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Welspun India Ltd.

1QFY20 Results: Estimates (↓), TP (↓), Rating (↔)

Regular Coverage

Absolute: LONG
Relative: Overweight
24% ATR in 14 Months

Emerging businesses to drive growth – maintain LONG

Textiles

| Rating Information | |
|-----------------------------|--------------|
| Price (Rs) | 58 |
| Target Price (Rs) | 73 |
| Target Date | 30th Sep' 20 |
| Target Set On | 31st Jul' 19 |
| Implied yrs of growth (DCF) | 15 |
| Fair Value (DCF) | 89 |
| Fair Value (DDM) | 20 |
| Ind Benchmark | SPBSMIP |
| Model Portfolio Position | NA |

| Stock Information | |
|-------------------------|------------|
| Market Cap (Rs Mn) | 58,274 |
| Free Float (%) | 31.52 % |
| 52 Wk H/L (Rs) | 78.25/46.2 |
| Avg Daily Volume (1yr) | 14,96,859 |
| Avg Daily Value (Rs Mn) | 88 |
| Equity Cap (Rs Mn) | 1,005 |
| Face Value (Rs) | 1 |
| Bloomberg Code | WLSI IN |

| Ownership | Recent | 3M | 12M |
|-----------|--------|--------|--------|
| Promoters | 68.5 % | 0.0 % | 0.0 % |
| DII | 10.3 % | 0.1 % | 4.3 % |
| FII | 8.3 % | 0.3 % | -1.2 % |
| Public | 12.9 % | -0.4 % | -3.1 % |

| Price % | 1M | 3M | 12M |
|-------------|--------|--------|---------|
| Absolute | 6.8 % | 11.9 % | -5.8 % |
| Vs Industry | 8.6 % | 6.4 % | -1.2 % |
| Trident | -3.0 % | 6.7 % | 19.1 % |
| Indocount | 1.6 % | 17.9 % | -43.7 % |

| Consolidated Quarterly EPS forecast | | | | |
|-------------------------------------|-----|-----|-----|-----|
| Rs/Share | 1Q | 2Q | 3Q | 4Q |
| EPS (19A) | 1.3 | 1.3 | 0.8 | 1.3 |
| EPS (20E) | 1.2 | 1.4 | 1.3 | 0.9 |

WLSI's 1QFY20 EBITDA grew 22% yoy to Rs 3.6bn, 12% above EE, driven by strong revenue growth and improved operating efficiencies. A ~Rs 1.5bn reduction in gross debt was a key positive for the quarter. We believe a slowdown in the US textile business will be offset to an extent by growth in rugs, fashion bedding, advanced materials and flooring businesses. Revenues are set to see a ~12% CAGR over FY19-FY21E with EBITDA/PAT growing 18%/13% CAGR led by better efficiencies and debt repayment. We marginally tweak estimates to factor in the near-term demand headwinds but maintain LONG with a 7.5x Sep'20 EV/EBITDA, resulting in a TP of Rs 73 (Jun'20 TP: Rs 77).

Revenue slowdown in US to be made up by growth in emerging businesses: 1Q revenue growth of 12% yoy at Rs 17.3bn (in line with EE) was driven 4.8% by currency, 3.4% by ROSCTL while 3.4% was volume-led. Owing to an expected slowdown in the US market, retailers are calibrating their purchases and this will impact near-term demand; however, this should be made up by strong growth in emerging businesses like rugs, fashion bedding, advanced materials and flooring. We expect WLSI to post a 12% revenue CAGR over FY19-FY21E driven by (a) strong growth in the domestic market with *WELSPUN* & *SPACES* brands gaining traction, (b) flooring business contributing to revenues from 3QFY20 onwards, and (c) strong growth in niche businesses.

Flooring business to drive growth: WLSI will manufacture carpet tiles, wall-to-wall tiles, artificial grass and hard flooring products as a part of its flooring product portfolio. It will also export these products as they fall in the list of products with 25% import duty levied by US on Chinese products. WLSI has already appointed 32 distributors and ~400 dealers with a pan-India presence as a part of its robust distribution network. Production from the flooring plant is expected to begin from 3QFY20 and will contribute ~Rs 1.4/ Rs 3bn in FY20E/FY21E.

Reduction in gross debt as guided: Strong revenue growth, a reduced cash conversion cycle and clearing of O/S govt. receivables led to a healthy cashflow generation, which was utilized towards reducing total debt by ~Rs 1.5bn. Gross debt stood at Rs 31.6bn (incl. flooring debt of Rs 4.8bn). WLSI had guided to a debt reduction of Rs 3bn in FY20, of which half has been achieved in 1QFY20 itself. A capex of ~Rs 6bn would be incurred in FY20 of which flooring capex would be ~Rs 4bn and the rest towards maintenance & repairs. Cashflows used towards debt repayment post construction of the flooring plant will result in a 13% PAT CAGR over FY19-FY21E.

Maintain LONG: We remain positive on the long-term growth prospects of WLSI and maintain LONG with a Sep'20 TP of Rs 73, valuing it at 7.5x EV/EBITDA.

Estimate Revision

| (Rs bn) | Forecasts | | % Change | |
|---------|-----------|--------|----------|-------|
| | FY20E | FY21E | FY20E | FY21E |
| Revenue | 72,445 | 81,863 | -1% | -2% |
| EBITDA | 12,566 | 14,772 | 0% | 0% |
| PAT | 4,837 | 6,183 | -2% | -3% |

Consolidated Financials

| Rs. Mn YE Mar | FY19A | FY20E | FY21E | FY22E |
|-------------------|--------|--------|--------|--------|
| Sales | 65,266 | 73,098 | 83,332 | 95,832 |
| EBITDA | 10,649 | 12,532 | 14,786 | 18,251 |
| Depreciation | 4,358 | 4,735 | 5,257 | 5,257 |
| Interest Expense | 1,593 | 1,749 | 1,550 | 1,550 |
| Other Income | 818 | 843 | 868 | 894 |
| Reported PAT | 2,098 | 4,824 | 6,193 | 8,636 |
| Recurring PAT | 4,745 | 4,824 | 6,193 | 8,636 |
| Total Equity | 27,793 | 31,303 | 36,589 | 44,016 |
| Gross Debt | 36,604 | 33,404 | 28,904 | 23,404 |
| Cash | 2,728 | 2,071 | 2,226 | 4,090 |
| Rs. Mn YE Mar | FY19A | FY20E | FY21E | FY22E |
| Earnings | 4.7 | 4.8 | 6.2 | 8.6 |
| Book Value | 28 | 31 | 36 | 44 |
| Dividends | 0.3 | 0.5 | 0.8 | 1.0 |
| FCFF | 3.4 | 5.3 | 7.0 | 9.0 |
| P/E (x) | 12.3 | 12.1 | 9.4 | 6.7 |
| P/B (x) | 2.1 | 1.9 | 1.6 | 1.3 |
| EV/EBITDA (x) | 8.7 | 7.2 | 5.8 | 4.3 |
| ROE (%) | 18 % | 16 % | 18 % | 21 % |
| Core ROIC (%) | 9 % | 8 % | 10 % | 14 % |
| EBITDA Margin (%) | 16 % | 17 % | 18 % | 19 % |
| Net Margin (%) | 7 % | 7 % | 7 % | 9 % |

