

**Welspun Enterprises**  
**Business Updates Conference Call**  
**December 20, 2017**

---

**Moderator:** Ladies and gentlemen, good day and welcome to the Welspun Enterprises Conference Call for business updates. From the management we have Mr. Sandeep Garg – MD, Welspun Enterprises and Mr. Akhil Jindal – Group CFO and Head Strategy, Welspun Group.

**Sandeep Garg:** Good afternoon everyone. Thank you. Along with me is Mr. Akhil Jindal – Group CFO and Head Strategy supported by Mr. Vinoo Sanjay and Harish Venkateswaran and Subir Sen. This call is to give you a business update. I am sure a few of you have seen the release yesterday about the Board's decision not to venture into the financial services sector, which was a decision taken earlier. The rationale for this decision was to that the opportunity was seen that the cash that was being deployed for NBFC could be better utilized in the infrastructure business given that there is a lot of work being announced by the government going forward in way of Bharatmala and other projects. And we believe that our past performances in the infrastructure space justify that we could capture reasonable projects to give you an idea, since April 2017, there are about 11 Hybrid Annuity Model (HAM) projects that were bid out for NHA project cost of about Rs. 13,800 crores. Out of which, about 7 projects got opened till date for Rs. 7,600 crores for a price quoted by the lowest bidders of Rs. 9,700 crores. So, out of this Rs. 9,761 crores of five bids that have been awarded we have won one project of about Rs. 1,160 crores. So from the bids open to the bids we won approximately about 12% of win ratio and given that in future there are at least about 30 plus projects to be bid out between now and March 2018, the Board was of the view that the resources available could be very well deployed in the infrastructure space and yield better results for the stakeholders and hence this decision was taken to stay away from investment in NBFC which will now become a 100% promoter driven venture and the amount of about Rs. 1.35 crores which has been invested by the company would be returned at the face value by the promoters.

The other aspect was that NBFC was seen that it was getting delayed and it had a long gestation period and the infrastructure space was giving us returns now and here, so the decision was that we need to capture the opportunity in the infrastructure space which is presenting itself in a large way right now. I would also want to talk about the developments on the current infra projects for the company. The most important project that we are doing or the project that we first won was the Delhi-Meerut Expressway Package 1. I am happy to announce that the project execution is proceeding very-very well. Till date we have completed about 80% of the project and just to put it in perspective the appointed date of

the project took place in November 2016 and is a 30-month project scheduled by the NHAI so we have completed about 12-months approximately 80% and we are expecting that the project would get completed around February 2018 well ahead of schedule approximately about 50% of time ahead, in terms of months about 15 months ahead of schedule. I also want to tell you that the 75% payment milestone which is a payment milestone under a concession has been certified and paid by NHAI. So there is no doubt in the percentages or progress achieved on the project. The other project that we won is Aunta-Simaria. Aunta-Simaria was awarded to us in the end of September 2017. We are in a situation that our subcontractor selection has progressed very-very well and we expect within first half of the January 2018 the EPC contractors to be in place. We expect the appointed date to take place somewhere around February end. Although as you would recall that under the concession agreement we have time till about April to get this appointed data but we expect the appointed date to be done much earlier because of the financial tie-ups and the land availability will be closed well in advance and the EPC contractor will be in place to execute the job. The other two projects on the infra side are the Gagalheri-Saharanpur-Yamunanagar or called GSY project and the Chutmalpur-Ganeshpur-Roorkee-Gagalheri CGRG Road project which we tied up with MBL for taking over the project as promoters and doing the EPC ourselves through our subcontractors. So I am pleased to inform that the NHAI approvals have been obtained. We expect the appointed date to take place by the end of December for this GSY project and mid-January for the CGRG project. I would also want to tell you that there are about, as I said in my opening statement, about 30-plus bids which are expected between now and March 2018 for Hybrid Annuity out of which we are preparing for 9 projects depending upon how the situation happens we are likely to bid for them. We are also going to be looking at the associated areas in the infra space for us to consolidate our position in infra. And we would continue to explore possibilities of creating value for our stakeholders by expanding the geographies or expanding the offerings or both. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

**Giriraj Daga:** Couple of aspects on the business side, you said that there are 13 bids for the road, 13,000 crores if I get the number right.

