

# Welspun India Limited (Welspunind)

6 February 2016

## Q3-FY16 Result Update

CMP: ₹ 903

Target: ₹1020

ANAND RATHI

- ❑ Welspun India (WLSI IN) reported sales growth of 10.7% at Rs. 14904mn in Q3FY16, driven by volume growth of 7%, with a flat realization and currency benefit of 3%. Domestic sales (5% of consolidated revenue) grew by 90% y-o-y in Q3. Sales from innovative products rose from 31% in to 34% in and branded sales improved from 11% to 12% in Q3.
- ❑ During the quarter, EBITDA was up by 18% at Rs. 4005mn. EBITDA margins expanded by 140bps y-o-y to 29.8% benefiting from vertical integration, low raw material cost and increase in share of innovative and branded products. Net profit grew 23% y-o-y to Rs. 1774.6mn.
- ❑ Welspun has incurred a capex of Rs. 6400mn till 9M FY16 and plans to invest Rs. 7000mn over the next 9 months for capacity expansion and modernization. Interest cost declined ~27% y-o-y to Rs.592mn based on 1) the fall in the base rate, 2) the benefits under Gujarat's textiles policy & the interest equalization scheme under the Central government (3% benefit on working capital from banks), and 4) VAT benefits by Gujarat state.
- ❑ Welspun launched its Hygro campaign which has been well received by its customers. It clocked revenue of \$90mn YTD. Currently, the company has a pipeline of 16 patents. Further, the proposed free trade agreement (FTA) between India and the European Union (EU) would help provide better opportunities for the company's products in the EU zone. Management expects this product to grow by 15% going forward.
- ❑ The company is in the process of expanding its manufacturing facilities to cater to the increasing demand of its products. Benefits of capacity expansion in bed linen and terry towels are likely to flow in from Q4. Bed linen capacity expansion from 60mn meters to 72mn meters took place in Q3. The terry towels segment will see incremental capacity of 10mn tonnes, up 20%, in Q4FY16.
- ❑ The management has given guidance: 1) revenue growth of 10-15% for FY16, mid-teens going ahead and 2) revised upward its EBITDA margin guidance to 23- 24% (from ~22% earlier) in the long term. Welspun's additional capacities are likely to be in place by Sept'17 and would drive its revenues. We maintain BUY rating on the company with a target price of Rs.1020 per share.

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## Quarterly Results

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### Financial Results ( ₹Mn.)

(In ₹mn)	Q3 FY16	Q3 FY15	Q2 FY16	y-o-y	q-o-q
Net Sales	14904.0	13459.3	14722.7	10.7%	1.2%
Operating Expense	10898.3	10059.0	10980.2		
EBITDA	4005.7	3400.3	3742.5	17.8%	7.0%
Other Income	172.1	146.7	197.2		
Depreciation	997.3	917.8	917.5		
EBIT	3180.5	2629.2	3022.2		
Interest	592.4	816.2	514.5		
PBT	2588.1	1813.0	2507.7		
Tax	813.5	368.9	746.6		
PAT	1774.6	1444.1	1761.1	22.9%	0.8%
Minority Interest	33.8	8.4	37.6		
Consolidated PAT	1740.8	1435.7	1723.5		

### Margins

(In ₹mn)	Q3 FY16	Q3 FY15	Q2 FY16	Chg bps	Chg bps
Operating Margin %	29.8%	28.4%	28.0%	140	180
Net Margin %	13.2%	12.1%	13.2%	110	0

Source: Company, Anand Rathi Research

# Welspun India Limited (Welspunind)

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## Financials:

(In ₹ mn)	FY14*	FY15	FY16E	FY17E
Net Sales	43730	53025	62511	73762
Total Expenditure	34519	40283	48759	57903
EBITDA (Excl OI)	9211	12742	13752	15859
Other Income	1042	949	1404	1404
EBITDA	10253	13691	15156	17263
Depreciation	1903	3329	3907	4660
EBIT	8350	10362	11250	12603
Interest	2352	2829	2456	2358
PBT	5998	7533	8794	10245
Tax	1802	2090	2440	2843
PAT	4196	5443	6353	7402
Minority Interest	82	-45	-45	-45
Consolidated PAT	4278	5398	6308	7357

