



Quick Insight

Welspun India Ltd.



Industry Home Textiles

CMP ₹37.7

M Cap (₹ mn) ₹37,877

Buy Range ₹36-37

Target ₹45-46

Recommendation Accumulate on Dips

Highlights

- Diversified client base and increasing share of innovative products to help avoid current disruption
- Emerging business such as flooring solutions and advanced textile to improve company's performance
- Focus to increase tieups and network into hospitality and healthcare sector – provides revenue visibility
- Increasing free cashflow and focus on lower leverage provides comfort
- Operating margins sustained at ~19% in Q1FY21 despite lockdown restriction led by Covid-19

Welspun India Ltd

Company Background

Established in 1985, Welspun India is one of the largest home textile manufacturers globally. Company produces an entire range of home textiles for bed & bath 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 right from spinning to confectioning. Welspun India sells its products under "Spaces" brand in India, "Christy" brand in UK and is a supplier of white-label products to 14 of the top 30 global retailers like Wal-Mart, JC Penney and Macy's.

Investment Arguments

- **Diversified client base and increasing share of innovative products to help avoid current disruption** – Welspun India 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. It has seven trademarks and has applied for six patents till date.

Company's innovative products includes Hygro cotton products while brands portfolio includes brands such as "Christy" and "Space". Innovative products accounted for 41% of the company's revenue in FY20 (up from 30% in FY15) and branded products' share in the overall revenue increased from 11% in FY15 to about 20% in FY20. 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 improve company's performance** – Welspun India is the only company to manufacture both hard flooring and soft flooring under one roof and has invested ₹8800mn till now in flooring solutions segment. According to management, market size in this segment is ₹350,000mn globally and company expects to achieve ₹20,000mn revenue from this over 5-6 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 ₹2500mn revenues in advanced textile segment in FY20 and has plans to invest ~₹5000mn which would help achieve ₹5000mn turnover at 75% utilisation level.
- **Focus to increase tieups and network into hospitality and healthcare sector – provides revenue visibility** – Company currently earns ~\$50mn from hospitality and healthcare sector however has plans to increase their tieups and broaden network to increase revenues. It has tie-ups with hotel chains like Starwood, Hilton and the Taj, and is further looking to tie up with the Intercontinental Hotel Group (IHG), Accor Group and Marriott International etc. On the healthcare side, Welspun India plans to produce 250,000 masks per day including reusable mask, 3 ply mask and N95 respirator, disinfectant wipes, drapes, gowns etc primarily to cater to domestic market. We believe, these strategies to provide revenue visibility going ahead.
- **Increasing Free cash flow and focus on lowering leverage provides comfort** – Welspun India has calibrated its capex programme post the change in industry scenario. Company successfully improved its FCF from ₹859mn in FY17 to ₹2240mn in FY20 and net debt/equity from 2.2x as of FY15 to 1.0x as of FY20. Management has plans to be net debt free by FY23E led by positive operating leverage and growth from domestic retail and emerging business.
- **Operating margins sustained at ~19% in Q1FY21 despite lockdown restriction led by Covid-19** – For Q1FY21, Welspun India registered 30% YoY degrowth in revenues to ₹12160mn on the back of decline in sales volumes (degrew by 37% YoY) led by lockdown restrictions due to Covid-19 disruption and lower capacity utilisation levels, however average realisation rose 10% YoY. Company's home textile business

Nifty	11,132
Sensex	37,935
Key Stock Data	
CMP	₹37.7
Market Cap (` mn)	37,877
52W High/Low	₹59.3/18.3
Shares o/s (mn)	1004.7
Shareholding pattern (%) Mar'20	
Promoters	68.9
FII	4.9
DII	8.5
Public & Others	17.7

Particular	(` mn)	
	FY19	FY20
Total Income	66,084	68,362
EBITDA	11,467	13,098
PAT after Minority Interest	2,098	5,074
EPS (₹)	2.09	5.05
P/E (x)	18.04	7.46
EV/ EBITDA (x)	6.6	6.3
RoE (%)	15.2%	16.1%
Dividend per share (₹)	0.3	1.0
Net Debt/Equity	1.1	1.0
Net Debt/EBITDA	2.6	2.3

Source: Company Data, Way2Wealth Inst Equity

reported degrowth of 31% YoY in the mentioned quarter.

