Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update | Result Update

Welspun India Ltd

Weak Q4; Medium-long term growth intact

Consumer Discretionary	Sharekhan code: WELSPUNIND

Reco/View: Buy ↔	CMP: Rs. 77	Price Target: Rs. 105 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS	+	↓	=
RQ	+	↔	+
RV	+	↔	+

ESG Disclosure Score NEW

ESG RISK RATING 14.83

Updated Feb 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

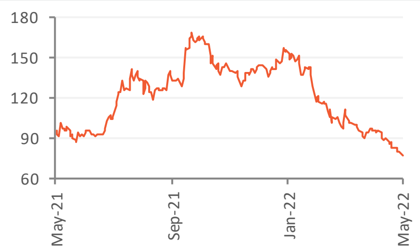
Company details

Market cap:	Rs. 7,613 cr
52-week high/low:	Rs. 171 / 77
NSE volume: (No of shares)	20.3 lakh
BSE code:	514162
NSE code:	WELSPUNIND
Free float: (No of shares)	29.3 cr

Shareholding (%)

Promoters	70.4
FII	8.8
DII	5.3
Others	15.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-19.6	-35.9	-45.2	-20.1
Relative to Sensex	-11.8	-28.9	-35.1	-29.9

Sharekhan Research, Bloomberg

Summary

- Welspun India Limited (WIL) posted weak performance in Q4FY2022 as revenue growth was affected by logistics disruption and inventory correction at retail level, while margins were affected by input cost inflation. Revenue grew by 4% y-o-y and PAT decreased by 62% y-o-y.
- Supply-side constraints and input cost inflation continued to persist, impacting margins with gross margin declining by 772 bps y-o-y and EBITDA margin falling by 483 bps y-o-y. Capacity utilisation stood at 67% for bath linen, 69% for bed linen, and 57% for rugs and carpets.
- The company expects margins to continue to be affected in the near term (next 2-3 quarters) but is confident of restoring margins to pre-COVID levels of ~20% by undertaking calibrated price hikes. The company expects export demand to revive once global uncertainties stabilise, as India has a strong market position in key markets.
- The stock has corrected by 45% in the past six months (36% in the past three months) and currently trades at 10.4x/7.3x its FY2023E/FY2024E earnings. We maintain our Buy on the stock with a revised PT of Rs. 105.

Q4FY2022 performance was weak with revenue growing by 4.3% y-o-y. The home textile business grew by just 1% y-o-y, while the flooring business grew by 59.7% y-o-y. Margins were severely impacted due to a significant increase in energy costs, record-high commodity prices, and continued global supply chain disruptions with gross margin/EBITDA margin declining by 772/483 bps y-o-y, respectively. Operating profit declined by 29.3%, while lower revenue coupled with lower other income and higher taxes led to a 62% y-o-y decline in reported PAT. For the full year FY2022, revenue grew by 26.9% y-o-y, led by 23.3%/107.4% y-o-y growth in home textile/flooring business. Gross margin and EBITDA margin were down by 584 bps and 117 bps y-o-y, respectively. Reported PAT grew by 10.2% y-o-y to Rs. 606.7 crore. Net debt on books stood at Rs. 2,228.9 crore as of March 31, 2022 versus Rs. 2,332.7 crore as of March 31, 2021. In FY2022, the company spent Rs. 543.1 crore towards capex. The board has recommended a dividend of Re. 0.15 per equity share of the face value of Re. 1 each for FY2022.

Key positives

- Flooring business grew by 59.7% y-o-y with strong scale-up on a y-o-y basis.
- Emerging businesses of e-commerce, brands, flooring, and advanced textiles cumulatively grew by 44% during FY2022.
- Despite a challenging environment, net debt reduced by Rs. 104 crore in FY2022.

Key negatives

- Home textile business grew by just 1% y-o-y; Capacity utilisation was lower on a q-o-q and y-o-y basis across segments.
- Higher raw-material inflation and continued supply chain constraints led to a 772/483 bps y-o-y decline in gross margin/EBITDA margin.

