

CMP (Rs) 81

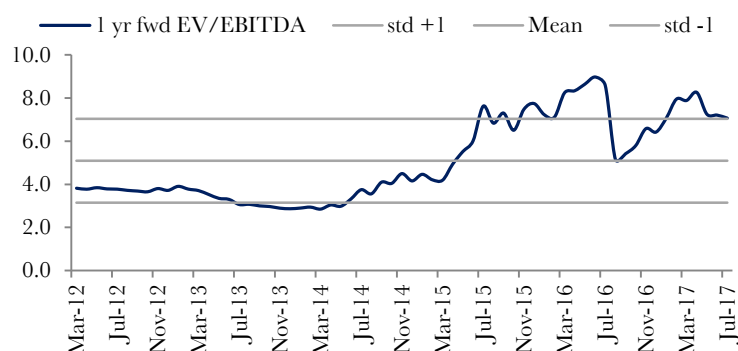
TP (Rs) 95

Maintain Outperformer

Key growth figures	YoY (%)	QoQ (%)			Key Points from Results
	Actual	Actual	Our Est	Consensus	
Net Sales	-3.3	-12.4	-5.7	n/a	<ul style="list-style-type: none"> <li>Consolidated revenue was ~7% lower than B&amp;Ke to Rs 15.4 bn (down 3.3% YoY) impacted by lower sales volume in bed linen segment and rupee appreciation.</li> <li>EBITDA margin contracted by 550 bps YoY to 21.1% (In-line with B&amp;Ke) due to higher cotton prices and lower sales volume along with rupee appreciation led to higher fixed cost.</li> </ul>
EBITDA	-23.3	-15.3	-8.7	n/a	
Adj PAT	-38.4	-16.3	-7.9	n/a	
EPS (Rs)	-38.4	-16.3	-7.9	n/a	

Year end	FY16	FY17	FY18E	FY19E	Commentary and Outlook
<b>Valuations (Consolidated)</b>					
PER (x)	13.4	10.7	12.5	10.0	<ul style="list-style-type: none"> <li>Adjusted PAT was 9.2% lower than B&amp;Ke to Rs 1.3 bn (down 38.4% YoY) mainly due to weak operating performance.</li> <li>The company has guided for muted topline growth (mid-single digit) for FY18E with EBITDA margin of 21-22%.</li> <li>The Central Government extended the benefit of ROSL till the end of Sept-17 after recent implementation of GST. The management is not clear about the future of export benefits post Sept 2017 however the current extension of ROSL benefit is already considered in their margin guidance.</li> </ul>
PBV (x)	5.0	3.7	2.8	2.3	
EV/EBITDA (x)	8.2	7.5	7.4	6.2	
Div./Yield (%)	1.3	0.7	1.7	2.1	
<b>Key Ratios</b>					
ROE (%)	43.7	37.9	24.5	25.4	<p>We expect relative debt level to improve (Net debt/Equity of 0.8x in FY19E as compared to 1.3x in FY17) despite the on-going large capex. We have revised Revenue/ EBITDA/ Adjusted PAT estimates downward by 3.7%/ 3.7%/ 7.5% for FY18E and 4.8%/ 4.8%/ 10.1% for FY19E respectively, taking into consideration of muted revenue growth guidance with stressed operating margin for FY18E. The stock currently trades at 10.0x FY19E EPS and 6.2x FY19E EV/EBITDA. We maintain our Outperformer rating on the stock with a revised target price of Rs 95/share (Implied EV/EBITDA of 7.0x on FY19E).</p>
ROCE (%)	25.4	19.5	16.5	18.6	
<b>Liquidity</b>					
Net Debt/Equity	1.5	1.3	1.1	0.8	
Interest cover	6	7	8	11	
FCF (Rs mn)	237	-355	4,094	6,537	

