



“Welspun Corporation Limited  
Q2 FY2021 Earnings Conference Call”

October 29, 2020



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**MANAGEMENT:**   **MR. VIPUL MATHUR - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER - WELSPUN CORP LIMITED**  
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**Moderator:** Good day, ladies and gentlemen, and a very welcome to the Q2 FY 2021 earnings Conference Call of Welspun Corp Limited, hosted by Emkay Global Financial Services Limited. We have with us today on the call from the management, Mr. Vipul Mathur, Managing Director and CEO; Mr. Percy Birdy, Chief Financial Officer and Mr. Akhil Jindal, Group CFO and Head Strategy at Welspun Group. 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 “\*” followed by “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. John from Emkay Global. Thank you and over to you!

**John Perinchery:** Good evening everyone. I would like to welcome the management of Welspun Corp and thank them for giving us this opportunity. I now hand over the call to the management for their opening remarks. Over to you Sir!

**Vipul Mathur:** Thank you John. Very good afternoon to every one of you. We welcome to our Q2 FY 2021 conference call. I thank all of you for taking time out to attend this call and I believe and hope that you and your family members continue to be safe and healthy.

This has been a very interesting quarter for us after we are coming out of this pandemic which hit us badly in Q1. I would like to run through some key highlights of our operational and financial performance during the quarter and would also like to give you update on some key issues and before we get into the question and answer session.

Some of the key highlights of this quarter are: we locked in a pipe sales volume of 249,000 tonnes which is higher by 12% on quarter-on-quarter basis. We had pipe production volumes at 268,000 tonnes which is almost 106% higher on quarter-on-quarter basis. We have reported an EBITDA of Rs. 240 Crores which is 22% higher on a quarter-on-quarter basis.

Our operating EBITDA stands at Rs.187 Crores. Our PAT is Rs.152 Crores as against Rs. 58 Crores of the last quarter up by 163%. Our debt position is that we have a net cash of Rs. 655 Crores versus Rs. 198 Crores in the quarter ending June 2020 and on top of it we have a global order book position of more than 700,000 tonnes valued at Rs. 6100 Crores which stands unexecuted at this point of time.

If I give you update on some key activities, the first one happens to be COVID-19. I am very pleased and happy to inform, that all our plants are fully operational, the company and all its subsidiaries are operating in accordance with the health and the safety guidelines as issued by the respective government authorities. We have adopted several additional measures encompassing global best practices across our offices and plants globally to keep our employees and service providers safe. So, all the plants in India, Saudi and Little Rock in US are completely working COVID free.

Given the brief market overview, as we know that in the months of March-April when this pandemic struck us, this industry was hit by a double whammy. First and foremost there was a

complete meltdown in the demand, in the oil prices and on top of it was this pandemic COVID-19. While on one front, we have recovered well that the oil has gained some traction and has become little more stable as it was and for the last two months or three months, it has been fairly stable but COVID-19 still continues to throw a challenge and bring this unpredictability.

We are seeing a sort of a mixed response while some economies are showing a V-shape recovery which is let us say case in question could be China but there are certain economies which are going into a second lockdown as we know happens to be Europe. I think in India, we have managed the situation fairly effectively and slowly and steadily the economy seems to be coming back on track and the reflection of that could very be clearly seen in the quarter-on-quarter performance or the performance between the Q1 and the Q2 can directly be compared.

Having said that, I would say the challenges are yet not over and let us talk about India. In India, despite all that global turbulence which has happened I think the country as a whole is jotting its own growth path rather and we are seeing traction coming back both in the oil and gas sector as well as in the water sector. We have seen that Ministry of Petroleum and Natural Gas and Oil PSUs have announced a capex of more than Rs. 1.2 lakh Crores in this fiscal to boost the employment, economic growth and the infrastructure. In correlation to that, we are seeing increased tendering activity from all these PSU companies and which has resulted Welspun getting several orders against that. They are currently embedded in our order book of 700,000 tonnes. We are also seeing a continued demand for the small dia pipes which is ERW pipes for CGD, PNG and CNG stations. We are also seeing little uptick in the downstream segment and are hearing that refinery expansion for Barmer, Vizag, Paradip and Ratnagiri are very much on cards.

On the water segment while most of the states are still fighting for this pandemic and their allocation to the projects funding is still low and none of them seem to have shared any of their long-term projects. I am sure that when we have some respite around this pandemic, the economic activity around the water would come back sooner rather than later. For instance we are seeing that in the state of Uttar Pradesh, the Chief Minister has set a target of providing pipe drinking water in each and every household of the state including drought prone regions like Bundelkhand and that to all within next two years time. We are also seeing a lot of interest by the multilateral financing agencies like ADB, JICA, NABARD and a very aggressive pitch by the central government for funding these projects. I believe it is just a matter of time before this water demand will also pickup, we will see resurgence in that.

On the export front, things have been relatively slow, however, I am very pleased to inform and as we announced also, we had been able to secure an export order in a new market in Australia and which is now coming up for execution. So, while this pandemic has been there, this economic slowdown has been there, we have been working diligently in expanding our customer base and as a result of that this Australian market is a new market which has opened up for Welspun.

Currently, from an India perspective orders out of the 700,000 tonnes of total order book what we have, we have closed to 420,000 tonnes of orders which will be produced and executed out of India. This reflects a fairly stable, healthy order book and it will keep most of our assets occupied

for the balance part of the year. However, I wish our asset utilization could have been a still higher but given the situation we have been in, I think so the team or the company has done a fantastic job for having such a healthy order book sitting in India.

