



“Welspun Corp Limited Q4 FY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Welspun Corp Q4 FY2018 earnings conference call hosted by Edelweiss Broking 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 the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Salil Utagi from Edelweiss Broking Limited. Thank you and over to you Sir!

Salil Utagi: Thanks Lizanne. Hello everyone. Welcome to Q4 FY2018 post results conference call of Welspun Corp Limited. We have with us from the management, Mr. Vipul Mathur, Managing Director and CEO of Welspun Corp, Mr. S Krishnan, Executive Director and CFO and CEO of PCMD, and Mr. Akhil Jindal, Group CFO and Head of Strategy of Welspun Group. Now I hand over the call to Mr. Krishnan for his opening remarks. Over to you Sir!

S Krishnan: Good afternoon everyone. Welcome to Welspun Corps Q4 FY2018 post results conference call. We will summarize the results across the volume, the financials, the order book and the business output and we will take your questions at the end of it.

In volumes under Ind-AS excluding the Saudi business our Q4 pipe production and sales were at around 200,000 metric tonnes and about 199,000 metric tones respectively, lower compared to the corresponding period last year. Including the Saudi business, the Q4 pipe production and sales were at 249,000 metric tonnes and 254,000 metric tonnes, lower by about 24% and 25% Y-o-Y respectively. For the full year, the production and sales volume crossed the one million metric tonne mark and this is basically the fourth time in the last five years that we have crossed the coveted one million metric tonne mark. It was in 16-17 you will recall, we technically billed only about 953,000 tonnes, although we had finished inventory of 110,000 tonnes awaiting billing in various parts of the global market. The dip in volumes that you see are basically due to two reasons; one, Q4 FY2017 was a relatively higher base and two, many of the recent orders that we have won, the execution for those orders will start in the first half of FY2019 as we go along.

In terms of volume, the plate and coil mill reduced about 170,000 tonnes or so in Q4, sales was around 168,000 tonnes, out of this more than 60% was catered to external customers and this has been in line with our efforts to reduce dependence on captive consumption. For the full year, the plate and coil mill was produced about 470,000 metric tonnes more than twice in the last year period.

Coming to financials in terms of the P&L, our Q4 revenue was 20% down Y-o-Y at about Rs. 1659 Crores. However due to lower margins as indicated, EBITDA was much lower Y-o-Y at

around 48% Y-o-Y lower at Rs. 158 Crores. PAT after minority and share of associates and joint ventures was at a negative of Rs. 5 Crores versus net profit of around Rs. 73 Crores in last year's Q4. Based on the expected sales mix for the financial year in mid March 2018, you will recall we had always been indicating right through the last financial year that profitability was front loaded in the financial year between April to September 2017 and that the second half profitability will be relatively weak and the Q4 results has been in line with these indications that we had given. EBITDA for the pipe business in Q4 FY2018 was just over Rs. 6000 a tonne on the relatively higher Q-o-Q but lower Y-o-Y. Cash conversion cycle has been improved at around 34 days versus 36 versus quarter on quarter.

Coming to debt, as at end of March 2018, gross debt has gone up by about Rs. 98 Crores Q-o-Q and it stood at Rs. 1386 Crores on the global book. Over the period of the financial year 2018, we have reduced the gross debt by about Rs. 460 Crores by paying and prepaying term debt wherever it was feasible. This has also been possible due to our continuous focus on realigning the debt book to match the requirement of the business and we will continue to pursue that agenda.

Net debt was down by about Rs. 221 Crores quarter on quarter and we ended March 2018 with a net debt number of around Rs. 422 Crores, principally due to better working capital management. During the financial year 2018, we have reduced our net debt by about Rs. 685 Crores including all operations that is including the Saudi operations and the Wasco joint venture, our net debt stood at around Rs. 739 Crores, which was also almost half of the figure as at March 2017 which was about Rs. 1547 Crores. Even on a quarter on quarter basis, the net debt was down by about Rs. 215 Crores as of March 2018. Capex, we remain committed towards conserving cash and continue to work for a leaner balance sheet. Our capital expenditure will only be for replacement renewals and related spending and most of our cash flow generated through operation would hence largely be used to bring down the net debt.

Order book, we have booked more than 630,000 tonnes of pipe orders since our last call. This is reflected in the strong order book, which is an all-time high of 1.657 million tonnes, valued at Rs. 10,879 Crores. Besides this all-time high order book, we also have an active bid book at around 3.9 million tonnes, which is largely skewed towards oil and gas segment in the global market. Future potential projects which are expected to come up for bidding in the near term in the next few years, visibility is around 13.8 million tonnes with the mix across all the typically Welspun addressable global market.

Now coming to business outlook, the demand for the small dia pipes continues to show relatively better traction and a good traction in America. Large dia segment in the America's market is showing early signs of revival with gas and relative export projects gaining momentum. In MENA, the demand from oil and gas segments is expected to pick up over the next few quarters.

