

## RESULT UPDATE

## KEY DATA

<b>Rating</b>	<b>BUY</b>
Sector relative	Outperformer
Price (INR)	68
12 month price target (INR)	85
Market cap (INR bn/USD bn)	69/0.9
Free float/Foreign ownership (%)	31.5/0.0
<b>What's Changed</b>	
Target Price	↑
Rating/Risk Rating	—

## QUICK TAKE

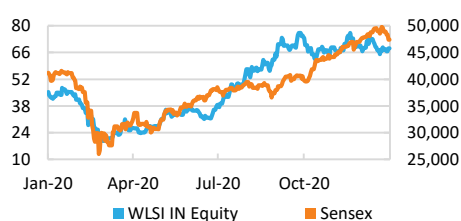
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth	●		
Overall	●		

## FINANCIALS

(INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	67,411	70,918	77,749	82,181
EBITDA	12,147	13,339	15,601	16,154
Adjusted profit	4,746	4,596	6,214	6,543
Diluted EPS (INR)	4.7	4.6	6.2	6.5
EPS growth (%)	13.4	(3.2)	35.2	5.3
RoAE (%)	17.6	14.4	17.0	15.8
P/E (x)	14.4	14.9	11.0	10.4
EV/EBITDA (x)	8.1	7.0	5.9	5.4
Dividend yield (%)	1.2	0	0	0

## PRICE PERFORMANCE



## Explore:



Financial model



Podcast



Corporate access



Video

## Record show; building capacity

Welspun India (WLSI) reported a record quarter with Q3FY21 revenue surging 29% YoY with core home textile business clocking 27% growth and bed/bath/rugs posting 43%/17%/28% volume growth. Despite rising cotton costs, gross margin improved 300bps QoQ driven by better product mix and currency benefit. Given the bright outlook, WLSI is adding capacity as follows--towels 7%, bed linen 20% and rugs & carpets 80%. Flooring business also saw good ramp-up and WLSI is completing its pending capex in this business as well.

Factoring the revenue traction and stable margin, we revise up FY21 and 22E EBITDA by 3%. We maintain target at 7.0x with revised TP of INR85 as we roll over to June 2022E. Maintain 'BUY'.

## Highest quarterly revenue; margin also intact

WLSI reported a robust 29% YoY growth in revenue (Q2FY21: 9%)—highest quarterly revenue in its history—with core home textile business clocking 27% growth and bed/bath/rugs posting 43%/17%/28% volume growth. The change in consumers' underlying behaviour and rise of homebody economy resulted in reallocation of spending, driving overall demand for home textile products. Despite rising cotton prices, WLSI managed to maintain gross margin (up ~300bps QoQ) due to better product mix and currency benefit. The increase in other expenses was driven by volume increase and partially due to higher logistics cost seen across the industry. To create further capacity, WLSI's board has approved debottlenecking of existing capacity, with additions as follows--towels by 7%, bed linen by 20% and rugs & carpets by 80%. Management has maintained its margin guidance of 19-21% with a target of INR73bn revenue for FY21.

## Flooring business gaining momentum; to complete initial capex

The company's flooring business reported an improvement in revenue to INR0.8bn (Q1FY21: INR0.3bn) with operating losses stable. Hard flooring plant is running at optimum capacity due to the strong demand and order book. While capacity of the hard flooring plant has been doubled in January 2021, it will be further doubled by Q2FY22 (part of initial plan) to cater to the growing demand.

## Outlook and valuation: Growth engine on; maintain 'BUY'

Factoring the traction in revenue and stable margin, we raise FY21 and 22E EBITDA by 3%. We maintain our target multiple at 7.0x with revised TP of INR85 (INR81 earlier) as we roll over to June 2022E. We maintain 'BUY'. Though order book remains strong, sustenance of demand will be key for further rerating.

## Financials

Year to March	Q3FY21	Q3FY20	% Change	Q2FY21	% Change
Net Revenue	20,290	15,707	29.2	19,737	2.8
EBITDA	3,980	2,047	94.4	3,859	3.1
Adjusted Profit	1,808	298	507.2	1,797	0.6
Diluted EPS (INR)	1.8	0.3	507.2	1.8	0.6

