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Welspun India Ltd.

Road to recovery !!!

Stock Data	
52 Wk H / L	187.70/46.50
Bloomberg Code	WLSI IN
Reuters Code	WLSP.BO
Market Cap (Rs. bn)	17.1
Market Cap (USD mn)	285
Shares Outstanding (mn)	100
Free Float (%)	26.9%
3M avg. daily vol. ('000)	302.15
Shareholding Pattern (%)	
Promoters	73.1%
Institutions	10.9%
Public & Others	16.0%

Stock Performances				
(%) return	1m	3m	6m	12m
Absolute	31.6%	77.3%	141.1%	179.7%
Relative	47.4%	83.1%	142.4%	167.5%
Stock Information				
CMP				171
Target (1-yr)				293
Upside				72%
Recommendation				BUY

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What would create value?

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Business transformation - A quality play

Advantage India!

Road to Recovery !!!

	FY15E	FY16E		
PE	3.8x	2.9x	CMP	: Rs171
ROE	29.6%	28.7%	Reco	: Buy
			Target	: Rs293

Welspun – The home textiles giant

CapEx – Sowing the seeds for a rich harvest

Business transformation: A quality play

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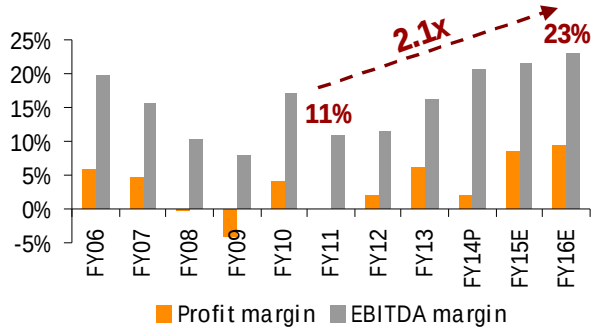
Trend in Welspun DuPont Analysis



Source: Company, Almondz Research

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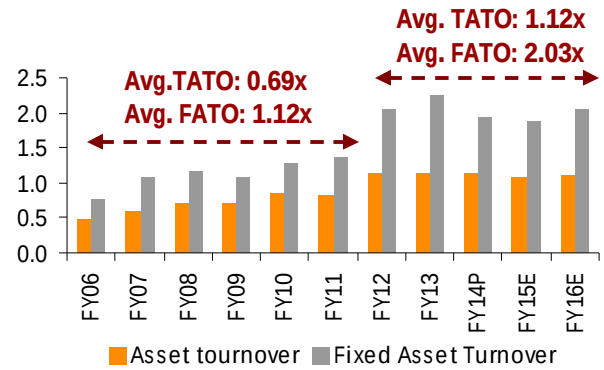

Source: Company, Almondz Research

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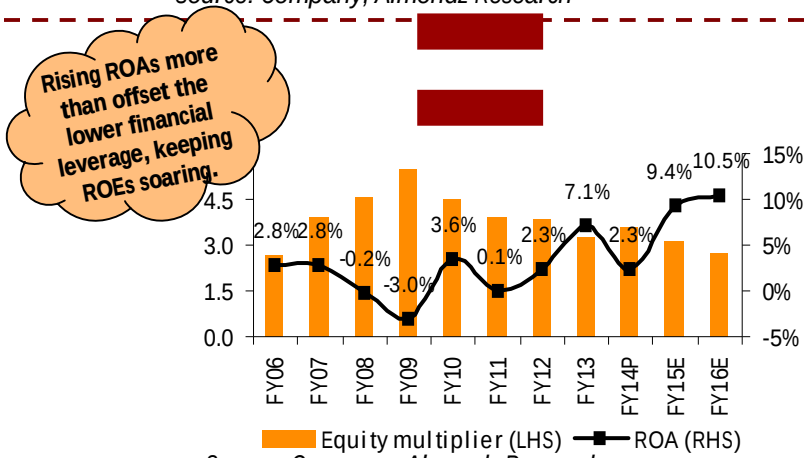

Source: Company, Almondz Research

Launching ROE into a higher orbit

- The backward integration and de-bottlenecking exercise set to be completed by 1HFY15 would help improve capital productivity and boost margins.
- Aided by the already completed reunification process of the marketing, distribution, and the manufacturing arms into a single entity back in FY12.
- Subsequently, raising PAT margins from 0.1% in FY11 to 9.5% FY16E.

