

In line operating performance

- Welspun India, home textile player exporting largely to US, saw 14% 1Q sales growth with underlying volumes up 10%. Ebitda growth (15%) and in turn EPS growth (13%) was broadly in line with estimates.
- Management expects double-digit sales growth despite some weakness seen in the market, given strong relationship with retailers and healthy demand for product innovations such as Hygro.
- Further despite the sharp 30-40% increase in cotton prices seen over the last few months, Welspun remains confident of maintaining Ebitda margins as it passes on some of the input cost rise and gains from increasing share of sales of high margin products such as Hygro.
- Welspun expects the government to increase export incentives in the near term, aiding margins.
- Multiple growth tailwinds (entry into hospitality, healthcare channels, smart textiles category, rising share of innovative products) should drive 14% EPS Cagr over FY16-19.
- Further, ROCE should expand 300bps over FY16-19 as capex is largely in processing and maintenance (cRs8bn in FY17). Trading at 12x FY18 EPS; we maintain BUY (TP: Rs130 at 14x Jun-18 EPS).

Result update

	Rs100	Price performance (%)			
		1M	3M	1Y	
CMP	130 (30%)				
12-mth TP (Rs)	130 (30%)				
Market cap (US\$ m)	1,495	Absolute (Rs)	(3.9)	0.1	24.5
Enterprise value(US\$m)	1,868	Absolute (US\$)	(2.9)	0.0	18.5
Bloomberg	WLSI IN	Rel. to Sensex	(9.9)	(7.5)	24.9
Sector	Textiles	Cagr (%)		3 yrs	5 yrs
Shareholding pattern (%)		EPS		45.4	165.0
Promoter	73.5	Stock performance			
FII	13.6	52Wk High/Low (Rs)			120/67
DII	2.3	Shares o/s (m)			1005
Others	10.6	Daily volume (US\$ m)			2
		Dividend yield FY17ii (%)			1.4
		Free float (%)			26.5

Financial summary (Rs m)

Y/e 31 Mar, Consolidated	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16*	1QFY17*	2QFY17ii	FY16	FY17ii	FY18ii
Gross margin	48.9	53.0	53.6	53.3	54.9	58.3	55.0	54.5	55.3	55.2	55.2	54.6
Employee costs as % of sales	8.1	8.4	8.6	8.9	9.0	9.5	8.5	9.7	8.8	9.0	9.2	9.2
Revenues (Rs m)	14,135	13,459	13,658	13,885	14,723	14,904	16,294	15,926	17,078	59,795	67,615	76,463
% change	22.0	22.0	15.3	21.1	4.2	10.7	NA	NA	16.0	12.8	13.1	13.1
Ebitda (Rs m)	3,169	3,400	3,446	3,598	3,743	4,006	4,326	4,225	4,552	15,575	17,585	18,876
Ebitda Margins (%)	22.4	25.3	25.2	25.9	25.4	26.9	26.6	26.5	26.7	26.0	26.0	24.7
Interest expense (Rs m)	(731)	(816)	(569)	(593)	(515)	(592)	(668)	(353)	(555)	(2,362)	(2,053)	(1,773)
Effective tax rate (%)	30.9	20.3	23.5	33.7	29.8	31.4	30.0	29.0	31.0	31.1	31.1	31.1
Reported PAT (Rs m)	1,299	1,436	1,614	1,632	1,724	1,741	1,994	2,019	2,120	7,029	8,097	8,718
Pre-exceptional PAT (Rs m)	1,299	1,436	1,614	1,632	1,724	1,741	1,994	2,019	2,120	7,029	8,097	8,718
% change	(168.7)	31.1	97.4	55.4	32.7	21.3	NA	NA	23.0	30.2	15.2	7.7

