

CMP: INR 587

Rating: ACCUMULATE

Target Price: INR 668

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 Bn)	153
52w H/L (INR)	625/178
Avg Daily Volume (in 000')	1,754

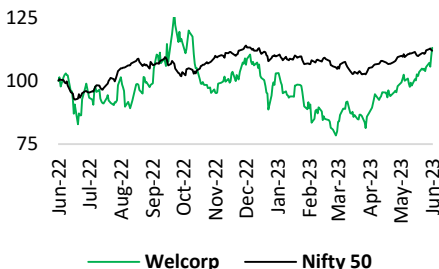
Shareholding Pattern %

(As on December, 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 Q3FY24 which continued to be a beat on our estimates for 4th quarter in a row. Outlook remains cautiously bullish going ahead.

Operating Metrics (Consol)

- **Revenues** came in at INR 47,497 Mn (+17% QoQ) (+97.7% YoY) (Vs our estimate of INR 43,155 Mn)
- **EBITDA** came in at INR 4,630 Mn (+15.9% QoQ) (+178.3% YoY) (Vs our estimate of INR 3,926 Mn)
- **EBITDA Margins** came in at 9.75% (Vs 9.84% QoQ) (Vs 6.93% YoY) (Vs our estimate of 9.1%)
- **PAT** came in at INR 2,919 Mn (Vs 3,847 Mn QoQ) (Vs 232 Mn YoY)
- **Adj. PAT** came in at INR 2,919 Mn (Vs 2,973 Mn QoQ) (Vs 232 Mn YoY)
- **Adj. PAT Margins** came in at 6.13% (Vs 7.15% QoQ) (Vs 0.96% YoY)

Segmental Results

- **Steel Products revenues** came in at INR 45,951 Mn (+17.7% QoQ) (+91.3% YoY)
- **Others (including plastic products) revenues** came in at INR 1,546 Mn (-1.37% QoQ)
- **Steel Products EBIT Margins** came in at 7.38% (Vs 9.36% QoQ) (Vs 3.12% YoY)
- **Others (including plastic products) EBIT margins** came in at 9.73% (Vs 13.23% QoQ)

Outlook and Valuations: Company is confident of crossing their guidance of INR 150 Bn topline and INR 15 Bn of EBITDA with 16% ROCE for FY24. The line pipe bid book has slowed down a bit but orders for Permian basin (USA) are expected to come in next 2 months. Extremely strong performance by company and the outlook suggests similar performance going ahead. Company has registered strong volumes on DI Pipes. TMT Bars and Sintex are picking up slowly as well. Nauyaan Shipyard scrap 60% is sold and remainder will be sold in 3-4 months. WSSL is performing well. The only region to watch out is USA where order inflow is expected which will be a key trigger line pipe business. **We continue to remain positive on the company's performance but we change our rating to ACCUMULATE for the time being, key reason is to monitor the order inflow in US business. Apart from the US business, all other businesses have strong future visibility. We upgrade our target to INR 668 on SOTP basis. At CMP, company trades 6.8x 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	1,67,488	1,89,255	2,22,438
EBIDTA	11,600	7,951	4,717	4,846	15,755	17,629	21,092
Net Profit	6,921	8,350	4,552	1,992	8,352	9,171	11,468
EPS, Rs	26.53	32.01	17.45	7.61	31.93	35.07	43.85
PER, x	5.54	4.48	12.21	77.09	18.38	16.74	13.39
EV/EBIDTA, x	3.33	4.92	11.42	34.03	9.98	8.45	6.77
P/BV, x	1.19	1.07	1.26	3.24	2.96	2.61	2.25
ROE, %	21.53	20.45	10.28	4.21	16.12	15.57	16.80

Valuation

Particulars	FY26
EBITDA	11,533
EV	63,433
Net Debt/(Cash)	-10,815
Mcap	74,248
No of Shares	262
Core Business Value per Share	284

Saudi Business

Holds @ 35% stake	8,107
Per Share	31

DI Pipe Business

EBITDA	6115
Multiple	7
EV	42806
Net Debt/Cash	
Mcap	42806
No of shares	262
Business Value per share	164

Specialty Solutions Business

EBITDA	2323
Multiple	10
EV	23232
Net Debt/Cash	
Mcap	23232
No of shares	262
Business Value per share	89

Steel Business (TMT)

