

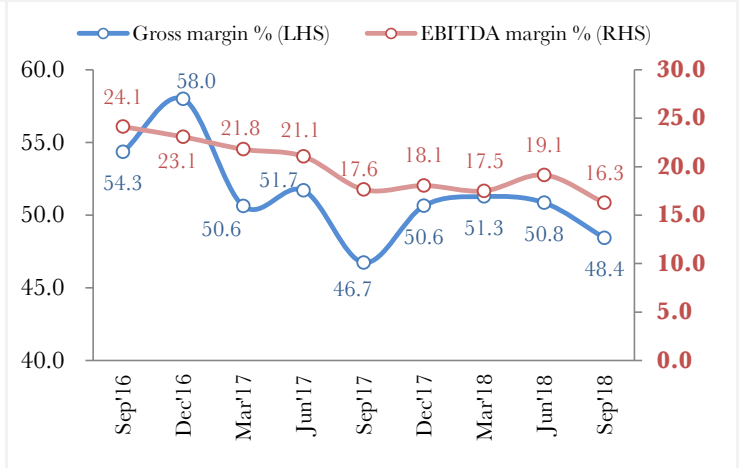
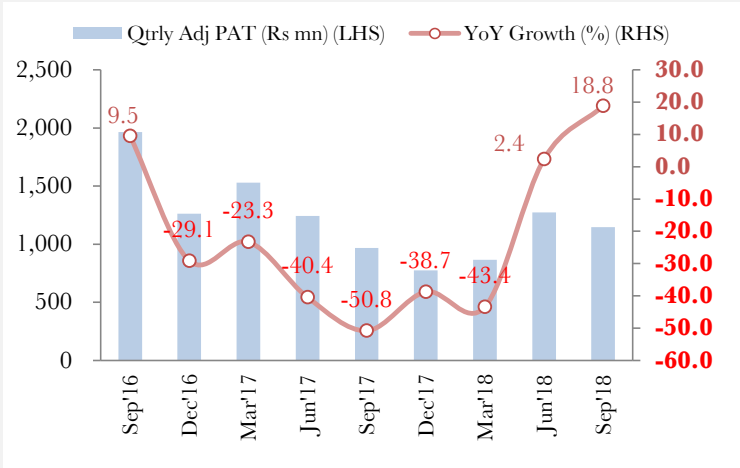
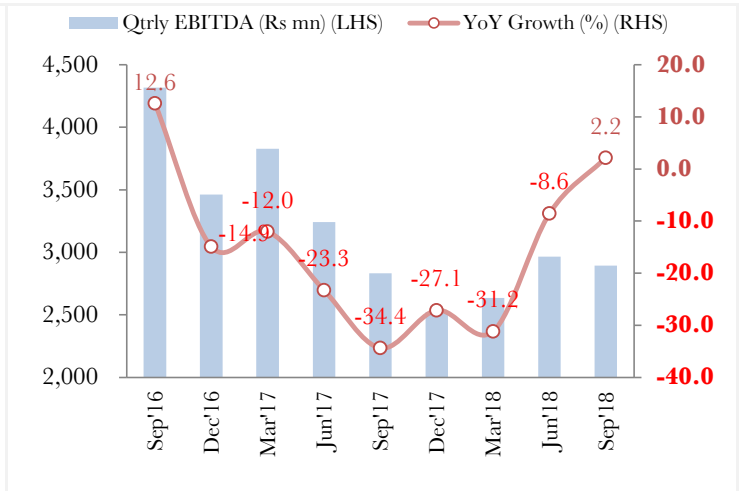
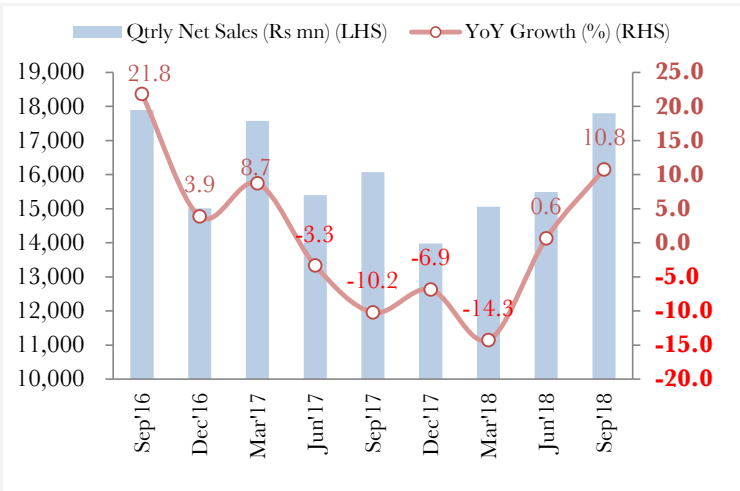
CMP (Rs) 58

