Welspun Corp Limited

Call transcript for FY16 analyst meet held on 23rd May 2016

Corporate participant:

- Mr. B. K. Goenka, Chairman – Welspun Group
- Mr. B. K. Mishra, MD – Welspun Corp
- Mr. S. Krishnan, CFO – Welspun Corp
- Mr. Naveen Soni, Head Corporate Communications – Welspun Group

Mr. Naveen Soni

Good evening everyone & thank you so much for joining us for the Annual Investor Conference for the year 2015-16. We have with us Welspun Group Chairman – Mr B K Goenka, CEO & MD of Welspun Corp – Mr. Braja Mishra, CFO of welspun Corp – Mr. S Krishnan & Welspun Group Director Finance & strategy – Mr. Akhil Jindal. We will begin with Chairman Address, followed by MDs Address & then CFO. We will take questions at the end. We will begin to take questions over the audio bridge & also over the webcast. Would now request Mr. B. K. Goenka, Chairman – Welspun Group to come & give his address.

Mr. B K Goenka

Very good evening to each one of you! I would like to thank you for coming & welcome you on behalf of Welspun Corp. As you all know that at a group level we have a turnover of about USD 3 billion across multiple activities. Each group company is focused on a separate business. Primarily we are in four businesses. Welspun India is largest home textile company globally. Every 5th towel today sold in US is manufactured by Welspun & we are one of the significant exporters from India in home textile. Welspun energy is largest player in India in solar power – we are going to have a capacity of 1,300+ MW in the current year. Welspun Enterprise has been recently restructured from Welspun Corp to focus on infrastructure. We have got the 1st HAM Project hybrid Annuity Project Delhi Marriot we won the first project which is going to be Rs 900 cr+. Welspun Corp is one of the global top 3 players in large diameter pipes across the world & has complete range of pipe products from 1/1.5 inch to up to 160 inch with all the required coating across the sizes.

Friends as I have discussed earlier & just to repeat a little bit that since last two years or rather two and a half years we have embarked upon a major restructuring journey where we have restructured all the group companies so that we can reduce our debt with better focus in each and every activity we are in. We have exited from all our non-core businesses. We sold Max Steel to Jindals for Rs 1,000+ cr. We have exited from Latten which was sold to latten back for almost Rs 600 cr. We have also exited few road projects recently. All put together we have reduce debt in last 2.5 year by more than Rs 2500 cr & in fact if you see the interest part, which is saving, is in the tune of more than Rs 250 cr. This is basically straight away adding to the bottom line across the group companies.

In this restructuring we have not only focus on reduction of debt or restructuring of or selling of non-core asset but we have also restructured entire activities across the group. Welspun Corp was mix of everything earlier. We were having infrastructure. We were having energy in that; we were having pipe in that; we were having steel in that. Today Welspun Corp is clearly focusing on Pipes & Plates & Welspun Enterprise, which is basically offshoot of Welspun Corp, is focusing on rest of the thing like infrastructure & energy. So likewise overall the whole corporate structure at the Welspun Group level has been simplified. For textile, we realigned the whole textile group under Welspun India which was earlier in different companies. So the complete home textile came under Welspun India. So likewise to have better focus, going forward, across the group we have done complete restructuring & I think results can be seen from this slide. If you see our group level financial profile in FY14, our Net Debt to EBITDA was almost 4.54x & which has gone down to 2.63x now. This clearly shows the entire journey I was telling. Similarly Net Debt to Equity is almost at 1:1 from 1:1.5. EBITDA at the group level has gone up from Rs 2000 crore to Rs 3600 cr. Most important part is the cash profit which is almost double in last 2 yrs from Rs 1300 cr to Rs 2100+ cr in FY16. This indeed resulted into better Credit rating across all group comprise. Across group all companies are in the family of “A”. Welspun India long term rating is “AA-”. We are further trying to improve to double AA. Welspun Global Brand which is part of Welspun India has the same rating. Welspun Corp is “AA-”. Welspun Energy is “A+” & Enterprise which is just restarting the business is again in the A family too.

Friends! Over last 25 years of our journey every five year we have done new visioning exercises to create how the next five year should look; what should be our focus area; what should change. Every five year we try to make new vision for the whole group. This year we did little longer and detailed exercise. We hired top consultants like McKenzie, Hay Group and Conferi to restructure the whole group. Simultaneously, we came up with a complete new vision for the group. Our philosophy earlier, as we stated, was daring to commit. All these years the importance was a commitment to customer for the quality, for the delivery, you know for anything. I think the time has change we have to have new philosophy and the new way of leading the whole group. We want to create, over next decade or so, a clear-cut path where we can say that Welspun is an institution. We have already taken the first step in the current year. Our new mantra or new philosophy is “Leading Tomorrow Together”.

