

**CMP: INR 179**

**Rating: BUY**

**Target Price: INR 222**

**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)	17,483
52w H/L (INR)	185/ 99
Avg Daily Vol (in 000')	3,888

**Shareholding Pattern %**

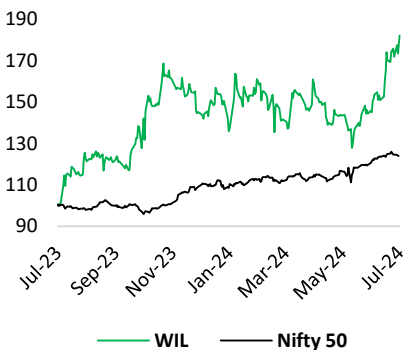
(As on June 2024)

Promoters	70.50
DII	5.88
FII	5.49
Public & Others	18.12

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

WIL	24.8	16.4	80.9
NIFTY 50	2.7	8.0	23.8

**WIL vs Nifty 50**



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Welspun Living reported a mixed bag of results – with impressive revenue and PAT growth, but weak EBITDA and Margins. Revenue grew 16.14% YoY to INR 25,365 Mn (-1.50% QoQ), beating our estimate of INR 25,116 Mn by 0.99%. Gross Margin contracted 74 bps YoY 46.39% (-4bps QoQ). EBITDA ex-OI grew 9.94% YoY to INR 3,415 Mn (-4.78% QoQ) and EBITDA Margin Ex-OI contracted 76bps YoY to 13.46% (-46bps QoQ), missing our estimates of INR 3,642 Mn, and 14.50% by 6.23% and 104bps respectively. PAT grew 14.27% YoY to INR 1,860 Mn (+42.44% QoQ), beating our estimate of INR 1,642 Mn by 13.25%. The company saw growth in home textile exports, innovation, and advanced textile business, but faced challenges in the flooring business due to shipping and container availability issues. Domestic retail demand is maintained flat.

**The flooring business floundered this quarter:** Ongoing logistical challenges related to shipping (Red Sea Crisis) and container availability impacted flooring business revenue in Q1. However, they maintain a target of 20-25% growth for FY25, aiming for 80%+ capacity utilization by FY27, with a 15-16% EBITDA margin at that level.

**Capex plans:** INR 860 cr of capex is planned for FY25, and INR 300-400 cr CAPEX in FY26. This will be directed toward a brownfield towel facility in Anjar (revenue potential of INR 400 Cr in FY26, operational by November 2024), and a greenfield pillow facility in Ohio (revenue potential of USD 50 Mn in FY27, operational by October 2024).

**Guidance:** The management expects to surpass the previous 12% revenue growth target whereas the previous FY25 margin guidance of 15-15.5% remains intact. They expect a 50% reduction in power costs due to renewable energy initiatives starting from FY26-FY27, and for margins to improve ~200bps over the next 2 years.

**Buyback:** The Board approved a buyback of INR 2,784 mn at INR 220 per share (record date 5th August 2024). Promoters will be participating in the buyback.

**Outlook and Valuation:** We assign a TP of INR 222 valued at a P/E multiple of 20x the FY263 EPS of INR 11.1, yielding a 'Buy' rating and an upside of 24%. We maintain our cautiously optimistic outlook on the company, and expect volume growth to improve, and for capacity utilization of emerging businesses to pick up. There will be margin improvement over the next two years from reduced opex. There remain ongoing logistical challenges and subdued retail demand in India.

INR Mn	FY23	FY24	FY25E	FY26E
Revenue	80,938	96,792	1,08,670	1,23,778
Growth YoY	-13%	20%	12%	14%
EBITDA	7,525	13,689	16,627	18,938
EBITDAM (%)	9%	14%	15%	15%
Recurring PAT	1,989	6,811	8,912	10,642
Growth YoY	-67%	242%	31%	19%
FDEPS (Rs)	2.0	7.0	9.3	11.1
P/E	88.9	25.5	19.3	16.1
P/B	4.3	3.9	3.3	3.0
EV/EBITDA	25.7	14.1	11.6	10.2
EV/Sales	2.4	2.0	1.8	1.6

