

On path for exponential growth

CMP: INR 650

Rating: BUY

Target Price: INR 843

Stock Info

BSE	532144
NSE	WELCORP
Bloomberg	WLCO IN
Reuters	WGSR.BO
Sector	Iron & Steel
Face Value (Rs)	5
Equity Capital (Rs Mn)	1308.3
Mkt Cap (Rs Bn)	170
52w H/L (INR)	678/310
Avg Daily Volume (in 000')	1,244

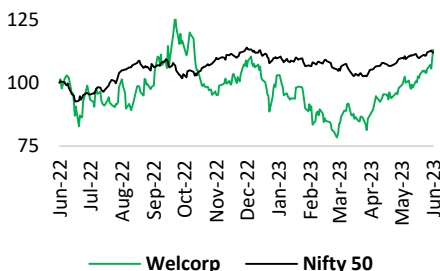
Shareholding Pattern %

(As on June, 2024)

Promoters	50.03
Public & Others	49.97

Stock Performance (%)	1m	6m	12m
WELCORP	6	12.5	94
NIFTY	-1 %	11%	23%

Welcorp Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022-67114871

Miraj Shah
022-67114865
miraj.shah@arihantcapital.com

Weak performance due to drag in topline, however margins have improved, best operating margins in 2 years

Operating Metrics (Consol)

- **Revenues** came in at INR 31.4 Bn (-29.7% QoQ) (-22.9% YoY) (Vs our estimate of INR 47.3 Bn)
- **EBITDA** came in at INR 3.7 Bn (+13.27% QoQ) (+1.4% YoY) (Vs our estimate of INR 4.32 Bn)
- **EBITDA Margins** came in at 11.92% (Vs 7.4% QoQ) (Vs 9.06% YoY) (Vs our estimate of 9.12%)
- **PAT** came in at INR 2.48 Bn (-7.56% QoQ) (+50.06% YoY)
- **PAT Margins** came in at 7.81% (Vs 5.91% QoQ) (Vs 4.02% YoY)

Key Triggers:

- **Planned expansion in DI pipes** originally was for 500,000 tonnes but the company has been able to increase that expansion to 600,000 tonnes at **no additional cost**. The segment is in a strong growth cycle and is expected to remain for some years. Company's greenfield expansion in ME is also shaping up well but will take 18 months to commercialize.
- **Strong performance of EPIC and ongoing capex of Sintex**. We believe Sintex will be one of the strongest asset for the company in 3 years time given to the size of capex and plans of the company regarding execution.
- The **only laggard for the near future are the HRC prices**, which will impact the margins and absolute profitability.

Outlook: Management has maintained their guidance of INR 170 Bn in topline and INR 17 Bn in EBITDA. The USA order is still to come but company is extremely confident on receiving the order by end of CY. The USA facilities are booked till Q3. The acquisition of Weetek is small compared to the capacity that the company intends to put in their Sintex business. The highlights of the business (and the ongoing important triggers) are the expansion in DI Pipes, growth momentum of EPIC and capex plans of Sintex. DI Pipe unit of Middle East to start in 15-18 months. We continue to believe that the company will deliver excellent performance going ahead as they are setting up huge facilities in each of their desired segments. These expansions, whenever operational, will deliver jumpstart numbers. The only concern is the falling steel prices, which will impact the realisations and eventually the profitability of the company. **We revise our target price to INR 843 and upgrade our rating to BUY.** We believe the company is in a better position overall at the current stage and the only thing to navigate through is the falling RM prices.

Valuation Summary

Rs mn	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Net Sales	71,526	65,051	97,581	1,73,396	1,82,156	2,22,179	2,50,663
EBIDTA	7,951	4,717	4,846	15,614	20,260	24,397	27,888
Net Profit	8,350	4,552	1,992	11,360	13,287	15,625	16,894
EPS, Rs	32.01	17.45	7.61	43.42	50.78	59.71	64.56
PER, x	4.48	12.21	85.36	14.97	12.80	10.89	10.07
EV/EBIDTA, x	4.92	11.42	37.43	11.14	7.53	5.77	5.35
P/BV, x	1.07	1.26	3.59	3.03	2.58	2.14	1.80
ROE, %	20.45	10.28	4.21	20.23	20.16	19.67	17.92