Leading relates to creating differentiation in each & every activity we are in leading & that differentiation we want to create by innovation, by technology, and by partnership. When I say technology, we have a budget of Rs 500 cr for next five year across the group. We are going to have major focus on technology. We want to have completely independent process and systems, not depending on individuals. This year our budget is almost Rs 98 cr and we have hired best of the consultants so that we can have best of the technology platform across the group whether it is a normal production process when we call SAP or we call human resources we have gone with Success Factor & we have gone for supply chain like with Ariba. These are just few examples which I am sharing; each is world-class in a nature and is going to take us to a different level over next five year. Across the group, whole culture, processes, whole way of doing business will change. By Partnership I mean treating our customer as a partner; treating our vendors as partner; not only customer & vendors we are also having a partnership with various institution so that we can get new air when we are talking of innovations & different kind of new research development part of it which can help us in developing our various product in times to come.

Tomorrow is very important; we want to build an institution called Welspun. We intend to build management which is self-sufficient, having complete empowerment. Risk is another important factor whether it is human capital or financial capital. So the important part will be played on people risk creating a strong leadership pipeline having right HR policies. We have to be very careful in allocating the capital; our focus will be on certain ratios where we have made our own internal target & guidelines before we go to even implement any project. These, for example, are what should be that equity ratio how we should be implementing the project, what should be overall group free cash flows all the project etc. There will be clear dividend policies across the group companies.

Together refers to our intent of being a responsible citizen. We want to be environment friendly; today we are the only company in India in textile recycling whole of the Gandhidham as well as Anjar water through our own Sewage Treatment Plant. We spent Rs 150 cr on the same; we are going to free the Narmada water for drinking usage across the cities. We have put another Rs 100 cr in sea discharge line at our Anjar facility. We are focused on environment; not only we have to make money in short-term but I think it is very important for the next generation; we are responsible; we are absolutely clear that we have to act responsibly in each & every activity so the we can have better tomorrow, good India tomorrow.

Another important factor which I want to share with you is that we are going to have a diverse workforce across the group; we have taken basic target across the group that there will be 20% woman workforce weather it is in steel, or pipes, or infrastructure; even at the board level we intend to have 20% of female board member. Across the group gender diversity is very important for us. At the end, we want to be acting like a trustee. I know we (as sponsor family of the group) are the largest shareholder but each & every shareholder, small or big, we want to have that trust together. So friends! it is a long journey & it is just first step; I can say that it is first step towards creating Welspun as a institution. I m quite confident that a over next ten year or so you will see a different Welspun.

Coming to Welspun Corp in specific, though Braja & his team will take you through detailed business scenario & the numbers, I thought let me just paint a bit of picture – where we are in the pipe industry, in the oil & gas, in the energy industry & what we feel where we stand. If you see overall there is a complete slow down in the developing economy; BRICs except the “I”. While China, Russia and Brazil are struggling for growth with absolute slow down in economies, there is hope that India will be growing at 8%+. Also, India is expected to be major economy over next 5 yrs at the global level. Last 2 yrs we have also seen tightening of monetary policy by the US FED & there is always an uncertainty over the interest rate which in turn is creating uncertainty in the global market global which you people know better than me. The most important part for us is the energy prices. For the pipe business, energy plays a very important role. At USD 140 of oil, Goldman was talking about USD 250; now we have seen the lows of USD 35-40 & everybody is talking about USD 20. There is huge volatility in the energy price creating an apprehension in the minds of the lenders – weather it is equity investor or whether it is a bank – particularly in the energy sector. We are witnessing consolidation & shakeout in the industry; valuation of mid stream companies across the globe has come down significantly, approximately 80% for few companies. Companies like Kinder Morgan of the world which are among the best companies are having debt of more than USD 16 – 20 billion & the share prices are down 60% from the peak. There is huge uncertainty in the energy market – whether Saudi is going to cut production, what would be impact of Iran coming to the market, there a geo-politics plus US politics, the shale gas issue. I think it's going to take some time, but it is clear that the consolidation phase has started. We believe there is going to be stability in the next 3 to 6 month in the energy prices. Because of oil, entire commodity cycle has slowed down; whether it is iron ore or copper or oil or anything else, except gold everything else has slowed down. For us, what is important is steel; for steel iron ore & the coal are important which are on lower side. Every country is trying to protect domestic industry; steel is a major industry requiring huge investment across the globe & employing large number of people. Thus, every country is protecting its own local industry. India has put minimum import price; US already has it; Mexico has put local content of 50%. Thus there are headwinds across: (a) Energy prices (b) commodity prices & (c) local protection. But in spite of all this we have certain strength & tailwinds. We have exploring new markets like African region plus with Iran coming back. 5 years back Iran used to be our one of the major market for large diameter pipe as well as plates. We hope Iran would be back on track over next 9 months & we would have a huge upside. Domestically the government is pushing to create more & more employment. I think infrastructure is going to be a major play in which oil & gas pipeline, water pipelines are going to play a major role. We hope that over next two year India is going be our major market which has been almost like dead for last three years. We see a huge potential and light at the end of the tunnel in our home market. In spite of all these headwinds we have been doing million tons plus every year for last 4 years and this year also our opening order book position is almost to the tune of a million ton & Braja will talk more on this. WCL is among one or two global companies having this kind of positioning; only Europipe has this kind of situation, otherwise no other company across the globe has this kind of position. We have global reach; we have access to each & every market. Over last fifteen years we have developed that credibility, that clientele base, the supply track record, and with global supply base (plants in Saudi, US & India) gives us an edge compared to any other competitor. With the Concrete Weight Coating plant which we are adding we have complete portfolio across the large diameter pipes which will give us the further boost to our large diameter particularly long seam product which is required for offshore CWC coating will help us compete better. Our balance sheet has become much better in spite of all the headwinds and global gloomy scenario in oil & gas or energy market. We are much better placed compared to all our peers across the globe.

