

Breaking Barriers

- WCL reports Highest Ever Quarterly and Nine Months Volumes and Profitability

- ✓ **Record Global Sales: Quarter (428 KMT) & 9M (1,084 KMT)**
- ✓ **Q3 Operating EBITDA at Rs. 3,712 mn, up 79% YoY**
- ✓ **Q3 PAT at Rs. 2,342 mn, up 310% YoY; EPS at Rs. 8.98, up 317% YoY**
- ✓ **Net Debt at Rs. 1,715 mn, lower by Rs. 1,141 mn vs. March'19**
- ✓ **9M ROCE (pre-tax) at 30.9%**
- ✓ **Current Order Book stands at 1,305 KMT valued at Rs. 108 bn**
- ✓ **Interim dividend declared @ Rs. 10 per share**

February 3, 2020, Mumbai: Welspun Corp Ltd. (WCL), flagship Company of the Welspun Group, announced its consolidated financial results for the quarter and nine months ended December 31, 2019.

Key Highlights of the quarter ended December 31 2019:

A) We are pleased to inform that all three geographies where we operate, continue to perform well simultaneously:

- 1) **US operations** – Sales volume at **106 KMT**, with significant improvement in profitability YoY
- 2) **Saudi operations** – Sales volume at **114 KMT**, with continued profitability on quarterly basis
- 3) **India operations** – **Substantial improvement in Sales volume** on YoY as well as sequential basis to **207 KMT**, with significant improvement in EBITDA. Currently executing one of the highest operating pressure pipeline - X80 (niche grade).

B) **Global Order book position:**

Current Global Order Book stands at **1,305 KMT** valued at **Rs. 108 billion (US \$1.51 billion)**.

C) **Financial Highlights (Consolidated) for Continuing operations (Ind AS): For the quarter ended 31st December, 2019:**

- *Pipes – Considered as Continuing operations & PCMD and 43 MW – Considered as discontinued operations*
- *Prior period figures are restated and reclassified wherever necessary*

1. Sales Volume:

- Pipe Sales (Total operations) at 428 KMT vs. 339 KMT, **up 26% YoY**

2. Total Income from operations:

- Rs. 28,878 mn, **up 20% YoY** on account of better volumes

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3. EBITDA:

- **Operating EBITDA** (after adjusting for Treasury income) at Rs. 3,712 mn, **up 79% YoY**
- **Reported EBITDA** stands at Rs. 3,855 mn, **up 67% YoY**

Detailed reconciliation of Operating EBITDA is provided hereunder:

Figures in Rs. Million

Reconciliation of Operating EBITDA	Q3 FY20	Q2FY20	Q3 FY19	9M FY20	9M FY19
Reported EBITDA	3,855	3,306	2,304	9,576	6,664
<u>Less: Items in Other income</u>					
Treasury income	(143)	(153)	(245)	(487)	(736)
Gain on sale/Fair valn. of investments	-	-	(138)	-	(138)
<u>Add: Items in Other expenses</u>					
MTM loss/fair valuation on other bonds	-	17	110	377	389
Other Provisions	-	-	44	-	130
Operating EBITDA	3,712	3,169	2,075	9,466	6,310

4. Profit:

- PBT (before share of JVs) stands at Rs. 2,920 mn, **up 137% YoY**
- PAT (after Minorities & share of JVs) stands at Rs. 2,342 mn, **up 310% YoY**

5. Basic EPS:

- Rs. 8.98 vs. Rs. 2.16, **up 317% YoY** (on the reduced equity base post buyback)

6. Debt position:

- Net Debt stands at **Rs. 1,715 mn, lower** by Rs. 1,141 mn vs. March 2019
- Gross and Net Debt position is as per details below:

Figures in Rs. Million

Consolidated debt	31-Dec-2019	30-Sep-2019	31-Mar-19
Gross Debt	10,874	10,924	13,047
Cash & Cash Equivalents	9,159	8,955	10,191
Net Debt	1,715	1,969	2,856

7. Forex

The Company follows a policy of hedging its steel and forex exposure. However, there are impacts due to the cost of forex hedging and timing mismatch. The impact for this quarter is as under:

Figures in Rs. Million

Transactional Forex impact	Q3FY20	Q2FY20	Q3FY19	9MFY20	9MFY19
Forex impact in Other income	6	203	-	414	-
Forex impact in Other Expense	135	(289)	(37)	(355)	11
Net gain/(loss)	141	(86)	(37)	59	11

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8. Update on Saudi business:

The Saudi business has significantly turned around and continues to contribute towards profitability. With improved cash flows, the entity has started repaying shareholder's loans and is likely to pay it back completely by Q1 FY21. Majority of the external loans are project-specific working capital loans which are expected to be repaid fully as the projects get completed.

