"Welspun Enterprises Limited

Q1 FY '24 Earnings Conference Call"

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MODERATOR: **MR. ASHISH SHAH – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '24 earnings conference call of Welspun Enterprises Limited, hosted by JM Financial. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Shah from JM Financial. Thank you, and over to you, Mr. Shah.

Ashish Shah: Yes. Thank you, Michelle. On behalf of JM Financial Institutional Securities Limited, I invite everyone to the first quarter FY '21 earnings conference call of Welspun Enterprises Limited. I'll hand over the line to Mr. Salil Bawa, Head, Group Investor Relations at Welspun Group to take the call forward. Thank you, sir. Over to you.

Salil Bawa: Thank you, Ashish. Good afternoon to all of you. On behalf of Welspun Enterprise Limited, I welcome all of you to the company's Q1 FY 2024 earnings call. Along with me today, I have with us Mr. Sandeep Garg, Managing Director of Welspun Enterprise Ltd; Mr. Akhil Jindal, Group Chief Financial Officer and Head Strategy, Welspun World; and Mr. Lalit Jain, CFO, Welspun Enterprises Limited.

We hope you have had a chance to review the investor presentation that we filed with the exchanges. It is also available on the company's website. During the discussion, we may be making references to this presentation. Please do take a moment to review the safe harbor statement in our presentation. As usual, we will start the forum with the opening remarks by our leadership team, and then we'll open the floor for your questions. Once the call gets over, should you have any further queries that remain unanswered post the earnings call, please feel free to reach out to any one of us.

With that, I would now like to hand over the floor to Mr. Sandeep Garg, Managing Director, Welspun Enterprise Limited. Over to you, Mr. Garg.

Sandeep Garg: Thank you, Salil, and good afternoon, everyone. On behalf of Welspun Enterprises Limited, I welcome you all to the Q1 FY 2024 results conference call. I'm happy to share that our performance in the first quarter of fiscal 2024 reflects the positive outcomes of our efforts and investments made over the past few years.

Firstly, I want to mention a couple of achievements during the quarter by the company. Our Chikhali-Tarsod road project was awarded the Unique Highway Project of the Year by ASSOCHAM presented by the Honorable Minister of Road and Transport and Highways, Shri. Nitin Gadkari in May 2023.

In addition, we received an award for outstanding contribution in urban infrastructure water project for our Dewas Industrial Area water supply project in Madhya Pradesh, which we operate under the BOT model. This award was also presented by Shri. Nitin Gadkari-ji in July 2023. And one more additional milestone that I would want to share with you is about inauguration of our Mukarba Chowk Panipat project, which was inaugurated by Honorable Minister for Road

Transport and Highways, Shri. Nitin Gadkare-ji in June 2023. This project has already received the PCOD in April 2023.

One more major development of the quarter that I would want to share, post the quarter which happened, which I would want to share with you all is that the Board of Welspun Enterprises Limited authorised us to sign the share purchase agreement on July 27, 2023, to acquire 50.1% stake in Michigan Engineers Private Ltd, or MEPL. Michigan is a technology-based EPC company involved in underground infrastructure, water infrastructure and sewage infrastructure projects. This acquisition aligns with our strategy to grow the water infrastructure business segment and enter the tunnelling business. This proposed acquisition complements with our existing water and road business.

This proposed acquisition would enable us to undertake projects related to micro tunnelling, segment tunnelling and sewer network rehabilitation. The equity value of 50.1% stake is approximately INR137 crores. To give you an idea about MEPL, the revenue for the company for FY 2023 stood at approximately INR319 crores with EBITDA of INR69 crores and a PAT of INR35 crores. Their unexecuted order books stood at INR1,934 crores as of March 31, 2023. We will discuss the proposed acquisition in detail post completion of the deal, which we anticipate to happen in the next 3 to 4 weeks.

Now I would want to talk about the Q1 FY 2024 results. As I said, we have performed well, especially from the margin perspective. Our operating EBITDA for this quarter stands at INR103.2 crores with an operating EBITDA margin of approximately 15.2%. Our reporting EBITDA margin stands at 18.6%. As a result, our profit after tax, PAT, has more than tripled to INR89.6 crores compared to the previous year.