Quarterly performance

| Rs Mn | 1QFY20 | 1QFY20E | 4QFY19 | 1QFY19 | % Change | | | Comments |
|---------------------------|---------------|---------------|---------------|---------------|------------|--------------|------------|---|
| | | | | | 1QFY20E | 4QFY19 | 1QFY19 | |
| Net Sales | 17,281 | 17,228 | 15,572 | 15,492 | 0% | 11% | 12% | In-line with EE |
| Raw Materials Consumed | 8,572 | 8,513 | 8,179 | 7,614 | 1% | 5% | 13% | |
| Employee Costs | 1,813 | 1,829 | 1,751 | 1,742 | -1% | 4% | 4% | |
| Other expenses | 3,267 | 3,654 | 3,556 | 3,171 | -11% | -8% | 3% | |
| Total Expenditures | 13,651 | 13,995 | 13,486 | 12,527 | -2% | 1% | 9% | |
| EBITDA | 3,631 | 3,233 | 2,087 | 2,965 | 12% | 74% | 22% | Lower other expenses led to EBITDA beat |
| Depreciation | 1,094 | 1,162 | 1,098 | 1,059 | -6% | 0% | 3% | |
| EBIT | 2,536 | 2,070 | 988 | 1,906 | 23% | 157% | 33% | |
| Interest | 374 | 385 | 479 | 342 | -3% | -22% | 9% | Higher interest costs due to rising flooring debt |
| Other Income | 82 | 191 | 437 | 286 | -57% | -81% | -72% | |
| PBT | 2,244 | 1,876 | 946 | 1,850 | 20% | 137% | 21% | |
| Tax | 683 | 563 | -509 | 522 | 21% | NA | 31% | |
| Recurring PAT | 1,561 | 1,313 | 1,456 | 1,328 | 19% | 7% | 17% | |
| Extraordinaries | 0 | 0 | 2,240 | 0 | | | | |
| Reported PAT | 1,561 | 1,313 | -784 | 1,328 | 19% | -299% | 17% | |
| EPS (Rs) | 1.6 | 1.3 | 1.4 | 1.3 | 19% | 7% | 17% | |
| Gross Margin | 50.4% | 50.6% | 47.5% | 50.8% | -19 bps | 292 bps | -45 bps | |
| EBITDA Margin | 21.0% | 18.8% | 13.4% | 19.1% | 224 bps | 761 bps | 187 bps | |
| EBIT Margin | 14.7% | 12.0% | 6.3% | 12.3% | 266 bps | 833 bps | 237 bps | |
| PBT Margin | 13.0% | 10.9% | 6.1% | 11.9% | 210 bps | 691 bps | 104 bps | |
| PAT Margin | 9.0% | 7.6% | -5.0% | 8.6% | 141 bps | 1407 bps | 46 bps | |
| Tax Rate | 30.5% | 30.0% | -53.8% | 28.2% | 45 bps | 8428 bps | 226 bps | |

Earnings call takeaways

General highlights

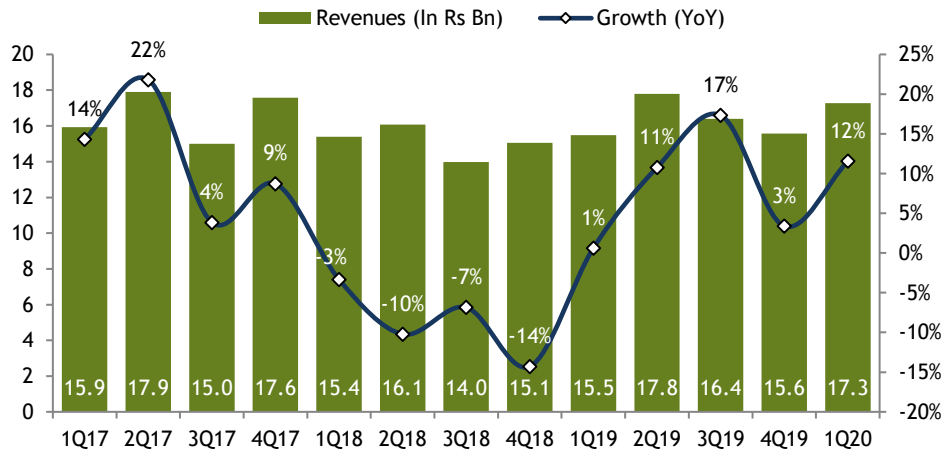
- Revenue growth of 12% yoy for the quarter was driven 4.8% by currency, 3.4% by ROSCTL while 3.4% was volume-led. Strong profitability along with deleveraging were highlights of the quarter.
- Home textile borrowings reduced by ~Rs 4.12bn. Strong revenue growth, reduced debtor days and clearing of O/S govt. receivables led to lower debt levels during the quarter.
- Retailers are recalibrating offtake in the US, which can impact revenues to some extent. However, management maintained its overall guidance of double-digit growth in FY20 revenues.
- Going ahead, growth will be driven by the rugs business, fashion bedding, advanced material and flooring businesses. While the textile business will continue to grow at a slow pace, the drop in growth rate would be compensated by strong growth in new businesses.
- Advanced textile business crossed the ~Rs 2bn revenue mark in FY19 with decent EBITDA.
- For WLSI, domestic market growth is driven by the large unorganized sector converting to organized sales.
- An inventory hit of Rs 150mn-170mn last quarter was absent in 1QFY20. Additionally, legal charges also reduced by Rs 100mn qoq, leading to an 8% qoq drop in other expenses.
- **Capex** in 1Q stood at Rs 2bn, of which ~Rs 1.66bn was for a flooring project. Full-year capex would be Rs 6bn, of which flooring capex would be ~Rs 4.1bn (Rs 1.6bn incurred in 1Q, ~Rs 2.5bn left) and the remaining ~Rs 1.9bn textile capex. Capex would be calibrated to cashflows generated during the year.
- Inventory and debtor days reduced while payable days increased, resulting in cash conversion days of 83 days at 1Q-end vs. 95 days at Mar'19-end. The company does not expect the reduction to sustain, and cash conversion days to return to normal levels of ~95 days.
- Post removal of MEIS, the company will have benefits like ROSCTL of 8.2%, duty drawback of 2.6% and input tax credit.
- Ind AS 116 impact on EBITDA was +0.5%. About Rs 84mn of rent was classified as interest & depreciation.

