



WALCHANDNAGAR INDUSTRIES LIMITED

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Dear Sir(s),

**Subject: Transcript of Conference Call of Walchandnagar Industries Limited ("Company")
on November 16, 2018 .**

In terms of applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("SEBI Listing Regulations") read with corresponding circulars and notifications issued thereunder, please find enclosed the transcript of the Conference Call which was scheduled on Friday, November 16, 2018 at 4.00 pm (IST).

The aforesaid information is also being uploaded on the website of the Company www.walchand.com.

This is for your records and request the same be treated as compliance under the applicable clause(s) of the SEBI Listing Regulations.

Thank you.

Yours sincerely,

For Walchandnagar Industries Ltd.,

G. S. Agrawal
Vice President (Legal & taxation) & Company Secretary

Enclosed: Conference Call Transcript



“Walchandnagar Industries Limited
Q2 FY2019 Earnings Conference Call”

November 16, 2018



ANALYST: MR. PURVESH SHELATKAR - CENTRUM BROKING LIMITED

MANAGEMENT: MR. CHIRAG DOSHI – MANAGING DIRECTOR - WALCHANDNAGAR INDUSTRIES LIMITED
MR. G K PILLAI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER- WALCHANDNAGAR INDUSTRIES LIMITED
MR. SANDIP DAS - HEAD – ACCOUNTS - WALCHANDNAGAR INDUSTRIES LIMITED



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Moderator: Ladies and gentlemen good day and welcome to the Walchandnagar Industries Q2 FY2019 earning conference call hosted by Centrum Broking Limited. 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 “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Purvesh Shelatkar of Centrum Broking. Thank you and over to you Sir!

Purvesh Shelatkar: Thank you very much Madam. On behalf of Walchandnagar Industry and Centrum Broking, I welcome you all to the discussion on second quarter FY2019 results and business outlook of Walchandnagar Industries. We have Mr. Chirag Doshi – Managing Director; Mr. G K Pillai – MD & CEO; and Mr. Sandip Das - Head – Accounts from the company's management on the call. Now I hand over the mike to Chirag Sir for his opening remarks. Over to you Sir!

Chirag Doshi: Thank you Purvesh. Good afternoon ladies and gentlemen. I am Chirag Doshi, MD of Walchandnagar Industries Limited and as Purvesh mentioned joining us on this call is Mr. G.K. Pillai, our Managing Director and CEO and Sandip Das who heads our Accounts. Welcome to all of you to this conference call for the second quarter and six months period for fiscal year 2019. The results for the second quarter and for the six months ending September 2018 were taken on record by the board at its meeting held on November 13, 2018.

Actually, before we get into financials, I would like to briefly introduce Walchandnagar Industries to new investors who are on this call who may not have met with me. We are a company, which has an operational legacy of more than 100 years and is well renowned for its designing engineering and high-end precision manufacturing capabilities. Those of you who have heard of us, we have really been well known for our work and equipments that we manufacture for the sugar and cement and power industries. And back in the early 90s, we also got into sort of the EPC business for developing sugar and cement plants in India. During the last five years, we have made a strategic decision to realign our focus away from the commodity type EPC business and towards the high-end engineering and critical manufacturing and fabrication business in sectors such as defense, aerospace, nuclear power and heavy engineering industrial products.



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It is of course important to note that we have been in these industries since 1975 just in a sort of a smaller research and development way and now are scaling up these businesses. This transition back to our core competence has enabled the new Walchandnagar to focus on higher margin profitable growth opportunities rather than those that are just topline driven.

Within our core business, we supply critical components to India space program, contribute to India's strategic and tactical missile defense systems and support India's naval ship and nuclear submarine building initiative. We call this our DNA business, Defense, Nuclear and Aerospace. The other part of this business manufactures and supplies centrifugal machines to sugar plants both in India and globally and gearboxes for both naval as well as industrial applications. Today, we are proud to announce that approximately 80% of our revenue mix is derived from our core manufacturing businesses, which was only 30% five years ago.

Now, I will share the broad quarterly and half-yearly numbers with you in terms of our sales and profitability. For this quarter, we had a sale of Rs.100 Crores of operating revenue, and for six months it was Rs.170 Crores. The operating EBITDA, which excludes other income in this quarter, came in at Rs.17.4 Crores versus Rs.10.3 Crores in the same quarter last fiscal year.

Operating EBITDA for the six months' period came in at Rs.34.4 Crores implying a margin of 20.2%, a significant improvement of approximately 570-basis points versus the same period last fiscal year. In terms of other financial parameters, we have long-term debt of Rs.237 Crores along with working capital debt of Rs.166 Crores as of today. The cash at bank is Rs.8.6 Crores and total receivables are Rs.368 Crores, 55% approximately Rs.203 Crores, of which is held as retention money from our EPC businesses. As of November 1, 2018 we had an order book of Rs.781 Crores approximately 55% of which is from our core manufacturing business.

