Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Welspun India Ltd

Consistent improvement in utilisation bodes well; upgrade to Buy

Textiles	Sharekhan code: WELSPUNIND
Reco/View: Buy ↑	CMP: Rs. 110
Price Target: Rs. 130 ↑	

↑ 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	Neutral	↑	Positive
RQ	Positive	↔	Positive
RV	Neutral	↑	Positive

ESG Disclosure Score NEW

ESG RISK RATING 11.30

Updated Jul 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. 10,662 cr
52-week high/low:	Rs. 115 / 62
NSE volume: (No of shares)	26.1 lakh
BSE code:	514162
NSE code:	WELSPUNIND
Free float: (No of shares)	28.7 cr

Shareholding (%)

Promoters	70.5
FII	6.7
DII	6.1
Others	16.7

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	16.5	8.6	63.1	57.2
Relative to Sensex	14.5	0.1	51.3	41.6

Sharekhan Research, Bloomberg

Summary

- Welspun India Limited's (WIL's) Q1FY2024 performance was better than our and street expectation due to higher-than-expected EBIDTA margins. Revenue grew by 12% y-o-y, while EBIDTA margin expanded by 650 bps y-o-y to 14.2%, resulting in 6.5x y-o-y growth in PAT.
- Capacity utilisation of bed linen, bath linen, rugs and carpet segments is expected to stand at 90-100% as demand is expected to be high prior to the festive season. Management is cautiously optimistic about H2FY2024.
- Net debt increased q-o-q by Rs. 281 crore to Rs. 1,815.1 crore due to working capital requirement. Management maintained its target of net debt reducing to Rs. 1,000 crore by FY2024-end.
- The stock trades at 18x/14x its FY2024E/FY2025E earnings. With consistent improvement in capacity utilisation and better growth prospects in export markets, we upgrade our rating on the stock to Buy from Hold with a revised PT of Rs. 130.

Welspun India Limited's (WIL) Q1FY2024 performance was a beat on street as well as our expectation due to higher-than-expected EBITDA margins resulting in 6.5x growth in PAT. Consolidated revenue grew by ~12% y-o-y to Rs. 2,184.1 crore, driven by 10% y-o-y growth in the textile business and 33% y-o-y growth in the flooring business (contributes ~10% to consolidated revenue). The decline in cotton prices and improvement in capacity utilisation led to a 566 bps y-o-y and 177 bps q-o-q increase in gross margins. This along with better operating efficiencies led to a 647 bps improvement in EBIDTA margin to 14.2%. Adjusted PAT grew by 6.5x y-o-y to Rs. 159 crore. Management expects Q2 to be strong on account of higher festive demand and is cautiously optimistic about H2FY2024. Management is also optimistic about the medium-term outlook with strong growth prospects in key export markets and India having a competitive edge over key competitors.

Key positives

- Home textile B2B saw 22% revenue growth in Q1FY2024.
- Capacity utilisation of bath linen and rugs and carpet improved to 81% and 90%, respectively, in Q1FY2024 from 66% and 70% in Q4FY2023.
- Flooring business registered strong y-o-y growth of 33%; EBIT margin improved to 8%.

Key negatives

- The domestic branded business registered a decline of 26% in Q1 due to slowdown in the retail environment.

Management Commentary

- Inventory de-stocking with global retailers is over and the company is witnessing a gradual pick-up in orders.
- Capacity utilisation in Q2FY2024 for most of the home textile segments will be in the range of 90-100% as strong pick-up is expected prior to the festive season.
- Management has maintained its guidance of over 10% revenue growth and EBIDTA margin of 15% for FY2024.
- The flooring business will maintain its strong growth momentum at over 20% in the quarters ahead, as China + 1 factor is helping the business to witness market share gains in key international markets. The domestic business is also gaining strong traction from commercial and residential customers.
- Net debt is expected to reduce to Rs. 1,000 crore in Q4FY2024 from Rs. 1,815.3 crore in Q1FY2024 with improvement in cashflows from the core home textile business.

