Welspun Corp Ltd — May 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Turnaround / Beat **One-line:** Welspun has successfully transitioned from a volatile, pure-play pipe manufacturer into a diversified conglomerate, with all new "growth engines" (DI Pipes, Specialty Steel, Sintex) now operational and contributing to a record-high FY24 guidance.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	Q4 EBITDA (□483 Cr) is the highest in years; FY24 guidance of □1,500 Cr EBITDA implies a ~90% YoY growth.	□
Earnings Quality	Moderate (Working Cap Drag)	High reported EBITDA but massive inventory buildup (□5,700 Cr) suggests cash is trapped in order execution.	□
Guidance Confidence	Strong	Management provided specific, aggressive FY24 targets (Revenue □15k Cr, ROCE 16%+).	□
Management Credibility	Strong	Delivered turnaround in WSSL (SS business) to EBITDA positive; successful acquisition of Sintex.	□
Business Quality Signal	Improving	Diversification into B2C (Sintex/TMT) and long-cycle DI Pipes reduces historical O&G cyclicality.	□
Key Q&A Exchange	Q#4 — Net Debt reduction	Deleveraged □700 Cr in one quarter via EBITDA and Sintex cash consolidation.	□
The Street's Primary Anxiety	Inventory/Working Capital	Analysts questioned the □5,700 Cr inventory; mgmt confirmed it is largely paid-up and order-backed (US/India).	□
Capital Cycle Stage	Harvesting & Ramping	Capex phase is largely over; FY24 is about ramping utilization of new assets.	□
Margin Trajectory	Improving	WSSL turnaround and US order execution are structurally lifting blended margins.	□
Pricing Power	Stable to Strong	Sintex brand provides 9% market share with premium positioning; Line Pipes use pass-through.	□
FCF Conversion & Quality	Weak (Temporary)	CFO-to-PAT is distorted by heavy inventory for the US mega-order; expected to reverse in H2 FY24.	□
Competitive Moat Signals	Widening	Only integrated player from SS Steel to Pipes; Sintex national brand recall is a significant B2C entry barrier.	□
Balance Sheet Strength	Adequate	Net Debt at □1,138 Cr (0.23x Equity) is comfortable despite aggressive acquisitions.	□
Working Capital Efficiency	Deteriorating (Cyclical)	Inventory days spiked significantly due to US project preparation and ABG scrap stock.	□
Mgmt Guidance Track Record	Reliable	Consistently breached the 1Mn MT Line Pipe volume mark (8/10 years).	□
Key Vulnerability	Raw Material Spreads	Pig Iron vs DI Pipe spreads and international steel prices remain the primary margin risks.	□
Management Tone	Confident / Expansionary	Focus on "exponential growth" and "Har Ghar Welspun" mission.	□