In India, the domestic market continues to witness a competitive situation; however, we see fairly strong demand especially in water segments driven by projects for river linking as well as irrigation across the whole host of states.

Large dia pipe demand for the oil and gas segment is being driven basically by expansion of the national gas grid and also the northeast connectivity projects. City gas distribution and last mile connectivity is also expected to boost the demand for small dia pipes in the Indian market. Demand outlook for our plate and coil mill division remains satisfactory, although margin challenges will continue to remain. This completes our analysis of the results, we will be happy to take your questions or anything of these or other items.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Good afternoon friends. Thank you for a very brief analysis of the numbers. Sir, my point is regarding how are the deliverables shaped up as earlier in the call, you did point out towards that... we were guided that the first half was skewed better than through the second half, so for this year for FY2019, how are the deliverable mapped up – how is the first half and the second half going to look?

S Krishnan: You are talking about FY2019?

Saket Kapoor: Yes Sir this financial year, the one April 2018 to March 2019.

S Krishnan: So in this financial year fortunately we are starting with a record order book of 1.6 million tonnes, so which means that we are in a far better position to do much higher volume than what we have been able to do in the last several years. Historically if you see over the last four, five years, every year we have been able to do at least 350,000 to sometimes 500,000 tonnes of additional volume besides the opening order book, which are orders that have come into the system and that have got executed and billed during the year, which means at this year, the way we are starting although some of these orders will flow into the year beyond FY2019 as well in terms of execution contractually. We believe we are comfortably placed to across the volume threshold that has been set over the last several years and while it may not exactly be spread evenly across the 12 months or the four quarters, we will have relatively higher volumes particularly in Q2, Q3 and Q4 of this year.

Saket Kapoor: Okay, so Q1 will be subdued that is what we can...?

S Krishnan: Q1 - see it will not all start immediately like for example some of the large orders by the time we start mobilizing and having the coils or the plates delivered and starting shipment, some of them will necessarily flow into Q2.

- Saket Kapoor:** Okay Sir, to have a better understanding Sir, how should we take into account the standalone and consol number. What business are mapped in the standalone numbers and which geographies are there for the consolidated just for an understanding?
- S Krishnan:** Are you saying the breakup of the order book?
- Saket Kapoor:** No Sir, I am talking about the standalone and the consol numbers, standalone numbers include only for our domestic Indian operations or the other geographies are also included in the standalone number and what do the consolidate stands off. If we have to bifurcate between the geographies in the standalone and the consol numbers, the revenues I am talking about Sir.
- S Krishnan:** See the standalone number includes besides supply to the domestic market, all that we have exported into other markets, Asia Pacific, Middle East, Americas wherever we have been able to export whereas the consol numbers will include the standalone numbers, the US subsidiary and these are the two things that will get consolidated under Ind-AS. The Saudi business does not get consolidated under Ind-AS it goes for equity accounting.
- Moderator:** Thank you. Ladies and gentlemen, in order to ensure that the management is able to address from all participants in this conference, please limit your questions to two per participant only. The next question is from the line of Rukun Tarachandani from Kotak Asset Management. Please go ahead.
- Rukun Tarachandani:** Hi, good evening. My question is more from a financial year perspective as I understand that there might be some quarterly volatility, but if you see the volumes for FY2018 versus FY2017, the volumes are up almost 15% to 16% while the EBITDA is up about 10% to 11%, which means our EBITDA per tonne has come down year over year. This is in spite of the fact that this is a very high operating leverage business, so how do you reconcile this as to why our EBITDA per tonne has come down and correspondingly how do you see the profitability in terms of EBITDA per tonne for the next year?
- S Krishnan:** That is a good question, Rukun, you are right, actually EBITDA per tonne FY2017 across the global pipes market was close to about Rs.7600 to Rs.7700. From there, it has dropped to about Rs.6,200 and odd that is because that in two of the large markets, we have been challenged in terms of orders, so if you recall our opening order book was just close to 600,000 tonnes when we started out in April 2017. With that kind of an order book whatever orders we book will always be a little bit less attractive in margin terms. So what business we transact in a quarter, like what business we transact in the quarter that went by January to March 2018 is a function of the orders that we would have booked 6, 9 or sometimes 12 months back, so which is where – these relatively lower margin orders will wear out over time and then as we go forward from where when we have a healthy order book and many of our plants are largely occupied and some

like in Saudi are occupied beyond the current year as well. Our appetite for booking new orders with much better margin is what is going to drive the order booking strategy henceforth. That addressed your question Sir?

Rukun Tarachandani: Yes, it does partly. So just as a followup to that, if I see the mix of your order book, I see that the proportion of HSAW had increased considerably in the overall order books. My understanding is that HSAW will be relatively higher margin versus the other two, right?