DUPONT ANALYSIS

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14*	FY15E	FY16E
Profit margin	5.9%	4.7%	-0.3%	-4.2%	4.3%	0.1%	2.1%	6.2%	2.0%	8.6%	9.5%
Asset tournover	0.47	0.60	0.70	0.71	0.84	0.81	1.13	1.14	1.13	1.09	1.11
ROA	**2.8%**	**2.8%**	**-0.2%**	**-3.0%**	**3.6%**	**0.1%**	**2.3%**	**7.1%**	**2.3%**	**9.4%**	**10.5%**
Equity multiplier	2.69	3.91	4.54	5.51	4.52	3.88	3.84	3.24	3.58	3.16	2.73
RoE	**7.5%**	**11.1%**	**-0.9%**	**-16.4%**	**16.2%**	**0.2%**	**8.9%**	**23.0%**	**8.3%**	**29.6%**	**28.7%**

** FY14 profit margin and consequently, ROA and ROE were affected by the one-time depreciation charge of Rs.4631 mn for earlier years due to change in depreciation method.*

Source: Company, Almondz Research

Advantage India: Global Textile Opportunity

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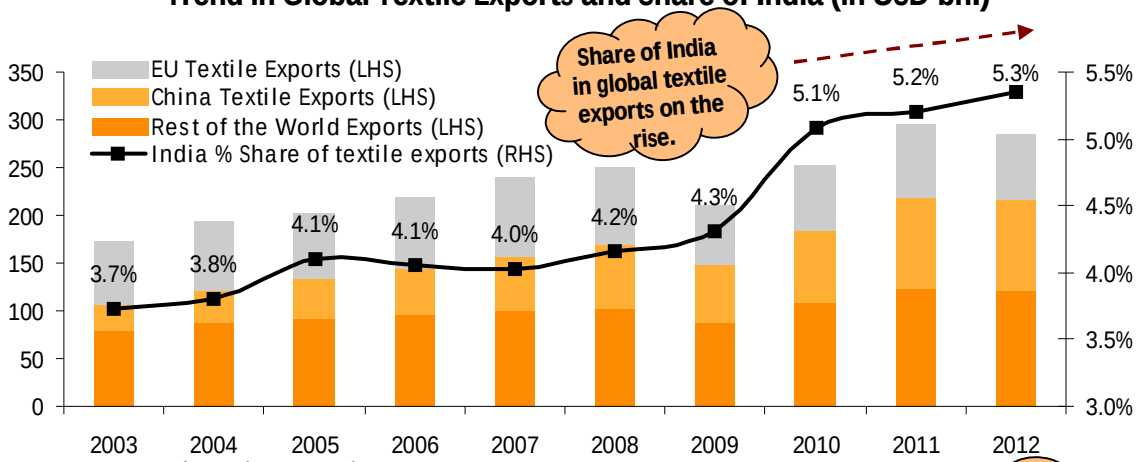
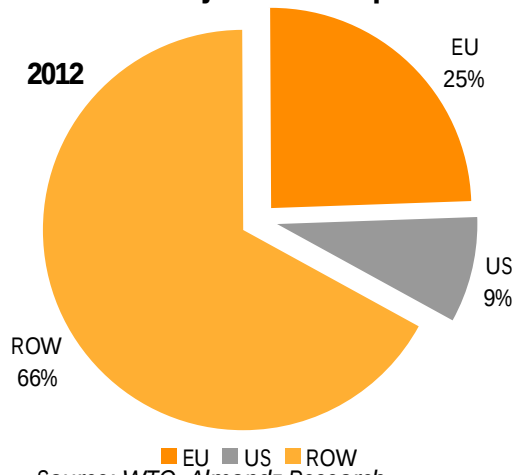
Trend in Global Textile Exports and Share of India (in USD bn.)



Source: WTO, Almondz Research

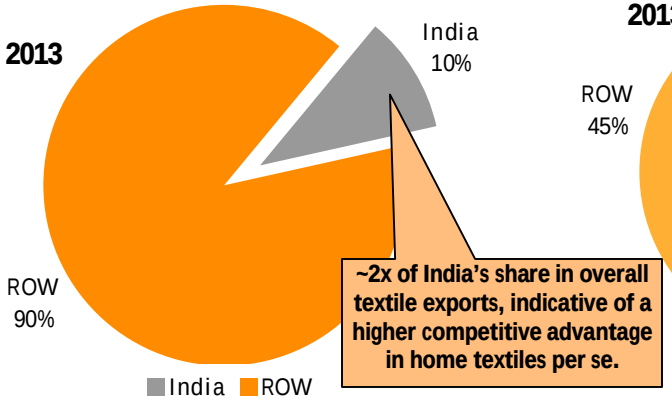
Share of major textile importers



Source: WTO, Almondz Research

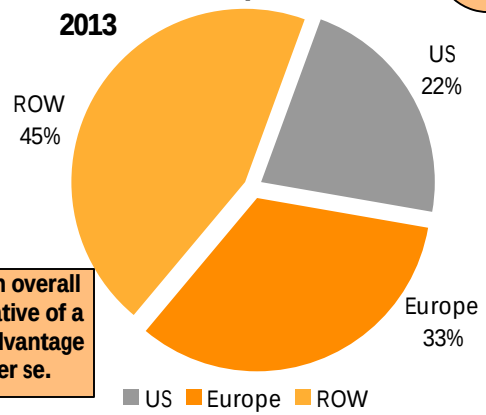
World Home Textiles – A USD 45 billion export market.

