



“Q1 FY12-13 Earnings Conference Call of Welspun Corp”

August 16, 2012



SPEAKERS: **B.K. Mishra, Managing Director**
 B.R. Jaju, Director and CFO
 Akhil Jindal, Director, Group Finance and Strategy



Moderator:

A very good afternoon, ladies and gentlemen. I am Saurodeep Sarkar, the moderator of this call. Thank you for standing by and welcome to the Welspun Corporation Q1 FY2012-13 Earnings Conference Call. For the duration of presentation, all participants' line will be in the listen-only mode, and we will have a Q&A Session after the presentation. I would like to now hand over the conference to Mr. Amit Mishra from Macquarie Capital Securities. Over to you, sir.

Amit Mishra:

Thanks, Saurodeep. Good afternoon, everyone. It is our pleasure to host Welspun Corp 1Q Post Results Conference Call and thank you very much all of you for participating on it. To represent the company, we have with us today Mr. Rajesh Mandawewala, Managing Director, Welspun Corp; Mr. B.K. Mishra, Managing Director, Welspun Corp; Mr. B.R. Jaju, Director and CFO, Welspun Corp; and Mr. Akhil Jindal, Director, Group Finance and Strategy. Mr. Mandawewala, I would now like to hand over to you for a brief background of the results followed by questions and answers. Over to you, sir.

Braja Mishra:

Hi, good afternoon. There is a little bit of correction here. This is Braja Mishra. Mr. Mandawewala has not been able to make it to this conference call. So I will be taking on right from here. I would start with the quarterly numbers. I think because we have already had one day gap, I think everybody would have had a chance to look at the numbers but just at the cost of repetition I would just talk about the salient points, and I will let you go through a little bit of details in terms of the numbers.

The sales was at 2,550 crores as compared to the corresponding last year figure of 1,755 crores. The reported EBITDA was at 236 crores as against 331 crores, but the operational EBITDA after making necessary adjustment is at 331 crores as compared to 302 crores last year for the same corresponding quarter. The salient point has been that the consolidated sales has been up by 45%. It is largely due to consolidation of a new business that we acquired last year, that is Maxsteel and Leighton. The pipe sales volume was at 178,000 tons and the plate volume was at 148,000 tons which of course included about 33,000 internal sales. The DRI sales volume was at 129,000 tons and DRI production was 160,000 tons.

Just to take you through the EBITDA breakup, pipe EBITDA was at 240 crores, plate was at 56 crores, DRI was at 12.5 crores and Welspun Infra at 21.4 crores. Though the global business environment had been quite difficult, (these are operational numbers please), we have been able to maintain our



margin this quarter primarily because we executed some of the very high value orders during the current quarter. As far as plates are concerned, the plate margin is also comparatively looking better. It is primarily because we executed again the same some high value order for the plate mill, which was supplying some API plates to the pipe mill.

Maxsteel operations continue to struggle due to sudden reduction in cost effective gas availability. The gas cost had increased from 7.3 to 11.57 dollar per mmbtu. Demand for DRI had been subdued. EBITDA suffered obviously because of bad market conditions which we are all aware of right now, what the steel industry is going through and also primarily because of the energy cost increased from Rs. 3845 per ton to Rs. 7600 per ton, to be precise Rs. 7592 per ton. And it also got hit because of the foreign exchange loss to the tune of approximately 24 crores.

Welspun Infra again the EBITDA was at 21 crores but we continued to face challenges in the Infra business. There has been few improvements in the capacity utilization in the company primarily because of the healthy order book position. More specifically the US and Saudi plants have the potential to deliver even higher volumes in coming quarters. Saudi plant will also benefit from recent approval from major customers especially Saudi Aramco, I have to say. The plate market however continues to witness softness in demand and probably it is at all-time low in the international market.

Infrastructure business is still witnessing far more difficult situations than probably it was even before and the costs have even further gone up. And the outlook for Maxsteel looks still challenging.

To tell you some of the numbers of production especially in our core business particularly pipe, in this quarter we sold LSAW 98,739 tons, and our HSAW was at around 49,000 thousand, ERW sales was at 6,400 tons, so the total pipes was 154,000 tons in India and if you include 16,500 tons that was sold in US and 7,300 tons in Saudi, it takes to a total of 178,176 tons. Even though we did produce during this quarter, approximately 216,000 or 217,000 tons of pipes, the difference between the production and the sales is primarily because of our nature of business that some of the quantity do get produced and maybe even if they would have been transported to the port but if the ship doesn't take off just after the quarter end, we are not able to book those sales. The difference in the production and the



sales number in any case would get booked during the current quarter.

Some of the major orders that we executed during this year and especially the high margin orders, one order from Thailand, which was about 47,000 tons. We also did a very good order for Venezuela which primarily gave us a lot of confidence for our newly commissioned LSAW mill in Anjar. The total sales distribution region wise, in South America we sold about 18%, South East Asia 27%, Gulf region 16%, US was 9% and India was 30%.

