Welspun Corp Limited

"Q1FY25 Earnings Conference Call"

August 08, 2024

MANAGEMENT: **MR. VIPUL MATHUR – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER –WELSPUN CORP LIMITED**
MR. PERCY BIRDY – CHIEF FINANCIAL OFFICER – WELSPUN CORP LIMITED
MR. ASHISH PRASAD – CHIEF EXECUTIVE OFFICER – SINTEX BAPL
MR. SALIL BAWA – HEAD – INVESTOR RELATIONS – WELSPUN GROUP
MR. GOUTAM CHAKRABORTY – HEAD- INVESTOR RELATIONS – WELSPUN CORP LIMITED

MODERATOR: **MR. ASHUTOSH SOMANI – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day and welcome to Welspun Corp Limited Conference Call hosted by JM Financial. 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. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashutosh Somani. Thank you and over to you, sir.

Ashutosh Somani: And welcome everyone to the call. I'll first thank Welspun Corp for giving JM Financial the opportunity to host today's call. Without much ado, I'll hand over the call to Mr. Salil Bawa, Group Head, Investor Relations to introduce the management. Over to you, Salil.

Salil Bawa: Yes. Thank you, Ashutosh and good morning to all of you. I welcome all of you to the Q1 FY'25 Earnings Call of Welspun Corp. Present along with me today on this forum are Mr.Vipul Mathur our Managing Director and CEO; Mr. Percy Birdy, Chief Financial Officer of Welspun Corp; Ashish Prasad, CEO of Sintex BAPL and Goutam Chakraborty, Head Investor Relations for Welspun Corp.

You must have received the results and investor presentation of the company which are also available on the BSE and NSE as well as on the company's website. As usual, we will start the forum with some opening remarks by our leadership team. Post that, we will open the floor for your questions.

During the discussion, we may be making references to this presentation. Please do take a moment to review the safe harbor statement in our presentation. Should you have any queries that remain unanswered after this earnings call, please feel free to reach out to any one of us. With that, let me hand over the call over to Mr.Vipul Mathur, MD and CEO of Welspun Corp. Over to you.

Vipul Mathur: Good morning, everyone. Let me welcome you all for our Q1 FY'25 earnings conference call. I sincerely appreciate you attending today's discussion. Let me start the discussion with giving you some key operational and financial highlights of Q1 FY'25 followed by the business update, and then we can have an interactive session as suggested by Salil.

The key highlights of these calls are: our performance has been consistent, profitability has improved. We are accelerating our foray into the plastic pipes business. The margins have improved on a better product mix of export orders and contribution from the new businesses, and our annualized ROC rate we have been able to maintain over and above 20%.

Let me give you some operational and financial highlights for the quarter. The total pipe volume including the line pipes in India, U.S., and the DI pipes rose by almost 8% to 229,000 metric ton. The total order book for the line pipes in India and U.S. remains strong almost close to 0.5 million tons. Our DI pipe order book remains extremely strong at close to more than 300,000 tons providing a clear visibility from the next 3 quarters. Our stainless steel volumes rose by

57% on to 4,700 tons on Y-on-Y basis and the pipe volume saw a little dip and our order book stands at 6,790 metric tons almost valued at INR300 crores.

In our building materials, the TMT sales volume grew up by almost 175%. The Sintex volume -- the Sintex revenue for the quarter rose by 14%. In this quarter our EBITDA margins improved back-to-back by the better, by the product mix of export orders and the contributions coming from the new businesses. If you see our consolidated PAT goes by almost 50% on a Y-on-Y basis by INR248 crores. As I mentioned earlier our annualized ROCE is at around 20%-odd.

Let me just give you a flavour of where -- how the market is looking to us for all the segments of the business and the verticals we are presenting. Let's start with the first, the India oil and gas business. First and foremost, I am very delighted to inform that Welspun Corp has become the first Indian pipe mill to produce an API grade X65 ERW pipes for transporting hydrogen. This is an important achievement for future business growth opportunity and sustainability.

As we all know that the market will be moving in times to come more towards carbon capture and hydrogen pipelines, and this significant achievement puts Welspun Corp into a significantly full position. This has been done in a joint venture with the local steel company, Tatas, and we are very, very proud of this particular development.

On the demand side, we are seeing a very robust demand of almost 2.7 million tons of line price projects in the next 2 to 3 years with major demand coming from the large PSUs like GAIL, IOCL, ONGC, HPCL and BPCL. We have seen in the past years, in the last 1.5 years that the projects have been on a little bit on a slower side. But now I think so they are coming at -- this process is now getting accelerated, and we are seeing a huge traction coming up of this oil and gas pipeline network, which will be created in the country.

We also are seeing a very, very strong potential in the export market, especially in the Southeast Asian market, the Australasian market, the Latin American market and the Middle East market. If we talk about the water sector, we are -- there is a huge opportunity, which is now going to come across with respect to interlinking of rivers. And that should kickstart a significant high demand from next year onwards.

The irrigation pipeline demand is growing steadily and expected to continue in the coming year as well. The Jal Jeevan Mission continues to support strong demand for the pipes States like Gujarat, MP, Rajasthan, Tamil Nadu and Karnataka are exponentially increasing the water pipeline networks for irrigation, industrialization, and for urbanization purposes.

As regards to U.S., our outlook for the U.S. market stays very, very buoyant. As you all know, that we have an order book until the quarter 3 of FY '25 for this financial year. And I can share that we are very, very favorably placed to book some new orders and that will ensure business continuity beyond '24 -- financial year '24 as well.

These are -- if you remember -- if you heard me in the last call, I said that we have bidded for certain projects. And now in this particular call, I am saying that we are absolutely favourably placed to get these orders and it is just a matter of time before these orders will hitting into our order book. U.S. will continue to be the major driver for the global oil production outside OPEC.

