



“Welspun Corp Limited Q1FY15 Earnings Conference Call”

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MODERATOR: **MR. AMIT MISHRA - EQUITY ANALYST - MACQUARIE
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Moderator: Ladies and gentlemen, good day and welcome to the Welspun Corp Ltd. Q1FY15 earnings conference call hosted by Macquarie Capital Securities. As a reminder, all participant 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Mishra. Thank you and over to you Mr. Mishra.

Amit Mishra: Thanks Karuna. Good afternoon everyone. It is our pleasure to host Welspun Corp post results conference call today and we thank you all for participating on it. To represent the company, we have with us Mr. B. K. Mishra – Managing Director, Mr. S. Krishnan – Chief Financial Officer and Mr. Akhil Jindal – Director, (Group Finance and Strategy). I would now hand over the call to Mr. B. K. Mishra for the opening remarks which will be followed by question and answers. Over to you sir.

B. K. Mishra: Good afternoon gentlemen and ladies. Welcome to this conference call on our first quarter results for Welspun Corp. Considering that our board meeting got over at around 2 o'clock today and we have this conference call at 5 o'clock today, I would sort of try to read out the release that we sent out like announcing our results. So I think that will give you a proper perspective of the numbers.

The sales figure for Q1 15 is at Rs. 1,426 crores as compared to Rs. 1,534 crores last quarter that is Q4 2014. The reported EBITDA is 82 crores as against 195 crores. Operational EBITDA 54 crores against 54 crores, a coincidence. Finance cost 68 crores against 66 crores. Depreciation and amortization 109 crores against 94 crores. PBT is 95 crores loss as against 35 crores of profit same quarter last year. And the cash PAT is 2 crores loss as against 91 crores of profit last quarter in FY14. The net debt stood at 2,983 crores at the end of the quarter compared to Rs. 2,565 crores at the end of FY14. Net worth at the end of the quarter was 2,859 crores implying a net debt-to-equity ratio of 1.04. Total pipe sales volume stood at 216,000 tonnes and production stood at 213,000 tonnes. This is as compared to last quarter of 234,000 tonnes of production and 202,000 tonnes of sales.

The current order book position that is the outstanding order as on today is actually at all-time high. It stands at 993,000 tonnes valued at around 6,400 crores and during the period of 1st April to 5th August 2014, the company has won orders of around 300,000 tonnes. Out of which, a very significant order of 130,000 tonnes has come from the US market and this also marks the beginning of pickup of order booking from the US market. And during our Q&A, of course I will give you a much better outlook as to what is happening around the world. For now, the order book of 9,30,000 tonnes is split like this. L-SAW is 330,000 tonnes, H-SAW is 602,000 and ERW is 61,000 tonnes and by destination that means the region to which this pipes will be dispatched; America stands at 244,000 tonnes, MENA stands at 440,000 tonnes, Asia Pacific

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15,000 tonnes and India 295,000 tonnes. I also wanted to let you know that the line pipe business is showing certainly visible signs of significant revival which of course we may not be able to capture probably most of it this year, but for sure the way the enquiries are issued and the kind of bids that we are submitting, we see a good prospects for 2015 onwards and when I say 2015 onwards because the kind of demand that we are seeing, it is not going to stop in 2015, it should continue at least for few years.

The North American and Latin American pipeline is quite strong with several projects already announced and several more in the pipeline. Middle East continues to be robust with demand from Saudi Arabia, UAE and Iraq. And Europe also continues to be strong and may even continue to be stronger with obviously the developments in European Union is happening.

With the new government's focus on pipeline, we are also expecting significant pickup in India. As you would have read probably in some of the newspaper articles, the GSPL pipeline is already under bidding and we understand that like in the next couple of years, the Government is trying to lay another 15,000 Kms of pipeline to add to the existing network. This is what is the information that in fact we sent out for publication, but I also wanted to give you some outlook as to the kind of projects that we have bid right now.

