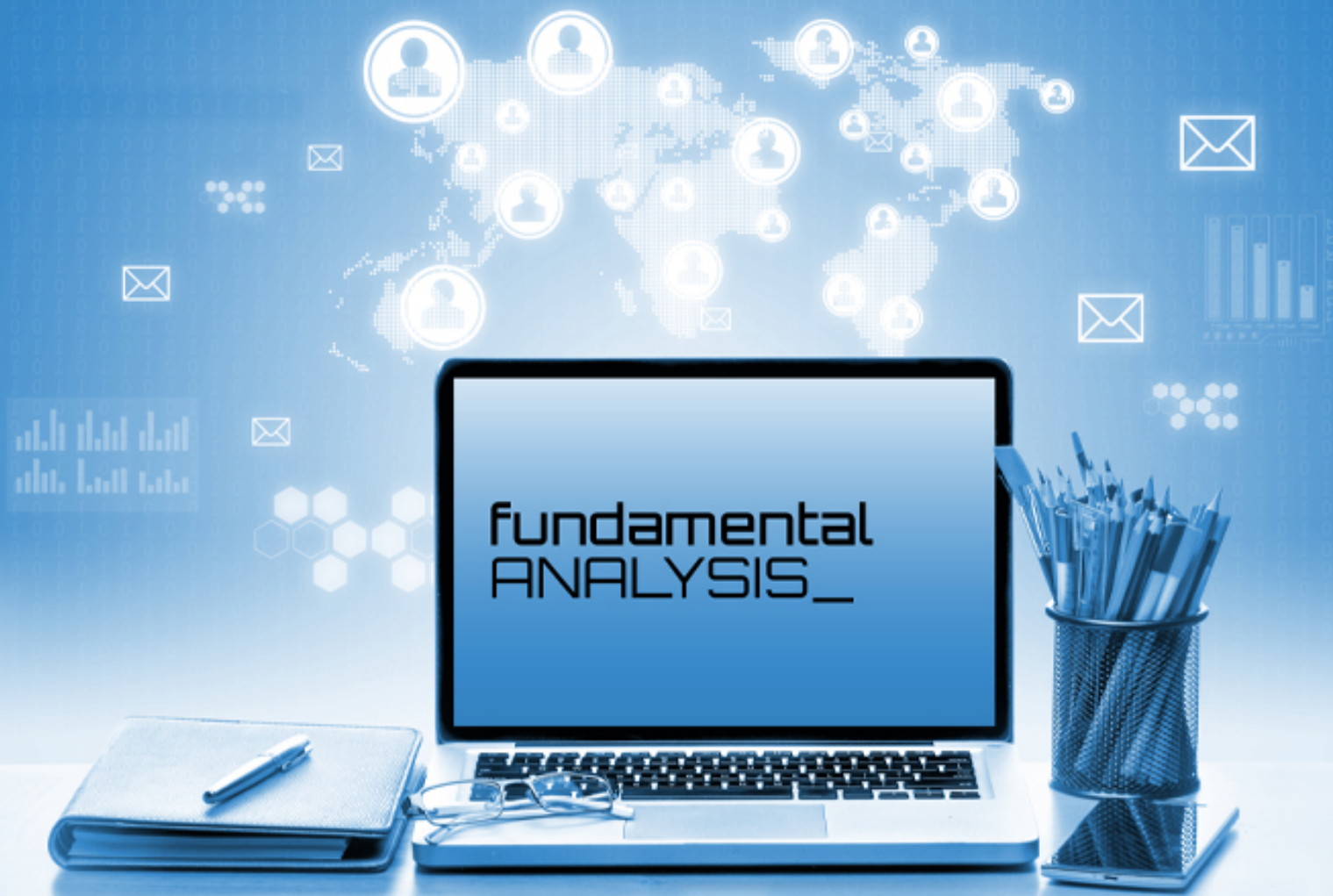


Stock Note

Welspun Enterprises Ltd.

