

Welspun India Ltd

Bloomberg Code: WLSI IN

India Research - Stock Broking

BUY

Weaving Innovation for Worldwide Clientele

Leader in Home Textiles Market

Welspun is one of the largest terry towel producers and is the second largest bed sheet producer. Welspun India is No:1 Home textile supplier to US for the third consecutive year. We expect the revenues to grow at 15% CAGR from FY15-FY17E on the back of strong volume growth, margins improvement, company's size, focus on quality products and marquee big clients globally.

Capacity Expansion and High utilization levels to aid the future growth

Welspun plans to invest Rs.13 Bn over the next 12-18 months for modernization, automation and capacity enhancement for towels & sheets with focus on backward integration and debottlenecking. Welspun is expanding its capacity in towel, sheets and rugs. Anjar facility is the largest home textiles facility in Asia. With the growing capacity expansion, we expect the EBITDA margins and revenues to rise forward.

Increasing sales of innovative products, brands and good product mix to drive growth in coming year

A key differentiator for Welspun has been its focus on innovation and new product development. Currently, ~30% of FY15 sales comes from innovative technologies developed/owned by the company. Welspun India owns premium brands like Christy, Kinglsey; and Indian brands like Spaces and Welhome. Increasing revenues from innovative products and brands on the back of good product mix, will help to keep the EBITDA margins between 23%-25% for FY16E-FY17E.

Valuation and Outlook

At CMP Rs.758, the stock is trading at 7.3x and 5.9x FY16E & FY17E EV/EBITDA respectively. We expect the new capacity addition, focus on innovative products, increase of branded sales and better product mix to drive the revenue for FY16E-17E. We initiate a "BUY" recommendation with a target price of Rs. 910 per share, which represents an upside potential of 20%.

Key Risks

- Global slowdown may impact demand conditions.
- Increase in competition.
- Foreign exchange risk.

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	36473	44954	53025	59780	69562
EBITDA	5946	10435	12742	14351	17284
EBITDA Margin (%)	16.3	23.2	24.0	24.0	24.8
Adj. Net Profit	2248	2145	5398	5565	7599
EPS (Rs.)	22.5	21.4	53.7	55.4	75.7
RoE (%)	26.1	20.4	42.5	34.5	35.6
PE (x)	6.0	23.5	9.5	13.7	10.0

Source: Company, Karvy Research; *Represents multiples for FY13, FY14 & FY15 are based on historic market price

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Recommendation (Rs.)

CMP (as on Sep 01, 2015)	758
Target Price	910
Upside (%)	20

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	77037 / 1160
52-wk High/Low (Rs.)	963 / 210
3M Avg. daily volume (mn)	0.3
Beta (x)	0.9
Sensex/Nifty	25696 / 7788
O/S Shares(mn)	100.5
Face Value (Rs.)	10.0

Shareholding Pattern (%)

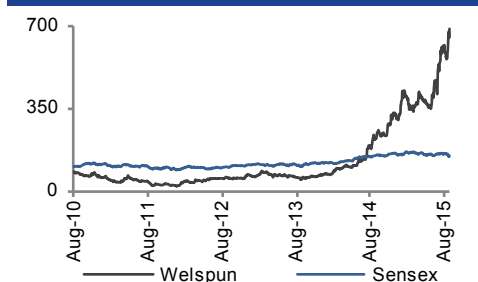
Promoters	73.5
FII	6.1
DII	4.8
Others	15.7

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(8)	40	119	254
Relative to Sensex	(5)	45	144	257

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Analyst Contact

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Company Financial Snapshot (Y/E Mar)
Profit & Loss (Rs. Mn)

	FY15	FY16E	FY17E
Net sales	53025	59780	69562
Optg. Exp (Adj for OI)	30527	34519	40283
EBITDA	12742	14351	17284
Depreciation	3329	4680	5476
Interest	2829	2445	2240
Other Income	949	790	900
PBT	7533	8016	10468
Tax	2090	2451	2869
Adj. PAT	5398	5565	7599
Profit & Loss Ratios			
EBITDA margin (%)	24.0	24.0	24.8
Net margin (%)	10.2	9.3	10.9
P/E (x)	9.5	13.7	10.0
EV/EBITDA (x)	5.9	7.3	5.9
Dividend yield (%)	3.0	3.0	3.0

Source: Company, Karvy Research

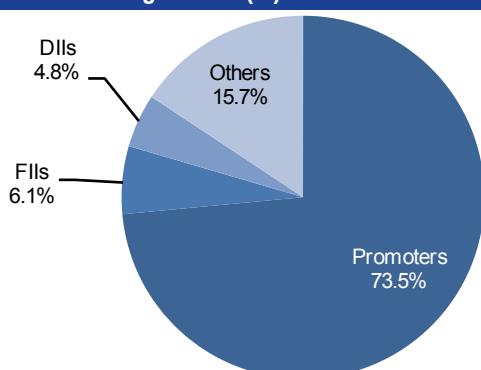
Balance sheet (Rs. Mn)

	FY15	FY16E	FY17E
Total Assets	56953	66263	73868
Net Fixed assets	26049	29716	31126
Current assets	27557	30966	37234
Other assets	3347	5581	5508
Total Liabilities	56953	66263	73868
Networth	14318	17960	24678
Debt	26194	29338	29595
Current Liabilities	24650	26056	27056
Deferred Tax	641	641	641

Balance Sheet

RoE (%)	42.5	34.5	35.6
RoCE (%)	25.3	22.8	23.6
Net Debt/Equity	2.1	1.7	1.4
Equity / Total Assets	1.1	1.2	1.4
P/BV (x)	3.6	4.2	3.1

Source: Company, Karvy Research

Exhibit 2: Shareholding Pattern (%)


