

Welspun India (WLSI IN)

Clear ESG targets for 2025-2030

Home textile major has strong ESG ambition

We recently hosted WLSI's management to discuss its ESG practices and ambitions. It is one of the largest home textile companies globally and the No.1 in India. Exports make up 88% of revenue. Despite key ESG issues in the textile sector (such as alleged human rights violation and environmental pollution), WLSI has a good track record and practices to address these. Its ambition to become 'carbon neutral' and 'freshwater positive' by 2030 is quite bold within and outside the textile sector.

Clear plan and strategy for 2030 ESG roadmap

WLSI has direct emissions amounting to c. 900kt CO₂e pa. It aims to shift to 100% renewable energy by 2030 by replacing 40-45MW captive thermal power plant. This would be done by investing in roof-top and large-scale solar capacity and grid power purchase through third party. The company generates a cash profit of INR9b pa, which would enable it to finance this transition. The bulk of its solar capacity would come in the state of Gujarat where it has surplus land. The shift in its energy mix and cut in emissions may not be linear but would be largely through reductions.

Initiatives on waste, supply chain, gender diversity

WLSI is recycling 81% of its hazardous and 13% of non-hazardous waste. It aims to achieve 100% recycling of waste by 2025. It sources 31% of total as sustainable cotton by supporting 13,000 farmers. By 2030 it aims to support 500,000 farmers and source 100% sustainable cotton. Women form 25% of its workforce of 20,000 and a large number of them are engaged in making hand-crafted textile. The company is certified SA-8000 for human rights and has to undergo frequent client audits by retailers such as Walmart, Amazon, Costco, Tesco, Ikea and Sainsbury's.

WLSI's ESG targets are clearer than peers

In our comparison of ESG practices by textile and apparel companies in India we noticed WLSI has the clearest path and strategy regarding ESG targets in the medium to long term. The textile sector is the 2nd most polluting globally and it's responsible for 2% of global GHG emissions, which warrants urgency in sustainable practices. WLSI's efforts to decarbonize with proactive ESG practices are in line with the global trend of decline in 'fast fashion' and clear preference for sustainable textile products by millennials/Gen Z.

FYE Mar (INR m)	FY16A	FY17A	FY18A	FY19A	FY20A
Revenue	59,239	66,405	60,506	65,266	67,411
EBITDA	15,927	15,834	11,234	10,649	12,147
Core net profit	7,365	8,223	3,850	4,745	4,640
Core EPS (INR)	7	8	4	5	5
Core EPS growth (%)	36.4	11.7	(53.2)	23.3	(2.2)
Net DPS (INR)	1	1	1	0	1
Core P/E (x)	13.6	10.7	15.1	12.6	4.7
P/BV (x)	5.1	3.7	2.2	2.2	0.7
Net dividend yield (%)	1.3	0.7	1.1	0.5	4.6
ROAE (%)	43.3	16.4	15.4	7.8	17.6
ROAA (%)	12.0	11.9	5.3	6.3	5.8
EV/EBITDA (x)	8.2	7.5	7.9	8.5	4.4
Net gearing (%) (incl perps)	154.1	124.4	113.7	106.6	99.7

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Not Rated

Share Price

INR 84

Company Description

Part of USD2.7b Welspun group, WLSI is a global leader in home textiles, supplying to top global retailers

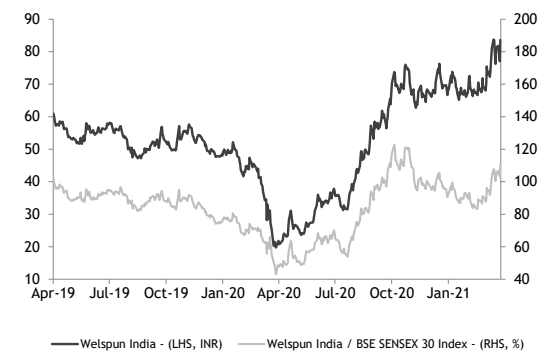
Statistics

52w high/low (INR)	84/21
3m avg turnover (USDm)	1.8
Free float (%)	29.3
Issued shares (m)	1,005
Market capitalisation	INR84.0B USD1.2B

