



Welspun Specialty Solutions Limited
Q2 FY24 Earnings Conference Call

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CORPORATE PARTICIPANTS:

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Moderator

Ladies and gentlemen, good day and welcome to the Welspun Specialty Solutions Limited Q2 and H1 FY24 Earnings Conference Call hosted by Ventura Securities. 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 * and then 0 on your touch tone phone. I now hand the conference over to Mr. Tushar from Ventura Securities. Thank you and over to you, sir.

Tushar Pendharkar

Hi, thank you so much. On behalf of Ventura Securities, I welcome you all to Q2 H1 FY24 conference call of Welspun Specialty Solutions Limited. With this, I now hand over the call to Mr. Salil Bawa for his opening remarks. Thank you and over to you, sir.

Salil Bawa

Thank you very much, Tushar. And good morning to all of you. We are delighted to welcome you to the first earnings call for Welspun Specialty Solutions Limited. Present along with me today on this forum are Mr. Anuj Burakia, Chief Executive Officer and Whole-Time Director, Welspun Specialty Solutions Limited; we also have Mr. Percy Birdy, Chief Financial Officer of Welspun Corp; and for joining us is Mr. Brijveer Singh, Chief Financial Officer of Welspun Specialty Solutions Limited; and I also have my colleague, Goutam Chakraborty, who leads IR for Welspun Corp. You must have received the results and investor presentation of the company, which are also available on the stock exchange.

We will start the forum with opening remarks by Anuj followed by financial update. We will then open the floor for your questions. During the discussion, we may be making references to the 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, you can reach out to Goutam or me. Without further ado, I will turn the floor over to Anuj. Over to you, Anuj.

Anuj Burakia

Thanks, Salil. Good morning, everyone. I hope you all are doing well this morning. I'm pleased to welcome you all to the first earnings call of Welspun Specialty Solutions Limited. Talking briefly about the external environment, despite various global economic challenges, the Indian economy is showing its resilience. With IMF increasing its growth forecast for 2023, India is likely to grow at 6.2% in both the year 2023 as well as 2024. With this backdrop, let me briefly touch upon the industry scenario. As per the International Stainless Steel Forum, ISSF, the global stainless steel long products consumption will grow by 3.1% in calendar year 2024. This is after observing a likely growth of below 1%, 0.7% to be precise and in calendar year 2023.



European region has been witnessing a slowdown and lower optimism owing to ongoing geopolitical tensions, also resulting into other consequences including energy security and subdued demand. While the demand in other markets, for example, USA and Asia is moving cautiously, Indian market has shown resilience, thanks to robust policy interventions by the Government of India, including the Make in India initiative. The country is witnessing increased CapEx and upgradation spends in various strategic sectors. In this context, Welspun Specialty with its integrated setup and clear focus on new product development remains very well-positioned to capture the opportunities in domestic as well as export markets.

Here I would like to highlight a few things. WSSL is the only integrated producer of stainless steel bars and seamless pipes and tubes in the country. The company could successfully develop and commercialize various new grades and products, including customized grades for very critical applications. The company caters to the niche and strategic sectors like energy, nuclear power, defense, oil and gas, petrochemicals et cetera. SS bar sales volume during first half of the year rose by more than three times YoY to about 8,400 tons. Similarly, pipes and tubes sales also rose by about 46% YoY to about 2,500 tons. The current order book of the company stands at about 4,500 tons, valued at about INR 170 crores.

The company has witnessed a very clear turnaround during H1 FY24, clocking a total income of about INR 380 crores. EBITDA during H1 grew to INR 41 crores as against just little over INR 1 crores during H1 of last year. Similarly, PAT stood at over INR 16 crores during H1 against the loss of about INR 19 crores during H1 last year. Q2 total income jumped by 128% YoY to about INR 214 crores. Q2 EBITDA impact stood at INR 17.7 crores and INR 5.2 crores respectively compared to a PAT loss of INR 11 crores during Q2 of last year. Welspun Specialty has embarked on a major transformational journey over the past two years. There has been a sharp focus on enhancing operational effectiveness in terms of production efficiency, quality performance, scale and profitability.

