

On path for exponential growth

CMP: INR 253

Rating: BUY

Target Price: INR 549

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)	68,010
52w H/L (INR)	298 / 178
Avg Daily Volume (in 000')	1,076

Shareholding Pattern %

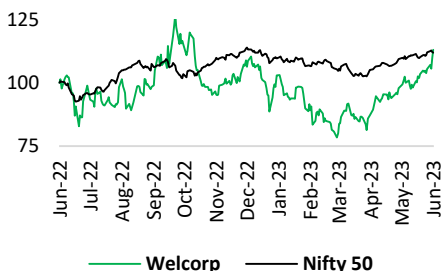
(As on Mar, 2023)

Promoters	49.99
Public & Others	50.01

Stock Performance (%) 1m 6m 12m

WELCORP	13.6%	4%	11.3%
NIFTY	-0.03%	1.9%	3.7%

Welcorp Vs Nifty



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Welspun Corp declared Q4 results which were a beat on all fronts on estimates. This was on back of strong performance of India business (with good mix of exports) and US business performing decently. The full year volumes crossed 1 Mn tonnes and the orderbook remains strong at 1.1 Mn tonnes valued at INR 1.46 Bn with bid book of 2.55 Bn tonnes. Sintex BAPL and Nauyaan Shipyard (erstwhile ABG) both are in control of the company. Welspun is currently evaluating its strategies with Nauyaan (ship repairing and recycling) and possible opportunities with international players. Company is focusing on gaining back the lost market share of Sintex BAPL and aims to do so over the next 2 years.

Operating Performance:

Revenues came in at INR 40,702 Mn (+69.4% QoQ) (+104.9% YoY) (Vs our estimate of INR 33,868 Mn)

EBITDA came in at INR 4,206 Mn (Vs 1,664 Mn QoQ) (Vs 712 Mn YoY) (Vs our estimate of INR 2,981 Mn)

EBITDA Margins came in at 10.33% (Vs 6.93% QoQ) (Vs 2.35% YoY) (Vs our estimate of 8.8%)

PAT came in at INR 2,359 Mn (Vs 232 Mn QoQ) (Vs 2,636 Mn YoY)

PAT Margins came in at 5.71% (Vs 0.96% QoQ) (Vs 11.03% YoY)

- The Q4FY22 PAT was higher due to one time gain on sale of shares of East Pipes Integrated Company (EPIC got listed on Saudi Exchanges)
- **Dividend of INR 5 declared**
- The Fair Value of SBAPL is INR 4.71 Bn (acquired the company for INR 4.06 Bn)

Outlook and Valuations: Company has posted a strong set of results and commentary has been equally good. The guidance has been increased from INR 150 bn of revenues in 3-5 years to INR 150 Bn revenues in FY24 itself with 10% EBITDA margins. We believe the company is at an inflection point as the entire capex is completed and all the segments are lucrative now (discarding Nauyaan for which the final plan is yet to be drawn). The prospects are favourable now and we believe the company can perform tremendously from here on. The increased guidance provides a lot of comfort and we believe the next plan of action will be to reduce the debt. **We maintain our BUY rating and value the company on SOTP basis. We upgrade our target price to INR 549 (rolling over to FY26 numbers).**

Exhibit 1: 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	33.22	9.09	8.70	7.09
EV/EBIDTA, x	3.33	4.92	11.42	16.00	4.90	4.15	3.07
P/BV, x	1.19	1.07	1.26	1.40	1.30	1.18	1.04
ROE, %	21.53	20.45	10.28	4.21	14.35	13.51	14.69

Exhibit 2: Valuation

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

Saudi Business

Holds @ 35% stake	5,452
Per Share	21

DI Pipe Business

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

Specialty Solutions Business

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

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

549

CMP

253

Upside

117%

Exhibit 3: Volume breakup

Sales Volume	Q4FY23	Q3FY23	Q4FY22	FY23	FY22
Line Pipes (KMT)	345	281	269	1,002	796
Pig Iron (KMT)	107	40	0	158	0
DI Pipes (KMT)	23	12	0	37	
Billets (KMT)	49	34	18	136	112
TMT Bars (KMT)	16	2	0	18	
SS Bars (MT)	2,783	1,448	1,248	6,869	1,531
SS Pipes (MT)	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

