



“Welspun Corp Limited Q1 FY 2016 Earnings Conference Call”

July 21, 2015



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Moderator: Ladies and gentlemen good day and welcome to the Welspun Corp Q1 FY'16 Earnings Conference Call hosted by Macquarie Capital Securities India Private Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Mishra from Macquarie Capital Securities. Thank you and over to you Sir!

Amit Mishra: Good afternoon everyone. It is our pleasure to host Welspun Corp post results conference call today and thank you very much all of you who are participating on it. To represent the company we have with us Mr. B. K. Mishra – Managing Director, Mr. S. Krishnan – Chief Financial Officer and Mr. Akhil Jindal – Director – Group Finance & Strategy. I will now handover the call to the management team for opening comments and then we will open the call for Q&A. Over to you Sir!

B. K. Mishra: Good afternoon all and welcome once again to the Q1FY16 Earnings con call. I am Braja Mishra the Managing Director. I would start with the numbers first. Our production in Q1 FY'16 is 274,000 tonnes as compared to 213,000 tonnes of Q1 FY'15 a jump of 29% Y-o-Y. Sales is 253,000 Tonnes as compared to 216,000 tonnes that is growth of about 17% again Y-o-Y.

Sales is at 1944 Crores as compared to 1436 Crores the Q1 of last year that is a growth of 35%. The reported EBITDA is at 221 Crores as compared to 82 Crores of first quarter of last year which is a growth of 169% and operational EBITDA stood at 229 Crores as compared to 55 Crores, a jump of about 300% plus Y-o-Y and the PAT after minorities and associates is at 16 Crores as compared to 97 Crores of loss in the first quarter of last year which is again an improvement of over 100%.

The cash PAT stands at 166 Crores as compared to 2 Crores and operational EBITDA in terms of percentage has gone up to 11.8% as compared to 3.9% EBITDA in Q1 FY'15. The Current order book as on today it is still at a healthy level of 828,000 tonnes which is valued approximately at around 5800 Crores. The growth as compared to last year first

*Welspun Corp Limited
July 21, 2015*

quarter is primarily driven by a strong performance in the Indian operations as well as the US operations and it still is maintaining its pre-eminent global position into the industry.

Driven by this higher volumes and realizations net sales at Q1 FY'16 significantly higher as you would have observed from the numbers as compared to Q1 FY'15 and the sales were of course boosted by the operation of the US mill which was on maintenance shutdown in the Q1 FY'15; I just have to give you a perspective why it is so different from Q1 FY'15 and now of course the US mill is absolutely very healthily booked and operating, producing and dispatching. I must say here though that these numbers could have been better as far as the US operations are concerned but for some of the quantities which were produced it could not be dispatched because the customer was not really ready at a particular site to receive pipes, otherwise we could have actually improved the sales of 253,000 if we would have been able to dispatch may be 10,000-15,000 more from our production of 274,000 tonnes of production during the quarter.

Our focus on de-leveraging still continues and we are taking all steps to conserve cash. The gross debt which was on 31st March 2015 at 3020 Crores is now at 3072 as on 30th June 2015 and it has happened primarily because of the need for higher working capital to support the higher level of operations but after deducting cash and cash equivalent the net debt at the end of the quarter has come down by about 100 Crores to 1804 as against 1909, so the effort for conserving cash still continues but I must say that it has also got some support because we have been able to get some advances from our customer as compared to others years of early last quarter.

Coming to the business outlook, the outlook still continues to be strong as far as our line of business is concerned, despite the fact that the oil prices have been going down, there is no doubt about that and I have, actually I am yet to see anything happening after the sanction on Iran getting lifted. But it is expected that oil prices should have a negative impact because the supplies would improve. Having said that, from our industry perspective I think it would also mean more business, because Iran has been one of the markets that we have as Welspun thrived in the past, because of our capability to serve their 56-inch pipeline requirement and for sure because all these years, they were not able to export so much so there will be lot of demand for gas pipeline, there will be lot of demand for oil pipeline coming in from Iran; just coming back to the overall scenario I would say that US looks still very bullish and even with the low oil price most of the pipeline companies that we

