"Welspun Corp Q1 FY17 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Welspun Corp Q1 FY17 Earnings Conference Call. We have with us today from the management, Mr. Braja Mishra – MD and CEO, Mr. S. Krishnan – CFO, Mr. Akhil Jindal – Group CFO and Head Strategy. As a remainder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. S. Krishnan. Thank you and over to you sir.

S. Krishnan: Thanks, good afternoon everybody. Thanks for joining in on the call. Our MD – Mr. Mishra will be joining us. Please let me start by giving you a background of our performance of the quarter ended June 2016**.** This quarter, as most of you would know is where we have implemented the new accounting standard the IND-AS and so this is the 1st quarter were we are reporting under the new accounting standards. So correspondingly we have also restated the last year's Q1 numbers under IND-As and our clause 41 and the presentation that has been circulated as well as put up on our website could explain this in detail.

In terms of volumes in this quarter we have done pipes production around 229,000 tonnes and sales around 251,000 tonnes. Production was down around 17%, sales was about 1% YoY. These are on global basis including Saudi. Excluding Saudi production and sales, our pipe production was around 193,000 tonnes and sales was around 200,000 tonnes. Production was down YoY 13%, sales was up YoY around 4%. The volumes were relatively flat in this quarter and we will explain that as we go ahead.

The order book as at the end of the 1st quarter and as we start the 2nd quarter stands at around 958,000 tonnes worth about Rs 5,500 crores INR. This is slightly higher than what we reported in the last quarter indicating that we have added more orders in this quarter than what we have executed during the quarters. One of the large fresh orders that we booked recently was about 184,000 tonnes project that we have got from the America and this is the project whose execution will start in the current financial year and also move into the next year.

In terms of the financials, on the profit and loss side on a IND-AS basis, our 1st quarter revenues was down 3% YoY, around Rs 1,556 crores. Reported EBITDA was down around 4% YoY at Rs. 146 crores. PAT after minorities and share in associates and JVs was negative (-9) crores versus Rs 1 crore negative in last year's Q1.

In terms of balance sheet, as we had indicated at the end of our last financial year, when we had the conference in May 2016, we had indicated that we will try and bring the net working capital levels to what it would like the business to normally run at. We had indicated at that time that an annualized basis we should be in the region of around 50 to 55 days of cash conversion cycle. As on March you will recall this cash conversion cycle was at around 71 days' range. From there, it has come to around 45 days as on June. This numbers is on IGAAP basis i.e. the erstwhile accounting system. If we convert this to the IND-AS basis, the cash conversion cycle for this quarter is around 33 days versus 54 days QoQ basis.

Our focus on managing the working capital will continue through the year. Largely due to our better management of working capital we have been able to significantly reduce the net debt what was at around Rs 2024 crores as at March 2016 to around Rs 1504 crores as on June 2015, a reduction of around Rs 521 crores. This is on a global consolidated IGAAP basis. If we were to translate this number under IND-AS, the net debt as on June 16 on IND-AS basis is Rs 916 crores. Our focus on conserving cash and maintaining a lean balance sheet continues. We have no major new CAPEXs, no new projects, so that will ensure that cash flow generated from the business could continue to be used for cutting down debt.

Moving on to the outlooks in terms of the business – our bid book has always been in the region of around 3 to 4 million tones. At the end of this quarter as well, the bid book remains at around 3.9 million tonnes. The projects that we envisage will come up for bidding over the next year and odd, is at slightly under 12 million tonnes which means that we see that while there will be short term sluggishness in closing projects, we see particularly large projects – cross country projects, intercontinental projects where a huge CAPEX is involved over next few quarters. There are projects whose financial closures have got delayed sometimes beyond couple of quarters. But we see some of those, possibly, getting translated into action as we go towards the end of this financial year and we believe these could translate into possibly a better opening order book for the next financial year. These are the current scenario where energy prices still remain volatile; we see the current scenario where there are delays in project schedule affecting us in the short term.

We believe this year will possibly be the year where it will be our performance will be more back ended. Our second half between Q3 and Q4 should be much better than what we will see in the first half.

Last but not the least, our focus will continue to be to maintain a strong balance sheet to conserve cash because we see the cycle turning sooner than later and when the cycle turns there will be opportunities for growth across market and Welspun Corp with will be able to address many of these opportunity, only if the balance sheet is strong.

Our numbers just to reiterate while we will be reporting on a quarter-on-quarter basis, most of you know we are a project company, project companies where supplies go well beyond 12 months, sometimes 18 months, sometimes 24 months. So we would want your intelligence to understand that the numbers will in a quarter, is the function of what happens or what does not happen in the quarter.

