3-Jan 13	999	12%
19-Apr 10	887	21%
29-Jul 05	731	1%
30-Jun-05	722	28%
30-Jun-04	565	23%

Source: ACE Equity

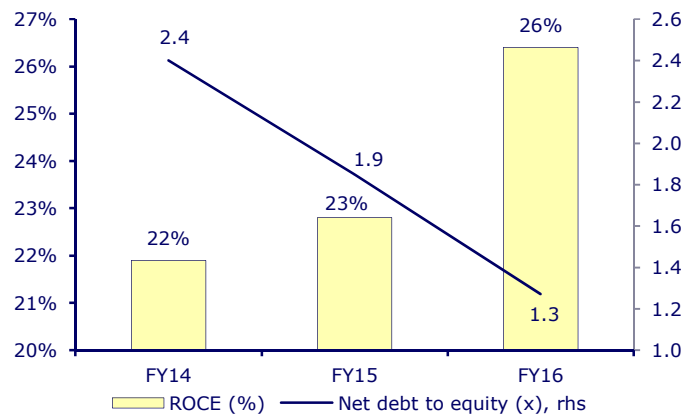
Figure 24

Robust EPS growth coupled with improving return ratios and declining gearing have helped the stock



Source: Company, Bloomberg estimates

Figure 25

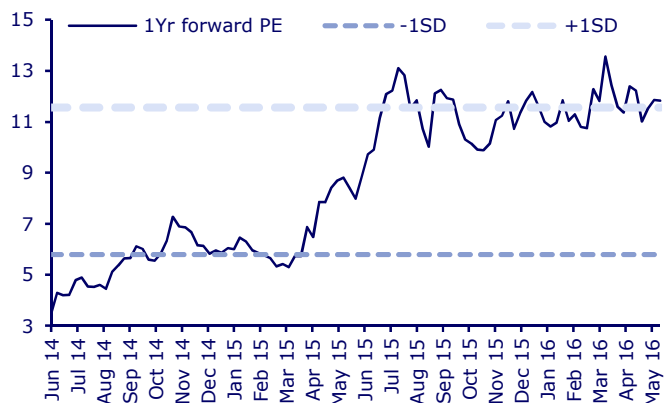


Source: Company

Valuations

Figure 26

Welspun is currently trading at 11.6x 1Yr forward PE multiple



*(based on consensus estimates). Source: Bloomberg

Figure 27

Welspun is currently trading at 6.8x 1Yr forward EV/Ebitda multiple slightly above +1sd

