



**FY14 Quarter 2 Earnings Conference Call of  
Welspun Corporation Limited  
31<sup>st</sup> October 2013**



**Speakers:** **Mr. B.K. Mishra, Managing Director;**  
**Mr. S. Krishnan, Chief Financial Officer;**  
**Mr. Akhil Jindal, Director Group Finance and Strategy**



*Q2-FY 14 Conference Call of Welspun Corp Ltd 31<sup>st</sup> October 2013*

**Moderator:**

Good morning, ladies and gentlemen. I am Tanmoy Mukherjee, the moderator of this call. Thank you for standing by and welcome to the Welspun Corp Limited Quarter 2 Financial Year 14 Earnings Conference Call. For the duration of presentation, all participants' lines will be in listen-only mode.

We will have a question and answer session after the presentation. I'd like to now hand over the conference to Mr. Amit Mishra from Macquarie Securities. Over to you, sir. Thank you.

**Amit Mishra:**

Thank you, Tanmoy. Good afternoon, everyone. It is our pleasure to host Welspun Corp Ltd post results conference call today. And thank you very much all of you 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 like to handover to Mr. Mishra for the brief background to the results, and then we'll open the floor for Q&A. Over to you, sir.

**B. K. Mishra:**

Good afternoon, everybody, and wish you all a very happy and prosperous Diwali, and a happy New Year. I would start with the results of the second quarter, and I would probably repeating so many things despite the fact that you have already had a chance to briefly look at the Clause 41 as well as the results uploaded in our website. I would be going through the basic production performance as well as sales performance.. And at the end of my conversation, probably I would also touch upon the market, where it is heading to, and how is our current order book position, all those things. And I would be constrained to leave at around 4:30. Mr. Krishnan, our CFO, and Mr. Akhil Jindal, our Director Finance, will continue to take on your questions and reply to your satisfaction.

I would start with the results of Q2, the sales that we have recorded this quarter, is 2179 crores and we earned an operational EBITDA of 388 crores, which is almost a 204% jump as compared to the same quarter of last year, or the corresponding quarter of last year, and which is also about 12% more than the last quarter of this year.



*Q2-FY 14 Conference Call of Welspun Corp Ltd 31<sup>st</sup> October 2013*

The PBT stands at 81 crores which is also a jump of 17% over the corresponding quarter of last year. The cash PAT stood at 228 crores as against 43 crores of the corresponding quarter of last year. The pipe sales volume was at 275,000 tons and the pipe production stood at 269,000 tons. Obviously the shortfall or the increase of that 6-7 thousand tons has been met by booking the sales from stock. So the total pipe consolidated sales volume is 275,000 tons as against 181,000 tons of the corresponding quarter last year, and by product the production volume is, the LSAW is at 88,000 tons, HSAW at 159,000 tons and ERW is at 22,000 tons.

The plant, location-wise production volume is , India was at 156,000 tons, US is at 68,000 tons, and Saudi is at 45,000 tons. The current order book stands at around 521,000 tons, which is valued at around 3500 crores. If I segregate these in terms of different product category, LSAW will be 145, HSAW will be 333 and ERW will be 43, totally to 521 tons. And in terms of percentage, America accounts for about 46% of the order book, MENA region is at 18%, Southeast Asia at 5%, and India at 32%.

The business outlook as far as the current year is concerned, as I've just mentioned that we still have an outstanding order book of 521,000 tons, and which we expect to execute in the current year itself. Now, considering that, we have already crossed half a million tons in the last two quarters, so the H1 is already in excess of half-a-million ton, and considering that this entire 521,000 tons of order book which is currently existing in the books is likely to get executed this year, so I think it's, of course, anybody's guess that we should be able to cross our last year's number in terms of volume.

As regards to the future business potential, I also must say that we are seeing very good visibility for our Middle East operation. As a matter of fact, the substantial quantity of tenders had been announced in public by Saudi Aramco; that should give us a very good visibility for the next year. Likewise, we have also participated in some good tenders even in the US, and we are also expecting a few good comparative bidding coming up for our Indian operations.

