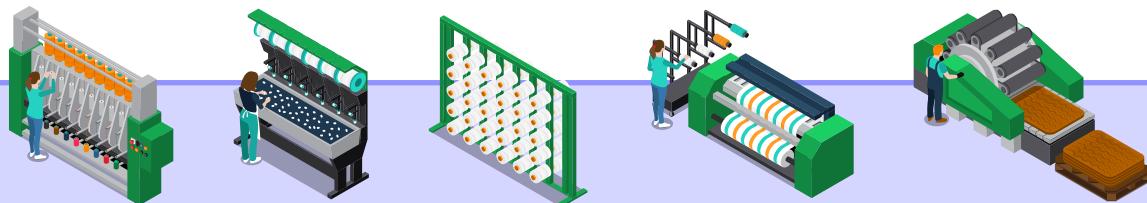


INITIATING COVERAGE

INDIAN HOME TEXTILE SECTOR

TAKING 'HOME' TO THE WORLD



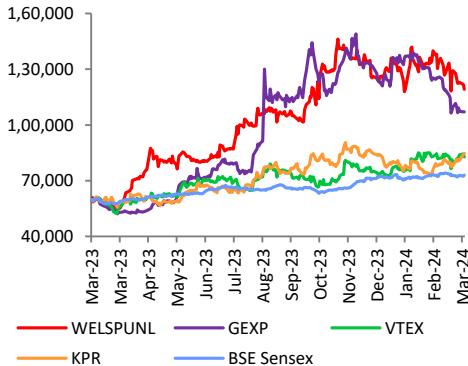
Indian Home Textile Sector

28 March 2024

SECTOR REPORT

Industry Textiles

Coverage companies v/s BSE Sensex



Source: Bloomberg, Systematix Institutional Research

Sector recommendations

	CMP (Rs)	TP (Rs)	Upside (%)	Reco
WELSPUNL	138	187	36%	BUY
GEXP	702	1,119	59%	BUY
VTEX	445	469	5%	BUY
KPR	830	923	11%	BUY

Source: Systematix Institutional Research

Taking 'Home' to the world

India's home textiles industry plays a key role in global markets, supported by a strong raw material base, wide product offerings and robust manufacturing capabilities across the value chain. Domestic home textile companies are shedding the burden of legacy high-volume product categories such as plain cotton bedsheets/terry towels and realigning their business models to tune into new high-growth profitable and scalable trends. Ministry of Textiles estimates India's home textiles market at USD 10bn for FY24, poised to post ~7% CAGR over FY24-FY31 at USD 16bn. Factors driving this growth are (i) competitive manufacturing costs and organized retail landscape and e-commerce, (ii) presence of entire value chains and a large and growing domestic market, (iii) increasing focus on technical textiles due to growth of end-user industries, (iv) rising per capita income and an expanding real estate industry. We expect the sector profitability to improve, spurred by improving demand and moderating working capital. This will likely aid cash flows and make RoE/RoCE attractive. We initiate coverage on the sector with a positive view, and Welspun Living is our top pick.

Global home textiles to see 6% CAGR till CY28; India may grow at a similar pace

Business wire (global leader in press release distribution and regulatory disclosure) pegs the global home textiles market at USD 126bn for CY22, estimating healthy 6% CAGR till CY28. Growth would be propelled by a) increased spend on hygiene, b) rising demand for sustainable products, c) higher per capita income, and d) a mushrooming real estate industry, etc. Consequently, global home textiles trade too should touch USD 85bn by CY30 at 5% CAGR over CY23-CY30 (India and China could cumulatively command ~50% share of the global export pie). Ministry of Textiles estimates India's home textiles market at USD 10bn for FY24, slated to expand at ~7% CAGR over FY24-FY31 to USD 16bn. Indian home textiles exports are forecasted to grow faster at 8% CAGR to USD 12bn over the same period.

Technical textiles poised for growth: Ministry of Textiles estimates India's technical textiles sector to achieve a remarkable ~11% CAGR over FY24-FY31 to USD 54bn from ~USD 26bn estimated in FY24. There exists huge untapped opportunity for India in this space, as it captures only ~8-10% of the global technical textiles market standing at ~USD 260bn. India has been a net exporter of technical textile products and has seen strong growth here. Invest India projects India's technical textile exports to have surged from USD 2.2bn in FY21 to USD 2.85bn in FY22, at 28.4% YoY. Government policy push may further boost growth here.

India's export penetration in US home textiles rising: US, the 2nd-largest importer of home textiles globally, enjoys 31% share of the total global trade. China+1 and ban on Xinjiang cotton have been advantages for India, propelling India's share in the US imports of cotton sheets from 50% in CY19 to 59% in CY23, cotton terry and other towels from 39% to 44%, and cotton pillowcases from 53% to 58%, respectively. China has been losing its market share in US imports of cotton sheets/terry towels from 19%/24% in CY19 to 11%/19% in CY23, respectively. However, in CY23, China dominated US imports of top-of-the-bed value-added product (VAP) category (cotton bedspreads, comforters and quilts) at 40% share versus India at 21%, presenting India with huge growth opportunity to tap into in the VAP category.

BUY WELSPUNL: WELSPUNL is powering forward at a sustainable 16% CAGR, grabbing opportunities in its emerging business (includes domestic branded business, advanced textiles, e-commerce and flooring) while legacy business continues to benefit from revival in demand. We initiate coverage with a BUY rating with a target price of Rs 187, based on 16x FY26E P/E.

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

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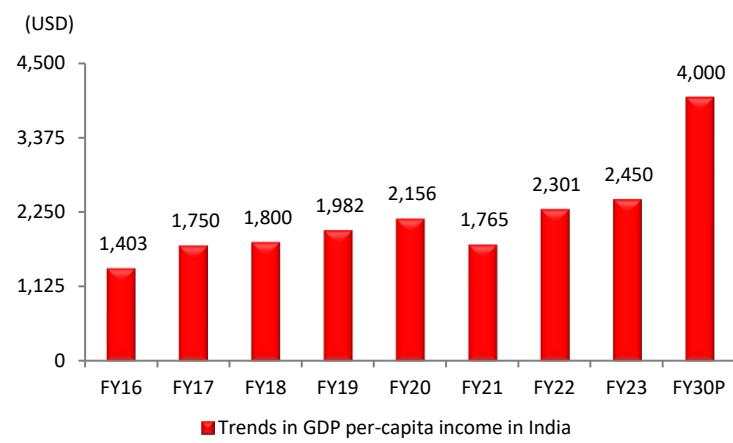
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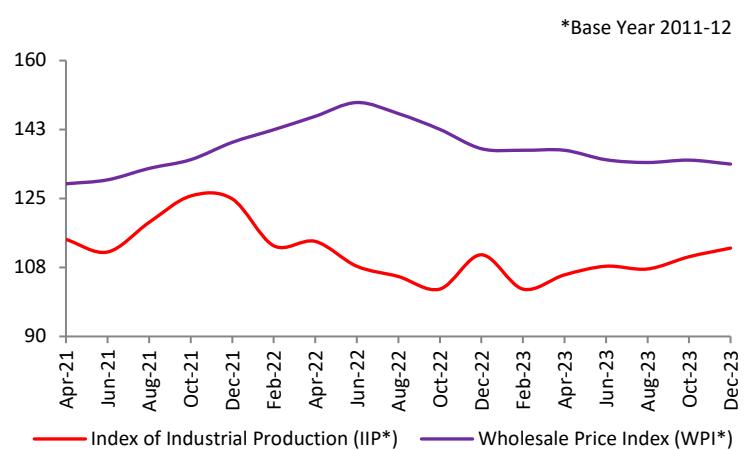
Story in Charts

Exhibit 1: India's rising trend in GDP per-capita income



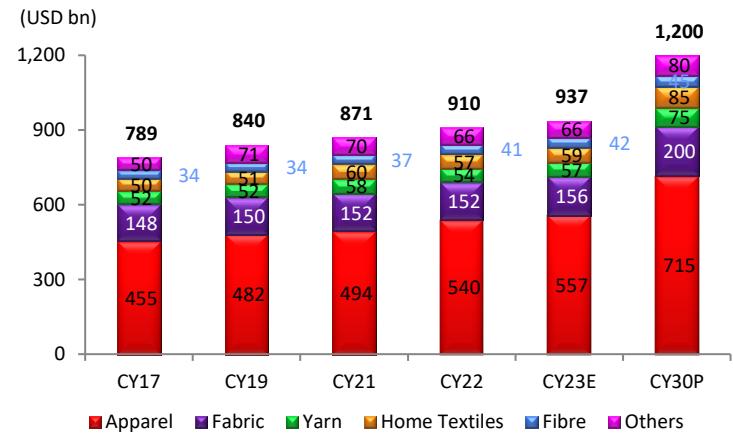
Source: IBEF, Systematix Institutional Research

Exhibit 2: Textiles IIP recovered in 9MFY24, textiles WPI declined 7% in 9MFY24



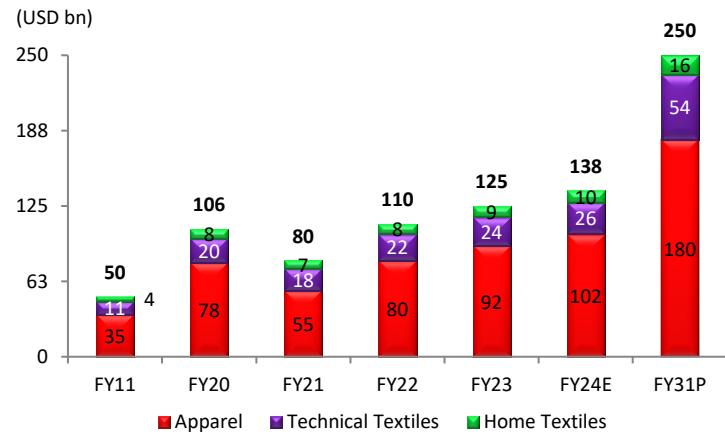
Source: RBI, Economic Advisor Govt. of India, Systematix Institutional Research

Exhibit 3: Global Textile & Apparel (T&A) trade to grow at 4% CAGR over (CY23-CY30P) to USD 1.2tn



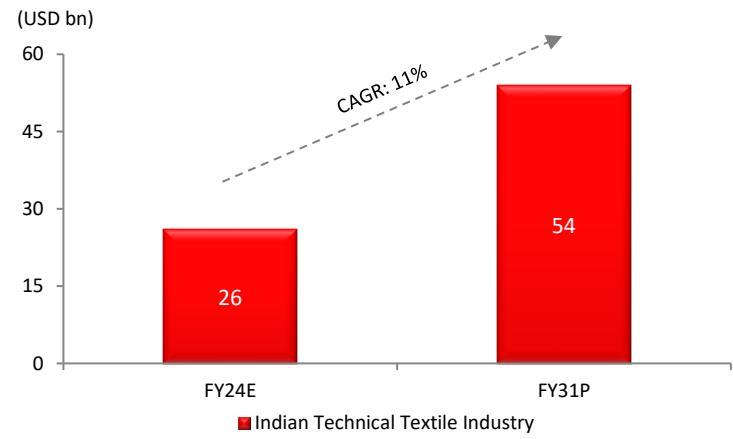
Source: UN Comtrade, Wazir Advisors, Systematix Institutional Research

Exhibit 4: India's Domestic T&A market to reach USD 250bn by FY31 with 9% CAGR over (FY24-FY31)



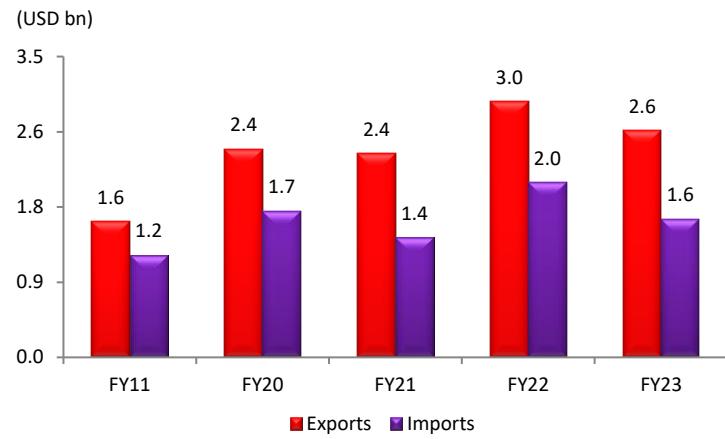
Source: DGCI&S, Ministry of Textiles, Wazir Advisors Systematix Institutional Research

Exhibit 5: India's Technical Textile Industry to reach USD 54bn by FY31P



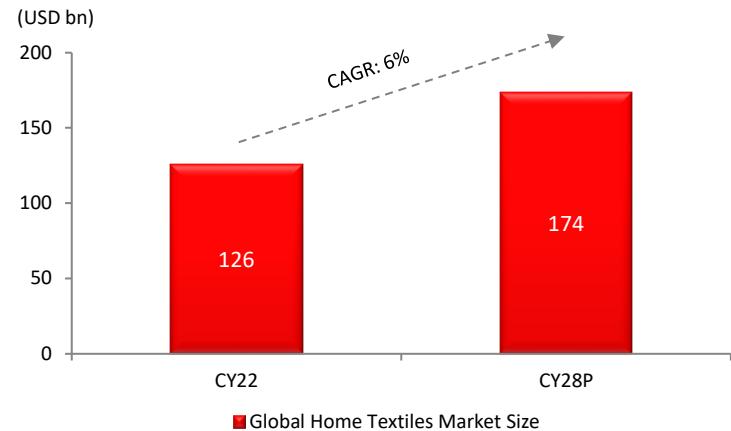
Source: DGCI&S, Ministry of Textiles, Wazir Advisors, Systematix Institutional Research

Exhibit 6: India's Technical Textile exports/imports grew at 4%/3% CAGR respectively over (FY11-FY23)



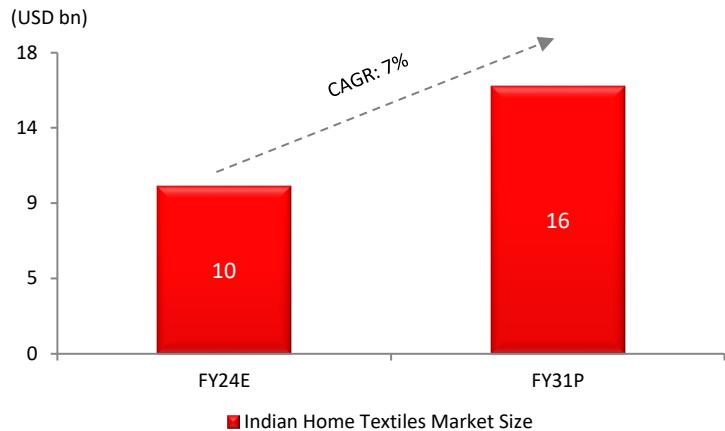
Source: DGCI&S, Wazir Advisors, Systematix Institutional Research

Exhibit 7: Global Home textiles market size to grow at CAGR of 6% over (CY22-CY28P)



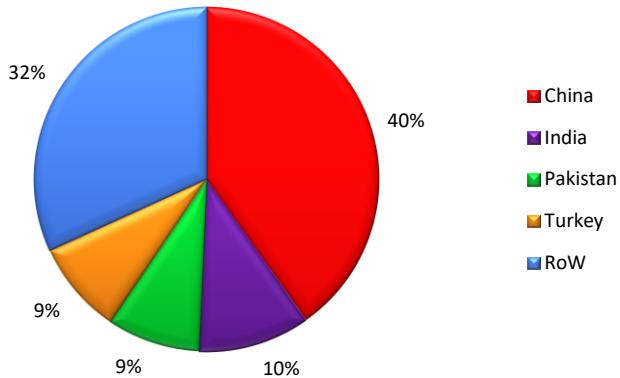
Source: Business Wire, Systematix Institutional Research

Exhibit 8: India's Home Textile market expected to clock 10% CAGR over (CY24-CY29P)



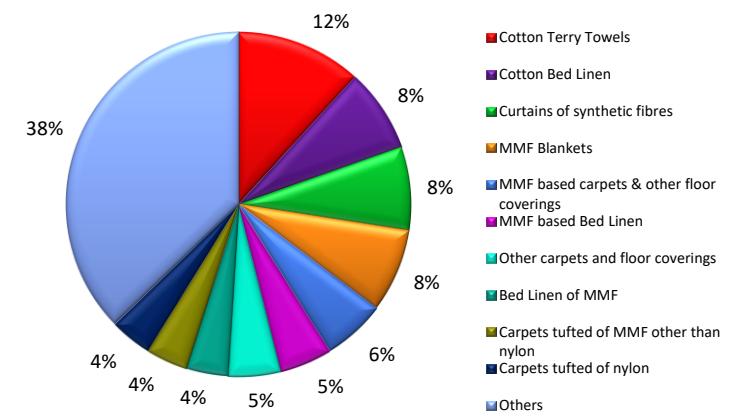
Source: DGCI&S, Ministry of Textiles, Wazir Advisors, Systematix Institutional Research

Exhibit 9: India & China together command ~50% of Global Home Textile exports



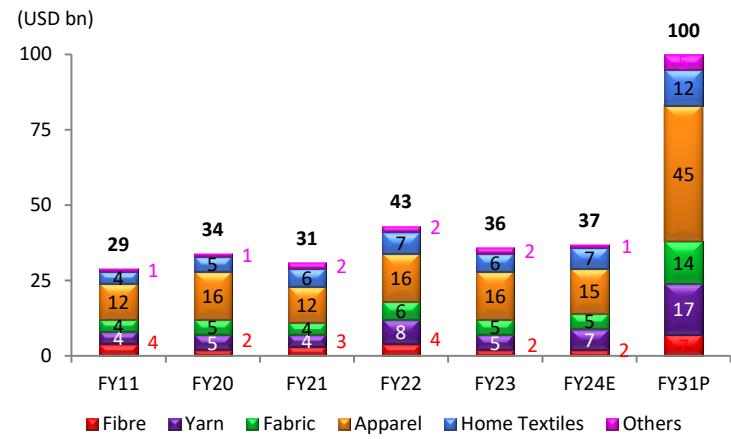
Source: Wazir Advisors, Systematix Institutional Research

Exhibit 10: Top exported Global Home Textiles commodities



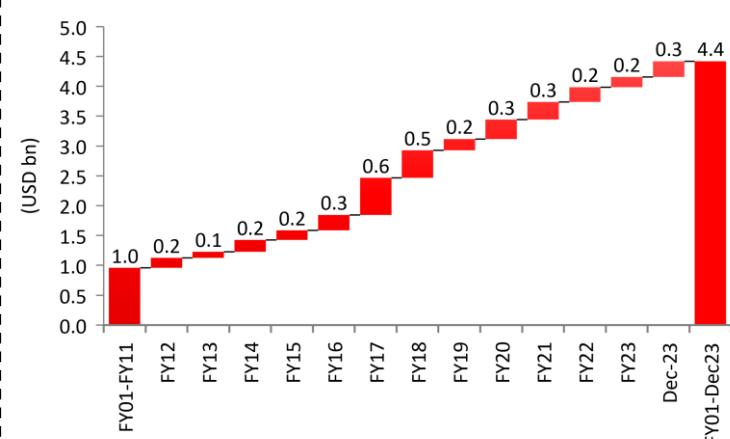
Source: Wazir Advisors, Systematix Institutional Research

Exhibit 11: India eyes USD 100bn T&A exports by FY31 at 15% CAGR over (FY24-FY31)



Source: Ministry of Textiles, Wazir Advisors, Systematix Institutional Research

Exhibit 12: Rising Foreign Direct Investment (FDI) in India's textile sector



Source: Source: DPIIT, Government of India, Systematix Institutional Research

Exhibit 13: Valuation Table

Company name	Rating	Mkt Cap (Rs bn)	CMP (Rs)	TP (Rs)	Upside (%)	PE (x)				EV/EBITDA (x)				RoE (%)			
						FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Home Textile																	
Welspun Living	BUY	134	138	187	36%	68.4	17.7	15.2	11.8	21.4	11.4	9.4	7.4	4.9	17.1	17.0	18.7
Indo Count Ind.	Not Rated	70	354	NA	NA	8.0	20.4	15.0	11.5	6.6	13.4	10.2	8.0	16.4	17.7	20.5	22.1
Trident Limited	Not Rated	185	37	NA	NA	31.8	45.7	36.5	26.1	-	-	-	-	10.9	9.6	10.4	13.1
Himatsingka Seide	Not Rated	12	122	NA	NA	7.2	10.1	7.5	-	-	-	-	-	(4.4)	7.9	9.7	-
Garmenting																	
Gokaldas Exports	BUY	44	702	1119	59%	26.4	30.7	19.9	15.7	16.9	18.1	11.9	9.7	18.2	13.8	18.0	18.6
KPR Mill	BUY	284	830	923	11%	34.9	34.4	29.7	22.5	23.2	23.1	20.3	15.8	23.6	20.4	20.1	22.4
Spinners																	
Vardhman Textiles	BUY	129	445	469	5%	15.9	20.9	11.7	9.5	10.7	14.5	8.6	6.8	9.8	6.9	11.5	13.0
Nitin Spinners	Not Rated	18	325	NA	NA	7.7	13.5	8.9	6.6	7.6	8.0	6.0	4.7	17.3	12.5	16.8	19.2

Source: Company, Bloomberg Estimates, Systematix Institutional Research

Steady surge in global home textiles

Global home textiles market to register healthy 6% CAGR over CY22-CY28

The global home textiles market has witnessed significant growth in recent times. Factors such as a) rise in per capita income, b) rapid urbanization, c) changing consumer preferences towards superior better quality products, d) sustainable home textile products, e) increased spending on hygiene, f) a mushrooming real estate industry, and g) the consequent rise in demand for home renovation and improvement projects, have driven this growth. These developments have created opportunities for businesses operating in this market to cater to the evolving needs of consumers and capitalize on the growth potential.

