

## Welspun Corp Q1 FY19 Earnings Conference Call July 23, 2018

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**Moderator:** Ladies and gentlemen, good day and welcome to the Welspun Corp Q1 FY19 earnings conference call. As a reminder all participants' 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.

We have with us today from the management, Mr. Vipul Mathur—Managing Director and CEO of Welspun Corp, Mr. S. Krishnan—Executive Director and CEO of PCMD, Mr. Percy Birdy—President and CFO of Welspun Corp, Mr. Akhil Jindal—Group CFO and Head of Strategy of Welspun Group.

I now hand the conference over to Mr. S. Krishnan for his opening remarks. Thank you and over to you, sir.

**S. Krishnan:** Good afternoon everyone and welcome to our Q1 FY19 results conference call. We will take you through a few key highlights in terms of volumes, financials, order book and the business outlook and at the end of it we will be happy to take your questions. In Q1 FY19, excluding the Saudi business, our production and sales were respectively at 254,000 tonnes and 229,000 tonnes, up 12% and 9% respectively YOY. Including Saudi, the Q1 pipe production and sales were at 288,000 tonnes and 267,000 tonnes higher by 26% and 22% YOY respectively. The Plate & Coil Mill produced about 123,000 tonnes in Q1 this year. Sales was at around 128,000 tonnes in this quarter. And of this sales mix more than 70% was catered to outside customers keeping in line with our efforts to reduce dependence on captive usage.

Coming to the financials in Q1 the revenue was up 25% YOY at Rs. 2,023 crores. EBITDA however was lower by about 19% YOY at Rs. 220 crores and the Profit After Tax after minorities and shares in associates and joint ventures, was at around Rs. 47 crores versus a net profit of around Rs. 55 crores in the last year Q1 FY18. EBITDA per ton for the Pipe business in this Q1 was around Rs. 7,700 a metric tonnes, higher Q-on-Q but down 8% YOY. The cash conversion cycle, we have been maintaining slightly better cash conversion cycle at around 30 days versus 34 days quarter-on-quarter.

Coming to debt, the gross debt as at 30<sup>th</sup> of June, 2018 has gone up by about Rs. 47 crores quarter-on-quarter and was at a level of about Rs. 1,433 crores. On a YOY basis we have reduced our gross debt by just under Rs. 600 crores, Rs. 598 crores to be precise. This has

been possible due to our continuous efforts towards realigning the debt book to match the requirements of the business and also repayment and prepayment of debt wherever feasible. We will continue to pursue that agenda. Net debt was higher by about Rs. 54 crores quarter-on-quarter and was at the level of Rs. 476 crores as at 30<sup>th</sup> of June this year. On a YOY basis however we have reduced our net debt by about Rs. 388 crores. All these numbers were on India excluding our Saudi operations. Now including the Saudi operations our net debt was at just over Rs. 1000 crores, Rs. 1025 crores which was lower by about Rs. 271 crores compared to last year's same figure. We remain committed towards conserving cash and continue to aim for a leaner balance sheet. Cash flow generated would largely be used to pay down debt except for required essential CAPEXs for the business.

Coming to the order book, we have booked more than 212,000 tonnes of pipe orders since our last call and this is reflected in the strong order book which is at a level of about 1,602 KMT valued at over 11,000 crores. Same figure last quarter was at around 1,657 KMT, so after executing 267,000 tonnes in this quarter this is the level of the order book. The bid book stand at over 3 million tonnes and the potential upcoming projects which are expected to come up in the next couple of years stands at a fairly strong figure at over 15 million tonnes and these order books, bid books and the upcoming potential projects are spread across all the major Welspun markets.

Coming to the outlook, with increasing emphasis on local sourcing requirements across all the key geographies where we participate in, starting with US, India and the Middle East, players with local capacity are expected to gain and Welspun Corp with sizable capacities in India, US and Saudi Arabia, is we believe, ideally poised to benefit from this policy change. Keeping in line with this agenda we are also setting up a Spiral plant in Madhya Pradesh, capacity around 175,000 tonnes basically to align our production capacities closer to the market with an expected CAPEX of around 175 crores. Demand uptick in Americas is clearly evident with the growing order pipeline in the Americas. In the MENA region, Oil and Gas segment demand is expected to become more relevant in the second half of this financial year. In the domestic India market demand is gaining pace across most segments. The demand outlook for the Plate and Coils Mills division continues to be promising but at the same time we will need to address profitability concerns.

This summarizes our update on the results for this quarter. We will be happy to take your questions here on.

**Moderator:**

Thank you. We will now begin the questions and answer session. The first question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

**Giriraj Daga:**

My first question is related to the last point that you mentioned the profitability on the Plate Mills is a bit of a concern. So what kind of EBITDA we had in first quarter and what is the outlook there?

**S. Krishnan:** Out of the Rs. 220 crores of EBITDA that is there for the first quarter, roughly under Rs. 50 crores was in Plate & Coil Mill and the balance was from the Pipe business.

**Giriraj Daga:** Second point is, on the Saudi side of it, we have decent order book but the ramp up has not been as expected in lines. Even if we say that even your things have gotten better in terms of ramp up but EBIT loss continues to remain in broadly similar level, so what are your thoughts there.

