

Welspun India

Strong earning traction to ensure re-rating



analysis adds up

India Equity Research | Mid Caps

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Company Update

Welspun India Limited (WLSI) is one of the leading home textile players in the world with ~95% of the revenues from exports and US accounting for ~65% of these. It has a network across 32 countries and offers the entire range of home textile products providing a "One stop solution for Home Textiles" across the globe through its modern, state-of-the-art manufacturing facilities at Anjar and Vapi in Gujarat, India. With increase in capacity for Towels, Sheets and Rugs, we see revenue growth of 15% and 10% in FY15E and FY16E respectively. With stable cotton prices, and augmentation of the spinning and weaving facilities we envisage improvement in margin from current ~20% levels to ~24% by the end of FY15. We estimate EPS of Rs61.1 for FY16 on account of sales growth and improving margin. As RoE is expected to be in 30-35% range in the coming years, with EPS CAGR of ~20% for FY14E-16E, we expect PE multiple to expand from current levels. Our PT on the stock is Rs244. We have assigned PE of 4x on FY16E EPS of Rs61.1.

Among the leading home textile players in the world: It has been recently ranked as the No #1 Home Textiles Company in US (Source: Home Textiles Today, Jan 2013). Its product range covers the entire gamut of bedding and bath textiles like bed sheets, pillow cases, comforters, quilts, and mattress pads, pillows, to bath rugs, towels and bath robes. Majority of these products are presented and sold in the key markets like USA, Canada, UK, Europe and Japan. Supplier to 14 of the Top 30 global retailers, the Company has marquee clients like Wal-Mart, JC Penny, Target and Macy's to name a few. About 95% of WIL's production is exported to various countries across the world.

Backward integration and debottlenecking to help sales growth and enhance margin: WLSI has completed its phase I of capex plan through investment of Rs11 bn. In this phase, the company has focussed on backward integration through augmentation of spinning and weaving facilities. 170,000 spindles and 140 looms are set up under this phase. We believe, with this there will be ~10% increase in capacity both for Towels and Sheets. Also, higher spinning capacity will lead to margin expansion. While EBITDA margin has moved from ~17-18% in FY13 to ~20% in 9MFY14, we expect it to move to ~22% in FY15E and ~24% by FY16E.

TUFS loan a great comfort factor: While the present debt:equity in excess of 2.5x looks on the higher side, the company has undertaken expansion plan as it gets loans at low rate under TUFS. The debt for the phase I project will receive 5-7% interest rebate from the Gujarat state government and 4-5% from the central government. This ensures that the interest burden is not high despite rise in debt levels. Further, we believe cash profit is going to rise significantly in the coming years and hence, we project debt:equity below 1.5x by FY16E.

Valuation: We value the stock at 4x FY16E EPS of Rs61.1. As RoE is expected to be in 30-35% range in the coming years, with EPS CAGR of ~20% for FY14E-16E, we expect PE multiple to expand from current levels.

Risks: Significant increase in cotton prices, slowdown in US and European economy are key downside risks to our call and estimates.

BUY

Rs119

Reuters: LART.BO

Bloomberg: LT IN

12-month price target

Rs244

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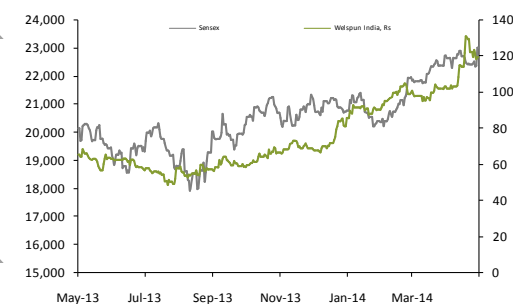
Market cap Rs11.9 bn (US\$196 mn)
 52 Week High/Low: Rs138/47
 Share o/s: 100 mn
 Avg daily trading vol (3m): 445 ('000)
 Avg daily trading val (3m): Rs49 mn (US\$0.8 mn)
 Source: Bloomberg

Shareholding pattern (%)

	Mar14	Dec13	Sep13
Promoters	73.1	68.8	68.8
FII's	0.0	0.0	0.0
MFs/FIs/Banks	10.9	16.8	16.6
Others	16.0	14.5	14.6

Source: BSE

Price movement (Rs) vs the Sensex



Source: Bloomberg

Exhibit 1: Financials and valuation

YE	Revenue		EBITDA		Adj PAT		Cash PAT		EPS	Cash EPS	PE	ROE
	(Rs mn)	Growth (%)	(Rs mn)	Margin (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)				
December									(Rs)	(Rs)	(x)	(%)
FY12	29,329	19.9	5,566	19.0	1,986	108.8	3,603	36.4	19.8	35.9	6.0	26.7
FY13	36,473	24.4	5,946	16.3	2,248	13.2	4,178	16.0	22.4	41.7	5.3	22.7
FY14E	44,572	22.2	9,360	21.0	4,188	86.3	6,262	49.9	41.8	62.4	2.8	41.1
FY15E	51,014	14.5	11,223	22.0	4,852	15.9	7,552	20.6	48.4	75.3	2.5	32.7
FY16E	55,848	9.5	13,404	24.0	6,122	26.2	9,122	20.8	61.1	91.0	1.9	29.5

Note: pricing as on 9 May 2014; Source: Company data, quant Global Research estimates