



**“Welspun Corp 3Q Post Results Conference Call”
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SPEAKERS: **Mr. BK Mishra, Managing Director**
 Mr. BR Jaju, Director and CFO
 Mr. Akhil Jindal, Director, Group Finance and
 Strategy



Moderator:

A very good afternoon, ladies and gentlemen. I am Sourodip Sarkar, the moderator of this call. Thank you for standing by and welcome to Welspun Corporation Limited Third Quarter Financial Year 2013 Earnings Conference Call. For the duration of presentation, all participants' line will be in listen-only mode. We will have a Q&A session after the presentation. I would like to now hand over the proceedings to Mr. Amit Mishra from Macquarie Capital Securities. Over to you, sir.

Amit Mishra:

Hello, everyone. It is our pleasure to host Welspun Corp post results conference call and thank you very much all of you for participating on it. We have with us Mr. BK Mishra, Managing Director, Welspun Corp; Mr. BR Jaju, Director and CFO, Welspun Corp; and Mr. Akhil Jindal, Director, Group Finance and Strategy who will represent the company. Mr. Mishra, I would now like to hand over to you for first the background to the results and then we will open for Q&A. Over to you, sir.

BK Mishra:

Hi. Good afternoon to all of you and good morning to all my friends who probably have joined from US. The result has been there since yesterday with all of you. So the way I would like to proceed, I will try to probably still repeat few of the key numbers and then we would make it probably more a Q&A kind of a session. The sales numbers for Q3FY13 is at 2851 crores and reported EBITDA of 184 crores. EBITDA adjusted after adjusting the 68 crores of foreign exchange provision which is at 251 crores. And the cash PAT adjusted is at 86 crores.

Coming to the sales numbers, the consolidated sales number is up by 38% quarter-on-quarter and is at Rs. 2851 crores as I just mentioned. It is largely due to higher sales volume of pipes. As a matter of fact, the total sales of pipes this quarter stood at 295,000 tons which is the highest ever that we have achieved. And this is also against the production of 258,000 tons so which means that we -- almost are about 40,000 tons higher -- the stock which was lying at the last quarter has also been realised in this quarter.



A little analysis of the operational EBITDA; the pipe EBITDA is at Rs. 1679 million, that is 168 crores. And you would appreciate that the entire world is probably not going through the best of their times. But even then we have managed to kind of stay almost like at a right level in our pipe's EBITDA. And it is also driven by the volume that we have done, like the 295,000 tons which is the highest sales volume. And it is also -- like it has been contributed quite positive by our Saudi facility which has incidentally in the last six months it has bagged its, in fact, the second order from Saudi Aramco. And it's not only that like -- earlier it was not even in the approved list of Saudi Aramco. Not only it has come back to the vendor list of Saudi Aramco, it has also already bagged orders to the tune of almost 140,000 tons. And that includes 80,000 tons of orders which we just announced a few weeks back.

The plate is, of course, like still has been a dragger. And in fact, it has been more than a dragger so much so that like we have not been able to get any contribution out of the plate business. And this is probably not only for Welspun. It has been, I think, the same probably for any single converter, or for that matter even for the integrated steel supplier around the world. As a matter of fact, as far as the plate business is concerned for the last almost four months we have not been in a position to even buy slabs because the conversion cost, as I just mentioned, like it's actually leading to a negative contribution. And like what we are trying to do right now is more or less utilize the existing slabs that we had about 160,000 odd. We want to probably sort of liquidate those slabs more probably for our pipe business be it for India or be it for Saudi. And sort of I think we will operate only when the market improves. So that is the kind of the situation that we are in right now.

As far as the infra is concerned I think we have maintained in the last few quarters that we have taken a call that we would not be investing or bidding for any fresh projects in infra. And we have stayed with that philosophy. And the infra has actually has contributed positively Rs. 367 million. And it is the story more or less the same as is the plate business for our Maxsteel business. Again, the prices of DRI is far lower than even the scrap price as on today.



So the capacity of the plant which stands at about a million tons a year, which hardly produces probably sometimes 60,000 tons, sometimes 100,000 tons and I know that we have been holding some inventory of 40,000 tons. And I think in the last few years we have been able to sell just about 25,000-30,000 tons. So the Maxsteel is also almost a similar same story. It's also a dragger. So basically the pipe business no doubt has been sort of like giving us a positive side. And the rest of the business, of course, like the plate business and followed by Maxsteel has been a dragger.

As far as the order book position of the company is concerned I must say that despite the fact that the situation, I think, whatever has been continuing in the last six to eight months has not changed much. And despite the fact that our peers have not been able to book much order, we have maintained to keep our order book position as on today even beyond one million ton. So, theoretically if you would say that like it's almost like a one year production as far as our order booking goals. No doubt, the margins are under pressure, but having said that the pipe business especially in 2014, 15 looks much better primarily because of US market is likely to improve as all of us know that there are lot of manufacturing activities now being undertaken in US because of the lower gas price. And there has been lot of announcement of fertilizer's plants coming up in US and steel plants coming up in US. Now, all those things will add to quite a bit of, I think, room for pipeline business in the coming year. And considering that US is now becoming almost self reliant on energy that is oil and gas Canada has started looking for sort of alternate revenues. And as a matter of fact I just came back from Canada and I think I met almost all six, seven major players in Canada and everybody is planning, sort of, either a oil line or a gas line primarily for exporting oil and gas to South Asian countries. And that would, in fact, we have made an estimation that, I think, in the next three years also Canada itself would be generating in excess of maybe three, three and half million tons of large diameter pipe business in the next three to four years.

