



## “Welspun Corp Limited Q3 Financial Year 2015 Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Welspun Corp Q3 FY 2015 Earnings Conference Call, hosted by Macquarie Capital Securities. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note this conference is being recorded. I would now hand the conference over to Mr. Amit Mishra from Macquarie Capital Securities. Thank you and over to you Mr. Mishra!

**Amit Mishra:** Thank you Vivian. Good afternoon everyone. It is our pleasure to host Welspun Corp post results conference call today and thank you very much all of you for participating on it. We have with us today Mr. B. K. Mishra, Managing Director, Welspun Corp, Mr. S. Krishnan, Chief Financial Officer, Welspun Corp and Mr. Akhil Jindal, Director, Group Finance and Strategy who will represent the Company. I would hand over the call to the management team for opening comments and followed by question and answers. Over to you Sir!

**Braja K. Mishra:** Good afternoon. This is Braja Mishra. Thank you very much to all of you for participating in this quarterly call. I would just go through the quarterly numbers and try to give you a perspective as to how we have really fared as compared to the third quarter of last year and also try to give you some insights to the business outlook, the order book position and then of course I will be assisted by my team, Krishnan and Akhil and of course the whole team to take your questions.

Coming to the Q3 performance of this year. The Q3 FY 2015 production stood at 305,000 tonnes. The sales was at 2250 Crores and EBITDA at 242 Crores, PBT at 60 Crores and cash PAT at 154 Crores. Compared to the third quarter of last year that is FY 2014, pipe sales volume has increased by 31%, income from operations has increased by 29%, the EBITDA has increased by 40%, PBT has also increased by a significant number and cash PAT more importantly has increased by 172% that is from 57 Crores to 154 Crores.

The volumes were higher in US where the spiral mill is ramping post maintenance in the first quarter of the fiscal. Production and sales of pipes in Saudi operations were slightly lower in the last quarter, primarily because of the fact that we had to sort of roll some of those low diameter and low wall thickness size for some of the pending orders – so that has impacted. So more or less you could say that we had to make some compromise on our business to serve a customer anyway that stays in the long run.

Our total order book at the end of the quarter remains at around 930,000 tonnes which is more or less the same number we began with. So in other words in three quarters we have done close to 900,000 tonnes of orders, additionally we have booked similar quantity. So in other words, even if we are probably doing about 350,000 tonnes of sales we are actually replenishing that 350,000 tonnes by our order booking. So if you go by that, we already had about 860,000 odd tonnes of sales and we have a quarter to go.

Net sales in Q3 was of course slightly lower than the previous quarter because again primarily due to the lower volume as I mentioned, primarily coming from Saudi Arabia. Our gross debt at the end of December 2014 was about Rs.3,959 Crores, lower than Rs.4,137 Crores at the end of the last quarter; however, with decline in cash and cash equivalents, net debt at the end of December 2014 was higher at Rs.2,857 Crores compared to Rs.2,346 Crores. It is primarily because of working capital built up because of simply because of the fact that we are executing some of the large orders both in Saudi Arabia as well as in US and that is what precisely has probably taken the net working capital up by about 700 Crores, which of course following the initiatives that we initiated right from the beginning of the year, I would say that this quarter is an aberration and we are more than confident that by the end of the year we should be probably going down to our targeted level of maybe 2,200 Crores or so.

I am quite sure that most of you would be quite anxious to know what exactly is going to be the impact on our business because of the oil price drop and I would like to say here is that we are really yet to feel the impact of that primarily because we are in the transportation side of the business and as you all know when the oil prices go down, it is primarily first who get impacted are the drilling companies and also the oil and gas companies who are actually producing the oil. So there is always a reduction in drilling, which consequently affects the manufacturers who are providing probably the pipes for the drilling activity or for those companies who are providing services to the drilling activities. So fortunately we have not seen any impacts as yet primarily because I think when somebody stops production, the impact on pipeline comes almost one and half years to two years later.

As of now we still see tremendous amount of gas pipeline activities in Saudi Arabia. As a matter of fact, I have also read very recently a statement from the Saudi Aramco Chief that they are actually investing close to \$7 billion for Shale activities primarily for gas and of course the similar thing is going on in US. In US the last more or less, I could say in about six to eight months, close to one and a half to 1.75 million tonnes of orders for transmission pipes has been placed out of which I would say close to 1.1 million to 1.2 million tonnes are gas pipeline and even as recent as probably a few weeks back more than 350,000 to 400,000 tonnes of pipes are to be ordered going forward which is again primarily gas pipeline.

Coming to oil pipeline in US, even that has not seen any slowdown because during the year 2014 one major pipeline was announced, which was actually practically keeping each and every mill busy in US; it was almost a 1200 miles oil pipeline bringing oil from North Dakota to Cushing and instead of actually seeing any reduction in activities they have actually gone ahead and increased that by about another 300 to 400 miles. So we have not really even seen in the oil pipeline business in US any slowdown.

