

MARCH 29, 2019

	28-Mar	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	38,546	1.1	7.5	6.8
NIFTY Index	11,570	1.1	7.2	6.5
NSEBANK Index	30,421	1.3	13.6	12.1
NIFTY 500 Index	9,602	1.1	7.2	4.9
CNXMcap Index	18,083	1.0	8.1	1.6
BSESMCAP Index	14,918	0.9	9.0	2.1
<b>World Indices</b>				
Dow Jones	25,717	0.4	(0.8)	11.5
Nasdaq	7,669	0.3	1.8	16.5
FTSE	7,234	0.6	2.3	7.4
NIKKEI	21,034	(1.6)	(0.7)	6.1
Hangseng	28,775	0.2	1.1	13.4
Shanghai	2,995	(0.9)	3.4	22.0

Value traded (Rs cr)	28-Mar	% Chg Day
	Cash BSE	2,810
Cash NSE	48,179	26.9
Derivatives	2,275,907	32.3

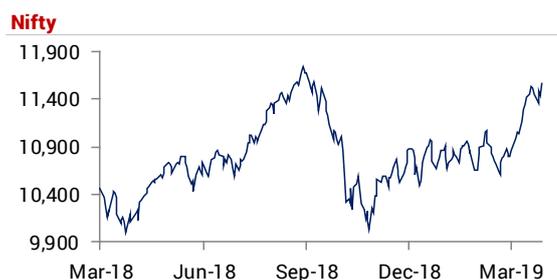
Net inflows (Rs cr)	27-Mar	MTD	YTD
	FII	1,369	28,225
Mutual Fund	537	(5,656)	3,678

Nifty Gainers & Losers	Price (Rs)	Chg (%)	Vol (mn)
<b>Gainers</b>			
Indiabulls Housing	811	8.1	14.1
Zee Entertainment	443	4.7	7.1
Adani Ports	381	4.1	5.9
<b>Losers</b>			
Zee Entertainment	471	(2.8)	6.6
Tata Motors	189	(2.7)	22.5
Axis Bank	721	(1.6)	10.5

Advances / Declines (BSE)	28-Mar				
	A	B	T	Total	% total
Advances	328	651	75	1,054	100
Declines	128	297	57	482	46
Unchanged	5	31	12	48	5

Commodity	28-Mar	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	68.2	0.5	3.3	30.6
Gold (US\$/OZ)	1,290.4	(1.5)	(1.7)	0.8
Silver (US\$/OZ)	15.0	(1.8)	(3.6)	(2.2)

Debt / Forex Market	28-Mar	1 Day	1 Mth	3 Mths
	10 yr G-Sec yield %	7.3	7.3	7.4
Re/US\$	69.3	68.9	70.7	69.9