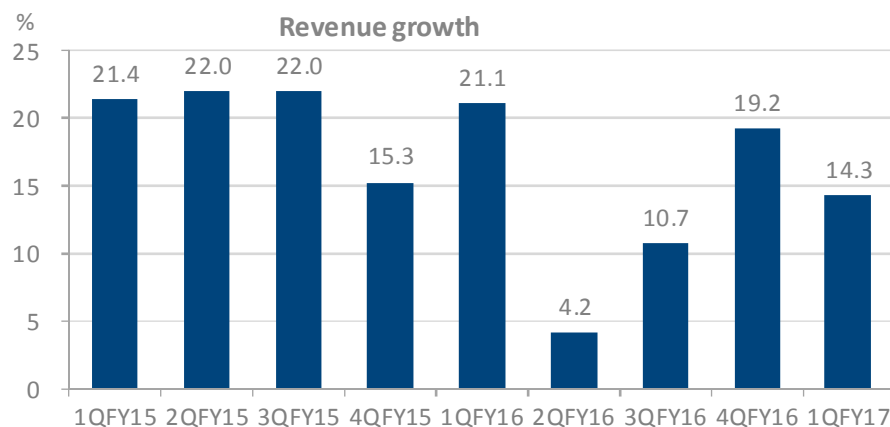
Source: Company, IIFL Research. Priced as on 26 July 2016. * represents reporting as per Ind AS

Key takeaways from the conference call

Expect double digit revenue growth going forward

- Welspun remains confident of maintaining double digit revenue growth trajectory on back of growth across new categories such as fashion bedding, new geographies such as Europe, Japan and India, and new channels such as hospitality and health care.
- Welspun is working with major retailers in Europe and despite 8-9% duty disadvantage vs. Bangladesh and Vietnam has seen 24-25% growth in this segment.
- In Japan, it estimates two more years of business development before gaining a sizeable scale.
- The Indian market continues to grow 20%+ and management expects growth rates to improve going forward.

Figure 1: Revenue growth has recovered after a blip in 2QFY16



Source: Company, IIFL Research

Maintain conservative margin guidance to factor in GST impact

- The company has maintained its Ebitda margin guidance of 22-24% over the medium term.
- It expects margins to remain flattish despite the increase in cotton prices recently. Management believes that it can successfully

negotiate to pass on some of the higher prices to its clients. It also plans to improve upon its product specifications and reduce costs to maintain its Ebitda margins.

FY17 capex guidance at Rs8bn

- Management reiterated its FY17 capex guidance of Rs8bn.
- It intends to incur Rs3-4bn capex towards its capacity expansion in towels, sheets and rugs and Rs1.5bn capex on the carpets segment (still in research phase). The remaining capex is spill over capex from last year.

Figure 2: Capacity addition plans in FY17

Segment	Capacity in FY16	Planned Capacity in FY17	% increase in capacity
Towel	60,000	72,000	20%
Bed Linen	72m mts	90m mts	25%
Rugs/Carpets	8m sq mts	10m sq mts	25%

Source: Company, IIFL Research

Figure 3: With only 18% of planned capex incurred in 1QFY17, the company is likely to miss its annual capex guidance

Capex	1QFY16	1QFY17
Capex incurred (Rs bn)	2.2	1.4
As % of annual capex	21%	18%

Source: Company, IIFL Research

Ancillarization plans on track

- A spinning unit has already become operational under the ancillarization mode. It has a planned production capacity of 45tonnes yarn per day)
- Welspun is in discussion with eleven such players to become supporting ancillaries.
- Welspun believes that through this model, it would be save two-thirds of its capex incurred traditionally and intends to utilize its saved funds towards investing in front end capabilities such as design, distribution, etc.

- Management clarified that this model is not a bottleneck for capacity addition as it always has the option to source yarn and fabric from the open market in case the ancillarization units don't come up in time.

Others:

- Growth potential in the US hospitality and health care channels remains immense as Welspun sales from hospitality channel at USD25-30m (vs market size of USD1.5bn across both these segments). Welspun is in business development phase in its healthcare segment.
- Working capital increased in 1QFY17 primarily due to decline in payables driving by maturing of payables.
- Gross debt has increased as the company has availed term loans to meet capex requirements.
- The government recently increased duty drawback rates for apparels by 5% and the company is confident of getting similar benefits in the home textiles space as well.

