



## 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	■	↔	■

## Reco/View

Change

Reco: Buy	↔
CMP: Rs. 72	
Price Target: Rs. 90	↔

↑ Upgrade
↔ Maintain
↓ Downgrade

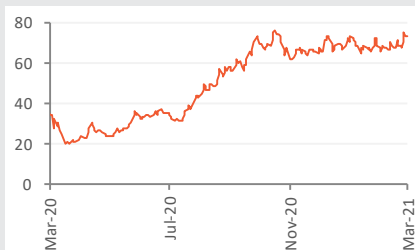
## Company details

Market cap:	Rs. 7,234 cr
52-week high/low:	Rs. 78/18
NSE volume: (No of shares)	11.0 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	8.5	7.1	28.0	109.9
Relative to Sensex	9.1	-3.6	-5.6	67.0

Sharekhan Research, Bloomberg

## Summary

- We retain a Buy on Welspun India (Welspun) with a PT of Rs. 90; higher export opportunities in home textile and flooring business and a likely beneficiary of the PLI scheme in advance textiles business make it a better play in the space.
- India's exports of terry towels and bed-sheets to the US grew by ~19% and 47% in January. For both products, the share of exports improved by 570BPS and 510BPS for both the products. Welspun's share in US terry towel exports stands at 20% and bed-linen around 11-12%.
- Share gains in home textile segment exports to US, scale-up of flooring business (likely to contribute Rs450-500crore in FY23) and advance textiles business (likely to contribute Rs600crore in FY23) are long-term growth drivers. The government's PLI scheme is also likely to offer incremental benefits.
- Despite a strong capex plan to support growth in key segments, net debt is expected to remain at Rs. 2,400 crore as large capex funding will be done by improving cash flows.

We interacted with the management of Welspun India to understand any impact of recent increase in COVID-19 cases in global markets on revenues in the near term and future growth prospects. The management is confident of achieving close to Rs. 7,300 crore of revenues for FY2021 with OPM of 18-19%. This indicates that Q4FY2021 will be yet another quarter of strong topline growth, upwards of 20% (also supported by low base of Q4FY2020). According to recent OTEXA data, textile exports (especially home textiles) to the US continued to grow in double digits with shipments of bed-sheets and terry towels growing by 47% and 19% in January 2021. The share of India's exports to the US for home textile products is continuously improving stood at 42.1% and 51.7%, respectively for Terry towel and Bed sheets in CY2020. The shares in both the segments have further improved in January. This provides a great opportunity for companies such as Welspun who already has a share of 20% in terry towels and 11-12% in the bed-sheets segment. The company plans to gradually expand the home textiles capacity (terry-towels by 7% and bed-sheets by 20% in FY2022) to grab large opportunities in home textile exports. Welspun flooring products are not only gaining strong traction in the domestic market but also getting higher export enquiries from international market. The business is expected to generate revenues of Rs. 300 crore in FY2021 but with incremental capacity and higher orders it will clock revenues of Rs. 500 crore by FY2023. Lower replacement compared to other vitrified tiles and lesser instalment time provides great opportunity for flooring business to gain strengths in the domestic market in the coming years. India's export of MMF flooring to the US rose by 19% y-o-y in CY2020. Scale benefits and efficiencies would help flooring business to be EBIDTA positive by H1FY2022 (expected to be cash positive by FY2023). Buoyancy in global demand for disposable non-woven products (demand for wet-wipes increased globally post the outbreak of COVID-19) and capacity expansion would help advance material business to clock revenues of close to Rs. 600 crore by FY2023 (from Rs. 300 crore in FY2021). Thus, key growth drivers are in place and the company is well-poised to achieve a double-digit rise in revenues in the coming years. Once the scale of the emerging business improves, Welspun consolidated OPM will be hovering close to 20% by FY2023. With improving profitability and stable working capital management, the plan capex of Rs. 300-500 crore per annum will be done through internal accruals. Recent fund-raising plans of Rs. 750 crore through external commercial borrowings or NCDs would help refinance some of Welspun's high-cost debt and reduce interest costs.

## Our Call

**View: Retained Buy with price target of Rs. 90:** With strong tailwinds in place, Welspun is well-poised to achieve strong earnings growth of ~19% over FY2020-23. Welspun will be one of the key beneficiaries of growing India's share in the exports markets and implement of government of PLI scheme for textile sector with large focus on growing the prospects of advance textile and man-made-fibres. This along with the company's focus on strengthening its balance sheet by consistent improvement in cash flows and maintaining debt at lower levels augurs well for Welspun from a long-term perspective. The stock is trading at 9x its FY2023E EPS, which is at a discount to its last three-year average of 13x. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 90.