Management Commentary

- Global market sentiments are weak because of logistical challenges, unseen levels of increased commodity prices, and Ukraine-Russia conflict. However, in the medium to long term, demand for textile companies is expected to be strong aided by higher focus on home hygiene post the pandemic, China +1 factor, Free Trade Agreements with Australia and Middle East countries, and capacity expansion by Indian players.
- Cotton price is at its highest levels, with cotton price currently at Rs. 1,00,000 per candy, even higher than Rs. 80,000-85,000 at the end of FY2022. On the logistical front, the industry continues to face heat due to container shortages, port congestions, increased ocean freight trade, and sailing time. This along with price hikes undertaken by manufacturers will lead to rebalancing of demand and transitory correction going forward. Thus, the company is likely to witness muted sales performance for a quarter or two.
- Cost inflation pressures have been rising sequentially and are expected to remain firm in the near term. Thus, margins are expected to remain under pressure for the near term. However, EBITDA margin is expected to return to normal level (~20%) in the next 3-4 quarters.
- Indian players continue to witness market share gains in US home textile markets. This along with opening of export opportunities in markets such as Europe, Canada, and Australia will improve demand prospects in the medium to long run.
- Net debt on books stood at Rs. 2,228.9 crore as of March 31, 2022 versus Rs. 2,332.7 crore as of March 31, 2021. Management has indicated that net debt would have been even lower if the company had monetised assets worth Rs. 377 crore. The company incurred capex of Rs. 543.1 crore in FY2022 and has planned capex of Rs. 530 crore for FY2023.

Revision in estimates – We have reduced our earnings estimates by 5% and 3% for FY2023/FY2024, respectively, to factor in lower-than-earlier-expected margins.

Our Call

View: Maintain Buy with a revised PT of Rs. 105: Near-term outlook of home textile companies looks weak due to multiple headwinds. However, market share gains in the home-textile market in the US, higher demand from retail clients of Europe/UK coupled with strong growth in the B2C business will drive WIL's core home-textile business in the medium to long term. Emerging business (including flooring) will add substantially to revenue over the next two to three years. We expect WIL's revenue and PAT to post a CAGR of 10.5% and 30.7%, respectively, over FY2022-FY2024. The stock has corrected by 45% in the past six months (36% in the past three months) and currently trades at 10.4x/7.3x its FY2023E/FY2024E earnings. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 105.

Key Risks

Any slowdown in any of the key markets, including the US and Europe or sustained increase in key input prices/logistics cost, would act as key risks to our earnings estimates in the near term.

Valuations (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	7,340	9,311	10,129	11,377
EBITDA margin (%)	18.4	14.6	15.8	17.9
Adjusted PAT	551	607	735	1,037
% Y-o-Y growth	11.8	10.2	21.1	41.1
Adjusted EPS (Rs.)	5.5	6.0	7.3	10.3
P/E (x)	14.1	12.5	10.4	7.3
P/B (x)	2.1	1.9	1.7	1.4
EV/EBITDA (x)	7.6	7.3	6.2	4.6
RoNW (%)	16.6	15.9	17.3	21.0
RoCE (%)	14.4	13.7	14.4	18.7

