"Welspun Enterprises Limited
Q1 FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Welspun Enterprises Q1 FY2020 earnings conference call hosted by Anand Rathi Shares & Stock Brokers. 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 now hand the conference over to Mr. Rachit Kamath from Anand Rathi Shares and Stock Brokers. Thank you and over to you!

Rachit Kamath: Thank you Steven. On behalf of Anand Rathi Research I welcome all participants to Welspun Enterprises Q1 FY2020 Earnings Conference Call. Without any further delay, I will introduce the management. From the management we have Mr. Sandeep Garg, Managing Director, Mr. Akhil Jindal, Group CFO and Head Strategy, Mr. Shriniwas Kargutkar, Chief Financial Officer and Mr. Jitendra Jain, President (Finance). We will let the management have the opening remarks post which we can proceed to a Q&A session. Thank you and over to you Sir!

Sandeep Garg: Good evening ladies and gentlemen. On behalf of Welspun Enterprises Limited, I, Sandeep Garg, welcome you all for Q1 FY2020 results analyst call. It has been another quarter of strong growth momentum for the company. As you would have seen by the numbers reported, we have achieved a quarterly revenue of Rs.500 Crores plus and EBIDTA Margin of around 12% in the quarter, the growth continues. The details of the financials will be handled by Mr. Akhil Jindal subsequently in the call.

Currently our order book stands Rs.4700 Crores for all seven projects as far as the EPC orders are concerned. We have already completed one project that is Delhi-Meerut Expressway package-1 and this is under the annuity period. The other five projects are in the construction period while one is awaiting for its appointed date. We have already achieved the financial closure of all our projects. So to give you the status of the individual projects, as I mentioned we have seven projects under our portfolio amounting to Rs.8500 Crores, the EPC order book which is unexecuted at this point in time is more than Rs.4700 Crores excluding GST. The Delhi-Meerut Expressway package-1 was completed in June 2018, and it has received its second annuity as per the concession agreement. The two projects, Gagalheri-Saharanpur-Yamunanagar, Chutmalpur-Ganeshpur & Roorkee-Chutmalpur-Gagalheri, which are two contiguous projects. Both of the projects are doing well. The GSY project has achieved a physical progress of 73% by the end of Q1 of FY2020. The CGRG project has achieved 70% project physical progress by the Q1 of

FY2020. Both these projects are on track for an early completion ahead of the contract/completion schedule.

The other project is Aunta-Simari which is primarily a bridge project on the River Ganga. As of Q1 FY2020, we have achieved a physical progress of 12.5% and we expect this project which is a 42-month duration project to also be ahead of schedule.

Chikhali-Tarsod, a road project in Maharashtra, the project as has achieved as of Q1 FY2020 physical progress of about 27% and is also expected to be completed much ahead of schedule. The PWD projects of Maharashtra Amravati which is a 350 km road project for which the appointed date was obtained in May 2019 has completed progress of about 10% by Q1 FY2020.

The last project which is Sattanathapuram-Nagapattinam in Tamil Nadu we have done the financial tie up for the project. It is awaiting appointed date. The NHAI is still to acquire 80% of the land and hence the project will be achieving the appointed date as soon as the NHAI achieves the 80% land acquisition milestone.

On the water segment, the only thing there to report is that we have got the provisional COD for the Dewas Water Project which is a good project of the company supplying water to the industries of Dewas and in and around Dewas. It has achieved its PCOD on April 30, 2019 and it started supplying the water and the average supply during the month of May and June had been 5 MLD.

In terms of our joint ventures in oil and gas there are four relevant blocks, the relevant block is one in Kutch which we call GK-1, it is a joint venture with ONGC. The project has been declared commercial find and the field development plan is being currently developed by ONGC for submission to the DGH/MoPNG. The discovered small field that we won about 1-1/2 year back called B-9 field, we are currently planning for the first well to be drilled in that field and expect it to be done post this monsoon.

The third block of interest for us is the block called Mumbai block or MB-OSN-2005/2, which is a PSG block. This block is still in exploratory phase and we expect this exploration cum appraisal well to be drilled post this month for this block as well.

