

TRANSCRIPT: Welspun Enterprises Limited Q4 FY22 Results Conference Call
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Moderator

Good afternoon, ladies and gentlemen, I am Momitha, moderator for the conference call. 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 touch-tone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Mohit Kumar from DAM Capital. Over to you, sir.

Mohit Kumar

Thank you Momitha. On behalf of DAM Capital, I welcome you all to the Q4FY2022 earnings conference call of Welspun Enterprises. We will start with a brief introduction followed by Q&A. To start the proceedings, I am handing over the call to Mr. Abhinandan Singh, Head - Investor Relation, Welspun Group. Over to you, sir.

Abhinandan Singh

Thanks, Mohit. Good afternoon, everyone. I welcome all of you to the Q4 and full financial year FY-2022 earnings call of Welspun Enterprises Limited. Present along with me today on this forum are Mr. Ajay Hans, Managing Director & CEO, and Mr. Sanjay Sultania, Chief Financial Officer, Welspun Enterprises. You would have already received the company's results and that is also available in our filings in the BSE and NSE. The company's website www.welspunenterprises.com too has financial results and more information. I would like to point out that a copy of disclosures is also available in the investors section of the website of the company, as well as in our filings with the exchanges.

Do note that anything said on this call which reflects the outlook towards the future or which should be construed as a follow-up statement must be seen in conjunction with the risks that the company faces. As usual, we will start the forum with some opening remarks by our leadership team and then, 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 – the email addresses are all available both in our filings as well as on our website. With that, I would now like to hand over the floor to our Managing Director & CEO, Mr. Ajay Hans. Over to you.

Ajay Hans

Thank you, Abhinandan. Good afternoon everybody, and thanks for joining in. I hope everyone is staying safe and healthy and taking necessary precautions even as the prevalence of the COVID appears to have been abated.

As you would have seen, we have reported robust operating and financial quarter four with strong execution in some of our major HAM and EPC projects. This performance was driven by accelerated execution in several of our key projects including Aunta-Simaria, Varanasi-Aurangabad road projects as well as in our UP-JJM Water Project.

Our Orderbook too remains very healthy, currently at around Rs 8,400 crore, out of which road projects are at about Rs 5,950 crore and the balance Rs 2,450 crore contributed by water segment. I am delighted to share that this Order Book also reflects an additional contract worth Rs 1,430 Crore (excluding GST) awarded to us in the current quarter, which was announced on 30th of April 2022. This repeat order is an additional work awarded from Soma Indus Varanasi Aurangabad Tollway Project.

I am particularly pleased to observe that along with our strengthened EPC Orderbook, our development portfolio is also progressing quite well, with six out of eight projects achieving PCOD and COD, and those are now revenue generating projects. We received the Provisional Certificate for Commercial Operation (PCOD) in one of our flagship projects, which is the Mukarba Chowk to Panipat BOT Toll Project during Q4 and post PCOD, toll collections in this project have commenced from 6th of April 2022. We take great pride in sharing that our Hon'ble Union Minister of Road Transport and Highways, Mr. Nitin Gadkari recently inaugurated and dedicated to the nation these two projects, the Mukarba Chowk to Panipat BOT Project on 4th of April 2022, and the Chikhali-Tarsod HAM road Project on 24th of April 2022 - and he acknowledged our contribution to Nation building and the superior quality which is comparable to international standards. During the quarter under review, the company received the completion certificate of Gagalheri-Saharanpur-Yamunanagar HAM project from NHAI on 10th of February 2022.

Welspun Enterprises has a diverse portfolio in Roads and Water & Wastewater projects with a pan-India footprint. Forging ahead with our focus on building on order pipeline in the roads and water segment, we are also exploring opportunities within their high potential sub-segments. With visible government thrust on improving and expanding on infrastructure sector, particularly in the Road and Water & Wastewater sectors, the opportunity is huge for an infrastructure player like us. With this, I now hand over the call to Mr. Sanjay Sultania, our CFO, to share the key highlights of our financial performance. Over to you, Sanjay.

