

### Company Background

Established in 1985, Welspun India (WIL) is one of the largest home textile manufacturers globally. The company produces an entire range of home textiles for bed & bath linen category at its modern manufacturing facilities at Anjar and Vapi in Gujarat. Company's state-of-the-art facility is completely vertically integrated and does complete process from spinning to confectioning. The company sells its products under "Spaces" brand in India, "Christy" brand in UK and is a supplier of white-label products to 14 of top 30 global retailers such as Wal-Mart, JC Penney and Macy's.

### Why we like the company?

- Undisputed champion in legacy product portfolio globally
- Diversified client base and increasing share of innovative products to help better performance
- Emerging business such as flooring solutions and advanced textile to aid margin expansion
- Focussing on Ecommerce and branded channels, one of the growth drivers
- Increasing Free cash flow, healthy balance sheet and good returns profile comforts us

### Important Statistics

<b>MCAP (₹ mn)</b>	₹134,533
<b>52 Week H/L (₹)</b>	170.75/65.0
<b>NSE Code</b>	WELSPUNIND
<b>BSE Code</b>	514162

Shareholding Pattern%	Sep-21
Promoters	70.36
DII	5.82
FII	7.77
Others	16.05

### Investment Thesis

- **Undisputed champion in legacy product portfolio globally** – Largest Home Textile player in India as well as largest Indian exporters of Home Textile (HT) products with ~45% share. Also it is largest terry towel exporter to the US (20% market share) and holds a commanding position in bed linen (12% market share) business. WIL's focus on building client relationship (presence across most large retailers), innovative products (Hygro cotton, nanocore, drylon etc.) and wide distribution network via different channels (offline and online) has helped it improve market share over the years. Company is undergoing an asset light expansion in its legacy product portfolio - Bed linen, bath linen and Rugs & Carpets - total capital outlay of ~₹2,250mn with a revenue addition of ₹12,000mn.
- **Diversified client base and increasing share of innovative products to help better performance** – WIL enjoys longstanding relationships with top retailers in the US and Europe and supplies to 14 of the top-30 global retailers. The company commands lion's share of home textiles exported out of India. Increasing geographical and client diversification is improving the company's risk metrics. Company's share of innovative products to overall topline increased to 40% of the company's revenue in FY21 (up from 30% in FY15) and branded product's share to about 20% in FY21, thereby improving margins. Management expects the share of innovative products such as Hygro cotton to inch up to 50% going ahead.
- **Emerging business such as flooring solutions and advanced textile to aid margin expansion** – It is the only company to manufacture both hard flooring and soft flooring under one roof and has invested ₹8,800mn till now in flooring solutions segment. According to management, market size in this segment is ₹350,000mn globally and company expects to achieve ₹25,000mn revenue from this over 3-5 years. While in advanced textile segment, company manufactures products such as wet wipes, spunlace etc which find application in baby care, personal hygiene, cosmetics, home care industries and medical sector. Company reported ₹2600mn revenues in advanced textile segment in FY21. Management guided the advanced textile business to grow at over 30% and expects to achieve a turnover of ₹4000mn in FY22 and ₹6500mn-7000mn by FY24E.

- **Focussing on E-commerce and branded channels, one of the growth drivers** – Advent of the Covid-19 has led to an emergence of a new trend - increased consumer spending and led to adoption of the e-commerce route. Company has a self-imposed target of \$100 mn from both channels by FY23. Its core focus in E-commerce would be the US through e-commerce channels such as **brand.com, retailer.com**, etc. As of Q2FY22, E-commerce and Branded business grew by 42% YoY to reach ₹3560mn i.e. 14% of its total revenue
- **Increasing Free cash flow, healthy balance sheet and good returns profile comforts us** – Welspun India has calibrated its capex programme post the change in industry scenario. Company successfully improved its FCF from ₹859mn in FY17 to ₹5200mn in FY21 and net debt/equity from 2.2x as of FY15 to 0.6x as of FY21 due to better operating metrics. Management has plans to be net debt free by FY25E led by positive operating leverage, improved demand from domestic retail and growth from emerging business.