## Financial Statements

### Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	67,411	70,918	77,749	82,181
Gross profit	34,448	36,281	39,902	41,954
Employee costs	7,781	8,143	8,398	8,962
Other expenses	14,520	14,799	15,903	16,838
EBITDA	12,147	13,339	15,601	16,154
Depreciation	4,811	4,926	5,432	5,791
Less: Interest expense	1,777	1,753	1,708	1,620
Add: Other income	951	780	840	900
Profit before tax	6,944	7,440	9,300	9,642
Prov for tax	1,700	2,654	2,877	2,869
Less: Other adj	0	0	0	0
Reported profit	5,074	4,596	6,214	6,543
Less: Excp.item (net)	(328)	0	0	0
Adjusted profit	4,746	4,596	6,214	6,543
Diluted shares o/s	1,005	1,005	1,005	1,005
Adjusted diluted EPS	4.7	4.6	6.2	6.5
DPS (INR)	0.8	0	0	0
Tax rate (%)	24.5	35.7	30.9	29.8

### Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
Towel capacity (MT)	80,000.0	80,000.0	80,000.0	80,000.0
Linen capacity (000 Mts)	90,000.0	90,000.0	90,000.0	90,000.0
Carpets capacity (MT)	27,500.0	27,500.0	27,500.0	27,500.0
EBITDA margin (%)	18.0	18.8	20.1	19.7
Net profit margin (%)	7.0	6.5	8.0	8.0
Revenue growth (% YoY)	3.6	6.4	9.9	6.0
EBITDA growth (% YoY)	14.1	9.8	17.0	3.5
Adj. profit growth (%)	13.4	(3.2)	35.2	5.3

### Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(4.0)	7.0	6.0
Repo rate (%)	4.4	3.0	4.0	4.0
USD/INR (average)	70.7	75.0	73.0	72.0
Towel utilisation (%)	83.8	85.4	90.6	94.2
Linen utilisation (%)	74.4	75.9	80.5	83.7
Carpets utilisation (%)	78.0	85.8	90.9	94.6
RM costs (% sales)	48.9	48.8	48.7	48.9
Employee (% sales)	11.5	11.5	10.8	10.9
Other exp. (% sales)	21.5	20.9	20.5	20.5

### Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	14.4	14.9	11.0	10.4
Price/BV (x)	2.3	2.0	1.8	1.6
EV/EBITDA (x)	8.1	7.0	5.9	5.4
Dividend yield (%)	1.2	0	0	0

Source: Company and Edelweiss estimates

### Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	1,005	1,005	1,005	1,005
Reserves	28,716	33,312	37,972	42,880
Shareholders funds	29,721	34,317	38,977	43,884
Minority interest	849	1,038	1,248	1,478
Borrowings	34,421	32,457	25,535	25,267
Trade payables	8,979	9,177	9,720	10,320
Other liabs & prov	6,065	6,183	6,593	6,859
Total liabilities	83,103	86,199	85,103	90,840
Net block	36,326	36,774	37,671	36,290
Intangible assets	3,018	3,026	3,034	3,042
Capital WIP	564	500	510	468
Total fixed assets	39,908	40,301	41,215	39,801
Non current inv	8	8	8	8
Cash/cash equivalent	4,741	6,884	1,949	6,613
Sundry debtors	10,862	11,347	12,440	13,149
Loans & advances	4,463	5,673	5,442	5,753
Other assets	23,121	21,986	24,049	25,516
Total assets	83,103	86,199	85,103	90,840

### Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	5,074	4,596	6,214	6,543
Add: Depreciation	4,811	4,926	5,432	5,791
Interest (net of tax)	1,191	1,174	1,144	1,086
Others	(364)	(202)	(276)	(365)
Less: Changes in WC	(407)	285	1,969	1,619
Operating cash flow	11,118	10,209	10,545	11,436
Less: Capex	6,126	5,309	6,336	4,368
Free cash flow	4,992	4,900	4,209	7,068

### Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	17.6	14.4	17.0	15.8
RoCE (%)	13.1	13.8	16.5	16.5
Inventory days	159	159	150	152
Receivable days	59	57	56	57
Payable days	89	96	91	91
Working cap (% sales)	42.0	39.9	39.1	39.1
Gross debt/equity (x)	1.1	0.9	0.6	0.6
Net debt/equity (x)	1.0	0.7	0.6	0.4
Interest coverage (x)	4.1	4.8	6.0	6.4

### Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	13.4	(3.2)	35.2	5.3
RoE (%)	17.6	14.4	17.0	15.8
EBITDA growth (%)	14.1	9.8	17.0	3.5
Payout ratio (%)	16.7	0	0	0

## Q3FY21 Concall highlights

### Industry:

- China's market share loss is evident in the US/Rugs segment
- RoSCTL has been discontinued from Jan 01 and RoDTEP has been implemented. However, rates for the same are still to be announced. Company expects the rate to be announced by March.

