Welspun Corp Ltd — Oct 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline on Volumes / Miss on Margins **One-line:** A transitionary "trough" quarter where high-cost inventory and startup costs in the DI Pipe and TMT segments masked a structural pivot toward a more resilient, multi-product B2C/B2B model backed by a record 1.0 MN MT order book.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss on Margins	EBITDA margin compressed to 7.7% vs 13.7% in FY22 due to □150 Cr inventory/export duty hit.	□
Earnings Quality	Low (Distorted)	PAT of □4 Cr severely impacted by one-off commodity volatility and startup drags.	□
Guidance Confidence	Strong	Confirmed order book of ~1 MN MT (USD 1.7 Bn) provides 5-6 quarters of clear visibility.	□
Management Credibility	Strong	Successfully commissioned the Anjar integrated complex (Blast Furnace/TMT) on schedule.	□
Business Quality Signal	Improving	Transition from pure-play Line Pipe to a diversified "Building Materials" (TMT/Sintex/DI) player.	□
Key Q&A Exchange	N/A — PPT_ONLY	No concall conducted or available.	□
The Street's Primary Anxiety	Margin recovery timing	Management guiding for a significant recovery in H2 FY23 as high-cost inventory flushes out.	□
Capital Cycle Stage	Harvesting Phase	Transitioning from the Anjar Capex phase to the operational ramp-up of new verticals.	□
Margin / Return Ratio Trajectory	Deteriorating (Short-term)	ROCE dipped to near-trough levels due to low US utilization and startup losses.	□
Pricing Power	Stable	Pass-through mechanisms remain in place for the core Line Pipe business.	□
FCF Conversion & Quality	Weak	Distorted by high-cost inventory build-up (75-90 days) during price correction.	□
Competitive Moat Signals	Widening	First Indian pipe player in H2Pipe project; 1,250 KM Carbon Capture order win.	□
Balance Sheet Strength	Adequate	Net Cash position (□116 Cr) expected to turn to Net Debt (□1.8k-2k Cr) for growth investments.	□
Working Capital Efficiency	Deteriorating	Inventory cycle stretched by steel price volatility and seasonal slowdown.	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on volume guidance (>1 MN MT) and project timelines.	□
Key Vulnerability / Red Flag	Commodity Sensitivity	Sharp drop in steel prices (□80k to □56k/MT) created immediate inventory losses.	□
Management Tone	Strategic / Confident	Focus on the "WCL Transformation Journey" beyond quarterly noise.	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): * **Positives:** Welspun is no longer a cyclical pipe-only play; the commissioning of the Anjar integrated complex and the strategic acquisition of ABG Shipyard and Sintex BAPL pivot the company toward higher-margin B2C and specialty steel segments. The Line Pipe order book is at a record ~1 MN MT, with a massive □5,000+ Cr win in the US ensuring a "hockey-stick" recovery in H2 FY23. * **Negatives:** Short-term profitability is under extreme pressure from a □150 Cr adverse impact due to volatile coal/ steel prices and export duties. New business ventures (DI Pipes, TMT) are in a 2-quarter incubation period, currently acting as an EBITDA drag (□13 Cr loss). * **Street Concern:** Analysts are wary of the execution timeline for the US mega-order and the profitability of the DI Pipe segment. Management responded by confirming the US plant is fully ready for H2 execution. * **Forward-Looking Watchpoint:** The utilization ramp-up of the DI Pipe plant (400 KMT capacity) and the successful integration of Sintex BAPL will be the primary catalysts for a multi-year re-rating.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *Concall not available — commentary absent.*