EBITDA	1120
Multiple	5.5
EV	6160
Debt	0
Market Cap	6160
Per Share	24

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	668
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CMP	587
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Upside	14%
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Exhibit 3: Volume breakup

Sales Volume	Q3FY24	Q2FY24	Q1FY24	Q3FY23	FY23	FY22
Line Pipes (KMT)	291	202	185	281	1,002	796
Pig Iron (KMT)				40	158	0
DI Pipes (KMT)	62	46	27	12	37	
Billets (KMT)				34	136	112
TMT Bars (KMT)	30	28	20	2	18	
WST (tanks) (MT)	3,411	3,565		3,104		
SS Bars (MT)	3,921	5,351	3,022	1,448	6,869	1,531
SS Pipes (MT)	1,183	3,565	1,275	1,278	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 Q3FY24 Concall Highlights

Overview: Strong set of results for the quarter, company will surpass current year's guidance. Net debt stood at INR 5.03 Bn as on Dec 2023. ROCE stood at 15.7% for 9MFY24. Total capex guidance of INR 18 Bn. 8 Bn for sintex expansion and 8 Bn for DI pipe expansion (In Anjar and ME), remainder for maintenance

Line Pipe business:

- Total orderbook stood at 575KMT (valued at INR 72 Bn) Vs 611 KMT (valued at INR 80 Bn) QoQ.
- Bidbook stood at 2.391 Mn tonnes (Vs 3.114 Mn tonnes QoQ)
- Volumes for the quarter stood at 291,000 tonnes Vs 163,000 tonnes YoY

India Business:

- India Orderbook stood at 369,000 tonnes,
- India Volumes stood at 170,000 tonnes
- Water transportation orders are increasing, booking orders in all geographies. Potential for export orders is more. Domestic business is more of CGD only
- India business can do 550,000-700,000 tonnes of volumes per annum and average EBITDA/tonne of INR 10,000. Same guidance currently as well
- Water transportation for irrigation projects through line pipes is likely to grow steadily with continuous focus by the central and state governments
- Strong export outlook for LSAW pipes with focus on Middle East, Australia, Europe, South East Asia. Upcoming hydrogen hubs and carbon capture projects to drive future demand for pipelines for H2 & CO2 applications

USA Business:

- US volumes stood at 121,000 tonnes. US orderbook stood at 206,000 tonnes
- Current order will go on till Q1FY25. Company is currently bidding for orders in Permian basin. There are 2 orders in discussion. No update on restarting the carbon capture project.
- US as a region exported 116 Bn CBM of LNG in 2023. US LNG accounted for more than 15% of Europe's natural gas demand in 2023. LNG exports from US is expected to rise by 50% from the current level by 2026 as per the IEA
- The large diameter steel pipes market in North America likely to grow at 2.8% CAGR between 2023 and 2033 to reach US\$752.9 billion.
- Completion of five new natural gas pipeline projects has the potential to increase Permian Basin's takeaway capacity by a combined 4.18 billion cubic feet/day. Focus remains on New Energy including Carbon Capture, Hydrogen and Ammonia pipelines

KSA Business:

- EPIC in Saudi Arabia has a confirmed order book exceeding 2 years. Execution of recent Aramco order of SAR 1.8 Bn started
- Total orderbook in KSA worth INR 40 Bn (includes recently won SAR 1 Bn order as well)
- KSA business recorded 552 Mn SAR of revenues and 86 Mn SAR of PAT.
- KSA business has negative cash flow from operations due to excessive orders and wc management but will be cleared out soon
- The Ministry of Environment, Water and Agriculture (MEWA) recently announced allocation of US\$ 80 billion towards water projects within the coming years and expects 90% of water demand to be met through desalinated water by 2030

SS Bars and Pipes:

- The current Order Book stands at ~4,204 MT valued at ~ INR 1.66 Bn. After subdued Q2 and Q3, EU is showing signs of recovery in the coming quarters.
- Demand Estimate: ~65 KMT in Domestic Market and ~25 KMT in Exports per Annum. Moving towards higher value added grades such as Nickel Alloy, Duplex & Super Duplex

DI Pipes:

