



“Welspun Corp Limited Q2 FY 2016  
Earnings Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to the Q2 FY 2016 Earnings Conference Call Welspun Corp, hosted by Macquarie Capital Securities India Private Limited. 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 this call, you can signal an operator by pressing “\*” then “0” on your touchtone phone. I now hand the conference over to Mr. Amit Sinha from Macquarie Capital. Please go ahead Sir.

**Amit Sinha:** Good evening everyone. It is our pleasure to host Welspun Corp post results conference call and thank you very much all of you who are participating on it. To represent the company we have with us Mr. B. K. Mishra, who is the Managing Director of the company, Mr. S. Krishnan, the Chief Financial Officer and Mr. Akhil Jindal, the Director, Welspun Group Finance & Strategy. Mr. Mishra, I would now like to hand over the call to you for the opening comments, which will be followed by question and answers. Thank you.

**B. K. Mishra:** Good day everybody. Thank you very much for participating in this earning call and I would sort of speak out the numbers whatever we have achieved in Q2 on a year-on-year comparison basis, and I would also be sort of giving you information on the salient achievements during the quarter and after this is over, me and my team will be happy to take your questions.

Starting with the production, this quarter we have produced 305000 tonnes of pipes as compared to 326000 tonnes last quarter FY 2015 and sales is at 325000 metric tonnes as compared to 339000 metric tonnes. Of course there is a drop of 4% on that; however, the sales revenue has increased from 2412 Crores to 2503 Crores, an upward gain of 4% signifying higher sales price.

The reported EBITDA, even though the quantity was less, has increased to 336 Crores as against 212 Crores. A jump of about 58%. The operational EBITDA has gone up to 325 Crores from a level of 219 Crores which is again a jump of 48%. The finance cost has gone down by 6% but looking at the volume more or less probably it is at the same level as probably the second quarter of last year. The reported EBITDA percentage has gone up to 13.4% as compared to 8.8% in the corresponding quarter of last year and the operational EBITDA has gone to 13% as against 9.1% of the second quarter of last year.

Just to give a little heads off on the order booking situation, the company has an outstanding order booking of approximately 850000 tonnes. We started the year with a million tonne of order booking executing approximately 580000 tonnes in the last two quarters or in the H1, we are still maintaining a healthy book position of 850000 tonnes. I would like to say that a large portion of this 850000 tonnes even though it is going to be executed in 2016 but a sizable portion to the extent of I would say 25% to 30% is also likely to get carried over to the next year. So, I am also happy to inform you that we would be starting probably the year 2016-2017 with a decent order booking going forward.

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As far as the market is concerned, I would say that the market is continuing to be sluggish, but the oil prices impact has impacted smaller projects. There is no doubt about that; however, for large players like Welspun, I think the opportunities have been very, very consistent and I would maintain that the kind of enquiry flow that we had seen in the last two quarters we are continuing to see that primarily from the North American market, which of course includes markets like Mexico and also markets like Saudi Arabia and also few projects from Europe. So, even though probably the oil and gas sector has been sluggish I am just trying to reiterate that the enquiry flow has not really reduced. There are projects, which are getting decided also, and I think the fact that during the year as a matter of fact during this quarter itself we have booked close to 300000 tonnes of orders. I think signifies that that despite the slowness major projects are still going through.

This is primarily about the numbers and I also would like to probably touch upon the key ratios for all of you to take note the net debt to equity ratio is at 0.71, fixed asset coverage ratio is 1.83, net debt to EBITDA is at 1.73 and the current ratio is at 1.52x. I would now request you to probably give us any questions that you would like us to probably answer to and I also wanted to inform you all that last quarter we did announce about an investment in the concrete weight coating plant. The project is very much on course and we are more than hopeful that the project will be completed well before the close of this financial year and our efforts to book even the maiden for the concrete weight coating is very much on.

With this I would request all of you to ask the questions and myself assisted by Krishnan, our CFO and Mr. Jindal, our Group Director for Corporate Finance and Strategy they will help me in answering your questions. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Sachin Kasera from Lucky Investment Manager. Please go ahead.

**Sachin Kasera:** Good afternoon Sir. Congrats for a good set of numbers. My first question was regarding how do you see the order inflow for the current year? The second quarter we had some order inflows and especially on Saudi Arabia and the MENA region because there we are hearing that there have been some delays regarding the Master Gas pipeline which have got delayed? So first was on that. Secondly, I believe there was a key pipeline in USA, which was expected, which has not been approved by the current government. So what type of impact that could have on the order pipeline in USA?