Source: Company Filings & Arihant Capital Research

<b>INR Mn (Consolidated)</b>	<b>Q1FY25</b>	<b>Q4FY24</b>	<b>Q1FY24</b>	<b>Q-o-Q</b>	<b>Y-o-Y</b>
<b>Revenue</b>	<b>25,365</b>	<b>25,752</b>	<b>21,841</b>	<b>-1.50%</b>	<b>16.14%</b>
Raw Material Costs	13,598	13,794	11,548	-1.42%	17.76%
Gross Profit	11,767	11,958	10,293	-1.60%	14.32%
<i>Gross Margin</i>	<i>46.39%</i>	<i>46.43%</i>	<i>47.13%</i>	<i>-4bps</i>	<i>-74bps</i>
Employee costs	2,819	2,758	2,261	2.19%	24.65%
Other Expenses	5,533	5,613	4,925	-1.43%	12.34%
<b>EBITDA</b>	<b>3,415</b>	<b>3,587</b>	<b>3,106</b>	<b>-4.78%</b>	<b>9.94%</b>
<i>EBITDA margin</i>	<i>13.46%</i>	<i>13.93%</i>	<i>14.22%</i>	<i>-46bps</i>	<i>-76bps</i>
Other Non Operating Income	520	415	308	25.27%	68.65%
Depreciation	968	962	994	0.56%	-2.66%
<b>EBIT</b>	<b>2,967</b>	<b>3,039</b>	<b>2,420</b>	<b>-2.37%</b>	<b>22.59%</b>
Finance costs	434	518	258	-16.29%	67.91%
Share of Associate's Net Profit/(Loss)	1	1	(2)	0.00%	-121.74%
<b>PBT</b>	<b>2,534</b>	<b>2,521</b>	<b>2,160</b>	<b>0.50%</b>	<b>17.32%</b>
Tax Expense	674	1,216	533	-44.53%	26.65%
<i>Effective tax rate</i>	<i>26.62%</i>	<i>48.22%</i>	<i>24.66%</i>	<i>-2161bps</i>	<i>196bps</i>
<b>PAT</b>	<b>1,860</b>	<b>1,306</b>	<b>1,627</b>	<b>42.44%</b>	<b>14.27%</b>

Source: Company Filings & Arihant Capital Research

#### **Business-wise performance:**

- Home Textile Exports: Grew by 19% YoY with a 17% margin.
- Innovation Sales: Increased by 13% YoY.
- Advanced Textile Business: Expanded by 24% YoY.
- Flooring Business: Reached a revenue of INR 2,278 Mn with a 9.2% margin.
- Domestic Retail: Maintained flat growth, achieving revenue of INR 1,223 cr with a 3% growth

#### **Capacity utilization:**

- Bath Linen: 94%
- Bed Linen: 69%
- Rugs & Carpets: 85%
- Spunlace: 67%
- NeedlePunch: 50%
- Wet Wipes: 20%
- Flooring: 64% (Installed), 52% (Effective).

