



“Welspun Corp Limited
Q1 FY2020 Results Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Welspun Corp Limited Q1 FY2020 results Conference Call hosted by Emkay Global Financial Services Limited. As the reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Zade from Emkay Global. Thank you, and over to you Sir!

Amit Zade: Good morning everyone. I would like to welcome the management of Welspun Corp and thank for giving us this opportunity to host the Q1 FY2020 earnings call. I would now hand over the call to the management for their opening remarks. Over to you, gentlemen!

Percy Birdy: Good morning everyone. This is Percy here. Welcome to our Q1 FY2020 conference Call. We will start with you operational and financial performance. As you would recollect at the end of the Q4 of FY2019 we have announced the divestment of our plate & coil mill as well as our 43 megawatt power plant, which has been classified now as discontinued operations. Please note that all the figures being discussed today for the continuing pipe operations unless specified explicitly and prior period for this have also been adjusted accordingly.

The company continued on its robust performance during the quarter and the key highlights are as under.

US operations recorded sales of 109,000 tonnes delivering an EBITDA of \$36 million for the quarter. This was one of the highest quarterly EBITDA in many years at the US facility.

Saudi operations recorded highest ever quarterly sales of 138,000 tonnes. As guided in our last call, operations have turned PBT positive as well. Just to remind you in the last quarter the operations had turned EBITDA positive.

India operations: Bhopal plant has been successfully commissioned. We have now a strong order book of 86,000 tonnes to be serviced from the Bhopal facility. All other manufacturing locations of Dahej, Mandya and Anjar also enjoy robust order book taking the total India order book to 666,000 tonnes. Though Q1 witnessed a slowdown for known reasons, we are confident of an improved operational performance from Q2 onwards as the pace of project execution has picked up, consequent to the formation of stable government at the center.

We look at balance sheet aspects so on the deleveraging front, we continue to work on reducing our net debt. Net debt has now been reduced by an additional Rs. 90 Crores during the current quarter and at the end of June 30, 2019 it stands at Rs. 196 Crores.

On our global order book position, current order book stands at 1,564,000 tonnes that is 1.5 million tonnes, valued at Rs. 13,300 Crores (in US \$1.92 billion). This robust order book provides a visibility for 12 to 18 months.

I will now quickly run through the key financial numbers for the current quarter. Volumes, the Q1 volumes of pipe sales for total operations including Saudi stood at 319,000 tonnes including 138,000 tonnes of Saudi plant versus 267,000 tonnes of the prior period up by 19% YOY. Total income from operations stood at Rs. 2,047 Crores up 25% year-on year. Operating EBITDA after adjusting for treasury income and the MTM/ fair valuation impact on the bonds stands at Rs. 259 Crores up 49% year-on year.

Reported EBITDA stands at Rs. 242 Crores up by 24% YOY. Other income stands at Rs. 42 Crores which includes Rs. 20.5 Crores of transactional forex gain.

Other expenses in the current quarter we have MTM fair valuation adverse impact on bonds of Rs. 36 Crores which is mainly for DHFL bonds. With this we have provided for the risky corporate bonds in our books. Other expenses also has transactional forex loss of Rs. 20 Crores which is in a way compensated about 20.5 Crores of transactional forex gain sitting in the other income.

Profit before tax and share of joint ventures stood at Rs. 148 Crores up 63% YOY. Profit after tax after minorities and share of joint ventures stood at Rs. 126 Crores up by 138% YOY. Cash PAT was at Rs. 179 Crores up 30% YOY.

Now coming to the balance sheet side, debt at the end of June net debt was at Rs. 196 Crores with gross debt at Rs. 1,107 Crores while cash and cash equivalents stood at Rs. 911 Crores. Company has prepaid USD \$25 million of loans in the US subsidiary during the quarter in addition to the other \$25 million which we had prepaid in the month of March 2019. The cash conversion cycle has further reduced to 14 days versus 18 days in FY2019. Please note that this also includes advances that we have received from customers mainly for our US orders.

Now we come to the Middle East joint venture, our Saudi operations. So as you would recall our Saudi figures are brought in consolidated financial numbers at a single line level after PBT as per the Ind-As. The Saudi business has turned PBT positive during the current quarter with EBITDA of US \$13 million and a PBT of US \$7 million. EBITDA per tonne is close to US \$94 per tonne in the current quarter. We expect the performance to further improve in the coming quarters.

Now just to give an update on the buyback of shares also: So the proposed buyback of shares has been approved by the shareholders. Consequent to the changes announced in the recent Union Budget that came out on July 5, the company has sought clarity from SEBI on the implication of the buyback tax and is awaiting certain clarifications of revised guidelines of the same.

With this I would like to handover to our MD for his comments on the market and company outlook.

