"Welspun Enterprises Limited

Q2 FY '24 Earnings Conference Call"

November 10, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 10th November 2023 will prevail.

MANAGEMENT:

MR. SANDEEP GARG – MANAGING DIRECTOR – WELSPUN ENTERPRISES LIMITED
MR. SAURIN PATEL – MANAGING DIRECTOR – MEPL
MR. AKHIL JINDAL – GROUP CHIEF FINANCIAL OFFICER AND HEAD STRATEGY – WELSPUN GROUP
MR. LALIT JAIN – CHIEF FINANCIAL OFFICER – WELSPUN ENTERPRISES LIMITED
MR. SIDDHARTH BHARADWAJ – LEAD, INVESTOR RELATIONS WELSPUN ENTERPRISES
MR. SALIL BAWA – HEAD, GROUP INVESTOR RELATIONS – WELSPUN GROUP
SGA – INVESTOR RELATIONS ADVISOR – WELSPUN ENTERPRISES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Welspun Enterprises Limited Q2 FY '24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Salil Bawa, Head, Investor Relations of Welspun Group. Thank you, and over to you, sir.

Salil Bawa: Thank you, Malcolm. Good afternoon to all of you. I will take this opportunity to also wish you happy Dhanteras and Diwali greetings. On behalf of Welspun Enterprises Limited, I welcome all of you to the company's Q2 FY 2024 earnings call.

Along with me today, I have with us Mr. Sandeep Garg, Managing Director Welspun Enterprises, Mr. Saurin Patel, Managing Director Michigan Engineers Pvt Ltd. From Welspun World, I have Mr. Akhil Jindal, Group CFO and Head Strategy. And I also have Mr. Lalit Jain, CFO of Welspun Enterprises. From Welspun Enterprises IR side, Siddharth Bharadwaj, my colleague, is also there.

We hope you have had a chance to review the investor presentation that we filed with the exchanges yesterday. It is also available on the company's website. As mentioned 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'll start the forum with opening remarks by our leadership team, and then we will 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 us.

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

Sandeep Garg: Thank you, Salil. Thank you, and good afternoon, everyone. I welcome you all to the Welspun Enterprises Q2 FY 2024 Results Conference Call. I would like to start by wishing everyone warm Diwali greetings and happy Dhanteras.

So coming to the performance, following our strong performance of Q1 FY '24, we have continued the second quarter of FY '24 with robust profit growth of 36% year-on-year. This profitability is on the back of improved execution of our key EPC projects in both Road and Water segments.

The revenue from the operations, year-on-year basis has increased from INR 509 crores to INR 542 crores, that is 6% growth year-on-year. The delayed extended monsoon and the NGT restrictions on a few of our projects has impacted the quarterly results in terms of revenue. As we enter a seasonally favorable period, I expect pickup in the execution of these key projects and thus delivering a strong performance in the current financial year.

Talking about the order book. We have a very strong order book of INR 9,100 crores, which includes approximately INR 1,800 crores of O&M and asset replacement for the MCGM STP project or Dharavi project, as we call it, as on 30th of September 2023.

Further, as was informed in our Q4 FY '23 investor call, I'm pleased to confirm that as against INR 259 crores receivable from the SPVs controlled by Actis, we have received approximately INR 250 crores and Actis has confirmed release of any further payments as and when received by the SPVs from the clients.

I will now want to throw some highlights on the operational issues in the concluding quarter. Our HAM Road projects at Sattanathapuram-Nagapattinam, or SNRP, has continued steady progress and is on track for the revised completion date of January 2025. We have completed approximately 1/3 of the project. I would also like to mention that despite our and NHAI's best efforts, we have not been able to receive approval for supply of pond ash from the thermal plant. We have already raised a claim against this from NHAI.

Our HAM project, Aunta-Simaria, the project has already crossed the 2/3 threshold, and we are confident of completion before the revised target of October 2024. As I have stated in my previous call, the COS, which is of substantive value, has been approved, yet the final order is yet to be released by the client.

