



# “Welspun Corp Limited Q2 FY2022 Earnings Conference Call”

October 29, 2021



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

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

**Moderator:** Ladies and gentlemen, Good day, and welcome to the Welspun Corp 2Q FY2022 Earnings Conference Call, hosted by Emkay Global Financial Services. As a reminder, all participants' 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, 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. Abhineet Anand of Emkay Global Financial Services. Thank you and over to you Sir!

**Abhineet Anand:** Thanks Bikram. Good morning everyone. Let me introduce the management that we have today from Welspun Corp. We have Mr. Vipul Mathur - Managing Director and CEO, Mr. Percy Birdy – CFP and Mr. Akhil Jindal, Group CFO and Head Strategy at Welspun Group. We will have opening remarks from the management. So over to you, Sir!

**Vipul Mathur:** Thank you. Good morning. First and foremost just to make a small correction my name is Vipul Mathur and not Mr. Vipul Mehta. I hope you would have been little more diligent about this but nevertheless.

Good morning friends. Welcome to all of you for this Q2 FY2022 Conference call. It is a great pleasure to have you today morning with us.

First and foremost just to start let me give my opening remarks and I would like you to take you through some of the operational and the financial performance of the company during this quarter ended September 30. The total income from our operation was Rs.1306 Crores which was 12.8% higher on Y-on-Y basis we had an EBITDA of Rs.195 Crores and a PAT of Rs.85 Crores. Our sales volume for this quarter was 180000 metric tonnes. At this point of time we have a current order unexecuted order book of almost 580000 tonnes and active bid book of close to 1.4 million tonnes.

We have a very strong net cash position of Rs.1000 plus Crores. From an operational performance I just wanted to let you know that from our India operation out of that 180000 tons what we executed the sales what we have achieved our India operations was 110000 tonnes, from our US operation it was 32000 tonnes and from our Saudi operation it was close 38000 tonnes.

I am sure you would like to have a little brief understanding or understanding of the market. Let me give you little overview as to where we see the market seems to be moving.

As you know we are seeing a significant surge in the energy prices the oil prices have climbed up to a multilayer high as OPEC+ said it would stick to the existing plan for gradual increase in oil supply. Some market participants had expected a higher increase in supply but that did not happen.

Even the natural gas cycle has slowed over the last few months especially in Europe even in US if you see the gas price is around an excess of \$6 per MMBTU I mean Europe is more than \$30, \$35 per MMBTU. This is a very historic high so we are seeing a huge surge in the energy pricing globally. The reason for that was that the global energy demand for last year when the economies went in to a lockdown to fight the pandemic. As the situation improve this year especially in the Asian economies the demand shot up and the energy producers were unable to meet the growing demand pushing up the prices.

In the near-term repeat of cold winter in the northern hemisphere could further propel the energy prices further up. The current level of high prices is a big positive for us as it is expected to drive global spending for oil and gas pipeline related infrastructure projects in the medium-term. However the commodity pricing including the steel pricing continues to be a cause of concern, the steep increase in the prices has created disruptions in the supply chain as project costs have gone up, has escalated significantly. Further flare up in the steel price is still a key risk.

If we specifically talk about India the outlook of the oil and gas sector in India continues to be a bright spot. India's oil consumption is estimated to rise from 4.8 million barrels per day in 2019 to 7.2 million barrels per day in 2030 and then to 9.2 million barrels per day in 2050.

Under this stated policy scenario the global oil demand will peak in 2030 at 103 million barrels per day and will remain unchanged till 2050. This projection yet again shows that the certainty of that oil is going to be there is going to play a major role in the Indian economy at least over for the next three decades.

The Indian natural gas demand is also expected to double from 64 BCM to 133 BCM. While our will double but as against the global demand has been rising at a rate of 12%. Indian refining capacities also said to expand by 30% to 6.9 million barrel per day by 2030 while the global capacity is expected to increase only by 3%.

With the country aiming to increase the share of the gas in the energy market to 15% by 2030 from the current level of 6% 15000 odd kilometer pipeline are under various stage of construction at this point in time. Taken together with the 17000 kilometers of existing pipeline this will create a huge national gas grid in the country.

The major impetus for the gas demand will also be through the city gas distribution system. The oil and gas regulator PNGRB in September 2021 invited bids for giving out city gas retailing license in 65 geographical areas in the 11th city gas in the 11th round of bidding. Presently there are 228 geographical areas authorized by PNGRB in 27 states in Union

Territories covering approximately 53% of the country geographical areas and 70% of its population.

In the last CGD bidding round that is in the 10th round of bidding 50 geographical areas were authorized for development of CGD network. So in the 10th round there were 50 areas and in the 11th round there had been 65 areas which have now been awarded.

On the water side of it the demand for spiral pipe in the water segment has been impacted at the state governments for battling the pandemic. Moreover a steep increase in the raw material price has also adversely impacted which led to delays in the project implementation however we are now seeing a distant pickup in the orders as a number of COVID-19 cases are declining across the country. There is also a recognition among all industry players that the steel price will continue to be higher for a foreseeable future and the project cost will have to be revised upwards. So there is a paradigm shift which has happened and the industry has slowly and gradually and the whole supply chain mechanism has started understanding that. We are confident that we will see a steady improvement in demand driven by irrigation and drinking water supply projects across various states.

