



CMP	109	Rating	Unrated
Target	Unrated	Upside	Unrated

We recently met the management of Welspun India to help us understand about the current industry dynamics along with the current & future growth prospects of the company. During the meeting the management highlighted that India is one of the leading exporters of Textile and Home Textile products globally. India is the largest producer of cotton and enjoys an advantage over nations like China and Pakistan as it is a net exporter of cotton while the they are net importers of cotton. Moreover, India's textile industry is expected to grow at a much faster rate compared to global growth rates going ahead. The company has laid out its vision 2020 in which they aim to achieve revenues worth \$2bn, and be net cash positive, increase contribution of high margin branded and innovative products and increase revenue share from India to 20% (~9%) by 2020. The company will continue to focus on the US market along with improved focus on newer geographies like Europe, Japan, Africa and Australia. The company is already operating at high capacity utilizations for towels and sheets and plans to increase the capacity by 20% & 25% respectively to provide them with incremental growth opportunities. This could help them in maintaining volume growth of 10-15% in the coming years. Welspun enjoys the highest EBITDA margins among the home textile players in India and the added focus on branded and innovative products could help bring further improvement. However, the company always runs the risk of volatility in cotton prices and phasing out of govt benefits to the company could have a negative impact on margins going forth.

#### STOCK DETAILS

BSE Code	514162
NSE Code	WELSPUNIND
Market Cap (Rs.bn)	109.5
Sector	Textiles
Year End	March
52 w.High/Low	120/49
Avg Monthly Turnover (Rs.mn)	142
Shares in Issue (mn)	1,004.7
BSE Sensex	27627
NSE Nifty	8468

**About the company:** A Part of the US\$ 3bn Welspun Group, Welspun India Limited (WIL) is one of the world's largest home textile manufacturer. Welspun India is a fully integrated one-stop shop for home textiles. The product portfolio comprises of towels, bath robes, bath rugs/mats, area rugs, carpets, bed sheets, utility bedding and fashion bedding. With a distribution network in more than 50 countries and world class manufacturing facilities in India, it is the largest exporter of home textile products from India. They supply to 14 of Top 30 global retailers, including marquee clients like Bed Bath & Beyond, Costco, Kohl's, Target, Wal-Mart and Macy's to name a few. The company has brands like Christy, Kinsley Home, Crowning Touch, Spaces, Welhome, Amy Butler & Spun.

#### SHAREHOLDING PATTERN

%	Mar-16	Dec-15
Promoter	73.48	73.48
FII	12.74	9.61
DII	2.73	4.07
Others	11.05	12.84

#### CONSOLIDATED FINANCIALS

Rs Mn.	FY15	FY16	FY17E	FY18E
Revenue	53,025	59,795	68,910	78,863
EBIDTA	12,742	15,575	17,876	20,318
EBIDTA(%)	24.0%	26.0%	25.9%	25.8%
PAT	5,398	7,029	8,400	9,918
PAT(%)	10.2%	11.8%	12.2%	12.6%
EPS	5.4	7.0	8.4	9.9
P/E(x)	20.29	15.58	13.05	11.04

Source: Company, Bloomberg Consensus

#### Management Meet Key Takeaways:

**Industry tailwinds galore:** Globally, the textile and clothing industry size is estimated at \$797bn and has been growing at around 10% CAGR over the last 7 years and is expected to grow at ~5% p.a. over the next decade. Out of the total industry size, 60% is captured by clothing or apparel segment while the rest is from the textile segments. India has emerged as the third largest exporter of textiles and apparels in the World after China (37%) and EU (25%) with an overall market share of ~5%. At the country level, India has become the second largest exporter overtaking Germany and Italy but trailing China by a significant margin. In apparels, India is the fifth largest exporter with ~4% market share (behind China, EU, Turkey, Bangladesh and Vietnam) while in textiles, India's position is much stronger where it is the third largest exporter with a share of 6%. The India textile & apparel industry is expected to grow at ~10% CAGR over the next few years which will be much faster as compared to a 5% growth globally. This could take India's share in world exports to ~8% from the current level of ~5%.

The Home textile industry is pegged at \$45bn which is dominated by bath and bed products and brings about 60% of the total industry revenues. India's contribution to the home textile industry is at ~11% behind China with 35% share. The US home textile market is about \$7.5bn which is ~17% of the total home textile market where India's share stands at 31% just behind China with 39%. In terms of cotton textile products like Towels and Sheets India is the largest supplier globally with 38% share in towels and 48% share in sheets. Apart from the US, exports to Europe are growing at a good pace, despite a disadvantage in terms of import duty (9%) as compared to other exporters like Pakistan, Bangladesh and Turkey (Nil). If the proposed India - EU Free Trade Agreement (FTA) goes through then it will provide a strong push for textile exports from India to EU. Additionally, India has signed an FTA with Japan, Korea and the SAARC countries, which could be leveraged to increase Indian exports to these countries. Welspun being among the largest suppliers of home textile products gives them a huge opportunity to capitalize on these benefits going ahead.

