Welspun India

26 April 2016

FY16 analyst meet - Not rated

IIFL Institutional Equities

4Q: In line operating performance

Welspun India, the largest player in home textiles, saw healthy 23% Ebitda growth in 4Q (EPS growth: 19%), given continued strength in US demand, capacity addition in towel/bed linen, and 74bps Ebitda margin expansion. At the analyst meet, Welspun shared "*Welspun 2.0*", its target for FY20. It intends to reach sales of US$2bn (c20% Cagr over FY16-20) and zero net debt by FY20. It expects 10-15% sales growth and flattish margins in the near term while conservatively expecting 22-24% Ebitda margin (vs 26% in FY16) over the medium term. Welspun expects new capex (cRs8bn in FY17) to be largely in processing and maintenance, driving ROCE expansion (140bps over FY16-18).

- Welspun's Ebitda grew 22% in FY16 led by 12% volume growth and 200bps margin expansion (increasing share of value added products (34% vs. 31% in FY15) and currency depreciation drove expansion).
- At the analyst meet, Welspun shared its guidance for FY20 under its Vision 2020. It expects to reach sales of US$2bn (c21% Cagr over FY16-20) driven by branded/ innovative products, share of which will increase to 50%+ from c40% now) and domestic sales (20% share by FY20). Further, management expects net debt of cRs26bn in FY16 to reduce completely by FY20.
- ROCE should improve c140bps over FY16-18 to 28% as capacity addition in FY18 through processing lines as against fully integrated capacity earlier results in lower capex per unit addition.
- Key risks: US demand weakness, lower incentives under GST regime

IIFL's scorecard for unrated companies

Key Positives	Score of 1-5 (with 5 as most positive)	Key Risks	Score of 1-5 (with 5 as most risky)
Industry growth potential	✓✓✓	Regulatory	✗✗
Dominant position within the industry	✓✓✓✓	Corporate Governance	✗✗
Balance-sheet strength, profitability ratios	✓✓✓	Competition (including possible foreign)	✗✗✗✗
Execution track record of management	✓✓	Liquidity (trading volume)	✗

CMP	**Rs99**
Market cap (US$m)	**1,494**
Enterprise value(US$m)	**1,817**
Bloomberg	**WLSI IN**
Sector	**Consumer Discretionary**

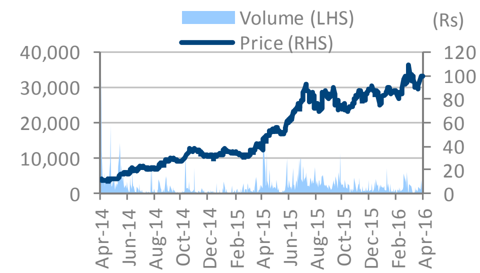
Price performance (%)

	1M	3M	1Y
Absolute (Rs)	-8.4	19.3	154.5
Absolute (US$)	-8.4	24.0	149.8
Rel. to Sensex	-9.7	14.4	160.9
Cagr (%)			**3 yrs**
EPS			19.0

Shareholding pattern (%)

Promoter	73.5
FII	12.7
DII	2.8
Others	11.1
52Wk High/Low (Rs)	111/36
Shares o/s (m)	1005
Daily volume (US$ m)	2.4
Dividend yield FY17ii (%)	1.8
Free float (%)	26.5

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16P	FY17ii	FY18ii
Revenues (Rs m)	53,025	59,795	67,583	77,710
Ebitda margins (%)	*24.0*	*26.0*	*25.6*	*25.5*
Pre-exceptional PAT (Rs m)	5,398	7,029	7,658	9,097
Reported PAT (Rs m)	5,398	7,029	7,658	9,097
Pre-exceptional EPS (Rs)	5.4	7.0	7.6	9.1
Growth (%)	*(8.4)*	*30.2*	*8.9*	*18.8*
PER (x)	**18.5**	**14.2**	**13.0**	**11.0**
ROE (%)	*42.5*	*41.1*	*33.6*	*31.1*
Net debt/equity (x)	1.8	1.3	1.0	0.6
EV/Ebitda (x)	9.9	8.1	7.3	6.1
Price/book (x)	7.0	5.0	3.9	3.0