Business Wire, estimates the global home textiles market at USD 126bn for CY22, and projects it to expand at a healthy 6% CAGR to USD 174bn by CY28. Apart from the macroeconomic factors mentioned above, it is believed that various technological advancements are transforming conventional textiles into high-performance textiles that entail enhanced product durability and add functionalities that are slated to drive the demand for home textiles in the years to come. However, the industry faces significant challenges from fluctuating raw material prices, supply chain and logistics, and threat of counterfeit products.

Exhibit 14: Global Home Textiles to clock 6% CAGR growth

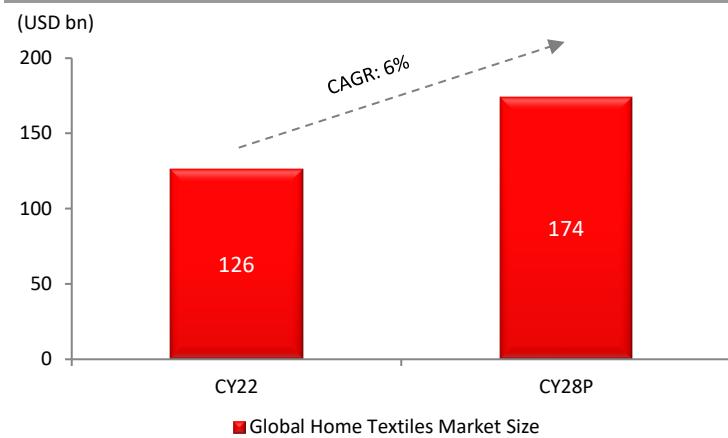
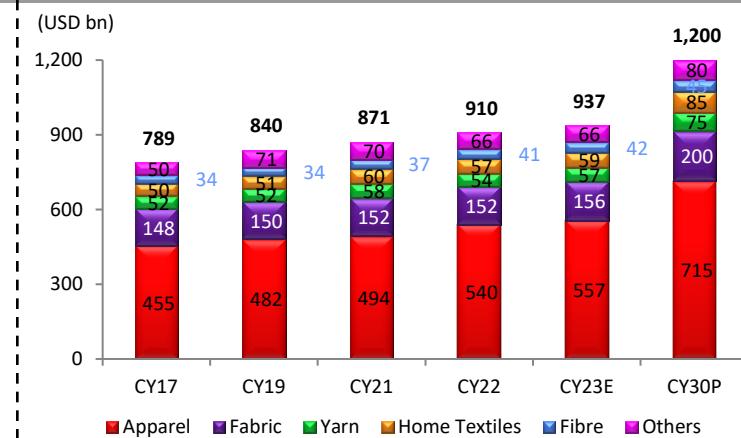
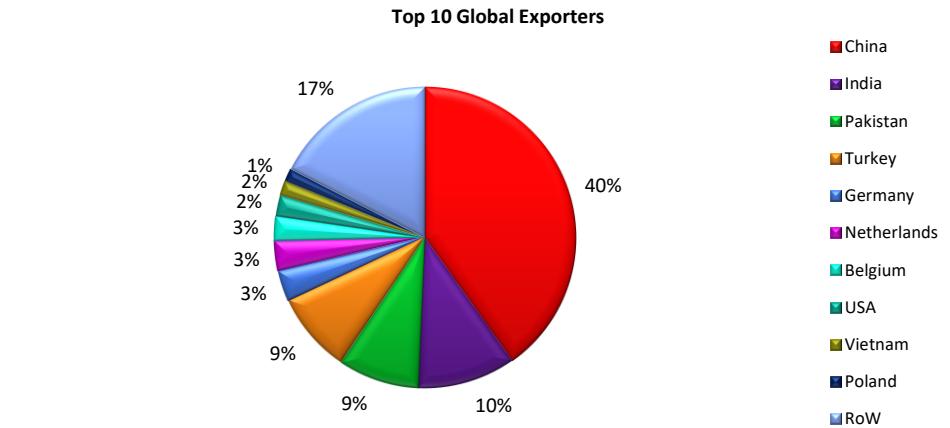


Exhibit 15: Global T&A trade to reach USD 1.2Tn by 2030



Source: Business Wire, Ministry of Textiles, Wazir Advisors, Systematix Institutional Research

Exhibit 16: India is second largest exporter of home textiles after China (2022)

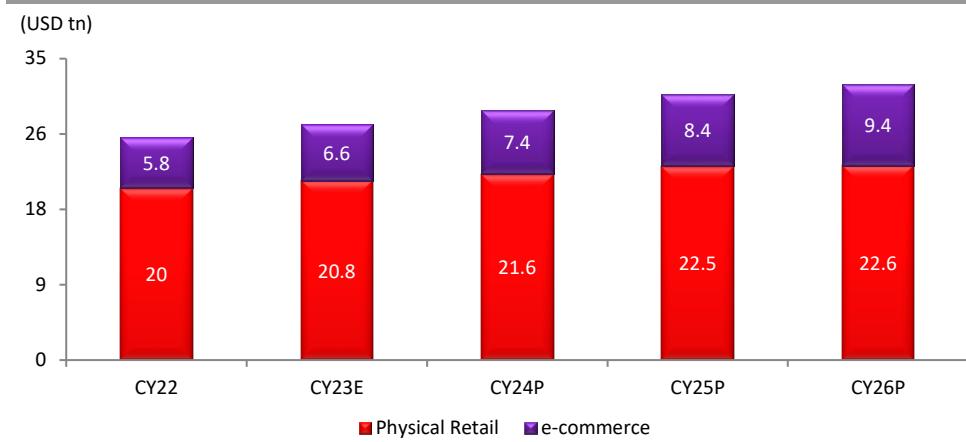


Source: Wazir Advisors, Systematix Institutional Research

E-commerce offers greater reach and wider product options to customers

In 2022, offline means dominated the distribution channel as global brick-and-mortar retailers saw recovery in demand, aided by burgeoning supermarket/ hypermarkets in urban areas. The integration of e-commerce channels has become increasingly vital in the global market. As a result, numerous retailers have adopted an omnichannel model to ensure a seamless connection between offline and online channels. We anticipate a shift towards online distribution channels in future, as consumers prefer e-commerce, considering that online retail channels provide wider reach and accessibility to consumers, allowing them to explore a broader range of products. Digitalization of products and processes by manufacturers too is expected to boost the online distribution channel. We believe capitalizing on online retail and direct to consumer (D2C) trends should help companies thrive in an evolving home textiles market.

Exhibit 17: E-commerce retail sales to grow at faster speed than Physical retail (CY22-CY26P)



Source: Welspun Annual Report FY23, Systematix Institutional Research

Bed and Bath linen category to fuel India's export growth

Bed linen trade category (including cotton bed linen, Man Made Fabric (MMF)-based bed linen, blankets, etc) within the home textiles segment dominated the global home textiles trade with largest 25% share in CY22. We believe increasing shift in living standards of consumers and preference towards luxury/branded linen will likely continue to drive growth in this segment of home textiles. However, we expect the bath linen segment to capture a significant market share, primarily led by growth in the hospitality industry. According to a report by Research and Markets, the global market for bed and bath linen is projected to grow at 8.7% CAGR over CY22-CY30 to USD 165.7bn by CY30 from USD 85.2bn in CY22.

Exhibit 18: Bed linen captures ~25% of the global home textiles trade followed by floorings at 19% and cotton terry towels at 12%

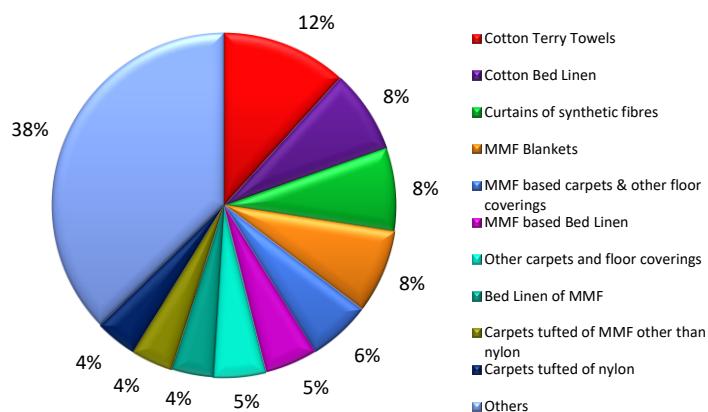
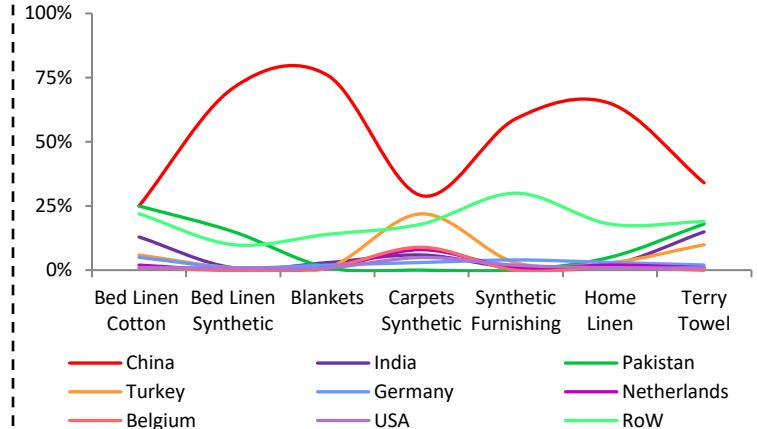


Exhibit 19: Global home textiles commodities export share: Commodity - Country wise (2022)



Source: Wazir Advisors, Systematix Institutional Research

In cotton bed linen trade, India holds mere 13% market share, and has sufficient room for growth. In synthetic bed linen, India exports mere 1% of the global synthetic bed linen trade, whereas China commands 71% export share. In synthetic carpets and furnishing exports, India has only 6% and 1% share, respectively. Given the rising demand for MMF-based commodities worldwide, there exist promising opportunities for India to align its export products with global requirements and capitalize on it to gain a larger market share.

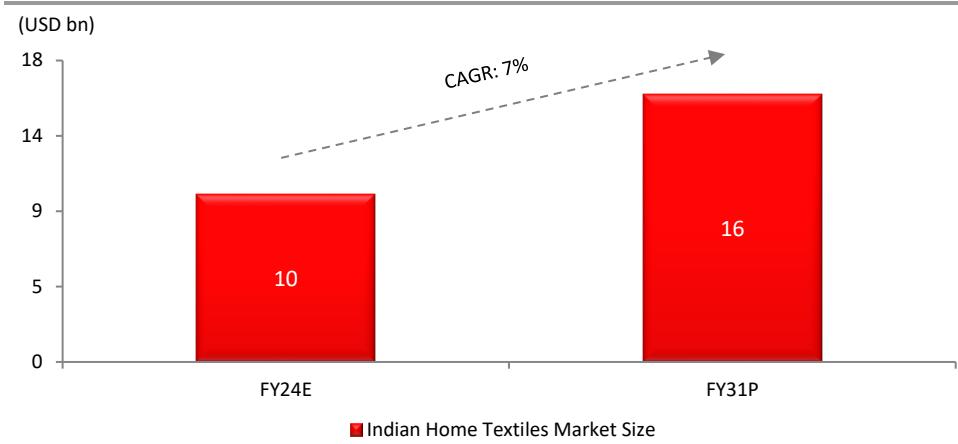
India's rising dominance in home textiles

Indian home textiles to speed at 10% CAGR over CY24-CY29P

The Indian textile and apparel (T&A) market is estimated to be valued at USD 175bn in FY24 as per Wazir Advisors, with the domestic market contributing 79% and exports accounting for 21% of the market size. The Indian domestic T&A market has registered a CAGR of 8%, growing from USD 50 bn in FY11 to USD 138bn in FY24. The Ministry of Textiles targets the domestic T&A market to touch USD 250bn by FY31, growing at 9% CAGR, faster than the global textile industry. Within the total domestic T&A market, India's home textiles market is estimated at USD 10bn for FY24, slated to expand at ~7% CAGR over FY24-FY31 to USD 16bn.

India accounted for almost 10% of global home textiles trade as of 2022 and is also one of the top suppliers to the US, the world's biggest home textile consuming market. India's notable strides in quality improvement, innovations through R&D programs, and other preferential value-added features have contributed to growing popularity of India's home textile products in the global market. Indian companies renowned for their superior quality products have established themselves as leaders in the US and the UK, with these regions constituting two-thirds of India's exports. India has emerged as a major production and export center for home textiles based on which, its home textile exports are forecasted to grow to USD 12bn by FY31 at 8% CAGR over (FY24-FY31). The domestic home textiles market too is expected to witness a surge, as demand for branded products continues to increase in the country.

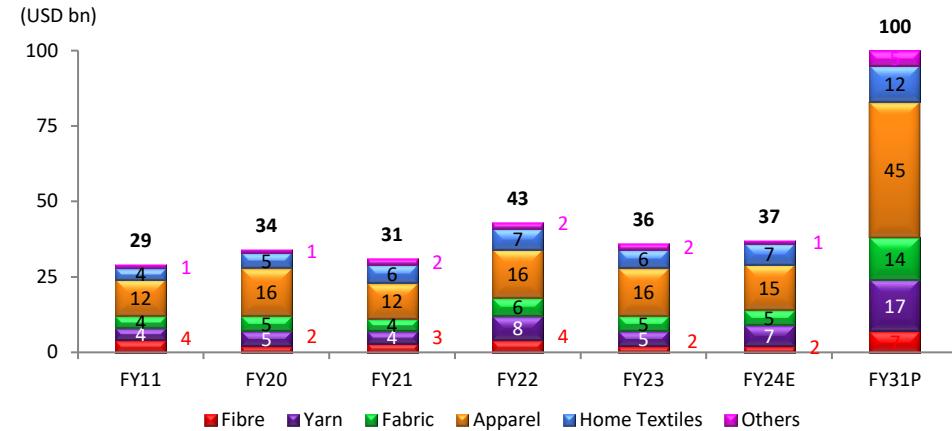
Exhibit 20: India's Home Textile market to grow at 7% CAGR (FY24-FY31)



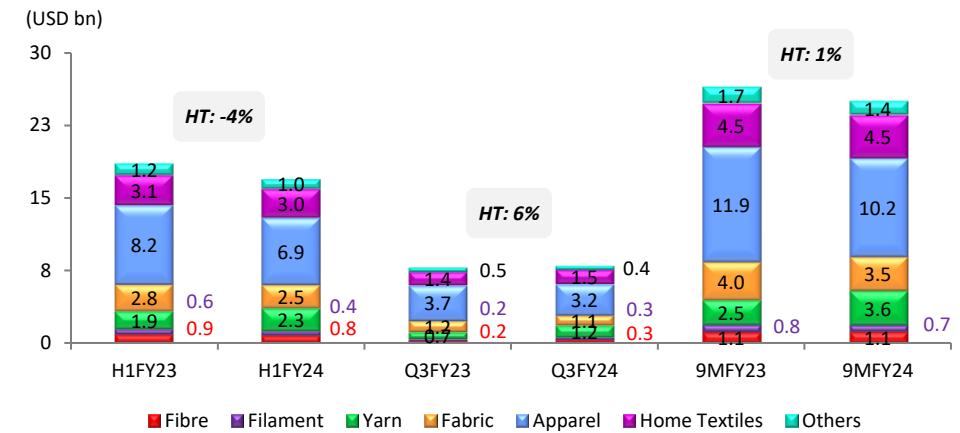
Source: Ministry of Textiles, Wazir Advisors, Systematix Institutional Research

India has an ambitious target of achieving USD 100bn of exports in next 5-6 years

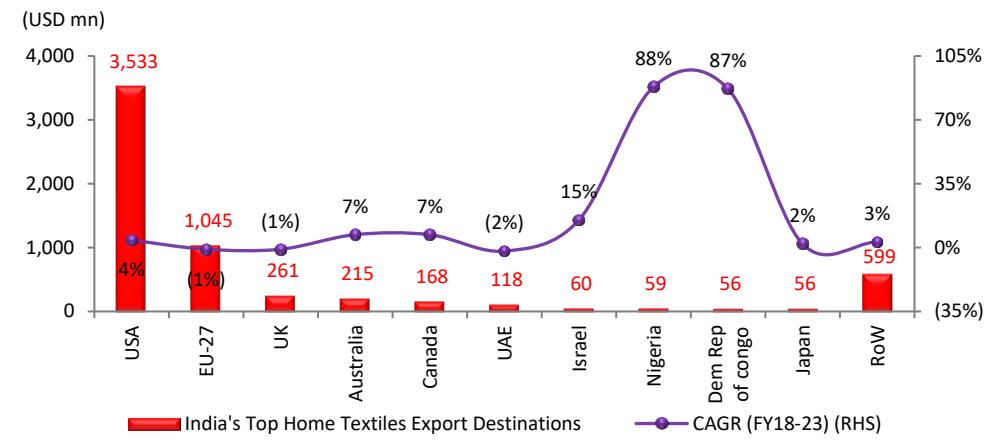
India presently trails China as the world's 2nd-largest manufacturer of textiles and garments. T&A industry represents over 4% of India's GDP and more than 14% of the country's export earnings yearly. In FY24, India's total T&A exports stood at USD 43bn, growing at 4% over FY11-22. The exports of T&A experienced a decline subsequent to FY22, attributed to decrease in demand and escalation in raw material prices. During 9MFY24, raw material prices softened and is gradually returning to normal levels. The government has set a target of achieving USD 250bn in textiles production and USD 100bn in exports over the next 5-6 years. This ambitious goal is aimed at boosting demand and driving growth in the industry.