## Key risk

Any decline in the export revenues due to lower demand from international clients or significant increase in the raw material prices would act as a key risk to our earnings estimates.

## Valuation (consolidated)

Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	6,527	6,741	7,180	7,885	8,996
OPM (%)	16.3	18.0	18.8	19.7	19.9
Adjusted PAT	419	493	517	652	825
% Y-o-Y growth	5.3	17.5	4.9	26.2	26.4
Adjusted EPS (Rs.)	4.2	4.9	5.1	6.5	8.2
P/E (x)	17.3	14.7	14.1	11.1	8.8
P/B (x)	2.6	2.4	2.2	1.9	1.6
EV/EBIDTA (x)	9.3	8.3	7.4	6.2	5.0
RoNW (%)	15.6	17.1	16.3	18.1	20.0
RoCE (%)	12.1	13.4	13.3	15.2	17.9

Source: Company; Sharekhan estimates

**2021 started on good note with exports to US for home textile products growing by double digits:** Recent OTEXA data shows that US imports of terry towels and bed-sheets from India rose by 19% and 47% in January respectively on month-on-month basis. Home textiles used for furnishing residence, towels, bed sheets, pillow covers and table linens are being bought more often in the US. Besides, hotels and motels are getting back on their feet after the COVID-19 impact are buying more bed linen as customers have become choosier about the freshness of bed linen in COVID-19 times. Terry towels share and bed-sheets share to US home textile sales in January improved by 574 bps and 509 bps to 47.2% and 61.3% in January (for CY2020 India share of terry towels and bed-sheet sales stood at 42.1% and 51.7%).

**India's Terry towel exports grew by ~19% in Jan-21**

(Mn USD)

Countries	Jan-21	Jan-20	yoy (%)	CY20	CY19	CY18
World	155.1	135.9	14.2	1441.7	1615.7	1634.7
<b>India</b>	<b>66.7</b>	<b>56.3</b>	<b>18.6</b>	<b>606.8</b>	<b>636.6</b>	<b>634.5</b>
Pakistan	32.7	26.6	23.0	305.9	340.0	330.7
China	30.9	34.0	-9.0	306.9	383.6	406.2
Rest of word	24.9	19.1	30.3	222.1	255.5	263.3
Share of exports to US (%)						
World	100.0	100.0		100.0	100.0	100.0
<b>India</b>	<b>47.2</b>	<b>41.4</b>	<b>↑</b>	<b>42.1</b>	<b>39.4</b>	<b>38.8</b>
Pakistan	21.1	19.5		21.2	21.0	20.2
China	19.9	25.0	<b>↓</b>	21.3	23.7	24.8
Rest of word	16.0	14.0		15.4	15.8	16.1

Source: OTEXA, Sharekhan Research

**India's bed sheets exports grew by 47.1% in Jan-21**

(Mn USD)

Countries	Jan-21	Jan-20	yoy (%)	CY20	CY19	CY18
World	141.5	104.9	34.9	1221.7	1391.7	1426.3
<b>India</b>	<b>86.8</b>	<b>59.0</b>	<b>47.1</b>	<b>631.6</b>	<b>691.7</b>	<b>705.0</b>
Pakistan	26.4	18.6	41.9	247.6	267.2	242.3
China	15.0	16.3	-7.9	172.8	269.0	304.0
Rest of word	13.3	11.0	20.8	169.7	163.8	175.1
Share of exports to US (%)						
World	100.0	100		100	100.0	100.0
<b>India</b>	<b>61.3</b>	<b>56.3</b>	<b>↑</b>	<b>51.7</b>	<b>49.7</b>	<b>49.4</b>
Pakistan	18.6	17.7		20.3	19.2	17.0
China	10.6	15.5	<b>↓</b>	14.1	19.3	21.3
Rest of word	9.4	10.5		13.9	11.8	12.3

Source: OTEXA, Sharekhan Research

**Boosting terry towel and bed-sheet capacity:** The company is planning for the home textile business through debottlenecking and rebalancing of facilities at Vapi and Anjar. It will result in increased capacity of Towels by 7%, Bed Linen by 20% and rugs & carpets by 80%. The company is planning to spend Rs. 225-250 crore. The expanded capacity for towels will come under operation from Q1FY22E, while added capacity of bed linen would be operational in Q2FY22E. Incremental capacity is likely to contribute Rs. 1,200 crore at full capacity utilisation.