One last key feature of the performance in this quarter is that the performance in US and Saudi Arabia has been lower then what was the relative performance in last year's Q1. Whereas the performance in India has been much better than what was last year's Q1. So this quarter, it has been the India business that has been driving the Welspun growth and we believe that will be the story for the best part of the current financial year. That pretty much sums up our brief on the results. We will be happy to take your questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: We are present in all the categories I presume so, the HSAW, LSAW, and ERW, correct me if I am wrong, for the order booking could you give us the split up of, where it is and also geographically how much is domestic and how much is foreign?

S. Krishnan: Yes, why not. Our order book of about 958,000 tonnes is almost about just under 590,000 tonnes of long seam which will be supplied from India. About 300 and odd thousand is spiral which could be supplied from India or Saudi or Little Rock and about 50,000 tonnes -55,000 tonnes would be on the ERW side which could be supplied from US largely to small extent from India.

Saket Kapoor: And where have you seen the traction sir. In all the three categories, domestically where is the growth coming from in which segment because a lot is spoken about the oil and gas part, lot is spoken about the new cities the AMRUT Scheme. So where is the traction you are expecting and since you are telling that it is going to be a domestic story of this year, so what is your feedback?

S. Krishnan: Well, when you say domestic story there are two parts to it. What we are trying to say here is that India will be a major location for supplies not necessarily to the Indian market only but to the global business because a sizeable portion of our order book is the longitudinal steel pipe which capacities are all in India. Second is, if you look at the domestic demand in India there has been some fraction on the gas grid which was announced by the Finance Minister in his budget speech two years' back. There have been some bids that have been invited, some of which have got finalized. We will see more traction on that as we go along and we believe that Welspun will get its fair share of those projects as well. But these are not significant or these are all going to move the needle for a company like us who does more than a million tonnes per annum. Also, the bigger traction that we see on the domestic phase would be the water side, irrigation, distribution and the like. And those are projects where we see a lot of movement across states, across municipal corporations, across the country. So we see many projects which have come up for bidding there will be many more which will come up for bidding and get awarded over the next quarter or two. While many of them maybe we start servicing in the current year most of them would get serviced in the next financial year. What will be more relevant to us is we may not be successful in every water project as there will be quiet strong domestic competition; it will possibly keep some of our local friends engaged.

Saket Kapoor: Sir I could not get the last part.

S. Krishnan: What I am saying is domestic water business is relatively a low threshold business. It is not something which is high-tech, high-spec or which requires too many certifications and approvals. So we will see a lot of players particularly domestic and may be some Chinese and others coming into this space**.** So which means we may not be very aggressive in bidding in all those projects. So our share will be wherever it makes commercial sense to us but what will happen is some of the domestic capacity will get occupied in servicing these orders.

Saket Kapoor: Sir, then what will you attribute to this poor performance for this quarter? Where is the lacking on our parts that we are only servicing the interest cost and bottom line is still bleeding?

S. Krishnan: Well, you are right. We are doing on a console basis on IGAAP around 250,000 tonnes and on IND-AS we have done about 200,000 tonnes. And we are just about breakeven or slightly less. The fact is the mix of orders in this quarter was not as was in the same quarter last year. Last year at this time our US mills, both the spiral mill and the HFIW mill were running full throttle**.** The spiral mill was running for 6.5 days of a week. We were producing high margin orders at significant through-put day-on-day**.** And this time our U.S mill had a break, after we finished one project we had a break of almost 4 to 5 weeks this quarter in the spiral mill. Similarly, the HFIW mill last time was occupied with high volume as well as profitable orders. Whereas this time what we have been rolling are relatively for our stocks in channel. Similarly, I am just taking another example of Saudi. Saudi, where we were doing, some Saudi Arabia projects last year. This year we have been doing relatively lower margin projects which are for exports where as those were for domestic products. So what has been happening is what we are doing in this quarter is a legacy of what orders we booked 6 months, 9 months or 12 months' back. What we did in last year Q1 was what we would have booked in similarly 6-9-12 months' back. So when we did our March 2016 Results and we made a presentation and we had indicated to everybody that margin quality of the order book that we are starting the year on April 2016 versus April 2015, there is a book that is slightly inferior but as we said this quarter by itself is not an indication of what the year will be. We maintain that the year will still be reasonably good. We believe and we are certain that the year will not exactly be 1x4. So it is not going to be Q1x4 that is the position for the year. Our performance for the year will be back ended. The second half particularly Q3 and Q4 is where we will see significant volumes and higher margins coming in because that is when those projects are expected to be supplied and billed.

Saket Kapoor: Right. What is the debt level we should be looking at for the year-end as a whole?

S. Krishnan: As of now on an IND-AS basis we are below Rs 1000 crores, we are around Rs 900 crores something. I believe we should be in the region of Rs 1000 crores give and take couple of Rs 100 crores here or there.

Saket Kapoor: And what is our cost of borrowing, the blended cost?

