

CMP (Rs) 65

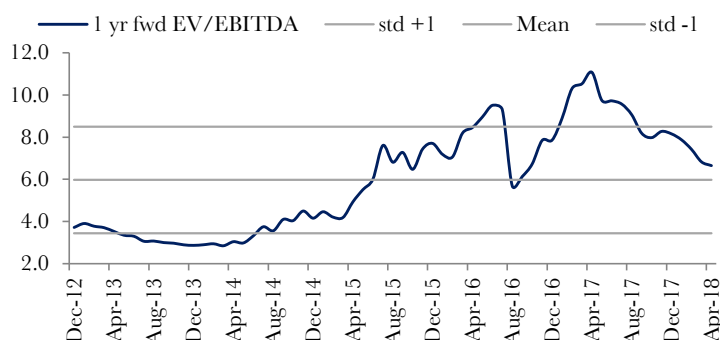
TP (Rs) 79

Upgrade to Outperformer

Key growth figures	YoY (%)	QoQ (%)			Key Points from Results
	Actual	Actual	Our Est	Consensus	
Net Sales	-14.3	7.7	13.3	n/a	<ul style="list-style-type: none"> Consolidated revenue was 4.9% below our estimates at Rs 15 bn (down 14.3% YoY) due to lower sales volume impacted by customer destocking, GST impact on export incentives and adverse currency impact. EBITDA margin contracted 430 bps YoY to 17.5% (147 bps lower than our estimates) mainly due to lower sales volume resulting in lower absorption of fixed costs.
EBITDA	-31.2	4.4	19.1	n/a	
Adj PAT	-43.4	11.9	32.6	n/a	
EPS (Rs)	-43.4	11.9	32.6	n/a	

Year end	FY17	FY18P	FY19E	FY20E
Valuations				
PER (x)	10.7	15.2	13.3	10.8
PBV (x)	3.7	2.2	2.2	1.9
EV/EBITDA (x)	7.5	7.9	7.4	6.1
Div./Yield (%)	0.7	1.1	1.6	1.9
Key Ratios				
ROE (%)	37.9	15.4	17.7	19.0
ROCE (%)	19.9	11.3	13.2	15.1
Liquidity				
Net Debt/Equity	1.2	1.1	0.9	0.7
Interest cover	7	5	6	7
FCF (Rs mn)	485	3,454	4,258	7,209