Share of India in global home textile exports



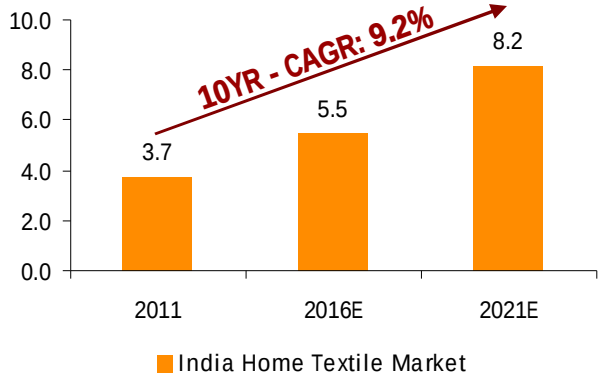
Source: Company, Almondz Research

Share of major home textile importers



Source: Company, Almondz Research

India Home Textile Opportunity (in USD bn.)



Source: Company, Almondz Research

Advantage India: Cost Competitive

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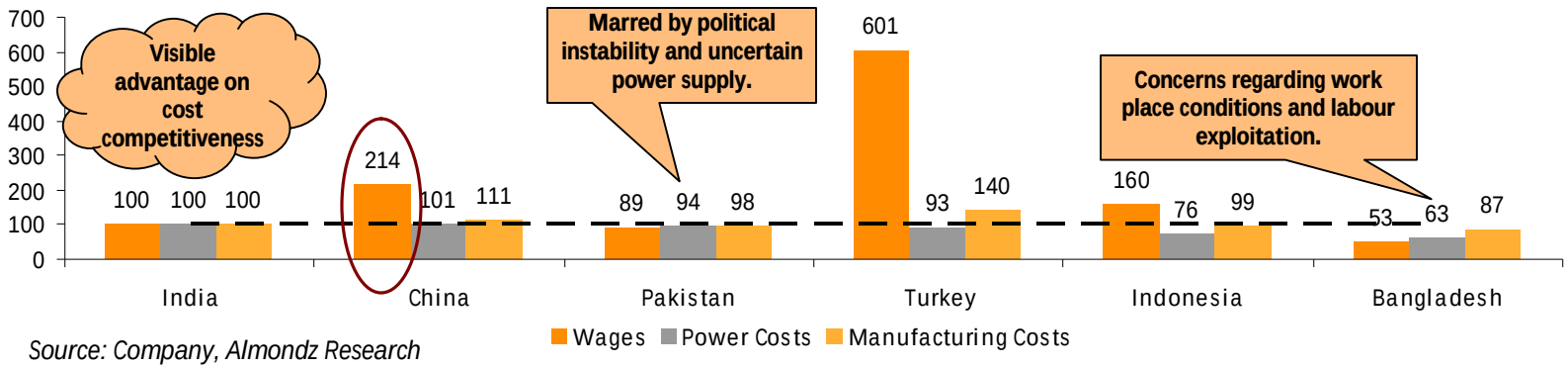
Cost Index for major textile exporting nations



Source: Company, Almondz Research

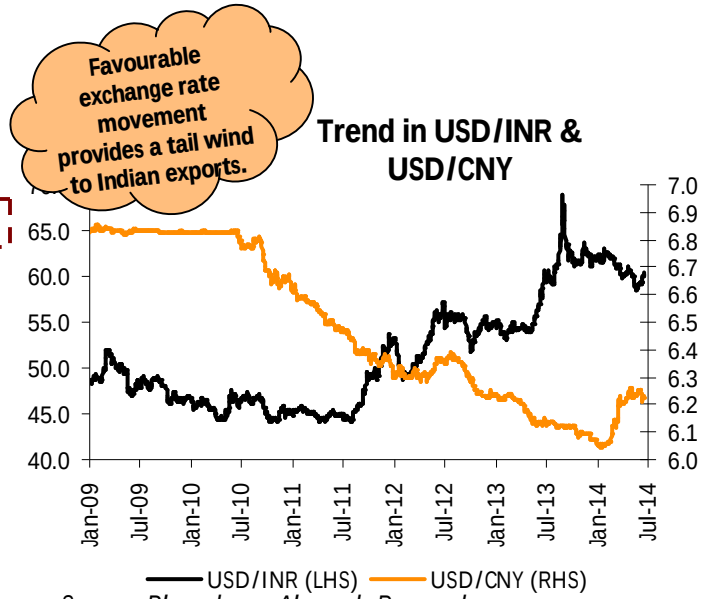
2014 Cotton Balance Sheet (in Mn. Bales – 480 Lb.)

	Opening Stock	Output	Import	Consumption	Exports	Ending Stock
US	3.9	12.9	0	3.6	10.4	2.8
India	**12**	**29.5**	**0.8**	**23**	**8.8**	**10.4**
China	50.4	32	12.8	35.5	0.1	59.6
Pakistan	2.9	9.5	2.5	11.5	0.4	2.9
Bangladesh	0.9	0.1	3.7	3.8	0	0.9
World	**90**	**117.1**	**38.5**	**109.5**	**38.5**	**97.9**

Source: Company, Almondz Research

Abundant cotton supply

- India cotton supply-demand dynamics in favour of textile exporters.
- Chinese cotton prices at 10-15% premium to India due to Chinese policy for cotton procurement at prices fixed by state. However, high cotton reserves in China could put pressure on cotton prices.