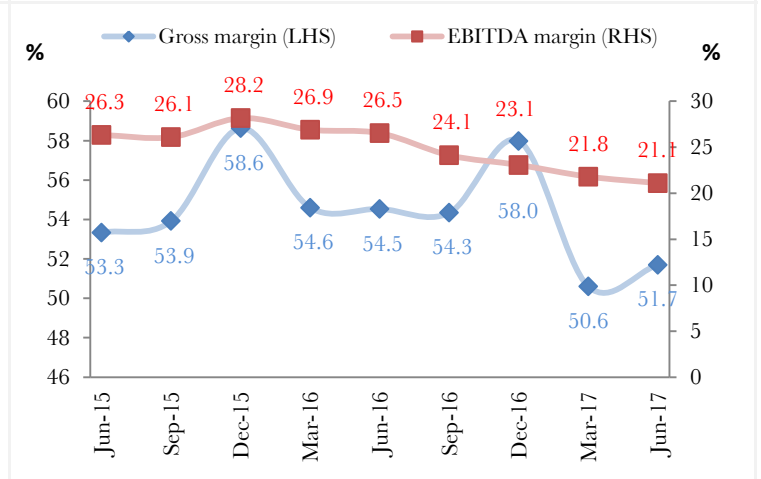
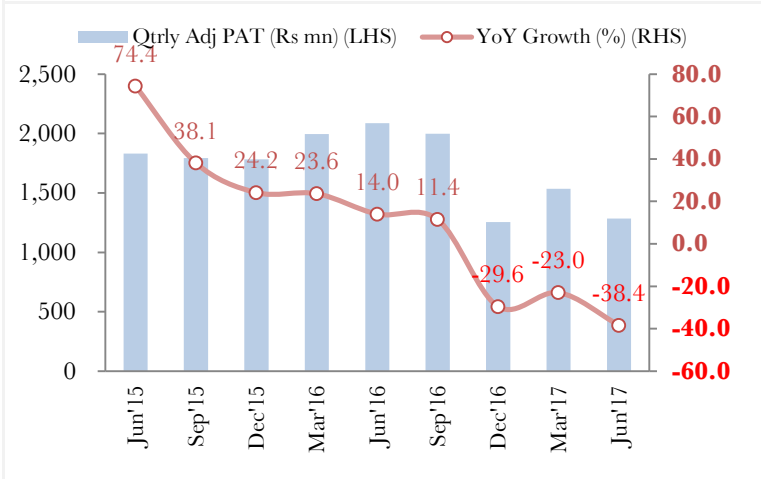
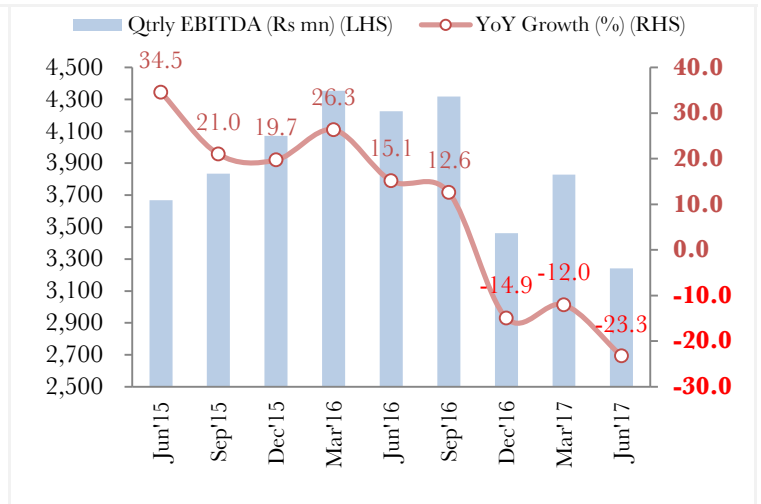
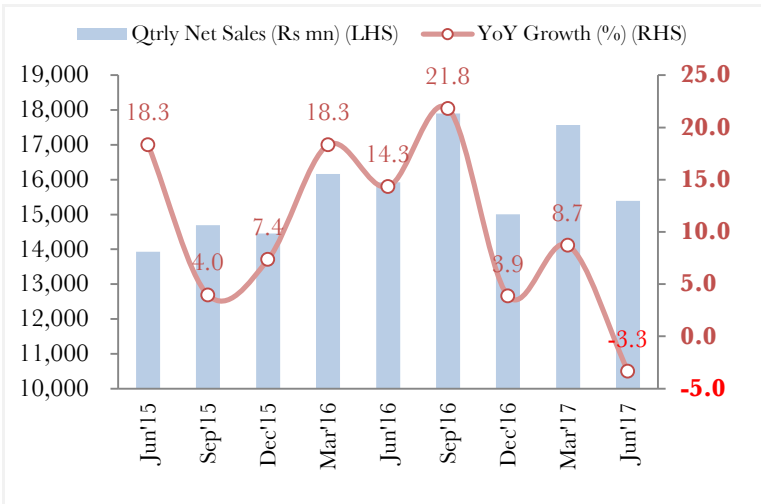
### Historic valuation chart



