

BUSINESS UPDATE

Well Poised for the Future

October 28th, 2021, Mumbai: Welspun Corp Ltd. (WCL), flagship Company of the Welspun Group, announced its consolidated financial results for the quarter ended September 30th, 2021.

- **Strong Net Cash Position of Rs. 1,022 cr**
- **Current Order Book of 579 KMT, active bid book of 1,393 KMT**
- **Sales Volume in Q1FY22: 175 KMT, Q2FY22: 180 KMT**
- **Total Income from Operations at Rs. 1,306 cr up +12.8% YoY**
- **EBITDA at Rs. 195 cr, PAT at Rs. 85 cr (after Minorities & share of JVs)**

*Note: Sales Volume, Order Book and Active Bid Book includes our Saudi operations
 Above order book includes conversion order of 95KMT with RM FOC (Raw Material Free of Cost) in Saudi JV*

Key Highlights of the Quarter ended September 30th, 2021

- *Financial Highlights (Consolidated) for Continuing Operations (Ind AS):*
- *Pipes – Considered as continuing operations & PCMD – Considered as discontinued operations*
- *Prior period figures are restated and reclassified wherever necessary*

1. Global Order Book position

- Current Global Order Book stands at 579 KMT valued at Rs. 4900 cr (US \$665 mn)

2. Total Income from Operations

- Q2 FY22 at Rs. 1,306 cr vs. Rs. 1,158 cr, up 12.8% YoY

3. Pipe Sales Volume (Total Operations)

- 180 KMT vs. 249 KMT YoY

4. EBITDA

- Reported EBITDA at Rs. 195 cr, Operating EBITDA at Rs. 161 cr

5. Profit (Continuing Operations)

- PAT (after Minorities & share of JVs) stands at Rs. 85 cr

6. Net Debt / (Cash) position

Figures in Rs. Cr

Consolidated debt	Sep-21	Jun-21	Mar-21
Gross Debt	1,230	816	771
Cash & Cash Equivalents	2,252	1,670	1,391
Net Debt / (Cash)	(1,022)	(853)	(620)

During the quarter, the company generated an Operating Cash Flow of ~ Rs. 548 cr. This demonstrates our strong focus on operational excellence, cost controls and working capital management.

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7. Corporate Tax Rate

The company has fully utilized its existing tax credits in FY21 and has switched to the new corporate tax rate of 25.17% in FY22 from the existing 34.94% (both including surcharges) in India.

8. Dividend

During Q2 FY22, the company paid a dividend of ~ INR 130 crores. The dividend amount declared per share for FY21 was 100% of FV of Rs. 5.00 per share.

9. Business Outlook

Oil prices have climbed to a multiyear high as OPEC+ said it would stick to its existing pact for a gradual increase in oil supply. Some market participants had expected a higher increase in supply. Last year, OPEC+ cut production as oil prices had crashed and since then gradually reinstated some supply in a phased manner. Natural gas prices have also soared over the past few months, especially in Europe. Global energy demand fell last year when economies went into lockdowns to fight the pandemic. As the situation improved this year, especially in Asian economies, demand shot up and energy producers struggled to meet the growing demand, pushing up prices. In the near term, a repeat of a cold winter in the Northern Hemisphere could propel energy prices further up. The current level of high prices is a big positive for us and is expected to drive global spending for Oil & Gas pipeline related infrastructure projects in the medium term.

High Steel prices continue to be a cause for concern. Steep increase in prices has created disruptions as project costs have considerably escalated. A further flare up in steel prices is a key risk as project costs significantly increase.

India

The outlook for the Oil & Gas sector in India continues to be a bright spot. The International Energy Agency (IEA) as per its key scenario based on stated policies has forecasted India's oil consumption to rise from 4.8 million barrels per day (mbd) in 2019 to 7.2 mbd in 2030 and 9.2 mbd in 2050. Under this stated policies scenario of IEA, the global oil demand will peak in 2030 at 103 mbd and will remain unchanged until 2050. This projection yet again shows the centrality of oil in the Indian economy over the next three decades.

India's natural gas demand is projected to double to 133 billion cubic meters (BCM) in 2030 from 64 BCM in 2019 as against a 12% rise in global gas demand. India is slated remain the third-largest oil consumer in 2030 behind the US and China.

Indian refining capacity is projected to expand 30% to 6.9 mbd by 2030 while the global capacity is expected to increase 3%. The refining capacity is expected to contract in North America, Europe, Russia, Japan and Korea but will expand in China, Middle East, and Africa, as per IEA's projections.

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With the country aiming to increase the share of gas in its energy basket to 15% by 2030 from the current level of 6%, 15,369 km of pipelines are under various stages of construction at present. Taken together with the 17,126 km of existing pipelines, these would help create a basic national gas grid in the country.

