"Welspun Corp Limited
Q1 FY2022 Results Conference Call"

July 30, 2021

ANALYST: **MR. ABHINEET ANAND - EMKAY GLOBAL FINANCIAL SERVICES LIMITED**

MANAGEMENT: **MR. VIPUL MATHUR - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER - WELSPUN CORP LIMITED**
MR. PERCY BIRDY - CHIEF FINANCIAL OFFICER - WELSPUN CORP LIMITED
MR. AKHIL JINDAL - GROUP CHIEF FINANCIAL OFFICER AND HEAD STRATEGY - WELSPUN GROUP

Moderator: Good day, ladies and gentlemen and a very warm welcome to the Q1 FY2022 results call of Welspun Corp, hosted by Emkay Global Financial Services. We have with us today on the Mr. Vipul Mathur - Managing Director and CEO, Mr. Percy Birdy – Chief Financial Officer and Mr. Akhil Jindal, Group CFO and Head Strategy, Welspun Group. 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 "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhineet Anand from Emkay Global. Thank you and over to you Sir!

Abhineet Anand: Good morning everyone. I would like to welcome the management of Welspun Corp and would like to thank them for this opportunity. I shall now hand over to the management. Over to you Sir!

Vipul Mathur: Thank you very much and a very good morning to all of you. Thanks for taking your time out today morning to attend our investor call for Q1 FY2022. Let me just first highlight with the key highlights of our operation and financial performance during the quarter ended June 30, 2021.

The PAT stands at Rs.97 Crores up 68.6% on Y-o-Y basis. EBITDA is at Rs. 203 Crores up 2.9% on Y-o-Y basis. We enjoy a very healthy balance sheet with a net cash of Rs. 853 Crores. Our total income from operation was at Rs.1299 Crores. Our sales volumes stand at 175000 metric tonne and enjoy healthy order book of 487000 tonnes with an active bid book of almost 1.7 million tonnes. For this quarter, the production and sales volume for our total operations including Saudi was at 119000 tonnes and sales of 175000 tonnes respectively. The breakup of that is as under.

For India operations, our sales volumes was 83000 tonnes, for our US operations, the sales volume was around 58000 tonnes in this quarter and for Saudi operations, our sales volume was around 34000 tonnes in this particular quarter.

Let me just give you a broad outlook and update about the key drivers which we are seeing in each market. India: the demand for steel pipes is expected to improve with higher level of economic activities, optimism that the vaccination programme will stimulate the economic recovery. The government surge to improve infrastructure is expected to auger well for industry players.

A study by OPEC show that India boasts of highest growth in demand for oil from 2022 to 2045 with a CAGR of nearly 4% to reach 11.1 million barrels per day. India contributed around 5% of the world's total demand in 2020 and which is expected to jump to 10% by 2045.

To match the increasing demand for oil the necessary infrastructure would have to be developed which will result in several opportunities for pipe manufactures.

Another demand driver for pipes is natural gas transportation and distribution as per petroleum, PNGRB the ninth and tenth round bidding for City Gas Distribution organised in late 2018 covers 50.61% population spread over 42% of the geographical area and is expected to require 1.74 lakh inch kilometers of pipeline. Out of this, only 75000 inch km has been laid till September 2020.

Water continues to be our key focus area. Currently, the country's per capita availability of water stands at abnormally low numbers. We are seeing a huge capital infusion by Jal Jeevan Mission announced by Government of India under their signature scheme Nal se Jal and Nal se Jal at every home and that seems to be now gaining momentum.

Further, the scheme called AMRUT also aims at enhancing sewerage treatment capabilities across India. Both these policy initiatives combined are expected to boost the demand for DI and spiral pipes in time to come. However, despite this optimism, we also have to recognise that there has been a steep increase in the raw material prices which has impacted the cost for major projects. This has resulted in delays in project implementation especially in the water segment as the project cost has significantly revised upward. However, we are confident in times to come, this will get adjusted in the value chain and things will be back to normal.

We are also in discussion for several orders in the export market, which have seen significant improvement in prospect due to higher oil price and demand and availability of lower interest rates. These opportunities are mainly for gas and slurry pipeline across all over the world especially in Australia, Middle East, East Africa and Latin America. With our exceptional track record in execution and our price competitiveness and also with very limited competition in these projects, we are very well placed to win large chunk of business in due course of time.

