# FY14 Quarter 3 Earnings Conference Call of Welspun Corp Limited
# 28th January 2014

**Speakers:** **Mr. B.K. Mishra, Managing Director;**
**Mr. S. Krishnan, Chief Financial Officer;**
**Mr. Akhil Jindal, Director - Group Finance and Strategy**

**Moderator:** Good day, ladies and gentlemen. I am Sourodip Sarkar, your moderator for this call. Thank you for standing by and welcome to the Welspun Corporation Limited Third Quarter Financial Year 2013-14 Earnings Conference Call. During the presentation, all participants' lines will be in listen-only mode and post that we will open the floor for Q&A session. So, now without further delay, I would like to hand over the proceedings to our panellist, Mr. Amit Mishra from Macquarie Securities. Thank you and over to you, sir. Thank you.

**Amit Mishra:** Thanks, Sourodip. Good afternoon, everyone. It is our pleasure to host Welspun Corp post results conference call today. And thank you very much all of you for participating on it.

To represent the company we have with us Mr. B.K. Mishra, Managing Director; Mr. S. Krishnan, Chief Financial Officer; and Mr. Akhil Jindal, Director Group Finance and Strategy. Mr. Mishra, I would now like to hand over to you for opening remark and then we'll open the floor for questions and answers. Over to you, sir.

**B. K. Mishra:** Good afternoon, everybody, and welcome to this – I would say maiden call of Welspun Corp Limited standalone pipe and plate business. Now that demerger is a reality, you know, which was issued by Honorable Gujarat High Court by their order dated 10th January, and therefore, you know, like today's call in any case we would be concentrating fully on the standalone pipe and plate business of Welspun Corp Limited. And as you know, by the demerger process all other subsidiaries which are into steel, energy, oil and gas, all those things have already been demerged into Welspun Enterprises Limited.

I would be happy to give you the results of the third quarter earnings. The sales stood Rs.1,742 crores as against the Q3 of last year, Rs. 2,406 crores. The EBITDA is at 174 crores as against 166 crores. Operational EBITDA, roundabout 100 crores as against 126 crores of the corresponding quarter in the last year.

And the cash PAT stood at 57 crores as against 70 crores of the corresponding quarter in the last year.

The Q2 earnings of 2014 correspondingly stood at – sales was at 2,179 crores; EBITDA 263 crores; operational EBITDA, 310 crores; and cash PAT which was in the Q2 FY14 at 222 crores. The net debt stood at a level of 2,200 crores at the end of the quarter, down from 2,500 crores at the end of the last quarter. The net worth at the end of the quarter was at 2,835 crores implying a net debt to equity ratio at 0.78 times.

The production and sales volumes for the third quarter, we did 198,000 of production and the sales was at 233,000 tonnes. The segregation in terms of the different products that we manufactured: L-SAW at 71,000 tonnes of production; H-SAW 99,000 tonnes; ERW and of course, including HFIW which is now starting to be produced in US, that's 28,000 tonnes. Correspondingly, the sales volume were L-SAW at 80,000 tonnes, H-SAW at 123,000 tonnes and ERW and HFIW at 29,000 tonnes. In other words, we produced about 198,000 tons but we sold about 233,000 tonnes of pipes in the third quarter of this year.

From a plant location perspective, India did about production of 144,000 tonnes, US 47,000 tonnes and Saudi 7000 tonnes. Corresponding to this production volume, the sales in India was at 155,000 tonnes, US at 60,000 tonnes and Saudi at 17,000 tonnes. I would also like to announce here that the order book as on today stands at a very healthy position. As a matter of fact, the current pipe order book stands at around 800,000 tonnes, which is again, I think, one of the highest levels. And also I would like to inform you that during the quarter itself, we booked orders worth about 500,000 tonnes and that includes one single large order of 416,000 tonnes from Saudi Aramco, which included almost 300,000 tones to be supplied from our Saudi facility and about 116,000 tonnes to be supplied from India facility. And I would also like to inform you all here that this company has booked. This is the first time actually this Company has probably given a one single order for 416,000 tonnes.

