

On all fronts robust performance, simply growth catalyst: Strong Buy

Welspun Corp posted revenues of INR 22,629 mn with 5.1% YoY increase, which was 7.2% lower than our estimate of INR 24,390mn. Revenue growth was mainly driven by higher realization per ton by 24.4% which was largely offset by lower sales volume by 15.5% (India + USA). Current order-book stands at 1357 thousand metric tonnes valued at around INR 110,000mn. Apart from this, global bid book stands at 2.5 million tonnes and upcoming orders for bidding at another 20.5 million tonnes. This provides strong visibility for coming quarters. Company registered highest ever quarterly production of 443 thousand metric tonnes while sales volume stood at 337 thousand tonnes (including Saudi JV), the difference in inventory buildup is due to large export order which are yet to be delivered to client site. We can expect sequentially higher revenue booking in Q3FY20. Operating profit stood at INR 3,305mn up 36.7% YoY while margins expanded by 340bps to 14.6% beating our estimate in big way due to improved product mix and easing RM costs. Operating profit/t for the quarter for India, US and Saudi JV stood at USD 89/t, USD 360/t and USD 230/t respectively compared to USD 74/t, USD 209/t and -USD 90/t YoY. Management increased guidance of Operating profit/t for full year FY20 for India, US and Saudi JV to USD 80/t, USD 250/t and USD 150/t respectively. Adj.PAT reported at INR 1,610mn against INR 588mn up 188% driven by the solid turnaround in Saudi JV from INR 322mn loss in Q2FY19 to INR 580mn profit even after higher tax. During the quarter, company reduced net debt level to INR 1,969mn from INR 2,856mn previous year and management is confident to be zero net debt by year end. Over sale on PCMD business, parties to the agreement are in advance stage of seeking approval from regulatory authorities and timeline for closing of deal would be assessed post approval. Owing to this, we are expecting to cross previous deadline of 31st December 2019.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook**Positive****Stock**

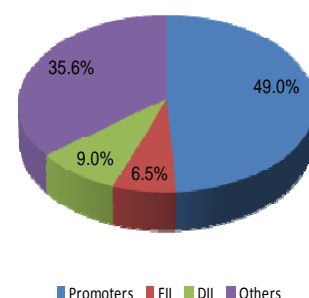
CMP (INR)	144
Target Price (INR)	213
BSE code	532144
NSE Symbol	WELCORP
Bloomberg	WLCO IN
Reuters	WGSR.BO

Key Data

Nifty	11,583
52WeekH/L(INR)	164/88
O/s Shares (Mn)	265
Market Cap (INR bn)	38
Face Value (INR)	5

Average volume

3 months	4,86,570
6 months	4,66,750
1 year	5,89,750

Share Holding Pattern (%)**Relative Price Chart****Research Analyst****Kunal Kothari**

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Key Financials					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	58,987	75,873	89,534	89,723	94,523
Growth %	-18%	29%	18%	0%	5%
EBIDTA	5,124	5,813	5,730	9,056	9,903
Growth%	-34%	13%	-1%	58%	9%
Net Profit	264	1,530	(217)	5,835	7,102
Growth %	-83%	479%	-114%	NA	22%
Diluted EPS	1	6	(1)	25	30
Growth %	-83%	479%	-114%	NA	22%
Profitability & Valuation					
EBIDTA (%)	8.7%	7.7%	6.4%	10.1%	10.5%
NPM (%)	0.4%	2.0%	-0.2%	6.5%	7.5%
RoE (%)	-0.2%	6.2%	2.1%	20.2%	21.4%
RoCE (%)	2.2%	6.2%	6.7%	17.1%	18.5%
P/E (x)	135.5	23.4	-165.1	5.5	4.5
EV/EBITDA (x)	9.9	7.3	7.3	2.5	1.5
P/BV (x)	1.3	1.3	1.3	1.1	0.9

