

WELSPUN INDIA

Best year ever; more expected ahead

India Equity Research | Textiles

Welspun India's (WLSI) Q4FY15 revenues came in 4% above estimate and up 15% YoY at INR13.7bn driven by strong volume growth particularly in sheets. Continuing on its record performance in Q3FY15, EBITDA margin for Q4FY15 was also maintained at 25%+ driven by increased backward integration and better product mix. PAT grew by 97% YoY to INR1.6bn helped further by lower interest cost. Welspun has been able to deliver growth without increasing its leverage. We Maintain 'BUY' with a revised target price of INR586 (INR472 earlier).

Strong volume growth continues, outlook for sheets strongest

Overall production grew by est. 5% YoY in Q4FY15 with growth in the sheeting/bed linen segment being the highest. Welspun has managed to maintain a very strong run rate in capacity utilization over the last year. The utilization in the towel and also in the bed linen segment now stands at an est. 100%+. With capacity being augmented in the coming year, the growth momentum should continue. Management has guided for 8% volume growth in towels and 25% in sheets.

Focus on lowering debt; interest cost to come down

Despite the INR12bn capex which has been done, gross debt has increased by only INR558mn whereas net debt has fallen over the last year. Its Gross debt/Equity has fallen from 2.7x in FY14 to 2.1x at present. Even with another 12bn capex to be completed for expanding capacities, the company plans to keep paying off debt. Infact, it also plans to pay-off the high cost non TUFS loan (~40% of total) and replace it with low cost debt which should lead to a significant fall in interest cost going ahead. The company has gone ahead and also announced a dividend policy to pay 25% of its profits every year which is testament of its confidence in generating adequate cash flows.

Outlook and valuations: Focus on growth and debt; maintain 'BUY'

Welspun India has had an exceptional year driven by strong volume growth and increased backward integration. The company has also started focusing on its branded business and taken various initiatives to increase its contribution. It has delivered on its promise of strong growth and expanded capacity by controlling debt. Keeping this in mind we increase our EV/EBITDA multiple to 5.5x (5.0x earlier) and revise our target price to INR586 (earlier INR472). Maintain 'BUY'.

Financials	(INR mn)							
Year to March	Q4FY15	Q4FY14	YoY	Q3FY15	QoQ	FY15	FY16E	FY17E
Net Revenues	13,658	11,850	15.3	13,459	1.5	53,025	64,143	67,424
EBITDA	3,446	2,204	56.3	3,400	1.3	12,742	14,750	15,414
Adjusted Profit	1,614	818	97.4	1,436	12.4	5,398	6,014	6,708
Adjusted Diluted EPS	16.1	8.1	97.2	14.3	12.4	53.7	59.9	66.8
Diluted P/E (x)						8.9	8.0	7.2
EV/EBITDA (x)						5.6	5.1	4.6
ROAE (%)						41.7	34.6	29.4

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: WLSP.BO, B: WLSI IN)

CMP	: INR 474
Target Price	: INR 586
52-week range (INR)	: 493 / 117
Share in issue (mn)	: 100.5
M cap (INR bn/USD mn)	: 48 / 749
Avg. Daily Vol. BSE/NSE ('000)	: 195.1

SHARE HOLDING PATTERN (%)

	Current	Q3FY15	Q2FY15
Promoters *	73.3	73.3	73.3
MF's, FI's & BKs	5.5	5.5	6.1
FII's	2.2	2.2	1.7
Others	18.9	18.9	18.9
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(0.7)	25.9	26.5
3 months	(3.4)	17.9	21.3
12 months	39.8	241.2	201.4

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Welspun India - Investor / Analyst Conference 2015 key takeaways:

- **FY15 highlights:**
 - Company reported its highest ever annual sales and profit in FY15.
 - Was no.1 in the home textile player in the US for 3rd consecutive year.
 - Company has started receiving the Gujarat state interest benefit, post this they expect the interest run rate to be INR700mn/Quarter.
 - TUFs loans are 60% of total debt. Future plans are to pay down other high cost debt.
 - Dividend Policy announced: 25% payout of PAT
 - Share of sale of innovative products in FY15: 31%
 - Conversion cycle fell from 67 days to 59 days in FY15

