



## “Welspun Enterprises Update on Sattanathapuram - Nagapattinam Project Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Welspun Enterprises Conference Call hosted by IDFC Securities. 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 “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mohit Kumar. Thank you, and over to you, Sir!

**Mohit Kumar:** Thanks Ayesha. I welcome you all to the conference call of Welspun Enterprises Limited. To update you on the Sattanathapuram - Nagapattinam project, we have with us Mr. Sandeep Garg, Managing Director and CEO, Mr. Ved Mani Tiwari, Deputy CEO, Mr. Sridhar Narasimhan, Chief Financial Officer. We will start with an update on the management on the project and then we will proceed to the Q&A session. Thank you. Now I will hand the conference call to the management for their opening comments. Thank you and over to you Sir!

**Sandeep Garg:** Thank you Mohit. Good evening everybody. Thank you for coming on this call at such a short notice. I hope that each one of you are safe and taking care and due precautions as per the safety guidelines stipulated by the government and the local authorities.

As Mohit said this call is to give you an update regarding the most recent appointed date that we have received for Sattanathapuram - Nagapattinam Road Project. I am sure that you would have read the release, which was uploaded on the exchange yesterday. During the declaration of appointed date of the long-awaited project, which we won in 2018, which we call SNRP, the full form of which is Sattanathapuram - Nagapattinam Road Project.

To give you a background, we received the letter of award for this project in July 2018. The concession agreement was signed on December 3, 2018. Whilst NHAI was preparing to meet its condition precedent of acquiring the land, the Honorable High Court of Madras passed an order directing the NHAI to put on hold the widening of this 179.5 kilometer NH45A between Villupuram and Nagapattinam of which this road section was part of.; however, the Honorable Supreme Court subsequently gave relief to NHAI, by granting an ad interim stay against the Honorable Madras High Court order. Post this NHAI also received the CRZ clearance for this project, which has allowed them to proceed with the appointed date formalities.

The company is pleased to inform that NHAI, National Highway Authority of India has declared the appointed day for SNRP Project on October 5, 2020. The competent authority has made a few changes. The appointed date has been recorded for four-lane project with four-lane structures as against the concession requirement of four-lane project with six-lane structures. So there is going to be a change of structures being reduced in width from six-lane to four-lane and also the appointed date has been granted with land availability for working of 29.39 kilometers that is 52.71% of the total land required as against the concession agreement requirement of 80%.

So these two changes are without any claim by either party. The original value of the project as we had bided was approximately Rs.2005 Crores or Rs.2004.51 Crores to be precise for six-lane structure and the first year O&M was supposed to be Rs.5 Crores. Because of this change from six-lane structure to four-lane structure although the exact value cannot be ascertained at this point in time because the redesigning of the project has to be done it is expected to be in the range of Rs.100 Crores to Rs.150 Crores with an equitable reduction in the civil costs as well. So there will be a decrease in the bid project cost of around Rs.100 Crores to Rs.150 Crores and something in the same ratios' reduction in the civil costs.

The project is to be completed in two years from the appointed date that is October 5, 2020 and it is to be operated and maintained for 15 years post the commercial operation date by the company. The project I would like to remind has already achieved the financial closure and the loans are dispersible at this point in time.

With this project, which is now started off, our current portfolio of HAM projects stands at for seven projects it is approximately Rs.10,000 Crores. In addition, we also have a new project of about Rs.2100 Crores, which we acquired through Harmonious Substitution. The total value of portfolio stands for both HAM and BOOT stands at about Rs.12,000 Crores and the current order book post execution of Q1 stands at approximately Rs.4700 Crores.

So this is the latest update that I wanted to share with marquee investors and now I would open the floor for any questions that you may have. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Neerav Shah from GeeCee Holding. Please go ahead.

**Neerav Shah:** Good evening Sir and congratulations for finally securing the appointed date. With the financial closure already in place, would the execution immediately start that is the first question and the second question is this is appointed date coming about a month late compared to what we had earlier expected. We had guided for an August appointed date and this has come in early of October so will this have any impact on the full year guidance, or will we be able to cover up the one month's loss of execution period? Thanks.

**Sandeep Garg:** Thank you, Neerav. Yes the project, it is good to have this appointed date given; however, since the delay in the project date has been during the monsoon period, I do not think the impact on the completion or the revenue guidance would change much because of that minor figures ranging here and there is not an issue. The delay was primarily because of the NHAI wanting to make sure that the Supreme Court hears the petition from the other side before they give the appointed date so that is the reason there was a bit of a delay, but we are confident that there is not going to be much change in our project because of this delay and yes the financial closure is complete. So the project should start immediately, and we are already mobilized on the ground so it should not take much time to start churning revenue out of it.