Coming to gas in North America especially Mexico, all the declared project of Mexico are going ahead as per schedule. As a matter of fact even yesterday they have announced one particular project and which is going to probably be awarded in the next one week or so. So Mexico is absolutely on target to build up 6,500 km of pipelines in the next two years or so and going

forward with our discussion with various especially CFE which is the power company as well as our own information from public domain there are close to 12,000 km of pipelines to be build further. We are seeing pipelines coming up in Peru, we are seeing pipelines coming up in Columbia. Of course we have also seen that the TAP pipeline, which was always probably a questionable thing that is also going ahead and as a matter of fact, the bidding process for the TAP pipeline which is going to bring gas from Turkmenistan to Europe through Greece is actually going ahead. That also is a very large project even though South Stream has been kind of trashed. I think Mr. Putin has made a very categorical statement that South Stream may have been trashed, but he is going to build a pipeline from Russia to Turkey and through Italy. So I am quite sure that the lull or the impact that has probably come out of the cancellation of South Stream may soon be getting replaced by an additional pipeline.

So this is on the whole sort of my feeling about the business. As far as our own capex plans are concerned, no doubt we will always probably continue to explore the possibility and opportunities for growth but as of now we do not have any firm plan for capex except for our routine capex which is more like an operational capital expenditure, which we always spend to keep our machines, maintain our quality and probably trying to always stay ahead of the curve in terms of offering technology.

That is about it as far as the business outlook for Welspun Corp is concerned. This is probably I am talking more for FY 2015-2016 but I feel that 2016-2017 could be probably even much better than 2015-2016. 2015-2016 might have a little bit of apprehension built on to the system, but I think 2016-2017, looking at the projects and whatever budgetary quotes we have submitted as a matter of fact while we speak, I was just seeing the total quantity of budgetary quotes that we have submitted is almost all time high at about 8.38 million tonnes. Normally, we would have an outstanding bid of over 4.5 million tonnes to 5 million tonnes. So this time it is actually outstanding at about 8 million tonnes and out of which I would say that close to 4.5 million tonnes are really serious enquiries.

So that is all from my side. As we take any questions from your side and I am sure myself, and my team, we will be able to reply to your entire satisfaction. Thank you so much.

**Moderator:** Thank you Sir. We will now begin the question and answer session. The first question is from the line of Charu Fernando from Edgbaston Investment Partners. Please go ahead.

**Charu Fernando:** Good afternoon gentlemen. My question is really trying to get a better sense of what is going on in the domestic market? If you could talk a little bit in terms of some of the competitors and what is happening with their situations because I think there has been some stress there and maybe a little bit more color around the plans that the government announced in terms of extending the pipeline capacity in the country? Thank you.

**Braja K. Mishra:** We all know in the budget, the Finance Minister did announce that the government has a plan to build the national gas grid and they will construct about 15,000 km of pipeline in the next three

to four years. I would have reasons to believe, with our interactions with various oil and gas companies in this country, the projects are going to go through. The work is going on; there is a good amount of buzz in petroleum ministry, in GAIL, in Indian Oil, in Gujarat State Petroleum Limited that these pipelines are going to be built. As a matter of fact, to the my best of the information, I would think that latest by March or April, out of this 15,000 km, I think 2,000 km for a large pipeline should come in for bidding. So as far as domestic market is concerned, it has been probably more than what we could probably call a depressed market in the last few years, but I would think that the domestic market would start buying. No doubt there is some buying going on in the small diameter segment but large diameter segment primarily I would think that there would be some buying taking place or start taking place probably from April onwards. As regards to competition there is no doubt that if you really ask me the supply situation vis-à-vis the demand, of course, we have more than 5 million tonnes of capacity here and probably you would see maybe 1 to 1.5 million tonnes of demand going forward. So there would be some element of probably competition, but having said that there is also demand of close to 5 million tonnes of water pipe which has been announced by the Madhya Pradesh government, the Andhra Pradesh, the Odisha government, the West Bengal government, the Rajasthan government. So put together we are looking at probably in the next three years to four years close to 7 to 8 million tonnes of large diameter pipe demand. So I think that should really improve the outlook probably at least for the large diameter segment. No doubt it has not started as yet, but I think we are on the brink of it.

**Charu Fernando:** Thank you.

**Moderator:** Thank you. The next question is from the line of Ravi Ratan Pal from JP Morgan. Please go ahead.

**Ravi Ratanpal:** Good evening gentlemen. My question is on the debt maturity profile. Can you elaborate on your debt maturity? What kind of debt level does the management is targeting in the next two years and do you expect the leverage to come down?

