

**CMP: INR 324**

**Rating: BUY**

**Target Price: INR 548**

**Stock Info**

BSE	532144
NSE	WELCORP
Bloomberg	WLCO IN
Reuters	WGSR.BO
Sector	Iron & Steel
Face Value (Rs)	5
Equity Capital (Rs Mn)	1307.5
Mkt Cap (Rs Mn)	84,780
52w H/L (INR)	345 / 178
Avg Daily Volume (in 000')	1,754

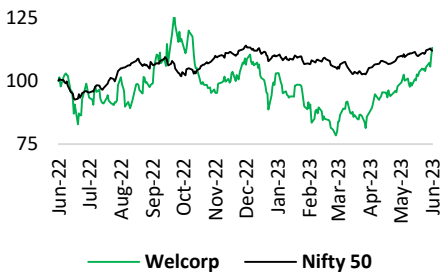
**Shareholding Pattern %**

(As on July, 2023)

Promoters	49.99
Public & Others	50.01

Stock Performance (%)	1m	6m	12m
WELCORP	5.2%	58.7%	53.4%
NIFTY	1.3%	9.6%	11.8%

**Welcorp Vs Nifty**



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Welspun Corp declared Q1FY24 results are a beat on our estimates both in revenues and EBITDA but tad disappointment in Saudi business (KSA was expected to delivery strong profits in Q1). However which was later clarified on concall as some slight nudges in deliveries.

**Operating Performance:**

**Revenues** came in at INR 40,693 Mn (-0.02% QoQ) (+216% YoY) (Vs our estimate of INR 35,110 Mn)

**EBITDA** came in at INR 3,688 Mn (Vs 4,206 Mn QoQ) (Vs -47 Mn YoY) (Vs our estimate of INR 3203 Mn)

**EBITDA Margins** came in at 9.06% (Vs 10.33% QoQ) (Vs 2.24% YoY) (Vs our estimate of 9.11%)

**PAT** came in at INR 1,654 Mn (Vs 2,359 Mn QoQ) (Vs -10 Mn YoY)

**PAT Margins** came in at 4.02% (Vs 5.71% QoQ) (Vs -0.07% YoY)

**Segmental Results**

**Steel Products revenues** came in at INR 39,230.4 Mn (Vs 40,599.9 Mn QoQ) (Vs 13,218.2 Mn YoY)

**Others (including plastic products) revenues** came in at at INR 1,462 Mn (Vs 101.6 Mn QoQ)

**Steel Products EBIT Margins** came in at INR 7.11% (Vs 7.8% QoQ) (Vs 0.16% YoY)

**Others (including plastic products) EBIT margins** came in at at 8.47% (Vs -3.94% QoQ)

**Outlook and Valuations:** Line pipe business orderbook and bid book look low sequentially however, it seems to be a passing phenomena as company operates on project basis. Next set of pipeline orders for USA are reflecting in bidbook and company has a strong record in USA deliveries. KSA facility is full for next 2 years. DI biz is EBITDA breakeven now but sequential improvement is expected as input costs are falling. Company is expecting atleast 20% CAGR growth in WSSL. **ABG scrap sale will garner more than investment amount. Inventory levels of Q4FY23 are tapering off.** Company has maintained its guidance of INR 150 Bn of topline in FY24 and EBITDA of INR 15 Bn with ROCE of 16% and has **introduced guidance for FY24 of EPS at INR 26.8 and Net Debt of INR 2.31 Bn.** Keeping all of the factors in mind, we believe the story is intact with minor nudges in current quarter. **We have maintained our estimates and our rating.** We will continue to monitor the changes which should have a significant impact on the outlook and will accordingly revise our estimates. **At CMP, company trades 4.2x EV/EBITDA FY26E. We have a BUY rating on the stock**