Historic valuation chart

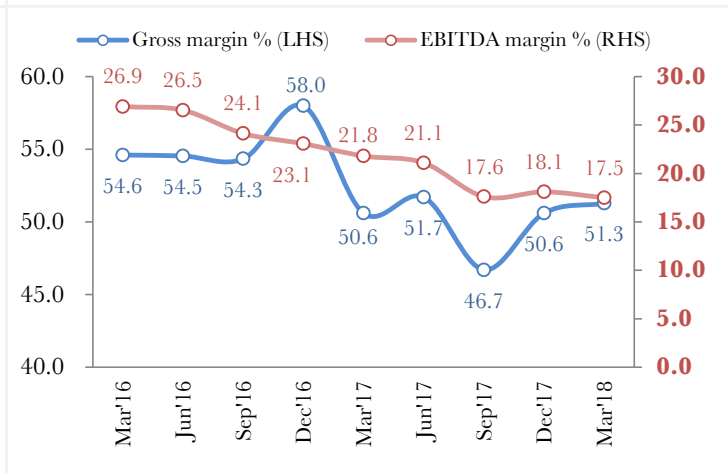
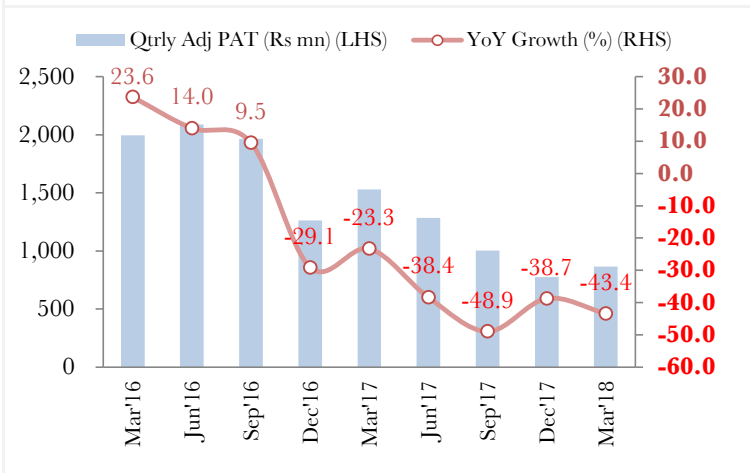
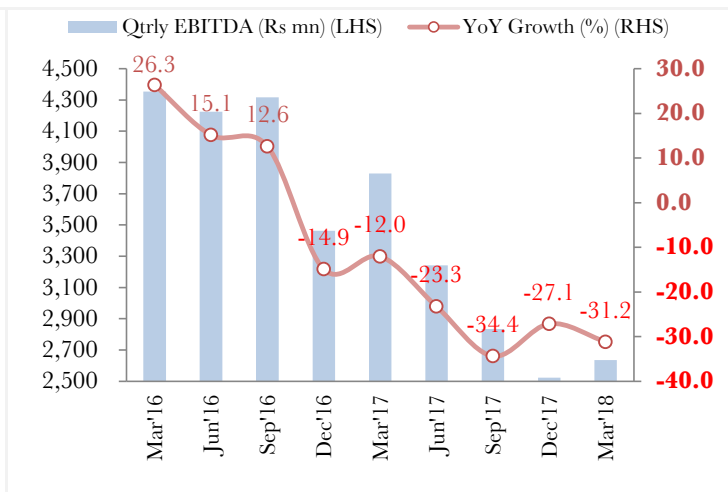
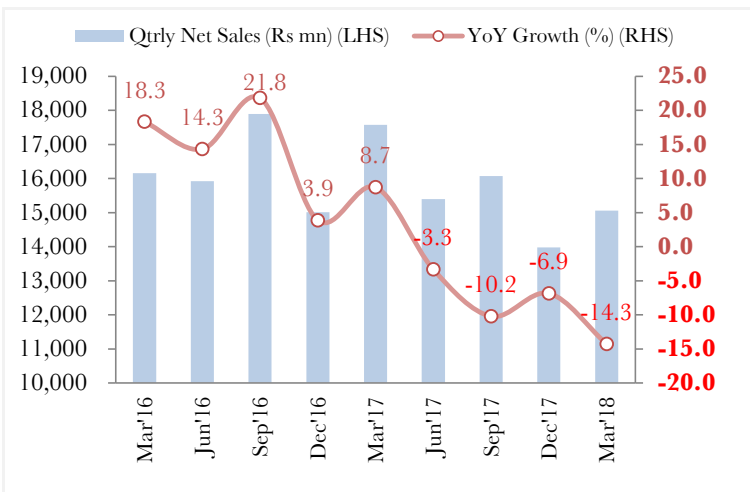


Commentary and Outlook

- Welspun is setting up a flooring solutions plant in Telangana at a capex of ~Rs 11 bn. with capacity of 27 mn sq. mtr. p.a. The plant is likely to be operational by 3QFY20E.
- Weak procurement from customers continues to put pressure on volume growth. Oversupply scenario coupled with volatile rupee and higher raw material prices and lower incentives is resulting in increased pressure on profitability in the near term.
- Welspun guided for topline growth of 8-10% in FY19E with EBITDA margin of 19%-20%. As per the management, the company is likely to witness increased orders from the clients from 2QFY19E. The company is also likely to see increased traction from Wel-Trak products, already launched in the US. We have upgraded our estimates led by rupee depreciation, increase in MEIS rates and positive guidance by the management. However, huge capex is likely to keep the return ratios under pressure. Given sharp correction in stock price and likely improvement in business scenario, we upgrade the stock to Outperformer rating with revised target price of Rs 79 (earlier Rs 76) maintaining target multiple of 7x EV/EBITDA. Key catalyst for the stock includes higher share of branded products, higher volume growth, favourable settlement of the US class-action lawsuits and decline in raw material price.