**S. Krishnan:** Most lumpy portion of the debt book was this FCCB which was redeemed earlier in this quarter in October. That was about \$75 million and including the redemption related premium we paid out around 500 Crores Rupees earlier in this quarter. After this the debt book extends right up to 2019, 2020 and even beyond. It is fairly distributed. The annual repayments are in the region of 150 to 200 Crores on an average every year and our agenda continues to be to bring the net debt to manageable levels. In this quarter you would have seen that the net debt has gone up and as the MD explained, is also because of the working capital related build up. We expect that to unwind by the end of March and come to a similar range as it was as at September if not lower than that.

**Akhil Jindal:** I think just to add to what Krishnan said; we also made ECB repayments of almost \$50 million earlier in CY 2014 in addition to the FCCB. So I would say together this would have been probably one of the largest payout by Welspun in one particular year and after this cash payout, the debt really tapers down to much more manageable levels in the years to go.

- Ravi Ratanpal:** Sir, if you remove the working capital impact, then what would be your debt component?
- Akhil Jindal:** Out of this gross debt of about 3,900 Crores odd, about 1,100 Crores is basically short term borrowing for working capital.
- Ravi Ratan Pal:** Which you expect it to come down to what level Sir?
- Akhil Jindal:** Short term borrowing will come down by at least 70% to 80%.
- Ravi Ratanpal:** So, we are looking at a debt of somewhere around 3,000 to 3,200 Crores in the next two to three years right?
- Akhil Jindal:** At a gross level, yes.
- Ravi Ratanpal:** Thank you.
- Akhil Jindal:** The outlook as of now for the end of the year, we will come to you separately for the next year.
- Ravi Ratanpal:** What is your capex guidance?
- Braja K. Mishra:** As I just mentioned right now I think we are more on a consolidation mode and having said that I must say with a caveat that because we want to be a growing company, so we are always obviously keeping our eyes and ears open like we need to probably relook at any of our facilities somewhere so that you know we can become a local player and that is the way we can enhance our margins all those things are a continuous process, but while we speak there is absolutely no sort of capital expenditure planned; however, we do continue to make some \$15 to \$20 million every year which is our maintenance capex and that is the only thing that we have right now.
- Ravi Ratanpal:** Thank you.
- Moderator:** Thank you. The next question is from the line of James Marshall from Edgbaston Investment Partners. Please go ahead.
- James Marshall:** I just got a question about the Saudi business, which has done so well for you in the last year or so, could you give a bit more detail as to why the demand seems to have come down and are you seeing more competition in that market and from whom?
- Braja K. Mishra:** Of course as far as the demand is concerned or our order book is concerned, even previously while we spoke I did mention that we have an order booking of close to 900,000 tonnes for the company as a whole and out of that close to 300,000 tonnes of order booking would still be for Saudi. So, we have not seen the lull in demand right away, but obviously we have seen some slowdown on some of the oil pipeline. We know that the Master Gas, which was actually the largest order that we received last year and kept us busy the whole of last year is about to come

with Master Gas II and if our market vision is correct, I think that should also be getting awarded sometime in the next two to three months. So the demand per se has not yet come down. There is a little bit of slowdown on the oil side. Coming to the competition, they have of course qualified, two more manufacturers, but we all know that like one thing is just getting qualified and second thing is sort of building up a track record and delivering. So even though we are going to look at competition in the coming years, at least till the time those competitions have not really established themselves in terms of executing large projects in a timely fashion, we are not really unduly feeling scared, we should be concerned, but we are not really overtly concerned as of now.

**James Marshall:** Who are the two manufacturers that they have qualified?

**Braja K. Mishra:** Global Pipes and the other one is NPC. Global Pipe is a new company, which has just started operations and NPC is an old company which was actually black listed and they have just been requalified.

**James Marshall:** I have another question about working capital because I am not sure maybe you can expand a bit on the reason for why working capital increased in the last said results. I did not pick up on the exact details.

**Braja K. Mishra:** The working capital in this quarter has gone up, the net working capital between inventories, receivables and payables have gone up by about Rs.677 odd from what was 1150 Crores close to about 1830 Crores. The inventories have almost been the same range, receivables have marginally gone up. They have gone up by about 180 Crores whereas payables have come down by almost 490 Crores. So what has happened is on one level we have used if you see our cash balance between September and December it has come down by about 700 Crores almost. So we have used on one level the cash balance to pay down the long-term debt and also to bring down our payables and this cycle will improve as we go into the quarter ending March 2015 because some of these large contracts which are keeping us engaged in India and Saudi will unwind and the cash from that will be released into the system by March and we expect that by March, we should be coming back to the working capital cycle of around 60 to 70 days, which has been the range or the best part of this year.