**Sandeep Garg:** What I said was that the projects which were bid from April 2017 till yesterday, there were 11 projects that were bid under HAM and the project value was Rs. 13,800 crores approximately as per NHAI.

**Giriraj Daga:** And 7 bids have been opened worth Rs. 9,700 crores.

**Sandeep Garg:** NHAI project estimate of Rs. 7600 crores odd which was bid out by the bidders at about Rs. 9700 odd crores.

**Giriraj Daga:** And we won one project out of Rs. 1161 crores. Have we participated in other four projects also?

**Sandeep Garg:** We have one open bid at this point in time out of the four bids which are not open.

**Giriraj Daga:** Out of the 30 odd crores which we are mentioning, what is the worth total amount as per NHAI estimate?

**Sandeep Garg:** 30,000 crores odd.

**Giriraj Daga:** Sir I also wanted to check on the aspect, like we have been talking to other companies also and they are of the opinion that the large part of the order inflow is expected to be on EPC side over the next 4 to 5 months. That is what we are hearing from couple of road companies. So in that scenario will we participate in the projects of a standalone EPC and then sub-contracting or our focus will only be the HAM project and secondly the question is that we will participate in TOT projects also.

**Sandeep Garg:** At this point in time we are focused on Hybrid Annuity Model. However if the business scenario changes, which as per our understanding, is not changing substantially and our understanding is that with the current situation on Hybrid Annuity Model and the participation by the industry, the NHAI and the government is happy with this current situation. Given the resources that are available it is better for the government to be in Hybrid Annuity Model rather than be in EPC state. So we believe that there will be certain works which cannot be bid effectively under Hybrid Annuity Model would probably go under EPC, however we see majority of the work coming through Hybrid Annuity Model and some of them through the toll, which can sustain a toll revenue model and the balance will go the EPC.

**Giriraj Daga:** And second TOT part?

**Sandeep Garg:** TOT is entirely a different business model which is a reverse of the model that we are following. We are looking at TOT but we are not very enthused at this point in time.

**Giriraj Daga:** Just a follow-up on the first point, do you believe that what we had heard is that the likely ratio between EPC and HAM is expected to be 80-20 in the next 4-5 months. So what is your thought process and the amount of order inflow which would be coming? What should be the EPC and HAM proportionate?

**Sandeep Garg:** See we know from our knowledge that more than 30,000 crores is coming through Hybrid Annuity Model, I do not track EPC order values or orders that are in pipeline, so I would refrain from commenting on that.

**Moderator:** We have the next question from the line of Nirav Shah from GeeCee Investments. Please go ahead.

**Nirav Shah:** Few questions. Firstly you mentioned that there are 30-odd projects valued at Rs. 30,000 crores which will be paid out till March and we will be targeting around 9, so what is the value of those 9? Is it similar to something like 9000 crores or it is higher?

**Sandeep Garg:** It is slightly more than that.

**Nirav Shah:** And on the Aunta-Simaria project now we are targeting appointed date by Feb end so there seems to be some delay. So any particular reason we attribute, maybe delay in subcontractor selection or delay from NHAI side?

**Sandeep Garg:** We are in the process of doing a financial closure. Post the financial closure there is a 30-day period for the NHAI to review the documents and then we can enter into the final agreements and thereafter the appointed date can take place. So we are expecting the financial closures to take place somewhere in the first week of January, which will take us about first, second week of February for the documents to be in place and the appointed date bid can take place. We also allow the contractor for the mobilization during the interim phase.