Financial Highlights

(Rs mn)	4QFY17	4QFY18	YoY (%)	3QFY18	QoQ (%)	FY17	FY18P	FY19E	FY20E
Net Sales	17,572	15,062	-14.3	13,980	7.7	66,405	60,506	65,164	72,212
EBITDA	3,829	2,635	-31.2	2,523	4.4	15,834	11,234	12,707	14,731
EBITDA Margin	21.8	17.5		18.1		23.8	18.6	19.5	20.4
Other Income	156	287	84.5	164	75.5	806	812	853	895
Interest	430	381	-11.4	345	10.3	1,583	1,408	1,425	1,392
Depreciation	1,365	1,301	-4.7	1,272	2.3	5,054	5,042	5,088	5,569
PBT	2,198	1,241	-43.6	1,070	15.9	5,355	5,597	7,047	8,666
Tax	653	342	-47.7	275	24.4	1,731	1,615	2,114	2,600
Adjusted PAT	1,530	866	-43.4	774	11.9	8,271	3,849	4,933	6,066
NPM (%)	8.7	5.8		5.5		12.5	6.4	7.6	8.4
EPS (Rs)	1.5	0.9	-43.4	0.8	11.9	8.2	3.8	4.9	6.0



Operating cost break-up (% of Sales)

Particulars	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	YoY(bps)
Raw Material Cost	49.4	48.3	53.3	49.4	48.7	-66
Employee Expenses	9.5	10.8	10.7	12.1	11.2	168
Other Operating Expenses	19.3	19.9	18.4	20.5	22.6	328
Total Operating Cost	78.2	78.9	82.4	81.9	82.5	429

Welspun India

Income Statement

Period end (Rs mn)	Mar 17	Mar 18P	Mar 19E	Mar 20E
Net sales	66,405	60,506	65,164	72,212
<i>Growth (%)</i>	<i>12.1</i>	<i>(8.9)</i>	<i>7.7</i>	<i>10.8</i>
Operating expenses	(50,572)	(49,272)	(52,457)	(57,481)
Operating profit	15,834	11,234	12,707	14,731
Other operating income	0	0	0	0
EBITDA	15,834	11,234	12,707	14,731
<i>Growth (%)</i>	<i>(0.6)</i>	<i>(29.1)</i>	<i>13.1</i>	<i>15.9</i>
Depreciation	(5,054)	(5,042)	(5,088)	(5,569)
Other income	806	812	853	895
EBIT	11,585	7,004	8,472	10,058
Finance cost	(1,583)	(1,408)	(1,425)	(1,392)
Exceptional & extraordinary	(4,648)	0	0	0
Profit before tax	5,355	5,597	7,047	8,666
Tax (current + deferred)	(1,731)	(1,615)	(2,114)	(2,600)
P / L form discount. Op.	0	0	0	0
Profit / (Loss) for period	3,624	3,982	4,933	6,066
P/L of Ass., Min Int, Pref Div	0	(132)	0	0
Reported Profit / (Loss)	3,624	3,849	4,933	6,066
Adjusted net profit	8,271	3,849	4,933	6,066
<i>Growth (%)</i>	<i>10.9</i>	<i>-53.5</i>	<i>28.1</i>	<i>23.0</i>

Balance Sheet

Period end (Rs mn)	Mar 17	Mar 18P	Mar 19E	Mar 20E
Share capital	1,005	1,005	1,005	1,005
Reserves & surplus	22,967	25,052	28,738	33,126
Shareholders' funds	23,971	26,056	29,743	34,131
Minority Interests and others	355	467	467	467
Non-current liabilities	23,979	20,660	20,488	21,588
Long-term borrowings	20,160	17,029	16,630	17,481
Other non-current liabilities	3,819	3,632	3,858	4,107
Current liabilities	24,275	24,686	25,173	23,888
ST borrow, Curr maturity	12,954	15,779	14,639	11,850
Other current liabilities	11,321	8,908	10,534	12,038
Total (Equity and Liab)	72,581	71,870	75,871	80,074
Non-current assets	38,289	36,762	40,892	40,001
Fixed assets (Net block)	35,713	33,641	37,616	36,547
Non-current Investments	29	278	278	278
Long-term loans and adv	748	993	1,142	1,313
Other non-current assets	1,800	1,851	1,857	1,864
Current assets	34,292	35,108	34,979	40,073
Cash & Current investment	2,857	2,661	2,800	5,102
Other current assets	31,435	32,447	32,179	34,971
Total (Assets)	72,581	71,870	75,871	80,074
Total debt	33,114	32,807	31,268	29,331
Capital employed	61,260	62,962	65,336	68,036

