



## 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

Updated Feb 08, 2022

14.83

## Low Risk

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

Source: Morningstar

## Company details

Market cap:	Rs. 9,466 cr
52-week high/low:	Rs. 171 / 76
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	9.4
DII	4.9
Others	15.3

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-10.9	-35.7	-42.4	23.2
Relative to Sensex	-17.1	-33.0	-40.4	0.1

Sharekhan Research, Bloomberg

## Welspun India Ltd

Exports to drive growth in medium term even as inflation dents margins

## Consumer Discretionary

Sharekhan code: WELSPUNIND

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 96

Price Target: Rs. 130



## Summary

- Emergence of third COVID-19 wave and supply constraints dragged down bedsheet and terry towel exports by 36% y-o-y and 13% y-o-y, respectively, in January 2022. Amid global uncertainties, home textile exports expected to remain subdued in Q4FY2022.
- Welspun will bear the brunt of lower exports, clocking a ~10% y-o-y growth in Q4FY2022 versus 37% y-o-y growth achieved in 9MFY2022. EBITDA margin will decrease by 450-500 bps affected by higher input prices and transportation costs.
- Though near-term uncertainties will affect performance, long-term growth prospects of home textile sector is intact with emergence of large export opportunities due to China + 1 factor, India's trade agreements with various countries and market share gains.
- The stock has corrected by ~36% in the last three months and is currently trading at discounted valuations 12.3x and 9.0x its FY2023E/24E earnings. We maintain a Buy on the stock with revised price target of Rs. 130.

Welspun India Ltd (WIL) clocked strong performance in 9MFY2022 with revenues and PAT growing by 37% and 42% y-o-y respectively, led by strong export orders for home textile products driven by market share gains and China + 1 factor and a scale-up of the flooring business. Unavailability of containers and supply side constraints moderated the growth to high teens in Q3FY2022. This will be further affected by emergence of the third wave and inflationary pressures forcing global retailers to maintain lower inventories, which will lead to just a 10% y-o-y growth in Q4FY2022. According to OTEXA data, bed sheets and terry towel exports stood subdued for the past few months. This along with higher input prices would lead to lower margins in Q4. Though near-term uncertainties will keep toll on the performance, the long-term growth prospects of the home textile sector is intact with emergence of large export opportunities due to China + 1 factor, India entering trade agreements with various countries and market share gains.

- Revenue growth to moderate; margins to remain under pressure in Q4:** According to OTEXA data, bed sheets and terry towel exports stood subdued for past few months. Bedsheets and terry towel revenues decreased by 36% and 13% respectively in January 2022 affected by emergence of third wave and logistic constraints. We expect the trend to sustain in the medium term. Thus overall WIL's revenues are likely to grow by ~10% y-o-y in Q4FY2022. On the other hand, gross margins and EBITDA margins are expected to decline by 683 bps and 470 bps, respectively affected by input cost inflation.
- Home textile business to deliver consistent growth in medium term:** Indian players continue to witness market share gains in the US home textile markets. This along with opening of export opportunities in markets such as Europe, Canada and Australia will improve the demand prospects in medium to long run. The company's emerging businesses are also gaining traction and the company is committed to grow both ecommerce and branded business to 100 million dollars run-rate each by FY2023 and FY20FY24, respectively. This along with expansion in the capacities will help WIL to deliver double-digit growth in its core home textile business.
- Floor business to scale up faster:** Flooring business grew by 95% y-o-y and 20% q-o-q achieving a record revenue of Rs. 191 crore. The company continued to add large institutional customers in USA and UK and also grew in hospitality chains in the UK on the back of strong product differentiation. The management expects the soft flooring business to continue to gain traction in the coming quarters while it expects the hard flooring business to continue its growth trajectory.

## Our Call

**View: Retain Buy with a revised price target of Rs. 130:** We have reduced our earnings estimates for FY2023/FY2024 by 14% and 13% respectively to factor in lower than expected EBITDA margins earlier. Market share gains in the US home textile market, higher demand from retail clients of Europe/UK coupled with strong growth in B2C business will drive the core home textile business in the near to medium term. Emerging business (including flooring) will add substantially to revenue over the next 2-3 years. The stock has corrected by ~36% in the last three months and is currently trading at discounted valuations of 12.3x/9.0x its FY2023E/24E earnings. We maintain our Buy recommendation on the stock with revised PT of Rs. 130.

## Key concern

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.

