"Welspun Enterprises Limited
Q4 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Q4 FY2019 results call of Welspun Enterprises Limited hosted by Emkay Global Financial Services. Before we begin I would like to state that some of the statement made in today's discussion maybe forward-looking in nature and may involve risks and uncertainties. We have with us on the call today 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. 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 would now like to hand the conference over to Mr. Viral Shah from Emkay Global. Thank you and over to you Sir!

Viral Shah: Thank you. Good evening everyone. I would like to welcome the management of Welspun Enterprises and thank them for giving us an opportunity to host the call. I would now hand over the floor to Mr. Sandeep Garg for his opening remarks. Over to you Sir!

Sandeep Garg: Thank you. Good evening ladies and gentlemen. On behalf of Welspun Enterprises Limited, I welcome you all for Q4 FY2019 result analyst call. As you must have seen from the results, it has been another quarter of strong growth momentum, which will be detailed later by Mr. Akhil Jindal. I will just capture the highlights. As guided we have achieved upward of Rs.700 Crores of revenue for Q4 FY2019 and our current order book for all the projects unexecuted stands at about Rs.5200 Crores, which gives the visibility for the future and most of the projects which have achieved the appointed date are in advanced stage of implementation.

I would want to brief you about the infra projects primarily all the hybrid annuity projects, so our current portfolio of hybrid annuity project stands at Rs.8500 Crores and consists of seven projects out of which one project has been completed. The current EPC order book stands at Rs.5200+ Crores excluding GST. Now on the individual project level as you would know Delhi-Meerut Expressway package one, we achieved the PCOD 11 months ahead of schedule in June 2018 and according to the terms of agreement received the first annuity payment in January 2019 within the stipulated time. The first annuity installment was about 11.2 Crores interest on the completion cost at the rate of 9.75% per annum, per month was Rs.26.1 Crores and the O&M payment was Rs.2.21 Crores, so all these payments are received timely from NHAI.

The other projects, which are contiguous projects Gagalheri-Saharanpur-Yamunanagar and Chutmalpur-Ganeshpur and Roorkee-Chutmalpur-Gagalheri. Both the projects have achieved physical progress of about 60% in Q4 FY2019 and both projects are tracking along for an early completion, so we are quite hopeful that in the current financial year we would see the completion of these two projects.

The fourth project that I would want to talk about is Aunta-Simaria in Bihar. The project is primarily a bridge project with very limited road of about 7 kilometers odd. The work on the bridge is going on exceptionally well and we have completed about 10% of the progress by Q4 of FY2019. This project is also tracking along for early completion with the schedule completion being 42 months we expect it to be way ahead of that schedule. The fifth project is Chikhali-Tarsod in Maharashtra. The appointed date for this project was received in January 2019. By the end of FY2019 we completed about 17% of the progress and the project is once again on track for an early completion much well before the scheduled completion date.

The largest project for the company, which is Sattanathapuram-Nagapattinam, we received the LOA, letter of award on July 5, 2018, we signed the concession agreement on December 3, 2018. We have submitted the documents to NHAI for financial closure. The NHAI is aggregating the land and we expect the appointed date to take place in July 2019. The last project that I would want to talk about is the Amravati in Maharashtra called AM2; it is a project for which we got an award in November 2018. The concession agreement was signed in January 10, 2019, we have submitted the financial closure documents to the client and I am expecting the appointed date to take place this month in May 2019.

In terms of the current ongoing water projects, there was another project - Dewas water in MP for which we have completed the construction and we are expecting the PCOD in the month of May 2019. The other significant business in the company is of oil and gas. There are four relevant fields in the oil and gas. There is a block called GK-I in Kutch for which the field development plan is being prepared by ONGC who’s the lead bidder and we expect the plan to be submitted by January of 2020 wherein the commercial value of this asset will be ascertained by that time.

The second block that I would want to talk about is discovered small field block called B-9 cluster, it consists of three fields one of the most prolific being B-9, which is what we are planning to develop and we are trying to start this well in this field after the monsoon period is over of 2019 somewhere around October-November we would want to spread the balance. There is one exploration block that we have, which is in Mumbai block, which is just joining to B-9, we also intend to do well in that during the campaign starting from October to November 2019. The last block that is of interest for us is the Palej, which is an onshore block, this is already discovered block; however, this has run into challenges with MoPNG because of some default committed by a company called Naftogaz India. We are however trying to revive this block, which otherwise is in a dispute between us and DGH/MoPNG.

As most of you would have noticed the ordering activity of NHAI in the last year was relatively low. I expect that after the election period is over, the ordering would pickup at this point in time there is a reason for us to believe that currently three bids are already on, so we expect the NHAI to start ordering going forward from June 2019. As a diversification strategy, the company had started exploring the state HAM projects as well as projects in the water segment and as you may know that AM2 Maharashtra-Amravati project is a state HAM project. We are having a very healthy balance sheet and a very strong credit rating and a cash balance available on the balance sheet, so we are well poised for all financial closures and for growth in the future, so I see as far as the company is concerned the growth to be keeping pace with the last year, so I see a pretty strong FY2020 as well. So we will continue to have our asset light model wherein we do not spend money on anything other than the development rather than investing in various other nonessential investments for execution of the project, so we will continue to be asset light and we will continue to focus on operational excellence and prudent risk management that will be the guiding principle for the company going forward. Now I would want to hand over the speaking part to Mr. Akhil Jindal, my colleague who will give you the overview on the company's financial results. Over to you Akhil!