U.S. crude oil production is likely to go up to 14.5 million barrels per day in calendar year '30 with Permian production expected to increase from current 5.2 million barrels to 7.5 million.

So Permian is going to be the main stay in U.S., and that is where the whole optimism we have about our U.S. continuity. The natural gas production from the current level of 104 BCF per day is expected to increase to 18 BCF per day by 2030 with Permian contributing to major portion of the incremental supply. USA continues to remain as the largest LNG exporter at 13 BCF per day with an additional 10 BCF per day capacity under construction.

We also see future opportunities in hydrogen and carbon capture pipelines. Out of this, at least two or three pipelines in the Permian region we see -- we are seeing, definitely one of them is going to get finalized in this calendar year itself. As regards Saudi, our associate company, EPIC, as you know has a confirmed order book of more than 2.5 years, that comprises both for water and oil and gas segments.

The Q1 FY '25, EPIC has received multiple contracts from Aramco for a value exceeding 1.65 billion SAR which are expected to contribute to the financial performance due starting at Q4 of FY2025. On the water segment as well the demand remains robust backed by a massive investment outlay on the water structure. We see a strong demand for pipelines for the next 5 to 7 years backed by both oil and gas and water under Vision 2030 of KSA.

After line price, let me move on -- let me give you some flavour on our DI pipes. The demand continues to remain strong in the DI pipe segment. As you know we have a strong order backlog of almost more than 300,000 tons back debt almost close to INR2,500 crores which gives us a very clear confirmed order visibility for the next 9 months.

Even if you look at the recent Union budget, the Jal Jeevan Mission, Har Ghar se Jal scheme has been made significant allocations in the scheme. At this point in time, around 78% of the rural households has got tap water. But still, 100 million households are yet to be connected comprised in both in rural and urban areas. So there is a huge potential for the next 5 to 7 years' time in terms of connecting water at each and every house.

The Swachh Bharat Mission also aims to provide solid and waste management across all the villages and is going to get implemented by funding to Jal Shakti Department. So this is the next growth area after this water connectivity we are seeing that they will be the waste management mission will start under the Jal Shakti Department.

Over and above Amrut 2.0 has a total outlay of almost INR300,000 crores and almost INR77,000 has been allocated so far. Amrut is all about the urban infrastructure. So all in all, we are looking at a huge traction in the Jal Jeevan Mission, which is on the rural side. We are looking at a huge traction on business in Amrut which is the urban side. And then we are also seeing a huge traction coming around the sewage, the solid and the waste management processes under Swachh Bharat Mission. So these three will -- are going to be the mainstay for the growth of our DI business, and that gives us a clear visibility for at least 5 to 7, if not 10 years from here on.

As you know, in recognition of this growth opportunity, Welspun is further enhancing its capacity from 500,000 tons to 600,000 tons without any additional capex which we have already made a disclosure for that. As regards our stainless steel bars and our pipe business, I am very, very glad to share that Welspun Specialty Steel packed the very, very prestigious order for NTPC Talcher project, a BHEL tender for pipes of almost 1,400 tons and which has to be supplied for this quarter.

This is a very prestigious breakthrough, which has come for our company in order for supplying this very super specialty pipes for NTPC Talcher project. Our current order book stands at almost close to 7,000 tons valued at more than INR300 crores. Further, the geography, territory and customer-based expansion continues, new grade development and introduction continues there by enhancing the product range capability and offering.

Alloy K500, a new high-value nickel-copper grade order book from a German customer is under execution. Welsonic 50 and XM 19 are some new high value-added grade orders, which are produced and delivered successfully. And these grades have been completely commercialized.

As a strategy, we continue to focus on penetrating into newer markets and customer acquisitions, developing and delivering new value-added and critical products, strategic cooperations and securing approvals and accreditations, nurturing innovation and digitalization of our process.

As you all know, this business is all about niche, new -- so our emphasis is very heavily leaned towards R&D and new product development. We have been able to develop some very boutique, call it, grade of alloys, and that is what is going to be the way forward and which will create a value accretiveness for this particular company.

As regards to the building material vertical, let me first talk about Sintex. I'm pleased to share that back on the exponential growth opportunity in plastic pipes market in India and with an effective to fast track our entry, Sintex BAPL has decided to acquire Weetek Plastics Private Limited at an enterprise value of almost INR85 crores. We take plastic in the manufacturers, CPVC, UPVC, and SWR pipes, fittings and water storage tanks with a combined capacity of almost 20,000 tons. This is -- this facility is located in Raipur, Chhattisgarh.

This acquisition is primarily driven, and we will talk a lot more about it in the Q&A session, if you have any questions around it. And Ashish is there to give you all the answers. But this acquisition is clearly defining for accelerating our market entry in business into the pipe segment. It is also aligned with our strategy and our growth objectives, which we have clearly outlined for Sintex. It is -- also, it is a state-of-art facility with a strategic location, offering us an opportunity to test the market for CPVC, UPVC and PVC range of products.

For the existing business of our Sintex, our focus remains on strengthening the channel. We are -- the work is underway for capability building of existing distributors and counting newer in the area of white spaces, also deepening the engagement with the influencers. The company's focus will remain on profitable growth, along with continued investment in business development and brand building. We are expecting a faster than the market growth.

All in all, if you see Sintex as we see, is on a growth path, and on a quarter-on-quarter, they have been -- we are seeing a positive traction and acceptance of our product coming into the market. I will also briefly touch about our other product, the TMT rebars which is in the material building section. The infrastructure push by the central government remains the key driver. With rapid urbanization, there's a significant increase in residential and commercial construction activity.

