

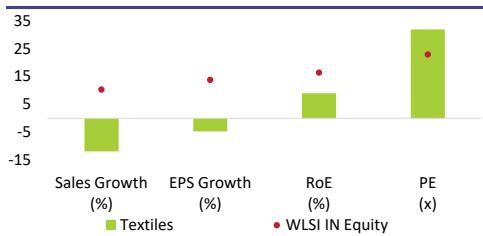
WELSPUN INDIA

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	123
12 month price target (INR)	150
Market cap (INR bn/USD bn)	123/1.7
Free float/Foreign ownership (%)	31.5/0.0
What's Changed	
Target Price	▲
Rating/Risk Rating	—

INVESTMENT METRICS



Year to March	(INR mn)			
	FY20A	FY21E	FY22E	FY23E
Revenue	67,411	73,402	85,564	93,147
EBITDA	12,147	13,520	17,046	18,145
Adjusted profit	4,746	5,397	7,149	7,827
Diluted EPS (INR)	4.7	5.4	7.1	7.8
EPS growth (%)	13.4	13.7	32.5	9.5
RoAE (%)	17.6	16.3	18.3	17.5
P/E (x)	26.0	22.8	17.2	15.7
EV/EBITDA (x)	12.6	10.8	8.6	7.9
Dividend yield (%)	0.7	0	0	0

PRICE PERFORMANCE



Explore:



Rebate rate clarity a margin booster

In a major clarity/relief for home textile and garment companies, Rebate of State and Central taxes and Levies (RoSCTL) rate was extended up to March 31, 2024. Remission of Duties and Taxes on Export Products (RoDTEP) was to replace this scheme from January 1, 2021, rates for which were awaited (expectations were much lower).

Factoring the higher rate for FY22/23, we revise up Welspun India's (WLSI) EBITDA 7%/9% and comparable EBITDA margin for FY22E stands at 21% versus 17-18% management guidance, which is likely to be upgraded. We also raise our target multiple to 10x H1FY23E EBITDA given improved competitiveness and buoyancy in the sector's growth. Maintain 'BUY' with revised TP of INR150.

RoSCTL rates upheld till March 2024: Positive for entire sector

As per a government notification today, RoSCTL on exports of apparel/garments and made-ups (primarily home textiles) will continue at existing rate (8.2%) till March 31, 2024. Industry had expected the rate under RoDTEP, which was to replace this scheme from January 01, 2021, to be much lower. Even WLSI was guiding for a margin of 17-18% on expectation of the new rate being around 2.0%. The development is positive for home textile and garment players who derive a sizeable proportion of their profitability via these incentives.

Background: RoDTEP was to replace RoSCTL from January 2021

The Ministry of Textiles had launched the Rebate of State Levies (ROSL) scheme in 2016. In March 2019, the government replaced it with RoSCTL. In March 2020, the government announced the launch of RoDTEP, which replaced MEIS (Merchandise Exports from India Scheme) and was to replace RoSCTL from January 01, 2021. The government had till now not announced the new rate under RoDTEP. As a result, many companies had not recognized any export incentives for Q4FY21 given the lack of clarity.

Outlook and valuations: Margin upgrades; maintain 'BUY'

WLSI's guidance of 17-18% margin should see an upgrade as this guidance was based on RoDTEP rate of ~2.0%, which was ~6% of revenue under RoSCTL. Factoring the higher rate for FY22/23, we revise up our EBITDA 7%/9% and comparable EBITDA margin (including other income) for FY22 stands at 21%. We also increase our target multiple to 10x (9x earlier) H1FY23E EBITDA given the improved competitiveness and buoyancy in growth accelerating further for the sector. We maintain 'BUY/SO' with revised TP of INR150 (INR121 earlier).

Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	67,411	73,402	85,564	93,147
Gross profit	34,448	37,529	42,882	46,092
Employee costs	7,781	8,228	8,747	9,474
Other expenses	14,520	15,781	17,089	18,474
EBITDA	12,147	13,520	17,046	18,145
Depreciation	4,811	4,536	5,321	5,670
Less: Interest expense	1,777	1,975	1,743	1,671
Add: Other income	951	678	840	900
Profit before tax	6,944	7,686	10,822	11,704
Prov for tax	1,700	2,179	3,543	3,726
Less: Other adj	0	0	0	0
Reported profit	5,074	5,397	7,149	7,827
Less: Excp.item (net)	(328)	0	0	0
Adjusted profit	4,746	5,397	7,149	7,827
Diluted shares o/s	1,005	1,005	1,005	1,005
Adjusted diluted EPS	4.7	5.4	7.1	7.8
DPS (INR)	0.8	0	0	0
Tax rate (%)	24.5	28.4	32.7	31.8

Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
Towel capacity (MT)	80,000.0	80,000.0	80,000.0	80,000.0
Linen capacity (000 Mts)	90,000.0	90,000.0	90,000.0	90,000.0
Carpets capacity (MT)	27,500.0	27,500.0	27,500.0	27,500.0
EBITDA margin (%)	18.0	18.4	19.9	19.5
Net profit margin (%)	7.0	7.4	8.4	8.4
Revenue growth (% YoY)	3.6	10.3	15.4	9.5
EBITDA growth (% YoY)	14.1	11.3	26.1	6.4
Adj. profit growth (%)	13.4	13.7	32.5	9.5

Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(4.0)	7.0	6.0
Repo rate (%)	4.4	3.0	4.0	4.0
USD/INR (average)	70.7	75.0	73.0	72.0
Towel utilisation (%)	84.4	88.0	93.3	98.0
Linen utilisation (%)	68.9	76.9	81.5	85.6
Carpets utilisation (%)	78.0	85.8	90.9	95.5
RM costs (% sales)	48.9	48.9	49.9	50.5
Employee (% sales)	11.5	11.2	10.2	10.2
Other exp. (% sales)	21.5	21.5	20.0	19.8

Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	26.0	22.8	17.2	15.7
Price/BV (x)	4.1	3.4	2.9	2.6
EV/EBITDA (x)	12.6	10.8	8.6	7.9
Dividend yield (%)	0.7	0	0	0

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	1,005	1,005	1,005	1,005
Reserves	28,716	35,442	40,804	46,674
Shareholders funds	29,721	36,447	41,808	47,679
Minority interest	849	986	1,116	1,267
Borrowings	34,421	28,414	26,158	26,002
Trade payables	8,979	10,916	11,626	12,017
Other liabs & prov	6,065	5,934	5,061	5,289
Total liabilities	83,103	86,778	90,102	96,588
Net block	36,326	35,118	37,257	36,000
Intangible assets	3,018	3,045	3,034	3,042
Capital WIP	564	1,709	582	535
Total fixed assets	39,908	39,872	40,874	39,577
Non current inv	8	19	19	19
Cash/cash equivalent	4,741	5,084	2,097	6,380
Sundry debtors	10,862	11,817	13,690	14,904
Loans & advances	4,463	5,200	5,990	6,520
Other assets	23,121	24,788	27,433	29,189
Total assets	83,103	86,778	90,102	96,588

Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	5,074	5,397	7,149	7,827
Add: Depreciation	4,811	4,536	5,321	5,670
Interest (net of tax)	1,191	1,323	1,168	1,120
Others	(364)	(26)	(265)	(348)
Less: Changes in WC	(407)	1,106	5,221	2,878
Operating cash flow	11,118	10,124	8,151	11,390
Less: Capex	6,126	5,309	6,332	4,363
Free cash flow	4,992	4,815	1,820	7,027

Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	17.6	16.3	18.3	17.5
RoCE (%)	13.1	14.8	18.6	18.6
Inventory days	159	168	158	153
Receivable days	59	56	54	56
Payable days	89	101	96	92
Working cap (% sales)	42.0	41.3	43.0	42.7
Gross debt/equity (x)	1.1	0.8	0.6	0.5
Net debt/equity (x)	1.0	0.6	0.6	0.4
Interest coverage (x)	4.1	4.5	6.7	7.5

Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	13.4	13.7	32.5	9.5
RoE (%)	17.6	16.3	18.3	17.5
EBITDA growth (%)	14.1	11.3	26.1	6.4
Payout ratio (%)	16.7	0	0	0

WELSPUN INDIA

Exhibit 1: History of incentives

Nov'17		Mar'19		Aug'19		Jan'21		Jul'21	
Scheme	Rate								
RoSL	2.2	RoSCTL	8.2	RoSCTL	8.2	RoDTEP	TBU	RoSCTL	8.2
MEIS	4.0	MEIS	4.0	MEIS	0.0	MEIS	0.0	MEIS	0.0
Total	6.2	Total	12.2	Total	8.2	Total	TBU	Total	8.2

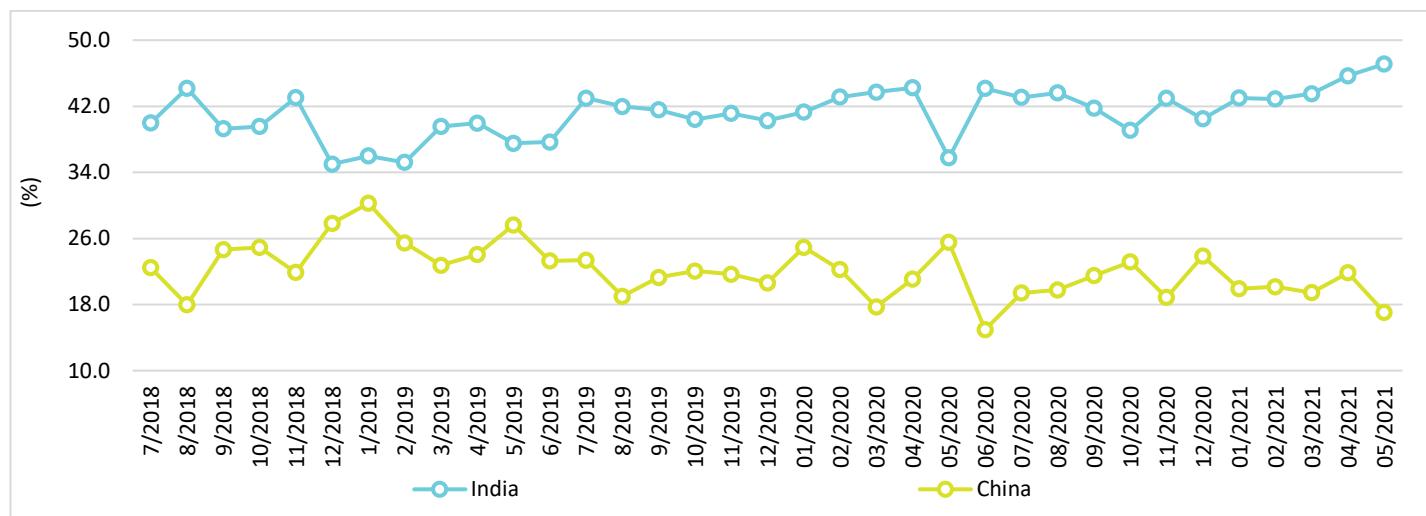
Source: Company, Edelweiss Research

Exhibit 2: WLSI -Incentives history and estimate

INR mn	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Gross product revenues	47,685	52,968	57,705	53,303	58,153	60,239	66,432	76,630	83,895
Other Operating income	5,797	6,271	8,701	7,203	7,113	7,172	6,970	8,934	9,252
% of Revenues	12.2	11.8	15.1	13.5	12.2	11.9	10.5	11.7	11.0

