"Welspun Corp Limited Q3 FY21 Earnings Conference Call"

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MODERATOR: **MR. KARAN SHAH - EMKAY GLOBAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY21 Earnings Conference Call of Welspun Corp Limited hosted by Emkay Global Financial Services. We have with us today Mr. Vipul Mathur, Managing Director and CEO; Mr. Percy Birdy, Chief Financial Officer; and Mr. Akhil Jindal, Group Chief Financial Officer and Head-Strategy, Welspun Group.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 Karan Shah from Emkay Global. Thank you and over to you, sir.

Karan Shah: Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity to host the earnings call. I would now handover the call to the management for their opening remarks. Over to you, sir.

Management: A very good afternoon to everyone. Welcome to our Q3 FY21 Conference Call. I wish to extend my sincere thanks for taking time out to attend this call. Let me run you through with the key highlights of our operational and financial performance during the quarter ended 31st December 2020.

Our pipe sales volume was at 285,000 tons, up 14.3% on quarter-on-quarter basis. Our income from the operations was at Rs. 1,393 crores, up 20.4% on a sequential quarter basis. Our reported EBITDA is at Rs. 252 crores, up 5.1% on sequential quarter basis. Our PAT is at Rs. 195 crores, up 28.1% on quarter-on-quarter basis. Our cash profit is at Rs. 264 crores, up 29% on quarter-on-quarter basis.

Our EPS for the Q3 stands at Rs. 7.5 per share and top of it our current order book stands at 612,000 tons valued at almost $770 million and an active bid book of almost close to 1.5 million. On the balance sheet side of it we stay at a net cash company. Our net cash position is Rs. 314 crores and the free cash flow what we have generated over the last 9 months in FY21 stands at Rs. 435 crores.

Let me also give you my broad outlook and update for the key drivers what we have seen each and every market. As all of you would recollect that the H1 of this year primarily full of Q1 and part of Q2 we lost in pandemic lockdown and where we have seen a complete demand destructions and value erosions happening there. However, in the last or let us say from the mid of the second quarter we started seeing an uptick in the economic activity and it seems to be gradually taking pace now.

As the environment is now stabilizing by virtue of roll out of vaccines and the fiscal stimulus programs we feel that there could be a stronger than expected recovery which will result in an improved scenario for oil productions and demand. If you talk about EIA forecast the brent pricing is averaged around $53 a barrel both in 21 and 22 compared to an average of $42 a barrel in 2020 which augurs well for us. If we specifically talk about India I am sure you would have noticed that the Central Government has asked the oil PSUs to make a quantum jump in their capital expenditure in the current financial year so as to stimulate the economic activity.

The ministry and the PMO has directed 13 petroleum sector PSUs to double their CAPEX to Rs. 2 lakhs crores in FY21 from the initial target of Rs. 1 lakhs crores and also endeavoring to scale it up further to Rs. 3 lakhs crores in FY22. The intent is to mitigate the blow to the economy from a sharp drop in private and state government investments due to this pandemic. As a result of this we have seen increased tendering activities which has lead us to win several orders and we expect this trend to continue.

The push for City Gas expansions continues to be strong. This is a part of the government plan for raising the share of natural gas in the country's energy basket to 15% by 2030 from the current 6.3%. The 11th City Gas distribution of finalization round is being planned and is expected to be launched soon. Some 50 to 100 districts will join the City Gas network adding the existing coverage of more than 400 districts. The demand in the domestic water segment across states have been muted as resources have been diverted in the fight against pandemic.

A significant increase in steel price has created an additional disruption as project cost have considerably escalated. However, water remains the key focus area and the momentum should pick up soon. There are more than 31 river interlinking projects planned in this country of which we believe Ken-Betwa is the first that has reached an advanced level of planning. There is also a strong resolve to provide drinking water to all households by 2024 under the ambitious Jal Jeevan Mission Program.

These projects would require huge investments in creating the necessary infrastructure both in line pipes as well as for Ductile Iron Pipes. Our prospects in the export market has significantly improved in a better global environment. Southeast Asia and especially Australasia stands out as the most attractive market where as you know we have bagged some highly prestigious order in the last quarter and we are seeing a potential to win a few more.

