

JULY 01, 2021

## Result Update

## WELSPUN CORP LTD

PRICE Rs.143

TARGET Rs.145

REDUCE

### Stock Details

Market cap (Rs mn)	:	3783
52-wk Hi/Lo (Rs)	:	165/77.4
Face Value (Rs)	:	5
3M Avg. daily vol	:	1947873
Shares o/s (m)	:	26

Source: Moneycontrol, BSE

### Financial Summary

Y/E Mar (Rs cr)	FY21	FY22E	FY23E
Revenue	6,440	5,498	5,873
Growth (%)	-35.3	-14.6	6.8
EBITDA	774	406	577
EBITDA margin (%)	12.0	7.4	9.8
PAT	619	315	378
EPS	23.7	12.1	14.5
EPS Growth (%)	(0.9)	(49.1)	20.0
BV (Rs/share)	145	152	163
Dividend/share (Rs)	5.0	3.0	3.0
ROE (%)	16.6	7.9	8.9
ROCE (%)	12.4	3.1	5.2
P/E (x)	6.1	12.0	10.0
EV/EBITDA (x)	3.9	7.3	5.1
P/BV (x)	1.0	1.0	0.9

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-20	Sep-20	Jun-20
Promoters	50.0	48.2	47.5
FII	12.19	9.05	8.2
DII	7.8	8.27	9.57
Others	30.0	34.5	34.7

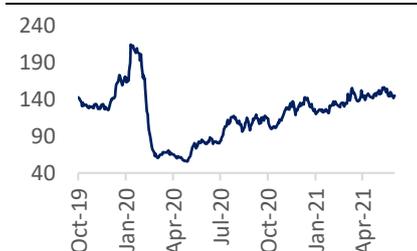
Source: Moneycontrol, BSE

### Price Performance (%)

(%)	1M	3M	6M
Weslun Corp	11.0	-2.0	-1.0
Nifty	1.9	5.9	12.4

Source: Moneycontrol, BSE

### Price chart (Rs)



Source: Moneycontrol, BSE

Welspun Corp (WCL) Q4FY21 performance was above our estimates driven by higher than expected volume from India operation and strong contribution from the U.S operations. Revenue during the quarter grew 30.6% sequentially to Rs1,819 cr (-34.1% YoY), driven by 22% sequential jump in sales volume (ex-Saudi). EBITDA during the quarter grew 23.5% QoQ to Rs230 cr, with an EBITDA/tonne of Rs10,049 (ex-Saudi). Higher other income and lower tax rate (As company shifted to new regime) helped the company to report 58.2% YoY and 9.9% QoQ growth in PAT to Rs219cr. At current multiples of 7.3x/5.1x FY22E/FY23E EV/EBITDA, stock is fairly valued and factors in most of the negative development. Current order book provides near term visibility and conversion of active bids into order book is crucial for the long term visibility and re-rating of the stock. Recommend **REDUCE**.

### Key Highlights:

- Revenue during the quarter grew sequentially led by 22% qoq jump in pipes sales volume. Sales volume during the quarter stood at 247 kt (including 18kt of Saudi Arabia Plant). On the volume front both India and US performed well.
- The company reported EBITDA of ~Rs230cr, with an average EBITDA/tonne of Rs10,049, higher than our estimates. The beat was largely on account of strong contribution from the U.S. The U.S facility reported EBITDA/tonne of US\$217/tonne and performed exceptionally well in FY21.
- Saudi operations performance deteriorated on account of lower sales volume and sharp increase in steel prices, which impacted operating performance. Saudi operations reported EBITDA loss of US\$3 mn, with an EBITDA/tonne loss of US\$176, as against positive EBITDA/tonne of US\$303 in Q4FY20 and US\$351 in 3QFY21. Saudi Arabia plant has an order book of 184kt, executed in the next six months.
- Order book now stands at 584 kt (Rs 4,800 cr), to be executed over the next 2-3 quarters. The management is of the view that they have participated in various tenders and expected to bag couple of orders in the near term. As per management, active bid book is around 12 lakh tonnes.
- Diversification announced:** The company is acquiring stake in sister concerns for a consideration of Rs360cr to be paid through 6% cumulative redeemable preference share. Besides this, the company will also be acquiring 100% stake in TMT bar (350kt capacity –under construction) and 50.03% in alloy SS pipes (150kt) and stainless-steel tubes (18kt) company.