This quarters' performance is consistent with the company's strategy of maximizing revenue from its core manufacturing business, which is approximately 80% of our sales today. At the same time, we remain committed to completing the two remaining EPC contracts in our order book. We would like to acknowledge the fact that majority of the losses over the last five years were from the EPC business. We monitor the operations of these two outstanding EPC contracts very closely and have now brought them to a stage where we have significant visibility in terms of completion of these projects.



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Finally, we are very excited about the ongoing momentum in the defense and aerospace industry in India. In particular, we see tremendous growth in our aerospace business. Walchandnagar has been a key partner to ISRO since the inception of India space program including with the recent GSAT-29 launch two days ago, which was ISRO's heaviest satellite launch till date. We believe we are very well positioned in the industry to capture the significant growth opportunity in our addressable markets that lie ahead given our long established relationships with independent government agencies such as ISRO for aerospace, DRDO for defense, and NPCIL for nuclear and BDL for our missile program.

Thank you for your time and I would like to leave the floor open for questions and answers. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. Our first question is from the line of Vaishali Parkar Kumar from Vihaan Investments. Please go ahead.

Vaishali Parkar Kumar: Good evening Sir. Thanks for taking my questions. For last three quarters, we were able to report profits. So what was the reason for losses prior to that? And what has changed from then? That is my first question and what is the current status of EPC projects, if you can share Sir?

Chirag Doshi: I will answer your first question first. Obviously as I said in my opening statement, we had taken a couple of large EPC orders in 2009-2010, one in Tamil Nadu Electricity Board and one in Ethiopia. Both adding up to nearly Rs.2000 Crores worth of orders, for various reasons and various issues, delays, those projects have continued to sort of not get completed. And that really caused us to lose money over the last three to four years. Largely because of the Tamil Nadu project and that is really the reason for the losses. And as we have stopped taking EPC orders and our only focusing on completing these projects, the turnaround has happened where now all operating revenue or large portion of the operating revenue and EBITDA come from our high margin businesses and therefore you are seeing the transition from all the losses that we had to the last three to four years to now consistent quarterly turnaround and profit. And your second question was?

Vaishali Parkar Kumar: Current status of EPC projects?

Chirag Doshi: Yes, so I will hand that over to GKP, Mr. Pillai, you can give her an update on those two projects.



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G K Pillai:

Good afternoon Madam. As Chirag did mention that now the two large projects of the company has taken. One in Ethiopia for setting up of a sugar plant of 13000 TCD known as Tendahao Sugar factory and the second one was with regards to TANGENCO, that is Tamil Nadu Electricity Board that was basically an order of Rs.1125 Crores the TNEB orders, it consists of 12 old existing sugar plants to be modernized and setting up of a new co-generation plant in these 12 units. So these are the two projects, which we have taken. And for various reasons, mainly not attributable to us it got delayed and that is one reason why we had loss. The present status of the project I am very happy to inform you that as far as the Tendahao project is concerned that is the Ethiopian project, actually the project has been completed in 2014 and it has been running. The plant has been running. The issue there was the plants has been designed and there was 13000 TCD per day plant but unfortunately in Ethiopia, in that side, the sugarcane availability has been less and it has never gone more than 3500. Companies like Walchandnagar who have set up the plant had been approaching the customers, that is, the Ethiopian Government as well as the Government of India because it has been an EXIM Bank Funded Project. They still do not have availability of cane for crushing 13000 TCD, so ultimately it has been decided and agreement has happened that whatever piece of sugarcane available whether it is 2000 or 3000 or 4000, at that capacity the plants will be run, shown to the customers and based on that OAC, that is operational acceptance certificate will be given by the Ethiopian Sugar Corporation. I am happy to inform you that this testing is likely to be done by the end of November or by December 15, 2018. In this period, this testing will be done and with that we will be closing this particular project, it will be a great relief and great sign for Walchandnagar Industries. That is a first part. The second part is with regard to the 12 projects of Tamil Nadu Electricity Board known as TANGENCO that I am happy to inform you that for seven projects there are actually 12 sites, for seven projects work is at advance stage, we are trying to complete the major work before the start of this season. This season start by end of November. It is a very advanced stage and we will be completing this seven projects are running the plants before this season starts. So that is as far as the TANGENCO project is concerned, the remaining five out of 12 will be completed by the next calendar year that is 2019-2020 March it will be over. This is what our current program is.

Vaishali Parkar Kumar: Okay Sir and after that are you interested in this zeroing down EPC projects or you will continue with that?

