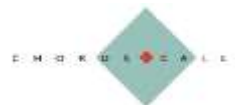




“Welspun Corporation Limited
Q3 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Welspun Corp Limited Q3 FY2020 earnings conference call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. I now hand the conference over to Mr. Ankur Periwal from Axis Capital Limited. Thank you and over to you Sir!

Ankur Periwal: Thanks Faizan. Good morning friends and welcome to Welspun Corp’s Q3 FY2020 earnings conference call. As usual, the call will be initiated with the brief management discussion on the quarter as well as the 9 month performance followed by an interactive Q&A session. From the management side, we have with us Mr. Vipul Mathur, Managing Director and CEO; Mr. Percy Birdy, Chief Financial Officer; Mr. Akhil Jindal, Group CFO & Head - Strategy and Mr. Harish Venkateshwaran, AVP Group Finance and Strategy. I will hand it over to Mr. Vipul for his initial comments.

Vipul Mathur: Very good morning friends and thank you very much for joining this call on a working day. As we start, we had our board meeting yesterday and we had announced our results, I am sure most of you had a chance to go through it. It has been a very exemplary quarter for us as you would have seen. We had been showing a sort of a consistent growth on a quarter on quarter basis for the last 6-7 quarters and this particular quarter has been very outstanding quarter and it truly reflects the operational excellence and the efficiency, which has been shown by all my three geographies where we are operating. Just to take you through some financial numbers for this particular quarter. We did a production of 4,73,000 MT in this quarter, which is highest ever production in any quarter in the history of Welspun. We also logged in sales of 4,28,000 MT, which is the highest sales every being logged in any quarter in the history of Welspun. This year our operating EBITDA for this particular quarter stood at Rs. 371 Crores. Our profit after tax was Rs. 234 Crores. In comparison if I look at for the way how things have moved on 9 months basis, in 9 months we have done more than 1.2 million MT of production. We have logged in a sale of more than a million tonnes of sales. Our operating EBITDA stands at Rs. 947 Crores and this is basis Ind-As and if also add the Saudi operations just for a comparison sake and our shares only, it has also contributed more than Rs .200 Crores in our EBITDA so if I consolidated let say Ind-AS plus Saudi operations we have done an EBITDA of more than Rs. 1150 Crores in 9 months time. Our profit after tax over 9 months is Rs. 533 Crores and accordingly if you would see our EPS has now moved to Rs 20.4, our ROCE has moved to 30.9% and return on equity has gone up to 25.2% and these are all historical landmark numbers in the last 10 years of our operation. This performance, as I said, has been because of the operational efficiency, the diligence that at which all the geographies which is US, Saudi and India has performance.

In this particular quarter, I am sure you would have noticed that the performance of India operations has also significantly ramped up, so Saudi and US in any case we are doing extremely well in this particular quarter. The Indian operations also significantly ramped up, which has set the tone. Moving forward we are fairly optimistic that the subsequent quarters also going to show us more and more robust growth as we are optimistic about it and as we go into particular call, we would like to explain you what is the business scenario, what is our strategy on capex, what is the business play looking to us for 3 years, how are the geographies US, Saudi and India geographies from a business standpoint of view we are going to look. I think so this is how when we get into this particular call, we will talk a lot and we will give you complete clarity around that. With this I think we want to keep this opening pretty short and sweet, so that I give most of the opportunities to my investors directly ask that question so that we are able to address any question they have in their mind. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jyoti Amonkar from NMV Securities. Please go ahead.

Jyoti Amonkar: Hi actually I had a question regarding the EBITDA per ton of Rs 11,900 which is a very good I assume, but could you provide with a breakup for US. In the previous quarter I think so you have provided for US as well which was doing really good?

Vipul Mathur: So what you are saying is Rs. 11,900 Jyoti is a blended Op. EBITDA of out of US as well as for India. In this particular quarter, US was close to \$260 per ton whereas the for India operations was close to \$120 per ton so that is how what you are saying is the blended at Rs. 11900.

Jyoti Amonkar: Okay sure and for the order book we see come down a bit, right from June so it just an impact on the overall slowdown or how are we expected to pan out in the future?

Vipul Mathur: If you look at the order book, order book is still at 1.3 million tonnes and more than that I think so if you look at the bid book we still maintaining a healthy bid book of almost 25 million MT so I do not see any slowdown there per se, and if you look in Q3, while we have executed 4,28,000 tonnes of orders, we have also booked 3,76,000 tonnes of order in Q3 and in corresponding to that in the last quarter we booked only 130 KMT, so I don't think so that we are looking at any slowdown per se, so I think it is just numbers and moving forward this is only going to improve from here.

Jyoti Amonkar: Sir how are we seeing our Saudi operation forward as it has turned positive now and I think so we have 2-3 quarters?