Our EPC work at Varanasi-Aurangabad NH2 project is progressing well. And we are on track to meet our completion target. The project has passed 60% threshold mark during this quarter.

Coming to the Water segment. The UP JJM project in the UP state under the Water and Sanitation Mission has crossed a significant milestone of over 50% of targeted households connected.

Coming to the Dharavi Wastewater Treatment Facility, we have received the clearance of engineering and design of SBR and are at advantage of approval for other major structures. We expect the civil work to commence in full swing now that the monsoon has ended. We expect that the limitations imposed on construction due to poor environment conditions will be withdrawn soon.

During the quarter, we continued with our efforts in the Oil & Gas space to develop the blocks that are housed in the joint venture, Adani Welspun Explorations Limited. I'm happy to share the approval of the field development plan for the Block B9, which has been received by the company. I would want to bring to your notice that, a clarification that this approval has come from MoPNG's DGH. With this development, we have now moved ahead and have submitted our interim FDP for Block MB-OSN-2005/2 or what we call Mumbai Block.

It is our endeavor to commence the gas production at the earliest possible. Towards this goal, we have awarded the contract for well design and engineering, and we are currently conducting technical evaluation to appoint the field contractor. I would like to reiterate, in line with our prudent approach, we will commit future capital only upon clear visibility of commercial viability of the blocks in hand.

Coming to the Welspun New Energy. Our evaluation of the new energy space is advancing well. Our CEO, Mr. Kapil Maheshwari and his team have been working with various agencies and governmental departments to finalize our strategy. And as soon as it is in a reasonable shape, we will share our plans with you all.

On the future offering within the Road vertical, we have seen a muted H1 FY 2024. Having said this, we see promising growth opportunities from NHAI and in the state of Maharashtra. We have applied for prequalification for projects in the state of Maharashtra both for Road and Water verticals, evaluation of which is in advanced stages. We expect the results of these to be out by the end of current quarter.

To sum up, keeping our return expectations, we aim to secure additional orders worth INR 6,000 crores to INR8,000 crores in both Road and Water verticals during the current financial year. We are optimistic about our growth trajectory and confident in capitalizing on the government's ongoing focus on improving and developing country's infrastructure sector.

As I conclude, I'm delighted to share that Welspun Enterprises was recognized as one of the Top Challengers of 2023 by Construction World magazine. One of our road EPC projects, namely Varanasi Road project, was heralded as the Gold 4-Star Road Safety Award by World Safety Organization India chapter.

On our previous earnings call, post quarter results, I shared details of share purchase agreement to acquire 50.1% stake in Michigan Engineers Private Limited or MEPL. In the recently concluded quarter, we completed the acquisition for a consideration of INR137.07 crores.

I'm excited to see Michigan Engineering becoming a part of Welspun Enterprises. As a subsidiary of Welspun Enterprises, Michigan Engineering will continue to run professionally under the existing management led by Mr. Saurin Patel and operate as an independent entity. I'm happy to have Mr. Saurin Patel, MD, MEPL, sitting alongside with me to address this investor interaction.

With this, I now hand over the call to Mr. Saurin Patel, MD of MEPL. Over to you, Saurin.

Saurin Patel: Thank you, Sandeep, and a very good afternoon, everyone. Happy Dhanteras and Diwali wishes to all the participants on the call today. I'm delighted to share this forum of Mr. Garg and other members of the senior management team at Welspun Enterprises. I'm excited to see Michigan Engineers becoming a part of Welspun world. So of course, Welspun Enterprises Limited, which is one of India's fastest-growing global conglomerate.

The Board of Michigan Engineers has approved the renaming of the company to Welspun Michigan Engineers Private Limited, which is both a matter of prestige and responsibility. I, on behalf of Welspun Michigan team assure you that we will be a value-accretive partner to Welspun Enterprises Limited.

Historically, we have been operating in Maharashtra and a couple of other states of India. These projects are spread across different verticals, our specialties such as segment tunneling, micro tunneling, marine works, deep pumping stations, rehabilitation and repair of sewerage lines and major bridge constructions. However, with the strength of Welspun world, we see expansion in both our geographies as well as scale of operations.

