"Welspun Corp Limited Q3 FY2018 Earnings Conference Call"

February 08, 2018

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Moderator: Ladies and gentlemen good day and welcome to the Welspun Corp Q3 FY2018 Earnings Conference Call, hosted by Edelweiss Broking Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Salil Utagi from Edelweiss. Thank you and over to you Sir!

Salil Utagi: Thanks. We welcome all to Q3 FY2018 earnings conference call of Welspun Corp. We have with us from the management, Mr. Vipul Mathur, Managing Director & CEO, Mr. S Krishnan, Executive Director & CFO and CEO (PCMD), and Mr. Akhil Jindal, Director Welspun Group Finance and Strategy. I now hand over the call to the management for opening remarks.

S Krishnan: Thanks Sir. Good afternoon everybody. Thanks for coming in on our Q3 results conference call. We will give you brief update of the results for the quarter and a little bit of an outlook for the quarter ahead. We will break it up into four parts, volumes, financial, order book and the outlook ahead.

Volumes for the quarter, our production was up around 23% YOY excluding the Saudi business, similarly the sales volumes for this quarter was up around 88% YOY at 305000 metric tonnes excluding the Saudi business. We report our numbers on Ind-AS excluding the Saudi business, as you would do. Including the Saudi business on the erstwhile I-GAAP system, our Q3 production at 263000 tonnes was up around 30% YOY. Similarly, for this quarter including the Saudi business the sales volumes were at around 318000 tonnes, up around 96% YOY. The huge jump in sales will largely on account of a relatively lower YOY base also coupled with some bunched of deliveries this quarter.

The plate and coil mill produced around 138000 tonnes in this quarter; sales were at around 135000 tonnes. The sales in this quarter were skewed towards more of external sale volumes rather than the captive consumption, which is in line with our efforts towards reducing dependence on captive usage.

Coming to the financials, Q3 the revenues were up around 92% YOY at around 2300 odd Crores; however, profitability was relatively lower as indicated and EBITDA was down now at 164 Crores, 4% down YOY. PAT after minorities and share of associates and joint ventures was at 66 Crores compared to a net loss of around Rs.4 Crores at the comparable Q3 of FY2017.

Based on the expected sales mix for the year you will recall, we have indicated earlier as well at this year front ended in terms of profitability and H2 FY2018 profitably will help the relatively weak. This is evident also in this quarter's margins and you will notice that the EBITDA for the pipe business in this quarter was around Rs.4500 a tonne.

Cash conversion cycle, you will notice that the sales were significantly higher than the production which obviously led to a reduction in our cash conversion cycle to around 36 days versus 48 days in the quarter two of this financial year. We maintained that the cash conversion cycle would be in the range of around 50-55 days for this financial year. Debt, the gross debt as in end of December 2017 has gone down by about Rs.161 Crores QOQ to about 1288 Crores. This also means we have reduced our gross debt by around 1000 Crores during this financial year. It has been possible due to our sustained efforts towards realizing the debt book to match the requirement for the business and also consistent repayment of debt and prepayment wherever possible.

We will continue to pursue that agenda in the quarters ahead. Net debt was down 362 Crores QOQ and the level was around 642 Crores, largely led by better working capital management including all operation that is the debt of the Saudi book as well, the net debt was around 950 Crores versus 1350 Crores for the last September 2017.

Capex - we continue to remain committed towards concern of the cash and maintaining a lean balance sheet. Cash flow generated would continue to be used largely to cut down debt, capex would be replacement renewals and whatever is immediately required for sustaining and growing the business in a sustainable way. We have booked more than about 900000 tonne of pipe orders since our last call. This is a good indication of remaining quarters.

This is also reflected in the strong order book which is at a historical high of 1279000 metric tonne, 1.279 million tonne valued at around 8200 Crores. Besides the confirmed order book our active bid book stands at around 3.5 million tonne, which is largely skewed towards oil and gas segment across the whole range market.

Upcoming projects future project, which might come up a bidding in the foreseeable future, stands at a healthy around 14.4 million tonnes at a good mix across most of our major markets.

