

1QFY20 Result Update

Welspun India

New products to drive growth

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CMP (Rs): 52

Market cap. (Rs bn): 52.1

Target price (Rs): 61

Maintain Hold

First Cut Feel of the Results

- Revenue grew 11.6% YoY to reach Rs 17.3 bn driven by 3.4% volume growth, 4.8% improvement in exchange rate realisation and 3.4% higher export incentives.
- EBITDA grew 22.5% YoY to reach Rs 3,631 mn with margin of 21.0%. EBITDA margin improved 187 bps YoY due to better exchange rate realisation and higher export incentives.
- Gross debt stood at Rs 31.6 bn against Rs 33.1 bn in 4QFY19. Improvement in cash conversion cycle to 83 days from 95 days in 4QFY19, enabled cash generation. Net debt reduced 14.8% to reach Rs 28.2 bn against Rs 30.3 bn in 4QFY19.
- Promoter shareholding at 68.5% has remained unchanged QoQ. Recent budget proposal to raise minimum public shareholding to 35% could impact Welspun India (WLSI), though marginally, if SEBI mandates it.

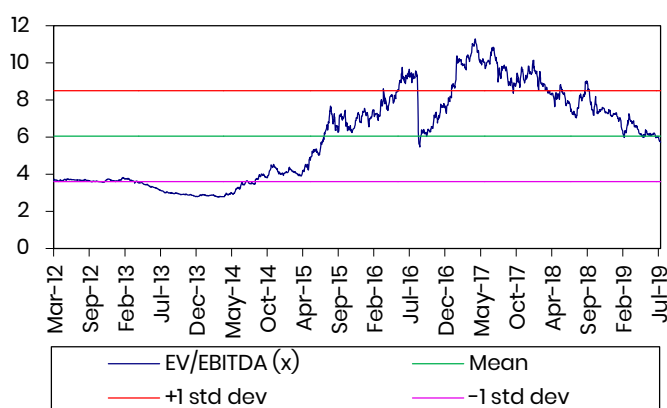
Financial highlights

(Rs mn)	1QFY19	1QFY20	YoY (%)	4QFY19	QoQ (%)
Net sales	15,492	17,281	11.6	15,572	11.0
EBITDA	2,965	3,631	22.5	2,087	74.0
EBITDA margin (%)	19.1	21.0	9.8	13.4	56.8
Other income	286	82	(71.5)	437	(81.4)
Interest	342	374	9.2	479	(22.0)
Depreciation	1,059	1,094	3.3	1,098	(0.4)
PBT	1,850	2,244	21.3	946	137.1
Tax	522	683	31.0	(509)	(234.2)
Minority interest	56	60	7.3	9	601.2
PAT	1,272	1,500	17.9	1,447	3.7
Adjusted PAT	1,272	1,500	17.9	1,447	3.7
EPS (Rs)	1.3	1.6	17.9	1.4	11.1

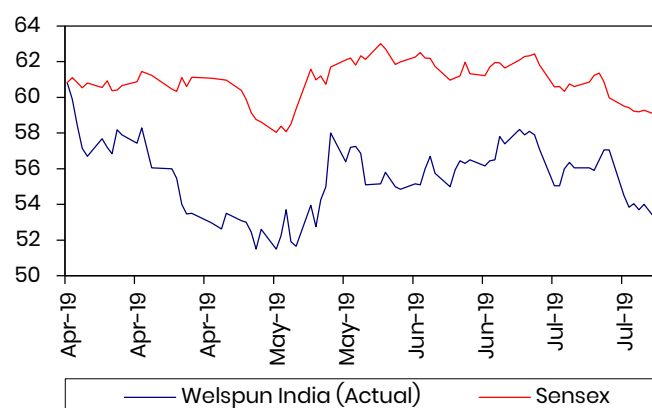
Key variables

	Improvement on (%)		
	B&K est.	Consensus	
Net sales	2.6	1.4	
EBITDA	3.4	8.3	
Adjusted PAT	0.8	8.4	
	FY19	FY20E	FY21E
Valuations			
PER (x)	12.6	10.6	9.5
PBV (x)	2.1	1.7	1.5
EV/EBITDA (x)	8.5	6.2	5.6
Key ratios			
RoE (%)	17.6	16.7	16.6
Liquidity			
Net D/E (x)	1.1	1.0	0.8

One-year forward EV/EBITDA



Relative performance



Is it in the Price?

