"Welspun Corp Limited Q4 FY 2017 Earnings Conference Call"

May 08, 2017

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Moderator: Ladies and gentlemen, good day and welcome to the Welspun Corp Limited Q4 FY 2017 Earnings Conference Call. We have with us on call today, we have Mr. Lalit Naik -- MD and CEO, Welspun Corp Limited; Mr. S. Krishnan -- CFO, Welspun Corp Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. S. Krishnan. Thank you and over to you, sir!

S. Krishnan: Good afternoon, everyone. Thanks for coming on our Q4 and FY 2017 Results Con Call. We will take you through the results but before that a few opening statements.

Just to remind you that this year that went by FY 2016 - FY 2017 was the first year where we have implemented new Accounting Standards called IndAS. So, you will find all the numbers for 2016 - 2017 and the corresponding numbers for 2015 - 2016 re-stated under this Accounting Standards IndAS. And you may also want to refer to our Clause 41 and our FY 2017 Q4 Presentation, the impact of IndAS on our numbers.

Coming to specifics. In this quarter, our production was around 303,000 tonnes, up 22% Y-o-Y compared to last year's Q4 excluding the Saudi business that is on IndAS basis. Sales was up around 28% Y-o-Y at around 330,000 metric tonnes. Including the Saudi business our Pipe production was up around 18% Y-o-Y to 329,000 metric tonnes and including the Saudi business the sales was up 25% Y-o-Y for a quarter at 339,000 metric tonnes.

For the full financial year ended March 31st, 2017, the total Pipe production and sales including Saudi were down 15% Y-o-Y. Order book at the year-end, as we start next financial, is around 601,000 metric tonnes valued at Rs. 3,800 crores. Bid book is around 4.8 million tonnes and there are a whole range of projects across geographies which will come up for bidding in the next year and odd which could be you to about 9 million tonnes.

Coming to specifics in terms of the revenue statement. On IndAS basis our Q4 revenues were up 5% Y-o-Y to Rs. 2,070 crores. Reported EBITDA was up around 46% Y-o-Y to Rs. 307 crores. Profit after tax after minorities and share in associates and JVs was at Rs. 73 crores versus Rs. 11 crores for the last year's Q4.

On IndAS FY 2017 revenues were down 18% Y-o-Y at 6,036 crores. Reported EBITDA was down 17% Y-o-Y to Rs. 737 crores. PAT after minorities and share in associates and JVs was at Rs. 26 crores versus Rs. 152 crores last year.

Coming to the balance sheet, the higher business activity and the back-ended supplies to customers, we had indicated in our earlier calls as well that FY 2017 was clearly a year where most of the business was going to be in the second-half and in Q4. Obviously, this has impacted our cash conversion cycle which stands at around 77 days versus 69 days at the end of December 2016. All these are on trailing 12 months' basis.

This is on a consolidated including the Saudi subsidiary on the erstwhile iGAAP. On IndAS, the cash conversion cycle is around 63 days, it has gone up from 51 days as at end of December. For the next year, FY 2018, we expect the cash conversion cycle to be in the range of around 55 days for the global business.

During the quarter, we have also tried to repay some relatively higher cost debt resulting in noticeable reduction in our gross debt. Gross debt as at IndAS basis was around Rs. 1,843, crores down by about Rs. 419 crores Q-on-Q. Consequently, the net debt on IndAS basis is around Rs. 1,107 crores versus Rs. 1,213 crores as of December 2016.

Our agenda to conserve cash and focus on a leaner balance sheet continues as before and this is evident in the fact that over the years we have paid down debt wherever we could, prepay debt wherever we could and we also try to manage our working capital as much as the business permits.

The CAPEX program continues to be conservative. We would be spending in the region of around Rs. 100 crores on global basis across all the geographies. This will ensure that cash flows generated from the business would largely be used to cut down on debt.

Now, coming to the outlook of the business, while we were starting the new fiscal year with a relatively moderate order book position of around 600,000 tonnes. You will recall our order book if you go back a couple of years back has been in the region of around 600,000 tonnes if you go two years or three years back. We believe that this order book will see traction on two fronts: one is in North America we will see business picking up, projects coming up for bidding and sanction and award as we go into the second-half of this year. So, that will translate into stronger order book as we go into the second-half of this year. The domestic demand has been spurred by a couple of factors. Noticeable amongst which has been the policy measures initiated by the government of India. It started earlier on in the year with the MIP, minimum import price, the safeguard duty, then anti-dumping, and recently the new steel policy announced by the government, which will benefit our line by business, by giving us a level playing field compared to free flowing imports which happened till recently. And it will also have a positive implication for our Plate and Coil Mill business because of the integration into manufacturing Plates and Coils will give us an additional edge over other typical Line Pipe companies in India. We expect that good attraction will emerge in international markets particularly in North America towards the second-half of the financial year 2018.

This sums up our update on the results for the quarter and for the year ended 31st Match, 2017 and a brief outlook for the next year. We will be happy to take your questions from here on.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Nirav Shah from GeeCee Investments. Please go ahead.