- Neerav Shah:** The margin profile will also be very similar to what we had expected, or will there be any change?
- Sandeep Garg:** It will be in the same range as we had expected. No change. The margins are not changing.
- Neerav Shah:** Thank you Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Rohit Natarajan from Antique Stock Broking. Please go ahead.
- Rohit Natarajan:** Thank you for this opportunity. Sir my question is more on the land acquisition part. The land availability I am given to understand it is 52.7% as against the requirement of 80% so what impact can it have? Is there any descoping that is already implied at this point in time from the management side or even for that matter NHAI side?
- Sandeep Garg:** Rohit thanks for raising this point. The current physical land in possession was 29.3 kilometers; however, NHAI has already disbursed money for about 85% approximately 85% of the road. The possession of the balance road was being taken gradually and NHAI and we both were keen that we start the project now. We have taken the appointed date, but the payments have already been made of approximately 85% of the land. For the balance about 15% of the land, the 3D stage awarding is in progress so there is no descoping per se taking place. Yes, the width of the road has changed because of which the land acquisition is now for 45 meters as against 60 meters required for the six-lane structures, etc. To that extent yes there is a descoping taking place, which I have already spoken. It is in the range of Rs.100 Crores to Rs.150 Crores.
- Rohit Natarajan:** So if I understand it correctly 52.71 is the 3H and 85% is the 3D at the land acquisition stage?
- Sandeep Garg:** 29.3 kilometers is already in hand. So the balance about 30% is at the 3H stage and between 3G and 3D it is about 15% of that.
- Rohit Natarajan:** My second question is Sir in terms of the banker because I am given to understand the bankers are quite reluctant to do the financial closure without land acquisition in place or maybe you know there is some clarity on that front? How come we could conclude the financial closure and what are the terms and conditions? Who are the bankers? Can you throw some color on those aspects?
- Sandeep Garg:** I am sure I could, but given the constraint of time, Rohit, I can only say that the financial closure is done and for a detail on the financial terms and conditions, I would request if you could get in touch with the team, my investor relationship team and they will be very happy to share that information. On the strategic question, the bankers are uncomfortable doing a financial closure for projects where the land acquisition is at a risk because the land is already paid for. I do not see any risk in land acquisition. The problem is that the land awards are not taking place or land

awards are not paid. So the parties have already been paid. It is only a question of taking possession of the land.

**Rohit Natarajan:** Sure Sir. That is it from my side. Should there be any other questions I will get back in the queue. Thank you.

**Moderator:** Thank you. The next question is from the line of Ajay Gupta from JM Financial. Please go ahead.

**Ajay Gupta:** Congratulations on getting this appointment date. What would be your guidance now for in terms of revenue for March ending 2021 and 2022?

**Sandeep Garg:** As I say these are unprecedented times. It is better to take smaller steps at a time rather than give forecast for long term; however, the current forecast for this year, which I had guided, I stand by that our revenue would grow year-on-year in the ranges of 10% to 15% range.

**Ajay Gupta:** The proportionate increase would also be in the PAT levels I presume right?

**Sandeep Garg:** The profit margins are protected so the PBT levels and EBITDA levels will be the same.

**Ajay Gupta:** My last question is that in terms of ground operations is the company facing any difficulties or are you now fully at pre COVID levels for all your projects or what any difficulties you are facing in terms of mobilizing or you know labor or anything?

**Sandeep Garg:** The reality is that there is a push from our side or the execution side. Everybody is to start stabilizing the site; however, the real test is going to be post-monsoon with the 100% efficiency when people start working. How does the pandemic situation play out? Nobody knows, but at this point in time, I think we are doing reasonably well. We are almost at about 80% to 85% of where should be in terms of our mobilization of manpower. The rest of the mobilization is more than 100% complete. So it is a question of if you get Corona patient some days are lost. The productivities are lost. There are social distancing issues are still there. So this is where we are. I think only a couple of months from now should we have that clarity as to how the things will pan out.

**Ajay Gupta:** Thank you.

**Moderator:** Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

**Mohit Kumar:** Sir two questions. First Sir given that we need to implement this project in the next 24 months have we started any kind of work as of now or it is all that we are going to initiate now and are we getting any kind of relaxation from NHAI given that of course there is some restriction on the level of movement and blah, blah, blah so is there any chance that we will get some relaxation on timeline and are we looking for it?