During the quarter, we did book some major high margin order which was totaling to about 470,000 tons, primarily from US as well as Middle East. This is about all that I wanted to brief you and I will be too happy to take all the questions, and I will be assisted by Akhil and Mr. Jaju to give you the answers to your questions. Thank you.

Moderator:

Thank you so much, sir. With this we are going to start with the Q&A interactive 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.

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The first question comes from Mr. Puneet from HSBC. Mr. Puneet, you can go ahead and ask your question please.

Puneet:

Thank you so much. You know, I wanted to understand the cash levels have gone down, and net debt seems to have gone up. Is there any particular reason for that?

Braja Mishra:

Mr. Jaju will answer that question please.

B.R. Jaju:

In response to your query, this is primarily due to two factors. One is that this quarter end, we had one debtor to which shipment was made and subsequently we realized and I can share that figure which itself is out of the cash reduction 480 crores roughly but more than two-third realized and everything is realizable which is in process. And also at US level, we have executed some dispatches and invoicing and that remained outstanding. And secondly, there has been a debt reduction or rather due to re-alignment you find the net debt not increasing



but in fact about 220 crores there is a reduction in repayment of debt. So that accounts for why the cash level has gone down. So debtors will be made good in subsequent figures. As a matter of fact, it has already been done.

Puneet: Can you give me the numbers for gross debt and cash and liquid investments combined?

B.R. Jaju: Yes, surely. As for now, it is new definition under Schedule VI making all three categories long-term debt and short-term debts and long-term debts which are repayable within a period of 12 months. A gross debt level is 5302 crores as of 30th June but with the rider, it will include about 182 crores which is what you call vis-à-vis alignment due to ForEx. So this is a gross debtor level and of which of course on 31st March it was 5341 crores. So if you consider 182 crores as a realignment and 38 crores otherwise, so about 220 crores net reduction. The cash level currently it is 2240 crores which includes cash and cash equivalent investment in liquid investments. So the net debt is 3062 crores as of 30th June.

Puneet: Okay. Can you also explain us the nature of ForEx loss during this quarter?

B.R. Jaju: Yes, sure. Considering the ForEx which has gone to 55.60, we had at Welspun Corp consolidated, the total hit impact is about 173 crores, out of which 8 crores is impacting financing cost under the new concept of Schedule VI, and 165 crores impact the operation very well. But let me add to this. More than 90% is the risk because of realignment under AS11 which you have to do that, particularly acceptances and debtors and creditors. This is what we have taken in a manufacturing cost.

Braja Mishra: Maybe you can add what is the realized and what is unrealized portion.

B.R. Jaju: The realized part, the liability has got crystallized during this quarter. It's just 11 crores out of 173 crores which I shared with you. Also, I like to add. This also includes our long-term financial liability ECB and FCCB. That also we have to realign and 173 crores include that realignment losses.

Puneet: But that will be only to the extent of 8 crores, isn't it?

B.R. Jaju: Sorry?

Puneet: Wouldn't that only be limited to 8 crores for the ECB part?



B.R. Jaju: No, it is about 23 crores during this quarter.

Puneet: And that is under the operational ForEx loss?

B.R. Jaju: Yes.

Puneet: Okay. And the balance ForEx loss you think is due to realignment for the creditors and other payables?

B.R. Jaju: Yes, because we have to realign here because opening ForEx of the quarter was 50.87 which has moved to 55.62. So that itself is a 10% change. So you realign your old acceptances and your creditors, also your receivables as per that last rate. So that is giving an notional but because of MTM you have to capture and now you have to show as a manufacturing expenses, other expenses because of mandate given by Schedule VI.

Puneet: Okay. And then lastly, is it possible to give a breakup of your order book in LSAW, HSAW and ERW?

Braja Mishra: I am sorry. Your voice is breaking up a little bit. You were looking at the order booking breakup, right?

Puneet: Yes, order book breakup.

Braja Mishra: Yes, as on today, the LSAW stands at around 274,000 tons, HSAW close to 900,000 tons, and ERW about 26,000 tons, totaling to about 1.2 million tons while we speak.

Puneet: Okay. That's fine. That's all from my end. Thank you.

Moderator: Thank you so much, Mr. Puneet. Well, the next question is from Mr. Gaurav Agarwal from Prime Securities. Mr. Agarwal, you can go ahead and ask your question please.

Gaurav Agarwal: Good afternoon, sir. My question is regarding the sponge iron realization. You were talking of [Unclear] for the quarter?

B.R. Jaju: Could you speak a little louder because your voice is very feeble?

Akhil Jindal: Gaurav, I request you to pick up the phone. I think you are on a speaker.

Gaurav Agarwal: Yes, I have picked up the receiver.