**Valuation Summary**

Y/E Mar, Rs mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	99,568	71,526	65,051	97,581	1,54,138	1,58,486	1,76,036
EBIDTA	11,600	7,951	4,717	4,846	14,310	14,505	16,794
Net Profit	6,921	8,350	4,552	1,992	7,282	7,603	9,327
EPS, Rs	26.53	32.01	17.45	7.61	27.84	29.07	35.66
PER, x	5.54	4.48	12.21	42.55	11.64	11.15	9.09
EV/EBIDTA, x	3.33	4.92	11.42	19.84	6.20	5.43	4.17
P/BV, x	1.19	1.07	1.26	1.79	1.67	1.51	1.33
ROE, %	21.53	20.45	10.28	4.21	14.35	13.51	14.69

## Valuation

Particulars	FY26
EBITDA	11,261
EV	61,933
Net Debt/(Cash)	-14,645
Mcap	76,578
No of Shares	262
<b>Core Business Value per Share</b>	<b>293</b>

## Saudi Business

Holds @ 35% stake	5,365
<b>Per Share</b>	<b>21</b>

## DI Pipe Business

<b>EBITDA</b>	<b>3321</b>
Multiple	7
EV	23247
Net Debt/Cash	
Mcap	23247
No of shares	262
<b>Business Value per share</b>	<b>89</b>

## Specialty Solutions Business

<b>EBITDA</b>	<b>1333</b>
Multiple	10
EV	13327
Net Debt/Cash	
Mcap	13327
No of shares	262
<b>Business Value per share</b>	<b>51</b>

## Exhibit 3: Volume breakup

Sales Volume	Q1FY24	Q4FY23	Q1FY23	FY23	FY22
Line Pipes (KMT)	185	345	99	1,002	796
Pig Iron (KMT)		107		158	0
DI Pipes (KMT)	27	23		37	
Billets (KMT)		49		136	112
TMT Bars (KMT)	20	16		18	
SS Bars (MT)	3022	2,783	1,557	6,869	1,531
SS Pipes (MT)	1275	1,079	692	4,059	2,915

Steel Business (TMT)	
<b>EBITDA</b>	<b>880</b>
Multiple	5.5
EV	4840
Debt	0
Market Cap	4840
<b>Per Share</b>	<b>19</b>

## ABG Shipyard Investments

Investments	6,590
Price to book	2
Value per share	38

## Sintex BAPL investments

Investments	4,060
Price to book	3
Value per share	39

<b>SOTP TARGET PRICE</b>	<b>548</b>
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<b>CMP</b>	<b>324</b>
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<b>Upside</b>	<b>69%</b>
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## Exhibit 3: Volume breakup (Part 2)

Volumes (KTPA)	2020	2021	2022	2023
<b>(Line Pipe)</b>				
India	578	626	506	573
US	423	123	97	86
Saudi	500	254	190	342
<b>DI Pipe</b>	0	0	0	38
<b>TMT Bars</b>	0	0	0	18
SS Bar and Pipe	37	5	4	11

## Exhibit 4: Annual Capacity Chart

Annual Capacity Chart								
Capacity	India					USA	Saudi Arabia	Total
	Anjar	Dahej	Mandya	Bhopal	Jhagadia	Little Rock	Dammam	
LSAW	350	350						700
HSAW	250		150	305		350	375	1,430
ERW/HFIW	200					175		375
<b>Total (KMT)</b>			<b>1,605</b>			<b>525</b>	<b>375</b>	<b>2,505</b>
TMT Bars (KMT)	350							350
DI Pipes (KMT)	400							400
SS Bars (KMT)					150			150
SS Pipes (KMT)					18			18

**Overview:** The key takeaways have been on a positive note as majority of issues have been clarified. Saudi business performance had sales recognition mismatch in Q1 (will be reflected in Q2). Net debt levels have come down to INR 8.35 Bn (from INR 11 Bn earlier). Nauyaan Shipyard scrap sold in the quarter to the tune of INR 1-1.5 Bn

**Line Pipe Business:**

- **Orderbook** at INR 86.8 Bn (645,000 T)
- **India orderbook** at 315,000 tonnes and US orderbook at 330,000 tonnes
- Out of 315K tonnes of India order, 110K tonnes is of Oil and Gas and remainder is of Water. Entire India orderbook will be executed in FY24 itself
- **India Biz volumes** at 104,000 tonnes (Vs 92,000 tonne YoY)
- **US biz volumes** at 81,000 tonnes (Vs 7,000 tonnes YoY)
- **Saudi** has orderbook enough for 2 year

