



## Welspun India

View: Positive

Fundamentals remain intact; attractive valuation

CMP: Rs760

On the back of concerns related to the Chinese currency depreciation, a likely risk of heightened competition from the domestic players like Trident (entering into the bed sheet segment) and Himatsingka Seide (entering into the terry towel segment), Welspun India underperformed the market and the stock is 21% down from its all-time high (down 13% over the last month). We believe that Welspun India, over the years, on the back of consistent quality, increased innovation and FMCG-like approach in managing the client-shelf space has created a strong clientele reach in its key markets, which is difficult to replicate in a mature industry like the US home textile market. Further, with its efforts towards consistent growth; calibrated capex (in line with the ancillarisation model adopted by auto players), would pave way for sustaining margins and improving return ratios ahead. At the current price, the stock is trading at less than 10x its FY2017 estimates, which is attractive and hence we have a positive view on the stock and expect it to deliver over 22-25% returns in medium term.

### Key result highlights

- ◆ For Q2FY2016, Welspun India's top-line growth was muted, it grew at 4.2% year on year (YoY), this low growth is attributable to (a) high base of last year (grew at 22% in Q2FY2015); and (b) capacity constraints for Q2FY2016; as towel and sheeting capacities are running at 105% and 96% utilisation levels respectively.
- ◆ Driven by innovation in products (innovative products contribute 30% to total sales), benefit of integration (now 70% of the yarn requirement is sourced internally as against 35% pre-capital expenditure [capex]), and lower raw material cost, the operating profit grew at 18.1% YoY. Consequently, the operating profit margin expanded by 300 basis points (BPS) YoY at 25.4% for the quarter.
- ◆ A healthy operating performance, aided by reduction in the interest cost (the interest cost was lower by 30% YoY; on account of interest subsidy of Gujarat state government; coupled with company's initiative to issue commercial paper at lower interest rates), led to a strong 32.7% year-on-year (Y-o-Y) growth in net earnings.

### Q2FY16 result review

Particulars	Rs cr				
	Q2FY16	Q2FY15	YoY %	Q1FY16	QoQ %
Net sales	1,472.3	1,413.5	4.2	1,388.5	6.0
Operating profit	374.3	316.9	18.1	359.8	4.0
Operating profit margin (%)	25.4	22.4	300BPS	25.9	(49.5)BPS
Profit after tax	172.4	129.9	32.7	163.2	5.6

## Key management call highlights

- ♦ Going forward, the company remains confident of returning back to its guided level of growth in the range of 13-16% and this would be achieved on the back of available capacity in its bed sheets and terry towel plants. It expects its terry towel plant to witness a 10% Y-o-Y increase in capacity for the next two consecutive quarters. Further, its sheeting plant is also ready with 20% enhanced capacity (from 60 million metres to 72 million metres).
- ♦ Welspun India is currently in the middle of its expansion spree, towards integration and debottlenecking that would entail an additional capex of Rs850 crore to be spent in the next 12-18 months. After that the company plans to go the ancillarisation way whereby it would outsource the high capex spinning, weaving and would concentrate itself in the high value added cutting, sewing, dyeing and finishing segments that would make its business asset light resulting in higher returns. Thus, beyond FY2017, maintenance capex would be incurred by the company, implying capex equal to the depreciation charge.

- ♦ The company aims to improve its share in the domestic business (which is largely branded-*Spaces* and *Welhome*), that would fetch it higher margins. The domestic business currently contributes 6% to the total top line and the company aims to take it to 20% in the next five years.

## Our take

- ♦ Aided by the confluence of various factors like stable raw material prices, the company's effort towards innovation, integration and increased focus of branded business, the margins are likely to sustain at the current level of 24-25%.
- ♦ We believe that Welspun India with its strong clientele in the global market would continue to be the key beneficiary of the consolidation in the market. Along with steady volume growth, its effort towards cost optimisation and efficient capital allocation strategy (via ancillarisation) is likely to propel the key returns metrics. Thus, we continue to like its business model and strategy.

## Valuation (consolidated)

Particulars	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net sales (Rs cr)	2,933	3,647	4,495	5,303	5,939	6,711
EBITDA (Rs cr)	557	595	921	1,369	1,485	1,644
EBITDA margin (%)	19.0	16.3	20.5	25.8	25.0	24.5
PBT	281	301	600	753	997	1,164
PAT	199	225	420	540	658	780
EPS (Rs)	19.8	22.4	41.8	53.7	65.50	77.67
RoE (%)	26.7	25.9	40.0	42.5	36.1	33.0
PER (x)	38.4	34.0	18.2	14.1	11.6	9.8

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.



REGISTRATION DETAILS Regd Add: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai - 400042, Maharashtra. Tel: 022 - 61150000. Fax: 67481899; E-mail: publishing@sharekhan.com; Website: www.sharekhan.com; CIN: U99999MH1995PLC087498. Sharekhan Ltd.: SEBI Regn. Nos. BSE- INB/INF011073351 ; CD-INE011073351; NSE- INB/INF231073330 ; CD-INE231073330; MCX Stock Exchange- INB/INF261073333 ; CD-INE261073330; DP-NSDL-IN-DP-NSDL-233-2003 ; CDSL-IN-DP-CDSL-271-2004 ; PMS-INP000000662 ; Mutual Fund-ARN 20669 ; Commodity trading through Sharekhan Commodities Pvt. Ltd.: MCX-10080 ; (MCX/TCM/CORP/0425) ; NCDEX-00132 ; (NCDEX/TCM/CORP/0142) ; NCDEX SPOT-NCDEXSPOT/116/CO/11/20626; For any complaints email at igc@sharekhan.com ; Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and Do's & Don'ts by MCX & NCDEX and the T & C on www.sharekhan.com before investing.

### Disclaimer

This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on a reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as he deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of SHAREKHAN may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Either SHAREKHAN or its affiliates or its directors or employees/representatives/clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. The analyst certifies that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. Further, no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

Please refer the Risk Disclosure Document issued by SEBI and go through the Rights and Obligations and Do's and Don'ts issued by Stock Exchanges and Depositories before trading on the Stock Exchanges. Please refer disclaimer for Terms of Use.

Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-61150000; e-mail: compliance@sharekhan.com • Contact: myaccount@sharekhan.com