Source: Bloomberg, Almondz Research

Advantage India: Visible Gains

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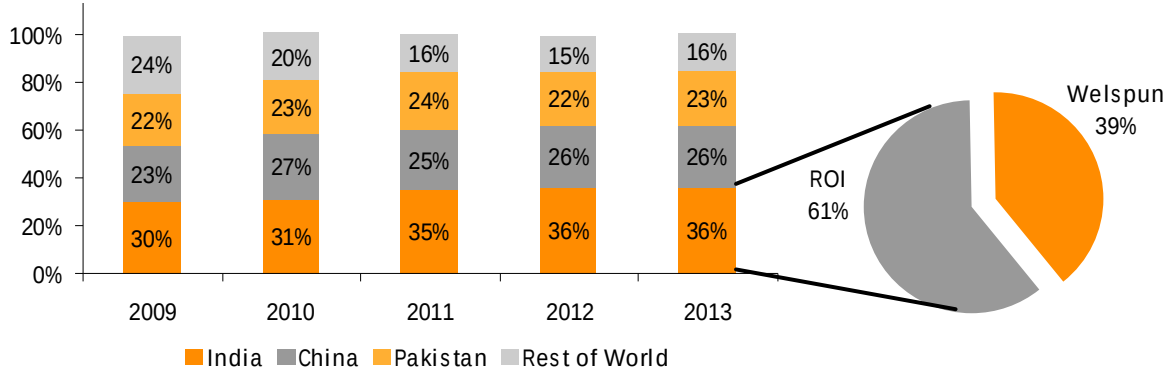
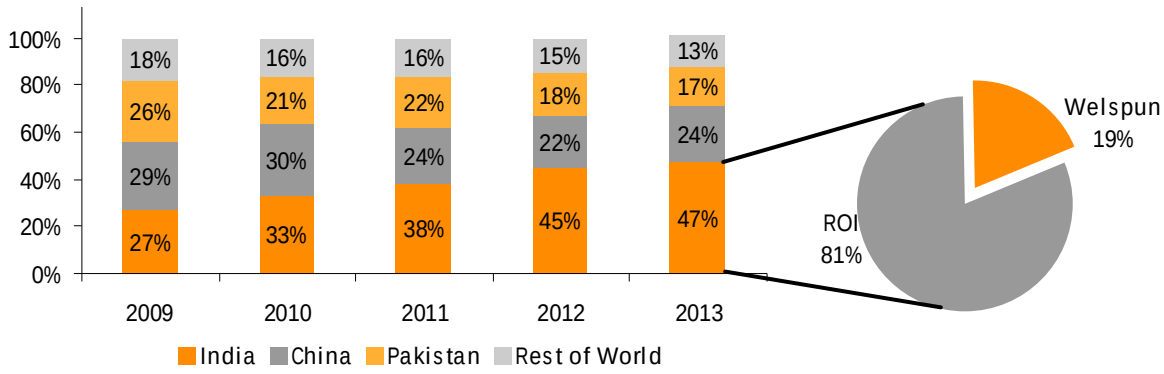
Trend in Market Share of Cotton Towels in USA



Source: Company, Almondz Research

Trend in Market Share of Cotton Sheets in USA



Source: Company, Almondz Research

Market Share Improvement

- In 2013 USA imported $10 bn worth of home textiles, which is about 23% of the world's total home textile trade.
- Bedding products account for more than half of the US home textile market, bath products account for about a quarter, and window, kitchen, and dining account for the rest.
- Over time, with increasing cost competitiveness, India's share in both the major segments of bed and bath has improved.
- A improvement of 6% in cotton towels means that India accounts for more than one-third of that market and Welspun in turn commands a near 40% of India's pie.
- A whopping 20% improvement in cotton sheets has resulted in India accounting for nearly half the market with Welspun taking nearly a fifth of India's share.

Welspun: The home textiles giant

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Ranked No. 1 for past 2 years by US Home Textiles Today Magazine among "Top 15 Home Supplier Giants to USA"

World's largest bath towels supplier

World's 2nd largest bedding supplier

World's 4th largest bath rugs supplier

Pedigree Brands

WELSPUN
Dare to Commit
Christy
SPACES

Marquee Clients

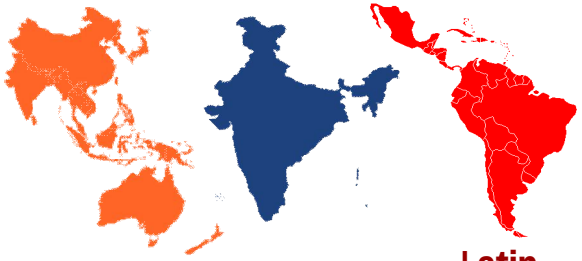
Europe: REWE, Carrefour, JYSK, Auchan, IKEA, TOM TAILOR, Belk, Kaufland

