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Welspun Living

26 July 2024

In line revenue, soft margins lead to EBITDA miss

RESULT UPDATE

Sector: Textile Rating: BUY

CMP: Rs 182 Target Price: Rs 210

Stock Info

Sensex/Nifty	80,592/ 24,605
Bloomberg	WELSPUNL IN
Equity shares (mn)	971.8
52-wk High/Low	Rs 184/ Rs 99
Face value	Rs 1
M-Cap	Rs 170bn/ USD 2bn
3-m Avg value	USD 6.8mn

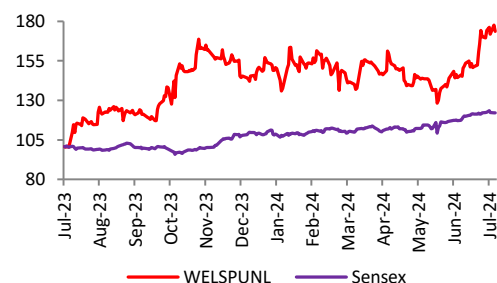
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net revenue	96,792	1,10,133	1,26,185
EBITDA	13,689	15,662	19,534
PAT (adj.)	6,811	8,417	11,315
EPS (adj.) (Rs)	7.0	8.7	11.6
PE (x)	26.2	21.2	15.8
P/B (x)	4.0	3.4	2.8
EV/EBITDA (x)	15.2	13.1	10.2
RoE (%)	15.8	17.2	19.6
RoCE (%)	14.5	15.6	19.0
D/E (x)	0.68	0.53	0.37
OPM (%)	14.1	14.2	15.5
DPS (Rs)	0.1	0.9	1.2
Dividend Yield (%)	0.1	0.5	0.6

Shareholding pattern (%)

	Jun'24	Mar'24	Dec'23
Promoter	70.5	70.5	70.5
-Pledged	-	-	-
FII	5.9	7.1	7.3
DII	6.0	5.8	5.7
Others	17.7	16.5	16.5

Stock Performance (1-year)



Welspun Living (WELSPUNL) reported broadly in line revenue of Rs 25.4bn, registering strong 16% YoY growth (down 1.5% QoQ), primarily through increased volumes and exports. The company delivered strong performance in the home textiles (HT) segment, while the flooring segment remained subdued. Gross margin contracted 74bps YoY and 4bps QoQ to 46.4%, slightly lower than our estimate of 47%. EBITDA margin contracted 76bps YoY and 46bps QoQ to 13.5% vs our estimate of 14.5%. EBITDA was up 10% YoY (down 5% QoQ) to Rs 3.4bn (missed estimate by 6%). Exports were healthy at 20% YoY, despite challenges like the Red Sea issue, container shortages and mixed global macroeconomic conditions. Innovation Business grew 13% YoY to Rs 6.4bn, contributing 28% to overall revenue. The domestic consumer business was resilient at a modest 3% YoY revenue growth of Rs 1.2bn, amid the challenging demand scenario in India's retail market. Emerging businesses (comprising domestic consumer business, global brands, advanced textiles and flooring) grew at 7% YoY to contribute 30% to overall revenue. Management has guided 12%+ revenue growth for FY25, with 15%-15.5% EBITDA margin (including other income). We have raised our FY25E/FY26E revenue slightly by 1.4%/2% and EPS by 4% each. The board has approved the buyback for Rs 2.8bn at Rs 220 per share. We maintain BUY rating with a revised target price of Rs 210 (Rs 178 earlier), based on 18x FY26E P/E (earlier 16x). WELSPUNL has been trading at 4x-20x one-year forward P/E multiple in last five years and an average of ~22x in last three years.

HT – Strong revenue growth, but margins contract

The segment reported revenue of Rs 23.9bn, with robust 17% YoY growth (down 1.4% QoQ), broadly in line with our estimate. EBITDA too was in line at Rs 3.5bn, up 12% YoY (down 4% QoQ). EBITDA margin at 14.6% (contracted 73 bps YoY and 44 bps QoQ) was less than our estimate of 15.5%. PBT at Rs 2.3bn was up 14% YoY, with PBT margin at 10%. HT exports grew at 19% YoY with an EBITDA margin of 17.0%. Within HT, a) Branded business grew at 16% YoY, b) Advanced Textiles at 24% YoY, c) B2B by 23% YoY, while d) E-comm plunged 39% YoY.