Sanjay Sultania

Thank you, Ajay ji and good afternoon to all of you. I am sure everybody is in good state of health as we have already passed COVID. I am thankful to Ajay ji that he has given a very good journey that we have started as a new team as a management from the last quarter, particularly. I believe this quarter has been particularly exciting in the sense from the two perspectives, one perspective from the business side that company achieving PCOD and COD in our largest project, Mukarba Chowk - Panipat has started tolling operations also with effect from the April 6th, though we got the PCOD on 31st of March, which is the last day of the financial year. I am very glad and very happy to state that this quarter sequentially has done better from the previous quarters.

And we believe the momentum will stay on as we are built up to large projects, Varanasi-Aurangabad and our water side UP Nal se Jal Scheme. Now, coming back to the financial

highlights for this quarter, and for the full financial year as I am sure you must have seen the filing from the websites, the results of the company is known to you, however, just for the ready reference, the company's revenue during Quarter 4 FY22 has more than doubled from the previous quarter. As we have met in the last earnings call, we knew why the last quarter was slightly depressed. And we also talked about then from this quarter to the next quarter, the revenue momentum is going to be stepped up from now on. In Q4 FY22, we have revenue of Rs 467 crore, which has more than doubled from the previous quarter on the back of the strong execution. The robust top line growth has also resulted in significantly better EBITDA margins for the Q4, which is Rs 85 Crores compared to Rs 22 Crores in Q3.

As a result, EBITDA margin in Q4 FY22 improved against all previous quarters and accordingly it translated to the PAT as well which from last quarter from Rs 6 crore increased to Rs 53 crore. If you look at the full-year basis, the company reported a standalone revenue of Rs 1,307 crore in FY22 in comparison to Rs 1,410 crore reported in the previous year. EBITDA was at Rs 182 crore in the current financial year, which is FY22 as against Rs 198 crore in FY21 So we were basically in line with the last year margins and slightly sort of the last year revenue, but we are moving up and in Q3 as we discussed last time, because of that, the overall full-year revenue and slightly EBITDA has been impacted; otherwise, it has been a good year for us. And I can see the momentum going up. From this quarter onwards, we are also seeing the same momentum maintaining.

Now, when I come to the consolidated performance, revenue for Q4 FY22 was Rs 485 crore as against Rs 242 crore in Q3, consolidated EBITDA during Q4 FY22 was Rs 126 crore as compared to Rs 57 crore. EBITDA margin improved as compared to previous quarter as we have seen in the standalone, because the standalone impact directly goes into the console as well. Consolidate PAT at Q4 FY-22 was Rs 65 crore as compared to Rs 33 crore in Q3 FY-22. On the standalone Balance Sheet side, I would like to point out to all my colleagues, investors and analysts that the company has not raised any additional debt during the last financial year that is FY 21-22.

With regards to the consolidated financials on the full-year basis, the revenue was at Rs 1,401 crore against Rs 1,530 crore in FY21. Consolidated EBITDA during FY22 was Rs 323 crore as compared to Rs 306 crore in FY21. EBITDA margin improved, as we discussed during the standalone margins, the same way the margins have been flown to the console as well. And consolidated PAT for the FY22 was Rs 126 crore as against Rs 130 crore in FY21. We see the company on the financial front was in line with the last financial year, but sequentially from the last quarter, we are going up and we expect the same kind of momentum in the coming quarter as well.

This is all from my side, we can now open the floor for questions and answers, please. We are happy to answer from my side as CFO and Mr Ajay Hans, MD and CEO of the company. Any questions are welcome, please. Thank you very much.

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do by pressing * and 0. So, our first question is from Mr. Rohit Natarajan from Antique Stock. Please go ahead, sir.

Rohit Natarajan

Thank you. Thank you for this opportunity. Sir, if I understand 2/3rd of our order backlog comes from this Varanasi Water Project and Aunta-Simaria. What exactly is the execution pattern for these projects in FY23 and 24? Are we staring at very strong numbers in FY23 and 24 Could you give us some guidance on what the execution would look like?

Ajay Hans

Rohit, I would like to say that the new project that is Varanasi-Aurangabad is fully mobilized now. And as far as Aunta-Simaria project is there, this is under execution, and we are looking forward to complete within next financial year. And Varanasi-Aurangabad the previous project what we got in sometime September or October, now, we got an additional order on the same stretch, previously we got 136 kilometers and additional 38 kilometers have been added on the same stretch and contractors are more or less mobilized. So, we see a good revenue building up in the current financial year and the next financial year.

Rohit Natarajan

This water project, UP Nal se Jal, these are typically short cycle orders. So, the execution over there also should be ideally be very strong, right?

