

Poised to grow steadily & profitably

Introduction:

Welspun Corp which is a flagship company of Welspun Group is headed by Mr. Balkrishnan Goenka and his professional team. It operates in three key geographies, namely USA, Saudi Arabia and India where it manufactures and supplies HSAW, LSAW and ERW pipes to oil and gas as well as water industry. As on Q3FY19 it has strong order book of almost 1.7 million MT that gives clear visibility of achieving higher capacity utilization and better margins going forward. As part of internal restructuring, company is targeting to achieve zero net debt status, calibrating CapEx and keeping tight control over working capital requirements. This has resulted in strong and robust balance sheet.

Production Facility				
(in KMT)	USA	Saudi Arabia	India	Total
HSAW	350	300	700	1350
ERW/HFIW	175		200	375
LSAW			700	700
Coating System	Yes	Yes	Yes	2425

Key Drivers :

- ⇒ Strong order book
- ⇒ Localization benefit in key geographical areas
- ⇒ Earning visibility
- ⇒ Increase in RoE

Strong order book :

The Company as on Q3FY19 has bid book of 2.3 million MT and order book of 1.7 million MT. This is valued at INR 148 bn. Particularly in USA business, the company is optimistic to increase its order book in next three years primarily on account of increase in potential oil drilling, strong export demand and restricted imports in the country. It is the one of the largest player with 20-25% market share in US with localized manufacturing puts rightly positioned to capitalize strong going forward.

In Indian context, company is focused on capitalizing various business opportunities like CGD, connecting North East areas, Capex in oil refineries etc. The Bhopal plant would start commissioning from Q1FY20 which would open new opportunities in water segment in states like Madhya Pradesh, Rajasthan etc. There are concentration of majorly three players which are apart from Welspun, Jindal Saw and Man Industries.

The major chunk of order book comes from Saudi Arabia business. It provides comfort on revenue visibility but weak on margins front. So, company turned focus to bid for higher margin orders in oil and gas space which is expected to bring profitable business from Q1FY20 onwards. Current Loss from Saudi Arabia JV business for 9MFY19 is INR 831 million (which is almost one third of 9MFY19 PBT levels).

Sector Outlook Positive

Stock

CMP (Rs)	101
Target Price (Rs)	Not Rated
BSE code	532144
NSE Symbol	WELCORP
Bloomberg	WLCO IN
Reuters	WGSR.BO

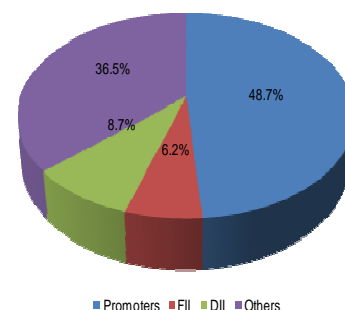
Key Data

Nifty	10,735
52WeekH/L(Rs)	186/86
O/s Shares (Mn)	265
Market Cap (Rs bn)	26.9
Face Value (Rs)	5

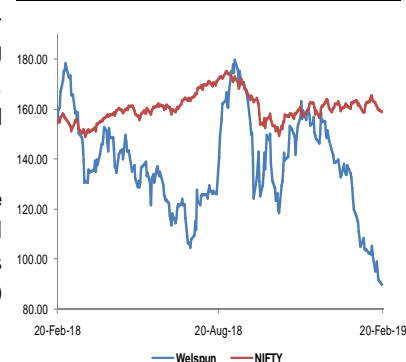
Average volume

3 months	5,15,470
6 months	8,19,040
1 year	8,52,540

Share Holding Pattern (%)



Relative Price Chart



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Geography and product wise order book as on Q3FY19				
(in KMT)	USA	Saudi Arabia	India	Total
HSAW	344	823	141	1308
ERW/HFIW	44		28	72
LSAW			276	276
Total	388	823	445	1656

Key Takeaways from Management Meet :