**S. Krishnan:** Saudi, as we discussed in the last call as well, order book and the pipeline of orders is strong but the benefit of that to convert into revenues and margins and bottom-line is something that will get evident as we go through the year. So this quarter that went by was also something where we just did some minimal volumes, we just did close to about 35 KMT of volumes in this quarter. So basically with that kind of volumes you really cannot make a meaningful difference to the bottom-line, so this was still a challenging quarter for the Saudi business in this year but the benefits of these large orders which are evident in the order book will be evident progressively from Q2 onwards and it will only increase quarter after quarter.

**Giriraj Visaria:** The loss which we have reported as associate loss.

**S. Krishnan:** That is largely because of the Saudi business.

**Giriraj Visaria:** So my point is that like we did 8 KT volume that also we reported about 25 crores loss, now we did 35 KT also the loss is 27 crores. So incrementally the volume has not given us the desired profitability is that what we should read?

**S. Krishnan:** Because these were the residual orders that we carried forward from before, so we just try to execute it and get over with it. The other thing is the loss also gets little magnified because of the conversion, the dollar impact because the Saudi riyal respect to the dollar.

**Giriraj Visaria:** My next question is on EBITDA per ton like it has been quite fluctuating over the last 4-5 quarters now, so from the range of 8300 we went dipped to 4500, now 7700. What should be a broad sense in terms of numbers for the residual order-book which was sitting on hand? And obviously if you can give some breakup on the Saudi side, we reported obviously on the associate side of it, so the India and US side of it what kind of EBITDA per ton should be broad sense going forward?

**S. Krishnan:** If you recall in the last year in FY18, Q1 our EBITDA per ton was just under Rs. 8300.

**Giriraj Visaria:** Correct.

**S. Krishnan:** At that time also we said that we expect normalization to happen over the course of the year because last year was a little front ended in terms of performance. So as we went through the year and we came to an EBITDA which was close to about Rs. 6200, right.

**Giriraj Visaria:** Yeah.

**S. Krishnan:** From there if you see the higher volumes and a higher throughput is evident in the numbers which are now at around Rs. 7700, 7668 to be precise, that's a number where we are now. It is difficult to predict what will be the EBITDA per ton for a quarter because that is something which is a function of actual shipments on the billing that take place in the quarter. But our expectation is that as we go and bid for new orders, on this order book of 1.6 million tonnes our agenda will be that across markets whatever new orders coming to the system the profitability of those new orders should be better than the average profitability that we are carrying here as of now. But the benefits of this may flow-through in subsequent quarters. You may not see the immediate benefit coming in Q2 or Q3 but because what you are transacting in this Q1 or even in Q2 is a function of what we negotiated and brought into the order book several months back.

**Giriraj Visaria:** I'm not asking for the quarterly but want to understand the residual book of US-India plus we did 671 KT, on the total basis 671 KT, the EBITDA per ton is higher than the 7700 or lower than the 7700? I understand the new part which you mentioned in the last quarter also that incremental EBITDA per ton will be higher but on the residual part of it should we say it is more closer to 6200 to 6500 number that should be the right way to look at?

**S. Krishnan:** The numbers of the quarter are on IND-AS basis which excludes Saudi. But if you go forward—whether we will be in the region of 7500 or 8000 or whatever that is something that we will have to—keep taking stock of as we go along.

**Giriraj Visaria:** There is some confusion here, when you put the EBITDA per ton for the number will report including Saudi operation or Saudi is only the part of the only one line item?

**S. Krishnan:** The IND-AS EBITDA numbers which we report exclude Saudi.

**Moderator:** The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead

**Aman Sonthalia:** The Indian operation is short of orders, when can we expect better orders in the Indian division?

**S. Krishnan:** It is not that the short of orders, we have out of the total 1.6 million tons of business we have got about 400,000 tonnes we transacted by the India book. Many of the mills are occupied. Our agenda will be to try and improve our occupation particularly and some of the long seam pipes.

**Aman Sonthalia:** Some of the Arabian orders will be executed from the Indian division or it will be executed from the Saudi Arabian division normally?

**S. Krishnan:** As of now the agenda is to execute it from the local capacity. But if and when required we do have the ability to execute it from other geographies.

**Aman Sonthalia:** So going forward whether we can expect better or in the Indian division?

**S. Krishnan:** We have just about finished one quarter and after transacting whatever business we have done in this quarter we are sitting on the order book of 400,000 tonnes. Most of it will be transacted across the course of this financial year. There is a sizable bid book which is about 3 million ton odd, of which there is a sizable volume that has to be coming-in in India which has to be transacted in India. We also expect some part of the international bids that we have done which is part of the 3 million ton which also will need to be supplied from India, particularly the LSAW orders. So we expect that our trend if you see over the last couple of years we have been doing close to 600,000 tonnes in a year from India for India and the overseas market. We don't see any reason why we should not be in the same range.

**Aman Sonthalia:** When we can expect Saudi Arabian division to be profitable?

**S. Krishnan:** The thing is the challenge that we have faced in the Saudi capacity is that we are sitting on the capacity of around 350,000 tonnes. Our capacity utilization has been no because of the dull order book. Now the order book has got strengthen and as we try and ramp-up utilization, all three mills are now operational, coils are being arranged. We expect that Q2 volumes will definitely be higher than Q1 volumes and so will be in case of the subsequent quarters that is Q3 and Q4. At the end of this year we believe we should be upwards of 275,000 to almost 300,000 tonnes if not more which is a significant volume and enhancement over what we did over last full financial year. So that higher volume and the higher throughput will also mean that the bottom line should be far better because our capacity utilization will be much higher than what we did last year.