During this quarter, we achieved a significant milestone, progress of 20% in the SNRP, Sattanathapuram-Nagapattinam road project, which is being executed under HAM model. In past, we have faced some challenges on this project, but our efforts to overcome has started showing results. In July, we have signed a supplementary agreement with the authorities for this project, which grants us 18-month extension for completion from the signing of that supplementary agreement and hence, the revised completion date for the project stands at January 2025, and we are on track for the revised completion schedule for the project.

The other HAM project, namely Aunta-Simaria, the road project, which involves 6 laning of 8-kilometer of NH-31, is progressing on track for early completion against the revised completion date of October 2024. I would want to mention that we still are awaiting clearance of a substantial value of change order, which is at an advanced stage of approval. Once this change of scope is approved by the authority, the project will move ahead at full speed.

Our EPC work at Varanasi to Aurangabad NH2 road project is progressing well, and we are on track to meet our completion target dates.

Coming to the Water segment. Our project in the state of UP under the State Water and Sanitation Mission is progressing well, despite certain challenges on the overhead tank construction. Regarding our largest order win in Dharavi Waste Water Treatment Facility as a part of Mumbai Sewage Disposal Project, it is in the final stages of design approval and local clearances. We expect it to start in full-scale operations post-monsoon.

Coming to the order book. We have a strong order book, including O&M spread across Water and Road segments at roughly around INR9,600 crores. We see promising road and water opportunities in the state of Maharashtra. We also see the opportunities of growth in NHAI, and we aim to secure additional orders worth INR6,000 crores to INR8,000 crores, both in Road and Water sector put together in the current financial year. We are optimistic about our growth strategy -- sorry, growth trajectory and confident in capitalizing on the government's ongoing focus on improving and developing the country's infrastructure sector.

Coming to the Oil and Gas. We continued during the quarter with our effort for development and production of the oil and gas field blocks housed in the joint venture called Adani Welspun Exploration Limited. However, due to large scale changes in the management in the regulatory authority, the expected approval of our Block B-9 field development plan is yet not received. The approval of FDP of B-9 is now in advanced stages. Post the approval of FDP of B-9, we shall be submitting our FDP for Block MB-OSN-2005/2 or what we call Mumbai block. In line with our prudent approach, we will commit future capital only upon clearance of the Field Development Plan, which gives us the visibility of the commercial validity.

Talking about Welspun New Energy. To evaluate this space, we have strengthened the team with the inclusion of Mr. Prashant Jain as CFO. As mentioned earlier, we continue to work with consultants to advise us based on various state schemes as to which state is best suited for these kinds of solutions and the business model to follow. Once that is clear in our internal approval process, we would be very happy to share the details with you. Right now, we are in the process of only committing to the extent of initial development and investments, if required, which we do not believe shall exceed anything more than more than INR50 crores at this stage.

With this, I will now hand over the call to Mr. Akhil Jindal, Head Group Strategy and Group CFO, Welspun World. Thank you again for joining us today. Over to you, Akhil.

Akhil Jindal: Yes. Thank you, Sandeep. I just want to touch upon the big numbers, the declaration that we did yesterday. I'm sure some of you have a chance to go through it, but for the sake of every other participant, we are just repeating from the number that we shared yesterday. So our total standalone revenue from operations have grown to INR680.7 crores in this quarter. And with the other income being included, it has gone up to INR709.5 crores. This has been a remarkable growth on a quarter-to-quarter comparison from the last year. We have also reported EBITDA of INR103.2 crores. With other income, it jumps to INR132 crores.

Now this INR132 crores reflects the EBITDA margin of 18.6% and operating EBITDA margin of 15.2%. This EBITDA, as a percentage of margin, is higher than our guided number of 10% to 12% due to recovery of our costs from our subcontractors. As you may recollect in our previous calls also, we have mentioned that we have practiced in our EPC business to provide for the cost on behalf of subcontractors and later adjust/recover the cost as settlement in final bill payment as a case maybe. Thus, we are able to keep the EBITDA absolutely in check.