S Krishnan: Well I think the margin is not a function only of the technical segment, you are right that the order book, a predominant portion is HSAW that is because a sizeable portion of these orders are to be executed from Saudi plants as well as from the US plants and both of them only have spiral facility, they do not have the longitudinal facility. The profitability of the margin in an order is a function not just of whether it is LSAW or HSAW, it also a function of the market where the bid is happening, the other participants that bid at that point in time, our order book or our plant occupation at that point in time and also for the competition, so this is something you will keep varying over time, so to take an example that spiral order in the Saudi market for a water segment, margins that we would have got last year and the margins that we would have in the year subsequent will be very different.

Rukun Tarachandani: I understood. So is it fair to assume that - considering that last year you started with the lower capacity utilization, so you would have bid at lower margins to fulfill the capacity but since this year more or less your capacity started filling, incremental margins should ideally be better?

S Krishnan: That is a very logical assumption, as I said our bidding strategy now starting from early January this year is going to be far more margin demanding than what was the same situation last year.

Rukun Tarachandani: Great thanks a lot.

S Krishnan: Thank you.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Hello team, just a couple of data points first, what was the EBITDA of plate mill segment and Saudi operation?

S Krishnan: Plate mill for the year was close to about Rs. 170 Crores.

Giriraj Daga: Rs. 170 Crores and for the quarter? You have the number ready?

S Krishnan: Rs. 37 Crores.

- Giriraj Daga:** Sorry 37?
- S Krishnan:** Rs. 37 Crores.
- Giriraj Daga:** Okay and what is Saudi EBITDA Sir?
- S Krishnan:** Saudi EBITDA for the quarter – I think it was almost about Rs. 3 Crores.
- Giriraj Daga:** Rs. 3 Crores okay. Sir why I am asking this question if I look at the volume wise, there has been material improvement, but when I look at the loss from the operation that number had actually gone up, so like what had gone there in Saudi operation?
- S Krishnan:** See the thing is the occupation at the Saudi plant was relatively lower and also the margin orders, so maybe despite whatever EBITDA is the number in terms of absorbing the interest and depreciation and other things, it has not been sufficient, obviously that is why bottom line would continue to be negative for FY2018 for the Saudi business whether it was Q4 or for the full year has been a negative year at the bottom line.
- Giriraj Daga:** Just to get a bit more clearer, Sir I am looking at the Q2 two to Q4 when the volume has gone up from 13 to 55, so I assume that on quarter on quarter majority of the cost would have remained the same, fixed cost. Despite that, our loss has increased from Rs. 20 Crores to Rs. 26 Crores?
- S Krishnan:** I do not know what was the volume in Q2?
- Giriraj Daga:** Q3 was 13 KT
- S Krishnan:** Sorry.
- Giriraj Daga:** Q3 was 13 KT, Q3 volume, Q4 volume was 55 KT. So volume has gone up nearly four times, but our loss has also increased from Rs. 20 Crores to Rs. 26 Crores.
- S Krishnan:** Sorry, there is no EBITDA loss in Saudi in Q4, I think you are looking at a small EBITDA being there.
- Giriraj Daga:** Okay, the reporting number shows on the P&L we say the loss from JV and associates that number...
- S Krishnan :** Looking at the fact that is what I am saying, I said EBITDA the performance whether at Q3, Q4 of last year, or Q3 of this year or Q4 of this year, it has almost been around the same level, EBITDA in terms of numbers, but as the PAT as I said, we will have to absorb the full burden of the depreciation and interest in finance cost, which is where the PAT impact become adverse.

- Giriraj Daga:** Okay. My second question is related to the volume guidance so you should be able to give a some broader sense on the reason to do breakup, like obviously Saudi we are building up the order book now, so what kind of order book – delivery we should expect in FY2019 going forward and how much maybe from by US and Indian operation, if you can give a broad sense?
- S Krishnan:** Roughly we expect that we should do – do not treat this as the guidance, it is more of an indication because we do not really give a volume and at the market level, more of indication we should do in the region of 300K plus tonnes in Saudi upwards of 350-400K tonnes in US and maybe whatever the balance in India.
- Giriraj Daga:** Sure, okay and – bid book number you told 3.9 million tonnes and if I look at the – like last year out of this 2.1 million, what was our share percentage out of total bid book?
- S Krishnan:** Sorry, I did not get your question.
- Giriraj Daga:** Like, the last year we won about 2.1 million tonne of orders last year.
- S Krishnan:** No, we started last year with an order book of just over 600,000 tonnes.
- Akhil Jindal:** He is saying during the year, it was nearly 2 million tonnes, right, again the bidding of how much...
- Giriraj Daga:** Bidding of how much?
- S Krishnan:** That is a fair point, I think we would be close to about 30%. In some market it will be much higher, so for example, if you calculate the success ratio in a market like Saudi, I think we would have a very high track record particularly over the last few months – you would not want that to be the basis, on an average Welspun's track record is anywhere around 25% to 30% on a global order book.
- Giriraj Daga:** Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from the line of Nirav Shah from GeeCee Investments. Please go ahead.
- Nirav Shah:** Good afternoon Sir. Sir a few questions, firstly continuing with the question on Saudi plant, off the 1.6 plus million tonne of order book, how much will be from that particular plant?
- S Krishnan:** It is around 950,000 odd tonne for the Saudi plant.
- Nirav Shah:** So we basically have around three years of coverage over there.