Perhaps it will become clearer if I shared certain details on a couple of our key projects just begun. The Mithi River water quality improvement project is a 2.6 meter-diameter tunnel, which essentially takes the corrupted affluent flows of two nullahs forming the northern boundaries of the Mithi River in Bombay and brings it to the currently under-construction Dharavi sewerage treatment plant, where this affluent will be treated. This tunnel is of length 6.6 kilometers, of which we have already completed 2.7 kilometers in the first 12 months. The slated date of completion of this project is 2026 February. We expect it to be on time and run the financials as projected.

The priority is sewerage tunnel 1, which is another large tunnel system that is planned from Dahisar to Malad pumping station, is a 5.8-kilometer tunnel of 3.2-meter diameter. We have already lowered the tunnel boring machine in the shaft that begins this tunneling process today. And we expect that being such a auspicious day, we will begin the act of moving the cutter head tonight before the day turns. This project is slated to be completed in 2026, August, and we expect it to be also on time and on the financial projections.

We have been an engineering solution provider for urban infrastructure needs, which is a niche area. We wish to operate in this specialized niche areas of tunneling and water rehabilitation projects on a much larger scale nationally.

Historically, we have been a very profitable company and our EBITDA growth over the last three years has been a CAGR of 33%. The EBITDA margin in H1 FY '24 has been 24%. And with the balance sheet strength to back up, thanks to WEL's investment, we expect this to improve further.

Although small currently, our Q2 revenue is at INR82.4 crores, with an EBITDA margin at 24% and a PAT margin at 17% which we look forward to expanding exponentially in the years to come while maintaining profitability. Our total outstanding order book currently under execution is close to INR1,610 crores with approximately INR170 crores of operations and maintenance income.

This order book is largely executable over the next 36 months. I must add here that I'm not including close to INR275 crores of orders, where Michigan is the lowest bidder and awaiting work orders.

Our order pipeline is healthy, as you can see. And we have identified new projects worth INR20,000 crores, which we will be bidding, going forward. As an engineering solution provider for urban infrastructure needs, we are always on the lookout for advanced technologies. And in this direction, we are engaging with global companies to bring in technologies, which are both cost and time effective in the segments of tunneling and water treatment.

I shall be happy to share details once the principles of association are agreed between the parties that we are constantly in communication with.

With this, I will close my remarks and hand the call to Lalit Jain, CFO of Welspun Enterprises Limited, for an update on the financials. Thank you. Over to you, Lalit bhai.

Lalit Jain: Thank you, and good afternoon to everyone on this call today. Many thanks for being part of this call. I wish a very happy Dhanteras and happy Diwali in advance. I'm sure you would have had an opportunity to review our financial results published yesterday. As Mr. Garg said, we have continued our strong performance that we delivered in the first quarter.

At a stand-alone level, our revenue from operations for quarter 2 showed a growth of 6% year-on-year basis to INR 542 crores. And along with other income, quarterly income increased by 10% to INR 571 crores. We reported EBITDA of INR 88.2 crores, which has grown by 54% over quarter 2 FY '23. Operating EBITDA has grown 28% in Q2 at INR 59.5 crores, with margin of 11% as compared to 9.1% in quarter 2 of FY '23.

We have improved our reported operating EBITDA margin over same quarter last year. This operating EBITDA margin is within our indicated range of 10% to 12%, and we are reasonably confident of maintaining this on a full-year basis. You may recall that quarter 1 showed a one-off cost recovery, which resulted in a higher operating margin.

Our interest expenses has dropped to INR8.8 crores as we have retired the NCD on our stand-alone balance sheet. I do not anticipate an increase in the interest expenses from these levels in the near future.

Our stand-alone profit after tax has increased by 36% year-on-year basis to INR 53.8 crores against INR 39.6 crores in quarter 2 FY '23. Our H1 PAT has increased by 122% to INR 143 crores against INR 64 crores in H1 FY '23.