Nirav Shah: Firstly, our bid book is 4.8 million tonnes as on date, it was 4 million tonnes in third quarter and 3.3 million in September. So, what are the reason that you attribute this to?

S. Krishnan: The bid book has marginally gone up from what was the situation, there are a couple of key drivers – domestic business, we see sizeable orders coming in from water space irrigation and distribution line and also quite a few oil and gas related projects as part of the National Gas Grid which is really getting ramped up and we see significant action happening over this year.

Nirav Shah: Okay. So, incrementally of that 8 lakh tonnes, a large part of it would be domestic front only?

S. Krishnan: 8 lakh tonnes, we started with an order book of 6 lakh tonnes.

Nirav Shah: No, I am talking about the bid book, bid book was as of 3Q it was 4 million tonnes, right now it is 4.8 million tonnes. So, that incremental 0.8 million tonnes which is 8 lakh tonnes is attributable to domestic only.

S. Krishnan: I would not say entirely domestic I am just giving you what is the big movement that has happened in the domestic space. There will be some small movements in other geographies as well. So, for example, let me clarify in the US the Keystone XL project is now revived over the course of this quarter last quarter that went by the new administration gave approval for the Keystone XL project, they have also allowed them to import Line Pipes from outside for setting up the project. So, that will additional Line Pipe that we acquired to complete the project layout. So, that will mean some demand coming in, there is some volume that has come up because of that as well.

Nirav Shah: So, that is import of Line Pipes not domestic resource inUS?

S. Krishnan: We could supply it from India as well, we have the ability to supply from India to US depending on where it is feasible and where it is possible.

Nirav Shah: Got it. So, I have another question on the domestic front and then I will go for international operations question. So right now, with the new Steel Policy is in place. How do you see the margin profile over here? And secondly, is the 15% value addition clause protective enough to stop the bidding from overseas players?

Lalit Naik: This is Lalit here. I think at this stage, drawing implications with regards to margin would a bit difficult. We will have to wait and watch how the industry competitors end up in terms of pricing what do they do and consequently as we will have to figure out how it impacts our margins. But with regard to the other issue which is preventing competition from coming from overseas predominantly in the oil and gas space, if the buyers follow the policy the which they should I think we expect the Chinese competition to reduce. We are still trying to figure out whether the Chinese can bring in Pipe and do some value addition over here in the form of coating or otherwise. But we are not very clear and we also feel that it would be difficult for an international player to adhere to the 15% value addition clause. So, net-net at this point in time, we believe that it will prevent the competition from participating in the government bids.

S. Krishnan: Just to add to what Lalit is saying, the actual notification is expected to issue soon and the notification will bring in clarity of most of these aspects which will tend help us get a better sense of how things will turn out but clearly these are positive for us.

Nirav Shah: Got it. On the overseas order traction, what is the opportunity you see from this revival from Keystone and Dakota pipeline because they were largely on the at least Pipe sourcing front they were largely done with.

Lalit Naik: I think you have to view the overseas opportunity in the context of two things, one is what is happening in the oil segment especially in North America, the oil and gas segment and then in the context of specific customers. So, if you look at oil and gas in North America, I think the revival in shale oil production is evident by the fact that the number of oil rigs is gone up from 400 odd to about 850 or thereabout over the last three months - four months. This clearly indicates that the oil production is ramping up and consequently, on the ground the demand for OCTG and ERW products that has gone up first and we anticipate that the Line Pipe demand will go up and looking at the large projects which are being talked about substantial investment in this category is expected over the next year. So, it is not only KXL, KXL whatever 200 miles that is the minor part of it, it is not going to be substantial. We are looking at large size projects in Canada and in US basically to transport gas and that is what is going to contribute to the overall demand in North America. So, you have to evaluate it from these two points.

S. Krishnan: And one other just to add to what Lalit is saying is, this KXL has been one of the largest cross-country pipeline coming from in Alberta in Canada to Nebraska in US, the stoppage of this pipeline had impeded in the sentiment to invest. Now, re-allowing this kind of Line Pipes to come up is also going to be a positive spur for other large projects that will come up across the continent there. It is other way that we will see spin off coming in.

Nirav Shah: So, can you just name a few projects that you are expecting in the second-half, you mentioned that you are expecting North American business from second-half onwards.

Lalit Naik: Okay. We have a very clear idea on the bid book and the future bid book, so I mean all the names are there. But just to mention some of those which are getting expedited out of the list we have given over there one is the coastal gas link project which is a large size project with a demand of about 390,000 tonnes in Canada, so that is one. Then we are talking about within US we are talking about Kinder Morgan. Kinder Morgan is going to come up with a pipeline which is about 500 miles odd and would lead to a demand of 200,000 tonnes or in excess of that. There are a couple of projects which are being Enterprise, so these are few names. These the large size transportation companies and all these guys are at the moment, what I call finalizing the investors and closing financing, what in US terms we call open season where they announce the projects and then wait for interest come in from investors or customers. So, all those things are going on at the moment which leads us to believe that a coastal gas will definitely happen during the second-half of early next year, we execute later next year. Kinder Morgan will happen and a couple of others which I mentioned Enterprise could also happen.

