Welspun Corp Ltd — Nov 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** The thesis is evolving from a cyclical "Line Pipe" play to a diversified "Building Materials" powerhouse, validated by a massive deleveraging (Net Debt down 62% QoQ) and structural turnarounds in Stainless Steel and Sintex.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	H1 EBITDA (□920 Cr) is 61% of FY24 guidance (□1,500 Cr); revenue on track at □8,129 Cr.	□
Earnings Quality	Moderate	PAT boosted by Mauritius restructuring gain; however, core OCF is high from US inventory liquidation.	□
Guidance Confidence	Strong	Mgmt reiterates □15,000 Cr revenue floor; Saudi and US order books provide multi-year visibility.	□
Management Credibility	Strong	"Walked the talk" on net debt reduction (□823 Cr YTD) and WSSL (Stainless) turnaround.	□
Business Quality Signal	Improving	Diversification into DI Pipes and Sintex reduces dependence on lumpy O&G project cycles.	□
Key Q&A Exchange	Q#4 - Saudi Stake	Confusion over stake sale clarified as "economic interest neutral" Mauritius restructuring.	□
The Street's Primary Anxiety	Project Continuity	Fear of election-led slowdown; Mgmt countered with export/O&G agnosticism.	□
Capital Cycle Stage	Growth-Investment	Expanding DI capacity (□300 Cr) and Sintex (□350 Cr) to capture demand tailwinds.	□
Margin Trajectory	Improving	EBITDA margins jumped from 2.3% (Q2FY23) to 12.4% (Q2FY24) on better mix.	□
Pricing Power	Stable	Pass-through in Line Pipes; Sintex maintaining brand premium during re-energization.	□
FCF Conversion & Quality	Strong	Net Debt reduction of □520 Cr in Q2 alone; US inventory liquidation is a massive cash generator.	□
Competitive Moat Signals	Widening	Only integrated producer in Stainless; US competitor exits (Stupp/ Evraz) consolidate WCL's position.	□
Balance Sheet Strength	Strong	Net Debt/EBITDA now < 0.3x (annualized); massive buffer for growth capex.	□
Working Capital Efficiency	Improving	Inventory levels reduced significantly from March-23 levels.	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on volume and debt targets over the last three quarters.	□
Key Vulnerability	Raw Material Vol	Saudi order book is 2 years out; 10-20% RM exposure remains unhedged.	□
Management Tone	Aggressive	Focused on market share gains in B2C (Sintex/TMT) and "pole position" in US/Saudi.	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): * **Positives:** Structural deleveraging is ahead of schedule, with Net Debt falling from ₹1,138 Cr to ₹315 Cr in six months. The Stainless Steel (WSSL) vertical is a complete turnaround story, now profitable and foraying into the USA. US market dynamics have turned highly favorable following the exit/dormancy of major competitors (Stupp and Evraz), leaving WCL as a dominant player in the Permian basin. DI Pipe execution is exceptional (73 KMT in H1 vs 3 KMT YoY), prompting a strategic 100 KMT capacity expansion. * **Negatives:** The Saudi Arabia operations, while having a massive order book, are subject to lumpy revenue recognition (Q1 loss vs Q2 profit). The Building Materials segment (Sintex) is still at low utilization (~20%) as the distribution network is rebuilt. * **Street Concern:** Analysts were primarily concerned about the sustainability of margins and the impact of the upcoming general elections on water projects. Management effectively mitigated this by highlighting that oil & gas and exports (the bulk of the order book) are election-agnostic. * **Watchpoint:** The execution of the SAR 1.8 Billion Aramco order and the progress of the greenfield Sintex PVC pipe plant in Telangana (₹350 Cr investment).