Now coming to our consolidated numbers. I must start by saying that we have re-casted the numbers to account for the asset sale that we undertook to Actis and the consolidation of Michigan Engineers in quarter 2. Further, I would want to address de-growth of PBT in Q2 FY '24 as compared to Q2 FY '23 by 9%. This is due to the exceptional item in Q2 FY '23 on account of fair value evaluation of some of the SPV for INR66 crores.

Having said that, we delivered consolidated total income of INR692 crores, with reporting EBITDA of INR129 crores. Our consolidated PAT is at INR69 crores. As you would have noticed, PBT before exceptional items on a year-to-year basis, there is a growth of 143%, that is from INR40 crores to INR97 crores.

I would like to mention that due to consolidation of Michigan Engineers as a subsidiary, the contribution of Michigan Engineers towards EBITDA is INR16.8 crores, which is 24% of their revenue. However, 49.9% of this EBITDA has been reversed due to minority interest at PAT level.

Now coming to our balance sheet. As on 30, September, we have net cash of INR880 crores, a reduction of INR668 crores as compared to 31, March 2023, is on account of payout of MEPL acquisitions of INR137 crores, followed by the equity investment up to INR112 crores in our ongoing projects. Further, we have buyback worth of INR289 crores, and that money is utilized for the working capital.

With this, I will hand over the call back to the operator for question-and-answers. Thank you.

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

Rohit: Congratulations on a good set of numbers. Sir, if -- my first question is on the addressable opportunity that we are talking about in terms of garnering the order inflows of INR6,000 to INR8,000 crores. Now we are given to understand that there are some policy changes mooted by NHAI. In fact, the NHAI has shortlisted some 15 BOT Toll projects. In that backdrop, would you be keen to explore BOT Toll projects? Will that be an area of attractive opportunity for you?

Sandeep Garg: So as I've been mentioning, we are agnostic to the model of contracting. We are present across the EPC, the HAM and as well as the BOT in the Road sector. So we will, definitely, be mindful of these opportunities which are coming, where we believe the competitive intensity is going to be lower. However, as I always cautioned, we are going to be driven by the risk/reward metrics and be very mindful of this in terms of return expectations. So with those targets, for sure, this segment will be looked into.

Rohit: Sir, also, because this question came largely in the backdrop of the fact that the NHAI awarding is slow and if you have to make a choice, you either have to go for BOT Toll or maybe something in Water projects, so what are the addressable opportunity you have if not for these Roads, in the Water segment, the big-ticket projects?

Sandeep Garg: So we are very bullish about the Water projects, as I've been maintaining. As we speak right now, there is an opportunity of water treatment plant in Bhandup, a very large contract. So we are very clear that the EPC play in the Water or a development play in Water is going to be a significant portion, going forward, in the business mix that we do.

I think we will have to shortly look at the toll projects. But toll projects, we will look only and only if there's a return expectations that will compensate for the risks that we view as a developer you take of a toll project. We will definitely also look at EPC opportunities, which seem to be building up in various states, where we think there is a better risk-reward return relationship. So we will be also looking at that.

Rohit: Sure. In terms of the drinking water projects, do you think there are states that gives you further opportunities? Are there some elections -- state elections that are an impediment to awarding of the contracts?

Sandeep Garg: So coming to the projects typically in this form of UP JJM projects, I think until the elections are not concluded, this opportunity is going to be on a bit of a standby right now. But there are going to be larger opportunities in terms of treatment plants and interlinking of water and the irrigation projects, which should come up during this phase.

Rohit: Got it. Got it, sir. So my second question is on the margins part. We have had a good margins. I missed out on the opening remarks, if there was any mention about it, what could be the sustainable EBITDA margins going ahead?

Sandeep Garg: So as we said, the operating EBITDA margins, we are not changing the guidance of 10% to 12%. Obviously, the reported EBITDA margins would be much healthier because of the substantial cash that we carry on the balance sheet or the net debt is negative. So we do expect the reported EBITDA margin to be much higher.

Moderator: Thank you. The next question is from the line of Diwakar Rana from Prudent Equity. Please go ahead.