I would now move to our entity in US, as we know US currently is under election mode. We have the Presidential election which is going on and as expected during such periods of uncertainties when elections and all those things happen there is generally a slowdown, so we are seeing a slowdown in the US from an oil and gas perspective at this point of time. I am sure as soon as the clarity with respect to our new government would emerge which should be sometimes later this quarter, there would be some resurgence which is expected to happen. Having said that, we still have a reasonably decent, healthy order book in for our US market much better than any of our competitor in that region.

At this point of time, we have an order book of close to 130,000 tonnes in the US which is to be executed and that will keep our operations on till the end of this financial year. Over and above that, we are seeing some incremental projects, projects for enhancing incremental capacities coming up on the table. They are not very large projects, they are small medium sized projects which are coming up and we are participating in them and we are very hopeful that some of them would definitely materialize into order book in days to come. So, we are closely and keenly watching the US market despite that we have an order book till the end of this financial year or a little beyond that but still our focus remains the same that how can we see that our order book goes much beyond this financial year. So, I am sure that no sooner the clarity on this government comes we will see some traction there.

Coming to our JV in Saudi Arabia, we still have an order backlog of more than four months rather close to five months and possibly we will be booked till the end of this financial year. We still have almost our order book which is yet to be executed close to 148,000 tonnes, so this will see that we are absolutely in operations for the next four months to five months or may be till the end of this year.

Having said that and as we have been informed earlier, we are seeing that despite all this pandemic and the oil meltdown which happened, the Kingdom of Saudi Arabia seems to be coming back on track much faster there anticipated. This is getting reflected with the new projects and the enquiries which they have announced, and which have come up for the bidding.

We have as you know couple of projects in which we have bid and we were the lowest bidder or the favourable bidder. We are now seeing discussions of their revival and there is a very high likelihood that out of those two or three projects where we are the lowest bidder and the L1 bidder at least one or two of the projects might get awarded pretty soon.

Once they have been done it looks like that Saudi Arabia business continuity could be for a much longer period than what it is at this point of time. As also we have informed earlier for our JV in Saudi, the company has decided, the JV has decided for a proposed listing of our local entity there at the local stock exchange. The process of listing would involve divestment of 30% of the stake

split equally between both the JV partners which means once the listing happens, the Welspun stake would come down from 50% to 35%.

All the regulatory procedural formalities are being worked upon at this point of time, we have submitted our applications which are under evaluation at the local agencies, the CMA and we are expecting an approval sometimes later this year. Once listed at the stock exchange, we would see a liquidity coming into the Welspun Corp because the investment in Saudi Arabia is through our subsidiary.

Further, I am also very pleased to inform that the board in its meeting today has approved our foray into the ductile iron pipe segment. If you recollect, we had some time back made our intentions to look at and evaluate opportunities under this DI pipe segment. Over the last three months, we have done tremendous amount of diligence on the viability of this particular project and we are very happy to inform that we found that it is extremely viable project commercially for company like Welspun to foray into.

The key drivers are the exponential growth in the urbanization necessitating to create enabling and supporting water network. We are seeing a huge demand of DI pipes over the next ten years. The CAGR growth projected is over 6% to 7% in this sector for the next ten years. In order to capitalize on this demand and to bridge upon the widening demand and supply gap, we have decided to set up a Greenfield facility at Anjar to enter in this high growth segment.

As you know DI pipes find key application in water supply infrastructure, sewage pipes, irrigation water systems, industrial water transportations both in urban and rural areas. DI pipes are easy to install, they are corrosion resistant, tamper proof, cost effective and have a serving life of more than 50 years. Due to these features, DI pipes in the small diameter water pipe segment are rated very high by the multiple stakeholders including the project management consultants EPC players and the water departments of various states with whom in any case Welspun as an organization deals with regularly.

We are also seeing that there is a huge push coming from the government on this for development of water related infrastructure, Nal se Jal and others which will drive the DI demand. We saw almost a spend of Rs. 10,000 Crores in the year 2019 and this demand of this market is due to go to almost Rs. 20,000 Crores by 2029, so in the span of eight years to nine years' time this demand or the expenditure is going to get just doubled and for WCL. DI pipes is a natural fit from a portfolio product expansion would have good synergies with our existing business and also will bring in stability and consistency to our earnings.

At this point of time, we are setting up steel making capacities of 400,000 tonnes and a DI capacity of 250,000 tonnes. This project is being set up with an initial investment of around Rs.1250 Crores plus the soft cot including contingencies and the GSTs and we are very hopeful that it will be commissioned within 18 months. Though we have set internally a very aggressive target but out and out, it will not exceed 18 months. As you know we have a healthy balance sheet to leverage this type of investment and this project will be funded through our internal accruals and some

external debt. So, this is a new segment in which Welspun is going into and in due course of time we would like to attempt a leadership position in this segment too.

On the plate mill side, I just want to once again reiterate that the business transfer agreement is still in place and the deal is to be consummated before March 31, 2021. As you are aware, we have received some advances to firm up this deal. We are also hopeful as there is tremendous buoyancy on the steel side. The possibility and the likelihood of this deal getting consummated on before March 31 is even becoming brighter day by day. So, we are very confident that plate and coil mill division divestment is on track and should happen on or before the allocated date.

Lastly, on the Bhopal project, as we have informed earlier, we did some relocation of our assets for optimal utilization and have accordingly relocated one more spiral mill from Anjar to Bhopal. I am pleased that mill is in its final commissioning phase and we are likely to see commencement of operations in next few weeks' time. I am very hopeful that we would be able to supply our pipes from that new entity from November 15 onwards.

With this, I would like to conclude my opening remarks and will be very happy to take any questions you may have please. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Vikas Singh from Phillip Capital. Please go ahead.

**Vikas Singh:** Good afternoon Sir. I just want to understand one thing, this Saudi mill which we are talking about the listing in the local exchanges but the proceeds which can get through to us, so how we are going to utilize that money?