July 10, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Infrastructure	Rs.225.85	Buy in the band of Rs.222-228& add more on dips to Rs.195-201 band	247.4	273.65	3-4 quarters

HDFC Scrip Code	WELENTEQNR
BSE Code	532553
NSE Code	WELENT
Bloomberg	WELENT:IN
CMP July 07, 2023	225.85
Equity Capital (Rscr)	150
Face Value (Rs)	10
Equity Share O/S (cr)	15
Market Cap (Rscr)	3,391
Book Value (Rs)	164
Avg. 52 Wk Volumes	5,53,454
52 Week High	226.5
52 Week Low	93.05

Share holding Pattern % (April, 2023)	
Promoters	54.58
Institutions	5.26
Non Institutions	40.16
Total	100.0



* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Jinesh Kothari

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Our Take:

Welspun Enterprises Ltd. (WEL) has been one of the prominent emerging player in the Road and Water Infrastructure space. The company was predominantly a key player for road infrastructure and have forayed into water infrastructure over the past few years. The company is a key player in the HAM & EPC space with 2 HAM and 3 EPC contracts under execution and 1 BOT operational project. The company's financial position has also been strong on account of recent Asset monetization deal for 6 assets with Actis for an Enterprise value of Rs.6,000crores. The company has received Net divestment amount of Rs.2,309crores as against Equity Investment of Rs.1,715 crores.

The company has also received a big order in previous financial year for Dharavi STP project which is expected to majorly start contribution to company's revenue growth in the upcoming quarters with a strong order-book visibility of Rs.10,100crores. WEL's JV with Adani for exploration of Oil blocks is also expected to start contributing to revenue latest by FY26. The company also has a very healthy cash balance of approx. Rs.450 crores and Current investment worth Rs.1200-1300 crores post the Actis deal which will also help company explore more opportunities and bid for multiple projects. The company has also repaid its outstanding NCD's with post cash balance of approx. Rs.1200 crores.

The company has identified a significant pool of projects across water and road segment worth approximately Rs.67,000crores for bidding purposes, with mix of Rs.40,000 crores in road and balance in water segment. The company is expecting win ratio of 10 to 13% on the same. The revenue guidance of Rs.300 crores per month run rate looks achievable given the project status and future bidding prospects.

On account of healthy order book and strong execution capabilities and future revenue visibility we are having positive outlook on the stock.

Valuation & Recommendation:

WEL is one of the key beneficiaries of increasing government focus on the greenfield expressway projects that National Highways Authority of India (NHAI) is focusing on by implementation on both EPC and HAM modes and Government's initiatives such as Bharatmala Pariyojana, Sagarmala, Atal Mission for Rejuvenation & Urban Transformation over next few years. Its focus on margins and cash flow generation augurs well from a long-term perspective. Over the years, the company has transformed itself into one of the leading EPC contractors and has grown its order book and revenue at a healthy rate with good margins. WEL has also calibrated diversification to continue the growth momentum, without assuming the concentration risk, leading to superior scalability and recognition. Robust execution capabilities coupled with strong repository of asset base enabling efficient execution would reflect in strong revenue growth.



Welspun Enterprises Limited has strong financials and healthy balance sheet as compared to its peer companies which gives company a competitive advantage in bidding for new bulky projects. Its continued focus on adding and diversifying project portfolio at healthy margins reinforces our positive view on the company. We expect revenue/EBITDA/PAT to grow at a CAGR of 16%/28%/20% over FY23–25E. **We think the base case fair value of the stock is Rs.247.4 and the bull case fair value is Rs.273.65 over the next three-four quarters. Investors can buy the stock in the band of Rs.222-228 and add more on dips to Rs.195-201 band.**

