

BUSINESS UPDATE

Robust profitability, deleveraged balance sheet

August 7, 2019, Mumbai: Welspun Corp Ltd. (WCL), flagship Company of the Welspun Group, announced its consolidated financial results for the quarter ended June 30, 2019.

A) The Company continued on its robust performance during the quarter, and the **key highlights** are as under:

- 1) **US operations** – Recorded sales of **109 KMT**, delivering an EBITDA of **US\$ 36 mn** for the quarter, one of the highest quarterly figures in the last few years.
- 2) **Saudi Arabia operations** – Recorded highest ever quarterly sales of **138 KMT**, with operations turning both **EBITDA and PBT positive**.
- 3) **India operations** – **Bhopal plant commissioned** and has a strong order book of 86 KMT. All other manufacturing locations (Dahej, Mandya and Anjar) also enjoy a robust order book, taking the total India order book to **666 KMT**.
- 4) **Deleveraging - Net debt** reduced by additional Rs. 897 mn during the quarter and currently stands at **Rs. 1,959 mn**.

B) **Global Order book position:**

Current Global Order Book stands at **1,564 KMT** valued at **Rs. 133 billion (US\$ 1.92 billion)**.

The region-wise breakup is as follows:

- India 666 KMT
- USA 248 KMT
- Saudi Arabia 650 KMT

C) **Financial Highlights (Consolidated) for Continuing operations: For the quarter ended 30th June, 2019:**

(Pipes – Considered as Continuing operations & PCMD and 43 MW – Considered as discontinued operations)

1. Sales Volumes

- Pipe Sales (Total operations), at 319 KMT (vs. 267 KMT), **up 19% YoY**
- Discontinued Operations: PCMD sales at 49 KMT vs. 128 KMT YoY.

2. Total Income from operations

- Rs. 20,471 mn, **up 25% YoY** on account of better realisations

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3. EBITDA

- **Operating EBITDA** (after adjusting for Treasury income and MTM/fair valuation impact on bonds) stands at Rs. 2,585 mn, **up 49% YoY**
- **Reported EBITDA** stands at Rs. 2,416 mn, **up 24% YoY**

Detailed reconciliation of Operating EBITDA is provided hereunder:

Figures in Rs. million

Reconciliation of Operating EBITDA	Q1 FY20	Q1 FY19
Reported EBITDA	2,416	1,942
Less: Items in Other income		
Treasury income	(191)	(241)
Gain on sale/Fair valn. of investments		
Add: Items in Other expenses		
Fair valuation on IL&FS bonds incl. its SPVs		
MTM loss/fair valuation on other bonds (mainly DHFL bonds in Q1FY20)	360	(3)
Other provisions		43
Operating EBITDA	2,585	1,741

4. Profit

- PBT (before share of JVs) stands at Rs. 1,476 mn, **up 63% YoY**
- PAT after Minorities & share of JVs stands at Rs. 1,256 mn, **up 138% YoY**

5. Basic EPS

- Rs. 4.74 vs. Rs. 1.99, **up 138% YoY**

6. Debt position

- Net Debt stands at Rs. 1,959 mn
- Net debt **reduced by Rs. 897 mn** during the quarter
- Company has **pre-paid US\$ 25 mn** of loans in the US subsidiary during the quarter, in addition to the US\$ 25 mn prepayment in March 2019
- Gross and net debt position is as per details below

Figures in Rs. million

Consolidated debt	30-Jun-2019	31-Mar-19
Gross Debt	11,068	13,047
Cash & Cash Equivalent	9,109	10,191
Net Debt	1,959	2,856

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7. Forex

The Company follows a policy of hedging its steel and forex exposure. However, there are impacts due to the cost of hedging and timing mismatch. The impact for this quarter is as under:

Figures in Rs. million

Transactional Forex impact	Q1FY20	Q1FY19
Forex gain in Other income	205	182
Forex loss in Other Expense	(200)	(155)
Net gain/(loss)	5	27

8. Update on Saudi business

The Saudi business has turned **PBT positive** during the quarter, with an EBITDA of US\$ 13 mn and PBT of US\$ 7 mn. Performance is expected to further improve in the coming quarters.

Key figures of Saudi JV, which is not consolidated as per Ind-AS:

Particulars	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19
Saudi Arabia Ops:					
- Pipe Prodn (KMT)	105	105	80	44	35
- Pipe Sales (KMT)	138	77	78	44	38
EBITDA (US\$ MN)	13	3	(2)	(4)	(4)
EBITDA/MT (US\$)	94	43	(19)	(99)	(94)
PBT (US\$ MN)	7	(2)	(6)	(9)	(7)

9. Project Status

- Work on Phase-2 of the Bhopal project (coating plant) is on track and is likely to be commissioned by December 2019.
- Capex during the quarter was approximately Rs. 780 mn, primarily for the Bhopal project

10. Business outlook

Higher fracking in the Permian basin has resulted in bottlenecks for transporting the oil as well as the associated gas. Major pipeline operators have laid out plans to significantly raise pipeline capacity over the next few years to overcome this constraint. With restrictions placed on pipe imports, local US pipe players including Welspun, are expected to command good margins with higher volumes.

For the Indian market, the large-diameter pipe demand for oil and gas projects is primarily driven by gas grid development by GAIL and oil pipeline network by IOCL while the small-diameter segment will see significant demand from City Gas Distribution projects.