USA: The oil and gas rig count an early indicator of future output rose to 484 in the week of July 16. It is highest since April 2020. This put the total rig count 91% higher than this time the last year. It was also up by 98% since falling to a record low of 244 in August 2020. However, there is a caution among midstream companies about regulatory issues and environmental opposition.

Currently, we are not seeing too much of visibility for any large potential order for our Little Rock facility, but we continue to be engaged with all the key midstream players and keeping a very close watch on every upcoming opportunity.

In the meantime, just to optimise, we have taken several measures in terms of cost optimisation and rationalisation; however, considering the demand and considering the oil prices and also considering that there has been a significant uptick in the rig count, all these three are clear indicators that the gas economy will revive sooner rather than later and we stands very optimistic around that.

Saudi: The Saudi business got momentarily impacted by a sharp increase of steel prices which impacts our profitability on a very small unexecuted quantity; however, as of now we have no open position of raw material and steel for all the orders happens to be secured. Further, the Saudi market is extremely buoyant. They are absolutely riding high in terms of for the oil supply and oil demand. We are seeing Saudi Aramco is rolling out multiple programs in terms of bringing capital projects upon the table and we being one of the LTA holders will be a significant beneficiary as and when the pipeline orders will get finalized. We are likely to see a lot of traction happening towards Q2 and Q3 from Saudi Aramco.

On the water side of it their demand for the moment of desalination water to inhabitants in the cities continues to be strong. There are a couple of projects in which we have participated at this point in time. These projects got slightly delayed because of a very high steel price and the Ministry of Finance making adjustments in terms of project cost, I think by Q2 all these adjustments would probably be done and all the projects which were being put on hold because of this high steel price will come back on track, so we stay extremely optimistic with respect to our Saudi business both on the Oil and Gas as well as on the waterfront.

Lastly, as I informed earlier, we have already started the process for an IPO. The process is on track. The regulatory approvals which have been sought are likely to come sometimes in Q2 and then we will decide the timing in terms of when to hit the market for the successful IPO. We are aiming to complete this during the FY2022 itself.

I also like to bring some business updates. As you recollect in the last call, we have talked about a proposed acquisition of steel business of WSL by WCL through a scheme of arrangement. Just to give an update, we have already filed for all the necessary approvals. At this point in time, we are expecting comments to come back from SEBI and the process seems to be completely on track at this point in time.

On the DI project, as we announced in October 2020, we are going full steam ahead with our DI project and the Greenfield facility at Anjar and we are absolutely optimistic that it will be commissioned on or before March 2022. So, this project is absolutely on track, and we should be seeing production coming out in March 2022.

As you are aware that the divestment for the plate and coil mill is now completed we have received the final consideration and no dues are now payable to us from the JSW who are acquirer for this particular transaction, so with this the entire cost has been completely reimbursed and received.

Lastly, I also want to touch on the key initiatives ESG initiatives which the company has been focussing on, we are very, very committed and focus on couple of things from the ESG front.

Number one is the Greenhouse gas inventory; Number two, strengthening our sustainable supply chain framework; Number three, strengthening our governance structure and; Number four, we are also working in terms of up scaling and bringing better board effectiveness. These are the three or four buckets in ESG we are working at this point in time and you will see a significant action coming up around in subsequent quarters to come.

With this, I would like to conclude my opening remark. I would be happy to take any questions which you may have please. Thank you very much.

Moderator: Thank you. Ladies and gentleman, we will now begin the question-and-answer session. The first question is from the line of Neerav Shah from GC Holdings. Please go ahead.

Neerav Shah: Good morning Sir and thanks for the opportunity. Congrats on concluding or closing the deal to see the PCMB asset. I have few questions. Firstly, from the last quarter's interaction, I mean we are seeing that the bid book has increased from 1.23 million tonnes to 1.77 million tonnes, now what are the key segments and regions that have added to this bid book? You mentioned that you have from the India plant, the potential is from the slurry pipelines but if you can just elaborate region wise and what are the key segments which has led to this increase in bid book? Thanks.

Vipul Mathur: There are two reasons, which have significantly contributed where the visibility is looking better and things are moving in a very favourable direction that happens to be Latin America and Australasian region from an export perspective.

Neerav Shah: Okay and the incremental have come from which segment?

Vipul Mathur: The increment has come from our Oil and Gas segment and the product would be the longitudinal pipes.