S. Krishnan: On an average around 7-7.5.

Saket Kapoor: And our base margin booking, we book our orders on a base margin of?

S. Krishnan: That varies from project to project, market to market and segment to segment. So while will bid on a different margin in US it could be very different in the water segment in India. The margin is a function of the market. Margin is a function of the project. Margin is a function of the competition on the table.

Saket Kapoor: But on a blended basis if we take turnover wise breakup also, on a blended basis if you could give some light?

S. Krishnan: Well if you see our numbers it would appear that our EBITDA per tonne roughly would be in the region of around Rs. 4000.

Saket Kapoor: And you are telling that the 2nd quarter is also going to be sluggish like the first one and it is only is the 3rd and 4th quarter that seems to little pick up.

S. Krishnan: Because see our billing is a function of what the customer's project delivery schedules are. So we can reasonably be able to predict how our deliveries will be. So we will see deliveries ramping up as we go into the second half.

Saket Kapoor: And sir last question is on the anti-dumping part enforced by the Europe nation. How much of that geography we cater to and what is the outlook on the basis of that?

S. Krishnan: It does not have any effect on us from India as well. We always have the ability to service it from any of the other facilities globally as well. Those anti-dumping is not applicable to India shipments and definitely not to Welspun.

Saket Kapoor: We will not be affected sir?

S. Krishnan: I do not know which proceeding you are referring to. But we have not heard of anything which is even where we are invoked as a party.

Moderator: Thank you. The next question is from the line Vivek Sharma from ICICI Securities. Please go ahead.

Vivek Sharma: My first question is on your end year financials, in spite of not including the Saudi facility how is the IND-AS revenues greater than the IGAAP revenue?

S. Krishnan: That is a double question. I will have to use some data. What happens is in the years between IND-AS and erstwhile IGAAP, well Saudi business goes off, the books under IGAAP because consolidation eliminates all inter-company transactions. I am just taking one example; the Saudi business now is no longer consolidated. It is part of what we call equity accounting. So if there is any inter-company transactions, suppose we have sold some coils or we have sold some pipes or whatever it is, those get accounted for. So that is a marginal difference. Basically the difference between IGAAP and IND-AS is about rs 80-85 crores in an overall revenue of about Rs 1500 - 1550 crores.

Vivek Sharma: Yes, but your Saudi volumes are roughly 15%-20% of your turnover of your production and 20%-odd of your sales. So how do you explain the gap – inspite of not consolidating the Saudi revenues, total revenues are higher?

S. Krishnan: Good question sir. The thing is in Saudi business 20% of the volumes which has come about 50,000 tonnes as the volumes that you have done in the quarter, that volume most of it, if not all of it is sold outside the Kingdom. So for example we have exported for the first time in the history of the Kingdom any company has exported pipes and Welspun has exported from a Saudi facility for the first time. Those pipes are exported to our facility, to our unit in US, which has booked the order and from there it has been to the customer. So that comes into my consolidation anyway.

Vivek Sharma: So it would be fair to say barring the margin that we would have made at Saudi facility that this volume that is showing under IND-AS or the financial that is showing under IND-AS also includes the full volume because since you are accounting for that say 50,000 odd tonnes some of it has been accounted because of Indian subsidiary transfer?

S. Krishnan: Not volumes sir because see if we were doing under IND-AS the volumes would have been 251,000 tonnes. Under IGAAP the volume is some 200 and odd thousand tonnes. So 50,000-51,000 tonnes is the differential.

Vivek Sharma: Yes but your financial do take into account the impact of the transfer from your Saudi facility to your Indian facility and hence the sales forward from that?

S. Krishnan: Only to the extent if you are relating to the exports. What is sold by the Saudi business to the local customers remains outside our IND-AS account. It has come below the line under equity accounting at a PAT.

Vivek Sharma: I am still trying to understand that you have to say, even though you have eliminated the full domestic sale of Saudi and in spite of the inter-company transfer your sales in IND-AS is higher. It does not logically imply how your sales could be higher?

S. Krishnan: As I said whatever is the exports from Saudi which comes into our IND-AS set up that gets added. What is excluded is only the local sales within the Kingdom and extent me explain to you our set up. We have a global supply chain, a global marketing network. So what coils we want whether in Saudi, or India or Little Rock is procured by our global supply chain. Many times it is transacted through India under merchant trade and it is supplied to Little Rock or to Saudi. Similarly, our global marketing network whether sitting in Dubai or Houston or Delhi or wherever books order and the servicing of that orders is decided up on by what is appropriate, what is convenient, where the capacity is available. So in this case for example in the exports, this is an order in America which has been booked by our America marketing team, servicing incidentally is happening from our Saudi facility. So this is one part of it but then the supply of coils or whatever it is that is required to produce those pipes has been done by the India facility to Saudi. You know we have got a backward into plate and coil mill production as well.