Exhibit 21: India targets to achieve USD 100bn T&A exports at 15% CAGR (FY24-FY31)

Source: Wazir Advisors, DGCI&S, Systematix Institutional Research

Exhibit 22: India's T&A exports

Source: Wazir Advisors, Systematix Institutional Research

Exhibit 23: India's top export destinations for home textiles

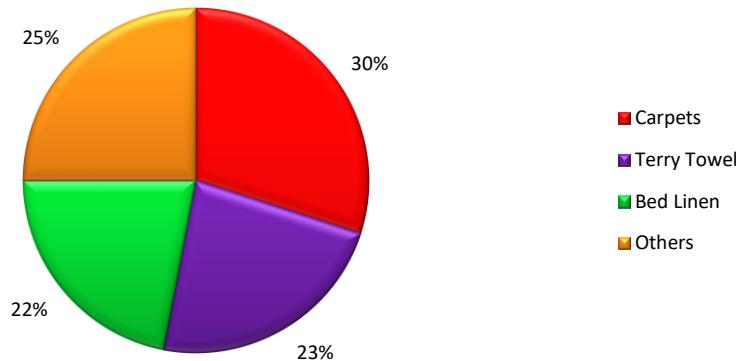
Source: Wazir Advisors, Systematix Institutional Research

Indian bed and bath linen market poised to register 8% CAGR over CY24-29E

Mordor Intelligence (Market intelligence and advisory firm) estimates India's bed and bath linen market Rs 526.6bn for CY24, which it believes will likely expand at 8% CAGR to Rs 773.9bn by CY29. Factors such as rising disposable incomes, urbanization, and growing emphasis on home decor are driving the demand for high-end and designer bed and bath linens. E-commerce platforms have also played a pivotal role in expanding consumer options and convenience, while sustainability concerns are driving demand for organic and environmentally friendly bedding alternatives.

The home textiles segment suffered a loss in global market share due to record-high domestic cotton prices, supply chain disruptions and demand slowdown in export markets, causing 13-15% revenue degrowth in FY23. India trails China at the 2nd position in the global trade of this segment. Cotton bed linen and cotton terry towels are India's top home textiles export products enjoying 13% and 15% share, respectively, of the total cotton bed linen and cotton terry towels exports trade in CY22.

Exhibit 24: Bed Linen, terry towels and carpets constitute~75% of India's total home textiles exports

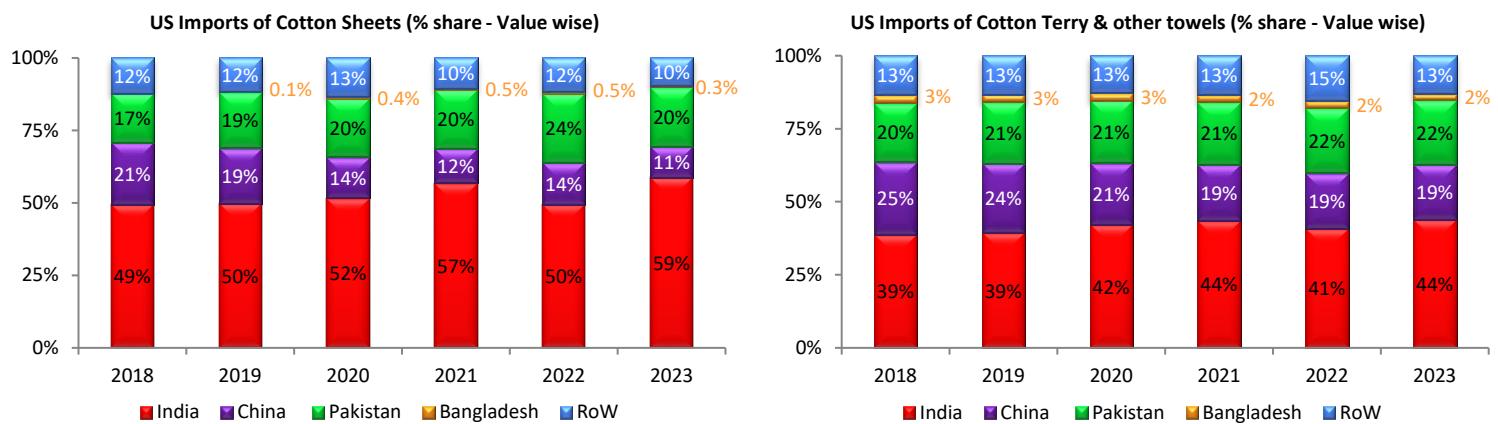


Source: Wazir Advisors, Systematix Institutional Research

India's export share to the US rising

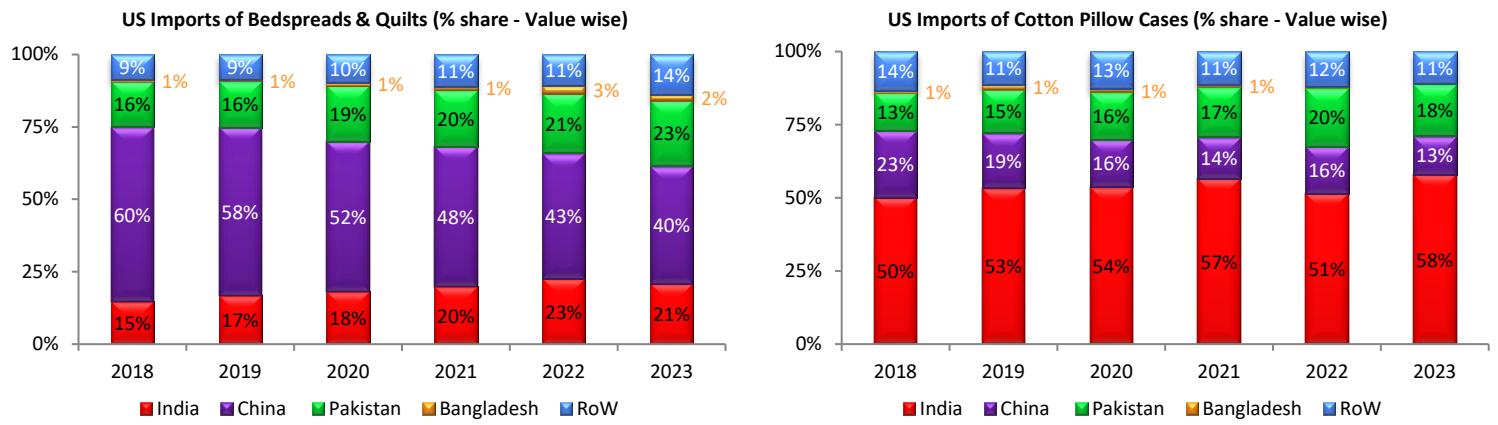
Given its dominance in cotton, power and labour costs, India has been increasing its share of exports to the US in the bed linen and bath linen segments. As one of the top suppliers of cotton sheets to the US, India's share in US imports of cotton sheets has increased substantially to 59% in CY23 from 50% in CY19 and that of terry towels has grown to 44% from 39%, respectively. Although China dominates the global export trade in home textiles, its export share in bed linen and terry towels to the US has been seeing a consistent decline. China is losing market share due to rising labour costs, geopolitical tensions, and US-China trade issues. Buyers are seeking alternate production bases outside of China, which should create opportunities for major Asian suppliers like India.

Exhibit 25: India's export share to the US in the cotton bed linen and terry towels markets has been rising (%)



Source: OTEXA, Systematix Institutional Research

Exhibit 26: India's share in US imports of VAP like bedspreads and quilts too is increasing (%)



Source: OTEXA, Systematix Institutional Research

China+1 & ban on Xinjiang cotton - Growth window for India

Many large global retailers have adopted 'China+1' strategy to diversify their sourcing and manufacturing operations outside of China to reduce their dependence on the country. Major home textile consumer markets like the US and EU are gradually shifting their import preferences to India over China, given their concerns on the use of forced labour in China's Xinjiang region, which led to the subsequent ban on Xinjiang cotton and cheap labour costs. This move is seen as an advantage for India's textiles industry. T&A imports by the EU-27/US from China has declined by 20%/30% YoY, respectively, in 9MFY24.

India scores over China on the cost front

Increasing wages in China renders India attractive, as it has low cost of production and extensive cotton availability. Big-box retailers like Walmart and Target run their stores on the premise that they provide low-price products to customers. India's rising share of exports is driven by its cost advantages over China and Bangladesh.

Exhibit 27: Cost comparison among major manufacturing countries

Cost Elements	Exporting Country			
	China	Bangladesh	Vietnam	India
Cost of Labor (USD per month)	370-514	114-139	200-300	160-180
Labor Skills	High	High	High	High
Cost of electricity (USD/kWh)	9-15	9	8	7-12
Lead Time (days)	30-45	50-70	35-50	40-60
Textile Integration	High	Medium	Medium	High (Cotton)

Source: Company, Systematix Institutional Research

Free trade agreements (FTA)

Indian textile industry's ladder to growth and development

India's home textiles industry holds immense potential, as it is the 2nd-largest exporter of home textile products holding ~10% export share globally. FTAs play a crucial role in boosting India's textile exports by eliminating/reducing tariffs and other trade barriers.

India has strengthened its global trade presence by signing 13 FTAs over last five years. Significant among these are the India-Mauritius CECPA, India-UAE Comprehensive Partnership Agreement, and India-Australia Economic Cooperation and Trade Agreement. India is currently negotiating additional FTAs with key strategic partners such as the UK, EU, and Canada. These developments demonstrate India's commitment to improving and diversifying its trade relationships.

India-EFTA trade pact

India and the European Free Trade Association (EFTA) nations, namely Iceland, Liechtenstein, Norway, and Switzerland, recently concluded a Trade and Economic Partnership Agreement (TEPA) following 15 years of negotiations. This agreement is poised to significantly boost growth in India's textile industry, particularly in terms of critical inputs, technology, and product development opportunities. Notably, the EFTA states have committed to increasing their foreign direct investments (FDI) in India by USD 50bn within the first 10 years and additional USD 50bn in the following five years. The EFTA nations imported goods worth USD 2bn from India in 2020, primary products being chemicals, gems, and jewelry, machinery, and textiles. Given that tariff rates in the EFTA are already low, this agreement is expected to have a huge impact on imports. India has agreed to offer 83% of its tariff lines, while EFTA has offered 92% of its tariff lines. In last fiscal year, bilateral trade between India and EFTA nations reached USD 17.14bn, up from USD 14.45bn in 2022-2023.

The TEPA trade agreement is vital in boosting trade, investments and mobility opportunities with EFTA nations. It could also serve as a model for two ongoing trade agreements under negotiation with the European Union (EU) and the UK.

Exhibit 28: Upcoming FTAs with UK and EU to offer Indian exporters a level playing field and boost exports

Importing Country	Exporting Country			
	China	Bangladesh	Vietnam	India
US	11-28%	11-28%	11-28%	11-28%
EU	12%	0%	0%	12%
Japan	9%	0%	0%	0%
UK	12%	0%	0%	12%
Canada	18%	0%	0%	18%

Source: Company, Systematix Institutional Research

FTA with UK and European Union (EU) to increase India's competitiveness

Bangladesh and Vietnam are major home textile exporters and enjoy zero import duty benefits with their FTAs in place compared to the India and China, which pay high imports duties on exports to the EU and UK. EU-27 nations and UK cumulatively accounted for ~21% of India's home textile exports in FY23, with the same declining at 1% CAGR each over FY18-23. India is currently negotiating its FTA with the UK and EU-27, which could eliminate higher duties, benefit Indian exporters and offer a level-playing field with Bangladesh and Vietnam.

However, signing of the FTA in itself is unlikely to surge exports. India has not gained much on the FTA it signed with Japan in 2011, evident from the fact that India's export of home textiles to Japan grew at a minuscule 2% over FY18-23, even though Japan is the 4th largest importer of home textiles with a 5% share of the global Home textile trade as of CY22.

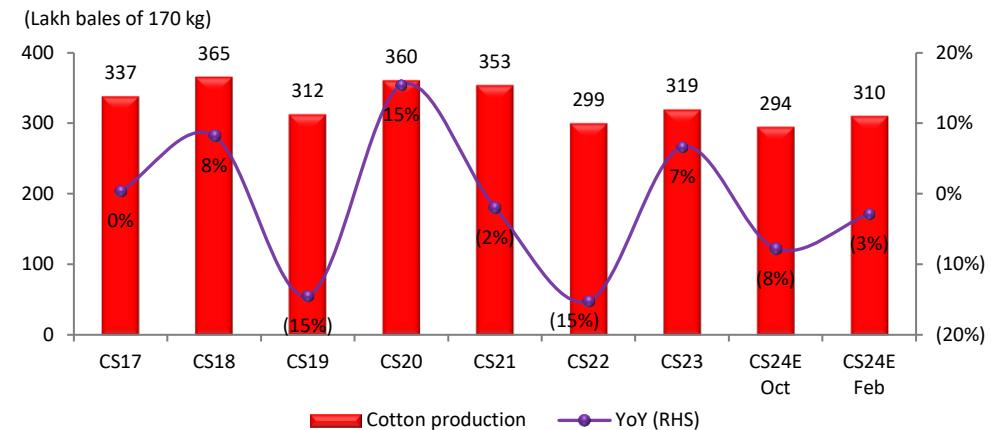
Cotton prices outlook: Likely to stay range bound

Cotton Association of India (CAI) on 29th Feb 2024 pegged the current Cotton Season (CS) 2024 cotton production at 30.9mn bales, down by ~3% YoY - 2nd-lowest production after CS2022 for the period CS2010-2024P. On a positive note, this estimate of 30.9mn bales was revised upwards by 5% from its earlier estimate in Oct 2023 on expectation that there would be higher cotton inflows, raising expectations on supply. However, severe cold weather in China disrupted the crop cycle, with the US reporting reduced acreage, which compounded the shortage of cotton in global markets, creating panic across the textile value chain.

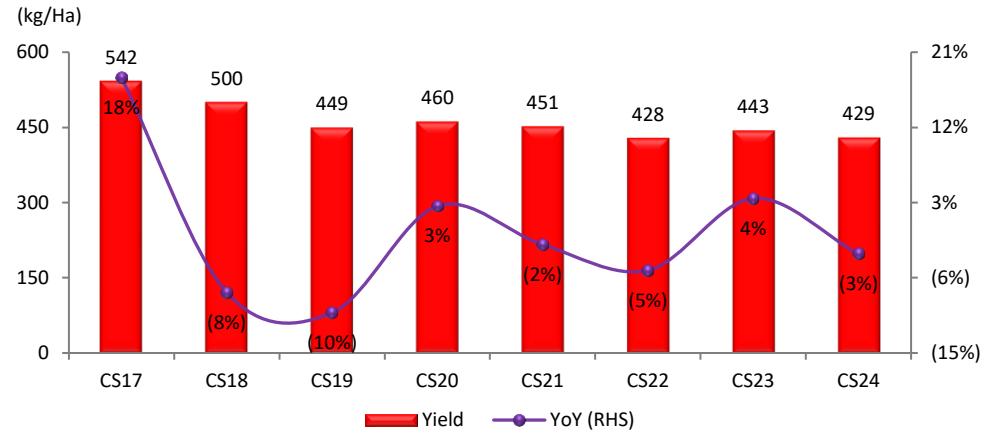
During 9MFY24, India's cotton price trend softened, making it more appealing in the export markets, considering that global cotton prices rallied. The COTLOOKA Index indicates that cotton prices rose by 16% in the first 2 months of 2024 vs Dec 2023, primarily due to a combination of global supply shortages and increased demand. This escalation in cotton prices may have an adverse impact on export demand, given that the gap between domestic and international cotton prices is narrowing rapidly. However, 1H of March witnessed a 7% dip in cotton prices to settle at Rs 182/kg, amid CAI's upward cotton production estimate on 29th Feb 2024.

In February, Indian traders signed contracts to export 0.4mn bales (68,000 MT) of cotton, marking it as the highest figure since Feb 2022. China, Bangladesh, and Vietnam were the primary export destinations. As of Feb 2024, cotton exports touched almost 1.5mn bales. With Indian cotton prices rising, only existing contracts are expected to be shipped in March. Consequently, for the current CS2024, 2-2.2mn bales of cotton are expected to be exported. Despite the strong demand, India's cotton exports will be limited, due to restricted surplus, as local production is projected to decrease this year.

Exhibit 29: Cotton production in India improved in CS23 post slowdown in CS22



Source: Cotton Advisory Board/CAI, Systematix Institutional Research

Exhibit 30: Cotton yields (kg/ha) declined in CS24 due to weak monsoon

Source: Cotton Advisory Board/CAI, Systematix Institutional Research

Exhibit 31: Cotton prices (Rs/kg) softened in 9MFY24 (COTLOOKA Index)

Source: Bloomberg, Systematix Institutional Research

Solar curtains / Solar panel blinds**Gel Mattress****Bamboo Cotton****Sisal Fabric**

Source: Systematix Institutional Research

Sustainability across product categories - Next growth driver

The global home textiles industry is revolutionizing. Industry players are integrating cutting-edge technologies and ecofriendly materials to enhance comfort and style towards a sustainable and innovative future. These advancements, which combine traditional methods with modern techniques, have the potential to significantly shape the growth trajectory of the sector. These advancements have the potential to not only improve product quality, but also enhance consumer satisfaction and drive market growth. We believe increasing demand for sustainable products should help in capturing new market opportunities and driving continuous growth.

- **Bedsheets made with the aid of nanotechnology:** This technology enhances various features of the bedsheets, including moisture resistance, breathability, and odour resistance. Their advanced moisture-absorbing technology helps in regulating the body temperature during sleep and promoting rest.
- **Nano-care textiles:** These fabrics work by eliminating any points of interaction with external substances such as dirt, dust, and other particles, and in maintaining cleanliness and hygiene over extended use.
- **Solar curtains:** These are foldable roman shades that are powered by solar energy, with solar panels often placed on the roof to convert heat into electricity; these can then power a room's air conditioning.
- **Solar panel blinds:** Similar to regular roller shades, solar blinds use specially designed fabric to block out UV rays, heat, and sun glare. The degree of heat and UV protection, as well as transparency vary, depending on the type of fabric and colours.
- **Gel mattress:** Incorporates a special kind of gel infused into memory foam that offers up to 7x more cooling compared to a typical mattress.
- **Increasing demand for sustainable fibre:** (an example) RESTech COTTON™ crafted from 100% natural fibres offer more than 40% soft touch than untreated cotton sheets. Demand for technology aligns with growing consumer preferences for wellness and sustainability.
- **Use of natural textiles:** Natural texture such as a) Sisal fibres, known for their durability, longevity, and versatility, are perfect for carpets and rugs, b) Heavier materials like lawn, muslin, and pima cotton are well-suited to make tablecloth, curtain, and drapes, and c) Bamboo, seagrass and sisal used to make rugs, baskets, and placemats may become more prominent in the forthcoming years.