**Aman Sonthalia:** And what was the utilization level of US division in the first quarter?

**S. Krishnan:** The US volumes were of the magnitude of some about 60,000-65,000 tonnes.

**Aman Sonthalia:** So by Q2 and Q3 and Q4 we can definitely expect much higher turnover from this division and much higher margin from this US operations?

**S. Krishnan:** In the first quarter as well both our mills were largely operational. We believe that volume should ramp-up in Q2 and Q3 as well and the benefit of that will be also evident in Q2 and Q3 in US.

**Aman Sonthalia:** What about the Coil and Plate mill, when can we expect good profit from this division?

**S. Krishnan:** It is still profitable this year as well. We have made just under Rs. 50 crores of EBITDA in this first quarter. Last year for the full year we had an EBITDA of some Rs. 170 crores. Our agenda is to try and work towards achieving that if not improving it in the current financial year. We have made a beginning but I think we will need to work on it in the balance three quarters of the year. Slab availability, slab pricing and securing the margins will continue to be the focus for us in this year.

**Moderator:** We take the next question from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

**Dikshit Mittal:** First question is on execution for the full-year, in the last con call you had mentioned that you can do around 300,000 in Saudi and 400,000 in US, maintaining that kind of execution outlook during this year?

**S. Krishnan:** We still believe that we will do close to 300,000 tonnes in Saudi and in the US with the opening order book that we have and the bid book which we expect to be awarded as per our expectations, we should be able to do more than the opening order book which means we should be closer to that 400,000 tonnes in the current financial year in US.

**Dikshit Mittal:** And India 0.5 million ton is do-able for this year?

**S. Krishnan:** As we said earlier we will like to do more than that including the exports.

**Dikshit Mittal:** During the quarter like US has imposed duties on the large-dia pipes, so what kind of traction we are seeing post that in terms of incremental orders or visibility on that?

**S. Krishnan:** If you are referring to that 232 imposition of 25% or you are referring to subsequent action, the thing is the US has become a market which is more relevant for local players. So supply into the US market from outside has become far-far more challenging when these trade actions were taken by the administration. For us, I think the US market will become far more challenging to supply from an Indian perspective. But for a few long seam capacities and long seam projects where we will have no option other than buying from outside the country and we would be one of the preferred vendors for those local customers. But the other advantage of this development is we have a capacity close to 0.5 million ton that we believe we can produce between the two mills on an annual basis and that local capacity and the value of it in terms of its business and profitability potential will be much higher in the future than what it has been before this trade action happened.

**Dikshit Mittal:** My question was on that US capacity only like post this happening development, so do we expect the higher kind of orders coming in for that facility this year or next year?

**S. Krishnan:** Logically yes because if sourcing has to be local that means they will have to offer those businesses to local mills and our mills in the US have the best of the track record and the highest of the customer accrual, so we are in the best position compared to most others in the competition in US.

**Dikshit Mittal:** Are we seeing any movement on that front or is it still on the drawing board in terms of new orders in US?

**S. Krishnan:** There are quite a few projects that have come up for bidding and then out of the 3 million tons that we are seeing in the bid book, a large portion of it is in the US which we expect it to be awarded over the next couple of months.

**Dikshit Mittal:** So we must be having as much as like in terms of chances of getting these orders, right considering the outflow.

**S. Krishnan:** Yes.

**Moderator:** The next question is from the line of Saurabh Kapadia from India Nivesh. Please go ahead

**Saurabh Kapadia:** The other expense amount has significantly up from about 257 crores to about 360, so was there any one-off item?

**S. Krishnan:** The other expenses you are seeing from the standalone or consol?

**Saurabh Kapadia:** Consol.

**S. Krishnan:** I think one of the components there is freight charges which has gone up compared to last time because many of our sales mix in this quarter are based on destination that means duty paid and delivery at destination, so where freight is also a part of component of the sales in the domestic as well as in the export market. So as sales mix has increased I mean sales mix has tendered more towards the post definition recording so that is one factor which has increased our freight and material handling and transportation related expenses.

**Saurabh Kapadia:** Coming to your order book, in Q1 if we see the India order book it's about 292 KMT versus in Q4 so it has declined, so have you seen any slowdown in the order book coming in for especially for India?

**S. Krishnan:** I didn't get your question, Saurabh you will have to explain.

**Saurabh Kapadia:** I wanted the outlook on the ordering for the India like how do you see the order outflow maybe government tendering process.

**Vipul Mathur:** Saurabh on the India order book as you see we already have a 400,000 tonnes of an order book in our Indian kitty. The way it looks like the PSUs and the water sector—when I say PSU it is the GAIL and the IOCL and the water sector means all the water projects which we are anticipating—they seem to be on track I think. So as things progresses we would see a similar type of an activity what we have seen in the previous two years.

**Saurabh Kapadia:** In terms of pricing like has the competitive intensity has increased in the last quarter?

**Vipul Mathur:** The competition still remains; the competition landscape is still the same. There is no difference. There is no addition-deletion in the competition landscape so the intensity and everything, all the parameters remaining the same. But the good part is now that now the appetites of the others probably they have a little bit better order book, so I believe that this will help in terms of improving the margins now. This should help us in it.

