

Company Update

Welspun India Ltd

Bloomberg Code: WLSI IN

India Research - Stock Broking

BUY

Innovative and Branded Products Guide the Future

Introducing FY18E estimates: We expect FY16-FY18E revenues to grow at CAGR of 15.5% and PAT to grow at CAGR of 25.0%. We had estimated revenue growth of 12.7% for FY16 and Welspun India (WLSI) gave a revenue growth of 12.8%. WLSI reported 9% QoQ growth in revenues versus flat sequential growth in Q3FY16. Benefits of capacity expansion in bed linen and terry towels coupled with better demand helped in robust sales growth.

New Capacity Additions had driven the revenue growth: For FY16, Welspun incurred a capex of Rs. 11.1 Bn for capacity enhancement and modernization. The current capacity for towels, sheets and rugs stands at 60,000 tonnes, 72 Mn metres and 8 Mn sq. metres, respectively. WLSI announced further capacity expansion, adding 12,000MT in terry towels (total: 72,000MT), 18mn mtrs in bed sheets (total: 90mn mtrs) and 2mn sq.mtrs in rugs (total: 10mn sq.mtrs) to be undertaken during FY17E.

Better Product mix drives EBITDA margins: EBITDA margins expanded by 200 bps in FY16 YoY on account of higher share of innovative and branded products. Share of innovative products jumped to 34.0% in FY16 from 31.0% in FY15 while branded sales share improved to 13.0% from 11.0% in FY15. The company's innovative product Hygro has witnessed good traction among customers and reported revenues of \$150 Mn which are expected to increase further to \$200- 250 Mn in FY17E.

Valuation and Outlook

Welspun India has posted robust operating numbers in FY16. WLSI was able to maintain higher EBITDA margins, higher return ratios and formidable revenue growth. There is fall in net debt to equity ratio also (from 2.1x in FY12 to 1.4x in FY16). The company has further announced capacity expansion, this phase is asset light and will be financed via internal cash generation. Currently, Welspun's towels and sheets capacity is running close to full utilization levels and hence it is looking to further expand its capacity. We expect a revenue growth of CAGR 15% from FY16-FY18E. We maintain our "BUY" recommendation on the company, at EV/EBITDA of 6.2x on FY18E EBITDA, the new target price will be Rs.113 reflecting an upside potential of 22% from current market price.

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	44954	53025	59795	69960	79754
EBITDA	10435	12742	15575	18513	21487
EBITDA Margin (%)	23.2	24.0	26.0	26.5	26.9
Adj. Net Profit	2145	5398	7029	8999	10980
EPS (Rs.)**	2.1	5.4	7.0	9.0	10.9
RoE (%)	20.4	42.5	41.1	39.1	37.2
PE (x)	4.7	6.6	13.2	10.3	8.5

Source: Company, Karvy Research; *Represents multiples for FY14, FY15 & FY16 are based on historic market price

**The company had stock split from FV of Rs.10 to FV of Rs.1. EPS is adjusted in this regard for all the reporting periods presented here.

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Recommendation (Rs.)

CMP (as on May 05, 2016)	93
Target Price	113
Previous Target Price	91
Upside (%)	22

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	94796 / 1424
52-wk High/Low (Rs.)	111 / 46
3M Avg. daily volume (mn)	1.7
Beta (x)	1.2
Sensex/Nifty	25262 / 7735
O/S Shares(mn)	1004.7
Face Value (Rs.)	1.0

Shareholding Pattern (%)

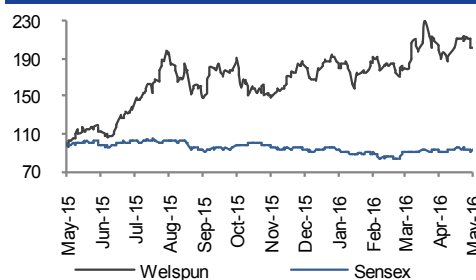
Promoters	73.5
FIIIs	5.0
DIIIs	8.7
Others	12.8

Stock Performance (%)

	1M	3M	6M	12M
Absolute	1	4	34	95
Relative to Sensex	(0)	2	40	112

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar	FY17E	FY18E
Sales (%)	↑ 0.6	-
EBITDA (%)	↑ 7.1	-
PAT (%)	↑ 18.4	-

Source: Karvy Research;