Nirav Shah: Got it. And in terms of domestic market, what is the inflows you are seeing in the next three months to six months?

Lalit Naik: I mean everybody knows that Gail has floated tenders for bidding. We have large sized water projects being offered for bidding, Sauni that is for Gujarat and then you have a couple of others from South of India. So, if you really look at this large size water projects amounting to more than half million tonnes are on offer at the moment. And on the oil and gas side besides Gail, IOCL is active at the moment. ONGC will come in at a slightly later day. So, these are the projects which are on offer and we believe that about 500,000 tonnes to 750,000 tonnes of total Line Pipe demand will be decided on in the next two months - three months.

Nirav Shah: And our share it is difficult to answer but how much are we targeting out of this?

S. Krishnan: No, clear indication but we are one of the top three you can draw your own conclusion

Moderator: Thank you. We have the next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Just wanted to check up that in terms of competitive environment, how do you see both on export side particularly I mean in North America as well as the domestic side.

Lalit Naik: I think, I will ask Krishnan to answer the domestic side. But first, I think, on the export front, our predominant exports are to US or North America or to the Middle East, which is Saudi and neighboring countries. Now the competitive profile is quite different in these two locations. As far as North America is concerned driven by Mr. Trump's assertions on usage of domestic steel, we believe that in future a lot of our business will have to come out our factory in little rock. Which means we will have to source domestic steel and manufacture in US, so it is basically moving in that direction. Having said that, North America is deficient in the LSAW capacity, okay? They do not have the ability to produce Thick Wall Pipes Longitudinal Seam. Those kinds of pipeline or the demand will be met through imports from players like us. We have some advantage over there because there is anti-dumping on countries like Korea and Japan and so on. And in projects like Coastal Gas, we would be directly competing with Canadian player or a couple of US players or a couple of European players like Corinth or Borusan or so on. So, very clearly, our competitive position in US will be bolstered if we are cost effective and capable out of US and we would have an opportunity to participate against the European and American suppliers in the Longitudinal Same Thick Wall Pipes which again is good for us because we are not competing with integrated players from Japan and Korea. On the domestic front, I think I will hand it over to Krishnan.

S. Krishnan: On the domestic side, I mean the sizeable portion of the portion that will get transacted over the course of this year will be the domestic Line Pipe business for oil, gas, and water. We have seen far more sensible bidding happening from the Q4 of last year and as we go on this year, sensible in terms of pricing. So, previously the kind of fierce competitive pressure that was in, we experience in the domestic market is something that has got moderated and now, with significant volumes coming up across oil, gas, and water we see more than a couple of billion tonnes of projects coming up for bid and getting awarded may be deliveries will happen beyond 12 month, so that should also ensure that bidding is sensible from a margin perspective. So, we see the margin output for the domestic bidding being better than what it was in the last year.

Rajesh Kothari: So, coming to the domestic side, you said that few large big projects are coming up. Can you just tell us in terms of FY 2017 last full financial year what was the total orders which have been given out by the domestic industry by this GAIL and such players?

S. Krishnan: We may not add that statistics on the top of our head. The volumes are not significant from oil and gas space, there were some small tenders that got floated out between GAIL and a few others but that was not significant in terms of volumes. Nothing very significant over the last one year.

Rajesh Kothari: In water?

S. Krishnan: Some activity in water space but I think major activity in the water space happened year before that and it is now happening once again. I think last year was pretty calm on the bid front.

Rajesh Kothari: I see. And if I am not wrong the EBITDA margins in per tonne in water would be significantly lower than oil, am I right?

S. Krishnan: Logically yes, but not always.

Lalit Naik: It all depends on, you see the water business normally happens the customers are quasi government authorities and the bids go out to EPCs and then the EPCs bid for businesses. So, unlike the oil and gas normally, in some cases there is an EPC but otherwise mostly there is the customers directly place orders or do the bidding or do the process. So, if you really look at what determines the margin, it is basically the competitiveness or what EPCs are able to do in terms of fostering competition and getting the best price. Now, when the orders are few and far and between, the EPCs normally are able to extract the lowest price from people like us. We believe that going forward the orders are well distributed across the country and there will be many EPCs who will be getting a share of the business. It would not be to the account one or two EPCs. So, we believe that the opportunity for distributed manufacturers like us in terms of having, we have three manufacturing locations across the country, people like us, we would be able to make slightly better margins given the fact that there is enough business for the EPCs for the EPC to work on and they would not drive us to the ground. So, that is the believe.

Rajesh Kothari: So, most of this order will start from, you think you will able to get this orders from second quarter onwards will that be a fair assumption or you think even in quarter you have bagged good orders.

Lalit Naik: No, I think Krishnan will be able to tell you. But I think the awarding will happen between this quarter and next quarter but domestic orders lead time being lesser since, these are largely going to be locally procured materials as well. So, we will be able to execute quite some volumes out of this before the end of the financial year. But awarding can happen between now and before end of Q2.