Cash Flow Statement

Period end (Rs mn)	Mar 17	Mar 18P	Mar 19E	Mar 20E
Profit before tax	5,355	5,597	7,047	8,666
Depreciation	5,054	5,042	5,088	5,569
Change in working capital	(2,448)	(3,876)	1,881	(1,311)
Total tax paid	(863)	(1,714)	(2,114)	(2,600)
Others	1,583	1,408	1,425	1,392
Cash flow from oper. (a)	8,680	6,455	13,327	11,716
Capital expenditure	(7,259)	(2,970)	(9,062)	(4,500)
Change in investments	(972)	(25)	0	0
Others	36	(6)	(6)	(7)
Cash flow from inv. (b)	(8,196)	(3,001)	(9,069)	(4,507)
Free cash flow (a+b)	485	3,454	4,258	7,209
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	636	(307)	(1,539)	(1,938)
Dividend (incl. tax)	(786)	(786)	(1,247)	(1,534)
Others	51	(2,334)	(1,333)	(1,436)
Cash flow from fin. (c)	(100)	(3,426)	(4,119)	(4,907)
Net chg in cash (a+b+c)	385	28	140	2,301

Key ratios

Period end (%)	Mar 17	Mar 18P	Mar 19E	Mar 20E
Adjusted EPS (Rs)	8.2	3.8	4.9	6.0
<i>Growth (%)</i>	<i>10.9</i>	<i>(53.5)</i>	<i>28.1</i>	<i>23.0</i>
CEPS (Rs)	13.3	8.8	10.0	11.6
Book NAV/share (Rs)	23.9	25.9	29.6	34.0
Dividend/share (Rs)	0.7	0.7	1.0	1.3
Dividend payout ratio	21.7	20.4	25.3	25.3
EBITDA margin	23.8	18.6	19.5	20.4
EBIT margin	17.4	11.6	13.0	13.9
Tax rate	17.3	28.9	30.0	30.0
RoCE	19.9	11.3	13.2	15.1
Total debt/Equity (x)	1.4	1.2	1.0	0.8
Net debt/Equity (x)	1.2	1.1	0.9	0.7
Du Pont Analysis - ROE				
Net margin	12.5	6.4	7.6	8.4
Asset turnover (x)	1.0	0.8	0.9	0.9
Leverage factor (x)	3.1	2.9	2.6	2.4
Return on equity	37.9	15.4	17.7	19.0

Valuations

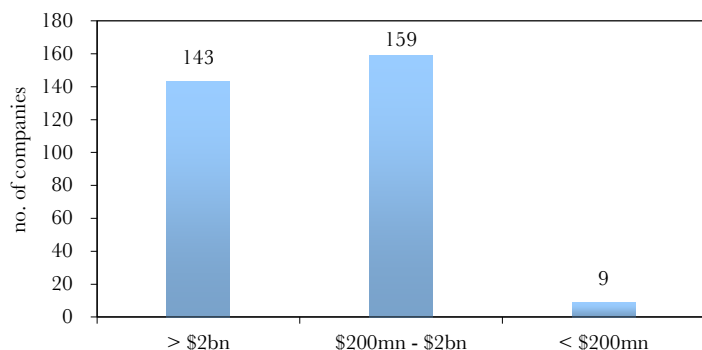
Period end (x)	Mar 17	Mar 18P	Mar 19E	Mar 20E
PER	10.7	15.2	13.3	10.8
PCE	6.6	6.6	6.5	5.6
Price/Book	3.7	2.2	2.2	1.9
Yield (%)	0.7	1.1	1.6	1.9
EV/EBITDA	7.5	7.9	7.4	6.1

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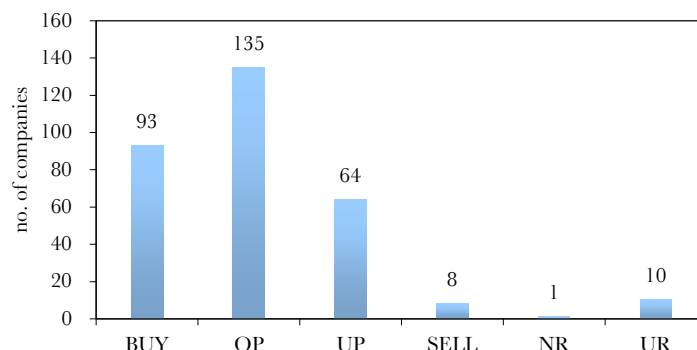
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B&K Universe Profile

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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