Coming to outlook while demand from the oil and gas segment is yet to noticeably pick up in the MENA region, we except water segment demand to pickup providing strong business visibility in the quarters ahead.

US and rather the Americas, the demand for small diameter pipeline continues to show very good traction and the large diameter segment, our spiral market is showing signs of demand revival. Even our order book and the bid book are very comfortable towards enhancing our capacity utilization at the US and Saudi facility in the years ahead.

Domestic market continues to be witness from demand both in water and in the gas segment, the gas segment demand is driven principally by the expansion of National Gas Grid and the water demand is getting broad based geographically across the length and breath of the country with more and more state government, local government bodies focusing on developing water infrastructure, financed through a whole range of tools available and it will be interesting opportunity for us to tap in the month and quarters ahead, this growing demand for the water market in the domestic pace, it will also be interesting to see how we are able to access the demand by being close to the market. The demand outlook for our plate and coil mills division remains satisfactory although margin remains a challenge.

To summarize our analysis of the results for the quarter as well as the outlook at it, we would have welcomed your questions here on.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Giriraj Daga from KM Vesaria Family Trust. Please go ahead.

Giriraj Daga: Hello team. Congrats on a very strong performance in terms of order intake almost nearly 900 lakh is annual run rate, which you all did in the quarter, couple of questions on the operation side, what was the plate EBITDA in last quarter?

S Krishnan: It is about 30 Crores.

Giriraj Daga: 30 Crores, okay we see the plate EBITDA per tonne has declined and obviously I think the steel pipe maybe one of the reason and how you also spoke about margin pressure, so as the margin further gone down in the fourth quarter on the plate side?

S Krishnan: What has been happening and that is what we mentioned that margins remained the challenges, steel prices in general have gone up obviously flat prices have also gone up, but the steel product prices are still – there has been a lag so that is where there has been margin pressure in the short end product.

Giriraj Daga: Okay. I understood and next year outlook for plate number, total production?

S Krishnan: We do not have a volume at this point of time, we are in a midst of finalizing our business plans and budget for the next year, but we believe that we will do close to anywhere upwards the 300 to about half a million tonne or thereabouts and there is no indication at this point in time.

Giriraj Daga: I understood. In terms of EBITDA per tonne on the pipe side my second question, we have been certain one-off orders earlier quarters, but how is this current quarter showing, it is the normal-we have giving visibility for total what total order book is or this is also bit of lower visibility like we can take this – we should not take this as a normal quarter, how do discuss that?

S Krishnan: Q3 versus Q3 it looks very sharp, and nine months of this year versus nine month of next year the drop in EBITDA per tonne is about Rs.700 a month. It is about 10% roughly. What will be the credit EBITDA margin in a certain quarter leave alone EBITDA margin for the year, but on an overall basis what we can say is yes we are possibly in a very unique situation at this point of time, and as we start the next financial year, while we have said that this financial year end in March 2018 front ended in terms of margins which means Q3, Q4 will remain a challenge, we do not change that statement that you have made, but as start the next we are sitting on a unprecedented strong order book, which also means that our occupation of the mills will be much higher in the next year whether it is the Saudi mill or the US mill or even India facility and henceforth the bidding will also be better in terms of the margins of the new orders coming into the bid book and the order book compared to what we have with the order book today or we are saying is that the trend in terms of margin should logically we looking up.

Giriraj Daga: Okay. I understood. My last question if I can just ask that, so how was the outlook on the Saudi operations? We have been seeing continuously almost 18-20 Crores of loss on a quarter-to-quarter basis, how was the outlook of that?

S Krishnan: See we have said in the last call as well that last financial year and this financial year have been really two difficult financial year, now as we begin looking at planning for the next financial year, we are sitting on a very comfortable order book position and our sizeable portion of our order book of 1.2 million tonne or 1.3 million tonne that we have at a Saudi facility.

Giriraj Daga: I missed the number how much you said out of 1.3?