S. Krishnan: Just to complement, I mean to give you some assurance, I think the EPCs like L&T, Megha and so on, who are the ones who are operating in the water space, they already have orders from the customers. So, if you talk of L&T we are talking about more than a 100,000 tonnes as well as Megha and so on. So, we are now sorting out with the EPCs. The customers have issued their orders. So, in the first quarter we expect the activity to pick-up in a few days and there will be some amount of closing in the first quarter itself.

Rajesh Kothari: I see. So, this year therefore, net-net do you think the domestic probably therefore would do significantly better than what you have seen last year?

Lalit Naik: We are relying on that. We are relying on the fact the domestic business is going to be strong this year and consequently operations, the performance out of India will be fairly strong.

Rajesh Kothari: So, last year India was about I think as about 6,50,000 tonnes something like that total volume?

Lalit Naik: Close to that. Around 6,00,000 tonnes, yes.

Rajesh Kothari: I think it is 6,50,000 tonnes. So, will it be safe to assume therefore, the capacity utilization in the current year would increase by about 10% - 15% kind of growth one should assume?

S. Krishnan: Well this year, if all the domestic business happened this tonnage that we have seen in India last year of around 6,50,000 tonnes should only go up.

Rajesh Kothari: Okay. And coming to your export business particularly North America, whereby you have mentioned, you need to procure domestic steel because of the Trump's recent policy and therefore you will be competing with Canada and European player. So, can you just tell us in terms of your competitive advantage or cost competitive, how competitive it will be and do you think structurally that means lower margins compare to what you use to enjoy about two years - three years back?

Lalit Naik: In US you are talking about or in North America?

Rajesh Kothari: In US

Lalit Naik: I think the cost structure in terms of man power predominantly that would be kind of more or less uniform for all players depending on how much they run. In fact, in US if you are familiar with that part of the world we operate on a floating manpower in the sense if and only when we have orders or visibility, we start ramping up the shifts. So, that flexibility is there in the US Domestic steel, I mean what it does is all the players in the US have to source domestic steel and bid based on domestic steel. I think it is a level playing field for everybody, and it is a more rational market in that sense. There are four or five players with capabilities in HSAW and ERW and again each one of these players have nuances. I mean some people are stronger in OCTG or ERW, some people are strong in HSAW and so on. So, give that structure, I think bidding would be more rational. And it would be up to us to see it to it that we do not ramp up cost in anticipation of orders but follow the orders and build up our cost structure which is just right for executing the orders. We are quite confident that this scenario will only benefit us because in the past the lower margins were driven by competition from Asia and fringe players from Europe. But now, with the American players participating with similar kind of cost structure

S. Krishnan: I think just add to what Lalit was saying, two things we must keep in mind, many of these projects, the exact project specification and Pipe specifications are still to be finalized. So, these are Long Seam Pipes they will need to be definitely supplied from India. Whereas if these are Spiral Pipes we have the option to outsource the supply them from India or supply them from Little Rock. Most of our customers have approval our mills in the US and India. So, that flexibility is always available to us depending upon on the time of the award and the plant occupation at the time of delivery. Accordingly, we are can always try and you know, so it is a little hypothetical at this point of time, this will get crystallize as we go along once the project gets awarded and our plant occupation get determined at that point in time.

Moderator: Thank you, Mr. Kothari. We have the next question from the line of Saket Kapoor from Saket Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, just putting the point on the consolidated picture and the standalone one. On a standalone we have done profit before tax of Rs. 234 crores whereas the console level it is Rs. 151 crores. So, what has attributed to this losses sir? The revenue has gone up from Rs. 1,620 crores to Rs. 1,958 crores, what has caused the losses?

S. Krishnan: Well, clearly two things, the business outside of India that is US and Saudi has been drag on the console this year that went by. So, we have had a bit of challenges in terms of the volume and the margins in both of these geographies. As we have been indicating earlier on in the year, this year has been a difficult year for our global business in US and Saudi and that is what has actually contributed towards the net margin being lower whereas the standalone margin is being relatively higher.

Saket Kapoor: But sir, we find this year was an environment of very benign raw material prices. So, just wanted to understand the factors that attributed to this lower margins or negative margins for the global business.

S. Krishnan: I do not know whether we will agree with you that the prices have been benign because prices have been volatile during the best part of the years. Second is the volumes of the business that we have done in our US subsidiary and in our Saudi subsidiary have been very-very low compare to what we have been historically accustom of doing. In the year that went by that is FY 2016 our US business did volumes of some 325,000 tonnes or there about and whereas in this year we would have done some 180,000 tonnes or thereabouts. So, the volumes have significantly dropped. So, the plant occupation being low and the fixed cost and the other overheads that is what has pulled down the average margin.

Saket Kapoor: Right, sir. What in the likelihood is going to change getting the order book position as of now what utilization levels are we looking up for the coming year, what are we planning?