Vipul Mathur:

Good morning everyone. Let me give a brief update on how and what we see as the market drivers for each of the markets which we are operate in. Let me start the market overview with US. In US we continue to see rising fracking in the Permian basin and the resultant bottlenecks in the transportation of gas which is coming out of this fracking. We have seen major pipeline

transmission operators still laying out significant plans to lay pipelines so this additional capacity of gas can be offered to the producers.

We have been seeing this process for the last one year and we continue to see a significant progress even moving forward. With restrictions now being placed on imports, the local US players including Welspun are expected to command good margin with higher volumes.

Indian domestic market, if you look at the Indian domestic market the large diameter demand for the pipe in the oil and gas sector is primarily driven by the gas grid which GAIL is developing, the oil grid which IOCL is developing and in the last mile connectivity through the city gas distribution which is happening.

In the water sector, there are couple of things which we need to note, recently the government has announced formation of a new ministry called Jal Shakthi Ministry where their goal is to provide “Nal se Jal” - every drinking water to just about everyone by year 2024. Further we are seeing momentum on river interlinking projects. I think these two developments put together are going to result in a huge potential opportunity for all the pipe manufactures active in the water sector.

We are also confident that our operational performance starting Q1 2020 will gather further momentum and primarily if you recollect the Q1 performance has not been that exceptional for a simple reason that we have been in to a phase where the code of conduct was in place, elections were in place, new government was in place, thereafter everything now seems to have settle down, the financial arrangements had been now made by the state government and the funds have started trickling into the whole things, so in the whole process the Q1 has been a little lackluster performance but moving as we have gone into Q2 we are seeing the phase of the project have definitely caught up.

The other aspect is exports from India, we are seeing a very strong demand outlook both the onshore and offshore oil and gas industry. We know that the crude prices are still very strong, the crude demand is also very good and if we connect the dots we are seeing a sort of robust demand for the LSAW Pipes across all the geographies. With Welspun global approvals and global accreditations and with our impeccable track record for supplying pipes for complex oil and gas project, we would definitely be benefitted out of this strong demand.

As we speak, we are following up on some major projects and also we are in the process of executing one or two key projects, the execution of which is going to get reflected in our Q2 performance.

As Percy mentioned about Saudi Arabia, all you must have noticed that the Saudi Arabia has been a complete turnaround story. We have been very buoyant about it and we have been giving the guidance to the market that all the pain in Saudi Arabia is behind us. In Q4 we turned EBITDA positive and in Q1 we have now turned PAT positive. We still have almost 650,000 tonnes of an order book in Saudi Arabia and which is likely to keep us busy for the next two years. On top of it, we are seeing a strong demand coming in from the oil and gas as well as water sectors which is

respectively driven by Saudi Aramco and SWCC and we are very optimistic that our order book is only going to improve here on.

As regards to project the phase 1 of Bhopal project, which was the pipe project is fully commissioned, the commercial productions have started. We have started executing orders from there, now we are focusing on the phase 2 of the project which is the coating plant and as advised earlier we are absolutely on track and we should be up and this plant would also be running by the end of December 2019.

Welspun being a global but local player with leadership position and the sizeable capacity in India, US and Saudi Arabia is highly poised to benefit from local sourcing by the large oil and gas players. Also recent measures of value unlocking of our noncore asset like plate & coil mill division and 43 megawatt power plant would help the company move forward on an asset light model strengthening the balance sheet and achieving improvements in our profitability ratios as well as return ratio.

With this we conclude our opening remarks. We will now be happy to take any question you gentlemen and ladies would have. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentleman we will now begin the question and answer session. We have a first question is from the line of Nitesh Jain from Birla Mutual Fund. Please go ahead.

Nitesh Jain: Good morning gentlemen. Sir I have a couple of questions. Number one is US has basically lifted the steel and aluminum tariff on Canada and Mexico on both the countries sometimes I think three or four months back, so what sort of impact have you seen on the US Pipe Industry? I mean is that any capacity of the long pipes in Canada and Mexico which can actually come into the US market and then eventually hurting the profitability or EBITDA of Welspun US, this is question number one?

Vipul Mathur: So you are right, this 232 duty which have been imposed on Canada and the Mexico were lifted under the new NAFTA agreement what they have signed. Now from a Mexico there were no large diameter producers so even if that is lifted it is not making any impact. However, in Canada there is a large diameter producer and which has been bringing the pipes into US and on them this is the duty of 25% has been lifted so there could have been a potential that they could have been some little injury which could have come from Canada; however having said that so what they done is they have lifted the 232 duty but they have not revoked the anti-dumping duty, the anti-dumping duty still remains at 12.5% for any pipes which is Canadian pipe coming into the US, so to that extent there is still deterrent which is existing and I think that is good enough for us, I do not think that is going to create an effect in the immediate future for our business.

Nitesh Jain: Sure, thank you very much and second question is on the India business, so this quarter can you elaborate what actually happened like how can so called I would suggest stable scenario of demand, all of a sudden our volumes drops and in the opening remarks first you mentioned that the outlook

is still very good, so can you elaborate what actually happened are there any deferment of some one individual or couple of contracts or what is it like for the top in volume in Q1?

