

Welspun Enterprises Ltd. ₹ 92**Revamped !!!****Buy**

May 12, 2017

Company Background

Welspun Enterprises Ltd (Welspun) formerly known as Welspun Projects Ltd is a part of the Welspun Group. The Company is an operating Company as well as a holding company. The Company offers civil engineering services. The Company's segments include Infrastructure, Trading, and Oil & Gas exploration activities, renewable energy and corporate support to various infrastructure special purpose vehicles (SPV). The Company has developed and operates public private partnership (PPP) projects in various sectors, such as roads, water and urban infrastructure. Pursuant to Scheme of Arrangement and Amalgamation made effective from May 11, 2015, the erstwhile Welspun Enterprises Ltd., Welspun Infratech Limited, Welspun Plastics Private Limited and Welspun Infra Projects Private Limited were merged into Welspun Projects, which was renamed as Welspun Enterprises Ltd.

Key Highlights

- ➔ This consolidation has enabled the Company to better leverage the combined strengths of the entities, synergies arising out of consolidation of business such as, enhancement of net worth of the combined business to capitalise on future growth potential, optimal utilisation of resources, reducing operating and compliance cost and achieving operational and management efficiency.
- ➔ It has aided the Company to target opportunities which need large free cash and strong balance sheet. The merger has also helped to consolidate and simplify corporate structure of Welspun Enterprises and its subsidiaries.
- ➔ Welspun has sold some of its bad assets to Tata Power which has not only made the balance sheet cleaner but also generated more amount of cash reserves for the company. These can be used to bid for future infra projects giving bank guarantees etc.
- ➔ The promoters of welspun have recently bought back shares of the company and extinguished the bought back equity. This shows that the promoter one who is the best informed about the company is also positive about the company's performance in years to come this is the sole reason he has entered into an equity concentrating exercise.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	2,361.0	3,217.8	3,247.9
Rev. growth (%)	(40.26)	36.29	0.94
EBITDA (INR mn)	846.5	(255.2)	617.7
Net profit (INR mn)	(582.3)	101.6	328.2
Shares outstanding (mn)	40.0	173.3	174.0
EPS (INR)	0.0	0.6	1.9
EPS growth (%)	(100.00)	-	220.34
P/E (x)	-	52.80	25.00
RONW (%)	(7.00)	0.65	1.62
ROCE (%)	(4.46)	2.49	1.59

Nishant Chopra

nishantc@indiratrade.com

Info Codes

Reuters	: WELS.NS
Bloomberg	: WEL:IN
NSE	: WELENT
BSE	: 532553

Market Data

52 Wk Range (₹)	: 54 / 102
Shares in Issue (mn)	: 174.0
Mkt. Cap (₹ bn)	: 13.55
BSE 2 Wk Avg Vol	: 114000

Share Holding Pattern (%)

Promoters Holding	: 44.63
Corporate Holding	: 00.00
Domestic Institution	: 07.93
Foreign Institution	: 07.70
Public & Others	: 39.74

Investment Theme

When a Promoter initiates a buy back in a company it is clear that he is bullish on the company and wants to increase his share in an equity concentrating exercise. The same has happened in Welspun after the restructuring and intra group merger which occurred some time back the company was able to create some balance sheet figures which would help it to qualify for large infra projects. The company has disposed some of its non performing assets to Tata Power thereby making it asset lite and cash rich. Part of the cash was used to initiate a buy back by the promoters while the rest part is probably kept in place for generating resources which may be required during bidding of any large infra projects which may be announced in coming days. We feel Welspun is in a get set mode and can go on its future trajectory any time in near future.

Ready.... Steady.... Go !!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	2,029.8	1,843.2	(9.2)	1,848.5	0.3
Other Income	331.2	1,364.2	311.9	1,386.0	1.6
Change in Stocks	(190.8)	32.2	(116.9)	(20.2)	(162.7)
Raw Material Con.	696.0	785.8	12.9	1,072.2	36.4
Employee Exp.	262.4	230.0	(12.3)	288.7	25.5
Indirect Taxes	0.0	10.4	-	13.4	28.8
Other Exp.	1,467.1	1,595.7	8.8	1,220.3	(23.5)
Operating Exp.	2,425.5	2,621.9	8.1	2,594.6	(1.0)
Operating Profit	(255.3)	617.7	(342.0)	619.7	0.3
Total Interest	127.4	131.0	2.8	159.0	21.4
Gross Profit	(382.7)	486.7	(227.2)	460.7	(5.3)
Net Dep.	275.1	249.3	(9.4)	257.1	3.1
Total Taxation	(75.5)	135.8	(279.9)	(124.6)	(191.8)
Net Profit/Loss	(582.3)	101.6	(117.4)	328.2	223.0

