

28 March 2014

Welspun India

Leveraging its platform

Key takeaways

Ingrained leadership. Welspun India is one of the leading home-textiles manufacturers in the world and was ranked first in the U.S. (Source: Home Textile Today 2013). Incorporated in 1985, it has two plants, at Anjar and Vapi (both in Gujarat) with capacities of 45,000 tonnes, 55m metres and 12,000 tonnes in, respectively, terry towels, bed linen and bath rugs (including carpets). With a network in 32 countries and key markets such as the USA, Canada, the UK and Europe, 95% of its bedding and bath-textiles product ranges are exported. It is the vendor of choice for leading global retailers and supplies to 14 of the top 30 global retailers such as Wal-Mart, JC Penny, Target and Macy's. It has its own brands of bed and bath products in the international and domestic markets, respectively, Christy and Spaces.

Backward integration to drive margins. Welspun has embarked on a backward integration and expansion strategy with a ₹24bn capex programme. After the phase-I capex of ₹11bn, captive supply of yarn and greige fabric would increase from ~30-35% to 75% in 2QFY15. The backward integration will contribute to enhanced margins from 2QFY15.

Focus on innovation and diversification Through FY12 and FY13, the domestic and international businesses had been restructured in order to consolidate the textiles business under a unified structure. The company is focusing on the domestic market through a low-capex shop-in-shop model instead of handling its own retail outlets. The strategy of innovation has driven value-added products to 30% of FY13 revenues (from 20% in FY11). Also, the company is penetrating newer markets such as Japan, Korea and Australia to enhance its geographic diversification.

Our take. At the ruling price of ₹96, the stock quotes at 4.4x FY13 PE and 4.7x FY13 EV/EBITDA. With its restructured business model, the company has leveraged its products portfolio to deliver 46.2% yoy EBITDA growth in 9MFY14.

Key financials (YE Mar)	FY09	FY10	FY11	FY12	FY13
Revenues (₹m)	16,991	19,372	21,132	32,205	36,473
EBITDA (₹m)	1,235	2,844	2,312	3,662	5,880
EBITDA margin (%)	7.3	14.7	10.9	11.4	16.1
PAT (₹m)	(766)	1,608	14	(134)	2,248
EPS (₹)	(9.8)	20.6	0.1	(1.5)	22.5
EPS growth (%)	NA	NA	NA	NA	NA
PE (x)	(9.8)	4.7	643.5	(63.9)	4.3
P/BV (x)	1.7	1.4	1.3	1.2	1.0
EV/EBITDA (x)	20.3	8.2	10.2	6.7	4.6
ROACE (%)	2.7	13.7	6.4	11.0	17.3

Source: Company, Anand Rathi Research

Rating: **Not Rated**

Target Price: NA

Share Price: ₹96

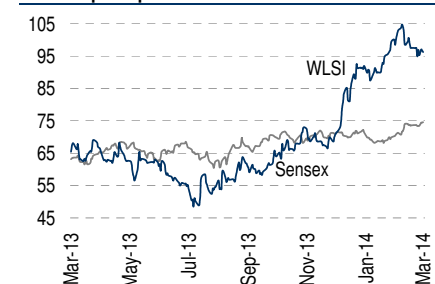
Key data	WLSI IN / WLSPI.BO
52-week high / low	₹106/₹47
Sensex / Nifty	22214/6642
3-m average volume	US\$0.4m
Market cap	₹10bn/US\$0.2bn
Shares outstanding	100m

Shareholding pattern (%)	Dec'13	Sep'13	Jun'13
Promoters	68.8	68.8	68.4
- of which, Pledged	-	-	-
Free Float	31.2	31.2	31.6
- Foreign Institutions	-	-	-
- Domestic Institutions	16.8	16.6	17.0
- Public	14.5	14.6	14.6

Financials	9MFY13	9MFY14
Sales (₹m)	28,904	33,105
EBITDA (₹m)	4,793	7,007
EBITDA margin (%)	17	21
PAT (₹m)	1,616	3,160

Source: Company

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY09	FY10	FY11	FY12	FY13
Revenues	16,991	19,372	21,132	32,205	36,473
Revenue growth (%)	3.2	14.0	9.1	52.4	13.3
- Op. expenses	15,757	16,528	18,821	28,544	30,593
EBITDA	1,235	2,844	2,312	3,662	5,880
EBITDA margin (%)	7.3	14.7	10.9	11.4	16.1
- Interest expenses	1,243	1,094	1,078	1,918	1,977
- Depreciation	1,087	1,126	1,203	1,378	1,449
+ Other income	490	1,563	405	460	558
- Tax	(74)	571	403	193	733
Effective tax rate (%)	11.4	26.1	92.6	638.3	24.6
PAT	(576)	1,615	32	(163)	2,248
+/- Extraordinary items	(46)	-	-	(795)	(31)
+/- Minority interest	15	-	-	29	-
Attributable PAT	(766)	1,608	14	(134)	2,248
Adj. FDEPS (₹/sh)	(9.8)	20.6	0.1	(1.5)	22.5
Adj. FDEPS growth (%)	49,291.6	(310.1)	(99.3)	(1,107.0)	(1,596.2)

