



# “Welspun Corp Limited Q3 FY2019 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to the Q3 FY2019 results call of Welspun Corp Limited hosted by Emkay Global Financial Services. We have with us today Mr. Vipul Mathur, Managing Director and CEO, Mr. S. Krishnan - Executive Director & CEO, PCMD, Mr. Percy Birdy - Chief Financial Officer, Mr. Akhil Jindal - Group CFO & Head Strategy, Welspun group. Before we begin I would like say that some of the statements made in today's discussion maybe forward-looking in nature and involves risks and uncertainties. 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. Amit Zade, Emkay Global. Thank you and over to you Sir!

**Amit Zade:** Good evening everyone. I would like to welcome the management of Welspun Corp Limited and thank them for giving us this opportunity to host the Q3 FY2019 earnings call. I would now hand over the call to the management for opening remarks. Over to you Sir!

**Percy Birdy:** Thank you Amit. Good evening everyone. Welcome to our Q3 FY2019 results conference call hosed by Emkay Global. As we speak today, Welspun Corp has an enviable order book position of 1.656 million metric tons spread over the three key geographies where we operate. We have booked 274000 tonnes of pipe orders since our last quarter conference call.

Active bids stand at 2.4 million metric tonnes up from 2.1 million metric tonnes in last quarter and future potential projects, which might come up for the bidding in the near term stand at 18.7 million metric ton up from 17.2 million metric tonnes in last quarter spread over global market.

This offers opportunity for further growth in times ahead for us. Welspun has reported another quarter of stable performance during the current fiscal year. The key performance indicators of sales volume, realization per metric tonne and EBITDA per metric tonne across the three geographies show consistent set of numbers with good future visibility. This quarter we locked sales of 339000 tonnes inclusive of our KSA (Saudi) joint venture, 12% more than last quarter.

Now we come to the market overview. Welspun continues with its strategy of focusing on the three key geographies of India, USA and Kingdom of Saudi Arabia in the segments of Oil & Gas and water infrastructure projects with the local presence and also serving global markets.

In USA crude price of around \$60 a barrel is remunerative and has led to increased oil drilling and demand for new pipelines evacuate Shale gas. This combined with restrictions on steel imports continue to benefit local players in the Americas. In the current quarter our US operations have further ramped up the sales volumes to service the higher demand from gas

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pipelines in the premium gas region and Gulf coast. Our spiral order book gives clear visibility for the next four quarters. For the India market, water irrigation pipelines were various states government like Madhya Pradesh, Andhra, and Telangana continue to provide a robust demand situation. Oil pipeline by oil majors like IOCL, national gas credit development by GAIL and city gas distribution projects will continue to drive the demand in Oil & Gas segment.

Further we have bagged a large LSAW pipe export order from India to a reputed North American customer. We are optimistic for more such export orders in the coming fiscal. For the Saudi joint venture, we have an order booking for next two years for large water projects. In addition, we are adding new orders in the Oil & Gas sector also. We have also ramped up our operations significantly streamlining of capacities. Now, we are in a position to be very selective in picking up new orders.

Plate and coil mill division, we continue to service the wind tower segment and expect to see better utilization and margins in the coming quarter in addition to servicing the captive demand of our water pipe business. We are also exploring strategic options to create value.

On the steel prices, the recent few months have seen the prices softening and this is good for pipeline capex. On the forex front, we have seen currency fluctuations during these nine months period. Rupee-dollar rates over the last three quarters have fluctuated from the levels of 68.47 at the end of June to 72.48 at the end of September and then rupee strengthened again to 69.77 at the end of December.

On the capex front, we are on schedule for our Bhopal project to go on stream from April 1, 2019. This project will be giving us large water infra business opportunities in MP and in phase 2 we plan to add coating capacities over the next months. Apart from this, we do not plan for any significant capex.

Now we come to the key consolidated financial numbers for the December quarter. Total revenue from operations and other operating revenue stood at Rs.2658 Crores up 15% on a Y-o-Y basis. Consolidated EBITDA was at Rs.223 Crores up 36% on Y-o-Y. EBITDA per metric tonnes for the nine months period was \$180 for our US business and about Rs.5600 per tonne in our India business. PBT for the quarter is Rs.82 Crores up 155% on a Y-o-Y basis. Profit after tax after minorities and share in associates and joint ventures stood at Rs.30 Crores down 55% on Y-o-Y due to last year Q3 inclusion of one-time tax credit in US of \$10 million and also current year Q3 having higher loss in our Saudi Arabia joint venture. Cash PAT was at Rs.127 Crores up 55% on Y-o-Y.

Then we come to operating EBITDA, so operating EBITDA for the current quarter stood at Rs.196 Crores up by 34% Y-o-Y. Operating EBITDA is calculated after excluding treasury

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income of Rs.25 Crores gain, on sale/fair valuation of investments Rs.14 Crores and mark-to-market or fair valuation of bonds Rs.11 Crores. Other income in the current quarter stood at Rs.40 Crores, which was largely on an account of treasury income of 25 Crores and the gain on sale/fair valuation of investments of Rs.14 Crores. Other expenses for the current quarter include net forex loss of Rs.18 Crores and mark-to-market fair valuation of bonds Rs.11 Crores.