- Bed sheet category has seen strong growth during the quarter vs. rugs & towels.
- Avg. exchange rate stood at Rs 69.55 for 1Q.
- The company maintains its guidance to reduce debt levels to Rs 27bn by Mar'20.

Flooring project

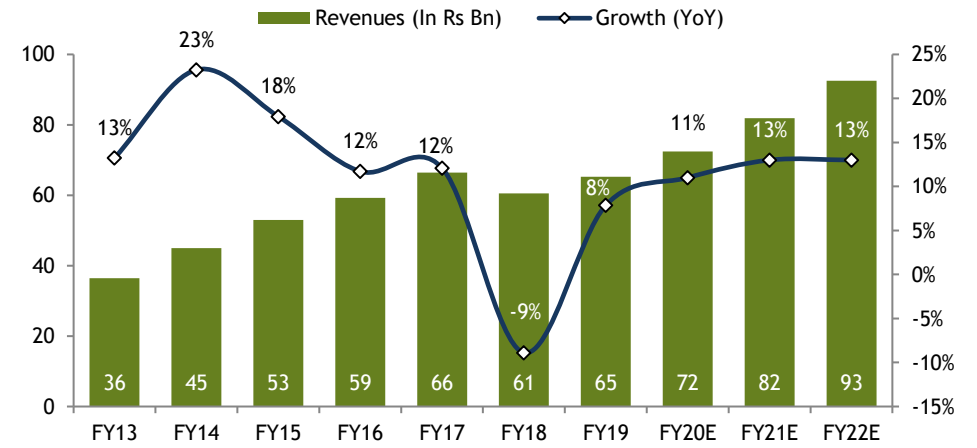
- The flooring project will commence operations by 3QFY20 and is expected to clock revenues of Rs 1.5bn-2bn in FY20E in both domestic and exports markets.
- On the international front, the company is currently building a network in Europe and US. However, prime focus is on the domestic market where 32 distributors and ~400 dealers have been appointed so far pan-India.
- Flooring plant will have four products: (a) carpet tiles, (b) wall-to-wall carpets, (c) artificial grass, and (d) hard flooring. Carpet tiles would be the first product to be manufactured at this plant.
- Wall-to-wall carpets market: Primary market is the hospitality industry (hotels, auditoriums, cinema halls) The company is already doing ~Rs 120mn of revenues annually in WTW tiles through its Vapi plant.
- Carpet tiles is a B2C product and goes into commercial offices. Currently, 125-115mn sqft of carpet tiles is imported annually, which is the company's current target. Avg. realization of tiles carpet will be in the range of 175-200/sq ft.
- Artificial grass: Currently, entire sales are imported and have applications in stadiums and replacing actual grass at homes. This is both a B2C and B2B play.
- Hard flooring business (B2C product) is marketed under the 'Welspun' brand. Current revenue run-rate is ~Rs 60mn p.a. in these products. With more products rolling out from the company's own plant, revenues should ramp up significantly.
- With an addition of Rs 2bn-3bn of investments over time to the existing Rs 11bn for flooring capex, this Rs 13bn-15bn of capex can generate 2x revenues after 5 years, with margins ranging from 16-20%.
- In B2B, shortening lead times will be a critical factor for success of the brand. The company plans to gain market share gradually rather than going aggressively with low prices.

Exhibit 1: In-line revenue growth driven by strong growth in retail business



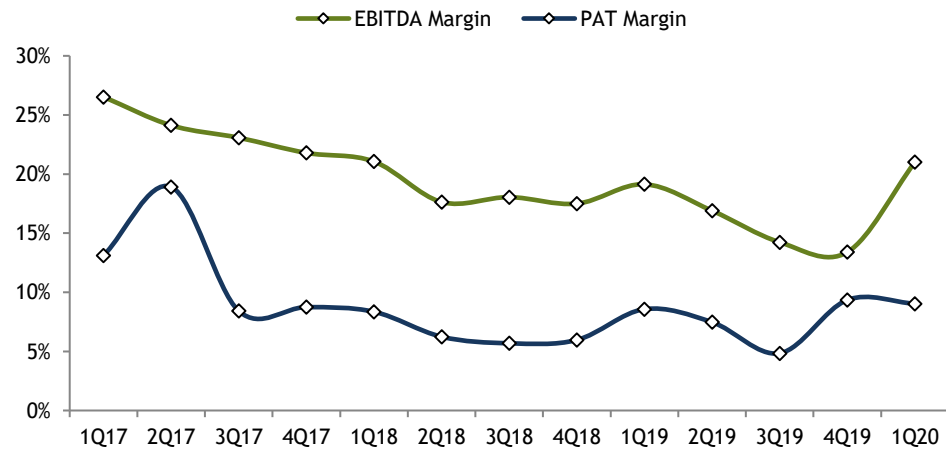
Source: Equirus Securities, Company

Exhibit 3: Revenue growth to be driven by growth in emerging businesses



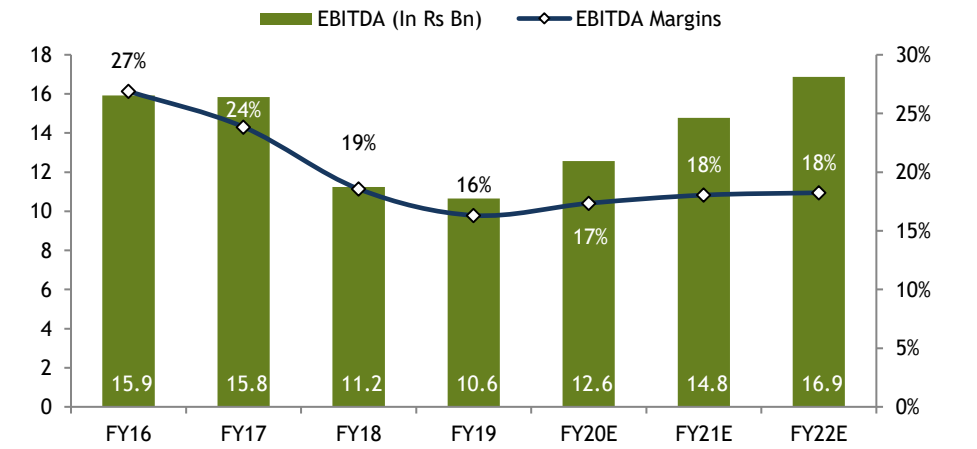
Source: Equirus Securities, Company

Exhibit 2: EBITDA margins increased on rise in operating efficiencies, PAT margin increased on similar lines