SOTP Valuation

Particulars (Rs Cr)	EPS/Investment	Base case Multiple	Valuation Base Case (Rs. Cr)	Per Share Value Base Case (Rs.)	Bull Case Multiple	Valuation Bull Case (Rs. Cr)	Per Share Value Bull Case (Rs.)
EPC Business EPS (FY25)	18.5	7.5	-	138.75	8.5	-	157.25
HAM Projects	256	0.7	179.2	11.95	0.75	192	12.8
Road Assets	104	0.7	72.8	4.85	0.75	78	5.2
Oil & Gas	424	0.7	296.8	19.8	0.75	318	21.2
Water	91	0.7	63.7	4.25	0.75	68.3	4.55
Other	31	0.7	21.7	1.45	0.75	23.3	1.55
Cash & Current Investment (Net of ST Debt FY25)	1421	0.7	995	66.35	0.75	1066	71.1
Total				247.4			273.65

Financial Summary

Particulars (Rscr)	Q4FY23	Q4FY22	YoY-%	Q3FY23	QoQ-%	FY20	FY21	FY22	FY23P	FY24E	FY25E
Total Operating Income	824.0	467.2	76.4	668.4	23.3	1,760.1	1,410.2	1,306.9	2,676.4	3,158.1	3,568.7
EBITDA	91.2	74.1	23.1	65.6	39.1	206.3	168.9	144.1	236.6	334.0	361.5
Depreciation	2.5	3.4	-27.7	2.4	2.1	19.4	12.3	12.4	9.6	10.1	10.6
Other Income	59.7	10.4	472.7	11.8	406.2	52.6	29.0	37.8	98.6	40.0	48.0
Interest Cost	22.8	13.6	67.4	19.9	14.5	25.4	44.5	53.5	75.5	52.9	47.6
Tax	24.9	14.6	70.7	12.0	107.9	54.7	33.6	22.6	46.9	63.6	73.9
PAT	137.6	52.9	160.1	510.9	-73.1	159.3	107.5	93.4	713.1	247.5	277.4
Adjusted PAT	137.6	52.9	160.1	43.12	219.2	159.3	107.5	93.4	203.2	247.5	277.4
EPS (Rs)	9.2	3.5	159.7	34.1	-73.1	10.7	7.2	6.2	47.5	15.5	17.5
RoE-%						9.6	6.0	5.0	32.7	9.6	9.7
P/E (x)						21.0	31.3	36.2	4.7	13.7	12.2
EV/EBITDA						15.2	20.2	23.7	12.7	8.1	7.0

(Source: Company, HDFC sec)



Q4FY23 result update:

- The company posted robust quarterly performance in last quarter, both in terms of revenue growth and operating margins aided by strong execution from Varanasi & UP water projects.
- Standalone revenue during the quarter stood at Rs.824 crores, 76.4%, 23.3% (YoY/QoQ).
- EBITDA margins stood at 10.8%, Improved by 130 bps QoQ. This was primarily on account of Raw material cost normalization & better mix of the portfolio.
- EBITDA for the quarter stood at Rs.91 crores Vs 74 crores YoY.
- Net Profit for the quarter stood at Rs.137.6 crores (including one time profit of Rs.37 crores), and EPS stood at Rs.9.18.
- The OG order backlog at the end of March '23 is about Rs. 10,100 crores Vs last year March '22, Order book of Rs. 8,400 crores.
- Roads constituted 40% of the existing order-book whereas Water projects constituted 60% of the Order-book.

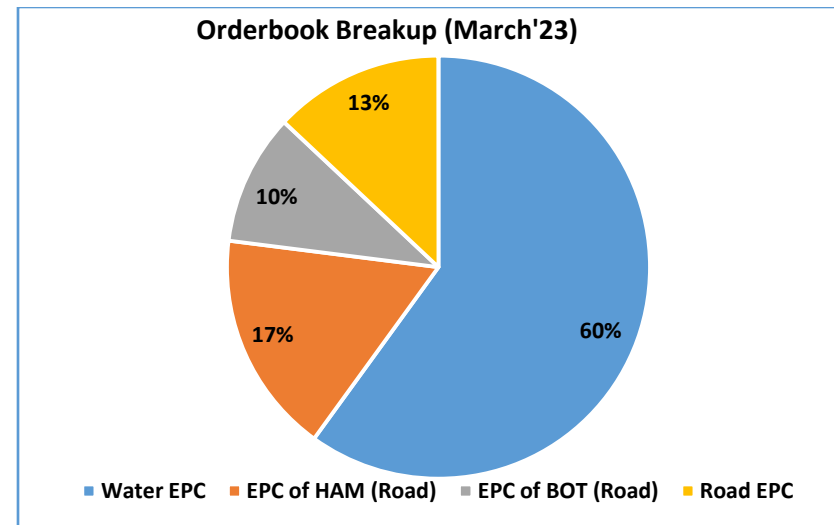
Q4FY23 Conference call highlights:

