

# Welspun India

## NOT RATED

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PRICE as of 22 Aug 2014

**INR 223.40**

#### Key points

- Welspun India, one of the largest home textile exporters globally, is a vendor to 14 of the top 30 global retailers, such as JC Penney, Macy's and Wal-Mart.
- Welspun differentiates itself through innovative products and ground-level market intelligence, thereby achieving stronger customer relationships.
- Welspun delivered a pre-exceptional ROE of 40% in FY14 and the stock trades at 5.1x FY15 consensus PER. The company is currently expanding its textile capacity and increasing backward integration.
- According to management, any potential labour reforms would further increase India's already improving positioning in the global textiles export marketplace.

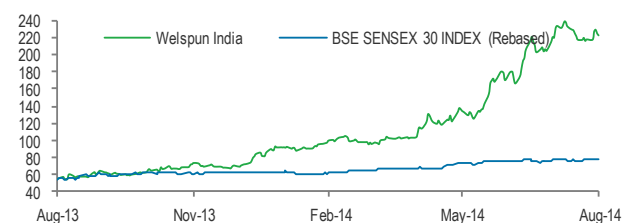
<b>Bloomberg code:</b>	WLSI IN	<b>PER historical (x)*</b>	5.3x
<b>Mkt cap (USD mn)</b>	367	<b>Yield historical (%)</b>	1.7%
<b>12m range (INR)</b>	52-243	<b>P/B historical (x)</b>	2.0x
<b>3m value traded (USD mn)</b>	1.0	<b>ROE (%)*</b>	40%
<b>No. of shares (mn)</b>	100.3	<b>Net gearing (%)</b>	220.5%
<b>Est. free float (%)</b>	28.5%	<b>Net debt (cash) (INR mn)</b>	25,170
<b>Established</b>	1985	<b>Historical EPS (INR)</b>	9.19
<b>Listed</b>	1991	<b>EPS 3-yr CAGR (%)</b>	NM
<b>Secondary placement</b>	2010	<b>EPS 7-yr CAGR (%)</b>	5.4%
<b>Auditors</b>	Price Waterhouse	<b>Historical DPS (INR)</b>	3.0
<b>Year-end</b>	March	<b>DPS 3-yr CAGR (%)</b>	NM
<b>Major shareholder</b>	Krishiraj Trading Ltd. - 50.13%		

Source: Annual report, \* excluding exceptional items

#### What Welspun does

Welspun is one of the largest exporters of home textiles globally. The company specialises in the export of bathing, bedding and flooring materials. The company also operates a chain of retail stores in India and owns select brands globally.

#### Share price performance (INR)



Source: FactSet

#### India's competitive edge

According to Welspun, India has a competitive advantage over its competitor nations in the textiles export market, given its abundant cotton crop, competitive labour costs, domestic yarn capacities and supportive government policies. Additionally, any potential reform of the archaic labour laws in India could further increase the industry's efficiency.

#### Differentiated strategy for stronger customer relationships

The company focuses on innovative and sometimes patented products, which lead to stronger relationships with its customers. Additionally, the company conducts detailed end-market surveys and analyses, providing market feedback to customers and enabling better product planning.

#### Valuation and share price performance

Welspun trades at 4.3x FY15 EV/EBITDA and 5.1x FY15 PER, based on Bloomberg consensus estimates. The company is currently expanding capacity and also increasing its yarn backward integration from 35% to 60% by FY16.

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#### Important disclosures can be found in the Disclosures Appendix

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## Analyst visit note

### Company background

Welspun is one of the largest exporters of home textiles globally. The company specialises in the export of bathing, bedding and flooring materials. The company also operates a chain of retail stores ('Spaces') in India that sells home textiles. Additionally, the company owns brands such as 'Christy', 'Kingsley Home' and 'The Championships'. Welspun exports to 14 of the top 30 global retail chains, such as Wal-Mart, JC Penney and Macy's.

### India's home textiles industry

According to Welspun, India has a competitive advantage over its competitor nations in the textiles export market, given its abundant cotton crop, competitive labour costs, domestic yarn capacities and supportive government policies. India's market share in global textile exports increased to 5.3% in 2012 from 4.2% in 2008, according to management.

