

CMP: Rs 336  
Target Price: Rs 410  
52wk H/L: Rs 355.50/ Rs 62

Welspun India Ltd (WIL) reported an encouraging set of numbers, exceeding our expectations on the profitability front during 2QFY15. The company has also declared an interim dividend of Rs 3/share during this quarter. We continue to be confident on the WIL's home textile business and its growth prospects on a long term basis. Valuations continue to remain fairly attractive. Hence, we maintain our BUY rating with a revised target price of Rs410, which implies an upside of 22%.

### Topline continues on double digit growth path

WIL recorded revenue of Rs14.1 bn during 2QFY15, up 16.0% YoY basis. Terry Towels as well as sheets operated at almost full utilization even as rugs & carpets were at 60% utilization. Considering the capex plans of the company and the favourable position that Indian textiles finds itself with regards to cost competitiveness, we expect the growth rates to remain in the mid teens on a near term basis.

### EBITDA margins beat expectations

EBITDA was up 22.2% YoY at Rs3169 mn. EBITDA margins at 22.4% were up by 110 bps on YoY basis. The backward integration effort coupled with higher utilization levels positively impacted margins. The management remains confident of delivering these kinds of margins on a sustainable basis.

### Bottomline also delights

Adjusted PAT stood at Rs1299 mn during 2QFY15. Adjusted PAT held despite higher depreciation on account of change in method to WDV coupled with capitalization of certain capex and higher interest cost on expiry of 3% interest subvention on working capital debt.

### Valuation & Conclusion

WIL is trading at 5.7x FY16E earnings compared to FY16E ROE of 28.7%. We expect topline and bottomline to compound at 18% and 153% respectively during the period FY14-FY16E. Considering the attractive valuation and healthy growth we maintain our BUY rating with a revised TP of Rs.410 which is 7x FY16E EPS.

#### Stock data

Market Cap (Rs bn)	33.7
Market Cap (USD mn)	549
Shares Outstanding (mn)	100
Free Float (%)	26.6%
3M avg. daily vol. ('000)	133.2
Bloomberg Code	WLSI IN
Reuters Code	WLSP.BO

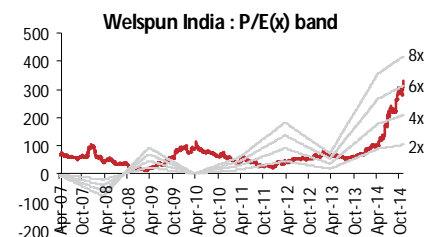
#### Shareholding Pattern (%)

Promoter	73.4%
Institutions	6.1%
Public & Others	20.5%

#### Stock Performance

Return (%)	1m	3m	6m	12m
Absolute	9.3%	46.0%	182.1%	390.0%
Relative	4.2%	38.2%	157.7%	356.9%

