

# WELSPUN INDIA

## Performance sustains; margin may temper

India Equity Research | Midcap Textiles



Welspun India (WLSI) reported yet another good quarter with Q1FY17 revenue moving up 14% YoY to INR15.9bn (3% above estimate). This comprised 10% volume growth and 4% positive impact of currency. EBITDA margin at 26.5% also came in better than expected, higher by 19bps YoY and flat QoQ. However, if the recent spike in cotton prices sustains it could impact margins going forward. With the huge capex cycle behind and ancillarisation plan picking up, we expect WLSI to generate strong cash flows of ~INR13bn over the next 2 years. We maintain our 7.0x EV/EBITDA target multiple with TP pegged at INR116. Maintain 'BUY'.

### Volume growth sustains, margins stable; interest cost plummets

Revenue, at INR15.9bn, moved up 14.3% YoY (3% above estimate), driven by the 10% volume growth and 4% positive impact of currency. Towels and sheets utilisation touched 90% this quarter. WLSI managed to sustain margins, which improved 19bps YoY to 26.5%. Overall, EBITDA increased by 15% YoY (5% above estimate). The company saw a sharp 47% QoQ and 41% YoY fall in interest expense to INR353mn led by reduction in base rate and higher quantum of debt under Gujarat Textile Scheme. However, higher depreciation (on capitalised capex), lower other income and higher tax restricted PAT growth to 10% to INR2.0bn (19% above estimate).

### Margin outlook a slight concern on spike in cotton prices

The recent spike in cotton prices may not have an immediate impact on WLSI's margins, but could adversely impact if prices continue to sustain till September and thereafter when cotton buying commences. With cotton futures for November still trading ~15% higher YoY (higher than our cotton price increase estimate), we marginally trim our FY17E EBITDA margin by 30bps.

### Outlook and valuations: Strong FCF; maintain 'BUY'

WLSI is done with its huge capex programme, which saw it incur INR25bn in past 2 years. Going forward, with its ancillarisation programme gathering pace and despite 20% increase in capacity by this year end, we see WLSI generating strong FCF of ~INR13bn over next 2 years. We maintain our EV/EBITDA target multiple of 7.0x giving us a target price of INR116. Maintain 'BUY'.

Financials	(INR mn)							
Year to March	Q1FY17	Q1FY16	YoY (%)	Q4FY16	QoQ (%)	FY16	FY17E	FY18E
Net Revenues	15,926	13,931	14.3	16,294	(2.3)	59,371	69,265	77,573
EBITDA	4,225	3,669	15.1	4,326	(2.3)	15,899	18,238	20,037
Adjusted Profit	2,019	1,830	10.3	1,994	1.2	7,400	8,582	9,444
Adj. Dil. EPS*	2.0	1.8	10.3	2.0	1.2	7.4	8.5	9.4
Diluted P/E (x)						13.4	11.6	10.5
EV/EBITDA (x)						7.9	6.8	5.8
ROAE (%)						42.9	36.7	31.1

\* Q1FY16 EPS adjusted for stock split

Edelweiss Research is also available on [www.edelresearch.com](http://www.edelresearch.com), Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

EDELWEISS RATINGS			
Absolute Rating	BUY		
Investment Characteristics	Growth		
MARKET DATA (R: WLSP.BO, B: WLSI IN)			
CMP	: INR 100		
Target Price	: INR 116		
52-week range (INR)	: 120 / 67		
Share in issue (mn)	: 1,004.7		
M cap (INR bn/USD mn)	: 101 / 1,495		
Avg. Daily Vol. BSE/NSE ('000)	: 2,071.8		
SHARE HOLDING PATTERN (%)			
	Current	Q3FY16	Q2FY16
Promoters *	73.5	73.5	73.5
MF's, FI's & BKs	15.9	2.8	8.7
FII's	-	12.7	5.0
Others	10.7	11.0	12.8
* Promoters pledged shares (% of share in issue)	:	NIL	
PRICE PERFORMANCE (%)			
	BSE Midcap Index	Stock	Stock over Index
1 month	9.8	(3.9)	(13.7)
3 months	12.0	0.1	(11.9)
12 months	11.4	24.5	13.0