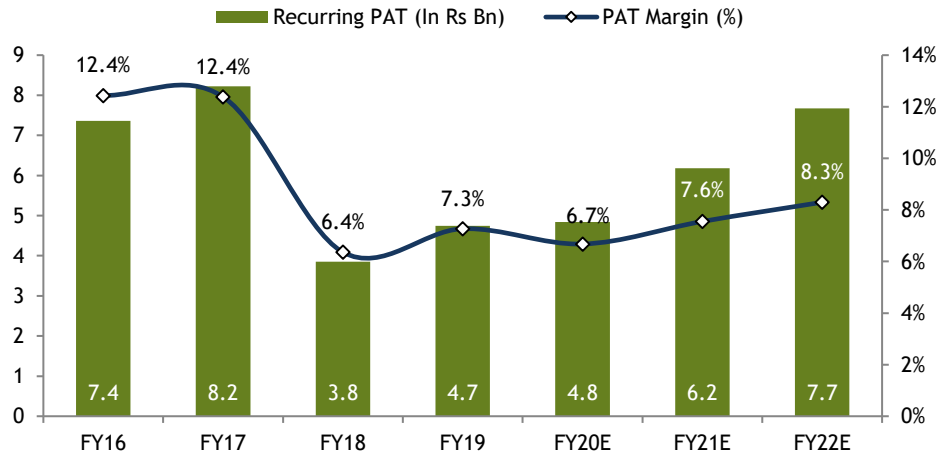
Source: Equirus Securities, Company

Exhibit 4: EBITDA margins to normalize on exhaustion of lower rate hedges.



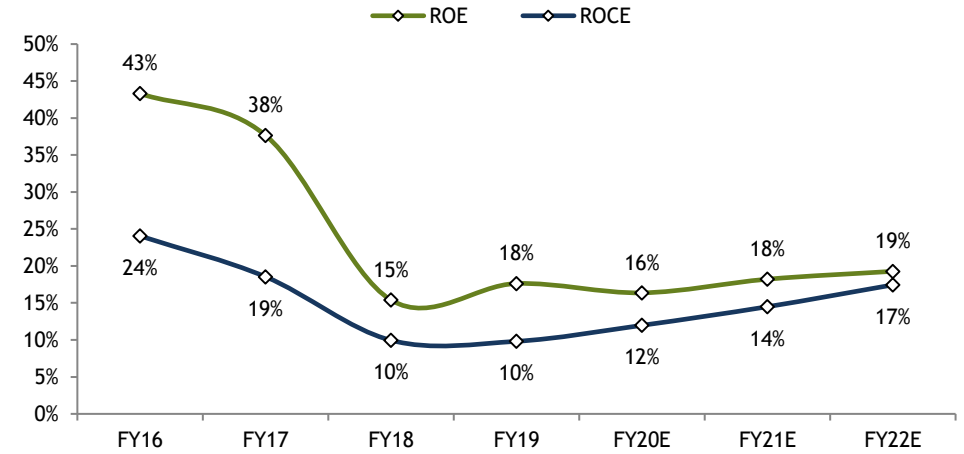
Source: Equirus Securities, Company

Exhibit 5: PAT to grow at 14% CAGR over FY19-FY21E on strong revenue growth & lower interest expenses



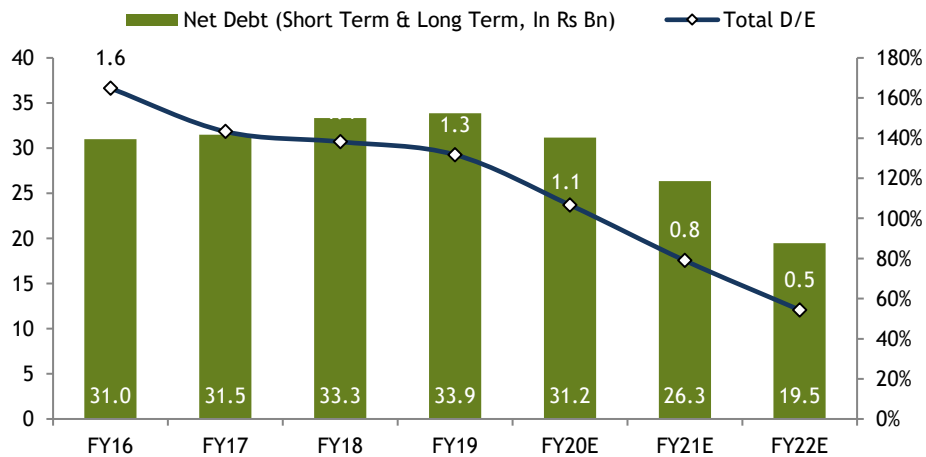
Source: Equirus Securities, Company

Exhibit 7: Return ratios to improve on rising profitability and debt reduction



Source: Equirus Securities, Company

Exhibit 6: Net Debt to fall with completion of flooring capex in FY20E



Source: Equirus Securities, Company

Company Snapshot

How we differ from Consensus

| | - | Equirus | Consensus | % Diff | Comment |
|-------|-------|---------|-----------|--------|---|
| EPS | FY20E | 4.8 | 6.3 | -24 % | Consensus yet to revise its earnings estimates. |
| | FY21E | 6.2 | 7.1 | -13 % | |
| Sales | FY20E | 73,098 | 75,898 | -4 % | |
| | FY21E | 83,332 | 86,279 | -3 % | |
| PAT | FY20E | 4,824 | 6,297 | -23 % | |
| | FY21E | 6,193 | 7,074 | -12 % | |

Our Key Investment arguments:

- Leading home textile exporter to benefit the most from changing industry dynamics.
- The vision of Welspun 2.0 will enable the company to strategize its energies towards attaining the next phase of growth.
- Capex cycle would end by FY20E, and cash flows generated thereafter would significantly bring down debt levels.
- At 6x EV/EBITDA and 9.4x P/E for FY21 EPS, valuations are attractive for a market leader.