S Krishnan: The total global order book is about 1.3 million tonnes, 1.279 to be precise, and just under half a million tonne used to be serviced by the Saudi facilities, 475000 or 480000 tonnes. The visibility of business well beyond the next financial year and as we convert some of the currently bid projects into order book over the next couple of months and quarters, we believe at these two years of pain that we have gone through in the Saudi business, if possibly we have more than compensated by very, very strong order book and significantly higher average occupation of our mills and consequently better margins in the next couple of years more than one or two years as we see ahead.

Giriraj Daga: I understood Sir. Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Nirav Shah from GeeCee Investments. Please go ahead.

Nirav Shah: Good evening Sir. Congrats on a very healthy execution during the quarter and record order book. Sir two questions, first is if I am seeing our bid book at 3.5 million tonne has declined from 5.8 million tonne QOQ so awarding activity has happened for close to 2.3 million tonnes of which we have got around 9 lakh tonne, so is it safe to conclude that our share of inflows global US is 39% broadly?

S Krishnan: You can say that. I mean the math is right, but it is not exactly always that there are some bids which have moved on from the bid book to the little bit of delays, so that goes on to the upcoming projects, there are some which I have got converted as I likely set into orders, but the big thing is you must put all three aspects of that to the one template and analyze for yourself. The upcoming project book is at a very, very healthy 14.5 odd - 14.4 million tonne. The bid book is at around 3.5 million tonne and most important is the order book, which are confirmed contract that we have, which are at 1.3 million tonnes, so when you put all these three into the picture and then you look at the breakup of the order book across geographies what it indicates is a secure trend of higher volume, high occupation, and consequently better outlook for the business across all of our operations.

Nirav Shah: I mean that is pretty commendable getting such a large share in a global awarding at least in the segments that we bid, so congrats on that. Second question Sir, we have got very healthy inflows of around 9 lakh tonne, so is it hedged on the steel prices in back-to-back contracts so that further increase in steel price does not play spoil spot in our FY2019 EBITDA per tonne?

S Krishnan: Yes, and no. In the sense that across most of our market for whatever, the relatively manageable sellers, which will be under 12 month of supply, we would be pretty much heads on. In some market where the supply tenure goes beyond two years and sometimes more than two years, we will have some exposure which is an opportunity for us to also capture some of the procurement related advantages that we will have in the next six months or 12 months, it is not that every thing across all markets are covered at all point in time.

Nirav Shah: So Saudi order will be more than two years?

S Krishnan: Yes. Quite a bit of them.

Nirav Shah: Quite a bit of that, so I mean half of it we can assume that it will be flowing in FY2019 and maybe some part in the Q4 or completely in FY2019?

S Krishnan: No it will not be FY2019 entirely there will be some parts which will flow into the next year that is FY2020 as well because this is the order book as of now and this is a running business, we still have six weeks to finish this year, so there could be traction in the bid book getting converted into the order book between now and end of the year as well.

Nirav Shah: Okay and Sir Saudi order book you just mentioned is around 475000 tonne, any indicatives execution in next year, how much it should and most likely I mean will be turned into positive at the PAT level next year, what is – because you have – the JV has been posting losses, so any color on that Sir please?

S Krishnan: Well that is a good question, see the thing is as of now we start with an order book just under a half a million tonne and there are sizeable volumes in the bid book, which is easily converted into orders in the next six weeks, eight weeks or ten weeks. What our agenda and many of these are significantly water. As we explained the traction in the oil and gas market in the Kingdom is expected to also enhance our order book from Saudi facility. Our nameplate capacity in the Kingdom is close to about 350000 tonnes it means that three spirals mill that we have. We subject only to availability of steel should be running our facilities upwards of 300,000 tonnes if not closer to 350,000 tonnes in the foreseeable future. All these means that we will obviously be looking at much better volumes, much better revenues and obviously relatively better margins.

Nirav Shah: So if I can just ask a question related to this, you mentioned that in the next four to six weeks you will see substantial conversion of bid book to I mean tenders being awarded, so which segment in Saudi will be that again water and oil and gas and I mean what is the quantity of that?