Source: Company, Karvy Research

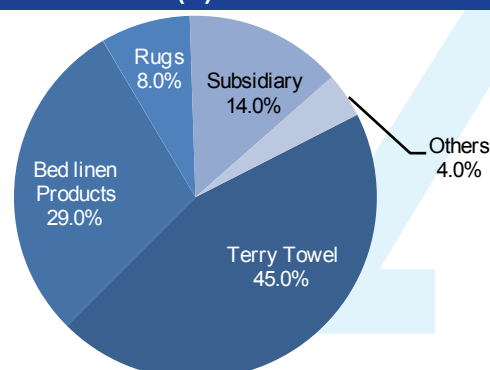
Company Background

Welspun India Limited (WIL) is the global leader in Home Textiles with global reach, delivering to more than 50 countries. WIL supplies to 14 of the top 30 global retailers and has been ranked first in the top 15 supplier giants to the USA by Home Textiles Today Magazine continuously for the last three years. With world-class manufacturing facilities in Gujarat - India, the company offers a wide range of home textile products in Bath, Bedding and Flooring solutions to its consumers from almost every corner of the World. Welspun has a strong presence in key markets like USA, Canada, UK and Europe; and about 95% of its production is exported to various countries across the world. The company owns brands such as 'Christy', 'Spaces' and 'Welhome' which constitute around 11% of the sales. The company has a strong emphasis on innovation which is reflected in the number of patents and trademarks which it holds and has applied for. More than 30% of the total revenues of WIL comes from the innovative products developed by the company.

Cash Flow (Rs. Mn)

	FY15	FY16E	FY17E
PBT	7533	8016	10468
Depreciation	3329	4680	5476
Interest (net)	2829	2445	2240
Tax	(1767)	(2206)	(2582)
Changes in WC	(2399)	(4978)	(2611)
Others	(281)	(145)	(156)
CF from Operations	9243	7813	12835
Capex	(5795)	(8346)	(6881)
Investment	(362)	(253)	(298)
CF from Investing	(6071)	(8569)	(7258)
Change in Equity	21	0	0
Change in Debt	(432)	3755	(140)
Interest	(2979)	(2445)	(2240)
Dividends & Others	289	(881)	(881)
CF from Financing	(3102)	428	(3262)
Change in Cash	71	(329)	2315

Source: Company, Karvy Research

Exhibit 3: Revenue Contribution (%)


Source: Company, Karvy Research

Leader in Home Textiles Business

Based on the industry estimates, the world trade in Home-Textiles is valued at US\$ 45Bn. In terms of products, bedding is the largest segment with around 54% share, followed by bath (around 25%), window with 14%, and Kitchen and Dining with 6% share. India, China and Pakistan contribute to around 80% of the home textiles exports to USA. Within home textiles space, India enjoys a dominant position in cotton bed sheets and terry towels of the total US imports of around 47% and 37%. Indian textile industry's competitive position has been improving in the last few years, driven by a number of structural changes in the global textile scenario. On the other hand, key competing countries such as China and Pakistan are facing headwinds. The table below summarises the key differences between India's position against its key competitors.

India	China	Pakistan
<ul style="list-style-type: none"> ◆ Largest producer and second largest exporter of cotton ◆ Exporter of yarn ◆ Competitive costs ◆ Robust ecosystem for textiles ◆ Democracy with stable government ◆ Better environmental and labor law compliance 	<ul style="list-style-type: none"> ◆ Major importer of cotton and yarn ◆ Yuan appreciation ◆ Wage inflation ◆ Rising power costs ◆ Stricter environmental compliance ◆ Focus on domestic consumption ◆ Yarn capacity closures 	<ul style="list-style-type: none"> ◆ Cotton importer ◆ Energy issues ◆ Geopolitical issues ◆ Compliance issues

Exhibit 4: World Cotton Balance sheet – 2014-15 (In Mn Bales – 480 Lb)

Country	Opening Stock	Output	Import	Consumption	Exports	Ending Stock
World	101.7	119.2	34.4	111	34.4	110.1
U.S.	2.5	16.1	0.0	3.7	10.7	4.2
India	11.5	30.5	1.1	24.0	4.2	14.9
China	62.7	30.0	7.3	35.0	0.1	65.0
Pakistan	2.5	10.5	0.8	10.5	0.6	2.6

Source: United States Department of Agriculture (USDA) Statistics, Karvy Research

Exhibit 5: Input Cost Comparison of Key Countries

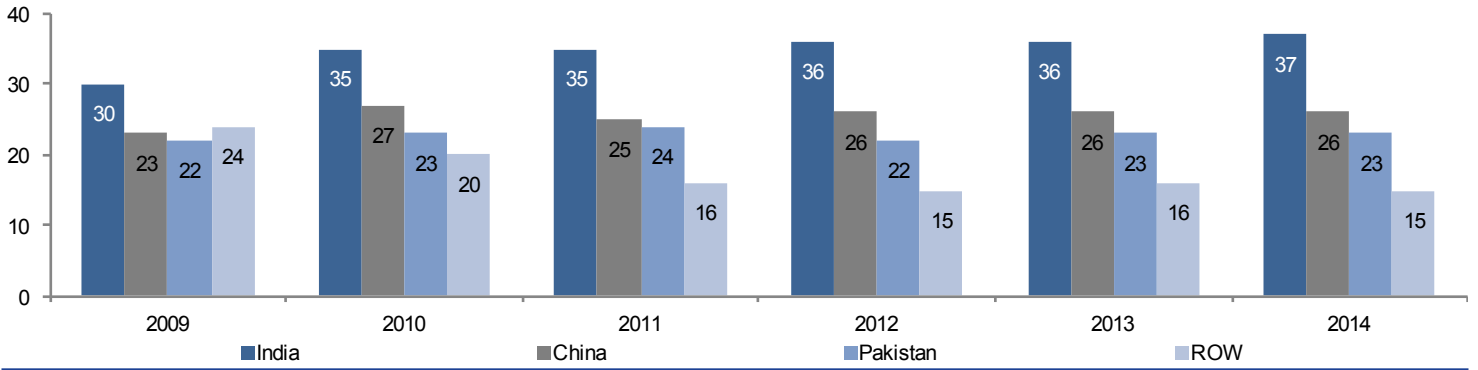
Parameters	India	Bangladesh	Indonesia	Egypt	China	Pakistan	Turkey
Labour wages (US \$ / month)	135	87	226	226	328	127	839
Power Rate (US cents / kwh)	11.29	8.13	8.51	3.49	12.29	10.62	10.24
Raw Water Cost (US cents / m3)	39.57	29.26	49.19	10.48	53.26	25.67	30.73
Steam (US cent / kg)	1.44	1.30	1.16	1.75	1.64	1.24	2.10

Source: Gherzi, Karvy Research

US economy is expected to continue on its growth trajectory in the coming year. New home-sales data is indicating a strengthening housing market while consumer confidence has been hitting multi-year highs. While consumer confidence in Europe is edging higher, it is expected to get a further boost from falling oil prices and European Central Bank (ECB) stimulus, which would improve real household spending power. Indian textiles exports to Europe are growing, despite a disadvantage in terms of import duty compared to other exporters like Pakistan, Bangladesh and Turkey. The proposed India – European Union (EU) Free Trade Agreement (FTA), if it goes through, will provide a strong push for textiles exports from India to EU.