### Capacity expansion

Products (Capacity)	FY2020	FY2022E
Terry Towel (MT)	80000	85400
Bed Linen (Mn. Meters)	90	108
Rugs & Carpets (Mn. Sq. Meter)	10	18

Source: Company

**Flooring business to contribute Rs. 450-500 crore by FY2023:** Welspun's flooring business is gaining strong traction in the domestic market due to a short time for installation and a lower replacement cost. Further, recent export trends suggest that China's share in the US market continues to be under pressure especially in rugs and flooring products. A shift from China to India is already happening since the last few months. The company is planning to invest Rs. 1,200-1,300 crore for capital expenditure in the flooring business, which will enable it to generate revenues of Rs. 2,000 crore at full capacity utilisation. For FY2021, we expect the business to contribute around Rs. 300 crore and will higher export demand the business is likely to reach Rs. 500 crore by FY2023. According to the management, it will be EBIDTA positive by H1FY2022 and will be cash positive by FY2023.

### India's share in flooring products is on increase

(\$mn)

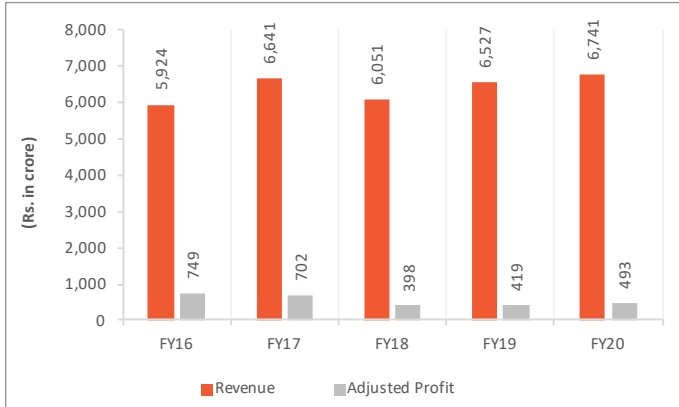
Countries	Jan,21	Jan,20	yoy%	CY20	CY19
World	225.6	163.1	38.3	1903.3	1740.0
<b>India</b>	<b>53.4</b>	<b>30.5</b>	<b>74.8</b>	<b>221.0</b>	<b>187.8</b>
Turkey	106.9	66.6	60.6	848.7	647.9
China	33.0	30.4	8.4	312.7	382.2
Rest of word	32.4	35.6	-9.0	520.8	522.2
Share of exports to US (%)					
World	100.0	100.0		100.0	100.0
<b>India</b>	<b>23.6</b>	<b>18.7</b>		<b>11.6</b>	<b>10.8</b>
Turkey	47.4	40.8		44.6	37.2
China	14.6	18.6		16.4	22.0
Rest of word	14.4	21.8		27.4	30.0

Source: OTEXA, Sharekhan Research

**Advance textile business to see fast scale-up:** A buoyancy in global demand for disposable non-woven products (demand for wet-wipes increased globally post the outbreak of Covid-19) will help Welspun's advanced material business to grow strongly in the near term. The new line of disinfectant wipes is expected to commence production in February 2021, while expansion of Spunlace business is expected to begin operations by September 2021. These would help this business achieve revenues of ~Rs. 600 crore by FY2023 (from Rs. 300 crore in FY2021).