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### Quarterly Table

Y/E mar (Rs Cr)	Q4FY21	Q4FY20	% YoY	Q4FY21	% QoQ
<b>Net Sales</b>	<b>1,819</b>	<b>2,759</b>	<b>-34.1</b>	<b>1,393</b>	<b>30.6</b>
Raw Materials	1,216	1,785		857	
Employee	110	161		109	
Other Expenses	263	511		241	
Total Expenses	1,589	2,457		1,207	
<b>EBITDA</b>	<b>230</b>	<b>302</b>	<b>-23.8</b>	<b>186</b>	<b>23.5</b>
EBITDA Margin	12.6	10.9		13.4	
Depreciation	55	59		54	
<b>EBIT</b>	<b>175</b>	<b>243</b>		<b>132</b>	
Interest	11	36		13	
Other Income	91	16		66	
<b>EBT</b>	<b>254</b>	<b>223</b>		<b>185</b>	
Tax	13	164		66	
<b>PAT</b>	<b>241</b>	<b>60</b>		<b>119</b>	
Share of JV	-16	81		76	
<b>Reported PAT</b>	<b>225</b>	<b>140</b>	<b>60.2</b>	<b>195</b>	<b>15.3</b>
Discontinued Operations	-6	-2		4	
Profit after discontinued op.	219	138	58.2	199	9.9

Source: Company, Kotak Securities – Private Client Group

### Valuation and Outlook

The current order book (Rs4,800cr) provides near term visibility, however in the medium to long term project tendering will be a key thing to monitor. We believe, WCL is better placed compared to its peers to weather the current unprecedented situation and challenges, to take advantage of pipe demand globally and in the domestic market. We believe that with the stability in oil prices, order inflows is expected to increase both globally and in the domestic markets. Besides this, expansion of national grid in India and several water projects being planned in India and Saudi Arabia bodes well for the pipe industry.

In the past, the company had ventured into steel business, however, the same was earnings dilutive and leveraged the balance sheet. The performance of WSL will be a key thing to monitor in the long run. At our estimates, the company is trading at 7.3x/5.1x FY22E/FY23E EBITDA, respectively and is fairly valued, in our view. We value to stock at 5x FY23E EBITDA and arrive at a target price of Rs145 (earlier Rs120) and recommend Reduce.

### Strong performance from India and U.S

Strong operations in India and the U.S, helped WCL to report EBITDA/tonne of Rs10,049. Management in the conference call indicated that, the industry did witnessed the recovery in water segment, however, the 2<sup>nd</sup> wave of pandemic and sharp increase in the steel prices led to slowed down in water segment again. Though the company is confident, given the huge opportunity in city gas distribution space and national gas grid. The sharp increase in the steel prices in the last three months has escalated all the projects costs and this can be one of the key risks.

In addition, the company is also focused on export markets, and the same can be seen from recent award of the Barossa order from the Australian market and award of few other international projects clearly reflects revival of pipeline demand potential and opportunities in the export market.

### Reconciliation of operating EBITDA

(Rs Cr)	4QFY21	3QFY21	2QFY21	1QFY21	FY21	FY20	FY19
Reported EBITDA	321	252	240	197	1010	1276	708
Less:							
Treasury Income	-47	-16	-12	-13	-88	-61	-83
Gain on sale of land	0	-20	-42	0	-62	0	-18
Insurance claim received	0	-27	0	0	-27	0	0
Add:							
Fair val on non-cur invst & IL&FS bond	-29	0	0	-1	-30	5	117
Impairment of loan to JV	0	0	0	0	0	25	0
MTM	0	0	0	0	0	39	141
Other Provisions	0	0	0	0	0	0	33
<b>Operating EBITDA</b>	<b>245</b>	<b>189</b>	<b>187</b>	<b>183</b>	<b>803</b>	<b>1284</b>	<b>897</b>

