

WELSPUN INDIA**Spinning growth story**

India Equity Research | Textiles

Welspun India's (WLSI) Q1FY15 revenue/PAT grew 21.4%/16.8% YoY, primarily led by higher production. We estimate overall production to have grown 7.7% YoY predominantly due to surge in terry towels production. EBITDA margin at 21.9% was the highest ever. Gross debt fell marginally from INR30.3bn in Q4FY14 to INR30.1bn in Q1FY15. We continue to like WLSI due to high pre-tax RoCE and RoE of 26.7% and 36.0%, respectively. While the stock has run up 4.2x in a year, a controlled capex will trigger further re-rating. We have revised up FY15E EPS by 6% to account for better Q1FY15 numbers and correspondingly revised our target price to INR315 (earlier INR300). Maintain 'BUY'.

Revenue up 21% YoY riding increased production, sales

Revenue grew 21% YoY due to increased production of terry towels, but fell 3.2% QoQ due to seasonality in the business. While terry towels clocked 100% capacity utilisation (55% revenue share), capacity utilisation in bed sheets (30% revenue share) and rugs was 85% and 53%, respectively. Over the next two quarters, WLSI will commission all the 0.17mn yarn spindles. By Q4FY15, it will have back rd integration of ~75% from its own spindles. We anticipate Q3/Q4FY15 to be important earnings growth quarters.

EBITDA margin at 21.9% highest ever

WLSI's EBITDA margin at 21.9% is the highest ever. Management believes promotional schemes by Govt are helping the company clock 3% additional EBITDA margin which it expects to be neutralised over the next few quarters. However, guided margin for FY15/16 is 21% due to benefits from integration. Other income added one-time amount of INR220mn on account of forex gain and INR240mn of SHIS benefit. Interest expenses jumped 27.7% YoY as the government withdrew the 3% interest subvention scheme for working capital.

Outlook and valuations: High RoE of 36% maintain 'BUY'

The company has spent INR12bn of the planned INR25bn capex programme. We perceive operating upsides to accrue from Q4FY15. Moreover, increased sales in new markets like Japan will drive revenue growth. Current 6% is commendable. We have revised up FY15E EPS 6% to account for better Q1FY15 numbers and correspondingly revised our target price to INR315 (earlier INR300). Maintain 'BUY' recommendation.

Financials

Year to March	Q1FY15	Q1FY14	YoY%	Q4FY14	QoQ%	FY14	FY15E	FY16E
Net revenues	11,467	9,446	21.4	11,850	(3.2)	44,954	50,908	62,770
EBITDA	2,506	2,013	24.5	2,204	13.7	9,211	11,031	14,286
Profit after tax	1,050	899	16.8	818	28.4	921	4,189	5,566
Diluted EPS (INR)	10.5	9.0	16.4	8.1	28.4	9.2	41.7	55.5
Diluted P/E (x)						26.0	5.7	4.3
EV/EBITDA (x)						5.6	5.2	4.1
ROAE (%)						8.8	32.8	33.3

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	None

MARKET DATA (R: WLSP.BO, B: WLSI IN)

CMP	: INR 239
Target Price	: INR 315
52-week range (INR)	: 244 / 47
Share in issue (mn)	: 100.4
M cap (INR bn/USD mn)	: 24 / 395
Avg. Daily Vol. BSE/NSE ('000)	: 223.9

SHAREHOLDING PATTERN (%)

	Current	Q4FY14	Q3FY14
Promoters *	73.1	73.1	68.8
MF's, FI's & BKs	10.9	10.9	16.8
FII's	0.0	0.0	0.0
Others	16.0	16.0	14.4
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(0.9)	30.8	31.7
3 months	23.1	77.4	54.2
12 months	59.9	352.2	292.3

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Gross margins have average 50% in last six quarters. Margins to increase as integration benefits flow in next two quarters.

High ROE and ROCE levels have sustained high levels. Increased integration in next two quarters will sustain WLSI's ROCE.