**India:**

- Strong export outlook with focus on Australia, Europe, South East Asia and Middle East. Upcoming hydrogen hubs and carbon capture projects to drive future demand for pipelines for H2 & CO2 applications
- Rise in demand due to new government policies like City Gas Distribution
- Strong traction in JJM (Jal Jeevan Mission), Nal Se Jal, Jal Nigam projects taken up by the Govt, thereby promoting this segment

**USA:**

- **Visibility in the region for next 5-7 years**
- **Permian basin has 2 Oil and 4 gas pipelines yet to be constructed. All reflected in company's bidbook. Out of the last 4 pipelines executed in Permian basin, 3.5 was done by Welspun Corp.**
- The USA is projected to account for over half of the global supply increase in 2023 and become the world's largest LNG exporter
- Oil supply from the USA will continue to remain strong with its shares likely to be 45% of the incremental rise to reach to the global total of 105.7 million bpd by 2028

**KSA:**

- **Saudi performance was weak in the quarter due to delivery and recognition issues. However, this quarters performance will reflect in Q2**
- Saudi Aramco raised its upstream spending by about 24% to US\$29 billion and plans further increase in spending to boost its crude oil capacity to 13 million bpd by 2027
- The country is heavily investing in its water desalination projects exceeding US\$14.58 billion
- Saudi Aramco and Saudi Basic Industries Corp. (SABIC) joint project of oil to chemicals will increase the demand of pipes significantly
- Upgrades and expansion projects in refineries like SASREF, Petro Rabigh, and Jubail, as well as the launch of the Jizan refinery will augur well for demand. Visibility of at least next 2 years.
- **EPIC order of 1.8 Bn SAR execution to go on for entire FY24**

**DI Pipe:**

- **Volumes** were at 27K tonnes, orderbook at 149,000 tonnes valued at INR 11.95 Bn.
- **FY24 volume guidance of 175-200K tonnes**
- Company has DI Pipe range from 80 mm to 1200 mm
- Company is also exploring opportunities in the key markets of Middle East and Africa.

**SS Bars and Pipes:**

- Booked first order for super critical 6625 grade instrumentation tubes
- Successful development of S30432 (Super 304H) grade steel as well as Boiler Tubes including creep testing for the first time in the country
- Company adding new customers in existing geographies and entering Philippines and USA markets
- **Orderbook of 3864 tonnes worth INR 1.56 Bn (2500 tonnes of Bars and 1200 tonnes of pipes)**
- Company working towards SEA and NEA regions

**Nauyaan Shipyard:**

- Company sold scrap worth INR 1-1.5 Bn in the quarter, will sell the entire scrap in FY24
- **Total realization from scrap sale to be INR 7-8 Bn**

**ABG Shipyard:**

- First goal is to take market share back to 22-23%
- Structural changes will be visible Q3 onwards

**Other KTAs:**

- Current borrowing costs at ~8%
- Mr Aneesh Mishra appointed as non-independent director (8 year's experiences in Metals and Mining Industry)
- Ms Deepali Sheth appointed as independent director (seasoned HR leader with three decades of experience)

**Outlook and Valuation:**

Line pipe business orderbook and bid book look low sequentially however, it seems to be a passing phenomena as company operates on project basis. Next set of pipeline orders for USA are reflecting in bidbook and company has a strong record in USA deliveries. KSA facility is full for next 2 years. DI biz is EBITDA breakeven now but sequential improvement is expected as input costs are falling. Company is expecting atleast 20% CAGR growth in WSSL. **ABG scrap sale will garner more than investment amount. Inventory levels of Q4FY23 are tapering off.** Company has maintained its guidance of INR 150 Bn of topline in FY24 and EBITDA of INR 15 Bn with ROCE of 16% and has **introduced guidance for FY24 of EPS at INR 26.8 and Net Debt of INR 2.31 Bn.** Keeping all of the factors in mind, we believe the story is intact with minor nudges in current quarter. **We have maintained our estimates and our rating.** We will continue to monitor the changes which should have a significant impact on the outlook and will accordingly revise our estimates. **At CMP, company trades 4.2x EV/EBITDA FY26E. We have a BUY rating on the stock**