Major shareholders:

GOENKA BALKRISHAN GOPIRAM	69.2%
DSP Investment Managers Pvt Ltd.	3.2%
Life Insurance Corp of India	1.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	22	22	322
Relative to index (%)	22	19	157

Source: FactSet

Company Profile

Fig 1: Welspun India Snapshot

Business	Company milestones
<ul style="list-style-type: none"> WLSI is part of the USD2.7b Welspun Group. It is a global leader in the home textile sector catering to top global retailers in Europe and the US. WLSI is consistently ranked No.1 as a home textile supplier to the US from India. 1 in every 5 towels and 1 in 9 Bed sheets sold in the US is made by WLSI. Revenue break-up into segments: ie <ul style="list-style-type: none"> ⇒ Home textile - 91% ⇒ Advanced textile - 4% ⇒ Flooring - 5% 	<ul style="list-style-type: none"> 1994:2010: Transforming from being a textile manufacturer to world's No.1 integrated home textile manufacturer. 2010:2020: Transforming from a manufacturing company to brand-oriented, direct-to-consumer company. 2020 onwards: Evolving into Welspun 2.0 with focus on brands, e-commerce, ESG, innovation, and digitalization.

Board and senior management	Quarterly results summary
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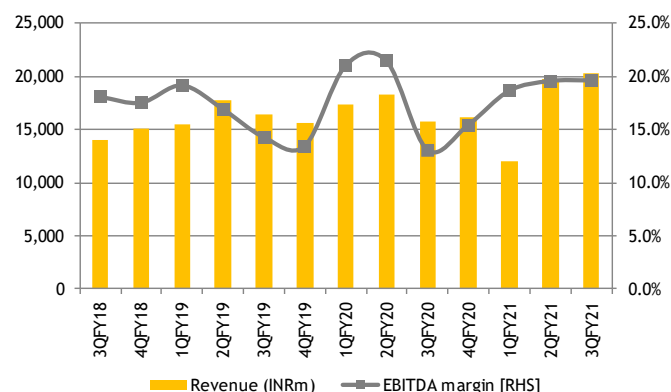
- WLSI's board of directors consists of 7 members. Of these, 3 are promoter/family members. Independent directors are 57% of total board and women form 29% of the board. The audit committee is chaired by an independent director, although the remuneration committee is chaired by the non-independent chairman.
- Average tenure of independent and non-independent directors is 6.9 and 25.2 years as at March'21.

Rajesh Mandawewala (Managing Director) - Promoter of Welspun Group, he is a Chartered Accountant by profession and has over 35 years of experience in industries varying from textiles to SAW pipes.

Dipali Goenka (CEO & Jt. MD) - She has been spearheading the company since 2002. She completed management course at Harvard Business School in 2005.

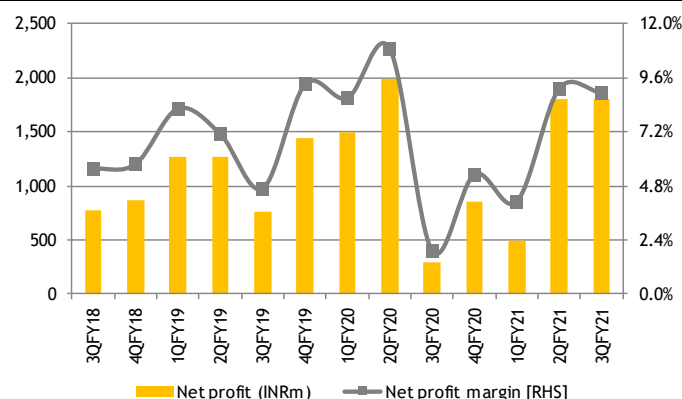
Sanjeev Sancheti (President) - joined the company in July 2020. He has 29 years of experience in finance, accounts and corporate strategy, which includes experience in mergers & acquisitions, alliances, divestment and alternative strategies.