**Saurabh Kapadia:** Spiral Plant in Madhya Pradesh, so by when the plant will be completed and we see the production?

**S. Krishnan:** We are looking at a timeframe of something like 6 odd months to install and commission it and I am sure the maximum benefit of that will start coming in the next financial year. Though our endeavor would be to see that we can do some quantities in this financial year as well but most likely the impact will be felt only in the next financial year.

**Saurabh Kapadia:** Last question on the US front, so you said you are looking at a good Q2 and Q3, so how is the margin shaping up in US?

**Vipul Mathur:** As you know we have a complete order book for Q2 and Q3 at this point of time; both the plants spiral and our ERW plants are booked till end of December. And they have been booked at a much better margin than the past one. So I think we will see sort of fairly consistent performance around the US on the next two quarters at least.

**Moderator:** The next question is from the line of Rukun Tarachandani from Kotak Asset Management Company. Please go ahead

**Rukun Tarachandani:** Sorry for going back to this margin question and we understand that getting a hang on margins for a particular quarter is difficult considering what you may execute in the quarter might be different from other quarters. But if you take a 3 or 4 quarters view what is your general sense on the EBITDA per ton for the India and US business combined excluding the Saudi mill?

**S. Krishnan:** Our endeavor will be to try and be in this range of around Rs. 8000 plus.

**Rukun Tarachandani:** Again the understanding is that the US business vis-à-vis the India business has lower EBITDA per ton, so considering that the future 3-4 quarters you would have higher mix from this



business even then you would be probably try to maintain in this kind of a range is what you are saying?

**S. Krishnan:** No, we didn't say that the US business EBITDA is lower than the India business. That's not the case. Possibly if US business, the volumes once they stabilize the margin will be even higher than the India business for sure, right. And that's why the blended of both depending upon the volume mix and order mix, our endeavor will be to try and up this Rs. 8000 a ton.

**Rukun Tarachandani:** You have announced the CAPEX in Madhya Pradesh I suppose for about Rs. 175 crores. So considering that you have a significant amount of spare capacity, how does this fit in with their existing capacities?

**S. Krishnan:** Two things, one is as we mentioned there as well we would like it to be closer to the market. There is a sizable market opportunity that is coming up for the foreseeable 3-5 years in the central part of India between Madhya Pradesh, Rajasthan and Western Uttar Pradesh. We have done a detailed analysis and we believe there is a good opportunity for us to be present locally closer to the market and that will give us a sustainable advantage. We believe that spending this kind of money and creating a capacity there will give us not only a presence in that market but will also ensure that we are there across most of the key regional markets as well. So we have got a plant down south in Mandya as you know another two capacities in Gujarat and this will be one capacity in central India and all this with a CAPEX which is well within the range of our balance sheet and the cash flows.

**Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead

**Saket Kapoor:** Firstly just taking into account of how the deliverables in the first quarter, what kind of execution are we expecting in this remaining three quarters? Earlier in the last year you told that it was a un-tended for us in terms of profitability also, so how are the deliveries now shaping up for the second, third and fourth quarter?

**S. Krishnan:** We mentioned that our agenda will be to try and see how we work on achieving and EBITDA per ton of around Rs. 8000 if not more and that will be our agenda across the balance three quarters of the year between the India and US business. But having said this we must also explain that the actual EBITDA in a quarter will be a function of the actual volumes billed and the order mix that goes into those volumes that are build and the geography where it is between India, US and wherever. So that's something that you must keep in mind what we are giving is more as a more as a ballpark, not as a guidance.

**Saket Kapoor:** If we take the first quarter it is 229,000 for the pipe as a whole, so if we want to achieve that 1.6 million part, the balance quarters had to be on the higher side. Then only this will match so just wanted to understand that which one in the process deliverables second, third and fourth quarter?

**S. Krishnan:** Saket the thing is that 1.6 million ton of order book that you have seen is not necessarily to be executed in this financial year. There will be a sizable volume of this which will survive the financial year and will need to be executed over the course of the next financial year. And at the same time you will see some portion of the 3 million plus of bid book which will get translated into orders and maybe executed in this current financial year as well. So it is not that we have got executed the entire 1.6 million in the current financial year.

**Saket Kapoor:** What should be the ballpark endeavor for us for this year?

**S. Krishnan:** If you see our track record over five years we have done upwards of 1 million ton almost every year after year on an average. So we have started just on the 250,000 tonnes in this first quarter. Our endeavor will be to continue to build on this track record and this year we believe we are better placed because when we started the last financial year, the April, 2017 we had an order book of some 600,000 tonnes. This year when we started we are having an order book of 1.6-1.7 million tons. So we have a good tailwind for us to be able to improve our volumes. Our agenda will be that as we move from 1 to 1.1 or 1.1 to whatever every 50,000-100,000 tonnes will have a disproportionate impact on the bottom line.

**Saket Kapoor:** If you could give the breakup for EBITDA for US, Saudi and India separately, blended for 7700 I think so?