Nihal Mahesh Jham  
+91 22 6623 3352  
nihal.jham@edelweissfin.com

July 26, 2016

## Impact of IND-AS

**Table 1: IND-AS impact**

INR mn	Q4FY16	Q1FY16	FY16
Net profit as per Indian GAAP	1,968	1,650	7,153
Add/(Less):			
Effect of change in method of recognising grants	89	87	353
Deferred Tax impact on Ind AS adjustments	(46)	111	(13)
Others	19	1	33
<b>Net profit as per Ind AS</b>	<b>2,029</b>	<b>1,849</b>	<b>7,525</b>

Source: Company, Edelweiss research

- **Effect of change in method of recognising grants:** This relates to VAT or sales tax refund which WLSI was getting from the Gujarat government relating to capex incurred. While earlier, the company was eligible to recognise this over the refund period i.e., 8 years, under IND AS it is required to recognise it over the depreciable life of the assets.
- **Deferred tax impact on IND AS adjustments:** Relates to deferred tax adjustments for stock sitting in the company's subsidiary's books.

## Q1FY17 concall: Key highlights

- **Q1FY17 results**
  - Growth in PAT would have been 15.3% YoY excluding IND AS adjustments.
  - Capacity utilisation:
    1. Towel: 90%
    2. Bed sheet: 90%
    3. Rugs: 72%
  - The company reported 14% revenue growth. The break-up was
    1. Volume: 10%
    2. Currency: 4%
    3. Price: 0%
- **Cotton**
  - Prices surged as more than anticipated quantity of cotton was exported.
  - Also, for the new season, acreage is lower by 4-5%.
  - Despite this, crop estimate at 350lakh bales is higher than 340lakh bales seen last year due to the drought situation, which has eased this year.
  - While current quotes are at INR46,000/candy, trades for Nov-Dec futures are already happening at INR41,000/candy
  - This is still higher than the last year average price of INR35,000/candy.
  - However, WLSI remains confident of maintaining its margins despite this rise.

- **Industry**

- Top of the bed segment:
  1. The market for top-of-the-bed category is bigger than sheets.
  2. WLSI entered this market only recently.
  3. In Fashion bedding the company is only doing revenues of USD15-20mn.
  4. However, WLSI does not see India grabbing a major share of the 'top-of-the-bed' category (as seen in cotton and bed sheets).
- Hospitality & healthcare
  1. Hospitality and healthcare is a USD1-1.5bn market.
  2. While WLSI is still at research stage in the healthcare side, hospitality business is already seeing traction.
  3. The market is dominated by local companies. Bulk of the product is imported.
- China
  1. While the recent spike in Indian cotton prices is worrisome, Chinese cotton is still 17% more expensive.
  2. This cotton advantage along with existing labour advantage should help Indian companies maintain their advantage.
  3. The cost differential will not change too much.

- **Geographic expansion**

- US market trends
  1. WLSI has not seen any impact of the fall in US home textile volumes (reported by OTEXA) seen in past few months.
  2. There have been no indications from its clients about any issues.
  3. The company increased its market share in US last year also.
- Europe
  1. WLSI continues to remain focused on the European markets.
  2. The company's business continues to grow in Europe.
  3. Business in Europe and RoW registered 20-25% growth.
  4. It has been successful in opening doors with all major retailers in Europe.
  5. WLSI has been able to achieve this growth, despite the duty disadvantage.
- Japan and other Asian markets
  1. WLSI is focused on Asian markets as well.
  2. However, the Asia (especially Japan) is a conservative market and it takes time to get business.
  3. The company is already in its 3rd year of business in Japan.
- India market

1. Logged growth in excess of 20% this quarter.
2. Growth in future quarters will be pronounced.

- **Retail and innovative products**

- WLSI continues to invest in its brands in India and also 'Christy' in the UK.
- 'Hygro' continues to see huge traction in US markets.

- **Capex**

- Total capex of INR8bn for this year
  1. INR2.5bn is a carry forward from last year.
  2. INR3bn will be spent on increasing towel, sheets and rugs capacity by 20%.
  3. INR1.5bn is being incurred on carpets.
- Capex is expected to decline in FY18, and should be equal to depreciation going forward.