Source: Bloomberg

## News Highlights

- ▶ The government relaxed the norms for e-way bills. Rules regarding validity have been changed, while a facility has been provided for auto-calculating the route distance. Under the GST regime, an e-way bill has to be generated if goods worth over Rs 50,000 are transported. (BS)
- ▶ With the central government clearing some bottlenecks, synthetic textile manufacturers are planning a cumulative 500,000 tonnes of capacity addition, at an investment of about Rs 700 bn, over the next two to three years. (BS)
- ▶ The Indian Railways has set a record by handling 1,175 mt of freight till the middle of March in FY19, surpassing 1,160 MT in the previous fiscal year. The transporter has handled incremental freight traffic of 54.14 mt from April to February in 2018-19. (BS)
- ▶ The cement industry saw a 13.6% yoy increase in volume to 275.7 million metric tonnes in the first ten months of FY19, driven largely by rural and affordable housing, according to a report by ICRA. (ET)
- ▶ **Infosys Technologies**, said it will acquire 75% of the equity in Stater NV, a subsidiary of Dutch-based ABN AMRO Bank, for Euro 127.5 mn (\$143.1 mn). (BS)
- ▶ **Tata Steel** said it has acquired shares and convertible warrants of **Tata Metaliks** for about Rs4.04 mn. The company has acquired 2.797 mn equity shares of Tata Metaliks, at a price of Rs642 per share aggregating to Rs1.8 bn. (ET)
- ▶ **Jet Airways** has defaulted in repaying \$140 mn loan to HSBC Bank. The airline informed that the payment of external commercial borrowings due on Thursday was delayed because of temporary liquidity constraints and it was engaged with the bank regarding the same. (BS)
- ▶ **Power Finance Corporation** concluded the acquisition of **Rural Electrification Corporation** by paying Rs 145 bn to the Central government. PFC has acquired 52.63% equity stake of the Centre in REC along with management control. (BS)
- ▶ **Vodafone Idea** is pushing for equal stakes in a proposed Rs400 bn optic fibre joint venture with **Bharti Airtel**, which wants holdings in proportion to assets owned as negotiations continue on the structure of what could become India's largest such entity. (ET)
- ▶ **Mahindra & Mahindra** said it will increase the price of its passenger and commercial vehicles by Rs 5,000 to Rs 73,000 from April to partially offset the impact of rising input costs. (BS)
- ▶ **Prabhat Dairy** has obtained shareholders' nod to sell its dairy business to French firm Groupe Lactalis. (BS)
- ▶ **Alstom** has bagged Rs7 bn contracts to the Mumbai and Pune metro projects, under which it will supply communication-based train control technology to three upcoming lines in the megapolis and two upcoming lines in second largest city in the state. (ET)
- ▶ **JSW Steel** is targeting operational earnings (Ebitda) of Rs6.50 bn for **Monnet Ispat and Energy** before it decides to merge the company. (ET)

## What's Inside

- ▶ **Initiating Coverage:** Welspun Corp Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

## Initiating Coverage

# WELSPUN CORP LTD.

### Stock Details

Market cap (Rs mn)	:	34930
52-wk Hi/Lo (Rs)	:	187 / 87
Face Value (Rs)	:	5
3M Avg. daily vol	:	698,763
Shares o/s (m)	:	265

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY19E	FY20E	FY21E
Revenue	99,068	101,566	103,803
Growth (%)	30.6	2.5	2.2
EBITDA	6,787	8,468	8,754
EBITDA margin (%)	6.9	8.3	8.4
PAT	1,835	3,257	3,664
EPS	6.9	12.3	13.8
EPS Growth (%)	20.0	77.5	12.5
BV (Rs/share)	114	126	139
Dividend/share (Rs)	0.5	0.5	0.5
ROE (%)	6.0	9.7	9.8
ROCE (%)	7.1	10.0	9.9
P/E (x)	19.1	10.7	9.6
EV/EBITDA (x)	5.5	4.2	3.6
P/BV (x)	1.2	1.0	0.9

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Sep-18	Jun-18
Promoters	48.7	48.7	48.3
FII	6.2	5.5	5.9
DII	8.7	8.6	8.3
Others	36.4	37.3	37.6

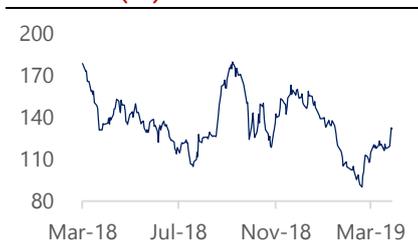
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
Welspun Corp	21.7	(5.3)	6.0
Nifty	7.2	6.5	5.9

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

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PRICE RS.132

TARGET RS.161

BUY

Welspun Corp (WCL) is a leading global manufacturer of large diameter pipes with an installed capacity of 2.4 Mn tonnes. Given its presence in USA, Saudi Arabia and India, we believe that, the company is better placed compared to its peers in terms of tapping the global market opportunity of over US\$400 bn. At the end of Feb'19, WCL's order book stood at Rs145 bn, to be executed over the next 15-18 months, thereby providing strong revenue visibility. We expect Welspun Corp to register growth of ~11% CAGR in revenue during the FY18-FY21E period, while PAT is expected to grow at 31% CAGR during the same period, on back of improvement in operating performance and decline in interest outgo. At current valuations, WCL is currently trading at 5.5x/4.2x/3.2x FY19E/FY20E/FY21E EV/EBITDA, which in our view is attractive. We initiate coverage with BUY rating and a target price of Rs.161.

