

CMP (Rs) 99

TP (Rs) 114

BUY

Key Figures	YoY Growth (%)			
	Actuals	B&K Est	Consensus	
Net Sales	19.2	14.6	12.6	In-Line with expectations
EBITDA	22.7	20.4	19.2	
Adj PAT	19.8	8.5	8.2	
EPS	19.8	8.5	8.2	

Change in B&K view Post Results

We maintain our positive view on WLSI given its multiple growth drivers like penetrating newer geographies, scaling new product categories, expanding underpenetrated channels, etc. WLSI's increasing vertical integration, higher share of value added products and branded sales will aid healthy operating margins. Ongoing capex will entail modernisation, automation and capacity enhancement for towel and sheets as well as routine maintenance, which will aid the growth momentum. Fall in the relative debt level (net debt to equity 1.27x vs 1.85x in FY15) despite the on-going large capex is the major highlight of the performance. The stock currently trades at 7.6x FY17E EV/EBITDA and 13x FY17E EPS. We have Buy rating on the stock.

Key Deviation & Reasons

Higher other income and lower tax rate as compared to our expectations were the key reasons for deviation in bottom-line.

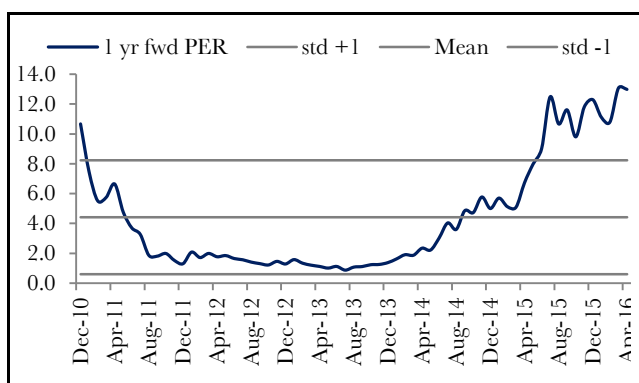
Other Highlights

- Healthy revenue growth (19.2% actual vs. 14.6% expectation) was supported by higher volume, higher mix of innovative products and favourable exchange rate. Domestic retail sales witnessed robust growth of 47% during FY16.
- Share of innovative products stood at 34% in FY16 (vs. 31% in FY15) and that of branded sales stood at 13% in FY16 (vs. 11% in FY15).
- The company announced the capex of Rs 8 bn for FY17E. This is the balance portion of already announced capacity expansion plan. By the end of FY17E, capacity would reach 72000 MT in towels, 90 mn meters in Bed Linen and 10 mn sq. meters in Rugs and Carpet.
- Final Dividend announced at Rs 0.05 per share, taking the total dividend for FY16 to Rs 1.3 per share.

Valuations

Year end	FY16E	FY17E	FY18E
PBV (x)	5.0	4.0	3.2
EV/EBITDA (x)	8.1	7.6	6.7

Historic valuation chart



Details (Rs Mn)

	4QFY15	4QFY16
Net Sales	13,658	16,284
EBITDA	3,446	4,229
EBITDA Margin (%)	25.2	26.0
Other Income	289	269
Interest	569	663
Depreciation	1,009	1,042
Reported PAT	1,614	1,933
Adjusted PAT	1,614	1,933
NPM (%)	11.8	11.9
EPS (Rs)	1.6	1.9