Margins	FY14*	FY15	FY16E	FY17E
Sales Growth %	19.90%	21.25%	17.89%	18.00%
Operating Margin %	21.06%	24.03%	22.00%	21.50%
Net Margin %	9.59%	10.26%	10.16%	10.03%

(In ₹ mn)	FY14*	FY15	FY16E	FY17E
<b>LIABILITIES</b>				
<b>Shareholders' Funds</b>				
Equity Share Capital	1003	1005	1005	1005
Reserves and Surplus	10093	13314	16788	21095
Minority Interest	316	378	697	1461
<b>Non Current Liabilities</b>				
Long-term borrowings	16795	15946	14851	14454
Deferred Tax Liabilities	434	641	1524	1563
Other Long Term Liabilities	1553	1020	3228	1563
Current Liabilities	21489	24650	26473	36986
<b>Total Liabilities</b>	<b>51684</b>	<b>56953</b>	<b>64566</b>	<b>78125</b>
<b>ASSETS</b>				
<b>Non Current Assets</b>				
Fixed Assets	23770	26049	29379	36720
Long Term Loans and Advances	1232	1377	1934	2344
Other Non-Current Assets	3334	1970	2583	3122
<b>Current Assets</b>	<b>23348</b>	<b>27557</b>	<b>30670</b>	<b>35939</b>
<b>TOTAL-ASSETS</b>	<b>51684</b>	<b>56953</b>	<b>64566</b>	<b>78125</b>

\* In FY14 company changed its method of charging depreciation from straight line to written down method. Hence we have adjusted the amount for calculation.

Source: Company, Anand Rathi Research

## Welspun India Limited (Welspunind)

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### Key Risks:

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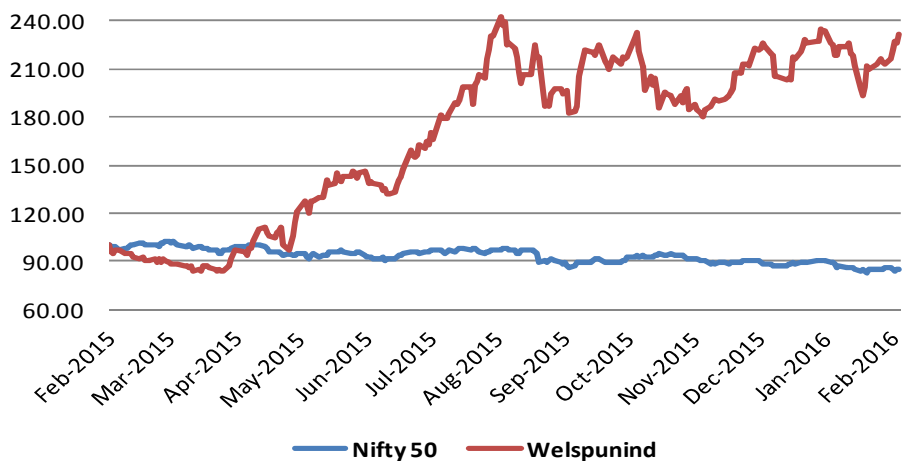
- Rising Input costs and Labor Availability.
- Currency Movement.
- Poor Economic Environment and Consumer Sentiment.

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## Rating and Target Price history:

Welspunind rating history & price chart



Source: Ace Equity, Anand Rathi Research

NOTE: Prices are as on 05<sup>th</sup> Feb, 2016 close.

Welspunind rating details

Date	Rating	Target Price (₹)	Share Price (₹)
24-Jun-15	BUY	816	442
20-Jul-15	BUY	1020	774
28-Oct-15	BUY	1020	763
05-Feb-16	BUY	1020	903

Source: Anand Rathi Research

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