We are also in discussion for several orders in the export market which has seen an improvement in prospects. During this quarter we received a very significant and at the prestigious order for a deep offshore pipeline project in Gulf of Mexico, USA which was approximately for 60000 tonnes. This exhibits an overall improvement in the business sentiments, our strong connect their confidence in our technical excellence and our execution capability.

As regards US in US natural gas spot price at Henry Hub average around \$5.16 per MMBTU which was up against \$4 and up from an average of \$3.5. So historically it has been floating around \$3.25 it went to \$4 and now the average was \$5.16 and when we look at the last week it was in excess of \$6 per MMBTU so that is a very clear reflection that how the energy prices in the US seems to be going up.

The rising price in the recent month reflects in US natural gas inventory levels that are below the five years average and continued demand from natural gas for power generation used at a relatively high price. However, there is still a caution among midstream companies about regulatory issues and environmental opposition nonetheless at the current level of high oil and gas prices we are confident of a revival in the medium-term and already seeing inquiries coming up in as per to workout.

If you will recollect in the last quarter call we mentioned that there has been a quite a bit slowdown in the US market but I am very happy to report that we have started seeing a little uptick into the market. We have started seeing inquiries coming back on the ground and

right now at this point in time these inquiries which are coming up for small diameter HFIW pipeline but that is a general trend they follow first you will see inquiries coming up for small diameter pipeline and then followed by the large diameter pipe line. We will talk a little more during our Q&A session about this.

As regards Saudi Arabia we have a confirmed order book of almost 222000 tonnes, the steel for which is fully secured. At this level of oil price we were optimistic and seeing that Saudi Aramco will also come back strongly in the market in terms of finalizing few projects.

We being an LTA holder are expecting to receive significant portion of these line pipe orders. I also just want to give you an update with respect to our proposed IPO. The capital market the CMA which is a regulatory authority responsible for capital markets in Saudi Arabia has approved our IPO offering. We are intending to divest 30% of our total share capital. The divestment of the shares will be done by the JV partners in proportion to their shareholding. WCL currently holds 50.01% in the JV through its overseas subsidiary post the proposed listing WCL shareholding will not fall below 35% in the JV and it will continue to be the largest shareholder. The CMAs approval of the application shall be valid for six months from the CMA board resolution date considering the buoyant market conditions the EPIC board which is a Saudi Arabian Board has given the consent to go ahead on the proposed IPO and we are hopeful that it should have its listing sometimes at the end of Q3 or early Q4.

I would also like to update you on the few activities on the business front number one the corporate tax rate. The company has fully utilized existing tax rates in FY2021 and has switched to a new corporate tax rate of 25.17% in FY2022 from existing 34.94% both including surcharges in India. Dividend during Q2 FY2022 the company paid a dividend of Rs.130 Crores the dividend amount declared per share for FY2021 was for 100% of face value of Rs.5 per share.

Third, proposed acquisition of steel business of WSL by WCL through a scheme of arrangements. The Board of Directors at the company at its meeting held on 28th June decided to propose the scheme of arrangement between Welspun Steel Limited and the company for transfer of WSL Steel division to the company with appointed date of April 1, 2021 subject to the regulatory and other approval. The transaction is in line with our business growth and diversification strategy to improve the earning predictability and significant value creation for all stakeholders. As a part of this steel division WSL also holds 50% share in Welspun Specialty Steel Solution Limited. The Honorable NCLT Ahmedabad bench vide its order dated 4th October 2021 which was received by company on 7th October has given directions for convening a meeting of the equity shareholder, the secured creditors and unsecured creditors of the company for obtaining their consent of the scheme of arrangement between WSL and WCL.

A few rationales I understand there was quite a few would like to know the rationales behind it. This transaction have several benefits for WCL. As we believe that it will bring in earning predictability, stronger revenue and improved competitiveness with business diversification, a strong presence across market segments provide access to new market and product offering. Greater economies of scale will provide a longer and a stronger base for potential future growth, synergies especially in raw material sourcing common infrastructure, technical manpower etc., would be extremely useful and can be leveraged and significant value creation for all the stakeholders.

As we have informed earlier a thorough due diligence was being done and the valuation was being done by two Independent Registered Valuers, RBSA and Drushti R. Desai. Our Fairness Opinion issued by DAM Capital Advisors Limited. Our Finance Due diligence was done by Ernst & Young and Legal Due Diligence was done by ELP. As regards the consideration for every 100 equity shares of face value of Rs.10 held in WSL shareholders of WSL will receive 81, 6% cumulative redeemable preference share of face value of Rs.10 of WCL redeemable only after 18 months from issuance date for a total consideration of Rs.362 Crores. So once this deal is consummated then this preference shares will only get triggered only after 18 months.

I would also like to make some important points on this particular transaction. As we have seen there is a fundamental shift in the steel market and we believe that there is a sustained strong commodity cycle we are seeing that commodities at the peak and this cycle are going to stay there. The TMT bars extensively used in the construction industry both in projects and by direct consumer this will enable WCL to diversify its portfolio in the B2C segment as well. WSSL is listed on the BSE with the market capitalization of almost Rs.750 Crores. The stainless steel pipe business is technology intensive and high entry barrier and approvals required from process licenses and equity. Consequently the SS pipe companies command a value premium. We have seen that in the industry in the peer group what type of multiple their demand it enjoying.

