

Welspun India Limited.

Initiating Coverage

June 26, 2015

Time Horizon – 12 Months

CMP: 607

Target: 816



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Key Data	
RISK	MEDIUM
Bloomberg Code	WLSI IN
NSE Code	WELSPUNIND
Sector	Textile
Industry	Textile
Face Value (')	10
BV per share (')	142
Dividend yield (')	0.48%
52 Week H/L (')	632.60/160.10
Market Cap (' mn.)	62,594.10

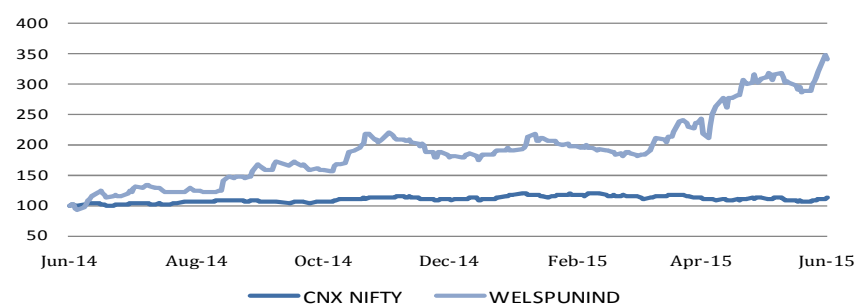
Shareholding Pattern (as on Mar'15)

	14-Jun	14-Sep	14-Dec	15-Mar
Promoters	73.4%	73.3%	73.3%	73.5%
Non-Institutional	20.5%	18.9%	18.9%	18.0%
Institutional	6.1%	7.8%	7.8%	8.5%
Total	100%	100%	100%	100%

Source: Company, Anand Rathi Research, Bloomberg

(In ₹mn)	FY14*	FY15	FY16E	FY17E
Net Sales	43730	53025	62511	73762
EBITDA	9211	12742	13752	15859
EBITDA Margin (%)	21.06	24.03	22.00	21.50
EPS (₹)	42.63	53.73	62.80	73.23
Ev/Sales (x)	2.07	1.70	1.47	1.26
Ev/EBITDA (x)	8.83	5.95	6.06	5.40
P/E (x)	14.24	11.37	13.00	14.00
Price Performance	CY12	CY13	CY14*	YTD
Absolute	150%	22%	339%	89%
Relative	122%	15%	308%	88%
NIFTY	285%	7%	31%	1%

Relative stock performance (June'14=100)



Analyst: Ridhi Mehta
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Anand Rathi Research

Welspun India Limited.



- ❑ Welspun India initiated its journey as Welspun Winilon Silk Mills Pvt. Ltd to manufacture Polyester filament yarns and texturised yarns. Over the time the company emerged as part of US \$3 billion Welspun Group, and leading global player in Home Textile market.
- ❑ It is among the top three home textile manufacturers in the world and the largest home textile company in Asia.
- ❑ Welspunind is the largest exporter of home fashion products. The company exports 97% of Welspun's total produce around the world of which 60% comes from US market. It has been ranked as No.1 among Home Textile exporter to the US for the third consecutive year.
- ❑ The company has distribution network in more than 50 countries.
- ❑ Centered on excellence and transparency, the company has unfold itself as a trusted partner to 14 of Top 30 global retailers like Wal - Mart, JC Penney, Target and Macy's among others.
- ❑ It has State – of – the – art manufacturing facilities at Anjar and Vapi (Gujarat) with zero discharge facilities which help to maintain the delicate ecological balance.
- ❑ With US and Europe economy expected to improve, which would encourage spending power and outlook for Indian cotton textiles, especially home textiles, continue to be positive, Indian home textile industry is expected to gain market share from competing countries. Going forward Welspunind is planning to explore new markets including India, Europe, Asia Pacific and Latin America. It intends to launch itself on new channels like E-Commerce, Hospitality and Branded Sales.
- ❑ We initiate our coverage on Welspun India Limited with a BUY rating and a target price of ₹ 816 per share.

Welspun India Limited.