The current quarter has about Rs.60 Crores in the CoGS line resulting from currency impact on the closing inventory of our US subsidiary. The cash conversion cycles at the end of December stood at 46 days. We expect this to come down and improve in the coming quarter. Net debt at the end of December stood at Rs.312 Crores lower by Rs.83 Crores from the previous quarter.

Then we come to the Welspun Middle East our Saudi operations joint venture. As we are aware the joint venture numbers are brought in consolidated financial numbers at a single line level after the PBT as per Ind-As. The current quarter of December pipe sales volume from our Saudi joint venture has ramped up substantially to 78000 tonnes up from 13000 tonnes on a Y-o-Y basis.

PBT in our Saudi journey stood at a loss of Saudi Riyal 24 million compared to 21 million Y-o-Y; however, the loss has come down from Riyal 33 million in the previous September quarter. We expect the losses to further come down in the coming quarter as the project mix changes favorably and from next financial year we expect the joint venture to contribute positively to the bottomline.

Then we come to future outlook. All the three geographies are geared up in tandem for improved performance driven by robust order books and strong execution capabilities. USA continues to witness strong demand from Oil & Gas sector with stable crude prices and import barriers from steel.

Welspun with its local manufacturing capabilities, proven execution track record and excellent relationships with large customers and steel suppliers tends to benefit significantly from this scenario in the next four quarters. In India our focus is on both water as well as Oil & Gas sector with the relocation of spiral facility in Bhopal, MP we foresee bright future to get a large water projects in the state. India remains the base for export orders and we are actively working in global markets as well. In the Saudi joint venture, we have a clear book visibility of 823000 tonnes for more than next two years. In addition to water business, the Saudi JV has started bagging projects from Oil & Gas sectors also.

We will start seeing the effect of higher margin orders getting ramped up from next quarter onwards and the management is focused on quickly turning around the Saudi JV bottomline from red to black.

**Akhil Jindal:**

Before we get into questions, just a small commentary on our treasury current position. We have total treasury balance of more than Rs. 1100 Crores out of which the Rs. 800 Crores odd is in pure treasury from the others are in the bank balances and others, so Rs. 875 Crores that we have total as money that is investment into bonds and mutual funds and others, I would like to take this opportunity to give you the breakup of that and what impact we have captured in our books today. So, our of Rs. 875 Crores, Rs. 172 Crores is in the liquid mutual funds where there is no MTM loses, there is no erosion of value, so that is as safe as one can imagine. There is absolutely zero risk that we are carrying on that.

Then, we have a PSU bonds of almost Rs. 244 Crores, which are all let us say AA or AAA rated bonds likes of REC, likes of GCPL and UPPCL kind, which are done by RBI so that is Rs. 245 Crores roughly. We have Rs. 100 Crores of bank bonds, which are again per Union Bank, Punjab & Sind Bank kind, nationalized banks thus we are again we do not perceive any credit risk or any liquidity risk. There might be some spread risk temporarily, but other than that there is no risk, then the last piece that we have in our portfolio is Rs. 350 Crores of corporate bonds.

I just want to brief everyone in terms of whatever board policy had been in terms of these investments, we always invested in AA and above categories that is what the board approval was and all the investors were made according to that policy; however, some of the bonds, which were erstwhile AAA rated have seen a massive erosion like IL&FS, so we have IL&FS at three levels, one IL&FS main Rs. 40 Crores and there is an IL&FS Energy, which is another Rs. 29 Crores and then the new issue, which has cropped up recently, which is the IL&FS subsidiaries, which otherwise were very, very viable subsidiaries so we have Rs. 47 Crores in the Jorbat-Shillong, so between the three entities of IL&FS we have Rs. 117 Crores of exposure.

If I have to categorize in a manner that NCLT has asked IL&FS to categorize I would say Jorbat-Shillong should come in the green category where there would not be any risk for the repayment or interest or anything because primarily these are NHAI bagged assets and then there is an IL&FS Energy, which would be in the middle category, which is 29 Crores and then is an IL&FS main where we certainly have long-term obviously the liquidity is a challenge and also in a long-term manner the complete resolution of IL&FS itself will bring the solution to this part of the portfolio.

The total MTM that we have taken on the three assets of IL&FS put together is nearly around Rs. 20 Crores as per the FIMMDA guidelines as per the mutual fund guidelines and SEBI guidelines, so we are very much in compliance with all the guidelines, so this is as per the IL&FS concerned.

Then we have Rs. 34 Crores in Dewan Housing. Let me also tell you there has been no major downgrade of rating in Dewan Housing. There has been minor downgrade, one notch

downgrade, but otherwise all interest and everything has been serviced in time, so this another exposure in corporate bond of 34 Crores and finally Reliance where we have a Rs. 100 Crores of exposure in Reliance Capital, again there has been no default none whatsoever, but I think this is something that we must share with all of you as a conscious decision to express our concern on these three particular accounts, IL&FS, Reliance Capital and Dewan Housing.