Exhibit 5: Revenue & Revenue Growth

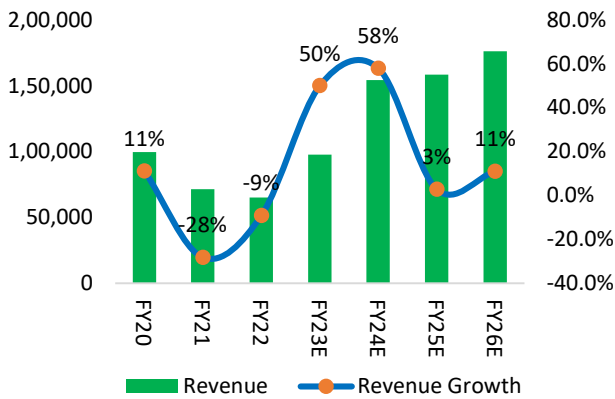


Exhibit 6: EBITDA & EBITDA Margin

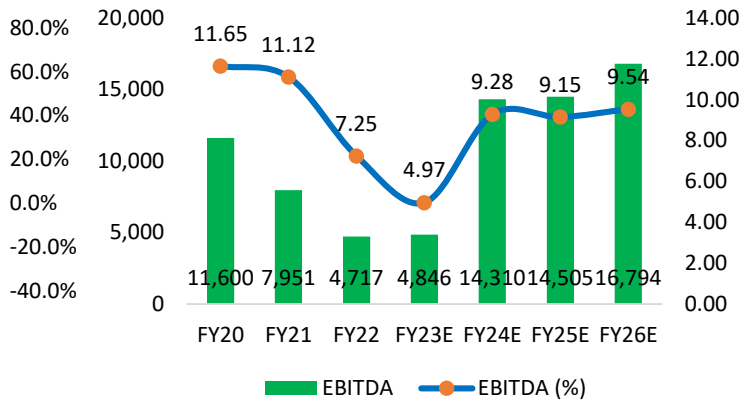


Exhibit 7: Operating Cost Matrix

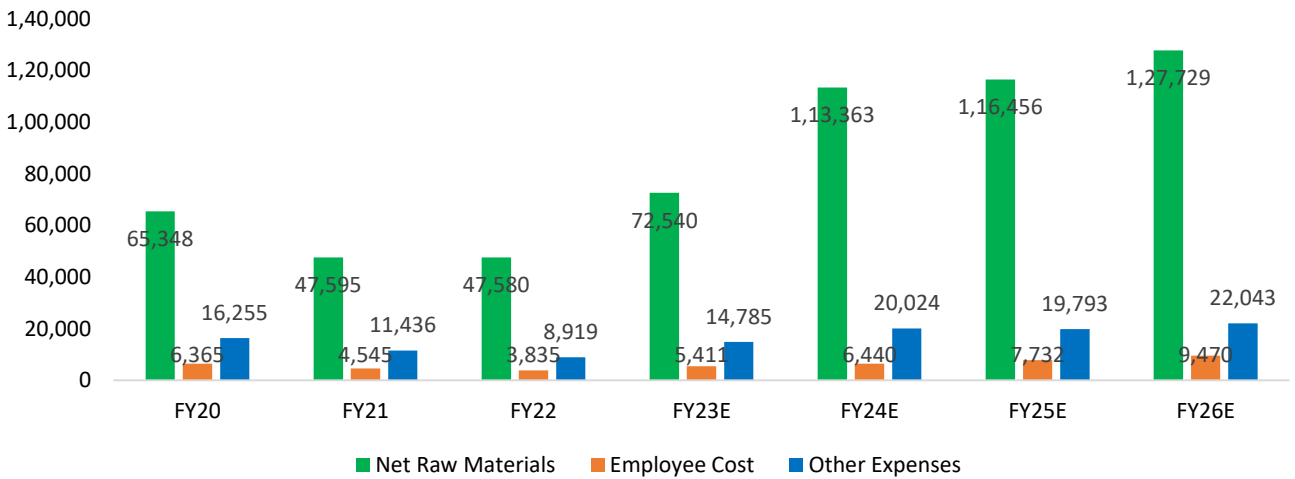


Exhibit 8: PBT & PBT Margins

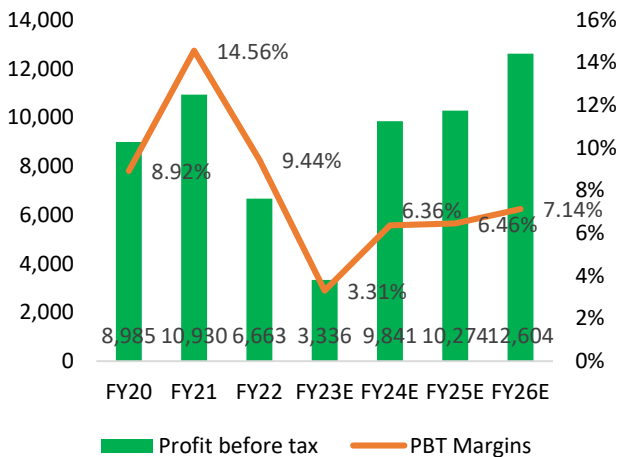
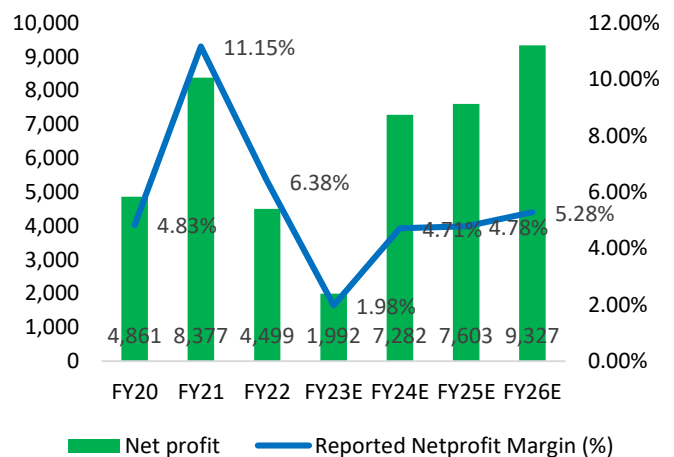


Exhibit 9: PAT & PAT Margins



## Financial Statements

## Income statement summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Revenue	99,568	71,526	65,051	97,581	1,54,138	1,58,486	1,76,036
Net Raw Materials	65,348	47,595	47,580	72,540	1,13,363	1,16,456	1,27,729
Employee Cost	6,365	4,545	3,835	5,411	6,440	7,732	9,470
Other Expenses	16,255	11,436	8,919	14,785	20,024	19,793	22,043
<b>EBITDA</b>	<b>11,600</b>	<b>7,951</b>	<b>4,717</b>	<b>4,846</b>	<b>14,310</b>	<b>14,505</b>	<b>16,794</b>