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY09	FY10	FY11	FY12	FY13
Share capital	781	781	940	890	1,000
Reserves & surplus	3,659	4,433	5,750	6,538	8,901
Net worth	4,440	5,214	6,690	7,428	9,902
Minority interest	20	-	-	250	250
Total debt	18,716	16,809	14,861	17,125	19,177
Def. tax liab. (net)	1,047	1,562	1,878	1,502	1,917
Capital employed	24,224	23,585	23,429	26,305	31,245
Net fixed assets	17,664	15,714	16,151	17,995	18,615
Investments	314	149	1,007	1,205	931
- of which, Liquid	-	-	-	-	-
Net working capital	5,362	7,007	6,889	6,829	10,906
Cash and bank balance	1,198	864	389	1,482	1,724
Capital deployed	24,224	23,585	23,429	26,305	31,245
Net debt	17,518	15,945	14,472	15,643	17,453
WC days	115.2	132.0	119.0	77.4	109.1
Book value (₹/sh)	56.9	66.8	71.2	83.4	99.0

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

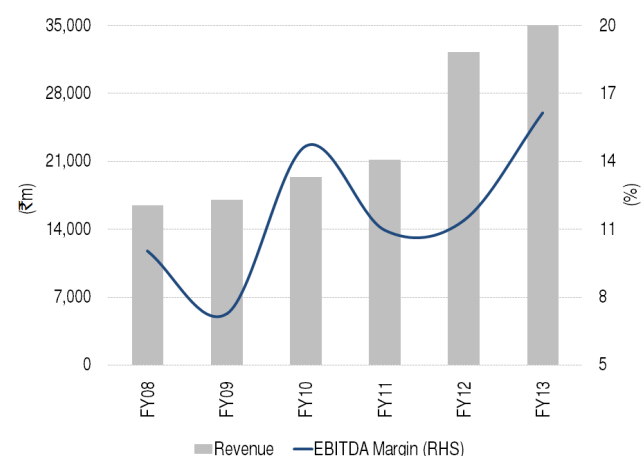
Year-end: Mar	FY09	FY10	FY11	FY12	FY13
PBT	(651)	2,186	435	30	2,982
Non-cash items	1,087	1,126	1,203	1,378	1,449
Interest expense	1,243	1,094	1,078	1,918	1,977
Non-operating items	(313)	(1,018)	(348)	(75)	(435)
Change in WC	147	(2,240)	125	653	(1,893)
Tax paid	(51)	(300)	(213)	(527)	(420)
Operating cash-flow	1,461	849	2,280	3,378	3,659
Capex	(2,090)	(731)	(1,964)	(1,787)	(2,756)
Investments	248	53	(1,171)	202	1,322
CF from investing	(1,841)	(679)	(3,135)	(1,585)	(1,433)
Chg in share capital	-	-	1,483	(49)	19
Chg in debt	1,364	964	641	(281)	630
Dividend, int and others	(1,093)	(978)	(1,205)	(1,904)	(2,186)
CF from financing	272	(14)	918	(2,233)	(1,537)
Net cash-flow	(108)	156	64	(441)	688