Akhil Jindal: Thank you Sandeep. Good afternoon to everyone. I think this has been a remarkable quarter for us in all respect and much inline with our expectation and guidance, you would have seen the numbers almost doubling up from the same quarter last year and the revenue went up by almost 86% to Rs.710 Crores. Our operating EBITDA was up much larger by 151% to almost Rs.89.8 Crores and this operating EBITDA is 12.6% as a percentage margin, so a lot of people who had some concern in terms of the margins earlier part of the year we were always saying that as we grow larger as the revenue numbers will increase the monetization of cost will be far better, which is reflecting in this quarter and you would see that it is almost 12.6% for this quarter. Taking the full year average as 12.1% just on the annual number, we had 1,739 cr as a topline 74% growth correspondingly and also the operating EBITDA. First time in the history the company has achieved EBITDA more than Rs.200 Crores, so 210 to be precise as the operating EBITDA, which is 121% of the previous year's number. So I think the operational numbers that have been quite in line with our overall estimate. Of course there were some non-cash provisions, which have got reflected in our reported numbers, which we have highlighted and shared with you in our press release as well, so everyone can refer to that. They are basically on account of the Ind-As notional interest and based on non-cash expense and that is why the reported numbers are at Rs.182 Crores against the operating income of 210 as operating EBITDA.

On the balance sheet side, I guess the things are far more clear and far more stable. If you see the net worth is Rs.1600 Crores. Our cash and cash equivalent after accounting for all the debts and other things is Rs.473 Crores because we are in continuous investment mode and this cash and cash equivalent of course include some of the temporary funds that we have given to our subsidiaries in lieu of they are not borrowing, they are not drawing the debt, the total cash and cash equivalent in the system is at Rs.473 Crores that brings our net debt position to around Rs.302 Crores. We have very little long term liability at Rs.31.5 Crores and some net current assets excluding the cash and cash equivalent as Rs.132 Crores. Our major investments are into the various projects as Sandeep just mentioned and the total investments in oil and gas and the

HAM projects is roughly around Rs.1130 Crores. So I think with this we are quite comfortable in our cash position. We have balance equity requirement of around Rs.300 Crores in HAM projects, another Rs.130 Crores in oil and gas and with a cash and cash equivalent of Rs.473 Crores, we are very much fully covered for all the capital expenditure that we have planned then of course it does not include the liquidation of other investment that might happen over a period of time, so in that sense I think the company has equal commitment versus the cash equivalent. One small piece of information I would like to share about our MTM provisions and other thing that we have carried out, so we have the treasury of around Rs.28 Crores in our corporate bonds and based on the guidelines, based on the various parameters we had carried out MTM loss of around Rs.7 Crores, 6.72 precise. Some of the small IL&FS that we are holding and completely on the Reliance Capital after doing both of them we believe that on the corporate bonds we should not be requiring any further provisioning. Our rest of the money is lying in the PSU bonds from REC and IFCL and PowerGrid, which are mostly national and central government bonds, AAA and AA rated and to that extent I think Rs.321 Crores is as safe as one can imagine. Yes, there is a small 70 lakhs of MTM that we have carried out on that. Then we have bank bonds of around Rs.22 Crores, which is again in PNB housing and Corporation bank to that extent they also will come into the safe category. So total of Rs.370 Crores we have in the bond as on March 31, 2019, but since then we have sold our Indiabulls position, which was a little concern for us and we have sold it at a level where we have not incurred any principal loss, so to that extent I think even Rs.14 Crores of the corporate bond number that I shared with you earlier has been liquidated since then and the money is available to us in our various mutual funds and others. So I think with all this the financial detail we can invite question that we can clarify any other information or provide any other information that the analyst investor may have. Over to you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rohit Natarajan from Antique Stock. Please go ahead.

Rohit Natrajan: Thank you for this opportunity. Sir, if you could explain me this revenue projection ahead because we have close to Rs.5200 Crores order backlog and if I understand it correctly we were expecting close to Rs.3000 Crores in FY2020 and from the existing order backlog Rs.2000 Crores number in 2021. Now that we are seeing delays in this Sattanathapuram package aim to, what is the tinkering of numbers that we are doing for 2020 and 2021?

Sandeep Garg: Let me answer this question. SNRP is behind schedule as far as the appointed date is concerned, so it will have an impact; however, what we are doing is we are doing some developmental work as the project moved up, so I do not foresee a major deferment of revenue going forward, there may be slight loss of revenue of Rs.150 Crores from what we originally target from SNRP project in FY2019-2020. However, I do not see a substantial shift taking place because we are preparing for this scenario of July appointed date and progressing with developmental work and precast work so that we can quickly do the project and this will also enable us to complete the project ahead of schedule.

Rohit Natrajan: And in terms of this package AM2 Sir?

Sandeep Garg: AM2 is trudging along well, so although appointed date has not taken place; however, we have started doing the work and this should help us complete the project ahead of schedule. I do not see any challenge in the project at least that the project would give a quick turnover because we would reach the levels of block cutting before the onset of monsoon.

Rohit Natrajan: Okay Sir, if I understand in terms of the proportion of say AM2 can I have 40%, 50% revenue completion done by FY2020?

Sandeep Garg: Yes.

Rohit Natrajan: And Sattanathapuram can we have achieved 35% at least?

Sandeep Garg: I would suggest that we target about 34%.