Vivek Sharma: If I get it right the sales which were earlier getting eliminated now it has been shown as revenue and whatever exports you have done from a Saudi facility that is anyway being added to the revenues under India?

S. Krishnan: Yes.

Vivek Sharma: And my second question is on your per tonne realization, what used to be say around 75,000-76,000 per tonne is currently at say may be 57,000 per tonne. So it has been a function of lower steel prices, lower margins or both and if it is both what is…?

S. Krishnan: For us steel is a pass through. So when we bid for a project we factor in and tie up the steel and then bid our pipe price. So, steel prices as you would have realized over the couple of years have been going through**.** That is largely the reason why steel pipe prices on an average have come down. There has also been in some part of the geographies, some orders where the margins have been lower than what it was at the same time last year. But the largest part of it is basically steel prices.

Vivek Sharma: So if I take say 18,000 per tonne reduction in your order book, earlier order book versus this year order book realization, how much would we account for steel prices and how much lower on margins? I am just trying to get a sense of how much per tonne EBITDA margin you can sustainably make in these markets?

S. Krishnan: I do not have a number at the top of my head but then as we indicated in one of the questions earlier we are running in the range of around Rs. 4000 give and take couple of 100 here and there per tonne as an EBITDA metric for pipes.

Vivek Sharma: So is that sustainable.

S. Krishnan: We can maybe calculate this and we can indicate this to you offline once we are done with it.

Moderator: Thank you. The next question is from the line of Siddharth Singh from B&K Securities. Please go ahead.

Siddharth Singh: Sir as per Indian GAAP what would have been the consolidated EBITDA if we include Saudi's one?

S. Krishnan: I do not think it would have been very different because in this quarter, it may be a couple of crores, maybe we can tell you the exact number because in this quarter as I indicated earlier our Saudi mill had a break for about 4-5 weeks, out of the total 12 weeks. So it has been quite a, I would say breakeven kind of operation at the EBITDA level for the Saudi business. In terms of absolute number, under IGAAP EBITDA was in the same level. Today if you see our reported EBITDA for the quarter is Rs 146 crores under IND-AS**,** right

Siddharth Singh: Yes.

S. Krishnan: Under IGAAP it would be around Rs 142 crores. So it is not a big number, just 3-4 crores.

Siddharth Singh: Just I wanted to understand that this 51,000 tonnes of steel volumes from Saudi did not get us any incremental EBITDA?

S. Krishnan: No, but see the thing is we did not run for the full quarter as I said we ran about 6-7 weeks in this quarter. Balance 5 there was a break because of steel availability for that. So obviously when we absorb all the costs what will flow from the EBITDA will be breakeven.

Siddharth Singh: And sir similar to US mill, it seems that the volumes are significantly lower on quarter-on-quarter basis. Any specific reason for that also?

S. Krishnan: That is a good question. In the US operation in the last year I think volume drop in US in terms of sales has come down by about almost half, from about 120,000 tonnes to about 60,000-65,000 tonnes.

Siddharth Singh: Sorry sir, but as per your presentation it seems that the US sales volume for this quarter is around 35,000 tonnes. So I just wanted to know from 126 KT last quarter Q4FY16 to 35 KT in Q1FY17, any specific reason why it has dropped so much

S. Krishnan: First apologize, our volumes in this quarter are 35,000 tonnes. You are absolutely right. Second why the volumes have come up from 123,000 tonnes last year to 35,000 tonnes this year, our spiral mill was operational only for 5 weeks' till about May 10th, thereafter it has been on a break. Whereas last year through the entire quarter our spiral mill was servicing high volume order for 6.5 days, 6 days and 12 hour shifts on Sundays. Second our HFIW mill was also running at full blast last year at this quarter. Whereas this year the HFIW mill has been producing what is our channel sales. So the volume of sales is relatively lower this year compared to the position last year. So that is why you see this differential in terms of volumes sold.

Siddharth Singh: Given the healthy order book in both of this region, so from second half we can see this mill to resume to the full optimum production, is that the right assumption?

S. Krishnan: The thing is our business, if you see over the last 4 years, we have been doing more than a million tonnes,1.1-1.15 million tonnes of sales we have done in some of these years. Now in some years it has been the Saudi business that has been leading the charge, some year the US business, last year in particular it was the US business that was charge. But you can see that the US business compared to last year, our Saudi business compared to last year will be relatively performing lower in terms of volumes, in terms of values and percentages. This year India will be driving the global business and the global growth. Order book as well, almost 60% of our current order book is long seam pipes which will have to be supplied from India. So India will be driving growth from the domestic market on one level and from exports.

Siddharth Singh: So sir just one last question, our debt on a quarter-on-quarter basis has come off significantly. Any portion I believe that is mostly because of working capital, is any portion because of IND-AS, if you can clarify it?

