Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Welspun India Limited

Strong all-round performance

Consumer Discretionary | Sharekhan code: WELSPUNIND | Result Update

3R MATRIX

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

\+ Positive = Neutral - Negative

Reco/View

Reco: **Buy**
CMP: **Rs. 67**
Price Target: **Rs. 90**

Company details

Market cap:	Rs. 6,732 cr
52-week high/low:	Rs. 78 / 18
NSE volume: (No of shares)	12.8 lakh
BSE code:	514162
NSE code:	WELSPUNIND
Free float: (No of shares)	30.1 cr

Shareholding (%)

Promoters	70.0
FII	5.6
DII	7.4
Others	17.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-3.4	-9.5	71.4	46.5
Relative to Sensex	-4.3	-26.5	46.4	31.3

Sharekhan Research, Bloomberg

Summary

- Welspun India Limited (WIL) posted stellar performance in Q3FY2021 with revenues and PAT growing by 29% and 1.3x (with OPM expanding by 658 bps to 19.6%)
- Bed linen sales volumes grew 43%, bath linen grew 17% and rugs & carpets volume grew by 28%, highest sales volumes in the past several years.
- Business has improved starkly after a dull Q1FY2021 (affected by pandemic) and company is expected to clock revenues close to Rs. 7,300 crore in FY2021 and an OPM of 19-20%.
- Welspun expects to maintain double-digit revenue growth momentum over FY2021-23 on back of capacity expansion in core business and scale-up in emerging business. We recommend Buy on the stock with price target of Rs. 90.

Welspun India Limited (WIL) reported strong numbers in Q3FY2021 with revenue growing by 29.2% y-o-y and OPM expanding by 658 bps to 19.6% on back of improved sales volume. Home textile business grew by 27% y-o-y to Rs. 1,967 crore and Flooring business revenue stood at Rs. 97.7 crore (3.5x on y-o-y basis). This was mainly on account of sharp jump in sales volume in all the key business witnessed with volumes of terry towels and bed linen, growing by 17% and 43%, respectively, whereas rugs & carpets volume grew by 28%.Home textiles saw higher demand for hygiene products as more people were staying at home. Further, festive sales were boosted by sales through online platforms for most of the global retailers. E-commerce business has grown 22% y-o-y. Innovation product sales stood at Rs. 606 crore, registering a 36% y-o-y. Domestic branded revenue grew by 24% y-o-y. December in particular was very strong as the company saw sales volumes exceed pre-COVID levels. Gross margins improved by 243 bps y-o-y to 52.8% and OPM improved by 658 bps to 19.6% (OPM of core business stood at 22.1%). Improvement in gross margins was mainly on account of better revenue mix. WIL's plants in Vapi and Anjar operated at peak capacities and hence, the company is planning to enhance home textiles business capacity by de-bottlenecking and rebalancing the facilities with a capex of Rs. 225 crore (increase in capacity of towels by 7%, bed linen by 20% and rugs and carpets by 80%). The increased capacity will add ~Rs. 1,200crore in revenues by FY2023 at optimal utilisation. Cash& cash equivalents stood at Rs. 632 crore for 9MFY2021 (improved by Rs. 152 crore from March 2020). The company has a strong capital allocation policy, which aided it to reduce net debt by Rs. 493 crore to Rs 2,468 crore from March 2020 levels of Rs. 2,962 crore. Despite a capex plan of Rs. 300 crore for H2FY2021, net debt is expected to remain at Rs. 2,400 crore by March 2021.

Key positives

- Volumes of terry towels, bed linen and rugs & carpet grew by 17%, 43% and 28% respectively.
- Advance materials business' revenues stood at Rs. 74 crore in Q3; likely to contribute Rs. 300 crore in FY21 and by Rs. 600 crore by FY23 through capacity augmentation.
- Net debt excluding floor business decreased by Rs. 535 crore to Rs. 1788.7 crore

Key negatives

- Flooring business made a loss of Rs. 81crore in 9MFY2021.
- Higher yarn and cotton prices to put stress on gross margins in the near term.

