



“Welspun Corp Limited
Q1 FY2021 Earnings Conference Call”

July 28, 2020



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Moderator: Ladies and gentlemen good day and welcome to the Q1 FY2021 Earnings Conference Call of Welspun Corp Limited, hosted by Emkay Global Financial Services Limited. We have with us today Mr. Vipul Mathur, Managing Director and CEO; Mr. Percy Birdy, Chief Financial Officer; and Mr. Akhil Jindal, Group CFO and Head Strategy, Welspun Group. As the 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. Anas Dadarkar of Emkay Global. Thank you, and over to you, Sir!

Anas Dadarkar: Good evening, everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to the management for the opening remarks. Over to you, Sir!

Vipul Mathur: Good evening. Good evening to everyone. Welcome to this Q1 call. This is Vipul Mathur. I just want to take you through the key highlights of this particular quarter. Let me first start welcoming all of you on this particular call. We had connected almost a little less than a month ago and I hope that all you and your families are keeping safe and sound. We are still seeing a prolonged COVID. So it is all the more reason for us to stay safe. As you know, the last year was a phenomenal year in the history of Welspun. We had shown some extremely good results on a quarter-on-quarter basis as well as at the end of the financial year. We were extremely hopeful that this year would also be on the similar lines. However, as you all know that we all were impacted with a double whammy. One was of this COVID-19 and other was almost complete meltdown of the oil pricing and everyone seems to have got impacted because of that, including us. But nevertheless, I think so this journey is going to be a little longer. It is going to be a little painful. But nevertheless, I think so we have recovered reasonably well and I just want you to take you through some operational and the financial highlights of this particular quarter.

In this quarter, we have done the production of 130,000 metric tonnes and the sales of 222,000 metric tonnes. In India, out of that, we did 138,000 tonnes. I am talking about sales. I am giving you a breakup of sales of 222,000. In India, we did a sales of 138,000 tonnes. In US, we did a sales of 43,000 tonnes and in our Saudi operations, we did a sales of 41,000 tonnes. Currently, our global order book stands at close to 694,000 tonnes, round of, let us say, 700,000 tonnes, valued at almost Rs.5,500 Crores.

Our total income from operations stands at Rs.2,069 Crores for Q1. Our operating EBITDA stands at Rs.183 Crores and our reported EBITDA at Rs.197 Crores. Our PAT for this

quarter stands at Rs.58 Crores. On top of it, what is more creditable is that we have a free cash flow. We generated a free cash flow of almost Rs.279 Crores in this particular quarter.

I am also extremely happy that we accomplished a major milestone in this particular quarter of becoming a net cash company from a net debt company. In this quarter, we reduced our gross debt almost to the tune of Rs.500 Crores, which was almost Rs.250 Crores of NCD and Rs.250 Crores of commercial papers. This clearly demonstrates that the company's strong liquidity position and comfortable cash flow. As I said earlier, after this, we had a free cash flow of Rs.280 Crores.

With this repayment of debt of Rs.500 Crores in this particular quarter, our gross debt is still at Rs.500 Crores and while the cash and the cash equivalents are Rs.677 Crores. Thus, we are a net cash company to the extent of Rs.198 Crores. As far as the working capital is concerned, our cash conversion cycle came down marginally to 29 days from a level of 35, which was in the last quarter.

One of the reasons for this little muted performance in this particular quarter has been because the large impact of the COVID was spread in this particular quarter. It was around March 24, 2020 or March 25, 2020 that we went into the lockdown, but the impact of that primarily all came in this Q1, where for literally for three weeks to five weeks, all of our manufacturing facilities across the globe had to go into a mandatory shutdown and lockdown as per the respective government guidelines. But since then, we have resumed our operations and it is a work as usual, all of our plants are working to their fullest capacity as we speak today.

We are completely adhering to the health and the safety guidelines and has been issued by the respective government authorities from time to time. Let me also take you through that how does the future looks to us? What is in-store for us? What are going to be the key drivers moving forward in this very unprecedented and challenging year, what everyone is facing? Since the last time, in the last quarter, we saw that we had an impact of COVID, a complete meltdown on the oil pricing. But since then, we have seen that the oil prices have slightly improved. If you look at WTI and Brent, they are between \$41, \$42 per barrel. The consumption which we had completely come down before the meltdown has come back. But the COVID-19 situation seems to be getting prolonged and because of that, the uncertainty around that is still there.