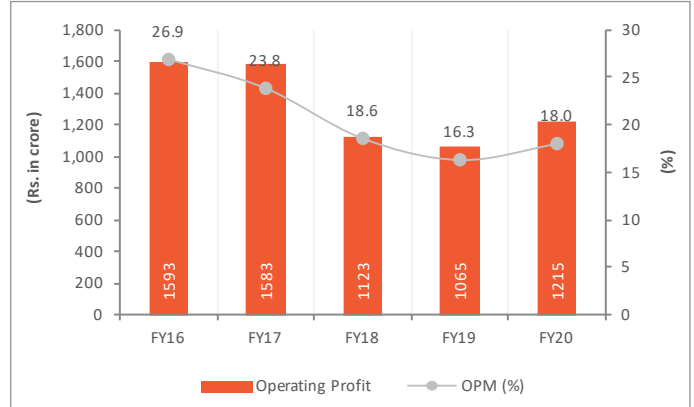
## Financials in charts

### Trend in revenues and PAT



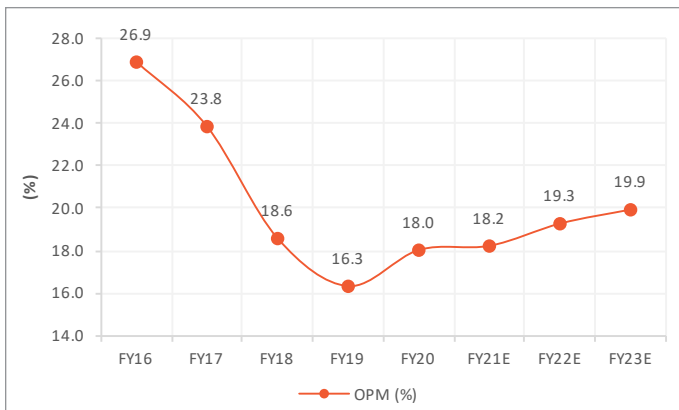
Source: Company, Sharekhan Research

### Capacity utilisation in home textile business



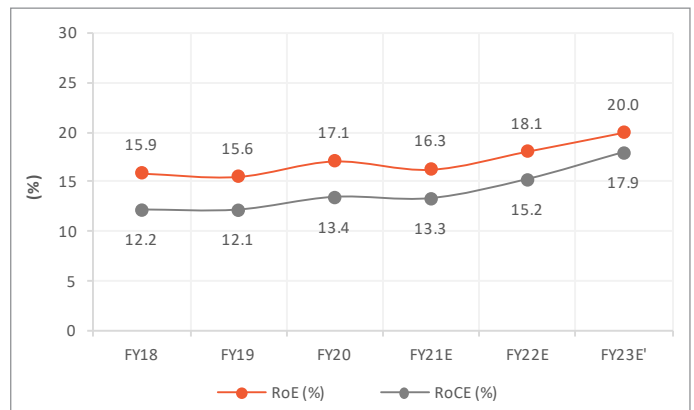
Source: Company, Sharekhan Research

### OPM to reach close to 20% by FY23



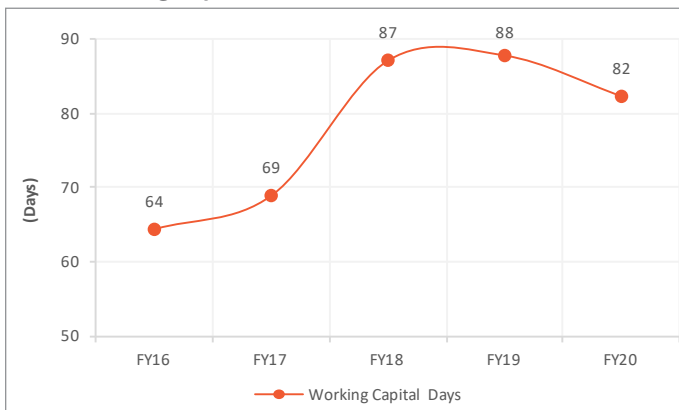
Source: Company, Sharekhan Research

### Trend in return ratios



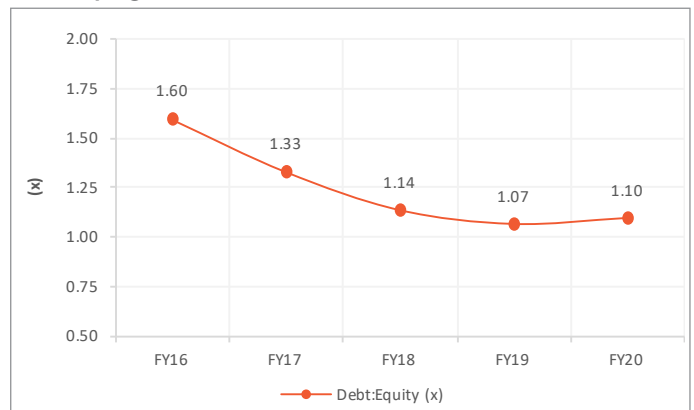
Source: Company, Sharekhan Research

### Stable working capital



Source: Company, Sharekhan Research

### Debt:Equity remains lower



Source: Company, Sharekhan Research

## Outlook and Valuation

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

India is focusing on increasing its shares in the textile export markets in the near to medium term. This will be done through increasing the capacity and improving quality of product with introducing better technologies. Moreover, the government’s proposed PLI scheme is expected to give a major boost to the textile companies. India’s share to US terry towels and bed sheets exports has gone upto 42% and 51%, respectively. On the other hand, China’s market share has declined by 300-400 bps in both segments. India’s textile players will benefit from a shift in the base from China to India in the coming years.