The company has collected various quality accreditations and approvals from leading international and domestic customers. Revenue of Q2 FY24, the highest ever recorded by the company is the testimony of our growing acceptance and expanding customer base which continues as we move forward. Welspun Specialty has delivered on several new products and grades including very high-value, high pressure heater U-tubes, nickel alloy grade bars, and pipes and tubes. For example, Alloy 800, 825, Monel 400 amongst others. The company has successfully commercialized precipitation hardened grades like 17-4 PH and duplex, both in forms of bars as well as tubes.

A very recent development of Super 304H grade steel bars and tubes is a very, very significant initiative towards indigenizing boiler tubes used in supercritical boilers, which up until now only used to be imported in large quantities. The company sees significant potential in this segment, given the government's focus on power sector and priority towards providing uninterrupted electricity across the nation. As a continuous endeavor while the company continues to add new customers in existing geographies, it made its foray into another large territory that is United States of America. The first shipments have already reached and we expect to secure more and more customer approvals and volume ramp up in the upcoming quarters.



We believe equally important is to focus on sustainability and excellence initiatives to be able to remain eminent and ahead of the curve. I am pleased to share we have already kick started our ESG maturity journey and our sustainability and excellence initiatives have been progressing very well. Share of renewable electricity has been improving gradually, and it has reached to a level of about 30% of the total electricity consumed. The company continues to work on becoming more and more sustainable and going greener on its products.

On governance, our board comprised of Directors with diverse experiences across sectors, and 50% of the Directors being independent. All the key committees of the board are led by independent Directors. As the European Commission mandated necessary greenhouse gas emission reporting from 1st October 2023. I'm happy to inform that the company is ready with its compliance requirements with respect to exports to Europe. Backed by its integrated manufacturing process and product offerings, the company has a unique presence in its addressable market segment.

So, with this, I would like the moderator to open the floor for question-and-answers please.

Q&A

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. First question comes from Anil Thakkar, an individual investor. Please go ahead.

Anil Thakkar

Hi, good morning to you and congratulations on good set of numbers. Just two questions. One is, what is our capacity utilization during these last six months? And the other one was, what is the average cost of borrowings? A lot of EBITA is going toward servicing debts. Thank you.

Anuj Burakia

I could hear your second question, average cost of borrowings. What was your first question, please?

Anil Thakkar

Average capacity utilization during first six months of this financial year.

Anuj Burakia



Okay, average capacity utilization. Okay. So, Anil, as the company is undergoing a very, very major transformational journey, which also includes increasing of or ramping up of the capacity utilization. During first year, I would say that our capacity utilization on the steel plant on the bar side had remained less than 50%, which improves QoQ. And on the seamless pipe segment, the utilization had been over 70%, so which is higher than what we experienced during the last year. So, we continue to progress on these. On the average cost of borrowings, it is approximately 8.5% on the overall borrowings, so which is I think for this business is in line with the market.

Moderator

Thank you, sir. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. Next question comes from Jatin Damania from SVAN Investment Managers. Please go ahead.

Jatin Damania

Thank you for the opportunity. Sir, can you share the market outlook in terms of our steel business and the order book for the stainless?

Anuj Burakia

So, thank you Mr. Damania. The total order book as I said is approximately 4,500 tons which is valued at about INR 170 crores. So, by and large what we operate at this point in time is with anything between two to three months of order books for both of our products and which keeps changing a little bit here and there from time to time. The whole endeavor is to add more and more of customer base. The idea is to grow it for more than three months in times to come.

Jatin Damania

In terms of approval, how much time will it take because the order book seems to be and gives the visibility for the near term or near term only. But when you look from a longer term perspective, there is a bleak outlook because of two to three months order book in advance. So, how can one look it or probably you can give a broader outlook in terms of the market perspective that will be helpful.

Anuj Burakia

Mr. Damania, this is a business where projects are not generally very, very large quantity single customer thing. The business is of a nature where the more and more customers that we add, and more and more approvals we get, the more and more visibility and stability which is going to come in. If we look at over a period of last four to six quarters, our order book duration is consistently improving. And I'm very sure that as we move toward over next quarters, I mean, we see this to be growing and bringing in more and more opportunity as we progress.



