Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Welspun India Ltd

Good Q4; Gradual recovery eyed in key markets

Consumer Discretionary	Sharekhan code: WELSPUNIND
Reco/View: Hold ↔	CMP: Rs. 101 / Price Target: Rs. 115 ↑

↑ 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 14.36

Updated Mar 08, 2023

Low Risk

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

Source: Morningstar

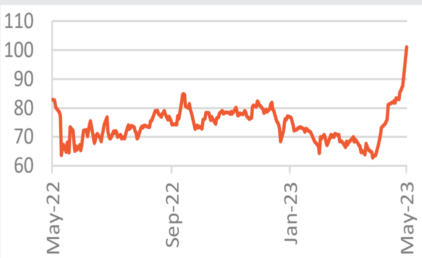
Company details

Market cap:	Rs. 9,969 cr
52-week high/low:	Rs. 105 / 62
NSE volume: (No of shares)	12.1 lakh
BSE code:	514162
NSE code:	WELSPUNIND
Free float: (No of shares)	29.3 cr

Shareholding (%)

Promoters	70.4
FII	6.2
DII	6.1
Others	17.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	49.9	57.0	29.7	22.0
Relative to Sensex	46.1	54.3	29.3	14.3

Sharekhan Research, Bloomberg

Summary

- Welspun India's (WIL's) Q4FY2023 numbers were good, with revenues and margins growing sequentially. Revenues stood at Rs. 2,153.9 crore (up 15.2% q-o-q and fell by 3.3% y-o-y), while EBIDTA margins stood at 13% (improved by 253 bps q-o-q and 278 bps y-o-y).
- The management is cautiously optimistic on the near-term outlook and expects a gradual rise in order bookings amid inflationary pressures in the US & Europe. It targets 10-12% revenue growth and EBIDTA margins to improve to 15% in FY2024.
- Net debt fell by Rs. 695 crore y-o-y to Rs. 1,534.3 crore at FY2023-end. Management targets to further reduce net debt through improved cash flows in the coming years.
- The stock trades at 18x/13x its FY2024E/25E earnings. Any consistent improvement in the operating performance will be a key re-rating trigger for the stock. We maintain our Hold on stock with revised price target of Rs. 115.

Welspun India Limited (WIL) delivered good performance in Q4FY2023 with a sequential recovery in revenues and profitability backed by increased orders from big box retailers due to reduced inventory on their shelves. Revenues grew by 15.2% q-o-q (was down by 3.3% y-o-y) to Rs. 2,153.9 crore. Capacity utilisation for bed-linen, rugs & carpet and flooring business improved on q-o-q. Fall in the cotton prices and better mix aided the gross margins to improve by 424 bps y-o-y to 45.4%. EBIDTA margins rose by 278 bps y-o-y and 253 bps q-o-q to 13%. EBIDTA grew by 23.2% y-o-y to Rs. 279 crore. This along with higher other income and lower tax led to 2.5x y-o-y increase in PAT to Rs. 129 crore. In FY2023, WIL's revenues decreased by 13% y-o-y to Rs. 8,093 crore; EBIDTA margins declined by 529 bps y-o-y to 9.3% and PAT fell by 67% y-o-y to Rs. 202.5 crore on account of weak demand environment and higher input and freight cost. The management expects gradual recovery in the export demand as current inflationary environment in key markets have put a toll on purchasing decisions on the consumers. The company is eyeing low double-digit growth in revenues, while EBITDA margins are likely to improve on y-o-y basis.

Key positives

- Domestic consumer business grew by 9% y-o-y in Q4FY2023 and 31% y-o-y in FY2023.
- Green shoots in the form of increased order inflows from big box retailers as they are able to destock their high inventories of last year.
- EBITDA grew by 23% y-o-y in Q4FY2023, with 424 bps and 278 bps expansion in gross and EBITDA margin in Q4FY2023.
- Net debt reduced by Rs. 375 crore q-o-q and Rs. 695 crore y-o-y to Rs. 1,534 crore at FY2023-end.