- **Ancillarisation**

- WLSI wants to outsource yarn manufacturing for towel and sheets whereas fabric will be outsourced only for sheeting.

- **This takes away 2/3rd of the company's capex**

- First spinning unit is operational and was commissioned 2-3 months ago.
- It will soon start producing 45 tonnes of yarn per day.
- The company plans to give this first unit 3-4 months to mature and understand the learning curve therein.
- There are already 11 other ancillary units the company is in discussion with. There is more interest in yarn manufacturing.
- Over next 2-3 years, the roll out should happen.
- Going forward, WLSI will only focus on dyeing, finishing, sewing and other value-added processes.

- **Incentives**

- General belief is that with implementation of GST, there will be immediate impact of 1.5% on margins related to the discontinuation of duty drawback.
- While there are fears that incentives could get reduced, but looking at the recent incentives rolled out for the garment segment, there is a possibility incentives could be increased.

- **Debt**

- 90% of borrowing is in INR and rest is in foreign currency.

## Q4FY16 Analyst meet: Key highlights

### Q4FY16/FY16 results

- WLSI was declared as the No.1 home textile supplier in the US for the fourth consecutive year.
- Overall revenue growth at 13% YoY in FY16 was led by 12% volume growth, 2% price decline and 3% exchange gain.
- Margin expanded driven by foreign currency benefit (3% on revenue), increased backward integration and change in product mix.
- Capacity utilisation

**Table 2: Capacity utilisation**

Segment	Capacity	Utilisation (%)
Towels (MT)	60,000	92.0
Sheets (Mn mtrs)	72	92.0
Rugs (Mn sq.mtrs)	8	76.0

Source: Company, Edelweiss research

- Terry towels market share in USA reached 20% in CY15 from 14.7% in CY13, while bed linen market share moved up to 11.3% from 7.3% in CY13).
- **Innovative/branded products**
  - Share of innovative products stood at 34% in FY16 (versus 31% in FY15), while that of branded sales stood at 13% (versus 11 % in FY15).
  - Launch of innovative products by WLSI such as 'Hygro cotton' towels is gaining strong traction. Revenue clocked ~USD150mn in FY16 and is expected to touch ~ USD 200mn in FY17.
  - On similar lines, the company is confident of growing it's other innovative products 'Nano Care'and 'Drylon'. WLSI plans to launch similar products in bed linen segment, too.
  - Domestic retail business clocked stupendous 47% YoY growth in FY16
- **Future growth**
  - Globally, the company is seeing humungous opportunity in hospitality and health care segments.
  - Future focus areas include providing value-added services/partnership approach for large retailers in terms of inventory management, product placement, real-time data analytics, etc. This will help maintain the company's strong relationship with retailers.
  - Focus on sales through e-commerce will continue and it expects to maintain it at ~5 % levels on higher base.
- **Capex**
  - WLSI has commissioned incremental capacity in bed linen and terry towels.
  - Further capacity expansion has been announced in all segments:

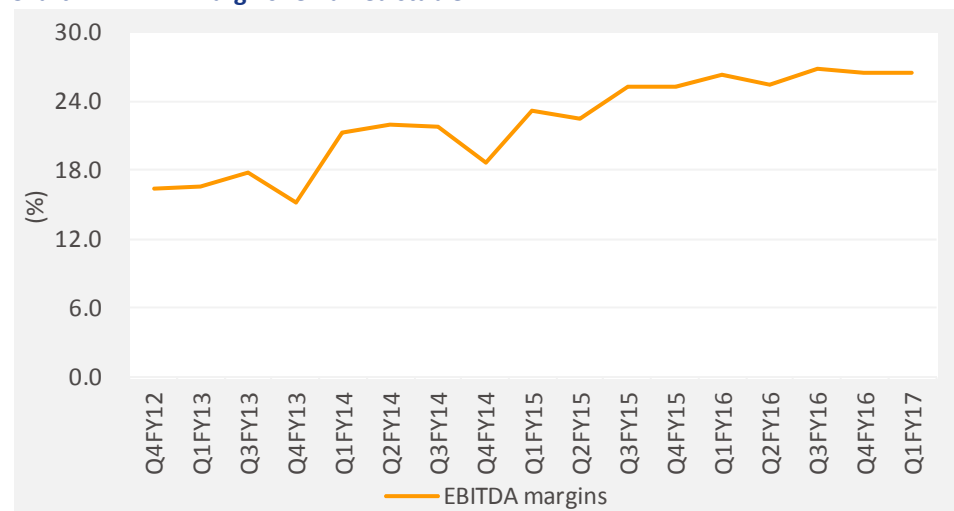
**Table 3: Additional capacity**

Segment	Addition Capacity	Total capacity
Towels (MT)	12,000	72,000
Sheets (Mn mtrs)	18	90
Rugs (Mn sq.mtrs)	2	10