Source: Company; Sharekhan estimates

Muted revenue growth; Margins continue to be affected

WIL's revenue grew by 4.3% y-o-y to Rs. 2,227.1 crore as the home textile business reported muted y-o-y growth of 1%, while the flooring business grew by 59.7% y-o-y. Domestic retail revenue came in at Rs. 102 crore, while the branded business reported flat growth, contributing ~Rs. 320 crore in Q4FY2022. Capacity utilisation was lower on a q-o-q and y-o-y basis for bath linen at 67%, bed linen at 69%, and rugs and carpets at 57%. Gross margin and EBITDA margin were down by 772 bps and 483 bps y-o-y, respectively, to 41.1% and 10.2% impacted primarily by surge in raw-material and input costs. Operating profit declined by 29.3% y-o-y to Rs. 226.5 crore. Lower revenue coupled with lower other income and higher taxes led to a 62% y-o-y decline in reported PAT to Rs. 51.3 crore. For the full year FY2022, revenue grew by 26.9% y-o-y to Rs. 9,311.5 crore, led by 23.3% y-o-y growth in the home textile business and 107.4% y-o-y growth in the flooring business. Branded business revenue came in at Rs. 1,364.3 crore in FY2022, registering 40.3% y-o-y growth. Innovation business grew by 5.9% y-o-y and stood at Rs. 2,046.6 crore in FY2022. Capacity utilisation was lower as compared to FY2021, with bath linen capacity utilisation at 84%, bed linen at 86%, and rugs and carpets at 77%. Gross margin and EBITDA margin were down by 584 bps and 117 bps y-o-y, respectively, to 45.3% and 15.8% as raw-material and input costs remained elevated during the year. Operating profit stood flat y-o-y at Rs. 1,359 crore. Reported PAT grew by 10.2% y-o-y to Rs. 606.7 crore. Net debt on books stood at Rs. 2,228.9 crore as of March 31, 2022 versus Rs. 2,332.7 crore as of March 31, 2021. In FY2022, the company spent Rs. 543.1 crore towards capex. The board has recommended a dividend of Re. 0.15 per equity share of the face value of Re. 1 each for FY2022.

Flat growth in the home textile business in Q4

Revenue of the home textile business stood at Rs. 2,073 crore in Q4FY2022 versus Rs. 2,052 crore in Q4FY2021. For full year FY2022, revenue of the home textile business grew by 23.3% y-o-y to Rs. 8,791 crore, led by y-o-y volume growth of 1% in terry towels, 6% in bed sheets, and 19% in rugs. Home textile revenue continued its upward trajectory and crossed the $1 billion mark during the year.

Robust growth in the flooring business

The flooring business grew by 59.7% y-o-y, reporting revenue of Rs. 189 crore in Q4FY2022. For the full year FY2022, revenue grew by 107.4% y-o-y to Rs. 661.1 crore. Flooring business now contributes 7% to the total revenue, up from 4% in FY2021. Capacity utilisation for the flooring business stood at 34% in FY2022, up from 22% in FY2021.

Advanced textile business impacted by stock correction

Advanced textile business registered revenue of Rs. 74 crore during Q4FY2022 against Rs. 81 crore in Q4FY2021. Spunlace business witnessed muted demand with rebalancing in demand due to stock correction in markets. Spunlace expansion was commercialised in Q4FY2022; post expansion, annual Spunlace capacity stands at 27,729 MT.

Emerging businesses to be key growth drivers

WIL's emerging businesses of e-commerce, brands, flooring, and advanced textiles cumulatively grew by 44% during FY2022 with the share of these businesses in the overall revenue increasing to 26% from 23% in FY2021. Branded business revenue came in at Rs. 1,364.3 crore in FY2022, registering 40.3% y-o-y growth. Innovation business grew by 5.9% y-o-y and stood at Rs. 2,046.6 crore in FY2022. The company is committed to grow both e-commerce and branded businesses to achieve $100 million run-rate for each by FY2023 and FY2024, respectively.