Key Assumptions:

| Particulars | FY18 | FY19 | FY20 | FY21 |
|-----------------------------|-------|-------|-------|-------|
| <u>Capacity Utilization</u> | | | | |
| Towels | 88% | 90% | 88% | 88% |
| Cotton Sheets | 82% | 85% | 88% | 92% |
| Rugs & Carpets | 70% | 80% | 85% | 90% |
| Flooring | - | 10% | 30% | 40% |
| Gross Margin (%) | 49% | 49% | 49% | 49% |
| Capex (In Rs Mn) | 6,760 | 6,000 | 3,000 | 2,000 |

Risk to Our View: Extended uncertainty related to customer shift towards the online platform, low acceptance of flooring products, sluggish cashflow generation & subsequent delay in debt reduction, INR appreciation & rise in cotton prices.

| Comparable valuation | | Mkt Cap | | Price Target | | EPS | | | P/E | | | BPS | | P/B | | RoE | | Div Yield | |
|----------------------|-------|---------|---------|--------------|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------|--|
| Company | Reco. | CMP | Rs. Mn. | Target | Target Date | FY19A | FY20E | FY21E | FY19A | FY20E | FY21E | FY19A | FY20E | FY19A | FY20E | FY21E | FY19A | FY20E | |
| Welspun India | LONG | 58 | 58,274 | 73 | 30th Sep' 20 | 4.7 | 4.8 | 6.2 | 12.3 | 12.1 | 9.4 | 27.7 | 1.9 | 18 % | 16 % | 18 % | 0.5 % | 0.9 % | |
| Trident | NA | 66 | 33,429 | NA | NA | 7.3 | 8.8 | 9.5 | 9.0 | 7.5 | 6.9 | 59.7 | 1.0 | 13 % | 13 % | 14 % | 0.9 % | 2.1 % | |
| Indocount | NA | 42 | 8,380 | NA | NA | 3.1 | 5.8 | 7.4 | 13.9 | 7.4 | 5.8 | 48.4 | 0.8 | 14 % | 9 % | 11 % | 1.9 % | 1.6 % | |

Key Triggers

- Quick settlement of uncertainties, strong acceptance of flooring products, rise in penetration in Indian & European markets.

| Sensitivity to Key Variables | % Change | % Impact on EPS |
|------------------------------|----------|-----------------|
| Revenue | 1 % | 2 % |
| EBITDAM | 1 % | 8 % |
| - | - | - |

DCF Valuations & Assumptions

| Rf | Beta | Ke | Term. Growth | Debt/IC in Term. Yr |
|-------|------|--------|--------------|---------------------|
| 7.4 % | 1.3 | 11.8 % | 4.0 % | 35.1 % |

| - | FY20E | FY21E | FY22-24E | FY25-29E | FY30-34E |
|--------------|-------|--------|----------|----------|----------|
| Sales Growth | 12 % | 14 % | 8 % | 8 % | 4 % |
| NOPAT Margin | 7 % | 8 % | 9 % | 9 % | 9 % |
| IC Turnover | 1.13 | 1.28 | 1.48 | 1.40 | 1.30 |
| RoIC | 8.5 % | 10.3 % | 14.5 % | 13.9 % | 12.5 % |

| | | | | | |
|---------------------------|----|----|----|----|----|
| Years of strong growth | 1 | 2 | 5 | 10 | 15 |
| Valuation as on date (Rs) | 37 | 46 | 72 | 72 | 78 |
| Valuation as of Sep'20 | 42 | 53 | 82 | 82 | 89 |

Based on DCF, assuming 15 years of 4% CAGR growth and 13% average ROIC, we derive our current fair value of Rs 76 and our 30th Sep'20 fair value of Rs 89.

Company Description:

Welspun is India's largest home textile company with a presence in cotton bedsheets, towels and rugs & carpets. It is Asia's largest and the world's 2nd largest terry towel producer. It exports more than 94% of its home textile products to >50 countries, with >68% of production to the US, 23% to Europe and the balance to Middle East, Australia & Japan. It supplies to 17 of the top-30 retail chains in the world.