Also schemes like Pradhan Mantri Awas Yojana, we have almost 3 crores additional houses are planned for providing affordable houses, and various infrastructure development programs are driving this demand. The growth awareness -- the growing awareness and enforcement of quality standards in construction materials are pushing demand for high-quality TMT rebars which offers better performance and safety which is the USP of Welspun and it is branded in the Welspun Shield.

Apart from that, we are also seeing a lot of traction coming up into the -- on the B2B side of the business as well and where we are seeing a strong demand coming up in the region of Kachchh where a lot of industrialization seems to be happening. So the B2B and the B2C put together is going to be the key growth driver for our rebar business which is located in Anjar.

I would also take this opportunity to highlight that as to how Welspun Corp has evolved over a period of time. If you see our revenues over FY'22 where we have -- we were just a standalone pipe manufacturing company and have done capex in terms of all the Greenfield capex in terms of DIP, Sintex and the TMTs and the SS you will see that the results of that have started coming in 2 years' time.

So if you see from a top line perspective, how our top line has moved from a INR7,000 crores top line to INR17,000 crores top line in 2 years' time, and how our EBITDA has moved from INR1,000 crores EBITDA to almost INR1,800 crores EBITDA and how our ROCE has moved from 13% to 20%. It is a very clear reflection that all that investments that we have made and the capital allocation we have done in terms of our Greenfield projects and acquisitions in the past have started paying dividends. And this is a journey which we will like to continue and build upon that and creating value for our stakeholders.

Lastly, our sustainability journey also has been progressing well, and we have been taking -- and we have been recognized both by DJSI and CRISIL, and we are sitting in the top 4 or 5 percentile in the sustainability tax, is also a very clear reflection that apart from the group, which these companies focus, sustainability is getting an equal attention and we are making a steady stead around that.

With this, I would like the moderator to open the floor for any question and answers, if any one of you have. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Deepak Lalwani from Unifi Capital. Please go ahead.

Deepak Lalwani: Good presentation, sir, on simplifying all business segments. So on the U.S. business, my question was on any de -- bottleneck in terms of demand? Is it relating to approvals from the government, which are getting delayed because of the elections or has there been any change in the economics of the capex for putting up the pipeline? What is causing the delay?

Vipul Mathur: Deepak, good morning. First and foremost, I don't think so there's any delay with respect to this impending political elections out there. I don't think so that is any of any concern. It is a cycle. Typically, what happens in U.S. when you have completed a one major project of a Permian, it takes around 2 more -- 2 quarters before they come back with a new project. And we just completed a project in March of this financial year, the last financial year.

And we are now -- right now into the 6 months period, where the new projects have been conceived, developed, bidding, and the awards are going to take place. So it's a process which is taking time. I think, so fundamentally, there is nothing wrong with respect to the U.S. Fundamentally, their upcoming elections have no impact on that. Fundamentally, the Permian Basin is very, very strong. The growth potential in that basin is huge -- it offers immense potential out there.

So fundamentally, all those things are in place. It is just a process which is taking -- which makes this sort of a time. And we are very confident that in the last quarter, we had participated in certain projects. In this particular quarter, as I said in our opening remarks, we are not very favorably placed in getting some orders around that.

Deepak Lalwani: Right, sir. And given the high cost nature of that geography, can you indicate the breakeven level in terms of volume that we should do to be profitable there?

Vipul Mathur: See, typically, let's say, instead of looking at the breakeven side of it, what we always endeavor is that we tried to close -- we always try to do close to 300,000 tons. Because the U.S. is one of our major contributor to our top line and to our earnings as well. So -- and also, the demand and the potential is so very huge out there that we are almost, we are very confident that on a sustained basis, we should be able to close anything between 250,000 tons to 300,000 tons of business in U.S.

Deepak Lalwani: Okay, right. My next question was on the DI side. All the players in the DI ecosystem in India are making higher margins and have good order books. Reason being that the demand is more than supply today. So can you help us with some numbers on the demand in the states we cater to for FY '26? Because this year is already in the backs. So is the situation persist in FY '26 in terms of demand? And the margins also, if you can give some guidance, given that the supply addition is happening in the industry. So if you can illustrate on margins with supported by the demand numbers?

Vipul Mathur: Deepak what we see that the demand in the DI pipe industry in the Pan-India basis should be anything in the vicinity of 5 to 6 million tons, number one, right? And which was -- which used to be 3, 3.5 million tons. So there is a significant uptick on the demand side of it, number one.

Number two, in respect of the markets which are addressable for, let's say, Welspun. We are on the West. We have interesting markets like Gujarat, Rajasthan, MP, Jammu and Kashmir and, typically, the markets on the Western side. Out of that 6 million to 5.5 million, 6 million tons, at least 1/3 of the demand is on this particular side of the market. So there is a clear visibility of almost 2 million tons of demand, which is going to be here, which is going to be in this addressable market where Welspun is likely to operate.

And we're being one of the largest players in that, we will definitely have our piece of the cake into that, number one. The second part, with respect to the margins. See today, there, the margin profile is a little different. It is much better. We have seen the commodity pricing getting soften and all that stuff. So typically, everyone seems to be looking at a margin of something like anything between 16% to 18%.

But going forward, I think so on a steady-state basis, my assumption that would be that the margins would be anything between -- should be around 13% to 15% margin business. So right now, while the margins looks very good for including us and for all of us. But moving forward FY '26, '27, it looks like that I think the best way to calibrate margins would be around 15%-odd.

Deepak Lalwani: Understood, sir. Sir, in the SAW pipe business, what could be the split of oil and gas and water which you could provide?

Vipul Mathur: See, in the -- on the SAW pipe business we have, let's say, in our -- we have an order book of -- as I said, we have a close to an order book of almost 0.5 million tons at this point in time. And in terms -- and that generally, the split around that will be close to almost 50-50.