So on one side, while the oil prices have slightly stabilized, and they have become a little more predictable. But the extension of COVID-19 and the uncertainty is still keeping the large capex program of the E&P and the midstream companies on a little slower track globally. However, when we talk about India, I think so we are trying to maximize our

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opportunity in this adverse situation and we are very, very buoyant about the situation in India. Just to let you know that in India, we have a robust order book of almost 356,000 tonnes, which is yet to be executed, which is spread evenly between oil and gas, exports and water projects. Further, what is very heartening to see that announcement with the government that almost 15,000 kilometers of additional gas pipelines will be installed and they are at a various stage of development to complete the national gas grid.

As per the national infrastructure pipeline, capex of Rs.100,000 Crores is expected to be spent between FY2020-2025 to further augment the oil and gas pipeline network. We are already seeing significant traction in terms of increased tender activity from domestic PSUs Company. As we speak, a little less than 0.5 million tonnes projects have already been tendered in which we have actively participated. So that is a clear reflection that the projects of the Indian PSUs are coming back on track. In the domestic water segment, we are still very confident and optimistic that the irrigations project will drive the demand, though we are anticipating some delay in some states, because the states are still continuing to fight COVID-19 situation, and their focus is more leaning on that particular side. But that demand still exists and we are very optimistic that it will come in a shortest possible time.

As far as export market is concerned, we have already started receiving inquiries for potential upcoming projects in Middle East and Southeast Asia. We are in close discussion with some customers and are very, very confident to come back with few strategic orders in a very short span of time. We have participated in those projects. The process is almost about to come to an end. We are quite favorably placed, and we are very optimistic that we would soon have some more orders, which will add up into our order kitty.

As regards to US, there after a brief lull, where operations were impacted due to lack of orders in COVID scenario. Now both the plants in Little Rock facility, which is the spiral and the HFIW plant have completely restarted their operations. At the spiral plant, we have just started execution of a large order from a one of our longstanding customer. So as we speak, the production for that particular order is just started. I had disclosed about this particular order in our call in the last quarter. The production of that has now started. The HFIW operations have started, but it is at a lower utilization at this point of time. With our large diameter mill, now having an order for at least three quarters, if not four, I think so we are very well prepared to tackle this current challenge, what we are facing in US and it is all because of our local manufacturing presence, excellent track record and strong customer relationship.

We are also very optimistic that few of the projects in which we have participated, they would be a very favorable award and as and when they come, I will come back to you and update you separately. We are expecting something in near to short-term time.

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Let me move my focus to our JV in Saudi Arabia. As we know, Saudi was also severely impacted by this COVID situation and we had to go for a very prolonged shutdown there at our plant. We had a mandatory shutdown. We restarted the operation, then we again have to take a brief shutdown, and then we came back. But as we speak, we have been fully operational since June and we are producing at our peak capacity. However, Saudi market is also impacted because of the oil pricing, but there seems to be recovering now from that scenario as well.

As we speak today, we have a backlog of close to 250,000 tonnes of orders at our Saudi entity and which should take us through at least three more quarters from here. I am also very happy to inform that in the last week itself, we have received a major order from Saudi Aramco, which is under the long-term frame agreement. If you recollect friends, I have mentioned that we were one of the signatories of the long-term frame agreement with Saudi Aramco, and this order has been awarded under that contract, it is only. So we have not seen traction coming in the long-term frame agreement as well.

I also wish to give you an update on our plate mill divestment. No change in that particular position. As reported earlier, we have a business transfer agreement, and the long stop date for that is March 31, 2021. I do not think so any fundamentals have changed in between. We are still very optimistic that this divestment will go through. We are assured of that. We also have received advances around that. So we have all the reasons to believe that this divestment seems to be on track.

Let me also take you through the projects. We had done a major investment for our Bhopal plant. As I reported last time, our spiral plant was fully operational. Our coating plant is also now fully operational and we have a significant order book. At this point of time, we have our order book of close to two quarters at the Bhopal plant. But that is all primarily water and we have seen that the investment decision is paying off for our Bhopal entity and as now the new government seems to be in place and our interaction with them is clearly suggesting that there is going to be a surge in demand for those water pipelines, which was conceived in their plans. So I am very happy to report that both the pipe mill and the coating plants are now fully operational and we are seeing a continuous traction on the demand side as well.