Consolidated Quarterly Earnings Forecast and Key Drivers

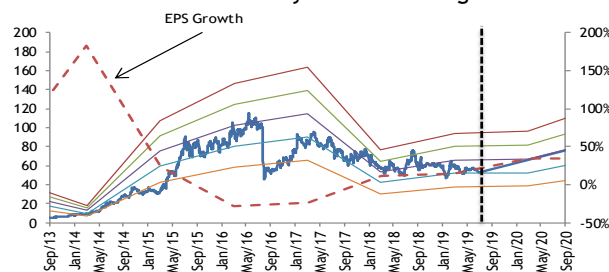
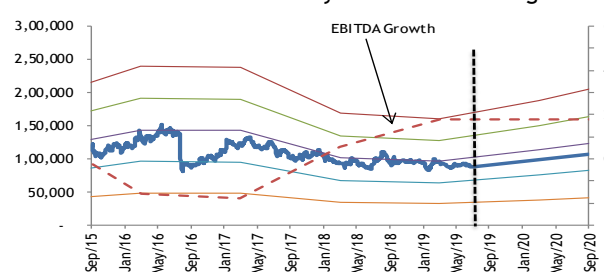
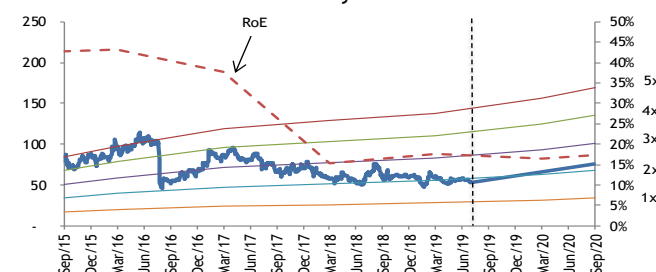
| Rs in Mn | 1Q19A | 2Q19A | 3Q19A | 4Q19A | 1Q20A | 2Q20E | 3Q20E | 4Q20E | 1Q21E | 2Q21E | 3Q21E | 4Q21E | FY19A | FY20E | FY21E | FY22E |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 15,492 | 17,799 | 16,403 | 15,572 | 17,235 | 19,546 | 18,485 | 17,831 | 20,202 | 21,665 | 20,681 | 20,784 | 65,266 | 73,098 | 83,332 | 95,832 |
| Raw Materials Consumed | 7,614 | 9,179 | 8,528 | 8,179 | 8,516 | 10,043 | 9,428 | 9,294 | 10,101 | 11,049 | 10,340 | 10,842 | 33,500 | 37,280 | 42,333 | 47,533 |
| Employee Costs | 1,742 | 1,799 | 1,823 | 1,751 | 1,916 | 2,015 | 2,041 | 1,996 | 2,108 | 2,217 | 2,245 | 2,264 | 7,114 | 7,968 | 8,834 | 10,062 |
| Other expenses | 3,171 | 3,813 | 3,718 | 3,556 | 3,655 | 4,069 | 3,754 | 3,839 | 4,141 | 4,441 | 4,240 | 4,557 | 14,003 | 15,318 | 17,379 | 19,986 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| EBITDA | 2,965 | 3,008 | 2,335 | 2,087 | 3,148 | 3,419 | 3,262 | 2,703 | 3,852 | 3,958 | 3,856 | 3,121 | 10,649 | 12,532 | 14,786 | 18,251 |
| Depreciation | 1,059 | 1,083 | 1,118 | 1,098 | 1,160 | 1,160 | 1,207 | 1,207 | 1,419 | 1,367 | 1,314 | 1,157 | 4,358 | 4,735 | 5,257 | 5,257 |
| EBIT | 1,906 | 1,925 | 1,218 | 988 | 1,988 | 2,259 | 2,055 | 1,496 | 2,432 | 2,591 | 2,541 | 1,965 | 6,291 | 7,797 | 9,529 | 12,993 |
| Interest | 342 | 369 | 402 | 479 | 472 | 446 | 437 | 394 | 418 | 403 | 387 | 341 | 1,593 | 1,749 | 1,550 | 1,550 |
| Other Income | 286 | 179 | 170 | 437 | 211 | 211 | 211 | 211 | 217 | 217 | 217 | 217 | 818 | 843 | 868 | 894 |
| PBT | 1,850 | 1,734 | 986 | 946 | 1,726 | 2,024 | 1,828 | 1,313 | 2,231 | 2,405 | 2,371 | 1,841 | 5,516 | 6,891 | 8,848 | 12,338 |
| Tax | 522 | 404 | 192 | (509) | 518 | 607 | 548 | 394 | 669 | 721 | 711 | 552 | 608 | 2,067 | 2,654 | 3,701 |
| PAT bef. MI & Assoc. | 1,328 | 1,330 | 794 | 1,456 | 1,208 | 1,417 | 1,280 | 919 | 1,562 | 1,683 | 1,660 | 1,289 | 4,909 | 4,824 | 6,193 | 8,636 |
| Minority Interest | 0 | 0 | 0 | 163 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 163 | 0 | 0 | 0 |
| Profit from Assoc. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Recurring PAT | 1,328 | 1,330 | 794 | 1,292 | 1,208 | 1,417 | 1,280 | 919 | 1,562 | 1,683 | 1,660 | 1,289 | 4,745 | 4,824 | 6,193 | 8,636 |
| Extraordinaries | 0 | 113 | 294 | 2,240 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,647 | 0 | 0 | 0 |
| Reported PAT | 1,328 | 1,217 | 501 | (948) | 1,208 | 1,417 | 1,280 | 919 | 1,562 | 1,683 | 1,660 | 1,289 | 2,098 | 4,824 | 6,193 | 8,636 |
| EPS (Rs) | 1.32 | 1.32 | 0.79 | 1.29 | 1.20 | 1.41 | 1.27 | 0.91 | 1.55 | 1.68 | 1.65 | 1.28 | 4.72 | 4.80 | 6.16 | 8.60 |
| Key Drivers | | | | | | | | | | | | | | | | |
| Sheets capacity utilization | - | - | - | - | - | - | - | - | - | - | - | - | 82 % | 85 % | 88 % | 92 % |
| Terry capacity utilization | - | - | - | - | - | - | - | - | - | - | - | - | 88 % | 90% | 88 % | 88 % |
| Rugs capacity utilization | - | - | - | - | - | - | - | - | - | - | - | - | 70 % | 80 % | 85 % | 90 % |
| Flooring capacity utilization | - | - | - | - | - | - | - | - | - | - | - | - | 0% | 10% | 30% | 40% |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sequential Growth (%) | | | | | | | | | | | | | | | | |
| Revenue | 3 % | 15 % | -8 % | -5 % | 11 % | 13 % | -5 % | -4 % | 13 % | 7 % | -5 % | 0 % | - | - | - | - |
| Raw Materials Consumed | 4 % | 21 % | -7 % | -4 % | 4 % | 18 % | -6 % | -1 % | 9 % | 9 % | -6 % | 5 % | - | - | - | - |
| EBITDA | 12 % | 1 % | -22 % | -11 % | 51 % | 9 % | -5 % | -17 % | 43 % | 3 % | -3 % | -19 % | - | - | - | - |
| EBIT | 43 % | 1 % | -37 % | -19 % | 101 % | 14 % | -9 % | -27 % | 63 % | 7 % | -2 % | -23 % | - | - | - | - |
| Recurring PAT | 117 % | 0 % | -40 % | 63 % | -7 % | 17 % | -10 % | -28 % | 70 % | 8 % | -1 % | -22 % | - | - | - | - |
| EPS | 48 % | 0 % | -40 % | 63 % | -7 % | 17 % | -10 % | -28 % | 70 % | 8 % | -1 % | -22 % | - | - | - | - |
| Yearly Growth (%) | | | | | | | | | | | | | | | | |
| Revenue | 1 % | 11 % | 17 % | 3 % | 11 % | 10 % | 13 % | 15 % | 17 % | 11 % | 12 % | 17 % | 8 % | 12 % | 14 % | 15 % |
| EBITDA | -9 % | 6 % | -7 % | -21 % | 6 % | 14 % | 40 % | 30 % | 22 % | 16 % | 18 % | 15 % | -5 % | 18 % | 18 % | 23 % |
| EBIT | -7 % | 24 % | -3 % | -26 % | 4 % | 17 % | 69 % | 51 % | 22 % | 15 % | 24 % | 31 % | 2 % | 24 % | 22 % | 36 % |
| Recurring PAT | 15 % | 72 % | 26 % | 111 % | -9 % | 6 % | 61 % | -29 % | 29 % | 19 % | 30 % | 40 % | 56 % | 2 % | 28 % | 39 % |
| EPS | 3 % | 33 % | 0 % | 44 % | -9 % | 6 % | 61 % | -29 % | 29 % | 19 % | 30 % | 40 % | 23 % | 2 % | 28 % | 39 % |
| Margin (%) | | | | | | | | | | | | | | | | |
| EBITDA | 19 % | 17 % | 14 % | 13 % | 18 % | 17 % | 18 % | 15 % | 19 % | 18 % | 19 % | 15 % | 16 % | 17 % | 18 % | 19 % |
| EBIT | 12 % | 11 % | 7 % | 6 % | 12 % | 12 % | 11 % | 8 % | 12 % | 12 % | 12 % | 9 % | 10 % | 11 % | 11 % | 14 % |
| PBT | 12 % | 10 % | 6 % | 6 % | 10 % | 10 % | 10 % | 7 % | 11 % | 11 % | 11 % | 9 % | 8 % | 9 % | 11 % | 13 % |
| PAT | 9 % | 7 % | 5 % | 8 % | 7 % | 7 % | 7 % | 5 % | 8 % | 8 % | 8 % | 6 % | 7 % | 7 % | 7 % | 9 % |