**B. K. Mishra:** I think first question regarding master gas, incidentally Master Gas has already been awarded and the order book that you see that includes a quantity of Master Gas as well. As far as the large projects in US getting canceled is concerned that is the Keystone XL Project, we are all aware it is in the public domain, but let me also sort of tell you that this is a project for which pipes have already been manufactured about five years back. So the cancellation of this project as such right away may not

really impact immediate demand for the pipe market; however, you could ask me that okay fine, what is going to be done with these pipes, I cannot really answer that for TransCanada but I am sure that with the 3.5 to 4 million tonnes of pipe requirement that probably TransCanada is envisaging in the next three to four years, I think even if this quantity is absorbed, I think there will be enough demand coming off from the market. Having said that I also cannot say that these pipes which are really lying there for five years, what kind of uses probably the customer has to eventually use it for, so I think it will be premature for me to answer on that, but just to reiterate that the pipes for Keystone XL has already been made more than three to four years back, five years back rather.

**Sachin Kasera:** Sir, this Master Gas project you are referring to the Master Gas II or you are referring to Master Gas I?

**B. K. Mishra:** I am talking of Master Gas II, because Master Gas I we have already executed.

**Sachin Kasera:** So, I presume the Master Gas II was supposed to be equally large. So we have not got a very large share in Master Gas II. Can you tell me exactly how large the bid was and what is the share that we have got there?

**B. K. Mishra:** We have got a decent size of quantity and I think I would not be able to really disclose exactly the order size, but I can say that we have received a decent size and we are quite happy about it.

**Sachin Kasera:** My second question is regarding your debt equity, compared to the year-ended March, your net debt has gone up by approximately around 200 Crores, so if you can comment on that as how do you see that by the end of March 2016?

**B. K. Mishra:** I would love to answer that but I suppose, I would let my friend Mr. Krishnan answer that.

**S. Krishnan:** Thanks for the question. The thing is net debt increase in this quarter is largely because of movements in the working capital. As we have mobilized ourselves from Q1, Q2, Q3, we will see this mobilization reflected in higher levels of working capital and unwinding of this to some extent will happen when we go into the last quarter, one. Second, is we have also used even despite the higher amount of working capital, if you look at the cash balance in our hand, it is still in the region of upwards of 1300 Crores. So to some extent we have used...

**Sachin Kasera:** Net debt figure, I am not referring to the gross debt figure, but I am referring the net debt which is at 2105 Crores as of September versus 1909 Crores as on October 31?

**S. Krishnan:** I understand. What I am trying to say is inventory and receivable mobilization is higher compared to where we are mobilizing for a higher level of operations in our business, and on the other side, we have brought down our payables by using the available cash in the system. So on two levels there has

been an increase in our networking capital and that is why you see the higher number of end of receivable days as well as amount as well. So almost 400 Crores is the impact for this quarter, net.

**B. K. Mishra:** I think to give you a little more granular picture in US starting from maybe couple of days from now we would actually be executing an order which is going to be sort of like on a per day consumption basis, probably almost twice as much of raw material that we would have probably consumed in the last four to five months, so because of that there is an increased level of working capital requirement because we would probably be producing maybe 30000 tonnes in a month in US as compared to probably we have been doing let us say 18000 or 19000 tonnes a month. So that is primarily because of the pipe size. So that also requires additional amount of cash.

**Sachin Kasera:** Just last question if I may, can you give us some sense of the type of bidding pipeline you are having as of today compared to say same period last year may be as on March because as we see right now the order book is a little lower compared to what it was on March 31. So if you can give us a sense how do we see the second half and what is the bidding pipeline as of now?

**S. Krishnan:** As a matter of fact, I do not probably have the bid book as on second quarter of last year, but I can tell you that the bid book at the end of last quarter, which stood at around 4.2 million tonnes, is now sitting at a healthy 3.9 million tonnes. So, as I mentioned to you that no doubt there has been some kind of drying off in smaller projects but larger projects opportunities are still there and we are expecting major decisions to be taken probably few months down the line. So as of now probably I would not really convey any word of caution for 2016-2017 in terms of volume.