Flooring/carpets – Muted revenue; high single-digit EBITDA margin

Revenue of Rs 2.3bn (10% below our estimate) saw muted 1.2% YoY growth (up 7% QoQ). Dispatches fell as a result of higher transit time and shortage of ships/containers due to the Red Sea issue leading to lacklustre revenue growth. Capacity utilisation improved to 64% from 52% in 4QFY24. Mix changes in Hard and Soft flooring also impacted revenue to an extent. However, EBITDA at Rs 210mn rose 15% YoY and QoQ each (in line with our estimate), with EBITDA margin expanding 110 bps YoY (up 67 bps QoQ) to high single-digit of 9.2% (above our estimate of 8.5%), led by superior revenue and operating leverage. Within the flooring business, a) Branded business grew at 11% YoY, and b) B2B was up by 5% YoY. WELSPUNL has secured big-ticket clients in the US for wall-to-wall carpet tiles and has strengthened its presence in Australia, New Zealand and the Middle Eastern markets. Management eyes sturdy momentum in hard flooring from prominent distributors and large retailers in the US and UK. Domestic flooring achieved quarterly revenue growth of 15% YoY owing to rising demand from hospitality and commercial sectors.

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Investors are advised to refer disclosures made at the end of the research report.

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Maintain BUY with revised TP of Rs 210

Management remains cautiously optimistic on WELSPUNL's growth prospects amid mixed sentiments in the global economy. These include positive indications of inflation easing and anticipated rate cuts by the US Fed and negative sentiments on potential volatility from geopolitical tensions, disruptions in the Red Sea, and upcoming elections in various geographies. Management has reaffirmed its guidance of achieving overall topline growth of 10-12% for FY25, supported by capex in fashion towels and pillows and a likely increase in capacity utilization levels. It is also confident of maintaining EBITDA margin at 15-15.5% (including other income) with continued efforts towards cost optimization and efficiency improvement. We expect the company to meet the upper end of its revenue growth guidance in FY25, which would be driven by (i) diversification into new product categories and channels, (ii) likely increase in demand in the ensuing festive season, and (iii) performance improving in the domestic market on account of enhancing retail presence through expanded Exclusive Brand Outlets (EBOs) and Multi-Brand Outlets (MBOs), alongside increasing brand visibility. With increasing investments in green energy initiatives, WELSPUNL is committed to its long-term goals of sustainable growth and profitability. We have slightly raised our FY25E/FY26E revenue by 1.4%/2% and EPS by 4% each to adjust for the 1QFY25 performance. We maintain BUY with a revised TP of Rs 210, based on 18x FY26E P/E (earlier 16x).

Key takeaways from the concall

- **Retail demand** remained subdued during 1QFY25 mainly due to lower consumer spending, particularly in discretionary categories, which is the trough of the seasonal cycle. US retail spending grew at a modest 2.5% YoY in 1QFY25, spurred by earlier-than-anticipated FED rate cut and inflation cooling to 3% for the 3rd straight month in June, marking the lowest inflation reading since June 2023. Management has expressed confidence in a robust order book visibility, as it gears up for the upcoming holiday season in the US.
- **Exports to the US surge:** India, a leading supplier of Terry Towels and Bed sheets to the US, has further strengthened its market share during June 2023-May 2024 (10% in bedsheets with 61% share, flat in terry towels with 44% share in value terms). Exports to the US during this period grew with 5% growth in bed sheets and flat in terry towels. Despite the geopolitical challenges, WELSPUNL solidified its leadership in US exports and witnessed 10%/40%+ growth in terry towels/bed sheets, respectively, during the same period. Additionally, the company recorded double-digit growth in exports to the EU, UK, and other global markets.
- **Red Sea impact:** Freight costs soared threefold YoY owing to shortages of containers/ships due to the Red Sea disruptions. Delays in Free-On-Board (FOB) shipments impacted revenues of different businesses to some extent. But as most of its distribution is to the US, the company ensured minimum disruption in overall revenues. Additionally, WELSPUNL managed to mitigate the impact of freight costs, by leveraging its strong long-term relationship with ship liners.
- **Long term margin guidance:** WELSPUNL's margins have tumbled to ~15% levels at a time when cotton prices have surged to 60-65k/candy, down from 20-22% levels, when cotton prices hovered lower at Rs 40-45k/candy. However, the company is optimistic of achieving 16-18% EBITDA margin in the next couple of years, supported by healthy 17-18% export margins and profitability growth in emerging businesses, once it gains momentum.

