Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Viewpoint

Result Update

Welspun Corp Ltd

Stellar Q4; solid guidance

Capital Goods	Sharekhan code: WELCORP

Reco/View: Positive	↔	CMP: **Rs. 253**	Upside potential: **30%**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 28.46

Updated Mar 08, 2023

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

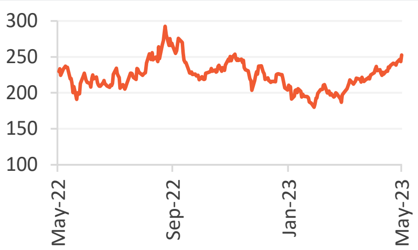
Company details

Market cap:	Rs. 6,606 cr
52-week high/low:	Rs. 298/178
NSE volume: (No of shares)	6.8 lakh
BSE code:	532144
NSE code:	WELCORP
Free float: (No of shares)	13.1 cr

Shareholding (%)

Promoters	50
FII	7
DII	11
Others	31

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.2	31.1	3.1	9.9
Relative to Sensex	9.8	25.7	4.1	-3.2

Sharekhan Research, Bloomberg

Summary

- Q4FY23 results were super strong with operating profit/PAT of Rs. 421 crore/Rs. 236 crore, up 2.5x/10x q-o-q and beating our and street estimate by a wide margin. Strong earnings growth reflects robust line pipe volume growth, better product mix at India business and positive EBITDA contribution from WSSL.
- Line pipe volume grew strongly by 23% q-o-q to 345 kt and DI pipes/TMT bars also witnessed ramp-up to 23 kt/16 kt, up 93%/8x q-o-q. Order book remain strong across businesses – 1.1mt for line pipes, 138 kt for DI pipes, 3500t for WSSL.
- Growth outlook is impressive with revenue/EBITDA guidance of Rs. 15,000 crore/ Rs. 1,500 crore, implies 54%/86% y-o-y growth for FY24. Completed acquisition of the Plastic Products business of Sintex BAPL, which augurs well for B2C business given robust brand image and distribution reach. Nauyaan Shipyard's focus to monetise scrap by end-FY24.
- We maintain our Positive view on Welspun Corp and expect 30% upside from CMP. Focus on building capabilities in new businesses with higher margins will help the company to negate the earnings cyclicality and drive re-rating. Valuation at 7x/4x FY25E PE and EV/EBITDA offers big room for re-rating.

Q4FY23 performance was robust with a strong 69%/153% q-o-q increase in consolidated revenue/ operating profit at Rs. 4070 crore/421 crore, which was significantly above our estimates. Earnings growth was driven high volume growth of 23% q-o-q for its core line pipe business to 345 kt (200 kt/30 kt/100 kt from India/US/Saudi Arabia), positive EBITDA contribution from Welspun Specialty Solution Limited (WSSL) and better product mix for India business (which is reflected in 341 bps q-o-q improvement in EBITDA margin at 10.3%). A consolidated PAT of Rs. 236 crore, up 10x q-o-q was lifted by superior operational performance and substantially higher other income.

Key positives

- Strong volume growth of 28%/23% y-o-y/q-o-q for line pipe to 345 kt.
- Improved line pipe order book of Rs. 14,600 crore, up 11% q-o-q.
- Reduced debt by 38% q-o-q to Rs. 1,138 crore as of March 2023.

Key negatives

- SS pipes volume declined by 7%/15.6% y-o-y/q-o-q to 1079mt.

Management Commentary

- Robust FY24 revenue/EBITDA/RoCE guidance of Rs. 15000 crore/Rs. 1500 crore/16%. Strong focus on growth of Sintex, DI Pipes and WSSL. DI pipes volume target of 175-200kmt (utilization of 45-50%) for FY24.
- Robust line pipe order book at 1.1 MMT (Rs. 14,600 crore) of which 475/400/250 KMT is from Saudi Arabia/ USA/ India. Line pipe active bid book was up 46% q-o-q to 2,552 KMT given pent up demand from SEA, ME and US.
- Guided for minimum capex of Rs. 250-300 crore for maintenance activities.
- Expects inventory (Rs. 5,686 crore as of March 2023) to fall as US order execution expected to pick up.
- EPIC (associate company) signed a contract with Saudi Aramco for the supply of large diameter Steel Pipes at a total value of SAR 1.8 billion (Rs. 4,000 crore). Thus, the plant is fully booked for the next one year.
- **Sintex BAPL** - Completed acquisition of the Plastic Products business of Sintex BAPL and efforts would be to expand market share in FY24.
- **Nauyaan Shipyard** - Monetise entire scrap by end-FY24. Not exploring any capital-intensive options like shipbuilding and instead exploring option for ship recycling/repair.