Ajay Hans

Yea, this is a short cycle project, but the volume of this project is very high. We are almost covering 2,500 villages under this scheme. So, right from identifying the source and delivering up to the individual residents of 2,500 villages of the project, so you can understand the spread of this particular project. So, this project is also more or less mobilized, the revenues have started coming in, but it is coming in phases. So as of date, around 40% of the work front is available, another 60% will be available to us in next 6 to 8 months. So, the cycle is around 18 months for each phase.

Sanjay Sultania

In addition to that, you know, in the Nal se Jal Scheme what is happening, the consolidated order book is not being booked at a single day, because this is booked on the scheme by scheme so it is kind of a rolling targets of completion and finishing. It is not that we got the order Rs 2,000 crores today, and we have to complete in 18 months. As the schemes get approved the order

book is getting added. So, 2,500 villages is getting added, so from the date we signed the agreement, the time clocks from there which is kind of revolving target date. It is not a fixed date.

Rohit Natarajan

Got it. So, if I put up all this projects together, so would it be fair to make an assumption that Rs 2,500 kind of core of execution, can we see that in FY23?

Sanjay Sultania

It is very difficult to point out, but I would like to say that from the last call, Q3 call, we have been speaking and Q4 we have already seen, which is completely present in our table that we are seeing an upside started happening, and we see the same kind of momentum on the coming quarters as well. And the hardcore number to predict is very difficult at this point of time to say or to comment, but the only confidence which I wanted to give, that this two new projects have started, we got an additional order of close to Rs 1,430 crores on the on the same stretch, which would give me an ease of execution, because it is about same stretch, all these favorable points, points out that the coming financial year could be better than the last financial year.

Rohit Natarajan

Sure. So, this non-availability of sand was impacting your TN project. What exactly is the situation over there, it's like smooth sail as of now?

Ajay Hans

There were some issues in that state for sand as well as the earth material; however, some solutions have been worked out, and we have started progressing on these projects. So, this project is also fully mobilized now. So, we expect that we should be doing a good turnover from this project also. Discussions are happening on a daily basis with local government as well as state government, so we hope to do much better now.

Rohit Natarajan

So as of now, what is the bid order pipeline looks like, I mean, what is the target for next year's order inflow part?

Ajay Hans

Look, we are bidding for projects very selectively, we are not going in open competition. However, like the areas where we are targeting is EPC road, EPC water and wastewater sector, and opportunities are huge. So we will be continuously bidding selectively.

Rohit Natarajan

Are there any big tickets projects like MCGM, you know, water projects that we've been talking about for a while. So is that project there on cards or do you have any ring road project or something of that sort any big ticket numbers that you're looking at?

Ajay Hans

We have bid for few packages of MCGM for this wastewater treatment plant, and these biddings and things are happening under the control of Supreme Court. So we are targeting and looking forward to get some package awarded to us in near future.

Rohit Natarajan

Sure, sir. And finally, sir, if I may ask one question, what is the status of your given that 6 out of 8 road projects are already in PCOD Stage, what is the status of the asset monetization part, could you throw some colour on it?

Sanjay Sultania

Yea Rohit Sanjay here, as we have been saying, we said in the last quarter also, so continuously yes, we are looking for asset monetization, because we're looking for recycling the cash as well. But there's nothing concrete that I can say with you, as of now. And I would request, I would say that whenever we come to any conclusions, though discussions are happening with various parties, but nothing conclusively yet, once we get a conclusion, we'll come back to you, definitely.

Rohit Natarajan

Sure, sir. Just a follow up on that. I understand that we have almost like invested Rs 1,000 crore into this HAM projects. This has more to do with equity, but is there any loans and advances figure, if that I can get it from you?

Sanjay Sultania

Can you please repeat the question?

Rohit Natarajan

I am looking at the total investment exposure i.e equity plus loans and advances to the road projects?

Sanjay Sultania

You are looking at the numbers?

Rohit Natarajan

What is that number, I'm asking for the equity plus loans and advances in your all the road projects?

Sanjay Sultania

If you see, put together loans marked as an equity, you keep it in one bracket, so in one bracket, we have already invested by March 2022, they were close to about Rs 2,100 crores.

Rohit Natarajan

Okay. Sure. So, that's it from my side. I will get back into queue if there are any more questions. Thank you.