S. Krishnan: We were talking about net debt under IND-AS. as of March 2016 under IND-AS our net debt was around Rs 1358 crores to be precise. As in June this number is well below Rs 1000 crores. It is about Rs 916 crores. So which means in this quarter under IND-AS we have knocked off about Rs 440-445 crores largely because of the working capital and also because of scheduled repayment of term debt. Does that answer your question sir?

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Sir just wanted to know like accounting entry like in Indian GAAP your gross debt was around Rs 3000 crores and in IND-AS it is around Rs 2366 crores. So if you can explain like how come this restatement has led to Rs 600 crores drop in the gross debt?

S. Krishnan: What happens is Saudi books do not get consolidated. The Saudi operations are full-fledged operations with a revenue statement with a balance sheet, the Saudi is taken away from consol under IND-AS.

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

Bhavin Chheda: Sir few questions from observations in the presentation. Plate mill operations have done very well in the quarter both in terms of margins as well as volumes. So what will be our annual targets? You are still looking at close to half a million volumes on the plate mill, first thing and what is the current order book because I think the plate mill order book is not there in the presentation. So if you can share any particular order book on the plate mill?

S. Krishnan: Yes, you are absolutely right. The plate mill operation has done very well. Our agenda is to improve the operations which translated into traction this quarter. You will recall at the end of March quarter when we had declared the results we have mentioned about revamping the mill and its capabilities; we focused on selling plates into the renewable energy space. That agenda has started in earnest in the 1st quarter and we believe this will continue to be ramped up across the next 3 quarters of this year and that will be entirely non-captive consumption for Welspun. The other part of it is captive consumption of coil for our pipe production. That has been the driver in the past but this time it is even higher and we believe over the course of this financial year we should do much higher volume and the margin situation also should be better because earlier in the year the regulatory environment in the form of MIP or safeguards or anti-dumping and all that has made it a little bit more conducive for plate and coil mill operations. So that will help Welspun particularly become a most to reckon with domestic water segment, we will be able to integrate our entire operations starting from coil to pipes. So that we believe will bear enduring benefit beyond the current year into next year particularly the domestic water space for our captive consumption.

Bhavin Chheda: So every quarter we can expect higher volumes as well as I think the margins will also continue in the plate mill?

S. Krishnan: Well, the volume as I said was better than last year but quarter-on-quarter it will depend on how much gets billed in a quarter. But I believe that this year we will do much higher volume and we will have much better margin compared to last year. So you are absolutely right. In this year the volumes will be higher than last year and we believe the margins will also be better than last year also because of the regulatory situation being conducive to us.

Bhavin Chheda: Other thing is on the share of loses which have been accounted from associates. I think in the quarter of Rs 13 crores, so this entirely is attributable to Saudi Arabia operations, right?

S. Krishnan: Not entirely. There is a small component which will be relating to the CWC project which is still under implementation and I am sorry actually that reminds me that was an update that we should have given you. You will recall, we have set up this concrete weight coating project and that project is on the last lap of the commissioning and hopefully we should be able to commission it sometime in this 2nd quarter of this financial year and some of the expenses of those project will also not get consolidated under IND-AS, we have to take that implication in our PAT.

Bhavin Chheda: So going forward as Saudi operations I think as you said it was not operational for almost 4-5 weeks which should start operating now and all that. So this share of associate loss contribution should keep coming down in the coming quarters, right?

S. Krishnan: I have not done arithmetic of that but I can only tell you one thing that this year our Saudi operations as we indicated earlier in the call, not doing as well as it did last year. So how it will pan out during the course of Q2, Q3, Q4 is to be seen. We do not see any great or significant value being generated for the global Welspun growth from the Saudi business this year.

Bhavin Chheda: Sir the other observation has been that recently your majority of the order book is now driven by LSAW, so almost like 5,87,000 in the order book is LSAW which will be executed from India and which is leading to product and a margin change. Adding to that question is you said that you are in the bidding stage for 2-3 million as well as, as the year goes by there is an opportunity of 12 odd million. So going forward also the order book will be more dominated by LSAW or do you think this is just the phase where the LSAW order book is much higher and then actually the spiral order book will also start kicking in. Why I am asking this question is because if your bidding is more on the spiral side, then we can fill our US book and the margin profile is completely different.

S. Krishnan: You are right. The thing is total order book of 3.9 million tonnes, if you look at it, it is a mix, it includes spiral, includes long seam as a sizeable portion of this almost about 45 % of this is LSAW but there is almost another 40%-50% with spiral. Now whether service it here or whether we will service it from US or Saudi will be a function of when these projects get crystallized, what are the delivery schedules that the customer wants and what is our mill position in each of the geographies at that point in time because most of our mills are approved by all our customers. So even at this point in time, we are supplying to a project in the America simultaneously from our US mill and our India mill.