As on today, our total bided project stands at around 5.9 million tonnes and a significant amount of this is actually in US & Canada and Latin America about 1.8 million tonnes and Europe is about 1.7 million tonnes. And in terms of spiral or longitudinal or from our plants perspective; out of this 5.9 million tonnes, about 4.6 million tonnes could be supplied from India, about 0.87 million tonnes from KSA and about 0.42 million tonnes from Little Rock facilities . Now this information that I have given, if you see I just mentioned that like out of the 5.9 million tonnes, about 900,000 tonnes are actually for US and Canada destination and when I am saying that Little Rock is only 422. That means the balance 400,000-500,000 tonnes of additional quantity that has been bided is expected to go from India. So that is the kind of visibility that we have right now and we know that probably this has been a one-off quarter for us, but I have always mentioned in all the conference call that please treat us as a yearly performer rather than a quarterly performer and there is no doubt that the performance for this quarter has not been as expected which is primarily because US which has been running nonstop for last 6-7 years, the first time actually it was not producing for the first quarter which has since started production from 27th of July of this year, we have started production and we are quite confident that the production in Little Rock will continue for several months and likewise our HFIW which used to be producing just about 3,000-4,000 tonnes per month because it was taking time to get stabilized is already producing in the last few weeks, actually we are achieving production tonnage of almost 850 tonnes a day. And with our good order booking and stock steel available in the factory, we expect that we would do a good year also with the HFIW mill.

Saudi still continues of course with our existing orders of Saudi Aramco which we announced about a quarter and a half back. It is booked almost till the end of the year and as far as India L-

SAW is concerned, both our Dahej plant as well as Anjar plant actually booked till December and we are quite sure that it will not stay idle during the year also. I think that is about it as far as my reporting of the performance of the company is concerned and we would of course be happy to take your questions and try to give you the answers to your satisfaction as much as possible. Thank you so much.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have first question from the line of Gaurav Sanghvi from Bajaj Allianz. Please go ahead.

Gaurav Sanghvi: Sir my question is as you mentioned on the 5.9 million tonnes bided projects, what kind of orders we are expecting and what kind of margins we are expected to make because this quarter we have reported bit muted margin. So what kind of low margin orders are there in current order book and from where we expect the margin improvement?

B. K. Mishra: Gaurav, I will actually probably answer your questions slightly in a broader perspective. First and foremost, you are absolutely right to think that the orders that we have booked probably with lower margin as probably you would have gathered from the data that we presented just now for the first quarter. But we need to understand that the pipe market has actually gone through a torrid time right from 2009 till about 2013 or even 2014. So if you see the 1 million tonne order that we have is obviously bifurcated into two kinds of orders. Some of the orders that we would have booked in 2013 or early 2014 would obviously been booked in a very competitive environment because the demand was very sluggish. However, as I had also mentioned in the annual investors conference of 2014, that we expected the demand to pick up sometime around first quarter or second quarter of 2014-15 and like that would have some impact in our profitability for 2014-2015 performance. So if you ask me that entire 900,000 tonnes of orders that we have, they are highly profitable. Then my Answer would be No, as it shows in the first quarter results. But to the defence of the first quarter result, I also must say that the US has been a major contributor to our earnings all these years and that is primarily because of our brand name and whenever US is implementing large projects, we get a preferential treatment by the customer because of our ability , our track record and our capacity to execute large projects. So when a mill of that magnitude is lying idle for 3 months, obviously it is a big dragger on the numbers. So to give you a perspective, I may not have exactly the figures with me, but I am sure it contributes close to \$15 odd million in terms of dragging the EBITDA down whatever probably EBITDA is made by US and Saudi. And on top of that, what has also happened that our major planning for Q1 from India was for water supply project. Now on these water supply projects, I must say that without disclosing specific numbers have been booked a much better margin as compared to water supply or water pipes orders that we have booked in the past. But because of the monsoon and people were not able to lift the finished products , and we actually had to curtail production. Now all those things totaling together has brought in numbers like this as you are seeing in the first quarter. But for sure, I can tell you that whatever pending orders that we have which is 993,000 tonnes and without giving a really guidance, I can tell you that in the

last 2 years that is in the year 2010-2011, I think we did about 1,000 crores of EBITDA when we did about a million tonnes. We did almost 850-900 crores in 2012-2013. So if this year also as you would see, we have already done 215,000 tonnes in first quarter and in the balance quarter out of this 993,000 tonnes of order booking, we are 100% sure that we are going to execute minimum of 896,000 tonnes leaving spare capacity to be booked and executed. We would be crossing for sure about 1.1 million tonnes by end of this year., I am not actually making a statement, I am just trying to deduce these on the basis of data today. Then there is no particular reason really why we would not be closer to the numbers of our last year or last to last year. Did I or rather could I explain to you about your concern on the margins?