#### P/E(x) band

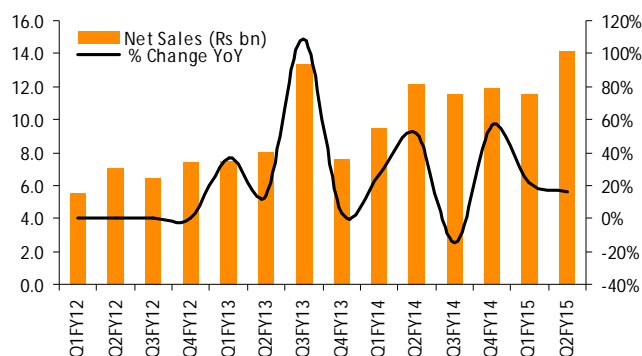


Source: Bloomberg, Almondz Research

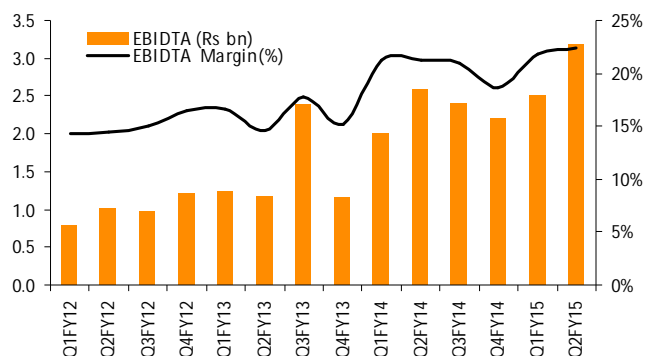
#### Exhibit 1: Quarterly Results

In Rs mn Parameter	FY14				FY15E				YOY	FY15E	FY16E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Revenue	9446	12191	11468	11850	11467	14135	12974	13319	16%	51895	62169
Total Expenses	7434	9598	9066	9646	8961	10966	10249	10561		40737	47870
EBITDA	2013	2593	2402	2204	2506	3169	2724	2758	22%	11157	14299
EBITDA margin (%)	21.3%	21.3%	20.9%	18.6%	21.9%	22.4%	21.0%	20.7%		22%	23%
Less: Depreciation	415	5109	501	839	686	717	656	656	-86%	2655	3130
Less: Interest	558	593	568	633	713	731	649	630	23%	2722	3009
PBT (operating)	1040	-3109	1333	732	1107	1721	1419	1472	-155%	5780	8160
Other income	216	192	344	289	543	191	152	152	-1%	1000	750
PBT	1256	-2917	1677	1021	1650	1913	1572	1624	-166%	6780	8910
Less: Tax	405	-996	580	209	622	591	519	573		2305	3029
Eff tax rate (%)	32%	34%	35%	20%	38%	31%	33%	35%		34%	34%
PAT	-48	-30	1	-6	-22	23	0	0	-176%	4475	5880
Prior period items	899	-1890	1095	818	1050	1299	1053	1051			
Ex income/(loss)	0	0	0	0	0	0	0	0			
PAT (after EO)	899	-1890	1095	818	1050	1299	1053	1051	-169%	4475	5880
EPS (Rs)	9.0	-18.9	10.9	8.1	10.5	12.9	10.5	10.5		44.6	58.6
EPS (Rs) (after EO)	9.0	-18.9	10.9	8.1	10.5	12.9	10.5	10.5		44.6	58.6
Diluted shares (mn)	100	100	100	100	100	100	100	100		100	100

Source: Company, Almondz Research

**Exhibit 2: Quarterly Net Sales and % Change YoY**

Source: Company, Almondz Research

**Exhibit 3: Quarterly EBITDA and EBITDA Margin %**

Source: Company, Almondz Research

### Key Takeaways from the Concall

- As of 2QFY15 the net debt stands at Rs25.4 bn against Rs27.3 bn as at the end of 1QFY15. The net debt to equity ratio is 1.99x in 2QFY15 against 2.23x in 1QFY15.
- Backward integration project is running on schedule and entire 170000 spindles have been commissioned this quarter.
- The company is expecting to average Rs 33500/candy for this year's cotton procurement as against average Rs 39000-40000/candy last year.
- The company is comfortably hedged for 60% of its revenue and for this year has averaged a healthy Rs 64/\$ rate.
- The domestic market (5% of revenue) has turned into the fastest growing market for the company with ~40% growth, Europe (18-19%) & ROW (~15%) being the second fastest growing markets at ~25% growth while USA (62-63%) grew at a secular ~17%.

