

**CMP: INR 152**

**Rating: BUY**

**Target Price: 229**

**Stock Info**

BSE	514162
NSE	WELSPUNIND
Bloomberg	WLSI:IN
Reuters	WLSP.NS
Sector	Other Textile Products
Face Value (INR)	1
Equity Capital (INR cr)	97
Mkt Cap (INR cr)	14,820
52w H/L (INR)	172/62
Avg Daily Vol (in 000')	3,700

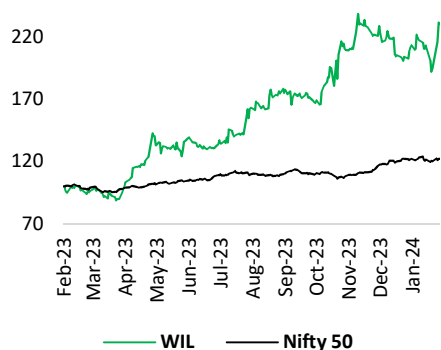
**Shareholding Pattern %**

(As on September 2023)

Promoters	70.50
DII	5.35
FII	7.25
Public & Others	16.90

Stock Performance (%)	1m	6m	12m
WIL	1.9	32.1	114
NIFTY 50	1.2	11.1	22.6

**Welspun Living Price Chart**



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Welspun Living's total Revenue came in at INR 2453.9 Cr (29% YoY/-3.9% QoQ) above our estimates of INR 2299 Cr. EBITDA stood at INR 339 Cr (+75% YoY/-5.4% QoQ) slight above our estimates of INR 352 Cr. EBITDA margin increased to 14.06% (+370bps YoY/-21bps QoQ) below our estimate of 15.29%. PAT came in at INR 179 Cr (+309% YoY/-10.7% QoQ) which was less than our expectation of INR 189 Cr. With a relatively good holiday season and consistent demand, company witnessed sustained inflow of orders during the quarter and showed growth on yearly basis and inline with our estimates.

**Key focus:** Welspun is expanding its global presence, focusing on licensed brands like Martha and Disney, offering a diverse range beyond towels and sheets. The company aims to capitalize on opportunities in the domestic market, already being the highest distributed brand in the country. With emerging businesses such as flooring, advanced textile, and global brands, Welspun targets a steady increase in their share of total revenue, aiming to reach 45%.

**Capex plans:** The company's board approved a capex for a jacquard towel facility, increasing total towel capacity by 6,400 metric tons per annum at the Anjar facility, operational by Q3 FY25, with an expected annual revenue of INR400 crores. Additionally, an investment of \$12.5 million (INR104 crores) was sanctioned for a fully automated pillow manufacturing unit in Ohio, USA, with a capacity of 6.7 million pillows, operational by Q2 FY25, generating an additional revenue of \$50 million (415 crores). The projects will be financed 75% through term loans and 25% through internal accruals. Most of the capex will be incurred in FY24 and 25. Both the projects will give a ROCE of 20%+.

**Guidance:** The company is aiming to surpass this guidance with an expected revenue growth of around 15% and 15% EBITDA in FY24. Quarter four is anticipated to avoid degrowth. The company foresees 80% utilization for towels, 70% for bedsheets, and 60% for flooring in this year. Maintaining the EBITDA, the commitments are towards achieving INR 15,000 crores in FY26.

**Outlook and Valuation:** The company is targeting the Indian retail market by expanding EBOs and MBOs, emphasizing brand visibility. Additionally, new Capex planned to increase towel capacity and introduce a new product range of pillows and focus on diversification serves as a key drivers for the company's growth. We assign a TP of INR 229 valued at a P/E multiple of 25x the FY25E EPS of INR 9.2, yielding a 'Buy' rating and an upside of 51%.