There has been a steady increase in the SS pipe sales. WSSL has continued its journey towards gaining approval. Just to reflect the sales volume for SS pipe division in FY2021 they sold almost 2000 tonnes of pipes versus 600 tonnes of pipes in the last year in FY2020 so that has been the growth from 600 tonnes in FY2020 they were able to gain a market share of almost 2000 tonnes in FY2021 even in FY2022 as we are progressing they are showing a very steady performance. Post merger and stabilization both these entities will bring predictability and higher revenue potential to WCL which is the primary intent of this acquisition.

Amendment to object clause the company continues to evaluate suitable opportunities for both organic and inorganic expansion, diversifications which have synergies with it

business. It is important that the company continues to expand and diversified business product offering for growth predictability and enhanced earnings. As a prudent practice detailed due diligence will be exercised with the peer overheads from the board. Since the company has a judicious capital allocation policy every proposal has to be first met an internal threshold for ROI and profitability before being considered for accepting.

Update on the DI projects. As I apprised earlier given the industry prospects and the synergies with our existing business we are setting up a Greenfield facility at Anjar to enter the DI pipe business. The project is absolutely on tract and expected to be commissioned by March 2022. There is a big focus on creating water supply infrastructure through various government schemes considering that expected growth and budgetary allocation by Government of India under Jal Jeevan Mission, both for urban and rural now this is expected to be a huge demand for DI pipes in this industry.

ESG: We continue to embed ESG in each and every aspect of our organization and are committed to be carbon neutral in our pipe business by 2040. We are undertaking a project in Anjar for the installation of solar panel and also undertaking several energy efficiency projects which include replacement of conventional light with LED light, centralized compressed air network, variable frequency drive for our compressors, water and waste reduction measures and rainwater harvesting. These are few of the activities which have already started and we have setup about a very clear roadmap and goal to achieve these targets. To further strengthen our commitment to achieve net zero carbon emission we have signed an MoU with BP India Private Limited on October 18, 2021. The scope of this MoU is to jointly explore carbon emission mitigation and reduction opportunities in Welspun Corp, energy, logistics, mobility and waste management activities.

ESG is a strategic priority with goals linked with executive remuneration. We have further strengthened our governance structure this quarter and have taken many initiatives like including ESG in to our internal audit framework, formalizing key governance roles, expanding the scope of stakeholder relation committee to include all stakeholders, currently it covers only shareholders revised for fraud prevention policy and plan approved by the board having a disciplinary action that is in place. This is just to highlight that the ESG is the center of all our activities at this point in time and it will get a lot of traction in times to come as well.

With this I would like to conclude my opening remarks we will be happy to take any questions from all the members who have joined this call. Thank you.

**Moderator:**

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Vikas Singh from PhillipCapital. Please go ahead.

**Vikas Singh:** Good morning. Sir first of all congratulation on steady performance despite the headwinds. Sir my question pertains to our bid book if I am not incorrect then our bid book used to be roughly around close to 3 million tonnes so it has come down significantly without our order book increasing in a large manner so has those projects had been awarded and have we missed out on those opportunities or the projects had been shelved if you could just give us some idea about it?

**Vipul Mathur:** Vikas, our bid book you rightly said used to be close to 2.5 to 3 million tonne at this point in time it has gone down to 1.4 million tonnes. We have seen in some markets especially in the South American market there was a significant order potentials which were anticipated however because of the elections and being a pandemic in a very strong manner it still persisting out there, there has been a slippage in terms of awarding those particular projects and to that extent largely the shrinkage what you are saying in this bid book is largely because of that.

**Vikas Singh:** Understood Sir. Sir just second question related to this only if I exclude Saudi then India plus US overall orders would have somewhere around that it is roughly around 340 KP odd so that gives with the bid book and our post bidding rate our visibility is just for quite low at this point of time. So just wanted to understand that what is our thought process in terms of our earning visibility now going forward?

**Vipul Mathur:** Let us dissect this issue into two you rightly mentioned that in India at this point of time our active our order book is close to 350000 tonnes with this 350000 tonnes let us say we have three assets in India which is a spiral asset, which is a longitudinal asset and then ERW asset now our longitudinal asset is completely booked for next 12 months even it could be more because if the new order which has come from the Gulf of Mexico or US with that our plans are completely good for next 12 months time. On the ERW side there is a significant order book at this point of time and I am sure for the next, for this quarter and the next quarter we have a clear visibility and our order in hand. It is only on the spiral side of the business which is purely domesticated in water sector that we have just started seeing a uptick in the business books. As I said earlier that business on the spiral side of it works largely impacted but the states not finalizing the project because of the fund constraint what they were having because they were fighting the pandemic but now we are seeing, we are seeing in the Madhya Pradesh we are seeing in Karnataka, we are even seeing in Gujarat the spending coming back on the track and it has been a development only over last two weeks, two or three weeks and I believe that this will further build up on that so we will see a higher capacity utilization even for our spiral business in times to come and which will consequently improves our bid book as well.



