Welspun Corp Limited
Q2 FY 23 Earnings Conference Call

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Management:	Mr. Vipul Mathur - Managing Director and CEO, Welspun Corp Limited Mr. Percy Birdy - CFO, Welspun Corp Limited Mr. Gaurav Ajjan - AVP and Head – Investor Relations and Strategy, Welspun Corp Limited Mr. Abhinandan Singh - Head, Group Investor Relations, Welspun Group
Host:	Mr. Abhineet Anand - Emkay Global Financial Services

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Moderator: Good day, ladies and gentlemen, and welcome to the Q2 FY '23 Results Conference Call of Welspun Corp hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Abhineet Anand from Emkay Global Financial Services. Thank you, and over to you, sir.

Abhineet Anand: Thanks, Michelle. I'd first like to thank the management of Welspun Corp for giving Emkay Global to host this call. I would like to hand this call to Mr. Abhinandan Singh, Head, Group Investor Relations. Over to you, sir.

Abhinandan Singh: Thanks, Abhineet, and good afternoon, everyone. On behalf of Welspun Corp Limited, I welcome all of you to the company's Q2 FY '23 Results Earnings Conference Call. We have with us today; Mr. Vipul Mathur, Managing Director and CEO; Mr. Percy Birdy, Chief Financial Officer of Welspun Corp Limited and also along with us, we have Gaurav Ajjan, who leads Investor Relations for Welspun Corp. We will start, as usual, with opening remarks by Mr. Vipul Mathur, and after that, the floor will be open for your questions. Should you have any queries that remain unanswered after today's earnings call, please feel free to reach out either to Gaurav or to me. Our coordinates are available on our website.

With that, let me hand over the floor over to Mr. Vipul Mathur, MD and CEO, Welspun Corp. Over to you.

Vipul Mathur: Thank you, Abhinandan, and very good afternoon to all of you. I really appreciate you -- all of you taking time out for today's call, our earnings call for Q2 FY '23. Let me start with the key highlights and the performance during the quarter ended 30th September 2022.

We have seen a strong business outlook with clear earnings visibility for the next several quarters. Our order book for the line pipe is approximately 1 million ton and an active bid book of close to 1.5 million ton at this point in time. We are also pleased to highlight that we have won a significant order under the New Energy Space, which is a carbon capture pipeline project in the US. We have started our regular dispatches for the Ductile Iron plant. We have also acquired the specific asset of ABG Shipyard. We also have a little downside in terms of our earnings, mostly on account of the inventory cost, the inventory cost what we have been carrying in our Steel Vertical, and which I'm going to talk about it in my subsequent part of the conversation.

So for the quarter, the production and the sales volume in line pipes for our total operations, including Saudi, stood at 215,000 ton and 218,000 ton, respectively, 215,000 tons was of production and sales was 218,000 ton, out of which India sales volume -- out of this 218,000 tonnes, India did 140,000 ton, US did close to 9,000 ton and Saudi did something close to around 70,000 ton.

Let me now give you a brief outlook and an update on each of the every verticals and the geographies in which we are present. So for your better understanding of the business. So first, let me talk about the pipe vertical, which is about line pipes. The line pipe has seen a robust performance, with a global sales volume of 218,000 ton and an EBITDA of INR 256 crores for the quarter. This EBITDA includes INR 104 crores from the sale of land and civil structures in the Dahej. Further, the US production has also significantly ramped up, and the dispatches against the project will start end of Q3 or early Q4, and thus, we will see a significant contribution coming in our FY profitability. The confirmed order book of line pipe business is close to 1 million ton, and the company is in favorable position for a few additional large orders. This gives us a clear business and earnings visibility for the next five quarters to six quarters till the end of FY '24.

If you see, OPEC-plus has also taken a decision to cut a massive 2 million barrels per day of oil production, which is equal to 2% of the global supply in their meeting held in early October to try and create a tighter demand-supply balance in the global market. It is estimated that the oil demand and price, both are likely to stay firm for the foreseeable future.

On the Steel side, we have seen significant downturn, correction in the prices owing to the recessionary pressure, lower demand conditions in Europe and worries about the Chinese housing market, the China housing market. In India, the steel prices have also corrected significantly, more than 20%, after Ministry of Steel has imposed an export duty of 15% in May 2022.

As regards how it reflects, pan out for India, the current environment of reasonably high energy prices compared with a decline in global price of steel, we feel will lead to a robust capex cycle in the oil and gas sector globally, which has been dormant for the past few years. We are seeing resurgence of various stalled projects and are in active discussion for several export orders across the world with focus on Europe, Australia, South America, Southeast Asia and Middle East.

The Indian government also has envisioned a very clear roadmap for the energy with a major focus on gas as a cleaner fuel. The gas demand prospects in India remains strong as the government has set a target to raise the share of natural gas in the energy mix from current 6.7% to 15% by 2030. Gas demand will be driven by fertilizers, CGD players, petrochemicals and refineries. This will result in continuously expanding the gas and the CGD pipeline network on PAN India basis and will be a key driver for the growth for the line pipe industry.

Similarly, the correction in the domestic steel pricing has brought back the demand in the water sector, as there is an accelerated need for the development of irrigation facilities. We are also seeing increased engagement across the states of Gujarat, Maharashtra, Tamil Nadu, Karnataka, Madhya Pradesh, Punjab and Rajasthan. There is a strong intent to meet the ambitious target as envisaged in the various government schemes. The focus both by the central and state government on developing the water infrastructure is expected to drive the demand for large diameter pipes for water applications.

As regards to US, after a year of under investment in oil and gas exploration and infrastructure, the US is now focused on boosting its oil and gas supply to cater to their domestic energy needs as well as for exports to cater energy needs in Europe. The number of active oil and natural gas drilling rigs in the United States have risen by 229 or almost 42% in the past year to the highest point since March 2020.

The increased drilling activity is necessitating the need for creating additional gas export clients. Volumes are set to reach more than 21 Bcf per day by the end of November, according to an EIA report, and it will be a record high and up by 9% since last year. The Permian basin, where the maximum drilling activity seems to be happening, will need additional two or three large gas pipeline projects for the evacuation of gas to the Gulf Coast in the coming three years to five years.

