WELSPUN ENTERPRISES
INFRASTRUCTURE AND ENERGY

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Dear Sir/Madam,

**Sub: - Transcript of Q2 FY23 Earning Conference Call.**

Please find attached herewith transcript of Q2 FY23 Earning Conference call.

Kindly take the above mentioned on record.

**For Welspun Enterprises Limited**

Priya Tushar Pakhare
Digitally signed by Priya Tushar Pakhare
Date: 2022.11.22 16:04:26 +05'30'

**Priya Pakhare**
**Company Secretary**
**FCS- 7805**

# "Welspun Enterprises Q2 FY-23 Earnings Conference Call"

## November 15, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 15th November 2022 will prevail.

**MANAGEMENT:** **MR. SANDEEP GARG – MANAGING DIRECTOR, WELSPUN ENTERPRISES LIMITED**
**MR. SANJAY SULTANIA – CHIEF FINANCIAL OFFICER, WELSPUN ENTERPRISES LIMITED**
**MR. ABHINANDAN SINGH – HEAD, GROUP INVESTOR RELATIONS, WELSPUN GROUP**

**Moderator:** Ladies and gentlemen good day and welcome to Q2 FY23 Earnings Conference Call of Welspun Enterprises Limited. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company and on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhinandan Singh – Head, Group Investor Relations, Welspun Group. Thank you and over to you Mr. Singh.

**Abhinandan Singh:** Good afternoon, everyone. I welcome all of you to the Q2 FY23 earnings call of Welspun Enterprises Limited. Present along with me today on this forum are Mr. Sandeep Garg – Managing Director and Mr. Sanjay Sultania – Chief Financial Officer of the company.

You have received the results from the company are also available in our filings on the BSE and NSE as well as on the company's website welspunenterprises.com which has additional disclosures and information in the Investor Section over there. As usual we will start the forum with some opening remarks by our leadership team. We will open the floor for your questions. Should you have any queries that remain unanswered after this earning's call you can reach out to us.

With that I would now like to handover the floor to Mr. Sandeep Garg, MD Welspun Enterprises. Over to you Sandeep.

**Sandeep Garg:** Thank you Abhinandan and good afternoon to everyone present now. Before I start the discussion, I hope everyone had a safe and joyful Diwali and also wish that the new year brings in further joy and prosperity to everyone present on the call.

Now coming onto the discussion for the quarter; I will start with a few highlights for the quarter and then give an update on the asset monetization efforts of the company followed by Mr. Sanjay Sultania sharing his thoughts on financial performance of the company. Following our Q1 FY23's performance, the performance of Q2 FY23 continued to be strong as compared to the same period last year. We have reported a strong growth in revenue as well as profitability which is largely driven by better execution of few of our key EPC projects in both road and water segment. With the execution of these key projects picking up, we are confident of delivering a strong performance in the current as well as next financial year.

On the standalone member front; our revenue from operations grew 82% year-on-year basis. Our EBITDA margin has improved from the preceding quarter due to the easing of commodity prices. It currently stands at 11% as compared to 7.2% in Q1 of FY23. On the order book front;

we have a very strong order book of Rs. 11,400 crores. This includes Rs. 1,796 crores of O&M and asset replacement for MCGM STP project as on 30th September, 2022.

As a diversification strategy, we now have a very strong order book in water and wastewater treatment segment which will help us to derisk ourselves. Water and wastewater treatment projects constitute 56% of our order book and balance 44% comprises of road projects. We are focused on establishing ourselves as a credible player in the water and wastewater treatment segment which we believe has a huge opportunity. We will continue to focus on value creation in a high value, high margin project portfolio. We have demonstrated the same with the recent asset monetization deal we signed with Actis. You may recall, our HAM journey started in the year 2016 with an investable corpus of approximately Rs. 800 crores and over the last 6 years we have been able to develop or we have been able to build developmental projects portfolio of about Rs. 12,000 crores. A large part of this Rs. 12,000 crores, valued at about Rs. 9,000 crores is being monetized through the Actis transaction. Once the consideration comes in at first closing our past guidance on these projects of mid-teen returns at project level would be actualized. Our anticipated IRR on the assets we are divesting would be at least 15% at project level considering both EPC prospect and divestment returns. This brings me to an update on asset monetization transaction with Actis.

