

## BUSINESS UPDATE

### Investing for Growth

**July 29<sup>th</sup>, 2021, Mumbai:** Welspun Corp Ltd. (WCL), flagship Company of the Welspun Group, announced its consolidated financial results for the quarter ended June 30<sup>th</sup>, 2021.

- **PAT at Rs. 97 cr up +68.6% YoY (after Minorities & share of JVs)**
- **EBITDA at Rs. 203 cr up +2.9% YoY**
- **Healthy Balance Sheet with Net Cash: Rs. 853 cr**
- **Total Income from Operations at Rs. 1,299 cr, Sales Volume at 175 KMT**
- **Current Order Book of 487 KMT, active bid book of 1,766 KMT**

*Note: Sales Volume, Order Book and Active Bid Book includes our Saudi operations*

#### **Key Highlights of the Quarter ended June 30<sup>th</sup>, 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 487 KMT valued at Rs. 4500 cr (US \$606 mn)
  - 2. Total Income from Operations**
    - Q1 FY22 at Rs. 1,299 cr vs. Rs. 2,069 cr in the previous year
  - 3. Pipe Sales Volume (Total Operations)**
    - 175 KMT vs. 222 KMT, down 21.0% YoY
  - 4. Reported EBITDA**
    - Rs. 203 cr up 2.9% YoY
  - 5. Operating EBITDA**
    - Rs. 170 cr down 7.4% YoY
  - 6. Profit (Continuing Operations)**
    - PAT (after Minorities & share of JVs) stands at Rs. 97 cr vs. Rs. 58 cr, up 68.6% YoY
  - 7. Net Debt / (Cash) position**

*Figures in Rs. Cr*

<b>Consolidated debt</b>	<b>Jun-21</b>	<b>Mar-21</b>	<b>Dec-20</b>
Gross Debt	816	771	660
Cash & Cash Equivalents	1,670	1,391	974
<b>Net Debt / (Cash)</b>	<b>(853)</b>	<b>(620)</b>	<b>(314)</b>

## **BUSINESS UPDATE**

### **8. 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.

### **9. Business Outlook**

Last year, OPEC+ cut production by a record 10 million barrels per day (bpd) as the pandemic had driven oil prices to extremely low levels. It had gradually reinstated some supply to leave it with a reduction of about 5.8 million bpd. From August until December 2021 the group will increase supply by a further 2 million bpd or 0.4 million bpd a month. It aims to fully phase out cuts by around September 2022 from an earlier planned date of April 2022. This leaves it with more options to manoeuvre in case the global recovery stalls due to new virus variants. The current oil prices of around USD 70 / bbl are at a healthy level and should drive an improvement in spending on exploration and production activities. This is expected to brighten the medium-term outlook for Oil & Gas pipeline related infrastructure projects.

#### **India**

Demand for steel pipes is expected to improve with higher levels of economic activities amidst optimism that the vaccination program would stimulate an economic recovery. The government's thrust to improve infrastructure is expected to augur well for industry players. A study by OPEC shows that India boasts of the highest growth in demand for oil from 2020-2045 with a CAGR of nearly 4% to reach 11.1 million barrels per day. India contributed about 5% of the world's total oil demand in 2020 which is expected to jump to 10% by 2045. To match the increasing demand for oil, the necessary infrastructure will have to be developed which will result in several opportunities for pipe manufacturers.

Another major demand driver for pipes is natural gas transportation and distribution. As per Petroleum and Natural Gas Regulatory Board (PNGRB), the 9th and 10th round of bidding for city gas distribution organized in late 2018 covered 50.61% population spread over 41.74% of the geographical area and is expected to require 1.74 lakh inch-Km of pipelines. Out of this 1.74 lakh inch-km requirement, 75,224 inch-km has been laid till September 2020.

In March 2021, PNGRB authorized approximately 33,764 Km Natural Gas Pipeline Network. Accordingly, 19,998 km of Natural Gas pipeline, including sub-transmission pipeline and tie-in connectivity pipeline, are operational, and 15,369 km are under various construction stages. While India is taking steps to increase oil and gas production, the focus is more on the development of midstream, refineries and petrochemicals infrastructure for greater processing, transport, and storage.

