

WELSPUN CORP LIMITED

Industry	Metals
Bloomberg	WELCO IN
BSE CODE	532144

Improved revenue visibility on the back of strong order book....

RATING UNDER REVIEW

CMP 155

Stock Info

52wk Range H/L	197/103
Mkt Capital (Rs Cr)	4104
Free float (%)	42%
Avg. Vol 1M (,000)	546
No. of Shares (Cr.)	27
Promoters Pledged %	0%

One of the largest line pipe producers

We attend the Analyst meet of Welcorp held on 13th December 2018. Welcorp is one of the largest welded line pipe manufacturers and a group company of Welspun group. Line pipes are used for transporting oil, gas and water. Company manufactures line pipes ranging from 1.5 inch to 140 inches, including Longitudinal Submerged Arc Welded (LSAW), Spiral Helical Submerged Arc Welded (LSAW) and Electric Resistance Welded (ERW) pipes and High-frequency Induction Welded (HFIW) pipes. It has total capacity of 2.425mt across three countries India (1.6mt combined at Dahej and Anjar in Gujarat and Mandya in Karnataka), USA (0.52mt at Little Rock, Arkansas) and Saudi Arabia (0.3mt at Dammam). Company's current order book 1.7mt is the highest ever and is valued at over USD 2bn.

Key takeaways from the meet:

- ❑ **Improved revenue visibility on the back of strong order book:** company's current order book of 1.8mt will make sure that it continues its trend of producing over 1mt of pipe annually going ahead as well. Water transportation pipeline Orders from Saudi have been the main contributor to the order book followed by increasing traction in orders from USA as well.
- ❑ **Saudi business the main driver currently:** order inflows in Saudi Arabia have been driven by the SWCC orders for transportation of water. In Saudi Arabia close to 1200KM of distance needs to be covered to transfer the water from the desalination plants to the public of the country, which provides a huge market for the company there in water segment as well with already being present in Oil & Gas sector. Furthermore, company have booked orders in Saudi at the peak of steel cycle and currently has an open position in terms of acquiring raw materials (steel), and management expects the current softening and further fall in steel prices will only help in improving margins from here on.
- ❑ **Pick up in USA Oil & Gas on the verge:** Given the recent production cuts taken by OPEC producers management expects USA would be capitalizing on it and would increase its production going ahead and as long as crude prices are above USD40/barrel USA would not curtail its production. Further with increase in production management expects there would be additional demand to set up infrastructure for the residue Gas generated in the process of oil drilling.
- ❑ **Growth in Indian business would be moderate:** Management highlighted that the strong traction in water transportation orders in India are expected to continue in future as well, current water segment orders are majorly for lift irrigation and next phase would be driven by river linking projects. There is huge opportunity in terms of orders from National Gas Grid as well. However, management has guided that growth particularly for Indian business primarily due to high competition.
- ❑ **Margins expected to only increase from the current level:** Driven by order booking at the peak of steel cycle and having an open position for raw material in Saudi business coupled with expected moderation in steel prices would help company to improve margins.
- ❑ **Improving cash and cash equivalent level may result in rewarding the shareholders:** Company's cash position have improved with total cash and cash equivalents of around Rs.1092 crore on consolidated basis at the end of Sep'18, and with no major capex activity lined up (minor capex of USD 7mn at Saudi facility to increase capacity by 50kt to 350kt) company may look at rewarding the shareholders in some way going ahead.

Research Analyst

Sagar Sharma

sagar.sharma@narnolia.com

+91-22-62701234

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Financial Details (Consolidated)