**Sandeep Garg:** The situation is something like this that two parts of the question. One we are already mobilized at the site so we should start quickly. The equipment mobilization is practically 50% already there so we should start the project in true earnest very quickly. The second part of the question is, is NHAI contemplating extension of projects? Yes, the government is considering. They had extended for three to six months. They are considering, there will be on because of this pandemic issue; however, there is no decision as such, but there is definitely a realization on part of the authority that business is not as usual. So they are more amenable to give suggestions for the concessionaires in case there is a reason for any extension.

**Mohit Kumar:** Is there are any challenges in getting labor to that site of the geography because I think it is Tamil Nadu? I am not sure if you get labour from Bihar, Jharkhand or Odisha or it is the local labor you will be relying on?

**Sandeep Garg:** It is always a compensation of labour. There will be certain labour, which is little local and there will be certain labour, which is migratory, but to answer your question the migratory labour has already started coming back to the works so it is not something, which is a difficulty. Yes there is some effort required to move the labour in terms of sending buses or something of that kind, but that is a very minor issue, which the systems have now geared up to deal with.

**Mohit Kumar:** About the moment I think the bid happened one year back and of course things have changed over the last so is there any cost implication because of COVID or something, which should be considered by the NHAI while estimating the new big project cost?

**Sandeep Garg:** I do not think that is something whether the costs have gone any different. As you know, the HAM project allows for the increase in the bid project cost at a double pricy player formula, which has already allowed about 11% increase in the bid project cost as we speak so if there any minor changes in the costs, I am sure there is enough increase because of the escalation mechanism to take care of it.

**Mohit Kumar:** Sir when are you going to get the exact clarity on the total cost from the NHAI for the reduction of scope by what time?

**Sandeep Garg:** It will be about three months. As I said we will need to do some detailed engineering before we can present how the quantities have changed and based on that the costs will be ascertained, but it is not going to be any much more different than what we have forecasted because we have done initial computation based on which the proposition was accepted. So the exact numbers we will work out after the detailed engineering, but the ballpark numbers are known.

**Mohit Kumar:** The last question Sir. Are all these things happening smoothly at NHAI given the COVID situation? I think all these change in scope, all these discussions and all these things online very smooth? Is it happening very smoothly, or do you think there are some delays you know, which happen because of online?

- Sandeep Garg:** I think NHAI has been extremely efficient during this phase. They have been extremely efficient in releasing the payments. They have been very efficient in concluding certain disputed cases. They have disposed off lot of many disputed cases during this period. I think authority has been extremely proactive to go into the SLPX Supreme Court against the High Court order and getting a relief during this period is not something, which is easy, but they have been very, very proactive and they are very focused on the development of infrastructure. So I see a very positive stance by the authority.
- Mohit Kumar:** Understood Sir. Thank you, Sir, and best of luck.
- Moderator:** Thank you. The next question is from the line of Praveen Navoragi from Progwel Securities. Please go ahead. Praveen you line is in talk mode. You can go ahead please.
- Praveen Navoragi:** Thank you for this opportunity. Sir I would like to know as to how does our bidding pipeline look like and what kind of order inflow are, we targeting in this financial year?
- Sandeep Garg:** There is a lot of bidding taking place as we speak, there are about 20 odd bids open. I think there is enough pipeline available going forward and there are a lot of projects, which are also on the queue thereafter. I think there is a lot of work, which is getting awarded. In terms of our forecast, I would think that anything about in the road sector I would be looking at about anything between Rs.2500 Crores to Rs.3000 Crores order book in this year. That will be our internal target to achieve.
- Praveen Navoragi:** Can you throw some light in terms of our working capital cycle. How is it currently and are there any chances of improvement?
- Sandeep Garg:** Sorry I could not follow your question. Could you repeat?
- Praveen Navoragi:** Can you throw some color on our working capital cycles?
- Sandeep Garg:** Practically, our working capital is not very high in terms of because we are doing EPC contracts of our HAM projects. It is more of cash balancing and then everything else. I think in terms of our working capital these requirements are pretty stable, nothing very substantial in terms of working capital requirements.
- Praveen Navoragi:** Thank you very much. That is all from my end.
- Moderator:** Thank you. Due to time constraints, I would now like to hand the conference over to the management for closing remarks.
- Sandeep Garg:** Thank you. Thanks everyone for coming into this call and it is my pleasure to have answered your questions and addressed you all. I wish you a safe period ahead and if there are anything that you would want more clarity on, please get in touch with our Investor Relationship Team.



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Thank you for being our investors and being associated with us. I look forward to a long journey together. Thank you.

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