The fourth block which is of interest is Palej block which was a commercial find but because of certain issues of natural gas is in dispute with MoPNG/DHG, we are trying to resolve however the issue is vexed and it is expected to be a long- drawn process to find a solution as against this block. So these are the oil and gas investments that we have at this point in time.

Now talking about the outlook, the NHAI has some 30 odd projects which are under the hybrid annuity model amounting to some about Rs.30000 Crores. We expect the bidding for these projects to start in September 2019 and we will selectively target these projects and while maintaining our threshold returns expectation. We are also currently expanding our client base and looking at selective states like Maharashtra and rich municipal corporations for hybrid projects in road.

With formation of Jal Shakti Ministry and the announcement of Nal Se Jal scheme of drinking water access to all by 2024, we see a huge investment coming into the water segment and we are poised for this opportunity to become viable for the company and we expect the focus of our company will be on the bulk water transmission, the treatment plants including sewage treatment and water treatment plants and the desalination. We expect the water segment to grow very fast going forward. The current balance sheet strength of the company has allowed us to do the financial closures of all our projects under HAM and we expect that our healthy cash position and strong credit rating will support us in closing the projects financially of the bidded projects that are currently not opened by the client, we expect those certain bids which are currently open, to be opened in next month or so and expect some orders to come through.

As we have been maintaining the company will continue to pursue an asset light model and focus on operational excellence and prudent risk management while pursuing the business opportunities both in road and water segment. Now I would like to hand over the conference to Mr. Akhil Jindal who will take you through the financial results of the company. Over to you Akhil!

Akhil Jindal: Thank you Sandeep and good afternoon to everyone. This has been quite a good quarter for us with topline growth of almost 49% and the EBITDA growth of 68% and the PBT growth of 45%. The topline this quarter we had done almost Rs.516 Crores and the operating EBITDA Rs.63 Crores and the PBT of Rs.59 Crores. So this has been very much in line with our expectation and the revenue growth has been on account of the larger amount of work done on four HAM projects rather than three projects which were there for the same corresponding quarter last year. So as Sandeep mentioned that we are making significant progresses on each project and as a result in many of this projects we are ahead of the schedule so we hope to achieve our milestones and very much into the financial year of having around three to four projects completed by the end of this financial year. So in that sense I think the progress has been satisfactory.

We have conserved a lot of cash during this period and accordingly our cash position clearly is well maintained at around Rs. 320 Crores and this is sufficient for us to meet our current funding requirements of Rs. 186 Crores in the HAM projects and Rs. 122 Crores on the oil and gas projects. So this is the current requirement which we have today and which is being met by the cash equivalent and this is there after providing for some more impairments in this quarter where we took impairment of around Rs. 2.75 Crores on a standalone and in totality Rs .9.78 Crores on account of DHFL bond which the company was holding. Last quarter of course, there was no requirement so we have not carried out any impairment on the DHFL bond but because of the downgrade and because of the default that happened during this quarter, our board took a decision of providing the entire amount has been provisioned and so the entire holding of Rs. 7.3 Crores and Rs. 3.3 Crores but for the small M2M that we have taken last quarter, the total is now fully, fully impaired in our books.

So the cash balance that I am telling you does not include any possible recovery that may happen from Dewan Housing or from Reliance or from IL&FS, we can say almost total M2M of around Rs. 15 to Rs 17 Crores is available to us as and when things improve with these companies. We have also been there in the capital market and we have got CP of around Rs. 124 Crores as on June 30, 2019, and that Rs. 124 Crores plus CC, the total short-term debt, you know short-term debt of the company is around Rs. 225 Crores which is adequately supported by the net current assets of Rs. 303 Crores. So as we will do more and more business this net current assets will go up and to that extent there would be some corresponding borrowing either through CC or CP as the case may be. So this is business as usual and to that extent I think there are adequate net current assets plus there has been a long-term borrowing of Rs. 56 Crores from June 30, 2019 which is against our equipment financing. So just to remind some of our investors and analysts who attended the call earlier, we tend to take some certain equipments on behalf of our EPC contractor and once the EPC contractor completes their job those assets are handed over to them and these are interim assets that the company procure which is there in the books of the company and there is some interim financing against that which in turn gets handed over to the EPC contractor.