And also, we reiterate that our aim to achieve 10% to 12% EBITDA margin on a holistic basis is a certain standard business tactic that we are likely to adopt going forward as well. You might have noticed that our finance costs have also dropped significantly. It has been due to our repayment of our NCDs of almost INR290 crores in this quarter. And we are not likely to borrow any money at our holdco level.

So to that extent, the interest component in our financial numbers will remain a very low figure going forward also, just for small financial expenses. The corresponding PAT also has gone up remarkably to INR89.6 crores and we continue to believe that the company will show good progress on this front as well.

Now turning to our consolidated number. The earlier commentary was on the standalone. Now I'm just sharing a few numbers on the consol basis as well. The total income stands at INR750 crores with a reported EBITDA of INR156.7 crores and a consol PAT of INR92.8 crores. The difference between standalone and consol is more about the Ind AS accounting largely rather than any cash implications where in the Ind AS index, we have to also charge and provide further interest that we would have otherwise got from the investment in our subsidiaries. That is the only large impact between the standalone and consol and it is noncash in nature. So for all practical purposes, our standalone numbers are of good reflection for our entire company's performance.

I just want to share some key numbers on the balance sheet side as well. As on 30 June '23, firstly, our cash position is showing a healthy balance of INR1058 crores. This is down by around INR780-odd crores from the previous quarter because we have made the NCD payment of INR292 crores, we have made a buyback payment of around INR289 crores, which includes the tax component. And also, we have funded our equity in our HAM and Oil and Gas of around INR54 crores. Besides this, we have also done our trust funding, which is an employee trust, which we have created for INR30-odd crores. The remaining INR117 crores, after accounting for profit in this quarter, has been used for working capital funding during this quarter.

The working capital is stretched a little bit in this quarter because there are some marginal delays in collection as one of our clients has changed its billing system. One of the client has changed the billing system from manual to being online and that has enabled them to process it faster in the future. But somehow in between the system got a little jam and that's the reason why there has been some delay in the payment collected by us. However, we understand that the same is now streamlined, and we believe all this money is likely to flow through the system very quickly.

We also want to share the further commitment that we are left with in our various businesses, which stands at INR450-odd crores. This includes our investment in the HAM projects. It includes our investment in Oil and Gas. It includes our stake buyout in Michigan Engineering what Sandeep just mentioned in the beginning and also towards our New Energy business of INR50 crores. And after accounting for that also, we would be left with a healthy cash balance of around INR600 crores for pursuing the future growth opportunities. We continue to be on the asset-light model. And we want to improve our return on equity and return on capital employed as we go forward.

You may recollect that our margins are into 2 buckets. One is the EPC margin that we report between 10% to 12%, as I mentioned earlier. And also the margin or the capital gains that we get on our asset sale as and when those assets are ready. So we will keep on exploring the monetization possibilities of various assets, including the HAM asset that as and when they get complete. Our Oil and Gas portfolio is, of course, Sandeep mentioned that we're talking with the discovery of commercial gas. And with the things that we're doing with DGH, we are in a very advanced stage. And also in various means and manner, the monetization will remain a top priority for the company.

I think with this, we can open the floor for question-and-answers. Thank you very much for joining us on this call.

Moderator: We have the first question from the line of Riddhesh Gandhi from Discovery Capital.

Riddhesh Gandhi: Congratulations on super execution. I just wanted to understand with regards to our water projects which we are doing. How is the competitive intensity which was in the tenders out there? Who do we typically go up against? And I just wanted to understand in terms of our competitive advantage too, I mean, be able to attract a rate of return in these projects?

Sandeep Garg: So coming to the Dharavi project, which is the largest project in the water, there were -- the competitive intensity was pretty low because of the complexities. There were only 2 other bidders other than us on the project. In terms of UPJJM project, there were multiple bidders because the canvas was very large and it was not supposed to be awarded to the lowest bidder, but all bidders who had envisaged interest in a particular territory were supposed to be awarded based on their preferences and the closeness to the L1 bid. If provided they match the L1 bid. So we haven't seen a very intense competitive environment on the project that we have won till date.

