

Welspun India

View: Positive

Viewpoint

Strong business; re-iterate our positive stance

CMP: Rs112

Key points

- ♦ **Welspun delivers 49% returns in over 7 months; re-iterate our positive stance:** On October 20, 2015, we had initiated our view point call on Welspun India at a price of Rs76 (Rs760 pre subdivision; the company split its share from Face Value of Rs10 to Re1), citing its consistent performance, strong fundamentals, improving focus on creating a sustainable business, and attractive valuations (10x one-year forward earnings). The company continued to deliver on our expectations and the stock has delivered 46% returns over the last 7 months. Going forward, we believe that Welspun India would continue to deliver a consistent performance, which would keep the stock performance buoyant. Therefore, despite its strong outperformance, we continue with our positive view on the stock and expect it to deliver around 10-15% returns from the current level in the medium term.
- ♦ **Q4FY2016 performance snapshot:** In Q4FY2016, Welspun India's consolidated revenue grew by 19.2% YoY, led by higher volumes and better product mix (innovative and high-value products). The operating profit grew by 22.7% YoY, driven by strong revenue growth and improvement in the product profile, resulting in 74BPS margin expansion. The operating profit margin (OPM) for the quarter stood at 26%. The strong operating performance reflected in the earnings, with net profit growing by 19.8% YoY.
- ♦ **Vision 2020; Double revenue, debt-free status:** Welspun India has After registered a strong 18%, 38% and 46% CAGR in revenue, operating profit and net profit, respectively over FY13-16. Now, the company has unveiled its vision 2020 program, whereby it aims to (a) Double its revenue from current \$1 billion to \$2 billion (implying a CAGR of 20% over FY16-21) (b) Increase share of innovative and branded products from current 25% to 50% (c) Improve margin further (guidance upped to 23-24%) and (d) Turn debt free (current debt-equity ratio at 1.3x).
- ♦ **Levers for revenue and margin growth strong:** We believe that Welspun India would continue to grow its revenue on the back of (a) Increased capacity utilization (already embarked on increasing capacity across segments) (b) Introduction of new products like rugs and carpets (currently constitute less than 20% of the product profile) (c) Penetrate into newer geographies (UK, Japan etc), and (d) Increase presence in the domestic market (aims to have a 20% revenue contribution from the domestic market). Further, enhanced contribution from the branded & innovative products (targets 50% of revenue as against 30% currently) would result in margin expansion going ahead. With peak capex behind, the company's cash generation would be utilized to retire debt, paving the way for a stronger balance sheet.
- ♦ **Valuation:** We believe that with its leadership status, aggressive management and efficient capital allocation strategy (via ancillarization drive), Welspun India would continue to deliver a consistent performance with improved returns. We expect the company to post 15% revenue CAGR and 20% earnings CAGR over FY2016-2018. At the current market price, the stock is trading at 11.4x its FY2018 earnings. We maintain our positive stance on the stock.

Valuation

Particulars	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Net sales	2933	3647	4495	5303	5979	6880	7890
EBITDA	557	595	921	1369	1558	1686	1973
EBITDA margin (%)	19.0	16.3	20.5	25.8	26.0	24.5	25.0
PAT	199	225	420	540	685	820	993
EPS	2.0	2.2	4.2	5.4	6.82	8.17	9.89
RoE	26.7%	25.9%	40.0%	42.5%	41.0%	36.0%	33.0%
PER	57.1	50.5	27.1	21.0	16.6	13.8	11.4