Coming to our US plant and our CapEx, there are currently two capital projects underway. One is the ERW mill which



is the small diameter mill for the US market. And I am very happy to announce that normally people take couple of times for a couple of audit before we get API, but right in the first audit itself our US ERW mill which is currently under trial production has already been approved by API. And we are now fully authorized to put our API that is American Petroleum Institute certification on our product. And the other projects that we are currently underway is a coating plant in Anjar which is absolutely on track. And it is an external coating plant as well as internal coating plant which is more or less matching our pipe production. And about 28th of February I think we will be taking a trial on the internal coating and the external coating sometime in May-June. So, that is also on track.

Having said that, I think, this is all that I can probably summarize as far as the business scenario is concerned and from hereon I think I will be too happy to take questions for any detailed numbers. Thank you.

Moderator:

Thank you so much panellists. With this we are going to start with the question and answer session. So, I would request all the attendees and the participants if you wish to ask any question please press “0” and “1” on your telephone keypad and wait for your name to be announced. I repeat, participants if you wish to ask any question please press “0” and “1” on your telephone keypad and wait for your name to be announced. And here comes the first question from Mr. Puneet Gulati from HSBC. The line has been unmuted. You can go ahead and ask your question please.

Puneet Gulati:

Yeah. Hi. Thanks for taking my question. First of all I just needed a few numbers. If you can give a break up of the order book within L-Saw, H-Saw ERW?

BK Mishra:

Yes, sure. As of now it is 1.07 million tons. And L-Saw is 290,000 tons. H-Saw 750,000 tons and ERW is 30,000 tons. You know, I am just not going to the 4th and 5th digit.

Puneet Gulati:

Yeah, that’s fine. Okay. And similarly break up for sales and production?



BK Mishra: Break up of sales and?

Puneet Gulati: Sales and production between L-Saw, H-Saw?

BK Mishra: Yeah. You know, the pipe sales was 295,000 tons. And production was 257,000 – 258,000 tons actually.

Puneet Gulati: 258, yeah. And the break up – how much in US, Middle East H-Saw, L-Saw?

BK Mishra: Yeah, sure. Just one second. India is 143,000 tons.

Puneet Gulati: For H-Saw?

BK Mishra: You know, I have already given you the break up of H-Saw, L-Saw. Right? So, that I gave you for the order bookings. Okay, the sale of L-Saw is 62,000 tons.

Puneet Gulati: Okay.

BK Mishra: H-Saw is 71.

Puneet Gulati: 71? Okay.

BK Mishra: Yeah. And ERW is 10,000 tons.

Puneet Gulati: 10,000. Okay. And?

BK Mishra: That makes a 143 for India. And US which is again primarily H-Saw that is 83. And Saudi is 69, so it is again H-Saw.

Puneet Gulati: And similarly for production if you can tell?

BK Mishra: Production number, you know, India is 136 comprising of 68 of L-Saw. H-Saw 60.

Puneet Gulati: H-Saw 60?

BK Mishra: Yeah, 60. And ERW seven and half thousand tons.

Puneet Gulati: Okay.



- BK Mishra:** US production H-Saw again 71,000 tons. Saudi is 50,000 tons.
- Puneet Gulati:** 50,000 tons. Okay. And just wanted to understand the margins per ton for the pipes business has also fallen on Q-on-Q basis. Is there any specific low margin order booked in this or is it that line that we are going to see going forward as well?
- BK Mishra:** I couldn't get. Your first name is Puneet, right?
- Puneet Gulati:** Yeah. Puneet.
- BK Mishra:** Puneet, in any case like in case of this large diameter pipes business normally if you book a million ton of business not entire one million tons are high margin orders.
- Puneet Gulati:** Correct.
- BK Mishra:** You know, it's always probably 50% of your orders contributes to probably 75% of your margins. So, that is the normal case and, of course, market has not been good right now. There is no doubt that the EBITDA margin has fallen. There is no doubt about that, but if you see at our peers there is hardly any order booking. And we have still managed to book a million ton of business. So, obviously some of the orders have been taken in low margins, but we have had pending orders which is very good margin. We have order from GASCO which is in good margin. So, I would not like to specifically tell you what exactly individual orders are and what kind of margins. But, I think, more or less what I am saying that whatever last two quarters and this quarter numbers that you are seeing as far as pipe business is concerned we are more or less around the same level of, sort of, EBITDA.
- Puneet Gulati:** Okay. So, basically, for all the orders you have booked so far you should be making between 5700 to between 8300 kind of EBITDA margins on per ton basis?
- BK Mishra:** I think if you are talking for the range, I think, we would be more or less probably within that range, yeah.



- Puneet Gulati:** Okay. And secondly I didn't quite understand your comment on the plates business. Are you saying that you are temporarily shutting down the plate business? You would stop production there?
- BK Mishra:** No, basically what we are trying to do right now, see, we are running the plant only when we have an order which is giving us a positive contribution. Otherwise, we are not booking orders. See, what has happened I will give you a small example. Let's say, the slab price as on today for X-70 slab in the international market would be probably at 600 dollars.
- Puneet Gulati:** 600 dollars. Okay.
- BK Mishra:** This is a hypothetical example. You know, it could be 588, it could be 615. And the plates are available probably at 700 dollars.
- Puneet Gulati:** Okay.
- BK Mishra:** So, by a prudence, by your normal business prudence if you really don't want to produce a product which is going to cost you 800 dollars and the same time the same product is probably available in the market at 700 dollars. So, you would be better off buying rather than producing it yourself.
- Puneet Gulati:** All right.
- BK Mishra:** So, this is the market which is right now. You know, we have not taken any decision to shut down or anything of that sort, but I am saying that we are not going to produce as long as we don't have viable orders.
- Puneet Gulati:** Okay. So, because your trend for plates production has been going down over last five quarters, so would that pretty much continue or will it be stabilized at current levels?
- BK Mishra:** That is, you know, it's almost like – I mean, we are actually following I think more or less like international trend and as you would be knowing, in fact, like I am not even saying



that even shutting down my plant but we have basement decisions like our friends in Korea they have actually announced that they have shut down their plate mills.