Neerav Shah: Sir you mentioned that you are India that when you were mentioning on the India operations commenting you mentioned that the gas and slurry pipelines across the world from these countries, so is the value addition or the margins very similar to what we get in the oil and gas segment for slurry pipelines or there is a difference?

Vipul Mathur: They are pretty much the same.

Neerav Shah: Got it. Sir, second question is on the USA operations, I mean if you can just share for this financial year what will be the annual fixed cost over there for the USA operations?

Vipul Mathur: You know the largest cost component there is the manpower component and till now we have been running full blast till the end of July, let us say till the end of this month, we had some orders in hand and so we were running full steam and an appropriate level of manpower was maintained. Now as we are seeing a limited visibility of the business in subsequent quarters, not that we are not in discussion with some of the key players or key listed companies to secure new business but by the time they will materialize and by the time they will come for execution, there could be a little bit of a pause, so we are taking all the measures in terms of optimising the cost including the manpower cost and we are absolutely working very diligently on that particular front at this point in time. Now the moment we will crystalize that, I think by the end of this week or early next week, we should be in a better position to crystallize that and if you allow us to get back to you by that time, I will appreciate that.

Neerav Shah: Okay and just related question with the USA operations is in the last call you mentioned that the order book is visibility till July, so whatever orders we had in hand over there I mean can we expect them to complete the pending order book to be executed in this quarter itself?

Vipul Mathur: Yes, absolutely. The production is over. The entire execution would be over within the next quarter itself.

Neerav Shah: Got it and just a last question is what is the strategy with respect to Welspun Speciality Steel. I mean will be needed to infuse more money over there and what is the strategy over the next three years, broad strategy if you can just share on that? That is the last question. Thank you Sir.

Vipul Mathur: As you know Welspun Speciality Steel is the boutique company and we have seen the peers in that business, what the amount of recognition and the amount of growth they have recorded. I think so we are even much better prepared than them. At this point of time, we have some big plans around that particular company but I think we are taking fairly calibrated step at this point of time because as we have filed for the scheme of merger, we want the first step is that that should get through and once that happens and it is through the WSL acquisition it comes under our afford, that is the time we would like to invest, it will require some marginal investment in terms of the ramping up the operations but we are very, very buoyant and very, very ecstatic about the growth of that particular company and I do not have to elaborate that, you are seeing the performance of the peers in that particular segment, so we should not be left behind in the whole process.

Neerav Shah: Okay, great Sir. Thanks a lot, and all the best.

Moderator: Thank you. The next question is from the line of Bhavesh Khandelwal from RII. Please go ahead.

Bhavesh Khandelwal: Thank you for the opportunity. So, I just have one question on this the reference, so if you can just share about the EBITDA what we have done for the last year or the EBITDA ratio for this month?

Vipul Mathur: Bhavesh, sorry we could not get the question clearly, can you repeat it please?

Bhavesh Khandelwal: Yes, I am saying that the steel business, can you share the EV to EBITDA ratio for this Steel Company which you are going to getting?

Percy Birdy: Basically, the valuation for Welspun Steel and for Welspun Speciality Solutions was conducted by of course two independent valuers and if I am not mistaken that amount comes to close to about 360 Crores to 365 Crores for both these put together. WSSL as you know is the listed company and the market cap is available in the public domain as well and WSL, the numbers were that topline was close to 650 Crores and EBITDA was close to 39 Crores for the year March 2021, so I think that might help you based on the consideration and the numbers as to what the valuation norms would be.

Bhavesh Khandelwal: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Vikas Singh from PhillipCapital. Please go ahead.

Vikas Singh: Good morning Sir. Just wanted to understand your views on the long term planning on Oil and Gas pipeline because now there is a lot of talks about the carbon neutrality and people are moving to solar and wind power, steel pipeline planning are of 25 years to 30 years, so how do you see, any feedback on the customer side in terms of anything, some people are reluctant to put now pipeline because obviously the Oil and Gas in next 20 years to 30 years might not be in the same proportionate previously it was?

Vipul Mathur: Vikas, the Oil and Gas pipeline are going to stay at least in our lifetime. Whatever is happening, it is happening for good on the renewable side of it but the demand by the time that renewals will become completely full blown and could be able to cater complete requirement, I think there is a long way to go on that, number one. Number two, but also there is a paradigm shift which is happening in the Oil and Gas space. We are seeing emergence of hydrogen pipelines, we are seeing emergence of carbon capture, so these are all large, it is quite possible that there could be a migration from the oil pipeline to hydrogen pipelines to carbon capture pipeline but the intrinsic question is whether the pipelines will be there? The answer is yes. What will flow in those pipelines? There is a shift which is happening. We have to recognise that fact, we are preparing ourselves for that and I can assure for that Welspun would again one of the pioneers in this country in terms of capturing those opportunities.