- S Krishnan:** If not three at least two to two and a half years for sure.
- Nirav Shah:** Broadly...got it Sir and in terms of now taking to the way we report in Ind-AS, I mean accounting is for India and US plants, so what are the order prospects for these two plants because we have executable book of around 7 lakh tonnes for India and US, so any big ticket order we are expecting in the next couple of quarters?
- S Krishnan:** As we indicated – we have got a bid book of some 3.9 million tonnes right. That is there across major markets and almost two or two and a half million tonnes out of those are other than North America, right and if I exclude North America and MENA almost 1.5 or 1.6 million tonnes will be the other markets. Logically all of these are addressable from the India facilities.
- Nirav Shah:** Okay.
- S Krishnan:** Now when and how these are awarded and what will be Welspun share, we will go over the next couple of quarters.
- Nirav Shah:** Okay. Got it Sir and on the capex front you mentioned that again we will have a conservative number, so will it be again around Rs. 80 to Rs. 100 Crores.
- S Krishnan:** We should be in the region of around Rs. 100 Crores.
- Nirav Shah:** Okay Sir that is it from my side Sir. Thank you Sir.
- S Krishnan:** Thank you.
- Moderator:** Thank you. The next question is from the line of Jimesh Sanghvi from Principal Mutual Fund. Please go ahead.
- Jimesh Sanghvi:** Hi Sir. Sir we have almost 950 KMT of order book coming in from the EU and the MENA region, wanted to know what quantum of order has to be executed out of this from the Indian mills and what would be executed in the Middle East mills?
- S Krishnan:** As of now based on the orders and the contractual requirement, we expect to execute sizeable portion of these orders from the Saudi mills. This is till the customer's schedules change and they need to have supplies earlier than what we expect, we will look at servicing some of these requirements from our other facilities.
- Jimesh Sanghvi:** Because what I understand is out of this approximately around 800 to 900 KMT would be largely from the MENA region and that has to be executed over the next 18 to 24 months, right?

- S Krishnan:** On an average yes – the execution between 22 to 30 months actually from the time of award.
- Jimesh Sanghvi:** Okay, so in that sense if we....
- S Krishnan:** There are multiple contracts so the timelines are little different for each contract.
- Jimesh Sanghvi:** Right, so in that sense if we have to look at the order booking for the India and the American operations that has been pretty much on the lower side to be executed?
- S Krishnan:** You are absolutely right, relative to the Saudi's order book, the order book in India or US is relatively lower but the US order book if you compare with what was the situation last year, it is far, far better. So we are – if we say we have got a nameplate capacity of half a million tonnes and we say we want to do upwards the 400,000 tonnes in FY2019, starting with an opening order book, which is almost 75% or more of the target for a year, so which means in the balance portion of this year even if we book let us say 100,000 or 120,000 tonnes to supply, we are fully covered.
- Jimesh Sanghvi:** Okay and Sir any guidance on the margins or the EBITDA per tonne going forward in FY2019, will it be better than the Rs.6000 to Rs.6200 tonne or any guidance on that front?
- S Krishnan:** Well, there are two parts to it, we do not really – it will be little difficult to give a specific guidance in terms of numbers, but as we said there are two things that you may want to keep in mind, one is every new order that comes into the system and which has been the trend over the last several months, the average margins of those orders are much higher than the average margin in the order book till then, one. Second is as the business run at higher volumes beyond a million tonne, every 50,000 tonnes to 100,000 tonnes additionally will also benefit to bottom line disproportionately because of the operating leverages. You may want to keep in mind when you look at our projections for 2019.
- Jimesh Sanghvi:** Okay Sir, fine, thank you.
- Moderator:** Thank you. The next question is from the line of Piyush Chadda from Haryana Management. Please go ahead.
- Piyush Chadda:** Hi. Thanks for the opportunity. Just going through your order book and the margin profile, you said that you had been looking at higher margin orders from January onwards, given that in January, we had a 1.2 million tonne order book, would it be fair to say that the slightly lower margin orders would continue at least for the next two quarters before the high margin order books begin to kick in?

