WALCHANDNAGAR INDUSTRIES LIMITED
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Ref. No. : WI:SEC:2018
Date : February 12, 2019

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Dear Sir(s),

Subject: Transcript of Conference Call of Walchandnagar Industries Limited ("Company") held on February 07,2019.

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 ,Thursday February 07, 2019 at 4 p.m.

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 Q3 FY2019 Earnings Conference Call”

February 07, 2019

ANALYST: **MR. ASHISH SHAH - CENTRUM BROKING LIMITED**

MANAGEMENT: **MR. CHIRAG DOSHI – MANAGING DIRECTOR - WALCHANDNAGAR INDUSTRIES LIMITED**
MR. SANDIP DAS - HEAD – ACCOUNTS - WALCHANDNAGAR INDUSTRIES LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Walchandnagar Industries Limited Q3 FY2019 earnings 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Shah from Centrum Broking. Thank you and over to you.

Ashish Shah: Hi, Good evening and warm welcome to all the participants. Thank you for logging onto the conference call of Walchandnagar for Q3 FY2019 results. With us we have the Managing Director Mr. Chirag Doshi as well we have Mr. Sandip Das who is heading the accounts. I hand over the mic now to Chirag Sir for his opening remarks. Thank you.

Chirag Doshi: Thank you Ashish. Good evening everyone. Just as a quick introduction as Ashish already gave. I am Chirag Doshi, Managing Director of Walchandnagar Industries and with me on the call is Sandip Das who heads our accounts and finance. Welcome to all of you to this conference call for discussing the results for Q3 FY2019 and for the nine months period for the FY2019. The results for Q3 FY2019 and for the nine months ending December 31, 2018 were taken on record by our board at its meeting held yesterday, February 6, 2019.

Before we actually get into the financials, I am sorry for sort of repetition, but just a quick introduction to Walchandnagar for any new investors who are on this call and who may not have met with me or heard me, tell our transformation story in the previous call that we had. 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. For most of Walchandnagar early years and even as far back is the last five, seven years, our focus used to be on equipments that were used to manufacture sugar, cement and the power industries. During the last five year or so, we have made a strategic shift and a decision to realign our focus away from this commodity, EPC business towards sort of what is our core which is the high-end engineering and critical fabrication business in the sectors of defense, aerospace, nuclear power and heavy engineering products that cater to a very diversified industry base.

Now, I will broadly share the quarterly and nine-month numbers with you in terms of our sales and operating margins. For this quarter that is Q3, we had a sale of Rs.95 Crores of operating revenue and for the nine months, it was approximately Rs.266 Crores. The operating EBITDA, which excludes other income in this quarter, came in at Rs.24.4 Crores versus Rs.17 Crores in the preceding quarter of this fiscal and Rs.21.82 Crores in the Q3 of FY2018, so there has been an improvement on both fronts.

The operating EBITDA for the nine months' period for this year was Rs.65.32 Crores and an EBITDA margin of 24.6%, which saw a significant improvement of approximately 700 basis points versus the same nine period of last fiscal where our operational EBITDA was Rs.48.82 Crores and our EBITDA margins were 17.42%. In terms of some other financial parameters, we have long-term debt of Rs.237 Crores from KKR and as of January 31, 2019, we had an order book of Rs.856.31 Crores approximately 60% of which is from our core defense, nuclear, aerospace, gearbox manufacturing businesses. The growth in the order book has been primarily on account of receipt of an order of value Rs.96 Crores plus escalation which could rise up to Rs.110 Crores from Vikram Sarabhai Space Centre of ISRO towards manufacture of S-139 End Segments for the PSLV program going forward. It is the highest ever single order received by our company from VSSC.

This quarters' performance is consistent with the company's strategy of maximizing revenue from its core manufacturing business, which is approximately 78% of our sales today dominated primarily by the DNA - Defense, Nuclear, Aerospace sector. Walchandnagar continues to be very excited about the ongoing momentum and its growth potential in the aerospace industry in India. We believe we are well positioned in the industry to capture the significant growth opportunity in our addressable markets that lie ahead given our long established relationship with our customers that are primarily independent government agencies such as ISRO for aerospace, DRDO for defense, BDL for our missile program and Nuclear Power Corporation of India for the nuclear business. So all in all it has been very wonderful third quarter and I would like to now leave the floor open for any questions that you may have.

