

**Emerging businesses as rising stars in a post- pandemic market and spurring domestic demand**

**CMP: INR 87**

**Rating: Buy**

**Target Price: INR 166**

**Stock Info**

BSE	514162
NSE	WELSPUNIND
Bloomberg	WLSI:IN
Reuters	WLSP.NS
Sector	Other Textile Products
Face Value (INR)	1
Equity Capital (INR cr)	98.81
Mkt Cap (INR cr)	7,877
52w H/L (INR)	90/ 62
Avg Daily Vol (in 000')	1,570

**Shareholding Pattern %**

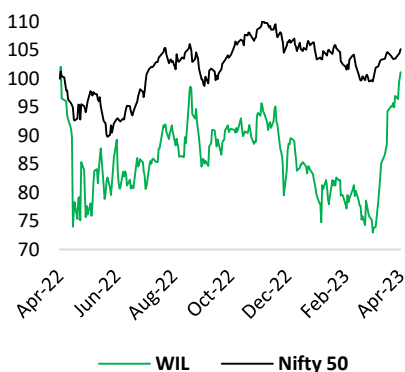
(As on March 2023)

Promoters	70.36
DII	5.72
FII	5.80
Public & Others	18.12

**Stock Performance (%)** 1m 3m 12m

WIL	34.5	27.3	1.1
NIFTY 50	5.5	1.8	5.2

**Welspun India Price Chart**



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Welspun India Ltd (WIL) is one of the world's leading home textile players and the largest exporter of home textiles from India, with a distribution network in 50+ countries. About 90% of their products are sold globally, with 65% + of production to the US, 20% to Europe, and the rest to the Middle East, Australia, and Japan. In India, they have an omnichannel presence through stores, online marketplaces, and D2C sites. The Company offers home and advanced/ technical textiles products and flooring solutions to top global retailers. It has a dominant presence in the towel and bed linen market.

**Investment Rationale:**

**Promising pick up in emerging businesses:** The emerging businesses of advanced textiles and flooring have seen a strong pick up in FY23: Advanced Textiles +30%, and Branded Flooring +74%. The new Spunlace capacity has commercialized in Q4. The flooring business is seeing an increase in demand from big-ticket players in the US and UK, and domestically from the institutional and commercial segments- it has achieved a quarterly run rate of INR 200 cr and has turned EBITDA positive. This quarter, the domestic flooring business recorded its highest-ever revenues at INR 100 cr.

**Destocking by major global retailers leading to a strong resurgence in demand momentum:** Previously faced with huge inventory hang-ups due to the global container shortage (over-ordering by retailers to avoid facing inventory shortages), major retailers are now seeing their inventories liquidate as container availability improved which has led to a resurgence in demand from key geographies.

**Major softening of commodity input prices and improvement in buying sentiment:** The four C's: Container, Coal, Cotton, and Consumer are starting to see better days. Container availability has improved, and prices are down to USD 2,000 from the peak of USD 10,000 a year ago. Cotton prices in Q4 are down to an average of INR 60-65,000 per candy (vs INR 69,000 in Q3), down from the peak of INR 100,000 during the pandemic. Consumer sentiment has also started to improve as retailers empty their inventories. Coal, however, remains elevated with no signs of softening.

**Improving balance sheet health:** In a continued effort to reduce company-level net debt, they have bought it down to INR ~1,500 Cr. It is targeted to come down to INR ~1,000 Cr by FY24 and become INR 0 by FY25.

**Aggressively growing domestic presence:** The domestic vision of 'Har Ghar Welspun' through the brands 'Welspun' and 'Spaces' is well underway. Since they remain cautiously optimistic about international markets for the near future, the domestic market remains underpenetrated and is a huge untapped growth lever. They target reaching 25,000 stores in FY24 and 50,000 stores in the next 3 years.

**Outlook and Valuation:** Despite sequential GM contraction, we continue to see destocking in global markets supported by lower freight prices. The company has been focusing on increasing the share of WAMIL & the retail segment as they are highly margin accretive. Supported by lower RM prices, the growing Retail /New business share in overall sales will lead to rerating of the stock. We assign a Buy rating and a TP of INR 166 based on a P/E of 20x the FY25E EPS of INR 8.3.