Key Conference call takeaways

- **Near-term demand weak, strong growth in the medium-long term:** Market sentiment in the near term is weak due to logistical challenges, unseen levels of increased commodity prices leading to high inflation, and Ukraine-Russia conflict. Higher inflation will lead to low discretionary spends by consumers impacting demand. However, in the medium to long term, demand for textile companies is expected to be strong with drivers such as higher focus on home hygiene post the pandemic environment, China +1 factor, recently announced Free Trade Agreements with Australia and Middle East countries, and capacity expansions by Indian players.
- **Raw-material inflation and logistics issue continue to have an impact:** Cotton price is presently at one of its highest levels historically due to increased demand of cotton and yarn resulting from factors such as US ban on cotton products from China's Xinjiang region and the expected shortfall in supplies. Cotton price currently is at Rs. 1,00,000 per candy, even higher than Rs. 80,000-85,000 at the end of FY2022. On the logistical front, the industry continues to face heat due to container shortages, port congestions, increased ocean freight trade, and sailing time.
- **Price hikes to mitigate input cost inflation:** The company undertook two price increases in FY2022, one in June-July and the other in November-December. Management stated that input cost inflation was fully passed on to customers through these two price increases. However, prices have gone up further since these price hikes. The company will take a long-term view before undertaking any further price hike as frequent price hikes can negatively affect product sales.
- **Capacity expansion on track:** Capacity expansion at Vapi and Anjar are expected to be operationalised in Q1FY2023, taking the total terry towel capacity to 90,000 MT from current 88,400 MT and bed linen capacity to 108 million meters from current 90 million meters. Spunlace expansion was commercialised in Q4FY2022; post expansion, annual spunlace capacity stands at 27,729 MT. The planned capacity installation for the flooring business is expected to be completed by Q2FY2023, taking the total flooring capacity of the company to 18 mn. sq. metres from current 12 mn. sq. metres. The company incurred capex of Rs. 543.1 crore in FY2022. The planned capex for FY2023 is Rs. 530 crore.
- **Net debt stood at Rs. 2,229 crore at year end:** Net debt on books stood at Rs. 2,228.9 crore as of March 31, 2022 versus Rs. 2,332.7 crore as of March 31, 2021. Management has indicated that net debt would have been even lower if the company had monetised assets worth Rs. 377 crore.

Result Snapshot (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
Total Revenue	**2,227.1**	**2,135.7**	**4.3**	**2,418.2**	**-7.9**
Raw material cost	1,311.4	1,092.8	20.0	1,353.9	-3.1
Employee cost	198.5	201.3	-1.4	220.4	-9.9
Other expenses	490.8	521.3	-5.8	533.2	-8.0
Total operating cost	2,000.6	1,815.4	10.2	2,107.4	-5.1
Operating profit	**226.5**	**320.3**	**-29.3**	**310.7**	**-27.1**
Other income	20.0	37.9	-47.2	19.8	1.1
Interest & other financial cost	26.3	64.2	-59.1	20.8	26.3
Depreciation	111.5	114.3	-2.5	106.7	4.5
Profit Before Tax	**108.7**	**179.7**	**-39.5**	**203.0**	**-46.5**
Tax	57.7	44.9	28.4	36.0	60.1
Adjusted PAT before MI	51.0	134.8	-62.1	167.0	-69.4
Minority Interest (MI)/ Profit from associates	0.2	0.1	-	0.0	-
Adjusted PAT after MI	51.3	134.9	-62.0	167.0	-69.3
Extraordinary items	0.0	0.0	-	-35.9	-
Reported PAT	**51.3**	**134.9**	**-62.0**	**131.1**	**-60.9**
Adjusted EPS (Rs.)	0.5	1.3	-61.5	1.7	-69.4
			bps		**bps**
GPM (%)	41.1	48.8	-772	44.0	-289
EBITDA margin (%)	10.2	15.0	-483	12.8	-268
NPM (%)	2.3	6.3	-402	6.9	-461
Tax rate (%)	53.0	25.0	-	17.7	-

Source: Company; Sharekhan Research

Business-wise revenues Rs cr

Segments	Q4FY22	Q4FY21	y-o-y %	Q3FY22	q-o-q %
Home Textile - B2B	1,492	1,499	-0.5	1,581	-5.6
Home Textile – branded	207	222	-6.6	262	-21.0
Home Textile - e-commerce	91	83	9.1	104	-12.7
Total - Home Textile	**1,790**	**1,804**	**-0.8**	**1,948**	**-8.1**
Advance Textile	**74**	**81**	**-7.9**	**63**	**17.8**
Flooring - B2B	139	94	47.8	156	-10.5
Flooring – Branded	23	20	15.3	22	4.1
Total - Flooring	**162**	**114**	**42.2**	**177**	**-8.7**