A major impetus for gas demand will be city gas distribution. The O&G regulator PNGRB in September 2021 invited bids for giving out city gas retailing licence in 65 geographical areas in the 11th city gas licensing round. Presently there are 228 Geographical Areas authorized by PNGRB in 27 States and Union Territories covering approximately 53% of the country's geographical area and 70% of its population. In the last CGD bidding round, i.e., the 10th CGD bidding round, 50 Geographical Areas were authorized for development of CGD Network.

Demand for HSAW pipes in the water segment has been impacted as State Governments were battling the pandemic. Moreover, a steep increase in the raw material prices had adversely impacted costs which led to delays in project implementation. We are now seeing a distinct pickup in orders as the number of COVID-19 cases decline across the country. There is also recognition amongst industry players that steel prices will continue to be high for the foreseeable future and project costs will have to be revised upwards. We are confident that we will see a steady improvement in demand driven by irrigation and drinking water supply projects across various states.

We are also in discussions for several orders in the export markets which have seen an improvement in prospects. During the quarter, we received a significant and a prestigious export order for a deep offshore pipeline project (of approximately 59 KMT) in Gulf-of-Mexico, USA. This exhibits overall improvement in business sentiments, our strong customer connect, their confidence in our technical excellence and our execution capabilities.

USA

In September, the natural gas spot price at Henry Hub averaged \$5.16 per million British thermal units (MMBtu), which was up from the August average of \$4.07/MMBtu and up from an average of \$3.25/MMBtu in the first half of 2021. The rising prices in recent months reflect U.S. natural gas inventory levels that are below the five-year average and continuing demand for natural gas for power generation use at relatively high prices.

However, there is still caution amongst midstream companies about regulatory issues and environmental opposition. Nonetheless, at the current level of high oil and gas prices we are confident of a revival in the medium term and are already seeing enquiries coming in for us to work on.

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Saudi Arabia

We have a confirmed order book of 222 KMT in our Saudi JV with steel for all orders in hand fully secured. At these level of oil prices we are optimistic and are seeing Saudi Aramco in the process of finalizing few projects. We being an LTA holder are expecting to receive a significant portion of these line pipe orders.

The Capital Market Authority (“CMA”) which is the regulatory authority responsible for capital markets in the Kingdom of Saudi Arabia, has approved the Initial Public Offering of our Saudi Joint Venture, East Pipes Integrated Company for Industry (“EPIC”) for the offering of 6,300,000 shares representing 30% of its share capital. The divestment of shares will be done by the JV partners in proportion to their shareholding in EPIC. WCL currently holds 50.01% in the JV through its overseas subsidiary. Post the proposed listing, WCL’s shareholding will not fall below 35% in the JV and it would continue to be the largest shareholder. The CMA’s approval on the application shall be valid for 6 months from the CMA Board resolution date. Considering buoyant market conditions, the EPIC board has given consent to go ahead on the proposed IPO and are hopeful that it should be within Q4.

10. Proposed Acquisition of Steel business of WSL by WCL through a Scheme of Arrangement

The Board of Directors of the Company at its meeting held on June 28th, 2021 decided to propose the Scheme of Arrangement between Welspun Steel Limited (“WSL”) and the Company for transfer of WSL’s Steel Division to the Company, with appointed date as April 1st, 2021, subject to regulatory and other approvals. This transaction is in line with our Business Growth & Diversification strategy to improve Earnings Predictability and Enhance Value Creation for all our stakeholders. As a part its Steel Division, WSL also holds 50.03 % shares in Welspun Specialty Solution Ltd. (WSSL).

The Honourable National Company Law Tribunal (‘NCLT’), Ahmedabad Bench vide its order dated October 4th, 2021, which was received by the Company on October 7th, 2021, has given directions for convening meetings of the equity shareholders, the secured creditors and the unsecured creditors of the Company for obtaining their consent to the Scheme of Arrangement between WSL and WCL.

Transaction Rationale

- Earnings predictability, stronger revenue and improved competitiveness with business diversification
- Stronger presence across market segments, provide access to new markets and product offerings
- Greater economies of scale will provide a larger and stronger base for potential future growth
- Synergies especially in raw material sourcing, common infrastructure, technical manpower etc.
- Significant Value Creation for all stakeholders

Valuation Summary

- Valuation report from two Independent Registered Valuers - RBSA Valuation Advisors LLP and Drushti R. Desai. Fairness Opinion issued by Dam Capital Advisors Limited

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- Finance Due diligence : Ernst & Young LLP, Legal Due Diligence : Economic Law Practice
- For every 100 equity shares of Face Value of INR 10 each held in WSL, shareholders of WSL will receive 81 (Eighty One) 6% Cumulative Redeemable Preference Share of Face Value of INR 10 each of WCL redeemable after 18 months from issuance date for a total consideration of INR 362.73 crores.

