

Q2FY2016 Result Update

Welspun India Ltd



Wealth Research

Benefit of new capacities to flow in FY2017E

Long Term Buy

Welspun India Ltd. (Welspun) for Q2FY2016 reported results lower than consensus estimates. Revenue grew at just 4% YoY to ₹1,472 crore, on account of high base and capacity constraints. EBITDA margins expanded by 300bps YoY to 25.4% benefiting from vertical integration, low raw material cost and increase in innovative and branded product portfolio. Net profit grew 33% YoY to ₹172 crore. The management in its post result conference call has maintained revenue guidance of mid-teens for FY2016E. Welspun is in the process of expanding its manufacturing facilities to cater to the increasing demand of its products. The capacity would increase by 20% in the towel segment during H2FY2016 and by 20% in the sheets segment in Q3FY2016.

Recommendation: Owing to the high base and capacity constraints, the company's performance over the next 2 quarter could remain subdued. We expect benefit of new capacities to flow in FY2017E. Welspun aims to change its exports to domestic sales mix from 95:5 currently to 70:30 by 2020. Further, focus on innovative products, domestic business and higher branded sales would help improve realizations and drive business growth over the next few years. Hence, investors with a long term (more than one year) horizon can Buy the stock. We value the company at 6.0x Sept'17 EV/EBITDA, giving a target price of ₹990.

Q2FY2016 Consolidated Financial Summary

Y/E Mar (₹ Cr.)	Q2FY16	Q2FY15	YoY (%)	Q1FY16	QoQ (%)
Revenue	1,472	1,414	4.2	1,388	6.0
EBITDA	374	317	18.1	360	4.0
Margin (%)	25.40	22.42	300bps	25.92	-90bps
PAT	172	130	32.7	163	5.6
EPS (₹)	17.16	12.93		16.24	

Source: Company, Centrum Wealth Research

Better vertical integration and product mix help margin expansion: During Q2FY2016, Welspun's EBITDA margin expanded by 300bps YoY to 25.4%. EBITDA margin expansion was on account of better vertical integration, low raw material cost and higher contribution from innovative and branded products. Welspun enjoys benefits of low cost funds under TUFs from Central Government along with other benefits from the Gujarat State Government, this led to a 30% YoY decline in finance costs for the quarter.

Focus on branding: Welspun has been focusing on its branded products portfolio. The company has gone global with its 'Christy' brand and has witnessed good demand in China and Middle East. It has increased penetration of 'Spaces' and 'Welhome' through shop-in-shop and e-commerce portal. Welspun plans to expand 'Spaces' into the SAARC and Middle East regions, going forward. The management is targeting to increase the contribution of branded sales to revenue from the current level of 11% to 25-30% by 2020.

Capacity expansion to aid long term growth: The company incurred a capex of ₹450 crore during H1FY2016 and plans to invest another ₹850 crore over the next 12 months (funded mainly through internal accruals) for capacity expansion and modernisation. During Q2FY2016, Welspun continued to generate positive free cash flow on the back of better operating profit and reduction in working capital cycle. We anticipate net debt to equity to improve to 0.7x in FY2017E from 1.5x in FY2015.

Risk factors: Availability of raw material, rise in input costs, currency risk, government policies and trade barriers are some of the business risks.

Financial Summary - Consolidated

Y/E Mar (₹ Cr.)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj.PAT	YoY (%)	EPS (₹)	P/E (x)	EV/EBITDA (x)	RoE (%)
FY2014A*	4,373	19.9	921	21.1	428	88.3	42.57	17.7	10.9	40.7
FY2015A	5,303	21.3	1,274	24.0	540	26.2	53.73	14.0	7.6	42.5
FY2016E	6,088	14.8	1,552	25.5	666	23.3	66.27	11.4	6.2	39.7
FY2017E	7,124	17.0	1,781	25.0	793	19.2	78.98	9.5	5.3	36.0
FY2018E	8,403	17.9	2,092	24.9	989	24.7	98.49	7.6	4.3	34.9

Source: Company, Centrum Wealth Research; Note: * Normalised for one time depreciation charge of ₹496 crore - due to change in method.

