

Pick of the Week



Welspun Corp Limited

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
136.20	161	18.21%	187 / 87	36124

Key Highlights:

- 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.
- The company has entered into agreement to divest its Plate and Coil Mill Division (PCMD) and its 43 MW Power Division at a consideration of Rs9.4bn. The transaction is likely to complete by end of Dec'19. Post the completion of the transaction, balance sheet will strengthen and it will improve profitability & RoCE, as PCMD contribution to EBITDA was nil.
- The Company has received additional pipe orders of 180 KT, of these 136 KT will be serviced from India, with a major portion to be executed from the new facility in Madhya Pradesh and balance mainly from Americas. After considering the above additions and the execution, the WCL order book at the start of financial year stands at 1.66 M, valued at Rs141 bn to be executed over the next 15-18 months, thereby providing strong revenue visibility. We expect WCL to register growth of ~11% CAGR in revenue during the FY18-FY21E period.
- 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 have a BUY rating and target price of Rs.161, valuing the stock at 4.5x FY21 EV/EBITDA. There is upside risk to our target price due to the potential divestment of its Plate & Coil Mill division.

Key Risks

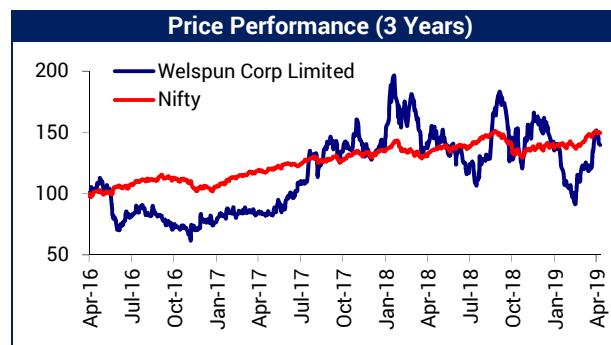
- Steel price volatility can impact performance and Low crude price can defer investments in oil and gas industry.

Financials (Rs mn)*	FY18	FY19E	FY20E
Sales	75,873	99,068	101,566
Growth (%)	25.7	30.6	2.5
EBITDA	6,834	6,787	93,098
EBITDA margin (%)	9.0	6.9	91.7
PBT	2,501	3,468	4,076
Net profit	1,530	1,835	3,257
Adjusted EPS (Rs)	5.8	6.9	12.3
Growth (%)	1,412.4	20.0	77.5
P/E (x)	23.5	19.7	11.1
BV (Rs/share)	107.6	114.0	125.8
ROE (%)	5.4	6.0	9.7
ROCE (%)	6.7	7.1	10.0
Net Debt (Rs Mn)	6,568	5,367	3,512

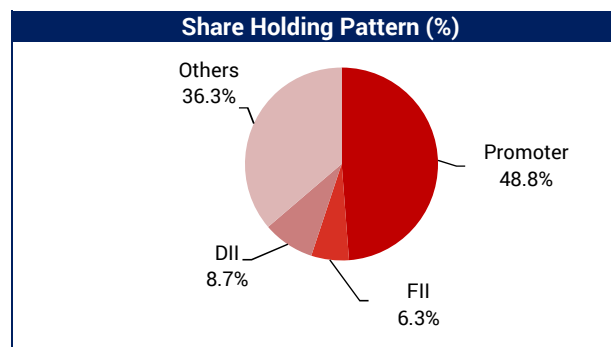
Source: Kotak Securities - Private Client Research; *Consolidated

Financials (Rs mn)*	9M-FY18	9M-FY19	% Chg
Revenues	59,284	70,359	18.7
EBITDA	5,365	4,931	(8.1)
EBITDA Margin (%)	9.0%	7.0%	
PAT	1,628	1,345	(17.4)
PAT Margin (%)	2.7%	1.9%	
EPS (Rs)	6.2	5.1	(17.4)

Source: Kotak Securities - Private Client Research; *Consolidated



Source: Bloomberg



Source: Bloomberg

RATING SCALE

Definitions of ratings

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

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