Rohit Natrajan: Okay, so if I understand it correctly then we can reach may be Rs.2800 Crores at least by FY2020 Rs.2900 Crores that is what we should be targeting?

Sandeep Garg: That should be the right target for the next year.

Rohit Natrajan: Okay and then shift to FY2021 we are staring at a situation of Rs.2000 Crores primarily because of the existing order backlog gets depleted out, now then we will have to tap on the new order inflows, what is the pipeline as you have guided some qualitative aspects here, but if you could quantify in terms of are we targeting close to Rs.6000 Crores or something like that, what is the tentative timeline?

Sandeep Garg: We expect the order inflow to improve in this quarter and the next quarter because there is a lot of backlog at NHAI as well as hybrid annuity model as well as state level, so I expect that the order inflow will improve, the current forecast that I have is that we should have an order booking within this year of about Rs.5800 Crores to Rs.6500 Crores.

Rohit Natrajan: Okay, one more Sir, sectoral base development I had a query, this is somewhere NHAI two days before held meeting talking about the prospects of BOT toll project, so is there a possibility that going ahead we will see toll projects and would you be considering those projects too?

Sandeep Garg: As I said I would be very interested in looking any project, which is where the risks and rewards are balanced, so there was a discussion at NHAI level to how do we reignite the interest of the strong players in the BOT toll project. The suggestion that we have made is as long as the risk of traffic is managed by NHAI we could look at it, so the basic issue that we have in the tolling is that it is very sensitive to take a decision making and the parallel roads and alternate means of transportation, so as a concessionaire we do not believe that we are willing to take substantial risk contracted until and unless that exercise is completed by NHAI I do not foresee myself bidding for toll projects.

Rohit Natrajan: Okay, so if I understand it correctly this particular discussion was aimed at FY2021 orders not to something do with the current orders that are already in pipeline?

Sandeep Garg: Currently if you see the trend just to give you an example, there were six projects of Delhi-Mumbai Expressway, which were announced on EPC earlier; however, now they have been converted into hybrid annuity projects, so clearly the intent of the NHAI is to have PPP participation until the time they are not able to address the concerns of the PPP players in terms of risks or tolling, etc., I think the more stable business will be hybrid annuity model once the tolling risk is balanced then I see the tolling projects starting up in NHAI, which my belief is that we will take at least one year from now.

Rohit Natrajan: Sir, I will get back into the queue because we had participants in the queue too. Thank you for making this clarification so far.

Moderator: Thank you. The next question is from the line of Basant Patil from Mentor Capital. Please go ahead.

Basant Patil: Thanks for the opportunity. I just wanted to understand more on your treasury book, can you highlight more about this segment particularly what is the provision we have taken particularly for the Reliance Capital?

Akhil Jindal: I did mention in the beginning.

Basant Patil: Yes, Sir.

Akhil Jindal: So total provisioning that we have done on Reliance Capital is full, which is Rs.4.32 Crores and rest is all small MTM that we have done, so total of around Rs.7.61 Crores provisioning that we have done in the entire year.

Basant Patil: Apart from this there are no provisions required, but even in next quarter currently and entirely we have completed?

Akhil Jindal: As I mentioned the Indiabulls that we were holding Rs.14.24 Crores at the beginning of the quarter that is also while we are speaking fully liquidated to that extent even that kind of risk is over for us. So no provisioning is required from here on going forward.

Basant Patil: Rest all Rs.370 Crores whatever we have that is fully in PSU bonds including the PNB housing?

Akhil Jindal: That is right, so Rs.370 Crores in the PSU bonds almost Rs.22 Crores in our bank bonds and out of Rs.27 Crores that we had in the corporate bond we had provided for Rs.7 Crores and out of that so Rs.20 Crores that is the net value and we have got about Rs.14 Crores back from Indiabulls since then.

Basant Patil: Okay, Sir coming to the water project actually, what is the roadmap for this segment actually we were planning to bid a couple of water projects, so even these projects have been delayed, so what is the thought process for this segment?

Sandeep Garg: Water segment is shaping up as you know any new vertical it takes time and also when it is election year in the country, so it takes time and on top of it NGT came up with some orders, which stopped most of the treatment plant projects, so it is taking a bit more time, so a good news is that our current bid with MCGM, we had bidded for a Dharavi project in JV with SPML that we have cleared the PQ levels and the design confirmation package has been opened and the MCGM has gone to Supreme Court against the decision of the NGT so we expect the relief to come in, so we are expecting that post the election is complete somewhere in the timeframe of June, July by the time the technical evaluations complete, we expect these projects to be looked into and the financial bids to be opened. Parallelly if you see Madhya Pradesh, which is another focus area for us, the bids have started getting announced now that the state government is now ready, so we are targeting a few large projects there as well. The bids should be somewhere in the timeframe of June, July for which we are working right now.

Basant Patil: In value terms, if you are talking for Dharavi project, what is the work if you see value, what would be the project values?

Sandeep Garg: I cannot because obviously talk about the numbers.

Basant Patil: But that is purely an EPC work there is no equity investment in that project?

Sandeep Garg: That is correct. As far as the water segment is concerned, we would look at EPC play as well because we will continue to do engineering and procurement ourselves and construction portion we will subcontract and unlike in road the construction portion for these projects is anywhere around 15% to 20% depending upon the type of projects that we are talking about, so we will continue to explore the possibility of the EPC play including as well as hybrid annuity play in the water segment.

Basant Patil: This year can we see any significant in terms of contribution from this segment even in terms of order inflow?