Source: Fibre2fashion.com

Government's push to boost the textile sector

In order to overcome challenges faced during the COVID-19 pandemic, Government of India (GoI) took several major initiatives/measures to boost exports, production, demand and job opportunities in the textiles sector.

Removal of anti-dumping duty: To boost exports in man-made fibre (MMF) sector, the government removed anti-dumping duty on PTA (purified terephthalic acid), viscose staple fibre and acrylic.

Extension of Remission of Duties and Taxes on Export Products (RoDTEP) for textile exports till 30th September, 2024: The extension of RoDTEP will help the exporting community in negotiating export contracts in the prevailing international environment on better terms. GoI has announced the extension of RoDTEP scheme to provide support to additional export sectors, i.e., advance authorisation (AA) holders, export oriented units (EOU) and special economic zones (SEZ) export units. This decision comes in recognition of the significant contribution that these sectors make to India's exports, constituting ~25% of exports. Since its inception in January 2021, the RoDTEP scheme has already provided support amounting to Rs 420bn to more than 10,500 export items. In the current financial year, the scheme has a budget of Rs 150.7bn with additional 10% increase in FY24-25.

Extension of Rebate of State and Central Taxes and Levies (RoSCTL) scheme: In February 2024, the Ministry of Textiles extended the RoSCTL scheme for 2 years beyond 1st April, 2024 and up to 31st March, 2026 for readymade garments and made-ups. The scheme is aimed at compensating for the state and central taxes and levies in addition to the rebate provided under duty drawback scheme on export of apparel/garments and made-ups. The extension would enhance export competitiveness of garment and made-ups sectors.

Scheme for Capacity Building in Textiles Sector (SAMARTH): The Cabinet Committee on Economic Affairs (CCEA), GoI, has approved a new skill development scheme called 'Scheme for Capacity Building in Textile Sector (SCBTS)' at an outlay of Rs 13bn (USD 20bn) from FY18-20, and extended it to March 2024. The scheme is aimed at providing demand-driven and placement-oriented skilling programme to create jobs in the organised textile sector, and to promote skilling and skill upgradation in traditional sectors.

Production Linked Incentive (PLI) scheme: The government has approved the PLI scheme for textiles with an approved outlay of Rs 106.83bn over a period of 5 years to promote production of MMF apparel, MMF fabrics and technical textile products in India, to enable the textile sector to achieve size and scale and become competitive.

Under the scheme, 64 applicants were selected, and the total proposed investment is Rs 197.98bn, with projected turnover of Rs 1.93trn and employment generation of 2,45,362 personnel. As per quarterly review reports (QRRs) of 30th Sep 2023, the eligible investment made under the scheme was Rs 21.19bn of 30 selected applicants, of which, the 12 selected ones have already started commercial production and achieved a turnover of Rs 5.20bn, which includes exports of Rs 810mn; employment for 8,214 people was generated.

Mega Integrated Textile Region and Apparel (MITRA) Parks scheme: The scheme intends to develop world-class infrastructure, including plug-and-play facility, at an outlay of Rs 44.45bn for up to 2027-28. PM MITRA Parks scheme is inspired by the 5F vision of Prime Minister, Mr. Narendra Modi, called 'Farm to Fibre to Factory to Fashion to Foreign'. This envisages an investment of nearly Rs 700bn and

employment generation of 20 lakh people. Parks will offer an opportunity to create an integrated textiles value chain, right from spinning, weaving, processing/dyeing and printing to garment manufacturing at a single location.

National Technical Textiles Mission: GoI has launched a National Technical Textiles Mission (NTTM) at an outlay of Rs 14.80bn. Key pillars of NTTM include 'Research Innovation & Development', 'Promotion and Market Development', 'Education, Training and Skilling' and 'Export Promotion'. The focus of the mission is to develop the use of technical textiles in various flagship missions and programmes of the country, including strategic sectors. The mission has received an extension up to 31st March 2026, with a subsequent sunset clause applicable until 31st March 2028. To date, 126 projects valued at Rs 3.71bn have been approved in the category of specialty fibers and technical textiles under this mission.

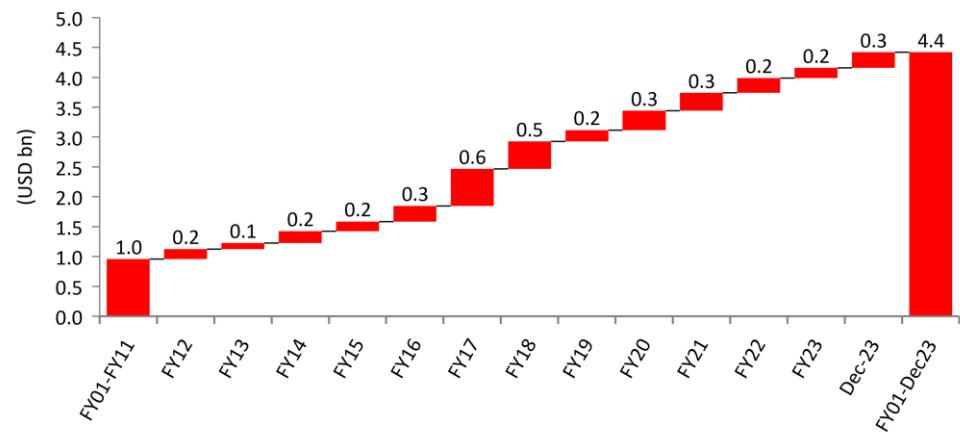
SAMARTH: Aims to provide demand-driven and placement-oriented National Skill Qualification Framework (NSQF) compliant skilling programmes. In July 2023, 43 new implementing partners were empanelled under the SAMARTH scheme and an additional target of training around 75,000 beneficiaries has been allocated. Under the scheme, 2,47,465 persons were trained as on 11th December 2023.

Amended Technology Upgradation Fund Scheme (ATUFS): The government allocated funds worth Rs 178.22bn (USD 2.38bn) between FY16 and FY22 (A-TUFS) to boost the Indian textile industry and enable ease of doing business. Under ATUFS, ratio of MSME: Non MSME is 89:11, while under previous versions of TUFS it was 30:70. Higher incentive of 15% (Rs 300mn) has been given for entities under employment potential segments, viz., technical textiles and garment/made ups. The scheme supports employment to more than 17 lakh (3.9 lakh new and 13.4 lakh existing) people over seven years. Of the total 3.9 lakh new employment generated, 1.12 lakh (29%) are women.

Foreign investments flowing into the textiles sector

Foreign direct investment (FDI) of up to 100% is allowed in the textile sector through the automatic route. Cumulative FDI inflows in the textiles sector (including dyed and printed textiles) stood at USD 4.42bn between April 2000 and December 2023. Government is taking initiatives to attract foreign investments in the textile sector by permitting promotional visits to countries such as Japan, Germany, Italy and France.

Exhibit 32: FDI in textiles (including dyed, printed) sector on rising trend



Source: DPIIT, Government of India, Systematix Institutional Research

Bharat Tex-2024 (5F Vision - Farm to Fibre full chain expo)

Bharat Tex has emerged as a launch pad for various initiatives and projects such as IndiaTEX, launch of textile grand innovation challenge, announcement of 63 MoUs, including international institutions focusing on collaboration in research, innovation, entrepreneurship, new product development, skilling and sustainability.

The event also saw release of UNEP Report for Sustainable Textile Hub in India and 8 books on various technical topics and a documentary on 'women empowerment in silk sector'. Winners of the hackathon held on "Fostering Innovation in Technical Textiles" were announced and awarded during Bharat Tex.

A showcase of sustainable initiatives including kasturi cotton, a new standard in cotton, with transparent value chain and globally acceptable quality standards and other solutions such as waterless dyeing, regenerative farming, organic and recycled raw materials aimed at reducing carbon footprint and minimizing environmental impact, latest innovation in process, systems and production methods to move towards ecofriendly and globally acceptable sustainable practices were also part of the event.

Ministry of Textiles is launching an innovation challenge along with Startup India, DPIIT, to leverage the pool of untapped innovation opportunities to identify new and innovative futuristic circular solutions, with proven concept, with high potential to be replicable and scalable in India's T&A industry.

Exhibit 33: Memorandum of Understandings (MoUs) signed during the event

Signed by	No of MOUs	Purpose
National Institution of Fashion Technology (NIFT)	6 International 13 Domestic	Academic collaboration, incubation of start-ups, research, product development among other areas
Central Silk Board	10	Research, collaboration and innovation
Textiles committee	3	Market linkage, standardization and waste management
Central Wool Development Board	5	Collaboration and scientific research
Jute Corporation of India	3	Setting up laboratory and research
Indian Jute Industries' Research Association (IJIRA)	6	Research & innovation
National Jute Board	2	Research and innovation in geo textiles
Wool Research Association	5	Material development, sport tech product development and field research
Man-made Textiles Research Association (MANTRA)	3	Research and innovation for entrepreneurs in PM MITRA parks
Ahmedabad Textile Industry Research Association (ATIRA)	3	Research and collaboration
South India Textile Research Association (SITRA)	2	Research & innovation
Synthetic & Art Silk Mills' Research Association (SASMIRA)	1	Developing technical textiles products for fishing industry
The Bombay Textile Research Association (BTRA)	1	Research & Development

Source: Company, Systematix Institutional Research

COMPANY SECTION

Welspun Living

28 March 2024

Reigning the home textiles realm

INITIATING COVERAGE

Sector: Textile	Rating: BUY
CMP: Rs 138	Target Price: Rs 187

Stock Info

Sensex/Nifty	73,651 / 22,327
Bloomberg	WELSPUNL IN
Equity shares (mn)	971.8
52-wk High/Low	Rs 171 / Rs 63
Face value	Rs 1
M-Cap	Rs 133.1bn / USD 1.6bn
3-m Avg value	USD 6.0mn

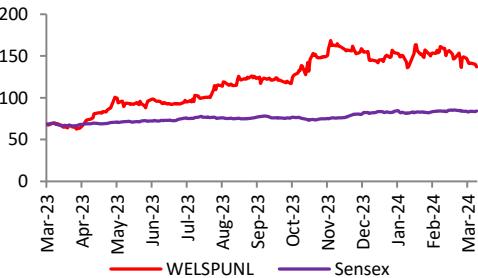
Financial Snapshot (Rs mn)

Y/E Mar	FY24E	FY25E	FY26E
Net revenue	98,391	1,11,929	1,27,577
EBITDA	13,939	16,787	20,412
PAT (adj.)	7,570	8,787	11,332
EPS (adj.) (Rs)	7.8	9.0	11.7
PE (x)	17.7	15.3	11.8
P/B (x)	2.8	2.4	2.0
EV/EBITDA (x)	11.4	9.5	7.5
RoE (%)	17.1	17.0	18.7
RoCE (%)	15.1	17.3	20.3
D/E (x)	0.5	0.5	0.3
OPM (%)	14.2	15.0	16.0
DPS (Rs)	0.8	0.9	1.2
Dividend Yield (%)	0.6	0.7	0.8

Shareholding pattern (%)

	Dec'23	Sep'23	Jun'23
Promoter	70.5	70.5	70.5
-Pledged	-	-	-
FII	7.3	6.3	6.3
DII	5.7	6.3	6.1
Others	16.5	16.9	17.1

Stock Performance (1-year)



Welspun Living (WELSPUNL) is a play on India's rising dominance in Bed and Bath linen. Consumer prosperity, preference for luxury/branded linen and a progressing hospitality industry are slated to drive growth in this area. For CY23, OTEXA has estimated India's share of the total US imports of cotton sheets at 59% (vs 50% in CY19) and towels at 44% (vs 39% in CY19). WELSPUNL, a market leader in home textiles, holds a dominant >20% share in towel and >11% share in bedsheets exports to the US. The company is also scaling up its brand business (22% of FY23 sales) by a) establishing a strong pan-India foothold, b) expanding offerings across its home textile and flooring brands, and c) leveraging multiple brands to cater to varied and distinct needs of diverse customer segments. New opportunities are ushering in the form of advanced textiles, flooring, and ecommerce. We estimate 16%/39%/79% CAGR in revenue/EBITDA/PAT over FY23-26E for WELSPUNL, respectively, with RoE of 18.7% in FY26E (4.9% in FY23) on superior profitability. Valuations are attractive at 11.8x P/E on FY26E. We initiate coverage with a **BUY** rating and a target price of Rs 187 (upside 36%), based on 16x FY26E P/E.

Focus on brands - Cementing leadership in the domestic market: WELSPUNL's revenue contribution from the branded business in its home textile segment has increased to 17% in FY23 vs 9% in FY20. The company has been aggressively focusing on scaling presence across all major cities and towns, increasing brand awareness for its power brands, 'SPACES' and 'Welspun'. Currently, it has 17,000+ retail stores pan India, spread across 600+ towns, rendering it a leader in India's home textile brand. WELSPUNL's key strengths lie in its pan-India distribution network, extensive product offerings across mass, mid and premium categories, and an integrated manufacturing base. We expect the revenue share of its branded business within home textiles to increase to 22% by FY26E, growing at 24% CAGR over FY23-26E.

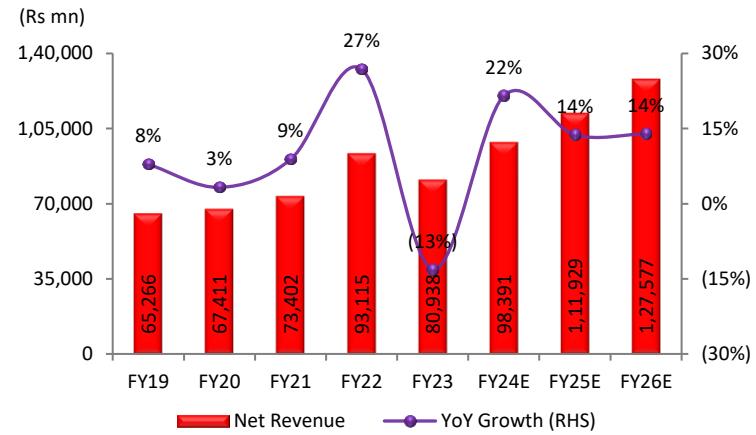
Strong franchises - Focus on emerging businesses: WELSPUNL's emerging businesses (domestic consumer, flooring, advanced textiles, e-commerce) have witnessed a huge 33% CAGR over the last three years. WELSPUNL's knack of catching emerging trends has led to it venturing into flooring (in FY20) and advanced textile (in FY17). The company has also used its expertise in building strong global brands to develop its brands in the domestic market. We expect a favourable base and improved demand environment to result in the emerging businesses clocking 29% CAGR in aggregate revenue over FY23-26E, outperforming the legacy business growth.

Efficient business model + huge growth potential = BUY: We see WELSPUNL as a key beneficiary of growth in the home textiles industry, given its efficient business model, strong balance sheet and growth potential; emerging businesses are expected to add to its profitability. Over FY23-26E, we estimate 16% CAGR in revenue, led by 22%/29% CAGR in branded and emerging businesses respectively. EBITDA margin likely to expand 670bps over FY23-26E to 16% in FY26E, as management shifts focus to profitability from volumes. We estimate a CAGR of 39%/79% in EBITDA/PAT, respectively. Initiating coverage on WELSPUNL with a **BUY** rating and a target price of **Rs 187**, based on **16x FY26E P/E**. The stock currently trades at **11.8x FY26E P/E**. The last 5-year average P/E is ~16x.

Key risks: Global macroeconomic slowdown, inability to pass through the volatility in raw material costs, trade barriers and increase in competitive landscape.

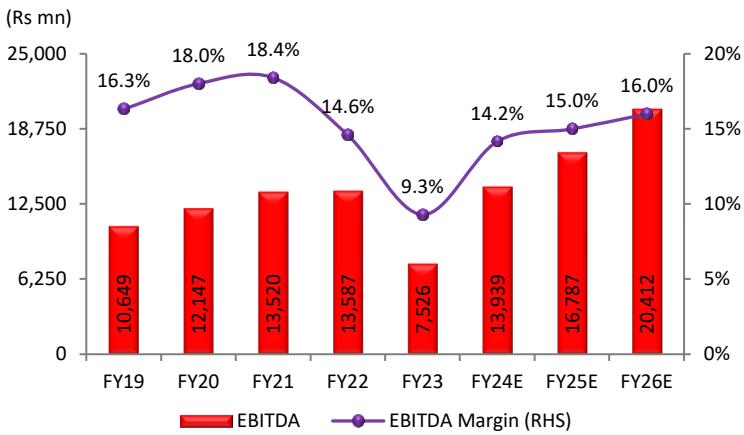
Story in Charts

Exhibit 1: Revenue to grow at CAGR 16% over FY23-26E



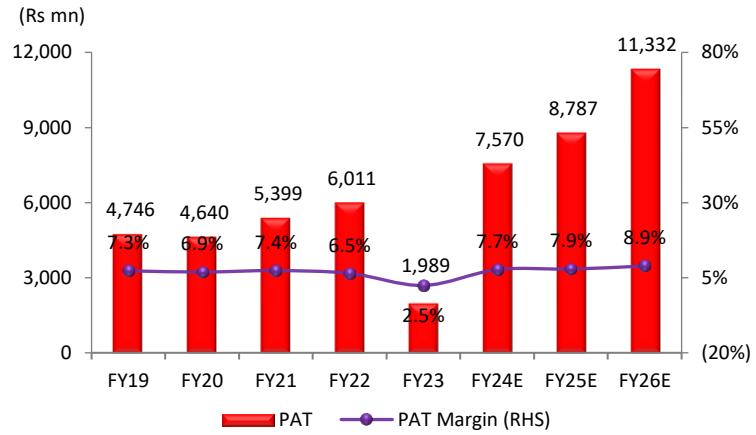
Source: Company, Systematix Institutional Research

Exhibit 2: 39% EBITDA CAGR over FY23-26E; margin up tick 180bps



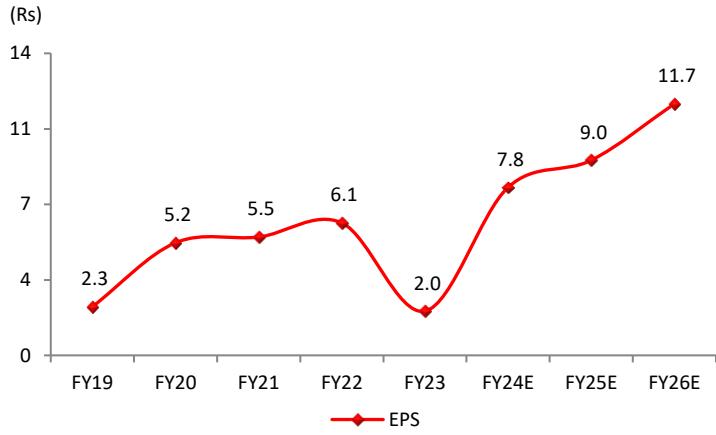
Source: Company, Systematix Institutional Research