Deepak Lalwani: Okay. Understood. So on the oil side, the 3.7 million tons that you're talking about in terms of potential demand, where is this forecast coming from? Is it relating to the refining capex or distribution or exploration? And are these tenders already floated in the market that is giving you this confidence? And if you could provide a sense of any sensitivity to oil prices that can possibly give a challenge to this demand going forward?

Vipul Mathur: See, these two points -- see, first and foremost, there is still a lot of work to be done in completing the gas grid in India. I think -- so we still feel that more than 20,000-odd kilometers is still to be completed. I'm leaving East for the time being. Still, almost 20,000-odd kilometers need to be -- pipelines need to be complete in order to complete the whole gas grid in India. That demand -- and this has to happen in any case. And this is where we are seeing that the major demand is going to come from in India. Apart from that, there is a huge demand, which is going to come up from the CGD segment.

So these are the two driving segments from an Indian perspective. And the company -- and it is like IOCL and the GAILs of the world, who are going to do this capex. And we have seen that for the last 5, 7 years, they have been doing on a consistent basis. We have a strong indication and a feeling that they are going to accelerate this process over the -- from now onwards through the next 3 to 4 years' time.

Apart from that, if you see, there is also a huge export potential, which is available at this point in time. Today, if you look at the crude pricing, they are hovering around very, very range bound. They are all around $80 to $90, in that range. Someday today you might say it is USD78, but that's momentary.

But typically, if you see the average, they have been hovering around USD80 or plus. And that is a very, very decent number of a crude price and which is putting all the projects back up on to the trial. And that is getting -- clearly is getting reflected in the types of the bids and the types of the projects which are getting announced.

So we are going to see -- we are seeing a lot of traction in the Middle East. We are seeing a lot of traction in the Southeast Asia and the Australasia region. And we have been extremely, extremely busy from the -- on the export side of it for the last 3 or 4 years. And we intend -- and we are expecting that this trend will continue for the next 3 to 4 years.

Deepak Lalwani: Okay, right. Sir, on the water projects, the pipes...

Moderator: Mr. Deepak has been disconnected.

Vipul Mathur: Okay.

Moderator: Thank you. Our next question is from the line of Pavas Pethia from Birla MF. Please go ahead.

Pavas Pethia: Sir, I want to understand there in terms of Sintex moving from storage to pipe solution. Are we already rolling out products they already kind of filling started? When can we expect other products to start contributing?

Vipul Mathur: So on the Sintex, the product -- the water storage tank product is a very signature project and which is already being rolled out and is already into the market. We have been gaining market share on a quarter-on-quarter basis. And I think so the company has been doing incredibly well from a loss-making company in -- when we acquired this, and in the 1 year' time, it is becoming a profit-making company. That itself is a testament that what efforts have been done in terms of making a complete turnaround.

So our tank business, I think, is doing significantly well. Of course, there's a lot of work still to be done. And as I said, that we have a lot of channel partnering and branding exercises are being done. So we will see a lot of traction and uptick coming on our tank business, but in terms of -- now we are trying to accelerate our presence into the pipe business.

And as we recently announced that we have acquired a company called Weetek and that will be -- that will accelerate our presence into the pipe business as well. I have Ashish also here to -- Ashish, if you can, kindly add something if you can add to this, please.

Ashish Prasad: Thank you, Vipul. I think in terms of our business, I think we are very delighted to share that yesterday, we announced the Weetek acquisition, we believe Weetek acquisition will allow us to fast forward our entry into the pipe business. And we believe that as we complete the transaction over the next 6 to 8 weeks, we should be in a position to thereafter start building the work for getting into test marketing.

Pavas Pethia: Some kind of numbers, sir, in terms of, say, ex storage solutions, what could be the figure for Welspun in FY '26 for Sintex, FY '27, how you are looking at some visibility or some growth plans there?

Ashish Prasad: So at this point of time, our idea would be to do the foundational work. And our communication with the market has been that we will be expecting a faster growth rate than the market growth rate. Second is in the pipe business, we see ourselves that we will be a challenger brand. we will challenge the players in the current pipe industry, plastic pipes industry. So let's see, we're doing the foundational work. We will -- we are hopeful that every quarter, we should be showing an improvement in our performance.

Pavas Pethia: Okay. And sir on line pipes especially on export how big is the contribution from export in the standalone operations right now?

Vipul Mathur: I'm sorry, your voice is breaking, please. I didn't get your question.

Pavas Pethia: Sir, in line pipe business, your exports from India, how big is the contribution from exports in terms of margin?

Vipul Mathur: A significant contribution comes from exports. This is what is Welspun's mainstay. Today, Welspun Corp line pipe business enjoys just about -- it's one of the top two or three companies in the world, which has all the approvals and the accreditations, and is what that helps us to leverage our brand value. And there is a significant slate which comes into and our profits from the exports business. Significant portion comes from that.

Pavas Pethia: But has that significantly changed in last 2, 3 quarters might has this become a disproportionate by overall into operations?

Vipul Mathur: Not really. Not really, nothing disproportionate. I think, so, it's a fairly steady state business. And on a quarter-on-quarter basis, if you look at it, it's just the product mix, which keeps on changing sometimes we have a domestic oil and gas and water and a little of export. In some quarters, you have higher exports, a low of domestic oil and gas.

So this product profile keeps on -- the product basket keeps on changing on a quarter-on-quarter basis. But when on a year-on-year basis, I think so it has a very significant contribution to our earnings.

Pavas Pethia: And just lastly on this. One of your peers got a big order, were we also kind of going for this deal from East Asia, somebody not a big order in line pipe business. Were we there in that...?