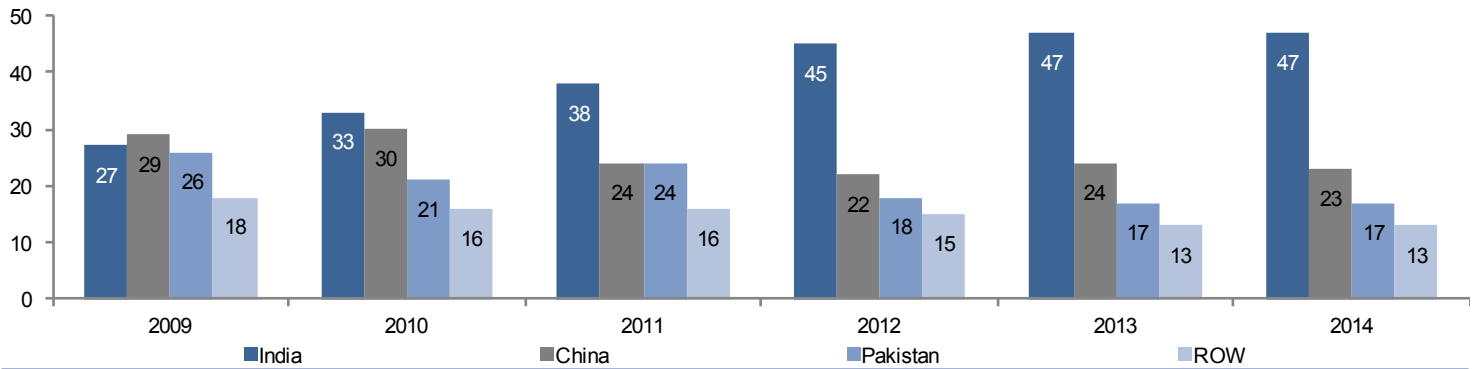
Welspun India Limited (WIL) is the global leader in home textiles with global reach, delivering to more than 50 countries. WIL supplies to 14 of the top 30 global retailers and has been ranked first in the top 15 supplier giants to the USA by Home Textiles Today Magazine continuously for the last three years. With world-class manufacturing facilities in Gujarat - India, the company offers a wide range of home textile products in Bath, Bedding and Flooring solutions to its consumers from almost every corner of the world. Welspun India is in industry since 1993 and has expanded gradually to become one of the largest players in industry.

Exhibit 6: US imports by country in Cotton Towels (%)



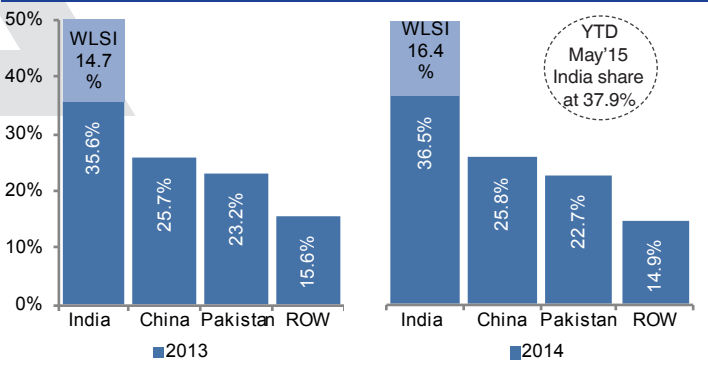
Source: Company, Karvy Research

Exhibit 7: US imports by country in Cotton Sheets (%)



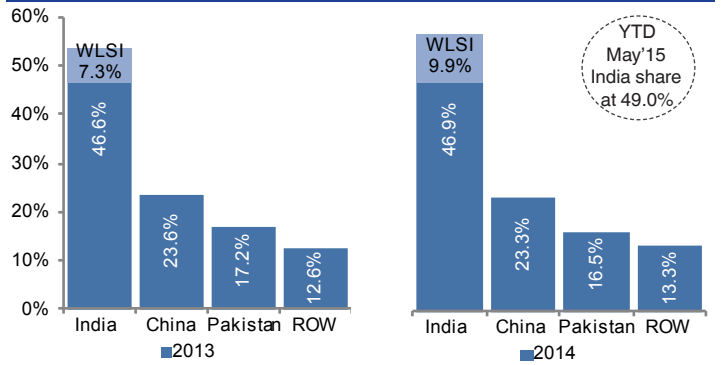
Source: Company, Karvy Research

Exhibit 8: Welspun's share in US Terry Towels import has increased to 16.4% in 2014



Source: Company, Karvy Research

Exhibit 9: Welspun's share in US Cotton Sheets import has increased to 9.9% in 2014



Source: Company, Karvy Research

Capacity expansion and High utilization levels to aid the future growth

Welspun has been consistently increasing its capacity to cater to the increasing demand in the home textile market. Welspun plans to invest Rs.13 bn over the next 12-18 months for modernization, automation and capacity enhancement for towels & sheets with focus on backward integration and debottlenecking. The company expects towel capacity to increase from 50,000 tonne p.a. in FY15 to 60,000 tonne p.a. in FY16/17E. Sheets capacity to increase from 60 Mn meters p.a. in FY14 to 72Mn meters p.a. in FY16E and rugs (including carpets) would see an increase in capacity from 12,000 tonne p.a. in FY14 to 20,000 tonne p.a. in FY17E. With the capacity expansion underway and capacities running close to the utilization levels in towels and sheets, the company has been able to improve its capacity utilization levels. With rising capacity in towels, rugs and sheets, we expect the revenues to increase by 15% CAGR in FY17E.

