

CMP (Rs) 56

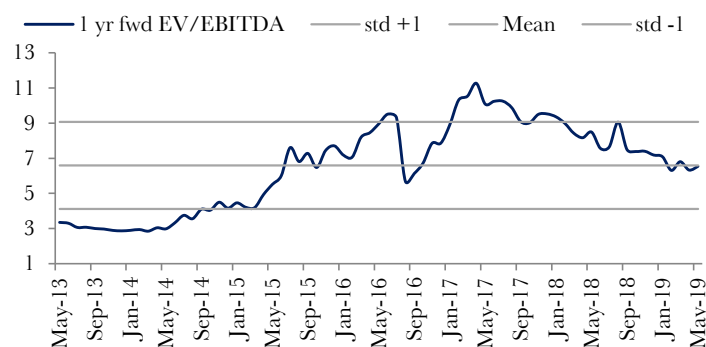
TP (Rs) 61

Downgrade to Hold

Key Variables	Growth (%)		Improvement on (%)		Key Points from Results
	YoY	QoQ	B&K Est	Consensus	
Net Sales	3.4	-5.1	2.5	1.6	Consolidated EBITDA margins contracted 410 bps YoY to reach 13.4% (B&Kc: 17.9%) impacted by higher raw material cost and one-offs including inventory write down (Rs 370 mn) and provision for IL&FS bonds (Rs 70 mn). Adjusting for one-offs, EBITDA stood at Rs 2527 mn with margin of 16.2%. APAT was higher due to tax credit.
EBITDA	-20.8	-10.6	-23.4	-23.7	
Adj PAT	67.1	89.3	79.9	83.2	
EPS	67.1	89.3	79.9	83.2	

Year end	FY18	FY19	FY20E	FY21E
Valuations				
PER (x)	15.2	12.6	11.4	10.2
PBV (x)	2.2	2.2	1.8	1.6
EV/EBITDA (x)	7.9	8.6	6.5	5.9
Div./Yield (%)	1.1	0.5	1.3	1.8
Key Ratios				
ROE (%)	15.4	17.6	16.7	16.6
ROCE (%)	11.3	10.9	13.2	13.9
Liquidity				
Net Debt/Equity	1.1	1.1	1.0	0.8
Interest cover	5	4	5	6
FCF (Rs mn)	3,454	495	1,865	5,254