**S. Krishnan:** We don't have that here, maybe we will have to come back to you separately.

**Saket Kapoor:** As I heard our MD speaking today on the con-call on the television also that we are having higher utilization levels for the US and the Saudi market than in India. If we are having high utilization level for Saudi why are the losses being there or anything wrong information I'm having?

**Vipul Mathur:** The question was that what is the likely plant utilizations at US and at Saudi. As you see that we have almost two quarters booking at US and almost more than two quarters, let's say over more than 4-5 quarters booking at Saudi. So my concern was that once we have a confirmed order book in our hand, the plant utilization is only going to go up, it will only be higher. If you compare it with the last year when the order book we did not have the orders in our hand, if you compare with that we have orders in hand so there is no reason why the plant utilization should not go up. So now to what extent it can go up, it is a factor of the steel availability, the way it looks to us if we are able to manage the steel in the supply chain well within time to the respective units we can achieve our plant utilization factor of in excess of 85%.

**Saket Kapoor:** What was it for the first quarter for Saudi since we have made losses also in the Saudi?

**S. Krishnan:** Saudi was negligible volumes as we mentioned earlier we did about 35,000 tonnes or something in Saudi. So the MD's statement was in a different context and it was more from a future outlook than from the actual for the last quarter.

**Saket Kapoor:** They are doing a huge build-up in the Saudi part going forward that is what the conclusion is because the first quarter has not performed.

**S. Krishnan:** We believe that I mean we are still in a position to do close to about 300,000 tonnes in this current financial year's which means we should do about 260,000 tonnes or 270,000 tonnes in the balanced nine months.

**Saket Kapoor:** Coming to the Spiral Plant part, to which segment the revenue added by this plant will be in?' it is for the Coil part or for the Pipe production, this will add to which segment, the Spiral Plant?

**S. Krishnan:** The Spiral Plant we are talking about is your talking about the Madhya Pradesh thing?

**Saket Kapoor:** Yes.

**S. Krishnan:** Largely for the water segment at this point of time but it will also have the ability to handle the non-water space. We will also be enabling our sales to do API business as and when it is available. But the principle focus is the water business to start with.

**Saket Kapoor:** What will be the return ratio; we will be investing 170 crores what kind of turnover would be expected? How will it aid to our top-line this Rs. 170 crores from the investment?

**S. Krishnan:** We believe that being closer to the market and in the market where there is a foreseeable business of several billion tons which are expected to come up for bidding and get awarded over the next 6-18 months we will have our fair share of the business. And first is by being closer to the market your also saving the time and the logistics cost so that also improves the margins in that business and not being in that business, not being in that geography is pretty much being not in that business at all because there will not be competitive to access that market sitting in Gujarat or from Mandya. So second is we have done this investment we believe that this will be fairly profitable. We will be happy if it is in the region of around 5 years of payback roughly.

**Saket Kapoor:** We did point about this higher other expenses cost to the Plate charges, so the remaining part also is inclined towards the same expense ratio or the orders are clubbed in some other? I want to understand whether going forward also what will be the base for the freight charges that we have to pay higher freight charges on the remaining execution cycle of the execution also on the order book?

**S. Krishnan:** It could be there because the thing is as far as we are concerned we are indifferent to it because if I'm spending \$100 on freight and I am getting \$105 I am happy to spend that money because I get a return on that as well. Second is, I am also accessing the business of the customer to that extent and I am getting closer to his model which is wherever are his delivery points or wherever are his pipe-laying points. So this is part of the additional service that we are providing to the customer. So this comes at a cost but the recovery is beyond the cost that we are actually including.

**Saket Kapoor:** I didn't get you, if you could repeat.

**S. Krishnan:** So what I'm saying is that the one option is that we could sell-out on ex-work's basis. The other option is we deliver it to the customer taking care of shipping, logistics, import, clearances, duties and local transportation everything. So we would like to be a single stock solution provider to the customer, so this is part of expanding our value chain. And whatever are the costs that we are incurring in this is well and truly recovered in the pricing that we do for these projects.

**Saket Kapoor:** If you could quantify for us, how much was it in the value term that if the freight cost built-in.

**S. Krishnan:** It is difficult to put a number I will tell you why because if it is domestic in India it depends upon where the project is. So in India for example for one of the PSU's we are supplying products which goes right into the Eastern part of the country. We also supply to some customer in the US where we delivered it on delivered duty paid. That means we are the importer on record, we clear it in the local geography and the US pay the duty, take care of local transportation and then deliver it at their site. The percentages will be depending on each order. In some orders it will be very high where it is ex works or an FOB contract, the percentage will be very negligible. It may confuse you if I throw a number at you.

**Saket Kapoor:** Only the forex part you explained, any forex impact in the number, gain or loss there should be?

**S. Krishnan:** Forex had an impact to some extent in the form of a derivative because the currency as you know in the quarter between 1<sup>st</sup> of April to 30<sup>th</sup> of June has depreciated; the rupee has depreciated by over 5% in this quarter. So obviously there is a benefit that we have had in terms of the derivatives getting re-priced and that has gone into our other income.

**Saket Kapoor:** Then we have had a profit?

**S. Krishnan:** But overall what I'm saying is the accounting of the derivatives is that it goes and sits in other income whereas the cost goes and sits in our COGS. These are fairly hedged book so the net amount is not going to be more than double digit rupees in crores.