- **Category utilization and growth**

Table 1: FY15 capacity utilization

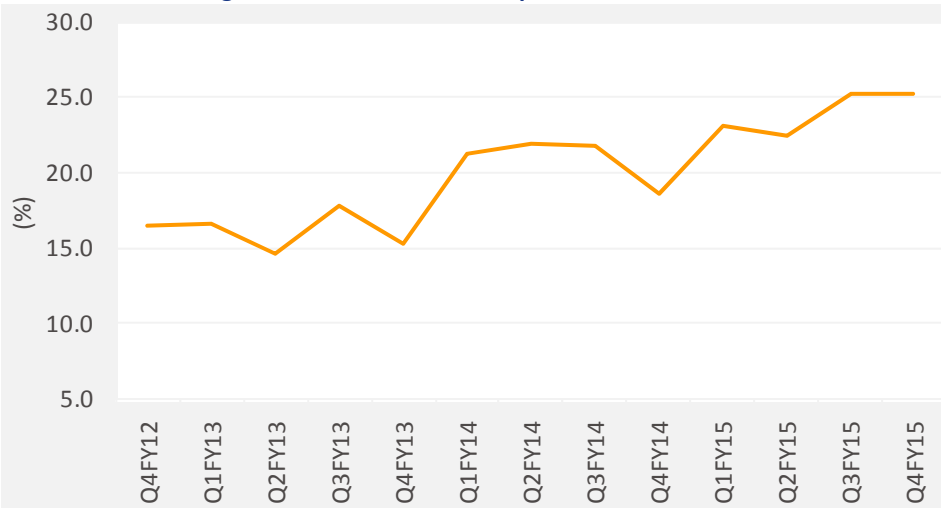
Category	FY15 utilization
Towel	102%
Sheet	97%
Rugs	58%

Source: Company

- **Brand expansion:**
 - Brands contributed 11% of total sales. Spaces brand grew by 30% YoY. Focus will also be increased on the branded segment (Key one's):
 1. Launched brand 'Spun' globally
 2. Launched Christy stores in China
 3. Launched Hygro cotton in US, to spend USD5mn on its promotion
- **Guidance:**
 - EBITDA Margin guidance of 22% maintained.
 - FY16 expected volume growth:
 1. Towels: 8%
 2. Sheets: 25%

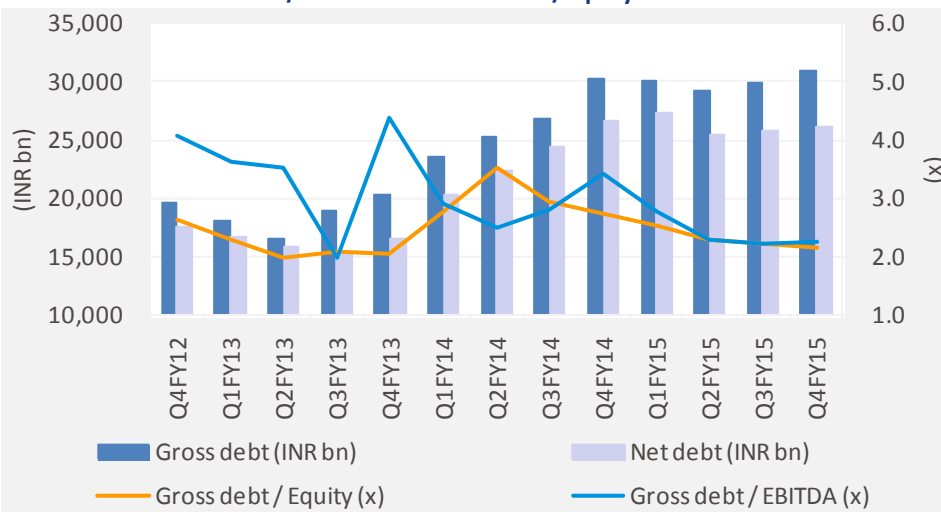
Margin improvement driven by increased backward integration and better product mix.

Chart 1: EBITDA margins at +25% levels for 2nd quarter in a row



Company's focus on debt reduction is visible

Chart 2: Stable Gross Debt/EBITDA and Gross debt/Equity levels



Source: Edelweiss research

Company Description

Established in 1985, Welspun India today, it is one of the top three home textile manufacturers globally and the largest home textile company in Asia. It has modern manufacturing facilities at Anjar and Vapi in Gujarat where it produces an entire range of home textiles for bed & bath category. The company has state-of-the-art completely vertically integrated plants, right from spinning to confectioning.

Welspun has been ranked No.1 among home textile suppliers in the US (Source: Home Textile Today). It has a distribution network in over 32 countries including US, UK, Europe, Canada and Australia.

