

“Welspun Enterprises Limited Business Update Post Q3 FY17 Results Conference Call”

February 17, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Welspun Enterprises Limited Conference Call for Business Update Post Q3 FY17 Results. From the management, we have today Mr. Sandeep Garg – Managing Director & CEO of Welspun Enterprises and Mr. Shrinivas Kargutkar – CFO of Welspun Enterprises along with the IR team. 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 ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Garg. Thank you and over to you, sir.

Sandeep Garg: Thank you. Good Afternoon, everyone. Thanks for joining us on this Investor Call. I have with me Mr. Shrinivas Kargutkar – CFO, Welspun Enterprises, supported by Mr. Kevin Daftary and the IR team, consisting of Mr. Harish Venkateswaran and Mr. Subir Sen.

So, let us begin with our update with the most important infrastructure development which has taken place in the last financial year, which is we won the Hybrid Annuity Model Project called Delhi-Meerut Package-I. Just to remind you, it is a package of 8.716 Kms within the State of Delhi. The appointed date for this project was 28th November 2016 and the schedule completion date is 26th May 2019. On the appointed date, the NHA1 was able to hand over 86% of the land, free of encumbrances and ready for construction. At this point in time, I am happy to inform you that the work is in full swing and we have within the last 2.5 months completed approximately 6.5% of work. We believe that the project is likely to be completed before schedule.

We also bidded for 2 Hybrid Annuity projects. Both these 2 projects we were unfortunately L2. However, we are continuing to bid for the projects and we have recently put in bids for 3 projects in Maharashtra. The opening of these bids is still awaited and we are hoping for a better result this time.

Just to remind you, we have 6 operational BOOT assets; five in Roads and one in Water. As far as the Dewas Water project, which is the most important water project that we have, you would recall that the project was in a swiss challenge mode we have put in offer for taking the

water from a different point. Under the Swiss challenge method, the competing bids have been obtained by the authority and those bids have been opened. To remind you, we have the right of first refusal on the pricing that is obtained through the bidding process and retained the project irrespective of the price that comes in.

I would also want to update you on the Infra side regarding the Dewas Bhopal Road project. If you would recall that project 74% of the equity was sold to IDFC. We had passed claims on the client for the construction phase, we have settled those claims and the amount that we are expecting to receive from the settlement at Welspun Enterprises level is likely to be in the ranges of Rs.10 crores. We have also settled another claim with MPRDC for a project called Khandwa-Hoshangabad and we have received an extension of 158 days. In terms of revenue this 158 days would give us revenue of about Rs.10 crores.

I would also want to update you about Oil & Gas. To remind you, we are in a joint venture with Adani Group in the Oil & Gas space. We own 35%. At this point in time there are 3 relevant blocks; one is Mumbai High and 2 of them are in Kutch area, where we are in joint venture with ONGC and have the participating interest of 25% in one case and 30% in the other case. These two fields are in appraisal phase, the first block we have completed the first appraisal well, the conventional code that was cut has given positive sign and we have finally decided to test 2 zones of this well. On the second block of the Kutch, the drilling for the first appraisal well have started this week and we are awaiting the drilling results as we go within this quarter.

We have also won a cluster called B-9 in the discovered small field round of bids. The CCA approval has been obtained on 15th Feb 17 This particular block is about 20 Kms away from our existing Mumbai block and has a strategic value for us. The cluster B-9 consists of 3 fields, namely B-9, B-7 and BRC. The BRC field is an oil bearing field, while B-9 and B-7 are gas bearing fields.

I would also want to update you regarding the Welspun Energy Stake Sale. The shareholder approval for the stake sale of 15.49% has been obtained. We expect to receive a minimum sale price of Rs.276 crores upon sale being finalized and further sale proceeds are contingent upon occurrence of certain events in future.

As you are aware the company has announced the buy back. We have obtained the approval of the shareholders to buy back up to 25% of the total paid up equity at a price of Rs.62 per share. This aggregates to a total amount of Rs. 270 crores. The record date for this transaction is 14th of February 2017. At this point in time, the draft letter of offer has been submitted to SEBI and their clearances are awaited. We expect the total process to be closed by end of March 2017.

In terms of our future plans, as I have been maintaining, we will continue to bid in Hybrid Annuity Project and we see lot of potential going forward. We are also evaluating the toll-operate-transfer (TOT) model that is being announced by the NHAI/Ministry of Road. We are

evaluating the option; however we have not taken any firm view, whether we are going to bid for these projects in totality or not.

