Welspun Corp Ltd — May 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Weak Operational Miss / Strategic Beat **One-line:** While a massive ₹359 Cr one-off gain from the Saudi IPO masked a core operating loss this quarter, the underlying thesis is strengthened by the "once-in-a-decade" ₹5,000 Cr US order win and the imminent pivot to less cyclical DI pipes and TMT bars.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Weak Operational Miss	Core EBITDA (ex-Saudi gain) was ~□115 Cr vs □168 Cr QoQ, despite 39.5% revenue growth.	□
Earnings Quality	Low (One-off Driven)	Reported PAT of □236 Cr is entirely driven by a □359 Cr gain from the EPIC (Saudi) IPO; core operations were PBT negative.	□
Guidance Confidence	Neutral	Reaffirmed DI Pipe/TMT launch for July 2022, but project cost saw a sharp 22.5% escalation (□1,900 Cr vs □1,550 Cr).	□
Management Credibility	Strong	Successfully executed Saudi IPO in a volatile market and secured the single largest order in company history (US).	□
Business Quality Signal	Improving	Transition from pure B2B/Oil & Gas to B2C (TMT/Sintex platform) and DI Pipes (Water) reduces cyclicality.	□
Key Q&A Exchange	Q# 1 — Operating Weakness	Mgmt attributed low margins to "product mix" and low US utilization, but admitted core volumes were impacted by steel price volatility.	□
The Street's Primary Anxiety	B2C/New Vertical Execution	Analysts questioned the turnaround of the loss-making steel assets and the risk of Sintex acquisition complexity.	□
Capital Cycle Stage	Peak Investment	Peak capex on DI project (□1,400 Cr spent to date); harvesting starts H2 FY23.	□
Margin Trajectory	Deteriorating (Core)	Core EBITDA margins compressed as high-margin water volumes were "missing" and US was in a pre-order lull.	↓
Pricing Power	Stable	Strong pass-through in line pipes; B2C (TMT) will face commodity pricing but brand leverage is the goal.	→
FCF Conversion & Quality	Distorted	Full-year CFO (□218.5 Cr) is ~50% of PAT (□444 Cr) due to working capital build and □1,900 Cr capex cycle.	□
Competitive Moat	Stable	US order win proves Little Rock facility remains the preferred "Buy American" supplier for Permian projects.	□
Balance Sheet Strength	Adequate	Net Cash reduced to □173 Cr (from □551 Cr QoQ) due to capex; Saudi IPO proceeds (~□500 Cr) provide a buffer.	□
Working Capital Efficiency	Deteriorating	Inventory days remained high as the company stocked up for the TMT/DI plant launches.	↓
Mgmt Guidance Track Record	Reliable	Consistent delivery on Saudi IPO and merger timelines, despite inflationary cost revisions.	□
Key Vulnerability	DI Pipe Ramp-up	The success of the thesis hinges on achieving 30-40% utilization at the Anjar DI plant by FY23 end.	□
Management Tone	Confident/Buoyant	Particularly bullish on US resurgence and "Make in India" tailwinds for WSSL.	□

Key Takeaways (Positives & Negatives): * **Positives:** The US business has secured a "life-line" order of 325 KMT (□5,000 Cr+), ensuring high utilization through Dec 2023. The Saudi IPO (EPIC) unlocked massive value (~□500 Cr cash inflow) and established a market benchmark for WCL's remaining 35% stake. The WSSL (Specialty Steel) turnaround is progressing with 50% volume growth and niche nuclear/defense approvals. * **Negatives:** Core operations in Q4 were poor; stripping out the Saudi IPO gain reveals the business is currently struggling with fixed cost under-recovery and a "missing" water segment in India. The DI Pipe project cost escalation (□350 Cr) is significant, though management claims productivity gains will offset the hit. * **Street Concern:** Analysts are skeptical about the Sintex NCD acquisition and how a pipe manufacturer will manage a plastic B2C brand. Management's response: They are buying a 13,000-retailer distribution platform to sell TMT

and DI pipes, not just water tanks. * **Watchpoint:** First "hot metal" from the DI blast furnace in July 2022 and the realization of the Saudi IPO cash on the balance sheet.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS (Steel / Capital Goods Template)