With this, I would like to thank you all once again for joining this particular call and I would be very happy, along with my team to answer any question whatsoever you may have. Thank you very much.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

- Shikha Mehta:** Hello Sir. Sir, could you please give the volume data across U.S.A., Saudi and India? I am sorry if I missed it earlier?
- Vipul Mathur:** Yes. Good evening.
- Shikha Mehta:** Good evening. Sir, could you please give the volume data across USA, Saudi and India? I am sorry if I missed it earlier?
- Vipul Mathur:** You are talking about the sales data? Or you are talking about what order?
- Shikha Mehta:** Sales and production data in Q1 and then the order book breakup as well?
- Vipul Mathur:** Okay. So as I said, the sales, yes. So we did a sales of 222,000 tonnes in this particular quarter. In India, we did a sales of 138,000 tonnes. In U.S., we did a sales of 43,000 tonnes and in Saudi, we did a sales of 41,000 tonnes.
- Shikha Mehta:** Okay and can you give the order book breakup as well?
- Vipul Mathur:** Yes. In India, as I said, we have an order book of 356,000 tonnes. In the US, we have an order book of almost 94,000 tonnes and in Saudi, we are close to 245,000 tonnes. So all this put together is almost close to 695,000 tonnes of order book.
- Shikha Mehta:** All right. Thank you. Sir, our other expense as a percentage of sales for Q1 has fallen to 13% from 19% last quarter. So could you elaborate a bit on what cost-cutting measures is taken?
- Percy Birdy:** Yes. Vipul, would you like me to take this question?
- Vipul Mathur:** Go ahead, please, Percy.
- Percy Birdy:** Yes. So as you can see the numbers, our production volumes have been on the lower side and in the other expenses, the expenses that are all built in are including the freight and the transportation expenses as well and in line with the lower sales volumes, our expenses are also on the lower side. Apart from that, we have taken very stringent cost control measures in every possible way so whether it was on manpower cost, whether it was on all other fixed expenses, there have been very tight cost control measures that have been put in place and you will observe this cost reduction visible not only in other expenses, but in almost every line of the P&L. So there has been a huge effort on cost control and I think that has shown that our bottom line impact due to the COVID has been very well controlled and minimized.

Shikha Mehta: So Sir, out of this how much is sustainable going forward when our production resumes to normal levels?

Percy Birdy: Of course, some of the expenses like freight transportation, which are variable and obviously move up in line with the sales that will improve going forward. But the other expenses, which we have now got a tight control of, we will make sure that those benefits of those cost controls are not frittered away. And we moved to a lower cost base.

Shikha Mehta: So as a percentage-wise, would you have any idea how much is sustainable?

Percy Birdy: Not really possible to give a percentage wise because you will remember that this is project business and geographical mixes are also there. There are three different geographies that we are looking at. So the percentage to sales will obviously vary depending on the project mix and the geography mix.

Shikha Mehta: Sir for this quarter, what utilization have we been at in India and Saudi and in US?

Vipul Mathur: In this particular quarter, in India, we would have been close to around 40% utilization. In Saudi also because we lost almost a month there and US was a very low utilization because the production of new orders in the US will only start in this particular quarter.

Shikha Mehta: All right, sir. So in general, do we have any idea now how second half of the year would be looking? Would it be looking a lot better than the first half? Or would it like normal like how FY2020 was or still a bit weak?

Vipul Mathur: Madam, these are not comparable years. I am sure you are not trying to draw a comparison from the last year. I think it will be very irrelevant to draw comparison to the last year. But nevertheless, our endeavor would still be to perform to our best of the excellence and we are very optimistic that the second quarter's production numbers will be far higher than what we would have achieved in this particular quarter.

Shikha Mehta: All right. Thank you.

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

Andrey Purushottam: Thank you for taking my questions. I had two questions. One was a factual question on what is the profitability per metric tonne across your three geographies? If you could share that? The second thing I wanted to ask you was about how do you see the prospects in the US with respect to shale oil, etc., with the oil prices having risen slightly, but still not

sufficiently, do you see Capex resuming in the shale oil center in the times to come? And what do you see the timeframe for that to happen?