Prerna Jhunjhunwala, Nishant Agrawal

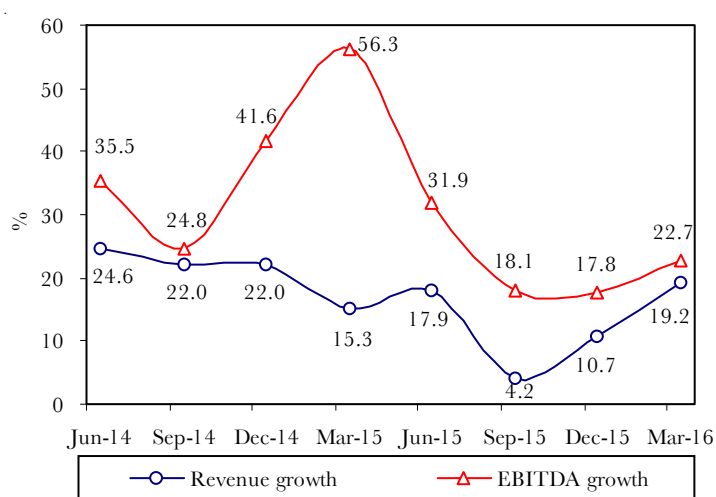
Financial highlights

(Rs mn)	4QFY15	4QFY16	YoY (%)	3QFY16	QoQ (%)	FY16P	FY17E	FY18E
Net Sales	13,658	16,284	19.2	14,904	9.3	59,795	66,419	74,871
EBITDA	3,446	4,229	22.7	4,006	5.6	15,575	16,704	18,306
EBITDA Margin (%)	25.2	26.0	–	26.9	–	26.0	25.2	24.5
Other Income	289	269	(7.2)	172	56.1	915	800	750
Interest	569	663	16.5	592	11.9	2,362	2,265	2,168
Depreciation	1,009	1,042	3.3	997	4.5	3,750	4,216	4,438
PBT	2,157	2,792	29.4	2,588	7.9	10,378	11,024	12,449
Tax	508	825	62.5	814	1.4	3,224	3,417	3,859
Adjusted PAT	1,614	1,933	19.8	1,741	11.0	7,029	7,606	8,590
NPM (%)	11.8	11.9	–	11.7	–	11.8	11.5	11.5
EPS (Rs)	1.6	1.9	19.8	1.7	11.0	7.0	7.6	8.6

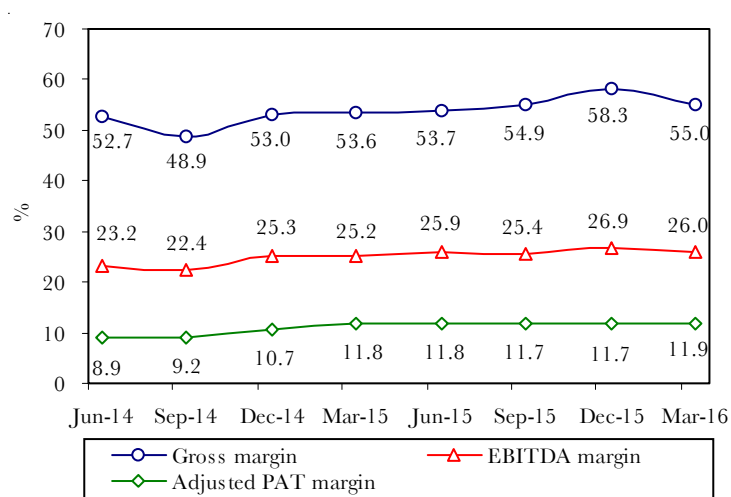
Operating cost break-up (% of Sales)

Cost items	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	YoY Change (bps)	QoQ Change (bps)
Raw Material Cost	46.4	46.3	45.1	41.7	45.0	(135)	328
Power & Fuel Cost	2.4	2.4	1.8	2.0	2.7	37	67
Employee Expenses	8.6	8.9	9.0	9.5	8.5	(17)	(107)
Other Operating Expenses	17.4	16.5	18.7	19.8	17.8	41	(197)
Total Operating Cost	74.8	74.1	74.6	73.1	74.0	(74)	91

Revenue growth and EBITDA growth (YoY)



Gross margin, EBITDA margin and Adjusted PAT margin (%)



Source: Company, B&K Research

Welspun India

Income Statement

Period end (Rs mn)	Mar 15	Mar 16P	Mar 17E	Mar 18E
Net sales	53,025	59,795	66,419	74,871
<i>Growth (%)</i>	<i>18.0</i>	<i>12.8</i>	<i>11.1</i>	<i>12.7</i>
Operating expenses	-40,283	-44,219	-49,715	-56,565
Operating profit	12,742	15,575	16,704	18,306
Other operating income				
EBITDA	12,742	15,575	16,704	18,306
<i>Growth (%)</i>	<i>38.3</i>	<i>22.2</i>	<i>7.2</i>	<i>9.6</i>
Depreciation	-3,329	-3,750	-4,216	-4,438
Other income	949	915	800	750
EBIT	10,362	12,740	13,289	14,617
Finance cost	-2,829	-2,362	-2,265	-2,168
Exceptional & extraordinary				
Profit before tax	7,533	10,378	11,024	12,449
Tax (current + deferred)	-2,090	-3,224	-3,417	-3,859
P / L form discount. Op.				
Profit / (Loss) for period	5,443	7,153	7,606	8,590
P/L of Ass., Min Int, Pref Div	-45	-125		
Reported Profit / (Loss)	5,398	7,029	7,606	8,590
Adjusted net profit	5,398	7,029	7,606	8,590
<i>Growth (%)</i>	<i>-4.6</i>	<i>30.2</i>	<i>8.2</i>	<i>12.9</i>

Balance Sheet

Period end (Rs mn)	Mar 15	Mar 16P	Mar 17E	Mar 18E
Share capital	1,005	1,005	1,005	1,005
Reserves & surplus	13,314	18,872	24,191	30,197
Shareholders' funds	14,319	19,877	25,195	31,202
Minority Interests and others	378	503	503	503
Non-current liabilities	17,607	20,352	20,167	19,936
Long-term borrowings	15,946	17,877	17,627	17,326
Other non-current liabilities	1,661	2,475	2,540	2,610
Current liabilities	24,650	21,541	22,164	20,861
ST borrow, Curr maturity	14,905	10,232	11,306	8,591
Other current liabilities	9,745	11,309	10,857	12,270
Total (Equity and Liab)	56,953	62,272	68,029	72,502
Non-current assets	29,396	36,656	37,910	37,661
Fixed assets (Net block)	26,049	33,435	34,277	33,885
Non-current Investments	15	30	15	15
Long-term loans and adv	1,377	1,206	1,667	1,834
Other non-current assets	1,955	1,985	1,951	1,927
Current assets	27,557	25,617	30,119	34,841
Cash & Current investment	4,657	1,777	1,963	3,208
Other current assets	22,900	23,840	28,156	31,633
Total (Assets)	56,953	62,272	68,029	72,502
Total debt	30,851	28,109	28,933	25,918
Capital employed	47,208	50,963	57,172	60,232