So I think with this detail, our network is also well preserved at Rs. 1640 odd Crores and with a practically zero debt on the books, when I say zero debt short-term debt being matched by the net current asset and long-term debt being matched by the equipments that we have procured for our EPC contractor, we can say that we are nearly the zero debt company and to that extent I think the credit rating has been well maintained at AA levels which Sandeep mentioned. We are one of the few rare EPC companies and the BOOT companies and the HAM companies which has such kind of a rating. So I think we are well geared for any further progress and to that extent any new project that will come up which we are cautious and conservative in our bidding will be adequately supported by the bank financing and to that extent all our projects while we speak are fully funded by the banks like State Bank and Union Banks and PNBs and going forward all of these projects of any nature HAM or water that may come through will also be adequately funded. So I think with this we can open the floor for the question. We can provide more information in the question and answers.

Moderator: Thank you very much, will now being with the question and answer session. We have the first question from the line of Nirav Shah from GeeCee Holdings. Please go ahead.

Nirav Shah: Hello good afternoon Sir and congrats on good set of numbers. Sir there are a few questions, firstly in your opening remarks you mentioned the percentage of land acquired by NHAI on the Tamil Nadu project. Sir, can you just repeat that number, how much has been acquired?

Sandeep Garg: Could you repeat that question?

Nirav Shah: Sir the question is about SNRP land acquisition.

Sandeep Garg: The land acquisition currently which is in possession is about 23%, we expect the 80% mark to be achieved somewhere around middle of September or end of September as per the current forecast.

Nirav Shah: Okay, so any particular reason why there is a delay in acquiring the land by NHAI?

Sandeep Garg: The process of NHAI for earlier land acquisition was that they would as soon as the 3A is announced, they would go ahead and award the projects assuming that they have six months for the financial closure and within the six months, the land would be acquired, however going now for the last one year, NHAI has changed his process and they are now announcing the projects only when the 80% of the land has achieved the status of 3A of land acquisition. So this project belongs to the era when they were doing it at the earlier stage the projects were being awarded since lot of ordering took place at a given point in time and there were elections within the country at state as well as central level, there has been a bit delay in land acquisition; however, we expect that with current focus, the land acquisition should take place by middle of September.

Nirav Shah: Got it. Sir second question is there was Rs.109 Crores of support that we had given to the SPVs as of March so has that been unwound during the quarter or..?

Sandeep Garg: Yes basically part of the support that we keep on giving to the SPVs are getting converted into equity as that case may be. So this is an ongoing process so when we are presenting to you Rs. 186 Crores of the balance equity requirement. This is excluding all such support so, many of the loan that we might have given to the SPVs for their early completion of work, they would subsequently be converted into equity so we have almost Rs. 304 Crores of additional funding that we have done which are in the process of getting converted into equity as and when the milestones are achieved.

Nirav Shah: Okay so if you could just help me reconcile the net cash balance from March 2019 to June 2019 I mean we have drawn down somewhere around Rs.270 Crores of cash plus somewhere around Rs. 50 odd Crores of cash profit generated during the quarter and also you would have received some bonus money from the Delhi-Meerut project. So how much money has been infused as equities in this quarter in both oil and gas and HAM projects and any increase in working capital which has happened?

Sandeep Garg: So if I just look into the working capital first because that is one number which we have reported in our update also. We have had Rs. 133 Crores as NCA as on March 2019, which is now Rs. 303 Crores. So there has been roughly around Rs. 180 Crores of increase in the working capital during this quarter. As far as the cash and cash equivalent is concerned, as on March we closed at Rs. 474 Crores which is now Rs. 319 Crores. If you have a copy of the release that we sent you; I am quoting from this release only.

Nirav Shah: I have that I am looking at the net debt numbers so I am adjusting for the debt increase as well. So that is how I have come from Rs. 260 Crores of draw down in the net cash balance.