Puneet Gulati:

Okay.

BK Mishra:

So, that's the kind of the situation. Nobody is in a position to probably, sort of, work in positive contribution margins. So, it's impossible to continue with that and let's say in the last maybe three quarters we would have already lost probably 64-65 crores of EBITDA. So, it's probably it does not make sense frankly speaking to just, you know, we keep on losing money and continue to produce when you have a choice to probably buy the finish products from outside market.

Puneet Gulati:

Okay. And your ERW should commission by next quarter, right?

BK Mishra:

Absolutely. I mean, as a matter of fact, I think, you can say that. Technically, it's commissioned, but, see because we have to have the slitting line which is currently under commissioning. You know, which means that we can have constant production, but technically we have already you can say that we have produced pipes and otherwise you don't get the API monogram. We have already got the API monograms.

Puneet Gulati:

Have you already booked orders for it?

BK Mishra:

Yeah, we have actually. As a matter of fact, we have booked 5,000-6,000 tons of introductory orders in the market.

Puneet Gulati:

Okay. Okay, that's it. Thank you so much.

BK Mishra:

Thank you Puneet.

Moderator:

Thank you so much Mr. Gulati. The next question is from Mr. Bhavin Deliwala from ICICI Bank. The line has been unmuted. You can go ahead and ask your questions please.

Bhavin Deliwala:

Good afternoon sir. This is Bhavin here.



BK Mishra: Hi Bhavin.

Bhavin Deliwala: Hello. A major part of the loss which we have had is basically on account of foreign exchange which is I think close to 150 plus crore. Now, what's the total exposure which we have to foreign currency including the borrowing's imports as well as exports basically when the net exposure which we are exposed to as of now as of the balance sheet date of 31st December 2012?

BK Mishra: See, as far as operational front we are not sort of like as a matter of principle we don't keep anything open. Except for I think about 60 million Euros that we have open, you know, like it's open. Otherwise, all long term borrowings are always kept open.

Bhavin Deliwala: Sir, what is the total to?

BK Mishra: Just give us a second please.

Bhavin Deliwala: Sure sir. Sure.

BR Jaju: See, once we have an ECB of \$ 100 million.

Bhavin Deliwala: 100?

BR Jaju: Yes.

Bhavin Deliwala: Okay.

BR Jaju: One FCCB of \$ 104 million dollars. ECB of \$100 million.

Bhavin Deliwala: Okay.

BR Jaju: So, these are the what do you call loans from India which are in foreign currency and as far as the US and Saudi are concerned they are, of course, they are naturally hedged in broader term.

BK Mishra: They are naturally hedged.



- Bhavin Deliwala:** Okay. Sir, another one is you have given a net debt of close to around 3500 crore what would be the gross debt and the cash which we have on books?
- BR Jaju:** We have gross debts as of 31st December about Rs. 6,037 crores. And we have cash and liquid investments of Rs. 2,464 crores which we have about net debt position is Rs. 3,572 crores as of 31st December.
- Bhavin Deliwala:** Okay. Now, sir going through the results we see that other expenses form a major part of our expenses they are substantially high. What is the maximum contributor those these other expenses and if the ForEx loss are accounted under these other expenses?
- BR Jaju:** Yes, you are right. You must be seeing this quarter three that the other expenses are reported at Rs. 561 crores. It largely is contributed by stores and spares and coating and job charges, power and fuel and water charges, freight and material handlings and ForEx. This time, this quarter we had a ForEx loss of about 68 crores versus immediate previous Q2 there was a ForEx gain of 74 crores. And these are the large components which account for more than 75, 80% of this portfolio of expenses.
- Bhavin Deliwala:** Okay. Okay, that's fair enough sir. And in case of other income?
- BR Jaju:** Other income, you know, largely...
- Bhavin Deliwala:** Because, even they are substantially big enough to – I mean contribute to the total profit. I mean, especially given the fact that we have a loss in this quarter and given that other incomes are substantially big enough. How do we shape up?
- BR Jaju:** Fair enough. Now, as per this new Schedule VI requirement as you know that now interest earning on this various liquid funds which we have deployed interest on that is now clubbed as a other income and that's a large chunk. Besides that we have in this quarter especially we have done buyback of that 44.1 million USD. That has given us because of discounting about Rs. 14.9 crores as an



income which is booked as other income. That is by way of interest on this current investments, dividend and profit on sale of this mutual fund forming part of my liquid funds and besides insurance income at our US operation. It is about 1.2 million USD or Rs. 6.9 crores of it.

Bhavin Deliwala:

Okay. That's substantial. Sure, sure, sure. Sir now the nine months ForEx loss is close to 158 crores. If we exclude that nine months the PBT would still be close to around 50-55 crores odd which is still quite less compared to last year's figure. Now, how does the company plan to come out of this falling profit trend?

BK Mishra:

See, as I just mentioned that, I think, in the YTD more or less in the plate business itself we have loss about 64 crores. Likewise, we would have lost about 55 crores in the Maxsteel business. So, we are kind of taking a conscious call that okay we must reduce our cost and also at the same time we would probably not, sort of, do a much more focus area on the non-core activities. And at least as long as we don't have positive contributions we would not be, sort of, booking fresh orders or something on that front. So, that is how we would like to improve our profitability.

