

FLASH NOTE

Welspun India

BUY

Price: Rs 844

Nifty 7,556

2 Feb 16

Share Data

Reuters code	WLSP.BO
Bloomberg code	WLSI IN
Market cap. (US\$ mn)	1,250
6M avg. daily t/o (US\$ mn)	3.2
Issued shares (mn)	100
Target Price (Rs)	1,142

Performance (%)

	1M	3M	12M
Absolute	-7.3	17.5	120.3
Relative	-2.3	25.4	156.8

Major shareholders (%)

Promoters	73
FII's, Custodians	5
MF's	4
BFSI's	5
Public & Others	13

Valuation Ratios

Year end	Mar-16E	Mar-17E	Mar-18E
EPS (Rs)	62.4	68.2	75.7
+/- (%)	16.1	9.3	11.0
PER (x)	13.5	12.4	11.1
PBV (x)	4.5	3.6	2.9
Div./Yield (%)	1.8	2.0	2.2
EV/Sales (x)	1.9	1.6	1.4
EV/EBITDA (x)	7.4	6.7	6.0

Financial Highlights

(Rs mn)	3QFY15	3QFY16	YoY (%)	2QFY16	QoQ (%)	B&K Est	Consensus	FY15	FY16E	FY17E
Net Sales	13,459	14,904	10.7	14,723	1.2	15,167	14,993	53,025	59,983	68,328
EBITDA	3,400	4,006	17.8	3,743	7.0	3,868	3,734	12,742	15,326	16,638
EBITDA Margin (%)	25.3	26.9		25.4		25.5	24.9	24.0	25.6	24.4
Other Income	147	172	17.3	197	-12.8			949	840	850
Interest	816	592	-27.5	515	15.1			2,829	2,459	2,447
Depreciation	918	997	8.6	918	8.7			3,329	4,255	4,707
PBT	1,813	2,588	42.7	2,508	3.2			7,533	9,452	10,334
Tax	369	814	120.7	747	9.0			2,090	3,185	3,483
Adjusted PAT	1,436	1,741	21.3	1,724	1.0	1,502	1,651	5,398	6,267	6,852
NPM (%)	10.7	11.7		11.7				10.2	10.4	10.0
EPS (Rs)	14.3	17.3	21.2	17.2	0.8			53.7	62.4	68.2

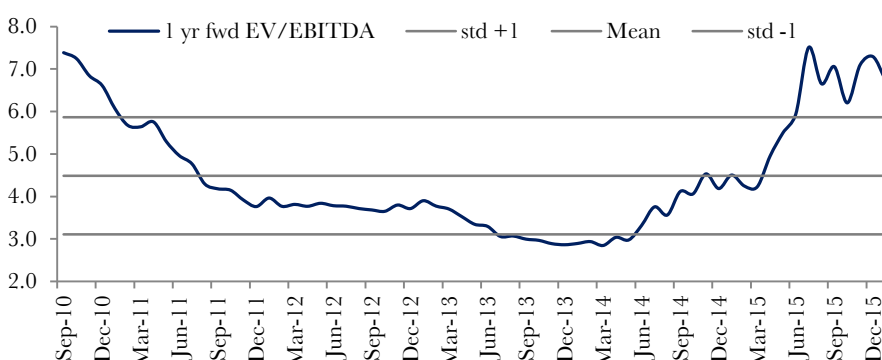
All time high Operating Margin of 26.9%; Board approves stock split

Key Highlights of Result

- Revenue for the quarter stood at Rs 14.9 bn (up ~11% YoY), ~2% below our estimates. Healthy revenue growth was supported by higher volume, higher mix of innovative products and favourable exchange rate. Domestic retail sales witnessed robust growth of 52% during 9MFY16.
- The EBITDA for the quarter stood at Rs 4.01 bn (up ~18% YoY), ~4% below our estimates. EBITDA margin grew by 160 bps on YoY basis to 26.9% (all time high) supported by depreciating rupee, stable raw-material prices, increasing vertical integration and larger share of innovative and branded products. This is also evident from the significant increase in gross margin to 58.3% (530 bps / 330 bps on YoY/QoQ).
- The reported PAT stood at Rs 1.74 bn (B&K: Rs 1.5 bn), as against Rs 1.44 bn in the same quarter last year. Our estimate was lower as we were assuming higher depreciation (actual was Rs 150 mn lower than our estimate) during the quarter on account of capitalization of new capex.
- The board has approved stock split from Rs 10/share to Re 1/ share.