Last but very important thing that I would like to discuss is about the visioning exercise we have undertaken and adopted vision 20-20 for Welspun Group. We call it welspun 2.O. We want to be one of the most respected groups. When anybody talks about Welspun, it should reflect creditability and trust. We have taken various steps and we will further improve our creditability in times to come. As far as Welspun Corp is concerned we want to retain our global leadership and become supply of choice to our customers by way of creating new product, by way of our innovation and new technology. Recently we have done one of such technology upgrade, we are probably first or second company globally to do this, where every single pipe will be tested online and data will be recorded online through SAP and the same can be linked with customer records. This is just one example that underlies our dedication to quality; there is no human interference across in the final testing. Quality is very critical in this particular segment & we have created that niche. We believe it will repay us in times to come. We have a huge capacity & our utilization is not much because of various global reasons beyond our control; but what we have in our control is to create niche for ourselves. We are very clear that without investing significant additional capital how can we use our investments in a better way by way of joint venture & alliances across the globe. Friend! I can tell u that we are one of the best names in the pipeline industry even when compared to the Japanese and the European of the worlds. With this all these alliances, joint ventures & better utilization of our capacity we target our revenue to cross USD 2 billion mark over next four to five years. Our target is that we achieve this without increasing any debt & be a “Nil” debt company by 2020. With this I would like to thank you once again and handover to Braja for taking you through business details followed by CFO taking you through financials. Thank you.

Mr. Braja Mishra

Good evening! Actually my job was made quite easier. I must say the Chairman has given pretty detailed introduction and has surfed into what is happening around at the market place. So what you will probably hear from me is more into some granular details & basically sort of taking it forward from where he left. Yes, the market has been challenging. There is no doubt about it we did talk about that even in the last quarter & of course the challenges have intensified probably in last 3-4 months as compared beginning of the year.

So to start with I will give you a glimpse of a of the business performance of the company in FY16. We did cross, even this year, one million ton mark both in our production as well as in sales & we also stand with opening orderbook of 900,000 tons, almost the similar level we started last year. We reported 9% year on year jump in EBITDA to Rs 1,035 cr. The Operating EBITDA is actually up by about 18% compared to the last year & the PAT is up 229% year on year to Rs 227 cr. Of course the details of the financial numbers will also be taken up by Krishnan, our CFO. I would like to share some qualitative information as regards to what we have been doing last year to create a sustainable company. No doubt challenges are there but at the same time we have been working to create a differentiation in the market place and one of such differentiating factor is our safety record. Most of you must be knowing, especially who are actually invested in this company, that in energy space safety is one of the very vital element taken into consideration while considering a supplier. We received three awards this year – the International Safety Award with Merit from British Safety Council which we are very proud of, our Dahej facility was awarded Prasansa Patra for implementing OSH and our Anjar pipe facility received Certificate of Appreciation for Good Practices in Quality System for 2015.