INR Mn	FY22	FY23	FY24E	FY25E
Revenue	93,115	80,938	94,512	1,04,886
Growth YoY		-13%	17%	11%
EBITDA	13,587	7,525	13,610	16,047
EBITDAM (%)	15%	9%	14%	15%
Recurring PAT	6,010	2,024	7,170	8,916
Growth YoY		-66%	254%	24%
FDEPS (Rs)	6.1	2.0	7.4	9.2
P/E	23.3	69.3	19.2	15.5
P/B	3.5	3.5	3.0	2.6
EV/EBITDA	11.7	21.1	11.7	9.9
EV/Sales	1.7	2.0	1.7	1.5

Source: Company Filings & Arihant Capital Research

INR Cr (Consolidated)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y	Q3FY24E	Surprise
<b>Net Revenue</b>	<b>2411</b>	<b>2509</b>	<b>1869</b>	<b>-3.91%</b>	<b>28.98%</b>	<b>2299</b>	<b>4.87%</b>
Raw Material Costs	1232	1343	957	-8.27%	28.82%	1172	5.10%
Gross Profit	1179	1166	913	1.10%	29.15%	1127	4.62%
<i>Gross Margin</i>	48.89%	46.46%	48.82%	243bps	6bps	49.00%	-11bps
Employee costs	268	257	199	4.16%	34.40%	255	5.13%
Other Expenses	572	550	519	3.87%	10.04%	520	9.93%
<b>EBITDA</b>	<b>339</b>	<b>358</b>	<b>194</b>	<b>-5.35%</b>	<b>75.00%</b>	<b>352</b>	<b>-3.60%</b>
<i>EBITDA margin</i>	14.06%	14.27%	10.36%	-21bps	370bps	15.29%	-123bps
Other Non Operating Income	43	33	35	29.20%	23.24%	35	22.89%
Depreciation	100	99	114	1.88%	-12.10%	100	0.35%
<b>EBIT</b>	<b>282</b>	<b>293</b>	<b>114</b>	<b>-3.85%</b>	<b>146.15%</b>	<b>287</b>	<b>-1.74%</b>
Finance costs	42	34	36	23.91%	16.76%	35	19.80%
Share of Associates	0	0	0	-55.00%	350.00%	-	0.00%
<b>PBT</b>	<b>240</b>	<b>259</b>	<b>78</b>	<b>-7.51%</b>	<b>205.40%</b>	<b>252</b>	<b>-4.70%</b>
Tax Expense	61	59	35	3.22%	74.68%	63	-3.57%
<i>Effective tax rate</i>	25.30%	22.67%	44.23%	263bps	-1893bps	25.00%	30bps
<b>PAT</b>	<b>179</b>	<b>200</b>	<b>44</b>	<b>-10.66%</b>	<b>309.07%</b>	<b>189</b>	<b>-5.08%</b>
<i>PAT margin</i>	7.30%	7.88%	2.30%	-59bps	500bps	8.08%	-79bps

Source: Company Filings & Arianth Capital Research

#### Q2FY24 Operational Highlights:

- India remains the leading supplier of Terry towels and bedsheets to the USA, with market shares increasing from 41% to 44% in Terry towels and from 49% to 59% in bed sheets for the April-November 2023 period, according to Otexa data.
- In Q3, the US GDP showed a growth rate of 3.3%. Consumer inflation in the country declined to 3.4% in December 2023 from its peak of 9.1% in June 2022, marking a decrease from the highest inflation rate recorded in the US.
- Red Sea issues increased blank sailing, raising container costs. Mitigation efforts are ongoing, exploring innovative solutions and collaboration. Opportunities like stocking in the USA are considered to minimize cost impact.
- Expanded to 9 EBOs in Q3, totaling 20 EBOs, aiming for 150+ EBOs by 2025.
- The reason for Capex is to meet medium-term plans for FY26, focusing on building a diverse product range to achieve set goals. Also company maintains the target of becoming debt-free in two years.
- Christie has shown growth in the UK, gaining recognition as a brand. The Middle East market is growing by 25%, and expansion plans include Canada (offline), the USA (online), China, Japan, New Zealand, Australia, and a potential launch in India, catering to the luxury segment.
- The company spent INR 230 Cr on a 30 MW solar power plant in the 9M FY24, achieving a 50% cost saving compared to thermal plants.
- The company secured major orders from the USA, UK, and the Middle East, and saw increased demand for soft flooring in hospitality and commercial segments. Repeat orders and a focus on value-added products in hard flooring contributed to improved visibility.
- At the end of Q3, the net debt was INR1542 Cr, (-INR367 Cr YoY and -INR30 Cr QoQ). The slight inventory buildup in Q3 is expected to be rationalized by Q4, further reducing net debt by the end of Q4.