<b>EBITDA (%)</b>	<b>11.65</b>	<b>11.12</b>	<b>7.25</b>	<b>4.97</b>	<b>9.28</b>	<b>9.15</b>	<b>9.54</b>
Depreciation	2,333	2,465	2,548	3,030	3,623	3,823	4,023
Interest expense	1,440	850	1,019	2,432	2,412	2,112	2,016
Other income	1,159	3,568	5,512	3,200	576	576	576
Associate & JV				752	990	1,128	1,273
<b>Profit before tax</b>	<b>8,985</b>	<b>10,930</b>	<b>6,663</b>	<b>3,336</b>	<b>9,841</b>	<b>10,274</b>	<b>12,604</b>
Taxes	4,124	2,553	2,164	1,345	2,559	2,671	3,277
<b>Net profit</b>	<b>4,861</b>	<b>8,377</b>	<b>4,499</b>	<b>1,992</b>	<b>7,282</b>	<b>7,603</b>	<b>9,327</b>
<b>Reported Netprofit Margin (%)</b>	<b>4.83%</b>	<b>11.15%</b>	<b>6.38%</b>	<b>1.98%</b>	<b>4.71%</b>	<b>4.78%</b>	<b>5.28%</b>
EPS (INR)	26.53	32.01	17.45	7.61	27.84	29.07	35.66