Exhibit 3: Higher margin to drive profitability



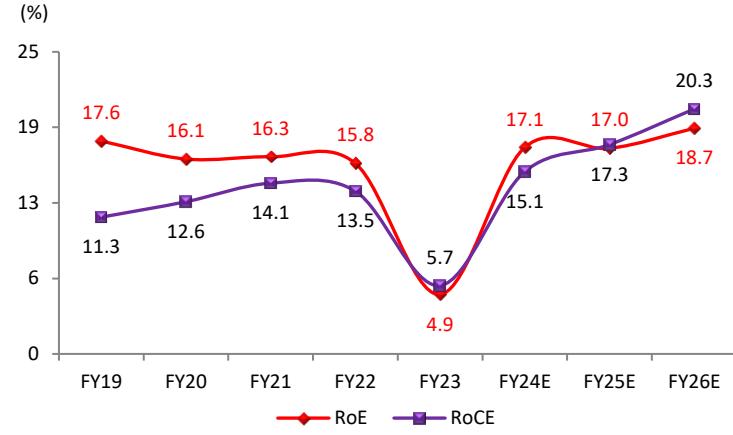
Source: Company, Systematix Institutional Research

Exhibit 4: Earnings CAGR of 79% over FY23-26E on low base



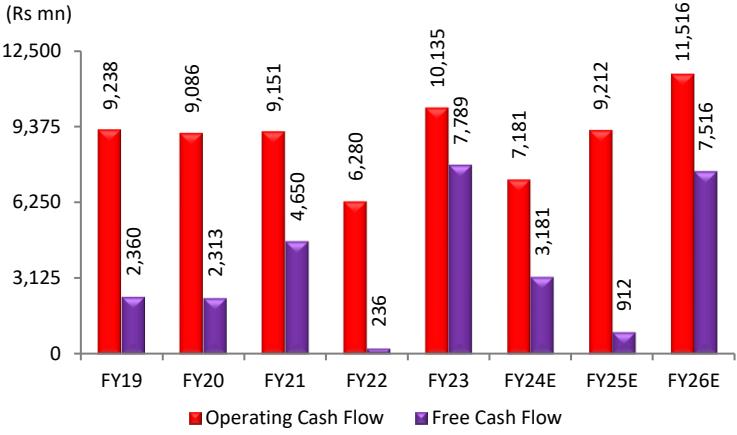
Source: Company, Systematix Institutional Research

Exhibit 5: Return ratios to improve significantly

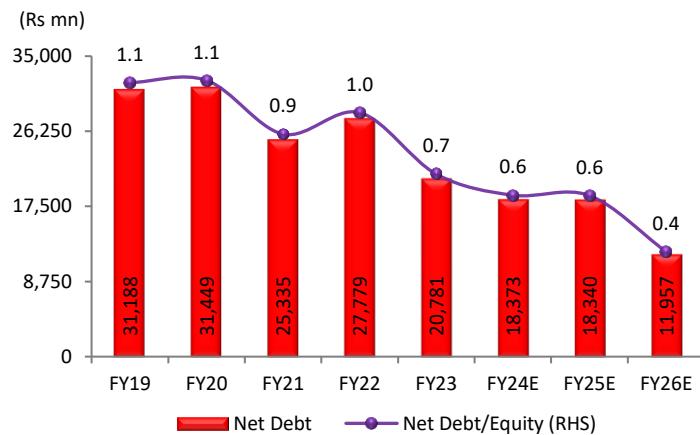


Source: Company, Systematix Institutional Research

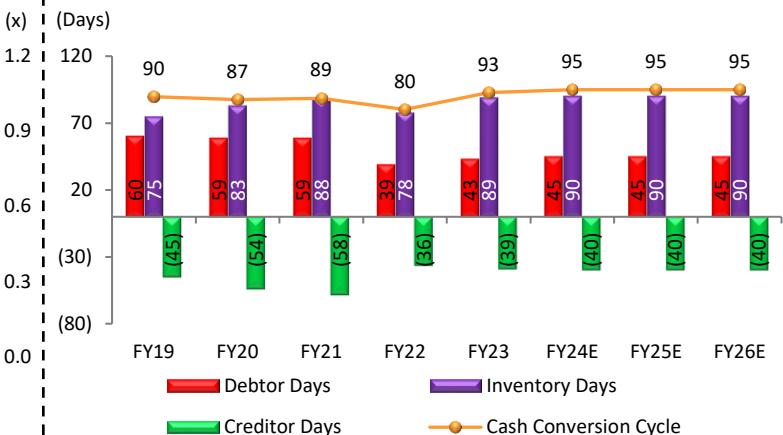
Exhibit 6: Improvement in cash flows led by higher profitability



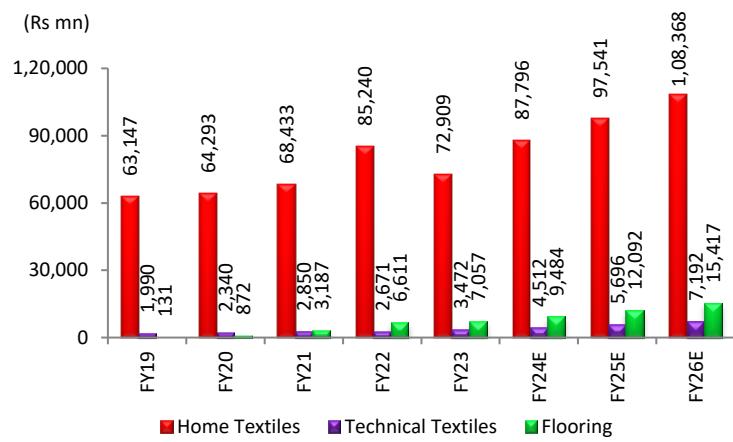
Source: Company, Systematix Institutional Research

Exhibit 7: Healthy cash flows to ensure reduction in net debt

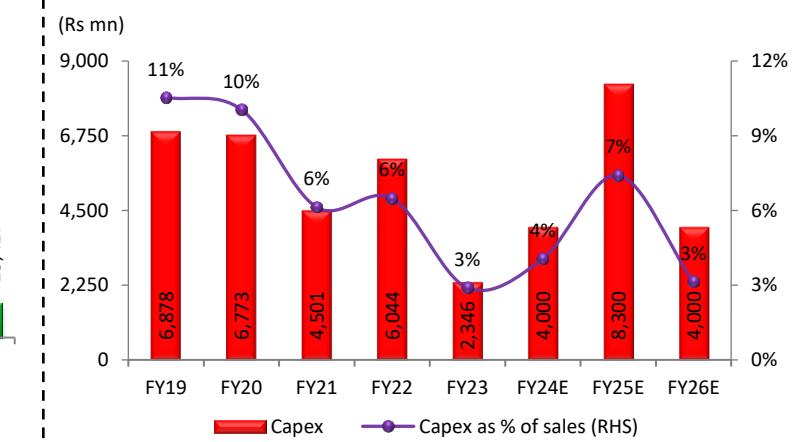
Source: Company, Systematix Institutional Research

Exhibit 8: Working Capital is expected to remain stable

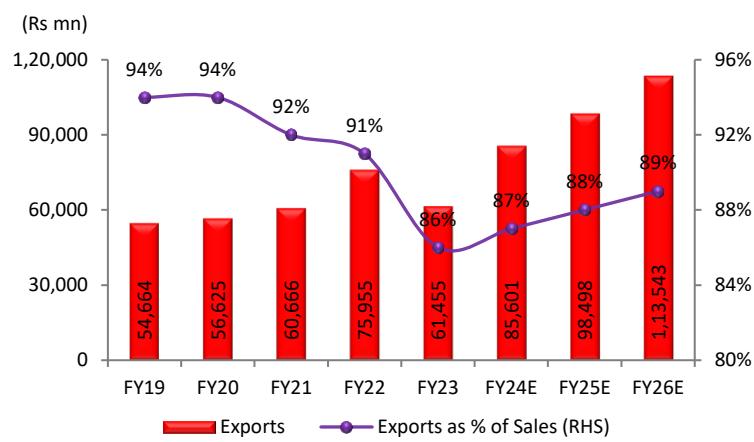
Source: Company, Systematix Institutional Research

Exhibit 9: Revenue Breakup Segment-wise

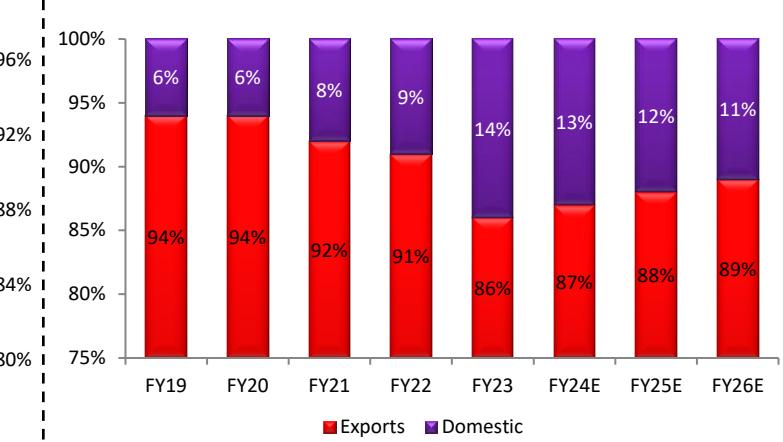
Source: Company, Systematix Institutional Research

Exhibit 10: Capex to continue

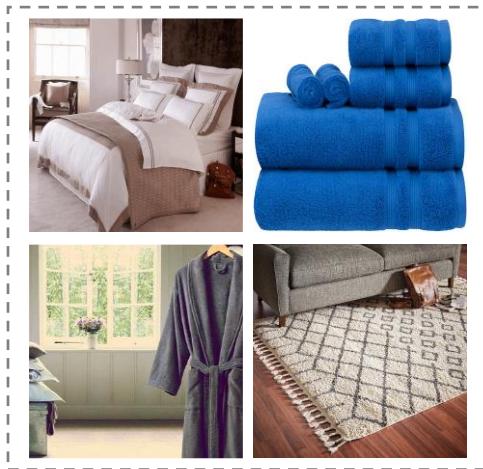
Source: Company, Systematix Institutional Research

Exhibit 11: Global demand recovery to accelerate exports

Source: Company, Systematix Institutional Research

Exhibit 12: Geographic revenue distribution

Source: Company, Systematix Institutional Research



Investment rationale

Eyeing growth leadership in home textiles at home

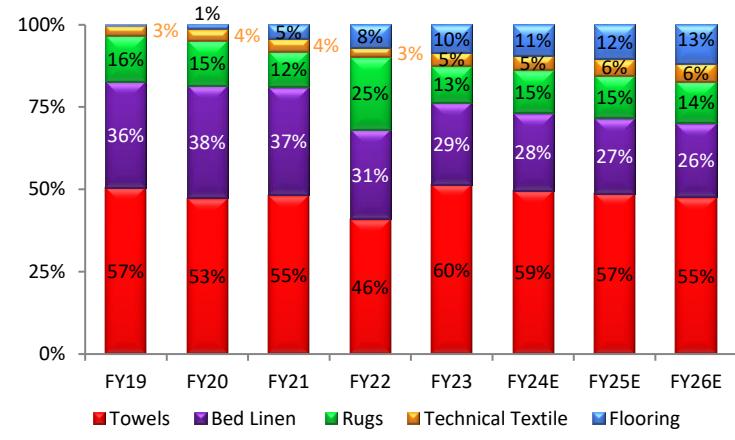
A leader in home textile exports

WELSPUNL is India's leading exporter of towels and bed linen to US' home textiles market, pegged at USD 18bn as of CY23E (according to Wazir). Every 5th towel and every 9th bedsheet sold in the US is from WELSPUNL, enabling the company to command a market share of 20% and 11%, respectively, in these segments. WELSPUNL is focusing on increasing its non-US revenue share (Europe, Australia, Japan, and India) by adding innovative products and penetrating into a new customer base.

Focusing on product expansion, customer addition and enlarging wallet share

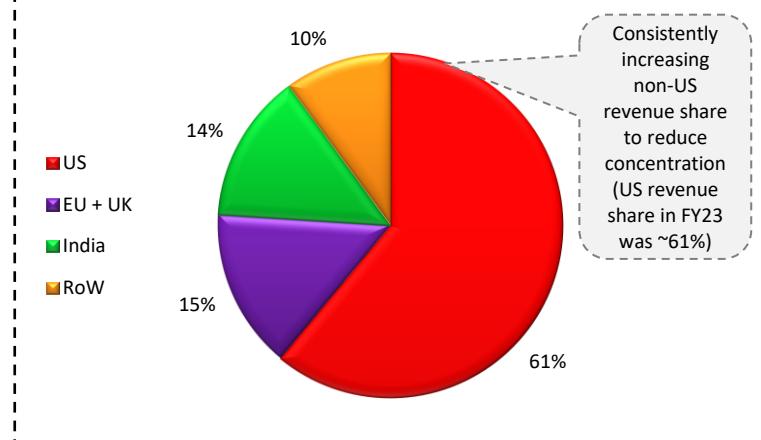
WELSPUNL commands healthy market share in the bedsheet and towel market in India's home textile exports. It plans to venture into new categories such as Top-of-Beds and fashion bedding such as quilts, comforters, etc., which should help it garner higher wallet share from existing customers. The company is looking to enhance capacity by setting up a) a fully automated pillow manufacturing unit at Ohio, USA, with a capacity of 6.7mn pillows. This unit is expected to commence operations by Q2FY25 and is projected to generate revenue of Rs 4.15bn at full capacity, and b) a new jacquard towel unit at Anjar, Gujarat, with a capacity of 6,400 MTPA, estimated to generate ~Rs 4.5bn revenue at peak utilization. Growing demand from retailers to reduce dependence on China should benefit WELSPUNL in driving sustained revenue growth. We estimate 15% CAGR in home textile revenue over FY23-26E, higher than industry growth which is pegged at 7% during the same period.

Exhibit 13: Home textiles to remain a major revenue contributor



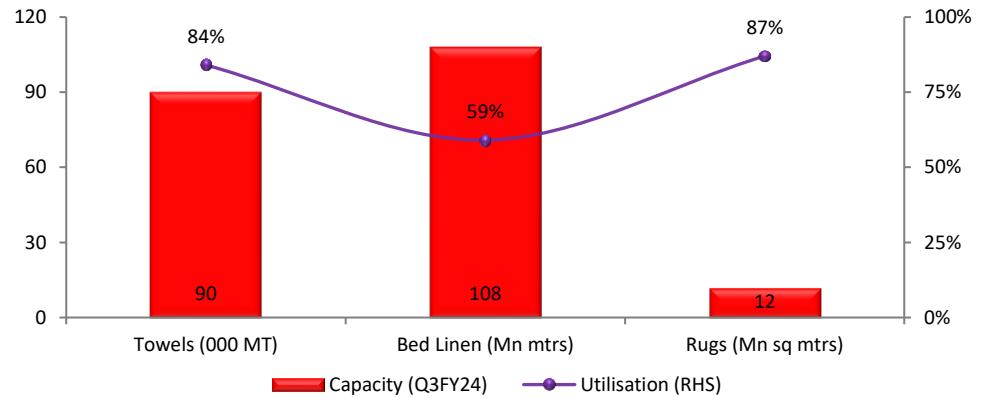
Source: Company, Systematix Institutional Research

Exhibit 14: Focus on diversifying geographical concentration (FY23)



Source: Company, Systematix Institutional Research

Exhibit 15: Home textiles capacity and utilisation



Source: Company, Systematix Institutional Research

Top 10 customers command ~60-65% share of the US home textiles market

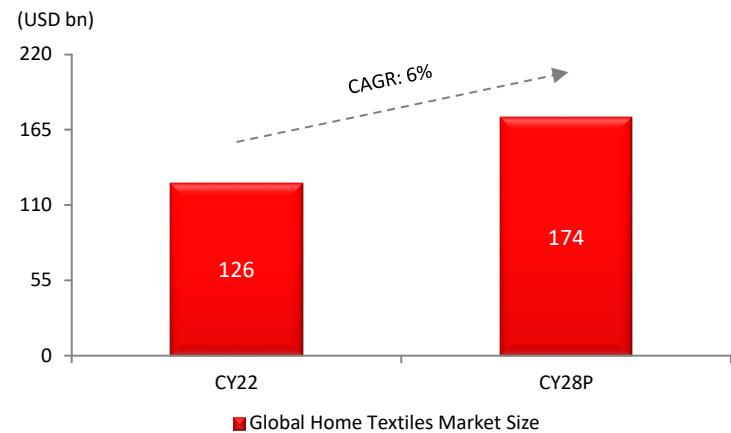
Retail brands such as Martha Stewart, Coco Cozy, Walmart, Scott Living, Christy and Cosco, etc. are WELSPUNL's key customers. These brands constituted ~60-65% share of the US home textiles market in FY23. Its top 10 customers accounted for 50% of its FY23 revenue. WELSPUNL's wide product offerings enable it to cater to the needs of the entire industry.

Exhibit 16: Home textile - Client details



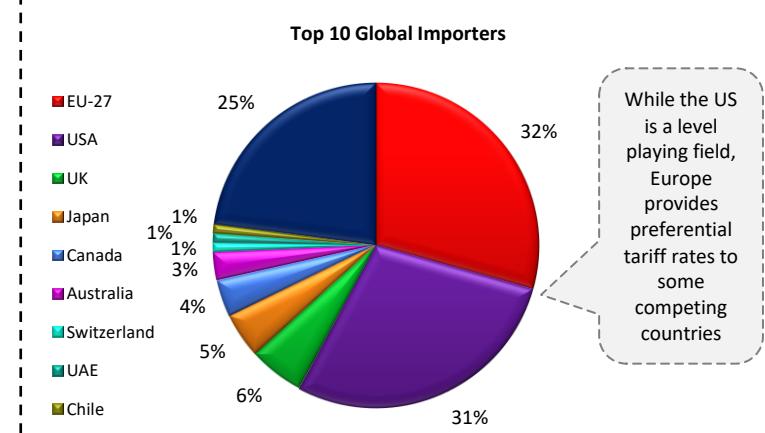
Source: Company, Systematix Institutional Research

Exhibit 17: Global home textiles industry – 6% CAGR (CY22-CY28P)



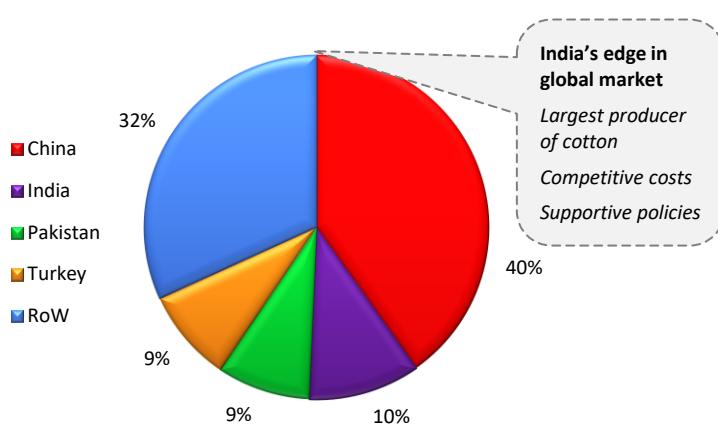
Source: Business Wire, Systematix Institutional Research

Exhibit 18: US + EU - Largest home textile consumer markets



Source: Wazir Advisors, Systematix Institutional Research

Exhibit 19: India + China - Largest Exporters of home textiles



Source: Wazir Advisors, Systematix Institutional Research

Exhibit 20: Key Indian players in home textiles

Company	Towels (000' tons)	Bed Linen (mn. meters)
Welspun India	90	108
Trident	90	63
Alok Industries	14.4	105
Indo Count	-	153
GHCL	-	45
Himatsingka Seide	25	61

Source: Company, Systematix Institutional Research

Exhibit 21: Key customer partnerships



Source: Company, Systematix Institutional Research

Domestic business: Focusing on high-growth Indian market

WELSPUNL is aggressively working towards tapping the domestic opportunity. Over the last two years, WELSPUNL's share of domestic consumer business within its overall revenue doubled from 4.3% in FY20 to 7.1% in FY23; the company also achieved near break-even EBITDA post substantial investments in FY23. WELSPUNL is looking to capitalize on its global leadership and experience in creating successful brands to penetrate the domestic market and achieve 10% revenue share from this business by FY26.

