

BUSINESS UPDATE

Strong Bounce Back in an Improving Environment Order book in excess of INR 60 bn provides business visibility

October 29, 2020, Mumbai: Welspun Corp Ltd. (WCL), flagship Company of the Welspun Group, announced its consolidated financial results for the quarter ended September 30th, 2020.

- **EPS from continuing operations in Q2 FY21 at Rs. 5.8 per share, up 161% over Q1 FY21**
- **Q2 FY21 Reported EBITDA at Rs. 240 cr vs Rs. 197 cr in Q1 FY21**
- **Production Volumes more than doubled (268 KMT in Q2 vs. 130 KMT in Q1)**
- **Increase in Net Cash by Rs. 457 cr vs Q1 FY21, closing Net Cash Position of Rs. 655 cr**
- **Current Order Book stable at 701 KMT, valued at Rs. 6,100 cr**

Key Highlights of the Quarter ended September 30th, 2020

- *Financial Highlights (Consolidated) for Continuing Operations (Ind AS):*
- *Pipes – Considered as continuing operations & PCMD – Considered as discontinued operations*
- *Prior period figures are restated and reclassified wherever necessary*

1. Global Order Book position:

- Current Global Order Book stands at 701 KMT valued at Rs. 6,100 cr (US \$826 mn)

2. Pipe Sales Volume (Total Operations):

- 249 KMT vs. 222 KMT, up 12% QoQ

3. Pipe Production Volume (Total Operations):

- 268 KMT vs. 130 KMT, up 106% QoQ

4. Operating EBITDA:

- Rs. 187 cr up 2% QoQ

5. Reported EBITDA:

- Rs. 240 cr up 22% QoQ

6. Profit (Continuing Operations):

- PAT (after Minorities & share of JVs) stands at Rs. 152 cr vs. Rs. 58 cr QoQ up 163%

7. Debt position:

- Net Cash stands at **Rs. 655 cr vs. 198 cr** in June 20
- The Company has further reduced the Gross Debt and also added to its cash balance as a result of which the overall net cash position has strengthened even more. This demonstrates

BUSINESS UPDATE

the Company's strong focus on free cash flows and gives the ability to enter new businesses offering consistent earnings.

- Gross and Net Debt position is as per details below:

Figures in Rs. Cr

Consolidated debt	Sep-20	Jun-20	Mar-20
Gross Debt	335	479	995
Cash & Cash Equivalents	990	677	963
Net Debt / (Net Cash)	(655)	(198)	32

8. 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. Cr

Transactional Forex impact	Q2FY21	Q2FY20	H1FY21	H1FY20
Forex gain in Other income	10	20	10	41
Forex loss in Other Expense	1	(29)	(3)	(49)
Net gain/(loss)	11	(9)	6	(8)

9. Update on Saudi business:

The Saudi business continues to contribute towards profitability. Welspun share of PAT has increased to USD 6 mn in Q2 over Q1 FY21 which was USD 3 mn.

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

Particulars in US\$ MN	Q2FY21	Q1FY21	%
Saudi Arabia Ops:			
- Pipe Prodn (KMT)	107	25	324%
- Pipe Sales (KMT)	98	41	140%
Revenue	96	44	121%
EBITDA	25	12	99%
PBT	19	8	150%
PBT – Welspun share	9	4	150%
PAT – Welspun share	6	3	119%

We have also proposed the listing of our Saudi JV viz. WMEPL at the local Stock Exchange. The process of Listing would involve divestment of 30% of stake, split equally between both JV partners. WCL currently holds 50.01% in the JV through its overseas subsidiary. This divestment would further improve liquidity at WCL.

BUSINESS UPDATE

10. Bhopal Project Status:

As informed earlier, considering the business prospects and optimal utilisation of assets, we have relocated one more spiral mill from Anjar to Bhopal, which will also commence operations by mid November 2020.

11. Foray into Ductile Iron Pipe Segment:

Looking at an exponential growth in urbanization necessitating to create supporting water network, a huge demand is being projected for DI pipes over the next 10 years. The CAGR growth projected is over 6% in this sector. In order to capitalize on this demand and to bridge the widening demand supply gap, we intend to set up a Greenfield facility at Anjar to enter the high growth Ductile Iron (DI) Pipe segment.