Balance Sheet

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Share Capital	114	131	131	132	133	133	133
Reserves	3,979	5,526	2,718	2,667	2,666	2,677	2,721
Networth	4,093	5,658	2,849	2,799	2,799	2,809	2,854
Non Controlling Interest	343	355	209	356	132	114	57
Debt	5,537	5,157	3,303	2,804	2,414	1,742	1,284
Other Non Cur Liab	869	812	705	674	936	781	748
Total Capital Employed	9,630	10,815	6,152	5,603	5,213	4,551	4,138
Net Fixed Assets (incl CWIP)	6,363	7,502	5,037	4,741	4,016	3,571	3,176
Non Cur Investments	35	118	26	27	33	35	37
Other Non Cur Asst	1,544	1,552	116	138	270	345	358
Non Curr Assets	7,942	9,172	5,179	4,906	4,319	3,951	3,571
Inventory	2563	2567	1282	2208	1293	1765	1512
Debtors	1526	1761	637	1130	1401	1465	1320
Cash & Bank	1026	704	141	333	556	230	628
Other Curr Assets	2,747	2,686	1,591	1,238	1,070	837	662
Curr Assets	7,862	7,719	3,651	4,909	4,320	4,296	4,122
Creditors	3292	3038	651	2463	1597	2193	2134
Provisions (both)	206	159	86	145	44	52	59
Other Curr Liab	1,489	1,737	1,052	613	396	220	13
Curr Liabilities	4,962	4,909	1,765	3,182	2,357	2,801	2,636
Net Curr Assets	2,900	2,810	1,886	1,727	1,962	1,495	1,486
Total Assets	15,804	16,891	8,830	9,815	8,638	8,247	7,693

Income Statement

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Revenue from Operation	8,977	10,870	7,705	8,450	7,236	5,899	7,543
Change (%)	12%	21%	-29%	10%	-14%	-18%	28%
Other Income	268	311	174	109	113	225	131
EBITDA	857	718	670	842	778	512	684
Change (%)	-32%	-16%	-7%	26%	-8%	-34%	33%
Margin (%)	10%	7%	9%	10%	11%	9%	9%
Depr & Amor.	352	476	406	437	386	386	379
EBIT	506	242	263	406	391	126	304
Int. & other fin. Cost	400	493	296	283	241	236	185
EBT	373	60	141	231	263	115	250
Exp Item	-	109	-	-	-	-	-
Tax	150	39	43	18	79	26	11
Minority Int & P/L share of Ass.	16	18	(25)	(144)	(5)	(79)	(86)
Reported PAT	239	(70)	73	69	179	10	153
Adjusted PAT	239	(70)	73	69	179	10	153
Change (%)	-62%	-	-	-6%	160%	-94%	1413%
Margin(%)	3%	-1%	1%	1%	2%	0%	2%

Financial Details (Consolidated)

Key Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18
ROE	6%	-1%	3%	0.02	6%	0%	5%
ROCE	6%	2%	5%	7%	8%	3%	7%
Asset Turnover	0.57	0.64	0.87	0.86	0.84	0.72	0.98
Debtor Days	62	59	30	49	71	91	64
Inv Days	104	86	61	95	65	109	73
Payable Days	134	102	31	106	81	136	103
Int Coverage	1.3	0.5	0.9	1.4	1.6	0.5	1.6
P/E	12.9	(18.6)	24.6	20.6	14.5	218.0	23.3
Price / Book Value	0.8	0.2	0.6	0.5	0.9	0.8	1.3
EV/EBITDA	7.0	7.7	6.7	4.4	5.0	6.8	6.2
Div Yield	1.5%	1.0%	0.7%	0.9%	0.5%	0.6%	0.4%

Cash Flow Statement

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18
PBT	373	-49	141	231	258	36	164
(inc)/Dec in Working Capital	693	(307)	(388)	181	(283)	(992)	265
Non Cash Op Exp	508	482	516	513	496	927	517
Int Paid (+)	307	382	245	236	74	82	125
Tax Paid	(145)	(17)	(43)	(24)	(117)	46	36
others							
CF from Op. Activities	1,429	108	227	901	354	17	983
(inc)/Dec in FA & CWIP	(490)	(658)	(157)	(89)	(232)	(48)	(49)
Free Cashflow	939	(550)	70	812	122	(31)	934
(Pur)/Sale of Inv	(1,843)	232	(109)	325	(206)	581	175
others	128	259	144	102	107	118	55
CF from Inv. Activities	(2,205)	(167)	(122)	338	(331)	651	182
inc/(dec) in NW	508	1	108	-	0	-	-
inc/(dec) in Debt	759	132	(336)	(851)	(5)	(522)	(467)
Int. Paid	(256)	(385)	(268)	(240)	(78)	(88)	(137)
Div Paid (inc tax)	(48)	(13)	(30)	(15)	(16)	(16)	(16)
others							
CF from Fin. Activities	963	(265)	(527)	(1,106)	(99)	(625)	(761)
Inc(Dec) in Cash	187	(324)	(422)	133	(75)	43	404
Add: Opening Balance	839	1,028	507	86	181	105	150
Closing Balance	1,026	704	86	219	102	148	554

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.
Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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