G K Pillai:

As far as Walchandnagar is concerned, we are the number one company who have got an expertise in the field setting up of sugar plant and co-generation but no doubt about that, okay. But at the same time, looking into the requirements of the country, the country requirement is more today on the DNA segment, so our focus though will be on DNA, but



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at the same, we are not withdrawing from the segment at all. If good opportunity comes, profit margins in this business, the company is always ready and we will be also bidding. But the only thing which I wanted to make it clear, that we will be very selective see most of the sugar EPC business has been coming without a clarity with regard to the funding. So our aim is we are more concerned, we are more looking for, our focus will be on the profitable growth, so if there is a good opportunity coming where the funds are clear, the profit is there, we will definitely like to use and bid for them.

Vaishali Parkar Kumar: Okay. Thank you Sir. That is all from my side.

Moderator: Thank you. We will take a next question from the line of Padmaja Ambekar from IRfluence Advisors. Please go ahead.

Padmaja Ambekar: Thanks for the opportunity Sir. Sir is there any interdependence or business relationship with any other Walchand Group listed companies?

Chirag Doshi: The short answer is that is no. We are not in any business relationships or nor do we have any shareholdings/cross shareholdings with any erstwhile Walchand Group companies. My father, Chakor Doshi is the Chairman of Walchandnagar and we have another company called Bombay Cycle And Motor Agency. These are the only two companies, which are listed that fall under mine and my father's sort of business portfolio. All other erstwhile Walchand Group companies are now run by other family members and we have no dealings with them in anyway whatsoever since 1996, when the family went through a separation. So there may be familiar relationship but there is absolutely no business relationship nor any crossholdings with each other. If anyone does own shares, any other family members own shares of Walchandnagar they are not even considered as part of the promoter group. So that is the absolute separation that has happened since 1996.

Padmaja Ambekar: Okay. Thank you so much Sir. That is it from my side.

Moderator: Thank you. We will take a next question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Thanks a lot for giving me opportunity. Sir just wanted to understand – I had two questions. First is on the opportunities available on the DNA side, defense, nuclear, aerospace, if you can briefly talk about what separate us from other companies in the segment and other larger companies in the segment and what kind of opportunities are available in the sector?



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G K Pillai:

Yes. Sure. In the segment defense nuclear aerospace, these are the three areas where our company has decided to put focus. Let me take aerospace segment first. India has been launching six launches per year. It has now being increased from 6 to 12 and 12 to 18. Walchandnagar as Chirag did mention, we have been partners with the India Space Program right from the day one in 70s. So ISRO is very happy with the products, the quality, delivery and service from Walchandnagar and they have already informed that they would like to partner us for the expansion program and I am glad to inform you that we are very much well equipped and also adding some additional facilities to make the growth good of the Indian space industry. That is number one. Number two as far as missiles are concerned, we have been a partner with the Akash Missile right from day one when it was developed from the DRDO Lab with BDL operation has been productized. It has been with BDL and we are supplying to them starting initially from three to four missiles per month today we have graduated between 20 and 25 missiles per month. We still find that this area Akash is the mainstay of the Indian defense program, missile program and we are expecting that there will be sufficient growth in this segment where Walchandnagar will be playing very major growth. With regards to the other defense area, yes we have been as Chirag did mention earlier we have been more on a R&D basis, but from there we have now graduated, we are actually supplying to the most of the defense lab we are supplying and at the same time we are looking at opportunities because this is an area where there is a lot of Make in India activity is likely to happen. And we are also looking at expanding our footprints in this defense area and one more point we are also looking at Tier I manufacturers in the defense segment to work with them to expand the business activities of Walchandnagar.

Chirag Doshi:

Ankit sorry, I can just add in that – I think you may have also alluded to the fact that what kind of makes Walchandnagar what are its USPs when it comes to competing against other people and I think the point that needs to be made there is the fact that 40 years of R&D and the ability to work with materials that nobody in this country can work with. And the processes and technology and tools, tackles and stuff we have developed over these 40 years, makes us sort of way a preferred partner to agencies like ISRO and BDL and DRDO, that makes an extremely difficult for other players to even enter the space. And I think that is the further criticality and the part that makes the barriers to entry so high and so that is way also gearing towards with your question that is something to also keep note of.

Ankit Gupta:

Yes, right Sir. One question I had was lot of these announcements on defense and aerospace have been done, so particularly on the defense side, the ground movement from the authorities has not been up to the mark and what was announced earlier. So what is your view on how things are looking at the ground level and what is the update on? Are you seeing increasing orders coming in, increasing tenders coming in? Earlier we interacted



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with few of the companies to determine what it is although the tenders come the finalization now takes a lot of time, so what is your view on what is happening on the ground, if you can say?

