

WELSPUN LIVING

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	149
12 month price target (INR)	171
52 Week High/Low	213/123
Market cap (INR bn/USD bn)	143/1.7
Free float (%)	
Avg. daily value traded (INR mn)	1,037.6

SHAREHOLDING PATTERN

	Sep-24	Jun-24	Mar-24
Promoter	66.24%	70.5%	70.5%
FII	7.08%	5.88%	7.14%
DII	7.67%	5.5%	5.44%
Pledge	0%	0%	0%

FINANCIALS

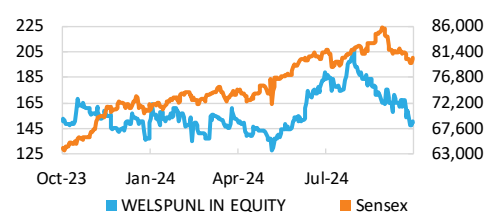
(INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	96,792	1,08,407	1,23,585	1,38,415
EBITDA	13,662	16,270	19,165	22,157
Adjusted profit	6,811	8,606	9,730	11,438
Diluted EPS (INR)	6.9	8.7	9.8	11.6
EPS growth (%)	242.6	26.4	13.1	17.5
RoAE (%)	14.9	16.5	16.0	16.1
P/E (x)	21.8	17.2	15.2	13.0
EV/EBITDA (x)	11.7	10.0	8.0	6.7
Dividend yield (%)	0	0	0	0

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY24E	FY25E
Revenue	1,08,407	1,23,585	5.0%	5.0%
EBITDA	16,270	19,165	8.2%	6.2%
Adjusted profit	8,606	9,730	8.8%	7.5%
Diluted EPS (INR)	8.7	9.8	8.8%	7.5%

PRICE PERFORMANCE



Strong growth; margins soften

Welspun continued its growth momentum and reported robust growth of 14.5% YoY. However, the growth came in at an additional freight cost as container availability for export was a challenge this quarter on account of continued Red Sea issues. This led to increased inventory at Welspun's end and resulted in increased warehousing costs. Management has maintained the growth and margin guidance for FY25.

Given the strong top-line growth, we are revising upwards FY25E/26E revenue by 5% each while building in for the softness in margins, we are revising FY25E/26E EBITDA downwards by 8%/6%. Rolling forward to H1FY27, our revised target price comes in at INR171 (earlier INR185); maintain 'HOLD'.

Growth momentum continues in Q2; margins soften on Red Sea issues

Welspun Living reported quarterly sales of INR29bn, growing over 14.5% YoY/13.3% QoQ led by strong *Home textiles* partially offset by modest *flooring*. *Home textiles* sales rose 15% YoY/14% QoQ to INR27.1bn. The flooring segment posted modest growth of 3% YoY/10% QoQ due to the Red Sea crisis. Overall EBITDA was flat at INR3.6bn in Q2FY25. *Home textile* EBITDA grew 4% YoY/7% QoQ, whereas *Flooring* EBITDA posted growth of 10% YoY/5% QoQ because of improved margins due to higher capacity utilisation. Management has guided 10–12% sales growth in FY25 with a potential EBITDA margin of 15%–15.5%.

Capex to go live in Q3FY25; fresh capex announced

Management incurred a capex of INR2.86bn in Q2 and 4.92bn in H1FY25 mainly towards the new towel project at Anjan and US pillow unit. The said capex shall go live in Q3FY25. Furthermore, the company had earlier announced a capex of INR3.41bn for an additional towel capacity of 6400 metric tonnes to meet the additional demand. The Board has now approved Phase 2 of the announced a fresh capex of INR7.09bn to raise the bed linen processing capacity to 0.4mn meters/day that is 144mn meters/annum and towel capacity to 0.1mn metric tons/annum. This shall make the Anjar facility have the largest home textile capacity globally. The internal capacity expansion would reduce the variabilities in the cost of outsourcing and ensure better customer service and profitability. The new capex shall have incremental revenue potential of INR7.5bn in addition to the INR4bn in the towel capacity expansion.

Q2FY25 conference call key takeaways: i) The Red Sea issues led to softer growth in the flooring segment and hurt margins as well in the form of increased warehousing and freight costs. ii) The company is aiming for a net debt of INR0–2bn by FY28 and targets revenue of INR150bn by FY27.