**Saket Kapoor:** I just wanted to understand other income component is around 62 crores.

**S. Krishnan:** Correct.

**Saket Kapoor:** So out of this how much is the forex part?

**S. Krishnan:** That will be upwards of Rs. 30 crores would be the derivatives impact, Rs. 33-34 crores to be precise.

**Saket Kapoor:** And going forward if the rupee strengthens against the dollar suppose the next quarter, so this will be a reversal...

**S. Krishnan:** But then there also be a corresponding benefit on the COGS side.

**Moderator:** The next question is from the line of Vikas Singh from B&K Securities. Please go ahead.

**Vikas Singh:** I just want to understand one thing since our Saudi order-book is roughly 0.9 million ton which fairly goes more than 2 years, so how are we placed in terms through back-to-back booking in the raw material cost, have we booked the entire or some part is still pending?

**S. Krishnan:** The thing is this order has to be executed beyond the current financial year going well into the next financial year as well, best part of next financial year and maybe beyond as well. So the order and its scheduling is something which is not fully completed but the execution has started for these orders and to the extent that we have visibility of execution is what we have covered in terms of raw materials because it's not one project, it's not one contract. At this point of time there are three contracts and execution of each of these contracts and the scheduling in terms of delivery is the basis on which we are covering for raw material.

**Vikas Singh:** On an average what portion would be covered as of now in terms of percentage?

**S. Krishnan:** Roughly we do cover equivalent of 100,000 tonnes that means about a quarter at a time.

**Vikas Singh:** 100 KT roughly only for one month because we are talking about, for one quarter at a time.

**S. Krishnan:** Yeah.

**Vikas Singh:** I just wanted to understand since we have so much of spare capacity why didn't we think of relocating our capacity to Madhya Pradesh instead of putting up an entirely new plant?

**S. Krishnan:** What we will do Vikas is that there could be some small equipment that we will relocate but not that everything can be relocated. We are looking at also having a porting capacity there. No porting is not something that is surplus in Anjar for example. So we will need to create infrastructure there which is going to be on a standalone basis relevant as well as relevant for

water, API and other segments. And this capacity is not being set up only for this year or next year, we would like to see that it is relevant for the foreseeable future.

**Vikas Singh:** This year total CAPEX should be roughly around 250 crores for this particular year because the 100 crores is roughly our maintenance.

**S. Krishnan:** Roughly yes, you are right.

**Vikas Singh:** I believe since for US the timeframe for execution is slightly shorter, so we would have booked in a way that the 25% increase in duty should not have an impact on our previously contact. So our margins are more or less protected for next two quarters, is that the right assumption or we have some exposure there also?

**S. Krishnan:** In the US whatever business we have booked is all based on local sourcing of Coils and with back-to-back cover, so there is no exposure to Coil prices so there is no upside or downside because of price movement.

**Vikas Singh:** So more or less margins are protected despite the increase in the steel prices in US?

**S. Krishnan:** Yes.

**Moderator:** The next question is from the line of Yash Agarwal from Crest Capital. Please go ahead.

**Yash Agarwal:** I want to know what the volume guidance is for FY19 in India and US.

**S. Krishnan:** We said that on an overall basis we should do upwards of 1 million ton like what we have done over these last 5 years on an average and we believe that we should do around 300,000 tonnes in Saudi that is included in this. So anywhere upwards of 700,000 to 800,000 tonnes is what we should do between India and US. It could be only higher because the only reason is that we have started with the high order book.

**Yash Agarwal:** I want to know Plate Mill, how much we used captively and how much is basically sold outside?

**S. Krishnan:** Out of whatever we did in this first quarter, more than 2/3<sup>rd</sup> is sold externally and about 30% is what is captively consumed.

**Yash Agarwal:** So the EBITDA that you report of about 7700 per ton if you use the event of the pipe also, the Plate Mill?

**S. Krishnan:** But that gets included in because effectively it is sold as a pipe in our books so it gets knocked off.

**Yash Agarwal:** Any impact of the global trade war etc. that is going on your business, any initial impact that you are seeing?

**S. Krishnan:** We discussed this briefly in the call but we will detail it again. What is happening is since US initiated this action under 232; the US market has become basically a game for the local players. Supplies from outside is going to be far-far more challenging than what it has ever been in the past. At the same time we are in a beneficial position because wherever there is a long seam order that the local projects require because there are no local capacities available or relevant capacities available is where they will need to seek an exemption and we believe for some of our preferred customers where Welspun is a supplier of choice we believe we will be able to access some of that business. But on the other side we are in a far more stronger position with 0.5 million ton capacity across the two mills that we have, so those capacities will be far more relevant as the business becomes localized. Coming to the impact of US action has been that Europe has also initiated similar action and pretty much Europe has also gone into this quota regime with a 3 year average and the 25% duty beyond that threshold. So even the European market has become far more difficult to access than what was the situation maybe few months back. So the market as we, see are getting localized. So local presence and physical presence with capacities and all is what is going to be the key factor in terms of our business model that we will need to look at.

**Yash Agarwal:** The other income of 62 crores, so what was the main component of this other income?

**S. Krishnan:** We said that upwards of 33-34 crores was basically the derivative's MTM effect.

**Yash Agarwal:** FOREX?

**S. Krishnan:** Yeah.

**Yash Agarwal:** And the rest is the other income on cash, is it?

**S. Krishnan:** Others, the treasury income and the others.

**Moderator:** The next question is from the line of Abhishek Jain from Everett Global. Please go ahead.

**Abhishek Jain:** I just want to know that what percentage of old order book is left in Saudi at this point of time. Second question is how much orders we have bid specifically in India and region wise if you can throw some color on that?