Our Call

View: Recommend Buy with price target of Rs. 90: We have fine-tuned our earnings estimates to factor in FY21/22/23 to factor in better than expected volume growth and OPM in Q3. Increase in share of India in US home textile market augurs well for WIL from a near to medium perspective. Walmart is one of the biggest client for WIL for home textile products who has committed to source $10 billion (~Rs. 75,000 crore) of India-made goods each year by 2027, creating a huge opportunity for the WIL in long run. This along with scale-up in the advance material and flooring business will help the company to achieve steady performance in long run. Further the company's focus on strengthening the balance sheet with sustained debt reduction makes it one of the better plays in the home textiles space. We recommend Buy on the stock with price target of Rs. 90 (valuing stock 11x its FY2023E EPS). The stock is currently trading at 8.1x its FY2023E EPS.

Key risk

Any slowdown in any of the key markets including US and Europe or spike in the key input prices such as cotton or unfavourable currency movement would act as a key risk to our earnings estimates in the near term.

Valuation (consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	6,527	6,741	7,232	7,885	8,996
OPM (%)	16.3	18.0	19.7	19.7	19.9
Adjusted PAT	419	493	581	651	832
% Y-o-Y growth	5.3	17.5	17.9	12.0	27.9
Adjusted EPS (Rs.)	4.2	4.9	5.8	6.5	8.3
P/E (x)	16.1	13.7	11.6	10.3	8.1
P/B (x)	2.4	2.3	2.0	1.7	1.5
EV/EBIDTA (x)	8.8	7.8	6.7	5.9	4.8
RoNW (%)	15.6	17.1	18.1	17.7	19.8
RoCE (%)	12.1	13.4	14.4	15.1	17.8

Source: Company; Sharekhan estimates

**We now convert Welspun India Ltd into a Stock Update; It was earlier a 'Viewpoint' under our coverage*

Revenue rose by 29.2% y-o-y, higher volume growth led to strong margin expansion: Q3FY2021 consolidated revenue grew by 29.2% y-o-y to Rs. 2,029 crore as compared to Rs. 1570.7crore in Q3FY2020, driven by strong growth in home textiles and flooring segment. Home textiles business grew by 27% y-o-y to Rs. 1,967 crore and flooring business revenue grew to Rs. 97.7 crore. Flooring business grew by 3.5x vs Q3FY20. A sharp jump in volumes was seen with volumes of terry towels and bed linen growing by 17% and 43% respectively, whereas rugs & carpets volumes grew by 28%. Gross margins stood at 52.8%, rising 243bps y-o-y. OPM improved by 658 bps to 19.6% (OPM of core business stood at 22.1%). OPM of the core business stood at 21.9%. Operating profit grew by 94.4% y-o-y to Rs 398 crore. Despite lower other income, profit before tax (PBT) stood at Rs. 249 crore.PAT grew by 132.8% y-o-y to Rs. 174.8crore in Q3FY2021 as against Rs. 75crore in Q3FY2020.

Balance sheet turned stronger, stable working capital: Cash & cash equivalents grew by Rs. 151.8crore to Rs. 632 crore in 9MFY2021. Net debt reduced by Rs. 493.2 crore from Rs. 2,962 crore in March 2020 to Rs. 2,468 crore in December 2020, despitecapex on capacity augmentation. Net debt excluding the flooring debt was down by Rs. 535crore to Rs. 1,788 crore during the same period. Net debt is expected to remain at the level of Rs. 2,400 crore and the company expects to turn debt free by FY2023. Debt-Equity ratio further reduced to 0.70x in 9MFY2021 from 1x in FY2020.The working capital cycle stood stable at 94 days in 9MFY2021. Overall the management is confident of working capital cycle at around 80-85days.

