



“Welspun Corp Limited”

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Moderator: Ladies and gentlemen, good day and welcome to the Welspun Corp Q2 FY 2015 Earnings Conference Call, hosted by Macquarie Capital Securities Private Limited. 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. Abhishek Agarwal from Macquarie Capital Securities Private Limited. Thank you and over to you Mr. Agarwal!

Abhishek Agarwal: Thank you Margreth. Good afternoon to all investors and analysts. We are happy to be hosting Welspun Corp Ltd's Q2 FY 2015 Earnings Conference call. We have with us from the management, Mr. B. K. Mishra, Managing Director, Mr. S. Krishnan, CFO and Mr. Akhil Jindal, Director, Group Finance and Strategy. Without further ado, I shall hand over the floor to the Welspun Corp management for their presentation. Over to you Sir!

B. K. Mishra: Good day ladies and gentlemen and I think before we start I would also take this opportunity to introduce to all of you our new member in the family, Mr. James F. Herald known as Skip Herald who has joined very recently as our CEO of our USA operations. Good Morning Skip. Skip has joined us as CEO of Welspun Pipe Inc and the entire US operation is going to report to him and he is also going to be responsible for marketing pipes made out of India in the American market. Skip is the man from the industry and as a matter of fact, before he joined Welspun, he was holding the position of CEO of Vallourec, Mannesmann in America. So, good day gentlemen and ladies and I will take you through the second quarter earnings results of Welspun Corp and I must say that after the First quarter's results, which was probably one of our worst results, I think it is absolutely fresh air and I would say that it is onset of probably the operational performance that is likely to happen for Welspun Corp, going forward.

I would try to give you a comparison between the Q1 and Q2 results. As against sales of Rs.1400 Crores in the first quarter we have jumped up by 68% basis to 2400 Crores of sales in Q2. Our EBITDA has gone upto 212 Crores as against 82 Crores that is again a jump of 158%. Operational EBITDA has reached 220 Crores as against 55 Crores again a jump of nearly 300%.

I would also like to make a special announcement here that our finance cost has only increased from 68 Crores to 72 Crores only far despite the fact that there has been an increase of 68% in revenues and business. Our PBT which was actually 95 Crores loss in Q1 FY15 stands now at a positive of 41 Crores in Q2 FY15. Not only has the business performance improved but also there been quite a bit of fiscal management within the company to achieve these numbers. Our net debt stands at about 2346 Crores at the end of Q2 as against 2983 Crores in the Q1 FY15.

Networth at the end of the quarter was Rs. 2865 Crores. In terms of sales and production volumes the Q2 production volume figure stands at 327,000 tonnes of pipes as against 2,13,000 tonnes which is again signifying 68% jump and also produced 38,000 tonnes of coils and plates which has been made primarily for our own consumption.. In terms of sales, the pipe were at 339,000

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metric tonnes as against 216,000 tonnes in Q1 15. The internal sales of coils was 23,000 tonnes in Q2 15. The most important thing also I wanted all of you to take note of that, this is we have today the highest ever outstanding order position that we have today. The current order book position while this stake stands at over a million tonnes and our segregation of order book in terms of product category is as follows, LSAW is at 258,000 tonnes, HSAW is at 746,000 tonnes and ERW at 36,000 tonnes totalling to 1.04 million metric tonnes.

By way of the Geographical segregation, from American region we have a healthy order book position of 344,000 tonnes, if you recall in the last quarter our biggest dragger was the performance of our US operations because US did not have order booking and consequently the spiral mill which is usually our biggest contributor was actually idle for the three months period of last quarter. Now that is a kind of matter of past. This region now enjoys the healthy order book position of 344,000 tonnes i.e around 33% of the total order book.

In the MENA region, last quarter we did mention that we were executing or even we are now in the process of executing the largest ever order from Saudi Aramco of around 480,000 tonnes. Now we have also increased our order booking by close to 125,000 to 150,000 tonnes to take our outstanding order book position for the MENA region at 460,000 tonnes. Asia Pacific is nothing much really around 8,000 tonnes, but our India region order book position now stands at around 228,000 tonnes.

The more important fact also I would like all of you to take note that our oil and gas market now stands at 70%. That means out of the 1.04 million tonnes of order that we have 70% is actually for oil and gas and 30% is from the water segment.

As far as the outlook is concerned, I can say that in terms of enquiry flows, and in terms of bidding, I think, it is almost looking like the situation probably, which was prevailing in the time of 2004 to 2009. In US alone today we are either in the process of bidding or have bid for pipes in excess of 3.8 million tonnes. Likewise in MENA the outstanding enquiries or outstanding bid is close to almost 5.8 million tonnes. Similarly we have started also seeing inquiries in India and I sincerely hope that considering that like our Honorable Prime Minister of India has recently announced around 15,000 km of pipelines to be laid over the next four to five years period, which we are already seeing quite a bit of movement and we expect some of those enquiries to be actually getting floated probably either towards the end of this year or early next year.