Source: Company, IIFL Research. Priced as on 25 April 2016

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Welspun 4Q: In line operating performance

Welspun India (Welspun) reported in line operating performance in 4QFY16, with Ebitda up 23% and underlying PAT up 19%. Revenue growth at 19% was driven largely by volumes. FY16 revenue grew 13%, driven by 12% growth in underlying volumes. Net average realizations were up c1% as impact of 2% drop in USD realizations was offset by 3% currency depreciation gains. Share of high margin innovative products and branded sales increased to 34% and 13% respectively from 31% and 11% in FY15, aiding margins. Welspun's foray into the hospitality segment was well received with sales in the segment doubling. India retail sales were up 47%.

Figure 1: Welspun India reported a strong performance in 4QFY16

Consolidated (Rs m)	4QFY15	4QFY16	% YoY
Net sales	12,250	14,595	19.1
Other op income	1,409	1,689	19.9
Total income	13,658	16,284	19.2
Total expenses	(10,213)	(12,055)	18.0
Ebitda	3,446	4,229	22.7
Ebitda margin (%)	25.2	26.0	74bps
Depreciation	(1,009)	(1,042)	3.3
Interest	(569)	(663)	16.5
Other income	290	269	-7.2
PBT	2,157	2,792	29.4
Tax	(508)	(825)	62.5
% tax rate	23.5	29.5	600bps
Adjusted PAT	1,650	1,968	19.3
PAT margin (%)	12.1	12.1	0bps
Minority Interest	(36)	(35)	-3.3
Reported PAT	1,614	1,933	19.8

Source: Company, IIFL Research

Figure 2: Cost details

Cost details	4QFY15	4QFY16	% YoY
Raw material cost	6,332	7,329	15.7
As % of sales	46.4	45.0	-135bps
Staff costs	1,180	1,379	16.8
As % of sales	8.6	8.5	-17bps
Power & fuel	321	443	37.8
As % of sales	2.4	2.7	37bps
Other expenditure	2,379	2,904	22.1
As % of sales	17.4	17.8	41bps

Source: Company, IIFL Research

Figure 3: Volume led growth in FY16

(Rs m)	FY15	FY16	% YoY
Net sales	47,229	53,877	14.1
Other op income	5,796	5,918	2.1
Total income	53,025	59,795	12.8
Total expenses	(40,283)	(44,219)	9.8
Ebitda	12,742	15,575	22.2
Ebitda margin (%)	*24.0*	*26.0*	*202bps*
Depreciation	(3,329)	(3,750)	12.6
Interest	(2,829)	(2,362)	-16.5
Other income	949	915	-3.6
PBT	7,533	10,378	37.8
Tax	(2,090)	(3,224)	54.3
% tax rate	27.7	31.1	333bps
Adjusted PAT	5,443	7,153	31.4
PAT margin (%)	10.3	12.0	170bps
Minority Interests	(45)	(125)	NM
Reported PAT	5,398	7,029	30.2

Source: Company, IIFL Research

Figure 4: Healthy gross margin expansion

Cost details	FY15	FY16	% YoY
Raw material cost	25,443	26,612	4.6
As % of sales	48.0	44.5	-348bps
Staff costs	4,460	5,364	20.3
As % of sales	8.4	9.0	56bps
Power & fuel	1,187	1,335	12.5
As % of sales	2.2	2.2	-1bps
Other expenditure	9,193	10,908	18.7
As % of sales	17.3	18.2	90bps

Source: Company, IIFL Research

Figure 5: Increase in creditors a one-off event

Balance sheet details	FY15	FY16
Inventory (days of sales)	76	67
Debtors (days of sales)	31	37
Creditors (days of sales)	48	62
Net Working Capital (days of sales)	59	43
Gross Debt (Rs m)	30,851	28,044
Net Debt (Rs m)	26,085	26,267