Bhavin Chheda: And my last question is again on the debt figure excellent work on the working capital I think. We are happy that the debt has come down substantially. So what would be the March 2017 guidance in terms of net debt number because I think the second half profits also improves. So is there a space to further reduce the net debt number going forward.

S. Krishnan: Bhavin see, what happens is March 2017 is a number in a journey. We believe we will be, on IND-AS basis, in the region of Rs 1000 crores plus or minus couple of Rs 100 crores because as the activity level increases in the second half, not all of it will get converted into cash. So what will remain in receivables will suck out that much of cash.

Bhavin Chheda: So 1000 (+)(-) 200 here. Okay, thanks a lot.

Moderator: Thank you. The next question is from the line of Neeraj B from MultiAct Equity. Please go ahead.

Neeraj B: I just wanted to know on the water side of the business, there is this mega project called Sauni Yojana coming in Gujarat, so are we seeing some traction from there and how material is this project in overall scheme of things because planned pipeline is some 1100 KMs long?

S. Krishnan: Well, you are right. I think Sauni Phase-I if you recall was a large project that was also some 600,000 tonnes and your company got the largest share of that project, we executed almost 40% of that project and in record time. So based on our track record we believe we will get a fair share of these projects, we believe this should happen sometime in the second half of this year but it is to be seen what will be the delivery schedule and that will determine what will be the revenue relevance of that project for this year.

Neeraj B: And out of the total plan pipeline how much is yet to be bided out? So how much is yet to be actually been allotted, tenders are to be sorted, those sort of things?

S. Krishnan: The second phase of the projects is still to be opened up.

Neeraj B: So only 250 or something like that has been completed and there is lot more scope from this project?

S. Krishnan: The first phase for some 600,000 tonnes, that pretty much is done and I think they are close to announcing it. You will see that in the public domain that the entire linkage everything is being done, probably in this one.

Neeraj B: Okay and as you said there are several other water projects also coming in India. So can we just name few of these, like we know something is coming from MP and Rajasthan and also from Telangana. So what could be the Magnitude of the such project?

S. Krishnan: Well, if you look at whatever is in the public domain and some of which is not in the public domain we believe upwards of around 2-2.5 million tonnes equivalent of pipes could be supplied across Madhya Pradesh, Rajasthan, Tamil Nadu, Andhra, Telangana across the board, across multiple geographies within various states in India.

Neeraj B: And these would be like 4-5 year long projects and so?

S. Krishnan: Not necessarily, we believe many of them if not most of them will get awarded and closed before the end of this financial year and supply can happen over the next 12-18 months.

Moderator: Thank you. The next question is from the line of Parin Tanha from B&K Securities. Please go ahead.

Parin Tanha: Just a couple of book keeping questions. Sir I just wanted to know since now Saudi is treated as an associate. I wanted to know what are the kind of EBITDA Saudi generated in the 4th quarter last year and the 1st quarter preceding year. So year-on-year and quarter-on-quarter because I understand it is at breakeven right now. So what was it last quarter according to the Indian GAAP.

S. Krishnan: Parin, we may have to give you those numbers. But I can tell you this quarter was a breakeven quarter at an EBITDA, it was negligible. That is why the IND-AS and the IGAAP EBITDA is almost at the same level.

Parin Tanha: Right, that is why I was thinking what was it last quarter because what we normally did is standalone minus consol to get through the US and the Saudi EBITDA consolidated for the export business. But now since we have to remove that I just wanted to know the quantum of EBITDA that had contributed in the sequential quarters

S. Krishnan: So last quarter Q1 of FY16 was much better than what it was in this quarter because last quarter we were doing high volume and high margin projects and for the entire quarter between April to June all the 3 mills were running full capacity**.** This year April to June the mill was having a steel supply break for almost 5-6 weeks.

Parin Tanha: But sir we did lower volumes in the 4th quarter, right? If I understand, vis-à-vis 51,000 which we did this quarter when the mill was shut for 5 weeks, in the last quarter we did only 13,000 when it was running for the entire quarter. So I am trying to just gauge it to quarter-on-quarter. So what kind of loses did we do on EBITDA last quarter?

S. Krishnan: In Q4, you are absolutely right. We did maybe some 12,000-13,000 tonnes because there again we were getting off one campaign and we were going to start another campaign and there was a scheduled break as well. Q4 of Saudi operations was very poor compared to the previous quarter.

Parin Tanha: Sir I also just wanted to take a sense since now on consolidation on balance sheet, the Saudi will look into its investments for me. What is the kind of investments which will appear into the balance sheets?