Valuation

Particulars	FY27
EBITDA	12,185
EV	67,018
Net Debt/(Cash)	-21,826
Mcap	88,844
No of Shares	262
Core Business Value per Share	340

Saudi Business

Holds @ 35% stake	12,296
Per Share	47

DI Pipe Business

EBITDA	8051
Multiple	7
EV	56355
Net Debt/Cash	
Mcap	56355
No of shares	262
Business Value per share	215

Specialty Solutions Business

EBITDA	3058
Multiple	10
EV	30583
Net Debt/Cash	
Mcap	30583
No of shares	262
Business Value per share	117

Steel Business (TMT)

EBITDA	960
Multiple	5.5
EV	5280
Debt	0
Market Cap	5280
Per Share	20

ABG Shipyard Investments

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

Sintex BAPL investments

EBITDA	3,634
Multiple	5
Value per share	69

SOTP TARGET PRICE	843
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CMP	650
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Upside	30%
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Exhibit 3: Volume breakup

Sales Volume	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	FY24	FY23
Line Pipes (KMT)	229	368	291	202	185	1,180	1,002
Pig Iron (KMT)							158
DI Pipes (KMT)			62	46	27		37
Billets (KMT)							136
TMT Bars (KMT)	57	42	30	28	21	121	18
Sintex (MT)	5534	6204	3,411	3,565	4,962	21,461	
SS Bars (MT)	4738	3610	3,921	5,351	3,022	15,904	6,869
SS Pipes (MT)	1139	1118	1,183	3,565	1,275	4,785	4,059

Exhibit 3: Volume breakup (Part 2)

Volumes (KTPA)	2020	2021	2022	2023
(Line Pipe)				
India	578	626	506	573
US	423	123	97	86
Saudi	500	254	190	342
DI Pipe	0	0	0	38
TMT Bars	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
Total (KMT)			1,605			525	375	2,505
TMT Bars (KMT)	350							350
DI Pipes (KMT)	400							400
SS Bars (KMT)						150		150
SS Pipes (KMT)						18		18

Welspun Corp – Q1FY25 Concall Highlights**Key Highlights from the concall:****Volumes:**

- **Steel Pipes** volumes came in at 229,000 tonnes Vs 212,000 tonnes YoY
- **SS Bars** volumes came in at 4,738 tonnes Vs 3,022 tonnes YoY
- **SS Pipes** came in at 1,139 tonnes Vs 1,275 tonnes YoY
- **Sintex** volumes came in at 5,534 tonnes Vs 4,962 tonnes YoY
- **TMT** volumes came in at 57,000 tonnes Vs 21,000 tonnes YoY

Orderbook stood at:

- **Line Pipe:** 497,000 tonnes (INR 57.1 Bn) | **Bid book** of 2 Mn tonnes
- **DI Pipes:** 300,000 tonnes (INR 24.95 Bn)
- **SS Bars and Pipes:** 6,791 tonnes (INR 3.03 Bn)

Line Pipe India:

- Company sees a demand of ~2.7 Mn tonnes of Line Pipe Projects in next 2 years with major demand coming in from large PSUs like GAIL, IOCL, ONGC, HPCL and BPCL
- WCL has produced API X65 grade ERW pipes for transportation of gaseous hydrogen (first mill in India).
- Export focus maintained towards Middle East, South East Asia, Australia, Latin America etc (strong potential seen)
- India Oil & Gas Market size is estimated at 38.12 Bn CBM in 2024, and is expected to reach 49.12 Bn CBM by 2029 (CAGR of 5.20%).
- For water transport, huge opportunity lies in interlinking of rivers which will start from next year. Certain states are exponentially increasing the water pipeline network for irrigation, industrialization and urbanization purposes. JJM continues to see strong demand

Line Pipe USA:

- Currently have OB till Q3FY25, in L1 position for further orders.
- Management has mentioned that there is no delay in receiving the order.
- Permian basin to have atleast 2-3 new pipelines of which company is confident to close atleast 1 in CY24
- US Crude Oil Production is likely to go up to 14.5 mn barrel per day in CY30, Permian basin production expected to increase from current 5.2 mbpd to 7.5 mbpd. Natural Gas production from the current level of 104 bcf/day is expected to increase by 18 bcf/ day by 2030 with Permian contributing to major portion of the incremental supply
- USA is the largest LNG exporter at 13 bcf/day with additional 10 bcf/ day of capacity under construction.