Sandeep Garg: In the interest of time, can we reconcile it offline maybe?

Nirav Shah: Perfect. Last question is any live bids that are currently pending about where we have already participated?

Sandeep Garg: There are at this point in time two open bids we have amounting a total bid value of something like about Rs. 8000 Crores.

Nirav Shah: This is all in HAM nothing includes water.

Sandeep Garg: It excludes water currently.

Nirav Shah: Got it Sir. Thanks a lot Sir and I will come back in the queue for further questions and all the Best.

Sandeep Garg: Thank you.

Moderator: Thank you. The next question from the line of Preet Nagar from Wealth Finvisor. Please go ahead.

Preet Nagar: My questions are related to the consol numbers there and one is there is a sharp increase in finance cost, depreciations. So can you shed light on that as well as on other costs? So what is going on because of its new numbers have increased sharply?

Sandeep Garg: I think these are the reflection of the equipment that we have taken so obviously depreciation has gone up on account of the equipment because although they are meant for the EPC contractor, the depreciation and other things because they are in our books account they get carried within our books, so the depreciation increases on larger account of equipment and the financing cost is also largely in the account of a short term debt that we have taken because last year March closing was almost Rs. 160 Crores which is now around Rs. 225 Crores. So these are the reasons that we have increase in depreciation. So it is basically CC and CP cost for the short term on the financing cost and the depreciation on the equipment which is the reason for the increase that you have see in the book.

Preet Nagar: Why is the cost of material significantly high say from Rs. 1.29 Crores to Rs.7.33 Crores on Y-on-Y basis? What is the reason for that?

Sandeep Garg: The reason is one of the small contracts of water which we are doing on EPC basis we are supplying the material in-house. The construction is being done by the subcontractor. So this is reflective of that contract which is a small contract of about Rs. 25 to 30 Crores.

Preet Nagar: So which is being taken on the books of the company, that is why the cost is there and how do you explain the other expense that is doubled from Rs.14 Crores to Rs. 28 Crores, what is the cost behind it?

Sandeep Garg: The other expenses? So this has actually increased from Rs.20 Crores to Rs. 28 Crores primarily because of the provision that we have made on the DHFL.

Preet Nagar: One more question from the past conversation I think the idea that you guys had presented to help the SPVs was to tide by because you guys had cash on books and you would take the cash back once the execution is completed. I think the conversion of equity is something I am hearing maybe for the first time or maybe it was mentioned that I missed it. So where is that coming from?

Sandeep Garg: If we understand your question right what you are saying is the question was temporary money is given to the SPVs.

Preet Nagar: Correct.

Sandeep Garg: This temporary money is like when we do not want to commit a long-term equity to the SPV, we provide for a short-term money to the SPV because once you provide the complete 100% equity to the SPV, we cannot draw back money, but however if it is just a debt it is a fungible instrument, we can draw when the money comes in from the lender or from the client so that is the temporary parking rather that an equity parking which would be permanent.

Preet Nagar: So when you say that has been converted into the equity has that become permanent?

Akhil Jindal: It will become permanent as the project progresses.

Preet Nagar: But the intent was to take the money back right those are temporary parking mechanism, which have been intentions?

Akhil Jindal: Basically we are in compliance and adherence to the equity requirement and the equity milestone; however, at times we prefer to put our own treasury into these companies so that we do not incur IDC and the other interest cost so what Sandeep has mentioned that as and when we draw the debt any money that we have provided in the SPV over and above our commitment is also returnable.

Preet Nagar: So what you are telling me is that this equity that has been converted, this debt that you gave which has been converted is that something that it will be returned back, is it fungible or its now permanent..?

Akhil Jindal: Equity will not be fungible until the debts are fully paid on the SPV but whatever extra money we have paid over and above our equity commitment for the time being that is fungible.

Preet Nagar: Okay. I think you mentioned about live bids to the stream of Rs. 8000 Crores by when do you expect to know if you guys have been an L1 or an L2 on that?

Sandeep Garg: We should know in about a month's time from now.

Preet Nagar: These products will come with 80% of land already acquired, will that be true?