Vipul Mathur: Ok so let say our order book in India is still at 666,000 metric tonnes that is the demand what we have. If you look at it, in which the domestic component is close to 430,000 tonnes and the export component is 235,000 tonnes so export component has is absolutely moving smoothly absolutely no issues around that, but in the domestic component which is something like 230,000 tonnes the majority of it is around water part of it and the balance is around domestic oil and gas around it, the challenge has been on to the water side of the execution and which is the largest. The reason for that water side execution has been because the government was being in sort of election mode and the code of conduct being in play, all the financial disbursement being stalled, I think so that is what has eaten away the first quarter, as now the government in place, the state governments have started receiving money and the fund allocation to the project has already started happening. We will see this business going to come back, but from an order book position we still have that order in us and it is only the execution which got lagged because of the non-availability of the funds and you know that this is a typical period around when the election quarters this is something which is very typical to that, so I think so is all now behind us and I think from Q2 onwards we have already started seeing in July and as we speak even in the first seven eight days of August we are seeing sort of a robust growth which is happening around that and I think so that will continue to go ahead.

Nitesh Jain: Lastly is there any one of item in the US EBITDA because like \$36 million appears to be very high so like this a normal thing?

Vipul Mathur: You are right. 36 million EBITDA is like we have some inventories of KXL which has been lying with us and they have also started getting liquidating. They have also started to moving out, so there is definitely a little bit of embedded value in this EBITDA as well but moving forward that the order what we have in hand really profitable and I think so we will continue to execute the way and maintain around similar amount of profitability in subsequent quarters as well.

Nitesh Jain: Sir would you see normalize EBITDA in US like in what trends, will it be like \$200 per tonnes or 250 tonnes or any kind of range?

Vipul Mathur: So our guidance if you see we have always given a guidance that normalize EBITDA in US in excess of \$200 per tonne and I think we are more than confident that we should be able to deliver that, if not exceed that.

Nitesh Jain: Lovely. Thank you Sir. I appreciate.

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

Nirav Shah: Good morning Sir and congratulations on good set of number plus the Saudi turnaround. Sir few questions; firstly, we have seen a decline in global steel prices so for the Saudi operations where it

was a fixed price contract, have we covered anything for the near term in the last three, four months?

Vipul Mathur: As we have always been maintaining that was a calculative call and very methodical call we have taken in the past and the call what we have taken is getting validated. There is a considerable slowdown in steel prices and that is definitely helping us out. What we are doing as in Saudi we are covering steel at least on quarter or four months basis, so that and that is what roadmap we have adopted for and that is how we will continue to work around that, so three, four months steel we keep on covering and rest we have kept it open.

Nirav Shah: So broadly for December we have covered, broadly?

Vipul Mathur: Broadly we have covered till November/December now at this point of time.

Nirav Shah: We have maintained the \$100 per term guidance for Saudi operations. Should there be any upside on that because now steel has come down, so are you revising that are you maintaining as of now?

Vipul Mathur: No we will continue to maintain that at this point of time, I mean \$100 margin EBITDA margins is the guidance we will like to keep at for the time being.

Nirav Shah: Perfect and Sir second question is there is no change in the India executions plans for the entire year despite a slow Q1 you will coverup in the next few quarters?

Vipul Mathur: We will try. Time loss is a time loss, let us recognize that fact, but the good part is that we have order book under our belt and we are from an operation point of view we have the capacities, we have the capability and we have the order, so we are trying to recover as much as possible what we would have possibly lost in Q1.

Nirav Shah: Last question is on the capex. We did around 70 Crores for the current quarter. For the full year guidance and separately what is the capex for the coating capacity at Bhopal?

Vipul Mathur: For the coating capacity that Bhopal we are expecting another about 50 Crores-60 Crores, the entire Bhopal project is about 180 Crores as we have disclosed in the past as well and the sustenance capex in India would be in the range of about 40 Crores-50 Crores per annum which like a maintenance capex.

Nirav Shah: So broadly our capex this year will be 80 Crores in the Q1, 60 for the full year the sustenance capex and another 50 Crores-60 Crores for the coating capacity.

Vipul Mathur: No, so the total Bhopal project is about 180 Crores out of which coating is going to come now till December and apart from that in India the maintenance capex annually is in the range of 40 Crores-50 Crores.

Nirav Shah: So total outgoing would be how much because some of that coating capex should have been incurred in Q1?