Source: Company, Edelweiss research

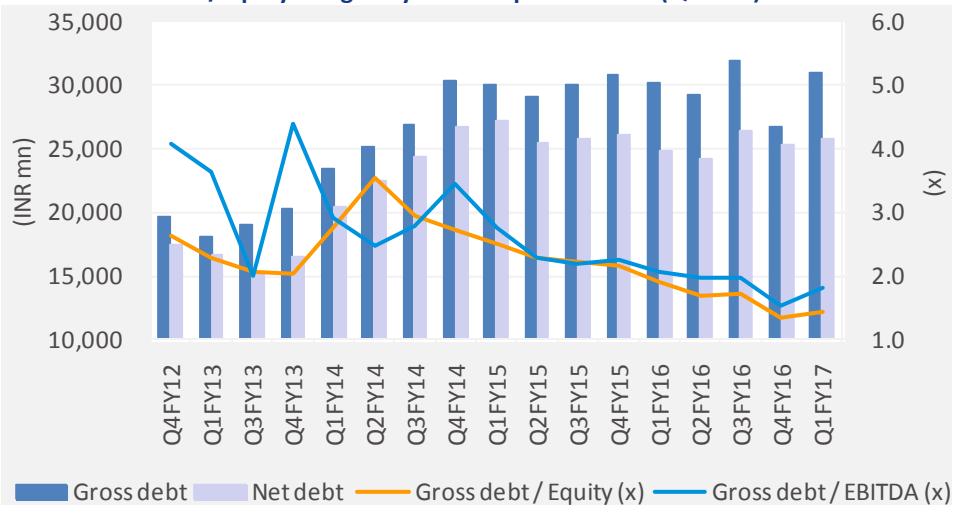
- Incremental capacity will not be fully integrated and will mainly be processing and stitching capabilities.
- WSLI is moving towards developing ancillary units around its existing plant for spinning and weaving and would leverage its processing capabilities including new product development and customer relationship for volume growth going forward.
- Earlier planned capex for Vapi plant modernisation will continue and get completed in FY17.
- The company stated post this capex plan, future capex will be to the tune of depreciation.
- **Vision 2020**
  - Revenue: USD2bn
  - 50% of revenue from innovative and branded products
  - Domestic share of revenue at 20%, mainly from own brands and retail program
  - Net debt : Nil

**Chart 1: EBITDA margins remained stable**



Source: Company, Edelweiss research

Chart 2: Gross debt/Equity marginally inched up from 1.35x (Q4FY16) to 1.43x (Q1FY17)



Source: Company, Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q1FY17	Q1FY16	% change	Q4FY16	% change	FY16	FY17E	FY18E
Net revenues	15,926	13,931	14.3	16,294	(2.3)	59,371	69,265	77,573
Staff costs	1,539	1,239	24.2	1,379	11.6	5,364	6,125	6,783
Direct costs	7,240	6,500	11.4	7,340	(1.4)	26,589	31,992	36,500
Other expenses	2,922	2,523	15.8	3,248	(10.1)	11,518	12,910	14,253
EBITDA	4,225	3,669	15.1	4,326	(2.3)	15,899	18,238	20,037
Depreciation	1,121	785	42.9	1,036	8.2	3,718	4,848	5,462
EBIT	3,104	2,885	7.6	3,290	(5.7)	12,181	13,390	14,575
Other income	189	286	(33.9)	277	(31.8)	950	865	791
Interest	353	593	(40.5)	668	(47.2)	2,368	1,515	1,338
Add: Exceptional items								
Profit before tax	2,940	2,577	14.1	2,900	1.4	10,763	12,740	14,027
Provision for taxes	853	729	17.1	871	(2.0)	3,238	4,013	4,419
Minority interest	68	18	271.2	36	91.9	125	145	165
Reported net profit	2,019	1,830	10.3	1,994	1.2	7,400	8,582	9,444
Adjusted Profit	2,019	1,830	10.3	1,994	1.2	7,400	8,582	9,444
Diluted shares (mn)	1,005	1,005*		1,005		1,005	1,005	1,005
Adjusted Diluted EPS	2.0	1.8	10.3	2.0	1.2	7.4	8.5	9.4
Diluted P/E (x)	-	-		-		13.4	11.6	10.5
EV/EBITDA (x)	-	-		-		7.9	6.8	5.8
ROAE (%)	-	-		-		42.9	36.7	31.1