Q4FY23 Concall KTAs:

Increased guidance timeline of INR 150 Bn revenues to FY24 (from earlier guidance of achieving it in 3-5 years). EBITDA of INR 15 Bn in FY24. Strong possibility of booking more orders in US and Saudi Arabia. Strong order booking from all 3 segments, Oil, Gas and Water

Operating Metrics:

Current orderbook of 1.1 Mn tonnes valued at INR 145 Bn

Orderbook split between:

- India – 250,000 T
- USA – 400,000 T
- Saudi Arabia – 475,000 T

Active Bid book stands at 2.55 Mn tonnes

Quarterly Sales volume of 345,000 tonnes split in:

- India Biz 215,000 tonnes
- US biz 33,000 tonnes
- Saudi biz 97,000 tonnes

Inventory clarification:

Out of INR 56 Bn inventory, 35 Bn is paid inventory of US Biz, 5 Bn for DI Pipes, 5 Bn of ABG scrap, Remainder for other businesses. All of this is required for execution of current businesses

India Biz:

- India biz did good due to better sales mix, Exports are encouraging. Sales mix keeps changing between Oil & Gas, Water and Exports.
- Company has recently booked a strong export order to Middle East with 83,000 tonnes. Company is in active discussion to book more orders post that
- Middle East (Qatar and Saudi Arabia) and South East Asia are attractive

US Biz:

- HSAW plant booked till December 2023, booking of new orders in discussion.
- Faster execution to start from Q1FY24. Current US orderbook at 400,000 tonnes
- US is currently supporting Europe's energy needs and needs infrastructure to supply the same
- Higher oil production in the Permian Basin, spurring increases in associated gas production.

Saudia Arabia biz:

- Recently booked one of the largest order, worth INR 40 Bn. Plant is booked till May 2023
- EPIC (associate company) will be distributing dividends which will be cashflow for Parent
- Saudi is focusing on expanding its oil production capacity to 13 million bpd by 2027
- Aims to achieve a 50% growth in its gas production by 2030
- Desalinated Water Transportation capacity being significantly increased

DI Pipes & TMT:

- Hot metal production (and ancillary facilities) target almost reached. DI pipe sales for the quarter was at 23,000 tonnes. Current orderbook of 138,000 tonnes valued at INR 10.9 Bn. Confident of ending year with sales of 175,000 – 200,000 tonnes
- TMT volumes at 16,000 tonnes. Currently serving 24 out of 33 districts and 69 out of 252 talukas. Dealer network reached 120 in May 2023

Stainless Steel:

- Sales volume of 2,783 tonnes for bars and 1,079 for pipes in the quarter
- Surge in Demand in sectors like Defence, Petrochemicals, Nuclear Reactors and Process Industries
- Strong Export potential in Europe and North America
- Range of SS bar expanded from 50 – 200 mm to 25 – 350 mm
- The current Orderbook stands at ~ 3,500 T valued at ~ INR 1.55 Bn
- Now present in entire spectrum of steel as cast / rolled bars & seamless pipes with some recent certifications
- Company has booked many high value/grade orders

Nauyaan (ABG Shipyard) and Sintex BAPL:

- No new developments in Sintex. Company aims to take back market share to ~23-25% (which it used to have earlier) from current 9%
- Nauyaan side company is in process of selling scrap over the complete financial year which will result in steady cashflow. Company is exploring options in ship repairing and recycling (non-capital intensive). Company is in discussion with various global companies for the same

Other KTAs:

- Company plans to reduce debt further in current year as no capex is taking place except for maintenance capex. Maintenance capex will be in the range of INR 2.5-3 Bn (INR 1 Bn in line pipe itself)
- Don't see any significant impact in US due to election year
- Seeing demand in Europe for carbon capture and hydrogen transmission projects
- Company has maintained strong relation with steel mills across the world as they have to keep procuring
- India's Natural Gas usage (in energy mix) to pump up from 6% to 15% by FY30
- Natural Gas pipeline currently at 22,000 kms which is to be taken to 35,000 kms in 4-5 years
- Indian oil demand to go up from 4.7 mn barrels per day to 6.7 mn barrels per day by 2030

Outlook:

Company has posted a strong set of results and commentary has been equally good. The guidance has been increased from INR 150 bn of revenues in 3-5 years to INR 150 Bn revenues in FY24 itself with 10% EBITDA margins. We believe the company is at an inflection point as the entire capex is completed and all the segments are lucrative now (discarding Nauyaan for which the final plan is yet to be drawn). The prospects are favourable now and we believe the company can perform tremendously from here on. The increased guidance provides a lot of comfort and we believe the next plan of action will be to reduce the debt. We maintain our BUY rating and value the company on SOTP basis. We arrive at a target price of INR 549 (rolling over to FY26 numbers).