<b>P&amp;L (Rs Mn)</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>
<b>Revenue</b>	<b>80,938</b>	<b>96,792</b>	<b>1,08,670</b>	<b>1,23,778</b>
Op. Expenditure	73,412	83,103	92,043	1,04,840
<b>EBITDA</b>	<b>7,525</b>	<b>13,689</b>	<b>16,627</b>	<b>18,938</b>
Depreciation	4,421	3,945	5,133	5,133
EBIT	3,104	9,744	11,493	13,805
Interest Expense	1,299	1,534	1,058	1,058
Other Income	1,213	1,458	1,475	1,475
<b>PBT</b>	<b>3,019</b>	<b>9,668</b>	<b>11,910</b>	<b>14,222</b>
Tax	994	2,942	2,998	3,580
PAT bef. MI & Assoc.	2,025	6,726	8,912	10,642
Minority Interest	36	-84	-	-
Profit from Assoc.	1	1	-	-
<b>Recurring PAT</b>	<b>1,989</b>	<b>6,811</b>	<b>8,912</b>	<b>10,642</b>
Extraordinaires	-	-	-	-
Reported PAT	1,989	6,811	8,912	10,642
<b>FDEPS (Rs)</b>	<b>2.0</b>	<b>7.0</b>	<b>9.3</b>	<b>11.1</b>
DPS (Rs)	0.1	0.1	-	-
CEPS (Rs)	6.5	11.0	14.4	16.3
FCFPS (Rs)	7.4	13.4	13.9	12.8
BVPS (Rs)	41.4	46.5	53.6	58.9
<b>EBITDAM (%)</b>	<b>9%</b>	<b>14%</b>	<b>15%</b>	<b>15%</b>
<b>PATM (%)</b>	<b>2%</b>	<b>7%</b>	<b>8%</b>	<b>9%</b>
Tax Rate (%)	33%	30%	25%	25%
Sales Growth (%)	-13%	20%	12%	14%
<b>Balance Sheet (Rs Mn)</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>
Equity Capital	988	972	959	959
Reserve	39,890	44,184	50,501	55,500
Networth	40,878	45,156	51,460	56,460
Total Debt	24,709	26,422	26,661	27,661
Def Tax Liability	7,247	9,147	500	-1,370
Minority Interest	1,082	973	998	998
Account Payables	8,697	9,088	16,077	18,651
Other Curr Liabi	3,888	4,712	5,175	5,894
<b>Total Liabilities &amp; Equity</b>	<b>86,501</b>	<b>95,498</b>	<b>1,00,871</b>	<b>1,08,295</b>
Net Fixed Assets	37,318	36,248	31,322	27,190
Capital WIP	460	488	460	460
Others	4,543	5,595	5,662	8,856
Inventory	19,698	20,718	20,841	24,077
Account Receivables	9,605	12,547	12,802	14,921
Other Current Assets	6,718	8,268	7,218	5,136
Cash	8,161	11,636	25,338	27,654
<b>Total Assets</b>	<b>86,501</b>	<b>95,498</b>	<b>1,03,643</b>	<b>1,08,295</b>
Non-cash Working Capital	23,435.9	27,732.9	19,608.7	19,589.1
Cash Conv Cycle	105.7	104.6	65.9	57.8
WC Turnover	3.5	3.5	5.5	6.3
FA Turnover	2.1	2.6	3.4	4.5
Net D/E	0.4	0.3	0.0	0.0
Revenue/Capital Employed	1.3	1.5	1.7	1.8
Capital Employed/Equity	2.5	2.3	2.3	2.1
<b>Cash Flow (Rs Mn)</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>
PBT	3,019	9,668	11,910	14,222
Depreciation	4,421	3,945	5,133	5,133
Others				
Taxes Paid	994	2,942	2,998	3,580
Change in WC	1,404	3,749	78	20
<b>Cash Flow from Op.</b>	<b>7,850</b>	<b>14,420</b>	<b>14,124</b>	<b>15,795</b>
Capex	-1,077	-3,781	-543	-1,001
Change in Invest	234	-156		
Others	-533	1,616	-759	-3,194
<b>Cash Flow from Inv.</b>	<b>-1,376</b>	<b>-2,320</b>	<b>-1,380</b>	<b>-4,195</b>
Change in Debt	-8,153	1,714	239	1,000
Change in Equity	-709	-2,416	-2,609	-5,642
Others	953	-7,923	3,329	-4,642
<b>Cash Flow from Fin</b>	<b>-7,908</b>	<b>-8,625</b>	<b>959</b>	<b>-9,284</b>

Source: Company Filings & Arianth Capital Research

<b>Key Ratios</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>
RoE (%)	5%	16%	18%	20%
RoIC (%)	4%	10%	12%	14%
Core RoIC (%)	14%	15%	15%	14%
Div Payout (%)	6%	2%	0%	0%
P/E	88.9	25.5	19.3	16.1
P/B	4.3	3.9	3.3	3.0
EV/EBITDA	25.7	14.1	11.6	10.2
EV/Sales	2.4	2.0	1.8	1.6

*Source: Company Filings & Arihant Capital Research*

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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