- Vikas Singh:** Sir just one question on our cash of roughly about 1000 Crores this is before any payment on the two acquisitions which we are proposed to do because a part of it was the cash payment also if I have the number correctly?
- Vipul Mathur:** No. There is no cash payment there is no upfront cash payment.
- Vikas Singh:** The entire transitions of adding this steel business does not require any cash payment even upfront or is it a completion of this project.
- Vipul Mathur:** There is no upfront cash payment well therefore the transactions what has been done for the steel. As I said there all the payments have to be done for after 18 months once the merger is completed and the only cash payment which will happen or only investment will happen is basically with respect to the TMT project where which we are putting up so other than that there is no other cash payments which are happening.
- Vikas Singh:** Just one last question if I can pitch in. Sir Saudi we are looking for a 30 million tonne upwards of money in terms of higher dilution so just wanted to understand this timing so basically last year we were doing pretty good in Saudi and this year last couple of quarters our performance have been weak so in terms of valuation since this approval is valid for only six months so are we looking for a time therefore with the new order for Saudi Arabia coming in or as right now you think that the valuation which you are looking for would easily attainable and you would go there as soon as possible?
- Vipul Mathur:** Vikas in the last one or two quarters yes the performance has been really muted because the projects which were got work to get finalized they took some time to get finalized. Now if you see we have an order book of almost 225000 tonnes which is more or less an order book which we will take approved for the next 12 months time number one more importantly is the pipeline of the order there are couple of projects at least there are three or four projects which are on the table. In one of the project in any case we have been L1 and now those awards will happen in times to come. Over and above there are three or four projects big projects which are in the pipeline. I think so the future visibility of projects in Saudi Arabia stands very, very strong that is one and also in terms of the market is also extremely buoyant at this point of time to what we are seeing when our order book is sound our visibility for the order book is looking very robust the market fundamentals, the capital market fundamentals are equally sound at this point of time I think so we feel it is an appropriate time to go and hit the market with respect to our IPO listed. From a timeline perspective, as I said we are looking at end of Q3 or early Q4 that is the timeline we have set to ourselves.
- Vikas Singh:** Sir is there any one off in US operation because EBITDA per tonne at \$370 seems to be pretty high?

- Percy Birdy:** In US operations of course we had an overflow from the previous quarter. So we have been able to execute certain volumes which were in the inventory at the end of the previous quarter. Also we have certain arrangements with the customers where we are having certain storage charges also been recovered so there is no one off item as such and the EBITDA that is coming up is from the operations only but as you are aware we do not have any further right now in the order book so going forward of course this again have to wait and watch as to how the further volumes will come up.
- Vikas Singh:** Sir what would be the quarterly fixed cost there at this point of time I know you have cut down your cost significantly there but if you can just give us because in next six months we would not have any order in US so that could be a hit on the consolidated numbers?
- Vipul Mathur:** I think so it should be close to around \$2 million, \$2.5 million.
- Vikas Singh:** Per quarter.
- Vipul Mathur:** Yes.
- Vikas Singh:** Thank you Sir. That is all from my side. Thank you for taking my questions and all the best for future.
- Moderator:** Thank you. We have a next question from the line of Nirav Shah from GeeCee Holdings. Please go ahead.
- Nirav Shah:** Good morning Sir and thanks for the opportunity. Two questions; firstly on our DI pipes business if you can just share how much have we spent till date in that project out of 50 Crores and how this is a cash out go for the remaining year and how much fiscal over to 2023?
- Vipul Mathur:** At this point in time I think so from a capital expenditure point of view we would be close to we would have spent close to 70% of our capex would have already been spend at this point in time. As you know we are in the last pace of execution of this particular project in the last three four months time. So that would have but there would be a carry forward of that expenditure even in the next year from a cash flow perspective. Percy would that be a right statement to make?
- Percy Birdy:** Yes so we have been investing into the capital expenditure for this Greenfield project and we are pretty much on track so but so far the investments the actual cash outflow would be closer to about 600 Crores to 700 Crores.

**Nirav Shah:** So technically we invested something around 200 Crores to 300 Crores in last quarter itself and so the cash balance has increased sequentially by close to 170 Crores and even after the payment of dividend so we saw substantial reduction in working capital partly because our US provision has scaled down so is that the right way to put it?

**Vipul Mathur:** Yes right so in the current quarter there are two three things major that have happened so the free cash flow generation has been very strong in the current quarter as we have put it now in our business update document also the outflow side there was a dividend payout of 130 Crores that has happened in this second quarter and secondly of course the investment that we are doing in the DI project.

**Nirav Shah:** So what will be the total number for FY2022 in terms of capex both the maintenance part plus the DI project on a consol basis India plus US?

**Vipul Mathur:** Maintenance capex is very minimal so we usually spend in a year 30, 40 Crores of maintenance capex consolidated basis but DI Greenfield project is the main project that we are executing and I think as you know including the soft cost it is coming up to close to about 1800 Crores to 2000 Crores so and we are almost close to 600 plus is what we have already spent. So the balance amount will be getting spent over the next few months.

**Nirav Shah:** Sorry to harp on this but if you can just share some indicative number how much will grow in next year for our modeling purpose that would be really helpful?

**Vipul Mathur:** So as I said the total project cost to DI is about 1800 Crores and so we have already spent about 650 Crores so the balance will be getting spent over the next few months up to March 2022 and of course we will be having project term loans coming from the banks so that will get use to finance the remaining capex.

**Nirav Shah:** Second question is sir we are in a midst of a DI capex plus we acquired the steel business and doing some capex over there at the same time there is an amendment that you made in the Articles of Association so can you just elaborate on this strategy because we any which ways are focusing on two big projects for us at the same time we plan to enter into new businesses so if you can just elaborate on this strategy that should be really helpful. Thanks.