The company reported results that are in line with our expectations and better than consensus expectations. Stock has fallen 7.7%/1.8% over the last one/three months, respectively. Higher export incentives and better exchange rate realisation are likely to cushion the profitability in the challenging industry scenario. Reduction in net debt is a positive surprise. We believe that the stock is likely to remain range-bound in the near-term.

Connecting the Dots

Double digit sales growth to continue: Sales growth of 11.6% YoY is slightly better than our estimate of 8.7% growth. Emerging businesses (including advanced textiles and hospitality) grew 30% YoY. 1QFY20 growth is in line with management guidance of double digit growth for FY20E. Better exchange rate realisation, higher export incentives and commissioning of flooring solutions plant in Andhra Pradesh are likely to drive the growth.

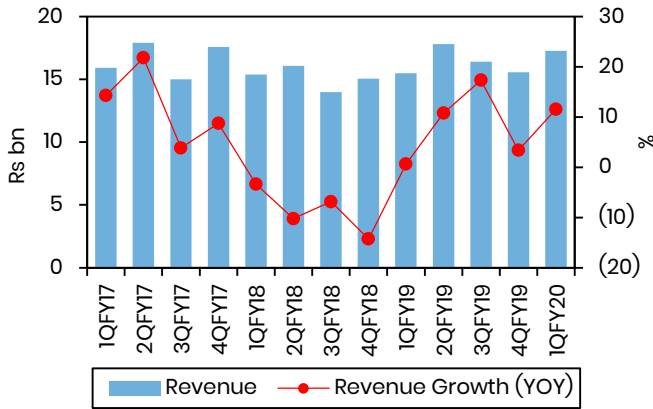
EBITDA margin of 21%: EBITDA margin improved 187 bps YoY and 761 bps QoQ to 21% led by higher export incentives and better exchange rate realisation. The company maintained its FY20E margin guidance at 19–20% due to fluctuating exchange rate and likely reduction in export incentive (time period not known). Though reduction in cotton prices is likely to be positive for the company, we believe this will be beneficial only in 2HFY20. Initial cost of operating the new Andhra Pradesh plant in 2HFY20 is likely to impact profitability in the near-term. We maintain our estimates.

Debt reduction a positive surprise: Reduction in cost conversion cycle to 83 days led to cash generation in 1QFY20. However, working capital can increase again during the year due to challenging industry scenario. Hence, the company maintained its guidance of Rs 27 bn net debt for FY20.

Outlook and Recommendation

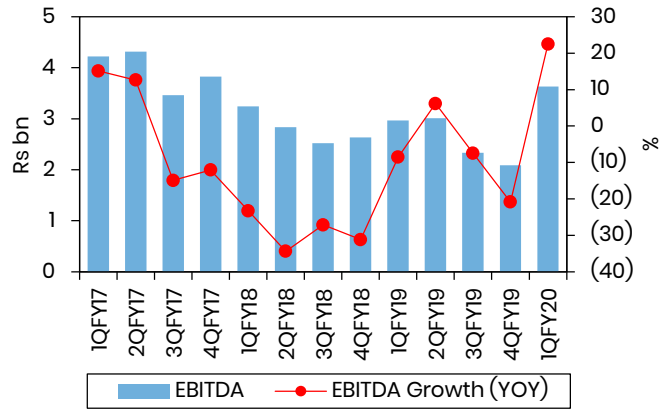
Though we are positive on the management strategies to improve their sales including higher focus on branded sales (Christy and Spaces), innovation and diversifying product mix (higher domestic sales, new flooring solutions plant and advanced textiles), the uncertainties persist. Higher currency depreciation of competing countries is impacting India's market share in the US home textile imports. The company's strategy to diversify to new products (flooring solutions plant in Andhra Pradesh) is likely to reduce dependence on traditional home textile products; however, initial costs and huge capex is likely to keep return ratios and profitability under pressure in the near-term. We maintain Hold rating on the stock with a target price of Rs 61 (valuing at 6.2x FY21E EV/EBITDA). Key risks to our estimates are steep volatility in exchange rates and higher cotton price. Key catalyst for the stock includes higher volume growth driven by US market recovery, increase in incentives by government to support exports, favourable settlement of the US class-action lawsuits and any favourable outcome from US-China trade issues.