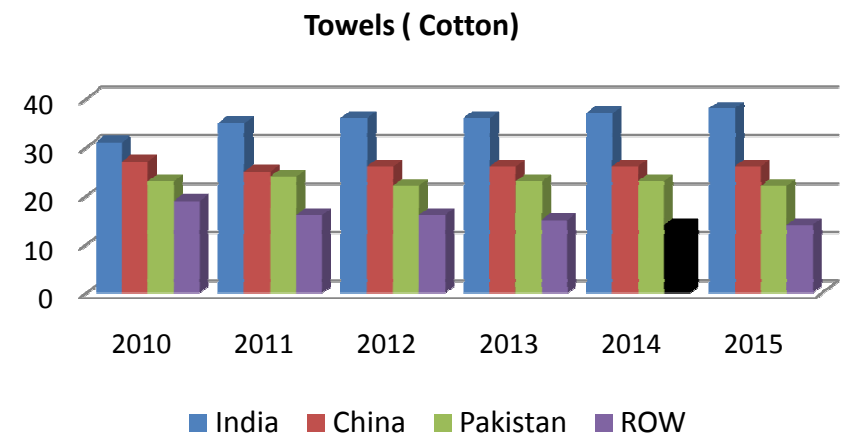
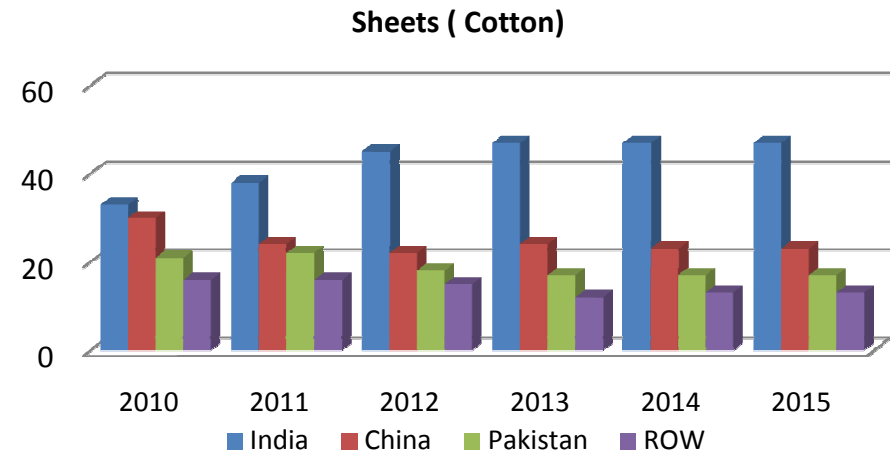
Leader in Home Textile Market



- ❑ The home textiles market includes:
 1. Household textiles: Rugs, bed linen, table linen, bathroom and kitchen linen, etc.
 2. Furnishing textiles: Curtains, bedspreads and other furnishing articles for home interiors, etc.
- ❑ India's global home textile market has increased from \$27 billion in FY2010 to \$45 billion in Fy2015. This increase from 6% to 11% market share is result of increasing competitiveness of Indian manufacturers.
- ❑ India's share increased by 22 % in 5 years in towels segment and 23% in cotton sheet segment.
- ❑ In India, Welspun is the largest terry towel producer, having a capacity of 50,000 tonne and is the 2nd largest bed sheet producer with a capacity of 60,000 meters in FY2015. From FY10 to FY14 sales in value terms has grown by 17% and 18% CAGR in terry towels and bed sheets respectively.

Source: Otexa, Company, Anand Rathi Research

US Imports From Various Countries - Market Share



Welspun India Limited.