Sandeep Garg: That is correct.

Preet Nagar: Which means that if you are able to achieve financial closure quickly the appointed dates could follow quickly as well?

Sandeep Garg: That is correct.

Preet Nagar: Got you. Okay. Thank you.

Moderator: Thank you. The next question from the line of Rohit Natrajan from Antique Stock Broking. Please go ahead.

Rohit Natrajan: Thank you for allowing these questions. Sir, I just want to touch upon this Tamil Nadu project. How much have we factored in for this particular year's execution and what will be our revised revenue guidance for the full year?

Sandeep Garg: In line of what the current process is we have taken the revenue recognition going forward from a SNRP in the Q4, I think that is only when we are taking revenue recognition in SNRP in substantial manner. As far as the revised guidance is concerned, we expect the top line to grow anywhere between 50% and 60% on year-on-year basis. The guidance should be anywhere between Rs. 2500 Crores and Rs. 3000 Crores depending upon what happens on the new project acquisition and quickly they become executable.

Rohit Natrajan: So if I understand it correctly maybe Rs. 2400 odd Crores can be achieved from the existing backlog?

Sandeep Garg: That is correct.

Rohit Natrajan: So let me just put a number that is Rs. 160 - Rs. 170 odd Crores will be the kind of number you are expecting from the Tamil Nadu project?

Sandeep Garg: I think this revenue recognition is going to be less in Q4 I think it is about Rs. 75-80 Crores.

Rohit Natrajan: Sir is there any descoping or other such risks exist for this particular project?

Sandeep Garg: You would know once the land acquisition is done by the NHAI; however for temporary reason for getting the appointed date if certain descoping becomes s necessary, we would not be aversed to such an idea.

Rohit Natrajan: I understand that this is an NH project and NH Act would obviously be followed in the land acquisition but very recently in the month of July Madras High Court has made some statements on the state land acquisition laws, is that also a reason why this land acquisition progress is slow or is it something else?

Sandeep Garg: See as far as the NHAI is concerned, NH law applies and then hence the court proceedings are not something to be really concerned of that is something which keeps on happening on every project and they get vacated very quickly.

The larger issues is because of the quantum of work that was awarded and the systems within the state not being able to cope up with the work of land acquisition, there has been some delay on part of the land being yet available for the ordered project. It is a known fact that yes the time period that the NHAI expected the state government to acquire the land versus what is actually happening is two different things and hence NHAI must have changed the process by saying okay we will not award the contracts until and unless we have achieved a particular certainty of land acquisition. So that is a positive move there are certain past issues which are being addressed by the government and we expect the SNRP project to achieve its appointed date in the month of September.

Rohit Natrajan: Now just book keeping question Sir. If I could get the order backlog details individual project wise what is the outstanding position of this Rs.4700 odd Crores GSY, CGRG, AS everything?

Sandeep Garg: Can I Rohit request you to take this offline because that will take considerable amount of time, and you could connect with Harish for it.

Rohit Natrajan: I will do that Sir, so that is it from my side. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Ankit Gupta from India Nivesh. Please go ahead.

Ankit Gupta: Sir we have seen that there is a difference between standalone and consol EBITDA? Normally the consol advertised higher for us, but this time the consol EBITDA is less by Rs.4 Crores, so may I know the reason for it? Which subsidiary has made some losses?

Sandeep Garg: Just to go back to what Akhil said, we have made a provisioning of DHFL to the extent of about Rs.7 odd Crores in the consolidated results and Rs.2.5 Crores on the standalone basis, so that is what is reflecting for these EBITDA to be loss?

Ankit Gupta: Sir the second question in case of minority interest, we are seeing in the last two quarters Q4 and this Q1 the number has increased substantially, so this is because of the subsidiary?

Sandeep Garg: If you have any other question just ask while we are retrieving the data.

Akhil Jindal: No issues and Sir the third question is Sir we are seeing a slowdown in execution in Q2 like if we see Aunta-Simaria only 2.5% of execution has been done in this quarter. So what are the reasons for the slowdown in execution?