Sentiment: □Positive

Key Takeaways: * **Positives:** The fundamental thesis has shifted from a "commodity pipe play" to a "diversified industrial leader." The turnaround of Welspun Specialty Steels (WSSL) into an EBITDA-positive entity and the acquisition of Sintex (at an attractive □406 Cr net cost) provide non-cyclical B2C cash flows. The Saudi entity (EPIC) is entering a multi-year growth phase with a □4,000 Cr Aramco order. * **Negatives:** Working capital is a massive drag. With □5,700 Cr tied up in inventory (primarily in the US), FCF generation is temporarily stalled until project dispatches accelerate in FY24. ABG Shipyard monetization is a "scrap play" rather than an operational one, which adds noise to the balance sheet. * **Street Concern:** Analysts are wary of the margin sustainability as Pig Iron sales (low margin) are replaced by DI Pipes (high margin). Management's response: The focus is 100% conversion of Hot Metal to DI Pipes, which should structurally expand EBITDA per ton. * **Forward Watchpoint:** Execution of the Master Gas Phase 3 order in Saudi and the successful re-energizing of the Sintex dealer network are the primary triggers for a valuation re-rating.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q4FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Line Pipe Volume (KMT)	345	↑ 28.3%	↑ 22.8%	↑	Global demand robust; US spiral mill booked until Dec 2023.
DI Pipe Volume (KMT)	23	First entry	↑ 91.7%	↑	Rapid ramp-up at Anjar; target 175-200 KMT for FY24.
SS Bars/Pipes (MT)	3,862	↑ 60.3%	↑ 41.7%	↑	WSSL turnaround complete; first order of high-value Ni-Alloy 6625.
Revenue (□Cr)	4,070	↑ 102.4%	↑ 69.4%	↑	Driven by volume growth across all segments; US revival.
EBITDA (□Cr)	483	↑ 1.9%	↑ 176.8%	↑	Prior YoY included □359 Cr IPO gain. Core EBITDA growth is massive.
EBITDA Margin %	11.9%	↓ (9.3 bps)	↑ 460 bps	↑	Margin expansion led by India export mix and US ramp-up.
PAT (□Cr)	236	→ 0.0%	↑ 916.1%	↑	Strong operational performance; Saudi JV (EPIC) contribution rose.
ROCE (%)	7.3% (FY23)	↓ 370 bps	-	↓	Lower due to capex/acquisitions; Guidance 16% + for FY24.
Net Debt / (Cash) (□Cr)	1,138	↓ from Cash	↓ 38.1%	↑	Deleveraged □700 Cr QoQ; ABG scrap sale to provide future cash.
Inventory (□Cr)	5,700*	-	-	↓	*Derived: □3.5k Cr in US alone. Management targets reduction in FY24.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Line Pipes	3,300*	~80%	12-14%	↑	Above	US mill at 100% utilization; Saudi JV booked for 1 year.
DI Pipes	180*	New	8-10%	↑	Below	Received approvals in 7 key states (Gujarat, Rajasthan, etc.).
Sintex BAPL	240*	New	10-12%	→	Inline	Acquisition completed; focus on regaining 25% market share.
SS Steel (WSSL)	155 (OB)	Turnaround	Positive	↑	Below	Turned EBITDA positive; expanded size range (25-350mm).
Pig Iron	450*	New	Low	↓	Below	Deliberate strategy to reduce PI sales in favor of DI Pipes.
**Estimated based on volume dispatches and historical realizations.*						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	₹15,000 Cr (FY24)	Needs ₹3,750 Cr/qtr. Achievable given Q4 run-rate of ₹4,070 Cr.	Reliable	Low
Guidance	Margins	₹1,500 Cr EBITDA (FY24)	Needs ₹375 Cr/qtr. Current Q4 is already at ₹483 Cr. Highly feasible.	Reliable	Low
Guidance	Volume	175-200 KMT DI Pipes	Needs 2x increase from current Q4 levels (23 KMT to 45 KMT/qtr).	Ramping up	Medium
Guidance	Capex	Only Maintenance Capex	₹250-300 Cr total across all entities for FY24.	New stance	Low
Strategy	Capital Allocation	Focus on reducing gross debt	Intend to use scrap sale cash (ABG) for debt reduction.	Mixed	Medium
Strategy	Sintex	Market share gain to 23-25%	Requires re-energizing 13,000+ retailers; current share ~9%.	New segment	High
Macro	Industry	Saudi Aramco $45-$55bn capex	Visibility for next 10 years in Saudi distribution network.	Verified	Low
Balance	Deleveraging	Further Net Debt reduction	Targeting "significant reduction" in FY24 from current ₹1,138 Cr.	Improving	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Abhishek Jain, Arihant Capital	Inventory Levels	Financials	"What will be the sustainable inventory going forward... how much inventory we are going to keep?"	Management explained that the ₹5,700 Cr inventory is driven by the US mega-order (₹3,500 Cr) and ABG scrap (₹500 Cr), which will liquidate over the next 3 quarters. Sustained inventory will eventually drop, freeing up significant cash for debt reduction.	None	5.0	Quantified & Clear
2	4.0	Miraj, Arihant Capital	Saudi Master Gas	Business Overview	"How many more orders can we expect in the Phase 3... what the volumes would be?"	Management confirmed the ₹4,000 Cr order is only the first part of Master Gas Phase 3; a second phase is expected in FY25, providing 2-3 years of continuity. This secures the Saudi entity's profitability as the primary associate contributor.	Exact volumes for Phase 2	3.5	Directional
3	4.5	Nirav Shah, Geecee Invest	EBITDA Breakup	Financials	"If the EBITDA is led by India line pipe... was it because of some high-margin	Management admitted Q4 was boosted by a highly remunerative export product mix in India, which may	Segmental EBITDA details	3.0	Hedged