Source: Company, BP Equities Research

Granules India Ltd

Result Update Q2FY20

Welspun Corp Ltd Q2FY20 Quarterly Result

YE March (Rs. mn)	Q2 FY20	Q1 FY20	Q-o-Q change %	Q2 FY19	Y-o-Y change %
Net Sales	22,246	20,027	11.1%	21,000	5.9%
Other Operating Income	383	445		524	
Total Revenue	22,630	20,471	10.5%	21,525	5.1%
Less:					
Raw Material Cost	14,430	13,306	8.4%	14,518	(0.6%)
Operating & Manufacturing Ex- penses	3,688	3,568	3.3%	3,635	1.4%
Employee Cost	1,595	1,599	(0.2%)	1,424	12.0%
Total Expenditure	19,712	18,473	6.7%	19,576	0.7%
EBIDTA	2,917	1,998	46.0%	1,948	49.7%
Less: Depreciation	610	545	11.9%	662	(7.9%)
EBIT	2,307	1,453	58.8%	1,286	79.4%
Less: Interest	340.6	394.5	(13.7%)	453.7	(24.9%)
Add: Other income	389	418	(7.0%)	471	(17.4%)
Profit before tax	2,355	1,476	59.5%	1,303	80.8%
Less: Tax Expense	1,147	384	198.9%	175	553.9%
Profit After Tax	1,208	1,093	10.6%	1,128	7.2%
JV contribution	580	169	244.1%	(323)	NA
Discontinued Operation	(178)	(75)	136.9%	(247)	(28.0%)
Adjusted Profit After Tax	1,611	1,186	35.8%	558	188.5%
Adjusted EPS	6.1	4.5	35.8%	2.1	188.5%
Diluted No of Share (mn)	265.2	265.2		265.2	
Margin Analysis %			Change in bps		Change in bps
EBIDTA Margin %	12.9%	9.8%	313	9.1%	384
EBIT Margin %	10.2%	7.1%	310	6.0%	422
NPM %	7.1%	5.8%	132	2.6%	452
Effective Tax Rate %	48.7%	26.0%	2,271	13.5%	3,524