Fig 2: Revenue & EBITDA



Source: Company

Fig 3: Net profit and net margin

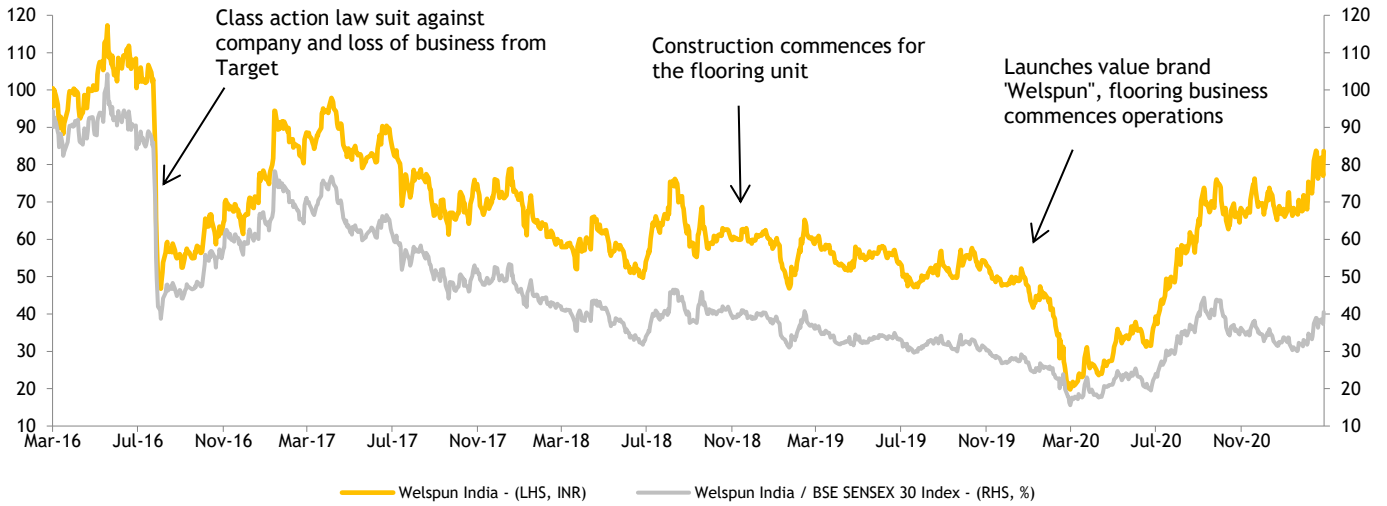


Source: Company

Source: Company data, Maybank Kim Eng

Share price history

Fig 4: Share price and key events



Source: Factset, Company

SWOT analysis

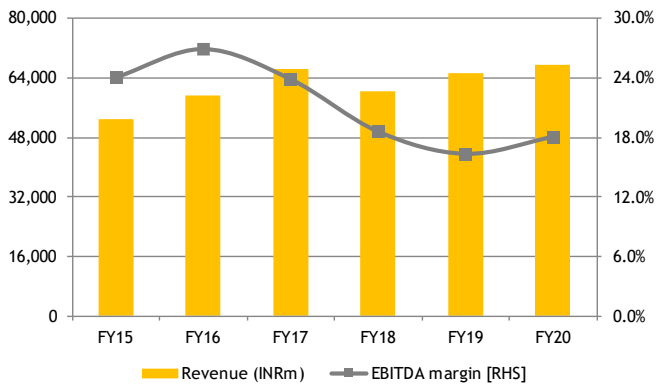
Fig 5: SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> • Leading global home textile maker • Cost efficiency and control • Strong client base 	<ul style="list-style-type: none"> • Volatility in cotton prices/availability • Negligible portion of organic cotton product portfolio • Lack of strong pricing power and premium products
Opportunities	Threats
<ul style="list-style-type: none"> • Increase in sale of premium products of tech textiles • Increase in sales of e-commerce, B2C and flooring sales • Replacement of coal-based power to renewable power 	<ul style="list-style-type: none"> • Supply chain disruption following Covid-19 • Competition from Bangladesh and Vietnam • Slow implementation of ESG initiatives