- ⇒ The Company is expecting to sell its plate and coil mill in near future. Management can explore buyback for utilizing excess cash post this deal
- ⇒ This would also reduce depreciation by INR 1.1 bn
- ⇒ To have complete hedging policy from volatility in steel prices
- ⇒ Strong order book, localization and import curbs would help to ramp up USA and Saudi Arabia plant utilization levels to more than 80%
- ⇒ CGD infrastructure development in domestic market could bring 20% of capex value opportunity (estimated at INR 500 bn) for the company
- ⇒ EBITDA per tonne guidance for USA, Saudi Arabia and Indian business for FY20 is \$200, \$100 and INR 5000-5600 respectively
- ⇒ Diversification in different geographical areas helps to sustain cash conversion cycle around 50 days
- ⇒ It is working actively to bring down net debt to zero which is currently at INR 3.1 bn as on Q3FY19
- ⇒ The capex in phase 1 of Bhopal plant is in last stage and likely to be operational in Q1FY20. This would open new opportunities from river linking projects in states like Madhya Pradesh, Rajasthan etc.

Outlook :

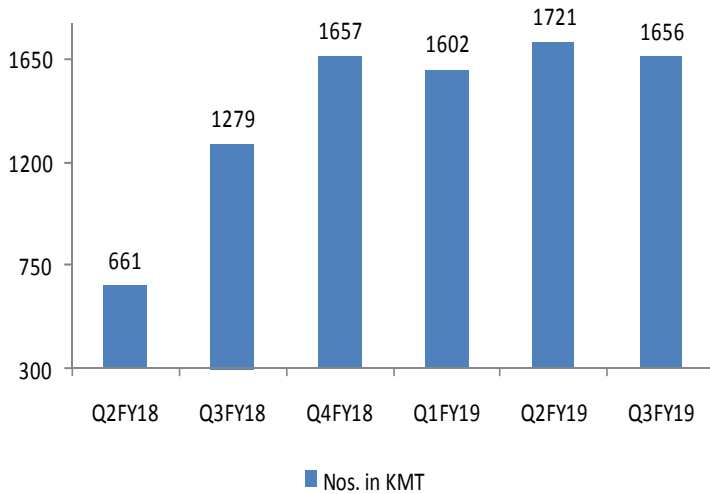
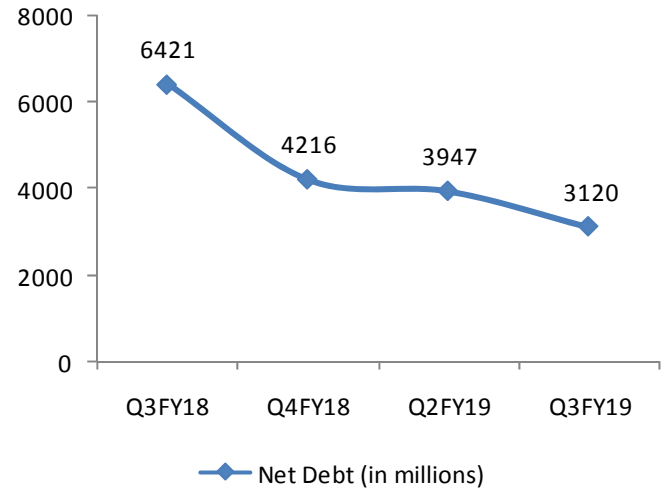
Welspun Corp is witnessing good traction in overseas (US and Saudi Arabia) as well as in domestic business which is reflected in order book. The company is restructuring its overall business by sell off loss making plate and coil mill of 1.5 million MT and turning Middle East business to positive PBT. This additional cash from sale of plate and coil mill would help to reduce debt and could trigger buyback in near future. Owing to above strong prospects, we believe company would be able achieve improvement in profit margins, strong balancesheet and utilize excess cash for rewarding shareholders. On valuation front, currently company is quoting at ~4x EV/EBITDA. The company looks very interesting at current levels.