- S Krishnan:** Logically that talking right, but see each order and the delivery schedule of that order and what we transact into billing is what will come in the reported work. So I just wanted to keep these factors in mind, what you were saying was a very generic kind of idea that when the order book is strong and many of our plants are largely occupied, we will be far more demanding in terms of the margin profile of the new orders that we bid for. The legacy of the orders and the execution of those orders during Q1 and Q2 and the balance portion of this year will also be a function of what the customer wants because our deliveries have to be aligned to the customer's project requirement.
- Piyush Chadda:** Fair enough. So essentially what I am hearing is that the slightly lower margin order book may take anywhere between 6 to 12 months to work its way through while whatever happens over and above that will be higher margin.
- S Krishnan:** Yes, directionally you can say that.
- Piyush Chadda:** Fair enough. Thank you.
- S Krishnan:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Good evening Sir. My question is on like you mentioned during your remarks that like whatever execution you do over one million that has higher margins. So can I assume that whatever gross margins you earn so that will straight away flow to EBITDA beyond one million tonne?
- S Krishnan:** Largely yes there will only be some impact of the working capital part for the higher volume that we will transact, to that extent you must factor in.
- Dikshit Mittal:** No, up till EBITDA because I assume you are earning around 30% on a gross margin, so that should flow at least till EBITDA right so working capital will come in below that?
- S Krishnan:** Yes.
- Dikshit Mittal:** Okay and Sir secondly in terms of volume you have mentioned that normally you do higher than your opening order book every year, so at least this year can we expect at least opening order book should be executed around 1.6 million tonnes so that is safe to assume?
- S Krishnan:** I wish that was true, but the fact is that out of this 1.6 and odd million tonnes contractually some of these orders have to be delivered after FY2019 as well, some of them go into FY2020, so those will necessarily flow to the subsequent year unless the customer's project schedule change.

So we believe that this year as well will be a trend where we will definitely cross a million tonne and possibly comfortably cross a million tonne. I think you will get visibility as we go from the first half to the second half, but the opening order book gives us that comfort that this year volumes will be higher than what we have historically been accustomed to doing.

Dikshit Mittal: Okay, so can you give any idea like how much orders are spilling over to next year out of this current order book?

S Krishnan: For example, in one geography – if I just take one geography because we do not have exactly on the top of our hand exactly all the details, but in one geography in Saudi, which is the biggest part of our global order book roughly about 400,000 to 500,000 tonnes will flow into the subsequent year.

Dikshit Mittal: Okay, so in the sense for next year, your opening is 1.2. So we should take as a rough aspect.

S Krishnan: Yes, you can take that as – you can take that as a relevant for the execution perspective but that is only giving Saudi, but there has also been other market as well you should keep that in mind, it is not that only in Saudi, the execution is beyond the current year.

Dikshit Mittal: Okay Sir. Thank you Sir.

S Krishnan: Thank you.

Moderator: Thank you. The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Good afternoon Sir. Sir do you think that the company will achieve the same margin, which they have achieved there, which you have achieved in the first half of 2017-18.

S Krishnan: It is difficult to predict like that but what we can say is this year that went by, our EBITDA per tonne was close to Rs.6300, which was relatively lower compared to the EBITDA per tonne of the full year, last year which was Rs.7700 at our local market, I believe we will end from FY2018 level towards the FY2017 level, it will change from market to market, some market will be better than what was even FY2017 for example the Saudi business. Some other market, it could be different, but it will be difficult to put a specific number as to what will be the margin on a global consolidated basis for the year FY2019.

Aman Sonthalia: Sir my next question is that from the year 2018-2019 virtually the opening is still around one million tonne. If I remove the next two years order book, so did we expect that phased bidding which we we are bidding that would also come in this year order book?

- S Krishnan:** Yes, quite a few of it could come into the current year's supplies as well, so that is what we are saying that the volumes outlook for FY2019 is as strong and possibly the strongest that it had been in several years now. But one thing you must keep in mind is effectively whatever comes into the order book between now and maybe the early part of Q2 is what is typically possible to transact into sales before the end of the financial year.
- Aman Sonthalia:** But a part of that order can be executed during 2018-2019?
- Akhil Jindal:** Larger part of it that is what he is saying – and whatever the book between now and the early part of Q2, the large portion of it can come into execution and sale in this financial year.
- Aman Sonthalia:** In the current financial year, okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Dhruv Saraf from Kredent Capital. Please go ahead.
- Dhruv Saraf:** Hi Sir. I just wanted to get a sense of who would be a major competitor in both the HSAW and LSAW, if you could provide us some light on that?
- S Krishnan:** They would be from geography to geography they would differ. The US geography we have a different set of competitors includes Stuff & Berg primarily on the large diameter and American and CSI Stuff on the small diameter. I am just giving you the names and these are all information in the public domain but just to help you out, these are the competitors in the US geography.
- Dhruv Saraf:** And domestic?
- S Krishnan:** When you come to domestic, you still have like Jindal's like Man and to an extent Ratnamani so these are two to three competitors which is in the competition landscape area in India.
- Dhruv Saraf:** Sir you also talked about the National Gas Grid being an opportunity for us, so could you just quantify the possible market size that we could address in this segment?
- S Krishnan:** Typically if you see this gas grid program started a year back. We have seen almost close to half a million tonne of project into the gas base, at least to give any indicator, I think that these are the similar quantities we should over the next years.
- Dhruv Saraf:** That is the half a million tonne right?
- S Krishnan:** That is right.
- Dhruv Saraf:** All right. Thank you so much Sir.