Cash Flow Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Profit before tax	7,533	10,378	11,024	12,449
Depreciation	3,329	3,750	4,216	4,438
Change in working capital	-1,456	1,065	-5,165	-2,164
Total tax paid	-1,884	-2,687	-3,417	-3,859
Others	2,829	2,362	2,265	2,168
Cash flow from oper. (a)	10,351	14,869	8,922	13,033
Capital expenditure	-5,608	-11,136	-5,058	-4,046
Change in investments	-305	857	548	
Others	852	-40	-14	-22
Cash flow from inv. (b)	-5,061	-10,320	-4,524	-4,069
Free cash flow (a+b)	5,290	4,549	4,398	8,964
Equity raised/(repaid)	4			
Debt raised/(repaid)	558	-2,742	825	-3,016
Dividend (incl. tax)	-1,268	-1,571	-2,288	-2,583
Others	-3,662	-2,245	-2,215	-2,120
Cash flow from fin. (c)	-4,370	-6,559	-3,678	-7,719
Net chg in cash (a+b+c)	920	-2,009	720	1,245

Key ratios

Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	5.4	7.0	7.6	8.6
<i>Growth (%)</i>	<i>(4.7)</i>	<i>30.2</i>	<i>8.2</i>	<i>12.9</i>
CEPS (Rs)	8.7	10.7	11.8	13.0
Book NAV/share (Rs)	14.3	19.8	25.1	31.1
Dividend/share (Rs)	1.0	1.3	1.9	2.1
Dividend payout ratio	23.5	22.4	30.1	30.1
EBITDA margin	24.0	26.0	25.2	24.5
EBIT margin	19.5	21.3	20.0	19.5
Tax rate	27.7	31.1	31.0	31.0
RoCE	22.9	26.0	24.6	24.9
Total debt/Equity (x)	2.1	1.4	1.1	0.8
Net debt/Equity (x)	1.8	1.3	1.0	0.7
Du Pont Analysis - ROE				
Net margin	10.2	11.8	11.5	11.5
Asset turnover (x)	1.0	1.0	1.0	1.1
Leverage factor (x)	4.3	3.5	2.9	2.5
Return on equity	42.5	41.1	33.8	30.5

Valuations

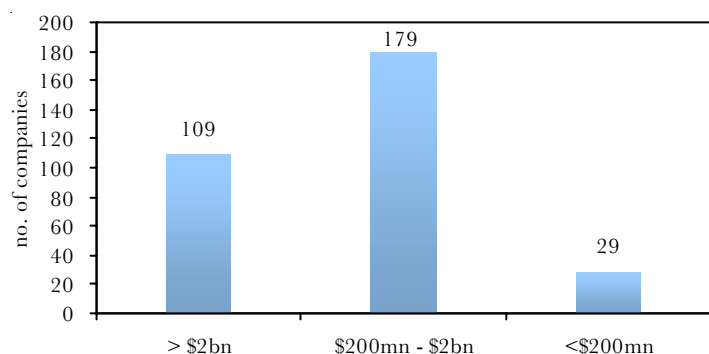
Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	6.6	14.1	13.1	11.6
PCE	4.1	9.2	8.4	7.7
Price/Book	2.5	5.0	4.0	3.2
Yield (%)	3.0	1.3	1.9	2.2
EV/EBITDA	4.9	8.1	7.6	6.7

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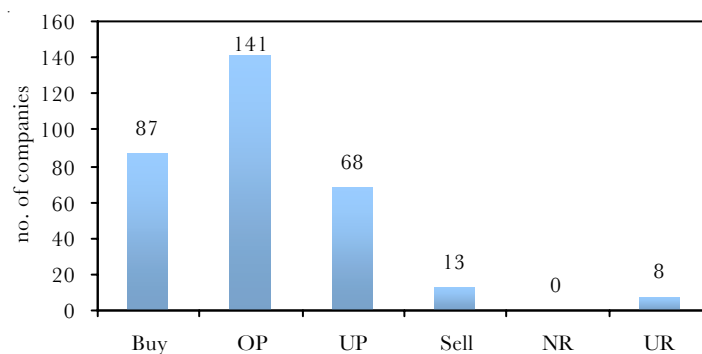
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



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BUY	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
SELL	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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