

CMP: INR 480

Rating: BUY

Target Price: INR 576

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)	496/177
Avg Daily Volume (in 000')	1,754

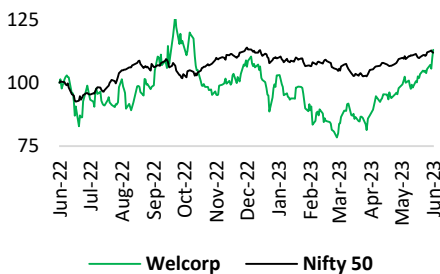
Shareholding Pattern %

(As on July, 2023)

Promoters	49.96
Public & Others	50.04

Stock Performance (%)	1m	6m	12m
WELCORP	22.8%	113%	105%
NIFTY	-1.5%	5.9%	7.6%

Welcorp Vs Nifty



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Welspun Corp declared Q2FY24 which continued to be a beat on our estimates for 3rd quarter in a row. Outlook continues to remain bullish going ahead.

Operating Performance:

- **Revenues** came in at INR 40,595 Mn (-0.24% QoQ) (+106.7% YoY) (Vs our estimate of INR 37,437 Mn)
- **EBITDA** came in at INR 3,995 Mn (Vs 3,688 Mn QoQ) (Vs -1,312 YoY) (Vs our estimate of INR 3505 Mn)
- **EBITDA Margins** came in at 9.84% (Vs 9.06% QoQ) (Vs -6.68% YoY) (Vs our estimate of 9.36%)
- **PAT** came in at INR 3,847 Mn (Vs 1,654 Mn QoQ) (Vs -566 Mn YoY)
- **Adj. PAT** came in at INR 2,811 Mn (Vs 1,654 Mn QoQ) (Vs -566 Mn YoY)
- **PAT Margins** came in at 6.76% (Vs 4.02% QoQ) (Vs -2.64% YoY)

Segmental Results

- **Steel Products revenues** came in at INR 39,027.5 Mn (Vs 39,230.4 Mn QoQ) (Vs 19,638.1 Mn YoY)
- **Others (including plastic products) revenues** came in at INR 1,567 Mn (Vs 1,462 Mn QoQ)
- **Steel Products EBIT Margins** came in at INR 9.36% (Vs 7.11% QoQ) (Vs -2.66% YoY)
- **Others (including plastic products) EBIT margins** came in at 13.23% (Vs 8.47% QoQ)

Outlook and Valuations: Company maintained guidance of INR 150 Bn topline and INR 15 Bn of EBITDA with 16% ROCE for FY24. The line pipe bid book has grown exponentially indicating big bid orders for Permian basin orders. Extremely strong performance by company and the outlook suggests similar performance going ahead. The volumes on DI pipes and TMT bars suggest increase in volumes going ahead as well and Sintex volumes to increase from here as well. Nauyaan Shipyard scrap to be sold in the current financial year. WSSL is performing well. All the segments are doing exceptionally well and nothing dragging the company's performance at the moment. The demand environment as well as the push from governments across all geographies are aiding the company's performance. **We continue to remain positive on the company's performance and maintain our BUY call and upgrade our target to INR 576 on SOTP basis. At CMP of INR 480, company trades 6.2x FY26E EV/EBITDA**

Valuation Summary

Y/E Mar, Rs mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	99,568	71,526	65,051	97,581	1,67,597	1,75,388	1,89,090
EBIDTA	11,600	7,951	4,717	4,846	15,136	16,239	17,508
Net Profit	6,921	8,350	4,552	1,992	7,893	8,886	9,855
EPS, Rs	26.53	32.01	17.45	7.61	30.18	33.97	37.68
PER, x	5.54	4.48	12.21	63.03	15.90	14.13	12.74
EV/EBIDTA, x	3.33	4.92	11.42	28.26	8.57	7.28	6.21
P/BV, x	1.19	1.07	1.26	2.65	2.44	2.16	1.90
ROE, %	21.53	20.45	10.28	4.21	15.37	15.28	14.95