- In the previous quarter, the company posted substantial growth both in terms of revenue and profitability aided by increased execution in the Varanasi Aurangabad road project and UP JJM. The company has also received PCOD for the MukarbaChowkPanipat road project during the quarter ended March.
- Updating on the Dharavi project, the company has received initial mobilization of 5% and obtained the pre-construction approvals from authorities and has also commenced the ground work.
- The company has identified a significant pool of projects across water and road segment worth approximately Rs.67,000 crores for bidding purposes, with mix of Rs.40,000 crores in road and balance in water segment. The company is expecting win ratio of 10 to 13% on the same.
- Oil & Gas Segment: The company has submitted field development plan to the authorities for the block called B-9 and are currently in process to submit the field development plan for the Block MB-OSN-2005/2.
- Actis Transaction: The company has some receivables as a part of the transaction, the company has received around Rs.161 crores out of Rs.259 crores as part of milestone payment and is expecting the balance to be received by Q1. Also, another Rs.269 crores will be received upon the approval of divestment of 51% stake in MukarbaChowk.
- Upon the revenue guidance, the company has given target of maintaining the monthly revenue run rate of Rs.300 crores with maintaining an EBITDA margin of 11%.
- The company has received an extension for HAM Aunta-simaria project to October 2024, the company recently has also received the extension for its Sattanathapuram (SNRP) HAM project which was due as on March'23.
- The company has become gross debt free on the standalone basis after paying the NCD worth Rs.275 crores which were falling due.
- The cash balance resulting from the actis deal will be deployed in various requirements, the company has made plans of investment in terms of equity and temporary loans in existing business upto Rs.375 crores, also the company has completed buy back of approx. Rs.285 crores and some for repayment of existing debt and for further projects.



Key Triggers:

Strong Order-book Visibility and Bid pipeline: The current order book of the company as on March'2023 stands over Rs.10,100crores which gives company a robust revenue visibility over next 2-3 years. The Current order book of the company stood at almost 3.7 times FY23 revenue. The company is expecting strong order inflows in the coming years on account of strong bidding pipeline and the execution of the existing order-book is likely to pick up in coming years with more share of the revenue flowing from Dharavi STP project as company has started ground level construction work and has also received the mobilization advance. Further, EPC of two HAM projects as the company are also likely to contribute as has received an extension of 18 months. On the Oil and Gas part also, the company is in the development phase rather than exploration. It is now developing a plan as to what is the most optimal way of exploiting these resources rather than trying to find these resources and is expecting revenue to flow from FY26.



(Source: Company, HDFC sec)

Asset Light Model A competitive Edge aided by Strong Financials: Welspun Enterprises Limited has always been focused on its asset light business model, the key focus of the company has been sharing its expertise in project management and working with the capable partner for construction, this enables the company to work in multiple geographies with minimal investment in PPE and undertaking significant capex in depreciating assets, which in turn enables the company to attain higher return ratios in terms of ROE & ROCE. The company has been able to become gross debt zero on its standalone books in June'23 by repaying its NCDs.