Brand matters

Share of branded products increasing

WELSPUNL's branded home textiles business is largely focused on the domestic market, and includes premium (Christy, SPACES), value (Welspun) and online brands (WELHOME). Given the company's thrust on building brands across regions, the share of its branded products to total revenue has increased from 13% in FY20 to 22% in FY23 compared to the B2B segment that constitutes 78%. Domestic brands grew at 22% YoY and licensed brands (Scott Living and Martha Stewart) continued to surge at 65% YoY in FY23. Global branded business grew at 10% YoY in FY23. The change in revenue mix to 78:22 (B2B:Branded) from 86:14 boosted the margins of the company as innovative and branded products command a premium over B2B segment. Recently, WELSPUNL extended its reach in the kids category through Disney + Marvel + Lucas brand licenses, covering the entire UK and EU regions. Martha Stewart brand store has been live on Amazon.com since Feb 2023, and has received a good response from customers.

Exhibit 22: Brand business

Owned Brands

India



BED • BATH • RUGS



Global



Licensed Brands

India



Global



Source: Company, Systematix Institutional Research

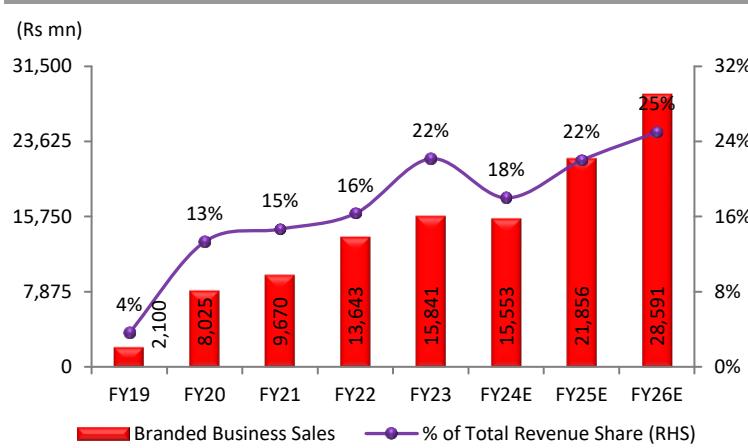
Pan-India distribution reach helps scale up revenue

Over the years, WELSPUNL has augmented its distribution reach in India and the company is today present in 23 states. Its extensive distribution network ensures a strong presence with retailers and customers and an on-time feedback mechanism. WELSPUNL's power brands, 'Welspun' and 'Spaces' have the widest distribution in India and are present in 600+ towns through 17,000+ retail units, making the company a market leader in this category. The company aims to strengthen its distribution network by increasing the number of retail units to 50,000+ by FY26, thereby capturing a huge market share in the country. This multi-fold jump would ensure a significant increase in customer reach and immensely scale up its revenue from new product launches.

Expect 22% CAGR in revenue over FY23-26E

During FY23, WELSPUNL's branded business generated Rs 15.8bn revenue, having grown at 25% per annum (pa) in the last three years. New brand addition, network expansion, category expansion in existing brands, improvement in overall demand environment, and scaling up of power brands should drive 22% CAGR in revenue over FY23-26E.

Exhibit 23: Brand business to post 22% CAGR during FY23-26E



Source: Company, Systematix Institutional Research

Exhibit 24: List of key brands

Brand	Details
Christy™ ENGLAND	<ul style="list-style-type: none"> Premium & Luxury brand 150-year-old brand, dominant in the UK Recently introduced in the US, China, and the Middle East
SPACES BED • BATH • RUGS	<ul style="list-style-type: none"> Premium & Luxury brand Dominant in India Fastest growing home textile brand in India
WELSPUN® BED • N • BATH	<ul style="list-style-type: none"> Value brand
WELHOME BED BATH KIDS LIVING	<ul style="list-style-type: none"> Online brand

Source: Company, Systematix Institutional Research

Exhibit 25: Roped in superstars Mr. Amitabh Bachchan and Mr. Akshay Kumar as brand ambassadors



Source: Company, Systematix Institutional Research

Exhibit 26: Details of domestic power brands

			
Brand Positioning	<ul style="list-style-type: none"> Premium 	<ul style="list-style-type: none"> Mass market 	<ul style="list-style-type: none"> Premium market
Presence	<ul style="list-style-type: none"> Top 40 cities Presence in 380 towns 2,828 outlets 240 shop-in-shop locations 	<ul style="list-style-type: none"> Direct presence in 100 towns 17,000+ outlets 600+ towns 	<ul style="list-style-type: none"> Top 40 cities 572+ dealers
Early Success	<ul style="list-style-type: none"> Leading brand on Myntra in the home category Improved brand awareness Top brand in specialty stores Most engaged home textiles brand Modern trade Winner of Femina Power Brands 2022-2023 	<ul style="list-style-type: none"> Continues to be the #1 distributed brand in the home linen category in India Significant improvement in brand awareness Welspun wins “Prestigious brands of Asia Award 2022-2023” 	<ul style="list-style-type: none"> D2C launch serving 500+ customers in year 1 Marquee clients such as L&T Infotech, ICICI Bank, Infosys, Rakuten, Hyatt, Oberoi Hotels, PVR, Broadway Cinemas Government projects onboarded such as ITPO (Pragati Maidan), IIMS Dehradun, IIT Patna
Target by FY26	<ul style="list-style-type: none"> 10 lakh households Focus on top 70 cities 4,000 outlets 	<ul style="list-style-type: none"> 30 lakh households 50,000 outlets 	<ul style="list-style-type: none"> 10 lakh households 5,000 dealers
Company's target			
	To maintain leadership position in India's home textiles space	Innovative and quality products available at an arm's length	Nationwide presence in urban and rural, and becoming preferred partners for every modern trade and marketplace retailer
	Inspire affluent consumers to enhance their living spaces, driven by comfort, elegance, and sustainability	Make Welspun the “Ubiquitous Brand of Home” in India	Helping consumers effortlessly redecorate their homes, floors

Source: Company, Systematix Institutional Research

Flooring: A significant untapped growth opportunity

Opportunities in the global flooring market galore

The size of the global flooring industry was an impressive USD 277.7bn in CY23 and is expected to register a healthy 5.4% CAGR over CY23-30 according to Grand View Research. The US flooring market was valued at USD 20.56bn in CY22. US and Europe are the world's largest markets for flooring solutions (both hard and soft). We believe several factors could drive growth in this segment, 1) US retailers have been increasingly eyeing India as a sourcing destination to reduce the concentration risk in sourcing, 2) Akin to other industries, supply chain disruptions and input cost inflation have impacted the flooring industry during and post pandemic in the near to medium term. However, new opportunities have opened up for players from India owing to 'China+1' strategy being adopted by many western buyers. Because of this, one of the largest US distributors for hard flooring has entered into a long-term strategic arrangement with WELSPUNL, and the company is in talks with few more, and 3) As the business is distribution driven, it relies heavily on exports (~90%), given the lack of an established brand presence. There is also a healthy export opportunity for carpet tiles and wall-to-wall carpets in these markets.

Import substitution offers a ready market for growth in India

WELSPUNL's flooring business comprises four products 1) Click n Lock tiles 2) Carpet tiles, 3) Wall to Wall Carpets, 4) Greens (artificial grass). All these products are import substitutes. We believe the flooring business offers WELSPUNL significant growth opportunity in India, given the kind of convenience and customization it provides to customers, and lack of any credible supplier of these products. With rising disposable incomes and urbanization as well as industrialization, the domestic flooring business is witnessing strong tailwinds. The company has been witnessing strong interest from large marquee brands across both commercial and hospitality channels.

Exhibit 27: Marquee clients across major industries

Hospitality									
									
Commercial									
									
									
									
									

Source: Company, Systematix Institutional Research

Complete flooring solutions gives WELSPUNL an edge

WELSPUNL is the only company that manufactures hard and soft flooring solutions under one roof, that too with a quick turnaround time and hassle-free installation. It caters to the home, hospitality, and commercial segments. Currently, the company has a network of over 120 distributors and 1,100 dealers (targets to expand it to over 5,000 dealers in the next 2 years) in India for these products. Its greenfield fully integrated facility in Telangana, with an annual installed capacity of 27mn sq meters, is India's largest LEED-certified production facility.

Exhibit 28: Hard and soft flooring solutions

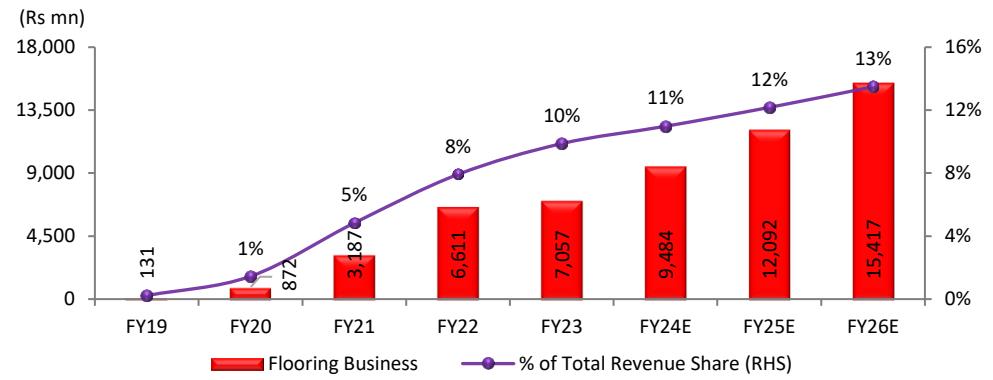


Source: Company, Systematix Institutional Research

Expected to clock 30%/104% CAGR in revenue/EBITDA over FY23-26E

Flooring business clocked a revenue of Rs 7.1bn in FY23, growing at 7% YoY. Domestic flooring hit its highest quarterly revenue, crossing the Rs 2.5bn mark during Q3FY24, registering overall 44% growth in 9MFY24. The company has invested ~Rs 11bn in this segment to develop an installed capacity of 27 Mn sq mtrs pa at Telangana. At peak utilization, the plant can generate revenue of Rs 22-25bn. We expect 30% revenue CAGR over FY23-26E would be led by (i) increased inquiries from big-ticket buyers in the US and UK, notwithstanding the slowdown in both geographies, (ii) increased presence in the Middle East and Australian markets, (iii) strong demand build-up in commercial and institutional segments in the domestic market, and a pick-up in the residential segment, and (iv) encouragement by the Indian Government to replace Chinese imports with local manufacturing. With the business gaining strength in hard and soft flooring segments, we are confident the company would be able to improve its profitability to clock 104% CAGR in its EBITDA over FY23-26E, achieving double-digit EBITDA margins of 10% by FY26E from 2.6% in FY23.

Exhibit 29: Revenue share to increase to 13% by FY26E



Source: Company, Systematix Institutional Research

Advanced textiles: A niche scalable business opportunity

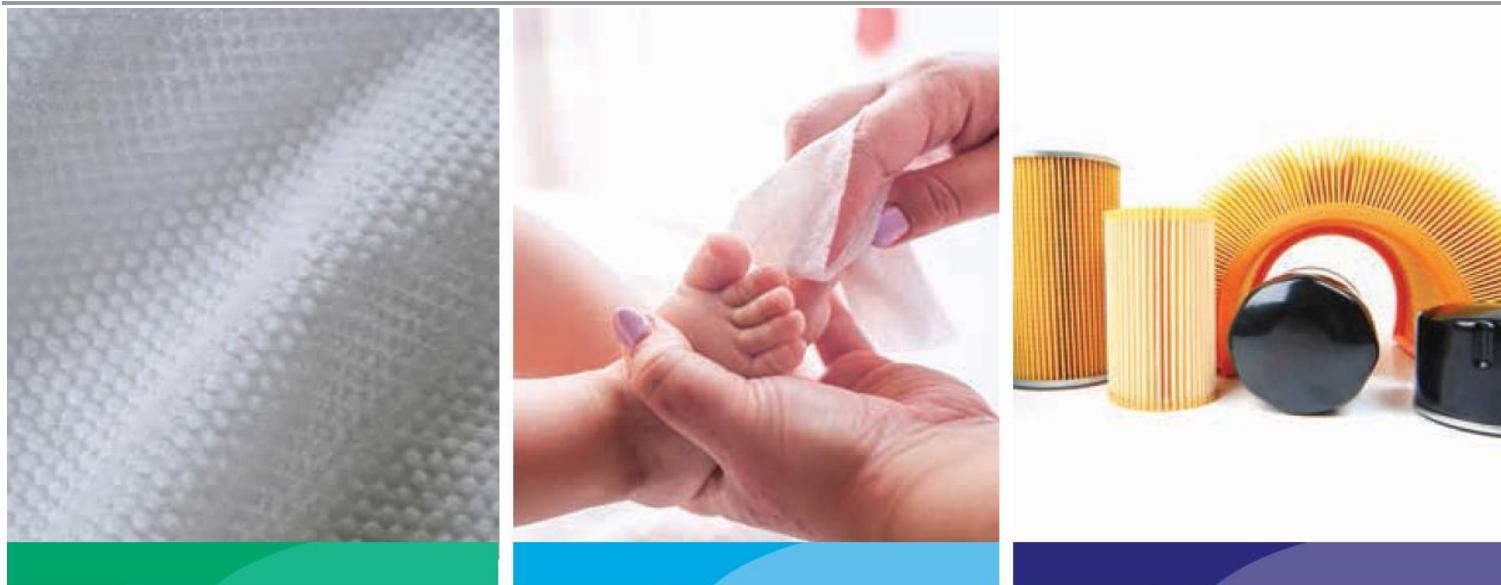
Domestic technical textile market likely to double in next five years

The Indian technical textiles sector is poised for a remarkable growth trajectory, with expectations to reach a staggering USD 50bn within the next five years from the current USD 22bn according to Textile Ministry, Government of India. India's cost effective and innovative manufacturing processes, along with supportive government policies, provide a competitive edge and promising growth outlook to the industry. The country's rapid economic growth, coupled with increased disposable income and infrastructure development, have caused the demand for technical textile products to surge.

Exports offer huge growth opportunity

The size of technical textiles market globally was USD 188.8bn in CY22, which is estimated to expand at 4.7% CAGR over CY23-30, according to Grand View Research. We believe increased awareness of the benefits of technical textiles in various end-user industries would drive the market. Mounting consumer preferences for protective clothing, coupled with emerging fashion trends are creating opportunities for new engineering technologies such as smart textiles and nanotechnology. Asia-Pacific region accounted for more than 46.8% share of global revenue in 2022. In our view, a growing Chinese economy, coupled with favourable government policies is expected to boost demand for Indian technical textiles thereby supporting the overall textile market in India and its growth prospects.

Exhibit 30: Advance textile – A snapshot



Spunlace

Born from innovation and refined by Hydro Entanglement non-woven technology, Spunlace caters to medical disposables, hygiene, and cosmetic industries.

Wet wipes and Beauty Sheet Mask

Tailor-made wet wipes for end applications like baby care, personal hygiene, cosmetics, industrial use, and home care.

Needlepunch

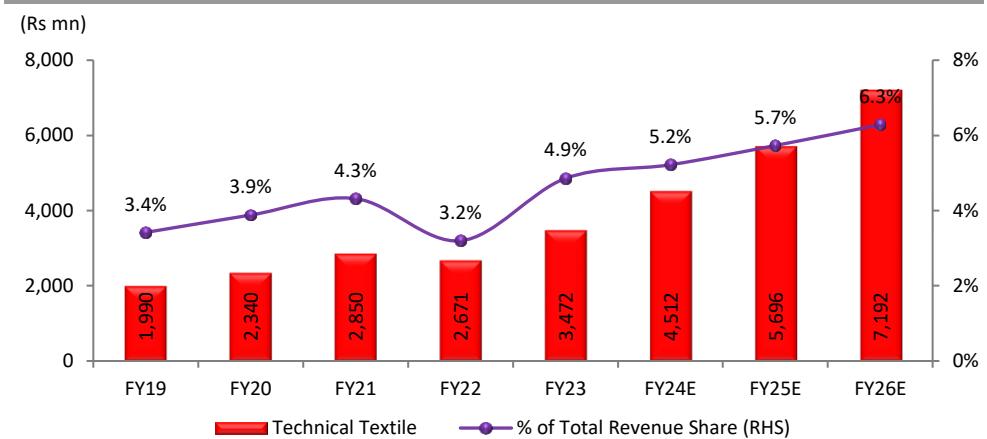
Needlepunch is engineered for applications like air filtration, engine air filter (EAF), and liquid filtration in the Industrial oil, Fuel, Food and Beverage, Paint, and Pharma sectors.

Source: Company, Systematix Institutional Research

Capacity augmentation to fuel growth over FY23-26E

The advanced textiles business witnessed robust 30% YoY growth in FY23 to Rs3.5bn, fueled by increased capacity of Spunlace in Telangana, commissioned in March 2022. This capacity augmentation opens the possibility of market penetration in geographies such as the Middle East and Oceania, through enhanced product development and in scaling up the capabilities. This will likely add value to existing customers and attract newer ones. We forecast 27% CAGR in revenue over FY23-26E.