## As % of net revenues

Direct costs	45.5	46.7		45.0		44.8	46.2	47.1
Employee cost	9.7	8.9		8.5		9.0	8.8	8.7
Other expenses	18.3	18.1		19.9		19.4	18.6	18.4
EBITDA	26.5	26.3		26.6		26.8	26.3	25.8
Reported net profit	12.7	13.1		12.2		12.5	12.4	12.2
Tax rate	29.0	28.3		30.0		30.1	31.5	31.5

\*Adjusted for stock split



## Company Description

Established in 1985, Welspun India today, it is one of the top three home textile manufacturers globally and the largest home textile company in Asia. It has modern manufacturing facilities at Anjar and Vapi in Gujarat where it produces an entire range of home textiles for bed & bath category. The company has state-of-the-art completely vertically integrated plants, right from spinning to confectioning.

Welspun has been ranked No.1 among home textile suppliers in the US (Source: Home Textile Today). It has a distribution network in over 32 countries including US, UK, Europe, Canada and Australia.

In addition to manufacturing facilities, which predominantly supply to private labels, the company also maintains its own brands Christy, Hygrocotton, Welhome and Spaces - Home and Beyond; it also has a tie up with Nautica for North American markets.

## Investment Theme

**Innovation, diversified client and product base cement dominance:** Welspun enjoys long standing relationships with top retailers in the US and Europe and supplies to 14 of the top 30 global retailers. It commands a lion's share of home textiles exported out of India. Increasing geographical and client diversification is improving the company's risk metrics. It has seven trademarks and has applied for six patents till date. Welspun derives ~30% of sales from innovative products.

**Margin sustainability:** WLSI has consistently improved its margin. While the rise is partially attributed to currency, it has been primarily driven by increase in share of innovative products. Driven by its confidence in sustaining these margins, it has upgraded its margin guidance from 20-22% to 23-24%.

**Robust free cash flow & consistently lowering leverage:** WLSI is at the end of its massive INR25bn capex programme it had undertaken in FY14, with only INR8bn to be spent in FY17. The company's confidence in generating free cash is also evident from its recently announced dividend policy of 25% payout ratio. Going forward, it is expected to generate strong free cash flows and lower its leverage further. Gross debt/equity has fallen from 2.1x at FY15 end to 1.3x as of FY16. We estimate this to fall below 1.0x by FY18E.

## Key Risks

**Raw material risk:** Raw material costs, primarily cotton yarn, account for 50% of the overall expenses and are a prime driver of profitability. Volatility in cotton prices can impact the profitability adversely.

**Leveraged balance sheet:** Welspun ended FY16 with a net debt/equity of 1.2x. While it has completed a major portion of its capex, leverage remains high.

**Currency fluctuations:** Welspun exports more than 90% of its production. With a network spanning 50 countries, the company is exposed to currency fluctuations which can significantly impact profitability.