Gaurav Sanghvi: Yes sir and the other question is on the water segment. As we have seen some of the order coming from the Gujarat government Yojana, are we seeing any traction on the other state ordering on water segment side?

B. K. Mishra: We are seeing some movement in Rajasthan as well as some movement in Karnataka.

Gaurav Sanghvi: Sir if you can give size of the order or size of the opportunity present in that segment.

B. K. Mishra: Gaurav, as you know like to be honest with you, I think if we are today probably doing about 30% business in India which is primarily water pipes, it used to be just about 5% of our total sales in the early years. So we try to do business actually in water segment only when we have spare capacity available. Now these projects whatever we are doing as on today from our Anjar facility is primarily, even though they are water pipes orders, they are more or less challenging orders. For example, this pipes are in 140-inch. Now we are the first one to produce this 140-inch quote it and dispatch it in the market place. So these are even though water pipe orders, not really from a margin perspective, not typical water pipe orders. That is why probably you would find me wanting in terms of giving you specific demand in Rajasthan and in Bangalore for water pipe because it is really not one of our major concentration area. With our current order booking of this 900,000 odd tonnes, our concentration is back to the early days. We are looking at booking orders with right margin rather than booking orders for the sake of booking order.

Gaurav Sanghvi: And sir are we seeing any traction on the domestic oil and gas side?

B. K. Mishra: We have reasons to believe that in the next probably 6 weeks, 8 weeks, some major pipelines are likely to be announced in oil and gas.

Moderator: Thank you. We have next question from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.

Dixit Mittal: Sir firstly have you started execution of the Saudi Aramco order that you secured around two quarters back?

- B. K. Mishra:** Yes, of course and maybe Mr. Krishnan will give you the exact quantity that we have already supplied to Saudi Aramco as against our 420,000 tonnes of orders.
- S. Krishnan:** The Saudi business that is Kingdom of Saudi Arabia, the Saudi business this quarter we have delivered about 80,000 tonnes. Out of which, almost 70,000-73,000 tonnes is Aramco and in India, we dispatched one consignment, but which of course is in transit and which will get billed in Q2. Pretty much the Saudi operations are streamline to deliver the spiral pipes to them and the India operations are streamline to deliver the L-SAW pipes to the Aramco business.
- B. K. Mishra:** And considering that you have asked this question, I also must give you all its perspective that I cannot tell you as has always been what is the margin on Saudi Aramco order, but I can only tell you that in the current year we would be executing 420,000 tonnes of Saudi Aramco order.
- Dixit Mittal:** Okay, the full order you will be executing in this year?
- B. K. Mishra:** Yes.
- Dixit Mittal:** And sir as you mentioned that US plant shutdown was a drag, sir I missed the number that how much in terms of money was it a drag on the EBITDA?
- B. K. Mishra:** I honestly do not have the number right in front of me, but is close to about \$10 million.
- Dixit Mittal:** Sir any specific reason why the plant was shut down?
- B. K. Mishra:** No, there was no order. That is what I said.. But at the same breathe I am also saying that in the last 60 days, we have booked order almost about 120,000-130,000 tonnes and the plant has started form 27th of July and we do not foresee that the plant would actually go for a shutdown for a long period of time and as a matter of fact that is the reason that like we have sort of spend those three months time almost as a god gift and during that phase we have worked on the maintenance of the equipments and we have increased the efficiency of the mill. As a matter of fact, we expect this year to be a more productive mill than what it was before because this is the first time we have got a chance to sort of maintain and take off any performance improvement activities in our mill.
- Dixit Mittal:** And sir what is the capacity of that US plant?
- B. K. Mishra:** See, theoretically it is 350,000 tonnes, but if you ask me the kind of orders that we are expecting, let us say 42-inch 15 mm which we did in the last quarter of 2013-2014, we could actually go almost 35,000 tonnes a month.
- Dixit Mittal:** And sir secondly on your debt actually, debt has increased by 400 crores quarter-on-quarter. So any particular reason for this increase?

B. K. Mishra: So when you had a chance to look at the details, but there is nothing to be concerned on that. It is because of increase in working capital and Mr. Krishnan will give you some more details on that.