Key Conference call takeaways

- Home textile segment witnessed increase in demand. Terry towels and bed linen volumes grew by 17% and 43%, respectively, whereas rugs & carpet volumes grew by 28%. Home textile segment capacity utilisation was at peak level.
- The company plans to debottleneck its home textile plants (at Vapi and Anjar) with asset light and will see expansion by 7% in towel, 20% in Bed linen and 80% in rug &carpet division.For the said expansion company is to incur Rs. 225crore and expect to commence in a phased manner Q1FY2022. Towel & bed linen divisions expect to commence at early phase from Q1FY2022 followed by rugs & carpets from Q2FY2022. This expansion results revenue addition of Rs 1200 crore in FY2023.Raw material prices including cotton and yarn coupled with freight cost have gone up significantly on sequential basis. This will put stress on margins in the near term. However, negotiation with clients, higher contribution from advance materials business and innovative products and lowering of losses in the flooring business due to scale benefit will help in reducing the stress on the margins significantly in the coming quarters.
- From January 2021, export incentives – ROSCTL is withdrawn and replaced by RODTEP. Expect an incentive rates to be announce by March.
- Advance textiles business will generate revenue of Rs. 800crore at running at full capacity in FY23. Flooring business will generate revenue of Rs. 2,000crore at full capacity over the next 4-5 years.
- On capacity expansion front, Home textile incurRs. 225crore for expansion in Bed, bath and rugs& carpet Division and will have potential to generate Rs. 1,200crore of revenue. In advance textile will incur capex of Rs300 crore and has potential to generate revenue of Rs. 600crore. Earlier management planned capex of Rs 496 crore in advance textile, but it is deferred by Rs. 196 crore and will see some operation to be outsourced and will see benefits according to that it will incur the further capex going forward.
- Company innovations product reported sales of Rs. 600crore, registering a growth of 36% y-o-y.
- Company is witnessing a shift in order from China to India and C+1 strategy is working. An example of this is Wal-Mart trebling its orders with Welspun.
- Company is robust on growth of e-Commerce channel and expect to reach USD100 mn by FY23. Further licensing brand is also growing at faster pace.

- Flooring business grew by 3.5x toRs. 97.7 crore and reported EBITDA loss ofRs. 24crore, which is better than last year's loss of Rs. 54.5 crore. The management believes to see EBITDA breakeven by Q4FY21 but waiting for the performance in Q4 to make constructive comments.
- The company has partnered with Distributors for Hard flooring business and expect to see good export order from South East Asia and Australia and expect to expand geographically.
- Hard-flooring is very to install seeing better traction as compared to soft flooring, which take times install.

Results (Consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Total Revenue	2029.0	1570.7	29.2	1973.7	2.8
Raw material cost	956.9	779.0	22.8	991.3	-3.5
Employee cost	220.5	204.5	7.8	221.4	-0.4
Other expenses	453.6	382.5	18.6	375.1	20.9
Total operating cost	1631.0	1366.0	19.4	1587.8	2.7
Operating profit	398.0	204.7	94.4	385.9	3.1
Other income	20.7	34.2	-39.5	18.9	9.4
Interest & other financial cost	55.9	45.5	22.8	36.2	54.5
Depreciation	113.9	132.5	-14.0	114.9	-0.8
Profit Before Tax	248.9	60.9	308.8	253.7	-1.9
Reported PAT	174.8	75.1	132.8	187.9	-7.0
Adjusted EPS (Rs.)	1.7	0.4	302.8	1.9	-7.0
			bps		**bps**
GPM (%)	52.8	50.4	243	49.8	307
OPM (%)	19.6	13.0	658	19.6	6

Source: Company; Sharekhan Research

Result (Standalone) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Total Revenue	1740.0	1242.7	40.0	1535.8	13.3
Operating profit	348.5	187.9	85.4	290.2	20.1
Profit Before Tax	265.0	77.6	241.7	206.0	28.6
Tax	80.1	12.2	556.4	55.7	43.8
Reported PAT	184.9	33.8	446.4	150.4	23.0
Adjusted EPS (Rs.)	1.8	0.7	183.0	1.5	23.0
			bps		**bps**
GPM (%)	48.4	48.1	34	48.2	25
OPM (%)	20.0	15.1	491	18.9	114