Revision in estimates – We have increased our earnings estimates for FY2024 and FY2025 to factor in the better than earlier expected EBIDTA margin and little higher capacity utilisation for the flooring business.

Our Call

View: Upgrade to Buy with a revised PT of Rs. 130: WIL's management is optimistic about strong growth prospects in the core textile business and consistent scale-up in its flooring business. Sustained gain in market share in export markets will help home textile players to achieve strong performance in the coming years with a favourable input cost environment. The flooring business is expected to scale up fast and will add on incrementally to the company's profitability in the medium term. WIL's stock price is currently trading at 18x and 14x its FY2024E and FY2025E earnings, respectively. With consistent improvement in capacity utilisation and improving growth prospects in export markets, we upgrade our rating on the stock to Buy from Hold with a revised price target (PT) of Rs. 130.

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	FY22	FY23	FY24E	FY25E
Revenue	9,311	8,094	9,238	10,440
OPM (%)	14.6	9.3	14.5	15.3
Adjusted PAT	607	203	601	769
y-o-y growth (%)	10.2	-66.6	-	27.9
Adjusted EPS (Rs.)	6.0	2.0	6.0	7.6
P/E (x)	17.9	53.7	18.1	14.1
P/B (x)	2.7	2.7	2.4	2.1
EV/EBIDTA (x)	9.7	16.9	9.3	3.7
RoNW (%)	15.9	5.0	13.9	15.6
RoCE (%)	13.7	5.9	12.8	14.9

Source: Company, Sharekhan estimates

Good Q1 – Revenue growth at 12% y-o-y; EBITDA margin up by ~650 bps y-o-y

WIL's revenue grew by 11.6% y-o-y to Rs. 2,184.1 crore, lower than our and average street expectation of Rs. 2,246 crore and Rs. 2,291 crore, respectively, driven by 33% y-o-y growth in the flooring business to Rs. 225.1 crore and 10% y-o-y growth in the home textile business to Rs. 2,037.6 crore. Gross margin increased by 566 bps y-o-y to 47.1%, while EBITDA margin improved by 647 bps y-o-y to 14.2%, aided by a correction in raw-material and input costs. EBITDA margin came in higher than our and average street expectation of 13.2% and 13.7%, respectively. The textile business's margin improved to 15.3% from 9.3% in Q1FY2023, while the flooring business's margin increased to 8.1% from 1.3% in Q1FY2023. EBITDA grew by 2x y-o-y to Rs. 310.6 crore, while higher other income, lower interest expenses, and reduced depreciation cost led to 6.5x y-o-y growth in adjusted PAT to Rs. 158.7 crore (ahead of our and average street expectation of Rs. 130-138 crore). Reported PAT came in at Rs. 162.7 crore. Net debt stood at Rs. 1,815.3 crore as on June 30, 2023, versus Rs. 1,534.3 crore as on March 31, 2023.

Home textile – Double-digit revenue growth; strong margin expansion

Revenue of the home textile business grew by 10% y-o-y to Rs. 1,037.6 crore, led 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 81%/57%/90% in Q1FY2024 as against 54%/52%/60% in Q1FY2023 and 66%/54%/70% in Q4FY2023. EBITDA margin for the business increased to 15.3% in Q1FY2024 from 9.3% in Q1FY2023, led by a correction in raw-material prices and reducing freight cost. Management expects the offtakes to improve in the near term, driven by the upcoming festive season.

Flooring – Revenue growth at 33% y-o-y; strong margin expansion

Revenue of the flooring business grew by 32.9% y-o-y to Rs. 225.1 crore, aided by China + 1 strategy adopted by global retailers. Capacity utilisation for the flooring business stood at 50% in Q1FY2024 versus 37% in Q1FY2023 and 34% in Q4FY2023. EBITDA margin for the business increased to 8.1% in Q1FY2024 from 1.3% in Q1FY2023 due to economies of scale and improvement in the supply chain. Management has guided that Middle East continues to strengthen and WIL has been able to make inroads in Australian markets. The company has also added new customers in the U.S., Middle East and other markets. On the domestic market front, the company continues to see substantial growth and good demand build up in commercial and institutional segments. The residential segment has also started picking up. In terms of margins, the company is eyeing high single-digit margins for flooring.