Bhavin Deliwala:

Sir, can we say that with Maxsteel we are not doing much of an activity? Basically, it would have a drag of around 6 crore per month on the EBITDA level, so it comes to around 18 to 20 crores every quarter because the total figure you said is close to 55 crores. So, can I say it's a drag of around 20 crores every quarter?

BK Mishra:

I think, maybe, 15 more or less.

Bhavin Deliwala:

Yeah, okay. Okay. Sir, just one last question. As per the press release there is this expected CapEx of close to 65 million dollars in US. Now, is it a new capital expenditure or is it a part of earlier US 200 million which we had planned?

BK Mishra:

Yeah, it's actually the capital is – See, as I told you ERW which is totally about 80 million dollars. And part of it has been capitalized and part is yet to be capitalized and which will get capitalized in this quarter. So, the major expenses



is on that only. So, there is no fresh CapEx utilization from the company. Barring some internal CapEx, maybe, we would be spending about 5.5-6 million dollars and refurbishing some of the equipments in our pipe plant. Other than that the new coating plant which is under erection that will get capitalized portion probably by this quarter. And a portion of it also might spill up over the next quarter. But, otherwise, there is no fresh initiation of CapEx from the company side.

Bhavin Deliwala:

Okay. Sir, since you mentioned the maintenance CapEx, I think, last Concall we had expected annual maintenance CapEx of around 150, 160 crores INR, so we still expect the same level of maintenance CapEx annually?

BK Mishra:

I must tell you that, see, under the current market situations I think, we have been very frugal and we are even though, you know, even if we need to spend the money I think we are thinking twice or thrice before we are actually spending the money. There is no doubt about that we will keep our machines maintained, but obviously, we will see looking at the business we would be spending the money.

Bhavin Deliwala:

So sir, I mean, can we have some guidance on the maintenance CapEx annually approximate?

BK Mishra:

I would keep it somewhere around 20 million dollars. Yes.

Bhavin Deliwala:

Okay.

BK Mishra:

And that includes all international business as well like Saudi, US, India all put together.

Bhavin Deliwala:

On a consolidated basis including all the businesses?

BK Mishra:

No, I am talking of only pipe and plates, because in any case Maxsteel there is no CapEx plan as of now. But, Plate Mill, of course, would not be requiring any CapEx for the time being. So, it's primarily for the pipe business basically, globally.

Bhavin Deliwala:

Okay. Sir sorry but I had one more question. I mean, coming to this finance cost we have close to around Rs.



2,500 crore cash on books. I think last Concall also you have said that you have certain compulsions because of which we need to keep this cash. But, given that in the last two quarters we have raised the money through ECBs and through NCDs. Do you expect the average cost of funding to come down one and do we expect the total interest cost to come down?

BK Mishra:

I would have loved to take that question, but I think Akhil is also there on the call. Akhil?

Akhil Jindal:

Yeah, I am there. See, basically, you are right. We have raised ECB in this year and also in the last quarter. So, with this our overalls, you know, refinancing plan is over. I think what we mentioned in the last quarter call also that we would like to replace all our repayments that are falling due in the next 18 months or so by the fresh borrowings so that the cash of the company remains intact. And to that extent we have even utilized around 45 million dollars, I mean, 44.1 million to be precise in the payment of our FCCB ahead of its time and on which the company need around 14.8 crore as a net profit. So, what I am trying to tell you is that this, you know, the fund borrowing is fairly over. We have been able to push all the maturities beyond five years now, so that tomorrow there is no pressure on the business or on the cash flows or any eventuality, any repayment coming, you know, I think pressure on us. You know, this has been a well part of strategy because at the end of the day this cash is quite important for us. And in long run this will enable us to try a lot of things. In any event, all the financing that we have done have the pre-payment clause, so, you know, which could be paid without any pre-payment penalty. We can as well do that. So, that is what we have done. I think, I have answered your question.

Bhavin Deliwala:

Yeah, sir basically on the liquidity side, yes, it's there. But, given that for the nine months we have paid close to 375 crores as finance cost and say probably putting it as an annual level of around 500 crores. Going ahead also we expect the interest cost to be in that level or that range only, because in last financial year the interest cost were close to around 400 crores, so going ahead the annual interest cost



at what level do we expect it to be? Finance cost to be precise, sir.

Akhil Jindal:

Yeah. So, I think, you know, in good old days we could net off your interest earnings or dividend earnings of treasury against a loan interest, you know, and you would then only share net figures which will be an indicator of the business. But today we are required to report it separately, you know, there is a other income component and there is a interest cost component. Further income, if you see is mostly comprising of the interest or dividend earned on the treasury income which are a straight knock-off, you know, from a financing cost. So while the financing cost looks a little higher to you at this juncture, but if you knock it off from the treasury income that we have earned on the similar amount it virtually works out to the same.

BK Mishra:

Yeah, Akhil, the treasury income was about 148 crores.

BR Jaju:

Correct.

Akhil Jindal:

So, if you knock it off, you know, 370-148 that actually is your real finance cost considering that we are sitting on cash of Rs. 2464 crores.

BR Jaju:

Correct.

Bhavin Deliwala:

And sir, what would be that for the last year 2011, can we have that figure?

Akhil Jindal:

I am not sure, we will have that figure handy.

