

Chairman's Message



Our Dear Shareholders,

Undoubtedly, this has been one of the most challenging years in recent times for the global economy and the Indian economy. Even in these challenging times, I am happy to share that Welspun Corp grew from strength to strength, with this year's performance breaking all our previous records on production, sales and profitability. We have also strengthened our balance sheet and we have almost become debt-free, on a net-debt basis. We have utilized our cash flows to pre-pay loans, buyback shares and pay a substantial dividend during the year.



We continue to maintain our operational excellence amidst challenges, by strengthening our balance sheet and almost becoming debt-free, on a net-debt basis. Utilizing our cash flows to pre-pay loans, buyback shares and paying a substantial dividend during the year, we have shown sustainable performance.



YEAR IN REVIEW

I would like to begin by sharing with you some of the key updates on our operational performance. FY2020 was an exceptional year for the Company with record volumes and profitability. Pipe Sales for the year stood at 1.5 million tonnes, the highest annual sales tonnage achieved by the Company in its history. We have shown consistent growth during the year on a quarter on quarter basis which truly reflects the operational excellence and the efficiency, in all the three geographies where we are present. Our key performance indicators of sales volume, realisation per metric tonne and EBITDA per metric tonne across the three geographies showed a consistent set of numbers.

US operations during the year recorded sales volume of 422 KMT with capacity utilization of more than 80% and a very healthy EBITDA. Our Saudi joint venture recorded sales volume of more than 500 KMT, which is close to peak utilisation, and witnessed a significant turnaround in profitability. With improved cash flows, the entity has started repaying shareholders' loans also. We have also seen a strong performance in our India operations as sales volumes approached 600 KMT with good mix of domestic oil & gas, water and export orders. Local presence in the three key geographies and our ability to serve the global markets from these locations position us to be a supplier of choice for our esteemed clients.

At the start of the year, we had taken some strategic decisions towards prudent financial management. As a part of our strategy to focus on the core business and core assets, we announced divestment of our Plate and Coil Mill Division (PCMD) and the 43 MW power division. We got the CCI approval in mid of December and both the parties stand firmly committed to consummate the transaction, although the timelines have got extended. I am confident that this transaction will conclude in the current Financial year 2020-21.

During the year, the company has reduced its net debt by ₹2,534 million, in spite of paying out more than ₹3,500 million in dividends and buybacks including the related taxes and costs. We are virtually a zero Net Debt company now, with a strong focus on ROCE and Free Cash flow generation.

COVID-19 AND OUR RESPONSE

As you know, the world is currently going through a major crisis; a crisis unlike any other over the past 100 years. COVID - 19 is not only disrupting our health and healthcare systems but also leaving a lot of collateral damage to an extent such that, even the Government, related public resources and all big and small corporates are under immense pressure both financially and otherwise.

As Welspun group, we partake our share of hardships. While we are uncertain how long these unprecedented and difficult times will last, we are fully geared up to meet these challenges. Along with the nation, we are also traversing the journey from 'Jan Hai to Jahan Hai' to 'Jan Bhi aur Jahan Bhi'.

At Welspun Group, it is our utmost priority to ensure safety & well-being of our customers,

employees, associates and community at large. Our sister concern in textiles has started manufacturing face masks and PPE and distributed it to our brave warriors who are at the forefront of fighting epidemic. We have adopted several measures across our offices globally and plants to ensure that our commitment to our customers is not compromised. In order to curb the spread of COVID-19, we have issued stringent travel advisories to avoid any business-related travel within the country or in international markets. We have implemented 'Work from Home' for our employees for their safety and well-being. A robust IT infrastructure has been put in place for remote working to ensure business functions seamlessly from any location.

Extreme caution and highest standard of hygiene and safety is being practiced by our staff across all our locations. In order to create awareness and protect our employees, additional efforts have been implemented.

We feel that at this juncture, each one of us has a responsibility towards our society and nation at large and as Welspun Group, we are also trying to do our part.

YEAR AHEAD AND OUTLOOK

The macro scenario has significantly changed in the last few months. What we have seen in the recent past, is unprecedented with the entire energy sector facing a double whammy - demand destruction due to COVID-19 and failed talks between OPEC+ countries leading to a ruthless war for market share, resulting into a supply glut. This is like a black swan event resulting in both health and financial crisis at the same time. Crude Oil demand globally and in the US took a drastic downturn in the March - May 2020 time frame. EIA estimates U.S. crude oil production fell from a record 12.9 million b/d in November 2019 to 11.4 million b/d in May 2020. EIA forecasts that U.S. crude oil production will average 11.6 million b/d in 2020 and in 2021 it will average 10.8 million b/d. This has resulted in many oil companies across the world and especially in the US, announcing a cut in capex. Lower oil price in the first half of 2020 is expected to delay Final Investment Decision for Greenfield projects.

Welspun US is well-prepared to tackle the current challenges, thanks to its excellent track record and strong customer relationships. The recent order win, even in this difficult macro scenario, is a

testimony to the Company's capabilities. With this, our order book stands at close to 120 KMT. We have several orders in the bid stage, which may speed up if the crude prices stabilize at the earlier range.

The JV in Saudi Arabia continues to have order backlog of around 2-3 quarters. With oil prices recovering, we expect ordering activity to gain traction in the region. While Saudi Aramco might take 2-3 quarters for restarting large orders, smaller O&G orders for high-priority oil fields are expected to be tendered soon. A few more water orders are in the bid pipeline, which we expect to be awarded in this year.

In India, we have a robust order book of 411 KMT spread evenly between water projects of various state governments, O&G projects of PSUs and export orders. About 14,700 km of additional gas pipelines are at various stages of development to complete the National Gas Grid. As per the National Infrastructure Pipeline (NIP), capex for oil & gas pipelines over FY20-25 is targeted at over ₹ 1 lakh crore (₹ 1 trillion). Ordering activity is expected to gain traction post the opening up of the economy. We are already seeing traction in terms of increased tendering activity from domestic PSU companies.

In the domestic water segment, irrigation projects will continue to drive the demand. Activity is also expected to pick up on 'Nal se Jal' projects, which intends to provide piped water supply to all Indians.

Covid-19 pandemic has impacted global supply chains and disrupted trade and commerce. We, at WCL, have taken all possible steps to minimize this disruption and are working closely with our suppliers and customers on a Business Continuity Plan. We are also sharply focussed on cost control, both capex and opex. WCL has deep relationships with all O&G majors and is a preferred vendor of choice for them. We are quite confident that we will weather this storm successfully over the next few months partnering closely with our steel suppliers and our customers. We will continue to keep a close watch on the ongoing crisis and will pro-actively devise strategies to meet the challenges.

Our focus will continue to be on utilising our free cash flows for deleveraging and rewarding shareholders. We continue to strengthen our business through automation, digitisation and developing talent.

I would like to reaffirm that our teams are doing their best to keep up to the commitments and ensure our products and projects are delivered on time, with no compromises on quality or safety. The management team stands firmly committed to overcome the challenges in global markets and take WCL to greater heights in the long run.

MY SINCERE GRATITUDE

We are going through an unprecedented situation and I thank all our stakeholders who are standing by us through this difficult time. I express my sincere gratitude to our shareholders, bankers, customers, Board of Directors and our committed employees. These are challenging and uncertain times, but we feel confident that as a company and community, we can get through this together. I hope that you, your family and colleagues are well and are taking the necessary safety measures.

Stay safe, stay happy.

My best wishes to you and all your loved ones,



B. K. Goenka

Chairman