As I mentioned all of this were AAA when we invested the money, but due to various situations that has happened in the treasury market in the last six months, there has been rating downgrades in all of these three investments. We are carefully watching. We have got a legal counsel also helping us in that and we are in constant touch with the management in terms of early resolution for these three treasury portfolio.

I just want to tell you that in the last few months we have also sold Rs. 10 Crores of Reliance Capital and not at a massive discount, but around 3% to 4%, so I think in that sense whenever we will get an opportunity we will also be not shy of liquidating this position even though we might have to book a small loss here or there, so the total MTM that we have made Rs. 38.77 is the total MTM between the two quarters that is Q2 and Q3 which is as per the CRISIL guidelines, and FIMMDA guidelines, so if you have any other questions during the question and answer we will be more than enough to provide you more details. Thank you.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now being the question and answer session. We have a first question from the line of Nirav Shah from GeeCee Investments Limited. Please go ahead.

**Nirav Shah:** Thank you for the opportunity and also detailed presentation. Sir, few questions, the first one is looking at the presentation and also your opening comments, we had taken a 60 Crores odd of currency impact on our closing inventory at our US operations, so just want to get a sense from you that our core number, operating EBITDA is 196 Crores, and the currency is around 60 Crores impact, so has that currency been not that volatile, our core operating profits could have been around 255 Crores, so is that understanding correct?

**Percy Birdy:** Yes, so Nirav, your understanding is correct. This 60 Crores impact is caused because the inventory numbers sitting in the US subsidiary balance sheet, which is in dollar has to be converted into INR for consolidation purpose. Generally, the profit and loss statement is converted at an average exchange rate; however, the closing stock figure has to be converted at the closing exchange rate, this is as part of the accounting standards, so now what has happened is on December 31, 2018, rupee has been strong at 69.75 to be précis and that has resulted in this 60 Crores impact in Q3. It is a consolidation adjustment.

- Nirav Shah:** Got it, but if I adjust the Q2 numbers where there was a gain, my core operating numbers come to around 179 Crores, so again just want to understand from you the jump on the adjusted profitability quarter-on-quarter basis that has come primarily from US operations or even India is let to that jump?
- Percy Birdy:** It is a mix of both, so US operations also has performed significantly well for us in December quarter.
- Nirav Shah:** So, you mean that \$180 per tonne of EBITDA you are saying for nine months, the Q3 number would be higher than the average?
- Percy Birdy:** That is right.
- Nirav Shah:** Thanks for clarifying that. Sir, other two questions, you mentioned in your opening remarks about you got one LSAW order for the India plant from North American customer, now just want to get a sense from you whether the profitability in this order will be base on the India average profitability or US or somewhere in between?
- Vipul Mathur:** This order is from an acclaimed customer of North America it is actually out of Canada it is almost around 166000 tonnes of order and this pipeline is one of the most talked about the pipeline at this point of time, once this pipeline is constructed this will be the highest operating pipeline in the world and this is a great pipeline, so this order which has been received is after a very thorough technical diligence and recognizing the capacities and capabilities of Welspun Corp, that is one. Number two, as regards the profitability I think so the way it looks the profitability would somewhere be better than the Indian profitability, but lower than the US, it should be sitting somewhere in between that that is the way it looks, but there is quite a few moving pieces into that space and we are trying to fix each and every one of them and by virtue of that the profitability is only going to go up.
- Nirav Shah:** Fair point Sir, and what is the US order pipeline for the next couple of quarters we have visibility till September to December for our US plant, but if you want to beyond that anything you see in terms for order for the next two quarters?
- Vipul Mathur:** So, if you look at it, at this point of time the mill is already booked till almost mid of December 2019, almost it is for 11 months it is booked. From business visibility there are the Permian base is still producing and the Permian base is still required evacuation in both of Oil & Gas and there are projects, which are coming up on the radar so I am very sure that it is just a matter of time before we would hit another project, we are in active discussions with various customers around there quite a few projects are in the discussion at this point of time it is a matter of timing and

scheduling and pricing and it is just a matter of time before one of them or two of them will get concluded, which will show us a visibility beyond December 2019.

**Nirav Shah:** So, the visibility I mean the orders are more from the negotiation prospective rather than the bid, so it is a one-to-one between with the client, they have already selected you and what is pending is the pricing and other technical aspects of that?

**Vipul Mathur:** The business is in two categories, in one category where have bid and where the evaluation is going on and there is another category where we have been on one-on-one discussion with the client, so we are sitting in both the categories at this point of time, evaluating both the options whichever seems to be fitting from a scheduled perspective and from the margins perspective that is the one we will pick it up eventually, but from a business side am I seeing any challenge around that probably no.

**Nirav Shah:** Sir, just last question, I mean in the media you have mentioned about EBITDA guidance of around \$175 to \$200 for the US operations and considering that Q3 is already above the \$180 on nine months average, do you see this EBITDA performance settling at the higher end of the range or it should still remain between 175 and 200?