USA: Walmart, BED BATH & BEYOND, jcp, TARGET, Burlington, macy's

UK: MARKS & SPENCER, HOUSE OF FRASER, DEBENHAMS, ASDA, TESCO

Major Geographies

Geographies Under Development



Asia Pacific | India | Latin America

Exclusive licensee for towels through Christy brand → THE CHAMPIONSHIPS WIMBLEDON

Source: Company, Almondz Research

Welspun: Powering Ahead

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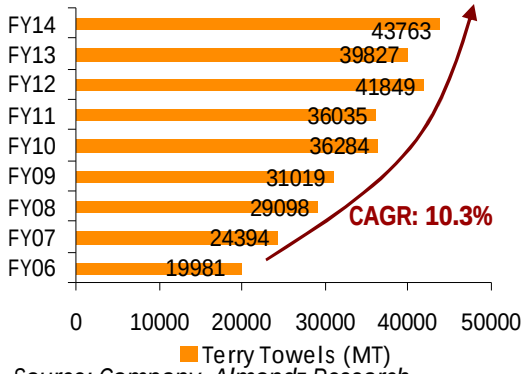
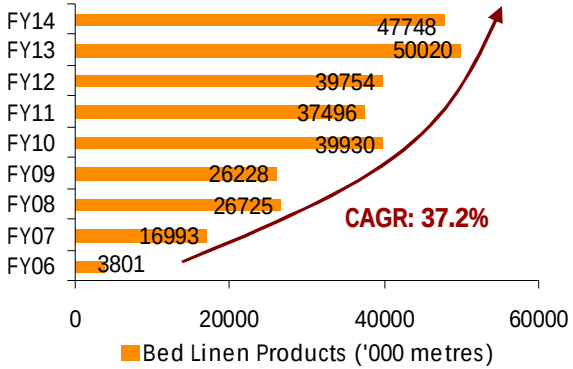
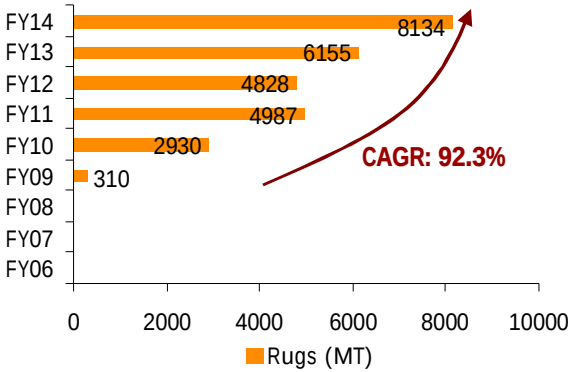
Trend in Welspun product mix





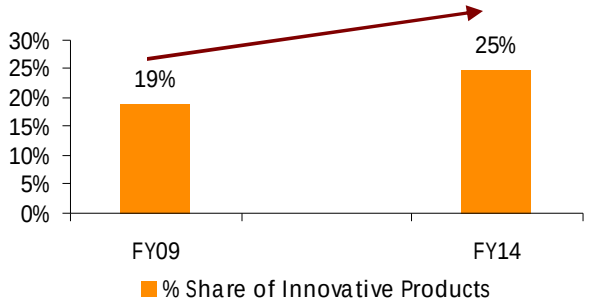


Source: Company, Almondz Research

❖ Securing top-line growth through a better product mix

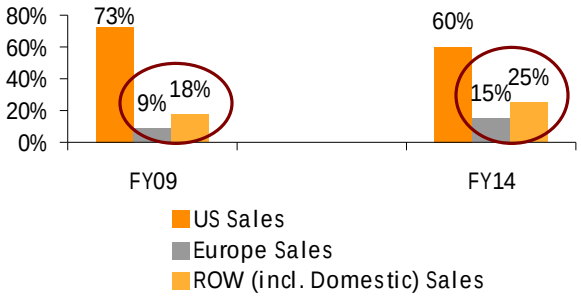
- Over the years, Welspun has gradually transformed itself from a mere terry towels producer to expand into other segments of the home textile industry such as bed linen products, bath rugs, and carpets to become a one-stop shop for home textiles.
- Recently, Welspun has forayed into the advanced textiles market with niche products such as wipes, filtration cloth, and automotive non-wovens, representing a vast field of opportunity.
- Even within its traditional product categories, Welspun has always been an innovator, filing for six patents until date. As much as a quarter of its sales have come from such innovative products.
- A wide range of products coupled with a healthy pipeline ensure a long run of high top-line growth for the company.
- Welspun has also managed to increase contribution to sales from the lucrative European markets despite an import duty disadvantage to competing nations such as Pakistan and Bangladesh.