**Percy Birdy:** The Saudi joint venture investment is held through Mauritius holding company and the proceeds of the divestment would first come to Mauritius. In Mauritius we have certain liabilities as well, so will first utilize the funds to repay those liabilities and if any surplus remains then we will see as to what is the best way to put that surplus to use whether to repatriate it to India through a dividend or any other options, we will evaluate at that time but the first priority will be to repay the liabilities in Mauritius.

**Vikas Singh:** So how much liabilities in Mauritius entity if you can share with us?

**Percy Birdy:** There are approximately \$27 million to \$28 million worth of liabilities are there which are owned to our own group companies, so, we will first use to extinguish those liabilities and then any surplus is left then we will look at other options.

**Vikas Singh:** Okay, is it fair to assume that no capex in the Saudi at least for the new money?

**Percy Birdy:** Capex in Saudi, you mean to say Mauritius?

**Vikas Singh:** No, basically many times the people do list and that money is usually utilized on some capex internally. So, no capex is planned in Saudi?

- Percy Birdy:** No major capex in Saudi.
- Vikas Singh:** Is it fair to assume, right?
- Percy Birdy:** Yes, right. This is a divestment from existing shares. The money is not going to Saudi joint venture the money is coming to the shareholders.
- Vikas Singh:** Thank you. Sir, second question pertains to US business this quarter. We have seen that there were no dispatches and basically the US EBITDA was neutral day by day inventory adjustments. If you could explain us since we have already more than 180 orders so, why there were no dispatches this quarter, like that in the number?
- Vipul Mathur:** In that Q2 all these orders got fructified and the production has only started in Q3. So, we would see that some dispatches of those productions happening in Q3 carried over to Q4.
- Vikas Singh:** If you could explain us the quantum how much of the final orders got delayed?
- Vipul Mathur:** Between Q3 and Q4 almost 80% to 85% of our current order book what we have will be executed and balance 10%-15% might spill over to the first quarter of the next year.
- Vikas Singh:** Understood Sir. In terms of DI pipe capacity since mostly the customers are government organizations, so do we have already as being sales in terms the marketing size and second thing related to the commissioning, if thing seems to be quite a small time period. So, have the orders been placed for machinery already?
- Vipul Mathur:** Firstly, in DI pipe again the end customers is the state government but typically the buying is through the EPC's or directly by the state government in which in any case is participating. So, it is nothing new for us as we are dealing with them for our different products, so we are completely well versed with their procedures. Number one, number two that this being a new product by the time this product will come on the ground we are still at least 12 month to 14 months away if not more and we are in the process of constituting a very robust sales team around that as well. To start with our existing team which handles water is competitive enough to manage this but, as we move forward in the execution phase of this particular project we will ring fence and further invest in this team bringing absolutely specific skills on the table so as to capitalize upon this those opportunities.
- Vikas Singh:** Okay Sir. Sir, just if I may squeeze in one last question. Any amount already spent on the different machinery orders or we have still yet to start with and how much time as per you it would take for you to get the approvals from the different entity. As I understand that DI pipe also needs the specific approvals in terms of dispatch getting participated in the order?
- Vipul Mathur:** Right now what we have invested is in time and complete diligence. I think we have done all the ground work, homework in order to kick start this particular project. We have finalized all the consultants, the equipment suppliers, the technical specifications, the lead time all that ground

work and the homework stands completed. So, we are absolutely clear with respect now to start the project work. We are actually aiming for starting our civil activity in as short as three weeks to four weeks time from today. Coming to your last question that in terms of approval the first and foremost approval in this segment is required for the IS grade, so no sooner we would have the production commencement happening we will get our IS approvals and the moment we have IS approvals on the strength our relationship with the customer base which is already our existing customer base, we should be able to get a break through and start marketing and selling these products to them. The challenge in this particular project is the lead time how quickly we can get into the market approvals and all those terms are not as challenging as they are for the DI grade of pipes.

**Vikas Singh:** Understood Sir, and that is all from my side. Thank you for taking my questions and all the best for the new venture it is really good to see you into DI market as well.

**Moderator:** Thank you. The next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

**Sangeeta Purushottam:** Good afternoon. I have some questions on the foray into the DI pipe, what kind of asset turns are you likely to get on this investment of about Rs. 1250 plus crores that you are planning to make, and also when you are internally planning what kind of ROCE's, ROE's are you expecting to get. That is one. The second is if you could give us some idea about what is the competitive landscape in the DI pipe area and what advantage if that any would you have and how do you see that emerging because if that is going to be a big opportunity and if there are you likely to see a lot of more players come in and what will be the outlook that you essentially see over here?

**Vipul Mathur:** Quite a few questions loaded in this small question you ask for, but nevertheless I will be very happy to answer all of them please. As you know the capex investment is going to be in around Rs. 1250 Crores number one, number two the asset turnover probably could be one. Now, that is the reason for the location for this particular project is at Anjar where we already have existing customer base. The reason for that location also happens to be because West and the North seem to be the major consumption centres in times to come. Also, we are seeing there is a demand and the supplies skewness around these consumption centres, so it will be much easier as a go to market strategy and if we are in the West and catering to West and the North rather than being into the South. What was the other things you wanted know?

**Sangeeta Purushottam:** I want to know, is that okay, answered to one that your asset turn is likely to be 1:1 and if it is 1:1 only on the capex or it includes working capital investment also?

**Vipul Mathur:** On the capex?

**Sangeeta Purushottam:** On the capex. So, actually if we include working capital investment then your asset turn will be less than 1.