Akhil Jindal:

It would be close around 300 crores if I am not mistaken. The net would be close to around 300 crores. Also, one thing I would like mention to you is that, you know, given where the market is, you know, we have managed to keep our cost of borrowing almost at the same level as our last year's borrowing, but the way it is structured, you know, the every financing is involving the front fees and running coupon. Now, the way the trends are all the banks and everyone wants to kind of book upfront fees as soon as possible. So the upfront fees usually amount is a little larger, but the running coupon is, you know, than lower and



all in cost for us is the same. So, we don't mind paying a little up front on NPV basis when we can reduce our borrowing cost in a long run. So, you know, there is up front limit also in this yeah.

Bhavin Deliwala:

Correct. Actually...Yeah, in fact the reason I am asking is still the profits are positive, however, investors would still be OK with it, but the fact that the profits are in the negative territory of around 80 - 90 crores and at the time when we are paying close to 138 - 140 crores as an interest and we have 25 crores of cash on hand for that is making the investors think a little bit that what is the exact reason that inspite of entering into a negative profit territory the company is still holding on to close to 2,500 crores and inspite of this the profit are coming into red territory. So, that's creating little bit questions in the mind of some of our clients and investors.

Akhil Jindal:

No, I agree with you and Mr. Mishra has answered some of the reasons for this fall in profit in this particular quarter where the core business has, you know, remained intact and it has continued to do well, but some of the ancillary business like plates and Maxsteel has really been a drag on the profitability. We, of course, now we are trying to reduce as much as possible by going extremely slow in those businesses.

Bhavin Deliwala:

Sure. Thanks a lot for answering the question, thanks for your time and wish you all the best for the next quarter, sir, thank you.

Akhil Jindal:

Many thanks.

Moderator:

Thank you and the next question is from Mr. Ram Modi from Dolat Capital. Mr. Modi, you can go ahead and ask your question, your line is unmuted.

Ram Modi:

Good evening gentlemen. Just a question on Maxsteel business, with the APM gas availability, you know, on not improving in very near term or what is the game plan here in terms of we will continue to keep on running this business because I believe we could be importing...



- BK Mishra:** Ram, I am sorry, I have to interrupt, I am barely able to hear what you asked actually.
- Ram Modi:** I will just repeat my question. Now, can you hear me sir?
- BK Mishra:** Yeah, I can hear you, but if you can put yourself little away from the phone because it's almost resounding.
- Ram Modi:** Yeah, now, is it fine?
- BK Mishra:** Yeah, tell me.
- Ram Modi:** Just wanted to know, you know, we been reporting a negative EBITDA on our Maxsteel business for long now and with the gas situation in the country I don't think that the APM gas availability will improve. So, what is the long term plan for this business, given this, you know, and we do not have iron ore mines so what's the long term plan in this business now?
- BK Mishra:** See, to be honest with you, you know, if you ask me a question I really do not have an answer right away but no doubt there are lot of thinking going on and to start with, you know, like we have decided that we would go slow on that rather than losing EBITDA, you know, month after month, quarter after quarter. And you know, we all know that steel is a cyclical business and this is probably around the world, whatever is happening I think India is also following. But we all know that it's not that DRI is not going to be sold in future, so I think, we have to scamper through all this, you know, like I think bad times and that's what we can probably do at this point of time. But if we have clear visibility by next quarter I will be too happy to share it with you.
- Ram Modi:** As I got, we have 15 crore quarterly fix cost at this plant, am I right?
- BK Mishra:** Right.
- Ram Modi:** Okay, and what is with our fixed cost that are plate business right now?



BK Mishra: In the plate business?

Ram Modi: Yeah.

Management: Plate business, the fix cost I think will be about Rs. 120-130 crores a year.

Ram Modi: So, infact it's higher than Maxsteel business? You are including the depreciation cost into this fix cost or... I just wanted to know the operating cost here?

BK Mishra: No depreciation is separate here.

Ram Modi: Okay, so...

BK Mishra: Yeah, about Rs. 130 crores is depreciation.

Ram Modi: About Rs. 130 crore is depreciation, okay. Just wanted to know your outlook on the order book in both our US and Saudi Arabia businesses. Where are we right now and are we seeing signs of improvement at least in the Middle East in coming year?

BK Mishra: See, you know, like, I think, you know, like I am very positive on Saudi and right now the outstanding order is about 200,000 ton as against the capacity of about 350,000 ton, so you could say that, we are almost 7.5 months, 8 months order booking is still there. And Little Rock, we have a outstanding order book of 235,000 ton and that would see us through almost till October of this year.

Ram Modi: Okay, just wanted to know how much of our order book is currently into the water business out of this total 1 million, almost 1.1 million ton of pipe business.

BK Mishra: See, you know, sorry, I have to use the word, "unfortunately because we used to... we probably used to have like 5% water and 95% oil and gas, but looking the current market conditions there is no doubt that we have increased business which is slightly low margin and also because of the fact that we have now a unit in Mandya



which is primarily a water pipe business and therefore probably the percentage would have gone up to about 20%.

Ram Modi: So, 20% is the order book from water business. So, primarily large part of an Indian order book is now into water business, almost 35 to 40%.

BK Mishra: You are right.

Ram Modi: Okay. And just wanted to know, what would be our contribution from the coating business right now? Is it significant, because we have been expanding our capacity in terms of coating also.

BK Mishra: No, we have actually increased the capacity in Anjar. See, even if we have this 1 million ton of order booking, you know, if we have to service all these orders, the coating plant that we have in Anjar, it's only -- we have one coating plant and, have almost like at any point of time even if we are sitting on 1 million ton of order book, we don't have enough capacity to service those orders so it's, like sort of, to have additional capacity of coating. And we don't really work out a separate margin for coating, coating is always charged up to balance sheet or rather P&L on cost and we work out the EBITDA, you know, like on the pipe.