So, on the whole I would say that it is the onset of probably a good period going forward for Welspun Corp. This is all from my side. I will be too happy to take on questions. I have with me Mr. Akhil Jindal, who is our Director of Group Finance & Strategy and I also have our CFO, Mr. S. Krishnan, who will be able to assist you in giving answers to all the questions that you might have.

- Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Raj Gandhi from Principal Mutual Fund. Please go ahead.
- Raj Gandhi:** Thanks a lot Sir. Sir, you mentioned that in MENA region you have about 5.8 million tonnes orders under discussion, what is normally the quantum of orders that is in discussion on an ongoing basis?
- B.K. Mishra:** I did mention that 5.8 million tonnes of enquiries and bids. We are in a state of discussion of orders. These are the enquiries, which are either they have been bid or they are in the process of being bid.
- Raj Gandhi:** Okay. What is the normal market? In the sense what is the normal addressable market that is there available versus this 5.8 million?
- B.K. Mishra:** Because we do enjoy a good position in Saudi Arabia and you know the majority of these orders are actually coming from Abu Dhabi region. Typically from India we have done about 200,000 tonnes for the MENA market and our Saudi operation does about 300,000 tonnes. So, if you go by the past track record it means at least half a million of business for us.
- Raj Gandhi:** Just any specific projects from where this demand is coming from?
- B.K. Mishra:** As I mentioned these are some of the onshore and offshore pipeline primarily in Abu Dhabi, some of them and I think majority quantity is actually from Saudi Arabia.
- Raj Gandhi:** Then US turnaround that you are seeing from Q1 and now what is the major reason for this?
- B.K. Mishra:** I beg your pardon.
- Raj Gandhi:** In USA, from Q1 wherein you are saying there was some lack of orders and you have a good order book in US so what is the reason for this change of sentiment at US?
- B.K. Mishra:** There are a lot of oil pipelines. As a matter of fact out of the 340,000 odd tonnes of business we have we are already dealt with. Almost I think all of them, except for one small order all of them are for oil pipeline. Mostly the pipelines are being constructed. For example in North Dakota they are bringing oil to Cushing, which is the hub for oil and from Cushing they are bringing pipelines to the Texas area and provided to them to refineries. And also there are I know like there are gas market of Mexico, I just wanted to give you a small heads up in Mexico. Mexico is dealing almost I would say 3000 to 3500 km of pipelines. You know give or take maybe few 100 miles here and there and it is mostly expected that the gas feeded from US for these markets, for these pipelines so there are also basically gas pipelines being planned now to feed these lines. That can be transported to Mexico. Also probably you have read from the news articles there are three LNG facilities have already been given approval it is also considering that with the current political situation in Europe that it might be opening a market for US and I think US that is why

it is also thinking on a futuristic basis about exporting LNG. So some of those pipeline enquiries that we are dealing with are also for LNG pipelines.

Raj Gandhi: That transports to these LNG terminals?

B.K. Mishra: That is correct.

Raj Gandhi: We hear that a lot of these pipelines were supposed to be put to get the heavy oil from Canada to US that is no longer in work. How much does that impact the market condition there?

B.K. Mishra: I think it is a known fact that KXL is still under hold although there is a quite a bit of optimism and maybe a couple of years down the line KXL might come back again, but nevertheless what has happened in Canada there are two major oil pipelines, three actually major oil pipelines planned in Canada to export oil. One is of course Kinder Morgan is planning a Trans-Mountain pipeline which is about 1000 km, which is actually bringing oil from the Alberta region to the West Coast. Likewise TransCanada has also declared a project called Energy East to take oil to the Quebec region to the East Coast and likewise Enbridge, which is like one of the top players in Canada, they are also planning the Northern gateway oil pipeline project. So these are the three major oil pipeline projects being planned in Canada, which are not going to be dependent or supplying oil to US.

Raj Gandhi: Great Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of James Marshall from Edgbaston Investment Partners. Please go ahead.

James Marshall: Talking again about the US market, I just wanted to get a sense of the capacity utilization now and looking forward and increase in order book in the US for US plant? How long does that last in terms of time?

B.K. Mishra: Well if you see out of this 340,000 MT of order book that I mentioned its sizable order book is for the spiral mill which is the large diameter mill and even after leaving some room probably for booking some small orders we were practically booked in October 2015 and we have clear visibility as of now as a matter of fact we did not want to be the first one to just get booked out and we have been sort of conservative in booking orders and even then we have order booking until 2015 so almost one year from now Welspun has booked.