**Global Market Leader in B2B cotton home textiles:** Welspun is the market leader in B2B cotton home textiles globally especially in products like towels and sheets. Welspun has become the leading suppliers to the top retailers in more than 50 countries. Welspun supplies to 14 out of the top 30 US retailers. India's share in supply of cotton towels globally stood at 38% out of which Welspun had a market share of 20.1% in CY15. India's share in cotton towels has increased by 2% points from CY13 to CY15 while Welspun's share has increase by 5.4% points over the same period. Similarly, India's share in supply of cotton sheets globally stood at 48% out of which Welspun had a market share of 11.3% in CY15. India's share in cotton sheets has increased by 1% point from CY13 to CY15 while Welspun's share has increase by 4% points over the same period. This trend shows that Welspun's products has increased their acceptance in the global markets and is well poised to continue on this upward trend as 80% of their revenues come from replenishments which augurs well for the company.

**Targets to achieve revenue of \$2bn by FY20:** Welspun's revenues have registered a growth of ~17% CAGR over a period FY12-FY16 primarily due to rapid market share gains on the US along with robust innovative product launches. The company has laid out Vision 2020 in which it plans to achieve revenues of \$2bn (~Rs.134bn) which indicates that the company could grow at ~22% CAGR over the period of FY16-FY20. Majority of this growth would come from the overseas markets where the company derives ~91% of their revenues. The company derives 2/3rd's of its revenues from the US where it has been able to grow its market share significantly in the past 5 years. Going ahead too, market share gains in the US would be the main drivers for achieving the targeted revenue growth. Apart from this, the company will also focus on newer export markets like UK, Europe, Japan, Africa and Australia for increasing their revenues in each of these geographies by increasing their penetration resulting in a higher market share. Additionally, the company also plans to increase its contribution from the Indian market to ~20% from current 9% which could give them incremental revenues. Welspun is currently operating close to full capacity in towels (92%) and sheets category (92%). It expects new capacities planned over FY17 should increase the capacity for towels by 20% to 72,000 MTPA and will increase the capacity for sheets by 25% to 90 million metres p.a. (MMPA) to help drive this incremental growth. The management has envisaged that the growth rates for FY17 & FY18 could be in the range of 10-15% YoY which will be primarily driven by volumes.

**Improving Innovative and Branded product revenues:** The company's own brands consists of Chirty's, Kingsley Home, Spaces, Welhome, Crowning Touch, Amy Butler and Spun. Spaces, Welhome and Spun are currently available in the India markets with marquee retailers like Shopper's Stop, Lifestyle, HomeTown & @Home. Chirty's and Kingsley Home are prominent brands in the UK market. Apart from this, the company has ~26 Patents (including currently filed) out of which it has carved an ingredient brand called Hygrocotton. Hygrocotton is made out of hollow core yarn that helps regulate the temperature of the fabric – keeping it cool in summers and warm in winters while the towels get loftier and absorbent after every wash. The Hygrocotton product range includes bed sheets, towels, rugs and comforters which generated a revenue of more than \$100 mn (~Rs6.7bn) in FY16 and represents ~11% of total revenues. Going ahead, the management believes that it could garner revenues close to \$150mn in FY17. The share of branded products to total sales has increased from 11% in FY15 to 13% in FY16 which was mainly due to Indian branded products sales growing by more than 40% YoY along with expansion of Christy into markets like China, Middle East and US. Going ahead, Welspun plans to achieve 25% of overall revenues through Branded products by FY20 through increased penetration of brands in nations apart from the US (including India).

The share of technology/innovative products consists of Hygrocotton, Flexifit, Softshield, Spotstop, Eversmooth, Drylon and Resilon. All these technologies are very unique from other products available in the market which has helped the company improve its contribution from 31% in FY15 to 34% in FY16 of total sales. The company expects these innovative products could garner close to 40% of overall revenues by FY20. All this implies that the blended revenue share from innovative and branded products could go up to 50% in FY20 from current 40%.