Moderator: Thank you. I would like to announce for the question and answer session. The first question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: Thank you for the opportunity. I am new to the company, so if my questions are basic I apologize for the same. The first question I had was Sir, I mean given the specialized nature of our core business which is defense, nuclear and aerospace, I was just curious on your view of our fixed assets, so do you think we need to buy new machines on a more regular basis than otherwise because of the nature of the work that we do and what is the general replacement cycle of your fixed assets and the current machine how old are they and when do you think they would need to be replaced, I was wanting to understand the capex program through that question?

Chirag Doshi: Sure. Thanks for that question. So yes, the short answer to your question is yes, we will need to upgrade some of our equipments in the near future. Having said that a lot of our equipment and a lot of our machinery, we have been able to sort of use for even like 20, 25, 30 years, because a lot of our equipment is sort of very large heavy duty machines that have been imported from say the Skodas of the world may be 20, 25, 30 years ago and they are still running fine. Over the course of the last I would say not last three, four years, but say five years ago, we went through the capex both new capex and maintenance capex cycle where we upgraded a lot of our old machinery into modern CNC unit, so that kind of gave them another 10, 15 years life and made them that much more accurate and faster, but in order to fulfill our plan for the next let's say five years, there is absolutely a requirement for us to do some level of brand new capex and a little bit more of maintenance capex, which we are planning to do over the next 18 months but by and large yes it is a very, very capital-intensive industry, but we to some extent are lucky that we have got a fantastic capital asset base, I do not think our capital asset base is yet churning out the maximum amount of production and revenue that it can. So there is a long way to go with even what we have, but because we have taken commitments from some of our customers like ISRO and Nuclear Power Corporation for their expanded program that is going to happen over the next five years, there is a need for us to do some new capex in ultra state-of-the-art equipment which will last another you know 20 years thereafter.

Rohith Potti: Thank you for the detailed answer, that was very helpful. So if I could extend the question again, when you talk about the new capex that you are intending to incur, so would they be because of the fact that the new program that are coming from your customers are more state-of-the-art which probably you would not be able to do with the current capital asset that you have?

Chirag Doshi: Partly, so part of it is that the intricacies and the quality levels that will be required in the future may not be doable from our current asset base, so yes partly for that, but just partly because we have to ramp up, I mean in some of our businesses we are going to be doubling and tripling our output in the next two years. So it is purely based on a new assembly line for just higher numbers, just to give you an example - Aerospace division till recently we have been doing six launches a year, right the Government of India, they now want to ramp up in the next two years to do 18 a year that is straight away tripling our business for our aerospace products that we supply to ISRO right and so it is partly for speed and accuracy and partly for just pure business expansion.

Rohith Potti: That was helpful to know. Again from your customers' point, one thing would I be right in thinking that the customer concentration for the core business in that case would reasonably be high in the sense, you have 3-4 customers to contribute to entire revenues and inverting that from the customers' point of view, what portion of their requirement do you fulfill, if you could explain that?

Chirag Doshi: So the first part is correct that most of our revenue comes from 4-5 customers in the Government of India and that is the stickiness of the relationship right that even though there are few customers we know that those customers are not going anywhere as long as we continue to deliver the numbers and the quality that we have been delivering for the last 30, 35 years. As a percentage of their total business that varies, but what I will say is that in all the products that we deliver to these customers, we have either one or no competitor, so we had a very key vendor or partner to all of our customers and even though there is either one more person supplying the same item or it is a single tender basis and because of the work we do and the criticality of the work we do, there is no sort of substitution possible let us put it in that way.

Rohith Potti: So when you say there is only one other competitor that you have, do you mean is it domestic or the parts. .?

Chirag Doshi: No foreigners allowed to do the work that we do.

Rohith Potti: So that will not be changed for the long time to come?

Chirag Doshi: No, we may become vendors to some foreign companies, but no foreign company will do the work that we do for our Indian Government.

Rohith Potti: Okay that is interesting to know. So could you also explain the working capital cycle in these businesses, the core heavy engineering business that we are talking about right now, so the capital intensity is one part, but I think. . is it working capital intensive as well?