- S Krishnan:** Thank you.
- Moderator:** Thank you. The next question is from the line of Yash Agarwal from Crest Capital. Please go ahead.
- Yash Agarwal:** Hello.
- S Krishnan:** Hi Yash.
- Yash Agarwal:** Hi, given that we are expecting almost 3x jump in the Saudi volumes, do we expect it to be PAT positive this year?
- S Krishnan:** Yes, we expect this year to be much better than last year, the only thing is the execution mix of the orders in the current order book that we have is something that is still to be crystallized with the customer because we need to sit with the customers and agree on that. These are multiple projects that are forming a part of the local order book that we are starting with. So the profitability will be a function of which orders are required to be executed by the customers during the current financial year. But whatever happens if we are going to do in the region of 300,000 tonnes plus in the FY2019 definitely our margins and our financial position will be far better than what has been the situation in FY2017 or FY2018.
- Yash Agarwal:** What was the EBITDA numbers in Saudi in FY2018 the whole year in rupees?
- S Krishnan:** It was less than... For a full year it was about Rs. 8 Crores or something like that. **Yash Agarwal:** Okay. So there we are getting cash losses right, I mean the interest component also cannot be met...
- S Krishnan:** That is why there is a backlog
- Yash Agarwal:** Okay and Sir what is the outlook on the standalone business for this current year as in you would give a pretty robust outlook for US and Saudi, what about the standalone business, the India business, do you see good growth here?
- S Krishnan:** If you see – a, we see the gas grid project seems to be on the same and it should continue. We are seeing a lot of traction in the water segment. We are seeing multiple states going for large irrigation project and we are also seeing some traction on this city distribution network. We are also seeing traction on the North East connectivity. If you see all these three, four key drivers and half of it if you say the oil demand and the oil price are also strong, so all put together, I mean these are clear indication that there should be a volume growth coming out of India market as well.

- Yash Agarwal:** Sure, okay Sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Vikram Sharma from Niveshaay. Please go ahead.
- Vikram Sharma:** Hello.
- S Krishnan:** Hi Vikram.
- Vikram Sharma:** Hello, Sir we have good order book in this quarter but then also fall in production in this quarter is due to high raw material cost?
- S Krishnan:** See the booking of orders is basically relevant from an execution standpoint a couple of quarters down the line and whatever we have executed during this quarter that went by is also a function of whatever business we booked in the last few quarters, maybe starting in Q1 of FY2018 or Q2 of FY2018. Because as you know as the project company whatever orders we booked are not really feasible to execute immediately. Does that answer your question?
- Vikram Sharma:** With increasing crude oil prices, can we expect the order mix will be changed for company?
- S Krishnan:** Order mix in the sense that today we have got an order book, which is close to over 1.6 million tonne and the composition is across the whole range of market and across different segments in each market and in some segment for example. I am just taking an example to clarify our thoughts, the water segment supposedly is historically non-API, whereas in Saudi what water orders we are servicing are all API sites, so it is very much akin to the oil pipeline that we would supply in other market.
- Vikram Sharma:** Okay.
- Moderator:** Thank you. The next question is from the line of Saurabh Kapadia from India Nivesh. Please go ahead.
- Saurabh Kapadia:** Thank you for the opportunity. Sir in terms of Saudi order book like we have about 2.5 year of order, but where are we placed in terms of raw material, so if the raw material cost comes down, so will it benefit us or likely you have from the hedge on in terms of material?
- S Krishnan:** Well, these are longer gestation projects, obviously if the raw material prices go down, we will be benefited by the tailwind.
- Saurabh Kapadia:** Okay, but like are we hedge at some portion of it or we have...?