- Vipul Mathur:** Saudi operation has been a complete turnaround story and I think so we have been very inconsistent in briefing our friends that you this is going to turn around and in the last 3 quarters you have seen that the way things have turned out from a cash loss position to significantly bringing EBITDA of Rs. 400 Crores as an operations as an whole has been turned around story. I think they are two aspects to that; number 1, our order book in that region has been very strong. We still have a very strong order book at this point of time. It is almost booked for next 4 quarters at this point of time and is very high visibility even for the future. Number 2, the efficiency in the operation, the way they have been performing has been absolutely robust and it has been a very, very consistent performance and number 3, I think so for the margins on those orders have also been very nice and they are not turning around and they are getting clearly reflected in our numbers, so Saudi is clear turnaround story. It has been significantly profitable in the last 3 quarter, it is likely to look at be extremely profitable at least for next 3-4 quarter more.
- Jyoti Amonkar:** Okay sure. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Neerav Shah from Geecee Holdings. Please go ahead.
- Neerav Shah:** Yes good morning Vipul Sir and congratulations on excellent set of numbers plus a very industry investor friendly distribution policy, so congrats on that Sir.
- Vipul Mathur:** Thank you Neerav.
- Neerav Shah:** Sir I have a few question. First is the book keeping question. If I look at the last two quarters on a consol basis, Ind-As basis we have seen an inventory pile up of around 96,000 tonnes in Q2 and around 35,000 tonnes is Q3, so does that indicate that there is this much around about material which in transit as of December and which should be executed in Q4?
- Percy Birdy:** Some of the inventory numbers that have gone up compared to the previous quarter is largely in India and the reason is that there are some export order that we are executing and the revenue recognition standards require us to book the revenue only as and when the goods are delivered so this export is to large North American customer and since the goods are in transit, it reflects in the inventory for December.
- Neerav Shah:** So that execution should be in Q4?
- Vipul Mathur:** Yes
- Percy Birdy:** Revenue recognition will happen subsequent quarter.

Neerav Shah: Perfect and Sir second question is on the Saudi operations. Our press release mentions that we have very healthy prospects from the oil and gas and last quarter also you mentioned that the prospect from the water segment is pretty strong over there, so can you just highlight on this visibility component of Saudi operations and how do you see this pipeline and we have book for CY2020 or next four quarters but and what is the CY2021 like for us?

Vipul Mathur: So very rightly you said Neerav. We have booked till third quarter of the next financial year, beyond that we have participated in quite a few projects out there, we are favorably placed in at least 2 of the projects out there which are again of significant quantities and as and when they get materialize, which I hope that they should get materialize over the next quarter or so, so if they do get materialize that will bring in a sort of an additional visibility for minimum of three more quarters, so that is the way it looks, so all in all what we are seeing is a very strong confirmed order pipeline for at least 8 quarters from here on. On top of it, what we are also seeing is the way the businesses are shaping up, both in SWCC and in Saudi Aramco I think so that itself give us the comfort that it is the not the story of an 8 quarters, it is story which is going to stay much longer, probably next 3-4 years.

Neerav Shah: Perfect and these two contracts where we have favorably placed, they are in the oil and gas or water segment?

Vipul Mathur: They are again with the same customers SWCC.

Neerav Shah: Just a very recently I mean because of the correction in the oil prices and gas prices, there are concerns about the prospects in the USA, so how would you address this event of lower oil and gas prices?

Vipul Mathur: We have to understand oil and gas prices has an influence per se, but it has a very limited influence on what we do. What is the purpose and what is the play we are in. We supply pipes, I am specifically taking about US. They are continuously drilling number 1, while they are drilling they have associated gas which is coming out of it, so they have to evacuate the gas, I think so that is the major play in which we are right now all what we are doing in US is 90% of the business what we are doing is the gas pipeline so whether the oil remains at \$50 or at \$60 or the gas be at \$1.8 to \$2.5 dollar per mabtu the fact of the matter remains that they cannot flare gas, they cannot release the gas, they have to evacuate the gas and that is what has been the genesis for the last 2 years, and that is going to be the genesis for the next 2-3 years time, so even we see a sort of volatility in the oil price, slight volatility. If you see that the oil is still around \$50 - \$70 it has stood all its odds, but despite that volatility, I think the play which we are in to is all about pipes and the reason for that pipe is not going to get diminished.

- Neerav Shah:** Got it perfect Sir and we have generated very strong ROEs and ROCs in this year, so our capital allocation policy remains restricted to pretty high threshold IRRs for new projects?
- Vipul Mathur:** So you have seen that I have been talking about capex and we are doing capex in a very, very measured and focus manner, I mean there is extreme diligence which is being done before any capex is being made, it has to pass through various stages, it has to justify high returns. Our policy would still remain the same and unless and until we see sort of high ROC or the strategic play we would be very, very averse to capex.
- Neerav Shah:** Perfect Sir. Thanks you for answering my question and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Vikas Singh from PhillipCapital. Please go ahead.
- Vikas Singh:** Congratulation on very good set of numbers Sir.
- Vipul Mathur:** Thank you.
- Vikas Singh:** Sir my question pertains to your bid book commentary. If I remember correctly just a couple of quarters back you use to say that your bid book is 3 - 4 million tonnes and suddenly you are talking about 25 million so if you can just explain on which geography this has gone up?
- Vipul Mathur:** Vikas if you look at our bid book, the bid book has two component one which is an active bid book at this point of time where we have participated and the bids are active and then it is prospective bid book always our bid book addition of these two currently active and future bid book has been in the vicinity of 22 - 25 million tonne, so even today it can stand around 25 million tonnes. Out of which almost close to a million tonne, more than a million tonne is active in nature and around 24 million tonnes is prospective in nature.
- Vikas Singh:** So the active bid book has come down from almost 3+ million tonne to 1 million tonne, right?
- Vipul Mathur:** It has come down from almost 2.5 million to 1.1 million tonne because quite a few projects got awarded in the whole process so it is a dip that what you are seeing, but more what is to be focussed upon is that what is the prospective bid book, if there is dip there then there is an issue. We are not seeing any dip in that right of it. I think for the future for the prospective pipeline looks extremely strong and robust?
- Vikas Singh:** Sir just have a little clarification this prospective pipeline is 4-5 years perspective is that correct assumption?