- Braja Mishra:** Can you repeat please?
- Gaurav Agarwal:** My question is regarding sponge iron realization. What was your average realization for the quarter?
- Braja Mishra:** It was around Rs. 25,000.
- Gaurav Agarwal:** And what was your average iron ore cost for the quarter?
- Akhil Jindal:** See, on the Maxsteel side, we had an EBITDA of around 12.50 crores after accounting for all the cost and all the expenses. And over here, as Mr. Mishra mentioned in the beginning, if the gas had been available in a larger quantity, all the contracted gas, this could have been a much, much higher number. Now the issue is that as a company we have allocation from both Reliance as well as GAIL. However, Reliance gas is completely zero at this juncture, and the GAIL gas also, from its original allocation of 0.75 mmscm is what we are getting is just 0.21. All the gas that we end up buying from outside means that the gas price has gone up from Rs. 3000 per ton odd to almost Rs. 8000 per ton. And that's the reason why this EBITDA could not have been higher.
- Gaurav Agarwal:** But my question was regarding the iron ore cost.
Akhil Jindal: Iron ore cost which includes the lump ore and the pellets. It must be around Rs. 14,868 per ton of DRI.
- Gaurav Agarwal:** 14,800?
- Akhil Jindal:** Yes, roughly about Rs. 15,000.
- Gaurav Agarwal:** Ratio is still the 50-50. 50% Pellets and 50% iron ore.
- Akhil Jindal:** That's right. It varied from quarter to quarter but roughly around 50 to 55%.
- Gaurav Agarwal:** Okay. Your ratio between domestic gas and LNG is how much currently?
- Akhil Jindal:** Domestic gas is, as I mentioned to you, only 0.2 which is like almost one-third of the domestic gas and two-third of the expensive LNG or other sources of gas.
- Gaurav Agarwal:** Okay. Thank you, sir.
- Moderator:** Thank you so much, sir. I would repeat once again to 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 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.

And here comes the next question from Ms. Rosita D’Souza from Elara Capital. Ms. D’Souza, you can go ahead and ask your question please.

Rosita D’Souza: Thank you sir for giving me an opportunity to ask a question. I want to ask you a question on the CapEx front. Could you give a guidance as to what the capital expenditure this year is going to be and next year as well?

B.R. Jaju: So far in the quarter, largely this is a leading CapEx and plus CapEx for our newly announced project of ERW at US. That is about 93 crores we have incurred and capitalized in the first quarter, and this I am talking purely as a total plate and pipe business. That’s more of an estimate but in nine months probably we will spend Rs. 500 plus crores which includes largely our ERW project and including CapEx to our existing projects. This is nothing like major project other than ERW. What we have already considered is Mandya expansion project. That is already done. So that’s already a small CapEx which remains outstanding which will be incurred.

Rosita D’Souza: Okay. So if I understand correctly, for next year it will primarily be maintenance capital expenditure.

B.R. Jaju: Yes. I am talking about this year. I am talking about financial year 12-13. I have given the range for the first three months, what we have already incurred and what we propose to expand in remaining nine months.

Rosita D’Souza: Sure, I followed. For this year, I got what your capital expenditure plan is. For next year, given that you do not have any identified plans at this point in time or expenditure will be restricted to maintenance CapEx only. Am I right?

Akhil Jindal: No, I think just to clarify, I think you’ve probably not understood it fully well enough. This Rs. 500 odd crores includes ERW mill which is a large part of the expansion.

Rosita D’Souza: For next year given that you do not have any identified plans at this point in time or expenditure will be restricted to maintenance CapEx only. Am I right?



- Akhil Jindal:** No. Just to clarify, I think you know you have probably not understood it fully well enough. Rs 500 odd crores include the ERW mill which is a large part of the expansion and then, of course there is a maintenance which is a regular in nature or in terms of all over location. This is as far as the basic pipe and plate mills are concerned. Then, of course, we have to incur some small expenditures in our various subsidiaries and other places where we're already committed. Like for example, there are some commitments from the infra side, some commitments on the energy side particularly AWEL. So I think Rs. 500 odd crores is a core CapEx.
- Rosita D'Souza:** Sure. And CapEx for next year?
- Akhil Jindal:** I'm sorry. Could you please repeat?
- Rosita D'Souza:** For next year, what would be the CapEx?
- Akhil Jindal:** Next year would be more of a maintenance CapEx. I would say you can easily account for around 100 crores for a company of our size across various locations.
- Braja Mishra:** Having said that... this is Braja Mishra. I just wanted to add here, is that we're looking at, of course, like the entire world market to enhance our position in the market itself. So it could involve some kind of a CapEx if we decide to probably go for fresh capacity or relocation of capacities or acquisitions. All those things are probably as on today it's too early for us to forecast but we're looking at such kind of opportunities in the coming years.
- Akhil Jindal:** Which would entail some additional small CapEx.
- Braja Mishra:** That's right.
- Rosita D'Souza:** Sure. Just another question on your EBITDA of steel, pipes and plates, I understand this particular quarter because you executed high margin orders, the margins have been pretty decent for you. What is your expectation going forward for the rest of the year?
- Akhil Jindal:** Rosita, firstly, like we normally thought of abstain from or refrain from giving any guidance in terms of the course on EBITDA. But having said that, like I must tell you that our order booking position as on today is at around 1.2 million tons and we have already given guidance at some point of time that



we would be executing probably at least a million tons of pipe orders which means close to balance of 800 odd thousand tons during the year and the order booking is at Rs. 8200 odd crores. I think I would say that far only and it will be difficult for me to probably give any per ton EBITDA guidance.