### Q3FY21:

- Q3FY21 EBITDA margin is higher by 80bps even after adjustment of MEIS impact
- Other expense increase has been driven by higher volumes and also a spike in logistics cost (~INR200-250mn impact). There was an increase in dyes and chemical costs.
- USD/INR realization in Q3FY21: 74.48 vs 73.61 (Q3FY20)
- Product mix along with a better exchange realization (~5%) has helped improve gross margins.
- Better realization, quality of demand towards innovative/branded products and operating leverage should help keep margins intact. WLSI is also targeting lower losses in flooring business.

### Raw Material

- Cotton prices have increased by 8-10% and prices are expected to remain firm

### Flooring:

- Bagged first orders from EU, South East Asia
- Soft flooring is seeing enquiries from global customers.
- EBITDA break even in Q3FY22 and cash break-even in FY23
- After the expansion , company will complete the 10mn capacity target it had initially set-out
- Another INR2.5bn (INR10bn has already been spent). At full throttle this will give revenue of INR20bn over the next 4-5 years with margins in line with current business

### Advanced Material:

- In spun lace seeing better traction and realization
- New disinfectant wipe lines will commence in Feb 2021. Another in Sep 21
- These will help achieve top line of INR6bn by FY23. At peak utilization it could touch INR8bn in FY24/25E
- Out of INR5.0bn, INR2.0bn has been deferred which relates to the cotton bleaching project. Company will wait for some more time to take a call. In the mean while it will be sourced from outside. Once the business has gained scale, company will bring the capex back.
- Margins are in line with the current business

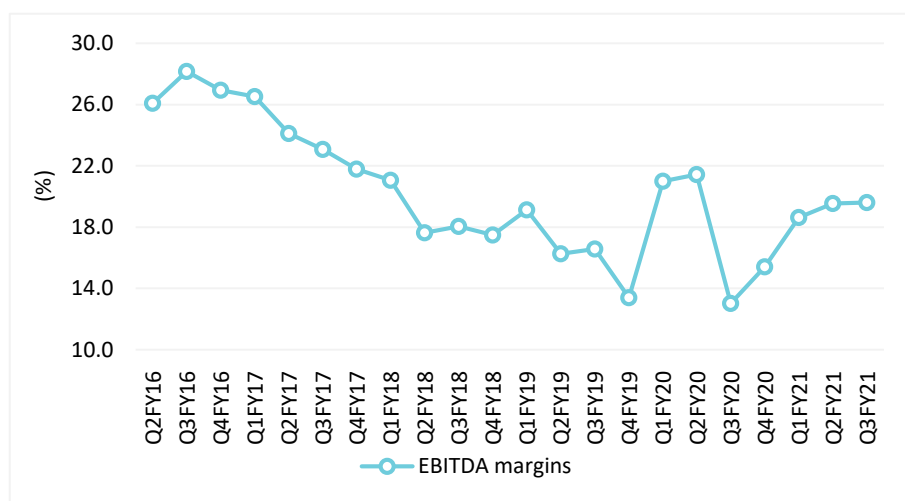
## Capex:

- Company will be spending INR2.25bn for the capacity augmentation.
- Capex in FY22 will be ~INR6bn and this includes the new home textile capacity (INR2.25bn). By Q4 of FY22, it will be full operational and full fruits will be FY23
- Towels in Q1FY22 and rugs over Q2/Q3FY22

## Guidance:

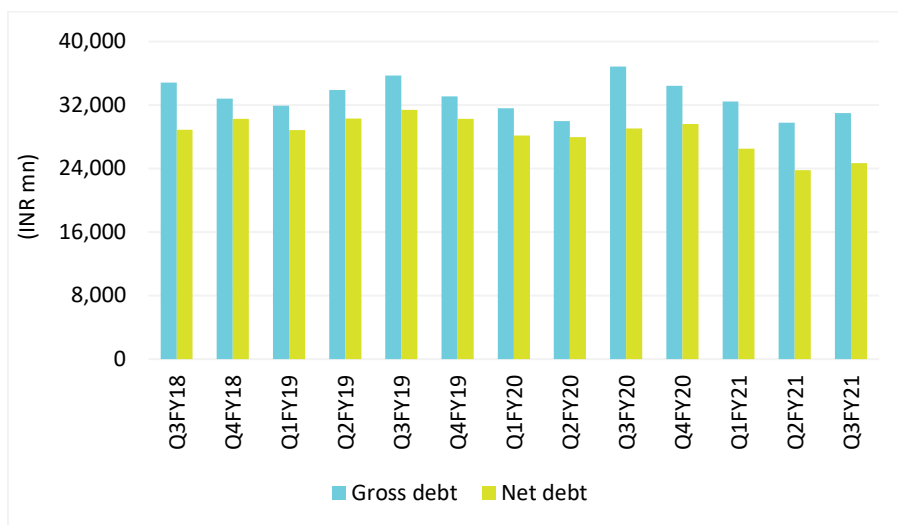
- Targeting USD100Mn plus in revenues in 2-3 years via licensed brands.
- Company expects debt to remain below INR24bn
- Targeting to keep margins between 19-20% with Revenues of INR73bn for FY21E.

**Exhibit 1: EBITDA Margin trend**



Source: Company, Edelweiss Research

**Exhibit 2: Debt summary**



Source: Company, Edelweiss Research

## Exhibit 3: Quarterly snapshot

Year to March	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	YTD21	FY21E	FY22E
Net revenues	20,290	15,707	29.2	19,737	2.8	52,045	70,918	77,749
Direct costs	9,569	7,790	22.8	9,913	(3.5)	24,945	34,637	37,847
Employee expenses	2,205	2,045	7.8	2,214	(0.4)	6,214	8,143	8,398
Other expenses	4,536	3,825	18.6	3,751	20.9	10,807	14,799	15,903
EBIDTA	3,980	2,047	94.4	3,859	3.1	10,078	13,339	15,601
Depreciation & Amortisation	1,139	1,325	(14.0)	1,149	(0.8)	3,394	4,926	5,432
EBIT	2,841	722	293.5	2,710	4.8	6,684	8,413	10,168
Less: Interest Expense	559	455	22.8	362	54.5	1,333	1,753	1,708
Add: Other income	207	342	(39.5)	189	9.4	539	780	840
Add: Exceptional items	-	434	NM	-	NM	-	-	-
Profit before Tax	2,489	1,043	138.6	2,537	(1.9)	5,889	7,440	9,300
Less: Provision for Tax	741	292	153.6	658	12.5	1,725	2,654	2,877
Less: Minority Interest	(60)	19	NM	82	NM	69	190	210
Reported Profit	1,808	732	147.0	1,797	0.6	4,096	4,596	6,214
Adjusted Profit	1,808	419	331.1	1,797	0.6	4,096	4,596	6,214
No. of Dil. shares outstanding (mn)	1,005	1,005	-	1,005	-	1,005	1,005	1,005
Adjusted Diluted EPS	1.8	0.4	331.1	1.8	0.6	4.1	4.6	6.2
As % of net revenue								
Direct costs	47.2	49.6		50.2		47.9	48.8	48.7
Employee expenses	10.9	13.0		11.2		11.9	11.5	10.8
Other expenses	22.4	24.4		19.0		20.8	20.9	20.5
EBIDTA	19.6	13.0		19.6		19.4	18.8	20.1
Net profit	8.9	2.7		9.1		7.9	6.5	8.0
Tax rate	29.8	28.0		25.9		29.3	35.7	30.9

Source: Company, Edelweiss Research

## Company Description

Established in 1985, Welspun India (WLSI) currently is one of the top-three home textile manufacturers globally and the largest home textile company in Asia. It has modern manufacturing facilities at Anjar and Vapi in Gujarat where it produces an entire range of home textiles for bed & bath category. The company has state-of-the-art completely vertically integrated plants, right from spinning to confectioning.

WLSI has been ranked No.1 among home textile suppliers in the US (Source: Home Textile Today). It has a distribution network in over 32 countries including US, UK, Europe, Canada and Australia.

In addition to manufacturing facilities, which predominantly supply to private labels, the company also maintains its own brands Christy, Hygro cotton, Welhome and Spaces - Home and Beyond; it also has a tie up with Nautica for North American markets.

## Investment Theme

**Innovation, diversified client and product base cement dominance:** WLSI enjoys longstanding relationships with top retailers in the US and Europe and supplies to 14 of the top-30 global retailers. The company commands lion's share of home textiles exported out of India. Increasing geographical and client diversification is improving the company's risk metrics. It has seven trademarks and has applied for six patents till date. WLSI derives ~30% of sales from innovative products.

**Robust free cash flow & consistently lowering leverage:** WLSI has calibrated its capex programme post the change in industry scenario. The company's confidence in generating free cash is also evident from its dividend policy of 25% payout ratio. Going forward, it is expected to generate strong free cash flows and further lower its leverage.