Trend in contribution of Innovation to sales



Source: Company, Almondz Research

Trend in geographical distribution of sales



Source: Company, Almondz Research

Welspun: Superior revenue mapping

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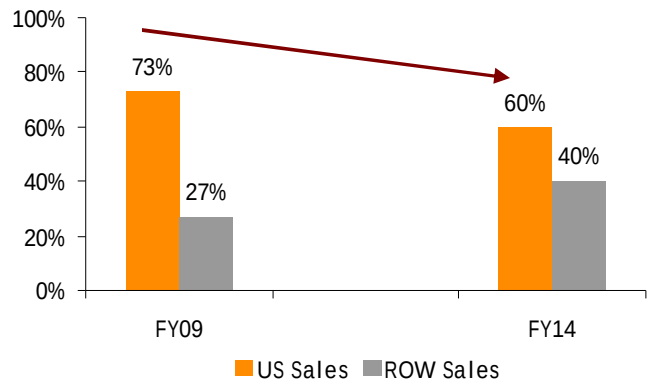
❖ Increasing its geographical reach

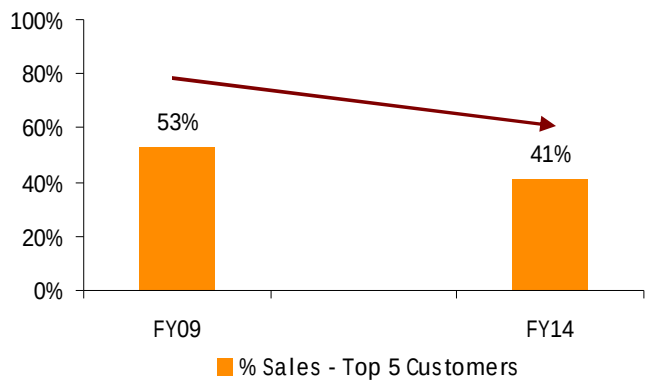
- Welspun has diligently worked towards reducing its dependence on a single region such as the USA, exploring new frontiers for its products.
- The company is working towards penetrating developing markets such as Latin America, Asia-Pacific, India, and is exploiting the full potential in the European market.
- FTAs with major textile importers such as the EU is expected to provide a boost on this front by leveling the field for Indian players vis-à-vis competition.

Trend in % share of US in total sales



Source: Company, Almondz Research

Trend in % share of top five customers



Source: Company, Almondz Research

❖ Reducing dependence on top five

- Welspun is steadily persevering towards reducing contribution of its top five customers to its top line.
- It aims to minimize risk arising from revenue concentration.
- With replenishment forming 80% of its business, reducing dependence on large customers would help the company enhance its revenue assurance.

Sowing the seeds for a rich harvest

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Trend in Welspun production capacity and capacity utilization

Capacity	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Terry Towel (MT/Yr)	26070	31160	37074	38200	41500	41500	43800	43800	45000	50000	60000
Bath Rugs incl. Carpets (MT/Yr)				10151	10151	10151	10151	10151	12000	15000	20000
Bed Linen Products - Bed Sheets (Mn Mtr/Yr)	36	36	36	43	45	45	45	52	55	60	72

Capacity Utilization	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Terry Towel (MT/Yr)	77%	79%	80%	79%	94%	95%	95%	90%	99%		
Bath Rugs incl. Carpets (MT/Yr)				4%	29%	50%	47%	59%	68%		
Bed Linen Products - Bed Sheets (Mn Mtr/Yr)	11%	49%	79%	55%	87%	83%	83%	96%	89%		

Source: Company, Almondz Research

❖ Capacity expansion plans

- Welspun has embarked on an ambitious capacity expansion plan involving an outlay of Rs. 24 bn. The company would execute the plan in two phases, of which phase 1 is already nearing completion.
- Phase 1 involved an outlay of Rs. 11 bn and focused on backward integration and de-bottlenecking. This would ensure that internal supply of yarn and greige fabric will increase from 30-35% to 75%, improving supply side security.
- Benefits of Phase 1 are expected to accrue form 1HFY15, resulting in expansion of operating margin of about 300 bps and improved capital productivity.
- Phase 2 involves a further outlay of Rs. 13 bn. focused on increasing product capacities. Of this, Rs. 3 bn. has been committed towards modernization of the Vapi facility, which will in itself increase the capacity for terry towel production.
- Phase 2 is expected to be completed over FY15 and FY16 and would help the company achieve its high growth ambitions.

❖ Low cost of capital

- As part of the textile industry, Welspun enjoys a low cost of debt due to central and state government incentive schemes.
- The company enjoys an interest rate subsidy of 4-5% on cap-ex under the Technology Upgradation Fund (TUF) scheme of the central government.
- Additionally, it receives further interest rate subsidy of 4-7% on planned CapEx under a one-time application scheme of the Gujarat state government, resulting in the cost of debt for the entire expansion plan falling to around 2-3% for the company.
- Apart from this, the company being an exporter also enjoys export benefits such as a 3% subvention on working capital interest rates.