There is also an increased traction from Middle East, East Africa, and Latin America where we are in close discussion with various customers and are in contention to bag some new orders. The flare up in the steel pricing is a key risk to all these projects as they significantly increased the project cost. However, over the last two weeks we have seen a minor correction also started happening on the steel pricing side. And we hope that this correction will continue further.

Coming to USA, the overall environment for oil and gas has improved with a pickup in oil prices and better than expected production in demand.

However, many companies in the midstream sector where we play are extremely cautious with spending on growth projects. In the next few months we expect the prevailing uncertainty to settle down as the new administration assumes settles down and roll out their energy policy. Based on the current order books what we have, we have a visibility of production till the end of Q1 of FY22 and thereafter we would be in the market securing certain businesses.

Looking at the oil pricing which is fairly steady, looking at the oil demand which is also almost to a pre-pandemic level we feel very optimistic that it would be only a matter of time before the demand in the US market would also pick up. We remain completely focused on the same for each and every business opportunity which is going to arise and we have seen such things in the past and the turnaround in that market as we all know is also extremely fast. It is only a matter of time we believe that things should settle down there.

Coming to Saudi Arabia, we have an unexecuted order book of more than 160,000 tons comprising of orders both from oil & gas sector as well as water segment. With this order book the Saudi facility has a clear business visibility till the end of Q2 FY22. We are also in a favorable position on few large orders in the water segment as you would recollect on which we have participated in and awards for those projects were due.

With now the new budget in place we are expecting some positive moments around these projects. Further a pickup in oil prices is also lending Saudi Aramco the necessary space to start their CAPEX program and we are seeing quite a few enquiries seems to be coming out from them at this point of time. I would also like to inform you that we had gone ahead for the local listing of our Saudi JV in the Saudi stock exchange.

At this point of time as we speak our application is under process and we expect to get the clearance by end of this quarter. The process of listing would mean divestment of 30% of the stake by both the shareholders put together which means it will be split proportionately between the JV partners. WCL currently holds 50.01% in their JV through our overseas subsidiaries. This divestment would further improve liquidity at WCL. The process is absolutely on track and we are endeavoring to have the listing sometimes during the H1 of FY22.

I also wish to give you an update on our ductile iron plant as we have previously communicated to you. We see the ductile iron plant has a very attractive industry prospect and synergetic to our existing business. Accordingly we had gone ahead for setting up this Greenfield facility at Anjar. The project as we speak is moving at a very fast space and as informed earlier we are all set to commission it by the first quarter of FY2022.

I would also like to give you an update on the divestment of one of our asset which is the Plate and Coil Mill Division as you would recall that we have a binding BTA agreement between the parties and the date for that and the BTA validity is up to March 31st of 2021. You are also aware that we have received advance amount as per our understanding for the foresaid transaction and considering the strong fundamentals the high demand growth the margins uplift in the steel sector we are very optimistic that this deal will get consummated in the financial year and the CCI approval.

Lastly, on our Bhopal project, I am very glad to inform that the Bhopal project including expansion stands successfully completed. The total capacity at our Bhopal project is now close to 300,000 tons. We are looking at this facility both in terms of catering oil and gas demands and the water infrastructure demand in the central and east India. This facility was formally inaugurated by the honorable chief minister of Madhya Pradesh Sri. Shivraj Singh Ji Chouhan on the 20th December 2020.

We are also pleased to inform that we recently got this facility audited through API and we have been successfully recommended for the same which gives us the platform to execute API projects from this facility as well. With this we conclude our opening remarks. We will be happy to take any questions. Please open the floor for the questions.

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

Nirav Shah: Sir, I have three questions. Firstly is on the Saudi operations. So for few quarters we have been preferred placed on couple of orders from the water segment, but now considering that steel prices the way they have risen in the last three months, you see these contracts for L1 being renegotiated or they will be rebidded how will that happen, because I mean you would have put in a bid say three quarters back or four quarters back, where the scenario was completely different so now how would that adjustment happen for those orders that we are preferably placed?

Management: So technically speaking, we have been pushing them for soliciting revised pricing from us in line to capture the steel price hikes which has happened, and recently we got a small order from them in which they have gone ahead and given us the flexibility to adjust the pricing. I am not sure that for all the large projects they will agree to that, but they are completely mindful of this particular fact and they have shown flexibility in terms of acknowledging and accepting that there is a steel price increase.