Figure 4: Earlier grants were recognized on payment, under Ind-AS they need to be recognized based on depreciation and hence are front-ended

Ind AS impact on profit	1QFY16	4QFY16	FY16
Net profit as per Indian GAAP	1,650	1,968	7,153
Add			
Effect of change in method of recognizing grants	87	89	353
Deferred tax impact on Ind AS adjustments	111	(46)	(13)
Others	1	19	33
Net profit as per Ind AS	1,849	2,029	7,525
% impact	12.0	3.1	5.2
Other comprehensive income, net of income tax	(107)	265	66
Total comprehensive income as per Ind AS	1,742	2,295	7,591

Source: Company, IIFL Research

Figure 5: Sharp reduction in payables resulted in increase in working capital

	FY14	FY15	FY16	1QFY17
Inventory Days	84	76	69	64
Debtor Days	34	31	36	34
Payable Days	51	48	62	45
Total working capital days	67	59	43	53

Source: Company, IIFL Research

Figure 6: Net debt level has remained stable

Rs mn	FY14	FY15	FY16	1QFY17
Gross Debt	30,293	30,851	26,661	30,911
Net Debt	26,635	26,554	25,275	25,731

Source: Company, IIFL Research

Welspun 1QFY17: In Line operating performance

Welspun India saw 14% sales growth with underlying volumes up 10% and 4% currency gains. Ebitda margin expansion was muted at 20bps as 120bps gross margin expansion was offset by higher employee costs and other expenses. Ebitda was up 15% driving 10% PAT growth. Excluding impact of Ind AS, profit growth stood at 15%, in-line with our estimates. Please note that 1Q financials are as per Ind-AS accounting standards and are not comparable to our estimates.

Figure 7: Welspun India reported an in-line performance in 1QFY17

Consolidated (Rs m)	1QFY16	1QFY17	% YoY
Net sales	12,456	13,865	11.3
Other op income	1,475	2,061	39.7
Total income	13,931	15,926	14.3
Total expenses	(10,262)	(11,701)	14.0
Ebitda	3,669	4,225	15.1
Ebitda margin (%)	26.3	26.5	19bps
Depreciation	(785)	(1,121)	42.9
Interest	(593)	(353)	-40.5
Other income	286	189	-33.9
PBT	2,577	2,940	14.1
Tax	(729)	(853)	17.1
% tax rate	28.3	29.0	74bps
Adjusted PAT	1,849	2,087	12.9
PAT margin (%)	13.3	13.1	-17bps
Minority Interest	(18)	(68)	271.2
Reported PAT	1,830	2,019	10.3

Source: Company, IIFL Research

Figure 8: Gross margin expanded 120bps

Consolidated Cost details	1QFY16	1QFY17	% YoY
RM	6,500	7,240	11.4
As % of sales	46.7	45.5	-120bps
Staff costs	1,239	1,539	24.2
As % of sales	8.9	9.7	77bps
Power & fuel	328	335	1.9
As % of sales	2.4	2.1	-26bps
Other expenditure	2,195	2,587	17.9
As % of sales	15.8	16.2	49bps

Source: Company, IIFL Research

Figure 9: Standalone 1QFY17

Standalone (Rs m)	1QFY16	1QFY17	% YoY
Net sales	11,254	12,979	15.3
Other op income	694	884	27.3
Total income	11,948	13,863	16.0
Total expenses	(8,529)	(10,305)	20.8
Ebitda	3,420	3,558	4.1
Ebitda margin (%)	28.6	25.7	-295bps
Depreciation	(671)	(1,025)	52.7
Interest	(368)	(184)	-50.1
Other income	301	193	-36.0
PBT	2,681	2,543	-5.2
Tax	(801)	(722)	-9.8
% tax rate	29.9	28.4	-146bps
Adjusted PAT	1,881	1,821	-3.2
PAT margin (%)	15.7	13.1	-261bps
Reported PAT	1,881	1,821	-3.2

Source: Company, IIFL Research

Figure 10: Standalone 1QFY17 cost details

Standalone Cost details	1QFY16	1QFY16	% YoY
RM	5,049	6,139	21.6
As % of sales	42	44	203bps
Staff costs	928.8	1,148.3	23.6
As % of sales	8	8	51bps
Power & fuel	933.5	1,067.9	14.4
As % of sales	8	8	-11bps
Other expenditure	1,617.3	1,949.0	20.5
As % of sales	14	14	52bps

Source: Company, IIFL Research

Valuation summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Revenues (Rs m)	53,025	59,795	67,615	76,463	86,953
Ebitda margins (%)	24.0	26.0	26.0	24.7	24.8
Pre-exceptional PAT (Rs m)	5,398	7,029	8,097	8,718	10,416
Reported PAT (Rs m)	5,398	7,029	8,097	8,718	10,416
Pre-exceptional EPS (Rs)	5.4	7.0	8.1	8.7	10.4
Growth (%)	26.9	30.2	15.2	7.7	19.5
IIFL vs consensus (%)			(3.6)	(11.4)	(4.0)
PER (x)	18.6	14.3	12.4	11.5	9.7
ROE (%)	42.5	41.1	35.1	29.3	27.9
Net debt/equity (x)	1.8	1.2	0.9	0.5	0.3
EV/Ebitda (x)	10.0	8.1	7.1	6.3	5.3
Price/book (x)	7.0	5.1	3.8	3.0	2.4

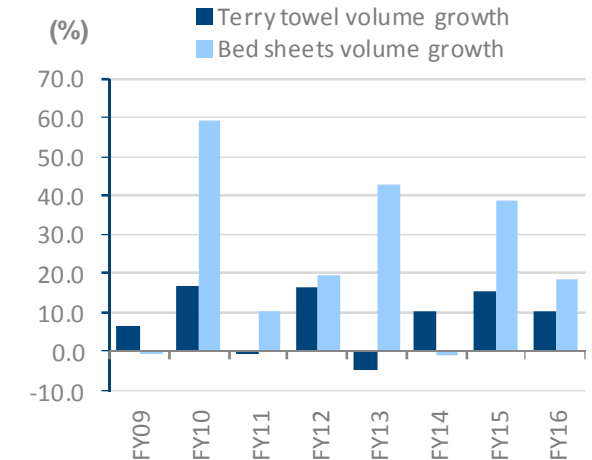
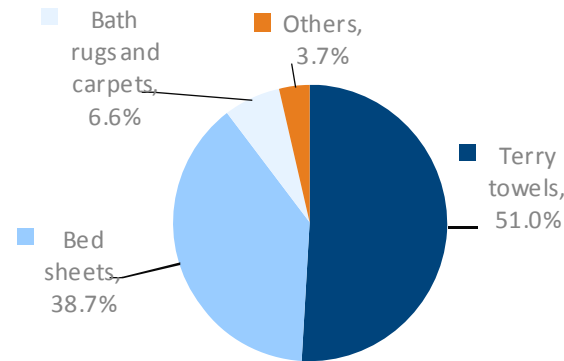
Source: Company data, IIFL Research

Background: Welspun India is India's leading exporter of home textiles with presence in bed-sheets, terry towels and rugs and carpets. The company was established as Welspun Winilon Silk Mills Pvt. Ltd in 1985, which subsequently became Welspun India in 1993. It is the largest exporter of towels and second largest exporter of bed-sheets and pillowcases to the US. Exports account for c95% of the company's sales with contribution from US alone at 65%. The company also has retail brands such as Spaces and Christy and c26 patents for its innovations.