Revision in estimates – We increased our FY24-25 earnings estimates to faster ramp-up of DI pipes, higher volume at US business partially offset by higher depreciation.

Our Call

Valuation – Maintain Positive view on Welspun Corp; expect a 30% upside: Welspun Corp's strong global presence (US, Saudi Arabia and India) makes it well placed to tap growing global opportunities in the line pipes business especially from the oil & gas sector giving rising significance of energy security (post Russia-Ukraine conflicts). Valuation of 7x/4x FY25E PE and EV/EVITDA is attractive and offers room for re-rating given the company's focus to build on new businesses with high-margin and target to turn net cash positive over next couple of years. Hence, we maintain our Positive view on Welspun Corp and expect a 30% upside from the CMP.

Key Risks

1) Low oil price may impact order inflow from key oil & gas sector, 2) Sharp surge in steel price could impact margin/earnings, 3) lower-than-expected ramp-up of new business segments and 4) delay in value creation or unrelated capex/investment in acquired companies and assets.

Valuation (consolidated) Rs cr

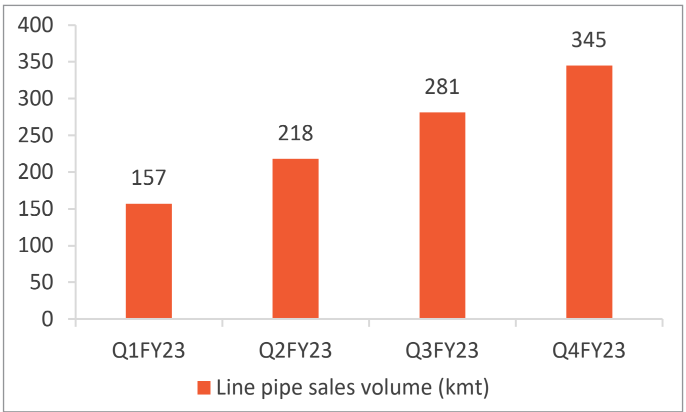
Particulars	FY22	FY23	FY24E	FY25E
Revenue	6,505	9,758	14,211	14,277
OPM (%)	7.3	5.0	10.3	11.8
Adjusted PAT	439	207	799	938
% YoY growth	-37.3	-52.9	286.4	17.4
Adjusted EPS (Rs)	16.8	7.9	30.5	35.9
P/E (x)	15.1	32.0	8.3	7.0
P/B (x)	1.5	1.4	1.2	1.1
EV/EBITDA (x)	16.8	18.0	5.2	4.0
RoNW (%)	10.3	4.5	15.9	16.7
RoCE (%)	12.2	6.5	16.9	19.8

Source: Company; Sharekhan estimates

Strong Q4 performance driven by volume growth/margin beat; Robust Line Pipe Order book at Rs. 14,600 crore

