BUSINESS UPDATE

Strong Business Visibility

Confirmed Order Book for Line Pipes of ~ 1 Million MT

November 3, 2022, Mumbai: Welspun Corp Ltd. (WCL), a flagship Company of the Welspun Group, announced its consolidated financial results for the quarter ended September 30, 2022.

- **Strong Business Outlook providing earnings visibility for next several quarters**
- **Order Book for Line Pipes of approximately 1 Million MT, active bid book of 1.5 Million MT**
- **Won a significant order for a Carbon Capture Pipeline project in the US**
- **Commencement of regular dispatches from state-of-the-art Ductile Iron pipe plant**
- **Acquired the specified assets of ABG Shipyard Limited**
- **Profits impacted on account of high Inventory Cost in Steel Vertical**

Note: Sales Volume & Order Book includes our Saudi operations

I. Pipe Vertical (Line Pipes)

The Line Pipes Business has seen a robust performance with a global sales volume of 218 KMT and EBITDA of Rs. 256 cr for the quarter (including Rs. 104 cr from the sale of land and civil structures in Dahej). Further, the US Production has also significantly ramped up, and the dispatches against the projects will start in Q4, and thus will significantly contribute to the FY profitability.

The confirmed order book of the Line Pipes Business is close to a million metric tonnes and the company is in a favourable position for few additional large orders. This gives a clear business and earnings visibility for the next 5-6 quarters (till the end of FY24).

OPEC+ took a decision to cut a massive ~2mb/d of oil production which is equal to 2% of global supply in their meeting held in early October, to try and create a tighter demand-supply balance in the global markets. It is thus estimated that the oil demand & price, both are likely to stay firm for the foreseeable future.

On the Steel side, we have seen significant downward correction in prices owing to recessionary pressures, lower demand conditions in Europe and worries about the China housing market. In India, Steel Prices have also significantly corrected (>20%) after Ministry of Steel imposed an export duty of 15% in May 2022.

<u>India</u>

The current environment of reasonably high energy prices coupled with a decline in global prices of steel will lead to a robust capex cycle in the O&G sector globally, which has been dormant for past few years. We are seeing resurgence of various stalled projects and are in active discussions for several export orders across the world with a focus on Europe, Australia, South America, South East Asia and Middle East.

The Indian Government has envisioned a clear roadmap for energy with a major focus on gas as a cleaner fuel. Gas demand prospects in India remain strong as the Government has set a target to raise the share of natural gas in the energy mix from the current 6.7% to 15% by 2030. Gas demand will be driven by fertilisers, CGD players, petrochemicals and refineries. This will result in continuously expanding the gas and CGD pipeline network on Pan India basis, and will be a key driver for the growth of the line pipe industry.

Similarly, the correction in the domestic steel pricing has brought back the demand in the Water sector, as there is an accelerated need for the development of irrigation facilities. We are seeing increased engagement across the States of Gujarat, Maharashtra, Tamil Nadu, Karnataka, Madhya Pradesh, Punjab and Rajasthan. There is a strong intent to meet the ambitious targets as envisaged in various Government schemes. The focus by both the Central and State Governments on developing water infrastructure is expected to drive the demand for large diameter HSAW pipes.

USA

After years of under-investment in O&G exploration and infrastructure, the US is now focused on boosting its oil and gas supply to cater to their domestic energy needs as well as for exports to cater the energy needs in Europe. The number of active oil and natural gas drilling rigs in the United States rose by 229, or 42%, in the past year, to the highest point since March 2020. (Source: Baker Hughes)

Date of Last Year's Count	Count	Last Count	Count	Change from Last Year
22 Oct 2021	542	21 Oct 2022	771	+229

The increased drilling activity is necessitating the need for creating additional Gas Exports lines. Volumes are set to reach more than 21 Bcf/d by the end of November, according to the EIA, a record high and up by 9% since last year. The Permian basin, where the maximum drilling activity seems to be happening, will need additional 2 or 3 large gas pipeline projects for evacuation of gas to the Gulf coast, in the coming 3-5 years.

There is also an extremely strong focus on New Energy including Carbon Capture and Ammonia pipelines. We recently announced winning of a significant order for a Carbon Capture Pipeline project in the United States. This order is for supply of 785 miles (1,256 KM) or 100,000 MT (approximately) of High Frequency Induction Welding (HFIW) pipes, and would be used for transporting captured carbon dioxide. The pipes for this order will be produced from our Little Rock plant in the US and the same will be executed in FY 23-24. Given the commitment for reducing GHG emissions and the incentives attached to this sector, we would see continuously a very robust demand for such pipelines for the next couple of years.