Diwakar Rana: Yes. Sir, eight months have passed by, and we haven't bagged any large order. So with the order book of around INR9,100 crores in hand, do you still believe we can grow around 15% to 20% for this financial year, I mean, in '25-'26?

Sandeep Garg: Yes. as I said in my opening remarks, I would repeat myself. There has been a temporary slowdown, primarily in the Road space of awarding by NHAI. But we see a lot of projects of substantive nature coming up, both in Road and Water, in states. And they are at the size and scale that attracts us.

So I – as I responded to the earlier question, there's a change of the model at NHAI level rather than a change in the awarding to need to award the contract. So need to build the infrastructure still exists, and we are willing to play that model of BOT Toll. So I don't think there is any challenge in terms of sustained growth of the company or growth in the current financial year.

The only thing is that, yes, this year has seen a bit of an extended monsoon and unpredictable weather and also certain NGT conditions of environment being not so clean, which is putting some restrictions on the construction. Hopefully, these will not impact much larger, but these are the imponderables that are there for industry of our nature to deal with. Otherwise, I see no risk in growth.

Diwakar Rana: Okay, sir. Sir, I have one question on monetization. So currently, we have around three Road assets. So are you planning to monetize these assets in the near term?

Sandeep Garg: So we have three projects, which I talked about, in the Road. Out of these, only two projects are from Hybrid Annuity Model, which are monetizable. The third project is on an EPC basis, so which is purely execution and completion related matter. So we don't own anything on it or we have no rights beyond that. So those two projects, once they're completed as a platform, we would definitely be looking forward to divesting at the right valuation.

Diwakar Rana: Okay, sir. Sir, one last question on the Oil and Gas. So basically, are we pursuing this as a business strategy? Or do you have plans to monetize this Oil & Gas assets in the coming future?

Sandeep Garg: So the Oil & Gas is a historical play for us. Do we see a long-term association in the Oil & Gas space? The answer is we don't see it for a long term. However, whatever needs to be done to monetize and optimize our returns, we shall be undertaking those activities, so that we do not sell cheap.

Moderator: Thank you. The next question is from the line of Chirag Singhal from First Water Fund. Please go ahead.

Chirag Singhal: I first wanted to confirm on the order inflow guidance. So did you mention order inflows of close to INR6,000 crores, INR8,000 crores in the current fiscal?

Sandeep Garg: So our guidance for the current year's order book is anything between INR6,000 crores to INR8,000 crores across all verticals.

Chirag Singhal: Okay. So this is the closing order book that you are expecting by the end of the year?

Sandeep Garg: So assuming that it is INR6,000 crores that we add further, INR 9,000 crores approximately right now, so it should be about INR14,000 crores less the execution, which is close to INR2,000 crores, so around INR12,000 crores is what I would expect, anything between INR11,000 to INR12,000 crores.

Akhil Jindal: And just to clarify, this order book will not include the Michigan separate order book. So while Michigan is maintaining a healthy order book of INR1,600 crores-plus, what Sandeep just mentioned, is the pure Welspun Enterprise order book.

Chirag Singhal: Got it. Okay. And how much of this order book will be from the Water segment if we talk about the expected closing order book at the end of the year? How much of that would be Water segment, ballpark?

Sandeep Garg: I would expect anything between 50% to 60% will be Water, if not more.

Chirag Singhal: Okay. Got it. Sir, my second question is regarding Michigan. So you just mentioned INR1,600 crores of order book is what you have. So what is the general execution time for order book in Michigan? And if you can also provide some estimate on the upcoming year's revenue guidance as well as the EBITDA margin? So for this quarter, you mentioned that the EBITDA margin was 24% in Michigan. Is there something that we can look out even towards the upcoming years?

Sandeep Garg: Yes. I think I would request Saurin to augment to whatever I'm saying here, but Saurin, please feel free to jump in. Historically, Michigan has been maintaining healthy EBITDA margins of around 22% to 24%, and we expect them to be a bit better rather than any adverse change to it. As Saurin put it across in his address, we are planning for a substantive growth, going forward, in the revenue, which is a work in progress at this point in time. But given the current order book, I think we can expect something like about 25% to 30% CAGR on the revenue growth, right?