They have adjusted us and accommodated us in one of the projects recently which got awarded. I am very confident that as we move forward towards finalization for these particular projects a fair opportunity will emerge on the table either for us to calibrate the steel price or if by that time the steel price would have in any case stands calibrated then we would like to go forward accordingly. So it would be a sort of a continuous engagement, but I can tell you that we are seeing a very flexible approach coming up from there.

Nirav Shah: Okay so the chances of the rebid are very less?

Management: You may consider that, yes.

Nirav Shah: Okay second question is on the US operations. Now I believe while for us also we have not seen any inflows and we are executing and we will be technically done within a few months. The same should be the case for the industry so in the first phase of awarding you see the competition intensity over there. How do you see that, will the margins be slightly different in the initial round of orders and then once the book fills for everyone, we can expect some sanity to return to the margins?

Management: See, it all depends who are the players who are going to come back into the play. Assuming that you know there are two scenarios. Let us say you have a project which is of a very small quantum and where there we can definitely see a little more aggressive competition. But if it is a large project which is coming up then they would like to go ahead with very established leading players into the field and it is in which category which Welspun stands up, number 1.

Number 2, we also have to be mindful of the fact that post this shutdown, not too many competitors would also have the ability to come back in the game. That is the impression we are getting. So the competition is not going to be as in terms of numbers we are not seeing too many competitors likely to come back into the play when the revised bidding activity starts. So we have to be mindful. We are extremely watchful. We are seeing each and every project. We also must understand that we have historical relationships and tie ups with all our customers. We are a preferred supplier to them.

So all those factors will continue to play a major role before any large project is going to get finalized.

Nirav Shah: Got it and two questions on India operations. Firstly on the DI Pipes we have given the schedule commissioning of April 22, now how will the CAPEX split be between FY'21, FY'22 and '23 I mean in terms of the breakup of that Rs. 1,250 crores?

Management: So largely it will be a large portion of the CAPEX would happen in FY'22. You know let us say if we have to split we would say around 40% of the CAPEX would happen or 40%, 45% of the CAPEX would have happened by the time by FY'21 and the balance would get spilled over into FY'2022.

Nirav Shah: Okay so at least Rs. 500 crores will be spent this year itself? And maybe say 10% in FY'23 where we will be staying I mean post completion all the cash outgo?

Management: I am sorry, come again?

Nirav Shah: So the balance I mean 10% will be in FY'23 and another 40%, 45% will be in FY'22 also? And sir we read some positive announcement on conclusion of sale of Jorabat Shillong I mean Edelweiss was in the news of buying that. What we are reading in is for the DHFL and the Reliance Home Finance. So what is the update on the bond portfolio, have we heard anything where there is a possibility of a right back off whatever amount we have written off in the past?

Management: No we are also hearing the same news as what you are hearing, we are very optimistic about Jorabat Shillong you know DHFL, ILFS are work in progress and we will continue to watch them. But our optimism around Jorabat Shillong is extremely high as it is yours.

Moderator: Thank you. The next question is from the line of Pratiksha Daftari from Aequitas Investment Consultancy. Please go ahead.

Pratiksha Daftari: I just wanted to know a little about the acquisition that we have mentioned, the Welspun Metallics and the other company. What is the rationale for such an acquisition and what is it that like what kind of approvals or assets that we are acquiring in this company since they are newly incorporated?

Management: So as you know that we have announced our intention of going and venturing into the DI pipe segment, we see that segment as a high growth segment and we see also synergetic to our business operations. It is in that backdrop we had forayed into that particular segment. This acquisition is we have the procedural approvals in place in a different company and it is by the time they have all got transferred. You know that is a logical strategic acquisition which we are now bringing in on the table. So that it will now come as a subsidiary of Welspun Corp, direct subsidiary under Welspun Corp.

Pratiksha Daftari: Sir, basically the approvals like we are paying about Rs. 99 crores for both of these companies put together. So this consideration is towards the approvals?

Management: No, this consideration is towards the expenses which this company has done in the intervening period. We started this project around three months back, so within three months this is the type of expenditure this company has done, so the acquisition is being done absolutely at a book value with them.

Pratiksha Daftari: So had we like if you had to take the same approvals in the company the same amount of money that we would have to spend for approvals?

Management: It is not only the money for approvals, it is also towards the cost of land acquisition the mobilization advances and some equipments which have long leased items which have also been ordered so it is a cumulative sum total of all these things. It is just not only for the approvals.