## Financial summary

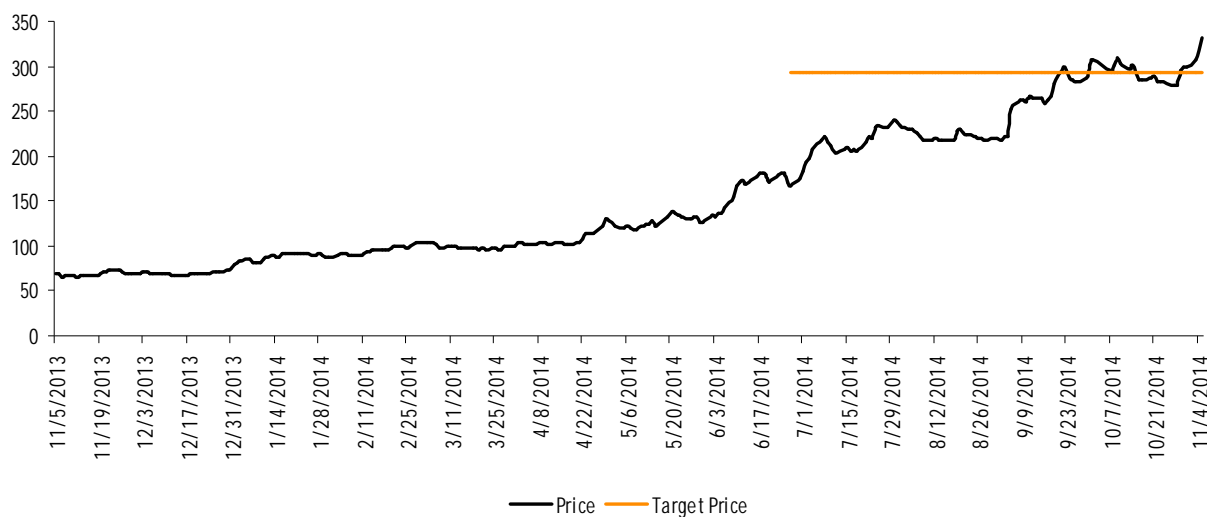
	(Rs mn)				
Income Statement	FY12	FY13	FY14P	FY15E	FY16E
<b>Income from Operations</b>	<b>32205</b>	<b>36473</b>	<b>44954</b>	<b>51895</b>	<b>62169</b>
Income from sales	32205	36473	44954	51895	62169
Others	0	0	0	0	0
Less: Tot operating exp	28544	30527	35743	40737	47870
Materials Consumed	15999	17684	22673	23093	26733
Other Direct exp	5313	6224	5972	8822	10569
Personnel exp	3050	2766	3400	3633	4352
Office Admin & Others	2736	2322	2228	3114	3730
Selling & Distbn Expenses	1445	1531	1469	2076	2487
Amounts Written Off	0	0	0	0	0
<b>EBITDA</b>	<b>3662</b>	<b>5946</b>	<b>9211</b>	<b>11157</b>	<b>14299</b>
<b>EBITDA margin (%)</b>	<b>11.4%</b>	<b>16.3%</b>	<b>20.5%</b>	<b>21.5%</b>	<b>23.0%</b>
Less: Depreciation	1378	1449	6863	2655	3130
EBIT	2284	4497	2348	8502	11168
Less: Interest	1918	1977	2352	2722	3009
PBT (operating)	365	2520	-4	5780	8160
Add: Other income	460	492	1041	1000	750
PBT	826	3013	1037	6780	8910
Less: Tax	193	733	199	2305	3029
Effective tax rate (%)	23%	24%	19%	34%	34%
PAT	633	2279	838	4475	5880
Less : Min. Int/Share of Assoc	-29	0	-82	0	0
<b>Adjusted PAT</b>	<b>662</b>	<b>2279</b>	<b>921</b>	<b>4475</b>	<b>5880</b>
Extraordinary Items	-795	-31	0	0	0
Reported PAT	-134	2248	921	4475	5880

	(Rs mn)				
Balance Sheet	FY12	FY13	FY14P	FY15E	FY16E
Equity Share Capital	995	1000	1004	1004	1004
Reserves & Surplus	6433	8901	10093	14098	19509
<b>Networth</b>	<b>7428</b>	<b>9902</b>	<b>11097</b>	<b>15102</b>	<b>20513</b>
Minority Interest	250	250	316	316	316
Long term Borrowing	9812	10011	16795	20795	23795
Deferred Tax Liabilities	1502	1917	434	434	434
Other Long Term Liabilities	17	6	600	649	622
Long term Provisions	44	68	954	1038	1243
<b>Current liabilities</b>	<b>16307</b>	<b>16425</b>	<b>21489</b>	<b>22503</b>	<b>24317</b>
Short Term Borrowing	9810	10233	11349	11349	11349
Creditors	5235	4963	6144	6697	7869
Other Current Liabilities	858	956	3559	4022	4663
Short term Provisions	404	273	436	436	436
<b>Equity and Liabilities</b>	<b>35359</b>	<b>38579</b>	<b>51684</b>	<b>60837</b>	<b>71240</b>
Net Block	15782	16319	23228	27573	30443
CWIP	1233	542	542	542	542
Goodwill	979	1754	1839	1839	1839
Investments	1205	931	1115	1115	1115
Long term loans & advances	1105	1559	1232	1427	1554
<b>Current Assets</b>	<b>14349</b>	<b>16138</b>	<b>22707</b>	<b>27320</b>	<b>34726</b>
Inventories	7293	8205	10094	11374	13626
Sundry Debtors	2492	2750	4117	4265	5110
Cash	1482	1724	2332	4804	7908
Short term loans & advances	2309	2727	4144	4671	5595
Oth. crnt/non crnt assets	1478	2067	3041	3227	3508
<b>Total Assets</b>	<b>35359</b>	<b>38579</b>	<b>51684</b>	<b>60837</b>	<b>71240</b>