S. Krishnan: You mean investments in the balance sheet?

Parin Tanha: Yes because my fixed block will move out when I am consolidating the balance sheet according to the new GAAP. So just trying to understand that. So I understand the reserves, we will have to adjust the reserves as well as the fixed asset. But what I am talking about is in Welspun Corp books when I am looking at the new GAAP what is the kind of investments that we show on account of the Saudi Arabia business?

S. Krishnan: I will tell you what. I think we can derive this from this. I am just telling you of the top of my head. Can we come back to you on that?

Parin Tanha: No problem. Since this accounting standards are pretty new for us as well, so just wanted to get these numbers before I finalize my assumptions, that is why?

S. Krishnan: Do not worry, we are also trying to get our hands of it.

Parin Tanha: I am sure everybody is.

Moderator: Thank you. The next question is from the line of Vivek Sharma from ICICI Securities. Please go ahead.

Vivek Sharma: Sir just wanted to get a sense on how is the global industry outlook and a competitive intensity. So I wanted to get a feel of how is the margin profile going to get affected and how our order book will move going forward?

S. Krishnan: As we have been indicating over the last more than one quarter, the situation in terms of global projects is a mixed bag. In some markets we see good positive traction. So for example in America, Mexico is a market where we see significant upside particularly in the gas space. In India, water is a significant upside. In the Middle East, maybe the Kingdom of Saudi Arabia we will see more traction particularly coming in from the domestic supply pipeline being converted from oil to gas and the export pipeline is being converted from gas to oil besides their own requirement for building a water distribution grid across the Kingdom. We see possibly in the quarters ahead other markets in the Middle East becoming more relevant including Iraq and Iran when it really opens up. But in all this on a day-to-day basis when we look at projects we see large projects, mega projects, when I say mega projects I am talking of projects upwards of 500,000 tonnes running into million plus tonnes. Some of them have not been financially closed, in our industry we call it as a Financial Investment Decision. Those FIDs have not still happened because those project owners have been waiting for some stability to emerge in the energy prices and the energy scenario; but many of them, if not all of them, have already invested in exploration and production. So for them it is only a question of deferring the investment decision for getting the gas and oil up the ground and into the refinery or the distribution point. So we believe these delays may be a couple of months, couple of quarters, but eventually this will translate into action. For example, in the US, the Keystone pipeline got deferred not for economic or environmental reasons but for couple of other reasons. We believe that come January 2017 those should dissolve and that will itself spur the momentum to invest in large cross country pipeline and once that happens that momentum will build on itself because fundamentally whether it is $40 or $50 or less for oil and whether gas is at $3 or whatever it is, consumption is going to be driven. Substitution of other fossil fuels will be the other driver. Coal will get substituted in many markets. So we believe the longer term outlook for our business is strong because we are in transporting energy particularly besides water. We may see some humps in the short term in a quarter or two or in a year or two. These are on a mega global basis but when you look at Welspun Corp as a company invariably in the last 6-8-10-12 quarters our order book which is confirmed contracted orders has been in the region of 900,000 tonnes to about a million tonnes give and take a little bit numbers here or there. Consistently over the last 4 years we have delivered over a million tonnes of pipes and produced over a million tonnes of pipes. Our order book as of end of the 1st quarter remains at 950,000 tonnes after servicing more than the quarter million tonnes in the 1st quarter. So which means your company is on course to build on its 4-year track record in the current financial year. Our agenda will be to keep this track record going. Ensure that we do not lose market share in critical market and with key accounts in those markets and in some segments in some markets and as the curve changes, as the inflection happens, we will be able to capture the upsides which will come in a few large projects.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: That is in continuation to my earlier question on the anti-dumping part, I was talking about the anti-dumping duty that was enforced by the European union on the LSAW pipes**.** So we are not considering those geographies?

Management: We have not been affected by that. I do not think there is any imposition of any other duty or any Indian entity, leave alone Welspun.

Saket Kapoor: No, Electrosteel Castings and Jindal SAW both are affected on account of that.

Management: We are not catering into that market.

S. Krishnan: DI pipes or seamless pipes, we are not in that segment.

Saket Kapoor: No I am talking about the LSAW pipes only. The water and sewage part.

S. Krishnan: I do not think so. LSAW would typically not be supplied in the water segment, so that seems to be little bit out of place. Let us check and come back to you.

Saket Kapoor: And secondly sir what has been our capacity utilization. What percentage of our capacity as we utilized for last year and how are we looking forward?

S. Krishnan: Our nameplate capacities are around 2.4 million tonnes. On an average we believe we can do anywhere around 1.9 to 2 million tonnes roughly. So if we have done volumes of around 1.1 million tonnes our capacity utilization on that basis would be around 55%-60% and looking at our run rate we believe we are on the similar track for the current year. Our capacity remains same. We do not see any addition to our capacity in the current year.

Saket Kapoor: That is everybody operating in the 50%-60% band?

Management: Yes sir.