James Marshall: And what capacity?

B.K. Mishra: The capacity is actually theoretical capacity is about 350,000 tonnes in spiral pipes.

James Marshall: Just compared to the first year results, I did not understand that you did some maintenance capex or some sort of renovation of the plant in the first quarter. Was that the reason that the orders came down or was that did you do the maintenance because there were no orders?

B.K. Mishra: To be honest with you, you know like best thing was the boon in disguise because in any case the mill who was operating almost seven years nonstop and we did want to sort of take off some maintenance activities there is no doubt about that and which has actually helped us booking from 40000 to 50000 in terms of orders which needs normally probably if he has not taken a maintenance could have done that because those are on shorter length time and our mill was typically designed to deliver only 80-footer pipes and during these three months period we could convert with a very minor capex sort of commercially viable way of producing 40-footer pipe as well. So even though there was a mismatch of order booking that was the reason probably like mills took a shutdown, but it also helped us in sort of taking a maintenance shutdown.

James Marshall: Okay. Just quickly as well could you maybe talk about the Indian market and whether that there has been any improvement in the supply and demand markets domestically?

B.K. Mishra: There is no doubt that there has been some improvement in demand in the water segment. Now water segment has not been I think one of our focus area in the good years. Of course even like when you do not have the market, you will try to take your mill running and that is why we cannot be close to the idea of doing any water supply job, but having said that I must say that the 190,000 odd tonnes of water supply orders that we have in Welspun and we are not really booked like water pipe orders, because they are also like the oil and gas orders with propanthelene coated, ultrasonically tested pipes so they are having decent margins. Now coming to the forecast about demand really in the oil and gas sector to be honest nothing has really started as yet, but I can tell you that there are talks about pipeline, people have started soliciting budgetary offers so all those hue and cry about those 15000 km of pipeline is probably not a hoax because people have started working on it. Now have I really bided for any of these pipelines, yes, maybe to the extent of 250,000 to 300,000 tonnes we have bided but I think the real probably demand is going to probably start showing up from the first quarter of CY 2015.

James Marshall: So fourth quarter 2015 financially?

B.K. Mishra: That is right.

James Marshall: Just lastly you are still planning or potentially thinking about moving one of the plants from India to Canada?

B.K. Mishra: To be honest with you, I think we are right now very, very wary of capex. We would like to conserve cash as a matter of fact we are actually working more towards ensuring that even those projects which are actually likely to come in Canada can it be supplied from India and I think you know we have found quite a bit of viable ways that we can probably supply from India and not really sort of like have to put any mill in Canada or anything of that sort. If any case, putting up a pipe mill in Canada has been long dismissed and we are not really thinking of moving any pipe mill to Canada.

James Marshall: Thanks.

Abhishek Agarwal: I will ask one question if I may. Wanted to know of course slightly hypothetical question, but what would be your wish list for the domestic demand to actually revive possibly on the policy front or possibly things of course have panned out in a way that the new government has put in place a few things, but what would you think are the reasons which would again spur demand to the way that it used to be in the earlier golden days?

B.K. Mishra: I think primarily whatever pipeline demand that is going to accrue in India is going to be cash driven. Now of course you are like there has been quite a bit of volatility in terms of gas supplies in India. So people are very wary. Like somebody wants to put up a gas based power plant. Till today probably he is going to be very insecure whether he is going to get gas, whether he is going to get gas at the right price, whether the gas supply is going to be continuous. Now all those things are probably all those things are probably being addressed by the Prime Minister himself when he made a statement that there is going to be funding for the gas. So that means you know if there is a project, which is being let us say envisaged by somebody like Gas Authority of India and if they find a gap in the funding because of viability I think government is going to pitch in to provide funds for those projects. Now this is a huge step. As a matter of fact this is precisely what is happening in Mexico. As we all know that the pipelines that are being built right now in Mexico actually they do not have committed gas supply, but they are going ahead and building the infrastructure not because of the fact that they can get gas only from US but they also have already sort of announced their policy of sort of privatization, they are privatizing their oil and gas opportunities, so that will also in any case increase production or even begin production let me put it that way. So at least when those production starts the pipelines are already in place. Now these kinds of things probably is going to be the same philosophy that is being replicated in India.

Abhishek Agarwal: Got it Sir. Thank you.

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

Vikas Singh: Sir, Congratulations on good set of numbers. I just want one thing that how much we have executed from Saudi and US mill during this quarter?

S. Krishnan: In this quarter we have done about 200,000 odd tonnes from India, about just under 50,000 tonnes from US and over 80,000 tonnes from Saudi.

Vikas Singh: Given the current order book we would be able to maintain that kind of run-rate in the near future?