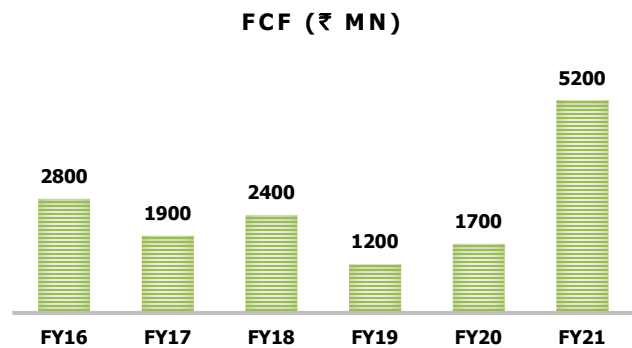
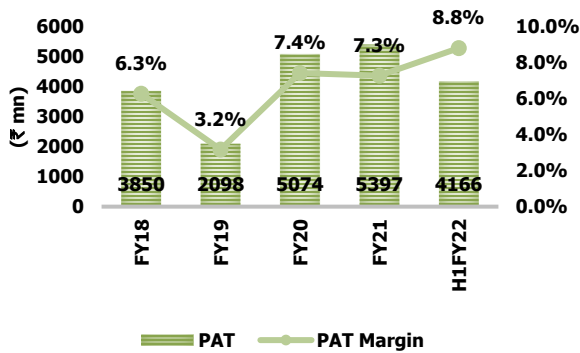
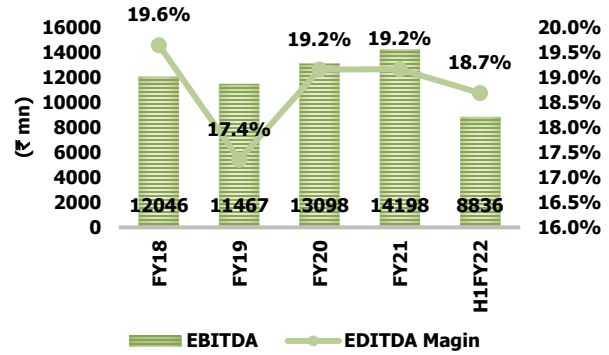
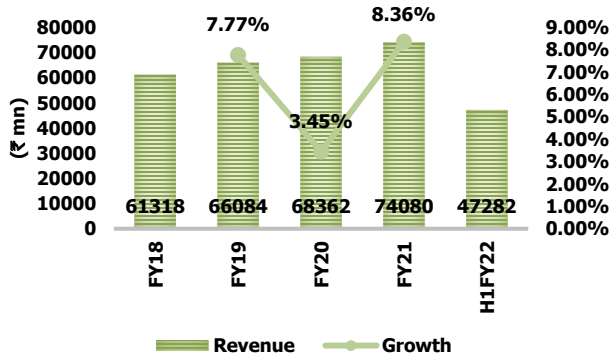
### Key Risks

- **Raw material risk** – Cost of key raw material like cotton/cotton yam increased to a 10-year high, coal prices have increased from \$55 to \$170, putting severe stress on the company's operating margins. Company's inability to pass on the price increase to the consumers can impact its performance and margin profile.
- **Client Concentration Risk** – Welspun's top 10 clients account for 25% of the company's overall revenue. Any loss of its top clients (although unlikely) can affect company's topline.
- **Forex Risk** – Company's ~85% of revenue is in USD, any significant rupee appreciation can impact company's performance.

