

July 28, 2016

Q1FY17 Result Update

Welspun India Ltd

Business growth momentum to sustain

Buy

Welspun India Ltd (Welspun) for Q1FY17 on a consolidated basis reported good numbers. Revenue grew 14% YoY to ₹1,593 crore, on the back of higher volumes (up 10% YoY) along with higher share of branded and innovative products. EBITDA margins continued to show a stable trend and expanded by 19bps to 26.5%. Net profit grew 10% to ₹202 crore. At present, Welspun's towel and sheets capacity utilization stands at 90% and that of rugs is at 72%. With an aim to strengthen its presence, the company is focusing on innovative products (35% of sales), domestic market (~5%), higher branded sales (14%) and new channels: healthcare, hospitality and e-commerce (5%). We believe this would help improve realisations and drive business growth over the next few years.

Recommendation: During the quarter, Welspun's revenue growth of 14% and EBITDA margins of 26%, were in-line with our expectation and management guidance. Net profit growth of 10% was in-line with our expectation owing to the increase in depreciation expense factored in post capacity addition. We believe, the market might have thought this to be lower than the ~20% growth in the last few quarters leading to the negative reaction on the result day. The management in its post result conference call has maintained its revenue guidance of mid-teens and EBITDA margin guidance of 22-24%. Currently, Welspun is trading at 5.8x its FY18E EV/EBITDA. The company has been performing consistently and enjoys healthy financials (EBITDA margins of ~22-24% and RoEs of ~40%). Given this, along with in-line results we maintain our estimates and positive outlook on the company. We recommend Buy with a target price of ₹130, valuing it at 7x its FY18E EV/EBITDA.

Q1FY17 Consolidated Result Summary

Y/E Mar (₹ Cr.)	Q1FY17	Q1FY16	YoY (%)	Q4FY16	QoQ (%)
Revenue	1,593	1,393	14.3	1,629	(2.3)
EBITDA	422	367	15.1	433	(2.3)
Margin (%)	26.5	26.3	19bps	26.6	-2bps
PAT	202	183	10.3	199	1.2
EPS (₹)	2.01	1.82		1.98	

Source: Company, Centrum Wealth Research

Stable EBITDA margins on the back of better product mix: Improving share of branded (from 34% to 35% of sales) and innovative products (from 13% to 14%) and better vertical integration has helped Welspun sustain its EBITDA margins of ~25%. During the quarter, the increase in cotton prices (~31%) has not impacted the EBITDA margins. 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 41% YoY decline in finance costs for the quarter.

Generating positive free cash flow despite capex: During FY17, Welspun plans to incur a capex of ₹800 crore. Of this ₹140 crore has been incurred during Q1FY17. Despite this, Welspun has been generating free cash flows which we believe will lead to decline in net debt/equity to 0.6x in FY18E from 2.3x in FY14.

Risk factors: 1) Availability of raw material, 2) rise in input costs, 3) currency risk, 4) government policies, 5) trade barriers are some of the business risks.

Financial Summary - Consolidated

Y/E Mar (₹ Cr.)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj.PAT	YoY (%)	A.EPS (₹)	P/E (x)	EV/EBITDA (x)	RoE (%)
FY14A*	4,373	19.9	921	21.1	428	88.3	4.26	24.6	14.2	40.7
FY15A	5,303	21.3	1,274	24.0	540	26.2	5.37	19.5	9.9	42.5
FY16P	5,937	12.0	1,590	26.8	740	37.1	7.37	14.2	8.1	43.3
FY17E	6,882	15.9	1,817	26.4	829	12.0	8.25	12.7	7.1	37.0
FY18E	8,095	17.6	2,161	26.7	1,034	24.8	10.29	10.2	5.8	36.6

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 (₹)	105
Target Price (₹)	130
Potential upside	24.2%
Sector Relative to Market	In-line
Stock Relative to Sector	Outperform

Stock Information

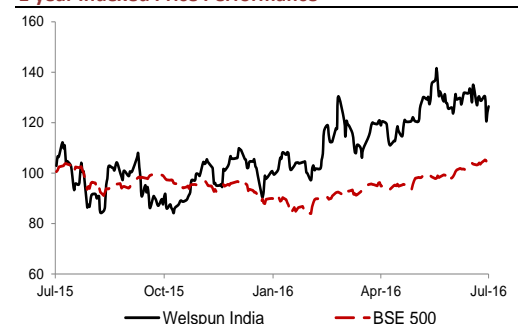
BSE Code	514162
NSE Code	WELSPUNIND
Face Value (₹/Share)	1.0
No. of shares (Cr.)	100.5
Market Cap (₹ Cr.)	10,540
Free float (₹ Cr.)	2,795
52 Week H / L (₹)	120 / 67
Avg. Daily turnover (12M, ₹ Cr.)	18.2