**S. Krishnan:** Most of the old order books that we started the year with have been liquidated. So pretty much what we are carrying forward is the large orders that we have got to execute which is mostly in the water segment in Saudi. Are you talking about the order book or the bid book?

**Abhishek Jain:** Bid book.

**S. Krishnan:** So coming to the bid book, if you really look at over 3 million or 3.1 million ton which is a total bid book, roughly the America is almost 40%, Europe and MENA is about 30% and the balance 30% is in India between Oil & Gas and Water and other segments.

**Moderator:** The next question is from the line of Ashish, an individual investor. Please go ahead

**Ashish:** I just have a question of around competitive landscape. I heard that I guess competition is intense, there is no change. So I just wanted to understand who are 3 or 4 competitor players and what is our strategy or what are our competitive differentiators against them?

**S. Krishnan:** You are an individual investor is it, Ashish?

**Ashish:** Correct.

**S. Krishnan:** The competitive landscape again changes from market to market and in each market also depending upon the segment. So are you referring to India or Middle East or US or which market are you particular about?

**Ashish:** I guess I will be more interested in India.

**S. Krishnan:** In India if you take water and if you take oil and gas as two major segments, we have few players in the water business, you have got 3-4 players who are there in that market I presume you will know them whether it is Jindal Saw, Ratnamani, MAN and all these people. And in the oil and gas space also it will be many of them but not all of them will have the track record that we have, not all of them will have the bandwidth that we have and the capacity and the ability to reach that we have. So for example there will not be many players will have the ability to do end to end including concrete weight coating which we have and maybe one other company in the domestic market has at this point of time so it depends upon how the projects are. In oil and gas where there is concrete weight coating required it will be a limited table between only two companies possibly at this point in time.

**Ashish:** You mentioned about bid book being standing at around 3.1 million, so based on the past execution record based on the past sales record is it possible for us to understand what is the bid book to sales-win ratio in case if you have done some kind of analysis in the past?

**S. Krishnan:** It is difficult to predict but on an average it will be anywhere between 20% to 30%. But sometimes it is very high when we win a large portion in a certain order where Welspun is the preferred vendor.

**Ashish:** Do we get some color around order book to revenue realization ratio; is there any kind of guidance?



**S. Krishnan:** Order book revenue realization ratio, you will have to see the statistics across the last five years. But if I take last two years statistics, last year we started with an order book of 600,000 tonnes. We ended up transacting upwards of 1.1 million tonnes. That means we have booked and transacted upwards of 450,000 tonnes during the course of the last financial year itself and still at the end of the year we were sitting on order book of 1.67 million ton which is what we started this current financial year at. So this is something we can send you those statistics, it is there in one of our investor presentations as well and we will be happy to detail it out if you have any questions on that.

**Moderator:** The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

**Dikshit Mittal:** My question is on Plate Mill utilization; currently we are fairly utilizing around 30% of our nameplate capacity so that is obviously dragging down our return ratios. So any plans to monetize these assets because I think in the past we had looked at that option actively I think.

**S. Krishnan:** That option remains valid I mean we will continue to pursue those options. We will try and see wherever that becomes value creating for the company we will tons that those as well. At the same time our agenda is to try and improve capacity utilization year on year. So from last year's Q1 to this year's Q1 there is a big significant jump from 57,000 tonnes to 123,000 tonnes or something that we have done this year. Our agenda is to increase volumes year-on-year and improve profitability as we go along. That also ensures that the burden of the Plate Mill assets on the consolidated balance sheet comes down. That is not to say that we will not look at opportunity for value creation including by divestment as and when it arises.

**Dikshit Mittal:** So till that divestment doesn't happen can we extrapolate the 60 crores quarterly profits to continue at least in the foreseeable futures?

**S. Krishnan:** That is difficult because if you see our statement that we said we will need to continue to work on securing our margins. The supply of slabs and margin debt up between the slab to the plate or slab to the coil will continue to be something that we will need to closely work on. Last year we did about 170 crores, we have done 150 crores, 40-45 crores or something in this quarter. So we will need to work every quarter. I wish we could multiply this Q1 by 4 and say that's what we will deliver. But you know that that's not the way the business runs.

**Dikshit Mittal:** But at least in volume terms we can assume that this kind of run rate of 125,000 will continue?

**S. Krishnan:** That's our agenda for sure.

**Moderator:** The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

**Aman Sonthalia:** What is the margin improvement we can expect in the Q2 compared to Q1 in the Indian operations?

**S. Krishnan:** We explain this earlier in the call that we expect that rather we would like that we would maintain the average margin in terms of EBITDA per ton across the Ind-US geography that is India and US put together, upwards of around Rs. 8000 a ton. That's what we would like to work for because very difficult to predict what will be the margin in Q2 because the margin in Q2 even if for the geography that we say is a function of what is actually build and recognized as revenue. What remains in inventory or what is in transit and not recorded as a revenue will not be counted for our margin purposes.