Source: Company, Maybank Kim Eng

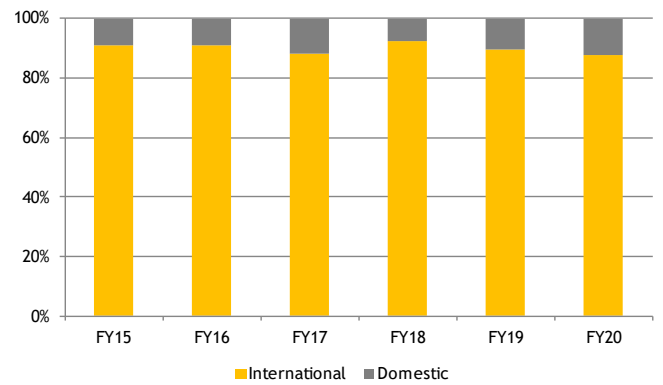
Financial snapshot

Fig 6: Revenue growth is slow and EBITDA margin down vs FY16



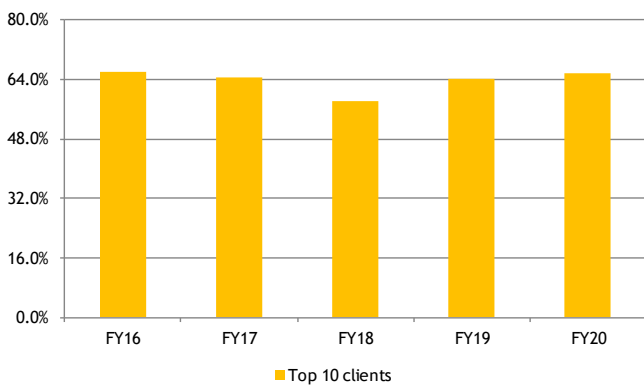
Source: Company

Fig 7: Exports form over 80% of revenue consistently



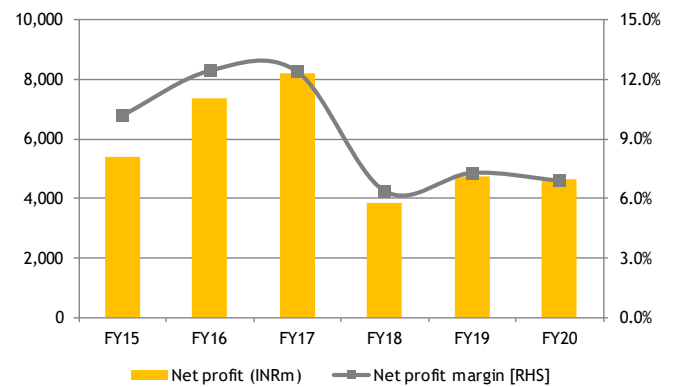
Source: Company

Fig 8: Top 10 clients account for over 60% of revenue



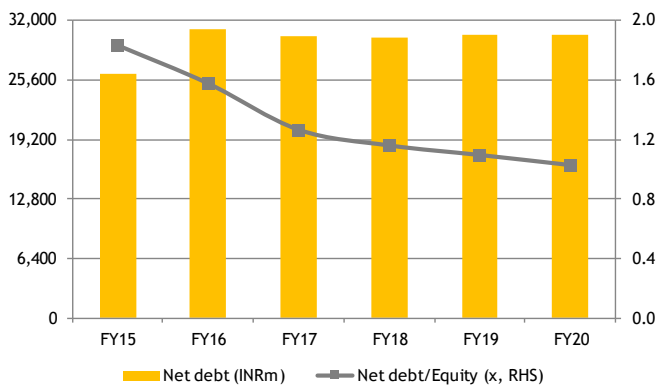
Source: Company

Fig 9: Recurring net profit and margin down vis a vis FY17



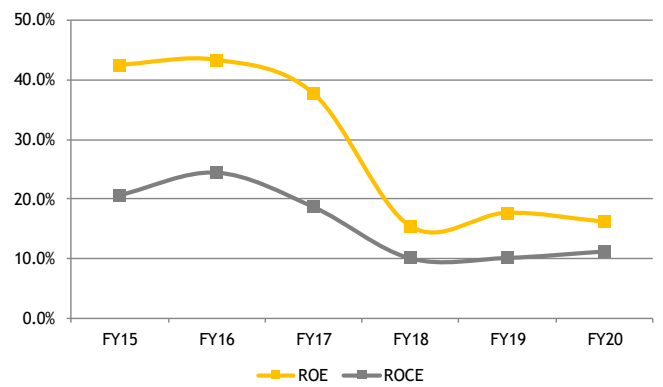
Source: Company

Fig 10: Net debt and net debt/equity are coming down



Source: Company

Fig 11: ROE and ROCE are improving slowly



Source: Factset

WLSI: Material ESG factors and our views

Fig 12: WLSI material ESG factors and our view

ESG factor	Initiative	Key Metrics	What we would like to see
GHG emissions	<ul style="list-style-type: none"> Carbon neutral by 2030 Shift to 100% renewable energy by 2030 	<ul style="list-style-type: none"> 846k CO2e for FY20 24.1GJ/T Renewable energy at 7% as of Dec'20 	<ul style="list-style-type: none"> Externally certified, Detailed GHG report including scope 3 emissions Detailed break-down of strategy of going carbon neutral including offsets
Water	<ul style="list-style-type: none"> Freshwater positive (in production operations) by 2030 Reduce current freshwater usage by 50% in 2025 	<ul style="list-style-type: none"> Product water intensity of 28.6M3/tonne Fresh water intensity 8.37M3/T Total water consumption 6.2m M3 	<ul style="list-style-type: none"> Reduce fresh water usage to zero