**Profit & Loss Statement**

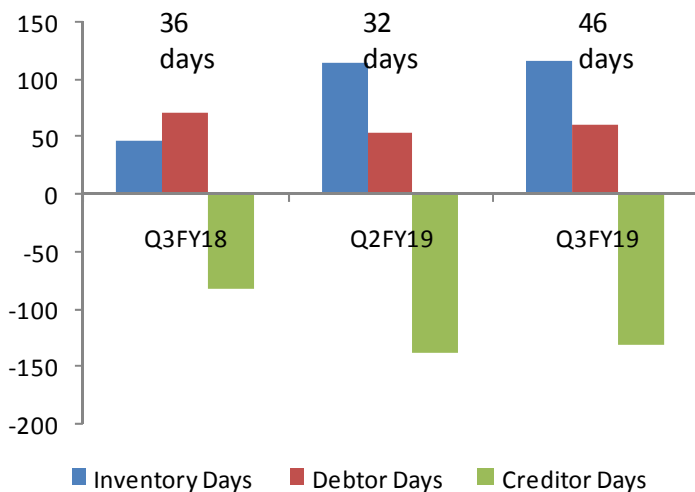
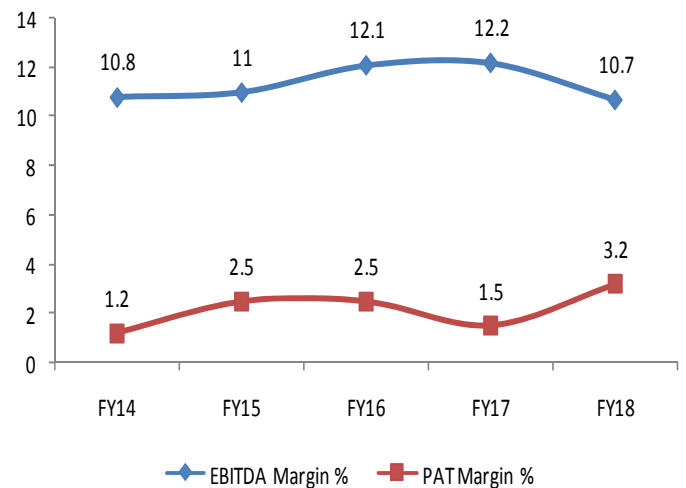
INR (in millions)	FY16	FY17	FY18
Revenue	73,801	60,355	75,873
Revenue Growth %		-18%	26%
EBITDA	8,908	7,370	8,147
Depreciation	3,865	3,861	3,793
Finance Cost	2,411	2,357	1,853
PBT and share of JV	2,632	1,152	2,501
Tax	792	258	112
Non Controlling Interest	275	(163)	(53)
Share of profit/(loss) from JVs	(47)	(793)	(859)
Net Profit/(loss) for the period	1,518	264	1,583

Balance Sheet

INR (in millions)	FY16	FY17	FY18
EQUITY AND LIABILITIES			
Shareholder's Funds	27,989	28,094	28,540
Secured Loans	18,451	15,215	12,717
Deferred Tax Assets / Liabilities	4,026	3,805	3,433
Other Long Term Liabilities	5,055	3,654	3,651
Total Non-Current Liabilities	27,814	23,024	20,195
Trade Payables	15,971	21,931	21,340
Other Current Liabilities	7,368	5,104	4,168
Short Term Borrowings	5,680	2,203	126
Short Term Provisions	233	1,686	2,966
Total Current Liabilities	29,253	30,924	28,600
Total Liabilities	86,373	83,178	77,901
ASSETS			
Net Block	37,305	33,558	30,450
Non Current Investments	2,846	2,185	1,518
Long Term Loans & Advances	2,647	3,383	3,527
Total Non-Current Assets	43,176	39,509	35,705
Currents Investments	7,328	5,069	3,367
Inventories	12,932	17,647	15,119
Sundry Debtors	14,007	14,652	13,199
Cash and Bank	5,556	2,296	6,282
Other Current Assets	955	1,130	891
Short Term Loans and Advances	2,420	2,876	3,339
Total Assets	86,373	83,178	77,901
Contingent Liabilities	1,763	1,825	2,120
Total Debt (Long Term Plus Short Term)	26,437	18,430	13,864
Book Value	106	106	108

Orderbook Trend

Focus on Debt Reduction


Source: Company, BP Equities Research

Net Working Capital under control

EBITDA and PAT Margins YoY


Source: Company, BP Equities Research

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

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