**Nirav Shah:** So the construction would most likely start in first week of March itself?

**Sandeep Garg:** Yeah, so we always do our time that during the phase that we are doing the financial closure and the appointed date the contractor gets mobilized so that we can hit the ground running.

**Nirav Shah:** And in terms of land acquisition for both MBL GSY and MBL CGRG, as of date what is that number because it was somewhere around 80% and 31% so is there any movement over there?

**Sandeep Garg:** To be precise at this point in time the GSY has about 78% land handed over. So we are expecting the balance to be handed over by this weekend and then the process of appointed date will begin. On the CGRG side the land status is that we expect it to reach about 50% by this weekend and we expect the 80% to be hit by Dec end.

**Nirav Shah:** What gives us such confidence that during the next 10 days -

**Sandeep Garg:** There were certain forest approvals etc which have been obtained. Now it is only a question of how the paperwork is coming in. So the paperwork is in process. And also the government has taken a view that where the farmers were not letting the entry into the area, the government is now forcibly taking over the project. So the government has taken that view and hence we are confident that right now everyday there is a local administration taking over its land and handing it over to us.

**Nirav Shah:** But as on date it will be what 35%?

**Sandeep Garg:** Yeah, approximately 35%. I cannot exactly comment but at this point in time the forecast is by this weekend we will be at 50 and by the end of month we will be at 80% plus.

**Nirav Shah:** So mostly the construction will start on both these projects somewhere for the first one in middle of early January and second one in end of January?

**Sandeep Garg:** No, so the day we get the appointed date our construction begins that very day. So the day will be appointed date and my mobilization is complete at this point in time on sites.

**Moderator:** We have the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.

**Shravan Shah:** Sir in terms of the now Rs. 300 crores odd is not there for the NBFC, so are we now raising the target in terms of getting the more HAM projects this year, next year or if you can give us some idea how much are we internally targeting to win HAM by this March and for next FY19?

**Sandeep Garg:** If we put it in perspective this Rs. 350 crores which get unlocked allows me an additional order book of about 5000 additional booking of the HAM projects which we expect that we will be able to do it in the next 12-18 months.

**Shravan Shah:** So total by March 19 we would be expecting 5000 crores additional inflow of HAM?

**Sandeep Garg:** That is correct. So in addition to our earlier target we would be targeting another probably not March 2019 but by September 2019 for sure we would be targeting additional 5000 crores more than the original

**Shravan Shah:** And sir in terms of the existing remaining 3 HAM plus whatever additional are we planning to win, we are confident that we will be able to get the local contractor in place and we would be able to maintain 12-13% kind of EBITDA margin on our standalone books?

**Sandeep Garg:** So put this in perspective Delhi-Meerut is already completed so that is a done deal. For the CGRG and GSY the contractor is already in place and mobilized. So that is a sure situation. As far as Aunta-Simaria is concerned as I said we will be completing – the offers are already in place, the discussions are already on and we are expecting before middle of January the orders will be out and that is the very basis on which we are targeting, giving 45-days mobilization to the contractor at the end of February as the appointed date. So it is all tied up in terms of – there is no reason for us to be concerned about any order, EPC contractors being in place on time.

**Shravan Shah:** Secondly if I look at this first half, the Delhi-Meerut is the major one in terms of the contributing revenue, so there also the EBITDA margin if I look at it is 6.5%, though as a management we are saying it is 12-13%. So just if you can once again highlight what kind of EBITDA margin are we expecting excluding other income I am talking on all the projects what current we have as a HAM the three projects plus whatever additionally we are planning. So what kind of EBITDA margins on a standalone basis we can sustain?

**Sandeep Garg:** I think there are two questions being put as one. As a EPC business in standalone hybrid annuity, I am not very sure where are you reading 6.5% return on the segmental reporting if you were to look at it. It should show up the returns on 12% and there. On a macro level when the unallocated are allocated to the company which are not specifically hybrid annuity and the revenues from the investment are taken up our EBITDA margins may change. However, as a standalone, hybrid annuity standalone business model we are confident that they are giving a return of 12%.