Metric	Current Qtr (Q1FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Volume - Pipes (KMT)	157	-10.3%	-41.6%	↓	Impacted by low US volumes and seasonal water sector domestic slowdown.
Realization/MT (□)	84,204	-2.4%	+12.6%	↑	Mix improvement driven by higher SS/Specialty pipe share.
EBITDA/MT (□)	6,497	-45.0%	-63.2%	↓	Hit by □150 Cr inventory loss and export duty impact.
Utilization (%)	~25%	Not in doc	Not in doc	↓	US facility mostly idle pending major order execution.
Net Debt (□Cr)	(116)	Not in doc	Not in doc	↑	Remained Net Cash; guidance suggests shift to debt for Sintex.
Revenue (□Cr)	1,322	-12.5%	-34.3%	↓	Driven by volume decline; partially offset by realization.
EBITDA (□Cr)	102	-50.7%	-78.5%	↓	Compression due to high-cost inventory consumption.
EBITDA Margin %	7.7%	↓ 590 bps	↓ 1590 bps	↓	Q4FY22 was outlier; current level reflects trough.
PAT (□Cr)	4	-95.7%	-98.3%	↓	Squeezed by margin drop and startup finance costs.
ROCE (%)	11.02%*	Not in doc	Not in doc	↓	*FY22 annual figure; quarterly ROCE estimated <5%.
Working Capital (Days)	~85	Not in doc	Not in doc	↓	Inventory at 75-90 days during price crash.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Line Pipes (India)	Not in doc	Not in doc	Stable	→	Neutral	350 KMT order book; 50% exports.
Line Pipes (USA)	Not in doc	Not in doc	Negative	↓	Below	Trough quarter; 335 KMT HSAW order book.
Line Pipes (Saudi)	Not in doc	Not in doc	Neutral	→	Above	58 KMT volume; SAR 324 Mn new contract.
SS Pipes (WSSL)	85.4	+361%	13.9%	↑	Above	Turned EBITDA positive (₹11.9 Cr contribution).
DI Pipes (New)	Startup	N/A	Negative	→	Below	Plant in stabilization; 45 KMT order book.
TMT Rebars (New)	Startup	N/A	Negative	→	Below	Forward integration from Anjar complex.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	₹15,000 Cr+ (Mid-term)	Needs ~114% growth vs FY22 levels over 3 years.	Reliable	Medium
Guidance	Margins	₹1,600-1,800 Cr Sustainable EBITDA	Needs ~₹400-450 Cr per quarter; current is ₹102 Cr.	Mixed	High
Guidance	Volume	>1 MN MT for FY23	Needs ~281 KMT/qtr for next 3 qtrs (Hist. avg is ~275).	Reliable	Low
Guidance	Capex Plan	No new Project Capex	Maintenance only; focus shifts to harvesting.	Reliable	Low
Strategy	B2C Transition	Dominant B2B/B2C player	Target "Har Ghar Welspun" via TMT/ Sintex.	On Track	Medium
Strategy	New Energy	Global lead in H2/Carbon Capture	Secured 1,250 KM HFIW order for Carbon Capture.	Strong	Low
Macro	Water Sector	3 MN MT Annual DI demand	Driven by JJM Budget of ₹3.6 Lakh Cr.	Strong	Low
Macro	Saudi Aramco	Boost production to 13mn bpd	3 MN MT total demand expected over 3 years.	Strong	Low
Balance	Leverage	Net Debt ₹1,800-2,000 Cr	Current Net Cash; allows headroom for Sintex BAPL.	Reliable	Low

4. ANALYST Q&A

Section not applicable — investor presentation only. No concall conducted or available.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4FY22)	This Quarter (Q1FY23)	Direction
Order Book Visibility	~700 KMT	~1,000 KMT (1 MN MT)	↑
New Business Status	Under Construction	Commissioned (Anjar integrated complex)	↑
US Facility Outlook	Low visibility	□5,000+ Cr mega-order secured	↑
Profitability	EBITDA Margin ~23.6%*	EBITDA Margin 7.7%	↓
Balance Sheet Status	Net Cash (□447 Cr)	Net Cash (□116 Cr)	↓
Product Portfolio	B2B Focused	Integrated B2B + B2C (TMT/Sintex)	↑
Carbon Capture Entry	Potential	1,250 KM strategic order secured	↑
Inventory Risk	Moderate	High (□150 Cr impact realized)	↓

Note: Q4FY22 margins were skewed by the one-off Saudi IPO gain; Q1FY23 is the normalized operational floor.

Investor Notes: * **The Thesis remains intact** but the timeline has shifted. The "story" is no longer just about unpredictable Oil & Gas cycles; it is about an integrated steel-to-pipes player with an annuity-like DI pipe business and a retail-facing TMT/Sintex business. * **CFO-to-PAT Divergence:** Working capital is currently high due to 75-90 days of steel inventory. As this inventory is consumed in H2 FY23 for the US/Domestic orders, expect a massive release of cash and a correction in the CFO-to-PAT ratio. * **Thesis Catalyst:** The successful acquisition of Sintex BAPL (currently in quasi-judicial process) will provide the last piece of the "Building Materials" puzzle, significantly reducing the stock's beta to commodity cycles.

STOP HERE.