Historic valuation chart

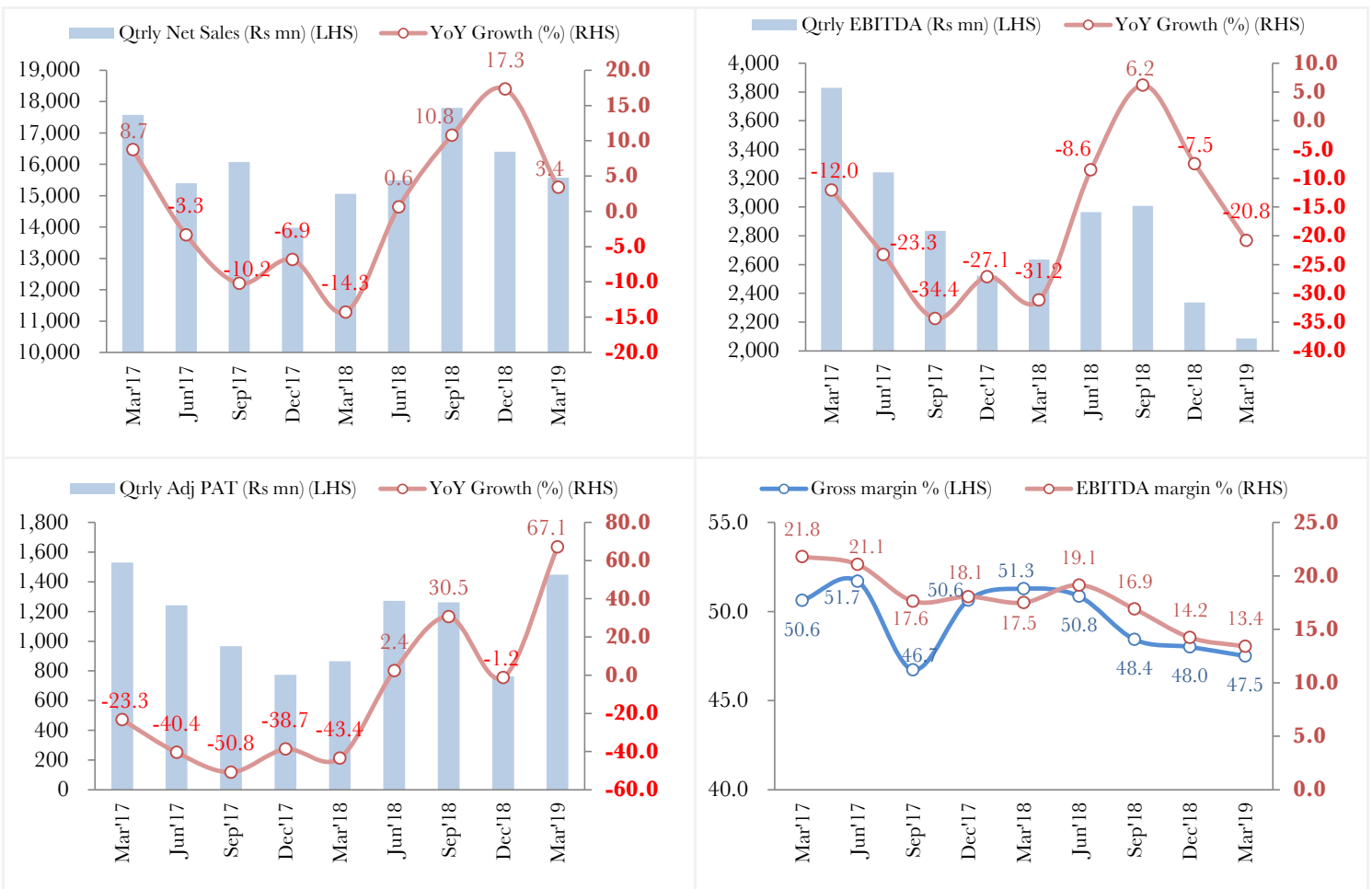


Commentary and Outlook

- Exceptional loss of Rs 2240 mn in 4QFY19 includes Rs 1.9 bn provision related to settlement of pending US law suit & Rs 325 mn for Welspun UK restructuring. Other income includes Rs Rs 230 mn gain on redemption of preference shares of a subsidiary & Rs 33.5 mn gain on forex.
- Though we are positive on the management strategies to improve their sales including higher focus on branded sales (Christy and Spaces) and innovation and diversifying product mix, the uncertainties persist. The agreed settlement value of US class-action lawsuit of USD 36 mn is higher than expectations. We revise our estimates downwards taking into consideration the volatility in exchange rates and input prices, weaker recovery in the US and provision for balance amount (USD 10 mn) for the US case law settlement (FY20). Accordingly, we revise Sales/EBITDA/APAT estimate by (2.6%)/(1.5%)/(12.6%) for FY20E and (4.0%)/(7.8%)/(19.6%) for FY21E respectively. We downgrade the stock to Hold from Buy earlier and revise target price to Rs 61 (from Rs 77 earlier) maintaining target multiple of 6.2x FY21 EV/EBITDA. Key risks to our estimates are steep volatility in exchange rates and higher cotton price. Key catalysts include higher volume growth driven by US market recovery, increase in incentives by government to support exports, favourable settlement of the US class-action lawsuits and any favourable outcome from US-China trade issues.

Financial Highlights

(Rs mn)	4QFY18	4QFY19	YoY (%)	3QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E
Net Sales	15,062	15,572	3.4	16,403	-5.1	60,506	65,266	71,926	80,167
EBITDA	2,635	2,087	-20.8	2,335	-10.6	11,234	10,649	13,522	14,630
EBITDA Margin	17.5	13.4		14.2		18.6	16.3	18.8	18.3
Other Income	287	437	52.5	170	156.7	812	818	440	462
Interest	381	479	25.8	402	19.2	1,408	1,593	1,756	1,778
Depreciation	1,301	1,098	-15.6	1,118	-1.7	5,042	4,358	4,925	5,163
PBT	1,241	946	-23.7	986	-4.0	5,597	2,869	6,581	8,151
Tax	342	-509	n/a	192	n/a	1,615	608	2,184	2,445
Adjusted PAT	866	1,447	67.1	765	89.3	3,849	4,745	4,925	5,517
NPM (%)	5.8	9.3		4.7		6.4	7.3	6.8	6.9
EPS (Rs)	0.9	1.4	67.1	0.8	89.3	3.8	4.7	4.9	5.5



Operating cost break-up (% of Sales)

Particulars	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	YoY change (bps)
Raw Material Cost	48.7	49.2	51.6	52.0	52.5	380.0
Employee Expenses	11.2	11.2	10.1	11.1	11.2	-2.1
Other Operating Expenses	22.6	20.5	21.4	22.7	22.8	27.6
Total Operating Cost	82.5	80.9	83.1	85.8	86.6	409.7

Welspun India

Income Statement

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Net sales	60,506	65,266	71,926	80,167
<i>Growth (%)</i>	<i>(8.9)</i>	<i>7.9</i>	<i>10.2</i>	<i>11.5</i>
Operating expenses	(49,272)	(54,618)	(58,404)	(65,536)
Operating profit	11,234	10,649	13,522	14,630
Other operating income	0	0	0	0
EBITDA	11,234	10,649	13,522	14,630
<i>Growth (%)</i>	<i>(29.1)</i>	<i>(5.2)</i>	<i>27.0</i>	<i>8.2</i>
Depreciation	(5,042)	(4,358)	(4,925)	(5,163)
Other income	812	818	440	462
EBIT	7,004	7,109	9,037	9,930
Finance cost	(1,408)	(1,593)	(1,756)	(1,778)
Exceptional & extraordinary	0	(2,647)	(700)	0
Profit before tax	5,597	2,869	6,581	8,151
Tax (current + deferred)	(1,615)	(608)	(2,184)	(2,445)
P / L form discount. Op.	0	0	0	0
Profit / (Loss) for period	3,982	2,262	4,396	5,706
P/L of Ass., Min Int, Pref Div	(132)	(163)	(172)	(189)
Reported Profit / (Loss)	3,849	2,098	4,225	5,517
Adjusted net profit	3,849	4,745	4,925	5,517
<i>Growth (%)</i>	<i>-53.2</i>	<i>23.3</i>	<i>3.8</i>	<i>12.0</i>

Balance Sheet

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Share capital	1,005	1,005	1,005	1,005
Reserves & surplus	25,052	26,788	30,098	34,379
Shareholders' funds	26,056	27,793	31,103	35,384
Minority Interests and others	467	709	881	1,070
Non-current liabilities	20,660	19,985	21,876	20,395
Long-term borrowings	17,028	15,537	17,183	15,433
Other non-current liabilities	3,632	4,449	4,693	4,961
Current liabilities	24,686	28,935	28,473	29,117
ST borrow, Curr maturity	15,779	18,560	16,523	15,729
Other current liabilities	8,907	10,375	11,949	13,388
Total (Equity and Liab)	71,870	77,423	82,333	85,965
Non-current assets	36,762	41,117	43,203	40,957
Fixed assets (Net block)	33,641	36,154	37,867	35,204
Non-current Investments	278	273	278	278
Long-term loans and adv	967	1,563	1,797	2,067
Other non-current assets	1,876	3,128	3,261	3,408
Current assets	35,108	36,306	39,130	45,009
Cash & Current investment	2,661	2,728	1,641	1,455
Other current assets	32,447	33,578	37,489	43,554
Total (Assets)	71,870	77,423	82,333	85,965
Total debt	32,807	34,096	33,707	31,163
Capital employed	62,962	67,047	70,383	72,577

Cash Flow Statement

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Profit before tax	5,597	2,869	6,581	8,151
Depreciation	5,042	4,358	4,925	5,163
Change in working capital	(3,850)	(256)	(2,436)	(4,747)
Total tax paid	(1,715)	34	(2,184)	(2,445)
Others	1,408	1,593	1,756	1,778
Cash flow from oper. (a)	6,481	8,598	8,642	7,900
Capital expenditure	(2,970)	(6,871)	(6,638)	(2,500)
Change in investments	(25)	13	(5)	0
Others	(32)	(1,245)	(134)	(147)
Cash flow from inv. (b)	(3,027)	(8,103)	(6,777)	(2,647)
Free cash flow (a+b)	3,454	495	1,865	5,254
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	(307)	1,289	(389)	(2,544)
Dividend (incl. tax)	(786)	(363)	(915)	(1,237)
Others	(2,333)	(1,346)	(1,648)	(1,659)
Cash flow from fin. (c)	(3,426)	(420)	(2,952)	(5,439)
Net chg in cash (a+b+c)	28	75	(1,087)	(186)

Key ratios

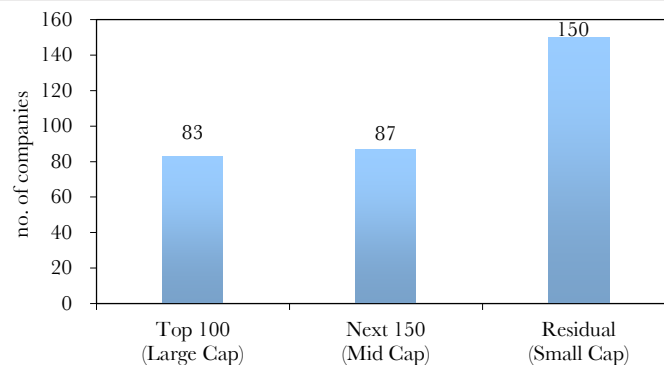
Period end (%)	Mar 18	Mar 19	Mar 20E	Mar 21E
Adjusted EPS (Rs)	3.8	4.7	4.9	5.5
<i>Growth (%)</i>	<i>(53.2)</i>	<i>23.3</i>	<i>3.8</i>	<i>12.0</i>
CEPS (Rs)	8.8	9.1	9.8	10.6
Book NAV/share (Rs)	25.9	27.7	31.0	35.2
Dividend/share (Rs)	0.7	0.3	0.8	1.0
Dividend payout ratio	20.4	17.3	21.7	22.4
EBITDA margin	18.6	16.3	18.8	18.3
EBIT margin	11.6	10.9	12.6	12.4
Tax rate	28.9	11.0	30.0	30.0
RoCE	11.3	10.9	13.2	13.9
Total debt/Equity (x)	1.2	1.2	1.1	0.9
Net debt/Equity (x)	1.1	1.1	1.0	0.8
Du Pont Analysis - ROE				
Net margin	6.4	7.3	6.8	6.9
Asset turnover (x)	0.8	0.9	0.9	1.0
Leverage factor (x)	2.9	2.8	2.7	2.5
Return on equity	15.4	17.6	16.7	16.6

Valuations

Period end (x)	Mar 18	Mar 19	Mar 20E	Mar 21E
PER	15.2	12.6	11.4	10.2
PCE	6.6	6.6	5.7	5.3
Price/Book	2.2	2.2	1.8	1.6
Yield (%)	1.1	0.5	1.3	1.8
EV/EBITDA	7.9	8.6	6.5	5.9

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