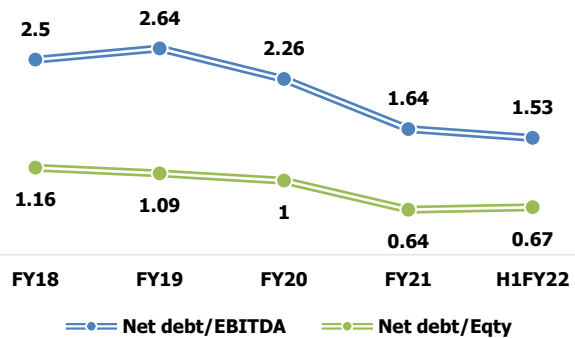
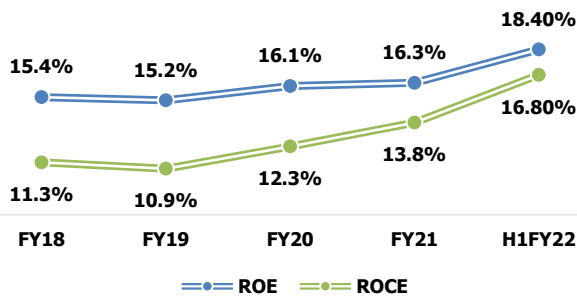
### Valuation

Leadership position in the largest exports market (USA), numero uno position in home textile business globally, vertically integrated manufacturing facilities provide competitive edge over peers. Domestic market which is one of the fastest growing home textiles market presents an additional growth trigger given WIL's strong brand recall. Company has successfully increased innovative and branded products contribution to overall revenues over last 2-3 years and has aspirations to achieve strong growth from this along with emerging business segments as the opportunity size is quite large in India. We believe company's long term story remains intact with consistent capacity addition (across legacy portfolio) and diversification into other segments (like Flooring & advanced textiles), further strong return ratio profile and healthy balance sheet boosts our confidence. **At CMP of ₹148.7, the stock trades at a P/E of ~27.0x which is compelling given company's leadership position and improving performance and thus we recommend investors to Accumulate the stock on dips.**

**Story in Charts**



**RETURN RATIO**



Source: Company Data, Way2Wealth Research

19<sup>th</sup> January 2022

CMP – ₹148.7/-

View – Accumulate on dips

**Financials**

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	H1FY22
Total Income	61,318	66,084	68,362	74,080	47,282
Growth%	-8.80%	7.80%	3.40%	8.40%	47.40%
<b>EBITDA</b>	<b>12,046</b>	<b>11,467</b>	<b>13,098</b>	<b>14,198</b>	<b>8,836</b>
<b>EBITDA Margin</b>	<b>19.60%</b>	<b>17.40%</b>	<b>19.20%</b>	<b>19.20%</b>	<b>18.70%</b>
Depreciation	5,042	4,358	4,811	4,536	2,023
Finance cost	1,408	1,593	1,777	1,975	842
PBT (Before exceptional)	5,597	5,516	6,510	7,686	5,971
Exceptional Items	-	{2,647}	434	-	-1
<b>PAT (After MI)</b>	<b>3,850</b>	<b>2,098</b>	<b>5,074</b>	<b>5,397</b>	<b>4,166</b>
<b>PAT Margin</b>	<b>6.30%</b>	<b>3.20%</b>	<b>7.40%</b>	<b>6.30%</b>	<b>8.80%</b>
EPS (₹)	3.83	2.09	5.05	5.37	4.18

Ratios	FY18	FY19	FY20	FY21	H1FY22
<b>Solvency Ratios</b>					
Net Debt/Equity	1.16	1.09	1	0.64	0.67
Net Debt/EBITDA	2.51	2.64	2.26	1.64	1.53

<b>Operational Ratios</b>					
Current Ratio	1.42	1.25	1.19	1.33	134
Fixed asset turnover	1.8	1.81	1.77	1.93	2.25
Total asset turnover	0.84	0.84	0.81	0.85	0.96
Cash conversion cycle	96	95	93	93	83

<b>Return Ratios</b>					
ROE	15.40%	15.20%	16.10%	16.30%	18.40%
ROCE (Pre-tax)	11.30%	10.90%	12.30%	13.80%	16.80%

<b>Valuation Ratios</b>					
P/E	38.83	71.10	29.50	27.00	-
PBV	4.25	4.10	4.80	3.90	-
EV/EBITDA	12.64	13.28	11.63	10.73	-
Dividend Yield	0.8	0.8	0.8	0.8	-

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**Disclosure of Interest Statement Welspun India Ltd. as on 19<sup>th</sup> January 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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Broking relationship with company covered	NIL
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