Waste	<ul style="list-style-type: none"> Recycled plastic waste and used in packaging Recycled hazardous waste into captive power plant Factory waste recycled/upcycled 	<ul style="list-style-type: none"> 81% hazardous waste externally recycled 13% non-hazardous waste recycled and reused; remaining sent outside factory for recycling 	<ul style="list-style-type: none"> 100% recycling of waste Increased share of waste based finished products in revenue
Cotton sourcing	<ul style="list-style-type: none"> Targeting to source 100% sustainable cotton by 2030 Engages with farmers to grow BCI as well as organic cotton Engages 70k farmers 	<ul style="list-style-type: none"> 17kt or 31% of cotton sourced is sustainable 	<ul style="list-style-type: none"> Increase sourcing of organic cotton and raise share of organic cotton product revenue
Diversity, inclusion	<ul style="list-style-type: none"> ESG Committee at board-level to oversee all governance around ESG 	<ul style="list-style-type: none"> Female are 25% of workforce 80k training hours in FY20 160k beneficiaries of community development program SA-8000 certified 	<ul style="list-style-type: none"> Increase share of women to 1/3rd of board memberships and top management Restrict independent directors' tenure to less than 10 years
Supply chain related	<ul style="list-style-type: none"> Completed assessments with 76 of total tier 1 suppliers (audited on social and environmental aspects) 	<ul style="list-style-type: none"> Higg Index score on supply chain assessment is on the rise Target to assess all tier 1 suppliers by FY22 	<ul style="list-style-type: none"> External certification on supply chain assessments