Jatin Damania

And sir, given the volatility in the steel prices, how other companies are managing the raw material risk?

Anuj Burakia

Yeah, so that's a very valid point. In case of stainless steel also, of course, there is a lot of volatility as a nature of this product, whether it is scrap prices or ferro alloys. As a policy, by and large, we address this volatility by way of doing back-to-back coverage of raw material as we book our business. So, as a policy we follow that we do not get exposed to the volatility of the market. And so, largely we are able to successfully implement that strategy.

Jatin Damania

So, largely entire part of our raw material business has pricing contract, right?

Anuj Burakia

Yes.

Jatin Damania

Okay. So lastly, I'm continuing to previous participant's question. As large portion of our operating profit is going for servicing at debt. So, can you help us in understanding the debt reduction plans and the company taking steps to reduce the debt and what will be the debt level at the end of FY25?

Anuj Burakia

So, the total long-term debt is to the tune of INR 207 crores at this point. And these payments are going to start in September 2024, and until I think about June 2025. So, we definitely expect the growth in profit, the growth in our capacity utilization will result in better cash flows. And we'll be in a position to repay the portion in timely manner. So, this is a clear confidence that we have.

Moderator

Thank you. Next question comes from Miraj Shah from Arihant. Please go ahead.

Miraj Shah

Thank you so much for the opportunity. Sir, I had a few questions. First being, could you just let me know the realization that we are currently having in both the segments in bars as well as in pipes?



Anuj Burakia

So, really, I would say, since the business is such that there are diverse nature of grades and products. And so, it will not be probably appropriate to put one value to the realization. So, within bars, we sell, let's say, more density grade, which can sell at something like INR 150 a kg, I mean, if I say, in Indian rupees. And when we sell nickel alloy bar, they can go as high as INR 15 lakh a ton or INR 18 lakh a ton.

And similarly, on the pipes, I mean the base grades probably would sell at something like INR 400 a kg, and it can go as high as INR 5,000 a kg. So, I think, this will not be probably the right measure to really see the progress.

Miraj Shah

Understood, great. Sir, could you tell us how much inventory do we have on books right now and the value also? Because if I'm not wrong this is maybe all scrap stainless that we reuse. Please correct me if I'm wrong in understanding that part.

Anuj Burakia

No, you're right. So, when we produce our steel, obviously, our major raw material is scrap. And that is what also gives us the efficiency by way of recovery of ferro alloys, and also it's like a green process. So, as far as the inventories are concerned, at the end of Q2 our total inventory with the work in-process inventory as well as fixed inventory stood at about INR 185 crores.

And wherein, in Q2 we clocked in our total income of INR 214 crores. So, I think with the growth, the inventory also have to grow, not exponentially. But yes, I mean, at this point in time, I think our inventory levels are absolutely appropriate with the level of volumes that we are churning out.

Miraj Shah

Right. So, the order book that you said is INR 170 crores that is sufficient for the next three months or would it be for a lesser period than that?

Anuj Burakia

Now, I would say, if I do mathematics, it's good for only two months. So, important is that how we keep filling more than a month every month, and that's how we increase the balance of order book from two months to maybe three months and months going forward. And I think we are on the path.



Miraj Shah

Right. Okay. So, the inventory levels will be sufficient for the orders that we have on hand right now. That would be a decent understanding, right?

Anuj Burakia

Yes, absolutely. I would also believe so, Miraj ji. This inventory level is something which is healthy for executing our strategy towards production and sales.

Miraj Shah

I understood, right. Sir, my next question is that, on the capacity that we have, what would be the peak volumes that we would be able to do and by when would we be able to achieve that?

Anuj Burakia

It would be really, probably premature to say that as we progress. But I can say that we probably already gave some guidance before in various forums. I think towards the FY26 we expect that we should be able to reach to a consistent run rate of about 8,000 tons on the pipes or better, and about 60,000 to 70,000 tons on steel bars or better.