While gross and net debt increased in absolute levels, Net Debt/EBITDA and Net Debt/Equity remain at comfortable levels

Chart 1: Highest ever EBITDA margins reported in Q1FY15 at 21.85%

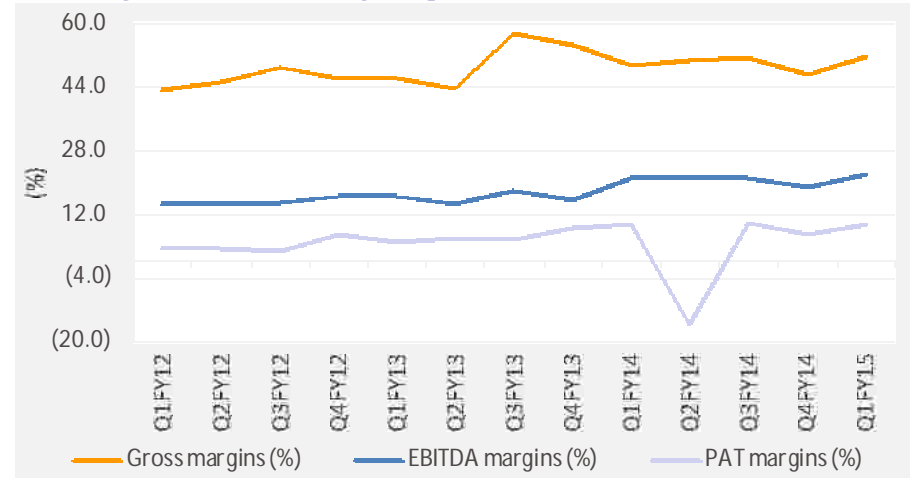


Chart 2: ROCE and ROE based on the quarterly numbers

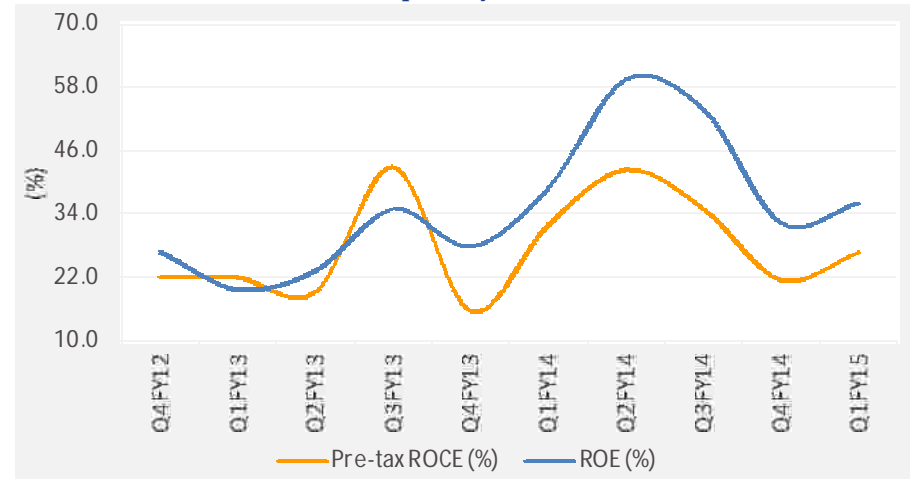
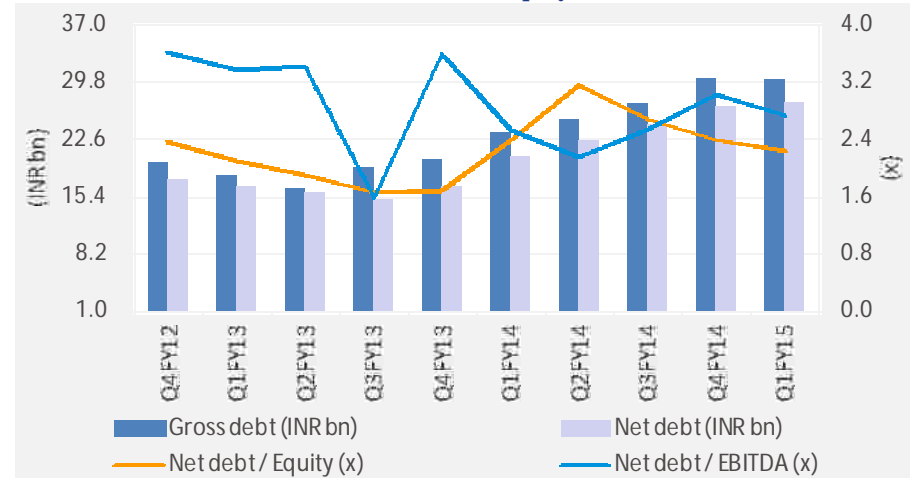