Fig 13: Comparison with peers on various ESG parameters

ESG Metrics	Aditya Birla Fashions	Vardhman Textiles	Page Industries	Arvind Ltd	Welspun India
GHG emissions	FY20 - 60,038 tCO2	NA	FY20 - 12,774 tCO2	FY19 - 732,862 tCO2	FY20 - 846,954 tCO2
Water	Water neutral across facilities in FY20	3 effluent treatment plants and 8 sewage treatment plants	76.2% of water recycled and reused, 100% of sewage water reused	Commissioned 8MLD sewage recycling plant. Zero liquid discharge plant with 18ML/day capacity	Targets to be fresh water neutral by 2030 vs 10 KL/MT as of Dec'20
Waste	Zero waste to landfill achieved across own facilities for non-hazardous waste	Disposal of hazardous solid waste is done only through authorized disposal facilities	Zero waste to landfill by FY22. To establish a Restricted Substances List Policy to minimise hazardous waste	All textile non-hazardous waste is sent to recyclers	81% of hazardous waste was recycled externally. Target Zero waste to landfill by 2025
Carbon neutrality target	NA	NA	NA	NA	Carbon neutral by 2030
Renewable energy	25% of energy requirement is met from renewable sources	In the process of setting up 8.75 MW solar energy installations	Has solar rooftop project commissioned with generating capacity of 50 kW. Biomass used for steam generation	Total solar energy capacity of 25MW. Target to increase it to 40 MW	Targets to be 100% renewable energy by 2030 vs 7% as of Dec'20
Packaging	87% sustainable packaging	NA	Collaborated with SAAHAS a non-profit organization. SAAHAS is to collect and recycle or co-process plastic of equivalent amount to the plastic waste generated by PAGE's packaging	Recycling of packaging material	Moving to sustainable packaging by reducing PVC and using recycled / recyclable material. 85% packaging sourced is certified sustainable
Better Cotton Initiative / Organic / recycled	Association with Cotton 2040 and Better Cotton Initiative. Recycled polyester using PET bottles. 10% products by volume to be recycled by 2025	13,949 farmers covered as of FY20 under Project Pragati, usage of organic and recycled cotton and recycled fabric	90% of critical fabric suppliers are OEKO TEX certified	Sustainable farming operations cover 80,000 farmers in FY20. Production of recycled denim, renewable wood, recycled polyester etc.	Targets to have 100% sustainable cotton by 2030 vs 29% as of Dec'20. Targets to cover 100k farmers vs 13,029 as of Dec'20
Vendor code of conduct	90% of total vendors covered for code of conduct audit	NA	To cover 20% of domestic suppliers under sustainability assessment by FY21 and 100% by 2025	Higg Index score of 76-89 across facilities	Assessed 76 tier 1 suppliers for ESG. Target to complete assessment of all tier 1s by FY22. Higg Index score for Anjar factory at 96% and Vapi at 85.2%
Board diversity	12.5% of directors are women. Independent directors form 50% of the eight board members.	22% of directors are women. Independent directors form 56% of the nine member board.	6.7% of directors are women. Independent directors form 47% of the 15 member board.	11% of directors are women. Independent directors form 56% of the 9 member board.	28.5% of directors are women. Independent directors form 57% of the 7 member board.
Controversies	NA	In May 2020, over 400 migrant workers held a protest over alleged worker exploitation claims	The Norwegian sovereign fund - Government Pension Fund Global recommended excluding PAGE from investment highlighting "systemic human right abuses" at its Bengaluru unit	There have been worker strikes in factory in July 2012, Jan 2013 and Oct 2015	FY17 - Class action lawsuit in the US for inappropriate labelling and use of low quality Egyptian cotton settled for USD36m. Target cancelling its contract
Sustainalytics ESG Risk Rating *	13.2	12.9	14.8	20.2	17.6

*Sustainalytics score – lower is better risk score.

Notes:

1. OEKO-TEX certification ensures that the materials used in products are free from harmful substances, from yarn to the finished fabric and are produced in facilities that are in environmentally and socially sound condition.
2. WRAP certification is issued post thorough evaluation of production facilities based on 12 principles of social compliance.
3. Higg Index is an apparel and footwear industry self-assessment standard for assessing environmental and social sustainability throughout supply chain.
4. With regard to the recent issue about the labour practices in China's Uighyur province and decision of Western Brands to stop sourcing from this region, we checked the implications with WLSI. WLSI clarified that it does not source cotton from China and that its sales to Western brands are for their local stores only. At this point of time, it has no impact from this issue in the textile sector.

From the above comparison of ESG practices of the textile sector including apparels, WLSI stands out in terms of its targets to go carbon neutral, freshwater neutral and 100% renewable energy use in the next decade. It has comparable or better disclosures than peers in the sector.