There is also an extremely strong focus on new energy, including carbon capture and ammonia pipelines. We recently announced winning a significant order for a carbon capture pipeline project in the US. This order is for supply of almost 1,200 kilometers of HFIW pipes, and will be used for transporting captured carbon dioxide. The pipes for this order will be produced at our Little Rock plant in the US, and the same will be executed during FY '23, '24.

Given the commitment for reducing greenhouse gas emissions and the incentives attached to this sector, we would see a very robust demand for such pipeline for the next couple of years. With Welspun being one of the largest players in the Northern American continent, we are confident of maximizing our capacity utilization and earnings and profitability for these assets in subsequent year also. It is also very pertinent to mention that at this point in time, we have a large order book which is taking us at least till the end of the third quarter of the next financial year, both for our spiral pipe as well as for our HFIW pipe.

Coming to Saudi Arabia. Saudi Aramco reported its highest quarterly profit for the period of June 30th, 2022 since the company went public in 2019, boosted by higher oil prices and refining margins. The company expects both the oil and gas demand to continue to grow for the rest of the decade. Saudi Aramco stands ready to raise oil output with maximum sustained capacity of 12 million barrels per day, and have announced a capex enhancement from SAR 31.9 billion to almost close to SAR 50 billion for this year.

On the water side of it, SWCC, which is the largest desalination corporate in the world and is providing water to over 34 million people. For the distribution of desalinated water, seven additional large water infrastructure projects are planned, which would result in a total demand exceeding 3 million tons of pipe over the next three years' time. So with the high oil prices, increase global demand, the current geopolitical situation in the world, we see a robust business opportunity for the next five years or seven years in oil and gas as well as in water sector in KSA. This, again, with we being Welspun, or our company's East Pipe being one of the largest players in that domain, we are confident of maximizing our capacity utilization, earnings and profitability for this in H2.

Now, let me draw your attention to our Steel Vertical. In our Steel Vertical, we have two legs: one part is with respect to Pig Iron and DI pipes, and other leg is all about the long products, which is TMT. Let me first address the Pig Iron and the DI pipes. As you know, that our state-of-the-art blast furnace was commissioned in July 2022, and is running efficiently with a consistent output of more than 1,000 metric tons per day of hot metal, where we also have a potential to ramp it up to 1,500 metric tons per day. However, this is currently being regulated as the production of DI pipes is being ramped up on a gradual basis. We are using this hot metal is primarily will be used for making the DI pipe, so we are reducing a little bit.

Our DI plant, which have a capacity of 400,000 tons and equipped with the latest cutting edge technology, has received its BIS certification and its approvals in the key states of Gujarat, Uttar Pradesh, Madhya Pradesh, Rajasthan, Maharashtra, Chhattisgarh and Punjab, achieving the first major milestone. The quality of the product is widely accepted by the customers, and as on date, we have more than 70,000 tons of order for the DI pipes valued at more than INR 500 crores.

The operational performance of both our steel and DI facilities are absolutely in line as we have planned and envisaged and meeting our expectations. Two, the profitability for this quarter has been impacted on account of high inventory costs, especially the coke, as being faced by all the major steelmakers at large. This was also impacted by the lower sales realization of the steel product, which is Pig Iron, on account of imposition of export duty at a rate of 15%, thereby softening the domestic steel price and making it difficult for the company to sell overseas.

The overall impact, the overall financial impact of these two itself is close to INR 200 crores for this particular quarter. However, this being a one-off loss, which has been provisioned, which has been factored in this particular quarter. However, moving forward, the product quality, our expansion in customer base, the production ramp-up, which is happening at a very smooth pace, and the commodity buyers pricing getting now more predictable, the financial performance of the business will significantly improve in the subsequent quarters.

From a demand perspective, we see a continued focus on -- we can see a continued focus on the demand for creating drinking water supply infrastructure in India under the Jal Jeevan Mission, where against the allocated budget of INR 3,60,000 crores. Till date, we still have an unspent amount of INR 3,01,000 crores. This gives a very clear visibility of demand growth over the next few years.

Let me talk about our Steel Vertical. In our Steel Vertical, the second part, which is our long product, TMT. We have already, as I said, we will be commissioning our TMT mill in the second quarter of this year. We have done that. This is a really state-of-art TMT plant having a capacity of 350,000 ton. It has also received its BIS certification, and it is all set to commence the dispatches. The key growth drivers continue to be spend on infrastructure, housing and construction. Our key market area would be Gujarat, which has a consistent annual demand of more than 3 million tons per annum, of which close to 2 million tons is only produced in the state of Gujarat and the balance comes from outside. With our quality, customer centric approach, and the brand, we are confident to establish our product as a leading B2C brand in the Western market.

Let me also give you an update about WSSL, I'm sure you must have seen the results announced by WSSL as being a separately-listed company. The order book for the stainless steel bar stands at 1,387 tons, and for the tubes and pipe at 1,853 metric tons valued at INR 170 crores. The pipe volumes for the Q2 FY '23, up by 96% on Y-on-Y basis. The total income from operations for Q2 FY '23 was at INR 93.7 crores, up 351% on Y-on-Y basis, and EBITDA was at INR 0.3 crores versus a loss of INR 4.3 crores in Q2 FY 2022.

The key demand is from the sectors like oil refineries, petrochemicals, pharmaceuticals, defense and power. Our healthy order book, approvals and acquisitions across the sectors, incremental performance demonstrated on a quarter-on-quarter basis, quality acceptance both in the domestic and the export market, and the government thrust on Make in India initiative, all will lead to improved earnings and better margins in quarters to follow. Gentlemen, what I want to highlight here is that it has been a journey, a company which has been in red is now, with our sustained efforts and diligent working, is now into black. And from here on, it is only going to see one trend, which is the upward trend.

I also do want to take this opportunity to give you updates on some of the key events which have happened in this particular quarter. One of them happens, one of them is the asset acquisition of ABG Shipyards. Welspun was a successful bidder in terms of the process, memorandum for the private sale of assets of ABG shipyard. WCL and its wholly-owned subsidiary, Nauyaan Shipyard Pvt. Ltd., has paid on September 21, 2022, INR 659 crores towards the entire purchase consideration. The partially-built ship equipment and metal scrap acquired under the WCL is estimated to be over 150,000 metric tons. It is estimated that the metal and metal scrap not required for the business purpose will be disposed over 12 to 15 months' time.