In terms of your question that -- what is the competitive intensity? In the Water segment, the competitive intensity changes with respect to the value of the contracts. And anything above INR2,000 crores is not a very intensely competitive space. The bidders are more like 3 to 5 bidders for a particular project and that is the target area for us -- preferred target area for us.

Riddhesh Gandhi: That's helpful. And with regards to this acquisition, we see we've got 50.1% stake and then we have, I think, Patel Engineering in one of our public market holders, which we can see is also there. Just wanted to understand how did we think about the partnership? And is it ultimately going to be a part to 100% control or is it just a technology we're looking at or how should we look at that?

Sandeep Garg: So it is -- it becomes a subsidiary with the acquisition of 50.1%. Future, there are routes available for everything right up to 100% acquisition to alternate means of exits to the other partners. So we will talk of this when we come across it. However, the current intent is to create them as a technology leading solution provider and help them grow to an extent, which with our muscle power we can grow, which is why this proposed acquisition creates immense value for both tenants.

Riddhesh Gandhi: And so the technology aspect of it is in terms of what exactly is the technology that's --

Sandeep Garg: So we -- as you may be aware, we are not in tunnelling. They are into tunnelling both micro and segmental funding, which allows us to getting our foot into the tunnelling market, which is going to be the -- we believe, a very good growth driver in the urban India. And there is a lot of -- and it's a very value accretive business. And they have been a leaders in multiple first within the country, including the laying of the HDPE sewer lines in Mumbai of 500mm first company to use slurry micro tunnelling in India. So they have always been on the cutting edge, and that's what we want to enlarge their ability to reach within the country. They are primarily more focus on very limited geographies within India itself, so we believe that with this association, both companies can grow.

Riddhesh Gandhi: Got it, sir. That's good to hear. And sir the last question is with regards to our renewable piece, is the aspiration to get into actually EPC on the renewable side or actually own renewable assets? Because I know we earlier did own some renewable assets. How are we thinking about the area and the total of renewables we're looking to be in?

Sandeep Garg: So we are looking at the whole value chain as we speak. We are not sure which of the portions of the value chain are we going to play. We have consultants and the team in place now for them to advise what's right for us to do. And once we know what's right for us to do we will try to do the right things and be happy to share with you our thoughts on that particular area.

Moderator: We'll take the next question from the line of Ankit from JHP Securities.

Ankit: Actually, I'm tracking this only for the first time. So my question would be what is the vision for the next 2 or 3 years in terms of revenue, revenue mix, profitability?

Sandeep Garg: So the guidance for this financial year is that we should be having an average run rate of about INR300 crores per month, which means facts to an annualized revenue of about INR3,600 crores. Our EBITDA margins, as Akhil mentioned, clearly, our guidance remains with anything between 10% to 12%. Our guidance going forward there beyond, which is a forward-looking statement, I would not say it is a guidance. I would say it is our target would be to have a growth of anything between 15% to 20% there.

Ankit: Okay. Second question, you just spoke about the asset-light model few minutes back. So can you just elaborate on that?

Sandeep Garg: So the asset-light model for us means 2 things. We do not do our own construction. So we are not invested very heavily into construction equipment and hence, have very low depreciation. So our EBITDA converts to PBT practically with very low loss because there is very little depreciation and practically very low interest cost as well. Secondly, our asset-light model, which means is that if we create assets which we are a developer as well, our intent is to churn them around as soon as we can make large enough portfolio, and we would not just hold them to the end of the maturity.

Moderator: We'll take the next question from the line of Sagar Tanna from Alchemie Ventures.

Sagar Tanna: Within the water opportunity, what all segments are we looking and how large those opportunities would be?

Sandeep Garg: So we are currently our skill sets and our experience allows us to play 3 areas of water vertical. One is the transmission and distribution; second is the treatment section; and the third area that we can play is I would distribute the transmission separately and distribution separately, the bulk transmission area. So these are the 3 areas that we can play. And that's what our current focus line is. When we say treatment, we are currently focused more on sewage and water treatments rather than desalination, etcetera, in that area.

Sagar Tanna: But how large these opportunities would be, the 3 buckets that we have identified?