**Vipul Mathur:** Our average EBITDA for the nine months stands around \$180, however, if you look at EBITDA performance for Q3 it is around \$200, it is my view that going forward it should from a guidance perspective probably the EBITDAs will flow it around between 175 and 200, but in the forthcoming quarters it will be more towards the upper end of the guidance.

**Nirav Shah:** Got it Sir. Thank you for answering the questions, great and all the best.

**Moderator:** Thank you. We have next question from the line of Vikas Singh from Phillip Capital India. Please go ahead.

**Vikas Singh:** Good afternoon Sir. Sir, US steel prices had started to correct in a significant way, I just wanted to understand have there a certain unbooked portion of raw material is there or how is going to impact as in terms of our EBITDA in the next couple of quarters also?

**Vipul Mathur:** So, Vikas you know as a policy, we completely hedge our steel. As we speak all the orders what we have or the steel for which is absolutely covered, so there is nothing, which is open at this point of time one, two your information is correct, I think so the markets in US have started softening from a steel side of it, the steel pricing have definitely starts softening and they are getting more calibrated towards the international pricing now, so which is a good sign, which I see it as a very positive sign because that brings the ability of more capex coming into the market, earlier the ability was only with the larger companies, now the small and the medium scale companies can also come up to the market because they can afford the capex.



**Vikas Singh:** Sir, in Saudi this quarter was very well, can you throw some light about how has been the mix of the older loss making business versus the better margin business execution and how has been to change over the next couple of quarters?

**Vipul Mathur:** If you see the performance in Saudi this quarter we produced almost 80000 tonnes of pipes now most of it is of the loss making order. As I have always maintained that from Q4 the dynamics is going to change where the profitable orders will start coming in and that is the way it is going to happen as well this blend will significantly improve and increase in the subsequent quarter so that is the reason we believe that in first months we will see further reduction in losses in our fourth quarter and we can see a positive PBT start coming up in the first quarter onwards, so just to be clear that the pain in Saudi is about to get over.

**Vikas Singh:** Sir, with regards to our scheme of amalgamation with the Welspun Pipes, so if you can actually explain a little bit more on the matter, is it simply corporate restructuring exercise or it would have any financial implications as well?

**Vipul Mathur:** So, the amalgamation will result in the promoter group of the transferor company directly holding the shares in the transferee company, which is mainly going to not only lead up to the simplification of the shareholding structure, but it will also just to reduction of shareholding tires, so as such WCL does not get affected in anyway it is more at the promoter level where the restructuring is getting done.

**Vikas Singh:** Sir, lastly if I may ask so if I look at our net debt basis versus the cash inflows it has not come down much, so I assume this is largely on the working capital side or how you think is going to behave in a year's time, would we looking at the net cash kind of company?

**Vipul Mathur:** Yes, so our objective remains that we want to be a zero net debt company, so as you see from March 2018 to December 2018 in this nine months period the net debt has come down from Rs.422 Crores to Rs.312 Crores, so that is already a significant reduction as we go forward into the next few quarters our India will remain at this to further bring it down; however, you have to also keep in mind that our US operations has been ramping up in the last three or four quarters, so the inventory requirement when the operation ramp up also increase.

**Vikas Singh:** Our sales figure was on the flattish, India plus US only, so while last quarter if I believe we are talking about a little bit of higher volumes, so there some shipment has been deferred or how is the four quarter is looking to be considering the current delivery schedule?

**Vipul Mathur:** If you see that, you know in both the quarters we have done almost close to 260 tonnes, so it is flat. We did have a potential to do better in this particular quarter. There was a slight mismatch in the delivery shipment, there were two shipments in particular, which should have got, the sale

should have got recognized in this particular quarter, but then there were dispatched and there were not received at the site, that has got received inside post few days, three-four days later down the line, so the sale did not get recognized, so from an operational performance point of view there was nothing, the numbers could have been better and this one or two or three days delays should not happen in terms delivery to site.

- Vikas Singh:** If I may ask what was the quantity those two shipments combined?
- Vipul Mathur:** So, the quantities put together could have been, so approximately let say 15000 to 20000 tones, and you will see the recognition coming up in this quarter so it was a mismatch of a few days and that is what you are seeing here, it is just spillover.
- Vikas Singh:** Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Vikram Kotak from Crest Capital. Please go ahead.
- Vikram Kotak:** Thank you for the opportunity. My question has been answered, but I have one more question. What is our net debt level right now on the balance sheet, it is almost zero?
- Percy Birdy:** So, the net debt as of December end is Rs.312 Crores.
- Vikram Kotak:** And you said about the IL&FS and Reliance what is the total come to IL&FS and Reliance Capital and IL&FS combined?
- Akhil Jindal:** IL&FS main company is 40 Crores and then the Reliance Capital is 99 Crores as on today.
- Vikram Kotak:** And you have Dewan, which is how much?
- Akhil Jindal:** Dewan is 34 Crores and IL&FS Energy, which is another 29 and Jorbat-Shillong, which is SPV operating SPV getting revenue from NHAI, of 48 Crores.
- Vikram Kotak:** Jorbat Shillong - you think it is fully recoverable?
- Akhil Jindal:** But for the attempt by IL&FS for some moratorium it continues to have enough adequate cash flows for servicing, as per our understanding.
- Vikram Kotak:** What should be a ballpark capex for the next two year, I know you talk about not much capex except the Bhopal and the other one, but what is the total capex planning for the next two years?

