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Welspun India

Buy

CMP: Rs67

Target Price: Rs 110 (12 Months)

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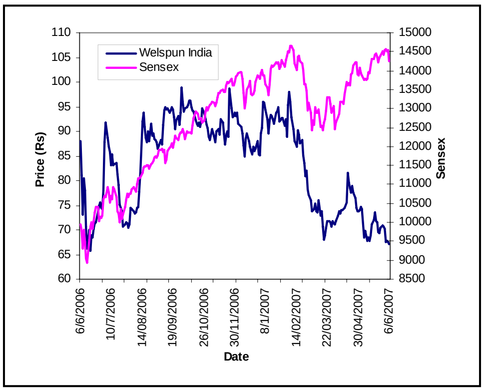
Sector	Textile
Market Cap (Rs cr)	490
Beta	0.7
52 WK High / Low	105/60
Avg Daily Volume	40802
Face Value (Rs)	10
BSE Sensex	14,256
Nifty	4,198
BSE Code	514162
NSE Code	WELSPUNIND
Reuters Code	WLSP.BO
Bloomberg Code	WLSP@IN

Shareholding Pattern (%)

Promoters	36.5
MF/Banks/Indian FIs	33.4
FII/ NRIs/ OCBs	22.0
Indian Public	8.1

Share Price Vs Sensex



Q4FY2007 Result Update

Performance Highlights

- **Topline grows 49% yoy:** Welspun India Limited (WIL), the leading home textile player in Asia, reported a strong set of numbers for Q4FY2007, much in line with our expectations. Net Sales, for the quarter, moved up 21.1% to Rs248.5cr (Rs205.1cr) while annual turnover jumped 49% yoy to Rs973.6cr (Rs653.7cr). Other Income for FY2007 increased a significant 71.6% to Rs37.9cr (Rs22.1cr) but this includes Rs20.5cr concerning fiscal benefits from the manufacturing activities in Anjar, Gujarat.

- **EBIDTA up 12% despite high capitalisation and lower utilisation:** Total expenditure for Q4FY2007 increased 22.8% to Rs213.3cr (Rs173.7cr). This was mainly due to greater capacities being added while utilisation level for towels and sheets were at 92.3% and 50.1%, respectively. Raw material cost surged 42.6% yoy to Rs100.4cr (Rs70.4cr) while staff costs went up 23.5% yoy to Rs20.5cr (Rs16.6cr). EBIDTA margin of towels was above 23% and for bed linen it was marginally below 10%. Overall operating margin dipped by 110bp to 14.2%. EBIDTA for Q4FY2007 rose by 11.9% to Rs35.2cr (Rs31.4cr) and on an annual basis it jumped by 26.8% to Rs157.5cr (Rs124.1cr).

- **Annual profit surges 25.4%, slips 4% quarterly:** The company's Net Profit for the quarter dipped by 4% to Rs10.3cr (Rs10.7cr) mainly due to higher provision for taxes on account of increased deferred tax. On a standalone basis, annualised PAT increased by 25.4% to Rs52.1cr (Rs41.6cr). Net margins however fell by 100bp to 5.4%.

Exhibit 1: Key Financials (Consolidated)

Y/E March (Rs cr)	FY2006	FY2007E	FY2008E	FY2009E
Income from Operations	**674**	**1,241**	**1,614**	**1,784**
% chg	36.5	84.2	30.1	10.5
Net Profit	**40.5**	**46.5**	**73.7**	**92.5**
% chg	2.7	14.6	58.6	25.5
EPS (Rs)	**5.5**	**6.4**	**10.1**	**12.6**
EBITDA Margin (%)	18.3	14.0	16.7	17.3
P/E (x)	12.1	10.5	6.6	5.3
P/CEPS (x)	5.5	4.1	2.9	2.5
ROE (%)	7.8	8.2	11.5	12.7
ROCE (%)	6.7	6.6	7.7	8.9
P/BV (x)	0.9	0.9	0.8	0.7
EV/Sales (x)	1.9	1.4	1.0	0.8
EV/EBITDA (x)	10.1	10.0	6.1	4.8

Source: Company, Angel Research

Exhibit 2: Segment-wise revenues (Rscr)

Segment	Standalone						Consolidated		
	Q4FY2007	Q4FY2006	*% chg*	FY2007	FY2006	*% chg*	FY2007	FY2006	*% chg*
Domestic	22.1	18.7	*18.4*	67.3	81.3	*(17.2)*	67.9	82.2	*(17.5)*
Foreign	226.3	186.4	*21.4*	906.2	571.7	*58.5*	1,173.0	590.6	*98.6*
Total	248.5	205.1	*21.1*	973.6	653.0	*49.1*	1,240.9	672.8	*84.4*

Source: Company, Angel Research

Key Highlights

WIL had acquired 85% stake in CHT Holdings, the holding group for the leading towel brand *Christy* and from FY2007, it has become a subsidiary of WIL. During the quarter, the manufacturing facilities of Christy have been shifted from Manchester to Anjar in Gujarat. The closure expenses related to this activity was Rs12.9cr, which has been accounted as exceptional expenses in the consolidated numbers. Thus, consolidated profit of WIL for FY2007 remained subdued vis-à-vis the standalone profit of Rs46.46cr (Rs40.54cr), an increase of 14.6% yoy.

