

Welspun India

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Shareholding (%)

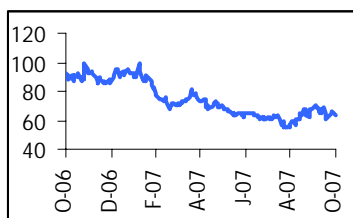
Promoters	36.2
FII's	10.1
MFs	16.7
Banks/FIs	10.1
Others	23.3

Share price performance

52-week high/low (Rs)	105/52		
	-1m	-3m	-12m
Abs (%)	-4.5	3.4	-30.2
Rel* (%)	-21.4	-28.8	-85.9

*to Nifty

Stock chart



Slow capacity ramp-up, margin pressures, force a Downgrade

Welspun India (Welspun) reported subdued results for Q2FY08, marked by a 6% growth in topline and an 8% drop in the bottomline; these numbers were significantly lower than our expectations. The company's operating margins continued to remain under pressure through the quarter.

Welspun's poor topline growth is attributable to the slower than expected ramp up of its capacities for sheeting fabrics. In addition, the realisations of both, the fabrics and the terry towel segments fell sharply YoY during the quarter, in line with the appreciating rupee.

Welspun enjoys the advantage of integrated manufacturing operations at a global scale. Though the volume growth is likely to continue in the coming quarters as utilisation rates grow, the pressure on operating margins is expected to slowdown the growth in net profits. The stock trades at 11X our FY08 EPS estimates. We downgrade the rating on the stock from 'Buy' to 'Accumulate'.

Key highlights of Q2FY08:

- Slow ramp-up of capacities lowers revenue growth:** During Q2FY08, Welspun's topline grew by a moderate 6%, primarily due to the slow ramp-up of its capacities for sheeting fabrics; this segment contributed 35% of the company's revenues during Q2FY08. Besides, the segment's realisations dropped by a sharp 11% YoY on account of sharp rupee appreciation; this further contributed to the slow growth in revenues. Though Welspun's volumes in terry towel segment grew by 15%, the realisations in this segment dropped by around 3%; consequently, the revenue growth in the segment remained marginal.
- Margins remain under pressure:** Welspun's margins stood at 15.9% during the quarter. Improvement in utilisation rates for sheeting fabrics, from 60% in Q1FY07 to 70% in Q2FY08, offset the drop in margins for the terry towel business leading to flat operating margins. The sharp appreciation of the rupee continued to affect Welspun's realisations, pressurising the growth in margins. We believe that any further strengthening of the rupee would directly affect Welspun's operating margins, going forward.

Accumulate Rs64

30 October 2007

Market cap

Rs bn 5

US\$ mn 118

Avg 3m daily volume

135,524

Avg 3m daily value

Rs mn 9

Shares outstanding (mn)

73

Reuters/Bloomberg

WLSP.BO/WLSI.IN

NSE/BSE

WELSPUNIND.NS

Sensex

19,784

Nifty

5,869

Welspun India

- ▲ **Turnaround and integration of Christy underway:** Welspun has been able to turnaround Christy, a company that it acquired in FY07; the company reported a Profit after Tax of GBP 11 mn last quarter and also re-gained its lost market share. Currently, Welspun is undertaking the relocation of Christy's manufacturing facility that is expected to be completed by the end of Q3FY08.
- ▲ **Capacity additions to be completed by Q1FY09:** Welspun's terry towel segment is in the final phase of expansion; an addition of 6,000 TPA would take the company's total installed capacity to 40,000TPA by the end of December 2008. Welspun has completed the addition of its yarn capacity; currently, it has an installed base of 1.17lakh spindles and around 2000 rotors. The company's bed linen capacity stands at 35mn sq meters and is being expanded to 45 mn meters by Q1FY09.
- ▲ **Margin pressure to continue, downgraded to 'Accumulate':** Welspun's integrated manufacturing capacity with global size capacities in the terry towels and sheeting fabric segments, provides it a competitive edge over its peers. Besides, initiatives such as the acquisition of Christy and the setting up of the manufacturing facility at Mexico would facilitate the company in moving up the value chain. Despite these positives, Welspun is facing a delay in ramping up its capacities. This, combined with the pressure on margins on account of rupee appreciation, would lead to a slower bottomline growth, going forward. The stock trades at 11X our FY08 EPS. We downgrade the rating from a **'Buy'** to an **'Accumulate'**.

Welspun India

Table 1. Quarterly result table

Rs mn	Q2FY08	Q1FY08	QoQ (%)	Q2FY07	YoY (%)
Net sales from operations	2,937.9	2,647.4	11.0	2,764.5	6.3
Total Expenses	2,469.8	2,280.8	8.3	2,341.8	5.5
%of net sales	84.1	86.2		84.7	
(Increase)/Decrease in stock	(154.5)	(169.9)		74.5	
Raw material Consumed	1,283.6	1,183.3	8.5	1,131.2	13.5
%of net sales	38.4	38.3		43.6	
Employee cost	278.3	252.3	10.3	214.8	29.6
%of net sales	9.5	9.5		7.8	
Power and fuel	247.6	233.0	6.3	242.5	2.1
%of net sales	8.4	8.8		8.8	
Other Expenses	814.8	554.4	47.0	678.8	20.0
%of net sales	27.7	20.9		24.6	
EBITDA	468.1	366.6	27.7	422.7	10.8
%of net sales	15.9	13.8		15.3	
Depreciation	207.2	194.7	6.4	156.9	32.1
EBIT	260.9	171.9	51.8	265.8	(1.8)
%of net sales	8.9	6.5		9.6	
Interest	157.4	155.0	1.5	122.0	29.0
Other Income	148.1	123.9	19.6	128.4	15.3
PBT	251.7	140.8	78.8	272.3	(7.6)
Provision for tax (including deferred tax)	(83.6)	(48.5)		(88.8)	
Net Profit	168.1	92.3	82.1	183.5	(8.4)
NP margin %	5.7	3.5		6.6	
EPS	2.3	1.3	82.1	2.5	(8.4)

Source: IISL research, company

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