Welspun Corp Ltd — Nov 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Weak Miss on Margins / Strong Beat on Visibility **One-line:** The core "Line Pipe" business is entering a super-cycle with record visibility (1mn MT order book), but the thesis is currently obscured by a "perfect storm" of □200 Cr in commodity inventory losses and startup drags in the new Steel vertical.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Weak Miss	EBITDA/PAT severely impacted by high-cost inventory (Coke/Pig Iron).	□
Earnings Quality	Low (One-off driven)	Profits distorted by □200 Cr inventory loss and □104 Cr one-off land sale gain.	□
Guidance Confidence	Strong	Confirmed 5-6 quarters of earning visibility; medium-term □15,000 Cr revenue target.	□
Management Credibility	Neutral	Successfully commissioned DI and TMT plants, but caught off-guard by 90-day inventory cycle.	□
Business Quality Signal	Improving	Pivot from pure B2B to integrated B2B/B2C (Sintex/DI/TMT) reduces project cyclicality.	□
Key Q&A Exchange	Q#4,5 - Inventory & ABG	Mgmt admits commodity volatility was unprecedented; ED attachment is a legal hurdle.	□
The Street's Primary Anxiety	Leverage & Subs. Performance	Net Debt spike to □1,609 Cr and losses in the Steel vertical.	□
Capital Cycle Stage	Investment / Commissioning	Capex cycle ending; moving into "incubation" and "harvesting" phase.	□
Margin / Return Ratio Trajectory	Deteriorating (Short-term)	Negative EPS of □2.0 for H1; ROCE targets (18%+) pushed to medium term.	□
Pricing Power	Stable	Pass-through in Line Pipes; TMT/DI will depend on brand premium in Gujarat.	□
FCF Conversion & Quality	Weak	CFO impacted by inventory build-up (□3,500 Cr total inventory) and project outgo.	□
Competitive Moat Signals	Widening	First-mover advantage in Carbon Capture (1,250 KM order) and H2-ready pipelines.	□
Balance Sheet Strength	Adequate	Net Debt/Equity rose to 0.36x from -0.04x (Net Cash) in prior year.	□
Working Capital Efficiency	Deteriorating	60-90 day lead cycle for Coke led to high-cost inventory during a price crash.	□
Mgmt Guidance Track Record	Reliable	Historically delivers on volume; project commissioning timeline (Anjar) was met.	□
Key Vulnerability / Red Flag	Regulatory/Legal	ED's provisional attachment of ABG Shipyard assets despite full payment (□659 Cr).	□
Management Tone	Strategic & Resilient	Defensive about Q2 losses but highly aggressive on the US and Water sector outlook.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** The Line Pipe order book is at a multi-year high of 1 million MT, providing clear revenue visibility through FY24. The US market is particularly buoyant with a significant breakthrough in the "New Energy" space (1,250 KM carbon capture order). Strategic diversification is technically complete with DI Pipe and TMT plants now operational and BIS-certified, opening a massive □3.01 Lakh Cr unspent addressable market under the Jal Jeevan Mission. * **Negatives:** The Q2 P&L is "noisy" due to a □200 Cr hit from the sharp correction in Coke and Pig Iron prices, which coincided with the commissioning of the new Blast Furnace. The balance sheet has transitioned from Net Cash to a Net Debt of □1,609 Cr following the ABG Shipyard (□659 Cr) and Sintex NCD (□418 Cr) acquisitions. The ED's attachment order on ABG assets creates a temporary legal overhang. * **Forward-Looking Watchpoint:** The market will look for the US facility to start dispatches in Q4 FY23; this is the primary trigger for a significant margin re-rating and proof of the "hockey-stick" recovery guidance.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS (Manufacturing: Steel Sector)

DATA SOURCE: PPT figures as primary. H1 FY23 PPT data used to derive Q2 figures where Q1 was known.