- Volumes stood at 62K tonnes Vs 46K tonnes QoQ.
- Orderbook stood at 264K tonnes valued at INR 21.85 Bn
- Company is in process of expanding 100K tonnes at Anjar facility at cost of INR 3 Bn and has announced expansion in ME region with 150,000 tonnes of DI facility at cost of INR 5 Bn. Both these facilities will come online by FY26 end.
- ME project has just been approved. Most likely, there will not be any blast furnace, company will be procuring steel from open markets.
- Company is exploring regions of ME and Africa for exports.
- JJM allocation at INR 699 Bn in the interim budget
- TMT Bars:
- Q3 volumes stood at 30K tonnes Vs 28K tonnes QoQ.
- Market penetration stood at 91% with 248 dealers. Primary market is Western India

Sintex:

- Water tanks volumes stood at 3,411 tonnes for the quarter
- Sintex is foraying into PVC products with step down subsidiary Sintex Advance Plastics Limited (SAPL). The pipes and fittings would include CPVC, UPVC, HDPE, and OPVC pipes.
- INR 8 Bn capex will be for multiple plants across India. Company will be operating in agri and non agri segments both
- SAPL signed the Framework Agreement Rollepaal Pipe Extrusion Technology B.V for supply of its high quality PVC pipes manufacturing lines exclusively to Sintex in India
- Company will be leveraging its existing brand of Sintex and its distribution channel
- Multiple roadshows have been done recently.

Nauyaan Shipyard

- 60% of scrap sale completed, 40% to be done in 3-4 months.
- Collection from sale of scrap will be more than invested. No discussion on business plans here

Other KTAs:

- Company has projections to touch line pipe volumes to 1.25 Mn tonnes by FY26, DI pipe volumes to 450,000 tonnes, SS Pipes to 8,000 tonnes and SS Bars to 65,000 tonnes

Outlook:

Company is confident of crossing their guidance of INR 150 Bn topline and INR 15 Bn of EBITDA with 16% ROCE for FY24. The line pipe bid book has slowed down a bit but orders for Permian basin (USA) are expected to come in next 2 months. KSA business is extremely positive and ME region also has extremely strong potential. On India line pipe business, exports are looking attractive and margin guidance of INR 10,000 per tonne is maintained. Extremely strong performance by company and the outlook suggests similar performance going ahead. Company has registered strong volumes on DI Pipes. TMT Bars and Sintex are picking up slowly as well. Nauyaan Shipyard scrap 60% is sold and remainder will be sold in 3-4 months. WSSL is performing well. The demand environment as well as the push from governments across all geographies are aiding the company's performance. The only region to watch out is USA where order inflow is expected which will be a key trigger line pipe business. **We continue to remain positive on the company's performance but we change our rating to ACCUMULATE for the time being, key reason is to monitor the order inflow in US business. Apart from the US business, all other businesses have strong future visibility. We upgrade our target to INR 668 on SOTP basis. At CMP, company trades 6.8x FY26E EV/EBITDA**

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	1,67,488	1,89,255	2,22,438
Net Raw Materials	65,348	47,595	47,580	72,540	1,23,494	1,37,733	1,60,501
Employee Cost	6,365	4,545	3,835	5,411	6,891	9,368	11,546
Other Expenses	16,255	11,436	8,919	14,785	21,349	24,525	29,299
EBITDA	11,600	7,951	4,717	4,846	15,755	17,629	21,092
EBITDA (%)	11.65	11.12	7.25	4.97	9.41	9.32	9.48
Depreciation	2,333	2,465	2,548	3,030	3,623	4,827	5,427
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	11,286	12,394	15,497
Taxes	4,124	2,553	2,164	1,345	2,934	3,222	4,029
Net profit	4,861	8,377	4,499	1,992	8,352	9,171	11,468
Reported Netprofit Margin (%)	4.83%	11.15%	6.38%	1.98%	4.97%	4.83%	5.14%
EPS (INR)	26.53	32.01	17.45	7.61	31.93	35.07	43.85

