

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

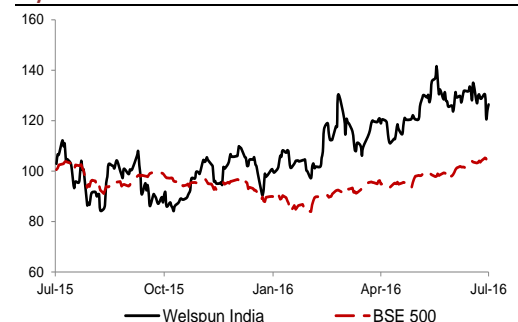
| | |
|----------------------------------|------------|
| BSE Code | 514162 |
| NSE Code | WELSPUNIND |
| Face Value (₹/Share) | 1.0 |
| No. of shares (Cr.) | 100.5 |
| Market Cap (₹ Cr.) | 10,540 |
| Free float (₹ Cr.) | 2,795 |
| 52 Week H / L (₹) | 120 / 67 |
| Avg. Daily turnover (12M, ₹ Cr.) | 18.2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

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

Mrinalini Chetty, Research Analyst
Siddhartha Khemka, Sr. VP Research

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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