Vipul Mathur: So at this point of time, it is not only in Saudi, but also at other geographies that we are favorably played in some of the bids, which we have got, now we are expecting a favorable conversion of those bids into confirm orders and that is an expectation at this point of time, well to qualify that statement, but we are fairly confident that would happen and one of them was also within Saudi and there are few others in other geographies as well.

Nirav Shah: Got it. So just the last question from my side, now that our Saudi book is in which way completely booked for next year almost and even the X-Saudi, it is a very healthy pipeline so can we assume that whatever incremental orders that we get maybe say for the next five to six months, it will be at slightly better margin than what we can be making at the current order book?

Vipul Mathur: That is what ever endeavor would be, now you have a base order book in to your system, here on whatever we would like to build up on, we would have the EBITDA into cherry pick orders and that is the way now we will look forward that maximize our margins.

Nirav Shah: But that will be the trend for the industry because industry has been seen a lot of awarding in the last three to four quarters, so it is a sort of bunching up right now and can you assume that to because the last few quarters have been very lean and suddenly it has been delayed to an extent that they had to be awarded and the bunching up is happening. So can you assume that the pipeline would be very strong because some of the larger orders have been delayed for like one half to two years?

Vipul Mathur: The pipelines look fairly robust and if you see our bid book, if you see our future potentials, the pipeline definitely looks very robust.

Nirav Shah: Got it Sir.

S Krishnan: Just to add somewhat, people is saying one thing that you may want to keep in mind is with an order book of 1.3 million tonnes that we have today, we really cannot comment about others and their bid books and their order books, so what will be their bidding strategy is something that they will determine, but as far as we are concerned, we will be a more aggressive in our bidding strategy and obviously the new orders that come will be having average higher margins and what is the average margin in the order book, as the way we would run our business.

Nirav Shah: Absolutely great Sir. Thanks for answering my questions and all the best Sir for the future.

S Krishnan: Thank you.

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

Vikas Singh: Good afternoon Sir. Sir just want to understand one thing if I see a production and sales x Saudi, so there is a significant higher sale than production but if I look back two or three quarters back we did not have that much of gap so there should not be that much of inventory, we should have bumped the sales to that extent?

S Krishnan: Vikas, that is a good question, but if you recall what we have said earlier in the year as well was that this was a tier in the first half and we expected the second half weaker in terms of volumes and obviously margins as well, so obviously when you come towards to the weaker quarter, obviously we will be winding down our inventory, so that is why you will see production versus sales, the sales are much higher.

Vikas Singh: So we had some that much of inventory already left which actually were not very visible in the last two to three quarter sales?

Vipul Mathur: See the global business like us with multiple location from where we supply there will always be inventory floating in the system, action of something that we can always tune up or tune down depending upon what is the customer requirement in one or two quarters ahead. We will do dispatches and conversion into sale is a function of what happens across the logistics and delivery to the customer.

Vikas Singh: Sir my second is if I calculate the US sale has come somewhere around 79000-80000 tonnes this quarter, but my consolidated minus standalone EBITDA does not look so lucrative despite the QOQ jump in the US volumes, so if you can just explain a little bit on what is happening on the US side, it would be very helpful?

S Krishnan: See the US I think in this quarter we have done about 75000 tonnes of production as well as almost similar volumes of sales, right in terms of tonnage.

Vikas Singh: Yes, but then our EBITDA if you – I see the consolidated it at minus India, which gives me largely for the US only it is not actually that great despite the jump in a volume from like last quarter of about 66000, 67000 to 75000, so are we executing a lower margin order there also or this is a kind of one of event and the margins showing jump up in there also?

S Krishnan: Are you comparing with last year Q3?

Vikas Singh: 2Q FY2018.

S Krishnan: Last quarter Q2 versus this quarter that is Q3, margins have effectively come off at the EBITDA margins per tonne, which was about 6700 or 6800 in Q2 is about 4500 at this point in time, right and this drop is across market. That extent will be slightly different across one market over the other, US will possibly be better because US last year at this time was running really dry whereas this year we have done almost twice the volumes as well as better margin.