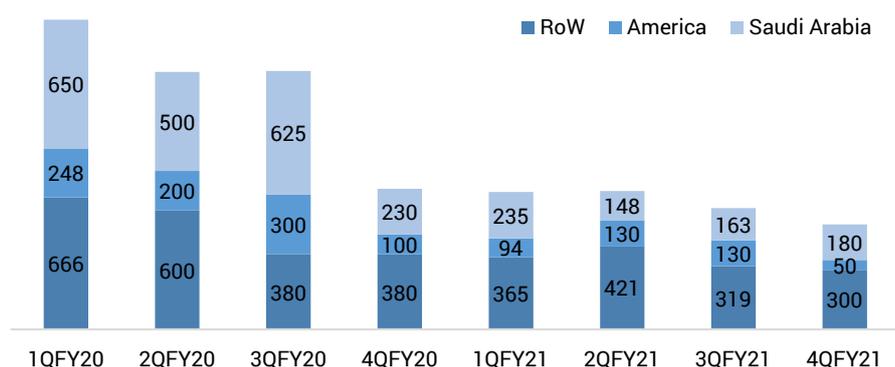
Source: Company, Kotak Securities – Private Client Group

As per the management, the overall environment for Oil & Gas in the USA has improved with a pickup in oil prices and better than expected production and demand. However, many companies in the midstream sector are being cautious with spending on growth projects. The current order book in the U.S gives revenue visibility for the next 2-3 months. In addition, the company has participated in some of the projects, if successfully converted into order, will provide further visibility. The company is confident of demand revival in the later part of 2HFY22

### Near term revenue visibility – future order tendering a key to watch

After execution of orders in 4QFY21, the current order book stands at 528 kt (Rs 4,800 cr), to be executed over the next 2-3 quarters. Though revenue visibility has reduced sharply compared to the last year, management stated the current order book is strong enough for the company to sail through these times and announcement/execution of any additional order, other than the current order book, will improve the profitability.

### Order book break-up



Source: Company, Kotak Securities – Private Client Group

In the USA, the current order book of 50kt will help the company to operate the facility till 1QFY22. At Saudi facility, the order book gives the visibility for the next six months. In India, the management stated that, ordering activity (largely from PSU's) and export order is expected to gain traction.

### Saudi JV – Sharp deterioration in profitability

On the back of lower sales volume and sharp increase in steel cost impacted Saudi JV performance. The JV reported EBITDA loss of US\$3mn, with an EBITDA/tonne loss of US\$176. As per the management, the current order book enjoys a healthy margin, but gives revenue visibility for the next 6 months. The company is continuously engaged with a large customer in the water segment and is in a favourable position on a few orders. In addition, with a pickup in oil prices, WCL is confident that further opportunities will arise, both in the Oil & Gas and the Water segment. If any of these materializes, will increase the future visibility. As per the management, as far as the current order book is concerned, WCL is fully insulated from the hike in steel prices.

### Saudi Arabia Operations

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
<b>Pipe</b>								
Production ('000 t)	105	126	125	128	25	107	88	30
Sales ('000 t)	138	116	114	132	41	98	97	17
<b>Operation Performance</b>								
EBITDA (US\$ MN)	13	27	20	40	12	25	29	-3

Source: Company, Kotak Securities – Private Client Group

### Plate & Coil Mill Division (PCMD) Divestment – Completed

Lapte Finance Pvt. Ltd. assigned all its rights and obligations under the BTA to JSW Steel Limited. Accordingly, the PCMD Division is transferred to JSW Steel Limited w.e.f. March 31st, 2021 for a consideration of Rs848.50 cr plus closing adjustments towards net working capital. As on June 8th, 2021, the company has received a cumulative purchase consideration of Rs723.50 cr, which has further strengthen company's balance sheet. Net cash as on Jun'21 stands at Rs827 cr.