**Vipul Mathur:** There is no another one. There is no capex. We are not looking at any capex at all bearing the maintenance capex, which happens which is part of our business, but there is no capex which is going to happen, I think all that capex, which we have suppose to do with the relocation of Bhopal, it is not cognizant for us to position a market share, the domestic market share, so that already been done, or it is being done, but beyond that we have no plan whatsoever.

**Vikram Kotak:** This capacity will carry till what level, till next two to three years what you have already done, current capacity?

**Vipul Mathur:** If you see our capacity utilization level currently is around 47% to 48%.

**Vikram Kotak:** Fine, I think still long way to go for capex. Thanks. Thank you so much.

**Moderator:** Thank you. We have the next question from the line of Kshitij Bansal from Albatross Capital Advisors. Please go ahead.

**Kshitij Bansal:** Good evening gentlemen. If you can please help me understand I believe that the US business is thriving and my initial understanding is that market with only three players present inclusive of yourself, when that is said is it like the overall organized market that we are talking about or this is like the overall market that there is still some sort of additional capacity that government can tap from there?

**Vipul Mathur:** I think so this is the overall market we are talking just about every capacity what is being discussed is there, at least on the large diameter there is nothing which is up there where there could be a potential of you did.

**Kshitij Bansal:** If you can please also shed some light on follow-up question on our previous discussion, the plate plants that you have there were some strategic options that were explored, any progress that you might have made on it and what would be benefit that we could see on the P&L in terms of depreciation that was going away after this option is exercised?

**Vipul Mathur:** To answer, we were and we are on a lookout for strategic options. Nothing has been concluded or crystallized till now and we would have something definitely we will come back and report back. At this point of time there is various discussions which are on and which have been on for the long time, but till the time it does not get crystallized it is premature to talk anything about that.

**Kshitij Bansal:** Right Sir, and just one final thing from my side, there has been also we have observed some sort secondary action, some foreign promoter holding that is currently getting laid off in the market, just to know when exactly this particular sell, what really triggered this particular sell off to begin with?

- Akhil Jindal:** Firstly, the part that you referring to was part of the promoter group like a co-promoter in the beginning, in September we got a request from them to be not part of the co-promoter because of obviously the purpose of which they have become promoter was no longer in existence and to that extent, we are taking the steps to declassify them as a promoter, so they would be a part of the public, so in that sense any minor sale that might have happened from their end, is not a reflection of the promoters selling their stock, on the contrary if you see the comparison between then post off between let us say September and now, you would have only seen increase in the core promoter shareholding almost like a every single month.
- Kshitij Bansal:** Yes, that I agree. I hope for this particular sell off, I hope that, are we planning to use any part of your cash reserves to increase the holding or probably sort of a buy this particular broker shares as a promoter holding, I just curious?
- Akhil Jindal:** Anything that could be done or that thing done is in the open market, as a company we have nothing to do with it, so I think because you asked me about the company shareholding situation that is why I thought I would give you the full details. Otherwise from company cash or for that better any relation with the company, there is no money being use or would ever used in that sense.
- Kshitij Bansal:** Thank you very much gentleman and all the very best Sir.
- Moderator:** Thank you. We have next question from the line of Saurav G from Lucky Investment Managers. Please go ahead.
- Saurav G:** Sir question for you only EBITDA level can you breakdown the contribution of coils and plates from the 180 Crores EBITDA we have, coil and plates and pipes, the contribution on EBITDA level?
- Vipul Mathur:** Largely the entire contribution is coming from the pipes side of it. On the plate side of it, we are almost EBITDA neutral and with the plate and coil mill per se is not dragging us town, it is at an EBITDA neutral level basis, but in the moving forward I think so then the next quarter things can change us, we see the market improving.
- Saurav G:** Okay, any major projects coming up in India from GAIL etc.?
- Vipul Mathur:** There are quite a few projects, which have already been announced and I think we are also participating in that, so we are seeing lot of projects coming up from IOCL, a few projects from GAIL, also what is interesting is Mr. Percy mentioned in his his opening remarks is we are also seeing an emergence of the city gas distribution, so in the last quarters, it was only being talked, but now we are seeing implementation of city gas network happening and there are quite a few

projects in respect to that, which are also there being which will be finalized in this particular quarter.

**Nisarg Vakharia:** Sir this is Nisarg Vakharia here. Just wanted to firstly congratulate on doing a great job that managing you balance sheet. Sir two questions, the first is that you mentioned that the steel prices are coming down in the US, which should encourage capex in this business, typically as a converter, I have generally seen the companies tend to higher margins when steel prices or commodity prices are rising, is that is the case for our business as well?