Exhibit 31: Technical textiles: 27% revenue CAGR (FY23-26E)



Source: Company, Systematix Institutional Research

Exhibit 32: List of key products and applications in technical textiles

Products	Annual capacity	Details
Spunlace	27,729 MT	<ul style="list-style-type: none"> Caters to medical disposables, hygiene and cosmetic applications Recorded 63% annual sales growth in FY23 Secured prestigious Femcare exclusive contract from large multinational Launched SPUN webpage on SPACES.IN (SPUN products are now available in India as well) Working across villages of Kutch with 15 centres of SPUN, empowering more than 300 beneficiaries and impacting more than 1,200 lives
Wet wipes and beauty sheet masks	100 Mn packs	<ul style="list-style-type: none"> Tailor-made wet wipes for end applications like baby care, personal hygiene, cosmetics, industrial use, and home care Delivered record sales in FY23 Launched new beauty sheet masks with a large global FMCG giant Added wet wipes capacity at the Telangana factory Developed in-house formulations for wet wipes and beauty sheet mask as part of a quicker go-to-market strategy for new as well as existing clients
Needlepunch	3,026 MT	<ul style="list-style-type: none"> Engineered for applications like air filtration, engine air filter (EAF), and liquid filtration in the industrial oil, fuel, food and beverage, paints, and the pharma sectors. Won multiple projects with high performance products such as P84, PPS, Meta and Para Aramid, Opan, and under patent Welstrat across segments like industrial filtration, protective apparel, composites, and auto filters Strengthened relationships with key customers in India Consolidated its position as a leader in India in high-performance filtration media space Made significant progress in multiple business development programmes in new geographies like Europe, Middle East, and the US Initiated business development for new applications in protective apparel, composites, and upholstery

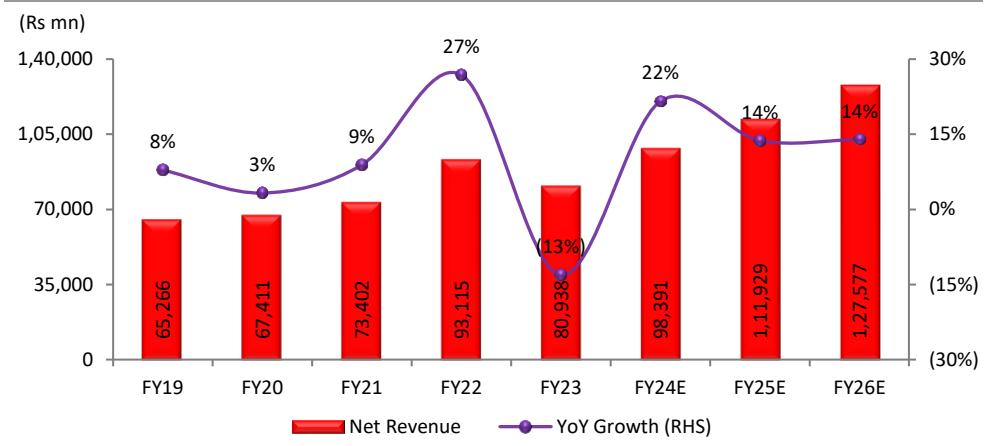
Source: Company, Systematix Institutional Research

Financial outlook

We forecast 16% revenue CAGR over FY23-FY26E

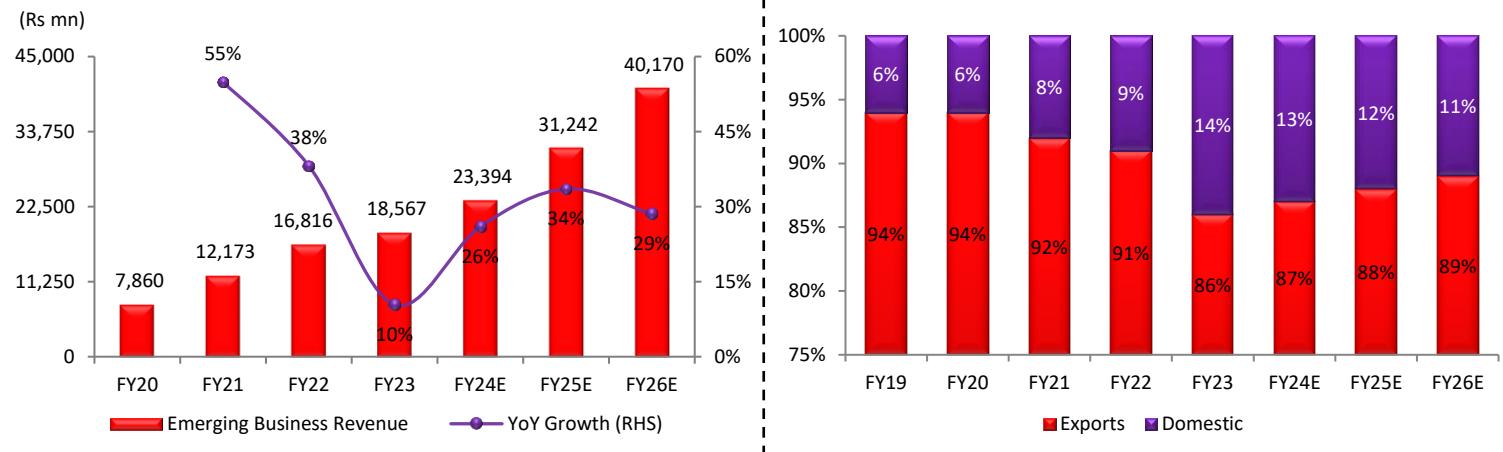
WELSPUNL posted 6% CAGR in revenue over FY18-FY23, impacted by COVID-related challenges like supply chain disruptions, steep rise in cotton prices, inventory buildup and muted demand. We forecast 16% CAGR in revenue over FY23-26E, driven by robust growth in the emerging businesses and improving capacity utilization across segments. We expect textiles (home and technical) /flooring revenue to climb to Rs 115.5bn/Rs 15.4bn in FY26E at 15%/30% CAGR, respectively, over FY23-FY26E. The flooring business has already demonstrated an impressive 171% CAGR in revenue over FY19-FY23. We believe WELSPUNL's next big opportunity lies in domestic branded business, flooring, and technical textiles.

Exhibit 33: Revenue to post 16% CAGR during FY23-26E



Source: Company, Systematix Institutional Research

Exhibit 34: Emerging business revenue to post 29% CAGR (FY23-26E) Exhibit 35: Exports to remain major portion of revenue mix

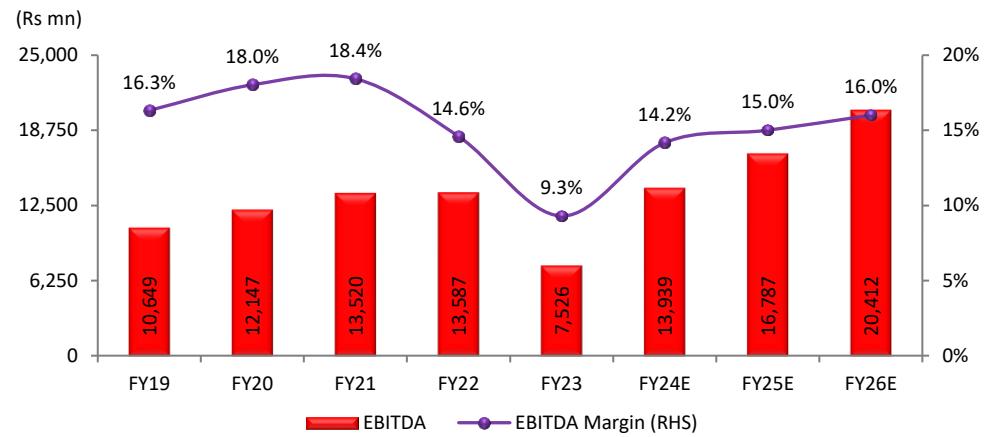


Source: Company, Systematix Institutional Research

EBITDA margin to expand consistently hereon

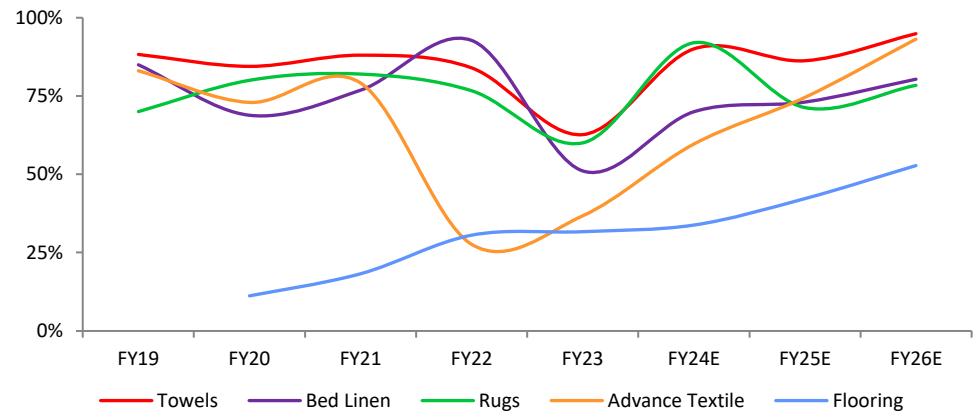
In FY23, EBITDA margin came under pressure (contracted 530bps YoY) due to weak demand, sharp volume contraction, supply chain disruptions and higher input costs. We expect WELSPUNL's EBITDA margin to improve consistently from 9.3% in FY23 to 16% in FY26E, enabled by the company's efforts in a) ramping up its emerging business, b) increased focus on branded business, c) recovery in export demand, d) supply chain normalization, e) soft cotton prices, and f) capacity utilization improving across businesses. In FY26E, we project home textiles to clock 16.8% EBITDA margin (10.5% in FY23), with flooring expected to touch 10% (2.6% in FY23) on higher capacity utilization and strong demand from the real estate sector.

Exhibit 36: Soft raw material prices, higher utilisation to boost EBITDA margin



Source: Company, Systematix Institutional Research

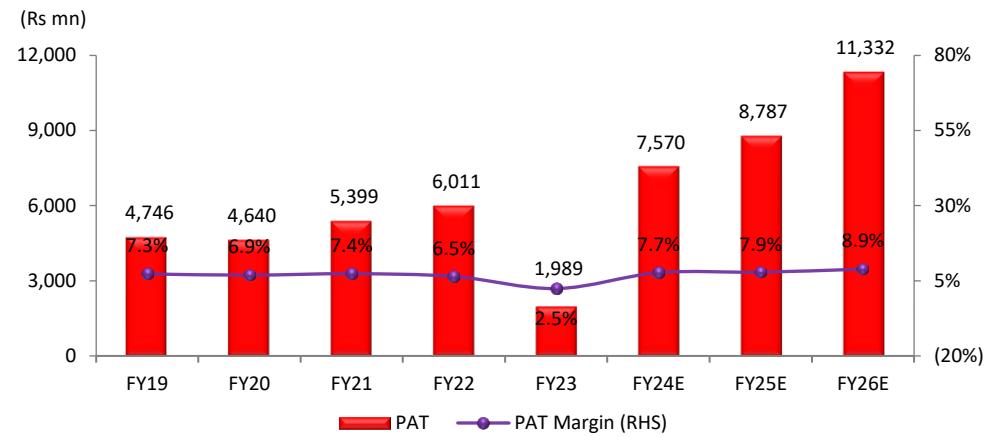
Exhibit 37: Higher capacity utilization to drive operating margins



Source: Company, Systematix Institutional Research

Adj PAT to register 79% CAGR over FY23-FY26E on a low base of FY23

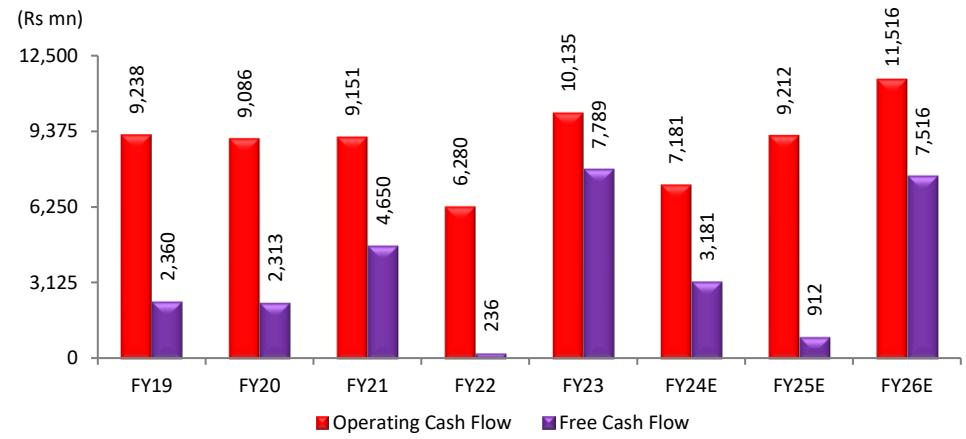
WELSPUNL posted 8% CAGR in Adj PAT over FY19-FY22, driven by strong performance in the home textiles and technical textiles businesses. However, FY23 Adj PAT plummeted 67% YoY due to decline in B2B revenue, low demand from global customers (high inventory levels), higher RM costs and supply chain disruptions. With supply chain improving, RM costs easing (from elevated levels), product mix improving in favour of high-value high-margin businesses like branded and company focusing on reaching optimum capacity utilisation, we expect adj PAT to expand at 79% CAGR over FY23-FY26E and EPS to improve from Rs 2.1 in FY23 to Rs 11.7 in FY26E.

Exhibit 38: PAT and PAT margin

Source: Company, Systematix Institutional Research

Rising profitability to yield robust FCF and strengthen balance sheet

WELSPUNL has been generating healthy free cash flow (FCF), which is expected to improve further FY24E onwards on higher profitability. Even though the company is looking to incur a capex of Rs 16.3bn during FY24E-26E, we still estimate it to generate cumulative FCF of Rs 11.1bn during this period.

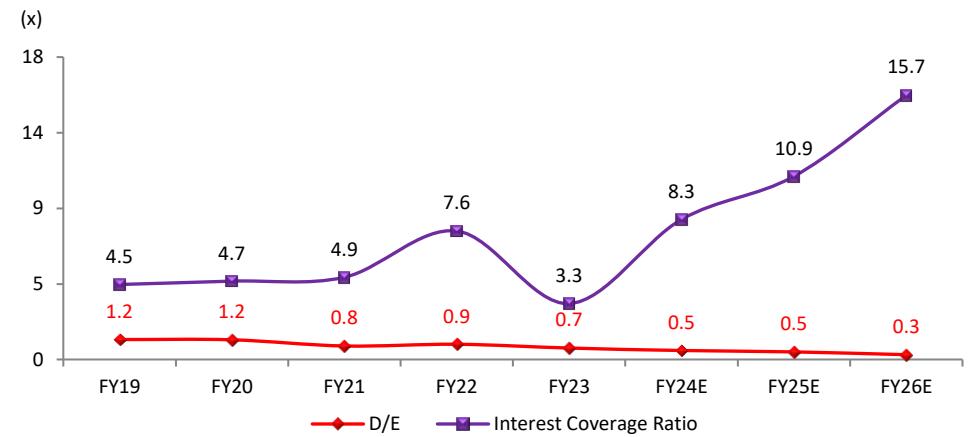
Exhibit 39: FCF to remain positive even as capex continues

Source: Company, Systematix Institutional Research

Debt/equity improving; company expects to turn net cash by FY27

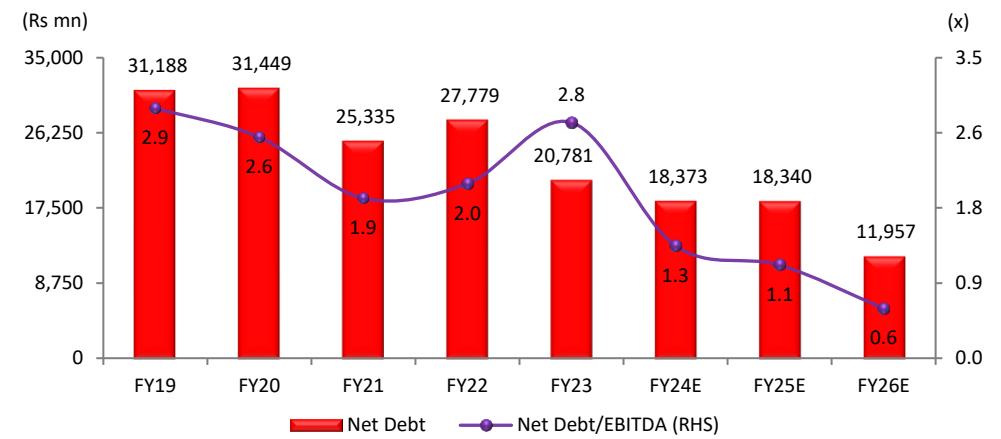
We expect WELSPUNL to reduce gross debt and strengthen its balance sheet on the back of rising profitability. Debt to equity (D/E) should improve to 0.3x in FY26E from 0.7x in FY23. We forecast cash and bank balance of Rs 1.2bn for FY26E; the company expects to turn net-cash positive by FY27.

Exhibit 40: Sustainable leverage: D/E and interest coverage

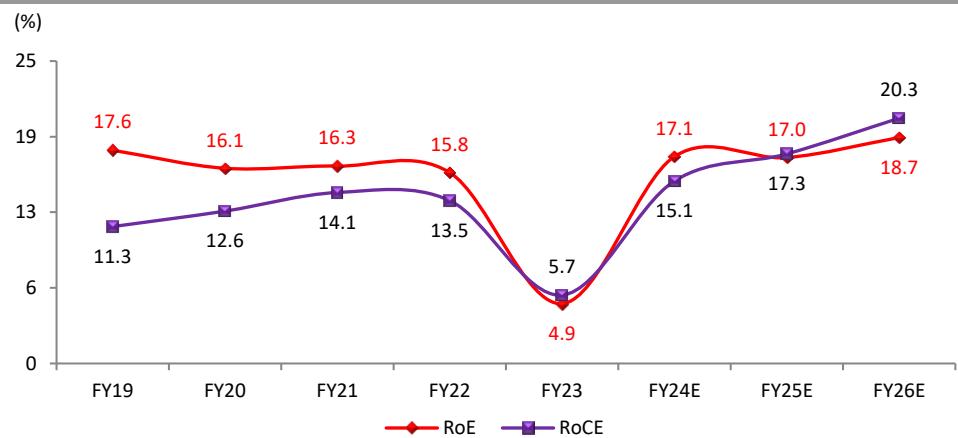


Source: Company, Systematix Institutional Research

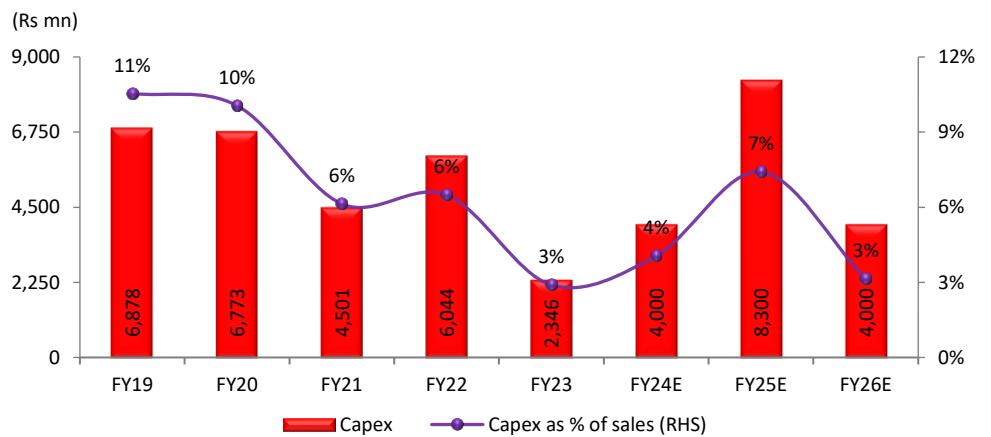
Exhibit 41: Declining net debt to EBITDA



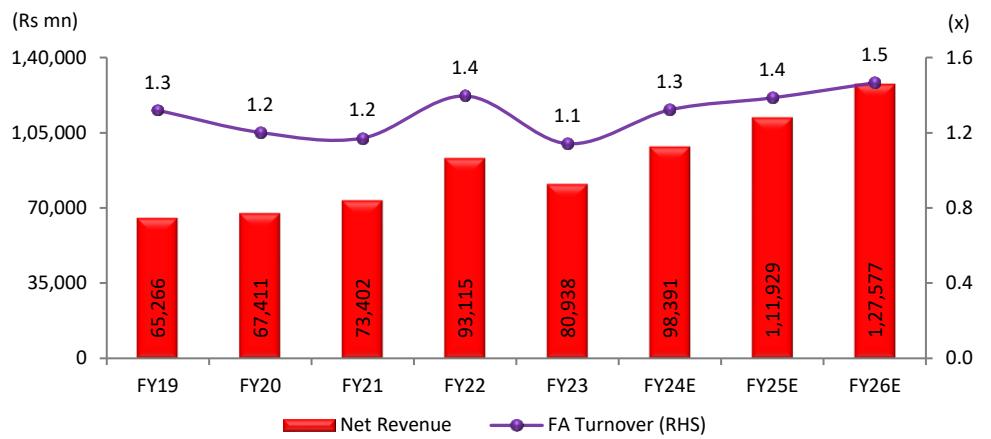
Source: Company, Systematix Institutional Research

Exhibit 42: RoE/RoCE to improve gradually to ~19%/20% by FY26E

Source: Company, Systematix Institutional Research

Exhibit 43: Capex of ~Rs 16.3bn (FY24E to FY26E) to expand capacity in home textiles and maintainance capex

Source: Company, Systematix Institutional Research

Exhibit 44: Higher capacity utilization to improve fixed asset turnover

Source: Company, Systematix Institutional Research

Outlook and valuation

Attractive valuations – Initiate with a BUY

WELSPUNL's medium-term earnings visibility looks intact, likely boosted by a) improvement in demand environment for bed and bath linen, b) increasing capacity utilization across all segments, c) strengthening relationships in export markets, and d) scaling up of emerging business. We expect cash reserve to increase and strengthen the balance sheet over the medium term, causing a huge spurt in FCF. The stock has corrected ~15% in last four months, and currently trades at **11.8x FY26E EPS**, lower than its long-term average of 14x. We initiate coverage on the stock with a BUY rating to arrive at our target price of Rs 187, valuing the stock at 16x FY26E P/E.