Sandeep Garg: As you know it is primarily a bridge project and what happens is because of the monsoons in upper northern area was a bit advanced in terms of early swelling of the water, so it is sort of water-based issues.

Ankit Gupta: Sir for the next quarter at least for roads can we see a better execution, faster execution?

Sandeep Garg: The Q2 is always a bit slower than all other quarters, so this will be reflective this time as well, but we expect on quarter-to-quarter basis because we are doing more number of projects. The ratio to be about 1.5 to 1.6 times the last quarter for the Q2.

Ankit Gupta: That is from my side just minority interest answer?

Akhil Jindal: Minority interest is there only in one of the subsidiary. It is actually driven from and if you look at the real number it is… I think if you referring to the number, which is appearing in regulation 33 it has come down from Rs.7 lakh to Rs.1 lakh. Is that what you are referring to?

Ankit Gupta: Sir I did not get you. What are you saying?

Akhil Jindal: Are you referring to this number, which is appearing in consol regulation 33 from Rs.7 lakh to Rs.1 lakh.

Ankit Gupta: I am saying about number, which is Rs. 8.39 Crores for Q1 and Rs. 15 Crores for Q4 FY2019?

Akhil Jindal: Where are you looking at can you just help us because I am not sure.

Ankit Gupta: It is below PAT? In our results in the consol results this is the figure, share of profit loss and equity and joint ventures?

Akhil Jindal: I got your point. Basically you are on the share of profits.

Ankit Gupta: Yes.

Akhil Jindal: It is not minority. It is to be equity accounting, which we do for our JV and associates, so this is mainly coming out of finance cost during construction period and some Ind-AS adjustments in joint venture and associates that we have.

Ankit Gupta: Sir in which JVs?

Akhil Jindal: Sorry.

Ankit Gupta: In which of the JVs primarily?

Akhil Jindal: It is coming out from four JVs basically CTHPL, CGRG, DSY and one more sort of small JV.

Ankit Gupta: So our stake is less than..,?

Akhil Jindal: Our stake is around 49% in those.

Ankit Gupta: Understood Sir. Thank you.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Thank you Sir for the opportunity.

Moderator: Mr. Shah, can you speak closer to the handset please?

Kaushal Shah: My question was can you please share the short-term debt number?

Sandeep Garg: The short-term debt is Rs 225 Crores comprising of CP of Rs. 124 Crores and the balance of CC, cash credit limit.

Kaushal Shah: Thank you Sir. Thank you.

Moderator: Thank you. The next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Thank you. Sir just wanted to know you said that you are expecting two bids to open, which is in road sector HAM close to Rs. 8000 Crores, is it possible to share the individual project name?

Sandeep Garg: I would not, since this is right now under the bidding stage, I would request not to ask for that information, please.

Shravan Shah: And in your press release you mentioned that 30 odd HAM projects would be awarding, Sir do you expect any awarding to happen in August or the awarding likely to start from the September end?

Sandeep Garg: So I expect the bids to be opened after August. Now whether they will get awarded in September or October cannot be so precise, but I expect these 30000 orders of hybrid annuity, which are currently listed on NHAI website to be awarded in the balance of FY2020.

Shravan Shah: And Sir I understand that in the previous one participant asked for interest of the breakup of the order book project wise, is it possible we normally share a very good presentation if we can include that and also the individual SPV level what is the equity that we have invested till now and what is the debt draw down on individual HAM SPV that would be more helpful to all the investors, so that is the one request?

Sandeep Garg: We will surely consider it and come back to you.

Shravan Shah: One more thing just trying to understand when we are saying that we are expecting closer to Rs. 2400 Crores kind of a revenue this year, is it possible I understand that both the GSY and the CGRG would be completed in this FY2020, but still I was just trying to understand the number was not telling to that, so if you can help me broadly in each of the project, how much revenue would be coming in this year to come to that Rs. 2400 Crore number?

Sandeep Garg: You could get in touch with Harish or Jiten they will help you understand the journey from here to Rs. 2400 Crores plus.

Shravan Shah: Sir how much equity we invested in this quarter in HAM and how much in oil and gas and the same what would be the remaining to be invested in FY2020 and FY2021?

