

Welspun India

Weaving productivity

We recently met with a production planning manager at Welspun India's (WLSI IN) manufacturing plant at Vapi in Gujarat, 180km from Mumbai, to find out about the plant's modernization drive. The following are our key takeaways:

- Welspun has earmarked capex of INR 2.5bn for FY17 to modernize yarn, weaving and processing of towels at the Vapi plant and expanding capacity of rugs & carpets
- Modernization of the processing unit for towels will lower rejection rates, thereby limiting RM waste (~13.5% processing loss in the towel segment will reduce to 12%). The upgrade will lower water & steam consumption and reduce employee cost, which, in turn, will lead to lower cost of production and margin expansion
- Rotations per minute (RPM) of weaving machine will increase from 430 to 565
- Capacity of weaving and processing is likely to rise from 26K tonnes to 32.8K tonnes
- By September 2016, annual capacity of rugs & carpets is expected to increase to 10mn sqm from 8mn sqm
- Welspun will be first company in India to implement SAP Hana, an in-memory platform for advanced data processing and next-generation applications, at its textile manufacturing & R&D facilities
- Drylon technology has been implemented in its towel business which will make it more absorbent & bulky and increase softness. The company has been using Drylon for rugs & carpet since 2008.
- The Vapi plant caters to smaller order sizes; hence, full-scale automation of cutting, stitching and packaging is not possible
- Open-end yarn has a mix of 70% fresh cotton and 30% waste cotton to produce yarn. Its cost of yarn is 25% less than ring-frame yarn, which is 100% fresh cotton with a longer processing timeframe.

Valuation – reiterate Buy with a new target price of INR 147

We believe Welspun is slated for a re-rating on 1) sustainability of 20%+ earnings CAGR over FY16-18E, 2) high ROCE, 3) healthy dividend payout of ~20% on consolidated basis, 4) free cashflow generation of INR 14.3bn over FY17-18E, and 5) a likely fall in the net D-E ratio from 1.3x in FY16 to 0.6x in FY18E despite capex of INR 19bn over FY16-17E. We expect a revenue CAGR of ~15% over FY15-18E on healthy sales volume growth across terry towels, bed linen and rugs. We reiterate **Buy** and raise our TP to INR 147 from INR 132 on an average of 14x (from 13x) FY18E P/E and 8x (from 7x) FY18E EV/EBITDA.

Rating: Buy

Target Price: INR 147

Upside: 29%

CMP: INR 114 (as on 13 June 2016)

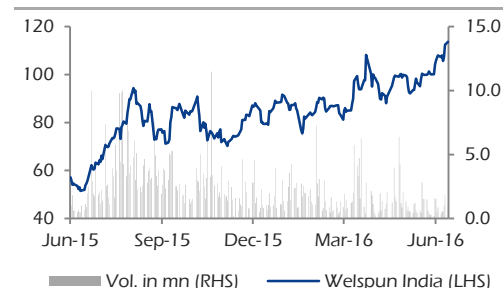
Key data

Bloomberg /Reuters Code	WLSI IN/WLSP.BO
Current/Dil. Shares O/S (mn)	1,005/1,005
Mkt Cap (INR bn/USD mn)	114/1,701
Daily Vol. (3M NSE Avg.)	1,270,087
Face Value (INR)	1

1 USD = INR 67.1

Note: *as on 13 June 2016; Source: Bloomberg

Price & Volume



Source: Bloomberg

Share holding (%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Promoter	73.5	73.5	73.5	73.5
Institutional Investors	10.8	11.8	13.7	15.5
Other Investors	6.3	6.7	5.0	3.8
General Public	9.3	8.1	7.8	7.2

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	6.8	5.4	(0.1)
Welspun India	16.8	43.1	120.1
Trident	(2.6)	(6.9)	115.2

Source: Bloomberg

About Vapi Plant

The Vapi Plant was Welspun's first manufacturing facility for terry towels in India. It was established in 1993. And, today the plant employs 5,000 full-time workers & 8,079 contract workers and runs a fully integrated facility, churning out terry towels, bath robes, rugs & carpets. The plant has terry towel capacity of 25.6K tonnes pa and rugs & carpets capacity of 8mn sqm pa. It has 32K tonnes of yarn and 26K tonnes of weaving capacity. The plant also produces towels in various hues and by different designers. Wimbledon towels sold under the *Christy* brand are manufactured at this facility. Welspun uses the JNPT and Hazira ports to ship products globally. The Vapi plant runs on 19MW of power (9 MW are met through a captive plant and the rest is sourced from its Anjar plant in Gujarat).