**Aman Sonthalia:** At least we can expect a better margin than first quarter.

**S. Krishnan:** In the first quarter also we are in the range of about Rs. 7700 a ton. So we expect slight improvement I mean that's something for the year, not really for a Quarter 2 or Quarter 3 or like that. We would like to work in the region of about Rs. 8000 a ton.

**Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

**Saket Kapoor:** If we take the last year numbers we have the JV profit loss of 86 crores. That was entirely on account of Saudi?

**S. Krishnan:** JV?

**Saket Kapoor:** The share of profit and loss from the joint venture, it was around 86 crores for last year.

**S. Krishnan:** That was or loss and that was basically between the Saudi entity as well as a small number that came in from our India JV that is the CWC JV, Welspun Wasco. In Anjar where we have got concrete weight coating project. That is also accounted as a joint venture under Ind-US.

**Saket Kapoor:** What was the total volume from Saudi operations last year?

**S. Krishnan:** Last financial year was upwards of about 100,000 tonnes, 96,000 tonnes to be precise.

**Saket Kapoor:** And generally on the cost structure what is the breakeven there? After what we start making profit?

**S. Krishnan:** It is also a function of the quality of the order. But what we can only say is that this year our agenda is to try and hit a volume close to about 300,000 tonnes in this financial year. So which is why the volumes will be significantly higher than what we have done either in FY17 or in FY18 because both the years our volumes have been in the region of about 100,000 tonnes in terms of sales, so this year we should see a quantum improvement in our volumes

and that should obviously have a beneficial impact on the margins whether at the contribution level or EBITDA level or below.

**Saket Kapoor:** This red ink from the JV parts should be a matter of history of course the first quarter. We should not continue with it because of the higher execution on part of Saudi. It should be evident that we won't be in the position to give red-ink to the segment going forward from Quarter 2 or maybe on a year as a whole also, it should be....

**S. Krishnan:** I would agree with that more on an annualized basis because on a quarter basis it is difficult to really predict.

**Saket Kapoor:** But the execution will improve going forward otherwise.....

**S. Krishnan:** For sure. That is what the MD also said Saket earlier in the call that we will try and push for hitting a volume of 300,000 tonnes in the current year.

**Saket Kapoor:** Could you elaborate that what does this other operating revenue constitute of 74 crores?

**S. Krishnan:** Of that as we said upwards of between 30 to 35 crores is derivatives MTM effect.

**Saket Kapoor:** That is other income you have told. I'm talking about the other operating revenue.

**S. Krishnan:** So that comprises basically sale of scrap, the VAT income, the export benefits.

**Saket Kapoor:** That gets clubbed into the EBITDA of 7700 then?

**S. Krishnan:** It does. These are all relating to the operations.

**Saket Kapoor:** If we take this on the standalone we have only the Indian operations and in the consol it is the US that is getting clubbed up?

**S. Krishnan:** Yes that's right.

**Saket Kapoor:** This also means that our US operations are far more profitable than the Indian operations, Indian with the lower utilization levels has lower fixed cost absorption? That will be a good way of assessment because if we take the revenue jump in the profit margins improving on a revenue base of 650 crores the bottom line get disturbed in the consol level.

**S. Krishnan:** You are right Saket, historically also our US business has always been more profitable compared to the India business. The US business only becomes challenging when we don't have enough orders or we have to remain idle or we book very low margin orders. Now sitting on a order book this year as of now which is about 300,000 tons that we need to execute in the balance portion of the year, we are in a comfortable position. But because of

some of these trade actions that have happened which we discussed earlier in the call we believe that the quality of the new orders that will come up and the margins will be higher than what we are carrying forward in terms of the average margins. Does that answer your question?

**Saket Kapoor:** We can calculate that the US business is more profitable and it will be more challenging going forward....

**S. Krishnan:** Yeah more interesting going forward is what I would say rather than challenging.

**Saket Kapoor:** Who are the nearest competitor there and what is our market share in the US?

**S. Krishnan:** There are 2-3.

**Vipul Mathur:** Saket there are 2 or 3 big players there, one happens to be Stupp, the other happens to be Berg, so these are two relevant big market players. Also that market was also being addressed by companies like Evraz from Canada and also some Turkish manufacturer. So now those markets with imposition of these trade duties these people probably would not be there but from a competition point of view these two companies have a large capacities and they would be there.

**Saket Kapoor:** If you could give a ballpark figure what is our market share there?

**Vipul Mathur:** As you know we are the largest player in that particular market. We have the highest approvals and we have the highest capacity and if you look at the US market it is also not about the share, it is also about all the associated services who can provide in end-to-end services. Looking at that I think so we easily enjoy a market share of at least 25% if not 30.

**Moderator:** Thank you. Ladies and gentlemen that was a last question for today's conference. I now hand the conference over to the management for closing comments. Thank you and over to you sir.

**S. Krishnan:** Thanks everyone for participating in this. It was an hour plus time that we had quite a few interesting questions. We have tried to address most of the questions that you have passed. If there are any more left, don't hesitate to reach out to us. We will be happy to address those questions. It's been an interesting learning for us as well and we will take some of the feedback and solutions that have come on the call in trying to run our business better and meet your expectations in the quarters ahead. Thanks again.

**Moderator:** Thank you. On behalf of Welspun Corp that concludes this conference call. Thank you for joining us and you may now disconnect your lines.