The country's per capita availability of water stands at only 1544 m<sup>3</sup> which is primarily because the population contributes to 17% of the global population but has only 4% of freshwater resources. A study by GOI suggests that the demand is expected to be twice that of supply by 2030. While Jal Jeevan mission announced by GOI aims at providing functional tap connections, the AMRUT scheme aims at enhancing

## **BUSINESS UPDATE**

sewage treatment capacities. Both these policy initiatives combined are expected to boost the demand for DI and HSAW pipes.

Despite the optimistic demand scenario, there has been a steep increase in the raw material prices which has impacted the costs for major projects. This has resulted in delays in project implementation in the water segment and project costs will have to be revised upwards.

We are also in discussions for several orders in the export markets which have seen an improvement in prospects due to higher oil prices and low interest rates globally. These opportunities are mainly for Gas and Slurry pipelines and are spread across the world, in Australia, Malaysia, Middle East, East Africa and Chile. With our exceptional track record in execution and our price competitiveness, and also with limited competition, we are well placed to win a large chunk of these orders in due course of time.

### **USA**

The oil and gas rig count, an early indicator of future output, rose to 484 in the week of July 16, its highest since April 2020. That put the total rig count 91% higher than this time last year. It was also up 98% since falling to a record low of 244 in August 2020. However, there is caution amongst midstream companies about regulatory issues and environmental opposition. Currently, we do not have much visibility for new orders at our facility in Little Rock and have undertaken cost rationalization measures. In the medium-term, we are confident of a revival at the current level of high oil prices and improving economic conditions.

### **Saudi Arabia**

The Saudi business got momentarily impacted by a sharp increase in steel prices, which impacted our profitability on some unexecuted quantity. However, as of now, we have no open position on raw material and steel for all orders in hand is secured. Further, at these level of oil prices we remain optimistic and are also 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 during H2 FY22.

We have also proposed the listing of our Saudi JV at the local Stock Exchange. The process of Listing would involve divestment of 30% of stake, split proportionately between the JV partners. WCL currently holds 50.01% in the JV through its overseas subsidiary. This divestment would further improve liquidity at WCL. We target to complete the listing in FY22.

### **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 28<sup>th</sup>, 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 1<sup>st</sup>, 2021, subject to regulatory and other approvals.

## **BUSINESS UPDATE**

The Company has applied, and is awaiting approval of the stock exchanges, under regulation 37 of the SEBI (LODR), 2015, before filing the Scheme with the NCLT.

WSL manufactures BIS Certified Steel Billets and Direct Reduced Iron (DRI). It is implementing a Greenfield project for manufacturing of TMT bars at an expected cost of ~ Rs. 175 cr (plus soft cost) which is expected to be completed by September 2022. Besides, as a part its Steel Division, WSL holds 50.03 % shares in Welspun Specialty Solution Ltd. (WSSL). WSSL is an integrated producer of Quality Stainless Steel Pipes & Tubes.

The Board of Directors had appointed two reputed Independent Valuers for valuation, and one Merchant Banker for Fairness opinion to arrive at a consideration of Rs. 362.73 cr. This will be paid through 6% Cumulative Redeemable Preference Shares, redeemable after 18 months from issuance date.

This transaction is in line with our Business Growth & Diversification strategy to improve Earnings Predictability and Enhance Value Creation for all our stakeholders.

### **11. 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.

### **12. Plate & Coil Mill Division (PCMD) Divestment**

Laptev Finance Pvt. Ltd. assigned all its rights and obligations under the BTA to JSW Steel Limited. Accordingly, the PCMD Division is transferred to JSW Steel Limited w.e.f. March 31<sup>st</sup>, 2021 for a consideration of Rs. 848.50 crores plus closing adjustments towards net working capital. As on date, we have received the full consideration and there is no further consideration receivable.

