

WELSPUN LIVING

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	140
12 month price target (INR)	157
52 Week High/Low	213/123
Market cap (INR bn/USD bn)	145/1.7
Free float (%)	32%
Avg. daily value traded (INR mn)	411.2

SHAREHOLDING PATTERN

	Dec-24	Sep-24	Jun-24
Promoter	66.24%	66.24%	70.50%
FII	5.90%	7.08%	5.88%
DII	8.31%	7.67%	5.49%
Pledge	0.00%	0.00%	0.00%

FINANCIALS

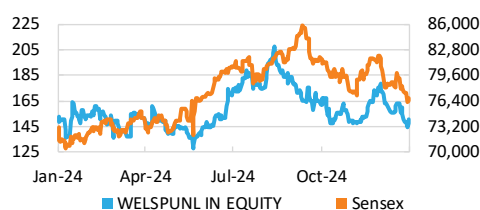
(INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	96,792	1,08,439	1,23,837	1,40,253
EBITDA	13,689	13,948	17,630	20,844
Adjusted profit	6,727	6,561	8,968	10,702
Diluted EPS (INR)	6.9	6.8	9.4	11.2
EPS growth (%)	237.8	(1.2)	36.7	19.3
RoAE (%)	13.8	16.4	16.4	16.4
P/E (x)	20.2	20.5	15.0	12.5
EV/EBITDA (x)	11.9	11.8	8.9	7.2
Dividend yield (%)	2.5	2.5	2.5	2.5

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	1,08,439	1,23,837	0.0%	0.2%
EBITDA	13,948	17,630	-14.3%	-8.0%
Adjusted profit	6,561	8,968	-23.8%	-7.8%
Diluted EPS (INR)	6.8	9.4	-23.8%	-7.8%

PRICE PERFORMANCE



Growth soft; margins under pressure

Welspun reported softer growth in Q3FY25 driven by a high base as well as persistent problems in its flooring business. The latter suffered from higher freight costs due to the Red Sea issues. Hence, margins came in soft too. Meanwhile, emerging businesses continue to do well, contributing 30% to total business YTD. Management maintained the top-line growth guidance range of 10–12%, but trimmed the EBITDA guidance to 14% (from 15%).

Building in the current run rate, we are cutting FY25E/26E EBITDA by 14%/8% to factor in the softness in margins. This along with a rollover to 9mFY27E yields a revised TP of INR157 (earlier INR171) at an unchanged 8x EV/EBITDA; maintain 'HOLD'.

Growth softens; margins continue to stay under pressure

Welspun Living reported quarterly sales of INR24.9bn, +3.3% YoY/-13.3% QoQ. Home textiles posted 1% YoY growth this quarter due to a higher base formed by the spill-over of a few orders from Q2 to Q3 in FY24. Home Textile export business increased 6% YoY.

Emerging businesses posted double-digit growth YTD and now contribute 30% to the overall business. Christy recorded its highest-ever sales during Black Friday and now is a well-accepted global brand spreading to the UAE, Africa and USA, out of its primary geography of the UK. Welspun will soon launch Christy in India as well. The Spaces brand has outgrown the category in modern trade channels, emerging as a leading brand within the category and gaining market share. Welspun brand witnessed healthy growth of 8% YoY in Q3 and 12% YTD, and continues to be the most widely distributed home textile brand in the country. The flooring business witnessed a decline of 12.4% YoY affected by the Red Sea issues.

Margins were impacted this quarter because of two issues: i) increased freight costs to the tune of 40%, which impacted the margins by 0.4% this quarter; and ii) sudden rupee depreciation leading to hedging losses, which had 0.6% impact on margins. Management expects these hedging losses to continue for four–five months.

The company has already incurred INR5.95bn of capex out of the total INR8.5bn it guided for. Net debt at end-Dec-24 stood at INR16.58bn, and management aims to bring this down to INR15bn by the end of FY25.