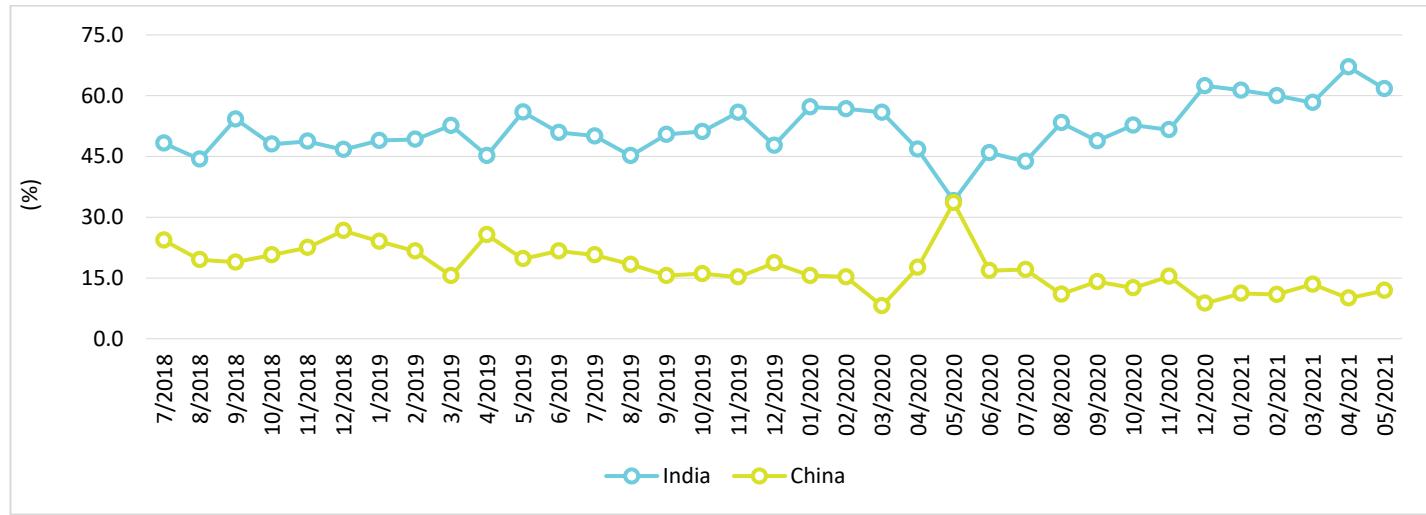
Source: Company, Edelweiss Research

Exhibit 3: US cotton bath market share



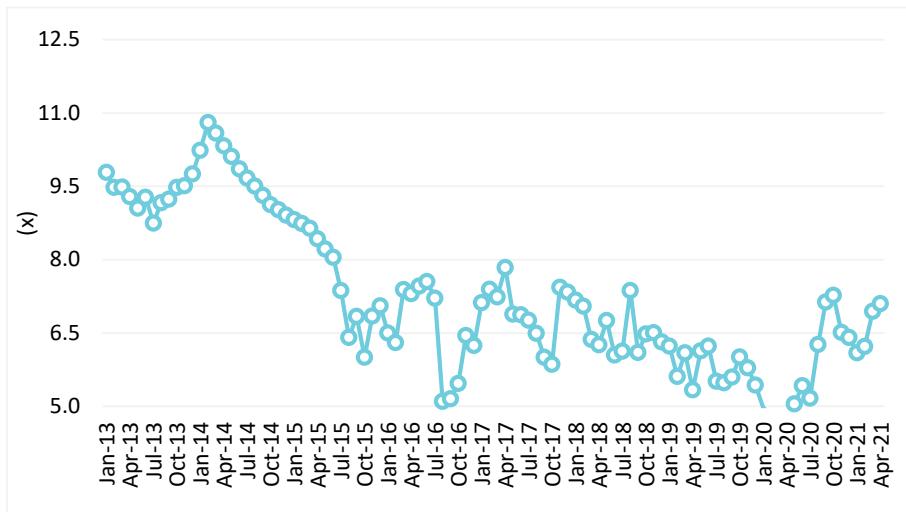
Source: Edelweiss Research, OTEXA

Exhibit 4: US cotton bed sheet import market share



Source: Edelweiss Research, OTEXA

Exhibit 5: WLSI historical trading range



Source: Edelweiss Research, Bloomberg

Company Description

Established in 1985, Welspun India (WLSI) currently is one of the top-three home textile manufacturers globally and the largest home textile company in Asia. It has modern manufacturing facilities at Anjar and Vapi in Gujarat where it produces an entire range of home textiles for bed & bath category. The company has state-of-the-art completely vertically integrated plants, right from spinning to confectioning.