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					orders or is it sustainable?"	not repeat every quarter but is part of the annual "blend." Investors should value the company on annual guidance rather than extrapolated Q4 margins.			
4	4.0	Nirav Shah, Geecee Invest	US Inventory	Financials	"Will we see a reduction in the working capital at U.S.?"	Management confirmed the US inventory is already "paid-up" by the customer, and as dispatches start, working capital will unlock significantly. This implies a massive FCF tailwind in FY24.	Specific timeline	4.0	Consistent
5	3.5	Vikas Singh, PhillipCapital	Bid Book	Management Outlook	"What are the new geographies where you are seeing the new green shoots... insight into Europe?"	Management is seeing 46% growth in bid book driven by SE Asia, Middle East (Saudi/ Qatar), and the US. Europe is currently muted for O&G but identified as a future "new energy" (Hydrogen/ Carbon Capture) market.	Europe O&G timeline	3.5	Strategy-led
6	4.0		Debt Reduction	Financials	"How has the net debt	Management clarified that	Exact Sintex	4.0	Verifiable

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		Abhishek Ghosh, DSP Mutual Fund			come down... is it because of consolidation of Sintex?"	EBITDA (483 Cr) and "unlocking" of working capital from India export orders drove the 700 Cr debt reduction. Sintex consolidation also brought in existing cash on its balance sheet, aiding the net position.	cash amount		
7	3.5	Saket Kapoor, Kapoor Co	DI Pipe Realizations	Financials	"With the lower coal and iron ore prices... is there an incremental chance of approaching higher margins?"	Management warned that while lower RM costs help, the benefit appears over a year due to 3-month high-cost inventory layers. DI Pipe margins are structurally better, but the RM "tailwinds" will take 2 quarters to flow through P&L.	None	4.0	Clear
8	4.0	Hemish Shah, Investor	ABG Scrap	Capex and Allocation	"Does the 1,500 Cr EBITDA guidance include the scrap of ABG Shipyard?"	Management confirmed EBITDA guidance *includes* scrap margins but *excludes* Saudi associate profits (which	None	5.0	Specific

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						sit in "Share of JVs"). This clarifies that the guidance is for the consolidated operational entity only.			

PATTERN FLAGS & SENTIMENT * **Pivot to "Conglomerate" Narrative:** Management is actively steering analysts away from quarterly EBITDA/MT pipe metrics and toward a "four-pillar" growth story (Pipes, Steel, DI, Sintex). They were exceptionally defensive about "quarterly swings," pushing for "annualized" views due to project-based dispatches. * **Working Capital Friction:** Analysts repeatedly pushed on the ₹5,700 Cr inventory. Management's posture was confident, treating the inventory as "money in the bank" because it is order-backed and partially paid-up, but the Street remains skeptical until the cash actually hits the balance sheet. * **Analyst Sentiment Verdict:** Overall **Optimistic**. The successful integration of Sintex and the turnaround of the SS business have significantly boosted management credibility. The massive Saudi order (₹4,000 Cr) has de-risked the international segment. The primary remaining skepticism involves the speed of the DI Pipe ramp-up and the ability to reclaim Sintex's historical 25% market share.

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior context provided for direct comparison. (Note: As the user provided Q3 FY24 as "Prior Context" for a Q4 FY23 report, they are chronologically mismatched. This section represents the status as of the Q4 FY23 report.)

What Changed	Prior Status (FY22)	Current Status (FY23)	Direction
Business Model	Pure-play Line Pipe	Diversified Conglomerate	↑
SS Business (WSSL)	Loss-making / Stagnant	EBITDA Positive / Turnaround	↑
New Segments	DI Pipe / Sintex (Pre-op)	DI Pipes (37 KMT) / Sintex Acquired	↑
Saudi Order Book	Moderate	₹4,000 Cr (Aramco Mega-order)	↑
Net Debt Position	Net Cash (₹173 Cr)	Net Debt (₹1,138 Cr)	↓
Inventory Levels	Standard	Record High (₹5,700 Cr)	↓
ESG Focus	DJSI Score 41	DJSI Score 57	↑

STOP HERE.