Chirag Doshi: In some businesses where we need to buy material upfront, it does become a little bit working capital intensive, but most of our customers do give us pretty large advances which then gets utilized to buy the material. In a lot of our businesses like aerospace and missiles, we get free issue material and therefore working capital requirements are very, very low. In fact we work on what you called negative or positive working capital cycle. Sandip, you want to add on that?

Sandip Das: For the core business, our working capital is around 90 days because in that some business as Chirag Sir said we receive some advances which are again ploughed back to make any procurements which we might have.

Rohith Potti: When you say 90 days it is including the advance, you take into account, the advances as well when you calculate the working capital right?

Chirag Doshi: Yes.

Rohith Potti: Okay, I understood, that is helpful as well and coming back to the core business again, so if you could detail a little bit more on what the major entry barrier is, so I understand 30-, 35-year relationship, but what prevents somebody else from doing, is it access to certain specific raw material which has to be imported or something or is it the knowledge, is it the implicational knowledge that you have developed over the long period of time to fabricate machinery or is it some specific technology or R&D that you have done and if you could detail a little more, it will be helpful?

Chirag Doshi: There are many reasons why we have sort of very high barriers to entry. One, you addressed which is just pure relationship right, 40 years of being the pioneer in India space program, nuclear program, defense program. We have participated from the first to the latest in all of these programs whether it is the launch vehicles, whether it is the nuclear reactors, whether it is all of our defense products that we have done from first to last and so we have developed through that time a lot of technology, a lot of inhouse process, a lot of manufacturing innovation, design IP is usually with the customers, so that does not rest with us, but these other areas and the ability to work with metals over the 30, 40 years those metals have changed and we have a very, very robust R&D process in-house, where we actually start working on next generation materials that we think or that the customer and I think will be the future say 3-4 years from now, we start working on it today and so not just today's product because it is highly capital intensive that there are lots of tools and tackles and fixtures that we have developed over time, processes we have developed over time, capabilities that we have developed overtime that is very, very difficult to copy and break into and then next generation what is going to happen for years from now, we are already on it today and we will be ready two years from now, three years from now to in fact cannibalize our existing business for the next generation material. So when you are in this level of manufacturing innovation let's call it fabrication innovation, very, very difficult for people to make an entry and then the last point which is absolutely critical is that in 40, 42 years of working with these departments, Walchandnagar has never been responsible or had a failure in fabrication of manufacturing of any of our items. So when you are sending a man into space, would you want to risk the most critical parts of your rocket being manufactured by a new person or would you stick with the guy who has been doing it for 40, 45 years and has developed that level of expertise or if you are sending someone in the submarine or if you are putting someone on a ship, finally there are lives at stake and so I think at some level we get that barrier to entry that having been a company that's done it for 45 years, there is no reason to ever change except if we start getting monopolistic in our pricing and then you would sit and negotiate with the government and make sure that there is no such thing happening. So there are many barriers to entry which are sort of manufacturing based and even let us call it non-manufacturing based.

Rohith Potti: I appreciate the detail and the effort that you are taking in answering my question. Can I continue asking or should I go back to the queue?

Chirag Doshi: I do not know how many peoples are in queue, is there anyone else wanting to ask a question?

Moderator: There is only one person in the queue.

Chirag Doshi: Okay, Rohith you want to let that person ask and then come back in?

Rohith Potti: Yes, I will come back and I have a few more, I will come back.

Moderator: Thank you. The next question is from the line of Chetan Shah who is an Individual Investor. Please go ahead.

Ketan Shah: Hi Chirag, this is Chetan Shah here. I wanted to know the status of the receivables specifically more to do with TNEB projects and the Tendahao projects and by when would you expect to have bulk of the money back with you?