Key Data

Current Market Price (₹)	753
Target Price (₹)	990
Potential upside	31.5%
Sector Relative to Market	In-line
Stock Relative to Sector	Outperform

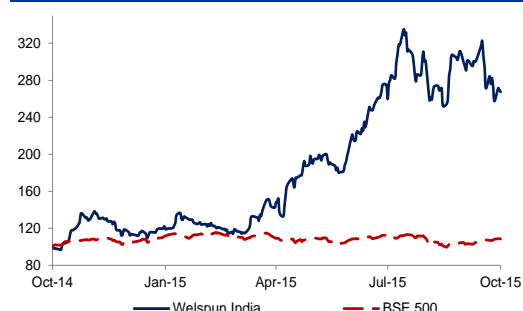
Stock Information

BSE Code	514162
NSE Code	WELSPUNIND
Face Value (₹/Share)	10.0
No. of shares (Cr.)	10.0
Market Cap (₹ Cr.)	7,565
Free float (₹ Cr.)	2,007
52 Week H / L (₹)	963 / 278
Avg. Daily turnover (12M, ₹ Cr.)	14.3

Shareholding Pattern (%)

	Jun-15	Jun-14
Promoters	73.5	73.4
FII	6.1	0.2
DII	4.7	5.9
Others	15.7	20.5

1 year Indexed Price Performance



Price Performance (%)

	1M	3M	6M	12M
WELSPUN INDIA	(10.5)	2.9	78.3	160.1
BSE 500	3.7	(2.4)	(0.5)	7.8

Source: Bloomberg, Centrum Wealth Research

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Exhibit 1: Consolidated Quarterly Performance

Y/E Mar (₹ Cr.)	Q2FY2015	Q3FY2015	Q4FY2015	Q1FY2016	Q2FY2016
Revenue	1,414	1,346	1,366	1,388	1,472
YoY Growth %	22.0	22.0	15.3	17.9	4.2
Cost of Raw Material	722	632	633	643	664
% of Sales	51.1	47.0	46.4	46.3	45.1
Personnel expenses	114	113	118	124	132
% of Sales	8.1	8.4	8.6	8.9	9.0
Other Exp.	260	260	270	262	302
% of Sales	18.4	19.3	19.8	18.9	20.5
EBIDTA	317	340	345	360	374
EBIDTA margin %	22.4	25.3	25.2	25.9	25.4
Depreciation	72	92	101	79	92
Interest	73	82	57	59	51
Other Income	19	15	29	28	20
PBT	191	181	216	249	251
Provision for tax	59	37	51	84	75
Effective tax rate %	30.9	20.3	23.5	33.7	29.8
Net Profit (Reported)	132	144	165	165	176
Minority Interest (MI)	2	1	4	2	4
PAT after MI	130	144	161	163	172
YoY Growth %	NM	31.1	97.4	55.4	32.7
PAT margin %	9.2	10.7	11.8	11.8	11.7

Source: Company, Centrum Wealth Research

Technical View on Welspun India Ltd

- Welspun India maintains a strong trading and medium term structure with a clearly defined higher high higher low setup, the scrip is currently trading near its moving average setup of 21 EMA which has not been violated on closing basis since the past many months.
- The oscillators that were overbought previously have also cooled off after the recent correction.
- The scrip can thus be accumulated near current levels for a likely further uptrend towards 915 in the coming 4 months for which 720 is an ideal stop loss based on its recent trend and moving average support.

Exhibit 2: Technical Chart

Source: Company, Centrum Wealth Research

Financial Summary – Consolidated

Income Statement

Y/E Mar (₹ Cr)	FY2014*	FY2015	FY2016E	FY2017E	FY2018E
Revenue	4,373	5,303	6,088	7,124	8,403
Growth %	19.9	21.3	14.8	17.0	17.9
Raw Material	2,267	2,544	2,861	3,384	4,008
% of Sales	51.8	48.0	47.0	47.5	47.7
Personnel expenses	340	446	499	584	689
% of Sales	7.8	8.4	8.2	8.2	8.2
Other Exp.	845	1,038	1,175	1,375	1,613
% of Sales	19.3	19.6	19.3	19.3	19.2
EBIDTA	921	1,274	1,552	1,781	2,092
EBIDTA margin %	21.1	24.0	25.5	25.0	24.9
Depreciation	190	333	375	407	439
Interest	235	283	273	278	268
Other Income	104	95	104	107	114
Exceptional Gain/(loss)	(496)	-	-	-	-
PBT	104	753	1,009	1,202	1,499
Provision for tax	20	209	343	409	510
Effective tax rate %	19.2	27.7	34.0	34.0	34.0
Net Profit (Reported)	84	544	666	793	989
Minority Interest	(8)	4	-	-	-
Exceptional Items Adj.	(336)	-	-	-	-
Adj. PAT	428	540	666	793	989
Growth %	88.3	26.2	23.3	19.2	24.7
PAT margin %	9.8	10.2	10.9	11.1	11.8