Pratiksha Daftari: Okay so like how much land are we getting I mean if you could just tell us a little more about that?

Management: No, we are setting up this project, it is from a detailed perspective it is like this. We are setting up this project with a capacity of 400,000 tons of manufacturing DI pipes. As you know for setting up a DI pipe plant, you have to have on a backend side of it a steel plant, a mini steel plant and accordingly we are putting up a blast furnace, a sinter plant, a coke plant, and along with that a DI plant. So the total capacity for DI plant which is the end product which we are going to sell is going to be 400,000 tons by annum capacity which we are putting, number 1.

It will be a complete price range, full price range as what is being prevalent into the market and from a land perspective this is probably we would be utilizing close to 150 acres of our land to set up these projects.

Pratiksha Daftari: No, I mean the land that is there in the companies that we are buying?

Management: So of this 150 acres land what we intend to set up our project, part of it we are buying from outside, part of it is already available into Welspun Corp and part of it is available with the group company. Just to see that everything is absolutely fair and under legal entities, we are buying from the private people also, the portion of land which is not there with us, and also we have also rationalizing the land within it, so that they are all sitting under one legal entity.

Pratiksha Daftari: Okay and sir this Rs. 100 crores that we will spend will be over and above the CAPEX that we have envisaged for DI, right?

Management: It is inclusive of that.

Pratiksha Daftari: Okay so Rs. 1,250 crores would be inclusive of this?

Management: At this point of time, yes.

Pratiksha Daftari: Okay my next question was regarding you just mentioned about the impact of steel on Saudi, so overall operations front we have back-to-back arrangements immediately when we get a new order right? So the current order book is it safe to assume that we have our steel booked at the prices when the orders were received?

Management: We are completely covered for all the orders what we have in our hand.

Pratiksha Daftari: Okay so then the steel price rise would impact only for bid book or would we see, I think Saudi was the only place where we had open position. Apart from there everywhere we stand booked and Saudi is something where we still will have open exposure, right? The order book of 160,000 tons?

Management: No, we will not have, on this 160,000 tons which is a confirmed order book at this point of time, we have completely insulated from the steel price. We have a back to back arrangement. The question on this call earlier on the call was that in certain projects where we are lowest bidder, and the contracts have not been awarded, what is the potential risk to that. That was the question and that is where I have answered earlier but after your question that on this 160,000 tons the confirmed order book what we have, we are fully insulated.

Pratiksha Daftari: Okay and do we expect any deferment of projects which are not yet like which are up for bidding or overall any lowering of demand because of the steel prices going up in any of our geographies?

Management: See the steel price increase certain price increase in the steel is definitely impacting our water business in India. There is no doubt about it, because the prices have gone up so high and the contracts which have been awarded they cannot afford to have these pricing. So we are seeing a little bit of a slowdown on the water side of it. It could be a matter of time when these corrections would happen. You know they will also get a price increase and there would be certain corrections which will happen.

So both these activities put together we will see the demand coming back. But other than that, the steel price increase is not as such per se we are seeing any demand destruction. Now let me tell you that let us say from an oil and gas perspective I think for the Indian PSU business, continues to be strong, you know we are seeing a huge traction as we have seen in the first two quarters and even in the last year.

We are seeing a continued traction coming up from the PSU business on that, so which means that the steel demand is not impacting the traction. In Saudi as I said, we are completely secure and in US, unfortunately we do not have any business visibility beyond Q1 on which I have to take an exposure. So to that extent we are completely covered in US as well.

Pratiksha Daftari: Okay, and sir our gross debt has increased by about Rs 325 crores this quarter. So any particular rationale as to why we did not deploy our existing funds and to increase our gross debt, and where exactly was this deployed?

Management: No, the gross debt has increased which is mainly in the US. So as you know in US, we have got one order which is there in the pipeline, and the steel had to be procured for that. So we have taken a short term loan to procure the steel for that. So that is the main reason. Apart from that in India we have just taken some commercial paper.

So as of September end it was Rs. 60 crores, December end it is Rs. 120 crores and commercial papers are at very attractive rates of close to 4%. So generally while the gross debt you will see has gone up, but the increases in the dollar debt in US, and as a result the average borrowing cost has come down substantially.