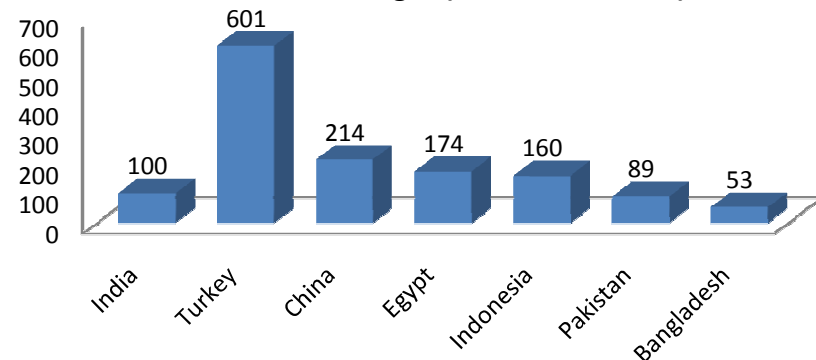
Structural changes manifesting in higher market share

- ❑ India is the 2nd largest producer of cotton (after China) and the only **net exporter** of the crop. With the surplus availability of cotton, India has an advantage over other countries like China and Bangladesh.
- ❑ Input costs, particularly power and wages, are very competitive compared with other key textile exporters in the world. Over the last 5 years, cost of labor in China has increased from \$180 per man month (pmm) to the current level of \$550 ppm, whereas the same in India has grown from \$120 ppm to \$180 ppm.
- ❑ While Pakistan and Bangladesh enjoy slightly lower costs compared to India, they suffer from socio-economic and compliance issue. India with its strong democracy and stricter compliance is placed much better than these countries on these parameters. The government's 'Make in India' campaign is likely to open up many business avenues for the textile industry

World Cotton Balance Sheet 2013-14

Country	Opening Stock	Output	Import	Consumption	Exports	Ending Stocks
World	90	117.1	38.5	109.5	38.5	97.9
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

Wages (Base India = 100)



Source: Company, Anand Rathi Research

Welspun India Limited.

Global Reach And Delivery Model



- ❑ WIL has global reach & perspective, as it supplies to 50 countries including USA, UK, Europe. It now has increased presence in newer markets like Canada, South Africa, Kenya, Australia, Japan, China, Korea and Russia.

Source: Company, Anand Rathi Research

Welspun India Limited.



Trusted Partner To Global Retail Giants

- ❑ WIL supplies to global retailers like Bed Bath & Beyond, Wal-Mart, Target, JC Penney, Kohl's, and Macy's in US; IKEA, Rewe, and JYSK in Europe; Mark & Spencer and House of Fraser in UK.
- ❑ Such a global base of large customers & brands ensures regular sales and reduces risk to business from slowdown in a particular region or trouble with a particular customer.



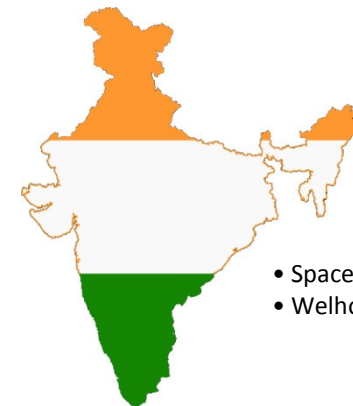
- Wal Mart
- Bed Bath & Beyond
- Macy's
- J C Penney
- Target
- Kohl's
- K Mart- Sears
- and many more



- IKEA
- Carrefour
- JYSK
- El Corte Ingles
- Vincenzo Zucchi S.p.A
- ... and many more



- ASDA
- Tesco
- Marks & Spencer
- Debenhams
- House of Fraser
- Christy
- and many more

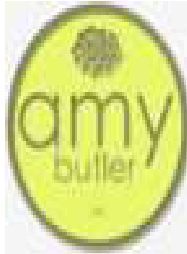


- Spaces- Home & Beyond
- Welhome

Source: Company, Anand Rathi Research

Welspun India Limited.