- S Krishnan:** To some extent, yes for the immediate requirement we are covered, but we are not covered two years down the line, because that does not make sense to cover at the current level.
- Saurabh Kapadia:** Okay and Sir next question is on the India, so how are you seeing the pricing environment in India especially in the water segment and the margins for the HSAW pipes?
- S Krishnan:** India landscape is a very competitive landscape we all know that, so in comparison to Saudi or in comparison to US, the margins to that extent would be briefly or slightly under challenge, but if we see significant volumes coming out of the Indian market then those margins will also improve. It is all a function of volumes what type of volumes we are likely to come up in the market and if they are significant, the margins will improve. If the volumes remain depressed for which there is no case at this point of time, the margins can come under challenge as well.
- Saurabh Kapadia:** Okay and Sir last question, what is the total borrowing in the Saudi subsidiary?
- S Krishnan:** Well, the net debt at the Saudi entity will be around Rs. 300 Crores and that is Saudi entity level. That includes shareholders loans as well besides external borrowing, so excluding shareholders loan it will come down by half, it will be about Rs.150, Rs. 160 Crores. So if we take only the external loan, it will be close to about Rs. 150 Crores, and if you take our shares then it is only going to be Rs. 80 Crores, we are about 50% odd.
- Saurabh Kapadia:** Okay. Thank you.
- S Krishnan:** Thanks.
- Moderator:** Thank you. The next question is from the line of Vikas Singh from B&K Securities. Please go ahead.
- Vikas Singh:** Good afternoon Sir. Sir I just want to understand that this year India plus Saudi we were just shy of reaching one million tonne, but next year as we can see that the major order is coming from on the Saudi mill, so how do we see that India plus US in terms of volume performance next year?
- S Krishnan:** The thing is if you see US we have said, we have got an opening order book, which is upwards of 300,000 tonnes and we believe based on whatever bids are expected to be awarded, we believe we can cross around 200,000 tonnes plus during the financial year FY2019. With India order book is around upwards 400,00 tonnes, so using this opening order book and going by the historical trend that the gestation time to execute orders in India is relatively shorter compared to when the project is awarded to us. So we believe that with this in mind, we should do maybe upwards of 500,000 or closer to 600,000 tonnes even from India as a geography.

- Vikas Singh:** So that means probably we would end up a little lower in India plus US versus this year in terms of volume performance next year.
- S Krishnan:** Yes, sure because the Saudi business will be much higher in FY2019, then what it was in FY2018.
- Vikas Singh:** Okay and Sir secondly I just wanted to know that in terms of your current bid book issue, if we can have total and major geography wise bid books?
- S Krishnan:** Sorry, the bid book geography..
- Vikas Singh:** Bid book geography wise?
- S Krishnan:** Roughly out of the bid book geography about 40%, 45% in the North America, roughly about 20% is in MENA and the balance is anywhere else what we called as ROW.
- Vikas Singh:** Okay and total bid size in terms of tonnage.
- S Krishnan:** 3.9 million tonnes.
- Vikas Singh:** 3.9, okay that is all from my side. Thank you for taking my question.
- Moderator:** Thank you. The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.
- Aman Sonthalia:** Sir my question is that what about the coil division, how is the margin there and what are your future prospects of that division?
- S Krishnan:** Can you repeat the question Aman please?
- Aman Sonthalia:** What about the steel division that is coil division?
- S Krishnan:** As you said this year, the year that went by we just did about 270,000 tonnes and we expect to close to half a million tonne in FY2019 as well.
- Aman Sonthalia:** How will be the margin there?
- S Krishnan:** Margin will continue to be challenging in the year as well because margin will be a function of slab availability and slab prices and the end product prices.

Aman Sonthalia: Okay and Sir whether you had said that from India and US, the total production will be less than 2017-2018 in 2018-2019?

S Krishnan: We did not say that what we said is that US the production we are starting with an opening order book of 300,000 tonnes plus, we had said going with this order book and going by our trend, we should comfortably do 400,000 plus tonnes in FY2019, which is obviously better than whatever we have done in FY2018, right. We said that we have got an order book which is upwards of 400,000 tonnes and we believe that by our track record, we should do anywhere around 550,000 to 600,000 tonnes of business in the current year with this opening order book.

Aman Sonthalia: Okay and Sir one last question is that whether the company will get benefited from the fall in rupee compared to dollar?

S Krishnan: Not really because see – our trade book is fully hedged, so we do not take any open exposure whether in dollar or any other currency and in India book, the foreign currency denominated loans are also almost fully hedged, all that we have is an installment in 2019 which is just under 5 million dollars, so there is not going to be any great benefit or adverse impact, whichever be it the rupee dollar pricing.

Aman Sonthalia: Okay Sir. Thank you. Thanks a lot.

Moderator: Thank you. The next question is from the line of Dhruv Saraf from Kredent Capital. Please go ahead.

Dhruv Saraf: Hello, Sir I just wanted to understand one thing you have mentioned that we have a six to nine month lag see in order booking and execution, right?

S Krishnan: Yes.

Dhruv Saraf: So within that time if we have an escalation in the raw material prices, do we have that estimation clause with our customer or do we have to absorb that internally.

S Krishnan: Invariably in most orders at the time of bidding itself we have a back to back support for the coils or plates that we need to consume. There are some cases for example Saudi which was that we said where the duration is going from up to 20 to 30 months that we have kept some position open. Does that answer your question, Dhruv?

Dhruv Saraf: Yes, that has. Thank you so much.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Thank you Sir for the opportunity again. Sir if you take the finance cost as a percentage of shares what should be the likelihood for the current year, the finance cost as a percentage of shares?

S Krishnan: Finance cost as a percentage of sales is the math that we have not done, but okay, this year we are at around Rs. 185 Crores on a sale number which is about Rs. 7,600 Crores or thereabouts, right so about 2.3%

Saket Kapoor: Right Sir.