Chart 3: Stable Net Debt/EBITDA and Net debt/Equity levels



Source: Edelweiss research

Financial snapshot**(INR mn)**

Year to March	Q1FY15	Q1FY14	% change	Q4FY14	% change	FY14	FY15E	FY16E
Net revenues	11,467	9,446	21.4	11,850	(3.2)	44,954	50,908	62,770
Staff costs	1,004	721	39.2	975	3.0	3,400	3,973	4,633
Direct costs	5,564	4,782	16.3	6,299	(11.7)	22,673	24,248	29,773
Other expenses	2,393	1,930	24.0	2,372	0.9	9,670	11,655	14,078
EBITDA	2,506	2,013	24.5	2,204	13.7	9,211	11,031	14,286
Depreciation & amortization	686	415	65.3	839	(18.2)	6,863	2,896	3,413
EBIT	1,820	1,598	13.9	1,365	33.3	2,348	8,135	10,873
Other income	543	216	151.5	289	87.9	1,041	1,034	462
Interest	713	558	27.7	633	12.6	2,352	2,917	2,966
Profit before tax	1,650	1,256	31.4	1,021	61.6	1,037	6,252	8,370
Tax	622	405	53.6	209	197.3	199	2,126	2,846
Core profit	1,028	850	20.8	812	26.6	838	4,126	5,524
Extraordinary items								
Profit after tax and min. int.	22	48	(54.4)	6	292.2	82	62	42
Net profit	1,050	899	16.8	818	28.4	921	4,189	5,566
Diluted EPS (INR)	10.5	9.0	16.4	8.1	28.4	9.2	41.7	55.5

As %of net revenues

Direct costs	48.5	50.6		53.2		50.4	47.6	47.4
Employee cost	8.8	7.6		8.2		7.6	7.8	7.4
Other expenses	20.9	20.4		20.0		21.5	22.9	22.4
EBITDA	21.9	21.3		18.6		20.5	21.7	22.8
Reported net profit	9.2	9.5		6.9		2.0	8.2	8.9
Tax rate	37.7	32.3		20.5		19.2	34.0	34.0

Change in Estimates

	FY15E			FY16E			Comments
	New	Old	%change	New	Old	%change	
Net revenue	50,908	50,678	0.5	62,770	62,704	0.1	
EBITDA	11,031	10,854	1.6	14,286	14,034	1.8	Assuming higher yarn margins
EBITDA margin	21.7	21.4		22.8	22.4		
Core profit	4,126	3,891	6.0	5,524	5,643	(2.1)	Marginal reduction in tax rate
PAT margin	8.1	7.7		8.8	9.0		
Capex	3,846	3,846	0.0	4,502	4,502	0.0	

Company Description

Established in 1985, Welspun India today, it is one of the top three home textile manufacturers globally and the largest home textile company in Asia. It has modern manufacturing facilities at Anjar and Vapi in Gujarat where it produces an entire range of home textiles for bed & bath category. The company has state-of-the-art completely vertically integrated plants, right from spinning to confectioning.

Welspun has been ranked No.1 among home textile suppliers in the US (Source: Home Textile Today). It has a distribution network in over 50 countries including US, UK, Europe, Canada and Australia.

In addition to manufacturing facilities, which predominantly supply to private labels, the company also maintains its own brands Christy, Hygrocotton, Wellme and Spaces - Home and Beyond; it also has a tie up with Nautica for North American markets.

Investment Theme

Innovation, diversified client and product base cement dominance: Welspun enjoys long standing relationships with top retailers in the US and Europe and supplies to 14 of the top 30 global retailers. It commands a lion's share of home textiles exported out of India. Increasing geographical and client diversification is improving the company's risk metrics. It has seven trademarks and has applied for six patents till date. Welspun derives ~25% of sales from innovative products.

Capex underway to bolster already formidable capacity: The company is undertaking a major capex programme to enhance its cost base, lending it pricing power and opportunities to increase market share globally. This will propel vertical integration to ~75% (~35% currently). The capex is being funded by low-cost subsidised debt, which will increase capacity without substantial interest burden.

Returns: Better integration and continued high capacity utilisation will drive 190bps expansion in EBITDA margin over FY14-16E. Similarly, RoEs are likely to maintain upward trend and cross the 34% mark in FY16E (800bps expansion over FY13-16E).

Key Risks

Raw material risk: Raw material costs, primarily cotton yarn, account for 50% of the overall expenses and are a prime driver of profitability. Volatility in cotton prices can impact the profitability adversely.

Leveraged balance sheet: Welspun ended FY14 with a net debt/equity of 2.5x. It is in the midst of a capex programme with a total potential outlay of INR24bn. This is likely to keep leverage levels high in the future and may pressurise profitability.