Vipul Mathur: So if you compare of the Q2 to Q3 basis on a volume perspective, we are more or less around the same number, but from an EBITDA perspective, we have done much better, the harmonized EBITDA in Q2 was around Rs.5000 versus harmonize EBITDA at this point of time would be something Rs.9.5.

Vikas Singh: So Sir if there are any other subsidiaries which are actually driving because what I am doing is simply substituting the standalone EBITDA from this consolidated, which is giving me whatever the other subsidiaries are doing and I believe that US is the only largest subsidiary we left with us?

S Krishnan: US will be the largest subsidiary but I think I would want you to keep one thing in mind what is reported from India is not necessarily the domestic market, it includes exports from India into US, into the middle east and other market or what will call outside the world, right.

Vikas Singh: Okay. So there are intersegmental things also?

S Krishnan: We do not convert book into the geographical market margin.

Vikas Singh: Sir just our debt has come down significantly because the working capital since our order book had jumped up very significantly in a quarter-on-quarter basis, so how do you see that the working capital going forward and is impact on that debt, with the debt since we have some cash flows also, so is the debt we expected to remain at this level and the incremental cash flow would be surviving for working capital or some debt increased we can see in a coming quarter?

S Krishnan: So if you split our cash conversion cycle, which is in the mid 30s in terms of number of day sale, we have maintained that during the year or by the end of the year it will go up to around 50-55 days that is also because across geographies we need to ramp up our business volumes across the inventories and other components of working capital, the higher volume opportunities that we will see in the next financial year.

Vikas Singh: Okay Sir just one last question if may I ask, out of this 1.3 million tonne, if I want to bifurcate the order book with respect to oil and gas segment then water segment then how it would be?

Vipul Mathur: The split is almost like 55%, 58% is water and balance is oil and gas, so we can currently heavily leading towards is slightly move leading towards the water than oil and gas.

Vikas Singh: Okay and just Sir US outlook if you can share that how do see the next year US because we have talked about a lot of things improving there but on a ground level it is still somewhat lagging or getting delayed the real execution or the orders should come in?

S Krishnan: These is a significant turnaround and there is a very high level of optimism in the US industry at this point of time, with the crude jumping up to almost 65 we are seeing a very reinforced commitment coming up on the Shale gas which is a in development so what it means to us is that we are seeing a very strong demand for our small diameter pipelines which are for the ERW pipes what we have manufactured there, also what it means there would be a lot of large diameter pipeline because there is a lot of associated gas, which comes out when you do a Shale drilling, and this gas also need to be evacuated, so I mean just in order to see that they are able to match upon the desired production, you see a lot of focus coming on the large diameter pipeline and as we speak there are a quite few projects, which are already under very active, they are actually come up on the table which were not there few weeks back or few months back, so US all in all looks fairly robust, number one that is one driving factor. The other driving factor for the US economy would be at now they have a sort of antidumping cases again quite a few countries, so which means that the import into the US will get more reflected, which means that it will definitely help the local industry and we have seen that in the past that any country which books the antidumping on the imports, the domestic industry goes up. So that is another thing, which we are the key driver for the US industry goes up.

Vikas Singh: Pardon me Sir, that antidumping duty is again the import of steel or the import of large diameter pipes.

S Krishnan: I got this for the pipes.

Vikas Singh: Sorry Sir.

S Krishnan: These for the pipes.

Vikas Singh: Pipes, okay Sir. Thank you Sir. That is all from my side Sir.

S Krishnan: Thank you.

Moderator: Thank you. The next question is from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.

Dixit Mittal: Good evening Sir. Sir my question is on debt in Saudi Arabia Company, so can you give the gross and net figure there?

S Krishnan: I think the gross would be may be around Rs.470 Crores and the net would be around Rs.300 Crores.

Dixit Mittal: Okay so a combined net debt is around Rs.1000 Crores right.

S Krishnan: It will be less because the Ind-AS net debt 645, so it is beyond 940 or 950 Crores. This is the Saudi sale.

Dixit Mittal: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: I actually joined the call a little late, so in your initial remarks if you have highlighted anything about this new order, which you received during the quarter and any highlight on what could be EBITDA per kg or gross margin per kg in the new orders?