- Percy Birdy:** Working capital investment could be actually financed through short-term borrowings, so the initial investment that we are proposing is about Rs. 1250 Crores and that will be all into the fixed assets...
- Sangeeta Purushottam:** The investment you expect to generate revenue of about Rs. 1250 Crores and there could be an additional borrowing which you need to do of about Rs. 250 Crores-Rs.300 Crores whatever be the working capital is through finance that is right?
- Percy Birdy:** That is their rolling working capital financing so, that will be self-funded.
- Sangeeta Purushottam:** Okay, my second question was that what kind of ROCE are you targeting here?
- Percy Birdy:** We are looking at almost close to 18% odd of ROCE.
- Sangeeta Purushottam:** So, are you expecting that your EBITDA margins therefore here will be in that may be about 20%. Because of the 1:1 fixed asset turnover and some financing to be done of the working capital, your EBITDA therefore needs to be at least 20%.
- Percy Birdy:** It is in the range of 15% to 20%.
- Sangeeta Purushottam:** 15% to 20% okay, if you take 15% to 20% then let us say we take a mid-point of may be let us say 18% and net out whatever you may need to invest in terms of your working capital because that is the choice you have that they invested out of loans or out of your own money, then actually we are looking at a pre-tax ROC which is less than 18%. So, if that is the case and unless you are planning to finance this significantly from debt, that your post-tax ROE on this will be may be about 13%-14% is that what you are looking at?
- Percy Birdy:** The way the DI business is typically set up is that the asset turnover ratio which is a capital intensive business. So, the asset turnover ratios are usually as I indicated about 1, 1.2 in that range but the EBITDA as a percentage to sales is relatively higher than what other businesses would have. So, that is where the ...
- Sangeeta Purushottam:** I have the answer at the end of the day the whole game is about what return you are going to get on your capital, right. So, whether it comes from, if it is a low capital intensive business then you can work with this slightly lower margin, higher the capital intensity you need a higher margin to be able to compensate for that. So, are you therefore, if you work numbers around it seems to me that your ROE that you will generate on this is likely to be about may be 13%-14% it does not look higher than that?
- Percy Birdy:** The returns will come if you are looking at the return on capital employed then that would come closer to about 16% to 17%.
- Sangeeta Purushottam:** Okay, then how will you actually plan to finance because as of now you do have a lot of cash with you and you are expecting some more cash also, right. So, you have a net cash of about Rs.655 Crores, you will be getting some money from the Saudi sales, you will be getting some money

from the PCMD sale and you are generating net profit. So, all of it should be on the self sufficient to finance this. So, is this going to be largely equity financing, how have you thought about it and how are actually overall thinking about what kind of ROE's you want to generate?

**Vipul Mathur:**

Yes, if you see our September balance sheet and of course the consolidated balance sheet as well as standalone both are in the public domain now. The standalone balance sheet of India shows that we have a cash position of almost Rs. 880 Crores so, that is one balance sheet strength which we have right now immediately available to us. Secondly, is of course our leveraging capability because now that we are having a net cash position and even our gross debt is miniscule now, so we have very little commercial papers about Rs. 60 Crores outstanding now which we keep on a rolling basis and we have only long-term NCD's of LIC which are remaining of about Rs. 90 Crores. So, our debt is extremely at a low level which gives us a lot of gearing capability so that we can borrow funds at a very attractive rate. We are also looking at various options for raising the funds at the lowest pricing, one other thing you should keep in mind is that the investment of Rs. 1250 Crores that we spoke of is not on day one, it will be spread over 18 months. So, there also our free cash flows will tick in and over the next 12 months whatever free cash flow our business flows up which will be in the vicinity of around Rs. 300 Crores that also will be available for us to fund the project. If there is anything left about Rs. 100 Crores-Rs.200 Crores we can always look at debt options as well. So, we are looking at options of debt as well to bridge the gap and I have not counted PCMD divestment proceeds and the WME IPO proceeds. So, all these things will give us that reasonable comfort level that we have the funding ready for the project.

**Sangeeta Purushottam:**

Right, and see I am not worried about the funding, I mean the funding seems reasonably comfortable right, because you have a lot of, you cash, you have lot of cash flow coming in. I just want to know how are you thinking about generating ROE because that is ultimately what the shareholders would be concerned about, right. So, if you have so much money coming your way you could either choose to invest mostly equity money or you could choose to basically gift some of that back to shareholders in the form of dividend or whatever else and partly finance this project out of that which is what will give you a little bit of extra ROE. So, have you really applied your mind to how are you looking at the overall capital structure of the company so that you strike the right balance between safety and ROE?

**Percy Birdy:**

Yes, we understood your question. We are funding this project using a 70:30 proportion so that will keep obviously the return ratio's in control. Your question whether the internal cash whether they would like to return it to the shareholders and finance the project more through debt, that is something which is of course internally we are evaluating various options. So, right now about various options are of course we have the cash position in our balance sheet itself, but your point taken that we could use more of debt so that the return ratio's for the project will improve, that is what you are saying.

**Sangeeta Purushottam:**

That is right.