### **13. ESG Initiatives**

We continue to accelerate ESG initiatives across the organization and have taken the following actions during the quarter:

#### **GreenHouse Gas (GHG) Inventory**

- Completed goals and target setting
- Reviewed and documented the scope 1 and scope 2 emission levels across WCL operations
- In discussion with multiple stakeholders including HR, Finance, Logistics, Manufacturing to understand Scope 3 emissions level

## **BUSINESS UPDATE**

### **Strengthening Sustainable Supply Chain Framework**

- In the process of rolling out ESG compliant revised supplier code of conduct
- Awareness session with internal stakeholders covering supply chain sustainability
- Map existing supplier certifications such as SA8000, EcoVadis etc. with WCL assessment

### **Streamlining and Strengthening ESG dashboard**

- Workshop conducted with operations team across all factories to inculcate ESG concepts
- In discussion with HR teams to prepare data capturing templates related to social aspects in line with WCL goals
- Preparedness for BRSR (Business Responsibility and Sustainability Reporting)

### **Strengthening Governance Structure**

- Designating a Lead Independent Director
- New appointment / renewal of Independent Directors will be done for 2 terms of 4 years each, as against 2 terms of 5 years each permitted under law
- Continuing with full independence to the Audit Committee and the Nomination & Remuneration Committee (100% independent directors)
- Reconstituting and enhancing scope of the Board Committees (ESG & CSR, Shareholder and Investor Grievance, Risk Management) for balancing of skills, diversity, experience and tenure to provide effective independent oversight
- Review and revision of Ethics Framework to incorporate leading practices (whistle blower policy & mechanism, anti-bribery and anti-corruption, fraud prevention)
- Review and revision of Related Party Transaction Policy to further enhance it in line with the evolving leading practices. Further, a holistic pricing framework has been formalized to serve as a guideline for all related party transactions;

### **Board Effectiveness**

- Dedicated meeting on strategy
- Formalizing Board Charter & Committee Charters
- Refreshing / documenting key policies – CSR Policy, Disclosure Policy, RPT Policy, Suppliers Code of Conduct, Sustainable Procurement Policy.

### **Making ESG a Strategic Priority**

- ESG Committee established at the Board level
- Developing ESG Committee Charter
- Linkage of ESG Goals with Executive remuneration.

## ***BUSINESS UPDATE***

### **Management Comments**

Commenting on the results, Mr. B. K. Goenka, Chairman, Welspun Group said, “Our performance has been stable despite the second wave of the COVID-19 pandemic. We continue to keep our employees, suppliers and customers health and safety as our highest priority. Demand is expected to recover supported by the Government's thrust on creating Water Supply and Gas Pipeline infrastructure. We have built a solid foundation with our strong cash reserves, ESG initiatives and business diversification plans, and are confident about our future growth prospects. ”

## BUSINESS UPDATE

Detailed reconciliation of Operating EBITDA is provided hereunder:

Figures in Rs. Cr

Reconciliation of Operating EBITDA	Q1FY22	Q4FY21	Q1FY21	FY21	FY20
Reported EBITDA	203	321	197	1,010	1,276
Treasury income	(33)	(47)	(13)	(88)	(61)
Profit on sale of Land (incl. interest)	-	-	-	(62)	-
Insurance Claims Received	-	-	-	(27)	-
MTM loss/fair valuation on other bonds	-	(29)	(1)	(30)	44
Impairment of loan to JV	-	-	-	-	25
<b>Operating EBITDA</b>	<b>170</b>	<b>245</b>	<b>183</b>	<b>803</b>	<b>1,284</b>

