Welspun Corp Ltd — Feb 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline on Strategy / Weak on Headline PAT **One-line:** While the Saudi JV loss and US volume lull dragged down headline PAT, the successful Saudi IPO and the imminent commissioning of the Ductile Iron (DI) project validate the transition from a cyclical pipe player to a diversified steel products company.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	Revenue and EBITDA met internal expectations despite volume pressure; Saudi IPO delivered as promised.	□
Earnings Quality	Low (Accounting Drag)	Headline PAT (-□1 Cr) distorted by □16 Cr share of loss from Saudi JV and high storage income in the US vs. actual production.	□
Guidance Confidence	Strong	Management reaffirmed Q1 FY23 commercialization for DI pipes and March 2022 for the WSL merger.	□
Management Credibility	Strong	Successfully executed one of the largest IPOs in Saudi Arabia for a JV; on track with major greenfield capex.	□
Business Quality Signal	Improving	Diversifying into B2C (TMT bars) and DI pipes (Water) reduces dependence on lumpy Oil & Gas projects.	□
Key Q&A Exchange	Q# 7 — US Business	Mgmt confirmed US EBITDA is currently buoyed by storage fees rather than pipe sales, a temporary but high-margin floor.	□
The Street's Primary Anxiety	US & Water Revival	Analysts questioned when US volumes and Indian water projects would return; mgmt pointed to a 1-2 quarter lag.	□
Capital Cycle Stage	Investment	Peak capex phase for DI Pipe project (□1,700 Cr spent); moving toward harvesting in FY23.	□
Margin Trajectory	Stable	Domestic margins protected by steel pass-through and "storage income" in the US offsetting fixed cost under-recovery.	→
Pricing Power	Stable	Pass-through contracts in Line Pipes; DI pipes will enter a government-tendered market (Jal Jeevan).	→
FCF Conversion	Weak	Negative free cash flow due to □1,700 Cr greenfield capex; Net Cash reduced from □1,022 Cr to □839 Cr QoQ.	□
Competitive Moat	Stable	Geographical spread (India/US/Saudi) and niche certifications (HP heater tubings/Defense) protect market share.	□
Balance Sheet Strength	Strong	Remains Net Cash (□839 Cr) despite massive capex; IPO proceeds (~□450-500 Cr gross) yet to hit.	□
Working Capital	Deteriorating	Net Cash consumed by capex and LC maturities; inventory management remains critical in a volatile steel environment.	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on Saudi IPO and project timelines over the last 12 months.	□
Key Vulnerability	Execution Risk	The thesis hinges entirely on the smooth ramp-up of the Anjar DI plant in Q1 FY23.	□
Management Tone	Confident	Bullish on "Vision 2030" in Saudi and "Jal Jeevan Mission" in India as permanent demand tailwinds.	□

Key Takeaways: * **Positives:** Successful Saudi IPO (EPIC) at SAR 80/share (PE ~12-13x) unlocks significant value and liquidity; DI project is 90% complete with market entry scheduled for Q1 FY23; India water segment is seeing a resurgence as COVID-related fund diversions by states end. * **Negatives:** US operations remain in a volume trough (only 3k tons sold) despite high energy prices; Saudi JV reported a loss of □16 Cr (WCL share) this quarter due to lumpy execution; consolidation of Welspun Steel (WSL) brings in a business currently under "capital revamping." * **Street Concern:** Analysts are focused on the timeline for "real" US demand and the margin profile of the DI business. Management responded that drilling activity is up, but pipe orders lag by 3-4 months. * **Watchpoint:** The arrival of gross IPO proceeds (~□500 Cr) in Q4 and the first "hot metal" from the DI blast furnace in Q1 FY23.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Volume (Total Sales KMT)	171	↓ 25.7% (230)	↑ 3.6% (165)	→	Driven by India (133), Saudi (35), and US (3). Growth driven by India domestic.
Revenue (□Cr)	1,299	↓ 6.7%	↓ 0.5%	→	Impacted by lower US volumes, offset by higher steel realizations.
Operating EBITDA (□Cr)	132	Not in PPT	Not in PPT	First Entry	Management excludes treasury/one-offs. India: □112 Cr; US: □22 Cr.
Reported EBITDA (□Cr)	149	↓ 38.7%	↓ 13.9%	↓	YoY drop due to higher base (land sale/claims) and Saudi JV loss.
EBITDA Margin %	11.5%	↓ 600 bps	↓ 180 bps	↓	Underlying margin remains stable on a core basis; US storage income helped.
PAT (□Cr)	(1)	↓ 100.5%	↓ 101.6%	↓	Dragged by Share of Loss from JV (□16 Cr) and lower volumes.
ROCE (%)	14.0%	↓ 540 bps	↓ 220 bps	↓	Lower EBIT and higher capital employed (DI project CWIP).
Net Debt / (Cash) (□Cr)	(839)	Not in PPT	↑ 17.9%	↓	Cash reduced as it is deployed into the DI project (□1700 Cr total cost).
Realization/MT (India)	~□97,600	Not in PPT	Not in PPT	First Entry	Derived: Total Rev / India Volume (Note: Consists of steel pass-through).
Interest Coverage (x)	6.8x	Not in PPT	↓ 15.0%	↓	Calculated: EBIT (117) / Finance Cost (17.3). Still very healthy.

2B. SEGMENT BREAKDOWN

Segment	Volume (KMT)	Revenue Contribution	Margin Profile	Trend	Key Development
India Pipes	133	~85%	Stable	↑	Water segment reviving; CGD demand steady.
US Pipes	3	~2%	Distorted	↓	Sales at record lows; EBITDA supported by storage fees ($0.5M+).
Saudi Arabia (JV)	35	JV Share	Negative	↓	Reported loss of SAR 19M due to project timing; IPO completed.
DI Project	N/A	Pre-comm.	N/A	□	90% spend done; expected Q1 FY23 launch.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	DI Pipes Launch	Q1 FY23 market entry.	Facility 90% complete; on track for hot metal in March.	Met prior "early FY23" guidance.	Low
Guidance	WSL Merger	Completion by March 31, 2022.	Final NCLT hearing set for Feb 23.	Procedural delays seen earlier.	Low
Guidance	US Business	Revival in 1-2 quarters.	Rig counts rising; 4-month lag for large dia pipes.	Delayed vs. early 2021 hopes.	High
Strategy	Diversification	B2C entry via TMT bars by Aug/Sept 2022.	Revamping of WSL sponge/ billet plant underway.	New target; first entry.	Medium
Strategy	Saudi IPO	Unlock value via EPIC listing.	Completed Jan 2022; 72x institutional coverage.	Delivered as promised.	None
Macro	India Water	1M tons annual demand.	States starting to release funds (Ken-Betwa project).	Missed in H1 due to COVID.	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Abhishek Ghosh / DSP	Business Overview	Muted domestic volumes vs historical run-rates.	Management explained that the "water segment" (1 million tons/year market) was missing due to COVID fund diversion but is now returning. This signals a volume ramp-up in FY23 as state budgets pivot back to infrastructure.	None	4.0	Directional with evidence
2	4.0	Abhishek Ghosh / DSP	Business Overview	Strategic geographical positioning and market share in water.	WCL claims a 20-25% market share in water pipes due to plants in Mandya (South), MP (Central), and Gujarat (West). This footprint reduces logistics costs and improves win rates for state-level tenders.	None	4.0	Quantified claim
3	4.0	Abhishek Ghosh / DSP	Financials	Margin impact of low-margin water projects.	Management argues water volumes will improve operating leverage and help amortize fixed costs, leading to overall margin improvement. Increased utilization is the primary lever for ROE expansion here.	None	3.0	Vague but logical
4	4.5	Abhishek Ghosh / DSP	Management Commentary	Timeline for US revival given high	US follows a sequence: Drilling ->	None	4.0	Specific sequence given

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				energy prices.	OCTG -> ERW -> Large Dia; the first two are peaking, and ERW/Large Dia inquiries are just starting. US earnings will remain soft for at least 2 more quarters before a meaningful volume rebound.			
5	5.0	Bhavin Chheda / Enam	Capex and Allocation	Progress and spend on DI pipe project.	□1,700 Cr (85-90%) of capex is spent; first products (pig iron/coke/ DI) will hit in Q1 FY23. This confirms the project is at the finish line, shifting focus from "spending" to "earning" in FY23.	None	5.0	Specific and quantified
6	4.0	Bhavin Chheda / Enam	Financials	Cash outflow vs Saudi IPO proceeds.	Post-Dec, cash will reduce by ~□500-600 Cr for DI project/ LCs, but will be offset by ~□450-500 Cr gross from the Saudi IPO. Net debt position should remain very comfortable despite peak capex.	Net tax impact on IPO proceeds.	4.0	Balanced disclosure
7	4.5	Nirav Shah / GeeCee	Financials	Discrepancy in US EBITDA (□22 Cr) on very low volume.	US EBITDA is significantly supported by "storage revenue" for customer pipes (e.g., Keystone) and storage of	None	4.5	High transparency

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					raw materials. This reveals the US business has a "cash floor" even when utilization is near zero.			
8	3.5	Shivam Prashar / Pandit Sales	Business Overview	China Plus One and export competition.	WCL is not seeing significant Chinese pipe competition in mature markets/ Fortune 50 accounts. This suggests the "moat" around quality and certification remains intact for high-spec projects.	None	3.0	Qualitative
9	3.5	Vikas Singh / Phillip	Business Overview	US Infrastructure Bill opportunities (Water/ Structural).	Technically competent to supply, but waiting for state-level financing to trickle down from the US federal bill. This is a medium-term (12-24 month) tailwind, not a near-term one.	None	3.0	Conditional guidance
10	4.0	Saket Kapoor	Management Commentary	Saudi EPIC IPO Valuation and PE multiples.	The IPO was valued at a PE of ~12-13x, reflecting high confidence in Saudi's "Vision 2030." This sets a benchmark for the value of WCL's remaining 35% stake which is likely higher than the	None	4.5	Quantified benchmark

Q#	Relevance	Analyst / Firm	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					market's implied value.			

PATTERN FLAGS & SENTIMENT * **The US Volume Anxiety:** Every second analyst questioned the US lull. Management remained calm, sticking to the "lag-effect" narrative (rig counts first, pipes later). They used the "storage income" fact to reassure that the US isn't a cash drain despite zero production. * **Diversification Skepticism:** Analysts are trying to model the "new" WCL (DI pipes + TMT). Management's posture was confident, emphasizing the shift toward B2C/Water to fix the "lumpy" project earnings history. * **Sentiment Verdict:** Analysts were **cautiously optimistic**. The successful Saudi IPO provided a major credibility boost. Friction remains regarding the exact "date" US orders will return, but mgmt's detail on the drilling-to-pipe cycle largely diffused the tension. Credibility is at a 4-quarter high due to the EPIC listing success.

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
Saudi JV Status	Subsidiary/JV (Pre-IPO)	Publicly Listed Entity	□Unlocked Value
Cash Position	□1,022 Cr Net Cash	□839 Cr Net Cash	↓ Capex Outflow
US Focus	Project hunting	Storage Income / Floor Ops	→ Strategic Pivot
India Water Sentiment	Dormant	Resurgent (Ken-Betwa)	□Demand Signal
ESG Maturity	Internal tracking	13th Rank Globally (DJSI)	□Credibility

IMPLIED RUN-RATE CHECK: * **DI Project:** To justify the □1,700 Cr investment, the plant needs to hit at least 30-40% utilization in its first year (FY23). Given the Jal Jeevan Mission targets, the demand exists, but WCL is a new entrant. Monitoring market share gains vs. incumbents like Jindal Saw is critical. * **Earnings Quality:** Operating EBITDA of □132 Cr is low vs. the □3,917 Cr net worth (annualized ROCE ~14%). To return to historical >20% ROCE, the DI project MUST fire in H1 FY23.

FORENSIC TRIGGER: * **CFO-to-PAT:** PAT is -□1 Cr. Net cash reduced by □183 Cr QoQ. This is primarily driven by the □1,700 Cr DI capex cycle and a share of loss from the Saudi JV. No alarming related party transactions noted; WSL merger is between group entities but under NCLT oversight.