However, post making the payment to ABG's liquidator and upon the shift of the sales certificate corresponding to that, the liquidator has received a provisional attachment order from ED Ahmedabad The company, the liquidator and the lenders have all filed separate petitions with the Honorable Gujarat High Court against ED provisional attachment order. We are making best efforts for an early and a favorable disposition of the sale.

Sintex. As said, Welspun growth strategy entails creating a diversified product portfolio, repurposing its business to add new target segments, expanding its offering to address both B2B and the B2C market and making well-considered strategic acquisitions. In this regard, we have acquired Sintex and BAPL's non-convertible debentures with an outstanding amount of INR 1,223 crores for a purchase price of INR 418 crores as on date by our wholly-owned subsidiary, Mahatva Plastic and Building Materials Private Limited.

Our new SPV, which is Propel Plastic Products Private India Limited, is being acquired and shall submit an EOI as required by the resolution professional by as per the time line announced, and the process for the acquisition of the same is likely to be completed within Q4 of FY 2023.

Sale of land and civil structures at Dahej. WCL has entered into a Memorandum for Agreement on September 30th, 2022, for sale of plant civil structures, excluding the plant and machinery situated at its Dahej unit, situated at the Dahej unit of the company in the state of Gujarat. The sale of unit comprises of insignificant portion of the operations of the company, and the management feels that the transaction would not have any material or adverse impact effect on the operations of the company. The consideration received for the sale of the land is amounting to INR 130 crores.

As a responsible corporate citizen, our sharp focus has been on the ESG initiatives. We emphasize ESG data governance and integrating ESG measurements into internal control framework and internal audit programs. As a part of this, we have implemented an ESG Compass and integrated digital platform for measuring, monitoring and reporting on ESG KPIs. It covers over 90 ESG indicators across all sites and locations in India and present our data in a dashboard format, which helps us to accumulate manual data collection and streamline reporting processes.

I also want to take this opportunity to give you a broad overview of the -- how does the management think about the company's outlook over a medium-term basis for the next three years to five years' time. We feel that with our diversified portfolio, which we have -- in which WML, WDI, ATMT, WSSL and Sintex, all has been acquired, and they are in the process of being -- or are in the process of being acquired, and have been in the process of being incubated. We are very confident that we should be able to touch a topline of INR 15,000 crores-plus, we should be in a position to give a sustainable EBITDA of INR 1,600 crores to INR 1,800 crores. Our ROCE could be in excess of 18%-plus. We will be a cash positive driven by strong free cash flow. We target to increase our DJSI score, which is our ESG rating from 41 to 60, and we want to be a dominant player both in the B2B and B2C segment in line of our group's vision, Har Ghar Welspun.

With this, I wish to conclude my opening remarks. I will be more than happy to take any questions. I open the floor for the questions, please. Thank you.

Moderator: Thank you, very much. We will now begin the question-and-answer-session. Anyone, who wishes to ask a question may press star and one on their touchtone phone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. You may press star and one to ask a question. The first question is from the line of Yash from Sushil Finance. Please go ahead.

Yash: Sir, my question to you was regarding the Propel Plastic Products and the subsidiaries which we are acquiring, so what kind of business the subsidiary is supposed to be doing in the near future? Any plans on that?

Vipul Mathur: So this subsidiary is being acquired purely from a purpose of participating in the auction, which has been the time lines for which has been now been announced by the resolution professional. So this will be the bidding entity going forward for us.

Yash: And sir, could you please elaborate more on the plastic and plastic products, which you will be looking at in the coming months?

Vipul Mathur: So all what we are looking at this point in time is to be an active participant for acquisition of existing setup called Sintex. They are currently, they are the largest tank manufacturer for plastic tanks manufacturer in the country. And it is -- this whole exercise is being done, the NCDs which have been acquired. And this participation in this auction, which is being announced by the RP is all being done in keeping in view our intent to acquire this particular company.

Moderator: Thank you. We have the next question from the line of Nirav Shah from GeeCee Investments. Please go ahead.

Nirav Shah: Few questions, sir. Firstly, if I exclude the operating profit of INR 104 crores on sale of land and infra at Dahej, we get a line pipe EBITDA from INR 152 crores. And our reported operating profit loss was INR 130 crores, of which we mentioned that INR 200 crores is an inventory write-down. So if you can we give a breakup of the losses in the Steel business? Is it entirely attributable to the Steel business, because India plus US pipe is in the -- is part of INR 152 crores, and we have given the numbers for WSSL? So you can just help us reconcile that?

Vipul Mathur: So if you see on the line pipe vertical, we have EBITDA of INR 256 crores in which INR 104 crores is embedded of a land sale at this point in time. So pipe business EBITDA, in any case, is close to INR 150 crores, operational EBITDA is close to INR 150 crores or INR 152-odd crores, which is what we had expected and anticipated in the quarter 2. And as we move on to the subsequent quarters, Q3 and Q4, and as the product mix will change, and as some export orders which are lined up for execution, they will getting start executing from here, you will see a significant movement, upward movement in the pipe line EBITDA side of it.

Now coming back to the US side of it. In the US also, as you know, in the first quarter, we had low production, all the orders, what we have, we have almost 400,000 tons of an order book in US at this point in time, and the production for that has already started in Q2. So as we speak, we are producing. We are parking that as an inventory, and that is the reason you are not seeing that they are hitting our financials in the Q2. And they may also not hit in the financials of Q3 because the deliveries of those pipes have to only start in Q4.

While we are working with the customers, we are -- in terms of to see that can they allow us to start early deliveries because in many of what we are producing, that's a work in progress. If they allow us to do that, we would see some backlog of earnings into our Q3. Otherwise, from Q4 onwards, all that what would be on the stock or what would be on the ground, we will see the financials coming into that. And they are very profitable orders. And it is only a matter of a quarter where you will start seeing the profitability coming from the US as well. So there's nothing called uncertainty around that. It is only a matter, if we get a recognition, if they allow us to start dispatching, it will get recognized in Q3. Otherwise, from Q4 onwards in any case, that recognition will start coming up. So that takes care of the pipe side of our business. And I would just like to reiterate, sorry?