**Capex has largely bottomed out:** Major capex required for the emerging businesses has been completed. WIL is now investing in renewable solar energy at the Anjar plant which will meet 20% of their power requirements (currently ~6% of sales) on completion in H2FY24. This will entail a capex of INR 300 Cr in FY24 (INR 200 for installation and INR 100 Cr for maintenance) and will stabilize the supply of sustainable power. The capex will have a payback period of ~3 years and will save ~INR 40 cr in FY24.

**Targeted growth for FY24:** We reasonably expect a growth of 10-12% on the top line and EBITDA Margins of 15% on a consolidated level. The home textile business will maintain normal margins in the range of 17-18%.

**Indian exporters in the global market:** India is in a better position now compared to its peers. It has captured market share from China and Pakistan in towels and bed linen this quarter.

**De-risking the business:** The company has de-risked against volatility in cotton prices as expected by the ICAI from low cotton output this year by procuring 6-month inventories of cotton.

**Welspun Advanced Materials India Ltd (WAMIL), the retail business, and other emerging businesses:** The advanced textiles and emerging businesses will grow substantially in FY24 with a heightened focus on the retail business.

**Q4FY23 Conference call highlights:**

- The brand grew 33% YoY in FY23 as the most widely distributed home textile brand in the country and added 570 outlets in Q4.
- Domestic consumption has doubled over the past year.
- Marketing spends are at 8% in FY23.
- OCF inflows are healthy from efficient use of capital employed. They have lowered NWC by reductions in inventory and debtors' days.
- Welspun India is in the top 50 brands of Asia this quarter as the only brand from textiles to be present.
- They secured a large order from a UK player in feminine care and wet wipes.
- Revenues from the domestic market were up 48% indicating deeper penetration.
- The GCC, Australian, and Indian markets are faring relatively well compared to UK, US, and Europe.
- Outflows for the buyback are INR 195 cr and the total outflow including dividends will amount to INR 250 cr.
- This quarter there were some inventory adjustments leading to higher COGS.
- Cotton yarn spread have not changed significantly, and are higher 3-4% in Q4FY23.
- Retail is currently 7% of revenue and is poised to grow to 11% by FY26. Advanced textiles and flooring are to grow to 45% of total revenue by then.
- The Indian market for flooring has seen a significant revival through the institutional/ commercial/ hospitality side. Residential demand is also improving. The current focus is on soft flooring. Key raw materials include nylon (which is imported) and microfiber.

Particulars	Annual Capacity
Bath Linen	90,000 MT
Bed Linen	108 Mn mtrs
Rugs & Carpets	12 Mn sq mtrs
<b>Advanced Textiles</b>	
Spunlace	27,729 MT
Needle Punch	3,026 MT
Wet Wipes	100 Mn Packs
<b>Flooring</b>	
Flooring	18 Mn sq mtrs (expected 27)

Source: Company Filings & Arihant Capital Research

**Key Customer Partnerships with a presence in 50+ countries**

North America	UK & Europe	India
		<b>ROW</b>

Source: Company Filings & Arihant Capital Research

**Country- wise cost comparison**

	India	China	Bangladesh	Vietnam	Ethiopia
<b>Labour Cost (USD/ month)</b>	160-180	550-600	110-120	190-200	80-90
<b>Power Cost (USD/ KWh)</b>	0.10-0.12	0.15-0.16	0.09-0.12	0.08-0.10	0.03-0.04
<b>Water Cost (USD/ M3)</b>	160-180	55-60	20-22	50-80	30-40