Source: Company, IIFL Research

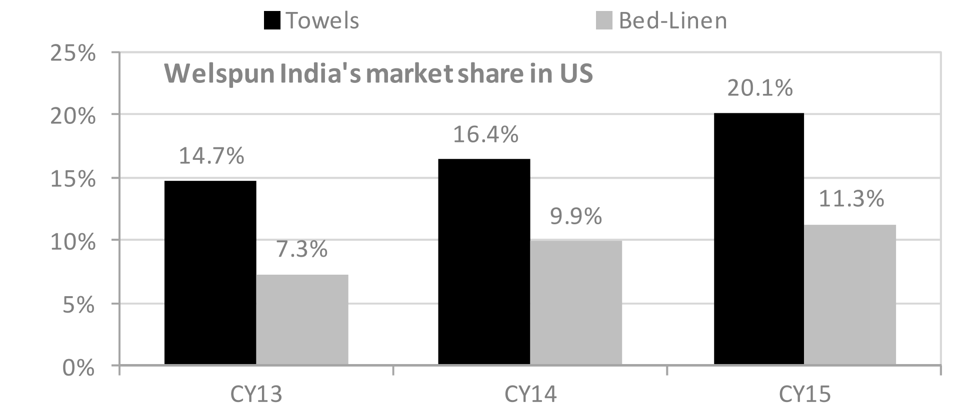
Key takeaways from the analyst meet

Announced vision for 2020 - Welspun2.0

Welspun in partnership with Mckinsey has worked out a likely target for FY20. It has named this program as "Welspun 2.0 – Built to last"

- The company intends to reach US$2bn sales by FY20, implying c21% revenue Cagr over FY16-20.
- The company expects to increase share of innovative products to c40% of revenue from current 34% and the share of branded products to c25% from 13% now. On a blended basis, this would translate into c50%+ contribution from innovative/branded products in FY20 from c40% now.
- Welspun is targeting to increase the share of domestic revenues to 20% of sales by FY20.
- Further, management is targeting to reduce its net debt from current Rs26bn to zero by FY20.

Figure 6: Continued market share gains in US have led to impressive growth



Source: Company, IIFL Research

Targeting Rs8bn capex in FY17 vs cRs11bn in FY16

- Welspun intends to incur Rs8bn capex in FY17 (vs. cRs11bn in FY16). Note that Rs2.5bn capex has spilled over from FY16 (part of modernization projects), and the remaining Rs5.5bn is linked to maintenance activities.
- Management has started trials for its ancillary-based strategy of capacity addition. This would involve creating an ancillary supply chain (similar to automotive industry) for textiles.
- It highlighted that an ancillary unit has already commenced production and it is in talks with 13 other companies for its spinning and weaving requirements. Going forward, the company would incur only maintenance capex as capacity expansion would take place through such ancillarization model.

Figure 7: Capacity expansion planned in FY17

Segment	FY16 capacity	Planned FY17 capacity	% increase in capacity
Towel	60,000MT	72,000MT	20%
Bed Linen	72m mts	90m mts	25%
Rugs/Carpets	8m sq mts	10m sq mts	25%

Source: Company, IIFL Research

Others

- Management expects double-digit volume growth in FY17, which should lead to 10-15% revenue growth. While Ebitda margin should remain broadly flattish in FY17, management expects 22-24% margin over the medium term.
- Revenues from Hygro stood at USD150m in FY16, and are expected to rise to USD200-250m in FY17.
- The company has a robust product pipeline in the form of smart textiles and ingredient-level innovations such as Hygro, Drylon, and Nano core, which it intends to leverage for growth. In addition, it plans to foray into new geographies such as Australia, Japan, and Africa, among others.
- The company has tied up with IBM and SAP and developed a platform called *tableau* to help its retailers manage inventory. The platform uses data analytics extensively.
- Welspun has achieved double-digit revenue growth over the last five years (despite 1-1.5% annual volume growth in underlying US market) on back of its innovation-led market share gains. Management believes that this innovation-led strategy along with increasing contribution from other channels such as hospitality and healthcare would help it achieve its FY20 revenue target.