Key figures of Saudi JV, which is not consolidated as per Ind-AS:

Particulars in US\$ MN	Q3FY20	Q2FY20	Q3FY19	9M FY20	9M FY19
Saudi Arabia Ops:					
- Pipe Prodn (KMT)	125	126	80	356	158
- Pipe Sales (KMT)	114	116	78	369	160
Revenue	107	112	63	345	138
EBITDA	20	27	(1)	60	(9)
PBT	14	21	(6)	42	(22)
PAT – Welspun share	5	8	(3)	15	(10)

9. Project Status:

Work on Phase-2 of the Bhopal project (coating plant) is on track and is expected to be commissioned within this financial year.

10. Business outlook:

As per EIA Jan'20 report, U.S. Crude oil production has averaged 12.2 mn bpd in 2019 from 10.9 mn bpd in 2018 and is further expected to grow to 13.7 mn bpd in 2021, with the Permian basin accounting for most of the growth. The country is expected to overtake Russia and Saudi Arabia in terms of crude oil exports by 2024. U.S. Natural Gas production has witnessed a significant jump to 92 Bcf/d in 2019 from 83.8 Bcf/d in 2018 and 74.8 Bcf/d in 2017. It is expected to grow further to more than 94 Bcf/d in 2021. Natural gas net exports are expected to rise to 8.9 Bcf/d in 2021 from 2.0 Bcf/d in 2018, more than a four-fold increase. To cater to this demand, major pipeline operators are working on significantly raising pipeline capacity. With significant barriers existing on pipe imports, domestic US pipe manufacturers such as Welspun, are expected to benefit immensely.

India is targeting to increase share of gas in energy mix to 15% from current 6.5% over the next decade. As part of this plan, the government is working on expanding the National Gas Grid from 16,200 kms to 27,000 kms. This would be one of the key demand drivers for large-diameter pipes on the domestic O&G side. For instance, the government has already approved viability gap funding of 60% for the Indradhanush Gas Grid in the North East. Apart from this, oil grid development by IOCL will also add to the large-diameter pipe demand.

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On the small-diameter segment, City Gas Distribution projects are expected to drive the demand with more than 400 districts already planned to be covered under the network. The Ministry of Petroleum and Natural Gas has released a draft city gas distribution policy that may be adopted by states to facilitate speedy implementation of CGD networks.

There has been a strong pickup in offshore activity since the lows in 2016, and spending on new offshore oil and gas projects is set to grow further this year. We expect this to translate into strong potential demand for LSAW pipe exports out of India, especially for regions such as Middle East, North & East Africa as well as Australasia. With our marquee global approvals and accreditations, we are well poised to capture this opportunity.

In the domestic water segment, irrigation projects across various states will continue to drive the demand. In addition, focus and allocation under 'Nal se Jal' is expected to boost demand in the water sector. In the medium term, river linking could also potentially add to pipe demand.

The JV in Saudi Arabia continues to have strong order backlog of around 3-4 quarters. Further, we are potentially in a favorable position in a few recent bids in the water segment, which should bring business visibility for additional 3-4 quarters. We are also seeing strong traction from Saudi Aramco on the Oil & Gas side with a few major projects on anvil.

Buyback of Shares

The Company had launched a share buyback to repurchase up to 28.89 million shares for an aggregate consideration of ~Rs. 3.9 billion. Against this, 4.36 mn shares aggregating to ~Rs. 588 mn were tendered by shareholders, which were bought back by the Company, thereby completing the buyback process during the quarter.

Update on Plate & Coil Mill Division (PCMD) Divestment:

Both parties to the Business Transfer Agreement (BTA) for sale of PCMD, have reiterated their commitment to consummate the transaction and have mutually decided to extend, the long stop date till 31st March 2020. Further, 50% of the advance as stipulated in the BTA has been received by the Company.

Management Comments

Commenting on the results, **Mr. B. K. Goenka**, Chairman, Welspun Group said, "We continue to grow from strength to strength, with this quarter's performance breaking all our previous records on production, sales and profitability. With all three geographies firing on all cylinders, we expect this performance to sustain in the coming quarters. Our focus is on utilising our free cash flows for deleveraging and rewarding shareholders. To this effect, we have pre-paid loans, completed our share buyback and also declared a substantial interim dividend. We continue to strengthen our business through automation, digitisation and developing talent".