Financials

Year to March	Q1FY25	Q1FY24	% Change	Q4FY24	% Change
Net Revenue	25,365	21,841	16.1	25,752	(1.5)
EBITDA	3,415	3,106	9.9	3,587	(4.8)
Adjusted Profit	1,855	1,618	14.6	1,460	27.1
Diluted EPS (INR)	1.9	1.6	16.5	1.5	29.2

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	96,792	1,08,407	1,23,585	1,38,415
Gross profit	45,694	51,177	58,342	65,343
Employee costs	10,274	11,600	13,224	14,810
Other expenses	21,758	23,308	25,953	28,375
EBITDA	13,662	16,270	19,165	22,157
Depreciation	3,945	4,418	5,037	5,641
Less: Interest expense	1,534	1,788	1,928	2,081
Add: Other income	1,486	1,486	1,486	1,486
Profit before tax	9,668	11,550	13,686	15,921
Prov for tax	2,942	2,867	3,860	4,367
Less: Other adj	0	0	0	0
Reported profit	6,811	8,606	9,730	11,438
Less: Excp.item (net)	0	0	0	0
Adjusted profit	6,811	8,606	9,730	11,438
Diluted shares o/s	988	988	988	988
Adjusted diluted EPS	6.9	8.7	9.8	11.6
DPS (INR)	0	0	0	0
Tax rate (%)	30.4	24.8	28.2	27.4

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
EBITDA margin (%)	14.1	15.0	15.5	16.0
Net profit margin (%)	7.0	7.9	7.9	8.3
Revenue growth (% YoY)	20.0	12.2	13.7	12.2
EBITDA growth (% YoY)	81.5	19.1	17.8	15.6
Adj. profit growth (%)	242.6	26.4	13.1	17.5

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.4	5.8	5.8	5.8
Repo rate (%)	6.0	5.5	5.5	5.5
USD/INR (average)	80.0	78.0	78.0	78.0

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	21.8	17.2	15.2	13.0
Price/BV (x)	3.1	2.7	2.3	2.0
EV/EBITDA (x)	11.7	10.0	8.0	6.7
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	988	988	988	988
Reserves	46,602	54,778	64,022	74,888
Shareholders funds	47,590	55,766	65,010	75,876
Minority interest	997	1,074	1,170	1,286
Borrowings	26,154	27,186	29,077	30,351
Trade payables	13,774	15,010	16,846	18,570
Other liabs & prov	7,820	8,401	9,160	9,901
Total liabilities	1,00,639	1,11,742	1,25,568	1,40,290
Net block	36,628	36,606	35,986	34,785
Intangible assets	3,050	3,058	3,066	3,074
Capital WIP	373	375	376	378
Total fixed assets	40,051	40,038	39,429	38,237
Non current inv	68	68	68	68
Cash/cash equivalent	15,657	14,345	24,206	32,472
Sundry debtors	11,486	12,864	14,665	16,425
Loans & advances	6,775	10,841	8,651	9,689
Other assets	28,466	35,450	40,413	45,263
Total assets	1,00,639	1,11,742	1,25,568	1,40,290

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	6,811	8,606	9,730	11,438
Add: Depreciation	3,945	4,418	5,037	5,641
Interest (net of tax)	1,028	1,198	1,292	1,394
Others	(980)	(896)	(850)	(799)
Less: Changes in WC	(7,012)	10,610	1,979	5,182
Operating cash flow	17,816	2,717	13,230	12,492
Less: Capex	4,374	4,395	4,417	4,440
Free cash flow	13,442	(1,679)	8,813	8,052

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	14.9	16.5	16.0	16.1
RoCE (%)	15.1	16.8	17.4	17.8
Inventory days	149	149	147	149
Receivable days	40	41	41	41
Payable days	80	92	89	88
Working cap (% sales)	32.2	39.5	36.5	36.7
Gross debt/equity (x)	0.5	0.5	0.4	0.4
Net debt/equity (x)	0.2	0.2	0.1	0
Interest coverage (x)	6.3	6.6	7.3	7.9

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	242.6	26.4	13.1	17.5
RoE (%)	14.9	16.5	16.0	16.1
EBITDA growth (%)	81.5	19.1	17.8	15.6
Payout ratio (%)	0	0	0	0

Q2FY25 conference call highlights

Q2FY25 performance

- Innovation products: Continued to be a significant revenue driver, contributing 23% of total revenue and growing 13% YoY.
- Domestic retail: Despite a subdued retail market, the company achieved 10% growth and generated INR1.6bn in revenue.
- Inflationary pressure: India experienced inflation of around 5% during the quarter.
- Global expansion: The company forged new partnerships in the US, Europe, and India, with strategic partnerships expected to boost future sales in spunlace and needle punch segments.
- Export dominance: For the trailing 12 months ending Aug-24, India maintained a dominant market share in exports to the US, particularly in terry towels (43%) and bed sheets (60%).
- Market share gains: India's share in bed sheets increased by 10% and held steady in terry towels compared to the previous year.
- US export growth: Welspun Living Limited solidified its US export position, with 7% growth in terry towels and 39% in bed sheets.
- Profitability: Domestic retail achieved a near-breakeven low single-digit EBITDA margin, while advanced textile maintained a similar margin to the overall home textile business.
- Brand Leadership: Brand Spaces emerged as a leading brand, gaining market share in modern trade channels.
- Inventory and supply chain challenges: The Red Sea issues led to inventory buildup, higher warehousing, and transportation costs, which thus impacted the margins. Container availability, mainly impacted by China's demand, posed challenges to fulfilling the holiday demand.

