Welspun Corp Ltd — Aug 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Inline on Volumes / Miss on Margins **One-line:** A transitionary "trough" quarter characterized by high-cost inventory and low US utilization, but the thesis is significantly strengthened by a record □5,000+ Cr US order win and the completion of the Anjar integrated steel complex.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline / First Entry	Volume delivered as per historical run-rate; PAT squeezed by high RM costs.	□
Earnings Quality	Low (Inventory drag)	High-cost inventory (75-90 days) consumed during price correction.	□
Guidance Confidence	Strong	Order book at 1,020 KMT provides 12-18 months visibility.	□
Management Credibility	Strong	Delivered Anjar Blast Furnace and TMT plant on schedule despite macro headwinds.	□
Business Quality Signal	Improving	Pivot from pure B2B Line Pipes to B2C (TMT/Sintex) reduces cyclicality.	□
Key Q&A Exchange	Q#5 — Domestic Volume Potential	Mgmt expects H2 to see superlative growth as stalled water projects revive.	□
The Street's Primary Anxiety	Subsidiary losses and execution timing	US production was minimal in Q1; Sintex acquisition timeline remains "quasi-judicial".	□
Capital Cycle Stage	Investment / Commissioning	Transitioning from Capex phase (Anjar) to Harvesting phase (H2 FY23).	□
Margin / Return Ratio Trajectory	Deteriorating (Short-term)	EBITDA margin compressed to 7.7% from 13.7% in FY22 (Continuing Ops).	□
Pricing Power	Stable	Pass-through mechanism in most Line Pipe contracts protects absolute EBITDA.	□
FCF Conversion & Quality	Weak (Distorted by WC)	High-cost inventory build-up ahead of US/Domestic execution.	□
Competitive Moat Signals	Widening	First Indian company in H2Pipe project; US "Little Rock" plant is uniquely positioned.	□
Balance Sheet Strength	Strong	Net Cash position (Net Debt/Equity of -0.03x).	□
Working Capital Efficiency	Deteriorating	75-90 days steel inventory held during a period of price correction.	□
Mgmt Guidance Track Record	Reliable	Historically delivering >1mn MT volumes; Anjar commissioning successful.	□
Key Vulnerability / Red Flag	Commodity Price Sensitivity	Sharp drop in steel prices (□80k to □56k/MT) created temporary inventory losses.	□
Management Tone	Confident / Strategic	Focused on "yearly performance" over "quarterly noise".	□

Sentiment: □Positive

Key Takeaways: Positives: * **Order Book Visibility:** Order book hit 1,020 KMT (Line Pipes), including the largest single order in WCL history (₹5,000+ Cr in US), ensuring a massive H2 FY23 ramp-up. * **Strategic Diversification:** Commissioning of the Anjar Blast Furnace (500k MT) and TMT plant (350k MT) marks the transition to a B2C "Building Materials" player. * **Balance Sheet Fortification:** Maintained a net cash position even during a heavy investment phase, allowing for the tactical acquisition of Sintex BAPL NCDs at a 65% discount.

Negatives: * **Margin Compression:** High-cost inventory and low production in the US (minimal volumes in Q1) led to a significant drop in PAT (₹4 Cr vs ₹94 Cr YoY). * **Startup Drags:** New businesses (DI Pipes, TMT, WML) contributed a ₹13 Cr EBITDA loss as they are currently in the trial/stabilization phase. * **The Street's Concern:** Analysts are focused on the timeline for Sintex's management control and the exact EBITDA/MT guidance for new verticals, which management is currently withholding until stabilization.