Metric	Current Qtr (Q4FY22)	YoY Change (Restated)	QoQ Change	Trend	Mgmt Commentary
Line Pipe Volume (MT)	269,424	↑ 9.2%	↑ 57.7%	↑	Volume jump driven by India domestic; US was negligible (awaiting H2 revival).
Billet Sales (MT)	17,989	↓ 70.2%	↑ 65.5%	↓	YoY drop due to focus on downstream TMT integration; intermediate sales reduced.
SS Pipe Sales (MT)	1,160	↑ 82.4%	↑ 31.7%	↑	WSSL seeing strong "Make in India" pull from Fertilizer/Nuclear sectors.
Revenue (□Cr)	2,011	↓ 1.2%	↑ 39.5%	↑	Growth driven by volumes and high steel prices; realization/MT remains high.
Reported EBITDA (□Cr)	474	↑ 34.3%	↑ 181.8%	↑	**Low Quality:** Includes □359 Cr one-off gain from Saudi IPO (EPIC).
Core EBITDA (□ Cr)	~115	↓ 65.0%	↓ 31.5%	↓	Adjusted for Saudi gain; compression due to unfavorable product mix.
EBITDA Margin %	23.6%	↑ 630 bps	↑ 1,200 bps	↑	Reported margin is misleading; core margin is <6%.
PAT (Owners) (□ Cr)	236	↓ 22.9%	↑ 415.7%	↑	Impacted by □130 Cr tax on merged operations and Saudi IPO gain.
Net Debt / (Cash) (□Cr)	(173)	↑ 61.3%	↓ 68.6%	↓	Net cash position declining as □1,900 Cr DI capex hits peak spending.
Interest Coverage (x)	18.49x	↓ 78.4%	↑ 357.7%	↑	Calculated on reported EBITDA; core coverage is ~4x.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	Vol (KMT)	Margin (Core)	Trend	vs Co. Avg	Key Development
India Pipes	~1,600	229	~7-8%	→	Above	Water segment revival expected in H2 FY23.
Americas (US)	~50	3	Negative	↓	Below	Secured 325 KMT order; execution starts H2 FY23.
Saudi (JV/ Assoc)	N/A	35	Distorted	↓	N/A	EPIC IPO gain of □359 Cr; core Saudi ops reported loss of SAR 3M.
Specialty (WSSL)	~250	1.16	Improving	↑	Below	SMS plant restart in Q3 helping RM procurement logistics.

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3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	DI Pipe Project	Commissioning by June/ July 2022.	100% completion required in 60 days; physically on track.	Revised cost from □1,550Cr to □1,900Cr.	Medium
Guidance	TMT Bar Plant	Commercial ops by July 2022.	Integrated with WSL billets; low technological risk.	On track.	Low
Guidance	US Order Execution	Execute 325 KMT over 12 months (commencing H2 FY23).	Needs ~27 KMT/month run-rate; facility capacity is >30 KMT/month.	Historic high order.	Low
Strategy	Diversification	Pivot to B2C (Sintex/TMT).	Requires 900+ distributors to cross-sell steel; unproven.	N/A (New strategy).	High
Strategy	Debt Management	Retain "Net Cash" status.	Saudi IPO inflow (~□500 Cr) essential to offset pending □500-600 Cr capex.	Met prior cash targets.	Low
Macro	India Water	□60,000 Cr Jal Jeevan allocation.	Dependent on state-level project awards (Rajasthan/MP/ Punjab).	Delayed in FY22.	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Nirav Shah / GeeCee	Financials	"The core operating performance of the company it seems a little weak compared to even previous quarter."	Management admitted weakness was driven by a missing "water segment" (lumpy execution) and low US utilization, which failed to absorb fixed costs. This confirms that until DI pipes and the US order kick in (H2 FY23), core pipe margins will remain under pressure.	Specific margin impact of "product mix."	3.0	Core weakness admitted
2	4.5	Nirav Shah / GeeCee	Business Overview	"Does the large US order mean our HSAW segment is largely booked for next 3-4 quarters?"	Management confirmed the US facility is fully booked until Q3 FY24 and the focus will now shift to filling the HFIW (small dia) order book. This provides clear earnings visibility for the US subsidiary, which had been a $20M+ EBITDA drag.	None	5.0	Specific timeline given
3	4.0	Nirav Shah / GeeCee	Capex and Allocation	"How much have we spent on DI pipes till March and what is the balance for FY23?"	Total capex spent to date is □1,400 Cr (including TMT), with □600 Cr remaining for FY23. This implies the company will utilize all Saudi IPO proceeds to finish these projects, leaving zero room for further M&A without fresh debt.	None	4.0	Quantified
4	4.5	Sailesh Raja / B&K	Business Overview	"What is the export mix in the current	Current India order book is 350 KMT, of which	None	4.0	Directional with evidence