S. Krishnan: See, most of the increase in the debt is because of working capital increase. Almost 90% of the absolute number increases because of working capital and the working capital increase is on account of two things. See, as Mr. Mishra indicated we had a delay in the start to the quarter in terms of really starting the production as well as sales. So what happens is most of these sales got back-ended to the last month of the quarter. So they are sitting as receivables. Similarly in some of the large orders like the Saudi Aramco order in India or the Saudi Aramco order in Saudi Mill or some of the other domestic orders that we talked about, the mobilization of all that is in the form our ability to service that means that we needed to mobilize these. So all that is also sitting as inventory. So as we get into this phase of mobilizing the business to service these orders, it will have that phase when the working capital goes up. So while the numbers are looking alarming, we are not unduly concerned about it because we believe that as this cycle turns and this receivables get converted into cash, we will wind down over the course of Q3 and thereafter.

B. K. Mishra: And also I wanted to add to what Mr. Krishnan says, I think we need to explain you how this Saudi Aramco orders get executed. It is an order for not only making pipes; it also includes double jointing of pipes and coating of pipes. So a portion of it gets invoiced when the bare pipe is made. A sizeable chunk gets booked only after the pipes are double jointed and coated. So likewise even if we make the sort of pipes in India, whatever quantity we need to make we have to dispatch it to Saudi Arabia where it has to be double jointed and coated and then invoiced to Saudi Aramco. Now considering that it is a consolidated balance sheet, even if I would have booked this sale in India but it does not really get reflected in my books as long as my Saudi Mill or Welspun Middle East (WME) does not invoice it to Saudi Aramco. So like this 18,000 tonnes or 20,000 tonnes what Mr. Krishnan mentioned, we have already made the first shipment but that is again not captured in the first quarter So that is also one of the draggers because you have not been able to capture the profitability of that shipment into the first quarter because it is not yet invoiced in WME.

Dixit Mittal: Okay. Sir out of this total Saudi Aramco order, how much will be executing in India?

B. K. Mishra: About 160 odd thousands would be in India and balance would be in Saudi.

Dixit Mittal: And sir finally any update on this plate mill, have you operated that plant during this quarter?

B. K. Mishra: See, we have not, technically you can say that. We had actually not stopped the mill. We have always maintained this mill with a staff of about 100 people. If doing go slowly, so that the plant is fully maintained and whenever we get an opportunity in terms of a commercially making better sense, we would always roll some coil or the others. As a matter of fact, I think it is a matter of probably quite thrill for all our team members for sure that we would be actually rolling some 100 odd thousand tonnes of coils because it made commercial sales for us to roll

those coils in our factory and we would be starting to roll those coils sometime next month and we would be actually consuming those coils mostly ourselves.

Dixit Mittal: So this quarter, on EBITDA level was there any loss on that plant?

B. K. Mishra: Yes, of course because it is not like selling anything. So whatever is the fixed cost, it is loss in EBITDA in any case.

Dixit Mittal: And sir last question, you mentioned your current order book breakup in terms of L-SAW, H-SAW or ERW, is there any margin difference between these pipes or the margins are the same in terms of L-SAW and H-SAW?

B. K. Mishra: I think from an order booking perspective, every order would have a different margin. But as I did mention to you, what you should expect from us, of course like considering that we are in project business I cannot from a probably fiduciary standpoint and as well as from a business standpoint, we cannot talk about specific margin for specific product but I can tell you that the orders that we have booked, the entire 993,000 tonnes will be probably following the similar kind of margins that we have done in the past 2 years or so.

Dixit Mittal: So normally L-SAW and H-SAW have the similar kind of margin profiles?

B. K. Mishra: It should have. Some order probably would have less margins which we would have booked probably in the early part of or let us say middle of 2013 to be executed this year. Those I think would be having some less margins. The recent orders that we would have booked would have better margins. Some of them would have somewhat better margin.

Dixit Mittal: And sir last question, this 5.9 million tonnes that you mentioned that it is bidding, you have correctly bid. So by when do you see that turning into actual order book sir?

B. K. Mishra: Again I think it will be quite a bit of forward-looking statement but I can tell you that we are keeping our fingers crossed to probably book some orders everyday.

Dixit Mittal: So this whole 5.9 is you are expected?

S. Krishnan: I must stick to what Mr. Mishra indicated, these are the projects which we have bided. We believe that we have a fair chance to win some portion of these volumes.

B. K. Mishra: That is why I said we are keeping our fingers crossed that we would get some order everyday.

Dixit Mittal: So normally sir how much is your success rate in terms of bidding and actually winning the order historically?

