

Exports Outpace The Industry Performance; Maintain Buy!
Est. Vs. Actual for Q1FY25: Revenue–**BEAT**; EBITDA –**MISS**; PAT– **MISS**
Change in Estimates
FY25E/FY26E: Revenue: -3%/-4%; EBITDA:-12%/-8%; PAT:-12%/-8%

Recommendation Rationale

- Growth in Exports Business:** Despite the Red Sea issue and uncertain global macroeconomic conditions, the company managed to continue deliveries to the US with minimal disruption. The management noted that a 20% YoY growth in exports exceeded the general industry export trend, contributing positively to margins. The management expects continued demand from the export business as the United States gears up for the holiday season in Q3 and has maintained its revenue growth guidance of 10-12%. On the domestic front, Welspun remains focused on strengthening its brand presence. The company has been consistently expanding its market share in emerging and branded business segments, which is expected to contribute to future margin improvements.
- Capacity Expansion On Track:** The capacity expansion of the brownfield Jacquard towel production at Anjar and the fully automated pillow manufacturing unit in Ohio, USA is on track, with these capacities expected to commence operations in Q3 of FY25. The expansion and debottlenecking of the Jacquard facility will enable the company to effectively meet demand as it arises. This expansion will involve a capital expenditure of Rs 860 Cr for FY25, including Rs 75 Cr for a transmission line for renewable energy and the remainder for maintenance. For FY26, while capex plans are not yet formalized, the company anticipates a ballpark capex spend of Rs 300-400 Cr.
- Flooring Business Gaining Traction:** Flooring business reported revenue of Rs 228 Cr during the quarter, showing flat growth YoY due to the Red Sea issue; however, capacity utilization increased to 64%. Some of the orders that were delayed due to logistical challenges may contribute to revenue in Q2. WLL is seeing strong traction from the Middle East market for both wall-to-wall and carpet tile. Likewise, it is gaining significant traction from large retailers and big-ticket distributors in the US and UK for hard flooring. The management anticipates 20-25% CAGR over the next 3-4 years in flooring, with a margin of 15-16% and capacity utilization exceeding 80% by FY27.

Sector Outlook: Optimistic

Company Outlook & Guidance: WLL maintained its revenue growth guidance of 10-12% for FY25 and EBITDA (including other income) margin in the range of 15-15.5%. It sees robust demand visibility in the US market especially during the holiday season. Despite the buyback-related outflows, WLL aims to achieve zero netdebt by FY27.

Current Valuation: 15x FY26E(15x Sep'FY26E)

CurrentTP: 224/share(210/share)

Recommendation: We maintain our BUY rating on this stock with an upside potential of 25% from the CMP as we roll forward our estimates to FY26E.

Financial Performance: The company reported revenue of Rs 2,536 Cr, up 16% YoY, beating our estimate by 3% of Rs 2,465. This was on account of growth in emerging business as well as domestic retail and flooring business. With higher capacity utilisation, the flooring business reported a healthy improvement in margins. However, the margins in the home textiles business were subdued. Export Business displayed a strong performance with 20% YoY growth. The EBITDA stood at Rs 342 Cr, Up 10% YoY but missed our estimate of Rs 375 Cr. This, in turn, led the company to report an overall PAT of Rs 186 Cr, up 14% YoY (missing our estimate of 209 Cr by 11%). The company reported EPS of Rs 1.91/share.

Outlook: The company has been steadily increasing its presence in emerging and branded businesses, a trend that is expected to contribute positively to topline as well as margins in the coming years. On the domestic front, Welspun continues to focus on steadily increasing its presence and continues its brand building. We believe Welspun's structural development across high-margin verticals and retail domestic focus will help not only in diversifying the business but also in expanding margins in the long term. We thus maintain our outlook on Welspun Living as its strong brand, large capacities, and industry-leading position will help in rapid demand recovery. Moreover, potential UK and Euro FTA Agreements (combined have the same size as the US market) can open another untapped market for WLL.

Valuation & Recommendation: We marginally revise our estimates on several fronts, given our outlook on the sector and the management's guidance on the company as well as the way forward. Consequently, we maintain our BUY rating on the stock and value the company at 15x FY26E. Our TP is revised upwards to Rs 224/share, implying an upside of 25% from the CMP.