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In the domestic water segment, the formation of Jal Shakti Ministry is a major milestone and the goal of their theme 'Jal se Nal', is to provide drinking water access to all by 2024. Further, we expect to see momentum on the river-interlinking projects. These developments are expected to result in a huge potential opportunity for pipe manufacturers.

We are confident of an improved operational performance from Q2FY20, as the pace of project execution has picked up consequent to the formation of stable government at the center.

We are also seeing a strong outlook in both onshore and offshore oil and gas industry, resulting in robust demand for LSAW pipes across geographies. We are in a strong position to capitalize on the same owing to our global approvals and accreditations as well as an impeccable track record of supplying pipes for complex projects for Oil & Gas majors. There are some major export orders in our current order book, with execution starting from Q2FY20.

The JV in Saudi Arabia has a confirmed order book for close to two years. We see strong demand in oil & gas as well as water sectors, driven by Saudi Aramco and SWCC respectively.

Buyback of Shares

The Company's proposed buyback of shares was approved by shareholders on 22nd June 2019. Consequently, in the recent Union Budget on July 5th 2019, buyback tax was proposed. Accordingly, the Company has sought clarity from SEBI and is awaiting clarifications/revised guidelines on the same.

Management Comments

Commenting on the results, **Mr B. K. Goenka**, Chairman, Welspun Group said, "We have started seeing a significant improvement in our financial results as envisaged. With all three geographies showing traction, we are confident that our performance will further improve in the subsequent quarters from the current levels.

We are continuously focussed on deleveraging our balance sheet and are moving towards becoming a debt-free company. We will continue our unrelenting focus on free cash flow generation and return on capital employed, through an asset-light model.

As an organisation, we are strongly focussed on next level of automation of our operations across geographies. Also, giving back to the society is one of our core themes and we are continuously enlarging our scope of our corporate social values viz. Education, Empowerment and Environment".

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Consolidated Performance Snapshot

Figures in Rs. Million unless specified

Particulars	Q1FY20	Q1FY19
Ex-Saudi Arabia/ CWC operations		
- Pipe Production (KMT)	191	254
- Pipe Sales (KMT)	181	229
Total operations		
- Pipe Production (KMT)	296	288
- Pipe Sales (KMT)	319	267
- Plates/coils Sales (KMT) (Discontinued)	49	128
Continued Operations (Pipes)		
Total Income from Operations	20,471	16,419
Operating EBITDA	2,585	1,741
MTM/Fair valuation loss/(gain) on bonds	360	(3)
Reported EBITDA	2,416	1,942
Finance Cost	395	366
Depreciation and Amortisation	545	668
Profit before tax and share of JVs	1,476	908
PAT after Minorities, Associates & JVs (I)	1,256	527
Cash PAT	1,786	1,378
Discontinued Operations (PCMD & 43MW)		
Profit After Tax (II)	(75)	(60)
Profit for the Period (I +II)	1,181	467

Notes: a) Prior period figures have been restated, wherever necessary

b) Cash PAT = PBT excluding one-time non cash items – Current tax + Depreciation

Figures in Rs. million

Consolidated Balance Sheet - Key figures	30-Jun-2019	31-Mar-19
Net Fixed Assets (incl CWIP)	16,526	16,144
Net Current Assets #	8,784	10,460
Net Debt	1,959	2,856
Net Worth	29,179	27,976
Net Assets Held for Sale *	12,470	11,642

Net Current Assets excludes Net Asset Held for Sale

* Net Assets Held for Sale = Assets classified as held for sale less Liabilities of assets held for disposal

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Q1FY20 Investor / Analyst conference call:

WCL management would be happy to answer investor queries on a conference call. Please find details below:

Date: Thursday, 8th August 2019

Time: 11:00 AM IST

Dial in details:

- Primary Access: +91 22 6280 1325, +91 22 7115 8226
- Local Access: 7045671221
- International Toll Free numbers
 - Hong Kong: 800964448
 - Singapore: 8001012045
 - UK: 08081011573
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About Welspun Corp Ltd. (WCL)

Welspun Corp is a one-stop service provider offering complete pipe solution with a capability to manufacture line pipes ranging from 1½ inches to 140 inches, along with specialized coating, double jointing and bending. With current capacity of close to 2.5 million MTPA in Dahej, Anjar and Mandya in India, Little Rock in the USA and Dammam in Saudi Arabia, Welspun takes pride in being a preferred supplier to most of the Fortune 100 Oil & Gas companies. With 360 degree abilities, Welspun Corp has undertaken some of the most challenging projects in different parts of the world. With business excellence being a clear focus, the company is on the path of innovation and technology edge supported by its state-of-the-art facilities and global scale operations. The Line pipe industry caters to the sectors like energy and water resource management where in the line pipes supplied are used to construct cross-country pipelines for transportation of oil, gas, petro-products and water in the safest and most environment friendly way.

About Welspun Group

A US\$ 2.7 billion enterprise, Welspun Group is one of India's fastest growing conglomerates with businesses in Line Pipes, Home Textiles, Infrastructure, Oil & Gas, Advanced Textiles and Floorings. The Group has a strong foothold in over 50 countries with 26,000 employees and over 100,000 shareholders. Headquartered in Mumbai, Welspun Group's manufacturing facilities are strategically located in India, USA and Saudi Arabia. Known for technological and operational excellence, the Group has established a leadership position in the Line Pipe & Home Textiles sectors globally. Its clients include most of the Fortune 100 companies.

For further information please visit www.welspuncorp.com

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