Operating Profit for H1FY20
at INR 5,721.6mn vs INR
4,360mn in H1FY19

Adj Profit for H1FY20 at INR
2,791.6mn vs INR 1,025mn
in H1FY19

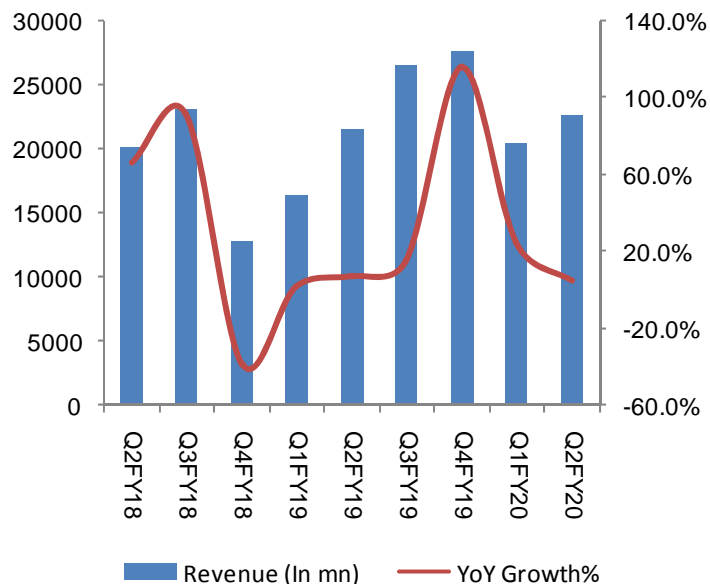
Valuation and Outlook

Overall our outlook for business in all three geographies is very positive and buoyant. At current sales volume run rate, Saudi JV is operating at 100% utilization level while US more than 80% levels and India at 37% (expecting 50% for full year). The current orderbook 1357 thousand metric tonnes valued at INR 11bn, there is strong revenue visibility going forward. Company is best placed to reap growing demand in US with trade restrictions limiting competition resulting in leadership position with higher margins. Over Saudi JV, operating performance is very robust benefitting from lower steel prices and higher blend of more profitable orders in sales mix. In domestic front, we believe company would continue to perform consistently. Overall outlook is positive, believing various projects like Nal se Jal, Gas grid and Oil grid would support higher utilization going forward. Owing to higher utilization, turnaround in Saudi Arabia business and better revenue mix would lead to higher profitability and free cash flows. The consideration to be received from sale of non core assets would be firstly utilized for debt payment and balance would be rewarded back to shareholders in form of dividend or buyback. Going forward, we expect return ratios (RoCE and RoE) to see further improvement and reach 21.4% and 18.8% by FY2021E. We recommend 'BUY' rating by assigning EV/EBITDA 4x to its FY21E EBITDA. We arrive at a target price of **INR 213** (potential upside of 47.2%) for an investment horizon of 12-15 months.

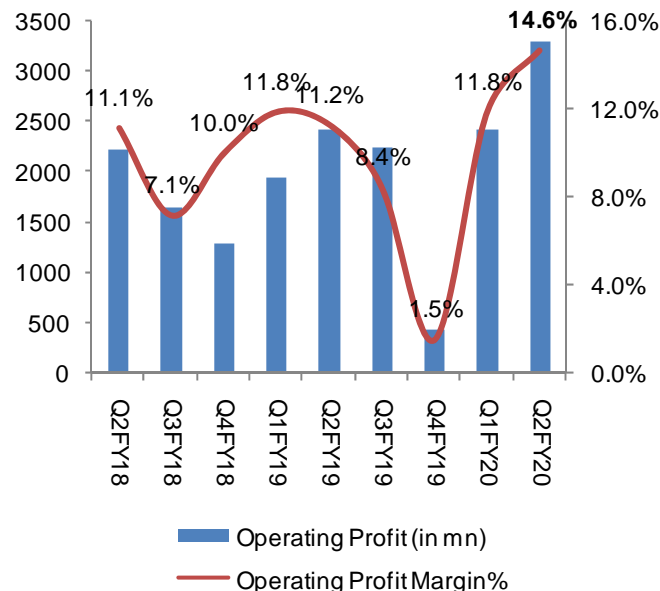
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Result Update Q2FY20