	(Rs mn)				
Cash Flow Statement	FY12	FY13	FY14P	FY15E	FY16E
Net profit	-134	2248	921	4475	5880
Depreciation	11	10	0	0	0
Working capital changes	653	-1893	107	-1188	-2438
Others	3643	3324	6691	4377	5389
<b>Cash flow from opns</b>	<b>4173</b>	<b>3690</b>	<b>7719</b>	<b>7664</b>	<b>8832</b>
Capital expenditure	-281	941	-85	0	0
Inc/Dec in investments	293	340	858	1000	750
Others	-1598	-2714	-13151	-7000	-6000
<b>Cash flow from investing</b>	<b>-1585</b>	<b>-1433</b>	<b>-12377</b>	<b>-6000</b>	<b>-5250</b>
Inc/Dec in Equity	1	19	4	0	0
Change in borrowings	-281	630	7899	4000	3000
Dividends paid (incl. tax)	0	-207	-351	-470	-470
Others	-1904	-1979	-2352	-2722	-3009
<b>Cash flow from financing</b>	<b>-2233</b>	<b>-1537</b>	<b>5266</b>	<b>808</b>	<b>-478</b>
<b>Net change in cash</b>	<b>354</b>	<b>719</b>	<b>608</b>	<b>2472</b>	<b>3104</b>
Opening cash balance	273	852	1724	2332	4804
<b>Closing cash balance</b>	<b>1482</b>	<b>1724</b>	<b>2332</b>	<b>4804</b>	<b>7908</b>

	(Rs mn)				
Ratio Analysis	FY12	FY13	FY14P	FY15E	FY16E
EPS	7.4	22.8	9.2	44.6	58.6
EPS growth (%)	4618%	207%	-60%	386%	31%
Cash EPS	22.9	37.3	77.6	71.1	89.8
BV	83	99	111	151	204
DPS	-	3.8	3.0	4.0	4.0
Div Payout (%)	0%	17%	33%	9%	7%
<b>Valuation (x)</b>					
P/E (on adjusted FD EPS)	45.2	14.8	36.6	7.5	5.7
P/CEPS	14.7	9.0	4.3	4.7	3.7
P/BV	4.0	3.4	3.0	2.2	1.6
EV/EBITDA	13.1	8.8	6.5	5.5	4.3
EV/Sales	1.5	1.4	1.3	1.2	1.0
Dividend yield (%)	0.0%	1.1%	0.9%	1.2%	1.2%
<b>Profitability ratios (%)</b>					
RoE	8.9%	23.0%	8.3%	29.6%	28.7%
RoCE	5.9%	9.8%	5.3%	10.3%	11.0%
<b>Turnover ratios</b>					
Debtors (days)	28	28	33	30	30
Inventory (days)	83	82	82	80	80
Creditor (days)	67	59	63	60	60
Net Wkg capital (days)	92	111	89	85	85
Asset turnover (x)	1.1	1.1	1.1	1.1	1.1
<b>Solvency ratio (x)</b>					
Gross debt /equity	2.6	2.0	2.5	2.1	1.7
Net debt /equity	2.4	1.9	2.3	1.8	1.3
Net debt/ EBITDA	5.0	3.1	2.8	2.5	1.9
Int Coverage (EBIT / Int)	1.2	2.3	1.0	3.1	3.7
<b>Growth ratios (%)</b>					
Net sales	52%	13%	23%	15%	20%
EBITDA	58%	62%	55%	21%	28%
PAT (before E.O.)	4619%	244%	-60%	386%	31%
EPS	4618%	207%	-60%	386%	31%
<b>Operating ratios (%)</b>					
EBITDA margin	11%	16%	20%	22%	23%
EBIT margin	7%	12%	5%	16%	18%
PAT margin	2%	6%	2%	9%	9%
Other income/PBT	56%	16%	100%	15%	8%
Effective Tax rate	23%	24%	19%	34%	34%

## Recommendation History



Source: Bloomberg, Almondz Research

## Recent Releases

Date	Event	CMP (Rs)	Target Price (Rs)	Rating
27-Jun-14	Initiating Coverage Report	171	293	BUY
01-Aug-14	1QFY15 Result Review	238	293	BUY

Source: Almondz Research

## Ratings Definition

**BUY:** We expect this stock to deliver more than 15% returns over the next 12 months.

**ADD:** We expect this stock to deliver 5-15% returns over the next 12 months.

**REDUCE:** We expect this stock to deliver -5- +5% returns over next 12 months

**SELL:** We expect the stock to deliver <-5% returns over the next 12 months.

## Analyst Certification

"I, Kushan Parikh, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendation or views expressed in this report."

## Disclosure of Interest

Analyst Ownership in Welspun India Ltd.: NO

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