S. Krishnan: Well, we believe the US business will do better in the year FY 2018 compare to FY 2017, we see the volumes being higher than this year and we also see the order book as at April 2018 being much better than the order book that we start in the year April 2017 for the US business. Similar would not be the situation as we see for the Saudi today. The Saudi business still seems to be going to the challenging phase. As we go through the year we will get better clarity and at that time we will be in a better position to give you an outlook for the Saudi business. As of now the outlook for the Saudi business continues to be challenging.

Saket Kapoor: Could you give me the utilization levels for all the geographies?

S. Krishnan: Utilization within?

Saket Kapoor: For all the geographies, India, the US, and the Saudi for last year.

Lalit Naik: While we give that to you, just to mention, I think our overall utilization was in the mid-40's all the plants put together we have a total capacity of roughly about 2.4 and I think from a production view point we were close to a 1 million tonnes. So, we were in the mid-40's on that and going forward we expect that our utilization would jump up to mid-50's in this year.

S. Krishnan: And to quantify the data on this, India as we discuss was around 650,000 tonnes; US was around 180,000; Saudi was some 107,000 tonnes or something.

Saket Kapoor: Right, sir. Sir, my last question, the numbers have been very lumpy sir, may be due to the execution cycle and all. But what investors look is, the linearity of the numbers also when we look at the numbers, we look at how linier they are, so in our businesses there is some sort of linearity which we can expect. Going forward in the current year is this lumpiness in numbers of one quarter profit, the other quarter being losses going to continue or can we get a linier trend for this year?

Lalit Naik: I think your use of word 'lumpy' is quite realistic, given the fact that it is a project driven business and in this project driven businesses depending on when we have to execute and when we get the orders I think the margins and profitability and so on follow. Having said that, I think this year has been particularly turbulent with some slowdown in the activity in the middle two quarters. Going forward, we also expect that there would be hopefully a balancing out of orders and we hope that we have a profitable position quarter-on-quarter.

S. Krishnan: And just to add to what Lalit was saying, we must understand that Welspun Corp is in the project business. We run projects, sometimes the projects and the delivery schedules go beyond 12 months up to 18 month and the tenure of the project need not to be coterminous with my financial year. So, you will see that volumes in the quarter are basically a function of what we have delivered in the quarter based on what the customer want us to deliver in that quarter. As at the year end, we have a 400,000 tonnes of Line Pipes lying in various geographies awaiting delivery. All 35 good for sale but customer delivery schedules have not still happened, so that will happen in the current quarter or between now and June or July. So, that is the very nature of the business. And we do not run this business on a quarter-on-quarter basis. I mean, you want to look at Welspun Corp you should at calendar over a couple of years, a year could be a better benchmark.

Saket Kapoor: Right, sir. Sir, you told the utilization levels in the higher 40's for the last year and it is going to jump up to 50-55 levels for this year if I am correct, I have heard it right.

Lalit Naik: Yes, you are right.

Saket Kapoor: Earlier you told that fixed costs were not covered for the US business, so will this incremental jump of 20% - 25% if I presume will be covering the US cost and will we stop bleeding in the US segment for this year? Can you give some thought on that, your thought on that?

Lalit Naik: All that we can say at this point of time is that the US business is adjected to do better volumes and consequently better margins next year. But not that every part of what we have taken in our business plan and budget is in our hand in form of orders, orders need to come, those need to be transacted in the form of production and then build before the year end, right? So, all that will determine as to what will be the eventual performance with US business. But based on what we have seen and what we believe should happen during the course of FY 2018. Our outlook for US compare to what we delivered in FY 2017 looks better.

Moderator: Thank you. We have the next question from the line of Sonali Gokhale from India Ratings. Please go ahead.

Sonali Gokhale: My question is mainly relating to the guidance on debt in FY 2018, what I understand is as many gentlemen have been referring to the fact that the nature of the business is project-oriented and thereby, there will be inventory pile-up at various juncture the financial year a lot of it could be at the end of the financial year because you will have back ended orders which is what has happened this time. So, what is the guidance on, what is the kind of short-term debt that you think you will end up with FY 2018 and what are the plants for pairing down your long-term debt over the next few years?

S. Krishnan: Few things, this year on a consol basis under the erstwhile iGAAP we have knocked off around Rs. 500 crores of net debt. We started the year at some Rs. 2,000 odd crores ended the year at some Rs. 1,500 crores. And now, when you look at these numbers on an IndAS basis we have knocked off some Rs. 250 crores of debt from what was the situation in March which was about Rs. 1,355 crores to about Rs. 1,100 crores. So, we have been able to pull down our net debt to the extent we can. This comprises paying down long-term debt where there is a possibility to pay or prepay where there is a prepayment option. Working capital debt is obviously a function of what the business requires in each quarter. Having said this, our working capital cycle as of March cash conversion cycle is of the order of some 63 days as of March 2017. We expect a marginal improvement in this. But we should be in the region of around 55 days to 60 days over the course of this year. Some quarters will be a little higher, some quarters will be a little lower, that being a function of what the business movement is and if we are able to do the kind of volumes that we expect and keeping our CAPEX which is still at a nominal amount of Rs. 100 crores we believe all the cash should be available to bring down the net debt.