With us being one of the largest player, we are confident of maximizing our capacity utilization and earnings / profitability for this asset in subsequent years also.

Saudi Arabia

Saudi Aramco reported its highest quarterly profit (for the period to June 30, 2022) since the company went public in 2019, boosted by higher oil prices and refining margins. The company expects both the oil & gas demand to continue to grow for the rest of the decade. Saudi Aramco stands ready to raise oil output to its maximum sustained capacity of 12 million barrels per day and has announced a capex enhancement from $31.9 Billion to $40-$50 Billion for this year.

SWCC is currently the largest desalination corporation in the world, providing water to over 34 million people. For the distribution of Desalinated water, 7 large water infrastructure projects are planned which would result in total demand exceeding 3 million metric tonnes of pipelines over 3 years

With high oil prices, increased global gas demand and the current geopolitical situation in the world, we see robust business opportunities for the next 5-7 years, both in the Oil & Gas and the Water segment, in KSA. With us being the largest player, we are confident of maximizing our capacity utilization and earnings / profitability for this asset.

II. Steel Vertical (Pig Iron + DI Pipes)

The state-of-the-art Blast Furnace, which was commissioned in July 2022, is running efficiently with a consistent output of 1,000 MT/day of hot metal, with a potential to increase this up to 1,500 MT/day. However, this is currently being regulated, as the production of DI pipes is being ramped up on gradual basis.

Our DI plant, having a capacity of 400,000 MT and equipped with the latest cutting-edge technology, has received the BIS certification and Government approvals in the Key States of Gujarat, Uttar Pradesh, Madhya Pradesh, Rajasthan, Maharashtra, Chhattisgarh and Punjab, achieving its 1st major milestone.

The quality of the product is widely accepted by the customers and as on date have an order backlog of ~ 70,000 KMT valued at ~ Rs. 500 Cr.

The operational performance of both our steel and DI facilities are in line as planned and meeting expectations. Though the profitability for the quarter has been severely impacted on account of high inventory cost (especially coke), as being faced by all other steel makers at large, and the lower sales realization on steel product (pig iron) on account of imposition of export duty @ 15% thereby softening the domestic steel price and making it difficult for the company to sell overseas. The overall financial impact is ~ Rs. (200) cr for the quarter.

However, moving forward, the product quality, expansion of customer base, production ramp up and commodity pricing getting more predictable, the financial performance of the business will significantly improve in subsequent quarters.

From a demand perspective we see a continued focus on creating drinking water supply infrastructure in India under the Jal Jeevan Mission where against the allocated budget of ~ Rs. 3,60,000 crores, an amount of ~ Rs. 3,01,000 crores is yet to be spent, giving clear visibility of demand growth over the next few years.

III. Steel Vertical (Long Products - TMT)

Our newly commissioned state-of-the-art TMT plant, having a capacity of 350,000 MT, has received the BIS certification and is ready for commencement of dispatches.

The key growth drivers continue to be spend on infrastructure, housing and construction. Our key target market of Gujarat has a consistent annual demand of 3 million MT per annum, of which only ~ 2 million MT is produced in the state. With our quality and customer-centric approach we are confident to establish our product as a leading B2C brand in the Western market.

IV. Welspun Specialty Solutions Limited (WSSL)

- Order Book for Stainless Steel Bars: 1,387 MT & Tubes and Pipes: 1,853 MT (valued at ~ Rs. 170 cr)
- Pipe Sales Volumes for Q2 FY23 up 96% YoY
- Total Income from Operations for Q2 FY23 at Rs. 93.7 cr, up 351% YoY, EBITDA at Rs. 0.3 cr vs. loss of Rs. (4.3) cr in Q2 FY22

The key demand is from sectors like oil refineries, petrochemicals, chemicals, pharmaceuticals, defense and power. Our healthy order book, approvals & accreditations across these sectors, incremental performance demonstrated on a QoQ basis, quality acceptance both in domestic and export markets and Government thrust on Make in India initiative, will all lead to improved earnings and better margins in quarters to follow.

V. Other Updates

(A) <u>Acquisition of the Specified Assets of ABG Shipyards</u>

Welspun was the successful bidder in terms of the Process Memorandum for the private sale of specified assets of ABG Shipyard Limited (in liquidation). WCL and its wholly owned subsidiary (Nauyaan Shipyard Pvt. Ltd.) has paid, on September 21, 2022, Rs. 659 crore (plus applicable taxes) towards the entire purchase consideration. The partially built ships, equipment and metal scrap acquired under WCL is estimated to be over ~ 150,000 MT. It is estimated that the Metal / Metal scrap not required for business purposes will be disposed over 12-15 months.