Overall, as on today, we have already bid for projects worth about 2.8-odd million tons, and the enquiries that we are expecting to be serviced for the next year is already at



*Q2-FY 14 Conference Call of Welspun Corp Ltd 31<sup>st</sup> October 2013*

around 10.5 million tons. So I think despite the fact that we have already had a lull probably in the last, let's say, 16 to 18 months now, I think the market has started looking up, I must say that, and of course we were doing a little bit of comparative study where do we stand vis-à-vis our peers; and I'm happy to say that probably if you compare us as a large diameter player and if you compare us against the peers in the international market I think by far we must have been ahead of them maybe at least 15-20%.

So I think that has been no doubt a good performance as far as Welspun Corp is concerned even in a bad market condition. No doubt the margin has been somewhat under pressure, but I still believe that the worst is over and probably for the year 2014-15 we should look at a good business prospects.

Now, this is what I have to say as far as the results are concerned and the market outlook is concerned. I also wanted to inform you that in our today's call, we would be mostly concentrating on the pipe business primarily because we already feel that as far as the demerger that we initiated in the first quarter of this year, is more or less moving in the right direction. As a matter of fact, we have already received unanimous approval from shareholders and lenders approving the merger and we have already filed our petition with the Gujarat High Court. So we feel that it's a matter of time that the demerger comes into effect and which we expect that would be completed by January 2014. And, therefore, from here on, of course, we would be concentrating on Welspun Corp Limited, which is basically the business is for pipes and plates.

I also wanted to give you a little update on the plate mill. Despite the fact that we have decided to probably keep the plate mill probably non-functional for the time being as the market was not so remunerated, we continue to explore possibility, if there is an opportunity and if the market improves, we will continue to keep on exploring the possibility of restarting the plate mill if necessary, and subject to, of course, we are getting a good margin on that. And also regarding the health of the plate mill I also would like to convey to all of you that we already have retained more than 100 people in our plate mill which they continue to take necessary steps to keep the plant in spic and span condition, and we are able to restart it the moment we



*Q2-FY 14 Conference Call of Welspun Corp Ltd 31<sup>st</sup> October 2013*

decide or the moment we see that the market has taken a upturn.

This is all from my side, my friends. I would be too happy to answer any questions pertaining to the performance, pertaining to the market. As I have to actually unfortunately leave at 4:30 pm for a different meeting, but in my absence Mr. Krishnan and Mr. Jindal will continue to take and answer your questions.

**Moderator:** Shall we open the floor for the question-and-answer session, sir?

**S. Krishnan:** Please.

**Moderator:** Thank you. Any participant who wish to ask any question at this point of time please press "0" "1" on your telephone keypad and we will un-mute your line. I repeat, any participant who wish to ask any question at this point of time, please press "0" "1" on your telephone keypad and we will un-mute your line. Participants who wish to ask any questions, please press "0" "1" on your telephone keypad and we will un-mute your line. I repeat, any participant if you wish to ask any question... Okay, we are getting the first question from Mr. Vikas Singh from B&K Securities. Mr. Singh, your line is un-muted.

**Vikas Singh:** Good evening, sir.

**S. Krishnan:** Good evening.

**Vikas Singh:** Sir, I just need a little clarification on your ForEx. Sir, you had given around 154 crores of ForEx losses for the quarter?

**S. Krishnan:** Yes?

**Vikas Singh:** And if I see your operational and reported numbers difference, it is around 117 crores. So basically I could not find the remaining 50 crores of... difference

**S. Krishnan:** Okay, I think we will explain that. See, the thing is for the quarter, it's about 160 crores, that is ForEx impact; and there is another income which is about 47-48 crores so that's how that 388 crores reconciled with the 270 and odd number. ForEx impact is 165 for the quarter adverse.