WELSPUNL has been trading in the range of 4x-20x one-year forward P/E multiple in the last five years; the last three-year average is ~22x. Currently, WELSPUNL trades at ~11.8x FY26E PE v/s peers at ~17x (Bloomberg consensus).

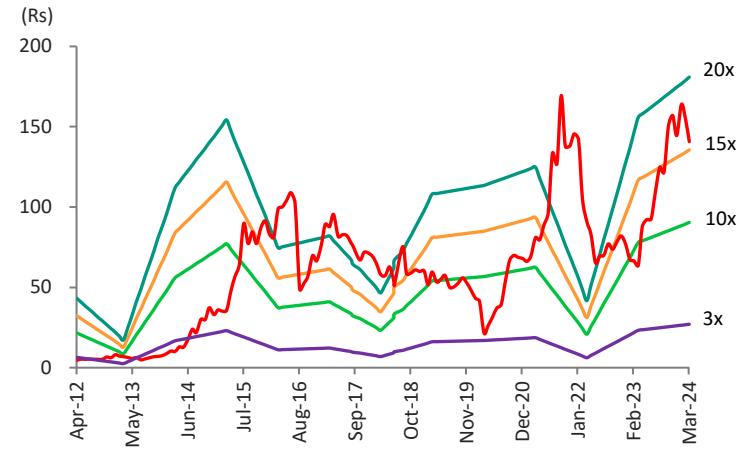
Exhibit 45: Valuation overview

	FY26E
EPS (Rs)	11.8
Current market cap (Rs mn)	1,33,137
No of shares (mn)	971.8
Target multiple (x)	16
TP (Rs)	187
CMP (Rs)	138
Upside (%)	36

Source: Systematix Institutional Research; Note: pricing as on 28 March 2024

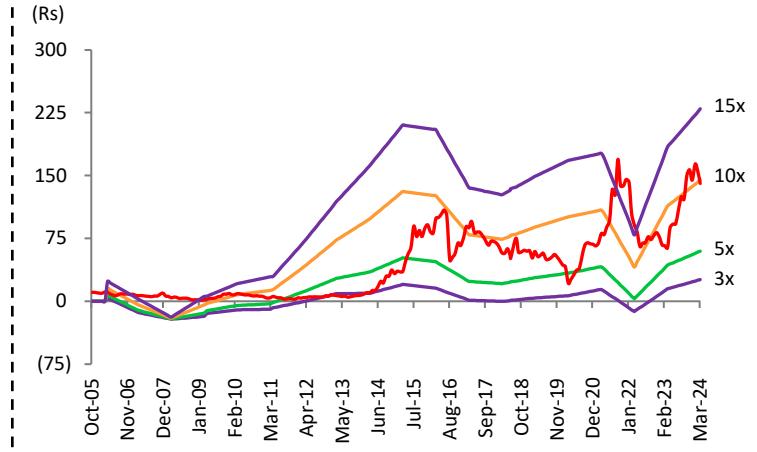
Valuation in pictures

Exhibit 46: Trading at a one-year forward P/E of 12x



Source: Company, Systematix Institutional Research

Exhibit 47: Trading at a one-year forward EV/EBITDA of 7.5x



Source: Company, Systematix Institutional Research

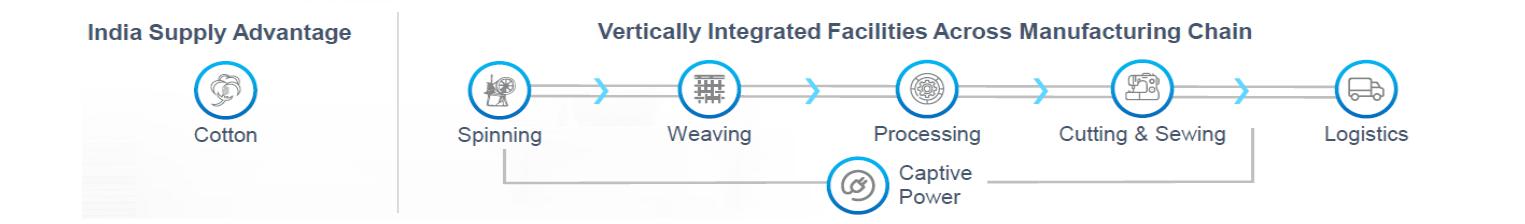
Key risks

- **Raw material price volatility:** The three Cs—cotton, coal, and container—significantly impact margins in the textile industry. Therefore, any notable rise in cotton prices globally, coal prices, or ocean freight pose significant risks to profitability.
- **Currency volatility:** As US and Europe contribute approximately 92% to the company's revenue, any negative fluctuation in currency could significantly impact WELSPUNL's revenue growth. Moreover, adverse movements in USD/INR could reduce export opportunities and thus impact its earnings.
- **Delay in scaling up the flooring business:** Both, global and domestic flooring industry are highly competitive. The flooring business has witnessed big-ticket orders from the US, UK, and the Middle East. Any reduction in revenues from key export markets due to changes in trade policies and macroeconomic slowdown could pose significant risks to our earnings projections.

Company background and management details

Welspun Living (WELSPUNL IN; erstwhile Welspun India) is a part of the USD 3.6bn Welspun Group, a global leader in the home textiles landscape. It operates broadly within three major segments - 1) Home textiles (87%), 2) Advanced textiles (5%), and 3) Flooring (9%). It is present in more than 50 countries, with US as the largest revenue contributor (61%), followed by the EU and UK (15%), India (14%) and RoW (10%). In the US market, WELSPUNL has 20% and 11% market share in the towel and bed sheet segments, respectively. Every fifth towel and ninth bed sheet sold in the US is made by WELSPUNL, according to company data. Its clients in the US include big box retailers, departmental stores and club stores; Walmart, JC Penney, Costco, Macy's, Kohl's, The Home depot, Bed Bath & Beyond, Amazon and Wayfair are its major customers there.

Exhibit 48: Vertical integration across the manufacturing chain



Source: Company, Systematix Institutional Research

The company's business is divided into 3 key segments:

- 1. Home textiles:** WELSPUNL is a pre-eminent global player in the home textiles industry, boasting of a well-established distribution network that spans over 50 countries. The company's product portfolio under this segment includes a) bath linen (annual capacity: 90,000 MT), b) bed linen (108 Mn mtrs), and c) rugs & carpets (12 Mn sq mtrs). It has the world's largest, completely vertically integrated facility for home textiles located in Vapi and Anjar, both in Gujarat. Through strategic focus on branding and innovation, WELSPUNL has built a diversified owned-and-licensed brand portfolio that caters to evolving customer preferences globally. Licensed brands include Martha Stewart, Disney Home, Scott Living, etc. Under domestic-owned brands, it has adopted a dual brand strategy and leveraged the 'Welspun' brand to cater to the mass market segment and the 'SPACES' brand to serve the premium segment.
- 2. Advanced (technical) textiles:** The advanced (technical) textiles business encompasses a wide range of non-woven products that employs three key technologies: Spunlace, Needlepunch, and Thermobond. a) Spunlace: Born from innovation and refined by Hydro Entanglement non-woven technology, Spunlace caters to medical disposables, hygiene, and cosmetic industries. b) Needlepunch: Needlepunch is engineered for applications like air filtration, engine air filter (EAF), and liquid filtration in the Industrial oil, Fuel, Food and Beverage, Paint, and Pharma sector and c) Thermobond: Thermal bonding is a widely used bonding technology in the nonwovens industry, especially in spunbond, meltblown, airlay and wetlay manufacturing, as well as with carded web-formation technologies. With dedicated downstream conversion units for each technology, the company can manufacture bespoke value-added products.

3. Flooring: WELSPUNL is the only company that specializes in producing both hard and soft flooring solutions in a single LEED-certified plant. The company offers hassle-free installation within a day, and is well suited to serve home, hospitality, and the commercial sectors. Its fully integrated greenfield facility located in Telangana has an annual installed capacity of 27 Mn sq mtrs. With sustainability and innovation at the backdrop of its overarching strategy, the company is in the process of setting up product lines within this segment that include, ResilonX – recycled PET yarn, Lush green, and PurGloss – high gloss SPC, sports turf, multistyle (dryback product) and eco-friendly backing options in carpets.

Manufacturing capabilities

WELSPUNL has the world's largest, vertically integrated facility to cater to its home textiles business at Vapi and Anjar in Gujarat, and a flooring facility in Telangana. The company has been enhancing its capacities in a calibrated manner over the last 3 decades. It started with a 2,000 MT towel facility in 1993 and has currently scaled it up to 90,000 MT in towels, 108 Mn mtrs in sheets and 12 Mn sq mtrs in rugs and carpets.

Exhibit 49: Manufacturing capacities (FY23) and production details across different business

			Annual capacity	Production							
				Particulars	Unit	9MFY24	FY23	Utilization (%)	FY22	Utilization (%)	9MFY24
Home textile	Bath Linen	MT	90,000	56,397	63%	71,695	84%	58,126	86%	41,449	62%
	Bed Linen	Mn mtrs	108	55.2	51%	83.5	93%	53.2	66%	40.5	50%
	Rugs & Carpets	Mn sq mtrs	12	7.2	60%	9.2	77%	8.2	92%	5.1	56%
	Advanced Textile										
	Spunlace*	MT	22,729	10,199	37%	7,140	65%	12,465	60%	7,388	36%
	Needle Punch	MT	3,026	1,109	37%	1,355	54%	1,064	47%	845	37%
	Wet Wipes	Mn packs	100	22	22%	22**	35%	15	20%	17	23%

*Additional Capacity of 17,729 commenced effective 12th March, 2022 | **Annual capacity for Wet Wipes for FY22 is 63 Mn packs

Flooring business	Particulars	Unit	Annual Capacity		FY23	Utilization (%)	FY22	Utilization (%)	9MFY24	Utilization (%)	9MFY23	Utilization (%)
			Installed	Effective								
	Flooring	Mn sq mtrs	27	18	5.7	34%	5.5	34%	7.8	58%	4.2	31%

Source: Company, Systematix Institutional Research

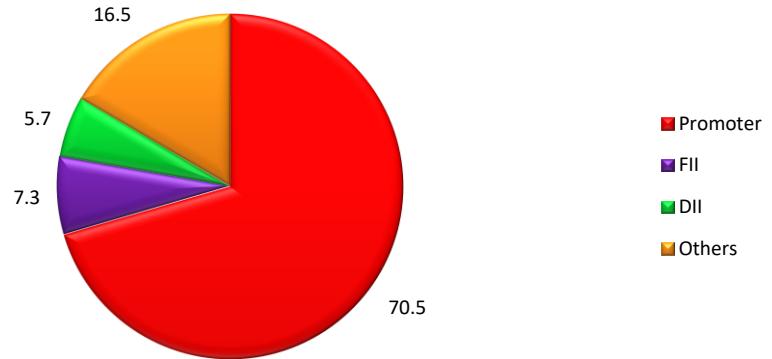
Exhibit 50: Key Management Personnel

Name	Designation	Experience
Mr. B K Goenka	Chairman	Mr. Balkrishan Goenka, an Indian entrepreneur, serves as the Chairman of the USD 3.6bn Welspun Group, renowned for its diverse business portfolio encompassing line pipes, home textiles, infrastructure, oil & gas, advanced textiles, and flooring solutions. He is a seasoned businessman having four decades of experience in the textile industry. He obtained his B. Com degree from the University of Calcutta and later pursued an MBA at the Indian School of Business. He assumed the leadership of ASSOCHAM (Associated Chambers of Commerce and Industry) as President during 2018-2019, playing a significant role in shaping up India's trade, commerce, and industrial environment.
Ms. Dipali Goenka	Managing Director & CEO	Ms. Dipali Goenka, the CEO and Managing Director of Welspun Living Limited (formerly Welspun India) is a graduate in psychology. She has completed the owners/president management program from Harvard University. With over 20 years of experience, Ms. Goenka has been playing a pivotal role in establishing Welspun as a global leader in home textiles, emphasizing customer centricity, innovation, and sustainability. She was recognized as the 16th most powerful woman in Asia and the 4th in India by Forbes magazine in 2016. Additionally, she co-chaired the World Economic Forum on India in 2017 and was named the 'Most Powerful Women in Business' in 2021 by Business Today.
Mr. Sanjay Gupta	CFO	Mr. Sanjay Gupta is a qualified Chartered Accountant and Company Secretary. He is a part of the company's core team, which is working towards catapulting Welspun Living into the next trajectory of sustainable growth. He has worked in areas such as mergers & acquisitions, strategic finance, IPO, and fund raising. He has a rich experience within the wide spectrum of finance, and across industries ranging from manufacturing, retail, pharmaceuticals, healthcare, and media.

Source: Company, Systematix Institutional Research

Shareholding pattern

The company has a promoter shareholding of 70.5%. The non-promoter group shareholders largely include domestic institutional investors (5.7%), foreign institutional investors (7.3%), others (15.5%); shares held by Employee Trust stand at 1.01%.

Exhibit 51: Shareholding pattern (%) as of 31 December, 2023

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net revenue	93,115	80,938	98,391	1,11,929	1,27,577
Revenue growth (%)	26.9	-13.1	21.6	13.8	14.0
- Op. expenses	79,528	73,412	84,453	95,143	1,07,165
EBITDA (Excl. OI)	13,587	7,526	13,939	16,787	20,412
EBITDA margins (%)	14.6	9.3	14.2	15.0	16.0
- Interest expenses	1,313	1,299	1,358	1,286	1,115
- Depreciation	4,205	4,421	4,094	4,442	4,785
+ Other income	658	1,213	1,474	1,677	1,912
+/- Extraordinary items	1	1	-	-	-
- Tax	2,663	994	2,391	3,948	5,091
Effective tax rate (%)	31	33	24	31	31
Reported PAT	6,066	2,026	7,570	8,787	11,332
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	55	37	-	-	-
Adjusted PAT	6,011	1,989	7,570	8,787	11,332
EPS (Rs/share)	6.1	2.0	7.8	9.0	11.7

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	6,011	1,989	7,570	8,787	11,332
+ Non cash items	4,561	4,704	4,094	4,442	4,785
Cash profit	10,572	6,692	11,665	13,230	16,117
- Incr/(Decr) in WC	4,291	-3,443	4,483	4,017	4,601
Operating cash flow	6,280	10,135	7,181	9,212	11,516
- Capex	6,044	2,346	4,000	8,300	4,000
Free cash flow	236	7,789	3,181	912	7,516
- Dividend	148	99	757	879	1,133
+ Equity raised	-2,017	-	-16	-	-
+ Debt raised	6,936	-8,431	-2,467	-454	-6,527
- Investments	5,828	-593	-	-	-
- Misc. items	515	692	-	-	-
Net cash flow	-1,336	-841	-59	-420	-144
+ Opening cash	3,991	2,655	1,814	1,755	1,335
Closing cash	2,655	1,814	1,755	1,335	1,191

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	988	988	972	972	972
Reserves & Surplus	38,728	39,890	46,703	54,611	64,810
Networth	39,716	40,878	47,675	55,583	65,782
Minority interest	1,046	1,082	1,082	1,082	1,082
Total Debt	37,373	28,942	26,475	26,022	19,495
Def. tax liab. (net)	1,730	2,012	2,012	2,012	2,012
Capital employed	79,865	72,914	77,244	84,699	88,371
Net Fixed assets	41,713	39,638	39,544	43,402	42,617
Investments	6,939	6,347	6,347	6,347	6,347
Net Working capital	28,558	25,115	29,598	33,615	38,217
Cash and bank balance	2,655	1,814	1,755	1,335	1,191
Capital deployed	79,865	72,914	77,244	84,699	88,371
Net debt	34,718	27,128	24,720	24,686	18,304
WC (days)	80	93	95	95	95
DE(x)	0.9	0.7	0.5	0.5	0.3

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	14.6	68.6	17.7	15.3	11.8
P/BV (x)	2.2	3.3	2.8	2.4	2.0
EV/EBITDA (x)	9.0	21.4	11.4	9.5	7.5
RoE (%)	15.8	4.9	17.1	17.0	18.7
RoCE (%)	13.5	5.7	15.1	17.3	20.3
Fixed Asset turnover (x)	1.4	1.1	1.3	1.4	1.5
Dividend payout (%)	2	5	10	10	10
Dividend yield (%)	0.2	0.1	0.6	0.7	0.9
Debtors days	39	43	45	45	45
Creditor days	36	39	40	40	40
Inventory days	78	89	90	90	90
Revenue growth (%)	27	-13	22	14	14
EBITDA growth (%)	0	-45	85	20	22
PAT growth (%)	11	-67	281	16	29

Source: Company, Systematix Institutional Research

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