Source: Company, Centrum Wealth Research

Balance Sheet

Y/E Mar (₹ Cr)	FY2014*	FY2015	FY2016E	FY2017E	FY2018E
Share capital	100	100	100	100	100
Reserves & surplus	1,009	1,331	1,822	2,382	3,080
Shareholder's fund	1,110	1,432	1,923	2,483	3,180
Loan fund	2,814	2,598	2,748	2,648	2,548
Minority Interest	32	38	38	38	38
Deferred Tax Liabilities	43	64	64	64	64
Total cap. employed	3,999	4,132	4,772	5,232	5,830
Net fixed assets	2,561	2,783	2,808	2,800	2,761
Investments	111	142	142	142	142
Cash and bank	233	325	507	657	914
Inventories	1,009	1,101	1,318	1,503	1,888
Debtors	412	447	584	683	806
Loans and advances	842	897	1,023	1,211	1,428
Total current assets	2,496	2,770	3,431	4,054	5,036
Current lia. and prov.	1,169	1,564	1,608	1,764	2,109
Net current assets	1,327	1,206	1,823	2,290	2,927
Total assets	3,999	4,132	4,772	5,232	5,830

Source: Company, Centrum Wealth Research

Cash Flow

Y/E Mar (₹ Cr)	FY2014*	FY2015	FY2016E	FY2017E	FY2018E
Cash flow from Ops					
Net Profit Before Tax	600	753	1,009	1,202	1,499
Depreciation	190	333	375	407	439
Others	189	255	168	171	154
Change in working capital	(397)	(240)	(435)	(317)	(380)
Tax expenses	(31)	(177)	(343)	(409)	(510)
Cash flow from Ops	551	924	775	1,055	1,202
Cash flow from Invest					
Capex	(716)	(577)	(400)	(400)	(400)
Other investing activities	(251)	(30)	104	107	114
Cash flow from Invest	(967)	(607)	(296)	(293)	(286)
Cash flow from financing					
Proceeds from eq. & war.	(24)	102	-	-	-
Borrowings	725	(43)	150	(100)	(100)
Dividend paid	(24)	(71)	(175)	(233)	(292)
Interest paid	(258)	(298)	(273)	(278)	(268)
Cash flow from financing	420	(310)	(298)	(611)	(659)
Net Cash Flow	4	7	181	151	257

Source: Company, Centrum Wealth Research

Key Ratios

Y/E Mar	FY2014*	FY2015	FY2016E	FY2017E	FY2018E
Return ratios (%)					
RoE	40.7	42.5	39.7	36.0	34.9
RoCE	23.4	25.5	28.8	29.6	31.9
Turnover Ratios (days)					
Inventory	76.4	72.6	72.5	72.3	73.6
Debtors	28.7	29.5	30.9	32.5	32.3
Creditors	46.2	44.9	45.5	45.1	45.3
Fixed asset turnover (x)	1.4	1.3	1.3	1.4	1.5
Solvency Ratio (x)					
Net Debt-Equity	2.3	1.5	1.1	0.7	0.5
Interest coverage	3.5	3.7	4.7	5.3	6.6
Per share (₹)					
Adj. EPS	42.6	53.7	66.3	79.0	98.5
BVPS	110.5	142.5	191.4	247.1	316.5
CEPS	61.5	86.9	103.6	119.5	142.2
Dividend Ratios					
DPS (₹)	3.6	10.5	15.0	20.0	25.0
Dividend Yield (%)	0.5	1.4	2.0	2.7	3.3
Dividend Payout (%)	9.6	23.5	26.3	29.4	29.5
Valuation (x)					
P/E	17.7	14.0	11.4	9.5	7.6
P/BV	6.8	5.3	3.9	3.0	2.4
EV/EBIDTA	10.9	7.6	6.2	5.3	4.3
EV/Sales	2.3	1.8	1.6	1.3	1.1

Source: Company, Centrum Wealth Research

* FY2014 figures are normalized for one time depreciation charge of ₹496 crore, due to change in depreciation policy from straight line method to reducing balance method.

Appendix

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