*Q2-FY 14 Conference Call of Welspun Corp Ltd 31<sup>st</sup> October 2013*

- Vikas Singh:** Okay. And most of these are pertained to our operations, like the imports of raw material, etc.
- S. Krishnan:** That's right. It includes both the realised and the unrealised components, both, with the total impact.
- B.K. Mishra:** As a matter of fact, when Mr. Krishnan is talking about the unrealised and realised, I think we could also tell you that out of this 165 crores, 80 crores is actually still unrealised. So it's more like a provision. And if the rupees to appreciate further, that would actually get ploughed back in the next quarters.
- Vikas Singh:** Okay. And, sir...
- Akhil Jindal:** So 80 crores is unrealised, 80-85 crores is realised. So 80 crores still has a potential to come back to our P&L number in the next few quarters.
- Vikas Singh:** Okay. Sir I know that you you won't be concentrating on other business, but I would like to know about how is the Maxsteel performance, I mean to say what kind of production we are doing from there?
- Akhil Jindal:** I think we continue to have a very subdued level of operation in Maxsteel both on account of the debt situation as well as due to the fact that the second quarter is a usual long-drawn shut-down period. So in fact, we were hardly producing anything. So the total sale that we achieved in Welspun Maxsteel in this particular quarter was to the tune of only 90 crores, am I right? 91.86 crores. And on a normalised EBITDA we were virtually breakeven, I mean a small loss of 3 crores. But otherwise the operations were very, very curtailed. Now, of course, we have started the mill again. So come... I think this has already been operational for the last two or three days. So this quarter we will have some production going on. But certainly the gas remains a key challenge and we are not operating at anywhere closer to the optimal levels.
- Vikas Singh:** Okay. Sir, any production target we intend to like 60% or 50% minimal...
- Akhil Jindal:** I think we have different modules of the production levels. I think we are roughly at around 1200 tons per day level which amounts to around 30-35% capacity utilisation. And



*Q2-FY 14 Conference Call of Welspun Corp Ltd 31<sup>st</sup> October 2013*

that' s the best that we can do given the current gas situation.

**Vikas Singh:** Okay. And sir, secondly on strategy point of view, now we are demerging our infra business and we are into a separate entity. So in terms of debt of these two entity, do we have any plans in place?

**Akhil Jindal:** See, infra... mostly on a self-sustainable, self-sufficient basis, as far as Maxsteel is concerned, we are working very closely with our lenders and also with our technical people in terms of the coal-duty gasification. But there is some proposal being discussed with the lenders which will mean that at least 40% of our gas requirement could be met in-house and it would be only 60% that would be bought from outside. So to that extent, Maxsteel will continue to face challenges till some clarity on the Reliance Gas and Other Gas also comes. Even if we have a 40% utilisation from our own internal basis, our average cost of gas will be in excess of \$10 which would mean that the unit will continue to bleed, not make a real substantial profit.

**Vikas Singh:** Okay. And in terms of Infra business... because I believe we are EBITDA level loss there also?

**Akhil Jindal:** Yeah, so there is a comprehensive loss of around 5-odd crores in the EBITDA. But those are largely which have come latent, where there is one-time impact that latent has taken. And also the monsoon; in fact, the second quarter is usually extremely weak in infrastructural companies all across. So there have been some pick up of activities there. So as Welspun Enterprise, you will not be required in terms of the new cash flow or any other requirement in Infra business except for Maxsteel where there would be a need for our own contribution, promoters' contribution, for the new coal-duty gasification project that I just talked.

**Vikas Singh:** So basically, if you go for the coal-duty gasification, then how much would be the cost for us?

**Akhil Jindal;:** I think, the total project would in the magnitude of around 160, 170 crores. Our requirement will be around 60, 70 crores as a promoters' contribution, which anyway there are enough funds with Welspun Enterprise going forward to fund this capacity expansion.