Vipul Mathur: If we look at the profitability, I think so we have been able to achieve close to Rs. 10,000 EBITDA per tonne in this particular quarter and I am talking because it is a product mix across various geographies. Specifically moving to US, I think so, yes, the prices, while oil price and all those things have slightly stabilized. But as I said earlier, the Capex in a full throttle are yet to come back. So it is going to take some time. There is no doubt about it. And we have said that the recovery period could be anything between 12 to 18 months before the things are back to normal as they were pre-COVID situation. We are just into the first quarter of that 12 to 18 months. It is what is imperative at this point of time is that that you have to keep your nose above the water. You have to ensure that you have sufficient business to keep your plant fully operational and recover your cost. I think largely, we have been successful in doing that across all our geographies. So at this point of time, with the order book of almost 90,000 tonnes in the US and some one or two more prospective orders, absolutely back in the queue, with almost 250,000 tonnes of order in Saudi Arabia and almost close to 350,000 tonnes of order under the belt in India and as I said, the PSU business going all gung-ho. I think so, we would be one of the few who would be able to fight this and come out much stronger at the end of the day.

Andrey Purushottam: Could you break up the Rs.10,000 blended into the EBITDA for the separate geographies?

Vipul Mathur: We can take it off-line, please.

Andrey Purushottam: Okay. All right. Thank you.

Moderator: Thank you. The next question is from the line of Nirav Shah from GeeCee Holdings. Please go ahead.

Nirav Shah: Yes. Good evening Sir. Thanks for the opportunity. Just two questions. One is our inflows this quarter was around 210,000 tonnes. You also mentioned that last week only you received the order from Aramco. So is that part of this inflow as well as the order book? Or because generally, we report the order book as on date and not the quarter end. So is the Saudi order part of the 694,000?

Vipul Mathur: Saudi order is part of 694,000, yes.

Nirav Shah: Okay and it is part of 210,000?

Vipul Mathur: That is part of 210,000. Yes.

- Nirav Shah:** Okay and just give a broad breakup of this 210,000 tonnes order?
- Vipul Mathur:** So broadly, if you look at it, it is 40,000 tonnes we have from the Saudi, 90,000 tonnes is what we have from US. One particular large order, which we shared the last time. After that, we also got additional small, almost 14,000, 15,000 tonnes of an order, which we again got from North American Continent. We also got some orders, small orders in our ERW plant. We also got some orders in our CGD business in India and we also got some 20,000-odd tonnes orders of water for water business in India. So all put together, this sums up to 210,000 tonnes, Nirav.
- Nirav Shah:** Okay. Got it and just on a month-on-month basis, based on your interaction with clients, how are you seeing the traction because you are also negotiating for a couple of large strategic prospective orders. But in terms of a general sentiment in US, how do you see that playing out at when oil is at \$40? Gas has still not recovered, but oil has recovered in the US. So just want to understand your thoughts, how do you see the scenario playing out for the industry because you will get your orders, but just for the industry?
- Vipul Mathur:** See, to be candid, the sentiments are weak. People are still in a wait and watch mode. People are thinking multiple times before committing a large Capex. But one thing they have understood. One thing they have come back on the table is that small incremental capex is, we have seen that traction coming back. So today is anyone going to buy 0.5 million tonnes or 1,200 kilometers of pipeline, probably, no? But are they putting up something like 50 kilometers there, 100 kilometers there, 200 kilometers there, that sort of a traction, which is giving them with incremental capex investment they are getting a larger benefit, that sort of confidence has started coming back into play. So it is a mix bag for large capex? No, it is a wait and watch but for mid-sized capex? People have started coming back because they are seeing an incremental benefit at crude being at \$42.
- Nirav Shah:** Thanks for answering the questions and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Good set of numbers in the challenging environment and good to see you getting fresh orders despite all geographies so challenging. Just on the fresh orders and also on the margin outlook, may not be the exact number, but to see. So you said that you received one large US order. I am assuming that is spiral, and there are no HFIW orders in the US client. And the Saudi, Saudi Aramco order is also there and India order outlook is good, the way you mentioned about various capex plans. So can we assume this quarter margins to sustain based on the current order book? Maybe things keep on changing as you get new orders, but

whatever order book of 700 or 695 what you have in hand, the margin outlook would not be materially different than what we have already done close to in quarter one?