Key Financial Metrics (As on 31st March, 2021)

WSL (Carved Out Entity)

- Property, Plant & Equipment (Book Value): INR 249 crores
- Net Debt: INR 2 crores
- Revenue: INR 646 crores | EBITDA: INR 41 crores (FY21)

WSSL

- Property, Plant & Equipment (Book Value): INR 222 crores
- Net Debt: INR 120 crores | Pref. Shares: INR 51 crores (redeemable on February 19th, 2033 or any date before that based on the availability of the cash flow)
- Revenue: INR 93 crores | EBITDA: INR (19) crores (FY21)

Other Key Points

- There is a fundamental shift in the steel market and we believe there will be a sustained strong commodity cycle.
- TMT bars are extensively used in the construction industry, both in projects and by direct consumers. This will enable WCL to diversify its portfolio to the B2C segment.
- WSSL is listed on the BSE with a Market Capitalization as on 25th October, 2021 of ~ INR 742 crores.
- Stainless Steel Pipes business is technology intensive with high entry barriers and approvals required from process licensors & EPC's. Consequently, SS Pipe companies command a valuation premium.
- There has been a steady increase in SS Pipe Sales. WSSL has continued its journey towards gaining approvals.

Volumes (WSSL - Seamless Pipe & Tubes division)

Particulars	FY20	FY21
Sales (MT)	594	1,937

Post merger and stabilization, both these entities would bring predictability and higher revenue potential to WCL which is the primary intent of this acquisition.

11. Amendment of Objects Clause

The Company continues to evaluate suitable opportunities, for both organic and inorganic expansions / diversifications which have synergies with its business. It is important that the Company continues to expand / diversify its businesses/products offering for growth, predictability and to enhance earnings. As a

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prudent practice, detailed due diligence will be exercised with a clear oversight by the Board. Since the Company has a judicious capital allocation policy, every proposal has to first meet the internal thresholds for ROI and profitability before being considered for acceptance.

12. Update on Ductile Iron Pipe Project

As previously announced by us in October 2020, given the industry prospects and synergies with our existing business, we are setting up a Greenfield facility at Anjar to enter the Ductile Iron (DI) Pipe business. The project is on track and is expected to be commissioned by March 2022. There is a big focus on creating water supply infrastructure through various government schemes. Considering the expected growth and budgetary allocation by GOI under Jal Jeevan Mission, there is expected to be a huge demand for DI Pipes in the country.

13. ESG Initiatives

We continue to embed ESG in each and every aspect of our organization and are committed to be Carbon Neutral in our pipes business by 2040. We are undertaking a project at Anjar for the installation of Solar Panels and are also undertaking several energy efficiency projects which include replacement of Conventional Metal Halide Lights with LED Lights, a Centralized Compressed Air network project and installation of Variable Frequency Drives for various equipment. Water and Waste reduction measures are being taken as well with activities in progress for Rain Water Harvesting, Reuse of Hydro Tester Water and optimization of manufacturing processes to reduce Waste Intensity.

To further strengthen our commitment to achieve net zero carbon emissions, we have signed a MoU with BP India Pvt Ltd. on 18th October, 2021. The scope of the MoU is to jointly explore carbon emission mitigation and reduction opportunities in Welspun Corp's energy, logistics, mobility and waste management activities.

ESG is a strategic priority with Goals being linked with executive remuneration. We have further strengthened our Governance Structure this quarter and have taken many initiatives like including ESG into our internal audit framework, formalizing key governance roles, expanding the scope of stakeholder relationship committee to include all stakeholders (currently it covers only shareholders), a revised Fraud Prevention policy & plan approved by the Board, having a Disciplinary action matrix in place etc.

Management Comments

Commenting on the results, Mr. B. K. Goenka, Chairman, Welspun Group said, "There is a steady improvement in economic activity. The number of COVID-19 cases has been declining and we have administered more than 1 billion doses of vaccines in India which is a tremendous achievement. Our performance this quarter has been reasonably good despite grappling with input cost pressures. With sustainability at the core of our business and net cash balance in excess of 1000 crores, we are well poised to execute on our Business Growth & Diversification strategy."