Analyst Contact

Aniket Pande

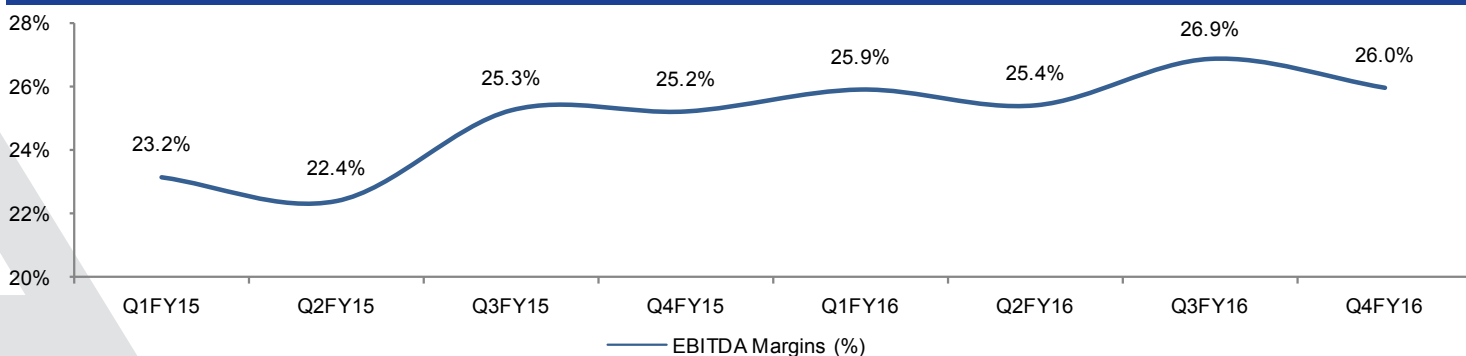
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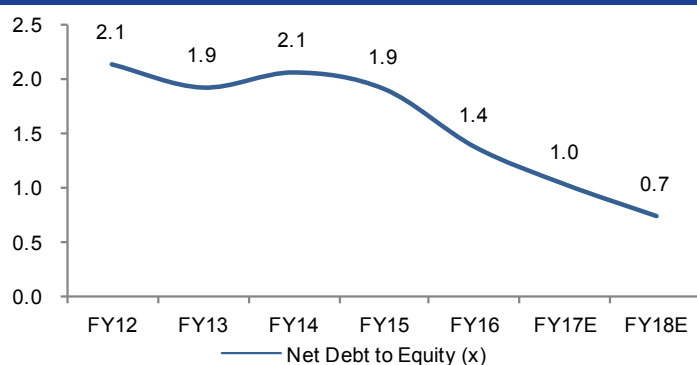
Exhibit 2: Q4FY16

YE Mar (Rs. Mn)	Q4FY16	Q3FY16	QoQ %	Q4FY15	YoY %	FY15	FY16	YoY %
Turnover	16284	14904	9.3	13658	19.2	53025	59795	12.8
Expenditure	12055	10898	10.6	10212	18.0	40283	44219	9.8
EBITDA	4229	4006	5.6	3446	22.7	12742	15575	22.2
Depreciation	1042	997	4.5	1009	3.3	3329	3750	12.6
Interest	663	592	11.9	569	16.5	2829	2362	(16.5)
Other Income	269	172	56.1	290	(7.2)	2829	2362	(16.5)
PBT	2792	2588	7.9	2158	29.4	7533	10378	37.8
Tax	825	814	1.4	508	62.5	2090	3224	54.3
PAT	1968	1775	10.9	1650	19.3	5443	7153	31.4
Minority Interest	35	34	2.7	36	(3.3)	45	125	177.4
Adjusted PAT	1933	1741	11.0	1614	19.8	5398	7029	30.2
EBITDA Margin (%)	26.0	26.9	(91 bps)	25.2	80 bps	24.0	26.0	202 bps
EBIT Margin (%)	21.2	21.3	(12 bps)	20.0	120 bps	19.5	21.3	177 bps
Net Profit Margin (%)	11.9	11.7	19 bps	11.8	10 bps	10.2	11.8	157 bps