Sandeep Garg: So whatever we invested in this particular quarter was Rs. 16.8 Crores in HAM project and Rs. 37 Crores in oil and gas to a total of Rs.54.1 Crores.

Shravan Shah: In the HAM, how much now to be invested in remaining three quarters?

Sandeep Garg: Excluding the temporary loans that has been given which is Rs. 304 Crores, which I shared with you earlier that could be required to be infused in the HAM is Rs. 186 Crores.

Shravan Shah: So the entire will be in the next three quarters to be invested?

Sandeep Garg: Mostly.

Shravan Shah: And in oil and gas?

Sandeep Garg: But oil and gas is Rs. 122 Crores, which I think will take around two years' time.

Shravan Shah: This year would be how much in oil and gas?

Akhil Jindal: It depends upon when we spud the well. If we are able to spud the well in January, we are expecting something like about Rs.50 Crores to Rs.60 Crores in this year. If we are closer to the March and April then there will be very insignificant expenses here.

Shravan Shah: Is there any HAM project that we are looking at to buy out from any of the awarded players?

Sandeep Garg: Not at this point in time although we have a lot of options to us; however, we do not think that they meet our return expectation and hence we will not acquire them.

Shravan Shah: That is it from my side and all the best and thank you.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Just a couple of questions. Sir first thing on the competition side of it so should we obviously with things which are going in the market, the bidding might be limited to the few players? Do you expect that we should be bidding in some higher possibility or probability of margins in the new orders? Is that what the thought process is?

Sandeep Garg: You are right. The competitive intensity in hybrid annuity projects is low at this point in time because of the financial reasons. We look at each opportunity on a case to case basis and based on the risk and reward guidelines, we bid at our minimum threshold or higher numbers and this is all based on the bid committee, which is a process-driven committee. Individual project decisions are taken. However the minimum threshold returns are as specified by the board.

Giriraj Daga: If you can remind us it is like 18% to 20% equity IRR that is what we look at right?

Sandeep Garg: Yes. We do not necessarily look at equity IRR. We look at mid teens of project returns because equity IRRs if you were to take the returns of EPC contracts during the EPC phase, the equity returns will come. It is difficult to understand, but we normally do not look at equity returns. We look at the project returns.

Giriraj Daga: Second you mentioned in the Q1 investments Rs. 17 Crores in HAM and Rs. 37 Crores in oil and gas is that the right number I heard?

Akhil Jindal: Yes that is the right number, but of course we have got the temporary funding to these companies as well, so essentially you can say that these monies are provided to SPV, which can be converted into equity at any point of time.

Giriraj Daga: I got the point. I just want to understand so oil and gas then we last gave the numbers, we said we have an equity requirement of Rs. 130 Crores in Q4 press release?

Akhil Jindal: Yes it has slightly gone up, so we have invested like Rs. 37 Crores in this quarter.

Giriraj Daga: And you still think you still require Rs.122 Crores?

Akhil Jindal: Yes just Rs.122 Crores so it is like Rs.160 Crores approximately.

Giriraj Daga: So the requirement has gone up actually?

Akhil Jindal: Yes the requirement has gone up a little bit in terms of some more development in this industry, so based on the spud plan, we would be investing part of it only in this year and the balance we will invest in the next year.

Giriraj Daga: On the HAM side of this structure where you are putting as a quassi debt if I can say we are still sticking with the 20:80 kind of a debt structure with SPV right?

Akhil Jindal: Yes 20:80 or less as the case may be. We have not taken refinancing or any topup loan in these calculations that we presented to you, should there be any topup loan additional loan that will only add up to our cash balance.

Giriraj Daga: So my question is not the equity, but the money, which we are putting as a debt in the SPV is part of still 20%? It is not going beyond 20% right?

Akhil Jindal: In certain cases, it might be a little higher, but as I mentioned to you these are in lieu of the debt being drawn from the projects. As and when the debt is also drawn this spud additional funding will be returned.

Giriraj Daga: So at the end of the project we will not be crossing 20%?

