Sharekhan by BNP PARIBAS

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Welspun Corp Ltd

Better than expected quarter; robust growth outlook

Capital Goods	Sharekhan code: WELCORP
Reco/View: Positive ↔	CMP: Rs. 690	Upside potential: 20% ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Company reported a revenue of Rs. 3,302 crore, down 19% y-o-y. There was good volume growth in the line pipes business but the fall in revenue was because of decline in steel prices.
- Q2 operating profit was flat y-o-y to Rs. 400 crore and better than estimates despite a revenue decline. This was because of good mix of higher margin exports business. Net profit of Rs. 287 crore was down 25% y-o-y due to lower other income.
- Pipe business outlook remains robust across US and Saudi Arabia. Total capex plan of more than Rs. 5,000 crore and focus on plastic pipes & fittings under Sintex would drive growth in FY26 and beyond.
- We maintain a Positive view on Welspun Corp and expect a 20% upside from CMP. Good execution in the Sintex business would help the company to negate the earnings cyclicality and drive re-rating. Company trades at a valuation of 9.5x/7.8x its FY26E/27E EV/EBITDA.

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		↔	

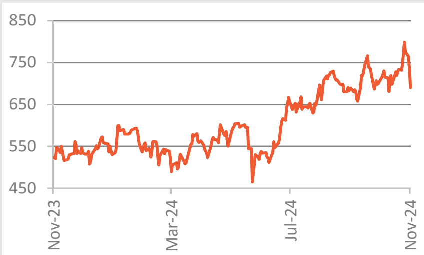
Company details

Market cap:	Rs. 18,088 cr
52-week high/low:	Rs. 806/441
NSE volume: (No of shares)	12.3 lakh
BSE code:	532144
NSE code:	WELCORP
Free float: (No of shares)	13.1 cr

Shareholding (%)

Promoters	50
FII	12
DII	11
Others	27

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.4	2.6	16.2	31.8
Relative to Sensex	3.2	4.2	9.7	12.1

Sharekhan Research, Bloomberg

Q2FY25 consolidated revenue at Rs. 3,302 crore was down 19% y-o-y due to the fall in steel price realizations. There was good volume growth in the steel pipes business (+9%), DI pipes (+41%) and TMT bars (+46%) while SS bars witnessed a 27% decline. Sintex revenue of Rs. 146 crore was down 9% q-o-q. The Saudi Arabian associate company, EPIC's revenue/ operating profit/PAT grew 135%/294%/438% respectively. Operating profit for the quarter of Rs. 400 crore was flat y-o-y with the higher mix of exports revenue. Company has received two line pipe orders of Rs. 3,700 crore in US recently which would ramp up in FY26 and it is favourably placed to get 1-2 more projects in the coming months.

Key positives

- OPM increased by 226bps to 12.1%.
- Company is doing a large capex across line pipes, DI pipes, TMT and Sintex business.

Key negatives

- SS Pipes and SS bars had a weak volume growth.

Management Commentary

- Company received two orders worth Rs. 3,700 crore in the US business and is favorably placed to get 1-2 more orders.
- The Saudi associate business has an orderbook of more than 2.5 years and seeing very good demand.
- Sintex had a revenue decline of 9% q-o-q. Company is going to setup a new plastic pipes facility and aspires to take a 5% share of the market by FY30.
- Company is going to do a cumulative capex of more than Rs. 5,000 crore in the next 2-3 years with around Rs. 2300 crore in the Sintex business and the rest in the traditional business (line pipe and DI pipe). The traditional business is witnessing a strong demand environment while the company will invest for growth in the Sintex business.

Our Call

Valuation – Maintain a Positive view on Welspun Corp; expect a 20% upside: Welspun'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 the oil & gas sectors. Welspun has multiple re-rating catalyst given robust core line pipe business outlook, potential strong growth from DI pipes, B2C foray through Sintex/TMT bars (which fetch better valuation compared to the cyclical line pipe business). Hence, we stay Positive on Welspun Corp and expect a 20% upside potential from CMP. The stock trades at valuation of 9.5x/7.8x its FY26E/27E EV/EBITDA.

Key Risks

1) Low oil price may impact order inflow from the key oil & gas sector 2) Lower-than-expected ramp-up of the new and acquired business segments.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	9,758	17,340	15,718	19,725	21,452
OPM (%)	5.0	9.0	9.8	10.8	10.9
Adjusted PAT	207	1,110	953	1,274	1,364
% YoY growth	-52.9	437.2	-14.2	33.8	7.0
Adjusted EPS (Rs.)	7.9	42.5	36.4	48.7	52.1
P/E (x)	87.3	16.3	18.9	14.2	13.2
P/B (x)	3.8	3.2	2.8	2.4	2.0
EV/EBITDA (x)	41.6	12.1	12.0	9.5	7.8
RoNW (%)	4.5	21.5	15.8	18.2	16.6
RoCE (%)	6.5	17.5	15.9	18.6	17.2

Source: Company; Sharekhan estimates

Q2FY2025 result highlights

Line Pipes:

- **Indian & US Operations:** Order book stood strong at 704 KMT, valued at around Rs. 9,500 crore. The company has received two orders worth Rs. 3,700 crore from the US business in last 2 months. Also, it is favorably placed to get 1-2 more large orders in this geography. Company is doing a capex of Rs. 840 crore to expand the line pipe capacity by 350 KMT in USA.
- **Saudi Arabian operations:** The associate company, EPIC is doing extremely well with confirmed orderbook of more than 2.5 years with demand in both O&G and water. Company is doing a capex of Rs. 1,660 crore in Saudi through its wholly owned subsidiary to expand DI pipes capacity by 250 KMT and LSAW pipes by 350 KMT to cater to the strong demand.
  - **DI Pipes:** This segment has a strong order backlog of 356 KMT and is valued at Rs. 2,914 crore. The company expects the 200 KMT expansion of Rs. 300 crore to be completed at the start of FY26. Budgetary allocations of ~Rs. 69,000 to Jal Jeevan Mission bode well for DI pipes segment. The DI pipes industry has risen to 5-6 million tonnes from 3-5 million tonnes few years ago.
  - **SS bars and pipes:** The current order book stands at 5,800 MT and valued at Rs. 259 crore. This segment has witnessed a volume decline. Company expects the volumes to rise from H2 as the export demand picks up.
  - **Sintex:** Revenue of Rs. 146 crore declined 9% q-o-q. Company is going to do a capex of Rs. 2,300 crore in the business to setup a plastic pipes and fittings manufacturing facility. Company aspires to take a 5% market share of the plastic pipes market of Rs. 1.3 lakh crore in FY30.
  - **Capex guidance:** The company has announced capex of more than Rs. 5,000 crores over the 2-3 years. Capex spend would be to expand the line pipe facility in US and Saudi, DI pipes plants in India and Saudi, TMT bars in India and for investing in the Sintex business.

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Net Sales	**3,302**	**4,059**	**-18.7**	**3,137**	**5.2**
Total Expenditure	2,902	3,660	-20.7	2,763	5.0
Operating profit	**400**	**400**	**0.0**	**374**	**6.9**
Depreciation	89	86	4.1	85	5.2
Other Income	62	102	-38.8	42	47.0
Interest	83	75	11.3	66	25.7
Exceptional income/(expense)	0	0	-	0	-
Share of Profit / (Loss) of Associates/JVs	74	125	-41.0	40	83.8
PBT	**352**	**466**	**-24.4**	**305**	**15.3**
Tax	69	79	-12.5	57	20.5
Reported PAT	**283**	**387**	**-26.8**	**248**	**14.1**
Share of Minority Interest	-4	2	-310.0	0	-
Adjusted PAT	**287**	**385**	**-25.4**	**248**	**15.6**
Adjusted EPS (Rs)	10.9	14.7	-25.4	9.5	15.6
Margins(%)			**BPS**		**BPS**
OPM	12.1	9.8	226	11.9	18
NPM	8.7	9.5	-79	7.9	78
Tax rate	22.4	17.0	547	25.9	-344

Source: Company, Sharekhan Research

Volume performance

Particulars	Q2FY25	Q2FY24	y-o-y (%)	Q1FY25	q-o-q (%)
DI Pipes (KMT)	65	46	41.3	64	1.6
Steel Pipes (KMT)	271	248	9.3	229	18.3
TMT Bars (KMT)	41	28	46.4	57	-28.1
SS Bars (MT)	3,927	5,351	-26.6	4,738	-17.1
SS Pipes (MT)	1,298	1,209	7.4	1,139	14.0

Steel Pipe Sales volumes include India & US Line pipes and India DI Pipes
Source: Company; Sharekhan Research

Performance of East Pipe Integrated Company for the industry (EPIC) – Associate company

PARTICULARS (SAR Million)	Q2 FY25	Q1 FY25	FY24	Q2 FY24
Sales/ Revenue	540	364	1,543	230
EBITDA	134	93	353	34
Net Profit after Zakat and Tax	113	71	268	21

WCL holds 31.5% stake in EPIC
Source: Company

Capex plans for future growth

Sr No	Project	Capacity (KMTPA)	Investment (Rs Crore)	Target Completion
1	HFIW Plant in USA (Ongoing)	350	840	March 2026
2	DI Pipes Plant in KSA (New) LSAW Plant in KSA (New)	250 350	1660	April 2026
3	Additional Spiral line in Bhopal (New)	60	52	May/ June 2025
4	DI Pipes expansion, India (Ongoing)	200	300	April 2025
5	DRI Plant in Anjar, India (New)	255	301	April 2026
6	Foray into Plastic Pipes along with existing WST (Ongoing)	200	2,355*	In Phases from FY26 to FY28

Source: Company

Outlook and Valuation

■ Sector Outlook – Long-term growth drivers remain intact

Demand for line pipes in India is expected to be strong with 10,000 kms of gas pipelines to be installed in the next 2-3 years. CGD pipelines in atleast 50% of geographical areas are yet to be installed. In irrigation pipeline, interlinking rivers is a huge opportunity. US is the largest LNG exporter in the world and it is continuing drilling activity for exploration. This will lead to demand for line pipes. Saudi Arabia's pipe industry has favorable prospects in both water and oil & gas sectors. Indian government's focus on initiatives like Jal Jeevan Mission, Nal se Jal and AMRUT infrastructure bodes well for the Ductile iron pipes business. Indian WST market is expected to double and plastic pipes is expected to reach Rs. 1,30,000 crore market size from Rs. 55,000 crore today.

■ Company Outlook – Robust demand outlook, ramp-up of Sintex business to provide good growth visibility

Welspun has a strong line pipe order book of 704 KMT, which provides good revenue visibility. Company received two large orders from the US business recently and is likely to get more orders. The outlook is strong across line pipes, DI pipes and TMT bars. Company's foray into the less cyclical plastics segment bodes well for the earnings growth trajectory. Operating profit (EBITDA) is expected to grow at a CAGR of 15% from FY24-27E.

■ Valuation – Maintain a Positive view on Welspun Corp; expect a 20% upside

Welspun'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 the oil & gas sectors. Welspun has multiple re-rating catalyst given robust core line pipe business outlook, potential strong growth from DI pipes, B2C foray through Sintex/TMT bars (which fetch better valuation compared to the cyclical line pipe business). Hence, we stay Positive on Welspun Corp and expect a 20% upside potential from CMP. The stock trades at valuation of 9.5x/7.8x its FY26E/27E EV/EBITDA.

About the company

Welspun Corp Ltd (WCL) is the flagship company of Welspun World, one of India's fastest-growing multinationals with a leadership position in line pipes and home solutions. WCL is one of the largest manufacturers of large diameter pipes globally and has established a global footprint across six continents and fifty countries by delivering key customized solutions for both onshore and offshore applications. The company also manufactures TMT (Thermo-Mechanically Treated) Rebars, Ductile Iron (DI) Pipes, Stainless Steel Pipes, and Tubes & Bars. The company has state-of-the-art manufacturing facilities in Anjar (Gujarat), Bhopal (Madhya Pradesh), Mandya (Karnataka) and Jhagadia (Gujarat) in India. Overseas, WCL has a manufacturing presence in Little Rock, Arkansas, USA. WCL's expansion entails creating a diversified product portfolio and repurposing its business to add new target segments, organically and inorganically. The company acquired Sintex-BAPL, a market leader in water tanks and other plastic products, to expand its building materials portfolio.

Investment theme

Welspun's strong order book provides revenue growth visibility and ramp up of existing line pipe and new businesses (DI pipes, TMT bars, and specialty steel) would drive significant earnings growth over FY2025E-FY2027E. Inorganic growth (acquisition of Sintex) provide the opportunity to diversify into new business avenues of plastic pipes. The company has a FY2025 revenue/EBITDA guidance of Rs. 17,000 crore/Rs. 1,700 crore. Valuation is reasonable, considering the strong operating profit and earnings growth in the next few years.

Key Risks

- Low oil price may impact order inflow from the key oil and gas sector.
- Lower-than-expected ramp-up of new and acquired business segments.

Additional Data

Key management personnel

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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	AUTHUM INVESTMENT & INFRASTR LTD	6.24
2	Life Insurance Corp of India	4.27
3	DSP Investment Managers Pvt Ltd	3.15
4	Aditya Birla Sun Life Asset Manage	2.83
5	Vanguard Group Inc/The	1.96
6	FMR LLC	1.87
7	Bhanshali Akash	1.46
8	Dimensional Fund Advisors LP	1.18
9	Blackrock Inc	0.73
10	Norges Bank	0.46

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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