## Financial Statements

### Key Assumptions

Year to March	FY15	FY16	FY17E	FY18E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	7.4	7.9	8.3
Inflation (Avg)	5.9	4.8	5.0	5.2
Repo rate (exit rate)	7.5	6.8	6.0	6.0
USD/INR (Avg)	61.1	65.0	67.5	67.0
<b>Company</b>				
Towel cap. (MT)	50,000	55,000	60,000	72,000
Bed-linen cap. (000 mts)	60,000	66,000	72,000	90,000
Rugs/carpets cap. (MT)	15,000	15,000	17,500	25,000
Towel utilis. (%)	102	101	99	89
Bed-linen utilis. (%)	97	101	99	87
Rugs/carpets utilis. (%)	58	76	80	68
Raw Material (% net rev)	48.0	44.8	46.2	47.1
Other exp (% net rev)	19.6	19.4	18.6	18.4
Depreciation rate (%)	7.6	7.1	7.8	8.0
Dividend per share	10.5	1.3	1.6	1.8
Capex (INR mn)	5,795	10,597	8,788	4,332
Inventory % of costs	43.3	41.5	41.0	41.0
Debtors % of revenues	8.4	10.3	10.3	10.3
OCA % of revenues	2.8	2.8	2.8	2.8
Loans & adv (% net rev)	14.1	10.8	10.8	10.8
Incremental debt	558	(4,219)	(323)	(4,115)

### Income statement

				(INR mn)
Year to March	FY15	FY16	FY17E	FY18E
Net revenue	53,025	59,371	69,265	77,573
Materials costs	25,443	26,589	31,992	36,500
Gross profit	27,582	32,782	37,273	41,073
Employee costs	4,460	5,364	6,125	6,783
Other Expenses	10,380	11,518	12,910	14,253
EBITDA	12,742	15,899	18,238	20,037
Depreciation	3,329	3,718	4,848	5,462
EBIT	9,412	12,181	13,390	14,575
Add: Other income	949	950	865	791
Less: Interest Expense	2,829	2,368	1,515	1,338
Profit Before Tax	7,533	10,763	12,740	14,027
Less: Provision for Tax	2,090	3,238	4,013	4,419
Less: Minority Interest	45	125	145	165
Reported Profit	5,398	7,400	8,582	9,444
Adjusted Profit	5,398	7,400	8,582	9,444
Shares o /s (mn)	100	1,005	1,005	1,005
Adjusted Basic EPS	53.7	7.4	8.5	9.4
Diluted shares o/s (mn)	100	1,005	1,005	1,005
Adjusted Diluted EPS	53.7	7.4	8.5	9.4
Adjusted Cash EPS	89.3	11.1	13.4	14.8
Dividend per share (DPS)	10.5	1.3	1.6	1.8
Dividend Payout Ratio(%)	23.5	21.2	23.0	23.0

### Common size metrics

Year to March	FY15	FY16	FY17E	FY18E
Operating expenses	76.0	73.2	73.7	74.2
Materials costs	48.0	44.8	46.2	47.1
Staff costs	8.4	9.0	8.8	8.7
S G & A expenses	19.6	19.4	18.6	18.4
Depreciation	6.3	6.3	7.0	7.0
Interest Expense	5.3	4.0	2.2	1.7
EBITDA margins	24.0	26.8	26.3	25.8
Net Profit margins	10.3	12.7	12.6	12.4

### Growth ratios (%)

Year to March	FY15	FY16	FY17E	FY18E
Revenues	21.3	12.0	16.7	12.0
EBITDA	38.3	24.8	14.7	9.9
PBT	626.3	42.9	18.4	10.1
Adjusted Profit	486.3	37.1	16.0	10.0
EPS	485.6	37.1	16.0	10.0

