



Welspun India

STOCK INFO.	BLOOMBERG
BSE Sensex: 18,493	WLSP IN
	REUTERS CODE
S&P CNX: 5,474	WLSP.BO

23 October 2007

Neutral

Previous Recommendation: Neutral

Rs65

Equity Shares	76.8
52-Week Range	105/50
1,6,12 Rel.Per. (%)	-6/-50/-78
M.Cap (Rs b)	5.0
M.Cap (US\$ b)	0.1

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	9,736	521	6.8	25.3	9.6	0.8	8.8	5.4	1.7	10.7
3/08E	12,237	678	8.8	30	7.4	0.8	10.6	6.3	1.4	8.5
3/09E	13,209	984	12.8	45.0	5.1	0.7	14.0	8.4	1.4	6.5

- Welspun's 2QFY08 results were in line with our estimates. Revenue increased 6.3% YoY to Rs2.9b (our est was Rs2.9b), while adjusted PAT increased 76.1% YoY to Rs168m (v/s our est of Rs179m).
- Terry towel sales increased 21% YoY in volume terms to 7,500 tons and 17.5% YoY in value terms to Rs1.8b, while realizations dropped ~3% YoY to Rs238/Kg (v/s Rs245/Kg). Bed linen sales also increased 16% YoY to 6.5m metres, but only ~6% YoY in value terms to Rs920m (due to a sharp ~8% drop in realization to Rs142/metre).
- The bed-linen plant continues to operate at a low utilization rate of 50-55%, which will keep the margins in the bed linen segment under pressure, going forward.
- EBITDA margin improved 64bp YoY to 15.9%, aided by lower raw material cost and increased government sops: (1) raw material cost as % of revenue declined 504bp YoY to 38.5%, (2) DEP benefits increased from 3.4% of sales to around 6% of sales (~Rs130m in 2QFY08) and (3) the government introduced a 2% subsidy on export credit loans.
- Welspun's 85% subsidiary Christy's reported 30% increase in revenue to ~US\$50M for 9MCY07, while EBITDA stood at ~US\$7m and PAT at ~US\$4.5m.
- We believe the stock would remain under pressure due to low utilization rates in its bed-linen segment and lower competitiveness vis-à-vis other competing nations such as China and Pakistan, as a result of the sharp appreciation in the rupee v/s the US dollar in the last few months. The stock trades at a P/E of 7.4x FY08 EPS of Rs8.8 and 5.1x FY09 EPS of Rs12.8. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	1,989	2,764	2,554	2,485	2,647	2,938	2,937	3,715	9,736	12,237
Change (%)	38.1	78.7	65.4	21.1	33.1	6.3	15.0	49.5	47.9	25.7
Total Expenditure	1,576	2,342	2,110	2,133	2,281	2,470	2,438	3,039	8,213	10,227
EBITDA	413	423	444	352	367	468	499	676	1,523	2,010
Change (%)	31.5	32.2	16.7	11.9	-11.2	10.8	12.5	92.3	14.6	32.0
As % of Sales	20.8	15.3	17.4	14.2	13.8	15.9	17.0	18.2	15.6	16.4
Depreciation	144	157	166	183	195	207	206	217	651	825
Interest	112	122	129	123	155	157	154	149	478	615
Other Income	52	40	75	165	124	148	100	28	429	400
Extra-ordinary Income	-90	88	0	0					-2	
PBT	119	272	224	210	141	252	239	390	823	1,022
Tax	43	89	65	107	48	84	80	131	304	344
Effective Tax Rate (%)	36.2	32.6	28.8	51.0	33.9	33.9	33.6	33.6	36.9	33.6
Reported PAT	76	183	159	103	92	168	159	259	519	678
Adj. PAT	166	95	159	103	92	168	159	259	521	678
Change (%)	53.7	-24.6	115.4	-3.8	-44.4	76.1	-0.2	151.4	25.4	30.2