### Financial Highlights (Consolidated)

(Rs mn)	1QFY17	1QFY18	YoY (%)	4QFY17	QoQ (%)	FY16	FY17	FY18E	FY19E
Net Sales	15,926	15,394	-3.3	17,572	-12.4	59,239	66,405	69,749	79,342
EBITDA	4,225	3,242	-23.3	3,829	-15.3	15,927	15,834	15,136	17,535
EBITDA Margin	26.5	21.1		21.8		26.9	23.8	21.7	22.1
Other Income	189	132	-30.1	156	-15.0	904	806	781	820
Interest	353	356	1.0	430	-17.1	2,368	1,583	1,422	1,216
Depreciation	1,121	1,183	5.5	1,365	-13.4	3,718	5,054	5,243	5,578
PBT	2,940	1,835	-37.6	2,198	-16.5	10,745	5,355	9,253	11,561
Tax	853	550	-35.6	653	-15.9	3,254	1,731	2,776	3,468
Adjusted PAT	2,087	1,286	-38.4	1,536	-16.3	7,440	8,271	6,477	8,093
NPM (%)	13.1	8.4		8.7		12.6	12.5	9.3	10.2
EPS (Rs)	2.1	1.3	-38.4	1.5	-16.3	7.4	8.2	6.4	8.1

Prerna Jhunjhunwala, Nishant Agrawal



**Operating cost break-up (% of Sales)**

Particulars	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	YoY(bps)
Raw Material Cost	45.5	45.7	42.0	49.4	48.3	284
Employee Expenses	9.7	8.5	11.0	9.5	10.8	112
Other Operating Expenses	18.3	21.8	24.0	19.3	19.9	151
<b>Total Operating Cost</b>	<b>73.5</b>	<b>75.9</b>	<b>76.9</b>	<b>78.2</b>	<b>78.9</b>	<b>547</b>

## Welspun India

## Income Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18E	Mar 19E
<b>Net sales</b>	<b>59,239</b>	<b>66,405</b>	<b>69,749</b>	<b>79,342</b>
<i>Growth (%)</i>	<i>11.7</i>	<i>12.1</i>	<i>5.0</i>	<i>13.8</i>
Operating expenses	-43,312	-50,572	-54,613	-61,808
<b>Operating profit</b>	<b>15,927</b>	<b>15,834</b>	<b>15,136</b>	<b>17,535</b>
Other operating income	0	0	0	0
<b>EBITDA</b>	<b>15,927</b>	<b>15,834</b>	<b>15,136</b>	<b>17,535</b>
<i>Growth (%)</i>	<i>25.0</i>	<i>(0.6)</i>	<i>(4.4)</i>	<i>15.9</i>
Depreciation	-3,718	-5,054	-5,243	-5,578
Other income	904	806	781	820
<b>EBIT</b>	<b>13,113</b>	<b>11,585</b>	<b>10,674</b>	<b>12,777</b>
Finance cost	-2,368	-1,583	-1,422	-1,216
Exceptional & extraordinary	0	-4,648	0	0
<b>Profit before tax</b>	<b>10,745</b>	<b>5,355</b>	<b>9,253</b>	<b>11,561</b>
Tax (current + deferred)	-3,254	-1,731	-2,776	-3,468
P / L form discount. Op.	0	0	0	0
<b>Profit / (Loss) for period</b>	<b>7,491</b>	<b>3,624</b>	<b>6,477</b>	<b>8,093</b>
P/L of Ass., Min Int, Pref Div	-52	0	0	0
Reported Profit / (Loss)	7,440	3,624	6,477	8,093
Adjusted net profit	7,440	8,271	6,477	8,093
<i>Growth (%)</i>	<i>37.8</i>	<i>11.2</i>	<i>-21.7</i>	<i>24.9</i>

## Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18E	Mar 19E
Share capital	1,005	1,005	1,005	1,005
Reserves & surplus	18,696	22,967	27,807	33,856
<b>Shareholders' funds</b>	<b>19,701</b>	<b>23,972</b>	<b>28,812</b>	<b>34,860</b>
Minority Interests and others	412	355	355	355
<b>Non-current liabilities</b>	<b>21,181</b>	<b>24,682</b>	<b>26,767</b>	<b>26,764</b>
Long-term borrowings	17,922	20,160	22,088	21,916
Other non-current liabilities	3,259	4,521	4,679	4,848
<b>Current liabilities</b>	<b>24,198</b>	<b>24,275</b>	<b>22,035</b>	<b>21,622</b>
ST borrow, Curr maturity	14,556	13,793	10,692	8,969
Other current liabilities	9,641	10,482	11,343	12,652
<b>Total (Equity and Liab)</b>	<b>65,491</b>	<b>73,283</b>	<b>77,969</b>	<b>83,602</b>
<b>Non-current assets</b>	<b>37,515</b>	<b>38,991</b>	<b>40,836</b>	<b>39,424</b>
Fixed assets (Net block)	33,508	35,713	37,440	35,896
Non-current Investments	39	29	29	29
Long-term loans and adv	1,292	694	764	840
Other non-current assets	2,677	2,555	2,603	2,659
<b>Current assets</b>	<b>27,976</b>	<b>34,292</b>	<b>37,134</b>	<b>44,178</b>
Cash & Current investment	1,490	2,857	1,605	3,108
Other current assets	26,486	31,435	35,529	41,070
<b>Total (Assets)</b>	<b>65,491</b>	<b>73,283</b>	<b>77,969</b>	<b>83,602</b>
Total debt	32,478	33,953	32,780	30,886
Capital employed	55,850	62,801	66,626	70,949

## Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18E	Mar 19E
<b>Profit before tax</b>	<b>10,745</b>	<b>5,355</b>	<b>9,253</b>	<b>11,561</b>
Depreciation	3,718	5,054	5,243	5,578
Change in working capital	-3,287	-3,278	-3,224	-4,226
Total tax paid	-2,567	-891	-2,776	-3,468
Others	2,368	1,583	1,422	1,216
<b>Cash flow from oper. (a)</b>	<b>10,977</b>	<b>7,823</b>	<b>9,917</b>	<b>10,660</b>
Capital expenditure	-11,177	-7,259	-6,970	-4,034
Change in investments	1,135	-972	1,229	0
Others	-699	54	-81	-90
<b>Cash flow from inv. (b)</b>	<b>-10,741</b>	<b>-8,177</b>	<b>-5,823</b>	<b>-4,123</b>
<b>Free cash flow (a+b)</b>	<b>237</b>	<b>-355</b>	<b>4,094</b>	<b>6,537</b>
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	1,627	1,475	-1,173	-1,894
Dividend (incl. tax)	-1,558	-786	-1,636	-2,044
Others	-2,315	50	-1,308	-1,095
<b>Cash flow from fin. (c)</b>	<b>-2,246</b>	<b>740</b>	<b>-4,117</b>	<b>-5,034</b>
<b>Net chg in cash (a+b+c)</b>	<b>-2,009</b>	<b>385</b>	<b>-24</b>	<b>1,504</b>