Pratiksha Daftari; Okay and one last question, sir. The EBITDA per ton for Saudi was substantially high on sequential basis. So any particular reason and how sustainable is this EBITDA per ton?

Management: You have seen that EBITDA per ton is a factor of the product mix. Fortunately in this quarter the product mix was very favorable. We were executing in the full quarter the order, which was very, very profitable so that is the reason you are seeing that very high contribution or high EBITDA margin in this quarter.

Pratiksha Daftari: Sir, would this be sustainable for the balance 160,000 tons order book or the mix changes?

Management: See we have always told as a guidance that in Saudi, we are let us say the guidance is always around $100 a ton EBITDA and then depending on what product mix we get, what is the price advantage you are able to capture, these keeps on changing right. But from a guidance perspective we stand consistent in our approach that it will be more than $100 per metric ton EBITDA which we are always going to make that and that stands true for 160,000 tons depending on how we are going to execute it, at what price that steel has come in. those factors will positively influence the EBITDA in the subsequent quarters.

Moderator: Thank you. The next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: What is the volume number for US operation as well as sales number for three months and nine months? Volume this quarter sales volume and sales figure for US operation?

Management: So for this December quarter, we had consolidated sales volumes of 285,000 tons out of which India is about 183,000 tons. Saudi is 97,000 tons, and USA is 4,000 tons.

Dhananjay Mishra: USA is?

Management: 4,000 tons in USA this time it was only a quarter in which we have been producing. The sales did not happen, the sales will happen in the subsequent quarters.

Dhananjay Mishra: So first 9 months nothing significant has happened in US operations?

Management: We are talking of this quarter, not in the 9 months.

Dhananjay Mishra: Okay and what about nine months for US?

Management: Nine months for US has been at 58,000 tons.

Dhananjay Mishra: So next quarter probably we will do about another 30,000 tons, 40,000 tons from US right?

Management: Should be more than that.

Dhananjay Mishra: Okay and sir what kind of valuation we are looking for our Saudi JV like this thing is going to on card?

Management: Right now we are in the process of doing all the administrative formalities, completing those formalities. We have merchant bankers who are there. It will all depend when at what time we hit the market, what is the order book, how is the Saudi market at that point of time looking like. I think we are fairly speculative at this point of time to answer that, but all what I can tell you is the market has a lot of appetite, the market is fairly buoyant and we intend to ride that wave.

Dhananjay Mishra: Okay so we will monetize our 15% share like our shares will come down to 35% right?

Management: That is correct.

Moderator: Thank you. The next question is from the line of Harshad Khandelwal a retail investor. Please go ahead.

Harshad Khandelwal: My question is what is our further capital allocation plan? Like how we are going to utilize net cash position?

Management: So we have already announced certain projects like the DI Greenfield which is already there in the public domain. Apart from that we would be having certain maintenance CAPEX which typically is there in India and in US, in our existing plants as well. Apart from this we keep looking at any M&A opportunities, so we have our dedicated team which is continuously looking at all these type of acquisition opportunities as well. And as and when we get some attractive opportunities, attractive assets, we will utilize the funds that are available with us.

Harshad Khandelwal: Okay and sir my next question is what is the R&D expenses, like R&D to earnings ratio if you can provide me?

Management: We may not have crystallized rate to the last dollar value, I think so we can work out that information and share it with you separately.

Moderator: Thank you. The next question is from the line of Rishikesh Oza from RoboCapital. Please go ahead.

Rishikesh Oza: Can you please provide a revenue and PAT guidance for FY'22 and FY'23?

Management: It is impossible to give a guidance. See there is so much of a variable factors which are playing into the market at this point of time and it is not that you know everyone is not aware of it. Even you are aware of it that what are the various factors which are playing at this point of time. How is the pandemic going to pan out, how quickly the US economy is going to revive, What will be the situation of the state's funding?

All those factors are going to play a major role in terms of deciding that what are the volumes and the earnings are going to be there in FY'22 and '23, however having said that I think there is quite a bit of an optimism. We stay very positive because we are seeing a very strong revival which is happening around both in, as I told you that we are seeing a strong signs of revival in the oil & gas sector in India, but at the same time the water is taking its own time. We are seeing the demand coming back in Saudi but at the same time we are seeing that in US, things have to stabilize a bit and we are watching it very carefully.