<b>P&amp;L (Rs Mn)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
<b>Revenue</b>	<b>93,115</b>	<b>80,938</b>	<b>94,512</b>	<b>1,04,886</b>
Op. Expenditure	79,528	73,412	80,902	88,838
<b>EBITDA</b>	<b>13,587</b>	<b>7,525</b>	<b>13,610</b>	<b>16,047</b>
Depreciation	4,205	4,421	4,625	4,753
EBIT	9,383	3,104	8,985	11,295
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>9,480</b>	<b>11,915</b>
Tax	2,663	994	2,310	2,999
PAT bef. MI & Assoc.	6,066	2,024	7,170	8,916
Minority Interest	55	-	-	-
Profit from Assoc.	-	-	-	-
<b>Recurring PAT</b>	<b>6,010</b>	<b>2,024</b>	<b>7,170</b>	<b>8,916</b>
Extraordinaires	-	-	-	-
Reported PAT	6,010	2,024	7,170	8,916
<b>FDEPS (Rs)</b>	<b>6.1</b>	<b>2.0</b>	<b>7.4</b>	<b>9.2</b>
DPS (Rs)	0.2	0.1	0.4	0.4
CEPS (Rs)	10.2	6.5	12.0	14.0
FCFPS (Rs)	1.7	7.4	12.6	15.1
BVPS (Rs)	40.2	41.1	46.6	55.3
<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>8%</b>	<b>9%</b>
Tax Rate (%)	31%	33%	24%	25%
Sales Growth (%)	27%	-13%	17%	11%
<b>Balance Sheet (Rs Mn)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
Equity Capital	988	988	972	972
Reserve	38,729	39,608	44,357	52,787
Networth	39,717	40,596	45,329	53,759
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	12,947	15,517
Other Curr Liabi	4,499	3,888	4,501	4,995
<b>Total Liabilities &amp; Equity</b>	<b>94,369</b>	<b>88,868</b>	<b>94,464</b>	<b>1,01,958</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	19,420	20,115
Account Receivables	9,993	9,605	11,652	12,356
Other Current Assets	9,133	6,718	6,968	7,218
Cash	9,595	8,161	15,227	24,825
<b>Total Assets</b>	<b>94,366</b>	<b>86,501</b>	<b>94,463</b>	<b>1,01,959</b>
Non-cash Working Capital	24,839.6	23,435.9	20,592.6	19,177.2
Cash Conv Cycle	97.4	105.7	79.5	66.7
WC Turnover	3.7	3.5	4.6	5.5
FA Turnover	2.3	2.1	2.7	3.3
Net D/E	0.6	0.4	0.2	-0.0
Revenue/Capital Employed	1.6	1.3	1.5	1.6
Capital Employed/Equity	2.7	2.5	2.3	2.3
<b>Cash Flow (Rs Mn)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
PBT	8,728	3,018	9,480	11,915
Depreciation	4,205	4,421	4,625	4,753
Others	-1,470			
Taxes Paid	1,640	994	2,310	2,999
Change in WC	-3,958	1,404	2,843	1,415
<b>Cash Flow from Op.</b>	<b>5,866</b>	<b>7,849</b>	<b>14,638</b>	<b>15,084</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>

Key Ratios	FY22	FY23	FY24E	FY25E
RoE (%)	16%	5%	17%	18%
RoIC (%)	9%	4%	10%	12%
Core RoIC (%)	9%	14%	15%	15%
Div Payout (%)	3%	5%	7%	5%
P/E	23.3	69.3	19.2	15.5
P/B	3.5	3.5	3.0	2.6
EV/EBITDA	11.7	21.1	11.7	9.9
EV/Sales	1.7	2.0	1.7	1.5

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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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