*Welspun Corp Limited
July 21, 2015*

have been engaged with are they are no doubt implementing projects they are even considering new projects and I have reasons to believe that at least two large pipeline orders or pipeline projects are in the offering stage in the US because most of the producers, there want to take advantage of the operational cost of transporting oil by pipeline as compared to rail. There could be question that while the production has been cut down, how people would be implementing pipeline projects ? But lets not forget that in the last three or four years, while production in US has actually increased by 1700% and whatever probably infrastructure that was required even when the oil price were \$110 or \$112 was already not there to evacuate so much of production, so I think even if they have to go back to probably last one year back production level they need to put in pipelines and they are rightly doing so, because depending on the refinery where it is going to, the transportation cost per barrel is almost anywhere from something like 100% to 300% higher.,So USA and Canada I must say that things are probably started looking up better for some of the gas pipeline projects, LNG export project and we have reasons to believe that before the end of this year at least one of those projects would start making commitments for which it can still be an opportunity for Welspun for a first quarter business.

Simultaneously there are at least two major oil pipelines project in Canada which might see the light of the day, if not end of this year for sure probably it should sort of materialize in the early next year . MENA with a special emphasis on Saudi Arabia market I must say because we have a unit there. Saudi Arabia there has been little less emphasis on the oil pipeline project but there are tremendous gas pipeline projects and the gas pipeline projects are primarily to supply gas within Saudi Arabia and we have reasons to believe that in the next couple of months they might be actually awarding similar kind of a project that Welspun is still doing which is about a 400,000 plus tonnes of pipeline which is called Master Gas, the Master Gas II has already been announced and I would think that Master gas II should actually be getting awarded in next couple of months, so even Saudi looks better and of course the most important thing, because we are an Indian company I must say that in Indian market even though from the oil and gas perspective it has not really been something. like overwhelming of anything but I can say that I think it is also on the verge of getting executed all those 15,000 kilometers of pipelines that was talked in the budget speech. We know that, by end of this year at least two to three of these projects will see the light of the day and we actually might see the enquiries coming up in next few months. So that's about the result and industry perspective and I have here Mr. Krishnan our CFO as

well as Mr. Jindal who is our head of Corporate Finance and strategy, they are here to assist me and will be able to take your questions from now on. Thank you so much.

Moderator: Ladies and gentlemen. We will now begin the question and answer session. The first question is from the line of Rahul Bangadia from Lucky Investment. Please go ahead.

Rahul Bangadia: Thank you for taking my question Sir. I have two questions. First one is if you could explain the difference again this quarter for the EBITDA and the operational EBITDA that is one and secondly if you could just help us understand the other expenses seem to have gone up Q-o-Q even though the top line down so if you could just help us understand that as well. Thank you.

S. Krishnan: This is Krishnan here. Thanks for your question. On the operational EBITDA to the reported EBITDA the difference is about 34 Crores of forex loss that has been booked in this quarter which is unrealized compared to a gain which was there in the last quarter Q1 of about 8 Crores, so that is a **swing of** about 42 Crores on one side. So that's why the operational EBITDA of 229 Crores when you set off for this forex loss of 34 Crores and the other income of 26 Crores it comes about 221 Crores of reported EBITDA.

Rahul Bangadia: Sir, just sorry to interrupt but this 34 Crores of loss that you just mentioned it is on some part of your debt or receivables or a mix, how does it work, any investment that should be consider this to be a continuing item or is it a one off?

S. Krishnan: To some extent there will be continuing items like something to do with the debt on the book or some dollar related liabilities on the book and to some extent these are trade related so there could be some gains that will come in the subsequent quarters when those underlying transactions are settled, so not all of it, but some portion of it is relating to the trade book and a small portion of it would be relating to the liability book.

B.K. Mishra: Krishnan, it will be a good idea to in any case sort of explain our foreign exchange strategy as far as the trade is concerned.

S. Krishnan: Just to clarify further, forex hedging strategy that we follow is on the trade book to have it fully hedged that means whether it is a Dollar or the Euro whichever is the underlying currency in which the transaction is, we fully hedge at the time of the transaction only the tenure of settlement will change, may be the purchase tenure could be different the sale

tenure could be different, there will be timing mismatch for a gain or loss coming in earlier or latter but otherwise the mandate on the trade book is to keep it completely hedged and going forward to your other question in terms of other expenses.

Akhil Jindal: Out of 34 Crores of the Forex I have just broken it into a foreign currency loan impact which you just said and on the trade account, so with the Re.1.10 paise difference due to currency fluctuation on a \$100 million dollar foreign currency loan book that we have it sets off to around 11 Crores. So we can say 11 Crores out of 34 Crores is on account of the foreign currency loan and the balance is on the trade account which is obviously likely to be reversed with a better realization.