Valuation and Conclusion

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❖Turnaround catalysts

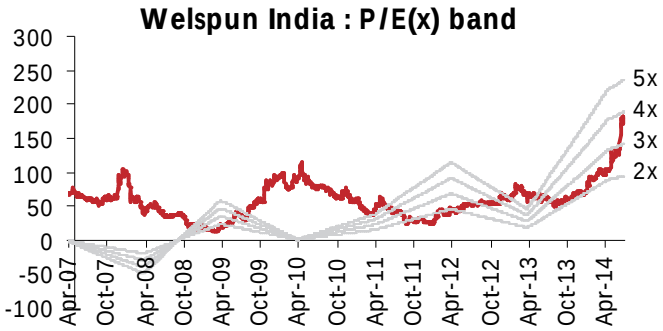
- Efficiencies would start building in from the backward integration and de-bottlenecking exercises.
- Rupee devaluation to aid exports, which is the main stay of the business.

❖Long-term value creation catalysts

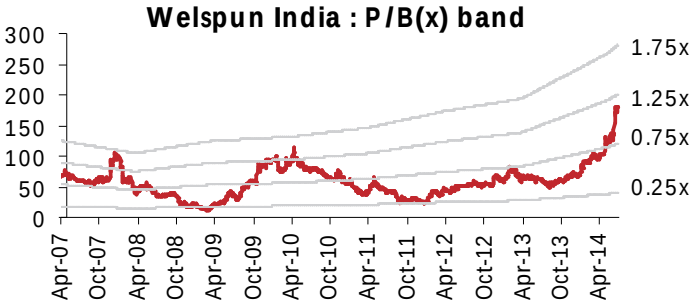
- Capacity expansion and factory modernization would drive both top-line and bottom-line growth.
- Emphasis on innovation means a strong product pipeline in future ensuring Welspun's leadership in the home textiles market.
- The impending EU FTA and other such FTAs would open up new opportunities for the company to exploit, in the company's pursuit for higher growth.

❖Valuation summary

- We estimate Welspun to compound top line and bottom line at 17.6% and 52.7% during the period FY14-FY16E.
- Welspun is currently trading at a P/E of 3.8x FY15 and 2.9x FY16 estimates.
- We estimate FY15 ROE and FY16 ROEs at 29.6% and 28.7% respectively.



Source: Bloomberg, Almondz Research



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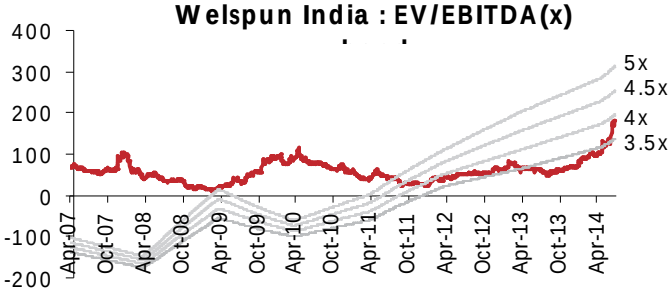

Source: Bloomberg, Almondz Research

We recommend a BUY with target price of Rs293 (5.0xFY16E Earnings) ~ 72% upside.

Key Concerns

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× Losing the cost advantage

The company may lose the cost advantage it currently enjoys in the event of a roll back of government incentive schemes and escalating raw material prices. However, considering the focus on manufacturing exports, we see relatively low probability of the same. We believe that considering the global cotton balance sheet and India's self sufficiency, there is limited chance of escalating raw material prices.

× Adverse exchange rate movement

Being an export-oriented business, an appreciation in the currency would make their products uncompetitive in international markets. However, considering the improving domestic economy and fiscal situation, we expect the rupee to be less volatile in the near to medium term.

× High leverage

At 2.5x FY14 Debt/Equity, Welspun has leveraged aggressively for its expansion plans. However, after considering the various subsidies, the cost of funds is low. Also, part of the robust cash flows will be utilized to reduce the leverage, which is expected to come down to 1.7x by FY16E.

Company Overview

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Welspun India Ltd. (Mkt Cap: Rs.17.1 Bn), a part of US$ 3.5 billion Welspun Group, is among the top three home textile manufacturers in the world and the largest home textile company in Asia. Established in 1985 as Welspun Winilon Silk Mills Pvt. Ltd, a synthetic yarn business, Welspun's textile business emerged in its current form in 1995 with the incorporation of Welspun India Limited. Driven by product innovation, customer focus, and technological excellence, today, the company is a fully integrated home textile manufacturer with the objective to provide its customers across the world with a one-stop-shop solution.

With a distribution network of 32 countries and with manufacturing facilities in India, it is the largest exporter of home textile products from India. Supplier to 14 of top 30 global retailers, the company has marquee clients such as Wal-Mart, JC Penny, Target, and Macy's to name a few. Welspun ranked first in the top 15 supplier giants (USA) by Home Textiles Today Magazine in January 2013.