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Consolidated Performance Snapshot

Figures in Rs. Million unless specified

Particulars	Q3FY20	Q2FY20	Q3FY19	9MFY20	9MFY19
Ex-Saudi Arabia/ CWC operations					
- Pipe Production (KMT)	348	317	263	856	788
- Pipe Sales (KMT)	313	221	261	715	750
Total operations					
- Pipe Production (KMT)	473	443	343	1,212	946
- Pipe Sales (KMT)	428	337	339	1,084	911
Continued Operations (Pipes)					
Total Income from Operations	28,878	22,630	24,030	71,979	61,974
Operating EBITDA	3,712	3,169	2,075	9,466	6,310
Reported EBITDA	3,855	3,306	2,304	9,576	6,664
Finance Cost	344	341	418	1,079	1,238
Depreciation and Amortisation	591	610	654	1,746	1,984
Profit before tax and share of JVs	2,920	2,355	1,232	6,752	3,443
Tax expense	957	1,147	447	2,488	760
Non-controlling interest	(37)	(55)	22	(97)	81
Share of profit/(loss) from Associates and JVs	416	580	(236)	1,165	(831)
PAT after Minorities, Associates & JVs (I)	2,342	1,734	571	5,332	1,932
Cash PAT	2,910	2,389	1,151	7,249	4,013
Discontinued Operations (PCMD & 43MW)					
Profit After Tax (II)	(107)	(178)	(271)	(360)	(577)
Profit for the Period (I +II)	2,235	1,556	301	4,972	1,355

Notes:

- a) Prior period figures have been restated, wherever necessary
b) Cash PAT = PBT (excluding one-time non-cash items) + share of JVs and minorities – Current tax + Depreciation

Figures in Rs. Million

Consolidated Balance Sheet - Key figures	31-Dec-2019	31-Mar-19
Net Fixed Assets (incl CWIP)	16,245	16,144
Net Current Assets #	15,142	10,460
Net Debt	1,715	2,856
Net Worth	32,523	27,976
Net Assets Held for Sale *	8,908	11,642
ROCE (pre-tax)	30.9%	22.6%

Net Current Assets excludes Net Asset Held for Sale

* Net Assets Held for Sale = Assets classified as held for sale less Liabilities of assets held for disposal
ROCE (pre-tax) = EBIT adj. for one-offs/ Avg. Capital Employed; both taken for continuing operations

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Q3 & 9M FY20 Investor / Analyst conference call:

WCL management would be happy to answer investor queries on a conference call. Please find details below:

Date: Tuesday, 4th February 2020

Time: 11:00 AM IST

Dial in details:

- Primary Access: +91 22 6280 1145 / +91 22 7115 8046
- Local Access: 70456 71221
- International Toll Free numbers
 - Hong Kong: 800 964 448
 - Singapore: 800 1012 045
 - UK: 0808 101 1573
 - USA: 1866 746 2133

About Welspun Corp Ltd. (WCL)

Welspun Corp is a one-stop service provider offering complete pipe solution with a capability to manufacture line pipes ranging from 1½ inches to 140 inches, along with specialized coating, double jointing and bending. With current capacity of more than 2.5 million MTPA in Dahej, Anjar, Mandya and Bhopal in India, Little Rock in the USA and Dammam in Saudi Arabia, Welspun takes pride in being a preferred supplier to most of the Fortune 100 Oil & Gas companies. With 360 degree abilities, Welspun Corp has undertaken some of the most challenging projects in different parts of the world. With business excellence being a clear focus, the company is on the path of innovation and technology edge supported by its state-of-the-art facilities and global scale operations. The Line pipe industry caters to the sectors like energy and water resource management where in the line pipes supplied are used to construct cross-country pipelines for transportation of oil, gas, petro-products and water in the safest and most environment friendly way.

About Welspun Group

A US\$ 2.7 billion enterprise, Welspun Group is one of India's fastest growing conglomerates with businesses in Line Pipes, Home Textiles, Infrastructure, Oil & Gas, Advanced Textiles and Floorings. The Group has a strong foothold in over 50 countries with more than 25,000 employees and over 100,000 shareholders. Headquartered in Mumbai, Welspun Group's manufacturing facilities are strategically located in India, USA and Saudi Arabia. Known for technological and operational excellence, the Group has established a leadership position in the Line Pipe & Home Textiles sectors globally. Its clients include most of the Fortune 100 companies.

For further information please visit www.welspuncorp.com

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