Source: Company Filings & Arihant Capital Research

Financials

P&L (Rs Mn)	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>93,115</b>	<b>80,938</b>	<b>87,866</b>	<b>97,492</b>
Op. Expenditure	79,528	73,412	75,214	82,575
<b>EBITDA</b>	<b>13,587</b>	<b>7,525</b>	<b>12,653</b>	<b>14,916</b>
Depreciation	4,205	4,421	4,625	4,753
EBIT	9,383	3,104	8,028	10,163
Interest Expense	1,313	1,299	980	855
Other Income	658	1,212	1,475	1,475
PBT	8,728	3,018	8,523	10,783
Tax	2,663	994	2,145	2,714
PAT bef. MI & Assoc.	6,066	2,024	6,378	8,069
Minority Interest	55	-	-	-
Profit from Assoc.	-	-	-	-
Recurring PAT	6,010	2,024	6,378	8,069
Extraordinaires	-	-	-	-
<b>Reported PAT</b>	<b>6,010</b>	<b>2,024</b>	<b>6,378</b>	<b>8,069</b>
<b>FDEPS (Rs)</b>	<b>6.1</b>	<b>2.0</b>	<b>6.6</b>	<b>8.3</b>
DPS (Rs)	0.2	0.1	0.4	0.4
CEPS (Rs)	10.2	6.5	11.2	13.1
FCFPS (Rs)	1.7	7.4	12.8	14.1
BVPS (Rs)	40.2	41.1	45.8	53.6
EBITDAM (%)	15%	9%	14%	15%
PATM (%)	6%	3%	7%	8%
Tax Rate (%)	31%	33%	25%	25%
Sales Growth (%)	27%	-13%	9%	11%
FDEPS Growth (%)	13%	-66%	220%	27%

Balance Sheet (Rs Mn)	FY22	FY23	FY24E	FY25E
Equity Capital	988	988	972	972
Reserve	38,729	39,608	43,566	51,149
Networth	39,717	40,596	44,537	52,121
Total Debt	32,861	26,399	25,661	22,161
Def Tax Liability	6,680	8,242	4,980	4,480
Minority Interest	1,046	1,046	1,046	1,046
Account Payables	9,566	8,697	12,036	14,423
Other Curr Liabi	4,499	3,888	4,184	4,642
<b>Total Liabilities &amp; Equity</b>	<b>94,369</b>	<b>88,868</b>	<b>92,445</b>	<b>98,874</b>
Net Fixed Assets	38,222	37,318	34,776	31,023
Capital WIP	1,660	460	460	460
Others	5,986	4,543	6,017	6,017
Inventory	19,779	19,698	18,055	18,697
Account Receivables	9,993	9,605	10,833	11,485
Other Current Assets	9,133	6,718	6,968	7,218
Cash	9,595	8,161	15,393	24,029
<b>Total Assets</b>	<b>94,366</b>	<b>86,501</b>	<b>92,445</b>	<b>98,874</b>
Non-cash Working Capital	24,839.6	23,435.9	19,634.6	18,334.1
Cash Conv Cycle	97.4	105.7	81.6	68.6
WC Turnover	3.7	3.5	4.5	5.3
FA Turnover	2.3	2.1	2.5	3.1
Net D/E	0.6	0.4	0.2	-0.0
Revenue/Capital Employed	1.6	1.3	1.4	1.5
Capital Employed/Equity	2.7	2.5	2.3	2.3

Cash Flow (Rs Mn)	FY22	FY23	FY24E	FY25E
PBT	8,728	3,018	8,523	10,783
Depreciation	4,205	4,421	4,625	4,753
Others	-1,470	-	-	-
Taxes Paid	1,640	994	2,145	2,714
Change in WC	-3,958	1,404	3,801	1,300
<b>Operating C/F</b>	<b>5,866</b>	<b>7,849</b>	<b>14,804</b>	<b>14,122</b>
Capex	-5,060	-1,077	-3,323	-1,000
Change in Invest	-5,185	234	-234	-
Others	4,244	-533	558	-0
<b>Investing C/F</b>	<b>-6,002</b>	<b>-1,376</b>	<b>-3,000</b>	<b>-1,000</b>
Change in Debt	3,464	-6,462	-738	-3,500
Change in Equity	-	-1,046	-1,950	-0
Others	-4,011	1,464	-3,748	-986
<b>Financing C/F</b>	<b>-547</b>	<b>-6,045</b>	<b>-6,436</b>	<b>-4,486</b>
<b>Net change in cash</b>	<b>-684</b>	<b>428</b>	<b>5,368</b>	<b>8,637</b>
RoE (%)	16%	5%	15%	17%
RoIC (%)	9%	4%	9%	11%
Core RoIC (%)	9%	14%	15%	15%
Div Payout (%)	3%	5%	8%	6%
P/E	14.5	43.0	13.4	10.6
P/B	2.2	2.1	1.9	1.6
EV/EBITDA	7.1	12.1	6.5	4.6
EV/Sales	1.0	1.1	0.9	0.7
Dividend Yield (%)	0%	0%	0%	0%

Source: Company Filings & Arihant Capital Research

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Absolute Return****Research Analyst  
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