Sandeep Garg: So as we speak over next 2 years, top of the canvas, and we are limiting ourselves to certain states. We don't go into certain areas where we do not have the ability right now to control the outcomes and the ability to execute efficiently is somewhere around INR1.2 lakh crores till we cover the canvas that we have identified for the coming 2 years.

Sagar Tanna: Sir, if you can just give the breakup of this INR1.2 lakh crores between the 3 buckets? A ballpark number would also be okay.

Sandeep Garg: So both the transmission and distribution put together would be around INR70,000-odd crores, and the balance would be the treatment plants.

Sagar Tanna: So sir, when you say transmission and distribution, it would largely be working with local municipalities? Is my understanding correct?

Sandeep Garg: Not necessarily. These are irrigation projects, which could be funded by a lot many authorities. So you are right that it will be more state than center, but these are supported by centers as well.

Moderator: The next question is from the line of Jinesh Kothari from HDFC Securities Limited.

Jinesh Kothari: Am I audible now?

Moderator: Mr. Kothari, may we request you to use your handset, please?

Jinesh Kothari: Sure. Am I audible now?

Moderator: Yes, sir, please proceed.

Jinesh Kothari: So I had a couple of questions with regards to our bidding pipeline. So we haven't been received significant orders since a few quarters. So how are we looking forward to fill up our order book keep our order book intact going forward? And what kind of opportunities are we looking at, given the fact that the awarding has been very slow from the Ministry for roads and HAM projects.

Sandeep Garg: So the recent awards from the Ministry and the associated authorities have been low. So we are looking at certain states where we have some past experiences. We have identified some INR50,000 crores worth of projects in the state of Maharashtra. We have applied for prequalification and we believe we will be prequalified. So we are likely to bid for those projects, the result of which should be out by Q3 of this year. Similarly, on the water side, we have identified projects, as I said for next 2 years of about INR1.2 lakh crores. So we believe we have enough pipeline of orders, and most of these orders will get fructified in Q3 or Q4.

Jinesh Kothari: And so what is the conversion ratio we are looking at from our bid pipeline that we have bidded for?

Sandeep Garg: So we have our own appetite of taking the orders. As I said, we are targeting anything between INR6,000 crores and INR8,000 crores for this financial year. Conversion -- because we are a very aim and shoot kind of bidders. So our conversions are practically anything between 3 bids that we put in, we expect to get 1.

Jinesh Kothari: Right, sir. Sir. And on the margin front, I've been looking that margins have been improved in the last quarter. So last time when we have interacted, so we discussed that we had our contracts with the subcontractors and we subcontract most of our construction projects. So we don't -- we just source out the raw material. So is it the thing that we are negotiating the pricing levels with our subcontractors or such like that, which have improved our margins significantly.

Sandeep Garg: We don't renegotiate our contracts. However, as a prudent company and a prudent accounting, we incur all the costs fallen on behalf of the project or projects to be completed and there can be scenarios wherein certain costs are recoverable from the contractor and if we are able to come to an amicable settlement, we recognized those recoveries in the later period. But the costs are accounted for in the same period as they are incurred. So there can be slight variation in our average or quarter-on-quarter reporting of the EBITDA.

Jinesh Kothari: Fine, sir. So the quarter-on-quarter EBITDA may differ, but on the yearly basis, the number would like you guided like 11% to 12%?

Sandeep Garg: Yes, that is what it could be.

Moderator: We'll take the next question from the line of Subhankar Ojha from SKS Capital & Research Private Limited.

Subhankar Ojha: Quick questions. One, with respect to the 15% to 20% growth, is there a guidance for this FY '24 or are you saying that, that can happen on a sustainable basis over the next few years?

Sandeep Garg: So for the guidance, I would not say guidance, I would say the target for the financial year FY '24. We are targeting a run rate of INR300 crores per month, which converts into a target about INR3,600 crores for FY 2024. That's our target. And our target growth there beyond will be anything between 15% to 20% after FY '24, and that's the -- our internal target for FY '25 and beyond.