**Moderator:** We have the next question from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.

**Dimple Kotak:** Sir wanted to know what would be the quantum of bonus for the early completion of Delhi-Meerut project?

**Sandeep Garg:** Assuming it is 15-months ahead of schedule, the quantum of bonus would be Rs. 37 crores approximately out of which 50% will be shared with the contractor.

**Dimple Kotak:** And sir your current order books are not mistaking, it is Rs. 3500 crores and you expect to bag Rs. 5000 additional crores by FY19, I mean September 2019.

**Sandeep Garg:** Yeah, we expect in addition to our original forecast we would be targeting additional 5000 over and above

**Dimple Kotak:** What was the earlier forecast if you can just tell me?

**Sandeep Garg:** We have been always maintaining that in next 2 years we will be booking around 10,000 crores of order, so which would probably go to about Rs. 15,000 crores.

**Moderator:** We have the next question from the line of Pratik Vora as an individual investor. Please go ahead.

**Pratik Vora:** Hi sir, thank you for giving me opportunity to put a question. Sir with regard to HAM I understand we have 4 projects. However as of now, revenue from Delhi-Meerut Expressway is only coming into P&L as appointed date for other projects is still awaited. Further 80% of this Delhi-Meerut Expressway is already completed. So is my understanding correct on this?

**Sandeep Garg:** That is correct.

**Pratik Vora:** So sir if that is correct, in that case how are we basing your guidance of Rs. 1500 crores revenue for FY18?

**Sandeep Garg:** It is 1000-1200 crores for the guidance and we believe that the other two projects will start pumping in the Q4, so we will be somewhere close to that number.

**Pratik Vora:** Any update on the put-call option with regard to the two HAM projects which were acquired from MBL or do we own already 100% of those projects.

**Sandeep Garg:** We cannot own 100% in terms of the SPV ownership. However, we own 100% of the EPC contract for these two projects.

**Pratik Vora:** So is MBL owning anything of those projects right now?

**Sandeep Garg:** On the SPV side they are owning 51% for which we have a put and call in accordance with the approvals of the NHAI.

**Pratik Vora:** So we were planning to exercise our auction, right, to own remaining 51% also from them?

**Sandeep Garg:** In accordance with the concession agreements and the approval of NHAI we will exercise this put and call option.

**Moderator:** We will have the next question from the line of Pravin Dahiya as an individual investor. Please go ahead.

**Pravin Dahiya:** My query is related to this Bharatmala project wherein few kilometers is being announced. I want to know our eligibility criteria with respect to these projects since we are having four HAM projects which are in progress but the length of these projects are very small. So what will be our outlook on getting the orders from the Bharatmala project and the second one with respect to the oil and gas sector.

**Sandeep Garg:** So to respond to your question on Bharatmala I do not think that there is a limitation on the qualification in terms of our experiences. We have recently bid a project of about Rs. 2,000 crores in consortium and we believe after July 2018 we would be qualifying for projects worth about Rs. 1700-1800 crores within the Welspun Group. So I do not think qualification is going to be an issue in terms of bagging the order. More importantly will as you may have seen NHAI has decided to do an evaluation of the contractors. If there is the evaluation of contractors becomes the criteria of evaluating for the bids as well then probably this will be to our advantage and that is what something which we would be waiting for. I do not think there is any concern on qualification as such.

**Pratik Vora:** One more thing, related to land acquisition issues. This appointed date whatever we are saying, construction period it is 24 months from appointed date. So whether land acquisition is complete at the time of appointed date sir or it will be a continuous process?

