7 POINTERS Management Meet

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Networth Stock Broking Ltd.

Date : 20th May 2014

Welspun India

A strong come back

Welspun India, WIL, has been on the horizon for a long time. However its performance has been chequred & patchy. But this time around, we believe, it has got its cards right. It restructured its operations by weeding out loss making segments and has put in place a very robust plan to integrate backward involving very low cost capex. Its capital efficiency/return ratios are set to improve. With the management holding at stake of 73% plus, as on 31st March 2014 and an attractive dividend policy on the anvil, the future appears bright for WIL. We, post our meeting with the management, put down the key takeaways:

- One of the largest global home textile players
- Range of products include bed & bath like towels, robes, sheets comforters and rugs
- Ranked 1st among home textile suppliers in the US (bath towels, bed sheets, pillow & rugs)
- Key global retailers as clients like Walmart, Target, IKEA, Rewe, Christy, Mark & Spencer etc.
- Export driven business contributes ~90% to sales of which innovative products contribute 30%. Product innovation and technological excellence are key pillars of its business strategy. (Pending patents 2, Trademarks 7)

Factors that have led to market share gain:

- India's locational advantage (surplus cotton, cheap labour and favourable demographics & high growth domestic market; de-risking from China, Pakistan & Bangladesh; Proposed FTA with Europe; favourable government policies.
- Strategic reorganization to consolidate all textile operations under one listed entity; completely exit from loss making subsidiaries; increasing contribution from innovation at ~ 30% of sales; increased backward integration now at ~35% and expected to rise to 70-75% by June 2014.
- India's market share gain most prominently in home textiles, especially in the US market
- India, Pakistan & China account for more than 85% of the total exports to USA in home textiles out of which India, China & Pakistan contribute ~ 36%, ~26% & ~22% respectively.
- Of these three India's share has been steadily increasing while the other two have maintained or lost market share.

Robust growth expected to continue…reasons:

- **Customers to de-risk from China, Pakistan & Bangladesh:** With China's rising per capita income and transition to a developed country, domestic consumption has increased. This has impacted China's ability to export; currency appreciation of yuan coupled with rising labour and power costs leading to high costs making China less competitive; Pakistan's geopolitical situation and power shortages prompting clients to look for other sources; Bangladesh facing scrutiny over worker safety.
- **Huge potential opportunity in Europe:** Proposed India - EU FTA, which is in the final stages of discussion, to remove 5-10% of import duties on Indian textiles. This will make India more competitive and lead to market share gain in the region.
- **Significant growth opportunity in Indian market:** Increasing retail penetration in the Indian market; Higher disposable income & favourable demographic profile in the Indian market; FDI in retail to boost textile consumption.
- **Favourable government policies:** Interest and capital subsidies for new capex from central and various states governments; TUFS scheme of central government providing 4-5% of interest rebate on loans for new capex; Gujarat state government providing 5-7% of interest rebate on new capex loan in addition to TUFS rebate.

Rating	BUY
CMP	Rs 133
Target Price	Rs 293
Upside	159%
Sensex	24363

Key Data	
Bloomberg Code	WLSI IN Equity
Reuters Code	WLSP. BO
NSE Code	WELSPUNIND
Current Share o/s (mn)	100.02
Diluted Share o/s (mn)	100.02
Mkt Cap (Rs bn/$ mn)	14/240.2
52 WK H/L (Rs)	148/46.5
Daily Vol. (6M NSE Avg)	479401
Face Value (Rs)	10
1 USD/ Rs	58.80

Shareholding Pattern	(%)
Promoters	73.10
DII	10.92
Others	15.98

Price Performance (%)	1M	3M	1yr
Welspun India	36.3	44.3	117.2
Nifty	7.3	19.4	18.1

Financials (Rs bn)	FY13	FY14E	FY15E
Sales	36.5	43.0	50.0
Growth (%)	24.4	17.9	16.3
EBITDA	6.4	10.1	12.0
EBITDA (%)	17.5	23.5	24.0
Net Profit	2.3	1.1	4.2
Net Profit (%)	6.3	2.6	8.4
EPS	22.9	11.0	41.9
ROE (%)	22.7	10.2	30.2
ROCE (%)	11.4	6.1	20.0

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Pricing Power :

- Welspun has developed strong relationship with clients over the years, which gives it better pricing power.
- Most clients are on an index-based pricing.

Way ahead:

- Focus on cost control, foray into new markets and consolidation and streamlining of operations to maximize ROIC.
- Continued emphasis on innovation.
- Focus on high growth domestic market through (shop-in-shop in large retail stores, which entail no capex and low risk, wholesale distributors, institutional clients such as hotels & e-commerce).
- Gaining traction in new markets like Canada, South Africa, Japan, Korea & Australia.
- Capex to be focused more on backward integration and modernization.
- WIL plans to set up an ITP (integrated textile park) at its Anjar facility. ITP will help it to expand using low capex (through ancillaries) and post high returns on capital employed.
- The management has decided to cap its total debt (long term + WC) to Rs30b.

Valuations:

- We expect WIL to post sales of Rs43.00 bn in FY14E and Rs50.00 bn in FY15E.Its reported PAT is likely to be Rs1.12 bn and Rs4.20 bln in FY14E & FY15E respectively.

- On equity of Rs1.03 bln (FV of Rs10) its EPS will likely be Rs11.00 & Rs41.9 respectively.

- WIL is likely to prune its dividend to Rs1 or Rs2 per share in FY14E as compared to Rs4/share in FY13 due to the large one-time depreciation write off. However it is likely to announce a handsome dividend in FY15E & beyond.

- The CMP of Rs133 discounts FY14E & FY15E EPS of Rs11.00 & Rs41.9 by 12.1X and 3.2X respectively. We believe the stock is in for a re-rating and offers an attractive investment opportunity for multiple gains over the next two years. We recommend a Buy on the stock with a price target of Rs293 in the next 15 to 18 months. At that price the stock will trade at 7XFY15E EPS of Rs41.9.

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