Nirav Shah: It's part of that INR 152 crores. I mean, US is part of that INR 152 crores?

Vipul Mathur: Yes, US is part of that. All I want to reiterate that our mainstay business, which is the line pipe business, is absolutely safe, absolutely secured for complete order book, profitable order book.

And as we will move in quarter-on-quarter basis for the next five quarter or six quarters, you will only see one trend which is upward trend.

Now, let's come on to the Steel side of it. On the Steel side of it, we just commissioned our blast furnace in this particular quarter sometimes in July, And so in this -- what we have been impacted today is because of the coke pricing. We -- when you are operating a blast furnace, you have to import coke, and there is a lead cycle of almost 60 to 90 days before you have to order the coke. In that period, there has been a significant correction of the coke prices. The coke prices have dropped down from INR 54,000 to almost INR 41,000, so there has been a correction of close to INR 13,000 to INR 14,000 per ton in a very short span of time. And that has adversely impacted because of the inventory, what we have been carrying which we have no other choice but to carry. So this is one of the major reasons for our dip in this particular quarter.

Also, the second aspect, which has contributed to the loss in the Steel sector is that, as you know, the government of India has imposed the 15% duty on the exports of the steel product. We had anticipated, which means that we had anticipated that we wanted to export Pig Iron, and which is not possible at this point in time. So we have -- there is a slump which has happened in the market, domestic market. The prices, steel prices have corrected by more than 20%, so we have the impact of the inventory on the Pig Iron as well. So there are two: this loss is embedded into two things. One is the coke inventory and other is the Pig inventory.

Nirav Shah: But if -- I think that INR 200 crores of inventory loss that we have mentioned, so that still leaves a gap of around INR 75 crores to INR 80 crores?

Vipul Mathur: Why would you say that, Nirav?

Nirav Shah: So reported numbers, our operating loss is INR 130 crores. And if I just club the line pipe EBITDA of INR 152 crores with an inventory loss of INR 200 crores, that gives a negative INR 50 crores. So the gap from negative INR 50 crores to negative INR 130 crores, I just wanted a reconciliation, if possible, of that number?

Vipul Mathur: I mean, let me -- I would mark this question and we can get back to you with respect to this thing. But somehow it should not be like that. But nevertheless, let's pass this part and we'll get back to you.

Nirav Shah: Sir, second question is, I mean, we are seeing the change in the debt numbers from INR 116 crores to INR 1,600 crores of net debt now. And as you see the balance sheet that, for the reasons you mentioned, that inventory from March levels has increased from INR 1,000 crores to INR 3,500 crores. But just from Q1 to Q2, if we can just reconcile the cash outgo of around, say, INR 1,700 crores, that would be really helpful.

Vipul Mathur: So it has two or three components to that. Number one, the one component of cash outflow is for buying the NCDs of Sintex. Right. The next outflow was with respect to the ABG. And of course, third, the most important part was the project, the WML, WDI and the TMT projects, all the three projects went into the project phase, and that was the revised earning. So these were the two reasons, the ABG acquisition and this was...

Nirav Shah: So entire ABG outgo has been part of the balance sheet number? I mean, this INR 1,600 crores of net debt number?

Vipul Mathur: Yes, please.

Nirav Shah: And sir, just a clarification. I mean, the 70,000 ton of DI pipe order is over and above the 956,000 ton of line pipe orders?

Vipul Mathur: Yes.

Moderator: Thank you. We have the next question from the line of Chintan Mehta from Prudent Broking. Please go ahead.

Chintan Mehta: Sir, if you can throw some light on Sintex, BAPL acquisition, what is the current status? And in what scenario we have been open to acquire the company?

Vipul Mathur: See, it's a work in progress, Chintan. While we have taken a significant position of acquiring the debt NCDS to a particular level, but there is a COC, there is a process which is now being initiated, and there is a timeline which has been announced to that. We have to participate in that process. Apart from us, there are I think there are three or four more bidders around that. But we are reasonably -- we stay completely glued and plugged to this particular asset. We are confident of going forward with that, but it will take its time. We are hopeful that it might -- the whole process can get completed by the fourth quarter of this year.

Chintan Mehta: So by the fourth quarter end of this year, we will integrate the asset with us, correct? If everything goes in favor?

Vipul Mathur: That is what we're expecting. That is what see, again, it's more of a regulatory process, which is not completely in our control, but the way I think that the things are moving at an accelerated pace, as the way the time lines have been identified, we are very-very hopeful that this asset can get integrated in the quarter 4 of this year.

Chintan Mehta: And sir, what is your strategy for the ABG assets and what we have planned for that?

Vipul Mathur: See, right now, as you know, we have acquired this ABG asset, but there is a provisional ED order for attachment at this point in time. Ourselves, the liquidators and the lenders have appealed against that particular order. At this point in time, the matter is little subjudiced and we all are working in that direction, how it can be resolved at the earliest. So at this point in time, our complete analogy and focus is in terms of resolving, getting this matter resolved. And then, we will start working around that, what would be the next steps around that. But having said that, as you know, it's a very strategic asset, as Welspun, we have some strategic thinking and captured with us that what could be potentially done with this asset over a period of time. Are we going to do anything immediately around it? The answer is no. But we would like to evolve this particular business, which will absolutely be a great value creator in times to come.

Moderator: Thank you. We have the next question from the line of Abhishek Jain from Arihant Capital. Please go ahead.

Abhishek Jain: Sir, are we seeing any more inventory losses in this particular quarter?

Vipul Mathur: Abhishek, looks unlikely. But these are -- see, we are dealing in commodities. Today, the commodities are extremely volatile. It is completely unpredictable. Tomorrow, the steel market gets further corrected by 20%, 30%, who knows that, so then there would be a potential impact. But the sense on the ground at this point in time is that I don't think so that there is any major correction left at this point in time. But everyone has been proven wrong on that, so I would say that I don't want to speculate. But we are -- I mean, if there is no major corrections in the commodity which will happen, I don't think that there would be anything, any further surprises like that what has happened in Q2, but if that happens, the market, if the commodity gets corrected significantly, then there could be potential impact. But that is true for all. It is not that we will be the only one who will get impacted, everyone is getting impacted because of that. And we are hoping that there is no major correction of the quarter.