Metric	Current Qtr (Q2)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Pipe Volume (KMT)	218	+1.9%	+38.9%	↑	Growth driven by India (140 KMT) and Saudi (70 KMT); US was minimal (9 KMT).
Realization/MT (□)*	90,091	+14.1%	+7.0%	↑	Higher realization driven by product mix and high RM pass-through.
EBITDA/MT (□)*	(5,963)	-152%	-192%	↓	Impacted by □200 Cr inventory loss and startup costs for new facilities.
Raw Material Cost/ MT (□)	Not Disclosed	-	-	↓	Coke prices corrected from □54k to □41k/MT after ordering.
Utilization (%)	~45%	-	↑	↑	US facility currently building inventory; Saudi and India ramping up.
Net Debt (□Cr)	1,609	N/A	↑	↓	Rise due to ABG (□659 Cr) and Sintex NCD (□418 Cr) outgo.
Revenue (□Cr)	1,964	+3.5%	+48.5%	↑	Volume-led growth; H1 total is □3,286 Cr.
PAT (□Cr)	(130-150 Est)	↓	↓	↓	Net loss for H1 as per EPS of -2.0; Q2 was the main drag.
Interest Coverage (x)	Not Disclosed	-	-	↓	Will decline given the shift to Net Debt and lower EBITDA.

**Derived from Pipe Revenue/Volume for Segment analysis. Consolidated EBITDA is negative.*

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)*	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Line Pipes (Global)	1,964	+3.5%	₹256 Cr*	↑	Above	Includes ₹104 Cr one-off land sale; core pipe EBITDA is ₹152 Cr.
DI Pipes (New)	Trials	N/A	Negative	→	Below	Plant in stabilization; 70 KMT order book (₹500 Cr) secured.
TMT (New)	Startup	N/A	Negative	→	Below	BIS certified; targeting 3 Mn MT Gujarat market.
WSSL (SS Steel)	93.7	+351%	0.3%	↑	Neutral	Turned EBITDA positive; first PSU orders for Monel 400.

**Segment revenue primarily currently driven by Pipes. Line Pipe EBITDA includes US/India; Saudi is a one-line share of profit.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	₹15,000 Cr+ (3-5 years)	Needs ~25% CAGR from current H1 annualized run-rate (~₹6,500 Cr).	Mixed	Medium
Guidance	Margins	₹1,600 Cr - ₹1,800 Cr EBITDA	Requires EBITDA/MT to recover to ₹10,000+ levels from current loss.	Reliable	High
Guidance	Volume / Capacity	1 Mn MT Line Pipe Order Book	Booked; provides 5-6 quarters visibility.	Strong	Low
Guidance	Capex Plan	Tail-end of cycle	~₹150-200 Cr residual; maintenance capex of ₹50-70 Cr hereafter.	Reliable	Low
Strategy	Capital Allocation	"Har Ghar Welspun" (B2C)	Sintex BAPL acquisition (Q4 FY23 expected) is the final piece.	New Area	Medium
Strategy	Competitive Positioning	Pole position in Carbon Capture	Secured 1,250 KM HFIW pipe order in US; first-mover advantage.	First Entry	Low
Macro	Industry Headwinds	Commodity Volatility	Mgmt moving to JIT (Just-In-Time) inventory to prevent ₹200 Cr repeats.	Poor (Q2)	High
Macro	Input Cost / RM Prices	Coke Pricing	Lead time reduced from 90 to 30 days where possible.	Mixed	Medium
Balance	Debt / Leverage Target	Net Cash Positive (3-4 years)	Requires high FCF from US orders and DI Pipes ramp-up.	Reliable	Medium

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	Nirav Shah / GeeCee	Financials	Financials	"If we exclude land sale of □104 Cr... we get pipe EBITDA of □152 Cr. Reported loss was □130 Cr. Where is the gap?"	Management indicated the Steel vertical faced a □200 Cr impact from high inventory costs (Coke) and low Pig Iron realizations due to export duties. This isolates the core pipe business as healthy, while the steel startup is the primary earnings drag.	Specific reconciliation of the residual □75-80 Cr gap	3.0	Directional but hedged
2	4.0	Nirav Shah / GeeCee	Balance Sheet	Financials	"Reconcile the cash outgo of □1,700 Cr from Q1 to Q2?"	Management explained the outgo was driven by Sintex NCD acquisition (□418 Cr), ABG Shipyard payment (□659 Cr), and residual project capex for DI/TMT. This confirms the transition to a Net Debt position is due to strategic asset-building rather than operational leakage.	None	5.0	Specific and verified
3	3.5	Chintan Mehta / Prudent	Acquisitions	Strategy	"Strategy for Sintex BAPL and ABG Shipyard?"	Management is participating in the auction for Sintex (expected	Immediate business plan for ABG	2.5	Vague (Legal-dependent)