Ram Modi: Okay.

BK Mishra: So, we don't lose on our coating, you know, it's all most like a service charge on the cost of pipes.

Ram Modi: Okay. Last question is for Mr. Jindal. Sir, what would be our average cost of debt right now and what would be our treasury interest right now?

Akhil Jindal: The average cost of debt, you know, if I consider foreign exchange and Rupee all put together is roughly around 10%. And what we are, you know, getting from the treasury is somewhere between 8.5 to 9 percent. So, there is almost like a 1% negative carry on the entire borrowings.

Ram Modi: Okay. And, what's the mix between foreign currency domestic borrowing, because what I am just concerned is



we have a large part of our exposure in foreign currency in long term borrowings? So, you know, and that keeps on hitting us in terms of ForEx losses.

Akhil Jindal: See, the foreign borrowing today is around 300 odd million dollar in the dollar terms. And, the rest of all is in INR.

Ram Modi: Okay. And, that's why so the interest cost is still at 10% because of INR borrowings?

Akhil Jindal: That's right. That's right.

Ram Modi: Okay. Thanks a lot sir.

Akhil Jindal: Thank you.

Moderator: Thank you Mr. Modi. The next question is from Mr. Manuj Jain from Credit Swiss. The line has been unmuted. You can go ahead and ask your question.

Manuj Jain: Thanks for the opportunity. Actually, I just missed on to the debt and cash figure. Can you please repeat it for me?

BK Mishra: The gross debt is Rs. 6037 crores.

Manuj Jain: Sir 6000?

BR Jaju: Rs. 6037 crore consolidated.

Manuj Jain: 6037, okay.

BR Jaju: At consolidated level. And, the cash and cash balance is 2464.

Manuj Jain: 2000?

BR Jaju: 2464.

Manuj Jain: 2464.

BR Jaju: Yeah. The net debt is Rs. 3573 crore.



- Manuj Jain:** Yeah. My question is if I compare it with like September numbers your total debt has increased by almost like, say, 1000 million and cash has come down by, say, like again 1000 million types. So, just wanted to get exactly cash is going or am I missing something like over there?
- BR Jaju:** I think the net debt has only gone up by around 100 crores compared to the Sept quarter.
- Manuj Jain:** 1000 million right. Yeah.
- BR Jaju:** No, no. So, the net debt has gone up by around 100 crores. And, most of it is being used in the CapEx that we are doing in the year, the coating plant in India. So, this will all be done more or less in the next one quarter. So, all our CapEx more or less except for the small maintenance that is going to continue all our CapEx will be over by the end of this financial year.
- Manuj Jain:** Fine. And, like we were expecting some release of like working capital in this quarter. So, can you give us some number like how much working capital has been like cash has been released from the working capital in the December quarter?
- BR Jaju:** 237 crores. Sorry, 173 crores have got unlocked in the working capital.
- Manuj Jain:** 173?
- BK Mishra:** Yeah.
- Manuj Jain:** 173 crores. So, again, if I look at on net cash and if I include this like at least working capital I am still not very comfortable like net has debt gone up by like 1000, 1000 million and you got like some 173 crores from working capital. So, like net investment it comes down to like you have used cash of 2700 million. So, I understand you did some CapEx, but still can you give us some breakdown of this 2700 million?



- BR Jaju:** Yeah, yeah, we can give you exact break up. See, as I mentioned the 173 crores is a working capital lease out. So, that is there is a cash in.
- Manuj Jain:** Right.
- BR Jaju:** One is the EBITDA.
- BR Jaju:** One is the operational income that has 180 crores. Then there is a CapEx of almost 240 crores.
- Manuj Jain:** CapEx of 240 crores?
- BR Jaju:** Yeah, 240 crores including the US and the India and everything.
- Manuj Jain:** Okay.
- BR Jaju:** Yeah, also the DJ facility you have double jointing facility in Saudi Arabia.
- Manuj Jain:** Sorry, which facility?
- BR Jaju:** Double jointing. If you know what we are doing in Saudi Arabia is also double jointing as we have in US.
- Manuj Jain:** Okay.
- BR Jaju:** So, If you do all these and, they will minus 133 crores of cash roughly.
- Manuj Jain:** Okay. Fine. And, can you give us some sense like how much CapEx you are planning to have like how CapEx remaining for the next calendar year like for financial year 13?
- BK Mishra:** See, 13, 14, you know, we are not looking at any major CapEx right now. Unless, we get some opportunity to, you know, like sort of organic or inorganic growth that's a separate thing where there is tremendous amount of work going on. But, as of now, barring our maintenance CapEx of about 20 million dollar across the pipe business we are not looking at any major CapEx right now.



Manuj Jain: Okay. And, like based on this like – Can we expect some kind of the de-leveraging say in the mid of this year or like at some point of time during this year? Are you converting that thing?

Akhil Jindal: Some of the ECBs are falling due in the next 12 months or so. We have a 50 million ECB falling due in the month of April itself. There's another 50 million falling due in April 14. And, there is a 100 million of FCCB falling due in November 14. So, what it means is that we would be, repaying almost 200 million dollar of the foreign currency borrowings. So, you know, I am not sure whether we would be paying any further debt over and above this.

Manuj Jain: No, no my question is how you are planning to fund this? You are going to refinance or planning on new loans?