- Vipul Mathur:** You can say about 100 Crores including the coating plus maintenance capex in India it would be around 100 Crores.
- Nirav Shah:** Thanks a lot and all the best Sir.
- Moderator:** Thank you. We have next question from the line of Vikas Singh from PhillipCapital. Please go ahead.
- Vikas Singh:** Good morning Sir. Sir my question is if I look at the order book movement, so on a back calculation it seems like there is slightly decline or a negative in the order book addition on a quarter-on-quarter basis by 18 KMT, so have we got some order cancelled in India or if you can just reconcile it?
- Vipul Mathur:** You are right from a quarter-on-quarter basis, the order book in the first quarter has been slightly lower than what has been in the past quarters, there is no doubt about that Vikas but that is the nature of the business. In Q1 the order placements and the order execution is typically, both of them are typically on the lower side of it, but if you see the momentum gets build up over Q2, Q3 and Q4 and if you look all the historical chart as well I mean for the last 2-3 years, it will give you a very clear indication around that, so it is a typical project business scenario and I do not think so that it causes any concern to us.
- Vikas Singh:** No Sir what I was talking that last quarter, we ended up with 756 KT order book, we have executed 72 KT and we ended with 666 KT so there is another missing 18 KT in the order book so I was wondering whether some segmental or what it did happen actually?
- Vipul Mathur:** Vikas, I think so 180,00 tonnes of order go back and forth; so we will reconcile offline also but in these large numbers some 15000 tonnes-18000 tonnes can move here and there, but nothing has got cancelled as just to reassure you nothing has got cancelled and more importantly we see a robust demand and robust pipeline for the future orders coming in as well.
- Vikas Singh:** A similar trend in US, our order book condition has been fairly low in 1Q so any explanation that whether why in the US also the additions has been a little bit dull this quarter or how it is spanning out in this quarter, if you can explain?
- Vipul Mathur:** Vikas we are on the small diameter mill on our ERW mill we are already booked till October and November and the small diameter mill bookings happen on a quarter-on-quarter basis, so and we have project in pipeline in which I am sure by the end of August early September we should be able to close some more orders to take care of our ERW business. Having said that on our large diameter mill we have confirmed order book almost till mid to end of February, we are strategically positioning ourselves for some projects there and to that extent we have kept our mill booking open deliberately so we have to strategize that and we have done that and I think so this position will help us in the future, the way as we move forward.

- Vikas Singh:** Sir just one more clarification on US, in your remarks you have said that we are expecting the similar kind of in the remaining order book similar kind of profitability in US to be maintained, while we are giving a guidance for 200 plus so because currently around \$330 per tonnes so if you can just explain where we are actually seeing us in terms of US profitability?
- Vipul Mathur:** As I said in this quarter, there was certain aberration, there was certain old orders which also the pipes of which also moved down, so there is a little bit of EBITDA embedded into this EBITDA what we have shown it to you, but having said that I think so the order book what we have at this point of time for the large diameter and also order book which we are likely to have for the small diameter I think so the blended EBITDA on a conservative basis would still be in excess of \$200 that is what we are saying.
- Vikas Singh:** Sir that is the conservative estimate you are talking about?
- Vipul Mathur:** Naturally.
- Vikas Singh:** Sir Saudi like you said that you are booked till November/December so we are still considering run rate of 120, 130 KTs or we are still up line for almost 500 KT worth of steel that is not back to back-to-back booked?
- Vipul Mathur:** In Saudi we are booked for not till November/December, we are booked till at least next 15-18 months.
- Vikas Singh:** No back to back steel booking I am talking?
- Vipul Mathur:** You are right. I was commenting for a pipe order, from a pipe position. On a pipe order book we have almost booked for 18 months for now. On the steel side of it, we have covered up to November and December and we still feel that the steel market should remain flat, stable that is how we are forecasting things as well at this point of time.
- Vikas Singh:** Sir just one thing. In terms of your old legacy order, so last quarter where you had some portion and we would be having the good orders going forward?
- Vipul Mathur:** We still have a small portion of the old legacy order remaining but now that is spread over the next 18 months, so the maximum pain which it was inflicted has already been inflicted and now that pain is not going to be noticeable in that.
- Vikas Singh:** In that case our Saudi EBITDA guidance should be more than \$100 per tonne because next one quarter onwards the legacy order is very low, we are very much comfortable in terms of steel prices. Even in last one quarter the steel prices has gone down.
- Vipul Mathur:** I would leave it to the your best judgment on this matter Vikas and you guys are much more arithmetically plugged in than what we are, you are more than free to assume but all what we are

giving is a very conservative guidance at this point of time, this thing looks definitely positive, there is no doubt about it.