Sandeep Garg: We definitely believe that there will be an order inflow in this year somewhere around Rs.2000 Crores odd we should be in a position to get it from water segment in this year.

Basant Patil: So that is largely EPC work only?

Sandeep Garg: Initially it will all be EPC work; however, there could be a combination, but possibility of EPC work is much more than that of hybrid annuity.

Basant Patil: It could be fair to understand operating margin should be slightly better compared to road EPC work in water EPC project, is that any kind of leverage we have in water projects?

Sandeep Garg: As you know we are very disciplined bidders, we have our own thresholds of bidding and we do not compromise on the thresholds of profit margins no matter whether we win or not, so I expect the water segment to deliver equivalent if not better returns than road.

Basant Patil: Okay, thank you Sir. I will get back in the queue. Thanks a lot and wish you all the best.

Moderator: Thank you. The next question is from the line of Rachit Kamat from Anand Rathi. Please go ahead.

Rachit Kamat: Good evening Sir and congratulations on great set of numbers. Sir I had two questions. One was the reason why Sattanathapuram project is getting delay because last quarter the idea that there was only limited land that was required to be acquired by the authority?

Sandeep Garg: Let me respond to this question. The way NHAI acquired the land they actually acquired 45 meter width right of way where at a lot of places they needed 60 meters of right of way, so there is some adjustment taking place in the NHAI right now and there may be phased hand over of road; however, we have been absolutely clear with NHAI that we will not take appointed date until and unless we have lengthwise 80% of the road availability throughout the main carriage way on which the project can see its provisional completion, so the delay is primarily because we are very insistent upon the CP requirement of NHAI being fulfilled by them so that we can see the completion of the project and we are not stuck with the half complete project.

Rachit Kamat: Sure Sir that is helpful. One more thing I wanted to understand that this quarter when I look at the standalone numbers, the tax rate is come at almost 56% and against almost 25% to 33% over the whole year, so what is the reason for that, is there back ended adjustment?

Kevin Daftary: This tax which you are looking at is actually a residual number because this year end numbers are now audited, so all allowance and disallowance have been accurately worked out and as YTD number were reported based on review and this is sort of balancing number.

Rachit Kamat: Sure, you had guided to a margin level of around 12% of the consolidated entity, but when we look at the construction half and as in the standalone entity what kind of margins are we looking at if you could guide like we have been doing 10% on a regular basis, so shall we take this as a number for the standalone entity?

Sandeep Garg: I think there is a disconnect, what we are saying is that our EBITDA margins are in the ranges of 12.6% for the quarter and 12.1% for FY2019, now this is operating EBITDA after making the adjustments for the ECL and notional Ind-AS adjustments and the noncash ESOP expense, so if we are looking at operating EBITDA has reported of 182 that you may be computing 10.5%; however, you need to add back a notional Ind-AS adjustment of approximately Rs.13 Crores and about Rs.15.2 Crores of ESOP non-cash expenses, so as Akhil mentioned the operating EBITDA should be read as Rs.210 Crores, which is 12.1% for FY2019, which has been the guidance.

Rachit Kamat: Thanks a lot for giving the opportunity. If I have any questions again I will come back in the queue.

Moderator: Thank you. The next question is from the line of Prit Nagersheth from Wealth Financial Advisors. Please go ahead.

Prit Nagersheth: Thanks for taking my question. You mentioned about what Rs.400 Crores odd of cash available something to that number right?

Akhil Jindal: Rs.412 Crores yes.

Prit Nagersheth: Now, a bulk of this has already been tied up with forthcoming equity requirements as well as for HAM as well as something for oil and gas, so that would leave you this not much to bid for other projects, so how would you finance the equity requirements for the additional projects?

Akhil Jindal: We are fully prepared as you rightly said for the existing portfolio and there are two opportunities, which are likely to come going forward on the portfolio as you built in, one is the debt refinancing and additional top of that will happen on these projects, just to give you an example Delhi-Meerut where the loan drawn was around Rs.376 Crores, we have managed to get a total debt, new debt sanction of up to Rs.470 Crores, so to that extent there is Rs.100 Crores further provisioning for the top up that is available. So as and when the project gets completed I think it would be knowing that these are NHAI backed projects so significantly risk free after the construction is done and to that extent the lenders are comfortable at higher level of gearings and which is available to the company as a more I would say kind of refinancing of the equities that is one route. The second route is of course once the projects are allowed to be sold by NHAI, which is let us say two years after the COD like this are something that the company is working out and one project individually may not make huge sense, but I think three completed projects by the end of this year almost three completed projects, we would have much better sense and a much better chance of getting the right valuation for the assets. So going forward these two instruments are available to us for meeting our future requirements. In any event as Sandeep mentioned many of our new projects are going to be on the EPC basis where equity requirement may not be that high and to that extent there is a working capital requirement, which are being met by the banks and institutions, we have significant relationship with the banks and in that sense the total tie up of around Rs.1200 Crores of the working capital limits would be available to meet these EPC requirements as well.

Prit Nagersheth: Okay, so you mentioned targeting say in the region of Rs.5800 Crores to Rs.6000 Crores worth of new orders in this financial year FY2020, is my understanding correct?

Sandeep Garg: That is correct.

Prit Nagersheth: So how much equity would you need for this business?