S. Krishnan: Going forward to this other expenses, the volumes are higher in this quarter compared to what was there on the last quarter so there is a 40,000 – 50,000 tonnes higher volumes which has increased the freight that is one reason why this has gone up and the second is at this time of the year in Q1-15, the Little Rock facility was not fully operational whereas now at this point of the time this quarter it is fully operational. Third is the forex related impact, the relative foreign currency rates prevailing in Q1 of last year versus Q1 of this year. These are the three broad areas in which we would make up our differential in the other expenses.

Rahul Bangadia: Great Sir. Just a small request, in the press release as you usually give the EBITDA and operational EBITDA, I do not know if it would be possible to kind of give up the breakup of what makes up the difference as you give these differences as well, that just a request. Thank you very much.

S. Krishnan: We will do that, from next time we will have that breakup.

Moderator: The next question is from the line of Ravi Ratanpal from JP Morgan Asset Management. Please go ahead.

Ravi Ratanpal: Sir my question is the EBITDA margin has dropped to almost 11.4% compared to 17.7% in the last quarter of 2015 so what is the reason for it?

B.K. Mishra: First and foremost I must also say that, like this 17.7% I am sure that you would have followed the numbers for the entire year in FY'15 it was not consistent at 17% and in Q4 itself we had jumped to 17.7%. It was primarily because of a one-time profit coming at that

point of time, because of our one of the preferential capital getting redeemed and that benefit coming into India. So I think you know, as the market stands today probably 11.8 or 12.2%, I think that's the kind of the percentage the company would be probably operating at this point of time and this 17% was primarily because of a one-time gain.

S. Krishnan: And just to add, in terms of the operational EBITDA when you look at it Q4 to Q1 it is largely in range if you remove this items.

Ravi Ratanpal: What is the capex guidance for FY'15 as well as FY'16 as well as FY'17?

B.K. Mishra: FY'17 as of now of we do not have a frankly an idea; we have taken a call that we would rather consolidate rather than sort of spending money on capex and creating capacity. As of now we have nothing to declare in terms of capex in 2017, having said that I must say that I have always maintained that we being a global company we will always be open to look at the global market and wherever we see an opportunity to replicate what we did in the US or what we did in the Saudi, we would like to take benefit of that by way of probably re-locating one of our facility or anything of that sort, but that effort is on, that process is on, however I would say that in terms of FY'16 I think we could assume may be somewhere in the range of about 200 Crores of capex, a major portion of that of course primarily for maintaining our assets and some portion would be probably to sort of undertake something which could be probably improving our supply chain or anything of that sort..

Moderator: The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

Bhavin Chedda: Good afternoon Sir, good set of numbers. Just a few questions, Sir, clarification on the operational EBITDA so 229 Crores is before the other income of 26 Crores right Sir?

S. Krishnan: That is right.

Bhavin Chedda: So actually 229 you are comparing with reported of 195 and difference of 34 is the unrealized forex loss element?

Akhil Jindal: I think it means that the difference between 229 and 221, negative forex of 34 Crores and positive other income on 26 Crores and then you will arrive to the 221 numbers as the reported EBITDA.

- Bhavin Chedda:** Okay Sir, 26 other income is already from your press release.
- B.K. Mishra:** 229-34+26 is 221.
- Bhavin Chedda:** Okay, so then the 221 number is also including other income of 26 right?
- Akhil Jindal:** The EBITDA includes other income but operational EBITDA of course does not include the other income.
- Bhavin Chedda:** Sir if I insert the numbers I have to adjust 8 Crores because 26 Crores is already there right?
- Akhil Jindal:** It depends upon how you look into that, the basic is that operational EBITDA is 229 and while reporting the reported EBITDA basically we have knocked out the forex income which is 34 which is provisioned as Krishnan mentioned this is unrealized and we added 26 Crores of other income so it make it 221, so for your reference 229 is the right number which is the operational EBITDA.
- Bhavin Chedda:** What would be the plate mill production in the quarter?
- S Krishan:** About 40 to 45,000 tonnes.
- S. Krishnan:** It is 50,000 tons exactly, 44 is the production 50 is the sales.
- Bhavin Chedda:** Sale is all internal right.
- S. Krishnan:** No there is a marginal sale external, almost 65% to 70% is internal that is captured and the balance is external.
- Bhavin Chedda:** Capex number I think now you are guiding a higher capex of 200 Crores so what has changed from the annual analyst meet when we were looking at 120-130 Crores?
- B. K. Mishra:** See why am I saying, we are expecting an order now subject to that order being received we might have to invest on some equipment and we might have to probably spend on some kind of coating, in which case we might have to make that investment but I think even that investment would actually be coming from the project itself but if you ask me technically it is still a capex.