Exhibit 10: Capacity of Welspun India is constantly increasing

	FY12	FY13	FY14	FY15	FY16E
Capacity					
Towels (Metric Tonnes)	43800	43800	45000	50000	60000
Sheets (Mn Mtrs)	45.0	52.0	55.0	60.0	72.0
Rugs (Incl. Carpets) (Metric Tonnes)	10151	10151	12000	15000	20000
Production Achieved					
Towels (Metric Tonnes)	41478	38585	44328	50000	60000
Sheets (Mn Mtrs)	37.3	49.7	49.1	54	64.8
Rugs (Incl. Carpets) (Metric Tonnes)	4809	6030	8123	9750	13000
Capacity Utilisation					
Towels	95	90	99	100	100
Sheets	83	96	89	90	90
Rugs	47	59	68	66	70

Source: Company, Investor Presentation, Karvy Research

Increasing sales of innovative products and brands to drive growth in coming year

A key differentiator for Welspun has been its focus on innovation and new product development. The company has twelve patents (including granted as well as pending) to its credit. Currently, ~30% of FY15 sales comes from innovative technologies developed/owned by the company. It usually takes nine months to launch an innovative product. Innovative products accounted for 31.0% of overall revenue in FY15, surging from 19.6% in FY11. Some of these innovations include 'Hygro® Cotton' (ultrasoft, ultra absorbent, quick drying etc.) and 'Flexifit' sheets (fits a range of mattress sizes).

The Hygro cotton yarn is a new proprietary spinning technology for the yarn and has been patented internationally. This breakthrough Hygro comfort yarn technology by Welspun India will not only prove to be an innovation in the world of home textiles but will also lead to a range of products that are driven by performance and superior quality.

Apart from product innovation, the company continuously works on process innovation and launching nation-wide campaign in US to introduce patented Hygro® Cotton technology to consumers; first ever such campaign in textiles in the past 15 years.

Towels	Sheets	Rugs	Top of Bed
◆ Hygro® Cotton	◆ Hygro® Cotton	◆ Hygro®Cotton	◆ Hygro® Cotton
◆ Nanospun™ Towels	◆ Best Ever Sheet™	◆ Drylon® Microfiber	◆ SoftShield™
◆ SpotStop™ Ecolite	◆ Eversmooth™	◆ Kushlon™ Rugs	◆ WelLoft
◆ Loftdry®	◆ StayWhite™	◆ Resilon® Rugs	◆ MaxGrip™
◆ Neosoft®	◆ Flexifit®	◆ Permaback™	◆ Good Night
◆ Denim & Lycra	◆ Cotton Naturals	◆ Reopet™	◆ Sleep®

Properties of Hygro® Cotton: Hygro® Cotton is patented spinning technology that uses a hollow core cotton yarn. The fabric made from Hygro cotton is ultra soft, ultra absorbent and plumps up after every wash, thus maintaining its soft and plush feel. It ensures that your bed linen naturally calibrates air flow to maintain even temperature and consistency.

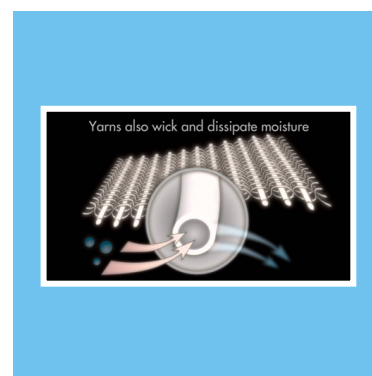


Exhibit 11: Products		
Bath	Bedding	Flooring
Towels	Beddings	Carpets
Bath Robes	Top of Bed	Rugs
	Basic and Fashion Bedding	

Exhibit 12: Global Clientele		
USA	Europe	UK
Wal Mart	Ikea	ASDA
Bed Bath & Beyond	Carrefour	Tesco
Macy's	JYSK	Marks & Spencer
J C Penney	El Corte Ingles	Debenhams
Target	Vincenzo Zucchi S.p.A	House of Frazer
Kohl's	Bassetti	Christy
K Mart-Sears	Auchan	Sainsbury

Source: Company, Investor Presentation, Karvy Research

India's market share in global home textile exports (\$45 Bn) currently stands at 11% as it is benefitting from the increasing competitiveness of the different manufacturers in India. In India, Welspun is the largest terry towel producer having a capacity of 45,000 tonne p.a. and is the second largest bed sheet producer with a capacity of 55 Mn metres p.a. in FY14. Welspun India also maintained its position as the No:1 Home textile supplier to the US for the third consecutive year, based on the rankings published by Home Textiles Today (HTT) in January 2015. Welspun has grown over a CAGR of 26% from FY11 to FY15 on the back of the company's size, focus on quality products and long standing relationships with key clients globally.

Exhibit 13: Contribution from innovative products in revenue

Year	% Revenue Contribution
FY11	19.6
FY14	25.0
FY15	31.0
FY16E-FY18E	40.0-45.0

Source: Company, Karvy Research

Welspun India is currently focused on creating global as well as domestic brands in the terry towel and bed linen segments. It already has a terry towel global brand, Christy. Global branded sales currently make up ~11% of consolidated sales. The company has acquired 85% stake in CHT Holdings (the holding company of UK's leading towel brand - Christy) in 2006. It acquired the rest in 2009. Welspun also has home textiles brands in the domestic market. The key brands include Welhome and SPACES. The company has adopted low capex and low-risk Shop-in-Shop (SIS) model in the domestic market with a fixed share in percentage of sales. Branded sales growth is expected to be robust, particularly in India. The global expansion of Christy into geographies, such as US, China & the Middle East, and increasing penetration of key domestic brands via SIS and e-Commerce would drive branded sales in the country. Kingley's Home, the company's mass market brand in UK with a focus on bedding is expected to grow at the healthy pace with increased penetration. Welspun also expects its licensed brands like "Amy Buttler" and Annie Philips to grow at a healthy rate. Indian branded sales grew more than 50% CAGR over FY13-15 and plans to increase domestic sales from 5% in FY15 to ~20% in the next 5-6 years.