**Akhil Jindal:** James, actually which was at about 106 days we targeted to bring down to close to 75 days or so and I think by the end of the year, we should be sort of back at that 75 to 80 days cycle and I think when Krishnan was also mentioning about this trade receivables of 580 Crores increase YTD we are also doing a job for Saudi Aramco where we are actually manufacturing the pipes in India, a portion of it and it goes to Saudi Arabia, it gets double jointed and coated there and then only it gets kind of they will start becoming sort of paid by Saudi Aramco. So that is also probably contributing to some extent increase in this trade receivable, but I think we would be done with all those stuff I am sure by March, and we should be coming back to a 75 days kind of a cycle and we should be able to square of this adverse impact of net working capital.

- James Marshall:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Good evening Sir. Sir, you mentioned that you expect 5 million tonnes of water pipeline demand in India so that will be DI pipe or you are talking only about the SAW pipes?
- Braja K. Mishra:** I am only talking about SAW pipes, because as I am not in DI pipes so it is all SAW pipes I am talking of.
- Dikshit Mittal:** Sir what is the timeframe for this expected demand?
- Braja K. Mishra:** I would say that two to three years because normally water supply projects also like for example we are doing SAUNI Water Supply jobs which started working on that project almost from end of last year and we are still continuing to make pipes for this project and also going forward we would be making some pipes in the next year also. So I would say two to three years is a fairly good estimate.
- Dikshit Mittal:** Sir, in terms of your current order book of 930 kilo tonnes, can you give a breakup in terms of water, oil and gas pipeline?
- Braja K. Mishra:** Yes for sure. Water we have 300,000-odd tonnes, oil and gas 600,000-odd tonnes. Now having said that the water supply market has also gone through a change, change in the positive direction for us because no more standard bare pipes and you subcontract for doing a cement coating or doing some tape coating. It is almost a matter of past. All these pipes are actually manufactured, ultrasonically tested and three layer polyethylene coated. So there was segregation between oil and gas and water, which used to exist probably three years back or four years back, has narrowed down. No doubt oil and gas business is probably giving somewhat better realization in the domestic market, but water is also coming or rather inching closer to that.
- Dikshit Mittal:** Great Sir. Thanks a lot.
- Dikshit Mittal:** So during first three quarters we have seen progressive improvement in EBITDA margin in terms of dollars per tonne so what is the sustainable kind of margin that you see on your current order book?
- Braja K. Mishra:** See I think sustainable thing we talk today I think it will be slightly unrealistic because this is probably not some of the best performance that we have displayed. I would think that whatever we are seeing probably is a far lower than expected kind of performance from us. I expect that going forward mainly like from 2016-2017 onwards we should start looking much better.
- Dikshit Mittal:** On the current order book the third quarter kind of margins will only be prevailing?



- Braja K. Mishra:** I can only say that it looks like.
- Dikshit Mittal:** Sir finally is there any visibility on margin?
- Braja K. Mishra:** I think on the lighter side, I was also asked a question today in the ETNOW television interview that normally your fourth quarter result is much better every time you declare a result and I said okay fine if you are willing to make that assumptions probably I would have no comments with that.
- Dikshit Mittal:** But Sir in terms of I think, of late you have got some orders in US also. So they are also with the same margin profile?
- Braja K. Mishra:** See typically US has been our money churn or I would say like it has been our cash cow. Obviously the EBITDA margin that you would get in US is actually far different than what you probably get in India and Saudi will be somewhere in-between.
- Dikshit Mittal:** Sir any visibility on keystone pipeline I think some efforts are going on to get that cleared so what is your expectations on that.
- Braja K. Mishra:** Trust me it is too political for me to comment I know only as much as you know about it.
- Dikshit Mittal:** And sir last question from my side what is the large repayment that you talked about in terms of debt this year.
- Braja K. Mishra:** There are two things one was earlier in this year we settled an ECB of around \$50 million and later October we knocked off the FCCBs outstanding about \$75 - \$79 million and lumpiness in the debt book was possibly this year where we would have paid some 700 – 800 Crores of cash out to settle some of the longer-term debts.
- Dikshit Mittal:** So from here on long-term debt will not be in terms of repayment it will not be that high but you will be repaying the working capital only.
- Braja K. Mishra:** That is right.
- Dikshit Mittal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Vijendra Prabhu from ICICI Bank. Please go ahead.
- Vijendra Prabhu:** My question is on the standalone numbers, if we see Q3 FY 2015 the EBITDA margins has dropped compared to the last quarter Q2 FY 2015. What is the reason for the drop in EBITDA and also I would like to know the forex impact for this quarter?