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	28,440	32,742	37,699
Marketable securities at cost	0	0	0	0	0	0	0
Debtors	12,470	6,688	8,126	11,405	27,532	25,925	24,377
Inventory	22,682	12,130	10,195	56,862	45,887	41,481	37,784
Loans & advances	936	8,682	1,184	6,454	8,453	9,008	9,944
Other current assets	11,642	1,121	1,711	0	6,883	7,778	9,141
Total current assets	57,361	42,721	43,162	96,504	1,17,196	1,16,933	1,18,945
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	83,883	93,883
Less: Depreciation	-13,040	-19,535	-22,002	-24,824	-28,447	-33,274	-38,701
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	50,678	55,251
Non-current assets	1,734	1,119	3,446	653	450	495	544
Total assets	79,432	76,917	91,689	1,53,257	1,74,523	1,77,878	1,84,912
Current liabilities	34,347	16,586	23,166	75,105	95,292	95,099	93,542
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	1,02,261	1,02,216	1,00,811
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	1,21,472	1,17,625	1,15,148
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	50,510	57,589	66,965
Shareholders' equity	32,294	42,095	45,275	48,441	53,051	60,253	69,764
Total equity & liabilities	79,432	76,917	91,689	1,53,393	1,74,523	1,77,878	1,84,912

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	11,286	12,394	15,497
Depreciation	2,333	2,465	2,548	3,030	3,623	4,827	5,427
Chg in working capital	2,396	5,470	7,574	-5,746	6,468	4,443	1,463
Total tax paid	-2,854	-1,407	-1,463	-280	-2,714	-2,995	-3,794
Other operating activities	-	-	-	-	-	-	-
Cash flow from operating activities	10,860	17,458	15,321	-1,722	18,663	18,669	18,593
Capital expenditure	-2,364	-12,151	-12,237	-14,657	-4,000	-8,000	-10,000
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	-7,272	-9,127
Free cash flow	5,603	3,601	771	-15,019	15,252	11,397	9,466
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	10,057	5,429	6,230
Opening cash balance	10,192	9,631	14,100	21,947	21,783	28,440	32,742
Closing cash balance	9,631	14,100	21,947	21,783	28,440	32,742	37,699

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	31.93	35.07	43.85
Growth, %	1,075.64	20.64	-45.49	-56.35	319.34	9.81	25.04
Book NAV/share (INR)	123.24	156.50	169.70	180.93	198.13	225.19	261.04
FDEPS (INR)	26.53	32.01	17.45	7.61	31.93	35.07	43.85
CEPS (INR)	35.47	36.18	27.21	19.20	45.78	53.52	64.60
CFPS (INR)	22.36	49.99	38.11	-24.05	53.12	65.04	64.21
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	6.56	6.40	7.43
Return on equity (%)	21.53	20.45	10.28	4.21	16.12	15.57	16.80
Return on capital employed (%)	14.80	18.91	9.36	6.57	14.91	15.19	16.81
Turnover ratios							
Asset turnover (x)	3.12	1.96	1.65	2.01	2.93	3.43	3.97
Sales/Total assets (x)	1.23	0.91	0.77	0.80	1.02	1.07	1.23
Sales/Net FA (x)	6.18	3.41	2.12	2.36	3.54	3.86	4.20
Working capital/Sales (x)	0.11	0.10	-0.12	-0.07	-0.08	-0.09	-0.09
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	77.27	88.22	88.38
Working Capital day	74.22	107.48	79.13	55.55	33.18	28.97	30.28
Working capital days (Ex-cash)	38.92	35.53	-44.01	-25.93	-28.80	-34.17	-31.58
Liquidity ratios							
Current ratio (x)	1.55	1.97	1.49	1.18	1.15	1.15	1.18
Quick ratio (x)	0.93	1.41	1.13	0.49	0.70	0.74	0.81
Interest cover (x)	6.43	6.46	2.13	0.75	5.03	6.06	7.77
Dividend cover (x)							
Total debt/Equity (%)	30.95	23.58	45.65	70.08	62.07	47.82	39.38
Net debt/Equity (%)	1.00	-10.95	-3.91	24.05	7.18	-7.77	-15.84
Valuation							
PER (x)	5.54	4.48	12.21	77.09	18.38	16.74	13.39
PEG (x) - y-o-y growth	0.02	0.89	-0.74	-1.37	0.06	1.71	0.53
Price/Book (x)	1.19	1.07	1.26	3.24	2.96	2.61	2.25
Yield (%)	7.14	2.99	2.35	0.85	0.85	1.36	1.36
EV/Net sales (x)	0.39	0.55	0.83	1.69	0.94	0.79	0.64
EV/EBITDA (x)	3.33	4.92	11.42	34.03	9.98	8.45	6.77
EV/EBIT (x)	4.17	7.13	24.82	90.81	12.96	11.63	9.11

Source: Company Reports, Arianth 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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