Currency fluctuations: Welspun exports more than 90% of its production. With a network spanning 50 countries, the company is exposed to currency fluctuations which can significantly impact profitability.

Financial Statements

Key Assumptions

Year to March	FY13	FY14E	FY15E	FY16E
Macro				
GDP(Y-o-Y %)	5.0	4.8	5.4	6.3
Inflation (Avg)	7.4	6.2	5.5	6.0
Repo rate (exit rate)	7.5	8.0	7.8	7.3
USD/INR (Avg)	54.5	60.5	58.0	56.0
Company				
Terry towel capacity (MT)	43,800	45,000	50,000	60,000
Bed Linen capacity (000 Mts)	52,000	55,000	60,000	72,000
Rugs/carpets capacity (MT)	10,151	12,000	15,000	20,000
Terry towel capacity utilisation (%)	90	99	95	95
Bed linen capacity utilisation (%)	96	89	85	90
Rugs/carpets capacity utilisation (%)	59	68	70	75
Raw Material Cost as % Net Revenue	50.0	50.4	47.6	47.4
Other expenses as % of net revenues	26.1	21.5	22.9	22.4
Average Depreciation rate (%)	5.3	5.4	6.0	6.0
Dividend per share	3.8	3.0	7.1	9.4
Capex (INR mn)	2,847	3,902	3,846	4,502
Inventory as % of total costs (%)	45.0	44.5	44.7	44.9
Receivables as % of net revenues (%)	7.5	9.2	9.4	9.6
Other current assets as % of net revenues (%)	5.7	6.8	6.9	7.0
Loans and advances as % of net revenues (%)	11.8	12.0	12.0	12.0
Incremental debt (INR mn)	623	10,048	5,646	1,470

Income statement

(INR mn)

Year to March	FY13	FY14	FY15E	FY16E
Net revenue	36,473	44,954	50,908	62,770
Materials costs	18,246	22,673	24,248	29,773
Gross profit	18,227	22,281	26,659	32,997
Employee costs	2,766	3,400	3,973	4,633
Other Expenses	9,515	9,670	11,655	14,078
EBITDA	5,946	9,211	11,031	14,286
Depreciation & Amortization	1,449	6,863	2,896	3,413
EBIT	4,497	2,348	8,135	10,873
Other income	492	1,041	1,034	462
Interest expenses	1,977	2,352	2,917	2,966
Profit before tax	3,013	1,037	6,252	8,370
Provision for tax	733	199	2,126	2,846
Net profit	2,279	838	4,126	5,524
Extraordinary income/ (loss)	31	-	-	-
Profit after minority interest	2,248	921	4,189	5,566
Shares outstanding (mn)	100	100	100	100
Diluted EPS (INR)	22.8	9.2	41.7	55.5
CEPS (INR)	41.8	63.0	77.5	98.7
Dividend per share (INR)	3.8	3.0	7.1	9.4
Dividend payout (%)	16.6	32.7	17.0	17.0

Common size metrics

Year to March	FY13	FY14	FY15E	FY16E
Gross margin	50.0	49.6	52.4	52.6
EBITDA margins	16.3	20.5	21.7	22.8
EBIT margins	12.3	5.2	16.0	17.3
Net profit margins	6.2	1.9	8.1	8.8

Growth ratios (%)

Year to March	FY13	FY14	FY15E	FY16E
Revenues	13.3	23.3	13.2	23.3
EBITDA	62.4	54.9	19.8	29.5
Net profit	(1,781.3)	(59.0)	354.9	32.9
EPS	206.5	(59.7)	354.9	32.9