S Krishnan: We talked that during this year from April to December, overall we have booked around one and a half million tonnes almost around one and a half million tonnes of new orders and even in this quarter, we have done close to around 900,000 tonnes of new order booking, now across the whole range of market and margins vary from order to order and it is very difficult to throw a one number on it because this is what I am telling you is the total, there are multiple orders that form this volume.

Kashyap Jhaveri: Right but I can like in first half are we highlighted that numbers bulk of the orders that will be converted into sales in the first, in second half would be like a low margin order and this quarter it is about Rs.4.5 per kg, would the new orders of one and a half million tonne is the materially higher than 4.5?

S Krishnan: One thing that we did mention earlier in the call is that these are financial year FY2018 ending in March 2018 was a front ended year in terms of margins, so the first half was disproportionately higher in terms of margins compared to the second half and that is evident in the margins across each of the quarter of Q1, Q2, Q3. Second is that the margins in a quarter are also a function of the actual mix of sale that is actually build to the customer in that quarter, it is very difficult to predict what will be the margins in the quarter ahead.

Kashyap Jhaveri: On a full year basis FY2019 would be more near to the first half of this year or second half of this year.

S Krishnan: The other thing is sitting on this order book of 1.279 million tonnes today where many of our mills across the global markets are fully booked is not more, it is a much better position when we sit on between on the new projects and the bid books have to go to come up which means our agenda will be to book orders, which will have on an average higher margin than what is the current average margins in the order book. Bidding strategy will be different and what was the bidding strategy three months, six months back, so what is also means is that the trend in terms of margin can only look up.

Kashyap Jhaveri: Okay, so M9 would be let say the right way to look at it, not quarterly basis, but M9 margins would be like something that we would continue to target?

S Krishnan: I did not get you what do you mean by M9?

Kashyap Jhaveri: M9, nine months EBITDA per tonne, which is about 6.5% or 7%, is that something we would wish to continue to target or even higher than that?

S Krishnan: See we can keep that as guidance, as I indicated more than 6.

Kashyap Jhaveri: Okay.

Vipul Mathur: One other thing what also you have to have Mr. Krishnan explain, see EBITDA is a factor of what order book you have and in each quarter what is going to get eventually executed, right so you know the blend of that what is going to get executed on a quarter-on-quarter basis in the next financial year that is yet to be determined, because we have a fair amount of clarity, but is it crystallized the answer is no, and as we moved forward more into the earlier next year and as this process get crystallized more and more, I think so then probably we would be in a much better position to give you a guidance but having said that on a comparative basis that whether the quarter-on-quarter margin versus this year will be better the next year I can say it is safe assumption to have that.

Kashyap Jhaveri: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead. It seems no response. We have the followup question from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: Thank you very much for the opportunity again. I was just trying to deduce a number in the first nine months we have repaid debt about on gross level basis about 550 odd Crores, and our cash balance is roughly down roughly about 100 Crores or so, would the OCF in the first nine months be like an excess about 600 Crores or so, cash flow from operations post tax?

S Krishnan: That should be a logical assumption, the math should add up to that.

Kashyap Jhaveri: Okay. 600 Crores plus kind of a number for nine months.

S Krishnan: You are right.

Kashyap Jhaveri: Okay and second question is on this water fall chart on the working capital which is in the presentation slide #16, now would this in the new orders that you have bidded would this be now more the working capital should be more, our receivable should be more in line with what we did for this quarter?

S Krishnan: Receivables or which other component?

Kashyap Jhaveri: I think I mean if you can guide on the total base as what could be cash conversion, would it be more nearer to what we have already achieved or could be required more working capital going forward for such a large, I am saying a number of days, in absolute number obviously for a 1.2 million tonne as and when you book it will be large but in terms of number of days would it be still in line with what we have achieved till now?