**Vipul Mathur:** Our focus continues to be to incubate these new businesses the one which is the DI business, the other one which is the WSL business as and when it comes to us and the WSSL business as and when it comes the Scheme of Amalgamation or arrangement gets consummated so that would be our primary focus. Having said that we still have this is the country currently is into such a state where you are so many opportunities which are coming upon the table at this point in time and it is an unprecedented situation we are seeing so at any point of time we keep on evaluating a lot of opportunities number one and

not that we are jumping on those opportunities but we are very watchful and mindful of any such opportunities which may come and add value which can create value to our shareholders. So in order just to facilitate that process in order to be ready that tomorrow if there is any opportunity which is up on the table we have geared up to utilize it of course subject to all due diligence and regulatory approval, we keep on amending our object clause as to keep our scope as wider as possible cause these are the regulatory matters and they take their own time and as and when we keep on evaluating opportunities we just keep our self being separate for that.

**Nirav Shah:** So just to confirm I mean this will largely be through inorganic routes?

**Vipul Mathur:** Yes, they were mostly be if at all anything will at this point of time we will be looking at we will only get through an inorganic route.

**Nirav Shah:** Got it Sir, great. Thanks a lot Sir and all the best.

**Moderator:** Thank you. We have a next question from the line of Saket Kapoor from Kapoor Company. Please go ahead.

**Saket Kapoor:** Thank you for this opportunity. Sir firstly just a small understanding this Welspun Specialty Solution will remain a separate entity going forward also?

**Vipul Mathur:** It will it is a listed entity it will remain separate yes.

**Saket Kapoor:** What kind of the rationalization or cost capex are we doing in that segment because you have spoken about there has been a niche segment of seamless pipes and tubes and the margins being relatively much higher than the commoditized product so what is our roadmap for this company going forward? What is the scale and size currently it is and what are we aiming two to three years down the line?

**Vipul Mathur:** If you look at this company this company has already invested a lot of capex earlier. It is a very all the major capex which was supposed to be done was already done so there is nothing any significant capex now which is going to come up on the table when the scheme of arrangement gets consummated. First and foremost secondly what our intention that business has that company has three lines of business. One is the steel melting shop, other is the rolling shop and third is the pipe making shop, all seamless. So they are currently focusing a lot on their pipe division and if you see in the pipe division in the last 12 months there has been a significant jump which has happened into their acceptance in to the international and in the domestic market from 600 tonnes of supplies in 2020 they have now almost logging something like close to 2000 tonnes in the last financial year which means the acceptance rate and product quality is very well accepted in to the both domestic and the

international market so there is not going to be any significant capex number one and looking at the traction what is going to what we are seeing in the pipe division at this point of time whatever minimal capex we need to be have to do for some balancing of equipments or something like that will only be required to be done but I do not expect anything significant which is going to happen on that front. On top of it we are also seeing the demand for stainless steel billet which is a raw material for this particular thing so now today they have a beautiful facility in place. There is no capex which is required to operate that facility I think so moving forward that is something which they have already started on a trial basis and I think so the results which have come up are extremely encouraging. So all in all what we are looking is to operate the SS billet making facility the rolling mill and the pipe mill and we do not foresee any significant capex which is coming up. It would only be a matter of little bit of a burn which will be extended.

**Saket Kapoor:** Sir on the revenue front of this entity WSSL as mentioned in your release their revenue of 93 Crores and the negative EBITDA number of 19 Crores for FY2021 so with current year's volume ramp up and the fixed cost adoption and the order booking in hand what is the critical mass size for this company that we are eyeing Sir?

**Vipul Mathur:** See typically on the pipe side of it I think so what they can definitely do is close to 10000 tonnes of pipe on a year-on-year basis that is the potential of that particular company. They can do that number one on the steel rolling side of it there they can potentially do close to 50000 to 60000 tonnes of SS rolling on a year-on-year basis. I think so that is what my believe is that is what in their consideration to ramp up in the very first two or three years of period when they will incubate this levels that is the current thought process which is going on while the scales can be different as the market improve as everything settle down here it can be further scaled but I think so from a phase I perspective this is what we are looking at and once these things happen over a period of next one, two, three years time you will see a tremendous amount of earnings coming out of this particular company as you would have seen any peer company doing the same.

**Saket Kapoor:** Sir if we go for a likewise comparison what it should be for Welspun Specialty. Have we have any listed any likewise companies?

**Vipul Mathur:** You have that I think so there are peers in the industry they are publically listed I think so it is easy for you to compare it is unfair on my part to make a comparison on this call.

**Saket Kapoor:** Last two points Sir how are the cash accruals will be utilized from the Saudi offering? What would be the end use of the same and how much would be the cash realization?

**Vipul Mathur:** Right now the bankers are the merchant bankers are working on their valuation and we will come to know exactly what type of valuation we are going to get in a right way but I think

so they should be significant that is what our expectation be but having said that I think so the large question on the table is about the cash utilization as I said that first and foremost all the cash what we would always it has been our policy to use this cash very judiciously number one, any investment which we are going to do we are going to do with a very, very proper due diligence and as I said there are certain inorganic activities which we are always keep on looking so then the basic purpose of that cash would be either to scale up the business in bring in inorganic activities in to the fold which can further bring predictability and earning potential to the Welspun Corp and also a portion of that would also be addressed to shareholders.