- Vipul Mathur:** 3-5 years.
- Vikas Singh:** 3-5 okay and Sir secondly our India performance has been pretty good because of that one niche export order, so how much we have already done and what was the total quantum just wanted to understand if it will flow till 1Q or it will end in the 4Q itself?
- Vipul Mathur:** I am sure you are talking about North American order?
- Vikas Singh:** Yes North American order?
- Vipul Mathur:** The total order is close to 1,67,000 tonnes and in the third quarter we would have done what we have recognized the sale is only close to 15,000 tonnes and the balance execution and recognitions would happen over next 3 quarters.
- Vikas Singh:** Next 3 quarters, so only 15 KMT and so what are the other orders which have actually inflated overall the volumes and the EBITDA per tonne for India because this only 15 is like 7.5% of the total volume percentage in India that could not have alone pushed up the EBITDA per tonne over Rs. 8000 right?
- Vipul Mathur:** So we have significant orders from the oil and gas sectors, which was primarily from IOCL and GAIL that was one. Our dominant presence in the water sectors still remains very strong, all the three locations which was Anjar, Mandya, and Bhopal have seen significant ramp up of the production and order execution in the water sector.
- Vikas Singh:** Sir just to going forward India performance you believe that expected to remain strong for the next couple of more quarter, so is that a right assumption?
- Vipul Mathur:** Absolutely fair assumption and I am sure every one would have seen recent announcement which has been made in the budget where the government announced that they are going to exponentially invest in to the pipeline, they are going to increase the pipelines from 11,000 km to 27,000 km that is the number one so this is what the Indian business thrives on then you would also seen that the investment in Nal se Jal what is being conceptually discussed now they have made a budgetary allocation for that, so we will see a lot of traction coming into that. Third we are seeing an exponential growth in the CGD business and in this recent budget announcement also lot of emphasis was being given the intention to bring more than 350 cities into the network, so I think so the indian business the dynamics, the projections looks pretty robust and strong and being a leading player in this territory and all the three being in water, being and oil and gas and being in CGD I am we are likely to capitalize up on the same.

- Vikas Singh:** Sir just one last question, if I may ask so is it a fair assumption because the last quarters if I see the cash inflows because of very good performance and our debt reduction, it is not actually matching, so the entire additional cash has gone in the working capital requirement or there is a something else in it?
- Vipul Mathur:** So there are two components, you know because the operations have significantly ramped so of course the working capital requirements have gone up there is no doubt about it and also the part of cash utilization also has been in terms of capex, we have been doing the Bhopal capex is in the last phase so little bit of a cash utilization is also happen there because there was no external borrowing around that, but if you see that from a debt point of view, we are continuously focused, we are reducing our debt, we have now come down to an absolutely striking range of Rs. 171 Crores debt and I think so we are pretty much on the track on that front.
- Vikas Singh:** Okay that is all from my side. Thank you for taking my question and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Siddhart Shah from Emkay Ventures. Please go ahead.
- Siddharth Shah:** Sir, Congratulation for great set of numbers.
- Vipul Mathur:** Thanks Siddharth.
- Siddharth Shah:** Basically I wanted to check on Saudi operations. You have mentioned in the press release that you have started repaying the shareholder loan, so how much amount has been repaid in this quarter?
- Percy Birdy:** So in this quarter about \$4 million worth of loans have been repaid to us in rupee terms about Rs. 150 Crores is remaining so we are expecting that even this will be repaid as we get towards the end of next year Q1 by June.
- Siddharthd Shah:** So by June we are expecting Rs. 150 Crores additional amount to come back to us?
- Percy Birdy:** That is our target correct.
- Siddhart Shah:** What is the total shareholder loan outstanding from all shareholders?
- Percy Birdy:** It is an equal amount so same thing, it moves in proportion with out JV partner, same number.
- Siddharth Shah:** Okay that is it from my side. Thanks all the best.

Moderator: Thank you. The next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Congratulation on very good set of number. Sir just wanted to know this Rs. 8500 EBITDA per tonne we have done, earlier you used to guide about Rs. 5000 EBITDA per tone for India business, so what kind of normal EBITDA we should expect for next 3-4 quarter?

Vipul Mathur: See in this particular quarter as I said the blend has more towards oil and gas side of it and we have some extremely profitable orders out of IOCL, GAIL and export order to South East Asian regions so that is why you are looking at this particular number, having said that we will continue to maintain our guidance that our India EBITDA should be in the vicinity of \$75 - \$80 on a weighted average basis, and even if you look at the 9 month basis it is close to \$84.