Vikas Singh: Understood Sir. My second question in terms of tax implication of the plate mills so if you could just give us little bit more insight into the same?

Percy Birdy: As you know the PCMD division was sold for Rs.848.5 Crores and after the tax WDV was reduced from that, we had capital gains of almost about Rs.590 Crores to Rs.600 Crores on which the capital gains tax is about 23%, so it involves about 130 Crores odd is the capital gains tax. However, we did not have cash outflow towards this because we had certain long-term losses also on our bonds historically which we had and also, we had MAT credits, accumulated MAT credits, so at the end of the day we did not have any cash outflow towards the tax on PCMD but if you look at the P&L expense then you can say it is about Rs.130 Crores is the long-term capital gain tax on the PCMD sale.

Vikas Singh: In terms of our net cash balance currently, is it after paying that 350 Crores–360 Crores for the new acquisition or it is a prior to that and post to payment or net cash would be lower?

Vipul Mathur: It is prior to that. Right now it is prior to that and as you know that right now we have only filed for the merger scheme to be approved, once the merger scheme gets approved and if you see the contours of the scheme, in any case we are not going to pay, it is not to be paid on day one, it has to be paid over the period of 18 months from the approval of the scheme, so there is no immediate cash outflow which is going to happen of the Rs.350 Crores on account of this merger.

Vikas Singh: Just one last question if I may ask, how much you have spent on the overall DI capex so far in the next nine months spending if you could give us that number?

Vipul Mathur: As you know, we are looking at a total capex of close to Rs. 1550 Crores plus the soft cost at this point in time. I think so we are well within our budgets and also well within our times, we should be able to conclude this project well within that case.

Percy Birdy: I think he is asking about cost, so far as we speak, we have already invested about 400 Crores, so all that has gone into land, buildings, capital advances, plant and machinery, so about 400 has been done.

Akhil Jindal: Yes, but important thing is to note is we have not yet drawn any debt on this, so all of this has been from the internal accrual. This is the part of our equity contribution. if your question is how much further equity contribution is to be done, it is around 200 Crores further, rest all funding will be done through the debt which is already tied up, so we would be shortly starting the debt drawdown in August and all further capex will be funded by that.

Vikas Singh: Understood Sir. Thank you for taking my question. Just one request from you, so basically your press releases quite comprehensive and pretty good, but just one request is that any which ways we usually take on the concall the geography wise, the volume execution, so if you could give the India and US volumes also in the press release that would had be wonderful for us.

Percy Birdy: It is there in the press release.

Vikas Singh: Not separately. So you give Saudi plus India plus US volume combined, so India, US and Saudi if you could give us on the press release itself, it could be wonderful and if you say because you disclose that number on the concall, so I thought probably it is possible in the press release, so otherwise your press release is quite comprehensive.

Vipul Mathur: Great point Vikas. We will take care of that. Valid point we will take care of that.

Vikas Singh: Thank you Sir and all the best.

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

Aayush Kumar: Very good morning Welspun Corp team. I have two questions. As per the investor presentation, we have a net cash position of 1700 Crores gross that of 800 Crores, do not we intent to pay off the complete debt and become a debt free company?

Percy Birdy: Aayush, the gross debt that you see about 816 Crores, out of that roughly 192 Crores to 200 Crores are sitting in US and that loan is maturing by the end of August, so as of now our intention is to pay it off, so you will see a reduction in 816 by at least 190 Crores – 200 Crores, that is gross debt number. Remaining debt is sitting in India and in India we are actually raising new NCDs, Non-Convertible Debentures, so as we speak today, we have already raised 440 Crores worth of new NCDs. Our plan is to go to around 500 Crores, so we could be raising another 60 Crores of NCDs in the next one month or two months. By and large the reason for raising these NCDs, the long-term funds is to make sure that the plants in the longer run like what the MD just now referred to our investments into the new projects, DI project as well, so we are financing all those things through this long-term debt.

Aayush Kumar: But is it that we are making more than on cash then we would be saying on the borrowings?