Monetization of Assets aiding healthy financials: The company is also constantly focused on monetization of its road assets including its HAM & BOT projects. In the last FY, the company sold its 6 road assets to Actis for an enterprise value of Rs.6,000crores. The combined



Equity investment in the project was Rs.1,715crores and the company received total divestment proceeds of Rs.2,309 crores. The company is in the process of receiving the approval for the divestment of 51% from Mukarba-Panipat project with expected receivable of Rs.269 crores and has also received part of the investment proceeds worth Rs.161 crores out of Rs.259 crores and balance is expected to receive soon, the strong cash inflow will support financial metrics in fiscal 2024.

Road Assets Monetized	Contract Type	Project Status
Delhi-Meerut Expressway (Pkg1)	HAM	COD achieved
Chutmalpur-Ganeshpur&RoorkeeChutmalpur-Gagalheri(CG RG)	HAM	COD achieved
Gagalheri-Saharanpur-Yamunanagar(GSY)	HAM	COD achieved
Chikhali-Tarsod(CT)	HAM	COD achieved
Maharashtra Amravati (PkgAM 2)	HAM	COD achieved
MukarbaChowk –Panipat (MCP)	BOT Toll	PCOD achieved

(Source: Company, HDFC sec)

Expansion into Oil & Gas Division:The Company is invested in the oil and gas sector through a Joint Venture Company - Adani Welspun Exploration Limited (AWEL) – where it owns a 35% stake. The Company has three relevant blocks in its current portfolio. The company has completed the exploratory phase and is into development phase by making the best plan to optimally exploit the available resources. The company will be developing B9 as well as MB-OSN-2005/2 (Mumbai Block) together simultaneously & will submit the FDP of the Mumbai Block or MB-OSN-2005/2 block by Q1FY24. Further investments will be announced once company has approved plans. The company is expecting the revenue to flow from FY26.

- **Field Developments:** In the MB-OSN-2005/2 (Mumbai Block) the JV has explored the place and has made a hydrocarbon discovery by drilling a well wherein three layers have proven to be gas bearing, two layers have flown good amount of gas to surface. The company has plans are on for early monetization though development. The field development plan is currently being finalized for the block and is expected to be submitted by Q1.

In B9 Cluster (DSF) block the company has drilled well and currently is evaluating the data, the reserve estimation is taken up and FDP has been carried out. In both the blocks the AWEL has 100% stake and Welspun effective stake is 35%.



Key Risks:

- Highly dependence on Subcontractors might result in delayed contract completion and Higher working capital requirements due to receivables.
- Subdued Order Inflows due to high level of competition, WEL has not secured any major order inflows in past 12 months, though the current order-book has good revenue visibility. The company has been witnessing high competition from small players especially in road projects.
- Dependence on Govt policies and orders/payments from Govt bodies – Most orders received and executed by the company are dependent on Govt policies/spend. Any adverse changes in these could impact the revenue and margin visibility of the company.
- Any abnormal increase in raw materials could impact the execution and margins of the company.
- The company has to be prudent in deploying the cash on its books to maintain its overall profitability/return ratios.

Favorable Industry Outlook:

- In the recent Union Budget, 2023, Ministry of Road Transport and Highways has announced Rs.2.7 trillion budget which is up by 36% over FY23. NHAI's allocation has tripled from 2019-2023 at Rs. 1.62 trillion, up 21% over FY23.
- GOI has massive push towards JalJeevan Mission & has allocated Rs.696 Billion with a target to achieve 100% tap drinking water by FY24.
- The government also allocated Rs.973 billion to the Jal Shakti Ministry as compared to Rs.740 billion of revised estimates.
- In Vision 2025, the government has target of achieving 60,000 km of NH, 2,500 km of Expressways, 9,000 km of Economic corridors, 2,000 km of coastal and port connectivity

