Welspun Corp Ltd — Aug 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** The thesis of Welspun Corp (WCL) as a diversified building materials and specialty steel conglomerate is being validated by a "clean" quarter where the high-margin US operations have resumed, and new verticals (DI Pipes, SS, Sintex) have turned EBITDA positive simultaneously.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	Q1 EBITDA (□418 Cr) is 28% of full-year guidance (□1,500 Cr) despite Q1 being seasonally weak.	□
Earnings Quality	Moderate	EBITDA includes ~□100-150 Cr from ABG scrap monetization; core pipe margins are robust at □15,000+/MT.	□
Guidance Confidence	Strong	FY24 targets (□15k Cr Rev / □1.5k Cr EBITDA) look conservative given US is fully booked and Saudi is on the cusp of a record cycle.	□
Management Credibility	Strong	Delivered on the "turnaround" of WSSL (Stainless) and successfully integrated Sintex within 90 days.	□
Business Quality Signal	Improving	Pivot to B2C (Sintex/TMT) is reducing the lumpiness of the historical "large-diameter pipe only" model.	□
Key Q&A Exchange	Q#4 - Saudi GP Loss	Management clarified the Saudi GP loss was a purely contractual timing issue, not operational.	□
The Street's Primary Anxiety	Saudi Profitability	Concerns over Q1 losses in Saudi; Mgmt reassured of a "record-breaking" 2-year visibility ahead.	□
Capital Cycle Stage	Harvesting	Transitioned from the Anjar/DI Pipe capex phase to a high-utilization harvesting phase.	□
Margin Trajectory	Improving	EBITDA/MT has stabilized at the high end (□15k); SS and DI segments have hit breakeven/profitability.	□
Pricing Power	Stable	Pass-throughs in Line Pipe; Sintex continues to command a price premium in the retail market.	□
FCF Conversion	Strong	Net debt reduced by □303 Cr in a single quarter (from □1,138 Cr to □835 Cr).	□
Competitive Moat	Widening	Only integrated producer (Steel to Pipe) in Stainless; iconic Sintex brand recall remains high (25%).	□
Balance Sheet Strength	Strong	Net Debt/EBITDA (Estimated FY24) is likely to fall below 0.5x by year-end.	□
Working Capital	Improving	US inventory is being liquidated as production ramps up (81 KMT vs 7 KMT YoY).	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on volume guidance (>1mn MT trajectory).	□
Key Vulnerability	Timing Mismatch	Project-based revenue recognition (especially in Saudi) can create quarterly volatility.	□
Management Tone	Confident	Tone was aggressive regarding market share gains in Sintex and DI Pipes.	□

Sentiment: □Positive **Key Takeaways:** * **Thesis Validation:** WCL is no longer just a proxy for global O&G capex. The "Building Materials" vertical (Sintex, TMT, DI Pipes) is now a meaningful contributor to both top and bottom lines. * **Positives:** US operations have fully recovered (81 KMT volume); WSSL (Stainless) is a complete turnaround story (EBITDA □23 Cr); Sintex is EBITDA positive in its first full quarter under WCL; and Net Debt was reduced by 27% QoQ. * **Negatives:** Saudi Arabia reported an operating loss due to revenue recognition timing, and the DI Pipe segment, while ramping up, is still sensitive to commodity price fluctuations (coking coal/ pig iron). * **The Street's Concern:** Analysts were worried about the GP loss in Saudi Arabia and the sustainability of EBITDA/MT. Management successfully framed Saudi as a "timing issue" and isolated the scrap-sale impact to provide a clearer view of core pipe profitability (~□300 Cr+). * **Watchpoint:** Execution of the $1.8 Billion Saudi Aramco order starting Q3/Q4 and the launch of adjacent plastic products (pipes/adhesives) under the Sintex brand.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *Note: Prior period (Q1FY23) figures are restated. Scrap sales from ABG (Nauyaan) are included in revenue.*