Vipul Mathur: I'm sorry, I'm not aware of that. Which one are you referring to, please?

Pavas Pethia: Sir, Man, got some big orders in line pipe business. Are we also kind of going for that order?

Vipul Mathur: We must -- we definitely would have anticipated in that particular project. I'm very sure that we would have participated in that. But that necessarily does not mean that you participate into every project and win each of the projects. And also, we are very mindful the profitability and the margins, we are very, very conscious of that fact.

We do not want to operate on the lower end of the business. And Welspun Corp philosophy has that we always want to operate on the niche products and niche markets. So all those considerations goes before we do any competitive analysis for a particular project.

Pavas Pethia: Okay. Thanks. That's all from my side.

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

Vikash Singh: Sir, my first question pertains to the very high export mix in this quarter in the India execution has we done with that order or we would see that after some part of that order flowing into 2Q as well and so keeping our margins on the higher side?

Vipul Mathur: Vikash, as you know, that we have -- as I was just answering the early question, it is all about the blend. We have a very favourable blend of a domestic order, domestic oil and gas order, domestic water order and export order. On a quarter-on-quarter basis, it keeps on changing. In the last quarter, yes, it was very high of the export component which was into that particular plant.

But -- and I think so in coming quarters also, we have a very, very strong order book with respect to exports, and they will get executed in the subsequent quarter. The proportions of that percentage can keep on changing a little bit there. But there will be a portion of -- a significant portion of exports, which will always be there in all the next -- all the quarters in this financial year.

Vikash Singh: Sir, just a follow-up on this at current order book of 400 Kt. How much is in India and what percentage of this is the export orders?

Vipul Mathur: We can give that breakup separately Vikash.

Vikash Singh: Sure, sure, sir. Sir, my second question pertains to Sintex. You have given the volumes. Sir, and as we can see that the last 4, 5 quarters in terms of tonnage it seems higher kind of a very consistent. So just wanted to understand how the revenues have been grown over this period, revenues and margins.

And given that Sintex is not fully ramped up, still, we are going aggressively on the other segment. So I just wanted to understand our strategy. Do we expect that what has not happened in the last 1 year would happen in the next 1 year in terms of volume growth in Sintex?

Vipul Mathur: Ashish, will you take this?

Ashish Prasad: So on the volume growth, I think there's a typo error in the sheet. I just want to clarify to everyone. So our volume growth is 11% in the quarter, and our value growth rate is 14%. So that's one clarification. I think we've been consistently if you know Sintex is a turnaround story over the last 15 months we've been working around in doing foundational work.

And we are growing quarter-on-quarter and we are growing on profitability. At the same time, investing around on strengthening our channel program the distributor, the dealer program and the user program. And we believe that foundational work gives us the confidence that we are creating the right foundation as we get into the pipes business. So that is what gives us confidence that this is an area to invest into and to build our business.

Vikash Singh: Sir, just a follow-up. For that INR22,000-plus crores capex, how much we have -- anything we have spent so far?

Vipul Mathur: At this point in time, Vikash, we have just -- this INR2,200 crores or INR2,300 crores announced capex, as we have told you, that it is spreaded over 2 financial year. In this particular financial year, we would see around close to 40% of that capex to happen and the balance going into the next financial year.

Vikash Singh: Understood, sir. Sir, just one last question. We haven't given that debt number this time. So would you like to give us that?

Vipul Mathur: Debt number, I think, so I mean, we -- I think the best way to look at the debt numbers would be on a half yearly and on a yearly basis. There would always be some cash flow mismatches here and there. But I think so we are pretty much mindful of that. We are pretty much -- it is very much into control. And I think so we can share that with you offline on this. But I think the best way to look would be on a half yearly and on a yearly basis, please.

Vikash Singh: Understood. Sorry, sir, if I can just take in one more question. Just from the understanding purpose, all of our DI pipe contract of that 300 kpr fixed price contract, and there is no indexation benefit in case of the severe change in the raw material prices has to be filed on, on gain?

Vipul Mathur: There is a small component. I'll correct you here, Vikash. There is a small component in which they are linked to the index, the WPI index. But that particular portion is small. But the good part is that index has -- the index has started going up. So actually, in terms of your net NSR margins, it is only going to positively impact. But largely, the large portion of that is a fixed price. And to the correspondingly, on the back-end side, we have almost covered our raw material. So pretty much we have -- pretty much, to a large extent I would say, that we have locked in our value addition and the margins.

Vikash Singh: Okay. So my question basically was to the one that the recent fall in the coking coal and iron ore prices, will we get the benefit in a significant way or in a minor way. So you said that we have covered the raw materials. So not much of the benefits we can expect?

Vipul Mathur: I said, largely, I have covered. I have -- and coal is something that is -- we will always take the positions on to that. But it should so happen that the benefit may not come in the next quarter, but it will come in the subsequent quarter. So it's sort of a dynamic situation, Vikash. But we all -- we are absolutely mindful that this is a commodity product, and we continue to keep taking position with respect to that.

The whole benefit, if you see -- if you compare the coal from 2 quarters, we are seeing the benefit coming in this particular quarter. Now if we take a position today, the benefit of that is going to start coming in the 2 quarters down the line. So I think this is how the -- this is the nature of the business. This is how it will happen.

We cannot say that the coal price is better today. So my prices are going to see the reflection of that or the margin improvement reflection in this particular quarter. That's not going to happen. You will go and see the inflection point in the subsequent quarters after that. So -- but answer question, we are completely mindful of the market. We do not miss out any opportunity. Nor anyone does that. And you will see a continued growth in terms of volumes and profitability in the DIP segment.