Saudi Business:

- EPIC declared SAR 1.5 dividend for FY24 (EPS of SAR 3.2). This will be a decent cash flow which will assist the company for capex requirements. No plans to expand shareholding in EPIC yet.
- OB of 2.5 years. Company sees strong demand for atleast 5-7 years for O&G and water both

DI Pipe:

- Company has expanded the capacity of DI Pipe in Anjar from 500,000 tonnes to 600,000 tonnes at no additional cost (shall be available by Q3). Middle east greenfield unit expansion of 150,000 tonnes on track, land and assets bought, will be available in 15-18 months.
- Healthy OB of 300,000 tonnes (will be completed in 9 months). DI pipes should do 13-15% margins
- As per JJM data, 78% project completed (100 Mn households yet to be connected)
- Government schemes of Swachh Bharat Mission (Gramin), JJM and Amrut 2.0 are expected to contribute significantly going ahead

WSSL:

- Geography, territory and customer base expansion continues. New grades development & introduction continues. Company recently bagged a big order.

Sintex:

- Company acquired Weetek Plastics at EV of INR 850 Mn (Gross block of Weetek is INR 850 Mn). Management mentioned that the facilities are state of the art and the plant was commissioned on 1st November 2023 only. Capacity is 19,000 tpa. Weetek will still take additional 6-8 months to complete
- Out of total 23.55 Bn capex, 40% will be spent in FY25 and remainder in FY26. Commercialisation will be done in 2-3 phases and 1st phase will start by end of current year.
- Company is working on capability building of existing distributors and appointing new ones
- Market size of Plastic Pipes is likely to reach to INR ~650 Bn by 2030

Outlook: Management has maintained their guidance of INR 170 Bn in topline and INR 17 Bn in EBITDA. The USA order is still to come but company is extremely confident on receiving the order by end of CY. The USA facilities are booked till Q3. The acquisition of Weetek is small compared to the capacity that the company intends to put in their Sintex business. The highlights of the business (and the ongoing important triggers) are the expansion in DI Pipes, growth momentum of EPIC and capex plans of Sintex. DI Pipe unit of Middle East to start in 15-18 months. We continue to believe that the company will deliver excellent performance going ahead as they are setting up huge facilities in each of their desired segments. These expansions, whenever operational, will deliver jumpstart numbers. The only concern is the falling steel prices, which will impact the realisations and eventually the profitability of the company. **We revise our target price to INR 843 and upgrade our rating to BUY.** We believe the company is in a better position overall at the current stage and the only thing to navigate through is the falling RM prices.

Financial Statements

Income statement summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Revenue	99,568	71,526	65,051	97,581	1,73,396	1,82,156	2,22,179	2,50,663
Net Raw Materials	65,348	47,595	47,580	72,540	1,20,995	1,31,218	1,61,070	1,80,464
Employee Cost	6,365	4,545	3,835	5,411	9,376	8,844	10,870	13,487
Other Expenses	16,255	11,436	8,919	14,785	27,410	21,833	25,841	28,825
EBITDA	11,600	7,951	4,717	4,846	15,614	20,260	24,397	27,888
EBITDA (%)	11.65	11.12	7.25	4.97	9.00	11.12	10.98	11.13
Depreciation	2,333	2,465	2,548	3,030	3,479	5,165	5,864	6,464
Interest expense	1,440	850	1,019	2,432	3,044	1,059	963	865
Other income	1,159	3,568	5,512	3,200	2,425	2,425	2,425	2,425
Associate & JV				752	2,618	1,128	1,273	0
Profit before tax	8,985	10,930	6,663	3,336	14,135	17,589	21,268	22,983
Taxes	4,124	2,553	2,164	1,345	2,775	4,302	5,643	6,089
Net profit	4,861	8,377	4,499	1,992	11,360	13,287	15,625	16,894
Reported Netprofit Margin (%)	4.83%	11.15%	6.38%	1.98%	6.46%	7.20%	6.96%	6.68%
EPS (INR)	26.53	32.01	17.45	7.61	43.42	50.78	59.71	64.56