Fig 14: Peer comparison

Company	Bbg code	MCAP	CMP	TP	P/E			EV/EBITDA			ROE
		INRb	INR	INR	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20
Welspun India	WLSI IN	84	84	NR	15.3	14.8	11.4	13.1	7.5	6.4	15.9%
Aditya Birla Fashion	ABFRL IN	175	206	NR	n.a.	n.a.	93.6	15.3	71.4	15.2	-8.3%
Arvind Ltd	ARVND IN	17	66	NR	17.4	n.a.	8.6	7.1	8.6	4.9	4.7%
Page Industries	PAG IN	335	30,000	NR	95.0	96.3	61.2	59.8	61.8	41.9	41.9%
Vardhman Textiles	VTEX IN	70	1,216	NR	11.7	18.3	8.6	7.5	9.3	5.3	8.0%
Average					41.4	57.3	43.0	22.4	37.8	16.8	11.6%

Source: Company, Bloomberg, Factset

The valuation of leading textile companies in India as presented in the above table suggests that the apparel retailers and branded clothing companies are commanding better valuations. The B2B companies are trading at relatively low valuations and their ESG practices have not been factored in. In general, better ESG practice should reduce their risk towards carbon taxes, litigations and loss of revenue as customers shift to more environment friendly practices.

FYE 31 Mar	FY16A	FY17A	FY18A	FY19A	FY20A
Key Metrics					
P/E (reported) (x)	13.4	23.1	19.7	28.5	9.9
Core P/E (x)	13.6	10.7	15.1	12.6	4.7
P/BV (x)	5.1	3.7	2.2	2.2	0.7
P/NTA (x)	5.6	4.0	2.4	2.4	0.8
Net dividend yield (%)	1.3	0.7	1.1	0.5	4.6
FCF yield (%)	2.8	2.1	3.7	3.2	19.5
EV/EBITDA (x)	8.2	7.5	7.9	8.5	4.4
EV/EBIT (x)	10.7	11.0	14.3	14.5	7.3
INCOME STATEMENT (INR m)					
Revenue	59,238.5	66,405.4	60,505.8	65,266.2	67,410.9
EBITDA	15,926.6	15,834.0	11,234.0	10,648.6	12,146.7
Depreciation	(3,718.2)	(5,054.2)	(5,041.7)	(4,357.6)	(4,810.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	12,208.3	10,779.7	6,192.3	6,291.0	7,335.8
Net interest income / (exp)	(1,463.6)	(777.1)	(595.4)	(774.6)	(826.1)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	(4,647.5)	0.0	(2,647.0)	434.2
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	10,744.7	5,355.1	5,596.9	2,869.4	6,943.9
Income tax	(3,253.5)	(1,731.4)	(1,614.9)	(607.7)	(1,700.4)
Minorities	(126.2)	(48.1)	(132.3)	(163.4)	(169.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	7,365.0	3,575.6	3,849.7	2,098.3	5,073.7
Core net profit	7,365.0	8,223.1	3,849.7	4,745.3	4,639.6
BALANCE SHEET (INR m)					
Cash & Short Term Investments	1,489.5	2,856.7	2,661.0	2,728.0	4,740.9
Accounts receivable	8,499.0	9,600.6	9,309.9	10,768.1	10,861.6
Inventory	11,046.4	12,810.0	13,053.8	13,342.3	15,287.2
Property, Plant & Equip (net)	33,391.1	35,574.6	33,157.3	35,579.0	37,611.5
Intangible assets	1,925.1	1,879.3	2,270.1	2,367.4	2,296.9
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	9,140.1	10,562.0	11,796.4	12,637.9	12,304.8
Total assets	65,491.2	73,283.2	72,248.6	77,422.8	83,102.8
ST interest bearing debt	13,532.6	11,720.8	12,579.6	14,080.2	17,977.5
Accounts payable	6,652.3	7,517.3	6,446.5	7,041.3	8,978.5
LT interest bearing debt	18,945.5	21,392.9	20,227.6	19,023.8	17,231.3
Other liabilities	6,248.0	8,325.0	6,471.0	8,775.0	8,346.0
Total Liabilities	45,378.7	48,956.4	45,724.9	48,920.1	52,533.7
Shareholders Equity	19,700.5	23,971.5	26,056.7	27,793.2	29,720.5
Minority Interest	412.0	355.3	467.0	709.4	848.6
Total shareholder equity	20,112.5	24,326.8	26,523.7	28,502.6	30,569.1
Total liabilities and equity	65,491.2	73,283.2	72,248.6	77,422.8	83,102.8
CASH FLOW (INR m)					
Pretax profit	10,744.7	5,355.1	5,596.9	2,869.4	6,943.9
Depreciation & amortisation	3,718.2	5,054.2	5,041.7	4,357.6	4,810.9
Adj net interest (income)/exp	2,140.2	1,269.8	1,137.7	1,305.9	1,692.9
Change in working capital	(530.0)	(1,522.2)	(4,462.8)	2,535.3	(1,577.3)
Cash taxes paid	(2,393.4)	(1,066.5)	(1,342.5)	(1,244.5)	(1,616.3)
Other operating cash flow	(27.5)	61.2	(16.1)	73.0	(703.0)
Cash flow from operations	13,280.0	8,321.9	5,450.2	8,068.7	7,772.2
Capex	(10,522.2)	(6,469.7)	(3,269.8)	(6,170.5)	(3,505.4)
Free cash flow	2,757.7	1,852.3	2,180.4	1,898.2	4,266.8
Dividends paid	(2,443.4)	(63.4)	(783.4)	(787.3)	(1,574.7)
Equity raised / (purchased)	0.5	(127.8)	0.0	0.4	0.0
Change in Debt	(1,181.9)	454.6	(303.0)	299.1	966.1
Other invest/financing cash flow	(2,300.6)	(718.3)	(1,307.3)	(1,344.1)	(1,662.5)
Effect of exch rate changes	0.0	(30.3)	17.7	0.7	17.0
Net cash flow	(3,167.7)	1,367.2	(195.6)	67.0	2,012.7