Analyst views: We remain positive on WLSI given its multiple growth drivers like penetrating newer geographies, scaling new product categories, expanding underpenetrated channels, etc. WLSI's increasing vertical integration, higher share of value added products and branded sales will aid healthy operating margins. During the quarter, the capital expenditure was Rs 1.9 bn (Rs 6.4 bn during 9MFY16) and the balance investment of Rs 7 bn is expected to over the next 9 months. This capex will entail modernisation, automation and capacity enhancement for towel and sheets as well as routine maintenance which will aid the growth momentum. Fall in the relative debt level despite the on-going large capex is the major highlight of the performance. At the CMP of Rs 844, the stock trades at 6.7x FY17E EV/EBITDA and 12.4x FY17E EPS. We currently have Buy rating on the stock.

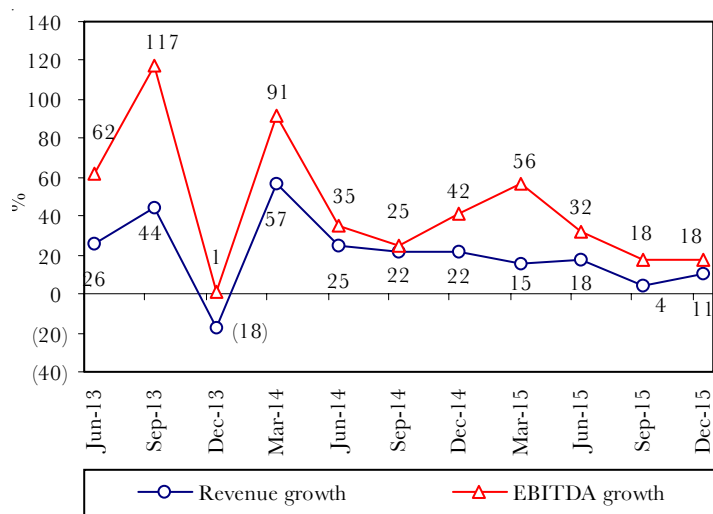
Historic valuation chart



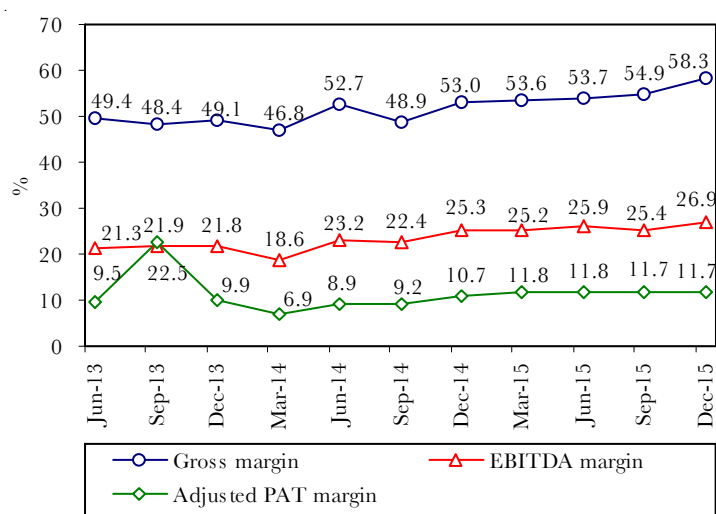
Operating cost break-up (% of Sales)

Cost items	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15	YoY Change (bps)	QoQ Change (bps)
Raw Material Cost	47.0	46.4	46.3	45.1	41.7	(526)	(335)
Power & Fuel Cost	2.0	2.4	2.4	1.8	2.0	4	29
Employee Expenses	8.4	8.6	8.9	9.0	9.5	112	54
Other Operating Expenses	17.3	17.4	16.5	18.7	19.8	248	106
Total Operating Cost	74.7	74.8	74.1	74.6	73.1	(161)	(146)

Revenue growth and EBITDA growth (YoY)



Gross margin, EBITDA margin and Adjusted PAT margin (%)



