

## Company Overview

Incorporated in 1995, Welspun Corporation Ltd. (WCL) is the flagship company of the Welspun Group. WCL is one of the leading global players in the manufacture of line pipes, with a production capacity of 2.2 million MTPA and a global footprint across six continents and 50 countries. In FY23, HSAW pipes contributed to 75.8% of line pipe volume followed by 15.9% and 8.2% volume mix of LSAW and ERW pipes, respectively. To catapult in both B2B and B2C markets, the business has diversified its product offerings by including other segments like home and advanced textiles, flooring solutions, retail, infrastructure, warehousing, DI pipes, stainless steel pipes, tubes and bars, pig iron, and TMT rebars. Through this, the business can service various industries like oil & gas, water, new energy, and infrastructure & housing. Moreover, the company recently acquired Sintex-BAPL, which is a renowned market leader in water tanks and other plastic products, to expand its building materials portfolio and augment its B2C offerings. Additionally, the business plans to venture into the defense and commercial shipbuilding, green steel, ship breaking, and ship repair segments through its acquisition of specified assets of ABG Shipyard. Presently, the company has four state-of-the-art manufacturing facilities in Anjar (Gujarat), Bhopal (Madhya Pradesh), Mandya (Karnataka), and Jhagadia (Gujarat) in India along with two overseas facilities in Little Rock (USA) and Dammam (Saudi Arabia).

## Investment Rationale

### Robust order book in line pipe solutions supported through favourable industry tailwinds

WCL enjoys a strong pending order book for line pipes of 645 KMT valued at Rs. 8,675 crore with a majority of it (~85-90%) slated to get executed within FY24. Overall, the domestic demand and supply for the oil and gas industry remains in a bright spot with the government's target to increase its natural gas pipeline coverage by ~54% to 34,500 km by 2024-25 and to connect all the states with the trunk natural gas pipeline by 2027. This is in purview that the oil demand is expected to increase to 7.4 million bpd (barrels per day) by 2040 as against 4.7 million bpd in 2021. Overseas, the US is projected to become the world's largest LNG exporter by providing around 45% of the incremental oil supply to reach the global total of 105.7 million bpd by 2028. The business enjoys a clear visibility for the next five to seven years in the US, having a strong market-leading share of about 23% in the region. Rising opportunities in the Permian basin is expected to be the next key growth driver. Three and half of the four pipelines that are functioning have been supplied by WSL, and further plans to add three more large gas pipelines from Permian to the Gulf coast. Coming to Saudi Arabia, the upstream spending for its oil and gas was raised by about 24% to USD 29 billion. Additionally, the country is investing heavily in its water desalination projects exceeding USD 14.6 billion, providing additional opportunities for WSL wherein it holds over 25% market share. Recently, WSL's associate company, EPIC, 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) with execution expected around the second half of FY25, completely booking the plant's capacity for the next 1-1.5 years.

### Focusing on other business segments and augmenting B2C offerings

The company's recent foray in the Ductile Iron (DI) Pipes business has witnessed a steady improvement in its sales, with the company ramping up its capacity and size offerings range from 80 mm to 1200 mm. Presently, it holds a strong order backlog of around 149 KMT (~ Rs. 1,195 crores), keeping its plant completely booked for the next three quarters. The company aims to capitalize on the DI Pipes market which is expected to become 1/4th of the total pipe market share in India, growing at a strong CAGR of 13-15% in India on the back of huge investment (Rs. 69,684 crores in the Union Budget 2023) by the government in water infrastructure projects. In the building material segment, through the acquisition of Sintex (900 distributors and 13,000 retailers network), the business taps into the Water Storage Tanks (WST) market which is expected to grow at a CAGR of 19% during 2022-26 period. The business also plans to add adjacent categories like pipe fittings and adhesives and aims to get this category back to its peak market share level of around 23-25% from its current positioning of 9% level. Along with Sintex, the business aims to augment its B2C offerings in the TMT bar segment wherein its Welspun Shield brand is witnessing strong traction in Gujarat.