Chirag Doshi: I will deal with Tendahao first, because it is a lot easier to answer that one. So we finished the project phase I and we are right now waiting to get what is called the operational acceptance certificate, in fact our CEO Mr. Pillai is not on this call, because he is in fact sitting in Ethiopia as we speak and there is a high-level meeting tomorrow morning where I think all the, whatever issues are there will get trashed out. My ballpark feeling is that we will get the certificate by end of this month or early March for sure and we hope to get all the retention money may be in tranches, because we have asked him to give us 50% now and 50% in a couple of months and if that's the kind of time they want, but I am confident that we will get it all after Q2 of next financial year, so that is on Tendahao, but that is the done deal and there is no debate there and it's just a matter of them releasing the money, but it is a lot of money, it is $10.5 million. So I expect that in the next six months we should have that money in. On TNEB, it is a little bit more complicated from the point of view that the deal that we now have with Tamil Nadu Electricity Board is that we will continue to execute that project only when they keep releasing retention money to us. So just as a ballpark exact numbers are not what I am telling you, but I am just giving you ballpark, we have to receive 95, so anyway retention was 110 that has already come down to 95, so they already released us Rs.15 Crores of retention, so their intent also is good and there is some billing and some more billing to be done, so by and large we have to get about Rs.130 Crores from them and we have to invest about Rs.80 Crores, Rs.85 Crores in executing that the remaining what is left of those projects, so the deal with them also is that they will keep releasing money to us every month and we will keep plowing that money in to execute the project, so that none of our operating cash flow that has been generated from our core defense, nuclear aerospace business is being utilized for TNEB execution. So that is going to be a little bit of a long drawn process. I would say another 18 months for all that money to come back.

Ketan Shah: And you will get bulk of the money at the end of 18 months, or will it be staggered over. .?

Chirag Doshi: I think it will be staggered over the 18 months. So we should get I would say on an average Rs.5 Crores, Rs.6 Crores, Rs.7 Crores may be Rs.8 Crores, Rs.10 Crores a month if we get where we execute every month and that should take care of the whole project.

Ketan Shah: One more question Chirag. Do you have – are there any further plans on fund raising plan?

Chirag Doshi: The plan remains the same as I do not know if you were on the call last time as well. We took an enabling resolution from our board in November, at the November board meeting to raise up to Rs.200 Crores of equity from whatever form of equity that we think is good from a stakeholder perspective, so that plan remains. I guess the markets will decide when we do that and we are just waiting for the right time to do that, but yes, there is a thought and yes there is a plan and we are also getting our capex plans ready, so when all of that is ready and the market is ready I think we will do some equity fund raise, yes.

Ketan Shah: Thanks for that Chirag.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: Thanks once again for the opportunity. So just to get it clear on the previous participant's question that you answered. You are ring fencing the rest of the company's business from the EPC business that you are completing right now ?

Chirag Doshi: That is correct.

Rohith Potti: Okay, understood and the excess cash that you generate from these will be used primarily for debt reduction, is it?

Chirag Doshi: Excess cash that I generate from?

Rohith Potti: The EPC?

Chirag Doshi: When the project gets executed or when Tendaho money comes, we will use that money for debt reduction, so it will go into our CC limits which are being utilized so all of that utilization will go off, but yes to reduce interest cost ultimately there is a phase 2 in the Tendho, the Ethiopian project that has to get executed, so when that money comes we will probably deploy part of that money to execute the phase 2 when it gets started, but you are right the surplus money goes into interest cost reduction and capex.

Rohith Potti: Okay and in the previous conference call, you were mentioning that given the improvement in the credit rating and such you expect the interest cost to come down otherwise as well, is there any progress on that?

Chirag Doshi: The short answer is no as the interest rate has not come down, but our bankers, we are getting – I hope to get improvement, so we have already got one rating improvement, CARE is supposed to relaunch our rating, so the hope is that they will give us an improved rating and when we have two ratings which are at investment grade then our bankers have assured us that we will put up the proposal for a reduction in our interest rate and sort of better terms, but I will say to you and we are very cognizant of the fact that you know 1% or 2% reduction in interest rate, yes it has a benefit, but the real benefit in reducing our interest outflow comes from collection of our outstanding block funds, right. When you get Rs.50 Crores, Rs.60 Crores from block funds back that reduces your interest cost on an annualized basis by Rs.10 Crores whereas 1%, 2% will have much negligible impact, but we are working with the banks and I think we will get a reduction in our interest rate soon.

Rohith Potti: Okay, you expect that also to be in the next financial year is it?

Chirag Doshi: Yes.