S Krishnan: Let me put it this way, if we expect that volume's outlook for next year is higher than this year, second, is that our working capital management across FY2018 and particularly at the end of FY2018, it was noticed that we have had far better numbers than what we had expected or indicated during all the year. Our cash conversion cycle is about 18 or 19 days or something at the end of FY2018, but we expect that in the next financial year with the higher volumes and supplies across market and all mills running on a global basis, we will need more working capital at a much higher level and which also means with the key prices being higher and the working capital component being higher, finance cost particularly on the working capital side will be higher. But the one thing that we will be having a benefit, this was the downside but the upside of this that as we crossed a million tonne in every 50,000 to 100,000 tonnes additional will improve the operating leverages. So the higher EBITDA should be easily able to absorb this and more.

Saket Kapoor: Sir if you take particularly the standalone and the consol picture for this quarter, we did an incremental turnover of Rs.453 Crores if we take the consol picture that is around 1135 for the standalone and 1588 or 1589 for the consolidated. For a turnover of Rs. 453 Crores, we posted losses. So what was the mix of the orders that got executed, which were negative margin and what portion of our order books do we have that is left over to be executed which we are having the same margins.

S Krishnan: See in this quarter that went by, we have supplied, excluding Saudi, I think we including Saudi we have got about 250,000 tonnes, that is what we have sold during this quarter. 254 to be precise and out of which Saudi is about 55,000 tonnes, so excluding Saudi is about 200,000 tonne. US was low at around 39,000 tonnes. So most of the orders were supplied out of India, which was around 160,000 tonnes. So that will give you a sense that with a relatively higher cost in US and Saudi and relatively lower volume at 39,000 tonnes and 55,000 tonnes of sales, obviously the bottom line is going to be adversely impacted.

Saket Kapoor: So Sir what is the likelihood going forward and this pattern may continue going forward also or is it one-off for this quarter?

- S Krishnan:** In FY2018 in US, we did upwards of 200 or 220,000 tonnes and as we indicated we are expected to go almost 2X at volume in FY2019. In Saudi we did below 100,000 tonnes in FY2018 and as we indicated we will do 300,000 tonnes of volume in FY2018. So both of this should give you a clear indication that these two geographies which are sitting on relatively higher overhead, dollar overhead and Saudi Riyal overhead where much lesser absorb in FY2018 versus the position in FY2019, which means the outlook for the consol and for the Ind-AS, which includes US will be far more positive in FY2019 versus FY2018.
- Saket Kapoor:** Right Sir. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Yes Sir, my question is on working capital, this year we have seen in terms of days falling from 63 to 34 days, so what is the sustainable level in terms of days for next year?
- S Krishnan:** We believe that we will be up – in the region of 45 days to 50 days, that is the range that we believe will be able to work if the figures will change from quarter to quarter, because if you recall in March 2017 we were at around 63 days, which was cash conversion cycle and we are indicated that during this year we will run at around 50 to 55 days. Optically March 2018 looks very good at 34 days but what we believe is sustainable during the course of the year will be around 45 to 50 days.
- Dikshit Mittal:** Okay and Sir lastly what is the level of debt repayment during next year?
- S Krishnan:** On a global basis including all geographies our debt repayment would be of the magnitude of around Rs. 200 Crores.
- Dikshit Mittal:** Okay so Sir any thoughts on enhancing the dividend payouts because next one to two years actually would be very good in terms of cash flows, and debt retirement is also around Rs. 200 Crores only, so can we expect better dividends at least for next two years?
- S Krishnan:** Well, two things, one is as at March 2018 on Ind-AS basis our net debt is around Rs. 422 Crores and continuing this trend if we are able to run our business with the efficiency that we have been operating in, we are close to net debt figures as during the current financial year itself. Our agenda if you recall in one of our earlier investor meet that we have had was to become zero net debt by FY2020. We seem to be well on course, maybe we are a year ahead of time. Second is that as far as this year is concerned the board has its meetings we held earlier in the day has recommended to hold on the last year's rate of 10% and we indent to hold on for the current year. In terms of what we should be doing for the future, we hear you and we will take the feedback internally.

Dikshit Mittal: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Salil Utagi for his closing comments.

Salil Utagi: Mr. Krishnan, would you like give closing remarks?

S Krishnan: Well, thanks every one. I think it has been interesting and illuminating talking to every one of you. We see the keen interest that you have been taking in tracking our results and we also take some of the questions that you have asked where we have not been able to give you complete answers, we will work on them and we will come back to you separately. Last but not the least some of the suggestions and recommendations that you have made, we take it in all humility and we will discuss it internally and work on those and hopefully with your guidance and support and participation, FY2019 should be a better year than FY2018. Thanks again for coming in on the call. We welcome your interest and support.

Moderator: Thank you.

Salil Utagi: Thank you.

Moderator: Ladies and gentlemen on behalf of Edelweiss Broking Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.