Sonali Gokhale: Okay, thank you. My second question is can we have guidance on volumes please for FY 2018?

S. Krishnan: That is difficult. We do not really give out volume guidance. But if you see our opening order book of around 600,000 tonnes and then if we look at the bid book of some 4.7 million tonnes - 4.8 million tonnes, you take a reasonable share of this, you will be able to arrive at the numbers. Historically, you take a track record of four years or five years, we have been in the region of 1 million tonnes. For this you will have to do arithmetic, we do not really give out a specific guidance.

Sonali Gokhale: Sure. And the last question from my side would be, do you intent to also see FY 2018 ending up with a kind of cash balance, we have observed historically where cashless investments together is accounted for almost 50% to 55% of your gross outstanding debt, do you see that kind of trend continuing as a strategy?

S. Krishnan: You are right, that is the position till March 2016. But as at March 2017 if you notice we have been able to bring down our cash balance. It has come down because we were burden by the negative carry of these cash balances in the India book. To the extent possible we have tried to use this cash to prepay long-term debt where we could. So, that agenda will continue because this negative carry is not going to change but business of this size it will always have cash flowing between multiple book under the trade and the capital channel. So, I would still expect that we would have cash in the region of around Rs. 800 crores give and take a couple of Rs. 100 crores on the global business.

Sonali Gokhale: On the global business, right?

S. Krishnan: Yes.

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

Bhavin Chheda: Sir, few questions and observation, if I see your order book by region which is in the presentation from Q4 of last year when the order book was 9,13,000 and America was 3,43,000, still your order book now is 6,00,000 and America remains at 3,29,000 so should I analyze this as that the current order book mix is more in favor of US and hence, the margins in current order book are much better than what you have reported during the fiscal because historically US has been the most profitable business?

S. Krishnan: Well, Bhavin, yes and no. Let me tell you why, yes and no. Logically, yes, I mean more than half of the overall book is basically America's largely Long Seam Pipes but I would not say that the historical numbers would be what we can extrapolate for the future because we have also been in the last year as you would have noticed we started with (+9,00,000) tonnes of order book and we ended with some 6,00,000 tonnes. So, we have been a bit aggressive in our bidding as well. To ensure the order book does not drop beyond a certain threshold. So, there is a little bit of delta in the margins compare to what was been the historical margin that we have been accustom to as Welspun Corp for the US market.

Bhavin Chheda: Okay. But can I take the fact that the margins are not expected to decline from current level?

S. Krishnan: That should be a reasonable assumption.

Bhavin Chheda: Okay. Second one, sir, can you give me what was the total loss at the Saudi operations and what was the loss at US operations or a profit at US operations? Saudi, if I see, I can take your share of associate number, so during the year you have done Rs. 79 crores loss that was your 50% share. So, Saudi must have done a loss of Rs. 160 odd crores. Can I get the US number separately, because I believe the volumes are too less. US would not have contributed to the overall numbers in FY 2017.

S. Krishnan: I think, we will give you those numbers, I do not have it at the top of my mind, we will give you those numbers. But US below the EBITDA it has been a negative number.

Bhavin Chheda: Below the EBITDA US is also a negative number?

S. Krishnan: Just ballpark it should be some $18 million - $20 million.

Bhavin Chheda: $18 million - $20 million PAT negative.

S. Krishnan: Yes.

Bhavin Chheda: And the other question is the Plate Mill performance has been very disappointing, so what the company has been dong to revive that because if I see the overall Plate numbers of India and what your competitors are also being doing everyone is increasing volumes on the plate and coils business and there has been now anti-dumping duty on Plates also, so there is in a way protection also in Coils and Plates business. So, is there a business plan there to improve the volumes in 2018?

Lalit Naik: Let me take the last part of your question that is easier to take. Yes, the business plan for next year should show a better utilization of the Plate Mill capacity. The last year that went by, we have just been almost at the same volumes of the year FY 201. Two reasons because the domestic business was sluggish and because the domestic Line Pipe business was sluggish, captive consumption of Plates and Coils in to the Line Pipe business was also much lower than what we had estimated it to be. It was even lower than what was the volume that we have sold in the year FY 2016. So, all these policy measures that have happened including safeguard and MIPL, now the new steel policy, the benefits of this will flow into the current year that is FY 2018 and that is why we believe that the Plate and Coil Mill capacity including for captive consumption would be a positive for the next year.

Bhavin Chheda: Okay. And sir, my last question, again, coming back to volumes because the opening order book is too less and that is why it is discomforting. So, still depending on the bid book and how the execution profile is, FY 2018 would we manage to show a growth in volumes over FY 2017, how the schedule part of the current sits in the bid book turning into award how is it looking at as of now?