Forward-Looking Watchpoint: Execution of the 325,000 MT US order starting H2 FY23 will be the primary catalyst for a significant margin re-rating.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Volume (KMT) - Pipes	157	-10.3%	-41.6%	↓	Driven by low US volumes (7 KMT) and seasonal slowdown in domestic water.
Revenue (₹Cr)	1,322	-12.5%	-34.3%	↓	Volume-led decline; realization impact partially offset by mix.
EBITDA (₹Cr)	102	-50.7%	-78.5%	↓	Impacted by high-cost inventory and low US utilization.
EBITDA Margin (%)	7.7%	↓ 590 bps	↓ 1590 bps	↓	Q4FY22 margins were skewed by Saudi IPO one-off; Q1 is a true "trough".
PAT (₹Cr)	4	-95.7%	-98.3%	↓	Squeezed by finance costs on startup projects and margin compression.
Net Debt / (Cash)	(116)	First Entry	First Entry	→	Remained in net cash position despite capex (Net Cash ₹116 Cr).
Realization/MT (₹)*	84,204	-2.4%	+12.6%	↑	*Derived: Revenue/Pipes Vol. Higher QoQ due to product mix (SS/Specialty).
Utilization (%)	~25%	-	-	↓	US facility was largely idle in Q1; Anjar complex just commissioned.
Interest Coverage	3.29x	↓	↓	↓	Declined due to lower EBITDA; Finance cost rose to ₹31 Cr.
Working Capital	~85 Days	First Entry	First Entry	↓	Steel inventory of 75-90 days held during price correction.

2B. SEGMENT BREAKDOWN

Segment	Volume / Rev	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Line Pipes (India)	92 KMT	-	Stable	→	Neutral	Order book at 350 KMT; 50% is exports.
Line Pipes (US)	7 KMT	-	Negative	↓	Below	Trough before ₹5k Cr order execution in H2.
Line Pipes (Saudi)	58 KMT	-	Neutral	→	Above	EPIC awarded SAR 324 Mn contract in July.
WSSL (SS Steel)	1,557 MT	+997%	+₹1 Cr	↑	Improving	Turned EBITDA positive; first PSU order for Monel 400.
Billet/TMT (New)	36 KMT	-	Negative	↓	Below	TMT plant commissioned July 2022; trial phase.
DI Pipes (New)	Trials	N/A	Startup	→	N/A	Received BIS certification; 400k MT capacity.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Volume (Pipe)	>1,000 KMT for FY23	Needs ~281 KMT/qtr for next 3 qtrs (Hist avg: 275 KMT).	Reliable	Low
Guidance	US Order Execution	325k MT over 12 months	~81k MT/qtr starting Q3 FY23.	New project	Medium
Strategy	B2C Transition	350k MT TMT via Retail	25-30% utilization in Year 1 (Mgmt goal).	On track (Plant ready)	Medium
Strategy	Sintex Acquisition	Establish Building Mat.	N/A - Legal process dependent.	First B2C venture	High
Macro	Hydrogen Readiness	Framework for H2 pipes	Long-term (FY24/25 realization).	First Indian entrant	Low
Macro	Water Sector Demand	2.3 Mn MT DI Pipe demand	National Jal Shakti allocation ₹86,189 Cr.	Ongoing tailwind	Low
Balance	Leverage	Maintain Robust B/S	Currently Net Cash; sufficient for Sintex.	Strong track record	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Vikas Singh, Philip Capital	Sub. Performance	Financials	"What kind of losses we had in the U.S. subsidiary this quarter?"	US production was minimal (only ERW pipes) while fixed costs rose for ramp-up, resulting in a marginal loss. This confirms Q1/ Q2 will be soft for the US before the mega-order kicks in during Q3, making H2 critical for valuation.	Exact US EBITDA loss amount	3.5	Directional but hedged
1a	3.5	Vikas Singh, Philip Capital	SS Performance	Business Overview	"Remaining □47 crore of the EBITDA loss coming from U.S. alone?"	WSSL turned EBITDA positive (□1 Cr) while startup businesses (DI/Steel) saw a □13 Cr EBITDA loss. This isolates the drag to new projects, which should abate as TMT/DI utilization ramps up to 25-30%.	None	4.0	Specific on mix
2	3.0	Vikas Singh, Philip Capital	Project Pipeline	Business Overview	"Trans-Saharan pipeline... are we present in that geography?"	WCL is actively pursuing the EACOP pipeline via frame contracts with Total but the project still faces financial challenges. Successful	None	3.0	Vague (external dep.)

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						bidding would provide a massive tail-wind for the Longitudinal pipe segment outside the US.			
3	4.5	Vikas Singh, Philip Capital	FY Performance	Financials	"Can we assume... superlative growth in the second half?"	Management expects H2 to be drastically different as buying patterns resume following the correction in steel prices. This suggests a classic "hockey-stick" earnings recovery in FY23, making FY24 a normalized growth year.	None	4.5	Confident
4	4.0	Shailesh Raja, BNK Securities	Segment Margins	Financials	"Can you please give product price normalized EBITDA pertained guidance?"	Management declined specific guidance for TMT/DI pipes until they stabilize in Q3. This leaves a temporary valuation gap as the market cannot yet model the B2C pivot's profitability.	EBITDA/ MT for new segments	2.0	Deflected
5	4.0	Krishna Agarwal, Niveshaay	DI Pipe Outlook	Business Overview	"Are we getting any order or have you	Plant is currently in trial mode with phase 1	Exact DI order book size	3.0	Consistent

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					got any order from the DI pipe segment?"	BIS approval; execution of trickle orders will start in H2. This confirms DI Pipes won't be a meaningful contributor until late FY23.			
6	3.5	Nirav Shah, GeeCee Investments	Inventory	Financials	"Were there any inventory losses in our steel business during the quarter?"	High-cost inventory (75-90 days) was held during the price crash; losses will be "evened out" over the next three quarters. This signals that Q2 might still carry some residue of high-cost RM before clean H2 margins.	Quantified loss	3.0	Directional
7	4.5	Abhishek Ghosh, DSP	Domestic Volume	Business Overview	"Visibility for FY24-25... Will you be able to surpass previous trends?"	Domestic steel price correction (□80k to □56k) is reviving stalled water projects. This suggests the domestic pipe business is emerging from a multi-year "muted" period, potentially re-rating the stock on volume growth.	None	4.5	High conviction

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8	3.5	Anurag Patil, Roha Asset Mgmt	FY Volume Target	Management Outlook	"For whole year FY23, can we say around 9 lakh to 1 million tonne... possible?"	Management confirmed >1mn MT is likely given the current tailwinds and operational readiness. This reinforces the "yearly performance" metric as the true North Star for the stock.	None	5.0	Verifiable

PATTERN FLAGS & SENTIMENT * **The "H2 Hockey-Stick" Narrative:** Analysts expressed significant concern regarding the Q1 PAT drop and subsidiary losses. Management consistently pivoted the conversation to the record order book and the H2 execution timeline. While the "trough" was acknowledged, the focus remained on the fact that Line Pipe orders are now "banked," moving the risk from "order win" to "execution timing." * **Diversification Skepticism:** Analysts pressed for margin guidance on TMT and DI pipes. Management's refusal to provide numbers suggests a period of "monitoring" is required. The posture was defensive regarding immediate profitability but confident about long-term B2C branding.

Analyst Sentiment Verdict: Skeptical on the short-term financials but optimistic on the medium-term strategy. The friction point remains the lack of visibility on B2C margins. Management's credibility was bolstered by delivering the Anjar commissioning on time, which offsets the temporary earnings miss.

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare. Baseline established for Q1 FY23.

- **Financials:** Revenue ₹1,322 Cr; PAT ₹4 Cr.
- **Strategic:** US Order win (₹5,000+ Cr); Anjar Steel Complex commissioned (July 2022).
- **B/S:** Net Cash position ₹116 Cr.
- **New Risks:** Inventory price sensitivity and Sintex acquisition legal/process risk.