Coming to operational detail, our US spiral facility was fully booked last year and as a matter of fact, together with HFIW mill, we did 393,000 MT of orders last year which is record in terms of tonnage. Our Saudi Arabia facility executed its first export order in FY 15-16. We are going to discuss in the Q&A session that profitability is very low in the last quarter, one reason for the same is that the Saudi Arabia facility was facing a shortage of order and as Mr. Goenka did mention in his talk that because of our diversity and reach within a period of probably just about couple of month, despite the fact we have not ever exported out of Saudi Arabia, we immediately grabbed our resources and booked in first export order out of Saudi Arabia. This was for exporting 24 meter pipes to Mexico where there is no anti-dumping duty on Saudi Arabia. Likewise our India facility, in our quest to develop product and keep creating that differentiation that I talk about, did manufacture and qualify for a pipe size of 22 inch, 39 mm of wall thickness. Many of you may not probably make a lot of sense of these specifications; so I can help you with a comparison. The Independence Trail Project which Welspun keep talking about, we keep singing and dancing about, was only 35 mm and this was 39 mm. So it was way ahead of even the Independence Trail Project which is the world deepest pipeline project. Our spiral mills in India were mostly engaged in domestic water projects and our plate mill also accessed wind turbine and structural plate market. Just to give you an idea of our plate mill, last year we did approx 240,000 tons as compared to 120,000 tons that we did in FY 15.

We have been talking here about “Resilient & Ready”. We have been working on this quite consciously as to be absolutely steady in challenging market condition and in that quest we have made lot of investments and efforts. One of them is our Automatic Pipe Dimension Measurement System at LSAW Anjar. It might sound to you like a simple measurement system, but it is actually one of the most advanced quality systems that ensure data transmission to SAP System. It is probably unique in the world. We did some automatic tack repair which is again is a first time in the history. We have done multiple pipe handling with cluster vacuum system. OD welding system upgrading for 1.5 inch to 1 inch pipe welding. These are all small things but at the same time help us getting ahead of the curve. Total Productive Maintenance, 7s implementation, Quality Circle are some of the initiatives we keep taking. These are not directly relevant for getting orders, but are relevant from an optical stand point as well as enhancing our capabilities. We have been focused in term of improving our profitability in the challenging market condition where every single order faces far greater competition than one had anticipated or one had experience before. So in that direction addition of Concrete Weight Coating is a value added product for us. Welspun did not have this. Our joint venture partner Wasco is probably the second largest Concrete Weight Coater in the world & this for sure, going forward, would immensely help Welspun not only being competitive but also add to the bottom line. We did make some minor investment of probably just about couple of crores of Rupees to convert our ERW mill from a 12 meter to 18 meters which would open of up additional market for us in Australia & US. Also, we have intensified our engagement with our clients and added new clients in the process; we have booked first order from Carso which is the largest private sector player from Mexico; we have also received and executed order for Technip which has been eluding us all these years. We are in the process of implementing CRM which would take us even closer to our customers. Also, we are engaging in client related product development for example the 22 inch 39 mm pipe I mentioned was for Technip. We are probably the only company who would have actually manufactured & tested pipes for Mozambique Offshore Development Project.

Some update on our capex during FY16. The CWC plant is fully commissioned, trail production is on and we are waiting for our maiden order to declare commercial production. But just to give you a little bit of idea about this facility I would like to add that as expected out of Welspun, it is one of the best CWC facilities in the world. Also, I must say that despite the fact we haven't even started commercial production the facility has been visited by at least three or four top global companies and we have received superlative feedbacks from the customers.

Coming back to our commitments & where do we stand on our delivery. Last time we met about a year back, we promised to increase market share in niche products. I would like to inform you that though most of the orders that we have in our current orderbook & the orders that we executed last year may not have been of very high margin but for sure we have taken our first step forward towards niche products. As a matter of fact close to 400,000 tons of niche product order have been booked this year. Also, we invested in our CWC plant under JV with Wasco of Malaysia which would further augment our effort to increase our presence in niche market. We restricted our capex to maintenance capex except for the investment in CWC which in is a small investment. We promised to maintain a strong orderbook and I have already mentioned, despite market condition, our orderbook still stand at 913,000 tons.