**Saket Kapoor:**

Sir last two points firstly you have put in that the Saudi operations are going to perform much better going forward that depends that because of the business environment in that segment correct me there and for India we are underutilizing our extra capacity because of the delay in the order release from the state government these are correct understanding?

**Vipul Mathur:**

You are right. Just to draw a comparison if you see the performance of Saudi the last year they did close to 150000 tonnes of production. Right now they already have a order book of more than 225000 tonnes and they also have a order visibility they are lowest bidders in one of the major projects and also the pipeline of the project looks robust. There is a turnaround there is a change which has happened. Saudi went down to a little slowdown process in the last 12 months and which is was very evident but I think so they seem to be coming back on track and in India also as I mentioned that India also while our spiral capacity is not completely utilized or to utilized to the extent it should have been but we are now seeing in the last two to three weeks I am seeing a significant amount of traction which is happening we have seen picking of order almost a good amount of 40000 to 50000 tonnes of order book has got finalized in the last two or three weeks itself. My marketing, our business development and sales team are very actively pursuing some more leads and I am sure that this business will also ramp up.

**Saket Kapoor:**

Sir there was one M&A activity that happened not exactly M&A but there was some agreement between one of your competitors and a company that is under IBC, Sathavahana Ispat so as we as management looked at the facility because that what we understood was a long pending one with entire set ready for DI pipe manufacturing I got to say plug in facility so have we looked at to that aspect of Sathavahana Ispat also and that have been work for us as we are moving into the DI pipe segment?

**Vipul Mathur:**

Saket, as I said at any point of time we are very watchful mindful of many activities which keeps on opportunities which keeps on coming up on the table so we keep on evaluating quite a few opportunities. This was also one of the opportunities which had come up on our table. We have evaluated it at great length and detail it is like a normal process which we follow and I believe that asset has now already awarded and finalized or something some

conclusive actions have already been taken but yes having said that when we look at it the answer is yes and it is a part of our proper due diligence process which we do.

**Saket Kapoor:** Sir I will come in the queue and thank you for all the inaugurate answer sir best of luck to the team and Greetings and Happy Diwali to the entire Welspun management.

**Moderator:** Thank you. We have a next question from the line of Bhavin Chheda from ENAM Holdings. Please go ahead.

**Bhavin Chheda:** Good morning to the team and excellent set of numbers considering the challenging environment. Sir few questions if you can break the order book into plant wise I think you give Saudi but what is India and US order book and break it up in to ERW, LSAW also?

**Vipul Mathur:** As I said that right now we have an order book of close to 580000 tonnes in which at India level it is close to 350000 tonnes, at Littlerock level it is lower it is extremely low at 5000 to 6000 tonnes and at Saudi level it is around 225000 tonnes. So this is broadly the breakup of the order book between the geographies. If we see that what is between the product out of so let us say in US the entire 5000 or 6000 tonnes is all about ERW pipes, in Saudi whatever 222000 tonnes we have is all about spiral pipes but the 350000 tonnes what we have in India is about we have almost close to 180000 tonnes of longitudinal pipes and almost close to 150000 tonnes of spiral pipes and almost 18000 tonnes of ERW pipes so that is the breakup in India that is the breakup of 350000 tonnes of order book in India.

**Bhavin Chheda:** Sir you mentioned about winning 60000 tonnes in the quarter from Gulf of Mexico so that you bidded from the India book right it would have been greater from US?

**Vipul Mathur:** No this is the deep offshore pipeline project Bhavin. This has to, I mean, it is a repetition of Gulf of Mexico pipeline which is a deepest offshore pipeline that what it is almost similar to this pipeline so this has to be a mandatory longitudinal pipe and that is how it is relating certain sort of thing.

**Bhavin Chheda:** There is an LSAW so that is the reason of this.

**Vipul Mathur:** This is LSAW pipe and just to let you know that this business also came to Welspun on nomination basis. That reflects that what confidence at Welspun we still enjoy in the Gulf of Mexico offshore market in the United States of America.

**Bhavin Chheda:** The US legacy order book which we booked in last two three quarters is almost over right now this is the normal 5000, 6000 ERW order which we will produce and sell right?

**Vipul Mathur:** That is very correct this is a confirmed order what we have at this point in time. This will get executed during the fourth quarter of the financial year.

**Bhavin Chheda:** You mentioned that US fixed cost is \$2, \$2.5 million per quarter and what is the storage income which we generate per quarter or per month basis of the pipes we have stored at our facility?

**Vipul Mathur:** If my memory helps me correctly it is close to \$1 million a year.

**Bhavin Chheda:** Storage income is \$1 million a year, okay.

**Vipul Mathur:** Yes, I was trying to correct it is \$0.5 million a quarter and \$2 million a year.

**Bhavin Chheda:** Now since the legacy high margin order so second half would be largely breakeven in US unless we get very big order there would be no cash burn in US operations right?