Key negatives

- Bath linen capacity utilisation declined both q-o-q and y-o-y.
- Consolidated revenues were down by 13% y-o-y in FY2023.

Management Commentary

- Management is cautiously optimistic about growth in the US, while in the UK and Europe, it expects growth to be a little slow. However, the company has indicated that demand in the GCC, Australian and Indian markets is good. Management is confident of achieving revenue growth of 10-12% y-o-y in FY2024 on the back of expected increased capacity utilization and increased customer demand.
- With the inventory at retailers' levels starting to come at a normalized level and with revised prices at consumer level, consumer demand for home textile is likely to see an uptick in the coming quarters. In the flooring business, the company plans to grow the soft flooring segment, while strong order book from key existing customers in wet wipes would drive revenue of advanced textile segment in coming quarters.
- The management has guided that out of the company's major input costs, cost of cotton and container have corrected starting Q4FY2023 onwards while coal prices remain at elevated levels. WIL's average cotton price will be between Rs. 60,000-65,000 per candy.
- With cotton and freight costs reducing, the company expects the EBIDTA margins to improve sequentially in the coming quarters. The margin expansion will be higher once emerging and branded businesses attain certain scale in the coming years. The company has guided consolidated EBITDA margin of 15% (home textile margin of 17-18%) in FY2024.
- In FY2024, WIL has projected a capex of ~Rs. 300 crore, out of which Rs. 200 crore will be mainly towards investing in renewable energy power plants at Anjaar and balance Rs. 100 crore for maintenance capex.
- The management has indicated that the company will continue to bring down its net debt position and aims to achieve net debt below Rs. 1,000 crores by FY2024-end and targets to get closer to net debt-zero by FY2025.

Revision in estimates – We increase our earnings estimates for FY2023, FY2024 and FY2025 to factor in better-than-expected performance in Q4 and little higher than earlier expected EBIDTA margins.

Our Call

View: Retain Hold with a revised PT of Rs. 115: WIL's management is hoping for gradual recovery in the export demand in the current inflationary environment. Domestic business continues to perform well and is expected to maintain the strong growth momentum. WIL's stock price is currently trading at 18x and 13x its FY2024E and FY2025E earnings. Any consistent improvement in the performance in the coming quarters will act as a key re-rating trigger for the stock. We maintain a Hold recommendation on the stock with a revised price target of Rs. 115.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue	7,340	9,311	8,094	9,238	10,440
OPM (%)	18.4	14.6	9.3	14.5	15.3
Adjusted PAT	551	607	203	573	750
% Y-o-Y growth	11.8	10.2	-66.6	183.0	30.8
Adjusted EPS (Rs.)	5.5	6.0	2.0	5.7	7.5
P/E (x)	18.6	16.6	49.7	17.6	13.4
P/B (x)	2.8	2.5	2.5	2.2	1.9
EV/EBIDTA (x)	9.4	9.1	15.8	8.7	3.2
RoNW (%)	16.6	15.9	5.0	13.3	15.3
RoCE (%)	14.4	13.7	5.9	12.6	14.7

Source: Company; Sharekhan estimates

Good Q4 – Revenue growth q-o-q; EBITDA margins rise y-o-y and q-o-q

Revenues declined by 3.3% y-o-y to Rs. 2,154 crore led by 24% y-o-y growth in the emerging businesses. Home textile business revenue declined by 2.7% y-o-y to Rs. 2,017 crore while flooring business grew by 10.1% y-o-y to Rs. 208 crore. Gross margin increased by 424 bps y-o-y to 45.4% due to softening of raw material prices, while EBITDA margins increased by 278 bps y-o-y to 13%. EBITDA grew by 23.2% y-o-y to Rs. 279 crore. This coupled with higher other income & lower taxes led to 2.5x y-o-y growth in PAT to Rs. 129 crore. For FY2023, WIL's revenues decreased by 13% y-o-y to Rs. 8,093 crore; EBIDTA margins declined by 529 bps y-o-y to 9.3% and PAT fell by 67% y-o-y to Rs. 202.5 crore. The company has approved buyback proposal for purchase of 1.625 crore shares of Re. 1 each at a price of Rs. 120 per share (premium to current market price) payable in cash for an aggregate amount of Rs. 195 crore. Promoters will be tendering 100% of their eligibility under the buyback. The board has also recommended a dividend of Re. 0.1 per share for FY2023.