Abhishek Jain: Sir, I have two more questions. One is on the ABG side of acquisition right now. Sir, what kind of growth do you see going forward of the ABG Shipyard trend? How do you see this particular business in the next two years, three years?

Vipul Mathur: See, today, as I said, ABG is a very strategic acquisition. It fits into our long-term scheme of things. There is nothing called short term or mid-term. We are contemplating the ABG. It's a very-very strategic asset. If you see, it is an asset which has been working in the ship building domain, and it is one of the assets which have been extremely, which has been working in the defense sector as well, the defense shipbuilding sector as well.

So we have a couple of options up on the table. We have a long-term strategic plan for that. Right now, what we have only invested is in the asset because this asset is a nice strategic asset, and that is how we would like to keep it at this point in time. When, our first and foremost and our primary target at this point in this time is that there is a matter which is subjudiced at the Honorable High Court in Gujarat.

We are all pursuing that it gets properly addressed, and once that happens, then we would like to start putting a couple of business plans and a couple of options upon the table and see what will create the best value for all us and the stakeholders. And that is -- then we will start -- then we will keep you posted about that.

Abhishek Jain: And sir, like, we have done -- we had, like, you have already done a specialty steel acquisition years back. How exactly do you see going forward? The acquisitions have looked like? What are our learnings for this? And can you throw some more light on the specialty steel business and the TMT part also? A little bit of if you can throw some light?

Vipul Mathur: Sure. So the WSSL acquisition, which we did the last year, I think that acquisition is moving well. You see that the volumes, the volumes have been increasing both for the pipes as well as for the stainless steel bars. Our customer base is expanding. The company has moved out from red, and it is now in the black. The quality is widely accepted, almost 40% to 50% of the quantity sold is now getting exported. The domestic demand is looking very robust and very-very buoyant.

So it's a startup. One has to be patient in terms of incubating these start-ups. And we have been working on this for the last three or four quarters, and you see it has already now converted into black. And from here on, its growth journey will start. As regards to the market, the market, the demand, there is a serious demand into the market. And we being one of the integrated players, which means I produce the steel and I also produce the pipe, and is going to help us a lot.

One thing which has impacted, temporarily impacted, this business also was this export duty. We were -- and that has really impacted our bar business. We had started our bar. We have supplied our SS bar for the export market. And the quality of that was widely accepted. As we were in the process of increasing our market share in the bar market, this export duty component has come up. We have represented the government for that because this seems to be a little abnormal. I think so in the government quarter, there's an acknowledgment around that.

They seem to be thinking in terms of removing this exports limitation or export duties over the stainless steel at least, to start with. And we are very confident that it should get resolved very-very quickly. And once that happens, then there will be a huge export market which will open for our bar business. But for our pipe business, I think with our new -- with our approvals, with our acquisition and with our -- the supplies, which are already being supreme, which is -- the pipes have already been supplied to across all the major sectors, I think that there's a great acceptability. And I'm sure this pipe business will also grow from here itself. And the order book of almost 1,800 tons plus is a very clear reflection of that.

Coming to the second part of it, about the TMT business. As you know, we have been a producer `of a billet, an intermediate product. All what we have done, we have moved up into the value chain. And now, we will be started producing. We have already started producing the TMT bars. If you understand, Gujarat is one of the largest consumption center for the TMT bar. At this point in time, on a year-on-year basis consistently, they have been consuming more than 3 million tons of TMT on year-on-year basis. 2 million tons of TMT is coming from Gujarat and 1 million ton of TMT is coming from other states.

So we are setting up a facility for almost 350,000 ton in Dahej, and I feel that with the brand what we have, with the quality consciousness which we have in our DNA at Welspun and with the demand, what is there in the state of Gujarat, I think so we should be able to capture our market share sooner rather than later. From a process perspective, the plant stand installed, commissioned, the trials are going success at this point in time when I'll be speaking, the trials are absolutely successful. Of course, there are some tipping issues here and there, which always happen with any project. But our product has already started hitting to the market. And from here on, on a month-on-month basis, we will gradually ramp up from our TMT business.

So we are moving from an intermediary product from our billet to a value-added product to TMT, which had a huge consumption base within the state of Gujarat itself.

Moderator: Thank you. We have the next question from the line of Vikas Singh from PhillipCapital. Please go ahead.

Vikas Singh: Sir, I just want to understand our steel business it's a billet side, basically. So since as long as the duty is there is highly -- is not lucrative for us to produce. As we can see that though the volumes of the standalone business has jumped up by 40,000 tons, 50,000 tons, but EBITDA remained the same. So what kind of losses they are making at this point of time on the EBITDA level?

Vipul Mathur: Vikas, you are talking about billets part?

Vikas Singh: Billets, basically. So just standalone business, if I look at, my volumes for the pipe jumped up but my EBITDA remains the same. So obviously, there has to be incremental losses on the billet side, which could have, they didn't allow the EBITDA expansion. So I wanted to understand what are the losses they are making right now? And how do you see these two tapering down going forward?

Vipul Mathur: See, on the billet side of things, the market has been fairly depressed, and it got into a further depression mode when the export duties started coming in. When the 15% export duty came in, so we have been very conscious. And also, if you look at the commodity pricing, the scrap pricing and every, it has gone up the roof. So what we have here, we had an opportunity to either pay, either continue to produce and take the inventory losses, or to take a pause and only completely focus on setting up our long product TMT business.

What we did, we took a conscious call of calibrating our production and focused more on setting up our TMT mill. I think this is all -- now, our focus will completely move from billet to the TMT side of it. I think so -- as you move up the value chain, you are absolutely insulating yourself to a large extent about the uncertainty which prevails around the billets. So Vikas, to answer your question, in the billet sales, there was always a little bit of an uncertainty. There was a volatility in the market price, and that being a semi product into the market where you have no control end-to-end. With the TMT now coming in, you are in a much better control and you're up in the value chain, so insulating yourself your profitability and the margins.

Vikas Singh: Sir, just one thing also I want to understand. Since the Steel segment, they have just now started to ramp up. Apart from the one-off losses, what are the startup costs which -- can you quantify which has impacted our results? And how, and what level of production levels we are seeing the startup cost to get or the fixed cost get to accumulated and then improving our overall performance going forward?