**Vipul Mathur:** Not really. I means at this point of time, the US situation has to be seen from a very different optic altogether. The way we see US situation is there is not too much of a capacity either we are available, so that which means and there is no import which is going to come in, so literally the margins would get protected; however, what is going to happen the small or medium scale companies, which have been sitting on the fence, they would also now come up to the market, so I will see a lot of more of a business potential coming up on the table with more than less our margins getting being protected.

**Nisarg Vakharia:** Since my last question is that typically for our business, suppose we make a 1000 Crores EBITDA, ex of working capital changes, what is the typical cash flow that we would make, operating cash flow on that 1000 Crore EBITDA?

**Percy Birdy:** Out of that 1000 Crore EBITDA, let us say the tax expense after removing the depreciation and interest, so our cash back for this quarter noted about 100 and 126 Crores and if you look at for the nine months cumulative basis, it is about 450 Crores. This is on an EBITDA 682 Crores.

**Nisarg Vakharia:** So typically is our 50 to 55 EBITDA direct cash flow is safe assumption to have in your business?

**Percy Birdy:** So on an annual basis, you can safely say that the cash back would be about 700 Crores.

**Nisarg Vakharia:** FY2020 onwards, can we start rewarding the shareholders in terms of buyback because you are pretty much setting on zero right now?

**Vipul Mathur:** The endeavor in the direction from the board is very clear that whenever we have surplus, we have to reward our shareholders, there is no doubt about it, but that direction is very, very clear, but their certain steps, which have to be complied with, #1 the first and foremost that surplus cash has to sit into the books, we are still talking, it is still not there, so I am sure it will happen soon, then the next steps would be of course whatever little that we had, we would like to take care of that and thereafter it has to be very clearly plowed back to the shareholders.

**Nisarg Vakharia:** We can easily repatriate the cash flow from US to India or we have to pay like dividend tax and then effectively pay, so there are some companies where you know the cash flow is made in the US, but it permanently sits in the US business?

**Percy Birdy:** We have to look at it, see there are options available, but we have to see that which is the most tax efficient option. I think from a US perspective, if you see as Vipul has rightly mentioned there is also debt also sitting in the US books, so our endeavor would be first use the US cash generation over the next let us say 12 to 18 months to retire the liability considerably from the US and then only we can talk about the repatriation back to India. In that sense, I think the different pockets will have different treatment and to that extent, obviously the highly distribution is one of our prime focus and then when the situation would be continues and the board will give the clearance, it will also be adopted, but at the same time there is a reconciliation of working capital, there is reconciliation of debt, all of this are going to parallely.

**Nisarg Vakharia:** Okay. Thank you so much.

**Moderator:** Thank you. We have next question from the line of Pratiksha Daftari from Aequitas Investment. Please go ahead.

**Pratiksha Daftari:** I had a couple of questions on the India operation, if you could tell us what would be the execution period for the current order book in India and secondly out of the total bid book that you mentioned about 18 million tone, how much of it would be from India?

**Vipul Mathur:** At this point of time, our order book executable order book in India is almost close to let us say 450000 tons. This will be executed over the next 12 months. In regards the bid book if you look at it, we have an active bid book of global active bid book have almost close to 2 to 2.3 millions tone and a prospective bid book of almost 17 to 18 million tons, now if we see in that, the majority of that bid book is going to come from Europe, US and this. India we are still looking at close to let put it this way are almost 300k, 400k to 1000k tons of an active bid book, which we see from India at this point of time. We have two components to a bid book, one is the bid book, which is going to be emerging from India and getting executed in India that is one part of it, so that is around let say 252000 to 300000 tones and there is a component today, which we see the export as Percy also focused in his opening remarks that we are looking Indian assets were leverage as well. If we combine both of these together, almost put together it could be let us say almost 1.2 to 1.5 million tones of active bid book which we are looking at, adding books together, so one which is going to be used in India and one which is going to be use for exports out of India.

- Pratiksha Daftari:** With regards to the CGD opportunities, so this two get a perspective how big is this opportunity that we see and when do we see these orders coming in like went to the implementation begin and what kind of participation can we expect from our company is?
- Vipul Mathur:** If you would have seen lately, I think so in 93 our cities, city gas distribution network was awarded and at least few of them are already started coming up for discussion, so I personally see that in the coming quarter, let us see from the first quarter, we would see some short of attraction in terms of execution happening for the city gas distribution pipeline and it will definitely ramp up over a period of time because there have to do the basic engineering designs and all that stuffs, but for my execution perspective, the city gas pipes will start hitting in some cities from next quarter onwards.
- Pratiksha Daftari:** Are you suggesting that the execution for Welspun will begin in Q1 FY2020?
- Vipul Mathur:** We are hoping that. We are in active discussions on some projects in any case at this point of time, as we speak.
- Pratiksha Daftari:** With regards to the Bhopal capex, now that we expect commissioning in April 2019, what kind of volume do we expect to cater from Bhopal in FY2020?
- Vipul Mathur:** See if you look at the rationale of going to Bhopal, we are seeing a huge business potential in the water sector in and around Madhya Pradesh, so what we are expecting is that at least 100000 to 225000 tones which could be negotiated and executed from Bhopal to start with.
- Pratiksha Daftari:** That will be over and above our current order book?
- Percy Birdy:** That should be over and above current order book, yes please.
- Pratiksha Daftari:** Sir lastly on US operations, on a little broader base, how do we see you the drilling and the capex and US to be affected by volatility in the crude or the oil prices, as to what levels would you say that the drilling capex would be good enough?
- Percy Birdy:** Historically, what we have seen is that as long as the crude is above \$40 right, there is no slowdown in US market. We have seen the crude being at \$90 and then coming down back to \$38 to \$39, but now again going back and stabilizing around \$55 to \$60. The couple of factors around that #1, a) OPEC has also realised and this is all in public domain and we must have read around that, OPEC have agreed upon a production cut. The Saudi have done a production cut and the Russian Fed have agreed to a production cut and all this production cuts have been done in order to stabilize the pricing and if you see in the last couple of weeks, the prices have actually stabilized and hovering around \$55+/- \$5. If that is a situation, which remains there, I think so there is no cause of concerns.