Vipul Mathur: That would be a fair assumption to make Bhavin and if you look at the blend side of it, the prices in US are definitely under pressure because there is a capacity available and not too much of a business, all what business you are getting is purely because of your track record and probably because of the leadership position what Welspun enjoys that. So there has been a little erosion in the margins in the US, but not to an extent that you will not make money, we will still make money, whereas in Saudi, if you look at it, I think we still have a large quantity of 200,000 tonnes out of the 250,000 tonnes, which is at the old pricing. So there, the margins are completely insulated and protected. Even this additional 40,000, 45,000 tonnes, which has come under the frame contract is fairly remunerative; let us put it this way. But what is going to be a game changer is the proposition in the Indian market, right? I think so where Indian markets, it is my very strong belief that the margin profile in the Indian market is set to improve. So if you look at the blend side of it moving forward, I think so, there is a reason to believe that the EBITDA margins on a per tonne basis for sure, should be higher than what we have achieved in this particular quarter, if not the same.

Bhavin Chheda: That is very good to hear and this India 356,000 order book, how much is the pending also export to US there?

Vipul Mathur: We are still close to, let us say, 125,000, 130,000 tonnes.

Bhavin Chheda: 125,000, 130,000, which is also old order at high margins, right?

Vipul Mathur: That is correct.

Bhavin Chheda: Okay. Coming back to the debt levels, what would be the maintenance capex and any other capex in FY2020, one number on that? Second is your production all across were down in quarter one. So obviously, that led to a substantial lower working capital requirements in quarter one and hence, there was a sharp reduction in debt. Going forward, how much incrementally we should build that you will acquire on a working capital front? What the overall further deleveraging plan or to increase the cash levels basically?

Vipul Mathur: So as regards capex, Bhavin, as you know, we have been very diligent in terms of doing our capex expenditure and it is not in this quarter, we are talking about it. You have seen that consistent performance over the last 8, 10 quarters. So our focus on is very focused on any spend. As regards to capex, I think, so our maintenance capex should be in the vicinity of close to Rs.50 Crores or Rs.60 Crores in this particular year and that is all what we will do that. What was your second one?

Bhavin Chheda: Will the working capital requirement fall as well? And maintenance capex is India plus US, right, Rs. 50 Crores, Rs. 60 Crores?

Vipul Mathur: Correct. Close to that, yes and as regards to our working capital, I think so our working capital cycle would be almost close to those 30 days. So we do not see any significant increase or decrease in our working capital cost, but you will see a significant drop in our long-term debt cost. We have already paid almost as Rs.500 Crores. So our long-term interest cost, you will see in the next quarter would come significantly down. As we have sufficient cash, free cash flow available, we are also thinking in terms of reducing the further debt. We still have a gross debt of Rs.490 Crores. It is our endeavor to reduce almost 50% of that, close to 50% of that in this particular quarter. All in all, if you see from an interest point of view, while the working capital would still be the same, but the long-term debt will significantly come down, the interest portion. So the net impact would be, you will see a much lower finance cost in subsequent quarters.

Bhavin Chheda: Okay. Thank you Sir.

Moderator: Thank you. The next question is from the line of Vikash Singh from PhillipCapital. Please go ahead.

Vikash Singh: Good evening Sir. First of all congratulations for very satisfactory numbers during COVID time. Sir just want to understand, you said in US, you have roughly around three quarters of order book on a large dia. But you have said, so 30,000 tonne per quarter kind of run rate seems, there seems to be a mismatch in my understanding of the total large dia capacity of roughly 350,000 tonnes. So if you could just explain where I am actually missing out on?

Vipul Mathur: As you know, we have close to 90,000 tonnes of a confirmed business in US, right? On top of it, we are also expecting some more businesses coming up there, which should be around the corner, I would put it this way. Also, what we have done is we have calibrated our operations at this point of time, which means that we are only operating for 3.5 days in a week. We are also, as Percy also explained, that was also one of the initiative we have taken in terms of reducing our cost and all that stuff. So at an optimal level of production, where we are not incurring any additional cost, and yet, we are recovering our complete fixed cost and making money is a hybrid solution we are working on and with that approach, we would have almost close to three quarters of order book in place.

Vikash Singh: Understood. So sir, in terms of fixed cost reduction, I have seen that our US implied cost has almost halved on a quarter-on-quarter basis. So current run rate could be the 30% going forward? Or there is a one third production bounce back this employee cost will again go back to the normal level?