Subhankar Ojha: Great. Great. And sir, secondly, with respect to this acquisition that they have announced a 50% stake of Michigan Engineers. So if I got the numbers correct, you said INR65 crores of EBITDA and INR35 crores of PAT for FY '23. Is that correct?

Sandeep Garg: That is correct.

Subhankar Ojha: So sir means it has higher --

Akhil Jindal: INR69 crores of EBITDA and INR35 crores of PAT I think, that's right.

Subhankar Ojha: Sir, which means it has got a higher margin compared to what we're doing in terms of our average margin.

Akhil Jindal: That's right. It's a very specialized engineering company as Sandeep mentioned very, very technically oriented. And naturally, their margins are higher than the industry averages.

Subhankar Ojha: Great. And if I have it correctly, so you have a INR1,900 crores of order book in that business. Can you talk more about the opportunity in terms of what sort of target you have in your mind in terms of, obviously, your assessment, how big the opportunity could be for this? And what are your thoughts on acquiring 100% stake in that entity?

Sandeep Garg: So let me take this. We would want to talk about it once we are in the driving seat. Right now, it is a proposed acquisition. Once we have done the complete interaction with the existing team and seen a complete strength and the way we can build the organization, will we want to share the details going forward. I would request you to wait till the deal is finally closed, and we are in the driving seat for us to appraise you more about Michigan.

Moderator: We'll take the next question from the line of Vaibhav Shah from JM Financial Limited.

Vaibhav Shah: Sir, so out of our water backlog of around INR6,000 crores, what would be the share of JJM?

Sandeep Garg: About INR2,000-odd crores. So the UPJJM is around INR2,000 crores.

Vaibhav Shah: Okay. And sir, in this JJM projects, do we have price variation clause? And are we taking any challenges in terms of sourcing the materials?

Sandeep Garg: Can you repeat the question, please?

Vaibhav Shah: So do we have price variation clause in these water projects? And are we facing any challenges in sourcing of materials?

Sandeep Garg: So coming to UPJJM, we do have a price variation clause with respect to the main element that is the HDP pipe, which is substantive cost there. In terms of the Dharavi, we do have a price variation clause based on the WPI and CPI, there's a formula given in the contract, which allows us for the escalation. We haven't seen any challenge as of now in sourcing any materials for the projects.

Vaibhav Shah: Okay. And sir, in the water space, particularly in JJM, where are we seeing the upcoming opportunities in terms of states?

Sandeep Garg: See, all states are coming up with similar projects, but because of our size expectation, we have very limited places where we want to participate. So we do not follow this market so much until it cross a particular threshold. So I would want to pass this question. This is only of interest for us beyond a particular value, which is a very limited play.

Vaibhav Shah: Okay. And sir, in terms of highways. So we have seen that there is a huge pipeline from the NHAI side, but the awarding has been quite weak in the first quarter -- in the first 4 months of this year. So any view on that side why is the delay in awarding from NHAI side?

Sandeep Garg: So I'm sure that they have awarded a lot of contracts between the February to March period of the FY '23. So it's a normal thing that the H1 is a bit slower than H2. I expect the awarding to pick up in H2 at NHAI level. However, the states are pretty aggressive in the awards of roll. I think more work will come this year from the states, than it will come possibly from the NHAI.

Moderator: We'll take the next question from the line of Sarvesh Gupta from Maximal Capital. Mr. Gupta, we have unmuted your line.

Salil Bawa: Maybe you can take the next question, please.

Moderator: We will move on to the next question, which is Darshan Chandra from Om Investment. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Ashish Shah for closing comments. Over to you, Mr. Shah.

Ashish Shah: Yes. Thanks, Michelle. So on behalf of JM Financial, I would like to thank all the participants for being on the call. A special thank you to the management also for letting us host this call. And over to you, management, if there is any closing questions -- closing comments that you have.

Sandeep Garg: Thank you, everyone, for joining us on this Q1 FY 2024 investment call. We are, as a team, available to anybody who have not answered the question. Please feel free to reach out to our IR team, Mr. Siddharth and Mr. Salil, the details of which are available on the website for any questions that you may have. And thank you for being associated with Welspun. We look forward to talking to you soon. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of JM Financial, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.