WLSI has been ranked No.1 among home textile suppliers in the US (Source: Home Textile Today). It has a distribution network in over 32 countries including US, UK, Europe, Canada and Australia.

In addition to manufacturing facilities, which predominantly supply to private labels, the company also maintains its own brands Christy, Hygrocotton, Welhome and Spaces - Home and Beyond; it also has a tie up with Nautica for North American markets.

Investment Theme

Innovation, diversified client and product base cement dominance: WLSI 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. WLSI derives ~30% of sales from innovative products.

Robust free cash flow & consistently lowering leverage: WLSI has calibrated its capex programme post the change in industry scenario. The company's confidence in generating free cash is also evident from its dividend policy of 25% payout ratio. Going forward, it is expected to generate strong free cash flows and further lower its leverage.

Key Risks

Raw material risk: Raw material costs, primarily cotton yarn, account for 50% of the overall expenses and are a prime driver of profitability. Volatility in cotton prices can impact the profitability adversely.

Currency fluctuations: Welspun exports more than 90% of its production. With a network spanning 50 countries, the company is exposed to currency fluctuations which can significantly impact profitability.

Egyptian cotton issue: Egyptian cotton products manufactured by WLSI came under the scanner when Target, cut ties with the company. Post the event, other major customers have however continued their regular sourcing of other products from WLSI. But, any further customer issues will be a negative for the company.

Additional Data

Management

CEO	Ms. Dipali Goenka
CFO	Sanjay Gupta
MD	Rajesh Mandawewala
Other	
Auditor	SRBC & Co LLP

Holdings – Top 10*

	% Holding		% Holding
DSP Investment	4.35	BlackRock Inc	0.54
L&T MF	2.77	Birla Sun Life	0.37
Aditya Birla Su	2.15	GAM Holding AG	0.25
Franklin Resour	1.72	AXA SA	0.14
Dimensional Fun	1.37		

*Latest public data

Recent Company Research

Date	Title	Price	Reco
15-May-21	Multiple levers; Target back in the fold; <i>Result Update</i>	101	Buy
16-Feb-21	Strong industry tailwind; <i>Company Update</i>	68	Buy
28-Jan-21	Record show; building capacity; <i>Result Update</i>	68	Buy

Recent Sector Research

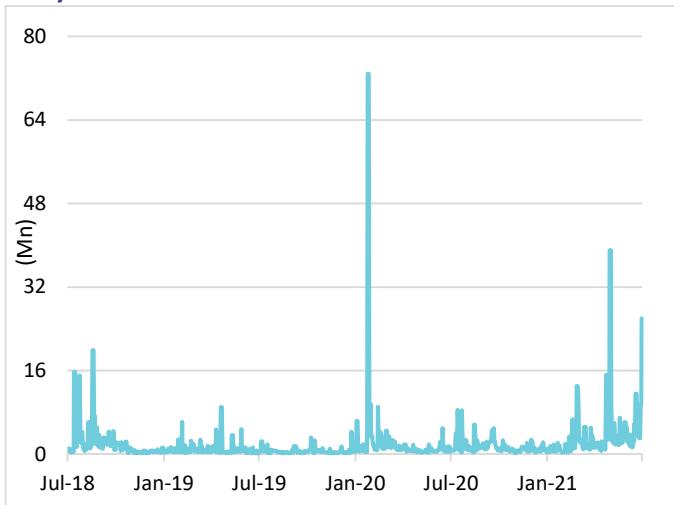
Date	Name of Co./Sector	Title
26-May-21	Arvind Ltd	Holds up amid headwinds; <i>Result Update</i>
15-Feb-21	Arvind Ltd	Deleveraging remains key focus; <i>Company Update</i>
05-Feb-21	Arvind Ltd	Ticking all the boxes; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	168	55	19	243
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	214	41	4	259

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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