Balance sheet summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Cash & bank	9,631	14,100	21,947	21,783	15,208	31,642	42,053	32,424
Marketable securities at cost	0	0	0	0	0	0	0	0
Debtors	12,470	6,688	8,126	11,405	17,991	24,953	24,348	30,904
Inventory	22,682	12,130	10,195	56,862	23,156	39,925	37,740	44,639
Loans & advances	936	8,682	1,184	6,454	4,512	8,491	9,746	4,569
Other current assets	11,642	1,121	1,711	0	0	0	0	0
Total current assets	57,361	42,721	43,162	96,504	60,866	1,05,010	1,13,887	1,12,535
Investments	4,213	7,267	9,581	8,972	9,575	9,975	10,375	10,775
Gross fixed assets	28,347	43,873	44,899	71,083	75,883	83,883	93,883	1,03,883
Less: Depreciation	-13,040	-19,535	-22,002	-24,824	-28,303	-33,130	-38,557	-44,584
Add: Capital WIP	817	1,472	12,604	869	851	851	851	851
Net fixed assets	16,124	25,811	35,500	47,128	48,431	51,603	56,176	60,149
Non-current assets	1,734	1,119	3,446	653	2,013	2,080	2,288	2,517
Total assets	79,432	76,917	91,689	1,53,257	1,20,884	1,68,668	1,82,726	1,85,976
Current liabilities	34,347	16,586	23,166	75,105	32,924	78,136	79,409	68,595
Provisions	3,446	9,497	6,677	6,825	6,646	6,783	6,924	7,067
Total current liabilities	37,792	26,083	29,843	81,929	39,570	84,919	86,332	75,662
Non-current liabilities	9,346	8,739	16,571	23,023	21,240	16,530	15,514	14,490
Total liabilities	47,138	34,822	46,413	1,04,952	60,809	1,01,449	1,01,846	90,152
Paid-up capital	1,304	1,304	1,305	1,308	1,308	1,308	1,308	1,308
Reserves & surplus	30,848	39,523	42,978	46,013	54,855	64,610	78,142	92,942
Shareholders' equity	32,294	42,095	45,275	48,441	57,345	67,219	80,880	94,251
Total equity & liabilities	79,432	76,917	91,689	1,53,393	1,18,154	1,68,668	1,82,726	1,84,403

Cashflow summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Pre-tax profit	8,985	10,930	6,663	3,336	14,135	17,589	21,268	22,983
Depreciation	2,333	2,465	2,548	3,030	3,479	5,165	5,864	6,464
Chg in working capital	2,396	5,470	7,574	-5,746	#####	17,548	2,717	-19,195
Total tax paid	-2,854	-1,407	-1,463	-280	-1,715	-4,027	-5,358	-5,794
Other operating activities	-	-	-	-	-	-	-	-
Cash flow from operating activities	10,860	17,458	15,321	-1,722	1,437	36,275	24,490	4,458
Capital expenditure	-2,364	-12,151	-12,237	-14,657	-4,782	-8,338	-10,437	-10,437
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	-2,766	-7,610	-9,564	-10,837
Free cash flow	5,603	3,601	771	-15,019	-1,329	28,665	14,926	-6,379
Equity raised/(repaid)	-608	2,872	23	-	-	-	-	-
Debt raised/(repaid)	-5,670	792	8,395	4,968	-3,038	-4,961	-1,280	-1,300
Dividend (incl. tax)	-3,205	-1,526	-1,527	-1,504	-1,308	-2,093	-2,093	-2,093
Other financing activities	-	-	-	-	-	-	-	-
Cash flow from financing activities	-7,231	4,613	6,669	3,595	-4,285	-6,936	-3,243	-4,823
Net chg in cash	-1,628	8,215	7,440	-11,424	-5,614	21,729	11,684	-11,202
Opening cash balance	10,192	9,631	14,100	21,947	21,783	15,208	31,642	42,053
Closing cash balance	9,631	14,100	21,947	21,783	15,208	31,642	42,053	32,424