Sandeep Garg: Taking a split of about Rs.2000 Crores to the EPC from water, we need about Rs.3500 Crores odd of projects in the space of HAM, it is 10% to 12% over the period of the project, which is about three years from the date of award, so you need to appreciate the hybrid annuity project, the date is awarded that the equity is required to be infused in about eight to nine months and as we would get long profits as well as the churn on and refinancing of the completed projects should throw sufficient cash flow for us to fund the equity that we are targeting right now.

Prit Nagersheth: Thank you.

Moderator: Thank you. The next question is from the line of Ajay Gupta from Shivay Finance. Please go ahead.

Ajay Gupta: Good evening. Congratulations on a lovely set of numbers. Just had one question Mr. Garg, you have been guiding since last year that you would be doing Rs.2000 Crores in FY2019 and Rs.4000 Crores in FY2020, now there seems to be that you have done about Rs.1700 Crores, which is also very good, no doubt, but below the guidance and going forward it seems that your guidance has reduced substantially for FY2020 from Rs.4000 Crores to Rs.2800 Crores, Rs.2900 Crores, can you explain why sudden drop in guidance versus actual?

Sandeep Garg: There are two reasons. The guidance is based on the awarded projects and they are meeting their appointed dates on what the NHAI is obligated to do, however, NHAI has freedom to delay by about nine months under the concessions, the NHAI is not being able to meet its obligation, certain projects are substantive nature, they do not see the appointed date. Just to give you an idea Chikhali-Tarsod got an appointed date only in January 2019. So these are certain things that keep on happening to the extent that if the NHAI were to meet its obligation and declare the appointed dates as well originally planned the target of Rs.2000 Crores would have been met.

Sandeep Garg: The other issue that why the guidance going forward is to keep the pace of the percentage growth rather than the 100% is primarily from a perspective that there has been a slowdown last year of the awarding by NHAI and as I said there is always a lag between the award and the start of the project in hybrid annuity model case, so I expect not a major contribution from any project to come in this current year from any project, which is awarded post Q2, so if anything in the later half of the Q2 is gets awarded I do not think it will contribute much to the revenue in this year, so it is based on the challenge that whatever was the guidance by the NHAI they could not meet with those guidance and hence the cost get impact.

Ajay Gupta: Thank you very much Sir and one more small question, how sure you of this guidance now of Rs.2900 Crores to Rs.3000 Crores number?

Sandeep Garg: As I said about Rs.2800 Crores is what was the numbers we have discussed somewhere in that range, so to give you an idea, the current order book covers almost like 85% of the targeted turnover, the balance 10%, 15% has to come from the future contracts, so that is the numbers that you can build it in your model.

Ajay Gupta: You are sure of 85% as I understand then Sir?

Sandeep Garg: 85% the orders are in hand, so absolutely thoose turnovers will be met.

Ajay Gupta: No expectations from NHAI, there is nothing pending from NHAI for 85%?

Sandeep Garg: That is correct.

Akhil Jindal: You can never predict that.

Ajay Gupta: Yes, absolutely.

Sandeep Garg: They have their own challenges as you know I cannot predict how the conduct of NHAI would be.

Ajay Gupta: For the last 15% which orders are you expecting?

Sandeep Garg: As I said we have opened another water segment project of EPC, we are bidding for the largest project, so the EPC contracts will start churning revenues much earlier than the hybrid annuity model, so expect the revenues to come from there.

Ajay Gupta: Okay, 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 and congratulations for good set of numbers. Sir a few clarifications, I have not seen the press release on the BSE, NSE, so have you uploaded?

Akhil Jindal: I believe our department had sent it to the stock exchange and it must have got uploaded, but will recheck, should have been there.

Shravan Shah: Because I am checking, it is not there, no issues. Second thing is in terms of continuing the previous questions, so when we let us take right now we are having Rs.5200 Crores order book we are sure that Rs.2800 Crores to Rs.2900 Crores revenue would be there out of that 85% we are sure 15% from the new inflow, so two things related to that one is, in terms of the clarity and in terms of the order inflow Rs.5800 Crores to Rs.6500 Crores out of that how much would be from HAM and do you expect that to happen as you have already said by June, which would be slightly difficult considering the new government formation and everything though the tender pipeline was earlier also there, so how much confident that the order inflow should start coming in from June itself and not it get delayed by August or September end, so first thing is trying to understand how much out of that Rs.5800 Crores or Rs.6500 Crores, how much is from HAM and how much do you think and come or we can bag by September end that is first and second is related to that if I remove this consider that Rs.2900 Crores revenue then for FY2021 how do you see the revenue, what is our number right now?

Sandeep Garg: Let me first take the question about the order inflow. Order inflow as it is as you know it is forward-looking view that this management has. The management is confident that out of the current bids that are in place, so the award should take place in the month of June, they should not get the effort beyond that. So there are three road bids in evaluation at NHAI at this point in time and in terms of the water segment, as I said one large bid is in place, so I expect something around Rs.2000 Crores of the orders to be on EPC basis, which may not have a lag between the award date and revenue recognition were relatively very small, so I expect most of the revenue to come from these EPC projects of Rs.2000 Crores. There will be somewhere around Rs.3500 Crores odd worth of hybrid annuity project that should come in the year and which would relatively start giving me turnover only in the Q4 as long as we are in a position to get those awards in the first either in Q1 or in the early phase of Q2.

Shravan Shah: Okay, so for FY2021 any number would you like to give for the revenue?

Sandeep Garg: Let us wait for how things pan out rather than giving numbers. After the government formation takes place it will be a better guidance at that point in time.

Shravan Shah: But in road we will be only bidding for the HAM only and not the EPC?