DI pipes find their key applications in water supply infrastructure, sewage pipe system, irrigation water system, industrial water transportation etc. in urban as well as in rural areas. DI Pipes have key features that include easy installation, corrosion resistance & tamper proof, cost effective, long serving life of at least 50 years etc. Due to these features, DI pipes are rated high by multiple stakeholders in the industry including Project Management Consultants, EPC players and Water Departments of various states. There is expected to be a huge push from the government to improve water related infrastructure within India which will drive demand for DI pipes. At approx. Rs. 9,750 cr (in 2019), domestic DI market size is expected to grow to Rs. 19,500 cr in 2029.

For WCL, DI pipes would make a natural fit for product portfolio expansion, would have good synergies with our existing business and bring in financial stability to our earnings.

The set up would include:

- Steel making facility (400 KMTPA)
- DI Plant (250 KMTPA)

The project is being setup with an initial investment of around Rs.1,250 cr (plus soft cost) and is expected to be commissioned within 18 months.

The project will be funded through internal accruals and external debt.

12. 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 stipulated in the BTA on or before March 31, 2021. Further, the Company has already received an advance amount as per the understanding, for the aforesaid

BUSINESS UPDATE

transaction. Considering the buoyancy in the steel market, we stay very optimistic of this deal getting consummated in this financial year.

13. Business outlook:

The outlook for oil remains subject to unpredictability as the recovery from COVID-19 continues to evolve. Several countries have reentered partial lockdowns while some like China have staged a V-shaped recovery. In recent months we have seen a pickup in global demand. EIA estimates that global consumption of petroleum and liquid fuels averaged 95.3 million b/d in September. Liquid fuels consumption was down 6.4 million b/d from September 2019, but it was up from an average of 85.1 million b/d during the second quarter of 2020 and 93.9 million b/d in August. In fact, EIA forecasts that global consumption of petroleum and liquid fuels will average 92.8 million b/d for all of 2020 before increasing by 6.3 million b/d in 2021. Oil prices meanwhile continue to hover around \$40. The current high inventory levels and surplus crude oil production capacity will limit any upward pressure in the near term.

India

Despite the global turbulence, India is charting its own path. Minister of Petroleum and Natural Gas said that Oil PSUs alone are spending Rs 1.2 lakh crore on various O&G projects during the current fiscal to help boost employment and economic growth. We have seen increased tendering activity from domestic PSU companies which has resulted in several order wins for us. There is also a strong demand for small diameter pipes from City Gas Distribution projects as new PNG connections and CNG stations continue to be added at a rapid pace to the existing infrastructure around the country. The downstream segment too is expected to grow further with refinery expansions and new planned refineries like Barmer, Vizag Paradip and Ratnagiri.

Demand in the domestic water segment across States continues to be low, as their resources have been diverted in the fight against COVID-19. Water projects will pick momentum as the governments renew their focus on providing piped water connections and improve irrigation facilities in drought prone areas. For instance, in the state of Uttar Pradesh the Chief Minister has set a target of providing piped drinking water in each and every household of the state, including water-stressed regions like Bundelkhand, within two years. Multilateral financing by agencies like ADB, JICA, NABARD and central assistance is key for funding the demand in the sector.

In the export market, we are in close discussions with various customers and are in contention to bag new orders. During the quarter, we bagged a highly prestigious 45 KMT order from Australia which once again is a testimony of Brand Welspun. Our overall order book in India stands at a healthy 421 KMT.

BUSINESS UPDATE

USA

In the US, there is an element of uncertainty in the run up to the Presidential elections and the possible impact of the outcome on the Energy policy. Nonetheless, we won a large order during the quarter as well as some other repeat orders reinforcing our position as a trusted pipe supplier. Based on our current order book for HSAW, we have visibility till May 2021 and have already commenced production of a large order from our longstanding customer. We have also participated in a few bids and are well positioned to win new orders.

Saudi Arabia

The JV in Saudi Arabia has an order backlog of around 4 months. We are continuously engaged with a large customer in the water segment and are in a favourable position on three large orders. We are also expecting a few large orders under the long term agreement with Saudi Aramco to supply HSAW pipes for O&G applications.