Consolidated Financials

| P&L (Rs Mn) | FY19A | FY20E | FY21E | FY22E |
|----------------------|--------|--------|--------|--------|
| Revenue | 65,266 | 73,098 | 83,332 | 95,832 |
| Op. Expenditure | 54,618 | 60,566 | 68,545 | 77,581 |
| EBITDA | 10,649 | 12,532 | 14,786 | 18,251 |
| Depreciation | 4,358 | 4,735 | 5,257 | 5,257 |
| EBIT | 6,291 | 7,797 | 9,529 | 12,993 |
| Interest Expense | 1,593 | 1,749 | 1,550 | 1,550 |
| Other Income | 818 | 843 | 868 | 894 |
| PBT | 5,516 | 6,891 | 8,848 | 12,338 |
| Tax | 608 | 2,067 | 2,654 | 3,701 |
| PAT bef. MI & Assoc. | 4,909 | 4,824 | 6,193 | 8,636 |
| Minority Interest | 163 | 0 | 0 | 0 |
| Profit from Assoc. | 0 | 0 | 0 | 0 |
| Recurring PAT | 4,745 | 4,824 | 6,193 | 8,636 |
| Extraordinaires | 2,647 | 0 | 0 | 0 |
| Reported PAT | 2,098 | 4,824 | 6,193 | 8,636 |
| FDEPS (Rs) | 4.7 | 4.8 | 6.2 | 8.6 |
| DPS (Rs) | 0.3 | 0.5 | 0.8 | 1.0 |
| CEPS (Rs) | 9.1 | 9.5 | 11.4 | 13.8 |
| FCFPS (Rs) | 3.4 | 5.3 | 7.0 | 9.0 |
| BVPS (Rs) | 27.7 | 31.2 | 36.4 | 43.8 |
| EBITDAM (%) | 16 % | 17 % | 18 % | 19 % |
| PATM (%) | 7 % | 7 % | 7 % | 9 % |
| Tax Rate (%) | 11 % | 30 % | 30 % | 30 % |
| Sales Growth (%) | 8 % | 12 % | 14 % | 15 % |
| FDEPS Growth (%) | 23 % | 2 % | 28 % | 39 % |

| Balance Sheet (Rs Mn) | FY19A | FY20E | FY21E | FY22E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Equity Capital | 1,005 | 1,005 | 1,005 | 1,005 |
| Reserve | 26,788 | 30,298 | 35,584 | 43,011 |
| Networth | 27,793 | 31,303 | 36,589 | 44,016 |
| Total Debt | 36,604 | 33,404 | 28,904 | 23,404 |
| Def Tax Liability | 962 | 762 | 362 | 962 |
| Minority Interest | 709 | 709 | 709 | 709 |
| Account Payables | 7,041 | 7,610 | 8,676 | 9,189 |
| Other Curr Liabi | 4,313 | 3,481 | 3,968 | 3,993 |
| Total Liabilities & Equity | 77,423 | 77,269 | 79,208 | 82,273 |
| Net Fixed Assets | 31,265 | 32,530 | 30,273 | 27,016 |
| Capital WIP | 4,889 | 500 | 500 | 500 |
| Others | 4,963 | 4,963 | 4,963 | 4,963 |
| Inventory | 13,342 | 15,020 | 17,123 | 19,691 |
| Account Receivables | 10,768 | 12,417 | 14,155 | 16,278 |
| Other Current Assets | 9,468 | 9,767 | 9,968 | 9,968 |
| Cash | 2,728 | 2,071 | 2,226 | 4,090 |
| Total Assets | 77,423 | 77,269 | 79,208 | 82,506 |
| Non-cash Working Capital | 22,223 | 26,113 | 28,602 | 32,755 |
| Cash Conv Cycle | 124.3 | 130.4 | 125.3 | 124.8 |
| WC Turnover | 2.9 | 2.8 | 2.9 | 2.9 |
| FA Turnover | 1.8 | 2.2 | 2.7 | 3.5 |
| Net D/E | 1.2 | 1.0 | 0.7 | 0.4 |
| Revenue/Capital Employed | 1.1 | 1.2 | 1.3 | 1.4 |
| Capital Employed/Equity | 2.7 | 2.5 | 2.4 | 2.2 |

| Cash Flow (Rs Mn) | FY19A | FY20E | FY21E | FY22E |
|--------------------|---------|---------|---------|---------|
| PBT | 2,869 | 6,891 | 8,848 | 12,338 |
| Depreciation | 4,358 | 4,735 | 5,257 | 5,257 |
| Others | 725 | 0 | 0 | 0 |
| Taxes Paid | 1,245 | 2,067 | 2,654 | 3,701 |
| Change in WC | 2,535 | (3,890) | (2,488) | (4,153) |
| Operating C/F | 9,242 | 5,668 | 8,962 | 9,740 |
| Capex | (7,277) | (1,611) | (3,000) | (2,000) |
| Change in Invest | 423 | 0 | 0 | 0 |
| Others | 283 | 0 | 0 | 233 |
| Investing C/F | (6,572) | (1,611) | (3,000) | (1,768) |
| Change in Debt | 299 | (3,200) | (4,500) | (5,500) |
| Change in Equity | 0 | (709) | 0 | 0 |
| Others | (2,618) | (805) | (1,307) | (609) |
| Financing C/F | (2,319) | (4,714) | (5,807) | (6,109) |
| Net change in cash | 351 | (657) | 155 | 1,864 |
| RoE (%) | 18 % | 16 % | 18 % | 21 % |
| RoIC (%) | 10 % | 9 % | 11 % | 14 % |
| Core RoIC (%) | 9 % | 8 % | 10 % | 14 % |
| Div Payout (%) | 17 % | 13 % | 15 % | 14 % |
| P/E | 12.3 | 12.1 | 9.4 | 6.7 |
| P/B | 2.1 | 1.9 | 1.6 | 1.3 |
| P/FCFF | 17.2 | 11.0 | 8.3 | 6.4 |
| EV/EBITDA | 8.7 | 7.2 | 5.8 | 4.3 |
| EV/Sales | 1.4 | 1.2 | 1.0 | 0.8 |
| Dividend Yield (%) | 0.5 % | 0.9 % | 1.3 % | 1.7 % |