- Percy Birdy:** I think it is ultimately a Board level decision as to the funds that we have should we invest it into the project or whether we should use those funds to return it to the share holders and finance the project through extra debt.
- Vipul Mathur:** It is also about a hybrid strategy, at the end of the day we also have to write our growth story and we see a segment which is exponentially growing and we have to ride upon it. So, we would eventually opt over for a hybrid strategy and while of course returns for shareholders continues to be of paramount importance to us, and will also get addressed and at the same time we would also like to go on to this growth story and we want to see that financial stability also comes to our earning over the next ten year time.
- Sangeeta Purushottam:** One more clarification you mentioned to an earlier participant that the money you will get from the JV listing the IPO will be used to repay some debt that you have in Mauritius. Now, if that debt a part of your gross debt which you are holding or what debt is it that you will be using this money to repay?
- Percy Birdy:** Mauritius has certain liabilities which are payable to our US company. In US we have an EXIM loan of \$25 million, we have the options available to us we can use the funds from Mauritius to repay the loans to US and US can possibly use those funds to repay the external liabilities, we will have that choice.
- Sangeeta Purushottam:** So, at a consolidated level you are going to use the money to repay debt of the company it is not that there was some in between structure which is borrowed to invest and that debt is being repaid?
- Vipul Mathur:** No, it is all within the company.
- Sangeeta Purushottam:** It is all within the company, great and could you also just talk a little more because this is a huge investment that you are going to be making. In terms of the competitive landscape where do stand, if you could just give us some colour on that to help understand your position more better?
- Vipul Mathur:** Fair point. There are two or three large players, Tier 1 players which are very dominant in this particular industry. One of them happens to be in the South the other happens to be in the East, East is very densely populated rather I would put it this way and there happens to be one large player on the West side of it and these are two or three companies which are tier-1 companies. If you see their historical performance I think so they all have been operating at more than 100% capacity utilization over the past few years, right and both the ones in the South and the ones in the West. The ones in the East because the competition is little more there are lot more capacity which is available but still the average capacity utilization across the industry has been more than 80%. So, at this point of time with the technology and the product mix what we intend to we are bringing up on the table which is absolutely would be in direct competition to the tier-1 supplier and specifically when we are on to the west side of it we are looking forward for ramp up our capacity utilization much faster than it would have been earlier.

- Moderator:** Thank you. We will move to the next question from the line of Sudarshan an Individual Investor. Please go ahead.
- Sudarshan:** Since we announced the last order on September 30 for 755 kilometric tons in our order book, have we got any new orders in the past one month?
- Vipul Mathur:** Last one month? Yes, there have been some small orders which would have come in the last one month and after execution of our orders up to this September that is what we have reflected in 700,000 tons after execution till September.
- Sudarshan:** Okay.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Good afternoon Sir. Good set of numbers. Three, four questions, first on the debt side now out of this gross debt of Rs.335 Crores how much is in India and how much is in US?
- Percy Birdy:** I think out of this Rs.335 Crores we have almost close to Rs. 150 Crores in India and almost Rs. 185 Crores in US.
- Bhavin Chheda:** Entire cash Rs. 990 Crores is India, right?
- Percy Birdy:** Majority of it about Rs. 880 is in India and the rest is in US.
- Bhavin Chheda:** Other question just on this Saudi plant I did not understand this \$ 27 million- \$ 28 million liabilities of the group so, it is Saudi payable to US entity or in between if you can clarify?
- Percy Birdy:** Bhavin, at the time when we had invested into WME we have brought in some funds out of our US entity via Mauritius. So, to that extent that liability is sitting on our books from entity to entity perspective. It is that entity, it is that debt which we want to repay that, so first the proceeds which are going to come we would first like to route it back to US so that we can pay back those liabilities and those liabilities which will sit as a cash in US will most probably be used for getting to our Indian book.
- Bhavin Chheda:** Sure, is it the same that shareholder loans which have been talking in the past which was outstanding of Rs. 120 Crores odd but I thought that was routed by a Indian standalone company. So, is that separate or is this part of the same thing?
- Percy Birdy:** Bhavin, now from India there is no more any outstanding from Mauritius. So, India has recovered all its investments, now whatever Mauritius has invested in Saudi is all financed loans taken from our USA Subsidiary.
- Bhavin Chheda:** USA is 100% owned by India?

- Vipul Mathur:** Yes, of course. So, if it is all in Welspun Corp group only there is no funds going out of Welspun Corp. Group money is coming to Mauritius.
- Bhavin Chheda:** Understood so, the Saudi stake money goes to Mauritius which again goes to USA and which you use it for paying EXIM loan of Rs.30 million. So, you more or less become gross debt free in US also?
- Vipul Mathur:** Absolutely, that is what our current scheme of things stands.
- Bhavin Chheda:** Second question, coming to the order book of 148,000 in Saudi as you said will be completed four month-five months so this entire book would be completed then and balance overall 80%-85% would be executed. I was looking from balance will be executed in H2 right, and 15% would roll over into FY2022, is that understanding correct?
- Vipul Mathur:** Let us clarify again Bhavin, I think this let us go geography by geography so, that is at WME we have currently an order book of 148,000 tons that will get completely executed in this financial year. Then we have in US, Little Rock we were close to 130,000 tons of an unexecuted order book, a large portion of that would get executed in this financial year. That is why I am saying almost 85% of the production will get done of this order will get executed. Only 10% to 15% is the possibility that might go to the next year. If we can improve upon it we would like to do and execute in this financial year itself.
- Bhavin Chheda:** So, out of 130,000 tons we are doing 10%-15% may get rolled over say 20,000 tons-25,000 tons maximum, so over 100,000 executed in US this year and plus whatever small orders come in?
- Vipul Mathur:** Yes.
- Bhavin Chheda:** So, what I am saying is US 130 I understand you may produce and some orders dispatches may happen next fiscal as per the dispatch sheet so in terms of sales so production will be almost like 120 to 130, sales volume may be one lakh, or 1.1 lakh depending on the execution.
- Vipul Mathur:** I think I was answering you on the production side of it. So, the production almost would complete, 80% to 85% production would get completed.
- Bhavin Chheda:** Out of 130?
- Vipul Mathur:** The sales recognitions will not be in that manner, sales recognitions will get spread over to Q4 and Q1.
- Bhavin Chheda:** I mean Q3 would be low because of this election period.
- Vipul Mathur:** Yes, it is a very uncertain time. Now, coming back to India I think we have an order book of almost 420000 ton, this almost complete order book will get executed in this financial year.
- Bhavin Chheda:** In this financial year?