Source: Company, Anand Rathi Research

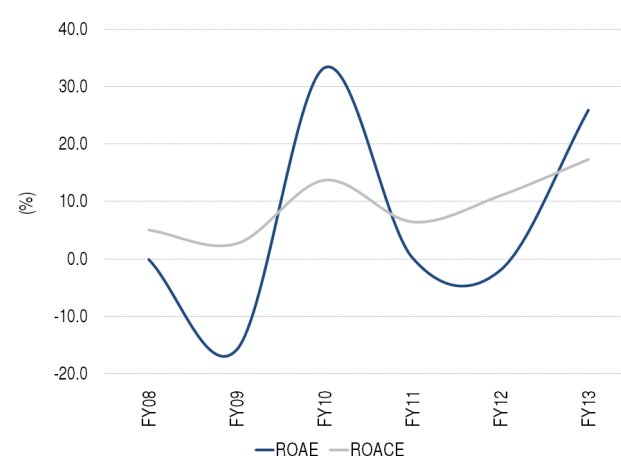
Fig 4 – Ratio analysis @ ₹96

Year-end: Mar	FY09	FY10	FY11	FY12	FY13
P/E (x)	(9.8)	4.7	643.5	(63.9)	4.3
P/B (x)	1.7	1.4	1.3	1.2	1.0
P/CF (x)	23.4	2.7	7.4	6.9	2.6
EV/Sales (x)	1.5	1.2	1.1	0.8	0.7
EV/EBITDA (x)	20.3	8.2	10.2	6.7	4.6
Dividend yield (%)	-	1.0	-	-	4.2
Dividend payout (%)	-	4.9	-	-	17.8
RoAE (%)	(15.8)	33.3	0.2	(1.9)	25.9
RoACE (%)	2.7	13.7	6.4	11.0	17.3
Debt/Equity (x)	4.2	3.2	2.2	2.3	1.9
EBIT/Interest (x)	0.1	1.6	1.0	1.2	2.2
EBITDA growth (%)	(25.3)	130.4	(18.7)	58.4	60.6
EBITDA margin (%)	7.3	14.7	10.9	11.4	16.1
EBIT margin (%)	0.9	8.9	5.2	7.1	12.2
PAT margin (%)	(4.5)	8.3	0.1	(0.4)	6.2

Source: Company, Anand Rathi Research

Fig 5 – Revenue and EBITDA margin


Source: Company, Anand Rathi Research

Fig 6 – Return ratios


Source: Company, Anand Rathi Research

Group overview

Incorporated in 1985, Welspun India is the leading global home-textiles manufacturer, with a 15% market share in the U.S. (by volume). The U.S. gives rise to 65% of its revenue while the U.K./Europe bring in 15% and the rest of the world, 20%. By product, the towels category is the largest contributor, contributing 50% of revenue while bed-linen and rugs bring in 30% and ~8%, respectively. The company has leveraged its long-term relationship with clients to expand its network and product range. To de-risk itself from raw-material volatility, supply contracts are designed to be aligned to a 5% movement of a raw-material-price benchmark.

The company's ₹11bn vertical integration and de-bottlenecking project entails the installation of 170,000 spindles and 140 looms to enhance the backward integration to ~75% in spinning and weaving capacity. The company had spent ₹7bn till 3QFY14-end; the rest would be expended by 1QFY15. Post-commencement by Jun'14, the backward integration would contribute to the margin expansion from 2QFY15 and ensure greater supply of fine yarn (from 33,000 to 54,000 tonnes). The project, to be 72% debt-funded, and government incentives (both state and Centre) would result in an effective 2—3% interest rate. Phase-II has an outlay of ₹13bn though only ₹3bn for the Vapi modernisation project has so far been committed.

Fig 7 – Retail clients

U.S.	Europe	U.K.
Bed, Bath & Beyond	Ikea	Christy
Macy's	Carrefour	Tesco
Wal Mart	JYSK	Marks & Spencer
J C Penney	El Corte Ingles	Debenhams
Target	Vincenzo Zucchi S.p.A	House of Frazer
Kohl's	Bassetti	John Lewis
K Mart-Sears	Auchan	Sainsbury
Sam's Club	Rewe	ASDA
Costco	Tom Tailor	T J Hughes
Burlington Coat Factory	Descamps	T K Maxx
Ross Stores	Casino	Fenwicks
Bon Ton		
Belk		
Anna's Linen		

Source: Company

Fig 8 – Innovative Products

Bed Technologies	Bath Technologies	Sleep Solutions	Rugs
Flexifit (exclusive licensee)	Hygro cotton	Earth pillow	Bleach safe
Eversmooth	Quick dry	Sneeze eezzz	Eucalyptus
Cotton Touch	Bleach safe	Hygrofil	Drylon
Smart Bedskirts	Eucalyptus	My favorite pillow	Hygro
Perfect Sheets	Silk		Quick dry
Hygro Comfort	Bamboo		Aerofil
Bleach safe	Aerospun		Hygro cotton
	Spot stop		

Source: Company

Fig 9 – Manufacturing capacities

Particulars	Terry Towels	Rugs including carpets	Bed-Linen Products
Present Capacity	45,000	12,000 tonnes	55m metres
Location	Anjar/Vapi	Vapi	Anjar
Products	Beach towels, kitchen towels, baby hood towels, hand towels, face towels and bath sheets	Premium rugs and carpets, made of cotton, nylon or micro fibre, with the option of latex backing	Bed-sheets, basic bedding products including mattress pads, blown and garneted pillows and basic comforters, decorative bedding products including comforters, duvets, coverlets, bed skirts, shams, decorative pillows and bolsters
Raw material	100% cotton or blended yarns	100% cotton or blended yarns	Bed-linen from cotton or blends such as polyester cotton, cotton bamboo, cotton silk and cotton eucalyptus, bedding products from polyester fibre fill

Source: Company

Appendix

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