- Vipul Mathur:** Very unlikely that the fixed cost with respect to the manpower will go to those peak levels and very unlikely at this point of time. But we would love to do that. If we have that type of business, we do not mind doing that. But at this point of time, as we speak, I do not think you will see those costs coming up. It will be marginally higher, lower, but broadly, it should be around the same.
- Vikash Singh:** Sir, one more question is just with regards to your purchase traded goods item, I see that our production was quite low, but we have done a good sale. So this is basically pipe purchase treated as the also the pipe which we have purchased from the others? Or does it account to some accounting changes, which has come this quarter?
- Vipul Mathur:** Some of the orders were delivered orders to the site, right? So while the production would have happened, the sales would have got recognized in this particular quarter so that is the reason you might be seeing that.
- Vikash Singh:** Understood, sir. Okay. And sir, just one last thing in terms of 0.5 million tonne of opportunity you have talked about in India. So that is basically the tendering, which has already been happened. Is that a correct assumption?
- Vipul Mathur:** Yes, close to that, yes.
- Vikash Singh:** What kind of more tenders you are expected to come in next one year in oil as well as in the water segment in India, any visibility right now?
- Vipul Mathur:** I mean when we speak with all the stakeholders in the PSUs and in the CGD business, they seems to be pretty buoyant. They seems to be pretty optimistic. They seems to be like going ahead with their capex plan. So I mean, we still have almost eight months to go in this financial year and the sense I am getting is that there could be a potential opportunity of additional 0.5 million, which should come up in from this sector, that is my assumption.
- Vikash Singh:** Okay. So this is 0.5 million already tendered and another 0.5 million, which may come in next one year?
- Vipul Mathur:** Could come, yes.
- Vikash Singh:** Yes and just lastly, this other income of the Rs. 635 crore in stand-alone would be the dividend from US subsidiary, is that a fair assumption?
- Vipul Mathur:** That is correct.
- Vikash Singh:** That is all from my side Sir. Thank you for taking my questions and all the best for future.

- Vipul Mathur:** Thank you Vikash.
- Moderator:** Thank you. The next question is from the line of Basanth Patil from Mentor Capital. Please go ahead.
- Basanth Patil:** Hello Sir. Thanks for the opportunity and very congratulations on the tough time, actually, company has delivered an excellent numbers. Sir, just one understanding. Sir, you are more confident of the smaller size of the pipeline orders from the US region, particularly, I am talking for the US region. So can you give any idea like what kind of the visibility, what kind of the bid book, particularly for that segment, less than 100-kilometer kind of the pipeline? So now nobody is talking above 500 kilometers of the pipeline. So that gives actually some kind of the comfort for investors. So can you throw some light on that?
- Vipul Mathur:** So let us say, in the midstream sector, where most of the companies who are involved in building up those pipelines and as we speak to the stakeholders there and they are giving us the comfort and the confidence that small capexes, incremental pipelines is what they are contemplating and they are five or seven players. They have three, five or seven players and all of them are giving us this sentiment that you may not expect a large project, but you can definitely expect incremental projects, looping here, looping there all those stuff. So I mean, we are getting a good feeling around it, to be very honest.
- Basanth Patil:** Okay. What is we are getting?
- Vipul Mathur:** So just to clarify, I know just to put anything to rest any doubts to this. What is our intent at this point of time and our intent at this point of time that the plant should not be idle, number one. But we should be able to recover our full fixed cost, so that it does not bring a drag to India balance sheet. Number three, if we can make incremental profits from there. So I can assure you that the plant is now booked for this year. The fixed cost has completely been absorbed and it will only contribute from here on, it will not drag so all that what business, what we will secure more, is only going to top-up in our bottom line now.
- Basanth Patil:** Okay. Yes. Sir, from the India, if you are talking is it from the domestic as the order point of view. So what we are talking 0.5 million tonnes, so that is mix of both CGD and water and oil. Is that correct?
- Vipul Mathur:** No. This was purely CGD and oil.
- Basanth Patil:** Okay. CGD and oil?
- Vipul Mathur:** Yes.