TP (Rs) 72

Maintain BUY

Key growth figures	YoY (%)	QoQ (%)			Key Points from Results				
	Actual	Actual	Our Est	Consensus					
Net Sales	10.8	14.9	6.9	4.0	<ul style="list-style-type: none"> <li>Consolidated revenue was driven by 12% YoY volume growth.</li> <li>Consolidated EBITDA margins contracted 137 bps YoY (324 bps lower than B&amp;Kc) impacted by higher dollar denominated costs (imported cotton, dyes &amp; chemicals) and crude derived costs (freight, power &amp; fuel and dyes &amp; chemicals).</li> </ul>				
EBITDA	2.2	-2.4	9.0	n/a					
Adj PAT	18.8	-9.8	10.5	-3.9					
EPS (Rs)	18.8	-9.8	10.5	-3.9					
Year end	FY17	FY18	FY19E	FY20E	Commentary and Outlook				
Valuations									
PER (x)	10.7	15.2	12.3	9.5	<ul style="list-style-type: none"> <li>WLSI incurred a capex of Rs 3.2 bn in 1HFY19 and expects to spend Rs 9 bn for FY19E.</li> <li>WLSI incurred legal expenses of Rs 100-110 mn in relation to class action suits filed in US. This expense is likely to be incurred every quarter till the suits are settled. WLSI also made a provision of Rs 27 mn for ILFS bonds. Welspun India reported better than expected revenue growth but missed our EBITDA/PAT expectations. With recovery in US retail sales and depreciating INR, the management increased its FY19E top-line guidance to 10-12% from 8-10%, while EBITDA margin was lowered to ~18% from 19-20%. We are positive on the company strategy of maintaining leadership position, focus on branded products and domestic market and diversified product portfolio. We revise our FY19E and FY20E earnings estimates downwards in-line with increase in cost structure led by cotton, rupee depreciation and crude oil. Accordingly, we have revised our FY19E and FY20E sales/EBITDA/PAT estimate by 2.3%/(7.6%)/(15.3%) and 4.7%/(5.1%)/(10.5%) respectively. We maintain BUY rating on the stock with revised target price of Rs 72 (7x FY20E EV/EBITDA) from Rs 79 earlier. Key risks to our estimates are higher cotton and crude oil price. Key catalyst for the stock includes higher volume growth, favourable settlement of the US class-action lawsuits and decline in raw material price.</li> </ul>				
PBV (x)	3.7	2.2	2.0	1.7					
EV/EBITDA (x)	7.5	7.9	7.5	6.0					
Div./Yield (%)	0.7	1.1	1.7	2.2					
Key Ratios									
ROE (%)	37.7	15.4	17.0	19.2					
ROCE (%)	19.9	11.3	12.9	15.0					
Liquidity									
Net Debt/Equity	1.2	1.1	1.0	0.8					
Interest cover	7	5	6	7					
FCF (Rs mn)	485	3,454	1,928	5,491					
Historic valuation chart									
									
Financial Highlights									
(Rs mn)	2QFY18	2QFY19	YoY (%)	1QFY19	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	16,070	17,799	10.8	15,492	14.9	66,405	60,506	67,367	77,373
EBITDA	2,833	2,895	2.2	2,965	-2.4	15,834	11,234	11,857	14,314
EBITDA Margin	17.6	16.3		19.1		23.8	18.6	17.6	18.5
Other Income	230	179	-22.3	286	-37.7	806	812	893	938
Interest	325	369	13.6	342	7.8	1,583	1,408	1,475	1,552
Depreciation	1,287	1,083	-15.8	1,059	2.3	5,054	5,042	4,310	4,825
PBT	1,451	1,621	11.7	1,850	-12.4	5,355	5,597	6,965	8,874
Tax	449	404	-10.0	522	-22.5	1,731	1,615	1,985	2,485
Adjusted PAT	966	1,148	18.8	1,272	-9.8	8,223	3,849	4,715	6,112
NPM (%)	6.0	6.4		8.2		12.4	6.4	7.0	7.9
EPS (Rs)	1.0	1.1	18.8	1.3	-9.8	8.2	3.8	4.7	6.1

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

Particulars	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	YoY change (bps)
Raw Material Cost	53.3	49.4	48.7	49.2	51.6	-170
Employee Expenses	10.7	12.1	11.2	11.2	10.1	-57
Other Operating Expenses	18.4	20.5	22.6	20.5	22.1	364
<b>Total Operating Cost</b>	<b>82.4</b>	<b>81.9</b>	<b>82.5</b>	<b>80.9</b>	<b>83.7</b>	<b>137</b>

