

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

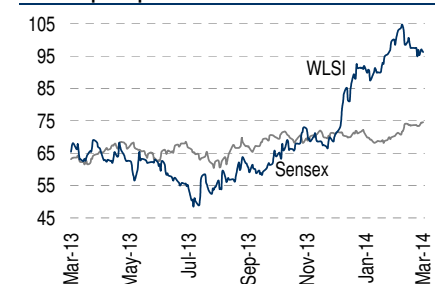
| Key data           | WLSI IN / WLSPI.BO |
|--------------------|--------------------|
| 52-week high / low | ₹106/₹47           |
| Sensex / Nifty     | 22214/6642         |
| 3-m average volume | US\$0.4m           |
| Market cap         | ₹10bn/US\$0.2bn    |
| Shares outstanding | 100m         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

| 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       |
| <b>EBITDA</b>           | <b>1,235</b> | <b>2,844</b> | <b>2,312</b> | <b>3,662</b> | <b>5,880</b> |
| 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         |
| <b>Capital employed</b> | <b>24,224</b> | <b>23,585</b> | <b>23,429</b> | <b>26,305</b> | <b>31,245</b> |
| 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         |
| <b>Capital deployed</b> | <b>24,224</b> | <b>23,585</b> | <b>23,429</b> | <b>26,305</b> | <b>31,245</b> |
| 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)**

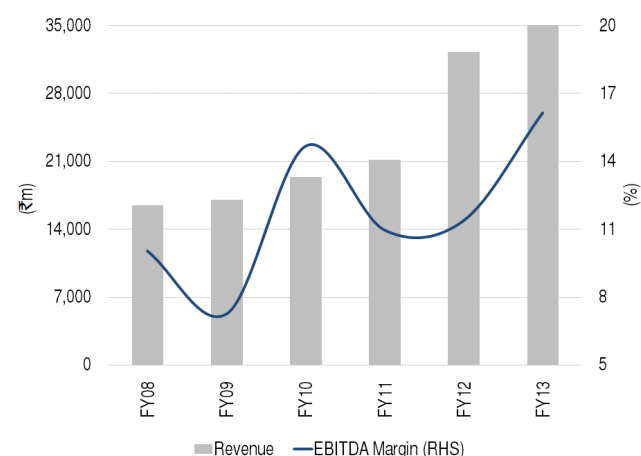
| Year-end: Mar            | FY09    | FY10    | FY11    | FY12    | FY13    |
|--------------------------|---------|---------|---------|---------|---------|
| PBT                      | (651)   | 2,186   | 435     | 30      | 2,982   |
| Non-cash items           | 1,087   | 1,126   | 1,203   | 1,378   | 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

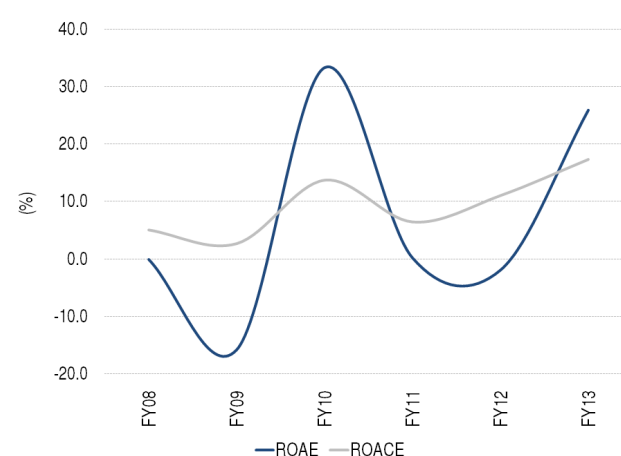
**Fig 4 – Ratio analysis @ ₹96**

| 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**

| <b>Particulars</b> | <b>Terry Towels</b>  | <b>Rugs including carpets</b>  | <b>Bed-Linen Products</b>  |
|--------------------|--|--|--|
| 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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