Chirag Doshi: Yes, GKP go ahead.

G K Pillai: It is a very important point for your concern. Basically what has happened in the last five years this new government has taken charge from 2014, there is a lot of emphasis on Make in India particularly in the defense segment for the private sector, which has been a market shift in the block and for that lot of ground work has been done for the last couple of years. In your specific questions, that has been affiliated in to clear orders in this segment in the Indian private sector, the answer may be not very much, but at the same time, at the same breath I would like to add that ground work has started, it takes some time for even for the government to change their policy, change the mindset to bring in private players to manufacture equipments in the defense sector. So I am finding, I am saying though in actual term if the numbers of orders would not have seen very high increased in the last three to four years, but I am very positive that this trend will continue even after this election that what I feel and I feel that in the next one to three years you will find a big impetus in this segment for the Indian private sector. This is what our hope is.

Ankit Gupta: Sure and how is the competition in the segment? Lot of big business houses have also entered into the defense sector if you can speak about the segment?

G K Pillai: As far as Walchandnagar is concerned, there are definitely large big industrial houses that come into defense but they are primarily on the Tier I sector. As far as we are concerned, Walchandnagar Industries is concerned, we are basically Tier II company and as Chirag did mention to you, an expertise which is available in WIL, it is very difficult for anybody to replicate, somebody can buy it and bring a technology and do a high level thing, but what we do is we have got expertise both in terms of welding, in terms of technology and in terms of manpower expertise, because in the sense it is a very important element to have skilled manpower to manufacture the defense related equipments. So we are very confident that the expertise what is available with Walchandnagar Industries, it is very difficult for anybody to replicate and we feel that we have a niche play in this segment.

Ankit Gupta: Thank you. One question was on the other segment that we have industrials gearboxes, centrifugal, cement spares & instrument, so can you talk about that what exactly do you do and what can be the opportunity size there?



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G K Pillai: See basically we have decided about our expertise that has been basically in heavy engineering, manufacturing, design and engineering. So centrifugal is sector, which we feel that as company we can really make a big thrust in to the Indian domestic market, we have done that and in the last year - even in the first half of this year, we have now today market share – with the high market share of more 60% market share in the country. But in this first half of the year, we have actually booked orders for the 100 numbers, which has been a great change almost increased by 75%, so with the centrifugal is one area. In the same time, centrifugal as a product has got tremendous potential in the export market and the rupee devaluating as it is, we are actually making a foray into the export market of centrifugal and we see a reasonably good growth to happen in this segment. Second area is with regard to the industrial gearboxes, Walchandnagar has been a prominent player in the high technology industrial gearboxes. We have been supplying this gearboxes to almost all the Indian Navy ship, etc., including the various submarines and the coast guard vessels. Apart from that, we do this industrial gearboxes for sugar. This is again an area where there is lot of potential both from the domestic market and we also see a good export potential. In these two areas, the company is very much in the forward-looking mode. As far as the instrumentation is concerned, the company which is a unit which is setup at our Dharwad facilities again, it is a small standalone company, but the growth has been a steady growth almost on a year-on-year basis between 10% and 14% growth have been maintained there. So these are the other area where the company has been putting focus.

Ankit Gupta: Sure. And on the sugar EPC side, I think we have been a dominant player on that so as what is, do we looking forward to getting contracts or will we bid for new contracts for the sector because I think alot of ethanol based plants are coming up in sugar industry?

G K Pillai: You are asking for the sugar sector?

Ankit Gupta: Yes, sugar sector?

G K Pillai: Yes, as I said sometime back to another question that if there is a good profitability is that in particularly those jobs, we will be bidding for those, otherwise we are at present not very keen to take a job for the sake of only topline. So and we are also looking at if there are sugar plants, if it is coming in the cooperative sector, and if there is financial are not tied up. We are not much keen to go and bid for them. So we are looking at two cases as far as the sugar is concerned one, there should be good competition and there should be a good profitable business then only we will be bidding for those sugar plants.



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Ankit Gupta: So and on the operating margins the proportion of the EPC revenues coming down we have seen a significant improvement in the EBITDA margins for the past three to four years. For the manufacturing division, what are the sustainable margins that we can expect for these segments?

G K Pillai: You mean to say for the EBITDA for the manufacturing sector? As we said, our basic emphasis today is to have 80% of our revenue to come from the manufacturing or from the core business and with the 20% basically as spare parts for EPC business or completing some of the existing EPC business that is our present plan for the next coming two to three years. With this as a product mix we are looking at an EBITDA of anywhere between 20% and 25% and if you look at for this quarter, the EBITDA as far the first half of this year is concerned, EBITDA is almost in the range of about 22% to 23%. So we are looking at an EBITDA from where around between 20% and 25% for the mix.