## Valuation and Outlook

Favourable industry tailwinds in India / US / Saudi Arabia for the coming years coupled with strong market positioning of WCL in these respective regions puts the business on a favourable footing to tap onto the growing opportunities. Apart from this, the business export outlook remains robust, with its focus on markets like Australia, Europe, Southeast Asia and Middle East. The future demand visibility is to be driven through focus on new energy including hydrogen hubs, carbon capture and ammonia pipeline projects in the US. The business also reported a turnaround story in its Welspun Specialty Steels Ltd. (WSSL) on the back of (1) Government's initiative to curb cheaper imports (2) Focusing on rising demand in Europe (3) Improving their value chain. The successful development of S30432 (Super 304H) grade steel along with boiler tubes (including creep testing) for the first time in the country serves as an additional tailwind. Moreover, business remains optimistic of monetizing ABG Shipyard assets by the year end, leading to further upside. WCL expects a significant improvement in its financials for FY24, with its topline expected to grow around 50% to Rs. 15,000 crores, EBITDA registering a 90% jump to Rs. 1,500 crores, and ROCE improving to 16% compared to 7% in FY23. Apart from this, its robust order book and low capex requirements for the year supports its target of decreasing its gross debt to Rs. 1,211 crores compared to Rs. 3,316 crores in FY23. **Based on the above factors, we value the company at a FY25E P/E multiple of 13x to arrive at a target price of Rs. 471 (15% upside from CMP) with an investment horizon of 12 months.**

## Stock Rating

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

## Sector Outlook

Positive

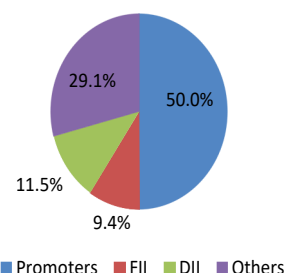
## Stock

CMP (INR)	408
Target Price (INR)	471
NSE Symbol	WELCORP
BSE Code	532144
Bloomberg	WLCO IN
Reuters	WGSR.BO

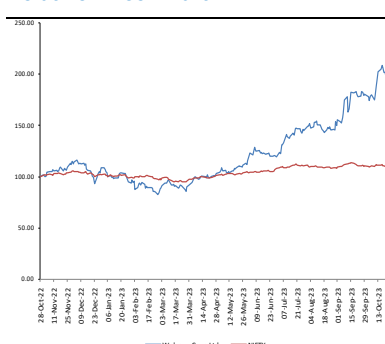
## Key Data

Nifty	19,047
52WeekH/L(INR)	457 / 178
O/s Shares (Mn)	262
Market Cap (INR bn)	107
Face Value (INR)	5
<b>Average volume</b>	
3 months	15,74,240
6 months	14,25,150
1 year	11,31,660

## Share Holding Pattern (%)



## Relative Price Chart



# Welspun Corporation Ltd.

Key Financials					
YE March (Rs. millions)	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>71,526</b>	<b>65,051</b>	<b>97,581</b>	<b>1,43,622</b>	<b>1,66,510</b>
<i>Revenue Growth (Y-o-Y)</i>		(9.1%)	50.0%	47.2%	15.9%
<b>EBIDTA</b>	<b>7,950</b>	<b>4,717</b>	<b>4,846</b>	<b>11,071</b>	<b>12,979</b>
<i>EBIDTA Growth (Y-o-Y)</i>		(40.7%)	2.7%	9.0%	9.8%
<b>Net Profit</b>	<b>7,675</b>	<b>4,388</b>	<b>2,067</b>	<b>7,007</b>	<b>7,762</b>
<i>Net Profit Growth (Y-o-Y)</i>		(42.8%)	(52.9%)	239.0%	10.8%
<b>Diluted EPS</b>	<b>29.3</b>	<b>16.8</b>	<b>7.9</b>	<b>32.8</b>	<b>36.2</b>
<i>Diluted EPS Growth (Y-o-Y)</i>		(42.8%)	(52.9%)	315.2%	10.4%
Key Ratios					
<b>EBIDTA margin (%)</b>	<b>11.1%</b>	<b>7.3%</b>	<b>5.0%</b>	<b>7.7%</b>	<b>7.8%</b>
<b>NPM (%)</b>	<b>10.7%</b>	<b>6.7%</b>	<b>2.1%</b>	<b>4.9%</b>	<b>4.7%</b>
<b>RoE (%)</b>	<b>21.0%</b>	<b>10.3%</b>	<b>4.5%</b>	<b>16.3%</b>	<b>16.0%</b>
Valuation Ratios					
<b>P/E (x)</b>	<b>13.9x</b>	<b>24.3x</b>	<b>51.6x</b>	<b>12.4x</b>	<b>11.3x</b>
<b>EV/EBITDA</b>	<b>4.2x</b>	<b>9.2x</b>	<b>13.5x</b>	<b>10.8x</b>	<b>9.2x</b>
<b>P/BV (x)</b>	<b>1.0x</b>	<b>1.4x</b>	<b>1.2x</b>	<b>1.9x</b>	<b>1.6x</b>
<b>Market Cap. / Sales (x)</b>	<b>1.5x</b>	<b>1.6x</b>	<b>1.1x</b>	<b>0.7x</b>	<b>0.6x</b>

Source: Company, BP Equities Research

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**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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