- Bhavin Chedda:** Some finishing equipment and coating line would be the part of the order which would lead to a capex?
- B. K. Mishra:** Correct. But I must say that, like this is of course, with the assumption that we are getting this kind of an order and this order itself will self fund that project more or less.
- Bhavin Chedda:** Okay. And just last one, how much were the US sales volume in the quarter?
- B. K. Mishra:** Volume is 63,000 tonnes in US, India is 130,000 tonnes, and Saudi is 60,000 tonnes.
- Bhavin Chedda:** And if you can give a similar breakup of LSAW, HSAW and ERW?
- B.K. Mishra:** 65,000 LSAW, HSAW is 151,000 tonnes and ERW is 37,000 tonnes.
- Bhavin Chedda:** Sir, if I take your operational EBITDA number, it translates to almost a Rs. 9000 EBITDA per tonnes on pipes and the US volumes were much less so we are confident of doing this numbers throughout the year right?
- B. K. Mishra:** I will again repeat the same thing, but I can only tell you, that this is probably onset of a good period for Welspun Corp, so I do not see any reasons but at the same time I think I would refrain really from making a statement whether this Rs. 9000/ tonne will be maintained throughout or not but I can only tell you that I think if you see our Q4-15 results and Q1-16 result and if you knock off that extraordinary item I think the fact that in the last two quarters we have maintained around 12% of EBITDA so I would sort of make my own guess.
- Bhavin Chedda:** Sir, how early can you estimate Iran market can open up?
- B. K. Mishra:** I think three to six months would be probably like sort of, even that could be probably a pessimistic guess, and it could open even much earlier than that.
- Bhavin Chedda:** Okay and any update on the Keystone pipeline, I think there was some voting which happened couple of weeks back again and so where is the status right now?
- B. K. Mishra:** As you all know Keystone has been vetoed by President Obama and I think it will be very difficult for me to really give any kind of comment on Keystone and from a business

perspective unless like somebody really decides to sell those pipes or whatever you know the pipes are all made, the pipes are all sold and from a pipeline company or pipe producer perspective probably, the impact of Keystone probably is not going to be there so I am not really making any statement on Keystone unfortunately.

Moderator: The next question is from the line of Dhruv Machal from Motilal Oswal Securities. Please go ahead.

Dhruv Machal: Sir one thing, basically I understand that implied steel prices are passthrough for you as our business model stands, but given that prices have declined significantly and the supply is significantly higher than what it used to be, does it give you a better bargaining power with steel companies and you know save some of that cost into your margins, is that possible and is it what is driving also your margins to some extent?

B.K. Mishra: We are a company generally are quite risk averse as far as the raw material prices are concerned simply because more than 65% to 70% of our total cost itself is raw material and the kind of projects where we get some advantage or preference they constitute close to 60% to 70% of our total business. If I keep that steel as an open item there is no doubt that in a falling market I can probably make some extra buck, but at the same time the way steel market is going right now it is only heading towards south, I think we have reached to a stage where it might go up probably only way is to probably move up towards north, so we do not keep most of our large projects open, it is on a back to back basis, may not be on a written contract but it is kind of a gentleman promise, that okay, we would have teamed up with one steel supplier to sort of bid for a project, so when we get an order we actually sort of pass on their order at the predetermined price. Having said that smaller orders like 10,000 tonnes, 15,000 tonnes we keep open, because it is not really possible for us to spend management time and start talking on a back to back basis for every 10,000 tonnes, 15,000 tonnes. I think any benefit which I must say that some of the benefit has come in this quarter results also and probably it will keep on coming somewhat in the subsequent quarters but that could probably be only 10% or 15% of our total business, 85% of the business we would not be getting any benefit as such. The other upside that could also happen I must say could be on the shipping side. The shipping cost also has gone down and generally shipping is not a business where we really sort of try and have a back to back, if it is a very big business we try to have it back to back otherwise most of the time the shipping is open. In which case whatever upside that we can capture that will come into the business.