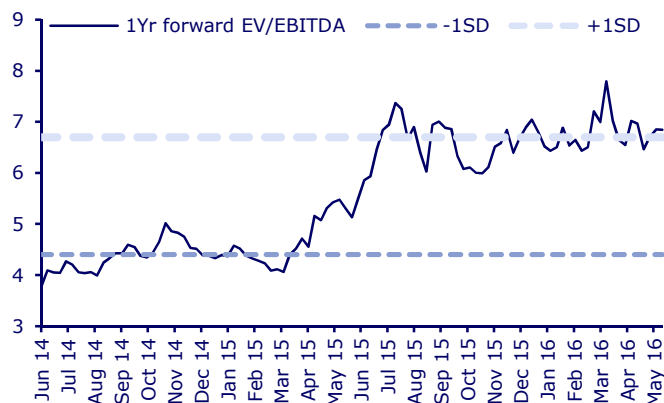


Figure 28

Indian textiles & home textile companies valuation matrix

Company name	Price (LC)	Mcap (US\$mn)	Rating	P/E (x)			EV/Ebitda		P/BV		EV/Sales	
				FY17CL	FY18CL	FY18	FY17CL	FY18CL	FY17CL	FY18CL	FY17CL	FY18CL
Welspun India	107	1,598	N/R	13.1	11.0	0.6	7.4	6.5	4.2	3.3	1.9	1.7
Arvind	306	1,175	BUY	19.3	15.4	0.6	9.6	8.0	2.4	2.1	1.2	1.0
Vardhman Textiles	845	799	N/R	8.1	7.3	0.6	5.4	4.9	1.2	1.1	1.1	1.0
Indo Count	924	542	N/R	10.7	8.8	0.4	7.2	6.0	3.6	2.6	1.5	1.3
Trident	51	388	N/R	8.9	6.2	0.1	6.0	5.1	1.3	1.1	1.2	1.1
Himatsingka Seide	222	325	N/R	11.3	8.3	0.2	8.0	5.4	1.9	1.6	1.4	1.3
Average				10.4	8.3	0.4	6.8	5.6	2.5	1.9	1.4	1.3

Source: CLSA (for Arvind), Bloomberg estimates (for others). Note: Prices as of end of 3 June 2016

Figure 29

Indian textiles & home textile companies operational performance

Company name	ROE (%)		EPS Cagr %	Net Debt to Equity	Ebitda margins %	
	FY17CL	FY18CL	(FY16-18E)	FY15 (%)	FY17CL	FY18CL
Welspun India	36	33	18	117	26	26
Arvind	13	15	19	111	13	13
Vardhman Textiles	16	15	12	39	21	21
Indo Count	43	36	24	47	21	21
Trident	16	20	34	165	20	21
Himatsingka Seide	18	21	26	81	18	23
Average	28	26	22	92	22	22

Source: CLSA (for Arvind), Bloomberg estimates (for others)

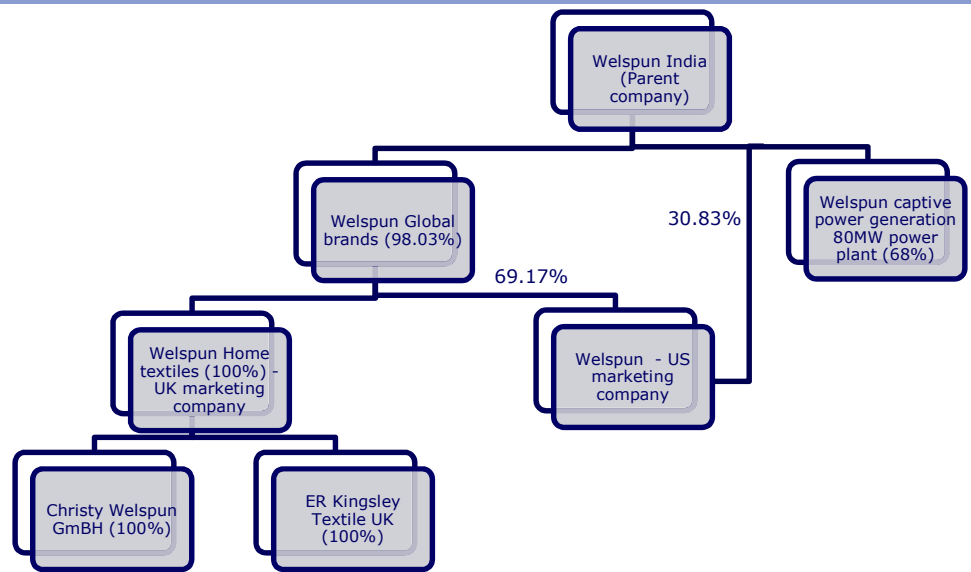
Appendix

Corporate structure

Welspun India, the parent company was set up in 1985. Over the years, the company has set up many subsidiaries via acquisitions/spin-offs. In 2006 Welspun acquired around 85% stake in CHT Holdings, the holding company of UKs towel brand "Christy". Welspun now owns a 100% stake in CHT holdings. In 2010, Welspun India demerged its sales & marketing division into a separate company Welspun Global Brands. Welspun Retail, which handles the operations of the Indian brands namely Spaces and Wellhome, is a subsidiary of Welspun Global Brands.

