

Welspun India

2Q/1HFY15 Update

Welspun India Ltd (WIL) reported very encouraging numbers for 2Q/1HFY15. Not only have revenues grown margins too have expanded.

While 2QFY15 consolidated net sales at Rs14.13b (including other operating income of Rs1.56b) is up 21.96% YoY, EBITDA at Rs3.17b is up 24.7%, PBT at Rs1.91b shows substantial improvement compared to a loss of Rs2.92b last year in the corresponding quarter; PAT at Rs1.29b (loss of Rs1.89b)

Margins have improved on YoY basis. While EBITDA margin at 22.41% (21.92%) is higher by 49bp PAT margin is at 9.14% (-16.31%).

On equity capital of Rs1.04b (FV Rs10) 2QFY15 EPS stands at Rs12.87 as against (Rs18.87) posted by the company in the corresponding quarter in the previous year (equity Rs1.02b FV Rs10).

In 1HFY15 the company has posted net sales of Rs25.91b (including other operating income of Rs2.90m) up 22.45%, EBITDA at Rs5.90b is up 28.02%, PBT is at Rs3.56b (against a loss of Rs1.66b) PAT is at Rs2.35b against a loss of Rs991.7m.

On equity capital of Rs 1.04b (FV Rs10) 1HFY15 EPS stands at Rs23.39.

No Slowdown:

The company continues to do well as communicated by the management (Mr Rajesh Mandawewala, MD) in its concall, post results. Contrary to general perception that the ongoing slowdown in USA & Euro zone may impact company's sales the management reiterated that WIL will grow at least high double digit high teens in the next foreseeable future, slow down or no slow down. US markets, which contribute about 62% to total sales, are likely to post a 17% growth in the next two years at least. Similarly Europe, which contributes about 19% to total sales, is likely to chart out a growth of north of 25%. Similarly ROW (Rest Of The World), which contributes about 15% to total sales is also likely to grow at about 25%. Mr Mandawewala said that Indian markets, which contribute a lowly 5% as of now to sales, are likely to post a scorching 40% growth going forward. It has also increased its focus on Japan, which currently contributes about 1% to sales.

Interim Dividend

WIL declared Rs3/share as interim dividend.

Capex On Track:

WIL's capex plan is on track having already spent about Rs15b till end of September 2014. It has put in place 1,70,000 spindles, all of which are operational. Balance Rs13b capex will be completed by March 2016 and will be targeted at modernizing its Vapi plant, increasing capacities and technology upgradation.

Strong brands:

The company relaunched its Spaces brand in the domestic market, which is said to have done very well. It is also planning to launch the Christy brand in India by test launching it in Mumbai. It owns two other well known brands, Hygro cotton & Wellhome.

Capacities in place for growth till FY16

WIL's terry towel capacity has increased from 43,800 tons in FY13 to 60,000 tons in FY15 and will further increase to 60,000 tons in FY16 (current capacity utilization 95%). Its bed linen capacity has increased from 52,000 Mtrs in FY13 to 60,000 Mtrs in FY15 and is further expected to rise to 72,000 Mtrs by the end of FY16 (current capacity utilization 91%). Its rugs/carpet capacity has increased from 10,151 tons in FY13 to 15,000 tons in FY15 and is further expected to increase to 20,000 in FY16 (current capacity utilization 52%).

Rating	BUY
CMP	Rs 357
Target Price	550
Upside %	54
Sensex	27900

Key Data	
Bloomberg Code	WLSI IN Equity
Reuters Code	WLSP.BO
NSE Code	WELSPUNIND
Current Share o/s (mn)	100.34
Diluted Share o/s (mn)	100.34
Mkt Cap (Rs bn/\$ mn)	35.9/583.4
52 WK H/L (Rs)	360/62
Daily Vol. (6M NSE Avg)	159295
Face Value (Rs)	10
1 USD/ Rs	61.54

Shareholding Pattern (%)	
Promoters	73.3
FII	1.7
Others	25

	Price Performance (%)		
	1M	6M	1yr
Welspun India	17.6	61.9	443
Nifty	6.8	8.6	39.5

Financials (Rs bn)	FY14	FY15E	FY16E
Sales	44.95	50.0	62.0
Growth %	23.2	11.2	24.0
EBITDA	9.21	11.4	14.2
Margin (%)	20.5	22.8	22.8
Net Profit	0.92	4.50	5.58
Margin (%)	2.05	9.0	9.00
EPS	9.19	44.8	55.6
ROE (%)	8.30	30.0	28.2
ROCE (%)	5.43	17.8	20.9
EV/EBITDA	7.10	5.8	4.6

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(Rs bn)	FY12	FY13	FY14	FY15E	FY16E
Equity capital	0.89	1.00	1.04	1.04	1.04
Reserves & surplus	6.54	8.90	10.06	13.96	18.74
Shareholders' funds	7.43	9.90	11.10	15.00	19.78
Total Borrowings	19.62	20.28	30.29	30.30	29.00
Other Liabilities & Provisions	0.31	0.33	1.87	2.50	2.40
Capital Employed	27.36	30.51	43.26	47.80	51.18
Non Current Assets Incl Net Fixed Assets	19.81	21.57	27.86	31.90	36.99
Cash & Cash Eq.	1.48	1.72	2.33	0.50	0.46
Net other Current Assets	6.36	8.20	12.38	15.21	18.40
Investments	1.21	0.93	1.11	1.25	0.75
Net Deferred Tax	(1.50)	(1.92)	(0.44)	(1.06)	(5.42)
Total assets	27.36	30.51	43.26	47.80	51.18

(Rsbn)	2QFY15	2QFY14	YoY (%)	1QFY15	QoQ (%)	1HFY15	1HFY14	YoY (%)
Net Sales	14.14	11.59	22	11.77	25.23	25.91	18.87	37.3
EBIDTA	3.17	2.54	24.8	2.73	16.12	5.9	4.61	27.98
Margin %	22.41	21.92	49 bps	23.16	(75 bps)	22.76	21.78	98 bps
Other Income	0.19	0.25	-24	0.32	-40.63	0.51	0.41	24.39
Interest	0.73	0.59	23.73	0.71	2.82	1.44	1.15	25.22
Depreciat ion	0.72	5.11	-85.91	0.69	4.35	1.4	5.52	-74.64
PBT	1.91	-2.92	-	1.65	15.76	3.56	-1.66	314.46
Tax	0.59	-0.996	11.2	0.62	-0.03	1.21	0.59	105.08
Rate %	30.92	-	(280) bps	37.58	(664) bps	33.98	35.52	(154)bps
Reported PAT	1.29	-1.89	-	1.06	21.698	2.35	-0.99	337.37
EPS (Rs)	12.87	-18.86	-	10.55	10.55	23.39	-9.9	336.26

∞ Valuations Not Expensive. Higher PE Multiple Likely

We had recommended the stock at Rs133 in our report dated 20th May giving target price of Rs293, which has been achieved. However we continue to be positive on the company's business and therefore the stock. Between FY14 & FY16 while WIL's sales are likely to grow at 17.44% CAGR to Rs62.0b PAT is expected to grow at 146.28% CAGR to Rs5.58b. FY16(E) EPS is likely to increase to Rs55.6. We believe the market will further rerate the stock given its strong growth strategy, debt reduction plan, better return ratios, high promoter holding and higher dividend payouts. We maintain our Buy recommendation on the stock with a new target price of Rs550. At this price the stock will trade at 9.9X FY16E EPS of Rs55.6.

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