Advanced textile – Continued growth momentum

The advanced textile business grew by 4.3% y-o-y and 11.8% q-o-q to Rs. 94 crore, with higher capacity utilisation across segments. Spunlace/needle punch/wet wipes capacity improved to 51%/40%/29% in Q1FY2024 from 34%/32%/20% in Q1FY2023 and 41/35/19% in Q4FY2023. The company expanded its business in South America and Asian markets and launched wet wipes for institutional markets during the quarter.

Key result highlights

- **Promising outlook for H1; cautiously optimistic for H2:** Management has guided that demand is expected to be better in Q2, aided by the upcoming festive season (Black Friday and Christmas). Thus, capacity utilisation across segments is expected to be higher with bed linen capacity expected to build up to 90%, while towels and rugs are also seeing higher capacity utilisation at 90-100%. However, management is cautiously optimistic about demand in H2FY2024 due to the dynamic demand environment.
- **Targeting net debt zero by FY2025:** At Q1FY2024-end, WIL's net debt increased by Rs. 281 crore q-o-q due to increased working capital, inventory build-up for the upcoming festive season, higher inventory due to the cyclone in Gujarat, and payment towards buyback and stood at Rs. 1,815 crore. 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 crore by FY2024-end and targets to get closer to net debt zero by FY2025.
- **No major capex planned for FY2024:** In Q1FY2024, WIL spent Rs. 57 crore towards capex. Management has guided that with all expansions being over, there would be no new capex in FY2024. The company is sufficiently covered for tapping demand in the home textile business and would consider debottlenecking of flooring facilities if required. Management's focus would be to work on improving efficiencies rather than expanding capacities.
- **Revenue growth guidance of 10% and EBITDA margin target of 15% for FY2024:** Management is confident of achieving topline growth of 10% y-o-y in FY2024 on account of the expected increase in capacity utilisation and higher customer demand. On the margin front, the company has guided consolidated EBTDA margin of 15% in FY2024, aided by correction in input costs, cost-optimisation initiatives, and improved efficiency, aided further by better business prospects and outlook.

Result Snapshot (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	y-o-y (%)	Q4FY23	q-o-q (%)
Total Revenue	**2,184.1**	**1,957.3**	**11.6**	**2,153.9**	**1.4**
Raw-material cost	1,154.8	1,145.6	0.8	1,177.0	-1.9
Employee cost	226.1	193.3	17.0	200.1	13.0
Other expenses	492.5	466.5	5.6	497.8	-1.1
Total operating cost	1,873.4	1,805.4	3.8	1,874.9	-0.1
Operating profit	**310.6**	**151.8**	**-**	**279.0**	**11.3**
Other income	25.4	21.7	16.8	41.6	-38.9
Interest & other financial cost	25.8	32.3	-20.0	33.7	-23.4
Depreciation	99.4	104.9	-5.3	113.5	-12.4
Profit Before Tax	**210.8**	**36.3**	**-**	**173.3**	**21.6**
Tax	51.9	15.0	-	44.2	17.3
Adjusted PAT before MI	158.9	21.3	-	129.1	23.1
Minority Interest (MI)/ Profit from associates	-0.2	0.1	-	-0.1	-
Adjusted PAT after MI	158.7	21.4	-	129.0	23.0
Extraordinary items	4.0	0.0	-	0.0	-
Reported PAT	**162.7**	**21.4**	**-**	**129.0**	**26.2**
Adjusted EPS (Rs.)	1.6	0.2	-	1.3	23.1
			bps		bps
GPM (%)	47.1	41.5	566	45.4	177
OPM (%)	14.2	7.8	647	13.0	127
NPM (%)	7.3	1.1	619	6.0	128
Tax rate (%)	24.6	41.3	-	25.5	-91