Home textile business improved sequentially

Revenues of the home textile business declined by 2.7% y-o-y to Rs. 2,017 crore in Q4FY2023. However, the company reported a growth of 15% q-o-q aided by increased orders from big box retailers due to reduced inventory on their shelves. Capacity utilisation for bath linen/bed linen/rugs and carpets stood at 66%/54%/70% in Q4FY2023 as against 67%/69%/57% in Q4FY2022 and 72%/47%/51% in Q3FY2023. EBITDA margins for the segment increased to 14.5% in Q4FY2023 from 11.6% in Q4FY2022. For the whole of FY2023, revenue declined by 12.1% y-o-y to Rs. 7,638 crore and EBITDA margin contracted by 458 bps y-o-y to 10.5%. Capacity utilisation for bath linen/bed linen/rugs and carpets came in lower at 63%/51%/60% in FY2023 as against 84%/93%/77% in FY2022. Domestic consumer business grew by 9% y-o-y in Q4FY2023 and 31% y-o-y in FY2023. Share of domestic consumer business in company's overall revenues has more than doubled from 3.7% in FY2021 to 7.7% in FY2023. With the inventory at retailers' levels starting to come at a normalised level and with revised prices at consumer level, the company is expected to see an uptick in consumer demand for home textile in the coming quarters.

Flooring business – Revenue growth at 10.1% y-o-y in Q4

Flooring business' revenues grew by 10.1% y-o-y to Rs. 208 crore in Q4FY2023 led by recovery in demand from big ticket buyers of the USA and UK. Capacity utilisation for the flooring business stood at 34% in Q4FY2023 versus 37% in Q4FY2022 and 30% in Q3FY2023. Management has guided that Middle East is continuing to strengthen and WIL has been able to make inroads in Australia markets. On the domestic market front, the company is continuing to see substantial growth and good demand built up in commercial and institutional segments. The residential segment has also started picking up. Domestic flooring registered its highest quarterly revenue, crossing the Rs. 100 crore mark in FY2023, with 43% y-o-y growth in Q4FY2023, and an overall 81% y-o-y growth in FY2023. The flooring business reported EBITDA of Rs. 8.7 crore in Q4FY2023 against a loss of Rs. 2.9 crore in Q4FY2022. In FY2023, revenue of flooring business grew by 6.7% y-o-y to Rs. 706 crore and the company reported a profit of Rs. 18 crore versus a loss of Rs. 14 crore in FY2022. Capacity utilisation for the flooring business stood stable y-o-y at 34% in FY2023. The management has indicated that the flooring business will continue to grow as the company increases its capacity utilisation and with scale-up in revenues. In the flooring business, WIL's focus area will be soft flooring and the company plans to grow the soft flooring, whether it's a wall-to-wall carpets, carpet tiles, and bath rugs. The company is seeing a great potential in soft flooring across the globe in the segments of institutions, hospitality, retail, and residential.

Advanced textile business gaining momentum

The advanced textile business grew by 12.9% y-o-y and 30% y-o-y in Q4FY2023 and FY2023 to Rs. 84 crore and Rs. 347 crore, respectively, fuelled by increased capacity of spunlace in Telangana, commissioned in March 2022. Following normalisation of ocean freight, customer supplies in the EU have regained momentum. The company has secured a large quarterly business from a new customer, who is a market leader in femcares and wipes in the country. Further, a strong order book from key existing customers in wet wipes would drive the revenue in coming quarters. In the domestic market as well, the company has penetrated aggressively resulting in domestic y-o-y revenue growth of 48% in FY2023.