Source: Company, B&K Research

Welspun India

Income Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Net sales	53,025	59,983	68,328	79,244
<i>Growth (%)</i>	<i>18.0</i>	<i>13.1</i>	<i>13.9</i>	<i>16.0</i>
Operating expenses	(40,283)	(44,657)	(51,690)	(61,256)
Operating profit	12,742	15,326	16,638	17,988
Other operating income				
EBITDA	12,742	15,326	16,638	17,988
<i>Growth (%)</i>	<i>38.3</i>	<i>20.3</i>	<i>8.6</i>	<i>8.1</i>
Depreciation	(3,329)	(4,255)	(4,707)	(5,018)
Other income	949	840	850	800
EBIT	10,362	11,911	12,781	13,771
Finance cost	(2,829)	(2,459)	(2,447)	(2,295)
Exceptional & extraordinary				
Profit before tax	7,533	9,452	10,334	11,476
Tax (current + deferred)	(2,090)	(3,185)	(3,483)	(3,867)
P / L form discount. Op.				
Profit / (Loss) for period	5,443	6,267	6,852	7,608
P/L of Ass., Min Int, Pref Div	(45)			
Reported Profit / (Loss)	5,398	6,267	6,852	7,608
Adjusted net profit	5,398	6,267	6,852	7,608
<i>Growth (%)</i>	<i>-4.6</i>	<i>16.1</i>	<i>9.3</i>	<i>11.0</i>

Balance Sheet

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	1,005	1,005	1,005	1,005
Reserves & surplus	13,314	17,696	22,487	27,807
Shareholders' funds	14,319	18,701	23,492	28,812
Minority Interests and others	378	378	378	378
Non-current liabilities	17,607	20,158	19,962	19,368
Long-term borrowings	15,946	18,446	18,195	17,545
Other non-current liabilities	1,661	1,712	1,766	1,823
Current liabilities	24,650	23,349	22,994	22,244
ST borrow, Curr maturity	14,905	13,448	11,517	8,897
Other current liabilities	9,745	9,901	11,477	13,347
Total (Equity and Liab)	56,953	62,586	66,825	70,803
Non-current assets	29,396	34,249	34,714	33,386
Fixed assets (Net block)	26,049	30,780	31,122	29,651
Non-current Investments	15	15	15	15
Long-term loans and adv	1,377	1,515	1,667	1,833
Other non-current assets	1,955	1,939	1,911	1,887
Current assets	27,557	28,337	32,111	37,417
Cash & Current investment	4,657	2,773	3,063	3,908
Other current assets	22,900	25,564	29,048	33,509
Total (Assets)	56,953	62,586	66,825	70,803
Total debt	30,851	31,894	29,712	26,443
Capital employed	47,208	52,685	55,348	57,456

Cash Flow Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Profit before tax	7,533	9,452	10,334	11,476
Depreciation	3,329	4,255	4,707	5,018
Change in working capital	(1,456)	(2,596)	(2,006)	(2,703)
Total tax paid	(1,884)	(3,185)	(3,483)	(3,867)
Others	2,829	2,459	2,447	2,295
Cash flow from oper. (a)	10,351	10,384	11,999	12,218
Capital expenditure	(5,608)	(8,986)	(5,048)	(3,546)
Change in investments	(305)	1,405		
Others	852	(34)	(20)	(22)
Cash flow from inv. (b)	(5,061)	(7,615)	(5,069)	(3,569)
Free cash flow (a+b)	5,290	2,770	6,931	8,650
Equity raised/(repaid)	4			
Debt raised/(repaid)	558	1,043	(2,182)	(3,269)
Dividend (incl. tax)	(1,268)	(1,885)	(2,061)	(2,288)
Others	(3,662)	(2,407)	(2,398)	(2,248)
Cash flow from fin. (c)	(4,370)	(3,249)	(6,640)	(7,805)
Net chg in cash (a+b+c)	920	(480)	290	844

Key ratios

Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	53.7	62.4	68.2	75.7
<i>Growth (%)</i>	<i>(4.7)</i>	<i>16.1</i>	<i>9.3</i>	<i>11.0</i>
CEPS (Rs)	86.9	104.7	115.1	125.7
Book NAV/share (Rs)	142.5	186.1	233.8	286.8
Dividend/share (Rs)	10.5	15.6	17.1	18.9
Dividend payout ratio	23.5	30.1	30.1	30.1
EBITDA margin	24.0	25.6	24.4	22.7
EBIT margin	19.5	19.9	18.7	17.4
Tax rate	27.7	33.7	33.7	33.7
RoCE	22.9	23.8	23.7	24.4
Total debt/Equity (x)	2.1	1.7	1.2	0.9
Net debt/Equity (x)	1.8	1.5	1.1	0.8
Du Pont Analysis - ROE				
Net margin	10.2	10.4	10.0	9.6
Asset turnover (x)	1.0	1.0	1.1	1.2
Leverage factor (x)	4.3	3.6	3.1	2.6
Return on equity	42.5	38.0	32.5	29.1