Ajay Hans

Thank you.

Moderator

Thank you, sir. Our next question from Mr. Nikhil Abhyankar from DAM Capital. Please go ahead, sir.

Nikhil Abhyankar

Thank you for giving me this opportunity. I have got a couple of questions. Sir, can you please confirm whether you were involved, in Mumbai water treatment project and what was the quantum of it and do you think the bid will be finalized this time.

Ajay Hans

These are substantial-sized wastewater treatment plants. We have bid for three projects. And under the supervision of Supreme Court, we look forward that it should get awarded, within this month or maximum next two months.

Nikhil Abhyankar

And the quantum of it, sir?

Ajay Hans

That, I cannot share as of now, as it's under bidding and final results are awaited.

Nikhil Abhyankar

Sure, sir. No problem. And what is the status of Mukarba Chowk-Panipat, how much toll do you expect and how much toll was there in April '22?

Ajay Hans

This is the very first month of operation. So, it is in the range of Rs 80 to 85 lakhs on a daily basis. And we expect to grow as we move forward.

Nikhil Abhyankar

And any expectations for FY23 from it?

Sanjay Sultania

As you know that we will have started tolling from April 6th, 2022, on an average, we are in the range of Rs 80 to 85 lakhs rupees per day. And our expectation is beyond Rs 1 crore per day, because now it's **three** tolls are going on. So, there are a lot of exemptions that are actually on the higher side, and we are looking at controlling that exemptions, which will fetch us the revenue much better than what we are earning today.

Nikhil Abhyankar

Sure. And one more, how much investment do you have in oil and gas block as of FY22?

Ajay Hans

It is in the range of around Rs 350 to 375 crores as of now.

Nikhil Abhyankar

Okay. And sir, how do you see the environment for ordering this in the coming year?

Ajay Hans

As we have already informed that, we have a very healthy order book, and we will be improving quarter on quarter. And we will be bidding selectively for new projects in these areas of road, water & wastewater. So we expect a good growth looking at the size of our company as well as the kind of projects we are looking at.

Nikhil Abhyankar

Okay, sir. And one last question. Is there any plan to monetize assets and any timeline for it?

Sanjay Sultania

Yes, as we said that we are under discussion with various people, there is nothing concrete, but we are looking for asset monetization of our completed assets. We have portfolio about 6 completed assets out of 8. As far as timeline is concerned, it's very difficult to comment on a timeline. But yes, discussions from various parties are happening. Once it gets concluded, we'll come back to you.

Nikhil Abhyankar

Sure, sir. Thanks a lot and all the best.

Ajay Hans

Thank You, Nikhil.

Moderator

Thank you, sir. Our next question from Mr. Jiten Rushi from Axis Capital, please go ahead, sir

Jiten Rushi

Good afternoon, sir. Thanks for taking my question. So, the first question was on the water projects of Jal Jeevan. So, these are what I understand, are these fixed price contracts?

Ajay Hans

These are fixed price contracts with the escalation on certain items in-built in.

Jiten Rushi

Because these are most of the item rates contract. So what I understand is almost 80% is commoditized. So, do we see any margin impact as you said that because of the rising raw material cost, any margin pressure, we are expecting these contracts going forward?

Ajay Hans

Look, there are two major components, one is steel pipes, and the other is HDP pipes. Now, HDP pipe escalations are covered through raise in rate, which is specified. And as far as steel prices are concerned, these are fixed. However, based on our execution strategy, we have tied up for these pipes at the start of this particular project. So, we are saved in terms of that escalation as of now, for the current lot, for the orders, which have already been received and we are executing. In the future whatever we're going to get, we'll see the price adjustments at that particular time.

Jiten Rushi

So, as you said that, as and when the DPR gets approved, and the contract gets signed, the work in the villages starts. So, this you're talking about the whole water backlog wherein, you're entered into a contract with the supplier, what I understand is correct?

Ajay Hans

Right, that's correct.

Jiten Rushi

Sir, you said steel pipes and the other thing which is used is what you said, I forgot?

Ajay Hans

What I said, whatever lots, we have finalized the contracts on that we have already placed orders right at the start of the project. So, we are saved from these escalations.

Jiten Rushi

I understand that. You said there are two commodities which are?

