

Welspun India | BUY

Festive cheer boost earnings; long runway for growth

Welspun India reported an EBITDA of INR3.6bn in line with JMfe. EBITDA margins maintained sequentially at ~14.3% (up significantly YoY) on account of relatively subdued cotton, coal and container cost. Key takeaways from the concall are a) capacity utilisations reached ~85-90% levels in 2Q aided by black friday / festive sales related restocking b) The company has maintained its guidance of ~10-12% revenue growth in FY24 with EBITDA margins expected at 15% given a cautious 2H c) flooring growth to further pick up going forward as the company added new customers during the quarter d) high single digit margins guided for flooring segment during FY24 driven by 'China+1' shift e) net debt guidance remains unchanged at INR10bn for FY24 f) board had earlier approved change of name of the Company to "Welspun Living Limited" which has now been implemented. Capex for the first half stood at INR1.7bn while Net debt declined sequentially to INR15.7bn. The Board had also approved the Merger of Welspun Flooring Limited and other subsidiaries with Welspun India Limited. We introduce FY26 earnings and upward revise fair value (roll forward) estimate given reasonably favourable outlook on demand and easing cotton coal and container costs. We believe a) relatively subdued cotton price outlook b) GOI's focus on developing the textile ecosystem c) likelihood of market size increase via FTAs with UK/EU over time is likely to lead to further re-rating. Maintain BUY.

- Revenues increase sharply qoq driven by festive orders:** The Company reported a 15% QoQ increase in net sales to INR25bn. Consolidated EBITDA margins maintained QoQ at 14.3% vs 4Q mainly due to lower RM cost. Domestic Consumer business continued to be the most widely distributed Home Textile brand in the country with presence in 512+ towns and 13,265+ outlets. Consolidated PAT increased QoQ to INR2bn vs INR1.6bn in 1Q.
- Home textile margins maintained at high 14% levels:** Home textile revenue increased sharply QoQ by 15% to INR23.5bn while flooring business increased 8% QoQ to INR2.4bn. Home textile margins expanded in 1H to 15.3%. Flooring business reported EBITDA of INR2.4bn vs EBITDA of INR2.2bn in 1Q. Bath Linen capacity utilisation increased to 93% vs 81% QoQ, Bed Linen capacity utilisation improved to 81% vs 57% QoQ while Rugs and carpets utilisation improved to 97% vs 90% QoQ.
- Capex towards new solar plant progressing on track:** The Company is on track to establish a 30MW Solar Power plant at its Anjar facility with an investment of INR2bn. The company is also investing 0.6bn in a SPV for supply of 47 MW renewable energy. In 1H the Company has spent INR1.7bn towards capex. Net debt stood at INR15.7bn as at 2Q end, down 2.4bn QoQ. The Board had earlier approved the Merger of Welspun Flooring Limited and other subsidiaries with Welspun India Limited subject to NCTL approval.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	185
Upside/(Downside)	30.1%
Previous Price Target	150
Change	23.3%

Key Data – WLSI IN

Current Market Price	INR142
Market cap (bn)	INR138.2/US\$1.7
Free Float	21%
Shares in issue (mn)	988.1
Diluted share (mn)	988.1
3-mon avg daily val (mn)	INR446.5/US\$5.4
52-week range	145/62
Sensex/Nifty	64,049/19,122
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	16.2	66.4	82.3
Relative*	19.6	56.7	69.5

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	93,115	80,938	95,758	105,846	117,773
Sales Growth (%)	26.9	-13.1	18.3	10.5	11.3
EBITDA	13,587	7,525	15,257	18,233	20,349
EBITDA Margin (%)	14.6	9.3	15.9	17.2	17.3
Adjusted Net Profit	6,012	1,988	6,486	8,615	9,151
Diluted EPS (INR)	6.1	2.0	6.6	8.7	9.3
Diluted EPS Growth (%)	11.4	-66.9	226.3	32.8	6.2
ROIC (%)	10.2	3.4	11.1	14.7	15.2
ROE (%)	15.8	4.9	14.9	17.2	16.0
P/E (x)	23.3	70.6	21.6	16.3	15.3
P/B (x)	3.5	3.4	3.0	2.6	2.3
EV/EBITDA (x)	12.5	21.0	9.9	8.0	6.9
Dividend Yield (%)	0.1	0.7	0.5	1.0	1.1

Source: Company data, JM Financial. Note: Valuations as of 25/Oct/2023

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Exhibit 1. Consolidated financial performance (INR mn)