Key conference call highlights:

- **Demand gradually recovering:** According to the management, economic conditions for H1CY2023 look similar to the conditions that prevailed in Q4CY2022 in U.S., with consumer sentiments remaining low due to high inflation. The company has started to see a gradual decline in retailers' inventory levels. Major retailers, however, are providing conservative guidance in the face of inflation worries and macroeconomic uncertainty for 2023. With the inventory at retailers' levels starting to come at a normalised level, with revised prices at consumer level, the company expects to see an uptick in consumer demand for home textile in the coming months. The management is cautiously optimistic about growth in the US, while in the UK and Europe, it expects growth to be a little slow. However, the company has indicated that demand in GCC markets, Australian markets and in India is good
- **Correction in input prices started:** The management has guided that out of the company's major input costs, cost of cotton and container have corrected starting Q4FY2023 onwards while coal prices continue to remain high. Average cotton cost during Q4FY2023 was Rs. 65,000 per candy, as compared to Rs. 69,000 per candy in Q3FY2023. The management stated that WIL's average price of cotton will be between Rs. 60,000 to Rs. 65,000 per candy.
- **Targeting net debt zero by FY2025:** At FY2023-end, WIL's net debt stood at Rs. 1,534 crore, which is Rs. 375 crore lower q-o-q and Rs. 695 crore lower y-o-y. The management has indicated that the company will continue to bring down its net debt position and aims to achieve net debt below Rs. 1,000 crores by FY2024-end and targets to get closer to net debt zero by FY2025.
- **No major capex planned for FY2024:** In FY2023, WIL spent Rs. 275 crores towards the balanced Capex for expansion projects of Flooring, Advanced Textiles, and Home Textile businesses and other maintenance Capex. The management has guided that with all expansions being over, there would be no new Capex in FY2024 except for investing in renewable energy initiatives. In FY2024, therefore, projected Capex will be ~Rs. 300 crore, out of which Rs. 200 crores will be mainly towards investing in renewable energy power plants at Anjaar and balance Rs. 100 crore for maintenance capex.
- **Improving revenue mix:** Retail business currently is ~7.7% of WIL's total revenue, which the management expects to grow up to 11-12% by FY2026. While the overall emerging businesses, which includes retail, branded, advanced textile, and flooring, which is currently at 36% of the total revenue is expected to grow up to ~45% of total revenue by FY2026.
- **Double-digit revenue growth & EBITDA margin target of 15% for FY2024:** Management is confident of achieving a topline growth of 10-12% y-o-y in FY2024 on the back of expected increased capacity utilization and increased customer demand. On the margin front, the company has guided consolidated EBTDA margin of 15% (home textile margin of 17-18%) in FY2024 aided by correction in input costs, cost optimisation initiatives and improved efficiency, aided further by relatively better business prospects and outlook. For its domestic consumer business, the company is targeting growth in excess of 25% in FY2024 with positive EBITDA.

Result Snapshot (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y (%)	Q3FY23	q-o-q (%)
Total Revenue	**2,153.9**	**2,227.1**	**-3.3**	**1,869.2**	**15.2**
Raw material cost	1,177.0	1,311.4	-10.2	956.6	23.0
Employee cost	200.1	198.5	0.8	199.5	0.3
Other expenses	497.8	490.8	1.4	518.4	-4.0
Total operating cost	1,874.9	2,000.6	-6.3	1,674.4	12.0
EBITDA	**279.0**	**226.5**	**23.2**	**194.7**	**43.3**
Other income	41.6	20.0	-	34.9	19.1
Interest & other financial cost	33.7	26.3	28.3	36.9	-8.7
Depreciation	113.5	111.5	1.9	114.2	-0.6
Profit Before Tax	**173.3**	**108.7**	**59.4**	**78.5**	**-**
Tax	44.2	57.7	-23.3	34.7	27.3
Adjusted PAT before MI	129.1	51.0	-	43.8	-
Minority Interest (MI)/ Profit from associates	-0.1	0.2	-	0.0	-
Reported PAT	**129.0**	**51.3**	**-**	**43.8**	**-**
Adjusted EPS (Rs.)	1.3	0.5	-	0.4	-
			bps		bps
GPM (%)	45.4	41.1	424	48.8	-347
EBITDA margin (%)	13.0	10.2	278	10.4	253
NPM (%)	6.0	2.3	370	2.3	365
Tax rate (%)	25.5	53.0	-	44.2	-