Rohith Potti: Okay, great and just curious again extending the previous conversation we were having and given the barrier to entry and the close relationship with the customers that you have, we are just wondering how come over the last 20, 30 years, the growth was not witnessed, was not that high, is it because the market itself was not that big and that is why you moved into other space and now find a market to become to be growing at a much rapid pace and you want a focus and double down here, is that the case?

Chirag Doshi: Exactly that I think for the first 25, 30 years of being in the defense, nuclear, aerospace business was all largely R&D kind of projects, very lumpy, very long gestation and so there was no real value addition and no real high levels of profit and turnover coming out of that sector, but it should have come from our boiler, sugar and cement business and it is easy for me to sit here and say today that we should in a lot bigger and a lot larger as a company, but 80s, 90s, you know time was lost, opportunities were lost, because of various issues, which there is no point dwelling in the past, but the strategic sort of shift that we are making today over the last five years is to make up for that lost time, I think wherein now we want a get out of all these commodity businesses and now that the defense, nuclear, aerospace, missile business that we have invested in for the last 30, 35 years have reached a stage which can be a hockey stick kind of scaling up, we do not want to lose this opportunity which I think would probably be the last opportunity a company like us would get and so really that is the call that we took in 2014, that we need to completely shift our focus and no matter how tempting other areas may be, we put some blinders on and really drive to focus on these areas and certain customers and certain segments in these areas and really sort of bet on that and grow it. So after a long time I would say that we have really, really narrowed our focus down and taken some serious strategic bets on where this company can go.

Rohith Potti: Interesting okay, so does this mean that if there are other EPC contracts which comes up in future, you would not want to go behind them and just focus on…?

Chirag Doshi: Now we have already had so many opportunities to bid and we said no to all of that, so what we have agreed to do is, so I want to define EPC. So anywhere where we have to do civil construction, we will not bid for any of those orders. In defense and in nuclear, there are certain projects which are not manufacturing related, but they are more services related, piping related, some metal erection related which we also refer to as kind of EPC even though there has no civil involved, those orders we are definitely going to go after, because it is very much in our domain and we understand the criticality of those businesses, but we are not going to go for any EPC orders in the sugar, cement, power, areas that we have been doing in the past and what we will do is we have certain products in our portfolio like centrifugals which go into sugar, we have gearboxes that go into sugar, that go into cement and go to various other industries, so whoever is doing the EPC project for a customer, we will go and market ourselves as the best gear manufacture and the best centrifugal manufacturer in the country and therefore they will give me an order for product and all our job will be to supply those products and we get paid without having to deal with the whole EPC responsibility of the project. So that is very clear.

Rohith Potti: Okay, so basically anything which is undifferentiated and would be more of a commodity needs which required more of a price competition is something you would avoid entirely.

Chirag Doshi: We are not playing that game anymore.

Rohith Potti: Okay interesting, so shall I continue asking, is that okay?

Chirag Doshi: Anyone else waiting?

Moderator: No Sir.

Chirag Doshi: Okay, so you can just continue.

Rohith Potti: Okay, great. So now you talked about the centrifugal and the gearbox, so given you have some history with manufacturing industrial gearboxes, would you think about let us say developing gearboxes for other industries and for example I think chemical industry is growing in India, so would you think of developing products within the gearbox segment or would you not want to even though that in focus just on the DNA segment that you. . ?

Chirag Doshi: No, gearboxes is a very, very big focus area for us, in fact we believe that we lost out in the gear business over the last 10 years, and we could have had the opportunity to be very, very big. So we are putting in a massive plan to ramp up our gear business, so we will have all types of industrial gearboxes for all types of industries, we already have marine gearboxes where we do gearboxes for the naval ships as well as for the nuclear submarine in India. So between the two we are going to have a completely new setup, a new ramp up, part of our capex that we plan to do over 18 months is in the gearbox business and we feel that the sky is limit in that business not just domestically, but even for export. So it is a very, very large focus area for us and part of it is in the DNA segment, because we will do lot of defense work in the gearbox business, but we also want to play a fairly large role in the industrial segment. The only place I do not think we will play in is automotive.

Rohith Potti: Okay, just to clarify from me. It is primarily going to be DNA where we might do some amount of EPC and fabricating and heavy engineering there and in case of non-DNA