Revenue growth of 11.6% YoY

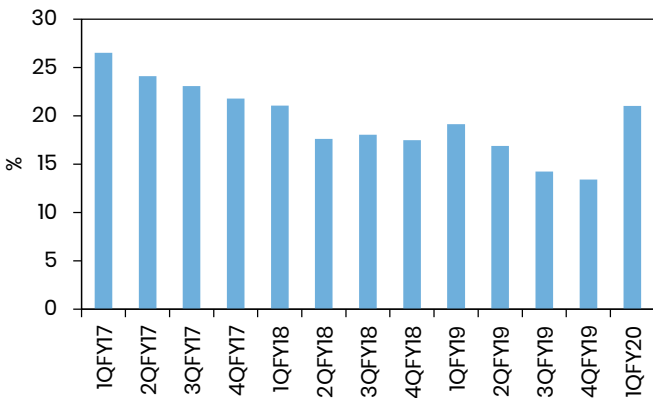


Source: Company, B&K Research

EBITDA growth of 22.5% YoY

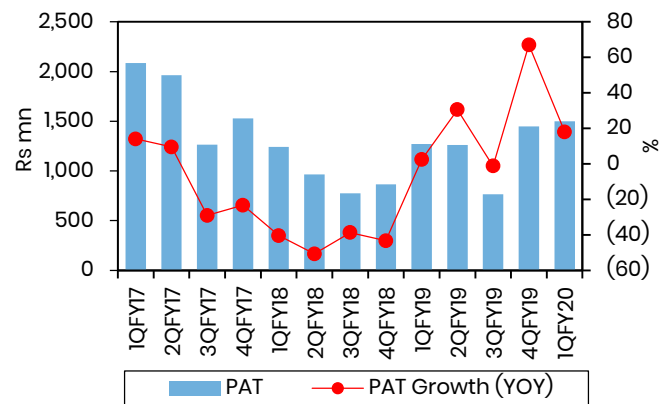


EBITDA margin of 21%

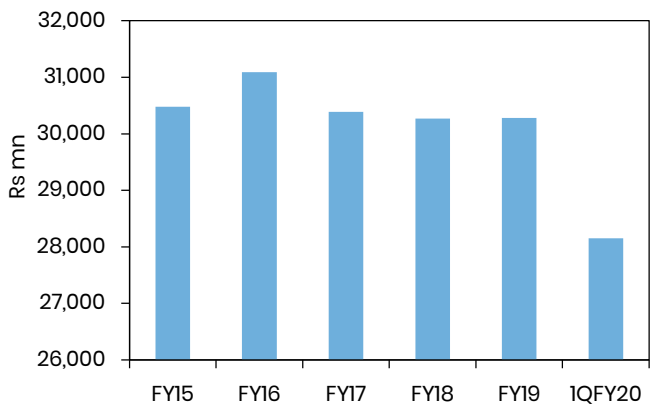


Source: Company, B&K Research

PAT growth of 17.9% YoY

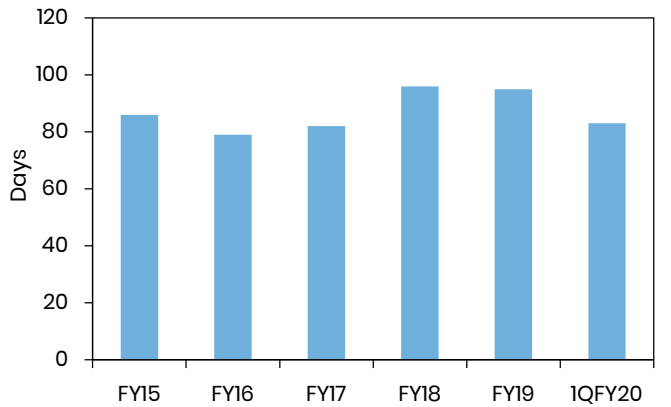


Net debt reduction on lower working capital



Source: Company, B&K Research

Cash conversion cycle reduced QoQ



Conference call highlights

New launches: In India, the company launched pillows in 1QFY20. The company's new innovation of 'Bamboo Charcoal' launched in 4QFY19 received good traction in 1QFY20. The company is also looking for licenced brands in the international markets.