Shareholding Pattern (%)*

	Jun-16	Jun-15
Promoters	73.5	73.5
Mutual Funds	2.2	4.3
FPIs	13.6	6.1
Others including Public	10.7	16.1

*Note: As per the new format reported to exchanges

1 year Indexed Price Performance



Price Performance (%)

	1M	3M	6M	12M
WELSPUN	2.2	6.2	25.7	24.5
BSE 500	7.0	11.2	17.4	5.5

Source: Bloomberg, Centrum Wealth Research

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Exhibit 1: Consolidated Quarterly Performance

Y/E Mar (₹ Cr.)	Q1FY16*	Q2FY16	Q3FY16	Q4FY16*	Q1FY17*
Revenue	1,393	1,472	1,490	1,629	1,593
YoY Growth %	18.3	4.2	10.7	19.3	14.3
Raw Materials	650	664	622	734	724
% of sales	46.7	45.1	41.7	45.0	45.5
Personnel Expenses	124	132	142	138	154
% of sales	8.9	9.0	9.5	8.5	9.7
Other Expenses	252	302	326	325	292
% of sales	18.1	20.5	21.9	19.9	18.3
EBIDTA	367	374	401	433	422
EBIDTA margin %	26.3	25.4	26.9	26.6	26.5
Depreciation	78	92	100	104	112
Interest	59	51	59	67	35
Other Income	29	20	17	28	19
PBT	258	251	259	290	294
Provision for tax	73	75	81	87	85
Effective tax rate %	28.3	29.8	31.4	30.0	29.0
Net Profit	185	176	177	203	209
Minority Interest (MI)	2	4	3	4	7
Net Profit after MI	183	172	174	199	202
YoY Growth %	74.4	32.7	21.3	23.5	10.3
PAT margin %	13.1	11.7	11.7	12.2	12.7

Source: Company, Centrum Wealth Research, *as per the new Indian accounting standard

Technical View on Welspun India Ltd

- Welspun India is on a trading leg down after a strong multi month uptrend.
- The candlestick in the past two weeks trading has been short term bearish which has brought the stock lower to important support levels. Demand is expected to increase within 100-93 range but the overall trading setup is also suggesting cautiousness should be exercised in the coming weeks.
- While short term trading positions can be initiated with stop loss below 92 for a target of 115, in case of a breach of 92, a further leg down towards 80 is likely to get triggered.

Exhibit 2: Technical Chart

Source: Company, Centrum Wealth Research

Financials - Consolidated

Income Statement

Y/E Mar (₹ Cr)	FY14*	FY15	FY16P	FY17E	FY18E
Revenue	4,373	5,303	5,937	6,882	8,095
<i>Growth %</i>	<i>19.9</i>	<i>21.3</i>	<i>12.0</i>	<i>15.9</i>	<i>17.6</i>
Raw Materials	2,267	2,544	2,659	3,097	3,635
<i>% of sales</i>	<i>51.8</i>	<i>48.0</i>	<i>44.8</i>	<i>45.0</i>	<i>44.9</i>
Personnel Expenses	340	446	536	626	737
<i>% of sales</i>	<i>7.8</i>	<i>8.4</i>	<i>9.0</i>	<i>9.1</i>	<i>9.1</i>
Other Expenses	845	1,038	1,152	1,342	1,562
<i>% of sales</i>	<i>19.3</i>	<i>19.6</i>	<i>19.4</i>	<i>19.5</i>	<i>19.3</i>
EBIDTA	921	1,274	1,590	1,817	2,161
EBIDTA margin %	21.1	24.0	26.8	26.4	26.7
Depreciation	190	333	372	444	489
Interest	235	283	237	218	213
Other Income	104	95	95	100	107
Exceptional Gain/(loss)	(496)	-	-	-	-
PBT	104	753	1,076	1,255	1,566
Provision for tax	20	209	324	427	532
<i>Effective tax rate %</i>	<i>19.2</i>	<i>27.7</i>	<i>30.1</i>	<i>34.0</i>	<i>34.0</i>
Net Profit	84	544	753	829	1,034
Minority Interest	(8)	4	13	-	-
Exceptional Item (Adj)	(336)	-	-	-	-
Adj. Net Profit	428	540	740	829	1,034
<i>Growth %</i>	<i>88.3</i>	<i>26.2</i>	<i>37.1</i>	<i>12.0</i>	<i>24.8</i>
PAT margin %	9.8	10.2	12.5	12.0	12.8