S. Krishnan: Let me just clarify. Capacity is little bit of a variable, it depends up on the diameter of the pipe and the thickness of the steel plate or coil. So the same length in running meters can be much higher capacity, much higher tonnage if it is a larger dia or higher thickness. What we are giving you is what we in our terminology call as an average dia or an average thickness.

Saket Kapoor: Sir for the benefit of investors who are your likewise competitor in all the segments, your domestic competitors from whom you are going to face competition going forward? Segment wise if you could give any?

S. Krishnan: Even in the domestic space if you look at water or you look at oil and gas the scenario is different. We in the oil and gas space whether you take players like PSU undertaking or companies like Reliance or Cairn and all that we are the preferred vendor. Water space as I said the threshold or the barriers are much lower, technical barrier. So there will be many domestic players who could service that requirement.

Saket Kapoor: Your voice is breaking I am unable to understand.

S. Krishnan: In the domestic space for water Welspun would be a preferred partner for customers or project executors who plays who are willing to pay a premium for Welspun's equity and value and the quality of the pipes that we can produce. We may not be able to win every water project in every municipal corporation or every state bid and in the domestic space I am sure you know who are all the other players. Some of them are listed, some of them are not. But there is enough capacity in the domestic market to service the water requirement and we would also not be surprised if you see some imports coming in unless the government wakes up to providing a level playing field for domestic players for the domestic business.

Saket Kapoor: Big market is going to open up that will seek import also?

S. Krishnan: As of now there is no restrictions. Most of these bids these are ICBs, International Competitive Bidding. So it is a level playing field for companies outside of India as well.

Saket Kapoor: I was just trying to get a sense what kind of opportunities are we seeing in this segment?

S. Krishnan: As we said earlier we believe that in the water segment irrigation and distribution, projects of the magnitude of around 2.5 million tonnes plus could be awarded in the next 6-9 months' execution and supply could happen over the next 12-18 months.

Saket Kapoor: And these are low margin business as you told because many people can participate?

S. Krishnan: These are relatively low margin businesses. Many of them will be relatively low margin businesses. For us when we compare this with the water business in Middle East or when we compare this with oil or a gas business in India or outside these are relatively low margin.

Saket Kapoor: Sir in the oil and gas business parts we are only in the transportation vertical. That means when there is a discovery and the gas has to be evacuated then only the pipeline part comes in where we have a role there?

S. Krishnan: Absolutely correct.

Saket Kapoor: So that is a greater gestation one because 60-70 marginal gas fields on the take to be explored. So once the gas evacuation begins, then only orders will be placed for the pipeline. So that is a long story coming up.

S. Krishnan: You are right. Please complete your question sir.

Saket Kapoor: I was just trying look into it what are these, are these key developments for us and how long will it take to fructify?

S. Krishnan: You are right that we come in the mid-stream that is the transportation segment. The upstream which is the exploration and production is something which is a much longer gestation, significantly higher investment and companies before they put in that final dollar in exploration and production would have done enough of studies to put that investment. But once they put in that investment and they have identified a well or a field which is worth converting into a production field the investment required for transportation is relatively less and that is the only vehicle to commercialize what is the discovery. So the other option to them would be to cap the well which will be a significant investment then possible laying a pipeline to transport the oil and gas to a refinery or to a terminal or whatever. So for us I think the risk would be relatively lesser because if somebody has invested their dollar in exploration and production, their ability to invest in transportation would be absolutely essential.

Saket Kapoor: Sir are you getting any fillers from that segment, I mean how long it will take for that market to develop because our is a country deficient in gas and in fact power in all sense so will be needing the gas that is going to get explored and since the thrust is there on the government also to get the untapped gas in to the system. What kind of business opportunity can we look into it?

S. Krishnan: Sorry, let me clarify. The earlier statement that I was making was on a global market without reference to the domestic business in India. In India you are absolutely right, I think we are a significant consumption point at this point of time. Our production and our capacities are much less than what is our present or our immediate future consumption. So which is why we need to be dependent on imports. But we believe as the exploration and licensing policy gets revamped in some time and as that translate into some global mergers coming in, the potential growth in the oil and gas space within onshore and off shore will be possible different in the foreseeable future. The second driver could be cross country pipeline coming in from as far as Iran or as close as Myanmar or from like the Russia -China pipeline, a similar pipeline could come into India. If any of those come in, those could be the other major drivers of growth from the domestic business. But these we would say are may be 3 years plus ahead in terms of business.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. S. Krishnan for closing comments.

S. Krishnan: Thank you so much everyone. We do appreciate the interest that you have shown and the kind of questions and some of the homework that you have given us. We will take your observations back to our management team and we will work on it and we hope to keep you engaged and interested in the quarters in the years ahead. Thank you again.

Moderator: Thank you. On behalf of Welspun Corp Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your lines.