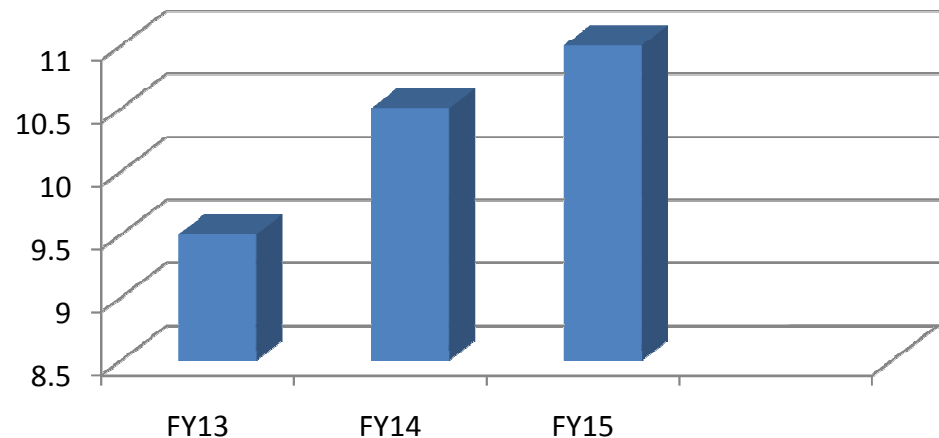
Value Through Brands



- ❑ Strong growth expected in the branded category, especially in India.
- ❑ Welspunind has 'Spaces' and 'Welhome' as their brand in India. It is focusing on increasing its penetration of these brands through shop-in-shop and ecommerce.



Branded Sales as % of Total Sales



Source: Company, Anand Rathi Research

Welspun India Limited.

Capacity Expansion and High Utilization levels to aid future growth...



- ❑ Welspun plans to Invest Rs.13 bn over the next 12-18 months for modernization automation and capacity enhancement for towels & sheets with focus on backward integration and debottlenecking.
- ❑ The company expects towel capacity to increase from 50,000 tonne p.a. in FY2015 to 60,000 tonne p.a. in FY2016/17E. Sheets capacity to increase from 60 million meters p.a. in FY2014 to 72million meters p.a. in FY2016E and rugs (including carpets) would see an increase in capacity from 12,000 tonne p.a. in FY2014 to 20,000 tonne p.a. in FY2016E.
- ❑ With the capacity expansion underway and capacities running close to full utilization in towels and sheets, the company has been able to improve its capacity utilization levels. We expect revenue CAGR of 19.25% over FY2013-17E.

Product	Units	Capacity	Production	Utilization %	Expected Capacity FY16/17
Towels	MT	50,000	50852	102%	60,000
Sheets	000' Mtrs	60,000	58047	97%	72,000
Rugs & Carpets	MT	15,000	8755	58%	20,000

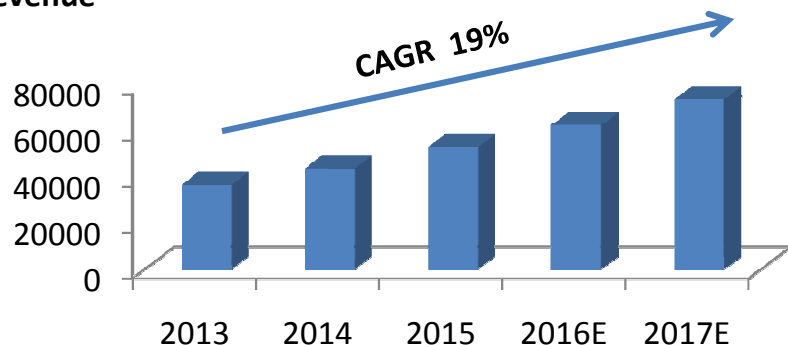
Source: Company, Anand Rathi Research

Welspun India Limited.

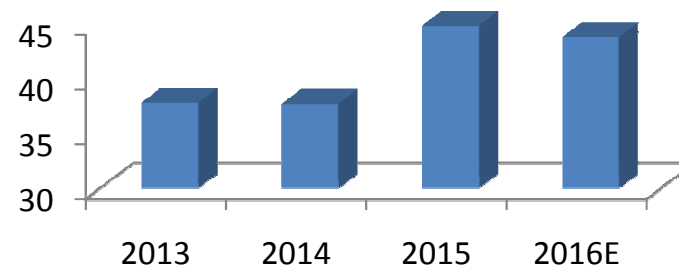
Consistent Financials.....