Source: Company Reports, Arihant Capital Research

## Balance sheet summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Cash & bank	9,631	14,100	21,947	21,783	28,212	34,111	41,528
Marketable securities at cost	0	0	0	0	0	0	0
Debtors	12,470	6,688	8,126	11,405	25,338	21,710	19,292
Inventory	22,682	12,130	10,195	56,862	42,229	34,737	29,902
Loans & advances	936	8,682	1,184	6,454	7,795	7,575	7,910
Other current assets	11,642	1,121	1,711	0	6,334	6,513	7,234
Total current assets	57,361	42,721	43,162	96,504	1,09,908	1,04,646	1,05,866
Investments	4,213	7,267	9,581	8,972	9,372	9,772	10,172
Gross fixed assets	28,347	43,873	44,899	71,083	75,883	79,883	83,883
Less: Depreciation	-13,040	-19,535	-22,002	-24,824	-28,447	-32,269	-36,292
Add: Capital WIP	817	1,472	12,604	869	69	69	69
Net fixed assets	16,124	25,811	35,500	47,128	47,505	47,682	47,660
Non-current assets	1,734	1,119	3,446	653	450	495	544
<b>Total assets</b>	<b>79,432</b>	<b>76,917</b>	<b>91,689</b>	<b>1,53,257</b>	<b>1,67,236</b>	<b>1,62,596</b>	<b>1,64,243</b>
Current liabilities	34,347	16,586	23,166	75,105	89,074	82,454	77,651
Provisions	3,446	9,497	6,677	6,825	6,969	7,117	7,269
Total current liabilities	37,792	26,083	29,843	81,929	96,043	89,571	84,920
Non-current liabilities	9,346	8,739	16,571	23,023	19,211	15,409	14,337
Total liabilities	47,138	34,822	46,413	1,04,952	1,15,254	1,04,980	99,257
Paid-up capital	1,304	1,304	1,305	1,308	1,308	1,308	1,308
Reserves & surplus	30,848	39,523	42,978	46,013	49,441	54,951	62,186
Shareholders' equity	32,294	42,095	45,275	48,441	51,981	57,615	64,986
<b>Total equity &amp; liabilities</b>	<b>79,432</b>	<b>76,917</b>	<b>91,689</b>	<b>1,53,393</b>	<b>1,67,236</b>	<b>1,62,596</b>	<b>1,64,243</b>

Source: Company Reports, Arihant Capital Research

**Cashflow summary**

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Pre-tax profit	8,985	10,930	6,663	3,336	9,841	10,274	12,604
Depreciation	2,333	2,465	2,548	3,030	3,623	3,823	4,023
Chg in working capital	2,396	5,470	7,574	-5,746	7,309	4,613	1,469
Total tax paid	-2,854	-1,407	-1,463	-280	-2,338	-2,444	-3,042
Other operating activities	-	-	-	-	-	-	-
Cash flow from operating activities	10,860	17,458	15,321	-1,722	18,434	16,267	15,054
Capital expenditure	-2,364	-12,151	-12,237	-14,657	-4,000	-4,000	-4,000
Chg in investments	-2,893	-3,055	-2,313	-	-	-	-
Chg in marketable securities	-	-	-	-	-	-	-
Other investing activities	-	-	-	-	-	-	-
Cash flow from investing activities	-5,258	-13,857	-14,550	-13,297	-3,410	-3,272	-3,127
Free cash flow	5,603	3,601	771	-15,019	15,024	12,995	11,926
Equity raised/(repaid)	-608	2,872	23	-	-	-	-
Debt raised/(repaid)	-5,670	792	8,395	4,968	-4,000	-3,999	-1,280
Dividend (incl. tax)	-3,205	-1,526	-1,527	-1,504	-1,308	-2,092	-2,092
Other financing activities	-	-	-	-	-	-	-
Cash flow from financing activities	-7,231	4,613	6,669	3,595	-5,196	-5,968	-3,236
Net chg in cash	-1,628	8,215	7,440	-11,424	9,829	7,027	8,690
Opening cash balance	10,192	9,631	14,100	21,947	21,783	28,212	34,111
Closing cash balance	9,631	14,100	21,947	21,783	28,212	34,111	41,528