Outlook

- India as a global supply chain hub: India's stability and the "China Plus One" strategy are positioning it as a crucial part of global retailers' supply chains.
- Geopolitical impact: Geopolitical tensions may result in a gradual and muted volume recovery in the second half of FY25.
- Capital expenditure: The Board previously approved a 6,400mtpa towel capacity expansion worth INR3.4bn, nearing completion in Q3FY25.
- Total capex for H1 was around INR4.92bn and 2.86bn in Q2FY25
- Now, the Board has authorised Phase 2, investing INR7.09bn over two years to add 100,000 meters/day of bed linen processing and 3,600mtpa towel looms.
- The new project in full capacity will add incremental INR7.5bn in revenue. Capex will be live from FY28.
- This brings the total two-year investment to INR10.5bn, split evenly between FY26 and FY27.

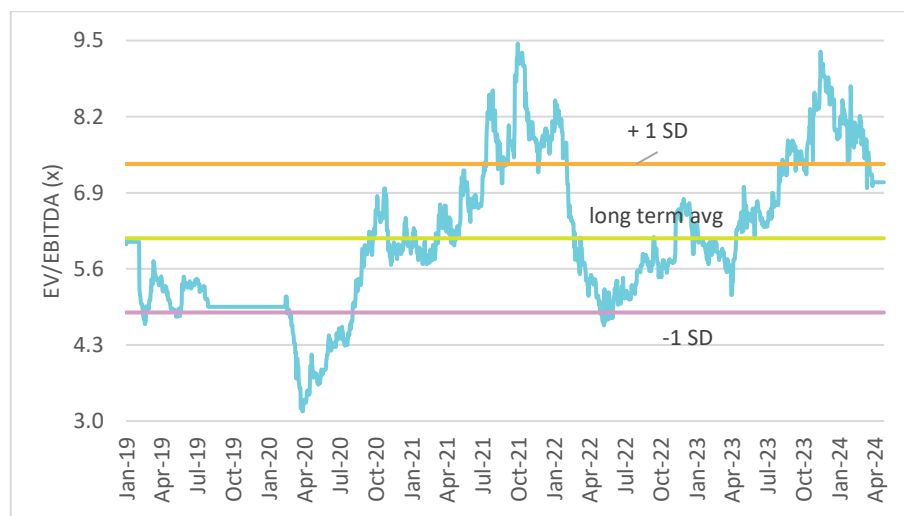
- Financial outlook: The company aims for a net debt of INR0-2bn by FY28 and targets revenue of INR150bn by FY27.
- FY25 guidance: The company maintained its FY25 guidance, projecting 10–12% revenue growth and 15–15.5% EBITDA margins.

Exhibit 1: Key segmental highlights

Segmental highlights	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue (INR mn)					
Home Textile	27,128	23,523	15.3	23,873	13.6
Flooring	2,498	2,426	2.9	2,278	9.6
EBITDA (INR mn)					
Home Textile	3,742	3,594	4.1	3,484	7.4
Flooring	220	201	9.5	210	4.6
EBITDA Margins (%)					
Home Textile	13.8	15.3	-148bps	14.6	-80bps
Flooring	8.8	8.3	53bps	9.2	-42bps