B. K. Mishra: Again it is a very difficult question. But see the total consumption of large diameter pipes, if you take out CIS and China because we believe that we cannot sell anything in CIS and China. Do not be surprised that we come out with a different probably information tomorrow, but what I am saying typically we operate in the whole world barring CIS and China. Our consumption is about 16 million tonnes and we are doing about a million tonne. You could say that we are probably hitting about 5% of the world market right. So I think that would be the only thing that probably I can give you like inference.

S. Krishnan: If I can add to what Mr. Mishra indicated, see, if this order book at its comfortable position that we have, our priority going forward will be to try and ensure that incremental orders on this book are qualitatively better because as he indicated earlier in his statement that the outlook, demand outlook, the project outlook across market looks much more promising. So which means with the basic capacity being met with this order book, we would want to see that the new orders that come in are of a better quality in terms of margin.

Dixit Mittal: And sir what is the gross debt on your balance sheet as at end of June?

B. K. Mishra: About 4,200 Crores.

Dixit Mittal: And sir what are the debt retirement plans during this year?

S. Krishnan: See we expect that sometime in October we will be discharging that outstanding FCCB which are of the magnitude of about \$75 million or thereabouts. That should be retired and that is the one big one between now and end of the financial year and if I may add to this as we expect the working capital cycle to slowly unwind between Q3 and Q4 that should also improve the overall debt number.

B. K. Mishra: And also because we would be interpreting orders from US and in US, those orders practically barring some of our HFIW orders are actually self-funding as well as working capital requirements are concerned. So if you are going to do probably let us say 150,000 tonnes order for spiral that would have more or less self-funded as far as the working capital is concerned. So going forward, we should be able to bring down our working capital requirement as well and consequently our net debt should come down.

Dixit Mittal: And sir any plans to liquidate the liquid investment sir because that is unnecessarily bloating the balance sheet?

B. K. Mishra: We are sitting on around 1,200 crores and for a company of our size and if you look at our annual plan, as we said we are going to be upwards of 1.1 million tonnes in terms of volume. There will always be a requirement to keep a certain cash as a minimum cash that will be floating across the business, one. Second is when we are having some kind of such major repayments coming in we talked about this FCCB of about \$75 million, it is better that there is

enough liquidity available in the system to be able to address some of these requirements. Last but not the least says if there are any opportunities that come up and or anything where we need to take up an order and mobilize ourselves to address that other requirement, availability of liquidity in the system actually is a strength to the business. The only disadvantage if I will say is that there could be an element of negative carry because of our ability to invest in those three instruments.

Moderator: Thank you. We have next question from the line of Parin Tanna from B&K Securities. Please go ahead.

Parin Tanna: Sir I just wanted to get clarity on out of the total order book, how much would be on account of the water pipelines that we need to give on account of the water segment?

B. K. Mishra: I doubt we have that segregation but I think I can give you an indication. Out of 993,000 tonnes, maybe close to 200,000 odd would be water pipe.

Parin Tanna: So would it be fine to assume that whatever we are doing domestically is all water pipe right?

B. K. Mishra: Right now more or less you are right. There might be a stray order of HFIW, whatever which might be for oil and gas but otherwise more or less you are right.

Parin Tanna: Sir also I wanted to get a clarity. As you said that our US mill was shut for three months, I do not see any huge indicators globally which say that the investment cycle in the oil and gas industry has kick started. Could you just draw some attention to what has changed in the US market in terms of where we had seen such a huge demand coming up?

B. K. Mishra: See, if you are actually following this industry, I am quite sure that you would have come across at least in the last 8 to 12 weeks amount of projects that are being announced by companies like Energy Transfer, Enbridge, TransCanada, Enterprise, it is amazing. I can tell you that in fact I just came back from US after a four-week trip, I know for sure that the market is throwing a demand of at least 3,600 Kms of line pipes which probably could be sort of awarded in next 3-6 months' of time and plans that CFE in Mexico has, so that itself is going through demand in excess of 700,000-800,000 tonnes of pipes. About three weeks back to four weeks back, PEMEX, the main oil & gas company in Mexico, has awarded 300,000 tonnes of orders. I think they have awarded another 100,000 tonnes of order just about two weeks back and we all know the L&G situation globally and the gas supply situation globally. US itself has recently got three permits to export L&G. In Canada, there are 12 applications pending for L&G exports. Now each of these export network would require pipeline from the producing gas base to the ports.

Parin Tanna: So I understand that we bid for all these orders or you were saying that these are perspective orders which will come and we have existing orders where we bid?