- Vipul Mathur:** Yes.
- Bhavin Chheda:** How much the LSAW order pending here and Australia is all LSAW what you have got, right?
- Vipul Mathur:** The one what we have, we got an LSAW order from Australia which got deferred, this is the order which we have now is for spiral so in the total order book of let us say 420000 tons what we are seeing in India, almost 150000 tons of business is in LSAW.
- Bhavin Chheda:** 150000 tons LSAW and if you have the ERW and spiral also handy there?
- Vipul Mathur:** ERW will be close to 50000 tons and the balance would be as spiral piece.
- Bhavin Chheda:** Balance would be spiral. 150000 LSAW is almost 100% export, right, there is no LSAW sales in India, right?
- Vipul Mathur:** So, there is the component of domestic as well, we have some PSU orders which are necessarily LSAW order so in this 150 there is a component of a domestic order as well.
- Bhavin Chheda:** Okay and the other income had this Rs. 38 Crore gains from sale of land or something, so even the gross proceeds was similar number or a higher number?
- Percy Birdy:** So, the gross proceeds were about Rs. 43.5 Crores and that included an interest component as well of almost Rs. 4 Crores. The cost of this land was just about Rs.2 Crores.
- Bhavin Chheda:** Okay, so Rs. 43 Crores cash you received and Rs. 38 Crores was the gain?
- Percy Birdy:** Right.
- Bhavin Chheda:** Last question is your interest run rate will again fall sharply from next quarter right after your gross debt levels coming down and cash levels going up, so I think your quarterly interest this quarter was roughly Rs. 15 Crores odd so this should be of sub 10 from next quarter, onwards right?
- Percy Birdy:** It will be lower than that. For sure the interest component is going to come down for sure.
- Bhavin Chheda:** Thank, you Sir.
- Moderator:** Thank you. In the interest of time, participants are requested to limit your questions to two per participants. The next question is from the line of Bharat Sheth from Laksh Capital. Please go ahead.
- Bharat Sheth:** I have just one question because most of the other queries have been asked by the previous participants. About this PCMD plate mill sales you said you are fairly confident that because of the robust steel market, you will finish the transaction before March 31, 2021 so the total proceeds, the total amount was around Rs. 800 Crores for the sale proceeds?

- Vipul Mathur:** Rs. 850 Crores.
- Bharat Sheth:** Okay and you said you have received some advances but if you can specify the number how much we have received till now?
- Vipul Mathur:** Rs. 50 Crores odd.
- Bharat Sheth:** Okay, you said you are fairly confident that you will receive this Rs. 800 Crores before March 2021?
- Vipul Mathur:** We are very confident. There are strong fundamentals supporting it. This deal was completely based on very strong fundamentals, nothing seems to have got changed and on top of it when the steel market is showing such resurgence and buoyancy I mean we stay very optimistic and resilient.
- Bharat Sheth:** Yes, I appreciate that but see it has been almost two years so I am sure there must be a continuous dialogue with the buyer because the amount is pretty big and now since we are going for the DI project as well so I am sure that you must have got some feelers from the buyer that they will finish the entire transaction by March 2021?
- Vipul Mathur:** We are absolutely engaged with them on the continuous basis, we have seen nothing as a red flag in this point of time and we stay very optimistic around this.
- Bharat Sheth:** That is all. Thank you very much from my side.
- Moderator:** Thank you. The next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.
- Shikha Mehta:** I just had one question; I think it might have been answered before, but I missed that. Could you please just specify what the other income is?
- Percy Birdy:** The other income has two components, one there was a land parcel which we sold and there was some gain on the forex. So, these are the two other incomes and some treasury income.
- Shikha Mehta:** All right. Thank you.
- Moderator:** Thank you. The next question is from the line of Rishabh Makhija, an individual investor. Please go ahead.
- Rishabh Makhija:** Congratulations on your good result for this quarter. **(Audio cut) 56:42** for this segment.
- Vipul Mathur:** Sorry, we missed the question can you call again please?
- Rishabh Makhija:** How are we cultivating the trajectory for this project, the entire DI pipe segment, are you going to hire a new talent and how much could you quantify that please?

- Vipul Mathur:** It is an entity which will be under Welspun Corp and we have a huge pool of talent already available with us so we would leverage that capability and whatever need to be implemented from outside in terms of specialist and technical specifications that is what will bring on the table.
- Rishabh Makhija:** My next question is on the cash flow generation this year, would we be generating around Rs. 800 Crores of cash this year, would that be fair to say on the existing business?
- Vipul Mathur:** My apology I did not get your question?
- Rishabh Makhija:** Cash flow generation on the existing business, would we be generating about Rs. 800 Crores in cash PAT this year?
- Percy Birdy:** See, in the first half of the year as you can see our improvements in the net cash position is very substantial almost Rs.450 Crores is the improvement if you see from April to September, although we have to see that in Q3 and Q4 as we ramp up so if the volumes starts picking up as we see them there happening so some funds will go into working capital as well so you will see that the cash flow generation for the second half of the year will to some extent it will go down because some working capital requirements will come up but the by and large you can say that in the whole year we can expect the free cash flow of at least around Rs. 600 Crores.
- Rishabh Makhija:** Last question is I look at the order book position right now we have executed about 480000 tons in the first half, are we optimistic of touching around million ton this year because if I calculate as you said full year we are close to 900000 tons this year, are we hopeful of getting small orders which would take us to one million ton and beyond that mark?
- Vipul Mathur:** We are going to remain with the same. I mean and all depends how the market recovers and how the situation improves and we are very focused on each and every opportunity and whatever will come to our way we would like to convert that opportunity into a business reality and we would like to execute that.
- Rishabh Makhija:** Understood. That is, it from my side. Thank you very much and congratulations again on the new segment and good luck.
- Moderator:** Thank you. The next question is from the line of Abhishek Gupta from Goldman Sachs. Please go ahead.
- Abhishek Gupta:** Thanks for the opportunity. Just kind of few book keeping from my side. So, first thing is if I look at the realisation for the current quarter, they have dipped significantly so the volume contraction I am not saying it is about 20% from 180000 tons to 150000 odd tons but the overall realisation, when you recorded is almost half so could you help me understand why this significance drop in the realisation?