It also owns leading brands such as Christy, Hygrocotton amongst others. Welspun supplies official towels to the illustrious Wimbledon Championships through its iconic Christy brand.

Financial Summary

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INCOME STATEMENT (Consolidated) — Rs. Million

	FY12	FY13	FY14	FY15E	FY16E
Income from Operations	**32205**	**36473**	**44954**	**51895**	**62169**
Less: Tot operating exp	**28544**	**30527**	**35743**	**40737**	**47870**
EBITDA	**3662**	**5946**	**9211**	**11157**	**14299**
EBITDA margin (%)	**11.4%**	**16.3%**	**20.5%**	**21.5%**	**23.0%**
Less: Depreciation	1378	1449	6863	2655	3130
EBIT	**2284**	**4497**	**2348**	**8502**	**11168**
Less: Interest	1918	1977	2352	2722	3009
PBT (operating)	**365**	**2520**	**-4**	**5780**	**8160**
Add: Other income	460	492	1041	1000	750
PBT	**826**	**3013**	**1037**	**6780**	**8910**
Less: Tax	193	733	199	2305	3029
Effective tax rate (%)	23%	24%	19%	34%	34%
PAT	**633**	**2279**	**838**	**4475**	**5880**
Less : Minority Int/Share o	-29	0	-82	0	0
Adjusted PAT	**662**	**2279**	**921**	**4475**	**5880**
Extraordinary Items	-795	-31	0	0	0
Reported PAT	**-134**	**2248**	**921**	**4475**	**5880**

BALANCE SHEET (Consolidated) — Rs. Million

	FY12	FY13	FY14P	FY15E	FY16E
Net worth	**7428**	**9902**	**11097**	**15102**	**20513**
Minority Interest	250	250	316	316	316
Debt	**19621**	**20244**	**28144**	**32144**	**35144**
LT Liabilities/Prov	61	74	1553	1687	1865
Deferred Tax Liabilities	1502	1917	434	434	434
Current Liabilities/Prov	**6497**	**6192**	**10140**	**11155**	**12968**
Equity & Liabilities	**35359**	**38579**	**51684**	**60837**	**71240**
Net Block	**15782**	**16319**	**23228**	**27573**	**30443**
Goodwill	979	1754	1839	1839	1839
CWIP	1233	542	542	542	542
Investments	**1205**	**931**	**1115**	**1115**	**1115**
LT Loans & Advances	1105	1559	1232	1427	1554
Other Non-Current Assets	706	1336	1022	1022	1022
Current Assets	**14349**	**16138**	**22707**	**27320**	**34726**
Total Assets	**35359**	**38579**	**51684**	**60837**	**71240**

RATIOS ANALYSIS

	FY12	FY13	FY14P	FY15E	FY16E
EPS	7.4	22.8	9.2	44.6	58.6
EPS growth (%)	46.2	2.1	(0.6)	3.9	0.3
Cash EPS	22.9	37.3	77.6	71.1	89.8
BV	83.4	99.0	110.6	150.5	204.4
DPS	-	3.8	3.0	4.0	4.0
Div Payout (%)	-	0.2	0.3	0.1	0.1
Valuation (x)					
P/E (on adjusted FD EPS)	23.0	7.5	18.6	3.8	2.9
P/CEPS	7.4	4.6	2.2	2.4	1.9
P/BV	2.0	1.7	1.5	1.1	0.8
EV/EBITDA	9.1	6.0	4.7	4.0	3.1
EV/Sales	1.0	1.0	1.0	0.9	0.7
Dividend yield (%)	0.0%	2.2%	1.8%	2.3%	2.3%
Profitability ratios (%)					
RoE	8.9%	23.0%	8.3%	29.6%	28.7%
RoCE	5.9%	9.8%	5.3%	10.3%	11.0%
Turnover ratios					
Debtors (days)	28	28	33	30	30
Inventory (days)	83	82	82	80	80
Creditor (days)	67	59	63	60	60
Net Wkg capital (days)	92	111	89	85	85
Asset turnover (x)	1.1	1.1	1.1	1.1	1.1
Solvency ratio (x)					
Gross debt /equity	2.6	2.0	2.5	2.1	1.7
Net debt /equity	2.4	1.9	2.3	1.8	1.3
Net debt/ EBITDA	5.0	3.1	2.8	2.5	1.9
Int Coverage (EBIT / Int)	1.2	2.3	1.0	3.1	3.7
Growth ratios (%)					
Net sales	52%	13%	23%	15%	20%
EBITDA	58%	62%	55%	21%	28%
PAT (before E.O.)	4619%	244%	-60%	386%	31%
EPS	4618%	207%	-60%	386%	31%
Operating ratios (%)					
EBITDA margin	11%	16%	20%	22%	23%
EBIT margin	7%	12%	5%	16%	18%
PAT margin	2%	6%	2%	9%	9%
Other income/PBT	56%	16%	100%	15%	8%
Effective Tax rate	23%	24%	19%	34%	34%

Source: Company, Almondz Research

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