Percy Birdy: Yes, I think we have to mindful…

Vipul Mathur: I think the cost of these NCDs had been kept quite under check, so the three-year paper that is varies about 6.5%, the five-year paper is around 7.5% quarter, and you are right, on the cash basis also we try and earn almost around the same number. So, there is no negative carry but as Percy was saying the financing had been done, to keep in mind the DI pipe funding requirement of the equity, other than that there is no requirement.

Aayush Kumar: Okay, but how come you are making almost 6% to 7% on the cash in hand?

Percy Birdy: They have been invested as per the board guidelines or board driven policy which is usually in the AAA PSU bonds. We are not doing anything on the private sector while we talk. So, they are all AAA bonds and other things, so prudent policies are in place by the board. Sectoral limits and company limits and everything have been put into place and we are adhering to that.

Aayush Kumar: So, the plan is not to become debt free, have some cash in hand and then borrow from the market, CEP's and CDs of commercial papers?

Akhil Jindal: CD's and CPs are just to be in the market other than any funding need, they are just to be active in the market. The NCD program is what Percy mentioned going up to Rs.500 Crores as a total out of which we have already run Rs.440 Crores which is in the June book and out of that Rs.25 Crores is in the pipeline. So, by the end of second quarter we would be done with Rs.500 Crores and NCD total.

Aayush Kumar: Okay, so the second question is further that amalgamation scheme the total consideration is about Rs.360 Crores, so why have we issuing preferential shares to pay for that why we cannot pay from the cash in hand instead issuing fresh preferential share capital and then redeeming it after 18 months which we have interest bearing. Why do not we plan to use the cash in hand in balance sheet and just pay it off and get rid of the interest?

Percy Birdy: See, it is good for Welspun Corp, that there is no immediate cash outflow, so these redeemable preferential shares are basically after 18 months. The interest rate on these also in very nominal, say as it is as per market rates. So, it is beneficial for Welspun Corp that the cash outflow will be after 18 months and by that time it gives us an opportunity for these businesses also to ramp up and start generating free cash so, I think it is in our interest.

Aayush Kumar: Okay, Sir the last question is, all of us are talking about the cyclical theme that for the next two year – three years the steel prices will be on the higher side. So, do not we think by that time we will be able to commission that new project we will be done with the cyclical period, or we will still have some time to make up for that?

Vipul Mathur: No, we are talking of two entities here, at an entity called WSL which is fully operational at this point in time. We are talking of another entity WSSL which is also producing at fully functional entity. All what we are adding up is a new entity called a TMT into the WSL entity and that should take around 10 months to 12 months' time of today to be up and running. So, either way we are not going to miss the steel cycle because both our entities are currently operating and even if we take opportunity which is likely to be commissioned in 10 months to 12 months' time it will still have quite a bit of headroom in terms of capitalizing the growth which is happening in the steel sector.

Aayush Kumar: The effective date is April 1, 2021, that way it is from the back date?

Vipul Mathur: That is correct. Appointed date is April 1, 2021.

Aayush Kumar: Okay, you have been doing a great job all of you. Thank you very much, Sir. Cheers to us.

Moderator: Thank you. The next question is from the line of Rishikesh Oza from Robo Capital. Please go ahead.

Rishikesh Oza: Sir, so my first question is, by when can Saudi contribute numbers similar to Q2 and Q3 of last year. Can we say by next quarter itself?

Vipul Mathur: Rishikesh, again the entire business spectrum of Saudi is about project business, at this point of time we have bidded in couple of projects; we are favourably place in couple of projects. The awards must happen around that and once those happen then you will see the benefit starting coming up. If you recollect three quarters before we had almost close to a million ton of an order book which got executed over six quarters to eight quarters time. That is the type of goals we have set for ourselves for our Saudi business. We are working in that particular direction, but it is not going to happen in one quarter time you must understand friend that it is a project-based business, we have to bid, we have to get an approval then the execution will start, so I think it will take few quarters before we would have. All our aim at this point of time is to build up a significant order book in our Saudi business as well as in India both.

Rishikesh Oza: Sir my last question is if you can give order book bifurcation between Saudi, India, and US?

Vipul Mathur: So, as we said that we have close to 487000 ton or roughly 500000 tons of an order book out of which 300000 tons is in India and almost Little Rock as I said is America is low it is around 30000 tons and Saudi is something like 170000 tons. So, all these put together it is close to 500000 tons.

Rishikesh Oza: Okay, thank you. Thank you very much, Sir.