Ankit Gupta: Lastly on the fundraising announcement that we have done, so can you talk about what purpose is for, is it for reduction of debt, so what exactly we are looking for and how much funds are we planning to raise?

Chirag Doshi: No actually let me just take it. So basically we have not done any announcement on fundraising. We have just taken enabling resolutions from the board to allow us to explore opportunities for potentially if an opportunity arose to raise funds in the future. So there is no plan of raising any equity money. It is just a resolution that we have taken in case there was an opportunity in the future, so that is really – I mean that is really all than it was as a board resolution.

Ankit Gupta: On the point of reduction in debt and especially the finance cost what are the measures we are taking?

Chirag Doshi: So from a strategic perspective, obviously yes we do want to reduce our interest cost and reduce our debt at whatever point in time, so short-term measure obviously our interest rates from the banks are extremely high, largely a fall out of the fact that our credit rating was quite poor up to whatever six months ago. So now that we are now Triple B minus rated company. We are obviously going back to our bankers for a new sanction with new rates. That should in the short-term itself reduce our interest cost and obviously on the medium term, we see reduction of debt being done through sale of noncore assets also internal accruals of cash from the business, will go towards reducing the working capital. And release of lot of our block funds specially the retention money of the two EPC projects all of that will go towards reduction of debt in the near future, between the next six to 12



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months. But I think short-term angle really has to be to get our interest rate brought down and fees that have been charged to us to be brought down.

- Ankit Gupta:** How much is the retention money currently for these two projects?
- Chirag Doshi:** The retention money for Tendaho and TNEB combined is about 170 Crores out of the 400 Crores of debtors.
- Ankit Gupta:** But are you confident of recovering all the money when there have been any LDs or something on that?
- Chirag Doshi:** No, we are very confident of recovering it.
- Ankit Gupta:** And when are you expecting that to be recovered that any timeframe?
- Chirag Doshi:** Yes. GKP I think you can?
- G K Pillai:** Yes. Sure. As I said sometime back in one of the question that as per the Tendaho, Ethiopian project is concerned, we are expecting the final operational acceptance certificate by somewhere in December 2018. So with the receipt of that, we should be able to get the retention money within the next three to six months. So that is as far as Tendaho is concerned, it is about Rs.60 Crores is there. As far as TNEB project is concerned, we have already started getting some retention money both projects are in two half. One is the sugar modernization, and one is the power. So for some of the sugar modernization, which we have already completed some three years back, we have already started getting and we got almost about 14 Crores of retention money from the TNEB project. So we are confident that once we are completing those projects, we should be able to get it.
- Chirag Doshi:** I think slowly as we execute projects over the next 18 months, we should see that retention money coming back as well.
- Ankit Gupta:** Sir in the half-year we saw that our the long-term trade receivables has jumped up 19 Crores to almost 90 Crores now, so in the current assets are receivable category what is the reason for increasing long-term trade receivables?
- Chirag Doshi:** Sandip, I think you will have to answer that.
- Sandip Das:** Compared to March from 19.5 Crores, which has gone to approximately 90 Crores. The main reason is because of the segregation between current and noncurrent debtors. Overall



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if you see considering total current and non-current debtors, it has come down because of collections.

Ankit Gupta: Some of the short-term trade receivables have been transferred to long term trade receivables because of non-receipt of retention money from EPC and sir in existing contracts / orders that we have for the different segments, what is the billing cycle and how many days you receive payments from the customers?

G K Pillai: You are talking about the basically the defense, aerospace and missile is it?

Ankit Gupta: Yes.

G K Pillai: See if you look at that most of our business comes from the government sector but again very important pertinent to note that many of these are coming from the public sectors of the government like BDL, so what happens is or NPCIL, Nuclear Power Corporation of India they are not purely government, but it is a 100% government public sector. So normally the payment from this is anywhere between 45 days to 60 days and we have had not much any problem with that.

Ankit Gupta: Lastly on in the capacity utilization for our existing plant what will be the capacity utilization currently at this run rate that we are doing around?