Dhananjay Mishra: Okay Sir and what is the break up of order book between India, US and Saudi or standing order book as of now?

Vipul Mathur: So at this point of time we have still as I said the breakup of a 1.3 million tonnes, we have close to 6,25,000 tonnes of business in India, we have close to I would say 3,80,000 tonnes in Saudi and close to 3,00,000 tonnes in America, so it is a fairly, fairly even split between all the 3 geographies.

Dhananjay Mishra: Sir in US business given the demand outlook our installed capacity over there because we have in terms of volume we have been flat or slightly negative so are we planning to do some capex over there or this business is going to be like this only and this capacity is good enough to continue at this level?

Vipul Mathur: In US, we are the leaders we have a leadership position when you are saying about the volumes slightly little lower than the last quarter, it is all about the product mix what you run, so but from a capacity point of view I think we have a sufficient capacity at this point of time. Our focus would be bring more operational efficiency, more high asset utilization by virtue of certain innovative, are we going to make any major capex around it, answer is no.

Dhananjay Mishra: Okay Sir.

Vipul Mathur: But just to add, we will continue to invest in technology so that it enhances our operational efficiency and through put capacity and high asset utilization so to that extent whatever maintenance budget we will have to do in terms of automating, and digitalizing our whole processes, we will continue to do that.

Dhananjay Mishra: Okay and what is your view of India water segment in terms of ordering or reduce do you see any pickup happening post budget or before that?

Vipul Mathur: I would say there has been no slowdown. I mean I am not worried about the pickup. I am very, very optimistic about the water sector. If you look in the south our Mandya plant has a very, very robust order booking and the visibility the way we see, it could be booked for another 2-2.5 years we are seeing a similar buoyancy in central India Madhya Pradesh where we have moved our plant, in Bhopal. We are hearing that the government is making significant investments in the second round of bidding for developing the water infrastructure so I am sure we are going to capitalize up on it. Third we are also seeing investment coming in Chattisgarh and Rajasthan as well in sometimes to come, so I think we are not seeing any slowdown whatsoever in the water sector rather we are seeing a bouncy in the water sector and more importantly with this Nal se Jal scheme also now coming on track, you know with allocations happening in play, it is only going to further grow from here rather than slowdown.

Dhananjay Mishra: Okay and lastly about this coil business amount we have to receive, so this delay is happening for almost 6 months, so any possibility for the delay for this receiving this amount?

Vipul Mathur: We got the CCI approval sometime towards mid of December and if you see they are certain conditions precedence which every party has to do, but the fact of the matter remains that both the parties have reiterated their sort of commitment to go ahead with the deal and so much so that they have also paid an advance to us, so what better situation you could be in there is reiterate of commitment, partly has already paid the advance. I think it is a matter of time that there is deal will get happen and we are very, very optimistic about it.

Dhananjay Mishra: Okay Sir thank you, that is from my side. All the best.

Moderator: Thank you. The next question is from the line of Sneha Ghoshal from SKS Capital. Please go ahead.

Sneha Ghoshal: I was just asking there was a major order expected from Saudi Aramco on the last quarter that you said what is the status on that?

Vipul Mathur: It is a work in progress. Looking at the order book what we already have in our Saudi operations at this point of time, we are calibrating it slightly, but having said that does it mean that we are not in contention, we are very much in contention just to give context it is a long term frame contract agreement which we are contemplating, we are very, very favorably positioned there, it is just a matter of time, it should happen.

Sneha Ghoshal: Okay and secondly there was large export order despatched from India, which led to increase in working capital. What is the working capital status right now, has it come under control?

Vipul Mathur: Pretty much under control. Percy can you just give it the status.

Percy Birdy: So working capital in terms of number of days it stands about 38 days on a consolidated basis, while it just look as it is moved up from September status of 25 days however this is largely due to the gap between production and sales, so if you look at our volumes you will see that the production volume is substantially higher than the sales volumes and some of this export consignments are on their way to the North American customers and as per the accounting standards on revenue recognition we can book the revenue only as and when they reach the customers location, so you will see some of the sales getting accounted in the subsequent quarters.

Sneha Ghoshal: Okay so can we expect it in the near terms to come to 25 again where these orders are delivered?

Vipul Mathur: It would stay in the range of 25 - 30 days.

Sneha Ghoshal: 25-30 days okay that is from my side.

Moderator: Thank you. The next question is from the line of Sangam Iyer from Consilium Investment. Please go ahead.

Sangam Iyer: Congratulation for great set of numbers. Can you give me a break up of India order book between oil and gas and water?

Vipul Mathur: In India we have an order book of close to 6,25,000 tonnes out of which it is even split. We have close to 3,00,000 tonnes in API and almost 3,15,000 tonnes in water.

Sangam Iyer: Okay regarding the Kinder Morgan order, which was almost at a final stage or ordering since last September or October, any update on that because that is a large order that we were looking on given that we were more favorably well placed for that?

Vipul Mathur: You are asking about the US.

Sangam Iyer: Yes US.

Vipul Mathur: We got a large order in US and that is what has brought US mill visibility till the 3 quarter of this year. Right now as we speak we have order book for the large diameter till the third

quarter of this year and beyond that also we are looking at one major potential order which is also under very active discussion and once it get materialize, which should be a matter of time possibly it will take us to additional one year, so as I earlier said as well, the order pipeline in US for the large diameter still looks very, very robust to us. We are very, very confident about it.