E: MOST Estimates

Results in line

Welspun's 2QFY08 results were in line with our estimates. Revenue increased 6.3% YoY to Rs2.9b (our est was Rs2.9b), while adjusted PAT increased 76.1% YoY to Rs168m (v/s our est of Rs179m). Terry towel sales increased 21% YoY in volume terms to 7,500 tons and 17.5% YoY in value terms to Rs1.8b, while realizations dropped ~3% YoY to Rs238/Kg (v/s Rs245/Kg). Bed linen sales also increased 16% YoY in volume terms to 6.5m metres, but only ~6% YoY in value terms to Rs920m (due to a sharp ~8% drop in realization to Rs142/metre). The bed-linen plant continues to operate at a low utilization rate of 50-55%, which will keep the margins in the bed linen segment under pressure, going forward.

EBITDA margin improves

EBITDA margin improved 64bp YoY to 15.9%, aided by lower raw material cost and increased government sops: (1) raw material cost as % of revenue declined 504bp YoY to 38.5%, (2) DEPB benefits increased from 3.4% of sales to around 6% of sales (~Rs130m in 2QFY08) and (3) the government introduced a 2% subsidy on export credit loans.

Robust performance from Christy's

Welspun's 85% subsidiary Christy's reported 30% increase in revenue to ~US\$50M for 9MCY07, while EBITDA stood at ~US\$7m and PAT at ~US\$4.5m. Christy has a 17% share of the towel market in the EU and is positioned as an up market brand. It has a strong retail presence of its own and operates 98 concessions, principally with the House of Fraser and Debenhams besides 22 standalone Christy-branded retail stores. Outside the UK, the brand is available at leading retailers across the world such as Lane Crawford in Hong Kong, Karstadt in Germany and Bloomingdales in the USA. Welspun acquired an 85% stake in CHT Holdings Ltd in 1QFY07, the holding company of the UK's leading towel brand Christy. Consideration paid by Welspun for 85% stake was US\$25m (Rs1.1b), valuing Christy at an EV of

US\$30m (Rs1.3b). The deal includes a call option on the part of Welspun management and a put option on the part of Christy's management to buy/sell the remaining 15% stake at an agreed EBITDA multiple based on FY08-FY09 financials.

We view the acquisition as a significant positive for Welspun as it gains access to the EU market, which is the second largest home textile market in the world, while also consolidating and fully integrating its business model across the textile chain from spinning to front end retailing/branding on a global scale.

Strategic bed-linen plant in Mexico

During 2QFY08, Welspun started trial production at its new decorative bed-linen plant in Mexico, which has been set up at an investment of Rs800m. The company hopes to commercially start production in this plant by 3QFY08.

Retail expansion on track

Welspun's 49% associate company Welspun Retail reported sales of Rs500m for 1HFY08 and would have a network of ~200 stores by November 2008.

Home textiles: A big opportunity

Unlike garments, where production facilities have already migrated from developed to low-cost developing countries, shifting of production bases for home textiles is yet to occur. Almost 40% of the global home textile capacity is still located in developed countries. Going forward, a majority of these production capacities would migrate to low-cost developing countries. An estimated 120,000-ton terry towel capacity in developed countries has been rendered unviable (West Stevens - 70,000 ton per year; Pillotex - 50,000 ton per year). We believe this represents a big opportunity for countries such as India that have intrinsic strengths in home textiles.

Ranked highly by global retailers

With its strengths in product design, innovation and fabrication, and updated plant and machinery, Welspun is fast emerging as a preferred vendor partner to global buyers in the home textile space. Welspun has direct relationships with almost twelve of the top twenty global retailers. The company is highly regarded by global buyers for its product development and innovation skills. Furthermore, almost 85% of Welspun's sales to global retailers have moved to the replenishment mode, which ensures better margins and provides business stability.