- Braja K. Mishra:** On the standalone if you see, there is a note to the results about management compensation related expense which has had an impact of about 11.5 Crores in the quarter. So that is something which has also impacted the numbers for the quarter. That is basically the biggest thing in terms of numbers effect of the EBITDA.
- S. Krishnan:** But if I can add, we actually dispatched almost 40,000 tonnes less as compared to probably what we have targeted and that would have probably hit in a way the absorption of fixed cost, which has also brought the EBITDA down.
- Vijendra Prabhu:** What about the forex impact for this quarter?
- S. Krishnan:** See for this quarter the overall impact is 48 Crores out of which realized is about 56 Crores of loss and 8 Crores is our unrealized gain.
- Braja K. Mishra:** Thanks a lot.
- Moderator:** Thank you. We have a follow on question from the line of Charu Fernando from Edgbaston Investment Partners. Please go ahead.
- Charu Fernando:** Just a couple of questions. The first was just in terms of the plate plant. Is there any progress in terms of the sale of that facility and then also I think the last time we met with the company, there were some talk the ERW plant might be shifted from India to Canada. So is that now on the cards anymore or could you just clarify those please?
- Braja K. Mishra:** Yes, we will talk about the plate mill first Charu. The plate mill of course as we had also mentioned when we took a decision to probably mothball, we have says that we will keep it in a condition that it is able to start if the market improves. Unfortunately the market has not improved, so we have not really gone ahead and restarted the plate mill in a big way. Of course we have been talking to – rather we have engaged people to probably see if there can be some strategic alliances with steel manufactures so that this can be probably either leased out or some kind of an arrangement can be there to utilize this facility. Having said that, what we have done during the year is that we actually ended up booking at 200,000 tonnes order for water pipes in India and we saw an opportunity of running the plate mill and like contributing to the EBITDA which we have successfully done and we have done about 130,000 tonnes of coil production this year and thereby probably contributing something towards the fixed cost and the interest and depreciation. But other than that there is really nothing much that has happened in the plate mill as such.
- Coming to our shifting of ERW mill I think I must have probably created some kind of a confusion. We were actually trying to explore the possibility of shifting one of our longitudinal pipe mill which is actually the pipe mill located in Dahej in Gujarat and we were undertaking a study because we did see a good potential at that point of time, because more than six LNG projects were to come in and that would have required almost close to 5 million tonnes of pipes

the local industry would not have been able to produce. So we saw a good opportunity, but then I think before we could actually take that call, the market has taken a slight step back and we do not foresee really right now anything shifting to Canada.

**Charu Fernando:** Thank you.

**Moderator:** Thank you. The next question is from the line of Dhruv Muchhal from Motilal Oswal. Please go ahead.

**Dhruv Muchhal:** Sir just wanted to understand how is the business plays in the current environment when the steel prices are falling so sharply so what my understanding was that currently our business should be better placed because our product is less commoditised compared to HRC or CRC which we source for product. So is this understanding right?

**Braja K. Mishra:** Both ways actually and I think we have always maintained that when we normally take a large project more or less we have an arrangement with the steel manufacture on the price. So the steel prices goes down really does not impact me 95% of the cases unless there are some few small projects where I might have just generally bid without taking a support from the steel manufacturer. This is because my sales price more or less is always a function of the steel price.

**Braja K. Mishra:** For example if I was selling pipes probably six months back at \$1500 a tonne and I was making \$200 a tonne. I might be selling the pipes probably today at \$1300 a tonne and yet be making \$200 a tonne.

**Dhruv Muchhal:** So basically your conversion margin is generally fixed, is it.

**Braja K. Mishra:** Yes, on an absolute term it is more or less okay.

**Dhruv Muchhal:** Sir the second question was around the trade barriers which are currently the hot topic in USA and every region because it is increasing Chinese and Russian exports. So I was just reading today an article about Turkey imposing of course we do not export much to Turkey but Turkey imposing trade barriers like antidumping duties. So how does this impact our business, because we are primarily export oriented?

**Braja K. Mishra:** To be very honest with you I think I can only laugh it off because they are the one probably dumping in the last year.

**Dhruv Muchhal:** But if this because we are also seeing this in Southeast Asian countries and Saudi itself and Middle East countries themselves are expanding their steel capacity so what if they start doing it because of significant exports from China, significant exports from Russia. For example Turkey bans it and if Russia is exporting to Turkey they will find another market. So they will try to enter Middle East or US?

**Braja K. Mishra:** Let's talk about this, see the basic product that we are dealing in is basically three products one is ERW pipes which is a very small portion of our total business, second thing is spiral welded pipes and the third thing is longitudinal welded pipes. Now as far as the ERW pipes are concerned which is more or less a localized business in other words if we make probably 100,000 tonnes of ERW pipes in India maybe barring couple of 1,000 tonnes or maybe 5,000 tonnes entire 95,000 tonnes is actually consumed in India. And we actually are not expecting that we will be very competitive somewhere else and sell ERW pipes. Coming to spiral pipes it's almost the same story, because the investment in spiral making capacity is such and the time taken to put up a mill is so quick that spiral business has remained or has become more or less localized and that is why we have gone ahead and set up mills in America. We have acquired companies in Saudi Arabia. So if you see our exports of spiral welded pipes has not been very high. Longitudinal welded pipes is primarily our export business and in that business also whatever projects that we do 95% of the time we are actually doing an export not really competing with the Chinese manufacturers or the Turkey's manufacturers. It is primarily in competition with Europipe and the Japanese. So if you ask me would the antidumping not impact me – for sure it would impact me, but I am just trying to say that like what portion of my business might really get impacted by antidumping.