Ajay Hans

Okay. For HDP Pipes, there is a base price of raisins specified in the contract and the prices are linked with a raisins. So as and when at the time of buying these particular things that adjustment is available in the contract.

Jiten Rushi

That is 100% pass through, what I understand.

Ajay Hans

Yes, that's 100%.

Jiten Rushi

All right. Yeah, obviously, if we increase the item rates. The second question on the margin from what I understand was is a Quarter 4 has been like, you'll see a big jump in the margin. So, is there a change in mix.

Jiten Rushi

Hello?

Sanjay Sultania

Hello, can you hear us?

Jiten Rushi

Yes sir. Now, I can hear you. Yeah. So on the margin front, so, yeah, we have seen bump up in the margin for the quarter what I understand. So, any change in the revenue mix this quarter, and what could be the steady state margin for the standalone business, going forward?

Sanjay Sultania

This is a Sanjay here. Whatever jump in the margin, we have seen in the quarter four, this is not basically as you said about the project mix, like we are into EPC or the large two projects, which we have started in the Q4, this Varanasi-Aurangabad, and UPJJM this year that has helped us to improve the margin. And secondly, what has happened is that the projects which are under the closure of stage., the various projects may be on the COD and PCOD, so the cost of completions of these projects, which we have saved the cost while doing reconciliations . That impact has also favored us in this quarter so that profit margins are seen better.

Jiten Rushi

Okay. On the road segment, what would be the margin pressure because, we are doing most of the HAM projects and EPC contract, as we are subcontracting the EPC work. So, how is the agreement between yourself and the subcontractors in terms of this cost pricing pressure, who will bear the margin, yourself or the contractor or how this entered into?

Sanjay Sultania

Your concern is right here that commodity prices are really rising and they are rising in a very unprecedented move. The prices of cements, the prices of steel, across the commodity prices are rising up. In our project like for water, Mr. Ajay Hans has already explained to you, in one of the projects, with our Varanasi - Aurangabad project, because the execution has just started, going forward because this is a fixed price contract going forward there could be some margin pressure on this particular project. Otherwise, in other projects, we are largely protected from the escalation of commodity prices, rise in the commodity prices.

Jiten Rushi

The escalation is covered for the 40% of the project, because you are getting the money initially at 40% during the construction period. So, you could only pass through to the standalone entity up to 40% of these price increase and then, 60% has to be paid by the parent or something like that?

Ajay Hans

That is correct. Escalation is covered for 100%, but 40% is paid out and 60% by the entity, but largely the impact is not much, because we are covered under escalation for the HAM project.

Jiten Rushi

So, what I understand even the subcontractor, whom you're hiring, they also get the escalation 100%, right, from your side?

Ajay Hans

More or less, back to back arrangements, because we want to be fair with our subcontractors. So whatever we are getting we are also open to pass on to them.

Jiten Rushi

Sir, just last question, so what could a steady state margin for probably next year, probably FY24 is too far away, but at least for FY23, any budgeted analysis done by the management for next year or year after that?

Sanjay Sultania

See, as far as margin is concerned for FY 22-23 or FY 23-24, it is difficult to predict, but what we believe that it should be in the line of what yearly EBITDA margin that has come out in FY22, because we have covered our two large projects in this quarter that give us a signal that the whatever EBITDA margins we have seen on the whole year in FY22, that in my views should get reflected in the coming quarters.

Jiten Rushi

Last question on my side is on the interest costs rising scenario. So, what is our expectation. So, for the older projects, obviously, we have done some refinancing, I'm assuming at a lower rate. So, any, are these projects coming up for again refinancing the rate would change at the standalone level also, the interest rate can go up, so, which can impact the IRR in the interim, so and we are targeting to sell some assets. So, any view on that or the status quo has not much impact overall?

Sanjay Sultania

No. See, if you see on the standalone basis in some of the loan, which because we have not drawn any loan as I stated in FY 21-22. Whatever we have drawn previously to some extent, we are protected, because the reset has not started, it will take some time to start the reset. But yes, that's probably one concern because 40 bps RBI increased, but for our HAM projects, which are already completed projects, there we have an subset the annuity, we get the interest. If the rising is happening on the cost side, it should happen on the revenue side as well.

Jiten Rushi

Those are linked to the old, agreement like bank rates plus 3%, unlike that will get nullified.

Sanjay Sultania

Whatever pressure will come on this side, that pressure will come that side also.