Textiles

Balance sheet		(INR mn)			
As on 31st March	FY13	FY14	FY15E	FY16E	
Equity capital	1,000	1,003	1,003	1,003	
Reserves & surplus	8,901	10,093	13,455	17,921	
Shareholders' funds	9,902	11,097	14,458	18,925	
Minority interest (BS)	250	316	254	211	
Short term debt	9,166	11,349	14,035	9,819	
Long term debt	11,079	18,944	21,903	27,589	
Borrowings	20,244	30,293	35,938	37,408	
Deferred tax liability	1,917	434	1,122	2,043	
Sources of funds	32,313	42,140	51,772	58,586	
Tangible assets	16,267	23,261	31,178	34,287	
Intangible assets	1,806	1,806	1,816	1,826	
CWIP (incl. intangible)	542	542	1,021	884	
Total net fixed assets	18,615	25,609	34,015	36,997	
Non current investments	537	473	473	473	
Current Investments	394	641	-	-	
Cash and equivalents	1,724	2,332	2,828	2,887	
Inventories	8,205	10,094	10,844	13,374	
Sundry debtors	2,750	4,117	4,764	6,000	
Loans and advances	4,286	5,376	6,109	7,532	
Other current assets	2,067	3,040	3,494	4,371	
Total current assets	19,033	24,960	28,039	34,164	
Trade payable	4,963	6,144	6,775	8,141	
Others current liabilities	1,303	3,400	3,980	4,907	
Total current liabilities &	6,266	9,544	10,755	13,048	
Net current assets	11,042	13,084	14,456	18,229	
Uses of funds	32,313	42,140	51,772	58,586	
Book value per share (INR)	99.0	110.6	144.1	188.6	

Free cash flow		(INR mn)			
Year to March	FY13	FY14	FY15E	FY16E	
Net profit	2,248	921	4,189	5,566	
Depreciation	1,449	6,863	2,896	3,413	
Deferred tax	450	(1,465)	688	921	
Others	(2,350)	(2,773)	(861)	(5,042)	
Gross cash flow	1,796	3,546	6,912	4,858	
Less: Changes in WC	(1,893)	(2,042)	(1,372)	(3,773)	
Operating cash flow	3,690	5,588	8,284	8,631	
Less: Capex	2,847	3,902	3,846	4,502	
Free cash flow	843	1,686	4,438	4,129	

Cash flow metrics		FY13	FY14	FY15E	FY16E
Year to March					
Operating cash flow		3,690	5,588	8,284	8,631
Investing cash flow		(1,433)	(13,063)	(9,627)	(5,933)
Financing cash flow		(1,537)	7,262	1,838	(2,639)
Net cash flow		719	(214)	495	59
Capex		(2,847)	(3,902)	(3,846)	(4,502)
Dividends paid		(207)	(937)	(971)	(996)

Profitability & efficiency ratios		FY13	FY14	FY15E	FY16E
Year to March					
ROAE (%)		26.3	8.8	32.8	33.3
ROACE (%)		15.1	6.4	17.4	19.7
Inventory day		155	147	158	148
Debtors days		26	28	32	31
Payable days		102	89	97	91
Cash conversion cycle (days)		79	86	92	88
Debt/Equity		1.8	2.5	2.3	1.8

Operating ratios		FY13	FY14	FY15E	FY16E
Year to March					
Total asset turnover		1.2	1.2	1.1	1.1
Fixed asset turnover		2.0	2.0	1.7	1.8
Equity turnover		4.2	4.3	4.0	3.8

Valuation parameters		FY13	FY14	FY15E	FY16E
Year to March					
Diluted EPS (INR)		22.8	9.2	41.7	55.5
Y-o-Y growth (%)		206.5	(59.7)	354.9	32.9
CEPS (INR)		41.8	63.0	77.5	98.7
Diluted PE (x)		10.5	26.0	5.7	4.3
Price/BV (x)		2.4	2.2	1.7	1.3
EV/Sales (x)		1.2	1.1	1.1	0.9
EV/EBITDA (x)		7.1	5.6	5.2	4.1
Dividend yield (%)		1.6	1.3	3.0	4.0

Additional Data

Directors Data

Mr. B K Goenka	Chairman	Mr. R. R. Mandawewala	Managing Director
Ms. Dipali Goenka	Executive Director	Mr. D. B. Engineer	Independent Director
Mr. A. K. Dasgupta	Independent Director	Mr. Arun Todarwal	Independent Director
Mr. Ram Gopal Sharma	Independent Director	Mr. Ajay Sharma	Nominee Director

Auditors - Price Waterhouse

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Krishiraj trading lt	49.84	Welspun mercantile l	11.2
Welspun wintex ltd	8.39	Reliance capital tru	2.83
Welspun infratech lt	2.74	Bank of baroda	1.99
Industrial dev bank	1.77	State bk bikaner & j	1.63
Tata asset managemen	1.21	Welspun finance ltd	0.54

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
15 May 2014	KRISHIRAJ TRADING LIMITED	Buy	66179.00
08 May 2014	Krishiraj Trading Limited	Buy	216506.00
06 Mar 2014	IDBI Bank Limited	Sell	3130192.00
06 Mar 2014	Welspun Infra Developers Private Limited	Buy	1849773.00

**as per last available data*