The order book in terms of different product segments. L-SAW stands at 250,000 tonnes. H-SAW 520,000 tonnes. ERW 29,000 tonnes. And in terms of geographical distribution, America is at 28%, Middle East and North Africa at 57% and India at 15%.
The major projects like forthcoming which we would be targeting in the next quarter or so: Gujarat Water Supply Board has actually announced projects worth almost a million tonne. And we being one of the largest producers of H-SAW pipes in the country, we are looking a sizable chunk of that business and then we have also participated in some forthcoming deep offshore pipeline project in US, which is Gulf of Mexico. We are also nicely poised for close to 30,000 tonnes of business in Nigeria and also we have expanded our reach to the South American market and we would be bidding for a 60,000 tonnes of project in Brazil. So that's about it. As far as the information are concerned, I will be too happy to take questions and I am here with Mr. Krishnan, our CFO and Mr. Akhil Jindal, our Director of Finance. So they will be assisting me in taking all questions that you might have.

**Moderator:** Thank you so much, sir. With this we are going to start the Q&A interactive session, so I would request all the attendees and participants, if you wish to ask any question you may press “0” and “1” on your telephone keypad and wait for name to be announced. I would like to repeat, attendees if you wish to ask any question you may press “0” and “1” on your telephone keypad and wait for your name to be announced.

We have the first question from Dikhshit Mittal from Subhkam Ventures. Your line is unmuted, you may go ahead and ask your question.

**Dikhshit Mittal:** Yeah. Good evening, Sir, I just wanted to know the reason behind so much volatility in your EBITDA margin per tonne, because we have been, like, ranging from 4,000 to around 10,000 Rs. per tonne. So, any specific reason and the kind of margin we should be taking on a normalized level for next year projection?

**B. K. Mishra:** See, first and foremost, I think this has been my standard answer probably right from the inception of the company that please don't look at us on a quarter-to-quarter basis because if you see my third quarter of last year result also and if you compare to my second quarter you would see similar kind of volatility. I can only tell you that on a yearly basis we are absolutely on course. And this quarterly result does not really sort of give any kind of an indication what might actually be our yearly result. Having said that, if you see our 9-months result if you see the EBITDA, stands at Rs. 8,725 Rs. per tonne, which is sizeable EBITDA by any standard.

**Dikhshit Mittal:** Okay. So we should be taking this kind of EBITDA as a sustainable going forward?

**B. K. Mishra:** I have no reasons to dispute that but, I think, it will be too difficult for me to really give a guidance. But, I can only tell you that we are on course for our yearly numbers and we have been generally following the numbers.

**Dikhshit Mittal:** Sir, in terms of your new order – Is the margin similar to current or any difference in terms of incremental order?

**B. K. Mishra:** See, I did mention that out of the 800,000 tonnes order book, close to 416,000 tonnes is actually from Saudi Aramco. And without giving you any detail, you know, all of you are aware that Saudi Aramco is one of those players who don't buy pipes from anybody and everybody. So these are kind of restrictive competition kind of order. And more importantly, out of this 416,000 tonnes, 300,000 tonnes have been booked for our Saudi facility itself and Saudi Aramco has a written policy that they give approximately 10% price preference to the local supplier. And let me also remind you all that as on today, as far as the spiral pipe making facilities are concerned, Saudi Mill that is Welspun Middle East is only company which is approved by Saudi Aramco.

**Dikhshit Mittal:** Okay, Sir, then your targeted order book of around one million tonnes. So are you confident of achieving that by the end of this year?

**B. K. Mishra:** Well, we are already in the month of January end, and if I am standing on an order book of 800,000 tonnes, it looks more than probable because, see, even in the beginning of the last year, I think, we stood at around 675,000 tonnes and in three quarters we have already crossed 800,000 tonnes. So there is no logical reason really for me to believe that we would in any case cross that 1 million mark.

**Dikhshit Mittal:** OkaySir, then in terms of your plate mill, Do you have any plans to sell that plant or you are confident that plant can be revived?

**B. K. Mishra:** See, I don't think we are close to those kinds of ideas but having said that we are closely monitoring the price movement of raw material. When I say raw material the prices of HR coils and plates, which our Plate mill is competent of making. And if there is an opportunity and I did mention in my last call also that we are maintaining the plant in such a way that, you know, if I want to actually restart the mill, I would be able to restart the mill and make some coils close to in about two weeks time. So if the price movement is in the positive side, we are open to sort of start making some coils for our own consumption or for the market. However, if any opportunity comes up we won't be closed to those kind of ideas.