Jiten Rushi

So you mean to say it will be nullified. Okay. Fantastic. Just on the bid pipeline you highlighted something, but any concrete awarding, are we expecting from NHAI in Q1 in terms of the value comes outstanding pipeline, the outstanding tenders in Q1?

Sanjay Sultania

See, as of now, we don't have any outstanding tenders with as far as NHAI is concerned, because we are very comfortable with the order book, we are not concerned for the visibility of next 2 to 3 years. And this MCGM tender, which results are awaited, we are very hopeful to get one project out of it. Once we get it, our order book becomes very healthy with a good visibility of next 2 to 3 years. So, what we will see as here strategy of selective bidding, so we will see and then evaluate

if you're getting anything in the road and water and wastewater sector, we will continue to do that. But if you ask me today, we don't have any pipelines with NHAI as of now.

Jiten Rushi

So any guidance, inflow guidance from your side for this year?

Sanjay Sultania

I did not get your question.

Jiten Rushi

Sir, order inflow targets in terms of value and mix?

Ajay Hans

We have not specifically targeted, but we will be continuously exploring good opportunities and whatever comes we have capacity to execute, so we will take it.

Jiten Rushi

Got it, sir. Okay. Thanks a lot. And all the best from my side. Thank you.

Ajay Hans

Thank you. Thank you very much.

Moderator

Thank you. So the next question from Mr. Meet Parikh from Anand Rathi. Please go ahead, sir.

Meet Parikh

Good afternoon, sir. Thank you for the opportunity. I just have one question regarding the equity requirement, which we have provided in the press release, we are supposed to invest around Rs 203 crores in the next 1 to 2 years. Can you give a breakup in terms of how much is going to be invested in in FY23? How much we're going to be investing in FY24 and how much is required for the HAM projects, and the BOT projects?

Sanjay Sultania

See whatever money we require to invest in equity in the coming year, the major one is one of the BOT, which we are looking to complete in this financial itself, close to about Rs 100 crores we are looking at investing into that entity, in the BOT projects and the balance will come on in fragments. So, there's no one time, because the SNRP project is another one, other than all our HAM projects, the equity has been fully subscribed, so SNRP project as and when it is getting progressed, we will start putting in an equity. It may take one year to two years of time depending on the project completion state.

Meet Parikh

So, if I get it right Rs 100 crores from the BOT project for this FY23, over and above, there will be some fragmented investments of the HAM project and the balance will go into FY24.

Sanjay Sultania

Yes.

Meet Parikh

Thank you very much sir. That is it from my side.

Ajay Hans

Thank you.

Moderator

Thank you. Ladies and gentlemen, So, we have a follow up question from Mr. Rohit Natarajan from Antique Stock, please go ahead.

Rohit Natarajan

Thank you for this opportunity again. My question is on towards the strategy part. Now that there is a change of guard that we see the top management has changed to a large extent, Mr. Hans has taken over. Is there a strategic roadmap for how this company's execution, order backlog and how the balance sheet would look like maybe say over the next three to five years as such, are there any thoughts given on that?

Ajay Hans

Yes. We definitely have a strategy, and we are looking forward to grow big and accordingly we will be proceeding or identifying very specific project opportunities. And we are expanding our management width in line with that. Previously, we were doing projects, which were more of HAM and more on subcontracting. Now, EPC going forward is a thing. So, we may be developing some in-house facilities and in-house capabilities also. So, we'll be looking at all directions to expand in near future and continuously move on improving our top-line, bottom line in the coming years.

Rohit Natarajan

If I understand, if you could give some colour on those numbers like how the execution in top line will go from let's assume are you looking at Rs 4,000 to Rs 5,000 crores of execution over the next three to four years? Is that the number you have in mind? Also, would you, you said that you were looking more to do with EPC opportunity as such. So, how will be the order backlog mix would look like, will it be largely driven by your water, water-based projects or will there be an optimal mix of road and water, any colour on that?

Ajay Hans

Going forward we are looking forward a ratio of 50:50, 50% road, 50% water & wastewater, and looking into our current order book, which is around 8,400, plus some orders are under pipeline looking into that we need to execute these projects in a timeframe of 3 to 3 and a half years going forward, so you can estimate what kind of numbers can come in and projects are fully mobilized. So, definitely, we will be, with our execution capabilities, we should be able to do it in within these timeframes.