**Sachin Kasera:** Thank you so much. I have a few more questions and I will follow-up.

**Moderator:** Thank you very much. The next question is from the line of Dikshit Mittal from Shubkam Ventures. Please go ahead.

**Dikshit Mittal:** Good evening Sir. Sir, can you give the break up of execution in terms of geographies?

**B.K. Mishra:** India is 138000 tonnes, US 102000 tonnes, Saudi is 66000 tonnes. This is production and sales India are 174000 tonnes, US is 88000 tonnes and Saudi is 63000 tonnes. Just for the benefit of my friends who normally also would like to know the volume by products I would also like to give those information. LSAW production was 65000 tonnes, HSAW was 206000 tonnes, ERW and HFIW was 35000 tonnes and in terms of sales, correspondingly LSAW is at 99000 tonnes, HSAW at 197000 tonnes, and ERW at 29000 tonnes. I would also like to tell you the segregation in terms of pipes and plates. While we did 306000 tonnes of production in pipes, plate and coil accounted also for additional 87000 tonnes, which if you compare to the last corresponding quarter of 2015 was at 38000 tonnes, a jump of almost 125% and likewise the sales of pipes was at 325000 tonnes and plates and

coils were 77000 tonnes, which was largely, I must say in-house, but it is worth operating at a very, very increased level of performance as compared to the Q2 of last year.

**Dikshit Mittal:** Sir, in terms of current order book if you can give the breakup?

**B.K. Mishra:** The Americas accounts for about 358000 tonnes. Actually you have to add another 100000 tonnes to that so about 450000 tonnes of Americas, MENA 250000 tonnes and India 152000 tonnes.

**Dikshit Mittal:** So that means looking at the order book so we will be maintaining the current margins, because I guess US and MENA have higher margins than India?

**B.K. Mishra:** You have been participating, I know for a long time and as you know it is premature to give any guidance but I can only tell you that with the current level of production and sales that we have achieved in the first two quarters, I think we should be maintaining probably similar volumes especially with our order booking of 850000 tonnes which is outstanding as in today. As far as the margin is concerned, it is dependent on too many things and we have always refrained from giving any guidance.

**Dikshit Mittal:** Sir, have we benefited out of this recent decline in steel prices in our margins.

**B.K. Mishra:** See we generally are not adversely or positively impacted because of the steel prices impact because generally our business is an extrapolation of the steel market at that point of time. So in other words, I am just trying to say that I would have probably booked an order yesterday and I would have booked the steel price today, so the orders that I might have booked probably based on yesterday's price and I am booking the steel probably today we do not get really the speculative advantage or disadvantage of steel much.

**Dikshit Mittal:** Thank you Sir.

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

**Vikas Singh:** Good afternoon Sir. Sir if I see the consolidated trade receivable it has increased quite sharply. So are we facing some problem in terms of delay in terms of payment receivables all that?

**B.K. Mishra:** Not really, these are probably kind of net 30 days payment terms unlike because the major chunk of business is actually happening in US and they are all net 30 day payment terms so that is how probably it is slightly at an increased level who contribute large projects right now we are executing in the US and the value terms I think has increased that is why I think you see the trade at a high level. So that is probably one order is on LC and here in this space you have two main project as a

matter of fact three main projects getting executed which are like all net 30 days kind of payment terms.

**Vikas Singh:** Sir but in that case it should not have increased by that much?

**B.K. Mishra:** It would. I think because of the quarter end phenomena that we have large dispatches and everything which happened at the end of the quarter for which the payment would be realized in October and subsequently but that is September 30. There is a change from 49 days to 69 days that, but it is an assured thing that there have been no change from a receivable perspective it is very much in line with the pass order book position.

**Vikas Singh:** Sir lastly out of this 174000 tonnes from India how much we have exported out of that?

**B.K. Mishra:** This add to the other point where you are talking about as we indicated earlier we are operating at a much higher level and obviously the receivables cycle will also be higher. As far as receivables are concerned we do not a matter, which is worrisome. All these receivables are good. All these are being recovered around the due date and most of these receivables will fall due for payment this quarter as well. You are asking another question Sir, which we missed?

**Vikas Singh:** Out of this 174 from India how much is for exports?

**B.K. Mishra:** I can tell you that about. I know for sure that almost I think 70000 tonnes to 80000 will be export. You have the figure. So about 75000 odd would actually be exports.