Source: Company, Nuvama Research

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



Source: Nuvama Research, Bloomberg

Exhibit 3: Quarterly consolidated summary

Year to March	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY24	FY25E	FY26E
Net revenues	28,731	25,091	14.5	25,365	13.3	96,792	1,08,407	1,23,585
Direct costs	15,931	13,434	18.6	13,598	17.2	51,099	57,231	65,243
Employee expenses	2,925	2,574	13.7	2,819	3.8	10,274	11,600	13,224
Other expenses	6,298	5,503	14.4	5,533	13.8	21,758	23,308	25,953
EBIDTA	3,576	3,580	(0.1)	3,415	4.7	13,662	16,270	19,165
Depreciation & Amortisation	856	985	(13.1)	968	(11.6)	3,945	4,418	5,037
EBIT	2,721	2,595	4.8	2,448	11.2	9,717	11,851	14,128
Less: Interest Expense	549	338	62.1	434	26.5	1,534	1,788	1,928
Add: Other income	629	333	89.0	520	21.1	1,486	1,486	1,486
Add: Exceptional items	0	0	NM	0	NM	0	0	0
Profit before Tax	2,802	2,590	8.2	2,533	10.6	9,668	11,550	13,686
Less: Provision for Tax	779	587	32.7	674	15.5	2,942	2,867	3,860
Share of profit from associates	2	2	(15.0)	1	240.0			
Less: Minority Interest	14	37	NM	4	218.2	-85	76	96
Reported Profit	2,010	1,967	2.2	1,855	8	6,811	8,606	9,730
Adjusted Profit	2,010	1,967	2.2	1,855	8.3	6,811	8,606	9,730
No. of Dil. shares outstanding (mn)	959	988		972		988	988	988
Adjusted Diluted EPS	2	2	5.3	2	9.8	7	9	10
As % of net revenue								
Direct costs	55.4	53.5		53.6		52.8	52.8	52.8
Employee expenses	10.2	10.3		11.1		10.6	10.7	10.7
Other expenses	21.9	21.9		21.8		22.5	21.5	21.0
EBIDTA	12.4	14.3		13.5		14.1	15.0	15.5
Net profit	7.0	7.8		7.3		7.0	7.9	7.9
Tax rate	27.8	22.7		26.6		30.4	24.8	28.2

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, 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
Life Insurance	3.33	ARYABHAT VYAPAR	0.57
Vanguard Group	1.25	Norges Bank	0.49
Aditya Birla Su	1.23	BlackRock Inc	0.46
L&T MF	0.98	Nippon life AMC	0.28
Dimensional Fun	0.70	Sun Life Financ	0.16

*Latest public data

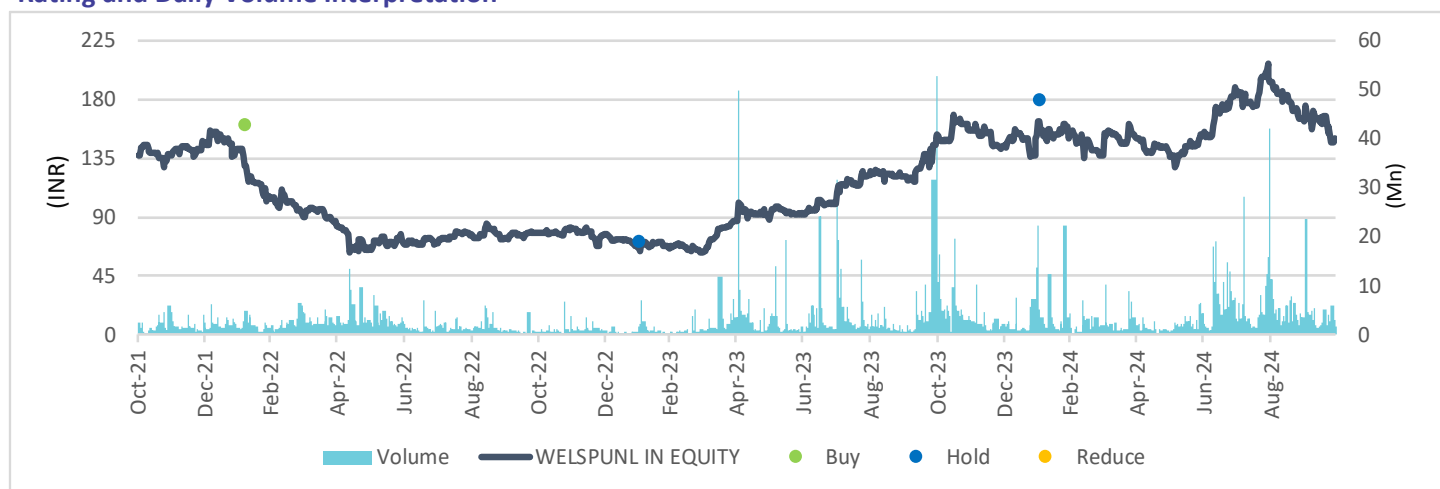
Recent Company Research

Date	Title	Price	Reco
25-Jul-24	Strong visibility; maintains guidance; <i>Result Update</i>	179	Hold
25-Apr-24	Strong quarter; margin guidance intact; <i>Result Update</i>	156	Hold
31-Jan-24	Strong showing; margins guidance intact; <i>Result Update</i>	164	Hold

Recent Sector Research

Date	Name of Co./Sector	Title
29-Oct-24	Arvind Ltd	Strong results, bright outlook; <i>Result Update</i>
29-Jul-24	Arvind Ltd	Weak quarter but a blip; <i>Result Update</i>
06-May-24	Arvind Ltd	Strong performance; guidance intact; <i>Result Update</i>

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%	220
Hold	<15% and >-5%	65
Reduce	<-5%	25

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Abneesh Roy

Head of Research Committee

Abneesh.Roy@nuvama.com