Miraj Shah

Understood. Sir, one final question before I join back in the queue. We've been talking a lot about entering different geographies and exports as we've entered in USA. I'm sorry, actually I joined the call a bit late, so this may be repetitive. If you could please just highlight the kind of opportunity that you're seeing in exports, and how quickly can it be scaled up, especially with the US entity that we've spoken about. Could you please just highlight that once for me?

Anuj Burakia

Yes, Mr. Miraj. First of all let's understand, for stainless steel, historically the Indian industry got evolved and design considering the export markets, and very naturally so, because we consumption in India for stainless steel, which is now growing, obviously, very, very fast. But the consumption, we see better consumption in the countries like all the European countries, the US and the other developed countries. So, export obviously is very, very integral to our strategy. And I would say that, depending on products and how we get our approvals and accreditations, we will certainly have more than 50% role to play by the export markets. So, that's why it becomes really important for us to garner more and more customers, reach out to more and more geographies, and increase our sales in the exports.



And I would say, we are on the path, I mean, we are very well accepted. As a strategy, we first started to move around in the European market, which was closer to us. And in last one, one-and-a-half year, I think we've been able to really make a very good impression there and we are getting repeat business from the same customers, and we continue to garner more and more customer approvals. So, now was the time when we should start another large market which we found in form of US, and there we have already entered, with our first products already reached there, we are getting very good feedback. But obviously, as in this case, it's a very, very special product, in spite of all good things that you bring on the table, a customer would go a little cautious, they would go for trial, they would go for all the process that is warranted in this kind of a process. So, we see a clear roadmap, and we see a clear ramp up in all these geographies in times to come.

Moderator

Thank you, sir. Next question comes from Nirav Shah from GeeCee Holdings. Please go ahead.

Nirav Shah

Good morning, sir. Congratulations on the turnarounds that we have seen for the last three quarters and appreciate we holding a separate call this time around. So, really appreciate that. Sir, I have a few questions. Firstly, you just mentioned that about the export mix. But if you can just specifically give for both the products, the bars as well as pipes, that what is the mix and what are we targeting over the next two, three years because we will be in a ramp up stage. So, how do we see that market over the next two, three years?

Anuj Burakia

So, I would say, Nirav, in Q2 out of about INR 213 crores of sales are exports, stood at over 30% including both the products. And this percentage of export, if you look at overall H1 is more than 40%. So, Q2 specifically, as I also referred in my opening remarks that the European market on which we are at this point in time is one of the main markets for us, has been going slow. And that's how we see a blip on that account. Product wise, I would say the bars got exported, about 70% during Q2, and an pipes about 30-35%. So, overall, in these two quarters I would say 65% bars got exported, and 35%, 37% of the pipes got exported.

Nirav Shah

Got it, sir. And the incremental growth will likely come from, it'll be a mix of both?

Anuj Burakia

Yes, of course, it has to be mix of both, pipe is a much higher value add product, but at the same time nonetheless, I mean even steel bars for us, and the kind of grades and the product that we are producing and we are looking to develop, of course it is equally important business for the company. So, we see growth coming from both bars as well as pipes and tubes.



Nirav Shah

And just on the profitability front, we've seen some pressure sequentially. So, any particular segment that we've seen? While exports, you've mentioned that Europe are seeing slower demand. So, was the pressure more severe in the blast pipe? And how long do you see this pressure sustaining?

Anuj Burakia

So, Nirav, I think it is important question, and I would say, as I was sharing before also, the markets remain subdued, and there is, of course, a temporary pressure on the margins. So, this however, we should consider as a blip in the overall strategy of growth and transformation of the company. If you look at the bigger picture, this business is getting built brick by brick, with an objective of long term and sustained value creation. So, there's a huge opportunity emerging. I would say, the whole world is talking about sustainability of which a very important element is lifecycle costing and lifecycle value.