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

Radha: Sir, my question was with regards to the INR2,300 crores capex that we have announced for Sintex. So I wanted to understand that initially, 1 or 2 years are spending in the marketing and sales side could be higher. So how do you expect the 20% ROCE to move for the next few years? What is the breakeven capacity for this capex? And what is the payback period that you're expecting?

Vipul Mathur: See, Sintex is a work-in-progress now, right? And we have to -- first and foremost, we have to be fundamentally clear that it is a signature brand, a right acquisition in place. And if you see the last 15 months performance on a quarter-on-quarter basis, we've been growing. We see a huge potential in that, both in the water side segment business and in the ever exponentially increasing like pipe segment.

So we have now put our foot in -- we have put -- we rather make our presence spread in both the segment. That's what we're trying to do. In terms of further accelerating this process, we are going to do this capex over the next 2 years' time. Of course, the benefits of that, it is a journey. We will have to be a little patient. In 2 years, 3 years' time, the fullest potential of Sintex will be exploited and will be brought up on the table.

But until that time, are we going to be a profitable company? Yes, the answer is yes. Are we going to capture, regain the market share? Yes. Are we going to be a dominant player into the pipe segment? The answer is yes. I think this is where you will have to keep the faith and trust on Welspun's ability and brand Sintex. And I'm very, very sure that this is going to be a very, very clear turnaround story. We're bringing sustainable value creation for all the stakeholders in Welspun.

Radha: Okay, sir. Sir, when do we expect to -- given that you mentioned 40% capex this year, 60% in FY '26. So when do we expect to start commercialization for this particular capex? And will it be in particular phases? Could you explain a bit on that?

Vipul Mathur: Yes. This -- as I said, this capex is spread over 2 years. And I think so the commercialization part of the commercialization would happen in at least 2 or 3 phases, number one. The first phase will get commercialized, let's say, by the end of this year itself, when we will do that. Over and above this acquisition of Weetek will further accelerate our progress. This is an opportunity which came our way and we latched overhead. So that will further accelerate. So part of that commercialization you will see happening this year, and then the subsequent happening in the next year.

Radha: Okay. And sir, you mentioned that in 2 to 3 years, we'll see incentives doing very well. So do you expect since commercialization is starting from end of this year, so by FY '27 or FY '28, do you expect to reach peak utilization for these new capacities that you're adding?

Vipul Mathur: We should. Definitely we should expect that.

Radha: And sir, lastly for the U.S you mentioned that we have bid for an order which is expected to convert into order book in a few quarters. So could you give us some sense on what is the size of the order that we have bid for?

Vipul Mathur: I think so this is fairly -- I don't think that it will be very appropriate to share at this point in time, at this point in time. I think so we will make a requisite disclosure as and when it get metalized. All what I wanted to give you a comfort and the confidence that we are absolutely spend -- we are almost in a full position there. And no sooner that gets metalized we will do a complete disclosure to that please.

Radha: Okay sir. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Shweta Dikshit from Systematix Group. Please go ahead.

Shweta Dikshit: My first question would be what is the current line pipe active in bid book in terms of tonnage?

Vipul Mathur: Bid book, the bid book is almost close to 2 million tons at this point in time. And this is, of course, spread across all the geographies at this point in time. So as I said earlier, that we are seeing a significant traction both in the oil and gas sector and the water sector and the bid book has been improving. And this and this is happening pan-global basis, right?

We are seeing a huge traction coming up in the Middle East. We are seeing a huge traction coming up in Southeast Asia. So almost, almost 2 million tons plus is an active bid book at this point in time.

Shweta Dikshit: Okay. Sir, next question is, could you throw some light on the performance of capex this quarter. Have you seen a significant growth on a Y-on-Y basis, but essentially, the performance has dropped. So what was the reason behind this despite being a healthy market and a good order book.

Vipul Mathur: So as you know, EPIC is having us offer confirmed order book exceeding for more than 2.5 years at this point in time. And again, I think so we have to be clear that line pipe companies can't be just on a quarter-on-quarter basis. If I have to give you an answer, they produce something in Q3, which they invoice and dispatch in Q4. So that is where you are seeing a higher turnover and all that stuff.

But when you see on a year-on-year basis, I think so they have done more than 330,000 tons of production. And I am sure that in this financial year, also they will be doing the same, if not exceeding, and the type of order book, and the profitable order book, what they have. I'm sure that they will be delivering a very, very significantly profitable results even this financial year as well.

Shweta Dikshit: So okay. Understood. Sir, last question is on the WPPL acquisition. Could you share some insights on how the consideration of INR85 crores. How are we arriving at that kind of valuation for this at which because if I look at it standalone turnover, it was around INR99 lakhs in FY '24. And so what kind of margins or what is the current run rate in terms of financial performance? And how are we expecting to for it to grow post acquisition?

Vipul Mathur: SeeINR85 crores enterprise value, which is the right after complete due diligence, number one. As we said, it is a brand-new setup. It is a relatively new setup, which has been acquired, and a very state-of-art setup which has been acquired. It has a strategic intent and objective behind it. We would -- this transaction will get consuminated or get cleared probably in 6 to 8 weeks' time, as my colleague Ashish just mentioned to you.

This will help to accelerate our process -- presence in the pipe segment we are keenly eying for. Apart for our water tank business, the pipe business, we have always been saying that we would like to make a presence spread. And this is absolutely in terms of with our strategic thought processing and for the acquisition of this company.

Now in terms of growth, I think so we will have -- there would be challenges. We will have to go -- we will have to get to the market. But first and foremost, we have to be clear that the market size is big, number one. Number two, we have a brand called Welspun, we've a brand called Sintex.

And that would help us in terms of leveraging the market. But of course, the challenges of integrating, production, ramp-up, getting to the market, it is going to be a journey, and we are very confident we will be able to maximize the leverage out of this particular acquisition.