Dhruv Machal: So basically your contracts are on an on-delivered basis so that is why you save on freight cost, means the realization is primarily on the delivery to the customer so that is why you save on the freight cost, got it, Sir second thing was we are hearing a lot about imports from China and from other countries say Korea and Japan but that is primarily related to HRC, we are not seeing much of pipes and all these coming into the market and I believe that is because of the higher logistic cost in exporting pipes, so is this understanding right and we will not see much of a risk into a pipes business because of exports?

B.K. Mishra: I am not sure, you would have probably noticed, that in the budget the Steel Minister has sought that we should be able to increase the import duty on steel from a level of 7.5% at that time to 15%, they did go ahead and impose additional 2.5% may be six weeks back or eight weeks back, which is not enough really but at the same time there is some protection for the Steel industry at least you have a 10% duty as against probably about 7% in case of pipes. Now the government has been also talking very, very, in a strong way that they will promote Make in India and we may not have seen lot of projects coming up and emphasizing and probably establishing that, listen we are sort of falling in line with the Make in India concept, but I must inform that recently we have seen a tender invited by Indian Oil Corporation which for the last 25 – 30 years used to be international bidding, the first time we have seen a tender only open for domestic bidders, which means the process of Make in India has started and there is no logical reason when a prime oil and gas company of the country like Indian Oil has already initiated that why would not GAIL, HPCL, BPCL follow that.

Dhruv Machal: If you are positive on the gas pipeline projects which can come up, you are believing by end of FY'16 and enquiry starting so this could be a big positive for us considering that, it could be domestic.

B.K. Mishra: We are quite hopeful and in any case as an industry I think at different forums I think people are talking about that and the way every other countries trying to protect their own economy and their own industry I think India has already started and I think this Indian Oil tender itself is a good indicator and in any case most of the water pipe, you know for example, you know like in this year business plan we would be supplying close to 150 odd thousand tonnes of water pipes and those water pipe tenders also specifically said, in any case water pipes tenders are domestic tenders, but it also said that you have to use domestic steel, because of that I must also like I think give this perspective to you that last year we

Welspun Corp Limited
July 21, 2015

had shut down our plate mill but towards the end of last year and the current year we are still running the plate mill primarily making steel because we have booked water supply projects which says categorically that steel has to be manufactured domestically, so we are able to even utilize our steel-rolling capacity because of this Make in India kind of a campaign.

Dhruv Machal: Sir, just a follow up on this, just to going a bit legal, this will not raise an issue in the WTO regarding that you cannot restrict it to domestic producers, is there a possibility it could delay something?

B.K. Mishra: I wish I had an answer for you but I must also tell you that, I think there are lot of fine line demarcations, anti-dumping duty, duties, if it is duty then it does not come under the view of WTO, if it is an anti-dumping duty you have to establish. But I have no clue how probably countries like Mexico puts antidumping duty on their own and despite the fact that probably you cannot really establish., So it is a very, very different subject but I think we are on course to true Make in India kind of a thing and I must say that there are many countries where they say that domestic contents should be there. For example like I will tell you US, US there is no law which actually debar from pipes being imported into US from India. But most of the steel companies or most of the pipeline companies they would always say that fine, given a choice we will buy American. Nobody wants to say that, okay fine buy Indian I have no idea.

Dhruv Machal: Sir, last thing, you have a bit of confidence on the gas project, so have you heard something from GAIL or from the industry that these projects could come up by FY'16 or is it currently a guess that they are in the budget and that they can come up?

B.K. Mishra: Whatever I am sharing it is all in the public domain.

Dhruv Machal: It was announced earlier when the government came in but it has been delayed by quite some time so just wondering, is there any further development on this or is that the regular thing which is going on?

B.K. Mishra: See we have no access and would not like to obviously have access. But at the same time I must say that there has been lot of discussions going on and I have reasons to believe that things are moving and things are moving really fast.

- Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir coming to the point there is a sign of inventory build up that we see in this quarter around 220 Crores is this inventory going to get diluted next quarter or is it seasonal nature due to which inventory was built up for this quarter?
- S. Krishnan:** See actually if you see the volumes are ramping up and then inventory as at a certain date you are right it goes to about 300-odd Crores compared to what was the position in March, so that is just incidental because we are ramping up production and our sales is also expected to keep pace but it does not always happen that that at quarter end, we will not just be sitting on inventories of raw materials are work in progress but we will also have finished goods some of which will shipped and billed in July15 which also remains an inventory in our books at the end of the quarter.
- B.K. Mishra:** In fact and just to add may be some of these quantities have already been built in the first week or second week of July. You know sometimes what happens, like you have sent probably 20,000 tonnes to the port and the vessel arrives probably on July 5, so it stands as an inventory but the fact remains that it has actually on its way to be dispatched. So those kinds of mismatches will continue to happen in our kind of business.
- Saket Kapoor:** Sir, on the cost front, the cost has been booked in this quarter only and realized in the next quarter.
- B.K. Mishra:** That gets booked as WIP so the cost is already booked.
- Saket Kapoor:** The cost is already booked so the next quarter we get the realization.
- B. K. Mishra:** Yes, you are absolutely right.
- Saket Kapoor:** Sir, in a TV interview also today you told about that fourth quarter number should be looked as an annualized number so can we rely on that fourth quarter number wherein we posted better set of numbers to be in things going forward.
- B. K. Mishra:** I think it is little abstract, I tell you what I was trying to convey that the fourth quarter number, if you knock off the extraordinary income that was booked in that quarter, that

could be a realistic number going forward which is about 12% EBITDA margin and if you see even in this quarter our EBITDA margin is about 11.8% or 12% and you also would have noticed that I said that I would refrain from giving a guidance but that is what we feel.

Saket Kapoor: Sir on the mix, what portion is towards the oil and gas and the remaining what portion is towards the water pipe of the irrigation segment?

Akhil Jindal: Globally 24% of water and 76% of oil and gas.

Saket Kapoor: 24% and 76% in the order book, so sir what sort of traction are you seeing in the irrigation segment in particular because a very significant amount is being allocated for micro irrigation and other facilities also although it is totally not concerned with the pipe business in which we are but what sort of inflow are you envisaging?

B.K. Mishra: Mr. Kapoor, you are absolutely right, you have the understanding about the irrigation thing and as you are rightly saying that probably in the irrigation sector we don't really come into play so much but don't be surprised if there is a 3000 millimeter dia where you know like somebody wants to build a trunk line those kind of projects cannot be probably ruled out but I must tell you that as far as the water supply market is concerned where we actually come in and pitch in the next three to four years I think our marketing department has made an estimate that it could be to an extent of demand of 12 million tonnes in the next three to four years.

Saket Kapoor: Domestically Sir.

B.K. Mishra: Domestic.

Saket Kapoor: Sir, what portion what pie are you working for that?

B. K. Mishra: See, given a choice I would love to book all 100% oil and gas, having said that we would like to sort of leverage our position where we have supplied one of the largest dia manufactured in this country 138 inch so we would like to probably sort of take advantage of those kind of capabilities that we have developed and we should safely look at probably 10% to 15% of that market for sure, but our main target will always the oil and gas and also in oil and gas I must say that we would always be export focused where you know like sort of the men and boys are segregated.

Saket Kapoor: Sir how has the ERW segment performed for this quarter and how are the margins especially for ERW?

B. K. Mishra: I think we may not have the break-up as such for ERW in terms of EBITDA.

Saket Kapoor: The value added segment, the coating part I think if I am not wrong.

B. K. Mishra: But we don't have really the numbers for how much EBITDA we made in ERW it is a very small part of our business but we expect this to be probably significant from next quarter onwards because we have booked a very large order which I mentioned at the time of our last quarter results, that one of the largest ERW order has been booked by Welspun which is about 600 miles of 20-inch close to 1000 kilometers and that we would be producing from next month onwards so that will come in as a significant probably contribute from next quarter onwards.

Saket Kapoor: Sir for which geography it is?

B. K. Mishra: It is for US and will be produced in our US facility.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Capital Advisor. Please go ahead.

Kashyap Jhaveri: If I look at your realizations in this quarter they are roughly about 77,000 rupees a tonne and in the press release you have highlighted about 5800 Crores of order book with about 828,000 tonnes in terms of volume, that would come at about 70,000 rupees a tonne so what explain that a 7%-8% reduction over there?