B.K. Mishra: May I pitch in there. See typically we have done like in last two quarters in excess of 550,000 tonnes and I did mention that like it is a kind of fresh air in the second quarter after our probably one of the worst performances in the first quarter of this year and even then we had done 200,000 tonnes in Q1. So I am saying that this quarter is probably only an onset of things to come. So, if

you just extrapolate, you would actually see what kind of probably order execution we would have done during the year especially when we are sitting with an order book position of 1.04 million tonnes after the execution of H1 of this year.

Vikas Singh: Thank you Sir. That is all from my side.

Moderator: Thank you. The next question is a follow-up from the line of Raj Gandhi from Principal Mutual Fund. Please go ahead.

Raj Gandhi: Sir just globally at the macro level if we see that the oil and gas capex is actually going down from whatever all the reports are indicating so as in how do we see this cycle going?

B.K. Mishra: I think let us talk about the transportation side of the business. I am not really going so much into E&P and in any case even in E&P I think the investments in the US is not really going down. If it is not going up, it is stable or at least continues to be invested. We have seen obviously in the last few weeks whatever if I can use the word turmoil in the oil prices but otherwise the investment in oil and gas sector especially in US has not really gone down. Now coming to transportation segment, which is actually our business is impacted by the South Stream project last year of 1.2 million tonnes and in about six months now, South Stream III and IV have been announced, which is again 1.2 million tonnes of pipes. So one single project to bring gas from Russia to Europe is consuming 2.4 million tonnes of pipes only on the offshore portion. This is over and above a 3000 km pipeline that has to be built to sort of bring the gas from Siberia. As a matter of fact I can only tell you that, I think I am not saying this as an hypothesis I mean, we should not surprise you tomorrow that at the end of the selling some pipes to Russia despite the fact that is probably the market is already having a capacity of close to 2 million tonnes. So as far as you know like investment in the pipeline segments are concerned I think it is still continuing. Continuing my discussion in Europe as we all know last week the TANAP pipeline has been ordered, which is again close to 1.2 to 1.3 million tonnes of pipes coming other sites in Azerbaijan to Europe and then on its way to Italy. The TANAP pipeline has been restarted. Only day before yesterday the Chinese government has cleared 2500 km of pipelines within China. The Power of Siberia as they call it, I could be wrong in probably in naming the pipeline the Power of Siberia is already approved and Russia has already received some money to supply gas from Russia to China that is already on. In the US, Prince Rupert Gas Transmission Pipeline in Canada which is again the LNG pipeline has already been announced. There is a pipeline being talked about and probably like maybe few months down the line might come off for bidding itself is the Progress Energy and Shell Pipeline Coastal Gas Link. So, the investment in terms of in the pipeline segment as a matter of fact, it has been probably more than three years since when probably I saw enquiry of 3 million tonnes floating in the market. Out of those 3 million tonnes probably 300,000 tonnes or 400,000 tonnes would probably be budgetary enquiry and rest all are firm enquiry.

Raj Gandhi: Great Sir. Thanks a lot.

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

Ravi Ratanpal: What is the capex guidance for 2015 and 2016?

B.K. Mishra: As I mentioned, Ravi we have frankly no Greenfield capex planned on anything. If any capex that we would probably be making which would be probably for let us say \$1 million or \$2 million investment for improving the quality or for that matter there are few new requirements have come up in the pipeline specifications, so any capex that we are looking at least in 2015 for sure is probably more going to be maintenance capex or operational capex and we are not looking at any, which is to the tune of somewhere \$16 to \$20 million in a year that is the maintenance capex. We maintain at 2.6 million tonnes pipe capacity around the world.

Ravi Ratanpal: Again hypothetical question. If in the next few months if you get a good acquisition or investment opportunity will the company be okay to go for that acquisition at the cost of increasing the leverage?

B.K. Mishra: I dont think so. I think that is probably right now a little hypothetical because like the effort, the stresses on the company have been to conserve cash. Now if something is really sort of giving us an opportunity by which we can probably sort of let us say sell 500,000 tonnes of our pipes made out of India into an export market something like that, and that can be probably looked at but there is no plan for any capex or any acquisition as of now.

Ravi Ratanpal: Thank you.

Moderator: Thank you. As there are no further questions I would now like to hand the floor to Mr. Abhishek Agarwal for closing comments. Thank you.

Abhishek Agarwal: Thank you Margreth. Thanks all the investors and analysts and we sincerely thank the management of Welspun Corp Ltd for taking out their time and sharing their keen insights with us. You may now go ahead and disconnect the call. Thank you so much.

B.K. Mishra: Thank you.

Abhishek Agarwal: Thank you. On behalf of Macquarie Capital Securities Private Limited that concludes this conference. Thanks for joining us you will now disconnect your lines. Thank you.