**Dikhshit Mittal:** Okay. Sir, then finally in terms of your infra that has gone out, so what is the debt on the balance sheet and what is the equity in that business right now?

**B. K. Mishra:** I will ask Mr. Jindal to take that call.

**Akhil Jindal:** See, basically when you have seen the net debt of the company in Welspun Corp, it has come down to almost 2,200 crores**.** So what it means practically is around 1600 crores of net debt has moved to Welspun Enterprise. The net worth of Welspun Enterprises is close to ,2,500 crores. Obviously, at the holding company level we have no debt. The debt that I have told you around 1600 crore is at a subsidiary level. There is also around 400 crores of cash in that company. So the net debt implication is only 1200 crores which has moved from Welspun Corp to Welspun Enterprise.

**Dikhshit Mittal:** Okay. Sir, then incremental cash that you will generate by selling Leighton stake, that will come to enterprise?

**Akhil Jindal:** That's right. Leighton deal when it gets concluded sometime in the first half of February, we will also bring in another 200 crores at Welspun Enterprise level, 220 crores to be precise, and another 70-80 crores at Welspun project level. So that would be further addition, plus it will reduce debt of 225 crores at the SPV level. So I would say the net debt impact because of Leighton transaction will be close be 500 crores.

**Dikhshit Mittal:** Sir, can you repeat the break-up of 600 crores that you get? 220 will go to Welspun Enterprise?

**Akhil Jindal:** Yeah, so 220 will go Welspun Enterprise. 80 will come to Welspun Projects Ltd.

**Dikhshit Mittal:** Okay.

**Akhil Jindal:** 225 will be paid to Standard Chartered Bank for the loan that was taken for the Leighton acquisition. And 90 odd crores will go to the promoter who has funded this at that point of time.

**Dikhshit Mittal:** Okay. So that means net debt will go down from 1200 crores to around 700 crores in that business?

**Akhil Jindal:** That's right. So for the net debt, you know, 500 odd crores will be a reduction in net debt in the next quarter.

**Dikhshit Mittal:** Okay. Any idea what are the current assets that company is holding in terms of...?

**Akhil Jindal:** If you don't mind, can we restrict the questions to Welspun Corp today because Mr. Mishra has to leave shortly? I would be happy to answer your questions offline should you call me.

**Dikhshit Mittal:** Sure, sir. Thank you.

**Akhil Jindal:** Thank you.

**Moderator:** Thank you so much. I would like to repeat, participants, if you wish to ask any question, you may press "0" and "1" on your telephone keypad please. We have the next question from Mr. Saurabh Jain from HSBC Securities . The line is unmuted, you may go ahead and ask your question.

**Saurabh Jain:** Hi, sir. Thanks for taking my question. What is the current pipe capacity across L-SAW, H-SAW and ERW?

**B. K. Mishra:** Well, the total is about 2.65 million tonnes.

**Saurabh Jain:** Okay.

**B. K. Mishra:** And HFIW is about 175,000 tons in US, 150,000 in India, the large diameter ERW and 50,000 tonnes small diameter ERW. So 200,000 tonnes ERW in India. And we have two longitudinal SAW pipe mills in India which is together about 700,000 tonnes. And we have one large spiral welding plant, which is at 350,000 tonnes. And there are three other spiral plants, totalling to about 450,000 tonnes. And then you have to add 350,000 tonnes for Saudi Mill and 350,000 tonnes for Little Rock US Mill.

**Saurabh Jain:** Okay. And do you have any CAPEX plan in the near future or like, how is it?

**B. K. Mishra:** Nothing is planned for the moment. But, see, as a company, we may not be looking for any sort of like Greenfield expansion of capacity because we feel that the world has fairly good capacity as far as the large diameter pipes are concerned. But we would always be open for relocation of any of our facility to more margin-yielding geography. Like, you have seen that our margins are quite high in US, our margins are quite high in Saudi. So to take those kind of benefits we have to relocate any of our facility and that entitles some kind of a CAPEX which would be probably like more for a relocation rather than anything else, we would probably be open to explore such kind of things. But as of now there is no Greenfield expansion plan in any of the facility.

**Saurabh Jain:** Okay, sir. Thanks.

**Moderator:** Thank you so much. We have the next question from Vikas Singh from B&K Securities. The line is unmuted, you may go ahead and ask your question.

**Vikas Singh:** Good evening, sir.

**B. K. Mishra:** Good evening.

**Vikas Singh:** I just wanted to understand this. We have already done the demerger. So will there be any goodwill which would be coming into the standalone pipe and plate business because our total consolidated goodwill was very high?

**S. Krishnan:** No, there will not be any impact of goodwill in the Welspun Corp book nor will there be anything on the other side as well.

**Vikas Singh:** Okay. And sir, this quarter basically, as I fail to understand, our tax rate seems to be very low. So are we paying annual tax of around 20-25% for FY14 or some different treatment would be given?

**S. Krishnan:** Are you referring to the standalone or are you referring to the consolidated?

**Vikas Singh:** I am referring to the plate and pipe business consolidated.

**S. Krishnan:** Yeah, that's also a function of the profitability and underlying book where the profitability arises. So if you see, India is negative, right? So the average tax rate will be a function of the profitability in India, US and Saudi.

**Vikas Singh:** Okay. Sir, India, if I believe that we have done around 165,000 tonnes from India.

**B. K. Mishra:** Yes, that's right.

**Vikas Singh:** Total sales this quarter. But then when it comes to EBITDA, it seems that the Indian business is not doing very good. Is that some transfer pricing thing which is hampering it or how it is?

**S. Krishnan:** No, no. See, whatever business is done between the India entity and let's say for example, the US entity or the Saudi entity, those have to be in full compliance of the transfer pricing regulation, one. Second is, whatever billing happens from the India entity to third party consumers in India, obviously we have talked about it earlier in the call as Mr. Mishra also indicated that the margins in the domestic business are relatively lesser compared to the margins in US or Saudi. Third, the infrastructure available in India is amongst the largest for the global business. Last but not the least is the impact of foreign exchange because the relative depreciation of the rupee versus the dollar for example and liability sitting on the India book would also have an adverse implication.

**Vikas Singh:** Okay, I understand. And sir, out of this, this total of 800, you said that half of it is from Saudi Aramco, correct?

**B. K. Mishra:** Yeah, close to.

**Vikas Singh:** Okay. That's all from my side.

**B. K. Mishra:** Thank you, Vikas.

**Moderator:** Thank you so much, Mr. Singh. I would like to repeat the attendees, if you wish to ask any question, you may press “0” and “1” on your telephone keypad and wait for your name to be announced. It's “0” and “1” on your telephone keypad to ask questions. So once again we have Dikhshit Mittal from Subhkam Ventures. Your line is unmuted, you may go ahead and ask your question.

**Dikhshit Mittal:** Yeah. Sir, looking at the current order book, can you give some sort guidance, next year what kind of volumes can we achieve in terms of sales?

**B. K. Mishra:** I think we had another question on the similar line and I did say that I won't like to give an exact number as far as guidance is concerned, but I did mention that last year, in the beginning of the year we had a order booking of 675,000 tonnes and this year in nine months we have already done close to 850,000 tonnes. So there is no reason really why I won't be crossing well over a million tonne. And considering that we already have an order booking of 800,000 tonnes and we haven't even started the year as yet. So I think you could be well on course to presume that.

**Dikhshit Mittal:** Okay. Thank you, sir.

**Moderator:** Thank you so much. I would like to repeat, attendees, if you wish any more question, you may press “0” and “1” on your telephone keypad please. Sir, this time, there are no more questions from the investors. So I would like to hand it over back to you, the management, for any final or closing comment. Over to you, sir.

**S. Krishnan:** Thanks for dialling in the call and for your questions and we do take the feedback. And some of the questions that you have asked and we have not been able to give you the answer, we will take it offline and come back to you more on the Welspun Enterprises part. And thanks again for dialling in and we look forward to hearing from you again.

**Amit Mishra:** Thank you, sir. It was a pleasure to have you on the call and thank you all participants.

**Moderator:** Thank you, Mr. Mishra. Thank you, the entire panelists. I would like to now thank all the attendees who have joined. With this we conclude the conference for today. Wish you all a great day ahead. Thank you so much.