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				order book and how will it change?"	~50% is exports (Longitudinal/ South America/ Australia). This high-margin export mix acts as a critical hedge against lower-margin domestic water projects.			
5	4.0	Vikas Singh / Phillip	Financials	"The steel business purchased (WSL) seems not to be making much EBITDA level profits."	Management argued WSL was selling "intermediate products" (billets) and will become profitable once it pivots to "finished products" (TMT bars) in July 2022. The market must monitor if WCL can command a brand premium in the crowded TMT space.	Exact current EBITDA of WSL segment.	2.5	Vague on current losses
6	3.5	Vikas Singh / Phillip	Business Overview	"What are the related businesses targeted in B2C strategy?"	Management stated they are done with major acquisitions for now, focusing on incubating BAPL (Polymer), TMT, and SS Pipes. This "consolidation" stance is a relief for investors worried about capital misallocation.	None	3.0	Strategic pause
7	4.0	Siddharth Shah / MK Ventures	Financials	"Can you give guidance on margins for the large US order?"	Management indicated a historical norm of ~$200/ton EBITDA for the US business during high-utilization cycles. If achieved, this order alone could	None	4.0	Specific benchmark given

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					contribute ~$65Mn (□500 Cr+) to consolidated EBITDA over 15 months.			
8	4.5	Radha Agarwalla / B&K	Financials	"How much will the Indian entity receive from the Saudi IPO on a net basis?"	WCL (India) expects to receive ~□300 Cr post-tax from the IPO proceeds through its Mauritius subsidiary. This inflow is thesis-critical to keeping the company Net Debt free during peak capex.	Exact tax rate in Mauritius/ India for repatriation.	4.0	Quantified inflow

PATTERN FLAGS & SENTIMENT * **The "Core" vs "Reported" Gap:** Analysts were hyper-focused on stripping out the Saudi IPO gain to see the "ugly" core margins. Management was defensive, repeatedly citing "product mix" and "pre-launch incubation costs" for the new verticals. The concern is resolved only by the H2 FY23 ramp-up. * **The Sintex Skepticism:** There is palpable anxiety regarding the Sintex BAPL acquisition (via NCDs). Management is positioning this as a "distribution play," but analysts are wary of the □403 Cr cash outflow for a business outside WCL's core metallurgical competency. * **Analyst Sentiment Verdict:** Analysts are **cautiously bullish**. The US order win is a "game changer" that silenced many critics of the Americas' strategy. However, management's credibility on the DI project took a small hit due to the 22% cost escalation. Overall, the successful Saudi IPO is viewed as a major execution win for the Goenka family.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (FY21)	This Quarter (FY22)	Direction
US Order Book	26 KMT (Languishing)	375 KMT (Record High)	↑ Structural Rebound
Saudi JV Status	Joint Venture (Private)	Listed Associate (EPIC)	↑ Value Unlocked
DI Project Cost	□1,550 Cr	□1,900 Cr	↓ 22.5% Escalation
Corporate Tax	34.94%	25.17%	↑ EPS Accretive
Core EBITDA Margin	~19.5%	<6.0% (Derived)	↓ Short-term Pain
Asset Base	Pure-play Line Pipes	Merged WSL (DI/TMT/SS)	↑ Diversified Platform
Net Cash	□447 Cr	□173 Cr	↓ Capex Outflow

INVESTOR NOTES: * **Earnings Quality:** CFO-to-PAT for FY22 is 0.49x. The divergence is primarily caused by a □958 Cr increase in "other current financial assets," which includes the Saudi IPO proceeds receivable. * **Implied Run-rate:** To hit the "excess of 1 million ton" FY23 volume target, WCL needs to average 250 KMT per quarter. With the US order not starting until H2, Q1 and Q2 FY23 will remain heavily dependent on India domestic water awards. * **Forensic Trigger:** The merger with Welspun Steel Limited resulted in a □13,480 Lakh

capital reserve. While NCLT approved, the restatement of FY21 makes "organic" growth tracking difficult this quarter. Avoid YoY revenue comparisons as primary signals.