The global home textiles market size is c.USD 40bn, management said. The US comprises roughly one-third of the global home textiles market and India is the largest supplier to the US towel and bed sheet markets, with a 36% and 47% share in 2013, it added. Other global markets for home textile exports are Europe (one-third), Japan (10%), Korea and Australia.

Management said the company is making in-roads into the European market despite the anti-dumping duty being imposed on imports from India. Any efforts to negotiate a free trade agreement (FTA) between India and the EU would improve the competitive positioning of the Indian textile industry, it said. Additionally, the company said relatively nascent reduction in import duties on Indian textiles have improved the competitive positioning of the industry in select far eastern markets (Japan and Korea).

### Differentiated strategy for stronger customer relationships

Welspun management highlighted its strategy to differentiate itself from competitors, leading to stronger and deeper relationships with its customers. The company is focused on the development of differentiated products under patented technologies and has applied for six patents till date. Differentiated products for Welspun include hygro cotton yarn, eco dry towels and flex fit bed sheets. Additionally, management said the company aspires to offer a '360 degree' solution to its customers and engages in direct market research initiatives to help in better inventory planning and partnering with customers to deliver more relevant designs.

### Capex plans

In order to augment its manufacturing capacity across products and increase the level of backward integration, Welspun announced a capex plan of INR 24bn to be completed by FY16. Of this, INR 11bn was spent by March 2014 and the balance INR 13bn is expected to be spent over FY15 and FY16. As a result of the expansion, the company expects to increase its yarn capacity to 60,000mt by March 2016 from 38,500mt as of March 2014, thereby improving its yarn integration to 70% in FY15 from 35% currently. Additionally, the company also plans to significantly enhance its capacities for manufacturing towels, bed sheets, and rugs and carpets as a result of the ongoing capex programme.

### Balance sheet

Gross debt on the books was INR 30bn and net debt was INR 27.3bn as of June 2014, the company said. The company believes overall net debt would not increase by more than INR 2bn from current levels despite its ongoing expansion plans. The company intends to align its capex plans with cash flows to contain its overall leverage ratios. Of the total long-term debt of c.INR 19bn, the company has subsidised debt of c.INR 17bn under the central government scheme. The company estimates that the overall cost of term debt for the company is c.8%.

### Impact of potential labour reforms

The central government is planning to review the labour laws in the country. The company believes an overhaul of labour laws could help it improve efficiency, given its ability (1) to realign the workforce according to business demand through easier retrenchment policies and (2) utilise the labour force more efficiently with a potential revision to laws governing working hours for female members of the work force.

### Valuations

Based on Bloomberg consensus estimates, Welspun trades at 4.3x FY15E and 3.3x FY16E EV/EBITDA. Further, the stock is trading at 5.1x FY15E and 3.9x FY16E PER, according to Bloomberg consensus.



Figure 1: Company background

**Main shareholders**

- Promoters 73.36%
- FII's 0.21%
- DII's 5.93%
- Others 20.50%

**Shareholders with >1% shareholding**

- Reliance Capital Trustee Company Ltd
- Tata Balanced Fund

**Management and directors**

- B K Goenka – Chairman
- Rajesh R Mandawewala – Managing Director
- Dinesh Jain – President Finance
- Dipali Goenka – Executive Director
- Dadi Bejonji Engineer – Board Member
- Apurba Kumar Dasgupta – Board Member
- Ram Gopal Sharma – Board Member
- Ajay Sharma – Board Member
- Arun L Tadarwal – Board Member