Stainless steel, as we see is now replacing carbon steel in so many different applications. And this is augmenting stainless steel consumption in a very good way. Take an example, Indian energy sector is another incredible opportunity coming our way, and is clearly opening up huge scope for SS seamless industry, including us. So, we continue to focus on expanding our customer base and our product offerings, and are extremely confident of our sustained performance in times to come.

Nirav Shah

Sir, from your opening remarks, you've mentioned that you are the only company in India to make tubes for supercritical boilers. So, how big can that market be? Because right now, it is 100% catered by imports. So, what is the size of opportunity over there in tonnage terms or I mean, if you can just indicatively.

Anuj Burakia

Nirav, I would correct a bit here. So, it's a recent development for us, and perhaps we are the only company in the country who produce these critical tubes in an integrated manner, that is, we produce the steel as well as we produce the pipes. So, I cannot really comment as to, if there is at all any other company who could do that. But by and large, all these tubes up until now had remained imported. We've gone through a grind of getting validations and approvals and which is in its last phases now, in which the Bharat Heavy Electricals and National Thermal Power Corporation and agencies like that are involved.

So, it's really a niche product. And we know for sure that the Indian energy sector is going to grow big time. And very recently, we hear that a lot of new power projects have been taken for consideration for implementation. And any supercritical boiler would have a huge quantity of these tubes going into it. So, there is a clear opportunity



that we are seeing coming our way and very, very soon. And that will remain for probably few years. So, that's why it becomes a good opportunity. Yes.

Nirav Shah

Sir, final question. While Wel Corp has shared some guidance in terms of FY26 numbers. But are we sharing any near-term guidance, I mean, the production guidance for this year how much are we planning to do?

Anuj Burakia

So, Nirav, I think we would like to remain cautious on this front. Because at this time as you know, we are going through a very, very massive transformation, a lot of things are happening, there's internal strategy, and there is a clear plan in place. So, we're just hoping that we are able to implement and put together our strategy in the way it has been performed and we will clear it.

Moderator

Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. I repeat, ladies and gentlemen, if we have any questions, please press * and 1 on your telephone keypad. Next question comes from Tushar Pendharkar from Ventura Securities. Please go ahead.

Tushar Pendharkar

Hello, sir. Since we are exploring opportunities in the overseas market, and we are also diversifying our product portfolio. So, what is the steady state EBITDA per ton we are targeting in the next two, three years? Is there any internal target to reach at that level?

Anuj Burakia

So, Tushar, I would say that this could be a little sensitive to be spoken in the open forum. I can only say that, we have a very clear strategy of protecting our profitability in the medium and long term. And that's how the company's focus is very clearly set on producing things, which are really niche. So, I think, let's look forward to a sustainable growth, of which we have very clear plans.

Moderator

We have a follow up question from Miraj Shah from Arihant. Please go ahead.



Miraj Shah

Sir, I had some questions regarding export. So, while answering the last question, when I asked, you had mentioned that there are certain certifications and accreditations that you receive. So, I wanted to know, how much more can we have in terms of certification and accreditations to get direct orders from customers, which would help us in an easier approval from the customers that are there.

Anuj Burakia

So, I would just give you a brief on how it happens. So, there are something called accreditations which is like getting an agency to audit the systems, quality management systems and the capability, and then there is an accreditation given, I'll give you an example for it. If you want to supply for marine applications for the ships and all, so there is something called the marine approval. Now, that is an accreditation. So, the company has already got that, and there are so many others of that nature, which comes with the time and which comes with the experience and every accreditation has its own need, has its own prerequisites.

Now, when we talk about approvals in real sense, so there are two kinds, one is, every customer may run its own approval program, these being high value and niche products. And so, it is like not something which can end at any day. So, every new customer coming in will run some or the other process. And then, there are the third kind, where the process licensors or the EPC companies who are not buying directly from the company, like us, but they are authorizing their suppliers to use steel coming from us or use tubes and pipes coming from us. So, which is like an indirect approval.

So, there are all kinds, and I think we have been able to gather quite a lot of them, and that's how we can also see the growth in our customer base and the top line. And we continue to work on that. And as we progress, I think there is a clear plan as to which more approvals are being targeted in this year, and what are going to come in the next year and things like that.