**Vikas Singh:** What was in the last quarter Q1?

**B.K. Mishra:** My apology I do not have the exact figure with me right now.

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

**Moderator:** Thank you very much. We have a question from the line of Chintan Sheth from SKS Capital. Please go ahead.

**Chintan Sheth:** Sir on the margins again you did mention that you do not provide the forward guidance but you mentioned that you can maintain the margin as you are doing in the first half. So we can assume that also on the commodity side you did you mention about you do not get benefit of both positive and negative on the prices of materials. So we do assume that this kind of margin can sustain over a period?

**B.K. Mishra:** My sincere apology if I probably gave you that impression what I wanted to communicate as far as the volume is concerned because we have done already 580000 tonnes in the first half of the year and with our 850000 tonnes of order booking quite confident that probably we would be able to replicate as far as the volumes are concerned and as far as our profitability is concerned I still maintain that we refrain from giving any guidance rather we abstain ourselves from giving any guidance there but nevertheless I can only tell you that every single project that we execute in a year is very different from each other and it all depends on the timing of the order booking. How hungry we were at that point of time when we were doing the orders. What was the competition? Which market did we get the order from? So it is very difficult for me to really give you an impression as to what would be the margin in the next two quarters but I can probably let you have your own assumption considering that Welspun has not been booking lot of small orders and they are all booking part of large orders where probably it is getting some kind of a probably recognition being one of the top players in the world.

**Chintan Sheth:** Again on volume side you did mention that current order book 20% to 25% will get spilled over for the next year and balance will be executed over the second half. So we maintain the volume as you mentioned we can execute around we did for the first half we did around 580000 so we can maintain the similar on the volume side?

**B.K. Mishra:** Our endeavor in any case will always be as efficient as we could be in a short term that means you know out of 850 whatever best that I could execute in 2016, I would always try but I think even if we safely assume that fine I am going to probably do even the same quantity of 580000 or 600000 tonnes I am hypothetically saying. So I am still in any case shifting about 200000 to 250000 tonnes to next year hoping which is almost like 25%.

**Chintan Sheth:** You maintain the order inflow will continue to remain healthy by end of the year will maintain the similar kind of order book by year end what we are currently having?

**B.K. Mishra:** I think given our track record, I think I would not say that but having said that the world itself is probably especially in the oil and gas space probably moving around quite a bit and while we stay optimistic and our optimism is on the based of the track record that we have kind of experienced in the last two quarters and we have actually no reason to be pessimistic about it. Having said that I would say that this is with caveat that okay oil and gas industry is slow.

**Chintan Sheth:** On the working cycle you did mention unwinding of the higher working capital will take place in Q4 so we can assume the debt level to bit turn down by the year end?

**B.K. Mishra:** We are quite hopeful that by the fourth quarter of this year or beginning of next year I think we should have been able to wind it up.

**Chintan Sheth:** Similar to what we had last year closing.



- B.K. Mishra:** More or less I think we would target to do the same thing.
- S. Krishnan:** In March recall just to add what the MD is saying in March, if you recall we were around 1900 Crores of net debt, our agenda would be that on whatever volume we transact this year we should be in that region.
- Chintan Sheth:** On capex side what will be the spent for this year and next year?
- S. Krishnan:** We do not have any capex plan as of now as I have maintain even last quarter except for the concrete weight coating plant but also we would be of course like spending our standard capex for our operational maintenance.
- Chintan Sheth:** That would be around.
- B.K. Mishra:** 75 to 100 Crores always.
- Chintan Sheth:** 100 Crores okay and last think on utilization what will be our utilization on an average?
- B.K. Mishra:** About let us say if we do about 55% to 60%.
- Chintan Sheth:** Long way to get to the optimum level the kind of demand if picks up we do not have to spend much on the capacity and can still ramp up our production to meet the demand?
- B.K. Mishra:** Absolutely we do not have to spend for I think after an order booking of probably may be 1.75 to 1.8 million tonnes probably we do not have to spend any capex to meet that demand.
- Chintan Sheth:** Thanks Sir and all the best.
- Moderator:** Thank you very much. We have a followup question from the line of Sachin Kasera. Please go ahead.
- Sachin Kasera:** Sir if I see the reported numbers the minority interest has come down from 106 Crores to 25 Crores for the first half. So does it indicate that the profits in the Saudi Arabia operations have come down quite a bit in the first half?
- B.K. Mishra:** The profits in Saudi Arabia relatively lower compare to what was the position last year. Last year around this time was where we were executing the Master Gas I order and the volumes are also relatively higher in the last year for this quarter for the Saudi Arabia part of the business. So that is reflected in the lower level of minority interest.
- Sachin Kasera:** Rates also come down quite a bit for Saudi Arabia plant for the first half versus same half last year sales volumes.