Rosita D'Souza:

Sure, sir, no worries. One last question, I have on your Maxsteel business, given that the environment is pretty challenging for Maxsteel and even I think from a foresight perspective, I think even for next two, three quarters, I don't think there will any resolution on the gas issue. Is the Company thinking about it in a strategic manner to see what else can be done to get away from this particular problem?

Braja Mishra:

For sure, you know like all necessary efforts are on. A lot of exploratory work is going on but I think as long as nothing conclusive or concrete has come out, I think I would refrain from making any kind of commitment on that, but for sure that obviously we are also equally concerned to see this number and we are exploring all possible means, how to like mitigate this.

Akhil Jindal:

And besides taking up the matter with the government authorities and also with the Supreme Court that why this gas should not be reinstated because we're the original allottee of the gas and any change in allocation cannot be done unilaterally. So it is the matter of sub judice. There is effort going on in that direction also.

Rosita D'Souza:

Okay. Thank you so much.

Akhil Jindal:

Thank you.

Moderator:

Thank you, Ms. D'Souza. Well, the next question is from Mr. Anand Krishnan from Prime Securities. Mr. Krishnan, you can go ahead and ask your question please.

Krishnan Anand:

It's Anand from Prime Securities. I had a question with regards to the plate and the steel business. Is there any plan to look at separating these businesses out from the main pipe business?

Braja Mishra:

Nothing of that so that we have come out as far as now is concerned.

Krishnan Anand:

Also, from a free cash flow perspective, one of the things that we have noticed this time around is the EBITDA per ton is as



you have rightly explained is much higher on account of high margin orders. What do you see as more of a sustainable EBITDA per ton for the pipe business?

Braja Mishra

See, I'm sure the market hasn't been like exceedingly well in the last one and one half years or so, and at the same time, we have been able to lot of book this 1.2 million tons of order. As I did mention that this also includes some high margin orders that we recently booked in the last 60-75 days which is almost about 470 odd thousand tons from the traditional high margin market for Welspun which is US and Middle East. So I would probably stop there, that this is what I can as far as guidance is concerned I can give you.

Krishnan Anand:

Thank you so much.

Moderator:

Thank you, Mr. Krishnan. Well, the next question is from Mr. Puneet from HSBC once again. Mr. Puneet, you can go ahead and ask your question please.

Puneet:

Thanks for the opportunity again. Just, I'm trying to see clearly more colours. Can you give me a break-up of your export order book in various geographies?

Braja Mishra:

Just give me a second please. See, in any case, I just did mention a little while ago that actually India market is 30% and balance was 70%, North-South America our export was to the tune of about 38%. Sorry, this is the order book. You want the order book, right?

Puneet:

Yes. I want the order book.

Braja Mishra:

Yes, sorry. South America, North America are accounting for about 38%, Middle East 42% and India 18% and Asia and Southeast Asia together 2%. So that comprises a total 100% break-up.

Puneet:

Okay. And this is largely for pipes, right?

Braja Mishra:

This is largely for pipes. You're right.

Puneet:

Okay. All right. That's all from my side. Thanks

Moderator:

Thank you, Mr. Puneet. Well, the next question is from Ms. Neha Manpuria from JP Morgan. Ms. Manpuria, you can go ahead and ask your question please.



- Neha Manpuria:** Hi. This is Neha from JP Morgan. Sir, in your opening remarks, you had mentioned the demand was subdued for DRI and given the steel market conditions, so what are you seeing in that front, given there is a lot of inventory in this steel market, etcetera? Have you started seeing weakness in DRI prices?
- Braja Mishra:** See, I think all prices related to steel, I think is looking at a downward movement and in fact as late as yesterday, if you see the SBB report, SBB report says that we have not probably reached the bottom as yet. And this is despite the fact that there has been some production cut in China in the last 30-35 days. Even then, the prices have not recovered and the prices are still probably going down.
- Neha Manpuria:** So in the domestic market also, we're seeing a Sponge iron realisation softened from the 28,000 level that we reported in the quarter.
- Akhil Jindal:** Absolutely. Just wanted to change the statement of Rs. 28,000. The prime DRI had been sold at 25,000. The Rs. 28,000 number that I gave to you had some standard DRI and other things also are getting factored in. On the like-to-like comparison, the DRI price that we've booked as an average was Rs. 25,000.
- Neha Manpuria:** Understood. Sir, given the India portion of order book, there are a lot of concerns about that bit slowing further. Are we seeing that or are we confident given the domestic business would continue to remain strong and contribute 30% of our quarterly volumes going forward? Do you think that could shrink further?
- Braja Mishra:** First and foremost, our constant effort has been like we sort of look at the world as the market and wherever we're getting better realisation, we book our capacity. And if you recall, there was a time where at some point of time, we were even selling a 95% of our capacity in the export market. There is no doubt that the domestic market is quite challenged primarily because of higher capacity. Having said that, there are few pipelines coming up which should probably lead to a kind of... not every pipe manufacturers probably being capable and competent to execute such kind of order. So next few months would see some good opportunities coming up in domestic market as well.
- Neha Manpuria:** Okay. I got it. Thanks for taking my question, sir.



