

11th February 2022

CMP –121.85/-

View – **Accumulate On Dips**
Q3FY22 Performance

Company reported 19% Y-o-Y an increase in topline to ₹24,180mn on account of higher growth textile B2B business and 95% growth in flooring business. Domestic retail revenues came in at ₹1270mn, while the branded business reported strong growth of 45% Y-o-Y, contributing ₹3880mn. Licensed Brand & e-Commerce business grew by over 66% in the US market.

Gross margins and OPM were down by 883 bps and 677 bps Y-o-Y, respectively to 44% and 12.8% impacted on account of surge in raw material costs.

EBITDA declined by 21.9% Y-o-Y to ₹3107mn while reported PAT declined by 24.8% Y-o-Y to ₹1311mn. Net debt on books increased by ~₹2090mn versus March`21.

Important Statistics

Mcap (₹ mn)	₹121,980
52 Week H/L (₹)	171.0/66.0
NSE Code	WELSPUNIND
BSE Code	514162

Shareholding pattern (%)	Dec'21
Promoter Holding	70.4
FII	9.4
DII	4.9
Public	15.3

Key Con-Call Highlights

- Highest ever Quarterly revenue by Domestic Retail of ₹1,270mn
- Capacity utilization for bath linen at 88%, bed linen at 99% and rugs and carpets at 70%. Gross margins and OPM were down by 883 bps and 677 bps y-o-y, respectively to 44% and 12.8% impacted primarily by surge in raw material and input costs
- Innovation product sales for YTD Q3 registered a growth of 24% contributing 26% to the topline.
- Branded business witnessed strong growth of 45% Y-o-Y, contributing ₹ 3,883 mn accounting 18% to the topline of Q3FY22.
- Licensed brand and ecommerce business grew 66% in the US.
- With an aim to be "Har Ghar Welspun", the company has increased nationwide footprint of Brand 'Welspun' to 5,400+ outlets and 450+ cities and towns, reinforcing it to be the Number 1 distributed HT brand in India.
- Capacity enhancement in Vapi, Anjar and Telangana are on track and are expected to be completed by Q4FY22. For 9MFY22, the company has spent ₹4530mn towards capex.
- Net debt rose from ₹23,327mn in FY21 to ₹25,420mn as of Q3FY22.
- Higher raw material inflation and continued supply chain constraints led to a 883 bps y-o-y decline in the gross margin and 677 bps y-o-y decline in EBITDA margins.
- Company undertook two price increases in YTD FY22, one in June-July and the other in November-December. The management stated that input cost inflation was fully passed on to the customers through these two price increases.
- The company is committed to grow both e-Commerce and branded businesses to achieve a \$100 million run-rate for each by FY2023 and FY2024 respectively.
- On Capex Update: Terry towel capacity expansion for 16,600 MTPA to be operational by Q4FY23. Spunlace and flooring business expansion is expected to commence operations in Q4FY22.

Financials

(₹ mn)

Particulars	FY21	FY20	FY19
Revenues	74,080	68,632	66,084
EBITDA	14,198	13,098	1,1467
EBITDA Margin (%)	19.2%	19.2%	17.4%
Net Profit	5,397	5,074	2,098
EPS (₹)	5.37	5.05	2.09
RoE (%)	16.3%	16.1%	15.3%
RoCE (%)	13.8%	12.3%	13.8%
P/E (x)	27.0	29.5	71.1
EV/EBITDA (x)	10.7	11.6	13.3

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- The company expects margins to continue to be affected in the near term (next 2-3 quarters) but is confident of restoring margins to pre-COVID levels of ~20% by undertaking calibrated price hikes

Key Risks

- Slower than expected demand recovery in its key markets
- Delay in capex implementation could impact financials of company

View

Company reported mixed set of numbers in Q3FY22 as margins were under pressure on account of higher raw material prices. Management expects margins to remain contracted in near term (2-3 quarters) but is confident of restoring margins to pre-COVID levels of ~20% by undertaking calibrated price hikes. We believe company's long term growth story would play out with growth triggers such as capacity addition (across legacy portfolio) and diversification into other segments (like Flooring & advanced textiles), and structural uptick on account of increased 'work-from-home' period, higher emphasis on health & hygiene driven by pandemic, duty reimbursement by GOI, US ban on Xinjiang imports and market share gain on China+1 theme to drive company's performance. **At CMP of ₹121.85, the stock trades at a P/E of ~27.0x which is inexpensive given company's leadership position and improving performance and thus we recommend investors to Accumulate the stock on dips.**

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Consolidated Financial Highlights

(₹ mn)

Particulars	Q3FY22	Q3FY21	Y-o-Y (%)	Q2FY22	Q-o-Q (%)
Total Revenue	24,182	20,290	19.2	24,876	-2.8
Total operating cost	21,074	16,310	29.2	20,777	1.4
EBITDA	3,107	3,980	-21.9	4,100	-24.2
EBITDA Margins	12.8%	19.6%	-677 bps	16.5	-363bps
Other income	198	207	-4.6	138	43.5
Interest & other financial cost	208	559	-62.8	353	-41.0
Depreciation	1,067	1,139	-6.3	1,052	1.5
Profit Before Tax	2,030	2,489	-18.4	2,833	-28.4
Tax	360	741	-51.4	817	-55.9
Adjusted PAT before MI	1,670	1,748	-4.5	2,016	-17.2
Minority Interest (MI)/ Profit from associates	0.0	-5	-	-1	-
Adjusted PAT after MI	1,670	1,743	-4.2	2,015	-17.1
Extra-ordinary items	-359	0.0	-	0.0	-
Reported PAT	1,311	1,743	-24.8	2,015	-35.0
PAT Margins	6.9%	8.6%	-171 bps	8.1	-120 bps
Adjusted EPS (₹)	1.7	1.7	-2.9	2.0	-17.2

Source: Company Filing, Way2wealth Research

Segmental Details	Q3FY22	Q3FY21	YoY%	Q2FY22	QoQ%	9MFY22	9MFY21	YoY%
Home Textile:								
Revenue	22,508	19,6n	14.4%	23,749	-5.2%	67,181	50,760	323%
EBITDA	3,126	4,348	-28.1%	4,135	-24.4%	11,707	11,176	4.8%
EBITDA Margin (%)	13.9%	22.1%	821bps	17.4%	352 bps	17.4%	22.0%	-459 bps
Flooring:								
Revenue	1,909	977	95.4%	1,596	19.6%	4,719	2,002	135.7%
EBITDA	103	-240	NA	45	129.0%	-115	-808	NA
EBITDA Margin (%)	5.4%	-245%	NA	2.8%	259 bps	-2.4%	-403%	NA

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Welspun India Ltd. as on February 11th, 2022

Name of the Security	Welspun India Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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