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Welspun's Pipe Dreams and Steel Will

B.K. Goenka grew Welspun into the world's biggest steel pipe company. Now he has to make sure it stands strong in an era of protectionism and falling demand

by Prince Mathews Thomas | Nov 11, 2010

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It has taken B.K. Goenka five years to get to the top of the world. His company, Welspun Corp., is now the ArcelorMittal of large welded steel pipes. With 10 percent market share, Welspun is the largest supplier of such pipes in the world, which are mainly used to transport oil and natural gas. Goenka's rise has been rapid. He entered the sector in 1997. In the last five years, revenues have galloped from less than Rs. 2,000 crore to over Rs. 6,500 crore in the year ending March 2010.

Yet, sitting in his seventh floor office inside Welspun House in Central Mumbai, Goenka must feel unloved. There are no fawning articles announcing the reign of the new king. Instead, Welspun stock is down 7.78 percent over the last one year when the Sensex has returned 20.1 percent. Its order book, which hovered over Rs. 10,000 crore at its peak in 2008, is now stagnating around Rs. 5,500 crore.

Part of Goenka's problem is that he is in a cyclical industry and the demand is highly correlated with the oil industry's exploration work. From 2005-2008, it was boom time for pipe markers. Oil and gas prices kept rising, giving fuel to exploration and pipe laying activities. But even as steel pipe capacities increased, the sudden slowdown pulled down fuel prices. "Demand for pipes has come down and the market has matured. Few expect the sector to give the kind of returns witnessed in those three-four years," says a senior official at a leading steel pipe maker and Welspun's competitor.

This does not explain one thing though: Welspun's lower than industry price-earning multiple. Is the cyclicality of the business the only explanation? "Mostly yes, but there are a few other issues too," says an industry analyst in a Mumbai-based brokerage firm. Welspun's $450 million

investment in a plate mill is yet to break even. The mill is running at less than half the capacity. Also, Welspun's costs are still high and its net cash flows have considerably reduced. Its diversification into oil exploration and thermal power generation is yet to gather momentum.

To get his pipes business out of the funk, Goenka is focussing on taking Welspun's manufacturing presence global. Second, he is cutting costs.

Welspun's growth in the last five years was a function of the booming fuel market in North America. Goenka mastered the act of being the key supplier to clients like TransCanada and Kinder Morgan. So Welspun would get big orders from them, making sure that the facility in Gujarat is fully utilised. Big orders allowed him economies of scale and high plant efficiency.

"Big orders for large diametre pipes from same clients also help at the plant level as you don't have to keep adjusting the mechanics to cater to different pipe sizes for different clients. This saves a lot of time," adds the industry executive. Lower manufacturing costs in India also helped Welspun. It gave Goenka more teeth in bidding wars with competitors.

To cut costs further and come closer to his clients, Goenka set up a pipe mill in the US in the middle of the economic slowdown in 2008. "Not only did we come near our clients, but [we] could also offer the complete umbrella of services to them," explains Akhil Jindal, director, corporate affairs, Welspun. The services include building a storage yard for clients to keep the pipes and ship the products only when needed.

The limitations of this approach became apparent in March 2010. Energy giant Total had invited bids from global players to supply pipes to transport gas in North Sea. Officials at Welspun were convinced that their bid, which was the lowest, would emerge as the winner. But local company Corus won the bid.

Unlike before, price was not the deciding factor anymore. Geo-political reasons have become equally important. "Corus won because it was a local player," says Jindal. Moreover, in most countries, oil and gas is a state-controlled industry and with protectionism rising during the slowdown, it was but natural that local companies would be given preference.

A man with an eye for detail, Goenka has understood the significance of the Total tender failure. "We are no longer in the volumes game. We are happy with the capacity that will come after the present expansion. Now the focus is to be a local insider in every market that we are active in. Any further expansion — either through acquisition or a new plant — will be to get a local presence abroad," says Goenka.

The local presence will increasingly come in play in the next three years when projects worth more than $30 billion will come up for grabs. Goenka will have to contend with German major Europipe in the North American and European markets while Japanese and Chinese players will be vying for the Australian and Middle East markets. Tenaris dominates the South American market, where Russian players like TMK also have a good presence.