Q3FY25 conference call key takeaways: i) Full-year guidance for top-line growth of 10–12% maintained. ii) Guidance for full-year EBITDA margin reduced to 14% from the earlier 15%. iii) The company aims to be net debt-free by FY28E.

Financials

Year to March	Q3FY25	Q3FY24	% Change	Q2FY25	% Change
Net Revenue	24,896	24,109	3.3	28,731	(13.3)
EBITDA	2,805	3,389	(17.2)	3,576	(21.6)
Adjusted Profit	1,204	1,767	(31.8)	2,008	(40.0)
Diluted EPS (INR)	1.3	1.8	(30.9)	2.1	(40.0)

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	96,792	1,08,439	1,23,837	1,40,253
Gross profit	48,961	53,135	61,918	71,529
Employee costs	10,274	11,495	12,755	14,025
Other expenses	24,998	27,693	31,533	36,660
EBITDA	13,689	13,948	17,630	20,844
Depreciation	3,945	4,588	5,001	5,316
Less: Interest expense	1,534	1,690	1,782	1,407
Add: Other income	1,458	1,760	2,040	1,259
Profit before tax	9,668	9,429	12,889	15,381
Prov for tax	2,942	2,869	3,922	4,680
Less: Other adj	0	0	0	0
Reported profit	6,727	6,561	8,968	10,702
Less: Excp.item (net)	0	0	0	0
Adjusted profit	6,727	6,561	8,968	10,702
Diluted shares o/s	972	959	959	959
Adjusted diluted EPS	6.9	6.8	9.4	11.2
DPS (INR)	3.6	3.5	4.8	5.7
Tax rate (%)	30.4	30.4	30.4	30.4

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
EBITDA margin (%)	14.1	12.9	14.2	14.9
Net profit margin (%)	7.0	6.1	7.2	7.6
Revenue growth (% YoY)	19.6	12.0	14.2	13.3
EBITDA growth (% YoY)	81.9	1.9	26.4	18.2
Adj. profit growth (%)	232.2	(2.5)	36.7	19.3

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	7.2	6.5	6.3	6.3
Repo rate (%)	6.5	6.5	6.5	6.5
USD/INR (average)	84.0	84.0	84.0	84.0

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	20.2	20.5	15.0	12.5
Price/BV (x)	3.0	2.6	2.2	1.9
EV/EBITDA (x)	11.9	11.8	8.9	7.2
Dividend yield (%)	2.5	2.5	3.4	4.1

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	972	972	972	972
Reserves	44,186	50,746	59,713	70,413
Shareholders funds	45,158	51,718	60,685	71,385
Minority interest	973	973	973	973
Borrowings	25,205	28,449	28,116	16,553
Trade payables	9,088	10,606	11,875	13,180
Other liabs & prov	8,898	9,253	9,723	10,224
Total liabilities	94,850	1,06,773	1,17,470	1,18,760
Net block	36,131	40,043	40,292	40,227
Intangible assets	1,999	1,999	1,999	1,999
Capital WIP	488	488	(1,012)	(2,012)
Total fixed assets	38,618	42,530	41,280	40,214
Non current inv	76	76	76	76
Cash/cash equivalent	2,548	4,960	11,266	7,715
Sundry debtors	12,547	14,057	16,053	18,181
Loans & advances	4,895	4,895	4,895	4,895
Other assets	34,494	38,583	42,229	46,007
Total assets	94,850	1,06,773	1,17,470	1,18,760

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	9,670	9,429	12,889	15,381
Add: Depreciation	3,945	4,588	5,001	5,316
Interest (net of tax)	1,055	(70)	(259)	147
Others	(3,219)	0	0	0
Less: Changes in WC	(5,007)	(3,480)	(3,578)	(3,754)
Operating cash flow	5,328	7,598	10,130	12,409
Less: Capex	(2,592)	(8,500)	(3,750)	(4,250)
Free cash flow	2,736	(902)	6,380	8,159