- **Home Textiles E-Commerce:** Home Textiles E-Commerce revenues plunged 39% YoY, mainly due to high omnichannel sales in 1QFY24 vs this quarter, as there was stock buildup due to Red Sea disruptions. However, management is confident of achieving growth in this segment in the coming quarters.
- **Home Textiles subsegment revenue growth (A mixed bag):** Terry towels grew at 10%, bed sheets at ~40% and rugs at a steady rate.
- **Bath linen capacity:** Capacity utilisation in the bath linen segment reached an optimum level of 94% in 1QFY25. The upcoming Jacquard towel facility (Anjar-Gujarat), slated to be operational by the end of 2QFY25, is expected to further optimize existing capacities and alleviate bottlenecks. Ancillary products would also serve as substitutes to meet the fluctuations in demand.
- **Realisation and asset turnover of the Jacquard facility:** Jacquard towels are slated to command premium realisations of 10-15% vs normal terry towels, as their costs are comparatively higher. The facility is expected to operate at an asset turnover of 1:1.
- **Bed linen capacity utilisation:** Going forward, management hopes to improve its capacity utilisation to 84%.
- **Flooring - growth guidance:** Management has guided 20-25% YoY growth in flooring revenue for FY25. Furthermore, WELSPUNL plans to expand the flooring business at 20%+ CAGR over the next 3-4 years, touching an optimum capacity utilisation of over 80% by FY27. This would help it in achieving 15-16% EBITDA margin from high single-digit currently.
- **Advanced textiles:** Revenue was up 26% YoY to Rs 1.3bn in 1QFY25, with the capacity utilisation at Telangana Spunlace facility reaching 63%. Spunlace sales stayed robust across key global markets, with the company forging new partnerships in the US, Europe and India for innovative and sustainable non-woven products.
- **1QFY25 PAT inline:** Finance cost jumped 68% YoY (down 16% QoQ) to Rs 434mn owing to higher working capital loans. Depreciation however fell by 3% YoY (flat QoQ) to Rs 968mn. Other income surged 69% YoY (up 25% QoQ) to Rs 520mn. Adjusted PAT grew 15% YoY and 27% QoQ to Rs 1.9bn, broadly in line with our estimates.
- **Capex:** In 1QFY25, the company spent Rs 2.07bn majorly towards the Jacquard towel project at Anjar (Gujarat) and Pillow project in the US (Ohio). For FY25, the company has earmarked a capex of Rs 8.6bn (Rs 3.4bn towards terry towel facility, Rs 1.04bn for Ohio facility, Rs 750mn for the transmission line, and Rs 3.4bn towards maintenance). Both, the terry towel and pillow projects are slated to commence commercial operations by the end of 2QFY25. The company intends to incur a capex of Rs 3-4bn for FY26.
- **Flooring capex:** The company plans to undergo capex to expand its capacity to 27mn sq mtrs, contingent upon fully utilising its capacity of 18mn sq mtrs currently.
- **Net debt:** Net debt as on 31 June 2024 reduced by 14% YoY to Rs 15.6bn. Net debt increased by Rs 2.08bn vs March 2024 due to capex spending and increased investment in working capital in 1QFY25. With the anticipated reduction in working capital in 2QFY25, finance cost too should decrease. Management expects FY25 net debt to stay at FY24 level, despite its planned capex and payouts.

- **Marketing spends:** Investment in marketing for the Home Textiles consumer business continued to hover at 10% of revenue.
- **100% renewable energy (RE) by 2030:** WELSPUNL is committed towards achieving 100% RE usage by 2030. The board has approved setting up an 18 MW solar plant at Vapi, that would have the potential to meet ~30% of the power requirements at Vapi, Gujarat. With increased focus on RE initiatives, power costs are expected to reduce by half starting FY27, thereby enhancing margins by ~200bps.
- **Free cash flow utilisation:** The outflows from buyback and dividends (FY24) totalled Rs 3.5bn, which the company would generate from internal accruals. Over the last 4 years, WELSPUNL has distributed ~40% of its free cash flow to shareholders out of total Rs 22bn free cash flow generation during the same period.