Key Financials (Consolidated)

| (Rs Cr) | Q1FY25 | YoY (%) | QoQ (%) | Axis Est. | Variance |
|---------------|--------|---------|---------|-----------|----------|
| Net Sales | 2,536 | 16% | -2% | 2,465 | 3% |
| EBITDA | 342 | 10% | -5% | 375 | -9% |
| EBITDA Margin | 13% | -76 bps | -46 bps | 15% | -174 bps |
| Net Profit | 186 | 14% | 42% | 209 | -11% |
| EPS (Rs) | 1.91 | 16% | 42% | 2.1 | -11% |

Source: Company, Axis Securities Research

| (CMP as of 25 th July 2024) | |
|--|-----------|
| CMP (Rs) | 179 |
| Upside /Downside (%) | 25% |
| High/Low (Rs) | 184/99 |
| Market cap (Cr) | 17,381 |
| Avg. daily vol. (1m)Shrs. | 70,87,309 |
| No. of shares (Cr) | 97.18 Cr |

Shareholding (%)

| | Dec-23 | Mar-24 | June-24 |
|----------|--------|--------|---------|
| Promoter | 70.5 | 70.5 | 70.5 |
| FIIIs | 7.25 | 7.14 | 5.88 |
| DIIIs | 5.35 | 5.44 | 5.49 |
| Others | 16.91 | 16.93 | 18.1 |

Financial & Valuations

| Y/E Mar (Rs Cr) | FY24 | FY25E | FY26E |
|-----------------|-------|--------|--------|
| Net Sales | 9,679 | 11,019 | 12,983 |
| EBITDA | 1,369 | 1,656 | 2,240 |
| Net Profit | 673 | 1,016 | 1,450 |
| EPS (Rs) | 7.1 | 10.5 | 14.9 |
| PER (x) | 12.3 | 8.3 | 5.8 |
| P/BV (x) | 1.8 | 1.6 | 1.3 |
| EV/EBITDA (x) | 14.5 | 12.0 | 8.8 |
| ROE (%) | 15.3% | 20.6% | 24.9% |

Change in Estimates (%)

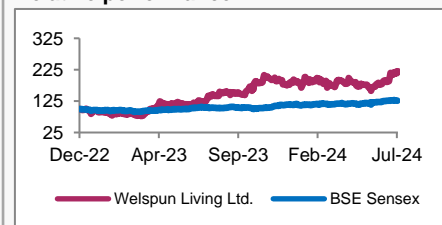
| Y/E Mar | FY25E | FY26E |
|---------|-------|-------|
| Sales | -3% | -4% |
| EBITDA | -12% | -8% |
| PAT | -12% | -8% |

ESG disclosure Score**

| | |
|-----------------------------|------|
| Environmental Disclosure | N.A. |
| Social Disclosure Score | N.A. |
| Governance Disclosure Score | N.A. |
| Total ESG Disclosure Score | N.A. |
| Average Score | N.A. |

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: ACE Equity, Axis Securities Research

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Key Highlights from Concall

- **Performance Overview:**In Q1FY25, the company reported revenue growth of 16% YoY, despite the challenges in the global economy regarding shipliners and container availability caused by Red Sea issues. The topline growth mainly comes from volumes. With its major distribution presence in the US, the company has been able to ensure minimal disruption in revenues; however, delays in FOB shipments due to non-availability of container ships have affected revenues of different businesses to some extent.
- **Intact Guidance:** Management maintained its guidance of 10-12% growth in revenue for FY25, with EBITDA margins targeted at 15-15.5%. In the next couple of years, the company expects a 16-18% margin while gaining momentum in emerging businesses of flooring, and advanced textile domestic business.
- **Outlets Count:**The domestic consumer business further strengthened its market leadership, with the Brand “Welspun” being the most widely distributed Home Textile brand in India, increasing its reach with the presence in 500+ towns and more than 21,154+outlets (up by 972 in Q1) pan India.
- **Buyback:** The board has approved the Buyback proposal for the purchase of 1.26 Cr shares for Rs 220 per share for an aggregate amount not exceeding Rs 278.44 Cr. The promoter entity would be tendering 100% of their eligibility in the buyback and funding the distribution through internal accruals.
- **Major Business Updates:**In Q1FY25, the Home Textile Export Business grew by 19% YoY, whereas Emerging businesses Sales of Domestic Consumer business, Branded, Advanced Textiles & Flooring businesses grew 7% YoY, contributing close to 30% of the total revenue. Innovation sales grew by 13% to Rs 640 Cr, contributing 28% of total sales of the company.
- **Capex and Net Debt:** In Q1 FY25, the Company spent Rs 207 Cr, primarily on Towel projects in Anjar and pillow projects in the US (Rs 860 Crs for FY25). Net Debt stood at Rs 1,562 Cr as of June 24, increased from Rs 1,354 Cr as of Mar’24 (Increased by Rs 208 Cr), majorly led by capex spending and increased investment in working capital. The management expects net debt to remain stable at a similar level.
- **Power Cost to decline:** By FY27, Management expects Power cost to decrease to half of the current level as the company builds up its renewable energy capacity, anticipating a margin improvement of 200 bps plus in the next two years.