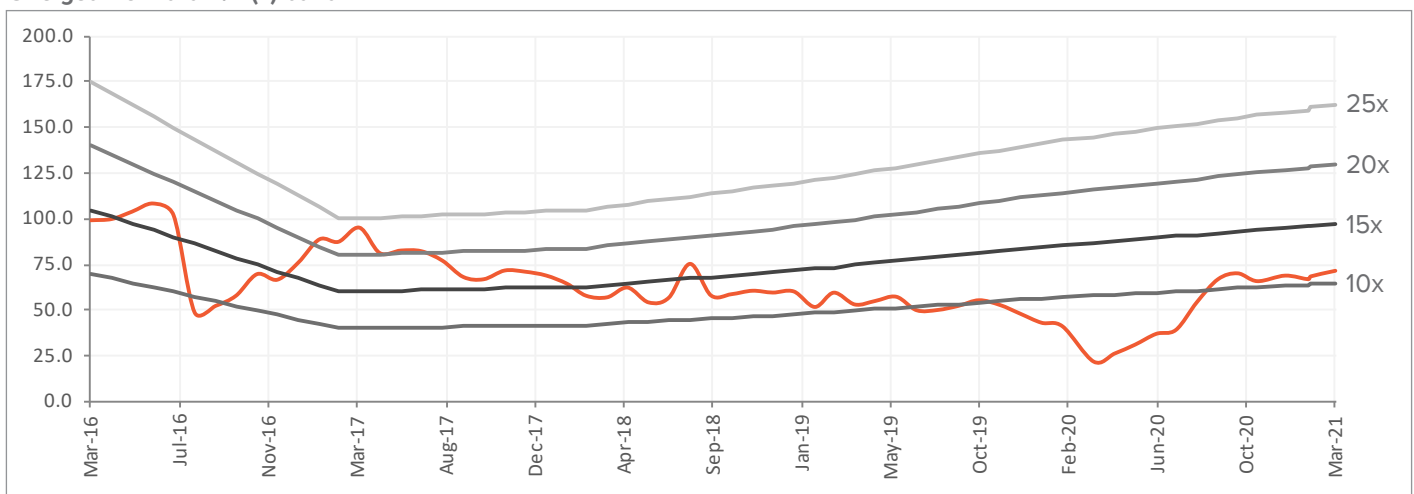
### ■ Company Outlook – Capacity expansion and scale up in emerging business to drive growth

9MFY2021 revenue grew by 1.6%y-o-y and earnings declined by 4% y-o-y with strong revival in performance in Q2 and Q3. OPM stood at 19.4%. With a stellar performance, in Q3FY21, the company expects to end with revenues of Rs. 7,300 crore and OPM of 19-20%. The company expects to maintain the double digit revenue growth momentum over FY2021-23 on the back of capacity expansion in core business and scale up in the emerging business. On the other hand, an increase in cotton and yarn prices coupled with higher freight cost will put stress on the margins in the near term. However better mix and scale up in the high margins will help in mitigating the impact of increase in the cost. The company gross debt on books stand at Rs. 3,100 crore (reduced by Rs. 400 crore y-o-y). With a capex plan of Rs. 500-600 crore over the next two years, we expect gross debt to remain at current levels. Funding of capex will largely be done through improved cash flows.

### ■ Valuation – Retained Buy with price target of Rs. 90

With strong tailwinds in place, Welspun is well-poised to achieve strong earnings growth of ~19% over FY2020-23. Welspun will be one of the key beneficiaries of growing India’s share in the exports markets and implement of government of PLI scheme for textile sector with large focus on growing the prospects of advance textile and man-made-fibres. This along with the company’s focus on strengthening its balance sheet by consistent improvement in cash flows and maintaining debt at lower levels augurs well for Welspun from a long-term perspective. The stock is trading at 9x its FY2023E EPS, which is at a discount to its last three-year average of 13x. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 90.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
KPR Mill	17.4	13.7	11.1	10.6	8.6	6.8	20.7	23.7	26.0
Welspun India	14.1	11.1	8.8	7.4	6.2	5.0	13.3	15.2	17.9

Source: Company, Sharekhan estimates

## About company

Welspun, 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. Welspun is Asia's largest and amongst the top four terry towel producers in the World (number 1 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. 95% of the company's 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 company will 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 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 Welspun'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

Rajesh Mandawewala	Executive Director andMD
Dipali Goenka	CEO-MD
Sanjeev Sancheti	Chief Financial Officer
Shashikant Thorat	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	BlackRock Inc	0.5
9	GAM Holding AG	0.2
10	Birla Sun Life Insurance Co Ltd	0.2

Source: Bloomberg (Old data)

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## 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 deteriorating 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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by BNP PARIBAS

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