Valuation and view

We expect Welspun's revenue and earning to witness CAGR of 11% and 28% (FY07-FY09E), respectively. We believe the stock would remain under pressure due to low utilization rates in its bed-linen segment and lower competitiveness vis-à-vis other competing nations such as China and Pakistan, as a result of the sharp appreciation in the rupee v/s the US dollar in the last few months. The stock trades at a P/E of 7.4x FY08 EPS of Rs8.8 and 5.1x FY09 EPS of Rs12.8. We maintain **Neutral**.

Welspun India: an investment profile

Company description

Welspun is one of India's largest home textile companies and the fifth largest terry towel player in the world. It is well positioned to exploit the substantial opportunities in the home textile market post-quota tariff scenario, as global manufacturing capacities in the developed world are closing down. Welspun has a wide product mix and global-sized capacity and is highly regarded by global buyers for its product development and innovation skills.

Key investment arguments

- Welspun is fast emerging as a preferred vendor partner to global buyers in the home textile space.
- Several home textile facilities have shut down in the developed world and moved operations to low-cost developing countries.
- Welspun has timed its expansion to coincide with the potential vast opportunity arising post-quota.

Key investment risks

- Realizations are likely to be under pressure due to increasing competition in the terry towel segment.
- Appreciating rupee could impact margins.

COMPARATIVE VALUATIONS

		WELSPUN	ALOK IND	VARDH. TEX.
P/E (x)	FY08E	7.4	7.2	6.5
	FY09E	5.1	6.4	5.1
P/BV (x)	FY08E	0.8	2.1	0.7
	FY09E	0.7	2.1	0.7
EV/Sales (x)	FY08E	1.4	8.9	1.5
	FY09E	1.4	8.8	1.3
EV/EBITDA (x)	FY08E	8.5	3.3	8.4
	FY09E	6.5	2.7	6.9

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	36.3	36.5	36.5
Domestic Inst	29.0	33.2	38.1
Foreign	22.6	21.5	17.7
Others	12.1	8.8	7.7

Recent developments

- During 2QFY08, Welspun started trial production at its new decorative bed-linen plant in Mexico, which has been set up at an investment of Rs800m.
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Valuation and view

- We expect Welspun's revenue and earning to witness 11% and 28% CAGR (FY07-FY09E), respectively.
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Sector view

- The Indian textile industry occupies a unique niche in the global market, nearly equaling China's strength.
- India would be one of the biggest beneficiaries of the culmination of the quota system, trailing China.

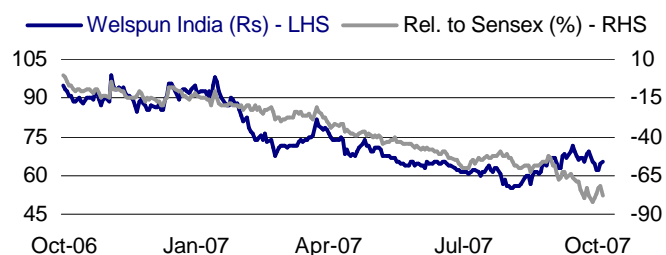
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	8.8	10.9	-19.3
FY09	12.8	13.8	-7.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
65	80	23.8	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Net Sales	4,696	6,537	9,736	12,237	13,209
Change (%)	36.3	39.2	48.9	25.7	7.9
Total Expenses	3,855	5,309	8,161	10,175	10,412
				2,062	2,797
EBITDA	841	1,228	1,575	2,062	2,797
Change (%)	80.9	46.1	28.2	31.0	35.6
% of Net Sales	17.9	18.8	16.2	16.9	21.2
Depreciation	269	486	651	825	1,050
EBIT	811	742	924	1,237	1,747
Interest & Finance Charges	278	343	478	615	360
Other Income	84	234	379	400	95
PBT	618	633	825	1,022	1,482
Tax	223	217	304	344	498
Effective Rate (%)	36.1	34.3	36.8	33.6	33.6
Reported PAT	395	415	521	678	984
Adjusted PAT	395	415	521	678	984
Change (%)	33.9	5.3	25.4	30.2	45.0