Let us now turn to how business is looking like. I have no different picture to paint then what you have not really understood by far. But I would say it is still a mixed bag; it is neither a bed of thorns nor it is a bed of roses, but somewhere in between. We have been facing challenges like tariff & non-tariff barriers favoring local player; for example the anti-dumping duty in Mexico. We started the year with 55% interim duty in Mexico; in 2014 Mexico had contributed a lot to our profitability, but despite the fact that Mexico was practically closed for us for business we still have maintained 913,000 tons of orderbook. This is primarily because we try to move into different market and make sure that we are still booking orders. Also, extended project implementation schedule by oil & gas players is impacting order flows. Those who are following the projects of tremendous importance in the oil & gas space, especially in linepipe segment, must be aware of large projects like the Costal Gas Link project and the Prince Rupert project in Canada. Also, you must be aware that if these projects are to go through we would be probably one of the front runners primarily because of our track record with players like TransCanada or somebody like Shell. But there have been a lot of delays, especially in the last four month; delays are generally at the FID stage. But for sure these projects have not been shelved; we still have continuing discussion and engagement with customers. Also, we have been impacted not only by the short-term spikes in steel prices but also by the volatility. As a matter of fact if I would have made this presentation say a week back I would have spoken differently. For example we know that there is an anti-dumping duty coming up on steel suppliers, now you have bided for a project and suddenly you come to know that steel prices are no more valid. So it drives in a little bit of uncertainty. But most of those uncertainties, fortunately, have been ironed out in the last few weeks. Another form of challenge in the market space is intensifying competition in the industry. However, with all these challenges we still have few positive signs. As I did mention, and our chairman also mentioned, we have been exploring to new markets. Though we are not able to book additional orders, nut we are able to maintain our current performance at least; though we are not looking at 20% jump in EBITDA but at least we are doing enough to stay sustainable in this kind challenging market condition. Our domestic market is looking very good. Let me give you a little bit of reminiscence. When we started investment in local market like US & Saudi it was a very bold decision at that point of time; but I must say those are the decision which have provided good amount of insulation for the global volatility, especially in the current market conditions. For example, we have done tremendously well in 2014 driven primarily by Saudi Arabia; 2015 when the market was not so good in India and Middle East was also impacted, it was US which came handy. Likewise we are expecting the same thing this year with support coming in from India. We are seeing activity starting on 15,000 km of pipeline that finance minister spoke about couple of years back. As a matter of fact, one of the tender has been awarded and we know GSPL is planning one project, Gail is planning another project. We feel that a substantial amount of money is going to be spent in the next couple of years in Indian market especially for developing the gas infrastructure; we did hear about TAPI being talked about; we did hear about Iran to India pipeline being re-discussed. All those things, we expect, are going to provide us impetus in the interim. If not anything more at least stay sustainable at least for this year. Going forward, of course, it is going to be probably one of the growth elements. Regarding our plate mill & coil mill I would like to inform you that it has contributed positively to our EBITDA. Rs 911 cr of EBITDA includes a sizeable element; I won't really call it sizable but positive EBITDA coming from the plate mill in last few years. We expect it to play a major role in helping to market our water pipe business what we started focusing last year onwards to more or less to de-risk our business model in India.

Moving forward, I would like to put some color on linepipe demand across geographies. North America has been slower than one would think of. We expect clarity on LNG export policy to drive demand. Incidentally the first LNG Vessel was flagged of couple of months back by Cheniere which exported LNG to Brazil. We know that there are at least 11-12 LNG project under application and we hope that at least 5 or 6 of them would actually go underway and that would lead to a good amount of pipeline demand for connecting gas production field to the LNG port. Of course we are also expecting few major businesses getting sort of awarded in the next few months especially for supplying gas from the US fields to the Mexican border and supply gas within Mexico. We are also seeing the heavy oil development happening in MENA; enhancement of refining capacity which actually is also going to add some demand to market place in the next coming years; Iraq Jordan pipeline development which is about 1100 kilometer of pipeline; Pipeline development in Kuwait. 2000 kilometer of pipeline is being discussed right now in Kuwait which is the first time after the Iraq war that Kuwait is investing to develop. In Saudi, we have already executed one of the largest gas pipeline projects last year and we are currently executing Wasit order which is another major investment on the gas pipe line network. We expect Saudi to continue to invest; may not be in the same intensity probably they have been doing in the last few years but for sure we are expecting moderate business from Saudi as well. I cannot talk more then what our chairman spoke about Iran. We just talk about in India doubling of gas pipeline infrastructure and 2.5 million tons of water pipeline projects. As a matter of fact this 2.5 mn could actually be even 4 million ton if you see some other market source. City Gas Distribution pipeline is also going to add to business. Further, offshore development in Thailand and Myanmar are also there.

To sum up what we said last year and what we delivered and the way ahead; we will continue to maintain our focus on financial discipline, only maintenance capex would be done. Plus, will focus on improving capacity utilization of plate & coil mill; we are targeting substantial jump in our plate & coil utilization as compare to last year. We would focus on large complex project across geographies; we will keep chasing these projects in Canada, in US, in Saudi Arabia. And of course we would look to enhance our organizational preparedness for upsides. I would end here with the message that we have been resilient, we have tried to stand tall within the challenging market condition and when the market improves we are there to capture each of those opportunities. Thank you.

Mr. S Krishnan

Thanks everyone for being a patient listener. Our chairman has given quite a detailed update of the whole situation and the MD took a deep dive into the business scenario for the last year as well as for the year ahead. This makes analyzing the number easier. As we look into the numbers we would like to state that Welspun Corp is a project's company, sum of a project over 12, 15, 18, 24 months sometimes. So please analyze the numbers on year on year basis to get a better sense of our business and its potential.

Looking at the highlight for the year, our revenue has been slightly lower by about 2% year on year, volumes about 50000 ton lower to about 1.1 million vs. last year's 1.15 mn. However, Reported EBITDA is about 9% higher; Operating EBITDA is about 18% higher. PAT post minority is almost two and a half times; the year before it was about Rs 69 crore, this year it is about Rs 228 crore. Cash PAT is almost stagnant at the same level.

This slide gives you information about way the business model has been structured. This shows the depth of our product portfolio LSAW, Spiral, ERW and in coming years you will see a reasonable share coming in from the CWC business as well. And when you look at the geographical break-up; it also shows the mix is reasonably balanced. If we look at the industry segment, we notice the mix changes from year to year. Last year was about one-fifth from water, this year it is about one-fourth from water space. Most important is this pie which shows the geographical spread of our business which shows how balanced our end-markets are between EU & MENA at one level and the Americas at another level and India and Asia Pacific at third level. This is very clearly established that our business model is well-balanced and hedged against what happens in one particular geography or product segment. Like our MD said, in FY15 it was Saudi business and this year it was the US business and next year possibly we expect India business to lead the performance.

Here is an analysis of what we were at opening orderbook level vs. what sales volumes we did during last 3 years – FY14, FY15 and FY16. So in FY14 we started with about 650,000 tons and we did just over a million tons that means we booked another 300,000+ tons which we transacted during the year. FY15 we stared with about 900,000 tons which we transacted and another 250,000 tons booked during the year and transacted. FY16, the year that went by, we started with just a million tons of opening orderbook and we transacted about 1.1 million tons of sales during the year. And when you take a look at the next year, our opening orderbook is about 913,000 tons and this is broken up across three major geographies and more important is the break-up of this in terms of product types. LSAW is almost more than half of the orderbook and all of this will be supplied from India. Requirement of spiral supply whether from Saudi or US is relative lower compared to what was the situation last year

Moving ahead and taking a look at financial numbers. Revenue is almost at the same level, slightly lower. EBITDA per ton for pipes is higher than what was the situation last year for what was Rs 6400 is about Rs 7,800. Operating EBITDA, in terms of absolute numbers, moved up from Rs 770 crores to Rs 911 crores. At the PAT level, which is what translates into EPS, went up from Rs 69 crores to Rs 227 crores. The basic EPS was about Rs 2.5-2.6 per share last year which has now moved to Rs 8.5-8.6 a share. But when you look at these numbers there are some concerns which we must share with you. Working capital intensity has increased and we have details about it in one of the slides ahead. Our debt has also gone up from what was the situation in March'15. In March 15 if you recall our net debt situation was around Rs 1900 crores; March'16 are net debt has gone up by Rs 115 crores to just over Rs 2000 crores.

This slide gives an analysis of our working capital across last 4 years and we have gone back into FY13 on purpose because FY13 was the year where our plat mill was operational and in FY14 it was not operational. So when you look at working capital intensity it is really gone up from last year's 38 days which we had cautioned was not sustainable; our target was to keep it in the region of around 50 days but the intensity has gone up to about 71 days. One the plate mill operation is much higher than what was the situation in the previous year; plate mill operation, since is going one step behind in the value chain, increases the working capital intensity of the business. Second we used the available cash to bring down our acceptance and despite that cash situation as in March'16 is just under Rs 1500 crores. Third, some of the collections in select geography have got pushed into the current year; we expect some of those collections and the resultant cash to be come in during this quarter and in the next quarter. While this is not something that we are happy with and our target is to bring down to about 50-55 days in the year ahead and we have taken a lot of steps to tighten up the working capital processes.

Revenue is something that can be a good in good year and bad in a bad year but it is possibly the balance sheet that helps you sustain a bad year or a couple of bad years. From those parameters when we look at our balance sheet, it is something that we are very satisfied with. Our key ratios, like net debt to equity, have been improving. The chairman talked about how we would like to deleverage our balance sheet, we are in the process of doing it. For net debt to equity has come down from 0.9x in FY14 to 0.66x in FY16, on consolidated basis. Our net debt to operating EBITDA which was 3.3x times in a FY14 has come to about 2.2x. When you link this to the reported EBITDA it should be less than 2 times. Fixed asset cover ratio it is over 2 times; Current ratio is 1.5 times. We have ensured that the balance sheet is much stronger year after year after year despite volatility in the market, despite the challenges from the revenue sides. Last but not the least, you all would agree that cash is reality, cash is king. We have focused on maintaining cash; from what was Rs 1,250 crores in March'14, Rs 1100 crores last year, we are about Rs 1470 crores in this year. So cash in hand is something that will help us tide over couple of bad years.

One thing that I am sure many of you will know and we wanted to bring it to your attention was that going forward from this year we will be reporting our numbers under IND AS. Reporting under IND AS is little different than what was under Indian AS. Saudi business and CWC business under in the IND AS will need to be accounted as equity accounting which means these will be only relevant at PAT level. The volumes that we have been talking about 1 million ton for four years back to back may not look optically as 1 million ton as Saudi volumes would be excluded. But the balance sheet will become much lighter as the debt of the underlying Saudi and CWC entities will not be consolidated. We believe, we will be possibly better place in an overall context. It will be clearer when we report these numbers for April-June 2016 and give in the comparable numbers for the last year.

That's about it. But I would not want to wind up before we rehash the outlook which CMD had discussed - focus on financial discipline and that we will only do maintenance capex, our plate and coil mill expects to do much higher utilization in the current year, we will continue to focus on large and complex projects across geographies and will prepare ourselves as an organization for opportunities because we see upside is not in the immediate year but in the year ahead. I would now like to invite your questions.

Q & A

Vivek Mawani: What kind of capacity utilization have you done in last year across your various facilities and to sustain the kind of growth in line with the opportunity is available what kind of capex will be required on the capacity? Two, a small clarification maybe, excuse me for my limited understanding. Chairman Sir you mentioned net debt at group level to be zero by 2020, is it at group level or each of the company also would be net zero debt from that point of view. Three, again more of an operational thing we understand your top line could be a function of where the commodity prices are, but what would be the outlook on may be gross margin per ton or EBITDA per ton because I guess wherever the commodities are there is small conversion margin you will anyway get. What would be your thoughts on that & on improvement in return on capital and return on equity? Where do we see those may be in couple of year down the line? Thank you.

Braja Mishra: Ok I'll take the question on capex and EBITDA and the net debt of the group I think the Chairman will take that. There are few reason for why are we repeatedly mentioning about minimum capex. First and foremost, we have global capacity of about 2.45 million ton and if you notice generally in large diameter space the capacity utilization is somewhere in vicinity even of 60% is considered to be good. So that means without making any major capital expenditure we can actually go up to probably 1.6 - 1.7 million ton. So that is one of the reasons & when we have been emphasizing financial discipline I think one of the major areas of financial discipline that we want to bring about is Capex & of course you know that does not mean that we would not continue to invest on quality equipment as for example we did the APDMS or for that matter we had invested in some value added service like concrete weight coating. So this is more of our cash maintenance discipline. Coming to EBITDA going forward. Generally, all these years we have always refrained to give a per ton guidance & of course you know like I'll be mindful of doing the same thing. However I must also tell you that considering that we do have a order booking of 913,000 tons which is more or less the same level we started last year and of course we are quite hopeful that at least we will be able to maintain the similar level of EBITDA. That's what can I say. On the net debt I'll handover to the Chairman.

B K Goenka: When I mentioned zero net debt, I was talking about the company here but as far as group level is concern we don't want our net debt to be zero. This is because we have various projects in Welspun Enterprises which are infrastructure and other areas so which will have some debt. So idea about zero net debt is that we want to have a discipline on financial side and the balance sheet side, particularly for the textile and pipe businesses. We have a clear cut vision and a clear road map that we want to become a net debt nil company by 2020.

Question: Sir last 3-4 years, in terms of volumes, we are flat and why when we look at the other operating expenses year on year it is increasing at a very fast rate? Why we are not able to contain that even with the flat volumes?

S Krishnan: The volumes have been in the region of about 1.1 million tons but the geographic breakup across US-Saudi-India and segment break-up across LSAW or Spiral varies from year to year. The composition of the business is what determines the cost ability. So if you look at the last year that went by, we have done a sizeable amount of business coming in from the US. US operations, as the MD indicated in his presentation, did significant output through the year and at a relatively higher margin. US has been one of the key driver for the profitability for us. So you cannot really take a volume and assume the same margin for the global basis. Margin will be a little different depending upon the actual sales figure. Just to add & clarify, probably the cost of converting a ton of pipe in US vs. That in India is very different. So when I am increasing the quantities in US the manufacturing cost goes up because it is consolidated figure.