Moderator: Thank you. The next question is from the line of Manish Agarwal from Arissan Power Limited. Please go ahead.

Manish Agarwal: Good morning, Sir. Congratulations for the good set of numbers. Sir, my first question is, we are increasing our capacity for DI pipes, so are we looking for a great opportunity in Nal Se Jal scheme as the government is planning to implement sooner?

Vipul Mathur: Yes, we are seeing a tremendous amount of opportunity, which is going to come up and the way things are moving under Jal Jeevan mission, Nal Se Jal scheme is very, very encouraging. If you would have noticed that the government also introduced scheme called AMRUT which was creating a sewage network, so that also will require DI pipes. Third scheme what they have also implemented is about tap water in every urban side of it as well. So, today the water connectivity in villages, the sewage, and the water connectivity at every house in urban network these three schemes put together is giving us great encouragement in terms of this business.

Manish Agarwal: Thank you. My second question is government is planning to implement gas projects in most of the industrial segment subtracting with the crude oil. So, do we see same kind of opportunity in gas segment as well, because the more the gas pipelines will be required, I think it will increase the order book as well?

Vipul Mathur: Absolutely. Government is already on records and if you see the PNGRB estimates they are likely to put almost 37,000 kilometres – 38,000 kilometres of gas pipeline network in the country. We have started some three year or four years back; I think so this upside of gas infrastructure would take another five years to seven years before the whole network will get created. So, I think for the next five years to seven years' time there appears to be a great potential in terms of developing of a domestic gas grid and in which the pipelines will be used, and every pipe will affect including we are being the leading one will get benefited out of that.

Manish Agarwal: Thank you so much, Sir. My last question, Sir OPEC has decided to increase the production of crude oil, so how do you see this move for the benefit of the company and orders coming in future?

Vipul Mathur: If you see OPEC and OPEC plus have calibrated their output. They have not decided to increase they have calibrated their output. I think so, the whole purpose behind this calibration seems to be that they want to keep the price of the crude beyond a particular point and if you see as we speak today it is almost close to $75 a barrel. If you see the last eight weeks it has been in more than almost $60 to $65 a barrel, so I think OPEC is working in a very, very calibrated environment and they want to keep the oil prices high, and which is good for the infrastructure developments to happen.

Manish Agarwal: Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Vikram Damani from Damani Securities. Please go ahead.

Vikram Damani: Good morning. Sorry if I am repeating something that was mentioned earlier because I joined in little late. I just wanted some clarity on why our revenue was lower year-on-year, Q1-to-Q1 as well as the pipe sales volume, if you could through some light on that please? Thank you.

Vipul Mathur: It is a combination of the order book which was to be executed in the quarter. You know Mr. Damani, that the project business, it is all about over projects and which has to be got executed in every quarter. So, in this quarter in comparison to the last year quarter, I think so what was to be executed was on the lower side and that is why both the revenues are less. But as we move forward into the subsequent quarter, I think so you will see a significant uptake which seems to be happening.

Vikram Damani: Okay, got it, appreciated. Thank you.

Moderator: Thank you. The next question is from the line of Hemish Shah an Individual Investor. Please go ahead.

Hemish Shah: Sir, I would like to know more about the DI pipes business, because you are adding a significant amount of capacity when I look at the capacity of other players. So, would it not impact the margins of all the players from next year?

Vipul Mathur: I do not know whether it will impact their margins or not, we are very buoyant about it.

Hemish Shah: What are the margins that you are forecasting for that business then?

Vipul Mathur: It is a factor of multiple things. It is basically steel product, what is going to be the iron ore price, what is going to be your coal price and all that. So, I think there are various factors it will be slightly premature for me to discuss about that as we reach there, I am sure we will be able to tell you in much more clarity. But right now, I think so we are completely obsessed with two things, number one that a) the project should get executed well in time and within the cost and b) the demand, is there demand going to be buoyant or not I think so we are convinced on both the fronts and that is what we are currently focusing on. As regards the pricing and the costing as we reach to that milestone, I think that will be the more appropriate time for us to recoup that.

Hemish Shah: I am assuming it will take around a year for you to operate at optimum capacity and if you can share the approximate range of the revenue has been generated when it operates at around 100% capacity?