FYE 31 Mar	FY16A	FY17A	FY18A	FY19A	FY20A
Key Ratios					
Growth ratios (%)					
Revenue growth	11.7	12.1	(8.9)	7.9	3.3
EBITDA growth	25.0	(0.6)	(29.1)	(5.2)	14.1
EBIT growth	29.7	(11.7)	(42.6)	1.6	16.6
Pretax growth	42.6	(50.2)	4.5	(48.7)	142.0
Reported net profit growth	36.4	(51.5)	7.7	(45.5)	141.8
Core net profit growth	36.4	11.7	(53.2)	23.3	(2.2)
Profitability ratios (%)					
EBITDA margin	26.9	23.8	18.6	16.3	18.0
EBIT margin	20.6	16.2	10.2	9.6	10.9
Pretax profit margin	18.1	8.1	9.3	4.4	10.3
Payout ratio	17.7	18.3	17.0	14.4	19.8
DuPont analysis					
Net profit margin (%)	12.4	5.4	6.4	3.2	7.5
Revenue/Assets (x)	0.9	0.9	0.8	0.8	0.8
Assets/Equity (x)	3.3	3.1	2.8	2.8	2.8
ROAE (%)	43.3	16.4	15.4	7.8	17.6
ROAA (%)	12.0	11.9	5.3	6.3	5.8
Liquidity & Efficiency					
Cash conversion cycle	87.2	96.5	114.2	112.6	113.5
Days receivable outstanding	39.4	49.1	56.3	55.4	57.8
Days inventory outstanding	124.2	116.8	125.9	117.0	126.5
Days payables outstanding	76.4	69.4	68.0	59.8	70.8
Dividend cover (x)	5.6	5.5	5.9	7.0	5.0
Current ratio (x)	1.2	1.5	1.6	1.4	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.5	1.6	1.6	1.6
Net gearing (%) (incl perps)	154.1	124.4	113.7	106.6	99.7
Net gearing (%) (excl. perps)	154.1	124.4	113.7	106.6	99.7
Net interest cover (x)	8.3	13.9	10.4	8.1	8.9
Debt/EBITDA (x)	2.0	2.1	2.9	3.1	2.9
Capex/revenue (%)	17.8	9.7	5.4	9.5	5.2
Net debt/ (net cash)	30,988.6	30,257.0	30,146.1	30,375.9	30,468.0

Source: Company; Maybank

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