**Sandeep Garg:** The way the hybrid annuity concessions are agreed upon, the appointed date can only take place if the 80% of the land is handed over to the concessionaire in a constructible situation. And any land handed over within 6 months thereafter, the concessionaire is obligated to complete it prior to the COD. And anything which is handed over post the appointed date plus 180 days, the concessionaire will still get the COD on the day he completes the original land handed over and the balance of the work is not necessarily counted against completion of the contract.

**Pratik Vora:** My final question, now that these NBFC plans have dropped, is there any aggressive bidding for this oil & gas blocks since now government is announcing many oil & gas blocks per auction, is there any interest from outside?

**Sandeep Garg:** From an oil & gas we only look at strategic bits as you know we bid for B9 which was absolutely adjacent to our earlier ownership of a block. So we are not going to be aggressive in bids neither on infrastructure side, nor on oil & gas side. However, if there is anything strategic for us we may look at it as an oil & gas block but at this point in time we are not looking at it.

**Moderator:** We have the next question from the line of ASN Raju as an individual investor. Please go ahead.

**ASN Raju:** It is a great step taken by Welspun management by withdrawing from NBFC business because from last 4 or 5 quarters credit growth is muted and the infrastructure business is more powerful compared to NBFC. Thanks a lot for taking this good decision and creating good to your shareholders. At the same time, I wished our management take a decision to withdraw from oil exploration also because huge complex and contradictory is going on around all the existing private players.

**Sandeep Garg:** We will take a note of your suggestion Mr. Raju and we will consider it. As you would have noticed that we are trying to optimize our already investments made in oil & gas and you would as an investor would want to protect your investments so we are trying our best to protect them and bring them to fruition as soon as we can.

**ASN Raju:** I also appreciate once again for withdrawing from this NBFC business. The cycle has completed. The NBFC will not be good business in future as trade block is muted and interest rate in US is growing so US funds will not invest in these NBFCs at a good interest rate.

**Sandeep Garg:** We echo your views. We believe that infra is a better play for us and we will remain focused in infra.

**ASN Raju:** Try to accelerate the execution capabilities and bidding capabilities sir.

**Sandeep Garg:** Sure.

**ASN Raju:** As we failed in getting the direct work and we got work from MBL for the same 18% or 17% rate.

**Sandeep Garg:** Yeah, we will not dilute our return expectations no matter what.

**Moderator:** We have a follow-up question from the line of Shravan Shah from Dolat Capital. Please go ahead.

**Shravan Shah:** Just wanted to clarify, you said in terms of the order inflow target now onwards is the Rs. 15,000 crores in two years and out of that by September you are looking at Rs. 5000 crores inflow. Am I right?

**Sandeep Garg:** No, we are looking at in the next two years an inflow of about Rs. 15,000 crores which accounts for the accelerated growth that we are looking for in the infrastructure space. We probably will build an order of about Rs. 1000-2000 in the remaining part of this financial year, about Rs. 5000 crores next financial year and about Rs. 6000-7000 in FY20. So that is probably where we would be.

**Shravan Shah:** And sir regarding the early completion bonus, as we will be completing Delhi-Meerut 15 months ahead, so in terms of getting the early completion, as you mean 28<sup>th</sup> February is the COD for Delhi-Meerut so the early completion bonus will be in the form of extra annuity which will be six months post the 28<sup>th</sup> February or how is it? When the inflow will come as an early completion bonus?

**Sandeep Garg:** The bonus will be paid along with the first annuity payment, which is after the six months of COD.

**Shravan Shah:** So actually we would be having 2 annuities which will be extra.

**Sandeep Garg:** There is no annuity relation to it. Six months after the COD, we will get our first annuity and along with it we will get the bonus that we are entitled.

**Akhil Jindal:** No, there would not be extra annuity. It would be over 15 years only. Only the entire tenure of the 15 years will be preponed.

**Moderator:** Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

**Sandeep Garg:** Thank you everybody for coming on the call. We wish you a Merry Christmas and a Happy New Year and let us hope that the New Year ushers in prosperity and happiness to all of us. Thank you.

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