In addition to manufacturing facilities, which predominantly supply to private labels, the company also maintains its own brands Christy, Hygrocotton, Welhome and Spaces - Home and Beyond; it also has a tie up with Nautica for North American markets.

Investment Theme

Innovation, diversified client and product base cement dominance: Welspun enjoys long standing relationships with top retailers in the US and Europe and supplies to 14 of the top 30 global retailers. It commands a lion's share of home textiles exported out of India. Increasing geographical and client diversification is improving the company's risk metrics. It has seven trademarks and has applied for six patents till date. Welspun derives ~30% of sales from innovative products.

Capex underway to bolster already formidable capacity: The company is undertaking a major capex programme to enhance its cost base, lending it pricing power and opportunities to increase market share globally. This will propel vertical integration to ~75% (~35% currently). The capex is being funded by low-cost subsidised debt, which will increase capacity without substantial interest burden.

Returns: High capacity utilisation and increased backward integration will drive 364bps expansion in EBITDA margin over FY14-16E. Similarly, RoEs are likely to maintain upward trend and cross the 35% mark in FY16E (890bps expansion over FY13-16E).

Key Risks

Raw material risk: Raw material costs, primarily cotton yarn, account for 50% of the overall expenses and are a prime driver of profitability. Volatility in cotton prices can impact the profitability adversely.

Leveraged balance sheet: Welspun ended FY14 with a net debt/equity of 2.5x. It is in the midst of a capex programme with a remaining outlay of INR12bn. This is likely to keep leverage levels high in the future and may pressurise profitability.

Currency fluctuations: Welspun exports more than 90% of its production. With a network spanning 50 countries, the company is exposed to currency fluctuations which can significantly impact profitability.

Financial Statements

Key Assumptions

Year to March	FY14	FY15E	FY16E	FY17E
Macro				
GDP(Y-o-Y %)	6.9	7.4	8.0	8.7
Inflation (Avg)	9.5	6.7	5.0	5.0
Repo rate (exit rate)	8.0	7.5	6.8	6.5
USD/INR (Avg)	60.5	61.0	62.0	62.0
Company				
Terry towel capacity (MT)	45,000	50,000	60,000	60,000
Bed Linen capacity (000 Mts)	55,000	60,000	72,000	72,000
Rugs/carpets capacity (MT)	12,000	15,000	20,000	20,000
Terry towel capacity utilisation (%)	99	102	90	93
Bed linen capacity utilisation (%)	89	97	88	90
Rugs/carpets capacity utilisation (%)	68	58	60	65
Raw Material Cost as % Net Revenue	50.4	48.0	45.8	44.6
Other expenses as % of net revenues	21.5	19.6	23.1	23.7
Average Depreciation rate (%)	5.5	6.8	7.2	6.9
Dividend per share	3.0	10.5	7.0	8.0
Capex (INR mn)	7,186	5,229	9,316	3,059
Inventory as % of total costs (%)	44.5	43.3	44.0	44.0
Receivables as % of net revenues (%)	9.2	8.4	9.0	9.0
Other current assets as % of net revenues (%)	6.8	2.8	7.0	7.0
Loans and advances as % of net revenues (%)	12.0	14.1	12.0	12.0
Incremental debt (INR mn)	8,939	(2,313)	2,480	(2,343)

Income statement

(INR mn)

Year to March	FY14	FY15	FY16E	FY17E
Net revenue	44,954	53,025	64,143	67,424
Materials costs	22,673	25,443	29,390	30,059
Gross profit	22,281	27,582	34,753	37,365
Employee costs	3,400	4,460	5,182	5,947
Other Expenses	9,670	10,380	14,822	16,003
EBITDA	9,211	12,742	14,750	15,414
Depreciation & Amortization	6,863	3,329	3,675	3,973
EBIT	2,348	9,412	11,075	11,441
Add: Other income	1,042	949	896	931
Less: Interest Expense	2,352	2,829	3,189	2,540
Profit Before Tax	1,037	7,533	8,781	9,832
Less: Provision for Tax	199	2,090	2,810	3,146
Less: Minority Interest	(82)	45	(42)	(22)
Reported Profit	921	5,398	6,014	6,708
Adjusted Profit	921	5,398	6,014	6,708
Adjusted Basic EPS	9.2	53.7	59.9	66.8
No. of Diluted shares outstanding	100	100	100	100
Adjusted Diluted EPS	9.2	53.7	59.9	66.8
Adjusted Cash EPS	63.0	88.9	106.1	117.1
Dividend per share (DPS)	3.0	10.5	7.0	8.0
Dividend Payout Ratio (%)	38.3	13.4	13.7	14.0