14. COVID-19 Update:

All our plants are fully operational. The Company and its subsidiaries are operating in accordance with the health and safety guidelines, as issued by the respective government authorities. We have adopted several additional measures encompassing global best practices, across our offices and plants globally to keep our employees and service providers safe.

Management Comments:

Commenting on the results, **Mr. B. K. Goenka**, Chairman, Welspun Group said, “We have seen a strong improvement over the previous quarter with higher sales and production volumes. Our performance has been satisfactory and we have bagged several orders in the domestic market as well as a few large orders for exports. Profitability has been healthy, supported by product mix and the cost optimisation measures taken by the management. Our strong free cash flow generation, cash reserves, additional liquidity from Saudi divestment and PCMD deal and strong organizational & execution capability will enable us, to explore and fund new business opportunities bringing growth and consistency in financial earnings. In this backdrop, I am pleased to inform you about our plans to enter the Ductile Iron Pipes business. Apart from creating shareholder value, this will go a long way in developing our Nation’s water infrastructure and help provide access to reliable and clean water for all.”

BUSINESS UPDATE

Detailed reconciliation of Operating EBITDA is provided hereunder:

Figures in Rs. Cr

Reconciliation of Operating EBITDA	Q2FY21	Q1FY21	Q2FY20	H1FY21	H1FY20
Reported EBITDA	240	197	331	437	572
Less: Treasury income	(12)	(13)	(15)	(25)	(34)
Less: Profit on sale of Land (incl. interest)	(42)	-	-	(42)	-
Add: MTM loss/fair valuation on other bonds	0	(1)	2	(0)	38
Operating EBITDA	187	183	317	369	575

Consolidated Performance Snapshot

Figures in Rs. Cr unless specified

Particulars	Q2FY21	Q1FY21	Q2FY20	H1FY21	H1FY20
Ex-Saudi Arabia/ CWC operations					
- Pipe Production (KMT)	161	105	317	265	508
- Pipe Sales (KMT)	151	181	221	332	402
Total operations					
- Pipe Production (KMT)	268	130	443	397	739
- Pipe Sales (KMT)	249	222	337	471	656
Continued Operations (Pipes)					
Total Income from Operations	1,158	2,069	2,263	3,227	4,310
Operating EBITDA	187	183	317	369	575
Reported EBITDA	240	197	331	437	572
Finance Cost	15	28	34	43	74
Depreciation and Amortisation	52	53	61	105	115
Profit before tax and share of JVs	173	115	236	289	383
Tax expense	63	78	115	142	153
Non-controlling interest	(5)	(2)	(5)	(7)	(6)
Share of profit/(loss) from Associates and JVs	47	23	58	70	75
PAT after Minorities, Associates & JVs (I)	152	58	173	210	299
Discontinued Operations					
(PCMD & 43MW)					
Profit After Tax (II)	(3)	(6)	(18)	(9)	(25)
Profit for the Period (I + II)	149	52	156	201	274

Prior period figures have been restated, wherever necessary

BUSINESS UPDATE

Figures in Rs. Cr

Consolidated Balance Sheet - Key figures	Sep-20	Mar-20
Net Fixed Assets (incl CWIP)	1,567	1,619
Net Current Assets #	1,040	1,195
Net Debt / (Net Cash)	(655)	32
Net Worth	3,387	3,215
Net Assets Held for Sale *	881	829
ROCE (pre-tax)	26.8%	32.1%

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) = TTM EBIT adj. for one-offs/ Avg. Capital Employed; both taken for continuing operations

BUSINESS UPDATE

Q2 FY21 Investor / Analyst conference call:

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

Date: Tuesday, 29th October 2020

Time: 4:00 PM IST

Dial in details:

- Primary Access: +91 22 6280 1325 / +91 22 7115 8226
- 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

DISCLAIMER: *The information in this release has been included in good faith and is for general purposes only. It should not be relied upon for any specific purpose and no representation or warranty is given as regards to its accuracy or completeness. No information in this release shall constitute an invitation to invest in Welspun Corp Ltd. or any of its affiliates. Neither Welspun Corp Ltd., nor their affiliates' officers, employees or agents shall be liable for any loss, damage or expense arising out of any action taken on the basis of this release, including, without limitation, any loss of profit, indirect, incidental or consequential loss.*