Exhibit 5: Revenue & Revenue Growth

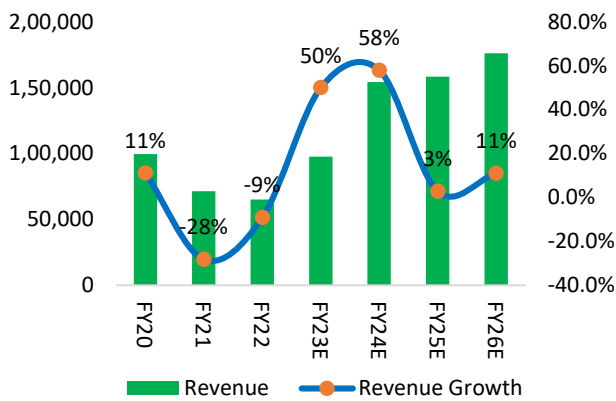


Exhibit 6: EBITDA & EBITDA Margin

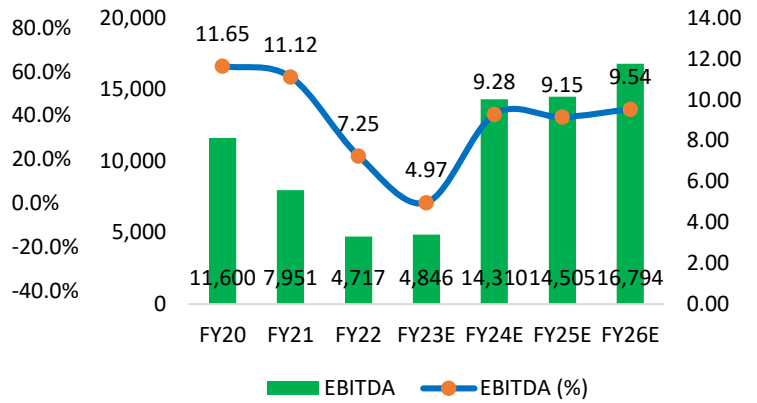


Exhibit 7: Operating Cost Matrix

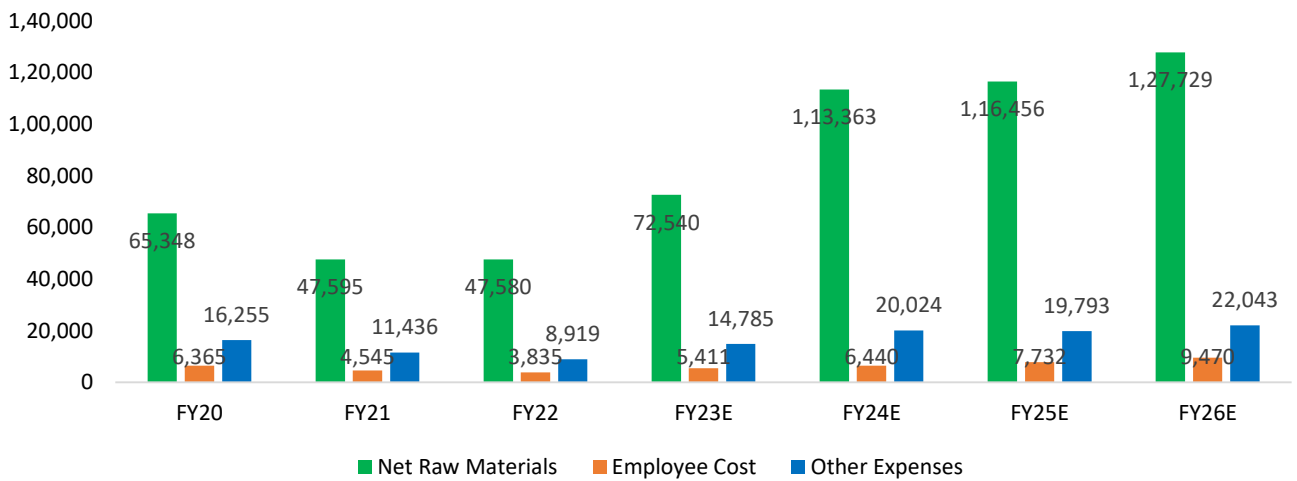


Exhibit 8: PBT & PBT Margins

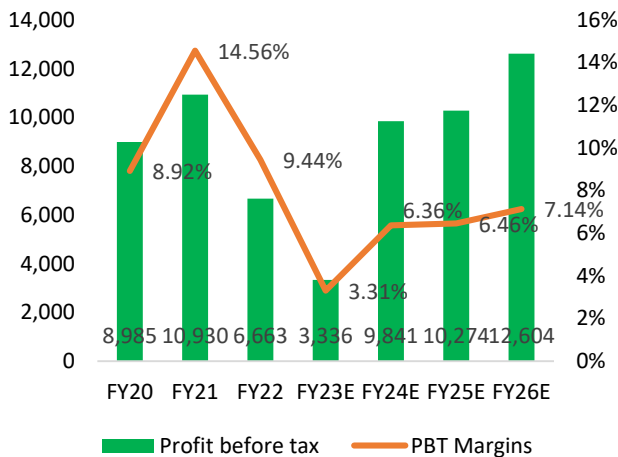
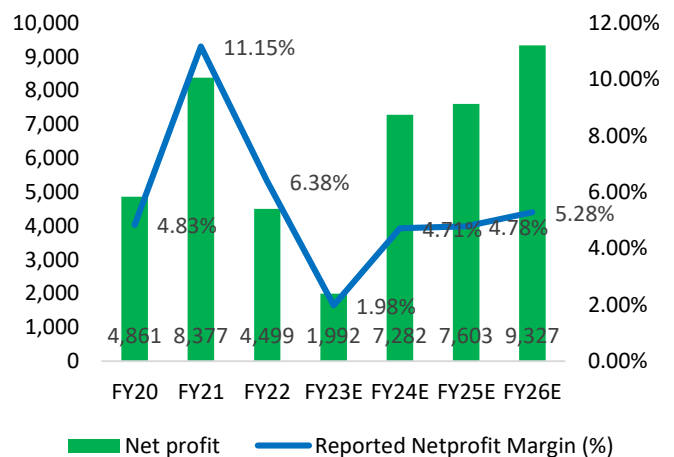


Exhibit 9: PAT & PAT Margins



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
EBITDA	11,600	7,951	4,717	4,846	14,310	14,505	16,794
EBITDA (%)	11.65	11.12	7.25	4.97	9.28	9.15	9.54
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	9,841	10,274	12,604
Taxes	4,124	2,553	2,164	1,345	2,559	2,671	3,277
Net profit	4,861	8,377	4,499	1,992	7,282	7,603	9,327
Reported Netprofit Margin (%)	4.83%	11.15%	6.38%	1.98%	4.71%	4.78%	5.28%
EPS (INR)	26.53	32.01	17.45	7.61	27.84	29.07	35.66

Source: Company Reports, Aриhant 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
Total assets	79,432	76,917	91,689	1,53,257	1,67,236	1,62,596	1,64,243
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
Total equity & liabilities	79,432	76,917	91,689	1,53,393	1,67,236	1,62,596	1,64,243

Source: Company Reports, Aриhant 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, Aриhant 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	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
Return ratios							
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
Turnover ratios							
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
Liquidity ratios							
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
Valuation							
PER (x)	5.54	4.48	12.21	33.22	9.09	8.70	7.09
PEG (x) - y-o-y growth	0.01	0.38	-0.32	-0.59	0.03	1.98	0.31
Price/Book (x)	1.19	1.07	1.26	1.40	1.30	1.18	1.04
Yield (%)	7.14	2.99	2.35	1.98	1.98	3.16	3.16
EV/Net sales (x)	0.39	0.55	0.83	0.79	0.45	0.38	0.29
EV/EBITDA (x)	3.33	4.92	11.42	16.00	4.90	4.15	3.07
EV/EBIT (x)	4.17	7.13	24.82	42.71	6.56	5.64	4.03

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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