We have anticipated that the approvals from NHAI/PWD and lenders would come in by September, 2022. I'm happy to update that we have received approval from all our clients as per the concession agreement as well as from the lenders and have thus achieved most of the CPs by October 2022. Currently we are in the process of compliance with rest of the CPs. Consequently, we expect first closing to happen of the Actis deal in the current quarter itself. We have always maintained that we have an asset light business model and we have stayed the course. The impending Actis transaction demonstrates our commitment to act on stated strategy. We are successfully recycling capital which will provide us a strong foundation for our next phase of growth. In this growth phase we will target a portfolio of high value, high margin assets. We will continue to work with our low-risk execution model.

On the operational front; we have received completion certificates for two HAM projects namely Maharashtra Amravati package AM 2 project which was received on 30th July, 2022 from Maharashtra PWD and Chutmalpur-Ganeshpur and Roorkee-Chutmalpur (CGRG) project which was received on 7th October, 2022 from NHAI. These projects are part of the monetization portfolio.

As I conclude, I am delighted to also share that Welspun Enterprise was awarded the second fastest growing construction company in the small category at the 20th Construction World Magazine Global Awards 2022 which were held on 14th October 2022.

With this I now hand over the call to Mr. Sanjay Sultania, – our CFO to share his thoughts on financial performance. Over to you Sanjay.

**Sanjay Sultania:** Thank you Mr. Garg and good afternoon to everyone. On the financial front; our standalone performance continues to be strong for the quarter as compared to the same quarter last year. We registered a revenue of Rs. 510 crores which is a growth of 82% in Q2 FY23 as compared to Q2 FY22. Our EBITDA in Q2 FY23 is Rs. 57 crores for the quarter. The growth in revenue and profitability has been on the back of a strong project execution of key large projects in road as well as water segment. The operating margins have been stable year-on-year at 11%. On a sequential basis margins have improved, aided by some moderation of input cost, should the moderation of input cost continue, margins are likely to be sustainable going forward. The profit for the quarter has registered a growth of 1.8x year-on-year to Rs. 40 crores on account of better project execution and lower input costs. The finance cost has slightly increased due to accelerated execution in EPC business.

For the first half of the fiscal which is H1 FY23, the performance mirrors the quarterly performance trend with revenue and PAT growing by 90% and 89% year-on-year to Rs 1,184 crores and Rs. 65 crores respectively. The EBITDA for half yearly for current year stands at Rs. 107 crores.

Now coming to our consolidated financials; consol revenue for the quarter saw a growth of 83% year-on-year to Rs. 530 crores. EBITDA for the quarter is Rs. 70 crores. During the quarter, we acquired 51% in three of our JVs, namely CGRG, GSY and CTHPL that we held. The consolidated financials reflect a gain of Rs. 61 crores shown as an exceptional item on account of business combination accounting of these SPVs and I would just like touch upon that this gain of exceptional items is a notional gain. Further since we are in the process of divesting six of our completed HAM and BOT projects, we have classified those assets as assets held for sale. Therefore, you would have seen an item of Rs. 32 crores shown as profit from discontinued operations in our consolidated financial results. The net profit for Q2 financial year 23 after considering share of loss in associate and Joint Venture companies as well as the post-tax profit from discontinued operation grew by 4.9 times year-on-year to Rs. 133 crores as compared to Rs. 22.5 crores in Q2 FY22. Once the assets are divested, the profit from discontinued operations shall not be part of our financials.

On the balance in the front; the total of standalone gross debt is approximately Rs. 652 crores with cash and cash equivalent to Rs. 249 crores translating to a net debt of Rs. 402 crores. The net debt to equity stands at 0.21 times. On consolidated basis the gross debt is approximately Rs. 927 crores which excludes SPV project debt of assets which are being monetized. The cash and cash equivalent on the consolidated basis is Rs. 259 crores. Once the closing of asset monetization concludes, we expect to become a zero-debt company at a standalone basis after we fully retire debt and are likely to have a marginal under construction projects specific debt on consolidated balance sheet. Pickup in execution backed by a strong order book, along with easing of input costs should aid a growth in revenue and profitability going forward. This is all from my side and we can now open the floor for your questions please. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Riddhesh Gandhi from Discovery Capital.

**Riddhesh Gandhi:** After the Actis transaction we would effectively have net cash. So, I think the equity proceeds is about Rs. 2,500 crores. We've got Rs. 400 crores of a net debt. We'd expect to have about Rs. 2,100 crores of the net cash on books.

**Sandeep Garg:** Yes. If you look at the net debt position as expected the numbers are pretty much close to it, subject to the minor adjustments on first close and second close. But till the time the pan closure takes place it will be close to the numbers that you are stating.