Source: Company, Sharekhan Research

Business-wise revenue Rs cr

Segments	Q4FY23	Q4FY22	y-o-y %	Q3FY23	q-o-q %
Home Textile - B2B	1,250	1,492	-16.2	1,068	17.0
Home Textile – branded	314	207	51.6	236	32.9
Home Textile - e-commerce	111	91	21.4	99	12.1
Total - Home Textile	**1,675**	**1,790**	**-6.5**	**1,403**	**19.3**
Advance Textile	**84**	**74**	**12.9**	**76**	**10.1**
Flooring - B2B	121	139	-13.0	115	5.5
Flooring – branded	33	23	44.2	40	-18.7
Total - Flooring	**154**	**162**	**-5.0**	**155**	**-0.8**

Source: Company, Sharekhan Research

Business-wise operations

Particulars	Units	Capacity	Q4FY23 (Prodn.)	Utilisation (%)	Q4FY22 (prodn.)	Utilisation (%)	Q3FY23 (Prodn.)	Utilisation (%)
Home Textile								
Bath Linen	MT	90,000	14,948	66	14,360	67	16,279	72
Bed Linen	Mn mtrs	108	14.7	54	15.5	69	12.6	47
Rugs & Carpets	Mn sq mtrs	12.0	2.1	70	1.7	57	1.5	51
Advance Textile								
Spunlace	MT	27,729	2,811	41	2,010	73	2,564	37
Needle Punch	MT	3,026	264	35	318	50	283	37
Wet wipes	Mn packs	100	4.7	19	6.5	40	6.0	24
Flooring	Mn sq mtrs	18.0	1.5	34	1.5	37	1.4	30

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Near-term outlook uncertain; Medium-long term prospects remain strong

The textile industry is expected to post gradual recovery as increased consumer inflation and macro uncertainties will keep toll on purchasing decisions of consumers in key export markets. On the other hand, drivers such as declining freight cost and reduction in the key cotton prices augurs well for textile companies to post better margins and revamp focus on improving sales volume. However, in the medium to long term, the Indian home textile sector is expected to gain market share, aided by increased demand due to higher focus on home hygiene after the pandemic, China +1 factor, and India entering trade tie-ups with key countries. Top players such as WIL and HSL have expanded their 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.