Common size metrics

Year to March	FY14	FY15	FY16E	FY17E
Operating expenses	79.5	76.0	77.0	77.1
Materials costs	50.4	48.0	45.8	44.6
Staff costs	7.6	8.4	8.1	8.8
S G & A expenses	21.5	19.6	23.1	23.7
Depreciation	15.3	6.3	5.7	5.9
Interest Expense	5.2	5.3	5.0	3.8
EBITDA margins	20.5	24.0	23.0	22.9
Net Profit margins	1.9	10.3	9.3	9.9

Growth ratios (%)

Year to March	FY14	FY15	FY16E	FY17E
Revenues	23.3	18.0	21.0	5.1
EBITDA	54.9	38.3	15.8	4.5
PBT	(65.2)	626.3	16.6	12.0
Adjusted Profit	(59.5)	486.3	11.4	11.5
EPS	(59.6)	485.6	11.4	11.5

Balance sheet		(INR mn)			
As on 31st March	FY14	FY15	FY16E	FY17E	
Share capital	1,003	1,005	1,005	1,005	
Reserves & Surplus	10,093	13,314	18,505	24,273	
Shareholders' funds	11,096	14,318	19,510	25,277	
Minority Interest	316	378	336	313	
Short term borrowings	13,498	12,034	13,452	11,416	
Long term borrowings	16,795	15,946	17,008	16,701	
Total Borrowings	30,293	27,980	30,460	28,117	
Long Term Liabilities & Provisions	1,553	1,020	6,220	2,283	
Deferred Tax Liability (net)	434	641	1,607	2,688	
Sources of funds	43,693	44,338	58,133	58,678	
Gross Block	34,049	-	53,294	56,462	
Net Block	18,395	25,049	30,965	30,162	
Capital work in progress	5,324	1,000	727	619	
Intangible Assets	1,890	1,785	1,793	1,801	
Total Fixed Assets	25,609	27,834	33,485	32,581	
Non current investments	473	15	500	500	
Cash and cash equivalents	2,974	4,657	4,383	5,205	
Inventories	10,094	11,006	12,932	13,226	
Sundry Debtors	4,117	4,467	5,773	6,068	
Loans & Advances	5,376	7,474	7,697	8,091	
Other Current Assets	3,041	1,500	4,490	4,720	
Total Current Assets (ex cash)	22,628	24,447	30,892	32,105	
Trade payable	6,144	6,910	8,397	8,842	
Other Current Liabilities & Short	1,846	5,705	2,731	2,871	
Total Current Liabilities &	7,990	12,615	11,128	11,712	
Net Current Assets (ex cash)	14,638	11,831	19,764	20,393	
Uses of funds	43,693	44,338	58,133	58,678	
Book Value per share (INR)	110.6	142.5	194.2	251.6	

Free cash flow		(INR mn)			
Year to March	FY14	FY15	FY16E	FY17E	
Reported Profit	921	5,398	6,014	6,708	
Add: Depreciation	6,863	3,329	3,675	3,973	
Interest (Net of Tax)	1,576	2,044	2,169	1,727	
Others	(5,130)	8,962	(4,036)	(4,714)	
Less: Changes in WC	(4,203)	2,124	(4,732)	(4,566)	
Operating cash flow	5,281	13,521	8,216	8,806	
Less: Capex	7,186	5,229	9,316	3,059	
Free Cash Flow	(1,905)	8,292	(1,100)	5,746	

Cash flow metrics				
Year to March	FY14	FY15	FY16E	FY17E
Operating cash flow	5,281	13,521	8,216	8,806
Investing cash flow	(9,671)	(4,619)	(8,915)	(2,138)
Financing cash flow	4,429	(6,181)	425	(5,847)
Net cash Flow	39	2,721	(274)	821
Capex	(7,186)	(5,229)	(9,316)	(3,059)
Dividend paid	(238)	(705)	(823)	(940)