Exhibit 14: Contribution from Brand Sales

Year	% Revenue Contribution
FY13	9.4
FY14	10.3
FY15	11.1

Source: Company, Karvy Research

Exhibit 15: Valuation Summary (Rs. Mn)

Rs(mn)	FY10	FY11	FY12	FY13	FY14	FY15
Spaces	80	150	180	290	430	580
Welhome	450	550	110	70	40	120
India Branded Sales	530	700	290	360	470	700
Christy	1565	1411	1547	1741	2334	2686
Total	2095	2111	1837	2101	2804	3386

Source: Company, Karvy Research

Value through Brands



- Mass premium brand with presence in India and Middle East
- Footprint of over 200 shop-in-shop outlets and distribution



- Mass brand presence via mass retailers; also growing via distributor network



- Largest terry towel brand in the UK with growing presence in China and the Middle East
- Present in over 40 retailers within UK
- Also present in USA and seeing aggressive growth in e-commerce



- Mass brand in UK with a focus on bedding
- Growing aggressively in affordable fashion



- Suppliers of the Wimbledon towels
- A souvenir that even the star tennis players covet



- License holder of the Rugby World Cup 2015 towels



- Licensed the Amy Butler range of home products for US business with a special focus on e-commerce



- Launched own brand of luxury linen in US via e-commerce partners



- Licensed the Annie Phillip brand for floor coverings in US, UK and India

On the international front, in 2006, Welspun acquired 85% stake in CHT Holdings Ltd., holding company of Britain's leading towel brand Christy. In 2009, it acquired the remaining 15% stake making it a 100% subsidiary. Through this, the company gained access to the premium brand and retail stores in UK and European markets. Christy is an exclusive licensee to the Wimbledon Championships.

On the domestic front, Welspun has presence through brands like Welhome and SPACES Home & Beyond. The company has adopted a shop-in-shop model for its domestic business with an aim to variabalise costs and enhance profitability. Over FY12-14, Welspun's branded sales grew at a CAGR of 24%.

The company, being a market leader, has constantly focused on quality product offerings, ready supply and on-time delivery which has enabled it to maintain long standing relationships with key retailers like Wal-Mart, JC Penney, Target and Macy's. Welspun covers the entire spectrum from super premium to value with brands like Christy, Kingsley, Welhome and Spaces within India and overseas.

With an aim to gain market share, the company is now emphasizing on innovative products (30% of FY15 revenues). Going forward, the company may look to penetrate aggressively into the e-commerce segment which could further help to gain market share in the domestic and international markets. Welspun plans to increase its share of revenue from the domestic market to 15% eventually. The company has exited many of its non-profitable ventures which helped it to enhance its EBITDA margins from 11.4% in FY12 to 23.2% in FY14 and expect it to improve to 24.8% in FY17E. We believe the company's focus on branded sales and innovative products will drive the next phase of growth.

Exploring new markets, launching new channels and expanding its product range

US market contributes to about 60% revenue of Welspun in FY15, which came down from around 75% in FY10 while the Rest-of-the-World (RoW)'s share increased from 27% in FY10 to 41% in FY15. The revenue from other geographies is scattered and small. Welspun India is gradually lowering its dependency on the US by diversifying into newer geographies. The company is aggressively looking to penetrate markets like Asia Pacific, Latin America, Europe and India to enhance the reach of its products. Welspun's management believes that these markets have huge potential for growth and they have made the initial in-roads in these markets which will help them to increase their market share globally.

Out of the total US\$45 Bn home textiles market, US market is around 30% where WLSI has dominant position in bed and bath products. Welspun management believes that the EU-FTA (European Union Free Trade Agreement) can significantly improve the competitiveness of Indian players and give access to the European home textile markets. The recent FTA with Japan and Korea will lead to improved trade in the coming years.

E-retailing channel: Welspun has launched its own brand of luxury bed and bath linen "Crowning Touch" in the US market through third party online market leaders like Amazon, Overstock, Wayfair etc. Welspun India is also having its own site welspunbathandbedstore.com. Welspun India also sells its own brands like Christy and Spaces through e-commerce channel.

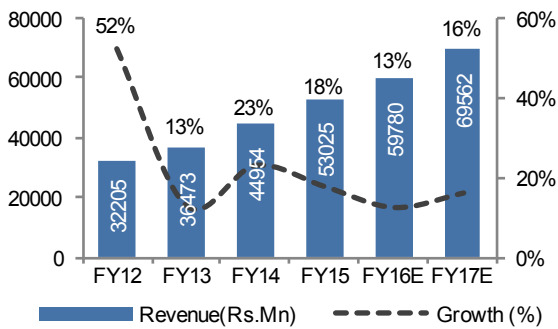
Under-penetrated geographies, product segments, sales channel, improving global environment, increasing competitiveness of Indian manufacturers and wider access to European market will aid the growth ahead in coming years.

Exhibit 16: Business Assumptions

Y/E Mar (Rs. Mn)	FY14	FY15E	FY16E	FY17E	Comments
Consolidated					
Revenue	44954	53025	59780	69562	Penetrating newer geographies, scaling the new product categories, increasing capacity and increasing share of innovative products will help to increase the revenues for coming years. We anticipate the revenues to grow at 13% in FY16E and 14% in FY17E.
Revenue Growth (%)	13.3	18.0	12.7	16.4	
EBITDA	10435	12742	14351	17284	Increasing share of innovative products, declining cotton prices and increased share of branded products will help to keep the EBITDA margin between 22%-24% for coming years.
EBITDA Margins (%)	23.2	24.0	24.0	24.8	
PAT (normalized)	2145	5398	5565	7599	
Fully Diluted EPS (Rs.)	21.4	53.7	55.4	75.7	
Fully Diluted EPS Growth (%)	(4.9)	151.5	3.1	36.5	
Net CFO	5510	9243	7813	12835	
Capex	(7186)	(5795)	(8346)	(6881)	Welspun's majority of the capital expenditure has taken place under the Technology Upgradation Fund Scheme (TUFS). The TUF scheme along with benefits from the Gujarat state government has led to the average cost of debt at 7-8% p.a. The company is having net debt of around Rs.26194 Mn, with cash equivalents of Rs.3252Mn. With the expected growth in profit, better cash generation and robust order book, we anticipate the Debt to equity ratio to come down from 2.1x in FY15 to 1.4x in FY17E.
Net Debt	27320	26194	29338	29595	
Free Cash Flow	(1676)	3449	(534)	5954	