Valuation

Particulars	FY26
EBITDA	11,392
EV	62,656
Net Debt/(Cash)	-16,781
Mcap	79,437
No of Shares	262
Core Business Value per Share	304

Saudi Business

Holds @ 35% stake	5,365
Per Share	21

DI Pipe Business

EBITDA	3825
Multiple	7
EV	26775
Net Debt/Cash	
Mcap	26775
No of shares	262
Business Value per share	102

Specialty Solutions Business

EBITDA	1411
Multiple	10
EV	14109
Net Debt/Cash	
Mcap	14109
No of shares	262
Business Value per share	54

Steel Business (TMT)

EBITDA	880
Multiple	5.5
EV	4840
Debt	0
Market Cap	4840
Per Share	19

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

SOTP TARGET PRICE

576

CMP

480

Upside

20%

Exhibit 3: Volume breakup

Sales Volume	Q2FY24	Q1FY24	Q4FY23	Q3FY23	Q4FY22	FY23	FY22
Line Pipes (KMT)	202	185	345	281	269	1,002	796
Pig Iron (KMT)			107	40	0	158	0
DI Pipes (KMT)	46	27	23	12	0	37	
Billets (KMT)			49	34	18	136	112
TMT Bars (KMT)	28	20	16	2	0	18	
SS Bars (MT)	5351	3022	2,783	1,448	1,248	6,869	1,531
SS Pipes (MT)	3565	1275	1,079	1,278	1,160	4,059	2,915

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 Q2FY24 Concalls KTAs**India Business:**

- Target to increase natural gas pipeline coverage to 34,500 kms by 2025 and to connect all the states with the trunk natural gas pipeline by 2027
- CGD concluded 11th bidding round while construction is going on for 4th and 5th rounds. Showing ample growth room in gas transmission itself
- Both Central and State Governments have strong focus on the irrigation projects and water transportation through line pipes.
- Strong traction and demand from SEA, Australia and ME
- Company recently got a very critical and advanced order (stringent specifications) of 61,000 tonnes of bare pipes and bends
- Orderbook of 370,000 tonnes

USA Business:

- LNG exports in H1CY2023 rose by 4% YoY to 11.6 billion cubic feet/ day, which made the USA world's top LNG exporting country. Half of the upcoming LNG capacity of 250 billion cubic metre/ day by 2030, will come in the USA and Qatar
- The extraction story of natural gas in USA Permian basin is very strong and encouraging. There are 3 operational pipelines right now with 4th being constructed and 5th bidding going on. Post that, the Permian basin would need atleast 4 more pipelines to extract gas. The total capacity of the 5 new pipelines would be 4.18 bn cubic feet/day
- Strong traction for HSAW. Orderbook at 240 KMT of which majority to be executed in next 2 quarters.
- 2 large players have exited business in recent times
- Carbon capture project is pushed back for all players.
- US inventory to further go down

KSA Business:

- EPIC orderbook beyond 2 years now. Started executing SAR 1.8 Bn order of Aramco
- Saudi Aramco expects to award contracts for 14 pipeline projects between 2023 and 2025 (12,000 Kms)
- Saudi Aramco plans to take its extraction of crude oil capacity to 13 million bpd by 2027 while water desalination remains equally imp aspect.
- With the transaction that took place, there was no change in the economic interest of Welspun Corp in EPIC. Through transactions, Welcorp now owns 100% of the Mauritius subsidiary with now owns ~31% of EPIC.
- No issue of booking orders of beyond 2 years as the entire RM is hedged and 90% procured when ordered

DI Pipe business:

- Volumes came in at 46,000 tonnes. Company had earlier guided to take capacity to 15,000 tonnes per month which it achieved and now has further guided to take the monthly production to 30,000 tonnes.
- Strong order backlog of ~246 KMT valued at ~INR 20 Bn
- Company is expanding capacity by 100,000 tonnes to take total capacity to 500,000 tonnes at cost of INR 3 Bn. Company continues to see good opportunities in export markets of ME and Africa.
- DI pipe expansion to ramp up by 2026
- West, central and North are the main focus regions. Then South and east.
- MP itself has 2 Mn tonnes of demand out of which barely 10-15% have been constructed. Similar case in Rajasthan. Gujarat, Rajasthan and MP are enough to keep capacity occupied.