Company Background

Welspun Enterprises Ltd. has been one of the prominent emerging player in the Road and Water Infrastructure space. The company was predominantly a key player for road infrastructure and have forayed into water infrastructure over the past few years. While the Company's main focus is on Hybrid Annuity Model (HAM) projects as a developer, it also takes up value accretive projects in the BOT-Toll and EPC space. WEL has experience of operating 570 Kms of Toll projects. The Co. operates with an asset-light business model wherein it works with capable partners for construction, and focuses on high value-added project management with minimal investment in the Equipment. Welspun Enterprises' completed portfolio includes the Delhi–Meerut Expressway/NationalExpressway3 which was featured as an Engineering Marvel of India. Currently, the company has robust order-book of Rs.10,100crores as on March'23. In June'22, the company has also received a big EPC order for Dharavi STP project worth Rs.4,636crores. The Co. is the lead partner in a Joint Venture with Kaveri Infra projects Limited for executing water supply for rural areas in Varanasi, Ayodhya and Meerut, covering 2,544 villages. Moreover, the company has also forayed into Oil and Gas division for exploration assets through a JV with the Adani Group, called Adani Welspun Exploration Limited (AWEL).



Welspun Enterprises Limited has unblemished debt servicing and impressive credit ratings with stable outlook for both short and long-term borrowings CRISIL AA- for Long-Term and CRISIL A1+ for Short-Term Loans.

Current Infrastructure Portfolio: (3 EPC, 2 HAM and 1BOT project)

	Project Names	Contract Type	Authority / Client	Status	
	Road Assets	Aunta-Simaria	HAM	NHAI	Under Execution
		Sattanathapuram-Nagapattinam (SNRP)	HAM	NHAI	Under Execution
		Varanasi Aurangabad NH2 Project (VARP)	EPC	SIVAPTL	Under Execution
	Water/ Wastewater Treatment	Dewas Water	BOT	MPSIDC	Operational
		UP State Water and Sanitation Mission	EPC	SWSM	Under Execution
		Dharavi Wastewater Treatment Facility (Mumbai)	EPC	BMC	Under Execution
Oil & Gas	3 Oil & Gas Blocks	-	-	Revenue from first block expected in FY25-26	

(Source: Company, HDFC sec)



Financials:

Income Statement

(Rs Cr)	FY21	FY22	FY23P	FY24E	FY25E
Net Revenues	1410.2	1306.9	2676.4	3158.1	3568.7
Growth (%)	-19.9	-7.3	104.8	18	13
Operating Expenses	1241.3	1162.8	2439.7	2824.1	3187.6
EBITDA	168.9	144.1	236.6	334	381.1
Growth (%)	-18.2	-14.7	64.2	41.1	14.1
EBITDA Margin (%)	12	11	8.8	10.6	10.7
Depreciation	12.3	12.4	9.6	10.1	10.6
EBIT	156.6	131.7	227.1	323.9	370.5
Other Income	29	37.8	98.6	40	48
Interest expenses	44.5	53.5	75.5	52.9	47.6
PBT	141.1	116	250.2	311.1	370.9
Tax	33.6	22.6	46.9	63.6	78.2
PAT	107.5	93.4	713.1	247.5	292.7
Adjusted PAT	107.5	93.4	203.2	247.5	292.7
Growth (%)	-32.6	-13	663.2	-65.3	18.3
EPS	7.2	6.2	47.5	15.5	18.5

Balance Sheet

As at March	FY21	FY22	FY23P	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	149	150	150	150	150
Reserves	1670	1744	2315	2563	2855
Shareholders' Funds	1819	1894	2465	2713	3005
Long Term Debt	468	354	0	0	0
Net Deferred Taxes	-3	-4	-6	-6	-6
Long Term Provisions & Others	31	206	212	233	255
Total Source of Funds	2315	2450	2672	2940	3255
APPLICATION OF FUNDS					
Net Block & Goodwill	29	33	20	23	25
CWIP	0	0	0	0	0
Other Non-Current Assets	1701	1787	834	1055	1217
Total Non-Current Assets	1729	1819	854	1078	1242
Current Investments	148	31	1300	1050	950
Inventories	5	48	86	61	88
Trade Receivables	209	312	569	701	802
Cash & Equivalents	167	86	470	644	791
Other Current Assets	926	1191	1088	1186	1292
Total Current Assets	1454	1669	3513	3641	3924
Short-Term Borrowings	134	148	473	370	320
Trade Payables	309	398	579	692	792
Other Current Liab & Provisions	425	493	643	717	799
Total Current Liabilities	868	1038	1695	1779	1911
Net Current Assets	586	631	1818	1862	2012
Total Application of Funds	2315	2450	2672	2940	3255