- Vikas Singh:** Sure Sir that is all from my side. If I have any more questions, I will come back in queue.
- Moderator:** Thank you Sir. We have next question from the line of Sachin Kasera from Lucky Investments. Please go ahead.
- Sachin Kasera:** Good morning Sir and congratulations for a good set of numbers. Two three questions, one was on this net debt figure of 195 Crores, you mentioned that you also had certain advances, so as we go ahead how will the working capital cycle move and will this net debt figure go up or will it come down?
- Percy Birdy:** So the advances from the customers do not count to the debt figures, those are part of the working capital. As far as the net debt is concerned it is that about 196 Crores at the end of June, and it is only going to move downwards, so sooner than expected because our target was to be that 0 by March 2020 but we will be achieving that goal hopefully earlier than that.
- Sachin Kasera:** Sure and secondly Sir clarifying this net debt of 195 does not include any debt from the Saudi operation, this is only pertaining to India and US?
- Percy Birdy:** That is right. This is India and US.
- Sachin Kasera:** And how much these are in debt of the Saudi balance sheet also Sir?
- Percy Birdy:** Saudi the working capital debt keeps fluctuating in the range of about 350 million to 400 million riyals so as of March I recollect it was about close to 350 million worth of working capital, which would in rupee terms it would translate close to about 650 Crores.
- Sachin Kasera:** Secondly Sir my question was regarding this net debt and the net cash you have so you as on June we continue to 9,000 Crores-10,000 Crores of cash and you aware it that is capex is said to be like 100 Crores-125 Crores, 130 Crores but in terms of robust cash flows also, so what is the point of keeping such gross debt and cash and knew then when we are putting our investments into bonds we have continuously having marked down in certain corporate bonds and all that, so better not once and for all, maybe pay some premium and get the debt and the cash at a more respectable level and that will be a better way to utilise our entire cash flows?
- Percy Birdy:** You are right in many ways. We are not investing anything further in to bonds or anything, we are trying to liquidate it as early as possible, but as you are aware the markets are very illiquid as of now, so it is a challenge to liquidate it without booking substantial losses also, but the objective is your right. We want to utilize the cash to liquidate the gross debt and finally bring the gross debt also down and you also aware that we also have a buyback which is coming up so there also we would be utilizing the cash.

Sachin Kasera: Sir can you give us break about this 9,000 Crores-10,000 Crores of equivalent is to how much into corporate bonds and how much into mutual funds and how much you actually FDs and what is the rating of this, some of the mutual funds are the some of the bonds that you are having?

Akhil Jindal: Let me try and give this answer to you. For the corporate bonds as on June 30, is restricted to 21 Crores after making all of the provisions, that the corporate bonds and of course they were all invested in a AAA, so the rating continues to be AA+ in most of the cases and AAA in certain cases so 22 Crores is the corporate bond investment as on June 30. Then we have additional 132 Crores in PSU bonds and these are again AAA, AA kind of rated bonds, so most of them as Percy said, get the fair value achieved if we liquidate them, but it would be a matter of time that you get the best of the price. Bank bonds is another 121 Crores which are again AA plus, AA minus kind of a bank bonds, which are all PSU, none of them is any private so these are all PSU bonds so if I add up all the three of that becomes close to 275 Crores roughly. Then we have in mutual funds another 191 Crores in the mutual funds, so together with the bond and the mutual funds, that come of treasury of almost 460 odd Crores and the balance money is lying as cash and bank balance in various geographies, some part in the US, some part in India, some part in of course we do not include Saudi here but within India also there are number of different plants, so to that extent all the necessary provisions had been made, all the necessary liquidations have been made and to that extent I think going forward but for certain unforeseen situation that may happen on a PSU bonds and bank bonds which is very unlikely, we may not require any further provisioning. Just wanted to confirm also on the fact that the going forward the board has clearly decided not to invest in any of these bonds for the time being and to the extent any surplus money that the company will have will only be in the liquid mutual fund backed by HDFC, SBI, and ICICI so that policy will continue.

Sachin Kasera: Excellent Sir. Sir my next question is regarding these net assets held for sale. Your presentation mentions that you will have 1247 Crores and I think from we had going to receive something like 900 Crores-1000 Crores, so will we be able to book some loses and adjusted against the tax liability for future as we are going ahead?

Percy Birdy: As there are assets held for sale, there are also liabilities for disposal and these are actually representing the PCMD division and the 43 megawatt power plant which we have sold March 30, so the amount that we are going to receive is about 850 Crores for the PCMD and about 67 Crores for the 43 megawatt plant, so all that has been already accounted in March 31, and already booked to the P&L.

Sachin Kasera: Sure and Sir when do we expect this money flow in going by the current status of both the deals. Should we look at Q2 end we should be realize this money and should be going to Q3?

Percy Birdy: The PCMD closure is targeted before December 31, 2019. As far as the 43 megawatt is concerned the sale is concluding very soon, so maybe in Q2 itself we should be able to conclude it.

Sachin Kasera: Lastly you mentioned that even with internal cash flows you should be debt free by end of Q2 or Q3 and then you have this 900 Crores coming in of which may be around 400 Crores will go into the buyback and there is not too capex in this couple of years, so if you could give us some sense

how is the board is deliberating in terms of the future cash flows because I think we will be left with something like 800 Crores to 1000 Crores net cash when we end this year and maybe similar figure next year also, so how is the board deliberating on that, is it that you are looking at some growth opportunities or the endeavor will remain to repay in terms of dividend and buyback?