G K Pillai: See as far as engineering products like what we manufacture there, lot of fabrication, lot of machining is there. Inherently, the capacity is never a restriction, because for the fabrication activities we can always get new teams to come and do the additional work. Second is only with regard to special machines are there, large size machines which are needed, so even if my machine is totally booked, I can still get machine to be done outside, so theoretically what is the capacity available for us, expect if it is a special product like a missile product. . . . (Not Audible)

Chirag Doshi: So basically the point he was tried to make is that the capacity per se is not a constraint expect if we have sort of a specialized manufacturing setup like we do for the missile business where whatever capacity we have is sort of 100% occupied in order for us to do 25 missiles per month, but a lot of our facilities in Walchandnagar are highly fungible because we are sort of fungible machines, a slow down in the certain order of a certain customer can be offset by using the same machines for backlog of orders from other customer. But ballpark, ballpark just to put a number out there and I can't – it needs to be fully verified, I would say that we would be today at maybe 60%, 65% capacity utilization on an overall



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basis. So there is scope for increasing our throughput without much investments, but that is dependent on which areas we are talking about.

Ankit Gupta: Lastly you were talking about Chirag, selling of our noncore assets, can you just highlight – what assets are we looking to core and at what stage now we are currently in?

Chirag Doshi: So the only noncore assets that we really have on our book is a property that we have in Mahim, in fact that is also in our balance sheet, as an asset held for sale, so that is the only asset that we are looking at selling in the near future. So that is the real main noncore asset.

Ankit Gupta: Any realization or any expectation of the price maybe we are looking for at this point in time?

Chirag Doshi: No. Nothing we had but I hope to get the deal done this financial year, I mean that asset is pledged to KRR in any case, so whatever comes out of it will go towards reducing their debt.

Ankit Gupta: Okay and I was coming to that only. What are the key terms of the KKR debt that you have taken? Any timeframes up to which you have to redeem this debt?

Chirag Doshi: So the KKR debt is basically obviously it is a debt structure and the key term is a six-year agreement. We have an x IRR of 14%, but our coupons are lower, and the kind of staggered rising, so first year coupon is 7%, second year 8%, third year 10% and then 14% thereafter. So a lot of the interest and principle is back ended, which gives us a flexibility to have working capital available, to sort of drive the business away we have over the last year. With regards to repayments, so we have a two year moratorium on principle payment so therefore the first principle payment, so therefore the first principal payment will start only in September next year. And we have a 2.5 years, no prepayment clause, after two and a half years we can refinance and repay the whole amount, prior to that if we do any sort of equity fundraise, then we have the option of pre-paying them to that extent, but that is something that has to be explored in that term. So that is by last the structure of the deal.

Ankit Gupta: Apart from that, there is no significant long term debt from the company anymore?

Chirag Doshi: No. that is the only long term debt that we have.

Ankit Gupta: So Sir just the question on high interest cost so the interest cost primarily because of high interest rate plus there will be some charges on bank guarantees or LCs that will be available.



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- Chirag Doshi:** That is correct. So the other thing to note by the way in the accounts obviously is that we are taking interest cost in our books at 14% for KRR, even though the actual coupon in cash outflow is only 7%. So interest on our books does not accurately depict the cash flow, I mean that is something to note.
- Ankit Gupta:** Got it. Thank you Sir. That was very, very helpful.
- Moderator:** Our next question is from the line of Siddharth Nahar from Sapphire Capital. Please go ahead.
- Siddharth Nahar:** Thank you very much Sir. Sir just wanted to understand other income of 11 Crores, so how sustainable it is basically in this quarter that you reported Sir.
- Chirag Doshi:** Basically I can just answer, if the largest chunk of the other income is to do with the mark-to-market gain that has come from the foreign exchange depreciation because we have that retention money in dollars due to us. So the largest chunk of it is really just a noncash foreign exchange gain that has accrued to us. So obviously that is not going to be recurring and sustainable. I do not know if there is anything else, Sandip you want to add in.
- Sandip Das:** We had approximately 174 lakhs of some write backs in old liabilities, which are no longer required to be carried in our books and we have reduced our ECL provision by another 150 lakhs which is again based on our periodical review of receivables. So since our debtors have come down because of collections so our carrying provision amount has come down, so that is 150 lakhs. So these are the main two other elements in my other income.
- Chirag Doshi:** For the short answer – I do not think this is going to be sustainable going forward. Which is why in my opening statement, I gave all of my numbers based on operating EBITDA and operating revenues, right. Just to take that out of the equation.
- Siddharth Nahar:** It is just that even other income that you kind of mentioned, so what sort of EBITDA margin as what we are looking at for may be next two years, revenue growth, any kind of outlook you want to share?
- Chirag Doshi:** No, we do not give any forward looking outlook, so I cannot answer that question but the trend is seen, so we want to continue on the same trend.
- Siddharth Nahar:** Okay. Sure. And in terms of finance cost, you mentioned that you are talking so many steps to reduce the debt. So have you figured it out any kind of levels that you want to take our debt levels by FY2019 and by FY2020?