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Volume - Line Pipes (KMT)	202	+36.5%	+9.2%	↑	Driven by India execution and US ramp-up.
Volume - DI Pipes (KMT)	46	+1,433%	+70.4%	↑	Exponential growth; hitting EBITDA positive levels.
Volume - SS Bars (MT)	5,351	+395%	+77.1%	↑	Turnaround complete; demand strong in Nuclear/Energy.
Volume - SS Pipes (MT)	1,209	+19.8%	-5.2%	→	Stable; focusing on higher value-added grades.
Volume - Sintex WST (MT)	3,565	+16.3%	+0.8%	↑	Steady ramp-up; brand re-energization underway.
Volume - TMT Bars (KMT)	28	N/A	+40.0%	↑	Reducing billet sales in favor of value-added TMT.
Revenue (₹Cr)	4,059.5	+106.7%	-0.2%	↑	Growth driven by volume expansion across verticals.
EBITDA (₹Cr)	501.5	+995.0%	+19.9%	↑	Surge due to high-margin US mix and scrap sales.
EBITDA Margin %	12.35%	+1,002 bps	+207 bps	↑	Expansion driven by specialty steel and DI ramp-up.
PAT (₹Cr)	384.7	N/A	+132.6%	↑	Includes share of JV profits and Mauritius gain.
ROCE (%)	10.1%	+280 bps	N/A	↑	On track for 16%+ FY24 goal (H1FY24 vs FY23).
Net Debt / (Cash) (₹Cr)	315	-72.3%	-62.3%	↑	Massive deleveraging from ₹835 Cr QoQ.
Gross Debt (₹Cr)	1,940	-41.5%	-30.6%	↑	Significant reduction from ₹2,795 Cr QoQ.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)*	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Line Pipe (India/ US)	~3,300	High	Robust	↑	Above	US plant fully booked; major Middle East win (61 KMT).
DI Pipes	~400	N/A	Positive	↑	Neutral	Expanding capacity to 500 KMTPA (+100 KMT).
Stainless (WSSL)	~170	High	Healthy	↑	Above	Turnaround complete; first US shipments reached.
Sintex	~250	N/A	Positive	↑	Below	Foraying into PVC pipes with Telangana plant.
TMT Bars	~140	N/A	Low	↑	Below	98% district coverage in Gujarat achieved.

**Estimated based on volume and average realizations as segment revenue not explicitly split in Q2 PPT.*

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 □3,436 Cr/qtr for H2. Currently at □4,065 Cr avg. (Easy).	Met	Low
Guidance	EBITDA	□1,500 Cr for FY24	Needs □290 Cr/qtr for H2. H1 already at □920 Cr. (Very Easy).	Met	Low
Guidance	ROCE	16% + for FY24	Needs higher H2 asset turns. H1 is at 10.1%.	Improving	Medium
Guidance	Capex	□300 Cr (DI) + □350 Cr (Sintex)	Non-maintenance capex increasing but affordable.	New	Low
Strategy	DI Capacity	Target 500 KMTPA	Adding 100 KMT in 12 months. Matches 500 KMT hot metal output.	Strong	Low
Strategy	ABG Shipyard	100% Monetization	50% scrap already liquidated. 100% by March-24.	On track	Low
Macro	US Market	Industrial Consolidation	Stupp exit and Evraz dormancy reduces competition.	Strong	Low
Balance	Deleveraging	Further Debt Reduction	H1 achievement (□823 Cr reduction) exceeds targets.	Exceeded	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	Darshit, Robocapital	Sintex Outlook	Management Commentary and Outlook	"where do you see Sintex business going in the form of say revenue and PAT?"	Management indicated Sintex is in a consolidation phase and will return to "peak glory" with multi-product offerings and Pan-India presence. A successful brand pivot would likely re-rate the building materials vertical as a B2C business.	Specific PAT/Rev targets	3.0	Directional
2	4.5	Miraj, Arihant	Saudi RM Risk	Financials	"Does [2-year order book] involve a lot of raw material volatility risk?"	Management confirmed that 80-90% of raw material is already hedged and the steel cost is a pass-through to customers. This protects the SAR 1.8bn order from margin erosion despite commodity fluctuations.	None	5.0	Clear & quantified
3	4.0	Miraj, Arihant	US Opportunity	Business Overview	"if we are in lead position in any of the orders in Permian Basin right now"	Management stated they have supplied 3 out of the 4 recently constructed Permian pipelines and expect to bid for 4 more upcoming	None	4.5	Specific visibility