Vipul Mathur: Sure as we have said in the past so we are very, very cautious on any capital expenditure so apart from this Bhopal plant which we have done that is one major thing otherwise the maintenance capex is also very tightly controlled. We keep looking at M&A opportunities as and when they came across and if there are any very attractive opportunities we would always be open to look at them, but in general we are also not looking at any large M&A acquisitions which would suck up the cash. Working capital management also is very tightly controlled, so there was in India a little bit of strain in Q1 because of the economic situation that India is going through, but on the whole we do not expect any major blips on working capital side as well. Finally, it leaves us with the cash so once the PCMD sale concludes in December and as you correctly said the buyback outflow also 390 Crores odd will move out, we will be left with certain amount of surplus cash so the board is very conscious of this and they are exploring and evaluating all options on how to deploy this surplus cash, whether we return it to the shareholders by way of this any one time dividend or buybacks so the objective would be that any surplus cash which is not having long-term use for us we will try and return it to the shareholders and sorry I forgot in the between, the debt of course is a topmost priority, so the debt is something which will bringing down first before any of these.

Sachin Kasera: Thank you so much.

Moderator: Thank you. We have next question from the line of Rukun Tarachandani from Kotak. Please go ahead.

Rupen Tarachandani: Can you talk a bit about India ordering during first quarter and the second quarter as we see your execution was low in the first quarter, but have you seen the ordering starting to pickup in the second quarter?

Vipul Mathur: What we have seen is the order execution pace picking up in the second quarter and we are also seeing a lot of bids coming up on the table for discussion during the second quarter, but majority of them are yet to get concluded, but from a market perspective we are seeing a large inflow of bids coming into play and more importantly a large portion of robust execution would start in Q plus.

Rupen Tarachandani: Thanks and the slide mentioned that on the order book that the profitability associated with these order is significant better than recent profitability trends, so if you can get some color on this is this because of some assumption on steel prices, is this only to do with operating leverage or is there more to this?

Vipul Mathur: It is a combination of both. It is a combination of, of course we have booked some orders in the past and where we would have got benefitted to the steel pricing, there is no doubt about it. The other aspect of that is also we have consciously focusing on our operational efficiency and very

focused on our cost of conversion and all those stuffs so that is also added up to our profitability and thirdly as we have also have a robust order book, it gives me the ability to be little more selective, little more choosy in terms of getting into more profitable orders, so a blend of all these three actions is actually resulting into a better profitability and margins.

Rupen Tarachandani: Sure thank you.

Moderator: Thank you sir. We have next question from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Thank you for the opportunity Sir. Good morning friends. Sir firstly if you could give the idea how much have been our exposure to the IL&FS and DHFL in the form of bonds and other treasury investments?

Akhil Jindal: So IL&FS we have exposure at three levels. We have 40 Crores at the parent level which is IL&FS main company. We have 30 Crores at IL&FS Energy, which is 29 Crores to be exact, and we have 47 Crores with Jorbat Shillong so between the three of them it is almost 116 Crores between the three companies, in our best judgment the recovery from the Jorbat Shillong should be the maximum and then from the energy and then from the main, so out of 117, our best estimate is that we should be able to recover at least 50% of that in totality. So that is one that we have fully provided. Then with Reliance Capital and Reliance Home Finance and General Insurance put together we have around 121 odd Crores with the three of them, Reliance Capital, Reliance Home Finance and Reliance General Insurance and again the all three of them have been fully provided in the books. The last exposure that we have which we have provided is Dewan Housing which is 35 Crores.

Saket Kapoor: So 116, 120 and 35 and it has been provided to the extent of 100%?

Akhil Jindal: That had been provided to the extent of 100%.

Saket Kapoor: So whatever now we are receiving that will be added to the bottomline?

Akhil Jindal: That will be added to the cash balance that the company has.

Saket Kapoor: Sir currently you really spoke about river linking part also, do DI pipes play a role in that river linking or HSAW category would be more applicable?

Vipul Mathur: So river linking typically would be large diameter pipes but there is a significant volume of water they would have to move through so the maximum potential would be for there is large diameter pipes -HSAW pipes. There could be a small component of DI pipes but it could be a very, very small component at least in the river linking component I think so it would mostly what we have seen and what we are looking at is all large diameter pipe application.

