

WELSPUN INDIA

RESULT UPDATE

KEY DATA

Rating	HOLD
Factor relative	Neutral
Price (INR)	138
12 month price target (INR)	148
52 Week High/Low	140/62
Market cap (INR bn/USD bn)	134/1.6
Free float (%)	31.5
Avg. daily value traded (INR mn)	432.3

SHAREHOLDING PATTERN

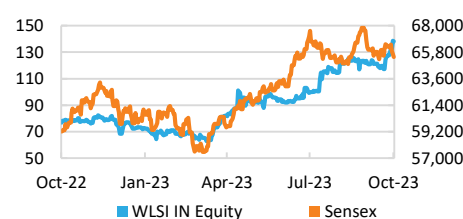
	Jan-00	Jan-00	Jan-00
Promoter	70.36%	70.36%	70.36%
FII	5.8%	6.14%	6.66%
DII	5.72%	5.72%	5.63%
Pledge	0%	0%	0%

FINANCIALS

(INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Revenue	80,938	90,784	100,009	113,125
EBITDA	7,525	14,663	18,328	22,329
Adjusted profit	1,988	6,049	8,431	10,943
Diluted EPS (INR)	2.0	6.1	8.5	11.1
EPS growth (%)	(66.9)	204.3	39.4	29.8
RoAE (%)	4.9	13.7	17.0	19.2
P/E (x)	69.6	22.9	16.4	12.6
EV/EBITDA (x)	20.6	10.5	8.1	6.5
Dividend yield (%)	0	0	0	0

PRICE PERFORMANCE



Record quarterly sales; margins intact

Welspun India (WLSI) reported growth of 3x YoY/15% QoQ in Q2FY24 EBITDA to INR3.6bn (2% ahead of our estimate). This was primarily driven by the strong *home textile* and *flooring* segments.

Home textile/flooring sales grew 17%/52% YoY. *Home textile/flooring* EBITDA margin jumped 893bp/563bp YoY. Demand shall likely revive from H2 led by restocking from large retailers ahead of the festive season. WLSI has cautiously guided for 10–12% sales growth each in FY24E and FY25E with potential EBITDA margins of 15%. We are raising FY25E EBITDA by 3% on improved global demand, and the target to 8x EV/EBITDA (from 6x) as margins continue to improve. This lifts the TP by 34% to INR148; retain ‘HOLD’ amid unfavourable risk-reward.

Record quarterly sales; Flooring business picking up; margins intact

Overall revenue grew 19% YoY/15% QoQ to INR25bn on strong *home textile* and *flooring* sales. *Home textile* sales rose 17% YoY/15% QoQ to INR24bn while *flooring* reported record sales of INR2.4bn (up 52% YoY/8% QoQ). Gross margin increased 489bp YoY to ~47% (flat QoQ) in Q2 led by lower cotton and freight costs. Overall EBITDA grew 3x YoY/15% QoQ to INR3.6bn with margins improving substantially by ~800bp YoY (flat QoQ) on higher operational leverage. Home textile margins grew 900bp YoY to 15.3% (flat QoQ). Flooring margins also grew sharply by 563bp YoY to 8.1% in Q1 (+15bp QoQ). WLSI has now expanded its presence to +15,511 outlets (+2,246 QoQ). It bagged new customers in USA and the Middle East for prestigious hospitality projects in Q1, and has signed contracts with hospitality chains in the EU.

Margins guidance intact; debt reduction measures to continue

Management has guided for 10–12% sales growth each in FY24E and 25E with potential EBITDA margins of 15%. Upcoming festive demand backed with stable cotton prices (guidance: INR61,000–62,000/candy) shall keep margins intact. Net debt declined to INR16bn in Q2 from INR18bn as of Jun-23. Net debt to equity stood at 0.4x in Q2 (Q1: 0.5x). WLSI has guided for <INR10bn net debt by FY24E. Net debt to EBITDA improved to 1.2x in Q2 (Q1: 1.7x) on better operational performance.

Risk-reward unfavourable; maintain ‘HOLD’

WLSI’s stock has rallied 84% CYTD. It is trading at 8x two-year blended forward (bf) EV/EBITDA—well above its long-term average of 5.5x. With global demand reviving and cotton prices normalizing, we expect margins to improve further. This gives us the comfort to hike the target valuation to 8x (from 6x). While we are edging up FY25E EBITDA by 3% on improving demand, risk-reward stays unfavourable at this valuation. Maintain ‘HOLD/SN’ with a revised TP on INR148 (earlier: INR110).

Financials

Year to March	Q2FY24	Q2FY23	% Change	Q1FY24	% Change
Net Revenue	25,091	21,135	18.7	21,841	14.9
EBITDA	3,580	1,285	178.6	3,106	15.2
Adjusted Profit	1,965	86	2,185.1	1,618	21.4
Diluted EPS (INR)	2.0	0.1	2,185.1	1.6	21.4

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Total operating income	80,938	90,784	100,009	113,125
Gross profit	35,797	42,319	48,400	55,419
Employee costs	7,944	9,768	10,488	11,173
Other expenses	20,328	17,888	19,584	21,917
EBITDA	7,525	14,663	18,328	22,329
Depreciation	4,421	4,943	5,242	5,546
Less: Interest expense	1,299	1,655	1,757	1,886
Add: Other income	1,213	900	900	900
Profit before tax	3,019	8,965	12,229	15,796
Prov for tax	994	2,859	3,721	4,757
Less: Other adj	0	0	0	0
Reported profit	1,988	6,049	8,431	10,943
Less: Excp.item (net)	0	0	0	0
Adjusted profit	1,988	6,049	8,431	10,943
Diluted shares o/s	988	988	988	988
Adjusted diluted EPS	2.0	6.1	8.5	11.1
DPS (INR)	0	0	0	0
Tax rate (%)	32.9	31.9	30.4	30.1

Important Ratios (%)

Year to March	FY23A	FY24E	FY25E	FY26E
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 (%)	9.3	16.2	18.3	19.7
Net profit margin (%)	2.5	6.7	8.4	9.7
Revenue growth (% YoY)	(13.0)	12.3	10.2	12.9
EBITDA growth (% YoY)	(44.6)	94.8	25.0	21.8
Adj. profit growth (%)	(66.9)	204.3	39.4	29.8

Assumptions (%)

Year to March	FY23A	FY24E	FY25E	FY26E
GDP (YoY %)	8.7	6.4	5.8	5.8
Repo rate (%)	4.0	6.0	5.5	5.5
USD/INR (average)	74.5	80.0	78.0	78.0
Towel utilisation (%)	70.5	77.5	83.7	88.8
Linen utilisation (%)	61.3	67.5	72.9	77.2
Carpets utilisation (%)	71.6	78.8	85.1	90.2
RM costs (% sales)	55.8	53.4	51.6	51.0
Employee (% sales)	9.8	10.8	10.5	9.9
Other exp. (% sales)	25.1	19.7	19.6	19.4

Valuation Metrics

Year to March	FY23A	FY24E	FY25E	FY26E
Diluted P/E (x)	69.6	22.9	16.4	12.6
Price/BV (x)	3.4	3.0	2.7	2.3
EV/EBITDA (x)	20.6	10.5	8.1	6.5
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Share capital	988	988	988	988
Reserves	40,220	44,757	51,080	59,288
Shareholders funds	41,208	45,745	52,068	60,276
Minority interest	1,082	1,138	1,215	1,311
Borrowings	24,791	25,767	26,760	28,393
Trade payables	12,157	11,892	12,931	14,229
Other liabs & prov	7,027	7,520	7,981	8,637
Total liabilities	90,590	96,390	105,287	117,181
Net block	37,023	36,738	35,898	34,775
Intangible assets	3,042	3,050	3,058	3,066
Capital WIP	1,497	1,224	1,230	1,237
Total fixed assets	41,563	41,013	40,187	39,078
Non current inv	39	39	39	39
Cash/cash equivalent	9,034	11,259	17,106	23,898
Sundry debtors	8,686	9,743	10,733	12,140
Loans & advances	5,666	6,355	7,001	7,919
Other assets	27,209	29,587	31,828	35,713
Total assets	90,590	96,390	105,287	117,181

Free Cash Flow (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Reported profit	1,988	6,049	8,431	10,943
Add: Depreciation	4,421	4,943	5,242	5,546
Interest (net of tax)	870	1,109	1,177	1,264
Others	(785)	(354)	(320)	(277)
Less: Changes in WC	(4,855)	3,894	2,373	4,253
Operating cash flow	11,350	7,854	12,157	13,223
Less: Capex	4,362	4,383	4,405	4,427
Free cash flow	6,988	3,470	7,752	8,795

Key Ratios

Year to March	FY23A	FY24E	FY25E	FY26E
RoE (%)	4.9	13.7	17.0	19.2
RoCE (%)	6.2	15.2	18.3	20.8
Inventory days	158	152	152	149
Receivable days	42	37	37	37
Payable days	87	91	88	86
Working cap (% sales)	34.8	35.8	35.1	35.3
Gross debt/equity (x)	0.6	0.5	0.5	0.5
Net debt/equity (x)	0.4	0.3	0.2	0.1
Interest coverage (x)	2.4	5.9	7.4	8.9

Valuation Drivers

Year to March	FY23A	FY24E	FY25E	FY26E
EPS growth (%)	(66.9)	204.3	39.4	29.8
RoE (%)	4.9	13.7	17.0	19.2
EBITDA growth (%)	(44.6)	94.8	25.0	21.8
Payout ratio (%)	0	0	0	0

Exhibit 1: EBITDA grew 3x YoY/15% QoQ (marginally ahead of our estimate) led by strong home textile and flooring businesses

Welspun India	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	Edel Estimate	Deviation (%)
Revenues (INR mn)	25,091	21,135	18.7	21,841	14.9	23,440	7.0
Gross profit (INR mn)	11,657	8,786	32.7	10,293	13.3	11,017	5.8
EBITDA (INR mn)	3,580	1,285	178.6	3,106	15.2	3,515	1.9
PAT (INR mn)	2,002	83	2,323.8	1,630	22.9	1,928	3.8
Gross margins (%)	46.5	41.6	489bps	47.1	-67bps		
EBITDA margins (%)	14.3	6.1	819bps	14.2	5bps		
PAT margins (%)	8.0	0.4	759bps	7.5	52bps		

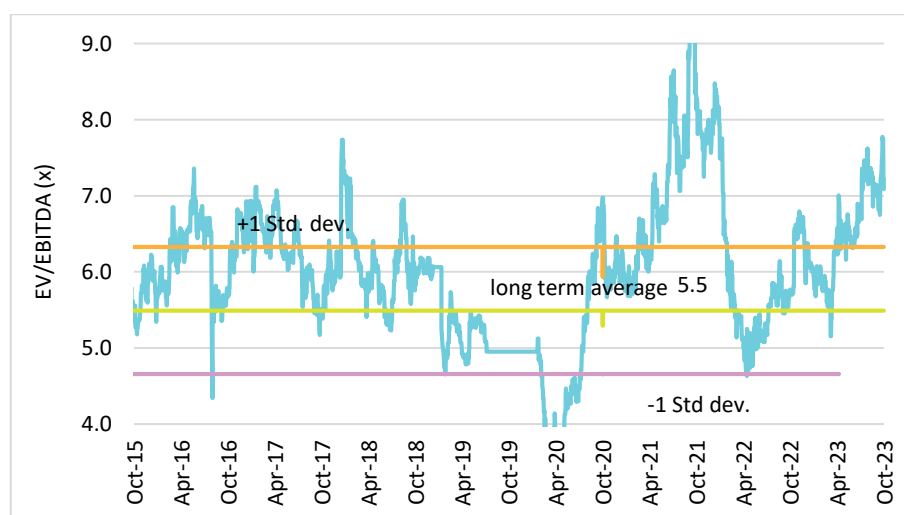
Source: Company, Nuvama Research

Exhibit 2: Key segmental highlights

Segmental highlights	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue (INR mn)					
Home Textile	23,523	20,114	16.9	20,376	15.4
Flooring	2,426	1,596	52.0	2,251	7.8
EBITDA (INR mn)					
Home Textile	3,594	1,276	181.7	3,123	15.1
Flooring	201	42	375.8	183	9.8
EBITDA Margins (%)					
Home Textile	15.3	6.3	893bps	15.3	-5bps
Flooring	8.3	2.6	563bps	8.1	15bps

Source: Company, Nuvama Research

Exhibit 3: WLSI trading above its long term average 2Y forward EV/EBITDA



Source: Nuvama Research, Bloomberg

Q2FY24 management call takeaways

Impact of UK and Australian FTAs

UK contributes ~10% of the home textiles revenue for the company, and Australia contributes ~3%. The company views the FTA as favourable and expects an inflow of orders within 6 months of finalisation of the FTAs. Further, the company is looking to expand its hospitality, flooring and retail business in Australia.

Exports mix

US makes up 34% of global textile consumption and accounts for ~70% exports for the company, followed by the EU&UK ~20%. Further, the company aims to maintain an export margin of ~18% in home textiles.

Net debt and capex guidance

The company targets a net debt of sub-INR 10bn by the end of FY24. Further, the company is exploring opportunities for capex while following a prudent strategy focusing on RoCE and IRR.

Sky is the limit for flooring business

The company has received a large order from the US and Middle East in its flooring business. This comprises of a mix of soft and hard flooring. Company views a huge opportunity in India for its flooring business. In US, there is an addressable market of ~USD10Bn, out of which ~60% is imports from China. Company aims to seize the China +1 push in the US and gain market share.

Volatile commodity prices leaving margins unaffected

The company expects cotton prices to stay rangebound at 60–62k per tonne. Furthermore, the company works closely with customers to ensure that it does not have to dilute its margins due to fluctuations in cotton prices.

Guidance for FY24

The company has guided for a revenue growth of ~10-12% in FY24 with an EBITDA margin of 15%.

Supply chain management

The company is looking to indigenize its sourcing which will help reduce supply shocks and allow the company to operate its plants at optimum levels. The company has an ever-expanding network of 150 distributors and 200 sales staff around the country.

Receivables O/S from government

The company has receivables O/S from the GOI in the form of duty drawbacks and PLI. The company expects these receivables to stay at a similar level in FY24 with inflows creeping in from next year.

Exhibit 4: Q2FY24 consolidated financial summary

Year to March	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	FY24TD	FY25E	FY26E
Net revenues	25,091	21,135	18.7	21,841	14.9	46,931	100,009	113,125
Direct costs	13,434	12,348	8.8	11,548	16.3	24,981	51,610	57,706
Employee expenses	2,574	2,014	27.8	2,261	13.8	4,835	10,488	11,173
Other expenses	5,503	5,487	0.3	4,925	11.7	10,429	19,584	21,917
EBIDTA	3,580	1,285	178.6	3,106	15.2	6,686	18,328	22,329
Depreciation & Amortisation	985	1,095	(10.1)	994	(0.9)	1,979	5,242	5,546
EBIT	2,595	190	1,265.1	2,112	22.9	4,707	13,086	16,783
Less: Interest Expense	338	284	19.2	258	31.0	597	1,757	1,886
Add: Other income	333	231	43.9	308	8.0	641	900	900
Add: Exceptional items	0	0	NM	0	NM	0	0	0
Profit before Tax	2,590	137	1,784.6	2,162	19.8	4,752	12,229	15,796
Less: Provision for Tax	587	55	971.9	533	10.3	1,120	3,721	4,757
Share of profit from associates	2	1	185.7	(2)	NM	(0)		
Less: Minority Interest	37	(3)	NM	11	226.5	48	76	96
Reported Profit	1,967	87	2,169.0	1,616	22	3,583	8,431	10,943
Adjusted Profit	1,967	87	2,169.0	1,616	21.7	3,583	8,431	10,943
No. of Dil. shares outstanding (mn)	988	1,005	(1.7)	988	0.0	988	988	988
Adjusted Diluted EPS	2	0	2,207.1	2	21.7	4	9	11
As % of net revenue								
Direct costs	53.5	58.4		52.9		53.2	51.6	51.0
Employee expenses	10.3	9.5		10.4		10.3	10.5	9.9
Other expenses	21.9	26.0		22.6		22.2	19.6	19.4
EBIDTA	14.3	6.1		14.2		14.2	18.3	19.7
Net profit	7.8	0.4		7.4		7.6	8.4	9.7
Tax rate	22.7	39.9		24.6		23.6	30.4	30.1

Source: Company, Nuvama 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 a 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 and 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	Sanjay Gupta
MD	Rajesh Mandawewala
Other	
Auditor	SRBC & Co LLP

Holdings – Top 10*

	% Holding		% Holding
DSP Investment	3.14	ARYABHAT VYAPAR	0.54
Life Insurance	2.12	Aditya Birla Su	0.51
L&T Mutual Fund	1.21	BlackRock Inc	0.50
Vanguard Group	1.10	Norges Bank	0.49
Dimensional Fun	0.82	GAM Holding AG	0.47

*Latest public data

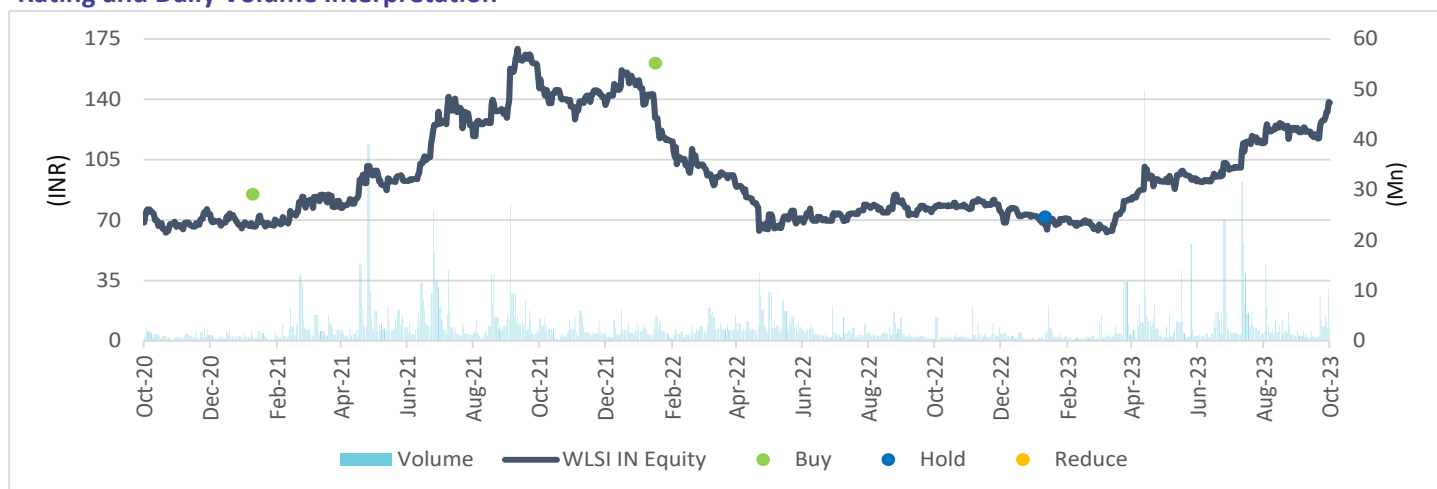
Recent Company Research

Date	Title	Price	Reco
31-Jul-23	Tables are turning; <i>Result Update</i>	109	Hold
27-Apr-23	Tell-tale green shoots ; <i>Result Update</i>	87	Hold
30-Jan-23	Demand uncertainty continues; <i>Result Update</i>	67	Hold

Recent Sector Research

Date	Name of Co./Sector	Title
27-Jul-23	Arvind Ltd	Navigating uncertainties; <i>Result Update</i>
19-May-23	Arvind Ltd	Holding on amid weak environment; <i>Result Update</i>
25-Jan-23	Arvind Ltd	Holding on in a weak environment; <i>Result Update</i>

Rating and Daily Volume Interpretation



Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	206
Hold	<15% and >-5%	60
Reduce	<-5%	17

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