**Sustainable EBITDA margins at 23-24%:** Welspun India enjoys the highest EBITDA margins in home textile industry space which is mainly due to Economies of scale, vertical integration and better product mix. Welspun's EBITDA margins saw a huge jump of ~200bps to 26% (industry average ~20%) during FY16 vis a vis FY15, which was primarily due to higher proportion of revenues coming from branded and innovative products which derive higher margins. Expansion in margins was also assisted by the soft cotton prices during the year. Going ahead, the management has indicated that cotton prices have started to move upwards in the recent months and are expected to be in upward trend for the next 1-2 years, However, if cotton prices increase beyond 5% then it can be passed on to the clients based on their pass through clause. Additionally, the management also mentioned that certain govt incentives to the tune of 3% enjoyed by the company might fade away depending on the decision taken by the govt which could further impact margins. Hence, the company is aiming for sustainable EBITDA margins of 23-24% for the long term.

**Valuation and View:**

India is a significant contributor to the global home textile industry with 11% market share while it contributes 31% market share to the US home textile industry which captures ~17% of the total home textile market. India contributes 38% & 48% global market share in towels and sheets respectively out of which Welspun has 20% & 11.3% for towels and sheets respectively. All this has led to Welspun being the #1 home textile supplier in the US for the 4th consecutive year and the largest home textile company in Asia.

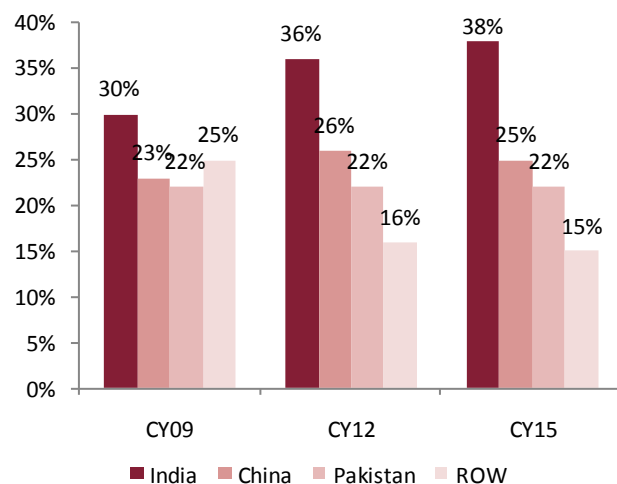
**At CMP of Rs.109 the stock is trading at 13x FY17E and 11x FY18E Bloomberg Consensus estimates. The one year forward industry average P/E stands at ~11.5x hence the stock seems to be trading on the higher side of the valuations. However, we believe that Welspun could command a higher multiple over the current industry average as the company is the largest exporter of home textiles from India and it enjoys the highest EBITDA margins in the industry. Moreover, the emphasis on increasing their Branded and Innovative product portfolio could bring some kind of positive momentum for their margins going ahead too. The company has a net debt of ~Rs.23.8bn which it aims to bring it down to Nil by 2020. Hence, we hold a Positive View on the stock, although most of the positives in the near term seem to be factored into the stock and one could look to enter into it post any corrections.**