Vipul Mathur: You are right. It is a new business. Any new business will need some incubation time. But looking at demand, looking at the growth, which is emerging in this segment we are very, very optimistic that we will reach to our peak much earlier than in a normal course of situation would be and the topline would be completely dependent upon as to the prevalent pricing at that point of time. But just to give you a rough flavour that what could be a potential steady state topline could be, it could be anything between Rs.1500 Crores and Rs.1800 Crores on optimum utilization of our capacity. Having said that, but if it is good processed market situation when the steel is on fire, it can be let us say that Rs.2000 Crores as well.

Hemish Shah: I wanted to know what are the capex plans for Welspun Steel, because we are paying a good amount for an entity that is only and you said that it only generated EBITDA of Rs.39 Crores in FY2021?

Percy Birdy: Welspun Steels existing business of course has been about topline of Rs.650 Crores and an EBITDA of Rs.39 Crores–Rs.40 Crores. Nevertheless, they are also getting into TMT business, and they have investment plans also which I think we have disclosed in our press release documents as well. So, we see a lot of potential over here and the valuations that we are paying is nothing.

Vipul Mathur: It is a producing asset. It is producing top notch billets at this point of time it has a topline of almost Rs.650 Crores. It is contributing almost Rs.40 Crores to Rs.45 Crores of EBITDA. Looking at the steel cycle which we are currently into I think it is going to behave this way or even better and on top of it as you know we have now investing into TMT plant which is a further value-added product downstream side of it. So, if the incremental earning of this is only going to go up from here and that is why a very calculated decision was taken in terms of acquiring this asset.

Hemish Shah: What was the rational to acquire this to use because Welspun Corp is a stronger entity I mean it will be better to scale up that business because as of now it is only generating EBITDA margins of around 6%?

Vipul Mathur: It is not that Welspun being a strong entity and it wants to play a big brother role I think so the business rationale it was purely based on the various sound business rationale. Welspun Corp wants to consolidate his operation, we want to bring profitability and enhance earning in our balance sheet and we see that this is the natural fit. Today adjacent to it we are setting up a DI plant, we are making steel in any case. It makes a perfect sense for us to integrate this operation along with the Welspun DI business and bring it in one fold so that we can leverage the capabilities which are going to be synergistic between the two entities. So, it is a very well thought of decision rather than a big brother attitude being played here, purely based on commercial parameters.

Akhil Jindal: I think in addition to the EBITDA being generated by WSL, which is Welspun Steel, you must also keep in mind that we are also getting more than 50% stake in WSSL through this. If I go by the market cap concept today, the market cap of the company is almost Rs.1200 Crores and with that the equity value that we are getting through this merger is nearly around Rs.600 Crores. So, one, there is a consolidation of the business, the steel businesses all of them coming together in the adjacency plus the EBITDA numbers and the WSSL business folding into Welspun Corp portfolio. It all makes huge sense to merge all of them together.

Hemish Shah: One last question is on the dividend or the payout policy that you have. So, my broad question is after the major capex is over let us say for the DI pipe business and for the new TMT plant that Welspun Steel is also coming up, if you can come out with proper dividend or proper payout guidance because it has been very erratic if the kind of dividend payouts?

Vipul Mathur: Not really. I think we have been consistent in terms of making our pay outs for the dividend. If you see the last two year or three years, we have been consistently paying that and depending on what earnings we have been doing. So, I think our intent is very clear that while on one side we will have to chart out our growth plans but on the other hand we also would like to take care of our minority shareholders and we have been regularly doing that. So, I think our track record speaks on that.

Hemish Shah: No, I am just asking for a rough figure on the payout ratio that that will be after next year like after 2022 when your capex is over in the DI pipe?

Vipul Mathur: We will have to see that what type of earnings we are making, and I think then we will appropriately discuss at the board level and whatever the guidance will come we will address that. But the one thing which I want to only assure you is that the interest of minority stakeholders is always forefront of us, we always are very, very completely mindful, the board is completely mindful of that particular fact, they work with that purpose and intent.

Akhil Jindal: I think you should also count the buyback that we did in the past which was in lieu of dividend. So, buyback and dividend put together I think what Vipul is saying makes sense that this has been consistent policy and of course it has been well-defined at the board level. So going forward also we will try and maintain that.

Hemish Shah: Thank you. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from ENAM Holdings. Please go ahead.

Bhavin Chheda: Congratulations to management on consummating the great deal and again increasing the overall cash level for the company. Just a few questions, first I just missed out on then if you can break up the order book into LSAW, spiral and ERW?