Source: Company, Karvy Research

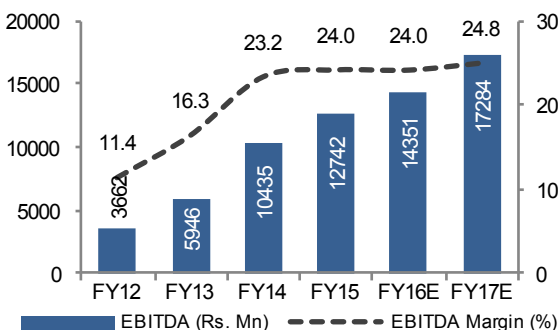
Exhibit 17: Strong Revenue Growth



Source: Company, Karvy Research

Welspun has achieved all time high sales this fiscal. Net sales stood at Rs. 53,025Mn in FY15, a growth of 21% over FY14 (Rs. 44,954 Mn). Welspun India has done capex of around Rs.13 Bn for modernization and debottlenecking. The company is going to increase its capacity of terry towels, rugs and sheets by FY16E-FY17E. The company expects the volumes to increase more robustly in coming years. With the rise in capacity, increase in innovative products and better product mix will help the revenues to grow at CAGR of 15% till FY17E.

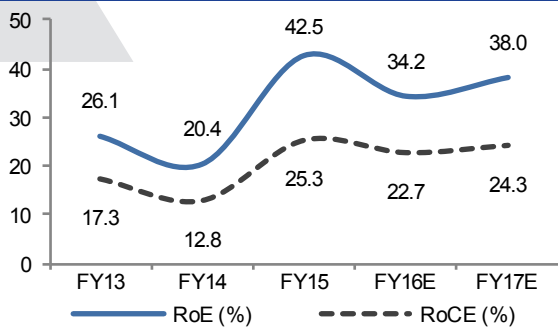
Exhibit 18: EBITDA & EBITDA margins



Source: Company, Karvy Research

A key differentiator for Welspun has been its focus on innovation and new product development. Currently, ~30% of FY15 sales comes from innovative technologies developed/owned by the company. Some of these innovations include 'Hygro® Cotton' and 'Flexifit' sheets. Margin expansion was mainly on account of declining cotton prices and also due to the commissioning of the company's spindle facility at Anjar which aided higher vertical integration. The share of branded products is also increasing in revenue contribution. With the increased share of innovative products and branded sales, we expect the EBITDA margins to remain between 22%-24% for coming years.

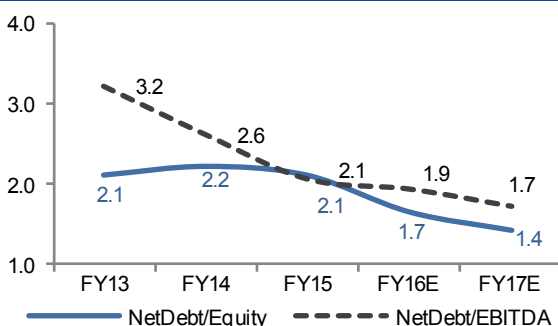
Exhibit 19: Healthy Return Ratios



Source: Company, Karvy Research

RoE has substantially improved in FY15, with increase in net profit margin from 4.8% in FY14 to 10.2% in FY15. Welspun enjoys higher RoE (>30%) and RoCE levels as compared to its peers. Welspun India is increasing vertical integration, higher share of value added products and branded sales which will keep the operating margins healthy while incremental investment for capital for spinning and weaving will keep the return ratios healthy forward.

Exhibit 20: Net Debt/Equity, Net Debt/ EBITDA



Source: Company, Karvy Research

Welspun's majority of the capital expenditure has taken place under the Technology Upgradation Fund Scheme (TUFS). The TUF scheme along with benefits from the Gujarat state government has led to the average cost of debt at 7-8% p.a. The company is having net debt of around Rs.26194Mn, with cash equivalents of Rs.3252 Mn. With the expected growth in profit, better cash generation and robust order book, we anticipate the Debt to equity ratio to come down from 2.1x in FY15 to 1.4x in FY17E.

Exhibit 21: Company Snapshot (Ratings)

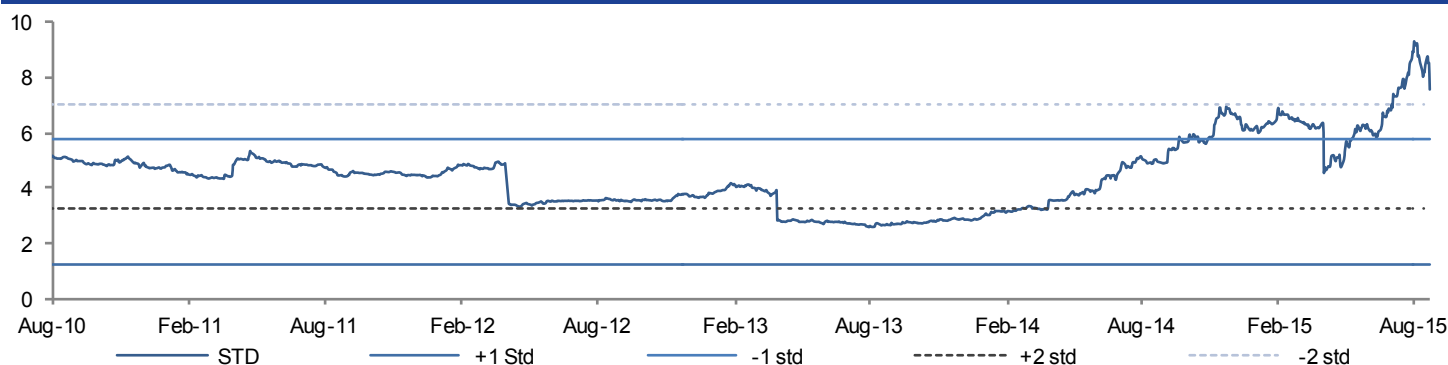
	Low				High
	1	2	3	4	5
Quality of Earnings				✓	
Domestic Sales		✓			
Exports				✓	
Net Debt/Equity			✓		
Working Capital Requirement			✓		
Quality of Management				✓	
Depth of Management				✓	
Promoter				✓	
Corporate Governance				✓	