Braja Mishra:

Thank you, Neha.

Moderator:

Thank you, Ms. Neha. Well, the next question is from Mr. Bhavin Chheda from Enam Holdings. Mr. Chheda, you can go ahead and ask your question please.

Bhavin Chheda:

Good afternoon, sir. So few questions, the US will update since your release says that will now only start in October. So how you are planning to offset that production volume via Saudi and India and how the dispatches are, how the client comfort is there that they will accept dispatches from India as well as Saudi and we'll not miss on a million ton pipe volume guidance?

Braja Mishra:

First and foremost, I think the first week of October whatever we have indicated in our press release, it is probably almost like the worst kind of scenario. We're targeting in any case to start somewhere in the end of September and probably the real production can start from the first of October onward. And the quantity gets affected to the tune of 40-60 thousand tons and all the customers who are involved in this 40-60 thousand tons have already been approached and the matter has already been discussed and the customers have agreed that these quantities can be shifted to India and we have already taken necessary action that this quantity will be manufactured and supplied to US from India and we don't foresee any of the quantity sort of like spilling beyond the contractual delivery schedule and our clients are quite okay with that.

Bhavin Chheda:

Do we see that margin impact, you will incur an incremental rate of \$65-70, right?

Braja Mishra:

Excuse me?

Bhavin Chheda:

Do we see a margin impact on 45,000 because we'll see a freight of \$60-65 to reach USA?

Braja Mishra:

You would see that but probably I would say that as far as our business in US is concerned because of fire, we're fully insured and including LOP being in place, so we doubt very much that this would impact the margin of that order.

Bhavin Chheda:

Okay. Sir, the other question is on the break-up of order value of 8400 crores if we can break it up into LSAW, HSAW, ERW plate.



- Braja Mishra:** Sure. Let me give you the precise figures. LSAW is about 1974 crores, HSAW 5712 crores, ERW 141crores and the mixture is 407 crores.
- Bhavin Chheda:** And there will be plates also, right?
- Braja Mishra:** No. These have not included plate but these would also include like coatings and other things, maybe some quantity of bends as well.
- Bhavin Chheda:** Okay, and what would be plate order book like?
- Braja Mishra:** Plate order book right now is about 31,000 tons.
- Bhavin Chheda:** In value terms?
- Braja Mishra:** 126 crores.
- Bhavin Chheda:** 126 is the outside order, right?
- Braja Mishra:** That's correct.
- Bhavin Chheda:** Okay. Sir, just I was confused on the CapEx number initially what you indicated. You said, 500 crores is pending for the US ERW?
- Braja Mishra:** Major CapEx in the core business, that is pipe and plate business, major CapEx is about \$80 million, which is for the ERW project. And the rest all whatever is planned during the year which is not large number but primarily let's say like balancing equipment and few capital expenditure that you would incur for executing a specific order and things like that.
- Bhavin Chheda:** Infra business, anything major CapEx or something?
- Akhil Jindal:** I think these CapEx are all what has been contracted and committed in the last few quarters. There has been no addition in terms of the additional CapEx. CapEx is restricted to some of the facilities like the Baramuda bus terminal and Dewas water pipeline. There's some small CapEx that has to be done at the Leighton side. So I think all in all, it is all the same amount of commitment and total up to around 188 crores. No fresh commitment of capital expenditure being done on the subsidiary side, any of the subsidiary especially Infra.
- Bhavin Chheda:** Last question for Mr. Braja Mishra. I think what is the outlook on the pipe market, if you can give market wise, India, South



East Asia and all that and what kind of tendering you are participating. One is that. And other thing, the line pipe imports data what we see of US actually India looks to be losing market share to other countries. I was referring to data of last three-four months where huge imports have happened into US, but actually the market share of India is less as compared to other countries in line pipe imports as well as OCTG. So what's the reason why Indian guys have lost their market share despite huge capacity?

Braja Mishra: Bhavin, we need to probably get into a little bit of detail on that. First and foremost, I'm sure these are the data that you are referring to from Metal Bulletins.

Bhavin Chheda: Yes, this is from Metal Bulletins as well as SBB.