Key Risks to Our Estimates and TP

- Delays in capacity expansion and utilization.
- Global recessionary and high inflation environment and the resultant slowdown in the US economy and other export markets
- Currency and key commodity fluctuations.

Change in Estimates

| | New | | Old | | % Change | |
|---------|--------|--------|--------|--------|----------|-------|
| | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Revenue | 11,019 | 12,983 | 11,339 | 13,548 | -2.8% | -4.2% |
| EBITDA | 1,656 | 2,240 | 1,875 | 2,428 | -11.7% | -7.7% |
| PAT | 1,016 | 1,450 | 1,160 | 1,570 | -12.4% | -7.6% |
| EPS | 10.5 | 14.9 | 12 | 16 | -12.4% | -7.6% |

Source: Company, Axis Securities Research

Results Review

| Particulars (Rs Cr) | Q1FY24 | Q4FY24 | Axis Est. | Q1FY25 | YoY Growth (%) | QoQ Growth (%) | Axis Variance |
|-----------------------------------|--------|--------|-----------|--------|----------------|----------------|---------------|
| Revenue | 2,184 | 2,575 | 2,465 | 2,536 | 16.1% | -1.5% | 2.9% |
| Less: | | | | | | | |
| Net Raw Material consumed | 1,155 | 1,379 | 1,307 | 1,360 | 17.8% | -1.4% | 4.1% |
| Employee | 226 | 276 | 259 | 282 | 24.7% | 2.2% | 8.9% |
| Other Expenses | 493 | 561 | 525 | 553 | 12.3% | -1.4% | 5.4% |
| Total Expenditure | 1,873 | 2,217 | 2,091 | 2,195 | 17.2% | -1.0% | 5.0% |
| EBIDTA | 311 | 359 | 375 | 342 | 9.9% | -4.8% | -8.9% |
| EBITDA % | 14.22% | 13.93% | 15.20% | 13.46% | -76 bps | -46 bps | -174 bps |
| Less: Depreciation | 99 | 96 | 106 | 97 | -2.7% | 0.6% | -8.9% |
| EBIT | 242 | 304 | 308 | 297 | 22.6% | -2.4% | -3.7% |
| Less: Net Interest | 25.83 | 51.81 | 29.3 | 43.4 | 67.9% | -16.3% | 47.9% |
| Add: Other income | 31 | 41 | 39.7 | 52.0 | 68.6% | 25.3% | 30.9% |
| Less: Extraordinary Expense (net) | | | | | | | |
| Profit Before Tax | 216 | 252 | 279 | 253 | 17.3% | 0.5% | -9.1% |
| Less: Total Tax | 53 | 122 | 70 | 67 | 26.6% | -44.5% | -4.0% |
| Profit After Tax | 163 | 131 | 209 | 186 | 14.3% | 42.4% | -10.9% |
| Shares Outstanding (Mn) | | | | | | | |
| Reported EPS (Rs) | 1.65 | 1.34 | 2.15 | 1.91 | 16.1% | 42.4% | -10.9% |

Source: Company, Axis Securities Research

Financials (Consolidated)
Profit & Loss

(Rs Cr)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|------------------------------------|-------------|-------------|--------------|--------------|
| Net Sales | 8,094 | 9,679 | 11,019 | 12,983 |
| COGS | 4,514 | 5,110 | 5,859 | 6,782 |
| Employee Cost | 794 | 1,027 | 1,156 | 1,298 |
| Operating & Manufacturing Expenses | 2,033 | 2,173 | 2,349 | 2,661 |
| Total Expenditure | 7,341 | 8,310 | 9,363 | 10,742 |
| EBIDTA (Excl OI) | 753 | 1,369 | 1,656 | 2,240 |
| Other Income | 121 | 146 | 264 | 273 |
| EBITDA (incl Other Income) | 874 | 1,515 | 1,920 | 2,513 |
| Depreciation | 442 | 394 | 412 | 435 |
| EBIT | 432 | 1,120 | 1,509 | 2,079 |
| Interest | 130 | 153 | 150 | 140 |
| Exceptional Items | - | - | - | - |
| PBT | 302 | 967 | 1,358 | 1,938 |
| Tax | 99 | 294 | 342 | 488 |
| Profit After Tax | 203 | 673 | 1,016 | 1,450 |
| Minority Interest | -4 | 8 | - | - |
| Consolidated Net Profit | 199 | 681 | 1,016 | 1,450 |
| Diluted EPS (Consol Net Profit) | 2.0 | 7.1 | 10.5 | 14.9 |
| Number of Shares | 98.8 | 97.2 | 97.2 | 97.2 |