## Welspun India

## Income Statement

Period end (Rs mn)	Mar 17	Mar 18	Mar 19E	Mar 20E
<b>Net sales</b>	<b>66,405</b>	<b>60,506</b>	<b>67,367</b>	<b>77,373</b>
<i>Growth (%)</i>	<i>12.1</i>	<i>(8.9)</i>	<i>11.3</i>	<i>14.9</i>
Operating expenses	(50,572)	(49,272)	(55,511)	(63,059)
<b>Operating profit</b>	<b>15,834</b>	<b>11,234</b>	<b>11,857</b>	<b>14,314</b>
Other operating income	0	0	0	0
<b>EBITDA</b>	<b>15,834</b>	<b>11,234</b>	<b>11,857</b>	<b>14,314</b>
<i>Growth (%)</i>	<i>(0.6)</i>	<i>(29.1)</i>	<i>5.5</i>	<i>20.7</i>
Depreciation	(5,054)	(5,042)	(4,310)	(4,825)
Other income	806	812	893	938
<b>EBIT</b>	<b>11,585</b>	<b>7,004</b>	<b>8,440</b>	<b>10,427</b>
Finance cost	(1,583)	(1,408)	(1,475)	(1,552)
Exceptional & extraordinary	(4,648)	0	0	0
<b>Profit before tax</b>	<b>5,355</b>	<b>5,597</b>	<b>6,965</b>	<b>8,874</b>
Tax (current + deferred)	(1,731)	(1,615)	(1,985)	(2,485)
P / L form discount. Op.	0	0	0	0
<b>Profit / (Loss) for period</b>	<b>3,624</b>	<b>3,982</b>	<b>4,980</b>	<b>6,390</b>
P/L of Ass., Min Int, Pref Div	(48)	(132)	(265)	(278)
Reported Profit / (Loss)	3,576	3,849	4,715	6,112
Adjusted net profit	8,223	3,849	4,715	6,112
<i>Growth (%)</i>	<i>10.2</i>	<i>-53.2</i>	<i>22.5</i>	<i>29.6</i>

## Balance Sheet

Period end (Rs mn)	Mar 17	Mar 18	Mar 19E	Mar 20E
Share capital	1,005	1,005	1,005	1,005
Reserves & surplus	22,967	25,052	28,575	33,157
<b>Shareholders' funds</b>	<b>23,971</b>	<b>26,056</b>	<b>29,580</b>	<b>34,162</b>
Minority Interests and others	355	467	732	1,009
<b>Non-current liabilities</b>	<b>23,979</b>	<b>20,660</b>	<b>21,607</b>	<b>19,808</b>
Long-term borrowings	20,160	17,028	17,749	15,700
Other non-current liabilities	3,819	3,632	3,858	4,107
<b>Current liabilities</b>	<b>24,275</b>	<b>24,686</b>	<b>26,549</b>	<b>28,691</b>
ST borrow, Curr maturity	12,954	15,779	15,676	16,024
Other current liabilities	11,321	8,907	10,873	12,668
<b>Total (Equity and Liab)</b>	<b>72,581</b>	<b>71,870</b>	<b>78,468</b>	<b>83,670</b>
<b>Non-current assets</b>	<b>38,289</b>	<b>36,762</b>	<b>40,777</b>	<b>40,629</b>
Fixed assets (Net block)	35,713	33,641	37,502	37,178
Non-current Investments	29	278	278	278
Long-term loans and adv	748	967	1,112	1,279
Other non-current assets	1,800	1,876	1,886	1,895
<b>Current assets</b>	<b>34,292</b>	<b>35,108</b>	<b>37,691</b>	<b>43,041</b>
Cash & Current investment	2,857	2,661	2,631	3,439
Other current assets	31,435	32,447	35,060	39,602
<b>Total (Assets)</b>	<b>72,581</b>	<b>71,870</b>	<b>78,468</b>	<b>83,670</b>
Total debt	33,114	32,807	33,426	31,724
Capital employed	61,260	62,962	67,595	71,002