Braja Mishra: Okay. See, first and foremost, there has not been any substantial line pipe imports into US in the large diameter segment. That is primarily because US has been harping on "by America." If you see that, like there has been a decline in sort of export of line pipe into US. That is not for large diameter pipe at all. These are all small quantities that people are exporting from India, which are the X42 and X46 ERW line pipe which are almost like a stock and sell item.

Bhavin Chheda: Okay.

Braja Mishra: So that quantity does not include any major large diameter line pipe, first and foremost. And the data that you see from other countries is also for ERW primarily from countries like Taiwan, countries like Korea. These are all ERW. And in any case, India has not been one of the prime players in the ERW line pipe segment in US.

Bhavin Chheda: Okay, sir. You are saying it is more of a low diameter where Indian players don't want to focus? We are not competitive on price front to lower dia.

Braja Mishra: Absolutely. And in any case, I think if I were probably anybody... I would refrain from doing that because ERW market in US is a very strong market and you don't want to be like selling cheap there in US and inviting an anti-dumping suit against you.

Now, coming to the outlook you did ask... your first part of the question was on the outlook. I must say that the demand for line pipe it cannot be representing probably what it was in 2004



or 2005. Having said that primarily in North and South America, the demand has started showing up and I think after a long time, this 217 odd thousand tons of order that we announced few months back, two months back to be precise, is enough indication that people have started investing in large projects and we have started seeing enquiries coming from US, coming from South America. While we talk covering of entire world market, we have budget for almost half a million tons of pipes.

We expect to build probably in next 4 to 6 weeks another 1.2-1.3 million tons of pipes. So that's what the business looks like right now.

Bhavin Chheda: Okay. Thanks a lot.

Braja Mishra: You're welcome.

Moderator: Thank you, Mr. Bhavin. Well, the next question comes up from Mr. Dominic from CQF. Mr Dominic, you can go ahead and ask your question please.

Dominic: Hi, I just want to ask on this promoter share pledge. I realise that this quarter you've shown 36% of the shares being touched by the promoter. I just wonder what is that for, and previously that has been not the case for Welspun.

And my second question relates to I guess, you know, investment by Apollo about a year ago. I just want to understand like, you know, over the course of the year, it's been one year and want to know, like, how has the investment helped you guys and how involved has Apollo management been with your business. And sort of second part to this is, what is the prospect of them or the timeline, which they are planning to invest the additional money into the infrastructure side of your business? Thank you.

Akhil Jindal: I think Dominic, three questions that you asked, let's start in a random order. Firstly, as far as Apollo is concerned, yes, they are a part of the board, very much helping us in our various strategies and various directional supports that they are providing. I think this one year of relationship has been extremely fruitful and they are also helping us in international market wherever possible. So that is as far as the relationship with Apollo is concerned. At the board level, they are also extending their networking on the international side wherever possible. As far as the pledge is concerned, yes, this is the first



time that promoters have done the pledge of part of their share holding and the idea is to raise some fund. However, it is a very short-term pledge or a very short-term intent and you know most likely it will be done within a year's time. That's the ultimate aim.

The third question was on the infra expenditure concern. I think as I have mentioned, there has been no fresh investment or no fresh exposure has been taken. These are all part of the old exposure and these are all good profitable projects. So I think, because they are all being bidden and they are all in the name of Welspun, so it is our obligation or a duty to complete this project well in time so that they start contributing to the bottomline and the topline. So I think that's the reason why this Infra expenditure is required. Having said that, I reconfirm that no fresh exposure or no fresh investment has been taken up in any of the subsidiary business. You know, all of this is being monitored at the board level.

Braja Mishra:

These are additional bidding.

Akhil Jindal:

Yes. So it's a pretty static situation in that sense.

Dominic:

Well, the reason why I ask is, I mean, they were supposed to invest another 150 million, right? I mean that's what the initial press release that came. I guess, what is the sort of timeline or perhaps milestones where we can expect to see this investment come to fruition?

Akhil Jindal:

I think, Apollo should be in the best position to answer that but I can tell you there has been few changes in the infrastructure segment within the country as a whole, you know, because of all that has happened in the last 12-15 months on the infra side. As a company, we are taking very cautious approach and in that sense as I mentioned, we are only investing where it's necessary. So to that extent, you know, actually we are not pursuing much with Apollo because, we don't need that kind of funds at this juncture, till the situation in the country improves a little bit and in that sense, it's on a little halt mode.

Dominic:

I see. Yes, I guess, you know, going back to actually my first question, so just to clarify, the pledge is really for some short-term loans that would be repaid in one year. Is that what I understand? Is there any colour in terms of what the promoter might have used the money for?