Akhil Jindal: Yeah, it's already funded. That's what I was trying to explain you earlier that it's already funded. You know, we have already raised close to 110 million dollar of ECB, plus an NCD of almost like 350 crores. So, we still have a sanction of 40 million dollar from one of the large foreign banks. So, I think, it's all funded. So, there is no fresh funding requirements, but this repayments will also happen in the next 12 to 15 months or so. So, to that extent the leverage will come down. I mean, the borrowings will come down.

Manuj Jain: Okay. And, my last question is any further plans to buyback FCCB from the market?

Akhil Jindal: I wish the price was more conducive. We had launched a programme to buyback almost as much as we could. But, unfortunately there were not enough sellers at 94. We could manage to buyback around 44.1 million dollar of FCCB. It's resulted in net gain of around 14.8 million – 14.8 crores to us. But, today since then the prices have gone up to like 97 to 99 range. So, we are not buying at this juncture.



- Manuj Jain:** So, you have set up of like plan to like buy it in mid 90's level only, not in the high 90's. Something like that or you are waiting for again like...?
- Akhil Jindal:** Yeah. You know...
- Manuj Jain:** Just based on that price or like there is some other factors as well, just wanted to check?
- Akhil Jindal:** See, you know, it should make commercial sense to us, because, at 94 it made sense, but at 97 plus, it's not that attractive.
- Manuj Jain:** Okay. Okay, fine. Got it. This is all from my... Thank you. Thanks a lot.
- Akhil Jindal:** Thank you.
- Moderator:** Thank you so much. Before we move on to further questions I would like to repeat attendees if you wish to ask any question please press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat attendees if you wish to ask any more question please press "0" and "1" on your telephone keypad. And the next question is from Mr. Bhavin from Enam Holdings. Sir your line has been unmuted. You can go ahead and ask your questions please.
- Bhavin Chheda:** Yeah. Good evening sir. Sir coming back to the margins in the business last two quarters we have seen the deterioration as you earlier mentioned that in the overall orders, that are there would have been a few orders at lower range. So, what are the sustainable margins going forward since your order book is looking like a million ton? So, in that also there would be some low margin orders, because if I look at the margins on the pipe business they have come down to 5700 rupees a ton which is almost like half of what we are doing last year? So, some kind of visibility, because you already have a million ton order book?
- BK Mishra:** Bhavin, there is no doubt, you know, like I fully agree with you. I think the FY12, I think, our average was close to 200 odd dollars. And, now probably our average is about 140,



145, you know, for the nine months in the current market scenario, I think, you are one of the knowledgeable guy in the industry. I think, you know about the market better than me. So, even under the current circumstances even I think we are maintaining this 140, 145 we are able to do that. I think with a million dollar order book and approximately million ton sales I think we would still be doing a decent business. I mean, looking at the current market situations.

Bhavin Chheda: Sir, so which means the 140, 150 dollars margin is a new reality because current quarter I see 100 dollars. So...?

BK Mishra: I think, it will be safe to probably presume somewhere in between 140 to 160 dollars will be the right number, I think.

Bhavin Chheda: 140 to 160 dollars. Okay.

BK Mishra: And, you know you have studied the Canadian market and if that gets unleashed, you know, that I think we will be probably one of the first one to really like be benefiting from that.

Bhavin Chheda: Yeah, sure. Sir, recently we have been interacting so this TransCanada's pipeline has been cleared. So, any visibility on when the ordering actually starts before the project gets implemented, because as we were earlier discussing you said that the product ordering cycle time period has moved down substantially, which earlier used to be 15 to 18 months. Now, people just look at six months before actually putting up order. So, when can that visibility be there for both the US and the Canada orders?

BK Mishra: Bhavin, for these orders, the 6, 7, 8 major projects that we are talking of in Canada out of which three projects are of TransCanada the situation now is going to be really different. You know, it is not one of those 200 kilometre pipeline and that you can order it today and then you know, like start delivering the pipes after six months. Because, most of the pipe sizes are such that these pipes can't be made in Canada. So, they would probably be buying much earlier than like they would normally be like in the case of probably KXL. So, I would expect some buying to start as



far as trans-Canada is concerned although I think it will be very premature for me, but on the basis of whatever feeling that I could gather, because I just came back from Canada. And, whatever I could gather, I think by July-August I think they should start buying it. That's what my thinking is.

Bhavin Chheda: Okay. And, sir just to further understand would this be L-Saw opportunity or HSAW opportunity?

BK Mishra: It could be both. You know like some opportunity could also for Little Rock, some could be L-Saw for India.

Bhavin Chheda: Okay. Sir, my other question is on the DRI I think I have missed out on volumes if you have shared on the call. What was the volume at Maxsteel?

BK Mishra: Maxsteel the third quarter production was at 100,000 tons.

Bhavin Chheda: Okay. And, sales volume?

BK Mishra: Sales was 80,000 tons. So, you can well imagine how the DRI market is right now. It's, you know, like Maxsteel which is supposed to be the largest producer of the gas-based DRI in the country they are selling 80,000 tons on an average 25,000 tons a month. You can well imagine what is the situation.

Bhavin Chheda: Yeah, yeah. The situation looks to be bad particularly both on the costing and the demand front in India.

BK Mishra: Absolutely.

Bhavin Chheda: And, sir two more questions. One on the US ERW mill. So, when can actually that go into production and how much volume you expect that mill to do in FY14?

BK Mishra: I must share this of course we know like we have given a target to the marketing team to sell at least 100,000 tons in 13, 14.

Bhavin Chheda: Okay. And?