**Dhruv Muchhal:** Okay that is very small.

**Braja K. Mishra:** And in any case antidumping when you are talking antidumping every other country we are also talking about make in India right.

**Dhruv Muchhal:** Yes, and I was wondering it is a bit positive for us because for example in India antidumping duties will be much lower than compared to China so they impose antidumping duties in China we have a better market means we have at least the competition gone so I think in that way also. Moving to the next question – more from long-term perspective in India. Diesel prices are now deregulated and petrol is already deregulated. Prices are going down, so you have these private refineries coming into the market. So do you see trend that they start setting up their own pipeline network and there is a potential market for us going forward, is this a market for us.

**Braja K. Mishra:** See those pipelines would be primarily ERW pipelines and to that extent for sure it is a positive for us.

**Dhruv Muchhal:** Thank you. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Vikas Singh from B&K Securities. Please go ahead.

**Vikas Singh:** Sir actually I missed on the initial comment regarding that 350,000 tonnes of you are saying that new orders added in 4Q or it is, what you are trying to execute in 4Q FY15.

- Braja K. Mishra:** I was only trying to sort of infer few things and desire few things for all of you, that I started the year with 900 or 1,000 tonnes of order booking I have executed around 900,000 odd tonnes or maybe close to 860,000 – 870,000 whatever in the first three quarters, I am still sitting with a order book of 900,000 tonnes as on today. So in other words my quarterly sales more or less are getting replenished by fresh order booking either in the same quarter or in the following quarter. But if you say as on today it is almost coming to that probably 300,000 – 350,000 tonnes of orders had been added every quarter. I was just trying to infer that because we started with 930,000 or 905,000 tonnes we are still sitting with 930,000 tonnes which means I have booked 934,000 – 935,000 tonnes during the last three quarters for average outflows to 300,000 tonnes plus.
- Vikas Singh:** Sir if you could throw some light on your annualized tax rate?
- S. Krishnan:** If you look at the nine-month tax rate been negative in India because of the standalone related loses and there is the tax effect in the US operations for the first two quarters you will recall we had a limited output and obviously we had a EBITDA related loss as well and at the PBT it was a loss. So for US operations as well there is the negative tax effect. It is only in the Saudi operation that across this year including for this quarter that there is a current tax that is at the applicable rates which is in the region of about 12% or something.
- Vikas Singh:** So probably that is why your minority interest was very high, if I say because only the Saudi mill the minority goes to the Saudi mill.
- S. Krishnan:** That is almost half of it the regions other than Welspun in that operation.
- Vikas Singh:** And sir if you could throw some light on the order bookings of US and Saudi mill as on date, geographical order booking if you can give.
- S. Krishnan:** It is more or less evenly distributed. Actually America has an outstanding about 300,000 tonnes and it is, when I say America it is actually the geographical locations, but not necessarily it is being produced in America – it might be getting shifted from India – so America has about 300,000 tonnes, MENA has about 380,000 tonnes, Asia Pacific has around 8,000 tonnes and India 240,000 tonnes.
- Vikas Singh:** Okay sir, that is all from my side.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Good afternoon Sir. Good set of numbers. Sir three four questions one was what was the sales volume breakup of 305,000 in the quarter between LSAW, HSAW, ERW and if you can give some mill wise breakup also in sense of US, Saudi, and India.

- S. Krishnan:** The breakup was about 175,000 which was in the US for the nine-month.
- Bhavin Chheda:** You are giving nine months figure.
- S. Krishnan:** Yes, I will give you nine-month you want for the quarter we will give that also.
- Bhavin Chheda:** If you can give both.
- S. Krishnan:** So 175,000 for the nine-months for US, India is about 450,000 tonnes and Saudi is about 230,000 tonnes is the breakup of the 860000 tonnes for the nine-month. And for the three months the sales is about roughly 160,000 tonnes in India, 75,000 tonnes in US and about 65,000 tonnes in Saudi.
- Bhavin Chheda:** And how much was the plate mill production volumes in the quarter.
- S. Krishnan:** It was negligible I think the volume in the plate mill was about 50,000 tonnes that was just the production.
- Bhavin Chheda:** There was no merchant sale of plates in the quarter.
- S. Krishnan:** See what happened is most of the production was used as Mr. Mishra indicated earlier we use this for our captive consumption for the Saudi projects from merchant sales was negligible I think it was about 11,000.
- Bhavin Chheda:** No you said you use the plates in the Saudi project.
- S. Krishnan:** No, we had sent for the SAUNI project that work with the water supply project, was the coil which made from the slab that we imported and used it to roll the pipes for Gujarat irrigation –the SAUNI project.
- Bhavin Chheda:** Okay so in the plate mills have started making HRC also right?
- S. Krishnan:** Yes mostly.
- Bhavin Chheda:** The order book visibility in the sense you have mentioned that the environment remains challenging but this 930,000 will be enough to take you through last quarter and next fiscal or you will be able to add orders in the current oil scenario also.
- Braja K. Mishra:** I think we are already bidding in for almost 8 million tonnes so I am sure from them we will materialize in the next quarter. There are few and of course because of the obvious reasons that I will not be able to share specific projects but there are fairly good number of projects actually scheduled to be sort of finalized probably in the next six to eight weeks.
- Bhavin Chheda:** These are in which region?