Post payment was made to ABG's Liquidator and receipt of sale certificates by us, the Liquidator received a Provisional Attachment Order from ED, Ahmd. The Company, the Liquidator and the Lenders (SBI & IDBI) have all filed separate writ petitions before Hon'ble Gujarat High Court against ED's Provisional Attachment Order. We are making best efforts for an early and favorable disposition.

(B) <u>Acquisition of Sintex BAPL Ltd.'s Non-Convertible Debentures</u>

WCL's growth strategy entails creating a diversified product portfolio, repurposing its business to add new target segments, expanding its offerings to address both the B2B and B2C markets, and making well-considered strategic acquisitions. In this regard, we have acquired Sintex BAPL Ltd.'s Non-Convertible Debentures with outstanding of Rs. 1,223 Crore for a purchase price of Rs. 418 Crore (as on date) by our wholly-owned subsidiary viz. Mahatva Plastic Products And Building Materials Private Limited.

Propel Plastic Products Private Limited (SPV being acquired) has submitted EOI as required by the resolution professional and under the timelines announced, the process is likely to be completed within Q4 FY23.

(C) <u>Sale of Land & Civil Structures at Dahej Plant</u>

WCL has entered into a Memorandum of Agreement on September 30, 2022 for sale of land, civil structures, excluding plant & machinery, situated at Dahej unit of the Company in the state of Gujarat. The said unit comprises an insignificant portion of the operations of the Company and the management feels that the transaction would not have any material and adverse effect on operations of the Company. The consideration receivable for the sale of land is Rs. 130 crores.

(D) <u>ESG Initiatives</u>

We emphasize ESG data governance and integrating ESG measurements into an internal control framework and internal audit programme. As part of this, we have implemented ESG Compass - an Integrated Digital Platform for measuring, monitoring, and reporting on ESG KPIs. It covers over 90 ESG indicators across all sites and locations in India and presents data in a dashboard format which helps us to automate manual data collection and streamline reporting processes.

VI. Company Outlook

In the Medium Term (3 to 5 years), WCL aspires to reach the following metrics:

- Top line of Rs. 15,000 Cr +
- Sustainable EBIDTA of Rs. 1,600 Cr to Rs. 1,800 Cr
- ROCE of 18%+
- Net Cash Positive driven by strong Free Cashflows
- Increase in DJSI ESG ratings from 41 to 60
- Dominant player in B2B and B2C segment in line with group vision of “Har Ghar Welspun”

VII. Management Comments

“I am delighted by the completion of the Ductile Iron Pipe plant. This is one of the largest single location DI Pipe Plants in India and will help in supporting access to potable water across our nation. Over the coming years, the new plant will contribute immensely to WCL’s Business Growth and Strategy. The diversification of the product portfolio will result in consistency and earning predictability. Furthermore, the order backlog in the line pipes business has been steadily improving. I am extremely optimistic that the business prospects being pursued globally would yield positive results and will add further strength to the company’s position. The order win in the US for a Carbon Capture project will set the tone for future such orders which will lead towards a more sustainable planet.” said Mr. B. K. Goenka, Chairman, Welspun Group.

VIII. Financial Highlights of the Quarter ended September 30, 2022

- *Prior period figures are restated after the acquisition of the Steel business of Welspun Steel Limited*
- *Financial Highlights (Consolidated) for Continuing Operations (Ind AS)*

1. Global Order Book – Line Pipes

- Current Global Order Book stands at 956 KMT valued at Rs. 13,750 cr

2. Sales Volumes (Q2 FY23)

- Line Pipes: 218 KMT vs. 180 KMT YoY
- SS Pipes 1,009 MT vs. 515 MT YoY

3. Revenue from Operations

- Revenue from Operations for Q2 FY23 at Rs. 1,964 cr

4. EBITDA

- Reported EBITDA for Q2 FY23 at Rs. 46 cr, impacted by initial losses in Steel Vertical.