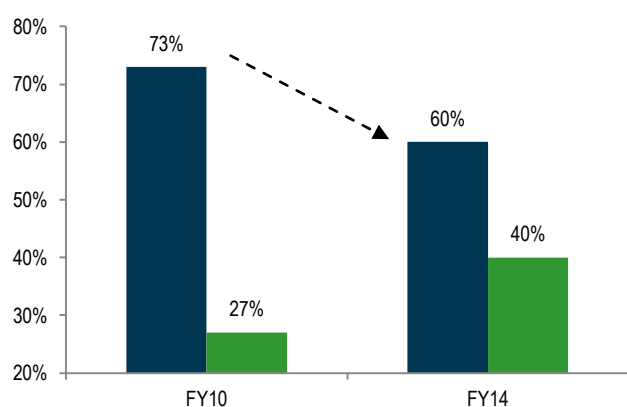
Source: Company

Figure 2: Welspun – Capacity expansion plan

Capacity	FY14	FY15	FY16
Yarn (MT)	38,500	50,000	60,000
Towels (MT)	45,000	50,000	60,000
Sheets ('000 meters)	55,000	60,000	72,000
Rugs incl. Carpets (MT)	12,000	15,000	20,000

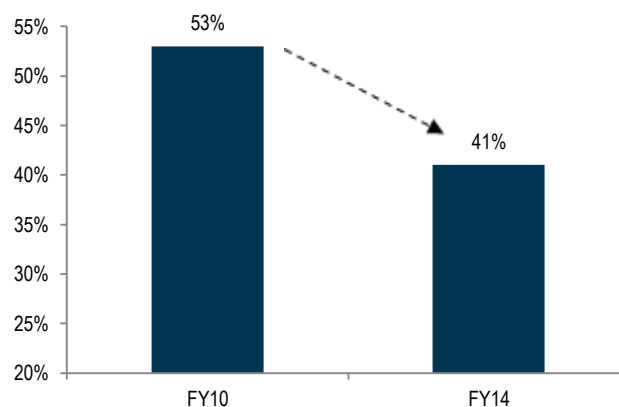
Source: Company

Figure 3: Welspun – Geographical mix



Source: Company

Figure 4: Welspun – Sales to top-5 customers



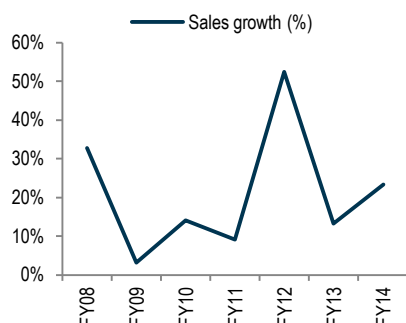
Source: Company



## Trend analysis and four-year financial data

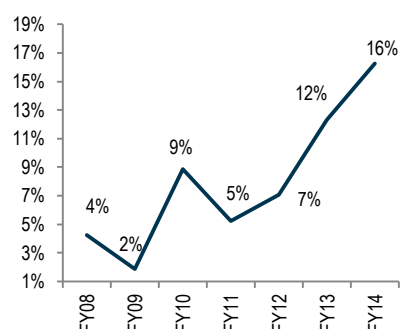
### Growth

#### Sales growth



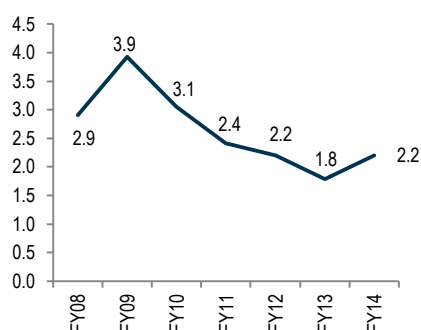
### Margins

#### EBIT margin



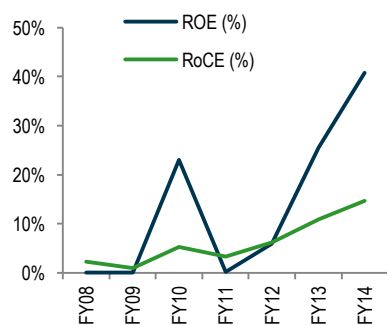
### Balance sheet

#### Net debt (cash)/equity



### Returns

#### ROE & RoCE



\* ROE excluding exceptional items shown here.

Source: Company, Standard Chartered Research.