revenue growth of ~5% YoY

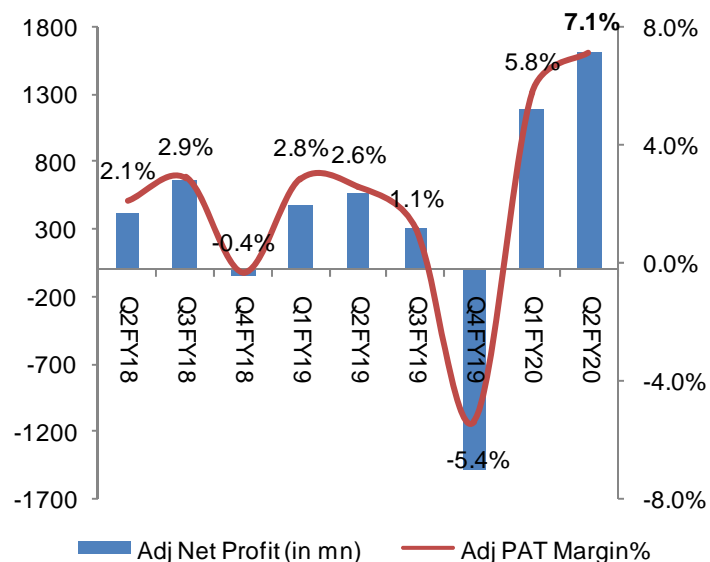


EBITDA surged significantly due to better product mix

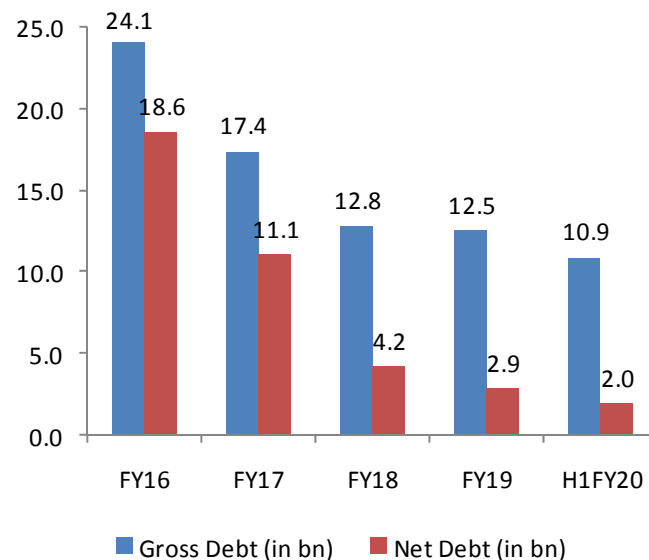


Source: Company, BP Equities Research

PAT showed higher growth



Decline in Gross Debt and Net Debt



Source: Company, BP Equities Research

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Result Update Q2FY20

Profit & Loss A/c (Consolidated)

YE March (Rs. mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Revenue	84,505	72,355	58,987	63,470	89,534	89,723	94,523
Less:							
Raw Material Consumed	58,261	44,315	40,402	43,997	62,768	62,178	64,850
Employee Cost	5,258	5,576	4,305	4,172	5,720	6,292	6,921
Other Expenses	12,564	14,688	9,155	9,489	15,317	12,197	12,850
Total Operating Expenditure	76,083	64,579	53,863	57,658	83,804	80,667	84,620
EBITDA	8,422	7,776	5,124	5,813	5,730	9,056	9,903
Growth %	25.8%	-7.7%	-34.1%	13.4%	-1.4%	58.0%	9.4%
Less: Depreciation	4,365	3,865	3,861	2,582	2,597	1,620	1,683
EBIT	4,057	3,911	1,263	3,231	3,133	7,436	8,221
Growth %	54.0%	-3.6%	-67.7%	155.8%	-3.0%	137.3%	10.6%
Interest Paid	2,830	2,411	2,357	1,702	1,774	1,262	773
Non-operating Income	1,086	1,132	2,246	1,288	1,347	1,347	1,347
Tax	177	792	258	202	1,223	1,880	2,199
Adjusted Profit	3,580	2,067	(62)	1,757	598	5,835	7,102
Reported Diluted EPS Rs	2.6	5.7	1.0	5.8	(0.8)	23.2	29.9

Source: Company, BP Equities Research

Cash Flows (Consolidated)

YE March (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
PAT	264.2	1,530.1	(216.9)	5,835.5	7,102.1
(Less)/Add: Extraordinary Income/Expense	0.0	226.6	814.9	0.0	0.0
Less: Non Operating Income	(2,246.0)	(1,288.3)	(1,346.5)	(1,346.5)	(1,346.5)
Add: Depreciation	3,860.8	2,581.5	2,597.3	1,620.5	1,682.6
Add: Interest Paid	2,357.1	1,701.5	1,773.7	1,262.3	772.9
Operating Profit before Working Capital Changes	4,236.2	4,751.4	3,622.5	7,371.7	8,211.1
(Inc)/Dec in Current Assets	983.3	3,903.0	(9,950.0)	11,611.3	(723.0)
Inc/(Dec) in Current Liabilities	5,148.8	(1,167.4)	7,307.4	1,156.0	1,926.8
Changes in Inventory	(4,714.7)	2,528.0	(7,109.0)	(46.9)	(1,191.6)
Net Cash Generated From Operations	5,653.5	10,015.0	(6,129.1)	20,092.1	8,223.3
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(72.4)	(668.8)	16,810.3	(1,000.0)	(1,000.0)
(Inc)/Dec in Capital Work In Progress	89.7	105.3	(320.3)	0.0	0.0
(Inc)/Dec in Investment (Others)	(102.3)	543.8	790.4	0.0	0.0
Add: Non Operating Income	2,246.0	1,288.3	1,346.5	1,346.5	1,346.5
(Inc)/Dec in Intangible Assets	(67.7)	(72.4)	34.9	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	2,093.3	1,196.3	18,661.8	346.5	346.5
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	(8,267.3)	(4,954.7)	(3,916.0)	(3,500.0)	(3,500.0)
Inc/(Dec) in Reserves & Surplus	(324.3)	(1,637.4)	(831.2)	(3,760.7)	0.0
Inc/(Dec) in Equity	0.0	0.0	0.0	(139.3)	0.0
Dividend Paid	(13.3)	(13.3)	(132.6)	(132.6)	(132.6)
Tax Paid on Dividend	(2.7)	(2.7)	0.0	0.0	0.0
Adjustments	(41.5)	1,310.7	(4,641.9)	(0.0)	0.0
Exceptional Item	0.0	(226.6)	(814.9)	0.0	0.0
Net Cash Flow from Financing Activities	(11,006.3)	(7,225.5)	(12,110.2)	(8,794.9)	(4,405.5)
Net Inc/Dec in cash equivalents	(3,259.4)	3,985.8	422.4	11,643.7	4,164.3
Opening Balance	5,555.6	2,296.2	6,281.9	6,704.3	18,348.0
Closing Balance Cash and Cash Equivalents	2,296.2	6,281.9	6,704.3	18,348.0	22,512.3