Valuations

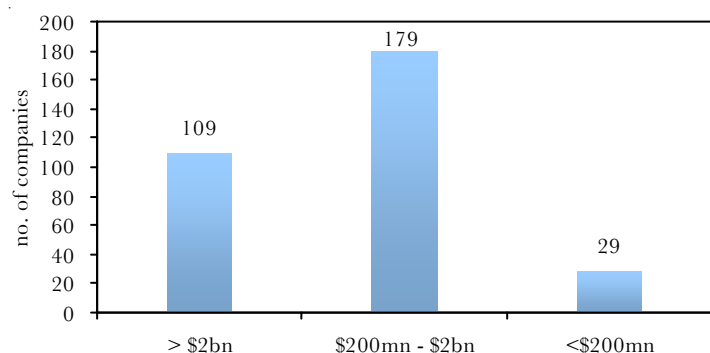
Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	6.6	13.5	12.4	11.1
PCE	4.1	8.1	7.3	6.7
Price/Book	2.5	4.5	3.6	2.9
Yield (%)	3.0	1.8	2.0	2.2
EV/EBITDA	4.9	7.4	6.7	6.0

Resham Jain, CFA
resham.jain@bksec.com
+91-22-4031 7133

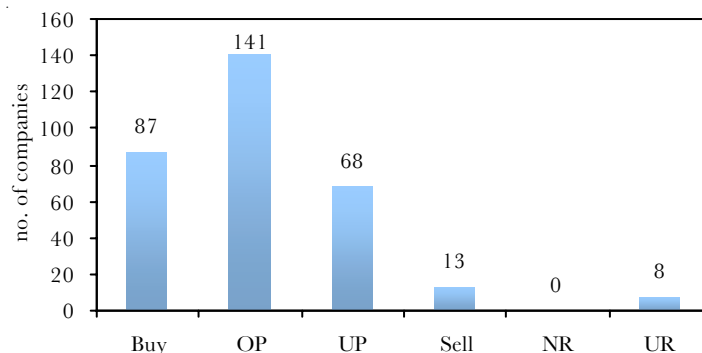
Nishant Agrawal
nishant.agrawal@bksec.com
+91-22-4031 7185

B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings.

	LARGE CAP (Market Cap > USD 2 bn)	MID CAP (Market Cap of USD 200 mn to USD 2 bn)	SMALL CAP (Market Cap <USD 200 mn)
BUY	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
SELL	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

Disclaimer: This report was prepared, approved, published and distributed by Batlivala & Karani Securities India Private Limited ("B&K") located outside of the United States (a "non-US Group Company"), which accepts responsibility for its contents. It is distributed in the U.S. by Enclave Capital, a U.S. registered broker dealer, on behalf of B&K, only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization. Outside the United States, this report is distributed by B&K or an authorized affiliate of B&K.

The report has been compiled or arrived from sources believed to be reliable and in good faith, but no representation or warranty, express or implied is made as to their accuracy, completeness or correctness. B&K has not verified the factual accuracy, assumptions, calculations or completeness of the information. Accordingly, B&K accepts no liability whatsoever for any direct or consequential loss or damage arising from (i) the use of this communication (ii) reliance of any information contained herein, (iii) any error, omission or inaccuracy in any such Information or (iv) any action resulting there from. B&K provides the information for the purpose of the intended recipient's analysis and review and recipients are advised to verify the factual accuracy, assumptions, calculations and completeness of the information.

This report was produced by B&K solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions. This document does not constitute an offer of, or an invitation by or on behalf of B&K or its affiliates or any other company to any person, to buy or sell any security.

Analyst Certification: Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Disclosures, applying to B&K and the Analyst (together with associates and family members)

Ownership interest in the issuer of the securities mentioned	< 1%
Other financial interest in the issuer	None
Other material conflict of interest	None
Compensation/benefits received from issuer/3 rd Parties in past 12 months:	
Public offerings managed/co-managed for issuer	None
Fees for merchant banking, investment banking or brokerage services (as percentage of issuer's turnover)	< 0.1%
Compensation for other services (as percentage of issuer's turnover)	< 0.1%
Analyst service as officer, director or employee of the issuer	None
Involvement in market-making in the issuer's securities	None

Important US Regulatory Disclosures on Subject Companies

1. B&K or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
2. B&K or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. B&K or its Affiliates have not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more person of B&K or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
5. B&K or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.
6. As of the publication of this report, Enclave Capital does not make a market in the subject securities.

Enclave Capital is the distributor of this document in the United States of America. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital (19 West 44th Street, suite 1700, New York, NY 10036).

B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.

Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.