Lalit Naik: Bhavin, you have been tracking us for several years, so possibly you know the volumes much better than most of us. But if you go back and see 2012 - 2013, 2013 - 2014, in that two years where the opening order book was magnitude of some 6,00,000 tonnes - 6,50,000 tonnes and in both of those years we cross the 1 million tonnes. This year you are absolutely right, we are starting with an order book of some 6,00,000 tonnes but against this 6,00,000 tonnes there are sizeable projects that are expected to be awarded between this quarter and next quarter. And if we get our fair share of these projects not all of them, many of them are local oil and gas and water project. These projects and their execution should help us, catch up for the opening book to be in the range of volumes that you have seen Welspun Corp doing. Last but not the least is the entire opening order book of 6,00,000 tonnes is necessarily needs to be executed over the course of current financial year between Q2 and Q3 most of it should get liquidated.

Moderator: Thank you. We have the next question from the line of Vikas Singh from B&K Securities. Please go ahead.

Vikas Singh: Most of my question has been answered, just wanted to understand one thing, why our other income has been so high and is this a trend which is going to follow or this is a one-off?

Lalit Naik: Well, there are some items which have happened over the course of the current year which are exceptional, not all of it will get repeated in the subsequent financial year but that would may be in the region of some Rs. 20 crores - Rs. 30 crores, but others are all pretty much because we have some Income Tax refund with some interest, we have some other treasury related income which was exceptional. But for that, I think if you take Rs. 30 crores - Rs. 35 crores out of that everything else is…. The last but not the least there is also an FX related that has happened because the rupee strengthened between December and March.

Vikas Singh: And sir, if you can elaborate a little bit more on this Saudi plant, what we are thinking with respect to turning around, it would be very helpful.

S. Krishnan: If you look at the business situation in Saudi there was a lull in the business situation I think over the last year or so driven by the rise in the oil prices and the general attitude towards Pipe building, I think we see a few enquiries coming in from Saudi and the neighboring countries. In addition to that there are a few enquiries on the water side, okay. So, given that perspective, I think our turnaround will defend to a large extent on how many of these enquires get converted into firm bids and then consequently orders and how much of that we get as our share. But very clearly, I think Saudi factory for us or location for us has been developed to cater to local requirements and unlike the Indian entity where we can expect from Saudi it is very difficult for us to export. So, any turnaround or any improvement in business was significant improvement in business would depend on the local situation and we believe the trend is positive at the moment and though at this point in time the visibility of the business is a little lesser as compare to India and North America it could change dramatically given the bids and the pipeline, given the enquiries in the pipeline.

Moderator: Thank you. We have the next question from the line of Giriraj Daga from K M Visaria Family Trust. Please go ahead.

Giriraj Daga: Sir, I have question on your guidance, like what you said we are looking at 50% utilization, so we are looking at 1.2 million tonne of production is that what I heard correctly.

S. Krishnan: Giriraj, I think you must just take that as a generic statement, we do not give out volume guidance. But we would be in the region of around 50% because historically now this capacity is a function of the actual diameter and the thickness of the Pipe. Lower dia and lower thickness Pipes the volumes in terms of tonnages will be different. So, you will have to keep that more a ball park indication.

Giriraj Daga: The difference of striking that, we produce this year about 9,35,000 tonnes and we are looking at somewhere close to let us say 1.15 million tonnes or 1.2 million tonnes also that is still a significant number. So, that was only the idea of clarifying.

S. Krishnan: No, this year as well the production is higher. What you are seeing is sales. Production is higher because obviously, we have held inventory at the yearend which is getting build in Q1 of FY 2018.

Giriraj Daga: Because when I look at your Press Release mentioning the total production for about 954 total Pipe production, so it is 950, right 0.95 million tonnes and sales was 0.94 million tonnes?

S. Krishnan: Right.

Giriraj Daga: So, compare to 0.94 we are looking at 1.15 million tonnes or may be 1.2 close to the number.

S. Krishnan: Yes, so it is not very difficult see, because a capacity is a nameplate capacity Giriraj. Now the actual will be depending upon the actual diameter and the thickness of the Pipe that we produced. So, the same plant, you can work on nameplate capacity of 350 it can be 300 or 400 depending upon the actual run that you do.

Giriraj Daga: Okay. Some database question. Normally like even our other operating income is also significantly high, so what are the reasons for the same?

S. Krishnan: Sir, we answered that earlier on the call.

Giriraj Daga: I am talking to other operating income, I think you spoke about other income.

S. Krishnan: There is nothing in that which is exceptional. Either it is export benefit or it other incentive that is all.

Giriraj Daga: Okay. Normally we include the FOREX gain into the other income part, right? I think in the Presentation we have showed FOREX gain in the quarter roughly to the tune of nearly Rs. 69 crores.

S. Krishnan: Yes, there will be some FOREX gain, I do not remember figure. There is a gain as I said, at the yearend between December and March, the rupee strengthens by more than 3.08, right against USD.

Giriraj Daga: Correct.