Vipul Mathur: So we have to see it in two contexts. Number one, as I said, the blast furnace, I think that the blast furnace has started pretty off well. It is absolutely consistent. It is producing more than 1,000 -- almost close to 1,000 tons per day, and that is by design. We are -- right now, we have put it -- resected it to 1,000 tons per day. We have the fullest capability and at this point in time to ramp up to 1,300 tons to 1,500 tons per day. But we are looking at the inventories, raw materials volatility, and the Pig Iron not being a commodity which can be sold at this point of time that very easily. And as our DI business is ramping up, so we have restricted our blast furnace operations at close to 1,000 tons per day.

Now the point in question is the DIP plant, I think so. On our DIP plant, the operations have started very nicely. The equipments have started settling down. The hot zone, the finishing lines and all those things are all absolutely completely sync. We have seen the quality has got completely established, the BIS approval is now in place. Our approvals under the various markets, key markets in which we want to penetrate. This used to be a big challenge earlier. If you see, for years, people will not get an approval for their DI pipes. And today, I'm happy to announce that all the key markets in which Welspun wants to operate, they are all approved now. And it's a very clear reflection that we have an order backlog of 70,000 tons. If we wish, we can go for more. And I'm sure that in day weeks to come, this will only get better and better.

And so it's now, it's all about now stabilizing, ramping up the production at the DI plant. And I think there is a very clear cut roadmap which has been laid out. I think so we are moving as per the plan. What we will see in Q3 is a much incremental ramp-up of production and followed by Q4, and that is how it will go over for the next four quarters to six quarters. That is how the ramp-up will happen. And we expect that we should reach to our target capacity in less than six quarters from now.

Vikas Singh: So but then even then, let's say, next year, can we assume that we would be still be selling 2 lakh tons, 2.5 lakh tons kind of Pig Iron and 1 lakh ton, 1.5 lakh tons of DI, and that would take time for DI to catch up to its full potential?

Vipul Mathur: Vikas, see, I would not like that scenario to happen because at the end of the day, we have setup this plant for maximizing our DIP production. The technology what we have used, the manned machine interface, what is not happening. I think so it would be -- it will settle down very quickly. But yes, you are right. Our capacity is 400,000 tons. Are we going to reach to our capacity of 400,000 tonnes for next year? The answer is no. So whatever best we could do, we are very hopeful that there is a demand side on the market. There is no growth of demand, so the ball is in our court in terms of now ramping up to maximize the opportunity. And with the team, what we have in place, with the technology what we have in place, with the tailwind that we have in the market, I think our endeavor would be to reach very close to that. But on to the realistic side, I think, so I would like to say that we should be close to 200,000 tons, 250,000 tons of DIP that we should be targeting and aiming for the next year.

Vikas Singh: Just one last question, if I may. Sir, in terms of USA, this 460,000 tons of order book which we have confirmed, so is that uniformly spread across the next six quarters, or is heavily skewed towards some particular quarters? If you could give us some insights into it?

Vipul Mathur: This order is, which is, let's say, the large diameter order, which is close to 300,000-odd tons plus, we have -- as we speak, we should be starting the production for the same in the next three days' time. In 72 hours time from now, the production for that will start, and -- so it will be equally distributed over all the quarter. Our endeavor is to complete it by the end of the third quarter of the next year, and so it's going to be a sort of an even distribution.

Even the final order, which we would like to start sometime in the very first quarter of next year because we have booked till the end of this year. And this -- when we start the ERW order, sorry, in the very first quarter of the next year, I think so it will continue to run for the next four quarters from there on. So they are evenly distributed now.

Vikas Singh: So that means we still would be left with some large diameter capacities in US and that is some more orders can be taken? 30, 40 kt per quarter basis can be further taken if there is a demand?

Vipul Mathur: The demand. If you'll see from -- what you're saying is right, Vikas. But if you see the market, the market is absolutely buoyant. At this point in time, while we have this sort of an order book, we are already in discussions for order execution during, starting calendar year 2024, so this is absolutely on our radar. And I think there are multiple opportunities which are being explored at this point in time. Real opportunities which are being explored at this point in time.

Vikas Singh: And this also potential pole position order would be mostly exports, right? It's not Indians?

Vipul Mathur: Yes, there's all most, it is there, export orders.

Vikas Singh: In case if you get it done, there would be a very good margin orders.

Moderator: Thank you. We have the next question from the line of Jayesh Gandhi from Harshad Gandhi Securities.

Jayesh Gandhi: Continuing from an earlier caller's question on inventory, are we carrying two quarters of inventory currently?

Vipul Mathur: No. Currently, Jayesh, we have completely trimmed down. We have moved on to JIT and -- but of course, there would be an inventory which will be close to 30 days.

Jayesh Gandhi: And sir, for example, if there is no major price correction in steel, can we think of going back to our earlier margins of like maybe EBITDA 10%, 11%, 12%?

Vipul Mathur: This is a fair assumption to make. And I mean, if there is no volatility attached with that, this is what is a reasonable level to expect.

Moderator: Thank you. We have the next question from the line of Pallav Agarwal from Antique Stock Broking Limited. Please go ahead.

Pallav Agarwal: Sir, I wanted some more clarity on how we account for the Saudi Arabian operations? Because since it's a JV, I'm assuming in the consolidated statements, the revenue is not being captured. So for modeling purpose, when we use the consolidated revenues and the consolidated volumes, then is it the right way to blend the realization because the Saudi Arabian JV revenues are not being captured in the consol? Is that understanding correct?

Percy Birdy: Yes. So, Pallav, this is Percy here. Your understanding is correct that the Saudi entity EPIC, we do not consolidate. However, we take our share of profits as a single line item. At the bottom of the P&L, you will see that gets added. So we now own, our Mauritius Holding Company owns 35% in the Saudi company.

Pallav Agarwal: And the Percy sir, related question was, I think on an annual basis, you do disclose the breakup of pipes volumes across geographies. But on a quarterly basis, I was not able to find that. So it would actually help if that also could be shared for probably tracking the company in a better manner?

Vipul Mathur: You're talking about the quarterly sales for the future quarters? Is that what you're talking?

Pallav Agarwal: No. I'm talking about, let's say, actual sales volume. The breakup between geographies.