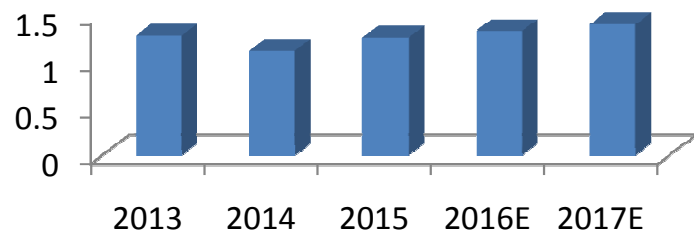
Revenue



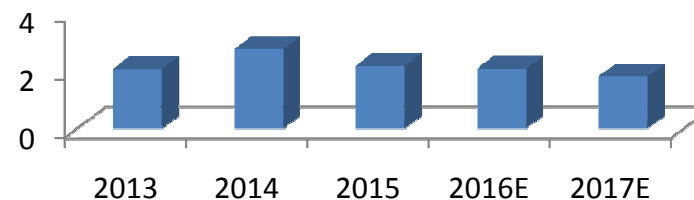
ROE %



Asset turnover



DEBT/EQUITY RATIO



□ The company is growing consistently and is expected to grow at CAGR of 19.25% in FY13-FY17E period.

*** In FY14 company changed its method of charging depreciation from straight line to written down method. Hence we have adjusted the amount for calculation.**

Source: Company, Anand Rathi Research

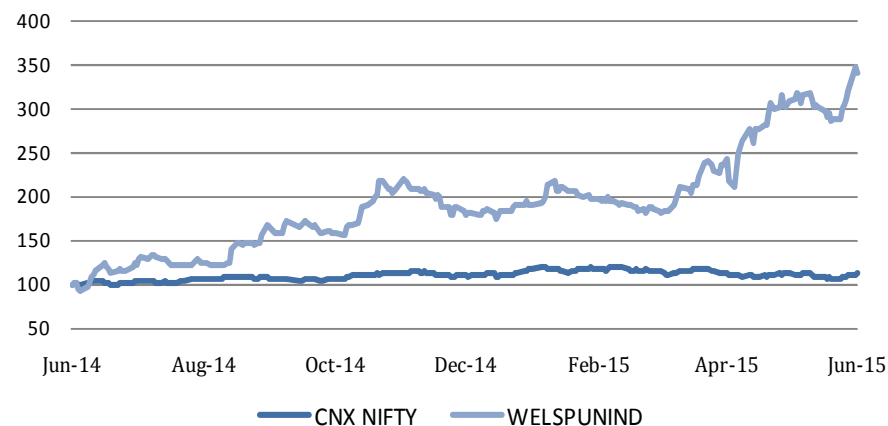
Welspun India Limited.



Valuation and Recommendation:

- Until FY14, WELSPUNIND was getting benefit of scale which led to a EBITDAM expansion of around 10%. In FY15, lower raw material costs aided further margin expansion of 3%. Our estimates for FY16 and FY17 considers a lower margin on a conservative note.
- At current price, the stock is trading at P/E of 11.37x discounting the FY15 EPS. We expect new capacities, focus on innovative products and higher branded sales to help improve realizations and drive revenue growth. With the expected growth in profit and better cash generation, we anticipate net debt to equity to improve in FY2017E. We anticipate revenue and PAT CAGR of 19.25% and 34.70%, respectively over FY2013-17E.
- We initiate coverage on Welspun with a BUY rating and a target price of Rs 816, valuing it at 13x its FY2016E earnings.

Relative stock performance (June'14=100)



(In ₹mn)	FY14*	FY15	FY16E	FY17E
Net Sales	43730	53025	62511	73762
EBITDA	9211	12742	13752	15859
EBITDA Margin (%)	21.06	24.03	22.00	21.50
EPS (₹)	42.63	53.73	62.80	73.23
Ev/Sales (x)	2.07	1.70	1.47	1.26
Ev/EBITDA (x)	8.83	5.95	6.06	5.40
P/E (x)	14.24	11.37	13.00	14.00

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Source: Company, Anand Rathi Research

Welspun India Limited.