S Krishnan: This number of around 36 days of sales, which we have achieved in the end of December in this quarter, it is a number of a certain date and this is at a time when volumes were at a lower end relatively, but as we go into the beginning of the next financial year that is April to June and beyond obviously with a such high order book we will lead to ramp up our operations to be able to address the volumes that are required to service that kind of an order book. If our volumes will have to be higher across inventories, our receivables would be higher, so the level of working capital would be higher and that is why we said that despite it looks optically good at 36 days of sale but we believe that for the year we should be going back to the average that we have indicated which would be in the region of around 50-55 days.

Kashyap Jhaveri: Okay Sir. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Good afternoon Sir. Sir firstly you could explain that tax credit part even if the sake of repetition also and what has been now that net cash inflow in terms of tax we have paid for the nine months?

S Krishnan: See in US earlier this month or rather in January, I think the US government under the new budget that they passed, they reduced effective tax rate from 35% to 21%, so this had an implication in terms of reducing the tax burden on the deferred tax liability that there is in a local book so that is what played a significant number and that has added an impact on our quarters the things of one time exceptional item, it roughly comes to just under 60 Crores in terms of rupee. It was under 10 million dollar.

Saket Kapoor: It is 60 Crores Sir? You told it Rs.60 Crores.

S Krishnan: Roughly yes.

Saket Kapoor: Roughly 60 Crores, and second was Sir what has been our net cash outflow barring the deferred tax adjustment, how much net tax we have paid for the nine months FY2018?

S Krishnan: It would be upwards of 100 odd, on a global basis.

Saket Kapoor: On a global basis, Sir now just I have to get a brief review Sir what are being the utilization level for across the geographies Sir, if you are going to separate or a blended one for us?

S Krishnan: Utilization of?

Saket Kapoor: I was asking about the utilization levels Sir across the geographies for nine months what have been the utilization levels?

S Krishnan: See we have done a total volume of production by the India which is just under 600000 tonne and in US it is just under 200000 tonne and Saudi has been negligible.

Saket Kapoor: Okay. So in percentage term, what should be the utilization level Sir for India, US and the Saudi?

S Krishnan: That is a difficult number, I will tell you why because a nameplate capacity you can academically we can bring it down into 12 months and take up a number for a quarter?

Saket Kapoor: On tonnage front Sir you can definitely describe it?

S Krishnan: That is what I am saying see because what happens is in a certain quarter some of our grids could have gone into the scheduled maintenance in all that, so that may optically miss by capacity utilization look very harder, so you may want to look a capacity utilization on an annual basis, so if we are done let us say upwards of 830000 tonne or there about in the nine months including the Saudi facility and if we continues this run rate in the last quarter as well, we may be in good position cross the million plus tonne mark and this on a nameplate capacity of 2.4 million tonne means we are around 45% of thereabouts roughly.

Saket Kapoor: Sir taking into account as of now the order book position and if you could delve on the execution cycle also, what is for the FY2019 then it look like I mean how much incremental utilization levels can improve on the basis of the order book execution?

S Krishnan: May be you may want to track our order book and our execution across the last six or eight quarters, and you will see for yourself that our execution on an annualized basis is a couple of 100000 tonnes more if not more than that compared to the opening order book, so as we started this financial year I am just giving you an example and you can use a same example for a previous financial year. In this financial year we started with an order book close to about 600000 tonne. We are as of number done about 830000 tonne, we believe if we continue with this run rate, we would cross the million tonne, which means on the opening order book our delta in terms of sale is this year could be anywhere affords of 350000 to 400000 tonnes, so if you use the same logic and may be normalize it for a year before or whatever you feel appropriate, you will see that good opening order book is a very, very reasonable indication of what could be the volumes that we could achieve in the subsequent year.

Saket Kapoor: Sir you are telling that for the average quarter would be 3.5 lakh tonne, per quarter it will be in the upward region of 3.5 lakh tonne for the next year?

S Krishnan: No.

Saket Kapoor: I missed the point Sir if you can just repeat it once more.

S Krishnan: It will be difficult for us to give a specific guidance of volumes per quarter, but what we are saying is assuming that our order book is let us say around 1.2 million tonne, I am just throwing a number because we still have six more weeks to finish this financial year during which some of our bids will also get converted into orders and some of the existing orders will get executed across this quarter, so whatever is the opening order book for the next financial year starting in April 2018 and ending in March 2019, historically we have always done better than your opening order book in terms of volumes. So you may want to make your assumptions and then derived whether it should be 1.2, 1.3, 1.4 depending on what model you chose to select.