Source: Company; Sharekhan Research

Business-wise revenue Rs cr

Segments	Q1FY24	Q1FY23	y-o-y (%)	Q4FY23	q-o-q (%)
Home Textile - B2B	1,337	1,097	21.9	1,250	6.9
Home Textile - Branded	235	316	-25.5	314	-25.1
Home Textile - E-commerce	81	84	-3.3	111	-26.7
Total - Home Textile	**1,653**	**1,496**	**10.5**	**1,675**	**-1.3**
Advance Textile	**94**	**90**	**4.3**	**84**	**11.8**
Flooring - B2B	164	135	21.4	121	35.6
Flooring - Branded	28	22	28.3	33	-13.8
Total - Flooring	**192**	**157**	**22.3**	**154**	**25.1**

Source: Company, Sharekhan Research

Business-wise operations

Particulars	Units	Capacity	Q1FY24 (Prodn.)	Utilisation (%)	Q1FY23 (Prodn.)	Utilisation (%)	Q4FY23 (Prodn.)	Utilisation (%)
Home Textile								
Bath Linen	MT	90,000	18,181	81	11,632	54	14,948	66
Bed Linen	mn mtrs	108	15.4	57	14.0	52	14.7	54
Rugs & Carpets	mn sq. mtrs	12.0	2.7	90	1.8	60	2.1	70
Advance Textile								
Spunlace	MT	27,729	3,509	51	2,386	34	2,811	41
Needle Punch	MT	3,026	305	40	246	32	264	35
Wet wipes	mn packs	100	7.2	29	5.0	20.0	4.7	19
Flooring	mn sq. mtrs	18.0	2.3	50	1.5	37	1.5	34

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Gradual recovery on cards; long-term growth prospects intact

In the past few quarters, inflation, rising interest rates, and geopolitical disturbances impacted export demand and led to inventory pile-up at the retailers' end. However, textile companies are expected to gain momentum from Q2FY2024, with global retail shelves getting empty. In the long term, growth prospects of the Indian textile industry are strong, aided by augmentation of capacity with value-added products, China + 1 factor, the government entering into a trade agreement in various countries, incremental benefits from the PLI scheme, and market share gains in export markets. Textile companies would benefit and report higher profitability with the government extending the RoSCTL scheme until March 2024 and keeping rates unchanged. Margins are expected to improve in the quarters ahead due to lower raw-material prices and supply costs.