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Volume (Line Pipe KMT)	185	+86.9%	-25.7%	↑	Driven by 81 KMT US volume (vs 7 KMT YoY). QoQ decline due to high Q4 base.
Volume (DI Pipes KMT)	27	N/A	+17.4%	↑	Consistent ramp-up; hitting EBITDA positive levels.
Volume (SS Pipes/ Bars MT)	4,297	+91.1%	+10.5%	↑	Turnaround complete; hitting 50% export mix to Europe.
Revenue (□Cr)	4,069	+207.8%	-0.02%	↑	Massive YoY growth due to US ramp-up and restated steel business.
EBITDA (□Cr)	418	+309.8%	-13.5%	↑	Includes Nauyaan scrap sales. Core pipe business remains strong.
EBITDA Margin %	10.3%	+260 bps	-160 bps	↑	YoY expansion driven by high-margin US mix.
PAT (□Cr)	165	+4025%	-30.1%	↑	Surge from a negligible base in Q1FY23.
ROCE (%)	11.0%	+370 bps	N/A	↑	On track for FY24 guidance of 16%+.
Net Debt / (Cash) (□ Cr)	835	N/A	-26.6%	↑	Significant deleveraging from □1,138 Cr (Mar-23).
Interest Coverage	4.54x	+33%	-10.6%	↑	Improved YoY on higher EBITDA; slightly down QoQ on finance costs.
Sintex WST Vol (MT)	3,538	N/A	+5%	↑	First full quarter contribution; 9% market share currently.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Line Pipes (India/ US)	~3,000+	High	Robust	↑	Above	US plant fully booked till Q1FY25.
DI Pipes	~200-250	N/A	Breakeven	↑	Below	150 KMT order book (3 quarters visibility).
Sintex (BAPL)	~250-300	N/A	Positive	↑	Neutral	Goal to regain 25% market share (vs 9% now).
Stainless (WSSL)	~150-200	High	12-15%	↑	Above	Developed critical Super 304H grade steel.
Saudi (EPIC)*	₹85 (39 SAR)	-81%	Negative	↓	Below	*Revenue recognition delay; production is full.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	₹15,000 Cr for FY24	Needs ₹3,644 Cr/qtr. Q1 was ₹4,069 Cr. (On track).	Reliable	Low
Guidance	EBITDA	₹1,500 Cr for FY24	Needs ₹361 Cr/qtr. Q1 was ₹418 Cr. (On track).	Reliable	Low
Guidance	ROCE	16%+ for FY24	Currently at 11% (Q1). Needs higher asset turns in H2.	Improving	Medium
Strategy	Sintex Growth	Market share from 9% to 25%	Requires massive distribution re-energization (13k retailers).	Ongoing	Medium
Strategy	US Visibility	Fully booked through Q1FY25	Confirmed order book; visibility for next 5-7 years.	Strong	Low
Strategy	ABG (Nauyaan)	Exit by March 2024	₹700-800 Cr total scrap sale. ~₹400-500 Cr remaining.	On track	Low
Macro	Saudi Aramco	$1.8B Order Execution	Starts Q3/Q4 FY25 (per concall). Timing is critical.	High Stake	High
Balance	Deleveraging	Further debt reduction	Net debt already down ₹303 Cr in Q1.	Exceeding	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	Abhishek Ghosh, DSP	Line Pipe Visibility	Business Overview	Overall traction and order book visibility in domestic oil/gas and water.	Management confirmed a 315 KMT India order book (110k O&G, rest water) to be executed fully within FY24. High visibility for near-term domestic revenue ensures the □15k Cr guidance is floor-set.	None	5.0	Clear & quantifie
2	4.5	Abhishek Ghosh, DSP	US Outlook	Management Outlook	Sustainability of US order book beyond the next two quarters.	US operations are fully booked through Q1FY25 with 5-7 years of visibility for gas evacuation pipelines from the Permian basin. This secures the highest-margin segment of the business for the medium term.	None	4.5	Specific visibility
3	4.0	Abhishek Ghosh, DSP	Sintex Strategy	Strategy	How will WCL re-energize the Sintex brand against new competition?	Focus is on "re-energizing" the 13,000 retailers and 900 distributors while adding adjacent products like plastic pipes and adhesives.	Exact timeline for 25% share	3.5	Directio

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						Successful brand restoration could multi-bag the building materials valuation.			
4	5.0	Abhishek Ghosh, DSP	Saudi Performance	Financials	Why were Saudi volumes and profitability a "major disappointment"?	The GP loss was a timing issue where production occurred but contractual terms prevented sales recognition until Q2. Saudi is entering a "record-breaking" 2-year cycle with a 300 KMT/year run rate.	None	4.0	Timing clarified
5	4.0	Vikas Singh, PhillipCapital	EBITDA/MT	Financials	Is the □15,000 EBITDA/MT sustainable?	EBITDA/MT is a function of the project basket; management targets a □10,000 historical average but sees upside as critical application orders increase. This suggests margin floor is rising.	Specific FY24 target	3.0	Consist
6	4.0	Vikas Singh, PhillipCapital	DI & Sintex	Business Overview	Are DI and Sintex reaching breakeven levels?	DI is already EBITDA positive (27 KMT in Q1); Sintex is also EBITDA	Specific margin %	3.0	Vague b positive

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						positive but focusing on scalability. Confirms new verticals are no longer a drag on consolidated cash flows.			
7	3.5	Vikas Singh, PhillipCapital	Saudi RM Risk	Financials	How are you managing commodity risk with a 2-year Saudi order book?	70% of steel is strategically covered/ booked, with 30% left open to capitalize on potential price corrections. Prudent risk management protects the massive $1.8B Aramco order margin.	None	4.0	Clear policy
8	3.0	Nafez Alabbas, Ajeej Capital	Saudi Volumes	Business Overview	What was the exact volume sold in Saudi in Q1?	Management declined to disclose specific Saudi volumes to remain compliant with Saudi exchange policies. Minor lack of transparency but in line with regulatory posture.	Exact volume number	2.0	Deflecte
9	3.5	Sailesh Raja, B&K	Sintex Guidance	Management Outlook	Guidance for Sintex volumes and margins for FY24.	Management avoided specific FY24 numbers, citing it's only the first quarter, but	FY24 Sintex EBITDA	2.0	Deflecte

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						highlighted 3,500 MT WST volume in Q1. Indicates they are still fine-tuning the business model.			
10	3.5	Sailesh Raja, B&K	US Rig Count	Macro	Does the falling US rig count signal a slowdown?	Rig count is down because of a lack of gas evacuation capacity, which actually *increases* the demand for WCL's pipes to build that capacity. Counter-intuitive macro signal that actually favors the thesis.	None	4.5	Logical defense
11	4.0	Naysar Parikh, Native Capital	Scrap Sales	Financials	Revenue breakup of ABG shipyard scrap sales in Q1.	Scrap sales contributed □120-150 Cr to revenue in Q1; total monetization of □700-800 Cr expected by March 2024. This provides a non-core but significant □100 Cr+ EBITDA cushion for FY24.	None	5.0	Quantifi
12	4.0	Naysar Parikh, Native Capital	EBITDA Split	Financials	Breakup of EBITDA between Line Pipe and DI Pipe.	DI was at breakeven; Stainless (WSSL) was □23 Cr; majority of	Segment-wise EBITDA	3.0	Partially shared

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						the remaining □395 Cr came from Line Pipes and scrap. Clarifies that the core Pipe business is generating ~□250-300 Cr EBITDA per quarter.			
13	4.5	Saket Kapoor	Tax Rate	Financials	Why is the effective tax rate high?	Effective rate is 25-28%; fluctuations occur because some new entities (DI) are in a lower bracket while others (WSSL) don't have deferred tax assets yet. Provides a normalized tax run-rate for EPS modeling.	None	4.0	Specific
14	3.5	Abhishek Jain, Arihant	Carbon Capture	Business Overview	Update on the US Carbon Capture project.	Delayed due to land acquisition issues; production has not yet started. Potential future upside that is not yet in the current run-rate.	Revised start date	3.0	Neutral

PATTERN FLAGS & SENTIMENT * **Saudi Anxiety:** Analysts focused heavily on the Saudi GP loss. Management's posture was very confident, framing it as a "timing mismatch" and pointing to the massive $1.8B order. The concern seems resolved for now but will lead to high scrutiny in the Q2 results. * **Segment Profitability:** There is a clear hunger for "clean" EBITDA/MT numbers for DI and Sintex. Management is holding these back, likely to avoid setting a low bar during the ramp-up phase. * **Analyst Sentiment Verdict:** Analysts were generally impressed by the deleveraging and the US ramp-up but remained cautious about the lumpy nature of Saudi earnings and the exact margin profile of the Sintex acquisition. Credibility improved as management delivered on the SS Steel turnaround and DI Pipe EBITDA positivity.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY23/FY23 context)	This Quarter (Q1FY24)	Direction
PAT	₹4 Cr	₹165 Cr	↑ Massive jump
EBITDA	₹102 Cr	₹418 Cr	↑ 4x increase
US Operations	Trough (7 KMT volume)	Fully operational (81 KMT)	↑ Strong Recovery
Sintex Status	Not in WCL control	Fully integrated; EBITDA positive	↑ New Growth Engine
Net Debt	₹1,138 Cr (Mar-23)	₹835 Cr	↑ Significant Deleveraging
Saudi Status	Muted	Record $1.8B order book	↑ Visibility Peak
Stainless (WSSL)	Startup phase	Turnaround complete (₹23 Cr EBITDA)	↑ Profitable
ABG Shipyard	Investment Phase	Monetization phase (₹150 Cr Rev/qtr)	↑ Cash Infusion
Guidance	Implicit	Explicit: ₹15k Cr Rev / ₹1.5k Cr EBITDA	↑ High Conviction
DI Pipe Status	Trials/Startup	EBITDA Breakeven; 27 KMT Vol	↑ Scaling Up

Investor Notes: The thesis has fundamentally moved from "turnaround anticipation" to "execution harvesting." The core risk has shifted from "Will the new businesses work?" to "How fast can they scale?" The ₹300 Cr debt reduction in a single quarter is the strongest signal of the company's new-found cash-generating power. Management's FY24 guidance now looks like a conservative baseline rather than a stretch goal.