Ratio analysis

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Per Share data								
EPS (INR)	26.53	32.01	17.45	7.61	43.42	50.78	59.71	64.56
Growth, %	1,075.64	20.64	-45.49	-56.35	470.13	16.96	17.60	8.12
Book NAV/share (INR)	123.24	156.50	169.70	180.93	214.64	251.92	303.64	360.20
FDEPS (INR)	26.53	32.01	17.45	7.61	43.42	50.78	59.71	64.56
CEPS (INR)	35.47	36.18	27.21	19.20	56.71	70.52	82.12	89.27
CFPS (INR)	22.36	49.99	38.11	-24.05	33.63	125.31	80.26	8.65
DPS (INR)	10.50	5.00	5.00	5.00	5.00	8.00	8.00	8.00
Return ratios								
Return on assets (%)	7.80	11.80	6.54	3.60	10.50	9.91	9.44	9.63
Return on equity (%)	21.53	20.45	10.28	4.21	20.23	20.16	19.67	17.92
Return on capital employed (%)	14.80	18.91	9.36	6.57	19.14	17.64	18.38	17.28
Turnover ratios								
Asset turnover (x)	3.12	1.96	1.65	2.01	2.88	3.33	4.60	4.14
Sales/Total assets (x)	1.23	0.91	0.77	0.80	1.27	1.26	1.26	1.36
Sales/Net FA (x)	6.18	3.41	2.12	2.36	3.63	3.64	4.12	4.31
Working capital/Sales (x)	0.11	0.10	-0.12	-0.07	0.04	-0.06	-0.06	0.02
Receivable days	45.71	34.13	45.59	42.66	37.87	50.00	40.00	45.00
Inventory days	83.15	61.90	57.20	212.69	48.74	80.00	62.00	65.00
Payable days	59.84	41.16	59.53	101.32	51.03	90.01	89.87	62.12
Working Capital day	74.22	107.48	79.13	55.55	45.14	40.57	45.54	53.94
Working capital days (Ex-cash)	38.92	35.53	-44.01	-25.93	13.13	-22.83	-23.55	6.73
Liquidity ratios								
Current ratio (x)	1.55	1.97	1.49	1.18	1.54	1.24	1.32	1.49
Quick ratio (x)	0.93	1.41	1.13	0.49	0.96	0.77	0.88	0.90
Interest cover (x)	6.43	6.46	2.13	0.75	3.99	14.26	19.25	24.76
Dividend cover (x)								
Total debt/Equity (%)	30.95	23.58	45.65	70.08	33.97	21.42	16.16	12.24
Net debt/Equity (%)	1.00	-10.95	-3.91	24.05	6.89	-26.58	-36.77	-22.16
Valuation								
PER (x)	5.54	4.48	12.21	85.36	14.97	12.80	10.89	10.07
PEG (x) - y-o-y growth	0.02	0.98	-0.82	-1.51	0.03	0.75	0.62	1.24
Price/Book (x)	1.19	1.07	1.26	3.59	3.03	2.58	2.14	1.80
Yield (%)	7.14	2.99	2.35	0.77	0.77	1.23	1.23	1.23
EV/Net sales (x)	0.39	0.55	0.83	1.86	1.00	0.84	0.63	0.60
EV/EBITDA (x)	3.33	4.92	11.42	37.43	11.14	7.53	5.77	5.35
EV/EBIT (x)	4.17	7.13	24.82	99.88	14.33	10.11	7.60	6.96

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
 Building No. 10, 1st Floor
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E)
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

Arihant House
 6, Lad Colony, YN Road
 Indore - 452003, (M.P.)
 Tel: (+91-731) 4217100/7101

Stock Rating Scale

BUY
 ACCUMULATE
 HOLD
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 REDUCE
 SELL

Absolute Return

>20%
 12% to 20%
 5% to 12%
 -5% to 5%
 -5% to -12%
 <-12%

**Research Analyst
Registration No.**

INH000002764

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)
 Tel. 022-42254800 Fax. 022-42254880