Question: In the presentation Sir has talked about we are seeing some kind of pick-up in India business. I want to know what is your view on India, especially on water segment. In water segment as I understood the margins are relatively thinner than what we are doing in all India segment. So do you see some kind of pressure on margin because of that particular product makes or what is your outlook on the same? Thank you

Braja Mishra: First and foremost you are right. I mean like the general impression is that water pipe business and oil & gas sector business are way different as far as the margins are concerned. I must say that until few years back in any case it was 100% true. I think that gap is gradually reducing. There is no doubt about that because for the water pipes the specifications are becoming more and more comparable to what we see in oil & gas specifications. Probably the execution capabilities that water pipes demanded few years back and what it is now are very different. So that was one of the reasons why we decided to enhance our market reach in the water segment. In the yester years we have actually constantly followed that business and even if the margins are going to be different our investment in the plate & coil business is actually going to come handy in improving our margin in water business.

Question: Sir just to add in water segment what kind of traction you are seeing at this point of time from government and state governments, because I really see last 3-6 month hardly any order in that particular segment? Thank you.

Braja Mishra: We have been quite successful since the time we tried to enter in the water pipe segment. We would have done close to 170-175 KMT last year and this year I think some of the major projects which are awarded we are either a front runner or at least like we have been able to capture sizeable business. Going forward, if you go just by the published reports and whatever information our marketing department brings in to the table, at least 2.5 - 3 million tons of project have been declared and as I said earlier I won't be surprised if it actually crosses 4 million tons in the next three years. The projects are coming from Telangana, Madhya Pradesh, Gujarat; all these are declared project with more or less all details available in public domain. Thank you.

Question: Good evening Sir. Your trade receivables has increased significantly while your order booking being the same. So can you explain? Is there any pressure we are facing in terms of receiving the money from customers?

S Krishnan: There are two parts to it. Our receivable days are about 71 days in terms of sales – one is sales in this quarter was more back ended towards February and March and two there has been some delay in some geography. But none of them is a cause of concern; it is only what was scheduled for collection in March got pushed in to next quarter. So this situation will solve in next six month or down the line.

Question: Secondly current order of 913 KMT, is it executable under next six or nine month or it could be run in to entire FY17?

S Krishnan: Not all of it will get executed the current year there is the some flow through of project which will go in to the year after that i.e. FY18 as well.

Question: Can you just share the region wise gross debt & net debt number for US, India and Saudi?

S Krishnan: Of the total gross debt which is about just under Rs 3500 crores, India is about Rs 2100 crores, US is about Rs 590 crores and Saudi Arabia is about Rs 812 crores. The cash is about Rs 1470 crores. Net debt is about Rs 2024 crores on a consolidated basis.

Question: Two key issues. Can throw some light on Middle East particularly? We are seeing the trend towards the gas capex overtaking other capex; gas is being used more for domestic economy and oil is getting exported. So how is that trend playing out for you and that you see any opportunities on the gas side particularly and the Pipes related to that?

Braja Mishra: That was partly covered in my presentation. Although there is a slow down on the oil pipeline in a middle east, a good amount of investment is coming up in gas pipeline project. I'll quote the headline which we saw in FT the other day. It says that Saudi Arabia wants to beat the addiction from Oil economy. So Saudi Arabia as a country, for example, has decided that most of their power plants are all going to be gas driven. So they are going to consume as much as possible and export oil. So how does it really impact us? Oil pipelines business is thin walled comparatively and if it is a gas pipeline it will be a heavy wall which means on an average productivity jumps up to 75%. As a result when we produced for the Master Gas order last to last year in Saudi Arabia, we actually did around 350,000 ton and almost reached closer to theoretical capacity. So it means better business for us for sure if more and more gas pipelines are to be built. What you said was absolutely right in the entire Middle East there is a trend to export more and more oil and that's good for the pipe companies like us. If you see our last three major orders from Saudi, they are for gas; we currently also executing Master Gas and Wasit.

Question: So another trend which we are seeing in Saudi is that capex refuses to die down and it is still pretty much there. Are you seeing significant opportunities opening up? Especially this once this power plant come-up and water desalination plants and distribution and sort of capex. Are you seeing or it or still some time away or how do you see that?

Braja Mishra: Power plants are coming but as such major pipeline has been planted in Saudi and other Middle East countries. Potable water crossing one area to another will be coming. But right now we see more traction, as you said rightly, on gas line.

Question: And lastly in terms of MIP and the raw material cost; does it give competitive advantage to some other country? Do you think that is a big risk? Government may save the steel industry, but it's a serious problem for the steel exporters.

Braja Mishra: For us when we are exporting it doesn't matter. We are importing against advance license. So MIP isn't applicable to us. So we are not a steel guy we are a pipe producer. Primarily for us there is hardly any impact on us; we are as good as any other global company.

Question: So MIP doesn't impact us?

Braja Mishra: Yes for the exports.

Thank you everyone for joining in for the annual investor conference. We request you to join us for high tea and if you have any questions please reach out to us. Thank you once again.