So in this element of uncertainty, it will be wrong on our part to give you any guidance or any numbers which we are not able to sustain. So I think so as we go in subsequent quarters as and when more clarity emerges, as the market starts stabilizing, I think so we can revisit and address these issues.

Rishikesh Oza: No problem, sir. Next question will be what is the revenue potential for your DI Pipe, sir?

Management: See our DI pipe business at its peak capacity would be producing close to 400,000 tons of pipe. The revenue the top line potential could be as high as Rs. 3,000 crores to that on a standalone basis.

Moderator: Thank you. The next question is from the line of Vikash Singh from Phillip Capital. Please go ahead.

Vikash Singh: Sir, I just want to understand one thing. If I just subtract the consolidated from standalone I see that the US EBITDA per ton comes to more than Rs. 40,000. So is there any one off or what am I missing here?

Management: So Vikash, in US, as we have disclosed in our results, we had one fire insurance claim of about Rs. 27 crores that is appearing as a note in our published results. So $3.5 million that is roughly Rs. 27 crores has come as an income for us.

Vikash Singh: Okay so on a net-net we continue business that has done some EBITDA losses this quarter also?

Management: Yes, I mean as you can see, US volumes were only 4,000 tons, so obviously on a 4,000 ton volume you really cannot expect to make profits.

Vikash Singh: Understood. And sir coming back to our debtor situation, see our total order book size has been on a lower side because we have executed some order this quarter also. So even if I assume that 40,000 tons, 50,000 tons of some orders which you would have booked in US, still it does not overall matches the kind of the net debt increase of Rs. 340 odd crores is there. So anything else which is there in the line items which we are missing?

Management: So in US at the end of December we have two projects in hand on the spiral side. One of the projects we have finished the production, finished goods is sitting in the inventory, and it will get accounted as sales in Q4 that is in March quarter. For the second project we have the raw material. The inventory is already brought in and that is the reason why there is short term debt that you see in US.

But both these orders are committed orders and we do not have any concerns on that so the sales will get executed in Q4, Q1 it will get executed and the inventory will get converted finally into cash and of course the debt will be repaid.

Vikash Singh: Okay sir, and regarding this Welspun Metallics Limited and DI Pipes Limited, so just Rs. 95 odd crores, it could go to the promoters some promoters or it was previously also a part of the overall Welspun Corp only?

Management: Vikash, sorry I did not get your question please, come back?

Vikash Singh: Just a Welspun Metallics Limited that Rs. 95 crores which we are selling out so it would go to some other our group another company or the promoter, so just a consideration is going to whom basically that I just wanted to understand?

Management: So Vikash, first and foremost, you have to understand this consideration is nothing else but a reimbursement of the expenses, number 1. Number 2, because for a brief period, when we were trying to regularize everything under Welspun Corp including transfer of all approvals and accreditations, that is for that period, the promoter entity had bridged up this expenses, and we are only reimbursing that. And it is purely at the book value.

Management: It is backed by hard assets which are recently created, so recently in the last three months land and whatever plant and machinery advances, so there is nothing which is like some speculative subjective valuation element coming here. This is hard assets created in the last three months.

Vikash Singh: Okay so basically I thought that the land was already available to us in our existing plant so I thought that we were using that land for this project like last time you have indicated us in the concall?

Management: So some land is there within the Group. Some of that land we were even leasing it out to this Welspun Metallics and Welspun DI but some land has been purchased from third parties as well. And third party purchase obviously requires cash. So it is absolutely an independent transaction.

Moderator: Thank you. The next question is from the line of Sriniketh Narayanan from B&K Securities. Please go ahead. As there is no response, we take the next question from the line of Rajesh Agarwal from Moneyore Investments. Please go ahead.

Rajesh Agarwal: My question is on US. Are you hopeful for orders from US, because the activity in permanent basis has reduced considerably, and second the new administration is agnostic to fuel oil and gas or this one? And the second question is, are we bidding for Namami Ganges project in India? And third question is, how is the CGD pipes order? Three questions, sir?

Management: Okay. With respect to US, I think so irrespective of whichever administration there would be US is a net oil exporter. They have earned this position after considerable effort irrespective of whichever administration it might be it is our assessment it is our feeling that they would not like to leave this whole position, till they have earned over few years, a hard for a few years. So that is one.