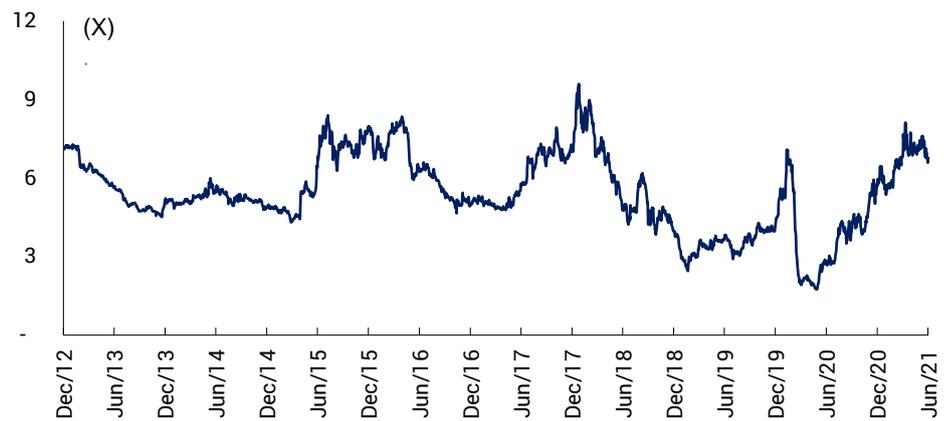
### Once again venturing into steel; this time into long products

The Board of Directors decided to propose the Scheme of Arrangement between Welspun Steel Limited ("WSL") and the Company to NCLT for transfer of WSL's Steel Division to the Company. WSL is a privately held company, situated in Welspun City, Anjar. In its Steel Division, it manufactures Steel Billets and Direct Reduced Iron (DRI), and is implementing a Greenfield project for manufacturing of TMT bars. The expected project cost is ~ Rs.175 cr and the project is expected to be completed by Sep'22. Besides this, WSL holds 50.03 % shares in Welspun Specialty Solution Ltd. (WSSL), an integrated producer of Quality Stainless Steel Pipes & Tubes right from steel-making to the finished products.

### Ductile Iron Pipe Project – Expansion status

Given the increased focus on creating water supply infrastructure in the country through various government schemes, spending by state governments and municipal corporations is expected to increase. Considering the expected demand, the company has decided to increase the capacity for DI Pipes to 400 KMTPA (from earlier proposed 250 KMTPA) and add DI Fittings to the product range. The total project cost now stands at Rs. 1,550 cr (plus soft cost) from the earlier planned Rs. 1,250 cr (plus soft cost).

**One year forward EV/EBITDA (x)**



Source: Capital line, Kotak Securities – Private Client Group

**About the company**

Welspun Corp (WCL) is a one of the leading global manufacturer of the large diameter pipes with an installed capacity of 24 lakh tonnes, offering a one stop solution for all line pipe related requirements with its wide product range of high grade line pipes and meeting stringent specifications. Its manufacturing facilities are located across USA, Saudi Arabia and India and it is a preferred vendor for major oil and gas companies, both overseas and locally. (Source: Company)

## Financials: Consolidated

### Profit and Loss Statement (Rs cr)

(Year-end Mar)	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>9,957</b>	<b>6,440</b>	<b>5,498</b>	<b>5,873</b>
growth (%)	11.2	-35.3	-14.6	6.8
Operating expenses	8,797	5,665	5,092	5,296
<b>EBITDA</b>	<b>1,160</b>	<b>774</b>	<b>406</b>	<b>577</b>
growth (%)	102.4	-33.2	-47.6	42.1
Depreciation & amortisation	233	215	259	319
<b>EBIT</b>	<b>927</b>	<b>560</b>	<b>147</b>	<b>258</b>
Other income	116	235	200	168
Interest paid	144	68	91	78
<b>PBT</b>	<b>899</b>	<b>728</b>	<b>256</b>	<b>348</b>
Exceptional	0	0	0	0
Tax	412	221	79	108
Effective tax rate (%)	5	3	3	3
<b>Net profit</b>	<b>486</b>	<b>507</b>	<b>177</b>	<b>240</b>
Minority interest / share of Ass.	187	123	138	138
<b>Net profit</b>	<b>674</b>	<b>630</b>	<b>315</b>	<b>378</b>
Discontinued Operations	-38	-11	0	0
Profit after Disc. Op.	635	619	315	378
growth (%)	887.1	-0.9	-49.1	20.0