Key Financials

YE	Rev	YoY	EBITDA	EBITDA	Adj PAT	YoY	Fully DEPS	RoE	RoCE	P/E	EV/EBITDA
March	(INR mn)	(%)	(INR mn)	margin (%)	(INR mn)	(%)	(INR)	(%)	(%)	(x)	(x)
FY15	53,025	18.0	12,742	24.0	5,398	486.3	5.4	42.5	23.5	21.2	11.1
FY16	59,795	12.8	15,575	26.0	7,029	30.2	7.0	41.1	27.0	16.3	9.0
FY17E	69,438	16.1	18,036	26.0	8,558	21.8	8.5	37.0	27.4	13.4	7.8
FY18E	79,688	14.8	20,708	26.0	10,603	23.9	10.6	34.8	28.6	10.8	6.5

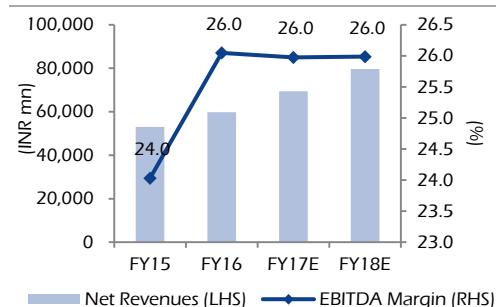
Note: pricing as on 13 June 2016; Source: Company, Elara Securities Estimate

Consolidated Financials (YE March)

Income Statement (INR mn)	FY15	FY16	FY17E	FY18E
Net Revenues	53,025	59,795	69,438	79,688
EBITDA	12,742	15,575	18,036	20,708
Add:- Non operating Income	949	915	1,042	1,195
OPBIDTA	13,691	16,490	19,078	21,904
Less :- Depreciation & Amortization	3,329	3,750	4,551	4,705
EBIT	10,362	12,740	14,526	17,199
Less:- Interest Expenses	2,829	2,362	1,749	1,404
PBT	7,533	10,378	12,777	15,795
Less :- Taxes	2,090	3,224	4,089	5,054
Add/(Less): - Extra-ordinaries	-	-	-	-
Add: Share of Loss in Associate	-	-	-	-
Less: Minority Interest	45	125	131	137
Reported PAT	5,398	7,029	8,558	10,603
Adjusted PAT	5,398	7,029	8,558	10,603
Balance Sheet (INR mn)	FY15	FY16	FY17E	FY18E
Share Capital	1,005	1,005	1,005	1,005
Reserves	13,314	18,872	25,370	33,492
Borrowings	30,851	26,629	29,671	26,114
Minority Interest	378	503	634	771
Deferred Tax (Net)	641	1,178	1,178	1,178
Total Liabilities	46,188	48,187	57,858	62,560
Gross Block	43,148	54,349	62,349	65,349
Less:- Accumulated Depreciation	18,663	22,413	26,965	31,670
Net Block	24,485	31,935	35,384	33,679
Add:- Capital work in progress	1,564	1,500	1,500	1,500
Goodwill on Acquisition	1,785	1,775	1,775	1,775
Investments	1,420	563	1,563	2,063
Cash & bank balances	3,252	1,243	2,819	5,800
Net Working Capital	13,682	11,170	14,817	17,743
Other Assets	-	-	-	-
Total Assets	46,188	48,187	57,858	62,560
Cash Flow Statement (INR mn)	FY15	FY16	FY17E	FY18E
Cash profit adjusted for non cash items	11,642	13,266	14,989	16,849
Add/Less : Working Capital Changes	(2,399)	2,512	(3,647)	(2,926)
Operating Cash Flow	9,243	15,778	11,342	13,924
Less:- Capex	(5,767)	(11,126)	(8,000)	(3,000)
Free Cash Flow	3,476	4,652	3,342	10,924
Financing Cash Flow	(3,102)	(8,113)	(709)	(7,442)
Investing Cash Flow	(304)	857	(1,000)	(500)
Net change in Cash	71	(2,604)	1,633	2,981
Ratio Analysis	FY15	FY16	FY17E	FY18E
Income Statement Ratios (%)				
Revenue Growth	18.0	12.8	16.1	14.8
EBITDA Growth	38.3	22.2	15.8	14.8
PAT Growth	28.7	30.2	21.8	23.9
EBITDA Margin	24.0	26.0	26.0	26.0
Net Margin	10.2	11.8	12.3	13.3
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	1.9	1.3	1.0	0.6
ROE (%)	42.5	41.1	37.0	34.8
ROCE (%)	23.5	27.0	27.4	28.6
Per Share data & Valuation Ratios				
Diluted EPS (INR)	5.4	7.0	8.5	10.6
EPS Growth (%)	28.7	30.2	21.8	23.9
DPS (INR)	1.0	1.3	1.7	2.1
P/E (x)	21.2	16.3	13.4	10.8
EV/EBITDA (x)	11.1	9.0	7.8	6.5
EV/Sales (x)	2.7	2.3	2.0	1.7
Price/Book (x)	8.0	5.8	4.3	3.3
Dividend Yield (%)	0.9	1.1	1.5	1.9