In terms of our future plans on the Oil & Gas side, in addition to going forward with the appraisal programs of the Kutch 1 and 2 block, we would want the Mumbai High block to go into the second phase as well as develop recently won B9 cluster and try and monetize it as quickly as possible.

With this I would thank everyone and ask the floor to be open to any questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Just a few quick questions; so after the Renewable Energy deal how much net cash would we be expecting to have in the company net of income taxes or any other obligations that we may have?

Sandeep Garg: Post the buyback and post energy deal situation, we expect the cash to be in the ranges of about Rs.896 crores to Rs.900 crores post energy sale and buyback.

Riddhesh Gandhi: The other question was with regards to the recent block which you guys can fund, any idea on the equity IRR expectation for the project?

Sandeep Garg: I think at this point in time Mr. Gandhi, it would be premature to talk about the IRR of this.

Riddhesh Gandhi: But do you have any kind of hurdle rates which you look at so that we can get some sense on how the cash deployment will end up happening?

Sandeep Garg: As per the PSC, we have 4 years to develop this area and produce from this area within 4 years from award which we expect to happen within this month. To give you an idea, I would want to say that as I said this cluster consists of 3 fields; one in B9, other one is B7 and third one is BRC. B9, the area is about 138 Sq.Kms., while B7 is 22 Sq.Kms, then BRC is also about 22 Sq.Kms. B9 has already 3-wells and there are no dry wells at this point in time and the maximum test rates that have been obtained is about 308,000 m3 per day in terms of gas, whereas the oil it is 335 barrels per day. So, these are discovered fields. Now the old concept at the stage of bidding to the actual execution, there will be slightly more refinement. So I am refraining from giving the IRR and returns and things like that. But once the field development plan is in place in about 6-months' time, we would be more confident to tell you the expected IRR.

Riddhesh Gandhi: The last question on the HAM projects. Can you comment on the competitive intensity that you are seeing, initially the competitive intensity was quite lower then it became quite high, so,

would be good to get us a sense of how you guys are thinking about that the HAM Project because you guys have been reasonably disciplined with regards to the bidding?

Sandeep Garg:

Thank you Mr. Gandhi for the intended word of appreciation. The situation is something in the Hybrid Annuity Model, we are seeing a swing between the number of players that bid versus certain bids would see no bids or a one single bidder or 2 bidders whilst a few of them are seeing as high as 8 to 9 bids. So, from an intensity perspective I would say that intensity on the routine simpler projects seems to be growing a bit; however, the projects which are technically challenging or are in geographies, which are a bit challenging, they seem to be not getting enough response. So that is what my views would be on the market situation and the competitive environment. Whilst we will continue to dabble in the routine projects on and off, but our target projects are always going to be ones which are technically challenging.

Riddhesh Gandhi:

You will continue to have I think as you had early said about actually the high teens hurdle rate with regards to equity IRR in terms of both the projects?

Sandeep Garg:

Absolutely committed to that, high teens is the only equity IRR that you look at, we are not going to do any compromise on the returns.

Moderator:

Thank you. We take the next question from the line of Amitabh Sonthalia from SKS Capital. Please go ahead.

Amitabh Sonthalia:

At the outset I must say that I do not have too much prior knowledge of the company. My questions may seem a little basic. So, just wanted to understand there have been a lot of reorganization, restructuring that happens in the company in its present form now. So, who are we now, what do we want to be in the next 3-5 years, let us say, we want to be in the sense the focus will be on Infra space and Oil & Gas, is that correct, how do we create value, what is the broad vision in terms of we have got all this cash in the balance sheet and how do we intend to deploy, you are of course doing buyback? Certainly on the buyback you mentioned that the current market price is higher than the buyback, so if no shares are tendered then I am assuming that cash will remain in the books of the company or is there a plan that some larger investors or the promoters would be participating in the buyback?