(Rs mn)	2QFY24	2QFY24E	Var (%)	2QFY23	YoY %	1QFY24	QoQ %
Net Sales	25,091	25,919	-3.2	21,135	18.7	21,841	14.9
Expenditure	21,511	22,171	-3.0	19,849	8.4	18,734	14.8
Raw materials	13,434	13,952	-3.7	12,348	8.8	11,548	16.3
Staff cost	2,574	2,374	8.4	2,014	27.8	2,261	13.8
Other expenses	5,503	5,845	-5.8	5,487	0.3	4,925	11.7
EBITDA	3,580	3,748	-4.5	1,285	178.6	3,106	15.2
EBITDA (%)	14.3	14.5		6.1		14.2	
Other income	333	324		231		308	
Depreciation	985	1,044	-5.6	1,095	-10.1	994	-0.9
EBIT	2,928	3,028	-3.3	421	594.8	2,420	21.0
Interest	338	240	41.0	284	19.2	258	31.0
PBT	2,590	2,788	-7.1	137	1784.6	2,162	19.8
Tax	587	697		55		533	
Eff. Tax rate (%)	22.7	25.0		39.9		24.6	
XO items	-	-		-		-	
Minority Interest	39	14		(3)		14	
PAT- Reported	1,963	2,077	-5.5	86	2182.4	1,616	21.5
PAT- Adjusted	1,963	2,077	-5.5	86	2182.4	1,616	21.5
Diluted EPS (Rs)	2.0	2.1	-5.5	0.1	2182.4	1.6	21.5
Net debt (INR bn)	15.73	-		19.98		18.15	

Source: Company, JM Financial

Exhibit 2. Segmental Performance (INR mn)

	2QFY24	2QFY23	YoY %	1QFY24	QoQ %
Home textile:					
Revenue	23,523	20,114	16.9	20,376	15.4
EBITDA	3,594	1,276	181.7	3,123	15.1
EBITDA (%)	15.3%	6.3%		15.3%	
Flooring:					
Revenue	2,426	1,596	52.0	2,251	7.8
EBITDA	201	42	376.3	183	9.9
EBITDA (%)	8.3%	2.6%		8.1%	

Source: Company, JM Financial

Exhibit 3. Target Price

	FY26E
EPS (INR/sh)	9.3
Multiple (x)	20
Fair value (INR/sh)	185

Source: JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	93,115	80,938	95,758	105,846	117,773	
Sales Growth	26.9%	-13.1%	18.3%	10.5%	11.3%	
Other Operating Income	0	0	0	0	0	
Total Revenue	93,115	80,938	95,758	105,846	117,773	
Cost of Goods Sold/Op. Exp	50,941	45,140	46,350	50,701	56,398	
Personnel Cost	8,667	7,944	10,690	11,854	13,348	
Other Expenses	19,920	20,328	23,461	25,059	27,678	
EBITDA	13,587	7,525	15,257	18,233	20,349	
EBITDA Margin	14.6%	9.3%	15.9%	17.2%	17.3%	
EBITDA Growth	0.5%	-44.6%	102.7%	19.5%	11.6%	
Depn. & Amort.	4,205	4,421	5,389	5,783	6,817	
EBIT	9,382	3,104	9,868	12,450	13,532	
Other Income	658	1,213	1,242	1,299	1,359	
Finance Cost	1,312	1,299	1,102	1,019	1,018	
PBT before Excep. & Forex	8,728	3,019	10,008	12,730	13,872	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	8,728	3,019	10,008	12,730	13,872	
Taxes	2,663	994	3,485	4,079	4,685	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	54	37	37	37	37	
Reported Net Profit	6,012	1,988	6,486	8,615	9,151	
Adjusted Net Profit	6,012	1,988	6,486	8,615	9,151	
Net Margin	6.5%	2.5%	6.8%	8.1%	7.8%	
Diluted Share Cap. (mn)	988.1	988.1	988.1	988.1	988.1	
Diluted EPS (INR)	6.1	2.0	6.6	8.7	9.3	
Diluted EPS Growth	11.4%	-66.9%	226.3%	32.8%	6.2%	
Total Dividend + Tax	148	1,136	902	1,629	1,802	
Dividend Per Share (INR)	0.1	1.0	0.8	1.4	1.5	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	8,728	3,019	10,008	12,730	13,872	
Depn. & Amort.	4,205	4,421	5,389	5,783	6,817	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCap.	-3,918	3,462	-705	-2,317	-4,153	
Others	0	0	0	0	0	
Taxes Paid	-2,663	-994	-3,485	-4,079	-4,685	
Operating Cash Flow	6,352	9,908	11,207	12,117	11,851	
Capex	-5,294	-2,684	-3,500	-4,500	-4,500	
Free Cash Flow	1,058	7,224	7,707	7,617	7,351	
Inc (-) / Dec in Investments	-5,867	563	0	0	0	
Others	60	966	0	0	0	
Investing Cash Flow	-11,101	-1,156	-3,500	-4,500	-4,500	
Inc / Dec (-) in Capital	-17	0	0	0	0	
Dividend + Tax thereon	-148	-1,136	-902	-1,629	-1,802	
Inc / Dec (-) in Loans	1,305	-8,421	-5,331	-3,500	-3,499	
Others	2,273	-37	-37	-37	-37	
Financing Cash Flow	3,413	-9,594	-6,270	-5,166	-5,338	
Inc / Dec (-) in Cash	-1,336	-842	1,437	2,452	2,013	
Opening Cash Balance	3,991	2,655	1,814	3,250	5,702	
Closing Cash Balance	2,655	1,813	3,250	5,702	7,715	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	39,717	40,878	46,462	53,448	60,796	
Share Capital	988	988	988	988	988	
Reserves & Surplus	38,729	39,890	45,474	52,460	59,808	
Preference Share Capital	0	0	0	0	0	
Minority Interest	1,046	1,082	1,082	1,082	1,082	
Total Loans	33,039	24,618	19,287	15,787	12,288	
Def. Tax Liab. / Assets (-)	1,730	2,012	2,012	2,012	2,012	
Total - Equity & Liab.	75,532	68,591	68,843	72,329	76,178	
Net Fixed Assets	41,713	39,638	37,749	36,466	34,149	
Gross Fixed Assets	69,538	73,056	75,556	79,056	82,556	
Intangible Assets	1,832	1,861	1,861	1,861	1,861	
Less: Depn. & Amort.	31,317	35,738	41,127	46,910	53,727	
Capital WIP	1,659	460	1,460	2,460	3,460	
Investments	6,978	6,415	6,415	6,415	6,415	
Current Assets	44,427	38,819	45,612	51,495	58,983	
Inventories	19,779	19,698	21,299	23,160	25,929	
Sundry Debtors	9,993	9,605	11,360	12,369	13,848	
Cash & Bank Balances	2,655	1,814	3,250	5,702	7,715	
Loans & Advances	12,000	7,702	9,703	10,264	11,491	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	17,586	16,282	20,934	22,048	23,369	
Current Liabilities	9,305	8,697	9,940	11,054	12,375	
Provisions & Others	8,281	7,585	10,994	10,994	10,994	
Net Current Assets	26,841	22,537	24,678	29,447	35,614	
Total - Assets	75,532	68,591	68,843	72,329	76,178	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	6.5%	2.5%	6.8%	8.1%	7.8%	
Asset Turnover (x)	1.0	0.9	1.1	1.1	1.2	
Leverage Factor (x)	2.3	2.2	2.0	1.8	1.7	
RoE	15.8%	4.9%	14.9%	17.2%	16.0%	

Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	40.2	41.4	47.0	54.1	61.5	
ROIC	10.2%	3.4%	11.1%	14.7%	15.2%	
ROE	15.8%	4.9%	14.9%	17.2%	16.0%	
Net Debt/Equity (x)	0.7	0.4	0.2	0.1	0.0	
P/E (x)	23.3	70.6	21.6	16.3	15.3	
P/B (x)	3.5	3.4	3.0	2.6	2.3	
EV/EBITDA (x)	12.5	21.0	9.9	8.0	6.9	
EV/Sales (x)	1.8	2.0	1.6	1.4	1.2	
Debtor days	39	43	43	43	43	
Inventory days	78	89	81	80	80	
Creditor days	43	43	45	46	46	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
8-Sep-20	Buy	72	
30-Oct-20	Buy	84	16.7
14-May-21	Buy	111	32.1
28-Jul-21	Buy	160	44.1
27-Oct-21	Buy	188	17.5
3-Feb-22	Buy	188	0.0
10-May-22	Buy	100	-46.6
28-Jul-22	Buy	85	-15.6
9-Nov-22	Buy	87	2.6
23-Nov-22	Buy	87	0.0
30-Jan-23	Buy	87	0.0
27-Apr-23	Buy	110	26.4
31-Jul-23	Buy	150	36.4

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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