S. Krishnan: That will reflect in the form of a gain.

Giriraj Daga: No, sir. I just wanted to clarify that out of this Rs. 103 crores, if I take Rs. 69 crores as FOREX gain then you are saying Rs. 30 crores - Rs. 35 crores is non-recurring and rest should be recurring then I am not able to reconcile the numbers.

S. Krishnan: You are talking about the quarter or you are talking about the year?

Giriraj Daga: I am talking about the quarter, this quarter we have other income of…

S. Krishnan: I was referring to the year and I was referring to other income not other income from operation.

Giriraj Daga: This quarter we have Rs. 103 crores of other income and Rs. 110 crores of other operating income.

S. Krishnan: So, let us say about 60% of that will be FX roughly.

Giriraj Daga: In other income, right?

S. Krishnan: For the quarter, yes.

Giriraj Daga: Okay. And other operating income large part would be export-related gain.

S. Krishnan: Yes. Other operating income will be typical, our export-related gains and the local incentives.

Giriraj Daga: Okay. So, there is no one-time incentive into that, right? On Rs. 110.7 crores, no one time incentive of VAT or something?

S. Krishnan: Other than exchange. In other operating income, there is no exchange.

Giriraj Daga: There is no one time gain of some incentive from the VAT related incentive or some export related incentive?

S. Krishnan: No, there nothing like a one-time in that.

Moderator: Thank you. We have a follow-up question from the line of Saket Kapoor from Saket Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, coming to your Presentation in which order book analysis is given, if we come to your quarter four order book type, we see that LSAW is dominant over the entire order book of 601 KMT that means it is oil and gas having the greater edge in the enter order book pie, am I correct on that?

S. Krishnan: You are absolutely, right.

Saket Kapoor: Sir, the domestic story that is going to get played for the year then the order booking can be there, the bids will have a different order book type Presentation I think, so these are the confirm order for us, the bids will be different. In the bids part sir, can you give the break-up likelihood how much is your LSAW and how much is HSAW?

S. Krishnan: That is difficult to give at this point of time till the bid gets finally awarded because there is always a possibility that the composition can change between now and award as well. So, I think it is difficult but all that we say is domestic orders on the water space will be mostly spiral not LSAW whereas, the domestic orders on oil and gas will be largely LSAW and to some extent spiral as well.

Saket Kapoor: Right. Sir, last point is the promoters did buy 2% or 3% stake in the company from one of the other investor. How should we investor look into this stake buy from the promoter? We do not have anyone of the promoters in the call I think so.

S. Krishnan: That is a difficult question, so you are asking a right question may be to the wrong person. But anyway, having said, you will have to arrive at your own conclusion, these are purchases that the promoters seem to have done based on their annual ceiling that are allowed, these are purchases that have happened in the market place at the prevailing prices following the prescribed protocol. It will not be proper on our part to comment on this as the management.

Saket Kapoor: Right, sir. but my basic simple understanding is the seller has got into the company at a very significant premium, I think so the entity is converted at a price of around Rs. 215 and at that time the prevailing price was Rs. 84 and today having the prospects and the segment being so better and the outlook being so rosy the people are selling their stake today at a discount. The story is now getting now unraveled for us at the time of buying it was at a premium a 100% premium was offered by I think the player who has around 19% stake in the company.

S. Krishnan: I think these are value perception that a buyer and seller is making. It does not have any implication for the company. So, we will be unable to comment on what was the value perception of the seller when he decided to sell and what is the value perception of the buyer when he decided to buy. These are transactions in the market and this has got no repercussion on the company or its operations.

Saket Kapoor: Right. Now my closing comment on thing, in the packing order where do we stand domestically in both the segment LSAW and HSAW and who are the nearest competitors?

Lalit Naik: Well, there is no other company in the same league like us obviously in the domestic space. We have the largest capacity, we have the largest reach across customers and with our CWC capacity, we would be the broadest in terms of bandwidth technically. Global reach, I do not think there is any other company of comparable global reach across the global market. Domestic there are quite a few other companies, some of them are listed, some of them are not and I am sure you will be able, you will be tracking some of them or you will get data on them in the public domain as well.

Saket Kapoor: Just trying to look at the packing itself Jindal SAW, Maharashtra Seamless are placed in which order in comparison to Welspun Corp?

Lalit Naik: Well, all of them are companies which have been the domestic space for several years now whether it is Jindal SAW, whether it is Ratnamani, whether it is MAN, all of them have been around for some time now. Their priorities and the way they do their business and their focus on Line Pipe business versus Steel or DI Pipes or other each of them is a different model, so it is very difficult to put a generic statement.

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

S. Krishnan: Thanks, everyone for participating in this call. Your questions have been very searching and many times have also given us quite a few inputs, we will take this question back and discus with our management team and also try and see how we can use this to improve our working and hopefully come back to you with better results in the quarters and the years ahead. Thank you so much.

Moderator: Thank you very much members of the management team. Ladies and gentlemen, on behalf of Welspun Corp Limited, that concludes this Conference Call. Thank you for joining us and you may now disconnect your lines.