B. K. Mishra: Yes ma'am.

Parin Tanna: And sir if I may ask, are there any CAPEX in pipeline in the next one or two years that we are thinking in regards to the demand which is coming up?

B. K. Mishra: I am quite sure you obviously were not part of probably the investor's conference that we had in the last quarter that is when we were announcing the yearly results. So we made a statement that we are not looking at any capital investments for any Greenfield project. However, we did mention that we are exploring the whole world where we can repeat what we did in US and Saudi Arabia. Now that might trigger probably shifting of one of our mill to a particular destination with the minimum investment and more importantly given those investments, we would like to see how it can be funded either by way of participation of our partners. When I say partners, partners in business. So it could be a customer, could be a supplier or whatever and so that we are not bringing in debt to our books. Having said that, these are all on exploration and right now we are on a consolidation mode. Our biggest effort will go in terms of optimizing production from our existing capacity of 2.4 million tonnes.

Moderator: Thank you. We have next question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir few questions. First on the margin if I understand correctly, you said the US mill hit was close to \$10 million since it has not contributed. But still if I figure out that, then too I feel the margins are too low. So is this the new normal for this fiscal as you are indicating that the turnaround looks only next year whatever the order inquiry is happening or as the US mill, there will be some pickup in margin but it is way below Rs. 8,000-10,000 a tonne we were operating. So what is the outlook there?

B. K. Mishra: Let me explain to you Bhavin. See what has happened in this quarter is that let me take some specific names because you are well conversant with the industry and you would have a perspective. In our spiral mills, we were expecting to do a large chunk of business for **Sauni Yojna** project which is water pipes and you know that the margin of water pipes normally is I think way below the normal oil and gas pipes that we do. Having said that I did also mention that these orders are not typical water pipes really because these are pipes with ultrasonic testing, pipes with three-layer polyethylene coating, but we expected to sell almost to the extent of almost 60,000 tonnes this quarter. Now because of delay in getting the LC from the customer and subsequently getting steel and the appetite of the customer primarily because of the monsoon as you know the pipeline laying gets delayed that impacted India. Likewise, we were probably expecting the right from 1st of April, we will run our longitudinal mill in Anjar with the order that we have received from US. Now unfortunately the production got delayed by about 45 days because of late arrival of raw material. Now these things together with our sort of inability to probably run the mill in US for three months and then coupled with our Saudi Aramco order which got dispatched from India but could not be captured in the P&L because it was not billed

by Welspun Middle East as yet. So these are the things while you would see production of 215,000 tonnes but technically we actually have not been able to capture even the benefit that should be coming from 215,000 tonnes.

Bhavin Chheda: Sir the Saudi plant production I think you mentioned in the call. So how much this Saudi plant produced? I think it delivered some 80,000 you said?

B. K. Mishra: 80,000 tonnes, yes.

Bhavin Chheda: It produced also 80?

B. K. Mishra: It produced also 80, yes.

Bhavin Chheda: So you are saying there was some amount of pipes which were supposed to be sent from India to Saudi which didn't happen.

B. K. Mishra: No, it got shifted out of India before the quarter. But because it is a consolidated balance sheet in P&L as long as, because we would be billing it to Welspun Middle East and further it will bill it to Saudi Aramco. So if Welspun Middle East has not billed it to Saudi Aramco even if the sales has happened from India, it cannot be captured in the consolidation.

Bhavin Chheda: Sir taking all these account, you said this is the lowest margin we have seen in last two quarters and there is an uptake possible right?

B. K. Mishra: May be frankly speaking Bhavin, you have been following this company so closely. I think this is probably, I do not remember frankly when did we have this performance.

Bhavin Chheda: And another thing on the debt side also, I was negatively surprised, I do not expect such debt numbers. So I am still not able to figure out why should debt go up by 400-500 crores? If I see your production and sales number, in fact your sales volume is more than production volume. So I am still not able to figure out where this inventory number or working capital need has increased because if I understand correctly, there is advance system when you book order also. So I am negatively surprised by 3,000 crores of debt. I was supposed to see a debt of 2,000 crores in fact.