Sandeep Garg:

I will try and respond your questions in a reverse order; in terms of the buyback I would say that you are right that in case there are no shares tendered, this cash will be still on the books. As far as the Indian promoters are concerned, they have already declared their intent not to participate in the buyback. So we do not expect them to tender anything in this process. As far as the deployment of the cash is concerned, I think we have been quite vocal about it that we have something like pre-committed about Rs.100 crores to Rs.150 crores on the current existing Oil & Gas obligations which we are committed to or we have already committed in Delhi - Meerut about Rs.100-odd crores towards the equity and we believe that the newly acquired DSF B9 cluster would take another Rs.200-odd crores. We are continuing to bid for

Hybrid Annuity projects and we have been not so lucky in the last 2 bids, but we are reasonably confident that we will get reasonably priced bids which pass the perimeter of our return expectation. As I said in my opening remark we are looking at toll-operate-transfer opportunities which we believe there will be some cash deployment out there as well and there will be substantial returns in case we can bring in the efficiency in the toll as well as operations and maintenance of the roads. So that is where the deployment plan of the liquidity is. In terms of our vision for the company, you are absolutely right, that we want to be in the Infra space in adjacencies of what we are currently operating in. We will continue to be a developer rather than be a pure EPC contractor. We believe that we need to be a higher up on the food chain to be able to capture maximum value ,having the balance sheet that we have and the group recall factor that we have, we do not want to get into a low return gain. The last 4-years or odd we have done of these restructuring, etc., to create the strong balance sheet, so that we are able to leverage and gain from the opportunities that are coming in the Infrastructure space, given that there is so much of focus for the government and that preparation probably is now going to yield beneficiary results going forward.

Amitabh Sonthalia: Broadly, some indication of what kind of revenue potential the company has in terms of the existing projects that we have on hand in terms of both on Infra side and Oil & Gas?

Sandeep Garg: In terms of Infra side we have about Rs.950-odd crores worth of contracts in hand which will get completed over a period of next 18-months or so. So, you can make assessment of what kind of turnovers to expect from the work which is already in hand. Now in terms of our BOOT assets, we have a run rate of about Rs.8 crores per quarter, so about Rs.32-odd crores revenue from the BOOT asset. In terms of Oil & Gas, we are only in E&P side, right now there is no revenue generating assets. So, till the time the appraisal program of Kutch 1 and 2 blocks does not conclude and the field development does not take place, I would not be in a position to confirm to you what kind of revenue to expect.

Amitabh Sonthalia: What kind of risk assessment do we see, have we made on the oil and gas side in terms of these are I understand exploratory blocks right what we are acquiring, are these proven reserves or they like...?

Sandeep Garg: To give you an idea the B9 cluster, it is already a proven reserve, the appraisal program has already been done, so it is now up for exploitation, so, it no more an exploratory scene although we are allowed to do exploration, but the field is ready for exploitation. In terms of the Kutch 1 and 2 blocks, the discoveries have already taken place, current phase of the development that we are in is the appraisal program and appraisal as you would know what is to ascertain the total quantity of reserves that we expect. Based on one well that has produced, we have some certain estimates, but to verify that whether there is an additional area or not, you need to conduct the appraisal program which is currently under way. In terms of the Mumbai block, that is definitely exploratory, but as I had earlier mentioned that this is we are entering into Phase-2 of that block in which ONGC has already agreed to take an operatorship

position and of participating interest and they are going to carry us for the exploratory well phase. So, terms of our risk on Oil & Gas side, I think we are very well covered now, whatever assets we have currently, we are in a reasonably strong position in terms of their ability to produce and ability to create value.

Moderator: Thank you. Next question is from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

Gautam Bahal: Sir, first of all in the buyback, I read that the foreign entity that is a promoter entity that is going to be participating in it, can you just give us some light on which entity this is, does it have any connection with the Indian promoters or not?

Sandeep Garg: Yes, this is the entity called Intech Metals, the equity that they owned, got transferred from the demerger of Welspun Corp Ltd. In terms of the relationship with the promoters there is no relationship between Intech Metals and the Indian promoters.

Gautam Bahal: Sir would you be able to tell us if Apollo is participating in the buyback?

Sandeep Garg: I cannot comment on that, I have no idea about whether they are or they are not it is their choice that they would want to exercise.

Gautam Bahal: Just picking up on a question asked by the previous gentleman, you said on B9 there is already a proven reserve for someone who is not very sort of knowledgeable in oil and gas, what is the potential there in terms of if you can just give me set of economic return picture there?