Akhil Jindal: That is right.

Shravan Shah: Is it possible to share the project wise outstanding order book as on March?

Sandeep Garg: If we could take it offline with Harish or Jiten, they will be happy to share.

Shravan Shah: Okay and just to trying to get a clarification, this both GSY and CGRG would be over by FY2020?

Sandeep Garg: Yes.

Shravan Shah: Okay and in terms of the equity to be infused you said in HAM it is Rs.300 Crores and in oil and gas?

Sandeep Garg: It is about Rs.130 Crores.

Shravan Shah: And this Rs.300 Crores out of that in first quarter, second quarter or may be first half FY2020 and second half FY2020 how much we need to invest in HAM?

Akhil Jindal: I think it would be more evenly distributed because as the projects are getting completed and more projects come into pipeline, so it will be more or less evenly distributed. Oil and gas is of course something which will be more clear in the second half once we start our appraisal program post monsoon so that could be more as to dominated while HAM would be distributed.

Shravan Shah: Okay and lastly in terms of contractor for this Amravati package is already in place, is it possible to share the name of the contractor?

Sandeep Garg: They have already been awarded. I do not have them of the cuff. I am sure Jiten Jain or if you could get in touch with them they will be happy to share. All these packages are awarded for Amravati as of now.

Shravan Shah: For us in terms of the subcontractor I am asking?

Sandeep Garg: We have awarded the subcontracts, all packages of Amravati.

Shravan Shah: Okay, that is it from my side. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Ateet Bansal from Reliance Nippon Asset. Please go ahead.

Ateet Bansal: Sir I just wanted to check with you, you have shown a loss in associate joint ventures of Rs.15 Crores in respect of which entity is this?

Kevin Daftary: This would be in respect of our JV especially our CGRG, GSY and CTHPL wherein under the Ind-AS we are experiencing of the interest cost on the borrowing and that is the main reason of this negative number during construction

Sandeep Garg: In terms of the JV, this will be a consistent scenario under Ind-AS during the construction whatever is the interest that will have to be expensed of, so that is going to be pretty standard model.

Ateet Bansal: Okay, 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: What is your SPV debt in total?

Akhil Jindal: The total debt drawn of course Delhi-Meerut is a completed project, which as on March 31, 2019 is 371 cr, which as I mentioned is already getting refinanced by a much larger amount then on the other two projects, which is GSY and CGRG it is roughly around Rs.500 Crores and water project is 50 cr.

Giriraj Daga: Okay, so roughly about Rs.920 Crores?

Akhil Jindal: Yes, that is right.

Giriraj Daga: Okay, second coming to balance sheet, the receivables couple of items have gone up multiple there so if you can highlight like receivables, other financial assets and other current assets?

Sandeep Garg: This would be in relation to some year end provision, which we must have taken in the essence of the bill received, so it is like year end and probably we should be seeing some reversal in the next quarter out of this amount.

Giriraj Daga: But the numbers like Rs.34 Crores to Rs.280 Crores, Rs.180 Crores to Rs.338 Crores?

Sandeep Garg: It has increased in a significant percentage, so that is the major reason.

Giriraj Daga: Like combine basis if we are looking at somewhere about almost Rs.400 Crores, Rs.500 Crores kind of increase?

Sandeep Garg: That is correct.

Giriraj Daga: So basically the unbilled revenue, which we are yet to receive there?

Kevin Daftary: It is basically grossing up, so both the sides you can see the impact, tradie payables have increased by roughly, trade payable is close to Rs.500 Crores, revenue number you will be able to see in the unbilled plus debtor's movement.

Giriraj Daga: Okay, next question on the margins guidance like should we again as mentioned reported like about 12.6% and that should be the guidance, but ideally we should also be seeing some operational leverage kicking in right because you are talking somewhere of more than 50% increase in revenue?

Sandeep Garg: As I said right going forward, we definitely see an upside in operating EBITDA because some cost will be proportioned over larger revenue.

Akhil Jindal: Having said that I think there is already significant movement from 9.5% to 12.1% over the course of the last one year, so I do not want to build up around expectation.

Sandeep Garg: It will not only be as significant as last year, but it is only a fixed cost a portion which will get a bit better.

Akhil Jindal: A bit better, yes.

Giriraj Daga: Okay, sure, thanks a lot.

Moderator: Thank you. The next question is from the line of Nirav Shah from GeeCee Holdings. Please go ahead.

Nirav Shah: Thanks for the question. Most of the questions have answered, but just one on the oil and gas investments, the pending investments in the last call it was mentioned around Rs.175 Crores and now it is around Rs.130 Crores, so the tradition has come I mean are we dealing some projects or what is the nature of this reduction like?

Sandeep Garg: We have invested something in this quarter that is accounting for it, we are not changing our guidance of investment, it will be somewhere in the range of Rs.175 Crores, so that guidance stays and oil and gas as we see is gradually maturing towards these logical end of the business in fact the monetization to start from FY2021.

Nirav Shah: So we invested around Rs.45 Crores in this quarter?

Kevin Daftary: Part of that amount would have been appearing in investment and part of that would be clubbed in loans and advances due to unallotment, which happened probably in the April, you are right in saying that close to that Rs.40 odd Crores we have invested.