Figure 30

Welspun India Corporate structure



Source: Company

Figure 31

Key management personnel

Board of directors

Name	Designation	Description
Mr Balkrishna Goenka	Chairman	has been the prime architect of Welspun Group. His strong business acumen combined with risk-taking abilities has helped Welspun to succeed in many high-growth sectors.
Mr RR Mandawewala	Managing Director	is a qualified Chartered Accountant by profession. He is in charge of operations of the textiles business and has enabled Welspun to develop a global reach to more than 50 countries. He has more than 25 years of experience in industries varying from textiles to SAW pipes.
Ms Dipali Goenka	Executive Director	is a graduate in psychology and has also completed the owners/president management program from Harvard University. She has been the driving force in launching Welspun in the Indian market and drove Welspun's retail initiative – Welspun Retail Ltd. which is a pioneer in branded retailing of Home Textiles in India under two brands Spaces Home & Beyond and Welhome.
Mr Altaf Jiwani	CFO	leads a team of 125 members spread across five locations, including the US and the UK. He has 25 years of experience in corporate finance across industries and has worked in various sectors, such as textiles, electronics and auto ancillaries. He was associated with the RPG Group for more than 19 years.

Source: Company

Companies mentioned

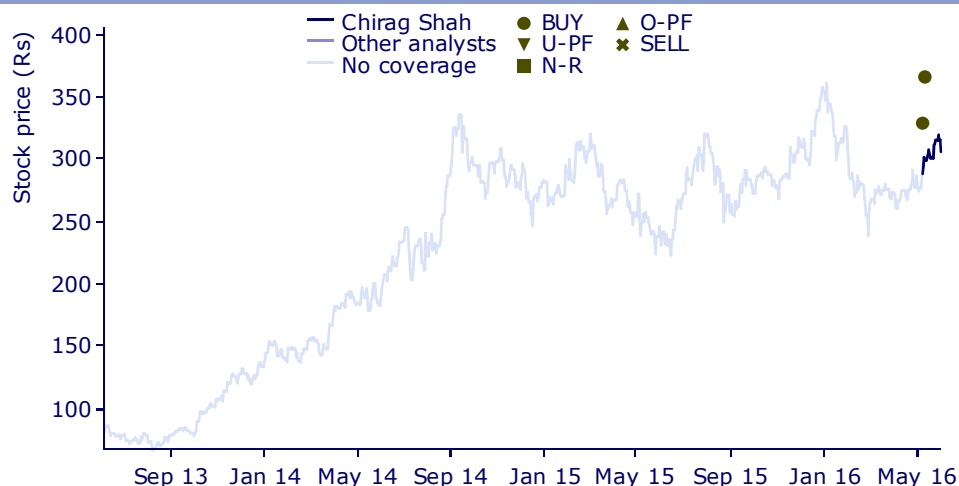
Welspun India (N-R)
 Alok Industries (N-R)
 Arvind (ARVND IN - RS306.0 - BUY)
 Bed Bath & Beyond (N-R)
 Himat Seide (N-R)
 Indo Count (N-R)
 JC Penney (N-R)
 Macy's (N-R)
 RPG Life Scien (N-R)
 Trident (N-R)
 Vardhman (N-R)
 Wal-Mart Stores (N-R)
 Welspun Global Brands (N-R)
 N-R = not rated

Analyst certification

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Important disclosures

Recommendation history of Arvind Ltd ARVND IN



Date	Rec	Target	Date	Rec	Target
13 May 2016	BUY	366.00	10 May 2016	BUY	329.00

Source: CLSA

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In the case of US stocks, the recommendation is relative to the expected return for the S&P500 of 10%. Exceptions may be made depending upon prevailing market conditions. We define as "Double Baggers" stocks we expect to yield 100% or more (including dividends) within three years at the time the stocks are introduced to our "Double Bagger" list. "High Conviction" Ideas are not necessarily stocks with the most upside/downside, but those where the Research Head/Strategist believes there is the highest likelihood of positive/negative returns. The list for each market is monitored weekly.

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There are no numbers for Hold/Neutral as CLSA/CLSA Americas/CA Taiwan do not have such investment rankings.

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