Advanced textiles: The revenue from advanced textiles stood at Rs 2 bn in FY19. The company operates in 2 major areas of filtration and hygiene in this segment. Filtration is domestic focused while hygiene is export focused. These two segments are among the fastest growing in the industry.

Revenue: Volume growth was led by bed sheets. Average exchange rate accrued during the quarter was 69.5 INR/USD.

Ind-AS 116 Impact: Rent cost for the quarter stood at Rs 84 mn, which was classified as interest and depreciation. It positively impacted EBITDA by 0.5% with no impact on PBT.

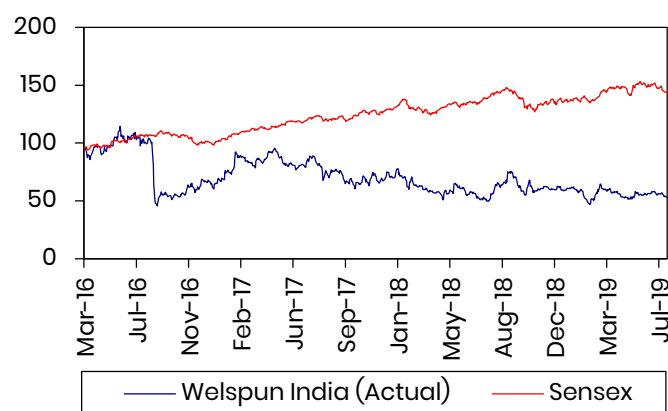
Capex: The company incurred capex of Rs 2 bn in 1QFY20, which included Rs 1.6 bn for flooring plant. The company maintained FY20 capex guidance of Rs 6 bn. Commissioning of the flooring plant in 2QFY20 will complete the high capex cycle of the company. Further capex on flooring plant will be smaller and staggered.

Flooring project update: The company is likely to complete Rs 11 bn plant in 2QFY20. It will further incur capex of Rs 3-4 bn over a period of time, depending on demand in various products. The company targets to generate revenue of Rs 1.5-2 bn in FY20 from the flooring plant. As per the management, an investment of Rs 15 bn in the flooring business can potentially generate peak turnover of Rs 30 bn with EBITDA margin of 20%.

Major shareholders (%)

	Mar 19	Jun 19	Change
Promoters	68.5	68.5	0.0
GOI	0.0	0.0	0.0
FIs	8.3	8.7	0.4
MFs	9.9	8.3	(1.6)
BFSI's	0.5	0.8	0.3
Public & Others	12.8	13.7	0.8
Pledge	0.0	0.0	0.0

Relative to Sensex 3 Years



Income Statement (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Net sales	60,506	65,266	71,926	80,167
Growth (%)	(8.9)	7.9	10.2	11.5
Operating expenses	(49,272)	(54,618)	(58,404)	(65,536)
Operating profit	11,234	10,649	13,522	14,630
EBITDA	11,234	10,649	13,522	14,630
Growth (%)	(29.1)	(5.2)	27.0	8.2
Depreciation	(5,042)	(4,358)	(4,925)	(5,163)
Other income	812	818	440	462
EBIT	7,004	7,109	9,037	9,930
Finance cost	(1,408)	(1,593)	(1,756)	(1,778)
Exceptional & extraordinary	0	(2,647)	(700)	0
Profit before tax	5,597	2,869	6,581	8,151
Tax (current + deferred)	(1,615)	(608)	(2,184)	(2,445)
Profit/(Loss) for the period	3,982	2,262	4,396	5,706
P/L of Associates, Min Int, Pref Div	(132)	(163)	(172)	(189)
Reported Profit / (Loss)	3,849	2,098	4,225	5,517
Adjusted net profit	3,849	4,745	4,925	5,517
Growth (%)	(53.2)	23.3	3.8	12.0