**B.K. Mishra:** The volumes are lower relatively the margins have also got impacted because that was in a different market situation and different center, relatively the margins are lower in this first half as well as in this quarter versus the same period last time.

**Sachin Kasera:** My second question is regarding the margins probably that could be coming in the incremental orders just want to get your sense since the steel prices have corrected quite a bit how does the market normally work in a sense does it work the margins everybody build like as a percentage of the realization price or does normally every player work on a EBITDA per tonne basis when they are quoting?

**B.K. Mishra:** It is generally an extrapolation on the basis of the current steel price for example if am bidding for a project today I take a steel price and then I add my value to that and I bid it. For example I am just saying that there is every possibility that we might have booked an order probably for \$1000 a week back and we might be actually booking an order probably at \$900 this week and yet operating at the same profit level because the steel prices would have come down. So it is an extrapolation on the basis of steel price. So nobody really sort of like just put an EBITDA margin or whatever it is always something we call it value addition.

**S. Krishnan:** Most of the times it would be something like EBITDA per tonne is what everybody would drive, when most of the player would build in their margins more or less. In context of the fact that steel prices have come down almost 30% to 40% so, which would mean that the EBITDA percentage should then in that case, shoot up dramatically that is where I was coming from.

**Sachin Kasera:** You are saying that okay fine may be 100, 1000 and may be 100 open line 900.

**B.K. Mishra:** Because it is not even question of a 900 or 1000. As we all know in the last why the steel prices have corrected by almost 30% to 40%. So it is like 100 by 1000 versus 100 by 600 or 700 something like that.

**S. Krishnan:** What looked like 10% should start looking more like 15% to 16%.

**B.K. Mishra:** The only correction here I must say is that we are primarily API pipe manufactures. So even if the steel price per se would have come down by 40%. The same thing is not really reflected in our procurement. It is primarily for example let us say this 580000 tonnes of pipe business that we have done out of that 580000 may be close to 300000 tonnes would have come actually from the premium mills in the world and those premium mills in the world or the premium products the prices have not really come down by 30% to 40% for example if you ask somebody what is the plate price, plate prices is probably today \$300 but if you ask me what is your plate price my plate price could be as close to \$600. So the 40% drop that we are talking of is actually not in general it is primarily for the commercial plates. So you would not see so much of impact with us and in any case in our kind of

business for example I would have booked an order probably last month but that might have been bidded four months back and the pricing and the value addition everything would have been on the basis of prevalent market condition four months back with the commitment to the steel supplier that if I get the order I am going to give you the order at that price. So there is every possibility in our case that I might actually be booking an order today but I might be placing order for steel on four months back pricing.

**Sachin Kasera:** Have you seen any delays or any cancellations after this oil price correction that has happened and you mentioned that some of the large players are still have impacted but are you starting to see that some of the smaller projects any impact of this correction in steel prices in oil?

**B.K. Mishra:** We have not experienced a single one. No cancellations as yet on anything.

**Moderator:** Thank you very much. We have a question from the line of Mr. Sunny Agarwal from Emkay Global. Please go ahead.

**Sunny Agarwal:** Thanks for the opportunity. Sir I just want to know in three to five years where do we see our debt level going I mean currently our net debt stands at 2100 Crores so what is the roadmap on the same?

**B.K. Mishra:** To be honest, I probably was not so very prepared for this question. So it has to be an aspirational answer. Aspirational answer will be it is debt free company.

**Sunny Agarwal:** Thank you.

**Moderator:** Thank you very much. As there are no further questions, I would like to hand it back to the management for any closing comments.

**B.K. Mishra:** Thank you very much for everybody for participating in this call and I sincerely hope that we have been able to reply to your questions satisfactorily and in case you have any further questions I am quite sure our investor relationship team will be too happy to receive your e-mail and probably reply you back to your satisfaction. I thank all of you once again for standing by us as an investor and showing us confidence. Thank you so much.

**Moderator:** Thank you ladies and gentlemen, on behalf of Welspun Corp and Macquarie Capital Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.