Source: Company, Karvy Research

Valuation & Outlook

Welspun India's revenue, EBITDA and PAT are expected to grow at CAGR of 15%, 16% and 19% respectively by FY15-FY17E. The growth in CAGR is supported by volume growth, better product mix and higher realization. The management has planned to do a capex of Rs.24-25 Bn over FY14-FY17E, the capex is focused towards increasing the capacity, focus on innovative products and to modernize the finished goods production cycle. During FY10-15, Welspun India revenues grew at CAGR of 26% due to higher realization, premium pricing, better product mix and consistent improvement in spinning capacity. The capacity utilization of the company is constantly improving, revenues are growing on the back of higher realizations and volume growth. RoE is expected to be at 34.2% and 35.2% in FY16E and FY17E respectively.

At CMP Rs.758, the stock is trading at 7.3x and 5.9x FY16E & FY17E EV/EBITDA respectively. We expect the new capacity addition, focus on innovative products, increase of branded sales and better product mix to drive the revenue for FY16E-17E. We initiate a **"BUY"** recommendation with a target price of Rs. 910 per share, which represents an upside potential of 20%.

Exhibit 22: EV/EBITDA


Source: Company, Karvy Research

Exhibit 23 (a): Comparative Valuation Summary

	CMP (Rs.)	Mcap (Rs. Mn)	EV/EBITDA (x)				P/E (x)				EPS (Rs.)			
			FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E
Welspun India	758	77037	4.5	5.9	7.3	5.9	23.5	9.5	13.7	10.0	21.4	53.7	55.4	75.7
Indo Count	991	38348	3.2	15.0	11.7	8.7	1.3	23.5	16.7	12.1	30.2	36.9	52.1	17.9
Himatsingka Seide	182	16787	6.0	7.1	8.4	7.6	8.9	8.3	12.3	10.3	6.9	9.7	15.0	17.9

Source: Bloomberg, Karvy Research

Exhibit 24 (b): Comparative Operational Metrics Summary

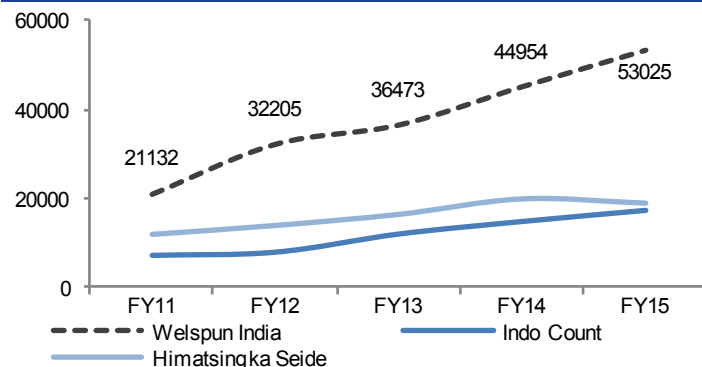
	CAGR % (FY15-17E)			RoE (%)				Price Perf (%)			Net Sales (Rs. Mn)			
	Sales	EBITDA	EPS	FY14	FY15	FY16E	FY17E	3m	6m	12m	FY14	FY15	FY16E	FY17E
Welspun India	14.5	16.0	10.0	20.4	42.5	34.2	35.2	39.5	119.2	253.8	44954	53025	59780	69562
Indo Count	19.9	19.6	39.2	45.6	40.9	43.5	42.5	67.0	125.0	468.0	14676	17169	20328	24678
Himatsingka Seide	11.1	27.0	35.8	8.5	11.9	12.3	13.4	118.0	121.0	107.0	19988	19040	21780	23494

Source: Bloomberg, Karvy Research

Peer Comparison

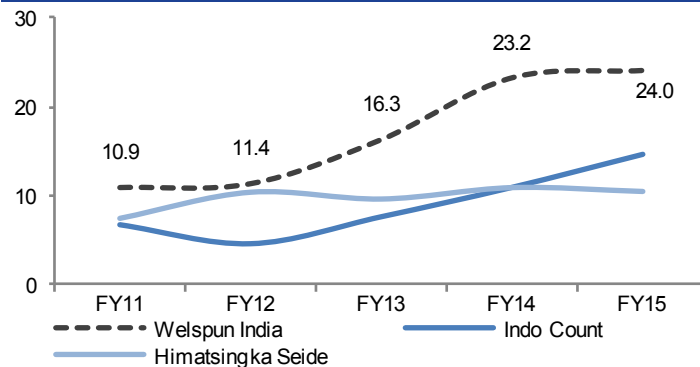
Welspun India is among the top three home textile manufacturers in the world with supplies to at least around 50 countries and it also supplies to around 14 top retailers across the world including Walmart and JC Penney amongst others. It manufactures terry towels, bath rugs and carpets. The peers of Welspun India in India are Trident and Himatsingka Seide.