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	13.8	16.4	16.4	16.4
RoCE (%)	16.4	14.6	17.2	18.8
Inventory days	154	148	151	152
Receivable days	42	45	44	45
Payable days	68	65	66	67
Working cap (% sales)	38.9	38.2	36.6	35.2
Gross debt/equity (x)	0.5	0.5	0.5	0.2
Net debt/equity (x)	0.5	0.4	0.3	0.1
Interest coverage (x)	6.4	5.5	7.1	11.0

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	237.8	(1.2)	36.7	19.3
RoE (%)	13.8	16.4	16.4	16.4
EBITDA growth (%)	81.9	1.9	26.4	18.2
Payout ratio (%)	51.4	0	0	0

Q3FY25 conference call highlights

Q3FY25

- YTD growth in the guidance range of 10–12% for FY25.
- Emerging businesses comprising of domestic consumer business global brands, advanced textile and flooring, witnessed double digit growth of 10% YoY on a YTD basis and contributed about 30% of the total business.
- Christy recorded highest record sales during Black Friday.
- Pillow factory in US helps to tap in the Utility bedding segment.
- Christy has shown global potential beyond UK, with extended presence in Middle East, USA and Africa and will soon launch in India as well. Christy has made significant strides in premiumisation with higher gross margins in Q3 as well as YTD.
- Licensed brands Martha Stewart, Cocomo and Disney in Europe witnessed 40% growth YTD.
- Domestic flooring growth was at 17% YoY on YTD basis.
- Domestic retail business registered growth of 2% YoY and revenue of INR1.77bn in Q3, YTD this business has grown 6%. Growth is slower on account of subdued consumption environment in India.
- Spaces brand has outgrown the category in modern trade channels, emerging as a leading brand within the category and gaining market share.
- Welspun Brand witnessed a healthy growth of 8% in Q3 and 12% YTD, and continue to be the most widely distributed home textile brand in the country.
- Continued Investment in domestic market with marketing spends to the tune of 10% for improving brand visibility.
- Indian demand is expected to bounce back stronger in the next few quarters, with expected consumption recovery, green shoots of which is already seen in rural consumption.
- Welspun expanded its market share in both bedsheets and terry towels in the US, with bedsheets at 18% dispatch growth, vis-a-vis overall U.S. export market growth of 5% in bedsheets and flat growth vis-a-vis 2% market decline in Terry Towels.
- Flooring business continues to see challenges due to Red Sea and affecting the transit times. This has also led to some customers pushing their orders.
- Had to incur higher freight cost (increasing 40% YoY), resulting in 0.4% impact on the margins, sudden depreciation of rupee against dollar in December further impacted the margins.
- YTD total capex stood at INR5.95bn guidance of INR8.6bn of capex for the full year.

Outlook

- Net debt guidance in Q4 should be INR14–15bn; FY26 should be around INR10bn, FY27 INR4–5bn, and nil in FY28.

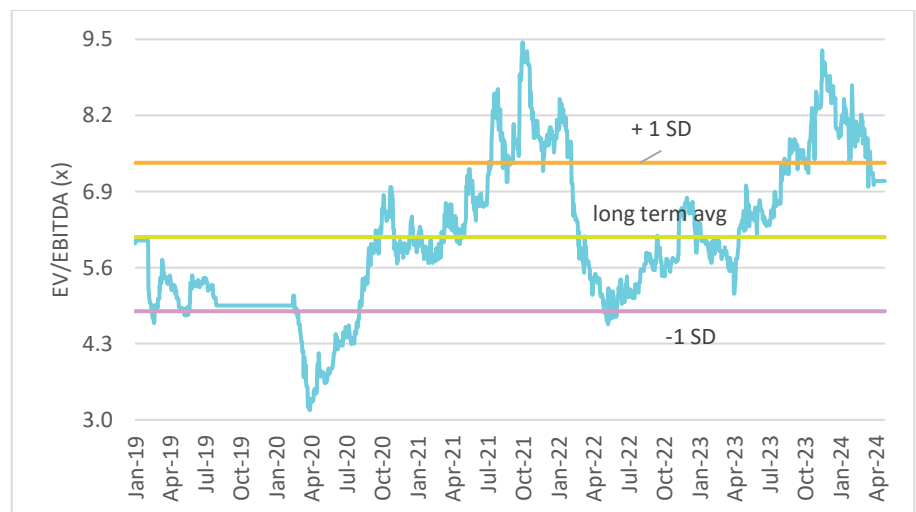
- Full-year guidance of top-line growth of 10–12% maintained.
- Guidance for full-year EBITDA margins reduced to 14% from the earlier 15%.
- On track to achieve top line of INR150bn by FY27.
- The pillow facility shall have a top line of USD20mn this quarter and should double by next year.
- It should take about two years to ramp up the capacity of the pillow facility. No capex required only manpower needs to be appointed.
- The rupee depreciation will impact margins for 1–2 quarters more. Its impact in the current quarter was 0.6%.