Source: Company; Sharekhan Research

Home Textile - key segments volume growth (y-o-y)

Home Textile	
Bed Linen	43%
Bath Linen	17%
Rugs & Carpets	28%

Source: Company; Sharekhan Research

Manufacturing Capacity & Utilization

Particulars	Annual Capacity	Q3FY21	Utilization (%)	Q2FY21	Q3FY20
Home textile					
Bath Linen (MT)	80,000	19,717	99%	18,223	17,967
Bed Linen (Mn mtrs)	90	21	94%	19	15
Rugs & Carpet (Mn sq mtrs)	10	3	105%	2	2
Advance textiles					
Spunlace (MT)	9,930	2,147	86%	2,429	2,088
Needle Punch (MT)	3,411	369	43%	261	391
Wet wipes (Mn Packs)	79	4	22%	6	3
Particulars	**Annual Capacity**		**Q3FY21**	**Utilization (%)**	**Q2FY21**
Flooring	**Expected**	**Operational**			
Soft Flooring (mn sq mtrs)	16.3	7.5	0.16	8%	0.13
Hard Flooring	10.7	2.7	0.5	74%	0.2

Source: Company; Sharekhan Research

Outlook and Valuation

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

According to recent data OTEXA data, US imports of terry towels and bed sheet has gone up by 15% and 53% in October20 respectively on month-on-month basis. Most big-box retailers were opened for festive sales despite surge in the Covid-19 cases. Further big players such as Walmart and Amazon, etc saw a huge surge is sales on respective online platforms. Further India's market share terry towel space improved to 42% from 39% last year while for bed sheets it remained at 50%. On the other hand China market share has declined by 300-400 bps in both the segments.

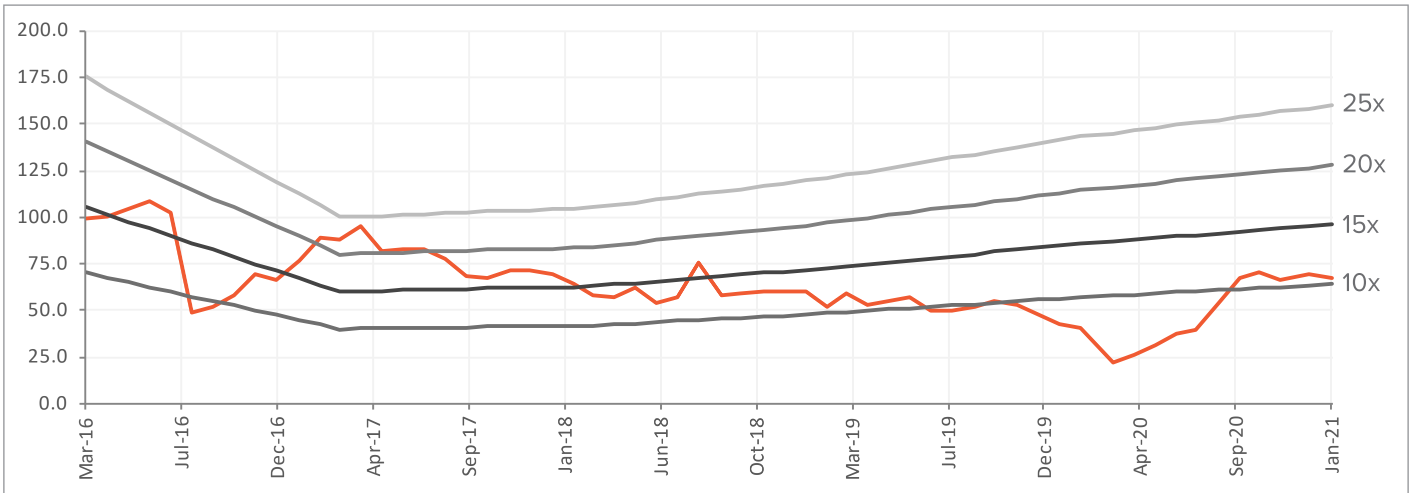
■ Company Outlook – Capacity expansion and scale up in emerging business to drive growth