Nirav Shah: Okay, got it Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: Most of my questions have already been answered. Just two if you can help me understand your outlook on competitive intensity and I think somewhere in your remarks do you see ordering to start by our comments by June and given the fact that for the last almost more than one year now we have not had anything as such, do you see competitive intensity be very high, which essentially would mean there could be a situation where we do not get orders in the first round of awarding wherein we required, we are going to wait for competitive intensity to subside and then only because whenever you get to have that kind of competitive intensity the bids are irrational and given the fact that you work with your numbers, would that make you kind of goal in slow in the first time of awarding and therefore you would bid for kind of that to subside, which is when you will go to the market and take orders?

Sandeep Garg: Let me answer this question in a different way. The competitive intensity is something that I cannot predict so the industry will decide it. However, I can give you what is the current competitive intensity that we are seeing, so we have three open bids right now and there are two bids in which there are only two bidders. So one of them is me and one of the other bidder and whereas another bid, there are three bidders, so you can make an assessment of what the competitive intensity is likely to be going forward in the hybrid annuity model. Our personal belief is that lot of people have bid aggressively in the past and our challenge for financial closure or whosoever have achieved the financial closure are right now very busy managing those rather than taking additional orders and you are right to that extent that we will be very, very strict on our expectation on returns, so we would not compromise it even if we have to lose a few of the bids I am perfectly fine, I have enough headroom available for myself to continue to grow. So the order booking is not going to be at the cost of return.

Prem Khurana: And Sir, is it fair to assume given the fact that you will still see people kind of struggling in terms of getting financial closures and would not it be better if you could kind of try and get these orders because these guys already invested time, the land would already be in place instead of kind of looking for new projects essentially for the last few guys they have been getting awarded in hybrid annuity side, what we have experienced generally it takes you almost one year from the letter of award to kind of get going at a side, so given the fact that they were already spend that kind of time and you have cash and you would be able to go in get these orders and we have already delivered on these lines and we already have three projects wherein we could do that, so would not it make sense if you would try and get these orders now rather than kind of waiting for NHAI would come and give out orders and wherein you would wait for some more time kind of get everything in place and then get going at the ground?

Sandeep Garg: Let me answer this question in two. First is that, am I open to the secondary acquisitions? the answer is yes; however, there are very few bids, which will meet my return expectations, so we are not happy with the return expectations that others have bidded; if our return expectations are not met, we are not going to get into this. Number two, I would want to just put the issue in perspective that after we acquire a project how much time does it take to actually make it implementable, so we have taken over three projects and none of the projects actually saw an appointed date before one year of entering into the project, so the processes of NHAI to bring in us as equity investor and allow us to do what we need to do, the process itself takes six to nine months, so it is not necessarily to improve that we will be able to recognize the projects, the revenues on them early; however, I am not precluding taking over any of the projects, which are in the market right now doing currently in circuit for somebody to coming and stepping into the shoes of the current bidder provided it meets my return expectation.

Prem Khurana: And in terms of the inflows that you are targeting on hybrid annuity side, do we have any mix in mine in terms of number of projects that you are going to have some states and the number of projects that you are going to have from NHAI?

Akhil Jindal: A product mix between the state and the center is difficult thing to give in a bidded environment; however, I definitely do not foresee myself being only an NHAI single client company, to my mind that that puts the company to a rest, so we will want to diversify to a couple of clients, so by design we would take up a couple of more clients on order book.

Prem Khurana: Order or return expectation change between central and state orders especially with Maharashtra project was it really have our equity requirement is lower than what you get to have with NHAI, so how does that change your return expectation?

Akhil Jindal: Return expectations are function of two things how much we do need to invest and how much do we have a risk in terms of the delay in payments or availability of land, so it is a risk matrix, so we are always guided by risk denominated return rather than a return per se itself, so every project is different, every client is different, every time is different scenario, but to answer your question yes, if there are higher risk the return expectations are higher.

Prem Khurana: Okay and just one last given the fact that we are planning to build a significant order on EPC side now, do you spoke about Rs.2000 Crores odd of what EPC orders in water segment, could there be a situation wherein I mean you start building your own capacity in terms of execution, do insource and do it inhouse because on EPC side, so you would have to share some margin in subcontractors as well, on hybrid I understand given the fact that we had this kind of cash available with us and there was limited competition, so we could have higher margins, but on EPC side generally you get to see more aggression and given the fact that you would have to share a part your margins with subcontractor, is it fair to assume that someday you would start doing execution inhouse or we also have inhouse execution the idea is to remain as it settle as possible.

Sandeep Garg: As I said to you, the water segment and road segment is different. In the water segment, if you look at it the E&P portion constitutes anything between 80% and 85% of the total project cost, however in the road segment it constitutes only 50%, so our model in terms of the water would be that we will control E&P section and see we will subcontract, we do not want to do construction per se and that is at least as a company we believe that one balance sheet should not be carrying all the risks of development as well as construction so that is something which is risk mitigation exercise. Number two, if you are subcontracting 15% to 20% of the work and if you are giving a margin of 10% so you are only talking about 1.5% in an overall project cost, there is insurance risk rather than risk of value erosion.

Prem Khurana: And just one last if I may, on Delhi-Meerut I think we are already working on monetization effort so today in the call I somehow get to feel as I mean you do intend to go ahead with the same because now you have this credit line and place where you will be able to borrow more, so is it because the markets are not conducive for asset transition because it has become up buyers market these days and which is what is making us kind of goal little slow on these kind of efforts or is it that the idea is going to build a portfolio then only look at monetization, so that you get to have even better valuation.