Vipul Mathur: What I told earlier Bhavin, was about the order book for the region that was the question to me. As I said that we have an approximately order book of 487000 ton to be precise, let us say 500000 tons out of which 300000 tons is in India, in Little Rock we have 30000 tons and in Saudi we have close to 170000 tons. So, 170000 tons of Saudi is all spiral, 30000 tons of Little Rock is all spiral the 300000 tons of India is escalating between longitudinal, spiral and ERW out of which 150000 tons, half of it is longitudinal and the balance is ERW and spiral.

Bhavin Chheda: So, this 150000 of LSAW this would be largely exports?

Vipul Mathur: 150000 would largely be export, yes. It has small domestic component which was for one of the PSU but largely it is an export order.

Bhavin Chheda: Right, so regarding this low India order book I understand obviously this looks to be the sharp steel price rally, it looks to be some postponement of orders and that because India order books looks very low and hardly it is less than the run rate of what India can do and all that. So, any discussion with government and oil PSUs which largely give this order and EPC companies because it does not look like steel or metal prices correcting in a near term soon. So, how are they positioning on the upcoming capex what you have been planning on this?

Vipul Mathur: So, on the PSU side especially on the oil and gas side of things this fact has synced in, and the market has calibrated itself. So, we are seeing a continuous progression happening on the PSU side of the business. We are not seeing any slowdown happening on the PSU business in terms of the enquiries and the tenders which are coming out. So, they are completely on track, they have completely understood the fundamental shift in the steel industry, and they are calibrating accordingly to that. The challenge is coming up more on the water side of it where on one side of it because of the steel prices have gone up, the EPCs have taken a back foot because they have booked the businesses at a much lower cost a year – year and a half back, number one. Number two, the payments from the government is also getting delayed because the entire machinery and the fund has been diverted in terms of handling this pandemic. As things are settling down, we are seeing that the government again is gradually increasing the spending and the allocation of the fund for the water sector has started coming in. On one side of it the funds have started coming in, on the other side of it there is also a little bit of a moderation which has also happened on the steel price and third, the government is also considering giving a price hike to the EPC guys. So, they are trying to bring both these points together and I am sure that it is a matter of time in this quarter there should be a convergent and we should see the water business bouncing back to full stream that is what we are hoping at this point of time and once that happens Bhavin, then it will give a quantum leap in our order book.

Bhavin Chheda: Sir, my second question was I think again there remains the concern of the long-term energy needs and oil prices and demand and all that. But my view is that obviously lot of your pipeline goes into gas pipeline and the demand for gas is increasing and obviously the usage of also gas will increase in future. So, though the gas prices are higher are you not seeing some uptick in demand from either US, Canada, Australia and how are the enquiries, because lot of pipelines may be need for export of gas also, so how is the situation there?

Vipul Mathur: If you look at the North American market, we just concluded a large project which was gas pipeline that was the highest operating gas pipeline which will ever be get commissioned, so we just concluded that. So, right now there seems to be a little bit of a slowdown in the North American market, but the Australasian market, the Southeast Asian market has become very, very buoyant at this point in time. We are seeing a lot of businesses emerging from Australia. You see in last year also we executed on project. The second project which got cancelled now it got reinstated, we have already announced that. We are also pursuing one or two or three more large projects in the Australasian market. So, there is demand which is emerging in that market having said that in my earlier question I was saying that we are also seeing a lot of developments happening at Saudi Aramco level. Saudi Aramco is also coming up with large project, they have put two project or three projects from backburner especially the Marjans and the Zulufs. Now we are completely hearing, we are hearing that all those projects stand sanctioned, and they should also be coming up in later part of this year early next year with the buying streamed for those projects as well. So, gas in any case Bhavin is getting a lot of traction now and it will continue to get in times to come as well both domestic as well as for exports.

Bhavin Chheda: Sure and how much time it would take for you to consolidate your steel entity and speciality steel, approval process would take how much time?

Vipul Mathur: I think it is a process of anything between four months to six months – seven months it is a regulatory approval process you do not have too much of control. But historically indications are it takes anything six months to eight months' time.

Bhavin Chheda: Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Vipul Mathur: Once again thank you very much all of you for joining us on this call today for our Q1 results. I hope we have tried our best in terms of answering all your questions, but still if you have any doubts, any queries whatsoever you can reach back to me, directly or to Mr. Percy or to Akhil or through our Investor Relation guys and we will be more than happy to answer any queries what you would have. Having said that I once again want to thank you for taking time out and stay safe and stay blessed. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.