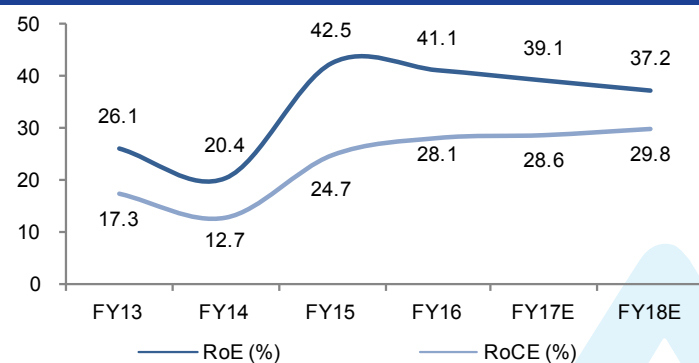
Source: Company, Karvy Research

Exhibit 3: EBITDA Margins are Healthy Consistently


Source: Company, Karvy Research

Exhibit 4: Net Debt to Equity to Decrease Further


Source: Company, Karvy Research

Exhibit 5: RoE & RoCE are Strong


Source: Company, Karvy Research

Exhibit 6: Financials

Adjusted Financials (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	44954	53025	59795	69960	79754
EBITDA	10435	12742	15575	18513	21487
EBITDA margin (%)	23.2	24.0	26.0	26.5	26.9
Adj. Net profit	2145	5398	7029	8999	10980
EPS(Rs.)	2.1	5.4	7.0	9.0	10.9
YoY growth (%)	(4.6)	151.7	30.2	28.0	22.0

Source: Company, Karvy Research

Key Takeaways of Conference Call:

Vision 2020 (Welspun 2.0):

Management has set revenue target of US\$ 2bn: 40% from innovative products, 25% from branded products and 20% from the domestic market. Net debt to be zero.

Results of Q4FY16/FY16:

- WLSI was declared as the No.1 home textile supplier in the US for the fourth consecutive year.
- In FY16, WLSI reported a revenue growth of 12.8% YoY, led by 12.0% volume growth, 2.0% price decline and 3.0% exchange gain. Terry towels market share in USA reached 20.0% in CY15 from 14.7% in CY13, while bed linen market share moved up to 11.3% from 7.3% in CY13.

Strong Future growth:

- 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 new channels such as hospitality & healthcare, geographical expansion, expansion in product range, innovation and smart technology products.
- The company has 250 Multi Brand Outlets (MBO) and 200 shop-in-shop models in the domestic market.
- E-commerce is an omni channel for the company and it contributes 5% of total sales.

Capex:

- Capital expenditure during the quarter was Rs. 4.8bn, taking the total to Rs. 11.1bn in FY16. Q4 capex involved capacity enhancement in towels and modernization of the Vapi plant.
- The total annual capacity post expansion stands at 60,000 MT for towels, 72mn metres in bed linen and 8mn sq metres in rugs & carpets. For FY17E, capital expenditure planned is estimated to be Rs. 8 Bn. This includes the rest of the modernization project and capacity enhancement in towels, sheets and rugs & carpets.
- By the end of FY18E, annual capacity is expected to reach 72,000 tonnes in towels, 90mn metres in bed linen and 10mn sq metres in rugs & carpets.

Exhibit 7: Expansion Plans

Product	Unit	End-FY16 Capacity	Sales Volume	Utilisation %	Expected Capacity FY17E
Towels	MT	60,000	55,400	92.0	72,000
Sheets	'000 Mtrs	72,000	66,500	92.0	90,000
Rugs & Carpets	'000 Sq. Mtrs	8,000	6,100	76.0	10,000

Source: Company, Karvy Research

Share of innovative brands is increasing in revenues:

- Launch of innovative products by WLSI such as 'Hygro cotton' towels is gaining strong traction. Revenue clocked ~US\$150mn in FY16 and is expected to touch ~US\$ 200-250 mn in FY17E.
- Domestic retail sales went up by 47.0% YoY.
- Share of innovative products stood at 34.0% in FY16 (versus 31.0% in FY15), while that of branded sales stood at 13.0% (versus 11.0% in FY15).

Exhibit 8: Financials

YE Mar (Rs. Mn)	FY17E			FY18E		
	Old	New	% Change	Old	New	% Change
Net Sales	69562	69960	0.6	-	79754	-
EBITDA	17284	18513	7.1	-	21487	-
EBITDA margin (%)	24.8	26.5	166 bps	-	26.9	-
Adj. Net profit	7599	8999	18.4	-	10980	-
EPS(Rs.)	7.5	9.0	19.4	-	10.9	-