Miraj Shah

Sir, my next question is, as you've been talking about how much exports you would aim to have and how much exports we are having right now. But on the contrary, the Indian market is also looking lucrative as you said, there is an opportunity for import substitution as well. So, what would be our focus market for now? Is it spread equally and if you could also highlight on what kind of margins we make in exports and we make over here in India, if you could just give a brief about that?

Anuj Burakia

I will break your question into two parts. One is the divide between the domestic sales and the export sales. And if you ask me to be honest, this is also a project based business, and the projects opportunities in exports and in the domestic territory might undergo change from time to time. But by a large, as I said, that we still definitely



have a target of about 50% or close to 50% of the sales in the export market for a simple reason that they are already developed markets, and at the same time at this point in time, there are better realizations. Having said that, not that the domestic market do not offer opportunities.

As I said, the sectors are really opening up. For the last 2 to 2.5 year, we are seeing some major traction coming in a lot of sectors in India, including oil and gas, including defense and space as well as, let's say, in the energy and nuclear power. And so, that's how if you see, as I said in Q2, our sales on of about 70% or 65% to 70% went into domestic territory. So, we are not undermining the Indian domestic sector and it's definitely very, very lucrative, and in times to come it is going to become more and more lucrative. So, we are carrying a clear balance between export and domestic while ensuring that we get the best realizations for what we produce.

Miraj Shah

Understood. And sir, just one, I think this would be a repetitive question, but on the margin side, EBITDA per ton, if you were to look at it, is there any aspirational numbers that you would reinforce to give a guidance for that?

Anuj Burakia

I think that would be sensitive, Miraj, because as I said, there is a host of variety that we produce in this boutique business. Within bars there are so many products, within pipes and tubes there are so many products. So, I think what we need to look at is, is the overall growth in margins and the overall profitability. And we are very, very confident. We know what kind of plans we are implementing here.

Miraj Shah

Understood. And sir, just one more final thing. The raw material that we are currently having. Do we import it and or do we chose it locally or is it a mix of both?

Anuj Burakia

It is a mix. It is a mix, I would say, because a lot of scrap gets imported in the country for a simple reason that there are the nations that consumed the most of stainless steel will generate the most scrap. On ferro alloys, of course some of the ferro alloys are all imported, because they don't get produced in India, but some of the major ferro alloys are also produced in India, for example, ferrochrome we buy, I mean, I would say almost all of it locally. But similarly, ferro nickel is what is imported. So, various items, various suppliers, some items are a mix of domestic as well as import.

Miraj Shah

Right. In a nutshell, if you could say what percentage is imports and what percentage is to locally sourced?



Anuj Burakia

On the value side, I think I will not have that on the tip of my understanding, but you can get in touch with our investor relations, we'll get you the number.

Moderator

Thank you. We have a follow up question from Nirav Shah from GeeCee Holdings, please go ahead.

Nirav Shah

Thanks for the follow up. A couple of bookkeeping questions. Sir, what is the CapEx that we're looking at for this year and next year?

Anuj Burakia

So, we are very clear, Nirav. We are not looking at any capacity expansion or anything of that sort in immediate future. So, our focus is going to be utilization of existing capacity. Of course, it will entail some upgradations, or I would say technology upgradation as well as some process. So, it may involve some sustenance CapEx, which will not be huge for sure. So, no major CapEx plans for us.

Nirav Shah

That would be in the INR 10 crore to INR 20 crore range?

Anuj Burakia

Yes, I think that's probably going to be less than that.

Nirav Shah

Okay. And that will help us achieve whatever the guidance we have for the next year's production and sales.

Anuj Burakia

Yes, of course. Yes, for the foreseeable future we are very clear what we need to do on our plant front.

Nirav Shah

Got it. And sir second question is on the other income, I mean, this quarter there was a significant. So, in any one offs over here or what's a broad breakup of this INR 5.7 crore of other income?



Anuj Burakia

So, this is portion coming from the incentive from the Government of Gujarat, which is linked with the capital investment made by the company back then, and some are the balances written back from within the provisions, and some are coming as, let's say a portion is coming as foreign exchange difference.

