Welspun India

View: Positive

Decent performance; reiterate positive stance

CMP: Rs103

Key points

- **Q1FY2017 results snapshot**: Welspun India has posted a decent 14.3% YoY growth in its revenues, led by 10% YoY volume growth and premiumisation of the product portfolio. The operating performance remains consistent, with operating profit margin (OPM) expanding by 19 basis points (BPS) to 26.5% as against 26.3% in Q1FY2016, resulting in 15.1% YoY growth in operating profit. Steady operating performance was backed by lower interest costs (-41% YoY, due to the company availing Gujarat government's interest subsidy for its second plant at Vapi). But, higher depreciation on account of fresh capex (+43% YoY) led to a 10.3% YoY growth in net profit at Rs202 crore.
- **FY2017 capex pegged at Rs800 crore; post which capex requirements to moderate**: Currently, Welspun India is operating at ~90% capacity utilisation in the bed sheets and the towel business. For FY2017, it has envisaged a capex of Rs800 crore toward enhancing capacities across product segments (bed sheets from 72 million meters to 90 million meters; towel from 60,000 tonne to 72,000 tonne and rugs from 8 million square meters to 10 million square meters). This enhanced capacity is likely to take care of growth for the next two years, post which the company expects to sustain double-digit growth via just maintenance capex. Despite outlining a capex of Rs800 crore for FY2017, the company has maintained its plan to pare down its net debt from the current level of Rs2,500 crore to improve the balance sheet strength.
- **Enough levers to sustain revenue and earnings growth:** Welspun India has unveiled its vision 2020 program, whereby it aims to (a) Double its revenue from the current level of $1 billion to $2 billion (implying a CAGR of 20% over FY2016-FY2021) (b) Increase share of innovative and branded products from the current level of 30% to 50% (c) Improve margins further (guidance maintained at 23-24%) and (d) Turn debt free (current debt-equity ratio at 1.3x). We believe that Welspun India would continue to grow its revenue on the back of (a) Increased capacity utilisation (already embarked on increasing capacity across segments) (b) Introduction of new products like rugs and carpets (currently constitute less than 20% of product profile (c) Penetration into newer geographies (UK, Japan etc), and (d) Increased presence in the domestic market (aims to have a 20% revenue contribution from the domestic market). Further, the planned increase in contribution from the branded & innovative products (targets 50% of total revenue as against 34% currently) would result in margin expansion going ahead. With peak capex behind, the company's cash generation would also be utilised to retire debt, paving the way for a stronger balance sheet.
- **Quality play in home textiles space; maintain our positive stance:** On October 20, 2015, we had initiated our view point call on Welspun India at a price of Rs76 (Rs760 pre stock split; the company spilt its share from Face Value of Rs10 to Re1), citing its consistent performance, strong fundamentals, improving focus on creating a sustainable business model and attractive valuations (10x one-year forward earnings). The company continued to deliver on our expectations and the stock has delivered 36% returns. We believe that its leadership status, aggressive management and efficient capital allocation strategy (via ancilarisation drive) would enable Welspun India to deliver a consistent performance going forward, with improved returns. We expect the company to post 14% revenue CAGR and 15% earnings CAGR over FY2016-FY2018. Further, the government's thrust on employment generating sectors like Textiles and the impending New Textile Policy (in line with the garment policy) is likely to incentivise players like Welspun India to up the ante. At the current market price, the stock is trading at 10.7x its FY2018 earnings. We maintain our positive stance on the stock, and expect ~10-15% returns from the current level in the medium term.
- **Key risk:** Over the last one month, cotton prices have witnessed ~18-20% increase on a YoY basis. Welspun India is covered for around 3-4 months' inventory. But, continuous rise in cotton prices would pose some risk to the company's margins going ahead.

Q1FY2017 result Rs cr

Particulars	Q1FY17	Q1Y16	% YoY	Q4FY16	% QoQ
Net sales	1,592.6	1,393.1	14.3	1,629.4	(2.3)
Operating profit	422.5	366.9	15.1	432.6	(2.3)
Operating profit margin (%)	26.5	26.3	19	26.6	(2.4)
Depreciation	112.0	78.5	42.8	103.6	8.1
Interest	35.3	59.3	(40.5)	66.8	(47.2)
PBT	294.1	257.7	14.1	290.0	1.4
Profit after tax	201.9	183.0	10.3	199.4	1.3

Valuation **Rs cr**

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Net sales	4495	5303	5985	6880	7800
EBITDA	921	1369	1574	1686	1950
EBITDA margin (%)	20.5	25.8	26.3	24.5	25.0
PAT	420	540	741	820	968
EPS (Rs)	4.2	5.4	7.38	8.17	9.63
RoE (%)	40.0%	42.5%	41.0%	36.0%	33.0%
PER (x)	24.7	19.2	14.0	12.6	10.7

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