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16P	FY17ii	FY18ii
Revenues	**53,025**	**59,795**	**67,583**	**77,710**
Ebitda	12,742	15,575	17,322	19,790
Depreciation and amortisation	(3,329)	(3,750)	(4,678)	(5,238)
Ebit	9,413	11,825	12,644	14,551
Non-operating income	949	915	999	1,091
Financial expense	(2,829)	(2,362)	(2,190)	(1,860)
PBT	7,533	10,378	11,454	13,783
Exceptionals	0	0	0	0
Reported PBT	7,533	10,378	11,454	13,783
Tax expense	(2,090)	(3,224)	(3,665)	(4,548)
PAT	5,443	7,153	7,789	9,235
Minorities, Associates etc.	(45)	(125)	(131)	(137)
Attributable PAT	**5,398**	**7,029**	**7,658**	**9,097**

Ratio analysis

Y/e 31 Mar, Consolidated	FY15A	FY16P	FY17ii	FY18ii
Per share data (Rs)				
Pre-exceptional EPS	5.4	7.0	7.6	9.1
DPS	10.5	1.3	1.5	1.8
BVPS	14.3	19.8	25.6	32.5
Growth ratios (%)				
Revenues	21.3	12.8	13.0	15.0
Ebitda	38.3	22.2	11.2	14.2
EPS	(8.4)	30.2	8.9	18.8
Profitability ratios (%)				
Ebitda margin	24.0	26.0	25.6	25.5
Ebit margin	17.8	19.8	18.7	18.7
Tax rate	27.7	31.1	32.0	33.0
Net profit margin	10.3	12.0	11.5	11.9
Return ratios (%)				
ROE	42.5	41.1	33.6	31.1
ROCE	23.5	26.6	26.3	28.0
Solvency ratios (x)				
Net debt-equity	1.8	1.3	1.0	0.6
Net debt to Ebitda	2.0	1.7	1.5	1.0
Interest coverage	3.3	5.0	5.8	7.8

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16P	FY17ii	FY18ii
Cash & cash equivalents	4,766	1,777	777	2,306
Inventories	11,006	11,046	12,485	14,356
Receivables	4,467	6,114	6,481	7,452
Other current assets	8,874	8,095	9,149	10,520
Creditors	6,910	10,080	9,258	10,645
Other current liabilities	3,855	2,591	4,298	4,972
Net current assets	**18,348**	**14,361**	**15,337**	**19,017**
Fixed assets	26,049	33,435	36,932	36,869
Intangibles	1,785	1,775	1,775	1,775
Investments	6	30	30	30
Other long-term assets	0	0	0	0
Total net assets	**46,188**	**49,602**	**54,075**	**57,691**
Borrowings	30,851	28,044	26,544	23,044
Other long-term liabilities	1,019	1,681	1,812	1,950
Shareholders' equity	**14,318**	**19,877**	**25,718**	**32,697**
Total liabilities	**46,188**	**49,602**	**54,075**	**57,691**

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY15A	FY16P	FY17ii	FY18ii
Ebit	9,413	11,825	12,644	14,551
Tax paid	(1,767)	(3,224)	(3,665)	(4,548)
Depreciation and amortization	3,329	3,750	4,678	5,238
Net working capital change	(2,399)	779	(2,666)	(2,454)
Other operating items	668	0	0	0
Operating cash flow before interest	9,243	13,130	10,992	12,788
Financial expense	(2,979)	(2,362)	(2,190)	(1,860)
Non-operating income	237	915	999	1,091
Operating cash flow after interest	**6,501**	**11,683**	**9,801**	**12,019**
Capital expenditure	**(5,672)**	**(11,136)**	**(8,175)**	**(5,175)**
Long-term investments	(362)	24	0	0
Others	773	372	691	303
Free cash flow	**1,240**	**942**	**2,317**	**7,147**
Equity raising	4	0	0	0
Borrowings	568	(2,807)	(1,500)	(3,500)
Dividend	(711)	(1,125)	(1,816)	(2,118)
Net chg in cash and equivalents	1,100	(2,990)	(999)	1,528

Source: Company data, IIFL Research

Disclosure : Published in 2016, © India Infoline Ltd 2016

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