- Basanth Patil:** Okay. Sir, what kind of the margin, I think CGD has the much higher EBITDA contribution compared to oil. Is that understanding correct, Sir? Is that varies almost more than 50% of the upward trend market, from the CGD pipelines, we have more margins. Is that correct, Sir, understanding?
- Vipul Mathur:** Not really. I think so both the large diameter and the CGD pipeline, which are small diameter, I mean, they are fairly equal contribution in EBITDA margins.
- Basanth Patil:** In terms of EBITDA per tonne, both are same?
- Vipul Mathur:** Yes, both are same.
- Basanth Patil:** That is not any different?
- Vipul Mathur:** Yes.
- Basanth Patil:** Okay.
- Moderator:** Thank you. The next question is from the line of Siddharth Oberoi from Prudent Equity. Please go ahead.
- Siddharth Oberoi:** Hi. Sir, can I know the current tax structure, you paid Rs. 144 Crores, which actually comes to more than 100% of PBT. Why is that?
- Vipul Mathur:** Percy, will you take that, Percy?
- Percy Birdy:** Sure. So in the current quarter, our effective tax rate is actually about 31% to PBT. However, the dividend that we have brought in from USA, that, of course, gets eliminated in the consolidated results because if the dividend coming from subsidiary to the parent, you do not see that any consolidated PBT. But the tax that has to be paid in India on that, which is roughly 17.5%. That tax expense survives the consolidation. So in the denominator, we do not have the profit of dividend, but you have to pay the tax and that is what is causing the effective tax rate to look higher. But otherwise, our effective tax rate is 31% as to PBT and broadly, you can use that as the benchmark going ahead as well.
- Siddharth Oberoi:** Okay. All right. So there is some purchase stocking trade of Rs.560 Crores, what is this expense?
- Percy Birdy:** So in the US, we have had one particular customer's contract, where due to certain reasons in the market right now, we have recovered the entire raw material stock that we had purchased for that particular customer because they asked us to put it on hold. So we have

completely recovered and as per the accounting requirements, we have had to book this as a sale of raw material itself. So that is the reason why you will find that coming into sale as well as in the cost of materials as well in the purchase as well.

Siddharth Oberoi: Okay. So you can say it is canceled out each other. Is that correct?

Percy Birdy: Exactly. You are right.

Siddharth Oberoi: All right. Okay. Also regarding this steel plate mill that you have sold, sir, what is the position? Who is running that plant now?

Vipul Mathur: We are running the plant at this point of time. We are responsible to run that plant till the time the transfer agreement is consummated and we think it will happen by the end of this year.

Siddharth Oberoi: So who is paying for the losses? Is Wel coping for the losses?

Vipul Mathur: Yes.

Siddharth Oberoi: Sir, but then why did you postpone this from March 31, 2020-2021?

Vipul Mathur: If I had a choice, I would not have done that.

Siddharth Oberoi: Yes, but should not have that party honored the contract?

Vipul Mathur: Wishful thinking, Siddharth.

Siddharth Oberoi: It is not wishful. The lockdown happened on 24, 23 whatever and for the seven, eight days, they kind of push the contract to one year?

Vipul Mathur: Yes. That is a reality Siddharth, I mean, as I said; it would have been very nice. It would have got closed in the March, 31, 2019. I am sure there were compelling reasons behind that. But the fact of the matter remains that the interest in that asset still remains high. The fundamentals around that assets are not compromised at all and it is still an asset which we think that will create an intrinsic value for the prospective buyer. So we are very optimistic that this transaction will go through.

Siddharth Oberoi: And how much have they paid till now?

Vipul Mathur: I am sorry?