- Braja K. Mishra:** Across.
- Bhavin Chheda:** So basically you are saying that this oil and gas prices have not significantly slowed down enquiries or order award basis.
- Braja K. Mishra:** I think you would have joined little late see because you are one of the regular participant you are aware that...
- Bhavin Chheda:** Yes I joined in late.
- Braja K. Mishra:** Then whenever we talk about a quarterly numbers our general outstanding order book is about 3.5 – 4 million tonnes. So this is one of the first times we could actually see including future projects including budgetary it is close to 8.4 million tonnes.
- Bhavin Chheda:** So basically there is no major impact seen, at least from the bidding number which you see basically.
- Braja K. Mishra:** Yes, for the gas pipeline projects there is no slowdown – oil pipeline projects whatever were announced before the oil price drop are going through.
- Bhavin Chheda:** And sir net debt you mentioned because of the working capital and all that but what should be the number we should be looking at by the end of the year, because it has gone up very sharply in the quarter, because I do not see there was a major difference in productions and sales volume number so it cannot be purely just related to the inventory number going up.
- Braja K. Mishra:** No, it is all working capital only and primarily see Bhavin again I am just saying that what we are also doing a Saudi Aramco job from India where we manufacture 12 meters pipes here, then they are double jointed to make 24 meters pipes, coat it and then bill it and then they prepare, they call it MDC. So if you see trade receivables has gone up by 580 Crores itself.
- Bhavin Chheda:** So it will come down substantially by end of the year?
- Braja K. Mishra:** See we will be closing all these orders and as a matter of fact, the last shipment is going. So no doubt that by end of the year everything would have come back to square one and I would say that maybe to 2,300 or 2,400.
- Bhavin Chheda:** That would be the stable debt.
- Braja K. Mishra:** Yes.
- Bhavin Chheda:** And what would be the capex plans how much you must have done this year and what would be the stable run rate like.

- Braja K. Mishra:** Before I go into that I just want to share one more thought with you. See this working capital cycle in the first quarter typically it used to be about 105 odd days and we have got at the year specifically having a target that we are going to bring it down by 32. So we have done that in September quarter it was 62 in March quarter it was 69 in June it was 90 or something. So it has gone up primarily because of some of these large orders otherwise we would maintain that about 75 days of cycle.
- Bhavin Chheda:** Just a capex number how much it would be this year and next year.
- Braja K. Mishra:** Capex as on today it is normal that like which is our maintenance capex or we call it operational capex which is primarily to upkeep the plant and of course sometimes we do have to spend some money also some quality equipment which is more or less on an average somewhere from 75 Crores to 100 Crores globally.
- Bhavin Chheda:** There is no other capex except for maintenance.
- Braja K. Mishra:** Nothing that is planned at this point of time, it is about \$20 million.
- Bhavin Chheda:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Kaushik Krishnan from Centrum Broking. Please go ahead.
- Kaushik Krishnan:** I was trying to get the demand for ERW pipes and given the recent fall in oil prices is it conducive for the refinery players to come up with Capex they foresee more demand with the industrial activity picking up and what kind of a turnover opportunities does this offer for you going ahead, is it for the refineries division, petrochemical division, how does it impact your business. Second question would be what percent of the Capex let's about a 1000 Crores capex is planned in the refineries division what percent of that would be your ERW pipe so is it like somewhere in the range of 5% to 8%.
- Braja K. Mishra:** It is actually very difficult to tell you what percentage will be the ERW pipes, because it all depends like some of these no doubt there are small diameter pipe requirement, but those small diameter pipe requirements also are divided into ERW pipes which is standard a 53 pipe and we have seamless pipe, and we have stainless steel welded pipe and we have large diameter pipes. Very difficult for me to really tell you how much ERW pipes in the segment that we operate because we are primarily API producer. So it is very difficult for me to give you an insight into that, but nevertheless I would probably say that every refineries would be consuming probably at least may be 100 Crores of ERW pipes that is all that I can raise it is only I am just throwing a number to be honestly.
- Kaushik Krishnan:** That would be 100 Crores out of a 1000 Crores investment you said.