However, company's domestic ecommerce business and global ecommerce business grew 29% YoY and 100% YoY respectively despite lockdown led by Covid-19 situation and going ahead management expects domestic and global ecommerce business to grow 100% YoY and 150% YoY.

During the quarter, company was able to hold EBITDA margins at ~19.6% largely supported by a decline in raw material costs, however EBITDA degrew ~36%YoY and ~20%QoQ to ₹2381mn in Q1FY21.

On a sequential basis company recorded ~27% drop in topline led by ~25% and ~39% YoY degrowth in home textiles and flooring business however it managed to improve EBITDA margins by 178bps.

During the quarter, the company received approval for investing ₹4950mn in advanced textiles segment over 2 years through its wholly owned subsidiary Welspun Advanced Materials to augment spunlace, wet wipes and blended cotton capabilities and expects to achieve turnover of ₹5000mn at 75% capacity utilisation.

The management remains cautious about FY21E owing to uncertainty due to the current Covid-19 related disruption and hence, refrained from giving any guidance for FY21E, however it expects improvement beginning 2HFY21E driven by growth from domestic retail market and emerging businesses coupled with recovery in USA and European markets.

- **Key Risks** – Cotton and forex volatility, 2nd wave or 3rd wave of Covid-19 globally and slowdown in textile sector

Outlook

Despite lockdown restrictions led by Covid-19 disruption, Welspun India managed to maintain EBITDA margins and also witnessed growth in its domestic markets (driven by growth in flooring, advanced textile and ecommerce business). We believe company's exports (to countries such as USA and Europe) which comprise of ~80-90% of overall revenues to face slowdown led by Covid-19 disruption (in near term) and major growth to come from domestic retail and new innovative products. Company has successful increased innovative and branded products contribution to overall revenues over last 2-3 years and has aspirations to achieve strong growth from this and flooring solutions as the opportunity size is quiet large in India. **However due to uncertainty surrounding Covid-19 situation in the near term we view the stock as "ACCUMULATE ON DIPS" with target range of ₹45-46.**

Key Performance Parameters

(₹mn)

Particulars	Q1FY21	Q4FY20	QoQ (%)	Q1FY20	YoY (%)
Total Income	12,160	16,645	-26.9%	17,363	-30.0%
EBITDA	2,381	2,963	-19.6%	3,712	-35.9%
EBITDA Margin (%)	19.6%	17.8%	178bps	21.4%	-180 bps
Depreciation	1,106	1,247	-11.3%	1,094	1.1%
Finance Cost	412	612	-32.7%	374	10.3%
PBT	863	1,103	-21.8%	2,244	-61.5%
Tax	326	197	65.5%	683	-52.0%
PAT after Minority Interest	491	856	-42.7%	1,500	-67.3%
Profit Margin (%)	4.0%	5.1%	-110bps	8.6%	-460bps

Technical View

After posting a low of 18.45 during March 24, 2020; WELSPUNIND rebound sharply towards 31. Subsequently, we saw profit booking during late April, 2020 as a result stock gradually descended and formed a higher low of 23.50. The bullish momentum resumed as stock managed to surpass its previous swing high of 31 which eventually confirmed the formation of 'Higher Top Higher Bottom' on daily chart. Broadly speaking, stock is trading in a 'Rising Channel' formation on daily chart and recent low of 31 precisely coincided with the lower band of its 'Rising Channel' formation along with its previous daily swing high of March 24, 2020 (Change of polarity rule). The daily RSI (14) signalled 'Positive Reversal' during July 14, 2020 and the probable target of said formation comes near 45.50 - 46. On the flip side, swing low of July 14, 2020 i.e. 31 on a closing basis will serve as a strong support. As long as stock is trading above 31, we can expect higher price is the near term.



28th July 2020**Disclaimer**

Analyst Certification: I, Yogita Desai, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed Yogita Desai, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement in Welspun India Ltd. as on July 28, 2020

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
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.