## Cash Flow Statement

Period end (Rs mn)	Mar 17	Mar 18	Mar 19E	Mar 20E
<b>Profit before tax</b>	<b>5,355</b>	<b>5,597</b>	<b>6,965</b>	<b>8,874</b>
Depreciation	5,054	5,042	4,310	4,825
Change in working capital	(2,448)	(3,850)	(657)	(2,766)
Total tax paid	(863)	(1,715)	(1,985)	(2,485)
Others	1,583	1,408	1,475	1,552
<b>Cash flow from oper. (a)</b>	<b>8,680</b>	<b>6,481</b>	<b>10,108</b>	<b>10,001</b>
Capital expenditure	(7,259)	(2,970)	(8,171)	(4,500)
Change in investments	(972)	(25)	0	0
Others	36	(32)	(9)	(10)
<b>Cash flow from inv. (b)</b>	<b>(8,196)</b>	<b>(3,027)</b>	<b>(8,180)</b>	<b>(4,510)</b>
<b>Free cash flow (a+b)</b>	<b>485</b>	<b>3,454</b>	<b>1,928</b>	<b>5,491</b>
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	636	(307)	619	(1,702)
Dividend (incl. tax)	(786)	(786)	(1,192)	(1,530)
Others	51	(2,333)	(1,384)	(1,452)
<b>Cash flow from fin. (c)</b>	<b>(100)</b>	<b>(3,426)</b>	<b>(1,957)</b>	<b>(4,684)</b>
<b>Net chg in cash (a+b+c)</b>	<b>385</b>	<b>28</b>	<b>(30)</b>	<b>807</b>

## Key ratios

Period end (%)	Mar 17	Mar 18	Mar 19E	Mar 20E
Adjusted EPS (Rs)	8.2	3.8	4.7	6.1
<i>Growth (%)</i>	<i>10.2</i>	<i>(53.2)</i>	<i>22.5</i>	<i>29.6</i>
CEPS (Rs)	13.2	8.8	9.0	10.9
Book NAV/share (Rs)	23.9	25.9	29.4	34.0
Dividend/share (Rs)	0.7	0.7	1.0	1.3
Dividend payout ratio	22.0	20.4	25.3	25.0
EBITDA margin	23.8	18.6	17.6	18.5
EBIT margin	17.4	11.6	12.5	13.5
Tax rate	17.3	28.9	28.5	28.0
RoCE	19.9	11.3	12.9	15.0
Total debt/Equity (x)	1.4	1.2	1.1	0.9
Net debt/Equity (x)	1.2	1.1	1.0	0.8
<b>Du Pont Analysis - ROE</b>				
Net margin	12.4	6.4	7.0	7.9
Asset turnover (x)	1.0	0.8	0.9	1.0
Leverage factor (x)	3.1	2.9	2.7	2.5
Return on equity	37.7	15.4	17.0	19.2

## Valuations

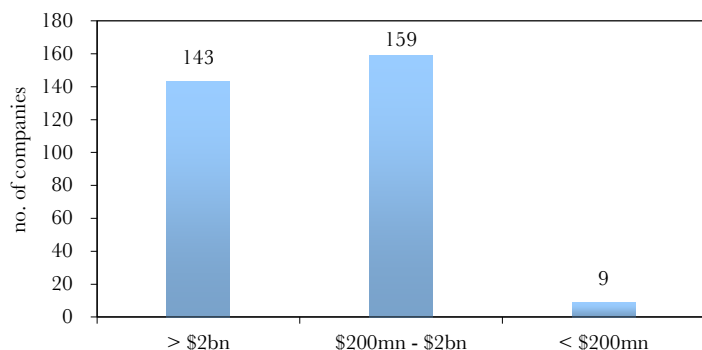
Period end (x)	Mar 17	Mar 18	Mar 19E	Mar 20E
PER	10.7	15.2	12.3	9.5
PCE	6.6	6.6	6.4	5.3
Price/Book	3.7	2.2	2.0	1.7
Yield (%)	0.7	1.1	1.7	2.2
EV/EBITDA	7.5	7.9	7.5	6.0

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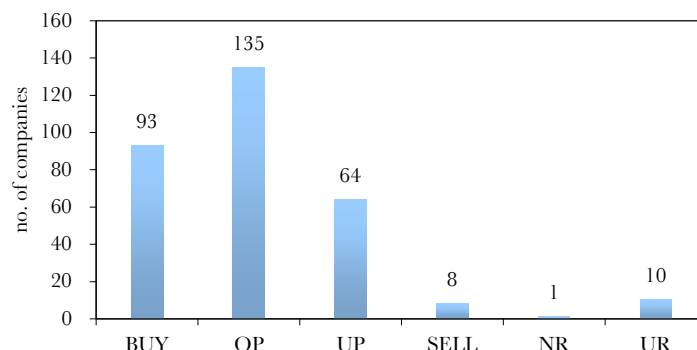
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### B&K Universe Profile

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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