Source: Company Reports, Arianth Capital Research

**Ratio analysis**

<b>Y/e 31 Mar (INR Mn)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
<b>Per Share data</b>							
EPS (INR)	26.53	32.01	17.45	7.61	27.84	29.07	35.66
Growth, %	1,075.64	20.64	-45.49	-56.35	265.65	4.40	22.68
Book NAV/share (INR)	123.24	156.50	169.70	180.93	194.04	215.11	242.77
FDEPS (INR)	26.53	32.01	17.45	7.61	27.84	29.07	35.66
CEPS (INR)	35.47	36.18	27.21	19.20	41.69	43.69	51.04
CFPS (INR)	22.36	49.99	38.11	-24.05	52.25	55.85	50.68
DPS (INR)	10.50	5.00	5.00	5.00	5.00	8.00	8.00
<b>Return ratios</b>							
Return on assets (%)	7.80	11.80	6.54	3.60	6.05	5.89	6.94
Return on equity (%)	21.53	20.45	10.28	4.21	14.35	13.51	14.69
Return on capital employed (%)	14.80	18.91	9.36	6.57	13.53	13.41	14.82
<b>Turnover ratios</b>							
Asset turnover (x)	3.12	1.96	1.65	2.01	2.71	3.01	3.54
Sales/Total assets (x)	1.23	0.91	0.77	0.80	0.96	0.96	1.08
Sales/Net FA (x)	6.18	3.41	2.12	2.36	3.26	3.33	3.69
Working capital/Sales (x)	0.11	0.10	-0.12	-0.07	-0.09	-0.12	-0.12
Receivable days	45.71	34.13	45.59	42.66	60.00	50.00	40.00
Inventory days	83.15	61.90	57.20	212.69	100.00	80.00	62.00
Payable days	59.84	41.16	59.53	101.32	77.16	88.06	88.44
Working Capital day	74.22	107.48	79.13	55.55	33.52	35.42	44.10
Working capital days (Ex-cash)	38.92	35.53	-44.01	-25.93	-33.28	-43.14	-42.01
<b>Liquidity ratios</b>							
Current ratio (x)	1.55	1.97	1.49	1.18	1.15	1.17	1.25
Quick ratio (x)	0.93	1.41	1.13	0.49	0.71	0.78	0.90
Interest cover (x)	6.43	6.46	2.13	0.75	4.43	5.06	6.33
Dividend cover (x)							
Total debt/Equity (%)	30.95	23.58	45.65	70.08	63.37	50.06	42.34
Net debt/Equity (%)	1.00	-10.95	-3.91	24.05	7.78	-10.57	-23.07
<b>Valuation</b>							
PER (x)	5.54	4.48	12.21	42.55	11.64	11.15	9.09
PEG (x) - y-o-y growth	0.01	0.49	-0.41	-0.76	0.04	2.53	0.40
Price/Book (x)	1.19	1.07	1.26	1.79	1.67	1.51	1.33
Yield (%)	7.14	2.99	2.35	1.54	1.54	2.47	2.47
EV/Net sales (x)	0.39	0.55	0.83	0.99	0.58	0.50	0.40
EV/EBITDA (x)	3.33	4.92	11.42	19.84	6.20	5.43	4.17
EV/EBIT (x)	4.17	7.13	24.82	52.93	8.30	7.38	5.49

Source: Company Reports, Arihant Capital Research



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**Stock Rating Scale**

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Research Analyst  
Registration No.**

INH000002764

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