Exhibit 1: Key segmental highlights

Segmental highlights	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Revenue (INR mn)					
Home Textile	22,818	22,514	1.3	27,128	-15.9
Flooring	2,157	2,463	-12.4	2,498	-13.6
EBITDA (INR mn)					
Home Textile	2,864	3,470	-17.5	3,742	-23.5
Flooring	169	200	-15.6	220	-23.3
EBITDA Margins (%)					
Home Textile	12.5	15.4	-290bps	13.8	-130bps
Flooring	7.8	8.1	-30bps	8.8	-100bps

Source: Company, Nuvama Research

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



Source: Nuvama Research, Bloomberg

Exhibit 3: Valuation summary

EBITDA - 9MFY27 (INR mn)	20,041
EV/EBITDA (x)	8.0
EV (INR mn)	1,60,324
Net Debt (INR mn) - Excludes Non-current investment also	22,320
Minority Interest (INR mn) - like debt	973
Target Market Cap (INR mn) - December 2025	1,37,031
Number of shares (mn)	959
Target Price (INR/share)	143
Current Market Price (INR/share)	140
% upside (%)	2%

Source: Company, Nuvama Research

Exhibit 4: Quarterly consolidated summary (INR mn)

Year to March	Q3FY25	Q3FY24	% YoY	Q2FY25	% QoQ	FY24	FY25E	FY26E
Revenue	24,896	24,109	3.3	28,731	(13.3)	96,792	1,08,439	1,23,837
Raw material costs	13,214	12,323	7.2	15,931	(17.1)	47,832	55,304	61,918
Gross profit	11,682	11,786	(0.9)	12,800	(8.7)	48,961	53,135	61,918
Employee costs	2,853	2,681	6.4	2,925	(2.5)	10,274	11,495	12,755
Other expenses	6,025	5,716	5.4	6,298	(4.3)	24,998	27,693	31,533
Total operating expenses	8,877	8,397	5.7	9,224	(3.8)	35,272	39,187	44,288
EBITDA	2,805	3,389	(17.2)	3,576	(21.6)	13,689	13,948	17,630
Depreciation	982	1,004	(2.1)	856	14.8	3,945	4,588	5,001
EBIT	1,822	2,385	(23.6)	2,721	(33.0)	9,744	9,360	12,630
Less: Interest Expense	623	419	48.7	549	13.6	1,534	1,690	1,782
Add: Other income	381	430	(11.5)	629	(39.5)	1,458	1,760	2,040
Add: Prior period items								
Profit Before Tax	1,580	2,396	(34.1)	2,802	(43.6)	9,668	9,429	12,889
Less: Provision for Tax	355	606	(41.4)	779	(54.4)	2,942	2,869	3,922
Less: Minority Interest	-20	-23	0.0	-14	45.7	0	0	0
Share of Profits from Associates	4	1		2		1	1	1
Add: Exceptional items (net of tax)	0	0		0		0	0	0
Reported Profit	1,208	1,768	(31.6)	2,010	(39.9)	6,727	6,561	8,968
Adjusted Profit	1,208	1,768	(31.6)	2,010	(39.9)	5,692	6,737	7,946
NOSH	959	972		959		972	959	959
Adjusted EPS	1	2	(30.7)	2	(39.9)	6	7	8
P/E (x)								
EV/EBITDA (x)								
ROAE (%)								
As % of revenues								
COGS	53.1	51.1		55.4		49.4	51.0	50.0
Gross profit	46.9	48.9		44.6		50.6	49.0	50.0
Employee costs	11.5	11.1		10.2		10.6	10.6	10.3
Other expenses	24.2	23.7		21.9		25.8	25.5	25.5
Total operating expenses	35.7	34.8		32.1		36.4	36.1	35.8
EBITDA	11.3	14.1		12.4		14.1	12.9	14.2
Net profit	4.9	7.3		7.0		5.9	6.2	6.4