- Percy Birdy:** So, while the volumes could have contracted but the product mix has been very favourable in this particular quarter, the type of orders which were getting improved and realisations and all that high margins product and that is the reason you are seeing that.
- Abhishek Gupta:** But the realisation is actually gone down, it has gone down significantly, I would expect there is obviously change of product mix, but this number looks way to high for this product mix change?
- Percy Birdy:** No, the realisation only in the US has gone down right but if you see the realisation in the Saudi and the realisation of orders in India, that realisations have gone up.
- Abhishek Gupta:** Okay. Just to be sure, you did mention there was more dispatches in this quarter when it comes to evolve in the market, is it right?
- Percy Birdy:** More dispatches in?
- Abhishek Gupta:** US market.
- Percy Birdy:** In the Q2 it was a very limited almost 6000 tons to 7000 tons, close to 10000 tons of dispatches which happened in the Q2 and as I said that in the Q2 was a phase in which we have got all the orders and the raw materials, order work place and all would have come in. We have started producing in Q3 and then the execution, a portion of execution will get executed in Q3, Q4 and then Q1 that is how the execution looks like.
- Abhishek Gupta:** Because Sir we had the decent opening of it, about 94000 odd tons at the start of Q2, US specifically so it is the kind of procurement schedule which you have with the kind of did not let you sell anything?
- Vipul Mathur:** The lead time obviously is the US mills, after 2017 you know X70 grade steel, there is no steel which comes from outside it all domestic buying, the domestic mill is significantly busy, the lead time for API pipes and between order and also the arrivals of the steel there is a lot of procedural formalities which are involved in order to that so we now have steel coming in Q2 and starting in Q3. That is the way we have it right now.
- Abhishek Gupta:** Two more questions. One clearly we are looking at a new opportunity and DI as the segment but if I look at the existing capacity, we have abundant capacity available across the geographies even if I look at that our stated capacity is about 1.6 million tons and the number which we will be doing is somewhere about 6 lakhs tons on annualised basis currently, so would not you think may be right now it would have made a more sense to sweat this capacity rather than committing to a new capex round?
- Vipul Mathur:** If you look at the capacities, they are completely skewed. You have a huge capacity which is setting up in the east side of it but if you look on the west and if you look on the southern side of it is not that much for capacity which is there and when I compare it with the potential which we have seen clearly the west and north seems to be the growth drivers in the key potential areas, there is

definitely a demand supply gap which is there and we want to fill up that gap. That will be the fastest optimizing our capacity utilisation on the DI side.

**Abhishek Gupta:** So, in that case Sir, given that we have extra capacity available in the east when you are saying that clearly the visibility is little lesser there, how do we propose to fund that capacity, is it that they are going to convert it to something else or you are hopeful that eventually the demand will coming from there also?

**Vipul Mathur:** My apology, I did not get your question.

**Abhishek Gupta:** I am just trying to understand that the kind of capacity which we have right now in India and as you said east market is where you have excess capacity, what is the end plan with that capacity, would you convert it to the segment where you see the more demand or it will remain their till the time that demand recovery will happens in that market?

**Vipul Mathur:** No, on east side of it what is going to happen, we probably might see under capacity utilisation on east side of it and from the southern to the west there seems to be a robust demand and I personally believe that it would be a very high utilisation in comparison. We also have to see from a different context. In this particular line of business, they are two types of tiers, tier one players and tier two players. I think the tier one player which are in the east, one of the players happened in the east, one of the happened in the west and one of them happens to be in the south and Tier one players would find more acceptability and more suitability and you would see a very high capacity utilisation for them but for the others it may not be the same case.

**Abhishek Gupta:** Just an observation, rather a thought, I mean clearly given that we are expecting this plate mill going to conclude by end of this fiscal, would it make more sense to get that money first in our balance sheet and then commit to our capex of this size because otherwise what happens is it just works for two to three quarters and it starting generating cash and balance sheet slightly looking averages and we are going ahead and committing our capex, just kind of thought would make a sense to get that money first and then commit a capex?

**Vipul Mathur:** There are two ways of looking it. First and foremost, we are confident about this plate mill coming into book, so which means that also weighed onto us when we made this investment decision, number one. Number two, because the gestation period for the project of this magnitude is set up is high and go to market strategy it has to be first line order to really capitalise upon that so we have to take a little balance call around that so we evaluated that about our confidence of getting the plate mill money, we saw free cash flow of available to us, the free cash flow which is going to get generated over the next four quarters to six quarters, so all these factors went into our diligence process and then we do this call for going ahead.

**Abhishek Gupta:** Understood. Thanks for answering my questions, clearly a good quarter in the context of how the market situation is and hopeful to get positive news on this plate mill.