Saurin Patel: Yes.

Sandeep Garg: Yes. So based on the current forecast, there is a 25% to 30% revenue growth that we can expect on a year-on-year basis. However, the intent is to grow this much faster by geographically diversifying as well as creating larger offerings to the industries that they serve.

Chirag Singhal: Okay. So for next year, which is FY '25, you are suggesting that 25% to 30% should be the aim in terms of revenue growth for Michigan. And generally, what is the execution time period for the orders that you have in Michigan?

Sandeep Garg: So normally, average period for the tunneling and these kinds of projects is 36 months there around.

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

Ajay Gupta: You have been giving a guidance of roughly INR3,600 crores to be done this year on an execution basis. And post that, you have the acquisition, which was of Michigan, where last year, the revenues were in -- slightly in excess of INR300 crores. So is it fair to assume that you would be able to still achieve INR3,900 crores? Or what is your view? Because two quarters are down the line and we have two left only.

Sandeep Garg: Yes. So normally, as you know, in the industry, H1 has equivalent to about 40% and 60% than H2. So this is the kind of thumb rule that plays out. And as I said in my opening remarks that there have been some delayed or extended rains and some NGT restrictions on a few of the projects, so which has led to a bit of an underperformance in the Q2 as we expected.

So we are likely to be slightly under the 300 per month run rate at a stand-alone level, is what we would think. But we would be definitely north of anything around INR3,100 crores at a stand-alone level, and around INR400 crores is going to be the revenue at the Michigan level. So this is what my guidance at this point in time will be.

Akhil Jindal: Yes. But the Michigan numbers will only accrued from August onwards.

Sandeep Garg: Yes. So correction, Michigan because we acquired from August onwards, so the consolidation will take place only from August onwards.

Ajay Gupta: So let's say, is it fair to assume about Rs. 3,100 crores, like you said, for Welspun and another Rs. 250-odd crores for Michigan? I mean, is that a fair number to take?

Sandeep Garg: It is a fair number to take.

Ajay Gupta: That's a fair number to take. Fine. And from when do you think you'll be able to touch this Rs. 300 crores run rate because you have such a large order book pending, and this order book has been pending now at least from your con-call of Q3, I think, of last year. You've been giving the guidance of INR300 crores run rate, which itself has taken 2.5 years, but you've not been able to touch anywhere close to INR300 crores. So won't you have a lot of penalties coming up because of non-execution and non-performance or late execution, whatever?

Sandeep Garg: Let me address this question. Very good question. So the reality is that the delays are not on account of the company. The Aunta-Simaria project has received somewhere around 850 days of extension without levy of penalties because it is delayed by the client. Similarly, on the Sattanathapuram-Nagapattinam, the project has been extended to January 2025 with no penalties because the delay is not because of us.

Currently, as we speak, the Varanasi-Aurangabad project as the IAS has recommended, extension for about nine months without any delay penalties because the delay is not on account of us. Similarly, talking about UP JJM, they've already recommended six months of extension without any penalty because there, the delays are not because of us.

See, in the current scenario that we are, as I said, there are two reasons that we have not able to hit the run rate that we are targeting is because there are hindrances that are coming in from the client. And although we are attempting to claim as much as we can for the delays being caused, but however, it is impacting our revenue recognition.

There are no premium provisions that are getting involved. However, there can be an opportunity for claims, going forward. And as I said, it is also compounded by the two facts which are totally beyond our control, in addition to the clients' issues, is the nature's vagaries. There have been unseasonal extended rains on the project sights.

And there is because of this pollution in these urban areas, restrictions that are coming in by NGT, the ponds are not being allowed to be excavated. The earth is not allowed to be moved. And in these longitudinal projects, these are critical elements for performance. So these things are impacting us, which are way beyond our control.

Ajay Gupta: The last one question. This quarter, roughly, what are you looking at since we are already like halfway through the quarter? Because even if you're at INR3,100 crores, that leaves about INR1,700 crores, INR1,800 crores for you to do in two quarters, which is still asking a run rate of about INR900 crores a quarter.