Sandeep Garg: The best way to explain this to a common man, would be that the estimates that were made by ONGC were in the ranges of 158 million of gas; however, we are more cautious than ONGC on this particular field. So, our estimates would probably at this stage be lower. So, that is what the gas consent was estimated by the ONGC and as you now that these discoveries are small fields ground, the gas pricing is free, you are not mandated to sell at the government determined rate. So, given what kind of rates you assume for the gas, the revenues will be accordingly... and what I am talking to you is about viably recoverable reserve and not the non-recovered reserve.

Gautam Bahal: If you just take sort of government price for the gas what would that be in crores, just for my understanding?

Sandeep Garg: Let me put it like this that each TCF currently gives you approximately at this point in time about a revenue of about Rs.5,000 crores and this is about 0.2 TCF is about Rs.1,000 crores.

Gautam Bahal: One more question on the Delhi - Meerut contract that we have won. You said the revenue would be about Rs.950 crores. What is the sort of EBITDA margin we are looking at for that?

Sandeep Garg: In terms of Delhi - Meerut let me tell you this contract is about Rs.841 crores not rs.900 crores, so Rs.841 crores at the SPV level for the Welspun Enterprises there are two sources of revenue. In terms of the construction phase the Welspun Enterprises is nominated EPC contractor, that particular contract will give us revenue, in addition to that there will be revenue at the SPV level which is a 100% owned subsidiary of Welspun Enterprises and post the completion there will be revenue in terms of annuity stream the O&M revenue and the interest cost repayment by the NHAI. So, currently from a construction phase perspective, we expect the revenues from the project in the ranges of about Rs.775 crores odd.

Gautam Bahal: Margin on that?

Sandeep Garg: We do not generally give futuristic statements, but as I said in my opening statements, whatever investments we are making we are targeting high teen returns. So, that is what, what it would be.

Gautam Bahal: Will this be recognized in your books in the next 18-months or as you alluded to, would it be a longer gestation pair for revenue recognition for this?

Sandeep Garg: It surely will be recognized in the next 18 months.

Moderator: Thank you. Next question is from the line of (Amitabh Sonthalia from SKS Capital). Please go ahead.

Abhishek Jain: This is Abhishek Jain. I just want to understand what is the current status of 13% stake which we are holding in the Dewas Bhopal Road project?

Sandeep Garg: The Dewas Bhopal 13% stake sale as you are aware that we have an agreement with IDFC to purchase it at a particular rate of interest on the holding. Currently, in terms of the government, we have made a representation to the government for allowing it in accordance with the Centre's decision, and to the best of our knowledge the matter is under active consideration at the government level and we expect a result to that exercise in about a quarter's time.

Abhishek Jain: Is a 2 year lock in?

Sandeep Garg: That is right.

Moderator: Thank you. We have next question from the line of ASN Raju, who is an individual investor. Please go ahead.

ASN Raju: What are the new bids that you had bid, what is the size?

Sandeep Garg: All projects are in ranges of Rs.1,000 crores.

ASN Raju: How many bidders are there for each and every bid?

Sandeep Garg: About 7 to 8 bidders in each package.

ASN Raju: That Bhopal - Dewas Road you have submitted a claim. Are you getting the claim?

Sandeep Garg: Yes, we have already settled the claim with MPRDC, the amount of settlement has been agreed upon, this settlement of the agreement now converts into time, based on a particular formula, that particular exercise is on, so we do not know how many number of days we will get, and based on the number of extensions we have already logged in with IDFC that how much money they will pay for each month of extension. So we expect this sole exercise to conclude in next 3 months.

ASN Raju: What you are expected to in the next 2 to 3 years, how many bids you are going to participate and what are the size and is there any nearby bids called by government?

Sandeep Garg: As you may have read in the newspapers, the Hybrid Annuity projects in the last year there is about 32 projects that have been already awarded and there is a pipeline of projects, we are targeting to bid for 5 projects, out of which 3 have already gone out, 2 bids we are targeting to bid within February, March, we are also looking at the 6th project, we are not very sure we will be able to bid for it or not and each of the projects are in substantial value range, a few of them in couple of 1,000s range as well.

ASN Raju: Any JV partner to finance us?

Sandeep Garg: For larger projects, we are looking at JV partners, but however for projects up to the level of Rs.1,000 crores and Rs.1,200 crores we qualify along side with our group company, so we do not look for external JV partners.

ASN Raju: Any name of JV partners?