- BK Mishra:** That is the task. You know which will be fairly I think competitive target considered that is the first year of operations.
- Bhavin Chheda:** Okay. And, Saudi unit can do how much sir for FY14?
- BK Mishra:** We are targeting about 300,000 tons.
- Bhavin Chheda:** 300,000 tons. Okay. Okay, thanks a lot sir.
- BK Mishra:** Thank you.
- Moderator:** Thank you. The next question is from Mr. Vikas Singh from B&K Securities. The line has been unmuted.
- Vikas Singh:** Good evening sir.
- BK Mishra:** Yeah, good evening.
- Vikas Singh:** Yeah. Most of the question has been answered. I just want to know the annual fixed cost for Maxsteel and plate mill? Even if you are not producing anything then what will be the annual fix cost for these two facilities?
- BK Mishra:** About Rs. 120 crores for the plate mill and around 50 crores for Maxsteel.
- Vikas Singh:** And, sir outlook for 4Q as of now how – see, we have already done 295,000 in 3Q. So, I believe that this includes 40,000 tons backlog orders. So, this quarter, of course, we would be seeing some lower, you know, dispatches?
- BK Mishra:** A lower volume you are talking for the next quarter?
- Vikas Singh:** Yes sir.
- BK Mishra:** I think all of us, you know, it will be – you know, I won't like to sort of give you any sort of forward looking sort of outlook. But, I think, we are all here trying to probably beat our best numbers.
- Vikas Singh:** Okay sir. Thanks. Thank you, sir. That's all from my side.



BK Mishra: Thank you.

Moderator: Thank you so much. The next question is from Mr. Gaurav Agarwal from Prime Securities. Mr. Agarwal you can go ahead and ask your question.

Gaurav Agarwal: Good evening sir. Thanks for taking my question. My question is with respect to DRI business. If I can have some data points for the same? Can you share your iron ore cost per ton, gas cost per ton for Q3?

BR Jaju: Yeah, yeah iron ore cost per ton. The iron ore cost is 5570 rupees.

Gaurav Agarwal: 5000?

BR Jaju: 5570.

Gaurav Agarwal: Okay. And, gas?

BK Mishra: And gas, is it?

Gaurav Agarwal: Yes, gas cost per ton. Yeah.

Akhil Jindal: 5700 rupee per ton. It used to be 3500 rupee per ton.

Gaurav Agarwal: Sir, the mix in between is it like a domestic and international?

Akhil Jindal: Your voice is actually getting cropped up. To be honest with you, we are not able to hear your question properly. It's largely an imported LNG. There is very little that we are getting from the APMs. I mean, our allocation is almost like 0.6, 0.7 even without Reliance we should get at least 0.4, but we are getting is just 0.18. 0.19. So, you can imagine that we are getting almost like 25% of our allocation. And, as a result we end up buying 50-60% from the outside market at an expensive price of 18 to dollars. So, our average gas price in the last quarter had been close to 12 dollars – 11½ to 12 dollars, which is the reason why we feel that, you know, the DRI production at these level cannot sustain because it is too high. Our break even is somewhere around, you know, 9 ½ to 10 dollars.



Gaurav Agarwal: What was your average realization for DRI?

BK Mishra: Rs. 22,500 per ton.

Gaurav Agarwal: Thanks a lot. That's from my side.

BK Mishra: Thank you.

Moderator: Thank you so much Mr. Agarwal. We have one last question in the queue. Mr. Puneet Gulati once again from HSBC. Mr. Gulati your line has been unmuted. You can go ahead and ask your question.

Puneet Gulati: Yes, thanks. Just two quick questions. Does your other income include any income from the insurance claims for the US mill?

BR Jaju: Yeah. It does. As a matter of fact, it is actually loss of business. So, if we had continued to produce then we had been not lost that 75, 80 crore. In any case we would have made this, but this includes, you know, we got total claim of 21 million dollars, out of which 4 ½ million dollar was against CapEx. And, about 16 ½ million dollars out of which \$15 million went into the last quarter and \$1.5 million we received this quarter has gone into the P&L.

Puneet Gulati: Okay sir just 1.5 million this quarter?

BK Mishra: This quarter. Yes, you are right.

Puneet Gulati: Okay.

BK Mishra: As a matter of fact, you commented, yeah, that's not big.

Puneet Gulati: Yeah. Okay. And, when you give your net debt or gross debt number of 6000 crore are you including the 788 crore of compulsory convertible ones or that's excluding that?

BR Jaju: No, we don't include the CCDs. So, CCDs are for all matter that is not debt for us. So, we are not including that, Puneet, in our gross debt.



- Puneet Gulati:** Yeah, but that logic then your gross debt has gone up substantially. I mean, because I remember last quarter the number was 4300 crore of long term and some 748 separately, so 5000 crore. Now, it's 6000 crores. So...?
- BR Jaju:** Puneet, last quarter we had a total gross debt of 5700 crores which included three components. One was the long term debt of 4300 crores. And, there was a – what do you call current portion of long term debt which was 630 crores. So, just approximately say 5100 plus 700 odd crore was for the the short term borrowings. So, totally, we had 5700 crores. And, now December is 6000 crores.
- Puneet Gulati:** Okay. Now, it's clear. Okay. That's all from my side. Thank you so much.
- BR Jaju:** Thank you Puneet.
- Moderator:** Thank you so much. So, there are no more questions in the queue. So, I would request the management to take it over from here for any final comments. Over to you.
- BK Mishra:** Thank you very much. Thanks for participating in this call and we sincerely hope that we are able to probably come back to you which your expectations being made next quarter. Thank you very much.
- BR Jaju:** Thank you.
- Moderator:** Thank you so much all the panellists. Thank you participants for joining in. With this, we conclude the conference call for today. Wish you all a great evening ahead. You all can disconnect your line. Thank you so much.