TTM P/E vs. 2 yr forward EPS growth

TTM EV/EBITDA vs. 2 yr forward EBITDA growth

TTM P/B vs. 2 yr forward RoE


Historical Consolidated Financials

| P&L (Rs Mn) | FY16A | FY17A | FY18A | FY19A | Balance Sheet (Rs Mn) | FY16A | FY17A | FY18A | FY19A | Cash Flow (Rs Mn) | FY16A | FY17A | FY18A | FY19A |
|----------------------|--------|--------|--------|--------|----------------------------|--------|--------|--------|--------|--------------------|----------|---------|---------|---------|
| Revenue | 59,238 | 66,405 | 60,506 | 65,266 | Equity Capital | 1,005 | 1,005 | 1,005 | 1,005 | PBT | 10,745 | 5,355 | 5,597 | 2,869 |
| Op. Expenditure | 43,312 | 50,571 | 49,272 | 54,618 | Reserve | 18,696 | 22,967 | 25,052 | 26,788 | Depreciation | 3,718 | 5,054 | 5,042 | 4,358 |
| EBITDA | 15,927 | 15,834 | 11,234 | 10,649 | Networth | 19,700 | 23,971 | 26,057 | 27,793 | Others | 1,740 | 501 | 617 | 725 |
| Depreciation | 3,718 | 5,054 | 5,042 | 4,358 | Long Term Debt | 32,478 | 34,346 | 36,006 | 36,604 | Taxes Paid | 2,393 | 1,067 | 1,343 | 1,245 |
| EBIT | 12,208 | 10,780 | 6,192 | 6,291 | Def Tax Liability | 2,529 | 3,289 | 811 | 962 | Change in WC | (530) | (1,522) | (4,463) | 2,535 |
| Interest Expense | 2,368 | 1,583 | 1,408 | 1,593 | Minority Interest | 412 | 355 | 467 | 709 | Operating C/F | 13,280 | 8,322 | 5,450 | 9,242 |
| Other Income | 904 | 806 | 812 | 818 | Account Payables | 6,652 | 7,517 | 6,447 | 7,041 | Capex | (10,478) | (6,435) | (3,203) | (7,277) |
| PBT | 10,745 | 10,003 | 5,597 | 5,516 | Other Curr Liabi | 2,989 | 3,804 | 2,461 | 4,313 | Change in Invest | 925 | (984) | (64) | 423 |
| Tax | 3,253 | 1,731 | 1,615 | 608 | Total Liabilities & Equity | 64,761 | 73,283 | 72,249 | 77,423 | Others | 430 | 294 | 252 | 283 |
| PAT bef. MI & Assoc. | 7,491 | 8,271 | 3,982 | 4,909 | Net Fixed Assets | 33,484 | 35,149 | 32,812 | 31,265 | Investing C/F | (9,123) | (7,124) | (3,015) | (6,572) |
| Minority Interest | 126 | 48 | 132 | 163 | Capital WIP | 1,832 | 564 | 829 | 4,889 | Change in Debt | (2,294) | 455 | (303) | 299 |
| Profit from Assoc. | 0 | 0 | 0 | 0 | Others | 1,469 | 3,278 | 3,500 | 4,963 | Change in Equity | 0 | 0 | 0 | 0 |
| Recurring PAT | 7,365 | 8,223 | 3,850 | 4,745 | Inventory | 11,046 | 12,810 | 13,054 | 13,342 | Others | (5,017) | (1,445) | (2,197) | (2,618) |
| Extraordinaires | 0 | 4,648 | 0 | 2,647 | Account Receivables | 8,499 | 9,601 | 9,310 | 10,768 | Financing C/F | (7,310) | (990) | (2,500) | (2,319) |
| Reported PAT | 7,365 | 3,576 | 3,850 | 2,098 | Other Current Assets | 6,941 | 9,025 | 10,083 | 9,468 | Net change in cash | (3,153) | 208 | (64) | 351 |
| EPS (Rs) | 7.3 | 8.2 | 3.8 | 4.7 | Cash | 1,490 | 2,857 | 2,661 | 2,728 | RoE (%) | 43 % | 38 % | 15 % | 18 % |
| DPS (Rs) | 1.3 | 0.7 | 0.7 | 0.3 | Total Assets | 64,761 | 73,283 | 72,249 | 77,423 | RoIC (%) | 18 % | 16 % | 8 % | 10 % |
| CEPS (Rs) | 11.0 | 13.2 | 8.8 | 9.1 | Non-cash Working Capital | 16,845 | 20,114 | 23,539 | 22,223 | Core RoIC (%) | 17 % | 15 % | 7 % | 9 % |
| FCFPS (Rs) | 4.4 | 3.2 | 3.2 | 3.4 | Cash Conv Cycle | 103.8 | 110.6 | 142.0 | 124.3 | Div Payout (%) | 21 % | 22 % | 20 % | 17 % |
| BVPS (Rs) | 19.6 | 23.9 | 25.9 | 27.7 | WC Turnover | 3.5 | 3.3 | 2.6 | 2.9 | P/E | 7.9 | 7.1 | 15.1 | 12.3 |
| EBITDAM (%) | 27 % | 24 % | 19 % | 16 % | FA Turnover | 1.7 | 1.9 | 1.8 | 1.8 | P/B | 3.0 | 2.4 | 2.2 | 2.1 |
| PATM (%) | 12 % | 12 % | 6 % | 7 % | Net D/E | 1.6 | 1.3 | 1.3 | 1.2 | P/FCFF | 13.1 | 18.2 | 17.9 | 17.2 |
| Tax Rate (%) | 30 % | 17 % | 29 % | 11 % | Revenue/Capital Employed | 1.6 | 1.5 | 1.2 | 1.1 | EV/EBITDA | 5.9 | 6.1 | 8.3 | 8.7 |
| Sales growth (%) | 12 % | 12 % | -9 % | 8 % | Capital Employed/Equity | 3.5 | 3.5 | 3.0 | 2.7 | EV/Sales | 1.6 | 1.5 | 1.5 | 1.4 |
| FDEPS growth (%) | 36 % | 12 % | -53 % | 23 % | | | | | | Dividend Yield (%) | 2.2 % | 1.1 % | 1.1 % | 0.5 % |

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- REDUCE: ATR >= negative 10% but <5% over investment horizon
- SHORT: ATR < negative 10% over investment horizon

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- BENCHMARK: likely to perform in line with the benchmark
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Lite vs. Regular Coverage vs. Spot Coverage

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