Source: Company, Karvy Research

Financials

Exhibit 9: Income Statement

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Revenues	44954	53025	59795	69960	79754
Growth (%)	23.3	18.0	12.8	17.0	14.0
Operating Expenses	34519	40283	44219	51447	58267
EBITDA	10435	12742	15575	18513	21487
Growth (%)	75.5	22.1	22.2	18.9	16.1
Depreciation & Amortization	6863	3329	3750	4838	5467
Other Income	1042	949	915	988	1018
EBIT	4613	10362	12740	14663	17038
Interest Expenses	2352	2829	2362	1730	1535
PBT	2261	7533	10378	12933	15503
Tax	199	2090	3224	3934	4524
Adjusted PAT	2145	5398	7029	8999	10980
Growth (%)	(4.6)	151.7	30.2	28.0	22.0

Source: Company, Karvy Research

Exhibit 10: Balance Sheet

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Cash & Cash Equivalents	2332	3252	1243	1572	2973
Sundry Debtors	4117	4467	6114	7214	8513
Inventory	10094	11006	11046	12262	13610
Loans & Advances	5376	7474	6419	6704	6977
Investments	1115	1420	563	659	773
Gross Block	25310	27814	38961	44060	48138
Net Block	18446	24485	35210	39223	42671
CWIP	5324	1564	1564	1564	1564
Others	4879	3285	3451	3623	3812
Total Assets	51684	56953	62272	69481	77554
Current Liabilities & Provisions	10140	14615	13809	15443	17284
Debt	28144	25980	25609	24659	23746
Other Liabilities	1988	1661	2475	2635	2810
Total Liabilities	40271	42257	41893	42737	43840
Shareholders Equity	1003	1005	1005	1005	1005
Reserves & Surplus	10093	13314	18872	25100	31899
Total Networth	11096	14318	19877	26104	32904
Minority Interest	316	378	503	640	810
Total Networth & Liabilities	51684	56953	62272	69481	77554

Source: Company, Karvy Research

Exhibit 11: Cash Flow Statement

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
PBT	1037	7533	10378	12933	15503
Depreciation	6863	3329	3750	4838	5467
Interest	2352	2829	2362	1730	1535
Tax Paid	(309)	(1767)	(2902)	(3540)	(4071)
Inc/dec in Net WC	(3974)	(2399)	(1353)	(979)	(1093)
Other Income	(248)	(283)	(915)	(988)	(1018)
Cash flow from operating activities	5510	9243	11320	13994	16323
Inc/dec in capital expenditure	(7163)	(5672)	(12743)	(7838)	(10467)
Inc/dec in investments	(2676)	(619)	872	(96)	(113)
Interest income	168	220	915	988	1018
Cash flow from investing activities	(9671)	(6071)	(10957)	(6945)	(9562)
Inc/dec in borrowings	7252	(432)	(372)	(949)	(913)
Issuance of equity	11	4	0	0	0
Dividend paid	(35)	(111)	(711)	(711)	(711)
Interest paid	(2576)	(2979)	(2362)	(1730)	(1535)
Cash flow from financing activities	4200	(3102)	(3445)	(4385)	(5359)
Net change in cash	39	71	(3082)	2663	1401

Source: Company, Karvy Research

Exhibit 12: Key Ratios

YE Mar	FY14	FY15	FY16	FY17E	FY18E
EBITDA Margin (%)	23.2	24.0	26.0	26.5	26.9
EBIT Margin (%)	10.3	19.5	21.3	21.0	21.4
Net Profit Margin (%)	4.8	10.2	11.8	12.9	13.8
Dividend Payout Ratio (%)	2.8	2.6	0.9	0.7	0.6
Net Debt/Equity (x)	2.1	1.9	1.4	1.0	0.7
RoE (%)	20.4	42.5	41.1	39.1	37.2
RoCE (%)	12.7	24.7	28.1	28.6	29.8

Source: Company, Karvy Research

Exhibit 13: Valuation Parameters

YE Mar	FY14	FY15	FY16	FY17E	FY18E
EPS (Rs.)	2.1	5.4	7.0	9.0	10.9
DPS (Rs.)	6.0	14.0	6.1	6.1	6.1
BV (Rs.)	11.0	14.3	19.8	26.0	32.8
PE (x)	4.7	6.6	13.2	10.3	8.5
P/BV (x)	0.9	2.5	4.7	3.6	2.8
EV/EBITDA (x)	3.5	4.6	7.6	6.3	5.3
EV/Sales (x)	0.8	1.1	2.0	1.7	1.4

Source: Company, Karvy Research; *Represents multiples for FY14, FY15 & FY16 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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