Exhibit 25: Revenue Growth (%)



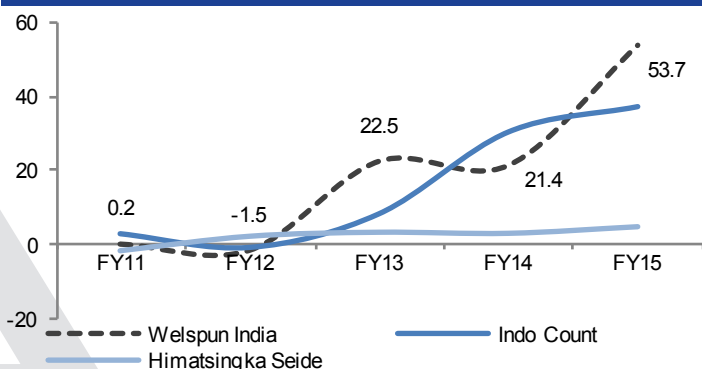
Source: Company, Karvy Research

Exhibit 26: EBITDA Margin (%)



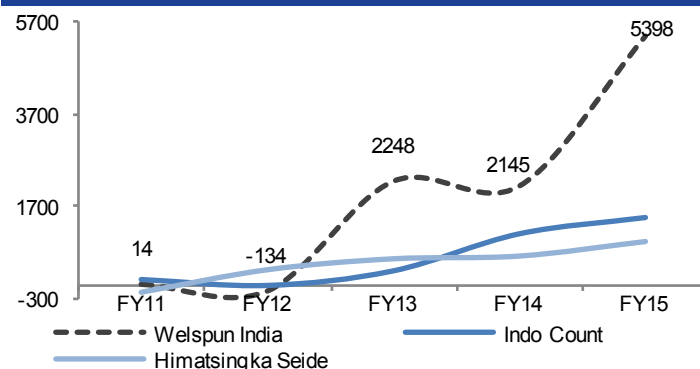
Source: Company, Karvy Research

Exhibit 27: EPS (Rs. Mn)



Source: Company, Karvy Research

Exhibit 28: Net Profit (Rs. Mn)



Source: Company, Karvy Research

Key Risks

Global slowdown may impact demand conditions

- WLSI is spread across the globe with larger concentration of its revenue from US/Europe markets, hence any adverse impact on the global economy may affect the demand.

Increase in competition rivalry

- Increasing competition may hamper the demand of Welspun India.

Foreign Exchange Risk

- WLSI's major revenues are from exports. Extreme volatile movements in forex may impact the company's competitiveness as well as margins.

Financials

Exhibit 29: Income Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Revenues	36473	44954	53025	59780	69562
Growth (%)	13.3	23.3	18.0	12.7	16.4
Operating Expenses	30527	34519	40283	45429	52278
EBITDA	5946	10435	12742	14351	17284
Growth (%)	62.4	75.5	22.1	12.6	20.4
Depreciation & Amortization	1449	6863	3329	4680	5476
Other Income	492	1042	949	790	900
EBIT	4990	4613	10362	10461	12708
Interest Expenses	1977	2352	2829	2445	2240
PBT	2982	2261	7533	8016	10468
Tax	733	199	2090	2451	2869
Adjusted PAT	2248	2145	5398	5565	7599
Growth (%)	NA	(4.6)	151.7	3.1	36.5

Source: Company, Karvy Research

Exhibit 30: Balance Sheet

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Cash & Equivalents	1724	2332	3252	1661	3976
Sundry Debtors	2750	4117	4467	5360	6111
Inventory	8205	10094	11006	13208	15849
Loans & Advances	1559	1232	1377	1762	1765
Investments	394	641	1405	1658	1956
Gross Block	16861	23770	26049	29716	31126
Net Block	15413	16907	22720	25036	25650
CWIP	542	5324	1564	1564	1564
Total Assets	38579	51684	56953	66263	73868
Current Liabilities & Provisions	16398	21489	24650	26056	27056
Debt	19205	27320	26194	29338	29595
Other Liabilities	2030	3559	6773	6638	6903
Total Liabilities	38579	51684	56953	66263	73868
Shareholders Equity	9902	11096	14318	17960	24678
Reserves & Surplus	8901	10093	13314	16955	23673
Total Network	9902	11096	14318	17960	24678
Minority Interest	250	316	378	378	378
Total Network & Liabilities	38579	51684	56953	66263	73868

Source: Company, Karvy Research

Exhibit 31: Cash Flow Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
PBT	3013	1037	7533	8016	10468
Depreciation	1449	6863	3329	4680	5476
Interest	1977	2352	2829	2445	2240
Tax Paid	(420)	(309)	(1767)	(2206)	(2582)
Inc/dec in Net WC	(1928)	(3974)	(2399)	(4978)	(2611)
Other Income	286	168	220	226	221
Other non cash items	(644)	(628)	(501)	(370)	(377)
Cash flow from operating activities	3732	5510	9243	7813	12835
Inc/dec in capital expenditure	(2847)	(7186)	(5795)	(8346)	(6881)
Inc/dec in investments	849	(2459)	(362)	(253)	(298)
Others	455	(26)	86	30	(79)
Cash flow from investing activities	(1542)	(9671)	(6071)	(8569)	(7258)
Inc/dec in borrowings	664	7252	(432)	3755	(140)
Issuance of equity	19	12	4	0	0
Dividend paid	(207)	(238)	(711)	(881)	(881)
Interest paid	(1979)	(2576)	(2979)	(2445)	(2240)
Others	0	(250)	1017	0	0
Cash flow from financing activities	(1502)	4200	(3102)	428	(3262)
Net change in cash	687	39	71	(329)	2315

Source: Company, Karvy Research

Exhibit 32: Key Ratios

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin (%)	16.3	23.2	24.0	24.0	24.8
EBIT Margin (%)	0.1	0.1	0.2	0.2	0.2
Net Profit Margin (%)	6.2	4.8	10.2	9.3	10.9
Dividend Payout ratio	21.0	20.9	22.9	29.2	29.2
Net Debt/Equity	2.1	2.2	2.1	1.7	1.4
RoE (%)	26.1	20.4	42.5	34.5	35.6
RoCE (%)	17.3	12.8	25.3	22.8	23.6

Source: Company, Karvy Research

Exhibit 33: Valuation Parameters

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs.)	22.5	21.4	53.7	55.4	75.7
DPS (Rs.)	2.0	5.0	10.5	7.5	7.5
BV (Rs.)	99.0	110.6	142.5	178.8	245.7
PE (x)	6.0	23.5	9.5	13.7	10.0
P/BV (x)	1.4	2.0	3.6	4.2	3.1
EV/EBITDA (x)	5.2	4.5	5.9	7.3	5.9
EV/Sales (x)	0.8	1.0	1.4	1.7	1.4

Source: Company, Karvy Research; *Represents multiples for FY13, FY14 & FY15 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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