### Investment argument

- **Revenue visibility - overseas operations to drive growth:** Welspun Corp order book stands at Rs145 bn (1.66 mn tonnes), to be executed over the next 15-18 months, of which 75% are repeated from its existing customers. The current order book is tilted towards overseas market, which accounts for 73% of the total order book, as at end of Feb'19. Of this, ~23% is from its America manufacturing plant.
- **Higher contribution from US and Stable India business to support operating performance:** The overseas order book not only provides good revenue visibility, but also comes with the stronger margin compared to the domestic market, as number of qualified bidders are less. In addition, increasing demand of spiral pipes in US due to increase in shale gas production and the country's focus on reducing imports of pipes augurs well of local manufacturers. We expect US operations to drive operating performance, while domestic operations likely to remain stable, EBITDA/tonne is expected to remain in the range of Rs7,500-Rs8,000 in FY20E and FY21E vs Rs6,300 in FY18 and Rs6,500 in 9MFY19. EBITDA is expected to increase to Rs8.5 bn and Rs8.8 bn in FY20E and FY21E, respectively from Rs6.8 bn in FY18.
- **Leaner balance sheet to support growth:** WCL undertook restructuring activity in 2013, and demerged its non-pipe business (asset heavy model) to Welspun Enterprises and started focusing on its core (pipe) business. Post the de-merger, WCL has become a pure play on the pipe sector and also has an exposure to the plate segment. With the leaner balance sheet and completion of capex cycle, Free Cash Flow is expected to improve backed by strong operational performance. In addition, the company is also looking to sell its plate mill (37% of capital employed with a negative contribution to EBITDA) which is currently dragging the return ratios. Successful closure of the deal would further reduced the net debt and improved the return ratios.
- **Global opportunity of over US\$400bn:** Increasing oil and natural gas consumption has made a significant contribution to the need for increased pipeline construction investment worldwide. The global pipeline demand is likely to generate over US\$400 bn opportunity during CY18-22E. North America, Latin America, Africa, Australia and the domestic market would be key volume drivers for global pipe manufacturers.

**Outlook**

Given its strong manufacturing and execution capabilities, strong order backlog coupled with robust bids in the pipeline, we believe, WCL is better placed compared to its peers, to take advantage of renewed pipe demand globally and in the domestic market. Besides this, its leaner balance sheet has helped the company to sail through the tough times and should be able to withstand the pressure in the domestic market (low margin) as compared to its peers, who had to trim or shut down their operations. Going ahead, since a large part of revenues is expected to come from the US should support margins. Backed by improvement in operating performance and decline in interest outgo (focus is on reducing debt), PAT is expected to grow at 31% CAGR during FY18-21E period. At CMP, the stock is trading at 4.2x/3.6x FY20E/FY21E EV/EBITDA, and is attractive in our view. We initiate coverage on WCL, with a BUY rating and a target price of Rs.161, valuing stock at 4.5x FY21E EV/EBITDA.

**Key Risks:**

- i) Steel price volatility can impact performance; and
- ii) Low crude price can defer investments in oil and gas industry

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Net sales</b>	<b>75,873</b>	<b>99,068</b>	<b>101,566</b>	<b>103,803</b>
growth (%)	25.7	30.6	2.5	2.2
Operating expenses	69,039	92,281	93,098	95,050
<b>EBITDA</b>	<b>6,834</b>	<b>6,787</b>	<b>8,468</b>	<b>8,754</b>
growth (%)	33.4	-0.7	24.8	3.4
Depreciation	3,793	3,457	3,520	3,603
<b>EBIT</b>	<b>3,041</b>	<b>3,330</b>	<b>4,948</b>	<b>5,151</b>
Other income	1,312	2,000	845	1,040
Interest paid	1,852	1,862	1,717	1,572
<b>PBT</b>	<b>2,501</b>	<b>3,468</b>	<b>4,076</b>	<b>4,619</b>
Exceptional	0	0	0	0
Tax	112	832	1,019	1,155
Effective tax rate (%)	4.5	24.0	25.0	25.0
<b>Net profit</b>	<b>2,389</b>	<b>2,635</b>	<b>3,057</b>	<b>3,464</b>
Share of Asso.	(859)	(800)	200	200
<b>Net profit</b>	<b>1,530</b>	<b>1,835</b>	<b>3,257</b>	<b>3,664</b>
growth (%)	1,412.4	20.0	77.5	12.5