Sandeep Garg: Mr. Raju, I can tell you about the past that we bid one of the projects with L&T as a JV partner which we lost, and one of the projects that we bid in past was in JV with Welspun Energy, Welspun Enterprises. . So, this is the kind of configuration that you will see going forward.

ASN Raju: Sir, out of 32, you won only one and we are having very good cash compared to any other infra company entire India. There is no cash in any balance sheet of any infrastructure company. But we are not bidding, sir?

Sandeep Garg: Sir, can I put in correct perspective? If you exclude the couple of very aggressive bidders there are like IL&FS has bid almost like 20 odd bids, they have not won even one, Oriental has

bidded some upward of 10 projects, they have won only one. I am not trying to say that we will not win the project or we do not want

ASN Raju: You have to compete with ..?

Sandeep Garg: Sir, the point is that the people who are getting very aggressive as you would know that MBL one of the projects got terminated because they could not even do a financial closure. So, it is not about bidding and winning the project, it is also about winning it and completing it ...

ASN Raju: End of the day, I want my Welspun Enterprises to have good EPC and a good revenue model, it has not seen nowadays some last 4-5 years. When can I expect our company having good EPC of more than Rs. 40 or Rs. 30?

Sandeep Garg: Mr. Raju, as you will appreciate, we are in a competitive bidding environment. So, it would be very difficult for me to predict the outcomes of a bid. However, I can tell you that we will continue to bid, we will continue to be selective in our bidding, but at the same time we will be very mindful that we make reasonable returns on the bids and given the quantum of work that is available in the market there is no reason for us to get apprehensive about how many projects we will win, we surely will get enough projects to keep our revenue stream growing. So, that is all I can assure you at this point in time.

ASN Raju: As an infra guy, I appreciate your bidding methodology and the rate of return getting by from your works, I think in new road we will be getting more than 15% net profit. But how many times we will get the net profit of more than 15% on a project, sir? Nowadays EPC bidders are bidding like 5% margin, so it is very hard time to us to get a business, I want but some business and some revenue.

Sandeep Garg: You would want me to create value for the stakeholders, so you have been with us for long Mr. Raju

ASN Raju: I stayed more than 5 years, I will stay another 5 years also, but EPC result give some hope to earnings per share Oil business when can we get Rs. 10 or Rs. 15 EPS and when can we get Rs. 15 EPS in Infrastructure business?

Sandeep Garg: This will be a futuristic statement on my part Mr. Raju and I would refrain from making that kind of statement

ASN Raju: Sir, take it positively, you hope for the small investors, every time managing director will give hope to the promoters, but in this concall at least you give hope for the small investors to retain with you for long times and have a good hope for the future?

Sandeep Garg: I am telling you exactly what I would tell the promoters as well. So, there is no difference. Differentiation is between the information that is available to you versus the promoter. All I can

assure you is that if you would want to know how the bidding patterns have been, I would want to tell you that the Ashoka Buildcon has bid 15 HAM projects and won only one project, Atlanta has bid 6 and won only one, Chetak in JVs have bid 10, have won 2, ITNL has bid 17 and has won 0, Oriental has bid 12 and won 1, PNC Infratech has bid 10 and won only one project. So, the point that I am trying to drive is the people are cautious in their bidding, they may not win as many as other some few of people who are very aggressive winning, but these are the people who will be able to complete the project both in terms of financial closure and physical execution on time to create value for the shareholders and I am sure you would want me to create value for the shareholders. Thank you.

ASN Raju: When we can expect good revenue from Oil business?

Sandeep Garg: Oil business, the way gestation period is, we are right now in appraisal phase of the Kutch blocks. Post the appraisal phase it normally takes about 2 years to produce the well. So, that is what the timelines would be. In terms of B9 cluster it is already of discovered fields, as I said the PSC allows to produce within 4-years, we expect it to produce much earlier than that.

Moderator: Thank you. I now hand the floor over to Mr. Sandeep Garg for his closing comments.

Sandeep Garg: Once again thank you everyone for joining us in this call. We really appreciate your listening to us and contributing and pushing ourselves as shareholders. We will take all steps to create value for you. We appreciate your contribution to the company, we appreciate your continuing with the company and we look forward to a better future together.

Moderator: Thank you. Ladies and gentlemen, on behalf of Welspun Enterprises Limited, we conclude this conference. Thank you for joining us and you may now disconnect your lines.