Shweta Dikshit: Sir, and if number on the -- or any return on investment kind of anything that you have evaluated in terms of what could be the payback period of this investment?

Vipul Mathur: As a threshold at a corp level here we do not do anything which has ROCE of less than 18% to 20%. So that is our internal threshold. And we are very confident that any acquisition or any investment which we will make we are doing will always exceed this threshold. So will be this.

Shweta Dikshit: Okay. Thank you so much sir. That’s it from my side.

Moderator: Thank you. The next question is from the line of Miraj from Arihant Capital. Please go ahead sir.

Miraj: Just a couple of questions. To start with, on the EPIC side, Middle East, as you've mentioned over and over again, we are seeing extremely strong demand over there. Our order book is also reflecting the same 2.5 years of order book. I was just going through some releases of EPIC right now. Over there, we have declared -- the company has declared roughly 1.5 of dividend. Earnings were roughly 3.2 per share. Please correct me if I'm wrong over here.

I just wanted to understand that why can't we add some more capex over here in EPIC to expand our capacities. And since our outlook over there is extremely robust, we can actually do some more capex over there instead of declaring dividends. And also the second reason why I'm saying this is that the amount that is coming in from the dividend being declared over there for us is, is decent, but I think it would be better. So more capex is done over there to service the entire demand. That's my first question, sir.

Vipul Mathur: I think that's a good observation you are making. I must say that. And you must understand it's a listed entity. It has an independent Board. It has an absolutely independent management. Of course, we're, but Welspun being the largest shareholder we have an active participation into that.

And I had this -- and we continuously evaluate all the options at every point in time. We also see that whether internal capex is a good capex or any M&A is a good thing to do. So there are multiple options which we keep on exploring around that. And as and when we see that this is the right sweet spot in the right timing. We have never hesitated in terms of doing that. So I'm not -- so we are completely mindful of this particular aspect. We know that how the market is evolving. And if anything needs to be done at any point in time, we will take a very definitive decisive intervention at that point in time.

But answering your question, all these options are always being explored at our Board when we look at EPIC.

Miraj: Understood. The follow-up to that, sir, I believe that you must be getting this all the time, but I wanted to understand if there are any plans to increase our shareholding in EPIC?

Vipul Mathur: You are parting a good thought. I must put it this way. I mean, as I said that at this point in time, if you really ask us, the answer is no. Not that we are in -- is that something we are contemplating? The answer is no. But it all depends on the opportunities and what is our strategic goal and interest around that.

But at this point in time, no. There's no need for us to do that, to be honest. I must, also, there's no need at this point in time. Because at the end of the day, we are the largest shareholder to that. We have almost all the say in that decision-making literally. So there is no need. And when the market is, and our partners are excellent partners what we have there, the balance partner. And the balance shareholding is with the public. So I don't think so that there's any -- we are thinking any need to tweak this at this point in time.

Miraj: Understood. Okay. Sir, secondly, in the Middle East side, we had announced some time back, we are putting up a DI pipe facility over there through Welspun. If you could just throw some light, how is that progressing? Where has the capex reached over there? And by -- when will the facility be available?

Vipul Mathur: So this -- I think the progress has been extremely satisfactory. The market, as you all know, is extremely, extremely buoyant, and it is going to be -- it is going to further grow from here and when we are talking -- we are very, very positive about that particular market. We have got all the requisite approvals in terms of making that investment. We have all the assets, which includes the land and everything where we intend to set up. That has all been done.

Now it is that we are -- right now, we are into a sort of a design stage, design engineering stage at this point in time. We are committed to have this facility in 15 to 18 months from now.

Miraj: Okay. 15 to 18 months. Okay. And the Anjar facility for DI pipe, which you mentioned that the capacity we are going to keep from 500,000 tons to 600,000 tons at no cost. So sir, when will this entire 600,000 be available? Because if I'm not on 500,000 is also some time away?

Vipul Mathur: No, no. 500,000 to 600,000 tons is more to value utilized through the process engineering part of it. That is the reason it is coming without any additional capex. We are -- I think so by the end of the quarter 3, this facility should get -- should be installed and commissioned. And we should see how -- then there would be some ramp-up period, but I will see -- I believe that the full benefit of this expansion we would see in the coming financial year.

Miraj: Okay. Understood. And sir, just mainly on our performance, this quarter that we've done, our margins have grown sharply, very commendable performance. I wanted to understand that is this just a factor of cost savings because I see other expenses have gone down. And although our sales is -- sales also down but other expenses has mainly gone down. So what is the main factor? Is it because of any high-value products that are incrementally sold or is it just because we've seen a lot of cost savings? Just wanted to wrap my head around it?

Vipul Mathur: It's all about the product mix, what we have, as I said earlier in this call. See at the end of the day, it is all about product depends what is the product mix which is coming up in this particular quarter. In this particular quarter, we have a large component of an export order, which was a very, very highly profitable order. So that is getting reflected into the earning.

We still have the -- on the export side of it, we still have a very high profitable orders in the subsequent quarter then. How they will have integrated into the quarter-on-quarter basis is to be seen. But my -- as I would again suggest, I think so you should look at the company on a year-to-year basis rather than following it on a quarter-to-quarter basis.

Because it's difficult to answer that how much is the water, how much is the oil and gas, and how much is going to be exported in the next quarter. It's a very dynamic situation. So it becomes a little difficult to track. But probably the best way would be to look at on the year and what are the volumes we are doing and what is the EBITDA per tons we are making.

Miraj: Understood. Understood. And sir, on the volume front, if you could just give a bifurcation what was the India volumes and U.S. volumes for the quarter?

Vipul Mathur: I said we will -- as I said earlier, we'll share that with you separately, please.