Akhil Jindal: Not at all. In fact these are our efforts to keep our IDC also under check in many of these projects because as you would remember the interest cost has gone up and we are not earning that much of a return in our treasury on account of the restrictive policies of investments, so it is better that we use our own cash balance for the growth of own companies and reduce IDC there rather than trying and invest into another of these bonds, which have caused lot of grief to us in the past.

Giriraj Daga: Two more clarifications. First on the bond you mentioned Rs.7 Crores on the DHFL on a consol and Rs. 2.5 Crores on a standalone? It is like Rs. 7 Crores including Rs. 2.5 Crores right?

Akhil Jindal: No. It is Rs. 7 Crores plus Rs. 3 Crores, so the total of almost Rs. 9.78 Crores is the provision that we have taken in this quarter on DHFL.

Giriraj Daga: As of now we are holding anything like any other portion left to this?

Akhil Jindal: No after this there is no DHFL.

Giriraj Daga: Anything on ADAG side of it?

Sandeep Garg: No all of that has been provided in the previous quarter, so I think the only corporate bond that we are holding is Shriram for Rs. 5 Crores and the PSU bonds for Rs. 261 Crores and the bank bonds for Rs. 3.22 Crores, so the total being around Rs. 268 Crores.

Giriraj Daga: Last thing you mentioned on the share of profit and loss associates Rs. 8.4 Crores and Rs. 15 Crores from the projects, which are running 49% JV, but ideally since these have not been commissioned yet should not we be capitalizing as of now?

Akhil Jindal: Yes technically you are right, but under Ind-AS this is a new requirement that during construction because it satisfies the definition of service concession arrangement, we are required to sort of expense out the interest cost. For income tax purpose, we still capitalize the same.

Giriraj Daga: So these are the interest cost, but ideally the number should not come down right Rs.15 Crores interest cost in the next quarter will only go up right?

Akhil Jindal: It is a combination of two to three things. One is the interest, cost finance cost that is incurred during construction plus there is some Ind-AS related on our adjustment, which are pay value adjustments, so combined effect is actually reduced in this quarter, but it could as you rightly said could go up as well.

Giriraj Daga: But then the full year number we are looking some about Rs. 40 Crores to Rs. 50 Crores for the full year?

Akhil Jindal: No really because technically in this adjustment interest cost will be the actual number. The rest all are notional numbers.

Giriraj Daga: I understood. Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Sanjay Parekh from Reliance Nippon Life Insurance. Please go ahead.

Sanjay Parekh: Congratulations to the entire team. Only one question, as we scale up we have run a tight working capital historically so and as I understand our working capital needs normally should not be more than one month, so would that character of the business remain as we scale up?

Sandeep Garg: Yes that is correct. Our working capital requirement should not go more than one month to 45 days in that case because the reason what we do is because the SPV is ours, we rather than increasing the IDC cost by drawing that and paying our own company, we manage the cash flows efficiently to keep the cost as low as possible.

Sanjay Parekh: And just one data when I see the consolidated number in the result format the other income is Rs. 17.4 Crores so this is all financial income or there is some operational other income also?

Sandeep Garg: No it is all financial income.

Sanjay Parekh: Okay, fine. Thank you.

Moderator: Thank you. The next question is from the line of Preet Nagar from Wealth Finvisor. Please go ahead.

Preet Nagar: Yes just one short question. Any plans to monetize anything in this calendar year?

Sandeep Garg: I think as we are in a process of completing two other projects very shortly and the third project also over the next six to nine months we are certainly looking at like a platform exit possibility rather than project by project, so something may happen in this financial year, but more likely in the beginning of the next financial year is that some of these exits will happen.

Preet Nagar: Got it. Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Sandeep Garg: Thank you every one for joining us on the call. I appreciate your taking time and supporting the company. We will be very happy to answer any questions that are not answered on the call. You may connect with Harish or Jitendra Jain for further clarifications. Thank you and good evening.

Moderator: Thank you. Ladies and gentlemen, on behalf of Anand Rathi Shares & Stock Brokers that concludes this conference. Thank you for joining us. You may now disconnect your lines.