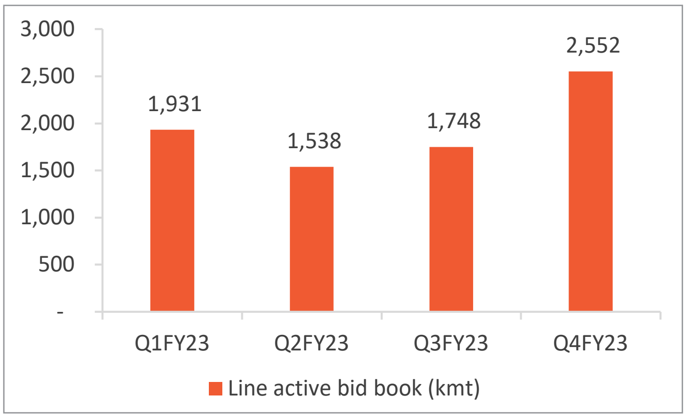
Q4FY23 consolidated revenue at Rs. 4,070 crores (up 102%/69% y-o-y/q-o-q) beat our estimates of Rs. 3,149 crores by 29%. Sales volumes for line pipes/ billets/SS bars was up by 28%/173%/123% y-o-y to 345kmt/49kmt/2783mt while SS Pipes sales were down 7% y-o-y to 1079 KMT. The company also posted sales a volumes of Pig iron/ DI Pipes/ TMT bars at 107/23/16 KMT which was up by 23%/168%/44% q-o-q. The company has robust order book for Line Pipes of 1.1 Million MT valued at Rs.14,600 crores. OPM at 10.3% (up 679/341 bps y-o-y/q-o-q) beat our estimate of 8.2% by 211 bps and consequently Operating profit of Rs. 421 crore (up 491%/153% y-o-y/q-o-q) was above our estimate by 62%. Consolidated PAT at Rs.236 crores (flat y-o-y/ up 10x q-o-q) was significantly above our estimate of Rs. 115 crore, led by a sharp beat in revenue/ margin and higher other income.

Consistent improvement in line pipe sales volume



Source: Company, Sharekhan Research

Line pipe active bid book also improves considerably



Source: Company, Sharekhan Research

Performance of East Pipe Integrated Company for Industry (associate company)

Figures in SAR Mn

Particulars in SAR MN	Q4FY23	Q3FY23	Q4FY22	FY23	FY22
Saudi Arabia Ops:					
Sales / Revenue	442	487	194	1,439	597
Gross Profit	52	70	15	156	28
Operating Profit	47	61	15	133	15
Net Profit after Zakat and Tax	37	48	14	100	(3)
Total Comprehensive Income	37	48	15	100	(3)

Source: Company

Q4FY23 earnings call highlights

- **FY24 guidance:** The management is confident of a ~50%/90% growth in the Topline/EBITDA to Rs. 15,000/1,500 crores for FY24 based on strong growth outlook and ramp up of new businesses. The company expects a ROCE of 16% versus 7% in FY23 and guided for only maintenance capex in FY24 of Rs. 250-300 crore.
- **Robust order/bid book for Line Pipes:** Order book for line pipes stands at 1.1 MMT valued at Rs. 14,600 crore of which 475/400/250 KMT is from Saudi Arabia/ US/ India. The Saudi Arabia plant is fully booked for next 1 year after winning the order from Saudi Aramco. The HSAW plant in the US is fully booked till December 2023 and the company is in discussions to book new orders beyond 2023. The company is also looking to grow its export orders from its India capacity in H1FY24. The active bid book for line pipes increased by 46% q-o-q to 2552 KMT due to pent up demand from SEA, Middle East and US markets.

- **DI Pipes/stainless steel order book:** For DI Pipes, the company has a strong order book of ~ 138 KMT valued at ~ Rs. 1,091 crore and is targeting sales of 175 – 200 KMT for FY24 due to increased traction in Jal Jeevan Mission to bring tap water to every household, both rural and urban. For Stainless steel the current order book stands at ~ 3,500 MT valued at ~ Rs. 155 crore and management expects its performance to sustain on the back of several new customer approvals, accreditations, development of new products and penetration of new markets.
- **Built up inventory to decline:** There was a sharp 438% y-o-y increase in inventory to Rs. 5,686 crores due to acquisition and consolidation of new businesses. Management expects about Rs. 3,500 crores of inventory reduction in US due to execution of large orders in FY24. Further Rs. 500/200 crores of inventory will also get reduced in ABG Shipyard/WSSL from scrap sales/execution of order book.
- **Net debt:** Net debt fell by 38% q-o-q to Rs. 1,138 crores and management is on track to maintain net debt at minimal levels owing to strong FCF generation going forward.
- **Sintex/ABG acquisitions:** The company has taken full control of Sintex BAPL Ltd and is making every effort now to increase its market share from ~9% by reenergising the distribution network, product & brand positioning and combining it with supply chain efficiencies. For ABG Shipyard, management is exploring ship recycling and repair business instead of the capital-intensive ship building business and should complete this assessment in the next two quarters.