Two the decision would have become little questionable provided the oil prices would not have been firm, and the demand would not have come back. But you see that oil prices have also firmed up significantly. They are almost at the pre COVID level and the demand is also almost at the pre COVID level.

Rajesh Agarwal: But this is because of reduced supply from Saudi and other countries?

Management: There is enough supply, if you see earlier it was all OPEC maneuvered oil supply today it is no more OPEC maneuvered oil supply. I think so US has a dominant and a pivotal role to decide the oil supplies today right. So at that position is very hard earned position for them. So we feel that they will not relinquish that position so very easily irrespective of the political alignments, number 1.

Number 2, Permian Basin is a very cheap low-cost basin available to them, and that is one of the key drivers for the economic resurgence. So it is just a matter of time they would have to reset and recalibrate their priorities and align them and they will come out with their new policies. So I am sure this period of uncertainty is rather shorter than longer.

Rajesh Agarwal: Is it for future CAPEX or the last mile the orders pending?

Management: Both of them.

Rajesh Agarwal: You feel like they are $52 on NYMEX crude is it sustainable for them to make money?

Management: Yes, 100%. Anything which is more than $35 you must be making money. Coming back to your third question I would come back to the second one, the CGD demand that was on CGD right. The CGD rounds are going exceptionally well. Most biddings are all over. We are now into the eleventh round and with every round, almost 100 odd cities are getting added up into the kitty.

Today as we are talking almost 400 cities are being talked about for complete City Gas distribution network and today the work is happening only on the fifth or the sixth round of the cities. So there is a huge upside which is available. So we see a lot of traction in the city gas business even in future to come as well. Coming to your third question, which project were you mentioning to?

Rajesh Agarwal: I am seeing lot of other water suppliers getting lot of orders including contractors from Namami Ganges project in India?

Management: So we are not into that particular space at this point of time because we are on the mild steel large diameter and that is also one of the reason for venturing into the DI Pipes where Namami Gange is going to be a huge project, Nal se Jal is going to be huge.

Rajesh Agarwal: Right, but by the time we come, sir it will be late, you do not feel it will be late because lot of orders are getting huge now. Lot of Indian companies have got huge orders.

Management: The future if we go by all the assessments and the reports which are there and on the basis which we are making these investments. This business is going to grow at a rate of at least 6% to 7% of CAGR growth over next 7 years to 10 years time. That is what is the rationale for us to get into that business.

Rajesh Agarwal: Okay and sir the CGD orders have got margins?

Management: On the CGD orders, they are fairly reasonable margins.

Rajesh Agarwal: Better than the water segment?

Management: Yes, much better than the water segment. It is a very organized and very developed market and we are very satisfied with the margins what we are getting there.

Moderator: Thank you. The next question is from the line of Sagar Parekh from Oneup Financials. Please go ahead.

Sagar Parekh: Just one question on this Keystone project recently there was this news article where the Biden administration they cancelled that project, so just wanted to check on the, so I believe we have already done the construction and the inventory is lying with us. Just wanted to double check that? Any kind of impact on us?

Management: So Keystone pipeline from a Welspun perspective, we have completed the production. All the pipes are sitting on the ground. Our contractual obligations completely protects our interest to 100% of our receivable. So we are absolutely on a firm footing there is nothing surprise and on top of it, we were supposed to get that money is supposed to come up in tranches, as per the contractual terms. The first tranche of money has already hit our account, so we are not seeing any challenge whatsoever on the KXL project concerning the payments.

Sagar Parekh: So, we have executed the project, but the inventory was lying with us, right?

Management: We have produced the pipe, the pipe as per the agreement is stored at our facility as per our agreement and there is a separate commissional agreement for storage and handling as well over and above our pipe manufacturing contractual obligations.

Sagar Parekh: Okay and how much is the receivable spending from that project? You said it is 100% financial guarantee but just wanted to check on the total receivables pending from that project?

Management: It would be close to 60 odd million at this point of time.

Sagar Parekh: 60 million?

Management: Yes, 60 million would be an outstanding which should come over the next three months time in a progressive manner.

Sagar Parekh: Okay and fair enough and lastly any future impact you think from the new administration, you mentioned obviously that about the US shale industry in detail, but just wanted to check if the policy is more focused on the cleaner energy such as renewable there could be some implications for the oil and gas sector, right? So just wanted to check your thoughts on the same in US?