Source: Company; Sharekhan Research

Business-wise operations

Particulars	Units	Capacity	Q4FY22 (Prodn.)	Utilisation (%)	Q3FY22 (prodn.)	Utilisation (%)	Q4FY21 (prodn.)	Utilisation (%)
Home Textile								
Bath Linen	MT	85,400	14,360	67	18,387	88	19,951	100
Bed Linen	Mn mtrs	90	15.5	69	22.3	99	20.2	90
Rugs & Carpets	Mn sq mtrs	12.0	1.7	57	2.1	70	2.6	105
Advance Textile								
Spunlace	MT	27,729	2,010	93	1,576	80	2,450	99
Needle Punch	MT	3,026	318	50	326	53	426	50
Wet wipes	Mn packs	100	6.5	40	5.0	34	4.2	21
Flooring	**Mn sq mtrs**	**27.0**	**1.5**	**37**	**1.7**	**38**	**1.2**	**49**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – India's share in US home textile improving

The Indian home textile sector is reaping the benefits of market share gains in export markets such as the US and Europe with top competitors such as China losing market share in the past two years. India's share in bed linen export to the US has improved to 57% in CY2021 from ~50% in CY2019; while in terry towel exports, it has improved to 44% in CY2021 from 39% in CY2019. However, in the near term, the outlook is weak due to presence of multiple headwinds such as high input prices, sustaining logistics issues and geopolitical tensions due to Russia-Ukraine issue. That said, sustained strong demand due to higher focus on home hygiene in the pandemic environment, China +1 factor, and India entering trade tie-ups with key countries provide home textile companies strong growth levers in the medium term. Top players such as WIL and HSL have expanded the capacities for bed linen/terry towel sensing to fulfil strong demand coming in from key markets because of higher spends on hygiene products and customers looking at India as an alternate supply base.

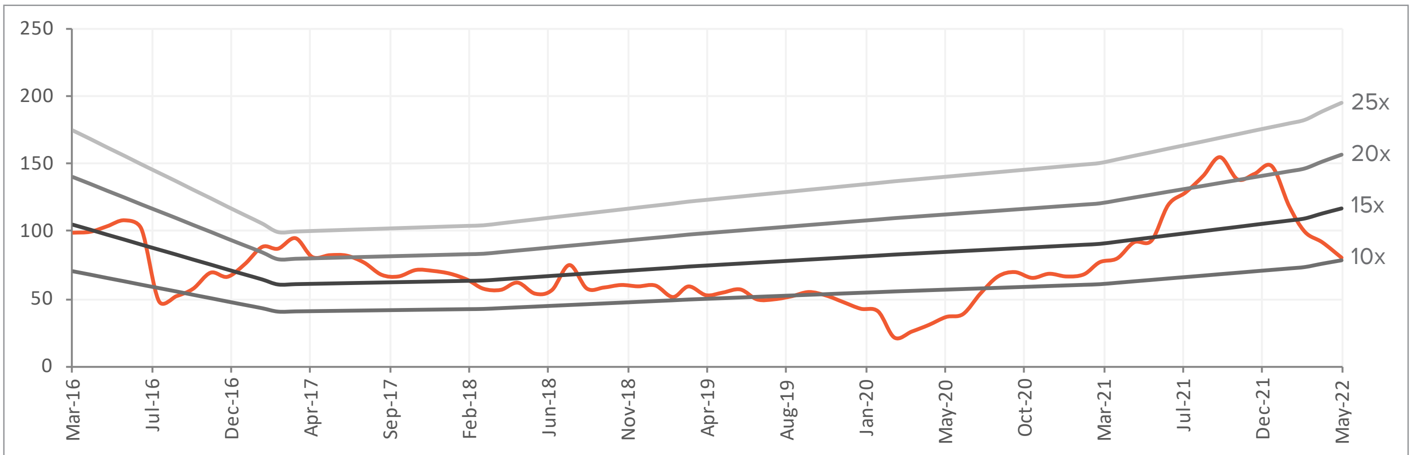
■ Company Outlook – Capacity expansion and scale up in the emerging business to drive growth