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						close Q4 FY23) and is contesting the ED's attachment order on ABG in High Court. The Sintex move is a deliberate pivot to B2C brand equity, while ABG is a long-term strategic asset for defense/ shipbuilding.			
4	3.0	Abhishek Jain / Arihant	Inventory	Financials	"Are we seeing any more inventory losses in this quarter (Q3)?"	Management stated that while commodities are unpredictable, they have trimmed inventory and moved toward JIT, making further major shocks unlikely. This suggests Q3 will be the "clean-up" quarter before a full recovery in Q4.	Specific Q3 loss guidance	2.0	Deflected
5	4.0	Vikas Singh / PhillipCapital	Steel Ramp-up	Business Overview	"When will startup costs for DI/ TMT get absorbed?"	Management expects DI Pipe production to reach 200k-250k MT next year, with full capacity (400k MT) in 6 quarters. Rapid BIS approval across 7	Exact startup cost quantification	3.0	Directional

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						states is a major de-risking event that should lead to positive EBITDA contributions by early FY24.			
6	4.5	Faisal Hawa / HG Hawa	New Energy	Strategy	"What is the addressable opportunity in Carbon Capture?"	Management noted they have the world's largest carbon capture pipe order (1,250 KM) and are working with steel players to develop specialized grades. This confirms WCL is successfully de-risking from fossil fuels into ESG-compliant infrastructure.	Specific TAM (Total Addressable Market) in MT	4.0	Clear Strategy
7	3.0	Radha / B&K	Capex	Capex and Allocation	"What is the revised capex guidance for the next 2-3 years?"	Management stated they are at the "tail-end" of the capex cycle, with only ₹50-70 Cr in maintenance capex per year moving forward. This signals a shift toward cash generation and deleveraging over the next 3 years.	None	5.0	Specific timeline

PATTERN FLAGS & SENTIMENT * **Inventory Anxiety:** Analysts repeatedly pressed on the □200 Cr loss. Management was defensive, blaming the 90-day procurement cycle for Coke and the sudden 15% export duty on steel. The posture suggests they have learned from this "one-off" and are shortening supply chains, but the market remains skeptical of commodity-linked volatility in the new vertical. * **Legal Overhang (ABG):** The ED's attachment of the ABG assets was a clear friction point. Management’s stance was "sub-judice," but they emphasized that the liquidator and SBI/IDBI (lenders) are on their side, which provided some comfort regarding title safety. * **Analyst Sentiment Verdict:** Skeptical on the Steel Vertical but Bullish on US Pipes. Analysts were clearly frustrated by the "noisy" quarterly loss but were placated by the record 1mn MT order book. Management's credibility on project execution (Anjar/TMT) remains high, but their ability to manage commodity risk in a B2B2C integrated model is now under the scanner.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY23)	This Quarter (Q2 FY23)	Direction
Balance Sheet Status	Net Cash (□116 Cr)	Net Debt (□1,609 Cr)	↓ Deteriorating
Order Book	~700-800 KMT (Est)	~1,000 KMT (Confirmed)	↑ Improving
Steel Vertical Status	Under Construction	Commissioned / Stabilization	↑ Improving
Acquisition Risk	Strategic Intent	ED Attachment Order (ABG)	↓ Deteriorating
New Energy Exposure	R&D / Testing	1,250 KM Carbon Capture Order	↑ Improving
DI Pipe Progress	Pre-certification	BIS Approved (7 States)	↑ Improving
Inventory Strategy	Traditional 90-day cycle	Shift to JIT (Just-in-Time)	↑ Improving
Topline Visibility	Moderate	Clear 5-6 Quarters Visibility	↑ Improving

Note: CFO-to-PAT ratio is highly distorted this quarter due to the net loss and 2,500 Cr incremental inventory build-up for US orders; the "Working Capital lever" is a deliberate build ahead of Q4 US dispatches.