Source: Company, Centrum Wealth Research

As per the new Indian accounting standard

Balance Sheet

Y/E Mar (₹ Cr)	FY14*	FY15	FY16P	FY17E	FY18E
Share capital	100	100	100	100	100
Reserves & surplus	1,009	1,331	1,887	2,395	3,049
Shareholder's fund	1,110	1,432	1,988	2,495	3,149
Loan fund	2,814	2,598	2,561	2,561	2,461
Minority Interest	32	38	50	50	50
Deferred Tax Liab.	43	64	118	118	118
Total cap. employed	3,999	4,132	4,717	5,224	5,778
Net fixed assets	2,561	2,783	3,521	3,694	3,606
Investments	111	142	56	56	56
Cash and bank	233	325	124	102	363
Inventories	1,009	1,101	1,105	1,452	1,819
Debtors	412	447	611	660	776
Loans and advances	842	897	809	1,032	1,376
Total current assets	2,496	2,770	2,650	3,246	4,334
Current lia. and prov.	1,169	1,564	1,511	1,773	2,218
Net current assets	1,327	1,206	1,139	1,474	2,116
Total assets	3,999	4,132	4,717	5,224	5,778

Source: Company, Centrum Wealth Research

Cash Flow

Y/E Mar (₹ Cr)	FY14*	FY15	FY16P	FY17E	FY18E
Net Profit Before Tax	600	753	1,076	1,255	1,566
Depreciation	190	333	372	444	489
Others	189	255	205	118	107
Change in working capital	(397)	(225)	275	(357)	(382)
Tax expenses	(31)	(177)	(239)	(427)	(532)
Cash flow from Ops	551	939	1,689	1,034	1,247
Capex	(716)	(577)	(1,055)	(617)	(400)
Other investing activities	(251)	(30)	254	100	107
Cash flow from Invest	(967)	(607)	(801)	(517)	(293)
Proceeds from Eq./Deb.	(24)	102	120	-	-
Borrowings/(Repayments)	725	(43)	(564)	-	(100)
Dividend paid	(24)	(71)	(244)	(195)	(254)
Interest paid	(258)	(313)	(257)	(218)	(213)
Cash flow from financing	420	(325)	(945)	(413)	(567)
Net Cash Flow	4	7	(58)	103	387

Source: Company, Centrum Wealth Research

Key Ratios

Y/E Mar	FY14*	FY15	FY16P	FY17E	FY18E
Return ratios (%)					
RoE	40.7	42.5	43.3	37.0	36.6
RoCE	23.4	25.5	29.7	29.6	32.3
Turnover Ratios (days)					
Inventory	76.4	72.6	67.8	67.8	73.7
Debtors	28.7	29.5	32.5	33.7	32.4
Creditors	46.2	44.9	52.2	51.7	49.8
Fixed asset turnover (x)	1.4	1.3	1.2	1.2	1.2
Solvency Ratio (x)					
Net Debt-Equity	2.3	1.5	1.2	1.0	0.6
Interest coverage	3.5	3.7	5.5	6.8	8.3
Per share (₹)					
Adj. EPS	4.3	5.4	7.4	8.2	10.3
BVPS	11.0	14.3	19.8	24.8	31.3
CEPS	6.2	8.7	11.1	12.7	15.2
Dividend Ratios					
DPS (₹)	0.4	1.0	1.3	2.8	3.3
Dividend Yield (%)	0.3	1.0	1.3	2.6	3.1
Dividend Payout (%)	9.6	23.5	21.8	38.7	36.7
Valuation (x)					
P/E	24.6	19.5	14.2	12.7	10.2
P/BV	9.5	7.4	5.3	4.2	3.3
EV/EBIDTA	14.2	9.9	8.1	7.1	5.8
EV/Sales	3.0	2.4	2.2	1.9	1.6

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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