**Riddhesh Gandhi:** Just to understand the reason we've just structured it in terms of the two closures, is it because of the regulatory approvals? I guess you had indicated that the first close to happen in this quarter, any indication on this second closest timeline?

**Sandeep Garg:** The secondary closure is required from a statutory clearance point of view otherwise we would have preferred to close in one go but there is a constraint on the concession but again we can do the complete transaction of the Mukarba Chowk-Panipat project.

**Riddhesh Gandhi:** Any indication as to how much we'd expect to do in the first close, how much in second close and the timing of the second close?

**Sandeep Garg:** We would come back with the exact numbers. As we speak the numbers are being ready. As soon as the transaction is about to close, we shall come up with the numbers that how much percentage would come on the first close and the second close. I also would want to clarify a point which you had raised. Also, the net debt is about Rs. 400 odd crores but we would want to be free of the standalone debt. We expect the company to become net debt zero. The standalone debt stands at about Rs. 650 odd crores.

**Riddhesh Gandhi:** If you're going to get an infusion of about Rs. 2,500 crores and we've got about Rs. 400 crores of net debt or Rs. 600 crores of gross debt effectively, then we would be net cash right or am I missing something in terms of…?

**Sandeep Garg:** Your company will have a net cash surplus for sure which will be utilized as I said in my opening statement after retiring the debt for additional reasons of EPC, the current order book which still stands at about Rs. 11,500 crores and for the future growth of creating further assets which are high value and high margin assets.

**Riddhesh Gandhi:** Just to understand with regards to effectively, is there any update you can provide on our oil block?

**Sandeep Garg:** Yes, I can provide an overview on the oil blocks. The current investment in the oil block stands at about Rs. 410 crores. We have two blocks namely MB OSN 2005/2 for Mumbai block and adjoining discovers small field block B-9 block. Between the two of them we have reserve of about a TCF petroleum initially in place and currently as we speak, we are doing a field development study for the same which we expect to be completing in January, 2023. At that point in time, we will know the complete strategy as to how we are going to produce, by when we are going to produce and how much infrastructure would be required to produce and the commercials of the same, so that's where we currently are.

**Riddhesh Gandhi:** And then we would expect to use the excess cash flow to effectively to develop these blocks because I'm assuming if they're offshore reasonably expensive to develop as well.

**Sandeep Garg:** The intent is as we speak, we will be looking forward to all forms of investment into that block as well from a concept of farm in or farm out as well and the interests of oil majors if there if any, so we will take a strategic call on them once we have a FTP in 2023 and the board has had a chance to apply its mind onto the opportunities and how to deal with those opportunities.

**Riddhesh Gandhi:** Just one last question was with regards to how should we be thinking about you have indicated we have invested about Rs. 400 crores but from what we understand is that the belt in which we have these oil blocks is reasonably lucrative with a reasonable high level of reserves. How should we be thinking about how much the oil block is actually valued at and how should we be thinking about it?

**Sandeep Garg:** It's the gas block, I would refrain from…. primarily these are gas blocks. The petroleum initially in the place is about 1 TCF and in the gas block normally 70% of the petroleum initially in place subject to the studies confirming is producible. You can do the math depending upon how you foresee the gas pricing to be move forward over the next 10-15 years as to what these blocks mean.

**Riddhesh Gandhi:** So that's a pretty large number effectively if that's really what it ends up looking like.

**Sandeep Garg:** That is the large number and I will refrain from naming the number. The maths is there, you can take that.

**Moderator:** The next question is from the line of Rohit from Antique Stock Broking.

**Rohit:** Now that we have a very robust order backlog and even the top management is back on track, how will be the guidance going ahead in terms of execution? Can we look for that Rs. 3,500 crore kind of number maybe in FY24 or is it too early to say on that?

**Sandeep Garg:** I would refrain from saying that it is a guidance, so number one. This is definitely our endeavor to ensure that we are doing a rate of about Rs. 300 crores per month in FY24 for sure.

**Rohit:** Per month that is the number that you're targeting. The second thing is that we have witnessed the slowdown in NHAI orders and I'm not too sure whether at this point in time now that you're hands are full with this kind of order. You may not be aggressively looking out for order but still if you could give us some color on how do you see the road sector panning out in terms of the awarding and some color on even the water space too?