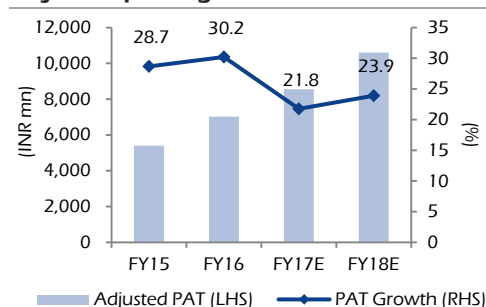
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Revenue & margin growth trend



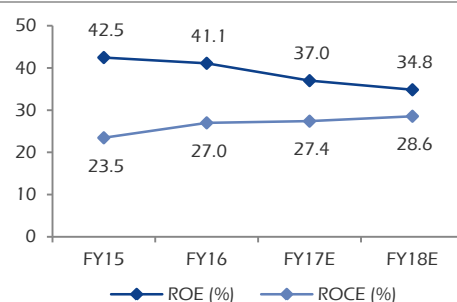
Source: Company, Elara Securities Research

Adjusted profit growth trend



Source: Company, Elara Securities Research

Return ratios



Source: Company, Elara Securities Research

Exhibit 1: Valuation

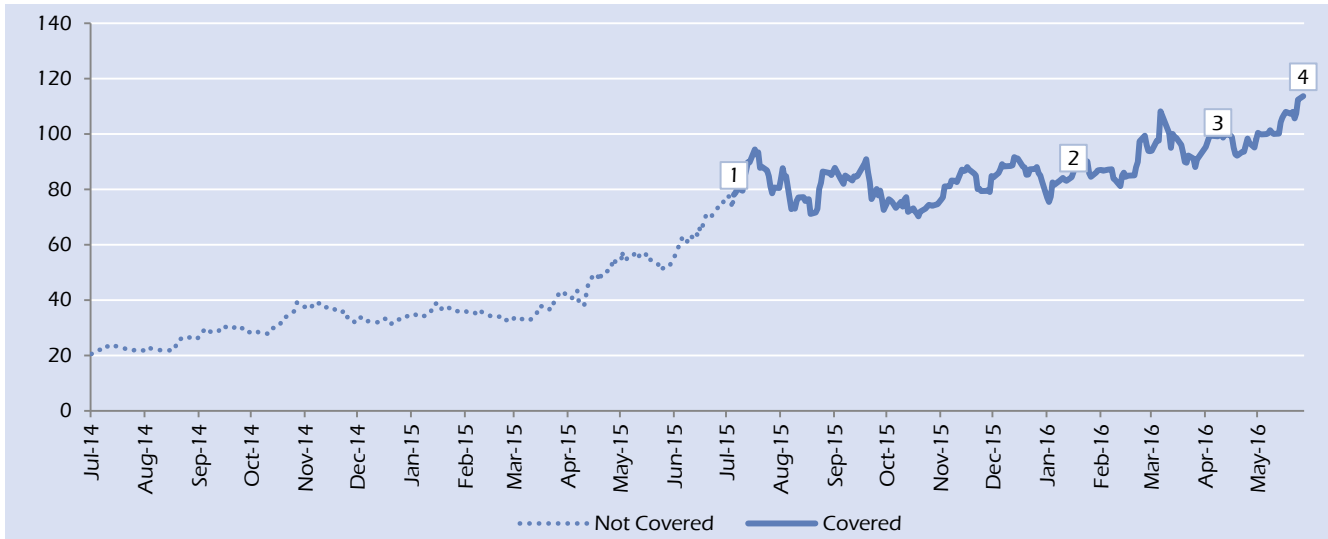
	FY18E
PE-based	
EPS (INR)	10.6
Target PE (x)	14.0
Target price (INR)	148
Weightage (%)	50.0
EV/EBITDA-based	
EBITDA (INR mn)	20,708
Target EV/EBITDA (x)	8.0
Target EV (INR mn)	165,667
Target market cap (INR mn)	147,387
Target price (INR)	146.7
Weightage (%)	50.0
Weighted target price (INR)	147
Upside (%)	29

Source: Elara Securities Estimate

Pictures of Vapi Plant



Coverage History



	Date	Rating	Target Price	Closing Price
1	22-Jul-2015	Buy	INR 1,127	INR 780
2	2-Jan-2016	Buy	INR 1,317	INR 863
3	25-Apr-2016	Buy	INR 132*	INR 99*
4	13-Jun-2016	Buy	INR 147	INR 114

Stock Split 1:10

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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