Miraj: Okay. Okay, sure. And the Sintex volume, sir, the clarification that you just gave on call that the volume growth is actually 8%. So the figure given in the presentation is incorrect, due today, it was?

Vipul Mathur: I was reflecting one segment of the business. They need to be connected, we will -- that's an error on our side, typo error on our side. We will get it corrected and uploaded.

Miraj: So understood. No, no, that's fine. And sir, just 1 last question before I get back in the queue. If you could just let me know the acquisition that you were doing in Sintex, so Weetek. Could you let me know the gross block for that entity right now?

Vipul Mathur: What will that, Percy?

Percy Birdy: So basically, it's a new manufacturing facility and the enterprise value has come close to about INR75 crores. Sorry INR85 crores is the enterprise value and the block also reflects this enterprise value.

Miraj: Gross would be close to INR85 crores?

Percy Birdy: Yes.

Miraj: Understood. Okay. Thank you so much for answering my question. Sir I will just get back in the queue.

Moderator: Thank you. Next question is from the line of Mihir Dhami from Sharekhan. Please go ahead.

Mihir Dhami: Sir, on the margin front, you said the margins increased because of large export order. In general, can you give the breakup as in which segments, how much margin and which are the higher margin segments in general in your portfolio?

Vipul Mathur: I'm sorry, can you just repeat, please? My apology, I didn't hear you correctly.

Mihir Dhami: Sure. Sir, just in your business, which segments are higher margin in general? And how much margins do they have? That is what I want to?

Vipul Mathur: Typically, if you look at it, the oil and gas are much better margin businesses, number one. And water are slightly or relatively lower than that. But so that has been traditionally the story, and I mean that is even delivered at this point in time. And in export orders are definitely even much higher than that. So I would say oil and gas, followed by water. That is the sort of a margin category where you -- one has to see.

Mihir Dhami: Okay. Okay, sir. And also I wanted, on the revenue front, I wanted the breakup of volume and realization that you said you will be able to share that separately.

Vipul Mathur: We will able to share that with you offline on that, please.

Mihir Dhami: And one more question. On the share of associates, last year, there was a loss. And this year, there's a good profit in that. I just wanted to know which business does that involve?

Vipul Mathur: That is primarily our associate entity EPIC in Saudi.

Mihir Dhami: Okay. All right. And on the guidance front which you have given in the last quarter that is maintained for this year, right?

Vipul Mathur: We are more than confident to maintain that if not exceed that and I think for the first quarter, results are the clear testimony that we are setting up the direction and the tone for that.

Mihir Dhami: Okay. All right. Thank you so much.

Moderator: Thank you. The next question is from the line of Deepak Lalwani from Unifi Capital. Please go ahead.

Deepak Lalwani: You mentioned that the Sintex plants will come in this end of the year. So which geography and which product category if you can explain? Is it building material or is it agri pipe that you're going to put first? And also the plan of thought as a challenger brand Ashish, if you could speak a bit on who will we be competing with?

Is it the organized or the large organized players? And does this mean that initial years, we'll have to give more dealer margins, higher working capital as the challenger brand. And yes, a bit on this, please?

Ashish Prasad: Deepak this is Ashish. I think we'll start answering your questions. So amongst our facilities, we believe we will start from the facility in Bhopal to start off with. And that will come in fast, first of the block at the end of this year. In terms of our positioning, Sintex, if you would all know is a premium position brand. Distinctly, we -- even compared to -- in the water tanks business, we are distinctly premium, and premium to even some of the traditional competitors, which we will face in the plumbing industry.

And we intend to carry on that premium positioning into the pipes business. And we believe there is an opportunity to work around on that and maintain that same positioning, which can help us -- which is much more consistent with what we are going to do. The other thing which you would want to tell you is that our focus is on buildings and infrastructure.

So we are going to continue to focus around on that. And we will take on the leading brands in the category as a challenger. And while we believe there is an overall wind of change, where it is moving from unorganized to organized, and we will certainly gain around from that, but you will take up our leading competitors in the plumbing industry.

Deepak Lalwani: Okay. Right. So sorry, so you mentioned that you will maintain your premium standpoint. So in terms of EBITDA margin, if you can indicate what EBITDA per tons one should be expecting? And is it -- let me complete. So also the -- in this, when you -- I understand you also have an existing dealer base. But when you're recruiting new dealer base, is it fair to assume that you wouldn't have to give more margins and higher working capital, because you're new to this business, right? So just wanted to understand from that perspective.

Because the B2B business, it takes time to build up. And do you have a standpoint, but yes, some thoughts on that.

Vipul Mathur: Thank you, Deepak. I think, clearly, like you said, these are challenging things for us to execute upon. So that's why we are focusing around on the foundational work. We believe Sintex to be a B2B2C brand, and we have a strong consumer franchise, which we believe will be at our side.

But obviously, we understand industry, the plastic pipe industry has been working in a particular way for last 25 years. As we move into that, we will have to contend with those challenges. And we feel the foundational work, which we are doing right now allow us to build a meaningful challenge to the market.

Moderator: Due to paucity of time, this was the last question. I now hand the conference over to Mr. Mathur for closing comments. Please go ahead, sir.

Vipul Mathur: Thank you very much for attending this call today morning. Greatly, sincerely appreciate all the participants taking time, and I think it has been a very meaningful interaction. I hope me and my team would have given all the answers to the best of your satisfaction. We are taking away points that we will address offline. My IR team will reach out to you and give you all the clarity.

However, should you have any further clarifications and you need to seek any further information, kindly feel free. It's a very, very transparent company we run here, as you all know, and we will be more than willing to share any information as what we can share with you at any point in time. But once again, thank you very much, gentlemen, and greatly appreciated your participation. Thanks a lot.

Moderator: On behalf of JM Financial, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.