**Sandeep Garg:** Let me take the water space first because which is as I stated it in my opening statement is, I believe it is going to be in future because we are at a very nascent stage both in terms of water accessibility to the large part of the country as well as the treatment of the wastewater. The opportunities are humongous at this point in time. There are about at least Rs. 10 lakh crores worth of UP JJM projects. Every state has to do the Har Ghar Jal schemes. The waste water treatment project standalone for the metros by itself stand at about Rs. 22,000 crores. Imagine what kind of numbers pan out, so if you look at the class A and class B cities alone of the country. The numbers on the water treatment are on both the supply side and the treatment side are substantial, leave alone the opportunity that has been in the offering of river linking projects which is also I think something which is taking shape as we speak. My views are there will be ample projects in this space going forward and that's the space we believe has enough room for player with differentiation to create a differentiation and command some value there. In terms of the road projects, you are right that there is a bit of a slowdown but however its to my mind a temporary scenario. There is still a substantive work to be done both at the center level and at the state level for road infrastructure to be built. I think the more important point as we speak, government is seized with the issue that they need reliable concessionaires or contractors and they would want to revive the BOT Toll Projects. So, there is a go back to the drawing board and see what will be the risk rewards scheme which is balanced and which will attract the financial strengths of the private sector and help the infrastructure build up quickly. So, I think in next 2 months, both the state and the NHAI and MoRTH should come up with certain revised models maybe a few months more than that and then the uptick will start on the order book as well.

**Rohit:** If we could also touch upon some of these Railway projects which we have been hearing coming up for this development part. Is there any thought given from Welspun Enterprises side to participate in any of those projects? Because I believe in the past, we have had explored such opportunities?

**Sandeep Garg:** Yes, that is on an adjacency always being on the horizon. As long as those are developmental projects, we surely will look at it. Pure EPC play we may stay away from it until and unless we build the requisite strength to deliver those projects.

**Moderator:** The next question is from the line of Chirag Singhal from First Water Capital.

**Chirag Singhal:** First question is on the completion percentage. If can just share the completion percentage at the end of Q2 for Aunta-Simaria, SNRP and Varanasi?

**Sandeep Garg:** Aunta-Simaria is about 55% on the financial progress side. I will correct myself. On the Aunta-Simaria is 46%, SNRP is 12% and Varanasi Road project is 15%.

**Chirag Singhal:** I didn't get the SNRP part. SNRP is you said 12%?

**Sandeep Garg:** That is correct.

**Chirag Singhal:** Second question is on the margins. So, we reported 9% OPM, if you look at the standalone operating EBITDA margins. What is the guidance for the second half?

**Sandeep Garg:** As I said guidance is a difficult situation to give in a market where the commodity price cycles are pretty volatile. So, I would refrain from giving a guidance. Our anticipation is that if the current trend is to continue our EBITDA margins will improve further in two quarter primarily on two accounts because of the high revenue that we expect to generate in Q3 and Q4 and also with the commodity cycle that we see up to now. I would also want to clarify that to our working the operating profit margins are in the range of 10% to 11%. I'm not too very sure how the computation is being done. I stand corrected it is 9%. My apologies.

**Chirag Singhal:** Basically, in Q3 and Q4 we should be expecting better margins than Q2. Will that be correct understanding?

**Sandeep Garg:** That is the correct understanding.

**Chirag Singhal:** Just last question on the guidance. You mentioned that for FY24 you plan to do Rs. 300 crores per month revenues. What is the guidance for the current fiscal?

**Sandeep Garg:** One I would want to even at the cost of repetition say I will not want to classify that as a guidance. I only want to share this as an information which we believe we are, it is an expectation that we have. So, we expect the current financial year to close anywhere around run rate of close to the double of last year and as I have said next year, we are looking at a higher rate of execution given the order book strength. So that's what I would say.

**Moderator:** The next question is from the line of Sudhir Bheda from Right Time Consultancy.

**Sudhir Bheda:** Going forward what kind of project you would be concentrating given the good cash on hand and good liquidity position? So, would it be like pure EPC, HAM or water treatment project? So, where our focus would be in coming time?

**Sandeep Garg:** Let me state a stated position of the company that we are governed by an order book which is consistent with the return expectation that the company has. While we would want to have a balance between the verticals and the offerings that we have, however, the guiding principle first of all is the return expectation. Our concentration as we speak would continue to be on the developmental projects where we can bring in a differentiation. However, we are open to EPC project on the road. In terms of water segment, we are looking at EPC and selective investment projects.

**Sudhir Bheda:** And with the kind of deal and the return which your company will make. So, any plan to reward the shareholders?