**Vipul Mathur:** Yes, there would not be a significant cash burn. Let me just to make it clear I do not think so it is going to drag our numbers down the earnings at a consolidated level down rather it will contribute to some extent because the first and the second quarter we have a significant earnings around that. I think so in the third and fourth quarter the cash burn rate we have seen to it that it is very, very minimal and then on top of it the rental incomes and everything is coming out so we are very focussed in terms of cost conservation out there at USA. At the end of the year I do not think so that it is going to drag us down but more importantly what is that the business sentiment seems to be improving. I think so that is something which was missing the confidence was missing over the first and the second quarter I think so now that feeling has started coming in that there is a little uptick of the business which is looking on the table. So I think so that is what is exciting and that is what our intent is super fuel more further swell our order book so may how can we improve the order book.

**Bhavin Chheda:** India 350K would be executed over next two, three quarters right?

**Vipul Mathur:** It would be.

**Bhavin Chheda:** Regarding the DI pipe project since that is a big one and the momentum was very strong if I understand correctly first you will start the mini blast furnace, stabilize it and then you will start the DI pipeline so you have indicated March 2022 so we should take that March 2022 commissioning is first hot metal firing and three four months down the line will start rolling DI pipe?



- Vipul Mathur:** It could be in parallel because the DI project though it is an independent project it is also at the same speed. I think the commissioning of both the projects which is the hot metal as well as DI should be around the same line.
- Bhavin Chheda:** Thank you Sir and best of luck.
- Moderator:** Thank you. We have a next question from the line of Rishikesh Ojha from Robo Capital. Please go ahead.
- Rishikesh Ojha:** Good morning. Sir my first question is regarding our EBITDA per tonne so can you please guide on what EBITDA per tonne we can achieve in coming like going ahead?
- Vipul Mathur:** EBITDA per tonne Mr. Ojha as you know it is a factor of multiple conditions. Number one the steel pricing, the geography and all that stuff so generally we have always while we have never committed ourselves but if you look at it even in Q2 our EBITDA per tonne has been close to \$150 even if you look at it from an H1 perspective our blended EBITDA has been close to \$150. So I think so we have been able to maintain consistency of about \$150. I would expect that it should go up but it is a factor of various, various conditions around it but such levels to maintain possible can it be improve? Yet to be seen.
- Rishikesh Ojha:** My second question is Sir our sales in 1000 metric tonnes it is around 142 which is like a bit lower than what you use to do so when can we again do around 180, 200 kind of levels?
- Vipul Mathur:** I am sorry I did not get your question please.
- Rishikesh Ojha:** Our 142 KMT sales like Saudi I am saying which is quite low comparing why was we were doing a few quarters ago like when can we again reach that 180, 200 kind of levels?
- Vipul Mathur:** See one of the key factors here is that the US performance US has not been performing well. The business in US has been absolutely low so that is clearly getting reflected in our sales volume. I am sure that the more sooner the business in US ramps up and so there are two factors to that the business in US has to ramp up which you have extremely hopeful that it is a matter of time we are seeing visibility coming around that so that would happen number two the domestic buying, the water sector has to come back and that is also what we are seeing that has started coming back so these two factors on both of which we are seeing quite a positive outcome at this point in time I think so that should improve our sales volume.
- Rishikesh Ojha:** Sir can you just like indicate whether we can do this can happen as soon as next quarter or whether it will take next two quarters or something like that?

- Vipul Mathur:** It is quite a bit of an assumption and prediction. I do not think so that we should get into that I think so our focus should remain that whatever opportunities are there, there should be encashed upon that and that is what our focus would be.
- Rishikesh Ojha:** No problem Sir. Thank you very much.
- Moderator:** Thank you. We have a next question from the line of Saket Kapoor from Kapoor Company. Please go ahead.
- Saket Kapoor:** Sir if you take the P&L item we found that for this quarter the employee cost has gone down by around 15 Crores, 16 Crores and if we compare last year September it is down by 17 Crores so is it because of this utilization levels part only playing out or if you could explain that?
- Vipul Mathur:** As I said that our operations in US was significantly scaled down to conserve the cost and that is where a quite a bit of a rationalization and optimization has happened both in terms of manpower and that is getting clearly reflected into cost side of it.
- Saket Kapoor:** Sir when we look at your the entire capacity of LSAW, HSAW domestically and international if we take the current order booking can you give some color on how the utilization levels for of LSAW, HSAW and ERW for Indian operations are looking as per the confirmed orders which we have. What should be the utilizations for H2 since for the US you have already said that it is going to breakeven at the best?
- Vipul Mathur:** See US capacity utilization is almost negligible because rolling 5000 to 6000 tonnes in a quarter is not something adds up to any utilization level whatsoever. It is a matter of time as I said if the business in US is bound to bounce back and we are seeing all the tractions coming around that. In terms of India if you look at it I think so our capacity utilization level for our longitudinal pipes will be close to 75%, 80%. With respect to our with our ERW plant is also going to be around that but it is only the challenge is currently hovering around the spiral plant and we are hoping and expecting that the water business bounce back for which as I have said again that we are seeing some resurgence happening around so that capacity mutilation should also go up now.
- Saket Kapoor:** What is the expected capacity utilization for the next half year for LSAW facility? I think this was the Madhya Pradesh Government and the Government of Uttar Pradesh has come up with lot of projects where I thought this Jal Se Nal and the schemes so our order book contain any of these orders which have been released from the state government of Madhya Pradesh and Uttar Pradesh?