Source: Company, Kotak Securities – Private Client Research

### Cash Flow Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Pre-tax profit	2,501	3,468	4,076	4,619
Depreciation	3,793	3,457	3,520	3,603
Chg in working capital	2,653	(1,284)	(4,140)	(2,905)
Total tax paid	(458)	(832)	(1,019)	(1,155)
Other operating activities	1,682	908	1,917	1,772
<b>Operating CF</b>	<b>10,172</b>	<b>5,717</b>	<b>4,354</b>	<b>5,934</b>
Capital expenditure	487	(2,657)	(783)	(1,033)
Chg in investments	1,898	0	0	0
Other investing activities	555	0	0	0
<b>Investing CF</b>	<b>2,939</b>	<b>(2,657)</b>	<b>(783)</b>	<b>(1,033)</b>
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	(5,865)	0	(1,000)	(1,000)
Dividend (incl. tax)	0	0	0	0
Other financing activities	(3,261)	(1,862)	(1,717)	(1,572)
<b>Financing CF</b>	<b>(9,126)</b>	<b>(1,862)</b>	<b>(2,717)</b>	<b>(2,572)</b>
Net chg in cash & bank bal.	3,985	1,197	855	2,328
<b>Closing cash &amp; bank bal</b>	<b>6,279</b>	<b>7,476</b>	<b>8,331</b>	<b>10,659</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Cash & Bank balances	6,279	7,476	8,331	10,659
Other Current assets	33,251	42,933	43,891	47,593
Investments	4,876	4,876	4,876	4,876
Net fixed assets	30,602	29,803	27,065	24,496
Other non-current assets	1,924	1,924	1,924	1,924
<b>Total assets</b>	<b>76,933</b>	<b>87,012</b>	<b>86,087</b>	<b>89,548</b>
Current liabilities	31,546	39,944	36,762	37,559
Borrowings	12,847	12,843	11,843	10,843
Other non-current liabilities	3,433	3,433	3,433	3,433
Total liabilities	47,827	56,220	52,039	51,835
Share capital	1,326	1,326	1,326	1,326
Reserves & surplus	27,214	29,050	32,307	35,971
Shareholders' funds	28,540	30,376	33,633	37,297
Minority interest	566	416	416	416
<b>Total equity &amp; liabilities</b>	<b>76,933</b>	<b>87,012</b>	<b>86,087</b>	<b>89,548</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Profitability and return ratios (%)</b>				
EBITDAM	9.0	6.9	8.3	8.4
EBITM	4.0	3.4	4.9	5.0
NPM	2.0	1.9	3.2	3.5
RoE	5.4	6.0	9.7	9.8
RoCE	6.7	7.1	10.0	9.9
<b>Per share data (Rs)</b>				
O/s shares	265.2	265.2	265.2	265.2
EPS	5.8	6.9	12.3	13.8
FDEPS	5.8	6.9	12.3	13.8
CEPS	20.1	20.0	25.6	27.4
BV	107.6	114.0	125.8	139.1
DPS	0.5	0.5	0.5	0.5
<b>Valuation ratios (x)</b>				
PE	22.9	19.1	10.7	9.6
P/BV	1.2	1.2	1.0	0.9
EV/EBITDA	5.6	5.5	4.2	3.6
EV/Sales	0.5	0.4	0.3	0.3
D/E (x)	0.4	0.4	0.4	0.3

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

### Definitions of ratings

<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
<b>SUBSCRIBE</b>	–	We advise investor to subscribe to the IPO.
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<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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