Nirav Shah

Okay, and what is the write back number, which is non-cash?

Anuj Burakia

It's not big. It's about INR 40 lakhs.

Nirav Shah

Okay, got it. And sir, just a final question. I mean, I'm looking at our ESG Intervention slide. I understand that we've just turned around and the last item appears as dividend distribution policy. So, I mean, what's the thought process behind adding this line item in this as a policy and what are the thoughts on the dividend distribution?

Anuj Burakia

So, the idea is, Nirav, is that as, let's say ESG has another dimension of governance, which is one of the three major dimensions under the ESG program. So, there has to be a policy around major aspects of the business. And dividend distribution, which is like a payout to the shareholders is also a very, very important aspect of the business as a whole. So, as a company, as a part of our ESG governance mechanism, we have a policy around dividend distribution.

Nirav Shah

And if you can just elaborate what the policy is?

Percy Birdy

Hi Nirav, this is Percy here. See, basically the Company is at a stage where they need to get strong free cash flows, and obviously, the first priority would be the debt reduction. And then, of course, they need to finance the working capital for its growth, because as you can see numbers, the company is clearly a turnaround story and on a sharp growth path. So, all these indicate that first priorities, the funds will go towards debt reduction and finance the working capital that is needed for the growth. Of course, after that the surplus funds would definitely be rewarded to the shareholders, and that's what the dividend distribution policy effectively states.



Moderator

Ladies and gentlemen, if you have any question please press star and one on your telephone keypad. We have a follow up from Miraj Shah from Arihant, please go ahead.

Miraj Shah

Thank you again for the opportunity. Sir, if you could please highlight how the pricing models do we have when we compare to recently added customers and some long-term customers, what would be the lag period in passing on the prices, and if there are any open contracts, so the price passed on is immediately passed on or with a lag, do we have any open contractors as well?

Anuj Burakia

So, Miraj, this is an industry practice, and we also are, I would say, by and large the industry practice, and contracts are fixed quantity, fixed price contracts, and that's how the owners of the manufacturer like us to see that. We are able to cover up our raw material and avoid volatility in raw material pricing. So, for us, the contracts could be a long-term contract like a customer placing an order for X tons to be delivered over six months of time, so much every two months or every one month and there could be contracts which are to be completed in one month's time, some PSU contracts run over more than six months, sometimes eight-nine months. So, there are all kinds, but one thing is clear that it is always when we are booking a business or when we are bidding for a business, the prevailing raw material pricing and prevailing costs are always considered.

Miraj Shah

Understood. Just a minor understanding, minor detail, I want to understand over here that if it's six months or a greater period contract, then the pricing would be fixed at the start of the contract or would it be adjusted for any changes in the raw material going ahead because the period of contract is elongated over there.

Anuj Burakia

So, in 95% of the cases, I would say or probably 98% of the cases it will be always a fixed price contract.

Moderator

Ladies and gentlemen, that was a last question. I would like to hand the floor back to the management for closing comments.



Anuj Burakia

Okay, thank you. Thank you so much. So, I would just like to say a few words before I conclude. This transformational journey is being steered under a well-defined strategy and progress so far has remained very satisfactory and encouraging. As a high-value product manufacturer Welspun Specialty has already made its presence site. With gradual ramp up of operations there is a significant room for growth in our performance and progression towards market leadership. The company is already serving various sectors and continue to focus on further market penetration in niche value added segments and products. We are confident that business performance will sustain and further improve on the back of several new customer approvals, accreditations, development of products and penetrating new markets. I hope I've been able to address your queries. For any further questions, I welcome you to contact our Investor Relations desk. So once again, I thank you for attending today's discussion, and I look forward to meeting you again soon.

Moderator

Thank you, members of the management. Ladies and gentlemen, on behalf of Ventura Securities, that concludes this conference. Thank you for joining us, and you may disconnect your lines.

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- Note:**
1. This document has been edited to improve readability
 2. Blanks in this transcript represent inaudible or incomprehensible words.