**Vipul Mathur:** Nal Se Jal scheme is not for the large diameter pipes. That is primarily driven by the DI pipes. When the DI pipes comes into play sometime in March that is where we will be capitalizing upon it. But having said that in terms of project both Gujarat government the Madhya Pradesh government and the governments in the south I think so they have a huge projects which they have already awarded. I think so the projects what start because they have to diverge the funds for fighting on the pandemic. Now with that situation coming back in control we have seen that they have started flowing back the money is into this water irrigation project and water distribution project. So we are clearly seeing that and I am sure that will gain momentum over the next few weeks, months and that is where we would see our capacity utilization for spiral mill across these three locations which is Gujarat, Madhya Pradesh, as well as in south should go up.

**Saket Kapoor:** Sir it is more about the river linking project part which I was referring to, how are things on ground with respect to the river linking part? I think so there this huge diameter pipes would be in demand so your understanding on how the concept for the river linking is going ahead and what kind of incremental demand that asset is going to play out going forward?

**Vipul Mathur:** River interlinking project is a huge project. I think so it was very ambitious at this time and then it was calibrated around because the states did not see any utilities interlinking river project what has now happened is that the central government has picked in and they are seeing the utility and the benefits accruing out of that so like Nal Se Jal mission where the central government is the primary funder even for the interlinking project now the central government has announced that there would be the primary funder to that particular project a large portion of that funding will come from I think if my guess is right it is almost 70% of funding will be done by the central government. So now these projects will gain traction and the good part is that the all the projects what has currently been conceived or envisaged for interlinking are all in Madhya Pradesh and that is where we have a geographical presence and the moment these projects will come up on the table we would be one of the largest beneficiaries and we would be servicing in those interlinking projects.

**Saket Kapoor:** Lastly Sir on the US part what are the green shoots and the Brownfield if you could explain going forward that may translate into order booking and then the utilization levels going up going forward? You did speak about some small orders as the first time so if you could dwell more on this and how is this infrastructure pending will going to in any way going to trigger, be the trigger for the pipes laying out of pipes also as earlier it was being contemplated that the entire pipe laying has been ageing and there would be a new laying out of pipes that would relate to a huge demand so are those stories still there valid or they were only conceptual. So if you could give some color on how the US market is going to shape up and what are the factors that would contribute?

**Vipul Mathur:**

First and foremost, I think so there is a very clear recognition coming up on the table that the growth of the renewables is at the pace at what it is happening it is not good enough to meet the ever growing needs of the industry. I think so that has very clearly come out and we have seen that so there is a fundamental if you look at what are the few fundamental things has happened in US a) the gas prices have gone up to a historic high of \$6 per MMBTU typically they used to be of high around \$2.8 to \$3. It has doubled. We have seen the sort of the power collapse which is happening in couple of states because of non-availability of the fuel or nonavailability of the energy I think so these two or three factors put together is clearly asking the administration back on the table. The administration is thinking back on the table that whatever drastic tricks they have done in terms of infrastructure spending on developing the oil and gas pipeline it cannot be that divested. I think so that realization has set in now very, very clearly number one and now they have started calibrating their policies around that. They have completely comes in terms and recognize that aspect. The moment they have done that they have started easing out investment in terms of developing this oil pipelines and the gas pipelines. So I think so this fundamental shift which has happened is now forcing our company the E&P companies to come back on the drawing board and start looking at the projects. So just before this collapse happened there were couple of projects that which were like which were in very active discussions and about to be awarded they were all stalled and stopped. I think so we are seeing that those projects, the discussion around those projects have already started so that is a very welcoming sign. The E&P companies have started coming up and discussing about the evacuation of the gas in the Permian base into the coast and all that stuff which was not happening in the last two quarters now we have started seeing the discussions started happening, one. Two we have seen an increase in the rig counts. We have stated seeing the number of wells being raised are much more we have started seeing that because of that the interconnectivity of the wells and transportation of those oil and gas for which the small diameter pipelines are being used the demand is going up so I think so on the ground that traction have started slowly it has started it has to build up on and I think so in Q3 and Q4 this momentum will build upon and the next year I think so the US will be back with full bang. That is what our expectation is all about. Coming back to your question on the infrastructure spending see infrastructure spending in US the bill in US eventually got approved though a little scaled out but it is finally there but that is more in terms of highways, more in terms of airports, more in terms of their telecommunication network and all that stuff at this point in time. On the water side of it that there is not much which is being done but I am sure the tranche 2 probably should take care of that. So right now in the tranche one they are talking mostly of the key infrastructure projects.

**Saket Kapoor:**

Lastly Sir line item number four there is a loss of 5.33 Crores from the joint venture so which segment is it attributable to and the reasons for these losses?

- Percy Birdy:** That would be our Saudi joint venture so for the quarter they are having a loss as we said because of the lower sales volumes.
- Saket Kapoor:** This is going to reverse because of the strong order booking and the execution that will happen for this second half?
- Percy Birdy:** That is right. We are very strong hopeful on that because they have more than 200000 tonnes of order book so that is optimistic.
- Saket Kapoor:** Thank you for the answer Sir and all the best.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comment. Over to you Sir!
- Vipul Mathur:** Thank you. Gentlemen once again thank you very much for joining us today morning, taking time out of your busy schedule to attend our Q2 FY2022 call. I hope we have answered most of your questions but still if you have any further query you can directly reach out to us and we would be more than pleased to answer them and once again thank you very much and my sincere Greeting for wishing you all a very Happy Diwali and stay safe, take care. Thank you. Bye!
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.