TMT Business:

- Volumes came in at 28,000 tonnes (Vs 20,000 tonnes QoQ)
- 98% districts are now covered in Gujarat and 213 dealers are connected.
- Volumes to increase from next quarter at a runrate of 15,000-20,000 tonnes per month

WSSL Business:

- Volumes came in at 5,351 tonnes for bars (+395% YoY) and 1,209 tonnes for pipes (+20% YoY)
- Forayed in USA
- Current Order Book stands at ~4,507 MT valued at ~INR 1.69 Bn

Sintex plastics:

- Volumes came in at 3,565 tonnes and 7,103 tonnes for H1
- Setting up a manufacturing unit in Telangana for PVC pipes business with capex of INR 3.5 Bn
- Water Storage tanks industry is expected to grow at a CAGR of 19% between 2022 and 2026 to double at a size of INR 90-100 Bn.
- Main goal is to get the market share back. Focus on plumber networks to grow rather than volume directly

Nauyaan Shipyard:

- 50% scrap sold. Remainder to be sold by year end

Other Operational and Business KTAs:

- Total linepipe orderbook at 611 KMT (INR 80 Bn)
- New developments were Sintex's foray in Telangana in PVC pipes segment and expansion of DI pipe facility
- Net debt reduced by INR 5.2 Bn to INR 3.15 Bn
- Active bid book at 3.114 Mn tonnes
- Overall inventory levels to further reduce

Other KTAs:

- Company has recorded INR 528 Mn as loss on asset & inventories due to Biporjoy cyclone in Other Expenses and recorded Other Income of INR 250 Mn (received from insurance money)
- During the quarter, company sold 1,104,926 shares of Saudi subsidiary to Al-Haitarn Industrial and Economic Development Company (out of total 11,027,207 shares) and recorded gain of INR 1051.7 Mn (total consideration received INR 1503.3 Mn)
- Welcorp now owns 100% of Mauritius subsidiary after selective buyback of minority shareholders. With this, there is no change in economic interest of EPIC

Outlook: Company maintained guidance of INR 150 Bn topline and INR 15 Bn of EBITDA with 16% ROCE for FY24. The line pipe bid book has grown exponentially indicating big bid orders for Permian basin orders. Extremely strong performance by company and the outlook suggests similar performance going ahead. The volumes on DI pipes and TMT bars suggest increase in volumes going ahead as well and Sintex volumes to increase from here as well. Nauyaan Shipyard scrap to be sold in the current financial year. WSSL is performing well. All the segments are doing exceptionally well and nothing dragging the company's performance at the moment. The demand environment as well as the push from governments across all geographies are aiding the company's performance. **We continue to remain positive on the company's performance and maintain our BUY call and upgrade our target to INR 576 on SOTP basis. At CMP of INR 480, company trades 6.2x FY26E EV/EBITDA**

Exhibit 5: Revenue & Revenue Growth

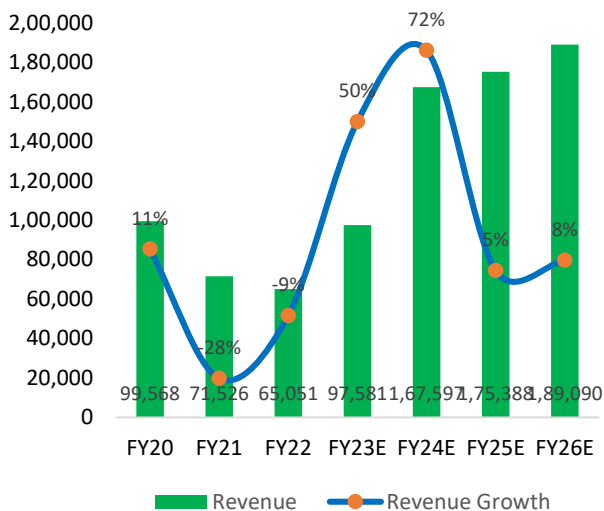


Exhibit 6: EBITDA & EBITDA Margin

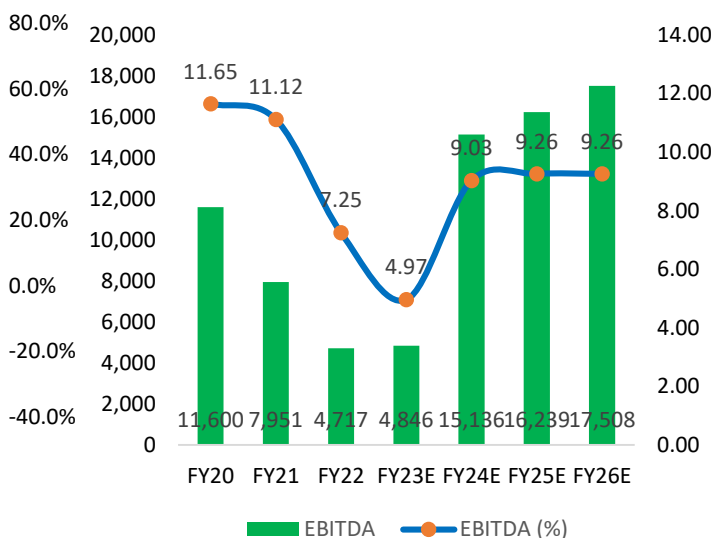


Exhibit 7: Operating Cost Matrix

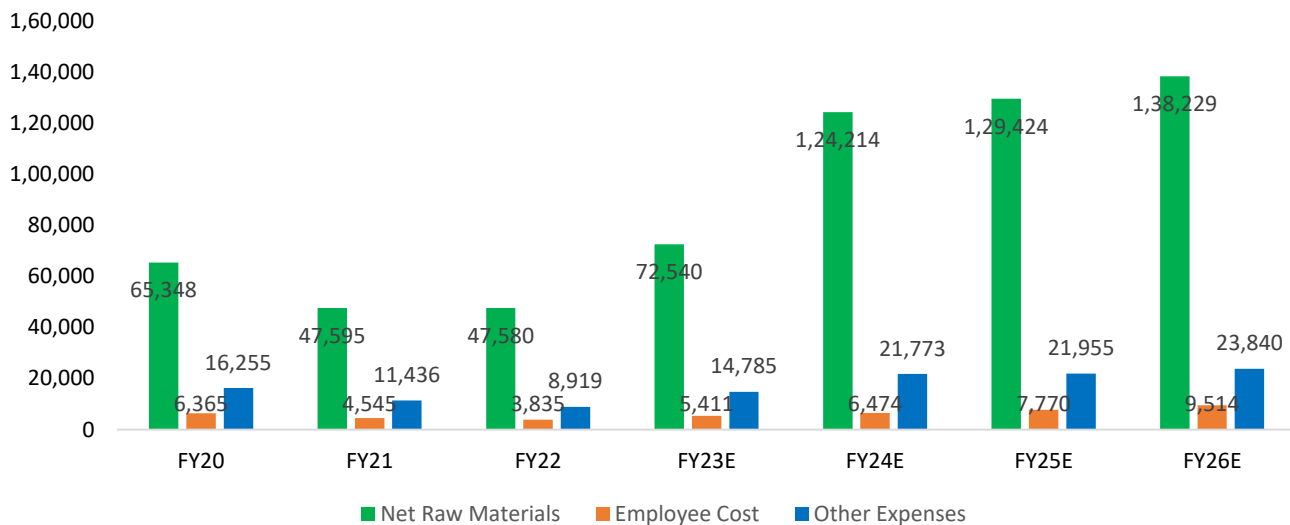


Exhibit 8: PBT & PBT Margins

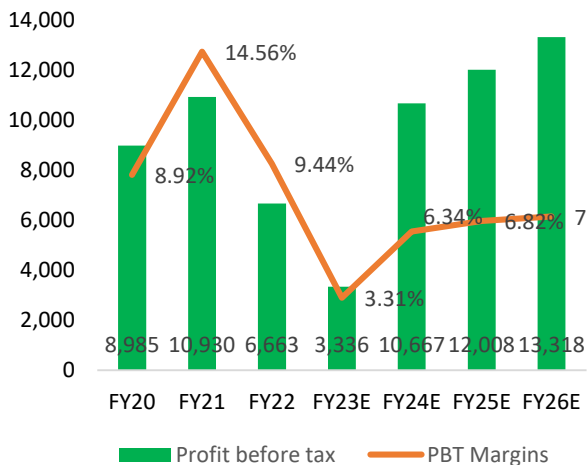
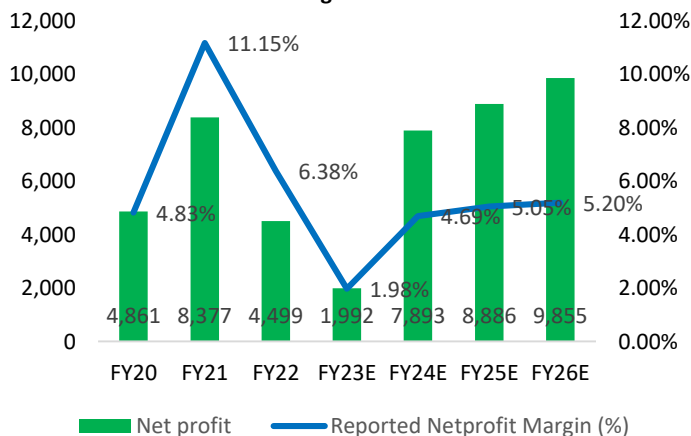


Exhibit 9: PAT & PAT Margins



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	1,67,597	1,75,388	1,89,090
Net Raw Materials	65,348	47,595	47,580	72,540	1,24,214	1,29,424	1,38,229
Employee Cost	6,365	4,545	3,835	5,411	6,474	7,770	9,514
Other Expenses	16,255	11,436	8,919	14,785	21,773	21,955	23,840
EBITDA	11,600	7,951	4,717	4,846	15,136	16,239	17,508
EBITDA (%)	11.65	11.12	7.25	4.97	9.03	9.26	9.26
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
Profit before tax	8,985	10,930	6,663	3,336	10,667	12,008	13,318
Taxes	4,124	2,553	2,164	1,345	2,773	3,122	3,463
Net profit	4,861	8,377	4,499	1,992	7,893	8,886	9,855
Reported Netprofit Margin (%)	4.83%	11.15%	6.38%	1.98%	4.69%	5.05%	5.20%
EPS (INR)	26.53	32.01	17.45	7.61	30.18	33.97	37.68

Source: Company Reports, Arianth 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	27,975	35,449	43,664
Marketable securities at cost	0	0	0	0	0	0	0
Debtors	12,470	6,688	8,126	11,405	27,550	24,026	20,722
Inventory	22,682	12,130	10,195	56,862	45,917	38,441	32,119
Loans & advances	936	8,682	1,184	6,454	8,459	8,362	8,482
Other current assets	11,642	1,121	1,711	0	6,888	7,208	7,771
Total current assets	57,361	42,721	43,162	96,504	1,16,788	1,13,486	1,12,759
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
Total assets	79,432	76,917	91,689	1,53,257	1,74,115	1,71,436	1,71,135
Current liabilities	34,347	16,586	23,166	75,105	95,343	89,400	82,121
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	1,02,312	96,517	89,390
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	1,21,523	1,11,926	1,03,728
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	50,052	56,845	64,608
Shareholders' equity	32,294	42,095	45,275	48,441	52,593	59,509	67,408
Total equity & liabilities	79,432	76,917	91,689	1,53,393	1,74,115	1,71,436	1,71,135

Source: Company Reports, Arianth 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	10,667	12,008	13,318
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	6,461	4,906	1,738
Total tax paid	-2,854	-1,407	-1,463	-280	-2,553	-2,894	-3,227
Other operating activities	-	-	-	-	-	-	-
Cash flow from operating activities	10,860	17,458	15,321	-1,722	18,198	17,842	15,851
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	14,787	14,570	12,724
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	9,592	8,602	9,488
Opening cash balance	10,192	9,631	14,100	21,947	21,783	27,975	35,449
Closing cash balance	9,631	14,100	21,947	21,783	27,975	35,449	43,664

Source: Company Reports, Arianth Capital Research

Ratio analysis							
Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Per Share data							
EPS (INR)	26.53	32.01	17.45	7.61	30.18	33.97	37.68
Growth, %	1,075.64	20.64	-45.49	-56.35	296.34	12.57	10.91
Book NAV/share (INR)	123.24	156.50	169.70	180.93	196.37	222.35	252.03
FDEPS (INR)	26.53	32.01	17.45	7.61	30.18	33.97	37.68
CEPS (INR)	35.47	36.18	27.21	19.20	44.03	48.59	53.06
CFPS (INR)	22.36	49.99	38.11	-24.05	51.35	61.88	53.73
DPS (INR)	10.50	5.00	5.00	5.00	5.00	8.00	8.00
Return ratios							
Return on assets (%)	7.80	11.80	6.54	3.60	6.29	6.36	6.93
Return on equity (%)	21.53	20.45	10.28	4.21	15.37	15.28	14.95
Return on capital employed (%)	14.80	18.91	9.36	6.57	14.32	14.92	15.09
Turnover ratios							
Asset turnover (x)	3.12	1.96	1.65	2.01	2.93	3.28	3.77
Sales/Total assets (x)	1.23	0.91	0.77	0.80	1.02	1.02	1.10
Sales/Net FA (x)	6.18	3.41	2.12	2.36	3.54	3.69	3.97
Working capital/Sales (x)	0.11	0.10	-0.12	-0.07	-0.08	-0.10	-0.11
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	76.95	88.16	88.16
Working Capital day	74.22	107.48	79.13	55.55	32.16	35.95	45.73
Working capital days (Ex-cash)	38.92	35.53	-44.01	-25.93	-28.76	-37.82	-38.56
Liquidity ratios							
Current ratio (x)	1.55	1.97	1.49	1.18	1.14	1.18	1.27
Quick ratio (x)	0.93	1.41	1.13	0.49	0.69	0.78	0.91
Interest cover (x)	6.43	6.46	2.13	0.75	4.77	5.88	6.69
Dividend cover (x)							
Total debt/Equity (%)	30.95	23.58	45.65	70.08	62.62	48.43	40.78
Net debt/Equity (%)	1.00	-10.95	-3.91	24.05	8.15	-12.53	-25.46
Valuation							
PER (x)	5.54	4.48	12.21	63.03	15.90	14.13	12.74
PEG (x) - y-o-y growth	0.02	0.73	-0.60	-1.12	0.05	1.12	1.17
Price/Book (x)	1.19	1.07	1.26	2.65	2.44	2.16	1.90
Yield (%)	7.14	2.99	2.35	1.04	1.04	1.67	1.67
EV/Net sales (x)	0.39	0.55	0.83	1.40	0.77	0.67	0.58
EV/EBITDA (x)	3.33	4.92	11.42	28.26	8.57	7.28	6.21
EV/EBIT (x)	4.17	7.13	24.82	75.40	11.27	9.52	8.07

Source: Company Reports, Aриhant Capital Research

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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%

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