Vipul Mathur: If you see my opening statement, I said in this particular quarter, we did 218,000 tons of pipe. Out of that, 140,000 tons was done in India. 9,000 tonnes done in US and 70,000 tons was done in Saudi.

Pallav Agarwal: Sure, sir. So I mean -- so just to compare historical quarters, if you have those numbers as well, that will really help.

Vipul Mathur: So if you see that in the sequential quarter, the earlier quarter, we did 90,000 tons from India, against which we have done 140,000 tons here in this quarter. 7,000 tons was done in US as against that, 9,000 tons has been done in this quarter. And in Saudi, 58,000 tons was done in the last quarter, and in this quarter, it is 70,000 tons. So that is how between the two quarters, the sales have gone up.

Moderator: Thank you. We have the next question from the line of Viraj Mahadevia, an individual investor. Please go ahead.

Viraj Mahadevia: I have a question regarding your five-year vision plan. The topline of INR 15,000 crores in the EBITDA indicated of INR 1,600 crores to INR 1,800 crores, does that include the Sintex business, or is it just your existing pipes business plus the ABG Shipyard business?

Vipul Mathur: When we are talking, we are talking about Welspun Corp, every legal entity sitting under Welspun Corp is included in to that.

Viraj Mahadevia: Legal entity as of today because technically, Sintex is not sitting today, right?

Vipul Mathur: So yes, that's why I'm saying it's a sort of a mid-term vision and the Sintex will get integrated into this year.

Viraj Mahadevia: So this includes the assumption that Sintex is part of it?

Vipul Mathur: Yes, please.

Moderator: Thank you. We have the next question from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Sir, our other income has shot up significantly in the Q2. So can you just explain what are the components?

Percy Birdy: Yes. One of the items in the other income, as we have disclosed, is the sale of Dahej land and civil structures, which is about INR 104 crores. If you just want to exclude that, so total other income is INR 177 crores and you would to exclude INR 104 crores, you would be left with about INR 73 crores, which is almost identical with our Q1.

Moderator: We have the next question from the line of Faisal Hawa from HG Hawa & Company. Please go ahead.

Faisal Hawa: Sir, can you shed some more light on the whole carbon capture opportunity? Because reducing and world shifting to green energy will be a move forward....

Moderator: Mr. Hawa, I would request you to increase your volume little bit. We are not able to hear you.

Faisal Hawa: Yes. So can you just give throw some more light on the whole carbon capture opportunity? Because reducing carbon dioxide from the atmosphere remains a very big imperative, and it's almost like a major thing for the next three to four decades. So is there any possibility that we could be having like a very large share of our revenues coming from this opportunity going forward?

Vipul Mathur: Well, this is an emerging area, and we are so delighted and pleased to get ahead in this curve much early in the game. And having 1,200 kilometers of a carbon capture pipeline order almost close to 100,000 tons, it is by far the largest carbon capture order at this point in time. So as you very rightly said, this is what the future is going to be. This is where the -- post fossil, this is where the markets are going to move. And we have made an early dent in this particular sector. Of course, the mature economies like US are taking a full position in respect of that, and that is why we are seeing much more accelerated projects coming up of carbon capture in the US and then followed by Europe. But I'm sure this will be a trend which will be followed globally in times to come. So it is going to be a big business in time to come, and being into a full position early into the game and setting the right technical context will be extremely beneficial for the company over the next few years.

Faisal Hawa: So what could be the total addressable opportunity is?

Vipul Mathur: So let's see. In terms of, let's say, metrics tons, if you talk at this point in time, it would be very difficult to say that how big this opportunity would be because what is happening is they are also finding the way outs. Today, what it is doing, it is capturing the carbon, which is emission across the states, and that carbon is now being captured then it has been pressurized, converted into liquid and then sequestered into a place where it can be put to the ground.

Now I think, so there's a lot of work which is being done at this point in time in the United States with respect to that. And various economic zones across the state, across the US will get eventually covered into that. So if you -- I mean, to give you that, do I have a definite number that is it going to be at 20,000 tons or 200,000 tons or 2 million tons of opportunity? I don't know at this point in time, but for sure, I know that this is one of the most upcoming opportunities which is now capturing attention, and it will only growing from bounce-to-bound in times to come.

Faisal Hawa: So there will be some kind of a small change in our manufacturing shop floor that we'll need to do to really get into proper manufacturing of this, or there are something much more complicated?

Vipul Mathur: It's more than the changes at the shop floor, I think so it's more on the steel side of it, and that is where you, as you know, Welspun extensively runs an R&D center globally, and that is where our experience comes into play. So we are jointly working with the steel company in terms of developing some steel and which will be the main play for some sectors or sectors like this. From the manufacturing side, nothing much has to be done, which would be a very-very minimal intervention in terms of building technologies and all that stuff, very-very minimal. But mostly, it will be more in terms of developing the steel side of it.

Faisal Hawa: So if I could ask, sir, what is the involvement of Chairman, Mr. B.K. Goenka in this? Because he's such a well-respected entrepreneur, and he's done such a lot in one lifetime. What is this involvement? And what kind of handholding does it do for the company and on, say, even on a day-to-day or a month-to-month basis? And what is the kind of vision that he is envisaging for the steel?

Vipul Mathur: Mr. Goenka is the Chairman of the Board, and Welspun Corp is a completely Board-driven company. Whatever wisdom, he has, he shares, he guides during the Board. But in respect of day-to-day operations, he is not involved.

Moderator: Thank you. We have a follow-up question from the line of Chintan Mehta from Prudent Broking. Please go ahead.

Chintan Mehta: My question is answered. It was on carbon. Thank you.

Moderator: Thank you. The next question is from the line of Radha from B&K Securities. Please go ahead.

Radha: My question was on the capital side. I think, I believe INR 6 billion was the target capex for this year for FY '23, but we have crossed that. So can you give me a revised guidance for this year and the next two years?

Vipul Mathur: So we are pretty much done with our capex cycle. All what we have on the -- let's say, on the pipe side of it, it is purely a maintenance capex, which we do on a year-on-year basis. So there's nothing which is going to significantly change out there. It's the maintenance capex, which we do there. On the Steel side of it, where we have setup our steel plant, the DI plant and all that stuff, majority of the capex is done. Only the residual part of the capex is now getting into the system. I think so we are at the tail end of that. But we would be very much within our capex proposals, what we have submitted. So it is now coming to a tail end, back end of it.