## Consolidated Performance Snapshot

Figures in Rs. Cr unless specified

Particulars	Q1FY22	Q4FY21	Q1FY21	FY21	FY20
<b>Ex-Saudi Arabia/ CWC operations</b>					
- Pipe Production (KMT)	84	183	105	628	1,144
- Pipe Sales (KMT)	141	229	181	749	1,001
<b>Total operations</b>					
- Pipe Production (KMT)	119	214	130	879	1,629
- Pipe Sales (KMT)	175	247	222	1,003	1,502
<b>Continued Operations (Pipes)</b>					
<b>Total Income from Operations</b>	<b>1,299</b>	<b>1,819</b>	<b>2,069</b>	<b>6,440</b>	<b>9,957</b>
<b>Operating EBITDA</b>	<b>170</b>	<b>245</b>	<b>183</b>	<b>803</b>	<b>1,284</b>
Reported EBITDA	203	321	197	1,010	1,276
Depreciation and Amortisation	55	55	53	215	233
Finance Cost	17	11	28	68	144
Profit before tax and share of JVs	131	254	115	728	899
Tax expense	36	13	78	221	412
Non-controlling interest	0	2	(2)	(12)	(19)
Share of profit/(loss) from Associates and JVs	3	(18)	23	135	206
<b>PAT after Minorities, Associates &amp; JVs (I)</b>	<b>97</b>	<b>225</b>	<b>58</b>	<b>630</b>	<b>674</b>
<b>Discontinued Operations</b>					
<b>(PCMD &amp; 43MW)</b>					
Profit After Tax (II)	-	(6)	(6)	(11)	(38)
<b>Profit for the Period (I + II)</b>	<b>97</b>	<b>219</b>	<b>52</b>	<b>619</b>	<b>635</b>

Prior period figures have been restated, wherever necessary

Figures in Rs. Cr

<b>Consolidated Balance Sheet - Key figures</b>	<b>Jun-21</b>	<b>Mar-21</b>
Net Fixed Assets (incl CWIP)	1,753	1,683
Net Current Assets	2,018	2,133
Net Debt / (Net Cash)	(853)	(620)
Net Worth	3,910	3,793
ROCE (pre-tax)	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

<b>Particulars in US\$ MN</b>	<b>Q1FY22</b>	<b>Q4FY21</b>
<b>Saudi Arabia Ops:</b>		
- Pipe Prodn (KMT)	36	30
- Pipe Sales (KMT)	34	17
Revenue	37	17
EBITDA	5	(3)
PBT	1	(7)
PBT – Welspun share	0.4	(3)
PAT – Welspun share	0.3	(2)

## **BUSINESS UPDATE**

### **Q1 FY22 Investor / Analyst conference call:**

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

Date: Friday, 30<sup>th</sup> July 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 is a one-stop service provider offering complete pipe solution with a capability to manufacture line pipes ranging from 1½ inches to 140 inches, along with specialized coating, double jointing and bending. With current capacity of more than 2.5 million MTPA in Dahej, Anjar, Mandya and Bhopal in India, Little Rock in the USA and Dammam in Saudi Arabia, Welspun takes pride in being a preferred supplier to most of the Fortune 100 Oil & Gas companies. With 360 degree abilities, Welspun Corp has undertaken some of the most challenging projects in different parts of the world. With business excellence being a clear focus, the company is on the path of innovation and technology edge supported by its state-of-the-art facilities and global scale operations. The Line pipe industry caters to the sectors like energy and water resource management where in the line pipes supplied are used to construct cross-country pipelines for transportation of oil, gas, petro-products and water in the safest and most environment friendly way.

### **About Welspun Group**

A US\$ 2.7 billion enterprise, Welspun Group is one of India's fastest growing conglomerates with businesses in Line Pipes, Home Textiles, Infrastructure, Oil & Gas, Advanced Textiles and Floorings. The Group has a strong foothold in over 50 countries with more than 25,000 employees and over 100,000 shareholders. Headquartered in Mumbai, Welspun Group's manufacturing facilities are strategically located in India, USA and Saudi Arabia. Known for technological and operational excellence, the Group has established a leadership position in the Line Pipe & Home Textiles sectors globally. Its clients include most of the Fortune 100 companies.

---

For further information please visit [www.welspuncorp.com](http://www.welspuncorp.com)

---

**DISCLAIMER:** *The information in this release has been included in good faith and is for general purposes only. It should not be relied upon for any specific purpose and no representation or warranty is given as regards to its accuracy or completeness. No information in this release shall constitute an invitation to invest in Welspun Corp Ltd. or any of its affiliates. Neither Welspun Corp Ltd., nor their affiliates' officers, employees or agents shall be liable for any loss, damage or expense arising out of any action taken on the basis of this release, including, without limitation, any loss of profit, indirect, incidental or consequential loss.*