- Moderator:** Thank you. We will take the last question from the line of Sanjay Parekh from Nippon India Asset Management. Please go ahead.
- Sanjay Parekh:** Congratulations to the whole team for the fantastic cash flow generation. Sir, the first thing is you have generated significant cash this quarter, so this Rs.478 Crore of free cash, obviously there is a working capital release so can I get a breakup of how, where has this Rs. 478 Crores generated?
- Percy Birdy:** This generation of free cash that you have seen now of course it is coming from the decrease in net working capital and some of it is also because we have received advances from our customers so it would not be that every quarter we would have this magnitude of free cash generation so some of these as we ramp up our business also in Q3 and Q4 as our production and sales volume also get ramped up, we will see that some funds will get utilise into the working capital also, so on an ongoing sustainable basis you can say that working capital cycle of about net 30 days is what we would like towards.
- Sanjay Parekh:** As I see the slide on the eventual results of Q2, which has volumes and this is slide 15, so one of my colleague also asked the question, basically your volumes have gone up, your revenue is down but your EBITDA has significantly been higher, so essentially your EBITDA per ton and if you were to take and this size of course is not Saudi but this is operational EBITDA number so this is India and US, so the EBITDA per ton this quarter has to be significantly higher right?
- Vipul Mathur:** If you look at, our EBITDA per ton for this particular quarter is almost close to Rs. 12400 per ton in this quarter.
- Sanjay Parekh:** What would be the breakup of India and US in this?
- Vipul Mathur:** This is primarily out of India.
- Sanjay Parekh:** Vipul this is a very good numbers, so is this a sustainable number?
- Vipul Mathur:** Sanjay, it is all depending on the type of products what we are doing. If we continue to do similar type of product which is the PSU order, this and that, all gas orders in India and to get some export orders as what we were doing for the CGL, for the Canadian order, it is a clear reflection of that because PSU orders plus the export, these two put together is giving us a better EBITDA. Right now, like what we see is that we would definitely continue to have an export visibility in future to come as well because we have a large export presence and large front and we will continue to work on that. So, as the blend continues to be same I am sure this should be sustainable. There will be some timing as well, even one particular quarter you may have only have a domestic orders and no export billing happening. We have seen in the past some fluctuations happening around but our endeavour would be to keep as close to \$150, that is what our aim is. So, as you know it is project business and all depends on what type of projects you have and what is their execution cycle, what is getting executed and all those particular orders, so this is where these numbers keeps on changing and to address this has been the perpetual issue, while there have these calls with the investors

because the fluctuations which happens consistently, I think that is what we are trying to plug in with bringing in much more stability, much more stable earning this DI plant and DI project.

**Sanjay Parekh:**

Sure and one more is now the US, now the crude has been above \$40 for while and it is a difficult to take a view their but assuming crude remain at \$40 plus, how do you see the traction of new orders for next year, assuming it to remain in the \$40 to \$45 range?

**Vipul Mathur:**

If you see, crude has been stable almost like \$40 to \$45 so it has been consistent for the last two months at least so that has brought some sort of stability into the US market but having said that people are still very sceptical at this point of time because first and foremost they are still lot of uncertainty, I was in US two weeks back. I just came back from there, it is in the state of uncertainty about the political dimension that it will take. I think so this particular quarter will go all in that. I think so then we can possibly see in next two quarters or three quarters an uptick into the industry. All of them are unanimously suggesting that it is in the Q3 of the next calendar year not the financial year, Q3 of the next fiscal year probably they would see a sort of uptick coming into the oil and gas industry so that is the general sentiment I am sharing with you so that is what the case is. So how do we impact Welspun? We are currently booked in let us say April or little end of April all what we have to see that between now and April we need to see some orders which keeps on coming and settling in so that we go through till the first quarter of the next calendar year but having said that do we see the economy going to go down for a longer period of time the answer is no. It has to bounce back. The earlier it comes the better it takes and the other thing I also wanted to add that it is on the oil and gas side of it, I think so whether it is the Democrat or Republic I think there seems to be a broad consensus now emerging which was not the case in the past, either there were in the extreme right or they were on the extreme left but this time when I was there and I happened to see the debate and the sentiments which are emerging around that I think so everybody seems to be trending a normal middle part so there is nothing for extreme right or extreme left which is good for our industry which means the recovery in the oil and gas would be much faster than what was anticipated.

**Sanjay Parekh:**

Sure, and one more question that I had was that my colleague also alluded to, we broadly have Rs. 655 Crores, I am just saying, I have been looking around the economics so for buyer of the units, very few, you are very right, so it is very likely the buyers would want to purchase as much as you want to sell so is that itself, so that takes the cash flow to almost 1455 Crores plus, cash flow whatever generate in the second half so whatever projections I have is the new project has clearly has to be done because the things are good, but after the plate mill having done, you have a policy which is rich because you will appreciate that our stock is significantly under leveraged so what would that make sense and that is just a suggestion and once the plate mills gets through the project that your DI pipe expansion will also go through and a good pay-off policy which is good for all the shareholders.

**Vipul Mathur:**

We will completely respect the sentiments Sanjay Bhai and as I said earlier in this conversation you know shareholder value creation is our top most priority and the sentiment is very really driven from the board level and the board is completely mindful of these aspects of it and we are committed on working on the hybrid strategy whereas we have to see or we have to continue to be

on the growth path and at the same time reward our shareholders as well. So, I think the board is completely mindful and the timelines and guidelines keep on coming we have seen that in the past, as and what the guidelines we will continue to implement but we are completely mindful of this sentiment into what you are suggesting.

**Sanjay Parekh:** Great performance in such times and best of luck. Thank you very much.

**Vipul Mathur:** See, what we also must be cognizant of that fact that we are coming out of a major pandemic situation. In Q1 we were all saying that this is the end of the world and from there this resurgence. I think that speaks volume about the strength, the DNA of this organisation and I think this is what we would continue to do in subsequent quarters to come.

**Moderator:** Thank you very much. I now hand the conference over to the management for their closing comments.

**Vipul Mathur:** Once again thank you very much gentlemen for being on the call. I think we have tried to the best of our ability to answer all of your question. If you still have any questions, any clarifications from any of the questions, you may absolutely feel free to reach out to us. We are completely committed to be in full disclosure to all our investors and stakeholders there. Once again thank you very much for taking your time out and giving us a chance to present our financial results for you. Thank you.

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