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- Chirag Doshi:** No. Obviously we want to reduce it. And I think the reduction will be dependent on how much we can actually generate from the retention money, the sale of the asset and the cash that we throw out of the business in the next 12 months. So I would expect by March 2020, there would be a substantial reduction of debt. Because I mean at least retention money of those two projects should come back by then.
- Siddharth Nahar:** Right. That 170 Crores you are talking?
- Chirag Doshi:** Yes. The majority of that will go towards debt reduction. I mean there are some other areas where we have to use that money, but the largest chunk will go in debt reduction.
- Siddharth Nahar:** And the property that you were mentioning, so what is the sort of ticket size of the property like what round about valuation is that?
- Chirag Doshi:** So in the books that property is put as an asset held for sale for our 30 Crores.
- Siddharth Nahar:** 30 Crores. Okay. Thank you so much. That is it from my side.
- Moderator:** Thank you. A next question is from the line of MS Arun from Capital Market. Please go ahead.
- MS Arun:** Good afternoon Sir. In the order book for 781 Crores, and that 53% strategic manufacturing – could you give the breakup for this 53% about 400 Crores, how much is from defense and how much from industrial product?
- G K Pillai:** Yes. Actually the order book what you are saying we have as I have said is 781 Crores of this almost about 55% is towards the core manufacturing sector. And from this, the DNA, defense nuclear aerospace and missile, this constitutes to almost about 40% - around 40%.
- MS Arun:** 40% of that for 400 odd Crores?
- G K Pillai:** of the total, 781 crores.
- MS Arun:** Yes. Okay.
- Chirag Doshi:** So above 300 Crores is defense nuclear and aerospace and missile.
- MS Arun:** Okay. So but his 300 Crores will be executed over how many years?



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- G K Pillai:** See basically the delivery lead-time is for any of these orders or any of the defense areas it is 12 to 20 months.
- MS Arun:** 12 to 20?
- G K Pillai:** 12 to 20, yes.
- MS Arun:** Okay.
- Chirag Doshi:** But we do expect to get a lot more orders in H2, so that also needs to be put into account.
- MS Arun:** Second thing is your press release has stated that you have got industrial license for life jackets and better bullet proof jackets and etc., what that revenues start production, start on revenue get likely to get that order and revenues?
- G K Pillai:** Well we have got the license now. So we are in touch with one of the foreign parties also with regard to getting a better technology. So maybe in the next financial year, we will be entering into this segment.
- MS Arun:** How big is the business likely to emerge? What is the market opportunity for in India as well as overseas? What all approvals it requires?
- G K Pillai:** Yes, basically we are first concentrating in the domestic market for the Indian requirement and then only we will be going to the export market and we have made detailed study about those, which are all steps required for the bullet proof jacket and but in any case a detailed project report is still under preparation and it will only come in the next financial year.
- MS Arun:** The technology you have tied up?
- G K Pillai:** No. Not yet. Not fully tied up, yet.
- MS Arun:** For any revenue that will be coming in FY2020 only?
- G K Pillai:** Absolutely.
- MS Arun:** Okay. Fine Sir.
- Moderator:** Thank you. A next question is from the line of Sanjeev Patkar from SBI Funds. Please go ahead.



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Sanjeev Patkar: Good evening Chirag. My question is actually I had two questions one of which got answered a couple of questions back, which was on the order book composition, etc. Some color if you can throw on kind of margin profile improvements that you would see over or may be three to five year period depending on how you see this order book coming into execution that is the first one. And the second one is you have an exposure to the defense agencies or even for that matter defense manufacturing companies of the government. Now how do you protect yourself from the typical risk of working with the government agency in terms of policy changes – how are you have going to handle that part in your business model the more NDA part or the DNA part becoming a large part of your execution?

Chirag Doshi: Sanjeev, good to hear your voice. I think let me answer the second part first. So basically the kind of agencies that we work with are not the typical sort of Ministry of Defense and government Delhi based industries as GKP mentioned earlier, these are more sort of independent, either independent research agencies or independent public sector units who have their own balance sheets, their own revenue, their own sort of cash flows and so we do not think that there is going to be any issues with regards to as we grew our business, any issues that getting paid and dealing with them. And the future part of our businesses sort of alluded to where we become sort of Tier 2 suppliers to OEMs, also is private sector and so therefore there we do not feel any sort of fear with regards to sort of dealing as we grow our business and it becomes a bigger part of our portfolio. And on the margin front, I think we have already answered that I think we will continue to maintain what we are doing if not hopefully improve a little bit.

Sanjeev Patkar: Thanks.

Moderator: Thank you. Next question is from Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Thanks for giving me opportunity again. In this press release you have highlighted about capex plan that we are looking for enhancing capabilities and requirements of this upcoming 10 nuclear power plant, so can you talk about that how much is the capex and how we will fund that?