Brands:

- **SPACES and WELSPUN** are now leading the premium and mass HT categories, respectively, as their brand recall jumped substantially to 80%/50% from 72%/40%, respectively.
- **The Welspun brand** witnessed healthy 12% YoY growth in 1QFY25, and continues to be the most widely distributed home textile brand in the country, with presence in 500+ towns and 21,154+ outlets (up by 972 in 1QFY25), a reach hitherto not achieved by any home textile player in India.
- **The SPACES** brand has emerged as a leading brand in the modern trade channel category.
- **Welhome & Christy (UK):** Grew over 10% in 1QFY25.
- Martha Stewart, Creative Colab and Disney continued their growth trajectories, achieving an edge in the US and European markets, by generating additional shelf spaces with key retailers and creating new growth avenues.

Other updates:

- **Buyback:** The Board has approved the buyback for Rs 2.8bn at a price of Rs 220 per share.
- **Acquisition:** WELSPUNL has acquired 100% equity share capital of Welspun Home Textiles Limited to explore growth opportunities. The said acquisition is expected to be completed by 30th September 2024.

Exhibit 1: Quarterly financial statement

(Rs mn)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Net sales	25,365	21,841	16.1	25,752	(1.5)
RM cost	13,598	11,548	17.8	13,794	(1.4)
Staff cost	2,819	2,261	24.7	2,758	2.2
Other expenses	5,533	4,925	12.3	5,613	(1.4)
Operating expenses	21,950	18,734	17.2	22,166	(1.0)
% of sales	87	86	76bps	86	46bps
EBITDA	3,415	3,106	9.9	3,587	(4.8)
EBITDA margins (%)	13.5	14.2	(76)bps	13.9	(46)bps
Other income (OI)	520	308	68.6	415	25.3
Finance cost	434	258	67.9	518	(16.3)
Depreciation	968	994	(2.7)	962	0.6
PBT	2,533	2,162	17.2	2,521	0.5
Tax	674	533	26.6	1,216	(44.5)
Effective tax rate (%)	27	25	199bps	48	(2,161)bps
Reported PAT	1,859	1,630	14.1	1,305	42.5
NPM (%)	7.3	7.5	(13)bps	5.1	226bps
Minority Interest/Associates	(4)	(14)	(71.3)	155	(102.5)
Adjusted PAT	1,855	1,616	14.8	1,460	27.1
No. of equity shares	972	972		972	
Adj. EPS (Rs)	2	2	14.8	2	27.1

Source: Company, Systematix Institutional Research

Exhibit 2: Key Ratios

(% of revenues)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Raw material cost	53.6	52.9	74bps	53.6	4bps
Staff costs	11.1	10.4	76bps	10.7	40bps
Other expenses	21.8	22.6	(74)bps	21.8	2bps
Effective tax rate	26.6	24.6	199bps	48.2	(2,161)bps
Gross margin	46.4	47.1	(74)bps	46.4	(4)bps
OPM	13.5	14.2	(76)bps	13.9	(46)bps
NPM	7.3	7.5	(13)bps	5.1	226bps

Source: Company, Systematix Institutional Research

Exhibit 3: Segmental Financial Table

(Rs mn)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Revenue	26,152	22,627	16%	26,346	(1)%
Home textile	23,873	20,376	17%	24,217	(1)%
Flooring/Carpets	2,278	2,251	1%	2,129	7%
Less: Intersegment	787	786	0%	594	32%
Net Revenues	25,365	21,841	16%	25,752	(2)%
Sales mix:					
Home textiles	91%	90%	124bps	92%	(63)bps
Flooring/Carpets	9%	10%	(124)bps	8%	63bps
EBITDA (Incl OI)					
Home textile	3,484	3,123	12%	3,640	(4)%
Flooring/Carpets	210	183	15%	182	15%
EBITDA (%)					
Home textile	14.6%	15.3%	(73)bps	15.0%	(44)bps
Flooring/Carpets	9.2%	8.1%	110bps	8.6%	67bps