WIL's contract to use the *Tommy Hilfiger* mark expired during the quarter. The company had a right to import, manufacture and sell under the brand, home furnishing products including bath and bed accessories in India. However, the company shall now market the *Christy* brand in the Indian market.

Exhibit 3: Expansion programme

Segment	Phase 2 Addition	Likely Completion date	Total Capacity (incl. existing)
Towels	16500 tonnes	Q2FY2008	41,000 tonnes
Bed linen	10 mn mtrs	Q4FY2008	45 mn mtrs
Decorative bedding	0.72 mn sets	Q2FY2008	0.72 mn sets
Spinning	46800 spindles	Q1FY2008	1,04296 spindles

Source: Company

To avail the NAFTA benefits and to save on freight costs, WIL plans to set up a decorative bedding facility in Mexico to produce 1.04mn bed sets p.a. This unit is expected to be commissioned by Q3FY2008. Total cost of Phase 2 expansion including the Mexico project has been revised to Rs904cr from Rs650cr. This would be funded through a combination of equity (Rs123.1cr), debt under TUFS (Rs616cr) and internal accruals (Rs164.9cr). We expect these capacity additions to translate into a strong revenue growth for the company FY2008E onwards.

Outlook

Appreciation of the Rupee is likely to hit the company's bottomline. The company is taking strong measures to mitigate this risk and around 25% of Q1FY2008 sales are hedged at close to Rs45. As per management, close to a quarter of annual sales for FY2008E are hedged at Rs45. We believe partial impact of the strengthening Rupee has already been controlled and partly it would also be subdued with the cost containment initiatives undertaken by the company. Given the company's strong capacity expansion plans and increased stability in the business, we expect full impact of the capacity additions to reflect in FY2008. However, considering that the company's profitability would still be under pressure, we have downgraded our earning estimates.

Valuation

At the CMP, valuations are attractive at 6.6x FY2008E and 5.3x FY2009E earnings of Rs10.1 and Rs12.6, respectively. **We maintain a Buy on the stock with a revised Target Price of Rs110.**

Exhibit 4: Financial Performance (Standalone)

Y/E March (Rs cr)	Q4FY2007	Q4FY2006	% chg	FY2007	FY2006	% chg
Net Sales	**248.5**	**205.1**	***21.1***	**973.6**	**653.7**	***48.9***
Other Income	16.5	9.5	*73.1*	37.9	22.1	*71.6*
Total Income	**264.9**	**214.6**	***23.4***	**1011.5**	**675.8**	***49.7***
Raw Material Exps	100.4	70.4	*42.6*	416.1	209.6	*98.5*
As % of Sales	*40.4*	*34.3*		*42.7*	*32.1*	
Staff Cost	20.5	16.6	*23.5*	81.9	58.6	*39.9*
As % of Sales	*8.2*	*8.1*		*8.4*	*9.0*	
Total Expenditure	**213.3**	**173.7**	***22.8***	**816.1**	**529.6**	***54.1***
As % of Sales	*85.8*	*84.7*		*83.8*	*81.0*	
PBIDT	**35.2**	**31.4**	***11.9***	**157.5**	**124.1**	***26.8***
Operating Margin (%)	*14.2*	*15.3*		*16.2*	*19.0*	
Interest	12.3	10.2	*20.3*	47.8	34.3	*39.3*
Depreciation	18.3	14.9	*23.1*	65.1	48.6	*33.9*
PBT	**21.0**	**15.8**	***32.7***	**82.5**	**63.3**	***30.3***
PBT Margin (%)	*8.5*	*7.7*		*8.5*	*9.7*	
Provision for Taxation	10.7	5.1	*109.0*	30.4	21.8	*39.6*
As % of PBT	*51.1*	*32.4*		*36.8*	*34.4*	
PAT	**10.3**	**10.7**	***(3.9)***	**52.1**	**41.6**	***25.4***
PAT Margin (%)	*4.1*	*5.2*		*5.4*	*6.4*	

Source: Company, Angel Research

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