

**CMP: INR 142**

**Rating: BUY**

**Target Price: INR 208**

**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)	13,829
52w H/L (INR)	112/ 62
Avg Daily Vol (in 000')	2,503

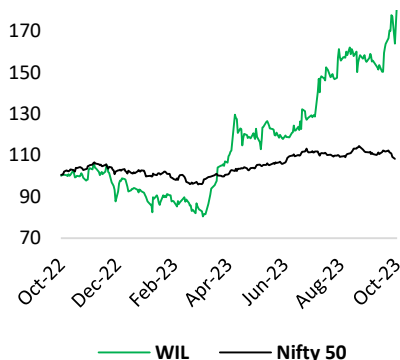
**Shareholding Pattern %**

(As on September 2023)

Promoters	70.50
DII	5.89
FII	6.33
Public & Others	17.28

Stock Performance (%)	1m	3m	12m
WIL	16.2	42.1	82.3
NIFTY 50	(2.8)	(2.8)	8.3

**Welspun Living Price Chart**



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Welspun Living's (formerly Welspun India- WIL) revenue grew 18.72% YoY to INR 25,091 Mn (+14.88% QoQ), beating our estimate of INR 23,037 Mn by 8.92%. Gross Margin expanded 489 bps YoY 46.46% (-67bps QoQ). EBITDA grew 78.56% YoY to INR 3,580 Mn (+15.25% QoQ) and EBITDA Margin expanded 19bps YoY to 14.27% (+5bps QoQ), beating our estimate of INR 3,571 Mn, but missing our margin estimate of 15.5% by 123bps. PAT grew 2,305.88% YoY to INR 2,004 Mn (+23.15% QoQ), beating our estimate of INR 1,871 Mn by 7.11%.

**Tapping into the domestic market with both core and emerging businesses:** Their presence in the domestic market is expanding though the licensed and owned brand portfolio. In order to grow brand recall, they have undertaken numerous marketing activities. With the Home Textile business, the company is deploying a more B2C driven strategy, and with the flooring business, a B2B geared strategy.

**FTA being signed with the UK:** The UK-FTA is in its final stage of discussion and is expected to rake in benefits for the company 6 months after finalization. The UK is currently 10% of the world's (and WIL's) home textile demand.

**Net Debt:** Net Debt levels are at INR 1,573 Cr (-425 Cr YoY, -242 Cr QoQ) targeted to come down to INR 1,000 Cr by the end of FY24. The current cost of debt is about 6.5%.

**Raw material price trajectory, emerging businesses, and its effect on margins:** Compared to last year the prices of raw materials (coal, cotton, and containers) have stabilized, though cotton still remains elevated at ~INR 60,000 per candy. This will impact margins in the sense they will not return to pre-covid levels of 18-20% (blended) in the short term. The emerging businesses of flooring and advanced textiles- though high growth and margin accretive- are also a slight drag on margins as they haven't reached a desirable scale yet.

**Outlook and Valuation:** We assign a TP of INR 208 valued at a P/E multiple of 25x the FY25E EPS of INR 8.3, yielding a 'Buy' rating and an upside of 46%. With the current state of events, we believe the company can attain a high single to low-teens growth in revenues and an EBITDA Margin in the mid- teens. As the emerging businesses scale up, the demand environment recovers with incoming holiday orders, and input prices remain range- bound, we are confident on the company's growth prospects.

INR Mn	FY22	FY23	FY24E	FY25E
Revenue	93,115	80,938	87,866	97,492
Growth YoY		-13%	9%	11%
EBITDA	13,587	7,525	12,653	14,916
EBITDAM (%)	15%	9%	14%	15%
Recurring PAT	6,010	2,024	6,453	8,069
Growth YoY		-66%	219%	25%
FDEPS (Rs)	6.1	2.0	6.6	8.3
P/E	23.3	69.3	21.4	17.1
P/B	3.5	3.5	3.1	2.6
EV/EBITDA	11.7	21.1	12.5	10.6
EV/Sales	1.7	2.0	1.8	1.6

Source: Company Filings & Arihant Capital Research

INR Mn (Consolidated)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
<b>Revenue</b>	<b>25,091</b>	<b>21,841</b>	<b>21,135</b>	<b>14.88%</b>	<b>18.72%</b>
Raw Material Costs	13,434	11,548	12,348	16.34%	8.79%
Gross Profit	11,657	10,293	8,786	13.25%	32.67%
<i>Gross Margin</i>	<i>46.46%</i>	<i>47.13%</i>	<i>41.57%</i>	<i>-67bps</i>	<i>489bps</i>
Employee costs	2,574	2,261	2,014	13.82%	27.77%
Other Expenses	5,503	4,925	5,487	11.73%	0.30%
<b>EBITDA</b>	<b>3,580</b>	<b>3,106</b>	<b>1,285</b>	<b>15.25%</b>	<b>178.56%</b>
<i>EBITDA margin</i>	<i>14.27%</i>	<i>14.22%</i>	<i>6.08%</i>	<i>5bps</i>	<i>819bps</i>
Other Non Operating Income	333	308	231	8.05%	43.93%
Depreciation	985	994	1,095	-0.92%	-10.05%
<b>EBIT</b>	<b>2,928</b>	<b>2,420</b>	<b>421</b>	<b>20.97%</b>	<b>594.80%</b>
Finance costs	338	258	284	31.01%	19.15%
Share of Associate's Net Profit/(Loss)	2	(2)	1	-186.96%	185.71%
<b>PBT</b>	<b>2,592</b>	<b>2,160</b>	<b>138</b>	<b>19.99%</b>	<b>1776.54%</b>
Tax Expense	587	533	55	10.31%	971.90%
<i>Effective tax rate</i>	<i>22.67%</i>	<i>24.66%</i>	<i>39.68%</i>	<i>-199bps</i>	<i>-1701bps</i>
<b>PAT</b>	<b>2,004</b>	<b>1,627</b>	<b>83</b>	<b>23.15%</b>	<b>2305.88%</b>

Source: Company Filings & Arianth Capital Research

#### Q2FY24 Operational Highlights:

- During the quarter, Welspun India changed its name into Welspun Living.
- Q2 saw increased buying from US and UK retailers on account of holiday demand.
- India has gained back its market share in the US for Terry Towels and Bedsheets, owing to the China+1 strategy.
- The company has seen a pick up share of shelf through its innovations and brand building.
- Inflation has moderated in both US and Indian markets, but continues to pinch wallets, especially considering the current geopolitical conflicts.
- In the domestic market, 'Spaces' is gaining market share quickly.
- The company's Advanced Textiles business got approved for medical application with 'Welspun Spunlace'.
- The average INR/USD rate for the year was INR 83.35.
- Capex of INR 168 Cr was made toward the solar panels at the Anjar facility.
- The company is getting government incentives to the tune of ~INR 300 Cr from ROTDEP and Duty Drawbacks.

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
<b>PBT</b>	<b>8,728</b>	<b>3,018</b>	<b>8,523</b>	<b>10,783</b>
Tax	2,663	994	2,069	2,714
PAT bef. MI & Assoc.	6,066	2,024	6,453	8,069
Minority Interest	55	-	-	-
Profit from Assoc.	-	-	-	-
<b>Recurring PAT</b>	<b>6,010</b>	<b>2,024</b>	<b>6,453</b>	<b>8,069</b>
Extraordinaires	-	-	-	-
Reported PAT	6,010	2,024	6,453	8,069
<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	11.3	13.1
FCFPS (Rs)	1.7	7.4	12.9	14.1
BVPS (Rs)	40.2	41.1	45.9	53.7
<b>EBITDAM (%)</b>	<b>15%</b>	<b>9%</b>	<b>14%</b>	<b>15%</b>
<b>PATM (%)</b>	<b>6%</b>	<b>3%</b>	<b>7%</b>	<b>8%</b>
Tax Rate (%)	31%	33%	24%	25%
Sales Growth (%)	27%	-13%	9%	11%

Balance Sheet (Rs Mn)	FY22	FY23	FY24E	FY25E
Equity Capital	988	988	972	972
Reserve	38,729	39,608	43,641	51,225
Networth	39,717	40,596	44,613	52,196
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>92,521</b>	<b>98,949</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	15,469	24,105
<b>Total Assets</b>	<b>94,366</b>	<b>86,501</b>	<b>92,520</b>	<b>98,950</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	2,069	2,714
Change in WC	-3,958	1,404	3,801	1,300
<b>Cash Flow from Op.</b>	<b>5,866</b>	<b>7,849</b>	<b>14,880</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	-
<b>Cash Flow from Inv.</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	-
Others	-4,011	1,464	-3,748	-986
<b>Cash Flow from Fin</b>	<b>-547</b>	<b>-6,045</b>	<b>-6,436</b>	<b>-4,486</b>

Source: Company Filings & Arihant Capital Research

Key Ratios	FY22	FY23	FY24E	FY25E
RoE (%)	16%	5%	15%	17%
RoIC (%)	9%	4%	9%	11%
Core RoIC (%)	9%	14%	15%	15%
Div Payout (%)	3%	5%	8%	6%
P/E	23.3	69.3	21.4	17.1
P/B	3.5	3.5	3.1	2.6
EV/EBITDA	11.7	21.1	12.5	10.6
EV/Sales	1.7	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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