Sangam Iyer: Got it and Sir given the fact that some money also comes in and we have a very very strong free cash flow generation, what would be the dividend policy post this budget going forward?

Vipul Mathur: So we have discussed this matter at the board and the board was of a opinion that whenever we see a sort of performance and whenever we are seeing earning are coming up and let us say in this particular quarter when the performance has been very nice, the board has been more than generous in terms of approval the dividend, I am sure as we move forward and as the performance and the earnings are consistent and it meets the standard of the board level, they are of a very smilier view that we continue to reward our shareholder and whatever fashion which is in the most sufficient manner.

Sangam Iyer: Got it. Sir can you give us some idea on the capex plan in say for the next financial year how much would that be?

Vipul Mathur: So we are not going to do any material capex, all what we intend to do is a sort of maintenance capex which we typically do between Rs. 100 to Rs. 130 Crores on a year-on-year basis as we are now in the process of formulating our business plan for the next year and all those numbers are getting crystalized, but broadly it would be around that itself.

Sangam Iyer: Okay and are there any gaps that you would want to fill in this segment using inorganic ways given that we would have sufficient cash flows even after giving out dividends?

Vipul Mathur: We will continue to think about our growth. I mean that is a fair point you are asking. We will continue to think about growth. We will continue to evaluate what are the options available on the table, but then as I said that our policy when we are going to invest any money, it has to go through a very, very strong litmus, it has to justify return. There will be a very diligent process which we will follow, but having said that yes we will continue to explore growth options and that is the way it is.

Sangam Iyer: Great Sir. Congratulations and all the best.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Swan Investment. Please go ahead.

- Sachin Kasera:** Good afternoon Sir and congratulation for good set of numbers.
- Vipul Mathur:** Thanks Sachin.
- Sachin Kasera:** Sir on this Saudi you mentioned that we should get the loan repaid by June 2020 or June 2021?
- Vipul Mathur:** Quarter 1 of FY21?
- Sachin Kasera:** Quarter 1 okay that is great. Second question was regarding certain provisions that we had made in our treasury book, is there any update in terms do we see some recovery because I think you had mentioned that there could be some recovery which is possible going ahead, if you can just update little bit on the provision that we had taken on the treasury and what is the outlook there?
- Akhil Jindal:** Sachin let me try and give you some data point on that so the total provision that we did in the last few quarters we are seeing some small traction, particularly on the Jorabat-Shillong expressway where there were two bids which were received by ILFS and fortunately both bids were much I would say they were much stronger bids than what other bids they got on many other assets and to that extent the full loan with this interest and everything seems to be covered by that bid, so Jorabat-Shillong we are very hopeful although as you would recognize court process and the time it is taking to sort out these issues has been fairly long, so Rs 47 or Rs 48 Crores which we invested in Jorabat-Shillong we are hopeful to get 100% principal back and some interest also back, once the resolution through the court happens which is likely happen in this week itself in Delhi NCLT courts. On other thing the provision that we have done again something was done on ILFS energy where I do not have much to share, the things are going on, not much development, and ultimately the ILFS main where we have invested Rs 40 Crores plus Rs. 29 crores in ILFS energy, Rs 69 crores we may recovery some money but that will take time, so these are development that I thought I would share with you. However, we have also been liquidating our bond position. In the last one year or plus since the time ILFS institution emerged in September 2018 we have sold almost 400 Crores bond our treasury holdings at a net turn over of 5.3%- 5.4%, so we continue to find the right price in the market and exit, but some of the provisions that we have done whether on ILFS or Dewan they are going to be sorted and resolved over a period of time.
- Sachin Kasera:** On the Jorabat, what is the provision we have taken for 48 Crores?
- Akhil Jindal:** Actually we have taken the entire provision because that is board decided. The board came up with a policy that anything which has been downgraded we should provided for full, so

naturally when the whole ILFS situation emerged, Jorabat was also downgraded from AAA to D and to that extent our last year's book itself we have taken the entire provision,

Sachin Kasera: So Sir currently the treasury that we hold in our books cash and treasury, what will be the break up of that in terms of risk instrument?

Akhil Jindal: Se we have very significant I would say the liquidity treasury at this juncture and of course part of it will be used to pay the dividend that we have declared so we have almost like 400 Crores as on 31st December in the liquids funds which you know naturally was a left over from the buyback and also to be used for dividend, other than that I think they are almost 150 Crores all in all was in the other PSU and the banks bonds which are again we do not see any problem. In fact out of that Rs. 200 Crores we have almost liquidated Rs. 64 Crores in the month of January itself at a net yield of around 5.5%-5.6%, so the bond book is coming down dramatically after this quarter, other than for some of the provision that were done, we are hopeful that you will not have any carryforward bond holding, only money will be in the liquid investments and that is also in a very recognized mutual funds, State Bank, HDFC kinds so we are in a very prudent and conservative policy. Whatever recovery happens on the provisioning will only add back to the bottom-line.

Vipul Mathur: Basically the board has directed that incrementally any treasury should be paid only in very high rated and liquid instruments.