Management: See, it is too early for us to comment on the policies of the new administration. I can only reflect, and I was privy to two of the debates which has happened during this presidential campaign. And in both the debates, the President elect, and the President has categorically mentioned to continue to a policy of keeping the momentum up in the oil and gas industry.

He was specifically being asked questions around that debate and his position was very, very unequivocal very clear that I would like this momentum to be maintained. And we are all expecting to get that translated into a policy which I am sure should get rolled out sooner rather than later.

Sagar Parekh: Okay, so this Keystone project was just one incident where the environmental issues cropped up but other than that you do not envisage any such problems as such for the newer projects?

Management: See Keystone we have to see Keystone in a very different perspective. Keystone is a crude coming from Canada into US for the coast refinery. The crude which is coming up from Canada is out of the oil stands and which they feel is a dirty fuel. So that is where they are concerns are that it is oil sand fuel so it is a little bit of a dirty fuel and they do not want to that coming from Canada into their domestic market.

That is where they stand. But when it comes to the projects or when it comes to drilling and extracting and transporting their own fuel which they are producing in their own country. I do not see that there should be any reservations or any issues around that.

Sagar Parekh: Okay fair enough and out of the total 1.5 million bid book that you mentioned in the beginning of the call, can you give us a broad split up between how much is it from India US and Saudi or another country?

Management: Almost one third of that happens to be from Saudi. The other one third happens to be out of India and the balance is split between the rest of the world. Let me put it this way.

Sagar Parekh: Okay so US is very small right now?

Management: See what happens traditionally if you look at the US market when this pandemic has hit, at that point of time there was some 6 or 7 projects which were ongoing. Out of that 2 or 3 projects got shelved, and 1 or 2 projects got canceled. We already had the projects they got canceled.

The moment that clarity would start coming in, that what is the direction of this new administration, all those players are going to come back very quickly on to this particular field. So right now we may not be seeing there because they have not yet come back, so their numbers are not getting reflecting here. But we have to step back and analyze that when we were just around the pandemic time, there were some 6 or 7 projects which were up for running and 3 of them were awarded already.

So the moment that clarity emerges, so things are going to come back on track. We stay very, very optimistic. I do not want to sound exuberant, but I am equally careful. But I am very, very positive about the resurgence in the US market. We have seen that in the past, in the previous administrations also. I hope it will also be the same this time as well.

Sagar Parekh: And US we used to do about $300 EBITDA per ton at our peak and now when do you think we can come back to those levels let us say that you assume that the 6, 7 projects that you are talking about they come back. So you think we should be having such kind of margins in those orders again, or you think it is still some time away?

Management: It is possible, it is definitely possible. It is possible if those projects comes back and the competitive landscape has shrunk and is likely to shrink further. I mean it is all a matter of demand and supply gap and I hope that these projects do come back quickly on the table and it gives us as a vantage point in terms of exploiting the commercial mileage out of that.

Moderator: Thank you. The next question is from the line of Pratiksha Daftari from Aequitas Investment Consultancy. Please go ahead.

Pratiksha Daftary: Just two data point, sir. What is the amount that we have already received for the PCMD transaction?

Management: We have an agreement which was the business transfer agreement. As per the business transfer agreement we were supposed to get some Rs. 50 crores odd and we have already received that. But that was a long time back. So it is already there with us.

Pratiksha Daftary: Rs. 50 crores?

Management: Yes

Pratiksha Daftary: And how much is then balance yet to be received, sir?

Management: Rs. 800 plus crores.

Pratiksha Daftary: Okay, and the order book breakup if you could give between the three so 160 is Saudi, and between US and India the breakup would be?

Management: US would be close to 130,000 tons of the pending order book which will get converted into sales. And almost 300,000 tons would be from India.

Pratiksha Daftary: And this would be executed between Bhopal and Bhuj?

Management: Dahej, Mandya so we have 4 manufacturing locations in India and it will get executed out of these 4 locations.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Management: Thank you very much for taking time out for this particular call. I hope we have answered all of your questions. If you still feel that there is some clarity which is required or some additional information which you may need, you please feel free to reach out to our investor relations or to Gaurav for this particular matter and we would be very pleased to answer if anything else which you want us to address please. But once again my sincere thanks for taking time out and attending this call. Thank you very much. Have a good day.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.