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	6,574.0	5,408.6	16,120.5	16,246.8
Equity Share capital	400.0	400.0	1,733.2	1,740.4
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	4,451.5	3,869.2	13,105.2	13,434.5
Secured Loans	1,428.4	1,120.1	914.0	701.7
Unsecured Loans	294.1	19.3	368.1	370.2
USES OF FUNDS	6,574.0	5,408.6	16,120.5	16,246.8
Gross Block	4,257.9	4,100.6	3,758.0	3,605.1
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	1,818.7	1,967.5	1,991.3	2,561.6
Net Block	2,439.2	2,133.1	1,766.7	1,043.5
Capital Work in Progress	170.5	257.3	0.0	0.0
Investments	2,368.4	1,509.0	11,870.6	13,417.4
Current Assets	2,337.0	1,600.7	2,322.9	1,921.5
Less : Current Liabilities	1,073.7	734.3	537.0	652.8
Total Net Current Assets	1,263.3	866.4	1,785.9	1,268.7
Misc. Expenses not writtenoff	332.6	642.8	697.3	517.2
NOTE				
Book Value of Unquoted Investments	1,782.9	604.7	5,592.7	5,813.0
Market Value of Quoted Investments	0.6	905.7	6,416.1	7,752.0
Contingent Liabilities	4,977.3	4,681.1	7,797.6	1,022.0
Dividend (%)	0.0	0.0	0.0	0.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 16	Jun 16	Sep 16	Dec 16
Net Sales	727.1	308.1	332.2	528.2
Cost Of Sales	894.0	383.2	530.4	612.0
Operating Profit	(166.9)	(75.1)	(198.2)	(83.8)
Other Income	236.6	314.4	316.2	284.6
Adjusted PBDIT	69.7	239.3	118.0	200.8
Financial Expenses	24.8	18.9	20.1	17.3
Depreciation	54.9	157.7	37.4	36.2
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(10.0)	62.7	60.5	147.3
Tax Charges	(38.5)	3.5	31.9	(20.4)
Reported Profit	28.5	59.2	28.6	167.7
Extra Ordinary Items	(112.9)	0.0	81.7	99.2
Other Non Cash Adjust	0.0	0.0	31.9	0.0
Adjusted Net Profit	141.4	59.2	(21.2)	68.5

52 Week Index Relative Percentage Appreciation



Welspun vs SENSEX

Risks Associated

- In the Infrastructure segment the company has the following risks :
 - a. The Company has limited avenues to raise long term funding for any project it can undertake
 - b. The regulatory frame work is inadequate and multiple clearances may cause execution delays
 - c. The skilled man power in the sector is not readily available
 - d. The current interest rates are still high
- In the Oil & Gas segment the company has the following risks :
 - a. The Company may do discoveries however the commercial viability of those may be in doubt
 - b. Oil & gas if produced does not have a fixed price rather pricing of same is highly volatile
 - c. Limitation of Infrastructure for exploration and evacuation is limited
 - d. There are a lot off regulatory controls over the segment
- In the Renewable Energy segment the company has the following risks :
 - a. Land acquisition may be tedious
 - b. The regulatory frame work is inadequate and multiple clearances may cause execution delays
 - c. Power evacuation from site still remains a major issue
 - d. The skilled man power in the sector is not readily available
 - e. Rapid Changes in Solar Technology are happening

In a Nutshell

Welspun Enterprises Limited is a holding company. The Company offers civil engineering services. The Company's segments include Infrastructure, Trading, and Oil & Gas. The Company is engaged in the business of infrastructure, trading, oil and gas exploration activities, and corporate support to various infrastructure special purpose vehicles (SPV). The Company has developed and operates public private partnership (PPP) projects in various sectors, such as roads, water and urban infrastructure. The Company holds equity investments in Welspun Natural Resources Private Limited (oil and gas exploration). The Company's projects include Augmentation of Water Supply Scheme of SAS Nagar-Mohali; Renovation of BHEL House; Construction of Delhi-Meerut-Phase-1; Dewas Water Supply; Raisen Rahat Garh Road Project, and Hosangabad Khandwa Road Project. The company has been restructured some time back by an in group merger and the size of balance sheet has been increased. The revamp in the company has ensured that it has passed most of its bad assets to Tata Power Ltd. thus it stands in a asset lite and clean condition. The company has also recently bought back some of its shares entering into an equity concentrating exercise. This clearly indicates the promoters want to increase their holding in the company. with all the structures in place, we feel bidding for projects would now be easier for Welspun as it would qualify for larger projects even. Over the past year there has been a continuous rise in scrip price but we feel there is more yet to come in the Welspun way.

Indira Group Offices

Registered Office : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224202 **Fax** : 022-66224201 **Email** : im@indiratrade.com

Administrative Office : 204-205 “Amardarshan” 28/2 Old Palasia, Indore (MP) 452018

Tel : 0731-4097170 **Fax** : 0731-4215999 **Email** : customercare@indiratrade.com

Institutional Dealing Unit : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224209 **Fax** : 022-66224201 **Email** : ie@indiratrade.com

Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.