- Braja K. Mishra:** That is what I think cost of piping – when I say ERW pipes not only ERW pipes for me it would be stainless steel ERW pipes as well.
- Kaushik Krishnan:** So it includes all the pipes, say stainless steel, ERW, HSAW pipes also.
- Braja K. Mishra:** Small diameter.
- Kaushik Krishnan:** So do you think given the industrial activity picking up in India, it offers more opportunities for your business and the deregulation in diesel prices as someone correctly pointed out that the fall in prices should allow these refinery companies with more cash flows which is early time with more cash flows and hence they will do capacity expansion and go ahead with it without any issues. So how does this help your business?
- Braja K. Mishra:** See my current capacity is about 2.6 million tonnes and my ERW capacity is close to 300,000 tonnes which is almost about 10% of the business and of course depending on what kind of I am not really foreseeing lot of, ERW pipes being used in the expansion per se of the refinery but if they want to come into retail and then they want to lay product pipeline that is where I see an upsurge in business, otherwise just for refinery expansion I am not really looking at a huge probably upside in my ERW business as such.
- Kaushik Krishnan:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Parin Tanna B&K Securities. Please go ahead.
- Parin Tanna:** Hello sir this is a good set of numbers. I had a question, you have said that you have current bids of about 8.5 million tonnes I wanted to just get a sense of that?
- Braja K. Mishra:** There is small correction there. I said bids including budgetary ones.
- Parin Tanna:** So about 4.5 million tonnes of bid plus 4 million tonnes of budgetary. So if you can tell me the geographical mix for this as and where is they coming from.
- Braja K. Mishra:** I think it will be better for me to tell you that it is across the globe.
- Parin Tanna:** I am sure but I am saying where would it be most skewed towards that and because what I hear is...
- Braja K. Mishra:** It is more North America oriented.
- Parin Tanna:** More of North America oriented is it.
- Braja K. Mishra:** Yes.

- Parin Tanna:** Also just one more clarification you earlier in the call did also say that there is a pipeline in Mexico coming up about 6,500 kilometers would that be a part of this and when?
- Braja K. Mishra:** It is a cluster of pipeline it is not one pipeline it is a cluster of pipeline which has started about a year back. Few of them were already been awarded on the Mexico side you can say close to 1,200 kilometer have already been awarded and when I say awarded means maybe pipes have been awarded probably for 300 or 400 kilometers but projects have been awarded to an extent of 1,200 kilometers and balance is expected to be sort of awarded in the next two years time.
- Parin Tanna:** So just wanted to get a clarification in the 8.5 are we including this as well or this is in excess of that.
- Braja K. Mishra:** No, these are all including in that as such.
- Parin Tanna:** And sir just one more question when we were talking about working capital increase this quarter we did say that we are executing a chunk of order in our US and Saudi mill and because of which our working capital is blocked in and what are you see with the current order book as well that our order book is most skewed towards US and Saudi what makes you think that the working capital would not go up in future as and I understand that it might come down in March but would it as and when you execute this orders would not the working capital cycle remain a little stretched.
- Braja K. Mishra:** My sincere apology I could not catch your name.
- Parin Tanna:** My name is Parin Sir.
- Braja K. Mishra:** Yes, Parin what I am saying, I think, I must have created little bit of confusion there, saying that the trade receivable has gone up by 580 Crores and one of the reasons I was mentioning that because some pipe orders are being executed in India and getting further processed in Saudi Arabia before it can be billed to the customer it actually sort of increasing our cash conversion cycle and that is a fairly large order actually during the year it is about 170,000 tonnes of orders. So that has contributed substantially to increase in our trade receivables and Mr. Krishnan also clarified that we have also tried to utilize some cash and bring down our trade payable as well.
- Parin Tanna:** Sir so would it be fair to say that our net debt would peak out in FY15 now and it will taper off going ahead given our Capex cycle is largely over.
- Braja K. Mishra:** Our earnings will go up, yes you are right it will come down.
- Parin Tanna:** It will come down right.
- Braja K. Mishra:** As we have indicated Parin we believe that the net debt as of March will be in the region of about 2,300 to 2,400. I am saying it will come down, like gradually it will come down.



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**Parin Tanna:** Thanks a lot.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Amit Mishra for closing comments.

**Amit Mishra:** Thanks Vivian. Sir would you like to make any final comments?

**Braja K. Mishra:** I think it was wonderful having you all and it was privilege to interact and I like the questions especially because on the backdrop of the oil price drop and I was also happy to hear that I think the fraternity has probably liked the numbers and I look forward to interact with you in the next quarter.

**Amit Mishra:** Thank you Sir. It was a pleasure to have you on the call and thank you all participants.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Macquarie Capital Securities that concludes this conference. Thanks for joining us you may now disconnect your lines.