Rohit Natarajan

I got that part that sir, that within the current order backlog you can do execution in three years and maybe peak execution of Rs 3,000 crores can be achieved, but I'm talking about something much bigger than that. I mean, have you given like what should be your ideal capacity of order backlog look like? I mean, are you looking at bigger numbers, say Rs 12,000 crore of order backlog moving up the execution for it.

Ajay Hans

Like what I have already shared, we have capacities available. So, looking into the project bandwidth and the specialty of the project we will be definitely exploring.

Rohit Natarajan

On the asset heavy business model part, you were keen to explore some railway station development opportunities in the past. What is the situation over there?

Ajay Hans

That is still under exploring stage. We have done some studies we have engaged some consultants to carry out those studies, but it is still not the reality. As and when this opportunity comes, we are definitely looking in exploring these railway opportunities.

Rohit Natarajan

So, on one side, you say EPC is your focus as such, but strategically you're open even to explore these kinds of opportunities?

Ajay Hans

Absolutely. EPC is going to be there. But developmental projects will also be there, asset base project will also be there, but as far as the execution strategy is there, we would like to be asset light.

Rohit Natarajan

Sure. Got it, sir. Thank you. That's it from my side.

Moderator

Thank you, sir. Next question from Mr. Saket Kapoor from Kapoor Company. Please go ahead, sir

Saket Kapoor

Namaskar, sir. Thank you for this opportunity. Firstly, when we look at the other income part, if you could explain the nature of the other income component that forms a substantial part of our profits.

Sanjay Sultania

Saket, you are talking about other income on a standalone basis, or you're looking at on the consolidated basis?

Saket Kapoor

I'm looking at the consolidated numbers, the other income for 31st March stands at Rs 173 crore.

Sanjay Sultania

In the other income, basically, there are two parts. One part is, if you see in our subsidiaries, all subsidiaries are under the service concession agreement, and these service concession agreement, we build the financial assets and the interest on this financial assets are being accrued in the company, which gets reflected in other income apart from that interest on any amount lying in escrow account that was also part of that and whatever we are going to receive as an interest on the financial asset, that is a major component of the income from this other income.

Saket Kapoor

When we look it as a percentage, when we look at the revenues for the year at Rs 1,400 crore, and keep the other income separately, then the margins are not there, when I just wanted to understand, do they form the part of the revenue from operations only and they have only been clubbed separately.

Sanjay Sultania

No, see other income are always separate given because if you see my standalone also, we even our press release we have given revenue from operations separately and other income separately.

Saket Kapoor

Right, sir. When we speak about this Jal se Nal part of the story about what is the, I mean how much have you executed for this year and what is the pending orderbook and which state are we executing these orders, sir?

Ajay Hans

Look, like we have informed two projects are almost new projects that Varanasi-Aurangabad, UP-JJM these are substantial sized projects and we have just started execution in last one and two quarters, and we have to execute in the timeframe of 2 to 3 years, these two projects. Can you repeat the second part of your question, please?

Saket Kapoor

I was looking for the Jal se Nal part, I mean what is the total size of the order book currently pending and which state, are we operating currently for the Jal se Nal Scheme.

Ajay Hans

So as per the total allocated villages to us, our value is around Rs 2500 crore, so project we have executed to the tune of around 10%, balance is to be executed.

Saket Kapoor

And which states are we covering, sir, villages are from which state?

Ajay Hans

Okay, these are five major districts in UP - Jaunpur, Sant Ravidas, Ambedkar Nagar, Amethi and Bulandshahr.

Saket Kapoor

Okay, and the total value is Rs 2,500 crores.

Ajay Hans

All together is Rs 2,500 crores. Major works are in Jaunpur and Sant Ravidas.

Saket Kapoor

Okay. And the scope of work is the drinking water, tap water at home, but the entire ecosystem has to be better.

Ajay Hans

The source of water is underground, we are sourcing this water through tube well arrangement and then treating it and storing it on elevated storage tanks and then distributing it to the various villages through the pipeline and ultimately, up to the tap in individual houses, responsibility is ours. And we also have the responsibility of O&M for next 10 years.

Saket Kapoor

And last year, so what was the execution part, how much have we executed out of the total Jal se Nal Scheme?