Balance sheet		(INR mn)			
As on 31st March	FY15	FY16	FY17E	FY18E	
Share capital	1,005	1,005	1,005	1,005	
Reserves & Surplus	13,314	18,872	25,480	32,752	
Shareholders' funds	14,318	19,877	26,485	33,756	
Minority Interest	378	503	648	813	
Short term borrowings	14,905	8,755	10,308	7,193	
Long term borrowings	15,946	17,877	16,000	15,000	
Total Borrowings	30,851	26,632	26,308	22,193	
Long Term Liabilities	1,020	1,296	1,517	1,700	
Def. Tax Liability (net)	641	1,178	1,178	1,178	
<b>Sources of funds</b>	<b>47,208</b>	<b>49,486</b>	<b>56,136</b>	<b>59,641</b>	
Gross Block	42,980	53,741	62,114	67,210	
Net Block	24,442	31,486	35,014	34,650	
Capital work in progress	1,564	1,832	2,246	1,482	
Intangible Assets	1,828	1,892	1,900	1,908	
Total Fixed Assets	27,834	35,210	39,160	38,040	
Non current investments	15	30	30	30	
Cash and Equivalents	4,657	1,777	2,798	5,541	
Inventories	11,006	11,046	13,117	14,965	
Sundry Debtors	4,467	6,114	7,133	7,988	
Loans & Advances	7,474	6,419	7,489	8,387	
Other Current Assets	1,500	1,676	1,955	2,189	
Current Assets (ex cash)	24,447	25,255	29,694	33,530	
Trade payable	6,910	10,080	11,736	13,233	
Other Current Liab	2,835	2,706	3,810	4,267	
Total Current Liab	9,745	12,786	15,546	17,500	
Net Curr Assets-ex cash	14,702	12,469	14,148	16,030	
<b>Uses of funds</b>	<b>47,208</b>	<b>49,486</b>	<b>56,136</b>	<b>59,641</b>	
BVPS (INR)	142.5	19.8	26.4	33.6	
Contingent Liability	594.1	414.3	414.3	414.3	

Free cash flow		(INR mn)			
Year to March	FY15	FY16	FY17E	FY18E	
Reported Profit	5,398	7,400	8,582	9,444	
Add: Depreciation	3,329	3,718	4,848	5,462	
Interest (Net of Tax)	2,044	1,656	1,038	917	
Others	871	1,010	(388)	(369)	
Less: Changes in WC	2,252	(2,754)	1,459	1,699	
Operating cash flow	9,391	16,538	12,621	13,755	
Less: Capex	5,795	10,597	8,788	4,332	
<b>Free Cash Flow</b>	<b>3,596</b>	<b>5,940</b>	<b>3,833</b>	<b>9,423</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Welspun India	1,495	11.7	10.6	6.8	5.9	36.7	31.1
Arvind	1,171	14.9	12.6	8.8	7.9	16.7	17.1
Himatsingka Seide	403	14.0	12.0	10.5	7.9	18.1	17.9
Median	-	14.0	12.0	8.8	7.9	18.1	17.9
AVERAGE	-	13.6	11.7	8.7	7.2	23.8	22.1

Source: Edelweiss research

Cash flow metrics		FY15	FY16	FY17E	FY18E
Year to March					
Operating cash flow		9,391	16,538	12,621	13,755
Investing cash flow		(6,071)	(8,012)	(7,933)	(3,551)
Financing cash flow		(3,249)	(9,455)	(3,667)	(7,461)
Net cash Flow		71	(929)	1,021	2,743
Capex		(5,795)	(10,597)	(8,788)	(4,332)
Dividend paid		(711)	(2,443)	(1,974)	(2,172)

## Profitability and efficiency ratios

Year to March	FY15	FY16	FY17E	FY18E
ROAE (%)	41.7	42.9	36.7	31.1
ROACE (%)	23.8	28.4	28.4	27.9
Inventory Days	122	151	112	115
Debtors Days	30	33	35	36
Payable Days	94	117	124	125
Cash Conversion Cycle	58	67	22	25
Current Ratio	3.0	2.1	2.1	2.2
Gross Debt/EBITDA	2.4	1.7	1.4	1.1
Gross Debt/Equity	2.1	1.3	1.0	0.6
Adjusted Debt/Equity	2.1	1.3	1.0	0.7
Net Debt/Equity	1.8	1.2	0.9	0.5
Interest Coverage Ratio	3.3	5.1	8.8	10.9

## Operating ratios

Year to March	FY15	FY16	FY17E	FY18E
Total Asset Turnover	1.2	1.2	1.3	1.3
Fixed Asset Turnover	2.3	2.0	2.0	2.1
Equity Turnover	4.1	3.4	2.9	2.5

## Valuation parameters

Year to March	FY15	FY16	FY17E	FY18E
Adj. Diluted EPS (INR)	53.7	7.4	8.5	9.4
Y-o-Y growth (%)	485.6	37.1*	16.0	10.0
Adjusted Cash EPS (INR)	89.3	11.1	13.4	14.8
Diluted P/E (x)	1.9	13.6	11.7	10.6
P/B (x)	0.7	5.1	3.8	3.0
EV / Sales (x)	2.4	2.1	1.8	1.5
EV / EBITDA (x)	2.9	7.9	6.8	5.9
Dividend Yield (%)	10.5	1.3	1.6	1.8