## Key ratios (Consolidated)

Period end (%)	Mar 16	Mar 17	Mar 18E	Mar 19E
Adjusted EPS (Rs)	7.4	8.2	6.4	8.1
<i>Growth (%)</i>	<i>37.8</i>	<i>11.2</i>	<i>(21.7)</i>	<i>24.9</i>
CEPS (Rs)	11.1	13.3	11.7	13.6
Book NAV/share (Rs)	19.6	23.9	28.7	34.7
Dividend/share (Rs)	1.3	0.7	1.4	1.7
Dividend payout ratio	20.9	21.7	25.3	25.3
EBITDA margin	26.9	23.8	21.7	22.1
EBIT margin	22.1	17.4	15.3	16.1
Tax rate	30.3	17.3	30.0	30.0
RoCE	25.4	19.5	16.5	18.6
Total debt/Equity (x)	1.6	1.4	1.1	0.9
Net debt/Equity (x)	1.5	1.3	1.1	0.8
<b>Du Pont Analysis - ROE</b>				
Net margin	12.6	12.5	9.3	10.2
Asset turnover (x)	1.0	1.0	0.9	1.0
Leverage factor (x)	3.6	3.2	2.9	2.5
Return on equity	43.7	37.9	24.5	25.4

## Valuations (Consolidated)

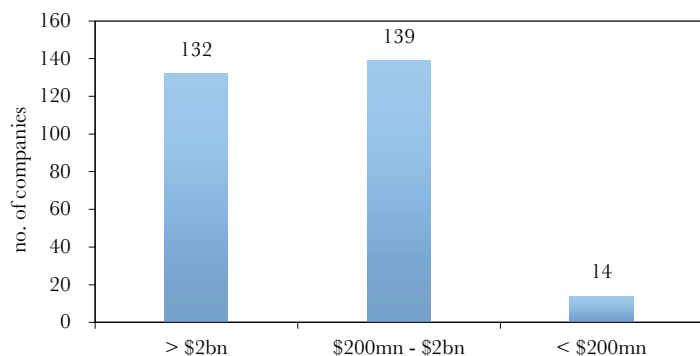
Period end (x)	Mar 16	Mar 17	Mar 18E	Mar 19E
PER	13.4	10.7	12.5	10.0
PCE	8.9	6.6	6.9	5.9
Price/Book	5.0	3.7	2.8	2.3
Yield (%)	1.3	0.7	1.7	2.1
EV/EBITDA	8.2	7.5	7.4	6.2

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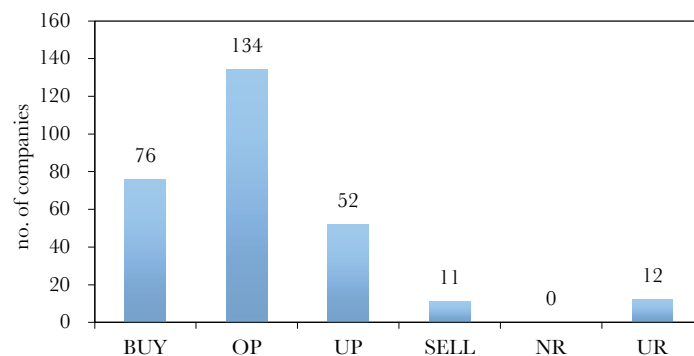
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By Market Cap (US\$ mn)



By Recommendation



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<b>BUY</b>	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
<b>OUTPERFORMER</b>	+10% to +20%	+15% to +25%	+20% to +30%
<b>UNDERPERFORMER</b>	+10% to -10%	+15% to -15%	+20% to -20%
<b>SELL</b>	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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