Akhil Jindal: Exactly and also it should be use to retire the debt as much as we can because ultimately you know the operations money for the payment to the creditors or the debt reduction wherever there is surplus then having an active treasury management so this was our policy when even before, but unfortunately we have got struck in some situation which we are trying to resolve as best we can.

Sachin Kasera: Sure. Sir just one question regarding there was a previous query also and you mentioned that you would be generous in terms of paying out the shareholder and all options are open, but from what I understand as far as buyback is concerned since we have just completed one buyback that is one option we cannot explore for the next 12 months technically, is that correct understanding?

Percy Birdy: That would be November 2020 again, the window will open.

Sachin Kasera: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Govind Shahu from IndiaNivesh Portfolio Management Services. Please go ahead.

Govind Shahu: Good afternoon Sir. Sir just I had 2-3 questions. First regarding the Indian operations post our Bhopal expansion what will be our total capacity in India?

Percy Birdy: So Bhopal if you look at it, Bhopal expansion was a relocation of a facility, it was not an addition of a facility, so all put together our Indian capacity would still remain at close to 1.6 million tonnes.

Govind Shahu: Okay. Secondly since there is a huge inventory build out in the first 9 months as you guided as it was with regard to some export orders which is going to be executed in Q4, so is it fair to assume a significant ease out of working capital in Q4, since this order would be executed and the inventory position will be light at the end of the year?

Percy Birdy: So the export order that is being executed is to be done over the next 3 quarters, so we started with the December quarter it was a first quarter and now it will be executed over the next 3 quarters, you will see a gradual improvement in the inventory levels. Also one other thing you have to note is when look at the inventory levels of India for December and compare it with that of March 2019, March 2019 inventory levels in India were exceptionally at a low level, of course that was the Q1 of this fiscal when those elections uncertainties that were around the situation and so we had intentionally brought our 31st 2019 India inventories at a extremely fine level, so as the business ramping up as the revival is there and the volumes are picking up, obviously the working capital is going up to support the business growth.

Govind Shahu: So to put it other way around December inventory level is the peak inventory, which you will carry, I mean near to the peak?

Percy Birdy: Yes you can say that.

Govind Shahu: So there would not be much of deployment in working capital funds going forward?

Percy Birdy: Yes in fact the question came on the working capital number of days, so at the end of December it is 38 days and on a normalize basis, we expect this to be closer to 30 days.

Govind Shahu: Okay thank you so much. Sir next question is regarding the capacities in Saudi and US, so particularly in Saudi, our capacities is 300 KMT or it is more what is the exact capacity in Saudi?

Vipul Mathur: We currently have 3,75,000 tonnes our capacity in Saudi.

Govind Shahu: So our production far exceeds the capacity so are we running the plant more efficiently so that you are able to improve the throughput?

- Vipul Mathur:** I am extremely proud of them, they are doing a great job.
- Govind Shahu:** Great, Sir last question is regarding the margins so we have seen some exceptional margins in the Indian operation in Q3, so the current order booking which has happened and the bid book which we have in our books so what kind of margins guidance, should we see the same margin orders are there or it was an exceptional quarter?
- Vipul Mathur:** See again as I said margin is a factor of what is the blend of the orders what you are executing in that particular quarter. In this particular quarter it has been more dominated by very profitable orders which came from oil and gas segments and I am sure that it will continue that way, but from a guidance perspective I think so we will still like to maintain a sort of conservative guidance around \$75-\$80 per tonne.
- Govind Shahu:** And in the US?
- Vipul Mathur:** If you look at it in the 9 months we are close to \$300 odd, but in the Q3 if you look at it is around \$260 so our guidance is very consistent that we would like to maintain around \$250-\$260 a tonne.
- Govind Shahu:** Because on a yearly basis, I think this is one of the exceptional year as such FY2020. In the past we have done around \$200 in US, but this year it has been some exceptional year where we are doing \$260-\$270 on an average for FY2020. This should continue or we should revert back to the normal?
- Vipul Mathur:** This is all about demand and supply gap out which has been there in US number one. Number two the structural changes what has happened in the US economy, has contributed to that way all the cheap imports which were suppose to come into US has got stopped. I think so demand and the structural changes which has happened as helped us in improving of our margins and if the demand stays strong and which we are very confident of so I am very hopeful we should be seeing margins at offered \$250 plus.
- Govind Shahu:** Okay thank you. Sir one last book keeping question. The steel mill which we are selling or we have already sold what would be the book value of that steel mill, I know the realization value is around 800 Crores but what would be the book value so there would be any gain or loss on this transaction?
- Percy Birdy:** So this gain or loss on sale of PCMD division was accounted in the year March 2019, the book value was close to Rs. 1200 Crores and the sale consideration for us is about Rs. 848 Crores so the difference between the two has already been booked in March 2019.
- Govind Shahu:** Oh okay, so now it is as good as the sale consideration?