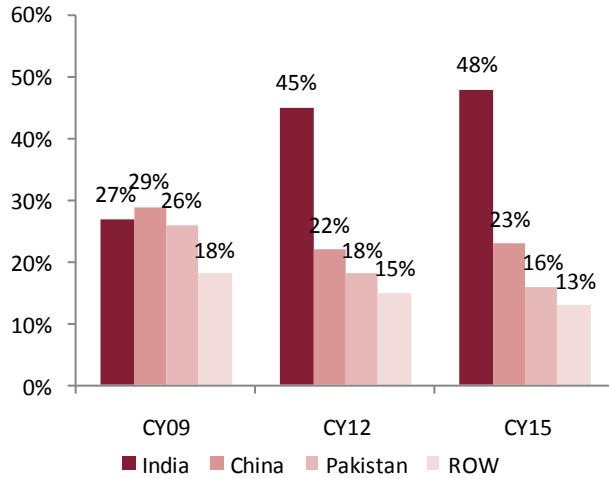
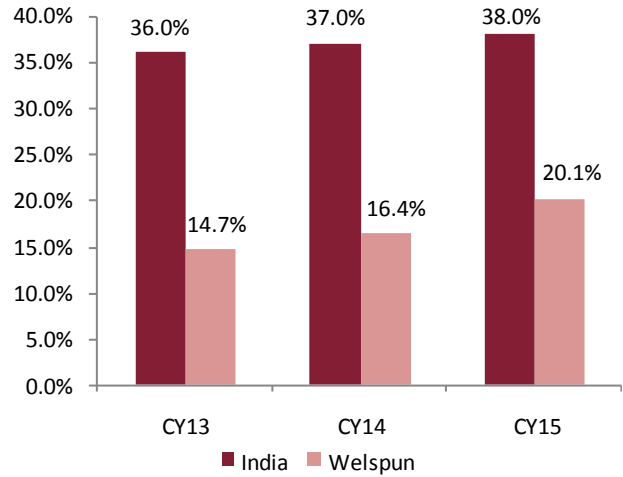
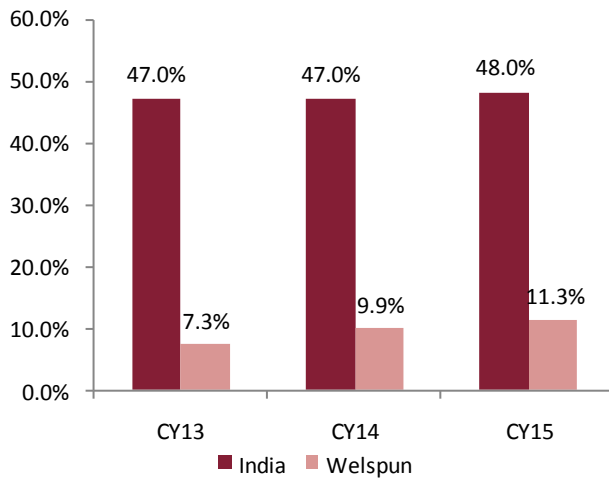
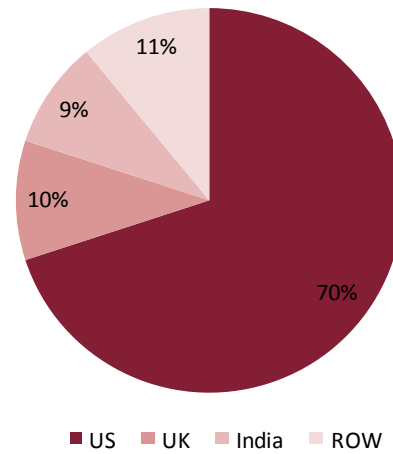
**Exhibit 1— India's Contribution to Textile Industry**

Industry	Market share
◆Textiles and Clothing ◆US\$797bn	China - 37% India - 5%
◆Textiles ◆US\$314bn	China - 36% India - 6%
◆Home Textiles ◆US\$45bn	China - 35% India - 11%
◆US Cotton Home Textiles ◆US\$7.5bn	China - 39% India - 31%

Source: Company presentation, Industry & Indsec Research

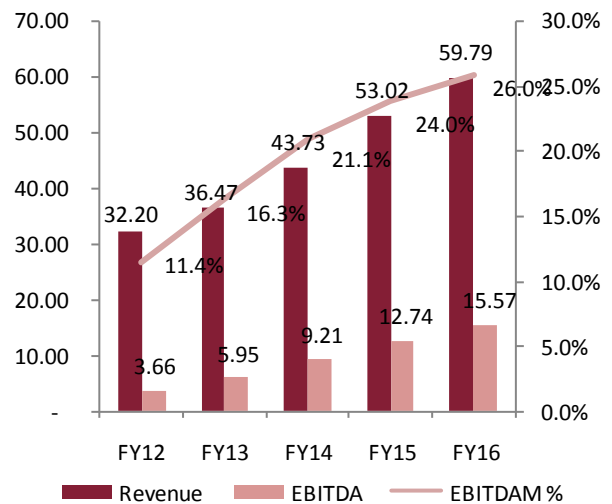
**Exhibit 2— Global share of India in cotton towels**



**Exhibit 3— Global share of India in cotton sheets**

**Exhibit 4— India vs Welspun market share for towels**

**Exhibit 5— India vs Welspun market share for sheets**

**Exhibit 6—Geographical revenue contribution for Welspun (FY16)**

**Exhibit 7— Welspun's Partnerships with Global Retailers**

USA	Europe	UK	India
Bed Bath & Beyond	Carrefour	ASDA	Shopper's Stop
Macy's	JYSK	Tesco	Lifestyle
J C Penney	Auchan	Sainsbury	HomeTown
Target	Kaufland	John Lewis	@Home
Kohl's	Rusta	House of Fraser	
Wal Mart		Debenhams	
Costco			
Home Depot			

Source: Company presentation, Industry & Indsec Research

**Exhibit 8— Revenue, EBITDA and Margins (In Rs. billion)**


## INDSEC Rating Distribution

**BUY** : Expected total return of over 25% within the next 12 months.

**ACCUMULATE** : Expected total return between 10 to 25% within the next 12 months.

**REDUCE** : Expected total return below 10% within the next 12 months.

**SELL** : Expected total return is below the market return within the next 12 months.

**NEUTRAL**: No investment opinion on the stock under review.

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