Saket Kapoor: Okay not the DI pipeline. Some application would be there

- Vipul Mathur:** Could be there very small but the largest component would be this large diameter pipes.
- Saket Kapoor:** Sir also make us understand that when we look at your standalone numbers and consolidated part standalone I think the other income of around 294 Crores. Is it about the sale part only consummated in this quarter or what is this because we get nullified when you put forward the consolidated number, so just explain how the other incomes shapes up the difference in the other income between the standalone and the console.
- Percy Birdy:** In the standalone numbers, the current quarter has seen a dividend inflow coming from our US subsidiary, so that is coming as other income while in consolidated numbers, that gets eliminated.
- Saket Kapoor:** Okay how much is the dividend from the US Sir?
- Percy Birdy:** About Rs. 240 Crores
- Saket Kapoor:** This is for the calendar year December 2018
- Percy Birdy:** It is an interim dividend that US subsidiary has declared in this quarter.
- Saket Kapoor:** In this quarter and when we take the consolidated part, then how is this figure consummated where exactly?
- Percy Birdy:** The dividend it is an intercompany transactions so its gets eliminated. It has no impact on the P&L.
- Saket Kapoor:** I mean the cash flows we will receive 240 Crores net cash.
- Percy Birdy:** Exactly from the US it will be outflow, and in India it will be inflow net of tax of course.
- Saket Kapoor:** It pays in a cash basis.
- Percy Birdy:** Correct.
- Saket Kapoor:** Looking at your employee benefit expenses also Sir, what should be the annual figure that we should work with. This quarter it is around 160 Crores?
- Percy Birdy:** I think the current quarter figure is pretty much representative so I think if you were to annualize that.
- Saket Kapoor:** This would be the trend and last point Sir on the crude oil prices has been remaining very volatile and now the way things are shipping up geopolitically even crude has now stumbled from higher levels and not trading lower, so the our thrust is mainly on crude stabilizing and we taking advantage of these evacuation of this Shale Gas from the basin which was mentioned so what is your observation if crude stabilizes around 50 odd levels do you think the same traction, the same guidance which you are giving is stands hold also, then also Sir?

- Vipul Mathur:** See crude if you look at it, crude has been volatile you are right, but it has moving the range of between \$55 and \$65, so as we have mentioned earlier also anything as long as more than \$30-\$35 a barrel more than that we have always seen the capex cycle in place, so even if it is hovering around \$55 and 65 the capex I think fully in place, that is one part of it. The second part of it is the drilling in the Permian Basin is growing unabated, US at this point of time is almost producing a 11 million barrels a day, and they are continuing that drilling and maintaining that particular position, so irrespective of crude price that whether it is \$55 or \$65, their drilling both unabated as well their drilling goes unabated the evacuation of the crude and the resultant pipelines for that will be in place and as what they are drilling there is an associated gas which is coming out and that is what is leading to the growth in the gas transmission industry, so while the crude might be fluctuating here and there, but we are not seeing any slowdown on the drilling site and the evacuation side of it.
- Saket Kapoor:** Thank you and Sir you spoke about faster pace of execution as in the business update it is mentioned that you are confident of improved operational performance on Q2 level, so what are you trying to explain in terms of how the execution cycle emerging in volumes terms what is our deliverable schedule for this from Q2 onwards Sir?
- Vipul Mathur:** We have an order book at the opening of Q1 as well, but we were constrained because of the financial uncertainty prevailing in the domestic Indian market we were slightly constrained in terms or we were deliberately slowed down the execution pace of it, now as the financial cycle and the financial coverages have started coming back into play, we will go full throttle in terms of our execution and that is where we would see a significant quantity of performance improvement which will happen and the quantities will build up.
- Saket Kapoor:** Sir for India I think we are major supplier to the EPC players only and at backend it is the government that is taking the delivery of those. Am I correct in the assessment or who are our major clients for domestic operations?
- Vipul Mathur:** We have both. We have directly the PSUs in the oil and gas sector and we have also the EPC players, which is in the water sector, both.
- Saket Kapoor:** But end consumer is the government of India only, as you told there was no clarity?
- Vipul Mathur:** That is true.
- Saket Kapoor:** That is true so then said why was the execution pace slower Sir when you know the genuinity and the sovereignty being the government. It was only the fund not being released that was the reason why do we went slow on it?
- Vipul Mathur:** See you have to who is the contractual entity. For me in the oil and gas sector it is the PSUs which has the contractual entity right. In the case of water segment it is the EPCs which have the contractual entity. We are here to respect the contractual entities. The end user maybe the same, because of the uncertainty in the cash fronts which was there or fund flow which was not in place,

primarily in the water sector where we have to deal with the a contractual entity like an EPC supplier that is where the operational performance was slow, but when it was governmental entity, which was the PSUs, everything went on track.

Moderator: Thank you. We have next question from the line of Gaurav Jhawar from Systematix Shares & Stocks. Please go ahead.

Gaurav Jhawar: Very good morning Sir. My question is regarding the sale of PCMD division so what is the current status of that like what are the pending regulatory approvals and in that term money is being realized in this or the money would be coming in December?

Vipul Mathur: As you know we have signed a BTA, business transfer agreement. As per the business transfer agreement the deal is yet to consummated, but should by end of December and we still feel it seems to be on track and that is all what we have at this point of time. I do not think there is any major movements which has happened or any matter of grave concern attached with that, still things seems to be absolutely on track the way they have been highlighted earlier.