B.K. Mishra: In any case, our prices are an extrapolation of the steel price, if the steel prices goes down our per-tonne price of pipe will go down, it means that I will make less money. That is primarily the reason, so in other words what I am trying to say that I always operate on a value addition over and above the steel price. So if in the last quarter the steel price was \$350 for a commercial grade steel, I am just giving you a hypothetical example, I would add 5000 rupees to that and make an offer and book an order, if steel price from 350 came down to 325 I would still add Rs.5000 and give an order, but if you see the absolute per tonne price it has actually come down by \$25 a tonne which is about Rs.1500 a tonne. So if

you see when we started probably middle of last year, when the steel prices have gone down actually to an extent of almost Rs.10,000.

Kashyap Jhaveri: What would explain let us say on year on year basis you know same quarter last year our realization were about Rs.66,000 a tonne and which has clearly flowed down to our EBITDA per tonne also in fact because there has been change in the order booking in favor of high margin orders or something like that.

B.K. Mishra: I could not get your question, my apologies.

Kashyap Jhaveri: Sure. I am saying the realization if you look at Q1 of last year were roughly about Rs.66,500 a tonne and if I look at Q1 of this year they are about Rs.77,000 a tonne and clearly our EBITDA per tonne has also gone up by almost about not three times but nearly three times in last four quarters, so you know what would have contributed to that high realizations in on Y-o-Y basis?

B.K. Mishra: Its simple, its primarily better order and better realization. You have got it absolutely correct, it is already been reflected in the EBITDA number. It is not because of a better operational efficiency to a large extent, it is primarily because you have got better margin.

Kashyap Jhaveri: Last question on your debt part, we have reduced versus about 3800-3900 Crores gross debt in 2014 to about 3000, slightly more than 3000 Crores now where do we see that in FY'16 and in FY'17? Or do you have any targets in terms of let say debt to equity which as of today still stands at 1+?

S. Krishnan: No, the net debt to equity even as at March 2015 is below one time, it is closer to 0.65 or 0.67 or something, our agenda remains to keep it below one time, the net debt to equity. So that agenda doesn't change going forward as well and to the earlier question that you asked, just to add one last bit to it, when you are comparing Q1 of last year versus Q1 of this year there are two other things that we may want to keep in mind is last year you know our US mill was under the maintenance shutdown, so that had an impact in terms of the overall numbers and directly the operations of the plate mill which are there this quarter versus last quarter these are the two other things which also has to be put in context when you are comparing the numbers.

Kashyap Jhaveri: And any absolute gross debt number that we have in mind, or net debt number FY'16 end?

- S. Krishnan:** We are in the region of about 3000-3100 Crores on a gross debt basis, the only thing that can keep moving up or down here is the working capital component, we do not have too much of an agenda on the term book if at all it is only to keep some term loans in one book and move it on from the other book but on the working capital the only thing that really changed is gross debt number.
- Kashyap Jhaveri:** But there is no absolute number that you would want to guide to?
- S. Krishnan:** We may keep the EBITDA in mind and if you look at our net EBITDA as of March 2015 we are just over two times, we would be comfortable in that region of 2-2.5times EBITDA.
- Akhil Jindal:** Having said that we don't have a borrowing program at this juncture that you know what Krishnan said is variation would be only in terms of the short term loans for meeting the working capital requirements.
- B.K. Mishra:** Unless any of our work that is going on we are exploring the world market that you know where I said that we could replicate our Saudi or US experience if that happens at any point of time that would have a different connotation, otherwise as of now we have no other plan on Capital.
- Kashyap Jhaveri:** Sorry I missed out on net debt to EBITDA number should be what?
- S. Krishnan:** See as at March 2015 we were just over two times, as at June 2015 it is lower than that but I would say that we would not want this to exceed two-and-a-half times, two times is where our comfort level is but in short term it can be a little bit here or there.
- Moderator:** The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Sir can you give breakup of the current order book in terms of regions like how much is it from US, Saudi and India?
- B.K. Mishra:** Americas 57%, MENA 27% and India 16%.

Welspun Corp Limited
July 21, 2015

Dikshit Mittal: Sir, this ERW order that you said you will be executing from next month, so what kind of margin profile it is having, means is it at the average that you are enjoying right now or higher or lower than the average?

B.K. Mishra: I can only say that it is an order that Welspun operational team would like to celebrate.

Dikshit Mittal: Sir, in India you said you have a visibility of 12 million tonnes of orders in next 3 to 4 years so this is in oil and gas or some other sectors?