G K Pillai: Basically we are looking at capex for two or three areas, one in terms of aerospace. So as of now there has been a clear commitment from the ISRO that they are going to increase their launches, so that is one area where we want to meet the requirement, the capex will be there. With regard to the nuclear power plant, yes since the new PSWR bids which the government has cleared for that some additional capex have already been approved by board and we are inline with that, so that we as a company become totally capable of



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meeting all the requirements of primary side of the nuclear power plant. These are the two specific areas where the company is putting going to put some capex and the third area would be in terms of the gear business, where we see a good opportunity to enhance our share and meet the requirements of the Indian defense forces we will be investing in the capex for this area. These are the three areas primarily.

- Ankit Gupta:** How much will be the cost of this? Any area they were looking for capex?
- Chirag Doshi:** Yes. So that is little bit difficult to sort of put down, but it will be somewhere in the region of Rs.40 Crores to Rs.50 Crores.
- Ankit Gupta:** How are we planning to fund this like any tie ups with the bank for debt or something?
- Chirag Doshi:** No. There will be no debt for sure. It will be through internal accruals and will be have to figure that out when the time comes.
- Ankit Gupta:** Okay and one more thing on the cost of debt currently and what will be your rate of interest for the existing debt?
- Chirag Doshi:** KKR is 14% and our interest cost on the working capital, Sandip, what is average cost?
- Sandip Das:** It is 15% now.
- Chirag Doshi:** Obviously that has to go down and that is an interest rate, which is based on previous credit ratings and sort of situation. We should see tremendous benefit in the coming months on that front.
- Ankit Gupta:** Yes. So are we discussing with the bankers for reduction in that?
- Chirag Doshi:** Yes. We have already started.
- Ankit Gupta:** Yes. Thank you. You Chirag in the press release had also highlighted about healthy pipeline of new orders that are in the advance basis of negotiation, can you talk about that or what can be the size of these orders and like where are we in terms of getting these orders, and which phase are we currently?
- Chirag Doshi:** Yes. So we cannot give specific situation of each order, but I think GKP if you can give him a total number of tenders that we have bid for I think really what he needs?



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- G K Pillai:** Basically, we have actually bid for almost about 700 Crores of tenders, which are at various stages of finalization, discussion going on and we feel that yes many of them will be fructified before this financial year end. As Chirag said, I cannot give exactly what numbers will come, but prima facie yes, these are the numbers that we have bid and some decision is likely to come through.
- Ankit Gupta:** So it is you are expecting some orders to fructify?
- Chirag Doshi:** So I cannot hear?
- Ankit Gupta:** End of this financial year. Thank you.
- Moderator:** Thank you. Next question is from the line of Jinesh Shah from Equipmark Advisors. Please go ahead.
- Jinesh Shah:** I just wanted to know about our foundry business, if you can give some color for next two to three quarters?
- G K Pillai:** I did not hear the question.
- Chirag Doshi:** The question was to give some information on the foundry business and what is its outlook for the next two to three quarters?
- G K Pillai:** Very good. As far as the foundry is concerned, it is primarily not much money all this year, but off late the last six months or so, the management has put lot of emphasis on that, and that received very well with the results that even in the we are now making almost about 700 metric tonnes of casting production from the foundry, it was almost only about in the range of 450 till last year, so there has been increase, even in terms of revenue, the foundry revenue for this quarter itself has been almost about 17 Crores or this half it has been almost about so 17 Crores and compared to what is that 14-15 Crores last year. So there has been an increased demand and I am confident that yes this increase will definitely continue as far as the foundry business is concerned. Just to correct it, it is 32 Crores for this first half year of FY2019 when compared to 19.86 Crores of previous year FY2018 first half. So there is a big improvement in terms of we have also done reduction in the manpower, reduction in the operating cost and improving the efficiency and increasing the throughput of the foundry.
- Jinesh Shah:** Thank you Sir.



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Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Purvesh Shelatkar for closing comments. Over to Sir!

Purvesh Shelatkar: Thank you very much all the participants who have taken out their time and taking the precious time to hear out what the management of Walchandnagar Industries had to say. I personally thank you very much, Mr. Chirag, Managing Director, Mr. G K Pillai, MD and CEO and Mr. Sandip Das, Head – Accounts of Walchandnagar Industries and on behalf of Centrum finally I would like to thank all the participants and all the management for attending this call. Thank you.

Chirag Doshi: Thank you Purvesh. Thank you everyone.

G K Pillai: Thank you very much. Nice talking to all of you.

Moderator: Thank you. Ladies and gentlemen on behalf of Centrum Broking Limited that concludes this conference. Thank you all for joining us. You may disconnect your lines now.