5. Profit (Continuing Operations)

- PAT (after Minorities & share of JVs) stands at a loss of Rs. (57) cr

6. Net Debt / (Cash) position

Figures in Rs. Cr

Consolidated debt	Sep-22	Jun-22	Mar-22
Gross Debt	2,907	2,063	2,021
Cash & Cash Equivalents	1,298	2,179	2,195
Net Debt / (Cash)	**1,609**	**(116)**	**(173)**

Increase in Net Debt primarily on account of acquisition of specified assets of ABG Shipyards, Capex in Steel Vertical and RM inventory payments for the ramp-up of operations in the US.

IX. Consolidated Performance Snapshot

Sales Volumes	Q2FY23	Q1FY23	Q2FY22	H1FY23	H1FY22
Line Pipes (KMT)	218	157	180	375	356
Pig Iron (KMT)	11	-	-	11	-
DRI (KMT)	18	1	0	18	2
Billets (KMT)	16	36	37	52	83
SS Bars (MT)	1,081	1,557	-	2,638	142
SS Pipes (MT)	1,009	692	515	1,701	873

Figures in Rs. Cr

Consolidated Profit & Loss Account	Q2FY23	Q1FY23	Q2FY22	H1FY23	H1FY22
Continuing Operations					
Total Revenue from Operations	**1,964**	**1,322**	**1,542**	**3,286**	**3,052**
Other Income	**177**	**73**	**54**	**250**	**91**
Reported EBITDA	46	102	175	147	381
Depreciation and Amortisation	70	61	63	131	127
Finance Cost	47	31	23	78	45
Profit before tax and share of JVs	**(72)**	**10**	**88**	**(62)**	**209**
Share of profit/(loss) from Associates and JVs	14	4	(5)	17	(3)
Tax expense	5	14	27	19	64
Non-controlling interest	(7)	(5)	(7)	(12)	(15)
PAT after Minorities, Associates & JVs	**(57)**	**4**	**63**	**(52)**	**157**
Basic EPS from Continuing Operations	**(2.2)**	**0.2**	**2.4**	**(2.0)**	**6.0**

Prior period figures have been restated, wherever necessary

Saudi Financials

Key figures of East Pipes Integrated Company for Industry (EPIC):

Figures in SAR Mn

Particulars in SAR MN	Q2FY23	Q1FY23	Q2FY22
Saudi Arabia Ops:			
Sales / Revenue	303	206	121
Gross Profit	15	19	9
Operational Profit	14	12	5
Net Profit after Zakat and Tax	9	6	-1
Total Comprehensive Income	9	6	-1

Prior period figures have been restated, wherever necessary

BUSINESS UPDATE

WELSPUN CORP
Pipes & Steel

Q2 FY23 Investor & Analyst conference call: Thursday, 3rd November 2022 | Time: 4:00 PM IST

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- International Toll-Free numbers
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    - Singapore: 800 1012 045
    - UK: 0808 101 1573
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About Welspun Corp Ltd. (WCL)

Welspun Corp Ltd. (WCL), a flagship company of the global conglomerate 'Welspun Group', is one of India's fastest-growing multinationals with a leadership position in line pipes, home textiles, infrastructure, warehousing, retail, advanced textiles, and flooring solutions.

WCL is a one-stop service provider offering end-to-end pipe solutions ranging from 1½ inches to 143 inches. The company's ever-expanding goals and targets have helped them reach out to several parts of the world - six continents and fifty countries - where they've successfully supplied pipes to numerous critical projects globally, both for offshore and onshore applications.

Welspun Corp Ltd. is synonymous with great quality and an impeccable execution track record, coupled with world-class technology and innovation. Their line pipe capabilities encompass HFW (High-Frequency Welded), HFIW (High-Frequency Induction Welded), HSAW (Horizontal Submerged Arc Welded), and LSAW (Longitudinal Submerged Arc Welded). The company also manufactures BIS Certified Steel Billets, Direct Reduced Iron, Stainless-Steel Pipes, Tubes & Bars.

Additionally, they have forayed into the production of Pig Iron & the manufacture of DI Pipes, catering to growing water infrastructure requirements. WCL's growth strategy entails creating a diversified product portfolio, repurposing its business to add new target segments, expanding its offerings to address both the B2B and B2C markets, and making well-considered strategic acquisitions.

The diversification into the B2C segment will help the Company to significantly expand its base, enhance its brand, penetrate new markets, build a distribution network, and provide opportunities to develop new products. In this pursuit, WCL has also announced the commencement of its TMT facility, thereby taking the company's portfolio from being a large-scale B2B business to a B2C business in the next few months. WCL is also foraying into polymer/plastic business segment, which is another step towards creating a strong B2C organization in line with the overall strategy.

For further information please visit www.welspuncorp.com

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