Source: Company, Kotak Securities – Private Client Group

### Cash flow Statement (Rs cr)

(Year-end Mar)	FY20	FY21	FY22E	FY23E
Pre-tax profit	899	728	256	348
Depreciation	233	215	259	319
Chg in working capital	33	-407	447	11
Total tax paid	-412	-221	-79	-108
Other operating activities	311	79	91	78
<b>Operating CF</b>	<b>1,063</b>	<b>394</b>	<b>973</b>	<b>648</b>
Capital expenditure	-82	558	-829	-512
Chg in investments	-308	-919	-175	-175
Other investing activities	0	0	0	0
<b>Investing CF</b>	<b>-390</b>	<b>-361</b>	<b>-1,004</b>	<b>-687</b>
Equity raised/(repaid)	-59	0	0	0
Debt raised/(repaid)	-442	-244	98	-100
Dividend (incl. tax)	-391	-130	-78	-78
Other financing activities	62	67	59	72
<b>Financing CF</b>	<b>-830</b>	<b>-307</b>	<b>79</b>	<b>-106</b>
Net chg in cash & bank bal.	-157	-273	48	-145
<b>Closing cash &amp; bank bal</b>	<b>514</b>	<b>240</b>	<b>289</b>	<b>144</b>

Source: Company, Kotak Securities – Private Client Group

### Balance sheet (Rs cr)

(Year-end Mar)	FY20	FY21	FY22E	FY23E
Cash & Bank balances	514	240	289	144
Other Current assets	3,920	2,717	1,995	2,094
Investments	784	1,702	1,877	2,052
Net fixed assets	1,700	1,756	2,247	2,428
Asset held for sale	829	0	0	0
Other non-current assets	43	85	85	85
<b>Total assets</b>	<b>7,790</b>	<b>6,501</b>	<b>6,494</b>	<b>6,804</b>
Current liabilities	3,448	1,992	1,717	1,827
Borrowings	846	602	700	600
Other non-current liabilities	266	89	89	89
<b>Total liabilities</b>	<b>4,560</b>	<b>2,683</b>	<b>2,506</b>	<b>2,516</b>
Share capital	130	130	130	130
Reserves & surplus	3,085	3,663	3,833	4,133
Shareholders' funds	3,215	3,793	3,963	4,263
Minority interest	14	25	25	25
<b>Total equity &amp; liabilities</b>	<b>7,790</b>	<b>6,501</b>	<b>6,494</b>	<b>6,804</b>

Source: Company, Kotak Securities – Private Client Group

### Ratio Analysis

(Year-end Mar)	FY20	FY21	FY22E	FY23E
<b>Profitability and return ratios (%)</b>				
EBITDAM	11.6	12.0	7.4	9.8
EBITM	9.3	8.7	2.7	4.4
NPM	6.8	9.8	5.7	6.4
RoE	20.9	16.6	7.9	8.9
RoCE	21.3	12.4	3.1	5.2
<b>Per share data (Rs)</b>				
EPS	24.4	23.7	12.1	14.5
CEPS	34.8	32.4	22.0	26.7
BV	123.3	145.4	151.9	163.4
DPS	12.5	5.0	3.0	3.0
<b>Valuation ratios (x)</b>				
PE	6.0	6.1	12.0	10.0
P/BV	1.2	1.0	1.0	0.9
EV/EBITDA	3.2	3.9	7.3	5.1
EV/Sales	0.4	0.5	0.5	0.5

Source: Company, Kotak Securities – Private Client Group

## RATING SCALE (PRIVATE CLIENT GROUP)

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<b>ADD</b>	– We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	– We expect the stock to deliver -5% - +5% returns over the next 12 months
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