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Equity Capital	565	768	768	768	768
Share Capital	992	768	768	768	768
Reserves	2,721	4,970	5,359	5,865	6,676
Net Worth	3,713	5,738	6,127	6,633	7,444
Loans	5,953	8,550	12,050	12,800	13,551
Deferred Tax Liability	455	663	815	643	394
Capital Employed	10,121	14,950	18,992	20,076	21,388
Gross Fixed Assets	7,153	13,653	18,403	20,503	22,604
Less: Depreciation	1,422	1,908	2,559	3,384	4,434
Net Fixed Assets	5,731	11,745	15,844	17,119	18,170
Capital WIP	2,582	0	0	0	1
Investments	95	95	95	95	96
Curr. Assets	3,211	3,868	4,241	4,852	5,165
Inventory	1,334	1,309	1,901	2,370	2,425
Sundry Debtors	337	627	934	1,173	1,267
Cash & Bank Balances	813	877	193	217	327
Loans & Advances & Other (728	1,055	1,214	1,092	1,147
Current Liab. & Prov.	1,498	758	1,330	1,612	1,968
Sundry Creditors	1,222	367	829	993	1,185
Other Liabilities	182	255	332	365	402
Provisions	93	135	169	254	380
Net Current Assets	1,714	3,110	2,911	3,240	3,198
Application of Funds	10,121	14,950	18,992	20,076	21,388

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
EPS	5.1	5.4	6.8	8.8	12.8
Cash EPS	17.9	17.2	19.2	24.0	33.0
Book Value per Share	58.2	74.7	79.8	86.4	96.9
DPS	0.0	0.0	15	2.0	3.0
Payout (Incl. Div. Tax) %	0.0	0.0	25.2	25.5	17.6
Valuation (x)					
P/E		12.0	9.6	7.4	5.1
Cash P/E		3.8	3.4	2.7	2.0
EV/EBITDA		10.3	10.7	8.5	6.5
EV/Sales		19	17	14	14
Price to Book Value		0.9	0.8	0.8	0.7
Dividend Yield (%)		0.0	2.3	3.1	4.6
Profitability Ratios (%)					
RoE	14.5	9.2	8.8	10.6	14.0
RoCE	11.0	5.9	5.4	6.3	8.4
Turnover Ratios					
Debtors (Days)	26	35	35	35	35
Inventory (Days)	104	73	71	71	67
Creditors (Days)	219	60	60	60	60
Working Capital (Days)	133	174	109	97	88
Asset Turnover (x)	0.5	0.4	0.5	0.6	0.6
Fixed Asset Turnover (x)	0.7	0.5	0.5	0.6	0.6
Leverage Ratio					
Debt/Equity (x)	1.6	1.5	2.0	1.9	1.8

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
PBT before EO Items	618	633	825	1,022	1,482
Add : Depreciation	269	486	651	825	1,050
Less : Direct Taxes Paid	50	9	152	172	249
(Inc)/Dec in WC	726	-1,333	-484	-305	152
CF from Operations	1,239	-457	460	606	1,976
CF from Operations inc	1,239	-457	460	606	1,976
(Inc)/Dec in FA	-2,086	-9,082	-4,750	-2,100	-2,101
(Pur)/Sale of Investments	-327	0	0	0	0
CF from Investments	-6,498	-3,918	-4,750	-2,100	-2,101
Inc/Dec in Networth	1,543	1,749	0	0	0
Inc/Dec in Debt	3,746	2,596	3,500	750	751
Less : Interest Paid	278	343	478	615	360
Dividend Paid	0	0	131	173	173
CF from Fin. Activity	5,589	4,439	3,606	1,519	235
Inc/Dec of Cash	330	64	-684	24	110
Add: Beginning Balance	483	813	877	193	217
Closing Balance	813	877	193	217	327



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Disclosure of Interest Statement

	Welspun India
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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