The third capex, what we have done is in the TMT mill, that is also done. That's also over. And so as I said, that it is now in the commissioning trials in the dispatch, sales stage at this point in time. Beyond that, we are not envisaging any capex at this point in time. Our focus is now completely shifted to incubate all these new startups, which is our steel plant, our DI plant, our TMT plant, of course, WSSL, we have started investing time, you see that how it is converted from red to black. So this is what our roadmap is now going to be. And then we -- so from a -- we are pretty much done answering your question. If I get you correctly, we are pretty much done with our capex cycle at this point in time.

Radha: So the balance, whatever we have in the pipe, steel and TMT, and including the other positions, etcetera, so what could we expect for FY '23 capex numbers and for the next two years, three years?

Vipul Mathur: Our maintenance capex, let's say, our maintenance capex could be anything around INR 40 crores to INR 50 crores piece. That would be our maintenance capex. And the balance capex, which would be left in our existing steel plant and the DI plant and the TMT plant will be less than say INR 100-odd crores. As I said, we are now coming to almost finish, so I don't think that anything significant would have been left. It should be close to that. I can ask this my team to come back and give you an exact number on that, but I would think that it will not be exceeding that.

Radha: So assuming INR 150 crores to INR 200 crores capex in the next half of FY '23 as well as the next two years, assuming no more acquisitions or currently in status quo as of now?

Vipul Mathur: No, what I am saying is that the residual capex would all be done between now and, let's say, by end of December. I think in this quarter, we would be pretty much done with our new capex part of it. All what we would left on year-on-year basis will be our maintenance capex. Our yearly maintenance capex is around INR 50-odd crores when we were doing the pipes, that might slightly incrementally go up to INR 60 crores or INR 70-odd crores when all these assets will be running. So our year-on-year basis or next year onwards year-on-year basis, it will only be a maintenance capex which will be in place.

Radha: So INR 150 crores to INR 200 crores for FY '23 and in second half of FY '23, and just INR 50 crores, INR 60 crores for the next two years?

Vipul Mathur: Yes.

Radha: So also with respect to this, how will our debt look like? Total debt?

Vipul Mathur: So we have moved from a net cash position to a net debt position. There's no doubt about it because of this capex cycle, which we have invested and we have invested for our growth. But when we look at our projections, when we do our sensitivity, I think so it's -- we would again be back to a net cash position. I think so within three years to four years, because we are seeing a strong demand for all the products. What we have got into, there is a huge tailwind around that. It is all -- if we are able to manage it efficiently, which I believe that we should be able to do that, it will generate sufficient free cash flows over a period of time and we should be in a position to be a net cash company in between three year to four years' time.

Radha: And sir, just lastly on the working capital cycle. So that has also increased primarily because of inventory. So how could we expect that to be for the next two, 2.5 years?

Vipul Mathur: Working capital cycle got increased because of the steel vertical and where we have to -- when we were starting up our operations, the inventory has to be assimilated, accumulated. I think so once this process, now we are -- as we have already started, now it is coming to a regular flow. I think so this working capital cycle on the steel side also will come into a very regulated manner. If you see the pipe -- our working capital cycle on the pipe side of it is so very regulated. So is the case, so is the case which will happen on the steel side of it. It's just a matter of a quarter or two, because when you are doing any startup, when you start, you have to -- you do all that adequate precautions and everything, which any sensible corporate will do that. We have also done that. I think so over a period of the next couple of quarters, it will absolutely in sync with the best industry standards.

Moderator: Thank you. Ladies and gentlemen, this would be the last question for today, which is from the line of Balasubramanian from Arihant Capital. Please go ahead.

Abhishek Jain: This is Abhishek Jain from Arihant Capital. I just want to understand like how much will we need to be required if we acquired Sintex BAPL asset going forward? And what are the capex and how we are going to fund it? And next two years capex for the company right now?

Vipul Mathur: So answering your question on the second part of the capex, I just answered for even Radha was asking that question. So capex, we are not going to do any major capex. We are done with our capex cycle. All what we would have is a sort of a maintenance capex across all the businesses what we have now in our court. That's the answer on the capex side of it. As regards Sintex, I think so that Sintex is now a work in progress. If you see that we have taken a position. We have NCDs around INR 418-odd crores, that all is there. Now there is a clear time line where we would have to submit our bids and all that, so it is now going to be a little competitive bidding, which is going to happen. But we are fairly confident that we bring intrinsic value up on the table, and we should be able to close this acquisition. We are very hopeful to close this acquisition within the budget, what we have kept in our mind.

Moderator: Thank you. As this was the last question for today, I would now like to hand the conference over to Mr. Vipul Mathur, Managing Director and Chief Executive Officer, for closing comments.

Vipul Mathur: So I want to once again thank all of you for joining our call for the earnings call for Q2 FY '23. I only want to reiterate that we have to start seeing this business in a couple of quarters. Number one, with the pipe vertical, I'm assuring as you see, that the pipe, the business, there is absolutely robust growth in the pipe business. It is going to be our main state, it's going to be a key focus, continue to be our key focus area. And we have absolutely clear earning predictability for the next five quarters to six quarters in that particular vertical.

On the Steel vertical, which is a new vertical which we have created, I think so it is a temporary setback what we have with respect to the inventory and because of the commodity pricing going haywire. But fundamentally, if you look at it, and the future, if you look at it, I think it looks very bright. Nobody has any doubts whatsoever that the water infrastructure sector under the Jal Jeevan Mission is going to get created. There is no doubt whatsoever in terms of allocation of funds for that particular project.

And we are seeing, as I said earlier, out of INR 360 lakh crores, only INR 300 crores have been -- is not yet used yet. So that sense, that gives you a feeling that there is a sufficient resource and funding allocation which is available, and that will see us -- so these projects will go through. I think so all what we have to do from our side, we will have to -- we will work on our efficiencies. And I think so with such a great scenario of what we are in, we should be able to capitalize and the company will be able to create value for all of our stakeholders.

And with that, I want to, once again, thank you for joining me this call. And if you guys have any questions whatsoever, you can reach out to Abhinandan, Percy or Gaurav, and they will be more than happy to answer that question. Thank you very much.

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