- Siddharth Oberoi:** How much have they paid till now?
- Vipul Mathur:** So there were some contractual advances they were supposed to pay and that they have already paid.
- Siddharth Oberoi:** Are they going to compensate for the loss?
- Moderator:** Sorry to interrupt, but for any follow-up request would you rejoin the queue, please? The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.
- Sunil Jain:** Good evening Sir and congratulations for good numbers. Sir, just asking whether you got any benefit from the US government for any benefit, which the US government is giving to the organization, and that is why your employees costs is relatively quite less?
- Vipul Mathur:** There were some schemes with respect to basic protection, where the employees were directly getting benefited out of reduced working hours. That is the only benefit which the employees have enjoyed. I do not think so as a company, we have taken any other benefit.
- Sunil Jain:** So because of that, our employee cost is less?
- Vipul Mathur:** Not really. Employee costs have come down significantly because there has been a significant reduction both in the employee numbers because we have scaled down the operation and the operating cost and the cost associated with them.
- Sunil Jain:** What we see that the margins in the US seems to be quite good and comparable to the previous good time. So this is mainly because we were carrying this previous order, which were having higher margin?
- Vipul Mathur:** So we had a blend, Sunil. We have a blend. We were carrying some orders of previous quarters, which had a nice margin and even the orders what have been booked are at a reasonably decent margin. There may not be absolutely the same levels of EBITDA, but they are very close to that and see, that is what is all about your full positioning in US that is why we are recognized as one of the leading players there. People have the comfort. They have the confidence they do not mind paying something additional just to work with us and this is very clearly getting reflected at this point of time. If you see most of the mills are empty or likely to be empty, and we would still have touchwood. By grace of God, we have a business, which will keep us continue busy for the full of this year.
- Sunil Jain:** Great and just last two questions, this 94,000 orders, which we have from the US that is executable over a period of next six months?

- Vipul Mathur:** It is.
- Sunil Jain:** Okay and we have a pipeline over there thereafter?
- Vipul Mathur:** We have participated in quite a few projects. We are actively discussing one or two projects and I am very optimistic that one or two of them would definitely get materialized in our favor.
- Sunil Jain:** Okay. Great Sir. All the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.
- Dhananjay Mishra:** Hello Sir. Congrats on decent numbers in this environment. Sir, just wanted to know whether we have any plans for this year also to distribute good dividend or buybacks because we are again, we have got dividend from your subsidiary and because we are paying 17.5% tax over there because our balance sheet is very comfortable position we have, we are generating free cash flow and we have Rs. 200 Crores cash in the balance sheet. Any sort of plan that is there in the mind?
- Vipul Mathur:** We will be going by whatever the Board would advise. Today, this discussion never came up in our today's board meeting. But as and when this issue will come up and whatever the Board directions would be there, we will comply with that.
- Dhananjay Mishra:** Okay and secondly, sir, in US operation where you said that 43 KMT is the sales volume. So this is largely this raw material, which got canceled and booked, right? Not the actual sale.
- Vipul Mathur:** No, this was the actual sales of the pipe. This was actual sales of the pipe. What Mr. Percy was mentioning earlier, to an earlier question, as you recollect, we have a confirmed order in hand in the US, which because of the COVID situation got canceled and by that time, a large quantity of steel had already come and that account was completely settled to entire our satisfaction in terms of settling the steel accounts and everything. He was mentioning about that. This 43,000 tonnes is purely the sales of the pipe.
- Dhananjay Mishra:** So what is the sales amount for this 43,000 tonne, sir?
- Vipul Mathur:** The sales value to this?
- Dhananjay Mishra:** Yes.

- Vipul Mathur:** So give me a second. Can I come back to you on that, please?
- Dhananjay Mishra:** Okay Sir. That is all from my side.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint, we take the last question from the line of Sanjay Parekh from Nippon India Asset Management.
- Sanjay H. Parekh:** My question has been answered. Congratulations for all around performance.
- Vipul Mathur:** Thank you Sanjay.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Sir, just a clarification of what is the exact number of dividend received from US and the stand-alone, other income was Rs. 635 Crores. So out of that, how much was dividend?
- Percy Birdy:** Yes. So Bhavin, the dividend from US was \$81 million.
- Bhavin Chheda:** \$81 million and you say...
- Vipul Mathur:** Sorry. Bhavin, have we lost you?
- Moderator:** Sir, it seems like we lost the connection from Mr. Bhavin Chheda. I now hand the conference over to the management for closing comments.
- Vipul Mathur:** Gentlemen, thank you very much for being on this particular call. We greatly appreciate you took time out to hear out to us. As I earlier said, this is a year full of challenges and uncertainty, is definitely not a comparable year - from the previous or the previous years from that sort. But I can only assure all my friends in the investor community that with our order book at 700,000 tonnes and the prospects what we are following up and with our debt reduction and with our focus on free cash flow, I think, so we are very confident that we will overcome these challenges. These tough times are the tough time. These are tough times, but tough companies would stay. We are completely resilient. We are very confident that we will come out very, very strong when this whole epidemic, pandemic ends. Thank you very much and we will keep on briefing you and updating you whatever the new developments we would have over the next quarter. Thank you very much for joining this call. Greatly appreciate it.

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