- Vipul Mathur:** That is right.
- Govind Shahu:** Okay thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Inam Holdings. Please go ahead.
- Bhavin Chheda:** Congrats on good set of numbers and very good presentation this time around. Sir just a few questions since the company is making lot of cash across all operations, we appreciate Rs.10 dividend announced by you, but any future policies on payout because next year also the company would be sitting on huge cash after the plate mill proceeds are received and also after proceeds received from Saudi operations and US operations so what would be the policies going ahead on the payout side?
- Vipul Mathur:** Bhavin thank you for asking this question. As I said earlier the board is of a very clear view that if the performance is consistent, earning is consistent the stake holders need to be adequately rewarded. In what manner, in what fashion and when they need to be rewarded I think that the board would like to keep to themselves but in principal from an intent perspective, it is very very clear that moving forward if business is making money, the stakeholder will be rewarded for sure. Of course the new tax policy which got announced also has to be evaluated in detail that is the most tax efficient way of rewarding the shareholders and the stake holders although fine prints have to be evaluated and then we will come out with a very very clear roadmap as well for that.
- Bhavin Chheda:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Deepak Narnolia from Birla Sun Life Insurance. Please go ahead.
- Deepak Narnolia:** I have one question about your order outlook, so in US you have mentioned that you are pretty much confident of next four quarters and if the couple of orders gets rectified and surely you will be secured for the next 6-8 quarters, correct?
- Vipul Mathur:** That is very true.
- Deepak Narnolia:** So in general like you have given that order pipeline in US remains strong but if I ask you about FY2022, how does it look to you?
- Vipul Mathur:** Lets go step by step Deepak. I think so let focus for the first 2 years, but having said that I think the way I am seeing the demand and the way we are in touch with the pulse of the market, I think the next 3-4 years, that demand is going to be extremely robust. We have to

understand what has fundamentally changed in US. US is going to be not only the largest producer for oil and gas but are now shifting to the largest exporter of oil and gas so earlier their focus was more I want to become the largest producer, and all the investment and the capex was happening towards that, now when the paradigm shift is happening from a producer to an exporter it will necessitate more captive investment into this infrastructure so I think that is one genesis which makes us very hopeful that for the next 4-5 years are going to be robust, one. Two, if you see the growth, which is coming in US is primarily out of Permian basin. Permian basin was earlier very fragmented and it was being owned by small players, the small holding companies, but now what we are seeing over a period time, are the large conglomerates like Chevron, Exons, and Total of the world are now moving and acquiring into that, so that is also bringing much more predictability that this capex are going to happen, so given all the factors, that A the market sentiments are buoyant, there are structural changes which has been made in the US economy. The large players are now getting into the field of Permian, I think so if you combine all two three factors, it gives a very reasonable sense of comfort that next 3-4 years looks promising.

Deepak Narnolia: And you said Sir 90% your business is through gas pipeline?

Vipul Mathur: That is very true.

Deepak Narnolia: So is it the gas pipeline, which is like to save the gas, which is creating pollution there?

Vipul Mathur: The regulation stipulates in US that while you are drilling you have an associated gas coming out, so they are drilling for oil, right, now while they are drilling for the oil there is a gas, which is coming out along with it. Their regulations says that you cannot flare gas, from a carbon emission point of view, from an environmental point of view, they cannot do that, so they have to transport, they have to capture that gas and they have to transport it to somewhere, so what is that somewhere, the somewhere is to the port of export, which is the gulf coast, so all the major investments what you are seeing is happening is evacuating of gas from the Permian basin to the gulf course where it can be directly exported.

Deepak Narnolia: It is like for the new wells or existing well you have to put the gas pipeline?

Vipul Mathur: So it is all for the new well, because if you understand the dynamics of this Permian basin is very unique, there the well depletion rate is very fast, let say in India or in Saudi you have a well which keeps on producing for 25 years, there their rate of production, they are very high producing wells, but the shelf life of the wells is very small, so they have to continue drilling new wells in order to maintain the same level of throughput so which means that the more you drill the wells, the more you have to there is likely to be more gas which is going to come out, you have to put a gas pipeline that is what is driving that, it is not volatility or

the \$50-\$60 of crude or \$70 of crude, which is driving there, it is the demand it is the need that you have to put in the pipeline to evacuate gas is what is driving this sector and that is what the play is in US.

Deepak Narnolia: Okay Sir thank you.

Moderator: Thank you. The next question is from the line of Sagar Parekh from Deep Financial. Please go ahead.

Sagar Parekh: Good morning and congratulations on excellent numbers. So firstly on the Saudi operations for the 9 months we have seen EBITDA per tonnes of about \$160 and you have guided that due to the mix in terms of orders your profitability will be close to about 100 and we have achieved about 160 and partly it was also because of the steel prices where we saw some gain so now with increase in steel prices what is your guidance on the profitability of the Saudi operations going forward?

Vipul Mathur: It should still be the same, if not more. Just to clear that from the steel side of it in the last quarter when we talked I think that there were still significant quantity of the steel which was yet to be hedged or yet to be booked, now in the last quarter we have done significant booking of the steel so that pricing has already been finalized and at this point of time I think close to 75000-80000 tonnes is the steel quantity which is only open that is it other than that the entire steel is booked so that apprehension that tomorrow the steel prices go up and so what would happen to the profitability that aspect has also been mitigated completely barring the 70-75000 tonnes.

Sagar Parekh: So out of 3,80,000 tonnes of Saudi order, about 75,000-80,000 is what yet to be booked in terms of steel, rest the entire 3,00,000 is hedged?