Source: Company, BP Equities Research

Granules India Ltd

Result Update Q2FY20

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Equity Capital	1,326	1,326	1,326	1,187	1,187
Equity	28,094	28,540	27,976	29,779	36,749
Preference Share Capital	0	0	0	0	0
Minority Interest	1,135	566	(51)	(51)	(51)
Net Deferred tax liability/(Asset)	7,810	7,430	3,829	3,829	3,829
Total Loans	17,418	12,843	12,528	9,028	5,528
Capital Employed	54,457	49,379	44,283	42,585	46,055
Gross Block	41,237	41,906	25,096	26,096	27,096
Less: Depreciation	7,679	11,572	9,527	11,147	12,830
Net Block	33,558	30,334	15,569	14,948	14,266
Capital WIP	250	144	465	465	465
Investments	3,383	2,238	2,284	2,284	2,284
Intangible Assets	73	145	110	110	110
Others	2,246	2,848	2,011	2,011	2,011
Current Assets					
Inventories	17,647	15,119	22,228	22,275	23,466
Sundry Debtors	14,652	13,141	11,807	11,832	12,465
Cash and Bank Balance	2,296	6,282	6,704	18,348	22,512
Current Investments	5,069	3,367	3,487	3,487	3,487
Loans and Advances	2,876	6	5	5	5
Other Current Assets	1,130	3,310	14,474	2,838	2,928
Total Current Assets	43,669	41,224	58,705	58,784	64,863
Sundry Creditors	21,931	21,340	15,797	16,912	17,817
Provisions	1,686	247	259	259	273
Other Current Liabilities	5,104	5,967	18,806	18,846	19,854
Total Current Liabilities & Provisions	28,721	27,554	34,861	36,017	37,944
Capital Applied	54,457	49,379	44,283	42,585	46,055

Source: Company, BP Equities Research

Key Ratios					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Key Operating Ratios					
EBITDA Margin (%)	8.7%	9.2%	6.4%	10.1%	10.5%
Tax / PBT (%)	22.4%	7.8%	64.7%	25.0%	25.0%
Net Profit Margin (%)	0.4%	2.4%	-0.2%	6.5%	7.5%
RoE (%)	-0.2%	6.2%	2.1%	20.2%	21.4%
RoCE (%)	2.2%	6.2%	6.7%	17.1%	18.5%
Current Ratio (x)	1.5x	1.5x	1.7x	1.6x	1.7x
Book Value Per Share (Rs.)	105.9	107.6	105.5	125.5	154.8
Financial Leverage Ratios					
Debt/ Equity (x)	0.6x	0.4x	0.4x	0.3x	0.2x
Interest Coverage (x)	2.2x	3.4x	3.2x	7.2x	12.8x

Source: Company, BP Equities Research



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