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Share capital	1,005	1,005	1,005	1,005
Reserves & surplus	25,052	26,788	30,098	34,379
Total Shareholders Funds	26,056	27,793	31,103	35,384
Minority interest and others	467	709	881	1,070
Non-current liabilities	20,660	19,985	21,876	20,395
Long-term borrowings	17,028	15,537	17,183	15,433
Other non-current liabilities	3,632	4,449	4,693	4,961
Current liabilities	24,686	28,935	28,473	29,117
ST borrowings, Curr maturity	15,779	18,560	16,523	15,729
Other current liabilities	8,907	10,375	11,949	13,388
Total (Equity and Liab.)	71,870	77,423	82,333	85,965
Non-current assets	36,762	41,117	43,203	40,957
Fixed assets (Net block)	33,641	36,154	37,867	35,204
Non-current Investments	278	273	278	278
Long-term loans and advances	967	1,563	1,797	2,067
Other non-current assets	1,876	3,128	3,261	3,408
Current assets	35,108	36,306	39,130	45,009
Cash & current investment	2,661	2,728	1,641	1,455
Other current assets	32,447	33,578	37,489	43,554
Total (Assets)	71,870	77,423	82,333	85,965
Total debt	32,807	34,096	33,707	31,163
Capital employed	62,962	67,047	70,383	72,577

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Profit before tax	5,597	2,869	6,581	8,151
Depreciation	5,042	4,358	4,925	5,163
Change in working capital	(3,850)	(256)	(2,436)	(4,747)
Total tax paid	(1,715)	34	(2,184)	(2,445)
Others	1,408	1,593	1,756	1,778
Cash flow from oper. (a)	6,481	8,598	8,642	7,900
Capital expenditure	(2,970)	(6,871)	(6,638)	(2,500)
Change in investments	(25)	13	(5)	0
Others	(32)	(1,245)	(134)	(147)
Cash flow from inv. (b)	(3,027)	(8,103)	(6,777)	(2,647)
Free cash flow (a+b)	3,454	495	1,865	5,254
Debt raised/(repaid)	(307)	1,289	(389)	(2,544)
Dividend (incl. tax)	(786)	(363)	(915)	(1,237)
Others	(2,333)	(1,346)	(1,648)	(1,659)
Cash flow from fin. (c)	(3,426)	(420)	(2,952)	(5,439)
Net chg in cash (a+b+c)	28	75	(1,087)	(186)

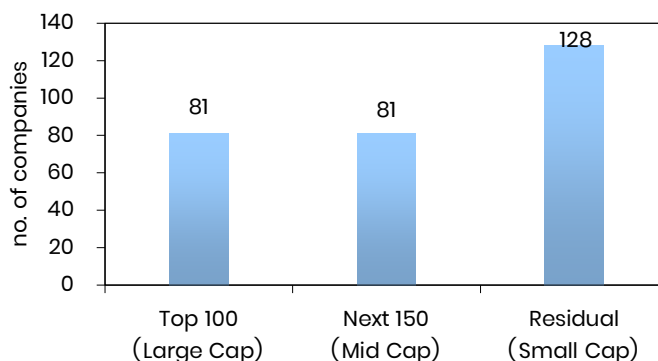
Key ratios (Consolidated)

Period end (%)	Mar 18	Mar 19	Mar 20E	Mar 21E
Adjusted EPS (Rs)	3.8	4.7	4.9	5.5
Growth	(53.2)	23.3	3.8	12.0
CEPS (Rs)	8.8	9.1	9.8	10.6
Book NAV/share (Rs)	25.9	27.7	31.0	35.2
Dividend/share (Rs)	0.7	0.3	0.8	1.0
Dividend payout ratio	20.4	17.3	21.7	22.4
EBITDA margin	18.6	16.3	18.8	18.3
EBIT margin	11.6	10.9	12.6	12.4
Tax rate	28.9	11.0	30.0	30.0
RoCE	11.3	10.9	13.2	13.9
Net debt/Equity (x)	1.1	1.1	1.0	0.8
Net debt/EBITDA (x)	2.7	2.9	2.4	2.0
Du Pont Analysis - ROE				
Net margin	6.4	7.3	6.8	6.9
Asset turnover (x)	0.8	0.9	0.9	1.0
Leverage factor (x)	2.9	2.8	2.7	2.5
Return on equity	15.4	17.6	16.7	16.6

Valuations (Consolidated)

Period end (x)	Mar 18	Mar 19	Mar 20E	Mar 21E
PER	14.9	12.6	11.0	9.8
PCE	6.5	6.5	5.5	5.1
Price/Book	2.2	2.1	1.7	1.5
Yield (%)	1.1	0.5	1.4	1.9
EV/EBITDA	7.8	8.5	6.4	5.7

B&K Universe Profile – by AMFI Definition



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