Sandeep Garg: Yes. So we expect Q3 to be slightly muted because October saw some rains and unseasonal rains, which has taken away almost seven days, eight days, 10 days out of that period. And if you see rains or these pollution-related restrictions, each day, in our kind of a scenario, costs us almost like INR5 crores or something of that nature.

Even if we are able to do partial work and if we are able to do nothing, then it's almost costing INR10 crores. So this is where we are. And these restrictions are way beyond our control. So I expect the Q3 to be slightly more muted than the average run rate of INR900 crores.

But Q4 should see better results because, a, one of the projects that we are doing in the urban area, we should be out of that particular project that should get completed by then. So that revenue recognition delays will not come into play. And hopefully, the SNRP project, which sees the return of monsoon, it will not be so difficult this time. So hopefully, if that happens, then Q4 will be much, much better.

Moderator: Thank you. The next question is from the line of Akash Mehta from Capaz Investments. Please go ahead.

Akash Mehta: Sir, my questions are mainly on the Michigan Engineers acquisition. So could you share some operational details of the same?

Sandeep Garg: Saurin, you may want to address. Yes.

Saurin Patel: Yes. In terms of our projects, you mean?

Akash Mehta: Yes. And any other operational details that you can highlight?

Saurin Patel: Sure. So our primary area of execution is in the underground space. And we excel at the creation of small-diameter tunnels in urban metros because of the congestion that would necessitate the fact that you can't do any open-cut deep excavations along the road base.

So gray water becomes a high area of our expertise, cutting gray water due to the population density increases, et cetera, necessitates the increase in the size of the sewers and the stormwater drainage issues that have to be laid to service those areas.

We are now moving from our standard under 2 meter diameters to between 2 meter to 4 meter diameters using tunnel boring machines. And we currently have three very large projects of an average ticket size of INR400 crores that we are executing in the northern suburbs of Mumbai.

The second area of our expertise in the underground space is the rehabilitation of underground conduits, which essentially means that existing old, dilapidated, stormwater drains, sewers and water pipelines are rehabilitated using modern-day cutting techniques such as fiberglass linings or thermosetting resins or wet shotcrete or in our current project of 23 kilometers, a very advanced geopolymer-based cementitious product, which is a spray on lining. This forms a substantial portion of our rehabilitation space and adds a nice edge to our turnover.

The other operational areas where we excel at are: we do a lot of work in the laying of pipelines using dredging, including drilling, blasting of rock in waterways. And typically, that is being used by the industrial clusters around the rivers and estuaries and coasts to divert the affluents that are coming out of industries, which were located geographically close to habitable areas, away from those habitable areas for diffusion into larger bodies of water, such as sea, the Arabian Sea.

And corresponding to that, we are experts at dealing with flood mitigation in cities, especially in cities like Bombay, where we are responsible to build, operate and maintain deep stormwater and pumping stations. So any area of engineering that requires dealing with the earth, we are there, and we seem to excel at it. And we have a substantial portion of our book order based on such activities.

Moderator: Thank you. And the next question is from the line of Amit Shah from Nuvama. Please go ahead.

Amit Shah: Congratulations and wish you all, Welspun team, a very happy Diwali and happy Dhanteras. Now you guys to throw some light on the current scenario. I mean, is there a sense that --

especially the Road thing is getting very competitive in the current scenario, and are we more and more -- I mean, of course, I know we are focusing more on Water.

But is the Road thing getting more and more competitive? And since we are more keen on better margins, I mean are we looking to participate less towards the Road? I mean are things a little unfavorable in terms of business right now?

And secondly, I mean I know that we do not focus on other geographies. But is there a possibility now that we are like that we have more muscle power, I mean, are we also looking at other geographies, say, maybe something like Saudi, where maybe our Welspun Corp. or the other group company would anyway have presence because of the pipes and supplies? Can we leverage with the help of Welspun Corp. of gaining more orders from other geographies? Are we looking into it?

