

# Welspun India

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**Shareholding (%)**

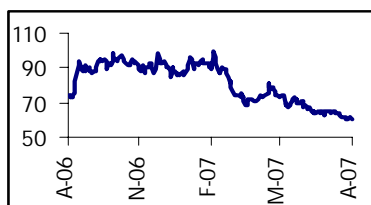
Promoters	36.5
FII's	9.1
MFs	20.5
Banks/FIs	10.6
Others	23.3

**Share price performance**

52-week high/low (Rs)	105/52		
	-1m	-3m	-12m
Abs (%)	-7.0	-18.4	-19.2
Rel* (%)	-7.9	-23.3	-56.1

\*to Nifty

**Stock chart**

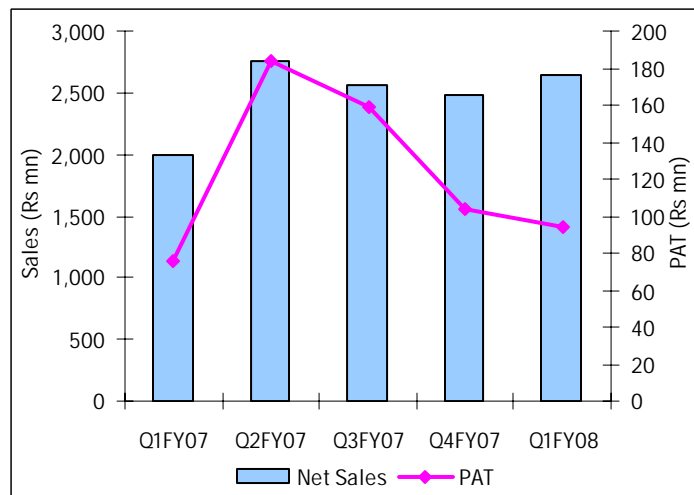


**Sturdy performance despite margin pressures**

Welspun India Ltd. reported robust results for Q1FY08 despite various odds arising from rupee appreciation and rising cotton prices. The company's topline grew by 33%, while PAT grew by 22% YoY during the quarter. Operating margins (excluding a reversal of provision of Rs 180 mn) was higher than our expectations. Better realisation in the sheeting fabric, and DEPB benefits enabled Welspun to maintain margins.

Utilisation in sheeting fabrics is expected to rise further with higher volume growth during the latter half of the year and further integration of operation with Christy. The Q1FY08 results indicate Welspun's ability to deliver on the capex concluded during the last few quarters, with firm margins. The stock is attractively priced at 6.5x our FY08 EPS estimate. We continue to maintain a 'Buy' on the stock.

*Chart 1 Quarterly performance*



Source: IISL research, company

**Key highlights during the quarter are:**

- Strong increase in volume drives topline growth:** Welspun India reported a strong 33% growth in topline during Q1FY08, higher than our estimates. Strong revenue growth of 31% in towel business and 36% growth in sheeting fabric business led to this growth. In the bed linen segment, capacity utilisation rate improved to 60% during the period.

**Buy**

**Rs60**

August 3, 2007

**Market cap**

Rs bn 4

US\$ mn 109

**Avg 3m daily volume**

68,443

**Avg 3m daily value**

Rs mn 5

**Shares outstanding (mn)**

73

**Reuters**

WLSPI.BO/WELSPUNIND.NS

**Bloomberg**

WLSI IN

**Sensex**

14,986

**Nifty**

4,356

## Welspun India

- ▲ **DEPB provides respite from rising rupee:** In order to provide exporters respite from the rising rupee, the government increased DEPB rates by 3% on garment exports. As a result, realisation (inclusive of DEPB benefits) fell only by 1%. EBIDTA margin in sheeting was 13% during the quarter, substantially higher as compared to Q1FY07. The company reversed provisions to the extent of around Rs 180 mn provided earlier towards drawback of excise duties. Excluding this, the margin was higher than our expectations at around 18%. With strong volume growth and firm margins, PAT increased by 22% during the quarter.
- ▲ **Turnaround and integration of Christy underway:** Welspun has been able to turnaround Christy substantially, with the latter reporting profit after tax of GBP11 mn. Christy has also regained its lost market share during the quarter. Welspun is currently undertaking the relocation of Christy's manufacturing facility, which is expected to be completed by September.
- ▲ **Capacity additions expected to be completed by the end of FY08:** Welspun has completed the addition of its yarn capacity and now has an installed base of 1.07 lakh spindles. This would meet around 70% of Welspun's internal requirements. Bed linen capacity currently stands at 35 mn sq. meters and is being expanded to 45 mn sq. meters by the end of FY08.
- ▲ **Sturdy volume growth coupled with firm margins:** Despite the odds from a appreciating rupee, Welspun to maintain margins on account of its integrated operations, strong client base and DEPB benefits. With strong growth in the sheeting business and its integration with Christy, we expect Welspun to continue the growth momentum. The stock is attractively valued at 6.5x FY08 EPS. Hence, we continue to maintain 'Buy' recommendation on the stock.

## Welspun India

Table 1. Quarterly result table

Rs mn	Q1FY08	Q4FY07	QoQ (%)	Q1FY07	YoY (%)
Net sales from operations	2,647.4	2,484.6	6.6	1,989.0	33.1
Total Expenses	2,280.8	2,133.0	6.9	1,576.1	44.7
<i>%of net sales</i>	86.2	85.8		79.2	
(Increase)/Decrease in stock	(169.9)	(12.9)		(404.7)	
Raw material Consumed	1,183.3	1,006.9	17.5	1,041.3	13.6
<i>%of net sales</i>	38.3	40.0		32.0	
Employee cost	252.3	204.9	23.1	193.3	30.5
<i>%of net sales</i>	9.5	8.2		9.7	
Power and fuel	233.0	0.0	#DIV/0!	229.7	1.4
<i>%of net sales</i>	8.8	0.0		11.5	
Other Expenses	554.4	934.2	(40.7)	516.5	7.3
<i>%of net sales</i>	20.9	37.6		26.0	
EBITDA	366.6	351.6	4.3	412.9	(11.2)
<i>%of net sales</i>	13.8	14.2		20.8	
Depreciation	194.7	183.3	6.2	144.4	34.9
EBIT	171.9	168.3	2.2	268.5	(36.0)
<i>%of net sales</i>	6.5	6.8		13.5	
Interest	155.0	122.6	26.5	111.8	38.6
Other Income	123.9	164.6	(24.7)	(38.2)	(424.0)
PBT	140.8	210.3	(33.1)	118.5	18.8
Provision for tax (including deferred tax)	(48.5)	(106.4)		(43.1)	
Net Profit	92.3	103.9	(11.2)	75.4	22.4
<i>NP margin %</i>	3.5	4.2		3.8	
EPS	1.3	1.4	(9.4)	1.0	24.9

Source: IISL research, company

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