- Akhil Jindal:** Well, we are not a privy to those end use, you know, being a part of Welspun Corp. But I am aware that this has been a short-term funding and idea is to, you know, just meet some essential requirements and to go back to the no pledge situation in the shortest possible time.
- Dominic:** Understood. All right. Thanks very much for answering my questions.
- Akhil Jindal:** Thank you, gentleman.
- Moderator:** Thank you, Mr. Dominic. Well, the next question comes up from Mr. Abhishek Ganeriwala from YES Bank. Mr. Abhishek, you can go ahead and ask your question please.
- Abhishek Ganeriwala:** I just wanted to understand at standalone Maxsteel level what is the interest cost? You mentioned that the EBITDA was around 12.5 crores.
- Akhil Jindal:** There was a ForEx impact of 24 crores which made the number negative. And just as the interest, it was another 20.72 crores at the Maxsteel level.
- Abhishek Ganeriwala::** 20 crores, sir?
- Akhil Jindal:** Yes, 20.72. or 21, you can say.
- Abhishek Ganeriwala:** So typically we are still leading Maxsteel level if we take it on EBIT level before depreciation level.
- Akhil Jindal:** That's right. That's right. I mean, EBITDA being positive as I mentioned 12.5 crores but if you account for the interest, then yes, it's a little negative.
- Abhishek Ganeriwala:** So what is the term loan repayment commitment this year in Maxsteel?
- Akhil Jindal:** Most of these term loans are starting only in FY 2014. So there isn't much of the repayment required between now and FY 2014.
- Abhishek Ganeriwala:** So that's it. Thank you, sir.
- Akhil Jindal:** Thanks, Abhishek.



- Moderator:** Thank you, Mr. Abhishek. Well, the next question comes up from Mr. Prateek Kumar from Religare Capital. Mr. Prateek, you can go ahead and ask your question please.
- Prateek Kumar:** Hello, good evening, sir. Sir, most of my questions have been answered. Just one repetition, can you just repeat the sales volume in LSAW, HSAW and ERW?
- Akhil Jindal:** Okay. Sales volume in HSAW, LSAW and ERW.
- Prateek Kumar:** In UAE and US volumes.
- Akhil Jindal:** Yes, I am just giving you. You want the tonnage, right?
- Prateek Kumar:** Yes, tonnage.
- Akhil Jindal:** Yes, US is... sorry, you're talking of... one second. Just give me a minute. LSAW is 98,000 tons, HSAW is 49,000 tons, ERW is 6,400 tons making a total India sales of 154,000 tons.
- Prateek Kumar:** Okay.
- Management:** And then you have to add to HSAW... US is about 16,000 tons which is HSAW and Saudi is 7,300 tons.
- Prateek Kumar:** Okay, sir. That's it from my side. Thanks.
- Akhil Jindal:** Thank you.
- Moderator:** Thank you, Mr. Prateek. Well, the next question comes up from Avik Barat from Goldman Sachs. Mr. Barat, you can go ahead and ask your question please.
- Avik Barat:** I have got two questions. First is, can you explain a little more on this 165 crores FX loss which you say is part of operations. If I just look at the working capital inventory was Rs. 25 billion, receivables was Rs. 15 billion and your payable was Rs. 32 billion and other current liabilities was Rs. 14 billion as of March which nets off to practically receipt also. Why is there any kind of an FX impact on MTM and these net current assets?
- B.R. Jaju:** Okay. On Forex, let me just first start saying as a... what policies and practice we pursue. We on trade account in case of pipe business, whatever our value addition is there that we immediately cover by way of forward and the remaining to the extent of our raw material and other payments on account of



ocean freight and commission that we consider as a natural hedge. So that means over a period of time it is completely hedged except you will have sometimes timing mismatch. And as regards to plate business, in that case we follow a little different practice. In case of slabs which is mainly to address our open sales where that price stands to move in the number of dollar and rupee fluctuation. So you are having automatic hedge through market pass-through mechanism. So to that extent we don't carry a double risk of hedging here but not reaching the benefit through market mechanism.

Third is, we have this long-term financial liability particularly ECB and FCCB since they are long-term tenure and the forward premium and cost of hedging becomes prohibitive. So at times, you don't take a normal call that point in time but as you come closer to repayment schedule then we strictly monitor, evaluate with our loan position or through export because we are invariably very long considering our export size is higher than import.

Now having said that, this impact what you see is nothing but as a mischief of AS11 standard there you have to take MTM for all acceptances, all loans liabilities and other commitment and that's how you see as an MTM in fact because virtually it has moved up from 50.87 which was there on 31st March to now 55 plus, which is almost 9.7% increase and this includes also our... including all sundry creditors, all acceptances, but what will happen the crystallized loss system is just less than 10%. I have shared the data earlier, is about 10 crores out of 171 crores.

So as you move further, incidentally in the process our raw material part inventory that doesn't come within the purview of this MTM. So the moment you convert that raw material into finished goods and dispatches and then you realise that money. So you in any case receive and realise. So that part recovery is a part of the process. Even in the situation this remains as flat. So going forward there are two scenarios. One is, exchange rate includes which means from 55 it will come below, then there is a reversal but nobody can predict with any kind of authority on that. And even in the flat situation, there is still hope to slightly recover to the extent of the raw material components. So this is what ForEx impact is which I think all are subject to this process.