## Valuation (consolidated)

Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	7,340	9,193	10,076	11,283
OPM (%)	18.4	16.0	16.6	18.3
Adjusted PAT	551	655	781	1,070
% Y-o-Y growth	11.8	18.9	19.3	37.0
Adjusted EPS (Rs.)	5.5	6.5	7.8	10.7
P/E (x)	17.5	14.7	12.3	9.0
P/B (x)	2.6	2.3	2.0	1.7
EV/EBITDA (x)	9.0	8.4	7.1	5.5
RoNW (%)	16.6	16.8	17.6	20.7
RoCE (%)	14.4	14.6	16.0	20.1

Source: Company; Sharekhan estimates

## 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. This along with sustained strong demand due to higher focus on home hygiene in the pandemic environment, China +1 factor, India entering trade tie-ups with key countries provided 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.

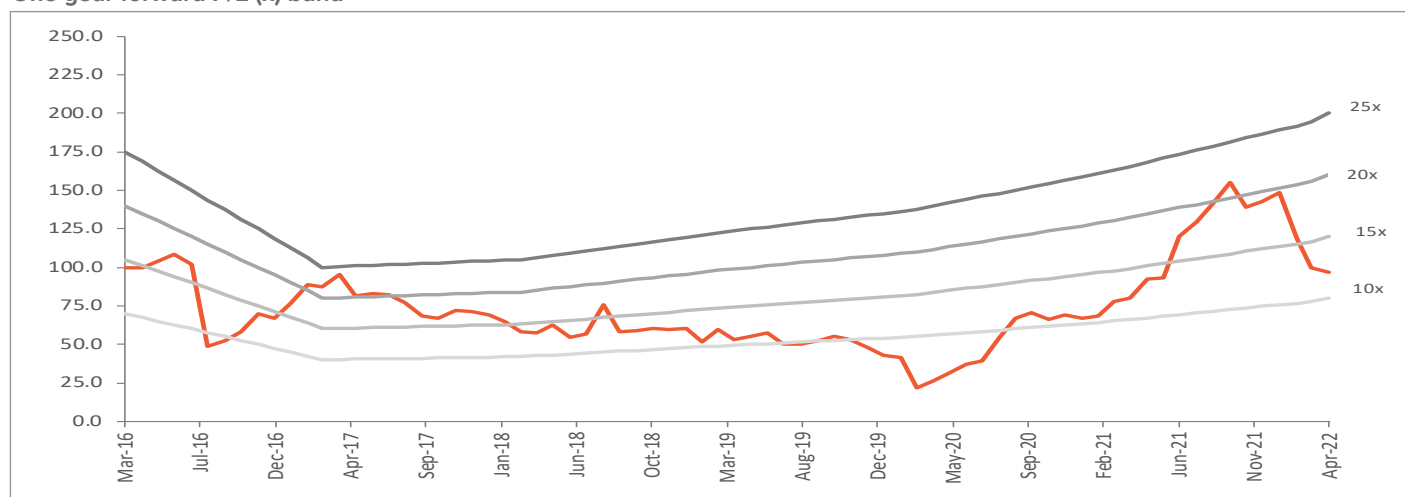
### ■ Company Outlook – Capacity expansion and scale up in the emerging business to drive growth

Q3FY22 performance was impacted due to increasing input costs, rising energy prices and global logistics issue which dented the margins significantly. The company expects to maintain double-digit revenue growth momentum over FY2021-FY2023, driven by sustained good demand for home textile products in the US market and scale up in the advance textile, flooring, and branded business. On the other hand, increased cotton and yarn prices coupled with higher freight cost will put stress on margins in the near term. However, a better mix and scale up in margins will help ease the impact of rising costs in the coming years. We expect WIL's revenue and PAT to post a CAGR of 15% and 24%, respectively, over FY2021-FY2024.

### ■ Valuation – Retain Buy with revised price target of Rs. 130

We have reduced our earnings estimates for FY2023E/24E by 14% and 13% respectively to factor in lower-than-expected EBITDA margins earlier. Market share gains in the home textile market in the US, higher demand from retail clients of Europe/UK coupled with strong growth in B2C business will drive the core home textile business in the near to medium term. Emerging business (including flooring) will add substantially to revenue over the next two to three years. The stock has corrected by ~36% in the last three months and is currently trading at discounted valuations of 12.3x/9.0x its FY2023/24E earnings. We maintain our Buy recommendation on the stock with revised PT of Rs. 130.

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



Source: Sharekhan Research

#### Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
KPR Mill	44.7	30.1	25.3	28.2	19.8	16.4	25.2	30.6	30.0
Weslspun India	17.5	14.7	12.3	9.0	8.4	7.1	14.4	14.6	16.0

Source: Company, Sharekhan estimates

## About the 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 advance textile revenue would add-on to revenue in the near to medium term. This along with improved revenue mix would aid in improving profitability consistently in the medium term (Margins would be in pressure in the near term due to higher input prices). Improving cash flows would aid the company to reduce debt on books over FY2021-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 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	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	The Vanguard Group Inc.	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

# Sharekhan

by BNP PARIBAS

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