Management

Name	Designation
B K Goenka	Chairman
Dipali Goenka	CEO and joint MD
Rajesh Mandawewala	Managing Director

FY16 Revenue mix

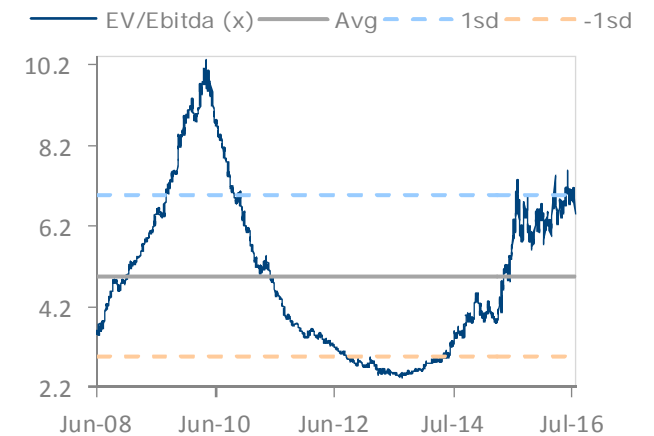


Assumptions

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Terry towel volume growth	15.1	10.0	7.9	8.4	8.9
Bed sheet volume growth	22.0	14.2	12.3	12.0	12.3
Bath rugs and carpets volume growth	5.5	33.2	9.8	10.4	10.8
Tax rate (%)	27.7	31.1	31.1	31.1	31.1
Capex (Rs bn)	5.2	10.5	8.1	5.1	7.1

Source: Company data, IIFL Research

EV/Ebitda



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Revenues	53,025	59,795	67,615	76,463	86,953
Ebitda	12,742	15,575	17,585	18,876	21,566
Depreciation and amortisation	(3,329)	(3,750)	(4,497)	(5,043)	(5,512)
Ebit	9,412	11,825	13,088	13,832	16,055
Non-operating income	949	915	911	807	612
Financial expense	(2,829)	(2,362)	(2,053)	(1,773)	(1,293)
PBT	7,533	10,378	11,946	12,866	15,374
Exceptionals	0	0	0	0	0
Reported PBT	7,533	10,378	11,946	12,866	15,374
Tax expense	(2,090)	(3,224)	(3,712)	(3,997)	(4,777)
PAT	5,443	7,153	8,234	8,868	10,597
Minorities, Associates etc.	(45)	(125)	(137)	(151)	(181)
Attributable PAT	5,398	7,029	8,097	8,718	10,416

Ratio analysis

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Per share data (Rs)					
Pre-exceptional EPS	5.4	7.0	8.1	8.7	10.4
DPS	10.5	1.3	1.4	1.5	1.7
BVPS	14.3	19.8	26.2	33.0	41.3
Growth ratios (%)					
Revenues	21.3	12.8	13.1	13.1	13.7
Ebitda	38.3	22.2	12.9	7.3	14.3
EPS	26.9	30.2	15.2	7.7	19.5
Profitability ratios (%)					
Ebitda margin	24.0	26.0	26.0	24.7	24.8
Ebit margin	17.8	19.8	19.4	18.1	18.5
Tax rate	27.7	31.1	31.1	31.1	31.1
Net profit margin	10.3	12.0	12.2	11.6	12.2
Return ratios (%)					
ROE	42.5	41.1	35.1	29.3	27.9
ROCE	23.5	27.1	27.7	27.2	30.0
Solvency ratios (x)					
Net debt-equity	1.8	1.2	0.9	0.5	0.3
Net debt to Ebitda	2.0	1.6	1.3	1.0	0.6
Interest coverage	3.3	5.0	6.4	7.8	12.4

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Cash & cash equivalents	4,766	1,855	1,474	1,175	(396)
Inventories	11,006	11,046	12,491	14,126	16,064
Receivables	4,467	6,114	5,743	6,494	7,385
Other current assets	8,874	8,027	9,077	10,265	11,673
Creditors	6,910	10,080	9,262	10,474	11,911
Other current liabilities	3,855	4,222	5,381	5,985	6,799
Net current assets	18,348	12,741	14,141	15,601	16,016
Fixed assets	26,049	33,435	37,074	37,167	38,792
Intangibles	1,785	1,775	1,775	1,775	1,775
Investments	6	19	19	19	19
Other long-term assets	0	0	0	0	0
Total net assets	46,188	47,970	53,010	54,562	56,602
Borrowings	30,851	26,412	24,912	19,412	12,912
Other long-term liabilities	1,019	1,681	1,818	1,969	2,150
Shareholders' equity	14,318	19,877	26,279	33,181	41,539
Total liabilities	46,188	47,970	53,010	54,562	56,602