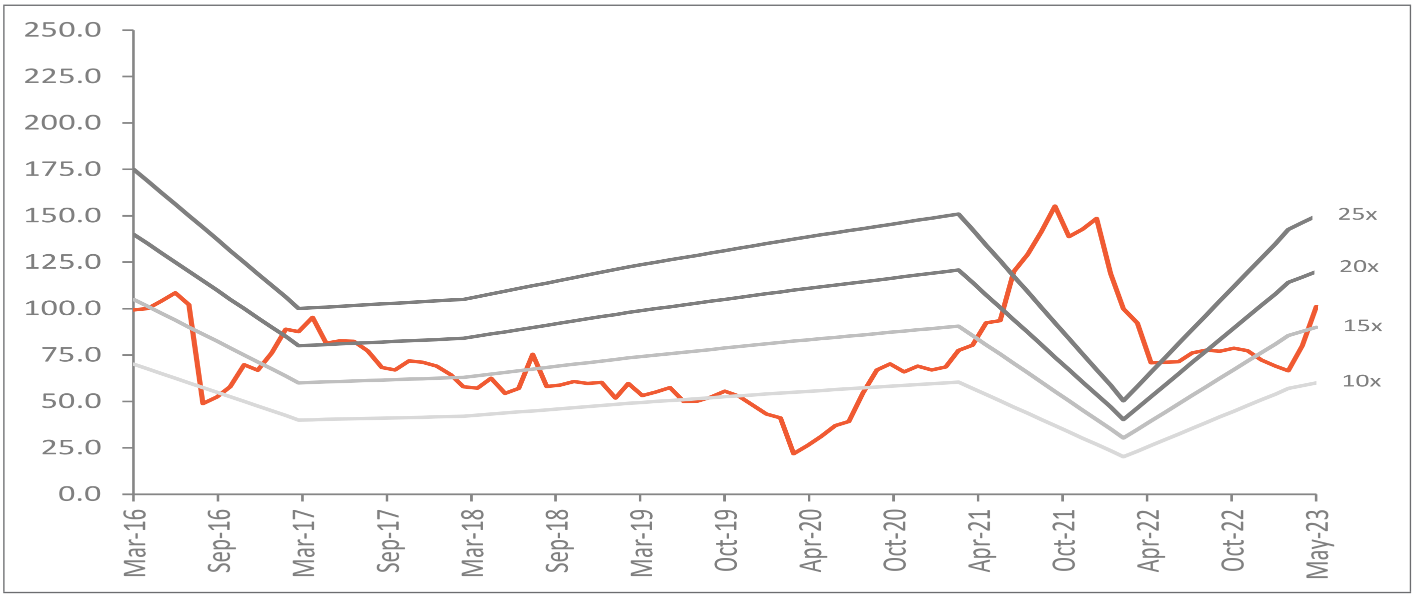
■ Company Outlook – Gradual recovery expected in key markets

Welspun India (WIL) registered good performance in Q4FY2023 with sequential growth in revenues and margins. Its FY2023 performance was impacted by uncertain environment in the key export markets and higher input prices. The management is confident of achieving revenue growth of 10-12% y-o-y aided by recovery in demand in global market and good demand in domestic market. Consolidated EBTDA margin target is set at 15% in FY2024 (from 9.3% in FY2023) led by correction in input costs, cost optimization initiatives and improved efficiency. WIL aims to achieve net debt below Rs. 1,000 crore by FY2024-end and targets to get closer to net debt zero by FY2025. In the medium-long term, the company's growth drivers include sustained good demand for home textile products in the US market and scale up in the advance textile, flooring, and branded businesses.

■ Valuation – Retain Hold with a revised PT of Rs. 115

WIL's management is hoping for gradual recovery in the export demand in the current inflationary environment. Domestic business continues to perform well and is expected to maintain the strong growth momentum. WIL's stock price is currently trading at 18x and 13x its FY2024E and FY2025E earnings. Any consistent improvement in the performance in the coming quarters will act as a key re-rating trigger for the stock. We maintain a Hold recommendation on the stock with a revised price target of Rs. 115.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY23E	FY23	FY24E	FY25E	FY23
KPR Mill	26.5	21.1	16.9	16.7	13.4	10.8	23.5	25.7	27.6
Himatsingka Seide	-	10.7	6.1	16.4	7.3	6.0	1.4	7.1	8.9
Weslpun India	49.7	17.6	13.4	15.8	8.7	3.2	5.9	12.6	14.7

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 to export 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 enhanced revenue mix would aid in improving profitability consistently in the near to medium term. Better cash flows would aid the company to reduce debt on books over FY2023-FY2025.

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 our 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	3.7
2	Infinity Holdings	1.3
3	Vanguard Group Inc	1.2
4	Bhanshali Akash	1.1
5	L & T Mutual Fund Trustee India	1.0
6	Dimensional Fund Advisors LP	0.7
7	Norges Bank	0.5
8	Aditya Birla Sun Life AMC	0.5
9	Blackrock Inc	0.4
10	Nippon Life India AMC	0.3

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

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by BNP PARIBAS

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