9MFY2021 revenue grew by 1.6% y-o-y and earnings declined by 4% y-o-y with strong revival performance in Q2 and Q3. OPM stood at 19.4%. With stellar performance in Q3, the company expects to end with revenues of Rs 7300 crore and OPM of 19-20%. The company expects to maintain the double-digit revenue growth momentum over FY2021-23 on back of capacity expansion in core business and scale-up of emerging businesses. On the other hand, increase in cotton and yarn prices coupled with higher freight cost will put stress on margins in the near term. However better mix and scale up in the high margins will help in mitigating the impact of an increase in cost. The company gross debt on books stand at Rs. 3,100crore (reduced by Rs. 400crore y-o-y). With a capex plan of Rs. 500-600 crore over the next two years, we expect gross debt to remain at the current levels. Funding of capex will largely be done through improved cash flows.

■ Valuation – Recommend Buy with price target of Rs90

We have fine-tuned our earnings estimates to factor in FY21/22/23 to factor in better than expected volume growth and OPM in Q3. Increase in share of India in US home textile market augurs well for WIL from a near to medium perspective. Walmart is one of the biggest client for WIL for home textile products who has committed to source $10 billion (~Rs. 75,000 crore) of India-made goods each year by 2027, creating a huge opportunity for the WIL in long run. This along with scale-up in the advance material and flooring business will help the company to achieve steady performance in long run. Further the company's focus on strengthening the balance sheet with sustained debt reduction makes it one of the better plays in the home textiles space. We recommend Buy on the stock with price target of Rs. 90 (valuing stock 11x its FY2023E EPS). The stock is currently trading at 8.1x its FY2023E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
KPR Mill	19.5	14.0	11.0	11.4	8.8	6.8	17.7	22.4	25.6
Trident	22.3	14.7	12.0	10.4	8.2	7.0	8.4	11.7	12.6
Welspun India	11.6	10.3	8.1	6.7	5.9	4.8	14.4	15.1	17.8

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, WIL emerged in 1995. The company offers a variety of products such astowels 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 amongst the top fourterrytowel producers in the World (number 1 player in the US). The company'sbusiness is spread across continents and has a distribution network in 50+ countries, such as US, UK, Canada, Australia, Italy, Sweden, and France. 95% of the total products are exported.

Investment theme

Welspun is one of the leading players in the global textile market with capacities of 80,000 metric tonnes (MT) and 90 million metres of terry towels and bed linen capacity largely to cater exports markets. The companywill benefit from recovery in the US, where it has market share of 19% and 13% in terry towel and bed sheets segments, respectively.New ventures such as flooring business and advance 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 profitability to improve consistently in the near to medium term. Improving cash flows would aid the company to reduce debt on the books over FY2020-FY2023.

Key Risks

- **Decline in revenue of key exporting market:** 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 come 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

Rajesh Mandawewala	Executive Director andMD
DipaliGoenka	CEO-MD
SanjeevSancheti	Chief Financial Officer
ShashikantThorat	Company Secretary andCompliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP Investment Managers Pvt Ltd	3.5
2	Life Insurance Corp of India	1.9
3	L&T Mutual Fund Trustee Ltd/India	1.2
4	Vanguard Group Inc/The	1.1
5	Dimensional Fund Advisors LP	0.9
6	Aditya Birla Sun Life Asset Manage	0.7
7	Norges Bank	0.5
8	BlackRockInc	0.5
9	GAM Holding AG	0.2
10	Birla Sun Life Insurance Co Ltd	0.2

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

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