*Q2-FY 14 Conference Call of Welspun Corp Ltd 31<sup>st</sup> October 2013*

- Vikas Singh:** Okay, and sir, coming to your plate and pipe business, sir, if you could give me the EBITDA per tonne for the HSAW, ERW and LSAW, we have done this quarter?
- S. Krishnan:** See, the EBITDA per tonne for the various geographies, or you wanted it at a segment level as well?
- Vikas Singh:** Segment and geographies, both would be desirable, sir?
- S. Krishnan:** So the operational EBITDA for the pipe business in Q2 is around \$225 per tonne.
- Vikas Singh:** And geography-wise?
- S. Krishnan:** For the geography-wise, it will be equivalent of about... just around \$188, \$190 for India, Saudi would be around \$270, and US would be upwards of \$300.
- Vikas Singh:** Okay. And sir, how is this new mill that 175 tonnes, ERW Mill, how is it ramping up, and what kind of orders we are getting from there?
- B.K. Mishra:** Yeah, I think, I must say that the mill, of course, takes its own time to get stabilised as we all know that it is a pipe mill, so it does take time. And especially when we are trying to, sort of, make pipes in X70, X80 grade, it does take some time. But I am pleased to inform you that in the last four-five months, I think a sizeable number of our customers have visited the plant and the plant actually has been rated as probably the best plant in US. Now, I don't have a document to probably corroborate that. But I think anybody and everybody has visited the plant, they have gone back, like, approving the plant. And as a matter of fact, today, morning, I just read a small message which came to me from one of the very large customers in America. And the message said that like, "Our expectations was probably met far ahead." That means we really exceeded their expectation, whatever they were expecting out of our mills, far more than probably they expected. And more importantly, I think, in a few weeks, we should be, actually, considered for some very large orders. As a matter of fact, as on today, we are already sitting with enquiries pertaining to almost about 1,000 kilometres of relatively large diameter from that mill standpoint. So I think better days are ahead as far as that mill is concerned.





*Q2-FY 14 Conference Call of Welspun Corp Ltd 31<sup>st</sup> October 2013*

- Vikas Singh:** Okay. Sir, just last couple of questions. Could you please help us with the consolidated debt in your books in gross terms?
- S. Krishnan:** For the pipes and plates business, gross debt is about 4,000 crores and the net debt is about 2,500 crores. And for the total, that is including the other businesses, would be 5,900 crores and the net would be around 3,700 crores. But I think we just remained focus on the pipe and plate because anyway the units are getting demerged.
- Vikas Singh:** Yeah, I understand, sir.
- Vikash Singh:** Yeah, sir. Just lastly, if you could give us some guidance, see, we have done a very good EBITDA per tonne this quarter. So can we expect a similar kind of performance in the future Now, our pipes and plates which is completely separate...
- B.K. Mishra:** Mr. Singh, you have been in the industry long enough. And knowing that I won't be able to give a forecast on this.
- Vikash Singh:** Yes, sir.
- B.K. Mishra:** But I have already given you some indications that I have order book of about 521,000 tonnes. Now, all these order has been booked around the same level or around the same time. So I think it's your guess instead of, like, I giving you any guidance. I think, I would expect that you would able to make a reasonably good guess.
- Vikash Singh:** Thank you, sir, thank you. That is all from my side.
- B.K. Mishra:** Wonderful, thank you.
- Moderator:** Thank you, Mr. Singh. Any other participant, if you wish to ask any question, you can press "0" "1" on the telephone keypad. There are no further questions in the queue. So I would like to handover the conference back to our speakers. Over to you, sir, for your concluding remarks.
- B.K. Mishra:** Thank you very much, gentlemen. And I sincerely hope that you would join us back in the next quarter results. And we hope that we will have a better conversation next quarter again. Thank you so much.



*Q2-FY 14 Conference Call of Welspun Corp Ltd 31<sup>st</sup> October 2013*

**Moderator:**

Thank you, sir. Thank you, Mr. Mishra and thank you all participants. That thus concludes our conference call for this afternoon. You may all disconnect your lines now and have a very pleasant evening. Thank you all, bye.