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
LIC	2.70	Dimensional Fun	0.70
SBI Life Insura	2.00	Norges Bank	0.49
ABSL AMC	1.20	BlackRock Inc	0.46
Vanguard Group	1.04	Norges Bank	0.49
L&T MF Trustee	0.98	Nippon Life AMC	0.28

*Latest public data

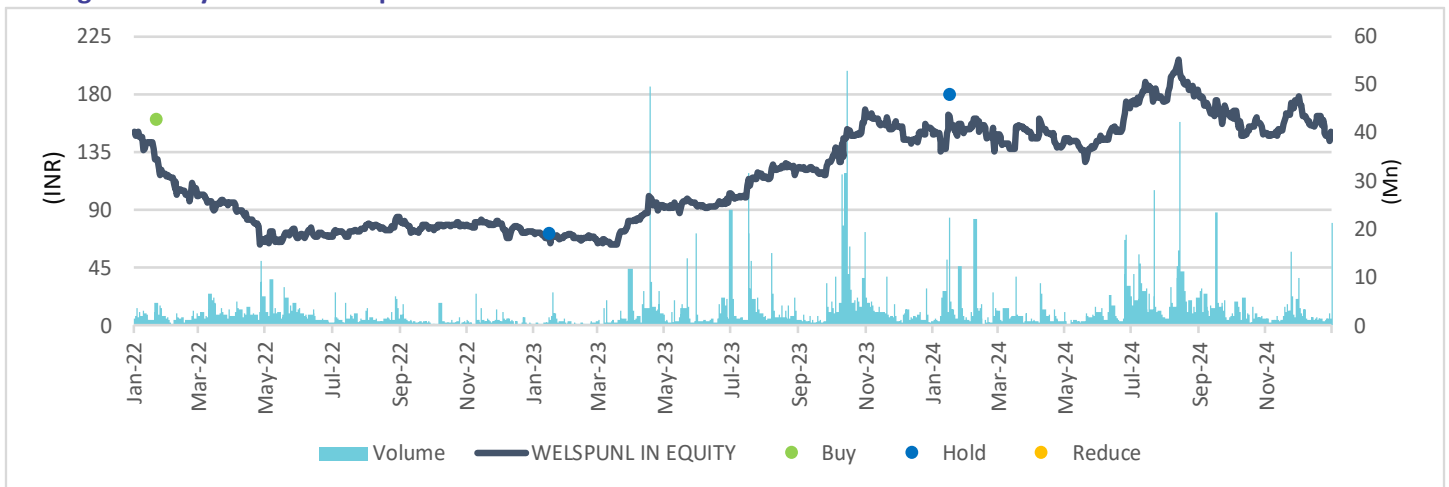
Recent Company Research

Date	Title	Price	Reco
29-Oct-24	Strong growth; margins soften; <i>Result Update</i>	149	Hold
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

Recent Sector Research

Date	Name of Co./Sector	Title
29-Jan-25	Arvind Ltd	Volume-led growth; demand picks up; <i>Result Update</i>
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>

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%	225
Hold	<15% and >-5%	64
Reduce	<-5%	27

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