## Additional Data

### Directors Data

Mr. B K Goenka	Chairman	Mr. R. R. Mandawewala	Managing Director
Ms. Dipali Goenka	Executive Director	Mr. A. K. Dasgupta	Independent Director
Mr. Arun Todarwal	Independent Director	Mr. Ram Gopal Sharma	Independent Director
Mr. Ajay Sharma	Nominee Director	Mr. Arvind Kumar Singhal	Additional Director

Auditors -

*\*as per last available data*

### Holding – Top10

	Perc. Holding		Perc. Holding
Goldman Sachs Group	2.77	Wasatch Advisors	1.33
Reliance Capital	0.93	Vanguard Group	0.75
Dimensional Fund Advisors	0.59	HSBC Asset Mgmt India	0.53
Union Investment	0.42	BNP Paribas Asset Mgmt	0.31
Prudential ICICI Asset Mgmt	0.28	Capital Securities	0.28

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
------	-------------------	-----	------------	-------

No Data Available

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
----------------	-------------------	-----	------------

No Data Available

*\*as per last available data*

**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: [research@edelweissfin.com](mailto:research@edelweissfin.com)

Manoj Bahety

Deputy Head Research

[manoj.bahety@edelweissfin.com](mailto:manoj.bahety@edelweissfin.com)

### Coverage group(s) of stocks by primary analyst(s): Midcap Textiles

Arvind, Himatsingka Seide, Welspun India

#### Recent Research

Date	Company	Title	Price (INR)	Recos
25-May-16	<b>Himatsingka Seide</b>	Margins uptick in retail; <i>Result Update</i>	216	Buy
13-May-16	<b>Arvind</b>	Growth with stable margins; <i>Result Update</i>	299	Hold
26-Apr-16	<b>Welspun India</b>	Brand & Retail margins revival continues; <i>Result Update</i>	99	Buy

#### Distribution of Ratings / Market Cap

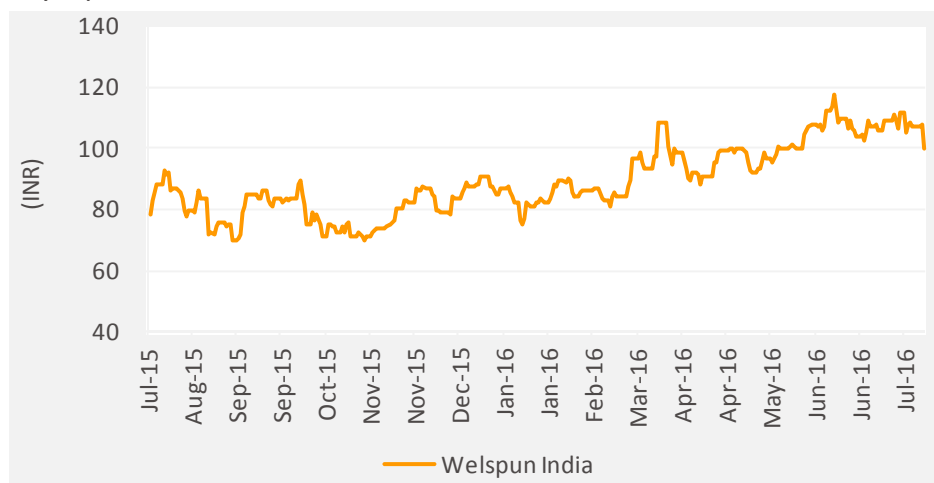
##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	158	59	12	229
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

#### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

#### One year price chart



### DISCLAIMER

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on [www.edelweissfin.com](http://www.edelweissfin.com)) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: ( i) exchange rates can be volatile and are subject to large fluctuations; ( ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at [www.nseindia.com](http://www.nseindia.com)

#### **Analyst Certification:**

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

#### **Additional Disclaimers**

##### **Disclaimer for U.S. Persons**

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

### **Disclaimer for U.K. Persons**

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

### **Disclaimer for Canadian Persons**

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

### **Disclaimer for Singapore Persons**

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved