nuvama institutional equities

# WELSPUN INDIA

RESULT UPDATE

## KEY DATA

| Rating | HOLD |
|---|---|
| Sector relative | Neutral |
| Price (INR) | 164 |
| 12 month price target (INR) | 180 |
| 52 Week High/Low | 171/151 |
| Market cap (INR bn/USD bn) | 159/2.0 |
| Free float (%) | 27.9 |
| Avg. daily value traded (INR mn) | 432.3 |

## SHAREHOLDING PATTERN

| | Dec-23 | Sep-23 | Jun-23 |
|---|---|---|---|
| Promoter | 70.3% | 70.3% | 70.3% |
| FII | 5.8% | 5.8% | 5.8% |
| DII | 5.7% | 5.7% | 5.7% |
| Pledge | 0% | 0% | 0% |

## FINANCIALS (INR mn)

| Year to March | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| Revenue | 80,938 | 93,560 | 103,067 | 118,031 |
| EBITDA | 7,525 | 13,863 | 18,916 | 23,537 |
| Adjusted profit | 1,988 | 6,939 | 9,494 | 12,599 |
| Diluted EPS (INR) | 2.0 | 7.0 | 9.6 | 12.8 |
| EPS growth (%) | (66.9) | 249.0 | 36.8 | 32.7 |
| RoAE (%) | 4.9 | 15.6 | 18.7 | 21.3 |
| P/E (x) | 81.5 | 23.4 | 17.1 | 12.9 |
| EV/EBITDA (x) | 23.8 | 12.8 | 9.1 | 7.1 |
| Dividend yield (%) | 0 | 0 | 0 | 0 |

## PRICE PERFORMANCE


# Strong showing; margins guidance intact

Welspun India (WLSI) reported Q3FY24 EBITDA of INR3.3bn (+75% YoY/-5% QoQ) in line with our estimate. This was primarily driven by the strong *home textile* and *flooring* segments.

*Home textile/flooring* sales grew 28%/46% YoY. *Home textile/flooring* EBITDA margin jumped 370bp/630bp YoY. Management guided for 15% sales growth for FY24 and INR150bn in sales by FY26. WLSI would incur capex of INR3bn at its Anjar towel facility, augmenting capacity to 96,400 (from 90,000) by Nov-24—yielding INR4bn in sales at full utilisation. WLSI is trading at 8x two-year forward EV/EBITDA (above long-term average of 6x). Valuation rollover to FY26E and a 3%/5% uptick in FY25E/26E EBITDA lifts TP by 22% to INR180; retain 'HOLD'.

## Robust quarterly sales; flooring business picking up; margins intact

Overall revenue grew 29% YoY to INR24bn (-4% QoQ) on strong *home textile* and *flooring* sales. *Home textile* sales rose 28% YoY to INR23bn (-4% QoQ) and *flooring* posted record sales of INR2.5bn (up 46% YoY/2% QoQ). Overall EBITDA margin grew 370bp YoY to 14% (flat QoQ) in Q3 led by 370bp YoY growth in textile EBITDA margin (flat QoQ) and sharp 630bp YoY growth in flooring (flat QoQ). Capacity utilisation of 84%/59% in Towel/Bedsheet (72%/47% YoY). Flooring run rate shot up to 60% (30% YoY). FY24E utilisation guidance of 80%/70%/60% for towel/bedsheet/flooring.

## Margins guidance intact; debt reduction measures to continue

Management guided for 15% sales growth in FY24 and is targeting INR150bn in sales by FY26 with a potential EBITDA margin of 15%. Net debt dipped to INR15bn in Q3 from INR19bn in Dec-23. Net D/E stood at 0.35x (Q2: 0.4x). Management guided to be debt-free by FY26E. WLSI plans to set up a fully automated pillow manufacturing unit of 6.7mn capacity in USA (capex INR1bn) to be operational by Sep-24. It also plans to set up additional Jacquard towel facility at Anjar facility (capex INR3bn), enhancing capacity to 96,400MTPA (from 90,000) (likely to be operational from Nov-24). Management has guided for INR4bn of sales potential at full capacity utilisation.

## Limited potential upside; maintain 'HOLD'

WLSI is trading at 8x two-year blended forward (bf) EV/EBITDA (long-term average 6x). With global demand reviving and cotton prices normalising, we expect margin to improve further. We believe current strong quarterly performances is already baked in its current high valuation. Risk-reward, thus, appears less favourable. hence we maintain **'HOLD'**. We are raising FY25E/26E EBITDA by 3%/5% and rolling forward the valuation to FY26E, lifting TP by 22% to INR180 (earlier TP: INR148).

## Financials

| Year to March | Q3FY24 | Q3FY23 | % Change | Q2FY24 | % Change |
|---|---|---|---|---|---|
| Net Revenue | 24,109 | 18,692 | 29.0 | 25,091 | (3.9) |
| EBITDA | 3,389 | 1,937 | 74.9 | 3,580 | (5.3) |
| Adjusted Profit | 1,767 | 424 | 317.1 | 1,965 | (10.1) |
| Diluted EPS (INR) | 1.8 | 0.4 | 324.1 | 2.0 | (10.1) |

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# Financial Statements

### Income Statement (INR mn)

| Year to March | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| Total operating income | 80,938 | 93,560 | 103,067 | 118,031 |
| Gross profit | 35,797 | 43,716 | 50,005 | 58,017 |
| Employee costs | 7,944 | 9,768 | 10,488 | 11,173 |
| Other expenses | 20,328 | 20,085 | 20,601 | 23,307 |
| EBITDA | 7,525 | 13,863 | 18,916 | 23,537 |
| Depreciation | 4,421 | 4,295 | 5,242 | 5,546 |
| Less: Interest expense | 1,299 | 1,470 | 1,788 | 1,928 |
| Add: Other income | 1,213 | 1,300 | 900 | 900 |
| Profit before tax | 3,019 | 9,398 | 12,787 | 16,963 |
| Prov for tax | 994 | 2,402 | 3,216 | 4,268 |
| Less: Other adj | 0 | 0 | 0 | 0 |
| Reported profit | 1,988 | 6,939 | 9,494 | 12,599 |
| Less: Excp.item (net) | 0 | 0 | 0 | 0 |
| Adjusted profit | 1,988 | 6,939 | 9,494 | 12,599 |
| Diluted shares o/s | 988 | 988 | 988 | 988 |
| Adjusted diluted EPS | 2.0 | 7.0 | 9.6 | 12.8 |
| DPS (INR) | 0 | 0 | 0 | 0 |
| Tax rate (%) | 32.9 | 25.6 | 25.2 | 25.2 |

### Balance Sheet (INR mn)

| Year to March | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| Share capital | 988 | 988 | 988 | 988 |
| Reserves | 40,220 | 45,424 | 52,545 | 61,994 |
| Shareholders funds | 41,208 | 46,413 | 53,533 | 62,982 |
| Minority interest | 1,082 | 1,138 | 1,215 | 1,311 |
| Borrowings | 24,791 | 26,154 | 27,186 | 29,077 |
| Trade payables | 12,157 | 12,837 | 13,368 | 14,826 |
| Other liabs & prov | 7,027 | 7,658 | 8,134 | 8,882 |
| Total liabilities | 90,590 | 98,529 | 107,769 | 121,416 |
| Net block | 37,023 | 37,386 | 36,545 | 35,422 |
| 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 | 41,660 | 40,834 | 39,725 |
| Non current inv | 39 | 39 | 39 | 39 |
| Cash/cash equivalent | 9,034 | 11,398 | 17,480 | 25,151 |
| Sundry debtors | 8,686 | 10,041 | 11,061 | 12,667 |
| Loans & advances | 5,666 | 6,549 | 7,215 | 8,262 |
| Other assets | 27,209 | 30,447 | 32,747 | 37,178 |
| Total assets | 90,590 | 98,529 | 107,769 | 121,416 |

### 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 | 96,400.0 |
| Carpets capacity (MT) | 27,500.0 | 27,500.0 | 27,500.0 | 27,500.0 |
| EBITDA margin (%) | 9.3 | 14.8 | 18.4 | 19.9 |
| Net profit margin (%) | 2.5 | 7.4 | 9.2 | 10.7 |
| Revenue growth (% YoY) | (13.0) | 15.6 | 10.2 | 14.3 |
| EBITDA growth (% YoY) | (44.6) | 84.2 | 36.4 | 24.4 |
| Adj. profit growth (%) | (66.9) | 249.0 | 36.8 | 32.7 |

### Free Cash Flow (INR mn)

| Year to March | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| Reported profit | 1,988 | 6,939 | 9,494 | 12,599 |
| Add: Depreciation | 4,421 | 4,295 | 5,242 | 5,546 |
| Interest (net of tax) | 870 | 985 | 1,198 | 1,292 |
| Others | (785) | (815) | (310) | (264) |
| Less: Changes in WC | (4,855) | 4,162 | 2,975 | 4,874 |
| Operating cash flow | 11,350 | 7,243 | 12,649 | 14,299 |
| Less: Capex | 4,362 | 4,383 | 4,405 | 4,427 |
| Free cash flow | 6,988 | 2,860 | 8,244 | 9,872 |

### 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 | 90.4 |
| Linen utilisation (%) | 61.3 | 67.5 | 72.9 | 73.5 |
| Carpets utilisation (%) | 71.6 | 78.8 | 85.1 | 90.2 |
| RM costs (% sales) | 55.8 | 53.3 | 51.5 | 50.8 |
| Employee (% sales) | 9.8 | 10.4 | 10.2 | 9.5 |
| Other exp. (% sales) | 25.1 | 21.5 | 20.0 | 19.7 |

### Key Ratios

| Year to March | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| RoE (%) | 4.9 | 15.6 | 18.7 | 21.3 |
| RoCE (%) | 6.2 | 15.4 | 18.7 | 21.6 |
| Inventory days | 158 | 150 | 152 | 148 |
| Receivable days | 42 | 37 | 37 | 37 |
| Payable days | 87 | 92 | 90 | 86 |
| Working cap (% sales) | 34.8 | 35.1 | 35.1 | 35.3 |
| Gross debt/equity (x) | 0.6 | 0.6 | 0.5 | 0.5 |
| Net debt/equity (x) | 0.4 | 0.3 | 0.2 | 0.1 |
| Interest coverage (x) | 2.4 | 6.5 | 7.6 | 9.3 |

### Valuation Metrics

| Year to March | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| Diluted P/E (x) | 81.5 | 23.4 | 17.1 | 12.9 |
| Price/BV (x) | 3.9 | 3.5 | 3.0 | 2.6 |
| EV/EBITDA (x) | 23.8 | 12.8 | 9.1 | 7.1 |
| Dividend yield (%) | 0 | 0 | 0 | 0 |

### Valuation Drivers

| Year to March | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| EPS growth (%) | (66.9) | 249.0 | 36.8 | 32.7 |
| RoE (%) | 4.9 | 15.6 | 18.7 | 21.3 |
| EBITDA growth (%) | (44.6) | 84.2 | 36.4 | 24.4 |
| Payout ratio (%) | 0 | 0 | 0 | 0 |

*Source: Company and Nuvama estimates*

**Exhibit 1: EBITDA grows 75 YoY (in line with our estimate) led by strong home textile and flooring businesses**

| Welspun India | Q3FY24 | Q3FY23 | YoY (%) | Q2FY24 | QoQ (%) | Nuvama Estimate | Deviation (%) |
|---|---|---|---|---|---|---|---|
| Revenues (INR mn) | 24,109 | 18,692 | 29.0 | 25,091 | -3.9 | 22,499 | 7.2 |
| Gross profit (INR mn) | 11,786 | 9,126 | 29.1 | 11,657 | 1.1 | 10,575 | 11.5 |
| EBITDA (INR mn) | 3,389 | 1,937 | 74.9 | 3,580 | -5.3 | 3,461 | -2.1 |
| PAT (INR mn) | 1,790 | 438 | 308.5 | 2,002 | -10.6 | 1,846 | -3.0 |
| | | | | | | | |
| Gross margins (%) | 48.9 | 48.8 | 6bps | 46.5 | 243bps | | |
| EBITDA margins (%) | 14.1 | 10.4 | 369bps | 14.3 | -21bps | | |
| PAT margins (%) | 7.4 | 2.3 | 508bps | 8.0 | -56bps | | |

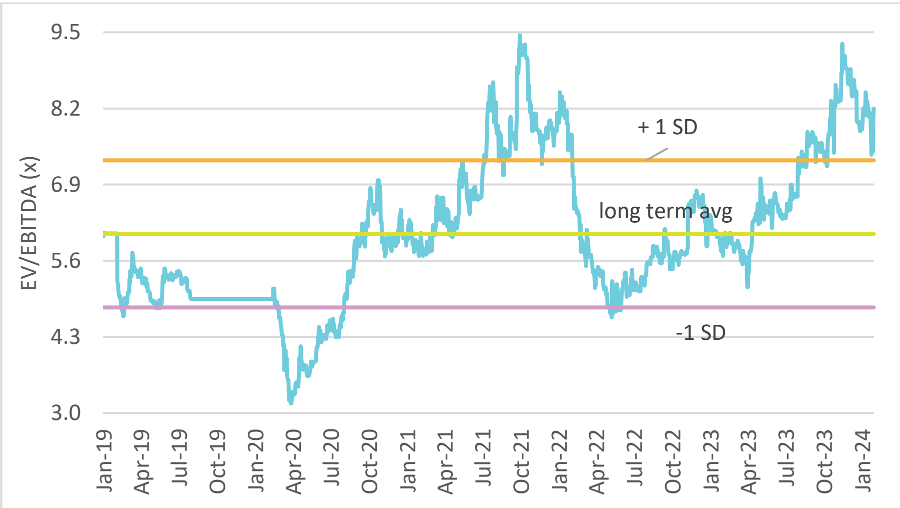
*Source: Company, Nuvama Research*

**Exhibit 2: Key segmental highlights**

| Segmental highlights | Q3FY24 | Q3FY23 | YoY (%) | Q2FY24 | QoQ (%) |
|---|---|---|---|---|---|
| Revenue (INR mn) | | | | | |
| Home Textile | 22,514 | 17,575 | 28.1 | 23,523 | -4.3 |
| Flooring | 2,463 | 1,684 | 46.2 | 2,426 | 1.5 |
| | | | | | |
| EBITDA (INR mn) | | | | | |
| Home Textile | 3,470 | 2,062 | 68.3 | 3,594 | -3.4 |
| Flooring | 200 | 31 | 551.5 | 201 | -0.4 |
| | | | | | |
| EBITDA Margins (%) | | | | | |
| Home Textile | 15.4 | 11.7 | 368bps | 15.3 | 14bps |
| Flooring | 8.1 | 1.8 | 630bps | 8.3 | -16bps |

*Source: Company, Nuvama Research*

**Exhibit 3: WLSI trading above its long-term +1 SD 2Y forward EV/EBITDA**




*Source: Nuvama Research, Bloomberg*

# Q3FY24 management call takeaways

**Net debt and capex guidance**

The company targets to be debt free by FY26. Currently, the net debt ex flooring business was INR 7.1bn (INR 15.4 bn including flooring). Further, the company is exploring opportunities for capex while following a prudent strategy focusing on RoCE and IRR. The capital expenditure for 9 months in FY24 was INR 2.3 bn.

**Board approves capex projects; aiming for RoCE of >20%**

The Board of Directors has approved capital expenditure to set up additional Jacquard towel facility in a brownfield investment of INR 3,260 mn at the existing. Anjar facility as an extension to the towel product line for the Company's global operations. It will increase the total Towel capacity by 6400 MTPA to 96400 MTPA. Existing capacity utilization is 84%. The capacity will be operational by November 01, 2024.

The Board has approved also approved a capital outlay of USD 12.5 mn for setting up a fully automated pillow manufacturing unit at Ohio by its subsidiary company Welspun USA Inc. to expand the product category in Home textile segment business in USA. The Unit will have manufacturing capacity of 6.7 million pillows annually. The capacity would be operational by September 30, 2024. The company expects an additional revenue of approximately US $50 million at full capacity utilization.

Further, the company has guided for an outlay of INR 4.3bn in FY25 and maintenance capex of INR2–3bn there on.

**Revenue guidance for FY24 raised**

The company had guided for a revenue growth of 12% in FY24 with an EBITDA margin of 15%. Now, the company has raised its guidance for a 15% YoY revenue growth in FY23. Further, the emerging businesses are expected to drive growth over the next 2-3 years (growing at 20-25%) while the core business maintains its strong double-digit growth trajectory.

**Enhanced focus on ESG**

The company has become a member of United nations body UNGC (United Nations Global Compact) promoting environment and socially conscious business practices is a step towards confirming the same. Further, the company has also achieved the best-managed company award 2023 from Deloitte for a second year in a row. Welspun Living continues to focus on growth, innovation and business excellence with the highest level of good governance practices.

**Sky is the limit for flooring business**

The company has received big-ticket orders from USA, UK and the Middle east while improving prominence through repeat orders in soft flooring along with increased demand for printed wall-to-wall and carpet tiles in hospitality and commercial segments as well as valued added products in hard flooring. In the domestic market, the company continues to see growth in hospitality and residential segments. The company is working on the indigenization of the value chain. The flooring plant reached a capacity utilization of 60% during Q3 and recorded its highest ever quarterly revenues of INR2,460mn (growing by 46% YoY).

**Retailers stay resilient despite Red Sea impact**

Retailers are planning ahead and the company is looking at ways to mitigate turnaround times. The company is also looking at its warehouses where it can keep its inventory in USA.

**Expanding Christie offerings**

Christie has shown positive signs in the UK and Middle East. The company is looking to introduce Christie branded offerings in US, Canada, India, New Zealand, Australia, China and Japan.

**Exhibit 4: Q3FY24 consolidated financial summary**

| Year to March | Q3FY24 | Q3FY23 | YoY (%) | Q2FY24 | QoQ (%) | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| **Net revenues** | **24,109** | **18,692** | **29.0** | **25,091** | **(3.9)** | **93,560** | **103,067** | **118,031** |
| Direct costs | 12,323 | 9,566 | 28.8 | 13,434 | (8.3) | 49,843 | 53,061 | 60,014 |
| Employee expenses | 2,681 | 1,995 | 34.4 | 2,574 | 4.2 | 9,768 | 10,488 | 11,173 |
| Other expenses | 5,716 | 5,194 | 10.1 | 5,503 | 3.9 | 20,085 | 20,601 | 23,307 |
| **EBIDTA** | **3,389** | **1,937** | **74.9** | **3,580** | **(5.3)** | **13,863** | **18,916** | **23,537** |
| Depreciation & Amortisation | 1,004 | 1,142 | (12.1) | 985 | 1.9 | 4,295 | 5,242 | 5,546 |
| **EBIT** | **2,385** | **795** | **199.9** | **2,595** | **(8.1)** | **9,568** | **13,675** | **17,991** |
| Less: Interest Expense | 419 | 359 | 16.8 | 338 | 23.9 | 1,470 | 1,788 | 1,928 |
| Add: Other income | 430 | 349 | 23.2 | 333 | 29.2 | 1,300 | 900 | 900 |
| Add: Exceptional items | 0 | 0 | NM | 0 | NM | 0 | 0 | 0 |
| **Profit before Tax** | **2,396** | **785** | **205.1** | **2,590** | **(7.5)** | **9,398** | **12,787** | **16,963** |
| Less: Provision for Tax | 606 | 347 | 74.7 | 587 | 3.2 | 2,402 | 3,216 | 4,268 |
| Share of profit from associates | 1 | 0 | 350.0 | 2 | (55.0) | | | |
| Less: Minority Interest | 23 | 15 | NM | 37 | (38.5) | 56 | 76 | 96 |
| **Reported Profit** | **1,768** | **424** | **317.1** | **1,967** | **-10** | **6,939** | **9,494** | **12,599** |
| **Adjusted Profit** | **1,768** | **424** | **317.1** | **1,967** | **(10.1)** | **6,939** | **9,494** | **12,599** |
| No. of Dil. shares outstanding (mn) | 988 | 1,005 | | 988 | | 988 | 988 | 988 |
| Adjusted Diluted EPS | 2 | 0 | 324.1 | 2 | (10.1) | 7 | 10 | 13 |
| | | | | | | | | |
| **As % of net revenue** | | | | | | | | |
| Direct costs | 51.1 | 51.2 | | 53.5 | | 53.3 | 51.5 | 50.8 |
| Employee expenses | 11.1 | 10.7 | | 10.3 | | 10.4 | 10.2 | 9.5 |
| Other expenses | 23.7 | 27.8 | | 21.9 | | 21.5 | 20.0 | 19.7 |
| EBIDTA | 14.1 | 10.4 | | 14.3 | | 14.8 | 18.4 | 19.9 |
| Net profit | 7.3 | 2.3 | | 7.8 | | 7.4 | 9.2 | 10.7 |
| Tax rate | 25.3 | 44.2 | | 22.7 | | 25.6 | 25.2 | 25.2 |

*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, Hygrocotton, 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 |
|---|---|---|---|
| 25-Oct-23 | Record quarterly sales; margins intact; *Result Update* | 140 | Hold |
| 31-Jul-23 | Tables are turning; *Result Update* | 109 | Hold |
| 27-Apr-23 | Tell-tale green shoots ; *Result Update* | 87 | Hold |

## Recent Sector Research

| Date | Name of Co./Sector | Title |
|---|---|---|
| 30-Jan-24 | Arvind Ltd | Modest quarter; guidance intact; *Result Update* |
| 31-Oct-23 | Arvind Ltd | Steady quarter; momentum to continue; *Result Update* |
| 27-Jul-23 | Arvind Ltd | Navigating uncertainties; *Result Update* |

## Rating and Daily Volume Interpretation

*Source: Bloomberg, Nuvama research*

## Rating Rationale & Distribution: Nuvama Research

| Rating | Expected absolute returns over 12 months | Rating Distribution |
|---|---|---|
| Buy | 15% | 202 |
| Hold | <15% and >-5% | 63 |
| Reduce | <-5% | 22 |

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