- Avik Barat:** Basically you are saying your inventory is not MTM but your receivables and payables are, which is why there is this 165 crores impact.
- B.R. Jaju:** Yes. Receivables is what you think as MTM and the creditors and acceptances you take as MTM but inventory we don't value as MTM.
- Avik Barat:** Okay. But the sales that you have booked in Q1 would have that implicit gain because your inventory was purchase to the tune of FX of 51 whereas your sales this quarter was an FX of 55. How much of the reported EBITDA would... I mean, how much of that contains an inventory gain?
- B.R. Jaju:** It is a dynamic scenario because that is embedded which will continuously happen because as I only repeat we have a complete hedge policy largely through natural hedge like all your import commitment which is roughly about 70% and export order of Rs. 100. That is hedged through a natural process. You don't take separate forward cover. And only in the balance value addition that we cover through taking up forward cover just to save the administrative and ForEx booking cost as well.
- Avik Barat:** When we receive the order.
- B.R. Jaju:** Immediately when we receive the order, so as a part of this litigation strategy and policy, immediately the moment we receive export order we cover it to the field of value addition.
- Akhil Jindal:** I think Avik, just to answer your question in a little different way if the currency had been static, then there would not have been any fresh provision and the part of provision that has been done in the past would have been recovered. However, the fact is that the currency has moved very, very sharply by almost 9% on a quarterly basis, which is 36% on annual basis. So the fresh provision that has been created has over shadowed the recovery that has been made on the past provision. So if the currency remains at the level where we are today, let's say at the closing of Q1 level, then all the provision that we have made will start looking good.
- Avik Barat:** Can you give me the amount of debt coming due in FY13, FY14 and FY15?
- Akhil Jindal:** Of course there is a huge amount of repayment coming up in the next 18 months or so. As you must be aware, there is a part



of ECB falling due in April 2013 and April 2014, so that's \$100 million. There is another \$150 million falling due in October 2014. There is another 170 crores of NCD which is falling due in November. So I think all in all if you see, there is a fair amount of de-leveraging of the balance sheet which is happening in the next 18-24 months and obviously that won't change the net debt number in... but the gross debt number will come down significantly and of course the earnings over next 18-24 months will further help in the net debt situation of bringing it down from Rs. 3000 odd crores to roughly around Rs. 1500 to 1800 crores level. But having said that, even today our net worth is close to Rs. 5000 crores. So if you see the gearing ratio, it's well under 62% kind which for a manufacturing company like us it is really not too bad.

Avik Barat:

Okay, thank you.

Akhil Jindal:

Thanks, Avik.

Moderator:

Thank you, Mr. Avik. I would like to repeat once again to all the attendees and the participants, if you wish to ask any more question, please press "0" and "1" on your telephone keypad and wait for your name to be announced.

There is one more question, which is coming up from Ravi Mehta from Moneylogix. Mr. Mehta, you can go ahead and ask your question please.

Ravi Mehta:

Hi, good evening, sir. Just repetition on the ForEx provisioning, if the repeat on the rate stabilises at the current level of 55 odd level, so then how would the ForEx provisioning look like in the coming quarter, if you can just share that?

B.R. Jaju:

I will just mention like that. As regards to financial liabilities are concerned on which we provide for now we are permitted to provide up to the tenure of those loans particularly I am referring to ECB and FCCB. So we amortize. Even the rate remains flat to the extent of amortized part that in any case we will count as a part of provisioning which could be about another 14-15 crores, this rate which remains flat and the other is of course nobody has an authority to predict but as I mentioned some reversal out of raw material component will always be there. That's one we can hope of.

Ravi Mehta:

Okay. Thank you.



- Moderator:** Thank you, Mr. Mehta. Well, there are no further questions in the queue. So I would request Mr. Amit Mishra to take over the floor for the final comments. Over to you, Mr. Mishra.
- Amit Mishra:** Mr. Mishra, Mr. Jindal, would you like to make any final comment?
- Braja Mishra:** I think it's fine with us and you know I think it was nice to have all the participations and I hope we have been able to answer all the questions to everybody's satisfaction. And as far as business is concerned, I think I did mention that you know even though the global market situation has not been so good, I think the enquiry has started kind of coming in and I think our likely participation for 1.5-1.6 million tons of business, if that is an indication probably you know, like, things will start looking up good and oil price in any case is at \$118, I think that itself is a good symptom.
- Amit Mishra:** Thank you, sir. It was a pleasure to have you on the call and thank you all participants. Thank you very much.
- Management:** Thank you, Amit.
- Moderator:** Thank you all the panellists and the speakers. With this we conclude the conference for today. Wish you all a great day ahead. You all can disconnect your line.

Note: The financial figures are in INR unless otherwise stated.