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Detailed reconciliation of Operating EBITDA is provided hereunder:

Figures in Rs. Cr

Reconciliation of Operating EBITDA	Q2FY22	Q1FY22	Q2FY21	H1FY22	H1FY21
Reported EBITDA	195	203	240	398	437
Treasury income	(34)	(33)	(12)	(67)	(25)
Profit on sale of Land (incl. interest)	-	-	(42)	-	(42)
Operating EBITDA	161	170	187	331	370

Consolidated Performance Snapshot

Figures in Rs. Cr unless specified

Particulars	Q2FY22	Q1FY22	Q2FY21	H1FY22	H1FY21
Ex-Saudi Arabia/ CWC operations					
- Pipe Production (KMT)	101	84	161	185	265
- Pipe Sales (KMT)	142	141	151	283	332
Total operations					
- Pipe Production (KMT)	166	119	268	286	397
- Pipe Sales (KMT)	180	175	249	356	471
Continued Operations (Pipes)					
Total Income from Operations	1,306	1,299	1,158	2,605	3,227
Operating EBITDA	161	170	187	331	370
Reported EBITDA	195	203	240	398	437
Depreciation and Amortisation	54	55	52	109	105
Finance Cost	18	17	15	35	43
Profit before tax and share of JVs	123	131	173	254	289
Tax expense	33	36	63	69	142
Non-controlling interest	(1)	(0)	5	(1)	7
Share of profit/(loss) from Associates and JVs	(5)	3	47	(3)	70
PAT after Minorities, Associates & JVs (I)	85	97	152	182	210
Discontinued Operations					
(PCMD & 43MW)					
Profit After Tax (II)	-	-	(3)	-	(9)
Profit for the Period (I + II)	85	97	149	182	201

Prior period figures have been restated, wherever necessary

Figures in Rs. Cr

Consolidated Balance Sheet - Key figures	Sep-21	Jun-21	Mar-21
Net Fixed Assets (incl CWIP)	1,923	1,753	1,683
Net Current Assets	1,753	2,018	2,133
Net Debt / (Net Cash)	(1,022)	(853)	(620)
Net Worth	3,856	3,910	3,793
ROCE (pre-tax)	16.2%	16.7%	17.9%

ROCE (pre-tax) = TTM EBIT adj. for one-offs/ Avg. Capital Employed; both taken for continuing operations

Saudi Financials

Key figures of Saudi JV, which is not consolidated as per Ind-AS:

Figures in USD

Particulars in US\$ MN	Q2FY22	Q1FY22	%
Saudi Arabia Ops:			
- Pipe Prodn (KMT)	65	36	83%
- Pipe Sales (KMT)	38	34	11%
Revenue	40	37	8%
EBITDA	3	5	-44%
PBT	(2)	1	-313%
PBT – Welspun share	(0.9)	0.4	-313%
PAT – Welspun share	(0.8)	0.3	-349%

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Q2 FY22 Investor / Analyst conference call:

WCL management would be happy to answer investor queries on a conference call. Please find details below:

Date: Friday, 29th October 2021

Time: 10:00 AM IST

Dial in details:

- Primary Access: +91 22 6280 1325 / +91 22 7115 8226
- International Toll-Free numbers
 - Hong Kong: 800 964 448
 - Singapore: 800 1012 045
 - UK: 0808 101 1573
 - USA: 1866 746 2133

About Welspun Corp Ltd. (WCL)

Welspun Corp Ltd. a flagship company of global conglomerate 'Welspun Group', one of India's fastest-growing multinationals with a leadership position in line pipes, home textiles, infrastructure, warehousing, retail, advanced textiles, and flooring solutions.

Welspun Corp Ltd. (WCL) is a one-stop service provider offering end-to-end pipe solutions ranging from 1½ inches to 140 inches. The business also offers specialized coating, double jointing, and bending as some of its core strengths. With a current capacity of over 2.5 million MTPA in Dahej, Anjar, Mandya, and Bhopal in India, Little Rock in the USA, and Dammam in Saudi Arabia; WCL takes pride in being a preferred supplier to most of the Fortune 100 Oil & Gas companies, globally.

As a part of its Business Growth & Diversification strategy, WCL is setting up a state-of-the-art Greenfield facility at Anjar to enter the Ductile Iron Pipe business. It also intends to acquire the steel business of Welspun Steel Limited (WSL) through a scheme of arrangement. Through the proposed acquisition, the company looks to add stakeholder value by manufacturing of BIS Certified Steel Billets, Direct Reduced Iron, TMT bars and Stainless Steel Tubes & Pipes.

With 360-degree abilities in pipe products, operational excellence, and technological innovation, WCL has undertaken some of the most challenging projects around the world viz. world's deepest pipeline, world's heaviest pipeline, and others. Supported by its state-of-the-art facilities and global-scale operations, WCL caters to energy and water resource management for the safe and environmentally-friendly transportation of oil, gas, petro-products, and water.

For further information please visit www.welspuncorp.com

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