- Pratiksha Daftari:** Thank you.
- Moderator:** Thank you. We have next questions from the line of Basant Patil from Mentor Capital. Please go ahead.
- Basant Patil:** Thanks for the opportunity. Sir just wanted to get clarity on the plate mill. What is the status on that even last quarter is actually have indicated by end of this year, there are some strategy plans actually we are planning to hive off that division and also any update on that, can you throw some any update on that?
- Vipul Mathur:** At this point of time, we are continuing to be in an active discussion with the potential suitors, but till the time it is not crystallized, it is not signed on the dotted line, it is too premature to talk about it. From a concept perspective, we are still on the same that we are looking at the strategic options, if we really get a right buyer, right price, right timing, we should not be averse to closing of that deal, but it has still not happened. This has been the discussion with various peoples.
- Basant Patil:** Sir in regarding these, for the quarter actually what the bid book conversion, it is quite less compared to the last quarter, so why that significant drop actually last quarter we had almost 423000 tons of that kind of the booked order, so this quarter actually just significantly dropped to almost around 274000, so going ahead what kind of the conversion rates actually we can expect every quarter?
- Vipul Mathur:** So if you see in Q1, we did almost 200000 tons plus, in Q2, we did something like 423000 and Q3, we did 274000.
- Basant Patil:** Why this more of the cyclical, so that is need to understand how the cycle actually fluctuated, is there are any larger orders comes means that is actually that you find a large kind of the volume to come actually or depends on the order to order, is that logic correct?
- Vipul Mathur:** It is all about timing issues, now let say this North American order what we have been talking about, there is 166000 tons and you believe that we have been working on this order for the last three and a half years, it is so happened then it got crystallized in this particular quarter, so I think with the most optimal way of looking at thing is that what is active bid book, if the active bid book is in excessive of \$2 million, it is just a matter of timing, these orders will keep on coming, some will fall in one particular quarter, some might gets spilled over, but broadly if you look at, the way we would like to measure ourselves is that on a year-on-year basis let us say start of any financial year, do we have order book of million tons plus or not, so if you see even at this order book of which is 1.65 million and I assuming that we will execute part of during this quarter and assuming you do not get anything in this particular quarter. You do not book any



other order, which is not the case. You still will go ahead with more than a million tons of an open order book in the next financial year, having said that I think so we are still in strategic discussions on couple of projects, I know they are some of them are in very active stage of discussions, some of them on a bid stage, it is just a matter of timing. We would start seeing that. My sense is that on an average 200000 to 300000 tones of an order book on a quarter-on-quarter basis is a safe assumption to have.

**Basant Patil:** Sir can you quantify in Saudi order, what we have almost around 823000 tons, so what is the legacy order, still it is in that, can you quantify that?

**Vipul Mathur:** We have three orders there. One of them is a painful; two of them are highly profitable. The one which we have a pain was around 38000 tons, out of that we have already done around 150000 tons we have already done that, so we are left with around 40% more of that from the next financial year, but that 40% more is now to be executed over next 16 months time, so blend of the profitable orders moving forward will be more and the blend of this particular order or the loss making order would be less in the quarters to come in that is why we are very optimistic that from Q4 onwards, you know from Q4, we should see a sort of EBITDA neutral and from Q1 onwards, we should basically see money coming into the books.

**Basant Patil:** Regarding these tax rate actually for the quarter, why actually I could not get more clarity on the tax outflow for the quarter exactly. For the full year on consolidated basis, what could be the sustainable kind of capacity?

**Percy Birdy:** On a full year basis, we would say about closer to 18% to 20% would be the consolidated tax slab that we can guide to us. Coming to the specific question on this particular quarter, if I compare December 2018 quarter versus December 2017 quarter there are two main highlights. Last year December 2017 quarter had a one time tax credit, now this was because of the US tax incentives, which were announced there, so that was a big number almost close to \$10 million US, that was a tax credit in the December 2017 quarter, which is obviously not again there in December 2018 quarter and the second aspect is of course the consolidation adjustments, so in each quarter as we earlier mentioned, there are consolidation adjustments that affect the consolidated PBT, but tax provisioning is always worked out for each jurisdiction, so US tax expense has worked out only 40 standalone US balance sheet and same way India tax is worked out only for the standalone India numbers. The consolidation adjustments do not have any impact on the tax expense, so when you have these consolidation adjustments that sometimes distorts the effective tax percentage for a particular quarter, but on a full year basis, you still end up close to 18% to 20% effective rate.