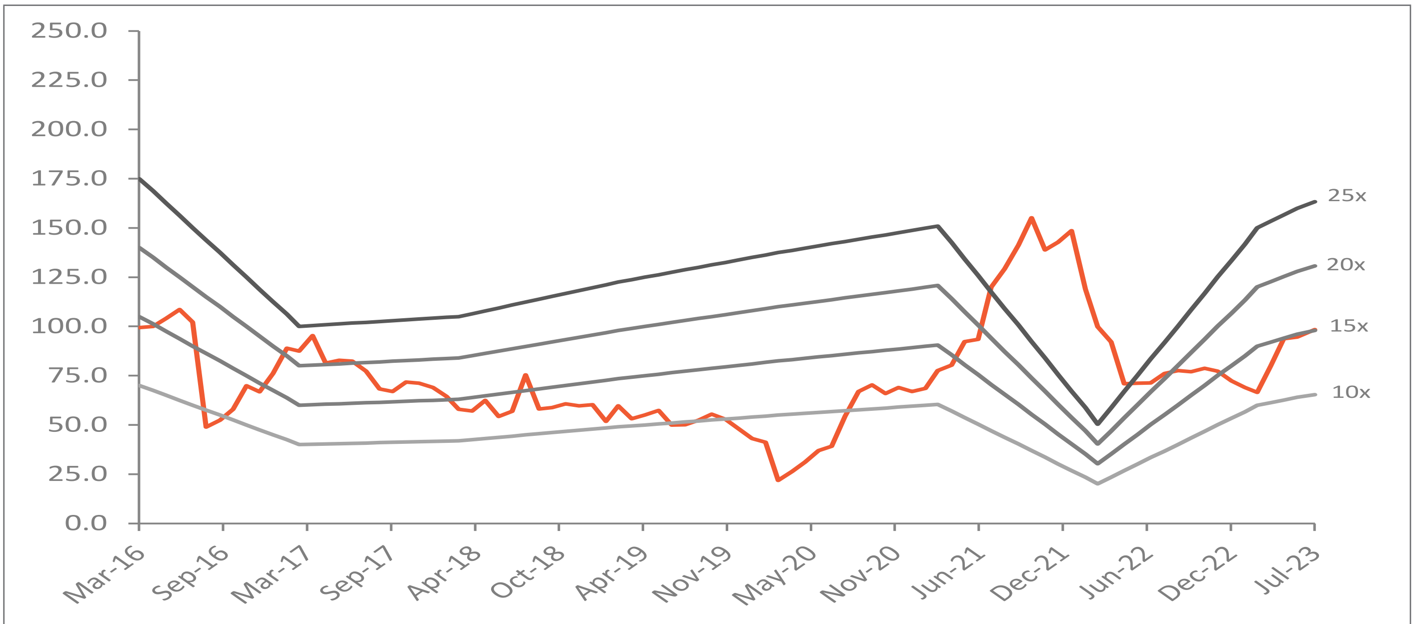
■ Company Outlook – Export market outlook improving

WIL's FY2023 performance was impacted by an uncertain environment in key export markets and higher input prices. Management is confident of achieving revenue growth of 10-12% y-o-y, aided by recovery in demand in the global market and good demand in the domestic market. Consolidated EBTDA margin target is set at 15% in FY2024 (from 9.3% in FY2023), led by a correction in input costs, cost-optimisation 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 U.S. market and scale-up in the advanced textile, flooring, and branded businesses.

■ Valuation – Upgrade to Buy with revised PT of Rs. 130

WIL's management is optimistic about strong growth prospects in the core textile business and consistent scale-up in its flooring business. Sustained gain in market share in export markets will help home textile players to achieve strong performance in the coming years with a favourable input cost environment. The flooring business is expected to scale up fast and will add on incrementally to the company's profitability in the medium term. WIL's stock price is currently trading at 18x and 14x its FY2024E and FY2025E earnings, respectively. With consistent improvement in capacity utilisation and improving growth prospects in export markets, we upgrade our rating on the stock to Buy from Hold with a revised price target (PT) of Rs. 130.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
KPR Mill	26.9	20.9	16.6	18.0	13.5	10.9	24.3	26.7	28.4
Himatsingka Seide	-	8.6	5.3	14.4	7.6	6.1	3.9	9.1	11.2
Welspun India	53.7	18.1	14.1	16.9	9.3	3.7	5.9	12.8	14.9

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 Egyptian cotton. WIL is Asia's largest and is among the top four terry towel producers in the world (number one player in the U.S.). The company's business is spread across continents and has a distribution network in over 50 countries, such as U.S., U.K., 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 a recovery in the U.S., 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 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 the U.S. and Europe due to any 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 the U.S. 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	Managing Director
Dipali Goenka	Chief Executive Officer and Managing Director
Sanjay Gupta	Chief Financial Officer
Shashikant Thorat	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	3.7
2	Bhanshali Akash	1.5
3	Infinity Holdings	1.3
4	Vanguard Group Inc	1.0
5	Blue Diamond Properties Pvt Ltd	1.0
6	WELSPUN INDIA EMP WELTRUST	1.0
7	L & T Mutual Fund Trustee India	1.0
8	Dimensional Fund Advisors LP	0.8
9	Norges Bank	0.5
10	Aditya Birla Sun Life AMC	0.5

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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