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|--|--------------|--------------|---------------|---------------|
| Assets | | | | |
| Non-current Assets | | | | |
| Property, Plant and Equipment | 3,611 | 3,512 | 3,950 | 3,916 |
| Capital work-in-progress | 46 | 47 | - | - |
| Goodwill on Consolidation | 186 | 188 | 188 | 188 |
| Other non-current assets | 29 | 44 | 44 | 44 |
| Total non-current assets | 4,232 | 4,233 | 4,625 | 4,590 |
| Current Assets | | | | |
| Inventories | 1,970 | 2,072 | 2,087 | 2,416 |
| Financial assets | | | | |
| - Investments | 635 | 909 | 909 | 909 |
| - Trade receivables | 960 | 1,255 | 1,208 | 1,423 |
| - Cash & cash equivalents | 146 | 201 | 555 | 1,358 |
| - Other financial assets | 319 | 430 | 430 | 430 |
| Other current assets | 345 | 391 | 391 | 391 |
| Total current assets | 4,418 | 5,317 | 5,637 | 6,984 |
| Total Assets | 8,650 | 9,550 | 10,262 | 11,574 |
| Equity and Liabilities | | | | |
| Equity | | | | |
| Equity Share capital | 99 | 97 | 97 | 97 |
| Other Equity | | | | |
| - reserves and surplus | 3,975 | 4,395 | 5,060 | 6,211 |
| Total Equity | 4,196 | 4,613 | 5,255 | 6,405 |
| Liabilities | | | | |
| Non-current liabilities | | | | |
| Financials liabilities | | | | |
| - Borrowings | 972 | 833 | 833 | 833 |
| Non-current tax liabilities | 221 | 224 | 224 | 224 |
| Deferred tax liabilities (net) | 324 | 435 | 435 | 435 |
| Other non-current liabilities | 180 | 255 | 179 | 179 |
| Total Non-Current Liabilities | 1,787 | 1,841 | 1,764 | 1,764 |
| Current liabilities | | | | |
| Financials liabilities | | | | |
| - Borrowings | 1,378 | 1,688 | 1,716 | 1,716 |
| (b) Total outstanding dues of creditors other than micro-enterprises and small enterprises | 805 | 890 | 1,027 | 1,189 |
| - Other financial liabilities | 53 | 54 | 54 | 54 |
| Other Current Liabilities | 139 | 122 | 122 | 122 |
| Total current liabilities | 2,667 | 3,096 | 3,243 | 3,405 |
| Total liabilities | 4,454 | 4,937 | 5,007 | 5,169 |
| Total Equity and Liabilities | 8,650 | 9,550 | 10,262 | 11,574 |

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|--|--------|------|-------|-------|
| Profit Before Tax | 302 | 967 | 1,358 | 1,938 |
| Adjustments | | | | |
| Depreciation | 442 | 394 | 412 | 435 |
| Interest Expenses | 130 | 153 | 150 | 140 |
| Total Adjustments | 203 | 178 | 562 | 575 |
| Trade & Other receivables | 40 | -294 | 47 | -215 |
| Inventories | 8 | -102 | -15 | -329 |
| Trade & Other payables | -63 | 39 | 118 | 162 |
| Net Change in Working Capital | 341 | -501 | 151 | -382 |
| Cash Flow after Changes in Working Capital | 845 | 644 | 2,071 | 2,131 |
| Tax Paid | -89 | -111 | -342 | -488 |
| Cash From Operating Activities | 756 | 533 | 1,729 | 1,643 |
| Investing Activities | | | | |
| Purchase of Fixed Assets | -275 | -275 | -850 | -400 |
| Cash Flow from Investing Activities | 243 | -209 | -850 | -400 |
| Financing Activities | | | | |
| Repayment of Long-Term Borrowings | -198 | -162 | - | - |
| Short Term Loans | -741 | 332 | - | - |
| Interest Paid | -167 | -153 | -150 | -140 |
| Cash from Financing Activities | -1,086 | -269 | -525 | -440 |
| Net Cash Inflow / Outflow | -87 | 55 | 354 | 803 |
| Opening Cash & Cash Equivalents | 232 | 146 | 201 | 555 |
| Closing Cash & Cash Equivalent | 146 | 201 | 555 | 1,358 |