**Sandeep Garg:** This is a decision which the board will take at an appropriate time when the Actis deal concludes. However, from a management point of view we see lot of opportunity to invest these capital as I said in my opening statement. We have a need of the capital to derive our debt, we have a need of capital to support our current operations and we have a need to have a war chest for next phase of growth. So, see an adequate opportunity to create wealth for the stakeholders on a sustainable basis. However, these decisions are of board level decisions which we will at an appropriate time project to the board and be guided by them.

**Moderator:** The next question is from the line of Saurabh Kumar Agarwal, an individual investor.

**Saurabh Kumar Agarwal:** My first question is about the last conference call. I think Sandeep sir indicated that we will start receiving the first tranche of money from the September for this Actis deal. So, I would like to ask have we received any fund from Actis so far, any advance funds or in part sir?

**Sandeep Garg:** No, as of now no. We have been able to get the approvals from the lenders and the clients only in the month of October which is the major condition precedent and there after the balance condition precedents are being met as we speak. The first closing is expected to be in the Q3 of '23.

**Saurabh Kumar Agarwal:** My second question is presently the total shareholder equity shown in the balance sheet is about Rs. 1,965 crores. What is your expectation after this deal? What would be the impact on the total equity solely by this deal, expected impact?

**Sanjay Sultania:** See you are referring to our standalone Welspun Enterprises shareholding pattern and after this deal we are divesting in the SPV. The investments will get canceled and there will be no impact on the number of shares.

**Saurabh Kumar Agarwal:** I was referring to the consolidated balance sheet, total equity it shows about Rs. 1,965 crores. What you're saying is that there won't be any impact of the deal on the total equity?

**Sanjay Sultania:** No there will no impact on the total equity on an enterprise level. This is only what we are doing as a deal that we are divesting our SPVs. SPVs will receive pure cash considerations, there is no equity involved into it.

**Saurabh Kumar Agarwal:** What would be the estimated tax burden on the enterprise due to this deal? Estimated tax burden?

**Sanjay Sultania:** Yes, we have engaged consultant, they are working on it. Once this computation and everything gets finalized then we will come to know the real impact.

**Saurabh Kumar Agarwal:** Though the deal is already on and hopefully it should be completed. Do you see any scenario, any probability however low it is of the deal not going through? I mean do you have any concern on your mind which may affect the deal?

**Sandeep Garg:** To the best of our knowledge there is no reason for the deal to not take place. We are reasonably confident that this shall take place in the Q3 of FY23 given that we all have the approvals from all lenders and the clients and the first close of this deal should take place in Q3 of FY23.

**Saurabh Kumar Agarwal:** Since you said there won't be any impact on the total equity shown on the balance sheet, I assume there won't be an impact on the number of outstanding shares also as it stands about 15 crores?

**Sanjay Sultania:** Yes, there will be no impact.

**Moderator:** The next question is from the line of Nirav Shah from GeeCee Investments.

**Nirav Shah:** We are seeing the pending equity requirement of around Rs. 236 crores versus the number was Rs. 175 crores on 30th June and we have invested approximately around Rs. 30 crores. So, what experiences Rs. 90 crores increase in the pending commitments? Which project is this?

**Sanjay Sultania:** See you are correct when you are referring the last June number of Rs. 175 crores and the current number as Rs. 236 crores but you refer to our last press release where we have said that these Rs. 175 crores is our consolidated net of our short-term loan also which we have invested during the journey to ensure that SPV project executions are in the momentum. Now during the Actis deal these Rs. 91 crores is likely to get structured or consummated in the deal. So, now we are coming up with a fresh requirement without getting off the short-term loan where we have only one project left the SNRP and some minor equity in the oil & gas business that we are looking at to invest in next 1 or 2 years as the project progress. So, Rs. 236 crores equity requirement has been mentioned in the press release as well.

**Nirav Shah:** Just to understand the difference of Rs. 90 crores odd I mean that will go to the one project which is pending for the Actis deal?

**Sanjay Sultania:** No there is no Rs. 91 crores will go as an equity. What I'm trying to say that this way the short-term loan outside the equity which we have been supported to the SPV during the course of the journey.

**Moderator:** Thank you. As there are no further questions in the participants. I now hand the conference over to Mr. Sandeep Garg, Managing Director, Welspun Enterprises for closing comments.

**Sandeep Garg:** I would thank once again to all of you for joining us on this call today and I hope we have been able to address all your queries. I look forward to speaking to you once again in near future. Meanwhile please feel free to reach out to Abhinandan or his team for any questions or feedback. Thank you all.

**Moderator:** Thank you. On behalf of Welspun Enterprises Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.