Gaurav Jhawar: Thank you so much and the money has been realized or not?

Vipul Mathur: I am sorry?

Gaurav Jhawar: That 900 Crores that is already been accounted for?

Vipul Mathur: That will only happen once the deal get consummated and I think so that is what we are saying contractually it is approved end of December 2019.

Gaurav Jhawar: Thank you so much.

Moderator: Thank you sir. We have next question from the line of Sachin Kasera from Lucky Investments. Please go ahead.

Sachin Kasera: You mentioned that going forward this part of slowdown in India about mainly on the waterside and that should pickup from Q2 already seen improvement in July, so in that case with the mix changing little bit more towards the water. What is the type of EBITDA per tonne we are looking at the India operations? Will it correct from what we have seen in Q1 which was primarily driven by oil and gas?

Vipul Mathur: Our guidance for the blended EBITDA of our India operations has been around \$60-\$70 per tonnes and we continue to maintain that.

Sachin Kasera: Sir secondly you mentioned certain onetime benefits in the US numbers, will you be able to give some color on that like \$10 million onetime benefit we got from lower cost?

Vipul Mathur: No, it was not because of the lower cost, it was because of some inventories of our previous orders which were sitting with us and they got liquidated and they got dispatched and so there was a

component which got added up into this EBITDA number, but these are one-off things and which has happened, I do not think so we will see something like that in the subsequent quarters and subsequent quarters will be pure operational performance of the existing orders in hand.

Sachin Kasera: Sure and Sir lastly this what is the outlook on the ERW because there the order booking is quite low both in India as well as in US, so can you give some sense on how things are looking on the ERW front?

Vipul Mathur: On the US side of it as I mentioned earlier in this call, our ERW booking is till end of October but that is the nature of the business. Typically ERW booking is for two or three months in advance and as we get into band of August or early September we would definitely have to get some more orders. There seems to be fair amount of visibility of projects on which we have participated and they are on the active consideration. I think so that we should be able to secure some quantities which will take us to Q4. As regards with India, India we have an order book of almost close to something 31,000 tonnes in our ERW business. We have seen resurgence of this city gas distribution. We are one of key players. We are actively working with most of the people who work in this basically and also we are seeing few projects coming up on the PSU segment as well where there they are putting some pipeline so the CGD segment as well as the business coming up in PSUs give a sort of visibility to us that we should be able to top up this quantity in sometimes to come.

Sachin Kasera: One last question on the interest and finance charges of 37 Crores what would be the break up between the interest bearing changes and some of the other bank charges?

Percy Birdy: See the finance charges for this current quarter, they are basically having two items which you would like to highlight. First one is an impact of Ind AS 116 so as you are aware that the new accounting standard that has become applicable from this quarter onwards for all the companies and essentially the impact that it does is it reduces the lease rental expense which used to go above the EBITDA line and almost matching impact goes to depreciation and interest, so in the current quarter we are seeing an impact of little more an Crore of rupees which has gone into finance charges so that is one aspect in the finance charge cost. The second aspect is also we had made certain prepayment of loans for which there is an extra cost that is involved, so that also is adding up about another 1.5 Crores, so you are seeing about 2.5 Crores of you can say, an exceptional nature item which has come in finance charges in the current quarter. Apart from this there are normal bank charges are relating to bank guarantees so typically when there are oil and gas orders in India you also need to provide bank guarantees as per the contract terms so these bank charges are also coming up in Q1.

Sachin Kasera: Yes I understand Sir. My question was from the context that once we become debt free the charges on the interest bearing loans will go away so but I believe you will continue to incur charges towards FG, LC and all that, so what is the type of number we are looking on that that you get us better outstanding?

- Percy Birdy:** Once we become net debt free the interest cost will not still go away, because we are talking about net debt free right now. Gross debt is likely to be there for some more time because there are certain long-term loans so in India also we have also nonconvertible debentures which are subscribed by long-term investors, large institutions and they may not be willing to allow us prepayments though we are talking with them. As seen in the US also they have a long-term loan so while they are trying to prepay parts of it in trenches, but there are also there is the cost involved when we try to prepaid. For the point I making is that the finance charge will not become 0, even after they become net debt free.
- Sachin Kasera:** Can you just quantify what is the quantum of LC bill charge that will be helpful? Thank you.
- Percy Birdy:** Yes you can say approximately out of the 39 Crores that you are seeing in the current quarter roughly about 10 Crores would be towards bank charges or less than that, less than 10 would be for bank charges and the remaining would be finance charges.
- Sachin Kasera:** Thank you very much.
- Moderator:** Thank you Sir. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Sir over to you!
- Percy Birdy:** Thank you everyone for participating on our Q1 conference call. We will be glad to answer any further questions on a one to one basis if any you have any queries please. Thank you.
- Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines.