

Poised for growth

CMP: INR 191

Rating: BUY

Target Price: INR 408

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)	5,0017.5
52w H/L (INR)	298 / 133
Avg Daily Volume (in 000')	1,524

Shareholding Pattern %

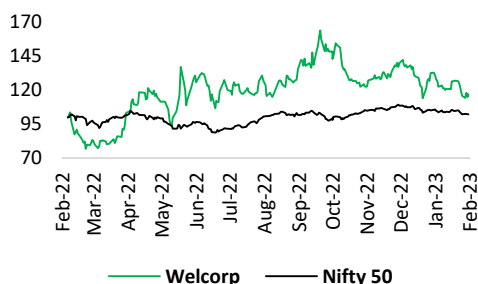
(As on Sep, 2022)

Promoters	49.90
Public & Others	50.10

Stock Performance (%) 1m 6m 12m

WELCORP	-11.3%	-8.3%	7.3%
NIFTY	-0.03%	1.9%	3.7%

Welcorp Vs Nifty



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Welspun Corp declared Q3 results which were a beat on our estimates on revenue and EBITDA front. This was on back of strong performance of core business. Company has started deliveries in the US which is one of the biggest positives and company also received possession of **ABG Shipyard assets**. On the negatives, the scaling of **DI Pipe and TMT bars** didn't go as per expectations and the company took on additional debt for the same projects. **Sintex BAPL** debt acquisition also got extended and company aims to complete it by Q1FY24.

Result Overview:

- **Revenues** came in at INR 24,023 Mn (+22.3% QoQ) (+66.6% YoY) (Vs our estimate of INR 22,058 Mn)
- **EBITDA** came in at INR 1,664 Mn (Vs -131.2 Mn QoQ) (Vs 110.5 Mn YoY) (Vs our estimate of INR 1,408 Mn)
- **EBITDA Margins** came in at 6.93% (Vs -6.7% QoQ) (Vs 7.7% YoY) (Vs our estimate of 6.4%)
- **PAT** came in at INR 232 Mn (Vs -566 Mn QoQ) (Vs 386 Mn YoY)
- **PAT Margins** came in at 0.1% (Vs -0.3% QoQ) (Vs 0.3% YoY)

Key details:

- **Current orderbook** stands at 928,000 MT valued at INR 132,000 Mn. Bid book stood at 1.7 Mn tonnes
- **HSAW plant in USA** booked till December 2023
- Company has appointed **Mr Manish Chokhani** as Non-Executive Independent Director. Mr. Chokhani holds directorship in many companies such as Laxmi Organics, Westlife Foodworld, Shoppers Stop, Landmark Cars etc.

Outlook and Valuations: Company expects to deliver QoQ improvement in performance from here on with RM costs going down (coal). We still believe the company will deliver well over next 2 years and maintain our **BUY rating** with **increase in target on SOTP basis to INR 408**. We factor the carbon capture project to start from Q3FY24 (considering maximum delay). **We maintain our BUY rating with target price of 408. At CMP of 191, company trades 4.3x FY25EEPS and 4x FY25 EV/EBITDA.**

Exhibit 1: Valuation Summary

Y/E Mar, Rs mn	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	99,568	71,526	65,051	84,934	1,52,854	1,67,436
EBIDTA	11,600	7,951	4,717	3,431	12,587	14,832
Net Profit	6,921	8,350	5,517	3,892	10,220	11,501
EPS, Rs	26.53	32.01	21.14	14.91	39.16	44.07
PER, x	5.54	4.48	10.07	12.81	4.88	4.33
EV/EBIDTA, x	3.33	4.92	11.42	19.35	5.20	4.02
P/BV, x	1.19	1.07	1.26	1.07	0.93	0.80
ROE, %	21.53	20.45	12.46	8.39	19.07	18.52

Exhibit 2: Valuation

Particulars	FY25
EBITDA	11,127
EV	66,764
Net Debt/(Cash)	9,810
Mcap	56,954
No of Shares	261
Core Business Value per Share	218

Saudi Business	
Holds @ 35% stake	4,188
Per Share	16

DI Pipe Business	
EBITDA	1741
Multiple	10
EV	17413
Net Debt/Cash	
Mcap	17413
No of shares	261
Business Value per share	67

Specialty Solutions Business	
EBITDA	1163
Multiple	10
EV	11632
Net Debt/Cash	
Mcap	11632
No of shares	261
Business Value per share	45

Steel Business (TMT)	
EBITDA	800
Multiple	7
EV	5600
Debt	0
Market Cap	5600
Per Share	21

ABG Shipyard Investments	
Investments	6,590
Price to book	1
Value per share	25

Sintex BAPL investments	
Investments	4,180
Price to book	1
Value per share	16

SOTP TARGET PRICE	408
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CMP	191
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Upside	114%
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Sales Volume	Q3FY23	Q2FY23	Q2FY22
Line Pipes (KMT)	281	218	171
Pig Iron (KMT)	40	11	0
DI Pipes (KMT)	12	0	0
DRI (KMT)	14	18	2
Billets (KMT)	34	16	11
TMT Bars (KMT)	2	0	0
SS Bars (MT)	1,448	1,081	141
SS Pipes (MT)	1,278	1,009	881

Exhibit 3: Volume breakup

Exhibit 3: 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

Our observations:

Preliminary basis, we do not have any changes in our expectations from the company. Only the delays in DI Pipe and TMT have been the negatives according to us. Post results, the company announced that the client of carbon capture project has opted to delay the order (by up to 6 months).

Q3FY23 Conference Call Highlights**DI Pipe:**

- Saw INR 340 Mn EBITDA loss but January month has seen volumes of 10,000 tonnes vs 12,000 tonnes in Q3. This shows the scaling up is taking place. Orderbook of DI Pipe stood at 88,000 tonnes worth INR 6,650 Mn.
- Some part of business in DI ramp up has been capitalized and some more component will be capitalized in Q4

Volumes and Orderbook:

- India business did 126,000 tonnes, US did 38,000 tonnes and Saudi did 117,000 tonnes.
- From the current orderbook, India has 300,000 tonnes, US has 400,000 tonnes and Saudi has 200,000 tonnes.
- From overall orderbook, 200,000 tonnes worth of order is from water segment

Company is in active discussion to book more orders in the US. Current month deliveries in **US gave an EBITDA of INR 550 Mn.**

Company announced the **commissioning of Coke Oven** during the quarter, of 210,000 tonnes capacity, for manufacturing of Hot Metal. Same has been capitalized.

Other highlights:

- Sale of ABG scrap should start in a couple of days
- Other expenses were higher due to ramping up of capacities
- Price escalation clause, DI pipe projects have escalation clauses but Line pipe business with PSU has fixed cost only.
- Company didn't face inventory loss during the quarter but has not seen any inventory gains either.
- Net Debt has increased largely due to the ongoing investments in the DI and TMT project. Current Net Debt at INR 18,370 Mn Vs INR 16,090 Mn in Q2FY23.
- Sintex BAPL debt acquisition is expected to be completed by Q1FY24. Current acquired debt stood at INR 12,310 Mn as compared to INR 12,230 Mn in Q2.

Macro factors and tailwinds such as Jal Jeevan Mission, anti-dumping duties on certain steel grades, Natural Gas Pipeline plan, Energy crisis in Europe due to geopolitical tensions, lifting of covid restrictions in China continue to be the positive factor for the company. Company maintains its outlook of achieving INR 150,000 Mn+ topline in 3-5 years with EBITDA of INR 16,000 Mn to 18,000 Mn

Outlook and valuations: Company expects to deliver QoQ improvement in performance from here on with RM costs going down (coal). We still believe the company will deliver well over next 2 years and maintain our **BUY rating with increase in target on SOTP basis to INR 408.** We factor the carbon capture project to start from Q3FY24 (considering maximum delay). **We maintain our BUY rating with target price of 408. At CMP of 191, company trades 4.3x FY25EEPS and 4x FY25 EV/EBITDA.**

Exhibit 5: Revenue & Revenue Growth

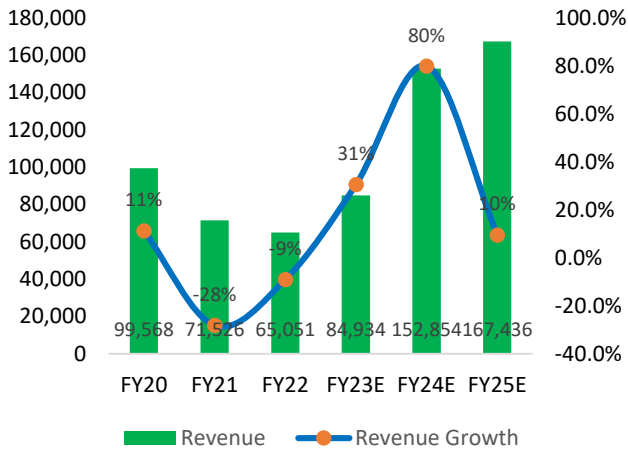


Exhibit 6: EBITDA & EBITDA Margin

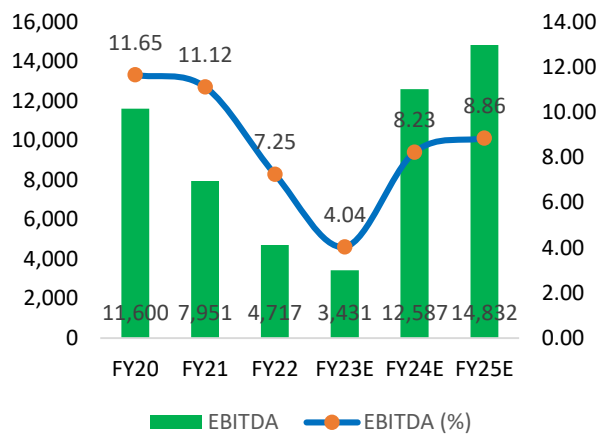


Exhibit 7: Operating Cost Matrix

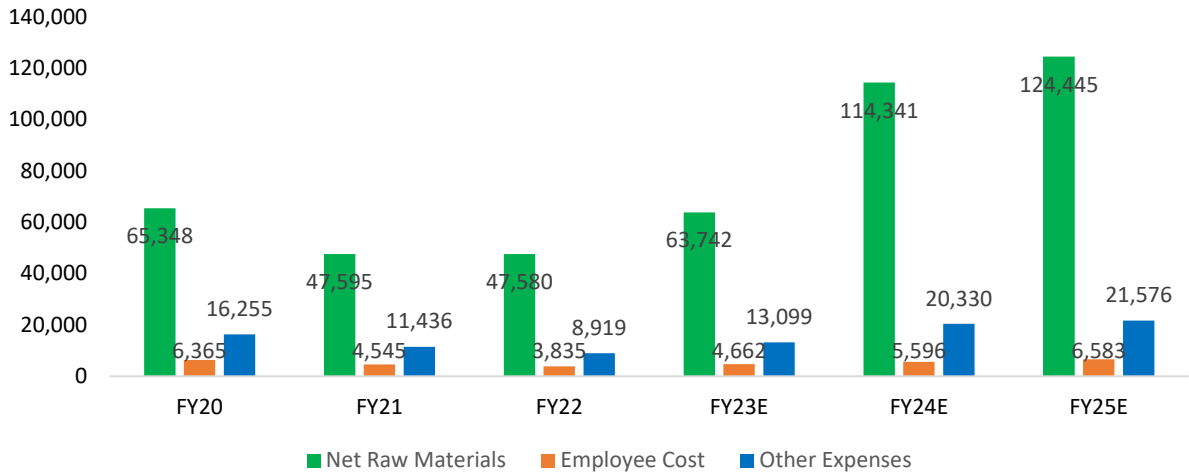


Exhibit 8: PBT & PBT Margins

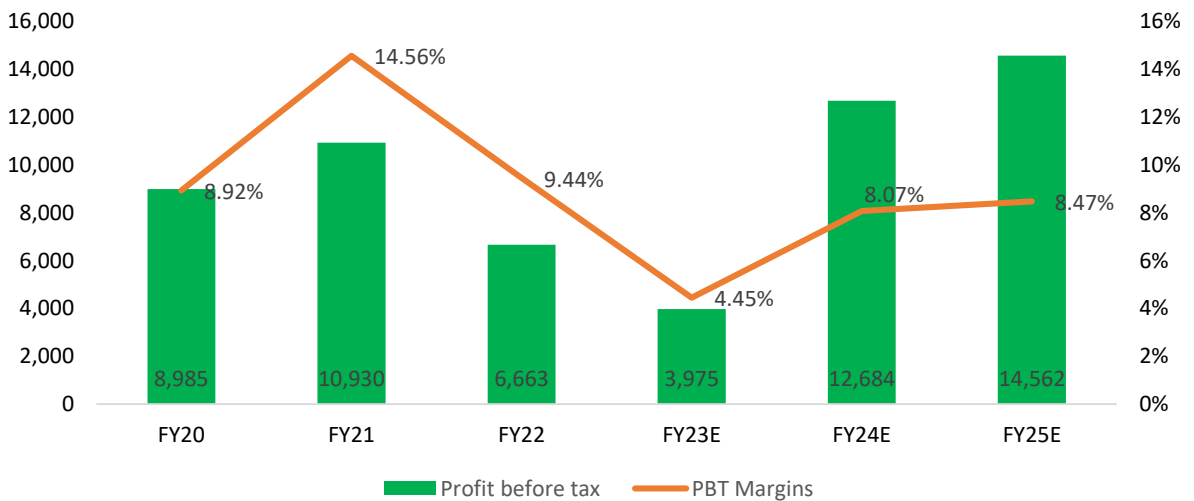


Exhibit 9: Standalone Business Pipes Volume

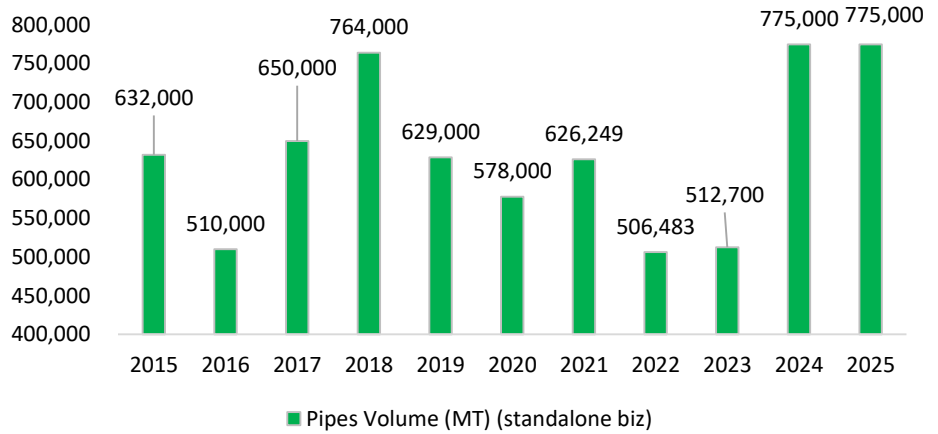


Exhibit 10: Standalone Pipes Realization (INR/tonne)

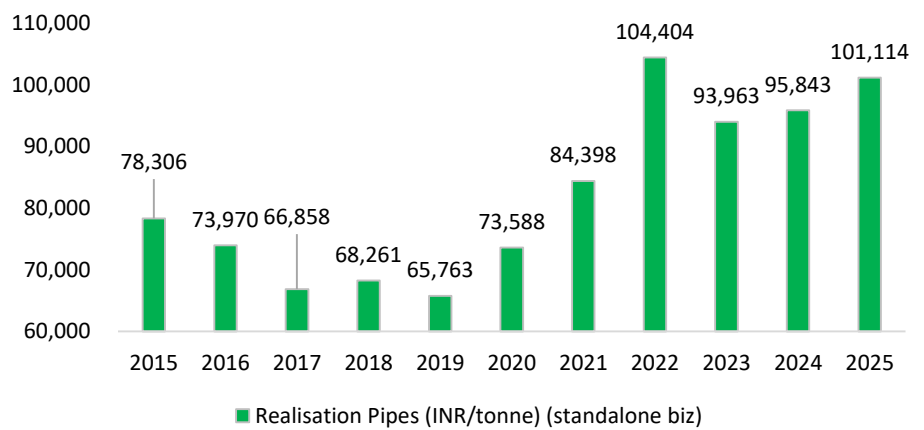
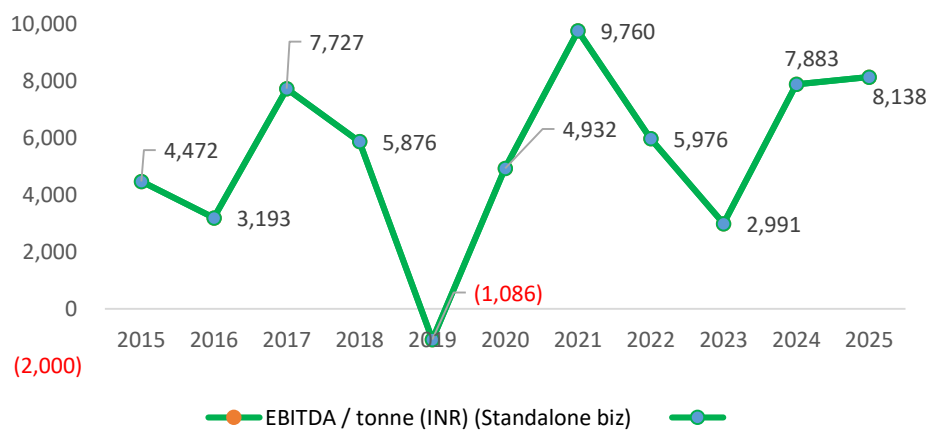


Exhibit 11: Standalone Biz EBITDA/tonne (INR)



Financial Statements

Income statement summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	99,568	71,526	65,051	84,934	1,52,854	1,67,436
Net Raw Materials	65,348	47,595	47,580	63,742	1,14,341	1,24,445
Employee Cost	6,365	4,545	3,835	4,662	5,596	6,583
Other Expenses	16,255	11,436	8,919	13,099	20,330	21,576
EBITDA	11,600	7,951	4,717	3,431	12,587	14,832
EBITDA (%)	11.65	11.12	7.25	4.04	8.23	8.86
Depreciation	2,333	2,465	2,548	3,000	3,360	3,727
Interest expense	1,440	850	1,019	866	953	953
Other income	1,159	3,568	5,512	4,410	4,410	4,410
Profit before tax	8,985	10,930	6,663	3,975	12,684	14,562
Taxes	4,124	2,553	2,164	1,033	3,298	3,786
Net profit	4,861	8,377	4,499	2,941	9,386	10,776
Reported Netprofit Margin (%)	4.83%	11.15%	6.38%	3.29%	5.97%	6.27%
EPS (INR)	26.53	32.01	21.14	14.91	39.16	44.07

Source: Company Reports, Aриhant Capital Research

Balance sheet summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Cash & bank	9,631	14,100	21,947	13,434	3,010	7,749
Marketable securities at cost	0	0	0	0	0	0
Debtors	12,470	6,688	8,126	10,471	18,845	20,643
Inventory	22,682	12,130	10,195	15,125	26,383	28,900
Loans & advances	936	8,682	1,184	1,568	2,116	2,316
Other current assets	11,642	1,121	1,711	2,094	3,769	4,129
Total current assets	57,361	42,721	43,162	42,693	54,123	63,737
Investments	4,213	7,267	9,581	9,581	9,581	9,581
Gross fixed assets	28,347	43,873	44,899	60,399	67,399	74,399
Less: Depreciation	-13,040	-19,535	-22,002	-25,002	-28,362	-32,089
Add: Capital WIP	817	1,472	12,604	17,704	16,204	14,704
Net fixed assets	16,124	25,811	35,500	53,100	55,240	57,013
Non-current assets	1,734	1,119	3,446	3,747	4,075	4,434
Total assets	79,432	76,917	91,689	1,09,120	1,23,018	1,34,763
Current liabilities	34,347	16,586	23,166	32,871	40,160	43,993
Provisions	3,446	9,497	6,677	6,834	6,995	7,161
Total current liabilities	37,792	26,083	29,843	39,705	47,156	51,155
Non-current liabilities	9,346	8,739	16,571	21,949	21,068	20,195
Total liabilities	47,138	34,822	46,413	61,654	68,224	71,350
Paid-up capital	1,304	1,304	1,305	1,305	1,305	1,305
Reserves & surplus	30,848	39,523	42,978	45,070	52,289	60,788
Shareholders' equity	32,294	42,095	45,275	47,466	54,794	63,414
Total equity & liabilities	79,432	76,917	91,689	1,09,120	1,23,018	1,34,763

Source: Company Reports, Aриhant Capital Research

Cashflow summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	8,985	10,930	6,663	3,975	12,684	14,562
Depreciation	2,333	2,465	2,548	3,000	3,360	3,727
Chg in working capital	2,396	5,470	7,574	1,446	-14,805	-1,307
Total tax paid	-2,854	-1,407	-1,463	-846	-3,105	-3,587
Other operating activities	-	-	-	-	-	-
Cash flow from operating activities	10,860	17,458	15,321	7,574	-1,866	13,394
Capital expenditure	-2,364	-12,151	-12,237	-20,600	-5,500	-5,500
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	-20,600	-5,500	-5,500
Free cash flow	5,603	3,601	771	-13,026	-7,366	7,894
Equity raised/(repaid)	-608	2,872	23	-	-	-
Debt raised/(repaid)	-5,670	792	8,395	5,264	-1,000	-999
Dividend (incl. tax)	-3,205	-1,526	-1,527	-1,801	-3,001	-3,001
Other financing activities	-	-	-	-	-	-
Cash flow from financing activities	-7,231	4,613	7,634	4,513	-3,058	-3,155
Net chg in cash	-1,628	8,215	8,405	-8,513	-10,424	4,740
Opening cash balance	10,192	9,631	14,100	21,947	13,434	3,010
Closing cash balance	9,631	14,100	21,947	13,434	3,010	7,749

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Per Share data						
EPS (INR)	26.53	32.01	21.14	14.91	39.16	44.07
Growth, %	1,075.64	20.64	-33.94	-29.46	162.60	12.53
Book NAV/share (INR)	123.24	156.50	169.70	177.71	205.38	237.95
FDEPS (INR)	26.53	32.01	21.14	14.91	39.16	44.07
CEPS (INR)	35.47	36.18	30.90	26.41	52.04	58.36
CFPS (INR)	22.36	49.99	38.11	-3.97	17.14	35.81
DPS (INR)	10.50	5.00	5.00	6.00	10.00	10.00
Return ratios						
Return on assets (%)	7.80	11.80	6.54	3.79	8.91	9.10
Return on equity (%)	21.53	20.45	12.46	8.39	19.07	18.52
Return on capital employed (%)	14.80	18.91	9.36	5.73	14.07	14.54
Turnover ratios						
Asset turnover (x)	3.12	1.96	1.65	1.74	2.46	2.51
Sales/Total assets (x)	1.23	0.91	0.77	0.85	1.32	1.30
Sales/Net FA (x)	6.18	3.41	2.12	1.92	2.82	2.98
Working capital/Sales (x)	0.11	0.10	-0.12	-0.11	0.03	0.03
Fixed capital/Sales (x)	0.00	0.00	0.00	0.00	0.00	0.00
Receivable days	45.71	34.13	45.59	45.00	45.00	45.00
Inventory days	83.15	61.90	57.20	65.00	63.00	63.00
Payable days	59.84	41.16	59.53	57.54	60.17	60.58
Working Capital day	74.22	107.48	79.13	16.37	18.70	29.40
Working capital days (Ex-cash)	38.92	35.53	-44.01	-41.36	11.51	12.51
Liquidity ratios						
Current ratio (x)	1.55	1.97	1.49	1.10	1.17	1.27
Quick ratio (x)	0.93	1.41	1.13	0.71	0.60	0.69
Interest cover (x)	6.43	6.46	2.13	0.50	9.69	11.66
Dividend cover (x)						
Total debt/Equity (%)	30.95	23.58	45.65	64.64	34.63	28.28
Net debt/Equity (%)	1.00	-10.95	-3.91	35.68	29.01	15.80
Valuation						
PER (x)	5.54	4.48	10.07	12.81	4.88	4.33
PEG (x) - y-o-y growth						
Price/Book (x)	1.19	1.07	1.26	1.07	0.93	0.80
Yield (%)	7.14	2.99	2.35	3.14	5.24	5.24
EV/Net sales (x)						
EV/EBITDA (x)	0.39	0.55	0.83	0.78	0.43	0.36
	3.33	4.92	11.42	19.35	5.20	4.02
EV/EBIT (x)	4.17	7.13	24.82	153.95	7.09	5.37

Source: Company Reports, Arianth Capital Research

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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