Vipul Mathur: Absolutely and what it translates is it gives us the flexibility even for the 70,000-75,000 tonnes, right now we have sufficient steel till the end of the second quarter or mid of the third quarter, now whenever we see a sort of steel correction, first and foremost the steel has not gone up international steel prices have not gone up as much as the domestic prices have gone up number one, but even then whenever we see a sort of even a mild correction happening we will take care of this, so at the end of the day, we will be completely agnostic to any hike.

Sagar Parekh: Sure so \$150-\$160 looks reasonable in terms of EBITDA per ton for Saudi for next year also?

Vipul Mathur: I would say it is safe to assume that.

- Sagar Parekh:** Incremental orders from Saudi would be coming at similar margins level because we would be looking at steel at current levels and then taking the order right?
- Vipul Mathur:** It should be.
- Sagar Parekh:** Okay and secondly on the bid book of 25 million tonnes, could you give us geography wise break up please.
- Vipul Mathur:** So again India seems to be very big we are looking at almost India oil and gas and water basically looks like close to 7-7.5 million tonne, and then America is looking very great to us so out of the 24 million, 6 odd million tonnes is looking from America. These are the two major areas in which we were focussing on and of course Saudi's additional close to 2 million tonnes.
- Sagar Parekh:** So that still about 15, so the remaining 10 would be from the export orders from other countries?
- Vipul Mathur:** Other countries, which is Europe, South Africa, Africa, Australia. They all their but largely if I have to focus our focus would be very sharpen on these geographies.
- Sagar Parekh:** With the depleting order book going into FY2021 would like to give any guidance for volume for next year?
- Vipul Mathur:** See first and foremost we are still at 1.3 million tonnes, we still have a quarter to go. We are still pursuing quite a few business opportunities and I am very sure that when we end up this year, we will still be in a much better position from an order book perspective than what we were done last year and as I have been saying over this repeatedly that all the three geographies which is India, Saudi and US have been firing all cylinder and in terms of demand and in terms of the potential are also exactly robust, I see no reason to be of concern around.
- Sagar Parekh:** Okay so you would still see some growth in FY2021 and volume over FY2020 that is what you think? This year we would about 1.3, 1.4 tonnes in volumes, so you think you can beat that next year?
- Vipul Mathur:** We are very hopeful of that.
- Sagar Parekh:** Sure great, thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Sanjay Parekh from Nippon India Mutual Fund. Please go ahead.

Sanjay Parekh: Congratulation to entire team on a commendable performance, I have only one question to Vipul which you explained what is the policy of flaring of gas in US, so they just cannot flare or there has to be levels beyond which they cannot flare? Can you guide me please?

Vipul Mathur: Sanjay the regulation says that they can flare. Now what happens is that in under extreme circumstance when there is a sort of a capacity bottlenecking so as a special case for a very very small percentage they allow that, so the things would not come to stand still, but that is typically within one or two percent of that total thing. It is not a big number, so things do not go to a stand still and the project do not get stalled so they in a very limited manner they allow at some point of time, but largely their policy is that it is a zero flaring towards that.

Sanjay Parekh: Right that assures that the compulsory whatever the pricing is there with oil what ever gas they get, they need to transport?

Vipul Mathur: Absolutely and if you see on the front end side as I said the big players coming into the in this filed of Permian. They are the players those who also own the LNG terminals, look at Exxon Mobil, look at Chevron, so they are people those who also have LNG terminals on the gulf course in the region of Louisiana, so it brings a great advantage for them they own the asset, they have a transportation arrangement though a pipeline, they own their LNG terminals and then they have the ability to export those gas.

Sanjay Parekh: Second on mining of client in US, I think they are the largest I suppose, so we would have mined all our clients and now we are penetrating more because we have approvals all over or they still more clients to be mined in US and Canada?

Vipul Mathur: Sanjay we are pretty much embedded with just about every other client in US. They are few ENP companies which keeps on coming up, they are new companies which do happen, so we continuously work with them as well, but the large players I think we have just about every one now.

Sanjay Parekh: Oh fine, congratulation and great. Best wishes to the entire team.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I will now hand the conference over to the management for closing comments.

Vipul Mathur: Thank you gentleman. I think so we would have met you expectations in answering all the queries and the question what you would have and still if you have any other questions, please feel free to come back to us and to Mr. Percy or to Harish or to me directly, but as I said going forward what is our focus going to be. If I have to outline few steps, first and foremost our focus will continue to increase our order book, our priority would be to generate and maximize free cash flow, our continued focus on operational excellence, we

will continue to focus on higher asset utilization. We will continue to be very very mindful on capex, very measured decision on capex will be taken. We will continue to focus on our diverscement of our non core business as plate mill so we are keeping a very sharp eye to that this process move forward and it is moving into the right manner and on top of it we will continue I am sure that with the buoyancy in the business and the free cash flow which we are going to generate across all the geographies, we will definitely generate a sufficient cash flow and we would love to reward our shareholders. The goal and the dream is to be a truly Indian multinational, that is what we are focusing on and we will do all necessary steps and all necessary actions and work would be done to achieve this objective. With this I thank you all very much for joining and taking time out today morning and all the very best. Thank you.

Moderator:

Thank you. On behalf Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.