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						lines. Sustained US dominance ensures continued high-margin revenue through FY26.			
4	5.0	Ashutosh Somani, JM Financial	Saudi Stake	Financials	"thought process around the stake sale in the Saudi Arabian business"	Management (CFO) clarified no stake was sold; a minority investor in a Mauritius holding company was exited, but WCL's 31.5% economic interest remains unchanged. This clarifies that no divestment of high-performing assets is occurring.	None	5.0	Structural clarity
5	4.0	Sumangal Nevatia, Kotak Securities	DI Market	Business Overview	"are there very low entry barriers in this... is it possible to share what sort of volumes are we looking at"	Management admitted competition is increasing but highlighted that freight costs make regional dominance critical. Projected 100% capacity utilization (500 KMT) by FY26 suggests a	Annual EBITDA/ MT	3.0	Competitive logic

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						long-term CAGR of ~50% for this segment.			
6	4.5	Abhishek Ghosh, DSP	US Competition	Business Overview	"are you seeing new supply coming in or that is pretty much stagnant"	Management noted two major competitors (Stupp and Evraz) have effectively exited or become dormant. Reduced supply side competition in the US allows WCL to maintain pricing power and high utilization.	None	4.5	Industry intelligence
7	4.0	Sailesh Raja, B&K	Sintex Presence	Business Overview	"notice few trucks carrying full of Sintex tanks... what more steps we are taking to increase the scale"	Management confirmed they are re-energizing 13,000 retailers and targeting 30,000 tonnes/month DI capacity. Rapid distribution ramp-up is the key catalyst for Sintex returning to its historical market-leading position.	Specific FY24 volumes	3.0	Distribution focus
8	3.5	Vikash Singh, Phillip Capital	Election Impact	Management Commentary and Outlook	"Election post election there usually we have seen	Management argued that oil & gas and exports are agnostic to Indian elections.	None	4.0	Segment defense

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					a little bit of dull period"	This insulates ~70-80% of the order book from domestic political cycles, reducing earnings volatility.			

PATTERN FLAGS & SENTIMENT * **Deleveraging Focus:** Analysts were surprised by the pace of debt reduction. Management's posture was extremely confident, pointing to inventory liquidation in the US and scrap sales from ABG as the primary levers. This concern has shifted from "can they pay debt?" to "where will they deploy cash?". * **Sintex Scaling:** Multiple questions targeted Sintex's future. Management was deliberately vague on numbers but focused on "brick-by-brick" distribution rebuilding. The foray into PVC pipes (Telangana) was the most significant incremental news. * **Analyst Sentiment Verdict:** Analysts were bullish on the core business execution but curious about the "Mauritius restructuring" impact. Management's credibility has reached a peak as they achieved turnarounds in both DI Pipes and Stainless Steel ahead of most analyst models. The shift toward B2C (Sintex/TMT) is being viewed as a significant valuation re-rating trigger.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter	This Quarter	Direction
Net Debt	₹835 Cr	₹315 Cr	↑ Deleveraging
DI Pipe Capacity	400 KMTPA (Design)	500 KMTPA (Expansion announced)	↑ Growth Capex
Sintex Strategy	Water Storage Tanks only	Entry into PVC Pipes (₹350 Cr plant)	↑ Diversification
US Market	Normal competitive field	High supply consolidation (Competitor exits)	↑ Competitive Moat
Stainless Steel (WSSL)	Internal development phase	Full commercial turnaround; US entry	↑ Profitability
H1 Guidance	Target based	61% of EBITDA target achieved in H1	↑ Guidance Confidence
Interest Cost	₹92.3 Cr (Q1)	₹75.0 Cr (Q2)	↑ Efficiency
Saudi Status	SAR 1.8bn order won	Execution of Aramco order started	↑ Visibility
TMT Reach	85% Gujarat districts	98% Gujarat districts covered	↑ Market Share