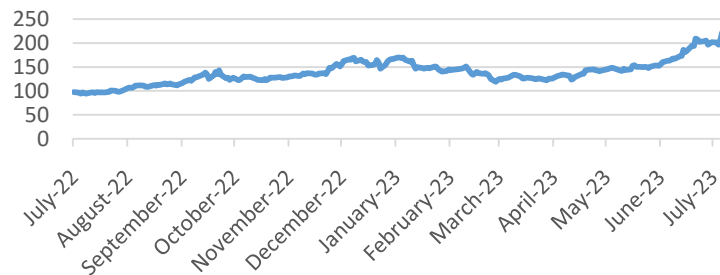
Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23P	FY24E	FY25E
Reported PBT	141.1	116	760.1	311.1	370.9
Non-operating & EO items	-6.8	1.6	-544.8	0	0
Interest Expenses	30.3	18.3	14.2	32.9	27.6
Depreciation	12.3	12.4	9.6	10.1	10.6
Working Capital Change	200.3	104.4	-158.8	-7.6	-42.5
Tax Paid	-40.4	-30.6	-55.2	-63.6	-78.2
OPERATING CASH FLOW (a)	336.8	222.2	25	282.9	288.3
Capex	-1.7	-4.3	21.1	-2.7	-2.7
Free Cash Flow	335	217.9	46.1	280.2	285.6
Investments	-113.6	0	792.5	39.6	-50
Non-operating income	-601.7	-261.6	859.8	20	20
INVESTING CASH FLOW (b)	-717.1	-265.9	1,673.50	56.9	-32.7
Debt Issuance / (Repaid)	255.7	-94.2	-21.1	-103	-50
Interest Expenses	-15.7	-52.4	0	0	0
FCFE	575	71.3	25	177.2	235.6
Share Capital Issuance/ (Buy Back)	0	0	0	0	0
Dividend	-29.7	-22.3	-217.9	-52.9	-47.6
Others	-3.6	-4.2	-4.5	0	0
FINANCING CASH FLOW (c)	206.7	-173.1	-243.4	-155.9	-97.6
NET CASH FLOW (a+b+c)	-173.7	-216.8	1,455.10	183.9	158.1

Key ratios:

	FY21	FY22	FY23P	FY24E	FY25E
PROFITABILITY RATIOS					
EBITDA Margin	12	11	8.8	10.6	10.7
EBIT Margin	11.1	10.1	8.5	10.3	10.4
PAT Margin	7.6	7.1	26.6	7.8	8.2
RoE	6	5	32.7	9.6	10.2
RoCE	7.1	5.5	8.5	10.8	11.6
SOLVENCY RATIOS					
Debt/EBITDA (x)	3.6	3.5	2	1.1	0.8
D/E	0.3	0.3	0.2	0.1	0.1
PER SHARE DATA					
EPS	7.2	6.2	47.5	16.5	19.5
CEPS	8	7.1	48.2	17.2	20.2
Dividend	1.5	1.5	7.5	2	2
BVPS	122.2	126.5	164.4	180.9	200.4
TURNOVER RATIOS					
Debtor days	71	73	60	73	77
Inventory days	1	7	9	8	8
Creditors days	77	99	67	73	76
VALUATION					
P/E	31.3	36.2	4.7	13.7	11.6
P/BV	1.8	1.8	1.4	1.2	1.1
EV/EBITDA	22.5	26.4	14.3	9.3	7.7
EV/Revenues	2.7	2.9	1.3	1	0.8

One Year Price Chart





HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I, **Jinesh Kothari, Research Analyst, Chartered Accountant (ACA)**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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