Saket Kapoor: On a conservative basis, then we are working with a 20% growth since we are optimally reaching 1 million for this year on a conservative basis and then for 20% growth for an order book of 1.3 that means 1.2 would be a conservative outlook, am I correct on the assessment Sir?

S Krishnan: You are marking a good attempt to extract volume guidance from me, we do not give out a volume guidance and it is difficult for us to give a guidance but we can give you indication there are enough.

Saket Kapoor: That is your inference I have drawn, I am not putting words in your mouth but it is the inference I am drawn, assessment is right or wrong that much you can at least guide me Sir?

S Krishnan: I think if you put all these factors together if I were you, I would take an order book, I would take the bid book and I would take the upcoming projects book and then see our track record over one year or two years or three years and you will see for yourself. We believe that the trend is secular upward that is our overall assessment.

Saket Kapoor: Right Sir and this run rate, this trend of sustainable earnings in the sector is going to continue for at least two years down the line, that is what the feedback we can definitely get from you?

S Krishnan: As people indicated earlier you know outlook looks strong across Americas, across Middle East and even in India so this is unique situation that we have been facing after many years, the order book is very strong and the outlook for the quarter ahead is also very good.

Saket Kapoor: Sir on the coated pipe segments, that ERW segment, if you could elaborate what is your order booking on that?

S Krishnan: Which one?

Saket Kapoor: ERW segment Sir.

S Krishnan: Well on the top of our head overall out of this total 1.2, 1.3 million tonne roughly about 200000 or 300000 tonne should be ERW.

Saket Kapoor: Okay and Sir these are higher margin order or this is on volume turnover?

S Krishnan: So these will be good because these are including domestic and the exports.

Saket Kapoor: Mix Sir if you can give the detail, is that skewed towards the domestic part only?

S Krishnan: We do not have the mix of the top of our head. It is the mix of both.

Saket Kapoor: In the ERW segment, who are our nearest competitors domestically?

Vipul Mathur: So there are quite a few out there, quite a few, you know you have Suryas, you have Jindal, what you was seeing here on the ERW side of it, you are seeing a combination of an order which is going to get – which are secured and will get executed out of our US facility, also a component of order which will be secured and executed out of our Indian facility, so having said that the way it looks us as I told you that in the US side of it ERW segment seems fairly buoyant because of the Shale gas development, and a significant chunk of the order what we have booked in the US geography in the US that is significant chunk of the order which is also for the ERW, which we have announced earlier as well. So we are seeing a significant growth as well as future growth as well in the ERW segment in US also we are very buoyant about our capacity utilization in India as well because all these city gas and all this we are seeing that all these lines are going to come up, you are the main frontline coming up you have the alternate lines being drawn up so we have seen in both the geographies that ERW sector doing good in the financial year or coming financial year.

Saket Kapoor: Sir if you could give some more color on the gas grid part also and on the gas pipe part – how it is worked ground level movement we are seeing any order execution the gas pipeline, gas pipe line being built in the Assam to the Bihar region?

Vipul Mathur: There is a lot of work which is happening on the ground as well, if you see in the last year itself large diameter pipe is being bought over for the gas grid was in excess of a half million tonne and may be in the way the indications which we are getting at this point of time and the assessment what we carry in the oil and gas segment I think so I mean almost a signal volumes of pipe should be bought even in the next financial year so the gas based segment seems to be moving in the right direction, I think so last year also was nice and this year also seems to be very promising, FY2018-2019 seems to be very promising.

Saket Kapoor: Very promising point Sir. Right Sir. Thank you Sir for so many clarifications and answering all of them Sir. Nice speaking Sir. Thank you.

Vipul Mathur: Welcome.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Salil Utagi for closing comments. Thank you and over to you Sir!

Salil Utagi: Thank you everyone for participating in the call especially thanking our senior management of the company. Thanks all.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Edelweiss Broking Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.