Sanjay Sultania

In last year, in Jal se Nal, since Mr. Ajay Hans said that we have just mobilized the project and we have started picking up, in the last quarter in the range of about Rs 100 to 110 crore that we have executed in Jal se Nal on the revenue side, but the project is fully mobilized and we have a lot of materials they are already mobilized, works are happening and are on stream, and from this quarter revenue is expected to be higher than the previous quarter

Saket Kapoor

Okay. So, can you give some ballpark number what would be the execution for this year out of this Rs 2,500 crores orderbook.

Ajay Hans

Look, these are the initial periods of starting of the projects, but we are looking forward to do good numbers, but as of now, yes, as we come across various issues, problems, we are trying to resolve those and move forward.

Saket Kapoor

So, in this scheme, are we also subcontracted with other players when we have also seen an optic fiber cable company, Vindhya Tele also coming up with a huge order in the Jal se Nal scheme for the state of Uttar Pradesh covering around 500 villages, they have put the orderbook at around maybe I'm not getting this number right now. Are we a subcontracted to them also? We are working with companies like Vindhya Tele also in the Jal se Nal scheme or are we solely doing the project.

Ajay Hans

Look, we have created our own setup for this project. Most of the supplies are done by us directly. For the execution portion, we are hiring recruited contractors and the local contractors. And that's the way we are moving ahead on this. So, whatever respective portions of electrical if any OFC or if any electrical portion is there, we'll be hiring specialist electrical contractors.

Saket Kapoor

And on the finance cost part, sir, we find finance costs to be higher as a percentage of sales. So, what is our understanding on the same, and how is this number going to shape up as a percentage of our revenue. For this Quarter – for this year, it is Rs 140 crores on a top line of Rs 1,400 crores.

Sanjay Sultania

There's the finance cost is going to remain same, barring some repayments which will come in this financial year, it is going to remain to the same.

Saket Kapoor

It will be 10% of the revenue?

Ajay Hans

No. It can't be linked to the revenue, because different projects are having different cash flows like EPC projects are having much better cash flow.

Sanjay Sultania

See, we don't have to see in relation to the revenue of what we have to see how much borrowing that we have done. And as I said in my opening remarks, also in FY21-22, we have not done any borrowings and barring some repayments, which may might happen to do with repayment in this financial year, we are very much there as far as finance cost is concerned. As this the revenue pick up, the percentage might get dropped down also.

Saket Kapoor

And last two points, what is the cost of fund currently?

Sanjay Sultania

Cost of fund would be it is a range of 7.5% to 8% at the moment.

Saket Kapoor

7.5% to 8%, that is likely to increase going forward with now the interest rate cycle moving up.

Sanjay Sultania

I don't know whether you are on the call or not when we're discussing on this point, as I said more or less we have got the reset is happening, later part on the year, we might not be having much impact on the cost side, because of the interest pressure and other side of the HAM size as we explained earlier in the path that we are protected by the interest on revenue which we earned that will nullify the cost edge.

Saket Kapoor

And a small point that in this segment revenue, we have a mention of the oil and gas separately. So, what is the significance of this line item being mentioned and the revenue being nil there.

Sanjay Sultania

There is no revenue from oil and gas at this moment. This is just only in investment side that we have been investing into oil and gas revenue accruing at this moment. We are expecting revenue to accrue from the financial year FY 25-26, that is the expectation.

Saket Kapoor

Okay. Where have been the investment made, if you could give more colour on it.

Sanjay Sulatania

I didn't get you.

Saket Kapoor

Where have been in the investment made in the oil and gas sector?

Sanjay Sultania

We have given the details in the detailed presentation, which is available on the website. We have given. You can refer to that.

Saket Kapoor

Okay. I will look into the same. Thank you for all the answers and all the best.

Moderator

Now, I would like to hand over the floor to Mr. Ajay Hans, MD and CEO of Welspun Enterprises for closing comments.

Ajay Hans

I would like to once again thank all of you for joining us on this call today. Your questions were insightful, and I appreciate your interest in Welspun Enterprises. The Q4 financial year 22 has been a strong one, and we remain committed to uphold our operational excellence. I look forward to speaking to you once again during next quarter. Meanwhile, please feel free to reach out to Abhinandan or Sanjay for any clarifications or feedback. Thank you all.

Sanjay Sultania

Thank you very much.

Moderator

Thank you. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may all disconnect your lines now. Thank you and have a good day everyone.

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