B. K. Mishra: I will ensure that you do not stay negatively surprised for more than two minutes. See first and foremost, I have mentioned this in one of the calls that we in our HFIW business in US, we have to stock steel and then made pipes and sell for our 50% of the business. So during the quarter, we were actually holding close to the 80,000 tonnes of steel. That is one factor which has been funded. Now that is not a normal way of Welspun doing business because this is a different model that we have entered into because this accounts for distributor business, okay. The second part is that we were supposed to start production in Saudi Arabia right from 1st of April and our

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target was to produce close to 32,000-35,000 tonnes at least per month. So that means we were to carry at least 2 months of additional inventory because the materials are all coming from China and we did not want to get into a situation of stock out at any point of time. So we were actually sitting with a sizeable inventory either in the mill or in the sea but the moment that the shipment is made, our LC gets debited. These are the factors which have actually sort of contributed to increase in working capital and as you see I do not think we have given you the details. The working capital increase has only been in Saudi actually.

Bhavin Chheda: So you are saying majority has happened in Saudi.

B. K. Mishra: Absolutely. And I also will tell you that like I think going forward, we should produce good 35,000-40,000 tonnes to some extent given the production has been hampered because of sand storm. This is the time the June-July time when you have this sand storm in Saudi that has also impacted a little bit of production. Otherwise, I think these moneys are well invested even though it is looking a higher utilization of working capital.

Bhavin Chheda: Sir this HFIW plant is in US right. So steel inventory is also increase in US plant ?

B. K. Mishra: Right.

Bhavin Chheda: So two locations you are saying you were holding higher inventory than normal because you were expecting a higher production and that led to a working capital increase.

B. K. Mishra: Absolutely.

Bhavin Chheda: Which means we should come down as the finished good is produced and you book sales in quarter 2.

B. K. Mishra: I am also giving you some additional information which will make you more comfortable. As a matter of fact, this 80,000 tonnes of stock that we were holding and because the mill was not forming, we were actually being thinking that shall we sell some of those coils but you would be surprised probably in next 2-3 days, I would be actually placing order for additional 20 tonnes of steel because out of the stock, almost 70% of the steel is already presold and we would be producing and selling in the coming quarters.

S. Krishnan: And if I just add to what Mr. Mishra was saying, it is in the US it is in the spiral part of the business that historically some of the orders that we have got, we have got advance of August payments. In the HFIW, that is not the case. Similarly in the Saudi part of the business, it is not advance of August payment, it is payments post delivery with some credit as well attached to it.

Bhavin Chheda: Was the HFIW sale in the quarter you said some 3,000-4,000 per month was the run rate. So you sold some 10,000-12,000 right?

- B. K. Mishra:** But Bhavin it will start looking very different from this month onwards in HFIW.
- Bhavin Chheda:** Like you said now 25,000 a month but I was just wondering if there was a sale in Q1.
- B. K. Mishra:** No, I am saying like they have been producing 800 odd tonnes, but 25,000 tonnes to produce on an average will probably be high.
- Bhavin Chheda:** Per month basis I am saying.
- B. K. Mishra:** I know because there we do not operate 7 days a week. So you operate the HFIW mill mostly 5 days a week. Quarter one, we have made 24,000 tonnes which I think quarter 2 should see a significant jump. And most importantly, in case of HFIW also, we have booked some project orders like one single size producing 11,000 tonnes or 12,000 tonnes. Now those things will also lead to better productivity as well as better yield, so better numbers of course.
- Bhavin Chheda:** And HFIW capacity sir 3 lakh tonnes right?
- B. K. Mishra:** No. Capacity theoretically is 175,000 tonnes. But we are taking a decision that we would be concentrating only on the higher segment of the market that means 12, 16, and 20 inch dia pipes . So if we produce 12, 16, and 20 inch pipes and continue to demonstrate this production ability what we have been demonstrating in the last 2 weeks, I think we safely, we can say that it has a capacity of close to 200,000 tonnes.
- Bhavin Chheda:** And quarter one, you did 25,000 tonnes.
- B. K. Mishra:** That is it.
- Moderator:** Thank you. That was the last question from the participant. I would now like to hand over the floor back to the management for your closing remarks. Over to you sir.
- B. K. Mishra:** Thank you very much. Thanks for your participation. I would again try to reiterate that it was wonderful having you all and the result that we have declared in the first quarter, no doubt is probably not one of the most encouraging results you would have seen. But we could say that we are again reiterating like we are a company who should be seen more as a yearly performer rather than a quarter-to-quarter performer and we sincerely hope that we will be able to come out with better results. Thank you so much.
- Moderator:** Thank you very much sir. On behalf of Macquarie Capital Securities, that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.