Profitability and efficiency ratios				
Year to March	FY14	FY15	FY16E	FY17E
Return on Average Equity (ROAE)	7.8	41.7	34.6	29.4
Pre-tax Return on Capital	9.4	24.6	25.7	23.8
Inventory Days	121	151	115	121
Debtors Days	28	30	29	32
Payable Days	89	94	95	105
Cash Conversion Cycle	60	87	49	49
Current Ratio	3.2	2.3	3.2	3.2
Gross Debt/EBITDA	3.3	2.2	2.1	1.8
Gross Debt/Equity	2.7	1.9	1.5	1.1
Adjusted Debt/Equity	2.7	1.9	1.5	1.1
Net Debt/Equity	2.4	1.6	1.3	0.9
Interest Coverage Ratio	1.0	3.3	3.5	4.5

Operating ratios				
Year to March	FY14	FY15	FY16E	FY17E
Total Asset Turnover	1.2	1.2	1.3	1.2
Fixed Asset Turnover	2.3	2.3	2.2	2.1
Equity Turnover	4.2	4.1	3.7	3.0

Valuation parameters				
Year to March	FY14	FY15	FY16E	FY17E
Adjusted Diluted EPS (INR)	9.2	53.7	59.9	66.8
Y-o-Y growth (%)	(59.6)	485.6	11.4	11.5
CEPS (INR)	63.0	88.9	106.1	117.1
Diluted P/E (x)	52.3	8.8	7.9	7.1
P/BV (x)	4.3	3.3	2.4	1.9
EV/Sales (x)	1.7	1.3	1.2	1.1
EV/EBITDA (x)	8.2	5.6	5.0	4.6
Dividend yield (%)	0.6	2.2	1.5	1.7

Additional Data

Directors Data

Mr. B K Goenka	Chairman	Mr. R. R. Mandawewala	Managing Director
Ms. Dipali Goenka	Executive Director	Mr. A. K. Dasgupta	Independent Director
Mr. Arun Todarwal	Independent Director	Mr. Ram Gopal Sharma	Independent Director
Mr. Ajay Sharma	Nominee Director	Mr. Arvind Kumar Singhal	Additional Director

Auditors -

**as per last available data*

Holding – Top10

	Perc. Holding		Perc. Holding
Krishiraj trading It	73.49	Welspun infratech It	2.74
Reliance capital ass	2.72	Goldman sachs asset	1.82
Max new york life in	1.16	Prudential icici ass	0.98
Welspun finance ltd	0.54	Birla sun life insur	0.38
Bnp paribas asset ma	0.26	Dimensional fund adv	0.2

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
19 Mar 2015	Krishiraj Trading Limited	Buy	185000.00
15 May 2014	KRISHIRAJ TRADING LIMITED	Buy	66179.00

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Textiles

Arvind, Himatsingka Seide, Welspun India

Recent Research

Date	Company	Title	Price (INR)	Recos
13-Feb-15	Himatsingka Seide	North America turnaround awaited; <i>Result Update</i>	89	Buy
05-Feb-15	Arvind	Good show, but another muted quarter ahead; <i>Result Update</i>	288	Hold
31-Jan-15	Welspun India	Backward integration takes it forward;	383	Buy

Distribution of Ratings / Market Cap

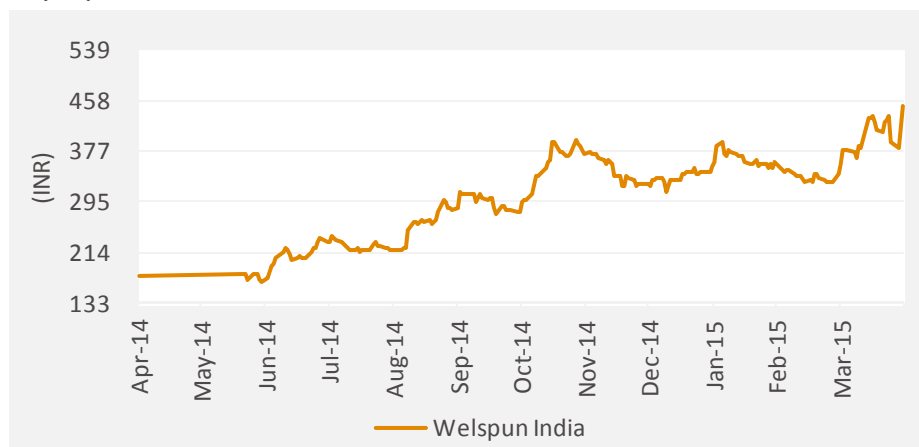
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	155	45	8	208
* stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	151	54	3	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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