B.K. Mishra: 12 million is primarily for water pipe orders that I am talking on, as far as oil and gas market is concerned, from a global perspective if you see the **Simdex** data which says that in the next four to five years they would buy close to 100-odd million tonnes of pipes which is more or less the similar kind of average, which makes about 25 million tonnes, but if you knock off China and Russia you would probably say around 20 million tonnes which is probably you know like far better numbers than like probably last few years of demand and on this I would also say that we have also bid for close to 4.6-4.7 million tonnes of projects which would be getting decided in the next few months.

Dikshit Mittal: Sir, lastly you may be spending some capex for the capacity enhancement, so will it be in Indian operations or overseas?

B.K. Mishra: Let me first clarify, that I must have probably miscommunicated we are not spending any capex as of now for any capacity enhancement. Our capex will be spent primarily for maintaining our assets or may be making smaller investments in supply chain as Mr. Chedda from Enam said that it could be for coating or something like that primarily to serve some projects, so as of now we are not spending any capital expenditure to increase our capacity anywhere in the world. Having said that I also added that as a matter of process, as an ongoing business we continue to explore all international markets where we could probably move one of our assets in India and truly become a local player. Now that effort is in process right now, the process is on we have no clue we have taken no decision whether we should be investing in any other market but certainly not in India it has to be in the international market.

Moderator: We have next follow up questions from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

*Welspun Corp Limited
July 21, 2015*

Saket Kapoor: Sir, there has been a talk about this replacement market about this refinery segment especially in the Gujarat belt and the Maharashtra for a very long time, are you seeing any replacement in the pipelines of the refineries, some replacement demand from them exactly?

B.K. Mishra: I know that currently there is one tender already in the market for replacing some 75 kilometer of a pipeline which is owned by Indian Oil and I think this is the beginning I would say.

Saket Kapoor: Sir the tender is sir, we have participated or bids are being procured, what is the stage at which the tender is?

B.K. Mishra: It is actually for 10,000 tonnes you have to forgive me that, I probably don't have a full sight on this, but for sure I think we have already bid for this project.

Saket Kapoor: Sorry I could not get the number?

B.K. Mishra: It is 75 kilometers which means about 10,000 tonnes.

Saket Kapoor: 10,000 but that is about very miniscule if that can be taken.

B.K. Mishra: Yes, if we were to do 1.2-1.3 million tonnes then it would only be probably.

Saket Kapoor: But it is a big market which is opening up because there is a pent up demand from this refinery segment for a very long time and if the capex is up from the Government front we can expect a greater percentage of this replacement market.

B.K. Mishra: I would love to agree, but Mr. Kapoor let us not forget that India as compared to other countries has hardly any pipeline. So I think that market may not be substantially big but I must also tell you that US has been making statements about replacement pipeline for many years but recently it has got a very big sort of challenge because Mr. Obama has specifically I think allocated some funds primarily to look at replacement of pipelines, now if that happens in US, it could be absolutely different story altogether for Welspun.

Saket Kapoor: Sir that will play out when, if he has allocated, there should be timeline, if you could throw some light more on it?

- B.K. Mishra:** I would think like next couple of years.
- Saket Kapoor:** We would be passing out in this next year or two.
- B.K. Mishra:** I am saying it will continue for next couple of years. I am sure they should start immediately.
- Saket Kapoor:** Okay Sir, what is the size Sir, any idea?
- B.K. Mishra:** I don't have the figures I can only tell you that since the time I have joined this industry I have been hearing about this and the statement is generally made by oil and gas majors, that the demand could far outstrip, the demand for new projects in US, that means you are talking off probably nearly 2-3 million tonnes per year. But then I am again saying that I have no data on this.
- Saket Kapoor:** When the implementation will begin we cannot contemplate that.
- Moderator:** Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Amit Mishra for closing comments.
- Amit Mishra:** Thank you, Sir would you like to make any final comments.
- B. K. Mishra:** We look forward to probably like continuing with the kind of performance that probably we have been able to demonstrate and as I said even though from an absolute number perspective, you know like it might be looking at the different numbers as compared to our Q4 but like knocking off the extraordinary income that we had in the fourth quarter we are still delivering a consistent result as we did in Q4 and now Q1, we hope to continue in the same way and looking forward to talk to you in the next quarter results again.
- Amit Mishra:** Thank you Sir. It was pleasure to have you on the call and thank you all the participants.
- Moderator:** Ladies and gentlemen on behalf of Macquarie Capital Securities that concludes this conference, thank you for joining us and you may now disconnect your lines.