Results (consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenues	**4,070**	**2,011**	**102.4**	**2,402**	**69.4**
Total Expenditure	3,650	1,940	88.1	2,236	63.2
Operating profit	**421**	**71**	**490.6**	**166**	**152.8**
Depreciation	91	63	44.0	80	13.4
Other Income	62	402	-84.5	8	676.9
Interest	95	30	216.4	70	34.5
PBT	297	380	-22.0	24	1,161.5
Tax	85	130	-34.2	30	186.3
Share of Profit / (Loss) of Associates/JVs	29	13	120.0	29	-3.1
Share of Minority Interest	4	27	-84.9	0	NA
Reported PAT	**236**	**236**	**-0.1**	**23**	**915.2**
Reported EPS (Rs.)	9.0	9.0	-0.1	0.9	915.2
Margins(%)			**BPS**		**BPS**
OPM	10.3	3.5	679.2	6.9	340.7
NPM	5.8	11.7	-594.5	1.0	482.9
Tax rate	28.7	34.1	-536.9	NA	NA

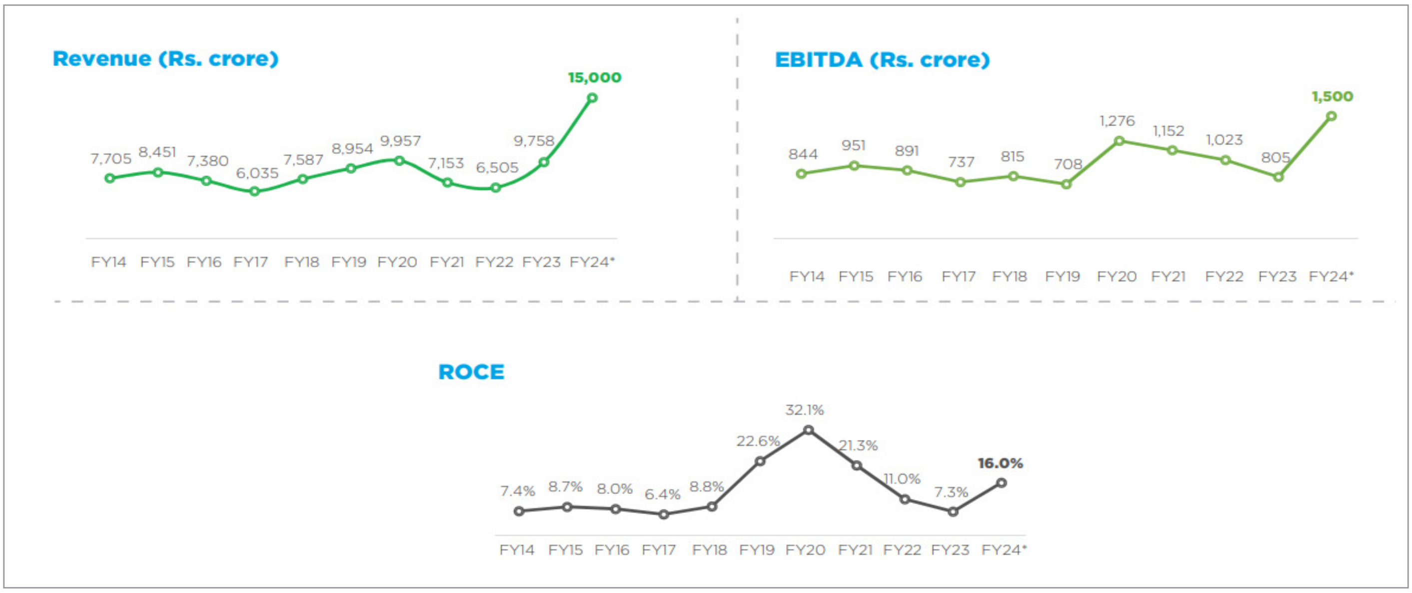
Source: Company, Sharekhan Research

Volume performance Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y (%)	Q3FY23	q-o-q (%)
Line Pipes (kmt)	345	269	28.3	281	22.8
Pig Iron (kmt)	107	0	NA	40	167.5
DI Pipes (kmt)	23	0	NA	12	91.7
Billets (kmt)	49	18	172.2	34	44.1
TMT Bars (kmt)	16	0	NA	2	700.0
SS Bars (mt)	2,783	1,248	123.0	1,448	92.2
SS Pipes (mt)	1,079	1,160	-7.0	1,278	-15.6

Source: Company, Sharekhan Research

Revenue/EBITDA/RoCE guidance



Source: Company

Outlook and Valuation

■ Sector view - Long-term growth drivers remain intact

The global steel pipes & tubes market is expected to reach $279 billion by 2027, with a 7.9% CAGR over 2019 to 2027. Asia-Pacific has the largest share in the global pipes market and is expected to clock a CAGR of 8.4% in the next four years. India is the third-largest manufacturer of steel pipes with an estimated market size of Rs. 33,000 crore, which registered a steady 8.2% CAGR over the past 10 years. Although the COVID-19 pandemic has affected the progress of some infrastructure projects, we believe return of normalcy in economic activities, the government's focus on increasing participation of local firms in government projects by disallowing global tenders for up to Rs. 200 crore, government spending on infrastructure projects (Jal se Nal, expansion of the National Gas Grid and CGD pipelines, etc), and anti-dumping duties on import of seamless CS pipes from China would drive overall demand for steel pipes going ahead.

■ Company outlook - Robust order book provides growth visibility

Welspun Corp has a strong line pipe order book of 1.1mt, which offers revenue visibility for next three quarters. Moreover, any success from the strong bid book of 2.5 million tonnes would further improve the growth outlook for the company. Execution of orders would result in ramp-up of line pipes, DI pipes, TMT bars and specialty steel businesses and drive robust EBITDA/PAT CAGR over FY22-25E and improvement in RoCE to 20% in FY25E.

■ Valuation - Maintain Positive view on Welspun Corp; expect a 30% upside

Welspun Corp's strong global presence (US, Saudi Arabia and India) makes it well placed to tap growing global opportunities in the line pipe business especially from oil & gas sector giving rising significance of energy security (post Russia-Ukraine conflicts). Valuation of 7x/4x FY25E PE and EV/EVITDA is attractive and offers room for re-rating given the company's focus to build on new businesses with high margin and target to turn net cash positive over next couple of years. Hence, we maintain our Positive view on Welspun Corp and expect 30% upside potential from CMP.

One-year forward EV/EBITDA (x) band

Source: Sharekhan Research

About company

Welspun Corp Ltd. is one of the flagship companies of Welspun Group and is a one-stop service provider of welded line pipes as well as the preferred supplier to several Fortune 100 oil & gas companies. Its facilities in India, Kingdom of Saudi Arabia and USA manufacture and deliver some of the most critical pipelines in executing complex and large on-shore and off-shore projects.

Investment theme

Welspun Corp's strong order book provides revenue growth visibility and ramp up existing line pipe and new businesses (DI pipes, TMT bars and specialty steel) would drive significant earnings growth over FY24E-25E. Inorganic growth (acquisition of ABG and Sintex) provide opportunity to diversify into new business avenues of shipbuilding, offshore oil & gas structures and plastics. The company's FY24 revenue/EBITDA/RoCE guidance of Rs. 15,000 crore/ Rs. 1,500 crore/16% and improve DJSI ESG rating to 60+ is impressive. Valuation is attractive considering strong growth and likely improvement in return ratios over FY24E-25E.

Key Risks

- Low oil prices may impact order inflow from key oil & gas sector.
- Sharp surge in steel price could impact margin/earnings.
- Lower-than-expected ramp-up of new business segments.
- Delay in value creation from acquired companies and assets.

Additional Data

Key management personnel

Balkrishan Goenka	Chairman and Non-Executive Director
Mr. Vipul Mathur	Managing Director & CEO
Mr. Percy Birdy	Chief Financial Officer
Dipali Goenka	Director

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	8.34
2	AUTHUM INVESTMENT & INFRASTR LTD	4.34
3	Bhanshali Akash	2.29
4	Vanguard Group Inc/The	1.9
5	DSP Investment Managers Pvt Ltd	1.55
6	Aditya Birla Sun Life Asset Manage	1.45
7	Dimensional Fund Advisors LP	1.18
8	BlackRock Inc	0.73
9	Norges Bank	0.47
10	American Century Cos Inc	0.21

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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