### Income statement (INR mn)

Year end: March	FY11	FY12	FY13	FY14
<b>Sales revenue</b>	<b>21,132</b>	<b>32,205</b>	<b>36,473</b>	<b>44,954</b>
<b>Gross profit</b>	<b>9,569</b>	<b>16,206</b>	<b>18,789</b>	<b>22,281</b>
EBITDA	2,312	3,662	5,946	9,211
Depreciation & amortisation	-1,203	-1,378	-1,449	-1,903
EBIT	1,108	2,284	4,497	7,308
Net interest (expense) / income	-838	-1,714	-1,808	-2,199
Other income	166	256	323	889
Exceptional Items	0	-795	-31	-4,960
Income tax	-403	-193	-733	-199
PAT	32	-163	2,248	838
Minority Interest / Associate	-18	29	0	82
PAT	14	-134	2,248	921

### Cash flow (INR mn)

Year end: March	FY11	FY12	FY13	FY14
<b>Operating profit</b>	<b>1,108</b>	<b>2,284</b>	<b>4,497</b>	<b>7,308</b>
Depreciation & amortisation	1,203	1,378	1,449	1,903
Working capital	1,618	-1,130	-1,852	-2,013
Others	-691	-2,224	-1,516	-6,188
<b>Operational cash flow</b>	<b>3,238</b>	<b>308</b>	<b>2,578</b>	<b>1,010</b>
Tax paid	-403	-193	-733	-199
<b>After-tax operational cash flow</b>	<b>2,835</b>	<b>115</b>	<b>1,845</b>	<b>811</b>
Capex	-1,420	-3,245	-1,917	-8,897
Net interest	-838	-1,714	-1,808	-2,199
Debt	598	2,215	623	7,899
Dividends	0	0	-468	-352
Others	-572	4,050	1,316	3,676
<b>Net flow</b>	<b>602</b>	<b>1,420</b>	<b>-408</b>	<b>938</b>

### Balance sheet (INR mn)

Year end: March	FY11	FY12	FY13	FY14
Tangible assets	15,581	15,749	16,267	23,228
Other LT assets	3,963	4,065	5,780	5,108
Stocks	4,597	7,293	8,205	10,094
Debtors	1,453	2,492	2,750	4,117
Cash and liquid assets	1,265	2,679	2,118	2,974
Other ST assets	2,003	3,081	3,458	6,163
<b>Total assets</b>	<b>28,860</b>	<b>35,359</b>	<b>38,579</b>	<b>51,684</b>
Current creditors	2,216	5,235	4,963	6,144
Current borrowings	7,330	9,810	10,233	11,349
Long-term borrowings	10,077	9,812	10,011	16,795
Others	2,548	2,825	3,220	5,983
Total liabilities	22,171	27,681	28,427	40,271
Shareholders' funds	6,690	7,428	9,902	11,097
Minority interest	0	250	250	316
<b>Equity</b>	<b>6,690</b>	<b>7,678</b>	<b>10,152</b>	<b>11,413</b>
<b>Total capital employed</b>	<b>24,096</b>	<b>27,300</b>	<b>30,396</b>	<b>39,556</b>

### Key data & ratio

Year end: March	FY11	FY12	FY13	FY14
EPS (INR) (pre-exceptional items)	0.16	3.93	22.76	42.07
Change (%)	-99%	NM	NM	-59%
DPS (INR)	0.00	0.00	4.00	3.00
CFPS (INR)	32.20	1.15	18.51	8.13
BVPS (INR)	71.18	86.26	101.49	113.74
Wtd. average shares	88	99	100	100
ROE (%) (pre-exceptional items)	0.2%	5.9%	25.5%	40.7%
Post-tax ROCE (%)	3.4%	6.2%	10.9%	14.6%
Capex/sales (%)	6.7%	10.1%	5.3%	19.8%
Capex/depreciation (%)	118.0%	235.5%	132.3%	467.5%
Net debt/equity (%)	241%	221%	179%	221%
Total debt/total capital (%)	72.2%	71.9%	66.6%	71.1%
Net interest cover (%)	1.32	1.33	2.49	3.32

Source: Company, Standard Chartered Research



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IN-LINE	33.0%	10.1%
UNDERPERFORM	11.2%	8.1%

As of 30 June 2014

### Research Recommendation

Terminology	Definitions
OUTPERFORM (OP)	The total return on the security is expected to outperform the relevant market index by 5% or more over the next 12 months
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