Source: Company, Systematix Institutional Research

Exhibit 4: Change in estimates

(Rs mn)	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net sales	1,08,594	1,23,860	1,10,133	1,26,185	1.4	1.9
EBITDA	15,431	19,153	15,662	19,534	1.5	2.0
EBITDA margin (%)	15.5	16.8	15.7	17.0	20bps	20bps
Adjusted PAT	8,073	10,836	8,417	11,315	4.3	4.4
EPS (Rs)	8.3	11.2	8.7	11.6	4.3	4.4
Target price		178		210		17.7

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net revenue	93,115	80,938	96,792	1,10,133	1,26,185
Revenue growth (%)	26.9	(13.1)	19.6	13.8	14.6
- Op. expenses	79,528	73,412	83,103	94,471	1,06,651
EBITDA (Excl. OI)	13,587	7,526	13,689	15,662	19,534
EBITDA margins (%)	14.6	9.3	14.1	14.2	15.5
- Interest expenses	1,313	1,299	1,534	1,526	1,325
- Depreciation	4,205	4,421	3,945	4,265	4,611
+ Other income	658	1,213	1,458	1,659	1,901
Profit/Loss from associate	1	1	1	-	-
- Tax	2,663	994	2,942	3,113	4,185
Effective tax rate (%)	31	33	30	27	27
Reported PAT	6,066	2,026	6,727	8,417	11,315
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	55	37	(84)	-	-
Adjusted PAT	6,011	1,989	6,811	8,417	11,315
EPS (Rs/share)	6.1	2.0	7.0	8.7	11.6

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	988	988	972	972	972
Reserves & Surplus	38,728	39,890	44,186	51,761	61,944
Networth	39,716	40,878	45,158	52,733	62,916
Minority interest	1,046	1,082	973	973	973
Total debt	37,373	28,942	31,465	28,629	23,534
Def. tax liab. (net)	1,730	2,012	3,705	3,705	3,705
Capital employed	79,865	72,914	81,301	86,039	91,128
Net fixed assets	41,713	39,638	38,618	43,207	42,596
Investments	6,939	6,347	9,088	9,088	9,088
Net working capital	28,558	25,115	31,046	32,042	36,538
Cash and bank balance	2,655	1,814	2,548	1,703	2,906
Capital deployed	79,865	72,914	81,301	86,039	91,128
Net debt	34,718	27,128	28,917	26,926	20,628
WC (days)	80	93	91	85	85
DE (x)	0.92	0.69	0.68	0.53	0.37

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PAT	6,011	1,989	6,811	8,417	11,315
+ Non cash items	4,561	4,704	5,637	4,265	4,611
Cash profit	10,572	6,692	12,448	12,682	15,925
- Incr/(Decr) in WC	4,291	(3,443)	5,931	996	4,496
Operating cash flow	6,280	10,135	6,517	11,686	11,429
- Capex	6,044	2,346	2,925	8,854	4,000
Free cash flow	236	7,789	3,592	2,832	7,429
- Dividend	148	99	-	842	1,131
+ Equity raised	(2,017)	-	(16)	0	-
+ Debt raised	6,936	(8,431)	2,523	(2,836)	(5,095)
- Investments	5,828	(593)	2,741	-	-
- Misc. items	515	692	2,624	-	-
Net cash flow	(1,336)	(841)	734	(846)	1,203
+ Opening cash	3,991	2,655	1,814	2,548	1,703
Closing cash	2,655	1,814	2,548	1,703	2,906

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	14.6	92.2	26.5	21.4	15.9
P/BV (x)	2.2	4.4	4.0	3.4	2.9
EV/EBITDA (x)	9.0	27.6	15.3	13.2	10.3
RoE (%)	15.8	4.9	15.8	17.2	19.6
RoCE (%)	13.5	5.7	14.5	15.6	19.0
Fixed asset turnover (x)	1.4	1.1	1.3	1.4	1.5
Capital employed turnover (x)	1.2	1.1	1.3	1.3	1.4
Dividend payout (%)	2	5	10	10	10
Dividend yield (%)	0.2	0.1	0.1	0.5	0.6
Debtor days	39	43	47	45	45
Creditor days	36	39	34	35	35
Inventory days	78	89	78	75	75
Revenue growth (%)	27	(13)	20	14	15
EBITDA growth (%)	0	(45)	82	14	25
PAT growth (%)	11	(67)	242	24	34

Source: Company, Systematix Institutional Research

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