Q4FY2022 performance was weak as revenue growth was affected by logistics disruption and inventory correction at retail level, while margins were affected by input cost inflation. Near-term sentiment is expected to be weak due to logistical challenges, unseen levels of increased commodity prices, and Ukraine-Russia conflict. However, in the medium-long term, the company expects to maintain strong revenue growth, driven by sustained good demand for home textile products in the US market and scale up in the advance textile, flooring, and branded business. Increased cotton and yarn prices coupled with higher freight cost will put stress on margins in the near term. However, EBITDA margin is expected to return to normal level (~20%) in the next 3-4 quarters. We expect WIL's revenue and PAT to post a CAGR of 10.5% and 30.7% respectively, over FY2022-FY2024.

■ Valuation – Maintain Buy with a revised PT of Rs. 105

Near-term outlook of home textile companies looks weak due to multiple headwinds. However, market share gains in the home-textile market in the US, higher demand from retail clients of Europe/UK coupled with strong growth in the B2C business will drive WIL's core home-textile business in the medium to long term. Emerging business (including flooring) will add substantially to revenue over the next two to three years. We expect WIL's revenue and PAT to post a CAGR of 10.5% and 30.7%, respectively, over FY2022-FY2024. The stock has corrected by 45% in the past six months (36% in the past three months) and currently trades at 10.4x/7.3x its FY2023E/FY2024E earnings. We maintain our Buy rating on the stock with a revised PT of Rs. 105.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
KPR Mill	23.9	19.8	16.2	17.1	13.0	10.6	31.0	29.5	30.3
Welspun India	12.5	10.4	7.3	7.3	6.2	4.6	13.7	14.4	18.7

Source: Company, Sharekhan estimates

About company

WIL, a Welspun Group company, started its activities in 1985 as Welspun Winilon Silk Mills Private Limited, a synthetic yarn business, which went on to become Welspun Polyesters (India) Limited and, finally, Welspun India Limited emerged in 1995. The company offers a variety of products such as towels in different sizes and qualities, bed sheets using state-of-the-art technology, and the best quality of Egyptian cotton. WIL is Asia's largest and is among the top four terry towel producers in the world (number one player in the US). The company's business is spread across continents and has a distribution network in 50+ countries, such as US, UK, Canada, Australia, Italy, Sweden, and France. About 95% of the total products are exported.

Investment theme

WIL is one of the leading players in the global textile market with capacities of 85,400 metric tonne (MT) and 90 million metres of terry towels and bed linen, respectively, largely catering exports markets. The company will benefit from recovery in the US, where it has a market share of 19% and 13% in the terry towel and bed sheets segments, respectively. New ventures such as flooring business and advanced textile revenue would add-on to revenue in the near to medium term. This along with benign cotton prices and improved revenue mix would aid in improving profitability consistently in the near to medium term. Improving cash flows would aid the company to reduce debt on books over FY2022-FY2024.

Key Risks

- **Decline in revenue of key exporting markets:** Any decline in the revenue of key exporting markets such as US and Europe due to change in the trade policy, slowdown in the macro environment, or increased competition from other international players would be key risks to earnings estimates.
- **Unfavourable currency movement:** About 95% of WIL's revenue comes from export markets such as US and Europe. Hence, any adverse currency movement would act as a key risk to revenue growth.
- **Increased cotton prices:** Any significant increase in global cotton prices (including Egypt) would act as a key risk to profitability.

Additional Data

Key management personnel

Balkrishan Goenka	Chairman
Rajesh Mandawewala	Executive Director and MD
Dipali Goenka	CEO-MD
Sanjay Gupta	Chief Financial Officer
Shashikant Thorat	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	2.92
2	Infinity Holdings	1.28
3	Bhanshali Akash	1.07
4	Vanguard Group Inc	1.04
5	L & T Mutual Fund Trustee India	1.00
6	Dimensional Fund Advisors LP	0.80
7	OekoWorld Lux SA	0.58
8	DSP Investment Managers Pvt. Ltd.	0.55
9	Aditya Birla Sun Life AMC	0.52
10	Blackrock Inc.	0.51

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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