## Key Risks

**Raw material risk:** Raw material costs, primarily cotton yarn, account for 50% of the overall expenses and are a prime driver of profitability. Volatility in cotton prices can impact the profitability adversely.

**Currency fluctuations:** Welspun exports more than 90% of its production. With a network spanning 50 countries, the company is exposed to currency fluctuations which can significantly impact profitability.

**Egyptian cotton issue:** Egyptian cotton products manufactured by WLSI came under the scanner when Target, cut ties with the company. Post the event, other major customers have however continued their regular sourcing of other products from WLSI. But, any further customer issues will be a negative for the company.

## Additional Data

### Management

CEO	Ms. Dipali Goenka
CFO	Sanjeev Sancheti
MD	Rajesh Mandawewala
Other	
Auditor	SRBC & Co LLP

### Holdings – Top 10\*

	% Holding		% Holding
DSP Investment	4.35	BlackRock Inc	0.54
L&T MF	2.77	Birla Sun Life	0.37
Aditya Birla Su	2.15	GAM Holding AG	0.25
Franklin Resour	1.72	AXA SA	0.14
Dimensional Fun	1.37		

\*Latest public data

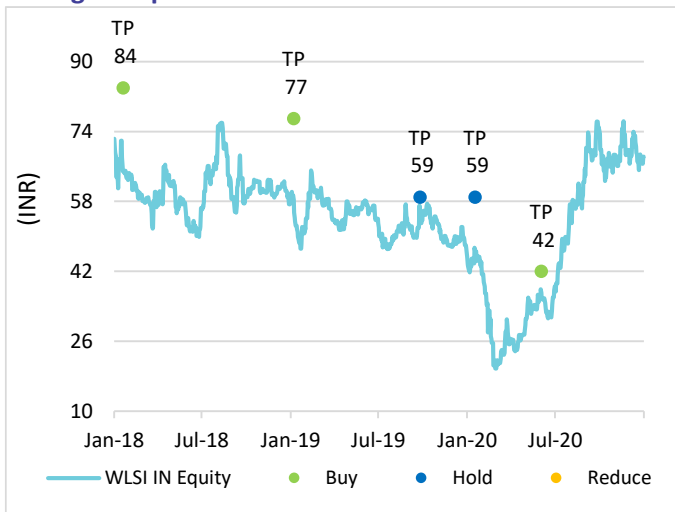
### Recent Company Research

Date	Title	Price	Reco
30-Oct-20	Growth revives; visibility robust too; <i>Result Update</i>	70.25	Buy
28-Sep-20	Macro tailwind; next trigger awaited; <i>Company Update</i>	65.45	Buy
24-Jul-20	Welspun India - Result Update Q1FY21 - B; <i>Result Update</i>	36	Buy

### Recent Sector Research

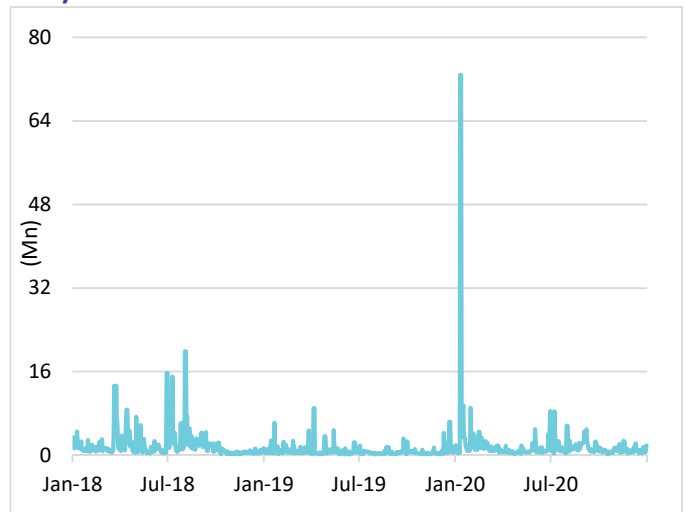
Date	Name of Co./Sector	Title
29-Oct-20	Arvind Ltd	Margin and debt ahead of course; <i>Result Update</i>
31-Aug-20	Arvind Ltd	Arvind - Sprinting back to normalcy; res; <i>Result Update</i>
28-Aug-20	Himatsing. Seide	Himatsingka Seide - Result Update Q1FY21; <i>Result Update</i>

### Rating Interpretation



Source: Bloomberg, Edelweiss research

### Daily Volume



Source: Bloomberg

### Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	163	64	14	241
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	187	57	7	251

\* stocks under review

### Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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