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Ebit	9,412	11,825	13,088	13,832	16,055
Tax paid	(1,767)	(2,393)	(3,712)	(3,997)	(4,777)
Depreciation and amortization	3,329	3,750	4,497	5,043	5,512
Net working capital change	(2,252)	2,754	(3,416)	(1,879)	(2,228)
Other operating items	668	602	0	0	0
Operating cash flow before interest	9,391	16,538	10,457	12,999	14,561
Financial expense	(3,127)	(2,573)	(2,053)	(1,773)	(1,293)
Non-operating income	237	430	911	807	612
Operating cash flow after interest	6,501	14,394	9,315	12,032	13,881
Capital expenditure	(5,672)	(10,480)	(8,136)	(5,136)	(7,136)
Long-term investments	(362)	925	0	0	0
Others	773	(870)	1,634	121	242
Free cash flow	1,240	3,970	2,813	7,017	6,987
Equity raising	4	0	0	0	0
Borrowings	568	(4,438)	(1,500)	(5,500)	(6,500)
Dividend	(711)	(2,443)	(1,695)	(1,816)	(2,058)
Net chg in cash and equivalents	1,100	(2,911)	(381)	(298)	(1,571)

Source: Company data, IIFL Research

Disclosure : Published in 2016, © India Infoline Ltd 2016

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We submit that no material disciplinary action has been taken on IIL by any regulatory authority impacting Equity Research Analysis.

A graph of daily closing prices of securities is available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp>, www.bseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the “three years” period in the price chart).

Name, Qualification and Certification of Research Analyst: Avi Mehta(PGDBM), Sameer Gupta(PGPM)

India Infoline Limited (Formerly “India Infoline Distribution Company Limited”), CIN No.: U99999MH1996PLC132983, Corporate Office – IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai – 400013 Tel: (91-22) 4249 9000 .Fax: (91-22) 40609049, Regd. Office – IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane – 400604 Tel: (91-22) 25806650. Fax: (91-22) 25806654 E-mail: mail@indiainfoline.com Website: www.indiainfoline.com, Refer www.indiainfoline.com for detail of Associates.

National Stock Exchange of India Ltd. SEBI Regn. No. : INB231097537/ INF231097537/ INE231097537, Bombay Stock Exchange Ltd. SEBI Regn. No.: INB011097533/ INF011097533/ BSE-Currency, MCX Stock Exchange Ltd. SEBI Regn. No.: INB261097530/ INF261097530/ INE261097537, United Stock Exchange Ltd. SEBI Regn. No.: INE271097532, PMS SEBI Regn. No. INP000002213, IA SEBI Regn. No. INA000000623, SEBI RA Regn.:- INH000000248

Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

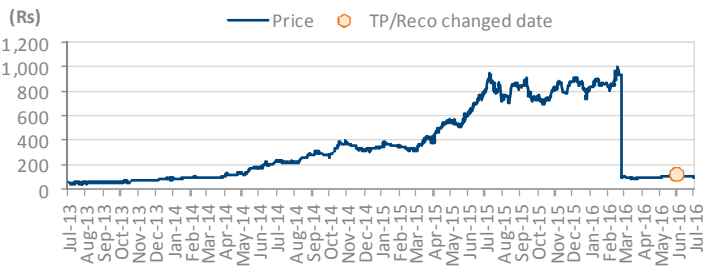
Add - Stock expected to give a return of 0-10% over the hurdle rate, i.e. a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, i.e. return of less than 10%.

Distribution of Ratings: Out of 198 stocks rated in the IIFL coverage universe, 115 have BUY ratings, 8 have SELL ratings, 54 have ADD ratings and 21 have REDUCE ratings.

Price Target: Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst’s views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company’s products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.

Welspun India: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
24 Jun 2016	106	130	BUY