- Basant Patil:** Coming to the capex, what we mention phase 2 capex that is lastly for the coating plant at the Bhopal division, so this phase 2 does not include 185 Crores what we are currently setting, that would not be a part?
- Percy Birdy:** No it is, 185 includes the coating as well.
- Basant Patil:** Okay fine Sir, that is all from my side. Thanks a lot and all the best Sir.
- Moderator:** Thank you Sir. We have next questions from the line of Rajesh Agarwal from MoneyOre Investment Advisors. Please go ahead.
- Rajesh Agarwal:** Sir, if we get the city gas distribution orders in India and India we have done around nine month EBITDA per ton of 5600, what is the potential of that EBITDA to go up?
- Vipul Mathur:** See, city gas distribution is all small diameter business, which is a ERW business, so from a meterage and footage perspective, these are big numbers, but from a tonnage perspective, there would be slightly on the lower side of it, so whether this is going to make a great change into EBITDA numbers on per metric tons the answer is no, I think so the way we see things it should be in the same zone.
- Rajesh Agarwal:** Around 5600 only?
- Vipul Mathur:** Let say between Rs.5000 and Rs.5500 quarter basis that is the way we will look at things.
- Rajesh Agarwal:** Okay, including the water and city gas?
- Vipul Mathur:** All put together.
- Rajesh Agarwal:** Sir, the second question the last quarter you said that what is the funnel covering all the steel, now we have mentioned that we have covered all the steel, so we will not benefit from the steel presses coming down?
- Vipul Mathur:** No, last quarter, we said that is the only we have covered all the steel with respect to our Indian business and the US business. For the Saudi business, we have deliberately taken a call, not to hedge the old steel because it was almost a million ton of steel, we never wanted to do that and when the price is got softened up, we did took some further positions on the steel in Saudi and which only benefited, so that will get reflected in our profitability in quarters to come.
- Rajesh Agarwal:** So now Saudi operations full steel has been covered?
- Vipul Mathur:** No, not yet.

- Rajesh Agarwal:** Sir, last question on the bonds. Do we have to take another hit of any provisions to be provided in future for all the bonds, Dewan housing bond, IL&FS, and all, now provided 38 Crores, anything extra is to be provided for?
- Akhil Jindal:** No, we had followed the guidelines of FIMMDA, CRISIL, SEBI in its entirety, so at this juncture, it is very difficult for us to say whether we would be required to have further provisioning, but we are carefully watching the situation and in that sense whatever it is prudent and as per the guidelines we will follow that.
- Rajesh Agarwal:** Apart from the IL&FS bond we are getting our interest on time and when other bonds due for redemptions?
- Akhil Jindal:** They have average different maturity, the next IL&FS payment due on energy is on May 14, on IL&FS main it is June 27 and Jorbat-Shillong it is on March 1.
- Rajesh Agarwal:** For Dewan Housing bond?
- Akhil Jindal:** Dewan housing the payment dates are May 10 and June 4.
- Moderator:** Thank you very much Sir. We lost the line of the previous participant. We have last question from the line of Mr. Ronit Ramesh from Individual Investor. Please go ahead.
- Ronit Ramesh:** I just wanted to know what is your outlook on the Saudi business and one of the capacity utilization right now?
- Vipul Mathur:** Saudi business if you look, we still have a backlog of almost 800000 tons of order to be executed #1 on top of it, we are seeing new projects also coming up both from Aramco and SWCC. Actually we are into a very peculiar situation at this part of time where we are not able to accept new businesses. Now we have to be very, very picky and choosy in terms of selecting a business, so that is the situation we are now getting into because there is a capacity, which has slightly been enhanced but with that also the capacity utilization is almost 100%-odd.
- Ronit Ramesh:** Okay, but then the orders that we have right now, what will be the average margins that we can get on then?
- Vipul Mathur:** From a guidance perspective, I would say that we should assume something like \$100 on the EBITDA basis. This also you have to know there is open steel there and any softening in the steel market would only add up to that.
- Ronit Ramesh:** Okay, but then that is not 100% hedged.

**Vipul Mathur:** No, steel is not 100% hedged at this point of time, no.

**Ronit Ramesh:** Very good, okay. Thank you Sir.

**Moderator:** Thank you very much Sir. Ladies and gentlemen that was the last question, I now hand the conference over to do management for closing comments. Sir over to you!

**Vipul Mathur:** Thank you everyone for joining our conference call. If anyone of you have any further questions and you need additional clarification, please get in touch with either Mr. Percy or Harish and we will be too willing to answer your call and once again thank you gentlemen, thank you very much for being patient and listening to us. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.