Sandeep Garg: There are three reasons to it. Let me explain. Number one is you are right. There are a lot of distressed assets in the market and we do not believe that we have any reason of distress to get into the market where people are selling at discount, so we do not have that need number one. Number two, we believe that a platform has higher value than an individual project, so where CGRG and GSY getting completed going forward in this year, we believe that the platform will have a higher value for any strategic financial investor, so that is the point number two that we are deferring we are not very keen on pursuing that. Number three is that there are very few takers, limited takers in the market for 49% equity that we can right now divest directly structures notwithstanding, so we would want to be in a position that there is an assurance to the other party that we have excess to 100% equity rather than, so these are the three issues, which are combined put together that we are looking at creating a platform rather than creating individual projects here.

Prem Khurana: And Sir early completions come in Rs.28 Crores, Rs.29 Crores odd you are expecting from Delhi-Meerut?

Sandeep Garg: Today it is listed from Executive Committee of NHAI, so we are hopeful that we should see the money in the next few days.

Prem Khurana: Thanks a lot.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: Any plans of monetizing the Delhi Meerut Expressway or would it be done only after phase 2 and phase 3 are completed, where the progress I believe it is still very slow and second question is about what value has been the oil and gas subsidiaries adding to our company, our balance sheet I believe has become very complicated and opaque?

Sandeep Garg: Part of the question is I would want to respond, as I said we will monetize Delhi-Meerut package one alongside with the other two projects that are getting completed this year that is the time when we would want to attempt the monetization of it. The route of monetization whether it will be outright sale, it will be refinancing, etc., etc., something that we would want to do it once these distressed assets from the market have gone away, so that is one thing. In terms of the opaqueness of the balance sheet I am not too very clear as to what the question is.

Vivek Gautam: For example, this oil and gas subsidiary we have blocked substantial quantitative of funds there for long period of time and I have been listening on the concall some volume might be added fortunately not much is coming out of it?

Sandeep Garg: As I said the oil and gas is a long gestation period business and we have a choice of being in the business to make it reach to its logical conclusion and then monetize, which is the field development plan being approved by the DGH, so one of the projects will see the field development to be submitted through DGH in January 2020 and the B-9 and we are currently submitting and we need to monetize it after we have done through well that we are targeting to do one in B-9 and one in Mumbai block, so it is true that it is a long gestation period and as I said the earliest monetization for this oil and gas assets will be in FY21 not earlier than that so this is where we are I think it is a very clear message that this investment is there the only redeeming factor that I can say is that all the blocks that we are talking about hydrocarbon-bearing and they have been declared to be commercial finds as far as the DGH requirements are concerned.

Vivek Gautam: What about the margins and the topline guidance any downgrade we might expect in future also?

Sandeep Garg: Sorry.

Vivek Gautam: Margin guidance we had to downgrade our margins which were projected at a higher level earlier and similarly for the margins in topline Sir?

Akhil Jindal: I think we just mentioned that 12.1 is a level, which we have done in this year and to that extent a better monetization the cost should only improve it marginally. We are not seeing a reason why there would be a downgrade in the margin because all the projects are rightly bidded and we have financial closure for all the projects so in that sense I think the margin should be well protected, there is nothing that comes in the mind, which we can share with you where we feel the margins can be lower than what they have been reported now.

Vivek Gautam: Lastly about the sector per se due to the impending elections, the sector getting derated and can we hope for some re-rating of the sector after the new government comes in terms of new order book and government focus on road and for structure?

Sandeep Garg: The development of the infrastructure is a reality no matter which government comes, there can be some slowdown that it happened in this election buildup because of the limited fund of availability for infrastructure; however, infrastructure will remain the focus of any government that comes in, so we are in a sweet spot right now. I expect the investor community to be re-rating it as the stability that comes in.

Akhil Jindal: Okay Sir, thank you.

Moderator: Thank you. The next question is from the line of Harshit Jain an Individual Investor. Please go ahead.

Harshit Jain: You are guiding a topline of around Rs.2800 Crores to Rs.2900 Crores, so can I expect an operational EBITDA around Rs.350 Crores based on 12% to 12.5% EBITDA margin?

Akhil Jindal: That should be our endeavour to achieve that.

Harshit Jain: Okay and secondly coming on some of the shareholder or investor friendly schemes, is there any plan for any kind of buyback or some kind of creeping acquisitions by the promoter since we have stock prices fallen by 50% in the last 12 months or so?

Sandeep Garg: We do not know what the promoter would want to do, so that's something promoter would want to take a call.

Harshit Jain: May be you can answer about in a short while what exactly plan because I see the business is pretty robust, you are doing pretty fantabulous job both on the operational front and even on the margin side, our margin has increased from 10% to around 12% in the past 18 months or so, but nothing is materializing on the stock price itself, the stock price itself contracting although the markets are in a bad shape, but still your companies are coming decently.

Sandeep Garg: Thank you for mentioning that Harshit, so as far as taking care of the investor is concerned as I said in my opening remarks the board has announced a dividend of 20% or so, we are trying to return the value to the investor the best one that we can, as you know we are growing company so that would be the best solution at this point in time.

Harshit Jain: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for closing comments.

Akhil Jindal: Thank you everyone for joining us on this call today. If any of your questions remain unanswered or you need more information, please reach out to either Harish or Jitendra in our team. We will be more than happy to, if any point of time, any investor wants to have a site visit, want to go to our, what we are doing at Delhi-Meerut or elsewhere we will be more than happy to organize that. Thank you very much for the call today.

Moderator: Thank you. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.