Consolidated Financials:



(In ₹ mn)	FY14*	FY15	FY16E	FY17E	(In ₹ mn)	FY14*	FY15	FY16E	FY17E
Net Sales	43730	53025	62511	73762	LIABILITIES				
Total Expenditure	34519	40283	48759	57903	Shareholders' Funds				
EBITDA (Excl OI)	9211	12742	13752	15859	Equity Share Capital	1003	1005	1005	1005
Other Income	1042	949	1404	1404	Reserves and Surplus	10093	13314	16788	21095
EBITDA	10253	13691	15156	17263	Minority Interest	316	378	697	1461
Depreciation	1903	3329	3907	4660	Non Current Liabilities				
EBIT	8350	10362	11250	12603	Long-term borrowings	16795	15946	14851	14454
Interest	2352	2829	2456	2358	Deferred Tax Liabilities	434	641	1524	1563
PBT	5998	7533	8794	10245	Other Long Term Liabilities	1553	1020	3228	1563
Tax	1802	2090	2440	2843	Current Liabilities	21489	24650	26473	36986
PAT	4196	5443	6353	7402	Total Liabilities	51684	56953	64566	78125
Minority Interest	82	-45	-45	-45	ASSETS				
Consolidated PAT	4278	5398	6308	7357	Non Current Assets				
Margins	FY14*	FY15	FY16E	FY17E	Fixed Assets	23770	26049	29379	36720
Sales Growth %	19.90%	21.25%	17.89%	18.00%	Long Term Loans and Advances	1232	1377	1934	2344
Operating Margin %	21.06%	24.03%	22.00%	21.50%	Other Non-Current Assets	3334	1970	2583	3122
Net Margin %	9.59%	10.26%	10.16%	10.03%	Current Assets	23348	27557	30670	35939
					TOTAL-ASSETS	51684	56953	64566	78125

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Source: Company, Anand Rathi Research

Welspun India Limited.



Key Risks:

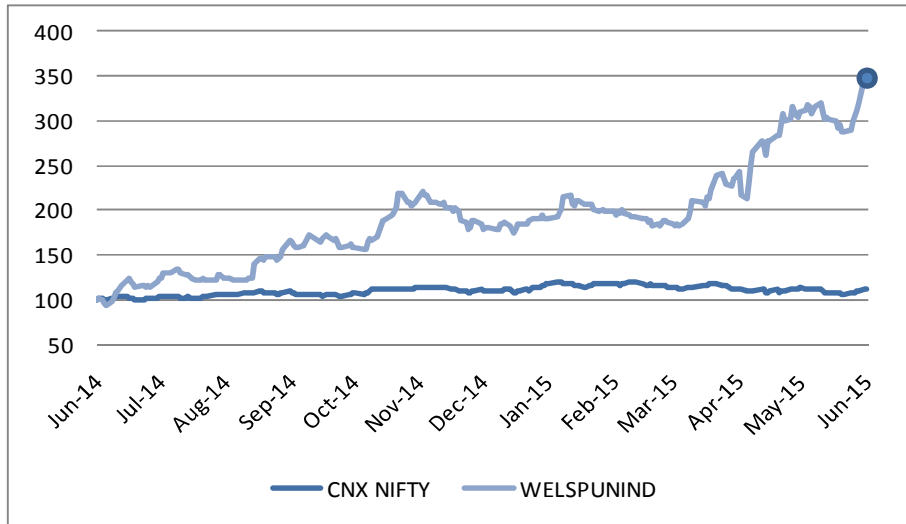
- Rising Input costs and Labor Availability.
- Currency Movement.
- Poor Economic Environment and Consumer Sentiment.

Welspun India Limited.



Rating and Target Price history:

Welspun India rating history & price chart



NOTE: Prices are as on 25th June, 2015 close.

WELSPUNIND rating details

Date	Rating	Target Price (₹)	Share Price (₹)
24-Jun-2015	BUY	816	607

Source: ACE EQUITY, Anand Rathi Research



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