Source: Company, Axis Securities Research

Ratio Analysis

(%)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|---|--------|--------|--------|--------|
| Efficiency Ratios | | | | |
| Asset Turnover (x) | 0.94x | 1.01x | 1.07x | 1.12x |
| Inventory Turnover(x) | 4.11x | 4.67x | 5.28x | 5.37x |
| Sales/Working Capital (x) | 3.93x | 4.00x | 4.86x | 4.90x |
| Receivable days | 44 | 42 | 40 | 40 |
| Inventory Days | 160 | 144 | 130 | 130 |
| Payable days | 73 | 64 | 64 | 64 |
| Growth Ratio | | | | |
| Net Sales Growth(%) | -13.1% | 19.6% | 13.8% | 17.8% |
| Core EBITDA Growth(%) | -44.6% | 81.9% | 21.0% | 35.3% |
| EBIT Growth(%) | -57.0% | 159.5% | 34.6% | 37.8% |
| PAT Growth(%) | -66.6% | 232.2% | 51.1% | 42.7% |
| Adj. EPS Growth(%) | -67.1% | 249.5% | 48.1% | 42.7% |
| Financial Stability Ratios | | | | |
| Total Debt/Equity(x) | 0.59 | 0.57 | 0.51 | 0.42 |
| Total Asset/Equity(x) | 2.06 | 2.07 | 1.95 | 1.81 |
| Interest Cover(x) | 5.79 | 8.92 | 11.01 | 15.98 |
| Current Ratio(x) | 1.66 | 1.72 | 1.74 | 2.05 |
| Quick Ratio(x) | 0.92 | 1.05 | 1.09 | 1.34 |
| Operational & Financial Ratios | | | | |
| Earnings Per Share (Rs) | 2.02 | 7.06 | 10.46 | 14.92 |
| DPS(Rs) | 0.00 | 0 | 0.11 | 3.09 |
| Book Value (Rs) | 42.47 | 47.47 | 54.07 | 65.91 |
| Tax Rate(%) | 32.92% | 30.43% | 25.18% | 25.18% |
| Dividend Pay Out Ratio(%) | 0.00% | 0.00% | 1.05% | 20.69% |
| Margin Ratios | | | | |
| PBIDTM (%) (Core) | 9.30% | 14.14% | 15.03% | 17.26% |
| EBITM (%) | 5.33% | 11.57% | 13.69% | 16.01% |
| Pre Tax Margin(%) | 3.73% | 9.99% | 12.33% | 14.93% |
| PATM (%) | 2.50% | 6.95% | 9.22% | 11.17% |
| Performance Ratios | | | | |
| ROA (%) | 2.30% | 7.13% | 9.90% | 12.53% |
| ROE (%) | 4.90% | 15.27% | 20.60% | 24.88% |
| ROCE (%) | 6.86% | 16.85% | 21.89% | 28.71% |
| Valuation Ratios | | | | |
| Adjusted PE (x) | 43.1 | 12.3 | 8.3 | 5.8 |
| Price / Book Value(x) | 2.0 | 1.8 | 1.6 | 1.3 |
| EV/Net Sales(x) | 2.4 | 2.0 | 1.8 | 1.5 |
| EV/EBITDA(x) | 26.3 | 14.5 | 12.0 | 8.8 |
| EV/EBIT(x) | 45.9 | 17.7 | 13.1 | 9.5 |

Source: Company, Axis Securities Research

WelspunLiving Ltd Price Chart and Recommendation History



| Date | Reco | TP | Research |
|-----------|------|-----|---------------|
| 31-Jan-23 | HOLD | 70 | Result Update |
| 28-Apr-23 | BUY | 101 | Result Update |
| 01-Aug-23 | BUY | 125 | Result Update |
| 26-Oct-23 | BUY | 160 | Result Update |
| 02-Feb-24 | BUY | 210 | Result Update |
| 26-Apr-24 | BUY | 210 | Result Update |
| 26-Jul-24 | BUY | 224 | Result Update |
| | | | |

Source: Axis Securities Research

Disclosures:

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In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

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| Ratings | Expected absolute returns over 12 – 18 months |
|--------------|--|
| BUY | More than 10% |
| HOLD | Between 10% and -10% |
| SELL | Less than -10% |
| NOT RATED | We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation. |
| UNDER REVIEW | We will revisit our recommendation, valuation and estimates on the stock following recent events |
| NO STANCE | We do not have any forward-looking estimates, valuation or recommendation for the stock |

Note: Returns stated in the rating scale are our internal benchmark.

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