Sandeep Garg: To answer your question, I will try and answer in a couple of sections. Talking about competitive intensity shows that the EPC space, at least at NHAI end, has been very competitive this year as well. All contracts that have been awarded, to our estimate -- to our evaluation, have gone below the estimate prices.

However, the good news is the HAM projects, which are very limited awards, there are only a few of the projects awarded this year, all fortunately have gone, as per our evaluation, above the price -- above the estimate prices. So one thing which is becoming very clear that the capital allocation is becoming more prudent in the developers. The EPC space continues to remain competitive.

With the introduction -- with this focus of the government back on BOT Toll, I think the space will get open for every kind of player who wants to play in a high-intensity game versus the people who want to more prudent than those that would be more reward-oriented companies. So I don't see that the business per se is going. However, as long as this competitive scenario prevails, we will continue to be cautious in our bids.

We will target returns, not only the order book. We see a lot of opportunities in near future, where we believe that our return expectations can be met in the Road sector. You are absolutely right that the focus will be Water because we believe that the Water story has just begun, and it is a story of future. This story will continue in the country for a very, very long time, and we have got this at a right space.

We have very good relationships in terms of our Water play. We are already tied up with one of the best names in the world. Like Xylem, we are targeting Bhandup project also with one of the very good branded names.

So the Water segment offers us a differentiation, which we can bring in because of our strength and our associations. So that will remain a focus area, going forward, for sure. Hope I've responded to your questions that were addressed.

Coming to your question of looking at geographies beyond India, the answer is if need be, we shall be looking for it. But at this point in time, we believe India is offering enough opportunity for us to stay focused.

Moderator: Thank you. The next question is from the line of Rohit Agarwal from RN Investment. Please go ahead.

Rohit Agarwal: So there are like projects in and around Mumbai. So are we having any interest in these projects?

Sandeep Garg: Yes. We surely will look at projects near in Mumbai and Maharashtra. We have had some very good run on the projects in Maharashtra. So we will surely look at that.

Rohit Agarwal: Okay. Also, sir, on the balance sheet side, I see a meaningful change in net current assets of ours. So can you just highlight some like what has happened?

Lalit Jain: Earlier last time, we have shown as Mobilization Advanced in separate liability that this time we have merged it with the Net current assets. Because INR565 crores Mobilization Advanced, we have taken shown as a Mobilization Advanced separately. This time, we have merged it with the Net Current Assets. That is the reason.

Akhil Jindal: It is just a reclassification because last time we were reporting mobilization advances separately. Now it is a part of the net current assets, I mean, as the case may be in all the balance sheets, so it is just a reclassification, which as has been explained in a footnote also.

Rohit Agarwal: Okay. That helps. Also, sir, one last question. Sir, we have been like filing by WCL and WLL towards investments in our renewable energy company that is under WNEL. So could you give us some sense on our commitments to this business? Would we have to step in to fund the projects?

Sandeep Garg: Look, thanks for asking this question. Yes, we created a Welspun new energy platform to participate in the new energy and the renewable space. So the business is surely going to grow. However, at this point in time, we are not sure whether we will participate in the space right now as an EPC or a developer mode.

And once those two questions are answered by the team and the specifics of the pricing from the suppliers and the lenders' costs are estimated, we will decide whether we will want to participate as an EPC player, or as a developer or partner. Mean participate in the development of this project in terms of ownership as well.

So once these considerations are clear and put up to the Board and the clarity comes from the Board, we will come back to you and apprise you about that.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Sandeep Garg for the closing comments. Go ahead, sir.

Sandeep Garg: Thank you. I want to thank all the participants for joining us on this call today, and I hope we have been able to address all your queries. We remain committed to creating value for our stakeholders, and our focus is on delivering improved return on equity and return on capital employed.

I look forward to speaking to you once again in near future. Meanwhile, please feel free to reach out to our Investor Relations team, Siddharth, Salil or SGA our IR agency for any questions or feedbacks. A very happy Dhanteras and happy Diwali in advance to all of you. Thank you.

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